

KANTAR WORLDPANEL

THE DAIRY FOCUS

NEWSLETTER – Summer 2017





WELCOME

Welcome to the summer issue of Dairy Focus. This newsletter gives you our viewpoint on relevant industry news and consumer trends to help you kick-start thoughts and discussions that will help you to stay ahead.

In this edition, we will be focusing on some larger market trends, such as rising inflation and e-commerce, as well as some specific markets such as cheese and ice cream.

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

Best wishes,

The Kantar Worldpanel Dairy Team

AGENDA

3

Inflation in the dairy market

Seven months since the end of long term price deflation, prices continue to rise. How is this affecting the dairy market, particularly butter, which sees double digit inflation?

4

A focus on e-commerce

With online grocery sales share projected to reach 12.6% by 2020, understanding the online channel is increasingly important.

5

June heatwave causes boom in ice cream sales

June 2017 saw the hottest summer solstice since 1976. We look at the impact of this heatwave on the ice cream market.

6

Is the cheddar market beginning to stabilise?

After declining since 2015 the cheddar market has begun to stabilise in recent periods. We look at what's behind this and where the sector might go from here.

7

Meet the authors

Inflation in the dairy market



3.7%

**inflation in
dairy market**

In early 2017 we saw the end of 30 consecutive months of grocery price deflation as prices began to rise. Seven months on, inflation is the new normal, with the latest 12 week inflation figure (to 13th August 2017) showing prices are rising 3.3%. Within the dairy category there has been a similar trend, with prices rising ahead of the wider market at 3.7%.

Hidden behind these headline numbers is distinct variation at a category level, particularly in the case of butter, where prices have risen 19% since last year, with reports attributing these increases to a milk shortage across Europe as manufacturers choose to prioritise making cheese for a greater return on investment¹.

But what does high inflation within butter actually mean for consumers? Comparing the average price five years ago to today, there is an increase of just 4%. The current year on year figure is

larger due to prices being comparatively low this time last year, highlighting the long term fluctuation seen in the market. This 4% increase equates to an additional £1.42 on an average butter shopper's spend. When put in these terms the 19% price increase from last year does not sound as daunting for consumers as at first glance.

So has consumer behaviour been impacted as a result of inflation? Over the last three years butter has been steadily winning volume from margarine as health perceptions have changed, with consumers viewing butter as more natural and less processed than margarine. On the back of the recent price hike there was a slight dip in butter's volume share however this now appears to be back on an upwards trend.

Looking at what the future might hold for butter, it is worth remembering that average prices last year were at a five year low and the current high inflation reflects this. Prices now appear to have stopped rising and we expect inflation to hold around the 20% mark before starting to fall in November as the price changes start to annualise out.

Christopher Jones, Analyst – Expert Solutions

¹ The Grocer, 22nd July 2017

A focus on e-commerce

The retailer landscape has shifted considerably over the last 10 years; the rise of the discounters has been well documented, with the other retailers looking for ways to counteract their ever-growing challenge.

In a society where smartphones are ubiquitous² and where everyone is now constantly connected to the internet, it is important to make the most of online channels. With the share of online grocery spend projected to be 12.6% by 2020, online is a channel to watch out for.

Across the total grocery market, online sales have increased 8% in the latest 52 weeks, only slightly behind the rate of growth seen among the discounters. Ambient and frozen items such as take home soft drinks (+139) and frozen prepared foods (+121) are more likely to be purchased online. That said, fresh categories are becoming increasingly important, with a number growing ahead of their ambient and frozen counterparts in volume terms. Dairy is one of these, growing at 7.7% in volumes, and 8.2% in value online – faster than the grocery market. Dairy also overtrades online, with categories such as butters, spreads and margarine and cheese driving this, showing that online shopping is becoming the norm for more categories across a wider spectrum of markets.

Among the retailers, Tesco maintains its stronghold with the largest share. Morrisons and Sainsbury's, however, are seeing strong growth, with value growth in dairy at 46.3% and 15.9% respectively while Tesco declines by 1.4%. Online specialist Ocado stands out among the pack, seeing consistent double digit growth across both total grocery and dairy.

The main point of difference for online is its shopper demographic. It is favoured by younger and more affluent shoppers, across both the dairy market and wider grocery. Larger households and families are more likely to buy online, demonstrating the benefits of the online channel for buying bulkier items. Securing these shoppers and encouraging them to continue shopping online will help to consolidate the role of the channel.

With more players entering the market and Aldi dabbling in the online space, it will be important to look out for whether the channel can continue to grow, and if Tesco retains pole position.

Annabelle Gough, Client Manager

8%
growth in online sales over the past year



June heat wave causes boom in ice cream sales

12.3%

rise in
ice cream sales

June 2017 saw the hottest summer solstice since 1976, as parts of Britain reached temperatures above 30°C for five consecutive days³. The soaring temperatures coupled with rising grocery inflation saw a 12.3% rise in ice cream value sales, helping to drive the 3.7% growth seen in total grocery and highlighting the significance weather can have on this category. Penetration was

up four percentage points versus the same month last year, with 63.4% of the population buying ice cream as the hotter weather saw more shoppers reaching for a cool treat.

Even before the heat wave hit, the early summer was already seeing retailers in consistent growth in ice cream. Tesco and Sainsbury's were the big winners when the heat struck, with growth of 31% and 24% respectively in June compared with the previous 12 weeks. The three sub-sectors which particularly contributed to the growth of take-home ice cream were children's lollies, chocolate snacks/sticks and premium ice cream, with these three accounting for almost 90% of the uplift in year on year spend.

³ Met Office

Faith Ayomoto, Category Analyst



Is the cheddar market *beginning to stabilise?*

Following a period of stability, the cheddar market began to decline in 2015 until recently stabilising once again at £1.09billion⁴ over the last six months. A view of the most recent 24 weeks shows a flat market growing at 0.0%; welcome news to many, as the value loss over the last two years has been significant – equating to £156m, or one eighth of the total market value.

This hasn't been bad news to consumers however, as the lion's share of market devaluation was the result of falling prices, which have dropped by 15% from a peak in October 2014 (£6.68 per kilogram) to the lowest price per kilogram (£5.66) for cheddar in the last five years in the most recent data period. Both branded and private label prices have dropped, although the trend of private label products gaining share seen in the wider market has compounded this effect. Private label's share of the total grocery market rose from 48.7% last year to 49.8%, while own label cheddar has outpaced the total market, with its share increasing from 56.1% to 58.9% over the same period.

With prices still low, it is an increase in volume that has buoyed the cheddar market in the last six months. Aldi, Lidl and Iceland are driving volume growth while Tesco and Asda have reduced the rate of their volume decline. Key to this performance has been rising volume per trip, which has been seen among the highest performing retailers above (with the exception of Aldi where recruiting more shoppers has had the biggest impact). Tesco in particular has been successful in driving volume per trip – up 3.2% year on year.

Private label, discounters and shoppers have been the winners in the cheddar market for some time but looking forward, the future of cheddar is uncertain. Now with many retailers opting for everyday low pricing strategies – as evidenced by falling prices but decreasing promotions – it could be that consumers become more loyal but, with inflation beginning to affect grocery shoppers, it's too soon to tell what will come for this price sensitive category.

Ali Loughlin, Client Manager

⁴ 52 weeks to 16 July 2017

THE KANTAR WORLDPANEL DAIRY TEAM

MEET THE AUTHORS



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



Guest Author

Christopher Jones

Analyst Expert Solutions

Favourite dairy product: Baked Camembert

Chris has been at Kantar Worldpanel for one and a half years, working with our Expert Solutions Team.

E: Christopher.Jones@kantarworldpanel.com

Annabelle Gough

Client Manager

Favourite dairy product: Brie

Annabelle has worked at Kantar Worldpanel for two years now, though is a fairly recent addition to the dairy team, having started out in our produce team.

E: Annabelle.Gough@kantarworldpanel.com



Faith Ayomoto

Category Analyst

Favourite dairy product: Cheesecake flavoured ice cream

Faith has been at Kantar for five months, having joined as a Graduate in March.

E: Faith.Ayomoto@kantarworldpanel.com



Ali Loughlin

Client Manager

Favourite dairy product: Butter on popcorn

Ali has worked at Kantar Worldpanel for seven months having moved to the UK from New Zealand.

E: Ali.Loughlin@kantarworldpanel.com





CONTACT US

For further information about Kantar Worldpanel and the services we can provide for you, please contact:

Kantar Worldpanel
Westgate
London W5 1UA

T: +44 (0)20 8967 4390

W: www.kantarworldpanel.co.uk