

## Market Outlook [August 2010]

### Will P&G/Natura Marriage Yield Another Mass-Market Cross-Over à la Iams?

In May 2010, Procter & Gamble shocked the pet food industry by announcing its intent to buy Natura Pet Products, a privately held producer of natural pet food and an organic pet food pioneer. P&G isn't disclosing the specific terms of the deal, but as this column goes to press the company expects to close in June subject to regulatory clearances. The P&G/Natura team-up was all the more surprising given speculation—including by this market watcher—that Procter & Gamble might exit the pet food fold. Like Nutro, P&G's Iams division was hard hit by the 2007 pet food recalls. And subsequent statements by P&G suggested a divestiture might be in the cards. With the Natura deal, however, such a divestiture seems unlikely given the possible economies of scale deriving from P&G's expanded pet food business.

Initially, Natura will give Procter & Gamble a needed boost in the upper echelons of the pet specialty channel, including the all-important areas of natural/holistic and organic. Aside from a few line extensions since 2007, P&G's Iams and Eukanuba brands are not natural. On the other hand, all of the Natura brands—Innova, Evo, California Natural, Healthwise, Mother Nature, and Karma—are natural or organic, with distribution restricted to upscale pet specialty stores and veterinarians. Following its 1999 purchase by P&G, Iams rapidly “defected” from pet specialty to mass, to the great chagrin of many pet specialty retailers who had long relied on Iams as a magnet. The elephant in the room, therefore, is whether P&G will go the same route with Natura.

This column wagers yes, given the even bigger question of how could P&G afford *not* to given its distribution strengths, the opportunity for a “true” natural brand in mass channels, and the unqualified success of the Iams cross-over. That sales of a number of the natural brands currently available in the mass market, which are mostly line extensions of mass brands like Purina, are slowing (per 52-week Symphony/IRI data through April 2010) also suggests the need to shake things up. If one or more of the Natura brands do “go mass,” the move will change the dynamic of natural pet food marketwide, including by putting another sizeable chink in the distinction between mass-market and pet specialty brands.