

Plant-based milk IPO puts dairy alternatives in the spotlight

Sales of plant-based drinks have been growing at double-digit rates both in the US and Europe in recent years. For dairy companies, this means the pressure to enter the plant-based alternatives market and the need to further improve the sustainability of their products is expected to increase



Various vegan plant based milk alternatives and ingredients.

Source: Shutterstock

Potential Oatly IPO puts dairy alternatives in the spotlight

[Press reports about a vegan milk maker's potential IPO](#) shows you that you don't necessarily need dairy milk to become big and strong.

The move itself shouldn't really come as a surprise as plant-based food has been the talk of the town in the food industry for some years now. Vegan burger maker, [Beyond Meat's IPO in 2019](#) showed investors, that plant-based alternatives can also walk the talk.

Although retail sales of plant-based dairy alternatives are bigger than those of meat alternatives, the alternative dairy space somewhat lacked a flagship company. But following strong sales growth, Oatly seems to be moving into that position. For traditional dairy companies, it means the pressure to enter the plant-based market has increased while it also heightens the importance to

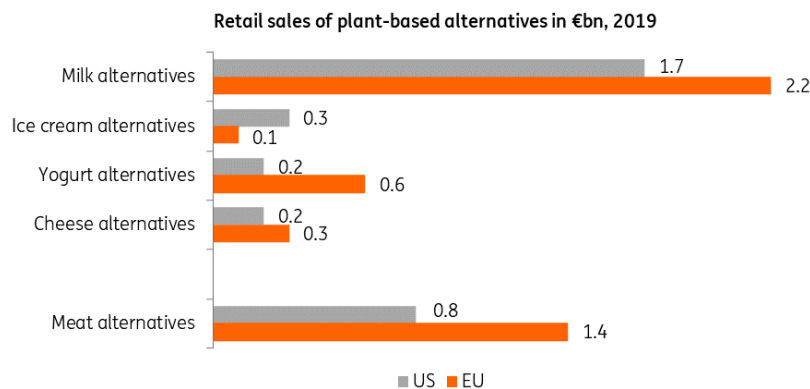
ramp up their efforts to improve the sustainability of their dairy products.

Market for plant-based drinks bigger than plant-based meat

In recent years, sales of plant-based drinks have been growing at double-digit rates in both the US and Europe. Within the plant-based segment, milk alternatives stand out because they already represent a sizeable part of the overall milk market. The total share in retail value is estimated at 14% in the US and at 10% in the EU.

In comparison, meat substitutes and other dairy alternatives only have a market share of 1% or less. In the US, almond drinks are the most popular plant-based drinks while in the EU soy is the most popular. But oat-based drinks have gained ground rapidly too and have for example overtaken soy as the second most popular dairy alternative in the US.

Milk alternatives are the biggest plant-based category in US and the EU



Source: GoodFood Institute, Euromonitor, ING Research

Dairy alternatives can become five billion market in EU in 2025

[We have shown earlier the growth potential of plant-based dairy and meat products.](#) Still, the main challenge for plant-based producers is to bring down the price gap compared to meat and dairy products, improve aspects like taste and texture and increase availability.

The main challenge for plant-based producers is to bring down the price gap in comparison to meat and dairy products, improve aspects like taste and texture and increase availability

Many consumers in the US and the EU haven't purchased a plant-based beverage before. Household penetration for plant-based drinks in key markets in the EU ranges from 30 to 50%, which is still much lower than for milk, which is greater than 90%.

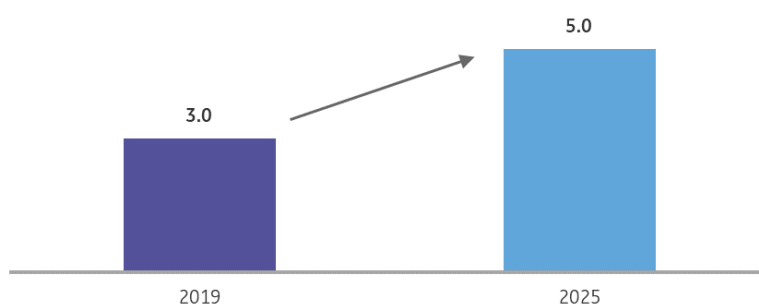
If these companies succeed, we expect the European market for dairy alternatives to develop from a 3 billion EUR market in 2019 into a 5 billion market in 2025. Both an increase in household

penetration of plant-based drinks and the possibility to branch out to adjacent categories like spreads, yoghurt and ice cream are expected to support his growth.

[The growth of meat and dairy alternatives is stirring up the European food industry](#)

Sales of dairy alternatives in EU + UK forecasted to rise to 5 billion in 2025

(value of retail sales in EU and UK, in €bn)



Source: Euromonitor, ING Research

Many dairy companies haven't embraced plant-based alternatives.. yet

While start-ups like Oatly and fast-moving consumer goods companies like the French dairy giant Danone were building the dairy alternatives category, many dairy companies followed a wait-and-see approach. Although milk consumption in the US and EU is declining, they still experience growth in dairy products like cheese and yoghurt and exports to developing markets.

Many dairy companies in Europe have only begun trialling plant-based products over the last two years and only in some of their markets. Still if they were to enter the plant-based space on a more structural basis they do have the opportunity to build on existing knowledge of consumer preferences and can benefit from existing supply chains and contracts with retailers.

Plant-based pressure is additional incentive for sustainability efforts in dairy sector

The decrease in milk consumption and the growth of plant-based milk alternatives show that the era of milk as an undisputed staple food lies behind us, at least in Western markets.

On many occasions, plant-based competitors position themselves as a more sustainable alternative given the lower CO2 emissions per glass. The impact from these plant-based competitors also goes beyond their own operations as they provide dairy companies with an extra incentive to increase their efforts to improve the sustainability aspects of their products.

Author

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.