This chapter studies the internationalization of the Swedish–Danish dairy corporation Arla. Production in the dairy industry is almost always conducted locally; dairy products are seldom exported. Yet, the industry is today truly global, dominated by large transnational corporations. Several of them are organized as cooperatives, which is a rare situation among multinationals. In some geographical markets, or in particular market areas, these transnationals – corporations as well as cooperatives – may compete fiercely, and their growth strategy is often to merge with or acquire local producers. However, these multinational firms also actively cooperate in other areas (e.g. in branding or distribution) or on other geographical markets. This may take the form of strategic alliances, such as joint ventures. Thus, coopetition – cooperation and competition – has been a common recent strategy.

In an international perspective, the dairy industry came to consist of large cooperatives from the 1930s, strongly positioned in their respective national markets through alliances with national governments. Very few firms in dairy, with the exception of Nestlé, were truly global before the 1980s. The increasing rate of concentration via mergers, take-overs, closures, and new forms of strategic cooperation occurred simultaneously with the opening of new markets in the Middle East, Asia, and Brazil. This opened up new windows of opportunities for dairy firms. Large firms, including cooperatives, expanded their operations into countries with lower production costs (for example, Argentina and Poland). The bargaining power within the sector has shifted from the industry to the retail sector as a result of the so-called retailization.

Another reality – much related to the previous – is the ongoing and increasing process of globalization or internationalization. The outcomes of globalization imply an extensive industry rationalization and intensified competition at the local, regional and global levels. This pertains both to higher levels of foreign competition and to boost activities of mergers and acquisitions – within as well as across national borders. Changes in competitive conditions are considered to generate changes in business strategies and the behavior of national and transnational firms. Domestic firms, even if they do not compete on foreign markets, must often relate to this process. Firms acting on an international market are forced to diversify the scope of their business beyond their
current market (Wiersema & Bowen, 2008; Bowen et al., 2015). Additionally, each industry has its own conditions and characteristics that differ from other industries. Over time, industry-specific conditions are themselves subjected to transition and changes, industries and industry conditions evolve due to both endogenous and exogeneous changes. Behaviors and strategies – firm entry and exit, growth, expansion, diversification, and consolidation of both established and new businesses – could therefore be viewed as highly context dependent. Analyses of changes in the strategy, conduct and behaviour of firms have therefore been considered to have the greatest potential to be carried out within the context of a specific industry (Klepper, 2002; McGahan & Porter, 1997).

The most important company in this study is Arla Foods (organized as a hybrid with both cooperative elements and limited liability) – from a northern-European point of view, the most important company in the region and the largest producer of dairy products in Scandinavia. Arla Foods was created in 2000 in a merger between Swedish Arla and Danish MD Foods. Arla is the seventh largest dairy company in the world, measured by annual turnover. Measured among dairy cooperatives, it is the third largest in the world. Arla has today expanded both within and outside the EU, and it has had a very expansive strategy, where China, Russia, the Middle East and Africa are considered to be growth markets. Arla is currently conducting investments to improve the market shares in these areas.

This chapter will discuss the internationalization of the Swedish dairy industry, in particular Arla, and address the issues of internationalization theory and how the expansion in this mostly local industry can be understood. However, this is a pilot study and, in the conclusion, we will discuss how the study will be extended in the future.

The aim of this chapter and previous research

In an international perspective, the dairy industry came to consist of large cooperatives from the 1930s, strongly positioned in their respective national markets through the collaboration with national governments. Very few firms in the dairy industry, such as Nestlé, were truly global before the 1980s. The increasing rate of concentration via mergers, takeovers, closures, and new forms of strategic cooperation occurred simultaneously with the opening of new markets in the Middle East, Asia, and Brazil. This opened up new windows of opportunities for dairy firms. Large firms, including cooperatives, expanded their operations into countries with lower production costs (for example,
Argentina and Poland). The bargaining power within the sector has shifted from the industry to the retail sector as a result of the so-called retailization. Today, stockbrokers, day traders and speculators with a global coverage exert an increasing power over the industry. The distance between the cooperative management and members has increased, and many cooperatives have abandoned their traditional values and practices (Nilsson et al., 2012; Ebneth & Theuvsen, 2005).

Currently, the industry is pulled in different directions and international price volatility has also become an important source of uncertainty. For instance, in 1987, prices could be forecasted quite accurately by studying the support systems of each country. In 1997, it became necessary to widen the scope as domestic supply and demand became more important for the market price. In 2007, prices had become related to events in other markets that were beyond or exogenous to the milk market. Some of these are oil prices, the development of ethanol (affecting the price of inputs such as maize or soy beans), the rise in land prices due to the market development of other agro-food products, but also the increased importance of brokers and a rising number of financial instruments for dairy products and the emergence of transnational supermarket chains. The latter is something that has altered the power relations and the structure of the industry and political events during the last few decades, which can be exemplified by the crisis experienced by Arla in 2006 due to Danish newspapers publishing pictures of the prophet Muhammed (Dobson & Wilcox, 2002; Hendrickson et al., 2001; Prenkert, 2013; Rytkönen, 2013; Stephenson, 2007).

This has been equally true for dairy firms in the Nordic, Baltic, and East-European countries since the early 1990s – but in particular since the 2000s. For a long time, Denmark has been a global actor in the dairy industry but in Sweden, the dairy market changed significantly through the merger in 2000 between Swedish Arla and Danish MD Foods. It changed even more when French Lactalis purchased Swedish Skånemejerier in 2012. Finnish Valio Oy has searched for alliances with partners outside Finland, mainly through licensing. Valio has also invested heavily in the exports of health-related niche products to neighbouring countries. For dairies in the Baltic countries, the point of departure is somewhat different. In recent times, Valio Oy and Arla Foods have expanded aggressively into the Estonian, Latvian and Polish markets. Estonian and Latvian companies experienced an enhanced competition and a reduced profitability pressure. The Polish dairy industry has experienced a large number of joint ventures with foreign enterprises.
In the former socialist states in the Baltic Rim, dairy firms are still affected by the transition to a market economy. In the case of Estonia, for example, this meant the disruption of production caused by the restitution of land to farm owners in 1940 (Pedersen et al., 1997). Linkages are not only confined in a ‘West’ to ‘East’ direction where large multinationals such as Arla Foods, Valio, Danone, and others, build alliances or merge with or acquire local dairy producers. A few other examples highlight these linkages and first and foremost concern exports (within the EU: ‘exits’) of dairy products from firms in the Baltic and East-European region. One of the currently largest dairy producers in Poland, Bakoma Sp. Z o. o., distributes dairy products to England, Ireland, Portugal, Slovakia, Hungary, Russia, Lithuania, Estonia and the United States. Founded in 1989, Bakoma is a former subsidiary of French Danone. It was previously listed on the Polish stock exchange, but has been privately owned since 2001. In Lithuania, AB Pieno Žvaigždės is the largest local milk processing company with exports to several EU countries and Russia. Rooted in the 1970s, the company managed to survive the transition to a market economy, and it is publicly listed (several minority shares are held by Swedish and Danish interests). Finally, the Estonian dairy firm Estover OÜ (founded in 1992) is one of the largest dairy producers on the Estonian market, especially in cheese, with a current domestic market share of 40 per cent. Estover is fully based on Estonian capital and mainly exports to its neighbouring countries Russia, Finland, Latvia, and Lithuania, but also to Israel. Today there are around 130 dairy firms in the Baltic States, some of which are small. Many deals, e.g. agreements, ownership acquisitions and mergers between dairy producers during the past 20 years have, in fact, been between local (Baltic) firms. This tendency is also evident for Poland.

Overall, this short and admittedly incomplete description shows that both individual dairy firms and the industry in the Baltic Rim as a whole have gone through vast changes in the last three decades. Large, generalist dairy firms from the Nordic countries and Western Europe – both corporations and cooperatives – have expanded on new markets and have built alliances with each other in these new markets. The large firms have also merged with or acquired existing domestic firms. In the Baltic States and Poland (as well as in Russia), firms rooted in the socialist period have, since the early 1990s, disappeared while some of them have survived – either as independent businesses or as subsidiaries to large multinationals. Finally, entirely new dairy firms, founded during the post-communist era, have been established in the Baltic Rim. These firms have managed to survive the increasing competition with
foreign multinationals in their domestic markets and they also export their products.

The industry additionally reveals a dynamism in the sense that within each country in the Baltic Rim, local (national) dairy firms interlock with, merge with, or acquire other locally based dairy firms. Both private and cooperative dairy firms are involved in cooperation as well as takeovers. In addition, not only dairy firms enter and acquire minority and majority stakes in other dairy firms. Other investors increasingly move into the business, investing in dairy firms in the region.¹ Thus, the strategies and conduct of other firms and institutions that do not have dairy as their core business, but which in reality participate and affect the dairy industry in the Baltic Rim, are also of importance in understanding the development of the industry during the period of interest.

In an important previous study on the inter-firm consolidation of dairy firms, Van der Krogt et al. (2007) explained the strategic choices of private and cooperative dairy firms through resource-based theory: firms can create additional value and gain additional resources, which are not available on the market but are possessed by other firms. A strategic alliance or a merger makes the resource available at a lower cost (Das et al., 2000). In their study of European cooperative behaviour between 1998 and 2002, Van der Krogt et al. (2007) find that the shortage and constraint of equity amongst cooperatives will lead them towards cooperation strategies, such as joint ventures and licensing, while privately owned companies (corporations) will prefer takeovers and/or shareholding. The main strategies of cooperatives seem to be related to coping with different types of risk, e.g. relational risk and performance risks (normal business risks).

Without any doubt, the market structure for the dairy industry in the Baltic Sea Region has changed substantially ever since the fall of the Berlin wall. Available data indicates that the past 20 years show a general trend of a falling number of enterprises engaged in milk collection in the Baltic Rim countries. Table 1 shows that, from the mid-1990s to the present, the number of enterprises in several of the Baltic Rim economies has been reduced by two thirds. A similar pattern is evident for Finland and, to some extent, Denmark. Sweden is an exception, revealing an increasing number of milk collection enterprises. As for the Baltic States and Poland (data available from the early 2000s), the number of enterprises has in a similar way been reduced from the early 2000s.
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Theoretical framework

The theoretical framework of the chapter consists of a set of interrelated literatures that are complementary. Most firms in modern economies are organized as investor-oriented firms (IOFs). Economic theory holds that IOFs are expected to generate and maximize profits to their residual claimants. Economic organization via cooperatives is rarer. Yet, in some industries, such as the agri-business, they are common. While not assuming ex ante in this paper that the strategies and performance of cooperatives and IOFs will neither be similar nor different, we note that the nature of this market – with large transnational cooperatives and IOFs that compete/cooperate with large and smaller firms (and with each other) – forces us to consider this both empirically and theoretically. Cooperatives have clearly assumed governance and strategies similar to those of IOFs; the ongoing globalization of agribusinesses where cooperatives coexist with IOFs is considered as an important area of research (Chaddad & Cook, 2004; Gentzoglanis, 2007; Hansen, 2011; Karantininis & Nilsson, 2007).

Standard economic theory normally views cooperatives as suboptimal in terms of profit (c.f. Alchian & Demsetz, 1972). Research on cooperatives in the agri-food sector maintains that this organizational form has proven to be highly viable. In markets where IOFs and cooperatives coexist, research shows cooperatives to be highly competitive and able to survive in the long term. Common perceptions have been that cooperatives in agribusiness do not maximize their behaviour, and do not seek the potential benefits from globalization. Hansen, among several others, disagrees: agri-food cooperatives operate under exactly the same commercial principles as IOFs – indeed, globalization is a driver for future profits regardless of organizational form, and cooperatives are robust in several areas: vertical integration, supply management, and traceability give them a competitive advantage (Hansen 2009:11, 2011; Notta & Vlachvei, 2007).

The literature on internationalization is vast (c.f. Dunning, 2010; Dunning & Lundan, 2008; Hellman, 1996). Early, Aharoni (1966) and Hymer (1976:1960) developed frameworks for studying foreign direct investments (FDI) and international business. The Eclectic Paradigm (the OLI paradigm; “ownership-, location- and internationalization-advantages”) has been further suggested by Dunning with a framework similar to that of FDI theory, but with the addition of locational factors (Dunning, 1980); his taxonomy focuses on how new institutional arrangements can favor or disrupt a particular location. It is not a completely consistent theory but contributes with a framework of the
processes behind globalization: the paradigm is best viewed as a context for analyzing (highly rational) determinants of international production and less as a predictive theory of the multinational business per se (Dunning, 2010).

Dunning’s (2010) approach also sheds some light on the relative costs and benefits of internalizing rather than using the market. The focus on the interaction between ownership structures, location and internalization is highly relevant in order to understand processes of the transnationalization of dairy companies.

Similarly, the Uppsala internationalization model (Johanson & Vahlne, 1977) establishes that firms internationalize via an incremental process. Initially, firms export or become established on nearby geographical markets; physical distance to a potentially new market is essential. In the light of globalization, Johanson & Vahlne (2009) have further developed the model, focusing more on in- and outsidership and business networks. Internationalization is the outcome of competition for market positions; networks are today often borderless and country-specific factors become less relevant. Johanson & Vahlne (2009:1427) suggest that extended longitudinal studies would add to the understanding of this new model. Recent research developments and models in the internationalization literature have, additionally, focused on other aspects of strategy and learning as a process: under globalization, firms may have increasingly learnt to manage and increase the performance of both international alliances (Hoang & Rothaermel, 2005) and M&As (Nadolska & Barkema, 2007). One problem with these types of models has been that ex post testings suggest that all these models have some explanatory power. Therefore, we believe that other frameworks can complement this literature.

Even if one strand within the internationalization literature specifically focuses on smaller and younger firms (e.g. “Born Globals”; see for example Madsen & Servais, 1997), it often relates to large businesses. The strategic management literature offers one promising avenue for analyzing several different firm strategies, barriers and opportunities in an industry. The concept of strategic groups is defined as firms in an industry that follow similar strategies. An industry is therefore heterogeneous with respect to its members: in an industry, firms within a particular strategic group face conditions that are different from those in other groups. These conditions will lead to a similar performance and behaviour for firms within a strategic group. It will also lead to differences across strategic groups (Hoskisson, 1999; McNamara et al., 2003). Strategic groups are believed to safeguard firms in a particular group from the entry of members of another group. Caves & Porter (1977) and Porter (1979) developed the concept of mobility barriers: economies of scale, develop-
ed networks of distribution, differentiation in products, R&D resources, etc., represent mobility barriers. Thus, at a specific point in time or during a certain period, firms in different strategic groups rarely compete directly – at least not in the short run. A firm seldom migrates to another group; large generalist firms seldom turn into (smaller) specialized firms and (even if there are exceptions), the latter rarely grow into large generalists. Large generalist firms generally grow via M&As and, in several cases, through internationalization. Smaller or domestic firms use other strategies; exports, rather than direct entry, is more commonplace.

The standard assumption in economic theory is one of homogeneity: firms in a particular industry only differ with respect to their market shares. Empirical industrial economists, however, regularly distinguish large (macro) firms from smaller (micro) firms (e.g. Tremblay et al., 2005). Organizational ecologists hold a similar view, where firms in different groups seldom compete directly for the same resources, at least not in the short run (Carroll & Swaminathan, 2000).

Furthermore, the strategic alliance literature can contribute to the theoretical approach. Strategic alliances are partnerships with the aim of achieving strategically significant objectives – such as acquiring technology, accessing specific markets, reducing financial or political risk, or achieving or guaranteeing the competitive advantage. This phenomenon is often considered as market collusion (Elmuti & Kathawala, 2001). While two or more businesses may compete directly either in a particular market segment or on a particular (geographical) market, they may ally in others. Alliances can take many forms but essentially partners should be free to exit (conceptually excluding mergers and acquisitions from the definition; Murray and Mahon, 1993). Alliances have become increasingly common in the last few decades. Past empirical results indicate that more than half of all strategic alliances fail (Park & Ungson, 2001). While this does not imply that ‘rational’ taxonomies of intra- or cross-border strategies of firms are not useful as conceptual and theoretical frameworks (c.f. Dunning, 1980; Johanson & Vahlne, 2009), it does suggest that the performance outcomes from alliances may vary across time. Depending on the time frame, diverging results may therefore appear.

Finally, there is a recently increasing development of the literature on coopetition. In several instances, this concept relates to the above literature. However, cooperation is not necessarily regarded as collusion – rather, partners, customers, as well as the market may benefit from coopetition. Coopetition is therefore context-specific. Since the early 2000s, national and transnational coopetition are increasing in importance for firms (Gnyawali & Park,
14. BOTH A COOPERATIVE AND MULTINATIONAL

2011; Walley, 2007), also in the dairy industry: in their multiple-case study of coopetition in different industries, Bengtsson and Kock (2000) specifically draw on the dairy industry in Finland in, which the largest dairy producers (including Swedish–Danish Arla Foods) to varying degrees cooperate in several areas such as distribution, storage, and marketing. At the same time, they fiercely compete on the retail market. The very process of coopetition suggests that the competitive and cooperative parts of a coopetitive relationship should perhaps not be divided between actors (firms) but, rather, between activities. Coopetition is a dynamic relationship: coopetition between firms – or activities – can transform, change, disappear and re-appear (Bengtsson et al., 2010). The research on how coopetition affects firm performance in terms of benefits, costs and survival is limited. Much of the economic policy of these days supports competition, despite the fact that recent research suggests that coopetition is becoming more common. Therefore, there is reason to carry out empirical research on coopetition at the firm, the industry as well as the market level (Bengtsson et al., 2010; Walley, 2007).

The case of Arla

Arla in the early days – expansionism before globalization

The story of Arla has been characterized by expansionism since its early days and it also reflects the history of the dairy sector in Sweden and therefore follows the same development phases as the industry, namely (1) organization of the trade, (2) regional consolidation, (3) national expansion, and (4) internationalization. The first phase grasps the organization of the trade following the international dairy crisis in the early twentieth century. During this phase, dairies were organized into regional entities and a national industry association, namely the Swedish National Dairy Association (SMR). The initial role of SMR was to negotiate with the government, but also to contribute to the self-imposed rationalization of the trade following the 1932 agreement between the farmers’ association and the state. The role of the regional organizations was to be instrumental and implement the rationalization of the industry.

For Arla, the story starts with the foundation of Lantmännens Mjölkförsäljnings-förening (without personal liability), later on renamed MjölkCentralen in 1927 and again renamed Arla in 1975. MjölkCentralen was the regional entity for the Stockholm area, but the difference between MjölkCentralen and other regional dairy organizations was that MjölkCentralen soon started to expand outside of its region, gaining presence in some of the most populated markets in Sweden. The purpose of this cooperative was initially to bring order
into the expanding milk market in Stockholm. Rapidly, the cooperative expanded geographically by taking over or merging with other dairies. The first wave of expansion was directed towards the Stockholm area and after that it took control over the supply in Östergötland by purchasing or merging with the existing dairies. The purpose of the expansion was to satisfy the growing demand on the Stockholm market. In Östergötland, a large-scale structural rationalization with mergers and acquisitions started to accelerate in 1938 (Rudeberg, 1945). By 1957, MjölkCentralen dominated the market in Östergötland and there were no independent dairies left.

The consolidation of MjölkCentralen was pushed forward as SMR appointed a committee of experts on September 1 1959 to study the future organization of the Swedish dairy sector. The main reason was that the initial process of consolidation had been completed and the regional organizations started to lose importance. The committee presented its conclusions in April 1965 (Mejeriindustrins regionala områdesindelning, Anon. 1965). The report argued that the most efficient solution was to divide dairy Sweden into five regions: South, West, East, Lower Norrland and Upper Norrland, where only five dairies were to exist in the future.

MjölkCentralen started to plan and concretized some of the mergers already before SMR made the plans for the national division in 1965. In 1962, MjölkCentralen took over NEN’s dairy retail firm in Stockholm and merged with several dairies in Skaraborgs county beginning already in 1960. It is important to state that MjölkCentralen had already been engaged in takeovers and mergers with local dairies from its very start and it had expanded outside Stockholm at an early stage. The main reason was the growing demand in the Stockholm market (Rudeberg, 1945) and the inability of local farms and firms to fill the demand gap (Lindorm, 1955).

A merger between Arla, Ölandsmejerier and Gefleortens Mejeriförening was initiated in 1991. The process with Ölandsmejerier initially went as planned; however, the government (the previous competition authority) dissolved the merger and Gefleortens Mejeriförening was re-instated. The argument was the dominant market position of Arla and that further concentration could distort the domestic market. This outcome ended Arla’s possibilities – at least for a few years – to expand on the national market. In addition, already in 1978, SMR had abandoned its idea of a dairy monopoly, meaning that Arla did no longer have the possibility to continue its growth strategy within Sweden. Thus, already at this point, there was an incentive for expansion abroad.

The latest mergers at the national level were conducted in 2011 and 2012. First, Arla Foods acquired the cheese producer Boxholm Ost AB, which also to
put an end to the attempts of Skånemejerier to expand northwards. Second, Skånemejerier was in 2011 acquired by the French TNC Lactalis, which raised the level of competition in Sweden. In the following year, Arla Foods more or less forced Milko into a merger, thereby eliminating the largest national competitor and efficiently stopping the expansion plans of Skånemejerier.

Arla foods – a process of global expansion

The global expansion of Arla coincides with several events at the national level. First, the domestic milk consumption stagnated, which led to the realization that it was necessary to find new markets. Some market innovation was done through the launch of a new lifestyle marketing campaign that boosted the consumption of latte amongst Swedish adults in 1985 (the Café au lait campaign). This was a success but not enough to absorb the upcoming surplus supply. Second, and as noted, the government made it clear to Arla that growth through domestic mergers was not a viable option. Third, the price regulations of and the subsidies to the dairy sector were gradually dissolved. Already in the 1960s did the productivity gains at a global level keep prices at a low level (Rytkönen, 2013a:19–40). In the 1980s, the inefficiency of the agricultural sector and the political rationale of agricultural regulations became political debates (Bohlin et al., 1985). This ended with the abolishment of the agricultural regulations in 1991 (Lindberg 2008: 29–54). The institutional deregulation coincided with the Swedish EU-membership in 1995, which ironically led to a re-regulation of the agricultural sector. However, the EU regulations – for instance setting production quotas in every member state – also removed the trade barriers and the toll for transporting milk within the union. This was the fourth and most important incentive and enabler for Arla to expand internationally.

But since Arla lacked the infrastructure and the financial resources to become a global player, a suitable partner was crucial for realizing the plans. The general idea was to create a Scandinavian cooperative, or as stated in Arla’s annual report in 1989: ‘The dream of a large Nordic dairy company was brought about’. As a backdrop, it should be mentioned that the dairy sectors in the Nordic countries had been concentrated to one major cooperative on each market. In Sweden Arla, in Norway Tine, in Finland Valio, and in Denmark Mejeriselskapet Danmark (later on MD Foods). Arla commenced merger negotiations with Finnish Valio, (which failed) and later on with Danish MD Foods. This led to the merger between Arla and MD Foods in 2000. Both Arla and MD Foods had a similar internal structure with regional divisions, one vote
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per member and a financial strategy based on (equity) capital inputs from members (Arla Foods Statues). The most important driving force behind the merger for Arla was that MD Foods had almost a century of experience of international business. Thus, the main motives of the merger were to gain financial capability and experiences of conducting international businesses. Until this point, Arla had occasionally exported dairy products, but it was imperative to become better equipped in order to internationalize successfully.

Arla Foods has followed two different routes in the international expansion, First, through mergers with European (first degree3) cooperatives as a consistent strategy of gaining a strong base in the European market and getting access to international market channels. This expansion has included cooperatives in Germany, Belgium, the Netherlands, Luxembourg, and the United Kingdom. Second, access to strategic assets is mainly achieved through various types of agreements and joint ventures. One such example is AFISA, a joint venture initiated together with the Argentine cooperative SanCor, which was undertaken in order to obtain both a position within the Mercosur market area, but also to access cheap milk powder and ingredients to be exported to the Middle East. One example is Brazil. Already in 1986 did Arla commence a 50/50 joint venture with the domestic company Vigor and that cooperation was further extended in 2014 when Arla acquired shares in the mother company. A similar arrangement has been development in China with the company Mengniu. Another example is a strategic agreement of market cooperation with Fonterra for the Latin American market (Arla Foods, AR 2001–2015).

In fact, by searching in the database Zephyr, a search through the name of Arla Foods yields information on 25 M&A, of which at least half are acquisitions and the rest in some way reflect mergers or strategic collaboration (Zephyr search, 2018). Through the home page of Arla, a few of the total number of transactions, mergers and acquisitions can be followed:

- 1992: Arla takes a stake in the Copenhagen-based dairy, Enigheden, owned by Kløver Mælk of Denmark.
- Partnership Arla’s subsidiary and MD Foods in Finland – later on expanding acquiring Ingman.
- MD Foods has prior to the merger 2000 exported to the Netherlands, Belgium, Iceland, Greenland, Faroe Islands, Italy, Spain, Greece, entire Eastern Europe, Lebanon, United Arab Emirates, Kazakhstan, Egypt, Libya, Yemen, Russia, Argentina, Dominican Republic, South Korea, Bangladesh, Pakistan, India and South-east Asia (in particular Japan), subsidiaries in Norway, Estonia (Arla’s subsidiary), France,
Saudi-Arabia, United Kingdom, Germany, and joint-ventures in the United States (White Clover Dairy), Canada (Amalgamated Daires Ltd), Brazil (under the name Danvigor), Argentina, and United Kingdom (with Fonterra from New Zealand).

- The crucial merger between Arla and MD Foods in 2000 and the creation of Arla Foods with the following divisions; Sweden, Denmark, UK, Europe, Overseas, Arla Foods Ingredients, Products, and Members.
- In 2001 Arla Foods and Argentinean SanCor initiate a joint venture, AFISA to produce milk powder and ingredients to the Middle East.
- 2004 Arla acquired the National Cheese Company, Canada, thus gaining access to the entire Canadian cheese market.
- 2004 Arla initiated a strategic partnership with Mengniu Company (China) to produce milk powder for the Chinese market.
- 2005 Arla acquired companies in Qatar, Kuwait and Lebanon as a way of targeting the Middle East market.
- 2006 acquisition of the White Clover dairy in Wisconsin (United States). The purpose was to expand into the American cheese market.
- 2006 the Tholstrup Cheese company was acquired, adding the Castello brand to Arla.
- 2006 acquisition of the Finnish dairy Ingman Foods Oy.
- 2007 merger between Arla and Express Dairies in the UK. This merger leads to the largest dairy supplier in the UK, Arla Foods UK plc.
- 2007. New joint venture with Artis (Russia). The new company was named Arla Foods Artis LCC.
- 2008 major parts of the financial operations are moved to Gdansk, Poland.
- 2009 Arla acquired Friesland Fresh Foods in Nijkerk (Netherlands). The company’s name was changed to Arla Foods BV.
- 2010 a joint venture is announced with Westbury Dairies Ltd (with Arla Foods UK).
- 2011 Arla and Hansa-Milch eG (Germany) merge and thereby an additional 670 German farmers became cooperative owners of Arla Foods.
• 2011 EU’s competition authorities gave the go-ahead for Arla Foods’ acquisition of Allgäuland-Käsereien in Southern Germany.
• 2012 two new large mergers were completed with Milch-union Hocheifel MUH (Germany) and British Milk Link. The mergers meant that Arla Foods grew from 8,024 cooperative owners in Denmark, Sweden and Germany to 12,300 cooperative owners in Denmark, Sweden, Germany, Belgium, Luxembourg and the United Kingdom.
• 2012 Arla signed agreements with China’s leading dairy company China Mengniu Dairy Company Ltd. and with the leading food and beverage company in China, COFCO Corporation.
• 2014 the Russian business is put on hold in the wake of the international embargo on Russia.
• 2016 Arla launched a new executive management team built around specific functional areas and with commercial markets organized in two geographical areas; Europe and International. The aim was to build one global supply chain organization and no longer expand through mergers, but through organic growth.
• 2018 acquisition of the remaining 50 per cent share of Arla Ingredients in Argentina.
• 2019 acquired cheese production facilities in Bahrain.

In 2019, Arla is, as noted, was divided into two major divisions, Europe and International. In Europe, the largest market – measured in turnover – is the United Kingdom with 36 per cent of the portfolio. Sweden and Denmark together have almost the same amount, and Germany about 17 per cent. The region consisting of Belgium, the Netherlands and France and, finally, Finland only have 5 per cent each. The international division is dominated by the regions Middle East and Northern Africa with altogether 35 per cent of the turnover. The rather wide region ‘rest of the world’ has more than one fourth of the portfolio. North America stands for 14 per cent, South-East Asia and China each have about 10 per cent, and finally West Africa’s (of particular importance, Nigeria) share is about 7 per cent (Arla AR, 2019).

In short, Arla used different expansion strategies on different markets. In Western Europe, it acted as a producer’s cooperative, making farmers on new markets co-owners. However, on other markets it used coopetition measures (both collaboration and competition), normally through the cooperation with other dairy corporations, as a means of expansion. And, in other cases, it conducted itself as ‘normal’ multinational corporations and created subsidiaries.
Thus, the example of Arla Foods shows signs of a classical pattern of internationalization but also a pattern that exploits the advantages of being a cooperative and merging with similar organizations in Western Europe.

Conclusion

This chapter is the first attempt to look more closely at the internationalization of the dairy industry. In the future, the intention is to expand the focus on this sector from a world-wide perspective but with a specific attention on Northern Europe from the 1980s to 2020. The intention is to study the strategy, conduct and performance of firms in the dairy industry using both case study methodologies and quantitatively oriented research strategies. An important purpose of having a Baltic and Scandinavian perspective is to shed some light on the impact of economic integration and competition in the Baltic Sea region after the fall of the socialist regimes. There are several interesting issues that will be further investigated in the future.

First, compared to other industrial sectors and the financial sector, the dairy industry is by nature a local business. The production, distribution and sales of dairy products have, with some major exceptions such as, for instance, French cheeses and Italian Parmesan, historically been concentrated to a domestic market. In other words, production in the dairy industry is almost always conducted locally and dairy products are traditionally seldom exported. However, this has changed considerably, and the industry is today global, dominated by large multinational corporations and this change of strategy is something that happened in the last three decades and coincided with the fall of the socialist economies in Eastern Europe (Olsson et al., 2019). In addition, compared to other industries, the internationalization of the dairy industry is a rather new phenomenon and closely connected to major economic and political changes that have occurred since the fall of the Berlin Wall.

Another issue is that several of these transnationals are organized as cooperatives and they are, in other words, owned by their customers. However, to some extent, and on specific foreign markets, they have acted as traditional multinational corporations. In addition, in many cases, there exist hybrid organizations, meaning that cooperatives have daughter companies that are organized as joint-stock companies. From this perspective, it is very interesting to learn more about the strategy and how these corporations are organized, and if there are any differences in the strategies on domestic and foreign markets. In the case of Arla, the company has been using different strategies on different markets. Mergers with cooperatives in countries like Germany, the United
Kingdom, the Netherlands and Belgium have rendered an expansion of the cooperative and made farmers in these markets owners of the company, while in other countries the expansion has not entailed transferring ownership at all, and corresponds more to traditional behaviour among multinationals.

Third, the transnational dairy corporations have been using different business strategies on different markets. In some geographical markets, or in particular market areas, these transnationals – corporations as well as cooperatives – may compete fiercely, and their growth strategy is often to merge with or acquire local producers in Eastern Europe and in the Baltics. However, the transnationals also actively cooperate in other areas (e.g. through common branding or distribution) on other geographical markets. This may take the form of strategic alliances, such as joint ventures, but also emerge through other kinds of collaboration on specific markets. Thus, coopetition – simultaneous cooperation and competition – has been a common recent strategy among the dairy multinationals and has created unique patterns of internationalization. Naturally, different forms of collaborations have been shown among traditional multinationals, but the dairy industry still shows unique features, maybe caused by the local character of its products.

In addition, as noted, an important part of the internationalization of the dairy industry has taken place through mergers and acquisitions, in some cases through providing ownership to local farmers, and in some cases through buying local firms, and in others through collaboration. This complex strategy of both acting as cooperatives and profit-seeking organizations is very interesting and studies of this strategy can further give us insights into an internationalization process that may create problems with the corporate governance for the dairy multinationals, or maybe be a solution for creating sustainability in international organizations. In addition, future research will look more closely at the activities of M&A in the dairy industry from a worldwide perspective to investigate whether these activities can give us some additional knowledge about the strategies behind the internationalization of the dairy industry, but also contribute to merger theory.

In this chapter, we have mainly discussed the Swedish–Danish Arla but the intention is to include a wider geographical area, in particular the Baltic Sea region. In the case of Arla, the company has expanded into the Baltics through different business forms. Linkages are, however, not only confined to a ‘West’ to ‘East’ direction where large multinationals form alliances or take over local producers. Several Baltic and Polish dairy firms (privately owned as well as cooperatives, rooted in both the socialist and post-socialist era) compete and export their products both outside and inside the EU. Since the 1990s, some
have failed while others have managed to survive and grow. The entry-exit behaviour, strategy and performance of these local firms are of equal importance and can give us some insights into the international integration within the dairy industry, but also the actual integration of the ‘West’ and ‘East’ parts of the Baltic Rim.

Considering these major different features of the dairy industry, as compared to other businesses, previous theoretical insights must be questioned, and we will discuss a wide variety of different theories in the field of FDI and international trade to be able to explain the internationalization of the dairy industry. In this chapter, the case of the Swedish–Danish Arla Foods gives us evidence that many of the mentioned complex issues about internationalization in the dairy industry have been present and expanding the study to additional corporations and markets can hopefully give us an opportunity to better explain the internationalization of the dairy industry in the northern part of Europe.

1 For example, East Capital Asset Management AB, a privately-owned investment manager in Sweden that manages equity and alternative mutual funds, specializing in Eastern European markets, has in recent years acquired several shares in Latvian AB Pieno Žvaigždēs (Acuner, 2002:125, Zephyr Database, February 20 2015).

2 Arla Foods aggressively offered farmers much higher milk prices than Milko could offer if they took the decision to merge with Arla Foods.

3 A first-degree cooperative is owned by individual farmers with the principle of one farmer, one vote, and in this type of cooperative, corporate power is quite strong, while the power of ownership is diluted by the numbers. In contrast, a second-degree cooperative is owned by a number of first-degree cooperatives and thus the number of owners is smaller. Thus, the power in such cooperatives is always in the hands of the owners.
References


Bureau Van Dijk. Orbis and Zephyr databases.


