

The influence of business strategies on the supply, demand and market development of organic food in the Nordic countries

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Abstract

This paper discusses the development of the production and markets of organic milk at two dairy companies, namely Arla of Sweden and Tine of Norway. After the re-launch of organic milk, sales developed differently at the two companies. In order to investigate why this was the case, we carried out and compared two case studies examining the changes in rationality, goals, strategies and measures for the ecologically products. We discovered essential differences in the two companies. In Arla, in contrast to Tine, organic milk fills a defined need in the company; it is integrated into the overall market strategy to strengthen the value of the company trademark. Consequently measures are developed to enlarge both markets and production, e.g. giving the consumers arguments to buy organic milk and using funds for advertising.

Keywords: organic milk, business strategies, marketing

Introduction

In the debate concerning why there is variation in the development of markets for organic products both within and between countries, two reasons are often given: weak demand and poor development of the product supply. In the first case, low sales are accounted for by referring to low consumer demand; in the second case, the emphasis is on the consumer having a poor choice of organic products in comparison to conventional products. Both explanations may be relevant, depending on the level of development the organic market has reached. In this paper, the emphasis is on the development of the production and market for organic milk in Sweden (Arla) and Norway (Tine)¹. As Figure 1 demonstrates, sales have developed differently at the two companies. Our overall question is, whether the differences can be explained by the different strategies of the two companies. We will examine whether it was rational for the dairy industry to develop production and markets for organic milk, and how the strategies and measures employed by the dairy companies have influenced production and market development.

Materials and methods

By means of the two case studies of the dairy companies Arla (Sweden) and Tine (Norway) we have studied changes in rationality, goals, strategies and measures for organic products. The study examines the period from when the companies first launched organic milk up through 2001. The data collected is both qualitative and quantitative, with an emphasis on interviews of employees in the two companies and analysis of various documents. The companies have provided us with figures for the development of sales of organic milk as a percentage of the total low-fat milk sales.

¹ In the presentation at *Nordic Agriculture in Global Perspective 2005*, we will also include analysis of the case of MD Foods of Denmark.

Results

Based on the empirical data we have classified the development of the production and sale of organic milk into three phases:

- Phase 1: the first generation of organic milk produced by the companies;
- Phase 2: the re-evaluation of roles, goals, strategies and measures for organic milk;
- Phase 3: the second generation of organic milk production and sale was launched, with important changes to the product and marketing strategy from the first launch.

In Table 1 we show the dates for the first and second launches of organic milk at the companies, together with some characteristics of the products offered.

Table 1. Year and product for first and second launch by Arla and Tine.

Company	First launch		Second launch	
	year	Productprofil	year	Productprofil
Arla	1991	Ekomjöljk, 2.0%	1994	Ekologisk, 1.5%
Tine	1995	Dalsgården, 1.5%	2001	Økologisk, 1.5%

In the figure below year 1 corresponds to 1991 for Arla and 1995 for Tine (first launch of organic milk). The re-launch was in year 4 (Arla) and year 7 (Tine) in the figure.

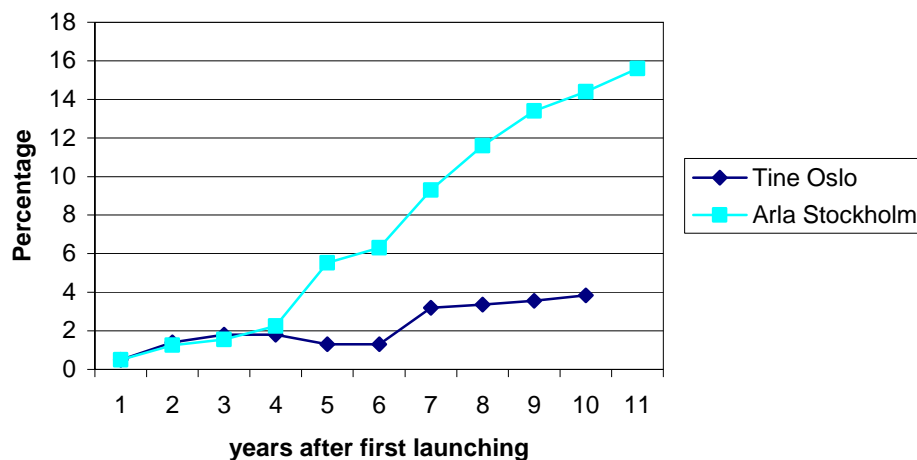


Figure 1. Sale of organic low fat milk as a percentage of conventional low-fat milk sales in Stockholm and Oslo. Re-launch in year 4 (Arla) and in year 7 (Tine).

Phase 1: The first generation of organic milk

This phase was characterised at both companies by the fact that organic milk was launched on the market as a special product targeted at a small group of consumers. The difference in relation to conventional milk concerned several aspects of production. For instance, the fat percentage was different from that of standard milk; it was non-homogenised; and the packaging was different. Commenting on this period, the development manager at Arla remarked, "It was as if we were selling motor oil". At the same time, the product was released at a relatively high price, distribution was not as efficient as for traditional milk, and the advertising and in store profiling was far weaker. The strategy and measures were developed

to meet demand from consumers who were already strongly motivated to buy organic products. As the sales figures in Figure 1 indicate, sales lay between 1% and 2% of the low-fat milk sales during this period.

The companies did not consider organic milk to be an interesting product from a commercial perspective, and it did not fit in with their established values. It was a 'non-compatible' product. Organic milk was considered, especially by the farmers, but also by the employees of the companies, as being a problematic product for conventional agriculture and dairy industry. It was therefore deemed not to be economically rational from a commercial perspective to develop production and markets.

Phase 2: Re-evaluation of organic milk's role

Weak sales figures resulted in a negative reaction from markets, organic farmers and the authorities. External pressure and internal motivation in the companies resulted in a re-evaluation of goals, strategies and measures. Arla of Sweden undertook the most critical analysis of its strategies and measures. The Arla marketing department challenged the board to think anew, regarding the view that organic milk stood in opposition to conventional milk. After a long and hard debate, in which both parties had to compromise, a balance was reached. It was agreed that organic milk should not be marketed as being better than conventional milk, but the product should be profiled in such a way that it provided consumers with reasons for buying it. During the launch campaign of phase 3, organic milk was described as '*the milk of the future*'. Organic milk was given a new role at Arla. Organic products were developed so as to contribute added value to the company by identifying their trademark with an environmental image. One of the employees in the marketing department expressed this in the following manner:

"We see the product as providing a good image for Swedish agriculture - a pioneer product. When we advertise organic milk we advertise all our milk."

Consequently, it became an aim to increase both production and sales. Arla set a production goal for organic milk of 10% of total milk sales, to be reached by the year 2000. Due to a re-evaluation, organic milk came to be considered as a commercially interesting product. It acquired a business-strategic importance within the company.

Discussion was also initiated at Tine between the marketing department and the board concerning the established view that organic milk was contrary to conventional milk. This resulted in the board altering its outlook concerning organic milk, which was now considered to be a supplement to conventional milk and not necessarily of better quality. However, it has taken a long time for this change of attitude to be established further down in the organisation. At Tine, organic milk was not given the role of strengthening the Tine trademark, and the company never developed a strategy concerning what the company intended to do with the product. The person responsible for organic milk at Tine says:

"There has not been a high level of awareness at Tine concerning the place of organic production within the company. The possibilities have not been fully exploited (...) nor has the commercial aspect been an important motivating factor for Tine."

Phase 3: The second generation of organic products were launched

In accordance with the re-evaluation of phase 2, organic milk was launched again at both companies as a general product aimed at a broader group of consumers. The packaging design and product characteristics were normalised in relation to conventional milk. Both Arla and Tine launched products using the trademarks of the respective companies. At the same time, the price was reduced, and the distribution and profiling strengthened. The ambition of these measures varied between the companies in relation to the differing motivation factors and the commercial potential as expected by the company. We have found one exception: the

consumer price. At the re-launch year and one year later consumer price in Norway and Sweden has been at the same level, relatively to conventional low fat milk (Table 2). But the price reduction two years after the re-launch in Norway (to 177% of conventional milk) occurs in the shops without any price decline from Tine. This shows the importance of retailer's strategies and measures.

Table 2. Consumer price as a percentage of conventional low-fat milk at re-launching and years later.

Company	At re-launch	1 year later	2 years later	4 years later
Arla	128	128	127	122
Tine	128	125	117	-

Data: Arla, 1999a & Tine, 2005a.

Both companies adopted measures to increase production, which was successful in both cases. After the re-launch in 2001, Tine anticipated an increase in sales which would correspond to the sales achieved by Arla after their re-launch in 1994. As figure 1 indicates, the companies achieved a response from the market through increased sales, but for Tine the growth flattened out after a short period. Stagnation resulted in resignation within the marketing department at Tine, and after the launch-campaign in 2001; the product was not followed up with campaigns, except in special shops in cooperation with retailers. Arla has used significantly higher funds on advertising than Tine (see table 3).

Table 3. Budget on advertising at re-launch and years later.

	At re-launch	1 year later	2 years later	3 years later
Arla, million SVK.	5-10	3-4	4-5	3-4
Tine, million NOK.	5	0,5	0,5	0,5

Data: Arla, 1999b & Tine, 2005b.

In contrast with Arla, Tine has not had a proactive marketing strategy for organic products, but a demand-pull strategy, in which the company's aim is to reach consumers who already prefer organic milk. Tine does not see it as their responsibility to

“...answer questions concerning why the consumers should buy organic products, although it seems to be the main question consumers ask at the present time.” (Bruset, 2003).

Director Bjørg Bruset in Tine believes also that organic milk will never be an area of the company's operations where their efforts will be focused to any great extent – the volume is too small for that, she said.

Discussion

Innovative products should at least offer relative advantages and also correspond to established values, if they are to fulfil important conditions for diffusion and adoption (Rogers, 1995). This was not the case during phase 1 amongst the employees in the companies or the larger consumer groups. As far as the companies were concerned, organic milk was viewed as being a 'necessary evil' of no commercial interest, which was only marketed in order to satisfy the organic farmers, the authorities and a small group of consumers. The companies did not consider it as their responsibility to develop markets for

organic milk. The diffusion theory indicates two ways of improving the conditions for adoption (Rogers, 1995):

- Modify the product to the company's needs, technology and culture;
- Change established values and perceptions within the company.

The companies used both of these strategies in phase 2, but Arla were more thorough in assigning their organic product a completely new role. Their organic milk fills an internally defined need in the company; it is integrated into the company's overall strategy. The motivation at Tine has changed little since phase 1. Although the same external changes were made concerning the product as in Arla, the product was not assigned an expanded role in relation to their overall market strategies. Hence resulting in a far weaker signal being sent to the employees, concerning the importance of the product; and the profiling aimed at the consumers was also much weaker than was the case at Arla. In 2002, after stagnation in sales, the marketing department became resigned, which in turn affected the motivation of the sales personnel. This result corresponds to other studies (Forbord, 2001; Heidenmark, 2000).

There may also be other reasons why the development of sales differed greatly between Tine and Arla. Conventional agriculture may have a stronger position in relation to consumer trust in Norway than it does in Sweden. Such differences are shown between Norwegian and Danish consumers, but these studies also found that the most important reason not to buy organic food in Norway was due to lack of products in the stores (bad products supply) (Bjørkhaug & Storstad, 2001). Experiences from stores-tests in Norway show a considerable increase in organic milk sales where the product offer has been essentially improved (Ren Mat, 2005). This also support our results that weak product offer is a reasonable explanation for low sales statistics when the market is underdeveloped.

Conclusion

The different roles and strategies for organic milk within the companies may explain the different development of sales. In Arla:

- organic milk fills a defined need in the company; it is integrated into the overall market strategy to strengthen the value of the company trademark;
- measures are consequently developed to enlarge both markets and production, e.g., giving the consumers arguments to buy organic milk and using funds for advertising.

Tine is lacking an internal motivation for the product. The product has not been assigned any specific role in Tine's overall business strategy and is not seen as a product of commercial interest. The motivation is connected to fulfilling the company responsibilities by meeting the interests of organic farmers, authorities and some consumer groups. This motivation influences the design, strength and implementation of measures, and does not give sufficient signals to either the employees in Tine or the consumers.

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