

CHEESE MARKET NEWS®

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Demand for dairy snacks rises with increased focus on health

By Johanna Nelson

MADISON, Wis. — When it comes to snack food, cheese may not be the first thing that comes to mind. However, an increasing number of consumers are seeking out cheese and dairy snacks that not only meet their desire for taste and convenience, but also add a nutritional boost.

• A growing market

According to a new study from Zenith International, sales of dairy snacks — which include products like string cheese and yogurt tubes — grew 7 percent in 2009 and are heading for a 6 percent rise this year.

Zenith says this growth is expected to continue as manufacturers look to dairy as an avenue for developing healthy, convenient snacks. Total volumes are expected to grow from an estimated 217,000 tons in 2010 to more than 260,000 tons by 2014.

“As modern on-the-go lifestyles have left consumers time poor, many people are increasingly looking for a convenient snack that delivers on health and nutrition, and also one that tastes good and provides a pleasurable eating experience,” says Laura Knight, Zenith market analyst. “Dairy snacks are well placed to meet these consumer demands and manufacturers have begun to capitalize on the opportunity this presents.”

And opportunity there is. For the first time ever, NPD Group’s “Eating Patterns in America,” listed cheese snacks this year as one of the top 10 snacks (those consumed in between meals) in America. The annual report tracks U.S. eating and drinking habits both in home and away.

“It’s a snack food that is being enjoyed by a lot of different groups, especially children,” says Harry Balzer, vice president and chief industry analyst, NPD Group. “It’s about moms making choices of what children will snack on. Moms are decreasing the intake of cookies and cakes as snack occasions and increasing consumption of cheese and yogurt.”

In addition to health and nutrition, Balzer says there are three main factors that drive consumer purchases. First and foremost, he says the product must taste good.

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"Taste is a driving force in our behavior," Balzer adds. "We won't eat things we don't like."

The second factor is accessibility — products need to be easy to obtain, prepare, store and use. And finally, cost cannot be prohibitive.

"After all those three are satisfied, it would be nice if food were perceived healthy as well," Balzer says. "The average consumer cannot do a nutritional analysis of every food they eat — it's about the perception of if the food is healthy or not."

NPD research also indicates both cheese and yogurt sales are growing across categories — from breakfast to lunch to dessert. Balzer notes cheese in particular is benefiting from current sandwich trends as well as the options it offers to those looking to move away from processed foods in favor of more natural alternatives.

- **Untapped marketing potential**

As a growing number of consumers view dairy snacks as a natural alternative to perceived unhealthier fare, health benefits have the potential to become a strong selling point, according to Lynn Stachura, senior vice president, strategic insights, Dairy Management Inc. (DMI).

"Dairy's nutritious profile naturally aligns with consumer demand for healthy snacks," Stachura says. "Because many deliver several nutrients that are missing from people's diets, dairy snacks can help consumers meet intake recommendations for nutrients such as calcium, vitamin D, potassium and vitamin A, and provide high-quality protein."

This past summer, the Innovation Center for U.S. Dairy released a white paper, "Snacking: Identifying a World of Opportunities for Dairy," highlighting the fact that dairy is underdeveloped in the snack eating occasion. In order to enhance dairy's position in this expanding occasion — snacking represents more than half of the eating occasion — Stachura says the industry needs to develop products that go beyond what is available today.

The white paper outlines the market structure and is designed to serve as a road map for companies to help make more informed decisions. (For more information, see "Innovation Center for U.S. Dairy white paper on snacking highlights opportunity for dairy," in the July 30, 2010, issue of Cheese Market News.)

"Snacking is an important strategic opportunity for the dairy industry to achieve incremental growth, and dairy is currently underdeveloped in this area," Stachura says, noting USDairy.com has additional resources available for processors and manufacturers to learn more about the snacking market structure and the strategic recommendations presented in the white paper.

In order to help tap into this potential, the Innovation Center also has been focusing on developing pre-competitive research available to all industry members. Stachura notes the Innovation Center's qualitative and quantitative research helps to provide a 360-degree view of the consumer choice process.

"Based on this research, we were able to identify a market structure with distinct segments of the snacking eating occasion — each providing a different consumer benefit," she says. "For example, if a consumer doesn't have time to eat breakfast in the morning, according to the market structure, she'll be looking for something that is healthful, provides a quick energy boost and is made with pure ingredients or is natural.

"If it's after lunch and she is hungry at work, she'll likely want something that is salty, and crunchy or crispy. She'll probably opt for multiple serving sized choices so she can share with others," she adds.

- **Marketplace leaders**

While the dairy snack market may still be in the process of realizing its full potential, a growing number of companies are offering products designed for this segment.

DCI Cheese Co., Richfield, Wis., offers individually packed string cheese through its Organic Creamery and County Line Brands. It also offers customers private labeling solutions for string cheese.

In addition, DCI's Mun-chee brand has seen strong sales from consumers seeking healthy snacking options, especially among moms looking for convenient and healthy foods for lunch boxes.

"When consumers purchase dairy snacks, they know they're getting a calcium-rich snack option that's packed with flavor," says Kristy Klug, marketing communications specialist, DCI Cheese Co. "Compared to potato chips, candy bars and other snacking staples, cheese provides a significantly better option for healthy eating."

Klug believes the health benefits of a product are definitely a selling point; however, she notes that the thing that drives repeat purchases first and foremost is flavor.

"At DCI, we see a lot of consumers actively seeking our products — a testament to the high quality and memorable flavors of our award-winning cheese," she adds.

Klug also notes convenience helps to drive sales in this market sector. She says products such as individually-wrapped string cheese are ideal for on-the-go snacking for busy professionals, especially moms seeking healthier options for their children.

Convenience/portability also help to fuel sales of Bel Brands USA's Laughing Cow family of brands in addition to portion control and nutrition.

"The vast portfolio of snacking cheeses available from The Laughing Cow offers many convenient ways to

add great taste to an every day snacking experience without adding many additional calories," says Ann Legan, marketing director, Bel Brands USA. "At 50 calories per piece, Mini Babybel Light is an excellent source of calcium and contains 6 grams of protein. The Laughing Cow Light wedges, available in six flavors, have only 35 calories and are a good source of calcium."

Bel Brands USA is a subsidiary of Paris-based Fromageries Bel, which has been a family-owned company since the 1920s. In recent times, Legan says the company has experienced an increased demand among consumers due both to the relevance of the products to their lifestyle needs and increased awareness among consumers.

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probiotics. Flavors include Surfin' Strawberry, Blueberry Wave, Strawberry Lemonade Squeeze and Sour Apple Spray.

"Convenient shelf-stable packaging is perfect for kids and busy adults on the go," says Loveday, noting the snacks are ideal for lunch boxes, after school sports, travel and camping. "Families are realizing the importance of healthy snacks throughout the day, particularly those that are both nutritious and convenient."

- **Looking ahead**

While some manufacturers have well established brands in the dairy snacks segment, Zenith also believes these could be joined by new entrants as food manufacturers look for new opportunities.

PepsiCo has indicated it sees strong potential in dairy snacks. The company recently announced its intention to buy Will-Bill-Dann, a major food and beverage company in Russia. (For more information, see "PepsiCo to acquire majority stake in Russian dairy, juice company" in the Dec. 10, 2010, issue of Cheese Market News.)

Legan believes the dairy snack foods sector will continue to increase in popularity among consumers as long as they continue to meet consumers' needs for portion-controlled, nutritionally sound snack foods.

Sara Loveday, marketing communications manager for WhiteWave Foods (which represents Horizon Organic of Boulder, Colo.), believes that consumer interest in dairy snack foods also will increase.

She also notes dairy snacks fit well with on-the-go lifestyles, providing nutritious and tasty alternatives to other snack fare.

Horizon Organic's Tubers are yogurt tubes that offer protein, calcium and

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According to PepsiCo, there is an accelerating trend toward branded and packaged dairy in developing markets. Over the next five years, Russia is forecast to be one of the largest contributors to global dairy growth.

"Dairy has a huge, untapped potential to bridge snacks and beverages," says Indra Nooyi, PepsiCo chairman and CEO. "We see the emerging opportunity to 'snackify' beverages and 'drinkify' snacks as the next frontier in food and beverage convenience."

Stachura also forecasts a promising future for dairy snacks. She notes that snacking is a \$93.5 billion eating occasion, and it's growing. Snacking during all parts of the day is expected to grow faster than the population, she says, noting that as the dairy industry reimagines dairy snack products, there is an opportunity to stimulate incremental growth and own a larger piece of the snacking market.

"Really, the possibilities are infinite — dairy products and ingredients are versatile, wholesome, natural, nutritious and delicious," Stachura says. "Innovating beyond new flavors and packaging will be key. Reinforcing dairy/dairy ingredients' healthfulness presents another opportunity of focus." CMN