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BUSINESS INSIGHT FOR NATURAL AND ORGANIC BUYERS

NETWORK

# Specialty ORGANIC

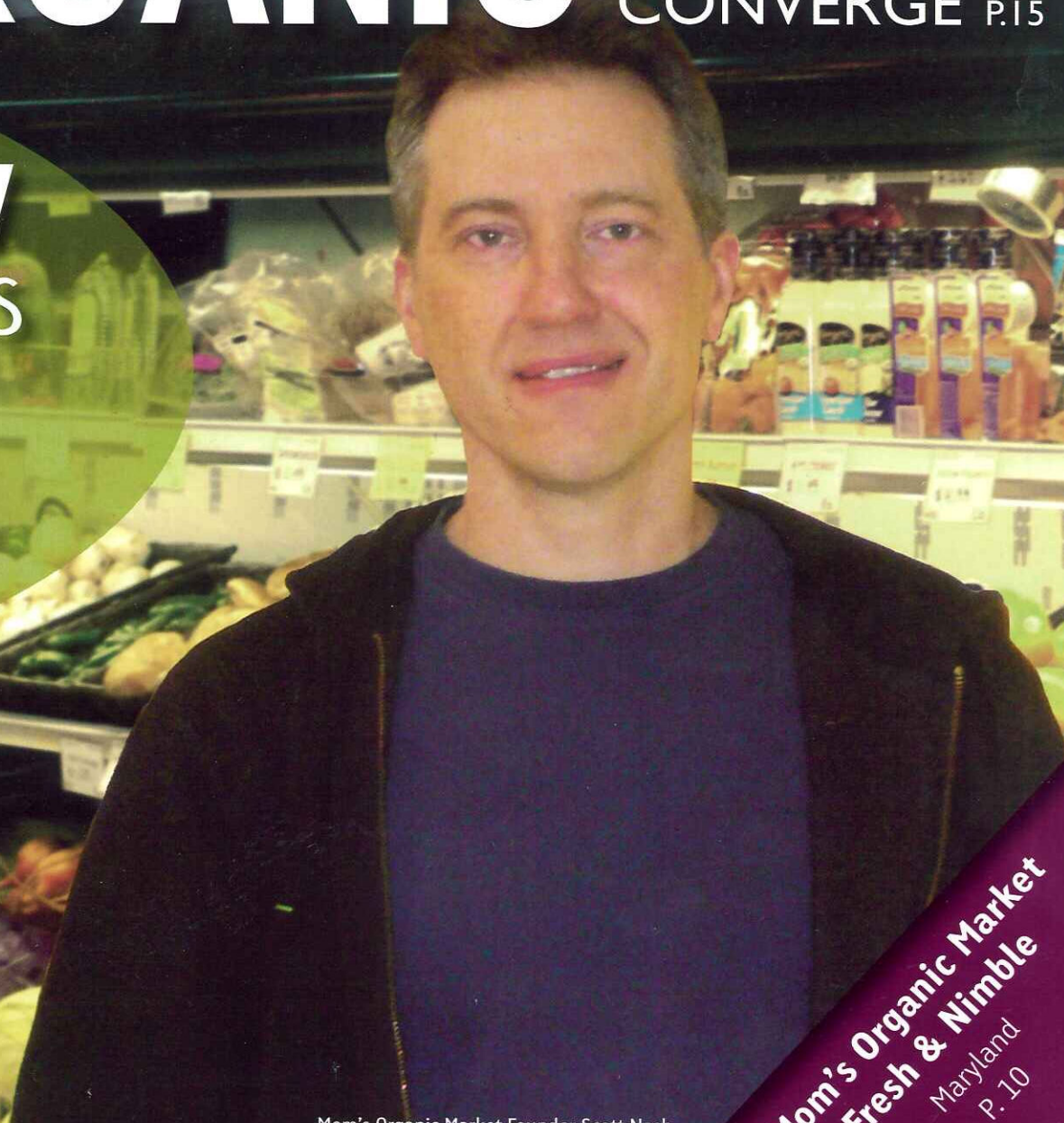
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Mom's Organic Market Founder Scott Nash



# Make Space in the Case

INNOVATION CONTINUES TO PROPEL SALES IN DAIRY BUT YOGURT, PROBIOTICS AND CHEESE GROWTH ARE HAMPERED BY SPACE CONSTRAINTS.

By Dan Bolton

Natural Food Network Editor

**D**airy Management, Inc. (DMI) audited conditions in 22,000 supermarkets, analyzed 343,000 shopping trips, interviewed 2,500 customers and ran product merchandising tests in 1,000 dairy cases to demonstrate that the great white expanse at the back of your store holds untapped treasure worth up to \$1 billion in incremental sales.

It's there for the taking yet a surprising number of stores fail to strike it rich due to costly out-of-stocks, stodgy display and the antiquated notion that dairy's primary role is to force shoppers to navigate shoppers to navigate center store aisles.

"Dairy should be a centerpiece of the store and not just a part of the center-store," says Michael J. Neuwirth, Senior Director of Public Relations with **The Dannon Company & Danone Waters of America**. Dannon teamed up with **Kraft Foods** to fund the **Innovation Center for U.S. Dairy**.

The center's mission is nothing short of dairy reinvention.

"Reinvention provides the opportunity to increase overall dairy department sales by as much as \$1 billion," says Scott Dissinger, Senior Vice President at DMI.

Unlike produce, its consumer-driven periphery partner, dairy is "operations driven." The study convincingly demonstrates that adopting a consumer-driven approach can make dairy a highly productive stretch of the perimeter highway.

Dairy already drives more shoppers to visit your store more often than the top produce categories, according to Innovation Center research. Milk enjoys 90.6 percent household penetration and is responsible for generating 16.6 occasions per buyer. Bananas come close

at 15 occasions and 84.4 percent household penetration but when you add cheese (11.6 occasions) and yogurt (8.5 occasions) the dairy case is a much more powerful draw.

And if that's not convincing, consider that the dairy department's compact selection of high-value items generate \$100 per base foot in sales compared to \$38 per foot in produce. Ninety-seven percent of dairy SKUs turn more than once per store per week while 34 percent of produce SKUs lay idle.

So what's keeping grocers from realizing dairy's potential?

The study identified these obstacles: Limited space, a reluctance to make capital investment in cases that display dairy's variety, concern over operations costs, inventory worries for code-date sensitive goods and labor.

"Unleashing dairy's potential is one of the best moves retailers can make to win in food and capture hidden growth during these tough economic times," says Neuwirth.

## Natural And Organic Dairy

Senior Analyst David Browne with market research firm Mintel International surveyed the natural products marketplace last year, authoring a report titled *Refrigerated and Frozen Foods 2009*. "One of the primary themes throughout natural and organic is

that many consumers haven't changed their behavior," he says.

"The dairy products segment performed well when compared to other natural/organic frozen and refrigerated foods segments," reports Browne who attributes this resilience to "increased eating in, and accessible and value-based natural/organic private label/store brands of key items such as cheese, yogurt and milk."

Mintel reports sales of organic dairy products grew 48 percent between 2006-09 "but growth slowed considerably in 2009 in natural and conventional supermarkets." Mintel expects the market to rebound in 2010 and grow 33 percent through 2012, with sales exceeding \$2 billion in 2012 in these outlets, writes Browne.

The biggest producers are Stonyfield Farm and Brown Cow (Groupe Danone) which grew 1.5 percent to earn \$300 million in the food, drugstore and mass merchandise channel; Egglund's Best Inc. with 2 percent growth in F/D/M and Dean Foods' Mountain High which enjoyed a blazing 9.2 percent gain over 2008. Dean's other brand, Horizon Organic, plunged 16.2 percent to bring the group total to 1.2 percent growth for the year.

The darlings of dairy were Fage and Chobani Greek-style yogurt.

"Both brands performed well despite premium positioning and a relatively high price point," observes Browne. Chobani, from Agro Farma Brands, enjoyed an astounding 547.5 percent increase in sales to capture 3.3 percent market share. Fage climbed 31.2 percent to also grab 3.3 percent share in the 52 weeks ending Sept. 5, 2009 according to SPINScan Conventional (powered by Nielsen).



## Dairy Innovation

Dairy is a well-sprig of innovation with 1,961 new product introductions in 2008. Launches slowed in 2009 but the compound average growth rate since 2004 is 10.4 percent.

“With one in ten Americans unable to consume dairy due to lactose intolerance, food allergies, or for a variety of others reasons, demand for dairy alternatives has never been greater,” says John Tucker, Vice President of Marketing and Technology at Turtle Mountain, makers of So Delicious® and Purely Decadent® dairy-free frozen and refrigerated foods.

“Sales are up over 35 percent from last year and the introduction of our coconut milk kefir played a key role in helping us tap into this growing market,” he says.

## Yogurt’s Sales Trajectory

Clever retailers use this category to showcase the health benefits inherent in dairy.

Few customers linger in dairy. The typical visit is 24 seconds for those grabbing a carton of milk. When they do stop it’s because of the remarkable variety of yogurt and similarly positioned healthy dairy items like kefir and probiotic brands like Yakult and GoodBelly.

“Yogurt is a fantastic category,” says Browne. “There are lots of innovations and varieties from prebiotics to probiotics and unusual flavors.” Sales topped \$230.7 in the natural channel but growth in 2009 was well below the 12.3 percent SPINSscan Natural reported in 2008.

The sour note was drinkable yogurt which experienced a steep decline as the number of yogurt drinkers fell from 18 to 16 percent in 2009, says Browne, citing an Experian Simmons NCS data set.

“Scientific innovations such as probiotics have been instrumental in spurring growth,” says Danone’s Neuwirth. “In the U.S., yogurt consumption continues to grow at a steady pace of about 7-8 percent per year, and today Americans consume about three billion pounds of yogurt per year (about 12 pounds per person on average),” he said.

“We expect the yogurt category will continue to grow as more consumers seek delicious, convenient and better-for-you foods,” says Neuwirth.

Mintel estimates the yogurt category is now worth \$4.1 billion and will top \$5 billion in five years with 97 percent of sales at supermarkets.



## Cheese Please

Artisanal cheese is another segment experiencing fast growth.

Michel Bray is a sales representative for Cabot Creamery, a New England dairy cooperative headquartered in Vermont.

“We’re seeing growth in specialty cheeses, with more retailers making these part of their portfolio of natural foods,” says Bray. “We emphasize the vital role dairy plays in generating far superior returns on space,” he says.

Even low performing SKUs in dairy generate more than 14 times the adjusted gross profit of grocery items.

Local and regional artisanal cheeses are random weight and so sales are not readily track able but manufacturers report strong sales, propelled in large part by those dining at home, says Mintel’s Browne.

“Even Sargento and Kraft performed quite well by emphasizing natural positioning and advertising like they are premium, specialty cheese companies,” reports Browne.

One strategy that works is to really talk up the gourmet, premium aspect and to expand outside the dairy aisle, he advises. Safeway, for example, moved its specialty cheese to the front of the store near kiosks of olives and wines and deli foods.

Mintel’s Global Food and Drink Analyst Marcia Mogelonsky cautions against overuse of the word artisanal based on consumers research that shows the description is losing traction.

Artisanal was the attribute least cited (8 percent) in the purchase decisions of specialty food consumers in a Mintel/Greenfield Online survey of 684 adults last spring. Locally sourced foods compelled 27 percent to buy and international foods are cited by one in four.

“Artisanal has fallen significantly as a factor, possibly due to overuse of the term,” says Mogelonsky.

## Fluid Milk

“Customers are frustrated when there is nothing to choose from but private label store brands and high priced organic,” says Browne. There was a time when the differential was a dime but “it’s now like \$1 or even \$2 more for organic.” Organic milk hit \$5 a gallon in several U.S. markets last year. “Supply and demand are out of whack, there is no middle. Large conventional retailers made sudden changes to their mix and reduced their organic set which wrecks havoc overnight with suppliers,” he said.

## Time To Reinvent

What are some of the design elements in the dairy department of the future?

The Innovation Center developed the following shopper-centric design principles to elevate the role of the dairy department within the store and improve its positioning with shoppers:

**Contemporize** — Update the look and feel of the department to make it modern, fresh and new.

**Dimensionalize** — Arrange items to fit consumers’ lifestyle and needs, such as having “grab and go” or “healthy snacking” sections.

**Rationalize** — Clearly label and organize sections by putting items next to each other that make sense based on shopping behavior.

**Invigorate** — Use signs that showcase the nutritional value and health benefits of the products, and offer samples to expand shoppers’ exposure to variety.



You can't turn off a cow with a switch.

This summer Organic Valley took the drastic step of curtailing production. Horizon took a precipitous plunge from \$48 million in 2008 sales to \$40 million in 2009, a 16.2 percent free fall.

Regional brands like Clover and Strauss Creamery fared better.

Milk is a commodity item but there seems to be an innovation opportunity, observes Browne, who believes milk could be packaged in fun ways for youngsters, and fortified and made functional for adults.

### Marketing Dairy

The Innovation Center research concluded “dairy plays a vital role in building and strengthening a retailer’s health & wellness platform regardless of channel.”

At the Winter Fancy Food Show in San Francisco, SPINS, Inc. Senior Vice President of Business Development Kathryn Peters described a “substantial blurring between natural and gourmet foods.”

Sales of natural foods in Western states overtook gourmet products in the specialty-gourmet channel in 2009, according to the Schaumburg, Ill.-based market research and consulting firm for the natural products industry. SPINSscan Specialty Gourmet West showed 35.6 percent natural product sales for the 52 weeks ending Nov. 28, 2009 compared to 31.3 percent gourmet product sales in western states.

Cheese is the mainstay in the specialty gourmet channel with more than 50 percent of specialty shoppers but innovation in yogurt and dairy’s health benefits such as probiotics help differentiate individual stores.

Central to merchandising success is removing space constraints.

“One of the biggest challenges the yogurt category faces is that it is expanding faster than the allocation of space it has in stores,” says Neuwirth. “There is simply not enough space on store shelves to accommodate the products and foster continued innovation.”

To meet this problem head-on Dannon established “Store Obsession Team” to work with retailers to optimize and expand the dairy aisle, making it easier for consumers to find the products they need and reduce costly out-of-stocks, says Neuwirth.

To learn more about reinventing your dairy department visit [www.naturalfoodnet.com](http://www.naturalfoodnet.com) and click on WEB Exclusive: *Dairy Reinvention* for expanded recommendations and photos. 