



NEWS RELEASE

Milk Alternatives Gain Ground, Hasten Change in Dairy Industry

Niche dairy products adapt to changing consumer preferences, but complicate costs and logistics

DENVER (June 19, 2018)—As consumers increasingly seek beverages made from soy, almonds, coconuts and rice—even peas and oats—the dairy industry is responding with niche products of its own. But more changes are ahead as the traditional gallon-jug milk business struggles to compete with plant-based competition.

A new report from CoBank's Knowledge Exchange Division predicts continued double-digit growth in the plant-based milk alternatives market. Sales are up 61 percent over the past five years, with slower growth of 15 to 25 percent projected by 2022. Meanwhile, cow's milk consumption continues a decades-long slump.

"The total volume of the alternative milk market is still relatively small and is not a major factor behind declining fluid milk sales," said Ben Laine, CoBank senior dairy economist. "However, plant-based milks are helping revolutionize how the dairy industry does business. Excitement around plant-based milk alternatives has forced traditional milk to differentiate into a number of premium products in order to compete."

Premium products buck trends

Laine cites organic, grass-fed, ultra-filtered, lactose-free and a2 milk as niche products that buck the downward milk consumption trend. These products command a higher price and compete more directly with plant-based alternatives. "Certain value-added dairy milk products will experience growth alongside plant-based beverages," Laine said.

Most consumers who buy alternatives are not completely abandoning milk. "Nine in ten households that purchase plant-based alternatives also buy cow's milk," said Laine. "And, among those purchasing both, their cow's milk choice is more likely to be organic or from the premium tier of milk products. That opens up opportunity for the dairy industry."

If you can't beat them, join them

Some traditional dairy companies are adding plant-based alternatives to their portfolios. Even Dean Foods, the largest milk bottler in the United States, recently invested in Good Karma Foods, a plant-based milk and yogurt company. An extreme example, Elmhurst Dairy in New York City, stopped producing cow's milk altogether in 2016 and pivoted to nut-based alternatives.

Rising supply chain and marketing costs

Dairy case differentiation brings complications. Managing diversified product lines adds logistical challenges to an industry accustomed to a commodity product structure. For example, adding a grass-fed option to an organic milk portfolio requires separate handling all the way from farm to milk truck to bottling plant and onto retail shelves.

Marketing costs are also increasing in the form of slotting fees. As plant-based beverages enter the dairy case, many grocers are increasing slotting fees for this now-valuable real estate, altering the cost structure of the traditional low-margin gallon milk jug business.

“Traditional milk bottlers have focused on keeping costs low and have avoided raising prices, hoping to slow the trend of declining demand,” said Laine. “New cow’s milk offerings will challenge the efficiencies of traditional large-scale supply chains handling smaller volumes of a wider variety of more specialized products.”

For a brief video synopsis of “Plant-Based Milk Alternatives: Driving Change in the Dairy Industry” click [here](#). The full report is available at CoBank.com.

About CoBank

CoBank is a \$133 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 70,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture, rural infrastructure and rural communities. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's website at cobank.com.

Contact

Jo Solonika
Vice President, Corporate Communications
303-583-9180
jsolonika@cobank.com

Dave Harding
Charleston|Orwig
262-563-5075
dharding@charlestonorwig.com