

Doing business in the middle east

[History](#), [Middle East](#)



Following the publication of caricatures of Prophet Muhammad by Danish newspaper, many consumers in the Middle East market have boycotted our products. Considering the lack of support from the government in addressing the political issue and cooperating with the Organization of Islamic Conference (OIC), one billion customers have rejected our products because it has suddenly become a synonym for the insult to the Prophet Mohammed. Currently the Middle East is our most important market outside Europe.

Arla exports approximately 55, 000 tons of dairy products from Denmark and Sweden to Saudi Arabia, and produces around 30, 000 tons through the Danya Foods subsidiary in Riyadh. Saudi Arabia accounts for 70% of our total Middle East sales. Other prominent Middle Eastern markets where we have our presence include Lebanon, Kuwait, Qatar and the United Arab Emirates. The boycott against Danish products is currently costing Arla over \$1.

5 million a day (8% of worldwide revenues) as 50, 00 stores have removed their products off their shelves. Unless we take action and responds with a quick solution, Arla risks loosing millions in growing revenues (10-12% annual growth) along with the large Middle Eastern customer base.

Considering we cannot edit newspapers or get involved in any political agenda or address religious issues, Arla will need to communicate with the individual consumer directly in order to bring about any changes and resolve the issue.

In determining alternatives to consider, a number of key factors will need to be considered as part of our strategy to recover from the current crisis.

Firstly all actions taken by Arla must be consistent with the company's

overall vision and should reflect its core values. Secondly, the cost of all alternatives will need to be minimized and take into consideration the impact on Arla's long-term profitability.

Thirdly, since the issue is extremely sensitive and requires immediate attention, all alternatives must take a short amount of time to implement. Other factors that need to be considered are the potential job losses in the production facilities in Denmark and Saudi Arabia, impact on the local demand for Arla products in both countries and the cultural differences in both countries in order to address the issue at large.

Five specific alternatives represent the most promising options: Distance Arla away from the cartoons and identify the company as a Swedish Company, build local awareness in Saudi Arabia and show empathy with the locals in the country, localize Danya Foods subsidiary by redesigning/renaming products to look local, Close down Arla's Middle East operations, Move the Saudi based operations to another country in the Middle East. Alternatives: 1) Follow Nestle and Carrefour and Distance Arla away from the cartoons and Danish identity.

Since Arla was essentially a Swedish company before the merger, it can use this identity to separate itself from a Danish company. While the advantage of this is that it can easily bring Arla products back to the market, Danish made products still runs the risk of facing countrywide bans. Even if Arla portrays itself as Swedish, many of its products are 'Made in Demark' and therefore can be restricted from entering a country such as Iran, who have banned all Danish product.

In order to accommodate the Middle Eastern market, Arla will have to move a large number of its production facilities to Sweden and this can lead to a great number of job losses in Denmark. This is likely to be unacceptable in the home country considering the relative size of the Middle Eastern market in comparison to the local and regional (European) markets. Also consider the patriotic nature of the Danish, we will not be looked upon favorably in our domestic market.

2) Build local awareness and show Arla's personal stance on the cartoon as being different to those represented by the Danish government. Arla will need to build trust and show empathy for the cartoons to the target consumers through newspaper and other mediums that are widely viewed by the locals. The advantage of this is that Arla will be able to reach consumers directly and portray itself positively and differently from the artists of the cartoons and the Danish government.

In terms of cost and timing, it is relatively inexpensive to post a newspaper advertisement and requires short amount of time to implement. The drawback of showing 'solidarity' with the locals in Saudi Arabia is that it may be portrayed as 'cowardly' in Denmark and other European countries. Since they value freedom of speech, this step may be seen as a notion against free media. 3) Separate the Saudi based DanyaFood, localize the company and redesign product to represent local product rather than Danish product.

Instead of importing products from Denmark or Sweden, Danya can expand its production facilities to produce an extra 55, 000 tons of dairy. While this

is a possibility, Arla risks losing a number of its key competitive advantages (quality, foreign made appeal, packaging, etc) that make its products successful in the Middle Eastern product. In terms of production, it may not be possible to produce all products in Saudi Arabia and financially the expansion of the operations may not be feasible.

It will also lead to various job cuts in Denmark and Sweden, as production cuts down in their facilities. 4) Close down Arla's Middle East operations and concentrate on the European, Asia and Latin American Market (Argentina and Brazil). Significant quantities of Danish cheese to Japan, and milk powder to less developed countries in Asia and Latin America. Currently Middle East is the largest non European market for Arla is growing at an average of 10% per annum with over \$500 million in revenue.

By closing down such a high prospect region, Arla risk's losing millions in future revenues and opens up way for competitors to enter the market and capitalize on the large profitable market in the Middle East. Also this strategy is inconsistent with Arla's long-term vision of having a dominant presence in a number of markets outside Europe. It will also lead to various job losses in both Scandinavian countries. 5) Move the Saudi based operations to a more liberal country in the Middle East such as Qatar or the United Arab Emirates.

While this is a possibility, it will require the transfer of 20 Danish workers as well lead to a job loss of 1200 local non- Danish workers. Another drawback is the large cost associated with the movement and the lengthy time process. Also since Saudi Arabia accounts for 70% of the market, discounting it and concentrating on other countries will mean that Arla will lose a large

stake of its customer base and its revenue. Based on the above analysis, I would recommend that Arla consider alternative 2 in dealing with the current crisis in the Middle East.

The most important factors supporting this recommendation is Arla's willingness in addressing the Saudi Arabian consumer directly and demonstrating sensitivity to the issue at large. By showing empathy to the local culture and religious values, Arla will be able to portray a strong positive reputation amongst the Muslim population in Saudi Arabia and the Middle East region, which will help the company regain its strong growth and aid in fulfilling its long term vision of becoming the 'world leader in value creating with the dairy sector'.

The newspaper provides a direct, low cost and time efficient medium of addressing the issue and the coverage is likely to be relatively high. While this alternative may spark concern in our operations in Denmark, addressing the issue at home and educating the local Danish about the implication on the number of local job loses will to ease the tension between both parties. I would also recommend the consideration of a number of implementing issues.

Firstly, since Saudi Arabia is an Arabic speaking country, it is important that when addressing the issue, all advertisement and publications must be in this language. Since Saudi Arabia is a high context society, publication in their local language and local newspaper is likely to be portrayed with greater validity and credibility then foreign newspapers. Secondly, it is

important that when addressing religious issues that the right terminology is used.

When referring to Mohammed it is important to use 'Prophet' before the name since it is a form of respect and considered part of the culture. Thirdly, due to the scope of the issue and the impact it has been having on Arla, it is important that we address these issues immediately and publish this article within days of approval from your office to avoid further losses to our reputation. In order to rebuild and regain lost sales due to the crisis, Arla can further enhance its reputation by providing humanitarian aid to Middle Eastern countries and by supporting various local charities.