

The Strategic Marketing Institute Working Paper

The Pet Food Market

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1-1203
December 2003



MSU

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INTRODUCTION

The pet food industry is a major industry in the U.S. and it is one of the few food industries that is undergoing sustained growth. According to the American Pet Product Manufacturers Association (APPMA) 13 billion dollars will be spent on pet food in 2003 (APPMA b, p. 1). In 2002, dog food sales were 8.02 billion dollars and cat food sales were 4.20 billion dollars. These figures represent an increase of 9.7 percent for dog food and 8.2 percent for cat food from 1999 (Mintel, p. 17).

There are several reasons for this fact. Most households still have children in them. Households with children are more likely to have pets than those who do not. Furthermore, more and more people are living by themselves. While people living by themselves are less likely to own a pet, they are more likely to spend more on their pet if they do own one. Another factor affecting the pet food industry is the fact that increasingly pets are no longer considered animals but are considered by of the family. These trends will likely continue into the near future

This paper will analyze the pet food industry in some detail. The paper will analyze demand drivers, the structure of the industry and outlets for pet food. Implications for potential entrants into the industry will also be considered. The focus will be on dog and cat food. While horses are often considered pets, their food consumption patterns more closely approximate that of livestock.

DEMAND FOR PET FOOD

Demographics

There are more than 350 million pets in the U.S. Furthermore, 64.2 million households or 62 percent own at least one pet. In 1988, 56 percent of U.S. households

owned pets (APPMA b, p. 1). Table 1 shows the breakdown in the number of pets in the U.S.

Table 1: Number of Pets in the U.S.	
Type of Animal	Number (in millions)
Cats	77.7
Dogs	65.0
Birds	17.3
Reptiles	8.8
Small Animals*	16.8
Saltwater Fish	7.0
Freshwater Fish	185.0
Total	377.6

* Small animals include rabbits, hamsters, etc.

Source: APPMA

While cats and dogs are not the most popular pets in terms of numbers they do represent the largest component of pet food purchases. In 2000, 39 percent of households owned dogs and 34 percent owned cats (Mintel, p. 6). There are several reasons why cats are becoming more popular as pets: the level of maintenance is lower, and cats are more suited to living in an apartment than dogs (Mintel, p. 8).

U.S. demographics are contributing to the growth in the number of pets and the resulting increase in the amount of pet food purchased. In the U.S., 78.45 million people are aged 19 or under (Mintel, p. 13). Pet ownership is higher in households with children than in those without children. In a survey conducted by Mintel, 64 percent of households with children present owned pets whereas 52 percent of those without children owned pets (Mintel, p. 67).

While households with children are more likely to own pets than households without children, more than half of households without children own pets. Furthermore,

these households often have more discretionary income than those with children. As a result, households without children spend more on their pets than those with children (Mintel, p. 12). The implication of this is that even if the number of childless households increases the amount spent pet food may not be affected.

The Humanization of Pets

This leads to another factor affecting the demand for pet food, the humanization of pets. Pets are increasingly seen as family members, not animals. A list of some recently introduced pet food related items that point out this trend is listed in table 2.

Table 2: New Pet Food Product Launches

Product Name	Product Attribute
Crunchkin' Crunch Cards	Edible dog greeting cards
Christmas Countdown Calendar	Advent Calendar with dog or cat treats
Hanukkah Doggie Treats	Kosher dog treats
Old West All Natural Shrimp Cat Treat	All natural shrimp cat treat
Howlin' Gourmet Dog Treats	Organic, kosher dog treat

Sources: APPMA b, Mintel

This list is not to be considered complete by any means but it does show that pet food manufacturers do see a market for pet food that is purchased by owners who see their pets as more than animals.

Furthermore, according to one survey, 83 percent of pet owners call themselves “mommy” or “daddy” and 59 percent celebrate their pet’s birthday (Mintel, p. 9). According to the APPMA, more than one million people have purchased health insurance for their pets (APPMA b, p.2). Most importantly for the pet food industry, 66 percent of pet owners specially prepare their pet’s food (Mintel, p. 9). The figures indicate that the

trend for specialty foods for pets including low calorie, organic, and health food will continue.

One impact of the increasing interest in health is the movement away from moist pet food to high quality dry pet food. From 1999 to 2001, sales of dry dog food increased by 8.4 percent, while sales of canned dog food increased by 4.5 percent during the same time period (Mintel, pp. 33,34). Particularly striking is the case of Procter and Gamble, manufacturers of Iams a premium dry food; their sales have increased by 25 percent from 1999 to 2001. Sales of dry cat food increased by 10.8 percent from 1999 to 2001, while sales of canned cat food declined by 8.8 percent during the same time period (Mintel, pp. 37,38). However, canned cat food has a much larger role in the industry than canned dog food.

Foreign Trade

The U.S. is a major exporter of pet food. In 2001, the U.S. exported 908.52 million dollars in cat and dog food. Major export markets include Japan, Canada, Mexico and the European Union (EU) (Mintel, p. 26). The U.S. imported 132.37 million dollars in dog and cat food, mostly from Canada (Mintel, p. 27).

The outlook for foreign trade is good. Pet ownership is increasing throughout the world, especially in countries where pet ownership is not the custom (Mintel, p.27). The U.S. with its established industry and access to raw materials is well positioned to meet the increased demand for pet food.

STRUCTURE OF THE INDUSTRY

Major Firms

Some of the largest firms in the food industry are major players in the pet food industry. Table 3 shows the market share for the major pet food firms in the industry.

Firm	Market Share, 1999	Market Share, 2001
Purina	14.7	14.2
Friskies Pet Care	11.8	10.7
Procter and Gamble (Iams)	7.4	8.5
Heinz	11.1	8.3
Doane (Ol' Roy)	7.0	7.6
Colgate-Palmolive (Hill's Pet Nutrition)	6.6	6.7
Mars (Kal Kan)	4.6	3.9
Nutro	2.5	3.5
Others	34.4	36.7
Total	100.0	100.0

Source: Mintel

This table has several interesting aspects. The largest pet food manufacturer is Purina, subsidiary of Nestle foods, the world's largest food manufacturer. In order to acquire Purina, Nestle was required to spin off Friskies. However, Purina only accounts for slightly more than 14 percent of all sales. Doane sells primarily private label food for retail firms. Hill's Pet Nutrition is produces prescription food and other specialty foods that are only available from veterinarians, breeders and pet supply stores (Mintel, p. 41). Firms that are dependent on moist pet food, Mars and Heinz, have seen their market share decline.

Another interesting aspect of the industry is the fact that firms not listed account for almost 37 percent of sales. Apparently there is opportunity for small firms to enter the pet food market.

Distribution of Pet Food

Where pet food is purchased also provides opportunities for small firms attempting to enter the market. Table 4 outlines where pet food buyers purchase pet food. The table shows the wide array of choices consumers have when purchasing pet food.

Outlet	Percent of Sales 2000	Percent of Sales 2002
Supermarkets	38.8	37.4
Pet Superstores	16.7	17.2
Mass Merchandisers	15.8	16.4
Farm and Feed Stores	5.4	5.4
Vet/Kennel	5.0	5.0
Other*	18.2	18.6
Total	100.0	100.0

*Other includes drugstores, convenience stores, natural food stores, and Internet sales

Source: Mintel

Most people buy their pet food at supermarkets. However, the market share of supermarket sales is declining. The market share of pet store chains and mass merchandisers such as Wal-Mart and Target are increasing. Outlets such as farm and feed stores and veterinarian offices are staying constant in terms of market share.

Pet superstores have an advantage in that they sell premium dog and cat food (Mintel, p. 56). This has allowed them to grow at the expense of supermarkets. Furthermore, a new entrant into the pet food industry may face difficulty obtaining shelf

space in a supermarket or mass merchandiser. It may be easier to obtain market access through pet stores, farm and feed stores, kennels and other small outlets.

IMPLICATIONS

The pet food industry is growing. Mintel forecasts an annual increase in sales (not adjusted for inflation) of approximately 3.0 percent a year for both dog and cat food between 2003 and 2007 (Mintel, pp. 82-83) in the U.S. Foreign demand is also increasing. Another positive aspect of the pet food industry is the increasing interest on health food and foods that are able to obtain a premium price.

While some of the world's largest food manufacturing firms are involved in the pet food industry, no firm dominates. Furthermore, there are many potential outlets for pet food. Barriers to entry do not appear to be insurmountable for a firm attempting to enter the pet food industry particularly if the firm is attempting to meet a market niche whose needs are not currently being met.

CONCLUSION

The pet food industry is growing and will likely continue to do so. Demographic trends indicate that the number of pets will continue to increase as will the amount spent on pets. Foreign demand is increasing and the U.S. is a major exporter of pet food. These are all positive trends for the industry.

The structure of the pet food industry is also positive for firms considering entering the industry. No single firm dominates the manufacture of pet food and there are several outlets for firms considering launching a new pet food product.

SOURCES

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