PRIVATE LABEL PETFOOD MARKET UPDATE
PETFOOD FORUM 2011
LEE LINTHICUM – HEAD OF GLOBAL FOOD RESEARCH
APRIL 13, 2011
ABOUT EUROMONITOR INTERNATIONAL

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GLOBAL MARKET OVERVIEW
KEY TRENDS AND MARKET DRIVERS
PRIVATE LABEL PET CARE
FINAL CONCLUSIONS
Q&A
SEGMENTS COVERED:
- Dog food
- Cat food
- Bird food
- Fish food
- Small mammal/reptile food
- Cat litter
- Pet healthcare
- Pet dietary supplements
- Other pet care products

ALL CHANNELS COVERED:
- Supermarkets/Hypermarkets
- Discounters
- Pet superstores
- Pet shops
- Veterinary clinics
- Homeshopping
- Internet retailing
- Direct selling
- Other grocery and non-grocery retailers

CONSUMER INSIGHTS:
- Pet indicators
- Social trends
- Demographics
- Macro-economics

Pet expenditure in 52 markets = 98% of total global expenditure

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2010: RETAIL SALES REMAIN POSITIVELY RESILIENT

Global Pet Care Retail Value Sales: 2005-2010

- Retail value sales
- Year-on-year value growth (%)

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2009-2010: ECONOMY DOG/CAT FOOD STANDING OUT

GLOBAL MARKET OVERVIEW

Global Dog and Cat Food
by Price Platform

Global Dog and Cat Food
Growth by Price Platform

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FASTEST GROWTH IN EASTERN EUROPE, LATIN AMERICA

Overall Sales Growth and Per Household Spending in Pet Care 2010

Note: The area of each bubble relates to the retail value of the market in 2010
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KEY PET CARE GLOBAL GROWTH DRIVERS

- Pet ownership
- Pet humanisation
- Premiumisation
- Health and wellness
- Luxury pet pampering
- Pet Travel

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Ageing Consumers and Dog/Cat Population Growth in G7 Markets: 2003-2010

Consumers 65+ (millions) - Dog and cat population (millions)

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URBAN CULTURE WILL SOON DOMINATE THE WORLD

Fastest Urban Growth 2005-2015 (‘000 People)

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>154,317</td>
</tr>
<tr>
<td>India</td>
<td>115,626</td>
</tr>
<tr>
<td>Indonesia</td>
<td>28,730</td>
</tr>
<tr>
<td>US</td>
<td>26,860</td>
</tr>
<tr>
<td>Brazil</td>
<td>24,078</td>
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<tr>
<td>Philippines</td>
<td>14,229</td>
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<tr>
<td>Mexico</td>
<td>13,228</td>
</tr>
<tr>
<td>Turkey</td>
<td>11,644</td>
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</tbody>
</table>

Half the world’s population urban by 2015

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CHANGING DEMOGRAPHICS AND CULTURAL ATTITUDES

- Ageing consumers
- Younger consumers staying single/childless longer
- Rising disposable incomes in emerging markets
- Increasingly urban populations
- Busy lifestyle and longer working hours
- Pet humanisation influencing purchase decisions
- Willing to pay premium to improve pet’s quality AND quantity of life

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DOG AND CAT FOOD: KEY GROWTH SEGMENTS

Fastest growing segments globally:
2000-2010 Retail Value CAGR
- Cat treats and mixers: 12%
- Premium dog food: 9%
- Premium cat food: 8%
- Pet healthcare: 8%
- Dog treats and mixers: 7%
- Economy dog food: 6%
- Dietary supplements: 5%
- Mid-priced dog food: 5%
- Mid-priced cat food: 5%
- Economy cat food: 4%

Treats, premium food, pet healthcare driving global growth!

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PREMIUMISATION: HUMAN-LED INGREDIENTS, APPLICATIONS

Humane Choice by Humane Society (USA)

Gourmet Gold Soufflé by Nestlé (France)

Bowser Beer for Dogs (USA and UK)

Sheba Essence Paté by Mars (Germany)
KEY TRENDS AND MARKET DRIVERS

DOG/CAT FOOD HEALTH & WELLNESS PRODUCT EXAMPLES

All Natural and Organic

Fortified and Functional

Weight Management

Food Allergies and Hypoallergenic

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Global Health & Wellness Human Food and Beverage Retail Value Sales: 2004-2014
KEY TRENDS AND MARKET DRIVERS

HEALTH AND WELLNESS DOG AND CAT FOOD TRENDS

Pet humanisation leads to specialised formulas addressing:
- Weight loss and management
- Arthritis relief
- Sensitive skin
- Diabetes
- Digestive / Urinary tract health
- Heart health
- Immune system support
- Mental development and health
BENEFITS OF PRIVATE LABEL FOR SUPPLIERS

- Economies of scale
- Sustainable Growth
- Simplified logistics and supply chain
- No listing fees
- No direct advertising investment required

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BENEFITS OF PRIVATE LABEL FOR RETAILERS

- 20-30% cost savings for retailers relative to brands
- Savings only partially passed on to consumers
- Higher control of shelf-space and delivery schedules
THE NATURE OF PRIVATE LABEL PET FOOD IS CHANGING...
PET CARE RETAIL DISTRIBUTION VARIES BY REGION

Regional Pet Care Retail Sales by Channel Format: 2009

% retail value

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Asia Pacific
Australasia
Eastern Europe
Latin America
MEA
North America
Western Europe

Others
Internet Retailing
Veterinary clinics
Pet shops
Pet superstores
Discounters
Super/Hypermarkets

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Value-minded private label pet food increasingly bringing new consumers into the global pet food markets in developing markets
  - Asia Pacific
  - Latin America
  - Eastern Europe

This trend bolstered by expansion of supermarkets/hypermarkets

Private Label pet food becoming more premium-minded

Global expansion of Pet Superstores creating new opportunities for private label pet food

What can US retailers learn from this to bolster private label appeal?

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PRIVATE LABEL PET CARE

ADDING VALUE TO PET FOOD IN EMERGING MARKETS

- Economy dry cat food
- Combines a health and wellness positioning with a more affordable retail price point
- Key ingredients include:
  - Taurine (heart health)
  - Antioxidants
  - Omega-3 fatty acids (healthy skin and coat)

Maxx Cat from India’s Petsmart Pet Products Pvt

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Dog and Cat Food Retail Value Prospects by Price Band in Brazil, Russia, India and China: 2009-2015

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Sheba RSP: £0.59 per 100 grams (£5.90 per kilo) at Tesco

Tesco Finest RSP: £0.69 per 80 grams (£8.63 per kilo) at Tesco
Tesco Enhanced Nutrition Senior Cat

Tesco Enhanced Nutrition Kitten

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Top 5 UK Dog and Cat Food Brands: 2005-2009

- Whiskas (Mars Inc)
- Felix (Nestlé SA)
- Pedigree (Mars Inc)
- Tesco (Private Label)
- Bakers (Nestlé SA)

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Top 5 German Dog and Cat Food Brands: 2005-2009

- Fressnapf (Private Label)
- Whiskas (Mars Inc)
- Rewe (Private Label)
- Aldi (Private Label)
- Pedigree (Mars Inc)

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Top Premium Dog and Cat Food Brands in Germany

- Carries super-premium positioning
- Many products made from 100% all-natural ingredients
- Exclusive distribution of such premium product bolsters Fressnapf’s overall image in the eyes of German consumers

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PREMIUM PRIVATE LABEL PET FOOD: BURP! IN SINGAPORE

Hill’s vs Burp! in Singapore Dog/Cat Food

<table>
<thead>
<tr>
<th>Year</th>
<th>Hill's Science Diet</th>
<th>Burp!</th>
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<tbody>
<tr>
<td>2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td></td>
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<tr>
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<td>2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
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</tr>
</tbody>
</table>

Burp! Super-Premium Dog Food from Singapore’s The Pet Safari pet superstore

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CASE STUDY: PRIVATE LABEL MILK FORMULA IN THE US

- Success depends on strong equity
- Leverage equity of retailer
- Specialist retailers better positioned than supermarkets and discounters
- Babies ‘R’ Us milk formula
  - Product packaging closely mirrors leading brands
  - Variety of added value offerings
  - Trusted “brand” name
- Positive consumer comments:
  - [www.buzzillions.com](http://www.buzzillions.com): 75 positive comments versus less than 10 negative postings

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GLOBAL DOG AND CAT FOOD PROSPECTS: 2009-2015

Do and Cat Food Retail Value

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DOG AND CAT FOOD: LARGEST VS FASTEST GROWING MARKETS

10 Largest Markets in 2015

<table>
<thead>
<tr>
<th>Country</th>
<th>2015 US$ Millions</th>
<th>2010-2015 CAGR</th>
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<tbody>
<tr>
<td>USA</td>
<td>23,060</td>
<td>4.7</td>
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<tr>
<td>Brazil</td>
<td>5,857</td>
<td>6.2</td>
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<tr>
<td>Japan</td>
<td>4,435</td>
<td>0.2</td>
</tr>
<tr>
<td>France</td>
<td>4,219</td>
<td>1.6</td>
</tr>
<tr>
<td>UK</td>
<td>4,171</td>
<td>1.1</td>
</tr>
<tr>
<td>Germany</td>
<td>3,970</td>
<td>2.3</td>
</tr>
<tr>
<td>Italy</td>
<td>2,380</td>
<td>1.3</td>
</tr>
<tr>
<td>Russia</td>
<td>2,161</td>
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<tr>
<td>Canada</td>
<td>1,681</td>
<td>3.1</td>
</tr>
<tr>
<td>Australia</td>
<td>1,675</td>
<td>1.9</td>
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10 Fastest Growing Markets to 2015

<table>
<thead>
<tr>
<th>Country</th>
<th>2015 US$ Millions</th>
<th>2010-2015 CAGR</th>
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<tbody>
<tr>
<td>India</td>
<td>82</td>
<td>13.8</td>
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<tr>
<td>Saudi Arabia</td>
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<tr>
<td>Russia</td>
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<td>Thailand</td>
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<td>Turkey</td>
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<td>Romania</td>
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<tr>
<td>China</td>
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<tr>
<td>Ukraine</td>
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<tr>
<td>Morocco</td>
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<td>Poland</td>
<td>685</td>
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PRIVATE LABEL PET FOOD CHALLENGES, OPPORTUNITIES

- Private label pet food maintaining prominent position globally...
  ... But value share expansion still lagging behind that of the “Big 5”

- Premiumisation trend undermining private label growth
  - Private label claims 40% of global economy dog and cat food retail value
  - But only accounts for 4% of global premium dog and cat food retail value

- Particularly notable in developed economies, where private label focuses mainly on the economy/value end of the market

- Global position undermined by lack of strong presence in the US
  - US private label mainly focuses on economy/value: Ol’ Roy

- US has limited premium private label presence
- Pet superstores could do more with private label premium offerings
- Can PetSmart move from Great Choice to Authority?

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GLOBAL PET CARE STRATEGIC RECOMMENDATIONS

- Leverage strong and trusted recommendations through pet specialists
- Maximise distribution through pet superstores

- Upscale, premium looking packaging
- Resealable packaging for better storage
- Sustainability

- Continued segmentation by age, breed and lifestyle
- Organic, natural and functional food and beverages

- Consumer education via online forums and social networking sites
- Reinforce brand awareness through pet events
THANK YOU FOR LISTENING

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