Supply chain challenges influencing Arla Foods 2020 strategy

Formed in 2000 following the merger of Sweden's Arla and Danish firm MD Foods, Arla Foods is an international cooperative with over 12,000 shareholders across Europe. In December 2015, the Aarhus headquartered business launched its 2020 strategy 'Good Growth.' Vice President of Supply Chain Excellence, Brian Dohn-Bassøe, explained to Nigel Wright how the strategy works: "Good Growth builds on previous plans and consists of three headlines: excel, focus and win. They represent our emphasis on brands and markets, as well as bringing the organisation closer and embedding a common purpose.

Arla is committed to delivering valued added branded products to its target markets. Its three core brands -- Arla, Lurpak, Castello -- consistently deliver better margin than bulk commodities, which are vulnerable to fluctuating milk prices. Excel, therefore, Brian highlighted is about "excelling the growth of these brands." The Focus aspect of the strategy helps reinforce the importance of Arla's target markets in Europe as well as the USA, Russia, China, the Middle East and West Africa, especially Nigeria. Win or "Win as one" Brian explained, relates to the process of establishing one organisation and providing more flexibility across the business.

A new organisational structure was also introduced. The business has moved from using a local management model for different areas and instead established centralised management teams, therefore saving several positions which were at risk of being lost. "This reorganisation meant we could take 500 FTEs (Full-time equivalent hours) out of the business and bring decision-makers closer to the top, thus making us more flexible and agile."

Rethinking production and logistics to ensure the business is prepared to meet changing customer demands are of paramount importance. As Arla's supply chain champion, Brian is focused on finding €100 million in savings per year until 2020. This is particularly challenging, he noted, due to increasingly complex consumer tastes: "Consumers want locally sourced milk, and this makes scalability and flexibility difficult. Compounding this is the diversification of milk types into organic and GMO (Genetically modified organisms) free varieties, for example, that will proliferate during the next few years."

By segmenting its products into complex and non-complex needs, however, Arla is leveraging opportunities and making gains, while retaining flexibility where possible. Furthermore, although the removal of EU milk quotas has led to increased production from farmers, the fall of prices in China has diminished profitability. Brian anticipates further increases in production will place more pressure on the supply chain. To offset this, the business is working closer with its partners to "share knowledge, boost cooperation and implement cost-effective solutions."

A key target is for Arla to achieve fifty percent of overall growth in international markets by 2020. As Brian explained, the business is currently formulating a new global production footprint to facilitate this, based on a supply and demand in overseas key territories. "African and Asian consumers primarily want powdered products, so to meet this need we established regional packaging facilities to supply those markets. Fresh products such as yoghurt, however, are currently transported overseas from production facilities based in Europe. New methods for drying our products are being developed, therefore, to enable a cost-effective transport solution."

Almost two years in, Brian says Arla is happy with Good Growth's results: "It's made us organisationally stronger and it's much easier and quicker to make decisions and act on them. We achieved our savings goal for last year and we're confident that will be matched again in 2017.