

Introduce innovation and better merchandising to milk sales in this department

By JANICE HUNT

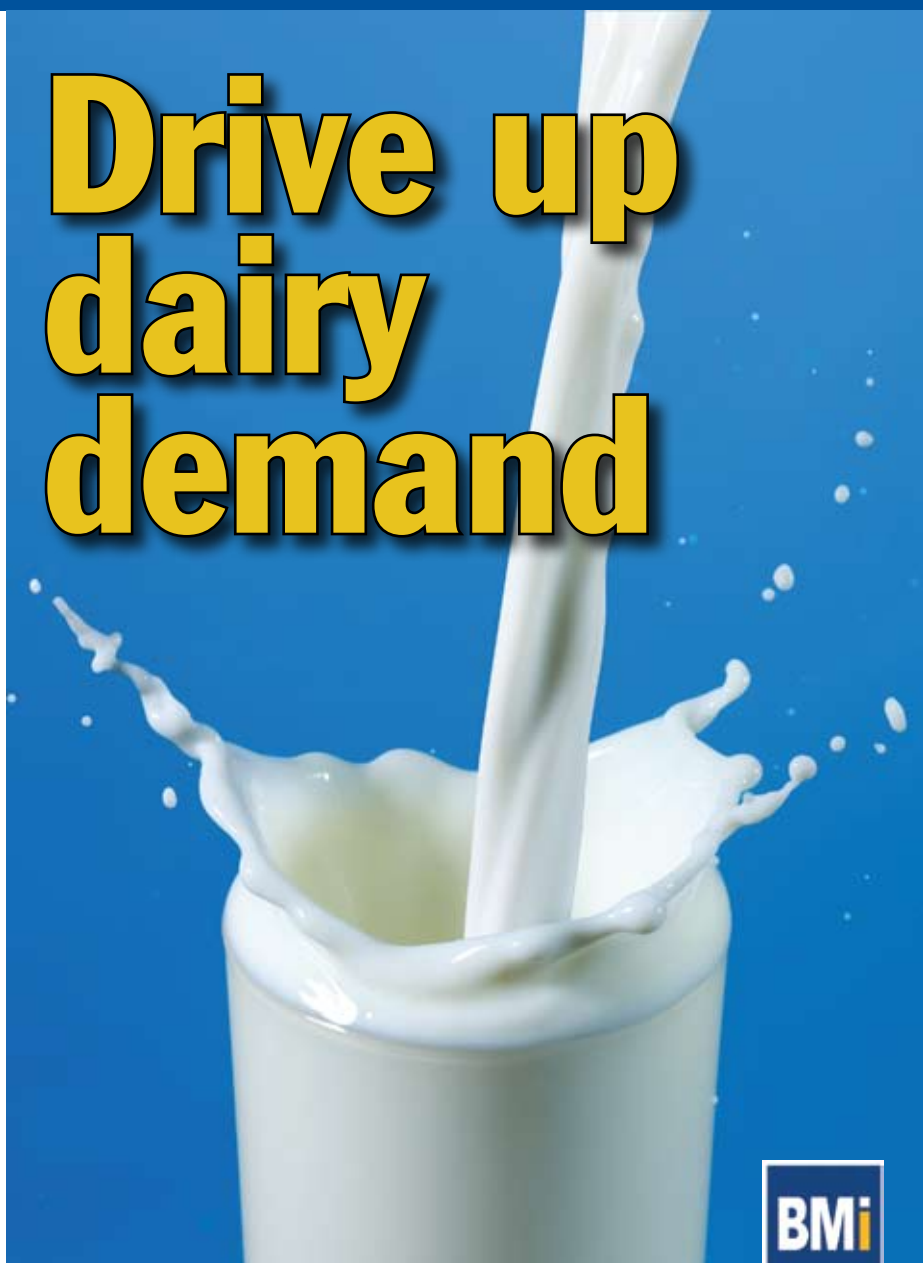
Retailers are encouraged to keep a weather eye on their dairy departments and to be prepared to adapt to new developments. It's a commodity sector that is forecast to grow in consumption, both globally and locally, and suppliers are set to take advantage of the growth.

More demand for dairy

Demand for dairy is growing globally, particularly in developing countries, and projections are that Africa will see an increase in liquid dairy product (LDP) consumption of more than 50%, climbing from around 15 billion litres in 2010 to almost 25 billion litres in 2020, according to the 2011 Tetra Pak Dairy Index, the company's annual news and information survey about the global dairy industry.

The report is upbeat about the world's emerging economies – mainly in Asia, but also in Africa and Latin America – with increasingly prosperous urban populations expected to consume an ever increasing share of the world's LDPs. "Here, a new generation of educated, upwardly mobile consumers will unlock exciting possibilities for the dairy industry to provide distinctive, convenient and diversified new products," it states. Emerging and developing markets are projected to account for more than 60% of world output in 2020, compared to around a 40% contribution by advanced economies.

The SA Agricultural Baseline 2011 released recently by the Bureau for Food



and Agricultural Policy is also encouraging about growth prospects in the dairy industry. The report concedes that while there has been volatility in milk prices, the industry is constantly expanding due to the growing demand for dairy products. "Over the past decade the dairy industry has expanded by 36%, with total consumption of dairy products increasing from 2 million tons in 2000 to 2.6 million tons in 2010."

"Since the average economic growth rate over the baseline period is projected to be lower than the past decade, the growth in the demand for dairy products is expected to slow down to an annual average increase of 4.5% per year, compared to 5% over the past decade. However, the growth in consumption of fresh milk is projected to increase from an annual average rate of 2% over the past decade to 2.3% per year until 2020. By 2020, 3.4 million tons of milk

(excluding the imports of dairy products) will be produced to match local consumption."

Another anticipated growth area in dairy by the report is the consumption of cheese, which is projected to increase by 5.5% per annum to reach approximately 107 000 tons by 2020.

Consumption in SA

Rae McGraw, Tetra Pak's marketing director in southern Africa, says the potential dairy consumption picture in South Africa is equally encouraging. "The average milk consumption in South Africa at the moment is 25 litres per capita per year. Consumption is dominated by the upper LSM groups – primarily 9 and 10, which consume an average 53 litres per capita per year, LSMs 7 and 8 consume an average 38 litres per capita, LSMs 5 and 6 are at 23 ▶





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litres, with LSMs 1 to 4 at an average of nine litres per year.” Just for interest, the highest average annual milk consumption country in 2006 was Finland with an average 183.9 litres per capita. The UK came in at eighth at 111.2 litres and Australia came in ninth at 106.3 litres per capita per year.

There is clearly room for growth in South Africa, particularly as one takes into account the shift in LSM demographics. McGraw points out that in the past four years, the size of LSMs 1 to 4 has dropped from 46% of the population to 31%, indicating that there has been a shift up from the bottom end of the market to LSMs 5 and 6, which has grown from 28% of the population to 36%. This shift is reflected in other African countries, with South Africa leading the way, and is a first in about 10 years, says McGraw. There has also been an upward move to LSMs 7 and 8, as well as 9 and 10. Adds McGraw, “This shimmying up in the LSM groups is a positive development for South Africa as a whole, and augurs well for milk and other liquid dairy product consumption.” McGraw believes that promoting dairy to consumers in the lower LSMs will pay off in the longer term as they move up the income ladder.

School milk programme

A new project that is in the pipeline holds promise both for the country and the entire dairy value chain. McGraw explains: “We have been in discussions with government departments about a school milk programme to improve underprivileged children’s health, which has the personal support of President Jacob Zuma. Our experience in Kenya where we have been supplying milk packs for distribution to school children three times a week for some years is that school attendance on those days when milk is handed out has improved dramatically.”

A school milk programme would boost dairy sales in general as milk and dairy product consumption becomes the norm among people who are not big dairy consumers at this stage, primarily due to cost constraints.

Academic support

In a recent edition of Foodstuff SA’s newsletter, an article quoting Michael Zemel, a University of Kentucky professor – unaffiliated with any dairy interests, stated, “Dairy is ‘much better perceived as being positive in health benefits than 10 or 20 years ago.’ Zemel’s research continues to find redeeming nutritional qualities and even medical efficacy from dairy components, especially calcium and possibly including saturated fats.”

BMI’s dairy findings

■ White Milk

White milk saw some growth during 2010, gaining back 2.9% of the volumes lost during the recession of 2009, which saw a decline of 2.4%. During the past five years, there have been cyclical trends in volume growth in one year matched by a decline in the next. Growth was seen in all channels. Although the growth margins are low compared with the overall milk category growth, white milk remains a stable market. Eastern Cape and Mpumalanga saw decline, the only two regions to do so during the base year. The volume erosion in these two regions was made up by other provinces, such as KwaZulu-Natal and Free State, which saw double digit growth rates.



Flavoured milk is expected to gain popularity as producers invest more in marketing and special offers. Steri-Stumpi, for example, is targeting young adults with competitions and specials to attract this profile of consumer.

■ Flavoured milk

While this sector is small and has seen decline, there is promise on the horizon, according to BMI.

Flavoured milk saw a decline during 2010 as production slowed and demand declined. These declines come after a string of poor performances since 2008. The category is expected to gain popularity once again in 2011 as producers invest more in marketing and special offers. Steri-Stumpi is targeting young adults with competitions and specials to attract this profile of consumer. The larger pack sizes saw increased popularity this year, possibly indicative of the consumer quest for value-for-money products.

■ Yoghurt

The overall demand for cultured dairy products continues to increase and the yoghurt market plays an integral part within this. The category has seen consistent growth since BMI tracking started in 1998, although the overall annual growth rate has slowed down in the last five years. 2010 saw a per capita consumption increase and a volume growth of 3.8% as the overall economy improved, and the market is expected to grow by 4.2% and 5.0% in 2011 and 2012 respectively.

Possible reasons for the upward trend include the fact that there has been a move to smaller pack sizes with the convenience of the multipack. In addition, the positioning of yoghurt as natural prebiotics and probiotics beneficial for the maintenance of natural flora has proved positive and is aided by the continued trend towards healthier eating choices. The market has also continued to remain innovative, introducing new flavours and brands, especially among the kiddies yoghurt section.

Innovations on the way

McGraw hints at several new innovations that are due to hit the dairy fridge shelves in the near future (within months!), but are not quite ready for release. These include a new on-the-go fun milk for children; a new cap that allows the consumer to walk and sip; functional milk products such as a 'muscle milk' for youngsters training in gyms; new toddler milk products, and more. Retailers are urged to watch this space and to be prepared to add innovative products to their dairy displays.

Spar's dairy moves

Antoinette Borrageiro, Spar North Rand Distribution Centre's perishables purchasing manager, is also enthusiastic about developments in the dairy fridges and Spar's innovative approach to new products. "Spar was first to launch extended shelf life (ESL) milk, which is ultra-pasteurised and has 21 days shelf life. It's chemical free, is produced under

extreme hygienic conditions, is free from rBST hormones and has innovative environmentally-friendly paperboard packaging that prevents nutrient loss as there is no exposure to light."

Spar's yoghurt concept has recently been implemented in some stores. "This concept is based on shopper research and segments the yoghurt category into smooth, fruit, health, fat-free, children, drinking, and indulgence. The long-term impact of this concept is still to be determined as it's brand new," she says. Borrageiro adds that the Spar yoghurt range has also been reinvented, providing customers with more exciting flavours and new attractive packaging that contain more information.

Spar has also embarked on providing health conscious customers with more options, such as the development of the Spar Squillos range of flavoured dairy drinks, which has made the kiddies section in the dairy fridge "an exciting and viable destination for parents and children," she says.

She emphasises that Spar is constantly on the alert for new ways to add excitement to dairy and boost sales and she has a list of ways she believes that suppliers can contribute to boosting sales in the category. "There are supplier initiatives that definitely make a difference in this category, such as conducting wet demos, ensuring a consistent supply of products, informing retailers of new lines ahead of time, providing consumers with product information to enable an informed purchase, and of course, ensuring that ►



Global demand for dairy is growing, with an estimated increase of liquid dairy product (LDP) consumption to almost 25 billion litres in 2020, according to the 2011 Tetra Pak Dairy Index.

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product is correctly merchandised and stock rotation is done by a trained and effective merchandising team.”

International awards

A good news story and validation of these developments in dairy, at the World Dairy Summit of the International Dairy Federation in Italy in October this year, the Consumer Education Project of Milk SA was awarded first prizes in two categories – ‘Best Consumer TV/ Cinema Advertisement or Social Networking Marketing Campaign’ and ‘Best Generic Marketing Campaign’. Co-ordinator of the Consumer Education Project, Christine Leighton, said that the awards are encouraging as the project is not an ordinary generic marketing campaign but a campaign to inform consumers and opinion leaders of the health and nutritional advantages of dairy products. To achieve its objective, the project involves leading South African experts in fields such as dietetics, nutrition, dairy technology, and marketing.

Also notable was that in the same competition, South Africa’s Fair Cape Dairies, was a finalist in two categories – ‘Best New Dairy Drink’ and ‘Best New Functional Dairy Product’.



Cold chain management has improved dramatically in stores over the past few years, but an understanding of the impact of breaking the cold chain is still a problem – and ongoing education on the subject is necessary

Merchandising is key

Riaan Hepburn, category planner with Clover, says that as dairy is a frequently shopped department, it is imperative to keep it well-stocked, neat, clean, and appealing even at the busiest times. “A benefit to retailers these days is that suppliers are involved in merchandising shelves, in checking temperatures, and in making sure displays are kept well-stocked and tidy, making life easier for retailers and more pleasant for customers. An empty and untidy dairy display is certain to make customers unhappy. After all, dairy is one of their most frequent purchases.”

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Clover displays the brand leader at the end of the display – on the left as most people read from left to right – with the full range of products in that sector. This is followed by the house brand products and then other brands.

Cold chain management has improved dramatically in stores over the past few years, but, says Hepburn, an understanding of the impact of breaking the cold chain is still a problem with many customers – and ongoing education on the subject is necessary.



In terms of displays, Clover recommends brand blocking (keeping a brand’s range of products in the same section) rather than type blocking (keeping all brands of the same product together). Brand blocking is neat and it’s easier for customers making choices and for retailers, in terms of product sizes fitting neatly onto shelves

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Product ranging is necessarily done on a store by store basis, adds Hepburn, as there are often surprises as to what one store’s customer profile will buy against what is expected. He suggests stocking a full range of products to start with and then removing the slower lines to make space for the more popular lines as customer preferences become evident.

As far as stocking new products is concerned, Hepburn advises in-store product sampling by suppliers combined with interaction with customers in terms of their responses to the product.

Another area that will improve dairy departments in-store is more effective communication throughout the retail company, he says. Often, changes are made at head office or regional level but not clearly communicated to store level, which leads to non-implementation of the new initiative – and possibly lost sales.

Spar's Antoinette Borrageiro is clear in her suggestions for improving dairy sales. "Only certified HACCP-approved suppliers should be listed; each store should be correctly ranged according to the LSM groups in the store's customer profile, which provides customers with the right products for their profile; product must be consistently available; dairy products must be positioned in store to provide easy



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Often long-life milk products are bought to boost supplies of milk at home, which is likely to lead to more milk being consumed. So why aren't they displayed in the same area?

accessibility for customers and correct merchandising principles must be implemented; the cold chain must be maintained under all circumstances; and point of sale for new lines and products on promotion is important."

Tetra Pak's Rae McGraw has further suggestions for retailers as far as merchandising is concerned, based on shopper research.

She believes that sales are lost because ambient temperature milk is displayed as a separate purchase to fresh milk in a different part of the store. "Often long-life milk products are bought to boost supplies of milk at home, which is likely to lead to more milk being consumed. If the ambient and fresh milk were displayed in the same area, it's likely that more milk would be bought and if there is milk in the home, it will be consumed."

The problem with missed opportunities in cross-merchandising, McGraw points out, is that they are invisible losses. There is no way to know that they have been missed. They're usually worth a try.

Stay alert!

Dairy may have become a bit dull in many stores, but it shouldn't be. While it may be a 'comfort zone' for customers, it will benefit with new displays, new products, revived efforts at keeping it bright, neat, clean and well-stocked, and keeping close tabs on new innovations from suppliers. 