



Deciphering Dairy

Understanding the fine points of the increasingly complex dairy category

We all know that dairy alternative products have had a keenly disruptive impact on the overall dairy category in the last decade. But even as dairy consumption (especially milk) has leveled off, dairy is still a huge global market with many things going for it – from its high nutritional content and inherent health qualities to its comfort factor.

At the same time, the traditional dairy segment is now stepping up as companies adapt their portfolios with new innovations that better meet shifting consumer demands. In other words, competition in the broader dairy category is likely to get exciting.

Even with the impact of dairy alternatives, traditional dairy remains popular – so there are plenty of opportunities for growth. In the United States alone, dairy represents a market of about \$120 billion¹ and is expected to move into positive growth in the next three to five years, according to analysts at McKinsey and Company.²

What is becoming abundantly clear is that while consumers are embracing use of dairy alternatives, they are not turning away completely from their traditional dairy favorites. In fact, according to proprietary research from Cargill, among dairy and dairy alternative consumers who have made recent plant-based purchases, consumption of traditional versus plant-based dairy alternatives is almost evenly split, although consumption share goes up for plant-based products in specific categories like milk, creamer and cheese.³

While it's important to remember that many of these categories are still relatively small, the concept of plant-based eating is moving toward the mainstream, with as many as 40% of consumers now saying they choose plant-based meat and dairy alternatives at least some of the time.⁴ The *Consumption Share* data below would seem to suggest that as consumers adopt these products, they will not entirely move away from regular dairy.



This trend is further corroborated by the International Food Information Council (IFIC) Food and Health Survey. The findings noted that a growing number of consumers cited an increase in their consumption of both dairy products and plant-based dairy alternative products as protein sources.

Changes in consumption of protein sources last year

	Eat much more now	Eat more now	Total
Dairy	+10%	+15%	+25%
Other plant-based dairy alternatives	+8%	+15%	+23%

Source: International Food Information Council. "Food and Health Survey 2022."

CONSUMPTION SHARE

	OVERALL	MILK	CREAMER	CHEESE	ICE CREAM	YOGURT
 PLANT-BASED	47%	63%	70%	46%	46%	48%
 ANIMAL-BASED	53%	37%	30%	54%	54%	52%

Source: Cargill Proprietary Research. "Plant-based Dairy & Meat – Consumer Research." August 2022.

Suffice to say that as consumers embrace both traditional dairy and plant-based dairy alternatives, the overall segment has become increasingly complex. A look at two key subcategories – ice cream and yogurt – illustrates. Ice cream, for example, is hugely popular in the United States. But consumer preferences in the category are hard to pin down, and subject to new and conflicting priorities, according to recent McKinsey research. Consumers may believe their families deserve a treat in these stressful times, but they also may be worried about inflation, grocery budgets and the healthfulness of products.⁵

In general, the McKinsey analysts suggest that both ice cream and yogurt are growing, but each category is driven by different factors. Premiumization is often most important in ice cream, as consumers embrace options that are low-carb, low fat or sustainably produced.⁶ Growth for yogurt, on the other hand, is coming from ethnic and non-dairy varieties, the analysts noted. The researchers also found that making trade-offs in these categories are often age-dependent, with Gen Z gravitating more towards value brands, and Gen X and baby boomers selecting premium products.

This is a key reminder that brands will have to stay on top of these developing trends and innovate no matter what dairy or plant-based alternative category they have an interest in.



Following are a few insights on the persistent trends in the dairy segment overall:

Dairy alt is still rising

Even while many consumers continue to purchase animal-based dairy, growing numbers are adopting use of plant-based dairy alternative products... and Euromonitor analysts suggest accelerating growth for the category globally.⁷ In the United States, plant-based dairy alternatives are going gangbusters – with milk leading the way to reach \$2.6 billion in 2021 on a 4% CAGR, according to data from the Plant Based Food Association (PBFA). But other dairy categories are where the significant growth opportunities are, including creamers (+33%), yogurt (+9%), and cheese (+7%).⁸

These products continue to thrive in the market, as manufacturers set a high bar for sustainability and innovation, utilizing sustainable and functional ingredients like pea protein, cassava root, potato starch and flax, according to the PBFA insights.

Traditional dairy reboot

Facing this increased competition and flat growth, the animal-based dairy segment is now upping its game to provide products that better suit the demands of today's consumers. Animal-based dairy, for example, has a key advantage over most plant-based options: specifically, the fact that animal proteins are a complete protein. And this has become an important factor for many protein-savvy consumers.

As a result, traditional dairy companies are not only playing up the protein content, but also capitalizing on additional inherent health values. According to data from Euromonitor International, nearly one in three global consumers see the value of dairy for heart health, and almost as many value it for its promotion of digestive wellness and health.⁹ The dairy category is also seeing a boost in personal care products claiming certain benefits.

Another strategy is to create excitement for animal-based products with new and interesting flavors and formats. From bubble gum-flavored yogurt to salted-caramel creamers and “ready-to-drink moon milks” that tout calm

and relaxation, these products are showing that traditional dairy can bring new sensory experiences and function for consumers seeking personalized options.

Better-for-you products are also seeing increased emphasis in traditional dairy, with a rise in lactose-free products, A2 and ultra-filtered milks and yogurt products.¹⁰ In addition, dairy manufacturers are cracking the low-sugar code, as more than 7 in 10 consumers continue to emphasize limiting or avoiding sugars.¹¹ With new alternative sweetener solutions from ingredients like stevia and erythritol, dairy manufacturers can now meet consumer expectations for taste and texture in lower-sugar products.

Sustainably savvy dairy

Sustainability, of growing concern to consumers around the world, has been a challenge for traditional dairy, but dairy producers are again stepping up to the plate with new solutions that are helping to increase its credibility compared to plant-based alternatives that have long played the sustainable, healthy-option card.¹² As the dairy industry makes strides in sustainable production processes, adhering to organic standards and adding innovations in packaging, it will be welcome news for many consumers

who want to hear that the dairy products they love are more sustainable, noted Julian Mellentin, editor of *New Nutrition Business* in a recent article. Mellentin believes that sustainable strategies will be an increasingly good practice for traditional dairy, which still oftentimes outperforms alternatives on taste and texture.

As these trends take hold, the overall dairy segment will also have to contend with the rising use of e-commerce for dairy purchases following the pandemic, which saw a rise of 163% of U.S. dairy consumers who reported purchasing dairy mostly online.¹³

The next few years will likely be a rollercoaster ride, no matter what dairy segment a company is in. Given this landscape, brands will have to not only improve their operational agility, but also further invest in research, innovation and consumer education to best articulate the attributes of their particular dairy and dairy alternative products.

From traditional dairy to plant-based dairy alternatives, Cargill can help you succeed in this rapidly evolving market. Learn more at cargill.com/dairyinnovation.

¹ IBIS World. "Dairy Product Production in the U.S. – Market Size 2005–2027." November 30, 2021. <https://www.ibisworld.com/industry-statistics/market-size/dairy-product-production-united-states/>

² Adams, C; Maluf, I; Meilhac, L; Uchoa, R. "What's Ahead for the Dairy Industry?" May 11, 2021. McKinsey.com. <https://www.mckinsey.com/industries/agriculture/our-insights/whats-ahead-for-the-dairy-industry>

³ Cargill Proprietary Research. "Plant-based Dairy and Meat – Consumer Research." February 2021.

⁴ NBJ/NEXT Data. "Plant-Based Foods Market Analysis. Attitudes and Opportunities in a Thriving Market." New Hope Network/NEXT Data and Insight, June 2021.

⁵ Adams, C; Grimmelt, A; Meilhac, L; Pandya, C. "How to Stay Cool as Competition Heats Up in Ice Cream and Yogurt." McKinsey.com. May 13, 2022. <https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/how-to-stay-cool-as-competition-heats-up-in-ice-cream-and-yogurt>

⁶ Ibid.

⁷ Naval, M. "Five Key Trends Shaping Dairy Products and Alternatives." Euromonitor International. February 25, 2022. <https://www.euromonitor.com/article/five-key-trends-shaping-dairy-products-and-alternatives>

⁸ Plant Based Food Association. U.S. Retail Data from SPINS/IRI, customized for PBFA and The Good Food Institute for the 52 weeks ending December 26, 2021. <https://www.plantbasedfoods.org/2021-u-s-retail-sales-data-for-the-plant-based-foods-industry/>

⁹ Amatya, A. "Five Consumer Trends to Inform Dairy Innovation." Euromonitor International. March 23, 2022. <https://www.euromonitor.com/article/five-consumer-trends-to-inform-dairy-innovation>

¹⁰ Ibid.

¹¹ International Food Information Council. "Food and Health Survey 2022." <https://foodinsight.org/2022-food-and-health-survey/>

¹² Mellentin J. "Sustainability Strategy Boosts Dairy Consumer Credibility." *New Nutrition Business*. June 2022.

¹³ Ibid. McKinsey. "What's Ahead for the Dairy Industry?"