Key facts about organic dairy farming

- No system of farming has milk with higher levels of nutrients
- No system of farming has milk with higher levels of omega 3 fatty acids
- No system of farming has lower pesticide use
- No system of farming has higher wildlife benefits
- No system of farming does more to protect natural resources like fresh water and healthy soils
- No system of farming has lower use of antibiotics
- Animals are reared without the routine use of drugs, antibiotics or wormers, and animal feed is GM-free
Introduction

Welcome to the updated OMSCo Organic Milk Market Report. The report offers a detailed review of the current trends in the UK organic milk market and the outlook for the future, including the performance of domestic consumer sales, the role of export, and a projection of overall supply and demand in both the short and medium term.

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Source for all data, unless otherwise stated is: Nielsen Scantrack, 52 weeks ending 13.09.2014
The global organic dairy market is valued at $7.7 billion, representing 11% of the total global organic food and drinks market.

Europe is the world’s largest organic dairy market and continues to show strong growth. Until recently, growth in the overall UK market for organic food has – for a number of years – lagged behind that of the other major organic markets, including continental Europe, the US and Australasia. In 2013, organic dairy value growth in the UK increased by 9.8%, although volume remained largely flat.

The UK is the world’s second largest organic dairy market. Within the UK organic dairy market, the liquid milk category is the largest, accounting for around half of all organic milk demand. Organic liquid milk is the second largest premium sector within the overall UK retail milk market. The yogurt and cheese categories account for around one third of total organic milk demand, with the balance being exported in various forms.

Household penetration of organic milk has increased by 10% to almost 1 in 4 UK households during the past 12 months.

The organic milk sector has successfully attracted new consumers over the past year. This, in an environment where organic milk was harder to find in store and where the retail price premium was increasing rapidly, is particularly impressive.

Organic milk was a leading contributor to value growth in UK milk sales in the past year, despite losing retail distribution worth £5.2 million.

The sector experienced 6.4% value growth compared to a decline of 1.6% in the standard cow’s milk sector and a decline of 1.4% for the overall milk category. This growth equated to a £9 million injection into overall category revenue, helping to offset an over £40 million loss in the standard cow’s milk sector. Only the dairy alternatives sector contributed more than organic (£12.2 million), facilitated by an increase in retail distribution (generating £1.7 million incremental sales), new product launches and significant branded investment.

The key attributes of organic milk have broad appeal, which extends well beyond the current consumer base. The attributes are also in line with many mainstream consumer insights and current trends – for example, an increased focus on issues such as health, animal welfare, GM and the environment.

Whilst the organic liquid milk market is dominated by private label, branded products represent 27% of sales, and are growing at a faster rate.

The leading brand, Yeo Valley, has performed ahead of the sector’s average growth rate, recording a 13.2% increase in value sales, versus 4.5% for private label. Relative to other growth sectors, organic is dominated by private label. By contrast, the dairy alternatives sector is 86% brand sales. A significant branded presence with the associated marketing, innovation and category management support are important factors in healthy sector performance.

In volume terms, sales of organic liquid milk increased marginally, by 0.3% year on year versus a value growth of 6.4%. This is illustrative of the rapid increase in average retail price during the year.

This marginal volume growth is unsurprising, considering the number of negative trends in the retail environment for organic liquid milk. Aside from rapid price inflation, retail distribution has continued to be cut, promotional programs have been scaled back and the organic shelf premium has risen due to a fall in the shelf price of conventional milk.
Despite all these factors, last year organic was the only sector of the six retail milk sectors to record an increase in rate of sale per weighted distribution point (or per average sized store).

This measure reflects the like-for-like sales performance and therefore true demand, removing the impact of promotion and distribution changes.

UK retailers have an opportunity to capitalise on the underlying strength in the organic milk sector to increase their overall dairy category returns.

Organic represents the primary trade-up opportunity at a time when significant price deflation is impacting retailer returns from the overall milk fixture.

Simple steps, including a reversal in the trend towards lower distribution, range and space will translate into higher sales, alongside communication reinforcing the benefits of organic.

Undoubtedly, the current price war on conventional milk and falling prices, will limit the rate of trade-up to organic; 40% of non-buyers stated they haven’t bought organic milk in the last year because it has become too expensive. (Source: Mintel, uSamp 500 regular purchasers and 502 occasional purchasers, UK Internet purchasers aged 18+).

However, 30% of these non-buyers have, over the same period purchased other organic categories and therefore increasing promotional support to partly offset the widening premium for organic milk as well as reinforcing its key benefits, particularly at point of sale, will stimulate the trade-up process.

McDonalds and Pret a Manger are amongst the few notable users of organic milk and dairy products in the foodservice sector.

There is also a notable opportunity for organic milk in the foodservice market, where sales are under-represented. In recent years a number of large foodservice chains have adopted organic milk, which has boosted sales in a sector which uses large amounts of dairy products.

In contrast to many countries, where minimum volume requirements are in place for the purchase of organic food by Government, organic milk and dairy products are largely absent in the public sector in the UK.

Progress on expanding sales in recent years has been disappointing. The notable exception to this is the sourcing carried out via The Soil Association’s Food for Life Catering Mark in schools and hospitals and it is hoped this will result in a gradual building of organic sales in the public sector over time.

In terms of export opportunities, demand for organic milk exports has continued to move across from the export of raw milk to specialist product opportunities, such as milk powders, over the last 12 months. This is a trend expected to continue.

The outlook for demand growth is largely dependent on UK retailer strategies and whether they decide to leverage the underlying consumer trend towards organic.

The underlying trend in UK organic milk sales is positive and the market is capable of faster volume growth than the 0.3% shown for the latest 12 months. This static volume performance masks a notable contrast between the own label liquid market and the branded and specialist sectors. There has been strong volume growth in branded organic liquid milk sales (+6.3% year-on-year), despite distribution cuts, a rising shelf premium and lower promotional focus, and additionally, there is a growing export market for high value organic products and specialist ingredients. Combined, these two outlets are using an increasing proportion of the UK’s organic milk supply.

In contrast, volume in the own label organic liquid milk market has declined (-1.5% year-on-year) again driven by distribution cuts, rising shelf premiums and lower promotional support.

UK supply and demand is currently in balance, and there is little scope for new suppliers to enter the market, whilst own label organic milk is in decline.

The contrasting fortunes of the different parts of the organic milk market mean overall demand for raw milk is expected to grow, only slowly. Whilst volume sales of branded organic milk are growing strongly, as are sales for high value and specialist organic dairy products, own label liquid milk is in decline and therefore overall demand for raw milk is expected to increase only marginally. This increase will be covered by natural expansion of existing organic producers; therefore there will be little scope for new organic producers to enter the market in the coming year.

+6.3% increase in branded organic liquid milk sales (+6.3% year-on-year).
Market demand

Global organic food & drink market
- Global organic dairy market
- UK organic dairy market
- Spotlight on organic milk
- Future of the UK milk market and organic

Organic milk: foodservice & consumer insights
Global organic food & drink market

The global market for organic food and drink continues to grow and was valued at £45 billion in 2013 (Source: Mintel). Combined, North America and Europe account for 88% of global organic food and drink sales.

NORTH AMERICA

The North American market is the largest organic market. Organic food and drink sales in this region reached £21.1 billion in 2013 (47% of the global organic market) and represented 4% of the region’s total food and drink sales.

Concerns surrounding genetically modified crops in North America have precipitated recent growth in organic. Support for such products is highlighted by GMO Free being the fastest growing label claim in North America in recent years (see Figure 1).

FIGURE 1: Food and drink activity with non-GMO claim, North America, June 2010-June 2014

REST OF THE WORLD

The Asian organic market is growing at a steady rate, as increased awareness of organic production methods stimulate demand. Japan is the largest market in Asia followed by China and Korea (Source: Soil Association).

EUROPE

Europe is the second largest market for organic food and drink, valued at £18.3 billion in 2013 and accounting for 41% of the global organic market. It has shown consistent growth since 2004.

Organic dairy represents approximately 11% of total global organic food and drink sales. It was valued at £4.8 billion in 2013, recording a moderate growth rate of 3.7% CAGR (Compound Annual Growth Rate) from 2007-2013.

Growth during this period was hampered by the global economic recession, but over the past year has picked up with growth from 2012-2013 of 6.2%. Demand is once again concentrated in North America and Europe, which together account for 90% of total expenditure.

FIGURE 2: Global organic dairy market value 2007-13 (US $ millions)

By geographic region, Europe is the largest market for organic dairy products, worth an estimated £2.4 billion in 2013 and over-indexing compared to Europe’s total share of organic food and drink. Organic dairy’s strong performance in Europe has been driven by value growth in all its key markets. Some 68% of global new product development (NPD) activity within the category occurred within the European market (see Figure 4).

FIGURE 3: Global organic dairy market, by region (2013)

FIGURE 4: Total organic dairy NPD activity, by region, June 2013-June 2014

Source: Promar Estimates, Datamonitor

The global organic dairy market

Organic dairy represents approximately 11% of total global organic food and drink sales. It was valued at £4.8 billion in 2013, recording a moderate growth rate of 3.7% CAGR (Compound Annual Growth Rate) from 2007-2013.

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FIGURE 3: Global organic dairy market, by region (2013)

FIGURE 4: Total organic dairy NPD activity, by region, June 2013-June 2014

Source: Promar Estimates, Datamonitor
North America is the second biggest region accounting for 40% of global organic dairy sales and was valued at £1.9 billion in 2013. The market for organic dairy outside these two key areas is worth £483 million; accounting for 10% of the global market and growing strongly from this relatively small base (see Table 1). The significant growth in market share from the rest of the world reflects changing global consumer demand patterns for both dairy and organic dairy products.

By Country

The US market is by far the single biggest organic dairy market and grew 4% during 2012-13. In the US, organic dairy has a 5.9% share of total dairy with limited supply now the key factor hindering further growth.

The US organic dairy market is three times the size of the UK market, the second biggest global organic dairy player. France and Germany are similar in size to the UK and are worth £510 million and £480 million respectively. These three European countries account for two thirds of Europe’s organic dairy sales and one third of the global organic dairy market.

The US and UK recorded the lowest value growth rates between 2007 and 2012, but both countries have responded strongly with the improving economic outlook, as can be seen in Figure 6. The UK recorded a particularly strong performance in 2012-13, driven primarily by the yogurt sector.

Table 1: Global organic dairy market compound annual growth rates (CAGR), by region

<table>
<thead>
<tr>
<th>Region</th>
<th>CAGR (07-12)</th>
<th>Growth year-on-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.7%</td>
<td>6.2</td>
</tr>
<tr>
<td>North America</td>
<td>3.3%</td>
<td>3.7</td>
</tr>
<tr>
<td>Europe (incl. Scandinavia)</td>
<td>5.3%</td>
<td>3.9</td>
</tr>
<tr>
<td>Rest of the World</td>
<td>16.9%</td>
<td>34.1</td>
</tr>
</tbody>
</table>

Source: Promar Estimates, Datamonitor

The Organic Milk Market is a report by OMSCo that provides insights into the global organic dairy market.
Over the same five-year period, most large organic markets have posted solid long-term growth rates, and many benefit from strong Governmental support for their organic sectors. Many European countries have organic sourcing policies for a proportion of public procurement. France, for example – a well-established organic market – grew by 12% CAGR during the five-year period, supported by the French Government’s support of the organic sector as a key part of its sustainable agricultural policy. In fact, of the major European organic markets, the UK has had the least policy backing for organic, despite its positive contribution to many areas of Government policy, not least the disproportionate balance of payments’ impact of the organic agricultural sector.

Looking at market penetration (Figure 7), Denmark sets the benchmark for mainstream organic appeal. Danish organic dairy has the highest penetration in Europe, accounting for approximately 24% of all dairy products consumed. In addition, organic milk accounts for one third of total milk consumption. Growth drivers have included substantial government backing and organic’s juxtaposition with a highly intensive, zero-grazed conventional dairy sector.

A further five countries have organic shares above 5% including the two largest organic dairy markets in the world, and the majority of major western economies are featured in the top 12 markets by size.

Whilst penetration of organic dairy products is currently low in China, Russia and India, the substantial relative sizes of these dairy markets should not be overlooked and although immature markets currently, they are experiencing strong growth.

**FIGURE 7: Penetration rate, organic dairy as percentage of total dairy (based on value sales)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>24.0%</td>
</tr>
<tr>
<td>Sweden</td>
<td>12.2%</td>
</tr>
<tr>
<td>UK</td>
<td>7.5%</td>
</tr>
<tr>
<td>Belgium</td>
<td>7.1%</td>
</tr>
<tr>
<td>US</td>
<td>5.9%</td>
</tr>
<tr>
<td>Canada</td>
<td>5.6%</td>
</tr>
<tr>
<td>France</td>
<td>4.5%</td>
</tr>
<tr>
<td>Germany</td>
<td>4.5%</td>
</tr>
<tr>
<td>Australia</td>
<td>4.5%</td>
</tr>
<tr>
<td>Finland</td>
<td>2.8%</td>
</tr>
<tr>
<td>Norway</td>
<td>2.6%</td>
</tr>
<tr>
<td>Italy</td>
<td>2.4%</td>
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<tr>
<td>Mexico</td>
<td>2.3%</td>
</tr>
<tr>
<td>Korea</td>
<td>1.9%</td>
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<tr>
<td>Greece</td>
<td></td>
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<td>Spain</td>
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<tr>
<td>Brazil</td>
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<td>Portugal</td>
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<tr>
<td>China</td>
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<td>Russia</td>
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<td>India</td>
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</tbody>
</table>

Source: Promar Estimates, Datamonitor

**GLOBAL ORGANIC DAIRY MARKET OUTLOOK**

Whilst continued growth is likely, at around +6% per year, there are some significant headwinds that remain in key markets, for example:

- Slowing economic performance in key Eurozone markets, such as France and Germany
- Steady reduction in the organic premium as some markets mature
- Competition from new organic products and increased presence of ‘single attribute’ products with a similar consumer perception (e.g. in the US there has been significant growth in ‘natural’ product claims, sometimes based on dubious foundations)
- Markets in strong growth are likely to suck in imports, for which the obvious source is New Zealand and some parts of Europe where organic milk supply is less tight
- Certain world markets are likely to be growth-constrained through availability, particularly the US, which has significant barriers to entry

**FIGURE 8: Global organic dairy market value projections, 2013-18 (US $ millions)**
Total organic dairy has grown 8.4% versus total organic market growth of 2% over the past year. This has been driven by the strong performance of organic yogurt and milk. Both these sectors have outperformed their non-organic equivalents.

**TABLE 2: Category value**

<table>
<thead>
<tr>
<th>Category</th>
<th>Organic market value (£m)</th>
<th>Growth year-on-year (YOY)</th>
<th>Conventional market growth (YOY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk*</td>
<td>£152m</td>
<td>5.7%</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Cheese</td>
<td>£24m</td>
<td>-2.7%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Yoghurts</td>
<td>£142m</td>
<td>14.2%</td>
<td>-2.5%</td>
</tr>
</tbody>
</table>

Source: Soil Association, data to 13.09.14

Over the last year, the performance of organic, and in particular organic dairy, has been boosted by media coverage of associated health benefits, namely the Newcastle University research released in July demonstrating clear nutritional differences between organic versus non-organic crops, and adding to the already substantial existing body of scientific evidence.

For shoppers turning to organic for the first time, dairy represents a relatively cheap entry-point and is the focus of this report. But first, we will take a brief look at the other key sectors: organic yogurt and organic cheese.

**FIGURE 9: Category value share, grocery multiples**

Source: Soil Association, data to 13.09.14

Milk is the biggest organic dairy sector in the UK and the focus of this report. But first, we will take a brief look at the other key sectors: organic yogurt and organic cheese.

**KEY SECTOR SNAPSHOT: YOGURT**

Yogurt is the second largest sub-category after organic milk with a current retail market value of £142 million (Source: Soil Association, Grocery Multiples). Organic yogurt has shown the highest value growth within the past year. This was due in the main part to strong branded performance, driven by the use of key category behavior, such as deep feature-led promotions, advertising investment, significant new product launches and pricing, which is almost at parity with branded non-organic yogurt.

**FIGURE 10: Organic value share and growth rate of total dairy category and sub-categories**

Source: Soil Association, OMSCo research

**KEY SECTOR SNAPSHOT: CHEESE**

Unlike the other organic dairy sub-categories, cheese has struggled to improve its market position within the last year. With sales of £24 million, it is by far the smallest sector within organic dairy and is in decline 2.7% year-on-year.

The overall cheese category is categorised by deep deals and frequent promotions, and organic cheeses tend not to have the scale to secure the large feature, awareness driving retailer promotional slots, in a sector where the proportion of volume sold on deal is high. As a result, only a small proportion of their total volume is sold on promotion, compared to conventional cheese.
Looking at sub-sector performance within the milk market, organic together with dairy alternatives and non-cow’s milk are the only three sub-sectors to have experienced value growth over the past year, propping up the total milk category.

**FIGURE 11: Total milk category value, by sector, UK, September 2014**

- Added value: 0.1%
- Non-cow: 0.8%
- Dairy alternatives: 1.8%
- Organic (cow’s milk): 4.8%
- Filtered: 5.6%
- Standard milk: 86.9%

Source: Nielsen Scantrack Total Coverage, 52 weeks ending 13.09.2014

**FIGURE 12: Value growth, by key sector, UK, 2014**

Source: Nielsen Scantrack, Total Coverage, 13.09.14. Key sectors only

**Filtered milk** is the second biggest sector, valued at £177 million. It has suffered one of the most significant declines in the category over the past year, down 10.2% year-on-year. Consumers fell out of the market with penetration falling 12% and distribution losses equating to £9.3 million. Private label was the main casualty, but since the price war on conventional milk began in March 2014 – with the price for four pints of conventional milk in Tesco and Sainsbury’s falling 40% to £1 – the Cravendale brand (87% value share of filtered sub-sector) has been directly affected.

The **dairy alternatives sector** is valued at just under £60 million and has been the non-dairy success story of the milk category. One in 10 households has purchased dairy alternatives in the past year and this has grown by nearly 24% year-on-year. The growing consumer trend away from dairy in order to reduce allergies and lower cholesterol has gained momentum, and the sector’s high concentration of branded players has taken full advantage. Contributing factors to the sector’s success are its roots in and leverage of a real and relevant consumer insight, high concentration of active brands (retailer own label accounts for just 14% of sales), constant stream of new product launches, premium pricing, increased promotional support, significant advertising investment (the sector has accounted for 30% of total milk advertising over the past three years), and significant retailer backing as a result of the investment levels and premiums. Retailers increased the sector’s distribution by 16% over the past year, but perhaps a little too fast as sales per distribution point are down slightly. Other than Cravendale, it has however been
Spotlight on organic milk

Total organic milk retail sales are valued at £151.3 million (see Figure 13) making it the third largest sector overall and the second largest premium sector in the milk category.

FIGURE 13: Organic milk sector value and volume, total coverage 2011-2014

Organic milk grew ahead of the total milk category in value (6.4% vs. -1.4%) and volume (0.5% vs. -0.5%) sales.

Organic milk sales are highly concentrated with 96% of sales through the grocery multiples channel. Only 3% of sales go through the convenience sector, compared with 14% for the total milk category. This represents a key opportunity for organic milk and an imbalance that needs to be addressed given the growth projections for the small store / convenience sector as a whole: convenience is predicted to be the fastest growing grocery format over the next five years, as consumer buying patterns continue to move towards more frequent, top-up shops at smaller stores, closer to home.

FIGURE 14: Sales channel split, organic milk versus total category

Organic milk is typically not as well represented in convenience stores and often only one fat type and brand choice is available. However, given the higher growth rate of organic versus standard milk, the fact that now nearly one in four consumers buy organic milk and that milk is frequently an ‘essential’ purchase as part of a ‘top-up shop’, convenience retailers have the opportunity to trade-up consumers, as well improve the quality perception of their stores with a wider organic offering.

Within grocery multiples, organic milk is the second biggest contributor to the growth of the overall milk market, contributing £9 million to category sales, just behind the £12.2 million created by the dairy alternatives sector.
Of the six sectors within the overall milk category, retailers increased the distribution of three (dairy alternatives, non-cow and standard milk) at the expense of the other three (organic, filtered and added value). Notably, out of all these sectors, organic milk was the only one to record an increase in unit ROS per point of distribution, and therefore arguably the only sector deserving of an increase rather than decrease in distribution. Unit sales per point of distribution were up 4.8% for the sector over the past year (recent flattening due to price war on conventional) and therefore organic growth could have been significantly higher if distribution points had been maintained, or increased.

FIGURE 18: Chilled organic milk – base volume per point of WTD distribution – grocery multiples

Source: Nielsen ScanTrack data MAT to 13.09.14

2. Reduced promotional support

- Three percentage point (ppt) reduction in volume sold on promotion from 16% to 13%
- 50% reduction in promotional feature and therefore resulting in reduced shelf standout

3. Price inflation

- 5.7% increase in the average price (see Figure 19) driven by a 5.8% increase in the non-promotional price and 2.5% increase in the promotional price

4. Lack of traditional FMCG demand drivers

- Low advertising support: total advertising spend in the milk category, which averages £10 million per annum, is already low given the size of the market relative to other grocery categories, and is reflective of its commodity nature. In addition, spend on organic was down year-on-year at just £300k, delivering a Share of Voice (SOV) of just under 1% of its Share of Market (SOM). Compare this to the significant over-investment by the dairy alternatives sector to deliver similar overall absolute sector growth: dairy alternatives over £3 million to generate a SOV of 32% versus a SOM of 3.4%
- No innovation: nearly 100% of the sector growth was via existing products rather than new products. This is clearly different to how significant growth was achieved in other milk sectors.

FIGURE 19: Average selling price (ASP) sector trends

Source: Nielsen ScanTrack data 13.09.14

Over the past year, all retailers except Asda and Morrisons recorded an increase in their value sales of organic milk. The biggest shifts were at opposite ends of the retail market with Lidl and Aldi up 166% and 410% respectively, and Marks & Spencer and Waitrose up 31% and 12% respectively. The introduction of an organic offering into the discount channel is reflective of both the broadening of the discount customer base, as well as the broadening of the organic consumer base.

Source: Nielsen ScanTrack to 13.09.14

It’s important to note that the market performance of organic milk is understated in the top line growth statistics, given the number of negative factors which should have, in fact, led to much slower growth, if not a decline, being recorded.

1. Significant decrease in distribution – total distribution points down 2.9%

FIGURE 17: Distribution change, year-on-year (change in total distribution points)

Source: Nielsen Homescan, 52 weeks to 13.09.14

2. Reduced promotional support

- Three percentage point (ppt) reduction in volume sold on promotion from 16% to 13%
- 50% reduction in promotional feature and therefore resulting in reduced shelf standout

3. Price inflation

- 5.7% increase in the average price (see Figure 19) driven by a 5.8% increase in the non-promotional price and 2.5% increase in the promotional price

4. Lack of traditional FMCG demand drivers

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FIGURE 19: Average selling price (ASP) sector trends

Source: Nielsen ScanTrack data 13.09.14
WIDER RETAIL ENVIRONMENT

The online sales channel is predicted to continue to record strong growth over the coming years, due to the more affluent shopper profile, plus wider choice and availability. Organic over-indexes in this sector. For example, Ocado, with over 2,300 organic lines and representing 7% of total organic milk sales, has seen significant growth in its organic milk category. Its organic milk sales increased 11% within the past year and accounted for 37% of its overall milk category sales. Consumers trading up to organic milk from standard milk and an expanding customer base, with a 15% increase in new business, have driven this increase in organic milk value sales. (Source: Ocado interview 2014).

CONSUMER DIAGNOSTICS

Organic milk has successfully attracted new consumers and now nearly one in four people buy organic milk. Organic market household penetration grew by 10% to 23.5%, the second highest growth rate behind dairy alternatives.
Branded organic sales grew in volume by 5.3% and value by 9.1%. This was significantly ahead of private label performance on both counts.

**FIGURE 23: Brand versus private label growth, organic cow’s milk, UK, September 2014**

Source: Nielsen Scantrack 52 weeks ending 13.09.14

Indeed, overall organic brands have grown at an index of 174 to their market share of the organic sector:

- Branded organic: 11.8%
- Private label: -6.6%
- Total branded: 11.8%

FIGURE 24: Share of growth to sector value share

Source: Nielsen Scantrack, Total Coverage, MAT 13.09.14

Branded organic sales grew in volume by 5.3% and value by 9.1%. This was significantly ahead of private label performance on both counts.

**Effect of conventional price war on organic milk sales**

In the preceding six months to March 2014, the growth rate of organic milk was 8.7%. At the beginning of March 2014, the premium for four pints of organic milk increased from 40% to nearly 100% when retailers reduced the price of four pints of conventional milk to £1 and at the same time increased the average price per litre of organic milk. As a direct result, organic milk value sales declined by 5.4% in the six months following the price changes. The seasonal dip in sales per distribution point accounted for approximately half of this decline due to school holidays. Sub-sector distribution also continued to be cut in this period (-1.4%/25% of value sales decline), which in turn, exaggerated the effect of the price war. Therefore of the total 5.4% decline over the six-month period following the price war outbreak, it is estimated that only 1% was due to the price war, therefore suggesting a relative price inelasticity of organic sales.

To further highlight this, during the same period the loyalty of organic milk buyers, as defined by the percentage of their total milk expenditure spent on organic sales, has been strong. Indeed, organic milk buyers tended to switch from conventional to organic milk, rather than reducing the quantity of milk bought. Therefore it is estimated that only 1% of the decline in sales was due to this effect.

Looking forward, organic will benefit from the projected population growth of two of its key audiences – the over 45s and young children.

**FIGURE 25: Projected UK population growth, by age, 2013-18**

Source: Mintel/Office for National Statistics

So at the same intensity as before, suggesting that it is a well-established and valued part of their repertoire.

**Buyer demographics**

In line with the organic sector as a whole, organic milk over-indexes in AB households in terms of penetration and spend. However, over the past two years, the contribution from C1s to total expenditure has grown, suggesting that organic is now considered more accessible by a wider audience.

In pure expenditure terms, households over 45 account for over two thirds of total spend. The most notable over-index is by the age group 34-44, driven by the over-index of new families (178). This demonstrates organic’s appeal to this audience who want to feed their young children high quality, pure food and drink.

Looking forward, organic will benefit from the projected population growth of two of its key audiences – the over 45s and young children.
The south of the UK continues to strongly over-index in terms of organic milk sales with the south west recording a big increase over the past two years. In terms of buyers, however, there is evidence of wider appeal up the westerly and easterly edges of the UK.

FIGURE 26: Regional differences: Index of organic milk buyers and expenditure versus GB average

Source: Nielsen Scantrack data to 13.09.2014

Source: Nielsen Homescan data MAT to 13.09.2014

PRODUCT TYPE

Organic over-indexes in whole milk sales (index of 120) and significantly under-indexes in skimmed milk sales (index of 61). This is due to the aforementioned skew towards new families, as well as the low distribution of organic skimmed milk, with many smaller retailers only stocking one fat type. Skimmed milk tends to over-index with older households and represents 12% of the volume sales of standard milk. Fat level is a critical purchase decision driver and therefore if organic skimmed milk is not available, many consumers will trade down to conventional skimmed milk, rather than a higher fat level in organic.

Therefore increasing the availability of organic skimmed milk will trade consumers up from standard to organic milk.

FIGURE 27: Fat type share of organic, indexed to standard milk share

Looking ahead, milk value sales are forecast to grow ahead of volume due to further inflation, but also due to consumers trading up to higher value alternatives. The switch to premium dairy alternatives, as well as to lactose-free and digestive system friendly cow’s milk is likely to continue to grow, as is the consumer demand for organic. The rate at which this happens will depend on retailer support, new scientific research and its ability to result in game-changing consumer health claims, government policy and brand investment in communication and innovation.

GROWTH OPPORTUNITIES:

INCREASED BRANDED OFFERING

Europe accounted for the highest proportion of global organic dairy product activity from June 2009-June 2014 (Mintel). The majority of the organic activity across Europe was led by brands; in the year ending June 2014, brands accounted for over 60% of product activity. The UK recorded a low level of product activity relative to key European markets and this is symptomatic of private label’s high share of the UK organic market. Increased focus on the market by branded players will lead to a higher level of innovation, which in turn will help to attract new buyers.

Flavoured organic milk: Flavoured milk is unrepresented in the organic milk category both at a European level and even more so in the UK. Flavoured milk accounted for 40% of new milk launches versus just 10% for new organic milk launches in Europe (Mintel 2014). Furthermore, innovation in the flavoured organic milk category in the UK is below average, accounting for only 1% of organic milk product activity. High sugar content and child-centred product perceptions are contributory factors to low engagement, with only 22% of UK adults claiming to drink flavoured milk (Mintel 2013).

Single serve portions: There are few single serve portions, linked to the low presence of flavoured milk, to target the growing on-the-go market, for breakfast or after school for example.

Functional/Energy drinks: There is an opportunity to leverage growing trends in standard milk for which organic could offer the target audience an added, relevant benefit. In the UK, one in five adults consider milk drinks to be good for during and after exercise (Mintel 2013). An organic energy drink, could occupy a ‘healthier’ positioning within this growing market given its documented higher level of antioxidants, vitamins and minerals. However, a success factor to this will be the ability to make product health claims, currently not possible in the EU despite the weight of scientific evidence now available on the subject. Therefore to start with, the opportunity would rely on current consumer affiliation to organic.

Key demographic targeted products: Added value offerings could leverage the most relevant organic attributes for key target markets and add to these additional benefits, (routed in consumer insight), to strengthen the offering. For example, products targeted towards young children or older consumers.
Organic milk: foodservice & consumer insights

Total organic milk retail sales are valued at £151.3 million (see Figure 13) making it the third largest sector overall and the second largest premium sector in the milk category.

FOODSERVICE: PUBLIC SECTOR INSIGHTS

The Food for Life Catering Mark, established in 2010, is the leading best-practice scheme in public sector foodservice. Its objective is to improve the quality of food served by caterers across the UK, making it fresher, healthier and more sustainable. Over one million ‘Catering Mark’ meals are served every day in England and 70,000 in Scotland covering food provided in nurseries, schools, universities and hospitals. The business benefits for participants include cost savings, increased meal sales and better consumer perception.

The Catering Mark has three award levels: Gold, Silver and Bronze. To achieve Silver, establishments must have 5% of their food sourcing certified as organic. This increases to 15% for the Gold standard.

“Some 43% of Gold and Silver Catering Mark members use organic milk in 2014, increasing from 33% in 2012. Organic milk is the ‘go-to’ option for including organic ingredients on menus within Scotland.”

Elsie Downham, Food for Life Catering Mark Account Manager

Willingness of Catering Mark members to use organic milk is influenced by their perception that organic milk is a product their customers understand and associate with high quality. Many of the caterers advertise the benefits of organic milk to the end user to enhance the consumer’s perception of its use. In a local authority in Scotland for example, when organic milk was to be launched in schools for the first time, schools were offered the chance to design the label for the new organic milk bottle. In doing so, children and teachers were educated on the benefits of organic milk.

“Organic milk is a product that caterers know their consumers understand represents quality. With its growing popularity in retail it makes sense that the foodservice market has tapped into this trend. It is an easy win for caterers who wish to include organic food on their menus.”

Soil Association

CASE STUDY: SCOTLAND

The Scottish public sector is increasingly supportive of organic milk, and English proponents use its strategies as a benchmark to increase the inclusion of organic milk within public sector contracts.

Current support for organic milk in Scotland is evidenced by Sodexo, the foodservice provider, which has seen organic milk volume sales increase by 4% from 2003-14 through its Scottish government procurement contracts. Volume sales are forecast to rise by another 5% in 2015.

Organic milk’s competitive edge in the public sector has been restricted to date due to its narrower range of formats versus conventional, (there is no bulk format or individual 250ml bottles for schools), and a misconception and nervousness regarding the availability of supply. The latter has recently been alleviated by public procurement requirements setting out a pre-condition that products must be able to meet the volumes of the local authority before the product can be listed. Part of the problem to date has been the lack of a single milk processor to really focus on the business development of organic milk. This has led to a less than coordinated approach to opportunities that have arisen within the public sector.

A barrier to further organic conversion is the falling conventional milk price, making the switch only possible at a greater premium than before, which is out of step with falling public sector catering budgets.

FOODSERVICE: PRIVATE SECTOR INSIGHTS

Within the private sector, organic milk has a notable presence in coffee shops.

The decision to use organic milk in this sector is linked closely to Corporate Social Responsibility policies, (i.e. sustainability or animal welfare), as well as objectives to enhance corporate brand health and quality perceptions.

TABLE 4: Organic usage in key coffee outlets in the UK

<table>
<thead>
<tr>
<th>Coffee shop</th>
<th>No of UK stores</th>
<th>Organic coffee</th>
<th>Organic tea</th>
<th>Organic milk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starbucks</td>
<td>7,460</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Pret a Manger</td>
<td>249</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Costa</td>
<td>1,500</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Caffe Nero</td>
<td>519</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Soho Caffe</td>
<td>36</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Coffee #1</td>
<td>47</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>McDonald’s McCafe</td>
<td>1,249</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>A&amp;M Coffee</td>
<td>50</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: OMSCo

Usage is forecast to grow, partly in line with the general growth of the out-of-home coffee consumption trade but also as more outlets choose to use organic milk as a mark of quality and to create a point of difference.

Organic Milk Market Report 2015
OMSCo
A survey was completed with 1,503 UK consumers who were the main purchasers of food and drink within their households. Three key consumer groups were surveyed.

- Regular purchasers of organic milk agreeing with the statement ‘Organic cow’s milk is the main type of milk I purchase and I have purchased it within the last one to two weeks.’
- Occasional purchasers of organic milk agreeing with the statement ‘I have purchased fresh organic cow’s milk within the last three to 11 weeks.’
- Non-purchasers but non-rejecters of organic milk agreeing with the statement ‘I have not purchased fresh organic cow’s milk within the last 12 months / one year / three months, but would consider purchasing it.’

**Consumer insights**

**FIGURE 28: Timing of first purchase of organic milk**

In the survey, 55% of regular purchasers and 46% of occasional purchasers claimed to have first purchased organic milk in the past two years. Whilst higher than the actual increase in household penetration (according to Nielsen Homescan), this result does reflect the upward trajectory the market has experienced over the past few years.

2. Opportunity to encourage further organic milk consumption amongst loyal, regular buyers by increasing availability

Only 48% of regular organic milk consumers estimated organic milk to account for over 75% of their total milk purchases over the last month. Ensuring a wider availability of fat types and pack formats would facilitate further consumption.

**FIGURE 29: Organic milk’s share of total household milk consumption**

![Graph showing organic milk’s share of total household milk consumption](image)

Source: uSamp 500 regular purchasers and 502 occasional purchasers, UK Internet purchasers aged 18+

**FIGURE 30: Consumption by household member, by shopper type**

![Graph showing consumption by household member, by shopper type](image)

Source: uSamp 500 regular purchasers and 502 occasional purchasers, UK Internet purchasers aged 18+

**FIGURE 31: Top 10 reasons influencing purchasers decision to purchase fresh organic milk, October 2014**

![Graph showing top 10 reasons influencing purchasers decision to purchase fresh organic milk, October 2014](image)

Source: uSamp 500 regular purchasers and 502 occasional purchasers, UK Internet purchasers aged 18+

**FIGURE 32: Who consumes organic milk?**

![Graph showing who consumes organic milk](image)

Source: uSamp 500 regular purchasers and 502 occasional purchasers, UK Internet purchasers aged 18+

**First purchase motivation**

4. ‘More natural’, ‘Better for me and my family’ and ‘Free from chemicals’ featured in the top purchase drivers for regular and occasional users.

Overall key drivers for the first organic milk purchase were similar for both regular and occasional users, however, the ranking order did vary slightly. For regular buyers, ‘Supporting organic dairy farmers’ was cited as a more important reason to purchase than for occasional users, perhaps due to a better understanding of what organic farming entails. For the latter, ‘Better traceability’ ranked higher. The challenge is again about how to clearly communicate these benefits given health claim regulations and advertising restrictions in the EU.

**5. Taste perception important driver for more regular consumption.**

An important difference between the two users was around taste perception. Some 27% of regular users said they switched to organic because it tasted better, versus only 17% of occasional users. A better taste perception could help shift an occasional user to more regular purchases.

**6. Word of mouth key first purchase driver.**

Another important first purchase driver, for both user
groups, was a recommendation from a friend, mentioned by nearly one in five of respondents. Advertising, children being provided it at school and seeing it in the foodservice/the coffee sector also influenced the first purchase decision.

7. Total category purchase drivers still dominate: fat type the key driver whatever the variety of milk. Milk is a commodity category, which on the whole, is far-removed from any level of emotional consumer connection and is driven by rational decision-making, for example the choice of fat type. However, for regular buyers, (and, to a lesser extent, occasional buyers of organic milk), making the right ethical decision has significant influence on the purchase decision.

TABLE 5: What is the most important influence on your decision to purchase organic milk?

<table>
<thead>
<tr>
<th></th>
<th>Regular</th>
<th>Occasional</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Type</td>
<td>24%</td>
<td>21.1%</td>
</tr>
<tr>
<td>2 Ethics</td>
<td>16%</td>
<td>13.1%</td>
</tr>
<tr>
<td>3 Use-by date</td>
<td>15%</td>
<td>12.9%</td>
</tr>
<tr>
<td>4 Price</td>
<td>15%</td>
<td>12.9%</td>
</tr>
</tbody>
</table>

Source: uSamp 500 regular purchasers and 502 occasional purchasers, UK Internet purchasers aged 18+

Other than ‘ethics’, purchase decision drivers are wholly rational with ‘brand’ having little influence (7% regular and 6% for occasional). Fat type is a key category purchase driver and therefore important for both buyers, highlighting the importance for retailers to stock the full range of both organic and conventional.

Price plays a bigger role in the purchase decision of occasional buyers and this is synonymous of its classification as a ‘luxury’ item, rather than a ‘staple’ item as seen by regular users.

Range is an important factor for retailers to get right: 30% of regular users and 55% of occasional users said they would trade-down to standard milk if their preferred fat type was not available.

8. Low emotional connection overall due to private label dominance.

Consumers have a more emotional relationship with brands than they do private label products. This is evidenced in association rankings of both Yeo Valley and private label organic milk, in this case Tesco

FIGURE 33: General buyer perceptions of organic milk

1. Brand associations: Yeo Valley Organic Milk

2. Brand associations: Private Label Organic Milk

Source: uSamp 500 regular purchasers and 502 occasional purchasers, UK Internet purchasers aged 18+

(see Figure 33 below). In particular, agreement with the statement ‘A brand I love’ is higher for Yeo Valley (double the agreement rate versus private label). Strong brands and the focus and investment that come with them are required to premiumise the milk category, building an added value relationship with consumers that goes beyond price.
**Driving further consumption**

For regular and occasional users, only one in four consumers agreed that price was a key barrier to further consumption. A taste difference claim and dialing up key elements of the cow’s life, including diet and a gentler lifestyle, were cited as the most important attributes to encourage consumers to pay more for organic milk. In addition occasional buyers aren’t as convinced as regular buyers as to the health benefits of buying organic. Occasional buyers therefore need to be convinced further regarding ‘what’s in it for me?’

**FIGURE 34: Agreement to statements that would encourage consumers to pay more for organic milk**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Regular</th>
<th>Occasional</th>
</tr>
</thead>
<tbody>
<tr>
<td>You can taste the difference in organic milk</td>
<td>26%</td>
<td>33%</td>
</tr>
<tr>
<td>Organic dairy cows have a grass rich diet, which contains no chemical</td>
<td>26%</td>
<td>33%</td>
</tr>
<tr>
<td>or genetically modified ingredients</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organic dairy cows are not pushed beyond their natural limits</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>Organic cows are outside 24/7 when the grass is growing</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>Organic cows are happy and so the milk’s happy too</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>Organic certification is a guarantee of food quality and is independently</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>inspected and certified</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organic farming helps protect the environment i.e through more sustainable</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>farming methods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organic cows are not given antibiotics when they’re ill</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>No system of farming has higher animal welfare benefits than organic</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>Organic standards prohibit the use of GM crops and ingredients in animal</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>feed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organic dairy farming – No system of farming produces milk with higher</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>nutrient levels</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The higher price of organic milk is directly related to the higher cost</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>of production and costs the farmer 25% more</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Studies have shown that organic milk can help children’s eczema and</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>allergies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organic dairy farming – No system of farming produces milk with higher</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>Omega 3 fatty acids</td>
<td></td>
<td></td>
</tr>
<tr>
<td>None of the above</td>
<td>25%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: uSamp 500 regular purchasers and 502 occasional purchasers, UK Internet purchasers aged 18+

**FOCUS ON NON BUYERS**

**Barriers to purchase:**

Price is key barrier for this audience, with over 40% citing that organic milk has become too expensive over the past 12 months. This is a clear indication of how retailer pricing policies are impeding further consumer trade-up to organic milk. In addition there is evidence that for this audience the benefits of organic are better understood in other categories: 35% of non-organic milk buyers claimed to have bought into other organic categories in the last three months, the most popular of which were the poultry, fruit and vegetable categories. Therefore communication pulling on the reasons why they buy into these categories already should be explored and leveraged for milk.

Other barriers to purchase by non-buyers are availability: over one in five non-buyers said it was not easy to find in-store and one in five said it was often unavailable.

**FIGURE 35: Reasons for not having purchased fresh organic cow’s milk in the past 12 months, October 2014**

<table>
<thead>
<tr>
<th>Reason</th>
<th>All</th>
<th>Children in the household</th>
<th>No children in the household</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic cow’s milk has become too expensive compared to non-organic milk</td>
<td>43%</td>
<td>40%</td>
<td>45%</td>
</tr>
<tr>
<td>Organic cow’s milk is a luxury dairy item</td>
<td>34%</td>
<td>31%</td>
<td>37%</td>
</tr>
<tr>
<td>There is no evidence that organic cow’s milk is better for you</td>
<td>21%</td>
<td>18%</td>
<td>24%</td>
</tr>
<tr>
<td>Lack of awareness of organic cow’s milk in store</td>
<td>21%</td>
<td>18%</td>
<td>24%</td>
</tr>
<tr>
<td>There is a lack of organic cow’s milk available to purchase</td>
<td>21%</td>
<td>18%</td>
<td>24%</td>
</tr>
<tr>
<td>I can’t find organic cow’s milk easily in the shop</td>
<td>21%</td>
<td>18%</td>
<td>24%</td>
</tr>
<tr>
<td>There is no difference in the quality of organic cow’s milk compared</td>
<td>12%</td>
<td>9%</td>
<td>15%</td>
</tr>
<tr>
<td>to non-organic cow’s milk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I do not have young children *</td>
<td>6%</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>I am unclear of what the term “organic” means</td>
<td>6%</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>I understand the benefit of other organic foods better than I do milk</td>
<td>6%</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>I only purchase organic milk if a member of the household is sick</td>
<td>6%</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>None of the above</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Mintel/uSamp . 501 non-purchasers of organic milk, UK Internet purchasers aged 18+

*Statement not asked to respondents with children in the household*
Triggering the first purchase

Education on the cow’s diet and low level use of antibiotics was found to have most influence on future purchase behavior.

In addition, a third of consumers without children in the household want to see greater visibility of organic milk in-store, suggesting that availability and stand-out in store is a current issue.

Whilst price was a key barrier for this audience, after respondents were exposed to the key attributes associated with organic dairy farming, Figure 35 highlights that 45% of non-buyers said they were willing to pay up to £1.04 for the organic equivalent of two pints. This is within the pricing for one litre by branded players like Yeo Valley.

FIGURE 36: Agreement to statements that would encourage consumers to buy organic milk, October 2014

Source: Mintel/uSamp. 500 regular purchasers and 502 occasional purchasers, UK Internet purchasers aged 18+
Organic milk supply

Demand for raw organic milk from UK farms declined from a peak in 2009 and bottomed out in 2012. However, the last two years have seen slow but steady increases. The headline stability masks some notable changes in the end uses of raw milk over recent years which can be seen in Figure 37.

**FIGURE 37:** Changes in breakdown of organic raw milk demand by sector, UK, 2014

- **Liquid**
- **Cheese**
- **Export**
- **Yogurt**
- **New sectors & ingredients**

Source: OMSCo estimates

**FIGURE 38:** Organic milk, total milk production versus export (EU-27 countries), UK, 2011-14

- **Total organic milk**
- **Exported organic milk**

Source: OMSCo/Kingshay Dairy Manager/Defra
TRENDS IN ORGANIC MILK SUPPLY

Currently the supply versus demand equation is balanced, with expansion from current producers more than able to cover slight market volume growth of 0.5% (MAT September 2014). Even if this growth were to accelerate, fuelled by increased grocery distribution for example, organic expansion of the current supply base could meet requirements.

FIGURE 39: Trends in organic supply and demand

Source: OMSCo estimates

Higher organic cost of production has not, until recently, been reflected in milk prices, making organic dairy less attractive and encouraging many organic dairy farmers to exit the market.

The biggest risk to the market continues to be any return to over-supply, which has become more likely recently following the plummet of the conventional milk price, swiftly creating the highest premium for organic farmers in over two years.

Low volume demand growth in the organic dairy sector leaves little room for new entrants, at a time when a rapid increase in the organic premium is making organic production look more attractive. With organic milk production representing only around 3% of total UK milk output, it would take only a small proportion of conventional production to convert for the current supply / demand equilibrium to shift rapidly.

TABLE 6: Breakdown of uk organic milk supply

<table>
<thead>
<tr>
<th></th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
<th>14/15</th>
<th>15/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base UK supply</td>
<td>501</td>
<td>431</td>
<td>370</td>
<td>377</td>
<td>400</td>
</tr>
<tr>
<td>Planned expansion (%)</td>
<td>-1%</td>
<td>-6%</td>
<td>2%</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>Supply from existing producers</td>
<td>496</td>
<td>405</td>
<td>377</td>
<td>400</td>
<td>412</td>
</tr>
<tr>
<td>New entrants</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Exits</td>
<td>-65.0</td>
<td>-35.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Gross supply available</td>
<td>431</td>
<td>370</td>
<td>377</td>
<td>400</td>
<td>412</td>
</tr>
<tr>
<td>Utilisation</td>
<td>98%</td>
<td>99%</td>
<td>99%</td>
<td>99%</td>
<td>99%</td>
</tr>
<tr>
<td>Total utilisable UK supply</td>
<td>422</td>
<td>366</td>
<td>373</td>
<td>396</td>
<td>408</td>
</tr>
<tr>
<td>Imports</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total available supply</td>
<td>422</td>
<td>366</td>
<td>373</td>
<td>396</td>
<td>408</td>
</tr>
</tbody>
</table>

Source: OMSCo estimates

EU ORGANIC FARMER SUPPORT SCHEMES

Changes to organic farmer conversion and maintenance payments are planned to come into effect in 2015. Currently the proposal favours conversion payments over maintenance payments and sends the wrong signal to the market. The last time there was a major influx of farmers into the market was in 2005.

They were attracted by high conversion payments and the market premium for organic over conventional. However, their entry resulted in significant over-supply, which in turn led to organic farm-gate price deflation. Current organic market growth does not support new entrants and until growth accelerates, new conversions should be discouraged to avoid an inevitable return to a cycle of boom and bust.
# Appendix

## TABLE 1: Total milk launches versus organic milk launches, Europe, June 2013–June 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>Total</th>
<th>Organic</th>
<th>Organic as a % of total product launches (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>56</td>
<td>18</td>
<td>32</td>
</tr>
<tr>
<td>Denmark</td>
<td>38</td>
<td>11</td>
<td>29</td>
</tr>
<tr>
<td>Finland</td>
<td>7</td>
<td>2</td>
<td>29</td>
</tr>
<tr>
<td>Germany</td>
<td>99</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Belgium</td>
<td>5</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Greece</td>
<td>99</td>
<td>7</td>
<td>18</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>30</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>Austria</td>
<td>27</td>
<td>4</td>
<td>15</td>
</tr>
<tr>
<td>Norway</td>
<td>23</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>UK</td>
<td>73</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Turkey</td>
<td>23</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Portugal</td>
<td>12</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Italy</td>
<td>62</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>17</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Sweden</td>
<td>19</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Russia</td>
<td>61</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Hungary</td>
<td>23</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Poland</td>
<td>49</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Spain</td>
<td>79</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Ireland</td>
<td>12</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Switzerland</td>
<td>18</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Ukraine</td>
<td>18</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Mintel GNPD