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Culture of Competition; Danone, General Mills Take On Coke, Pepsi With Drinkable Yogurt

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Abstract (Article Summary)

"Drinks are going to be an important source of growth in the future," says Thomas Kunz, head of Danone's U.S. dairy business. Danone's U.S. drinkable yogurt business had sales of about $150 million last year and is expected to add up to $100 million in 2004.

The innovation of drinkable yogurt is the latest result of a growing rivalry between General Mills, the Minneapolis-based maker of Yoplait, and [Danone], owner of Dannon and Stonyfield Farms. The pair, which together control about 70% of the U.S. yogurt market, have seized on Americans' growing health awareness with a raft of innovations aimed at transforming yogurt from a breakfast food into everything from a healthy snack to a dessert to baby food. It largely started with the 1999 introduction of Yoplait's Go-Gurt, a single-serve yogurt-in-a- tube that was an instant hit with kids, and Dannon's Danimals, which featured colorful characters.

Building off the early popularity of drinkable yogurts for kids, General Mills and Danone started going after older kids, so-called tweens, and adults, with General Mills pitching drinkables as a light meal, and Danone targeting customers who want a healthy alternative to a soft drink. Drinkable yogurts, typically packaged in brightly colored, resealable, curved plastic bottles, carry higher prices -- and profits -- than regular yogurt cups. For instance, Yoplait's Nouriche drink retails at about $1.69 a bottle, about a dollar higher than any of its other yogurt cups.

Full Text (742 words)

General Mills, France's Danone Push Into a Coke, Pepsi Arena

YOGURT ISN'T JUST for breakfast any more.

General Mills Inc. and France's Groupe Danone SA are each dishing up new ways to serve what once was a bland breakfast item for dieters as they race for leadership of one of the hottest categories in food. After yogurt-in-a-tube, baby-food yogurt and rich yogurt-based desserts, they're making a big push in yet another: drinkable yogurts.

The move could set the rivals up for a collision with Coca-Cola Co. and PepsiCo Inc., which have been launching smoothies and flavored- milk drinks to compensate for the slow growth of their soft drinks and to hedge the risk of being targeted by antiobesity advocates. Danone is even test-selling its drinkable yogurt in vending machines and convenience stores, turf that Coke and Pepsi dominate but is new to the yogurt maker.

In food, an industry plagued by slow sales growth, yogurt -- drinkable yogurt in particular -- stands as a bright spot. In less than five years, drinkable yogurts have risen to 12% of all yogurt sales, with sales of $460 million last year, up from $22 million in 1998, according to Euromonitor. The research outfit expects additional growth of 31% by 2008. To capitalize on this trend, some supermarkets have started installing drinks sections next to their yogurt displays.

"Drinks are going to be an important source of growth in the future," says Thomas Kunz, head of Danone's U.S. dairy business. Danone's U.S. drinkable yogurt business had sales of about $150 million last year and is expected to add up to $100 million in 2004.

The innovation of drinkable yogurt is the latest result of a growing rivalry between General Mills, the Minneapolis-based maker of Yoplait, and Danone, owner of Dannon and Stonyfield Farms. The pair, which together control about 70% of the U.S. yogurt market, have seized on Americans' growing health awareness with a raft of innovations aimed at transforming yogurt from a breakfast food into everything from a healthy snack to a dessert to baby food. It largely started with the 1999 introduction of Yoplait's Go-Gurt, a single-serve yogurt-in-a- tube that was an instant hit with kids, and Dannon's Danimals, which featured colorful characters.

As a result, retail sales of yogurt rose 57% from 1998 to 2003, according to Euromonitor. Analysts see plenty more room to grow, given that Americans eat only about one-tenth the yogurt that Europeans do.

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The high price "was a risk" but is paying off, says Bob Waldron, president of Yoplait, who adds that Nouriche represents Yoplait's entry into the meal-replacement market. "It's been a very hot product for us. We're extremely happy with its success."

Slow growth for soft drinks is opening the door for alternatives like dairy drinks. Last year, Coke came out with Swerve, a milk-based drink aimed at kids, in flavors such as vanilla-banana and blueberry. Since 2001, Pepsi-owned Tropicana has offered a line of Smoothies made with fruit juice and yogurt in flavors like pina colada. A spokeswoman for Coca-Cola declined to comment on the new competition. PepsiCo spokesman Dave DeCecco says, "Tropicana Smoothies are more versatile than yogurt-based beverages," adding that they have a longer shelf life.

By moving into impulse products, Danone faces not only the marketing might of the two soft-drink makers but also assumes risks in trying new distribution, vending machines and convenience stores. That could force Danone into investing in delivery and logistics systems that might hurt its profit margins for some time. But, for now, the category's fast growth should provide plenty of room for all the big players, analysts say.

"They're beginning to compete with the big boys, but if they don't move that way, the big boys will move into their territory," says Andrew Wood, analyst with Sanford C. Bernstein. "But I think everyone will take a sensible attitude and not compete away the high margins on these products."