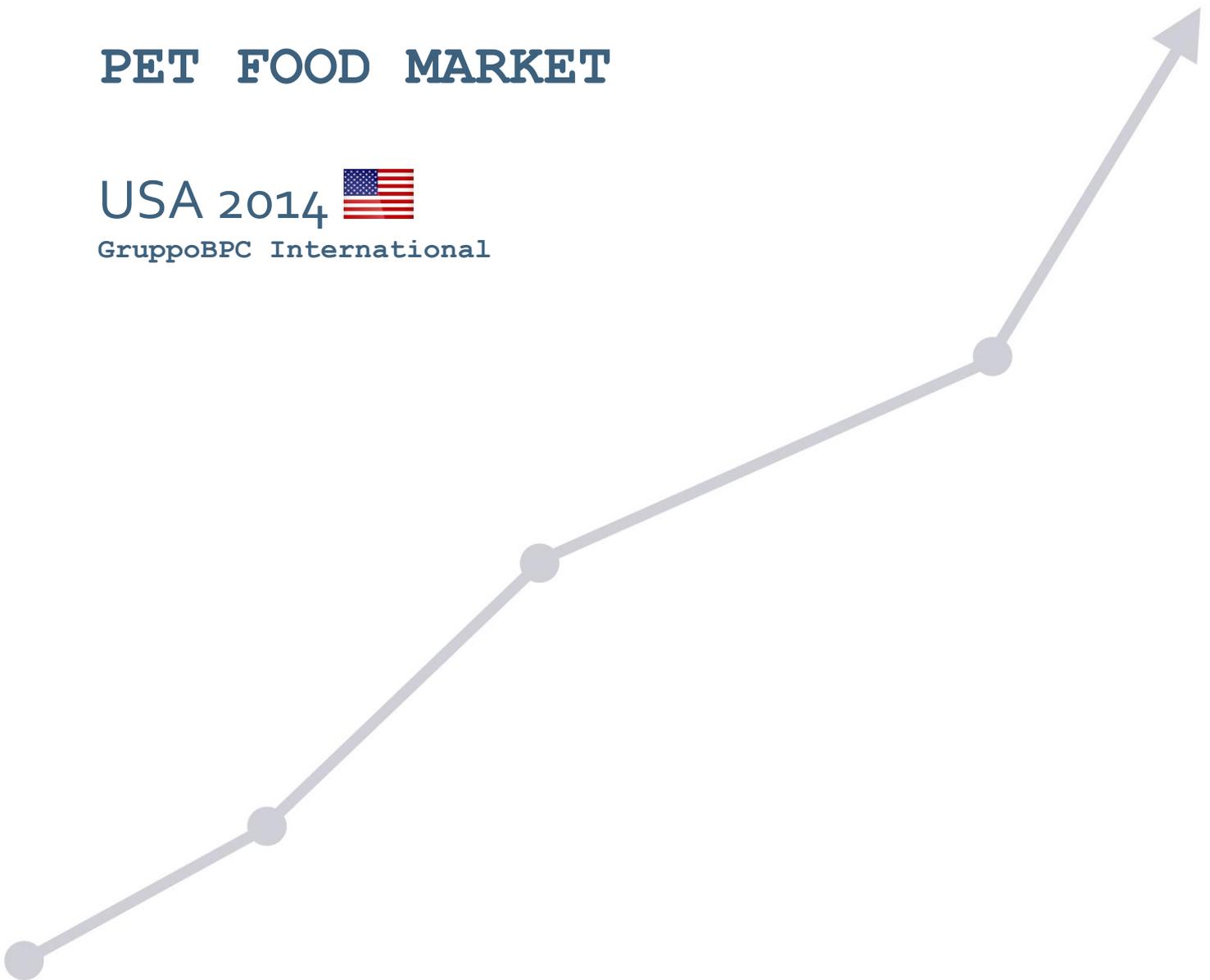


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PET FOOD MARKET

USA 2014 

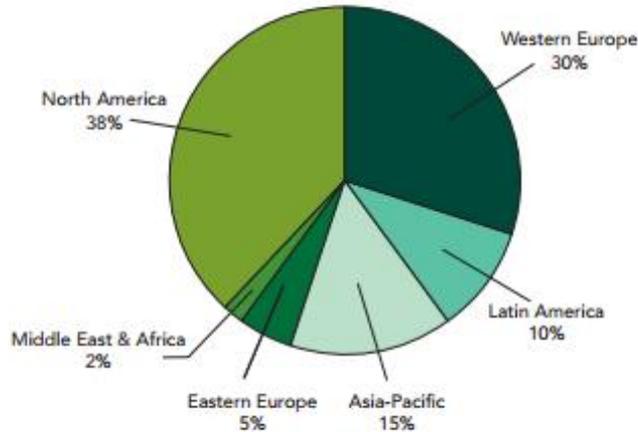
GruppoBPC International



1. PET FOOD IN USA

On the global stage, the **United States has the largest market for pet food, purchasing 38% of all pet food**. Overall, it is clear that Americans highly value their pets, and in turn, are willing to spend a large amount of their disposable income on buying new pets and their high quality food. **Approximately 62% of all Americans own at least one pet**, making the sheer number of animals the driving factor for the booming pet food industry.

Global Breakdown of Pet Food and Pet Care Products by Region



Source: Pet Food Institute and Euromonitor

Although this industry can be classified as a “mature” market as its growth is moving at a slower rate than the US GDP rate in addition to the decrease of innovative products and the consolidation of major market players, there still remains a great consumer demand for these products. Moreover, **this industry is seemingly “recession-proof”** as the industry continued to grow despite the economic downturn brought by the 2008 crisis.

Because of the very high demand for pet food in the US, this market is extremely competitive. There is a constant race to better the pet food ingredients or packaging in order to create a more marketable and desirable product. Even though this is a mature market and the industry is projected to experience slower growth, therein lies the opportunity for those with innovative and new ideas regarding the manufacturing of pet food. Regarding the bulk of pet food purchased, there is a clear indication that large supermarket chains and wholesale clubs like *Costco* and *Berkley & Jensen’s* in addition to *Wal-Mart* enable the convenience of purchase. However convenient are these stores, there are also large pet specialty store chains like *PetSmart* and *PetCo* that attract about 40.3% and 19.5% of the market share, respectively.



Image 2. US Pet industry trends. Source: IBISWorld

According to IBISWorld, in the next five years, there will be a greater trend toward the aforementioned higher quality pet food, which in turn will create a favorable profit margin for the pet food industry. Additionally, IBISWorld forecasts profit margins to increase from 3.6% of revenue in 2014 to 3.8% in

2019. Because of this forecasted success, increased pet ownership and subsequent increased pet food consumption, there will be more incentive for new players to arise in this thriving industry. Consequently, **the number of companies is projected to increase** at an average annual rate of 0.5% to about 13,488 in 2019.

Furthermore, the emphasis on pet health creates a larger market for more natural and healthier products—again expanding the market for niche items. This indicates the greater demand for product innovation and product differentiation in order to become successful in the very competitive pet food market.

2. CONSUMER TRENDS

Due to the recession, consumers were looking toward supermarkets and larger stores for cheaper and generally lower quality products. But as disposable incomes rose and recovery from the recession took place, **there was a clear trend toward buying better quality products** to ensure a higher quality and longer lives for their beloved pets. This allows for the growth of smaller specialty stores and more expensive yet better quality pet foods.

In general, **there is this growing sense of humanizing pets**—treating them on an equal level as one would a child or another family member. Because of this growing sense of close companionship and familial ties, the US pet industry continues to grow and thrive as well as increasing the demand for such high quality products. Additionally, there is great prospective growth to come in the following years as the number of pets increase, according to IBISWorld. About 68.0% of US households own a pet, which equates to 82.5 million households.

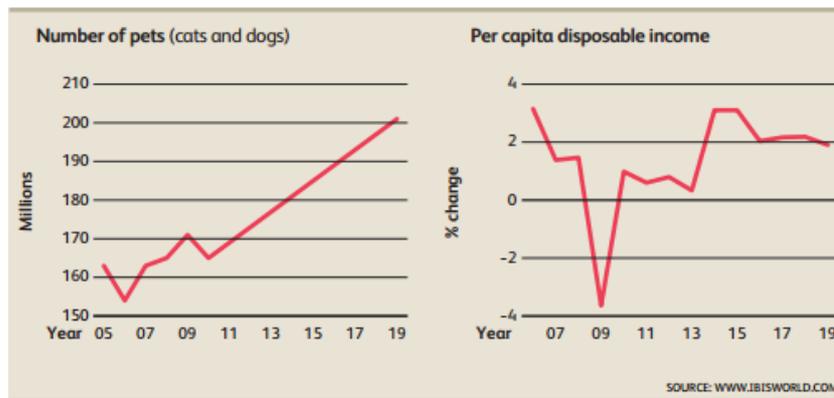


Image 3. The correlation between number of pets and disposable income in the US

Pet food, which accounts for about 52% of all pet care industry sales, was a leading contributor to positive sales during the recession. According to APPA data (American Pet Products Association), sales for pet food increased 26.8% between 2008 and 2013, and are expected to continue growing in 2014.

As a result of the humanization of companion animals, **many of the top human food trends have found their way into the pet food market**, for example grain-free (or corn-free) dog and cat food and treats, products that boast no added sugars (or dyes or artificial preservatives) and products rich in nutrition additives, like omega-3.

With the growth of disposable incomes, so grows the market for niche products. Those products who target specific stages in a pet's life as well different health issues like pet obesity. Additionally, older pet owners who are concerned about their own health, in turn, are more willing to spend more money on higher quality, more health-conscious products for their pets as they wish for their health to be optimal as well.

3. PRODUCT SEGMENTATION

Pet owners are increasingly seeking specialized and higher quality food for their pets. As a consequence of this trend, niche producers have performed very well with their organic, natural and human-quality products.

Natural products can be considered the leader in pet food, given that more and more pet owners see their animals as member of the family that deserve the best quality food they can find. In 2013 natural products for dogs out-sold non natural products in all of the three main categories (dry food, wet food, and treats) as well as 41% of all cat sales were natural.

More than a quarter of all pet food sales are generated by **grain-free products**: in the 12 months ending May 2014, grain-free dog food accounted for 1,6 billion USD, while grain-free cat food for 362 million USD.

Fiber in pet food has also become prominent recently, especially as consumers have become more educated about its benefits. Dental diseases in dogs, hairball symptoms in cats, obesity and diabetes are mitigated with diets that include fiber. The most common fiber used in pet food are oat fiber, beet, pulp, in general fruit and vegetable fiber.

Premium and super premium dog food shows the strongest growth opportunities, **functional food** for dogs will continue to reflect trends valid for human food. Terms such as **pro-biotic, omega-3, and weight management** have a great influence in the purchasing activity. The same human food trends are expected to offer interesting results for cat food as well. Premium and super premium foods for cats currently offer **age-specific, size-specific, and functional products**.

All of this data confirms that the industry foresees a growing preference for healthier foods and treats for pets. As a response pet food manufacturers will simplify products and their compositions utilizing healthier ingredients.

4. PET FOOD SUPPLIERS IN THE U.S.

According to Planet Retail, **the US market is highly fragmented**, with more than 2,000 manufacturers, mainly small and medium dimensioned, with limited product lines. Most of these manufacturers outsource sales and logistics to independent distributors in order to supply their products to chains and retailers.

This situation allows the following **big multinational companies** to dominate the U.S. pet supplies/food market.

- *Nestlé*, through its Purina division, holds a variety of significant global brands in pet care (such as *Friskies, ONE, Purina Pro Plan, Gourmet, Felix, Go Cat* and many others)
- *Mars Inc* is a global leader in the branded pet food segment thanks to its worldwide famous brands such as *Whiskas, Pedigree* and *Royal Canine*. It is also a key player in the North America private label pet food segment, producing *Berkley and Jensen, ShoRite* and especially *Wal-Mart* private label brands, *Ol'Roy* and *Special Kitty*.
- *Colgate-Palmolive Co* is the leader in high-end functional and premium food sector. Its brands offer therapeutic pet foods available through veterinarian clinic, such as *Hills Pet Nutrition*.
- *Procter & Gamble Co* is present in several markets all over the world with its brands *Lams* and *Eukanuba*, occupying almost 10% of the share in North America.
- *Del Monte Foods Co* offers both wet and dry dog food together with pet snacks with private label products. Among its brand the most famous are *Milk-Bone, 9Lives, Meow Mix, Pounce*.

5. SALES AND DISTRIBUTION CHANNELS

In the U.S. market the key distribution channels for pet supplies are the following.

Mass retailer

Discounters, supercenters and hypermarkets such as *Wal-Mart, Target, Kmart* and *Wilkinson* have experienced an improvement in pet care departments, especially in recent years, offering a large variety of pet care items. According to Planet Retail, *Wal-Mart* is expected to become the leader of this category in sales in 2014, by selling more than twice the amount of pet care products, than its direct rival *Pet Smart*.

Pet Superstores

Among the largest pet item suppliers in U.S. market there are *PetSmart*, *PetCo*, *Fressnapf* and *Pets At Home* that have shown significant growth rates, due to the expansion of value-added services. Even if these retailers are relatively small in comparison to mass retailer operators, their focus on pet care categories suggest that they will occupy an important share especially for premium and specialty lines. Planet Retail data show that *PetSmart* and *PetCo* will account for two of the top five places in pet care retail for 2014.

Pet Catalogue and E-commerce

At the moment the online pet food and treats industry presents a low level of concentration. The biggest e-commerce powerhouses, rated on the basis of their product variety, prices, delivery options, customer reviews and charitable contributions are: *1800PetMeds.com*; *PetCareRx.com*; *PetEdge.com*; *Petflow.com*; *Petmountain.com*; *VetDepot.com* and *Wag.com*.

Specialty retailers such as *PetCo* and *PetSmart* also run active online businesses.

Warehouse clubs/Cash & Carries

Operators such as *Costco*, *Sam's Club*, *BJ's*, *Metro* and *Booker* offer a modest selection of both branded and private label pet food products, mainly in bulk packs or multipacks.

Grocery chains

Grocery chains are considered to be a crucial key in the pet food distribution channels, because most of the time the purchase of pet food is done while grocery shopping. Business such as *Ahold*, *Safeaway*, *Publix*, *Kroger*, *Tesco* and *Casino* significantly represent this trend.

Drugstores

Drugstores and pharmacies are also important for pet food distribution. Retailer such as *Walgreens*, *CVS* and *Schlecker* include basic range of pet foods as part of their supplies.

Agricultural supply stores

Agricultural supply stores like *Tractor Supply*, *Countrywide Stores* and *Kesko Agro* sell large volume of general pet supplies, especially for equine requirements. According to Planet Retail, for *Tractor Supply*, 33% of their sales come from livestock and pet supplies.

6. TRADE FAIRS



GLOBAL PET EXPO Orlando, Florida -March

It is presented by the American Pet Products Association (APPA) and Pet Industry Distributors Association (PIDA) and it is the pet industry's largest annual trade show, featuring the newest, most innovative pet products on the market today.

globalpetexpo.com

PET FOOD FORUM Kansas City, Missouri – April

Events, exhibitions and conferences about pet food manufacturing industry, pet nutrition, global pet food market growth, processing, all from leading, recognized industry experts.

www.petfoodforumevents.com

SUPER ZOO , Las Vegas, Nevada – July

Produced by the World Pet Association (WPA), SuperZoo is a non-profit event about product and service industry.

www.superzoo.org

7. OPPORTUNITIES IN THE US MARKET

As consumer awareness of their pets increases, pet food industry can expect such market to continue to provide huge opportunities for growth. The US market is one of the most active markets for pet food, boasting numerous products launched in recent years due in part to the impressive pet population. It also offers a large market in terms of both value and volume.

It is important to understand the trends and specific needs of customers in this fragmented market in order to leverage potential opportunities for differentiation and penetration. There are currently numerous opportunities for new, innovative, functional and natural products in the market. At the same time there will be opportunities at the private label level, as consumers seek both premium products and costs-savings.

GruppoBPC International is the ideal partner for the development of your company and your products in the US market, knowing the market and operating directly through our local team. 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-on-one meetings to know the main players of the market.

EXPORT- full support to successfully enter 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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8. SOURCES

- Planet Retail
- www.petfoodindustry.com
- IBIS World
- Euromonitor International
- APPA

9. CREDITS

GruppoBPC International is an international consulting Group with offices in Ireland, Italy, Russia, USA and Singapore, assisting companies in developing their business in the international markets, supporting trade and investment.

With its own international direct network, GruppoBPC International is able to provide top ranking corporate assistance with value added international services, specifically market entry strategy, international communication campaigns and ongoing management assistance, addressed to establish bridges between countries and to develop a global presence in the international markets.

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