KANTAR WORLDPANEL

THE DAIRY FOCUS

NEWSLETTER – April 2017

Lower consumer confidence in the coming year

Price changes within dairy

The evolving promotional landscape

Aldi becomes the UK's fifth largest retailer!

How important is NPD to category growth?

Meet the authors

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WELCOME

Welcome to the Spring issue of our quarterly newsletter. Inside we share our opinion on relevant industry news and consumer trends we hope will kick-start thoughts and discussions that help you to stay ahead.

In this edition, we will take events in the wider grocery market – such as rising inflation and Aldi becoming the UK's fifth largest retailer – and look at how these will impact the dairy market.

We very much hope you enjoy reading the articles and look forward to hearing your opinions and feedback.

Best wishes,

The Kantar Worldpanel Dairy Team

AGENDA

3 **Lower consumer confidence in the coming year – what could it mean for dairy?**
With inflation on the rise ahead of consumer spending power we look at what this could mean for shopper behaviour in dairy.

4 **Brief focus on: Price changes within dairy, how do they compare to the total market?**
As consumers prepare themselves for broad price hikes, we look at how price changes within dairy currently differ to the overall grocery market.

5 **The evolving promotional landscape**
Sales on promotion have now hit their lowest point since 2010. But what's behind this trend and what does it mean for dairy?

6 **Aldi becomes the UK's fifth largest retailer!**
With Aldi finally wrestling the fifth spot from The Co-Op in total grocery, we look at what has driven this and what the impact will be on dairy.

7 **How important is NPD to category growth?**
Here we'll look at the significance of NPD to category growth and specifically within dairy.

8 **Meet the authors**

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Lower consumer confidence in the coming year – what could it mean for dairy?

With inflation set to rise in the coming year (already at +2.3% in the latest 12 weeks) ahead of consumer spending power, the Retail team here at Kantar Worldpanel have predicted a fall in consumer confidence. What will this mean for the dairy market in 2017?

We have 5 Golden Rules when it comes to how consumer behaviour is affected by times of real or anticipated economic changes.

- The first is that volumes are in fact generally stable, as after all we still need to eat!
- Thus, the immediate response is for shoppers to buy cheaper products, with Own Label being key here;
- Third is that discretionary categories suffer as consumers focus on what they need;
- Shoppers also become more prudent by eating out less and taking fewer risks with their food choices;
- Lastly, we see health become less of a priority with treats creeping back in.

The key take out for dairy is that, as a staple category, volumes should remain fairly strong during a time of reduced consumer confidence, however more discretionary sub sectors as well as 'risky' NPD could suffer as shopping behaviour becomes less adventurous. With this in mind, which categories would we expect to be hit hardest?

One potential category that could be impacted is the added value milk category. Recently we have seen this part of the milk market perform well, with 9.3% growth in the last year after attracting new shoppers. However, it is still only purchased 19.3 times on average in a year (vs. 64 times a year for standard fresh milk) indicating that it has not yet become the staple milk of choice for shoppers. Given the price premium that comes with these milk types – including organic, filtered and dairy alternative – could we see shoppers switch back into standard fresh if confidence is hit?

Clearly communicating and educating shoppers on the benefit of added value offerings, whether this is organic, filtered or even low sugar, is going to be key in encouraging shoppers to maintain their purchasing of more premium parts of the market.

Oliver Bluring, Category Analyst

Source: Kantar Worldpanel data, Total Milk, 52 w/e 26th Feb 2017

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Brief focus on:
Price changes within dairy, how do they compare to the total market?

Inflation looks set to rise even further in the coming year. We look at how movement in dairy prices currently differs to total grocery, and what this might mean for the sector in the coming year and beyond.

As things stand, dairy prices are declining ahead of total grocery at -1.7% compared to -1.1%, influenced in part by the performance of the discounters in this category. Aldi and Lidl see growth of 15.5% and 11.2% respectively in dairy compared to 12.8% and 9.4% in total grocery. Retailers at the other end of the price spectrum such as M&S and Waitrose also see strong growth in dairy ahead of the total market, but their relative share (7.1% vs 8.5% combined) means that their contribution to overall average price is less.

The two categories driving the decline in prices for dairy are cheese and yoghurt, declining at -2.3% and -2.6% respectively and being the second and third largest categories and influencing the overall trend. The categories bucking the trend of decline are milk, butter and fresh cream (+1.6%, +0.6%, +1.9%) with milk key to offsetting overall price decline due to its size within dairy. The key to growth in average price in these categories, in milk and butter in particular, is encouraging shoppers to trade up to a more premium product. Changes in price and promotions have also had a role to play.

Rachel Lombard, Client Manager

To be noted that we are looking at average price paid by shoppers rather than actual market inflation.

Source: Kantar Worldpanel data / Total Dairy / 52we 26-Feb-17

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The evolving promotional landscape

Promotions are a hot topic in FMCG at the moment as promotional mixes change and retailers continue to cut back on the number and depth of deals in store. The share of consumers' spend going through the tills on promotion is at its lowest level since 2010, with 37%[1] of spend sold on deal. This has come down from a high point of 41%[1] at the beginning of 2015.

This trend away from promotions is particularly prominent in the dairy sector. Until 2015 the levels of spend on deal in the sector were in line with the market but over the last 18 months we've seen the share of spend on promotions in dairy reducing at a much faster rate. During the latest period only 30%[1] of spend in the sector was bought on promotions (vs. 37%[1] across the total market). Within the sector there are large differences in the levels of spend on promotion across the various categories. In yoghurt 48%[1] of spend was sold on deal whilst just 10%[1] of milk spend came through promotions.

Despite these differences we can still observe the same pattern that we see at the sector and market level. The share of spend sold on promotion has declined over the last year in every category within the dairy sector. Yoghurts, the category with the highest levels of promotional sales, have seen the share of spend on deal decrease by -5%pts[2] in the last year.

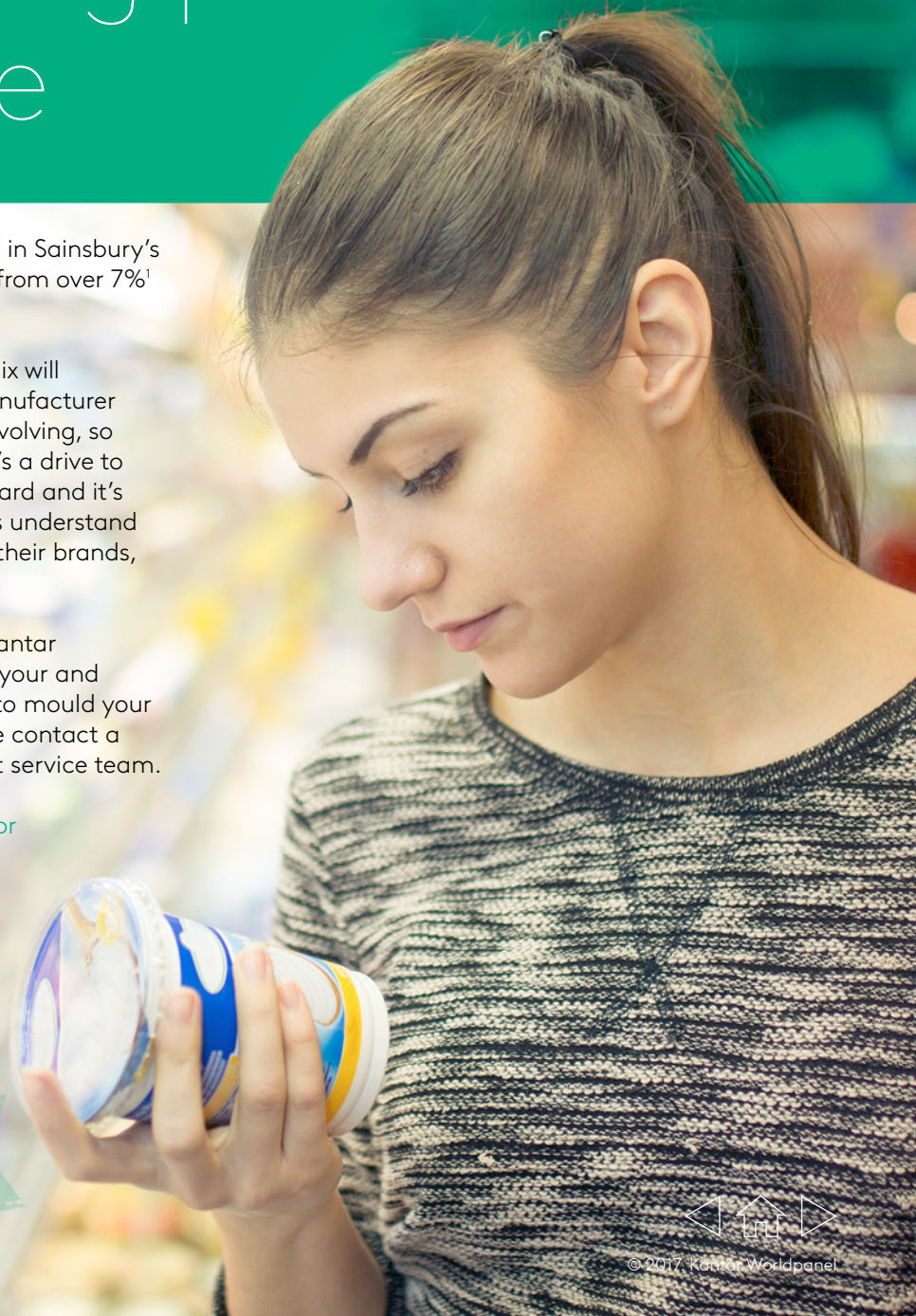
The changes we're seeing are not only caused by a reduction in the number of promotions that are available to consumers but the mix of promotional mechanics retailers are using. The most obvious change we've observed recently has been the movement away from volume driven deals (multibuys and Y for £X deals). This movement has been led by Sainsbury's where share of spend on volume deals has quartered over the last year. Fewer than 2%[1] of sales in Sainsbury's were sold on volume deals in 2016, down from over 7%[1] in the previous year.

Whether these changes in promotional mix will ultimately benefit the retailer and the manufacturer remain to be seen. The landscape is still evolving, so expect more change. It is clear that there's a drive to make sure that promotions are working hard and it's key that both retailers and manufacturers understand whether their deals are really benefitting their brands, the category and the retailer.

If you are interested in discovering how Kantar Worldpanel can evaluate the strength of your and your competition's promotions and help to mould your promotional strategy in the future, please contact a member of your Kantar Worldpanel client service team.

Ross Mcknight, Consumer Insight Director

[1] Kantar Worldpanel, 12 w/e 1st Jan 2017
[2] Kantar Worldpanel, 12 w/e 1st Jan 2017 vs. 12 w/e 3rd Jan 2016



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Aldi becomes the UK's fifth largest retailer!

In the 12 weeks leading to the 29th of January Aldi became Great Britain's fifth largest retailer, overtaking The Co-Op who had held the spot since 2005.

Whilst The Co-Op has performed strongly recently, led by their private label offering, Aldi has managed to continue double digit growth throughout 2016, attracting over 900,000 new shoppers year on year.

Fresh and chilled groceries have been the main drivers of spend growth for Aldi, with produce and dairy products attracting the most new shoppers. Despite this, The Co-Op has held onto its number 5 spot within the world of dairy (12 w/e 26 Feb 2017). The big question is whether this will also change in the coming months as it has done at a more macro level. Aldi is without doubt a serious contender for 5th place in dairy – it already stands at 6th or higher in 7 out of 12 dairy categories and spend has increased in store from all social classes and life stages.

With 50.8% of Great Britain's population taking home a dairy product from Aldi/Lidl, we will likely see other retailers battling over shopper loyalty in these categories. Eggs (10.7% share v. 7.0%) and pre-packed cheese (27.1% v. 22.1%) are two categories that do particularly well in Aldi and can therefore expect a continued boost by Aldi's desire to own over 1,000 stores by 2022. The retailer currently has 650 stores and store openings have so far been key to achieving that 5th spot overall.

Daniel Viana, Client Executive

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How important is NPD to category growth?

Only 5% of total grocery sales in the last year came from real NPD, with a further 9% coming from 'renovation' or EPD. Notably the grocery market remains flat (-0.1% YOY) despite a 6% increase in sales from new products this year suggesting not all innovation translates to incremental category growth.

The dairy category is less innovative than others with only 2% of sales coming from NPD in 52 weeks to 11th September, down from 2.9% last year. The most innovative sizeable fresh and chilled categories in 2016 (aside from the very seasonal fresh stuffing) have been fresh soup and chilled ready meals, which have seen big investment on new own label ranges.

Within dairy, the biggest launches came from categories with the biggest scale, with Morrisons Milk For Farmers, Arla's Best of Both Milk and Danone's Light & Free Yoghurt topping the list in sales terms. Stirring up seasonal excitement is also evident with the fresh cream category most reliant on innovation with 9% of sales coming from NPD – over 3 times the dairy average. Milk has seen the biggest percentage increase in sales from NPD this year, up from £20m last year to £40m this year. And with sales of existing products and EPD down year on year, this has clearly minimised overall category decline. On the flipside, aside from milk, those categories either growing or not declining as fast as total dairy (eggs, cheese, yoghurt, yoghurt drinks) have in fact been driven by increased sales on existing products rather than NPD. As your core range still makes up the majority of category sales, trade and marketing tactics around the sector overall still remain at the forefront of driving category growth due to their sheer scale.

Many categories are still in decline and finding real incremental growth through NPD is difficult. How does NPD really impact shopper behaviour to grow categories and brands? We know that at a top line level, scale does not necessarily translate to incremental spend as shoppers switch between products, changing their category behaviour. They might trade down to a smaller pack, or pay less than they normally would have as a result of buying a new product. In mature high-penetration categories buyer growth is difficult, and we know that incremental growth lies in pulling multiple levers – such as encouraging existing shoppers to pay a higher price, buy more volume or make extra trips to the aisle.

Compared to other countries, developed markets such as the UK tend have most success with NPD when it premiumises an existing product. In fact, most of the top launches in the UK tend to hold a premium over the parent brand. To investigate further how you could harness better incremental innovation in your category, please contact the Expert Solutions team at Kantar Worldpanel via your client service team.

Emily Swann, Client Consultant

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THE KANTAR WORLDPANEL DAIRY TEAM

Please get in touch with any feedback on the articles you have read or with any questions you may have.

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