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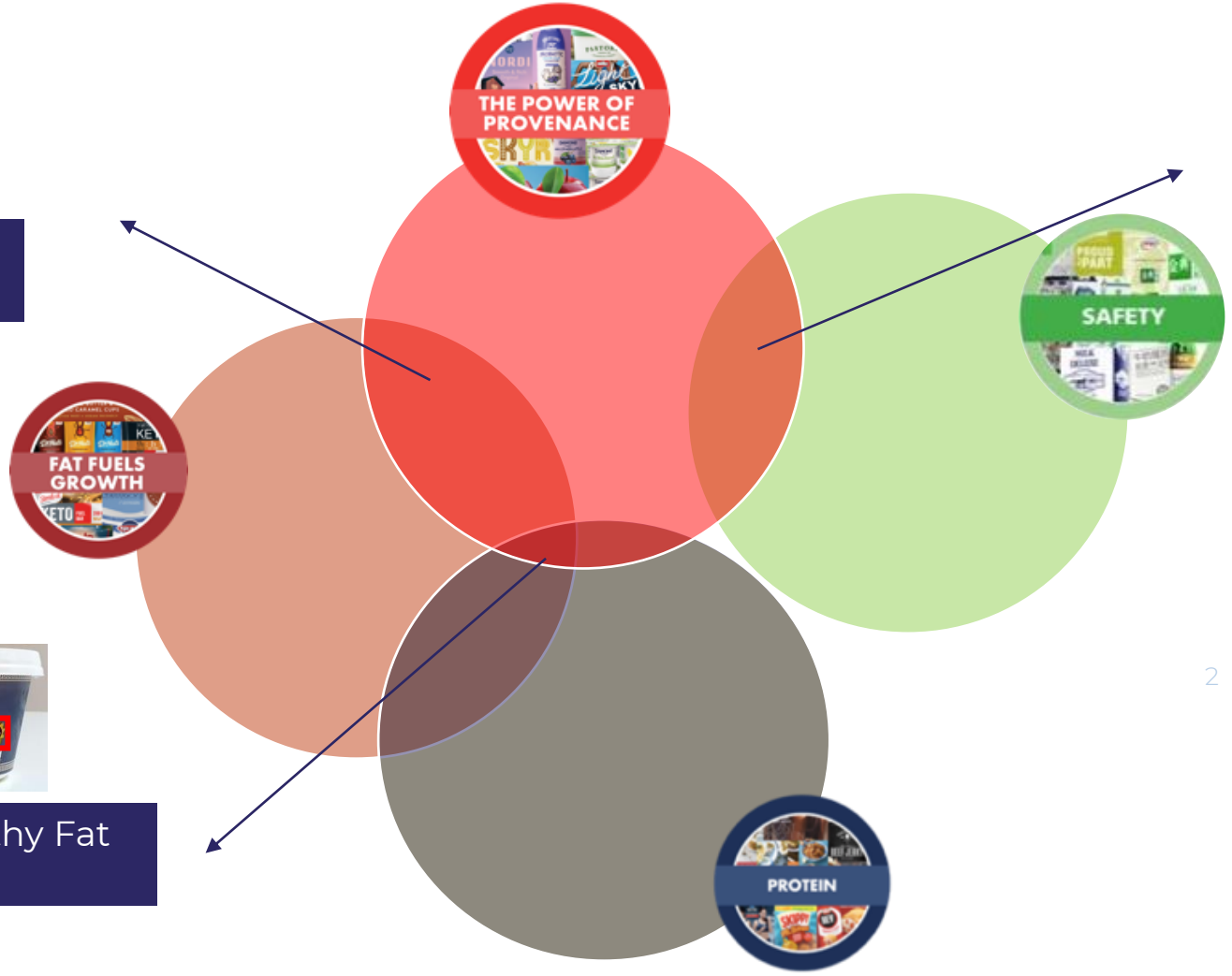
Health & Wellness: Dairy
July 2022

In most markets, some of the identified dairy trends overlap

Connecting to multiple trends at once can improve chances of success

Healthy Fat with Provenance

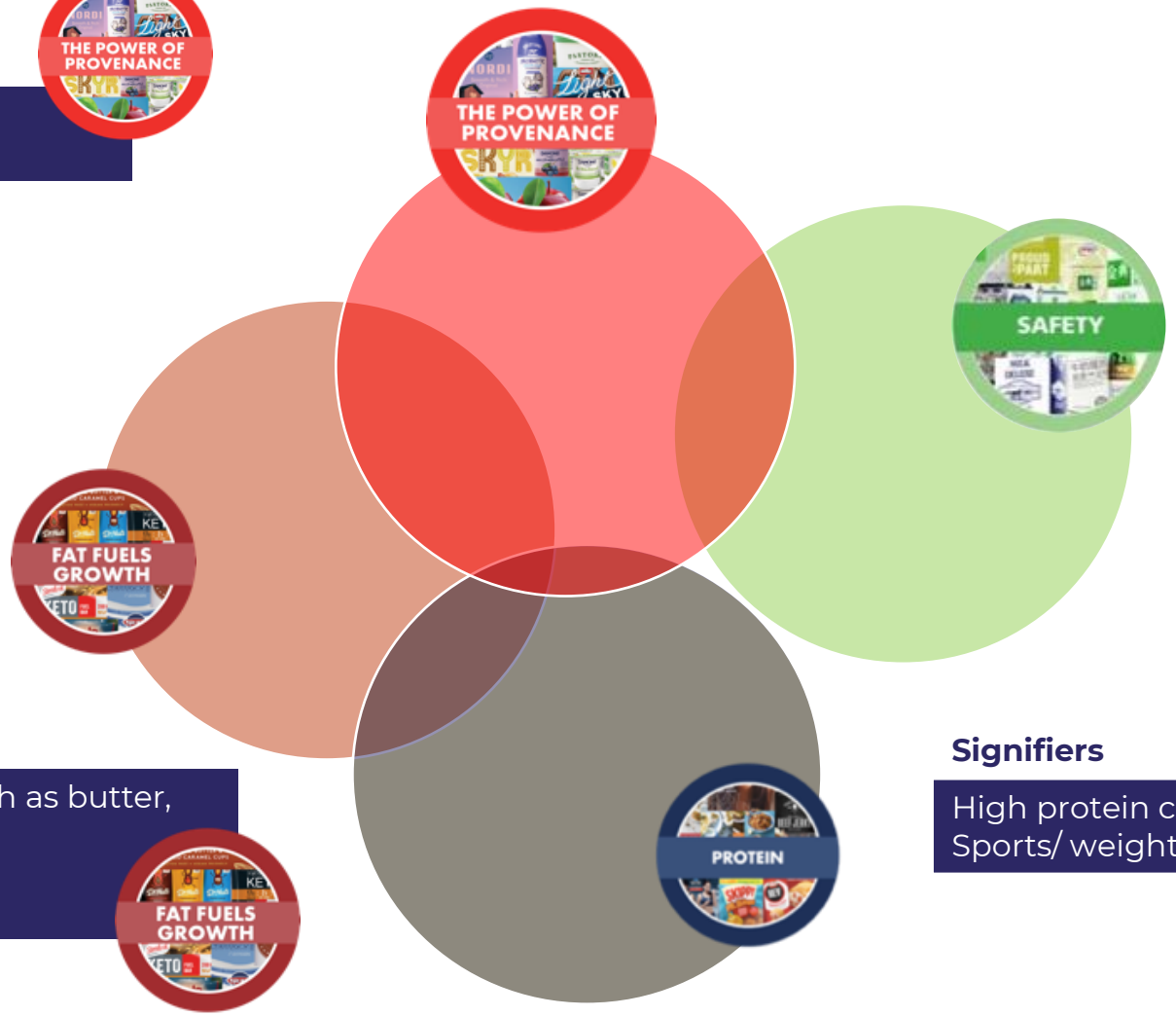


Safety guaranteed by Provenance

High Protein, with healthy Fat and Provenance

Certain signifier messages connect to the Key Trends in dairy categories.

Making use of these on pack or in communications can improve chances of success



Signifiers

Origin of key ingredients
Company or brand story

Signifiers

Origin of key ingredients, possibly with traceability
Certification
Company or brand story
Product available in UK/ European supermarkets

Signifiers

Ingredients include healthy fats such as butter, dairy, coconut, avocado etc
% fat content on front of pack
“rich” “creamy” “indulgent”

Signifiers

High protein content – in grams or %
Sports/ weight management positioning

Grahams shows how placing Provenance at the heart of brand strategy is a solid foundation for growth

It then uses this as a platform to connect to other growth trends.

Graham's connection to the land via their family farm in Stirlingshire, and their own Jersey herd, features heavily in communications and on social media platforms.

Skyr

High protein, low sugar ice cream

Graham's THE family DAIRY

Butter with Skye sea salt

Jersey gold top milk

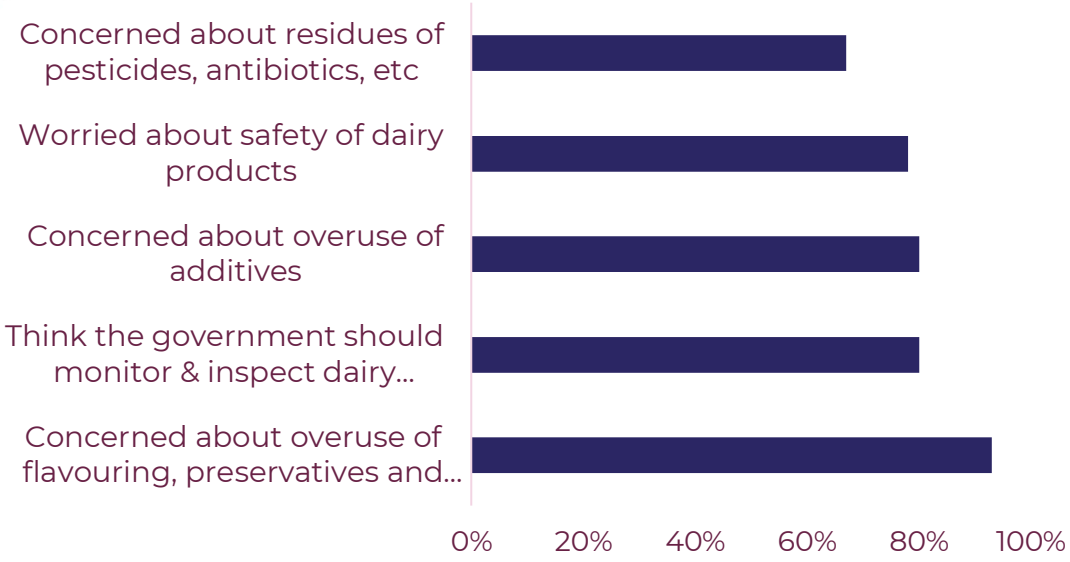
Key to Graham's success is a willingness to take action – to experiment with stretching the brand in new directions and to do this quickly enough to keep pace with a fast-changing market. Their fast-follower strategy has seen turnover grow to £114m in 2020

Provenance guarantees safety in markets where domestic dairy production has been subject to food scares.

Safety is an established hygiene factor in regions like Europe and North America, however, in other places (Asia, Middle East, Latin America) several scandals mean that food safety is now a top concern for consumers, who are willing to pay more for a product made somewhere they consider safe (like Europe or Australia).

In Asia, safety concerns are one of the biggest justifications for paying premium prices.

% of Chinese consumers who are:



CHINA - TOP FOOD SAFETY CONCERNS:
1. Contamination in milk 80%
2. Food poisoning 76%
3. Antibiotics and growth hormones in meat and poultry 72%
4. Food adulteration 70%
5. Salmonella, E. Coli in meats 70%

Sources: Consumer's Associations in Beijing, Hebei and Shandong, Fonterra Ingredients

The science of 'low fat' has evolved

Fat is becoming more accepted – by media and consumers alike

The evolution of scientific evidence has revealed that the idea that saturated fat is linked to heart disease and other conditions has limited foundation.

Some of the pioneering researchers behind the low-fat hypothesis are now known to have fabricated data. Dairy fat has been exonerated.

People are losing their fear of fat as a result of searching online and finding information from credible sources, such as cardiologists and academic researchers.

Time Magazine in 1984 vs 2014

20 Healthy High-Fat Foods You Should Be Eating, According To Nutritionists

Women's Health, 2020

NUTRITION

The truth about saturated fat

BBC, 2019

Sources: Time Magazine; BBC; Women's Health.

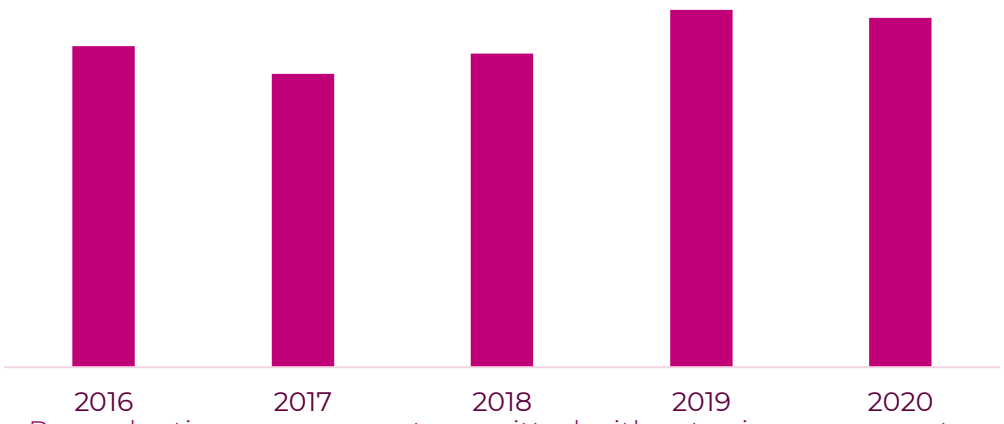
Alternative dairy is on the rise

Over the next few years we could see cow's milk ceding some of its domination of the dairy aisle to milk from sheep, goats, or something even more unusual – a similar diversification that we have seen with plant milks.

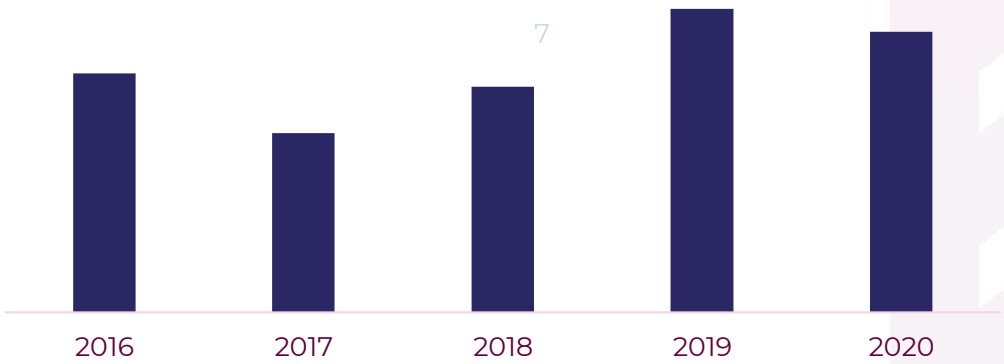
Alternative dairy is attractive to consumers because:

- ✓ It is often easier to digest, thanks to lower lactose levels and fewer allergenic proteins
- ✓ It has a superior nutritional profile (goat milk has more prebiotics; camel milk is higher in vitamins and minerals)
- ✓ Goats and sheep have a smaller environmental footprint than cows
- ✓ For Western consumers, it is unique and exciting
- ✓ In other regions, predominantly the Middle East, there is a long history of consuming alternative dairy

Global launches of goat dairy products:



Global launches of goat dairy products, excluding cheese:



Source: GNPD Mintel.

Many international players are experimenting with alternative dairy

Switzerland's Emmi Dairy, one of Europe's most innovative dairy companies, several years ago announced a move into goat milk products, identifying goat dairy as a higher-premium, faster-growing opportunity. It has bought goat dairies around the world, saying that "Products made from goat's milk are among the most attractive niches in the dairy industry internationally".

St Helens Farm is the UK market leader in goats' milk and promotes its products on a digestive health platform, describing them as "gentle", "lower in lactose" and "packed full of prebiotics". They are also said to be "fresh from the farm" and high in protein.

In France , Vrai is helping to familiarize consumers with goat's and sheep yogurt and offering a range of organic options:

Cheese snacking still has lots of scope for growth

Cheese is still very far behind yoghurt in terms of innovation and products on the market, but it is starting to show signs of a similar path and has the potential to develop and create new markets.

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Key trends & opportunities per region

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Where are the opportunities under each of the key trends?

	Provenance	Safety	Protein	Fat
UK	Opportunity in underserved segments	Not an opportunity for new entrants – market is saturated	Opportunity in underserved segments	Growth opportunity
North America	Opportunity in underserved segments	Not an opportunity for new entrants – market is saturated	Opportunity in underserved segments	Opportunity in underserved segments
Europe	Opportunity in underserved segments	Not an opportunity for new entrants – market is saturated	Opportunity in underserved segments	Not an opportunity for new entrants – market is saturated
Middle East	Opportunity in underserved segments	Opportunity in underserved segments	Growth opportunity	Opportunity in underserved segments
Asia	Growth opportunity	Growth opportunity	Growth opportunity	Not an opportunity for new entrants – market is saturated

- Growth opportunity
- Opportunity in underserved segments
- Not an opportunity for new entrants – market is saturated

Dairy - what are the Green opportunities under each of the key trends?

	Trends scored Green (growth opportunity)	Opportunity	Window of opportunity for new entrants
UK		Higher fat products of all types – coupled with low sugar messaging High quality natural cheese snacks, for adult and child on the go consumption Permissible indulgence based on fat	**2-3 years** **3-4 years** **3-4 years**
Middle East		High protein milks, yogurts and dairy desserts High quality natural cheese snacks, with high protein messaging	**2 years** **3-4 years**
Asia		Dairy products of all kinds with an overt provenance plus safety positioning High quality cheese products of all kinds, for retail and foodservice	**1-2 years** **2-3 years**

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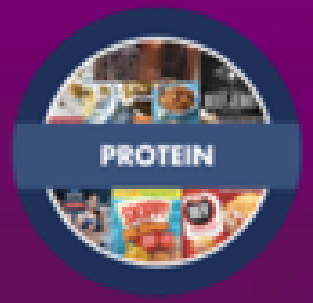
UK

Relevant key trends & opportunities



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2020 saw a surge in demand for most dairy categories

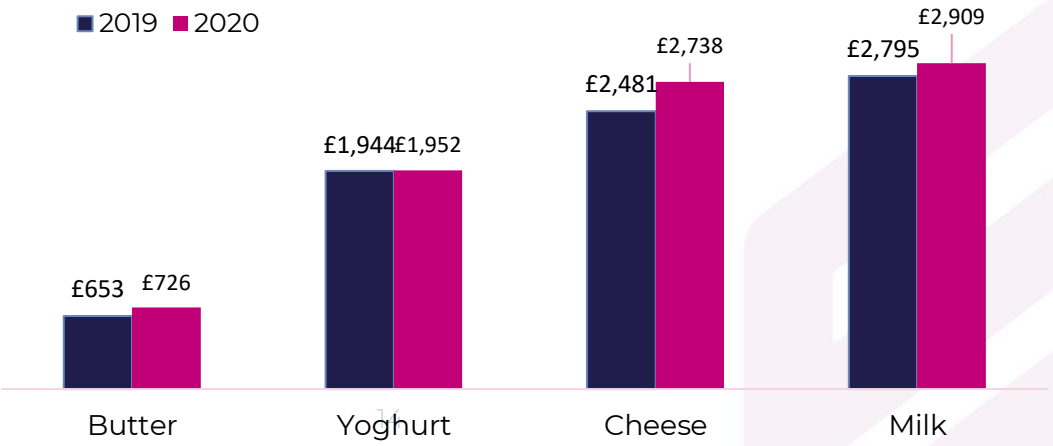
Cheese was the 7th biggest growth category in the supermarket – only alcohol and meat categories grew more

Demand for butter surged with more home cooking & baking. But the 9.9% category growth figure was an acceleration of an existing 10-year trend as consumers lose their fear of fat and embrace butter's 'all-natural' credentials.

Cheese proved its credentials as an ingredient and a snack that is both tasty and healthy. It also has benefited from the declining fear of fat and the health halo of protein. There is scope for growth with speciality 'non-cheddar' varieties and snack products.

The yoghurt category is mature and ultra-competitive. Opportunities for differentiation and NPD are limited but not impossible. Reinvention is the most effective strategy here.

UK dairy sales in 2020 vs 2019 (expressed in £ million):

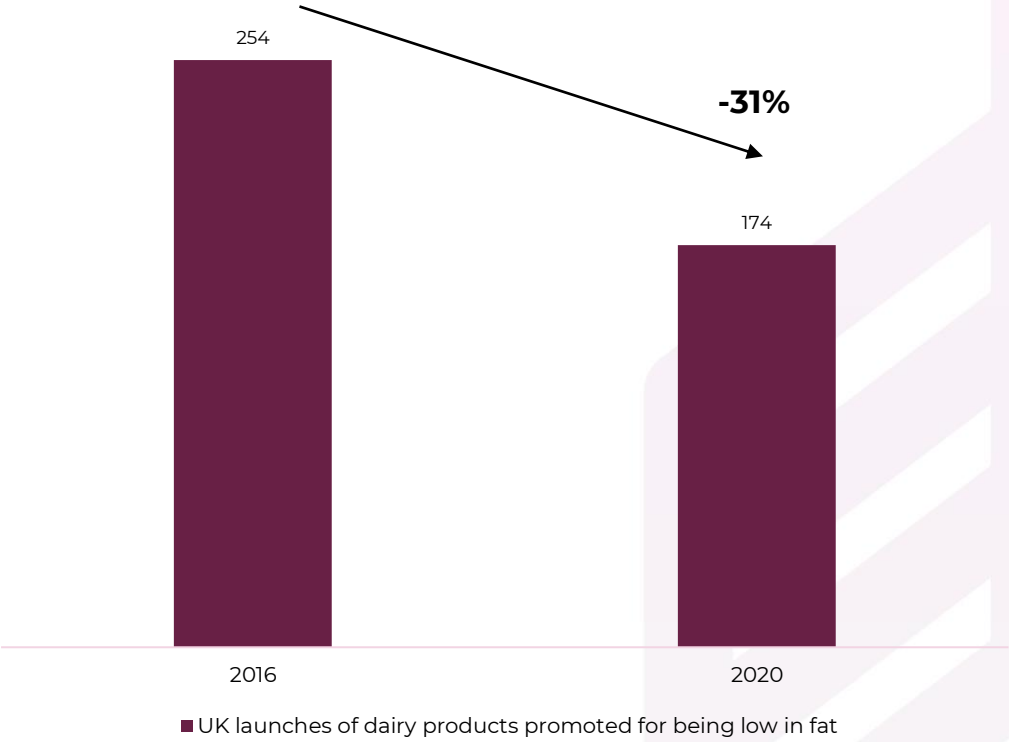


Sources: The Grocer; Nielsen

Now, both high and low-fat options are promoted as 'healthy'

As a result of the shifting views on fat, most UK retailers now offer high fat yoghurts alongside low and no-fat, as the example below from Marks & Spencer illustrates. M&S includes the 10% fat yoghurt AND the 0% fat yoghurt in its Eat Well programme, which is designed to help people make healthy choices.

And launches of low-fat dairy products in the UK have decreased drastically since 2016:



Sources: NNB supermarket scan; GNPD Mintel

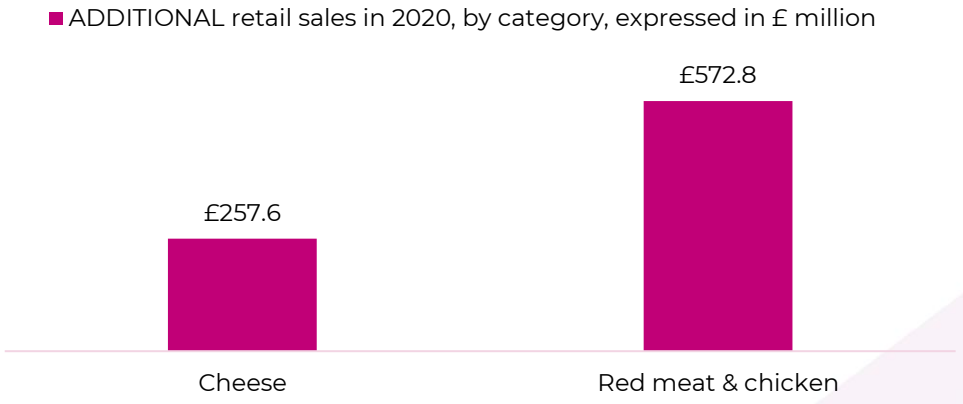
Cheese was one of the biggest winners of the pandemic year

The £2.8bn cheese market increased in value by 10.4% in 2020, an increase in sales of £257.6 million.

Cheese was a winner because it is familiar, tastes good and is versatile – for a quick lunch, for a sandwich and for cooking, as well as being an affordable indulgence.

It is also a source of protein – the nutrient that can do no wrong – and attractive as a healthy snack to the growing numbers who are trying to reduce sugar intake. These things combined make consumers forgiving of cheese's high fat content.

Cheese and meat both saw significant increases in sales during 2020:



Cheese uses in 2020 vs 2019:

Cheese in dishes:
+ 531 million occasions

+26% YoY

Cheese sandwiches:
+ 295 million occasions

+17% YoY

Cheese on toast:
+ 264 million occasions

+35% YoY

Cheese with crackers:
+ 79 million occasions

+14% YoY

Sources: Nielsen; The Grocer; ADHB; Kantar

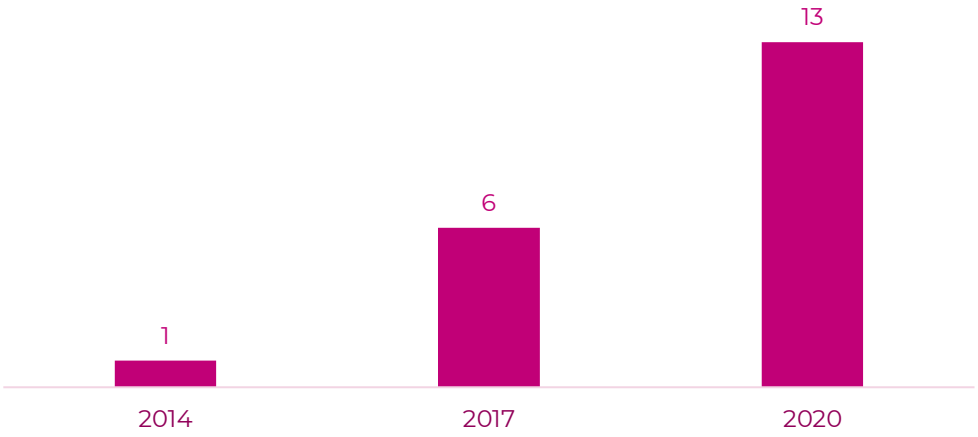
Cheese has been re-invented as a healthy snack

Cheese snacks offer an opportunity to develop added-value cheese products

The main reasons given in online platforms for why cheese is healthy are:

- Less effect on blood cholesterol despite saturated fat.
- High in protein
- Source of calcium and vitamins

Launches of cheese-based snacks in the UK:



A range of British companies, from retailers to big and small brands, launched various types of cheese-based snacks over the past 12 months. Most of them are promoted on a protein platform:

"47% protein"

Sources: GNPD Mintel; NHS; The Times

Case study: Amazin Grazin

Responding to the snackification trend, cheese supplier Norseland launched Amazin Grazin in early 2020. The range features flavoured cheddar cheese snack bars that contain nuts, fruit and other flavours. They are promoted for being 100% natural, a source of protein, for reducing stress and anxiety and for being made with British cheese.

Norseland sees flavoured cheese snack bars as a twofold solution for today's consumer, catering to their need for foods on which they can graze in small, on-the-go portions throughout the day, and to their increasing desire to avoid sugar.

"In terms of health within the category, we think that people believe it's ok to have 'real' fat, whereas they are a bit more cautious about sugar. So they are looking for that snack that is going to be savoury, and it's ok to have real fat They are also looking for products with higher protein – and cheese naturally has higher protein, so we thought it would be a good combination."

Dominique Delacour, head of marketing and NPD, Norseland

Repr t.

NUTRITIONAL INFO:

Typical Values	per 100g	per bar 35g:
Energy	1519kJ 365kcal	532kJ 128kcal
Fat	24.3g	8.5g
of which saturates	12.7g	4.4g
Carbohydrate	14.7g	5.1g
of which sugars	11.6g	4.1g
Fibre	2.0g	0.7g
n	20.8g	7.3g
	1.30g	0.46g

INGREDIENTS

Cheddar cheese (**milk**), dates (14%) (dates, rice flour), honey (5%), sunflower seeds (4%), pumpkin seeds (4%). *Made with all natural ingredients.

Source: NNB interview with Norseland

There are real opportunities to use the “Reinvention” strategy in dairy - taking a traditional product from somewhere else and reinventing for the UK

Ryazhenka is a traditional dairy drink or dessert from Russia. It’s made from baked milk and unlike many fermented milk products, it’s is creamy, smooth and slightly sweet. Traditionally it’s used to aid digestion, relieve skin complaints and weight management and is particularly consumed by children

Buttermilk is a traditional drink in many parts of the world including Middle East, Asia and Southern US. It can be enjoyed as a beverage on its own but is also heavily used as a culinary ingredient in marinades for meats, pancakes and bakery. Traditionally it is recommended to aid digestion and for healthy aging.

Sources: GNPD Mintel; Müller

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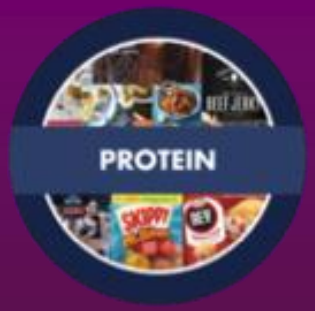
Europe

Relevant key trends & opportunities



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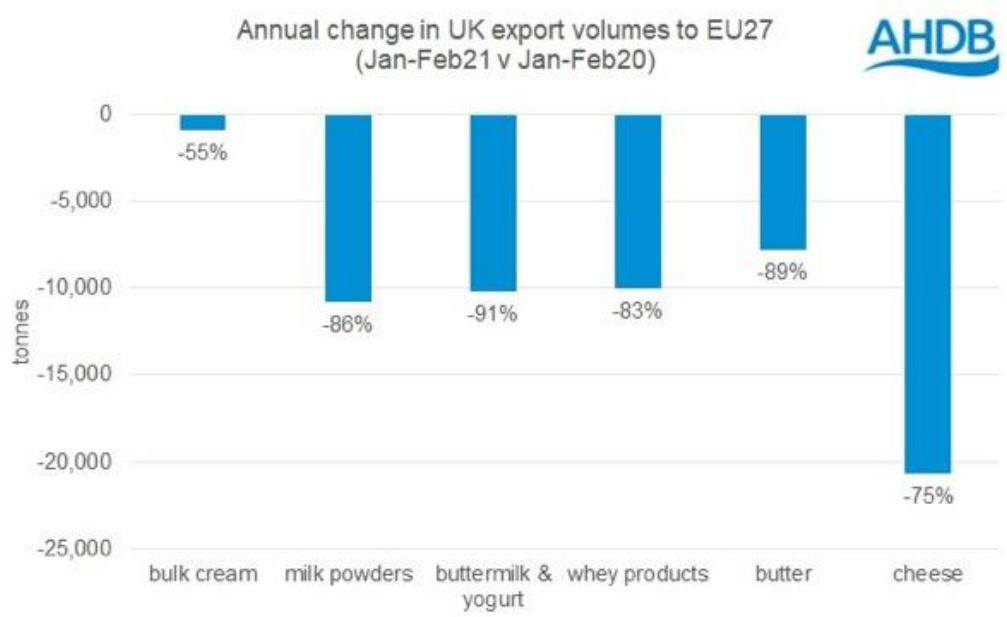
Market saturation along with Brexit means that Europe is no longer an easy opportunity.

The market is already well-served by regional brands, making the opportunities for Scottish players limited.

Brexit has of course also had its effect, and UK dairy exports to the EU decreased by as much as 91% YoY in January-February 2021.

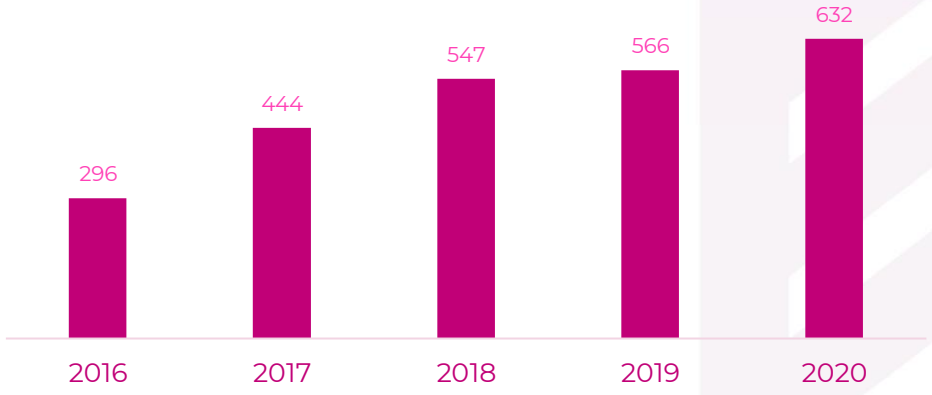


Source: IHS Maritime & Trade, Global Trade Atlas®, HMRC

Products that could perform well in the market are ones that connect to the **provenance** trend. This trend has grown strongly in the market over the past year and European consumers, like so many others, are showing that they want the opposite of global.

Protein is another trend that is strong in the EU dairy market. As the chart below shows, launches of high-protein dairy products are still on the rise.

Launches of high-protein dairy products in the EU:



Sources: ADHB; GNPD Mintel

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North America

Relevant key trends & opportunities

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2020 saw a surge in demand for most dairy categories

Cheese was the biggest winner, adding $2.4 billion in retail sales

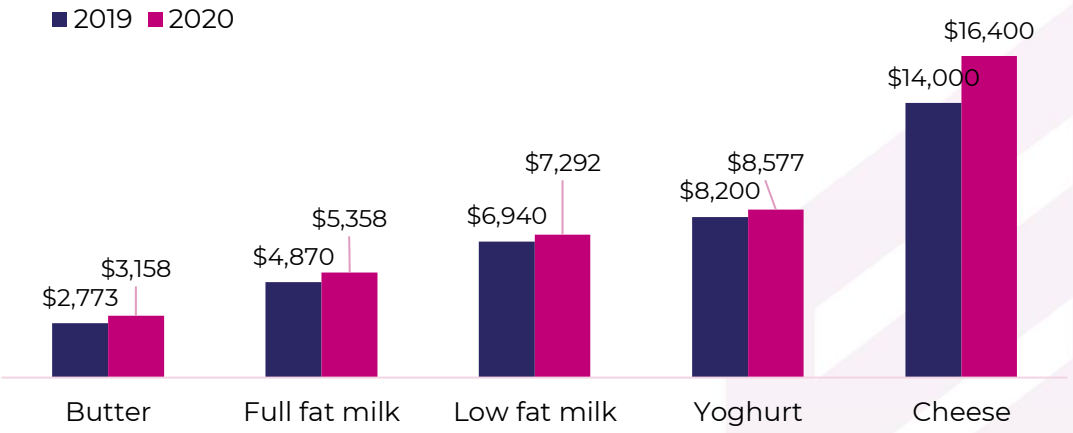
Butter sales grew 12.8% in 2020 with the biggest winner the Irish Kerrygold brand, trading on its Irish provenance. Butter benefited from more home baking and cooking but growth has been ongoing since 2010, supported by butter's 'all-natural' credentials and consumers' declining fear of fat.

Cheese grew 13.9%, adding $2.4 billion in retail sales. Cheese makes a convenient lunch at home, but the long-term growth trend is driven by cheese's protein credentials and the success of snacking formats.

Consumers' declining fear of fat helped drive 10% growth in the full-fat milk category, compared to just 5% for low-fat milk.

The yoghurt category is mature and ultra-competitive and growth was limited to 4.6%, partly due to massive brand promotion.

US dairy sales in 2020 vs 2019 (expressed in $million):



Source: IRI

As the fear of fat recedes – particularly among younger consumers – categories such as butter and cheese grow

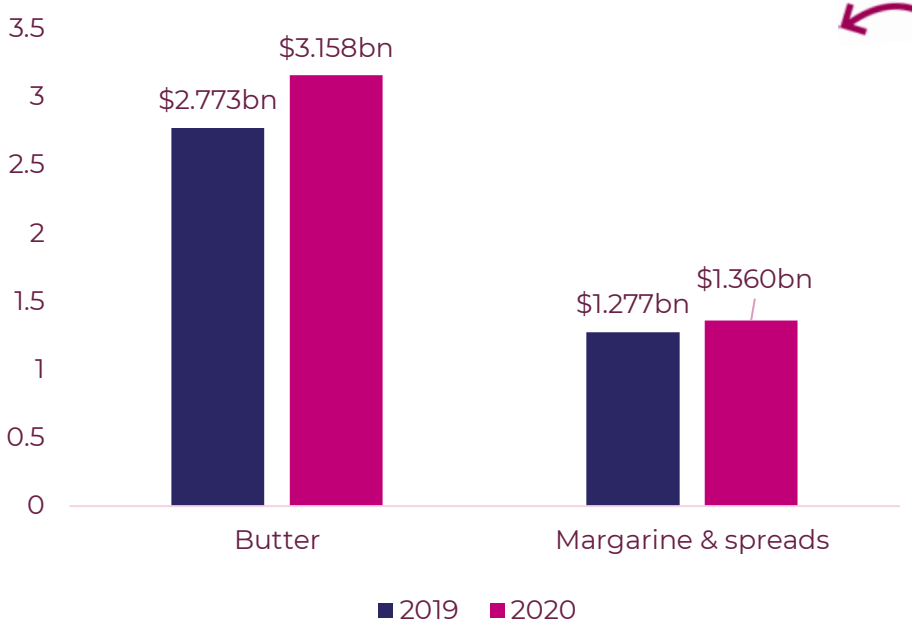
52%
of US consumers say they agree with the statement "fat is not bad for health".

50%
think that full-fat yoghurt is a source of healthy fat,

46%
say the same about cheese and

25%
think butter is a source of healthy fat

Butter's all-natural credentials, its taste, its versatility and consumers' declining fear of fat all propelled its sales growth of 13.9% in 2020. Meanwhile, spreads grew by just 6.5%:



The increase in dollars consumers spent on butter outpaced – by 360% – the increase in spending on margarines and spreads.

Sources: NNB survey of 3,321 consumers in 5 countries; IRI.

Case study: Provenance message helps drive Irish butter's success

The biggest winner in the US butter market in 2020 was **Ornua**, Ireland's dairy exporting organisation, which markets the **Kerrygold** brand.

In 2020 sales jumped by 17% by volume and 28.3% by value, to $235.4 million (€207.5 million), making it the number-two butter brand in the US.

Kerrygold is positioned as "the Irish grass-fed difference".

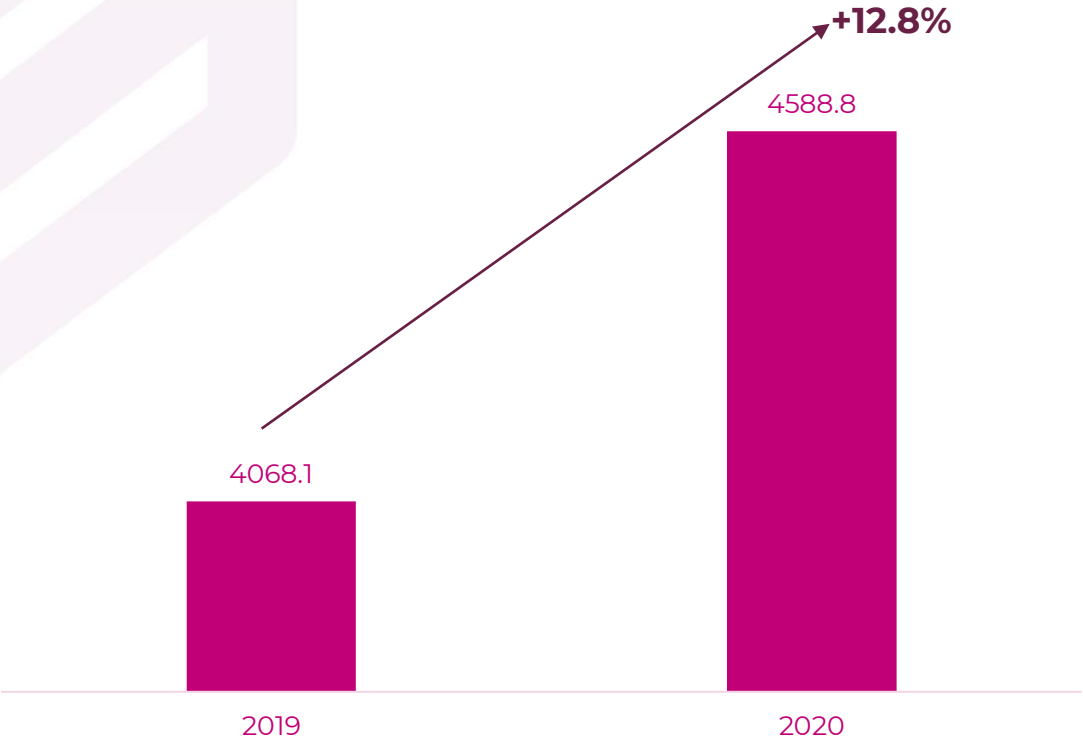
Taste and provenance matter more than price.

Source: IRI.

2020 saw double-digit growth for cheese in the US

Cheese has successfully been reinvented as a healthy snack in the market

Millions of units of natural cheese sold in US retailers, 2019 vs 2020:



Sargento's Balanced Breaks, which pairs cheese with fruit and nuts or crackers, has rapidly become one of the most successful snack brands in America, in any category. Launched in 2015, the brand's total sales hit $233.9 million (€208.7 million) in the year to April 2020, despite selling at a significant premium not only to cheese snacks but to snacks of any kind.

"It's been a really good growth driver for Sargento and also for the cheese-snacking category in general. And it's achieved its status in a short amount of time. We're already bigger than a lot of long-established brands."

Chris McCarthy, MD, Sargento

Sources: IRI; Sargento.

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Asia

Relevant key trends & opportunities

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Safety, provenance and premiumisation all overlap in the consumer's motivation to buy.

Many consumers lack trust in domestic products and are prepared to pay extra for the perceived safety and quality of products from "somewhere else". The Chinese government implemented a Dairy Product Quality and Safety strategy in 2021 in an attempt to change this, but it is very unlikely to have any immediate effect.

The biggest opportunity is driven by the spending power of the premium consumer in Asia.

Higher earning/higher educated consumers in key Asian countries attach importance to:

1. Quality
2. Provenance and brand story
3. Health and nutrition

Consumers in this segment tend to be females aged 25-44.

"The health active Chinese consumer still believes that local food safety and hygiene standards are not very good and this drives them to seek out authentic products from more trusted countries."
Denise Conroy, Plant & Food Research Inst., NZ

78%
of Chinese consumers claim to be worried about the safety of dairy products.

Milk contamination is the top food safety concern in China with
80%
saying they're worried about this

Sources: Nielsen; Food Navigator; Consumer's Associations in Beijing, Hebei and Shandong, Fonterra Ingredients.

Fresh liquid New Zealand milk sent directly to Shanghai sells at £8 a litre

Milk produced by New Zealand brand Theland can land in Shanghai supermarkets roughly 72 hours after production and bottling near Auckland. The company's fresh milk is widely available in outlets such as Tmall online (China-wide) and Alibaba Hema Fresh supermarkets (Shanghai).

Consumers' demand for and concern over food safety and provenance, plus perceived higher quality, is driving demand for fresh NZ milk – despite premium prices.

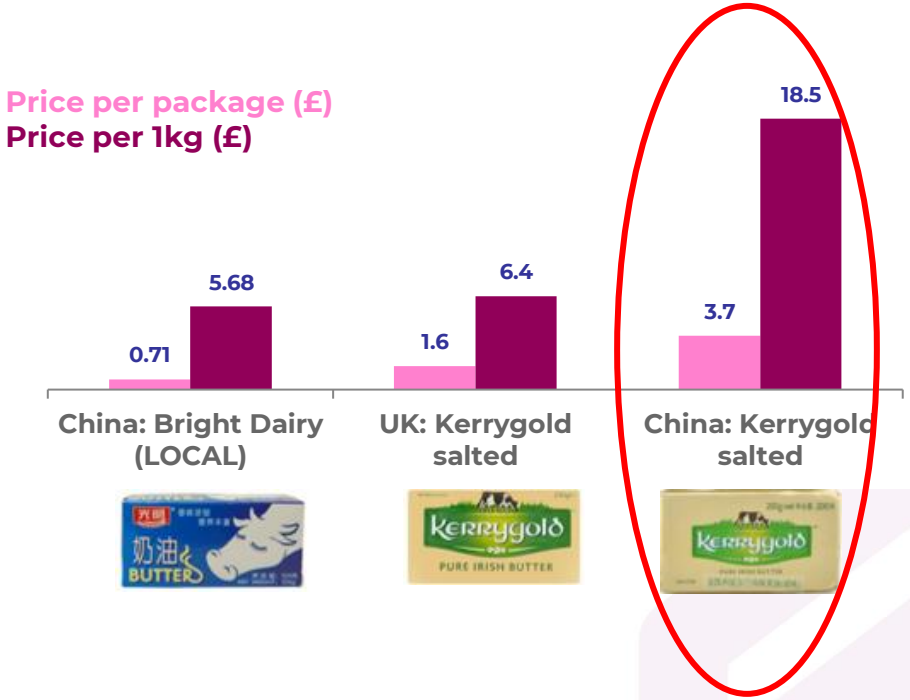
Theland's listing on Chinese Tmall is supported by a promotional video that showcases New Zealand's green fields and beautiful nature

Theland™

Bringing New Zealand Premium and Purity to you

Sources: Milk New Zealand; Theland; Tmall

Kerrygold sells its butter, marketed with Irish provenance and quality, at a 200% price premium in China compared to Europe.



Sources: Vard; NNB supermarket survey

Cheese continues to be an area of growth

According to USDEC, Asian consumption and awareness of cheese has grown significantly over the past decade. Cheese is still a relatively new and foreign concept in the market, but marketing campaigns combined with a general appetite for Western food concepts means it is an area of opportunity that should not be ignored.

Consumers in Asia are more open to innovation in the cheese sector and tend to have a more adventurous taste. This is evidenced by the unique products available in mainstream retailers – from cheese-flavoured yoghurt and ice cream in China to cheese tea in Japan and cheese-flavoured protein bars in South Korea.

"The nutritional value of cheese is accepted by more and more Chinese as a result of recent marketing campaigns. Chinese parents, who are now aware that cheese products are rich in protein, consider cheese to be a quality food to give to their children."
Interview with Chinese industry executive

"Although access to cheese is fairly new for the region as a whole, the fondness for cheese makes consumers open to innovation and willing to try new cheese-flavoured foods and beverages. And the process of experimentation and adoption has been made simple, due to the ease with which cheese can be added to local dishes and cuisines."

Mervyn Gribben, Vice President and General Manager, Food and Meat, Kerry APMEA.

Sources: USDEC

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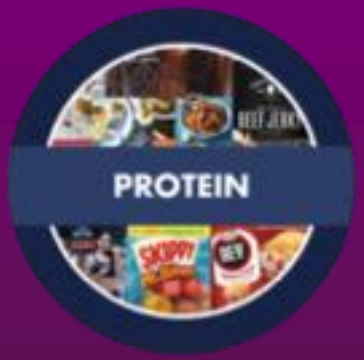
Middle East

Relevant key trends & opportunities



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Cheese remains a key opportunity in the Middle East

Consumer interest is growing, as are imports.

According to OECD predictions, cheese imports in MENA will grow by

23%

by 2029 .

Dairy Industries International projects that the cheese & curds market in the Middle East will reach volume of

1.8m

tonnes by the end of 2030.

Saudi Arabia is the country with the highest consumption. According to the ADHB, cheese is the most valuable category in the Saudi Arabian dairy market, accounting for over **30%** of dairy spends.

Arla Foods inaugurated a new cheese production site in Bahrain in October 2019 in order to meet growing demand for dairy in general and cheese in particular. Arla Foods' CEO Peder Tuborgh says MENA is "a priority market" for the company and it has doubled its sales in the region since 2010.

The US Cheese Guild is specifically targeting the Middle East, saying that "there is an upward trend in cheese consumption in the Middle East" and that UAE, Kuwait and Qatar are particularly promising markets.

Sources: OECD; Food Navigator; Dairy Industry International; Hospitality News Middle East.

UK cheese exports to the Middle East are almost exclusively cheddar

The UK stands for a relatively modest share of the total cheese supply to the region, with a market share of only 3.3% in the UAE.

There is strong competition from other countries, most notably the US, Denmark and Egypt.

Leading cheese suppliers to UAE in 2018:

Country	Market share	Product type
Saudi Arabia	20%	Processed cheese
US	9.5%	Processed cheese, mozzarella and some Monterrey Jack
Denmark	8.2%	Mainly feta-style cheese
Egypt	5.8%	Processed cheese
New Zealand	5.4%	Mainly cheddar and mozzarella
Turkey	5%	Processed cheese
France	4.8%	A range of French cheese products
UK	3.3%	Mainly cheddar

Sources: ADHB

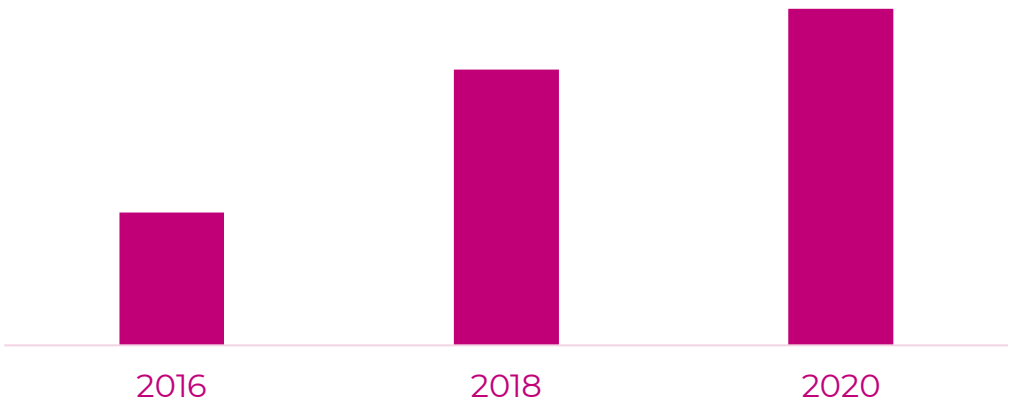
Consumers want protein – but the high-protein dairy segment is underserved

"The market is primarily driven by the rising health consciousness among the consumers who are demanding for protein-rich food products."
Business Wire, 2020

However, dairy products promoted for being high in protein are still extremely rare in the Middle East when compared to other regions. This, along with a growing demand for protein, points to a gap in the market.

The growing number of food & drink products promoted for being high in protein confirms this.

MEA launches of high-protein F&B products:



2020 launches of high-protein dairy products:

Sources: Business Wire; GNPD Mintel

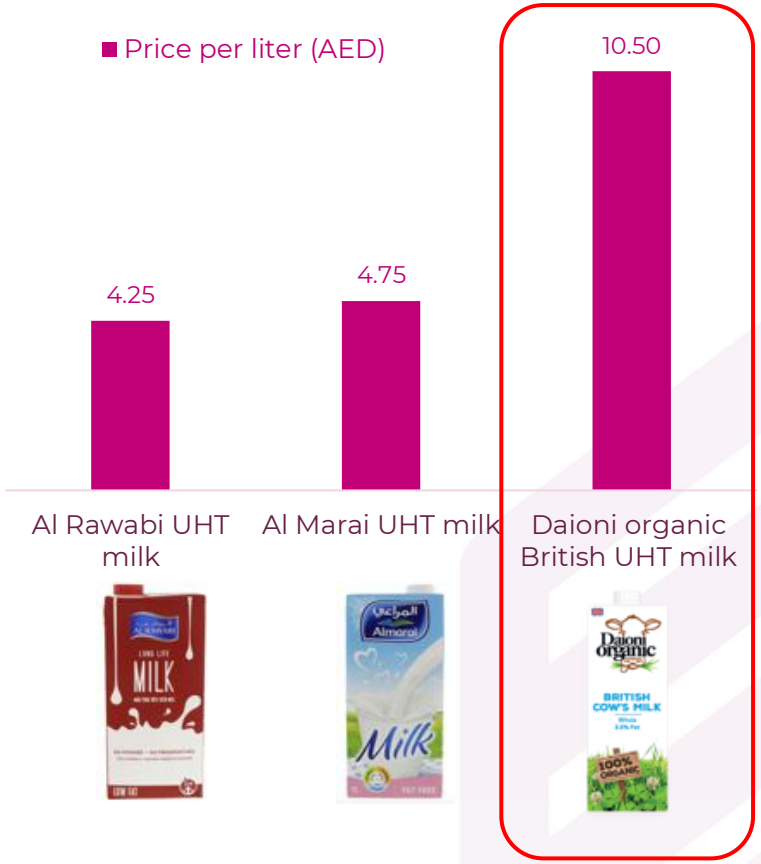
Case study: Daioni focuses on export

Daioni first launched in the UAE in 2008. It is a farm-based Welsh operation that markets flavoured milk (UHT and fresh) promoted for:

- Organic
- Minimal sugar content (but not sugar-free) - less than 5% added organic sugar
- Strong Welsh and British branding

The brand's strong provenance messages enables it to retail at a 100%+ price premium when compared to local options.

Price comparison: Daioni milk in Dubai

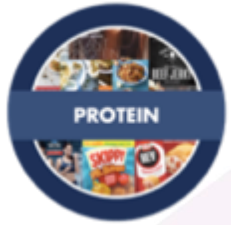


Sources: Daioni; NNB supermarket survey

Some key points for Scottish dairy companies

Scottish provenance alone is not enough for a product to be successful, but provenance in combination with other key trends has proven time and time again, in all categories, to be a successful strategy

In all markets, connecting to multiple key trends offers the greatest chance of success – as long as the connection makes sense for consumers



There are many niche opportunities in health and wellness which are too small for larger companies to target but which are a perfect fit for Scottish SMEs. The key to success here is to have laser focus on very strongly defined consumer groups, in urban areas .

Consider taking a traditional product and reinventing it to suit consumer's tastes in your target market. This strategy has been behind some of the biggest success stories in recent years – Chobani (Greek yogurt), Kevita (kombucha) and Skyr

But great taste is always the most important success factor of all

Insight

	Findings	So What?
Cheese	• In the UK, US and Europe, fear of fat is reducing while concerns around sugar are increasing. • Consumers in the Middle East and Asia under index on cheese consumption • Consumers associate cheese with good sources of protein and essential vitamins and minerals. • There is still lots of scope to develop new formats to make it easier for consumers to increase cheese purchasing, particularly on the go	**Communication campaigns and on-pack messaging should focus on the areas which resonate most with consumers such as** • **Natural/ minimally processed/ artisan** • **Sustainability** • **High protein** • **Low/ no sugar** • **Possibly higher fat messaging for some markets**
General dairy	• Reinvention of traditional products is a strategy which has worked well in dairy, and there is plenty of scope to identify and modernise other traditional products • Provenance is still very important in dairy and offers niche opportunities in UK, US and Europe, and larger development opportunities in the Middle East and Asia. • As with meat, grass fed is becoming a quality signifier for dairy products • Alternative dairy is on the rise	**In Middle East and Asian markets, Scottish provenance offers a point of difference, and the opportunity is currently underserved** **Explore non-cow dairy and traditional products with Scottish, UK, Nordic or Eastern European heritage which have health credentials and can be reinvented for new audience – this can even create new categories** **Connecting to the key communications messages above will resonate with key consumer groups**

THE KNOWLEDGE BANK

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Thank you

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