

MSU Product Center

For Agriculture and Natural Resources

Funding: USDA Rural Development Cooperative Service Market Advisor: The Hale Group

[Use of this material is subject to caution.](#)

Dairy – Butter - Overview

Products included in the product line

- Butter includes all the forms, packaging and varieties of the product.

General market trends and information

- Retail sales of butter were \$1.3 billion in the U.S. in 2003, total sales including all outlets was \$2.5 billion which represents an increase of 2 percent from 2002. From 1998 to 2003 retail sales of butter increased from 398.1 million pounds to 452.1 million pounds; a 13.6 percent increase.
- A consumer survey showed that 77 percent of households use butter. The relative price of butter and margarine is an important consideration for consumers. This limits the ability of butter producers to influence the price of their product. Many consumers see butter as a commodity and are therefore price sensitive.

New product trends

- New product introductions for butter lag behind introductions for other dairy products.
- Examples of new product introductions include Land O'Lakes Light Whipped Butter with fewer calories, Muirhead's Rutabaga and apple flavored butter, Challenge's spreadable butter with canola oil, and a variety of organic butter products.
- There may be some potential for products that appeal to the demand driver of indulgence. According to a survey two-thirds of consumers prefer the taste of butter to margarine, products that focus on new flavors or other taste characteristics of butter may find a market.
- Products that focus on wellness such as reduced fat or calories have seen the most introductions.

Manufacturing and distribution issues

- The butter market is not concentrated. Land O'Lakes accounts for 30 percent of all butter sales. No other single firm has a market share of more than 5 percent, and private label sales account for 46 percent of all retail sales.
- Butter tends not to be an impulse purchase. Supermarkets and mass merchandisers such as Wal-Mart will continue to be the primary outlet for butter purchases.
- One barrier for potential entrepreneurs in the cheese industry is the level of regulation in the dairy sector. Fluid milk is regulated by Federal Milk Marketing Orders that affect all dairy products. These orders establish minimum prices for fluid milk and perishable processed products. Farmers receive a "blend" price which is a weighted average of all dairy commodity prices (milk, butter, cheese, etc.). The second aspect of the federal orders is that receipts are pooled among producers and processors to insure that all farmers receive the blend price. As a result, it is very difficult to compete on the basis of price.

Overall assessment of opportunities

- In conclusion, the greatest potential for product development in butter appears to be in the areas of indulgence of convenience. The potential of appealing to ethnicity, wellness and value is limited. There are still opportunities to develop a truly spreadable butter product.

Sources

Mintel. Butter and Margarine.

_____. Global New Products Database.