Arla Versus Oatly: Milk Wars

Case

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Abstract

The case discusses the competitive rivalry between two Swedish companies, Arla and Oatly. Oatly, a plant-based milk company, gained popularity after criticizing dairy milk, offered by Arla, which according to Oatly was not environment-friendly. Globally, consumers were also shifting to plant-based milk, due to health concerns associated with dairy milk such as lactose-intolerance. Arla retaliated by not only launching advertisements and legal wars against Oatly but also launching organic dairy milk and plant-based milk. Peter Tuborgh, CEO of Arla, needs to identify ways of remaining relevant with Arla’s different product offerings. Meanwhile, Toni Petersson, CEO of Oatly, was keen to change the milk consumption habits of consumers. Amidst this corporate war, it was to be seen how the future of dairy and plant-based milk was shaped. What strategies can Tuborgh take to keep Arla relevant? What strategies convinced Petersson to aggressively compete against Arla?

Case Learning Outcomes

By the end of the case study discussion, students should be able to:

- discuss the strategies that keep product demand relevant amidst the availability of different substitutes;
- examine how small firms use legal tactics to succeed in business;
- critically analyze the significance of product category name in brand wars;
- discuss how firms offering multiple product categories can avoid intra-portfolio competition.

Introduction

Arla Foods (henceforth referred to as Arla), the leading dairy brand in Sweden, has been engaged in a milk war against Oatly AB (henceforth referred to as Oatly), the leading plant-based milk in Sweden, since 2014 (“Fierce Dairy and Oat Milk War,” 2019). There were lawsuits between Oatly and Arla, attack advertisements, and struggles over not only market share but also about what it means to be Swedish (Goldberg, 2019). In October 2019, the “Milk is milk!” (in Swedish mjölk smäkar mjölk) pro-dairy milk advertisement campaign by Arla ended with the slogan “Only milk tastes like milk” (Goldberg, 2019). Given that the European Union and the UK are the leading milk consuming markets in the world (see Figure 1), the increasing shift by consumers to plant-based milk sources was a cause of concern for Arla (Lewis, 2018).

Figure 1. Leading Consumers of Cow Milk Worldwide (2019)
Danone SA, the world’s biggest dairy yogurt-maker, downplayed the rivalry between plant-based alternatives and traditional dairy. According to Danone SA, “We believe that dairy and plant-based are two complementary health-focused categories and that there are growth opportunities for both.” The company further said, “Dairy and plant-based products can serve different dietary and lifestyle preferences. More importantly, an increasing number of consumers are so-called ‘flexitarians’ who opt for both dairy and plant-based proteins, depending on what suits them best in specific occasions” (Kindelin, 2019).

Peter Tuborgh, CEO of Arla was faced with the challenge of identifying ways the company could stay relevant with its product offerings in its core markets (“The Case 2018: Arla,” 2018). Arla launched its version of oat milk in March 2020 (de Sousa, 2020), but several challenges remained. Toni Petersson, CEO of Oatly, was keen to change the milk consumption habits of consumers, saying, “If we get one person to give up cow’s milk, we’ve made a difference” (Martin, 2019). Amidst this corporate war, the future of dairy versus plant-based milk is unclear. What strategies can Tuborgh take to keep Arla relevant? What strategies enable Petersson to aggressively compete against Arla?

Background

Arla was founded in 2000 after the merger of MD Foods of Denmark and the Swedish dairy cooperative Arla. By 2016, Arla was the fourth largest dairy company in the world (“The Case 2018: Arla,” 2018). In 2019 it had 19,174 employees. See Table 1 for Arla’s revenues. Nevertheless, with the growth in plant-based milk brands, and especially Oatly, Arla’s competitive position was threatened. Isa Ellman, a graphic designer, commented, “Before Oatly, there was never any question about whether you should drink milk or serve it in schools to kids, so some people saw Oatly as some kind of condescending company trying to manipulate the Swedish people” (Goldberg, 2019). Rosanna Hagald of the advertising agency Åkestam Holst, which produced the “Milk is milk!” ad campaign said that milk “has been a natural part of Swedes’ diet and culture for over a century—it’s in the Swedes’ souls,” adding that “new competitors in the market have been trying to convince people to drink various beverages rather than milk (Goldberg, 2019).

Oatly was founded by Swedish food scientist Rickard Öste in 1994. Öste’s patented milk-like formula did not receive any attention until 2014, when the company’s new CEO, Petersson, redesigned Oatly’s packaging to highlight the wastefulness and adverse environmental impact of cow’s milk production (Goldberg, 2019).
Oatly’s redesigned packaging mentioned that humans could get most of the nutrients that they derive from cow’s milk directly from plants. In 2017, in a series of YouTube advertisements, Oatly highlighted how cow’s milk was a pollutive alternative for the calories and nutrients that could be met from other sources (Goldberg, 2019). However, Oatly was not a profitable company (see Table 1). In 2019, Oatly had 298 employees (“Oatly’s Competitors, Revenue,” 2020).

### Table 1. Financial Data of Arla and Oatly

<table>
<thead>
<tr>
<th>Financials</th>
<th>Arla (USD billion)</th>
<th>Oatly (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>11.68</td>
<td>n/a</td>
</tr>
<tr>
<td>2018</td>
<td>11.78</td>
<td>n/a</td>
</tr>
<tr>
<td>2019</td>
<td>11.90</td>
<td>n/a</td>
</tr>
<tr>
<td>2016</td>
<td>n/a</td>
<td>n/a</td>
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<tr>
<td>2017</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>2018</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Revenue: 11.68 11.78 11.90 n/a n/a n/a
EBITDA: 0.83 0.87 0.95 n/a n/a n/a
Profit: 0.34 0.34 0.36 0.19 −1.92 −2.10


### Industry Background

Historically, milk consumption across several European countries (see Table 2), including Sweden, was considered patriotic as well as a way of drinking a completely nutritious liquid (Baird, 2015). Nevertheless, with generational change, liquid milk consumption habits were changing. A study conducted in 2013 by the United States Department of Agriculture found “Underlying decreases in [milk] consumption are differences in the habit… [of drinking] milk between newer and older generations, All else constant (e.g., race and income), succeeding generations of Americans born after the 1930s have consumed fluid milk less often than their preceding generation” (Baird, 2015). This was further fueled by the negative public perception and some research that had indicated that consuming milk in larger quantities may lead to early death (Baird, 2015). Haakan Joensso, an ethnologist at Lund University stated, “Our meal patterns have changed. Food habits changed before beverages. After a while, it wasn’t as natural to drink milk with Thai curries and pasta” (Baird, 2015).

### Table 2. Dairy Industry in Selected European Countries (2016–2018)

<table>
<thead>
<tr>
<th>Production volume of drinking milk (1,000 tons)</th>
<th>Annual consumption of milk (million liters)</th>
<th>Per capita consumption of milk (in liters)</th>
<th>No. of dairy companies</th>
<th>Leading producers</th>
</tr>
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<tbody>
<tr>
<td>2016</td>
<td>2017</td>
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<tr>
<td>Sweden</td>
<td>785</td>
<td>761</td>
<td>754</td>
<td>1,053</td>
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<td></td>
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<td>1,023</td>
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<td></td>
<td>97</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>Arla Foods</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>(Denmark/Sweden; USD 12 billion)</td>
</tr>
</tbody>
</table>

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Globally, milk consumption was decreasing (Starostinetskaya, 2018). In Sweden, the per capita milk consumption declined from 130.5 liters in 2007 to 103.1 liters in 2017 (Webber, 2019; see Figure 2). In contrast, the demand for plant-based drinks, especially oat-based milk, was increasing. Although soy, almond, and coconut milk were already present in the market, by 2019, oat drinks became more mainstream, a trend that is global (“Oat Drinks Market to Reach,” 2020). By February 2020, oat milk experienced a 184% growth in the restaurant sector (i.e., the number of restaurants using oat milk), compared to 2019. (“Oat Drinks Market to Reach,” 2020). Furthermore, industry experts expected that between 2019 and 2027, the global market size of oat drinks would increase from USD 370 million to USD 700 million, which is a compound annual growth rate of 8.2% (“Oat Drinks Market to Reach,” 2020). However, it was in Sweden where the milk war was the most competitive as Arla and Oatly were involved in continuous competition attacking and counterattacking each other (Kibbe, 2019).

![Figure 2. Per Capita Consumption of Milk in Sweden from 2008 to 2018](source: Ridder (2020, January 6))

**Health Claims of Milk Versus Oat Milk**

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Oat milk, especially Oatly, contains rapeseed oil (less than 2%). Rapeseed oil has been associated with heart problems, kidney, liver damage, and high blood pressure (Malicdem, 2019). Moreover, unlike dairy and soy products, oat milk did not provide complete protein (i.e., all nine essential nine amino acids; Bharanidharan, 2019). One cup of Oatly milk offers three grams of protein (Freedman, 2019). In contrast, milk provides eight grams of protein per cup. However, milk cannot be consumed by people who are lactose-intolerant, which include as much as 97% of the population in Japan and 5% of the Swedish population (“Share of People with Lactose Intolerance,” 2012). The reputation of milk as a healthy food was also under threat from consumers anxious about the use of bovine antibiotics, animal cruelty, and the industry’s environmental impact, as well as increased cases of lactose intolerance (Franklin-Wallis, 2019). Consequently, in the UK, 1,000 dairy farms were closed between 2013 and 2016. Consumers from European countries such as Switzerland and France were, in general, more environmentally conscious than U.S. or Asian consumers (see Figure 3).

Figure 3. Environment Protection Index (EPI)a Score for Selected Countries (2018)

![Figure 3](image)

Source: Roper (2020)

aEPI “provides a gauge at a national scale of how close countries are to established environmental policy targets. The EPI offers a scorecard that highlights leaders and laggards in environmental performance and provides practical guidance for countries that aspire to move toward a sustainable future.” (Wendling et al., 2020)

Oatly’s Marketing Strategy

Oatly was trying to appeal to the consumer’s environmentally conscious values. In 2019, the company ran an advert that encouraged consumers to take pride in self-deprivation for the sake of the environment (Goldberg, 2019). According to United Nations data, in 2019, livestock farming was responsible for 14.5% of all human-induced greenhouse gas emissions, which was slightly more than greenhouse gas emissions from the world’s cars (14%) and all the world’s airplanes (2%; Goldberg, 2019).

In 2014, Oatly launched an advertisement campaign in Sweden under the slogan (in Swedish), “Milk, but made for humans” and “It’s like milk but made for humans.” LRF Mjölk, the Swedish dairy lobby, sued Oatly for making adverse comments about cow’s milk, such as the unfitness of cow’s milk for humans depicted in the advertisement (Lewis, 2018). A Swedish court banned the advertisement and ordered Oatly to stop calling its
product “milk” or from implying that cow’s milk is either unhealthy or not fit for human consumption. Oatly was also fined USD 126,000 (Lewis, 2018). The company capitalized on the lawsuit opportunity and published the lawsuit text, positioning LRF Mjölk as bullying Oatly, as a small company. After this, Oatly’s sales soared by more than 45% (Lewis, 2018; Webber, 2019). In 2015, Oatly sponsored a music festival in Gothenburg where it challenged attendees to go milk-free for 72 hours. It used slogans such as “It’s like milk but made for humans” and “Wow, no cow!” (Goldberg, 2019).

In 2018, when Oatly expanded to the UK, it used the same controversial advertisement tag line that had been banned in Sweden. Overall, the company spent USD 880,000 on advertisements in the UK (Webber, 2019). By 2019, Oatly had a factory in New Jersey, and distribution across China. Its sales revenue increased by USD 100 million in 2018 and was expected to double in 2019, making it the indisputable world leader of dairy substitutes (Goldberg, 2019).

Milk Lovers’ Response to Oatly

Within Sweden, Oatly continued to attack the dairy industry with campaigns such as “Flush the milk”—a reference to a long-running Swedish public service advertisement, “Flush the brandy,” to reduce alcohol consumption (Goldberg, 2019). The “Flush the milk” campaign was launched in 2019. For dairy lovers, comparing milk to brandy was crossing the line, and many fans responded with tag lines like “Flush Oatly” (Billing, 2019). On being criticized for the campaign, Oatly issued a statement explaining what it meant by the tagline. It said, "We obviously don’t want people to literally flush out the milk, that wouldn’t be sustainable. The campaign is a wink to the old information commercial with a purpose to moderate people’s alcohol consumption. In a similar way, we want to achieve moderation when it comes to drinking milk" (Billing, 2019).

Oatly was also criticized for “hypocrisy” after it sold a stake of the company in 2016, to a Chinese state-owned conglomerate. A Swedish newspaper editorial stated, "[China] is the world’s single largest polluter, with coal plants spewing large amounts of greenhouse gases into the atmosphere. Had Oatly pointed this out, it would have undoubtedly been better to present itself as a ‘climate-friendly’ alternative to milk" (Goldberg, 2019). Arla also attacked Oatly by using the made-up words pjölk, brölk, sölk, and trölk as a means of implying that oat-based milk was anything but mjölk—the Swedish word for milk (Goldberg, 2019). Oatly, in turn, got all these words patented, and then printed them on its packaging (Goldberg, 2019). Arla promptly filed an objection with the Swedish Patent and Registration Office, claiming the registration of the phrases by Oatly was in bad faith (Goldberg, 2019).

Global Fight Over Milk Name

In 2017 the European Court of Justice ruled that purely plant-based products cannot be categorized or marketed as “milk,” “cream,” “butter,” “cheese,” or “yogurt,” which the European Union reserved for animal products only (“Global Organic Milk Production," 2018). In the United States, in 2018, milk producers fought legal battles against plant-based milk companies over the use of the term “milk” in plant-based drinks (Irfan, 2018). Milk producers were worried about consumers getting confused over a name that included the word “milk.” According to the milk producers, consumers could buy soymilk, assuming they were purchasing “bovine lacteal secretions” (part of the official definition of milk; Colb, 2019). According to U.S. Food and Drug Administration Commissioner Scott Gottlieb, “An almond doesn’t lactate, I will confess” (Irfan, 2018). Critics said that this scenario was unlikely as (a) the word soy was mentioned before the word milk on the label, and (b) those who consume soy milk are intentionally doing so (Colb, 2019). The U.S. Court of Appeals for the Ninth Circuit, in 2018, also ruled that “calling almond milk “milk” is not deceptive” (Irfan, 2018).

In 2018, the International Food Information Council Foundation, a non-profit organization, surveyed 1,000 U.S. consumers on their understanding of plant-based milk, as part of a wider study. They found that the public, in general, was aware that plant-based milk was not dairy milk (Splitter, 2018). When consumers were asked about plant-based milk, such as almond, soy, and rice, “a significant majority…between 72 and 75%” correctly identified that these were non-dairy (Splitter, 2018). However, the study emphasized that it was important to try to educate consumers who may be confused or believe information that is inaccurate. Alexandra Lewin-Zwerdling, one of the researchers conducting the study, said, “So the majority of the population is clear, but it’s important to capture those consumers who might not be correct” (Splitter, 2018).
In contrast to the U.S. Court of Appeals for the Ninth Circuit and the International Food Information Council Foundation, farmers thought that using milk as a name for a plant-based milk was deceptive. Timothy Demeree, an organic dairy farmer in New York, said, “It’s a terrible deception that the retail industry is playing on the consumer. It’s not milk; it’s juice. It’s almond juice. It’s coconut juice. It’s soy juice. It’s not milk. And it shouldn’t be sold in the dairy aisle. And it shouldn’t be labeled as milk” (Altschul, 2019). Farmers were, however, accused of being lobbyists when they spoke in favor of cow’s milk. Demeree said, “it’s sort of like a double-edged sword. You’re damned if you do, and damned if you don’t” (Altschul, 2019).

**Arla Growth Strategies**

Between 2016 and 2018, globally, the revenue from Arla-branded milk was constant (see Table 1). In 2018, Arla acquired Yeo Valley Dairies, a subsidiary of the Yeo Valley Group, to enhance its organic dairy business in the UK. With this acquisition, Arla obtained the right to use the Yeo Valley brand name in the UK dairy market (“Arla Acquires Part of Yeo,” 2018). Peter Giertz-Carlsen, Arla’s head of Europe, said, “The potential for organic dairy products in the UK is significant, and our investment in range through this licensing agreement with Yeo Valley provides a significant opportunity to offer a greater choice to consumers at attractive prices” (“Arla Acquires Part of Yeo,” 2018).

In March 2020, Tuborgh also diversified Arla into oat drinks and introduced three oat drinks under the brand name Jord, which was first made available for sale in Denmark, the UK, and Sweden (de Sousa, 2020). Oat drinks by Arla were made with organic ingredients and contained as much as 50% more oats than market leaders such as Oatly (de Sousa, 2020). Hanne Søndergaard, executive vice president for global marketing and innovation at Arla, said, “More and more European consumers are looking towards plant-based products. And we know that consumers are enjoying dairy and plant-based drinks side by side” (Chiorando, 2020). Chris Walkland, a dairy expert, commenting on the marketing challenges for Arla said, “Arla needs to learn how to market dairy alongside plant-based companion products” (Chiorando, 2020).

**The Road Ahead**

Commenting on the growth of substitute milk, Oatly’s Petersson said, “what’s driving it is young people. It’s a true concern about climate change, animal welfare, ethical food production—those are huge topics. Because [young people] know that they are going to inherit all the shit we’re going to give them” (Lewis, 2018). In 2019, when Insider, a business magazine, conducted a blind taste test between dairy and non-dairy milk substitutes, including soy, almond, and oat, full-fat dairy milk was considered the best in taste, while oat milk stood last among blind tasters (Askinasi, 2019). Furthermore, the global production of organic milk was also increasing though in Sweden it was showing a declining trend (“Global Organic Milk Production,” 2018).

As Oatly criticized dairy milk on the grounds of sustainability, Jan T. Nørgaard, Chairman of Arla, mentioned that Arla was working on sustainability, especially to combat climate change (“Creating a Sustainable Future,” n.d.). Arla’s climate ambitions were developed in alliance with university researchers and NGOs in Sweden, Denmark, Germany, and the UK. Arla aimed to contribute to science-based targets, which was to keep the human-induced increase in global temperature below 2°C (“Creating a Sustainable Future,” n.d.). Tuborgh stated, “throughout the organization, we have made sustainable changes to the way we work, spend, and invest in our business” (“Arla Foods Sales Up,” 2019). It remains to be seen how Tuborgh reacts to, and then addresses, the challenges posed by plant-based drinks, Oatly in particular. What strategies can Tuborgh take to keep Arla relevant?

**Discussion Questions**

1. Why was dairy milk consumption in Sweden—as well as globally—declining? How can Arla create demand for dairy milk?
2. Explain how Oatly used legal tactics to compete with Arla. Which of Oatly’s promotional strategies received criticism, and why?
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.

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

Further Reading


References


