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# Dairy Products Have More Growth Potential

## Key Points:

- Most U.S. consumers purchase dairy, which is also the largest category in retail. Over the next three years, approximately 90% of people have no plans to reduce their dairy product purchasing behavior.
- Globally, the cheese snack market is projected to reach \$75.1 billion this year, and it could grow at a compound annual growth rate of 6.5% through 2034.
- Private labels are outpacing brands in 10 of the 15 dairy categories. Store brand options making considerable inroads include yogurt, cream cheese, cream, and creamers.
- The lactose-free product category provides a simple, yet relevant, tool of innovation for dairy processors to help reach the 120 million Americans who cannot enjoy traditional dairy products due to some form of lactose intolerance.
- Consumers' tastes and purchasing patterns continue to evolve, and that means dairy processors, manufacturers, and marketers need to innovate, too.



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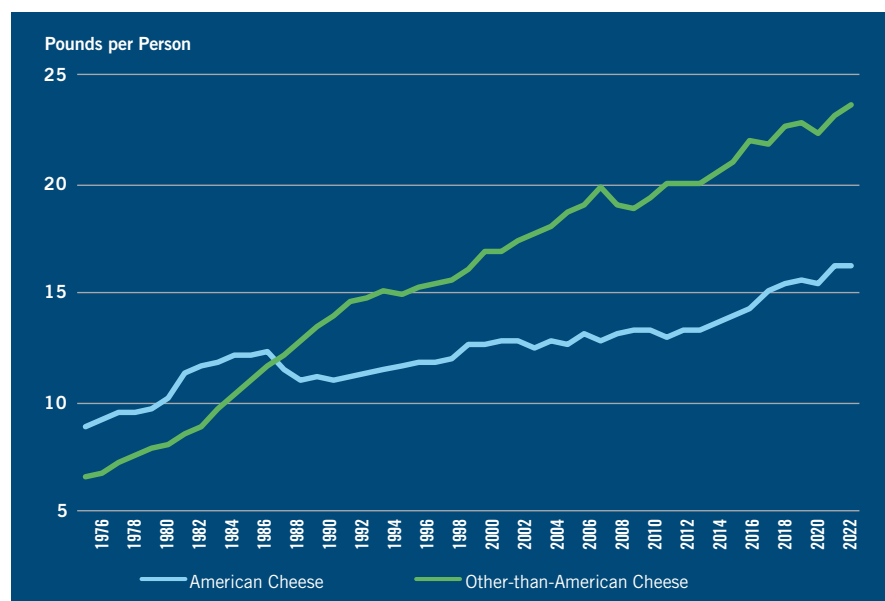
## Introduction

Grocers have long known that the dairy aisle is a traffic driver, revenue generator and a sales leader. It's the very reason that stores have been designed with the dairy case situated at the back of supermarkets. This design concept draws consumers through the store, creating an opportunity to grab more items as they make their way to the dairy case.

At \$76 billion in annual U.S. sales, the dairy aisle<sup>1</sup> stands as the largest category in retail, based on 52-week rolling average Circana sales data through June 2024. Over the last three years, dairy retail sales have notched a growth rate of 15.4% or \$10.1 billion. Dairy's growth rate continues to outpace liquor, the second-place retail department.

Dairy's growth has not all been driven by recent price inflation either. Dairy product consumption has grown by 7.7% on a per capita basis for a compound annual growth rate (CAGR) of 0.8% over the past decade, moving from 606 to 653 pounds per person on a milk-fat equivalent basis based on USDA data. Keep in mind that

## EXHIBIT 1: U.S. Per Capita Annual Consumption of Cheese



Source: USDA Economic Research Service

Bottom line, consumers' tastes and purchasing pattern continue to evolve, and that means dairy processors, manufacturers, and marketers need to innovate, too. Dairy products have diverse applications to meet the needs and expectations of most U.S. consumers, including taste, affordability, convenience, health and wellness, and high-quality protein. Processors can entice consumers to purchase dairy products through effective product differentiation, innovation, clear labeling, health benefits messaging, competitive pricing and promotion strategies.

this growth in per capita consumption and domestic sales data does not include U.S. dairy exports that have pushed past 22% of the U.S. milk supply in 2023 on a skim-solids basis. However, not every dairy product category has grown, as Americans are eating more of their dairy, rather than drinking it. Fluid milk posted a negative 2.3% CAGR rate over the past decade based on USDA data.

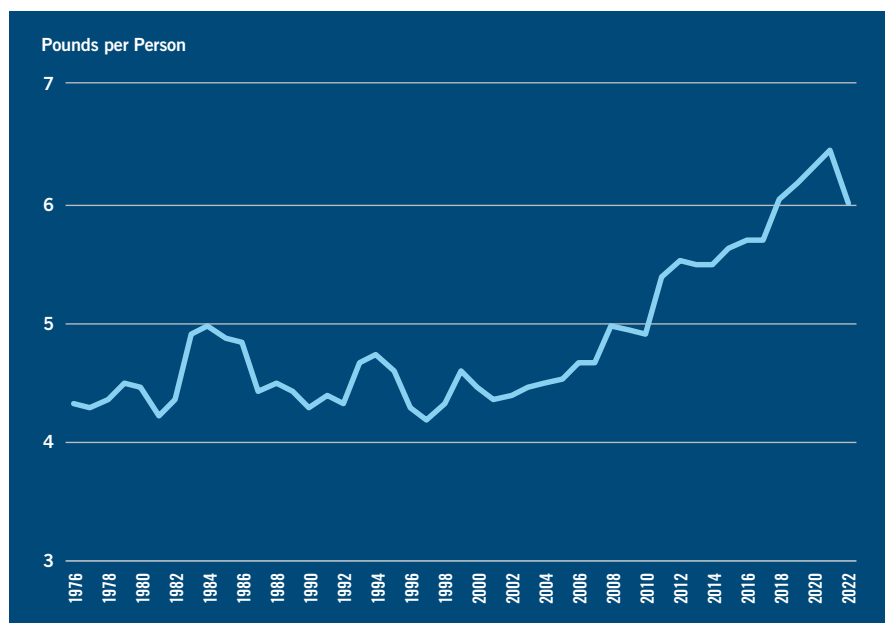
The big three – butter, cheese and yogurt – have more than made up for fluid milk's slide. Over the past 25 years, the key growth categories on a per capita basis have been butter, up 43.2%; cheese, up 45.8%, and yogurt, up 142.4%, per USDA. On a dollar basis between 2021 and 2024, butter and butter blends grew by 26.4%; natural and process cheese combined, up 9.8%; and yogurt, up 28.2%, according to Circana 52-week sales data ending June 2, 2024. Also, while plant-based alternatives continue to garner headlines, the sales have stalled in recent years. Dollar sales of real dairy cow's milk are 21 times larger than plant-based dairy alternatives, and real dairy is growing its share across all categories, based on Circana sales data and analysis from Dairy Management Inc.

### Cheese anchors the dairy category

In the U.S., per capita cheese consumption continues to bound skyward, growing about 10 more pounds per person about every 15 years. In 1967, Americans consumed 10 pounds annually, per USDA's Economic Research Service. That number climbed over 20 pounds by 1983, pushed past 30 pounds in 2001 and reached new highs at 40 pounds by 2022. In the past 10 years, American-style cheese such as cheddar has experienced a 2% CAGR, and the larger other-than American category, largely led by mozzarella, posted a 1.6% CAGR rate based on USDA-ERS data (*Exhibit 1*). That begs the question, does cheese have more upside?

The answer is yes, based on European cheese consumption trends. French and Danish citizens eat over 60 pounds each year, reports the International Dairy Federation. People living in Austria, Finland, Germany, Greece, the Netherlands, and Switzerland all eat over 50 pounds each year.

## EXHIBIT 2: U.S. Per Capita Annual Consumption of Butter



Source: USDA Economic Research Service

To be certain, U.S. cheese consumption patterns will evolve slightly differently than those in Europe. The cheese sector can innovate through expanded flavor varieties to reach more consumers as U.S. demographics shift. For example, Hispanic-style cheese is a small category with only 1.05 pounds per capita consumed annually, but it's the fastest growing cheese category with 218% growth since 1996. More non-American type cheeses such as mozzarella and Swiss were consumed in 2022 than any year on record, according to USDA data.

On the food service side of cheese sales, a slice of cheese has long been a popular pairing on hamburgers. Restaurants could do the same with chicken sandwiches. Should this avenue unfold within quick service restaurant franchises, it would open a sales opportunity to a multi-billion-unit chicken sandwiches category in the U.S.

Cottage cheese has found strong appeal for consumers over the past year after becoming famous on the social media platform, TikTok. An article from *Dairy Foods*, citing rolling 52-week data from Circana on June 2, 2024, put dollar sales of cottage cheese up 16% from a year ago at \$1.495 billion. While cottage cheese is on

a current roll at 1.9 pounds of per capita consumption in the latest USDA data, the product has a long way to go to regain its 5.2-pound per capita threshold in 1972.

### Butter is having a renaissance

While USDA's Dietary Guidelines for Americans hasn't completely factored in new scientific research debunking the linkage between saturated fats and cardiovascular disease, consumers have been taking note. Butter's compound annual growth rate of 0.9% has pushed it past 6 pounds per capita, according to USDA data (*Exhibit 2*). Based on U.S. production and

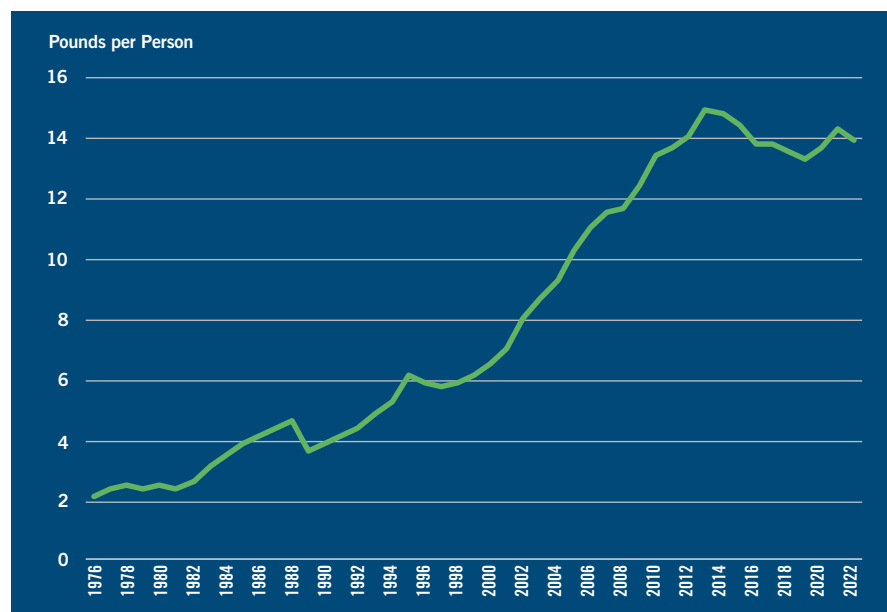
import data on butter, new per capita data should show more growth. However, butter has a long way to go to restore its former per capita consumption peak near 17 pounds before World War II.

Like the science on saturated fats, butter preferences have been evolving, too. American butter brands have traditionally featured 80% butterfat, but European-style butter at an 83% butterfat level has been gaining more market share. European-style butter imports have grown 13-fold moving from 10.2 million pounds in 2011 to 123.9 million pounds in 2023. That makes the U.S. the world's third-largest butter importer behind China and Russia, according to the Food and Agriculture Organization of the United Nations. As this trend has unfolded, some U.S. manufacturers have been retooling lines to make 83% butterfat butter to better serve the domestic market.

### Yogurt moves past the morning meal

No longer considered a breakfast-only item, yogurt has soared to new heights with per capita consumption growing 142% over 25 years, based on USDA data

### EXHIBIT 3: U.S. Per Capita Annual Consumption of Yogurt



Source: USDA Economic Research Service

(Exhibit 3). While Greek yogurt has been pacing the category's growth, manufacturers have been showcasing yogurt's versatility as a drink, in small snacking cups with mixed in treats, and through a variety of flavors to satisfy a sweet tooth with reduced sugar.

Yogurt's zero- or low-fat, lower lactose, reduced sugar, and high protein properties provide a more well-rounded indulgence product, while remaining a sweet treat. In addition to leveraging a healthy halo, yogurt launches have introduced solutions virtually tailor-made for the ever-popular snacking occasion. Clio Snacks' yogurt bar line features mini-Greek yogurt bars dipped in a yogurt coating as a grab-and-go option. Danone North America has taken a similar snackable approach to yogurt with REMIX. Featured under Danone's brands Light + Fit, Oikos and Too Good & Co., the nine-flavor range aims to be a healthier snack with high protein content as well as added essential vitamins and minerals, including calcium, vitamin D and potassium.

Such a healthy message is enhanced by the Food and Drug Administration's recent announcement that permits the use of a qualified health claim regarding

the consumption of yogurt and reduced risk for type 2 diabetes. As a result, brand messaging can note that regular yogurt consumption (at least two cups per week) may reduce the risk of type 2 diabetes.

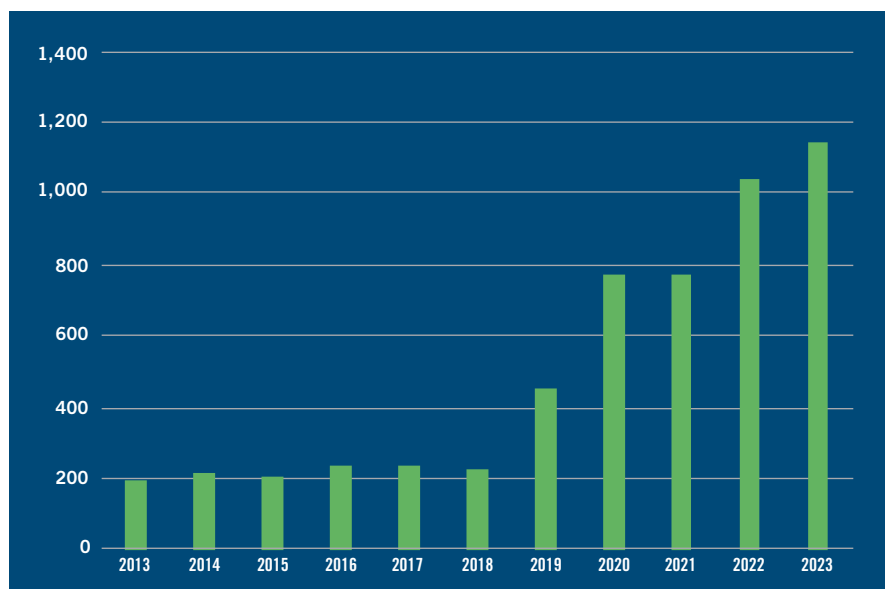
Yogurt brands are also capturing new sales as consumers step up the use of weight-loss drugs to battle obesity. Though it has not marketed its products in this way, Danone attributes a jump in demand for its high-protein, low-calorie yogurts at least in part to consumers "under the treatment of GLP-1 or who just wish to manage their weight or wellbeing."

### The snacking category is a growing megatrend

Driven by busy schedules and changing eating habits, consumer demand is growing for snack options that deliver greater nutritional value than typical sweet or even savory snacks. With an estimated 90% of Americans snacking between one to three times per day according to National Institutes of Health metrics, marketers can position cheese as an excellent inclusion to a regular snacking diet.

Globally, the cheese snack market is projected to reach \$75.1 billion this year, and a Fact.MR report projects the segment will grow at a CAGR of 6.5% through 2034. North America's share of that 2024 total amounts to 23.9%, with a growth rate driven by new flavors, formats and formulations. Globally, the snacking cheese trend took off during the COVID pandemic and has simply continued to grow. Based on U.S. Dairy Export Council and Innova Search Criteria data, all new product launches of snacking cheese in major U.S. dairy product export markets have grown 152% since 2019 (Exhibit 4). Exports will also be an important point of focus as the U.S. is the world's largest single-country cheese producer.

#### EXHIBIT 4: New Product Launches for Snacking Cheese in U.S. Dairy Export Markets\*



Source: U.S. Dairy Export Council and Innova Search Criteria

\*Countries include Egypt, UAE, Bahrain, Japan, Singapore, Vietnam, Thailand, Philippines, Indonesia, Taiwan, China, Hong Kong, South Korea, Mexico, Central America, and Latin America.

The quest for convenience is just one driver in modern snacking. The Hartman Group, Inc.'s "Future of Snacking 2024" report notes the daypart is also driven by the demand for indulgence as a temporary escape from the day's stress, for options that can replace a meal in a busy lifestyle, or for better-for-you solutions that merge nutrition and convenience. Dairy-based snacks are increasingly being tailored to these demands, but any innovation must recognize that flavor and taste rule the snack world: 83% of consumers say their snack choice is driven by flavor preference. Featuring flavors ranging from savory to sweet to spicy to the recently trending swicy (mix of sweet and spicy), cheese snacks from sticks to crisps are poised to provide a quick, fulfilling option for diverse tastes, preferences and occasions.

Dairy options can address snacking demand with a host of solutions: low-fat cheeses, gut-healthy yogurts and functional dairy drinks, potentially going further with innovation in shelf-stable dairy products that feature added health benefits, such as probiotics, if not a simpler high-protein claim. Whisps Protein Snackers

are one example of a shelf-stable, dairy-prominent, high-protein snack product. The snack-size trays feature baked cheese bites, salami and dried fruit, no refrigeration required. In addition to a high-protein claim, the two-SKU line is also gluten-free and keto-friendly. Sargento Balanced Breaks also offer a variety of cheese options paired with nuts and dried fruit. As this trend develops, dairy's position in the snacking cheese category will transform cheese sales that are currently paced by shredded natural cheese, natural cheese chunks and natural cheese slices, based on Circana sales data (*Exhibit 5*).

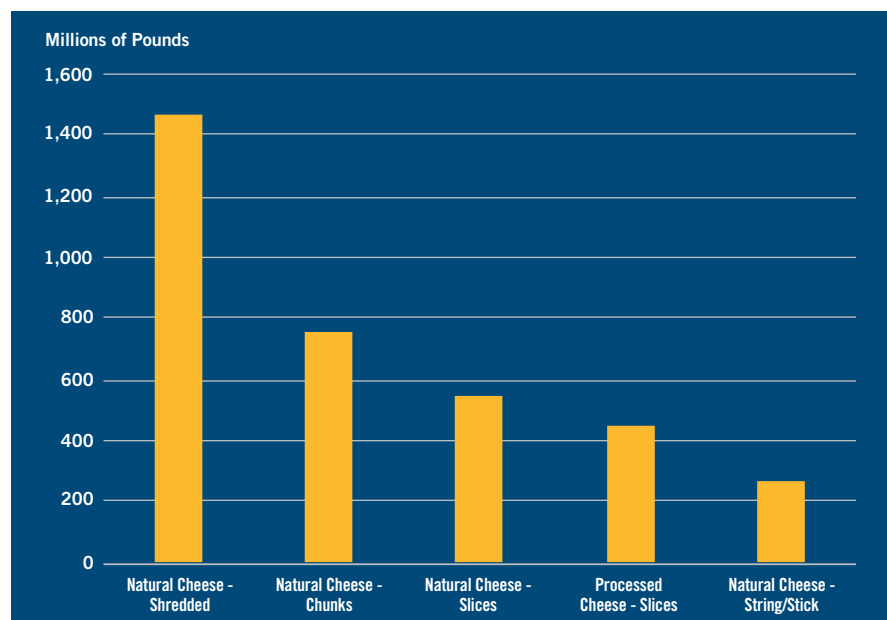
#### The rise of the private label

The Food Industry Association's latest "Power of Private Brands" report finds more than half of grocery shoppers have bought more private brand goods over the past year. Nearly half of surveyed shoppers (46%) plan to buy somewhat or much more private label over the coming year, and dairy is a category where private label growth has been particularly strong.

In fact, private label is outpacing brands in 10 of the 15 dairy categories that Circana tracks, according to FMI. Store brand options are making considerable inroads in yogurt, cream cheese, cream, and creamers, while also making a strong play in refrigerated whipped toppings. And the TikTok-fueled surge in cottage cheese sales has benefited both brands and private label options in that dairy segment category.

A quarter of the shoppers surveyed by FMI said they only buy private label fresh bakery or dairy goods. In fact, 43% of FMI-surveyed shoppers said they plan to purchase more store-branded refrigerated dairy items in the next year; 38% said they plan to buy more milk or

## EXHIBIT 5: U.S. Volume Sales of Top 5 Cheese Styles



Source: Circana 52-week rolling sales data ending June 2, 2024

non-dairy substitutes.

This trend is even more pronounced in Europe. In his analysis published earlier this year, Stefan Van Rompaey, chief editor of *RetailDetail*, wrote, “In terms of value, the European [fast-moving consumer goods] FMCG market did grow last year: inflation pushed sales 9% higher to 883 billion euros. Private labels accounted for 38.5% of this total.” Citing PLMA and NielsenIQ data, he also noted, “They saw sales grow by 13%, indicating that private label prices increased more than those of brands.”

“In 10 of the 17 countries surveyed, cheese is the most important category for private brands. Cheese was also the category with the strongest sales growth for private brands in Europe,” concluded Van Rompaey in his Feb. 16, 2024, article. Average Europeans bought more private labels in 2023; Belgians and Dutch did not.

### Clean labels growing in importance

When it comes to non-dairy substitutes – outside of non-dairy milk and to a degree, creamer – plant-based alternatives have gained little traction among consumers. Two major factors point to opportunities for traditional

dairy products to regain any lost share, not to mention stave off further plant-based encroachment.

First, repeat purchase rates in all non-dairy substitute segments other than fluid milk and creamer show considerable weakness: 49% of plant-based cheese buyers; 55% of plant-based yogurt consumers. In fact, McKinsey research found most U.S. consumers do purchase dairy, and over the next three years, approximately 90% of people have no plans to reduce their dairy product purchase behavior.

Second, consumer concerns around processed foods and clean labels

are areas where traditional dairy products can resonate. Ingredient legends for most plant-based dairy products tend to be lengthy: a package of one plant-based cheese option lists at least 11 ingredients, many entirely uncommon to the average consumer’s pantry and at strong risk of appearing ultra-processed. Traditional dairy products can win with consumers seeking cleaner labels.

### Leave out the lactose

One in three Americans experience lactose sensitivity or intolerance, which is a challenge for dairy product marketers. The highest rates of lactose intolerance are among people of Eastern Asian, Indigenous American, African and Hispanic descent, according to Harvard Health data, which are also growing populations in the U.S.

The lactose-free product category provides a simple, yet relevant, tool of innovation for dairy processors to help reach the estimated 120 million Americans who cannot enjoy traditional dairy products due to the milk sugar. Greek yogurt maker Chobani was one of the first to transform this category as the straining and fermentation process creates sugar-free options. As for other dairy products, the lactose found in milk, cottage cheese,

and sour cream can be easily broken down by a natural enzyme during the manufacturing process, which keeps dairy's clean label profile intact.

In one Dairy Checkoff-funded success story, the National Dairy Council and the American Dairy Association Mideast conducted a pilot study that distributed lactose-free chocolate milk in some Cincinnati public schools. This project boosted milk consumption by 16% and school meal consumption by 7%. As a result of its success, lactose-free milk was placed in all 15 Cincinnati public high schools. Students who have a positive dairy experience can influence how much dairy their parents or guardians purchase.

Prairie Farms took the category one step further and released a line of lactose-free dairy products including sour cream, cottage cheese, and gallon-sized 2% and whole milk.

### Consumers will demand more dairy innovation

The future looks bright. Most U.S. consumers purchase dairy. When asked about their future intentions, 9 out of 10 say they have no plans to cut back. But the dairy industry shouldn't rest on its laurels. Consumers' tastes and purchasing patterns continue to evolve and that means dairy processors, manufacturers and marketers need to innovate.

Although dairy competes with thousands of food and beverage products on store shelves, it remains the top aisle as consumers return again and again for a simple, nutritious, convenient, and affordable product available in all its forms. Nutrient-dense dairy goods with an eye toward environmental concerns can address two of the key challenges that have faced the industry in recent years.

These messages will resonate with younger consumers, especially as they seek foods and snacks that can balance health, convenience and sustainability. As consumer needs and preferences evolve, dairy processors can fit the ticket with innovative dairy product choices. The snacking and high-quality protein revolution can help keep dairy relevant, competitive, and a consistent grocery store purchase. ■

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<sup>1</sup>*Dairy aisle defined by CoBank as all other milk, butter/butter blends, cottage cheese, cream cheese, cream, milk, natural cheese, processed cheese, sour cream, whipped toppings, yogurt, and ice cream.*

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