

U.S. Sales of Dog and Cat Food Holding Up Under Pressure

U.S. Market in Global Context

Dog and cat food and treats are doing just fine in the U.S. market, which accounts for over one-third of global sales. Global sales of pet food totaled \$48.7 billion at retail in 2008, according to Packaged Facts' January 2009 report, *Pet Food in the U.S.: Health, Humanization and High Quality Ingredients in an Increasingly Value-Driven Global Market*, with North America accounting for 40% of the total, followed by Europe (38%) and Asia-Pacific (13%). The two most popular types of pets, dogs and cats, represent the large majority (95%) of sales, with other types of small companion animals accounting for the balance. Due to the global economic downturn, annual percentage gains are expected to be lackluster in 2009 and 2010 before beginning to rebound in 2011 and picking up additional steam through 2013, when sales are forecast to reach \$56.4 billion.

Global Retail Sales of Pet Food and Treats: 2004, 2008 and 2013 (in billions of dollars)



Source: Packaged Facts' January 2009 report, *Pet Food in the U.S.: Health, Humanization and High Quality Ingredients in an Increasingly Value-Driven Global Market*. This material is reprinted with permission.

Dog and Cat Food and Treats a \$16 Billion Market

Representing 35% of the global total, U.S. retail sales of pet food and treats totaled \$17 billion in 2008, up 5.5% over 2007 sales. From 2004 to 2008, the market grew by a total of 21% and posted a compound annual growth rate (CAGR) of 4.9%. Rather than dampening sales in 2007, the spring 2007 recalls actually boosted sales a bit, by causing consumers to convert to higher-priced foods perceived to be safer, a trend felt in both mass-market and pet specialty channels. This trend continued into 2008, albeit mitigated somewhat by high gas prices and the shaky U.S. economy. Nevertheless, and as in years past, the market's dollar growth during 2008 was mainly a function of higher ingredient costs and of consumers' trading up to more expensive products.

Dog and cat food and treats were a \$16 billion market in the United States as of 2008. That year, sales of dog food totaled approximately \$10.4 billion, up from \$8.7 billion in 2005. During the period, the market grew by a total of 19.2% and posted a compound annual growth rate (CAGR) of 6.0%. Considering ongoing product upscaling and general price increases as the primary contributors to value growth, annual gains are expected to average 4.8% through 2010, bringing dog food sales to \$13.1 billion.

U.S. Retail Sales of Dog and Cat Food and Treats: 2005, 2008 and 2013 (in millions of dollars)

	Dog Food	Cat Food
2005	\$8,688	\$4,923
2008	\$10,357	\$5,732
2013	\$13,080	\$6,827

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Cat food sales totaled \$5.7 billion in 2008, up from \$4.9 billion in 2005. During the four-year period, the market grew by a total of 16.4% and posted a compound annual growth rate of 5.2%. With product upscaling and price increases as the primary contributors to value growth, annual gains are expected to average 3.6% through 2013, bringing cat food sales to \$6.8 billion.

Cat Food Marketer Ranking Sees Upheaval

As of mid 2008, Nestlé Purina continued to dominate U.S. retail sales of dog and cat food and

treats by a wide margin. In the dog food category, the company accounted for 39% of IRI-tracked sales to No. 2 Mars' 22% share, followed by Del Monte at 14% (helped along by its 2004 Milk-Bone acquisition) and Iams at 10%. This ranking has not changed in the past few years, but the ranking has shifted significantly on the cat food side. Indeed, although Nestlé Purina continued to lead the cat food market by a wide margin as of mid 2008, claiming a 59% share of sales, the rankings of the other top five marketers changed.

The main factor in this upheaval is Del Monte's mid 2006 acquisition of Meow Mix from Cyprus Group. At the time of the acquisition, Del Monte was running neck and neck for fourth place in the cat food market with Mars, at about 8% of sales, with Iams and Meow Mix running a close No. 2 and No. 3, both with shares in the 9% range. With its addition of Meow Mix, Del Monte leapfrogged over both Iams and Mars, more than doubling its market share to a little over 16% as of 2008. Meanwhile, Mars has been building its share while recall-related fallout has cost Iams share, putting Mars ahead of Iams as of 2008, at 9% and 7% shares, respectively.

Top Marketers of Dog and Cat Food and Treats by Mass-Market Share: 2008 (percent)

	Dog Food	Cat Food
Other	5%	2%
Private Label	9%	6%
Dad's Products	1%	1%
Iams (Proctor & Gamble)	10%	7%
Del Monte	14%	16%
Mars	22%	9%
Nestlé Purina	39%	59%

Note: Figures have been rounded and are based on IRI sales tracking through U.S. supermarkets and grocery stores, drugstores and mass merchandisers (including Target and Kmart, but excluding Walmart) with annual sales of \$2 million or more, for the 52-week period through July 13, 2008.
 Source: Information Resources, Inc. *InfoScan Review*; compiled by Packaged Facts in its January 2009 report, *Pet Food in the U.S.: Health, Humanization and High Quality Ingredients in an Increasingly Value-Driven Global Market*. This material is reprinted with permission.

Premium, Functional, Natural Thrusts Still Going Strong

Market-driving product trends in dog food and treats are underscored by the top 10 package tag claims seen during the first eleven months of 2008. Appearing on the highest number of new products is the tag "natural" (121), followed by "upscale" (102) and "high vitamins" (78), according to Product Launch Analytics, a Datamonitor service. Health-related products

continue to spearhead the premium thrust, usually falling under the premium/upscale moniker and generally slotting into two groups: natural/organic or special diet/functional—segmented by lifestage, breed, health condition, etc. These appeals are in strong play across all dog food types (dry, wet, treats, raw/frozen), and they are increasingly overlapping as marketers continue to up the health-oriented premium product ante.

The spring 2007 recalls put a spotlight on pet food and treats safety and composition, adding momentum to an already strong trend toward employing better quality ingredients. Earmarks of this trend include holistic health marketing positionings and the inclusion in product formulations of more “whole” ingredients, including fresh meat, poultry and fish (as opposed to meals); fresh fruits and vegetables; whole grains; and trendy functional foods such as flaxseed and cranberries. Moreover, this trend is no longer restricted to the pet specialty and natural supermarket channels, with such products now also well represented in mainstream channels. For example, new to the market in 2008—and clearly following in the conceptual footsteps of Mars’ Goodlife Recipe—is Del Monte’s Kibbles ‘n Bits Wholesome Medley (whose cat food counterpart is Meow Mix Wholesome Goodness).

Similarly, “upscale” has become an umbrella for multiple themes in the cat food market—natural, healthy, gourmet and so on, while also reflecting the ongoing trend toward product humanization and pet pampering. Accordingly, “upscale” was the No. 1 package tag on cat food products introduced in 2008, with 41 of the entries making this claim. The



No. 2 claim, “natural,” appeared 39 times, tied with the functional tag “high vitamins,” with additional oft-seen health-related claims including “high minerals,” “high protein” and “no preservatives.”

These days virtually all premium and superpremium cat food products are positioned on the promise of enhanced pet health and longevity, the most compelling benefit toward justifying their higher prices. At the same time, a product’s “healthiness” is increasingly being associated

with the quality of its ingredients, a trend clearly reflected in the name of Iams' Healthy Naturals, and fresh veggies and fruits have become a fixture among products emphasizing wholesome ingredient formulations, while also making products more appealing to the human eye. Product names and packaging are also key sales vehicles here, as in the case of Del Monte's new Wholesome Goodness cat food, whose packaging features pictures of real meat and vegetables while also sporting a banner (on the wet food) proclaiming "Made With Fresh Vegetables."

Looking Ahead

As the all-important push toward premiumized products continues, the U.S. pet food market will continue to see an influx of natural/organic, locally grown, human-grade, made-in-the-USA, whole and real ingredient (meat, fruit, vegetables, grains), high-protein and grain-free/non-allergenic products. Similarly, foods containing functional and nutraceutical ingredients will continue to proliferate, especially those targeting age- and weight-related conditions via the inclusion of ingredients like glucosamine and omega fatty acids. At the same time, expect to see the dog and cat treats market push out along pet pampering lines. Debuting in the U.S. during summer 2009, Nestlé Purina's Fancy Feast Appetizers for Cats—in effect smaller-sized servings of gourmet-style wet foods in peel-off-top cups—are being touted by the company as "An Entirely New Way to Celebrate the Moment." The refrigerated pet food segment also appears to have excellent potential given Tyson's 2008 investment in segment leader Freshpet, a development that may spur the entry of another large marketer, with Del Monte seeming like a good prospect given its strong reputation and powerful distribution network in fresh foods for people.