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Natural Pet Trends and Treats in the U.S. Market

2007 Recall Spurs Demand

Almost all organic and high-grade natural pet foods were spared during the spring 2007 pet food recalls in the United States, and heightened consumer concerns over pet food safety continue to keep consumer interest in natural and organic pet foods high. In an online survey of pet specialty retailers conducted by *PET AGE* from May 23 to May 30, 2007, 69% of respondents reported increases in sales of natural/organic pet foods, while a *PET AGE* survey conducted from January 14 to 21, 2008 shows that one-third of pet specialty retailers said they had added natural/organic products. Moreover, the recall has had important lasting effects on the pet food industry as a whole, including much beefed-up safety procedures in production, from ingredient sourcing to final product packaging; improved communication between pet owners, retailers and manufacturers; heightened food safety concerns among pet food purchasers; and new federal laws governing pet food manufacturing.

Even before the 2007 recalls, sales of natural and organic pet foods were going strong. According to Packaged Facts' October 2007 report, *Natural, Organic and Eco-Friendly Pet Products in the U.S.*, during the 2003-2007 period, double-digit annual percentage gains in sales of natural and organic pet food steadily increased, finishing the period at a record 50% growth in 2007. The 2007 spike drove sales above the \$1 billion market for the first time ever as pet owners who might have converted to natural or organic foods later on did so right away. At the same time, with mostly mainstream products being pulled from store shelves, many retailers opted to fill that space with products perceived to be safer, the most obvious candidates being natural and organic foods.

Natural Pet Foods Booming in Mass Market

At least equally important as a contributor to sales of natural and organic pet foods in 2007 is the stellar performance of new products in the mass-market channel. Only a few years ago mass-market sales of natural pet food were almost nonexistent, but this is no longer the case by any means. According to Information Resources, Inc.'s *InfoScan* sales reporting, sales of natural pet food through supermarkets, drugstores and mass merchandisers excluding Wal-Mart began to surge along with new product introductions in 2006, rising more than 200% to reach \$29 million. During the first two quarters of 2007, this amount nearly tripled to \$82 million.

With the safety factor now of paramount importance in the pet food market, Packaged Facts projects strong growth in sales of natural pet food, with double-digit annual percentage gains bringing the market past the \$2 billion mark by 2012. As noted, the 2007 surge reflects recall-related cross-over into the market by consumers concerned about pet food safety, which will continue as a strong positive trend. Most natural and organic marketers are now positioning their products heavily along safety lines, and additional recalls into 2008 confirm that consumers are right to be wary about the pet food they buy. The primary market driver, however, will continue to be the mass-market push, albeit gradually moderating as the new natural pet food entries of Nestlé Purina, Mars and Iams carve out sales in mainstream channels.

Many Natural Treat Brands Also “Going Mass”

As in the pet food market overall, treats are an especially strong segment in the natural pet food arena. What's more, because of their simpler formulations, natural and even organic pet treats are a relatively easy point of entry into the pet food market. Dogswell entered the market in February 2004, scoring a major coup early on by being picked up by Whole Foods, and expanding its jerky treats line in 2007 with Biscuits with Benefits dog biscuits and Veggie Life dog treats. Also currently in the spotlight are the private-label lines of natural supermarket chains Whole Foods and Wild Oats, with Whole Foods surrounding its Whole Paws store-brand dog treats with name brands like Dogswell and Newman's Own.



[Caption:] Whole Foods' store-brand Whole Paws dog biscuits are merchandised in the center of the section, among manufacturer brands such as Dogswell, Newman's Own and Castor & Pollux.

In what may be even bigger news, although natural treats have been around for quite a few years, many of the products once available only in the natural and pet specialty channels are now making their way into the mass market. Examples include Dogswell, Newman's Own Organics, Zen Puppy dog (Ultra Pet Co.), Three Dog Bakery and Blue Dog Bakery. Since entering the mass-market channel around 2001, Blue Dog Bakery has made steady gains, rising to \$3.6 million during the 52 weeks ending July 15, 2007, according to Information Resources, Inc.'s *InfoScan Review* data for supermarkets, drugstores and mass merchandisers except Wal-Mart. Natural treats are also doing well under Mars' new Goodlife banner, although they have yet to appear under the Purina or Iams labels, or as part of any of Del Monte's many mass-market dog and cat treats lines. On the cat food side, Worldwise has seen steady growth in sales of its cat snacks.

Refrigerated Treats: The Next Big Thing?

Another high-growth area for natural treats may be in the refrigerator case, judging from the early returns of the new refrigerated pet foods now coming on the scene. Leading this

fledgling category is upstart marketer Freshpet, whose Homestyle Select refrigerated dog food posted sales of \$5.1 million during the 52 weeks ending April 20, 2008, compared with less than half a million dollars in the comparable previous period, reports Packaged Facts' July 2008 report, *Fresh Pet Food in North America: The Raw/Frozen, Refrigerated and Homemade Wave*. Building on its lines of complete and balanced diets, in June 2008 Freshpet added The Loved Dog treats, which are based on the eponymous training method of dog expert Tamar Geller, heralded by Oprah Winfrey as a "life coach for dogs." In addition, many companies offer all-natural treats in freeze-dried form, which are favorites among trainers as well as pet owners on the go.

A Healthy Outlook, Naturally

Like the natural pet food category overall, natural and organic pet treats respond directly to some of the most important forces at work in the U.S. pet market today, including the willingness of many pet owners to pay more for products that are not just nutritious, but also safe and free from byproducts and synthetic ingredients. Combined with the inherent pampering appeal of pet treats of all kinds, the high level of new product activity, the rapid growth of the natural supermarket channel, the ongoing expansion of natural and organic products into mass-market outlets, and pet owners' desire to pamper their pets even during difficult economic times, the natural pet treats category appears set for quite a few more years of healthy growth.