



BI National Case Competition 2020

“Together we are creating a vivid Norway”

TINE towards 2025



This case was written for the BI National Case Competition, 2020 by
Svein Lund
Assisted and inspired by
Nina Kvalheim and Unn Grønvold Nikolaisen, TINE

Introduction

TINE is owned by Norwegian farmers that seek a safe future for themselves and generations to come. As a cooperative, one of TINE's most important tasks is to develop tasty dairy products based on Norwegian milk and by this, secure farmer income through usage of a given milk volume. Their vision is therefore to contribute in creating a living Norway with dairy farmers all over the country. TINE organises the retrieval of milk from every farm in Norway and process the milk in one of TINE's 30 dairies. The dairies are specialised to a certain extent, producing different dairy products¹. Most of them are dairy products made from Norwegian milk, but there are also juice products, ice cream, ready-made meals, margarines and desserts in the Norwegian range.

TINE's reputation amongst Norwegian consumers is high. According to Ipsos' Reputation Survey, published 13th October, TINE has the highest proportion of "good impression" of all Norwegian companies, with a score of 89%, an increase of 7 points from last year.

The Norwegian government wants milk to be produced all through Norway, by local farmers, a lot of them situated in small settlements. All farmers are paid a contract price per litre and their income is defined by the size of their quota and a contract price per litre set by the Norwegian Government. To organize this regulation, TINE also has the role of a regulator. As regulator TINE has a duty to receive milk from all farmers (milk producers) in Norway. In that way all milk producers are guaranteed the contract price for milk. TINE as regulator also has a duty to supply other industrial actors with raw milk.

Dairy products (sweet drinking milk in particular) are declining – and has been for decades – both internationally and nationally. However, TINE is one of Norway's strongest brands, and it also owns some of the strongest brands in the consumer food market, such as Norvegia, Jarlsberg, Sunniva, Iskaffe, Iste, Go' Morgen to mention some. In addition, due to TINE's innovative effort, there has been significant growth in other categories such as Flavoured milk, between-meal snacks and white cheese. There is also a marked growth in work-out food and drinks marketed under the label YT. The Covid 19 pandemic has caused a spike in the demand for milk. This may be a passing trend, but it is worth noting.

TINE is committed to sustainable value creation. In 2017 TINE won the Sustainable Brands Index Award which relies on the rating of 1,000 Norwegian consumers. TINE's ambition is to be the best at sustainability in the Norwegian food industry.

¹ Tine SA, Annual report 2019 page 9

Competition is increasing both nationally and internationally. These companies are in a position to focus their business strategy towards the most profitable segments and markets and organise efficiently around them. To meet the competition TINE has developed a new strategy towards 2025. The vision is “Together we are creating a vivid Norway” (“*Sammen skaper vi et levende Norge*”).

Over the next few years, TINE is facing major challenges to ensure the profitability of Norwegian milk production and the future of our owners. The loss of export subsidies, through competition, challenging framework conditions and changes in consumer behaviour require us to restructure. TINE aims to create growth whilst at the same time streamline our operations and improve framework conditions. Lower production and thus payment, will mean that TINE’s dairy farmers will see a significant reduction in income over the next few years. Without strong measures, both profitability and volume will disappear within a few years. This is what our strategy needs to find the answers to.²

The Key Performance Indicators for achieving the strategy are:

- 3 Billion NOK net revenue growth
- 1 Billion NOK cost cut
- 10% EBIT DA
- International breakthrough by 2025.

TINE will have to think differently on how they focus and organize growth within core and new business. TINE has the ability to support strong growth opportunities and are open to new cooperation models with external partners.

What barriers and opportunities do you see, and which would you primarily focus on? What strategic measures would you recommend TINE to look closer into over the next 3-5 years?

² Tine SA, Annual report 2019

TINE³



TINE's roots go back to 1881 when the first dairy association in Norway was established. During all these years, TINE has grown from being a producer of milk, cheese and butter to becoming one of Norway's largest food group with a product portfolio of over 500 different products and some of the Norwegian's strongest brands in the FMCG industry⁴

TINE is a cooperative. The milk farmers who are members and supply the milk also own TINE. In a cooperative, the owners receive their share of the profits through the payment they receive for the milk they supply. Each member owns one share in TINE. TINE currently has around 11,400 members (owners) and 9,000 cooperative farms.

The TINE cooperative is based on the principles of cooperatives:

- Voluntary and open membership
- Democratic control by the membership
- The financial participation of members
- Autonomy and independence
- Training, education and information
- Cooperation between cooperative societies
- Social responsibility

³ <https://www.tine.no/english/about-tine/the-tine-cooperative>

⁴ <https://www.tine.no/om-tine/organisasjonen/tines-historie>

Information about the current situation at TINE can be found in the 2019 Annual Report:

https://www.tine.no/om-tine/finansiell-informasjone/TINE_AR_Engelsk_LR.pdf

The competition

TINE SA is by far the largest player in the Norwegian dairy product market. Year to date week 36 2020, TINE had a value share of the sweet milk drinking category of 70,6%, cheese 60,1% and yoghurt 48,8%⁵. There are two medium sized players in the Norwegian market: Synnøve Finden and Q-meieriene. Synnøve Finden produces mainly cheese and yoghurt, Q-meieriene produces mainly drinking milk, cooking products and yoghurt - and Kavli tubed cheese.

Q-meieriene⁶

Q-Meieriene was founded in the year 2000. But the history goes back to 1996 when the Norwegian Parliament (Storting) opened up for competition in the dairy sector in Norway. Gausdalsmeieriet was established in 1998 by an entrepreneur and O. Kavli AS. In the same year, Jæren Gardsmeieri was established by private investors. Both dairies had local deliveries of milk and other dairy products to the market. In 2000, O. Kavli AS bought all the shares in both companies and established the company Q-Meieriene AS. From the very beginning, the company has been founded on a burning desire to represent an alternative for consumers in the Norwegian dairy market. All the products come from the two dairies in Jæren and in Gausdal. On 11 September 2001, Q-Meieriene entered into a national supply agreement with NorgesGruppen, and since then they have built the Q brand by focusing on innovation and smart solutions for consumers. Q-Meieriene is owned by the Kavli Group. The group is owned by the charitable foundation Kavlifondet. All of Q-Meieriene's profits go to the Kavli Foundation, which distributes funds for non-profit purposes in research, culture and humanitarian work.

The company achieved an operating profit of NOK 138 million in 2019, NOK 27 million up from 2018. The company's turnover increased by NOK 31 million from 2018 to 2019, which means that Q-Meieriene can boast a growth of 1.7 percent. Although consumption of drinking milk has declined, Q has improved its market share in milk from 24.4% to 25.6% in 2019.

Synnøve Finden

Synnøve Finden AS is today, as a smaller player, a challenger in the Norwegian grocery market. The company delivers products in several areas: yellow cheese, brown cheese, prim, yoghurt, crispbread, granola and juice on its own brands, as well as Brämhults and Peppes in

⁵ Nielsen, YTD 4 weeks week 36 2020

⁶ <https://www.q-meieriene.no/om-q-meieriene/Historien-om-Q>

groceries segment. Synnøve Finden also offers products for catering, industry and the grocery companies' private brands.

The majority of the volume is produced at Synnøve Finden's two production facilities in Alvdal and Namsos. The two plants have about 120 employees in total. Synnøve Finden is also concerned with offering Norwegian consumers quality products from abroad and imports, among other things, completely authentic Greek yoghurt.

International competition

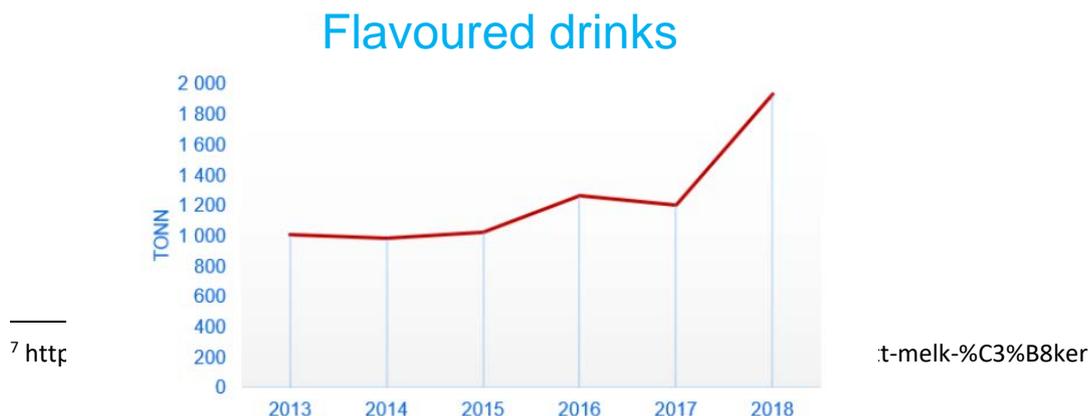
Imports of cheese and flavoured milk are increasing⁷.

The illustration below shows the import for all cheeses in tonnes distributed over the year up to 2017. This is import both within quotas, at full duty and imported through the scheme for foreign processing (UB) of Norwegian milk or cheese. The latter amounts to an estimated 2000-2400 tonnes annually. This cheese is imported, but is made from Norwegian raw materials exported from Norway and processed in the EU. This will of course not "displace" Norwegian milk.



When the EU quota is 7200 tonnes, this means that an increasing proportion is imported outside the quota at full duty.

Flavored drinks such as iced coffee, chocolate milk and other nutritional drinks have made a dent in import statistics. This is due to a low duty of NOK 2.12 / kg and a foothold in Norwegian store shelves.



The challenge

The Covid-19 pandemic has affected Norwegian dairy farmers⁸. Before the corona virus, the demand for milk in Norway was decreasing and the government had to intervene. The solution was to purchase the milk quotas from 400 farmers. During the pandemic, Norwegian consumer seem to have moved to more traditional eating habits, and this has caused a spike in the demand for milk. Group Director Consulting, Johnny Ødegård, says it is a challenging situation. “We had calculated on selling less milk in 2020 than in 2019 and therefore reduced production”⁹. The solution to the increase in demand is to milk cows all twelve months of the year, rather than the usual ten, and at the dairies, there is more work and less time off.

TINE has had an unexpected increase in the demand for milk and dairy products, but this may not last. TINE must be prepared for the situation that as things return to normal, the demand for milk will again decrease.

TINE still needs to implement their strategy.

The Key Performance Indicators for achieving the strategy are:

- 3 Billion NOK net revenue growth
- 1 Billion NOK cost cut
- 10% EBIT DA
- International breakthrough by 2025.

TINE will have to think differently on how they focus and organize growth within core and new business. TINE has the ability to support strong growth opportunities and are open to new cooperation models with external partners.

Perhaps the Covid-19 situation can be utilised to more effectively implement the strategy?

What barriers and opportunities do you see, and which would you primary focus on? What strategic measures would you recommend TINE to look closer into over the next 3-5 years?

⁸ https://www.nrk.no/vestland/400-mjolkebonder-har-fatt-betalt-for-a-slutte-_no-har-vi-for-lite-mjolk-1.15193242

⁹ <https://www.nt24.no/for-koronapandemien-var-produksjonen-av-melk-i-norge-for-hoy-na-lages-det-for-lite-melk/s/5-120-5403>