DAIRYMEN, INC. AND UHT MILK: CURRENT SITUATION AND FUTURE PROSPECTS

by

Alan R. Johnson, Director, Administrative Services
Promotion Services, Inc.
Atlanta, Georgia

I appreciate the opportunity to present and review information about the new revolution in the dairy industry--Ultra High Temperature or UHT milk.

UHT is a revolutionary new product for the dairy industry in that it represents major innovations in:

1) processing
2) packaging
3) distribution
4) marketing
5) advertising/promotion

and UHT addresses many of the industry's problem areas such as convenience, energy use, milk's image and market position.

Over the next few minutes I would like to talk about:

1) the product
2) how it is being positioned and marketed
3) problems and opportunities we've faced
4) and the future for UHT milk.

Dairymen

Let me begin by saying, Dairymen is a milk marketing cooperative owned by over 8,000 dairy farm families. Founded in 1968 and headquartered in Louisville, Kentucky, we market our members milk in 17 states primarily in the southern and eastern parts of the United States.

Milk is our only business. We believe the future of the dairy industry and our dairy farmer members lies in being successful in the marketplace. We are seeking to sell more of our members milk, and increase total consumption of milk. Involvement with UHT milk and aseptic packaging is a logical extension of our corporate mission.

UHT Milk

UHT is real, fluid milk that is heated to approximately 280°F for a few seconds, and then cooled to room temperature. This compares with traditional pasteurization where the milk must undergo a minimum heat treatment of 161°F for 15 seconds and then be refrigerated at 40°F or below.

Once processed, UHT milk is aseptically packaged, which seals and protects the milk from light, air, and the entry of bacteria.

This unique combination of processing and packaging enables the milk to stay fresh without refrigeration for months. And this is accomplished without any preservatives, and without the loss of any of milk's significant nutrition. Once opened, UHT milk has a refrigerated shelf life of a few days beyond conventional pasteurized milk.

Initial Research

Our preliminary research began in 1979, when Dairymen decided to examine the feasibility of introducing UHT milk into the United States. We reviewed the experience of UHT milk in Europe, Canada, Australia, and other countries. We studied both the technical practicality and potential consumer acceptance of UHT milk in the U.S. We chose to introduce UHT milk in conventional American package sizes of one quart and half-pint. Metric sizes for milk containers have not generally been accepted by the state regulatory agencies, and would have required a major effort on our part to effect such a change. And we decided to introduce a full-line of products, including whole white, 2% white, and five flavored milks.

In bringing UHT milk to market, we faced a number of technical challenges, however, even a greater challenge was introducing aseptically processed and packaged milk to the American consumer.

Industry Trends

We have been involved in dairy industry research for a number of years, and over the last 10-12 years, a number of things have occurred that cause us concern.

1) We've seen the per capita consumption of fluid milk declining by over 17%, while competitive beverage consumption has increased by as much as 50%.

2) Competitive beverages have developed more convenient packaging, new products, increased their advertising significantly, and captured a greater share of fluid beverage consumption.

3) We are also seeing some significant changes in the demographics of the American consumer:

   a) Family sizes are smaller

   b) One and two-person households are increasing, and in many areas, now account for over 50% of all households.

   c) There are fewer people under the age of 19, where over 50% of the milk in this nation is consumed.

4) The American lfiestyle has also changed:

   a) meal times are less structured

   b) convenience is more important these days, and

   c) away-from-home meals are increasing.

We felt it was time to examine our product in view of changing consumer needs, and to develop new products to meet those new needs.

UHT Research

We conducted over 20 major research projects to get an information base from which we developed: our products; taste and flavor variety; our packaging; brand names; our marketing plan; target audiences; and our advertising plan.

While most of what we have learned from our research is proprietary, there are several things that I can share with you.

1) UHT milk will not replace refrigerated milk. The American consumer is generally satisfied with the milk that is available today. It tastes good, comes in a variety of sizes, and can be purchased just about anywhere, at any time.

2) For UHT milk to be successful, parity in taste with refrigerated milk was essential.

3) The concept of UHT milk was difficult for the consumer to understand initially. UHT milk doesn't fit into consumers idea of "normal milk."

4) However, there are consumers that are very interested in a product that gives them the benefits and convenience of UHT milk.

Research also told us that the source of business for our UHT milk would not necessarily come from existing milk sales. UHT milk would be incremental volume because it would appeal only to certain market segments. It would also be associated with specific use occasions and types of milk consumer.

As we sought to define our target segments, we found that instead of one new product--UHT milk--we had two new products, with very different target audiences. White milk was one product, and flavored milk was the other.

Farm Best

We market our white milk under the brand name "Farm Best" and it is available in quarts and half-pints, both whole milk and lowfat milk. We also have quarts of lowfat chocolate. Our target audience for "Farm Best" is:

A) One and two-person households

B) Adults

C) Occasional, or infrequent milk consumers--people who would use milk often if it were more convenient and available when they wanted to use it.

In addition, there is also a target audience based on special needs or benefits that "Farm Best" UHT milk offers, such as:

A) Cooking

B) Traveling

C) Infant Feeding

D) Outdoor activities: recreation, boating, camping

E) As a supplementary supply for large milk users, to eliminate running out of milk and making late night or extra trips to the store.

Sip Ups

Our second product is flavored milk. We developed "Sip Ups" as a separate branded product with its own identity, target audience and marketing plan. "Sip Ups" come in five flavors: chocolate, vanilla, banana, strawberry and fruit punch, and are available only in half-pints. The target audience for "Sip Ups" are:

A) Children of all ages, particularly 6 to 11

B) Mothers with children

From our consumer research, we learned that kids loved the taste of "Sip Ups" and that mothers are concerned about nutrition and feel good about giving their children milk. "Sip Ups" are positioned as an exciting and fun drink for children, and are positioned to mothers as a nutritious alternative to other beverages.

Both Farm Best and Sip Ups are helping us expand into three new market areas:

1) Food Service

2) Military Sales

3) Export

"Sip Ups" are generating considerable interest in the food service industry, particularly schools, vending, health care, theme parks, contract feeding, and institutions and restaurants.

The military has been part of our program right from the beginning. We have been working with MADICK and DOD throughout the development of our products. Currently, "Farm Best" and "Sip Ups" are being sold to the military and in military commissary outlets throughout the eastern U.S.

And, for the very first time in the milk industry, we can talk about exporting fluid milk products. Various countries throughout the world provide the opportunity for distribution of aseptically packaged milk from the United States.

Roll-Out

"Farm Best" and "Sip Ups" became commercially available for the first time in the fall of 1982 in Florida and Georgia. Soon afterward we introduced them in Puerto Rico, and have now expanded our distribution to include North and South Carolina, Virginia, the District of Columbia, Maryland, and parts of West Virginia and Tennessee. We are now in the process of introducing in Delaware and parts of Philadelphia and New Jersey. By the end of 1983, we estimate we will be in distribution to approximately 20% of the U.S. population.

In each new roll-out area, we are supporting the introduction with a massive advertising, promotion and education effort. Our program includes heavy radio and TV advertising, newspaper coupons and consumer promotion, in-store sampling, and extensive public relations/publicity activities. Both our introduction and sustaining advertising and promotion efforts are at levels far beyond those devoted by the dairy industry to products in the past.

Sales and Distribution

Our UHT sales and distribution systems are a first in the dairy industry. All sales are made through food brokers, and distribution is directly from our Savannah UHT plant to the distribution warehouses of chains or distributors. All the storage, transportation and warehousing is, of course, unrefrigerated; therefore, offering major energy savings for the retailer and the consumer. "Farm Best" and "Sip Ups" are being located in the dry grocery section of the supermarket, usually in the same section as juices and drinks because the consumer has told us that this is where he or she expects to find them.

More and more frequently we find stores establishing an "aseptic package" department for UHT milk and the whole variety of aseptically packaged beverages.

We have been very pleased with consumer and trade acceptance of these products. In each market, we have introduced we have achieved at least 85% ACU. And, we continue to experience excellent trial and repeat purchases, with retail sales meeting and exceeding our predictions.

Problems and Opportunities

Let me take a moment to outline some of our problems and opportunities.

Our biggest problem or holdback was the inability to bring UHT product into the U.S. for testing purposes. We had to build a $16 million plant and have it completely checked out and approved prior to a test market, on any significant scale. Although we did as much qualitive and quantitive research as possible, our research efforts were initially hampered, we did, however, complete an AdTel test market study last winter, as we began and continued our consumer roll-out. Our initial research was on target, but the test market results helped us "hone" our marketing program in such areas as store placement, media weights, pricing, and in-store sampling.

Our second major problem has been the reluctance of the fast food chains to accept UHT milk. For real success in the foodservice area, we must "crack" the fast food market. They are afraid that kids (and adults) will like UHT, and their cost-price ratio will go out the window. A nickle's worth of ingredients in a soft drink will sell for 55¢ or more, while milk's potential for profit margins is less.

The opportunities for UHT milk have

by far outstripped the problems we've encountered.

As one of the first aseptically packaged products, and the first milk product, in general distribution, we have had a unique opportunity to position outselves in the marketplace. Consumer curiosity--let's try this new product--has served us well, to secure those trial purchases. And, the host of aseptically packaged products that have emerged have helped consumers accept the new concepts in processing and packaging that are an integral part of UHT milk.

Trade acceptance has been very good. Their excitement--and that of their customers--has been of major importance as we improved our marketing and distribution. For example, our product mix, coding, and in-store placement took some time to fine tune. We've had the trade's support and even cooperation during the entire process.

I would say we have experienced all the classic highs and lows--problems and opportunities--of a new product introduction. However, because of the extremely high level of consumer/trade interest, we have been able to overcome many obstacles.

The Future

As to the future for UHT milk and the dairy industry, I've consulted my crystal ball, read my morning tea leaves, and in general tried to look down the road five or more years.

First, UHT milk is a viable product and is here to stay. We have demonstrated there is a market for this milk and it can increase total milk consumption via incremental sales.

While there are currently only two major UHT milk processors in the U.S. today, I think several other companies are, or will, be in distribution in the very near future. However, because of the major "up-front" cost for packaging and processing equipment, there will not likely ever be more than 5-6 major "brands" of UHT milk.

I think new people getting into the UHT milk market will concentrate their efforts on flavored products - as these offer the most in potential sales and margins. For us, white milk is an important part of our total market, but does not offer the potential of flavored sales. And, white milk is perceived as competing more directly with refrigerated milk sales than the flavors.

I would project you will see a whole host of new UHT falvors in the market - and many of them will soon disappear. The very nature and mouth feel of milk lends itself well to some flavors over others. Chocolate is and will always be the favorite and big seller. As many other industries have discovered, the Amercian consumer has a pretty refined preference for certain flavors and tends to shun more exotic ones. I think an excellent parallel to this concept is the big sellers in ice cream flavors.

I foresee a whole variety of UHT milk products. Within a few years, I anticipate every fluid milk product - all white milk from whole to skim, eggnog, buttermilk, creams, etc. - will be available both aseptically packaged and UHT processed. And, down the road we could see UHT technology applied to other dairy products such as cheese and cottage cheese.

I might also speculate that you will see the dairy industry expand into the aseptic fruit juice market. Many dairies are now processing, packaging and distributing fruit juices or fruit flavored products. It is a logical extension for them to expand from milk into juices. As a matter of fact, several dairy companies have approached the aseptic market first from the juice area.

UHT milk packaging - terms of the package and package graphics - will improve substantially, particularly after Brick-Pac and others get their U.S.

printing facilities on line. We will be looking at larger size containers - half-gallon and maybe even gallon size. We may even learn from our beverage competitors in terms of consumer package configuration - 3-packs, 6-packs, 12-packs, sale by case or half-case.

We see tremendous distribution potential outside grocery sales. Other outlets - department stores, liquor stores, drug stores, etc. We will eventually "crack" the fast food market and maybe one day see a "MacMilk" or "MacSip Ups". Export sales offer a tremendous potential, one we have just begun to explore.

And sales, well I don't think we will ever see UHT milk (fluid products) reach the sales levels of other countries, such as Germany at 50% or Switzerland at 35%. However, in the long-term we could see UHT milk sales in the 5%+ area--equivalent to U.S. sales--and recognize, as today's children "grow up" with UHT milk, the future sale becomes much easier.

Summary

I've run out of time and yet just scratched the surface of our UHT program and plans, and skimmed the surface of my "sooth-saying" sessions.

Let me reiterate that UHT milk is here to stay. It is a very viable product for American consumers and markets. There is tremendous potential and room for growth and expansion.

We at Dairymen have been proud and excited about being part of this "milk" revolution and the beginning of the "aseptic" package movement.

We have even begun saying -- "UHT has given milk new life."