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PET FOOD MARKET

RUSSIA 2014



GruppoBPC International



1. PET FOOD IN RUSSIA

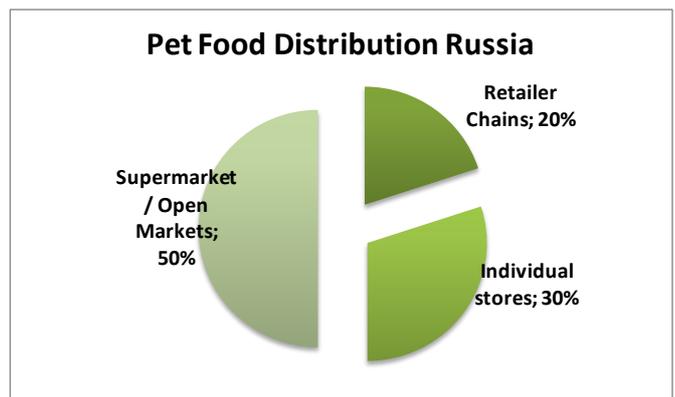
In January-October 2011, the volume of production of the finished food for domestic animals in Russia grew by 3% compared to the same period in 2010, while the previous year the production was substantially stable (425,000 tons of finished food for domestic animals in 2010, versus 424,000 tons in 2009). In 2010 the finished pet food produced in Russia was worth about 26 billion Rubles (596 million USD) In the period from January to June 2011 it accounted for 14.3 billion Rubles (321 million USD) which is 18% more than the same period of previous year.

The Russian market of pet products is growing two times faster than abroad. In Russia, according to various estimates, there are 25-30 million domestic cats and 20 million domestic dogs. The majority of all funds that owners spend for pets during its life accounts for fodder.

The potential is shown as well by the fact that the Russian market for animal products accounts only for 2% of the global market, while the US market has a share of 9% .

"The share of Russian manufacturers is so far minimal. In our network, perhaps 2-3% - confirms in RBC TV program CEO of "Cats & Dogs" chain, Igor Lutsk. - Trade and manufacture of pet food for animals is not so developed." This happens also because in Europe and US pet owners spend in average 2-3 thousand dollars a year, while in Russia the average varies from 600 to one thousand Rubles (from 14 to 23 USD)

It is important to state that in Russia, pet products are mainly realized by independent retailers and not by specialized chains. In the US, independent retailers account for 40% of the market, when chains occupy only 25%. "In Russia, the situation is similar to the American market, as well as the European. According to our estimates, the share of retailer chains in Moscow is about 20% of the market, another 30% is made of the individual stores, about 50% of supermarkets, hypermarkets and open markets - says I.Lutskov. "In less developed regions, the share of pet retail sectors is not more than 10-15% of the market."



Thus, foreign companies control 90% of the Russian market.

Global giants have already local production plants in Russia, and some of the chains like Auchan or Crossroads promoted animal food with their private labels.

The largest networks of pet products today are Cats & dogs, Beethoven, Zooboom, Pincher, Chetyrie Lapy as well as the St. Petersburg players Lemur and Zolotaya Rybka.

2. CONSUMER TRENDS

Russian pet food business is not much older than two decades. The population of domestic animals in Russia is quite significant: the number of dogs approaching 10 million, and cats, according to experts, are held by every third Russian family.

According to the Commission at the Expert Council of the Social Political Affairs the main segments in Russian pet market are the following:

- Food;
- Accessories;
- Medicines;
- Products for animal care.

The value of the average for each category consists of the following: for medicines - 262 Rubles (6 USD); on accessories and cosmetics - 394 Rubles (9 USD); on aquarium fish - 255 Rubles (5.85 USD); feed - 520 Rubles (11.90 USD). The biggest share is occupied by food products. However, data on the structure of the market are ambiguous and fragmentary.

Sales of prepared food for pets annually reach about 1.2 billion USD (51 Billion Rubles) up to 1.5 billion USD (63 billion Rubles)

In 2010 68% of the total production of finished food for domestic animals accounted only for Moscow region. In general, the greatest demand for ready to eat pet food is observed in the capital and in some other major cities.

Almost 30% of Russian owners feed their pets with industrial and ready to eat products. In Moscow this figure reaches 60%.

The most frequent place of purchase of animal food are specialty stores, followed by wholesale and retail market and grocery stores. 66% of cat owners buy industrial products (both dried and "wet"). Among dog owners 44.6% buy industrial food products. In general, most pet owners alternated finished food with soups, cereals, meat, fish and other dishes. However, such a situation is typical for dog owners who often buy animal food only as a supplement to conventional products. Cat owners are much more likely to use ready food as single course, without mixing it with other products.

Wet food (usually sold in cans or bags) is more expensive. Often it is given to the animal as a promotion or as treats, during or after an illness, because it is believed that expensive foods contain more nutrients. Pet owners note the following advantages of dry food:

- natural appearance similar with meat;
- taste - pets often prefer it to dry;
- more nutrients (in buyers' opinion);
- convenient for dog owners as a component for making economical mixture food with porridge.

At the same time, according to the owners of animals, **dry food** is not without its advantages:

- does not stain the dishes;
- does not dry out or deteriorate (it can be left in the bowl for a whole day);
- thanks to a dry consistency it is suitable for feeding pets during a trip out of town.

Besides usual food for animals their owners are willing to buy a lot more intricate products. For example, dietary rabbit ears, pig snouts and tails, chicken feet and bull testis.

Such exotic goods bought for different purposes - for example, the dog can chew them instead of slippers, but most of all - just for fun. One rabbit ear, which is enough for the dog a day, costs in retail shop about 100 Rubles. So the optimism of manufacturers promoting super premium food based on caring owners is justified.

3. FOREIGN MANUFACTURERS IN RUSSIA

The first company who came to the Russian market was Mars (with its known brands Chappi, Pedigree, Whiskas, Kitekat). The first factory in Russia for production of fodder was built in Stupino and near Novosibirsk in 1995. After 2004 started their activity factories like Royal Canin in Dmitrov, Aller Petfood in Tver and St. Petersburg. In 2007 the company Nestle Purina (brand food Purina, Friskies, Darling etc.) has completed the construction of the factory in the Kaluga region.

Today, foreign companies producing food locally control 90% of the market. There are only few big players in the dog-cat market.

The company Mars controls 60% of the market in Russia. Nestle Purina - 13,9% (10% of the premium segment with the brand Pro Plan); Royal Canin, a brand of Mars - 7,5% (50% of the premium segment); Company Hill's - 4,8% (1/3 premium) ; 13.8% of the market accounts for other companies

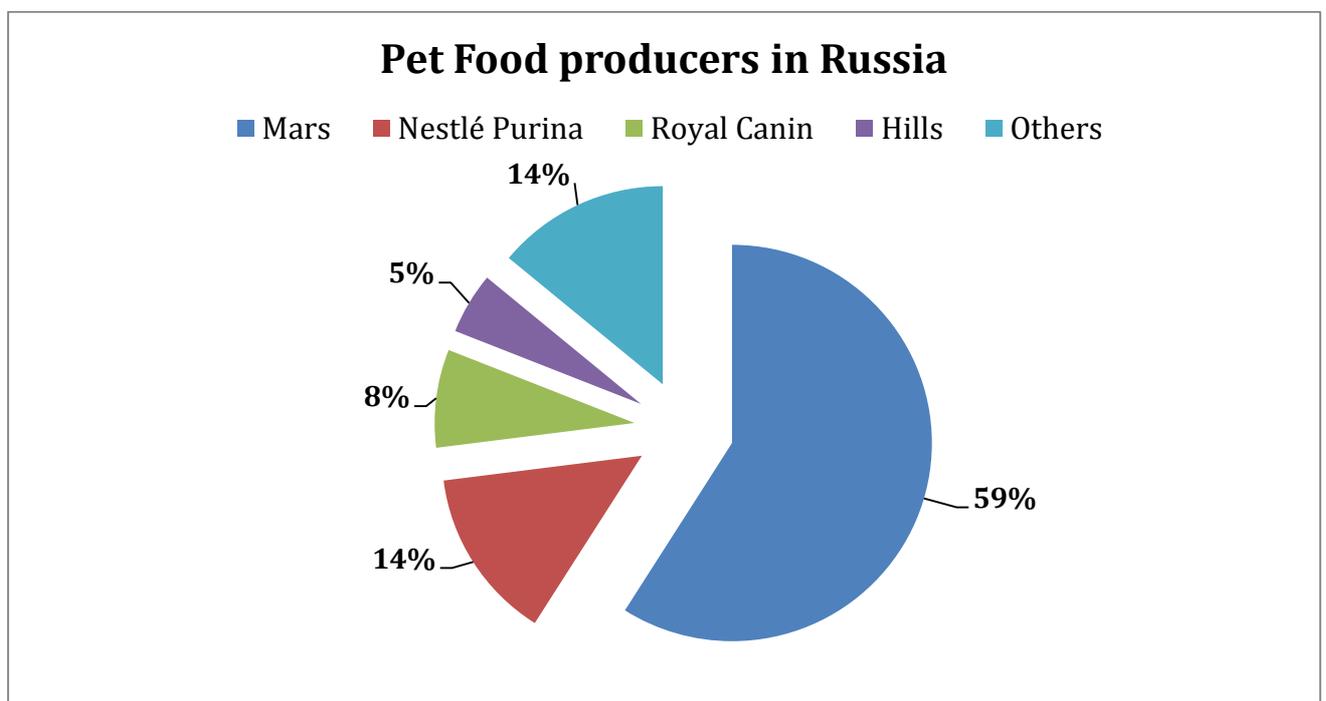


Image 1. Market shares of foreign pet food producers in Russia

Enterprise Rik, consisting of 20 people, manufactures and sells about 20 tons of food per month.

Larger domestic companies are still on the Western industrial model. Raritet, for example, although does not have its own production, orders products according to their own recipes to third-parties and then sells them under its own brand.

For example, “Zolotaya Rybka (a company that started with pet stores) produces the so-called "vitamin goodies" for pets. These multivitamin products are sold throughout Russia.

Eugene Budarin, representative of Zolotaya Rybka says: When the crisis struck in 1998, it was necessary to save the company. Production to us then became a forced measure. This allowed the company to survive and to develop a new direction. The experiment was successful, and after a default, we decided not to close our brand”.

The company KlinVet started its activities in 1998 with the opening of the veterinary clinic in the south-west of Moscow. Currently, it is also a well-known Russian manufacturer of food for dogs and cats.

4. SALES AND DISTRIBUTION CHANNELS

Russian business of pet food is very young, starting its activity only 20 years ago. At the moment the system of distribution is still at an early stage stadium.

Big trading companies

The major players of this sector are **big trading companies** that, with their chains, dominate the market. Some of the biggest companies are:

- *AGIDIS* in Saint Petersburg, specialized in food for dogs, cats, birds, rodents, fishes for aquariums and reptiles
- *BIOSFERA* that sells its products through seven different brands (Vaka, BioVaks, Bio Flor, Gold premium, Serya 43, Chistyulia Vaka, Weekl-Quickly, X-Element)
- *ZOOLAND* leader in Russian market for the distribution of pet food and pet industry products
- *DEMETRA* one of the biggest distributor of pet food in Russia.

Retailers and Supermarkets

The main sales channel for the **retail trade sector** are supermarkets, hypermarkets, specialized pet shops and markets. According to specialists nowadays there are more than 390 thousands traditional shops that sell pet food. In large cities in the next few years we can expect an increasing number of hypermarkets and supermarkets.

The main actors are:

- *X5 RETAIL GROUP* (with its retail chains Carusel', Pyaterochka, Perekrestok, Kopeeka)
- *AUCHAN GROUP* (Auchan, Auchan City, Raduga),
- *METRO GROUP* (Metro Cash&Carry, Real),
- *MAGNIT* (Magnit, Magnit Cosmetic)
- *O'KEY* (O'Key, O'Key Express)
- *SEDMOY CONTINENT* (Sedmoy Continent, Nash Hipermarket)

Specialized pet food stores

Starting from 2010 the number of **specialized pet food stores** grew by 19% and further increases are expected in the short term.

According to the data in the specialized sector there are not clear leaders. The big players own no more than 3-5% of the shares in the main cities and even less in other regions. Hence the main chains are increasing their presence, opening new freestanding stores as well as stores in big shopping centers. Almost all the chains offer a full range of products for animals as well as veterinary consultations.

At the moment the largest specialized chains, with more than 60 stores are:

- *CATS AND DOGS* in Moscow, Saint Petersburg, Nizhniy Novgorod, Ryazan' and Samara
- *LYUBIMCHIK* in Moscow and Moscow region, Chelyabinsk, Perm, Ekaterinburg and Novosibirsk
- *CHETYRE LAPY* IN Moscow and its region, Ivanovo, Vladimir, Yaroslav and its region.

There are others chains with a less deep market penetration and with approximately 30 stores:

- *ZOOBOOM* in Moscow, Saint Petersburg, Kazan, Nizhniy Novgorod, Ekaterinburg, Krasnodar
- *BEETHOVEN* in Moscow and its region
- *ZOOLINE* in Moscow and its region.

Private labels

Private labels in the Russian pet food business are not still very popular. In late 2000s many big chains intended to actively develop their own brands, in order to reduce the costs of marketing and advertising and thereby reduce the cost of the products to the final customer. Still The share of private labels since 2008 has not changed significantly. However a new trend is developing and, according to analysis, in next 3-5 years, private brands will occupy 30-40% of the assortment in stores.

Internet stores

Russian market is experiencing a boom In **online stores** and pet food market is no less included in this new trend than other markets. The big choice and the possibility to order goods are among the keys of the success of internet stores. Especially for very demanding pet owners that live in small city, internet stores appear to be the only solution for buying pet food.

5. TRADE FAIRS



INGREDIENTS RUSSIA - Moscow

Held yearly in March Ingredients Russia is the leading exhibition in Russia for food additives, flavourings and raw ingredient suppliers.

<http://www.ingred.ru/en-GB>

FAIR "MILLION FRIENDS. LIVE NATURE AND SOCIETY"- Nizhniy Novgorod

Held yearly in November is an exhibition of pet food, accessories, clothes, means for animal care and much more.

<http://www.krasfair.ru>

INTERNATIONAL FAIR "GOODS AND SERVICES FOR PETS"- Saint Petersburg

Held yearly in November it is an international fair for supplies, veterinary products and pet food.

<http://zoosphere.lenexpo.ru>

6. OPPORTUNITIES IN THE RUSSIAN MARKET

Potential market for pet food in Russia is huge. Russia ranked 2nd in the world after the US in the number of domestic animals. Russians are in fact one of the most enthusiastic pet owners in the world as data confirm: according to "KOMKON" in Russia 33% of families have cats (that is about 25-30 million cats), and 20% have dogs (about 10 million dogs), 3% of families have poultry or fish, and 1% holding turtles or hamsters .

In terms of geographical opportunities, the interest of pet food companies is still focused on Moscow, with a substantial share of the volume that accounts for about 20% of the total market. However **the industry leaders are paying particular attention to cities with a population of over one million people**, such as Novosibirsk, Nizhny Novgorod, Yekaterinburg, Samara, Omsk, Kazan, Chelyabinsk, Rostov-on-Don, Ufa, Volgograd, Perm. Large cities have in fact a significant number of people with high purchasing power and local specialty retailers, both independent and chain stores.

GruppoBPC International is the ideal partner for the development of your company and your products in the Russian market, knowing the market and operating directly through our local team in Moscow. Thanks to an organizational structure, a working methodology and proven effectiveness, we are able to create business opportunities with all of the above sales channels, in order to start successful business relationships.

We offer you:

EXHIBITION – complete assistance in visiting the main fairs of the sector, organizing one to one meetings to know the main players of the market.

EXPORT- full support to successfully open a new market, identifying and developing winning strategies to sell your products in the targeted market and to prepare your company for subsequent business expansion.

JOINT VENTURE - thorough assistance in the search and evaluation of an international partner with whom to establish a commercial or industrial joint venture.

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7. SOURCES

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- www.nielsen.com
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- Federal State Statistics Services – Russian Federation
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8. CREDITS

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