MARKET RESEARCH
TOP LINE FINDINGS

Prepared for:

Ontario Goat AGM

February, 2015

BACKGROUND

AMR was approached by OG to do a baseline market study

Our mandate was to provide the board with …
a] a full understanding of consumer dynamics and particularly growth drivers and barriers which would stimulate or impede the industry's progress going forward

b] create a set of base line measures so there was a tool to measure industry progress and track the effectiveness of any business development initiatives that were introduced

BACKGROUND

This was a solid and insightful move on the part of the board of Ontario Goat Breeders Association … because …

… all successful industries …

a] set goals

b] have a plan to achieve them

c] monitor their progress as they work to achieve their goals

BACKGROUND

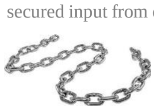
After consultation with Jennifer Haley, the Executive Director of Ontario Goat, the AMR team came to the joint conclusion
… that …

…the success *[or otherwise]* of a business plan that relied on addressing consumer needs and expectations would depend on the capacity of the Ontario goat industry to meet that challenge
… and that …

this research therefore needed to assess each link in the farm-to-table chain
i.e. consumers, retailers, cheese processors, brokers and producers
in order to establish …
not only **what opportunities existed** but **what, if anything, within the chain, needed to be done for producers to realise them**.

BACKGROUND

In line with this thinking, we went step by step through the chain and secured input from each of its links



CONSUMERS

RETAILERS

PROCESSORS –
of cheese and 'other' goat dairy

BROKERS

PRODUCERS

PROCESS - STAKEHOLDERS

The stakeholder assessment included personal one-on-one interviews with …

- the two largest food retailers in Canada
- the two largest cheese producers in Ontario and one artisanal cheese maker
- the two brokering operations
- a group of small, medium and large scale producers *[selected by the two brokers]*

PROCESS - CONSUMER

The consumer assessment involved conducting

Focus groups with **goat cheese users**

Triad interviews with **'other' goat dairy users**

407 on-line interviews
with **principal meal preparers** in a random selection of households across Ontario

FINDINGS - CONSUMER

The consumer assessment unveiled …

the marketplace status quo

growth opportunities that exist

and

how to realise them

GOAT DAIRY STATUS QUO
HOUSEHOLD PURCHASING INCIDENCE

Goat dairy has been bought for the household
59%

Cheese Only	'Other' dairy only	Both cheese and 'other' dairy
36%	**1%**	**21%**

Household Purchasing INCIDENCE

Goat dairy has NEVER been bought for the household
41%

GOAT DAIRY STATUS QUO
TRIAL AND CONSUMPTION

Someone In Household Had Tried GOAT CHEESE **71%**	**TRIAL**	Someone In Household Had Tried GOAT MILK **31%**
Someone In Household EATS GOAT CHEESE **63%**	**CONSUMPTION**	No one In Household EATS GOAT CHEESE **37%**

Trial to use conversion - 89%
[71% have tried: 63% consume]

Someone In Household EATS GOAT CHEESE AT HOME ONLY	Someone In Household EATS GOAT CHEESE AFH ONLY	Someone In Household EATS GOAT CHEESE IN HOME AND AFH
7%	**6%**	**50%**

GOAT DAIRY STATUS QUO
PURCHASING INCIDENCE/FREQUENCY

% stating ___ [GOAT DAIRY item] bought for in-home consumption … BASE: 407	Cheese	Yogurt	Butter	Fresh Cream	Sour Cream	Ice Cream	Milk
Weekly or more often	5	2	1	1	1	1	3
Every 2 weeks	8	4	2	2	2	2	3
Every 3-4 weeks	12	3	3	2	1	2	3
Every 1-3 months	16	4	3	3	3	2	3
Less often than every 3 months	18	5	4	3	4	4	4
NEVER	43	83	89	90	9	9	84
Trial - Ever bought	***[57]***	***[17]***	***[11]***	***[10]***	***[10]***	***[10]***	***[16]***
MEAN times per month	**0.7**	**0.2**	**0.1**	**0.1**	**0.1**	**0.1**	**0.3**
Cow	*2.8*	*2.8*	*1.8*	*1.2*	*1.2*	*1.4*	*3.7*
MEAN times per year	**8.4**	**2.4**	**1.2**	**1.2**	**1.2**	**1.2**	**2.4**
Cow	*33.6*	*33.6*	*21.6*	*14.4*	*14.4*	*16.8*	*44.4*

EXCITING finding #1 *– trial is high, frequency is low*

GOAT DAIRY STATUS QUO
OPPORTUNITY

… if you move household purchasing of goat cheese from 0.7 times a month to 1.4 times a month, you will double your goat cheese business

if you move household purchasing of goat milk from 0.3 times a month to 0.6 times a month a year you will double your goat milk business

GOAT DAIRY STATUS QUO

CONSUMER PURCHASING BARRIERS - CHEESE

LACK
Lack of familiarity/awareness/availability

and

COMPLACENCY
… were the main barriers to **GOAT CHEESE** use

***EXCITING finding #2**: the main barriers to goat cheese purchasing are surmountable*

GOAT DAIRY STATUS QUO

OPPORTUNITY … CHEESE

… if you broadcast goat cheese and give people a good reason why they should consider it instead of its cow equivalent … you will remove the main barriers to purchase

GOAT DAIRY STATUS QUO

CONSUMER RECEPTIVITY … CHEESE

When shown a series of goat cheese attribute statements
60%
'Non' and 'Infrequent' buyers stated

… one or more of the attributes would encourage them to buy it/buy it more often

EXCITING finding #3: **When they know what goat cheese has to offer, many consumers are willing to buy it/buy it more often**

GOAT DAIRY STATUS QUO

OPPORTUNITY … CHEESE

… if you tell people about the benefits of goat cheese, they will start buying it, or start buying the product more often

GOAT DAIRY STATUS QUO

CONSUMER RECEPTIVITY … GOAT CHEESE

Although the **'variety'** and **'healthfulness'** message themes have slightly more appeal overall, the **'tolerability'** claim occupies a close third position.

Within the healthfulness message platform,

- the **'lower cholesterol'** and
- **'nutrient content'** messages

…. have a slight edge over messages comparing goat cheese to cow cheddar for fat, calorie and sodium content.

GOAT DAIRY STATUS QUO

CONSUMER PURCHASING BARRIERS - MILK

LACK OF AWARENESS

and

COMPLACENCY
[contentment with cow milk]

… are the main reasons why people do not buy goat milk

The main barriers to goat milk purchasing are surmountable

GOAT DAIRY STATUS QUO

OPPORTUNITY … MILK

… if you broadcast goat milk and give people a solid reason why it is a better choice than cow milk … you will remove the main barriers to purchase

GOAT DAIRY STATUS QUO

CONSUMER RECEPTIVITY … MILK

When shown a series of goat milk attribute statements
60%
'Non' and 'Infrequent' buyers stated

… one or more of the attributes <u>would</u> encourage them to buy goat milk/buy it more often

When they know what goat milk has to offer, many consumers are willing to buy it/buy the product more often

GOAT DAIRY STATUS QUO

OPPORTUNITY … MILK

… if you tell people about the benefits of goat milk, they will start buying it or start buying it more often

GOAT DAIRY STATUS QUO

CONSUMER RECEPTIVITY … MILK

The most compelling goat milk messages are its …

NUTRIENT CONTENT

i.e. compared to cow milk, goat milk has more nutrients like essential fatty acids, vitamin B-6, vitamin A, niacin and potassium"

and

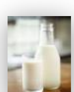
WHOLESOMENESS

i.e. there are no growth hormones or antibiotics in goat milk

GOAT DAIRY STATUS QUO

CONSUMER RECEPTIVITY … MILK

96% stated their commitment to buying goat milk would be strengthened if



one or more advertising/merchandising initiatives was used

The two most inspiring initiatives were

- opportunities to **sample the product** *[in store taste tests, samples packs, high value coupons*
- making the product very **visible/stand out/easy to find** at the store

GOAT DAIRY STATUS QUO

OPPORTUNITY … MILK

… if specific advertising and merchandising initiatives are used to support messaging about the benefits of goat milk – its impact will be greatly enhanced

GOAT DAIRY STATUS QUO

NET TAKE AWAY

SIGNIFICANT LATENT CONSUMER INTEREST
in goat dairy exists

THIS INTEREST CAN COVERT TO BUSINESS GROWTH

… **if it is stimulated by …**

product accessibility at the retail level

messaging that increases awareness of the product and what it has to offer
and
merchandising and marketing initiatives

GOAT DAIRY STATUS QUO

INDUSTRY CALL TO ACTION

COLLECTIVELY GOAT PRODUCERS
CAN HAVE AN IMPACT ON MARKET GROWTH
by
increasing awareness of, and purchasing commitment to, goat dairy
through the development and implementation of strong and convincing generic advertising and **consumer information/education**

improving product accessibility at the retail level
by developing a product category icon that makes the product easily distinguishable from cow alternatives
and
by **partnering with retailers to develop in-store initiatives**
as well as
encouraging consumer-driven innovation at the processing level

FINDINGS - INDUSTRY

A variety of industry capacity challenges were encountered at each stage of the added value chain which could

not only impede the industry's ability to grow
but
make all producers vulnerable

FINDINGS – RETAIL … CHEESE

- Retail is a vital link in the chain because it is the consumer point of contact with our products

Upside:

- All of the main supermarket chains are creating a whole new retail environment for shoppers that are seeking inspiration in the food they eat

The cheese category is considered an important customer inspiration tool and the focus is on specialty items – *the environment into which goat cheese has historically been thought to fit*

- In return for higher margins, retailers are providing counter consultation and story-telling, tastings, special handling of products that have a short shelf life, system access to smaller/local artisanal suppliers makers etc.

<u>This trend bodes well for artisanal cheese makers</u>

FINDINGS – RETAIL … CHEESE

Downside:

- most of the off-the-shelf volume cheese market *[including some semi soft unripened goat cheese – namely those in log format]* …. is **highly commoditised**

… the problem with commoditised categories is that there is the absence of **brand equity** to …

- add value
- set a higher price
- increase margins which provide the wherewithal to …
  - support the product
    - tell its story
    - create loyalty and a point of differentiation from competitive products
  - innovate

FINDINGS – RETAIL … CHEESE

- Retailers are therefore forced to buy where the best deal is to be had … imported/domestic – they don't care!

- CETA the ***Comprehensive Economic and Trade Agreement*** could make cheaper imports more available to retailers and make domestic product less attractive

- furthermore, if and when they buy domestic products, retailers will likely always push back on cheese processor pricing

- this is of special concern for products like *semi soft unripened goat cheese* – which currently accounts for the bulk of goat cheese sales

FINDINGS – RETAIL … OTHER ISSUES

- 'For large retailers 'other' goat dairy is …
  - a low priority item
  - not a 'drawing card *[like cow milk]* .. and so
    - obscurely located in the store
    - premium priced

- Retailers have either an *uninformed* or *unflattering* image of the Ontario goat industry – i.e.
  - less organised
  - lacking cohesiveness/having an overly fragmented processing sector
    i.e. a few big and a lot of small intensely independent players
  - having a less than optimal milk collection system

RETAIL … INDUSTRY CALL TO ACTION

- **Because they are a powerful conduit to the consumer** *[they are the ones providing exposure to and showcasing our products]*, arguably, **there is a need for the goat industry to relationship-build with the retail sector**

- Furthermore, as a starting point, the industry might well want to consider fostering the development of a **stronger and more positive industry persona in that sector**

FINDINGS - PROCESSORS

- The two main Ontario cheese processors have
  - shown their mettle
  - lead the charge

They have single handily grown the domestic and export markets

… two of the three top brands of goat cheese in the US are Canadian

- All processors *[large and small]* feel that their businesses are being hampered by an inadequate milk supply

FINDINGS - PROCESSORS

The large cheese producers:

- dominate demand … and …
  - threaten the supply of milk to smaller processors
  - create excessive producer dependency

- use all the milk, dairy goat producers can provide … and ….
  - bemoan that there is not enough milk to be had
  - are reluctant to make ripened product which 'ties up' the available milk for several months
  - cannot implement all of their new product development plans
- feel they can't count on a reliable and consistent supply of quality milk

FINDINGS - PROCESSORS

The large cheese processors:

- have failed to develop robust and thriving goat cheese brands

  … instead they have used much of their production capacity to service the private label needs of the large retailers - *where the margins are slim and where there is constant price push back on the processor by the retailer*

  N.B as the popularity of commercially prepared products containing goat cheese increases, the pressure to further ignore the development of strong brands will be exacerbated, margins will remain thin and pockets will stay tight.

- feel that producers need to find ways of controlling costs in their operations

PROCESSORS … INDUSTRY CALL TO ACTION

- There is a need for industry-wide initiatives that will encourage
  - **cheese processors to develop viable and flourishing goat cheese brands**
  - **someone to champion**
    - *the growth of the 'other' goat dairy sector*
    - *the development of innovative products*

…. for the domestic and export markets

FINDINGS - BROKERS

Upside:
Hewitt's …
- did introduce some branded product

Co-op have tried
- to grow the milk supply
- to introduce education on farm management practice

FINDINGS - BROKERS

Downside:

- The inability to better match supply and demand has …
  - sometimes seriously stymied sector growth
  - other times caused varying degrees of producer hardship
- Attempts to grow the supply have historically focused on increasing the number of producers – often without paying heed to the potential successfulness of the candidates and their plans
  … the failure rate [which has not been unremarkable] has not escaped the attention of the financial sector … so much so that lending institutions now view goat start-ups as a risky venture which makes them difficult to capitalise
- Raw milk purchases have become concentrated in the hands of a few processors and this has undermined the bargaining power of the brokers when trying to negotiate a better price for producers

BROKERS … INDUSTRY CALL TO ACTION

TO DEAL WITH THESE CHALLENGES – there is a need for industry-wide initiatives that will encourage …

•Reliable industry growth forecasting – supply and demand

•A multi faceted milk supply growth strategy - one that encompasses …

- increasing the production levels of existing operators
  - *bigger operations*
  - *better yields through improved farm practises*
- attracting new 'qualified' producers

BROKERS … INDUSTRY CALL TO ACTION

ATTRACTING NEW 'QUALIFIED' PRODUCERS MEANS
Better candidate
- screening
  - *experience/comprehension/motivation*
  - *access to capital to improve the potential for success*
- sensitising/preparation/education
  an internship programme would ensure candidates understand what is involved in goat farming before they embrace it
- mentoring

A better success rate would foster more confidence and motivation industry-wide not to mention more financial sector support

So … everyone is a winner

FINDINGS - PRODUCERS

Upside
- The most common view of the industry's future was one of **timid optimism**

FINDINGS - PRODUCERS

Downside:
- There is a fair amount of dissatisfaction in the producer population …
- Concerns emanate from the fact that costs - *especially feed costs* - have risen dramatically but there has not been a commensurate increase in milk-at-the-gate prices …

  As a result some find ….
  - it is getting harder and harder to make a living
  - the only way to cover operating and living costs, is to increase herd size

- Negative sentiments often prevail – namely that farmers ..
  - are not getting a fair shake *i.e. processors are taking more than their fair share of the chain margin*
  - are powerless because two companies devour all the milk the industry produces and so, have the power to call the shots/control prices

FINDINGS - PRODUCERS

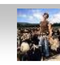
Downside con't:
As in any population … there is a big variance in …

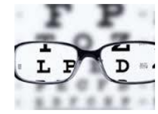
- how people see their destiny and that of their operation
  some want to be very big, others just want a big enough operation to support their chosen lifestyle
- farm management practices
- productivity and rate of return

At the time these interviews were conducted – cited yields and returns were as follows: -

Yields: 1.5 to 3.4 litres per goat per day
Return: 71-83 cents per litre clean

FINDINGS - PRODUCERS





Downside con't:
There is no clear vision of how the industry is going to move forward

Even though there is currently a supply shortfall, some are keen to drive demand – insisting that

- existing processors have to keep up with the milk supply or that
- an increase in the number of cheese makers *[to improve demand for the product and enhance producer bargaining power]* is needed

Others just want a price increase

PRODUCERS … INDUSTRY CALL TO ACTION

TO DEAL WITH THESE CHALLENGES – producers need to be confident that:

•there is a solid **business development plan** in place for the industry

•one that ..

- includes reliable supply and demand growth
  projections and management
- factors in a fair and realistic price for their milk
- ensures their collective bargaining power

CONCLUSION

SUMMARY

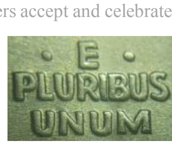
The consumer opportunities are there

BUT

The industry is not currently primed to take full advantage of them

CONCLUSION

The chances of success will be optimised if
… all producers accept and celebrate the notion of …



"One from many"

i.e. a collaborative and cohesive industry-wide sense of community, common purpose and way of doing business
re: milk collection efficiencies, sourcing new customers, price negotiation, on farm practices

CONCLUSION

The chances of success will be further optimised if all producers also accept and celebrate the notion of

… **choosing an accredited captain and crew** …
that can
… create, implement and monitor the progress of …

A Business Development Plan
for the industry as a whole
and
create and oversee

An Industry Task Force
with government, finance, retail, processing, broking and producing, representation

… to prepare the industry for and shepherd it through, an accelerated growth spurt …

CONCLUSION

The chances of success will be even further optimised if all producers also accept and celebrate the notion that

… their accredited captain and crew

will represent the industry's collective interests with regards to

consumers

for image building, generic messaging, dissemination of consumer information

government

for funding, access to farm support programs

the media

in the event of an industry-wide PR problem

the banking sector

to promote the industry's long-term viability and investment worthiness

and

'internal' industry functions like business education/mentorship and disease management

CONCLUSION

Without a concerted industry-wide effort of this nature …

the industry as a whole will not optimally benefit from the consumer opportunities that exist,

and

some producer operations will become very vulnerable

Of late, the entire industry has been and continues to be, the victim of missed opportunity
… its time to move … let's go for it …