

Original Paper

Almarai's Dilemma: Introducing Planted-based Milk

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Received: May 12, 2023

Accepted: May 30, 2023

Online Published: September 7, 2023

doi:10.22158/jetr.v4n3p1

URL: <http://dx.doi.org/10.22158/jetr.v4n3p1>

Abstract

Almarai has more than four decades supplying the market with quality products. Almarai's product line includes milk, juices, bakery items, and poultry. The business has been successful in introducing new products to the market.

Dairy milk is a highly consumed, and demanded nutritional food product in the GCC and mainly in Kuwait, but the latest trends concentrate on lowering the consumption of animal products.

The food industry is aiming toward the plant-based milk options, such as soy, almond, oat, rice, and coconut milk.

This case study explores the difficulties encountered by Almarai, a leading dairy company in Kuwait, as it considers whether to introduce plant-based milk to its product portfolio.

Keywords

Kuwait, GCC, Almarai, Strategy, Management, Sustainability, Dairy, Plant, Product Portfolio

1. Introduction

In the Middle East, Almarai is leading the market with the highest market share.

Recently, the market has witnessed an unprecedented rise in demand for plant-based milk alternatives. Almarai has considered the introduction of plant-based milk alternatives; however, there are diverse challenges - mainly that the new product line could cannibalize Almarai's existing dairy sales.

This case study examines the challenges that Almarai faces in introducing a new product line and the possible effect of this decision on business success and its current business model.

2. Method

2.1 Business Model

Almarai's current business model is built on backward as well as forward integration with complete

control of the supply chain from raising its own dairy cows to producing and distributing its products. This enables Almarai to manage quality control. The main market for Almarai's products is the Gulf Cooperation Council (GCC) area. It also sells its products in Egypt, Jordan, and Yemen.

Almarai is considering introducing plant-based milk options to its product portfolio, as there is an increase in the market demand for non-dairy products. However, Almarai is concerned about the possible impact on its current dairy product lines.

The management team at Almarai is divided, with some claiming that the company must diversify its offerings to stay competitive, while others are concerned about cannibalizing sales of its current products.

The contingent that argues for the introduction of a plant-based milk product line claims that the business must respond to changing consumer needs to gain strategic competitive advantage. They emphasize that many companies have introduced plant-based milk alternatives, and that Almarai will be threatened by falling market share if it does not introduce a plant-based milk product line. Additionally, they note the potential growth of the non-dairy segment, which could counteract possible losses in the dairy segment.

The group that does not support the introduction of the new product line claims that Almarai risks cannibalizing its current dairy sales by introducing a non-dairy option. They suggest that Almarai's dairy products possess a robust brand standing in the market and that presenting a non-dairy alternative could weaken that standing. Furthermore, they are concerned the non-dairy products may lack brand association.

To determine the impact of a non-dairy product line, Almarai conducted a market analysis of the non-dairy segment in Kuwait and the GCC countries. The results are shown in Table 3.

The results show that significant growth is expected in the non-dairy market. The growth is expected at a Compound Annual Growth Rate (CAGR) of approximately 20% in Kuwait and around 16% in other GCC countries.

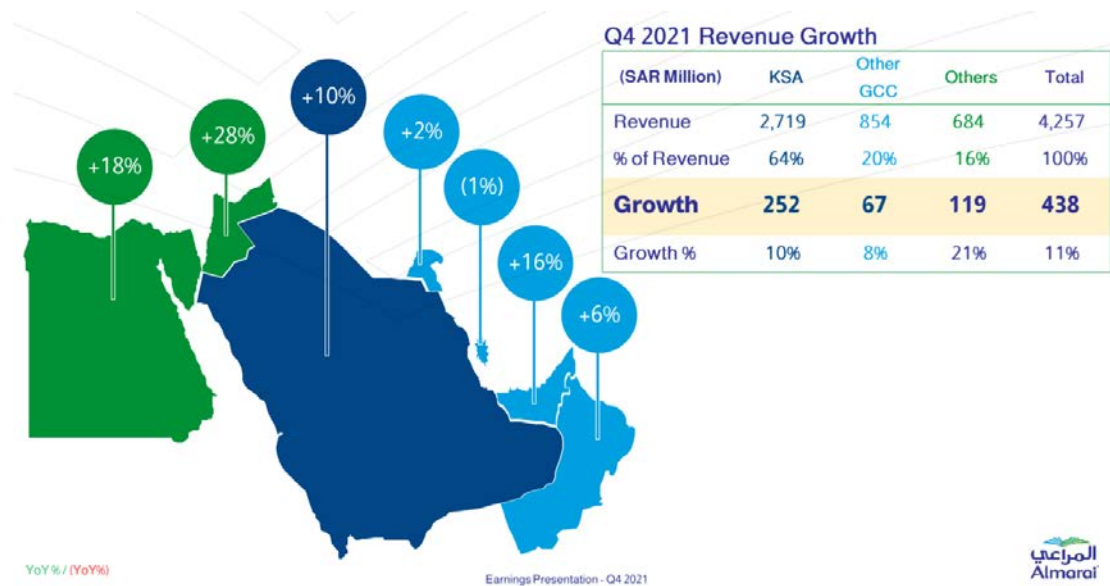


Figure 1. Almarai Topline Growth by Country

Source: (Almarai, 2021)

The contingent who argues for the introduction of the new product line claims that this projected growth means a powerful possibility for Almarai to extend its product offerings and to tap into a growing market.

The team who argues against the introduction of the product line recognizes the growth prospect of the non-dairy market but claims that Almarai endangers cannibalizing its current dairy sales. Therefore, they propose that it is better for Almarai to enter in a partnership with a non-dairy company or for Almarai to create a new brand to undervalue the risk of cannibalization.

2.2 Almarai's Sustainability Practices and its Efforts to Reduce its Carbon Footprint

Almarai has made a concerted effort to enhance its sustainability practices and reduce its carbon footprint. Almarai has aimed to increase efficiency resulting in less energy use and water consumption. To reduce its carbon footprint, Almarai increased efficiency resulting in lower gas emissions from its activities.

Furthermore, Almarai has invested in renewable energy to power its facilities thereby reducing its dependence on fossil fuels. Almarai has also adopted more efficient lighting and tools and optimized its supply chain to decrease transportation-related emissions. Additionally, Almarai invested in cutting-edge wastewater treatment and water saving technologies such as drip irrigation.

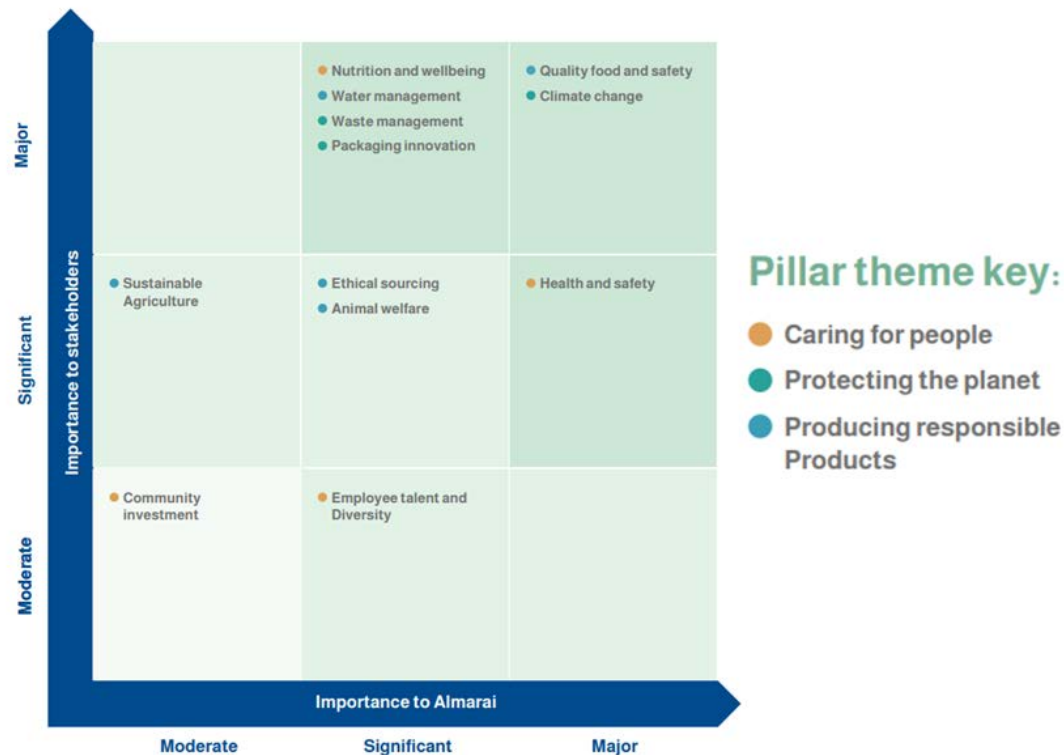


Figure 2. Almarai's Sustainability Framework

Source: (Almarai, 2021)

As shown in Figure 2, these efforts are part of Almarai's three pillars: caring for people, protecting the planet, and producing responsible products.

- 1) Caring for people, through protecting their interest, and benefiting the community.
- 2) Protecting the planet, through reducing the carbon footprint among other practices demonstrating the commitment of the business to social responsibility and sustainable business practices.
- 3) Producing responsible products is prioritized in this company throughout all the procurement decisions and activities. This is done by adopting 25 goals to be achieved by 2025 as part of their sustainability strategy which they think could contribute positively to their long-term success.

2.3 Regulatory Environment in Kuwait and the GCC Countries and How this Could Impact the Introduction of a New Plant-based Milk Alternative

The legal environment in Kuwait and the Gulf Cooperation Council (GCC) countries will impact the introduction of a new product line by Almarai. The impact of Islamic law is keenly felt by F&B companies as it limits which ingredients can be used in production and the types of beverage and food

products that are permitted for sale.

The Gulf Standards Organization (GSO) has developed rules and measures for food labeling, product safety, and quality across the GCC countries. However, as of yet, there are no rules across the GCC concerning plant-based milk alternatives with the UAE the sole country with established regulations for the labeling and marketing of plant-based products.

In Kuwait, food and beverage products are regulated by the Public Authority for Industry (PAI). This body has established rules for the labeling, packaging, and marketing of food products. Any plant-based milk alternative developed by Almarai must comply with these rules, as well as any further conditions set by other regulatory entities in the GCC countries where the product is sold.

3. Result

Almarai is facing a dilemma regarding the introduction of a non-dairy product line.

There is high potential growth in plant-based milk products.

A plant-based milk product line could cannibalize the sales of current dairy products and decrease its market share adversely impacting its brand.

Table 1. Almarai's Revenue by Product Category (2019)

Product Category	Revenue (in millions of SAR)
Dairy	11,718
Bakery	1,014
Poultry	1,257
Other	2,198

Source: Statista (2021)

Table 2. Market Share of Top Dairy Companies in GCC (2018)

Company	Market Share
Almarai	37.30%
Nadec	14.20%
FrieslandCampina	9.90%
Danone	8.10%
Others	30.50%

Source: Statista (2021)

Table 3. Non-Dairy Market Size and Growth in Kuwait and GCC Countries (2018-2023)

	2018	2019	2020	2021	2022	2023
Kuwait	3.5	4	4.5	5	5.5	6
Saudi Arabia	46.2	52.4	58.6	64.8	71	77.2
UAE	12.4	14.1	15.8	17.5	19.2	20.9
Bahrain	1.5	1.8	2.1	2.4	2.7	3
Oman	1.9	2.2	2.5	2.8	3.1	3.4
Qatar	2.5	2.9	3.3	3.7	4.1	4.5

Table 4. Sales by Segment, Geography, Analysis by Country

Segmental Reporting		2018	2019	2020	2021	2022
<i>Sales by segment</i>						
Dairy & Juice	SAR Million	9,919.7	10,210.0	10,923.7	11,141.3	12,504.1
Bakery	SAR Million	1,641.4	1,749.3	1,712.0	1,788.9	2,439.3
Poultry	SAR Million	1,800.4	2,124.6	2,292.8	2,301.5	3,013.4
Other Activities	SAR Million	196.4	267.4	428.5	618.1	765.4
<i>Sales by geography</i>						
Saudi Arabia	SAR Million	9,179.8	9,737.3	10,285.9	10,222.8	12,099.8
Other GCC Countries	SAR Million	3,090.4	3,164.3	3,198.2	3,121.3	3,642.6
Other Countries	SAR Million	1,287.6	1,449.7	1,872.9	2,505.6	2,979.9
<i>Sales analysis by country</i>						
KSA	%	67.0	67.8	67.0	65.0	64.0
UAE	%	10.0	9.5	9.0	9.0	9.0
Oman	%	6.0	5.2	4.0	4.0	4.0
Kuwait	%	5.0	5.0	5.0	5.0	5.0
Egypt	%	6.0	5.9	6.0	8.0	8.0
Bahrain	%	2.0	2.3	2.0	2.0	2.0
Jordan	%	2.0	2.1	3.0	3.0	4.0
Other exports	%	2.0	2.2	3.0	4.0	4.0

Source: (Almarai, 2022a)

Table 5. Financial Statements of Almarai

Consolidated Income Statement		2018	2019	2020	2021	2022
Revenue	SAR '000	13,557,837	14,351,277	15,356,948	15,849,720	18,722,258
Gross Profit	SAR '000	5,327,074	5,366,674	5,535,508	5,059,270	5,624,223
Operating Profit	SAR '000	2,521,235	2,473,208	2,522,334	2,014,854	2,276,332
Profit before Zakat and income Tax	SAR '000	2,079,056	1,922,469	2,027,858	1,667,850	1,848,929
Profit/(Loss) for the year attributable to shareholders	SAR '000	2,011,975	1,811,753	1,984,361	1,563,543	1,759,812

Source: (Almarai, 2022a)

4. Discussion

There is growing demand in the market for non-dairy products. Almarai is considering introducing plant-based milk to its product portfolio.

Should Almarai introduce plant-based milk to its product line? If so, at what percent? If not, why? What other options might Almarai consider? Explain and support your answer.

Make a new product launch strategy recommendation to Almarai. Explain and support your answer.

Acknowledgement

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