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Five insights into the views and behaviors of the US dairy consumer

Dairy companies that can tailor their product offerings to the evolving tastes of consumers will be better positioned for growth.

Christina Adams
Katie Schnitzlein
Roberto Uchoa de Paula
Isabella T M Vasconcellos

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Five insights into the views and behaviors of the US dairy consumer

The US dairy industry currently faces both serious challenges and exciting opportunities. Despite a steady decline over recent years in core categories including cheese (-1.2 percent), milk (-6.3 percent), and yogurt (-3.3 percent), there has been impressive growth among products and brands that are positioned to respond to changing consumer needs. Examples of these growth pockets include Icelandic yogurt, (+60.3 percent) and lactose reduced milk (+12.6 percent).[1] Findings from McKinsey & Company's US dairy consumer survey reinforce the increasing importance of meeting consumer expectations for value, health consciousness, and transparency across their dairy purchases to capture growth.

Executive summary

To further understand what is shaping consumer behavior, McKinsey & Company conducted its first US dairy consumer survey of more than 1,100 respondents in December 2018.[2]

The main insights drawn from this survey are as follows:

1. Health considerations are increasingly important
Consumers are committed to healthier lifestyles and make their dairy purchases based on perceptions of health, primarily around "all natural," organic, and low-sugar options.

2. Transparency is expected
More than two-thirds of consumers want to know more about ingredients, sourcing, and manufacturing processes when they are considering dairy purchases.

3. Openness to trying new brands and products is expanding
Consumers are eager to try new dairy brands and products. Many are willing to purchase from new dairy brands in addition to their existing brands.

4. Plant-based dairy alternatives continue to grow
Most consumers have now tried plant-based products and will continue to purchase them because of a perceived healthier image.

5. Channel and value preferences vary by age
Millennials perceive value in premium products and prefer purchasing online, while Generation X and baby boomers perceive more value from private label and discount channels.

1 Euromonitor International; US Dairy retail sales value by category (cheese, milk, yogurt); compound annual sales growth 2015-2018. Nielsen; US retail sales value by sub-category (Icelandic yogurt and lactose-free/reduced milk); compound annual sales growth 2015-2018.

2 The McKinsey & Company US dairy consumer survey 2018 was conducted as part of a wider, ongoing assessment of the dairy sector, that includes strategic recommendations for dairy producers, manufacturers and sellers across areas of consumer behavior, competitive dynamics and international trade. To read more, please refer to *A winning growth formula for dairy*, McKinsey and Company, March 2019 and *The evolving perspectives and strategies of dairy executives*, McKinsey and Company, June 2019.

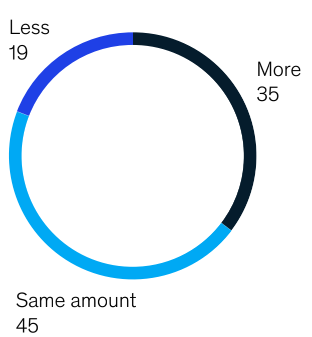
1. Health considerations are increasingly important

Over a third of consumers report eating more healthy foods *(Exhibit 1).* In addition, some of the most common reasons influencing consumer purchasing decisions are related to health. This finding suggests that perceptions of a category's healthiness are becoming increasingly important. When consumers are asked why they are buying ***less*** of a category, they often cite dietary restrictions or a preference for healthier alternatives. Overall, consumers report buying less ice cream and cream but more cheese, yogurt, milk, and butter. Depending on the category, one-third to one-half of surveyed consumers have changed the amount of dairy they purchase over the past 12 months, suggesting a relatively volatile market that is influenced by changes in consumer perception *(Exhibit 2).*

Exhibit 1

More than a third of dairy consumers say they are eating more healthy foods

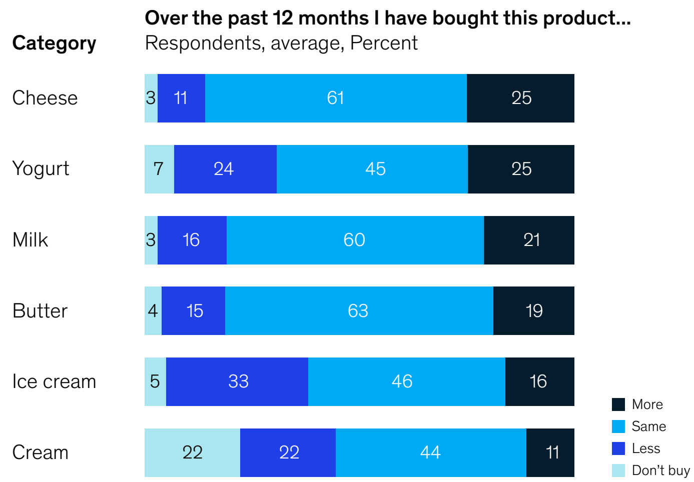
Respondents to the question: *"Please indicate how you have changed your behavior with respect to eating healthy foods"*
Percent



Note: Figures may not sum to 100 because of rounding.
Source: McKinsey Dairy Consumer Survey, 2018 (n=1,139)

Exhibit 2

Many consumers are changing the amount of dairy they purchase, depending on the category



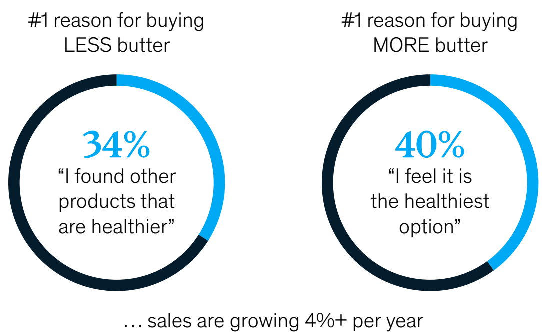
Note: Figures may not sum to 100 because of rounding.
Source: McKinsey Dairy Consumer Survey, 2018 (n=1,139)

A complex picture emerges due to the different attributes that consumers associate with each dairy category. For example, 33 percent of all consumers reported purchasing ice cream less often, primarily due to health considerations. To be successful in this category, dairy companies need to adapt by exploring ways to respond to consumers' health concerns. This is demonstrated in the ice cream category by the rapid growth of lower-calorie, high-protein ice cream in recent years.

The health perceptions around butter are more varied. Overall, 37 percent of consumers have changed the amount of butter they buy, but how and why this has changed differs by age group. Nineteen percent of millennials reduced their purchase of butter compared with 8 percent of consumers aged 65 and older. Our survey shows that 34 percent of consumers reported buying less butter because they "found other products that are healthier," while 40 percent are buying more butter because they "feel it is the healthiest option." This result demonstrates a range of perceptions as to the health benefits of some dairy products, with no single view being dominant *(Exhibit 3).*

Exhibit 3

Differing perceptions of the healthiness of butter are influencing purchase behavior

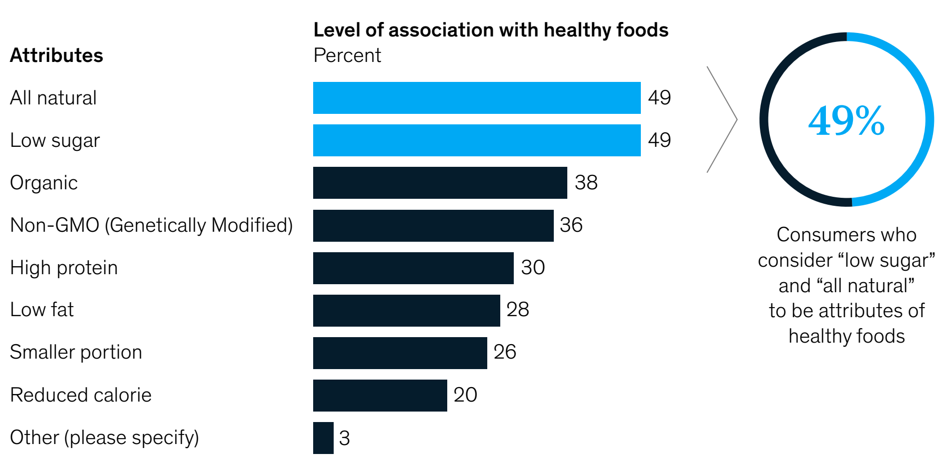


Source: McKinsey Dairy Consumer Survey, 2018 (n=1,139)

Certain attributes are more likely to influence whether the consumer views a dairy product as healthy. These are "low sugar" and "all natural" (49 percent of consumers stated they perceived these attributes as healthy), followed by "organic" (38 percent) and non-GMO (36 percent). These perceptions create an opportunity for dairy manufacturers to focus messaging around health-related attributes, display health claims more prominently on packaging, and ensure sourcing practices meet this need in a transparent manner *(Exhibit 4).*

Exhibit 4

'All natural,' 'low sugar,' 'organic,' and 'non-GMO' are the attributes most associated with healthy foods



Attributes	Level of association with healthy foods, Percent
All natural	49
Low sugar	49
Organic	38
Non-GMO (Genetically Modified)	36
High protein	30
Low fat	28
Smaller portion	26
Reduced calorie	20
Other (please specify)	3

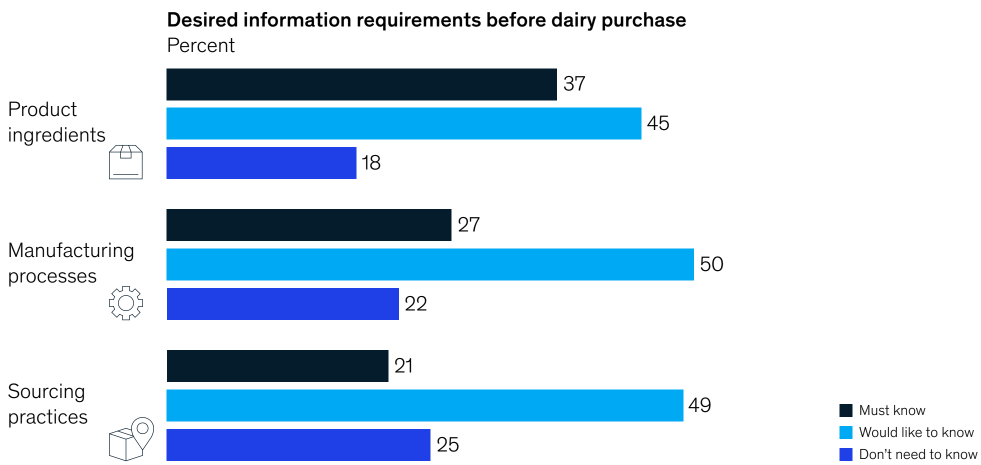
Source: McKinsey Dairy Consumer Survey, 2018 (n=1,139)

2. Transparency is expected

Before purchasing from a dairy brand, approximately 80 percent of consumers "must know" or "would like to know" about the product's ingredients and manufacturing process. In addition, 70 percent express a similar desire for information on sourcing practices, such as the origin of the ingredients and whether they are sourced in a sustainable, environmentally friendly way *(Exhibit 5).*

Exhibit 5

Consumers are increasingly curious about dairy products



Source: McKinsey Dairy Consumer Survey, 2018 (n=1,139)

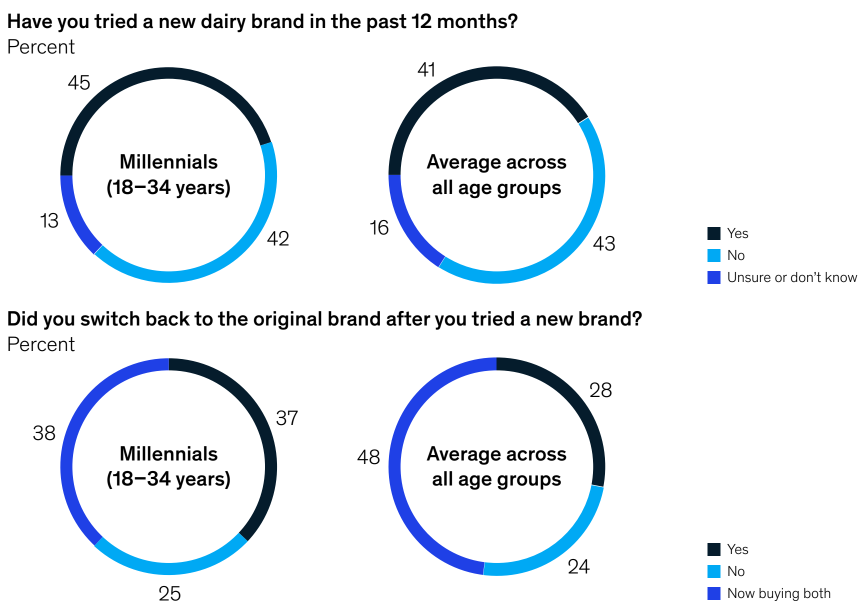
In the digital age, consumers expect their dairy brands to operate accordingly. Access to information and transparency are closely linked to perceptions around health and sustainability. Consumers want to know not just what is in their food but also the impact its production is having on the environment and society more broadly, including animal and worker welfare. Dairy companies and retailers must reflect these values in their production and marketing in order to meet this need. Winning brands communicate clearly about their products and the ingredients, origin, and manufacturing processes. Many successful retailers are reacting to this trend by including information in their stores about which products are locally sourced and how and where those products are grown and made.

3. Openness to trying new brands and products is expanding

Dairy is a highly dynamic industry with many choices, so new brands and product innovations can achieve rapid share growth. Forty-one percent of dairy consumers report having tried a new dairy brand in the past 12 months, and of this group more than 70 percent continued to purchase this new brand after trying it. Twenty-four percent reported fully switching to that new brand, while 48 percent reported simply expanding their purchase portfolio and buying both old and new brand products. Millennials are the most open to try new products: in the past 12 months, 45 percent of millennial consumers have tried new dairy brands *(Exhibit 6).* This openness is demonstrated by the rapid success of new products in categories like low-fat ice cream, and high-protein yogurt that market themselves effectively, often leading with health-driven attributes. While consumers' openness to trying new brands and products creates opportunities, successful brands must also be conscious of the challenges of sustaining new success. Brands must constantly monitor and adapt to consumers' shifting tastes to meet the needs of the dairy consumer and stay ahead of competition.

Exhibit 6

Dairy consumers are open to trying or switching to new brands



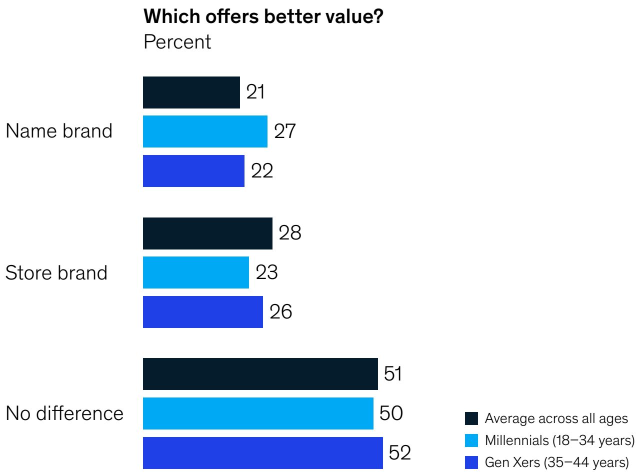
Source: McKinsey Dairy Consumer Survey, 2018 (n=1,139; age group 18-34 n=257)

Most consumers do not perceive any difference in value between generic and name brand products in dairy *(Exhibit 7)*. However, there is a distinct shift towards private-label store brands across all age groups. Name-brand growth, while smaller, is fueled by millennial consumers *(Exhibit 8)*.

Major dairy companies will need to find ways to take part in this growth by deepening partnerships and brand offerings through private-label products as well as focusing on more innovation in name-brand products.

Exhibit 7

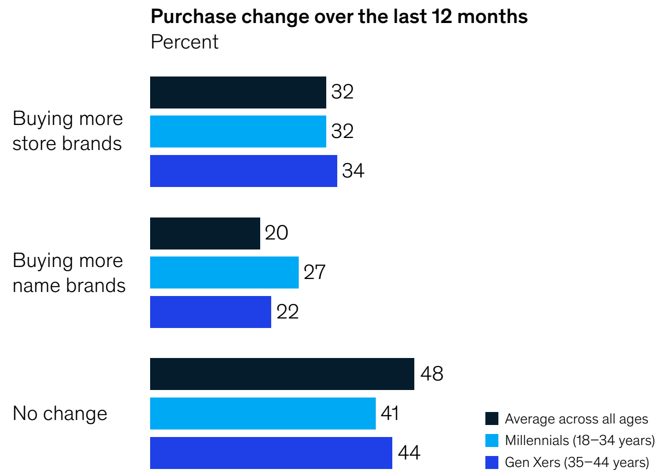
Value between name-brand and store-brand dairy products is largely indiscernible



Source: McKinsey Dairy Consumer Survey, 2018 (n=1,139)

Exhibit 8

Private label brands continue to grow, with millennials being most open to premium brands



Source: McKinsey Dairy Consumer Survey, 2018 (n=1,139)

4. Plant-based dairy alternatives continue to grow

Non-dairy alternatives are growing in popularity. Sixty-two percent of dairy consumers indicated that they have purchased non-dairy alternatives in the past 12 months. Of those consumers, 41 percent state that the main factor for selecting a non-dairy product was the perception that it was healthier *(Exhibit 9).*

This health perception is particularly apparent when consumers consider the source of fat in their food. Forty-five percent of consumers view animal fat as "very unhealthy" or "somewhat unhealthy" compared with 10 percent for plant-based fat *(Exhibit 10)*. There is a similar though less pronounced difference regarding protein. Fifty-seven percent of dairy consumers consider protein-based plant and animal products as "very healthy" or "somewhat healthy" compared with 30 percent of consumers who think the same for fat-based plant and animal products.

For consumers who are not interested in trying non-dairy products, the main reasons they cite are taste, cost, and a desire to support dairy agriculture.

These findings suggest that dairy companies and retailers can defend against non-dairy alternatives by focusing on communicating these factors, particularly the health benefits of dairy, as compelling reasons to purchase dairy products.

Exhibit 9

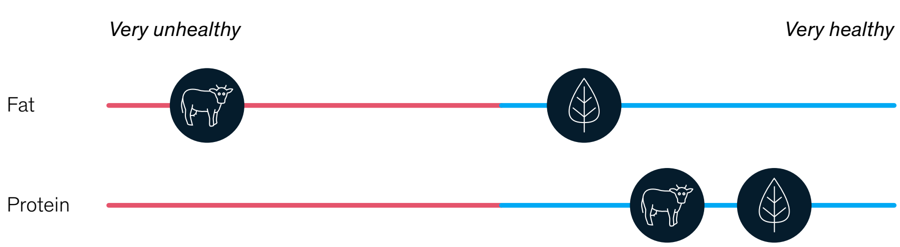
Curiosity and concerns over health and environmental impact influence non-dairy purchases

Source: McKinsey Dairy Consumer Survey, 2018 (n=1,139)

Exhibit 10

Consumers view plant-based foods as healthier than dairy, particularly in terms of fat and protein

What do consumers think is healthy?



Source: McKinsey Dairy Consumer Survey, 2018 (n=1,139)

5. Channel and value preferences vary by age

Consumers in different age groups have distinct differences in how they purchase dairy *(Exhibit 11)*. Regional and national grocery store chains are the largest channel across all age groups. However, the millennial segment is almost twice as likely to purchase in “natural” premium grocery stores such as Whole Foods and Trader Joe’s than consumers over 35 years old, who tend to favor traditional as well as discount grocery stores. This pattern aligns with the increasing role that health perceptions play in food consumption, particularly among millennials.

A new channel for dairy purchases is online, led again by young consumers: 18 percent of 18-to-34-year-olds state that they mainly buy dairy products online compared with just 4 percent of 55-to-64-year-olds.

Exhibit 11

Millennial dairy consumers increasingly buy from premium grocers and online

Percent who mostly used each channel, by age group

Note: Figures for store type include top five store types only. Online channel question figures from a separate question: “Do you mostly buy online or in-store?”
Source: McKinsey Dairy Consumer Survey, 2018 (n=1,139)

The value perception of name versus private-label brands also varies with age, with millennial consumers more likely to feel that name brands offer better value than store brands.

To account for these differences, dairy companies and retailers must strive to identify and serve the channel preferences and value-based needs of different consumer segments. Growth can be achieved with the right value proposition and targeting.

* * *

Given the shifting consumer perceptions and trends highlighted in the US dairy survey, dairy companies and retailers need to develop strategies that will allow them to defend against competition while seizing new growth opportunities.

— **Targeted segmentation** of the dairy consumer market is critical, given the variety and sophistication of consumer preferences for dairy. Growth can be captured by communicating the benefits of dairy products in the right way, to the right consumer, and through the right channel.

— **Innovation agility** through fast product launches supported by an agile supply chain is an important part of successful strategies. Dairy companies can find pockets of growth by identifying trends early and launching new brands and packaging options to match consumer perception.

— **Data and insights** on shopper and usage behavior, consumer segmentation, value promoters, and e-commerce experience will bolster existing brands and help new launches be more successful. This visibility is especially relevant as more dairy purchases are made online.

About the authors

Christina Adams is an associate partner in McKinsey's New York office.

Katie Schnitzlein is an engagement manager in McKinsey's Minneapolis office.

Roberto Uchoa de Paula is a senior partner in McKinsey's Chicago office.

Isabella T M Vasconcellos is an engagement manager in McKinsey's New Jersey office.

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Appendix – What is the US dairy consumer survey?

The US dairy consumer survey was conducted in December 2018 on a sample of 1,139 US-based consumers of dairy products. Respondents were equally distributed among light and heavy dairy consumers. Light dairy consumers are ones who purchase dairy products in their intermediary form (for example, cheese pizza), while heavy dairy consumers are ones that buy dairy products in their end form (for example, milk, cheese).

The sample survey comprises 80 percent women and 20 percent men and covers adults 18 years of age and older.

The survey offers an in-depth understanding of consumer dairy purchases and perception that can be analyzed across various consumer demographic attributes: gender, age group, income level, ethnicity, education level, location (census division, census region, urbanicity), and family (household size, marital status, children).

Additional reading from McKinsey & Company

A winning growth formula for dairy, McKinsey & Company, March 2019

The evolving perspectives and strategies of dairy executives, McKinsey & Company, June 2019

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