Arla Foods
In search for growth

What Entry Strategy should Arla Foods Pursue in North Africa?

Master's Thesis

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Executive Summary

Motivated by a growing interest from Arla Foods (Arla) in the North African market, as well as a growing attention of the attractiveness of emerging markets in the strategic management literature, this paper examines what entry strategy Arla should pursue in North Africa. The entry strategy is designed on the basis of *why* Arla should enter North Africa, *where* to enter and *how* to enter, inspired by the OLI framework.

Why Arla should enter North Africa was analyzed through an assessment of market opportunities in North Africa, and Arla's internal capabilities, previous experience and strategic objective. The section found that the North African market constitute a large population growing at a high rate, as well as a growing middleclass and increasing urbanization. Arla's objective for entering foreign markets were identified as market seeking investment, why there was seen to be a strategic fit. With previous experience from emerging markets, Arla has the opportunity to exploiting its already acquired knowledge and capabilities in an entry into North Africa.

Where to enter was determined on the basis of potential market demand, competitive environment, business environment and country risk. With Arla's objectives being market seeking, potential demand was seen as being critical for the evaluation of market attractiveness. Egypt was found to be the most attractive market for Arla. With 80 million residents, a growing middle class and high forecasted dairy consumption, Egypt pose high potential market demand. Nevertheless, a weak institutional environment and high country risk are factors that must be account for when determining *how* to enter.

How to enter was analyzed through an assessment of transaction cost theory, resource based view, institution based view and cultural distance, and concluded that Arla ought to enter Egypt through a JV. Being a large firm with strong financials and knowhow from multinational experience provides Arla with resources and capabilities that are needed to enter Egypt through direct investment. Moreover, Arla are in possession of strong innovation capabilities that needs protection, particularly as the risk of misuse are enhanced in weak institutions. Network and relationship where identified as key success factors, which are best access through JV, due to the risk of company- and political resistance following a takeover. JV also helps overcome corruption, government bureaucracy, policy instability, as well as difficulties with organizational- and management practices following cultural distance, which are inefficiencies Arla will face in Egypt. Accordingly, entry through JV are seen to be optimal, as in enables Arla to access the high market potential in Egypt, while at the same time limit the high risk that are present due to a weak institutional environment and high country risk.

Table of context

Glossary of key terms

Resource Based View

Intangible assets:	Assets that are hard to observe and difficult to quantify
Tangible assets:	Assets that is observable and easily quantified
Tacit knowledge:	Knowledge that are non-codifiable, and whose acquisition and transfer require hands-on practice.
Explicit knowledge:	Knowledge that is codifiable, i.e. can be written down and transferred with little loss of its value

Institution Based View

Strong institutions:	Where the institutional environment ensures an effective market mechanism
Weak institutions:	Where the institutional environment fails to ensure an effective market mechanism
Formal institutions:	Economic, political and legal systems
Informal institutions:	Norms, Culture, Ethics

Transaction Cost Economics

Asset specificity:	The degree to which a resource is committed to a specific task and thus cannot be redeployed to alternative uses without a substantial reduction in its value
Bounded Rationality:	The ratio of cognitive capacities of the decision-maker to the complexity of the problem
Contracting cost:	The out-of-pocket and opportunity cost of negotiating, drafting and enforcing contracts; they include search and information costs, and the efficiency losses which result because incentive conflicts are not completely resolved
Information asymmetry:	A situation where the amount and/or quality of data held by parties to and exchange differs, or is believed to differ
Incomplete contracts:	Agreements which fail fully to specify actions under every course of events
Opportunism:	The policy of taking advantage of a situation in the pursuit of self-interest
Opportunistic Behavior:	Self-interested behavior with guile
Transaction costs:	The cost of carrying out a transaction, or the opportunity cost incurred when an efficiency-enhancing transaction is not realized

1. INTRODUCTION

While Europe is facing a stagnation of demand for dairy products due to a matured dairy industry, as well as the economic crisis, the dairy industry has seen a growth in demand outside Europe (Annual report, 2011). At the same time Africa is developing, and a huge consumer market is on the rise. By 2020, Africa will comprise 17 % of the world's population, accounting for approximately 250 million new people (Growing with Africa's consumers, 2012). Africa's GDP of $1.5 trillion is similar to that of Brazil, India and Russia, and are expected to grow at a higher rate than most non-BRIC emerging markets (Growing with Africa's consumers, 2012). Moreover, Africa's middle class is growing at fast pace, and according to Frank Braeken, Unilever's executive vice president in Africa, *"African consumers are underserved and overcharged"* (A continent goes shopping, 2012). This indicates that the African consumer market constitute opportunities that multinational corporations ought to consider.

Globalization has created a highly competitive dairy market where the success of dairy companies largely depends on the ability of decreasing costs of production (Annual Report, 2011). Accordingly, players need to be large to succeed (Annual Report, 2011). For this reason Arla has developed an ambitious growth strategy for the following years. Part of this strategy includes Arla Foods' (Arla) growth markets (Arla Foods Strategy 2015, 2012). In these countries *"Focus is on investing in a sustainable platform for growth, the full roll-out of category leadership positions and boosting growth through merger and acquisitions."* (Arla Foods Strategy 2015, 2012). Arla's growth markets are Russia, China, US, Poland, Middle East and North Africa (Arla Foods Strategy 2015, 2012). Arla's prime focus has until now been on developing their position in Russia, China, USA, Poland and Middle East, while operations in North Africa has not received focus on Arla's strategic agenda yet[1]. However, Arla are gradually acknowledging the great potential that lies on the African continent, and Africa is now part of Arla's strategic agenda (Annual Report, 2011). Still, Arla has not determined a clear strategy for how to grow in the region (Calmann-Hinke, 2012).

The challenge for Arla is to determine what entry strategy to pursue, as market conditions for doing business in North Africa is considerably different than the ones prevailing in Arla's traditional markets. Arla must determine whether or not they want to enter North Africa, which market in North Africa they intend to enter, and how to design their organizational structure. Developing adapted entry strategies for more emerging markets has been highlighted in different theories, and is a necessary step if Arla is to expand its market position in North Africa. If Arla manage to adapt to local conditions when designing their entry strategy, the company will tap into a huge, and growing, market.

[1] Shown by Appendix 1 and 4

1.1. RESEARCH QUESTION

Preparing for establishment of foreign subsidiaries is an important strategic decision that usually involves commitment of resources that are hard to reverse. When preparing for such investment, it is important to design an entry strategy that clarifies strategic considerations with the foreign expansion. This leads to following research question,

What entry strategy should Arla Foods pursue in North Africa?

In order to establish a comprehensive base for the formulation of an entry strategy for Arla, the entry strategy will be based upon three underlying questions, namely why, where and how to enter. All three elements are highlighted as important considerations in strategic management literature (Lasserre, 2007; Peng & Meyer, 2011).

1. ***Why should Arla Foods consider entering North Africa?***
   This question seeks to explain the motive for entering North Africa. The intention is to clarify if there is a strategic fit between Arla Foods objectives for expanding to new markets, and the market opportunities that exist in North Africa.

2. ***Where should Arla Foods enter North Africa?***
   This section will discuss location advantages and market potential, and evaluate what market makes up the greatest potential for Arla Foods. Countries in North Africa cannot be thought of as a group of homogenous countries, and so the relative attractiveness of the countries must be assessed to determine what country will provide Arla Foods with the greatest benefits.

3. ***How should Arla Foods enter North Africa?***
   Lastly, Arla must decide on an entry mode. This section seeks to determine the most beneficial way for Arla Foods to enter North Africa, based on Arla's internal strengths and location specific characteristics. It will explain strategic considerations in regards of determining the right entry mode for Arla, and evaluate whether Arla are best of continuing market presence through a distributor agreement, or if Arla ought to engage in direct investment.

1.2. RESEARCH DESIGN

This section is an overall review of the chosen framework and underlying theories that will structure this paper.

OLI is an analytical framework, including both firm-specific and market-specific factors, designed to explain the extent and pattern of MNC's foreign investments (Agarwal & Ramaswami, 1992). It is the second most commonly used perspective within entry mode studies[2] (Canabal & White, 2008), and will be used as the overall framework in this paper. OLI suggest that ownership- location- and internalization advantages induce firms to engage in foreign direct investment (FDI) (Peng & Meyer, 2011). The framework combines resource based-, institutional- and transaction cost theories in one model analyzing firm entry (Brouthers & Hennart, 2007). Studies by Brouthers, Brouthers, & Werner, (1999) found that firms who selected entry modes based on the Dunning's eclectic framework performed significantly better than firms using other models.

The first component, *ownership* advantage, relates to resources specific to the firm. The rationale behind ownership advantage is that firms must be in possession of context specific assets and skills that creates a competitive advantage, relative to other firms operating in the market (Dunning, 2000). Several scholars have developed models sought to explain and analyze the ownership advantages of firms. Among these Barney (1991) with the Resource Based View (RBV). The RBV is one of the leading perspectives within strategic management (Peng, Sun, Pinkham, & Chen, 2009 ; Peng, 2001), and is designed to identify and evaluate firm resources that create sustainable advantages (Barney J. , 1991). RBV is the most commonly used theory in entry mode research that focuses on firms capabilities (Canabal & White, 2008). Moreover, it is one of two perspectives, the other one being institution based view, that Peng & Meyer (2011) identifies as being critical for evaluating the succes and failure the internationalization of firms. RBV is identified as a dynamic model that view resources as the ability of firms to sustain and increase its value generating resources over time (Dunning, 2000). The RBV's dynamic foundation makes it useful for explaining international entry strategies, in particular entry mode and growth (Meyer, Wright, & Pruthi, 2009). The institutional environment in emerging markets changes frequently (Hoskisson, Eden, Lau, & Wright, 2000 ; Peng & Meyer, 2011), and so it becomes relevant to use a model who incorporates the ability and importance of developing and sustaining resources that create competitive advantage. As RBV is the most widely used theory analyzing firm resources as well as being a theory commonly used to analyze entry modes, Barneys (1991) RBV will be uses when analyzing the ownership advantages of Arla in North Africa. Additionally,

[2] TCE is the most widely used theory, and is included under *Internalization*

elements of organizational capability and internationalization will be used when identifying firm resources that provide value in foreign entries.

The second sub paradigm of OLI, *Location* advantage, focuses on factors specific to the market and refers to the question of *where* to internationalize the business (Dunning, 2000). Within market seeking objectives for internationalization, traditional location theories have focused on variables related to demand potential and risk in the country (Dunning, 2000 ; Agarwal & Ramaswami, 1992). When analyzing how location affects entry mode choice, the institution based view will serve as the main theory. As acknowledged by Peng, Sun, Pinkham, & Chen (2009) institutions set the rules of the game in a market, and as such has vital influense on the business environment and profitability of the market. Institution based view is according to Peng & Meyer (2011) on of two leading perspectives when analyzing succes and failure of firms around the globe. Institutions specify in what context and under what circumstances certain capabilities in certain industries add value. This is particularly important when analyzing emerging markets and non-traditional markets, because government and social influences are stronger in emerging markets than in developed economies (Peng, Wang, & Jiang, 2008 ; Hoskisson, Eden, Lau, & Wright, 2000). Institutions constitute formal and informal rules that affect individual- and firm behavior (Peng & Meyer, 2011). Formal institutions create rules determined by laws and regulations whereas informal institutions create rules based on norms, cultures and ethics.

Scolers have also emphasis the importance of culture on the choice of entry modes (Kogut & Singh, 1988; Brouthers & Brouthers, 2000). Kogut & Singh (1988) developed an index based on Hofstede's (1984) cultural dimensions who sought to explain entry mode choices of MNCs. Cultural distance theories has been criticised for being to simplistic, as culture is to complex a phenomenon to be captured in simple dimensions (Steenkamp, 2001). Hovewer studies by Drogendijk & Slangen (2006) has found that cultural dimensions, particularly those of Hofstede (1984) and Schwartz (1994), was reliable in determining the effect of cultural distanse on different entry modes. Several scholers have also confirmed the validity of cultural dimensions in measureing cultural differences (Van Oudenhoven, 2001; Søndergaard, 1994). Cultural distance is the third most commonly used construct in entry mode research (Canabal & White, 2008), and will be used as an element when analyzing the optimal entry mode for Arla in North Africa. Cultural distance is also an important variable as it is a measure of uncertainty, a concept central in TCE (Brouthers, 2002 ;Zhao, Luo, & Suh, 2004). Hofstedet's cultural dimensions will be used to evaluate the cultural distance between Arla's host country and the selected country of entry in North Africa.

The third component of the eclectic paradigm, *Internalization*, is designed to evaluate alternative ways of entering and operating in the chosen location (Dunning, 2000). The rationale behind internalization is that internal and external factors influence how firms are best organized in an international market, whether it is within the multinational firm or through markets transactions (Peng & Meyer, 2011). It deals with control and degree of ownership, and is strongly related to the perspective of TCE, with focus on *external uncertainty*, *bounded rationality* and *opportunism* (Agarwal & Ramaswami, 1992; Madhok, 1997). A firm is said to have internalization advantage when activities are better organized within the multinational firm, rather than using market transaction (Peng & Meyer, 2011). Transaction Cost Economics (TCE) has been the most widely used theory to explain entry modes over the past years (Canabal & White, 2008; Brouthers & Hennart, 2007). TCE analyze the firm-environment interface through a contractual or exchange based approach (Hoskisson, Eden, Lau, & Wright, 2000). The rationale behind TCE is that firms are best served choosing an entry mode that minimizes costs and inefficiencies related to entering and operating in a foreign market (Peng & Meyer, 2011). Important factors within TCE are agency theory and the assumption of *rational* and *opportunistic* behavior (Hoskisson, Eden, Lau, & Wright, 2000). However, scholars have criticized TCE for only focusing on costs and efficiency, and not including the overall value enhancement potential in the market entry (Brouthers K. D., 2002). As TCE is primarily used for developed markets with a strong institutional environment, it has also been criticized for not being capable for understanding enterprise strategies in emerging economies, as less is known about transactions and government structures in these markets (Hoskisson, Eden, Lau, & Wright, 2000). Scholars have suggested that the explanatory power of TCE would be improved by including perspectives of resources, institutions and culture (North, 1991; Kogut & Singh, 1988; Brouthers, 2002). Accordingly, *How* Arla ought to enter North Africa is determined by influences from TCE, RBV, Institution Based View and Cultural Distance, opposed to OLI who merely determine *internalization* on the basis of TCE.

Table 1 illustrates key differences of TCE and RBV in regards of entry mode strategi.

Table 1: Different perspectives of TCE and RBV on entry strategy

Resource Based View	Transaction Cost Economics
Ownership are the optimal entry due to superior capabilities	Market transaction are the optimal entry due to scale economics
Multiple entries, each building on capabilities and learning from previous entry experience	One time entries
Resource exploitation and development	Resource exploitation
Value maximization	Cost minimization

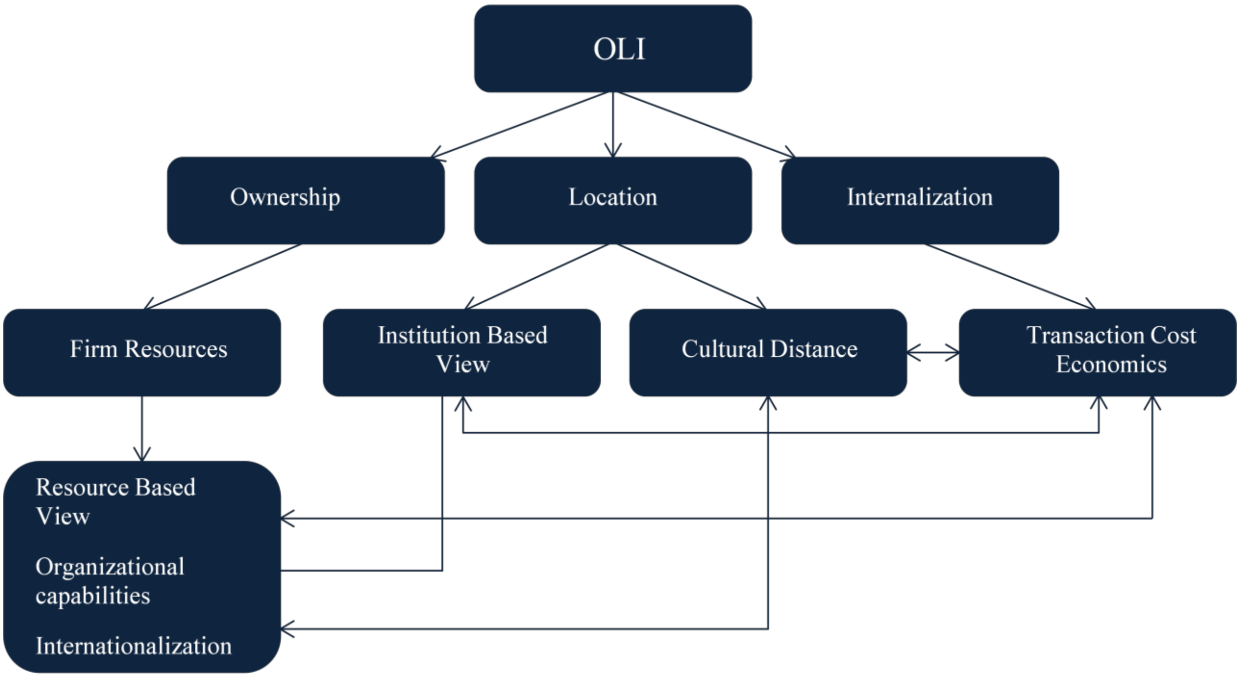
Source: Peng M. W.(2001); Madhok (1997); Meyer, Wright, & Pruthi (2009)

Both TCE and RBV have been criticized for not paying enough attention to the context (Peng, Sun, Pinkham, & Chen, 2009; Oliver, 1997; Delios & Beamish, 1999). Accordingly, including institution based view and cultural distance provides a valuable extension to entry mode research in that it includes location specific conditions. Additionally, institution based view and cultural distance affect TCE and RBV in that it changes the relative costs of entry modes, and the relative importance of firm resources.

Where strategic- and economic frameworks views individual- and firm behavior as results of rational and economic reasoning, the institutional theorists look beyond economic optimization and views behavior as a result of social justification and social obligation (Oliver, 1997). These perspectives supplement each other well, as neither of these perspectives is seen to be optimal on their own. Combining these perspectives provide a more realistic and comprehensive analysis and reasoning for Arla's entry into North Africa is achieved.

Consequently, the framework for analyzing Arla's entry strategy in North Africa is composed of internal- and external factors, as illustrated in Figure 1. Opposed to Dunning, who analyzes a firm's specific entry mode on the basis of TCE, i.e. internalization, Arla's entry mode are analyzed on the bases of all four theories, why the figure illustrates a link between TCE, and the other theories.

Figure 1: Framework for Analyzing Arla Foods entry strategy



Source: Own contribution, inspired by Dunning (2000)

1.3. DATA COLLECTION

The thesis is written on the basis of primary and secondary data. Primary data is gathered from interview with Arla's Head of Business Development, Rasmus Calmann-Hinke. The interview was conducted 30th of August 2012. The validity of this information is high. However, there is risk that the information is somewhat biased from the overall strategic direction of Arla. Information provided through primary sources is supported by secondary data, including quantitative and qualitative data. Annual reports and articles from Arla's home page serve as supplementary input in describing Arla's strategic focus and available resources. Moreover articles from respected business journals and books related to the internationalization process of firms have also been taken into account in this research.
Data on the external environment, i.e. North Africa, is gathered from CBS's databases, mainly Euromonitor and Business Source Complete. Lack of available and reliable data can pose problems when analyzing emerging markets (Hoskisson, Eden, Lau, & Wright, 2000 ; Arnold & Quelch, 1998). Governmental data sources is rapidly outdated because of the fast pace of economic growth and frequent policy changes (Hoskisson, Eden, Lau, & Wright, 2000). Further the data might be inconsistent owing to incompatible datacollection method (Hoskisson, Eden, Lau, & Wright, 2000). As of this the accuracy of public available or on-line data is to be questioned and carefully reviewed.

1.4. DELIMITATIONS

Foreign entry strategies require several strategic considerations, among them location, timing, entry mode (Peng & Meyer, 2011). This paper will merely focus why, where and how to enter. Timing of foreign entry largely focuses on first- and late-mover advantages (Peng & Meyer, 2011). As several MNC are already established in North Africa, first-mover advantages do not appear as an opportunity for Arla. Hence the question of when to enter does not appear to be relevant in the case of Arla in North Africa. Moreover, the paper will not constitute screening of potential partners/targets.

1.5. RESEARCH STRUCTURE

Inspired by the eclectic paradigm, the framework designed to analyze what entry strategy Arla should pursue in North Africa is presented in Figure 2.

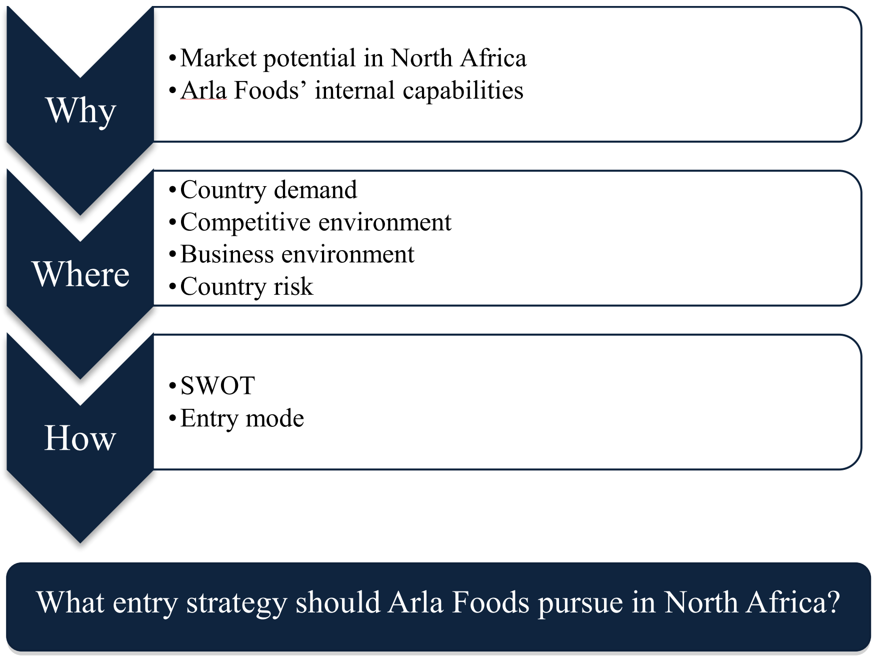
The paper will start with an introduction of Arla, where focus is on understanding Arla's strategic focus, market coverage and motives for future development. The section will prove as a baseline when determining the ownership advantage of Arla, both when evaluating *why* to enter North Africa, and more specifically when deciding on *how* to enter the chosen country. Following the introduction of Arla, the paper is structured around 3 overall sections, which each will contribute to clarifying the research question.

The first part of the paper serves to address *why* Arla ought to consider entering North Africa. Through an analysis of market demand, and Arla's ownership advantages in relation to global expansion, the section will evaluate if there exist strategic fit and reasoning for expanding to North Africa. Hence, this section will determine if there is overall configuration between Arla and North Africa, and the objective for expanding to North Africa.

After determining the objective for entering North Africa, the following section will evaluate *Where* Arla ought to enter. Through analysis of country demand, competitive environment, business environment and country risk the relative attractiveness of the different markets are assessed, making it possible to determine what country makes up the greatest potential for Arla.

The last section will determine *how* Arla ought to enter the selected county of entry. This section will be introduced by a SWOT analysis that will serve as the baseline when determining the entry mode of Arla. Through an assessment of the perspectives of Transaction Cost Economics, Resource Based View, Institution Based View and Cultural Distance on entry mode selection, the optimal entry strategy for Arla are determined.

Figure 2: Paper structure



Source: Own production

2. ARLA FOODS – CORPORATE OVERVIEW

Arla is a co-operative owned by 7.778[3] farmers in Denmark, Sweden and Germany (A brief presentation, 2011). The company was formed in 2000 following the merger of Swedish Arla and Danish MD Foods a.m.b.a., a merger that created Europe's leading dairy products company (Arla Foods amba, 2012). Germany was included in the co-operation in 2011 following the merger of Arla and the German company Hansa-Milch (Annual report, 2011).

With more than 60% of its revenues coming from countries outside the home markets of Denmark, Sweden and Germany, Arla has created a broad international presence (Annual report 2011). Arla is the 8th biggest dairy company in the world[4] (Voorbergen, 2011) and with production facilities in 14 countries and sales offices in 20 additional countries, Arla deliver products to more than 100 countries (Kort om Arla, 2012). Arla's production- and sales offices are illustrated in appendix 1. The company operates in the US, Europe, Asia and Middle East, and core markets are Great Britain, Denmark, Germany, Sweden, Finland and the Netherlands (Annual Report, 2011).

2.1. PRODUCTS AND INNOVATION

Arla's products are divided into five categories, fresh dairy products, cheese, butter and spreads, milk powder and ingredients[5] (Annual report, 2011). Global dairy products are mainly whole milk powder, skim milk powder, butter and cheese (Annual report, 2011). They distribute their products through 3 global brands, Arla, Castello and Lurpack (Annual report, 2011). Arla focus on being "closer to nature", by producing high-quality products that have less sugar and additives, and few artificial flavors (Sustainability, 2012).

Arla has strong product innovation capabilities. These competences are perceived to be one of the reasons Arla have become a leading company in the dairy industry (Arla Foods amba, Company Profile, 2011). Arla has innovation centers in Denmark Sweden, England and Finland, where they constantly work on optimizing and developing new products, concepts and manufacturing methods (Forskning og innovation, 2012). Arla have for instance launched many products within its lactose-free and organic ranges, and in 2010 they launched Arla Yoggi free, a range of yoghurts with no artificial flavors or additives (Arla Foods amba, Company Profile, 2011). Strong product innovation capabilities enable Arla to constantly develop and improve their product line, and adjust their product portfolio to consumer trends.

[3] 7.178 in Denmark and Sweden, and approximately 600 in Germany
[4] Based upon dairy sales in 2010 and M&A transactions completed between 1 January and 15 June 2010
[5] Milk protein powder and advanced food ingredients

2.2. FINANCIALS

Table 2 shows Arla's financial highlights from the period 2007 – 2011. It aims to give an indication of the company's financial health.

Table 2: Arla Foods amba financial data, 2007-2011

	2007	2008	2009	2010	2011
Net revenues, DKK m.	47,742	49,469	46,230	49,030	54,893
Total assets, DKK m.	30,725	29,280	30,094	30,097	34,903
Solvency ratio (Asset based), %	26.99	27.12	27.94	28.89	27.21
ROE using P/L before tax, %	14.00	7.42	14.27	16.25	14.66
Profit margin, %	2.43	1.19	2.60	2.88	2.54
Current ratio	1.10	1.23	1.13	1.09	1.14

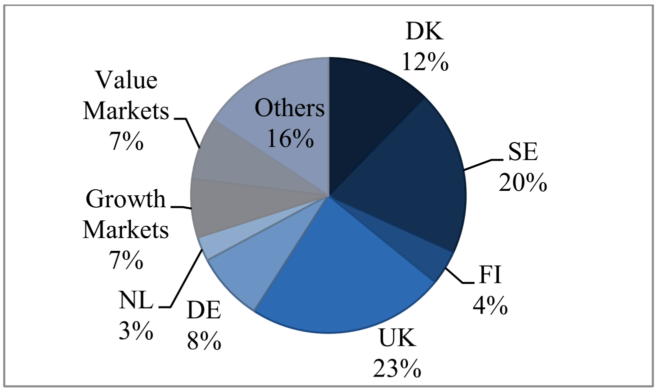
Source: Arla Foods amba (2012), Annual report (2011)

Arla delivered strong financial results in 2011, with net revenues of approximately 55 bn. DKK. This is an increase of 15 % since 2007. Except from 2008, Arla has had a relatively solid ROE around 15 %. This indicates that Arla themselves generate enough capital to support acquisitions in new markets. Moreover, in 2010 Arla's owner agreed on an increased consolidation, which has made it possible for Arla to attract capital on the public market, and borrow on favorable terms (Annual Report, 2011). This is an important step for Arla to be able to support its acquisition strategy. The markets faith in Arla was shown in 2011, where Arla issued bonds to a value of 1.5 billion SEK on the Luxembourg Stock Exchange. This proves Arla's ability to both generate cash from both operations and financing activities.

2.2.1. REVENUES BY MARKETS AND PRODUCTS

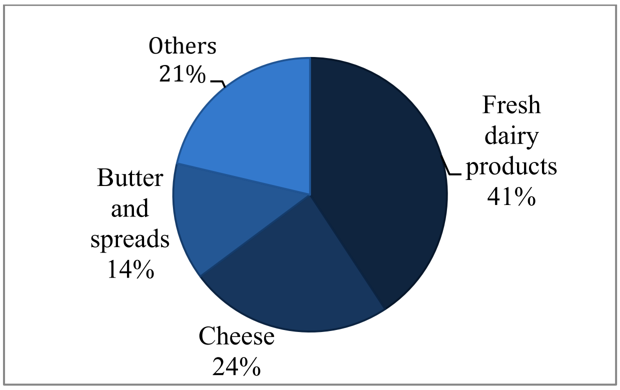
Arla is a diversified company in terms of product offerings and geography, which is illustrated in Figure 3 and Figure 4. This means they are not dependent upon any particular product or geography in generating their revenues. This enables Arla to take advantage of numerous market opportunities, while avoiding overexposure to any specific market. However approximately 70 % of the revenues are generated in Arla's core markets, which all are located in Europe (Annual report, 2011). As of this, Arla's financial performance is exposed of the economic climate in Europe. Arla's revenues declined with 6,5 % in 2009, the year the financial crisis hit, mainly due to the reason that consumers choose to buy discount products in years of poor economy and unstable prospects (Annual Report, 2009). Dairy products are price sensitive consumer goods (Annual Report, 2011), and so Arla's future earnings on their core markets are exposed of the economic development in Europe. Arla has estimated that the high consumption in Europe will prevail, but future growth will mainly come from developing markets, especially China, Russia and the MENA region (Annual Report, 2011).

Figure 3: Revenues by market, 2011



Source: Annual report 2011

Figure 4: Revenues by product, 2011



Source: Annual report 2011

2.3. VISION AND STRATEGY 2015

Arla's vision is *"to be the leading dairy company in Europe through considerable value creation and active market leadership to obtain the highest possible milk price for our owners"* (Annual Report, 2011).
Globalization has created a highly competitive dairy market, and the success of dairy companies depends to a great extent on their ability to reduce the costs of production (Annual Report, 2011). For this reason players need to be large to succeed, and the industry has developed to consist of fewer and larger players (Annual Report, 2011). To secure their position on the global market Arla has created ambiguous growth targets (Annual Report, 2011). Through its "Strategy 2015" Arla has outlined clear targets and strategies that are to be meet by the year 2015. These goals will enable them to stay ahead in a dynamic business environment as well as maintain a clear focus on its vision (Annual Report, 2011). Arla focus its business around five key goals, which can be read about in appendix 2.

2.4. GROWTH AND INTERNATIONALIZATION

As clarified in Arla's strategy 2015, Arla has a strong focus on growth. Since the merger of MD Foods and Arla in 2000 the company's revenues has increased with 44 % percent[6] (Annual Report, 2001/02; Annual Report, 2011). Appendix 3 illustrates Arla's growth activities from 2000 and until today. The timeline shows that Arla has pursued an "acquisition strategy", with strong focus on growth through mergers, acquisitions

[6] From the first full accounting year, 2000/01, until accounting year 2011.

and joint ventures since its birth in 2000. Appendix 3 shows that Arla has focused on developing their position in core markets, as well as exploring opportunities in other markets.

Out of the activities pursued in other markets than Arla's core markets, all but 3 have been a joint venture (JV). Arla states that they seek to combine the best of local with the best of global (Annual report, 2011). This is to a big extent supported by their actions. The timeline shows that Arla prefer to acquire or create JV with companies already embedded in the market, when entering countries outside their core markets. Both acquisitions and JV provide access to resources and knowledge held by the local firm (Meyer, Estrin, Bhaumik, & Peng, 2009), and so enable Arla to tap into local resources held by the partnering- or the acquired firm.

2.5. ORGANIZATIONAL STRUCTURE

Arla has an organizational structure that emphasis the different markets they operate in, a geographical organizational design (Lasserre, 2007), as shown in appendix 4. The different consumer departments each have responsibility for their own market(s), and cover production, logistics and market and retail sales (Annual Report, 2011). Country managers are responsible for strategic and operational activities, bringing decisions closer to the market and the consumers. However, Consumer International covers all but Arla's core markets (Annual Report, 2011), and so these countries do not receive sole attention of Arla. Accordingly, it will be difficult for Arla to tailor products and campaigns to local demand and local culture in Africa, and respond rapidly to changing local conditions.

Arla work continuously to improve internal progresses, and by the end of 2012 organizational changes will be implemented to ensure an efficient organization (Arla tilpasser organisationen globalt, 2012). 250 administrative positions will be closed down, and additionally 150 will be reorganized. The purpose of these interventions is to get a more structured and simplified work progresses, and so move from discussion to action faster. A more flexible organizational structure will provide Arla with a better competitive position on the international dairy market.

2.6. PREVIOUS EXPERIENCE IN MIDDLE EAST & AFRICA

In this section Arla's market coverage and business strategy in Middle East and Africa is presented. Understanding previous and current activities in this region provides a better basis for determining what strategy Arla should pursue further.

Arla's Middle East and Africa business is organized under one unit, MENA, with the regional office located in Dubai (Calmann-Hinke, 2012). The whole MENA business makes up 35 – 40 % of Consumer

International's entire business, far most of this being Middle East (Calmann-Hinke, 2012). The regional office covers regional sales, central marketing, finance and HR (Calmann-Hinke, 2012).

2.6.1. MARKET COVERAGE

Arla has sporadic market coverage in Africa in the form of export of milk powder through distributors (Calmann-Hinke, 2012). Nigeria is by far the largest market, with a turnover of approximately 400 m. DKK (Calmann-Hinke, 2012). Arla's total turnover in Africa is about 500 m. (Calmann-Hinke, 2012). Consequently Nigeria currently account for approximately 80 % of Arla's total turnover in Africa. In Nigeria Arla has established local repackaging of bulk milk powder as a way of easing distribution and achieve cost savings (Calmann-Hinke, 2012). Arla themselves own the local repackaging station, and uses a distributor to sell the repackaged products (Calmann-Hinke, 2012). In Nigeria sales are about to reach maximum of what the distributor can handle, and Arla are currently in the process of entering a majority JV with its distribution partner (Calmann-Hinke, 2012). Arla also export milk powder to Egypt and Libya through smaller distributors (Calmann-Hinke, 2012). Arla perceive Egypt to be an interesting market, and are considering further extending their business in this market, either through a new bigger distributor or through a JV (Calmann-Hinke, 2012).

Arla's presence and experience in Middle East is relevant as it lies close to North Africa, and culture and consumer tastes in North Africa will to an extent remind of that in Middle East (Calmann-Hinke, 2012). Arla's experience in Middle East is in this regard also relevant when determining how Arla should enter North Africa.

Arla is well established in Middle East, and has sold dairy products in this region since the 1970's (Online Annual Report, 2010). They are among the top three players within all dairy categories, and have particularly had success with its Puck cream cheese (Calmann-Hinke, 2012). The Puck brand was launched in Middle East in 1983 and has developed to become one of the leading dairy brands in the region (Our Brands: Puck, 2012). The brand covers product types as cream cheese, canned sterilized cream, feta, whipping cream, milk powder, labeh and canned processed cheese (Our Brands: Puck, 2012). Arla has production facilities in Riyadh, Saudi Arabia, which supply dairy products to the entire region (Calmann-Hinke, 2012). Arla forecast that this production facility has enough capacity to also cover the Africa region (Calmann-Hinke, 2012). Accordingly, Arla's motives for entering North Africa are downstream activities, i.e. distribution, marketing etc.

2.6.2. BUSINESS STRATEGY

Consumer International covers the Africa region, where the lead strategy is to secure strong development in MENA, China and Russia (Annual Report, 2011). Arla has ambitious growth targets for 2015 and growth in MENA is an important part of this strategy (Calmann-Hinke, 2012). As Arla already have a big market presence in Middle East, growth in Africa is their main focus (Calmann-Hinke, 2012). As such, growth in Africa is not only a core focus of Consumer International, but is also a central part of Arla's corporate strategy (Calmann-Hinke, 2012). Arla's turnover in Africa is approximately 500 m. DKK in 2012, and Consumer International's goal is to triple this number within 2015 (Calmann-Hinke, 2012).

In the African region the main focus is on sales of Milk Power (Calmann-Hinke, 2012). Arla intend to develop a brand name through its milk powder, and increase product presence once they have developed a good position with its milk powder (Calmann-Hinke, 2012). With a strong growth strategy for Africa, Arla are currently in the process of finding new markets where they can distribute its milk powder (Calmann-Hinke, 2012). Repacking of bulk milk powder combined with local distribution partner is practiced in Nigeria, and Arla plans to use this "low cost low risk" market entry in other African countries as well.

3. WHY SHOULD ARLA FOODS ENTER NORTH AFRICA?

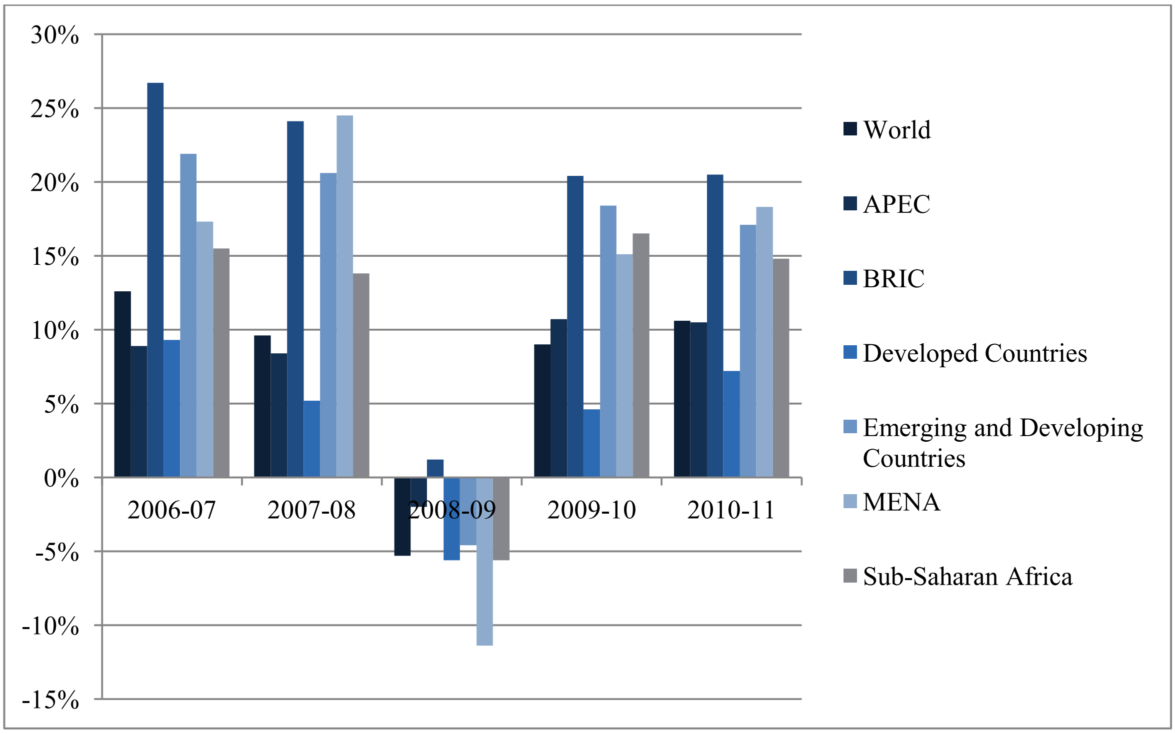
This section will through an analysis of external and internal factors determine whether or not there is overall configuration between the North African market and Arla that speaks in favor of Arla entering into North Africa.

3.1. EXTERNAL FACTORS – THE MARKET

This section seeks to disclose the opportunities that exist in North Africa, and determine the potential demand in the area. Because data on North Africa in some cases appear under Middle East and North Africa (MENA) and in other cases appear under Africa, this section covers both.

Application of selected macroeconomic and demographic data can provide a broad assessment to the overall market demand (Arnold & Quelch, 1998). The GDP in Africa is still low compared to the rest of the world (Countries and Consumers Annual Data, 2012), but comparing GDP growth figures with other major world regions will give a rough estimate of the anticipated size of the market (Lasserre, 2007; Arnold and Quelch, 1998). Although macroeconomic indicators should not be considered separately, they provide a good substitution to the lack of data in an emerging markets' context (Lasserre, 2007; Arnold & Quelch, 1998). By supplementing the analysis with demographic data, as the size and growth of the population and the degree of urbanization, a more broad understanding and assessment of the market is obtained (Arnold & Quelch, 1998).

Figure 5: Total GDP growth rates for major regions, 2006-2011



Source: Euromonitor International

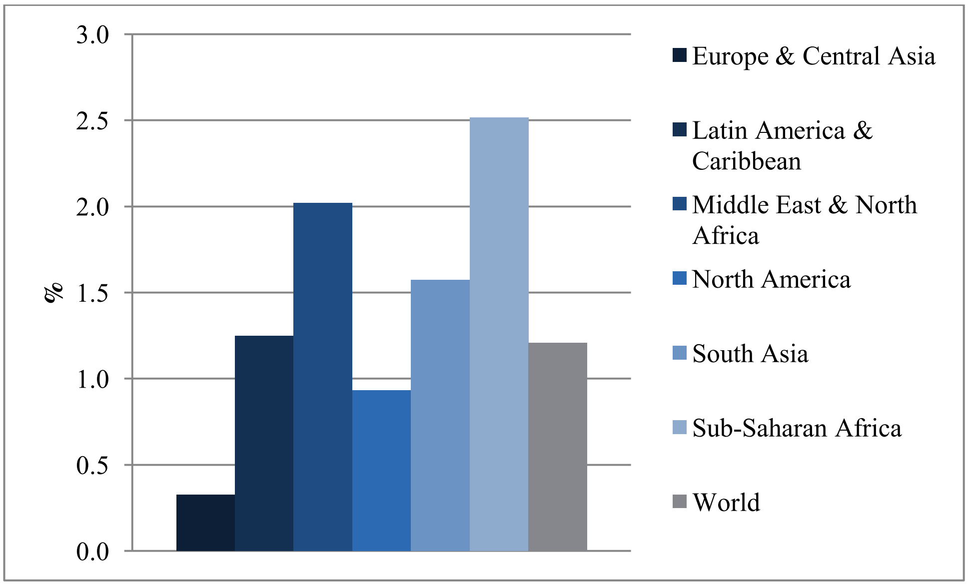
Figure 5 illustrates GDP growth rates for major regions in the world. Here it is shown that the MENA region has one of the highest GDP growth rates in the world, with GDP growth rate lying between 15 % and 24 % in the measured period, despite in year 08/09 where the region experienced negative growth rate. The CGG[7] countries in Middle East mainly drove the negative growth rate in 2008-09, as these countries were hardest hit by the crisis (MENA Recovers from Crisis, but Slowly , 2010). Economic recovery is on the way in the MENA region, but is still below the historical level and the potential in the region (MENA Recovers from Crisis, but Slowly , 2010). By 2010-11 the MENA region has the second highest GDP growth rate in the world, with the BRIC countries being the only countries with higher GDP growth rates. Economic growth is often perceived to result in increased demand for premium import goods, which indicates the attractiveness of the market.

Population size and growth rates are important factors to include when predicting future demand as growth is expected to increase demand for food products. The MENA region has nearly 5 % of the world's population,

[7] Saudi-Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates and Oman

and had an annual growth rate of 1.9 % in 2011 (The World Bank, 2012). As Figure 6 illustrate, Africa and Middle East has the world's highest growth rates.

Figure 6: Average population growth rates in major world regions, 2000 – 2011



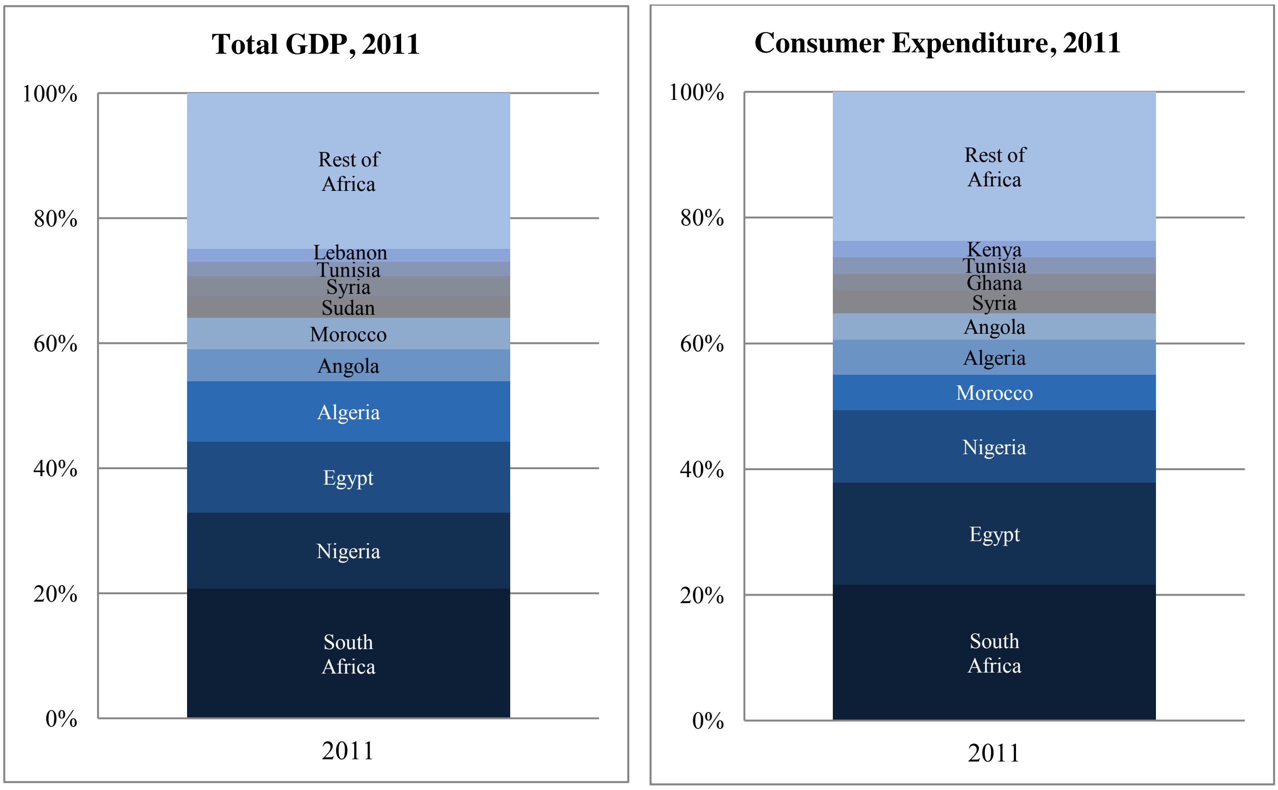
Source: The World Bank

Urbanization is important for development of consumer markets, as it creates demand for goods and infrastructure (Mapping Global Urbanisation: Urban Consumers Dominate, 2011). It is a strong driver for high value products, and as such is a good measure in evaluating the demand opportunity in a market. According to studies undertaken by Euromonitor International, Africa is experiencing the fastest growth rate of urbanization in the world. It is estimated that by 2020 several countries in North Africa will have an urbanization rate of 70 – 90 % (Mapping Global Urbanisation: Urban Consumers Dominate, 2011). This is the same level as many developed economies (Mapping Global Urbanisation: Urban Consumers Dominate, 2011). A higher degree of urbanization in Africa will create a demand for products that are convenient and create timesaving, due to the faster pace of city livings following urbanization (Mapping Global Urbanisation: Urban Consumers Dominate, 2011).

Both GDP and population trend facts help create a profile of the relative scale of the demand opportunity in the market (Arnold & Quelch, 1998). As is illustrated in Figure 5 and Figure 6, population- and GDP growth rates in Middle East and Africa are among the highest in the world. This gives an indication that the demand for consumer goods in the region is raising. Furthermore, Africa remains one of the most underdeveloped regions for packaged food and beverages (Newly emerging health and wellness markets: Algeria, 2012). This combined with growing wealth and income indicates that there are opportunities for Arla to explore in this region.

According to Euromonitor International, 10 countries in Africa account for 75 % of Africa's entire GDP, as illustrated in Figure 7 (Countries and Consumers Annual Data, 2012). Out of the total 8 North African countries, 5 are among the top 10 contributors of both GDP and consumer spending in Africa. These 5 are Egypt, Algeria, Morocco, Sudan and Tunisia. This indicates that North Africa might be an attractive region for Arla, as there are several attractive countries within the region, enabling Arla to exploit opportunities in neighboring countries in the longer run.

Figure 7: Top 10 countries within GDP and consumer spending in Africa in 2011



Notes: GDP for 54 countries (Data unavailable for Saint Helena, Mayotte, Réunion, Western Sahara and Central African Republic); Consumer Expenditure for 49 countries (Data unavailable for Saint Helena, Mayotte, Réunion, Western Sahara, Sudan, Somalia, Liberia, Lebanon, Eritrea and Equitorial Guinea)

Source: Euromonitor International

The most substantial middle class on the African continent is found in North Africa, and here the middle class is forecasted to grow considerable over the next decade (Africa's strong potential for growth and investment, 2010). By 2020 over 60 % of the Algerian, Tunisian, Moroccan and Egyptian households are estimated to have an annual disposable income over US$ 10.000 (Africa's strong potential for growth and investment, 2010). This is above Chinas level of 51.5 % (Africa's strong potential for growth and investment, 2010). A rising middle class indicates increasing consumer spending.

The fact that North Africa possesses some of the countries with the highest GDP and the highest consumer spending in Africa, illustrate that there are market seeking opportunities in the region. This supports that looking into investment opportunities in the region is a good idea. Deeper analysis will determine if Egypt, Morocco, Algeria or Tunisia provides the best opportunities for Arla. Although Sudan is listed as the 7th biggest contributor of GDP in Africa, lack of available data on the country makes it difficult to evaluate the possibilities that exist in Sudan. Due to this Sudan will not be included in the analysis.

3.2. INTERNAL FACTORS – ARLA FOODS

This section examine of Arla's internal factors consisting of *previous experience*, *internal capabilities* and *strategic objectives*.

3.2.1. PREVIOUS EXPERIENCE

A company's past experience is driven by what the resource-based view determines as path dependency. This implies that future strategic direction is based on and determined by a combination of choices made in the past (Meyer, Wright and Pruthi 2009, Hoskisson et al 2000).

International expansion and growth is a learning process (Anand & Delios, 1997). Firms operating in diverse national settings with a diverse product portfolio have developed a broad knowledge base, and hence capabilities, than come useful when expanding abroad (Barkema & Vermulen, 1998). The reason for this is that firms operating in diverse settings are exposed of a variety of events and so develop both managerial and technological capabilities to cope with different circumstances (Barkema & Vermulen, 1998). According to the organizational learning perspective and internationalization process (Vernon, 1979; Johanson & Vahlne, 1977), companies can utilize their accumulated knowledge of one country towards entry into similar markets.

Arla has a broad international exposure with international markets accounting for 60 % of Arla's total revenues in 2011. Outside Europe, Arla is present in Middle East, North- and South America as well as Asia and the pacific, as shown in appendix 1. Recent years Arla has strengthened its focus on emerging markets, particularly China and Russia, with a stronger equity type of investments (Arla to make big investment in China, 2012; New agreement paves the way for cheese production in Russia, 2012; Calmann-Hinke, 2012). Arla's strong focus on Russia and China can be seen as strong market seeking investments, due to among other reasons, the large population size and growth opportunities that are in these type of countries. A continuation of this market seeking, but also knowledge seeking investment is likely to make Arla more geared to work in an emerging market context. The reason for this is that more knowledge is gained in markets where non-traditional market conditions rule. As Arla recently has positioned them self "closer" to the market with stronger commitment, they tap into the market faster and acquire specific market knowledge.

Additionally, diversifying into new markets help Arla reduce its reliance on European markets, which currently account for approximately 70 % of Arla's total revenues. The high concentration on the European market can have a dampening effect on Arla's revenues if the economy or Arla's sales in Europe does not grow as expected. Further, dairy on the European markets are in most cases matured (Annual report, 2011). As such the high concentration in Europe can potentially hamper Arla's overall profitability and hence the milk price paid to their owners. Moreover, Arla's vision is to obtain the highest possible milk price for their owner, and currently there are other cooperative dairy companies that perform better than Arla in this sense (Calmann-Hinke, 2012). One of the reasons for this is perceived to be that Arla is too exposed of the European market. As of this Arla will benefit from increasing its reliance on markets outside Europe who will provide stronger growth opportunities in the future.

Furthermore, Middle East is an extraordinary case for Arla, being one of Arla's key markets outside Europe. The Middle East division faced several challenges regarding sales of Arla's products following Jyllands-Posten's Muhammad cartoons controversy in 2005. Muslims in Middle East and Africa boycotted Arla branded products, resulting lost sales and revenues. The challenges in the Middle East have provided Arla with knowledge on how to react on consumer responses fundamentally different from what they are familiar with from home markets. Additionally, external exposes like the case of melamine contamination into the raw milk of Arla's joint venture partner in China, underlines the need to adjust for sudden risks and exposures in foreign business activities when planning investments and partnerships into regions with different institutional environment. These experiences are likely to provided Arla with knowledge on how to conduct business in non-traditional markets, and on how to quickly respond to problems in order to remain in business.

3.2.2. CAPABILITIES

Arla's product portfolio originally target developed markets in their home markets, but has throughout the years moved to also target consumers in emerging markets. Arla has over the years developed a diversified product portfolio, which means that Arla can meet a wide ranging demand for processed dairy products within its current portfolio. Studies by Tallman & Li (1996) showed that a diversified product portfolio has a positive effect on MNCs performance, indicating that Arla's diverse product portfolio serves as a benefit for them in an internationalization process. Additionally, Arla's strong innovation capabilities enable them to develop and adjust their current product portfolio to different consumer tastes and trends.

Through its years of experience in Middle East, Arla has developed strong knowledge about taste preferences in the region (Calmann-Hinke, 2012). With its brands, Puch and Dano, they have developed a product portfolio that aims directly at the demand in the Middle East region. Arla can to a large extent rely on its product portfolio developed for Middle East in North Africa (Calmann-Hinke, 2012). Furthermore, Arla's experiences with milk powder in Nigeria, where they have developed a system that lower costs and ease distribution, is also capable in North Africa and thus represent capabilities they can exploit in an entry in North Africa.

Arla's current activities in Africa are covered by consumer international's MENA office in Dubai. Lack of focus on the African market makes it difficult for Arla to react to changing local conditions and capture opportunities as they arise. Being close to the market is also important in regards of developing knowledge about market conditions and consumer trends, in order to develop location specific capabilities. As of this Arla's current organizational setup provide challenges in regards of an entry into North Africa.

3.2.3. STRATEGIC OBJECTIVE

Arla has a high growth strategy, with a goal of achieving revenues of 75 billion DKK in 2015. Expansion and rapid growth in those markets identified as *growth markets* is part of the plan to achieve the goal of revenues of 75 billion in 2015 (Strategi på markeder, 2012). From this it is understood that Arla's objective for expanding to the growth markets is market development, i.e. penetrate and develop the market to capture a market share. Market development objectives fit with those countries offering size and growth opportunities (Lasserre, 2007), and as the North African market posses high growth countries with a lower consumption of dairy products than the European market, there appears to be a fit between Arla's objectives for expanding to new markets and the market potential in North Africa.
Moreover, as Arla has estimated that their production facilities in Saudi Arabia has enough capacity to cover the African market, Arla are perceived to only be interested in pursuing downstream activities in North Africa.

3.3. DETERMINING *WHY* TO ENTER

The assessment of the North African market has shown that the region is no longer limited to being a struggling market with low market potential. A rising economy is creating substantial changes in the market, with a growing middle class and increased urbanization. This creates a growing demand for processed and value added dairy products. Further, there is great potential in the form of a large population that is growing at a high rate, creating a big consumer market. However, market potential in North Africa is conditional. Arla can make use of its many years of experience from operations in different markets. Arla has developed its international exposure, and have business activities in several world regions. This demonstrates that Arla manage to develop its business, despite international competition, to encompass new markets. Particularly Arla's establishment in more uncertain economies, such as China and Russia, has provided Arla with useful capabilities related to operations in non-traditional markets. Arla can leverage these experiences in an entry into North Africa. Additionally, a diversified product portfolio combined with strong innovative capabilities enables Arla to meet diverse and non-traditional demands.

This section has clarified that there is overall configuration between Arla and North Africa, and that Arla's objective for entering North Africa is market seeking investment, downstream investment.

4. WHERE IN NORTH AFRICA SHOULD ARLA ENTER?

This section seeks to assess the country attractiveness of Algeria, Egypt, Morocco and Tunisia, and determine what country makes up the most benefit for Arla. Country attractiveness will be determined in relative terms, comparing the four countries against each other. The attractiveness of a market can be characterized in terms of its *market potential*, i.e. market growth, and the *investment risk*, i.e. economic, legal, political and institutional context (Agarwal & Ramaswami, 1992; Lasserre, 2007).

Market demand, covering economic- and demographic variables and dairy consumption, serves to address the potential value of the markets. As Arla's objective for entering Egypt is market seeking investments, the size and growth potential are prime attractors (Peng & Meyer, 2011). Further, an assessment of the competitive environment helps to uncover the conditions that more explicitly affect the scope, trends and outlook of business potential (Lasserre, 2007), and as a result influence Arla's entry mode.

Moreover, institutions determine the business environment and set the rules of the game in a society for the company to follow and adjust to and should be seen as an independent variable when formulating a strategy (Hoskisson et al. 2000; Peng et. al. 2009). Institutions supplement the mainstream strategy research that often overlooks legal and political factors (Peng, Sun, Pinkham, & Chen, 2009). Such factors play a vital role when deciding how, and if, to enter emerging markets, and so represent an influencing variable in the formulation of Arla's entry and commitment to North Africa.

Country risk is taken into account to consider the risk of operating in the country, with a focus on political- and economic risk. The intention is to evaluate circumstances that can negatively affect business performance.

As such, analysis of the countries in question will be structured around *Market Demand*, *Business Environment, Competitive Environment* and *Country Risk*.

4.1. MARKET DEMAND

This section seeks to determine the potential demand in the countries through assessment of different macroeconomic and demographic data, which provide a broad assessment to the overall market demand (Lasserre, 2007; Arnold & Quelch, 1998). GDP growth figures give a rough estimate of the anticipated size of the market, while GPD per capita indicates the consumption level of a given population. Using GDP PPP one takes into account the differences in prices and cost of living, and as such get a better impression of the purchasing power in each country. These macroeconomic indicators will be supplemented with analysis of the size and growth of the population, the degree of urbanization and dairy consumption patterns to get a more extensive understanding and assessment of the market.

4.1.1. MACROECONOMIC- AND DEMOGRAPHIC ENVIRONMENT

Table 3: Economic- and demographical macro indicators

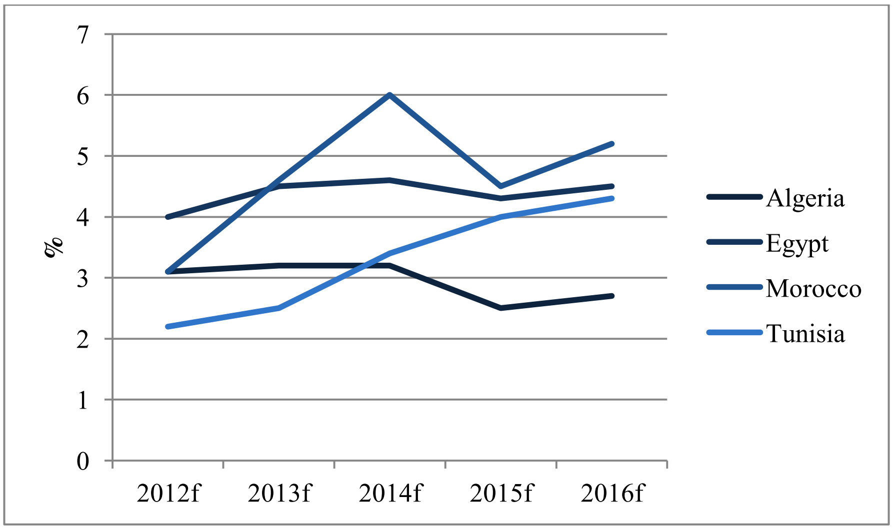
	Algeria	Egypt	Morocco	Tunisia
2011				
GDP PPP pr. Captia, int. $	7,333	6,242	4,963	10,418
Real GDP growth, %	2.5	1.8	4.3	-2.2
Annual disposable income pr. Capita	1,719	2,317	2,132.3	3,141
Population size, m.	36.0	80.3	32.3	10.5
Population growth, %	1.4	1.7	1.0	1.0
Population density, persons pr. Sq. Meter	15.1	80.7	73.4	67.4
Degree of urbanization	67%	43%	58%	68%
Growth since 2006				
GDP PPP pr. Captia, int. $	17%	24%	27%	20%
Annual disposable income pr. capita	23%	13%	31%	14%
Population size, m.	8%	10%	5%	5%
Degree of urbanization, percent point	3	0	2	2

Source: Euromonitor International, countries and consumers annual data, d. 09.07.2012

As Table 3 illustrate, Egypt strengthen it selves over the other three countries by its significantly higher population size. With 80 million residents, Egypt is more than twice the size of the second largest country, Algeria. Egypt also has the highest population growth with a yearly growth of 1.7% in 2011 and a 10 % growth from 2006. A large population provides a large consumer base, and creates opportunities for economies of scale. Further, a high population growth will create an increasing demand for foods. Egypt also has the highest population density with 80 persons per square meter. The market potential regarding population density lies in the fact that a concentrated population can ease the distribution process.

Looking at GDP PPP and disposable income indicates that the population in Tunisia currently has the highest consumption level. Morocco is currently having the lowest GDP PPP pr. Capita, but is in return experiencing a significantly higher GDP growth in 2011. Table 3 also show that Morocco has shown the highest growth in GDP PPP and disposable income in the period 2006-11, and as such indicate that Morocco's economic situation are improving and consumer expenditure are likely to increase in the future. Tunisia experienced a negative GDP growth rate in 2011, as a result of the economic crisis and the revolution that hit Tunisia in 2011 (Tunisia Overview, 2012). According to forecasts provided by D&B, which is illustrated in Figure 8, Tunisia's GDP growth will return to its usual level, and a growth rate of 4.3 % is forecasted for 2016. Algeria's GDP growth is forecasted to decline, ending at a growth rate of 2.7 % in 2016. This is below the forecasted world GDP growth of 3 % (D&B Economic Forecast 5 yr, 2012).

Figure 8: Real GDP growth %, forecast 2012-2016



Source: D&B Economic Indicators 5yr Forecast, ISI Emerging Markets

Table 4 illustrates the development in income segments from 2006 until 2011 based upon the countries' population. It is shown that the number of individuals in the low-income section is decreasing, while middle- and upper class is growing rapidly. A rising middleclass provides opportunities and growth in the consumer goods market, and the growth is forecasted to continue over the next decade (Africa's strong potential for growth and investment, 2010). According to research by Euromonitor International, over 65 % of Moroccan, Algerian, Egyptian and Tunisian households are forecasted to have an annual disposable income over

US$10.000 by 2020. Particularly Egypt has shown a positive development from 2006-11, with the biggest decrease in the lower segments and the highest development in the middle- and high-income segments.

Table 4: Development in income segments, 2006-2011, Population distribution

	Algeria	Egypt	Morocco	Tunisia
US$0-1,000	-38%	-62%	-32%	-17%
US$1,001-2,500	-10%	-29%	-15%	-11%
US$2,501-5,000	92%	113%	31%	7%
US$5,001-10,000	274%	574%	114%	39%
US$10,001-20,000	86%	228%	162%	87%
US$20,001-40,000	87%	158%	64%	70%
US$40,001+	87%	158%	63%	45%

Source: Consumers and countries annual data, Euromonitor International

It should be noted that the entire population are not included in the population distribution. One of the reasons for this is that children under 15 are not included in the distribution (Countries and Consumers Annual Data, 2012). As of this the income distribution does not provide a 100 % accurate picture of the income segmentation in the analyzed countries. It does however give an indication of the income distribution of the different countries.

Middle- and higher income consumers tend to be more concerned with health and wellness, are less price sensitive and have a higher purchasing power (Euromonitor International). Arla's products are quality products and their main target is middle- and high-income consumer (Annual report, 2011). Appendix 5 compare the four countries' population distributed after income groups in 2011. Tunisia has a higher share of the population within the middle- to high-income segment than the other countries. However, due to Egypt's population size they posses far more consumers in the middle- and high-income segment.

Tunisia and Algeria has the highest degree of urbanization, 68 % and 67 % respectively. According to Euromonitor International Algeria and Tunisia will continue to have the strongest degree of urbanization in Africa in 2020, with forecasts saying the degree of urbanization will be between 70-90 % (Mapping Global Urbanisation: Urban Consumers Dominate, 2011). In comparison, Morocco is forecasted to have 50-70 % urbanization and Egypt 30-50% urbanization in 2020 (Mapping Global Urbanisation: Urban Consumers Dominate, 2011). Urbanization creates demand for goods, services and infrastructure, and is an important measure in determining the development of modern consumer markets.

According to the economic- and demographic macroeconomic indicators, Egypt together with Tunisia appears as the countries with the highest market demand. Tunisia has the highest GDP PPP per capita and the biggest share of middle- and high income consumers, but is small compared to the other countries. The significantly larger population size provides Egypt with the biggest middle- and upper class consumer market, despite having a weaker GDP PPP per capita and income distribution.

4.1.2. DAIRY CONSUMPTION

This section will take a closer look at the consumption pattern of dairy in each country. It addresses the consumption of *drinking milk products*, *cheese*, *yoghurt and sour milk drinks* and *other dairy*. Lastly, the four countries will be compared against each other, on the basis of dairy consumption, forecasted growth rates and distribution channels.

4.1.2.1 ALGERIA

Growing consumer sophistication is creating an increasing demand for foreign products, but Algerians still have modest incomes and are price sensitive consumers (Consumer Lifestyles - Algeria, 2010). Consumers are increasingly paying attention to ingredients and the nutritional value of what they eat, and the demand for low fat products is rising (Consumer Lifestyles - Algeria, 2010).

Fresh semi-skimmed milk is substituted by the Algerian Government, and controlled and sold by ONIL. They accounts for more than 90 % of the total milk volume, due to its lower price, DZD25 pr. Liter (Drinking Milk products in Algeria, 2012). Fresh milk tends to be of poor quality, sometimes kept in unsuitable conditions and even sold out of date, and as a result most consumers prefer UHT milk (Drinking Milk products in Algeria, 2012). Long-life / UHT milk is a more expensive alternative to fresh milk, and those consumer who can afford buying UHT milk rarely choose fresh milk (Drinking Milk products in Algeria, 2012).

Cheese has usually been imported to Algeria, and as few could afford it cheese have been perceived to be a premium product (Cheese in Algeria, 2012). Recent year’s domestic production has increased in scale and quality, and as such consumption of cheese has seen a growth (Cheese in Algeria, 2012). Spreadable processed cheese is the most consumed cheese in Algeria. The majority of hard cheeses is imported, and remains too expensive for most Algerians (Cheese in Algeria, 2012).

Continuous product development and product ranges for lower income consumers have created a strong consumer demand for yoghurt and sour milk drinks in Algeria (Yoghurt and sour milk drinks in Algeria, 2012). Spoonable yoghurt remains the most popular type, as it has been present in the country a long time and has a low unit price (Yoghurt and Sour Milk Drinks in Algeria, 2012).

Other dairy comprises products as crème, fromage frais, quark, chilled dairy based dessert etc. Other Dairy remains small, but has experienced a 20 % value growth in 2011 (Other dairy in Algeria, 2012). The main reason for this growth is significant increase in unit prices as well as increasing use of cream in cooking and the introduction of chilled dairy desserts (Other dairy in Algeria, 2012). Other dairy is a category mainly purchased by the middle- and upper class due to the higher price (Other dairy in Algeria, 2012).

4.1.2.2. EGYPT

The main trend within the food sector in Egypt is currently a switch from unpackaged- to packaged products (Drinking Milk Products in Egypt, 2012). The productivity and profitability in the Egyptian dairy industry is low, and opportunities existing from teaching farmers new agriculture practices (Drinking Milk Products in Egypt, 2012). Danone Egypt together with NGO Care International has already taken advantage of the opportunity, and has started a project to improve milk production processes in smaller farms called Dan Farms (Drinking Milk Products in Egypt, 2012).

Unpackaged milk sold by independent dairy shops and milkmen prevents the sales of packaged milk in Egypt (Drinking Milk Products in Egypt, 2012). Independent milkmen travel the streets and sell milk as they go, at least 1.5 times cheaper than the packaged alternative (Newly Emerging Health and Wellness Markets: Egypt, 2010). This trade is badly regulated and many operate without license, selling products of poor quality, and The Ministry of industry is working to solve the problem (Drinking Milk Products in Egypt, 2012). More awareness of health is forecasted to increase consumption of packaged drinking milk, as this is perceived to be more hygienic (Drinking Milk Products in Egypt, 2012). In Egypt 94 % of the sales of milk were Long-life/UHT Milk, and 81 % of the milk retail value sales in 2010 were from milk products for children (Drinking Milk Products in Egypt, 2012). Egyptian mothers are very concerned about meeting the nutritional need for their children, and dairy products with a child targeted health and wellness focus are well received in the market (Newly Emerging Health and Wellness markets: Egypt, 2010).

Cheese is the largest category in the dairy market in Egypt, accounting for 38.8 % of the markets total value (Dairy in Egypt, 2012). Sales of cheese grew by 20 % in 2011, mainly due to strong population growth combined with a traditional high consumption of cheese (Cheese in Egypt, 2012). Cheese is an important part of the Egyptian diet, and most Egyptians eat cheese with at least one meal a day (Cheese in Egypt, 2012). Unprocessed soft cheese is the most popular cheese type in Egypt, and account for 56 % of the total tons cheese sold in 2011 (Cheese in Egypt, 2012). Other international cheeses are gaining growing popularity due to more sophisticated consumer tastes (Cheese in Egypt, 2012).

Advertising campaigns focusing on the nutritional benefits of yoghurt as a healthy snack has boosted the sales of yoghurt, particularly in the middle- and higher income segment (Yoghurt and sour milk drinks in Egypt, 2012). Spoonable plain yoghurt is the most popular product, forecasted to account for 78 % of all yoghurt consumption in 2011 (Yoghurt and Sour Milk Drinks in Egypt, 2012).

Chilled dairy-based desserts has gained popularity in Egypt, largely because chilled dairy-based desserts are time consuming to prepare, and with an increasing number of women joining the workforce, prepared food have become more popular (Other dairy in Egypt, 2012). Other dairy products, as Fromage Frais and Quark, remain underdeveloped in Egypt (Other dairy in Egypt, 2012).

4.1.2.3. MOROCCO

The growing wealth in Morocco has developed a stronger consumer market, where expenditure on food and non- alcoholic beverages particularly has shown growth (Consumer Lifestyles - Morocco, 2011). Consumer expenditure on food is estimated to continue growing, with the overall spending on food projected to increase by 64.5 % in real terms (Consumer Lifestyles - Morocco, 2011). Of this growth 92 % is projected to come from increased spending on milk, cheese and egg (Consumer Lifestyles - Morocco, 2011). The main reasons for growing demand for dairy products in Morocco are more sophisticated consumer tastes, recovery of the Moroccan economy leading to higher disposable income as well as growing awareness of health and wellness (Consumer Lifestyles - Morocco, 2011). Sales in Morocco are most often determined by the lowest price offer, as opposed to the quality of the food (Packaged Food in Morocco, 2012). However, economic development combined with more sophisticated consumer tastes has increased the demand for more expensive quality dairy products (Consumer Lifestyles - Morocco, 2011).

Sales of drinking milk increased in 2011, mainly due to higher disposable income which has led Moroccans to substitute the traditional mint tea with milk based coffee or juice (Drinking Milk Products in Morocco, 2012). Consumption of drinking milk is mainly driven by demand from children (Drinking milk products in Morocco, 2012). Moroccans prefer fresh milk, as they perceive this to be a healthier choice, due to the more natural consumption of the ingredients (Drinking milk products in Morocco, 2012). Premium brand names remain insignificant due to the number of available affordable alternatives (Drinking milk products in Morocco, 2012).

Cheese receives growing awareness in Morocco, and particularly the younger generation has opened their eyes for cheese. A growing popularity for western dishes such as pizza, pasta and cheesecake, where cheese is a commonly used ingredient, stimulates the cheese consumption in Morocco (Cheese in Morocco, 2012). Spreadable processed cheese, such as cream cheese, is the most popular cheese type in Morocco accounting for 52 % of the total tons cheese sold in 2011 (Cheese in Morocco, 2012). Spreadable processed cheese has become a popular product for breakfast, as parents are familiar with the nutritional benefits of cheese for their children (Cheese in Morocco, 2012). The product has gained a larger market share at the expense of jam and butter (Cheese in Morocco, 2012). Given the recovering economy as well as growing sophistication of the consumers, it is estimated that consumers will purchase more premium unprocessed cheese (Cheese in Morocco, 2012).

The awareness of yoghurt has increased the past years, mainly due to aggressive new product launches (Yoghurt and sour milk drinks in Morocco, 2012). Yoghurt has developed to become a popular alternative to breakfast and snack in-between meals, and the demand for yoghurt is expected to grow in the future years (Yoghurt and sour milk drinks in Morocco, 2012).

Consumers are moving from consuming traditional yoghurt to products such as flavored fromage frais and quark (Other dairy in Morocco, 2012). Chilled based dairy desserts are seen as an easy snack for children, and is perceived as healthier than other snacks (Other dairy in Morocco, 2012). Sales of cream and sour cream remains limited in Morocco, due to low consumer awareness of these products. The demand is mainly from expatriates and upper-income customers with knowledge of western cuisine (Other dairy in Morocco, 2012).

4.1.2.4. TUNISIA

Political unrest in Tunisia has affected distribution of food, as many roads were insecure and unstable (Drinking Milk Products in Tunisia, 2011). Furthermore, closure of many companies, rising unemployment and increase in price on many packaged food products, has reduced the demand for non-essential products, as cheese, yoghurt and other dairy (Cheese- Yoghurt and Sour Milk Drinks- and Other Dairy in Tunisia, 2011). As of this, future growth is estimated to be lower than it has been the previous years (Cheese- Yoghurt and Sour Milk Drinks- and Other Dairy in Tunisia, 2011). Awareness of health and wellness is increasing also in Tunisia.

Drinking Milk Products has reached maturity in Tunisia, and volume- and value growth has remained stable in 2011 (Drinking Milk Products in Tunisia, 2011). Milk prices are fixed by the government to ensure a steady consumption of milk (Drinking Milk Products in Tunisia, 2011). Standard and economy brands are most popular within drinking milk (Drinking Milk Products in Tunisia, 2011). Consumption of fresh milk is higher than UHT milk, and UHT milk targets mainly upper-income consumers with a higher health and wellness awareness (Drinking Milk Products in Tunisia, 2011).

Cheese experienced a value growth of 5 % in 2011, mainly due to growing demand for spreadable processed cheese (Cheese in Tunisia, 2011). Higher competition has forced companies to perform more promotional campaigns and offer lower prices within the cheese category (Cheese in Tunisia, 2011).

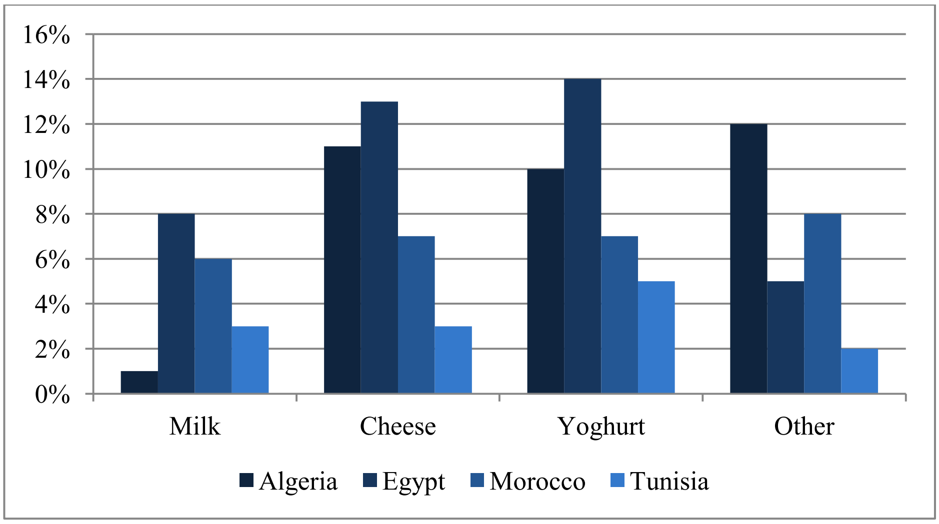
Yoghurt and Sour Milk Drinks experienced a 7 % value growth in 2011, largely due to growth in consumption of regular drinking yoghurt (Yoghurt and sour milk drinks in Tunisia, 2011). Regular drinking yoghurt is strongly related to the Tunisian culture of yoghurt consumption, and is affordable compared to other yoghurt products (Yoghurt and Sour Milk Drinks in Tunisia, 2011). However, spoonable yoghurt remains the biggest category, accounting 78 % of the total sales of Yoghurt and Sour Milk Drinks. The main trend on the market is pre/pro biotic drinking- and spoonable yoghurt products (Yoghurt and Sour Milk Drinks in Tunisia, 2011).

Chilled Dairy Based desserts and *Fromage Frais and Quark* are the most popular products within Other Dairy, accounting for 55 % and 36 % respectively of the total sales of Other Dairy (Other dairy in Tunisia, 2011).

4.1.2.5. COMPARISON

Appendix 6 shows cheese-, milk- and yoghurt consumption per capita for the different countries. It appears that Egypt together with Tunisia has the highest consumption pr. capita of cheese, with a consumption of 1.7 kg per capita annually. This is a fairly low level compared to Denmark, where consumption per capita is 10.7 kg annually (Euromonitor International), so there is plenty of opportunity to grow. Egypt has a fairly low consumption of the other dairy products, particularly milk consumption is significantly low compared to the other countries. The reason for this might be the high share of unpackaged sold from unlicensed milkmen in Egypt. Algeria has significantly higher milk consumption, which might be a result of the lower milk prices on fresh milk due to government substitution. Algerian milk consumption is 86 liters per capita annually, compared to 72 liters annually in Denmark (Euromonitor International). As illustrated in Figure 9, Algerian milk consumption has reached maturity, with CARG forecasted to be 1 % in the period 2011-16. Tunisia has a generally high dairy consumption level, but Tunisia's drinking milk consumption is also reaching maturity (Drinking Milk in Tunisia, 2011), and futures growth rates are not forecasted to be very high, as shown in the figure below. Figure 9 shows that Egypt is forecasted to have the highest CAGR[8] growth rate in the period 2011-2016, followed by Algeria who has high forecasted growth rates in all categories despite milk.

Figure 9: Forecasted CAGR 2011-2016



Source: Euromonitor International

There is limited available data on import and export statistics, but appendix 7 illustrate dairy production deficit/surplus in million tons. This illustration shows that all four countries have a deficit in dairy production, with Algeria and Egypt having the highest deficit. This serves as an indication that demand exceeds supply in the countries.

Arla has stated that their main product focus in Africa will be milk powder (Calmann-Hinke, 2012). Accordingly, sales of milk powder will have an impact on the attractiveness of the countries. Table 5 illustrates sales of milk powder within the different countries. Algeria is in its own league, with almost five times the sale as Egypt, and a doubling of the sales volume since 2011.

Table 5: Sales of Powder milk, tones thousands

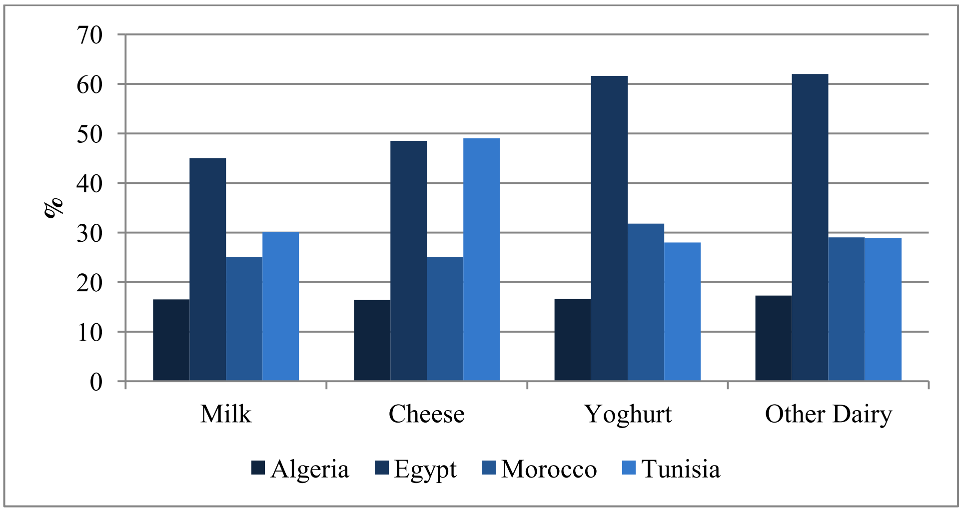
	2006	2007	2008	2009	2010	2011	Growth
Algeria	36	40	44.1	48	51.2	54.2	51%
Egypt	9.0	9.1	9.9	10.5	11.3	12.3	37%
Morocco	9.4	9.8	10.1	10.3	10.6	10.9	16%
Tunisia	-	-	-	-	-	-	0%

Source: Euromonitor International

[8] Compound Annual Growth Rate

Distribution and sales channels of dairy products is relevant in regard of the ease accessing potential consumers, as well as in regards of appropriate storage of dairy products to maintain quality. Modern supermarkets are assumed to be more developed, and are more likely to be in possession of cooling facilities for storage of dairy products. Figure 10 illustrate how many percent of dairy products are sold from modern supermarkets. Here it is shown that Egypt's grocery retail sector is far most developed.

Figure 10: % of dairy sales from Supermarkets, 2011



Source: Euromonitor International

Based on dairy consumption, Algeria and Egypt emerges as the most attractive countries. With its high consumption of dairy products pr. capita, high forecasted CARG and a high dairy production deficit, Algerians demand for dairy products appears to be strong and growing. However, the milk category appears to be matured in Algeria and with its milk powder Dano, the milk category is Arla's main target. Egypt is attractive due to its high consumption of cheese, high dairy growth rates, high dairy production deficit as well as being the only of the four with a developed retail sector where majority of the consumers shop in modern supermarkets.

4.2. BUSINESS ENVIRONMENT

This section serves to give an understanding of the countries business environment, through an analysis of the countries' economic- and institutional environment. As previously highlighted, institutions frame the environment and affect the business potential, and hence is important in determining the attractiveness of the countries. The World Bank's ease of doing business report is a well known parameter for measuring the countries institutional development towards creating better market conditions for doing business (Doing

Business, 2012). The global competitiveness report measures country competitiveness, and provides insights into the drivers of productivity and propensity (Competitiveness, 2012). These two measures will help evaluate the attractiveness of the business environment.

4.2.1. ALGERIA

Algeria has a weak business environment with an economy that is dominated by the public sector (Uncertainties affect business environment in North African countries of Algeria and Libya, 2010). Algeria is the world's 8th largest provider of natural gas, and as such generates the majority of the government revenues from oil and gas exports (Uncertainties affect business environment in North African countries of Algeria and Libya, 2010). Due to this, other areas of the economy are more neglected (Business Environment: Algeria, 2012).

Table 6: Business environment indicators in Algeria, 2006-2012

	2006	2007	2008	2009	2010	2011	2012	Description
Ease of doing business	125	125	130	134	136	143	148	Rank out of 183
Global competitiveness	-	76	80	99	83	86	87	Rank out of 142 in 2011
Corruption Index	3.1	3.0	3.2	2.8	2.9	2.9	-	Scale 0-10, 0 being most corrupt

Source: Doing Business (2012); Competitiveness (2012)

Algeria has poor business environment, rankings as number 87 out of 142 on the global competitiveness scale in 2011 (Schwab, 2011) and number 148 out of 183 in the World Banks Ease of doing business 2012 report. According to Table 6, both the institutional environment and the economy's competitiveness have become worse over the reviewed period. Appendix 8 shows that Algeria in particular has a poorly developed financial market and institutional environment, but has a relatively strong macroeconomic environment and market size. According to the global competitiveness report the five most problematic factors for doing business in Algeria is perceived to be access to financing, inefficient government bureaucracy, corruption, inadequately educated workforce, and tax rates (Schwab, 2011).

Algeria's economy has a nationalist approach and an institutional environment that provide restrictions on foreign investments (Business Environment: Algeria, 2012). Foreign investors cannot setup a business without a local partner holding the majority share of the company (Business Environment: Algeria, 2012). Further, to obtain the Algerian Government investment incentives foreign investors must commit to give Algerian goods and labor preferential treatment (Business Environment: Algeria, 2012). In 2010 there appeared new rules that give preferable treatments to local companies over foreign firms, such as prioritizing local companies in tender offers for government contracts (Uncertainties affect business environment in

North African countries of Algeria and Libya, 2010). Frequently and sudden changes in legislation and political factors create uncertainties in the economy and provide difficulties for foreign investors (Business Environment: Algeria, 2012).

Algeria has a poor trading environment, ranking as number 127 on the Ease of doing business topic ranking, as shown in appendix 9, significantly worse than Egypt, Morocco and Tunisia. It takes 17 days and costs US$1.248 per container to export, and 27 days and US$1318 per container to import (Ease of doing business, 2012). Algeria is a member of the Arab Free Trade Organization between 17 Arab countries, have five free trade zones within Algeria and have an Association Agreement with EU that sets up a framework for all areas, including trade (Business Environment: Algeria, 2012). Algeria is currently not a member of WTO, but in an effort to speed integration with the global economy, they are in negotiations to join (Business environment: Algeria, 2010). In the beginning of 2012 Algeria signed five bilateral trade agreements (World Bank).

4.2.2. EGYPT

Egypt's business environment has improved over the reviewed period, mainly due to implementation of wide ranging economic reforms and initiatives to improve the economic efficiency (Business Environment: Egypt, 2010). Privatization is the prime focus on the economic agenda, and this focus has created great improvement in competition and investment policies, as well as better infrastructure across all sectors (Business Environment: Egypt, 2010).

Table 7: Business environment indicators in Egypt, 2006 - 2012

	2006	2007	2008	2009	2010	2011	2012	Description
Ease of doing business	152	126	125	116	99	108	110	Rank out of 183
Global competitiveness	-	63	76	81	70	81	94	Rank out of 142 in 2012
Corruption Index	3.3	2.9	2.8	2.8	3.1	2.9	-	Scale 0-10, 0 being most corrupt

Source: World Bank and World Economic Forum

Appendix 8 shows that Egypt, as Algeria, is in the transition stage between factor driven and efficiency driven economy, scoring particularly low on labor market efficiency and its macroeconomic environment. Egypt's main strength is the large market size that creates a big consumer market. According to the global competitiveness report the five most problematic factors for doing business in Egypt is perceived to be policy instability, inadequately educated workforce, access to finance, inefficient government bureaucracy and restrictive labor regulations (Schwab, 2011).

Egypt's institutional environment has improved over the reviewed period, which is shown by the improvement in the ease of doing business ranking in Table 7. Details can be seen in appendix 9. In 2009 Egypt's starting a business rank went up 19 places to a 24th place, mainly due to a significant decrease in the costs related to starting a business (Business Environment: Egypt, 2010).

As noted in the World Economic forum's global competitiveness rank, one of the biggest hindrances of doing business in Egypt is a shortage of qualified labor as well as restrictions on hiring and firing of workers. The government is trying to tackle the issues through different initiatives, as for example making funds available for specialist training (Business Environment: Egypt, 2010).

Foreign investors are given protection and incentives through the Investments Incentives Law (Business Environment: Egypt, 2010). This law gives foreign investors the right to hold 100 % ownership of investment projects, the right to own land, guarantees the right to remit income earned in Egypt and to repatriate capital and profits, and gives guarantees against confiscation (Business Environment: Egypt, 2010).

In Egypt in takes 12 days and cost US$613 per container to export and 16 days and U$755 to import, giving them a rank of 64 in the topic ranking, as shown in appendix 9. Egypt is a signatory of the pan -African free trade area COMESA, founder member of the pan-Arab free Trade Area (PAFTA) and a member of the Agardi Agreement, a free trade zone with Morocco, Tunisia and Jordan (Business Environment: Egypt, 2010). Further, they have separate trade agreements with Jordan, Morocco, Turkey and Tunisia and have signed an association agreement with the European Union in 2001 (Business Environment: Egypt, 2010). The agreement with EU will eventually create a free trade area (Business Environment: Egypt, 2010).

4.2.3. MOROCCO

Government in Morocco has implemented reforms focusing on greater domestic investments as an initiative to improve the business environment (Business Environment: Morocco, 2010). Privatization and liberalization of the telecommunications, energy and transportation sectors have advanced productivity in the country and Morocco seeks to invest in key infrastructure projects to improve the country's competitiveness further (Business Environment: Morocco, 2010).

Table 8: Business environment indicators in Morocco, 2006 - 2012

	2006	2007	2008	2009	2010	2011	2012	Description
Ease of doing business	121	129	129	130	114	115	94	Rank out of 183 in 2012
Global competitiveness	-	69	64	73	72	75	73	Rank out of 142 in 2012
Corruption Index	3.2	3.5	3.5	3.3	3.4	3.4	-	Scale 0-10, 0 being most corrupt

Source: World Bank and World Economic Forum

Morocco's institutional environment has improved over the reviewed period, which is shown by the improvement in the ease of doing business ranking above. Morocco's global competitiveness is fairly good, ranking as number 73 out of 142 countries in 2011 (Schwab, 2011). Morocco is in the efficiency driven part of development, which means that the economy has well functioning public- and private institutions, a well developed infrastructure, stable macroeconomic environment and a healthy workforce (Schwab, 2011). Morocco scores particularly well on the macroeconomic environment and their market size, as shown by appendix 8. The five most problematic factors for doing business in Morocco is perceived to be access to financing, corruption, inadequate supply of infrastructure, inefficient government bureaucracy and tax rates (Schwab, 2011).

Tax rates were by the global competitiveness index names as one of the five most problematic factors for doing business in Morocco. The authorities in morocco are working on simplifying the domestic taxes, to improve the tax administration (Business Environment: Morocco, 2010). As shown in appendix 9 *paying taxes* moved up 36 places from 2011 until 2012. This indicates that the authorities' ongoing effects to improve the tax system works as intended, making it easier to administer tax in Morocco.

The 1995 Investment Charter Law covers legislation regarding foreign investments in Morocco (Business Environment: Morocco, 2010). Through this law investments in Morocco are liberalized, by opening most sectors in the economy. There is however still some restrictions in the agriculture sector regarding owing farmland (Business Environment: Morocco, 2010). Morocco has established 16 Regional Investment Centers, which serves as one-stop shops for foreign investors wanting to enter the Moroccan market, to enhance the business environment further (Business Environment: Morocco, 2010).

As is shown in appendix 9, Morocco ranks as number 43 in the topic rating *Trading across borders*. It takes 11 days and costs US$577 per container to export and 16 days and US$950 to import (Ease of doing business, 2012). Morocco is part of the Greater Arab Free Trade Agreement, and also has bilateral agreements with the UEA and Turkey (Business Environment: Morocco, 2010). Further, Morocco is a member of the Agadir accord and has free trade agreements with the USA and the European Union (Business Environment: Morocco, 2010).

4.2.4. TUNISIA

Tunisia has a diverse economy, competitive incentives and attractive labor. Additionally, spending on infrastructure has created increased productivity. Accordingly, Tunisia is appealing for foreign investors (Business Environment: Algeria, 2010).

Table 9: Business environment indicators in Tunisia, 2006-2012

	2006	2007	2008	2009	2010	2011	2012	Description
Ease of doing business	93	88	81	73	58	40	46	Rank out of 183 in 2012
Global competitiveness	-	30	32	35	40	32	40	Rank out of 142 in 2012
Corruption Index	4.6	4.2	4.4	4.2	4.3	3.8	-	Scale 0-10, 0 being most corrupt

Source: World Bank and World Economic Forum

According to the World Economic forum Tunisia is the most competitive country in Africa, ranked as number 40 out of 142 countries in 2011. It is an efficiency driven economy with strong macroeconomic environment, developed infrastructure and sound institutional environment, as shown in appendix 8. According to the Global competitiveness report, Tunisia's five most problematic factors for doing business are perceived to be inefficient government bureaucracy, access to financing, government instability/coups, policy instability and restrictive labor regulations.

Tunisia has dropped 6 ranks on the Ease of Doing Business Report 2011, to a 46th place. The main reason for this is that is has become more difficult to start a business in Tunisia. Starting a business in Tunisia is however still less time consuming and costly than the MENA region average (Ease of Doing Business, 2012).

Education is a high priority for the government, and Tunisia possesses a highly skilled workforce (Business Environment: Tunisia, 2010). High unemployment, that in particular has affected higher educated graduates, means that there exists available skilled Tunisian labor (Business Environment: Tunisia, 2010). As noted in the global competitiveness report, restrictive labor regulations are a hindrance for operating a business in Algeria. One company can only employ four expatriate workers, and the legal validity of their work permits after two years (Business Environment: Tunisia, 2010).

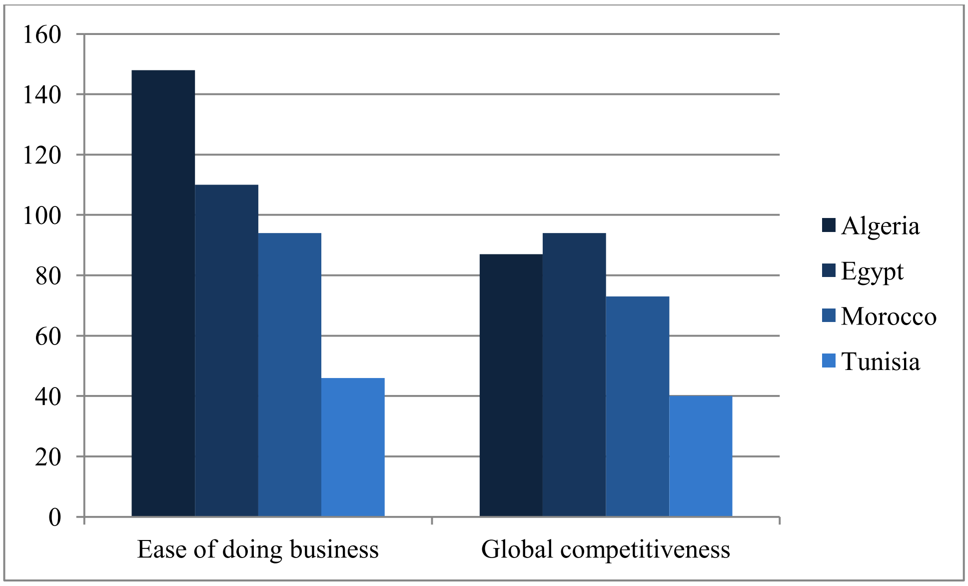
As shown in appendix 9, Tunisia's *paying taxes* rank of 64 is significantly better than Algeria, Morocco and Egypt. The government offers different taxation benefits to foreign investors, among them relief on reinvested revenues and profits, duty-free imports of capital goods with no local counterparts and full tax and duty exemptions on raw- and semi finished materials needed for business operations (Business Environment: Tunisia, 2010).

Through the amendment to the 1993 investment code, foreign investors receive significant benefits (Business Environment: Algeria, 2010). There are however still some obstacles for foreign investors. Foreign investors cannot own agriculture land, on-shore companies outside the tourism sector needs authorization from the government to hold a capital share of more than 49 %, and both foreign and domestic companies are facing inconsistent and burdensome bureaucratic procedures (Business Environment: Algeria, 2010).

Appendix 9 shows that Tunisia ranks as number 32 in the topic ranking *Trading Across Borders*. It takes 13 days and cost US$733 per container to export and 17 days and US$858 to import (Ease of doing business, 2012). Tunisia has a good trading relationship with both the EU and the Arab World (Business Environment: Algeria, 2010).

4.2.5. COMPARISON

Figure 11: Business environment indicators, Rank 2012



Source: World Bank and World Economic Forum

As Figure 11 show, Tunisia receives a far better rank than the other countries in both the *Ease of Doing Business rank* and the *Global Competitiveness ranking*. Tunisia has a better developed infrastructure, sound and stable macroeconomic environment, and a general business environment that opens for foreign investors. Tunisia's better trading environment also serves as a strength as it makes it easier for Arla to exploit opportunities in neighboring countries in the longer run. Egypt and Morocco is the only countries where foreign investors can hold 100 % ownership of investment projects.

4.3. COMPETITIVE ENVIRONMENT

An assessment of the competitive environment helps undercover conditions that affect the scope, trend and outlook of business potential in the countries.

4.3.1. ALGERIA

ONIL – National Inter Professional Office for Milk is the leader within the dairy industry in Algeria, holding a 31.5 % share in 2012 (Euromonitor International). ONIL's majority share comes from its strong position within the *Drinking Milk Products* category where they hold a 73.8 % share (Drinking Milk Products in Algeria, 2012). ONIL receives government substitutions, and as such are able to hold low prices (Drinking Milk Products in Algeria, 2012). This makes is different for other dairy companies to compete with ONIL on prices, and create higher competition. The other dairy categories are more fragmented and there is a strong competition between domestic and international brands (Yoghurt and Sour Milk Products- and Cheese in Algeria, 2012). Danone Groupe is the second largest company within the dairy industry in Algeria, holding a share of 11.5 % in 2012. They gain its large market share from a strong position within *Yoghurt and Sour Milk* Products and *Other Dairy* (Yoghurt and Sour Milk Products- and Other Dairy in Algeria, 2012). Due to price sensitive consumers most products are manufactured in Algeria to maintain a competitive price (Yoghurt and Sour Milk Products- and Other Dairy in Algeria, 2012). International companies can greatly influence consumer choices, as few domestic competitors can afford intensive marketing (Yoghurt and Sour Milk Products- and Other Dairy in Algeria, 2012).

4.3.2. EGYPT

The Egyptian dairy market is fairly fragmented and consists of both local and international players with strong positions (Dairy in Egypt, 2012). Domestic company Juhayna Food industry dominate the market with a 22.7 % market share, followed by Lactalis, Nestlé S.A. and Danone with a market share of 9.0 %, 7.5 % and 6.6 % respectively, as is illustrated in Appendix 10. Juhayna Food industry has increased its market share with 7.5 percent points over the reviewed period, and benefit from a longstanding presence in Egypt and strong customer loyalty (Drinking Milk Products- Yoghurt and Sour Milk Drinks- and Other Dairy in Egypt, 2012). Danone has experienced a 2.1 percent point growth since 2007, as shown in appendix 10. Its rising sales is a result of intensive advertising, as well as having a wide product portfolio, targeting different consumer segments (Yoghurt and Sour Milk Drinks in Egypt, 2012).

As was illustrated in appendix 6, cheese is a large category in Egypt. Whereas a few strong players dominate the other categories, the cheese category is more fragmented. French Lactalis group and Dutch Royal Friesland Foods, has the majority shares in the Cheese category, holding a share of 15.4 % and 9.9 % respectively (Cheese in Egypt, 2012). Foreign players has the strongest position in the cheese market as they have continued to invest in packaged varieties, are selling increasingly more in modern groceries and offer a wider variety of cheeses (Cheese in Egypt, 2012).

Appendix 10 shows that Arla appears as the 22th biggest company with a market share of 0.3 % in 2012 from the sales of its milk powder Dano, a reduction of 0.6 percent point since 2007.

4.3.3. MOROCCO

Domestic players dominate the dairy market in Morocco, with Omnium Nord Africain, Cooperative COPAG and Centrale Laitiére Maroc Lait holding a value share of 23 %, 16.4 % and 14.4 % respectively, as illustrated in appendix 10. These companies benefit from high local knowledge and strong consumer awareness. Appendix 10 illustrate that over the reviewed period domestic companies have strengthen their position on the Moroccan dairy market, whereas foreign MNC's has lost market shares.

Omnium Nord Africain has a longstanding presence in Morocco and has developed strong brand names (Packaged Food in Morocco, 2012). Centrale Laitiére Maroc Lait benefit from holding a portfolio of well known brands, regular product innovation, strong distribution network as well as being the only company advertising its products on TV (Drinking milk-, Yoghurt and sour milk drinks-, cheese- and other dairy in Morocco, 2012). They also have a wide product rang with products in different price levels and as such meet the demand of all income levels (Drinking milk in Morocco, 2012). Bel Group is the largest multinational company in Morocco, with a value share of 10.5 %, as illustrated in appendix 10. The company benefits from a strong brand name and broad presence in all cheese categories, and they have gained increased sales through considerable spending on mass media advertising (Cheese in Morocco, 2012).

The categories of milk powder and soy beverages are the only products that are dominated by multinational players (Drinking milk products in Morocco, 2012).

4.3.4. TUNISIA

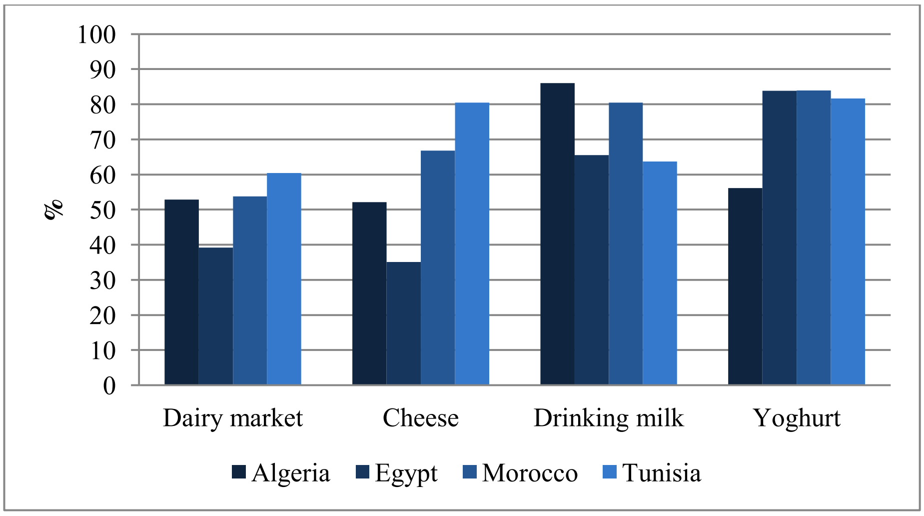
Danone Group dominates the dairy market in Tunisia, with a 40.4 % market share in 2012. As appendix 10 illustrate, Danone has strengthened its position on the market since 2007, with a 5.8 percent point increase in the market share. Domestic brands and locally producing multinational brands are generally recording a stronger performance than the international brands, as they are able to offer quality products at a low price

(Drinking Milk Products-, Cheese- Yoghurt and Sour Milk Drinks- and Other Dairy in Tunisia, 2011). Several domestic companies hold a strong position in Tunisia, and benefit from high local knowledge. Also, the availability of locally produced products in key distribution channels, namely independent small grocers, is a key factor for their success (Cheese in Tunisia, 2011). Additionally, increased competition in the market has created a high advertising intensity, one of the reasons for the lower forecasted CARG rates (Drinking Milk Products-, Cheese- Yoghurt and Sour Milk Drinks- and Other Dairy in Tunisia, 2011)

4.3.5. COMPARISON

The world's leading international dairy companies, such as Nestlé, Danone and Lactalis, has already gained foothold in all four countries. Additionally, local companies are strengthening their market position, presenting competition as they benefit from high local knowledge and consumer awareness. Algeria proves to have a particularly difficult competitive environment. With government substituted company ONIL accounting for 73.8 % of *drinking milk*, as they are able to hold lower milk prices, other companies face a hard time competing against ONIL. Additionally, a business environment with a nationalist approach makes it even more difficult for foreign companies. Market concentration is a quantitative measure of the degree of competition in the industry, which allows for direct comparison of the competitive environment.

Figure 12: Market concentration, top three players based upon market share, 2012



Note: Market share for *Other Dairy* are not available

Source: Euromonitor International

Market concentration makes it more difficult for companies to enter the market and create leading positions, as the top players control a large market share (Publications, Emerging Markets, 2011). Figure 12 illustrate the market concentration of the four analyzed countries, separated in dairy market and the main dairy categories. Egypt has the most fragmented competitive setup, with the top three players holding a total share of 39.2 %. As Arla’s global products are milk powder and cheese the competitive setup within these categories appear most relevant. Concentration within these two categories supports that Egypt is the most attractive country based on the competitive environment, when evaluating it based on market concentration. Market concentration as a measure of competitiveness is optimal in markets with homogenous products, where companies compete on the exact same product. However, the dairy industry is not constituted of completely homogenous products. Arla diversifies themselves over the other multinational companies with having more natural products (Calmann-Hinke, 2012)[9]. Accordingly, Arla have resources that enable them to overcome competitiveness form concentrated markets. This is proved by Arla’s previous market entries, where they have capture market shares despite being faced with concentrated markets[10]. Arla has developed its international exposure the past years, demonstrating that Arla manage to develop its business, despite international competition.

4.4. CONTRY RISK

Country risk is taken into account to consider the risk of operating in the countries, with a focus on political- and economic risk. The intention is to evaluate circumstances that can negatively affect business performance. Due to the recent wave of democratization that hit the MENA region in 2011 there has been political tension in the entire area. Political risk is a relevant measure in the sense that high political risk reflects a higher possibility for change in the regime. Governmental change can possibly affect the formal institutional environment determining the rules of the game in the country, which might create problems, among others, in relation to repatriation of earning (Agarwal & Ramaswami, 1992). As of this a short description of the political risk in each country will be provided to shed light on the situation of the countries following the Arab Spring. Riots and tension in the countries is not seen to affect the consumption of dairy products directly, but can however affect distribution as traveling becomes dangerous. This was recently seen in Tunisia where political instability affected distribution as roads was insecure and unstable. Economic risk

Risk analyses provided by different rating companies will be used to provide an impression of the country risk in the different countries. Arla must adhere to certain ethical guidelines and corporate social responsibility (Calmann-Hinke, 2012). As of this, both political risk and country risk has certain relevance when evaluating country attractiveness for Arla.

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[9] Accounted for in section 5.1.6. BENCHMARKING

[10] Arla has among others increased its presence on the Chinese market, who has had a market concentration above 50 % the past few years

4.4.1. POLITICAL RISK IN ALGERIA

Algeria was largely exempt from the social unrest that resulted from the Arab Spring (Algeria Overview, 2012). Longstanding political frustration created small demonstrations, but Algerians experience with the civil war in the 1990s and examples from violence in countries as Libya and Syria has reduced the interest for political change in fare of tension (Arieff, 2012). Also, security forces were used to prevent and break up those demonstrations that arose (Arieff, 2012). In the newly held parliament election the ruling party won almost half of the seats and the Islamist party, who has become strong in other Arab states, performed poorly (Algeria Avoids the Arab Spring, 2012). In the election only 43 % of the population participated, indicating that a great part of the Algerian population has mistrust in the political process in Algeria (Algeria Avoids the Arab Spring, 2012). This mistrust is particularly strong among the younger generation (Algeria Avoids the Arab Spring, 2012). Business Monitor International has ranked Algeria as number 12 out of 19 countries in the MENA region on the short term political stability ranking, and as number 10 on the long term political stability ranking.

4.4.2. POLITICAL RISK IN EGYPT

Egypt is currently managing a political transition following the revolution in the start of 2011 (Egypt Overview, 2012). An eight day revolution over lack of economic opportunities and political inclusion resulted in the resignation of President Hosni Mubarak in February 2011 (Egypt Overview, 2012). The Muslim Brotherhood’s Freedom and the Justice Party won the majority in the parliament election and following debates have been civil and free of violence (Egypt Overview, 2012). According to research done by Business Monitor International, the shift from authoritarian rule to democracy will be a lengthy and complicated process. There is no certainty that the result will be a fully consolidated representative regime going forward. There are tension between the current military government and the Islamist groups that currently hold a majority of seats in the new parliament (Egypt Business Forecast Report, 2012). There are also domestic opposition to the government’s relationship with Israel and the US, and more recently there have appeared oppositions towards new economic reforms (Egypt Business Forecast Report, 2012). Due to several challenges and threats towards creating stability in Egypt, Business Monitor International has ranked Egypt as number 10 out of 19 countries in the MENA region on the short term political stability ranking, and as number 14 on the long term political stability ranking.

4.4.3. POLITICAL RISK IN MOROCCO

The revolutions for democratization that hit the MENA region in 2011 also covered Morocco, but it turned out to be a peaceful revolution (Morocco Overview, 2012). In February 2011 protests emerged, calling for political change, reduction of corruption and a more inclusive development process (Morocco Overview, 2012). King Mohamed VI answered with a proposal for broad and comprehensive political reforms that were supported by the population (Morocco Overview, 2012). The King remains popular in Morocco, and the success of recent reforms indicates that Moroccans are more inclined to seek evolution within the system (Morocco Overview, 2012). The election of an Islamist opposition party is a sign of a desire for change, and future protests might appear. The regime will most likely respond to the protest with new political reforms, and as such the rule of King Mohamed VI is forecasted to maintain stable in the reviewed period 2012-2016 (Country Report. Morocco, 2012). Business Monitor International has ranked Morocco as number 7 out of 19 countries in the MENA region on the short term political stability ranking, and as number 4 on the long term political stability ranking.

4.4.4. POLITICAL RISK IN TUNISIA

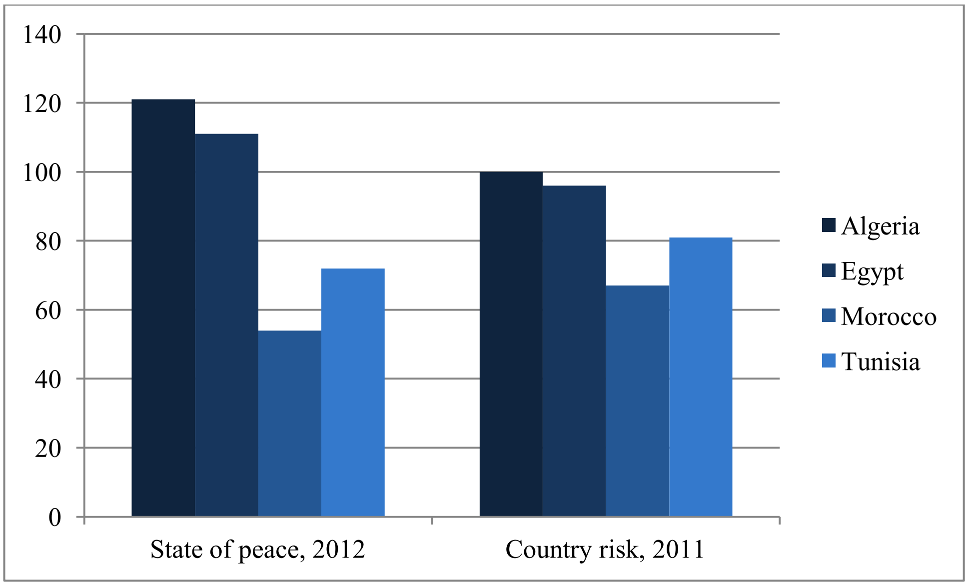
The Tunisian revolution launched the Arab Spring, and resulted in the end of the 23-year rule of Zine-el-Abidine Ben Ali (Tunisia Overview, 2012). The country's first democratic election resulted in majority for the Constituent Assembly and a human rights advocate, Moncef Marzouki, were elected president (Tunisia Overview, 2012). The new authorities have tried to maintain Tunisia's pro-business policies and openness towards foreign investments (Tunisia: Country Report - Recent Analysis, 2012). Still, the new political landscape and fragile post-revolution environment will reduce business activity and discourage investments among local- and foreign investors (Tunisia: Country Report - Recent Analysis, 2012). Tunisian government faces difficulties in regards of addressing the underlying causes of the revolution - economic deprivation, rising costs of living and high unemployment (Tunisia: Country Report - Recent Analysis, 2012). Particularly the high unemployment is creating riots, and unless the government addresses these challenges shortly there are risks of another wave of social unrest (Tunisia: Country Report - Recent Analysis, 2012). Business Monitor has ranked Tunisia as number 10 out of 19 countries in the MENA region on the short term political stability ranking, together with Egypt. Tunisia's political risk is forecasted to improve in the long run, and Tunisia is ranked as number 9 in the long-term political risk ranking (Egypt Business Forecast Report, 2012).

4.4.5. COUNTRY RISK

Figure 13 illustrates that Morocco and Tunisia appears as the countries with lowest country risk and Algeria shows to be the country with highest country risk. Euromoney's country risk rating is based upon political risk, economic performance and projections, structural assessment and debt indicators, credit ratings and access to bank finance (Euromoney International). Their rankings are shown in Figure 13 and here Morocco appears as the country with the lowest country risk, ranking as number 67 out of 186 countries included in the analysis.

By looking at different risk measures of the four countries it appears that Morocco is the country with lowest country risk and Egypt together with Algeria are the countries with highest country risk.

Figure 13: Country risk indicators



Note: State of peace = Rank out of 158, Country risk = Rank out of 186

Source: Transparency International, Vision of Humanity and Euromoney

4.5. SELECTING *WHERE* TO ENTER

The purpose of this section was to identify which country has the most potential for Arla.

Algeria's potential market demand for scores well. A significantly higher dairy consumption and deficit dairy production, combined with high dairy growth rates provides market seeking opportunities. However, low forecasted GDP growth, combined with a mature drinking milk category reduces the market demand slightly. Despite high potential market demand, Algeria has a poorly developed institutional environment with a nationalist business approach, which has shown no improvement over the reviewed period. This combined with high country risk makes Algeria a particularly unattractive environment for starting a business. Moreover, low population density, and with only 15 % of all dairy products sold from supermarkets complicates the distribution process in Algeria. Government substitutions to the local dairy company ONIL and a high market concentration provide a higher competition in the Algerian dairy industry.

Egypt has a significantly larger population, who provide a big consumer market, and opportunities for economies of scale. In addition, Egypt shows a positive trend towards a rising middleclass. Egypt currently has a low consumption of dairy products, despite within cheese, but has the highest forecasted future dairy growth rates. This indicates that there are rising opportunities within the dairy industry in Egypt.

Accordingly, Egypt has a potentially high market demand. Egypt's institutional environment has shown great improvements, and has a positive attitude towards foreign investors. However, political transition following the Arab spring poses risk regarding Egypt's future development and direction. Additionally, Egypt's economy is, together with Algeria, the least developed, which is shown by the poor competitiveness rank. Out of the four countries, Egypt is the only country where Arla currently have business operations. Arla are settled through a smaller distributor and currently holds a market share of 0.3 from the sales of its milk powder Dano. As Arla are currently involved with an arm's length involvement, there is not perceived to be any value-add through market knowledge. There will however be a small degree of brand recognition owing to the market share of 0.3 from Dano. Additionally, due to its close location to Middle East, Egyptians are familiar with the Puck brand, who is one of Middle East's top dairy brands. It is Arla's perception that there is awareness of Puck from Egyptians travelling in the Middle East. Egypt is the only country of the four who have a developed retailing sector where the majority of consumers shop in modern supermarkets. Additionally, Egypt has the highest population density. These factors will ease the market entry for Arla, in the sense that it will be easier for Arla to access consumers. Further, Arla's production facilities in Middle East will also cover the African market (Calmann-Hinke, 2012) and so in regards of logistics, Egypt has a benefit over the other countries as it lies close to Middle East and the production facilities in Saudi Arabia.

Morocco has a low potential market demand compared to Algeria and Egypt, due to is lower GDP PPP per capita, lower population size, lower dairy consumption and lower forecasted dairy growth. However, Morocco has the highest forecasted GDP growth, indicating that the economic situation is improving. Morocco constitutes a developed economy where focus is privatization and liberalization, as well as the lowest country risk.

Tunisia is the fare most developed country of the four, with the highest share of middle- and upper income consumers, a high urbanization and with a liberalized and well developed economy. However, following the revolution the economy have faced a downturn, and demand for non-essential goods, as cheese, yoghurt and other dairy, has decreased. Additionally, milk consumption has reached maturity and high competition has created a pressure in the industry. Consequently, the profitability of the dairy industry is reduces, and future growth is estimated to be low. Additionally, Tunisia comprises a significantly smaller consumer market than the other countries.

Table 10 provides a quantitative measure of the attractiveness of the four countries, based on a relative score of 1-5, where 5 is the most attractive score. *Potential demand* reflects the market demand in the countries, and receives the highest weight, 40%, as these factors are critical in order for a market to be attractive. *Business environment* receives the second highest weight, 25 %, as this measure reflects the ease of operating in the countries and its institutional environment. *Country risk* reflects political and economic risk and receives a weight of 15 %. *Brand recognition* is included in the evaluation of country attractiveness. Brand awareness among consumers is perceived to influence the ease of starting business in a country. Lastly, *distribution & logistics* reflects the ease of logistics and distribution, and is evaluated on the basis of population density, retail development and distance from Saudi Arabia.

The scores are all, except *brand recognition* objective measures based upon quantitative measures previously accounted for. B*rand recognition are* partially based on hard facts and partially based upon Arla's subjective opinion. Weights in Table 10 are based upon a subjective opinion of relative importance.

Table 10: Country attractiveness comparison, relative scale

Relative scale: 1 - 5		Algeria	Egypt	Morocco	Tunisia
Potential Demand (40 %)	GDP PPP/Capita	3	2	1	5
	Forecasted GDP growth	1	3	5	3
	Population	3	5	3	1
	Urbanization	4	1	2	5
	Deficit dairy production	5	3	2	1
	Consumption Cheese	2	5	2	5
	Sales of Milk powder	5	3	3	1
	Forecasted CARG dairy value growth, 2011-2016	3	5	3	1
Sum		26	27	21	22
Business environment (25 %)	Ease of doing business	1	3	3	5
	Global competitiveness	2	1	3	5
	Competitive environment	1	5	4	2
Sum		4	9	10	12
Country risk (15 %)	Euromoney 2011	1	1	4	2
Brand recognition (10 %)		1	3	1	1
Distribution & Logistics (10 %)		1	5	2	2
Score		**11.8**	**14.0**	**11.8**	**12.4**

Source: Own contribution

Following the quantitative comparison in Table 10 Egypt appears to be the most attractive country. Accordingly, the following will analyze how Arla best enter Egypt.

5. HOW SHOULD ARLA FOODS ENTER EGYPT?

This section will determine what entry strategy Arla should pursue in Egypt. The section is divided in two parts. The first part is carrying out an SWOT analysis based upon previous discussions. Thereafter, an assessment of selected theories will determine the optimal entry mode in Egypt.

5.1. ARLA FOODS IN EGYPT

5.1.1. STRENGTHS

Arla is one of few dairy companies who has direct control over the raw milk it uses in production of its dairy products, the other being Dutch Royal Frieslandcampina and German company DMK (Calmann-Hinke, 2012). Being in control over the entire upstream supply chain ensures high quality dairy products. This operational resource serves as a strength for Arla in Egypt, due to a growing demand for high quality, natural products that are highly nutritional.

Arla has strong innovation capabilities that enable them to develop and adjust their current product portfolio to different consumer tastes and trends. This enables Arla to extend and develop its portfolio of brands and products. As such Arla has flexibility on the product side as well as in its geographic orientation. This serves as a major advantage in regards of being able to tailor and develop their current products to developing trends and demands in Egypt. Additionally, Arla's strong innovation skills provide them with an ability to develop differentiated products. Arla's products differ in that they are natural with less sugar and additives, and few artificial flavors (Sustainability, 2012), as implied by the slogan *"closer to nature"*.

Additionally, Arla has financial flexibility due to strong financials and easy access to capital, as highlighted in section 2.2. This serves as element of organizational flexibility as Arla has the financial resources that are required to be capable of acting and capturing opportunities as they occur. It will enable Arla to fully utilize its strong innovation capabilities to secure a strong position in the Egyptian dairy market. Organizational flexibility is a critical competence in emerging markets (Meyer, Estrin, Bhaumik, & Peng, 2009), and strong innovative capabilities together with financial flexibility are indicators that Arla are in position to act in response to changing market factors.

Arla's business activities in Middle East, where they are a key player on the market, create reputational resources. It is Arla's perception that Egyptian consumers are aware of Arla's Puck brand from traveling in the Middle East. Further, Egypt is considered as being an Arab country with a culture much similar to the Arab countries in the Middle East (Calmann-Hinke, 2012; Hofstede, 1984). There will of course be differences, but many of the skills and capabilities that Arla has developed from decades of market presence in Middle East can to some extent be applied in Egypt.

Lastly, Arla have developed strong managerial and technological capabilities from being a global company with operation in diverse national settings (Barkema & Vermulen, 1998).

5.1.2. WEAKNESSES

Arla currently have a distribution agreement with a smaller distributor in Egypt. But as contractual collaborations, i.e. distribution, are a low resource-augmenting mode (Meyer, Wright, & Pruthi, 2009) Arla is not seen to have developed location specific knowledge through this involvement. With a weak formal institutional environment business operations are largely based upon networks and government relations. This is perceived to be one of the key resources leading to success in emerging markets, and Arla does not possess such resources.

Further, Arla suffers from a weak organizational setup with Arla's Africa business being handled from the MENA regional office in Dubai. In a dynamic and fast moving market it is important to be flexible and respond to changes and opportunities as they arise (Meyer, Estrin, Bhaumik, & Peng, 2009). Lack of focus and presence on the African market makes it difficult for Arla to react on changing local conditions and capture opportunities as they arise. Being close to the market is also important in regards of developing knowledge about market conditions and consumer trends, in order to develop location specific capabilities.

5.1.3. OPPORTUNITIES

A fast growing middle- and upper class provides opportunities to capture a new and rising consumer segment. Growing awareness of health and wellness together with increasing purchasing power will create a growing demand for luxury and nutrition based products. With its closer to nature focus, with all natural and high quality products, Arla is well positioned to make use of the changing lifestyle trend that is appearing in Egypt following a rising middle class. It can be possible for Arla to gain first mover advantage by launching new products, and there appears to be lots of opportunities from launching new luxury products targeting the rising middle- and upper-class in Egypt.

With its 80 million residents, there is an extremely large consumer market within the lower income segment in Egypt. Arla could benefit from developing products directly targeted at this group by utilizing its strong innovation capabilities. Additionally, in 2010 81 % of the total milk sales were from milk products for children (Drinking Milk Products in Egypt, 2012). Egyptian mothers are very concerned with child nutrition, and so there lies great potential from developing products directly targeted at children.

Further, the productivity and profitability in the Egyptian dairy sector is low, and so there exists opportunities from teaching farmers new agricultural practices.

5.1.4. THREATS

Despite the many opportunities in Egypt, Arla is faced with an industry that is dominated by an informal market. The institutional setup in Egypt can to some degree constitute a challenge for Arla, because lack of market information makes it more difficult to acquire knowledge and adjust to the market and industry conditions. In addition, political risk, institutional voids, bureaucracy and corruption are obstacles that Arla are likely to come across in Egypt. However, the process of economic liberalization is a clear indication of the positive direction in which Egypt is developing.

Arla face threats concerning the political instability in Egypt and the MENA region. Egypt is currently in the process of managing a political transition following the revolution in February 2011. This is estimated to be a lengthy and challenging process. Accordingly, there is risk of changes in the governmental regime and possibly attitudes to foreign investments.

Arla also faces threats following intense competition. Multinational companies as Lactalis, Nestlé and Danone have already established positions on the Egyptian dairy market. Some of these have a greater focus on the African market, and as such may be willing to devote greater resources to sourcing, promotion and selling their products. Additionally the big domestic company Juhayna Food Industries has enjoyed market leadership over the reviewed period. Juhayna appears as a threat due to its longstanding presence in Egypt and strong customer loyalty.

5.1.5. SUMMARY SWOT ANALYSIS

Table 11: SWOT analysis, Arla Foods in Egypt

Strengths	Weaknesses
• Strong product innovation capabilities enhances flexibility • Financial flexibility • High quality and natural products • Puch brand awareness from Middle East • Knowledge from being a key player in Middle East • Managerial and technological capabilities	• Low location specific knowledge • Organizational setup
Opportunities	**Threats**
• Growing demand for high quality products • Large low income consumer market • Child nutrition products • Low efficiency in the Egyptian dairy sector	• Informal market with a weak institutional environment • Political instability • High competition

Source: Own contribution

5.1.6. BENCHMARKING

In order to evaluate the value of Arla's resources in Egypt, it is necessary to compare them against those of Arla's competitors in Egypt. A key tool for analyzing resources is benchmarking. The intention with benchmarking is to identify which resources provide sustainable advantage in the industry, and determine the relative strength of these resources compared to the competitors (Peng & Meyer, 2011). The SWOT analysis in the previous section indentified resources that are valuable for Arla in Egypt. This section will evaluate those resources with Arla's competitors in Egypt, and identify Arla's relative strength in Egypt. Arla's key competitors in Egypt are perceived to be Nestlé, Danone and Royal FrieslandCampina. Appendix 11 illustrates these companies' strengths, based upon company profiles provided by Datamonitor.

Figure 14 illustrate the value of Arla's resources, based on importance for generating competitive advantage and relative value to its competitors. Brand name is a valuable and rare resource and is thus an important factor in generating competitive advantage. Arla has awareness from Middle East and this is a starting point in developing a strong brand name in Egypt. Nevertheless, Nestlé and Danone have strong brand names from being big multinational companies and enjoy leadership in different dairy categories in Egypt. Additionally, local company Juhayna Food industry has developed a strong brand name form longstanding presence in

Egypt. Hence, Arla's Puch and Dano have low *relative strength* compared to its competitors. Consequently, Arla must work on developing awareness of its brand before it can be seen as a factor of competitive advantage in Egypt.

Arla's managerial and technological skills from worldwide operations are important in regards of successfully operating in Egypt. It is thus not seen as a highly important factor for generating competitive advantage, as it is valuable but not a rare resource. Additionally, Arla has several multinational competitors in Egypt, and so the *relative strength* is also low.

Know how from Middle East is partially important in developing competitive advantage, as Arla are familiar with operations and preferences in a similar culture. However the relative importance of this knowhow is low as Arla's MNC competitors and local competitors all have knowledge form years of operations in Egypt[11].

Financial flexibility has an indirect effect on competitive advantage as it, among others, enables Arla to utilize its innovation capabilities and provide the needed advertising. Arla's financial flexibility is assumed to be better than the local companies, but is slightly reduced as the other MNC are presumed to possess the same finical strength[12].

Further, innovation is strongly related to Arla's ability to create differentiated products, and adopt its product portfolio to changing trends and preferences. Hence it scores high on *importance*. Although both Danone and Nestlé possess strong innovation capabilities as well, this is not seen to affect the relative importance of Arla's capabilities, as knowhow and results following innovation are sovereign. Accordingly, strong innovation capabilities are a highly valuable resource for Arla in Egypt.

Arla's products are characterized by its high quality, as they are in control over the milk supply and production, and that they are all natural. Royal FrieslandCampina is a cooperative as Arla (About us, 2010), and can thus promise the same quality. Accordingly Arla's quality products will not be unique in Egypt. Arla's products are made of natural milk and with natural flavors and few additives. This differentiates Arla from other MNC, as Nestlé and Danone, who are more chemical companies (Calmann-Hinke, 2012). Accordingly, high quality and natural products are valuable and strong resources.

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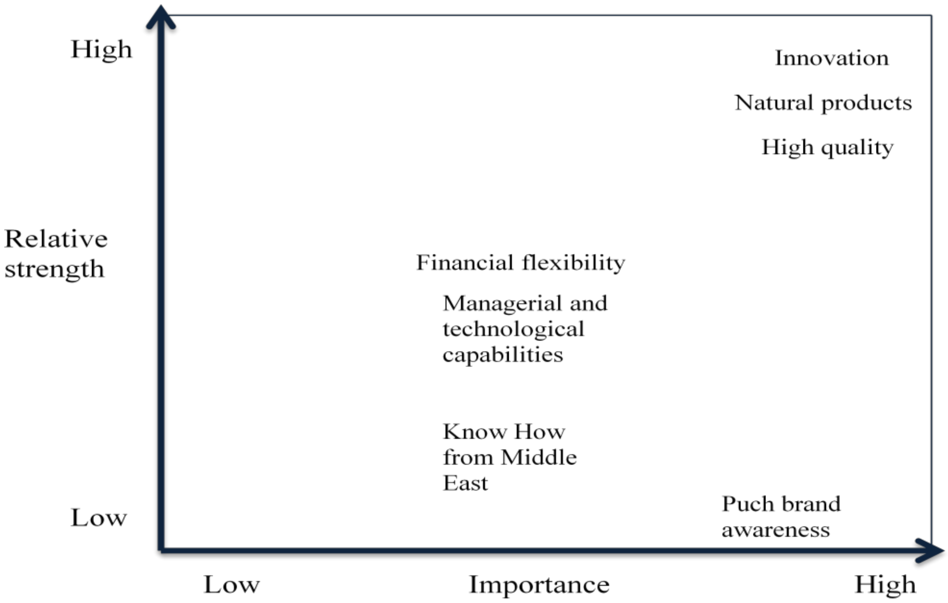
[11] MNC competitors have had strong positions in at least 5 years, as shown in appendix 7
[12] As financial ratios are not available for the MNC's subsidiaries in Egypt, a financial comparison cannot be provided

Figure 14: Benchmarking Arla Foods



Source: Own contribution

5.2. ENTRY MODE

Research highlights that expanding abroad requires several important strategic considerations evolving around why, where and how to enter (Peng & Meyer, 2011; Dunning, 2000). The two previous sections have focused on considerations in regards of why and where to enter. Prior section concluded that Egypt is most attractive for Arla, and this section serve to address the issue on how to enter Egypt. This section will as such examine the choice of entry mode for Arla in Egypt.

Arla's entry mode will be analyzed on the basis of internal and external factors. Analysis based upon *Resource Based View (RBV)*, *Institution Based View (IBV)*, *Transaction Cost Economics (TCE)* and *Cultural distance* will each contribute to determining the optimal entry mode for Arla in Egypt. The section will start with a discussion of each theory, and its perceptions on Arla's entry into Egypt. Lastly, the insights of the theories will be gathered in a discussion determining the optimal entry mode for Arla in Egypt.

Alternative forms of entry mode enable firms to overcome different kind of market inefficiencies related to characteristics of the external as well as the internal resources (Meyer, Estrin, Bhaumik, & Peng, 2009). Typical choices of entry modes evolve around the degree of ownership and control (Peng & Meyer, 2011; Brouthers & Hennart, 2007). This means whether Arla should enter Egypt using non-equity or equity entry mode. Equity modes are JVs, acquisitions and Greenfield investments, and non-equity modes are export and contractual agreements. The main differences of these entry modes are the degree of commitment, risk, return and control (Peng & Meyer, 2011). Full control modes require higher commitment of resources, expose the company for higher business risk, and allow for higher return on the investment, than lower control modes.

5.2.1. TRANSACTION COST ECONOMICS

TCE consider market transactions to be superior due to opportunity of scale economics in the market (Williamson, 1979). However, market inefficiencies created by *uncertainty*, *bounded rationality* and *opportunistic behavior*[13] pose costs on market transactions (Williamson, 1979). Consequently, firms must evaluate costs of internalizing transactions over costs related to market transaction. Accordingly TCE has following perspective on entry mode:

Cost of contract	>	*Cost of internalizing*	=	*Internalize transactions*
Cost of contract	<	*Cost of internalizing*	=	*Market transaction*

TCE state that firms must create governance structures that minimize costs and inefficiencies associated with establishing and operating foreign ventures (Williamson, 1979). Accordingly, the objective for choosing a certain entry mode is *cost minimization*. According to Williamson (1979) there are three perspectives within TCE who suggest that certain types of resources are less suitable for market transactions. These are *asset specificity*, *uncertainty* and *frequency*.

Asset specificity is a widely used explanatory variable for entry modes within TCE (Brouthers & Hennart, 2007). Asset specificity occurs when assets are used for a narrow purpose, specific for the parts involved and so has little value outside the specific transactional relationship (Williamson, 1979). Such assets create dependencies between the parts and create risk of *opportunistic behavior* (Williamson, 1979). High asset specificity speaks in favor of higher control entry modes, as the firm in this way get control over its assets and prevent risk of opportunistic behavior (Meyer, Estrin, Bhaumik, & Peng, 2009; Brouthers K. D., 2002; Delios & Beamish, 1999; Erramilli & Rao, 1993). Accordingly,

No asset specificity	=	*Contract*
Low asset specificity	=	*Joint Venture*
High asset specificity	=	*Wholly owned subsidiary*

If Arla choose to enter with an equity mode, i.e. JV or wholly owned subsidiary (WOS), they will most likely need to make asset specific investments. A problematic factor for doing business in Egypt is an

[13] See Glossary of key terms for an explanation of the terms

inadequately educated workforce. Additionally, the dairy industry suffers from inefficient production practices[14]. These two factors suggest that Arla ought to invest in education and training to attain a qualified workforce and efficient production processes in its operations. These are investments specific to Arla's operations in Egypt. Consequently higher control modes are preferred, as Arla risk that its partner act opportunistic and misuse what Arla has thought them. Arla can choose to enter through contracting, i.e. distribution, where investment in education and training is not perceived to be necessary in the same scale. Nevertheless, Arla is likely to have costs related to marketing of their products. Advertising intensity and brand name is a common factor for asset specificity (Gatignon & Anderson, 1988; Brouthers & Hennart, 2007). Arla is a high quality brand, which can require a higher price for its dairy products, as the products are all natural. Nonetheless, before Arla are in a position where they can require this higher price, they must create awareness around the *"closer to nature"* concept and the quality of Arla's products. Unless Arla invest in intensive advertising, Arla will merely be a common dairy brand, and consumers are not perceived to be willing to pay a higher price. Conversely, to be successful Arla must advertise its products in Egypt, and the asset specificity for Arla in Egypt is considered to be relatively high. Although asset specificity is widely used to explain entry modes, review by Brouthers & Hennart (2007) found that most TCE entry mode studies find no significant relationship between asset specificity and entry mode choice.

The second variable in Williamson's (1979) model is *uncertainty*, which arise from both external and internal variables. According to Williamson's (1979) *uncertainty* is only relevant in the presence of *asset specificity* because *uncertainty* increases the risk of *opportunisitc behavior*, and so transaction costs, as it becomes difficult for firms to design complete contracts and/or evaluate performance of the partner organization. Accordingly, costs of contract, monitoring etc. rises. However, little attempt has been made to test this relationship (Brouthers & Hennart, 2007).

External uncertainty, also referred to as environmental uncertainty, is understood as the degree to which the host country's political, legal, cultural and economic environment threaten stability of business operations (Gatignon & Anderson, 1988), also known as investment risk (Agarwal & Ramaswami, 1992). Williamson's (1979) argue that *external uncertainty* affect transactions in that it makes it difficult to include all possible future events in a contract, making contracts inefficient. As such equity modes are preferred so that the firm can protect its asset specific investment.

$$\textit{External uncertainty} \uparrow \quad = \quad \textit{Cost of contracts} \uparrow$$

[14] See section 4.2.2. EGYPT

However, others scholars argue that high external uncertainty provide a need for flexible organizational structures who increases the firms' ability to adapt to a changing environment (Anderson & Gatignon, 1986; Aulakh & Kotabe, 1997; Kim & Hwang, 1992; Erramilli & Rao, 1993). These scholars pose that lower equity modes reduce the level of host country risk and incur lower transaction cost. According to Brouthers & Brouthers (2003) this perspective on the effect of environmental uncertainty are shared by most TCE scholars, and will be followed in this paper.

External uncertainty ↑ = *Equity ownership* ↓

Country risk is a common variable used to evaluate the degree of external uncertainty (Zhao, Luo, & Suh, 2004; Anderson & Gatignon, 1986).

Country risk ↑ = *External uncertainty* ↑

Egypt has high country risk[15] implying that there exists high *external uncertainty*, i.e. a high investment risk. The meta analysis provided by Zhao, Luo, & Suh (2004) found that the relationship between both country risk and entry mode were significant, and that high country risk had negative impact on the choice of wholly owned subsidiaries as entry mode. This is in line with the second perspective of TCE, who claime that uncertainty create a need for more flexible organizations.

Internal uncertainty is related to the difficulty of assessing the performance of contracting parts (Brouthers & Hennart, 2007). Difficulty of evaluating performance create higher costs related to monitoring, control mechanisms and enforcing contracts (Gatignon & Anderson, 1988). Additionally, imperfect measurement of firm performance increases transaction costs (Alchian & Demsetz, 1972). Accordingly, when firms face difficulties of monitoring and evaulating performance, higher control modes are preferred (Gatignon & Anderson, 1988).

Internal uncertainty ↑ = *Cost of contract* ↑

Internal uncertainty is usually measured by international experience, as international experienced firms are more likely to possess knowhow on how to set up appropriate contracts, monitor and control (Gatignon & Anderson, 1988; Brouthers K. D., 2002; Zhao, Luo, & Suh, 2004). International experience will as such reduce internal uncertainty.

[15] See section 4.4. CONTRY RISK

International experience ↑ = *Internal uncertainty* ↓

With operations in all regions despite Africa, and many decades of experience from precense in, among others, Middle East, Arla is perceived to be in the lower end of internal uncertainty. Additionally, Arla has themselves stated that one of the advantages they have from operations in other emerging markets is their ability to set up contracts in difficult environments (Calmann-Hinke, 2012).

Frequency is the last factor in Williamson's (1979) model, refering to the numer of times a transaction occure. The rationale behind *frequency* is that a firm can only justify acquisitions if transactions are recurring, due to large costs associated with integration (Williamson, 1979). *Frequency* is an important determinant in choosing between contract and equity, but its effect on the choice of degree of equity investment is not determined jet (Brouthers & Hennart, 2007). It is assumed that Arla has long term plans for its operations in Egypt, and that transactions as such are recurring. This means frequency is high, and equity modes are justified.

Ultimately, following TCE, Arla's choice of entry mode in Egypt, in regards of equity versus no equity, is determined by the relationship between risk of opportunistic behavior and investment risk. Accordingly,

Risk of opportunistic behavior	>	*Investment risk*	=	*Internalize*
Risk of opportunistic behavior	<	*Investment risk*	=	*Market transaction*

5.2.2. THE RESOURCE BASED VIEW

The RBV views firms as a bundle of resources and capabilities, and can be used to analyze how firm resources, particularly knowledge, provide competitive advantage and growth opportunities (Barney J. , 1991). The theory focuses on a firm's existing resources and capabilities, and uses this as a baseline for determining the optimal entry mode (Barkema & Vermulen, 1998; Meyer, Wright, & Pruthi, 2009). Whereas TCE focus on the cost of transferring and protecting resources, RBV focus on the potential benefit created by transferring resources through alternative modes (Meyer, Wright, & Pruthi, 2009). Consequently, the objective of the choice of entry mode is *value maximization*. Additionally, opposed to TCE, RBV assumes full ownership to be the preferred entry mode (Ekeledo & Sivakumar, 2004). Arla's resources that are specific to an entry into Egypt are illustrated in Table 11, under strengths and weaknesses.

Firms entering foreign markets, especially emerging markets face a *liability of foreignness*. Liability of foreignness is a disadvantage firms face from lack of location specific resources, typically lack of knowledge of host country political, economic and social conditions (Hymer, 1976). Organizations must equip their overseas business with firm specific resources that create advantage in the host country to overcome the liability of foreignness (Barney J. , 1991). Firm specific resources, in regards of entry, pose two strategic issues, namely protection of competitive advantage and enhancement of resources (Ekeledo & Sivakumar, 2004). Agarwal & Ramaswami (1992) propose that three specific firm resources and capabilities influence a firm choice of entry mode, namely firm size, multinational experience and its ability to develop differentiated products. They state that *"A firm's asset power is reflected by its size and multinational experience, and skills by its ability to develop differentiated products"*. Hence these factors will be looked at to determine if Arla are in possession of ownership advantage.

One of Arla's key success factors is seen to be strong innovation capabilities that enable Arla to produce differentiated dairy products and constantly be upfront with new products[16]. Innovation capabilities are related to Arla's ability to create sustainable competitive advantage, so if these capabilities are misused Arla face great risk. Arla's strong innovation capabilities reflect their ability to develop differentiated products that, according to Agarwal & Ramaswami (1992), indicate that Arla possess strong skill power. Accordingly, in order to protect Arla's competitive advantage, a higher control mode is preferred (Peng & Meyer, 2012; Agarwal & Ramaswami, 1992).

Further, a firm needs asset power to enter foreign markets and succesfully compete with host country firms (Agarwal & Ramaswami, 1992). A firm's size and its multinational experience is related to the firm's ability to operate in foreign markets (Agarwal & Ramaswami, 1992). Additionally, as markets have become more liberalized and wealth creating activites has become more knowledge intensive, a firms ability to assess and organize knowledge assets throughout the world has become a strong factor for creating ownership spesific advantages (Dunning, 2000). A firms multinational experience and growth activities, i.e. firm size, are an indication of this capability.

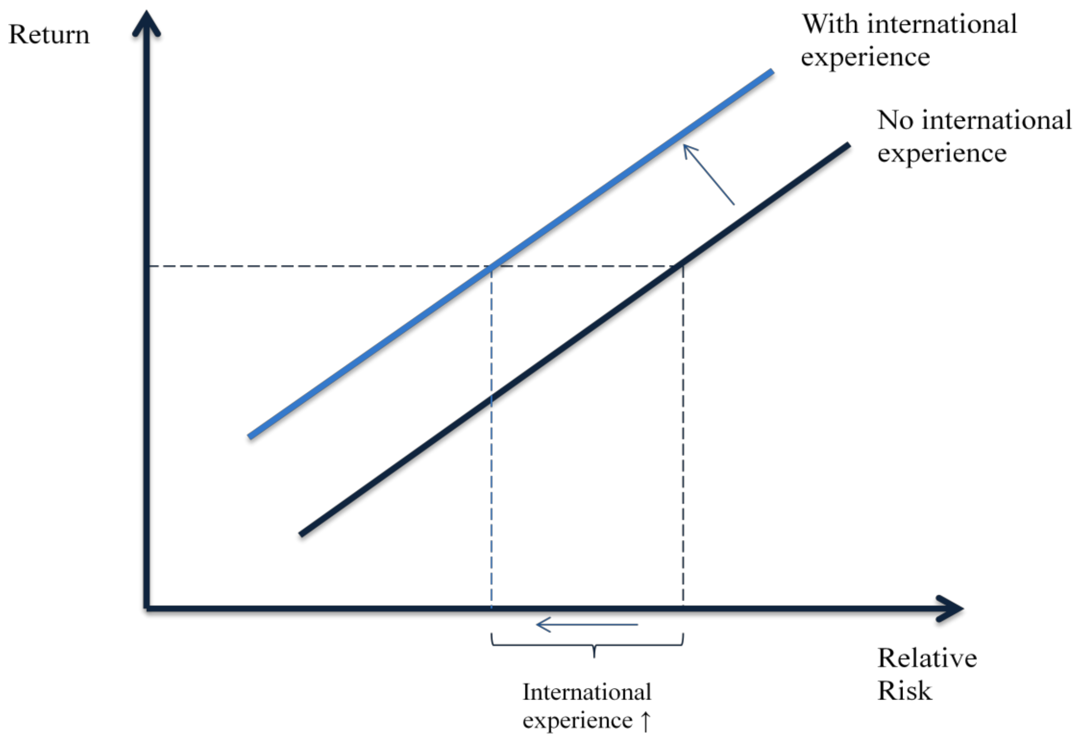
When engaging in international expansion a firm needs resources to handle high cost of setting up operations and marketing of products, and the firm's size reflects its ability to absorb costs of foreign operations (Agarwal & Ramaswami, 1992; Ekeledo & Sivakumar, 2004). Investing in fixed cost in new markets are risky, and according to ecological models only large firms are able to hold such risk (Aulakh & Kotabe, 1997). Additionally, research shows that large firms tend to prefer entry through ownership modes (Erramilli & Rao, 1993; Agarwal & Ramaswami, 1992). Arla is the world's 8th biggest dairy company (Voorbergen, 2011). Following the merger with German Milch-Union Hocheifel and British Milk Ling that were completed 1st of October 2012, Arla grow even bigger (EU godkender fusion mellem MUH og Arla, 2012;

[16] See section 2.1. PRODUCTS AND INNOVATION and section 5.1.6. BENCHMARKING

Grønt lys for Milk Link-fusion, 2012). Subsequently, Arla's sales are estimated to reach 70 billion in 2013 (Fusioner på vej i Tyskland og Storbritannien, 2012). Arla being a large firm indicate that they can handle foreign operations. Accordingly, following Agarwal & Ramaswami's (1992) ownership dimension, Arla ought to enter Egypt via equity mode.

A firm's multinational experience is related to its ability to manage foreign operations (Agarwal & Ramaswami, 1992; Gatignon & Anderson, 1988). This is similar to TCE's *internal uncertainty* where focus is on the cost of operations. Within RBV, international experience is seen as a way of developing firm specific resources (Brouthers & Hennart, 2007; Ekeledo & Sivakumar, 2004). This is closely linked to internationalization theory and organizational learning, who view international expansion and growth as a learning process (Vernon, 1979; Johanson & Vahlne, 1977). Firms operating in diverse national settings develop a broad knowledge base that come useful when expanding to other markets (Barkema & Vermulen, 1998). Accordingly, multinational experienced firms has developed stronger asset power, and are better equipted for entering foreign markets (Agarwal & Ramaswami, 1992). As illustrated in Figure 15, the relative risk of investing in a country decreases with international experience as companies has more experience with operations in diverse environments. With a relatively lower risk, companies are more prone to make bigger investments.

Figure 15: Effect of international experience on Risk Return tradeoff



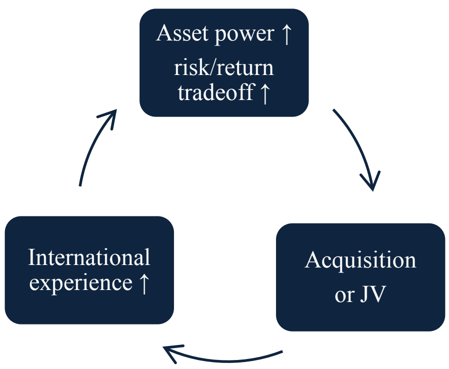
Source: Own contribution, inspired by internationalization theory and organizational learning

As previously stated, Arla have high multinational experience, who combined with its firm size, justify entry through higher control modes. Nevertheless, the competitive advantage of Arla being a large firm with multinational experience falls, as Arla's MNC competitors, ex. Nestlé and Danone, are among the world's largest dairy companies with extensive multinational experience. Arla still have firm specific advantages over local dairy companies in Egypt.

Through foreign entry a company facilitate organizational learning and resource augmentation from combining the two firms resources (Kogut & Zander, 1996). According to Meyer, Wright, & Pruthi (2009) entry modes pose different degrees of resource augmentation, based on the degree to which the firm can access and utilize the host firm's resources (Meyer, Wright, & Pruthi, 2009). Acquistion poses high resource agmentation, JV pose medium resource agmentation, and contractual agreements are low resource augmenting entry modes (Meyer, Wright, & Pruthi, 2009). Accordingly, resource augmenting entry modes, i.e. JV and acquisitions, in international markets can also be seen as a way of strenghtening a company's asset power and its international experience.

Arla's firm size and multinational experience has shown that they are in possession of reources that are needed for entering foreign countries with equity entry modes. In doing so they receive a relatively better risk/return tradeoff, and also engage in resource augmentation who strenghten their asset power, and consequently enhance future benefit of entering foreign markets. This relationship is illustrated in Figure 16.

Figure 16: The relationship between International experience, asset power and acquisitions/JV



Source: Own contribution, inspired by Agarwal & Ramaswami (1992) and Meyer, Wright, & Pruthi (2009)

From the previous it is understood that high resource augmentation modes create higher international experience which strenghten the company's asset power and increases the relatve risk return tradeoff. Accordingly, entry through acquisition will maximize Arla's value potential.

Arla's innovation capabilities and asset power arising from multinational experience and firm size are skills that generate value in all global markets. However, not all resources and capabilities add value in foreign markets, and the limited transferability of these capabilities restricts a firm in foreign markets (Anand & Delios, 1997). Many resources are context specific, and in order to achieve competitive advantage and growth in international markets firms must overcome the disadvantage they face due to lack of location specific resources (Oliver, 1997). Many of these disadvantages are related to lack of knowledge of host country political, economic and social conditions (Hymer, 1976). In this setting, RBV focuses on whether and to what degree foreign entrants require resources embedded in local firms (Meyer, Estrin, Bhaumik, & Peng, 2009). In emerging markets, context specific knowledge typically is of greater importance in order to create competitive advantage (Meyer, Estrin, Bhaumik, & Peng, 2009). Network and relationships, particularly a good relationship with the host government, is a key success factor in emerging markets (Hoskisson, Eden, Lau, & Wright, 2000; Meyer, Estrin, Bhaumik, & Peng, 2009). With a weak institutional environment firms must rely on local network and relationships in their operations and local companies probably have developed strong capabilities for relation-based management to substitute the lack of stable institutions.

As shown in the SWOT analysis, one of Arla's weaknesses in regards of entry into Egypt is lack of location specific knowledge. As such, according to literature, the need for Arla to develop or acquire knowledge of the Egyptian market is high. Following RBV, this will speak in favor of an entry mode that enables Arla to tap into the resources of a local firm. Two entry modes facilitate access to host country knowledge, namely JV and acquisition (Anand & Delios, 1997; Peng & Meyer, 2011). Additionally, Greenfield investments with professional management from Egypt also provide access to local knowledge (Meyer, Wright, & Pruthi, 2009). JV refers to a newly established legal entity, where parent companies each contribute with the resources they make available to the JV (Meyer, Wright, & Pruthi, 2009). JV as such provides access to those resources the parent companies choose to share in the JV. Acquisitions can be separated into partial and full acquisition. Partial acquisition provides access to the local firm's resources, including business practices and routines not easily transferred in a JV (Meyer, Wright, & Pruthi, 2009). Full acquisition gives Arla complete access to the resources of the acquired firm. Greenfield investment provides access to local resources, if experienced local professionals are hired to work on the investment (Meyer, Wright, & Pruthi, 2009). JV and acquisition provide access to organizational embedded resources, whereas through hiring experienced local professionals in a Greenfield project, Arla provide access to human resources, typically local knowledge.

Relation-based management, i.e. network and relationship, are organizational embedded *tacit knowledge*. Tacit knowledge is transferred by direct interface among individuals, and “learning by doing” supporting a collaborative mode of entry (Meyer, Wright, & Pruthi, 2009). As network and relationship are tacit knowledge, it is important that Arla maintain a good relationship with those individuals that possess these resources, ensuring that they want to share their knowledge. If an acquisition is not in the interest of management and/or the employees, they might be reluctant to share resources, thus making it difficult for Arla to tap into the resources they require. Additionally, acquisitions are an alternative, only if host management and key employees are kept within the business, as they are the connection to network and relationships. An additional issue with acquisitions is political resistance from host government when local companies are acquired by foreign MNC’s (Peng & Meyer, 2011). As a good relationship with host government is particularly important in weak institutions, resistance can pose great problems. Accordingly, unless an acquisition is in the interest of the acquired firm and the host government, JV is the only entry mode that gains access to network and relationship.

5.2.3. THE INSTITUTION BASED VIEW

Institutions are by North (1991) defined as *“the humanly devised constraints that structure human interaction”*. Institutions exist in both formal, i.e. laws and regulations, and informal, i.e. culture and norms, rules, and influence individual and firm behavior (Peng & Meyer, 2011). Peng & Meyer (2011) suggest that host country institutional environment constrain foreign entry strategies in four ways.

First, institutions may pose restrictions on certain types of operations in the host country, among them the range of possible entry modes. The Egyptian government has a positive attitude towards foreign investors, and the Investment Incentives Law ensures that foreign investors are given protection and incentives. There are no restrictions on possible foreign entry modes, use of local labor and goods etc[17].

Secondly, a weak institutional environment might increase the need and importance of local knowledge, as was also highlighted in the RBV. Accordingly, institutions change the relative importance of certain resources. Egypt possesses a weak formal institutional environment, and in this sense reliance on, and importance of, the informal institutional environment becomes stronger. With a weak formal institutional environment firms must to a larger extent rely on networks and alliances to grow and develop within the market (Peng, Sun, Pinkham, & Chen, 2009; Meyer, 2001). Egypt is characterized by high corruption,

[17] See section 4.2.2. EGYPT

government bureaucracy and policy instability[18]. Close ties with local stakeholders might help Arla overcome these issues through increased credibility among local stakeholders. In this sense, the weak institutional environment speaks in favor of Arla entering Egypt though a joint venture to ensure network and government relations.

Third, a weak institutional environment will change the relative costs of different entry strategies. This perspective of IBV is related to TCE. In a market with weak institutions, i.e. where institutions fail to ensure an efficient market mechanism, transaction costs rises (Meyer, Estrin, Bhaumik, & Peng, 2009; Williamson, 1979). This is among others due to unclear regulatory frameworks, inexperienced bureaucracies and underdeveloped court systems. Accordingly, TCE's perspective that market transactions are superior does not hold in weak institutions. The purpose of institutions is to reduce uncertainty in the environment by creating "rules of the game" for individuals and firms to follow (North, 1991). As such the probability of opportunistic behavior is reduced, as violations of these rules can be mitigated with relative ease (Peng & Meyer, 2011). So in environments with weak institutions the risk of opportunistic behavior is increased (Meyer, Estrin, Bhaumik, & Peng, 2009).

Strength of institutions ↓ = *Opportunistic behavior* ↑ = *Cost of contract* ↑

Acquisitions are in particular sensitive to the functioning of market efficiency, as underdeveloped financial market makes acquisitions costly (Meyer, Estrin, Bhaumik, & Peng, 2009).

Strength of institutions ↓ = *Cost of acquisition* ↑

As illustrated in appendix 9, Egypt does not have a fully developed financial market, and so the costs of acquisitions rise. Additionally, inefficient legal systems create higher costs related to contract enforcement (Peng & Meyer, 2011). Accordingly,

Strength of institutions ↓ = *Cost of contracts* ↑

As shown in appendix 10, Egypt scores very poor on the World Banks *enforcing contracts* rank. This indicates that the cost of creating contracts increases, making arms length transactions, as licensing and distribution, less efficient.

[18] See section 4.2.2. EGYPT and 4.4.5. COUNTRY RISK

Additionally, a weak institutional environment increases the *information asymmetry* between companies, among others due to corruption and the difficulty of gathering data in emerging markets. This increases transaction costs in relation to higher partner related risk due to lack of information (Meyer, 2001) and higher costs related to gathering information (Tong, Reuer, and Peng 2008; Meyer, Estrin, Bhaumik, & Peng, 2009).

$$\textit{Strength of institutions} \downarrow \quad = \quad \textit{Information asymmetry} \uparrow$$

Information asymmetry is seen to affect both the costs of enforcing contracts and costs of acquisitions, as both require investigation of potential partners. Nevertheless, the risk following information asymmetry is seen to have greater impact on acquisitions, as that will be a fixed decision and involve greater amounts of resources. Accordingly information asymmetry will have greater impact on the cost of acquisition.

$$\textit{Information asymmetry} \uparrow \quad = \quad \textit{Cost of acquisition} \uparrow\uparrow$$
$$\textit{Information asymmetry} \uparrow \quad = \quad \textit{Cost of contract} \uparrow$$

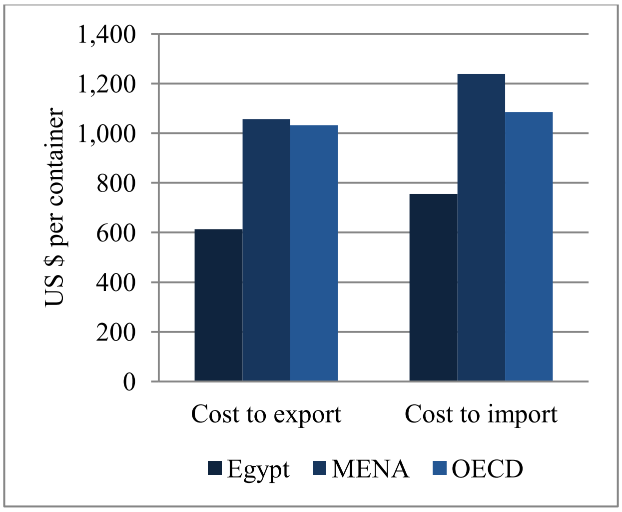
From the above it is understood that a weak institutional environment increases costs of transaction, both in relation to acquisitions and contracts. Weak institutions also increase the external uncertainty, which according to TCE increases the importance for flexible organizational structures (Anderson & Gatignon, 1986; Aulakh & Kotabe, 1997; Kim & Hwang, 1992; Erramilli & Rao, 1993).

Lastly, institutions that provide a poor trading environment might increase the attractiveness of entering with local production facilities. Figure 17 and Figure 18 illustrate that Egypt has a good trading environment, with lower trading costs[19] than the MENA and OECD average, and lower time[20] related to export/import that the MENA average.

[19] The cost associated with all procedures required to export/import goods. Includes the costs for documents, administrative fees for custom clearance and technical control, customs broker fees, terminal handling charges and inland transport (Trading Across Borders, 2012)

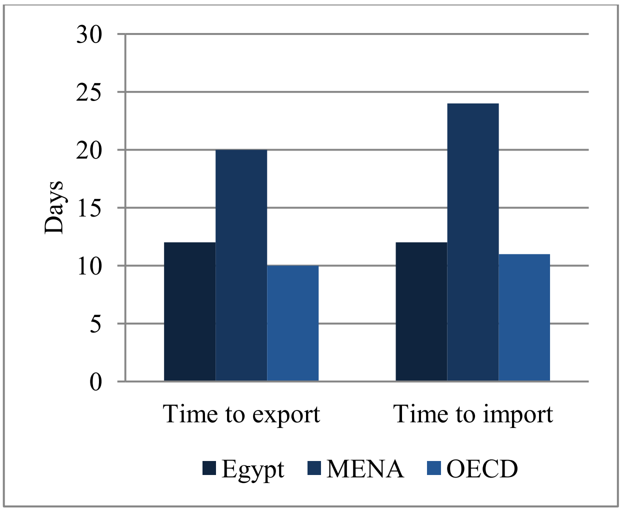
[20] Time to export/import refers to the time it takes to perform required procedures in relation to export/import (Trading Across Borders, 2012)

Figure 17: Cost to export and import



Source: Ease of Doing Business (2012), World Bank

Figure 18: Time to export and import



Source: Ease of Doing Business (2012), World Bank

Arla's Puck brand is produced in Arla's production facilities in Denmark, as well as in Saudi Arabia (Our Brands: Puck, 2012). Arla's milk powder Dano, who is marketed in Middle East, Africa and Bangladesh, is produced in Arla's facilities in Denmark (Our Brands: Milex and Dano, 2012). As such Arla are likely to export goods from Denmark and Saudi Arabia to Egypt. Egypt is a member of PFTA, a free trade area between Arab states, who among others covers Saudi Arabia. Additionally, Egypt signed a trade agreement with EU in 25th of June 2001 that will ensure trade liberalization between the two parties (Industrial and Trade Agreements, 2012). A free trade area will be established over a 12 year transition period (Industrial and Trade Agreements, 2012). This section has shown that the institutional environment in Egypt does not restrict foreign trade, and that entry modes not including host production facilities does not possess additional relative costs.

5.2.4. CULTURAL DISTANCE

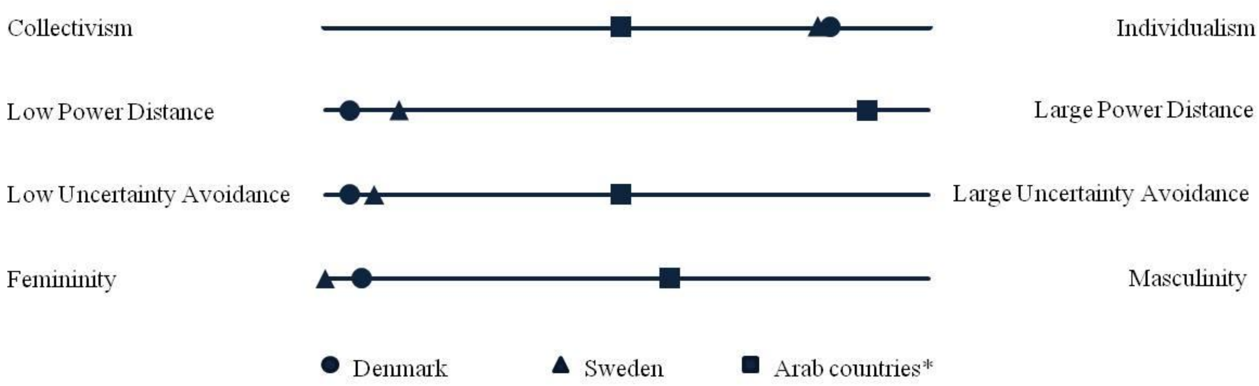
A firm's institutional context also involves informal institutions, as norms and culture, which affect socially acceptable behavior (North, 1991). Additionally, cultural distance is relevant as it affect managerial costs and the uncertainty evaluation of the host market (Brouthers & Brouthers, 2000).

Different cultures have different organizational and administrative practices and employee expectations (Kogut & Singh, 1988). The more culturally distant firms are the bigger are the difference between their organizational and managerial practices (Kogut & Singh, 1988; Hofstede, 1984; Larimo, 2003). This affects the establishment choices of firms in foreign markets (Kogut & Singh, 1988; Hofstede, 1984; Larimo, 2003). Integrating firms following an acquisition are costly, and are affected by the organizational fit between two companies (Jemison & Sitkin, 1986). Organizational fit is by Jemison & Sitkin (1986) defined as *"the match* *between administrative practices, cultural practices, and personal characteristics of the target and the parent firms".* As such, integration costs of acquisitions increases with acquisitions of culturally distant firms.

Cultural distance ↑ = *Cost of acquisition* ↑

Although cultural distance provides uncertainty and makes CEOs reluctant to attain foreign countries with ownership modes, studies have shown that there is a positive relation between national cultural distance and cross-border acquisition performance (Morosini, Shane, & Singh, 1998; Barkema, Bell, & Pennings, 1996). The rationale is that companies, who access culturally distant countries through acquisitions, develop diverse routines and repertoires that have the potential to develop the merged companies' performance over time (Morosini, Shane, & Singh, 1998). This is somewhat in line with internationalization theories and organizational learning who argues that through operations in diverse national settings firms develop strong managerial skills (Johanson & Vahlne, 1977; Vernon, 1979; Barkema & Vermulen, 1998).

Figure 19: Cultural distance, Hofstede's Cultural Dimensions



*Egypt, Iraq, Kuwait, Lebanon, Libya, Saudi Arabia, U.A.E.

Source: Hofstede's (1984) cultural dimensions

Hofstede (1984) measures cultural distance based upon four cultural dimensions who is found to impact management techniques and organizational practises. Figure 19 shows the scores of Denmark, Sweden and Arab countries, covering Egypt. As Arla only recently became a german cooperative, its culture are assumed to be more related to Denmark and Sweden, who according to the cultural dimensions in Figure 19 are similar. *Invidivualism*, in contrast to *collectivism*, stands for the preference of people to belong to loosely versus tightly knit social networks, *power distance* measures the degree to which people accept unequal distribution of power inside organization, *uncertainty avoidance* represent the degree to which people tolerant uncertainty and ambiguity in situations, and *masculinity*, as opposed to *femininity*, represent the degree to which people prefer values of success and competition over modesty and concern for others (Hofstede, 1984).

Hofstede's (1984) cultural distance measures has shown that there is cultural differences between Arla's host country and Egypt. According to theory, cultural distance will favor entry through JV or greenfield investment over acquisition, due to the difficulties and costs associated with integrating two different organizational and management practices following cultural distance (Drogendijk & Slangen, 2006). JV serves as a way to narrow cultural gaps, and is such an favorable mode of entry when a firm need access to local firm resources (Gatignon & Anderson, 1988). However, cultural differences also poses challenges in a JV. *Uncertainty avoidance* is related to how people act upon opportunities and threats in the environment (Barkema & Vermeulen, 1997). Accordingly, this factor might pose disagreements about the objectives and the strategic direction of a partnership (Schneider & De Meyer, 1991). As such, big difference between uncertainty avoidance will pose difficulties in a JV (Barkema & Vermeulen, 1997) and higher control modes will serve better. *Power distance*, *individualism/collectivism* and *masculinity/femininity* are more related to the difficulty of internal integration, as these dimensions affect the firm's relationship with its employees (Schneider & De Meyer, 1991). In a JV management of personell tend to be given to the local firm (Barkema & Vermeulen, 1997), and in this case p*ower distance*, *individualism/collectivism* and *masculinity/femininity* does not provide significant issues in a JV. Accordingly, these dimensions is persived to pose greater problems in relation to an acquisition, where such factors must be dealth with and integrated in the firm. Barkema & Vermeulen (1997) studied the effect of Hofstede's (1984) cultural dimensions on the difficulty of managing a JV. They found significant results that the likelyhood of JV survival decreased with *uncertainty avoidance*, but found no significant effects of *individualism/collectivism* and *masculinity/femininity* on the perfomance of a JV. Although cultural distance pose difficulty on managing a JV, cultural distance increase the likelyhood of entry through JV over WOS (Barkema & Vermeulen, 1997).

Morover, Figure 19 illustrate that whereas Denmark and Sweden are highly individualits cultures, Egypt has a more collectivist culture. In collectivist cultures there is a stong view of "us" and "them", and friends, relations, tribesmen etc. typically get better deals and offers than strangers (Hofstede, 1984). Consequently, the more collectivist dimension in Egypt is an indicator of the importance of a local partner to access benefits of local network and relationships.

5.3. SELECTING *HOW* TO ENTER

Table 12: OLI advantages for Arla Foods in Egypt

Ownership	• Innovation capabilities • Managerial- operational and technological knowhow (Multinational experience) • Strong financials (Large company)
Location	• Size and growth of the Egyptian consumer demand, support the market seeking objectives of Arla • Growing dairy consumption
Internalization	• Asset specificity arising from advertising, education and training • Environmental uncertainty from high country risk and weak institutions • Network and relationship is tacit knowledge that is transferred through collaboration • Strategic control over valuable recourses

Source: Own contribution

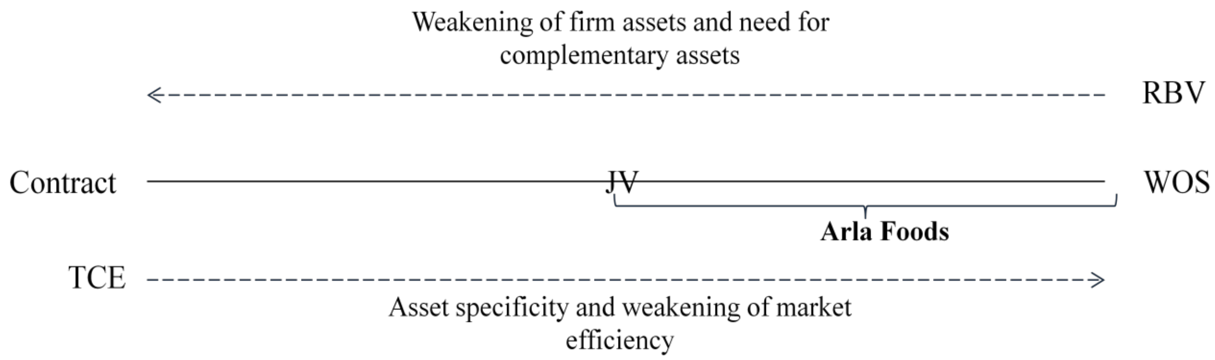
Table 12 are based upon pervious analysis, and illustrate that Arla are in possession of ownership- location- and internalization advantages, that speaks in favor of foreign direct investment in Egypt. The following discussion will determine what entry mode is optimal for Arla in Egypt.

Both TCE and RBV highlight the need for protecting valuable resources in a transaction. When entering into Egypt, Arla must invest in advertising in order to create awareness of their brand. This creates risk of opportunistic behavior, particularly due to uncertainty following high country risk and weak formal institutions. Further, Arla have innovation capabilities that are a valuable resource strongly related to Arla's ability to create sustainable competitive advantage. Accordingly, Arla ought to use higher control entry modes to protect the value of these capabilities. Additionally, from being a large company with multinational experience Arla has developed strong resources that enable them to enter Egypt through equity entry modes. Experience from operations in diverse environments provides Arla with a relatively better risk/return tradeoff, which is exploited through equity investment in Egypt. Entry through distribution will not enable Arla to utilize this benefit and hence maximize its value creating potential. Moreover, one of Arla's strategic focus areas is to *"Develop market-leading category positions across core and growth markets"* (Annual Report, 2011, p. 12). In order to reach this target, Arla must choose higher involvement entry modes than distribution. Additionally, Arla has themselves stated that the competitive environment within the dairy industry is creating an environment where players need to be big to succeed (Annual report 2011). This supports that Arla ought to utilize its OLI advantages, and enter Egypt through foreign direct investment.

When entering Egypt, Arla face a disadvantage related to lack of location specific knowledge. The need for such knowledge increases as Egypt is characterized by a weak institutional environment. RBV and IBV have highlighted that in case of weak institutions, successful business operations and competitive advantage is strongly related to network and a good relationship with host government. Consequently, to be competitive, Arla must choose an entry mode that enables them to tap into the resources of a local firm. This pose that JV and acquisition are possible entry modes for Arla.

The perspectives of TCE and RBV are combined and illustrated in Figure 20. The two theories combined pose that Arla ought to enter Egypt with an equity entry, either JV or acquisition.

Figure 20: Entry mode perspectives of RBV and TCE and its effect on Arla Foods in Egypt



Note: WOS = Wholly Owned Subsidiary, JV = Joint Venture, RBV = Resource Based View, TCE = Transaction Cost Economics

Source: Own contribution

Cost related to acquisitions might outweigh the expected benefits (Barney J. B., 1988). In order to achieve the expected gain of an acquisition the two companies must integrate successfully (Anand & Delios, 1997). Different culture, technology, and ways of doing business in general make integration a complicated process. Such difficulties have created views that JV and Greenfield might be more efficient modes of entry (Woodcock, Beamish, & Makino, 1994). Due to the need for local network and relationship, Greenfield investment is not an option for Arla. The cultural distance between Arla and Egypt provide difficulties related to a successful post-acquisition integration. Additionally, a poorly developed financial market provides additional costs and difficulties with carrying out an acquisition. Moreover, if entering through a takeover, Arla face risk of company- and political resistance. As network and relationship are tacit knowledge, Arla are dependent upon maintaining a good relationship with company management in order for these resources to gain value. JVs' tend to be more political acceptable, which is particularly important as a good relationship with the host government are important due to weak institutions. Lastly, Egypt is characterized by high market potential and high market risk. Generally, companies are better off not entering high risk countries (Agarwal & Ramaswami, 1992). However, Egypt offer big market potential that Arla cannot afford to miss out on, if they want to continue growing as a MNC. Accordingly, a JV is the optimal entry mode as it enables Arla to get hold of the growing opportunities in Egypt, and at the same time reduce risk of investment loss.

Arla possesses knowledge related to production of dairy products and managerial capabilities from global operations. These resources are perceived to be valuable for local dairy companies as the productivity and profitability in the Egyptian dairy industry is low. In addition, Arla lack knowledge about the local environment in Egypt. Accordingly Arla's resources and the resources of a local firm complement each other, indicating that a collaborative entry mode will maximize the value generating potential for Arla in Egypt.

Following insights from Transaction Cost Economics, firm resource theories, Institution Based View and Cultural Distance, Arla's optimal entry mode in Egypt is found to be through a JV.

6. Conclusion

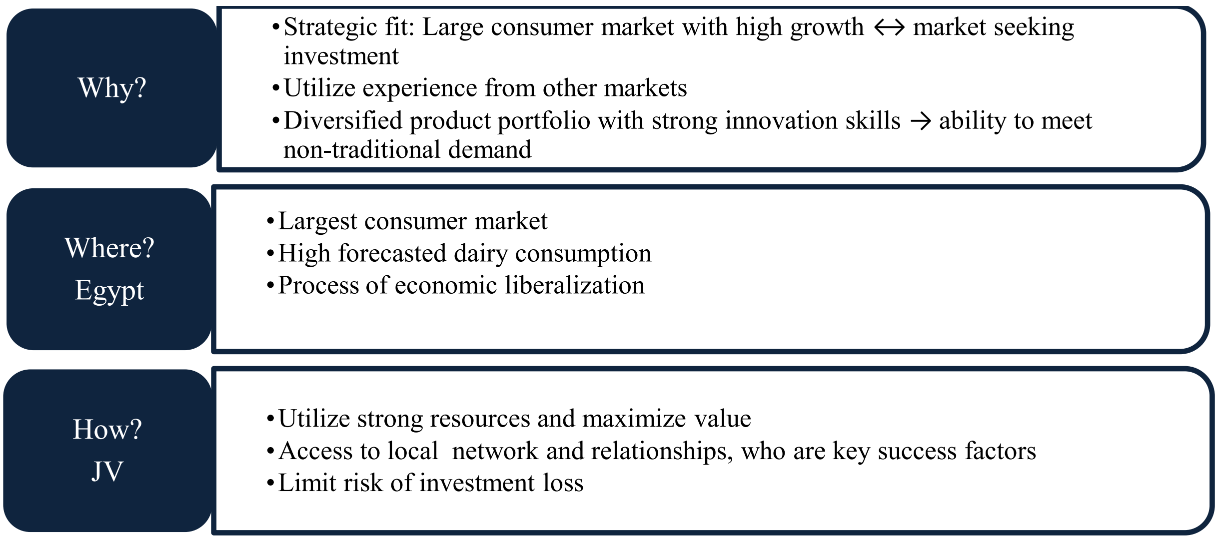
Following Arla's growing interest in North Africa, this paper design an entry strategy for Arla in North Africa, on the basis of three step analysis: *Why*, *Where* and *How*.

The first element of Arla's entry strategy was to determine the strategic fit between Arla and the North African market. Assessment of the North African market found that the region is no longer limited to being a struggling market with low potential. North Africa has a large population that is growing at a high rate, as well as a growing middle class and increased urbanization. This indicates that North Africa is developing to comprise a large consumer markets, with growing opportunities. With a high growth agenda, Arla's objectives for entering new markets were identified to be market seeking, i.e. to capture market share in new markets. These objectives fit with countries offering high growth opportunities. Accordingly, there is a strategic fit between Arla's strategy, and the market opportunities in North Africa. However, market opportunities in North Africa are conditional. Arla can utilize its experience from different markets. With business activities in major world regions, Arla has developed broad international experience. This demonstrate that Arla manage to develop its business to cover new markets. Arla's establishment in more uncertain economies, as Russia, China and Middle East, have in particular provided Arla with useful capabilities related to operations in non-traditional markets. Arla can leverage these capabilities in an entry into North Africa. Moreover, a diversified product portfolio combined with strong innovation capabilities enables Arla to meet diverse and non-traditional demands. Accordingly, there is to be overall configuration between the market opportunities in North Africa and Arla.

The second section of this paper analyses if Algeria, Egypt, Morocco or Tunisia comprise the best opportunities for Arla. As the objective for entering North Africa is to pursue a market seeking investment, large markets with high potential dairy consumption is attractive for Arla. However, the company should not limit it selves to operate only on the basis of market size, as country risk and business environment also influence the potential in the market. The analysis found that Egypt is the most attractive country for Arla. With a significantly bigger consumer market, growing middle class, high cheese consumption and high forecasted dairy growth rates, Egypt has the highest potential market demand. Moreover, Egypt is the only country of the four, where Arla currently have business operations. Consequently, there will be a small degree of brand awareness from Arla's 0.3 % market share from export of its milk powder Dano. Additionally, Egypt faces advantages due to its close location to Middle East. Egyptians are perceived to have brand awareness of Puck from traveling in Middle East, and the closer location will ease logistics, as products will be produced in Arla's facilities in Saudi Arabia. Egypt's institutional environment is weak and the economy is poorly developed. Nevertheless, the institutional environment has shown great improvements over the reviewed period, and the process of economic liberalization is a clear indicator of the positive direction Egypt is developing. However, political transition following the Arab spring poses risk regarding Egypt's future direction. Accordingly, the high marked demand pose great opportunities for Arla, but Egypt faces risks that must be accounted for when deciding on the optimal entry mode.

The last section of this paper found that Arla should invest directly in Egypt, and that entry trough joint venture with a local company is the most optimal entry mode. Arla is a large firm with strong financials that are able to absorb costs of foreign operations. Moreover, strong capabilities from experience in international markets makes Arla equipped for entering new foreign markets with equity investments, and enhance the relative risk/return tradeoff through investing in Egypt. Accordingly, Arla ought to enter Egypt through equity investment to take advantage of their strong capabilities, and maximize their value potential. Consequently, continued presence through a distributor is not perceived to be an optimal solution for Arla, as it will not enable Arla to completely exploit its strong resources.
Due to Egypt's weak institutional environment business operations and competitiveness is largely dependent upon local network and a good relationship with host government. More explicitly, to overcome inefficiencies related to corruption, government bureaucracy and policy instability, Arla ought to collaborate with local stakeholders. Due to the risk of company- and political risk following acquisitions, JV is perceived to be the most optimal entry mode in regards of gaining access to local network and relationship. Moreover, cultural distance between Arla and Egypt provide difficulties with post-acquisition integration due to different organizational and managerial practices. A JV is found to be the most efficient entry mode in cases with cultural distant firms, as it serves to narrow cultural distance gaps. Lastly, Egypt is characterized by high market potential and high country risk. Entry through JV with a local firm enables Arla to tap into Egypt's consumer market, but at the same time limit their risk of investment loss.

Figure 21: Why, Where and How to enter



Source: Own contribution

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Appendix 1: Arla Foods' production and sales offices, 2012

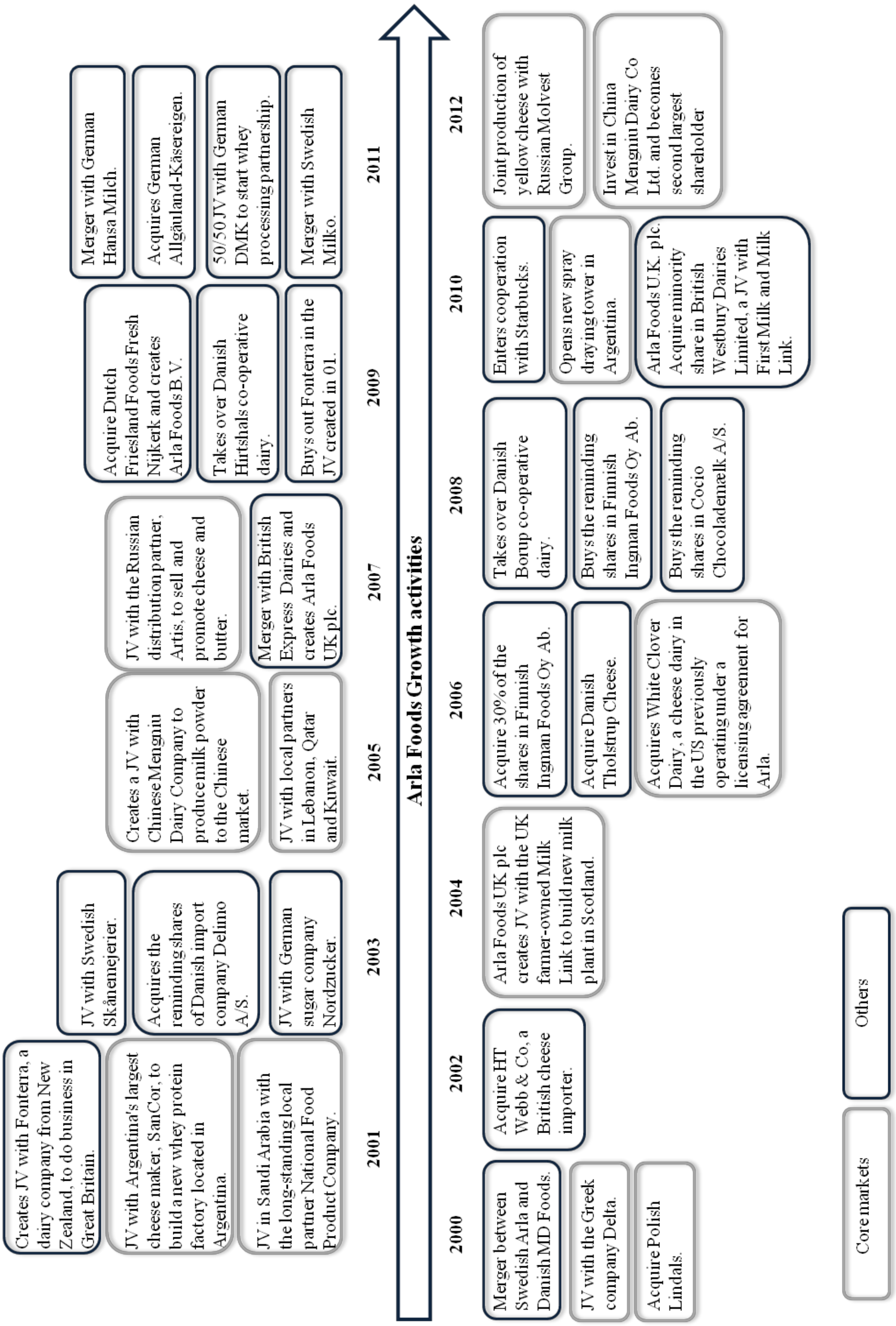
Source: Arla Foods, contact, www.arla.com

Appendix 2: Arla Foods' strategic ambitions for 2015

Strategic ambition	Actions towards achieving ambition
Be the best dairy in Northern Europe and in the UK	Increase presence and extend product ranges through mergers, acquisition and greenfield.
Have three strong global brands • **Arla** • **Castello** • **Lurpack**	Arla has positioned themselves as a quality brand, and aims to be the most natural dairy company in the global food market. Through the statement position "Closer to nature" Arla seeks to bring awareness of their brands in all core markets as well as some value- and growth markets.
Double sales of refined protein products and to become a global leader in whey proteins	In April 2010 Arla gathered all its whey related business into the subsidiary Arla Foods Ingredients (AFI). Arla is, together with Fonterra, leader in this business area. Demand for whey proteins is estimated to grow significantly, and through the creation of AFI the necessary business- and growth focus is ensured.
Have revenues of 75 billion DKK	Arla seek to achieve higher revenues through organic growth, mergers and acquisitions together with increased efficiency in the organization. Their geographic strategy is to combine stable, mature positions in core markets with expansion and rapid growth in value- and growth markets.
Pay owners the highest possible milk price	Cannot be fully influenced by Arla, but all of Arla's actions aims to supports this goal.

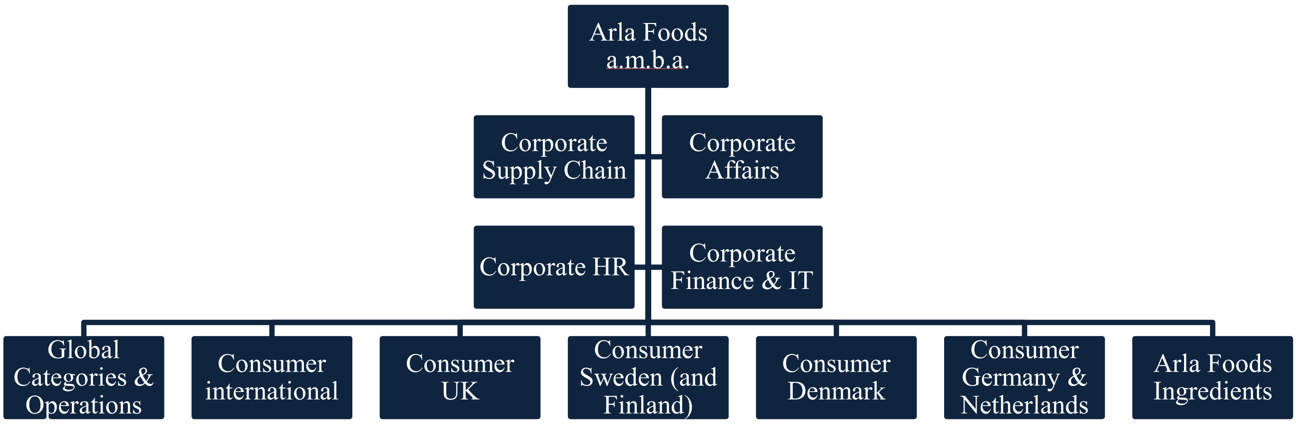
Source: Annual report (2011)

Appendix 3: Arla Foods' growth activities from 2000 until 2011



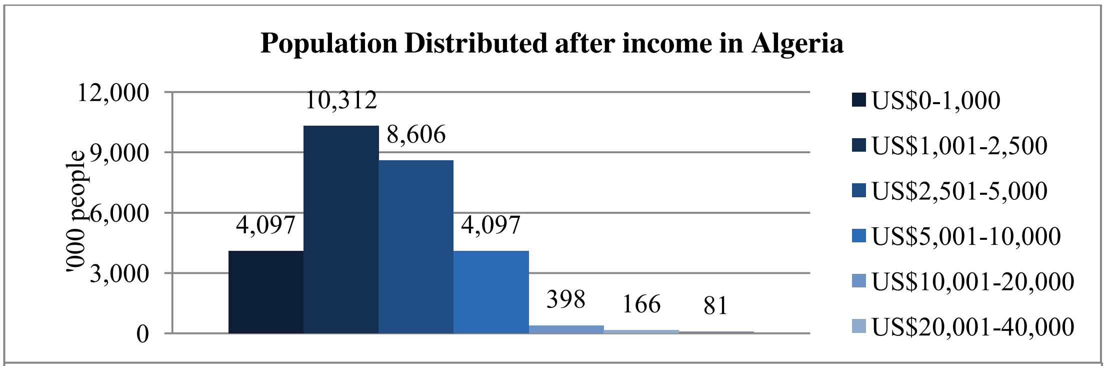
Source: Arla Foods

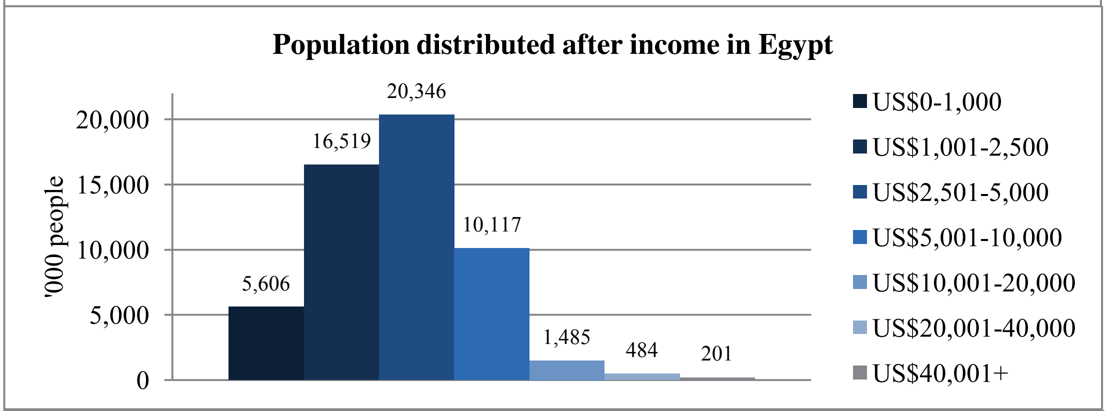
Appendix 4: Arla Foods a.m.b.a. organizational structure

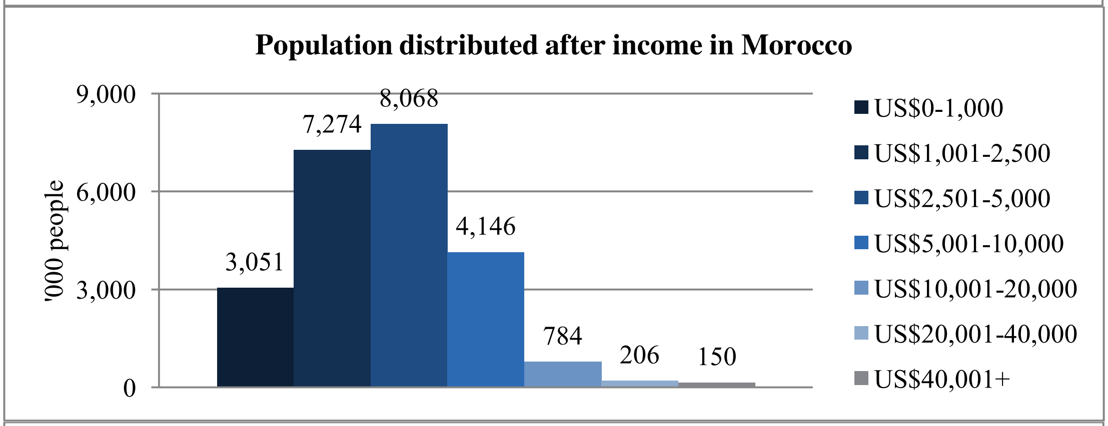


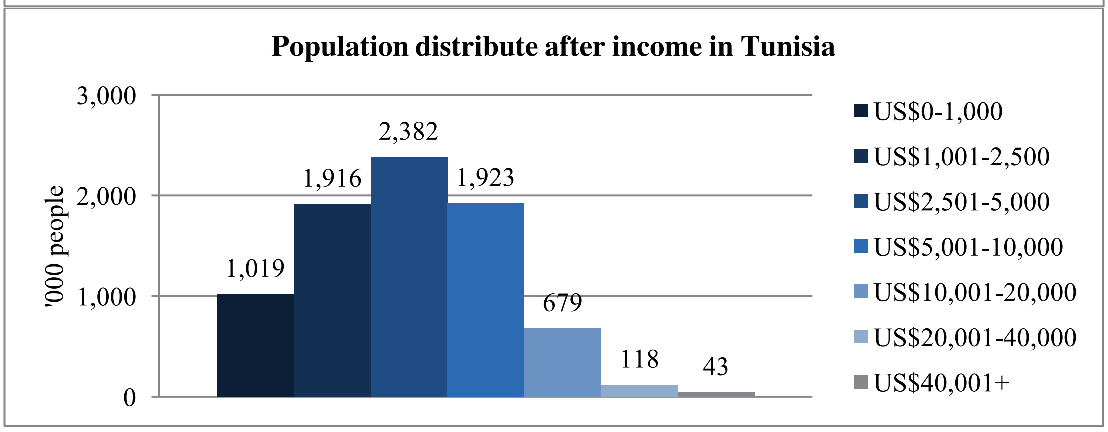
Source: Annual report (2011)

Appendix 5: Population Distibuted after income, 2011



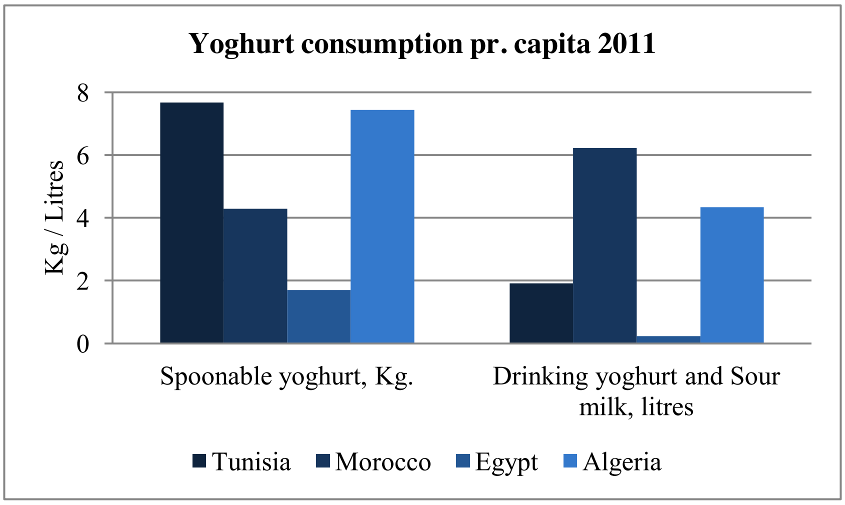


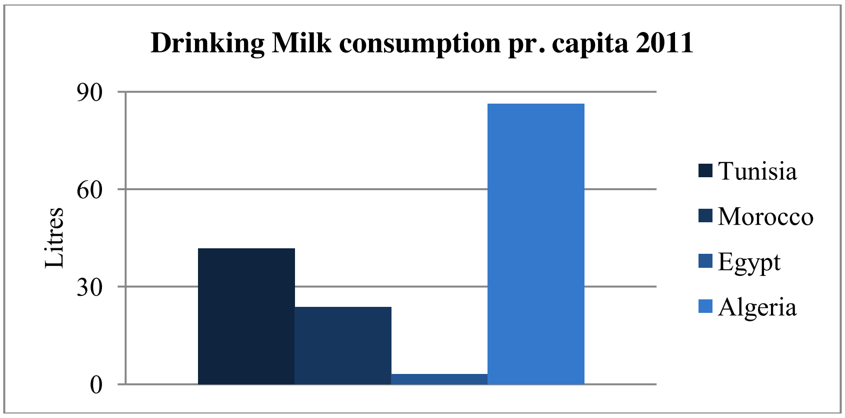


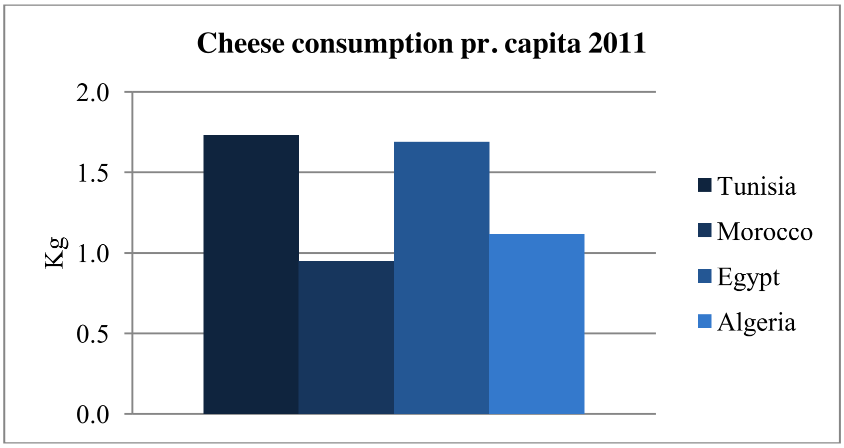


Source: Euromonitor, Countries and Consumers annual data, 2011

Appendix 6: Dairy consumption per capita, 2011

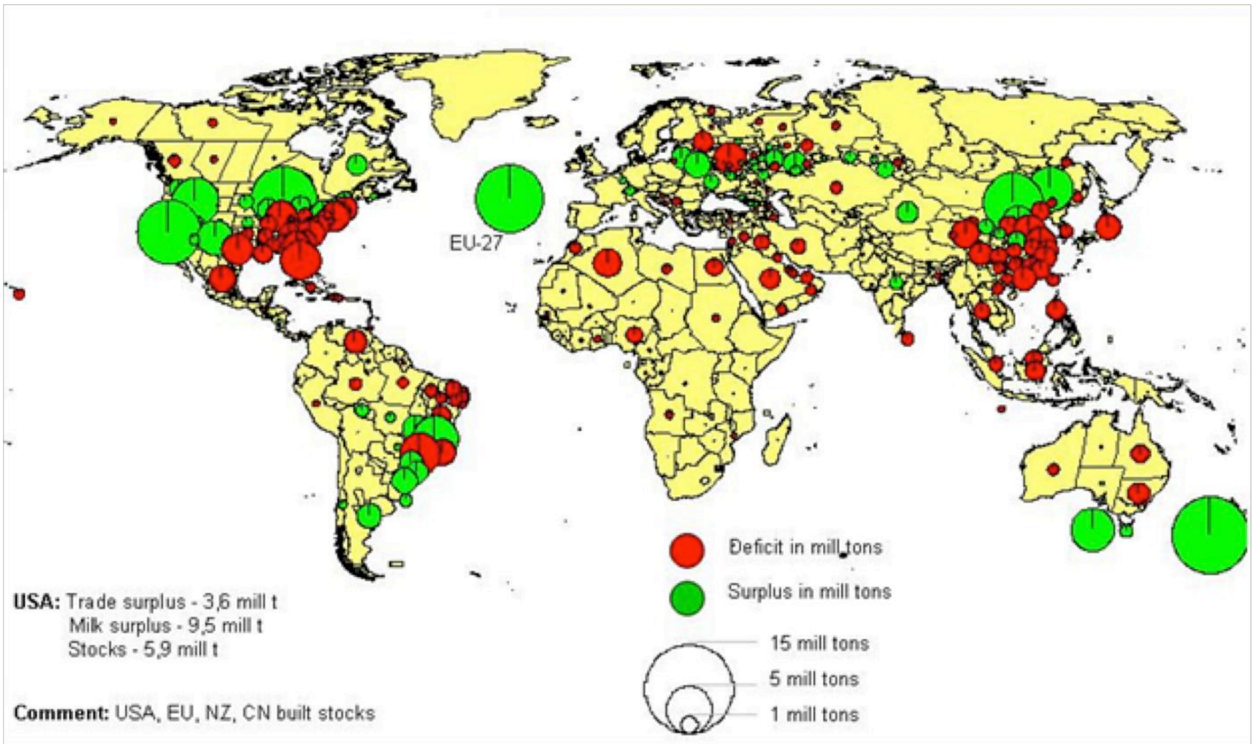






Source: Consumers and countries annual data 2011, Euromonitor International

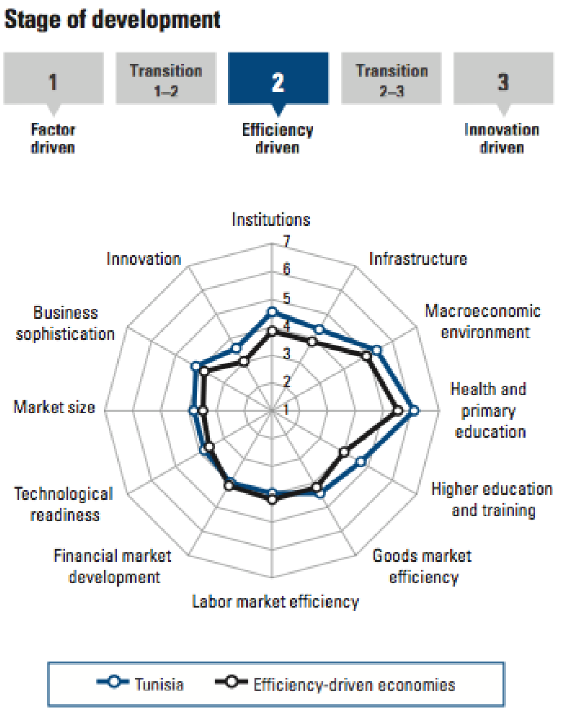
Appendix 7: Global dairy production, Surplus vs. Deficit



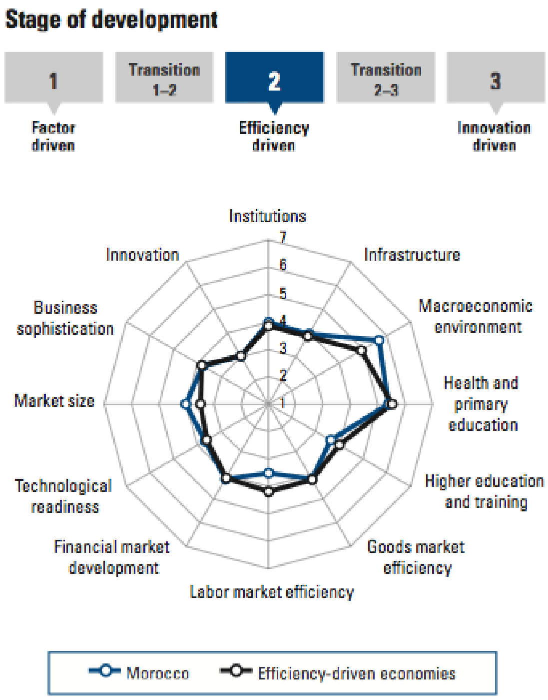
Source: (African Dairy the world dairy trade, 2012)

Appendix 8: Global Competitiveness

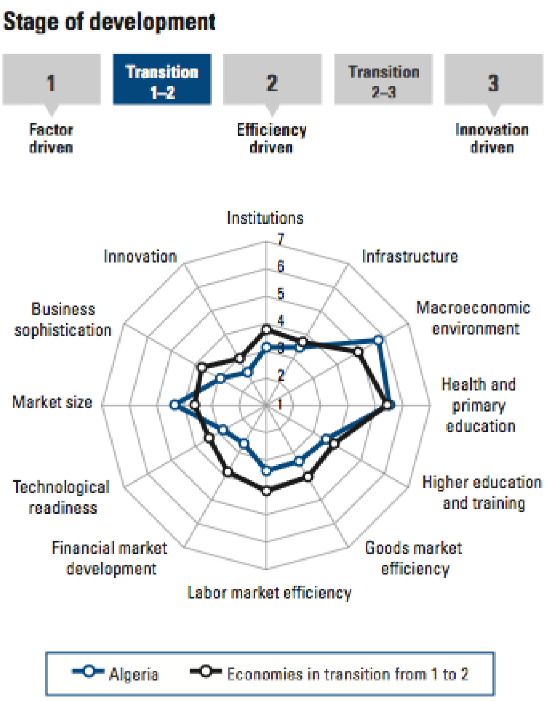
Tunisia:



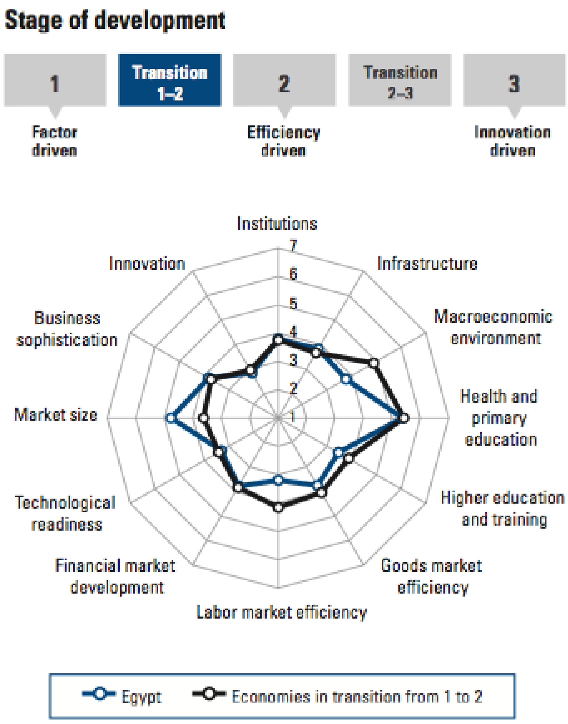
Morocco:



Algeria:



Egypt:



Source: Schwab, Klaus (2011), The Global Competitiveness Report 2011-2012, World Economic Forum

Factor driven economy

"The economy is factor driven and countries compete based on their factor endowments – primarily unskilled labor and natural resources. Companies compete on the basis of price and sell basic products or commodities, which their low productivity reflected in low wages. Maintaining competitiveness in this stage of development hinges primarily on well-functioning public and private institutions, a well developed infrastructure, a stable macroeconomic environment, and a healthy workforce that has received at least a basic education pillar"

Efficiency driven economy

"Countries will the move into the efficiency-driven stage of development, when they must begin to develop more efficient production processes and increase product quality because wages have risen and they cannot increase price. At this point, competitiveness is increasingly driven by higher education and training, efficient goods market, developed financial markets, the ability to harness the benefits of existing technologies, and a large domestic and foreign market"

The Global Competitiveness Report 2011-2012, p. 8-9

Appendix 9: World Banks Ease of Doing Business Report 2012, Rank out of 183

Morocco	2012	2011	Change in rank
Ease of doing Business rank	94	115	21
Topic rankings			
Starting a Business	93	82	-11
Dealing with Construction Permits	75	76	1
Getting Electricity	107	102	-5
Registering Property	144	143	-1
Getting Credit	98	96	-2
Protecting Investors	97	153	56
Paying Taxes	112	148	36
Trading Across Borders	43	48	5
Enforcing Contracts	89	87	-2
Resolving Insolvency	67	63	-4

Algeria	2012	2011	Change in rank
Ease of doing Business rank	148	143	-5
Topic rankings			
Starting a Business	153	150	-3
Dealing with Construction Permits	118	117	-1
Getting Electricity	164	165	1
Registering Property	167	165	-2
Getting Credit	150	139	-11
Protecting Investors	79	74	-5
Paying Taxes	164	162	-2
Trading Across Borders	127	123	-4
Enforcing Contracts	122	123	1
Resolving Insolvency	59	52	-7

Egypt	2012	2011	Change in rank
Ease of doing Business rank	110	108	-2
Topic rankings			
Starting a Business	21	18	-3
Dealing with Construction Permits	154	155	1
Getting Electricity	101	99	-2
Registering Property	93	94	1
Getting Credit	78	75	-3
Protecting Investors	79	74	-5
Paying Taxes	145	139	-6
Trading Across Borders	64	64	0
Enforcing Contracts	147	144	-3
Resolving Insolvency	137	136	-1

Tunisia	2012	2011	Change in rank
Ease of doing Business rank	46	40	-6
Topic rankings			
Starting a Business	56	46	-10
Dealing with Construction Permits	86	85	-1
Getting Electricity	45	46	1
Registering Property	65	60	-5
Getting Credit	98	96	-2
Protecting Investors	46	44	-2
Paying Taxes	64	61	-3
Trading Across Borders	32	31	-1
Enforcing Contracts	76	78	2
Resolving Insolvency	38	37	-1

Source: Doing Business (2012)

Appendix 10: Market share by global brand owner, Retail Value RSP, %

Algerian dairy market, company by market share	2007	2008	2009	2010	2011	2012
ONIL - National Inter Professional Office for Milk	0.0	39.9	39.3	37.4	33.8	31.5
Danone, Groupe	8.7	8.9	9.6	10.4	10.9	11.5
Soummam Spa	7.9	8.3	8.7	9.2	9.5	9.9
Promasidor (South Africa) (Pty) Ltd	4.3	4.4	4.4	4.4	4.5	4.6
Lactalis, Groupe	3.3	3.6	3.3	3.3	3.4	3.5
Bel, Groupe	2.4	2.6	2.7	2.9	3.0	3.2
Trefle Spa	3.3	2.7	2.8	2.9	2.9	2.9
Giplait Spa	42.2	2.0	2.2	2.3	2.4	2.6

Egyptian dairy market, company by market share	2007	2008	2009	2010	2011	2012
Juhayna Food Industries	15.5	17.3	19.2	20.2	21.4	22.7
Lactalis, Groupe	8.2	7.9	8.4	9.4	9.1	9.0
Nestlé SA	7.5	8.1	7.3	7.4	7.5	7.5
Danone, Groupe	4.5	4.9	5.7	6.2	6.4	6.6
Americana Group	4.9	3.9	3.7	4.3	4.9	5.2
Royal FrieslandCampina NV	-	5.8	5.7	5.2	4.5	4.8
Arabian Food Industry Co (Domty)	1.2	1.5	2.2	2.8	3.0	3.2
Nile Co for Food Industries (Enjoy)	2.7	2.8	3.0	2.9	2.9	2.9
Arla Foods Amba, as number 22	0.9	0.8	0.8	0.4	0.3	0.3

Moroccan dairy market, company by market share	2007	2008	2009	2010	2011	2012
Omnium Nord Africain	26.3	26.1	25.4	24.3	23.1	23.0
Cooperative COPAG	13.8	14.2	15.1	15.3	16.0	16.4
Centrale Laitière Maroc Lait	12.1	12.4	12.0	14.0	14.3	14.4
Bel, Groupe	10.8	11.0	10.2	10.3	10.4	10.5
Danone, Groupe	9.3	9.2	8.0	5.7	5.2	4.9
Nestlé SA	4.0	3.9	3.9	3.7	3.6	3.4
Royal FrieslandCampina NV	-	2.0	2.7	2.7	2.7	2.7
Lactalis, Groupe	4.6	4.6	3.1	2.9	2.7	2.7

Tunisian dairy market, company by market share	2007	2008	2009	2010	2011	2012
Danone, Groupe	34.6	34.7	36.6	38.1	40.6	40.4
Centrale Laiitere de Mahdia	10.0	10.2	11.2	13.3	13.9	13.8
Lactalis, Groupe	6.0	6.1	6.8	7.8	6.3	6.2
La Ste Régionale des Industries Laitières (SORIL)	3.2	3.1	3.4	3.7	5.8	5.9
Groupe Poulina	4.4	4.3	3.9	4.5	5.0	5.1
Sodiaal SA (Société de Diffusion Internationale Agro-alimentaire)	5.2	5.2	4.9	5.4	5.7	5.0
SOVIA	3.4	3.4	3.7	4.3	4.2	4.2
Industries Alimentaires de Tunisie	-	-	-	-	2.2	2.2

Source: Euromonitor International

Appendix 11: Strengths and Weaknesses of Arla Foods' competitors

Group Danone

Strengths	Weaknesses
• Strong brand name • Diversified revenues reduce business risk • Product innovation strengthen the group's competitiveness • Strong position within *Yoghurt and Sour Milk Drinks* and *Other Dairy*	• Low revenues as compared to competitors

Royal FrieslandCampina N.V

Strengths	Weaknesses
• Broad product portfolio covering various consumer goods categories	• Geographic concentration

Nestlé SA

Strengths	Weaknesses
• Strong brands across a diversified product portfolio consolidate Nestlé's leadership • Ability to customize products to the local market conditions • Strong focus on R&D capabilities	• Increasing instances of product recalls hamper brand equity

Source: Groupe Danone, Company Profile (2010); Royal FrieslandCampina N.V., Company Profile (2011); Nestlé SA, Company Profile (2011); Euromonitor International (2012)

Appendix 12: Interview with Rasmus Calmann-Hinke

Rasmus fortæller om Consumer International:
Den del af Arla Foods du er I nu er egentlig Consumer International. Og det er en business group I Arla Foods. Der har jeg ansvar for strategi og forretningsudvikling I den del af Arla Foods. Vi omsætter for godt 10 mia. I vores del af forretningen, godt og vel. Og vi har en kraftig vækstagenda, fordi Arla Foods jo er meget eksponeret I Nord Europa, I norden, Tyskland, England. Her på det seneste har vi blevet markant større I Tyskland. Men det er mere mature markets, så derfor hvis vi skal finde vækst, det vil vi meget gerne, fordi vi får mere og mere mælk ind. Vi er jo et cooperativ og som er ejet af bønder reelt, mælkebønder. De producerer hele tiden mere og mere mælk, og det der så får flere medlemmer ind så vil de gerne producere mere mælk fordi det er den måde de kan blive rige på. Og vores rolle er egentlig å kunne sælge all den mælk så lønsomt så overhovedet mulig. Der kan vi tydelig se at væksten er udenfor Europa og meget i de her emerging markets hvor Asien er et områdets som også har en underproduktion af mælk sammenlignet med hvad de egentlig forbruger. Og der er det et interessant perspektiv hvis du som europæisk spiller kan sidde å kontrollere mælk og eje mælk, så kan du forhåbentlig sælge det lønsomt i blandt andet Asien, og Afrika i det perspektiv, og Mellemøsten det er også interessant. Og det er hele CI rolle at i varetage all Arlas aktiviteter og salg udenfor Europa. In a "nutshell", det er hvad vi gør. Og så kan man sige, vores opgave er jo egentlig så å drive det som en portefølje af markeder og muligheder, hvis vi gør det rigtig godt, så er vi gode til at prioritere de forskellige muligheder der er. Og netop her på det seneste har vi fokuseret rigtig meget på Kina, og investere i det. Det er et kæmpe marked hvor vi egentlig har været en hel del år og hvor vi netop har indgået et stort strategisk samarbejde med den største mejerispiller / virksomhed på det kinesiske marked. Med det drev mit team og jeg meget af det her arbejde op til sommerferien. Det var en sådan milliard investering hvor vi har købt op i aktier i det selskab sammen med en statsejet kinesisk virksomhed. Og som egentlig nu både skal sælge Arla brandede varer produceret på europæisk mælk igennem dem som virksomhed og så skal vi også hjælpe dem med at opbygge et kvalitetssystem som sådan i den kinesiske mejerisektor. Så det er meget spænende. Et af de andre store fokusområder p.t. er MENA, det er Mellemøsten og Nord Afrika, det er jo det vi skal tale om. Så har vi meget fokus på Rusland, som også er en pænt stor forretning allerede nu, hvor der er meget vækst og hvor det er vores ambition indenfor nogen udvalgte kategorier, og blive førende i Rusland. Også inden for sit, også nogle større markeder, så har vi et ret stort selskab i USA i Canada, vi har Polen, og den del af CI som vi sidder i her i København heder egentlig rest of World og distributør salg. Det er alle markeder, udover de her som jeg lige nævnte. Det kan være noget sådan som Grækenland, Frankrig, Italien, Brasilien, den dominikanske republik, Bangladesh, you name it, der er simpelthen så mange lande. De håndterer så i nogle tilfælde via direkte salg men i de fleste tilfældet via distributør.

Her i København sidder "rest of World". Så her sidder godt 40 personer eller noget sådan som arbejder med det. Og ellers i hele CI er der godt tæt ved 2000 medarbejdere. Jeg tror over i Jylland, i "centrale funktioner" i Viby der sidder det moske en 50-60, la os sige der er 100 i Danmark, og størstedelen, tæt ved de 1900 – 2000 de sidder ude i markederne.

Kan du fortælle lidt om hvad som er de vigtigste værdi driverne i mælkeindustrien?

Der må du næsten tage udgangspunkt i Arlas strategi, og det mener vi er råvaren, så det er selve kvaliteten af råvaren. Det er egentlig ikke så mange virksomheder inden for mejerisektoren, som også kontrollerer selve mælken. Der er der os, og en stor Hollandsk spiller som heder Royal Frieslandcampina, og så er der en stor tysk virksomhed som heder DMK. Noget af de store konkurrenter, for eksempel Danone, eller Lactalis, eller Nestlé, de ejer ikke mælken selv så den køber de sig til. Vi mener faktisk at hele kvaliteten af forarbejdningen af mælken er utrolig vigtigt. Og netop fremadrettet fordi der peger alt på at der er et overdemand i forhold til supply af god kvalitetsmælk. Derfor er det et stort aktiv å kontrollere, å ha kvalitet i hele den del af forsyningskæden, som er mere rettet til produktion. Det er det vi satser på, og det er det som for os driver logikken bag de fusioner som vi lige nævnte, som det vi har gennemført i Tyskland, også England, som netop også er cooperativ hvor vi kommer ind og får kontrol og adgang over selve råmælken.

Vi kan se nu bare i Kina, grunden til den her store kinesiske mejerivirksomhed synes vi var interessante at arbejde med. Fordi, hvorfor valgte de os, hvorfor valgte de Arla Foods? De kunne ha valgt at finde en industriel samarbejdspartner alle andre steder i hele verden. Fordi den største udfordring i Kina det er forsyningssikkerhed og kvalitet i råvaren. De har haft forskellige skandaler med Melanin indenfor mælkepulver og noget andet, hvor det var flere kinesiske børn som døde, det var frygtelig. I så stort et land hvor de ikke har vært vant til at have kontrol, så har de ikke haft kvalitet omkring selve produktionen af mælk. Så det er noget af det vi skal hjælpe dem med. Derfor syntes de vi var interessante. Så jeg har brugt en del tid på å snakke om selve råvaren, som er vigtig. Så bliver jeg også nødt til at sige at så er der selve den brandede del, det at kunne skabe mere value added mælk i forhold til forældede produkter, og så ha et relevant brand på. Da kan Arla sikkert blive, eller bør, blive bedre. Men vi har nogen store brands indenfor blandt andet smør, Lurpak, som indenfor kvalitetssmør er interessant. Så er der selve Arla brandet som sådan, som vi har på en del produkter. Og så er der Castello indenfor ost, som er de store brands som vi fokuserer på.

Hvad så når i kigge på markeder, hvad der det som drive profit /skabe penge til jer kan man sige?

Der hvor vi kan se hvor den gennemsnitlige lønsomhed er højest, hvis man ser per produkt, så er det mere og mere location based. Så produkter der er "on the go" og som forbrugerne nødvendigvis ikke køber i et supermarked men køber i alle andre typer af kanaler, det er interessant. Og så, jo mere nutrition based det kan være, og økologisk, som fortæller om det er sundt og ernæringsrigtigt, det er fantastisk. Arla er faktisk den førende, største globale producent af økologisk mælk. Så det er et asset som vi har, som vi så skal forstå at udnytte. Blandt andet i Kina på nuværende tidspunkt, så fokuserer vi en del på mælkepulver. Der har vi muligheder for at lasere økologisk mælkepulver. Det er relativt unikt, for det er der ikke ret mange andre, det findes ikke.

Er der stor efterspørgsel efter økologi når man kommer udenfor Europa?

I Kina er der, og specielt når man taler produkter som ved child nutrition, så er det interessant. Det er klart hvis vi begynder at tale Afrika så er det en anden kontekst. Men mere emerging economies er der en meget meget rig upper class, og der kan vi få utrolig gode priser på vores produkter.

Hvilke forhold skal være tilstedet i et marked for at i ser det som attraktivt?

Mælk bliver jo forbrugt mange steder, så jeg tror det vi kigger mest efter det er egentlig hvor vi ser vækst og hvor vi kan se at den consumption per capita der er af mejeriprodukter er relativt lav sammenlignet med hvad vi kan se i Europa. Og så er det vigtig for os at der er adgang til distribution, så derfor det at kunne finde et marked hvor der allerede er etableret distributører som vi kan sælge igennem. Det er alfa omega. Fordi at gå ind på et marked hvor vi selv skal opbygge alt via direkte distribution og salg, det er for besværlig. Jeg tror, hvis du så på det, der er ikke et marked hvor vi ikke ville kunne gå ind, fordi mejeriprodukter de bliver forbrugt i alle markeder, og forbrugerne kender til det så det er ikke et helt nyt produkt vi kommer med. Vi oplever at der er masse af muligheder men vores største udfordring er at fokusere, og så sige hvis vi nu er i Rusland så lad os gøre det stort der. Hvis vi er i Mellemøsten, så lad os gøre det rigtig stort der. I stedet for å at bruge vores ressourcer for tyndt.

I forhold til hvordan i går ind på nye markeder, hvilke overvejelser gør i jer i forhold til brug af forskellige entry metoder?

Der vi jeg tro typisk du vil kunne si at hvis vi går ind på et nyt marked, går vi altid ind via distributør, reelt. Der er fordi man kommer hurtigere til pengene, og det er også mindre risikofyldt. Så det er typisk hvad vi gør. Vi kan se at det er faktisk en utrolig lønsom forretning, å kunne sælge via distributør for du slipper typisk for selv å skulle stå for markedsføring, fordi det er gerne det distributøren gør, så gir vi selvfølgelig nogen tilskud. Men egentlig har man slet ikke marketing udgifterne, du kommer med et produkt og din lokale distributør sikrer egentlig det videre salg. Så når vi sælger via distributør har vi typisk en relativ høj lønsomhed. Vores udfordring er således når vi når et vist loft, der vi ikke rigtig kan komme videre. Det vi så typisk vælger at gøre derefter er at gå ind å lave et joint venture sammen med den distributør, og så købe dem op å få fuldstændig kontrol over det selskab. Meget traditionelt er det så via distributør, så JV og hvor vi ultimativt får kontrol og har vores eget selskab i landet. Det er også hvad vi har gjort hvis vi tager Rusland, det sat vi blandt andet å diskuteret i går, hvor vi har en M&A agenda og godt vil mere. Men det selskab som vi har i Rusland, det er også en lokal russisk spiller, og hvor den tidligere russiske ledelse fortsat indgår og hvor vi så har fået danskere, eller Arla folk, ind i den ledelse. Men det kører stadig væk som et joint venture, hvor Arla så har kontrollen af det, men de tidligere russiske ejere er stadigvæk med i det. I mange af de lande, når vi taler Mellemøsten, så er det også via distributør vi sælger. Fordi de har nogen andre kontakter og et andet netværk til government og public som gør det nemmere at få produkter igennem.

Hvilke erfaringer har i oparbejdet ved at gået ind i andre, som i kan tage med i en potentiel entry i Nordafrika?

Den måde vi kører vores Afrika forretning på drives egentlig ud af vores Mellemøsten forretning. Noget af det er sikkert, at vi føler vi har cracket koden når vi snakker Mellemøsten og den form for smagspræferencer de har, som er ret anderledes end hvad vi ser i Nordeuropa. Der er en relativt stor muslimsk andel også i Afrika, hvert fald når vi taler Nord-Vest afrika. Derfor ser vi en mulighed for i mange af de produkter som har succes og som vi sælger i Mellemøsten, dem kan vi også sælge i Afrika. Så det er det ene. Det andet, som vi har været rigtig gode til i Mellemøsten, det er alt det vi talte om før, med distributør kendskabet og vide hvordan du laver aftaler og hvordan du sælger via en distributør i nogen sikkert ganske komplekse og svære markeder at agere på. Den viden og de tilsvarende typer af distributionsaftaler dem laver vi også i Afrika. Nogen af de skills og capabilities som vi har oparbejdet i Mellemøsten forsøger vi nu å applikere i Afrika. Og nogen af de store markeder, hvis du tager Egypten, er på mange områder et marked som vil minde en hel del om nogen af de mere mellemøstlige varer.

Du nævnte at efterspørgselen efter produkter i Mellemøsten er anderledes end det det er her, på hvilke måder?

Jeg har jo selv rejst meget i Mellemøsten, bland andet var jeg i Sidney et års tid med CI, hvor jeg var i Mellemøsten op til jul og var ude å se i en masse butikker for at se hvad de har af produkter. De har jo smør som vi også har, men bland andet deres ost, altså de spiser ikke ost på samme måde som vi gør. Hvor vi godt kan lige en hård ost om du kan lave skiver af og spise på brød og alt sådan noget, så er deres oste mere smøreoste. De smører osten ud på brød, og hvis de har gulerod og agurk eller noget, så tager de det ned i sådan noget ost å spiser det. Det ville ikke være nogen produkter der jeg personlig selv ville synes der var super lækkert, fordi der står den der smøreost, og den behøver ikke engang at stå på køl. Der er jo selvfølgelig meget varmt der ude, og det er meget relevant at have produkter der ikke er afhængige af at de skal stå på køl. Alt det som vi kalder "long shelf life", altså lang holdbarhed og som ikke nødvendigvis behøver at være på køl fordi det er også sådan som detailhandelen er. Går man ind i et nordisk supermarked så er der kæmpe kølesektioner, og vi har frisk mælk, vi har yoghurt og vi har alt sådan noget. Det har de ikke i samme grad. Det er også helt andre typer af produkter, og den her smelteost kategori er kæmpe stor og smør er også relativt stor. Hvis man ser på hvad Arla så er gode til ude der, i smøreosten så er vi kategorileder og var egentlig den virksomhed som etableret den kategori for 50 år siden eller noget sådan. *Nu er vi i Mellemøsten?* Nu er vi i Mellemøsten ja. Når vi så snakker Afrika så er det egentlig ikke smørosten som vi sælger endnu, fordi de lande som vi specifikt er på i Afrika der sælger vi ikke engang de produkter endnu. I Afrika der prøver vi at sælge mere mælkepulver. Jeg har ikke selv undersøgt det super meget, men de har i værtfald slet ikke den samme detailhandel struktur som vi har. Og har svært ved selvfølgelig å ha den samme grad af opdræt af kvæg, som vi har, og producere mælk på samme måde som vi gør. Derfor er det at kunne sælge mælkepulver til dem som de kan blande op med noget vand, så de kan drikke det å gi det til sine børn, det er vigtig. Så det er den kategori som vi har fokus på i Afrika. *Mælkepulver er vel også en stor del af Arla Foods?* Jeg tror hvis vi tager CI så udgør mælkepulver godt 15 % hvis vi taler volumen af de produkter vi sælger.

Hvordan har i tilpasset produkterne til markedet? Er det helt andre produkter i sælger?

Inden for mælkepulver så kan du kategorisere ud fra hvor værdiforældet det er. Noget af det mest værdiforældede det vi sikkert være, hvis du ser på vores portefølje på nuværende tidspunkt, kan det være sådan noget som det økologiske, og så kan det være uden laktose eksempelvist, fordi det kan en stor andel af befolkningen, bland andet i asien, der er laktose intolerante, så det kan de ikke tåle. Det er det der er value added, og det kan du sælge relativt dyrt. I Afrika der skal du længer ned på den liste, det er mere standard familie ernæring som vi sælger. Og vi er ikke engang gået ind i decideret børneernæringsprodukter. Det andet vi har gjort det er at i stedet for, i de fleste markeder der sælger du en stor bøtte på 400g mælkepulver. Det sælger i sådanne store aluminiums beholdere, men det er svært at distribuere i Afrika, og de har moske heller ikke pengene til det. Så det vi gør er at sælge i det vi kalder "bulk", som er ret store sække som vi sender af sted. Så kan det være en lokal distributør som har den der store sæk, å så kommer folk hen å så for de fyldt op. Hvordan de så afregner det, I don't know. Så har vi tænkt, det må vi kunne gøre lidt smartere. Så da har vi lavet sådanne små pulver sække med kun 8 g som kun lige passer til de lokale mønter. Så kan de komme med en mønt å få én portion mælkepulver i sådanne små tebreve lignende poser.

Kan du fortælle lidt om hvordan i er etabler i Afrika og Mellemøsten, og Nordafrika indtil videre?

Vi har produktion i Saudi Arabien, i Rio. Bare for at forstå hvad er egentlig Mellemøsten for en størrelse. Mellemøsten og Afrika er organiseret under en enhed, og der har vi et regionskontor som ligger i Dubai. Det er ikke noget stort kontor, men der sidder der en regionsansvarlig, og så sidder der noget central marketing som arbejder på å understøtte de forskellige markeder i Mellemøsten og Afrika med marketing materiale, også lave egentlig produktudvikling for der har vi erkendt at hvis de sidder i Viby eller i Danmark og tænker de her forskellige kategorier så ligger Afrika og Mellemøsten relativt langt væk og det er helt forskellige smagspræferencer i forhold til hvad vi ser her i Nordeuropa. Så derfor har vi innovationen siddende tæt ud på markedet for alle de kategorier hvor vi ikke taler smør fordi smør det er sådan relativt globalt marked. Så der sidder en NPD, New Product Development funktion, og så sidder der noget HR og lidt Finans. Så ude i de forskellige markeder er det mere aktivering, så det er salgsstyrken. Der vil sidde en general manager typisk, å så er det salgsstyrken og noget administration. Hele MENA forretningen den udgør godt 35-40 % af CI samlede forretning. Men langt størstedelen af dette er Mellemøsten. Afrika har vi været i den del år, du må ikke spørge mig specifikt hvor mangen, men det er en hel del år. Det største markedet der er Nigeria. Og når man tænker hvorfor lige Nigeria, så skal man tænke at det har sket for måske 15 år siden at man kom ind. Havde man for alvor siddet på samme måde som man ville gøre i dag ved å analysere alle markeder for at prøve å finne ud hvor det er mest interessant. Der har det nok mere bare foregået gennem nogen personlige netværk. Det interessante er nu at der er mange andre store virksomheder i Nigeria, og Nigeria er et super interessant marked. Jeg var til et arrangement med Mærsk også, å Nigeria er faktisk et af de største markeder også for Mærsk. I Nigeria sælger vi via en distributør, og det er sikkert et marked hvor vi omsetter for omkring 400 mio. Der er vi ved at nå toppen for hvad den distributør kan magte, så der begynder vi nu, når man snakker market entry, å si vi skal ha kontrol over det selskab fordi vi synes moske at den distributør burde investere endnu mere i Arla produkter, og i nye kategorier, men hvor den distributør jo også sælger andre typer af produkter. Så det er det der er hele udfordringen når man sælger via distributør, å få fokus på dine produkter. Nu tilbyder vi å købe 51 % så vi får kontrol over det selskabet og får optionen på over de neste 10 år å kunne købe selskabet fuldstændig. Så det sidder vi å arbejder på p.t. I Egypten er vi også, og der er det også via. en mindre distributør på nuværende tidspunkt. Der ser vi på, fordi Afrika er en stor del af vores strategi, fordi hvis vi skal opretholde den vækst som vi har sat i den her region, og hvor den primære vækst er drevet ud af Mellemøsten, så er det svært at blive ved med at få den vækst alene i bare Mellemøsten, fordi vi er relativt store. Vi bliver nødt til at sige at nu skal vi ha endnu mere fokus på Afrika. Så det her er en vigtig del, ikke bare af CI strategi fremadrettet, men også Arlas overordnede strategi. Der har vi så sagt jamen Nigeria det er vigtigt og det er den strong hold som vi har, så der skal vi blive endnu større. Og så har vi udvalgt andre markeder, der screenet vi egentlig alle markederne igennem, og prøvede å finne ud hvad der var mest interessant. Og så er vi kommet frem til at Egypten også er interessant ud fra at det ligger tæt op ad Mellemøsten, er et ret stort dairy marked og er veludviklet. Der ser vi egentlig å overvejer å få en ny distributør, en ny større distributør, et samarbejd med en af de ledende mejerispillere i Egypten. Det er formentlig også en form for JV som vi vil lave med dem. Hvor man kunne forestille sig å si jamen de primære produkter som har succes i Mellemøsten som vi er sikre på at også kunne sælge i Egypten og som vi ikke sælger ret meget af i dag, det kan være smørprodukter, Lurpak, og så har vi et stort brand som er lokalt som heder Puk. Det er nok et af de største dairy brands i Mellemøsten. *Hvad er det for et produkt?* Det startet med det her smelteost, Puk er blevet kendt indenfor smelteost, og så bruger vi også det brand nu til blandt andet Puk mælkepulver, vi kunne også overveje å begynde at producere Puk smør, og noget andet, for så begynder man at kunne leve af dit brand fordi det er kendt. Så det det formentlig ville være er smelteosten som vi kunne få ind, som er kendt her og som allerede bliver solgt fordi mange Egyptere når de rejser rundt så køber de måske Puk over i Mellemøsten, men de kan ikke købe det i tilstrækkelig grad i Egypten. Så det prøver vi at gøre. Og så er der Libyen, som vi også sælger via i dag. Og så har vi sagt, hvad kunne være potentielle nye markeder. Der ved jeg at vi snakker om Ghana, Senegal, og Djibouti, som vi har nået frem til efter denne øvelse vi var igennem. Senegal og Ghana synes vi er super interessante. Djibouti vil man umiddelbart tænke, hvorfor det? Da det ligger over ved Etiopien. Men det var faktisk fordi at i det amerikanske militær der er der en relativt stor base som ligger i Djibouti. Og vores forståelse er at hvis man er stærk, hvis man får solgt i Djibouti så er der distributører her som har masser af relationer ud til resten af det er mere mørke Afrika. Så kan de fungere som distributører, så slipper vi selv for å håndtere alle de her mange markeder og kan egentlig bare sige hvis vi finder en god distributør i Djibouti så håndterer vi egentlig en stor del af Afrika.

Når du siger i screener markederne, hvad der det i kigger efter?

Det vil være sådan noget som hvor stort er det i markedet, hvad er dairy consumption per capita, hvor meget vækst er der, og i stedet for at starte med dem som er very very early så vælger du dem som er lidt mere mature and established dairy markets. Så er vi inde å ser på noget som market risk selvfølgelig, omkring de politiske faktorer og hvor svært det er. Vi bliver nødt til, som en europæisk virksomhed, å addere til corporate social responsibility, å ha nogle etiske retningslinjer. Så vi kan heller ikke lave business hvis det foregår med alt for meget sort økonomi og noget som ikke er i orden. Så den politiske risiko og markedsmæssig risiko den vejer også ind. Når du kan se på alle de her faktorer, så bliver du nødt til at se på, findes der relevante distributører som vi kan komme igennem. Så det er et miks af markedsattraktiviteten, og så adgang til distribution.

Det vi prøver, som er det nye vi satser på omkring Afrika det er å si, vi har gjort nogle erfaringer i Nigeria ved at ha været der i mange år. Å noget af det vi har gjort der det er å få sat et lokalt pakkeri op. Så sender man "bulk" varer, det er typisk også billigere rent custommæssigt og toldmæssigt, så kan du pakketere det lokalt, så det ikke er produceret i Danmark, Sverige, Norden eller Tyskland, men det er faktisk lokal produceret. Så du har et lokalt pakkeri, og det har vi fået etableret her med den partner som vi har i Nigeria. Men det vil jo være en lang rejse hvis du skal ind på et helt nyt marked, så skal du både finde distributør å så skal du overbevise vedkommende om at det mælkepulver vi sælger som heder Arla, eller Puk, det er markant bedre end hvad de måse allerede køber fra nogen andre. That a hard sell, men vi kan fortælle alt omkring vores kvalitet, vi har stort kvalitetsprogram omkring vores gårde og der er virkelig traceability og hvis der er et problem med et produkt så ved vi præcis i hvilket produktions "batch", det er produceret og kan kalde varen tilbage hvis der er noget fejl. Det er det mange andre der måske ikke kan. Så der er virkelig styr på kvaliteten. Men det vi så vil, er at lave sådan nogen, vi kalder dem faldskærmstroppe, det er sådan nogen pakkecontainere. Så du kan forestille dig vi har udviklet sådan nogen containere som vi skal til å teste. Og hvor vi har set ud fra Nigeria hvad der har virket, så er der brug for noget forskellig pakkemaskineri, det sætter vi ind i en container. Så med den lokaledistributionspartner vi har, så kan vi sætte op en container med det samme, så vi allerede kan begynde å pakketere de her produkter. Så ejer vi reelt pakkeriet, fordi det er jo et vigtig aktiv for os. Den distributør sælger sikkert juice og alle mulige andre varer som ikke er vores. Så vi ejer pakkeriet, det behøver han ikke at investere i, og vi kan få det op at køre hurtig. Men vi skal bruge hans salgsstyrke til at få det solgt. Så der har vi med de her forskellige producenter af alt det her pakkeudstyr, fået det standardiseret, fået ind i nogen containere, å så regner vi med at vi vil lande de her pakkecontainere i tre udvalgte lande i løbet af det næste år. De lande er Ghana, Senegal og Djibouti. Vi kalder det selv "low cost, low risk market entry", fordi det egentlig er meget trial and error, hvor man bliver nødt til at komme ind å så finne ud om det fungerer eller fungerer det ikke. Det her det er minimal investering som vi tager.

Hvor meget kender i til markedet vil du sige?

Vi har en dedikeret organisation som ikke tænker andet end Afrika og pulver p.t., som så også potentielt vil tænke andet end pulver når vi vurderer at markedet også er klar til at sælge andre kategorier. Men det er mælkepulveret vi skal have solgt først. Få det op at køre, og distributøren kan se det virker og at det er interessant. Så kan vi langsomt begynde at sige hvad med den der smelteost.

Hvor godt etableret er i Mellemøsten?

Der er vi super godt etableret. Der er vi blandt top tre i alle de vigtigste dairy kategorier. Sådan noget som frisk mælk er vi ikke i. Vi er heller ikke i noget sådan noget som long life mælk. Men vi begynder at gå ind i noget som heder evaporeret mælk, mælk som kan være fløde til kaffen og som vi faktisk også har fundet ud af ude i Mellemøsten at de godt kan lige mælk, men det er dyrt og det er svært at komme til. Så kan de købe, lige som når du er ude å flyve så får du evaporeret mælk i folie, så hælder de vand i så har du et helt glas med hvad de synes er mælk. *Er det det som kaldes pasteuriseret mælk?* Ja præcis, så er det varmebehandlet så det kan holde sig længe. Sådan noget er kæmpe stort i Mellemøsten. *Det er vel fordi de mangler kælesektioner?* Præcis, alt det som du ser i Norden af kæmpe kølediske og frisk mælk og kæmpe yoghurt kategorier, det er noget helt andet. Det er meget mere "on the shelf" produkter som de køber.

Hvor meget af de erfaringer som i har fra Mellemøsten kan anvendes i Afrika?

Det vi satser på, i øjeblikket der er vi i Riga, der er vi i gang med at opbygge kapacitet altså lokalproduktion på det vi kalder evaporeret mælk som er de her typer af kaffefløde og andre ting, fløder som vi snakket om før. Det satser vi på at, for det første skal vi få det solgt i Mellemøsten fordi det er en stor kategori som vi ikke har været i tidligere. Så det forsøger vi nå at penetrere, at komme ind i. Så regner vi med at det er samme typer produkt, og den produktionskapacitet som vi så har i Riga, i Saudi Arabien, at det kan vi så også bruge som kategori i Afrika. Så umiddelbart vil jeg sige at det er meget den samme produktportefølje som vi sælger i Mellemøsten som vi også vil komme til at sælge i Afrika. *Så man kan sige i har nogen fordele ved de erfaringer i har i Mellemøsten?* Ja. I din opgave og sådan noget, lidt tilbage til organisatorisk setup og sådan, jeg tror der er en masse fordele på produktsiden ved at det er tilsvarende typer af produkter. Så er der noget nærhed ved a det drives ud af Dubai. Men der er ret meget at gøre bare stadigvæk i Mellemøsten for at holde den forretning oppe. Kan man så drive i den samme organisatoriske enhed både MENA og Afrika? Det kan man godt, men det er klar at hvis man så separerer det op og så siger jamen nu skal du ha en organisatorisk enhed som udelukkende har fokus på Afrika. Så får du mere accountability og transparens hele vejen op igennem systemet. Så i øjeblikket bare for å understøtte vores Afrika fokus, er vi også ved rent finansielt i vores rapporteringssystem, det er jo noget af de vi kan sidde å se på her i hovedkontoret, i en funktion som Finans. I øjeblikket bliver mange af tallene konsolideret ind under MENA tallene, altså Mellemøsten, men fordi det ikke er en stor del af forretningen så bliver det skjult. Derfor arbejder vi på nu å ændre i den finansielle rapportering, til at få mere transparens på Afrika og dele det op i de forskellige relevante regioner, alt efter hvor vi vil være. Hvor vi så har specifikke targets for, å kan se hvordan performer det land i forhold til målet. I et marked entry perspektiv værtfald, at man rent organisatorisk tænker hvordan får du det tilpasse fokus på det som er vigtig.

Nå sige du at i løbet af et år vil i begynde å placere de her containeren, hvad er så jeres tidsperspektiv i forhold til et fokus på Afrika alene?

Vi omsætter nok for omkring de der 4-500 mio. totalt i Afrika nu, og det jeg kan se som vi har i planen frem mod 2015 det er at tredoble den omsætning i Afrika nogenlunde, i løbet af tre år.

Hvad ser i som de største udfordringer ved en entry i Afrika?

Jeg tror det er organisationen, efter mit perspektiv. Produkterne har vi, jeg tror det er people on the ground som er der og som ikke bare kun indimellem flyver ud fra Dubai eller fra Århus for å skulle til Afrika for at mødes med nogen distributører. Vi har en rigtig strategi, og har udvalgt de markeder som vi vil, og nu er det simpelthen å komme ud å mødes med potentielle distributører, få aftaler i gang og få sat de her pakkerier i gang. Så, det er people on the ground, det er organisationen.

Er i engageret i sådan noget som markedsføring? Hvordan får i jeres produkter ud og hvordan har i fået puk til at blive et brand?

Det er som en hver anden virksomhed. I Mellemøsten der investerer vi jo signifikant i det brand. Og så har vi et andet brand som også er relativt kendt indenfor mælkepulver, det heder Dano. Så det er de to. Men der arbejder vi på en overordnet branding strategi for hele Afrika. Puk er blevet umbrella brandet, kalder vi det, i Mellemøsten. Det er noget Arla har været igennem fordi du har haft så mange forskellige brands, men når man så markedsfører det ene og det andet, så er der ikke noget spinoff fra det ene til det andet. Så du kan egentlig, tror vi på, bygge et stærkere umbrella brand, og så vil der være spinooff fra det brand til de forskellige typer af kategorier. Så det behøver ikke have det samme store marketing spend totalt hvis man så kan markedsføre det mere under et stort brand å så kan du ha nogen forskellige brand varer, Puk butter, Puk cheese og puk noget andet ikke. I stedet for både ha et Dano brand og et Puk brand i Afrika tror jeg nok vi planlægger at migrere mere og mere over i Puk i Afrika.

I forhold til sociale medier, i Mellemøsten har man også en Jamie Oliver type. Han har vi så engageret med og lavet et facebook site hvor han laver noget med opskrifter og sådan noget. Det er blevet meget populært. Også er der folk som har signet op, så nu har de, jeg kan ikke huske helt hvor mange, 250.000 som har signet op til det. Og nu begynder det at blive et aktiv de kan kapitalisere på, så kan de tilbyde retailers, til supermarkeds, å sige at i dit område der har vi 5000 friends indenfor det her univers. Så hvad nu hvis vi på torsdag laver et særlig event i dit supermarked hvor vi laver noget omkring food, og ham her han kommer måske. Så kan vi få trafik ind i butikken. Så de sociale medier det er noget de bruger meget for at få opbygget et brand.

Danone, Nestlé, Kraft og de her store virksomheder, hvis vi synes vi er gode til markedsføring, så er de jo markant bedre end hvad vi er.

Hvordan ser i Arla i forhold til dem? De er vel allerede store i MENA?

Ja de sælger mere, og det er lidt svært. Det bliver lidt svært, det kan blive lidt kryptisk det jeg siger. Hvis vi har en vision om at blive den førende mejeri aktør i Nordeuropa, egentlig i hele Europa. Det vil jo så egentlig sige, men Danone dem burde vi jo ha på radaren til at sige jamen så skal vi være større end dem. Men du skal mere se det udra at vi vil være den største europæiske cooperativ. Det er lidt tilbage til det samme, men vi er sikre på at en stor value add og en konkurrencefordel det er det at vi har kontrollen på mælken, og kan forarbejde den, og hele kvalitetstankegangen. Vi brander os selv også på at være ”closer to nature” og ha mere naturlige produkter uden tilsætningsstoffer og alt sådan noget. Vi vil sige at den type af spillere de er mere kemiske. Så jeg tror hvis man taler konkurrent billede og positionering så snakker vi mere om at vi vil være den førende europæiske dairy player, og med det mener vi at vi har kontrollen over hele værdikæden, fra ko til bord. Det er et andet game end de nødvendigvis ser.
Den største udfordring for os i den strategi det er egentlig å si jamen det er fail, men hvis vi ikke har et stort emerging market footprit, og kan afsætte vores produkter, så har vi et issue for så havner al mælken op i Europa så ændres priserne, så ødelægger vi reelt markedet for os selv for vi skal få solgt den her. Det vi så bliver nødt til at gøre hvis vi kan sælge vores mælk i værdiforøgede produkter og i brandede produkter, så går det enten i private label, som er detailhandelens egne varer, det tjener vi faktisk relativt mange penge på. Men det ødelægger selvfølgelig den brandede forretning. Men det er ikke nødvendigvis et issue for det er noget vi bliver nødt til at leve med, for sådan er detailhandel strukturen. Alternativt så kan vi med al den mælk vi ikke selv kan få solgt, eller gi til private label, det laver vi til mælkepulver som rent standard, og

som vi så må sælge som bulk varer på verdensmarkedet til en eller anden gennemsnitspris. Men for at vi kan tjene så mange penge til vores ejere og bønder som mulig, det bliver lidt teknisk men det er noget der heder mælkeafregningspris. Hvis du er bonde så vil du gerne levere din mælk til det selskab som er mest lønsomt for så kan du jo få den bedste mælkepris. Så det det handler for os om, det er å være rigtig gode til at få opbygget de her internationale salgskanaler hvor vi så forhåbentlig kan få solgt al vores mælk, så meget af den så mulig i brandede produkter og i private label, og ha så lidt tilbage til bulks så overhode mulig. Du skal forestille dig der kommer millioner af liter mælk ind hver dag til vores fabrik, og hvis ikke vi kan få det solgt, hvad gør vi så? Det er ikke så mange andre virksomheder der har den samme udfordring. De vælger jo så bare at stoppe med at købe noget.

Er der nogen særlige udfordringer ved at være et cooperativ i forhold til internationalisering?

Det er interessant. Det synes jeg ikke. Hvis man tager Arla, indenfor de sidste to år bare, der omsatte vi for omkring 50 milliarder, for to år siden. Nu har vi lige gennemført to store fusioner, en i Tyskland og en i England, og vi har lavet det her milliardopkøb i Kina. Så det er kæmpe transaktioner som gør at forretningen faktisk allerede nu når vores 2015 strategi om at omsætte for tæt ved 75 milliarder. Så hvor mange selskaber er der som i løbet af to år står til at kunne vokse med 50 % og gør det relativt lønsomt. Det er ikke sket i Norden, men en del af det som har været Tyskland og England har været for at konsolidere vår hjemmemarked position og sikre den her kontrol over mælken. Men Kina er jo et markant offentlig sats på mere emerging markets, og det skal vi jo ha mere af. Vi skal ha mere Kina, vi skal ha mere MENA og vi skal ha mere Rusland. Det er det hele forretningen fokuserer ind på, det er vækst udenfor Europa, så alt den her fantastiske mæl der kommer ind som er super god kvalitet, den skal vi simpelthen ha solgt internationalt. Så jeg oplever slet ikke at det er nogen udfordring i en globaliseringstankegang å ha den ejerskabsstruktur som vi har. Tvært imod, vi har relativt nem adgang til kapital, vores gearing er også fornuftig, og vi er velkonsolideret. Det er tålmodige ejere som selv har været med til at skabe strategien, selv har været med til at beslutte de fusioner og opkøb som vi har lavet. Så jeg oplever ikke det er noget problem.