

Arla Versus Oatly: Milk Wars

Teaching Notes

Author: Arpita Agnihotri & Saurabh Bhattacharya

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PREVIEW

Teaching Notes

Case Study Summary

The case discusses the Arla and Oatly milk wars in Sweden. Oatly, which sold plant-based milk, criticized Arla for selling dairy milk, which, according to Oatly had an adverse environmental impact. Due to other concerns associated with dairy milk, such as reports of early death and lactose-intolerance, consumers were shifting to plant-based milk. Oatly and Arla also got into advertising and legal disputes. Toni Petersson, CEO of Oatly, was keen to change the milk consumption habits of consumers, while Peter Tuborgh, CEO of Arla, had to identify ways of maintaining the relevance of Arla's product offerings. Amidst this corporate war, it was to be seen how the future of dairy and plant-based milk was shaped. The case involves legal and advertising disputes between Toni and Peter and the intent behind the same. The case also highlights how companies can keep their products relevant when consumers tend to shift towards new substitutes. What strategies can Tuborgh take to keep Arla relevant? What strategies prompted Petersson to aggressively compete against Arla?

Teaching Objectives

Instructional objectives of the case are to:

- explore ways of maintaining the demand of a product relevant in the presence of substitutes;
- describe how companies use legal tactics to their advantage;
- critically analyze the significance of product names in fighting brand wars;
- discuss how firms can avoid intra-portfolio competition among its different product lines.

Target Audience

This case is intended for undergraduate- or graduate-level courses in business strategy, strategic management, principles of management, and strategic marketing courses.

Suggested Teaching Strategy

The instructor may wish to discuss concepts such as the 4Ns, legal disputes, the reputation of institutional investors, or intra-portfolio competition before initiating a discussion of the case. Alternatively, the discussion of these concepts can occur simultaneously with the case presentation and analysis. We advocate the second approach and explain our strategy based on this approach. Besides, the instructor can show the video “FT Global Food System 2019: Keynote Interview with Peder Tuborgh,” which presents Tuborgh's view on the global state of the dairy industry in the near future, its challenges and growth perspectives (Financial Times Live, 2019). Before beginning a discussion on the questions, the instructor can ask students about their preference between dairy and non-dairy milk and reasons for the same.

- When discussing Discussion Question 1, the instructor may urge students to explain the reasons for the decline in demand for dairy milk, followed by recommendations for increasing the same. Next, based on the 4Ns principle, these recommendations can be further discussed.
- For Discussion Question 2, the instructor can first ask students' opinion on the use of a lawsuit. Then based on “How companies use (and abuse) law for competitive gains” (2004), the instructor can explain how legal considerations can become a source of competitive advantage. Next, the instructor can ask students their perspective on institutional investors and if it was at loggerheads with their sustainability-based advertising claims. Then, based on Zhang and Schweitzer (2019), the instructor can explain how the reputation of institutional investors impacts a firm's image.
- For Discussion Question 3, the instructor can encourage students to discuss the legal fight over the use of the term “milk” in the name of products produced by plant-based milk companies. Students should be able to draw evidence from the case regarding consumers' confusion over product names and accordingly put their points for or against the competitive war over product names.
- For Discussion Question 4, the instructor can first explain the concept of intra-portfolio competition

and then encourage students to discuss how the same can be avoided in the context of Arla.

Suggested Answers to Discussion Questions

1. Why was dairy milk consumption in Sweden—as well as globally—declining? How can Arla create demand for dairy milk?

Milk consumption was decreasing both globally (Starostinetskaya, 2018) and in Sweden (see case Figure 2) long before Oatly started advertising against the consumption of milk. This was happening primarily due to changing milk-consumption habits of consumers (Baird, 2015), as well as negative public opinion associated with the ill-effects of consuming milk, such as adverse environmental impact (Franklin-Wallis, 2019). There were also fears about milk consumption leading to an early death (Baird, 2015). In addition, though, globally, there was an increasing focus on the production of organic milk, Sweden was lagging in its production (“Global Organic Milk Production,” 2018).

Research suggests that consumers use the 4Ns principle to rationalize consuming animal-based products (Hopwood, & Bleidorn, 2019). The 4Ns are normal, necessary, natural, and nice (Hopwood, & Bleidorn, 2019). Drinking milk is normal. The instructor may inform students that people have been drinking milk for more than 6,000 years (Ewbank, 2019). While milk substitutes such as oat milk are an adaptive practice, dairy milk is necessary as it is considered a complete food (Baird, 2015). Dairy milk is also natural as in the production of milk, no artificial processing is involved. Dairy milk is also nice as it tastes better than plant-based milk (Askinasi, 2019). Based on 4Ns principle, Arla can use the following strategies to promote milk consumption:

- Normal: Arla can highlight to consumers that plant-based milk is artificial and has added ingredients such as rapeseed oil, which is associated with health problems related to liver, heart, and kidney (Malicdem, 2019).
- Necessary: Arla can educate consumers that milk provides all nine essential amino acids (Baird, 2015).
- Natural: Arla can also make consumers aware that milk production is natural and does not involve any synthetic processing of ingredients.
- Nice: In a blind taste test, it was found that consumers preferred the taste of full-fat dairy milk over non-dairy milk substitutes, including soy, almond, and oat (Askinasi, 2019). Accordingly, as Arla advertises its milk-based products, it can position them towards health and taste.

2. Explain how Oatly used legal tactics to compete with Arla. Which of Oatly’s promotional strategies received criticism, and why?

Oatly, in general, appealed to the environmental consciousness of consumers (Goldberg, 2019). Toni Petersson, CEO of Oatly, redesigned Oatly’s packaging to call consumers’ attention to wastefulness and the adverse environmental impact of cow’s milk production (Goldberg, 2019). In 2017, in a series of YouTube adverts, Oatly explained that cow’s milk was an unnecessary and pollutive alternative for nutrients (Goldberg, 2019).

G. Richard Shell, a Wharton Business School legal studies professor, in his book *Make the Rules or Your Rivals Will*, explains how firms can use law, litigation, regulation, and lobbying as a part of their competitive strategy (“How Companies Use (and Abuse),” 2004). This appears true for Oatly, which, since its beginning, was known for its controversial advertising campaigns. In 2014, Oatly launched a campaign “Milk, but made for humans” in Sweden (Lewis, 2018). LRF Mjölök, the Swedish dairy lobby, filed a lawsuit against Oatly for making adverse comments about cow’s milk. Though Oatly had to withdraw that advert after a Swedish court banned it and also fined the company USD 126,000 (Lewis, 2018), it exploited the opportunity to educate consumers. Oatly published the lawsuit text and claimed that it was a small company and LRF Mjölök was bullying it. Consequently, Oatly was successful in gaining consumers’ sympathy and its sales in Sweden soared by 45% (Lewis, 2018; Webber, 2019). Thus, Oatly used the lawsuit to its advantage to gain legitimacy and sympathy from the public that even helped it to expand in international markets like the UK (Webber, 2019).

Students need to understand how the lawsuit was exploited by Oatly to gain public sympathy that resulted in more sales. Using emotions and empathy to gain consumer attention is common in marketing and advertising. However, using a lawsuit to one's advantage is extremely rare. Oatly used the same "Milk, but made for humans" campaign while expanding in the UK, in 2018. In the UK, Oatly spent USD 880,000 on advertisements (Webber, 2019).

Again, in 2019, when Arla attacked Oatly with milk-resonating made-up words like *pjök*, *brölk*, *sölk*, and *trölk*, implying that oat-based milk was anything but *mjök* (the Swedish word for milk), Oatly obtained patents for all the words used by Arla to attack it. Oatly also printed these words on its packaging (Goldberg, 2019). This again reflects how Oatly used legal tactics to enhance its competitive position. In 2019, Oatly launched the "flush the milk" campaign, which was also not very well received and upset Swedish dairy lovers (Billing, 2019; Goldberg, 2019). Oatly defended its stance, and said that it wanted people to drink milk in moderation and not flush the milk (Billing, 2019).

Oatly was also criticized by the Swedish media for its hypocrisy after selling a stake of its business to a Chinese state-owned conglomerate (Goldberg, 2019). On the one hand, the product was appealing to the environmental consciousness of consumers, given the greenhouse emission effect of livestock, but on the other hand, Oatly was joining hands with a country that was one of the biggest contributors to global warming (Goldberg, 2019). Recent studies show that the corporate reputation of a firm, to a large extent, is influenced by the corporate shareholders' reputation, specifically its ownership structure (Zhang & Schweitzer, 2019). This decreased the company's reputation; when institutional investors have an adverse reputation, it gets transferred to the firm where they invest. Thus, critics felt that when a company like Oatly joins hands with a global polluter, it should not also claim credit for its environmental consciousness, as this appears somewhat hypocritical (Goldberg, 2019).

3. Is it advisable for dairy milk producers to fight a battle with plant-based milk producers over the usage of the term "milk" in plant-based milk product names? Explain.

Students may agree with farmers like Timothy Demeree, according to whom the term "milk" should remain associated with dairy-based products (Altschul, 2019). Demeree added, plant-based milk should be called as "juice" as juice refers to liquid squeezed from fruits and vegetables, so technically plant-based products (Altschul, 2019). According to some milk producers, consumers may get confused over the term "milk" when the producer of plant-based products uses it. According to milk producers, consumers could buy soy milk, assuming they are purchasing "bovine lacteal secretions" (part of the official definition of milk; Colb, 2019).

However, a study conducted by the International Food Information Council Foundation, a non-profit organization, in 2018, highlighted that consumers were not confused between plant-based milk and dairy milk (Splitter, 2018). Seventy-five percent of the study participants were able to clearly distinguish between dairy and plant-based milk (Splitter, 2018). This implies that any legal battle over the use of the term "milk" by producers of plant-based products is likely to be a waste of resources for dairy milk producers if the objective is to avoid confusion between dairy versus plant-based milk.

Other groups of students may disagree with the view expressed above, as 25% of the participants of the study conducted by the International Food Information Council Foundation remained confused and these respondents cannot be ignored even if the majority had clarity between the two types of milk. Though data are not presented in the case, if the purchase of milk by this 25% of the consumers is more than the legal cost of fighting the name battle, then probably dairy milk producers should fight the legal battle for the naming of plant-based milk as juice.

Another argument can be made that the real intention of fighting the name battle was to pose a competitive threat. Plant-based milk was attractive to many milk-consuming people. Consumers switching to plant-based milk, poses a competitive threat to the dairy milk industry, and the dairy industry was reacting to curb competition. Calling plant-based milk by a different name may influence consumers' milk-buying behavior. For instance, they may consume an oat drink (if it is not called by the name milk) when they want to have a

beverage or juice and consume milk when they want to have milk produced in dairies. With this in possibility in mind, a battle of what to name the product would be aimed towards enhancing market share, similar to the advertising war between Oatly and the dairy lobby in Sweden.

4. How can Arla promote both plant-based and dairy-based milk?

In March 2020, Arla ventured into plant-based milk and launched oat drinks. Selling both oat drinks and dairy milk can lead to intra-portfolio competition (i.e., the extent to which brands within the firm's portfolio compete for the same consumer's spending; Morgan & Rego, 2009). On the other hand, this intra-portfolio competition could be advantageous, as it means consumers who were switching to oat milk would stay with Arla, and revenues can remain with Arla rather than go to their competitors. Furthermore, selling both dairy and plant-based milk may not be a conflict for Arla, but simply an extension of the brand to capture a different segment of consumers.

Danone SA highlights both plant and dairy-based milk may complement each other (Kindelin, 2019). Plant-based milk could be marketed to lactose-intolerant consumers, which made up to 97% of the population in Japan, and 5% in Sweden ("Share of People with Lactose Intolerance," 2012). Arla is a global company, catering to both Sweden as well as international markets, including the United States, and it can position its plant-based milk as a solution to the lactose-intolerant segment of consumers.

Given that Arla was venturing into the organic dairy category with the acquisition of Yeo Valley Dairies ("Arla Acquires Part of Yeo," 2018), the company can also cater to environmentally conscious consumers, giving both plant and dairy-based organic alternatives. Arla can also position its milk-based products, highlighting health benefits. For instance, coronary benefits of soy protein are proven (Watson, 2019), and Arla may introduce soy-based milk, which can be positioned as heart-friendly. Finally, consumers can also be reminded that dairy milk provides complete nutrition (Baird, 2015).

The case can further be analyzed from the core competency perspective. Core competency refers to aspects of business, which a firm is good at doing (Ward, 2020). Arla's competency has been in providing milk ("Fierce Dairy and Oat Milk War," 2019). It should not be difficult for Arla to innovate around product categories that are related to milk. The health benefits of plant-based milk were less than those of dairy milk (Bharanidharan, 2019), except that it was good for lactose-intolerant people (Franklin-Wallis, 2019). Since plant-based milk is an alternative to dairy milk (Goldberg, 2019), offering plant-based milk would not make Arla offer a product that was outside its core competency area. Thus, even from a strategic perspective, it would be appropriate for Arla to offer plant-based milk.

Further Reading

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