

[Packaged Facts Column for Petfood Industry/4th Quarter 2011]

Market Report

Economy

As 2011 comes to a close, the U.S. economy continues to limp along and shoppers continue to carefully weight purchase decisions. Pet owner surveys conducted by Packaged Facts on a quarterly basis throughout the year highlight key trends, including the bright spots and weak spots likely to continue to shape the market in 2012. In the most recent survey, conducted in September 2011, 62% of respondents had a pet, including 43% with dogs, 32% with cats, and 11% with other animal types.

Channel Trends

With many pet owners considering a growing number of pet products too expensive, it's no surprise that price shopping is on the ups. Nearly three-quarters (74%) of pet owners look for lower prices, special offers, and sales on pet products, and about half (47%) of pet owners shop for pet products at a variety of stores, according to Packaged Facts' September 2011 survey. At the same time, almost one-third (30%) choose to shop at pet product retailers that offer the best products available regardless of price, while nearly one-quarter (23%) base their choice of a retailer on the availability of natural/organic and other specialty brand products.

Store Brands

Private label remains of strong interest among retailers and contract manufacturers alike. According to Product Launch Analytics, an online service of Datamonitor, 2010 gave rise to a record number of new private-label dog and cat food products. On the dog food side, retailers were behind 23 new product reports covering 109 SKUs, while cat food saw 7 new reports yielding 28 SKUs. At the same time, findings from Packaged Facts' pet owner surveys suggest that pet owners are becoming more comfortable with private label. In the September survey, 45% of pet owners agree that private-label pet products are as good as national brands, while over one-third (34%) admit to buying more store brands of late.

Internet

Brick-and-mortar retailers must face off not only against one another, but also with a less tangible foe: the Internet. Internet sales of pet products continue to well outpace pet market growth overall, with niche and “info-centric” items often doing especially well online. Packaged Facts survey data indicate that close to half of pet owners use the Internet to research pet products online, while about one-quarter buy online. As of September 2011, one in ten pet owners had made purchase in the last 10 days, and 24% had done so in the past month. Because of its bulk, petfood has long been a less likely purchase online, but free shipping and other special promotions are making home delivery of petfood a growing factor. Among Internet shoppers for pet products, 42% made a petfood purchase in the past year.

Pet Health

During the weak economy, the strongest arguments for generous spending on pets are founded on pet health. Even while cutting back in other areas, over three-quarters (78%) of dog owners and over half (58%) of cat owners have been to the vet for a routine visit in the past year. At the same time, petfood remains on the front line of preventive pet health. Although over two-thirds (69%) of pet owners feel many pet products are becoming too expensive, 25% of petfood purchasers report buying higher-priced foods, compared with only 7% of non-food pet product purchasers. Many pet owners view an investment in pet health as an investment in human health as well. Over three-quarters (78%) agree that pets have a positive impact on their physical health.

Indulgence

Stubborn economy notwithstanding, the human animal bond promises to keep the pet market on solid ground. Over two-third (67%) of U.s pet owners strongly agree that “I consider my pets to be part of the family,” and another 23% somewhat agree with this statement. Perhaps not coincidentally, 76% of pet owners like to indulge their pets with special food/chew treats. During the down economy, treats have benefited from their affordable indulgence appeal to dog and cat owners alike, helped along by appeals including nutraceutical/functional, natural/organic, and grain-free. Overall, health appeals are in much stronger play in dog and cat treats than ever before, tipping the value balance in these products’ favor among pet owners

who, even when economizing in other areas, still want to treat their pets right.

“I like to indulge my pets with special food/chew treats” (percent of U.S. adults)

Strongly disagree	4%
Somewhat disagree	6%
No opinion	14%
Somewhat agree	41%
Strongly agree	35%

Source: Packaged Facts' *Pet Retail Channel Trends in the U.S., 2011-2012* (December 2011), based on Packaged Facts' quarterly pet owner survey for September 2011