

Market Outlook [March 2009]

Room for Cautious Optimism in Pet Food Market

The 2008 returns are in, and despite the global economic crisis that began to make headlines in October, the U.S. pet food market did just fine. 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*, U.S. retail sales totaled \$17 billion in 2008, up 5.5 percent over 2007. Rather than dampening sales in 2007, the spring 2007 recalls appear to have actually boosted them 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 economy.

According to Information Resources, Inc. *InfoScan Review* data, pet food sales through supermarkets, drugstores and mass merchandisers except Walmart rose 6.4% during the year ending November 2, 2008, compared with 3.1 percent growth in full-year 2007 and 1.9 percent growth in full-year 2006. The substantial improvement in 2008 is not, however, a function of volume growth, with pound sales down 2 percent and unit sales down 6 percent. This trend continues the pattern of previous years, whereby the market's dollar growth has been mainly a function of higher ingredient costs and of consumers' trading up to more expensive products.

Mass merchandisers/supercenters continue to lead in pet food sales, at 29 percent in 2008, followed closely by supermarkets and pet specialty stores. Although mass merchandisers had been increasing their share at the expense of supermarkets in previous years, the spring 2007 recalls put a damper on that while giving the pet specialty channel a push, with other outlets including veterinarians, agricultural retailers, and Internet also continuing to gain ground. Aside from the recall, the other major factor in this channel shift is product premiumization, which generally benefits specialty retailers the most and discounters the least.

Given the ongoing high level of economic uncertainty, what's to come in 2009 is anyone's guess, and pet food market participants should probably hold the party hats in reserve. But this market's steady showing in 2008—when consumer cutbacks in many categories were already well underway—certainly leaves room for cautious optimism.