

Insights on Today's Global Dairy Business from the Hoogwegt Companies

Market Matters

Alternative Market No Match for Dairy

For some in the dairy industry, the plant-based dairy alternative market has grown at an alarming rate. Valued at \$22.6 billion in 2020, the global dairy alternative market, is expected to grow at a compound annual growth rate (CAGR) of 10.3% between 2020 and 2025. By January 2026, the market is expected to reach \$40.6 billion, according to Markets and Markets. That's nearly a doubling in value over a mere five years.

The global plant-based cheese market, valued at approximately \$1.01 billion in 2019, is anticipated to grow ever faster, with an expected CAGR of 12.8% between 2020 and 2027, according to *Wise Guy Reports*. Alternatives are also close to outracing dairy for needed expansion capital.

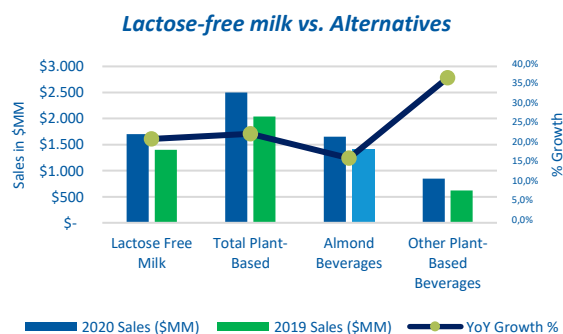
However, these numbers need to be looked at in perspective. The total value of the alternative market in 2020 is still miniscule, 3.2% compared to the total value of the global dairy market at \$720 billion in 2019. Furthermore, Mordor Intelligence projects the global dairy market will grow at a CAGR of 5% between 2020 and 2025, which would put it over \$920 billion by January 2026. While these projections show the alternative market gaining slightly on dairy, both industries have plenty of growth potential.

Effects on Trade Considerable

Value-added dairy markets, such as lactose-free and high-protein products, rival the entire dairy alternative beverage market both in terms of market share and growth rate. The popularity of these dairy products suggests they have just as much potential for expansion as the alternative market. For example, Fairlife began as a joint venture between Coca Cola and a group of U.S. dairy producers in 2012 with one product, its Core Power high-protein performance shake. The product line today, which Coca Cola now owns entirely and plans to expand globally, consists of ultrafiltered, high-protein, lactose-free milk, nutrition and performance products, and ice cream, with the bottled milk products experiencing double-digit growth.

Three main drivers are responsible for the growth in dairy alternative markets. First, people who are lactose intolerant often continue to choose alternatives to dairy even though there

are a growing number of lactose-free dairy brands on the market to serve this large consumer group. According to *Healthline*, lactose intolerance affects 5–17% of Europeans, 60–80% of Africans and Asians, and about 44% of North Americans.



Source: IRI data

Second, environmental concerns and consumer awareness that climate change is accelerating have also convinced some people to switch to plant-based beverages or at least cut back on dairy and meat consumption to help reduce greenhouse gas (GHG) emissions. However, dairy's share of global GHG emissions is only 2.7%, with 2.2% coming from the milk production sector, and it is unclear whether dairy's footprint is any larger than that of alternative products.

Finally, some consumers believe plant-based dairy alternatives to be healthier than dairy products due to the perception that dairy products contain more saturated fat and cholesterol, both traditionally thought to be major contributors to chronic diseases. However, recent peer-reviewed studies have questioned the assumptions that the saturated fat in dairy is harmful. Looking at the overall nutritional differences between the two markets clearly shows milk is superior to plant-based alternatives, a fact acknowledged overwhelmingly by health professionals. Compared to oat milk, for instance, dairy has nine essential minerals versus five for the plant-based product, twice the amount of protein, fewer grams of sugar and carbohydrates, the same amount of saturated fat, and nearly 25% fewer calories.

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Hoogwegt Forecast

	U.S. average prices			EU average prices			Oceania average prices		
	\$/t	\$/lb	Trend	\$/t	\$/lb	Trend	\$/ton	\$/lb	Trend
SMP	2.975	1,35	Firm	3.200	1,45	Firm	3.350	1,52	Stable
FCMP/WMP	4.080	1,85	Firm	3.960	1,80	Firm	3.750	1,70	Firm
Butter	4.300	1,95	Stable	5.050	2,29	Firm	4.900	2,22	Weak
Cheddar	3.860	1,75	Stable	4.350	1,97	Stable			
SWP	1280	0,58	Stable	1.325	0,60	Stable			
Lactose	970	0,44	Weak						

U.S. prices stated ex-works/including expected CWT subsidy where applicable; world prices stated FOB main port; EUR/USD: this week \$1,173

World Comment

The last weeks have been mainly about whether China will keep on buying or will they slow down a bit. GDT participation of just 40% in the last two GDT's seem to give an indication, since it was the lowest participation for over a year. South East Asia is experiencing one of the most severe lockdowns since the start of the pandemic, resulting in factory closedowns, strikes and less consumer demand. With two large buying regions being less active at least, a softening of prices would not come as a surprise. However, we currently see prices increasing across the board, due to an even more disappointing supply in the EU and logistical issues in the US. The last two months' supply growth in the key exporting regions went down from 3,0% to 0,8%. Which cannot just be explained by strong numbers in 2020. US supply have been strong throughout the season, but July reporting a growth of just 2%. EU growth was negative in July, but the outlook for August seem to be better. Could a strong New Zealand season bring some better news for the buy-side, or will the first downside be the EU flush?

Bring it Home

Lab Milk Threatens Alternative and Dairy Markets

While plant-based dairy alternatives have proliferated rapidly over the past several decades, a new technology, lab grown milk proteins, has been evolving over the past 5-10 years that could threaten both markets. Fermentation-based milk protein products are now being sold commercially for relatively spendy sums. Some analysts believe these products could become more affordable in time, making them even more popular than alternatives as many believe they both taste and function better.

This new technology has garnered the attention of some of the world's largest food companies. According to *The Guardian*, Nestlé and Danone have bought start-ups that are working on technologies to grow milk proteins in the lab, and investment banks are also putting money into the technology. However, these products, and their meat counterparts, have been slow to reach commercial status. So far, only Silicon Valley-based Perfect Day, has been able to bring its lab-grown, milk protein products to market. Perfect Day now sells three branded products to 5,000

stores in the United States. One of its ice cream brands sells for \$9.99 (U.S.) per pint, more than twice premium ice cream brands.

Lab-made cheese could also be in stores within the next few years. New Culture, a start-up based in San Francisco, has been developing a fermented milk protein product to make a type of Mozzarella. The company hopes to make a product with all the right melting characteristics needed for pizza cheese. While the technology has advanced quickly over the past two years, scaling up to sell it commercially has been slow, according to the firm.

Yet even if these new companies could scale up their technology, consumers would need to be open to trying their products, and governments would eventually need to shift massive amounts of subsidies away from traditional agriculture and toward this technology for it to ever overtake traditionally produced dairy.

Did You Know?

Many dairy companies, including Danone and Lactalis, have launched plant-based milks and other dairy alternatives.

Earlier this year, U.S.-based Target launched a new line of more than 30 plant-based products in its good and Gather line.

One-fourth of dairy's share of GHG emissions comes from developed countries, while 75% originates in developing countries.

Earlier this year, the European Union dropped legislation that would have banned alternative products from using the terms "creamy" and "buttery."

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