

CAUGHT IN THE MIDDLE

A case study on the boycott of Arla Foods in the Middle East

MANAGEMENT DECISIONS

The authors prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. Although based on real events and despite occasional references to actual companies, this case is fictitious and any resemblance to actual persons or entities is coincidental.

What actually happened – Arla Foods' decisions

(26th of January) The managers of Arla were aware of the short-term impact the boycott could have on the sales, but were also concerned about the long-term impact the conflict could have on the company's reputation. Since they were convinced that the tension between all parts involved would not ease until the Muslims had received an honest and direct apology, they started to request governmental action by illuminating the seriousness of the situation. Furthermore, Arla publish a row of press releases with statements trying to minimize the escalation of the boycott. An example of this is seen below:

"The only thing that can stop the current boycott of Danish products is a direct dialogue between the parties involved."

As a response to Muslims' demand of an apology, the Danish prime minister states in a televised press conference that Denmark "condemn every expression, action or indication that attempts to demonize groups of people on the basis of their religion or their ethnical background."

(30th of January) The statement of the Danish Prime Minister was recited by the Danish embassy in Saudi Arabia, and in order to have these statements covered by the Saudi Arabian press, Arla Foods paid the leading newspapers of Saudi Arabia for an advertisement citing the Danish Embassy's press release word for word. After several attempts to reach the Danish prime minister, on the 30th of January, CEO Peder Tuborgh (both current and at the time) writes a personal letter asking the government to take an active role in the conflict and open up for a positive dialog with the general public of the Middle East. Later the same day Tuborgh makes the same statement in the Danish media in order to increase the pressure of governmental actions.

To further address the boycott situation in the Middle East, Arla started promoting the International Support of the Prophet Conference on the 23rd of March in Bahrain 2006. Due to the previous statements of Arla, an official statement from the government in Bahrain was made, were they advocated that Arla should not be held responsible for the actions of others and furthermore that the company should be exempted from the boycott. As a result of this statement, the boycott of Arla was put on the agenda of the upcoming conference. As a next step, Arla made this public by announcing Bahrain's statement alongside Arla's own statements in various newspapers in the Middle East.

Shortly after the conference in Bahrain, Arla organized a Press and Trade Conference in Riyadh, where all the major retailers within the Middle Eastern market was invited. Arla was hoping that the retailers would then reach a collective decision to revitalize the selling of Arla's products. The plan was only partially successful as only a selection of the retailers agreed to exempt Arla's products from the boycott.

Nevertheless, Arla followed up by publishing a statement in which they thanked the retailers that had chosen to exempt the company's goods from the boycott.

(26th of March) Up until now, Arla's focus had been on limiting the short-term consequences of the boycott. It took them close to 50 days before the company could implement its strategic response for the long-term goal of restoring its reputation in the Middle East. Two months after the boycott was initiated Arla carried out a range of local campaigns in order to distance themselves from any further association to the cartoons in the minds of the customers. On Sunday, 26th of March, a full-page advertisement was published in 25 different Arab newspapers emphasizing the 40 year long history between the farmer owned company and the Middle Eastern countries, including phrases such as "together for generations" and "40 years with you". Arla also clearly enunciated the understanding of basic Islamic values and reiterated that the publishing of the cartoons were out of its control. The management of the company hoped that the Middle Eastern communities would reconsider their stand against Arla and its products. Only a few days later more stores in the Middle East started to lift the boycott and selling Arla's products again.

As the market communication strategy was carried out in the Middle East the company decided to strengthen its reputation further by supporting humanitarian projects within the region and projects aimed to increase understanding amongst different cultures and religions around the world, thus attempting to win back the heart and minds of consumers. The campaigns and sponsor initiatives was continuously followed up by several pronouncement by Arla. An example of this is seen below.

"For many years, Arla has traded, and enjoyed good relations with consumers in the Middle East. (...) We respect all religions and wish to express our sympathy and understanding for those who feel wronged by this incident. Obviously, Arla Foods does not support anything that offends people's religion or ethnic background."

Furthermore, when the media questioned Arla actions and why the company felt the need to apologize, Arla's response was:

"We have not apologized, thus you cannot apologize for something that you have not done. The basis of our proclamations are our own ethical guidelines, which announce that we do not feel it's acceptable to demean individuals based on religion or ethnic origin, and have therefor distanced ourselves from the caricatures in Denmark and in the Middle East."

By the end of 2006 Arla had managed to recover 50 per cent of the sales in the Middle Eastern market. In the annual report of 2006 Chairman Knud Erik Jensen underlines that the company will in the next year have a good chance to re-establish and regain the market share that Arla had before the boycott. By the beginning of 2008 Arla had recovered 95 per cent of its market share before the boycott was initiated, with some markets such as Saudi Arabia lagging behind.