Ivey | Publishing

W13456

ARLA FOODS — MATCHING STRUCTURE WITH STRATEGY

R. Chandrasekhar wrote this case under the supervision of Professor Jean-Louis Schaan solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

In April 2013, Rasmus Calmann-Hinke, head of business development and commercial operations for Consumer International (CIN), Arla Foods (Arla), a dairy cooperative headquartered in Denmark, was facing a quandary. He was working on a proposal, for review by the executive board, on an organizational structure for Arla that would match a new strategy of growth focused on vigorous international expansion.

It was only a few weeks ago that Arla had released Strategy 2017, a five-year strategic plan covering the period January 2013 to December 2017, into the public domain. The thrust of Strategy 2017 was that Arla would move beyond what it considered its "core" markets of Northern Europe (comprising Denmark, Sweden, Finland, Germany, the Netherlands and the United Kingdom) to concentrate on what the company now called "growth" markets (comprising the Middle East and Africa, China and Russia) where it had a relatively modest presence so far. It would develop local sales and marketing infrastructure, build local partnerships and eventually acquire local dairies and production facilities in each of the growth markets. Arla would also move into the hitherto untapped markets of Latin America and Southeast Asia, in addition to building strong presence in selected markets from among over 100 individual countries to which it was exporting dairy products through distributors.

The triggers for looking beyond its home base of Northern Europe were both external and internal.

Externally, the European Union (EU), which was the largest producer of milk and milk products (see Exhibit 1), was abolishing milk controls in January 2015. The controls had prevailed since 1984 both in terms of price support, through intervention buying, import tariffs and export subsidies, and quotas, which limited the volume of milk each country could mobilize and imposed penalty for exceeding the limit. The abolition would release an additional one billion kilograms of milk from Arla's own milk suppliers who would be free to garner as much raw milk as they wanted. Since it was likely that the surplus milk could not be sold profitably in the EU, Arla had to find new global markets.

Also from the outside was peer pressure. Several European milk cooperatives, such as Friesland Campina of the Netherlands, were already on a global track. Arla's milk suppliers, who were also owners of the Arla cooperative, were eager that Arla should step up to the plate without delay. They were keen that building global scale and increasing international volume sales quickly should be a priority.

The internal trigger was that Arla had completed two mergers in May 2012 with Milch-union Hocheifel (MUH) of Germany and British Milk Link of the United Kingdom. Post-mergers, Arla was becoming one of the largest dairy cooperatives and milk processors in Europe, aggregating 12.5 billion kilograms of milk annually. It had also become the sixth largest producer of milk worldwide with a market share of 1.7 per cent (see Exhibit 2). It could now leverage the advantage of size to scale up further globally.

The company had a clear strategic target: double the revenues of Consumer International Business Group from about DKK9 billion[1] (out of total revenues of DKK63.1 billion) in 2012 to DKK19 billion in 2017.

Said Hinke:

> Strategy 2017 articulates our appetite for growth. But the focus on international expansion has also brought us, as a company, to a flashpoint. It is like riding a tiger: you get off only at risk. One of the ways of managing the risk is by building appropriate systems and processes around Strategy 2017. It is in this regard that we are reviewing our existing organization structure. The question is: What is the organization structure that can best deliver Strategy 2017?[2]

Hinke was considering two options. The first was to establish strong global categories, led by designated managers stationed centrally at the company's headquarters in Denmark and driving growth in markets worldwide. The category organizations would be dispersed in different geographies and, in addition to meeting local needs, would be developing product categories from local resources for global markets. The second was to develop a two-in-one structure dealing, at one level, with the core markets of Northern Europe on which the company had built its basic growth platform so far and, at another, with emerging markets outside Europe, which would provide growth in the future.

INDUSTRY BACKGROUND

Dairy products were the second largest segment of packaged foods, after bakery products.[3] They were an integral part of food regimens across all regions of the world and were well-known for their natural state and healthy properties. Dairy products also accommodated wide-ranging contemporary dietary trends from added functional ingredients, such as minerals and vitamins, to health components, such as reduced fat or sugar content. The industry was thus amenable to regular launches of not only new products but whole new categories.

The top 10 players held about 17 per cent share of the global market. There was a preponderance of private labels, which had together secured about 16 per cent of market share. The rest of the market was cornered by a multitude of local producers catering to local demand.

The dairy industry was a picture of contrasts. First, the demand was both local and global, leading companies towards pursuing a hybrid of global and local strategies. The market for raw milk, for example, was local because of its short shelf life; the market for value-added dairy products — specialty cheese, milk powder and butter, for example — was global because of their long shelf life. Second, multinational dairy companies derived a higher proportion of growth in value from developed markets of Europe and North America and a higher proportion of volume growth from emerging markets. Third, developed markets were characterized by the coexistence of high-end dairy products priced at a premium

---

[1] *One DKK equaled US$0.17 in June 2013.*
[2] *Based on a personal interview at Copenhagen, Denmark on August 5, 2013.*
[3] *"Diverse Corporate Strategies to Exploit Opportunities in Global Dairy," Euromonitor International Report, November 2010.*

and private labels priced lower, while the emerging markets were characterized by low purchasing power overall but a growing middle class segment of consumers seeking premium products that matched their aspirations for a better quality of life. Fourth, product profitability was on the decline in developed markets while it was high in emerging markets. As a result of these contrasts, multinational dairy companies had to be flexible about their growth strategies.

The overall growth in the future was being driven by the emerging markets of Asia Pacific, Eastern Europe, Latin America and Middle East/Africa, which were forecast to mobilize 86 per cent of global market growth in absolute retail value by 2015. Rising consumer demand and lower production costs, particularly in countries of Asia, Africa and Eastern Europe, had led many global companies to increase their investments in milk processing capacities in countries of those regions.

Dairy companies had different sets of customers: industry customers (e.g., baby foods manufacturers) buying processed products (e.g., milk powder) in bulk; retail customers (e.g., hypermarkets, supermarkets, independent stores and wholesalers); and food service customers (e.g., hotels, restaurants and airlines). Individual consumers would buy their daily or weekly requirements of fresh and processed dairy products from retailers and also from food service outlets.

The retail consumer segment was particularly amenable to new category creation. There were four major factors, known in the dairy industry as "macro states," driving the creation of new categories: wellness (based on attributes like weight management), gratification (based on attributes like taste), convenience (based on attributes like portability) and safety (based on attributes like certification). The spinoff segments included snacks, snack bars, frozen foods, soft drinks, fruit grain, desserts and energy drinks. Each segment was potentially a billion dollar business in the United States alone, according to a study conducted by the Innovation Centre for the U.S. Dairy.[4]

For a long time, dairy companies used indicators such as population size, gross domestic product (GDP), per capita consumption, household incomes and access to distribution in their decisions to enter new markets. The choice of a site for new plant capacity was largely influenced by its ability to generate efficiencies in production and supply chain. But of late, new factors were at play. Product launches in new markets were increasingly related to food customs, eating habits, buying routines and consumption patterns of local customers. Product customization was a major trend among global dairy companies, particularly in markets such as China, which was dominated by local producers. The melamine contamination scandal in the Chinese milk market in 2008 had opened up opportunities for global dairy companies to expand into China by leveraging the safety quotient. But the lack of availability of skills in sourcing, technology, sales and distribution and brand building was often a deterrent for multinational companies to enter untested and unfamiliar markets, however promising.

The industry had a self-governing model, particularly on the supply side, which was unique. Farm owners produced milk on the basis of a cooperative, as the business model was called; the milk was aggregated, processed and marketed by companies. Raw milk, which comprised approximately 60 per cent of the cost of a dairy enterprise, was an area of contrast between a dairy cooperative (e.g., Arla) and a dairy corporation (e.g., Danone). Managers of a cooperative were incentivized to pay higher milk prices to dairy farmers as part of retaining — and continuously expanding — the farmer pool; managers of a corporation were incentivized to pay lower prices for milk procurement as part of securing cost leadership.

[4] *www.usdairy.com/Insights/Pages/Future-of-Dairy-Forum.aspx/FutureOfDairyExecutiveSummary.pdf August 2012, accessed August 16, 2013.*

The charter of a cooperative required that profits should be invested in growth rather than paid out as dividends. Reinvestment was one of the reasons why, in spite of its brick and mortar characteristics, the dairy industry had innovation as one of its hallmarks. Customizing products to local needs, designing them for consumption in remote areas lacking refrigeration, building health and wellness elements and extending shelf life were some examples of ongoing innovation.

ARLA FOODS — COMPANY BACKGROUND

Arla was established as a dairy cooperative called Arla Mejeriförening in 1881 in the province of Västmanland in Sweden. A series of cross-border acquisitions in the Nordic region followed over the next several decades, leading to their consolidation into Arla Foods in 2000. In 2004, the company acquired National Cheese Company in Canada, a family-owned specialty cheese business with two manufacturing plants in Ontario. In 2006, it entered into a joint venture with China Mengniu Company, a state-owned enterprise, for the production, sale and distribution of milk powder in China, Hong Kong and Macau. In 2006, it acquired White Clover, the U.S. cheese specialty dairy; it also bought Tholstrup Cheese in the same year, which brought the Castello brand to Arla's portfolio. The U.S. acquisitions provided local manufacturing. In 2007, it established Arla Foods UK plc by merging with Express Dairies to become the United Kingdom's leading supplier of dairy products. In 2011, Arla merged with Hansa-Milch eG, a northern German manufacturer and distributor of fresh dairy products under the Hansano brand. It also acquired Allgäuland, a small specialty cheese player to further consolidate its position in Germany.

The year 2012 was a turning point in the company's history. It merged with Milk Link, the largest milk cooperative in the United Kingdom and with Milch-union Hocheifel (MUH), the German cooperative specializing in both fresh liquid milk and long-life milk (with extended shelf life). The mergers made Arla the sixth largest producer of milk in the world. Arla also bought 5.9 per cent equity of its joint venture (JV) partner in China and planned to build a Chinese-Danish Dairy Product Technology Cooperation Centre in Beijing.

Arla had revenues of DKK63.14 billion and net profits of DKK1.89 billion for the year ending December 2012 (see Exhibit 3). Employing 18,000 people, it had production sites in 30 countries and was marketing its products in more than 100 countries. The company was owned by 12,256 milk farmers spread across Denmark, Sweden, Germany, Luxembourg, Belgium and the United Kingdom. For largely historical reasons, almost all senior executives of Arla were Danish or Swedish.

Structure

Arla had a combination of cooperative structure and conventional organization structure. Each of the 12,256 milk producers owning the company was the building block of the cooperative structure. It had a board of representatives chosen by the national councils (see Exhibit 4) who chose the board of directors. The latter, in turn, appointed the executive board, which provided strategic direction and was supported by heads of individual business groups and staff functions (see Exhibit 5).

Arla had six business groups: Consumer Denmark (CDK), Consumer Sweden & Finland (CSF), Consumer Germany & Netherlands (CGN), Consumer UK (CUK), Consumer International (CIN) and Global Categories & Operations (GCO). Headed by an executive vice-president, each business group had its own embedded finance, human resources and business development functions. CUK was the largest business group by revenue in 2012. Fresh dairy products (FDP) was the company's largest category (see Exhibit 6).

Providing tactical support to business groups were a corporate centre and four global business services — corporate affairs, corporate finance and information technology (IT), corporate supply chain and corporate human resources.

CDK covered the production, logistics and retailing activities in the Danish market where it had pioneered several milk brand concepts. The most recent was an eco-labeled product for infants called Arla Baby&Me Organic, developed from insights into the day-to-day lives of Danish mothers. The group was developing healthy products for eating "on the go," which, as part of the convenience category, was a growing market. Its strategy centred on strengthening its core business in relation to the growing private label business in the region.

CSF covered the production, logistics and retailing activities in Sweden and Finland. It was witnessing a high innovation rate and successful product launches across several categories. It was building on new opportunities in the private label category in addition to developing strong brand positions.

CGN covered the production, logistics and retailing activities in Germany and the Netherlands. The region was witnessing downward pressure on prices from private labels, but CGN had maintained its brand positions. The group was focused on increasing value creation by launching new brands and by placing heavier emphasis on organic products, a growing segment in Germany in particular.

CUK covered the production, logistics and retailing activities in the United Kingdom. Its focus was both on increasing earnings and becoming the most cost-effective dairy in the market. The group was streamlining its supply chain and investing in profit improvement programs such as lean manufacturing.

CIN covered all retail sales activities outside the company's core markets of Europe. Having been spearheading Arla's expansion into international markets (e.g., the Middle East, Russia and China) for years, CIN had become, in the light of Strategy 2017 objectives, the company's new growth engine. The Middle East was the group's largest geographical market, and cheese was its largest category by revenue (see Exhibit 7). CIN was also managing Arla's contract production for other food business operators, called third party manufacturing (TPM) activities.

GCO straddled a major part of the company's value chain and had the largest workforce among all business groups. It consolidated the responsibility for the company's global categories, global brands and supply chain and for trading milk at the highest possible prices in the world market. Since it was handling the production of butter, cheese and milk powder, GCO was also responsible for Arla's global innovation/research and development. The supply chain of fresh dairy products (e.g., milk and yoghurt where the product life cycle was less than two weeks) was the responsibility of individual business groups.

Business groups were focused on their respective geographies for business development. Line managers in each business unit, dispersed far and wide in the concerned geography, had direct reporting relationships with the respective functional heads located at the nerve centre of each business group. There were no formal functional reporting lines between local offices and the corporate headquarters.

Product Portfolio

Arla was in four broad product categories: fresh dairy products; cheese; butter, spreads and margarine; and milk powder. The company was operating as both a branded and non-branded player in the milk powder category. Several of its brands had come in through the inorganic route. Some examples were Hansano brand of fresh dairy products from the acquisition of Hansa-Milch in Germany and Anchor brand of butter in the United Kingdom from the divestiture of Fonterra, a New Zealand cooperative. Many were strong local and regional brands such as Melkunie, which was popular with the Dutch as a milk brand. The company had recognized three of these local brands as global brands — Arla (an overarching brand), Lurpak (for butter and blends) and Castello (premium cheese). Arla was focused not only on growing its three global brands but consolidating Arla brands (numbering more than 75) into a lesser number in order to ensure that its marketing resources were not spread thin.

Research and Innovation

This was being driven by the Arla Strategic Innovation Centre (ASIC), under the aegis of GCO, located in two major hubs at Aarhus in Denmark and Stockholm in Sweden. Employing about 70 professionals with diverse backgrounds, ASIC was driving open innovation in order to enlarge the company's global reach. It was involved in growth-oriented areas such as nutrition in partnerships with relevant research institutions. The innovation projects were organized into six broad platforms representing the critical elements in the company's value chain — milk composition, flavour and functionality, food safety, consumer preferences, process development and control and well-being. Each platform was staffed by a dedicated research coordinator and representatives from business groups. Arla had taken a strategic view that at least 10 per cent of its revenues must be derived from new products every year.

GLOBALIZATION

Arla was in good company in the Nordic region, which was a crucible for global companies, many of them category leaders worldwide. Denmark, for example, was home to Arla (dairy), Maersk (shipping), Lego (toys), Carlsberg (beer), Vestas (wind turbines), Oticon (hearing aids) and Novo Nordisk (insulin). Sweden had world-class manufacturing companies such as Atlas Copco (mining) and Sandvik (machine tools). Finland had Kone (escalators) and Nokia (mobile telephony). Norway was a world leader in oil services and fish farming.

There were four factors that provided the right ambience for globalization among Nordic enterprises.[5] First, they were generally committed to innovation. Milk farmers in Denmark implanted chips in the cows grazing in their dairy farms to monitor and maximize individual milk yields. Second, they always played for the long haul. Sweden, for example, had many enduring business families (such as the Wallenbergs). Third, they generally had flat organization structures that facilitated management by consensus and cooperation. Finally, they seized every opportunity to replace labour with machines. Self-checkouts, for example, were common in retail stores; the subway in Copenhagen had no drivers.

In addition to external factors, there were several internal factors at Arla that were helping the move towards international expansion.

The first was the re-engineering project called One Arla launched in 2002 at a time when the company had recognized that the ongoing mergers and acquisitions were adding to the complexity of its internal systems. For example, there were over 30 heterogeneous IT systems operating in business divisions across several geographies. The goal of One Arla was to "simplify, optimize and integrate the company to function more effectively as one single global enterprise and ensure sustained profitability." It was aimed

[5] *"Global Niche Players," The Economist, February 2, 2013, pp. 8–10.*

at integrating the plant floor information systems, work processes and data to create a more synergized business that could expand seamlessly across borders in future.

The second was the setting up of what the company called the Strategy Fund in 2006 with an initial corpus of DKK200 million in order to "assist strategic development and alleviate the negative effects on the accounts caused by potential new acquisitions."

The third was the gradual building of a performance culture that prepared the company for international expansion. An example was the replacement of budgets with forecasts. The idea was that rather than feel constrained by a budget, managers of business groups could feel free to expand on their areas of focus by setting goals of their own. This had not only speeded up decision taking but enhanced adaptability to change across the organization.

Strategy 2017 identified the Middle East and Africa, together with Russia, China and the TPM business, as the company's new growth markets from which it expected to garner up to 20 per cent of revenues by 2017. Arla's projected growth at 16 per cent compound annual growth rate (CAGR) during 2012 to 2017 from non-EU markets was ahead of its peer group. Its targeted earnings before interest, taxes, depreciation, and amortization (EBITDA) margin of 12 per cent from international expansion was also competitive, although on the low end.

COMPETITORS

There were some common elements in the strategic priorities of global dairy companies. They wanted to occupy cost leadership positions in as many categories as possible in a bid to ward off the growing influence of low-priced private labels; building scale was the preferred way. They wanted to occupy as many price points as possible both at the low end (in a bid to deal with the common tendency among consumers to down-trade) and at the high end (so as to extract value from high-margin categories); category creation was a common endeavour. They wanted to expand into emerging markets while holding on to customers in core markets; joint ventures, acquisitions and other forms of investment were a common pursuit (see Exhibit 8).

The elements were similar even among dairy cooperatives. They were Arla's direct competitors because they were sourcing milk from the members of their cooperatives who had a stake in ownership unlike dairy companies which were sourcing milk from the open market. The benchmarks of international expansion were also more comparable with dairy cooperatives than with dairy companies (see Exhibit 9). But the strategic priorities varied with each cooperative because its market conditions varied. The organization structures, therefore, also varied.

Fonterra Cooperative Group, the New Zealand-based milk processor with the single largest market share globally, had put in place a new organization structure effective August 2012. The reorganization was aimed at aligning the structure with the company's "volume and value priorities" and was focused on "[securing] efficiency and [responding to] customer opportunities."[6] Accordingly, Fonterra had regrouped its businesses into six segments on the basis of geographies: NZ Milk Products (representing the collection, processing and distribution of New Zealand milk; global sales and marketing of New Zealand milk products; international farming; and sales to quick service restaurants), ANZ (representing sales to retailers and to food service outlets in Australia and New Zealand), Latam (representing sales to retailers in Chile and managing equity stakes in South America), ASEAN/MENA (representing retail sales in Asia

[6] *Fonterra 2012 Annual Report, p. 12.*

and food service sales in Asia, the Middle East and China), Greater China/India (representing operations in China and India) and Fonterra Nutrition (representing product development across regional businesses including specialist areas such as pediatrics).

ISSUES BEFORE HINKE

The proposed structure at Arla had to factor in three elements.

First, the structure had to support Strategy 2017 in relation to both the existing core markets in Northern Europe, which formed Arla's basic platform for growth, and the markets outside Northern Europe, which were Arla's growth markets of the future.

The six core markets of Denmark, Sweden, Finland, the Netherlands, Germany and the United Kingdom were being driven by dedicated business groups that were in the nature of strategic business units (SBUs). Managers in individual business groups understood the needs of local customers and were grounded in the nuances of local geographies. The markets outside Northern Europe were diverse in terms of not only their retail environments but also the shopping habits and purchasing power of consumers. In the prevailing structure, the markets outside Northern Europe were under the control of CIN. GCO was the supply chain organization that was also responsible for global brands and marketing support (see Exhibit 10). CIN was the commercial organization focused on sales, local marketing and distribution (see Exhibit 11).

CIN had about 25 people at the head office. The rest were located in local markets. GCO was located at the company's head office at Aarhus in Denmark. The day-to-day radar of many of its employees — particularly white collar employees who developed marketing support materials for new product launches affecting the company's international expansion — did not extend beyond a 30-kilometre radius, the space between their home and office. The main constraint of GCO was that its staff was distanced from end users. This was often evident in the interactions between GCO and the various business groups. The latter did not always react favourably to a GCO diktat telling them what to do. Business groups wanted to take charge, do things their way and be responsible for end results rather than be held accountable by staff functionaries at the head office.

Another limitation was the incongruity in the roles of GCO and CIN. For example, GCO was managing the company's global brands in terms of global marketing material, product management and innovation, whereas CIN was responsible for local marketing, execution, sales and customer service. Brands were at the front and centre of revenue growth through international expansion for which CIN was responsible. The ownership of brands by a service division like GCO providing back-end maintenance was not always finding favour with CIN. GCO was managing innovation that was crucial to international expansion that was managed by CIN.

Second, the new organization structure had to ensure that Arla had the right competitive stance among attaining cost leadership, seeking differentiation and finding a niche.

The growth in discount chains worldwide was placing demands on Arla managers in customer-facing business groups for securing cost efficiencies. The increasing reliance on private labels among large retailer customers in the company's core markets, like the United Kingdom, was a compelling factor for Arla managers to move towards cost leadership. Since scale was the building block for cost leadership, the organization structure of Arla had to be such that it leveraged economies all along the value chain, from sourcing to delivery, in the company's core markets.

At the same time, emerging markets, like China in particular, offered opportunities for leveraging brand equity to drive growth. Brand building was an integral part of differentiation strategy. Arla had to build clearly identifiable attributes on the basis of which it could charge premium prices for milk products. Product safety in China and organics in Germany were examples of attributes that Arla could leverage to differentiate itself from local competitors.

The dairy industry offered opportunities for carving out market segments that would not attract the attention of large competitors because they were not individually scalable. Arla could occupy positions of extreme focus by slicing and dicing the market. This would not enhance market shares but serve the unique needs of a unique customer group, who would remain loyal. Premium imported butter in Russia and organic milk powder in China were examples of niche positioning.

Third, the new organization structure had to ensure creation of dairy categories developed from local resources and marketable, over time, globally. The existing category operating model was a combination of local focus, global focus and a hybrid of local/global focus (see Exhibit 12). For example, milk and fresh dairy products were local categories where supply chain activities such as sourcing and sorting were done locally. Yellow cheese was a hybrid category in the sense that the supply chain offered opportunities for synergy and processing facilities could be located far away from consumption markets. All other categories were global categories because they travelled well, were mostly branded and facilitated synergies particularly in the supply chain. It would also be necessary to deploy more people dedicated to each category to promote volume growth. They also had to have a dotted line reporting relationship to GCO, which was absent so far.

Hinke wondered what the new organization structure should be.

EXHIBIT 1: GLOBAL MILK AND MILK PRODUCTS — AVERAGE ANNUAL PRODUCTION 2008–2010

		(in 000 tons)	%
	World Total	710,076	100.0
	- Developed countries	364,182	51.3
	- Developing countries	345,894	48.7
#	Country		
1	China	40,579	
2	India	116,818	
3	Indonesia	1,182	
4	Iran, Islamic Republic of	7,563	
5	Japan	7, 871	
6	Korea, Republic of	2,169	
7	Malaysia	71	
8	Pakistan	34	
9	Philippines	13	
10	Saudi Arabia	1,751	
11	Thailand	826	
12	Turkey	12, 797	
	Subtotal Asia	258,303	36.4
13	Algeria	2,193	
14	Egypt	5,793	
15	Kenya	4,004	
16	South Africa	3,158	
17	Sudan	7,529	
18	Tunisia	1,085	
	Subtotal Africa	39,541	5.6
19	Costa Rica	917	
20	Mexico	10,829	
21			
	Subtotal Central America	16,267	2.3
22	Argentina	10,396	
23	Brazil	29,558	
24	Colombia	7,492	
25	Uruguay	1,798	
26	Venezuela	2,238	
	Subtotal South America	61,920	8.7
27	Canada	8,199	
28	United States of America	86,511	
	Subtotal North America	94,711	13.3
29	Belarus	6,476	
30	European Union	152,565	
31	Russian Federation	32,255	
32	Ukraine	11,540	
	Subtotal Europe	213,817	30.1
33	Australia	9,211	
34	New Zealand	16,237	
	Subtotal Oceania	25,517	3.6

Source: Food and Agricultural Organization, "Food Outlook: Global Market Analysis," 2012, www.fao.org/worldfoodsituation, accessed August 30, 2013.

EXHIBIT 2: TOP 20 MILK PROCESSORS 2012

Rank	Name	Structure	Country	Share of world milk production %	Milk intake (ktons)	Dairy revenue (billion US$)
1	Fonterra Cooperative	Cooperative	New Zealand	3.0	21.6	16.4
2	Dairy Farmers of America	Cooperative	United States	2.4	17.1	13.0
3	Groupe Lactalis (Parmalat)	Corporate	France	2.1	15.0	16.9
4	Nestle	Corporate	Switzerland	2.1	14.9	19.1
5	Dean Foods	Corporate	United States	1.7	12.0	13.1
6	Arla Foods	Cooperative	Denmark	1.7	12.0	12.0
7	Friesland Campina	Cooperative	Netherlands	1.4	10.1	13.4
8	Danone	Corporate	France	1.1	8.2	15.6
9	Kraft Foods	Corporate	United States	1.1	7.8	7.5
10	DMK	Cooperative	Germany	1.0	6.9	6.4
11-20	Saputo Inc., Glanbia Group, Land O'Lakes, California Dairies, UTM, Groupe Sodiaal, Mengniu Dairy, GCMMF, Yili Group and Bongrain SA			6.6	47.0	50.0
Sum of Top 20				24.2	172.6	183.4

Source: Company records.

EXHIBIT 3: ARLA FOODS — INCOME STATEMENT

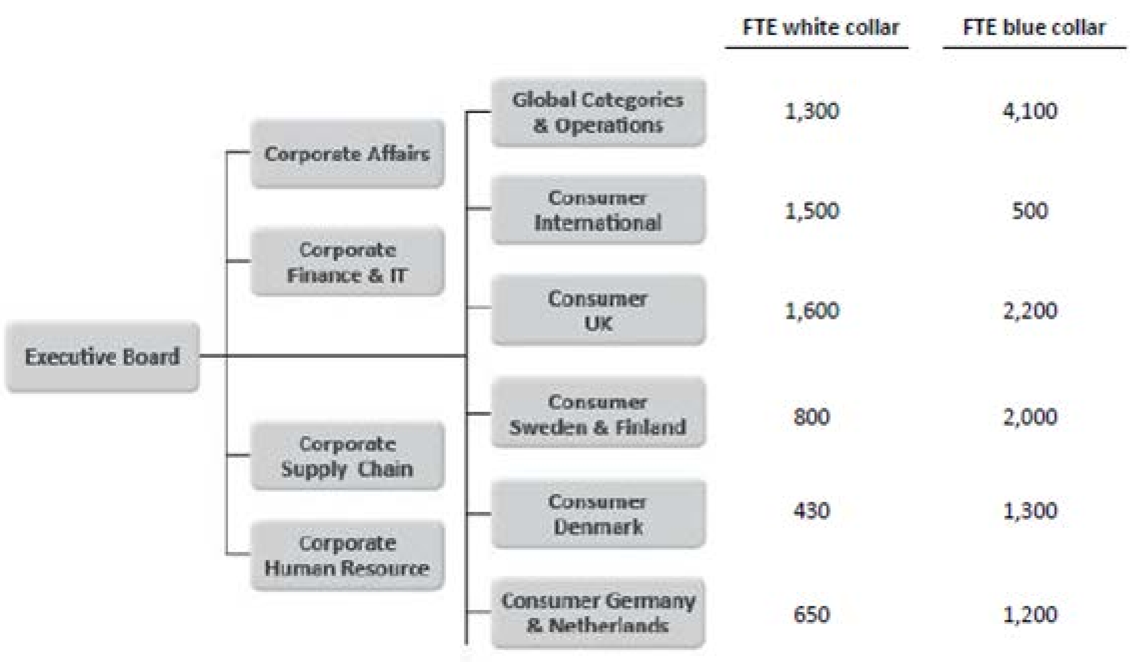
(in million DKK)	2012	2011	2010	2009	2008
Revenue	63,114	54,893	49,030	46,230	49,469
Less					
-Production costs	48,413	42,819	39,154	37,052	40,868
Gross profit	14,701	12,074	9,876	9,178	8,601
Less					
-Sales and distribution	9,496	7,819	5,926	5,518	5,449
-Administration	2,791	2,436	2,313	2,237	2,160
-Other operating expenses			(47)	11	(157)
Operating profit	2,502	1,755	1,684	1,412	1,149
Profit before tax	1,984	1,450	1,413	1,200	589
Net profit	1,895	1,399	1,253	971	555

Source: Company annual reports.

EXHIBIT 4: ARLA FOODS — COOPERATIVE STRUCTURE

Source: Company records.

EXHIBIT 5: ARLA FOODS — CORPORATE STRUCTURE



FTE: full-time equivalent.

Source: Company records.

EXHIBIT 6: ARLA FOODS — CONSOLIDATED SEGMENT-WISE REVENUES

Geography	2012	2011	2010
Consumer UK	15,760	12,751	12,190
Consumer Sweden and Finland	11,748	12,918	14,244
Consumer International	8,870	7,800	6,960
Consumer Germany & The Netherlands	8,386	6,017	3,556
Consumer Denmark	6,837	6,766	6,564
Trading	6,314	-	-
CFI	2,524	-	-
Arla Food Ingredients	2,215	2,012	1,590
	63,114	54,893	49,030
Category			
Fresh Dairy Products	26,730	22,370	19,678
Cheese	15,727	13,206	12,168
Butter and Spreads	8,865	7,614	6,691
Other	11.792	11,703	10,493
Total	63,114	54,893	49,030

Source: Company files

EXHIBIT 7: ARLA FOODS — INTERNATIONAL REVENUES

	2012
Consumer International	8,870
Geography	
Middle East*	2,300
Africa	716
United States	710
Canada	1,064
Russia	621
Poland	177
Rest of the World & Distributor Sales	2,484
China	89
Third Party Manufacturing	709
Category	8,870
Cheese	5,411
Milk Powder	1,951
Butter, Spreads and Margarine	976
Fresh Dairy Products	532
Distribution Channels	8,870

**Arla Annual Report 2012, p. 54.*

Source: Company files.

EXHIBIT 8: COMPETITOR STRATEGIES — DAIRY COMPANIES

Company	Scale	Portfolio	Emerging markets	Priorities
Danone-Groupe	Danone's global-leading position was consolidated by intense portfolio development but largely organic geographic market expansion.	Heavily reliant on premium price-positioned portfolio.	With the exception of Asia Pacific, Danone is the number one or two player in all emerging markets.	Stronger presence at lower price points in order to widen consumer base in all regions and reconsider its Asia Pacific positions after exit from its Wahaha joint venture.
Nestle SA	In recent years, the company had not made relevant acquisitions or set up joint ventures to enhance its scale of dairy operations.	Diverse, global dairy operations from milk to cheese to yoghurt but smaller scale in higher margin functional categories.	The company's largest dairy market is Latin America, also the number one player there. Weakest presence in Eastern Europe.	Exploit opportunities in functional yoghurt categories via new product launches or acquisitions.
Kraft Foods	The company had become the largest packed food company as a result of acquisitions, like Cadbury, but dairy operations remained untouched by the restructuring.	Kraft Foods' dairy operation was focused strongly on cheese (nearly 90 per cent of revenue in 2008). Its sizeable portfolio was led by the Kraft and Philadelphia labels.	It had a strong bias towards the developed world, with North America alone representing nearly 75 per cent of dairy revenue and Western Europe and Australasia bringing it up to 90 per cent.	Shifting cheese portfolio towards growing segments such as unprocessed cheese. Within its newly refocused operations, dairy became less of a priority.
Arla Foods	Focused on merger and acquisition activities in Northern Europe in recent years; aimed at becoming a leading milk processor in Northern Europe.	Fairly even presence in most dairy segments with cheese making up the largest proportion of retail dairy sales.	Reliant on domestic Western Europe but had small growth platforms established in all emerging regions, offering potential for further expansion.	The development of its operations in international markets would be a major step in addition to tapping into category development opportunities.

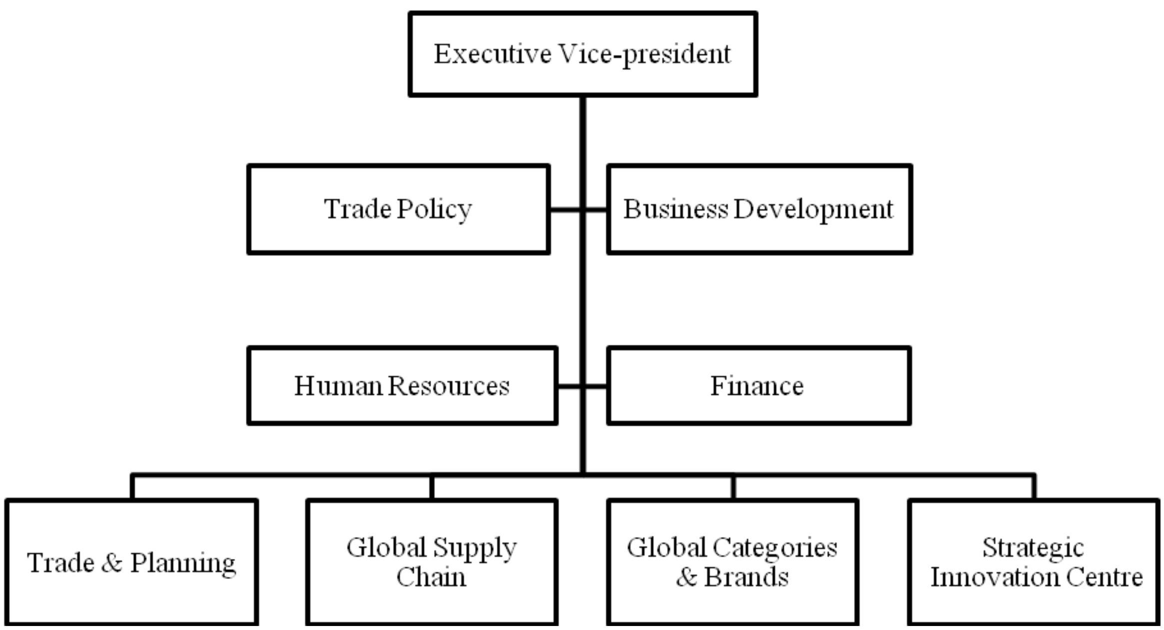
Source: www.danone.com/en/company/strategy.html accessed June 10, 2012; www.nestle.com/aboutus/strategy accessed July 5, 2013; www.mondelezinternational.com/MediaCenter/country-press-releases/us/2010/ Pages/multi_media_091520 10.aspx, accessed October 17, 2013.

EXHIBIT 9: COMPETITOR BENCHMARKS (DAIRY COOPERATIVES)

Metric	Unit	Arla Foods	Friesland Campina	DMK	Groupe Lactalis
Projected international revenue in 2017	DKK bn	19.0	37.0	7.9	58.1
Share of international revenue in group revenue in 2012	%	20.0	38.0	18.0	35.0
Rate of growth in international revenues 2012–17	%	16.0	11.0	13–15	10–13
EBITDA of international revenues in 2012	DKK bn	2.0	5.0	1.0	9.0
Main international positions in 2012		Middle East, United States, Canada, Africa	Asia, Africa, Australia, Middle East, & Americas	100 plus countries	Americas, Asia and Africa

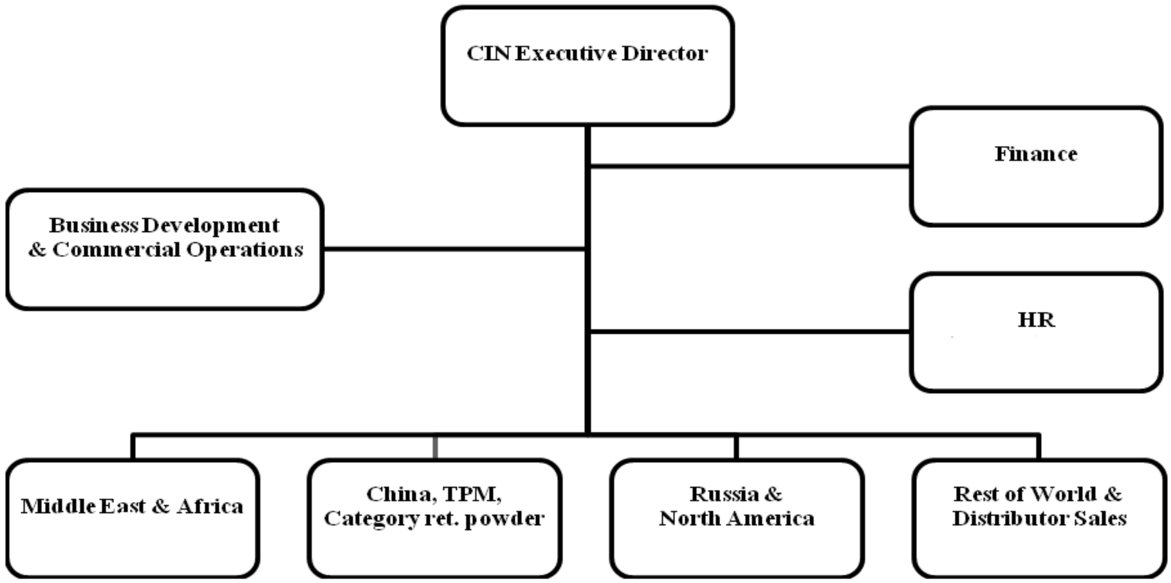
Source: Company files.

EXHIBIT 10: ORGANIZATION STRUCTURE — GCO



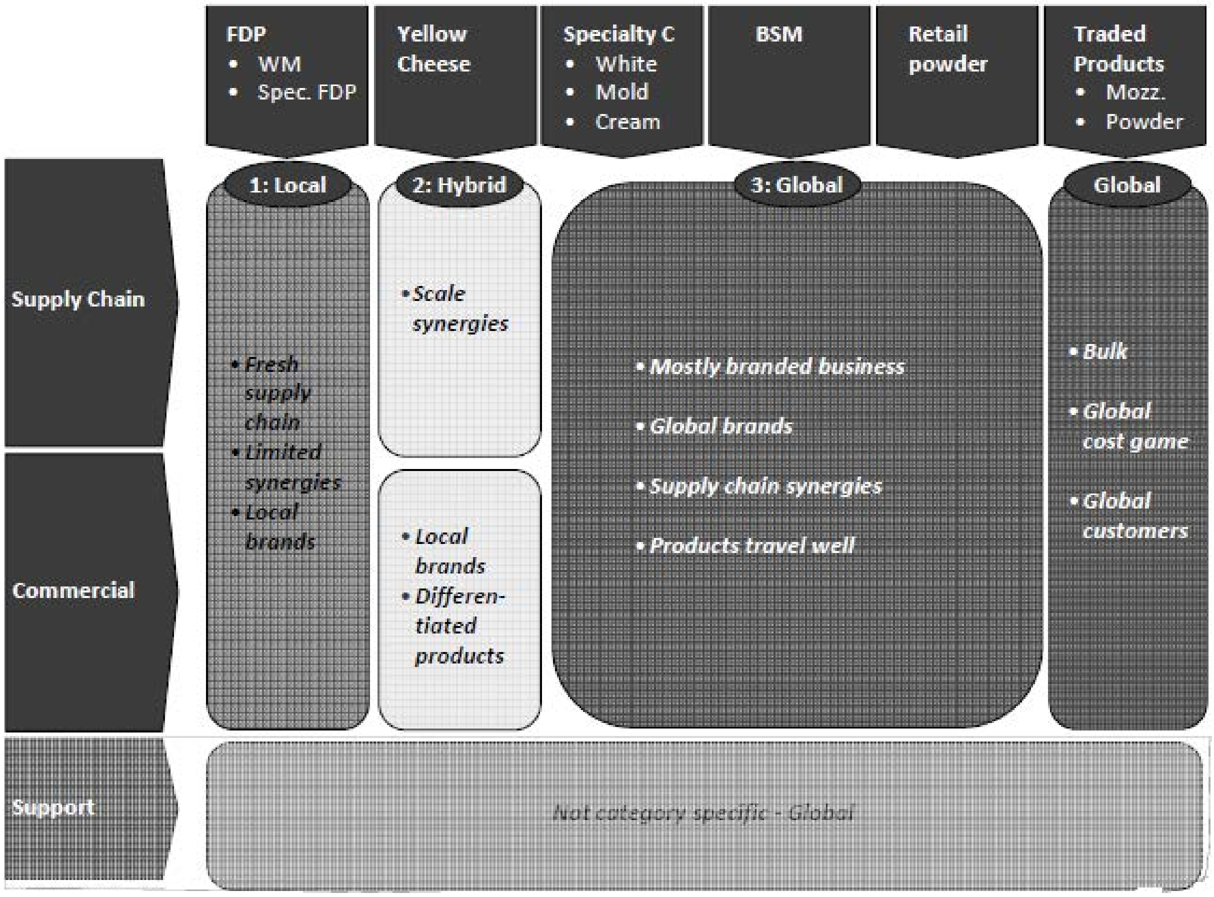
Source: Company files.

EXHIBIT 11: ORGANIZATION STRUCTURE — CIN



Source: Company files.

EXHIBIT 12: ARLA FOODS — CATEGORY OPERATING MODEL



Source: Company files.