

## **MSU Product Center**

*For Agriculture and Natural Resources*

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

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### **Diary - Fluid Milk - Overview**

#### **Products included in the product line**

- For the purposes of this report, fluid milk includes whole, skim and lowfat milk. It also includes flavored milk. Buttermilk, eggnog, soymilk, and kefir.

#### **General market trends and information**

- Retail sales of fluid milk were \$12.5 billion in the U.S. in 2003, total sales including all outlets was \$36.6 billion which represents an increase of 2 percent from 2002. A major threat for the dairy milk industry is the growth of soymilk which is now an \$809 million industry.
- Fully 95 percent of all households consume milk. The market for milk can be divided into two groups, heavy drinkers which comprise 48 percent households, but consume 80 percent of the milk and light drinkers which are 52 percent of households, but consume only 20 percent of the milk.

#### **New product trends**

- From 1998 through 2002 there were 371 product introductions in the fluid milk industry. Introductions ranged from a low of 49 in 1999 to a high of 93 in 2002. There has been an upward trend in new product introductions.
- Examples of new product introductions include milk that is flavored like candy bars such as Snickers and Three Musketeers, single serve shelf stable milk with twist off caps, no artificial hormones, and vanilla flavored milk fortified with 11 vitamins. There are also a host of soymilk and organic milk introductions.
- Products that focus on wellness have seen the most introductions.

#### **Manufacturing and distribution issues**

- Private label brands dominate the fluid milk industry accounting for almost 43 percent of all retail sales. However, this may be misleading as the fluid market is serviced by large cooperatives and large fluid milk processors such as Dean's Food. Barriers to entry into this industry may be quite high.
- Another barrier for potential entrepreneurs in the fluid milk 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.
- The development of single serve packaging creates opportunities in developing markets in the convenience store and vending machine outlets.

#### **Overall assessment of opportunities**

- In conclusion, the greatest potential for new product development in fluid milk are those products that appeal to the demand driver of ethnicity, indulgence, and wellness. There are also some opportunities in developing products that appeal to the demand driver of convenience. There are few opportunities to develop products that appeal to the demand driver of value.

#### **Sources**

Mintel. Milk.

\_\_\_\_\_. Global New Products Database.

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