Arla
Becoming the go-to dairy brand
Executive Summary

Issues

- Decline in Arla’s milk sales
- Negative perception towards the milk category
- Arla brand unaligned to customer expectations

Question

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?

Strategy

- **MILKING THE BENEFITS**
  - Arla Milk+ milk and yoghurt line – transparent, on-the-go packaging, vitamins, unique flavours
  - Arla Milk Bar transparent concept cafes with complementary milk menu
- **AHEAD OF THE HERD**
  - ‘Clearer picture with Arla’ marketing campaign over Europe - ATL, digital, event sponsorship
  - Distribution network extended to cafes, events and vending machines

Impact

- Incremental revenue from Arla brand by 2020: €600m
- Brand share by 2020: 48%
- NPV: €146m
Milk growth curdling worldwide as customer perceptions sour...

Industry analysis

Dairy milk is decreasing whilst plant-based milk sales increase...

Due to milk losing relevance to customers...

41% natural ingredients matter
31% ethical and sustainable sourcing
36% flavor matters
68% do not associate milk with health/organic
31% do not trust large dairy companies
36% prefer non-milk alternatives due to taste

... forecasted to continue negative impact on Arla’s revenue

... however there are opportunities for growth as the dairy market will reach $800b by 2020

Arla must build brand trust and focus on growing dairy segments to regain relevance with its customers

Euromonitor, Mintel report, SRUC report, Nielsen, Comax survey, Case brief; See Appendix 34 for further category analysis
... leading to a decline in the milk category choice and Arla brand recognition

**Issue analysis**

**Category choice: Milk**

- **Issue:** Negative perception towards the milk category
- **Motivations:**
  - I want to have something healthy for breakfast (41%)
  - natural ingredients matter (31%)
- **Is it healthy and organic?**
  - No (68%)
  - Non-dairy alternatives e.g. plant-based
- **Has it been ethically sourced?**
  - No (43%)
  - Non-dairy alternatives e.g. plant-based
- **Does it have flavors I enjoy?**
  - No (52%)
  - Choose competitor
- **Does it have added health benefits?**
  - No (36%)
  - Choose competitor
- **Can I get it quickly and drink it easily?**
  - No (70%)
  - Choose competitor

**Brand choice: Arla**

- **Issue:** Arla brand unaligned to customer expectations
- **Motivations:**
  - Yes (36%)
  - flavor matters
- **Does it have flavors I enjoy?**
  - Yes (30%)
  - added health benefits matter
- **Does it have added health benefits?**
  - Yes (36%)
  - value perceived health benefits
- **Can I get it quickly and drink it easily?**
  - Yes (70%)
  - Europeans skip breakfast

**To reduce barriers towards category and brand choice, Arla must modify its product mix and develop a clear communication strategy**

Comax flavors survey, Euromonitor, Food Navigator
Consumer preferences have shifted to favor transparency, health and convenience

Customer analysis

Consumers are increasingly demanding company transparency

94%

Consumers say transparency is important to their purchase decisions

Consumers value convenience and accessibility...

They are growing in health consciousness and awareness

“Interest in naturalness and clean label continues to feature strongly”
– Director of innovation at Innova Market Insights (Top Ten Trends, 2017)

Increase in the number of vegan food and beverages over the last 5 years 257%

Consumers value convenience and accessibility...

... whilst also enjoying the experience economy

64%

New sensory experiences entice consumers to experiment with milk products

72%

Enjoy experimenting with different yogurt flavors

Arla must respond to these trends to increase relevance of dairy and build a unique brand story

Dairy reporter, Euromonitor, Supermarket news, Deloitte, PwC, CNBC, Mintel Global Food and Drink Trends 2017
Tactics have been evaluated on its impact towards improving milk category perception, contribution towards Arla’s brand sales and feasibility.

1. Improving milk category perception (0-3)
   - Farm to concept store
   - Fitness branding
   - Milk bar in-house
   - Sponsor food events
   - Health added line
   - Transparent packaging
   - Corporate partnerships for milk at work
   - Transparency campaign
   - Farm to concept

2. Contribution to Arla’s brand sales (0-3)
   - Yogurt health line
   - On-the-go packaging
   - Milk bar with partnerships
   - Milk bar
   - Seasonal flavors
   - Seasonal flavors
   - Milk formula
   - Door delivery
   - Open cafe or restaurant
   - Artisanal cheeses
   - Artisanal cheeses
   - Powdered milk focus

3. Feasibility (0-3)
   - Corporate partnerships for milk at work
   - Partnerships with cafes to distribute
   - Milk formula
   - Milk formula
   - Artisanal cheeses
   - Powdered milk focus

* Tactics towards the center are more favorable.

EVA analysis; See Appendix 34 and 35 for evaluation of other favorable tactics.
Our strategies will ensure Arla becomes the cream of the crop go-to dairy brand

### Strategy summary

**Issue:**
Milk is losing its relevance to young people due to negative perceptions towards the dairy industry coupled with dairy brands lacking a compelling story that rebuilds trust and reconnects with its younger customers

**Question:**
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?

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Questions</th>
<th>Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rebuild LEADING TRUST with milk</td>
<td>How can Arla be more transparent with customers?</td>
<td>MILKING THE BENEFITS</td>
</tr>
<tr>
<td>Redevelop RELEVANCE of milk</td>
<td>How can Arla develop a product aligned to customer preferences?</td>
<td>Arla Milk+ milk and yoghurt line – transparent</td>
</tr>
<tr>
<td>Boost brand AWARENESS</td>
<td>How can Arla increase awareness of milk benefits and become synonymous with it?</td>
<td>on-the-go packaging, vitamins, unique flavours</td>
</tr>
<tr>
<td>Increase points of ACCESSIBILITY</td>
<td>How can Arla ensure its products are at the right place at the right time?</td>
<td>Arla Milk Bar transparent concept cafes with complementary milk menu</td>
</tr>
</tbody>
</table>

**Incremental revenue from Arla brand by 2020:** €600m  
**Brand share by 2020:** 48%  
**NPV:** €146m
MILKING THE BENEFITS

Introducing Arla Milk+ and Milk Bar
Arla must strategically position itself to target changing customer behaviours

Customer and competitor analysis

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**Trust**

- Increasing transparency of the products sold and of the brand itself. This includes organic product offerings, and milk facts to promote nutrition.

**Relevance**

- Millennials are now reaching for other dairy options rather than milk because of lack of interest stemming from health, diet, and inconvenience.

**Ethical Advocate**

- Believes that they are trustworthy

**Apathetic Adults**

- Use milk as an addition to other food

**Fast Mover**

- Expressed a desire for more transparency

**Time Rich**

- Would purchase food items that improve health such as probiotics/vitamins

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€360m incremental revenue by 2020

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EVA Consulting
Introducing: Arla Milk+ product line of milks and yogurts

New product line details

- Environmentally friendly packaging
- Partner with Plant Bottles, Enso Bottles, MH Plastics
- Millennials willing to pay 30% more for sustainable packaging

Biodegradable packaging

Transparent ingredient design that’s ‘ready to go’

- Clear bottle design that features text that is the same colour to the liquid appears after drinking
- Message: calories, ingredients, nutritional information, animal welfare, motivational impact
- 92% want in-depth information on packaging

Health Benefits

- Added vitamins and omega to benefit every health conscious consumer
- Features: Vitamin D, Vitamin A, Omega 3, and fibre added to customer-friendly flavours.

The rebranded packaging alongside the new product launch will reconnect millennials to Arla by building relevance by meeting preferences

PKG packaging; See appendix 37 and 38 for additional case studies
Introducing: Milk Bar

New product details

Milk Bar

A transparent contemporary space inspired by the clear messages of Arla's products so you can feel confident about the quality of milk you're enjoying

Features of concept store

A café style concept store featuring Arla's products highlighting its unique cooperative structure

Milk+ products will be available for sale at the stores

Seasonal change in milk flavours

On-the-go breakfast options like grilled cheese and goodie jars

Additional details on Appendix slide 36
Milk+ and Milk Bar increases consumer likelihood to choose the milk category and the Arla brand.

Motivations:
I want to have something healthy for breakfast.

Is it healthy and organic? Yes
Has it been ethically sourced? Yes
Does it have flavors I enjoy? Yes
Does it have added health benefits? Yes
Can I get it quickly and drink it easily? Yes

Motivations:
Concept Store
Arla Milk+ campaign
Re-purchase new product
Arla is capable of entering the physical retail space

Implementation

Store rollout should focus on existing markets...

...and carefully manage its organisational change

Key actions:

1. Create new Arla Milk Plus division under Arla
2. Outsource advice for first concept store, and use same model for subsequent rollouts
3. Implement staff training programs to ensure that all new and old employees understand the market that they work in

...to deliver returns to the Arla brand

<table>
<thead>
<tr>
<th>City</th>
<th>Population</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berlin</td>
<td>3.5M</td>
<td>Large café culture; major population</td>
</tr>
<tr>
<td>Birmingham</td>
<td>1.1M</td>
<td>Developing a social and food cultural niche</td>
</tr>
<tr>
<td>Cardiff</td>
<td>341,000</td>
<td>Under severed market relative to elsewhere in UK</td>
</tr>
<tr>
<td>Copenhagen</td>
<td>583,000</td>
<td>Arla’s brand performs very strongly in Denmark</td>
</tr>
<tr>
<td>Edinburgh</td>
<td>495,000</td>
<td>Above-average CAGR in beverages spend</td>
</tr>
<tr>
<td>Gothenburg</td>
<td>573,000</td>
<td>Large sales market for Arla</td>
</tr>
<tr>
<td>Hamburg</td>
<td>1.7M</td>
<td>Large population base</td>
</tr>
<tr>
<td>London</td>
<td>8.8M</td>
<td>Very diverse set of demand for products</td>
</tr>
<tr>
<td>Malmö</td>
<td>342,000</td>
<td>Synergies with operating a store in Copenhagen</td>
</tr>
<tr>
<td>Munich</td>
<td>1.4M</td>
<td>Large potential market</td>
</tr>
<tr>
<td>Stokholm</td>
<td>950,000</td>
<td>Large population base</td>
</tr>
</tbody>
</table>

City Population Commentary

- Berlin
- Large café culture; major population
- Birmingham
- Developing a social and food cultural niche
- Cardiff
- Under severed market relative to elsewhere in UK
- Copenhagen
- Arla’s brand performs very strongly in Denmark
- Edinburgh
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- Gothenburg
- Large sales market for Arla
- Hamburg
- Large population base
- London
- Very diverse set of demand for products
- Malmö
- Synergies with operating a store in Copenhagen
- Munich
- Large potential market
- Stokholm
- Large population base

Source: CIA World Factbook; See Appendix 42 for further analysis
AHEAD OF THE HERD

‘Get a clearer picture with Arla’
marketing campaign and extended distribution
Arla should develop a pan-European, whole-brand marketing campaign

**Strategy overview**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Awareness</th>
<th>Accessibility</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medium</strong></td>
<td><strong>Digital</strong></td>
<td><strong>Supermarket</strong></td>
</tr>
<tr>
<td>Above the line</td>
<td>Event sponsorship</td>
<td>Convenience stores</td>
</tr>
<tr>
<td>Event sponsorship</td>
<td>Launch event</td>
<td>Activity-specific locations</td>
</tr>
<tr>
<td><strong>Outcome</strong></td>
<td>Arla can increase awareness of milk benefits and become synonymous with these</td>
<td>Arla can ensure its products are at the right place at the right time</td>
</tr>
</tbody>
</table>
Arla should target younger consumers with a specific campaign

Current marketing campaigns are strong...

...and are failing to convince consumers of key points...

Brand perception (among select EU residents)

- Are full of healthy, natural goodness
- Have natural products
- Are authentic and trustworthy

Engaging packaging concept
- Dynamic brand
- Messaging responding to concerns of consumers and creating excitement around the brand

...but are behind some competitors in driving engagement

Recommended target range

Source: Arla Foods market research, Instagram
Introducing “Get a clearer picture with Arla” marketing campaign

Get a clearer picture

Get a clearer weekend

Get a clearer morning
Arla’s campaign will generate maximum awareness across multiple European cities

Awareness and marketing

Arla should use a diverse marketing mix...

<table>
<thead>
<tr>
<th>Area</th>
<th>Component</th>
<th>Reason to use</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arla Brand</td>
<td>Above the line</td>
<td>• Maximizes reach</td>
<td>• Billboard advertising in central areas of primary and secondary cites</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Impressive work well with visceral campaigns</td>
<td>• Supporting outdoor signage (e.g., bus ads)</td>
</tr>
<tr>
<td></td>
<td>Digital</td>
<td>• Ads can be targeted at specific users</td>
<td>• Television campaigns in key markets</td>
</tr>
<tr>
<td></td>
<td>Event sponsorship</td>
<td>• High level of engagement from young people</td>
<td>• Facebook, Instagram and Snapchat ads, targeted at 18-35 demographic</td>
</tr>
<tr>
<td></td>
<td>Launch event</td>
<td>• Builds positive brand association</td>
<td>• Small format creative marketing: ‘send in a picture of your pet, and you are sent back one of their matching cow.’</td>
</tr>
<tr>
<td></td>
<td>Ongoing</td>
<td>• Creates knowledge</td>
<td>• European Week of Sport (Hamburg 2019)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Drives new customers to store in weeks after opening</td>
<td>• Edinburgh Dog and Puppy Group</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ensures sustainable sales platform</td>
<td>• Meetup Sports Copenhagen</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Pushes new and returning customers to milk bar</td>
<td>• Stockholm Smooth Vibes music festival</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ensures sustainable sales platform</td>
<td>• Large glass cow placed in center of original launch cities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Tailored to local retail environment in each city</td>
<td>• Designed for generating organic traction on social media</td>
</tr>
</tbody>
</table>

Distribution of advertising spend by city

- Primary city
- Secondary city

...to ensure reach across all key EU markets
Younger consumer demand convenience when purchasing

Customer analysis

Younger consumers expect companies to meet their specific needs...

Preferences by generation

- Doesn't like buying large volumes of products at once
- Regularly makes impulse purchases
- Willing to pay more for small purchases to save effort

...providing an opportunity for Arla to lead in this area

- Milk traditionally
  - Sold in grocery store for weekly purchase
- What young consumers want
  - Product available when and where they want it
  - Plain milk sold separately to complementary goods
  - Final product, ready for drinking
  - Designed to be prepared and consumed at home
  - Ready for anywhere

Case Study: Uber Eats

- Allows customers to avoid the stress of preparing food while allowing them to eat at home
- Developed app to make ordering food as easy as possible

Other case studies include:

Source: PWC
Arla should ensure it is available to consumers as they demand it

**Distribution channels**

**Level of convenience**

**Channel**

**Analysis**

**Product line to provide**

**Distribution model**

**Supermarkets**
- Less formalized as a process for young people
- Does not always sell products that are ready to go

**Convenience stores**
- Within 200m of 50%+ of Europeans in urban cities
- Good format for pushing impulse buys

**Activity-specific locations**
- Includes cafes, gyms and cinemas
- Generally locations associated with beverage purchases

**Online food delivery**
- Quickly growing segment for customer food and beverage spend
- Especially popular with younger consumers

**Automated food machines**
- Allows for quick and stress-free access to products in central locations
- Low labor cost

**Key market to occupy**

Further analysis in Appendix 50
IMPACT
MOO-VING AHEAD
Our strategies will achieve €600m in incremental Arla Brand revenue by 2020

Financial impact

Reversing the downwards trend in revenue by 2020...

... through a focus on high value yoghurt and milk products

Sensitivity analysis on 2020 revenue

Capital expenditure in first year of €3.76m

Further financial analysis on Appendix Slide 28-33
Our strategies will achieve the key KPI and generate an NPV of €146m

Achieving key targets

Achieving ‘Good Growth 2020’ targets

- Brand share in 2020: 48%
- Revenue growth achieved from 2017-2020: 4.5%

Key costs drivers – Annual recurring costs of €5.25m

- TV marketing campaign: €3.5m
- Additional salaries: €240k
- Billboards and signage: €1.2m
- Digital marketing: €60k
- Café Launch event: €30k
- Community events and partnerships: €250k

Our strategy will generate an NPV of €146m

Further financial analysis on Appendix Slide 28-33
3 year implementation timeline

**Implementation timeline**

- **2017**
  - Develop Arla milk plus
  - Hire management team
  - Store rollout
  - Hire employees
  - Refinement

- **2018**
  - Research
  - Develop
  - 2 x operations and 1 x marketing
  - Initial bar launch
  - Next 3 bars

- **2019**
  - 5 x full time equivalent employees per store
  - Receive feedback, improve products
  - Next 3 bars

- **2020**
  - €600m

**Legend**
- Evaluation Point
- Implement
- Execute pending prior success

**Milking the benefits**
- Bar launch event
- Food machine
- Above the line marketing
- Digital marketing
- Sponsorship

**Ahead of the herd**
- Cow marketing
- Being rollout
- Continue rollout
- Billboard and TV
- Online marketing
- Continue improving and tailoring marketing
- Sponsor community events
- Continue sponsoring events

**KPI: EBIT Margin**
- 2017: 3.7%
- 2018: 4.0%
- 2019: 4.2%
- 2020: 4.2%

**KPI: Incremental revenue**
- 2017: €226m
- 2018: €444m
- 2019: €600m

**Next Steps**
- Begin R&D process for Arla Milk Plus at the innovation centre
- Hire Arla Milk Plus management team to oversee rollout of stores and brand
- Begin liaising with marketing team to develop marketing messages
Key risks have been identified and mitigating actions have been created

### Risk Analysis

<table>
<thead>
<tr>
<th>Silo</th>
<th>Rank</th>
<th>Risk</th>
<th>Mitigation</th>
<th>Recommended contingency response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>1</td>
<td>Popularity of Arla Milk bar declines after a period of time</td>
<td>• Update product line on regular basis and introduce seasonal marketing campaigns</td>
<td>• Influencer based marketing to attract young demographics&lt;br&gt;• Partner with events/tour companies</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Potential cannibalisation of existing products through introducing new product lines</td>
<td>• Products already have low traction&lt;br&gt;• Distinct marketing streams to target different customer segments</td>
<td>• Continue to innovate with new product categories</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>Competition from other Café and restaurant players</td>
<td>• Position Arla Bar in a unique way compared to competitors</td>
<td>• Implement promotional campaigns highlighting Arla’s products benefits when store traffic is low</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>Risks of damaging relationships with existing retailers through introducing Cafes</td>
<td>• Target different customer segments than existing retailers to reduce likelihood of risk</td>
<td>• Use retailers as suppliers for complementary products at the Milk Bar to build ‘win-win’ relationship</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>New branding is unpopular with long-time customers</td>
<td>• A/B testing to gain traction with consumers</td>
<td>• Co-creating new brands/designs with consumers to ensure their success</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Lack of internal capabilities/or competencies in operating Milk Bar</td>
<td>• Ensure careful planning, training and staggered roll out to reduce level of risk</td>
<td>• Recruit additional team to help oversee Arla Milk Bar operations</td>
</tr>
<tr>
<td>Regulatory</td>
<td>5</td>
<td>Vitamins not allowed in the Danish market/ Unable to use in the product</td>
<td>• Existing presence within the Danish market reduces risk</td>
<td>• Use alternative vitamins/products if specific vitamins are rejected</td>
</tr>
</tbody>
</table>

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Our strategies will build a sustainable foundation where Arla can continue to connect and remain relevant to its consumers

Summary and future outlook

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?

In the future we see the Arla brand reconnecting with its younger consumers through a narrative that is relevant and builds on trust and transparency. Undoubtedly, Arla Foods will continue to drive value-up for its cooperative and continue global expansion and establishing itself as a top player in the dairy industry.

There are 4 main areas of focus that will enable this:

1. Line extensions of Milk+
2. Continued expansion of Milk Bar
3. Ongoing transparent marketing campaign
4. Extending distribution channels
Overview
1. Opening slide
2. Executive summary

Analysis
3. Industry analysis
4. Issue analysis – Brand recognition
5. Customer preferences favour transparency
6. Tactic prioritisation matrix
7. Strategy overview

Milking the benefits
8. Milking the benefits opening slide
9. Arla must strategically position itself to target changing customer behaviour
10. Arla Milk + Product line of milk and yogurts
11. Introducing Milk Bar
12. Milk Bar increases the likelihood to choose the milk category and Arla brand
13. Arla is capable of entering the physical retail space

14. Ahead of the herd

15. Pan-European marketing campaign
16. Target young consumers with specific campaign
17. Get clearer picture with Arla
18. Arla’s marketing campaign
19. Younger consumers demand convenience when purchasing
20. Arla should ensure it is available to consumers when they demand it

21. Implementation
22. Financial impact – Revenue
23. Financials – Key KPI
24. Implementation timeline
25. Risk and mitigation

26. Conclusion

27. Appendix
28. Financials
29. Financials
30. Financials
31. Financials
32. Financials
33. Financials

34. Alternatives – powder and formula
35. Alternative – should, online, fitness
36. In store concept; organic, co-operative farmer focus
37. Case studies: packaging
38. Transparency case studies
39. Case study: Concept store
40. Details on Arla Milk + Full Line of Vitamin added products
41. Omega 3 deficiencies in Europe and Bio-degradable bottles
42. Milk bar launch
43. Organisational change
44. Proposed rollout of Milk Bar stores
45. Milk vitamin capabilities
46. Developing automated service machines
47. Consumer trends
48. Organisational chart
## European Dairy Market - Assumptions

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>European Dairy Market</td>
<td>111.07</td>
<td>113.31</td>
<td>115.54</td>
<td>116.12</td>
<td>116.69</td>
<td>117.48</td>
<td>118.26</td>
<td>Source: Briefing materials</td>
<td></td>
</tr>
<tr>
<td>Other dairy</td>
<td>6.35</td>
<td>6.57</td>
<td>6.78</td>
<td>7.00</td>
<td>7.22</td>
<td>7.50</td>
<td>7.77</td>
<td></td>
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<tr>
<td>Cheese</td>
<td>39.40</td>
<td>39.47</td>
<td>39.53</td>
<td>39.93</td>
<td>40.33</td>
<td>40.74</td>
<td>41.15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yoghurt and sour milk products</td>
<td>22.74</td>
<td>25.14</td>
<td>27.53</td>
<td>27.63</td>
<td>27.73</td>
<td>27.89</td>
<td>28.05</td>
<td></td>
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<tr>
<td>Cooking</td>
<td>6.52</td>
<td>6.52</td>
<td>6.51</td>
<td>6.55</td>
<td>6.58</td>
<td>6.60</td>
<td>6.61</td>
<td></td>
<td></td>
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<tr>
<td>Drinking milk</td>
<td>25.30</td>
<td>24.76</td>
<td>24.22</td>
<td>24.04</td>
<td>23.85</td>
<td>23.75</td>
<td>23.65</td>
<td></td>
<td></td>
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<td>Butter and margerine</td>
<td>10.76</td>
<td>10.87</td>
<td>10.97</td>
<td>10.98</td>
<td>10.98</td>
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### Income Statement (Organic)

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## Appendix

### Financials - Combined strategy income statement

#### Income Statement (Combined)

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<td>Gain from sale of enterprise</td>
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<tr>
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<td>368</td>
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### Key takeaways

- **Milking the benefits**: 3.8% increase over status quo
- **Ahead of the herd**: 2.9% revenue increase above status quo
- Improvement in gross margin by 10% from 2017-2020 (22.9% to 25.3%) driven by focus on higher value products and distribution methods
- **Status quo**: Decrease of revenue of 5.04%
- **Total increase in net revenue with strategies 4.48%**

Increase in EBIT from 306 to 397 from 2017-2020
Increase in EBIT margin from 3.37% to 4.19% from 2017-2020
### Revenue Buildup

#### Strategy 1 - Milking the benefits EUR m

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<td>3.25%</td>
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Other products also sell due to marketing/transparency initiatives

### Concept stores

- **Annual sales per store**: 0.65 EUR m
- **Number of stores**: 3
- **Revenue from concept stores**: 2.0 EUR m
- **Synergy effect from concept stores**: 1.7 EUR m
- **Total revenue from Strategy 1**: 220 EUR m
## Financials - Strategy 2 revenue drivers and sensitivity analysis

### Strategy 2 - Ahead of the herd

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<td>Incremental market share from Finland</td>
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</tr>
<tr>
<td>Incremental revenue Finland</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Incremental market share from Netherlands</td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
</tr>
<tr>
<td>Incremental revenue Netherlands</td>
<td>51</td>
<td>51</td>
<td>52</td>
</tr>
<tr>
<td><strong>Total from Strategy 2</strong></td>
<td><strong>172</strong></td>
<td><strong>264</strong></td>
<td><strong>266</strong></td>
</tr>
</tbody>
</table>

### Total Incremental revenue

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>391</td>
<td>528</td>
<td>599</td>
</tr>
</tbody>
</table>

#### Price premium of Arla Milk plus products

<table>
<thead>
<tr>
<th>Market share of Milk plus products</th>
<th>10.00%</th>
<th>12.50%</th>
<th>15.00%</th>
<th>17.50%</th>
<th>20.00%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.50%</td>
<td>585</td>
<td>592</td>
<td>599</td>
<td>606</td>
<td>613</td>
</tr>
<tr>
<td>2.75%</td>
<td>616</td>
<td>624</td>
<td>632</td>
<td>640</td>
<td>648</td>
</tr>
<tr>
<td>3.00%</td>
<td>648</td>
<td>656</td>
<td>665</td>
<td>673</td>
<td>682</td>
</tr>
<tr>
<td>3.25%</td>
<td>679</td>
<td>688</td>
<td>698</td>
<td>707</td>
<td>716</td>
</tr>
<tr>
<td>3.50%</td>
<td>710</td>
<td>720</td>
<td>730</td>
<td>740</td>
<td>750</td>
</tr>
</tbody>
</table>
### Strategy 1 Costs - Milking the benefits

#### Product line development - Milk Plus

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of products lines developed</td>
<td>EUR 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development cost per new product line</td>
<td>EUR 600,000</td>
<td>EUR 800,000</td>
<td>EUR 200,000</td>
</tr>
<tr>
<td>Market and product research</td>
<td>EUR 600,000</td>
<td>EUR 800,000</td>
<td>EUR 200,000</td>
</tr>
<tr>
<td>Total</td>
<td>EUR 3,200,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### New Concept stores

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of stores</td>
<td>2</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Cost of developing store</td>
<td>EUR 6,000</td>
<td>EUR 6,000</td>
<td>EUR 6,000</td>
</tr>
<tr>
<td>Store remodelling</td>
<td>EUR 600</td>
<td>EUR 600</td>
<td>EUR 600</td>
</tr>
<tr>
<td>Plumbing</td>
<td>EUR 12,000</td>
<td>EUR 12,000</td>
<td>EUR 12,000</td>
</tr>
<tr>
<td>Heating and venting</td>
<td>EUR 17,000</td>
<td>EUR 17,000</td>
<td>EUR 17,000</td>
</tr>
<tr>
<td>Custom store designs</td>
<td>EUR 6,000</td>
<td>EUR 6,000</td>
<td>EUR 6,000</td>
</tr>
<tr>
<td>Chairs</td>
<td>EUR 2,000</td>
<td>EUR 2,000</td>
<td>EUR 2,000</td>
</tr>
<tr>
<td>Tables</td>
<td>EUR 6,000</td>
<td>EUR 6,000</td>
<td>EUR 6,000</td>
</tr>
<tr>
<td>Trash receptacles</td>
<td>EUR 250</td>
<td>EUR 250</td>
<td>EUR 250</td>
</tr>
<tr>
<td>Phone installation</td>
<td>EUR 300</td>
<td>EUR 300</td>
<td>EUR 300</td>
</tr>
<tr>
<td>Outdoor chairs, table and umbrella</td>
<td>EUR 1,200</td>
<td>EUR 1,200</td>
<td>EUR 1,200</td>
</tr>
<tr>
<td>Lighting fixtures</td>
<td>EUR 4,000</td>
<td>EUR 4,000</td>
<td>EUR 4,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>EUR 1,400</td>
<td>EUR 1,400</td>
<td>EUR 1,400</td>
</tr>
<tr>
<td>Refrigerators</td>
<td>EUR 600</td>
<td>EUR 600</td>
<td>EUR 600</td>
</tr>
<tr>
<td>Sandwich prep equipment</td>
<td>EUR 3,300</td>
<td>EUR 3,300</td>
<td>EUR 3,300</td>
</tr>
<tr>
<td>Milkshake equipment</td>
<td>EUR 300</td>
<td>EUR 300</td>
<td>EUR 300</td>
</tr>
<tr>
<td>Coffee making machine</td>
<td>EUR 2,000</td>
<td>EUR 2,000</td>
<td>EUR 2,000</td>
</tr>
<tr>
<td>Toaster and microwave</td>
<td>EUR 1,500</td>
<td>EUR 1,500</td>
<td>EUR 1,500</td>
</tr>
<tr>
<td>Storage equipment</td>
<td>EUR 100,000</td>
<td>EUR 100,000</td>
<td>EUR 100,000</td>
</tr>
<tr>
<td>Rent, insurance and miscellaneous costs</td>
<td>EUR 164,950</td>
<td>EUR 164,950</td>
<td>EUR 164,950</td>
</tr>
<tr>
<td>Total development cost</td>
<td>EUR 100,000</td>
<td>EUR 100,000</td>
<td>EUR 100,000</td>
</tr>
<tr>
<td>Additional employees required per store</td>
<td>EUR 5</td>
<td>EUR 5</td>
<td>EUR 5</td>
</tr>
<tr>
<td>Salary per employee</td>
<td>EUR 60,000</td>
<td>EUR 60,000</td>
<td>EUR 60,000</td>
</tr>
<tr>
<td>Total concept store cost</td>
<td>EUR 929,900</td>
<td>EUR 2,324,750</td>
<td>EUR 2,789,700</td>
</tr>
</tbody>
</table>

### Strategy 2 Costs - Ahead of the herd

#### Marketing

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billboard advertising</td>
<td>EUR 220,000</td>
<td>EUR 220,000</td>
<td>EUR 24</td>
</tr>
<tr>
<td>Number of medium/large billboard</td>
<td>EUR 24</td>
<td>EUR 24</td>
<td>EUR 24</td>
</tr>
<tr>
<td>Cost per medium/large billboard</td>
<td>EUR 18,000</td>
<td>EUR 18,000</td>
<td>EUR 45</td>
</tr>
<tr>
<td>Number of small billboards</td>
<td>EUR 7,000</td>
<td>EUR 7,000</td>
<td>EUR 45</td>
</tr>
<tr>
<td>Cost per small billboard</td>
<td>EUR 45</td>
<td>EUR 45</td>
<td>EUR 45</td>
</tr>
<tr>
<td>Total</td>
<td>EUR 747,000</td>
<td>EUR 747,000</td>
<td>EUR 747,000</td>
</tr>
<tr>
<td>Signage</td>
<td>EUR 150</td>
<td>EUR 150</td>
<td>EUR 3,000</td>
</tr>
<tr>
<td>Number of signs</td>
<td>EUR 150</td>
<td>EUR 150</td>
<td>EUR 3,000</td>
</tr>
<tr>
<td>Cost per sign</td>
<td>EUR 3,000</td>
<td>EUR 3,000</td>
<td>EUR 3,000</td>
</tr>
<tr>
<td>Total</td>
<td>EUR 450,000</td>
<td>EUR 450,000</td>
<td>EUR 450,000</td>
</tr>
<tr>
<td>Television campaign</td>
<td>EUR 3,500,000</td>
<td>EUR 3,500,000</td>
<td>EUR 250,000</td>
</tr>
<tr>
<td>Event sponsorship</td>
<td>EUR 250,000</td>
<td>EUR 250,000</td>
<td>EUR 250,000</td>
</tr>
<tr>
<td>Digital marketing</td>
<td>EUR 60,000</td>
<td>EUR 60,000</td>
<td>EUR 60,000</td>
</tr>
<tr>
<td>Milk Plus Launch event</td>
<td>EUR 20,000</td>
<td>EUR 50,000</td>
<td>EUR 60,000</td>
</tr>
<tr>
<td>Ongoing marketing</td>
<td>EUR 35,000</td>
<td>EUR 35,000</td>
<td>EUR 60,000</td>
</tr>
<tr>
<td>Arla Food Machine</td>
<td>EUR 4,000</td>
<td>EUR 4,000</td>
<td>EUR 4,000</td>
</tr>
<tr>
<td>Cost per Machine</td>
<td>EUR 15</td>
<td>EUR 15</td>
<td>EUR 15</td>
</tr>
<tr>
<td>Number of Food Machines</td>
<td>EUR 15</td>
<td>EUR 15</td>
<td>EUR 15</td>
</tr>
<tr>
<td>Total</td>
<td>EUR 60,000</td>
<td>EUR 60,000</td>
<td>EUR 60,000</td>
</tr>
<tr>
<td>Total cost of Strategy</td>
<td>EUR 115,000</td>
<td>EUR 5,342,000</td>
<td>EUR 5,372,000</td>
</tr>
</tbody>
</table>
## Beta and WACC Calculations

<table>
<thead>
<tr>
<th>Betas of dairy industry players</th>
<th>Raw Beta</th>
<th>Debt</th>
<th>Mkt Cap</th>
<th>D/E</th>
<th>Tax rate</th>
<th>Beta (u)</th>
<th>Country</th>
<th>WACC Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saputo</td>
<td>CAD bn</td>
<td>0.84</td>
<td>1.8</td>
<td>15.88</td>
<td>0.13</td>
<td>38%</td>
<td>0.78</td>
<td>Canada 4.02%</td>
</tr>
<tr>
<td>Danone</td>
<td>EUR bn</td>
<td>0.77</td>
<td>44.41</td>
<td>44.67</td>
<td>1.70</td>
<td>33%</td>
<td>0.36</td>
<td>France 5.06%</td>
</tr>
<tr>
<td>Fonterra</td>
<td>NZD bn</td>
<td>0.46</td>
<td>5.50</td>
<td>9.65</td>
<td>1.33</td>
<td>28%</td>
<td>0.24</td>
<td>New Zealand 4.27%</td>
</tr>
<tr>
<td>Nestle</td>
<td>VHF bn</td>
<td>0.78</td>
<td>26.78</td>
<td>230.172</td>
<td>0.43</td>
<td>9%</td>
<td>0.56</td>
<td>Switzerland 2.55%</td>
</tr>
</tbody>
</table>

### Averages

<table>
<thead>
<tr>
<th></th>
<th>Beta (u)</th>
<th>Interest coverage ratio</th>
<th>Risk free rate</th>
<th>Country risk premium</th>
<th>Cost of debt</th>
<th>Cost of equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unlevered beta</td>
<td>0.48</td>
<td>11.10</td>
<td>2.64%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt/Equity</td>
<td>0.90</td>
<td>0.54%</td>
<td>5.08%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt/(Debt + Equity)</td>
<td>0.45</td>
<td></td>
<td></td>
<td></td>
<td>3.18%</td>
<td></td>
</tr>
<tr>
<td>Tax rate</td>
<td>27%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6.42%</td>
</tr>
<tr>
<td>Relevered beta</td>
<td>0.74</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Arla Foods WACC

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beta (u)</td>
<td>0.74</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Free Cash Flow Calculation (With strategy)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td>368</td>
<td>400</td>
<td>385</td>
<td>313</td>
<td>340</td>
<td>372</td>
<td>399</td>
<td></td>
</tr>
<tr>
<td>Tax</td>
<td>86</td>
<td>94</td>
<td>90</td>
<td>73</td>
<td>80</td>
<td>88</td>
<td>94</td>
<td>23.50% Tax rate</td>
</tr>
<tr>
<td>NOPAT</td>
<td>282</td>
<td>306</td>
<td>295</td>
<td>239</td>
<td>260</td>
<td>285</td>
<td>305</td>
<td></td>
</tr>
<tr>
<td>Add: D&amp;A</td>
<td>313</td>
<td>354</td>
<td>334</td>
<td>330</td>
<td>344</td>
<td>350</td>
<td>356</td>
<td></td>
</tr>
<tr>
<td>Less: Capex</td>
<td>-350</td>
<td>-236</td>
<td>-293</td>
<td>-293</td>
<td>-293</td>
<td>-274</td>
<td>-287</td>
<td></td>
</tr>
<tr>
<td>Less: Change in NWC</td>
<td>-34</td>
<td>-22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unlevered FCF</td>
<td>17</td>
<td>54</td>
<td>94</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WACC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.58%</td>
<td></td>
</tr>
</tbody>
</table>

### NPV Calculations

<p>| | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NPV (Without terminal value)</td>
<td>147.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPV contribution from Milking the benefits</td>
<td>125.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPV contribution from Ahead of the herd</td>
<td>22.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terminal growth rate</td>
<td>3.00%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terminal value in 2020</td>
<td>3,142</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discounted terminal value</td>
<td>2,747</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPV with strategy</td>
<td>1,522.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Why not...Powder or formula? Why not...cheese or butter?

<table>
<thead>
<tr>
<th>Milk powder</th>
<th>Milk formula</th>
</tr>
</thead>
</table>
| * Milk powder encompasses protein and fitness powders which are popular amongst the younger generation.  
  * This segment is also growing rapidly as physical appearances and promotion of a healthier lifestyle becomes more present. | * Milk formula is a popular choice for customers with families and have a high margin. They are particularly popular for sale in Arla’s retailers in Asia following the Chinese milk crisis in 2008.  
  * This highlights the need to trust your food producers and build a reputable brand. |
| **Why not chosen** | **Why not chosen** |
| * This segment is very popular, however it does not fall within the company’s current needs. Whilst there is rapid decline of milk products, it is important to concentrate on preserving the consumption of pure milk and milk-related beverages to drive consumer behaviour.  
  * Millennial customers believe in organic food and value freshness which is better presented through drinkable milk than through processed powder.  
  * Arla should continue its current operations in powder, with a future goal of driving long term focus onto powdered products if trends shift away from fresh foods. | * Although profitable, Arla currently maintains an issue with attracting millennials, one of the reasons being that millennials are choosing other alternatives that are ‘cooler’ or less family oriented and more ‘lifestyle’.  
  * Arla needs to focus first and foremost on the Millennial market to draw their attention to the products before they pass on non-dairy traditions to their families. |

<table>
<thead>
<tr>
<th>Butter</th>
<th>Cheese</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Butter is a popular spread that is relatively unaffected by the decrease in consumer preferences towards dairy products.</td>
<td>* Cheese under the Arla brand falls under many sub-brands, and like butter – has been relatively unaffected by the decrease in customer wants for dairy. This is primary due to the product differentiation and the large number of complement goods.</td>
</tr>
<tr>
<td><strong>Why not chosen</strong></td>
<td><strong>Why not chosen</strong></td>
</tr>
<tr>
<td>* Because it is relatively unaffected it is important to focus on other parts of the business that are struggling with consumer trends. In the long term, if the millennial abstinence from dairy continues, this may become one of the primary focuses for the Arla.</td>
<td>* Like butter, it is relatively unaffected by the consumer trends at the moment. In the long term, if the millennial abstinence from dairy continues, this may become one of the primary focuses for the Arla.</td>
</tr>
</tbody>
</table>

Source: Arla 2012, ChinaDaily 2012
### Why not... schools, online, fitness?

#### Target schools?
- Target schools as a target market and introduce subscription based milk systems similar to the old milk business model.

#### Why not chosen
- Schools are serving low fat and skim versions of milk to the children which is compromising the taste, and are often unable to serve milk due to regulations, allergies. It is becoming an unpopular practise, and Arla should not attempt that this point to attract millennials by targeting children.

#### Sell online?
- This encompasses delivering the milk directly to the door of the customer and offering online services.

#### Why not chosen
- It is possible to deliver from door to door, however, the primary barrier is consumer wants. If there is a general decline in the number of customers that demand the product, then it is less likely that an online strategy will increase their consumer tastes – particularly as there are many alternative beverages available.

#### Target fitness junkies?
- Following the increases in purchases of fitness powders and protein shakes, an option is to pursue the millennial target of young, fitness conscious individuals.

#### Why not chosen
- However, whilst promising – there is high competition in this space and difficult to distinguish between competitors. Many niche companies have created ‘power foods’ and protein shakes.
- It is better to focus on a strategy that is more unique to the industry and allow excitement over dairy products to grow organically in fitness and target falling individuals.

Source: Express UK 2016, Briefing materials
In store concept; organic, cooperative farmers focus

A café style concept store featuring Arla’s products and unique cooperative structure

Farmers will be highlighted throughout the store on the walls in informational ways. Large photos of picturesque farm lands and will be placed on select walls in the concept store and synthetic grass will line the floors, giving the room an ‘organic’ and ‘green’ feeling.

Breakfast items

Key recipes that have been developed on the website for consumers to best experience Arla’s dairy products.

These will include granola in a jar, flavoured milk bottles with cookies, doughnuts for sale. These will not be produced by Arla, but partnered with local cafes or supermarkets (such as Arla’s current partners).
Case Studies: Packaging

Changing Packaging for existing brands can backfire

- On January 9th 2009, the PepsiCo-owned brand decided to replace the existing packaging design for its best-selling orange juice with new packaging for the North American market.
- However, this new packaging design was rejected and criticized by the majority of Tropicana’s consumers. The launch of the new packaging was indeed such a failure that Tropicana had to drop it to come back to the original version of the packaging.
- In total, this initiative cost Tropicana more than 50 million dollars.

Successful packaging can drive a brand’s longevity

- The first bottle was produced after the owners launched a design competition in the USA — won by and won by the Root Glass Company of Terre Haute, Indiana.
- The original design was a cocoa-pod plant based shape, with a distinct top heavy—and began to be known as the ‘contour’ bottle.
- This was modified over the years but the basic shape of the bottle (with a smaller bulge) and its iconic grooved ridges were retained.

Source: The Branding Journal 2015

Rather than risk damaging personal customer connections with the existing Arla milk brands, the redesigned products should be on a new product line.

Source: PackagingNews.com; Coca-Cola case study 2015

Packaging can be just as important as product in distinguishing brands. By creating a recognisable and unique bottle, Arla can establish strong customer connections.
Transparency case studies

Case Study: Happy Family: Organic baby producer

- Happy Family, an award-winning producer of organic baby and toddler foods, values “enlightened ingredients” and aims to help parents make informed decisions. On its website, product pages offer nutritional information, along with known allergens and fun facts (“Did you know: Kale has been cultivated for over 2,000 years!”).
- Taking transparency quite literally, Happy Family’s Clearly Crafted baby foods line comes in clear packaging and features not only the product’s ingredients and nutritional values, but also the actual recipe for the baby food. The Happy Farms page uses beautifully made videos to highlight the farms that produce Clearly Crafted fruits and vegetables.

The campaign created an emotional connection between 45% of their members and their points system

Case Study: QANTAS Airlines – QANTAS Frequent Flyer (QFF)

- Panera has emphasized ingredient transparency for years, as one of the first food companies to provide calorie counts on menu items and remove antibiotic-treated animal proteins from its menu. In addition to publishing its “No-No List” of more than 80 ingredients it will no longer use, in 2014 Panera published a “Food Policy Statement” that outlines the company’s goals to use clean ingredients, provide menu transparency and make a positive impact.
- Panera uses videos, articles, press releases and reports to communicate its transparency efforts. The company keeps the public updated on progress toward goals through content like the animal welfare infographic.

The campaign created an emotional connection between 45% of their members and their points system
Case study: Concept stores

Nespresso concept stores

- Nespresso is the world leader in coffee machines, coffee and coffee accessories. To start, the Nespresso Boutiques are vital to its brand.
- The customers can go on to include mobile app ordering of capsules, next day delivery, capsule recycling, a magazine on tablet and even breakdown assistance, these boutiques are often where customer journeys begin.
- Designed by Universal Design Studio, the pilot concept boutique opened its doors in May. The customer journey is integrated through the space – organized into three levels of engagement over the three floors of the store.

- Nespresso has reinvented coffee maker machines through the concept stores where they interact with the brand in a new way.

Niketown

- Nike, Inc is an American multinational corporation that is involved in the design, development, manufacturing, and worldwide marketing and sales of footwear, apparel, equipment, accessories, and services. They specialise in athletic wear.
- The lower level feature a curated, data-driven assortment of local essential products, inspired by the sporting heartbeat of the city. Services there include speed lockers for easy pick-up and returns, along with a sneaker bar for style advice.
- The fifth floor, a NikePlus members-only destination, will provide access to unique products, experiences and customization opportunities.

- Nike has created a new way for customers to purchase their products through exclusive sales, lockers and other tactics.

Source: Frame 2017, E-consultancy 2014
# Details on Arla Milk+: Full Line of Vitamin added products

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Case Study/Research</th>
<th>Existing</th>
<th>Development/Integration</th>
</tr>
</thead>
</table>
| **Vitamin A** | Plays a critical role in maintaining healthy vision, neurological function, healthy skin, and more | **Milk** | • The skimming process to obtain skim, 1% or 2% milk results in the loss of vitamin A. Therefore, vitamin A is subsequently added to replenish what was lost.  
• The replenishment is mandatory in the United States and Canada and is recommended all around the world. | • Requires the product to be developed in house with key resources |
| **Vitamin D** | It is needed daily to help keep healthy bones, teeth and muscle | **Milk** | • 20% of the UK have a Vitamin D deficiency  
• Public Health England advise that anyone over the age of 1 needs 10mg of Vitamin D per day. | • Requires the product to be developed in house with key resources |
| **Omega 3** | Consumption of fish oils slows down ageing, as they are vital for healthy nutrition | **Milk** | • FSE conducted a report in 2016 that suggested that regular consumption of Omega 3 could save the EU 12.6 bn euros.  
• Organic Valley Omega-3 milk (large American dairy company) currently adds elevated levels of the naturally occurring ALA omega-3 - with DHA and EPA | • Requires the product to be developed in house with key resources |
| **Fibre** | Increasing fibre and whole grain intake improves glucose and insulin metabolism | **Milk** | • More than 10% of the EU (aged 25 and over) have diabetes.  
• Study from the US National Institute of Health in 2009 showed that the insulin response was significantly lower for the fibre-enriched milk drink than it was for the other milk products (AUC, \(P = 0.007\)). | • Development phase for milk  
• Yoghurt existing, will be rebranded |

Omega 3 deficiencies in Europe and Bio-degradeable bottles

Omega 3 deficiencies in Europe

Global Omega-3 Status Map shows low levels for most of the world

The majority of Europe is in the ‘Low’ range and the UK is in the ‘Very Low’ range for omega 3 consumption

Bio-degradeable bottles

- Plant Bottles (like other biodegradable bottles) are made from Polylactic Acid (PLA), an annually renewable plant source, rather than scarce fossil fuels. The bottles produce 60% less greenhouse gases and use 50% less fossil fuels in their production.

- PLA is derived 100% from plants such as corn, cassava and sugar beet. As the plants grow they consume harmful greenhouse gases such as carbon dioxide (CO2).

Source: Nutrigrain Ingredients 2016

Plant Bottles is one of the largest providers in Europe. If unable to secure a partnership, alternate companies such as Enso bottles and MH Plastics are options.
Milk Bar Launch Event

Launch event for the Milk+ line and Milk Bars will be held at the same time.

This will be a guerrilla marketing event where Perspex/clear plastic cows will be placed in central areas in Copenhagen. Information will be placed on the cows about the new Milk+ line and will be placed outside the Milk Bar concept store.

One example is in Copenhagen:

Case Study: Giant Rubber duck

- Dutch artist Florentijn Hofman, created the giant rubber duck series which have appeared in many cities around the world, including Hong Kong, Pittsburgh, Ontario, Baku, and Sydney.
- The artwork was installed to demonstrate global unity and the connection between countries.

Upon launch in 2007 in Pittsburgh, 1 million people in the US visited the attraction within 4 - 6 months.

Source: SBS Australia 2013
# Organisational change for Milk Bar/Milk+; specific changes

<table>
<thead>
<tr>
<th>Changes</th>
<th>Why?</th>
<th>Case Study/Research</th>
</tr>
</thead>
</table>
| New product team | Plays a critical role in maintaining healthy vision, neurological function, healthy skin, and more | • The skimming process to obtain skim, 1% or 2% milk results in the loss of vitamin A. Therefore, vitamin A is subsequently added to replenish what was lost.  
• The replenishment is mandatory in the United States and Canada and is recommended all around the world. |
| Vitamin D     | It is needed daily to help keep healthy bones, teeth and muscle       | • 20% of the UK have a Vitamin D deficiency  
• Public Health England advise that anyone over the age of 1 needs 10mg of Vitamin D per day.                                                   |
| Omega 3       | Consumption of fish oils slows down ageing, as they are vital for healthy nutrition | • FSE conducted a report in 2016 that suggested that regular consumption of Omega 3 could save the EU 12.6 bn euros.  
• Organic Valley Omega-3 milk (large American dairy company) currently adds elevated levels of the naturally occurring ALA omega-3 - with DHA and EPA |
| Fibre         | Increasing fibre and whole grain intake improves glucose and insulin metabolism | • More than 10% of the EU (aged 25 and over) have diabetes.  
• Study from the US National Institute of Health in 2009 showed that the insulin response was significantly lower for the fibre-enriched milk drink than it was for the other milk products (AUC, \( P = 0.007 \)). |
Rollout of Milk Bar should start branch out from continental European cities

Proposed store location - Copenhagen
Købmagergade, 1150 København K (available for rent)

Proposed store location - Berlin
Krossener Str. 1910245 Berlin (available for rent)
## Milk vitamin capabilities can be acquired if needed

**Product development**

<table>
<thead>
<tr>
<th>Entity</th>
<th>Capabilities</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swiss FGen</td>
<td>fgen, Vitamin A, Vitamin B</td>
<td>Unlikely to be open to acquisition, may well be able to partner or supply technology</td>
</tr>
<tr>
<td>Biosyntia</td>
<td>Biosyntia, Vitamin A, Vitamin D</td>
<td>Viable acquisition target</td>
</tr>
<tr>
<td>Synbio</td>
<td>Synbio, Vitamin C</td>
<td>Viable acquisition target</td>
</tr>
</tbody>
</table>
Developing automated service machines

Sales channels

Key benefits:

• Fits with trends of how consumers are seeking to access their products
• Reduces labor costs otherwise associated with store management
• Allows for faster scaling of physical concept store concept

The product should be available to customers when they are wanting to consume, in the form that they want

Case study: Cupcakeatm (United States)
## Consumer trends

### Percentage that rate each health attribute very important in purchasing decisions

#### BACK-TO-BASICS

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Global Average</th>
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<td>48%</td>
<td>49%</td>
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<td>33%</td>
<td>46%</td>
<td>60%</td>
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#### LESS IS MORE

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#### MORE IS MORE

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<td>37%</td>
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<td>CALCIUM-FORTIFIED</td>
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<td>44%</td>
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<td>30%</td>
<td>24%</td>
<td>43%</td>
<td>32%</td>
<td>23%</td>
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<tr>
<td>MINERALS FORTIFIED</td>
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<td>30%</td>
<td>24%</td>
<td>43%</td>
<td>32%</td>
<td>23%</td>
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<tr>
<td>RICH IN UNSATURATED FATS</td>
<td>29%</td>
<td>26%</td>
<td>21%</td>
<td>36%</td>
<td>35%</td>
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<td>MICRONUTRIENT FORTIFIED</td>
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#### SUSTAINABLE

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<td>ORGANIC</td>
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<td>33%</td>
<td>43%</td>
<td>24%</td>
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<tr>
<td>LOCAL/ERBS/INGREDIENTS</td>
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<td>27%</td>
<td>23%</td>
<td>33%</td>
<td>32%</td>
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</table>
Divisions responsible for recommendation implementation

Organizational change

<table>
<thead>
<tr>
<th>Division</th>
<th>Arla Foods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Responsible</td>
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</tr>
<tr>
<td>Peder Tuborgh</td>
<td>Natalie Knight</td>
</tr>
<tr>
<td>CEO</td>
<td>CFO</td>
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</table>

Exposure to strategies

<table>
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<tr>
<th>Staff increase</th>
<th>Upper-medium</th>
<th>Medium</th>
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<th>High</th>
<th>Medium</th>
<th>Low</th>
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<tr>
<td>62</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>30</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Key actions for executive

1. Communicate strategy to shareholders
2. Led efforts to develop a consumer-facing culture
1. Ensure regulatory compliance in new product development
2. Secure financing for stores
1. Approve branding strategy for Milk Bar and Milk Plus
2. Oversee store launch campaign
1. Hire new staff for product and marketing strategy
2. Manage culture so as to avoid conflicts
1. Hire manager responsible for Milk+ rollout
2. Approve product from Innovation Centre for new line
1. Observe for compatibility with foreign markets

Budget increase

| - | - | + €4,7M | - | + €6,1M | - |

New division:

**Store Sales Division**
- Delivers the Milk Bar strategy
- Overseen by a Senior Product Manager
- Includes operations and sales/marketing staff
- Responsible to the EVP (Europe)
Bringing the millennials to Arla

Opportunities in a changing environment

Jakob Terkiildsen, Mark Boesen, Sebastian Mønster & Amalie Dam
Asgard Advisory
Arla is facing the challenge of staying relevant and trusted by young European consumers in a rapidly changing market.

The European dairy industry is undergoing rapid changes primarily driven by younger generations.

Dairy consumption is in decline and losing relevance. Arla has not been able to fully capitalize on the new trends and “built a strong, loved brand like Nike, Ikea, or Apple.”

How can Arla gain the trust of young consumers, stay relevant, and build a sustainable and scalable solution for the future?
Problem Overview

“Arla struggles with the association of primarily being a milk supplier.”
Steen Sørensen Koch, Vice President, Marketing & Innovation, Arla Foods

1. “Arla struggles with the association of primarily being a milk supplier.”

2. Arla does not have strong customer loyalty with millennials, as they do not act on a personal level with the customers where the customers are.

3. Millennials are increasingly purpose-driven, and the clean-eating agenda is pushing forward. Arla must respond to this.

Arla Foods
Recommendation 1: Change brand perception by opening flagship Arla boutique cafés. This will allow Arla to showcase its premium products, extend the customer journey, and change customer perception from being a milk supplier to being a premium provider of healthy beverages and meals throughout the day.

Recommendation 2: Originalize product offering by creating a platform where consumers can customize their products. This will allow Arla to build brand loyalty by personalizing its product offerings to millennials and tap into their desire for uniqueness.

Recommendation 3: Worldly focus: Donate wasted whey and track products from “farm to table”. This will allow Arla to build trust with consumers, as a greater purpose is build up around the brand. Additionally, it will push forward the “clean eating” agenda.
Recommendation 1:
Change brand perception by opening flagship Arla boutique cafés

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Originalize product offering by creating a platform where consumers can customize their products

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Recommendation 3:
Worldly focus: Donate wasted whey and track products from “farm to table”

This will allow Arla to build trust with consumers, as a greater purpose is build up around the brand. Additionally, it will push forward the “clean eating” agenda.
Insight: Poorly performing dairy categories and a new demanding millennial segment are the primary drivers of Arla’s current brand struggles

Drinking milk products had poorest growth of overall badly performing dairy products in core markets from 2012–2017...

... and Arla is struggling to stay relevant and build a brand towards the new millennial segment

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

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

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

Kaarthik Subramini
Senior Vice President MYPN & ArlaBrand, Arla Foods

Note: Absolute growth of dairy products in USD millions.
Detailed market growth in appendix
Source: Euromonitor, case material
Insight: Downward pressure on dairy consumption is driven by lack of desire, not lack of availability

Arla is already present throughout the day

Arla must change the brand perception to stay relevant among millennials

It is not only a question of availability, as Arla is already present in all channels – it is a question of desire, which needs to be present among millennials, why a pull-effect must be obtained
Arla should change the brand perception by premiumizing to accommodate shifting consumer trends and appeal to millennials.

Note: Extended list of consumer trends in appendix.
Arla should premiumize by opening boutique cafés, "Mjölk by Arla"

What is Mjölk?

- Premium boutique café
- Nordic feel, minimalistic interior
- Cozy to stay, convenient to go

What products will Mjölk sell?

- Wide range of Arla products
  - "Build your own breakfast"
  - Supplementary drinks and sides (OJ, coffee, granola)
As a result of “Mjölk by Arla”, Arla will accommodate millennial consumer trends and stay relevant in the years to come

How does Mjölk accommodate the key trends?

1. **Health** is emphasized through a selection of Arla’s current natural products

2. **Convenience** is increased by adding another touchpoint and to-go options

3. **Simplicity** is addressed by a Nordic, and minimalistic setup

Key trends: Health, convenience, simplicity
By creating premium cafés, Arla will stimulate demand and extend customer journey.

Accommodating demands from all young consumer personas and adding an extra direct touchpoint, Arla will increase the demand for dairy products substantially.
Recommendation 1: Change brand perception by opening flagship Arla boutique cafés

This will allow Arla to showcase its premium products, extend the customer journey, and change customer perception from being a milk supplier to being a premium provider of healthy beverages and meals throughout the day.

Recommendation 2: Originalize product offering by creating a platform where consumers can customize their products

This will allow Arla to build brand loyalty by personalizing its product offerings to millennials and tap into their desire for uniqueness.

Recommendation 3: Worldly focus: Donate wasted whey and track products from “farm to table”

This will allow Arla to build trust with consumers, as a greater purpose is build up around the brand. Additionally, it will push forward the “clean eating” agenda.
Insight: Millennials demand customized solutions and interaction with what they eat – and they are willing to pay for it!

Millenials want customized solutions...

- Describe themselves as "authentic." 75%
- Of Danes want personal offers designed especially for them 59%
- Want to co-create with companies 40%
- Price premium they are willing to pay for customization 10%

... and they want control over the process

Level of control over design process →

Consumer engagement

2 out of 3 millennials reports being happy with a brand after having interacted with it on social media

Deloitte – "Consumer Product Trends"; PwC – Total retail Global report
Arla will not be able to satisfy millennials demands simply by adding more products to its current portfolio.

To successfully capture millennials, Arla needs as many products as there are consumers.

4 key costumer persona

32.5 million people
Introducing My Arla – A platform for co-creation of personal dairy products

Customers follow three simple steps

1. Choose base products
   Yoghurt, Skyr, Butter, Milk
   Organic? Extra protein?

2. Choose flavor and color
   Unique taste? Texture?

3. Choose packaging
   Choose from 10 labels
   Write personal text
With My Arla, millennials can create products customized perfectly to them

- **Mark’o’Magic**
  - Yoghurt
  - Pear & Blueberry
  - Green
  - Black packaging

- **Sweet Sebastian**
  - Drinking smoothie
  - Rasperry & Strawberry
  - Pink
  - Red packaging

- **Jakob in the Jungle**
  - Skyr
  - Banana
  - Yellow
  - Forest packaging

- **Awesome Amalie**
  - Organic milk
  - Extra protein
  - White
  - Purple packaging
Arla should leverage core capabilities and seek new partnerships to simplify the production and delivery of My Arla products

- Unchanged from current operations
  - Start in largest fresh-milk dairies
    - DK: Brabrand and Slagelse
  - Products are made from already available ingredients
    - Low setup costs
  - Initial price-point can be very high

- Utilize current distribution channels

- Leverage on current bargaining power
  - Door delivery in urban areas

From cow → To farm → To dairy → To truck → To supermarket → To consumer
Concepts similar to “My Arla” has been hugely successful, and has helped transform traditional commodities to products that people engage with.

Carlsberg’s “Crafted By” allow customers to brew their own beer with personal labeling.

"My Arla" will help push dairy products through the same development as juice, beer and coffee.

Source: Carlsberg

Craft Design Blending Bottling Labeling Sending

Engagement from millennials
Customization Interaction

DAIRY IS CULTURE

2000 Time 2018
Recommendation 1: Change brand perception by opening flagship Arla boutique cafés.

This will allow Arla to showcase its premium products, extend the customer journey, and change customer perception from being a milk supplier to being a premium provider of healthy beverages and meals throughout the day.

Recommendation 2: Originalize product offering by creating a platform where consumers can customize their products.

This will allow Arla to build brand loyalty by personalizing its product offerings to millennials and tap into their desire for uniqueness.

Recommendation 3: Worldly focus: Donate wasted whey and track products from “farm to table”.

This will allow Arla to build trust with consumers, as a greater purpose is build up around the brand. Additionally, it will push forward the “clean eating” agenda.
Insight: Millennials want to support a good cause, and receive more information on the products they consume

I must agree with the ethics of a company

I will buy a product related to a cause

I am aware of my consumption habits

- 50% of millennials will abandon brands they perceive to have ethics they do not agree with
- When equal in price and quality, 90% of millennials will buy a product associated with a cause
- Increased access to information means increased awareness: Food should be natural

Key takeaway: Millennials want purpose, causes they can relate to, and more information on food origin

Note: Deloitte Millennial Survey 2017: Marketing to Millennials, The Economist 2018
Arla can therefore build trust with millennials by increasing foreign aid and allow customers to follow the cow from farm to table.

Zero Hunger

Social Impact SoMe Campaign:

**Lead the Whey**

Donate surplus Whey from cheese production to impoverished areas

Leverage existing partnership with Dan Church Aid

Sustainable Consumption

Possible to trace origin of milk with new blockchain technology

Answers questions like:

1. Where did the milk come from?
2. Is it a farm in the province where I live?
3. Did the cow have any diseases?
Recommendation 1:
Change brand perception by opening flagship Arla boutique cafés

This will allow Arla to showcase its premium products, extend the customer journey, and change customer perception from being a milk supplier to being a premium provider of healthy beverages and meals throughout the day.

Recommendation 2:
Originalize product offering by creating a platform where consumers can customize their products

This will allow Arla to build brand loyalty by personalizing its product offerings to millennials and tap into their desire for uniqueness.

Recommendation 3:
Worldly focus: Donate wasted whey and track products from “farm to table”

This will allow Arla to build trust with consumers, as a greater purpose is built up around the brand. Additionally, it will push forward the “clean eating” agenda.
Successful implementation relies on 3 must win battles

1. **Change**
   - 1st half 2018: Start small – pilot project
   - 2nd half 2018: Scale fast – expand across borders
   - 1st half 2019: Reiterate store offerings to match consumer preference
   - 2nd half 2019: Launch in Scandinavia
   - 1st half 2020: Expand internationally – focus on Germany and UK
   - 2nd half 2020: Increase options and products on platform

2. **Originalize**
   - 1st half 2018: Start blockchain in UK and Sweden
   - 2nd half 2018: Promote yearly #LeadTheWay
   - 1st half 2019: Expand blockchain network – focus on DK and Germany
   - 2nd half 2019: Minimum of 10 SoMe influencers participating

3. **Worldly focus**
   - 1st half 2018: Reach 10,000 customers in first month
   - 1st half 2019: Be present in 3 countries by 2019

**Must Win Battles**

- 1. *Start small – pilot project*
  - Reach 10,000 customers in first month

- 2. *Scale fast – expand across borders*
  - Be present in 3 countries by 2019

- 3. *Launch in Scandinavia*
  - Minimum of 10 SoMe influencers participating
Successfully implementing COW strategy will allow Arla Foods to outgrow “Good Growth” targets and increase Arla brand share to 43.5%.

**Key assumptions**

- 50 stores opened in 3 years
- 50,000 people ordering customized dairy by 2020
- 300K hashtags with #LeadingTheWhey
- Arla brand revenue CAGR of 5% due to improved brand

**Main Costs Drivers**

- **CAPEX**: Assuming 30,000 EUR per store and 100,000 EUR in rent
- **Platform development**: 5m EUR in development costs
- **Blockchain**: 1 EUR per month per cow

<table>
<thead>
<tr>
<th>Stores</th>
<th>Custom milk</th>
<th>Whey</th>
<th>Improved brand</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>177,000</td>
<td>261,508</td>
<td>11,730</td>
<td>127,269</td>
<td>577,507</td>
</tr>
</tbody>
</table>

**Personalized offerings will be main driver behind 24% Arla brand revenue growth**

1. **NPV of 17 million EUR for the 3 year time horizon**
2. **Create 1,600 EUR in extra income to each farmer**
3. **Revenue per kilo milk increased by 9%**
Recommendation 1:

Change brand perception by opening flagship Arla boutique cafés

Recommendation 2:

Originalize product offering by creating a platform where consumers can customize their products

Recommendation 3:

Worldly focus: Donate wasted whey and track products from “farm to table”
1 Executive
- Front page
- Situation, complication, question
- Problem overview
- Solution overview

2 Change brand perception
- Poorly performing dairy and demanding millennials
- Not channels, but desire
- Change perception by premiumizing
- Mjölk
- Mjölk will make Arla relevant
- Mjölk will increase demand by creating pull

3 Originalize offerings
- Quote
- Insight: Millennials demand customized solutions

3 Originalize offerings – continued
- Arla unable to meet demand
- Introducing My Arla
- Product mockups
- Value chain
- Carlsberg – best practice

4 Worldly focus
- Support good cause, and receive more information
- Zero hunger, sustainable consumption

5 Impact
- Implementation slide
- Financial impact

6 Conclusion
- Concluding solution overview

Appendices
- General
  - Risks & mitigation
  - Trends, importance & fit
  - Issue tree
  - Solution assessment
  - 4 key trends
  - Detailed market growth
- My Arla
  - Quote
  - Mjölk
  - Competitor map
  - Assortment list
  - Who, what, where
  - Map of stores
- Worldly focus
- Financial appendices
  - Overall impact
  - Sensitivity analysis
  - Store financials
  - Revenue per kilo of milk
# Identified risks and mitigation initiatives

<table>
<thead>
<tr>
<th>Risk</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Operating stores is not our core</td>
<td>Joint venture or franchise</td>
</tr>
<tr>
<td>2. Blockchain proves to be more expensive</td>
<td>Acquire dairy blockchain startup</td>
</tr>
<tr>
<td>3. #LeadingTheWay not trending</td>
<td>Collaborate with SoMe influencers</td>
</tr>
<tr>
<td>4. Custom milk not gaining critical mass</td>
<td>Collaborate with lifestyle bloggers</td>
</tr>
<tr>
<td>5. E-tailers won’t collaborate with custom milk</td>
<td>Leverage retail relationship and supply chain</td>
</tr>
<tr>
<td>6. Activists uproar due to food traceability</td>
<td>Show positive health data</td>
</tr>
<tr>
<td>7. Customization not feasible due to food deteriorability</td>
<td>Focus on longer lasting dairy products like Skyr and yougurt</td>
</tr>
<tr>
<td>8. Stores unable to compete with coffee competitors</td>
<td>Sell products through their stores</td>
</tr>
</tbody>
</table>
Millennial consumer trends, importance, and Arla fit

**KEY MILLENNIAL TRENDS**

- Content sharing (SoMe)
- Personalization and individualism
- Brand trust
- Wellness & health
- Social activism & collective action
- Social acceptance
- Purpose
- Convenience

**IMPORTANCE**

- Low
- High

**(POSSIBLE) FIT WITH ARLA**

- Weak
- Strong

Source: Euromonitor, Goldman Sachs, Access Development

- Customer importance
- Arla’s current ability to deliver
How can Arla be relevant to the young, European consumers?

**Approach**

- New products
- New branding of current products

**Path**

- Protein products
- Breakfast products
- Adapt current products to millennial trends
- Lowering price

Arla can increase capture the millennials by changing their branding strategy and build trust.
## Solution assessment

Adapting current business to millennials trends

<table>
<thead>
<tr>
<th>Strategies</th>
<th>SoMe ability</th>
<th>Personal &amp; Healthy</th>
<th>Convenient</th>
<th>Purpose</th>
<th>Overall score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idea-bank</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
</tr>
<tr>
<td>Virtual reality</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
</tr>
<tr>
<td>Blockchain of product details</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
</tr>
<tr>
<td>Boutique cafés</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
</tr>
<tr>
<td>Customization</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
</tr>
<tr>
<td>Increased CSR</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
<td>☒ ☒ ☒ ☒</td>
</tr>
</tbody>
</table>
Any study of how to sell to millennials will reveal that you’ve got to give them exactly what they want and allow them to have total control over as much of the process and product as possible. No matter what you sell, if you want to break into this market segment you will need to make these buyers believe that “this is not your parents’ [insert you product here].”
## Detailed market growth

<table>
<thead>
<tr>
<th>Country</th>
<th>Cheese</th>
<th>Drinking Milk Products</th>
<th>Yoghurt and Sour Milk Products</th>
<th>Other Dairy</th>
<th>Butter &amp; Margarine</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>463</td>
<td>-49</td>
<td>-41</td>
<td>303</td>
<td>121</td>
<td>797</td>
</tr>
<tr>
<td>UK</td>
<td>-223</td>
<td>-631</td>
<td>-122</td>
<td>-63</td>
<td>-298</td>
<td>-1,335</td>
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<tr>
<td>Netherlands</td>
<td>2</td>
<td>-60</td>
<td>-90</td>
<td>-71</td>
<td>-29</td>
<td>-248</td>
</tr>
<tr>
<td>Sweden</td>
<td>128</td>
<td>36</td>
<td>-1</td>
<td>180</td>
<td>46</td>
<td>369</td>
</tr>
<tr>
<td>Belgium</td>
<td>35</td>
<td>-40</td>
<td>-3</td>
<td>-29</td>
<td>-43</td>
<td>-60</td>
</tr>
<tr>
<td>Finland</td>
<td>12</td>
<td>69</td>
<td>-22</td>
<td>46</td>
<td>-50</td>
<td>55</td>
</tr>
<tr>
<td>Norway</td>
<td>84</td>
<td>40</td>
<td>-1</td>
<td>20</td>
<td>5</td>
<td>148</td>
</tr>
<tr>
<td>Denmark</td>
<td>102</td>
<td>-13</td>
<td>-48</td>
<td>91</td>
<td>-23</td>
<td>109</td>
</tr>
<tr>
<td>Grand Total</td>
<td>603</td>
<td>-648</td>
<td>-328</td>
<td>477</td>
<td>-259</td>
<td>-165</td>
</tr>
</tbody>
</table>

Source: Euromonitor
Pan-European analysis reveals 4 key trends in millenial spending

Millenials in all of Arla Foods’ core markets care about the following

**Instragrammability**
- Popularity
- Products must be cool
- Desire to be trendsetter

**Performance & Appearance**
- Physical strength
- Mental energy
- Healthy lifestyle

**Friendship**
- Relations are essential
- Few people influence purchasing decisions heavily
- Millennials want to share experiences

**Purpose**
- Care about company ethics
- Motivated by fulfilling a purpose
- Identify with brands they consume on a personal level
Competitors – Given current capabilities, Arla must acquire store-managing experience to position itself in sweet-spot

Positioning map
Current and future competitors

1. Sweet-spot in providing in-store premium dairy experience
2. Possible to differentiate from both traditional competition as well as from substitute products
3. Arla must acquire store-managing experience

Note: Case Material
Extended assortment list for Mjölk

Mains + sides

Skyr + granola
Selection of plain, vanilla, strawberry

Yoghurt plate
A38 or yoggi

Danish cheese platter

Toast
Selection of cheddar, emmental, havarti

Koldskål
Served with crackers and fresh fruit

Bread + butter
Served with freshly churned butter, add cheese +10

Drinks

Coffee w. milk
Selection of whole, low-fat + non-fat

Freshly squeezed juice
Selection of orange or grapefruit

Danish locally-brewed beer

Classic glass of milk

Yoghurt smoothie
Arla can obtain capabilities to run Mjölk Cafés, and should choose the simplest operating model in key strategic locations

Who’s in charge?

1. Hire Chief Mjölk Officer

Place in HQ in Viby

2. Change own supply chain

- Full control:
  - Best practice
  - Highly scalable
  - Better assortment
  - Allows for focus on branding

- Only own products:
  - Harder to create uniform stores

- Difficult to set up
- Negative impact on current business
- Not core

What about logistics?

Use local wholesaler

3. Launch UK and DK in 2018

Focus in DK is to re-brand dairy

Focus in UK is to expand the Arla brand

Who’s in charge?

Steen Sørensen Koch
Vice President – Marketing & Innovation

Chief Mjölk Officer
Responsibilities
Lean operation of stores
Strong brand exposure in stores

Appendix
Where to open Mjölk stores
Leading the Whey campaign mockups

Be a part of the Whey revolution!

#LeadTheWhey
Share the hashtag #LeadTheWhey and a picture of an Arla products on social media and we will send whey to Ethiopia!

Photo: lulumut.com
Detailed blockchain content

Appendix

Cow #1 health report

Cow #1 milk yield

Milk truck pick up

Milk analysis

Milk transportation

Milk truck pick up

Milk analysis

Milk transportation

Cow #2 health report

Cow #2 milk yield

Milk bottle #1

Milk bottle #2
# Overall impact

<table>
<thead>
<tr>
<th>EUR</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental revenue</td>
<td>64.761.261</td>
<td>244.060.873</td>
<td>577.507.155</td>
<td></td>
</tr>
<tr>
<td>Cost from stores</td>
<td>-</td>
<td>2.265.000</td>
<td>9.270.000</td>
<td>23.850.000</td>
</tr>
<tr>
<td>Cost from custom milk</td>
<td>-</td>
<td>5.000.000</td>
<td>1.000.000</td>
<td>1.000.000</td>
</tr>
<tr>
<td>Cost from Whey</td>
<td>-</td>
<td>248.263</td>
<td>273.090</td>
<td>300.398</td>
</tr>
<tr>
<td>Cost from Blockchain</td>
<td>-</td>
<td>2.761.905</td>
<td>7.316.223</td>
<td>10.164.000</td>
</tr>
<tr>
<td>Normal costs</td>
<td>-</td>
<td>59.073.142</td>
<td>221.282.025</td>
<td>520.229.261</td>
</tr>
<tr>
<td>EBT</td>
<td>-</td>
<td>4.602.049</td>
<td>5.549.535</td>
<td>5.113.495</td>
</tr>
<tr>
<td>Tax</td>
<td>1.012.451</td>
<td>-</td>
<td>1.220.898</td>
<td>5.524.969</td>
</tr>
<tr>
<td>Present value</td>
<td>-</td>
<td>3.370.515</td>
<td>3.816.383</td>
<td>16.216.344</td>
</tr>
<tr>
<td>Sum of PV</td>
<td>16.662.213</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Worst case**: 5 million EUR
- **Base case**: 17 million EUR
- **Best case**: 29 million EUR
## Sensitivity analysis

<table>
<thead>
<tr>
<th>EBT margin</th>
<th>Discount rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8,5%</td>
</tr>
<tr>
<td>3,50%</td>
<td>4979.306</td>
</tr>
<tr>
<td>4,50%</td>
<td>10341.960</td>
</tr>
<tr>
<td>5,50%</td>
<td>15704.615</td>
</tr>
<tr>
<td>6,50%</td>
<td>21067.269</td>
</tr>
<tr>
<td>7,50%</td>
<td>26429.923</td>
</tr>
</tbody>
</table>
### Store financials

<table>
<thead>
<tr>
<th>EUR</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shops</td>
<td>5</td>
<td>20</td>
<td>50</td>
</tr>
<tr>
<td>Customers per shop</td>
<td>50.000</td>
<td>55.000</td>
<td>60.000</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td><strong>2.250.000</strong></td>
<td><strong>9.900.000</strong></td>
<td><strong>27.000.000</strong></td>
</tr>
<tr>
<td>Salaries</td>
<td>- 700.000</td>
<td>- 2.800.000</td>
<td>- 7.000.000</td>
</tr>
<tr>
<td>COGS</td>
<td>- 900.000</td>
<td>- 3.960.000</td>
<td>- 10.800.000</td>
</tr>
<tr>
<td>Rent</td>
<td>- 500.000</td>
<td>- 2.000.000</td>
<td>- 5.000.000</td>
</tr>
<tr>
<td>New store costs</td>
<td>- 150.000</td>
<td>- 450.000</td>
<td>- 900.000</td>
</tr>
<tr>
<td>Store maintenance</td>
<td>- 15.000</td>
<td>- 60.000</td>
<td>- 150.000</td>
</tr>
<tr>
<td><strong>EBT</strong></td>
<td>- 15.000</td>
<td>630.000</td>
<td>3.150.000</td>
</tr>
<tr>
<td>Tax</td>
<td>3.300</td>
<td>- 138.600</td>
<td>- 693.000</td>
</tr>
<tr>
<td>NI</td>
<td>- 11.700</td>
<td>491.400</td>
<td>2.457.000</td>
</tr>
</tbody>
</table>

**Present value**  
- 10.986  
433.247  
2.034.025

**Net present value**  
2.456.287
Revenue per kilo milk

2017: 0.68 EUR
2018: 0.69 EUR
2019: 0.71 EUR
2020: 0.75 EUR

9% increase
Tackling the challenges of modern day parenting
A 3-pronged plan to taking care of European youth (15 – 34 age group)
Arla Foods: Raising generations of Europeans from the breakfast table

Arla Foods is the 4th largest dairy company and 1st largest organic dairy company in the world

The question all parent faces:
How to adapt as kids grow up?
### Arla Foods – A modern day parent with a young adult child

Arla Foods face challenges from changing consumer habits

<table>
<thead>
<tr>
<th>Current market characteristics</th>
<th>Arla’s best reaction</th>
<th>Our Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declining milk sales</td>
<td>Bring past drinkers back/ Attract new drinkers</td>
<td>Communicate Milk differently</td>
</tr>
<tr>
<td>Market flooded by too many brands</td>
<td>Converge brands’ marketing message</td>
<td>Remind customer of our holistic offering</td>
</tr>
<tr>
<td>Customers with proactive role dietary alternatives</td>
<td>Present Arla methods to customers</td>
<td>Adapt and engage customers through digital channels</td>
</tr>
</tbody>
</table>

Arla Foods needs to reverse declining trends and identify ways to stay ahead of competition.
Our goal for today: Help Arla connect with young adults in Europe

3 solutions and 3 key performance indicators

Objective: Sustainably position Arla Foods to capture growth in the EU market

- Acquire 523k new users
- 58% increase in basket size
- 42% increase in purchase frequency

Customer reached: 19.2mn
Customer engaged: 523k
Customer acquired: 523k
Basket size (# of items):
- 2018: 1.4
- 2020: 2.2

# of trips to POS (per week):
- 2018: 2.6
- 2020: 3.7
Organic dairy penetration rate in Europe

Arla should continue to focus on its core markets

Percentage of organic dairy product of total diary consumption

<table>
<thead>
<tr>
<th>Country</th>
<th>Penetration rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>24,0</td>
</tr>
<tr>
<td>Sweden</td>
<td>12,2</td>
</tr>
<tr>
<td>UK</td>
<td>7,1</td>
</tr>
<tr>
<td>Belgium</td>
<td>4,5</td>
</tr>
<tr>
<td>France</td>
<td>4,5</td>
</tr>
<tr>
<td>Germany</td>
<td>2,8</td>
</tr>
<tr>
<td>Finland</td>
<td>2,6</td>
</tr>
<tr>
<td>Norway</td>
<td>2,3</td>
</tr>
<tr>
<td>Italy</td>
<td>1,2</td>
</tr>
<tr>
<td>Greece</td>
<td>1,0</td>
</tr>
<tr>
<td>Spain</td>
<td>0,0</td>
</tr>
</tbody>
</table>

Source: McKinsey Report
Market analysis

Denmark, Sweden and the UK are the most appealing markets for Arla Foods

<table>
<thead>
<tr>
<th>Segment size (people)</th>
<th>Organic penetration rate</th>
<th>Potential early adopter</th>
<th>Market competitiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark 1.3mn</td>
<td>24.0%</td>
<td>300k</td>
<td>Green</td>
</tr>
<tr>
<td>Sweden 2.4mn</td>
<td>12.2%</td>
<td>300k</td>
<td>Green</td>
</tr>
<tr>
<td>UK 16.3mn</td>
<td>7.5%</td>
<td>1.2mn</td>
<td>Yellow</td>
</tr>
<tr>
<td>Germany 18.1mn</td>
<td>4.5%</td>
<td>0.8mn</td>
<td>Red</td>
</tr>
</tbody>
</table>

Source: McKinsey Report, Team analysis
Our approach to care of modern young adult
A three-pronged plan to win back customers

BE COMFORTING
Reposition milk as the ultimate comfort food

BE PRESENT
ONE Arla value: Always there for you

BE CONNECTED
Improve interaction to increase trust and relevance
Our approach to care of modern young adult
A three-pronged plan to win back customers

BE COMFORTING
Reposition milk as the ultimate comfort food

BE PRESENT
ONE Arla value: Always there for you

BE CONNECTED
Improve interaction to increase trust and relevance
Milk's functional appeal not valued by young adults

Young adults pursue healthy lifestyle in their own ways

Traditional functional appeal of dairy products

“Health” benefits associated with milk “calcium”

Rising substitute

The meaning of "health" has broaden and become much more accessible

Arla needs to find a new proposition to make MILK appealing to young adults
Understanding modern young adults
Setbacks and challenges are common in modern young adult lives

Arla should reposition milk as the ultimate comfort food for modern young adults
BE COMFORTING – Reposition milk as the ultimate comfort food

Arla needs to communicate the new value proposition clearly

Target audience

15-34 years old young adults

Brand promise

Arla milk is the only brand that delivers a soothing comfort moment when you need it the most

Tactics

Re-packaging

#RootingForYou Campaign
Changing customer perception

Marketing initiatives to make Arla milk “Warm and Comforting”

**Product packaging**

- Small product size (250ml) for quick consumption

**Location**

- Distribute through convenient stores, stored in heated cabinet with **10-15mins accessibility**, near universities, office buildings and residential areas

**Emotional benefit:** Someone prepared a warm glass of milk *just for you*

---

**Case Study: Vitasoy**

- Hot drinks heated cabinet in convenient stores
- “Warms to your heart”

Make young adults feel warm and comforted by drinking a pack of warm Arla milk
#RootingForYou Campaign: Gaining social media traction

Engaging social media can maximize campaign reach and impact

A friend is sad

Purchase a pack of Arla milk

Scan QR code and take a 30secs video

Give the pack to your friend, share on social media
Our approach to care of modern young adult

A three-pronged plan to win back customers

BE COMFORTING
Reposition milk as the ultimate comfort food

BE PRESENT
ONE Arla value: Always there for you

BE CONNECTED
Improve interaction to increase trust and relevance
Other dairy and non dairy segments are flooded by brands

Converging Arla Foods brands under "ONE Arla" umbrella

Competitors

Arla sub-brands

Marketing campaigns are inefficient and ineffective

Customers are overwhelmed and hard to find differentiations among brands

1. Converge for consumers
2. Maximize marketing spillover effect
Converging market messages
ONE Arla value: Always there for you

**Change packaging caps colours**
- **Morning**: Butter and spreads
- **Afternoon**: Milk-based beverage & Yoghurt
- **Evening**: Milk
- **Distinct**: Lactose-free & plant-based

**A series of ads showcasing how Arla continues to solve your everyday challenge**

- **Start**
- **Rough day**
- **Hunger**
- **Exam**
- **Gym**

Different occasions, different you, Arla is always there.

ONE Arla value: Always there for you.
Converging market messages
ONE Arla value: Always there for you

Change packaging caps colours

- **Morning**
  - Butter and spreads

- **Afternoon**
  - Milk-based beverage & Yoghurt

- **Evening**
  - Milk ØKO

- **Distinct**
  - Lactose-free & plant-based

Example ad
A series of ads showcasing how Arla

**Walking out of school after exams**

ONE Arla value: Always there for you
Pushing the converged marketing message
Spreading the word via both above-the-line and below-the-line marketing efforts

- TV and print ads: Extensive reach to large no. of customers
- Social Media: Engage with tech-savvy young customers
- Transportation hubs: Captive audience waiting at transport hubs
- In-store banner ads at POS: Targeted reach at POS

Different occasions, different you, Arla is always there
Our approach to care of modern young adult
A 3-pronged plan to win back customers

BE COMFORTING
Reposition milk as the ultimate comfort food

BE PRESENT
ONE Arla value: Always there for you

BE CONNECTED
Improve interaction to increase trust and relevance
OVERVIEW

BE COMFORTING

BE PRESENT

BE CONNECTED

IMPACT

---

BE CONNECTED: improving interaction leveraging digital platforms

There's a gap between customer perception and reality

### Arla suffers from poor brand perception

<table>
<thead>
<tr>
<th>% of respondents answering…</th>
<th>Reality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have a good organic image</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Largest organic supplier</td>
</tr>
<tr>
<td>Protecting animal welfare</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Responsible individual farmers</td>
</tr>
<tr>
<td>More environmentally responsible</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>FSC packaging</td>
</tr>
</tbody>
</table>

Customers do not trust Arla

Arla Foods needs to improve communication with customers
BE CONNECTED: Improve communication through gamification

Gamifying customer engagement experience will result in better communications

Functions of gamification

Educate Customers
Let users know about Arla methods

Push Promotional Information
Send various promotional information

Reward Scheme
Incentivize to stay in the game and nurture consumption habit of Arla products

Case Study – Fortune City

“Reward users when a transaction is recorded. Engage users with small games, successful in creating user habit”

Customers will be more loyal and likely to adopt the habit of consuming Arla Foods products
BE CONNECTED: Communication through gamification
Pilot marketing initiative in London (Leicester Square)

An inflatable cow with QR code is located in Leicester Square

Customers scan QR code to access web-based game, Dairy Cattle Farm

Simulating raising a milking cow the Arla way
BE CONNECTED : Communication through gamification

Use gaming to connect with customers

1. Register an account and pick a name for your cow
   Sign up
   Register
   
   **Account:**
   **Password:**

2. Raise your cow by feeding and taking good care of it
   - Promote best practices of Arla farmers
     - Massages
     - Play music for the cows

*Dairy Cattle Farm*
BE CONNECTED: Communication through gamification

Encourage customers to purchase more frequently to obtain higher level of the game

3

By scanning QR code on the products purchased, you can get extra credits

Thanks for your purchase today! You have gained 3 extra credits!
BE CONNECTED: Communication through gamification

Communicate the Arla method through in-game tips and options

4. After you have unlocked a stage, you will be given extra benefits e.g. more cows to increase output.

5. You can watch real-life videos of Arla's farmers' practices, treating cows with dignity.
BE CONNECTED: Communication through gamification

Participation in game will lead to repeat purchase

6. Milk your cow when it has grown up

7. Redeem 1 carton of milk in real-life after milking 10 cartons
A time-bound implementation is key to success

By 2019 H2, Arla would solidify its market presence at 24 cities in UK, Denmark and Sweden
Impact to Arla Europe within 3 years
Covered by 12% of cash, the strategies can achieve a EUR 291mn incremental value in brand revenue

Initial Setup Cost at 2018 H2

• 29% and 31% of initial setup cost will be allocated to Marketing & Advertising activities and Investment in repackaging facilities
  • EUR 10.2mn can be funded by 12% of cash

Topline Growth of Arla Europe (2017A-2020E)

Key Drivers by 2020E

- Reaching 61% target audience
- Acquiring 523,000 millennials
- With 2.2 Items of basket size
- Increasing to 3.7 No. of trips per week
## Executive Summary

A 3-pronged plan to acquire, cross-sale, and drive customer purchase frequency

### Objective

**Sustainable position Arla Foods for success**

### Sub-goals

- **Give a new purpose to milk consumption**
- **Strengthen brand presence and maximize marketing effectiveness**
- **Build consumer trust through consumer education**

### Strategy

**BE COMFORTING**

Shifting away from functional to emotional proposition

- Smaller product size and convenient store distribution channels to cater ready-to-go young adults
- #RootingForYouCampaign

**BE PRESENT**

New brand promise – “Arla always there for you”

- Above-the-line and below-the-line marketing push to communicate new brand promise to consumers

**BE CONNECTED**

Educate consumers through gamification

- Target segment: Tech-savvy and mobile adapt
- Gamify Arla cattle raising experience

### Tactics

**Impact**

- **Acquire 523k new customers**
- **Avg. basket size increased by 58%**
- **Increase purchase frequency by 43%**

**Achieve Incremental sales growth of EUR 291mn in 2020**
Main Deck

1. Cover slide
2. Arla Foods: Raising generations of Europeans from the breakfast table
3. Arla Foods – A modern day parent with a young adult child
4. Our goal for today: Help Arla connect with young adults in Europe
5. Organic dairy penetration rate in Europe
6. Denmark, Sweden and the UK are the most appealing markets for Arla Foods
7. Our approach to care of modern young adult
8. Section divider
9. Milk’s functional appeal not valued by young adults
10. Understanding modern young adults
11. BE COMFORTING – Reposition milk as the ultimate comfort food
12. Changing customer perception
13. #RootingForYou Campaign: Gaining social media traction
14. Section divider
15. Other dairy and non dairy segments are flooded by brands
16. Converging market messages
17. Pushing the converged marketing message
18. Section divider
19. There is a gap between customer perception and reality
20. Gamifying customer engagement experience will result in better communications
21. Pilot marketing initiative in London
22. Use gaming to connect with customers
23. Encourage customers to purchase more frequently to obtain higher level of the game
24. Communicate the Arla method through in-game tips and options
25. Participation in game will lead to repeat purchase

Appendix

26. Executive summary
27. Arla is better positioned than other market players to deliver a soothing comfort value
28. Appendix: Competitor analysis
29. Distribution plan
30. Risk and mitigation
31. Alternative analysis
32. Prioritisation of recommendation
33. Our recommendations are scalable across EU
34. How is Arla Food uniquely positioned to grow beyond 2020?
35. Example of ads showcasing how Aria continues to solve your everyday challenge
36. Why gamification are good for targeting young adults
37. Appendix: Case Study on effective gamification marketing case
38. Arla should outsource the production of mobile gamification
39. Denmark, Sweden and the UK are the most appealing markets for Arla Foods
40. Age segment 15-34 accounts for 24.4% (1.3 mn) of Danish population
41. Age segment 15-34 accounts for 24.4% (2.4 mn) of Swedish population
42. Age segment 15-34 accounts for 24.8% (16.3 mn) of UK population
43. Age segment 15-34 accounts for 21.8% (18.1 mn) of German population
Executive Summary
A 3-pronged plan to acquire, cross-sale, and drive customer purchase frequency

<table>
<thead>
<tr>
<th>Objective</th>
<th>Sustainable position Arla Foods for success</th>
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</thead>
<tbody>
<tr>
<td>Sub-goals</td>
<td></td>
</tr>
<tr>
<td>Give a new purpose to milk consumption</td>
<td></td>
</tr>
<tr>
<td>Strengthen brand presence and maximize marketing effectiveness</td>
<td></td>
</tr>
<tr>
<td>Build consumer trust through consumer education</td>
<td></td>
</tr>
</tbody>
</table>

**Strategy**

**BE COMFORTING**
Shifting away from functional to emotional proposition
- Smaller product size and convenient store distribution channels to cater ready-to-go young adults
- #RootingForYouCampaign

**BE PRESENT**
New brand promise – “Arla always there for you”
- Above-the-line and below-the-line marketing push to communicate new brand promise to consumers

**BE CONNECTED**
Educate consumers through gamification
- Target segment: Tech-savvy and mobile adapt
- Gamify Arla cattle raising experience

**Tactics**

<table>
<thead>
<tr>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquire 523k new customers</td>
</tr>
<tr>
<td>Avg. basket size increased by 58%</td>
</tr>
<tr>
<td>Increase purchase frequency by 43%</td>
</tr>
</tbody>
</table>

Achieve Incremental sales growth of EUR 291mn in 2020
Arla is better positioned than other market players to deliver a soothing comfort value.

**Brand promise**

Arla milk is the only brand that delivers a *soothing comfort moment* when you need it the most.

**Organic**

**School memories**
Milk products have a unique positioning to deliver calm and soothing values to consumers

<table>
<thead>
<tr>
<th></th>
<th>Milk</th>
<th>Coffee</th>
<th>Energy drink</th>
<th>Juice</th>
<th>Smoothie</th>
<th>Alcohol</th>
<th>Water</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thirst</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comfort</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>User association</td>
<td>Childhood memories</td>
<td>Working day/ chilling</td>
<td>Working day</td>
<td>Refreshing</td>
<td>Chilling</td>
<td>Party</td>
<td>Necessity</td>
</tr>
</tbody>
</table>

Unique proposition of milk: calm and soothing
Distribution plan

Milk and yoghurt will be sold mainly at convenient and to-go places to cater to millennials needs

<table>
<thead>
<tr>
<th>Products</th>
<th>Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Hypermarket</td>
</tr>
<tr>
<td>Butter</td>
<td></td>
</tr>
<tr>
<td>Cheese</td>
<td></td>
</tr>
<tr>
<td>Milk</td>
<td></td>
</tr>
<tr>
<td>Yoghurt</td>
<td></td>
</tr>
</tbody>
</table>

**Evaluation criteria**

1. **Product nature/usage**
2. **Customer behaviour**

**Resources**

- **High resources**
- **Mid resources**
- **Low resources**
## Risk and mitigation

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Risk</th>
<th>Mitigation/Contingency</th>
<th>Probability</th>
<th>Concerns</th>
</tr>
</thead>
<tbody>
<tr>
<td>BE COMFORTING</td>
<td>Unable to seek new distribution partner</td>
<td>Revisit negotiations terms</td>
<td>Mid</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Low engagement the campaign</td>
<td>Evaluate incentive scheme, seek other solutions e.g. celebrity endorsements</td>
<td>Mid</td>
<td></td>
</tr>
<tr>
<td>BE PRESENT</td>
<td>Cannibalization among product mix with colour caps</td>
<td>Suggested usage, but depends on consumers’ habit</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Competitors replicate our recommendation</td>
<td>Unique brand value (emotional appeal) is uneasy to be replicated</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>BE CONNECTED</td>
<td>Low participation rate</td>
<td>Provide extra incentive/make it easier to redeem free promos</td>
<td>Mid</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Animal welfare group complain about cruelty</td>
<td>Modify game nature, add more educational feature</td>
<td>Mid</td>
<td></td>
</tr>
</tbody>
</table>
Alternate analysis

**Alternative**
- Promote health factor
- New product development e.g. vegan market
- Increase price

**Upside**
- Align with brand image and easy to implement
- New revenue stream
- Enhance margin

**Downside**
- Unsustainable in the future
- Costly, high uncertainty, long timeframe
- Premium existing position

*Less favorable then proposed recommendation*
## Prioritisation of recommendation

<table>
<thead>
<tr>
<th>Be Present</th>
<th>Be Comforting</th>
<th>Be Connected</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Covers all product mix</td>
<td>• Largest revenue driver</td>
<td>• Retention strategy</td>
</tr>
<tr>
<td>• Align with Good Growth 2020</td>
<td>• Milder financial impact</td>
<td>• Higher risk of uncertainty</td>
</tr>
<tr>
<td>Strategy</td>
<td>• Longer time to cultivate customer understanding</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Our recommendations are scalable across EU

**BE COMFORTING**
Reposition milk as the ultimate comfort food

**BE PRESENT**
ONE Arla value: Always there for you

**BE CONNECTED**
Improve interaction to increase trust and relevance

Appeal to all European as they share similar culture

European share similar lifecycle

People nowadays value digital solutions

#RootingForYou Campaign
How is Arla Food uniquely positioned to grow beyond 2020?
Non-dairy products and private label are two main sources of growth beyond 2020

Landscape

- Increasing trend for people turning into vegan

Customers’ value

- Care more about what they consume

Private labelling

- Consumers are more sensitive to price
- 2/3 of sales revenue come from private labelling

Push more non-dairy products, under “ONE Arla” umbrella, diversify product offering with product innovation

Not all hero wear capes
Example of ads showcasing how Aria continues to solve your everyday challenge

A series of ads showcasing how Arla continues to **solve your everyday challenge**

- Start
- Rough day
- Hunger
- Gym
- Exam

Different occasions, different you, Arla is always there
Why gamification are good for targeting young adults

Source: Snipp!, loyalty and promotions company

1. ENCOURAGING PARTICIPATION

Customers could “check-in” to different local establishments, with the person with the highest number of check-ins earning the title of “Mayor” of that establishment. This simple badge ensured users kept competing with each other, and constantly returning to the establishment.

2. DRIVING SPECIFIC CONSUMER BEHAVIORS

- 51% of consumers agree that if a layer of competition were added to everyday activities, they would pay more attention to their behaviors and actions
- 62% of Millennials report that brand engagement is more likely to make them a loyal customer
- Gamification strategies can lead to a 100% to 150% increase in engagement metrics

3. CONSUMER RETENTION

In 2010, McDonald’s increased its sales by 5.6% in the USA through this program, with many people engaged in impulse buying just to get tickets. They doled out over $500 million in prizes in 2014.
Appendix: Case Study on effective gamification marketing case

Gamification helps M&M's boost consumer engagement

M&M’s Eye-Spy Pretzel

- launched a pretzel-flavored version of their candy
- involved an eye-spy game that was published on the brand’s Facebook page
- posted a graphic consisting of many, multi-colored M&M candies and challenged their followers and consumers to find a tiny “pretzel guy” hidden among the candies
- received over 25,000 likes, 6,000 shares, and 10,000 comments.
Arla should outsource the production of mobile gamification

**Outsource development**

- Not expertise nor major focus
- Other companies can make it better

**In-house maintenance**

- Affect brand image if poor service
- Information available to understand customer behavior

**Potential developers**

Danish independent video game developer based in Copenhagen, Denmark, founded in 2010. The company was formed by a small group of students in 2010, who moved into an unused classroom in Aalborg University – Copenhagen, Denmark and began developing their first game, Forced. Since, they have left the classroom and released a second game, Forced: Showdown

**Department in charge**

- IT department
- Marketing & Innovation for managing information
Age segment 15-34 accounts for 24.4% (1.3 mn) of Danish population

- **Total population:** 5.7 mn
- **Target segment (15-34 years):** 1.3 mn (24.4%)
  - 15-24 years: 0.7 mn
  - 25-29 years: 0.3 mn
  - 30-34 years: 0.3 mn

**Source:** CIA World Factbook - This page was last updated on January 20, 2018
Age segment 15-34 accounts for 24.4% (2.4 mn) of Swedish population

- Total population: 9.9 mn
- Target segment (15-34 years): 2.4mn (24.4%)
  - 15-24 years: 1.1mn
  - 25-29 years: 0.7mn
  - 30-34 years: 0.6mn
Age segment 15-34 accounts for 24.8% (16.3 mn) of UK population

- Total population: 65.6 mn
- Target segment (15-34 years): 16.3 mn (24.8%)
  - 15-24 years: 7.7 mn
  - 25-29 years: 4.6 mn
  - 30-34 years: 4.0 mn

Source: CIA World Factbook - This page was last updated on January 20, 2018
Age segment 15-34 accounts for 21.8% (18.1 mn) of German population

- Total population: 82.7 mn
- Target segment (15-34 years): 18.1 mn (21.8%)
  - 15-24 years: 8.1 mn
  - 25-29 years: 5.2 mn
  - 30-34 years: 4.8 mn

Source: CIA World Factbook - This page was last updated on January 20, 2018
Revenue Breakdown and Market Share

Revenue Breakdown

Market Share across 3 regional markets

Stage 1 - 2 Cities
- Sweden: 5%, 11%, 19%
- Denmark: 7%, 13%, 24%
- United Kingdom: 4%, 7%, 12%

Stage 2 - 3 Cities
- Sweden: 0%, 7%, 13%
- Denmark: 0%, 9%, 16%
- United Kingdom: 0%, 5%, 8%

Stage 3 - 3 Cities
- Sweden: 0%, 0%, 9%
- Denmark: 0%, 0%, 10%
- United Kingdom: 0%, 0%, 7%
Key Assumptions of Monthly Purchase Frequency and Basket Size

<table>
<thead>
<tr>
<th>Monthly Purchase Frequency</th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk-based beverages</td>
<td>2.0</td>
<td>3.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Cheese</td>
<td>0.5</td>
<td>0.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Yoghurt and sour milk products</td>
<td>2.0</td>
<td>3.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Cooking</td>
<td>0.5</td>
<td>0.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Milk and Powder</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Butter and margerine</td>
<td>0.5</td>
<td>0.5</td>
<td>1.5</td>
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<table>
<thead>
<tr>
<th>Basket Size (# of items)</th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Milk-based beverages</td>
<td>2.0</td>
<td>2.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Cheese</td>
<td>1.0</td>
<td>1.0</td>
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<td>Yoghurt and sour milk products</td>
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<td>3.5</td>
</tr>
<tr>
<td>Cooking</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
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<td>2.0</td>
<td>3.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Butter and margerine</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>
Dairy industry is being disrupted by the millennials

SHIFTING TRENDS
European dairy industry is highly segmented and saturated

| Established global dairies | | | | | |
|---------------------------|--|---|---|---|
| Arla                     | LACTALIS | Müller | FrieslandCampina | TINE |

| Private label | | | | | |
|---------------|--|---|---|---|
| ICA           | Dansk Supermarked Group | ALDI | LIDL | TESCO |

<table>
<thead>
<tr>
<th>Local/niche players</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Skåne mejerier</td>
<td>Thise</td>
<td>siggi’s</td>
<td>Yeo Valley</td>
<td>CHOBAN</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dairy alternatives</th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Coca-Cola</td>
<td>Red Bull</td>
<td>alpro</td>
<td>froosh</td>
<td>VITA COCO</td>
<td>innocent</td>
</tr>
</tbody>
</table>

COMPETITIVE ADVANTAGE: ARLA IS A COOPERATION OF 12.5 K FARMERS
Ensuring trust and relevance of Arla brand for millennials

Nemanja
IT and Business

Kristina
Strategy and Implementation

Rastko
Finance and Feasibility

Tamara
Marketing and People
Decision making
Strategic alternatives
Analysing global dairy markets by 2021

North America
- CAGR: 4.43%
- VALUE: 56.81 B EUR

Latin America
- CAGR: 6.6%
- VALUE: 49.78 B EUR

Europe
- CAGR: 2.34%
- VALUE: 118.25 B EUR

Middle East and Africa
- CAGR: 4.43%
- VALUE: 56.81 B EUR

Asia Pacific
- CAGR: 18.86%
- VALUE: 137.52 B EUR
Global dairy market prioritisation

Arla revenue breakdown by region

Europe: 82%
Middle East and North Africa: 7%
Americas: 4%
Russia and others: 4%

Executive Quote

Good Growth 2020 Strategy

“Europe is the most important Market for Arla’s future growth…”

Steen Sørensen Koch
Vice President
Marketing & Digital Transformation

Market of main priority: Europe
White milk and powder value has been declining lately in Europe

Alternative milk market is not an option for Arla as its farmers core business is producing RAW MILK
Consumer is everything in dairy industry

SHIFTING TRENDS

Generation Z

Millennials

Generation X

Baby boomers
Millenial consumer trends that are shaping the dairy industry

1st
Lack of trust
Erosion of trust between consumers and big brands

2nd
Digital way of engagement
Consuming Customized media

3rd
Customer relation to food
Impact on the environment and eating habits

4th
Category leadership and new channels
Innovating categories and matching consumer behaviour
Millenial consumer trends that are shaping the dairy industry

1st challenge:
Overcoming perceptual gap about dairy and ARLA products

2nd challenge:
Finding occasions that match changed consumption pattern
## Executive summary for Arla

### Ensuring trust and relevance of Arla brand for millennials in Europe

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Recommendation</th>
<th>Effects in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overcoming perceptual gap about dairy and ARLA products</td>
<td>Revolutionizing transparency and consumer’s access to supply chain through “Daily Arla” platform</td>
<td>EUR 223 M, Incremental Revenue</td>
</tr>
<tr>
<td>Finding occasions that match changed consumption pattern of millennials</td>
<td>Matching Arla cheese brands with Wine category in Europe</td>
<td>5.2 M, Engaged millennials</td>
</tr>
<tr>
<td></td>
<td></td>
<td>126%, Return on Investment</td>
</tr>
</tbody>
</table>
Solution
Build Trust – Secure Growth
Understanding millennials: digital, active, involved...

Speaking of millennials...
We think about environment...
We have new food demands...

We simply want it all!
Successful career
Family
To make impact
To be fit, look and feel good
Active and sustainable lifestyle
Be present on social media

- Good nutrition
- Healthy ingredients
- Production method
- Origin of a product
Milk and dairy products are not healthy
Dairy production is not environmentally friendly

Milk is crucial source of calcium and protein
Arla has sustainable dairy production

20-34 years old
Lack of trust in big brands
Wants transparency
Spends 245 EUR/year on dairy products
>50% are brand switchers

Capturing BRAND SWITCHERS by overcoming perceptual gap

ARLA has to overcome perceptual gap
Revolutionizing perception, transparency and consumer’s access to supply chain

WHAT?
Develop “Daily Arla” platform to connect consumers directly to farmers

HOW?
Implement Original Trail solution for product origin traceability

SUCCESSFUL CASE STORY
Arla Dairy Adventures
1,800 farmers included
170,000 farm visitors
18% increased consumption

Increase transparency and end consumer trust

Source: Case Study, Arla Foods
How will “My Milk” platform provide unparalleled farm-to-fork visibility

Supply chain focus
Consumer wants to be aware of:

- Product origin
- Non-brand information source
- Production method
- Ingredients

“Daily Arla” feature

- Farm location and other details
- Direct communication with farmers
- Production process education
- Nutritional benefits and consummation possibilities

1. Scan barcode
2. Enter expiry date

Source: Case Study, Company executive, Original Trail
Developing facebook DailyArla platform to engage millennials

<table>
<thead>
<tr>
<th>Trends</th>
<th>Creation</th>
<th>Engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>6 out of 8</strong> millennials in Denmark use facebook as a primary social network.</td>
<td>DailyArla platform joint facebook application</td>
<td>DailyArla achievements</td>
</tr>
<tr>
<td>The millennial generation wants to keep track of their eating habits and product ingredients.</td>
<td>„Better me“ trend</td>
<td></td>
</tr>
</tbody>
</table>

The millennial generation wants to keep track of their eating habits and product ingredients.
„Back to the roots.“
Education about ARLA products, healthy benefits and DailyArla app features

1. Objective: Introduce DailyArla platform
   - Key emphasis: Company transparency, Healthy products
   - Back to the roots
   - DailyArla
   - coop
   - Dansk Supermarked
   - Dagrofa
   - TESCO

2. Objective: Engage millennials with DailyArla platform
   - Currently 1.1 M likes on facebook
   - Farmer chats: Information about the product origin, Contact your local farmer
   - MyAchievements result sharing: #MyDailyArla, Personal score sharing
   - Create online adds and Facebook campaign
   - Key emphasis: Satisfactory feeling of eating healthy and achieving food goals
   - Back to the roots
   - DailyArla
   - coop
   - Dansk Supermarked
   - Dagrofa
   - TESCO

Insights  Executive  Solutions  Impact  Summary
Financial implication by 2020

Incremental revenue

Revenue

- **2018**: EUR 4,16 M
- **2019**: 34,32 EUR
- **2020**: 81,93 EUR

**Incremental revenue**
- EUR 120 M in 2020
- 5.2 m engaged millennials in 6 markets
- 136% ROI

**Assumptions**

- Average revenue per customer: **EUR 95**
- Arla brand consumption increase: **7%**
- Millennial population in target markets: **EUR 46,3 M**

**Cost drivers**

- Original Trail implementation
- Digital platform development
- Digital transformation
- Employees education
- Education of farmers
- New employees
- Promotion

**EUR 13 M**
Solution

Build Trust – Secure Growth
Occasions when dairy products are consumed are shifting drastically

These used to be occasions for dairy products consumption...

1. Breakfast
   - Replaced by small snack

2. When preparing meals at home
   - No time to cook

3. Part of nutritive diet
   - Perceived as unhealthy

---

WHICH IS THE OCCASION FOR INCREASING DAIRY PRODUCT CONSUMPTION?
Occasion segmentation for the FMCG industry

- **INDULGE**
  - Occasion of consuming a product alone or with a friend usually at home

- **SOCIALIZE**
  - Sharing food or drink with a smaller group of people, at home or at a public place

- **CELEBRATE**
  - Big social gathering with big groups of people, usually at a public place

Source: McKinsey, Report for Coca Cola company
Occasion segmentation for the FMCG industry

Where we are now

Where we want to be

1 - 3

3 - 5

5+

Number of people

Energy

Arla

Coca-Cola

Tuborg

Carlsberg

INSIGHTS

Executive

Solutions

Impact

Summary
Wine & Cheese as an untapped potential for Arla cheese brand positioning

**WHAT?**
Matching ARLA Cheese as a perfect complementary product when drinking wine

**WHERE?**
Start with Denmark
- Expand to:
  - Denmark
  - Sweden
  - United Kingdom
  - Germany

**WHY?**
- HYGGE concept
- Cheese consumption 20 kg per year
  - Growing category 6%
- Wine consumption 40 liter per year
- Higher frequency of consumption leads to a regular purchasing behaviour
Sales channels suitable for targeting millennials with Cheese & Wine concept

**Supermarkets**

- > 300 stores across Denmark

**Wine festivals**

- Other Wine Festival in Denmark
- Student Wine Festival @CBS

**ARLA’s pop-up stores**

- Made of shipping containers (Maersk)
- Food samples
- Selling wine and cheese
- 2 pop-up stores
- Different locations
### Being present in our consumers’ lives

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>8am</td>
<td>Checks phone</td>
</tr>
<tr>
<td>5 pm</td>
<td>Goes grocery shopping</td>
</tr>
<tr>
<td>7 pm</td>
<td>Loves socializing</td>
</tr>
<tr>
<td>Next day</td>
<td>Active lifestyle and outgoing person</td>
</tr>
</tbody>
</table>

#### Consumer behaviour
- **Checks phone**: Event: “Cheese and Wine” @ Copenhagen
- **Goes grocery shopping**: Spots ARLA’s product sampling and On-shelf positioning next to wine
- **Loves socializing**: Tastes ARLA’s cheese @ CBS Wine Festival
- **Active lifestyle and outgoing person**: Comes across ARLA’s pop-up stores

#### Where Arla steps in
- **Event**: “Cheese and Wine” @ Copenhagen
- **Promotion on website**: Follows Arla’s Instagram account to be updated about future events
Being present in our consumers’ lives

8am
- Checks phone

5 pm
- Goes grocery shopping

7 pm
- Loves socializing

Next day
- Active lifestyle and outgoing person

Consumer behaviour
- Checks phone
- Goes grocery shopping
- Loves socializing
- Active lifestyle and outgoing person

Where Arla steps in
- Event: “Cheese and Wine” @ Copenhagen
- Spots ARLA’s product sampling
- On-shelf positioning next to wine
- Tastes ARLA’s cheese @ CBS Wine Festival
- Comes across ARLA’s pop-up stores
- Promotions on website
- Follows Arla’s Instagram to be updated about future events

All touchpoints covered
Financial implication by 2020

Incremental revenue

- **2018**: 14,98 M
- **2019**: 34,80 M
- **2020**: 53,68 M

**Assumptions**
- **1st year**: Denmark
- **2nd year**: Sweden, UK, Belgium
- **3rd year**: Finland, Germany

**Cost drivers**
- 94%
- **EUR 12 M**

**KPI in 2020**
- **EUR 103 M** Incremental revenue
- **670 K** Engaged consumers in 6 markets
- **122%** ROI
Timeline and finance

Summary
**Cumulative financial effects**

**Total Revenue**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue 1</th>
<th>Revenue 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>34.80 EUR</td>
<td>34.32 EUR</td>
<td>69.12 EUR</td>
</tr>
<tr>
<td>2020</td>
<td>53.68 EUR</td>
<td></td>
<td>53.68 EUR</td>
</tr>
</tbody>
</table>

**Revenue Breakdown**

- 1st strategy: 54%
- 2nd strategy: 46%

**Incremental Revenue**

- EUR 223 M
- 5.2 M
- 126% Return on Investment

**Engaged millennials**
Timeline of activities

Strategy I
- Original Trail Implementation
- “Daily Arla” development
- New Employees hiring
- Farmer education
- Promotional activities

KPI
- ARPC

Strategy II
- Denmark market penetration with Wine and Cheese strategy
- Shelf positioning
- Wine festivals
- Pop-up stores
- Penetrate other markets

KPI
- ROI

KPI
- Total Incremental revenue

2018
- Launch
- EUR 102.5

2019
- EUR 109.2
- Sweden
- UK
- Belgium

2020
- EUR 120.2
- Finland
- Germany
- 122%

EUR 19.4M
- Original Trail Implementation

EUR 69.1M
- “Daily Arla” development

EUR 223M
- New Employees hiring
THANK YOU FOR YOUR ATTENTION!

BOWTIE CONSULTANTS

Kristina
Strategy and Implementation

Nemanja
IT and Business

Rastko
Finance and Feasibility

Tamara
Marketing and People
Slide Master Deck

BOW TIE Consultants

**Strategic Alternatives**
- Competition
- Dairy market trends
- Market prioritisation
- Declining trend
- Millennial trends
- Executive overview

**Build Trust**
- Target group
- Perception gap
- Daily Arla platform
- Supply chain
- App Development
- Back to the roots
- Finance
- Financial breakdown
- Strategic Alternative 1

**Secure Growth**
- Occasions
- Occasion segmentation
- Where to be
- Wine and cheese
- Sales channels
- Touchpoint
- Financial implication
- Financial breakdown
- Strategic Alternative 2

**Timeline and Finance**
- Cumulative effects
- Timeline
- Good Growth Strategy
- Amazon Fresh
- UBER
- Risk and mitigation
Main risks and mitigation

**MAIN RISKS**

1. OPEN startup can be difficult to integrate into ARLA’s business
2. Consumers are not engaged
3. COOP refuses partnership
4. Cheese & Wine concept does not suit millennials

**MITIGATION MEASURES**

- Implement the solution of Catalyst Inc.
- Improve customer incentives
- Considering other retailers
- Rethink the occasion that ARLA wants to target in consumer journey
Arla Farmers cannot produce raw materials for non-dairy alternatives

Raw milk intake, million kilos

<table>
<thead>
<tr>
<th>Country</th>
<th>Raw Milk Intake</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>34%</td>
</tr>
<tr>
<td>UK</td>
<td>13%</td>
</tr>
<tr>
<td>Sweden</td>
<td>14%</td>
</tr>
<tr>
<td>Germany</td>
<td>23%</td>
</tr>
<tr>
<td>Belgium</td>
<td>11%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>10%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>9%</td>
</tr>
<tr>
<td>Non-owner</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: Arla Foods annual report 2016, European Soybean Production Market Analysis University of Stuttgart
Arla is creating products to cater to all dairy product trends

Protein fueled  Lactose free  Fat free

**Arla PROTEIN**  **Arla LactoFree**  **Arla SKYR**

Milk based beverages  With taste  Organic

**Starbucks partnership**  **Arla Yoggi**  **Arla KO**
### Analysis of emerging categories in the European dairy market

#### Absolute value growth (EUR million)

<table>
<thead>
<tr>
<th></th>
<th>France</th>
<th>Germany</th>
<th>Norway</th>
<th>Belgium</th>
<th>Turkey</th>
<th>Sweden</th>
<th>Denmark</th>
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</thead>
<tbody>
<tr>
<td>Semi</td>
<td>-213</td>
<td>49</td>
<td>-121</td>
<td>-85</td>
<td>83</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Skimmed Milk</td>
<td>20</td>
<td>-35</td>
<td>15</td>
<td>-9</td>
<td>39</td>
<td>1</td>
<td>-39</td>
</tr>
<tr>
<td>Chilled Milk</td>
<td>-3</td>
<td>-21</td>
<td>30</td>
<td>-3</td>
<td>-2</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Chilled Cream</td>
<td>3</td>
<td>-6</td>
<td>0</td>
<td>-1</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Semi</td>
<td>-1</td>
<td>-13</td>
<td>4</td>
<td>-1</td>
<td>5</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Skimmed Fre</td>
<td>4</td>
<td>-32</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Cream</td>
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<td>24</td>
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<td>0</td>
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<td>0</td>
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<tr>
<td>Full Fat Fresh</td>
<td>73</td>
<td>75</td>
<td>24</td>
<td>8</td>
<td>35</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Full Fat Semi</td>
<td>-2</td>
<td>20</td>
<td>24</td>
<td>7</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Skimmed Fre</td>
<td>-15</td>
<td>-37</td>
<td>-4</td>
<td>-1</td>
<td>-5</td>
<td>0</td>
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<td>Cream</td>
<td>-10</td>
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<td>1</td>
<td>13</td>
<td>3</td>
<td>5</td>
<td>0</td>
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<tr>
<td>Full Fat Fresh</td>
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<td>7</td>
<td>-3</td>
<td>5</td>
<td>0</td>
<td>-15</td>
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<tr>
<td>Full Fat Semi</td>
<td>-18</td>
<td>37</td>
<td>11</td>
<td>1</td>
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<td>0</td>
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<td>-1</td>
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<tr>
<td>Skimmed Fre</td>
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<td>-21</td>
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<td>0</td>
<td>10</td>
<td>6</td>
<td>2</td>
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<tr>
<td>Cream</td>
<td>-2</td>
<td>-21</td>
<td>154</td>
<td>154</td>
<td>154</td>
<td>154</td>
<td>154</td>
</tr>
</tbody>
</table>

**Highest growing category on the market**

Arla brand **strongest markets**

Arla should **develop** a product to compete in the **Flavoured Fromage Frais** category through Arla Karolines Kokken sub-brand.
Utilizing market situation to expand in Bangladesh dairy market

**Potential market**
- Highest growth: 31.2%↑
  - South East Asia
- Growth driver: Bangladesh
  - 34% market growth

**Market situation**
- Highest growing category: 46%↑
  - Baby nutrients
- Market leader: Lactalis
  - Salmonella scandal

**Recommendation**
- Enter market with Arla Dano Baby & me
- Infant and baby nutrition milk powder
- Enter through existing partnerships with distributors
Uber for fresh delivery – Amazon fresh

Established partnership in 2016

3 years time frame

Not scalable for 2020

Future Outlook
Implementation of Origin Trail solution to Arla system

**Integration with Arla ERP**

Origin Trail connects to the Arla ERP to gain information about farmers, transportation routes and SKUs.

**Predicting origin farms**

Utilize standardized transport routes to predict origin farm for each product package and connect it with barcode and expiry date.

**Future outlook**

Gain valuable know-how to transfer the operations to the blockchain ledger in supply chain providing ultimate transparency to consumers.
## Financial implication of the Build Trust strategy

### Investment budgeting

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Trail implementation</td>
<td>650,000 EUR</td>
<td>120,000 EUR</td>
<td>120,000 EUR</td>
<td>890,000.00 EUR</td>
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<tr>
<td>Digital platform development</td>
<td>250,000 EUR</td>
<td>25,000 EUR</td>
<td>25,000 EUR</td>
<td>300,000.00 EUR</td>
</tr>
<tr>
<td>Digital transformation employees education</td>
<td>10,000 EUR</td>
<td>5,000 EUR</td>
<td>5,000 EUR</td>
<td>20,000.00 EUR</td>
</tr>
<tr>
<td>Education of farmers</td>
<td>200,000 EUR</td>
<td>200,000 EUR</td>
<td>200,000 EUR</td>
<td>600,000.00 EUR</td>
</tr>
<tr>
<td>New employees</td>
<td>300,000 EUR</td>
<td>400,000 EUR</td>
<td>500,000 EUR</td>
<td>1,200,000.00 EUR</td>
</tr>
<tr>
<td>Promotion</td>
<td>830,000 EUR</td>
<td>2,480,000 EUR</td>
<td>6,420,000 EUR</td>
<td>9,730,000.00 EUR</td>
</tr>
<tr>
<td><strong>Total Investment</strong></td>
<td>2,240,000 EUR</td>
<td>3,230,000 EUR</td>
<td>7,270,000 EUR</td>
<td>12,740,000.00 EUR</td>
</tr>
</tbody>
</table>

### Converted customers

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>620000</td>
<td>620000</td>
<td>620000</td>
</tr>
<tr>
<td>Sweeden</td>
<td>580000</td>
<td>580000</td>
<td>580000</td>
</tr>
<tr>
<td>UK</td>
<td>1780000</td>
<td>1780000</td>
<td>1780000</td>
</tr>
<tr>
<td>Finland</td>
<td>140000</td>
<td>140000</td>
<td>140000</td>
</tr>
<tr>
<td>Germany</td>
<td>2240000</td>
<td>2240000</td>
<td>2240000</td>
</tr>
<tr>
<td>Benelux</td>
<td>102000</td>
<td>102000</td>
<td>102000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>620000</td>
<td>3120000</td>
<td>5462000</td>
</tr>
<tr>
<td>Average revenue per customer</td>
<td>102.50 EUR</td>
<td>109.21 EUR</td>
<td>120.21 EUR</td>
</tr>
<tr>
<td>Purchasing frequency increase</td>
<td>7.00%</td>
<td>7.00%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Revenue per customer increase</td>
<td>7 EUR</td>
<td>11 EUR</td>
<td>15 EUR</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td>4,157,494 EUR</td>
<td>34,320,000 EUR</td>
<td>81,930,000 EUR</td>
</tr>
</tbody>
</table>
Profiles of Wine Retailers in Denmark and wine consumption

<table>
<thead>
<tr>
<th>Country</th>
<th>Leading distribution channels – Wine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>Food &amp; Drinks Specialists 45%</td>
</tr>
<tr>
<td>France</td>
<td>Food &amp; Drinks Specialists 47.4%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Food &amp; Drinks Specialists 44.7%</td>
</tr>
<tr>
<td>Portugal</td>
<td>Food &amp; Drinks Specialists 42.6%</td>
</tr>
<tr>
<td>Austria</td>
<td>Food &amp; Drinks Specialists 41.1%</td>
</tr>
<tr>
<td>Greece</td>
<td>Food &amp; Drinks Specialists 41.2%</td>
</tr>
<tr>
<td>Denmark</td>
<td>Food &amp; Drinks Specialists 35.9%</td>
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<tr>
<td>Germany</td>
<td>Food &amp; Drinks Specialists 36.2%</td>
</tr>
<tr>
<td>Argentina</td>
<td>Food &amp; Drinks Specialists 33.6%</td>
</tr>
<tr>
<td>Hungary</td>
<td>Food &amp; Drinks Specialists 31.3%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>Food &amp; Drinks Specialists 30.5%</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Wine Retailers</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>NETTO</td>
<td>It is the largest supermarket chain in Denmark and has over 454 stores. It is owned by Dansk Supermarket Group.</td>
</tr>
<tr>
<td>REMA 1000</td>
<td>It is a Norwegian based chain of grocery stores in Denmark. As of 2013, there are 250 REMA 1000 stores located across the country.</td>
</tr>
<tr>
<td>COOP</td>
<td>Coop represents many different grocery stores. Irma is a supermarket chain that is a part of COOP and has 71 stores in Denmark.</td>
</tr>
<tr>
<td>DAGROFA</td>
<td>Dagrofa Detail is a part of the Dagrofa group. Dagrofa Detail runs 50 Super Best FMCGs of different sizes. Super Best and Kiwi are also a part of Dagrofa Detail which have 90 and 50 stores respectively.</td>
</tr>
</tbody>
</table>
Denmark - increase in sales through increased purchase frequency

TOTAL REVENUE
EUR 2.53 B

PRICE PER PRODUCT
EUR 5

TOTAL VOLUME
506 M

NUMBER OF CUSTOMERS
2.280.000

VOLUME PER CUSTOMER
222 products

6 M

38%

74 times a year

3 pieces
Of dairy products

Population
Incidence
Frequency
Amount
### Converted customers

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Denmark</strong></td>
<td>187.200</td>
<td>187.200</td>
<td>187.200</td>
<td>561.600</td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td>0</td>
<td>60.000</td>
<td>60.000</td>
<td>120.000</td>
</tr>
<tr>
<td><strong>UK</strong></td>
<td>0</td>
<td>174.000</td>
<td>174.000</td>
<td>348.000</td>
</tr>
<tr>
<td><strong>Finland</strong></td>
<td>0</td>
<td>0</td>
<td>104.000</td>
<td>104.000</td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td>0</td>
<td>0</td>
<td>132.000</td>
<td>132.000</td>
</tr>
<tr>
<td><strong>Belgium</strong></td>
<td>0</td>
<td>13.800</td>
<td>13.800</td>
<td>27.600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>187.200</td>
<td>435.000</td>
<td>671.000</td>
<td>1.293.200</td>
</tr>
<tr>
<td><strong>Average purchase per customer</strong></td>
<td>10 EUR</td>
<td>10 EUR</td>
<td>10 EUR</td>
<td></td>
</tr>
<tr>
<td><strong>Number of purchases per year</strong></td>
<td>8</td>
<td>8</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td><strong>Revenue per customer</strong></td>
<td>80 EUR</td>
<td>80 EUR</td>
<td>80 EUR</td>
<td></td>
</tr>
<tr>
<td><strong>Incremental revenue</strong></td>
<td>14.976.000 EUR</td>
<td>34.800.000 EUR</td>
<td>53.680.000 EUR</td>
<td>103.456.000 EUR</td>
</tr>
</tbody>
</table>

### Denmark Customers

- Total number of millennials: 2,200,000
- Reach: 1,170,000
- Engage: 468,000
- Convert: 187,200

### Sweden Customers

- Total number of millennials: 14,500,000
- Reach: 5,800,000
- Engage: 1,740,000
- Convert: 174,000

### UK Customers

- Total number of millennials: 22,000,000
- Reach: 6,600,000
- Engage: 1,320,000
- Convert: 132,000

### Germany Customers

- Total number of millennials: 2,700,000
- Reach: 2,000,000
- Engage: 600,000
- Convert: 60,000

### Finland Customers

- Total number of millennials: 2,600,000
- Reach: 1,300,000
- Engage: 520,000
- Convert: 104,000

### Belgium Customers

- Total number of millennials: 2,300,000
- Reach: 690,000
- Engage: 138,000
- Convert: 13,800

### Criteria:
- Wine consumption
- Number of millennials
- Consumer habits