

Oatly

A case study

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Innovation:	Oat-based dairy analogues
Intervention:	Oatly
Case Study by:	Ludwig Bengtsson Sonesson (Lund University)
Methodology:	10 semi-structured interviews, site visit to Oatly plant and Oatly office.
<i>Case Study Overview</i>	
Sector(s):	Meat/Dairy
Value Chain Stage(s):	Production/Consumption
Type of Intervention:	Technical and Social
Date & Duration:	Initiated in the early 1990s (on-going)
Location:	Sweden
Initiating Actors:	Rickard Öste Lund University
Actor Constellation:	Lund University – Research Svensk Sädessförening – Initial Investment Lantmännen AB – Early investor Skånemejerier – Industrial Partner Rickard Öste – Founder Forsman & Bodenfors – PR-Firm Verlinvest – Investor China Resources - Investor
Short Description of Intervention:	Oatly produces oat-based dairy analogues for an international market. Through a patented enzyme process, they manufacture an oat-base, which is then processed into a diverse set of products (milks, yoghurts, cream etc.). The innovation itself came in the early 90s, but it was not until 2012 that Oatly really took off. A new CEO, Toni Petterson, was adamant that the product was not just for those who were unable to process dairy – but for all who made the choice not to drink it due to its environmental impact. This re-framing also brought with it a new look and attitude to the packaging, with “Wow No Cow” branded on the front, and humorous text by copywriter John Schoolcraft. This antagonistic approach spurred a law-suit from the Swedish Dairy Lobby which put the dairy discussion as a headline item in the papers - “The Milk War” was brewing. While Oatly lost in court, they were now a household name and have been growing ever since. A new ownership in 2016 took them to both the US and China and in 2018 they reportedly outsold dairy milk in some stores.
<i>Research Theme Summaries</i>	
1. Innovation History & Dynamics:	<p>Oatly’s story can be divided into five acts: Early Innovation, Commercialisation, the birth of Oatly, Change and Globalisation. The innovation spun out of research on lactose intolerance at Lund University and an offer of small funding to develop a value-added product based on oats. The enzyme was developed and patented and the rest of the 90s were spent partnering with a range of established actors to take it to market (Lantmännen, ICA, Friggs). After the Lantmännen partnership collapsed, ‘Oatly’ was born, new investors acquired and an unconventional partnership with dairy producer Skånemejerier started. However, the oat milk was sidelined and to gain independence, Oatly built their Landskrona manufacturing plant in 2006, a big step. A steady but slow growth lead to the recruitment of Toni Petterson, the “change” process and the current rebellious positioning of Oatly. Key takeaways:</p> <ul style="list-style-type: none"> • Initial demand created by research on lactose intolerance. Increasing eco-trend/climate change awareness created second wave of demand. • Plant milks are not new, they are very old innovations, but Oatly’s ability to pick up on societal trends and appeal to new demands is their strength. • Early circulation focused on baristas and spread fast. Has established itself as THE alternative to milk in coffee shops/hotel breakfasts/offices (in Sweden). • Major barrier has been production capacity. Strict demands on purity of product makes outsourcing hard. • The cultural hegemony of dairy in many western countries is both a barrier and a driver – there needs to be a ruler for a rebel to emerge.

	<ul style="list-style-type: none"> Oat demand is increasing, will make their production more valuable for farmers.
2. Governance Arrangements & Agents of Change:	<p>Oatly has and continues to benefit from their close connections with Lund University. It birthed the initial innovation and is now involved in ScanOats – developing the oat breeds of tomorrow.</p> <p>The discussion on livestock’s impact on climate change, spurred both by reports (FAO Livestock’s long shadow), popular culture (Cowspiracy etc.) and the vegan movement, enabled the vision of a “post-milk generation”.</p> <p>The EU School Milk Subsidy was contested by Oatly, but so far – no institutional change has occurred.</p> <p>Interviewees indicated several regulatory barriers (regulation on organic products differing from dairy to plant milks, subsidy systems, not being allowed to call their products “milks”) but also a <i>lack</i> of governance – demanding a roadmap for Sweden’s booming plant-based industry (no mention of it in current food strategy).</p> <p>Key difference in governance compared to other plant milks is idea of target audience (everyone) and tone of voice (rebellious). Traditional marketing of plant milks signals empathy, softness, harmony and cleanliness.</p> <p>Several rounds of finance – founder & his brother key in shaping future of Oatly. Acquisition by Chinese and Belgian firms enables global expansion and contention for Asian and American markets.</p> <p>Interviewee indicated that every new product is an innovation in itself. To replicate the repertoire of dairy products available on the market requires time and money.</p> <p><i>Växtbaserat Sverige</i>, a lobby organisation founded by Oatly attempts to balance the dominance of livestock agriculture in Swedish farmers’ lobby. Only certain plant-based producers allowed, notably not those who also deal in livestock – driven by fear of conflicting agendas.</p>
3. Transformative Capacities:	<p>Oatly addresses the inertia of dairy culture in their PR-campaign against school milk. Through advertisements (print & digital) and the publication of a book with rebuttals of the most common arguments for dairy milk.</p> <p>Oatly uses the concept of ‘the Oatly way’ to make decarbonisation legible, in graphical illustrations they show how grains go directly into milk instead of passing through a cow. Although simplified (cows grazing is not mentioned) – the message is effective.</p> <p>The company uses events as a form of lab, most notably the Way out West music festival. After Oatly became a sponsor, the festival is now meat and dairy free – which Oatly capitalised on in an ad campaign which encouraged the rest of Gothenburg to also give up milk for 72 hours. This technique of futuring, defamiliarising ‘the festival’ and reimagining it as a meat/dairy free zone allows the attendees to experience a post-milk society.</p> <p>Oatly’s cooperation with farmers are another way to gain legitimacy for the project. Together with Adam Arnesson, sheep-farmer in central Sweden, they produced an ‘old-fashioned’ oat milk made from heirloom oats. They showed that by incorporating more plants into his crop rotation he increased revenue while decreasing emissions. Oatly is currently recruiting 10 more farmers to do similar experiments as part of a EU research project.</p> <p>The low-carbon qualities are (together with taste, ‘local’ and ‘rebellious’) highly articulated in Oatly’s sales tactic. Their latest initiative prints the Carbon Footprint of their products on the packaging.</p>
4. Assessment & Evaluation:	<p>In their newest initiative “Food industry: show us your numbers!”, Oatly encourages their competitors to disclose the emissions footprint of their products. This focus on numerical assessment and evaluation is contentious, as no consensus on <i>what</i> and <i>how</i> impact from milk should be assessed exists.</p> <p>The most prevalent arguments are 1) that assessments must look at a systematic level and also include other values, such as preservation of pasture lands, bio-diversity and cultural importance; 2) that emissions must be put in the perspective of the nutritional content of the product; 3) that a distinction be made between emissions from fossil fuels and methane/NO₂ emissions from agriculture due to their differing life spans in the atmosphere.</p> <p>An attempt to bridge this divide was made in a study of how oat milk could be integrated into the Swedish farming landscape while still preserving the protein output of current systems. This has not been widely publicised because of its complexity – in marketing, Oatly favours LCAs as they paint them in a better light and are easier to communicate.</p>

5. Uptake & Consequences:	<p>Oatly has certainly put plant-based milks on the map for many, both in Sweden and internationally. However, causality between Oatly's success and the diversity of brands and products in the market segment is hard to establish.</p> <p>There is a worry that the idea of Oatly as a 'good company' (their phrasing) will fade as they grow and expand into international markets. They repeatedly note the importance of being a small and independent actor with ties to the local food system – something, which works when the primary production is in Landskrona but is harder when now it opens a factory in New Jersey.</p>
<i>Conclusion & Outlook</i>	
Key Learnings:	<p><i>Unique features of this case:</i></p> <ul style="list-style-type: none"> • Unique marketing approach • Leveraging legal battles with incumbent regime in a public forum • The creation of a movement around a product <p><i>Key insights from this case regarding ...</i></p> <p><i>Overall decarbonisation:</i></p> <p>Plant-milks provide a way for consumers to maintain current dietary patterns while decreasing their emissions footprint. However, they need to exist within a sustainable food system, with significantly decreased animal agriculture. Due to financial inertia, many farmers do not have the margins to transition their production, thus there needs to be a governed transition to achieve a decarbonised sector.</p> <p><i>Drivers and barriers:</i></p> <p>This case study enforces the beliefs that an innovation in itself is not enough to start a low-carbon transition. Oatly started in the 90s, but only when their imaginary fit with societal desires for decreased emissions and researchers were pointing to the environmental impacts of livestock could they be said to have a real impact on the sector. Another key take-away is that it seems that regulatory barriers can be turned into springboards if portrayed as unjust, given that the actor in question is deemed credible as a rebel/minor player.</p> <p><i>Challenges and instruments to overcome them:</i></p> <p>The story of Oatly is also the story of modern advertisement. Companies increasingly act as <i>ideological parasites</i>, riding the wave of trends (in this case eco-friendly consumption and veganism) and express this in their advertisement. To overcome financial barriers, consumers are paying a markup to achieve a certain image – consumption has become an act of rebellion. This movement building or creation of publics serve to break through inertia.</p> <p><i>Role of policy:</i></p> <p>Today, policy in the EU or at a Swedish level does not seem to aide the decarbonisation of meat/dairy – but with the CAP under revision at the time of writing it is too early to say for certain. As the agricultural transition is vitally important for nations' wellbeing, the role of policy should be to ensure a food system which can achieve international commitments (Agenda2030, Paris Agreement etc.) while supplying ample food to its citizens.</p> <p><i>Lessons for future innovations:</i></p> <p>A product-level innovation can't just rely on moral superiority or a compelling story – it must fulfil the services of its high-carbon contender. For Oatly that meant it had to taste good, blend effortlessly with milk and come in a varieties of shapes and mediums. Interviewees testified that they only switched to their own product when it could blend with coffee, and that consensus among consumers was that taste was the primary factor for choosing Oatly.</p>
Open Questions & Further Research Requirements:	

For Europe to achieve its long-term climate objectives, carbon-intensive industries have to reduce their emissions.

REINVENT focuses on plastics, steel, paper and meat & dairy – industrial sectors that are key to our daily lives, but where low-carbon transitions are still relatively unexplored.

To gain a broader understanding of the possibilities of transition, entire value chains of the industries are studied. This includes non-technical factors such as supply chains, financing, trade, and social and economic impacts. Together with forward-looking industry leaders and policy-makers, we explore potentials and capabilities for making transitions in these resource-intensive industries.

PARTICIPANTS & FUNDING

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