America's Milk Business in a 'Crisis'

By Ian Berry And Kelsey Gee

In an age of vitamin waters and energy drinks, the decadeslong decline in U.S. milk consumption has accelerated, worrying dairy farmers, milk processors and grocery chains.

The industry "is coming to recognize this as a crisis," says Tom Gallagher, CEO of Dairy Management Inc., a farmer-funded trade group that promotes milk products. "We cannot simply assume that we will always have a market."

Per-capita U.S. milk consumption, which peaked around World War II, has fallen almost 30% since 1975, even as sales of yogurt, cheese and other dairy products have risen, according to U.S. Department of Agriculture statistics. The reasons include the rise in popularity of bottled waters and the concern of some consumers that milk is high in calories.

Another factor, according to the USDA, is that children, who tend to be heavy milk drinkers, account for a smaller share of the U.S. population than they once did.

To revive sales, milk companies and retailers are pushing smaller, more-convenient packages and health-oriented varieties, including protein-enhanced milk aimed at fitness buffs.

The dairy industry is also retooling its marketing to tout the authenticity of cow's milk and to deride fast-growing alternatives like soy and almond milk as "imitation milk."

The decline's recent acceleration is due in part to increases in milk's retail price, a result of the soaring costs for grains fed to dairy cows, according to industry officials. But the depth of this year's slide has surprised some food-industry executives because retail milk prices have risen only slightly this year after surging 9.2% last year, according to federal data.

Americans drank an average of 20.2 gallons of milk last year, a decline of 3.3% from the previous year and the biggest year-over-year slide since at least 1975, according to the USDA.

So far this year, sales volume at U.S. food retailers for all types of liquid milk, including nondairy varieties, has fallen 2.9% from a year earlier, and total dollar sales have slipped 2.2%, according to Chicago-based market-research firm SymphonyIRI Group Inc. Sales volume for the biggest milk category—skim and low-fat milk—has dropped 4%.

Organic milk sales are growing but account for only about 4% of retail sales, according to Dairy Management.

The protracted slide is troubling for retailers, which have long sold milk at the back of the store to lure shoppers through the aisles, often as a loss leader. "Milk is an extremely important category for us," says Alan Faust, director of dairy and frozen products at [Kroger](http://quotes.wsj.com/KR) Co. [KR -0.30%](http://quotes.wsj.com/KR) [**KR**](http://quotes.wsj.com/KR) **in** Your Value Your Change Short position , the second-biggest U.S. food retailer by sales after [Wal-Mart Stores](http://quotes.wsj.com/WMT) Inc. [WMT +0.08%](http://quotes.wsj.com/WMT) Kroger CEO [David Dillon](http://topics.wsj.com/person/d/david-dillon/1025) said in a recent interview that consumers may no longer consider milk as healthful as they once did. So Kroger, which runs its own dairies, plans to start selling a milk brand called CARBMaster next month that contains 20% more protein and lower sugar content than conventional milk.

Shamrock Farms Co., an Arizona-based milk producer, recently began selling a "muscle builder" version of its high-protein milk, Rockin' Refuel, in partnership with retailer [General Nutrition Centers](http://quotes.wsj.com/GNC) Inc. [**GNC**](http://quotes.wsj.com/GNC) **in** Your Value Your Change Short position With the product, which combines chocolate milk and added protein, Shamrock is attempting to lure consumers who buy nondairy drinks such as CytoSport Inc.'s Muscle Milk, says Shamrock's marketing director, Sandy Kelly.

The milk industry is also trying to target busy families with new packaging sizes and styles. Shamrock, for instance, came up with with 12-ounce easy-to-grip bottles of milk that are sold at Subway restaurants and seven-ounce bottles that are sold at Arby's restaurants and targeted at children.

Meanwhile, [Dean Foods](http://quotes.wsj.com/DF) Inc., [DF -0.41%](http://quotes.wsj.com/DF) [**DF**](http://quotes.wsj.com/DF) **in** Your Value Your Change Short position the largest U.S. dairy producer, last year introduced a low-sugar chocolate milk for kids called TruMoo, and it sells lactose-free milk in grocery stores.

But in a sign of how shifts in consumer preferences are shaking up the industry, Dean Foods earlier this year spun off its fast-growing WhiteWave division, which makes Horizon Organic milk and Silk soy products.

The move was designed to get investors to pay more for shares in a business unit with higher profit margins and faster growth prospects than conventional milk.

In its marketing, the dairy-milk industry is seeking to take some steam out of the plant-based alternatives by tweaking its two-decade-old "Got Milk?" campaign and other advertising efforts.

Visitors to the GotMilk.com website, run by the California Milk Processor Board, have been greeted since May with a series of interactive games that explore the "science of imitation milk," a parody of soy, almond, rice and other nondairy milk products.

And early next year, the industry said it plans to expand use of the "Real" seal that some dairy producers affix to milk cartons and other dairy products.

The red, teardrop-shaped seal is aimed at distinguishing dairy milk from plant-based products, says Tom Balmer, executive vice president of the National Milk Producers Federation, which manages the program.

The dairy industry may have a difficult time winning back consumers like Dan Anderson, a college literature professor who consumes milk only with breakfast cereal. "The last time I was a heavy milk drinker, I was six years old," Mr. Anderson, 47 years old, said as he shopped at a Jewel-Osco store in the Chicago suburbs. "What would you drink it with? Spaghetti?"

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**Corrections & Amplifications**
Shamrock Farms Co. developed 12-ounce bottles of milk for Subway restaurants and seven-ounce bottles for Arby's restaurants. An earlier version of this article incorrectly said the milk was calcium-enriched and that the size was eight ounces for both chains.

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