

PET HORIZONS

THE PET INDUSTRY CONSULTANTS

Trends in Advanced Pet Foods

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Strategies for profitable growth

- Key Consumer drivers behind the growth in Pet Foods
- How is this being translated into products and formats?
- The developing Freeze dried Foods and treats opportunity



Consumer Trends that are driving the market



Healthy Nutrition

- Consumers seek healthier options and are increasingly aware of importance of ingredients
 - Low salt and sugar
 - No additives
 - Superfoods
 - Anti oxydants
- This increased nutritional knowledge is also being applied to their pets
- Consumers want to know what is in the food for their pet!



Humanization

- Pets are increasingly members of the family
- With rights too!
- Pet parents not pet owners
- So as people change their diets they want the same for their pets.



Premiumisation

- Closely allied to the humanization trend is premiumization
- Consumers are
 - ever more aware of nutrition,
 - understanding of the importance of quality and ingredients,
 - not wanting additives
 - seeking natural foods
 - wanting to know where their food comes from
- They demand higher quality in their pet's foods and are prepared to pay more



So we see tremendous moves in formulation away from price driven availability of ingredients to

- Grain Free foods
- High meat content
 - Orijen 80% meat, 20% fruits and veggies
- Human grade ingredients
- Fresh meat inclusion at levels of up to 50-60%
- Provenance increasingly important (Norway scores very high)
- No colorants, preservatives or other additives
- Avoidance of certain ingredients that are seen to be cause of food allergies (wheat, soy, beef and dairy products etc)



Impact on the pet food market

- Clear growth in smaller brands and in pet specialty
 - Able to talk about brands
 - Prepared to dedicate space (and differentiate from grocery)
- In grocery, values and volumes are flat or declining
- It is smaller specialist brands that are growing and the volume producers Mars and Nestle cannot/do not compete
- Pet specialty chains are also growing
 - Musti ja Mirri
- Online channel is the key source of information (right and wrong information!) and is trusted



- How are these trends being used in pet foods today?
- How will that change in the future?



- More information about what is in the product
 - Ingredients used and their quality
 - Named ingredients and not ingredient groupings
 - Fewer/no by products, chemical preservatives, colorants etc
 - Higher levels of protein and from animal sources
 - Less from cereals, soy
 - Human grade is becoming more common
 - Provenance and traceability ever more important
 - Local
 - Food miles

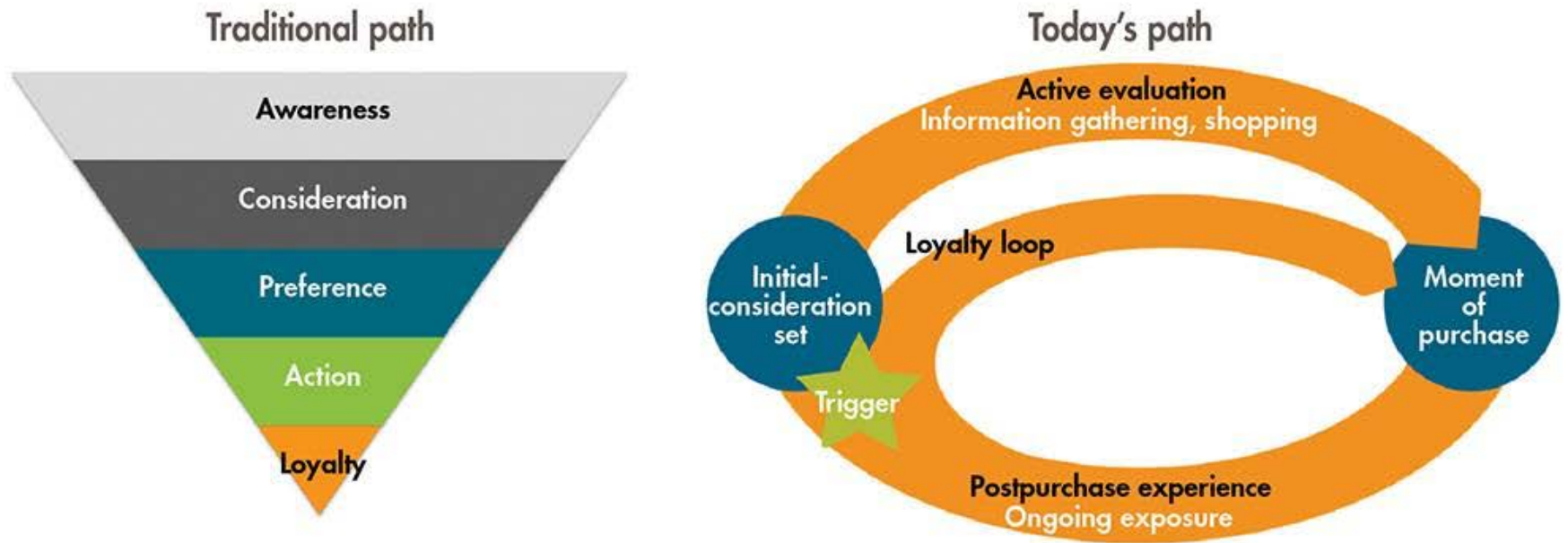


More information available for pet parents

- Online through various sources
 - Web sites
 - Facebook, Twitter, Snapchat etc
- Blogs
- Testimonials from fellow pet owners increasingly important
 - Seen to be independent and non commercial
 - Trusted



FIGURE 2: CHANGING PATH TO PET PRODUCT PURCHASING



Source: PetSmart Inc., via "Co-creating value for pet parents," Petfood Forum 2016



Product Formats

- Convenience is ever more important
 - Easy open packs
 - Re-sealable packs
 - Ring pull on cans
- Freshness important
 - More single serve packs
 - Pouches, cans
- Smaller pack sizes as more smaller dogs
 - Big packs tend to 10-12 kg
 - Small packs also with meal portions



Food and Treat Developments



The major developments that are driving the market are:-

- Natural
- Raw Feeding
- Freeze Dried



Natural Foods

- Natural means
 - High meat/fish content
 - Grain free
 - Starch from potato or pea in extruded
 - Added vegetables, fruits and botanicals
 - No colorants, chemical additives
 - Natural preservatives
 - Can also include organic
 - (but this has not really been a consumer driver in Europe)
- Has become standard for new products



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Food Developments

- Price levels of these brands is much higher than traditional products

| Brand | Size | NOK/kg | EUR/kg |
|-------------------|------|--------|--------|
| Hills | 12 | 52.14 | 5.77 |
| Royal Canin | 12 | 56.57 | 6.25 |
| Eukanuba | 12 | 68.25 | 7.55 |
| Royal Canin Size | 15 | 39.93 | 4.42 |
| Pedigree | 15 | 19.93 | 2.20 |
| Orijen | 13 | 69.15 | 7.65 |
| | 13 | 84.53 | 9.36 |
| Taste of the Wild | 13 | 53.76 | 5.95 |
| AATU | 10 | 116.90 | 12.90 |

Source: Zooplus.no

Musti.no



Raw Feeding

- Raw Feeding is growing and is now mainstream food
- Fresh/frozen meats and bones supplemented with vegetables, fruits, botanicals and vitamins/minerals
- Pet owner is very involved in preparing pet food
 - Knows precisely what is in the food
- Strengthens the pet bond
 - I am doing the best for my pet



However there are issues:

- It is complicated and needs specific knowledge of pet and nutrition
- Time consuming
- Different storage at home needed for fresh or frozen foods
- Is the food really balanced?

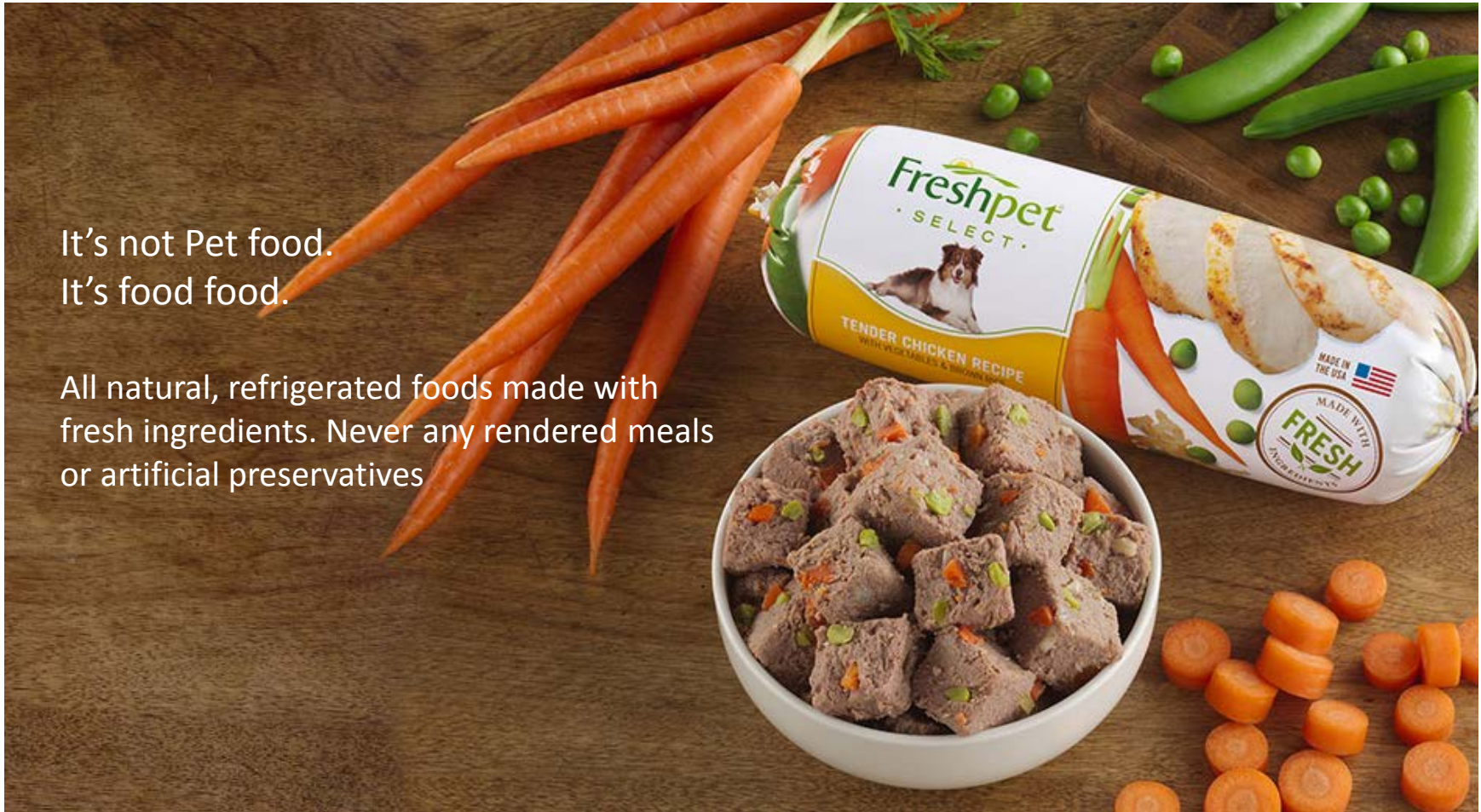
Trade

- Cold chain logistics
- Dealing with returns
- In USA there have been many recalls for salmonella contamination



It's not Pet food.
It's food food.

All natural, refrigerated foods made with
fresh ingredients. Never any rendered meals
or artificial preservatives



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Topics

Freshpet install
chiller cabinets
in stores.

Pictured in
Target Store in
USA



Freeze Dried

- Freeze dried technology is well developed and delivers significant product benefits
 - Maintains the quality and nutritional profile of foods
- It is energy intensive and thus expensive
- As a result it is only commercially viable in high premium price categories
- Initial category was treats but increasingly now in main meal foods



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Topics



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Freeze Dried

- Freeze dried keeps quality of ingredients but in a very convenient, shelf stable format
- Technology removes the key disadvantages and issues with raw feeding
 - Shelf life
 - Cool chain logistics
- Becoming attractive for brands as products can be shipped using normal dry goods warehousing and trucks
- Capacity has been limiting factor but large investments in plant have increased capacity and availability
- Price still remains a barrier to expansion due to manufacturing costs



Managing the price point

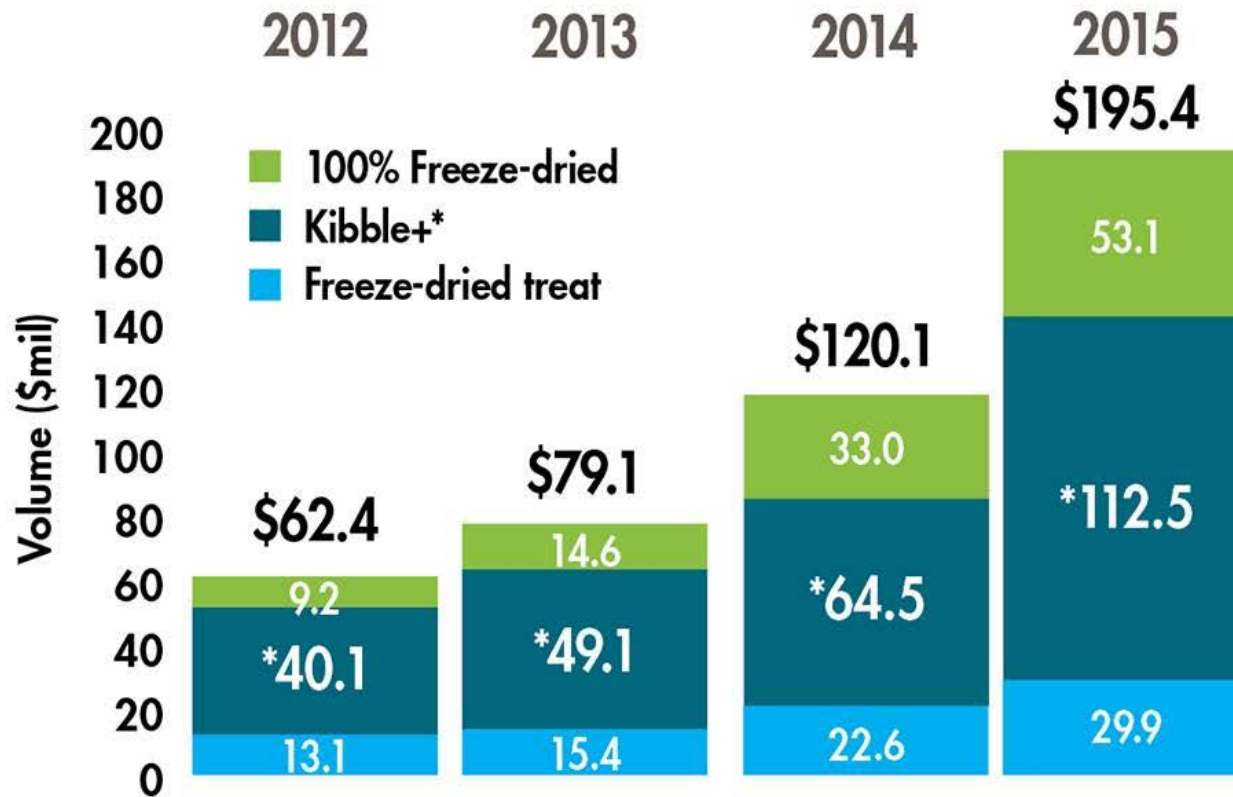
- To keep the consumer price down to increase market interest in freeze dried, products combining extruded particles along side freeze dried component have been developed
- These have dramatically grown the market for freeze dried foods and helped raw feeding become convenient for consumers

Market development

- To date, the freeze dried complete food market is a North American phenomenon
- In Europe, freeze dried treats are increasingly common
- It is only a question of time (and capacity) and we will see freeze dried foods becoming main stream



FIGURE 1: FREEZE-DRIED PET FOOD TREND 2012-2015



* Kibble+ = dry full-meal kibble with freeze-dried pieces

Source: GfK, via "Enhanced, infused—or just confused? Making sense of pet specialty trends in 2016," Petfood Forum 2016



Thank You!

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