

Dancing with Macro-Boycotters: The Case of Arla Foods

Purpose: Consumer boycotting is on the increase for various reasons. Macro-boycotting campaigns, against one or more countries and their companies rather than a specific single company, have had devastating effects on companies. Thus, learning from the way in which Arla Foods has combated such a ferocious campaign is useful for companies that are facing similar campaigns and would help in developing a successful marketing strategy during and after boycotting campaigns.

Design/methodology/approach: Secondary data were collected through various sources. Importantly, primary data were collected using interviews with senior managers at Arla Foods and a survey of 254 customers in Saudi Arabia.

Findings: The come-back strategy developed and used by Arla Foods has had a good and positive impact and has helped the company to regain most of the market share it lost at the beginning of the boycotting campaign. Several steps were developed to combat the boycotting and regain the market.

Originality/value: The unique position of Arla Foods during the boycotting campaign, which was unprecedented, creates a new challenge which requires new thinking of how to combat such severe and sudden change in the market conditions. Thus, as the frequency of boycotting is on the increase, the case study outlined a number of steps which can be adopted by other international companies.

Keywords: macro-boycotting behaviour, macro-boycotting campaign, Arla Foods.

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Introduction

In August 2005, a Danish tabloid (Jyllands-Posten) ran a competition for the depiction of the prophet Mohammed (PBUH). Some of the drawings were published by the Danish tabloids. This caused massive shockwaves across the Middle East. Consumers of Danish products across the region started a long and painful boycott. Before the start of the boycotting campaign, Arla Foods had enjoyed a market lead during the last few decades. As the boycotting intensified, Arla Foods needed to develop a new strategy to combat the boycotting in which it had been caught. Devising a new strategy during a very unique and difficult situation requires a delicate balance between the reaction that has to be taken and the influence it may create on customers' perception of the company.

The case study uses secondary and primary data. Secondary data were used mainly for gathering information on the development of boycotting campaigns in the Middle East and the influence on Arla Foods. Interviews with three senior managers in the headquarters of Arla Foods in Riyadh, Saudi Arabia, were used to properly understand the way in which Arla Foods analysed, reacted to, and developed its marketing strategy to combat the macro-boycotting campaign in order to recover what it lost, and reclaim its position in the market. The case study also surveys 254 customers in order to provide some statistical description of customer attitude towards boycotting.

Macro-Boycotting Versus Micro-Boycotting

Boycotting is defined as a "concerted refusal to do business with a particular person or business in order to obtain concessions or to express displeasure with certain acts or practice of person or business" (Garrett, 1987, p. 46). Boycotts are predicted to be an increased force and will constitute bigger challenges to marketers in the future (Gelb, 1995). John and Klein (2003, p. 1208) pointed out "boycotts are now a major tool for consumer protest groups, and are likely to become even more significant in the future." Few studies have focused on consumer boycotts (Friedman, 1985; Garrett, 1987; Klein *et al.*, 2004). This handful of studies into consumer boycotts focused exclusively on consumer boycotts of a firm's product (micro-boycotting). Most

studies (e.g. Garrett, 1987; Smith, 1990; Friedman, 1995; Sen *et al.*, 2001; John and Klein, 2003) focused on understanding the micro-level of the phenomenon of boycotting at the firm level by examining the “egregious act” and the motives of boycott decisions.

However, a new level of consumer boycotts appears to be emerging. Macro-boycotts are directed at policies and actions not made by a firm but rather by a government of the country of origin of a firm. Although there was the example of consumers boycotting of Anti-Apartheid in Britain where consumers boycotted South African products, boycotting a country and its firms’ products is complex, under-researched and least explored. In recent years, macro-boycotting campaigns have become increasingly a major method in consumer protests, and little is understood about their influence on firms’ competitiveness in international markets. Unlike micro-boycotting which can cause a short-term drop in sales for the boycotted company, macro-boycotting lasts a lot longer with more profound effects on companies that share the same country of origin. Micro-boycotting is limited to the company that is perceived to initiate the “egregious act”, whereas macro-boycotting may be limited to one country but all brands that are associated with it can be subject to boycotting. Thus, strong and well-recognised brands associated with the country that acts egregiously are more likely to be hit hard by macro-boycotting campaigns even if these brands have nothing to do with the act itself. Country of origin traditional methods and tactics typically followed in international marketing (e.g. Nagashima, 1970; Han, 1989; Al-Sulaiti and Baker, 1998) may not necessarily work during macro-boycotting. Thus, many firms during macro-boycotting will try to distance themselves from the “egregious act” by changing the labels of products, removing the ‘made in’ sign, localising their activities, etc. However, reducing the effects of macro-boycotting will require the development and implementation of different and combined approaches where relational communication lies at the heart of its success.

Clearly, the literature on macro-boycotting is scarce. This scarcity of studies focusing on macro-boycotting means that there is an urgent need by academics and practitioners to learn more about this rapidly developing phenomenon. In order to fulfil part of this gap in our understanding, the current case of the macro-boycotting of

Arla Foods in the Middle East can help international firms understand, as well as academics' investigation of this phenomenon.

Arla Foods

The Danish company Arla Foods is a global dairy group with production facilities in 11 countries, sales offices in 24 countries, and it sells its products in over 100 countries. Arla Foods started its operation in the Middle East some 40 years ago. Soon after its entry into the Middle Eastern market, it became the market leader, mainly because of the absence of any credible local competitors at a time when the Middle East was still in its early economic development. Over the years, Arla Foods has maintained its position as market leader in the Middle East in cheese, butter and cream production. In the mid-1980s, Arla Foods started to operate the Danya Foods' dairy in Saudi Arabia's capital, Riyadh. The production facilities in Riyadh are seen to enhance and strengthen its position as market leader in the region. It employs more than 1,200 people across the Middle East, most working in Saudi Arabia. Since its early days in the Middle East until the end of 2005, Arla Foods has enjoyed excellent brand recognition, as indicated by the Executive Director of the Overseas Division, Finn Hansen (2005): "consumer awareness of our brands is on a par with, say, Coca Cola."¹

The Boycott

In early 2006 Arla Foods lost its market lead due to the boycotting campaign carried out throughout the Middle East against Danish products.² The "egregious act" was carried out by the Danish newspaper Jyllands-Posten publishing 12 cartoons. The publication by a Danish tabloid in 2005 of a series of caricatures of the prophet Mohammed, some of them depicting him as a terrorist, sparked uproar across the Middle East.³ As consumers started to boycott Danish products, the trade boycott followed shortly after with the announcement by major local retailers such as Al-Othaim Holding and Azizia Panda of their withdrawal of all Danish products from

¹ www.arla.com

² http://www.washingtonpost.com/wp-dyn/content/article/2006/02/10/AR2006021001821_pf.html

³ <http://www.thelocal.se/10956/20080407/>

their shelves.⁴ Arla Foods' brands, such as Lurpak butter, Puck cream cheese, Three-Cows white cheese and Dano powdered milk, felt the double impact of both the consumer and the trade boycott. The most intense boycotting campaigns were carried out in Saudi Arabia, the biggest market in the Middle East. Arla Foods' products were withdrawn from more than 50,000 stores across the region in less than five days losing over 60% of its market. Arla Foods lost \$1.8 million in sales per day across the Middle East. The managing director Peder Tuborgh stated that any recovery would "take years" (cited in Arla Foods, 2006b). The main Saudi competitor 'Almarai' took advantage of the cartoon crisis and took the lead in the market. The general manager of Arla Foods in Saudi Arabia, Erik Folden, said "Almarai is the biggest winner from the boycott." Today, Almarai is still the leader in the market.

The boycotting campaigners were successful in posting the images of Danish brands on the internet calling upon consumers to boycott these brands.⁵ Also, mobile phone messages carrying boycott lists of Danish products were widely circulated. Similarly, a number of retail stores put all Danish brands including Arla Foods' in a special section on one side of the store accompanied by a large notice calling on consumers not to buy. At the same time, Western stores doing business in the region have tried to limit the damage to their own reputations. For example, the French-owned supermarket chain Carrefour stopped selling Danish goods, while several firms, including the Swiss food multinational Nestle, placed advertisements in Saudi newspapers to counter rumours that their products were made in Denmark.

Product boycotts are not new, but in this case it was organised, widespread, and quite devastating in its impact.⁶ Demonstrations were organised and in some countries they reached riot level.⁷ Two drivers of Arla Foods' official cars and distribution lorries were attacked. The headquarters' premises were stoned, and threats were issued by demonstrators. The impact was such that Arla Foods was forced to close its plant in

⁴<http://www.brecorder.com/index.php?show=detail&id=397218&currPageNo=1&query=jeddah&search=1&term=2004-10-01%7C2006-12-31&supDate> (Major retail stores in Saudi Arabia boycott Arla Foods' products).

⁵ <http://www.nusrah.com/ar/> (This is one example of websites that were created to encourage boycotting of Arla Foods).

⁶ <http://www.arla.com/press/archive/arlal-sales-in-the-middle-east-come-to-a-standstill/> (Arla Foods in January 2006 acknowledge that its production has stopped).

⁷ <http://news.bbc.co.uk/2/hi/business/4676614.stm> (Demonstrations against Arla Foods). See also <http://www.asianews.it/index.php?l=en&art=5256>

Riyadh, lay off employees in Denmark for ten weeks and postpone its plan to double sales in the region by 2010.⁸

The Fight-Back by Arla Foods

Over 40 years of marketing investment and brand building have been undermined in the blink of an eye. With macro-boycotting in action and with no previous experience in boycotting behaviour, the whole situation was unique and new to the senior managers of Arla Foods. There were no tried and tested damage limitation strategies because the campaign was unprecedented. Faced with an unenviable task, the general manager, Erik Folden, and the marketing manager, Torben Terp Hansen, in Arla Foods' headquarters in Saudi Arabia considered ways of restoring faith in Arla Foods' brands. They realised that successful boycotting campaigns can have a short-term impact on sales and a long-term impact on a company's most precious asset, its reputation and its brand. The main intention was to protect the brand by distancing Arla Foods' brands from the egregious trigger of the boycotting campaign.

The initial reaction from Arla Foods was to keep silent. "Consumer sentiments were high and we knew it was not the right time yet to address our society. 'Silence is golden' and we've kept it for almost 45 days" (Torben Terp Hansen). During this period, Arla Foods' executives worked on developing "a comeback strategy" involving seven steps. The first step started by condemning the egregious act. An Arla Foods' manager appeared in every newspaper and on major TV stations across the region condemning the act. The second step revolved around the International Support of the Prophet Conference on 23rd March 2006 in Bahrain.⁹ The conference discussed Arla Foods' statement and issued a religious recommendation, a 'Fatwa' (religious statement that should be obeyed), to maintain the boycott on Danish products; however, Arla Foods were exempted from the boycotting.¹⁰ The Bahrain statement cleared Arla Foods of any responsibility and emphasised that Arla Foods should not be punished by the action of the others.

⁸ <http://www.independent.co.uk/news/world/europe/mohamed-cartoons-provoke-bomb-threats-against-danish-newspaper-465246.html> (Arla Foods was forced to close its factory in Saudi Arabia).

⁹ http://www.icsfp.com/Media/Documents/4thConference_ConcludingStatement.pdf (see below the full recommendations by the conference, which include reference to Arla Foods. Later full Fatwa was issued excepting Arla Foods from boycotting).

¹⁰ <http://www.jihadwatch.org/dhimmiwatch/archives/010803.php> (Sheikh Ghardawi's statement supporting the Fatwa).

In the third step, the company made the Bahrain statement public. To serve this purpose, a statement was published in all newspapers and TV channels thanking the conference for removing Arla Foods from the boycott list.¹¹ The Bahrain statement was attached alongside the company's statement. A printed version of the statement was placed on the doors of outlets.¹² Soon after, Arla Foods organised a Press & Trade Conference in Riyadh, which was attended by the major retailers and spearheaded by Al-Othaim Holding. The aim was to persuade the retailers to make a collective decision to accept Arla Foods back onto their shelves. Although Arla Foods was successful in restarting its relationships with some of the retailers, it failed to secure the support from the big retailer Azizia Panda, which is still boycotting Arla Foods today. Nonetheless, the company published another 'thank you statement' through the media but this time it was for those retailers who accepted Arla Foods back. The statement contained the logos of the retailers who agreed to sell Arla Foods' brands.¹³

The fourth step was getting back to the stores. Now the retailers were safe in taking back Arla Foods' products because of Arla Foods' position on the cartoons. REUTERS television covered the return of Arla Foods' brands to stores across the region. Despite all of the statements and coverage, some customers maintained their boycott. This meant that step five had to focus on promotion. Given the huge product stock returns from markets since the boycott started and because customers are price sensitive, heavy consumer and trade offers were made to entice retailers and consumers to break their boycott.

Arla Foods became more proactive, focusing on the corporate and brand communication in step six. Two main messages were at the heart of its communication. Firstly, it informed the public about its position on the cartoon.¹⁴

¹¹ <http://www.arla.com/press/archive/arla-attempts-a-comeback-in-the-middle-east/> (This was through advertising of the Fatwa – March 2006).

¹² <http://www.iunsonline.net/english/articles/2006/03/03.shtml> (The news of excluding Arla Foods from the macro-boycotting campaign has been made public in every way possible).

¹³ <http://www.arla.com/press/archive/breakthrough-for-arla-in-the-middle-east/> (Arla Foods announcing the breakthrough with local retailers in Saudi Arabia in April 2006).

¹⁴ <http://www.arla.com/press/archive/arla-affected-by-cartoons-of-muhammed/> (Arla Foods explains its position on the cartoons).

Secondly, it reminded consumers about the long heritage Arla Foods has in the region. The communication platform for all brands was aligned with the corporate one, and phrases such as “40 years with you” and “together for generations” were used. Brand communication was designed to show understanding of the region’s values, culture and sentiments. However, this communication strategy was tactical and situational. Two months later, this strategy was replaced in step seven by the long-term brand communication. This was seen as an important step to gain back the hearts and minds of consumers. To achieve this, heavy investments were made into charities, social activities and social responsibility campaigns: product donations, ties with official governmental bodies, children’s cancer activities, donations of ambulances to Saudi Red Crescent, who in turn donated them to the Palestinian Red Crescent, etc.¹⁵ These activities, which still continue today, are aimed to have an impact on the perception of Arla Foods across the Middle East, more specifically in Saudi Arabia.

Is It Really Over?

A year after the boycotting campaign started (end of 2006), Arla Foods has recovered most of its market share in most Middle Eastern countries, with the exception of Saudi Arabia where it has only recovered 50%. In 2008 Arla Foods managed to recover 70% of what it lost at the beginning of the boycott in Saudi Arabia. For Arla Foods to regain its initial market lead in Saudi Arabia, it would mean regaining the diehard boycotters.

The boycotting against Arla Foods has lasted a lot longer than it usually takes. The boycotting of the American products faded quite quickly, after a few weeks only. The intensity and the scale of the boycotting against the American products did not force American companies to react in the way Arla Foods has had to do. This is because macro-boycotting is more severe compared to micro-boycotting since it triggers different historical, political, religious and cultural emotions. Although Arla Foods has used good recovery strategies, the uniqueness of its case meant the challenge is

¹⁵ <http://www.nytimes.com/marketing/ihf/search/> (New York Times reporting on the increased donations of Arla Foods, February 2006, in a clear attempt to cope with boycotting).

not yet over. This was supported by the primary data¹⁶ collected during 2007/2008 from which 88.8% of respondents said they took part in the boycotting and only 11.2% did not boycott. About 31% of the respondents maintained their boycotting for about six months, 34.1% maintained their boycott for one year, and about 34.9% of respondents determined to maintain their boycotting permanently. Boycotters appear to mainly target the United States and Denmark. However, the data show about 53.97% of customers boycott Denmark only and about 38.49% boycott both the United States and Denmark, with a very small percentage boycotting other countries. When examining customers' motives to boycott, about 75.9% of customers boycott Danish companies because of religious reasons, while customer motives to boycott the United States appear to be mainly political and military reasons.

Take in Figure 1.

Arla Foods' boycott comes mainly from those customers who are somewhat familiar with Arla Foods' products. This is why the boycott has been quite painful for Arla Foods. However, this fact may also explain some of the success that Arla Foods has made since the start of the boycott. Since many customers are familiar with the Arla Foods' brand and understand its long history in the country, Arla Foods has directed its communication strategy well, emphasising the long relationship it has with customers in the country.

Take in Figure 2.

Implications for International Companies

The case of Arla Foods and its strategy in first coping with the macro-boycotting and, second, becoming more proactive in combating macro-boycotting has different implications which international companies can learn from. International companies

¹⁶ The data were collected from all regions in Saudi Arabia: Eastern Province (1.3%), Central Province (54.6%), Western Province (17.6%), Southern Province (17.2%), and Northern Province (6.2%). The distribution of the survey was conducted using the drop-off technique which works well in countries where research culture is still developing. About 73.1% of respondents were male and 26.9% female. The average age of respondents was 29 years. The education level among respondents varied with about 40.1% of respondents having secondary or under, about 30.9% having a degree, and about 29.1% having different kinds of postgraduate education.

can be very vulnerable during macro-boycotting as they are caught in the middle between the trigger of macro-boycotting (country of origin) and consumers.

The most important step that companies should be doing is increasing their awareness about this type of boycotting. Good communication strategy is vital, which should be done on different levels. Firstly, there should be corporate responses to the trigger of boycotting. Companies must deal with the trigger of boycotting (the egregious act) immediately and must explain its position clearly and widely. Arla Foods would have not have been excluded from the macro-boycott if Arla Foods had not been quick to distance itself from the perceived egregious act. The media is crucial in managing public relations, especially during a turbulent time. What has helped Arla Foods during the campaign is partly its long history in the region and the positive perception of its brand. Thus, international companies should invest in developing better brand relationship and brand emotion or attachment. This can help in regaining consumers during macro-boycotting. Secondly, organisers of macro-boycotting campaigns work hard to spread rumours. Thus companies must respond to these rumours effectively. False rumours have the potential to harm companies' reputation and must be encountered before rumours enter consumers' belief system. Care should be paid to the manner of responding to these rumours. Forceful responses can generate undesirable outcomes and a delicate balance has to be maintained. However, companies may run the risk of dismaying consumers in their own country of origin depending on the type of trigger of macro-boycotting. Thirdly, charitable donations can help soften consumer feeling and improve perception of the companies. However, donations must not be advertised by companies and should be left to the media to report. Fourthly, companies should be seen to work with the country of origin's government and other governments to create a positive dialogue aimed at healing consumer feeling and ending the egregious act.

Conclusion

The case study explained the difficulties facing Arla Foods during the boycotting against Denmark, in which Arla Foods has been 'caught in the middle' because of its country of origin. The boycott was severe due to the fact that the trigger of the macro-boycott was based on what had been perceived by customers as disrespect of religious values. The boycott was also effective because of the effectual organisation of the

boycotting campaign. The challenge for Arla Foods was how to distance itself from the cause of the boycott without alienating its customers in Denmark. The 'comeback strategy' developed by Arla Foods was effective, and they clearly made a good recovery in a rather reasonably short time.

As the boycotting phenomenon has become more frequent in the past few years, international companies can learn a great deal from the way in which Arla Foods handled and managed the boycotting. The steps followed by Arla Foods in regaining its market share are particularly useful for international companies. The emphasis on managing the crisis using a more relational approach is certainly plausible within the context of the Middle Eastern culture.

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