Seeing the trends

New products that can seed future business are the key to success

Dairy has long been one of the most creative categories in the supermarket, creating new types of products and bringing new benefits to the consumer. But there is an increasingly wide gap between the performance companies who understand the key consumer trends and make them part of their strategy – and those who do not.

Key to success in dairy nutrition is that, alongside your volume business, you should have new products that are trend-connected – lower volume but usually higher margin. These are the seeds from which future great trees can grow. Among the companies who have embraced this strategy are:

Graham's Dairy in Scotland, which has used NPD connected to the protein, provenance and snackification trends to make itself a strong, value-added company, as well as a commodity liquid milk seller.

Valio Dairy in Finland has embraced the plant-based dairy alternatives trend, despite being a farmer-owned dairy co-operative. Valio sees an opportunity that can improve farmer returns and keep challengers out of the chiller cabinet.

General Mills, a global giant, is innovating in ways that would not have been expected from 'Big Food' even two or three years ago. Once the market leader in the US yogurt market, Yoplait was late to enter the Greek race and as a result still lags Chobani and Danone and sales are down by 20%. In 2017, it debuted Oui by Yoplait, a French-style yogurt that is sold in single-serve glass pots. The brand is unlike anything that this volume-driven, low-priced brand had done before, combining provenance and with artisanal style packaging. Within a year it was on track to be a $100 million (€89m) brand.

On the currents

Why is understanding how trends can drive strategy so important? In the 21st century brands are no longer in control – they are all like corks tossed on the ocean of powerful consumer trends. If the trends are against you, it's better to acknowledge the new reality and work with it than to wish it weren't so, or to tell yourself that the consumer will come back round to your way of thinking. Against the powerful forces of the free market, resistance is useless.

This is particularly important for senior management to accept and embrace, because often senior management teams think of strategy primarily in terms of big volumes and big market shares.

But this has become a trap in which companies live in a low price, commoditised market and struggle to maintain margins. Being a big company is not always the source of competitive advantage that it was.

A very good case study of how Müller and even Danone have fallen into the volume trap, and what happens to large companies who remain obsessed with creating big brands and are too slow to respond to the trends, is provided by the UK yogurt market. The top three brands in the UK belong to Germany's Müller and Danone. They are high volume players.

However, since 2012 these top three brands have experienced falling sales – down 23.8%, according to Nielsen data, compared to a decline of 6.8% for the total category.

At the same time, insurgent brands, most of which didn't exist back in 2012, have come into the UK market and succeeded with premium-priced brands connected to the key trends (protein, permission to indulge, snackification, plants), taking value away from the top three.


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Can Müller and Danone fight back? Danone has already tried to revive its Activia brand and has failed. The senior management of both of these companies will have to stop loving their big brands and embrace the successful strategies of the insurgent.

The Arla difference

Note that at least one of the insurgents is itself a big dairy company – Arla. What makes Arla different from others is senior management keeps its strategy grounded in trends and embracing the reality of the market. Arla launched a number of niche, premium brands, focused around convenient protein. It then went on to buy the biggest organic brand, Yeo Valley.

Even Danone has managed to act like an insurgent, acquiring the Alpro plant-based yogurt brand.

The trends do not exist in isolation and the most successful brands and ingredients are those that deliver against multiple trends. For example, here are three of the biggest successes of the last five years:

- Halo Top ice cream with less sugar but also more protein
- Fairlife Milk has less sugar, but is also lactose-free and more protein
- P3 protein packs are about snacking and protein.

The trends are applicable in Europe,

WHERE THE TRENDS ARE
Some of the examples are from New Nutrition Business's recently published *8 Key Trends in Dairy Nutrition 2019*, a 100-page report written as a guide to help dairy executives plan strategy and new product development. It sets out very clearly:

- How the trends are developing, and how they will develop in the future
- What strategies companies are following to connect to the trends (to help you figure out your own options)
- What's emerging that's going to be important
- What's going to stick around for the long term
- Where best to place your bets.

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the Americas, the Middle East and Asia. While different cultures have very different preferences in terms of flavours and textures and even product types (with drinkable yogurt popular in some countries but a failure in others), people have much in common when it comes to nutrition and health. Using the trends is a question of adapting them to what works best in each market. For example, A2 milk is a big success as a liquid milk in Australia and New Zealand (where it originated) but its biggest success is in China with infant formula, and in Russia it appears in quark. Meanwhile, Yakult's probiotic dairy drink is a success in Asia, and also in South America and Australasia. It also has a market in the US and Europe and has inspired a wealth of imitators.

Size doesn't matter

A trend should not be overlooked just because it is at this stage very small. In fact, one of the biggest lessons of the past 25 years is that what's "wacky and weird" has a habit of becoming normal, successful and even everyday. When that happens, you almost always find that because it's connected to key trends. For example:

A2 milk. When this digestive wellness milk debuted in Australia back in 2004, it was regarded as eccentric, lacking in science and certain to fail. Dairy giant Fonterra turned down an offer to partner with the A2 Milk company. But now, A2 Milk is the world's most profitable dairy company and Fonterra has concluded a partnership that will see it manufacturing and distributing A2 dairy products, 15 years after ignoring the opportunity.

The rise of butter and the fall of margarines. Since the 1960s, butter has been condemned by health experts as unhealthy, particularly for the heart, because of its saturated fat content. Meanwhile margarines and other spreads sang their credentials as a source of health giving polyunsaturates. Spreads sales rose, butter declined. Unilever built a global business on spreads, which was at one time a pillar of their profitability. Today the tables are turned, but not as a result of any company's strategy. In fact, it has happened despite the marketing and product development muscle of giants like Unilever, which has lost the battle against a big trend shift. Fear of fat has ebbed away and butter appeals to consumers preference for naturalness. Unilever has sold its declining spreads business.

The way ahead for dairy companies is a to build a portfolio of low volume, high value niche brands, connected to the key growth trends, aiming to have a niche position in multiple markets, rather than aim for mass in just one. Arla is a good example of this with its protein brands.

Begin by addressing the lifestyle consumer who is willing to pay a premium for a healthier product. From small niches, big niches can be built – this is the way ahead. As many of the case studies show, the small niche can grow every year, and after some years it can become a big, profitable niche. Dii

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