Study finds dairy industry gained no long-term sales, competitive advantage from rbST-free milk

(4/20/2009)

Only 8-12% of consumers are concerned enough to change purchasing or consumption behavior

A research report just released concludes that the dairy industry's shift to recombinant bovine somatotropin (rbST)-free milk was an overly quick response to a problem that seemed bigger than it was in reality.

Study findings suggest that although only 8 to 12% of consumers were concerned enough about rbST to change purchasing or consumption behaviors, milk-processing companies instead opted to forgo giving consumers a choice, and adopted rbST-free policies without adequate analytical assessment for fear of losing retail accounts to competitors who had already made such a move. In addition, according to the report, most industry executives who were interviewed said that given the same situation, they would not make the same decision again.

"The circumstances that led executives to make the shift to sourcing milk from non-rbST-supplemented cows are understandable – however, the outcome is questionable," said Tom Nagle Jr., principal author of the report. "Since the milk business is a commodity business, clear points of product differentiation are difficult to come by, but once identified, rather quickly adopted by others. rbST-free differentiation is particularly challenging as all milk – organic, conventional and rbST-free – contains bST, a naturally occurring protein hormone that enables adult cows to produce more milk. The executives we interviewed said that, unfortunately, their companies have not realized any long-term sales or competitive advantage by making the switch."

The study, which was conducted by Statler Nagle LLC of Washington, D.C., included interviews with 10 senior executives at milk-processing companies, as well as a review and analysis of more than 15 consumer studies. Based on both primary and secondary research, Statler Nagle determined the outcome of the shift to "rbST-free milk" to be questionable in terms of business results and consumer response.

No benefit for businesses, little desire from consumers

In the survey, milk processors reported that total milk sales seem to have experienced no discernable "sales bump" from the changeover, which should have occurred had there been a significant group of consumers who were reducing or eliminating milk consumption because of concerns about hormones. This is explained by a quantitative research review, which shows that no more than 15%, and as few as 8 to 12%, of consumers are concerned enough about the issue to change their purchasing or consumption behaviors. Further, out of that 8 to 12%, one-third to one-half already satisfy this preference by purchasing organic milk.

From 2004 through 2008, research showed that mothers' beliefs about the healthfulness of milk remained stable at very high levels. This is a critical observation, because this was the same time period when reports of consumer concern were being felt by retailers and processors alike. Quantitative measures suggest that these reports either were not true or represented a segment too small to affect national survey ratings.

For processors, retailers and consumers, the downside of the full changeover to milk from non-rbST-supplemented cows is that the underlying cost of milk is increased, regardless of whether a direct premium is charged for that milk supply.

A value-added approach offers more

There is strong evidence that an rbST-free, value-added tier – rather than a full changeover – would have had excellent potential to satisfy the limited consumer demand for such a product, while keeping the majority of the milk supply available at a lower cost and addressing consumer preference for the ability to choose.

"Interviews with executives in markets that currently have, or previously had, a third tier of rbST-free products, along with conventional-milk products, saw positive outcomes," said Nagle. "This option now has been largely abandoned due to the series of decisions to eliminate the ability to use rbST. This seems to represent a significant lost business opportunity."

Finally, many survey respondents expressed personal and professional regret that a precedent had been established to take a U.S. Food & Drug Administration (FDA)-approved, safe technology – an innovation that had delivered higher efficiency and lower costs to the entire value chain, from farmers to consumers – "off the table" without any scientific evidence of negative health consequences. This seemed, to most respondents, to be an unfortunate precedent that could have greater consequences for many different foods over time.

"Our report is not an attempt to repeat the substantial argumentation for or against the use of rbST or other productivity innovations, but it can serve as a lesson for industry decision makers," said Nagle. "Gathering substantially more input before making such a massive change is the best way to prevent changes that will affect, but not necessarily benefit, the industry and its customers. The alternative is to accept higher costs while setting precedent for giving up sound, safe technologies without sound science to prove the need."

Statler Nagle, LLC is a unique marketing resource, located in Washington, D.C. The firm was founded in 2007 by two national leaders in the field of generic and industry marketing. Architects of the universally recognized "Got Milk?" and "Plastics Make it Possible" campaigns, Tom Nagle and Jean Statler are sought after for their counsel on creating, building, measuring and evaluating industry marketing programs.