

## Dairy opportunity abounds in beverage trends

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Consumer demand for health and wellness beverages has led to a burst in the creation of functional beverages, such as protein drinks, and a convergence between soft drinks and dairy beverages, according to Rabobank.

The convergence is attracting global beverage companies such as Coca-Cola and PepsiCo, looking to include dairy in their beverage line-up, Rabobank reported in its Global Beverage Outlook 2012.

There is significant opportunity for dairy in beverages, Ross Colbert, Rabobank's global beverage strategist, said.

Coca-Cola and Pepsi, for example, own juice brands and already produce sports and energy beverages. What they don't have is an offering in the dairy space. With soft drinks being pushed out of schools and identified as not providing nutrition, dairy has become increasingly important to soft drink companies, he said.

Coca-Cola's Super Milky Pulpy Juice, a mixture of juice, milk powder and fruit pulp, is one of the fastest growing beverages in China, exceeding \$1 billion in annual revenues. The company has also been quietly testing other juice and dairy beverages in selected markets in the U.S., he said.

In 2010, PepsiCo acquired Wimm-Bill-Dann, the leading dairy company in Russia and entered a joint venture in North America with Theo Muller Group, a leading German dairy company.

He expects both Coca-Cola and Pepsi to become more active in dairy beverages, and they have 100 percent distribution in developed countries.

Consumers in emerging global markets who want more protein in their diets offer plenty of opportunity for the U.S. dairy industry, said Vikki Nicholson, senior vice president of global marketing with the U.S. Dairy Export Council.

"Demand is there. The opportunity is on our end to meet it," she said.

A growing global middle class with more disposable income and a changing pallet is fueling the demand.

Multinational companies are expanding into the nutritional beverage sector and dairy is a prime opportunity to help them reach that goal. They are looking to U.S. processors for ingredients based on quality and nutrition, she said.

That represents increased benefit to U.S. farmers and the processors who support them, she said.

The protein beverage sector has seen double-digit growth in the last five years and the Beverage Marketing Corporation projects that to increase 12 percent to 13 percent annually through 2014, she said.

It's all upside for dairy to provide the nutritional benefits consumers want, she said.

One challenge for soft drink companies is that dairy requires a chilled system and more thorough product rotation and field execution. The manufacturing process is also more sophisticated, and soft drink companies don't have as much influence in the dairy case as they do in the beverage aisle, Colbert said.

"It requires a different set of core competencies. I think that's why Coke and Pepsi have moved into this cautiously," he said.

Dairy product processors should try to build partnerships with the new initiatives or initiate some of their own for getting dairy ingredients into emerging beverages. Fluid milk processors need to differentiate their product with new flavors, functionality, packaging, and marketing, he said.

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