Putting a face on dairy
- From cold counter to food culture

Team: Where is Bohn?
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Jonas Jerlang, Bsc.IBP | Rikke Helvind, Bsc. IBP
Moving closer to the customers by opening Nordic Roots by Arla Café concept will allow Arla to become a part of younger consumers food culture

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

**TODAY**

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

**TOMORROW**

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

**IMPACT**

<table>
<thead>
<tr>
<th>2017</th>
<th>Market growth</th>
<th>CAFÉS</th>
<th>Branding effect</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.400</td>
<td>2.919</td>
<td>71</td>
<td>57</td>
<td>392</td>
</tr>
</tbody>
</table>

**MOVING CLOSER TO THE CUSTOMERS**

Opening 41 Nordic Roots by Arla café concepts

- Breakfast based meals
- Milk focused Coffee range
- Meal inspirational

Influencing dairy based food culture

**BECOME A PART OF THEIR FOOD CULTURE**

- Dairy based experiences
- Let the customers educate you
- Food experiences shape food culture at home

… will enable Arla to stay relevant to the younger consumers in Europe
Arla’s products are nutritious, but are perceived as everyday home-products and do not capture the healthy-living trend amongst the young generation.

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

**Perception of dairy products by Arla**

- 50% good for you
- 15% associate dairy with healthy living

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

**Diary health proposition**: full of nutrients

**Healthy living trend**: avoid carbs, gluten, lactose etc.

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

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

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

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

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

<table>
<thead>
<tr>
<th>Online trends for the young generation</th>
<th>Evidence</th>
<th>Implication</th>
</tr>
</thead>
</table>
| Young people are much more influenced by social media than older generations | ![Percentage of purchases influenced by social media](image) | • Presence on social media is important to stay relevant to consumers  
• Any brand, product category or company that want to be in the mind of the young generation must be present in the social media reality |

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

<table>
<thead>
<tr>
<th>Evidence</th>
<th>Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presence on social media is important to stay relevant to consumers</td>
<td>• If the young consumer is not familiar with the product from social media and other online experiences, they will be less likely to purchase the product</td>
</tr>
</tbody>
</table>

Social media, especially Instagram, is the biggest behavior influencer

<table>
<thead>
<tr>
<th>Evidence</th>
<th>Implication</th>
</tr>
</thead>
</table>
| Behavior is influenced by popularity on social media.  
• Trends can begin on social media such as "ice bucket challenge" or "clean eating" and "better me" | |

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

<table>
<thead>
<tr>
<th>Evidence</th>
<th>Implication</th>
</tr>
</thead>
</table>
| Content must be user generated from network or influencers to be trustworthy and remain credible  
• What the reality is on social media and what is trending is affecting everyday life decisions of the users  
• Trendsetters and influencers are important even though they are a minority of customers | |

• Source: Deloitte, Navigating the Digital Divide, 2017; Fowler, Connected: the surprising power of our social networks, 2016; Statista, 2017
Millennials see food as a way of self-expression, having out-of-home experiences as the driver for trends within food and drinks

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

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

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

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

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

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

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

Joe & the Juice
- “Cool vibe” biggest costumer perception
- 85% of customers perceive as healthy

• Source: Qvartz, Joe is more important than his Juice, 2018; Germany Trade & Invest, Industry-overview Food & Beverage, 2017; Euromonitor, Coffeeshops around the world 2016, 2016
Arla must provide food experiences and not just packaged dairy products to stay relevant.

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

Customer capabilities
- Customer servicing capabilities
- Food experience concepts e.g. Carolines køkken
- Production capabilities
- Last step preparation of food
- Downstream Distribution network
- Extensive product range

Cost and Capability sharing
- Separate markets with potential cost leadership
- One Market
- Food experiences
- Separate markets with potential for bundling

Customer sharing

Executive Insights Recommendation Impact Summary
In order to provide food experiences and thereby enhance brand perception, Arla should establish a physical presence through branded cafés.

<table>
<thead>
<tr>
<th>Criteria for outreach strategy</th>
<th>Brand awareness</th>
<th>Financial impact</th>
<th>Feasibility</th>
<th>Synergies</th>
<th>Final assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Long-term reach</td>
<td>Incremental sales</td>
<td>Company fit</td>
<td>Increased</td>
<td>Possible short-term awareness, but not sustainable as stand-alone</td>
</tr>
<tr>
<td>Brick and mortar presence</td>
<td>Positive perception</td>
<td>Degree of cannibalization</td>
<td>In line with capabilities</td>
<td>Customer touchpoints</td>
<td>New brand communication channel, cross selling across Europe</td>
</tr>
<tr>
<td>New product lines</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>With fluctuating trends, introducing new products may not be long-term viable</td>
</tr>
<tr>
<td>Brand-sharing partnerships</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>High growth potential, low impact on brand value</td>
</tr>
</tbody>
</table>

### Evaluation of strategic options

- **Brand ambassadors**: Sustainable brand awareness (✓), Financial impact (●), Feasibility (●), Synergies (●)
- **Brick and mortar presence**: Sustainable brand awareness (✓), Financial impact (●), Feasibility (●), Synergies (●)
- **New product lines**: Sustainable brand awareness (✗), Financial impact (●), Feasibility (●), Synergies (●)
- **Brand-sharing partnerships**: Sustainable brand awareness (✗), Financial impact (●), Feasibility (●), Synergies (●)
The presence of Nordic Roots by Arla cafés will establish a new communication channel and make dairy relevant for the youth of Europe

1. Through Nordic Roots by Arla cafés, Arla will enter the out-of-home lifestyle experiences with a relevant value proposition
   - Nordic styled cafés opening 7am
   - Serving to-go and in-store eating
   - Fast-paced customers, not eating breakfast at home

2. Selling a wide array diary products, Arla can tailor meals to expose product lines promoting Inner Strength
   - Breakfast
     - Yogurt, granola
     - Bread and cheese
     - Complete meal combos
   - Coffee
     - Quality coffee
     - Complimentary milk
     - Ensuring high quality of suppliers
   - Milk assortment
     - LactoFree, skinny etc.

3. Ensuring full control of a key trust building arena for Arla directly to consumers
   - Facilitating customer experiences within an Arla environment
   - Responsible and in control of customer satisfaction
   - Trust building channel with outreach to young segment

4. Allowing for initiatives in order to enhance customer loyalty and creating an Arla community
   - Direct touchpoints with customers
   - Customer feedback
   - Loyalty discounts promoting cross selling through product lines
   - Nordic Roots Community

These initiatives will both improve brand perception and ensure incremental revenue for the future
The café atmosphere should be built on Arla’s core values to differentiate the concept supporting the story of natural and healthy dairy products.

“Great brands talk to basic human emotions”

- Warm inclusive
  - Minimalistic design
  - Raw wood

- Hive of activity
  - Arla recopies
  - Dairy nutrition facts

- Sustainable living
  - Farmer stories
  - Supply chain info
  - Organic

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

- Kaarthik Subramini – Senior Vice President MYPC and Arlla Brand, Arla Foods
After a pilot launch in London and Berlin, Nordic Roots by Arla should be expanded to all seven core markets.

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

### # of stores mkt size Arla 2017 sales

<table>
<thead>
<tr>
<th>Country</th>
<th># of stores</th>
<th>mkt size</th>
<th>Arla 2017 sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>17</td>
<td>8,3bn</td>
<td>370m</td>
</tr>
<tr>
<td>DE</td>
<td>16</td>
<td>16bn</td>
<td>201m</td>
</tr>
<tr>
<td>SE</td>
<td>4</td>
<td>1bn</td>
<td>30m</td>
</tr>
<tr>
<td>FI</td>
<td>1</td>
<td>0,6bn</td>
<td>15m</td>
</tr>
<tr>
<td>DK</td>
<td>1</td>
<td>1,5bn</td>
<td>549m</td>
</tr>
<tr>
<td>NL</td>
<td>1</td>
<td>2,9bn</td>
<td>1bn</td>
</tr>
<tr>
<td>NO</td>
<td>1</td>
<td>2,3bn</td>
<td>173m</td>
</tr>
</tbody>
</table>

### Impact
- **Opening of 27 stores including Denmark, Finland and Sweden**
- **Best**
- **Expansion to Belgium and Holland, continuous roll-out in UK and Germany**
- **Low brand awareness**
- **High Coffee Consumption**

### Recommendation
- **Proof of concept from pilot 1 shop in London and Berlin**
- **Customer feedback on concept**
- **Employee feedback on concept**

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

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

Friday
Upload homemade yoghurt ball - Friends starts to ask

Thursday
Grocery shopping with inspiration & buy Arla product

Wednesday
Takes yoghurt to go from the café – Snap chat

Sunday
Visit Café for brunch - Takes pictures

Monday
Upload yesterdays picture on SoMe

Saturday
Sees the Nordic Roots by Arla

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

Country wide spillover

Wide café reach

Second café reach

Direct café reach
Arla should leverage on influencers to build hype around new Nordic Roots by Arla

How to reach millennials:
- Young people are more influenced by So-Me than older generations
- Influencers behavior on So-Me is replacing existing expert systems

What values to communicate:
- Nordic heritage
- Inner Strength
- Close to nature

Arla’s products are a trendy and nutritious all-round lifestyle: “What you need to take on life!”

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

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

• **Sponsoring global sport events** will put the Arla values in the global spotlight
• Creating an global image of Arla equals exiting and healthy lifestyle will create trickle down on local incentives
• At these events pop-up Nordic root by Arla can be present
Demand for products sold in cafés is not crucial as long as spill-over effect on brand recognition and awareness remains high.

### Risk scenarios

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

### Mitigation strategy

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

### Implementation

<table>
<thead>
<tr>
<th>1. Build retail capabilities</th>
<th>2. Open stores</th>
<th>3. Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hire staff</td>
<td>Find prime city locations</td>
<td>Marketing Campaign</td>
</tr>
<tr>
<td>Source non-dairy products</td>
<td>Open in London and Berlin</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Open 12 new cafés UK, DE &amp; NL</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Open 27 new cafés UK, DE, NL, BE, FI, DK &amp; SE</td>
<td></td>
</tr>
</tbody>
</table>

### Irreversible investment

<table>
<thead>
<tr>
<th>6 weeks</th>
<th>6 months</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>£600k</td>
<td>£600k</td>
<td>£3.6m</td>
<td>£8.1m</td>
</tr>
</tbody>
</table>

### Risks

- **Impact on brand/sales**
  - High
  - Low
- **Probability**
  - High
  - Low

### Implementation:

1. **Build retail capabilities**
   - Hire staff
   - Source non-dairy products
2. **Open stores**
   - Find prime city locations
   - Open in London and Berlin
   - Open 12 new cafés UK, DE & NL
   - Open 27 new cafés UK, DE, NL, BE, FI, DK & SE
3. **Marketing**
   - Marketing Campaign
   - Irreversible investment: £600k in 2019, £3.6m in 2020, £8.1m in 2020

### Mitigation strategy:

- If brand value of physical presence remains high, run stores with loss as spillover effects outweigh total costs
- Identify which levers customers value in brand
- Set high standards for customer experience, focus on experience and quality before costs
- Give shop managers autonomy to resolve front line issues
- Take loss of partnerships and focus on strategies that generate own brand equity instead of licensing other brands
New stores will be profitable by 2020, increase branded Arla sales by €519m and make the Arla brand relevant for consumers

The Arla brand will grow by €519m in Europe... ...while creating a profitable café business within three years... And make the Arla brand relevant and recognizable for consumers

Café business revenue and EBIT:

Meet: meet customers in 41 branded flag-ship cafés

Communicate: new channel for two way communication

Reach: Reach 100m European customers through new concept

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

Cost drivers:
- Rent 3500 €/m² pr. year
- COGS 25% of revenue
- Wages and other OPEX €445k

Expected effect of cafés on Arla brand*
- Nearby consumers 100% increase in spending on Arla
- Same county as café 54% increase in spending on Arla
- Same country as café 20% increase in spending Arla

- Only 15% of network effects expected in mature markets DK and SE, 50% of network effects in FI
- Euromonitor – Coffee consumption; Arla Annual report 2016, Case material, Starbucks Annual report 2017; Espresso House data; British Land – Physical stores are an engine of growth
Putting a face on dairy – a solution catering to the trends of young consumers by being part of their food culture with 41 café concepts outlets

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

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

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

   - Nordic styled cafés opening 7am
   - Serving to-go and in store eating
   - Ensuring customer relevance
   - Building direct customer touch points and feedback channels

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

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

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

   - Market growth
   - Cafés
   - Branding effect
   - 2017
   - 2020

Executive Insights Recommendation Impact Summary
Executive Summary

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

**Situation**

- New consumer trends challenge the established dairy market products
- Millennials demand new products that meet their needs for nutrition and quality
- Demand for milk declines while there is an increase in the demand of other dairy products

**Complication**

- Arla is a market leader but has lost ground to its competitors in recent years.
- Arla has experienced declining revenue in changing markets and struggle to retain historical customer base
- How does Arla Foods increase its Arla brand value for vibrant young consumers and thereby increase revenue by 500 EURm in Europe within three years?

**Recommendation**

- We recommend that Arla implement the ECO strategy to reach its Good Growth 2020 goals:
  1) Energy Meals – New dairy distribution channels reaching out to millennials on the move with a healthy and fresh snack
  2) eCommerce – cooperating with relevant incumbent partners
  3) Online marketing – to reach millennials

**Impact**

- The solution will ensure that Arla can deliver on its Good Growth 2020 goals while becoming a trusted and relevant brand for younger consumers in Europe
- Arla Brand revenue in Europe will grow from 2.4 bnEUR to 2.9 bnEUR in 2020

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (bnEUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2.432</td>
</tr>
<tr>
<td>2019</td>
<td>2.682</td>
</tr>
<tr>
<td>2020</td>
<td>2.932</td>
</tr>
</tbody>
</table>
What characterizes the European dairy market?

New consumer trends challenge the established dairy market products

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

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

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

- 75 pct. of all dairy products are sold through traditional retailers which give them huge market power
- Private label products challenge the established brands as consumers are very price sensitive

4. Value-creation within the dairy industry is downstream

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

Source: Case material, team analysis
What characterizes Arla’s situation and what are the main challenges ahead?

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

1. Arla is a market leader but has lost ground to its competitors in recent years
   - Arla holds the 4th largest milk pool in the world
   - Global players in the dairy industry have increased revenue while Arla has experienced a decline

2. To secure sustainable growth, Arla has four ambitious goals in its "Good Growth 2020" strategy
   - In 2016, Arla initiated the Good Growth 2020 to secure the four goals in 2020:
     - Organic growth of 4% and >25% revenue share outside Europe
     - 500 mio. EUR increased revenue of Arla brands in Europe
     - Peer Group Performance to be 3-5% above average
     - Revenue from brands >45%

3. To achieve these goals four key challenges must be addressed
   - Consumers' relation to food is changing rapidly
   - Changing media consumption requires new ways of engaging with costumers
   - Arla must achieve category leadership and sell through new channels
   - Arla must rebuild the erosion of trust between consumers and big brands

Source: Case material, team analysis, annual reports from Danone, FrieslandCampina and Tine
What characterizes the millennials’ dairy consumption?

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

1. **Millennials buy less milk and more yoghurt**
   - **Yearly consumption growth (%)**, 2010 - 2016
     - Milk: -5, -1
     - Yoghurt: 9, 4
     - Other dairy: 2, 4
   - **Source**: Case material, Statistics Denmark, team analysis

2. **Millennials have different eating habits**
   - Meals are replaced with mini-meals
   - More aware of origin (organic)
   - More aware of nutrition
   - Food needs to be trendy
   - **Source**: Case material, Statistics Denmark, team analysis

3. **Newer Arla products appeal to the quality-oriented millennials**
   - How do selected products meet the demands of millennials on different parameters?
   - **High-quality products are most appealing to millennials**
   - **Arla's newest products** such as Arla Protein, Skyr, as well as MLK and other organic products appeal to millennials

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**EX. SUMMARY**  **RECOMMENDATION**  **IMPACT**  **IMPLEMENTATION**  **RISK**

**SITUATION**  **ANALYSIS**
How can Arla meet its goals?

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

1. Must win battles

   #1 - The Arla brand
   • Ensure that dairy and the Arla brand is trusted and relevant for younger consumers in Europe

   #2 – Revenue increase
   • 500mEUR incremental increase in revenue in Europe with Arla brand by 2020

   #3 – Organic growth
   • Organic growth should account for 4% per year

2. Solution

   ECO – “Energy Meals, eCommerce and Online Marketing”

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

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

   Increasing focus on E-commerce
   • Consumers are increasingly buying groceries online
   • Increased power of products offered to end consumers
   • Increased focus on delivering fresh products
   • Increased revenue of 200 mEUR by 2020
How is Arla going to brand its products towards the millennials?

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

The millennials are present on new media with high reachability…

Millenials are difficult to capture and convince by conventional marketing…

<table>
<thead>
<tr>
<th></th>
<th>TV</th>
<th>PC</th>
<th>Radio</th>
<th>Smartphone/Tablet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millennials</td>
<td>37%</td>
<td>11%</td>
<td>19%</td>
<td>33%</td>
</tr>
<tr>
<td>Generation X</td>
<td>29%</td>
<td>12%</td>
<td>18%</td>
<td>41%</td>
</tr>
<tr>
<td>Baby boomers</td>
<td>24%</td>
<td>8%</td>
<td>16%</td>
<td>53%</td>
</tr>
</tbody>
</table>

…However, they are easy to access on social media

<table>
<thead>
<tr>
<th>Media Type</th>
<th>Broadcast</th>
<th>Newspaper</th>
<th>Social Media</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generation X</td>
<td>13</td>
<td>8</td>
<td>27</td>
</tr>
<tr>
<td>Baby boomers</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

1. LET THE USERS SPEAK
   - Sponsored bloggers, YouTubers and Instagramers promote Arla to reach a targeted audience
   - Brand an Arla nutrition app to show millennials the benefits of nutritious dairy products

2. NUTRITION ARLA APP
   - Utilize big data for targeted marketing through Arla app and social media
   - Targeted marketing

3. SPONSOR ATHLETES
   - Let athletes and sport stars promote Arla products on social media to strength the Arla brand

4. ACT LOCAL – THINK GLOBAL
   - Millennials are culturally similar across European borders. Arla should however engage with local promoters through global channels to maximize attention

Source: Digital resource, team analysis
How can Arla increase sales to new young consumers through new channels?

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

1. Setting up ‘Arla Energy Meals’ in highly attractive locations…

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

2. …with products specifically tailored to local demand.

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

3. An app will further improve customer’s experience

   CUSTOMIZED DEALS
   Customers will get information on new products and discounts from their local vending machines

   CUSTOMER REQUEST
   Customers will be able to request products ensuring high customer satisfaction and having the right products at each vending machine

   MAP OF LOCATIONS
   A map will provide the customer with directions to the local ‘Arla Energy Meals’ and with information on available products

   PAYMENT FROM APP
   The app will be the payment method to ensure cash-free vending machines

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EX. SUMMARY | SITUATION | ANALYSIS | RECOMMENDATION | IMPACT | IMPLEMENTATION | RISK
How should Arla enter and operate vending machines and what is the potential outcome?

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

Finding a operational partner will limit risk and maximize outcome

The vending machine strategy will increase rev. by 300 EURm

Possible business models for Arla

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

Increased revenue of 300 EURm of Energy Meal activities based on…

- Current market shares determines number of vending machines in short term of three years (one for each EURm)
- A machine can generate approx. 0.125 EURm a year after three years
- Implementation will be 20 % of total machines 1st year, 25% 2nd year, and the remaining 55% the third year.
How can Arla utilize new opportunities within digitalization of retail?

**Ecommerce**

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

1. Consumers are increasingly buying groceries online…
   - Generation Z (15-20)
     - Already using: 28%
     - Willing to use: 55%
   - Millennials (21-34)
     - Already using: 30%
     - Willing to use: 57%
   - Generation X (35-49)
     - Already using: 22%
     - Willing to use: 57%
   - Baby Boomers (50-64)
     - Already using: 17%
     - Willing to use: 48%
   - Silent Generation (65+)
     - Already using: 9%
     - Willing to use: 35%


2. … moreover Arla can simplify supply chain to reach end consumers quicker
   - Ecommerce shortens the time from farm to end consumer and provide customers with more fresh products in line with Arla’s “24-hours” campaign

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

   - Amazon Fresh
   - Nemlig.com
   - Matföretaget
   - Ocado

4. … which provides Arla with strong allies against the private label brands
   - Although dependent on hyper- and supermarkets, utilizing strategic ecommerce partnerships provides possibility for power of products offered

   - Increased focus of delivering fresh products
   - Increased revenue of 200 mEUR
What is the strategic and financial impact of the ECO strategy?

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

1. To achieve the goals in the Good Growth 2020 and secure future sustainable growth the ECO strategy must:
   - ...build on the Arla brand ✓
   - ...address consumer trends ✓
   - ...be scalable to achieve success in all markets ✓

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

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

EX. SUMMARY  SITUATION  ANALYSIS  RECOMMENDATION  IMPACT  IMPLEMENTATION  RISK

Growth of Arla® brands in Europe

20 pct.

Added revenue
**How and when should Arla implement the ECO strategy?**

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

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

**Start-up of new distribution channels**

- Initiate contact to partners
- Build meaningful relations with stakeholders
- Develop technical platforms to optimize business
- Commercialize
- Scale new digital strengths and internationalize

**RISK**

**EX. SUMMARY**

**SITUATION**

**ANALYSIS**

**RECOMMENDATION**

**IMPACT**

**IMPLEMENTATION**

**SUMMARY**
What are the risks and how to mitigate?

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

There are three major risk factors...

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

<table>
<thead>
<tr>
<th>Impact</th>
<th>Likelihood</th>
<th>Reputation or financial result</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High</td>
<td>3</td>
</tr>
<tr>
<td>Moderate</td>
<td>Moderate</td>
<td>4</td>
</tr>
<tr>
<td>Low</td>
<td>Low</td>
<td>6</td>
</tr>
</tbody>
</table>

**Major risks:**

1. **Brexit**
   The uncertainty regarding Brexit and protectionism can make Arla’s enter into the e-commerce business in Britain difficult. Lobbyism and local partners can mitigate this risk.

2. **Unattractive vendor machine locations**
   The vendor machines are not generating enough revenue due to its location. Yearly evaluation of the locations based on big data should mitigate this risk.

**Minor risks:**

3. **Partner letdown**
   The partner Selecta does not live up to Arla’s expectations. This is not very likely because Selecta is an established player in the market.

4. **E-commerce sites begin to sell their own private label products**
   Product development is not the core competency of e-commerce sites. Arla’s brand must be strong in order to build customer loyalty.

5. **Slow adoption of vendor machines**
   Young customers are quick to adopt new distribution channels and technology so this is not a major risk.

6. **Technology obsolescence**
   Arla should constantly develop its digital solutions.
Grow by DAIRYing
Implementing the growth plan will deliver on the Good Growth 2020 targets.

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

Key findings | Arla increases revenue by €502m in 2020

Arla aims to keep growing organically in Europe...
- Europe is the core market for Arla
- The Western Europe dairy market is declining
- Arla is heavily impacted by the negative growth

... but shifting consumer attitudes are threatening the future ...
- Non-dairy products are experiencing growth
- Customers are consuming dairy products in new ways
- New channels are influencing young consumers

... calling for a change of focus in communication ...
- Too many self-diagnosed lactose-intolerant consumers
- Traditional marketing channels and role-models are outdated
- Arla’s values do not shine through to customers

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

Debunking the “Lactose-intolerance myth”

Winning the influencing game

Rebuilding trust through transparency
The Western Europe dairy market is experiencing negative growth...

... which is mainly due to changing consumer trends

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

Peder Tuborgh
CEO, Arla Foods

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

Note(s):
Source(s): Case material, Euromonitor
Arla’s unique value propositions and emerging trends

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

---

**“Our Character” is Arla’s core values which are facilitated by 8 unique value propositions**

- **Best-in-class innovation centre**
  Owns dedicated R&D centre that explores alternative products by tracking key insights from each market

- **Quality products**
  As one of the market leading companies, Arla has a solid product portfolio

- **Concept developer**
  Products improve retail shops product offerings

- **Efficient logistics set-up**
  Has a European logistic network that enables delivery to retail shops within 24 hours

- **Owned by the farmer, enabling a long-term focus on value creation**
  Owned by the farmer, enabling a long-term focus on value creation

- **Strong traditions**
  Having existed since 1881, Arla has its roots in the Scandinavian traditions

- **Responsible partner**
  A responsible partner with strong focus on UN’s sustainable goals

- **“Inner strength”**
  Products appeal to consumers’ inner self by providing a healthy choice in their daily lives

---

**Emerging trends are impacting the way food is produced and consumed**

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

---

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

---

Note(s): 1) Arla’s values constituted by three key actions, Lead – Sense – Create, supported by several actions
Insights | Brand perception is highly dispersed in Arla’s core European markets
Arla must look into communicating its core values to improve consumers’ brand perception

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

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

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

Key brand image measures

<table>
<thead>
<tr>
<th></th>
<th>Family suitable</th>
<th>Authentic &amp; trustworthy</th>
<th>Organic range</th>
<th>Better range</th>
<th>Better quality</th>
<th>Good for you</th>
</tr>
</thead>
<tbody>
<tr>
<td>% agree</td>
<td>75</td>
<td>65</td>
<td>51</td>
<td>43</td>
<td>39</td>
<td>28</td>
</tr>
<tr>
<td>Family suitable</td>
<td>Red</td>
<td>Grey</td>
<td>Blue</td>
<td>Black</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Max = 75
Min = 36

Max = 43
Min = 28

Max = 33
Min = 12

Max = 33
Min = 17

Max = 50
Min = 28

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

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

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Product range</th>
<th>Strategic considerations</th>
<th>Previous strategic decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private (owned by farmers)</td>
<td>Dairy Plants</td>
<td>Focus on developing premium dairy products</td>
<td>Leverage innovative product portfolio and continuous application to new products</td>
</tr>
<tr>
<td>Private</td>
<td>Dairy Plants</td>
<td>Primarily focused on dairy products</td>
<td>Create a story line that enables them to charge premium prices</td>
</tr>
<tr>
<td>Public</td>
<td>Dairy Plants</td>
<td>Diversified product portfolio, including plant-based products and medical nutrition products</td>
<td></td>
</tr>
<tr>
<td>Private</td>
<td>Dairy Plants</td>
<td>Focus on developing premium dairy products</td>
<td></td>
</tr>
</tbody>
</table>

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

Note(s): Case material, company websites
Insights | The decision-making process has changed in today’s business environment
Arla must regain control of the influencing game as new influencers define the norms in today’s market

New young consumers have emerged in the market...

**Young Path Finders**
- Relatively young, and very keen on trying new things within budget
- Prefers healthy, organic and natural food

**Life Jugglers**
- Live busy lives and have made it a top priority to live a healthy lifestyle
- Achieved through exercising and cooking fresh natural food

**Optimistic Experience Seekers**
- Optimistic and positive experienced people trying to have as much fun as possible
- Prefer to buy well-known brands and are not that interested in a healthy lifestyle

**Stressed and Struggling**
- Budget-constrained individuals worried about their future
- Living a simple lifestyle and enjoying ready-made dishes and simple food

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

“Traditionally, dairy consumption habits have been passed on from parents to children”

Soeren Bill – Director Commercial Operations International, Arla Foods

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

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

9 out of 10 finds an online review equally important as personal recommendations

49% of Twitter users rely on recommendations from influencers

Note(s):
Grow by DAIRYing | Evaluation of possible solutions to Arla’s key problems

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

Several solutions are suggested to solve the current issues:

- **A. Grow Dairy categories**
  - Continuous focus on different dairy categories e.g. milk-based beverages
- **B. Align Pan-European communication**
  - Centralize communication of all Arla brands with a focus on improvement of brand perception among customers
- **C. Arla Education**
  - Develop Arla “schools” to improve general knowledge concerning health issues
- **D. Co-brand Arla**
  - Strategic alliances with global firms e.g. Coca cola and Red Bull
- **E. Grow Non-Dairy categories**
  - Either buy niche players or build a new product line

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

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

- **A. Grow Dairy categories**
  - Arla currently possess expert knowledge within new product development, hence the full potential has been accounted for in current budgets

- **C. Arla Education**
  - Good fit with Arla values focusing on nutritional learning
  - Not enough impact to drive €500 m revenue growth

- **D. Co-brand Arla**
  - Inconsistencies of core values between Arla and the suggested companies
  - Not enough impact to drive €500 m revenue growth

- **E. Grow Non-Dairy categories**
  - High impact makes it attractive for both Arla and competitors
  - The solution is contradicting current values of maximizing farmer utility

**Solution with greatest strategic fit and highest impact**

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

Note(s):
Source(s): Case material
Grow by DAIRYing | Key components
Three steps must be initiated to deploy the growth plan

<table>
<thead>
<tr>
<th>Initiatives</th>
<th>What?</th>
<th>Why?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debunking the ‘Lactose intolerance myth’</td>
<td>Free lactose-intolerance tests, both on the spot and as take-home</td>
<td><strong>Increase future pool of potential customers</strong> by testing customers for lactose-intolerance</td>
</tr>
<tr>
<td></td>
<td>6 months presence in supermarkets</td>
<td>Use the gathered data to reveal that many customers are self-diagnosed incorrectly regarding lactose-intolerance</td>
</tr>
<tr>
<td>Winning the influencing game</td>
<td>Partnerships with current role models for younger customers</td>
<td>Associate the Arla brand with <strong>trusted influencers</strong></td>
</tr>
<tr>
<td></td>
<td>Zlatan Ibrahimović, Caroline Wozniacki and Christian Eriksen are prospects for Social Media campaigns</td>
<td>Social Media has become a key driver of interaction with young consumers in Europe</td>
</tr>
<tr>
<td>Rebuilding trust through transparency</td>
<td>QR codes on milk-cartons aimed to trace the “story of the milk.”</td>
<td>The values of Arla should be recognized easily and <strong>differentiate Arla from its competitors</strong></td>
</tr>
<tr>
<td></td>
<td>Data is collected continuously, and consumers are able to track the dairy product’s journey from farm to shelf</td>
<td>Focus on ethical issues relates to the future consumer</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>Problems</th>
<th>Initiatives solving the problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Decreased trust in dairy products</td>
</tr>
<tr>
<td>2</td>
<td>Change in consumer preferences</td>
</tr>
<tr>
<td>3</td>
<td>Lack of connection to younger consumers</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Values fitting initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Debunking</td>
</tr>
<tr>
<td>2</td>
<td>Influencer</td>
</tr>
<tr>
<td>3</td>
<td>Transparency</td>
</tr>
</tbody>
</table>

... and taking important steps to stay competitive

CURRENT PROBLEMS SOLVED + ALIGNMENT WITH VALUES + STAYING COMPETITIVE = EXTENDING THE EXPIRATION DATE
Risks | 7 identified risks
Arla should proactively take action to mitigate the key risks associated with ‘Grow by DAIRYing’

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

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

Note(s): Source(s): Case material
The plan requires high initial focus to achieve the full benefits of the strategy.

### Initiatives

<table>
<thead>
<tr>
<th>Debutring</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Establish partnerships with companies specialized in testing allergic reactions</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>• Plan the campaign in terms of location, duration and staffing</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>• Execute the plan</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Influencing game</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Conduct experiments with young consumers and their response to different influencers</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>• Negotiate with selected influencers and identify KPI’s for the campaign</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>• Executing the plan and monitoring of performance</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transparency</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Finding IT consultancy specialized in setting up new processes</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>• Identify desired process and employ an agile development approach to reach the goals</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>• Go-live across production sites and facilities</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>

---

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

---

**In order to reach the overall goals of Good Growth 2020, Arla must deploy resources early 2018.**
Impact | Arla reaches total revenue of EUR 2.9bn in 2020

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

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

- Diary market growth of 1.6%
- Takeover of market shares through ‘Rebuilding trust through transparency’
- Actively increase market value by initiating ‘Debunking the “Lactose-intolerance myth”’
- Partnerships leading to a revenue effect of €141.3m³

‘Grow by DAIRYing’ leads to a financial impact of **€501.6m** in revenue

Case study from Lurpak ‘Game on, Cooks’ Campaign in 2016

- **1. Lurpak UK revenue**
  - £1,582m Total butter market
  - £7.6m Lurpak marketing¹

- **2. Estimating incremental rev.**
  - 35% Increase in sales
  - £83m Incremental revenue

- **3. Marketing spending**

  \[
  \text{Return on invested marketing spending} = \frac{£7.6m}{£83m} = 0.092 \times 100 = 9.2\% 
  \]

Note(s): 1) Assuming Lurpak receives 6.5% of the UK marketing budget of EUR 117m based on global budget and UK revenue split, 2) Incremental revenue/marketing spending, 3) Based on a €13m budget

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

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

**Arla aims to keep growing organically in Europe…**
- Europe is the core market for Arla
- The Western Europe dairy market is declining
- Arla is heavily impacted by the negative growth

**… but shifting consumer attitudes is threatening the future …**
- Non-dairy products are experiencing growth
- Customers are consuming dairy products in new ways
- New authorities are influencing young consumers

**… calling for a change of focus in communication …**
- Too many self-diagnosed lactose-intolerant consumers
- Traditional marketing channels and role-models are outdated
- Arla’s values are not strongly shining through to customers

**… resulting in a significant financial impact**
- Increase
- Growth
- Dollars

**47%**
EU, Brand share

**-7%**
Revenue development

**12 EUR m**
Marketing campaign

**525 EUR m**
Revenue increase

**Grow by**
**DAIRYing**

**Debunking the “Lactose-intolerance myth”**

**Winning the influencing game**

**Showcasing Arla’s values through transparency**
Appendix | Underlying assumptions

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

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

Change in underlying growth

<table>
<thead>
<tr>
<th>Effect of marketing campaign</th>
<th>-1.0%</th>
<th>-0.5%</th>
<th>Base</th>
<th>0.5%</th>
<th>1.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>40.0% 37.5% 35.0% 32.5% 30.0%</td>
<td>379.1</td>
<td>431.8</td>
<td>485.3</td>
<td>539.5</td>
<td>594.5</td>
</tr>
<tr>
<td>40% 37.5% 35% 32.5% 30%</td>
<td>387.3</td>
<td>440.1</td>
<td>493.6</td>
<td>547.8</td>
<td>602.9</td>
</tr>
<tr>
<td>39.5% 37.5% 35% 32.5% 30%</td>
<td>395.3</td>
<td>448.0</td>
<td>501.6</td>
<td>555.9</td>
<td>610.9</td>
</tr>
<tr>
<td>40.2% 37.5% 35% 32.5% 30%</td>
<td>402.9</td>
<td>455.7</td>
<td>509.3</td>
<td>563.6</td>
<td>618.7</td>
</tr>
<tr>
<td>41% 37.5% 35% 32.5% 30%</td>
<td>410.2</td>
<td>463.1</td>
<td>516.7</td>
<td>571.1</td>
<td>626.2</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2.40</td>
<td>2.45</td>
<td>2.51</td>
<td>2.76</td>
<td>2.90</td>
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<tr>
<td>Increase in revenue</td>
<td>0.05</td>
<td>0.06</td>
<td>0.25</td>
<td>0.14</td>
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<tr>
<td>Underlying growth rate¹</td>
<td>2.0%</td>
<td>2.5%</td>
<td>4.5%</td>
<td>5.0%</td>
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</tr>
<tr>
<td>Market growth</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.6%</td>
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<tr>
<td>Revenue from partnerships</td>
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<td></td>
<td>0.14</td>
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</table>

… with key value-adds in the final phase

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

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