

Two top trends power this year's mega success

It's a product that has been scientifically controversial. But despite this, its customer base has grown steadily for 10 years, making it one of the world's most successful dairy businesses.

A2 Milk's simple proposition of being a naturally free-from product that enables people to have good digestive health connects it to two of the most powerful trends – and apparently delivers a “feel the benefit” effect.

According to its latest financial results, announced in August, the A2 Milk company's reward for focusing on its expert niche was sales growth of 127.4% in its financial year ending March 31st 2016, to NZ\$352.8 million (\$257 million/€229.6 million). Operating profit jumped by 1000% to NZ\$54.6 million (\$40 million/€35.5 million) – a healthy 15% profit margin that most food and beverage companies would envy. Results like this make a2 possibly the most successful food and beverage brand of 2016.

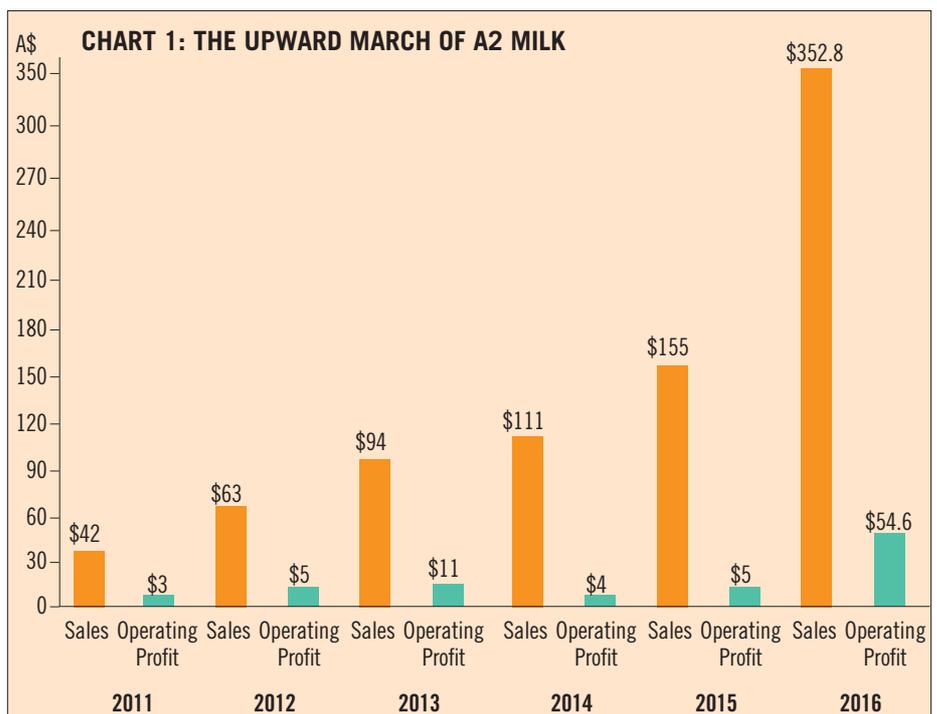
First launched in Australia and New Zealand in 2004, a2 Milk is a standard milk with one important difference – it does not contain any A1 protein, one of the two main types of beta-casein protein fractions found in milk. The other main type is A2 protein, from which a2 Milk gets its name.

Most dairy cows produce both A1 and A2 proteins in their milk, but some produce only A2. Normally it isn't possible to tell these cows apart. However, A2 Corporation has developed a straightforward, non-invasive genetic test – which it has patented – which makes it possible to do so. This means A2-only cows can easily be segregated from other cows in a herd to produce A2-only milk.

A2 Milk believes that many people who are intolerant to milk have an intolerance specifically to A1 protein. As a result, when they consume standard milk products, they may suffer symptoms



A2 packaging carries a confident “feel the benefit” message.



of digestive discomfort, such as bloating, abdominal pain, nausea, diarrhoea and constipation.

These symptoms are not dissimilar to those of lactose intolerance. But A2 believes that many people who think they are lactose intolerant might in fact be A1 protein intolerant.

The company supports this hypothesis by reference to a number of studies published in peer-reviewed journals. Needless to say, the a2 milk story and the scientific evidence have been highly controversial – and remain so. Nevertheless, New Zealand government has awarded the company a NZ\$1.1 million (\$800,000/€ 710,000) research grant in partnership with the University of Auckland to undertake research to support A2's benefit claims in international markets, and clinical studies are being undertaken in China and at Australia's Monash University.

In the meantime, the A2 concept has been a hit with Australian consumers. From zero in 2004, A2 milk has achieved an astonishing 9.3% share of Australia's \$1.1 billion (€940 million) fresh milk market, despite a super-premium selling price of A\$2.80 (\$2.09/€1.89) per litre, a 120% premium to supermarket own brand milk (private label dominates the Australian milk market).

Underscoring the selling power of a product that enables people to “feel the benefit”, the strapline used to market a2 Milk is “Feel the difference”. Clearly,

many people do believe that they feel a difference.

After doing well in fresh liquid milk, the company has focused more on infant formula and this has become the big growth engine, accounting for 61% of total sales. Sales of A2 infant formula were NZ\$214.4 million (\$156 million/€139 million) in 2016, compared to NZ\$41.7 million (\$30.5 million/€27 million) in 2015.

A2 Platinum – the brand name of the company's infant formula – is the fastest-growing Australian infant formula brand, with a 16% market share (by value).

The company has also connected to China's voracious appetite for safe and high-quality infant formula with direct sales into China, which it has increased significantly using e-commerce channels – such as JD.com, Tmall, Kaola, VIP.com – as well as distribution through 1,450 Mother Baby retail stores. In its first full year on the Chinese market, A2 Platinum earned NZ\$38 million (\$28 million/€24.7 million) in sales and generated an operating profit of NZ\$9.2 million (\$6.7 million/€6 million).

A2 is also slowly and steadily building its liquid milk business in the UK and US, where it is on sale in supermarkets such as Salfeway, Trader Joes and Target.

COMMENT

Many companies in our industry think of strategy in terms of big volumes and big market shares. But this has become a trap in which companies live in a low-price, commoditised market and struggle to maintain margins.

Yet growth and good margins are found in the niches – from the brands that are low-volume, premium-priced and appeal to only a small niche of people. But as A2 has shown, the small niche can grow every year, and after 10 years it can become a big, profitable niche.

A2 has also shown the power that lies in being connected to the biggest trends, which reflect the most important consumer needs.

Premium niche brands, connected to the biggest trends – that is the secret of success. If you were launching a new product, why would you do it any other way?



A2's Platinum formula range in Australia and China.



The full A2 range in Australia.