NIQ

From Trend to Tumble

Lactose Free Dairy Milk is Back in the Spotlight, Stealing the Show from Struggling Plant-Based Alternatives

"*Lactose Free Dairy Milk is driving the Lactose Sensitive Milk segment, surpassing non-dairy alternatives that rode the wave of the plant-based protein craze. Lactose Free Diary Milk has unseated Almond Milk as the reigning leader despite higher prices and steeper price increases.* ***Consumers are making a bold statement – they are choosing Lactose Free Dairy Milk for reasons beyond price****. The message is clear: manufacturers must seize this opportunity to recapture lost market share from Plant-Based Milk.*"

- Chris Costagli, Vice President, NIQ

Lactose Free Dairy Milk is well-positioned to recapture market share

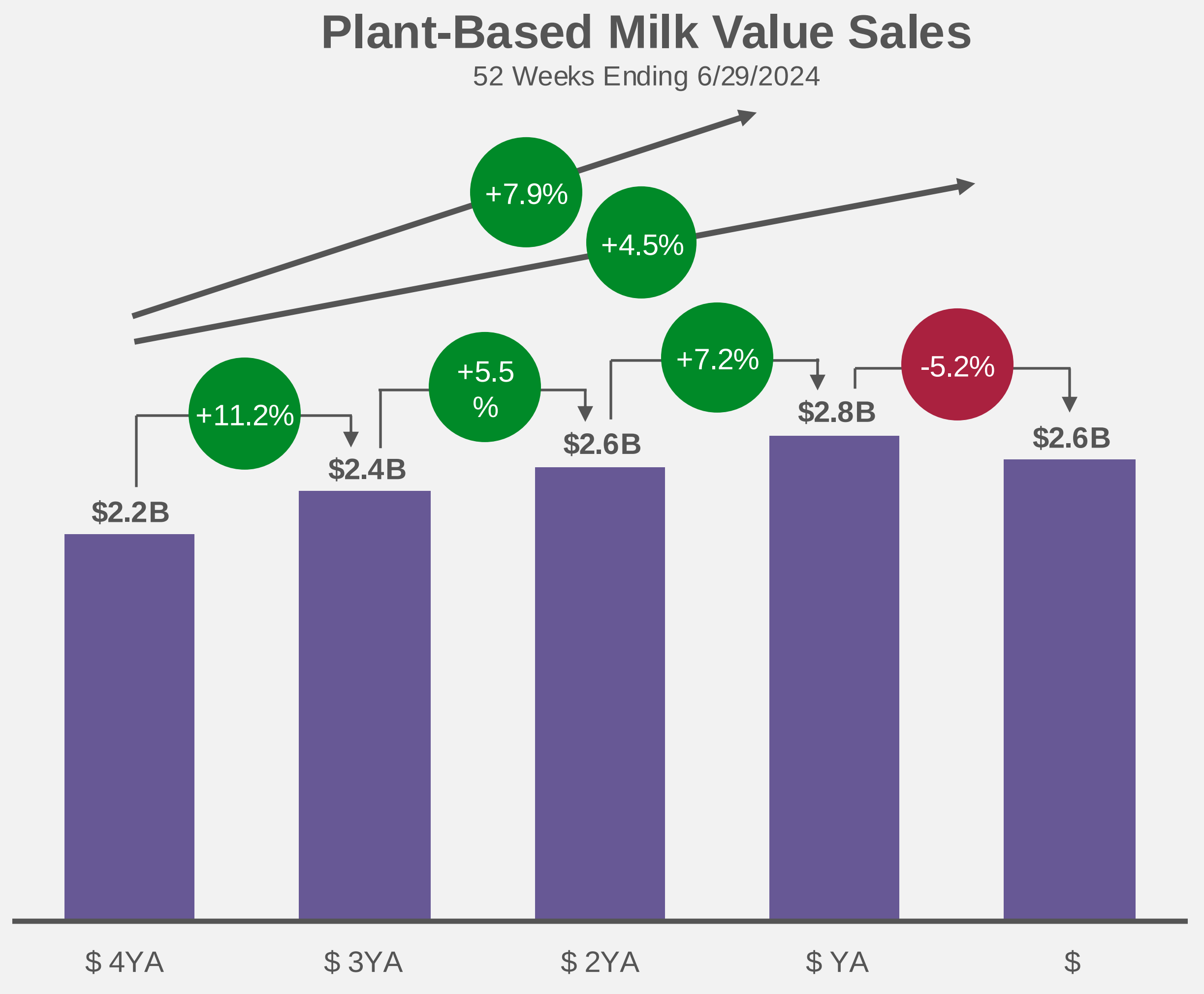
- Shifting priorities
- Growing demand
- Strong substitutability

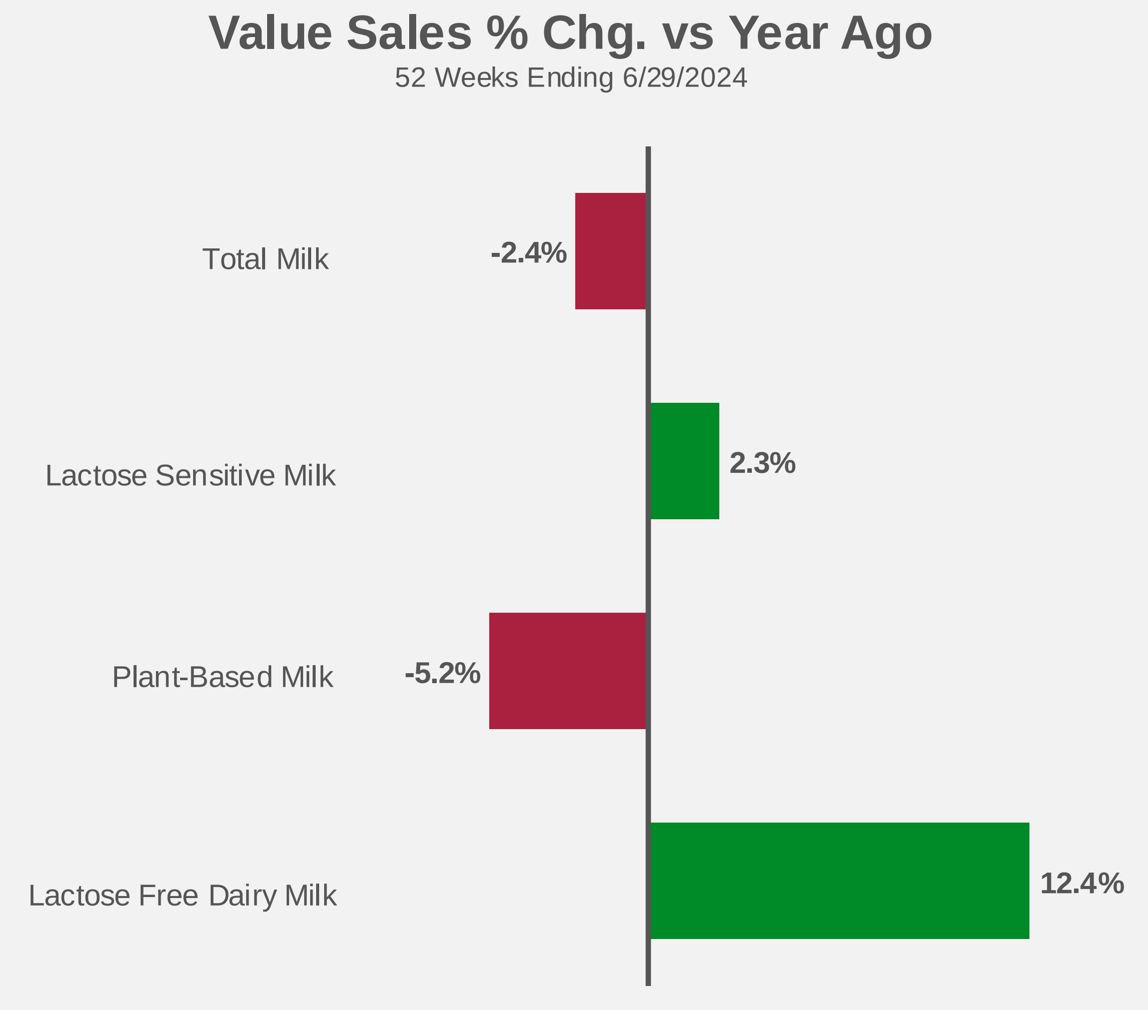
To win, focus on these three areas

- Innovation & renovation — Right product
- Targeted marketing — Right message
- Retail strategy optimization — Right support

Trendy Plant Protein fell for the first time, down -5.2%; MFRs have an opportunity to seize

The Plant Protein craze that fueled year-over-year growth for Plant-Based Milk may be over. Full Lactose Dairy Milk emerged with +12.4% growth. Manufacturers should seize this opportunity to recapture lost market share from Plant-Based Milk.





Source: NielsenIQ Retail Measurement | US NIQ Total Store Excluding Fresh - 444 - Monthly (Synd) | Entire Dataset | 52 Weeks Ending 06/29/2024 | Total US xAOC

Shifting priorities, growing demand, and product substitutability drove Lactose Free Dairy Milk

Situation:	Lactose Free Dairy Milk sales grew +12.4% over the past year and exclusively drove Lactose Sensitive Milk growth
Question:	What drove Lactose Free Dairy Milk performance? What should manufacturers be doing to capture sales and share from Plant-Based Milk?
Takeaway:	Lactose Free Dairy Milk delivered total value to consumers that justified purchasing despite its price.

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What happened…

Consumer priorities shifted

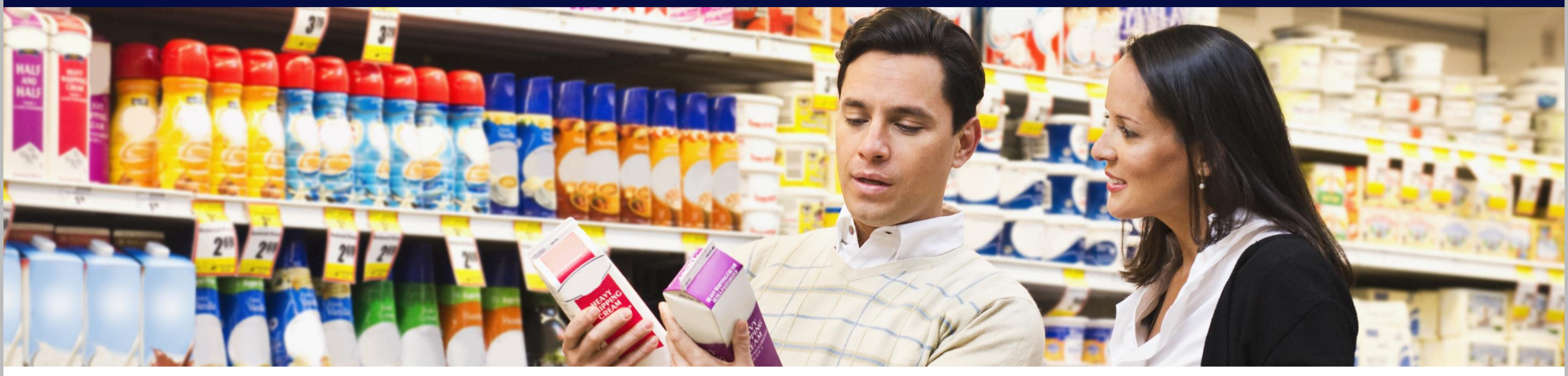
- **Total Milk contracted:** Sales fell -2.4% due to lost Full Lactose Milk sales; Lactose Sensitive Milk grew +2.3% and was a growth pocket in this declining category
- **Lactose Free Dairy Milk accelerated:** Sales grew +12.4% and drove Lactose Sensitive Milk growth; Plant-Based Milk sales tumbled -5.2%
- **Almond Milk was unseated:** Lactose Free Dairy Milk share reached 46.7%, +7.9 points since 2020; Almond Milk, Oat Milk, and Blends together lost >$150M in sales
- **Price gap widened:** Lactose Free Dairy Milk was +3.7% more expensive than Plant-Based Milk and increased its price +4.9% more; price gap widened +16.7%

Consumer demand grew

- **Stronger sales rate fueled growth:** Stronger Lactose Free Dairy Milk velocity drove >99% of growth; Dollar and Mass channels reported double-digit dollar and unit growth
- **Penetration and buy rate fueled growth:** One-in-three households bought Lactose Free Dairy Milk, +0.8 pts. since last year; buy rate grew +8.0% due to more frequent & larger trips
- **Existing buyers fueled growth:** 58.1% of Lactose Free Dairy Milk growth came from existing buyers; they made +5.8% more trips and spent +5.0% more on each one
- **Asian/Pacific Islanders and Hispanics were Lactose Sensitive Milk buyers:** Plant-Based Milk engaged millennial, higher-income, and Western U.S. households more effectively
- **New buyers fueled growth:** Lactose Free Dairy Milk replaced lost buyers with more valuable new buyers that drove 17.8% of growth

Substitutability enabled switching

- **Switching within Lactose Sensitive Milk fueled growth:** 16.0% of Lactose Free Dairy Milk growth resulted from switching; Almond Milk transferred the most with below-average interaction; Coconut Milk, Oat Milk, and Blends transferred sales with above to significantly above-average interaction



MRFs should focus efforts on having the right products, right message, and strong support

Executive Summary

These trends mean Lactose Free Dairy Milk…

- **Won** due to growing preference for simplicity, transparency, health benefits, nutrition, and experience
- **Missed opportunity** with Almond Milk buyers due to products that do not resonate
- **Missed opportunity** with millennial, higher-income, and Western U.S. HHs due to products misaligned with needs

- **Won** due to perceived value that justifies price
- **Won** due to conversion of Coconut Milk, Oat Milk, and Blend buyers with existing portfolio/strategy
- **Won** due to stronger engagement with existing buyers and first-time engagement valuable new buyers
- **Missed opportunity** with Almond Milk, millennial, higher-income, & Western HHs due to low activation

- **Won** due to stronger demand, especially in Dollar and Mass where facings and assortment are limited
- **Won** due to Asian/Pacific Islander, Hispanic, and Eastern U.S. household engagement

To win, manufacturers should focus on…

Having the right product by innovating and renovating

- Innovate with new functional benefits beyond protein and calcium, emphasize ingredient transparency/familiarity, expand protein per serving, delivery luxurious taste and texture
- Innovate with Almond Milk buyers in mind, new items must resonate with their needs
- Attract millennial, higher-income, and Western U.S. HHs with new flavors, functional benefits, and packaging that deliver the premium experiences they are seeking

Having the right message with targeted marketing campaigns

- Build marketing around high-value LFDM benefits including ingredient simplicity, transparency, protein per serving, superior performance, and digestive ease
- Target Coconut Milk, Oat Milk and Blend buyers with marketing and incentives to drive awareness of existing LFDM items, encourage trial, and promote switching behavior
- Protect existing buyer engagement by marketing expanded usage occasions; build new buyer engagement by marketing need state satisfaction to existing LDFM items
- Target Almond Milk, millennial, higher-income, and Western HHs with marketing to boost awareness, educate about LFDM, and encourage trial with incentives

Having the right support by optimizing retail strategies

- Secure incremental facings and strengthen assortment to support growing demand by identifying duplicative and unproductive Plant-Based Milk SKUs for rationalization
- Optimize on-shelf visibility, use targeted signage, and in-store activation especially in high-population areas of Asian/Pacific Islanders, Hispanics, and Eastern households