

# Dairy Case Cash

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By Kelley Devaney, Natural Food Network Contributor

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Fluid milk is recovering from a severe recession slump and new products and merchandising innovations are showing promising results but the full potential in dairy cases nationwide remains largely untapped.

This year the Innovation Center for U.S. Dairy, which is supported by Dairy Management, Inc. (DMI) released:

“The One Billion Dollar Industry Opportunity” a blueprint for dairy department reinvention.

“To date, applying the reinvention principles has helped retailers lift units sold by 2.2 percent and dollar sales by 1.6 percent,” says Rebecca MacKay, vice president of sales & marketing for DMI. Applied nationwide this would result in an incremental \$1 billion dollars for grocers and 600 million units sold, she says.

Back in 2006, convinced that the dairy department was not fulfilling its potential, DMI formed a coalition with Dannon Yogurt and Kraft Foods to develop a set of proven principles to grow sales. The coalition funded convincing research based on 2,500 consumer interviews and merchandising tests in more than 1,000 dairy cases.

### Unleash Dairy’s Potential

Read the full version of the report for detailed recommendations, but every grocer can benefit by following these simple steps:

**Optimize space, flow and adjacencies:** Segment the space into smaller shopping zones with vertical banners that contain educational health & wellness messages. For example, one way to better organize the space is to put fluid milk at one end of the aisle, cheese at the other with yogurt in the middle and related categories filling the case. This helps consumers shop the entire department, spending more time and money.

**Establish meaningful messaging:** Educate about health and wellness benefits. Create solution-based interest areas, such as snack suggestions or probiotic products.

**Introduce secondary placements:** Consider grab & go end caps – even for fluid milk gallons (why let c-stores get the “quick trips?”).

Stores willing to invest in a reset can also:

**Improve navigation and segmentation:** with more permanent signage and updated colors.  
**Enhance merchandising by breaking up the single shelf across many categories:** change shelving and create visual interest.

New and remodeled stores are advised to:

Create a defined dairy environment with an updated look and feel.  
Increase space.

MacKay says “properly executed, a dairy department reinvention can better engage customers, and thus drive larger basket sizes and increased sales.”



### Fluid Milk Recovers

The big news in dairy this year is healthier growth for organic and natural milk in the natural channel, and reversal of the downturn in the conventional channel. SPINSscan Natural (which does not include Whole Foods) reports that sales of fluid milk are up 8.9 percent to \$120.2 million for the 12 months ended Oct. 31, compared to 2.9 percent growth in 2009. Natural and organic milk are up 4.7 percent to \$888 million in the conventional channel, almost back to the 2008 level of \$896.4 million, according to SPINSscan Conventional (which does not include Wal\*Mart).



An April 2010 Mintel International report on U.S. Milk points out that “while consumers may be willing to pay a premium for natural food products sold in these supermarkets that does not appear to be the case for milk as it can be found in a variety of locations and is often used as a loss leader, and priced aggressively low.

The report states: “The lingering effects of the recession may have retrained consumers to buy their milk elsewhere, so it is not likely that natural foods supermarkets will enjoy much growth in milk sales for the foreseeable future.”

Given more recent sales figures, however, David Browne, senior analyst at Mintel is more optimistic about the prospects for fluid milk, but cautions “natural channel sales are growing faster than conventional channels anyway; milk will never be a great profit center.”

One interesting fluid milk innovation is Omega-3 milks. Horizon Organic’s Omega-3 milk, fortified with DHA using an algae-based source, has been so successful that they are launching a fat free version in January. In April, Organic Valley countered with its own Omega-3 milk, complete with Omega-3 fatty acids ALA, DHA and EPA. The whole and 2% milks are fortified with both DHA and EPA using fish oil. “Our pasture-based organic milk already contains elevated levels of naturally occurring ALA Omega-3 due to our feed and pasture quality”, points out Tripp Hughes, director of category management at Organic Valley.

“Omega-3 is a darling ingredient right now” says Kate Geagan, America’s Green Nutritionist™ and author of “Go Green, Get Lean: Trim Your Waistline with the Ultimate Low-Carbon Footprint Diet”. “This is because the typical American diet has too many Omega 6s in it and few Omega-3 fats for optimal health. The science suggests that the ideal ratio is somewhere between 4:1-1:1 (Omega 6:Omega 3) in the diet but the average American diet has upward of 20:1. Readjusting your ratio by including more Omega 3 rich foods (and supplements if necessary) and reducing intake of Omega 6 is a key for promoting cardiovascular health, mood, memory and to reduce systemic inflammation. If you’re not taking an Omega-3 supplement like fish oil, products like Omega-3 milk can help you meet your needs, especially if

you have picky eaters who don't like fish, but keep in mind they can vary in how much they provide per serving. For example, one serving of Horizon Omega-3 milk provides 10 percent of the daily recommended amount, whereas Organic Valley Omega-3 milks provide about 30 percent."

### Yogurt Still Hot

The Yogurt & Kefir sales grew 14.3 percent to \$144.7 million in the natural channel for the 52 weeks ending Oct. 31, according to SPINSscan Natural. The category was up a whopping 38 percent to \$832.6 million for natural products in the conventional channel for the same period.

Kerry Watson, Manager, SPINS Product Library, says that kefir and Greek yogurt are key drivers behind this growth. "We've seen a flood of kefir product launches enter the market over the last two years, in fact 35 percent of all kefir is new." Watson feels that the natural channel tends to be ahead of the curve when it comes to many new product trends and innovations. "One reason growth is higher in the conventional channel right now could be because these items are just gaining popularity in mainstream markets, while they have been around for a while in natural food stores."

Yogurt alone was up 8 percent to \$4.2 billion for the 52 weeks ended October 31, according to SymphonyIRI Group, a Chicago-based market research firm. Greek style yogurts are truly mainstream; Chobani's market share is 6th at 240 percent growth, Fage is 10th with 61 percent growth, and Oikos is 18th with 83 percent growth.

Kefir, a cultured milk drink with live probiotic cultures most Americans cannot even pronounce, is also making inroads into the mainstream. Lifeway is leading the charge, with the sixth highest market share according to SymphonyIRI Group's kefir/milk substitutes/soymilk category. Sales are \$30 million and 17 percent growth. "I think even Lifeway is surprised by its own growth" says Browne.

### Cheese

"Vegan cheese alternatives are an important trend to pay attention to" says Tim Sperry, president & owner of The Tim Sperry Group, and former Whole Foods grocery director. Browne agrees: "I think Daiya has a great package, and it looks both premium and accessible, which means it has a great chance of bringing cheese alternatives more into the mainstream".

"We are also continuing to see a trend toward "real" cheese, less processed" in the conventional market, notes Browne. According to Mintel's May 2010 Cheese Report: "Natural cheese [which relates to less-processed cheese, not all natural cheese] is by far the largest of the segments for FDMx sales with 65.9 percent share of the market in 2009, and a 2.4 percentage point market share gain. . . However, natural cheese sales have waned at a time when they should be growing as more people are cooking at home in a down economy, as well as paying greater attention to the "natural" buzzword." In the conventional channel, private label cheese dominates in this "Natural" category, alone accounting for 43 percent market share (\$3.2 billion for the 52 weeks ending Oct. 31, according to SymphonyIRI Group).



Cheese & cheese alternatives are up 13 percent to \$100.4 million in the natural channel for the 52 weeks ended Oct. 31, according to SPINSscan Natural. This category is the same size at \$103.5 million in the conventional channel - with low, 2.2 percent growth. If the natural channel is ahead of the curve, and the "natural" buzzword is hot in the conventional channel, then this would mean that the cheese/cheese alternative category is poised for serious growth in the conventional channel.

## Dairy Alternates

Refrigerated non-dairy alternates are the highest growth dairy category in the natural channel with 18.1 percent growth and \$33.7 million for the 52 weeks ended October 31, according to SPINSscan Natural. “I believe that food sensitivities, newcomers to the vegan/vegetarian consumer group and expanded product variety have helped to increase interest in the category”, says Watson. “I’m seeing consumers gravitating more towards non-dairy soy alternatives like coconut, almond, hemp and grain based products. Consumer concern over several potential harmful effects of soy, including hormonal issues, digestibility problems and GMO concerns are helping to drive this trend.”

Almond milk is rocketing, led by Blue Diamond’s Almond Breeze, with \$49.7 million and 549 percent growth for the 52 week period ended October 31 according to SymphonyIRI Group, followed by Silk Pure Almond, with \$37.8 million amassed in only six months on the market! “We think it is doing so well because of taste, anti-oxidants via vitamin E, and only 60 calories per serving in the original flavor,” says Sara Loveday, marketing communications manager at WhiteWave. “It has done so well that we will be launching an unsweetened version with only 35 calories in January.”

Coconut milk is another non-soy milk to watch. WhiteWave is launching Silk Pure Coconut Milk in January, “an expansion of our plant-based offerings”, says Loveday. “It has an alternative taste, is fortified with 50% more calcium than milk, is an excellent source of vitamin B12 and the original flavor has only 80 calories.”

The most exciting news in soy milk, a relatively mature category, is the introduction of the first refrigerated Non-GMO-Project verified soy milk by Earth Balance. “Our new soymilk line is also certified organic, and only uses U.S. grown soy beans to minimize food miles and also commit to U.S. farmers,” says TJ McIntyre, General Manager for Earth Balance. “We believe consumers and retailers will be hearing a lot more about the Non-GMO Project in 2011.” White Wave has also enrolled its soy, coconut and almond milks in the process, and expects to be “verified” in the first half of 2011, according to Loveday.



## Probiotics

Probiotics are a fascinating new product/ingredient trend. Nutritionist Kate Geagan observes that “while Activia put probiotics on the map and helped make them mainstream, keep in mind that there are many cultured products on the market with helpful probiotic cultures. For so many of us bacteria are associated with illness, so the idea of eating them for health can seem almost counterintuitive. But probiotics are important because 70 percent of your immune system is in your gut. With over a trillion “good bugs” bacteria in your system, introducing probiotics helps to prime your immune system, aide with digestion and nutrient absorption, and can prevent urinary tract infections in women.”

A special data cut courtesy of SPINS shows that the top probiotic food category is Yogurt & Kefir, growing at 13.6 percent to \$140 million in the natural channel for the 52 weeks ending October 31. Yogurt & Kefir in the conventional channel are growing at triple the natural rate at 38 percent growth with \$830.3 million in sales.



“Our consumer research showed that two of the top health and nutrition interests were in omega-3 and probiotics,” says Hughes of Organic Valley. “We looked at both yogurt and kefir when considering what type of product to launch. Yogurt already has 80% household penetration of consumers shopping in the natural channel, versus only 17% for kefir. We also wanted to serve the everyday needs of our family target, so we launched Live Organic Yogurt with probiotics.”

Yakult is the oldest “new” probiotic product on the scene. First introduced in 1935 in Japan, this shot-size beverage is designed to be consumed daily, as it is across Asia. Another shot-style probiotic drink, Lifeway’s Biokefir, was launched in September and was exclusive to Whole Foods through Dec. 31st, 2010. It offers “twice the amount of probiotic power” found in their regular kefir, as well as additional functional benefits.

Mintel analyst Browne says probiotics are far from the mainstream: “many people know probiotics are good for them, but they still don’t know what they are!”

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