

# Arla Foods: Going global with insight and technology

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## Overview

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### ■ **Business Challenge**

*To achieve its long-term goal of becoming a global company, Scandinavian dairy cooperative Arla Foods needed to create a new, global business model and gain and apply a thorough, industry-specific understanding of how to grow beyond its local market into other countries. To support this business vision, Arla needed a robust, high-performance, highly available IT infrastructure, along with streamlined business and IT processes.*

### ■ **Solution**

*Arla Foods entered into a multifaceted strategic partnership with IBM. In addition to taking full advantage of IBM IT outsourcing services, Arla meets regularly with industry experts from IBM Global Business Services to discuss market and technology trends, and plan strategically for future IT initiatives worldwide.*



### ■ **Key Benefits**

- *Enables Arla to devote more resources to its core business and globalization initiative instead of running an IT operation*
- *Leverages IBM IT expertise and deep industry knowledge for strategic planning, which enhances Arla's ability to position itself for competitive advantage and globalization*
- *Gives access to IBM's global base of IT professionals for ongoing support of worldwide operations*

### **Becoming a global food company**

Arla Foods is a leading dairy company based in Aarhus, Denmark. A cooperative owned by some 8,000 Swedish and Danish farmers, Arla was formed in 2000 through the merger of two companies. Arla has become a dominant player in northern Europe and the United Kingdom, and is the second-largest dairy company in Europe as a whole. For Arla, continued success demands strong growth, and that means opening up new markets in other parts of the world along with the acquisition of other companies. This is because the growth potential of Arla's home market in Europe is limited due to slowing population growth and high local market share.

### Business Benefits

- Leverages IBM IT expertise and deep industry knowledge for strategic planning, which enhances Arla's ability to position itself for competitive advantage and globalization
- Allows simpler management of IT operations and strategic planning by eliminating costs and administration of multiple vendor relationships
- Enables Arla to devote more resources to its core business instead of running an IT operation
- Gives access to IBM's global base of IT professionals for ongoing support of worldwide operations

Therein lies the fundamental challenge facing Arla: to take its business blueprint and implement it around the world. Differences in culture, legal systems and business environments—as well as integrating newly acquired companies—all pose potential difficulties. The business model, processes and infrastructure must be flexible and streamlined enough to handle the widely varying conditions found in other countries.

More importantly, becoming a global company requires extensive knowledge of industry issues and trends. The IBM Institute for Business Value, through extensive research, has identified several emerging mega-trends that will have a significant impact on businesses in the coming years. These include:

- *Consumers are fragmenting into ever-smaller segments, driving consumer product companies to accelerate the innovation process and to build “fit for purpose” manufacturing and supply chain capabilities.*
- *Consumers are taking greater control of their interactions with business, requiring companies to devise new ways of remaining relevant.*
- *Consumers are increasingly well informed and concerned about the products they purchase, forcing manufacturers to be aware of environmental issues and to make detailed product information available.*
- *Mega-retailers are expanding across geographies, channels and product categories... and are able to dictate terms to suppliers.*
- *Partnering in the form of value networks is becoming pervasive, causing companies to reshape their business models by re-aligning their organizations to focus on core competencies and key differentiators.*

### One Arla: Streamlining the company

Arla displayed rare clarity of vision when the company decided to transform itself. The company knew that it needed a way to operate in a truly global manner, with a new business model that would enable it to integrate acquisitions quickly and focus management's time on new mergers and acquisitions and moving into new markets.

A deliberate and carefully planned approach was taken: first create the conditions that would facilitate growth, and only then move into new markets, assisted by expert advice from a trusted partner with knowledge of industry-specific challenges. The first step was to reinvent the company.

*“At Arla, we are striving to create value through innovation and cost reduction. That is what will allow us to grow.”*

— Jesper Erichsen, CIO, Arla Foods

As part of the merger process that created Arla, a number of business transformation initiatives were undertaken including the formation of a joint strategy and common financial plan, a determination of which sites to shut down, which to merge and which to expand, and finally a realization of administrative efficiencies and synergies through a business integration program.

This last initiative was seen as key to Arla's success. Called One Arla, the program sought to integrate, optimize and harmonize business processes within the company culminating in the implementation of an enterprise software suite to support the new business model. "At Arla, we are striving to create value through innovation and cost reduction. That is what will allow us to grow," says Jesper Erichsen, CIO. "We need to simplify and obtain efficiencies from our IT and business processes. For example, we should have one order to cash process that we can replicate around the world. If you've got common processes and structures, they become much simpler to support. Simplification thus becomes a growth enabler."

Part of One Arla was a detailed look at the best way to optimize the company's IT operations. "We did a review of all our IT operations...some 13 different areas including operations, development, project management, infrastructure, telephony, and so on," Erichsen states. "For each, we asked first if it was business critical and then if it was part of our core activity. If the answer to both of those questions was 'no,' we deemed that activity to be a candidate for outsourcing."

Arla analyzed three scenarios: To continue as before, to outsource each area to a different supplier, or to outsource everything to a single supplier. The third option proved to be the optimal one. In 2006, IBM assumed all responsibility for daily operations, development and project management, maintenance and help desk services, as well as optimizing and consolidating Arla's central IT systems. The entire set of capabilities is delivered through a single service arrangement.

An unusual aspect of Arla's global view on outsourcing is that it is treating IT service as a commodity. "Normally," says Erichsen, "outsourcing agreements are fairly specific. Such and such a server is to be used, and the infrastructure is to be architected in a certain way, and run out of a particular location. To be honest, we don't want to get down to that level of detail. That's IBM's business.

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## Solution Components

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### *Services*

- IBM Strategic Outsourcing Services
  - IBM Global Business Services
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## Transformation at a glance

Arla Foods' business vision is to take its successful regional dairy business worldwide. To do this, the company needed to drastically change its business model, placing a more strategic focus on operations and planning. The new model had to enable Arla to operate as a truly global company, integrating new acquisitions quickly while allowing management to focus on further mergers and acquisitions and entering new markets. Arla teamed with IBM to gain deep, consumer product, industry-specific knowledge about current issues and emerging trends, and has also made use of IBM IT outsourcing to facilitate its globalization initiative.

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It makes no difference to us whether the data center is in Ireland or Denmark or India. What we're interested in is meeting the service level agreement and the price, nothing more. That drives our costs even lower and makes management even simpler. The other side of the coin is that we have to have a partner that we can absolutely rely on to deliver."

### **Moving beyond outsourcing**

Arla's decision to optimize its IT through outsourcing was an important step in setting the stage for globalization, but it was only part of the plan. Understanding the challenges, threats and opportunities, as well as industry trends and how to leverage Arla's strengths were critical. IBM Global Business Services consulting capabilities were a major reason why Arla chose IBM to provide guidance and assistance to help it plan for the future. "We found that IBM was the only vendor able to do everything we needed," Erichsen says. "Both in terms of IT operations and strategic planning, helping us understand what we need to do to move into new markets around the world."

As part of this strategic arrangement, IBM industry experts meet regularly with Arla management to discuss industry and IT trends and the impact of new technologies, and to formulate future strategies and specific IT projects. For example, IBM has used its global industry expertise to produce a Point of View on Direct Store Delivery strategies, as well as a set of recommendations for how Arla should proceed.

"We turned to IBM in part because we need a global partner to match our vision," Erichsen states. "Naturally, it's a challenge for any company to operate in a truly global fashion, where the agreements made in one country apply worldwide and services are seamless and consistent. But when it works, I can just sit back and let them deliver. There's also the fact that we have access not only to IBM in Europe, but all of IBM, as well as access to unparalleled expertise in our industry. We think that it's a winning proposition."

### **For more information**

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