Drawings a disaster for Arla

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Drawings a disaster for Arla, but open a window of opportunity for Danone and NestlÃ©, by Euromonitor International

The publication of twelve cartoons in the Danish broadsheet Jyllands Posten, featuring the prophet Mohammed, has provoked outrage throughout the Middle East and a boycott of Danish goods throughout the Muslim world. Danish dairy giant Arla, which has long-marketed itself on its national origin, has been particularly badly hit, seeing its sales in the Middle East collapse, as its brands are stripped from shelves. Despite optimistic statements from the company, the severity of the situation is beginning to hit home â€“ the company has shed 170 Danish staff and is unlikely to recover its former standing as the sixth ranked dairy firm in Africa and the Middle East, according to Euromonitor International.

The hole in the Middle East dairy market left by Arla is significant (more than US$440 million in sales according to the company's own figures) and provides other dairy players active in the region with a window of opportunity. Euromonitor International investigates which companies are best placed to seize this opportunity.

The rivals
Danone, already the regional market leader, has an obvious advantage in absorbing Arla's share and could scoop the latter's Saudi cream sales, adding a further eight percentage points to its 10% sector share.

NestlÃ©, similarly, has a heavy presence in the Muslim Middle East, being ranked among the top five dairy firms in Saudi Arabia, Egypt and Morocco. Directly competing with Arla in a number of sectors including powder milk, NestlÃ© could find its products are the â€œalternative of choiceâ€• for many of the Danish company's former consumers. However, NestlÃ© still ha some work to do in order to convince the buying public of its freedom from ties to Denmark, with some of its brands already having mistakenly been added to boycott lists.

Both Danone and NestlÃ© have one clear advantage in the controversy. Unlike Arla, they do not market on the basis of their national origin, making them less vulnerable to boycotts that look likely to extend to products from other European and non-Muslim markets.

Euromonitor International also predicts that Arla's troubles in the Middle East will provide an opening for other companies, such as Australasia's Fonterra, which is looking to progress its international expansion ambitions. According to Euromonitor, the US$2.2 billion company already has a 2% toehold in the Saudi dairy market, in a large part generated by its cheese brands. As Arla's 20% grip on the Saudi cheese sector dwindles to zero, Fonterra is perfectly placed to push its New Zealand-made labels. The firm does have one obstacle to overcome however, namely its ties to Arla, which controls Fonterra's key Anchor brand in the UK. The connection has already resulted in its milk powder appearing in some boycott literature.

Outlook â€“ a chance for domestic players
While the controversy continues to escalate, far-reaching boycotts are not expected to hold long-term. Free trade facilitators for one thing would step in if supermarkets started stripping shelves of European produce. Production for another is struggling to fill the void left by Danish goods and some grocers have been forced to restock them.

What will survive, Euromonitor International predicts, is a consumer loyalty to Muslim-made products. The Middle East has a number of indigenous players, such as Juhayna Food Industries (the premier Egyptian dairy firm) and Al Marai, a Saudi dairy and the nation's second largest after Danone. These companies could capitalise on this consumer preference, building an identity for their brands rooted in their Muslim origin.

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