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Over-supplied US dairy must adapt to prosper - column

By Victor Martino | 1 June 2017

"The big challenge in yogurt is to extend popularity beyond breakfast"

On World Milk Day, an annual event devised by the UN to push the importance of the white stuff as food, US columnist Victor Martino urges his country's dairy sector to work harder on innovation and marketing to turn its over-supply into outsized sales.

The US is awash in milk and commodity-grade finished dairy goods. It's a glut.

According to the US Department of Agriculture, 78 million gallons of unwanted milk has been dumped so far this year.

But that's just the tip of the dairy-glut iceberg. Over 800 million pounds of processed American cheese is sitting in warehouses because of a lack of consumer demand, the most since 1984.

There are also tons of commodity-grade butter too, about 272 million pounds, according to the USDA, which is the most being warehoused since 1994.

The USDA attributes the glut to overproduction and a drop in exports to the EU, Russia, China and a host of other countries, which have reduced dairy imports from the US over the last couple years. The USDA's data shows the value of US dairy exports fell a whopping \$4.8bn in 2016, which is a 50% reduction from 2014.

Last year the US government spent \$20m buying dairy products that lacked consumer demand. It has already spent its allotment for this year and is asking Congress for additional funds because the dairy surplus is growing fast. Make it, and they (consumers) won't come - but we'll buy it anyway.

Much can be said about this astounding surplus. For one, it's clear the US dairy industry has the supply-side covered - and then some.

The problem though resides in the fact a significant portion of the industry's production emphasis is being put on the wrong dairy products. For example, most of the recently dumped milk is low-fat and the butter and cheese sitting in warehouses is commodity-grade. No demand. Little commercial value. No branding.

There is a huge opportunity for the dairy industry based on recent scientific evidence that whole milk and whole milk-based dairy products are not bad for you but rather offer health benefits. This, combined with a growing consumer desire for taste when it comes to dairy, should signal a change in focus for the industry.

The US dairy industry needs to launch a product development and marketing innovation revolution based around the new realities of dairy. That innovation revolution focuses on four categories.

Milk as an anti-commodity

Dairy-makers and marketers need to put a major focus on whole milk, regular, organic and GMO-free, which is the most recent sub-category in fluid milk. Sales of low-fat and fat-free milk are on the decline, while sales of whole milk are up. This is happening primarily based on consumer demand and choice. Whole milk sales are up by over 20% since 2011. Dairy marketers have started to capitalise by launching whole milk SKUs but the time is now ripe to kick this process into gear, including creating and launching more innovative new products with features like new and different flavours, nutritionally-enhanced and other attributes. A major push on organic and non-GMO whole milk will also pay sales dividends. Also: brand, brand, brand. Stop treating fluid milk as a commodity.

Yogurt 3.0

Yogurt has been the star of dairy for the last decade, with sales increasing 250% over the last five years alone, according to researchers Packaged Facts and Nielsen. Greek yogurt, not even on US grocery store shelves until recent times, has been largely responsible for the soaring sales and popularity of yogurt in the US. Branded dairy makers are now beginning to focus on launching whole milk and even high-fat brands and varieties of yogurt, which the industry hopes will help sustain the categories popularity. This needs to be accelerated.

Percentage-growth sales of yogurt has slowed over the last couple years. Additionally, new styles of yogurt like Icelandic and Australian are attempting to be the new Greek. There are worries among yogurt brand managers.

The big challenge in the yogurt category though - and the big prize if it can be achieved - is to extend its popularity beyond breakfast, the day-part in which it still is primarily consumed, to other day-parts beyond the morning eating occasion. The key to achieving this is to innovate in the area of yogurt as an anytime snack. According to The Hartman Group, 50% of US consumers snack throughout the day. Snacking is becoming the new meal. This innovation needs to be multi-faceted, to include not only more convenient packaging but new yogurt products as well. The industry needs to think outside the yogurt carton, and outside fruit-based and confection-based yogurt, which has become oversaturated. There are only so many variations on fruit. The recent introduction of some brands of savory yogurt is a good start.

Meanwhile, here's a simple tip for yogurt marketers: figure out a way to attach a small spoon to your yogurt cups. I was recently in a supermarket and wanted yogurt for a snack. Since I don't carry a spoon with me when traveling, nor do I like to buy packages of 24 plastic spoons just to get one, my favorite

brand of yogurt - and the grocer - lost a sale. Two cartons to be exact. Multiple that by millions of people who would love the convenience.

Better butter

Butter is a huge opportunity not being capitalised on by dairy product marketers, or the dairy industry collectively. The tide has turned on margarine, and butter is back. The problem is the industry is lagging behind consumer demand on product innovation.

My suggestion to the industry and to branded dairy-makers is to launch a Sputnik-like innovation project for butter. New premium brands and varieties are needed, including different shapes - the cube is not sacrosanct - flavoured butters (savory would be nice), and other innovations. Think outside the cube. The dairy industry itself collectively also needs to do far better marketing in order to better get across the new realities of butter and fat, along with positioning butter better vis-à-vis margarine. That positioning needs to include convincing (and earning it) food retailers to give butter more space in store dairy cases.

Reinventing cottage cheese

Cottage cheese is truly the stepchild of the dairy case. There has been little innovation in the category in 30 or more years. That needs to change.

A big opportunity exists to position cottage cheese as a portable snacking dairy product. Follow the yogurt model. The market is ripe for flavoured snacking cottage cheese - fruit and savory to start. And chive and pineapple are not the only flavours out there.

Convenient, snack-sized packaging is needed. Quarts and pints are not the only way to package and market cottage cheese. A premium niche also needs to be created in cottage cheese. For example, a triple-cream variety would be a hit. Why not the Greek yogurt version of cottage cheese too? If ever there is a dairy category crying out for innovation, it is cottage cheese. The category also needs fresh new thinking and market to go along with this product innovation. Cottage cheese is an excellent category opportunity for start-ups, and start-up thinking.

The moment is perfect for dairy, fueled by daily reports about its benefits rather than its detriments. Like Chobani has done for the yogurt category, the opportunity exists for dairy companies to do the same in the fluid milk, butter and cottage cheese segments. In the language of marketing, we're at a perfect inflection point to reinvent dairy.