White Paper:

Breakfast: A Fresh Look at the Dairy Opportunity

Dairy Management Inc.™

Prepared for the Innovation Center for U.S. Dairy®

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INNOVATION CENTER FOR U.S. DAIRY®

HEALTHY PEOPLE • HEALTHY PRODUCTS • HEALTHY PLANET

Table of Contents

Executive Summary **2**

Morning Occasion Overview **5**

Consumer Dynamics Associated With the Morning Occasion **9**
Timing of Morning Occasion 9
Breakfast Skippers Are Sizeable Group 9
In-home Dominates 9
Morning Occasion Preferences: Food 10
Morning Occasion Preferences: Beverage 11
Dairy Consumption Trends at the Morning Occasion 11
Satisfaction With Breakfast Foods and Beverages 14

Breakfast Need States Insights **14**
Motivations at Breakfast/Need States Identification 16
How Dairy Products Play Within Each Need State 18
Breakfast Opportunities for Dairy Industry by Need State 18
Sizing of the Opportunity Areas 24

Breakfast Overview by Channel **25**
Retail Channel 25
Recent Trends in U.S. Breakfast Retail Product Introductions 26
Foodservice Channel 27
Convenience Store Channel 30
School Channel 30

Breakfast Overview: A Glimpse of What Is Happening Internationally ...**32**

Conclusion **35**

Appendix **36**

Executive Summary

Dairy processors and manufacturers could potentially capture as much as 900 million pounds of incremental sales by successfully innovating products to achieve their fair share of the breakfast occasion. A vast majority of the population participates in this morning meal occasion on a typical day. *"Breakfast" and "morning meal occasion" refer to any meal defined by the consumer as eaten before breakfast, at breakfast, as a morning meal replacement or as a morning snack from retail or foodservice. Throughout this paper we will use "morning occasion" and "breakfast" interchangeably.* Moreover, breakfast reigns as the projected fastest-growing eating occasion from 2010 to 2018, according to consumer research firm NPD Group.

The massive size of this occasion and expected sales increases make breakfast an attractive strategic focus area for dairy manufacturers, and dairy products' inherent nutrient value positions this occasion to be a home run for the category. Through greater incorporation of nutrient-rich dairy products into typical breakfast meal patterns, the dairy industry can help both children and adults meet recommended nutrient intakes. For more information, read Protein: Opening the Door to Dairy's Opportunity.

Innovating to Deliver Health and Fun Will Help Capture Billion-dollar Breakfast Opportunity

Convenience and routine are the primary drivers for the morning meal occasion. Four in five consumers give little to no thought about what they will eat or drink in the morning, especially during the week. The consideration given in the morning is more limited than at lunch and dinner, and in comparison to these other occasions, consumers are much more likely to be driven by health concerns.

Generally, breakfast is a home-based behavior, with 90 percent of items consumed at this occasion sourced from home. When getting their breakfast away from home, consumers are much more likely to source their morning meals from quick-serve restaurants (QSRs), due in part to their ongoing innovation, new product development efforts and value propositions.

In addition, a dichotomy exists: although consumers are increasingly health-focused and look for foods and beverages to help them reach their wellness goals, they also view eating and drinking as an opportunity for fun in terms of experiencing new flavors, forms and textures. Therefore, the challenge for dairy is to innovate to build on its inherent nutritional benefits in new, exciting and tasty ways.

Morning Need States Focus on Convenience, Kids and Healthy Options

NPD conducted an analysis of the morning meal occasion, identifying where dairy-based solutions might effectively compete and outlining occasion-based need states. Need states represent the collective needs that consumers seek to fulfill and the desired benefits sought from food and beverage choices in a given usage occasion. The comprehensive analysis identified five consumer need states.

Dairy is well-positioned to continue to build on its strengths for three of the five through the development of innovative foods and beverages to increase its share at both retail and foodservice, supported by communications around its inherent benefits.

The other two need states represent almost half of all breakfast occasions, but dairy is underdeveloped. Although the incremental volume opportunity for dairy in attaining its fair share is significantly larger, the motivations of consumers are not well-served by existing dairy options. Motivating consumers to incorporate existing dairy products into these two need states will likely require a significant level of advertising and promotional spend in order to persuade them to do things differently. Dairy's nutritional benefits alone are likely not reason enough to affect behavior change substantially. Tapping successfully into these needs may require farther-out product innovation to create demand for dairy-based products at retail and foodservice/QSR.

Dairy Management Inc. investigated these opportunities with strategic direction from dairy farmers.

This paper will detail how evolving health and wellness trends, as well as consumers' need for convenience and portability, are playing out in the breakfast occasion and, more specifically, how the market has responded with new products, packaging and repositioning.

The need for convenience and consumers' increasing desire to try to eat more healthfully continues to influence both the development of new foods and beverages as well as the settings in which they are consumed. Food and beverage companies and foodservice brands are continually adapting to this changing social and business climate in an effort to grow sales and profitability.

While it has been said eating a healthy breakfast sets the tone for the day, and nutritionists have frequently stated that it is the most important meal of the day, with today's busy lifestyles, nearly 1 in 7 people skip breakfast on a typical day.

Figure 1 below provides a complete landscape of the morning meal occasion by need state. The following table offers key points for the need states with the largest upside potential.

Figure 1
Morning Need States
Percentage of Occasions
n = 37,901 occasions

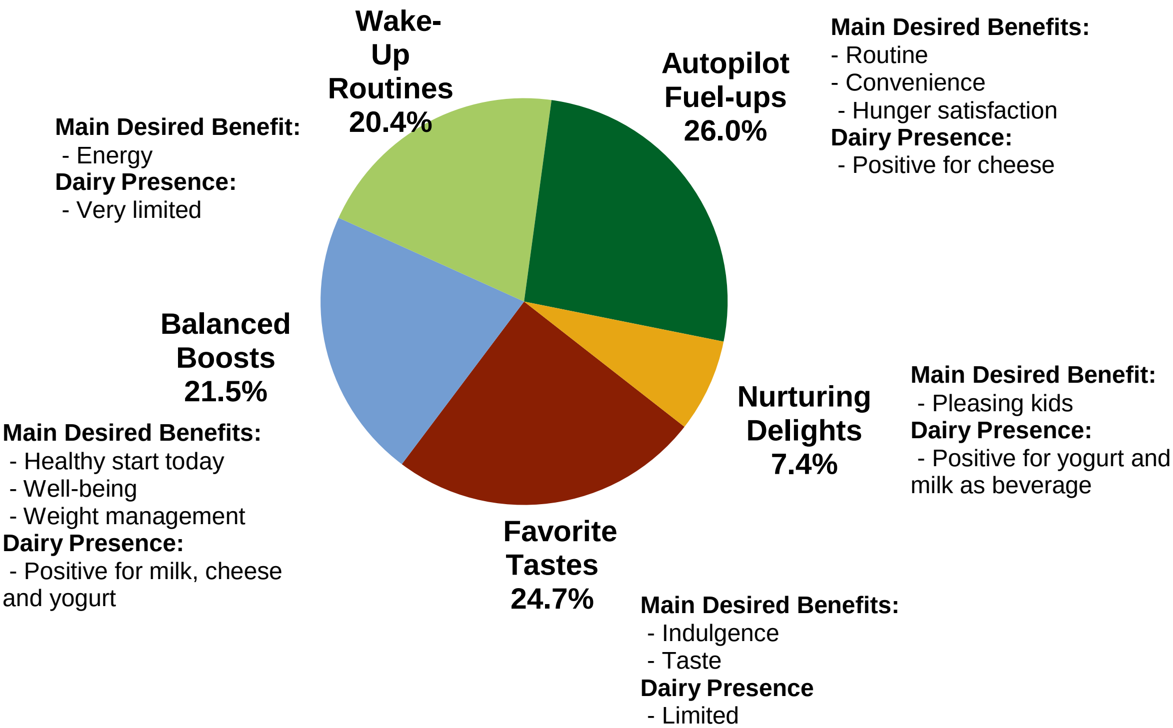


Table 1 Best Opportunities for Dairy and Idea Starters	
Autopilot Fuel Ups (26%) 	• Critical to be on grocery list and in home • Incorporate dairy in popular bar category, either as an unseen ingredient or visible accompaniment to boost nutritional benefit • Opportunity to innovate around breakfast sandwiches and other grab-and-go items that take little planning/preparation in-home • Work with retailers to create breakfast zone section in dairy department and dedicated snacking cooler with satiating foods that also provide energy
Balanced Boosts (21.5%) 	• Leverage benefits of dairy consumption to age/gender cohorts to fit different needs • Identify how dairy/other foods can be paired, such as fruit/yogurt, to have multiple dairy foods round out healthful breakfast meals • Create additional occasions by motivating consumers with another benefit
Nurturing Delights (7.4%) 	• Dairy toppings or fillings on popular sweet breakfast foods, such as pancakes, waffles and French toast, if consumed as meal/snack • A pre-packaged offering for the morning occasion that contains healthy, kid-friendly options, including dairy

Morning Occasion Overview

Morning occasions represent a very large opportunity for food and beverage marketers. Based on a projection from NPD, the morning meal occasion is valued at approximately $208 billion. Nearly four in five individuals (two years of age or older) eat or drink something during a typical morning, equating to more than 100 billion occasions annually that include at least one food or beverage.

Breakfast also holds significant growth potential. Looking forward, NPD's *A Look Into the Future of Eating* report projects that breakfast will be among the fastest growing eating occasions through 2018. This is influenced by the growth of both breakfast obtained in-home and from foodservice operators. In-home prepared breakfasts and morning snacks are among the largest behaviors now and are expected to be in the future.

Interestingly, over the past decade, the primary foods and beverages consumed have not changed.

Figure 3

Top 10 Foods/Beverages Consumed at Breakfast
In-home and Away-from-home

2001	2011
Coffee	Coffee
Cold Cereal	Cold Cereal
Juice	Juice
Milk	Milk
Bread	Fruit
Fruit	Bread
Eggs	Eggs
Hot Cereal	Hot Cereal
Tea	Tea
Bacon	Bacon

Source: NPD's National Eating Trends In-Home/ Away-From-Home Database; for two years, ending May 2011

However, there continues to be a considerable amount of new product development within most of the categories, as many consumers seek out a more convenient and, at times, more sophisticated breakfast experience.

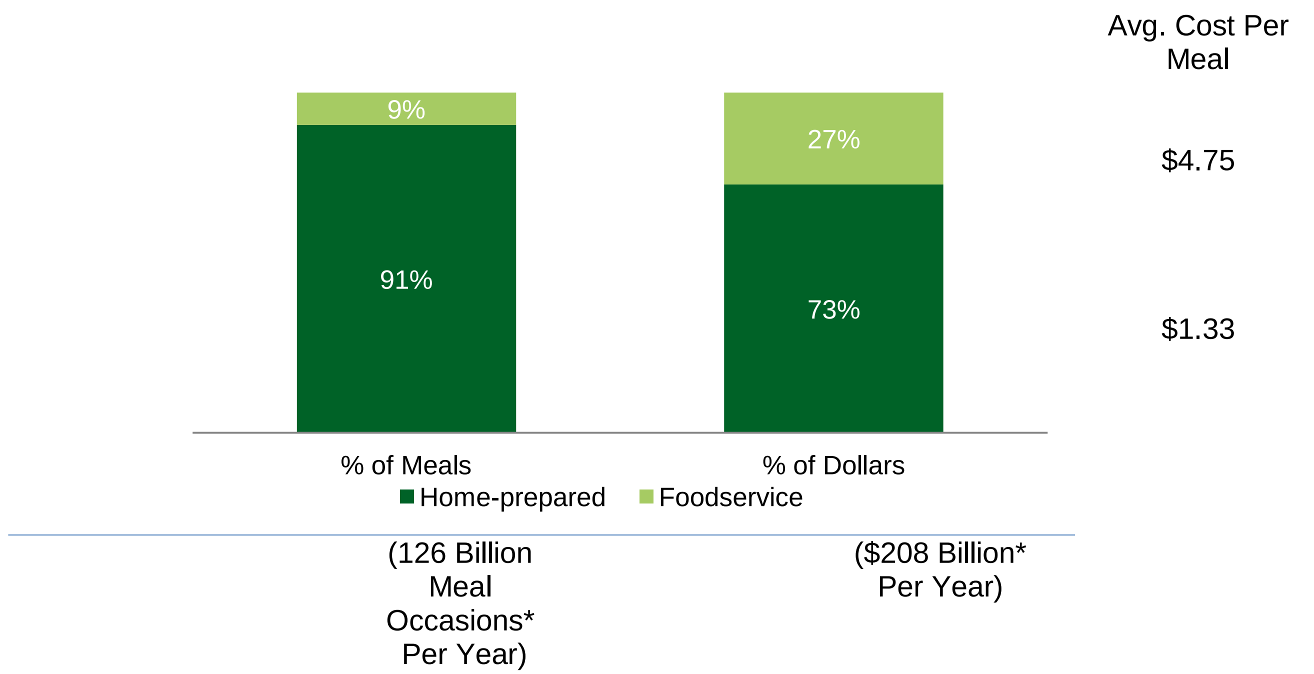
Food manufacturers such as Sara Lee®, Kellogg's®, General Mills and Heinz® have recently launched new breakfast items (below). All these products are more convenient options or combinations of top breakfast food items with no assembly required. The Eggo Waffler, a flavored waffle bar that does not require syrup, is an example of a long-standing brand introducing a new benefit and increasing portability and convenience.

In foodservice, QSRs such as Starbucks® have expanded food offerings, while McDonald's® has extended its breakfast options beyond traditional items to include specialty coffee, wraps, parfaits and oatmeal. Even Subway® and Taco Bell® offer foods for this early occasion. This is a way for restaurants to increase revenue by expanding dayparts but requires little additional fixed capital expense.

Breakfast skews very heavily to home preparation (91 percent) versus purchases at foodservice, but the contribution to overall sales is not as skewed, given the higher cost of the out-of-home purchase. Additionally, in comparison with the other dayparts, breakfast is more likely to be obtained from home than lunch (70 percent), supper (80 percent) or afternoon snacks (82 percent).

Figure 4

In-home and Away-from-home Morning Meal Sources

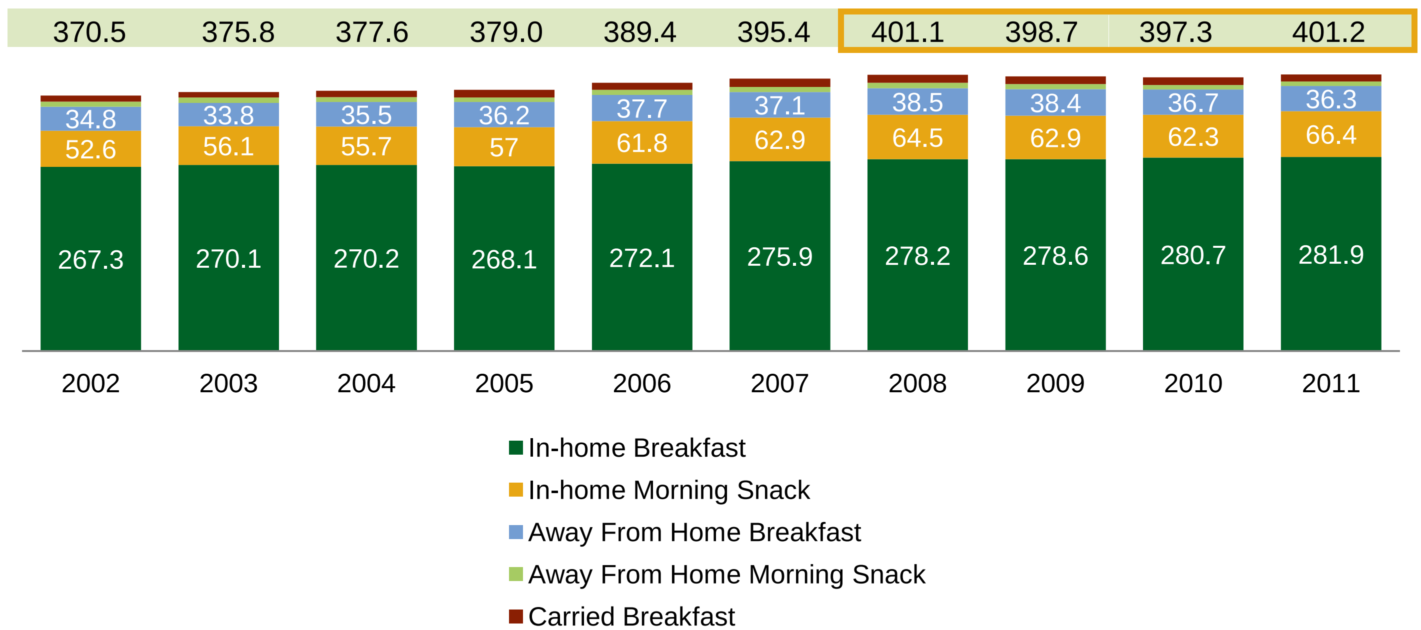


Source: NPD's National Eating Trends and CREST; annual meals per capita year ending February 2011
**Projected to U.S. Census Population Estimate for 2011*

The number of annual morning meals/snacks per person has stabilized at about 400 over the last four years. The recent stabilization of morning meals away from home is due to the state of the economy and its effect on restaurants. Over the past 10 years, in-home breakfast and in-home morning snacks are the primary drivers of the overall increase.

Figure 5

Annual Meals/Snacks Per Person During Morning Occasion

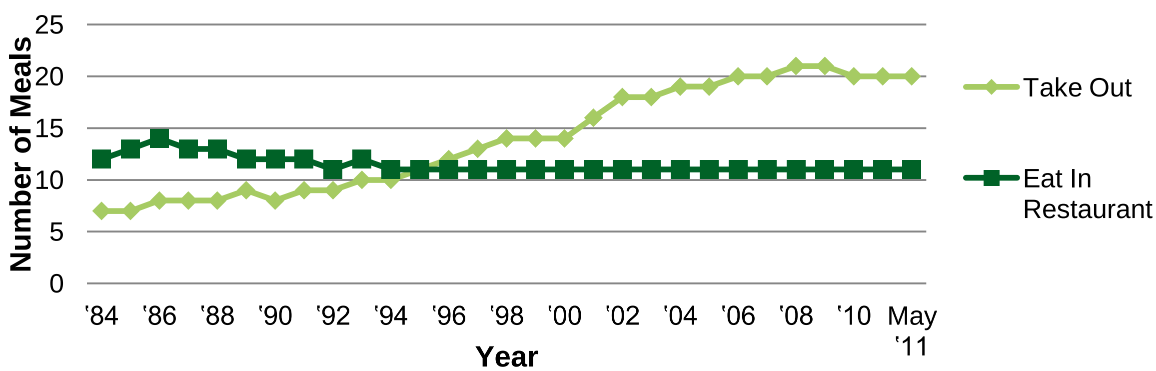


Source: NPD's National Eating Trends and Consumer Reports on Eating Share Trends (CREST) Data; annual meals per capita, year ending February 2011

When consumers do source meals away from home in the morning, it tends to be a takeout behavior driven by the need for a portable, quick morning option. This may be an opportunity for companies to create similar types of meal options that are available in-home. Restaurant breakfast sales are expected to grow at an annual rate of at least 3 percent between 2012 and 2015, according to Mintel's Dining Out: A 2011 Look Ahead survey.

Figure 6

Annual Breakfast Meals Purchased at a Restaurant Per Person

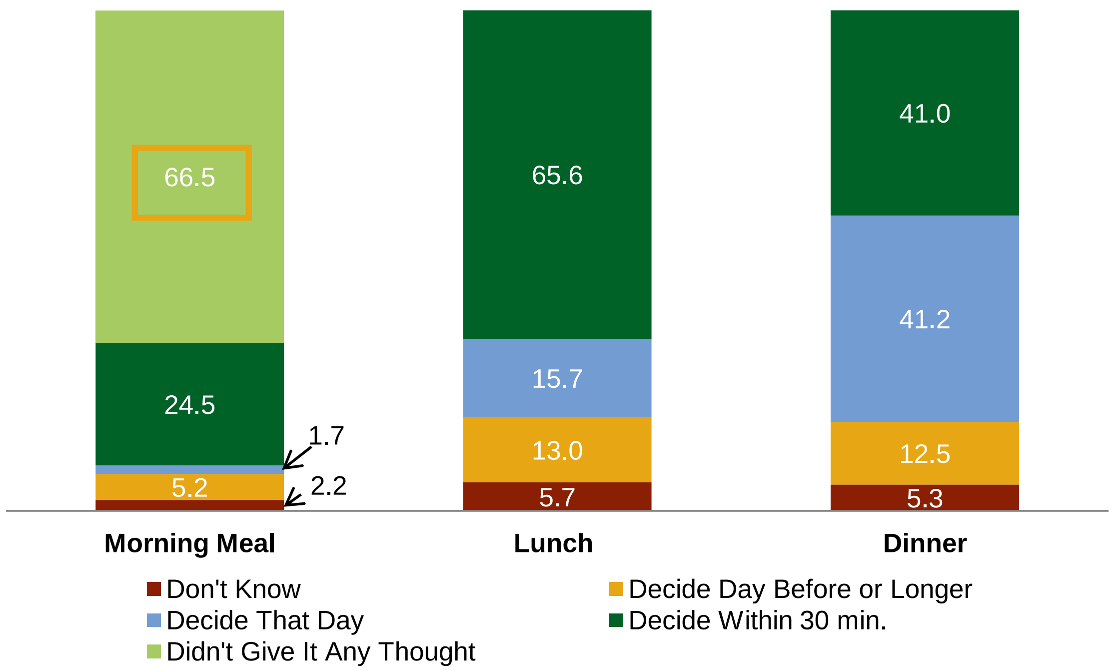


Source: NPD's National Eating Trends and CREST; annual meals per capita, year ending February 2011

The need for convenient options at breakfast is also apparent given the amount of time consumers spend from prep to finish. At 17 minutes on average, the morning meal is the shortest occasion (lunch averages 34 minutes and dinner averages 46 minutes).

Additionally, respondents say the majority of their morning food and/or beverage decisions are made "without thinking," implying that for many, the behavior is very routine.

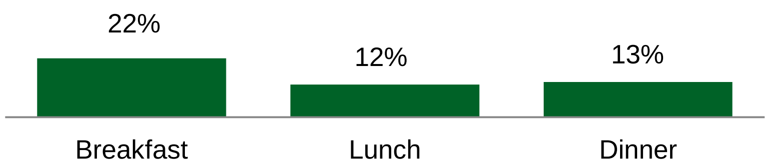
Figure 7
When Decided What Item to Eat/Drink by Occasion
Percent of Occasions



Sources: NPD's Morning MealScape 2011, Lunchtime MealScape 2007, Dinnertime MealScape 2009

In comparison with other meal occasions, consumers' need for healthy options is greatest in the morning.

Figure 8
Percent of Meal Occasions Motivated by Health Drivers
Percentage of Occasions



Sources: NPD's Morning MealScape 2011; Lunchtime MealScape 2007; Dinnertime MealScape 2009

In summary, consumers are seeking convenient options that can become part of their daily morning routine, with health a bigger driver at breakfast than at other times of the day. Providing dairy products now and in the future that deliver against these needs should translate into sustainable sales growth.

Consumer Dynamics Associated With the Morning Occasion

Using insights gleaned primarily from NPD's *MealScape Study: An In-Depth Landscape and Need States Analysis 2011*, specific consumer behaviors and attitudes will be highlighted, followed by the identification of the five consumer need states at the breakfast occasion. This section will be followed by implications for the dairy industry and potential opportunities for innovation.

Timing of Morning Occasion

Looking across the entire week, the start time for eating or drinking something in the morning (prior to 11 a.m.) is fairly evenly distributed. Morning meals are consumed most frequently between approximately 7 a.m. and 9:30 a.m., while morning snacks are consumed most frequently between 10 a.m. and 11 a.m.

- On average, kids typically eat breakfast (consisting of either a meal and/or a snack) six days a week; the average is lower for adult women (4.8 days) and adult men (4.3 days).

Breakfast Skippers Are Sizeable Group

On any typical morning, 1 in 7 individuals (approximately 42 million people) does not eat or drink anything in the morning. Individuals who skip breakfast often compensate by overeating in the evening. For those who are awake but skip a morning meal, the top reasons for not eating or drinking are: do not have time/too busy (19 percent), not hungry/thirsty (17 percent) or do not feel like eating/drinking (15 percent).

- Among adults, the incidence of skipping declines with age and is more prevalent among men than women. Conversely, among children, skipping increases with age.

Given the size of this group, converting skippers to breakfast consumers represents a significant opportunity for the industry overall. However, it will require substantial resources, education and innovative solutions to alter established behaviors.

In-home Dominates

For approximately 7 in 10 morning occasions, consumers do not give any thought from where they will get their foods/beverages. Morning foods/beverages are typically sourced only from the home (75 percent), while 11 percent obtain these items only away from home and 14 percent obtain them from both home and away from home, based on data from NPD's *Morning MealScape 2011*.

- This behavior requires a well-stocked pantry, refrigerator or freezer, as well as advanced planning when it comes to shopping to ensure that the requisite items are on hand.

The importance of home in the breakfast occasion also is highlighted by the fact that nearly two-thirds consume their morning foods/beverages in their home versus 14 percent away from home. Additionally, 18 percent consume food items both in and away from home on a typical day.

Morning Occasion Preferences: Food

As noted previously, the top 10 foods and beverages at breakfast have not changed much in the past decade. By a wide margin, cold cereal is the dominant morning food. It is present at 1 in 4 food occasions. Toast ranks second overall, followed by these four items: bananas, hot cereal, scrambled eggs and yogurt.

Percent of Morning Occasions	
1. Cold cereal	24.2
2. Bread, toasted	10.3
3. Banana	7.9
4. Hot cereal	7.8
5. Scrambled eggs	7.3
6. Yogurt	6.7
7. Bacon	5.8
8. Sausage	4.3
9. Pancakes	4.0
10. Bagel	4.0

Source: NPD's Morning MealScape 2011

Preferences for different food items at breakfast vary by age, gender and day of the week:

- The incidence of consuming cold cereal is higher among children than adults. Adults are more likely to consume toast, hot cereal, sausage and bagels than kids.
- Older adults (ages 55 and older) are more likely to consume toast, bananas and hot cereal than their younger counterparts (ages 18 to 34).
- Adult men are more likely to eat cold cereal, scrambled eggs, bacon and sausage than adult females, who have a greater preference for hot cereal and yogurt. In fact, yogurt is underdeveloped among men and represents an opportunity for future growth.
- Interestingly, more substantial foods, such as pancakes and fried eggs, appear on the top 10 weekend morning food list, replacing quicker items such as bagels and granola bars.

Morning Occasion Preferences: Beverages

Water (33 percent, including tap, filtered or bottled) and coffee are the dominant morning beverages followed by plain milk and orange juice.

- Kids skew high for both plain and flavored milk.
- Coffee is by far the most popular beverage consumed by adults at morning occasions.
- Plain milk is underdeveloped among both adult men and women.

Percent of Morning Bev. Occasions	
1. Coffee	30.4
2. Tap water	15.4
3. Plain milk	14.2
4. Orange juice/blend	10.5
5. Filtered water	10.4
6. Bottled water – unflavored	7.3
7. Tea	5.2
8. Soft drink – regular	3.8
9. Soft drink – diet	2.5
10. Flavored milk	2.9

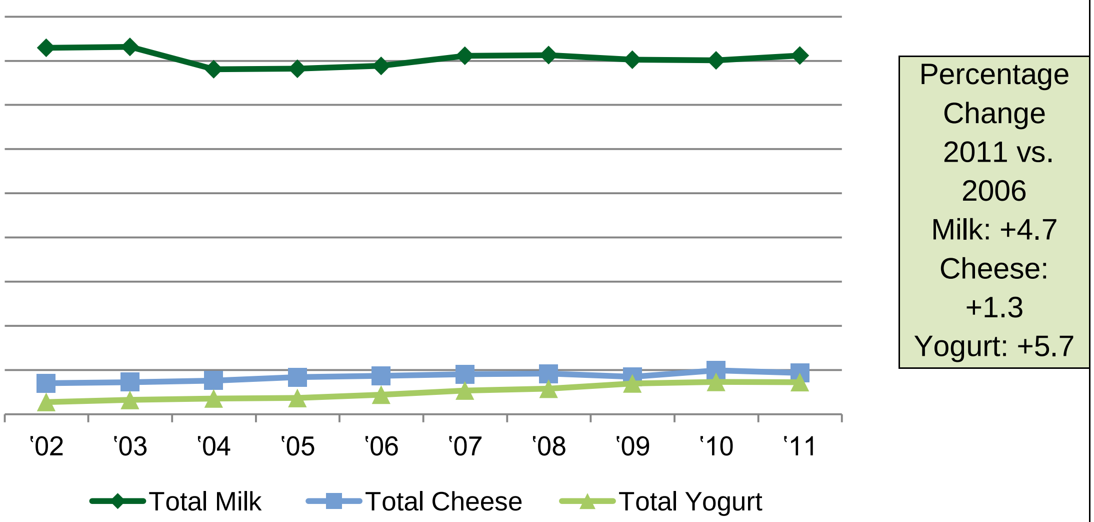
Source: NPD's Morning MealScape 2011

Dairy Consumption Trends at the Morning Occasion

Overall, total milk, cheese and yogurt consumption at breakfast has been on the rise over the past five years. On a per capita basis, milk is consumed, either as a stand-alone beverage or as an ingredient, with significantly greater frequency at breakfast (162 annual eating occasions per capita) than either cheese (19) or yogurt (15).

- **Milk** consumption as a beverage has decreased, while its use as an additive/ingredient in cereal and coffee-based beverages has increased. In 2011, milk as an additive/ingredient accounted for 73 percent of milk usage in the morning, up from 71 percent in 2006.
- **Cheese** consumption as an additive/ingredient continues to grow, while cheese consumed as is has plateaued. The average person uses cheese as an ingredient 16 times per year, which accounts for 85 percent of the cheese usage at breakfast. The ingredient usage increase is driven by consumers making more of their own breakfast sandwiches at home that include cheese.
- **Yogurt** consumption at breakfast, in particular, has almost tripled in the past decade and its outlook for growth remains strong given the popularity of Greek yogurt, PepsiCo® entering the market in 2012 with Müller by Quaker® yogurts, strong brand support/presence and innovation against key consumer needs, e.g.; digestive health, immunity, energy, protein and convenient portable packaging.

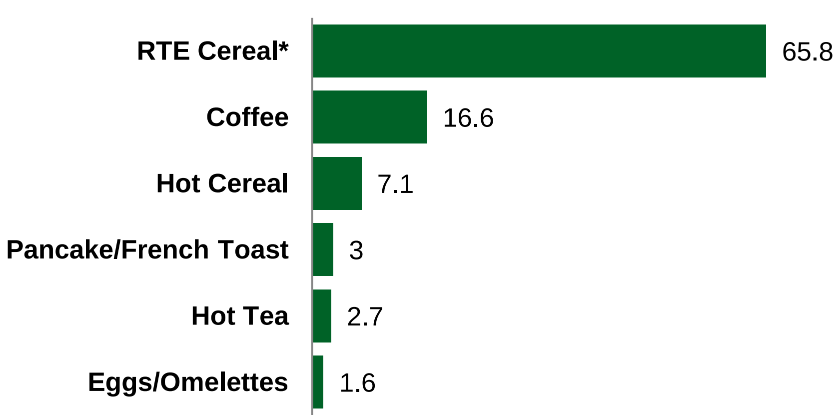
Figure 9
Total Milk, Cheese and Yogurt Consumption Trends at Breakfast
Annual Eatings Per Capita (Stand-alone or as Ingredient)



Source: NPD's National Eating Trends; data for year ending in May of each year

Overall, 27 percent of milk is consumed as a stand-alone beverage, while 73 percent is used as an ingredient with other foods or beverages. Not surprisingly, when milk is consumed as an additive and/or ingredient, it is most likely used on ready-to-eat cereal. Usage in coffee is a distant second.

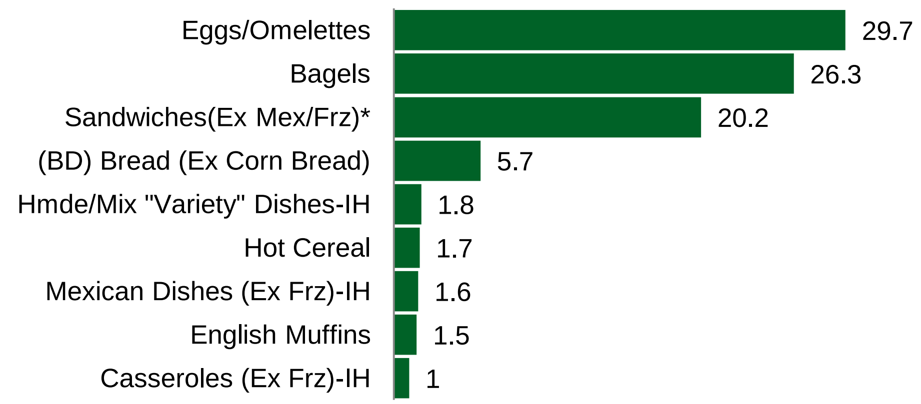
Figure 10
Morning Meal Dishes in Which Milk Is an Additive/Ingredient
Percentage of Eatings



*Ready-to-eat cereal includes all family cereal, pre-sweet cereal and bran/natural cereal.
Source: NPD's National Eating Trends; data for two years ending May 2011

Also, cheese is mainly used as an additive/ingredient (85 percent) versus eaten as is (15 percent) during the morning occasion. The use of cheese is most prevalent in eggs/omelets, on bagels and on sandwiches.

Figure 11
Morning Meal Dishes in Which Cheese Is an Additive/Ingredient
Percentage of Eatings



**Sandwiches include cheese/cream cheese, ham, lunchmeat and poultry.*
Source: NPD's National Eating Trends; data for two years ending May 2011

In contrast to both milk and cheese, 90 percent of the yogurt consumed during the morning occasion is as-is. When yogurt is consumed as an additive/ingredient, 50 percent of the time it is on ready-to-eat cereal.

Consumption of many in-home dairy host foods has been growing at the breakfast occasion, as well.

Table 2
Growth of In-home & Carried Breakfast Foods
Annual Eatings Per Capita

Breakfast Food	AEPC	Five-Year Percentage Change
Coffee	113.2	19.7
All Family Cereal	54.6	7.1
Store Fresh Fruit	49.3	6.6
Eggs/Omelets	38.3	4.1
Hot Cereal	28.3	3.6
Toasted Bread	38.1	2.8
Tea	21.2	2.4
Store Fresh Bananas	20.8	2.1
Pancakes	11.1	2.0
Breakfast/Granola/Fruit/Cereal Bars	5.4	1.7

** Increases/decreases are based off +/- 1.0 AEPC from NPD's National Eating Trends*
Source: NPD; data for one year ending May 2011

Satisfaction With Breakfast Foods and Beverages
Given the routine behavior commonly associated with breakfast, perhaps it is not surprising to see satisfaction with current food choices is very high overall. Yogurt, however, does have room to improve. Consumers are most satisfied with fruits and items that require more time and effort for preparation. In addition to yogurt placing 18th on this list, cheese (as-is) is ranked 28th and cold cereal is 38th; consumers are not as pleased with these dairy items or this carrier of dairy, resulting in less frequent use.

On the beverage side, several dairy-based products and those that could contain dairy fare very favorably, including smoothies/drinkable yogurt, flavored milk, hot chocolate, caffeinated drinks and protein drinks/shakes. Overall satisfaction with plain milk lags behind the levels achieved by many other beverages. Additional research is needed to better understand why these items received the satisfaction scores they did.

Table 3
Overall Satisfaction With Food Categories
Percentage Very Satisfied

	Average Percentage "Very Satisfied" for Total Foods	**74.9**
1	Mixed Berries	91.6
2	Blueberries	90.5
3	Grapefruit	87.3
4	Pancakes	84.8
5	Strawberries	84.7
6	Ham	83.8
7	Raisins	83.8
8	Omelet	83.4
9	Fried Eggs	82.3
10	Apple	81.5
11	Grapes	81.2
12	Hard Boiled Eggs	81.0
13	Bacon	80.9
14	Home Fries/Fried Potatoes	80.9
15	Grits	80.7
16	Orange	80.5
17	Banana	80.1
18	Yogurt	79.9
19	Biscuit	79.7
20	Hot Cereal	78.9
21	Scrambled Eggs	78.5
22	French Toast	77.9
23	Cantaloupe	77.5
24	English Muffin	77.3
25	Bread, Toasted	76.8

Source: NPD's Morning MealScape 2011

Table 4
Overall Satisfaction With Beverage Categories
Percentage Very Satisfied

	Average Percentage "Very Satisfied" for Total Beverages	**80.5**
1	Smoothies/Drinkable Yogurt	88.1
2	Grapefruit Juice/Blend	86.3
3	Flavored Milk	86.2
4	Energy Drink	84.9
5	Iced Tea	84.4
6	Espresso	84.3
7	Cranberry Juice/Blend	84.0
8	Grape Juice/Blend	84.0
9	Soy Beverage	83.7
10	Orange Juice/Blend	83.5
11	Tea	83.5
12	Apple Juice/Blend	83.0
13	Soft Drink — Regular	82.0
14	Hot Chocolate or Hot Cocoa	82.0
15	Protein Drink or Shake	80.7
16	Coffee	80.2
17	Vegetable Juice or Fruit/Vegetable	79.9
18	Nutritional Supplement Drink	79.8
19	Cappuccino	79.3
20	Fruit Punch or Fruit Drink/Ade	78.8
21	Sports Drink	78.7
22	Soft Drink — Diet	78.3
23	Bottled Water — Unflavored	77.0
24	Plain Milk	76.3
25	Bottled Water — Flavored	76.0

Source: NPD's Morning MealScape 2011

Breakfast Need States Insights

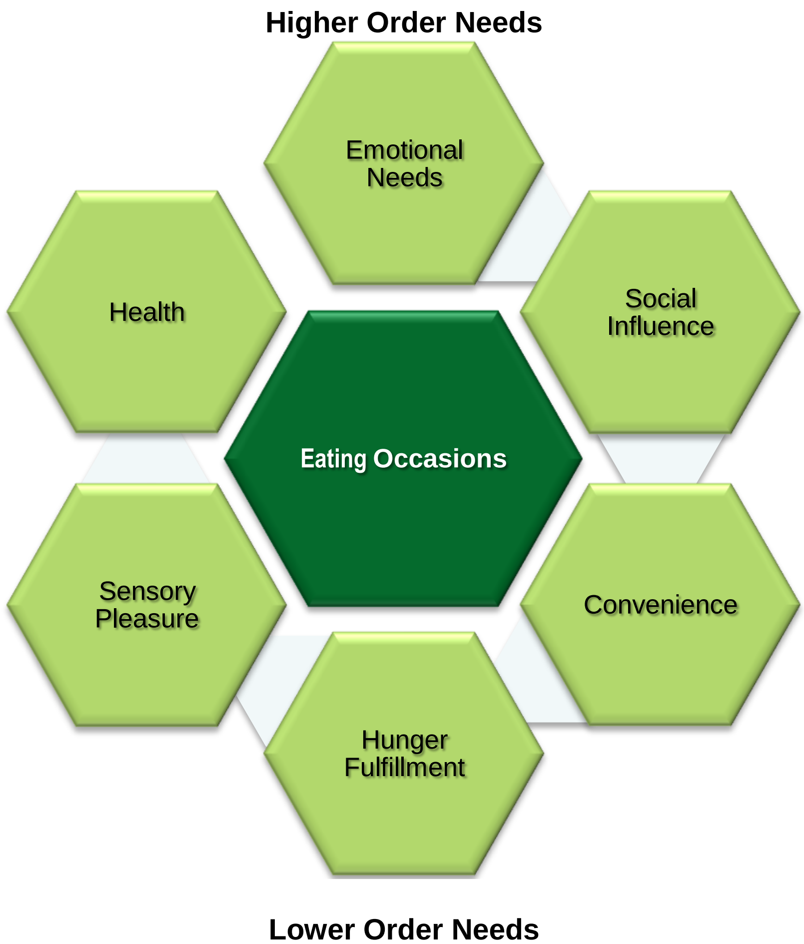
As previously noted, morning meal occasions represent a large and growing opportunity for food and beverage marketers. Consumers' changing lifestyles and evolving health and wellness needs are driving demand for new breakfast solutions. How can dairy capture a greater share?

In order to help identify where dairy-based solutions might effectively compete, an occasion-based needstates analysis on the morning meal occasion was conducted by NPD. The *Morning MealScape 2011* study provides an in-depth landscape and need states analysis of the morning meal occasion.

Need states represent the collective needs consumers seek to fulfill and the desired benefits sought from food and beverage choices in a given usage occasion. For our purposes, morning occasions are split into mutually exclusive groups that are relatively homogeneous within but dissimilar to each other and large enough to be both measurable and actionable. This type of segmentation analysis is used by companies to help target customers, position products and identify areas for growth.

Figure 15

Eating Occasion Need States



Motivations at Breakfast/Need States Identification

Overall, top-ranked individual motivations across all morning occasions are: easy to get/prepare and part of my morning routine. When looking at motivations across each of the four types of morning occasions separately, however, slightly different patterns emerge in terms of what is most important:

Consumers who have a full, complete meal in the morning are initially driven by satisfying hunger, followed by a desire for a healthy start for the day and taste. Convenience is a key theme among the top motivations that drive choices for morning snacks and mini-meals, but satisfying hunger is also important. Items that are both convenient and filling are the best fit for these occasions. Motivations that drive beverage-only occasions are also unique; routine is top of the list, followed by wakes me up, tastes good and is my favorite.

Full, Complete Morning Meals

- Fills me up/satisfies hunger
- Healthy start
- Tastes good

Morning Snacks

- Easy to get/prepare
- Fills me up/satisfies hunger
- Could consume quickly
- Could make/get quickly

Morning Mini-meals

- Easy to get/prepare
- Fill me up/satisifes hunger
- No planning
- Could make/get quickly

Beverage-only Morning Occasions

- Part of morning routine
- Wakes me up
- Tastes good
- Is my favorite/what I like

Source: NPD's Morning MealScape 2011

As would be expected, the motivations that drive morning food and beverage selection vary by age and gender:

- Kids ages 12 and under want something they ask for and like, while the appearance of the food/beverage becomes more important for teens. Where a parent has input in the selection for their child, s/he is concerned about how the choice reflects on them as a caring individual.
- Maintaining/losing weight is the primary motivator for women ages 18 and older, while men in this same age group are frugal and watching what they consume for health reasons.

Respondents ranked their reasons for selecting the food/beverage they did at each morning occasion from highest to lowest. Next, factor and cluster analyses were conducted to identify the primary need drivers. The results of the analyses suggest there are five different overarching consumer needs being met when eating and/or drinking during the morning occasion.

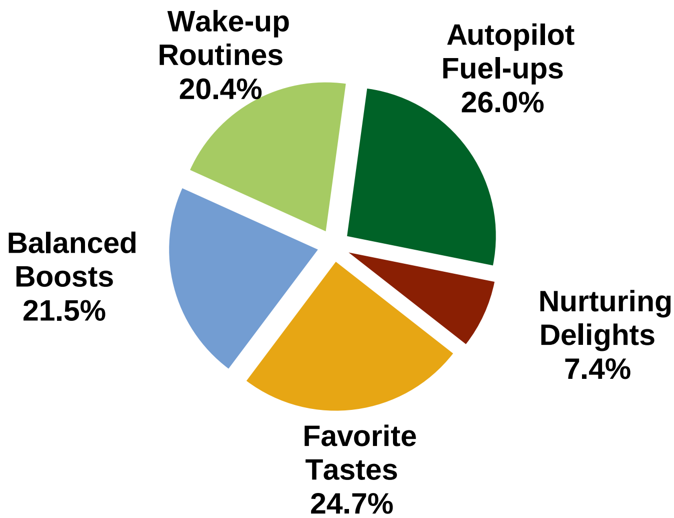
Each one represents unique opportunities for dairy and dairy-based products, ranging from reframing existing benefits to the development of new foods and beverages. Following are the names of the need states, a snapshot of what defines each one and the percent of morning occasions it represents.

Figure 16

Morning Need States

Percentage of Occasions

n = 37,901 occasions



Autopilot Fuel-ups (26.0%)	Favorite Tastes (24.7%)	Balanced Boosts (21.5%)	Wake-up Routines (20.4%)	Nurturing Delights (7.4%)
"Set to autopilot"	*"All about the yum"*	*"Striving for perfect balance"*	*"Get me my morning coffee"*	*"Taking Care of the Family"*
- Driven by need for something quick and easy that fills them up/satisfies hunger - Little to no planning occurs; often consists of items on hand that help save money - Portability is a factor **Notable demos:** - Kids under the age of 5 underdeveloped - Teens, men and women ages 13 to 34 highly developed - African Americans and Asians underdeveloped - Singles highly developed	- All about eating favorite things that look and taste good - Seeking comfort by choosing hot, fun items that satisfy specific taste or craving for themselves or family members; may represent break from routine for some **Notable demos:** - Kids under the age of 18 underdeveloped - Above-average indices for males ages 18 to 54 and females ages 35 to 43 - Above-average indices for empty nesters	- Driven by desire to get day off to a healthy start by routinely choosing healthy/nutritious items, some of which provide specific vitamins/nutrients - Desire to lose/maintain weight drives food/beverage choices; may be dictated by underlying medical condition **Notable demos:** - Kids ages 2 to 5, females ages 55 and older, and teens underdeveloped - Skews for single and married seniors	- Defined routine; hot/wonderful aroma helps them wake up - Taste/desire for something comforting are important drivers - Three-quarters of situations include only beverage; half of time it's coffee **Notable demos:** - Kids and teens underdeveloped - African Americans and Asians underdeveloped - Men and women ages 35 and older highly developed - Affluent singles, empty nesters and seniors highly developed	- Satisfying tastes and caring for family members (especially kids) are common themes - Seeking "fun" items sometimes perceived as treats/rewards when choosing foods/beverages - Most often occurs at home; undeveloped away from home **Notable demos:** - Kids <12 highly developed - All adults underdeveloped

How Dairy Products Currently Play Within Each Need State
Overall, as indicated by the green shading in the following table, dairy has a decent presence in a number of these need states. Dairy foods and beverages are highly developed among consumers in the Balanced Boosts need state, while the main dairy categories are underdeveloped in Wake-up Routines and Favorite Tastes, as noted by the gray shading.

Consumers in the Autopilot Fuel-ups and Nurturing Delights need states also consume selected dairy items at a greater level than average.

Table 6
Development of Dairy Items Across the Breakfast Need States*
Percentage of Occasions

	Total %	Autopilot Fuel-ups	Favorite Tastes	Balanced Boosts	Wake-up Routines	Nurturing Delights
	Percentage of Occasions (Horizontal)					
Total Breakfast Occasions	100	26.0	24.7	21.5	20.4	7.4
"DAIRY PRESENCE"		**Positive for cheese**	**Limited**	**Positive**	**Very limited**	**Positive for yogurt & milk as beverage**
Foods						
Yogurt	100	26.2	13.7	43.3	7.1	10.2
Cottage Cheese	100	23.1	12.4	52.2	8.6	3.6
Cheese (Consumed As-is)	100	31.2	25.3	27.7	7.2	9.2
Cold Cereal With Milk	100	36.7	9.5	31.9	11.0	11.3
Hot Cereal With Milk	100	18.2	14.5	50.3	8.8	8.5
Sandwich With Cheese	100	47.7	26.7	14.6	6.7	5.3
Bagel With Cream Cheese	100	42.8	21.7	19.3	9.0	7.4
Egg or Egg Dishes	100	18.1	35.5	30.7	7.3	8.6
Beverages						
Plain Milk as a Beverage	100	30.5	17.3	30.3	9.5	16.1
Flavored Milk as a Beverage	100	20.2	23.7	24.6	7.5	26.9
Coffee With Milk	100	21.5	29.6	16.2	41.5	1.1
Smoothie/Drinkable Yogurt	100	19.6	16.4	45.9	7.2	12.6

**Numbers in grey indicate highly developed index relative to total population ages 2 and older (>120); numbers in green indicate underdeveloped index (<80)*

Breakfast Opportunities for the Dairy Industry by Need State
Now that the breakfast need states have been profiled and the percent of dairy occasions within each need state has been identified, there are many opportunities to focus innovation efforts to develop new dairy products and/or reposition existing options.

When reviewing the following opportunities, keep in mind that breakfast is eaten alone two-thirds of the time, primarily is a routine behavior and some level of convenience is typically involved.

AUTOPILOT FUEL-UPS (26.0% of morning occasions)
"Set to Autopilot"

Autopilot Fuel-ups is also a very routine-based need state where consumers mindlessly grab what is on hand. Being able to obtain/consume the item quickly and portability are also key. These benefits are important because consumers tend to stock up on different breakfast foods for this occasion, so being on the shopping list is critical.

This occasion is considered to be more of a mini-meal than a full meal. The key consumers are kids ages 6 to 17, particularly teens. Many adults of working age also fall into this need state, especially those ages 18 to 34.

The types of foods that do well in this occasion are milk, juice, bars, cereal, yogurt and breakfast sandwiches. Dairy is well-developed in this need state; however additional upside potential exists given that there is some dissatisfaction with the nutrition and ease of preparation of foods and beverages in this need state. Dairy products play nicely in this need state, but there is opportunity to increase share with investment in innovation and advertising to introduce consumers to new usage opportunities.

Dairy Opportunities With Autopilot Fuel-ups Need State in the Morning Occasion

- Cheese snacks could be a convenient item kept on hand that could fit into this segment.
- Incorporate dairy into popular bar category; e.g., as an unseen ingredient (whey protein) or visible accompaniment (yogurt or milk), which also would boost nutritional benefit and/or provide energy naturally.
    - Kraft® has recently introduced MilkBite®, a milk and granola bar that contains the same amount of calcium as 8 ounces of milk and is found in the refrigerated dairy aisle of the grocery store.
- Further evidence of the opportunity in this need state may be found in the Innovation Center's snacking white paper. In-home snacking during the morning occasion is predicted to show the greatest growth between 2008 and 2018, and a morning energy snack is a potential high-growth opportunity for dairy/dairy-based products building on its natural protein content. Currently, snacking is highly developed in this breakfast need state. For more information, see the Innovation Center white paper on snacking.
- Innovate around ready-to-eat breakfast sandwiches that require little planning or preparation in-home because most breakfast sandwich consumed are purchased outside of the home.

FAVORITE TASTES (24.7% of morning occasions)
"All About the Yum"

The Favorite Tastes need state is representative of the traditional breakfasts that many consumers do not have time to prepare. The key dishes consumed at this occasion are scrambled eggs, bacon, sausage, hash browns and coffee. The dairy categories that are underdeveloped at this time are milk as a beverage, yogurt and cheese as-is (i.e., not as an ingredient).

These foods are desired by consumers who are not concerned about nutrition and are looking for a special morning meal driven by taste and indulgence. There is frustration in the preparation involved and cooking time. This occasion is strongest in foodservice, but the majority of these meals still come from home. These individuals, who tend to be adults age 18 through empty nesters, either lack time or would prefer to relax, which helps identify opportunities for adults in this segment related to dairy.

Dairy Opportunities Within Favorite Tastes Need State in the Morning Occasion
Provide consumers with more ideas or solutions to incorporate dairy into traditional breakfast foods. Here are some thought starters:

- Create multi-serve home-style breakfast dishes that don't require the user to start from scratch. A kit that involves a bit of customization based on the consumer's liking that includes cheese keeps the eater involved without too much fuss. The level of involvement could be up to the consumer, and they could get the satisfaction of putting it into the oven or on the stove. A kit for an egg, cheese and vegetable quiche is an example of something that may be appealing as a home-cooked breakfast.

Additionally, breakfast meal solutions were tested as part of recent work by the Innovation Center's 2011 Retail Advisory Panel. Results of that research may be found at USDairy.com/Retailers.

- Although breakfast sandwiches do not currently fall into this need state, there could be an opportunity to create a more sophisticated sandwich that includes a specialty cheese.
- More strongly promote dairy ingredient usage in traditional breakfast foods prepared at home such as hash browns and eggs.

Another incremental opportunity would be to encourage the offering of more dairy-based items at QSRs and fast casual restaurants. This foodservice opportunity might include the promotion of cheese events and additional usage on traditional breakfast foods, such as eggs and potatoes.

BALANCED BOOSTS (21.5% of morning occasions)
"Striving for Perfect Balance"

The Balanced Boosts need state, which primarily happens in-home, is driven by consumers who want to begin the day healthfully, consume specific nutrients/vitamins, reduce fat intake and/or lose weight.

Items with a health halo or better-for-you options do well in this need state, which includes high development for dairy products, too. Cold cereal, hot cereal, yogurt, fruit and plain/flavored milk as a beverage are common items chosen during this occasion.

Satisfaction within this segment comes from the good nutritional value of the items consumed; when the preparation process is fast; and if items can be portable. These consumers want a healthy start to their day and are adults of all ages, particularly women.

Dairy Opportunities Within Balanced Boosts Need State in the Morning Occasion

- Althiugh dairy is a developed player in this need state, the varying aspects of a healthy lifestyle that consumers are seeking are ones that dairy could potentially capitalize on.
    - Engage in micro-targeting by leveraging different product attributes within the dairy categories to different age and gender cohorts in an effort to customize its appeal.
- Identify other foods that fall into this category that dairy can be paired with at this occasion, such as fruit and yogurt. The idea is to have a variety of dairy foods round out this healthy breakfast meal.
- While milk as a stand-alone beverage may satisfy basic nutritional needs at breakfast, in order to create additional occasions, consumers need to be motivated by another benefit; e.g., the energy milk provides from consumption separately and/or as an ingredient in combination with other foods/beverages.
    - Promote the use of milk in lattes and chai
    - Publicize milk included in a smoothie or breakfast shake
    - Leverage trend toward single-cup brewing systems made with milk

WAKE-UP ROUTINES (20.4% of morning occasions)
"Get Me My Morning Coffee"


This need state is based on acquiring energy, primarily from a beverage, with coffee being of particular importance. Consumers are fueling up on caffeine to start the day, in an effort wake up and give them an energy boost. Three-quarters of items consumed in this occasion are beverages only, so any opportunities should be around beverage innovation that provides energy.

Consumers are seeking energy via fast and portable options within this occasion. These behaviors are part of the everyday routine, and consumers may stop at multiple places to get their fix. For example, someone may make coffee at home in the morning and also stop for a refill on their way into the office. Adults over the age of 35 are the main consumers.

Dairy Opportunities Within Wake-up Routines Need State in the Morning Occasion
Beverages are integral to this occasion, with dairy underdeveloped with the exception of the use of milk in lattes or coffee. Milk in coffee accounts for 17 percent of ingredient milk usage in the morning. Possible innovations include:

- A new, convenient dairy-based beverage or additive that provides energy and alertness, such as a meal replacement beverage that capitalizes on milk's link to satiety.
- A new, convenient dairy-based beverage or additive also could be positioned as a daylong alternative to current energy drinks, some of which have garnered unfavorable reputations based on their ingredients.
    - These energy drinks are consumed by approximately 5 percent of consumers in an average week, by males twice as likely as females, by 14- to 34-year-olds most often and fairly evenly throughout the day, according to the Kantar Worldwide Beverage Consumption Dairy Study.
- Consumers are most likely to be in a bad mood in this need state. A beverage that incorporates some natural mood-enhancing effects could appeal to these consumers. If the consumption of the beverage is a pleasant experience, consumers may try a new product in this very routine-oriented occasion.
    - Coffee-milk has found a niche in the northeast U.S. as a RTD beverage. Identify if there are opportunities for a similar product in other areas of the country.
    - Coffee-milk (or a similar product) also could be marketed in a way to pull in the teen and young adult target that may be looking to switch to and/or experiment with other more adultlike beverages during this transitional period.

NURTURING DELIGHTS (7.4% of morning occasions)
"Taking Care of the Family"

This child-oriented occasion is the smallest of the five need states. This need is driven by a parent wanting to take care of his/her child(ren) and serve something everyone likes. There is dissatisfaction with the preparation involved and with the nutrition content of the food typically served. Pancakes, waffles, French toast, cold cereal, juice and both plain and flavored milk do well at this occasion. This need state is focused on kids under the age of 12 and is viewed as a complete meal.

Dairy Opportunities Within Nurturing Delights Need State in the Morning Occasion

- Dairy toppings or dairy ingredients in toppings and fillings to pair with popular sweet breakfast foods such as pancakes and waffles.
- A Lunchables®-type offering for the morning occasion that contains healthy, kid-friendly options, including dairy, in a pre-packaged offering.

Sizing the Opportunity Areas

Estimating the extent of the opportunity for dairy within these need states is complex. The estimates below are based on data from a combination of inputs, including volume of the key dairy and dairy host product categories from the National Health and Nutrition Examination Survey (from the National Center for Health Statistics) and NPD's National Eating Trends (from NPD) and the size of the need states from NPD's Morning MealScape 2011. The opportunity volumes for each food and beverage are calculated by need state and are based on each product reaching its equivalent or fair share of the total need state in terms of annual milk pounds of dairy.

In terms of the size of the untapped opportunity for dairy, if manufacturers and processors successfully innovated merely to garner their fair share within each need state, a total of 903 million incremental milk pounds could be gained overall.

Table 7
Annual Incremental Dairy Opportunity Volume Projections if Fair Share Achieved
(In Millions of Milk Pounds)

	Autopilot Fuel-ups	Favorite Tastes	Balanced Boosts	Wake-up Routines	Nurturing Delights	TOTAL
% of Occasions	**26.0**	**24.7**	**21.5**	**20.4**	**7.4**	**100**
Yogurt	=	3.2	=	3.9	=	
Cottage Cheese	*	*	=	*	*	
Cheese (Consumed As-is)	=	=	=	1.5	=	
Cold Cereal with Milk	=	420.9	=	260.3	=	
Hot Cereal With Milk	*	*	=	*	=	
Sandwich With Cheese	=	=	=	*	*	
Bagel With Cream Cheese	=	*	*	*	=	
Egg or Egg Dishes	=	=	*	19.1	=	
Plain Milk as a Beverage	=	74.4	=	109.6	=	
Flavored Milk as a Beverage	*	*	=	1.9	=	
Coffee with Milk	*	=	=	=	1.4	
Smoothies/Drinkable Yogurt	*	*	1.1	*	=	
TOTAL INCREMENTAL (Millions of Pounds)	**2.4**	**499.6**	**1.6**	**398.3**	**1.5**	**903.4**

**Less than 1 million pounds*
= Currently achieved fair share

Breakfast Overview by Channel

After examining breakfast in-depth, including the identification of need states, this occasion will next be profiled in several key channels including: retail, foodservice, convenience store and schools.

Overall, and regardless of channel, pricing pressure is likely to linger. The SymphonyIRI Group anticipates that in 2012, consumers will continue to define value largely based on price. Commodity price increases will continue and manufacturers and retailers will have to pass the price increases onto the consumer. According to the U.S. Bureau of Labor Statistics, food inflation in 2011 was 3.5 percent, including 4.5 percent for food at home versus 2.5 percent for food away from home. Additionally, according to the U.S. Department of Agriculture (USDA), dairy products have experienced higher than average inflation, estimated between 6.25 percent and 6.75 percent, contributing to a double-digit price-per-volume increases in some categories such as butter and margarine/spreads.

Retail Channel

Based on data from SymphonyIRI (InfoScan Tracking Service data for the 52 weeks ending 12/25/11), foods with a UPC likely consumed at breakfast accounted for nearly $71 billion in sales at food/drug/mass merchandisers (FDMx) (excluding Walmart®) in calendar year 2011. This represents a 6 percent increase in dollar sales versus a year ago. Although dollar sales grew in 2011 versus a year ago in FDMx, it is important to understand that this was likely driven by price increases over the same time period, as unit sales were generally flat (down 1.1 percent).

Frozen waffles, hand-held frozen breakfast items, creams/creamers and cold cereal are among the fastest-growing items in the retail channel. It is important to explore and develop dairy-based innovation opportunities in these growing categories.

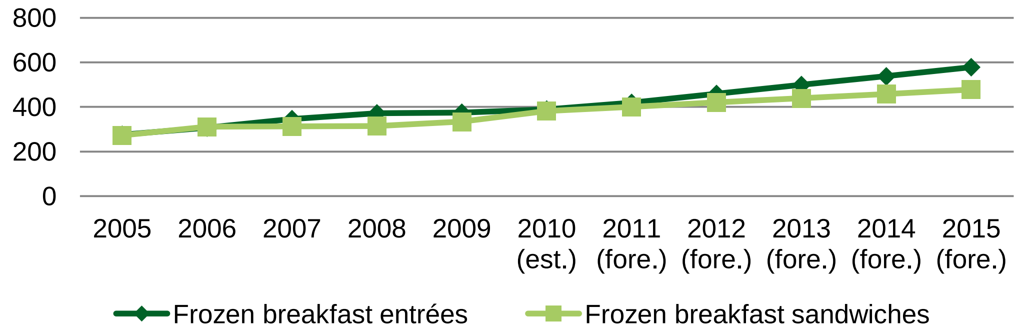
Table 8
Top Five Overall Growing Breakfast Categories in Calendar Year 2011
Based on Percentage Change vs. Prior Year (>10MM Unit Sales)

FDMx	Grocery	Drug
Unit Sales Percentage Change vs. YA		
Frozen Waffles (+16%)	Frozen Waffles (+15%)	RTD Tea/Coffee
Nutritional/Health Bars	Nutritional/Health Bars	Granola Bars
Alternative Beverages (Nondairy Milk)	Alternative Beverages (Nondairy Milk)	Juices/Drinks — Refrigerated
Frozen Breakfast Hand-held (+12%)	RFG Coffee/Tea	Creams/Creamers (+7.7%)
Refrigerated Tea/Coffee	Frozen Breakfast Handheld (+11%)	Cold Cereal (+6.9%)
Frozen Waffles (+16%)	Frozen Waffles (+15%)	RTD Tea/Coffee
Nutritional/Health Bars	Nutritional/Health Bars	Granola Bars
		Source: SymphonyIRI

According to Mintel, in-home meal preparation has become a larger behavior in recent years, in part because consumers feel it is an effective way to save money and it helps them monitor nutritional intake and achieve wellness aspirations. Sales of frozen breakfast entrées and sandwiches are growing in part because more Americans are preparing breakfast at home instead of eating at a QSR/other restaurant. Sales of these items at retail are expected to increase coming out of the recession based on the need for items that can be prepared quickly.

Figure 21

Projected FDMx Sales of Breakfast Entrées and Sandwiches, 2005 to 2015



Source: Mintel and SymphonyIRI

Recent Trends in U.S. New Breakfast Retail Product Introductions (Featuring or Including Dairy Items)

According to SymphonyIRI's *2011 New Product Pacesetters* report, overall food and beverage innovation was slightly higher in 2011 than in 2010 or 2009. Food and beverage manufacturers are achieving success primarily through targeted innovation, particularly the development of new/unique recipes and new/distinctive flavors. Additionally, product benefits are becoming more frequent, and restaurant-inspired innovation has shown significant growth over the past few years.

- However, breakfast food solutions represented one-sixth of Pacesetter introduction dollars within the food arena in 2011, substantially lower versus a historical trend averaging 23 percent between 2002 and 2011.

In 2011, the top 10 food and beverage Pacesetters and their annual sales were:

1. P.F. Chang's Home Menu™ ($101.6 million)
2. Thomas' Bagel Thins ($73.6 million)
3. Oscar Mayer® Selects ($69.2 million)
4. Folgers® Gourmet Selections® K-Cups® ($58.4 million)
5. M&M's® Pretzel ($58.4 million)
6. Sun Drop® ($55.8 million)
7. Kellogg's® Special K® Cracker Chips ($50.6 million)
8. Lean Cuisine® Market Creations ($48.6 million)
9. Gold Peak® Chilled Tea ($44.3 million)
10. Bailey's® Coffee Creamer ($44.2 million)

Here are some recent U.S. product introductions that are in response to consumers' desire for convenience, portability and healthier eating and drinking solutions at breakfast:

- **Frusion® Breakfast Banana Berry Smoothie with Cereals** is a unique blend of the classic drinkable smoothie with rolled oats and cereal. This product is said to provide a long-lasting hunger satisfaction and is made with real fruit and enriched with protein, fiber and vitamins. It can be consumed on the go and retails in a pack containing four seven-fluid-ounce units.
- **Breakfast Best® Bacon Breakfast Bowl** contains eggs, potatoes, bacon and cheddar cheese, which is described as an excellent source of vitamin A and calcium. This microwaveable product can be ready in three minutes and retails in a recyclable eight-ounce pack.
- **Jimmy Dean® Country Breakfast Casserole** is a combination of sausage country gravy, diced potatoes, scrambled eggs, sausage and cheese. The microwave-ready product can be prepared in 17 minutes.
- **Jamba® All Natural Smoothies Razzmatazz** is available in an 8-ounce pack. This product claims to make two 8-ounce smoothies, equivalent to one full serving of fruit per smoothie. The Razzmatazz

consists of strawberries, raspberries and blueberries with nonfat yogurt. This product is all natural and an excellent source of vitamin C.

- **The Bob Evans® retail breakfast products** closely resemble the hand-held breakfasts popular at QSRs yet can be easily prepared at home. The 57.6-ounce pack comes with 24 individually wrapped units for club-store distribution. Bob Evans Homestyle Burrito with Sausage, Egg & Cheese is a fully cooked, microwaveable burrito.


In addition to these new product introductions that either feature or include dairy items, companies are producing products that contain a greater amount of a key nutrient that also is found in dairy products: protein.

Kellogg's® Kashi® GOLean® Crunch! Protein and High Fiber Cereal and **General Mills Nature Valley® Protein Chewy Bars** are examples of products that have been developed that contain more protein than typically found in comparable cereals and bars.

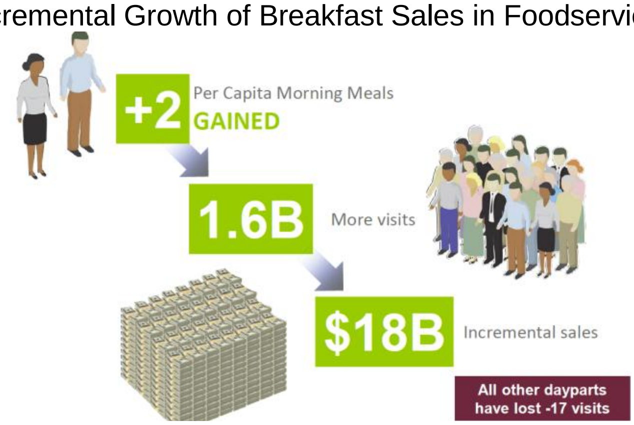
These offerings are due, at least in part, to NPD data that shows nearly 60 percent of Americans are looking for more protein in their diets. Health-conscious consumers have become increasingly aware of the benefits of protein in terms of weight management and satiety. Dairy needs to communicate more strongly that it contains protein, as well as the inherent benefits of this nutrient, in an effort to be viewed as a readily available source for consumers to get more of it.

Foodservice Channel

According to NDP/CREST data (year ending August 2011), the morning meal occasion represents 20 percent of total food service industry traffic (totaling 12 billion visits) and 14 percent of total industry dollars (equivalent to $57 billion). Over the past 10 years, the morning meal has outperformed other dayparts in terms of the gains posted in per capita morning meal consumption, visits and incremental sales.

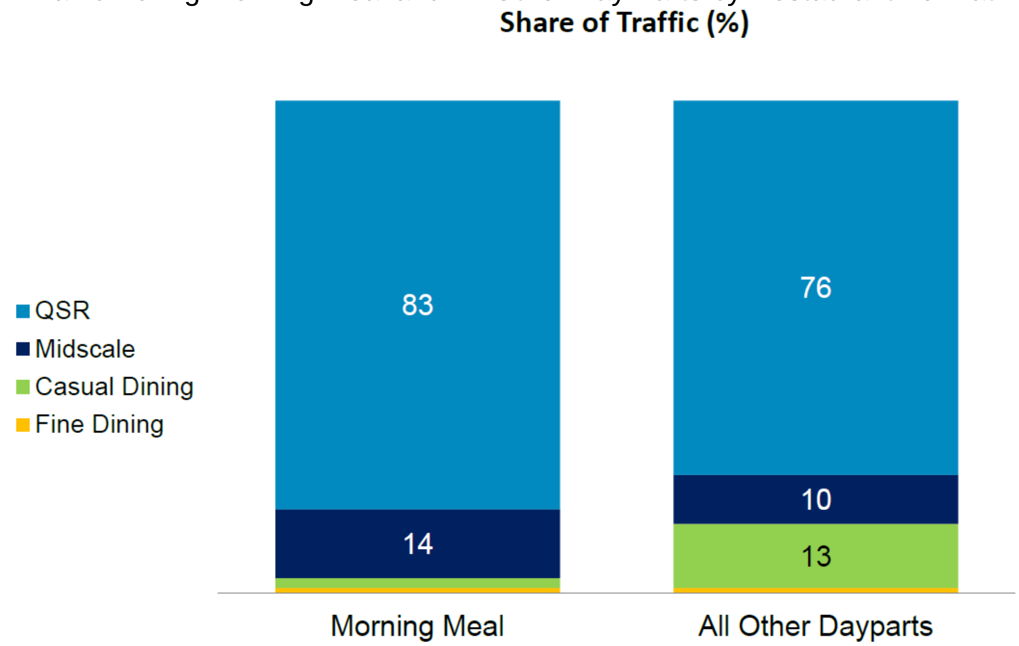
Figure 22

Incremental Growth of Breakfast Sales in Foodservice



Additionally, the morning meal occasion appears to be less deal-driven, making innovation critical to keep customers returning to this daypart. Breakfast is most likely sourced from QSRs; the share of traffic for the morning meal occasion is higher at QSRs than for other dayparts.

Figure 23
Traffic During Morning Meal and All Other Day Parts by Restaurant Format



Source: NPD and CREST; for year ending August 2011

Many of the most popular foodservice breakfast foods and beverages are both convenient and portable; e.g., breakfast sandwiches, breakfast wraps/burritos and specialty coffees/teas. Approximately 70 percent of the morning meals are consumed off-premises.

According to NPD and CREST, McDonald's, Starbucks and Dunkin' Donuts® account for 47 percent of all morning meal traffic and 50 percent of sales among QSRs. At these three chains, 2011 witnessed the following breakfast-focused innovation and promotion:

- **McDonald's:** Oatmeal, specialty coffee/smoothie beverages and $1 breakfast items. The fruit and oatmeal product has had a major impact on overall hot cereal servings.
- **Starbucks:** Breakfast sandwiches, oatmeal and yogurt parfaits.
- **Dunkin' Donuts:** A variety of breakfast sandwiches available on their DDSMART menu, including some priced at 99 cents.

In January 2012, Taco Bell announced a rollout of its long-awaited breakfast menu at 750 locations in 10 states across the country. The offerings include wraps and burritos featuring Johnsonville® brand sausage and steak, Cinnabon Delights®, hash browns, iced coffee and Tropicana® orange juice.

QSRs have been ramping up breakfast menus in an attempt to appeal to a wider range of tastes. While staying true to the popularity of the handheld breakfast, food ingredients reflect a growing trend to be more artisanal and better for you.

It is interesting to note that significantly fewer patrons appear to be seeking out traditional indulgent breakfast items. There is evidence of a trend away from the large, high-calorie breakfasts that are often anchors of restaurant menus.

- Per Mintel, going forward this could become even more pronounced prompted by the new legislation requiring the inclusion of calorie counts on menus in chain restaurants with 20 or more locations, along with bakeries, grocery stores, convenience stores and coffee chains.

Restaurants that serve breakfast also are seeing increasing competition from outlets that have not traditionally been a major go-to for breakfast outside the home as competitors seek to get a slice of the breakfast business pie.

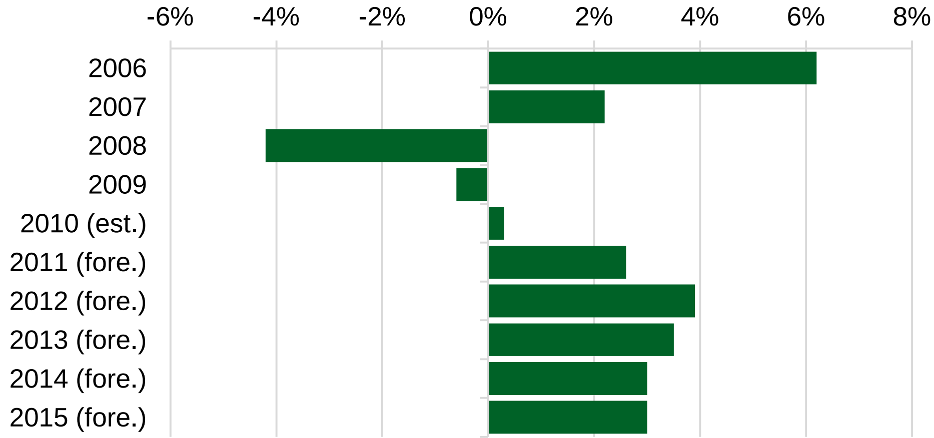
- In January 2011, Jamba Juice® announced the debut of Jamba Probiotic Fruit and Yogurt Blends that are made with Jamba's specially formulated Probiotic Boost and contain more than 500 million active cultures per serving, along with other breakfast-related items, including the Coldbuster Smoothie and Steel Cut Oatmeal.
- In November 2011, Starbucks acquired juice company Evolution Fresh® in an effort to expand into the $50 billion health and wellness sector and announced their intention to "build a national health and wellness brand leveraging our scale, resources and premium product expertise." (Source: CNNMoney, Nov. 10, 2011.) In March 2012, the world's biggest coffee chain opened its very first Evolution Fresh retail outlet, focused on juice rather than coffee.
- Breakfast outside the home is now available from a number of outlets other than traditional restaurants, such as convenience stores, drugstores and even some pizza chains.
- Subway recently introduced a breakfast sandwich line under 200 calories.

In terms of trends at other types of restaurants (non-QSR), portability and breakfast sandwich offerings are paramount:

- Portable breakfasts are also at the core of the menu at fast-casual chains with sandwiches in the top spot, followed by breakfast wraps. Bagels and spreads are seen more on the fast-casual breakfast menu than at other types of restaurants, and bagels have seen the largest increase on fast-casual breakfast menus between 2007 and 2010. (Source: Mintel Menu Insights.)
- Midscale family chains are implementing discount initiatives and testing grab-and-go concept extensions to help combat customer attrition during the down economy. This also is shown through the relative decline in the offering of breakfast platters compared with the growth of breakfast sandwiches. (Source: Mintel Menu Insights.)

Mintel's Dining Out: A 2011 Look Ahead survey predicted that an improving economy and an increase in hiring should help the restaurant industry rebound. Additionally, Mintel forecasts that breakfast at restaurants will see healthy annual growth at levels of 3 percent or more from 2012 to 2015.

Figure 24
U.S. Breakfast Restaurant Percent Change in Sales
(At Inflation-adjusted Prices, 2006 to 2015)



Source: Mintel and U.S. Bureau of Labor Statistics Consumer Expenditure Survey

Convenience Store Channel

In contrast to FDMx, the convenience channel has experienced flat unit growth for items that could be consumed at breakfast, e.g.; milk, cheese, yogurt, bagels, juice and hot cereal versus the same period last year (an increase of 0.7 percent). Sales are at a level of $4.5 billion. Although overall unit sales have been flat, there have been some gains in unit growth for some dairy items.

Convenience stores have been on a trajectory of improving coffee programs and implementing higher-quality food platforms to appeal to convenience-driven consumers getting their morning meal away from home. Additionally, in the convenience store channel, the value proposition has come into play during a down economy.

- In the *Convenience Store News*' 14th annual Best New Product Awards competition, the No. 10 spot in the foodservice category went to the Sausage Scrambler RollerBites by Home Market Foods. The Sausage Scrambler is sausage, egg and cheese wrapped in a maple pancake coating, cooked on the ever-present roller grill and is intended for consumers looking for an on-the-go breakfast
- In 2010, Pennsylvania-based Wawa, with 570 units, embarked on a region-by-region "Coffee Unplugged" overhaul of its coffee stations, including replacing the classic glass pots with thermal containers not dissimilar to those found at many coffeehouses, representing the necessity of a strong coffee platform as a foundation to being viewed as a breakfast source.
- As space allows, Speedway has replaced its former microwave program with the "Fresh from the Oven" program that features grab-and-go breakfast and lunch sandwiches that are assembled and cooked on-site in Turbo Chef ovens and then merchandised in a warm display unit.

There is an opportunity for dairy to help bolster the breakfast occasion in this channel. The top-selling new products in convenience stores underscore consumers' efforts to balance their need for immediate indulgence and energy against efforts around healthier eating. Dairy should think about innovative solutions that provide energy, convenience and portability in an effort to appeal to the members of both the Autopilot Fuel-ups and Wake-up Routines need states in this channel.

School Channel

The School Breakfast Program (SBP) is a federally assisted meal program that operates in approximately 88,000 schools and childcare institutions and serves more than 11 million children each school day. The program is designed to ensure all children have access to a healthy breakfast at school to promote healthy eating habits and a readiness for learning. Meals must be offered for free or at reduced price to eligible children and meet the applicable nutrition recommendations of the Dietary Guidelines for Americans.

Here is a profile of the SBP, based on USDA data from 2011:

- 11.7 million children served daily
- 2.1 billion breakfasts served annually
- $3 billion in federal dollars

In fall 2010, enrollment at public elementary and secondary schools was approximately 50 million students. Total public and private school enrollment increased 12 percent from 1993 to 2006. Enrollment is projected to increase an additional 8 percent between 2006 and 2018, when enrollment should reach almost 60 million, per the National Center for Education Statistics.

Breakfast, served in the cafeteria, in the classroom or as a grab-and-go option, continues to be an ongoing focus of many school districts around the country. Short-term studies, particularly among undernourished or hungry children, suggest that participation in the SBP has beneficial effects on cognitive function, academic performance, school attendance, punctuality and psychosocial function. Additionally, breakfast consumption may help children achieve a healthy weight and establish lifelong healthful habits. (Source: Food Resource Action Center's Breakfast for Learning: Scientific Research on the Link between Children's Nutrition and Academic Performance, conducted in fall 2011.)

A summary of recent government action that bears watching regarding its potential impact on the overall breakfast occasion in the school channel may be found in this white paper's Appendix.

Although the SBP grows each year, less than half of the low-income children who receive a free school lunch participate in the program. Dairy is an important part of the breakfast occasion, and with 2 billion morning occasions funded by the government each year in schools, there is an opportunity for business growth by helping underserved communities more effectively promote and focus on school breakfast.

Dairy has a very strong foundation from which to build on in this channel, given its history and the nutritional value of its products. It is important to maintain milk's presence in the SBP and to find incremental opportunities to support it with other convenient dairy options, e.g.; yogurt smoothies, breakfast bars, etc.

Breakfast Occasion: A Glimpse of What Is Happening Internationally

Globally, among all new dairy products mentioning breakfast introduced between January 2010 and November 2011 (based on Innova Marketing Insights data, which covers all major regions around the world), entrants are mainly in the dairy drinks and yogurt categories.

As shown in the following table, the results for the United States are generally comparable; however, new cheese breakfast products are much more common outside of the United States.

Table 9
Share of New Dairy Product Introductions That Mention "Breakfast" by Dairy Category (January 2010 to November 2011)

	Global	U.S.
	%	%
MARKET CATEGORY		
Cheese	11	3
Creamers	1	-
Dairy Drinks	40	46
Fats & Spreads	3	3
Yogurt	45	49
Other Dairy Products	<1	-
Total	100	100

Globally, new dairy products associated with breakfast are more likely to be accompanied by a claim for energy/alertness as compared with all new dairy product introductions overall.

What follows are some examples of new dairy products introduced in 2010 and 2011 from around the globe developed primarily for the breakfast occasion. Many of these products contain additional ingredients; e.g., plant sterols, nuts, fruit, grains, etc., to boost their overall nutritional profile. Nearly all of them are beverages.

Global New Breakfast/Morning Products

Weight Watchers UHT Skimmed Milk

Company:	PARMALAT
Country:	Italy
Category:	Dairy drinks
Positioning:	Low-fat, weight management, time-saving
Shelving Details:	Ambient
Description:	UHT skimmed milk ideal for a dietetic breakfast, in a tetra top.

Pura HeartActive Milk

Company:	PURA
Country:	Australia
Category:	Dairy drinks
Positioning:	Low-fat, low-glycemic index (GI), heart health, time-saving
Shelving Details:	Refrigerated
Description:	Pura HeartActive is milk specifically designed to help manage cholesterol levels. It is delicious, low-fat milk enriched with plant sterols that can help lower cholesterol. Research shows that consuming plant sterols every day in milk can lower LDL cholesterol by up to 15 percent in just three weeks. It is also low-GI and rich in calcium.

Yan Tang Walnut and Peanut Milk Drink for Breakfast

Company:	YAN TANG DAIRY
Country:	China
Category:	Dairy drinks
Positioning:	Consumption
Shelving Details:	Ambient
Description:	A 250-millileter tetra brick of milk drink with walnut and peanut flavor. Ideal for breakfast.

Aynes Tick Tack Quick Breakfast Milk With Cereal, Honey and Banana

Company:	AYNES
Country:	Turkey
Category:	Dairy drinks
Positioning:	Consumption (convenience)
Shelving Details:	Ambient
Description:	Quick breakfast milk drink with cereal, honey and banana. Comes in a tetra brick.

Frumoo Blackcurrant, Plum, Apple and Fresh Milk Smoothie

Company:	THE MILK AND FRUIT
Country:	United Kingdom
Category:	Dairy drinks
Positioning:	Allergy, antioxidant, gluten-free, low-sodium, no additives/preservatives, bone health, immune health, packaging
Shelving Details:	Refrigerated
Description:	Great source of calcium and vitamin C with nothing artificial. Freezable and re-sealable. Real crushed fruit blended with loads of fresh milk. Sourced exclusively from British farms. Refreshing at any time of day. Great for breakfast and perfect for packed lunches and picnics. No artificial colors or sweeteners.

Up & Go Liquid Breakfast: Vanilla Ice Flavor

Company:	SANITARIUM
Country:	Malaysia
Category:	Dairy drinks
Positioning:	Lowfat, no additives/preservatives, energy/alertness, consumption
Shelving Details:	Ambient
Description:	Vanilla-ice-flavored liquid breakfast drink with protein, energy and dietary fiber of two Weeta-Bix and milk.

Danone Vitalinea Cereals + Red Fruits: Yogurt With Cereals

Company:	DANONE
Country:	Norway
Category:	Yogurt
Positioning:	Low-fat, packaging
Shelving Details:	Refrigerated
Description:	Four plastic pots of yogurt with cereals and red fruits; perfect for breakfast or as a snack.

Danone Activia Pouring Yogurt: Vanilla

Company:	DANONE
Country:	United Kingdom
Category:	Dairy drinks
Positioning:	Low-fat, time-saving
Shelving Details:	Refrigerated
Description:	Yummy vanilla yogurt with only 2 percent fat, perfect to pour on your favorite cereals or fruits for a delicious start of the day.

Spar Active Breakfast Drinking Yoghurt: Wildberry & Oats

Company:	SPAR
Country:	South Africa
Category:	Dairy drinks
Positioning:	Allergy, low-fat
Shelving Details:	Refrigerated
Description:	Ready-to-drink yogurt with wildberry and oats in a plastic bottle.

Conclusion

The bottom line is morning-occasion opportunities for the dairy industry are growing. Breakfast is a routine-based behavior, with convenience and portability as the most important considerations for consumers.

To identify where dairy-based solutions can more effectively compete, NPD conducted an occasions-based need states analysis. The research revealed although motivations driving food and beverage selection vary by age and gender, most consumers are looking for on-the-go, healthy meal options. Taste remains a large determinant when selecting foods and beverages for the morning occasion.

Dairy remains underdeveloped in several need states. There are opportunities for dairy processors and manufactures to innovate to fulfill consumers' desire for satiety, healthfulness and energy in their breakfast meal of choice. Sourcing dairy for the morning occasion in new and unexpected locations in retail, foodservice, convenience store and school channels also can drive business growth. Recent and successful product introductions can serve as a model for companies looking to move innovation forward.

Innovation opportunities may include messaging, repositioning or repackaging existing products and benefits, as well as more breakthrough product development, which is most likely to drive real volume growth.

Appendix

Here is a summary of recent government action that bears watching, regarding its potential impact on the overall breakfast occasion in the school channel:

- The USDA's Food and Nutrition Service (FNS) just published its final rule revising nutrition requirements for school meals. The rule was implemented starting with the 2012-13 school year.
    - The rule is based largely on the 2009 Institute of Medicine report recommending changes in school meals nutrition requirements. It also, however, is affected by the 2010 child nutrition reauthorization act and last fall's agriculture spending bill for the current fiscal year.
    - This rule affects only the reimbursable school meals, breakfast, lunch and afterschool snacks served in schools. It does not affect vending machines and a la carte sales at this time.
    - The rule brings federal school meal nutrition standards in line with the federal government's current *Dietary Guidelines for Americans*. Many provisions are designed to address rising childhood obesity rates. For example, although previous standards have minimum calorie requirements for school meals, the new rule includes upper limits, as well. The revisions also increase the fruits, vegetables and whole grains in school meals, while requiring that milk be fat-free or low-fat. Over time, they also reduce the sodium in meals.
    - New calorie limits and sodium and saturated fat levels apply to meals served over the course of a week. This gives schools the flexibility to exceed limits for a particular day's meal as long as the average nutrient content of meals served over five days does not exceed the targets.
    - These changes are likely to impose substantial additional costs on schools, although the USDA made some adjustments from the proposed standards to the final rule to lessen the impact of the increased costs. Included were delays in implementation dates for some changes, especially in the SBP, and dropping a proposal that at least one serving of meat or meat alternate be required at breakfast.