FOR PUBLIC RELEASE

DOG FOOD

MARKET AND CONSUMER INSIGHTS

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Ministry for Primary Industries
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ECONOMIC INTELLIGENCE UNIT

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EXECUTIVE SUMMARY

What we did…

- The international pet food market is valued at over US $60 billion and was identified as one of the six best 'emerging growth opportunity' sectors of the New Zealand Food and Beverage Sector (Coroilis, 2012).
- With a specific focus on the implications for the red meat sector, this work explores the dynamics of high-value dog food markets in the United States, United Kingdom and China. The objective is to assist New Zealand's primary sectors to identify opportunities in the global premium dog food market. This is accomplished with qualitative and quantitative analysis that defines market landscapes, competitor dynamics, dominant product attributes and pricing, as well as the consumer trends underpinning the status-quo.
- This work identifies retail channels, companies, brands and product trends which target high-net wealth consumers in cities of significant social influence i.e. New York, London and Shanghai. We also undertook a number of individual company case studies to draw general lessons for firms looking to enter into a new market, or to develop new products.

What we found…

- Across markets of major influence, market power remains highly concentrated in the hands of "Big Pet" companies like Nestlé, Mars, and J.M. Smucker, and their established retail channels. These, for example control 93 percent of America's mid-priced dog and cat food market.
- At both the premium and mass value ends of the spectrum there are new entrants who, despite high rates of failure, have been able to disrupt established players with innovative and consumer driven business models, product strategies, and locally-focused marketing presence.
- These companies are increasingly focused on value-added products that offer higher profit margins, such as treats and specialised niche formulations or treats. In part this has been a response to increasing supply chain transparency, which has exposed the poor quality of inputs used by established players, and the resulting created a pet owner backlash. Newer formulations are now paralleling human dietary consumption trends, reflecting broader social, ethical, environmental and/or health and wellbeing beliefs (e.g. ingredient exclusions believed to cause health problems). These product lines are dominated by incumbent companies however.
- Despite a high rate of failure, there is an emerging group of companies which are now bypassing traditional supply chains through e-commerce, and that are offering bespoke product formulations to customers through proprietary algorithms developed with the vet community technology. Faced with limited marketing budgets, they are also increasingly leveraging social media influencers (e.g. prominent Instagram animals) to connect their brands with passionate consumers.

What you should know…

Product

Premium products with characterisers such as natural, healthy, environmentally friendly and/or sustainably produced have now become the norm. Products are being differentiated based on inputs, processing and packaging. Established local brands such as Lily's Kitchen are using only freshly prepared meat and offal, fruit and vegetables, with no unnecessary additives, to differentiate from international brands. New entrants are aligning even closer with broader human consumption trends and are taking it to the next level, for example, raw, slow cooked or freeze dried meat and nutraceuticals (e.g. fish oil) to ensure nutritional content is high.

Place

Using technology, successful new entrants are shortening their supply chains to be as closely connected to the consumer and their experience as possible. Many successful new entrant brands begin by promoting their products to a localised consumer group and growing once establishing reputable brand.

Price

Companies with strong brand recognition and market presence use pricing to position themselves as a superior product. New entrant companies charging a premium price need to ensure they are adding value to the product that resonates with consumer trends. The premium pet food market is highly completive with many products claiming to be superior and healthy. In China, selecting the right entry pricing strategy is critical for new entrants. A successful Chinese company Bridge Ltd offers different product lines at varying prices, allowing them to target multiple consumer groups.

Promotion

Successful new entrants are increasingly connecting with consumers online and leveraging social media influencers to connect their brands with passionate consumers. They also promote their brand through local events such as local dog meet ups and dog/puppy brunches.

Market Access

- New Zealand has good market access to the USA~~,~~ and China.
- Restrictions on trade to the EU continue to limit the volume of pet food exports. Brexit may provide an opportunity to increase exports to the UK.
- Australian pet-food manufacturers have been looking at New Zealand as a processing point before export to Asia as a way of accessing New Zealand's preferential market access.

Competitive Landscape

- All markets are heavily dominated by incumbents.
- Online growth has matured in the UK and US.
- Very limited success of innovators, and no new brands of scale have emerged independently of the major incumbents.

Consumer Access

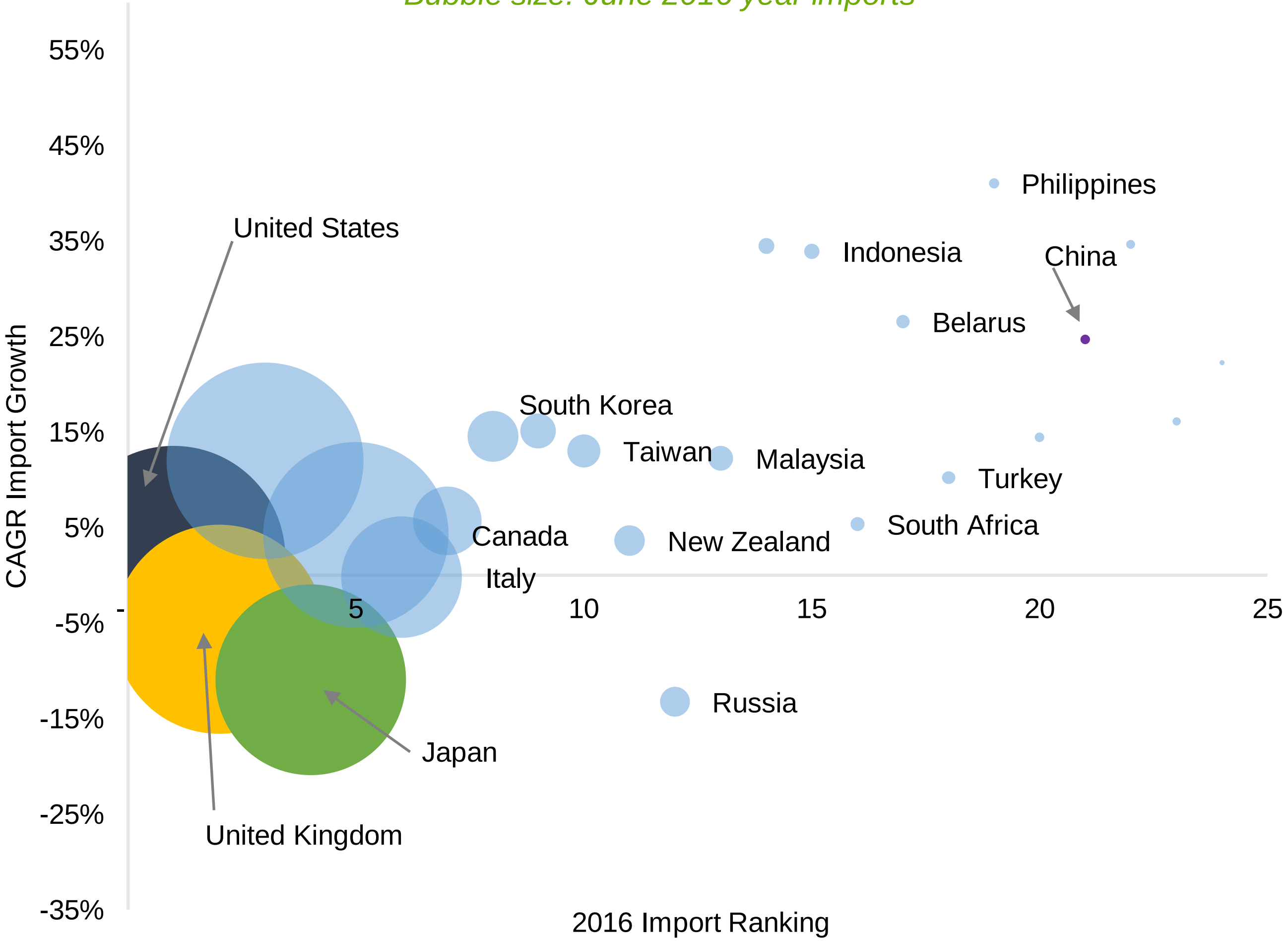
- Access to consumers is controlled by retail chains and supermarkets.
- Marketing and distribution costs are a major barrier to entering the retail market, which can be overcome by e-commerce .

Consumer Engagement

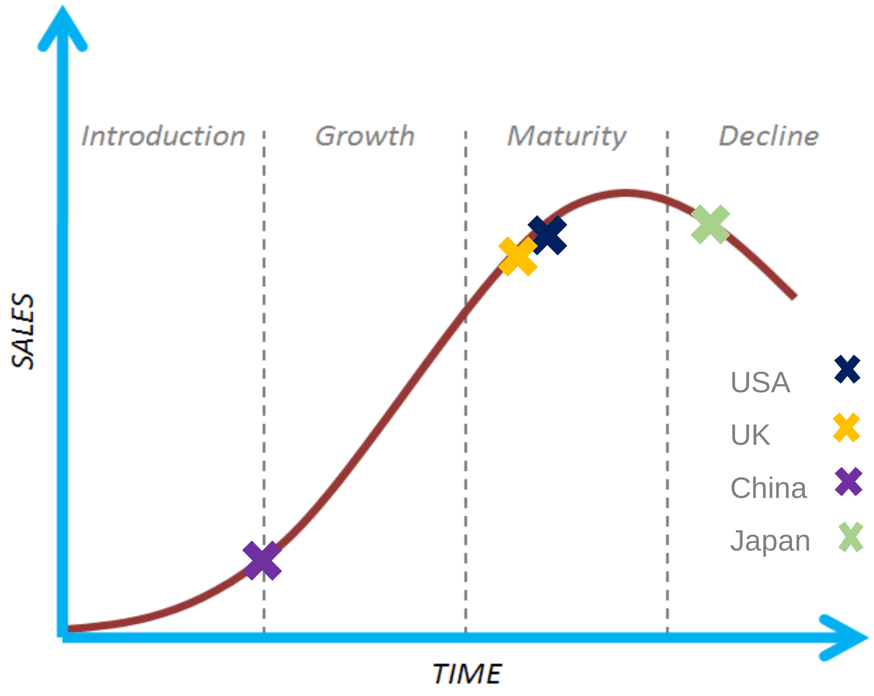
- Consumers are increasingly looking for new sources of trustworthy information.
- The influence of celebrity endorsements and famous pets is growing.
- There is a declining emphasis on scientific formulas.

MARKET SELECTION

Growth in Retail Ready Cat and Dog Food Imports 2012-2016,
Bubble size: June 2016 year imports



Source: Global Trade Atlas, 2016



This work selected the two largest markets, and one with significant potential…

- The US is the largest and one of the most resilient import markets. Worth $NZ 1.16 billion in 2015/16, imports have been growing at a compounding annual growth rate of 10% between 2012 – 2016.
- The UK too is a large and mature market worth NZ $1 billion, but has experienced slower growth with a 2% CAGR.
- Emerging markets are showing promise. China is a small market worth $NZ 234 million, but is entering its growth phase, with a 16% CAGR. This growing market may present opportunities for pet food companies.
- While Japan is a large market worth NZ $919 million, it has reached full maturity and is beginning to decline with a -11% CAGR. For this reason we have excluded Japan from further analysis.

International Markets

United States | United Kingdom | China

United States

Market insights

Brand share

Channels

Consumer insights

Supermarket product analysis

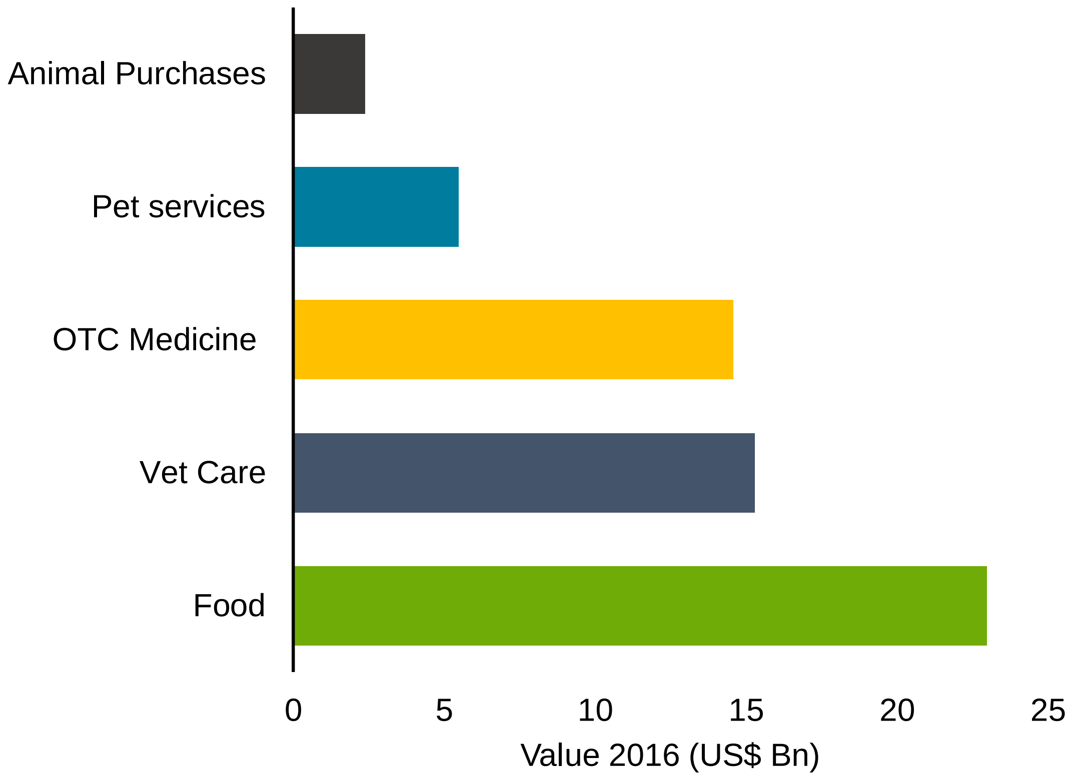
MARKET INSIGHTS

United States

Overview

- The US dog food market has grown steadily since 2010. Much of this growth was driven by capturing a premium on health and wellness trends in response to pet obesity rates, as well as recent pet food recalls.
- Manufacturers are increasingly focused on value-added products that offer higher profit margins, such as treats and specialized niche formulations.
- Sales of dog food in 2016 were between $14 and $15 billion, out of the total pet food market value of $23 billion (Chart 1). Surveys by the petfood industry have repeatedly shown that the largest spending category for pet owners is food, followed by vet care, and that slightly more is spent on dog food than cat food.
- Spending in the treat sub-segment is considerably lower than food, but this category is growing steadily.
- The largest players are Proctor & Gamble, Nestle-Purina, Mars, and Walmart's private label. Iams is the largest single brand, accounting for 10% of total value sales.
- Consumer channels are trending towards online subscription-based models in the US, with specialist petfood suppliers like chewy.com disrupting the traditional retail channel.
- If US consumers become more price sensitive, it is likely that a greater share of the premium market will transact online as consumers seek lower cost and more convenient options.

1. Total Market Value (all pet products)



Source: *Euromonitor, 2016*

BRAND SHARE

United States

Source: Euromonitor, 2015

LARGEST BRAND SHARE

1. Pedigree, Mars Inc.. (8%)
2. Blue Buffalo, Blue Buffalo Pet Products Inc.. (7%)
3. Purina Beneful, Nestle SA (5%)
4. Iams, Mars Inc.., (5%)
5. Purina Dog Chow, Nestle SA (4%)

FASTEST GROWING

1. Freshpet, Freshpet Inc.. (1%)
2. Merrick, Nestle SA (1%)
3. Blue Buffalo, Blue Buffalo Pet Products Inc.. (7%)
4. Dingo, Spectrum Brands Inc.. (0%)
5. Greenies, Mars Inc.. (1%)

- As recently as 2011, big pet companies Mars, Nestlé, Colgate-Palmolive and Procter & Gamble accounted for a cumulative 66.6% of premium dog food sales in North America, and 93% of America’s mid-priced dog and cat food market .
- By 2015, this premium position had fallen to 59.9%. Mars acquired the North American rights to Procter & Gamble’s brands in 2014. Newer companies are ~~instead~~ stealing market share:
  - *Blue Buffalo:* Sales tripled and market share lifted from 1% in 2011 to 6% by 2015; and is now the second largest brand share.
  - *Freshpet*: CAGR of 97% from 2006-2015, with 2015 revenue of US$116.19 million.
- These companies focus on increased average unit prices by transferring four human dietary trends to pet food ~~in four aspects~~:
  - *Functional/preventative health food*: food designed for certain animal types, ages, breeds, health conditions or even individuals;
  - *Natural dietary trends*: ‘return to the wild’ to replicate ‘authentic diets;
  - *Premium inputs* with nutraceuticals, human fit-for-consumption quality, exotic meats, and supply chain transparency; and
  - *Convenience* across service delivery, product design

CHANNELS

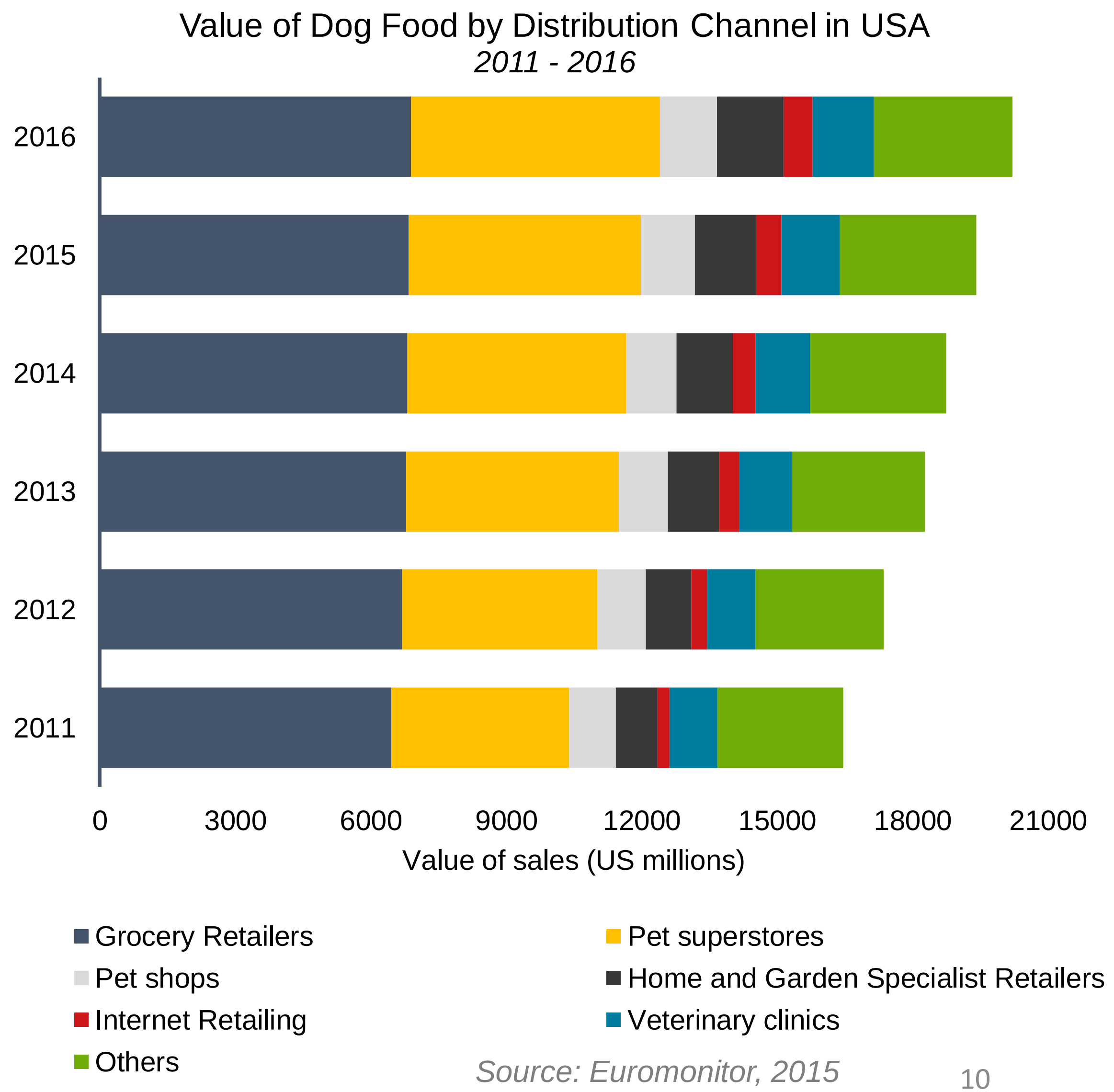
United States

Emerging players are also challenging incumbent distribution models. They are positioning themselves close to specific consumers through specialised suppliers and emerging purchasing behaviour.

↑ **Internet retail has grown by 131% in terms of value between 2011 – 2016 reaching almost US$1 billion in retail value.** This is due to the wide product range at competitive pricing.

↑ **Superstore retail has grown by 40% in terms of value to over US$7 billion while grocery stores have experienced marginal value growth at 7%.** This is because consumers are increasingly making special trips to purchase products not available at traditional grocery stores. Supermarkets and hypermarkets are responding by devoting shelf space to premium products.

↑ **Specialised channels such as home and garden specialists and veterinary clinics have grown in popularity.** Veterinary clinics have grown by 28% to over US$1.8 billion. They differentiate by providing professional health and care services and product recommendations. Mars PetCare has entered this market in recent years through acquisition.



Source: Euromonitor, 2015

CONSUMER INSIGHTS United States

Key Themes

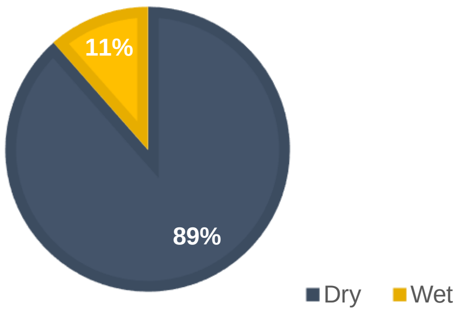
- High-end US consumers are increasingly looking for online recurring delivery, and access to 24/7 support. For these consumers, the convenience is worth paying for, and when they find the right food for their pet they won't change unless the dog's tastes change.
- Although many US dogs are overweight, high-end consumers take pet care very seriously, and are highly engaged on platforms such as chewy.com. Online feedback systems mean that only products with perfect ratings can command good premiums.
- These open platforms is that they tend to reinforce certain beliefs among large numbers of consumers. In the US, the most frequent misconceptions are that:
  - By-products are bad for your pet
  - Grains are bad for your pet
  - Prescription diets are low-quality
  - Raw diets are best for dogs
  - A particular brand's inputs and product formulation may cause cancer.
- Brands seeking to engage high-end consumers are increasingly looking for alternatives to traditional advertising media.

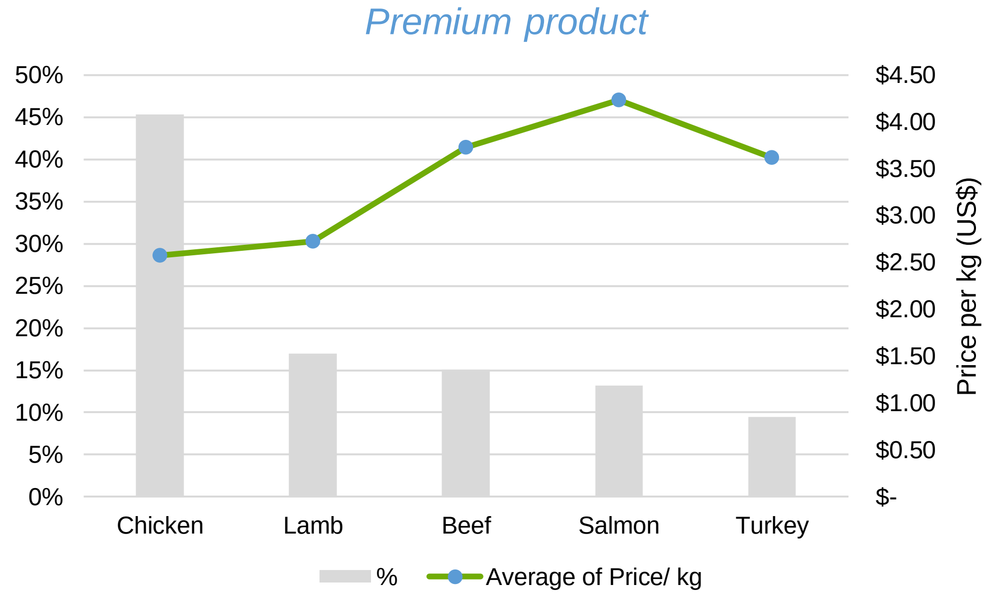
Influencers

- Some individual pets are amassing huge followings on social media. There are currently four dogs with Instagram accounts with over 1m followers. Media agencies have started matchmaking such famous pets and brand campaigns. *Brands aren't making the pets famous, rather the famous pets are used to make brands known.*
- The cost of an advertising photo featuring a famous dog is somewhere between $2,000 and $3,000, and the top Instagram dog has been used in advertisements by Google, Reebok, and IBM.
- The other key influencers for pet owners are pet health specialists. While high-end consumers have strong preferences for natural products, when their pet's health is threatened they will almost always take their vet's advice.

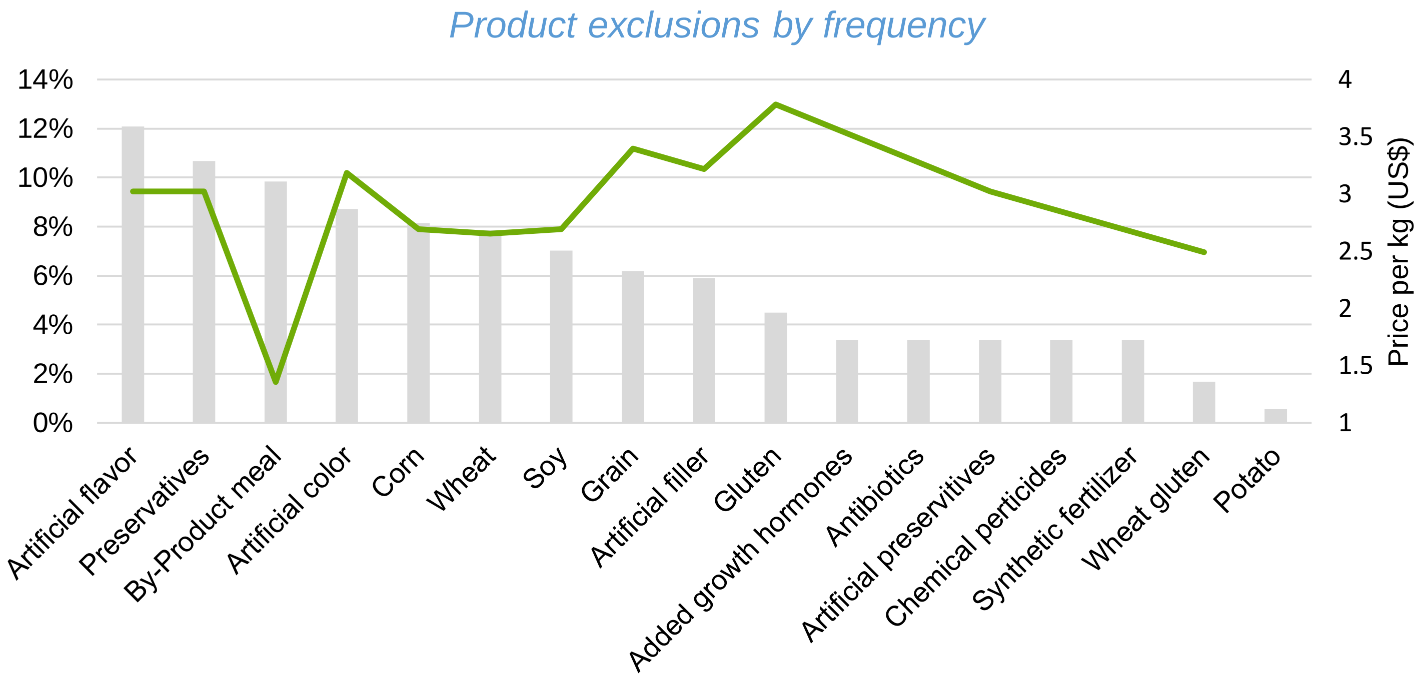
PRODUCT ANALYSIS United States – New York

Dry pet food accounts for the majority of pet food categories.





- Across all premium grocery stores Salmon receives highest premium price at $4.23 per kg, however product range is small.
- Chicken, the most popular favour, retails at an average price of $2.57 per kg.



MOST FREQUENTLY OCCURING

1. Artificial Flavour (12%)
2. Preservatives (11%)
3. Artificial colour (9%)
4. Corn (8%)
5. Wheat (8%)

HIGHEST PRICE

1. Gluten ($ 3.7)
2. Grain ($3.4)
3. Artificial filler ($3.2)
4. Artificial colour ($3.2)
5. Preservatives ($3)

Grain-free pet food has emerged as a new fad in the pet food market and products containing these exclusions often receive a higher price. Consumers are also leaning towards product trends that are more natural, such as no by-products, less additives and artificial ingredients. This parallels broader human consumption patterns seeking to avoid products containing allergens and intolerances and enhance performance and health .

International Markets

United States | United Kingdom | China

United Kingdom

Market insights

Brand share

Channels

Consumer insights

Supermarket product analysis

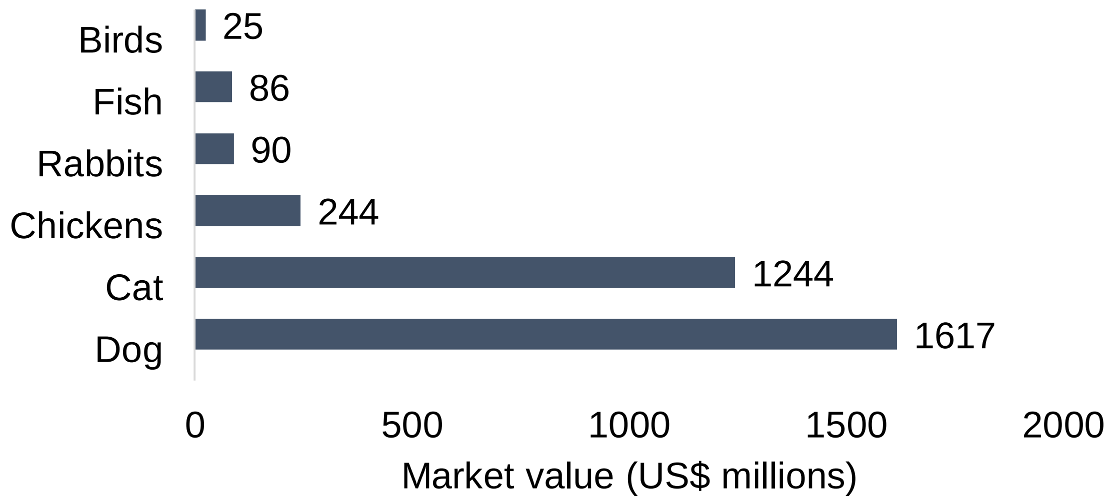
MARKET INSIGHTS

United Kingdom

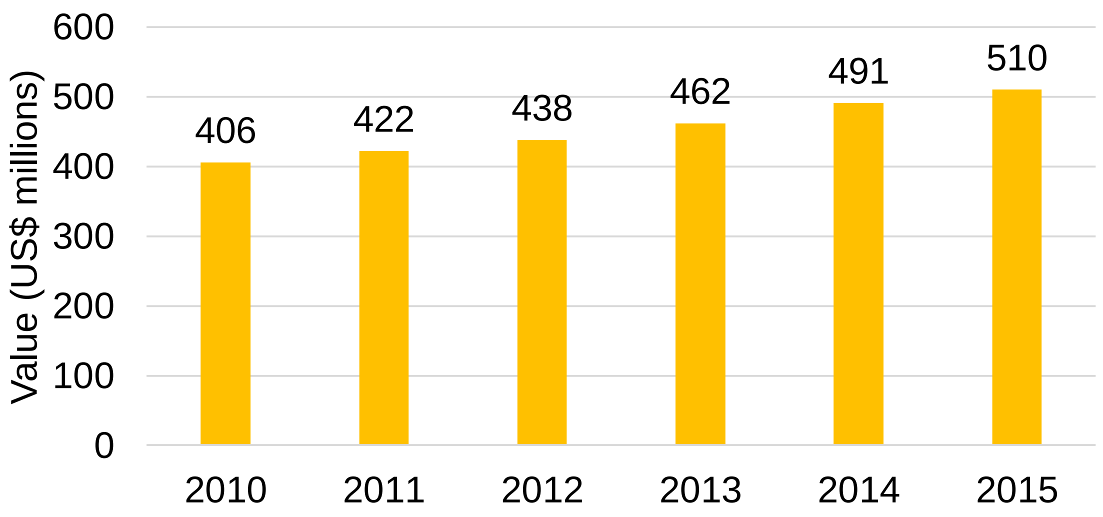
Overview

- Market value of dog food exceeds all other pet food categories in the UK, and grew to around US $1.6 billion in 2015 (Chart 1). Within this, the sub category with the only steady growth is dog treats, reaching US $510 million in 2015 (Chart 2).
- Dog ownership is steady at around 24% nationally and preferred breeds are small-to-medium sized.
    - Small dog population increased 2% in 2016
    - Large dog population decreased 8% in 2016
- Consumers are purchasing more premium dog foods and treats, and human diet trends are influencing product innovation. This is seen in more high-protein, low-carb preparations which aim to capture the health and wellness premium.
- In future, UK dog food trends are expected to mirror human diet trends, but there are risks in employing this strategy to product development, as demonstrated by the large number of failed “paleo petfood” brands.
- Over 60% of the retail value in dogfood is captured by Mars, Nestle-Purina, and Private Label brands. Competition among the other brands is tightly competitive.

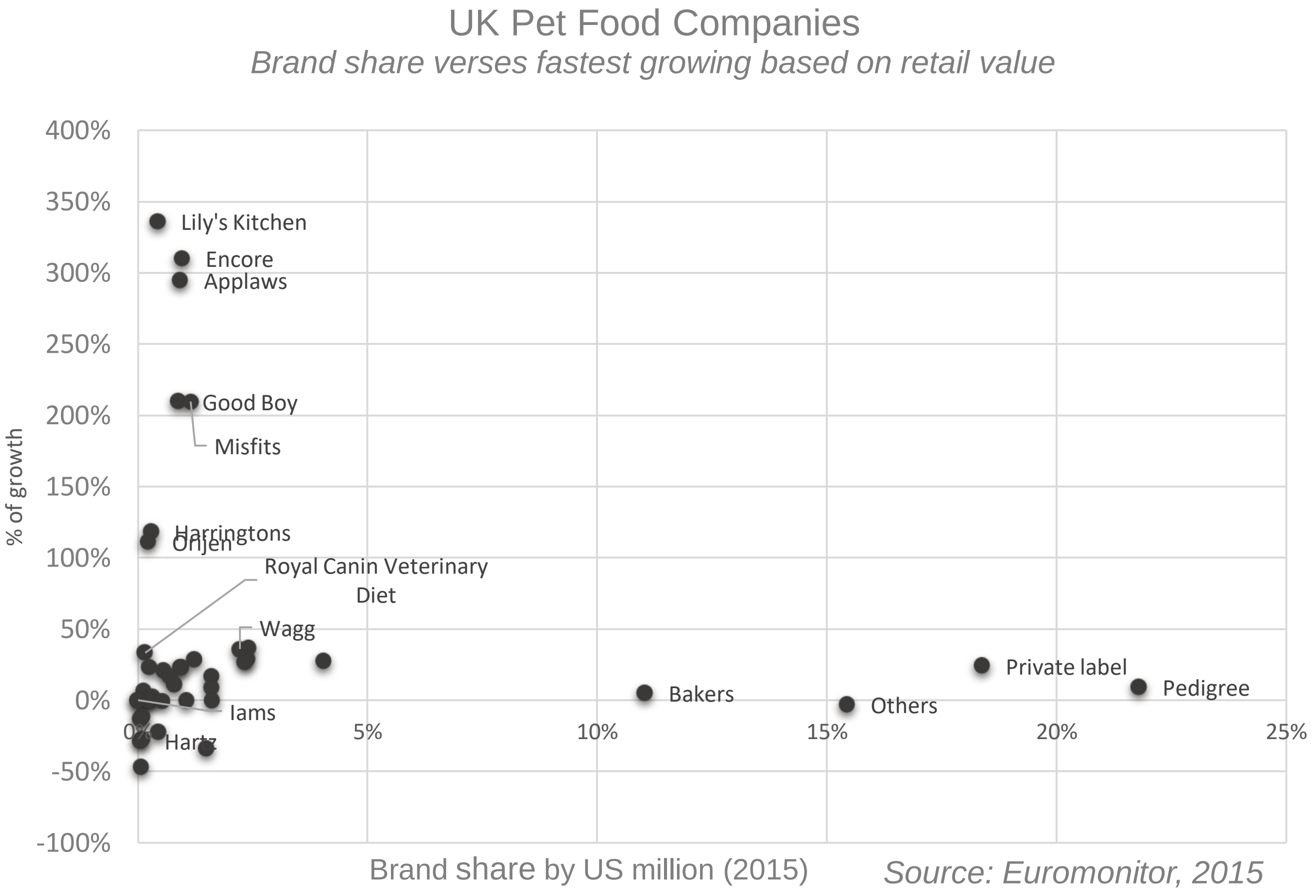
1. Total Market Value of pet food 2015



2. Market Value of Dog Treats 2010-15



BRAND SHARE United Kingdom



Source: Euromonitor, 2015

LARGEST BRAND SHARE
1. Pedigree, Mars Inc. (22%)
2. Private Label (18%)
3. Bakers, Nestle SA (11%)
4. Butcher's, Butcher's Pet Care Ltd (4%)
5. Bonio, Nestle SA (2%)

FASTEST GROWING
1. Lily's Kitchen Ltd (less than 1%)
2. Encore, MPM Products Ltd (1%)
3. Appaws, MPM Products Ltd (1%)
4. Good Boy (Focus100 Ltd (1%)
5. Misfits, Mars Inc. (1%)

- Two big pet food companies (Mars and Nestlé) have an accumulative market share of 42.6% of dog food sales and maintained a steady market share over the last 5 years.

- But new producers are experiencing rapid growth and driving value creation:
  - Lily's Kitchen – Sales increased by 336% since 2001 from 2.5million to 10.9 million in 2015 and although a small market share with less than 1%.
  - Goodboy – Sales increased 210% since 2011 from 7.2 million to 22.3 million with 1% market share.

- As in the US, smaller market players are challenging market incumbents with higher value products by focusing on four aspects: *functional/preventative health, natural dietary trends, premium inputs and convenience* across service delivery, product design and customer experience.

- Private Labels have also been growing and now hold an 18% market share. Tesco is the leading retailer with a 5% share. The growth has largely come from economy dog food however retailers such as Sainsbury's entered the premium end dog food market with a product range high in meat and free from soya, wheat and gluten.

CHANNELS

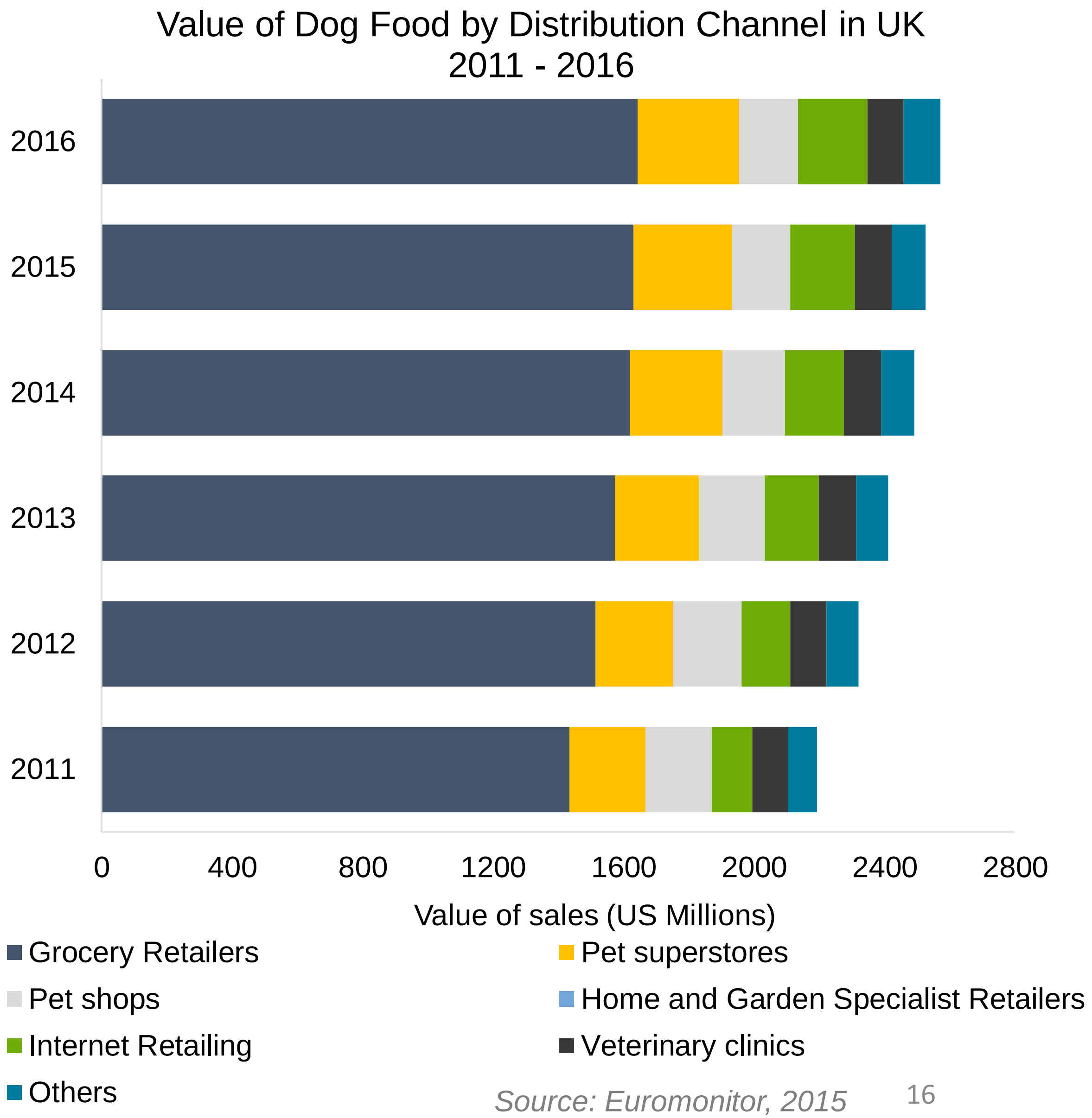
United Kingdom

Small but emerging players such as Lily's Kitchen have entered conventional retail channels such as Waitrose and Tesco while others look for alternative growing channels.

↑ **Internet retail has grown by 72% in terms of value between 2011 – 2016 reaching US$213 million in retail value.** This is because consumers are becoming increasingly confident with online dog food retail and are attracted to high product range and low prices.

↑ **Superstore retail has grown by 34% in terms of value to over US$310 million.** This is largely due to the ongoing outlet expansion of Pets at Home and the consumers willingness to make special trips to purchase products not available at traditional grocery stores.

↑ **Grocery remains the most significant channel for dog food purchases with a 15% increase.** This is due to the increasing shelf space dedicated to premium pet food such as Lily's Kitchen at Waitrose and Tesco.



Source: Euromonitor, 2015

CONSUMER INSIGHTS United Kingdom

Key Themes

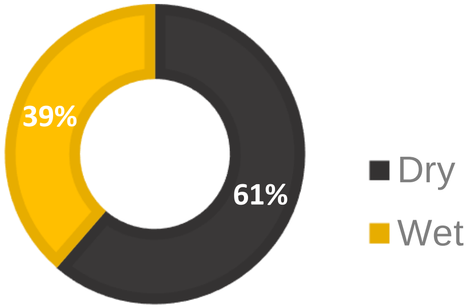
- Research from 2015 shows a strong preference among pet owners to prioritise spending on their pets. Further examples include:
    - 94% of pet owners would cut back on luxury items including holidays to pay for treatment when a pet became ill
    - 27% have adapted their house for their pet
    - 15% have bought a bigger car
- Around 70% of UK consumers carry out brand research online, and the majority of marketing targets consumers through online and TV advertising.
- Sean Wensley, president of the British Veterinary Association once said "We are struggling with a pet obesity epidemic. It is leading to other problems — heart disease, arthritis, cancer." A third of dogs and a quarter of cats in the UK are overweight, as people overfeed their pets and give them less exercise.

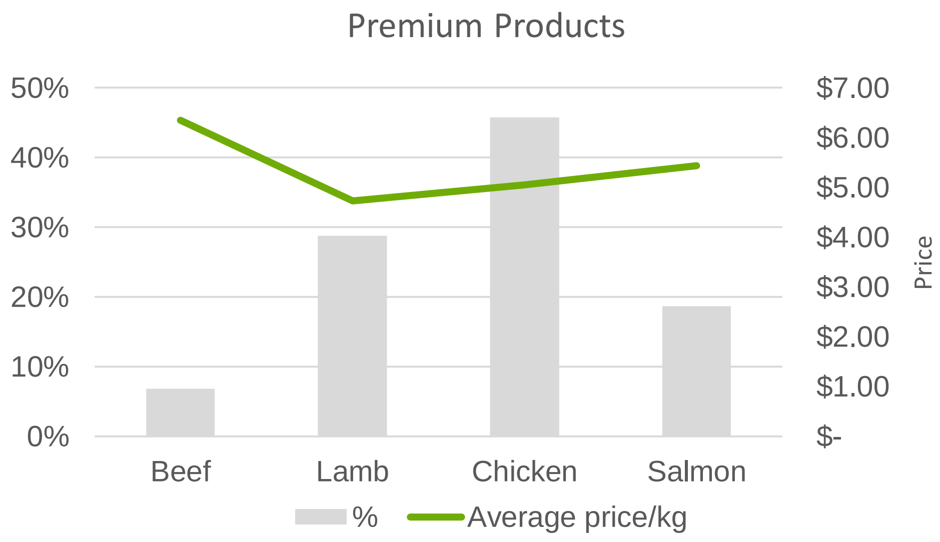
Influencers

- The role of brand ambassadors, celebrity endorsement, and famous pets is under-developed in the United Kingdom and consumers are more influenced by trends reflected in human lifestyle.
- Humans are moving towards a healthier and more natural lifestyle and as with packaged food for humans, consumers will continuously scrutinise ingredient lists and many will seek to avoid products that are 'less natural'.
- Consumers are following ancestral diets such as the paleo diet and as a result have largely accepted that grains in pet food is generally low-quality, and that artificial flavours and colours are bad.
- As a result of these trends shaping dog food purchasing decisions, manufacturer's need to consider differentiating factors that enable premium pricing, such as vegetable content, supplements and human grade meat.

PRODUCT ANALYSIS United Kingdom - London

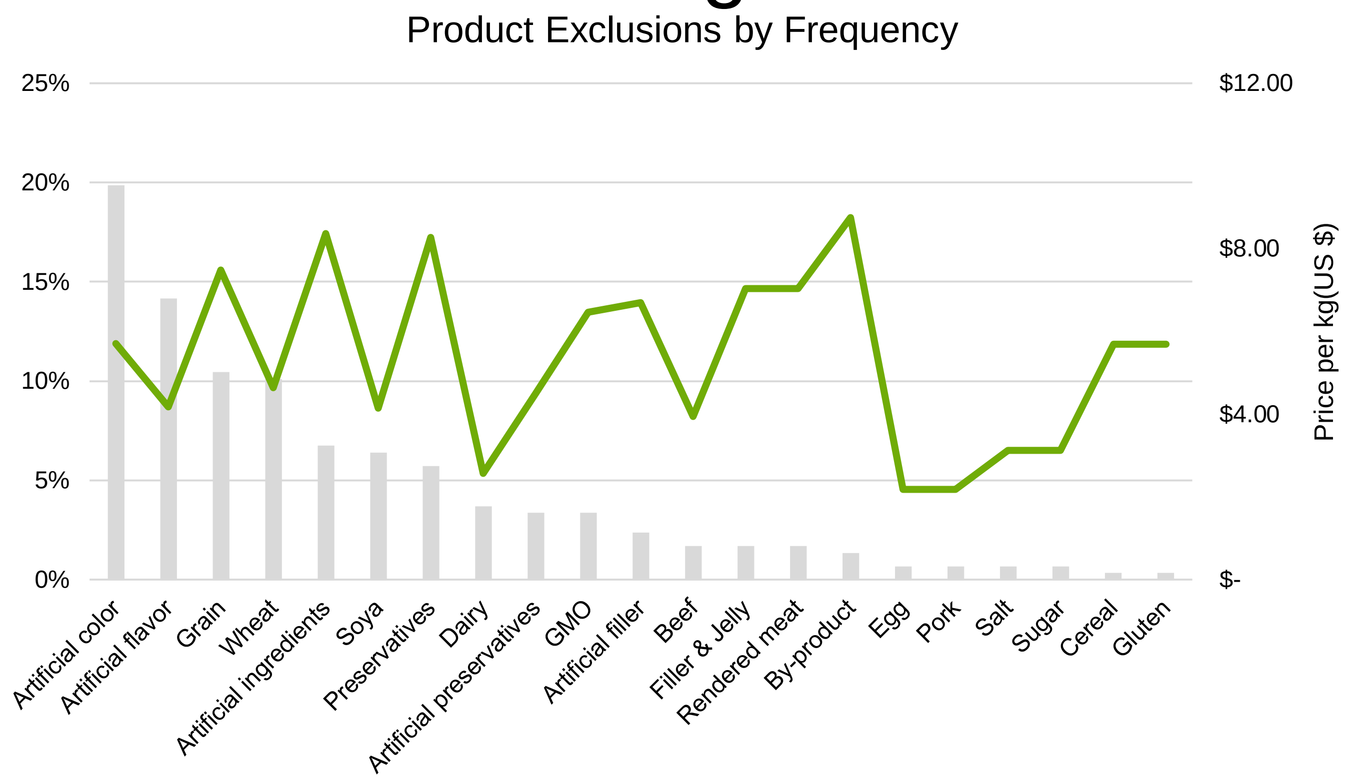
Dry pet food products account for the majority of shelf space in premium supermarket channels





Across all premium grocery stores beef pet food receives highest premium at $US6.35, however product range is small.

Chicken retails at an average price of $US5.05 across grocery stores.



MOST FREQUENTLY OCCURING

1. Artificial colour (20%)
2. Artificial flavour (14%)
3. Grain (10%)
4. Wheat (10%)
5. Artificial ingredients (7%)

HIGHEST PRICE

1. By-product ($ 8.75)
2. Artificial ingredients ($8.37)
3. Preservatives ($8.27)
4. Grain ($7.49)
5. Filler and jelly ($7.04)

Products containing no by-product receive a premium price in the UK pet food market. However, there are few products with this claim. In addition to grain and wheat free product exclusions, consumers are leaning towards products that are more natural. Consumers have largely accepted that the meat product in pet food is generally low-quality, so the differentiating factors that enable premium pricing are vegetables, supplements.

International Markets

United States | United Kingdom | China

China

Market insights

Brand share

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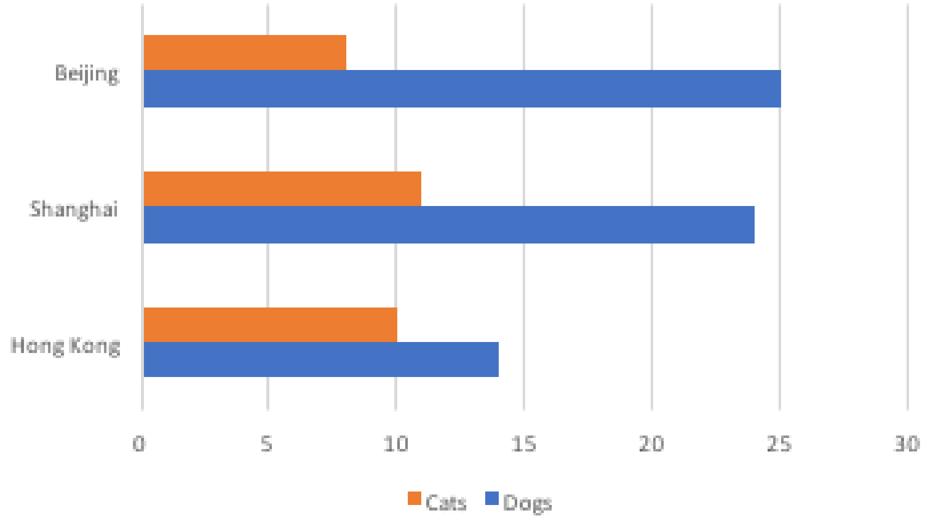
MARKET INSIGHTS

China

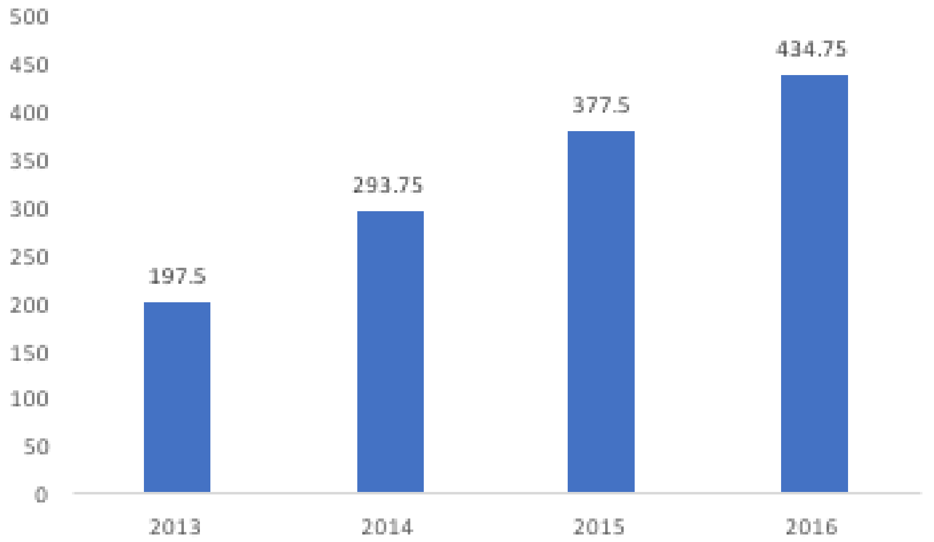
Overview

- Dog and cat ownership rates are lower in China compared to other major economies. Within China, Hong Kong has lower overall rates of ownership (Chart 1), However consumers in Hong Kong spend more on pet food. Overall, the growing dog population and the trading-up trend continue to fuel sales of dog food in China. The dog population grew by 1% in 2015, which was faster than the rate in 2014 and resulted in more households owning a dog and an ever-growing consumption base in China.
- In addition, with household incomes rising, more consumers have been willing to spend more on higher-quality dog food, leading to the trading-up trend in the category, reflected in the fact that premium dog food has grown faster than mid-priced dog food, However, Chinese expenditure on dog food is comparatively much lower than mature markets such as the US and UK.
- The Chinese market is very sensitive to food safety issues generally, and this also applies to pet food. A crackdown on smuggled pet food in 2015 has increased consumer confidence and contributed to premium growth.
- It is unclear how online pet food trade is affecting traditional retail, and meaningful consumer insights around dog food purchasing are scarce. What is clear is that e-commerce is the major driver of retail growth (Chart 2), and will be a vital source of consumer insights for the Chinese market. Based on other trends among Chinese consumers it is probably safe to bet that online subscription-based models will have a strong position.

1. Dog and Cat Ownership in China 2016 (%)

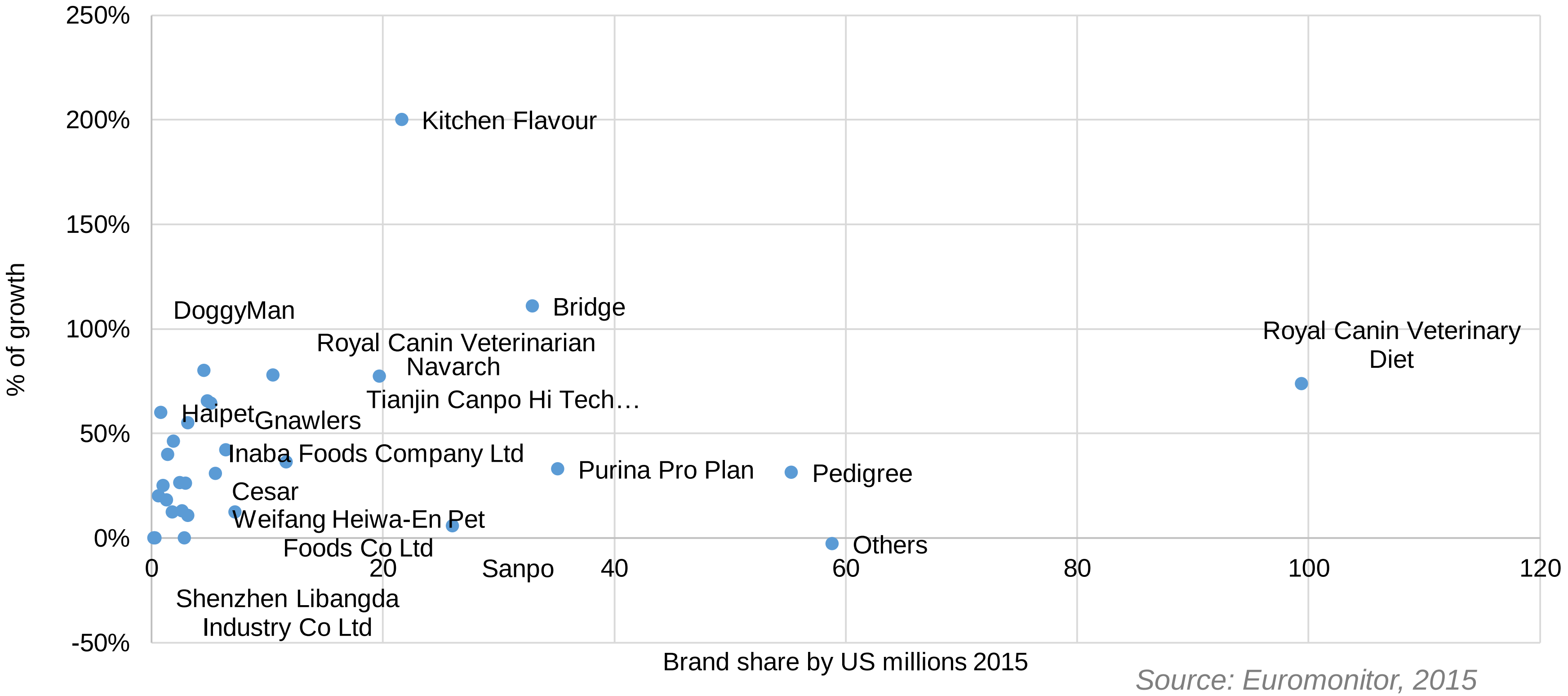


2. Alibaba - Average Monthly Unique Users (m)



BRAND SHARE China

China Dog Food Brand Share vs Fastest Growing Based by Retail Value



Source: Euromonitor, 2015

- Larger multinational companies such as Mars and Royal Canin are using specialised stores and e-commerce platforms to grow and lead the pet food market in China.
- Smaller domestic companies such as Shanghai Bridge Petcare are showing growth by capitalising on premium products. They have multiple brands that offer different product lines at varying prices and this allow them to target multiple consumer groups.
- Private label remained negligible in China, owing to the wide presence of mass branded products.

LARGEST BRAND SHARE

1. Royal Canin, Mars Inc. (22%)
2. Pedigree, Mars Inc. (12%)
3. Purina Pro plan, Nestle SA (8%)
4. Bridge, Shanghai Bridge Petcare Co Ltd (7%)
5. Purina Dog Chow (Nestle SA) (6%)

FASTEST GROWING

1. Kitchen, Shanghai Bridge Petcare Co Ltd (5%)
2. Bridge, Shanghai Bridge Petcare Co Ltd (7%)
3. DoggyMan, DoggyMan HA Co Ltd (1%)
4. Royal Canin Veterinary Diet, Mars Ltd (2%)
5. Navarch, Navarch Pet's Material Co Ltd (4%)

CHANNELS

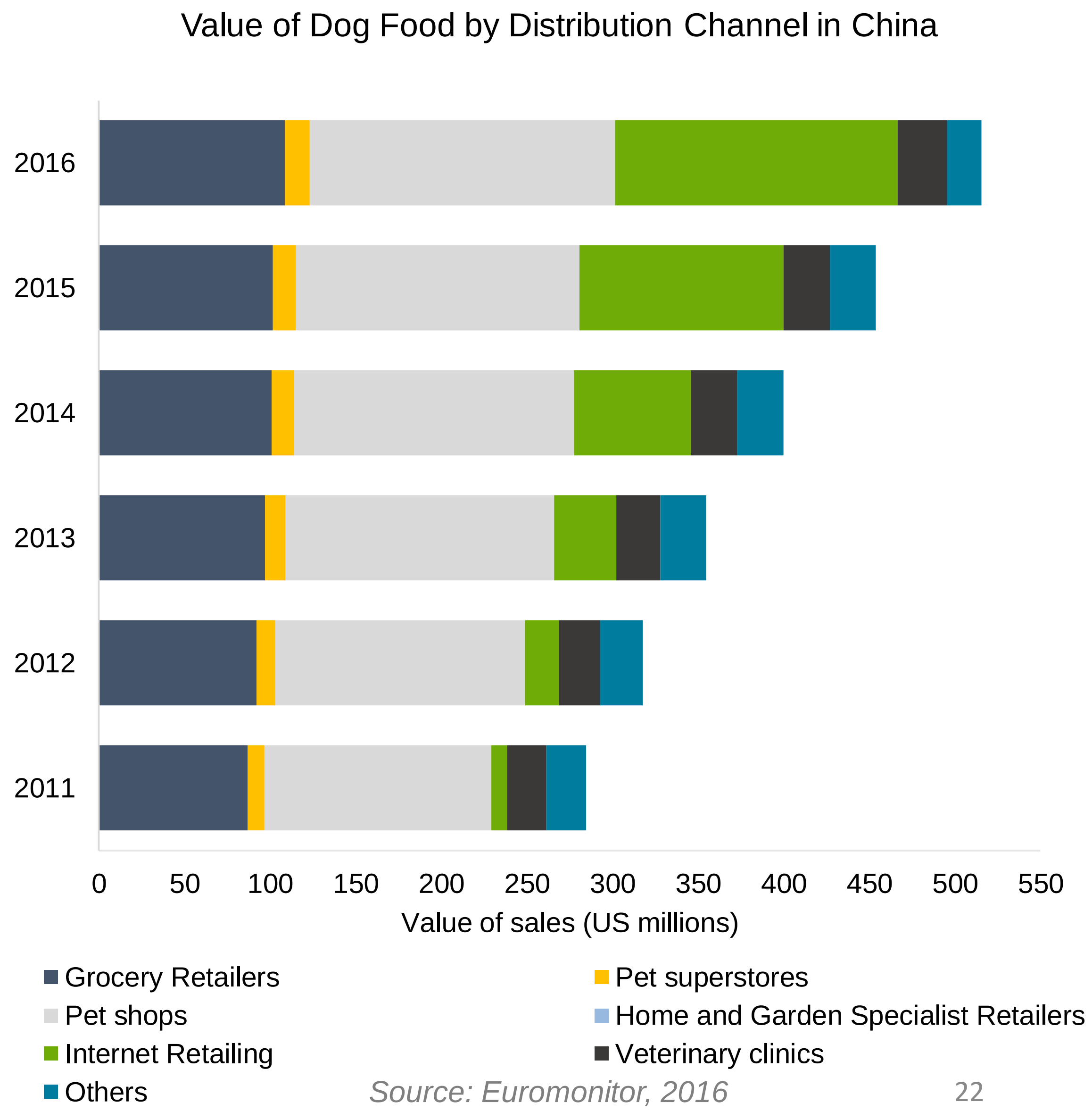
China

China does not have an efficient nationwide distribution system. Distribution channels are dominated by regional and provincial players whose abilities vary enormously.

↑ **Internet retail has increased by 1693% in terms of real value.** This can be attributed to the consumer demand for round the clock shopping times, product comparisons, competitive pricing as well as convenient home delivery services.

In response to this growth, leading manufacturers have adjusted their distribution strategies with greater focus on the robust online channel. Nestle (China) brands Purina Dog Chow and Purina Friskies withdrew distribution strategies to supermarkets and hypermarkets and have opened online flagship stores on leading B2C platforms such as Tmall.com and JD.com.

Pet shops and grocery retailers experienced slower growth at 35% and 25%, owing to the boom in internet retailing. Pet shops is still the largest retail market as pet owners are not only attracted to the wide range of pet food products but also the presence of professional service from salespeople.



Source: Euromonitor, 2016

CONSUMER INSIGHTS China

Key Themes

- Smaller dog breeds are preferred and an increasing appetite for pedigree breeds seen in Western films and TV lead to many animals being imported from the UK and Australia.

- The retail pet food market is gaining popularity in Tier 2 and Tier 3 cities. In Shanghai/Beijing (Tier 1 cities), 80% of pet owners buy retail pet food, but this ratio drops to 50% in Tier 2 and Tier 3 cities.

- Consumers are sensitive to food safety issues, and safety attributes are leveraged alongside health attributes by high-end imported brands. Another important theme for Chinese consumers is heritage. Providing consumers with the sense of a traditional way of feeding dogs seems to appeal to high-value consumers.

- The average monthly expenditure on pet food in China is far below the US and UK markets, meaning there is opportunity for growth in premium pet food consumption. Sales of pet food labelled " natural, nutrition, and other health attributes" are rising rapidly at 48% compared with 18% growth of overall pet food sales. Premium pricing for products around 2Kg is between 400 -1400 Yuan.

- In China, there is a burgeoning generational divide as the elderly prefer to buy pet food from traditional channels like supermarkets and pet stores, while young people prefer online shopping.

- Online sales are dominated by imported brands. Primary importing countries are USA, France, Canada and UK.

Influencers

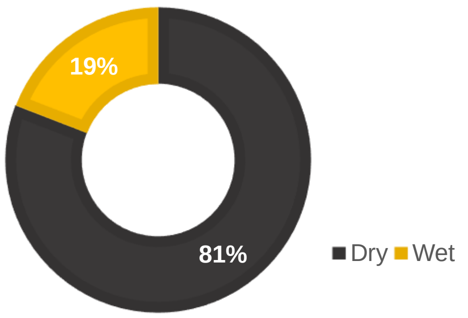
- In Hong Kong, the SPCA plays a prominent role in supporting dog owners. There are 10 celebrity ambassadors engaged by the SPCA to promote dog ownership and health. These individuals carry moderate influence in Chinese media.

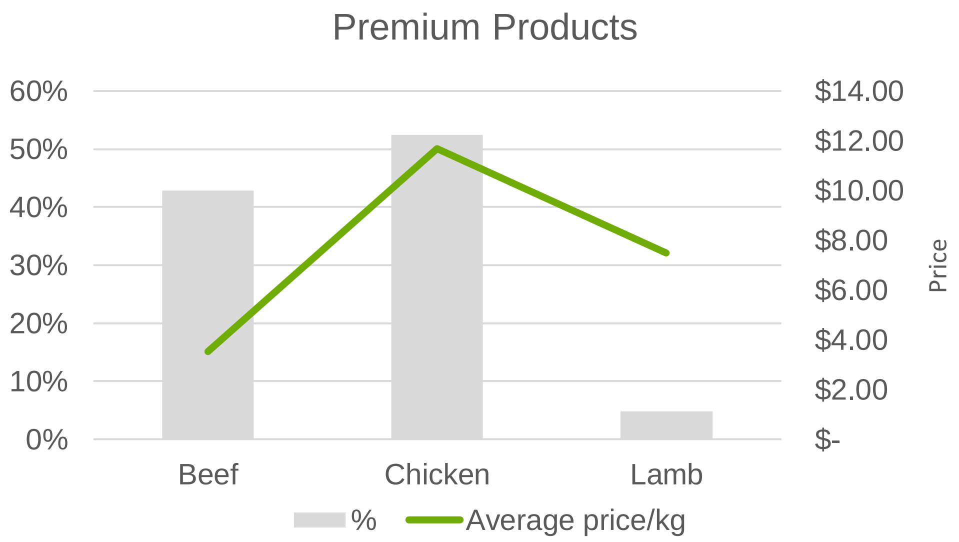
- Others are leveraging broader pop culture movements, such as movies and TV. A Chinese pet food manufacturer, Navarch placed their specialty golden retriever product in a Chinese pet movie (Hero dog), which quickly became a top seller on Taobao.

- WeChat is widely used in China with 864 million active users. Through the 'WeChat Moment', users post images and text similar to a Facebook timeline. Pet, kids and cuisine are the top three popular themes posted, and related companies are advertising accordingly. This is seen as a sophisticated way to reach customers in China.

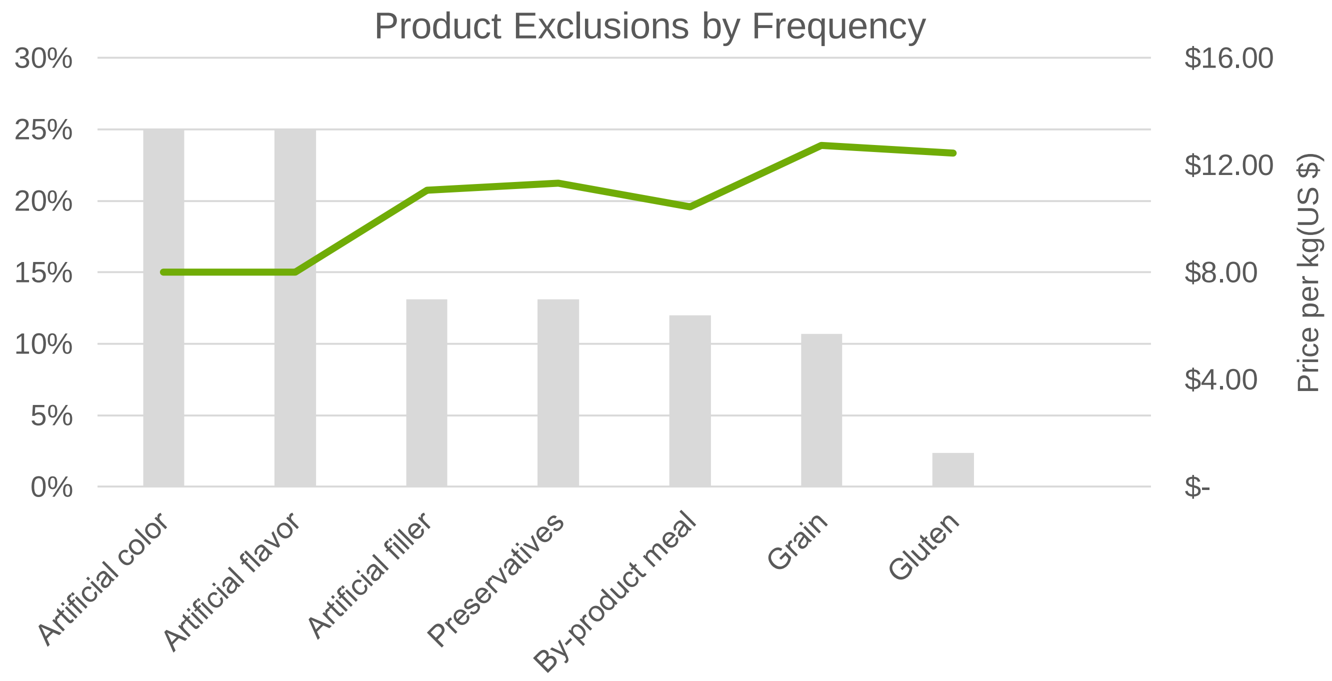
PRODUCT ANALYSIS China - e-commerce

Dry pet food products account for the majority of online channels





Across all premium grocery stores chicken pet food receives highest premium at $11.69 which is also the most popular taste.



MOST FREQUENTLY OCCURING
1. Artificial colour (25%)
2. Artificial flavour (25%)
3. Artificial filler (13%)
4. Preservatives (13%)
5. By-product (12%)

HIGHEST PRICE
1. Grain($ 12.75)
2. Gluten($12.45)
3. Preservatives ($11.32)
4. By-product($10.44)
5. Artificial filler (11.07)

Compared with the US and UK markets, there are far less product exclusions specifically mentioned on packaging. Advertisement instead is focused more on generic health claims, for example Vitamin D or A. Yet there remain similarities, namely a continued aversion to artificial colours, and flavours. Thus, therapeutic dog food is still a niche in China, with a marginal sales base, as dog owners prefer to turn to medication under the supervision of vets for various pet-related diseases.

Pet Food Summary

Competitive landscape

Case study key learnings

COMPETITIVE LANDSCAPE

United States

- Dog food saw a flurry of major merger and acquisition activity in recent years. Mars acquired Procter & Gamble's pet business in April 2014, the JM Smucker Co acquired Big Heart Pet brands in March 2015 and Nestlé acquired Merrick Pet Care in July 2015. In late 2016 Mars acquired VCA Inc., a chain of vet and pet-care stores, signaling an increased focus on broader pet-care and access to new retail space.
- M&A is expected to quiet down for a period as these companies work to integrate these new acquisitions. While rapidly-growing specialty manufacturers will surely remain appealing targets for future acquisition, current investment is mainly from private equity.
- Supermarkets are entering the premium pet food market to regain lost market share of sales in the pet food category.
- Competition among small scale pet companies is high, with a number of companies essentially offering the same thing. Although the failure rate is high, some have successfully differentiated by appealing to a small market.

China

- Royal Canin Au Yu (Shanghai) Pet Food Co Ltd further consolidated its leadership in the category with a value share of 27% in 2015, which represented an increase of one percentage point over 2014.
- Royal Canin enjoys a widespread distribution network and the company runs an official flagship store on Tmall.com. Its wide product portfolio, ranging from mainstream to therapeutic dog food, is able to meet the various consumption needs of dogs.
- Major western brands have been pushing into the Chinese market through online stores, with mixed success. Chinese consumers are considered more open to pet food options from Australia and New Zealand than just the "American" brands.

United Kingdom

- Mars remained the leading player in UK dog food in 2016, holding a steady 27% value share. The company's strong lead over second-ranked Nestlé extended further in 2015 as Nestlé's market share dropped under 18%.
- Mars invested heavily in marketing in dog food in 2015 and also launched new products pushing aggressively to regain share. Notably, they launched a new dry dog food range Pedigree Small Dog in 2015, which is designed to cater to the growing population of small dogs in the country. With a focus on indulgence and convenience, the company also launched Cesar single-serve 100g pouches in multipacks. The company also continued to invest in both traditional and more modern forms of marketing.
- There was strong new product development from smaller premium players, with a particular focus on health and food intolerance. Free-from brand Laughing Dog notably revamped its range in March 2015, with its *Wonderfully Wheat Free Chicken and Lamb dry dog food variants* being listed by Sainsbury's.
- The pet food retail sector in the UK is dominated by supermarkets and specialty pet chains such as PetCo. Supermarket Private Labels (like Tesco's) are strongest in economy dog food chiefly due to its appeal to consumers more focused on price than nutrition, and dominated both economy wet and dry dog food with value shares of 64% and 50%, respectively.

MARKET SUCCESS Case Studies

The global premium pet food market is saturated with premium pet food products and we are seeing small growth in these industries. Since 2014 there have been 53 Dog food kick starters. Of these, three were funded, two failed and one became a successful product. This demonstrates the high rate of failure in the premium pet food market . The companies below are key successful companies operating in the markets assessed.

Fedwell established in 2014 through a crowdfunding platform, Kickstarter is the only successful company out of the 53 dog food kick-starters.

The company targets a small local market in Boston, US as they believe they understand the consumer and have developed a product which resonates well with the consumer.

In order to differentiate in a highly competitive market, Fedwell innovated through processing technology. The 'oven baked food at low temperatures' enabled them to stand out from other similar offerings and receive a high price as their production method claimed to add nutritional value and flavour.

Lilly's Kitchen is a UK pet food company established in 2008. It is one of the earlier companies to offer more natural pet food, capturing early mover advantages.

This company started by targeting a small local market through veterinary clinics and grew into a European brand as it achieved a confident market position in UK premium grocery channels; Waitrose and Sainsbury's.

It demonstrates Corporate Social Responsibility and sources sustainably produced, organic and environmentally friendly ingredients from its partners. It also engaged with the community dog diners promotions, where dogs eat free with owners.

Bridge Pet Care is a China- Norway joint venture founded in 2002.

The company has multiple brands that offer different products at varying prices allowing them to target multiple consumer segment groups. NatureBridge Prescription is their high end pet food range.

Navigating the China distribution system in challenging. The company achieves access to 13 main sales districts through its extensive distribution networks. The company has 200 salesmen and more than 100 distributors. Having representatives in key locations allows them to control and improve customer perception.

Tails.com is a UK pet food brand established in 2013.

The company is an online subscription based pet food company providing customer convenience. The company achieves production efficiency through automation to meet the specific requirements of pets.

The company avoids traditional distribution networks which are highly competitive and has grown a consumer base through word of mouth and online chatter.

Since its successful uptake in the UK the company has planned expansion into international markets in 2017.

The Farmer's dog is a U.S pet food company founded in 2015.

The company promotes itself though local events such as dog meet ups and it sponsored New York's first puppy brunch.

The company has a strong online presence and connects with consumers via an online order and meal delivery service.

The company started small in New York, focusing on a small target market and through the success they have since expanded nationwide.

Products are priced in the upper premium range due to it's subscription based pet food delivery service and natural unprocessed products. It claims that 'what you lose in grocery bills, you make up in vet bills'.

TRENDS VS. FADS

Will Dog Food Trends Continue to Mirror Human Diets?

Short-term human diet trends are shifting away from dog-friendly attributes.

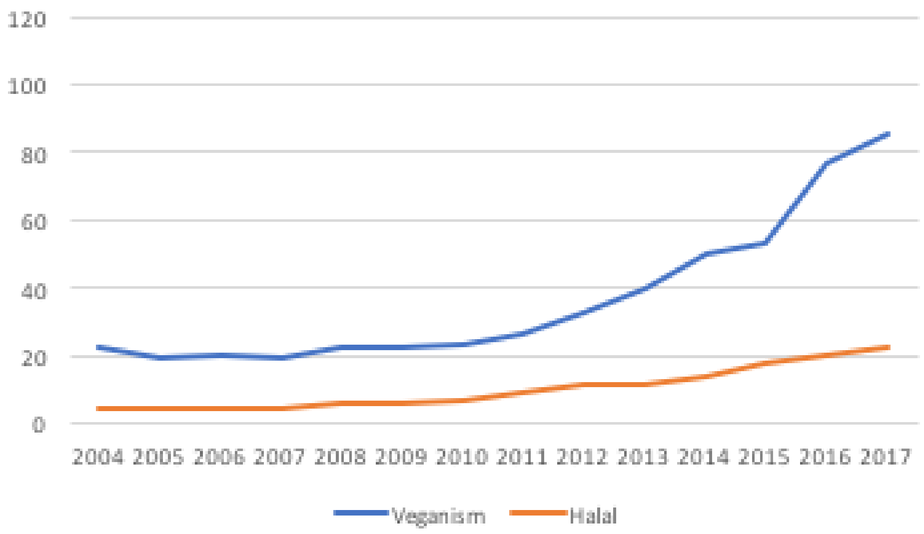
1. **Neutral Food**
   - Examples: White asparagus, cauliflower, eggs, etc.
   - Breakout: Tapioca (gluten-free, dairy-free, nut-free)
2. **Retro Food**
   - Examples: Canned sardines, ugly produce
   - Breakout: Nordic fish diet, herrings for breakfast
3. **Vegetable Versions**
   - Examples: spiralised zucchini, banana sushi
   - Breakout: Watermelon jerky
4. **Salt-free**
   - Examples: replacing salt with spices
   - Breakout: less than 230mg of sodium
5. **Fermented Foods**
   - Examples: kimchi, sauerkraut, miso
   - Breakout: FODMAP diet

While fad diets like ‘paleo’ may last for several years, are not likely to be log lasting. The underlying trends in consumption are not diet-based, they are belief-based.

From humans to pets?

The two long-term growth segments relating to human consumption are:

1. Halal
2. Veganism



Demand for halal product in the US and UK has been steadily rising for over 10 years. In contrast, veganism has really taken off in the last 5 years as consumers’ ethical, sustainability, and health beliefs drive purchasing. Pet food is affected by the vegan trend, and many products now compete on the basis of higher-protein vegetable content, ethically sourced and handled ingredients, and environmental credentials.

Pet Food Scan

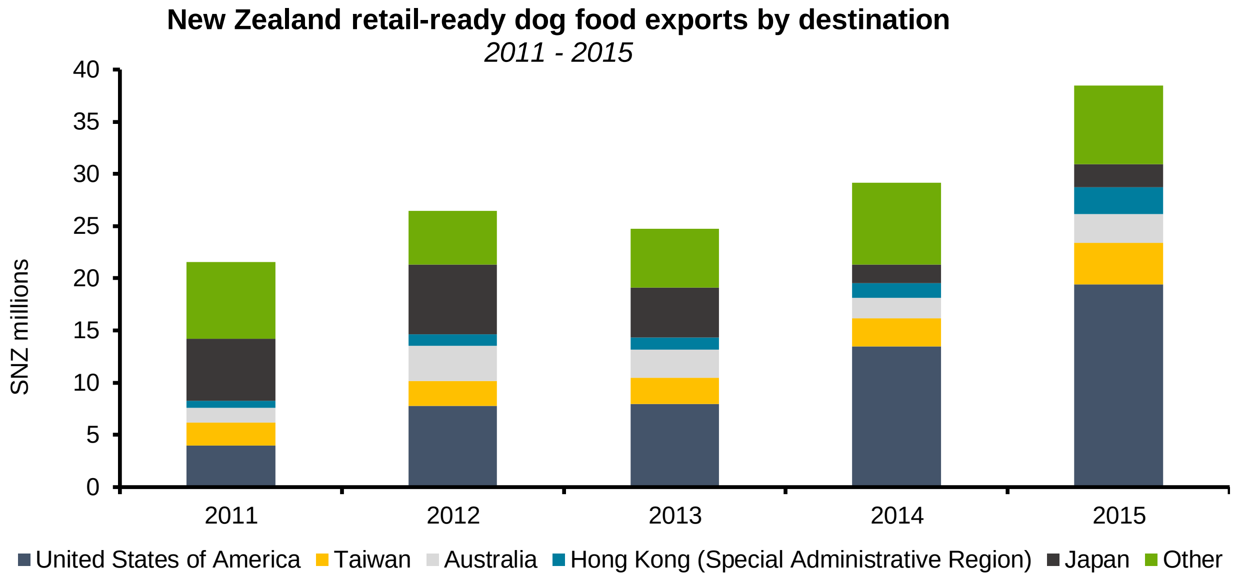
Appendix

Appendix

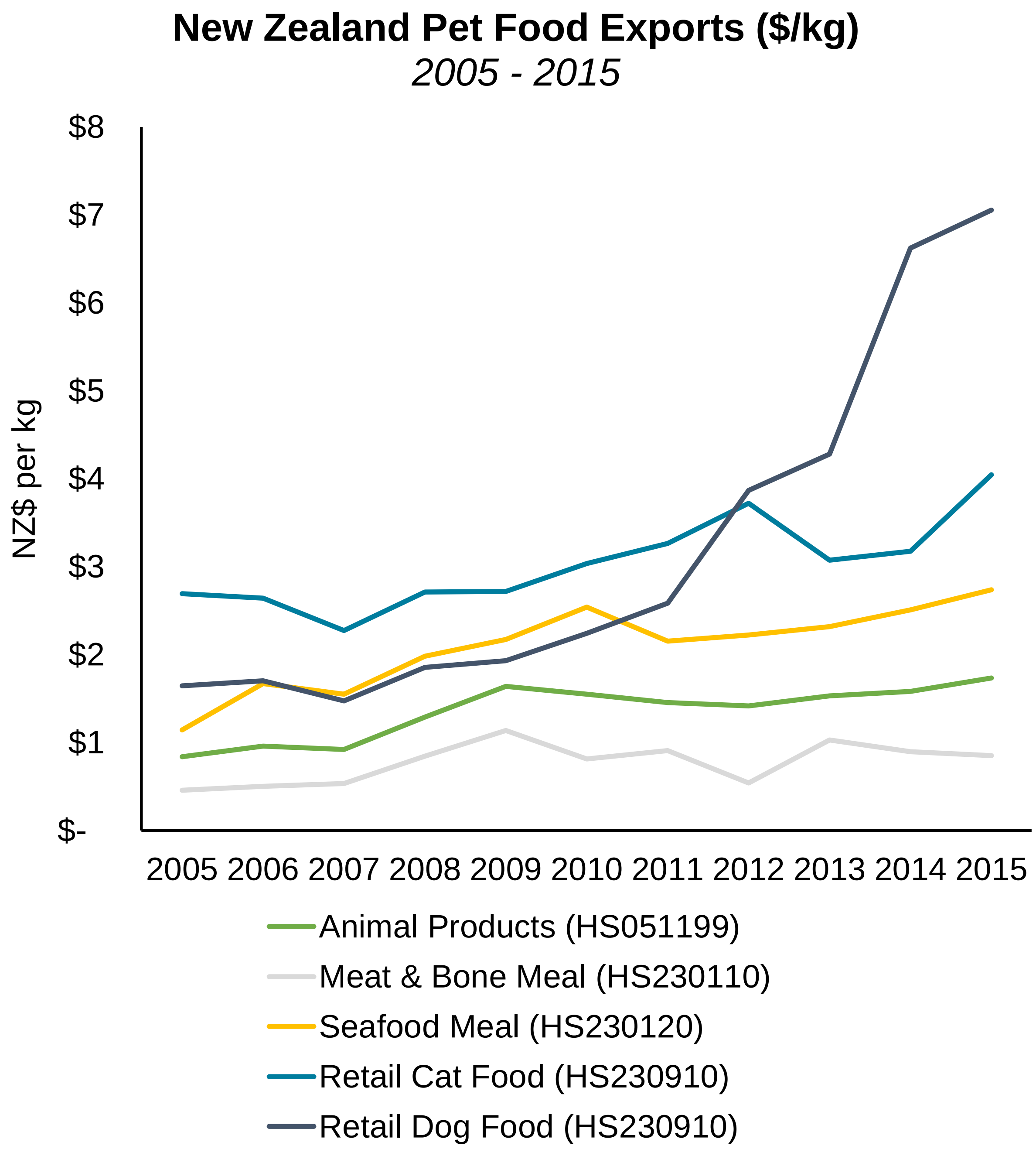
NEW ZEALAND EXPORT PROFILE

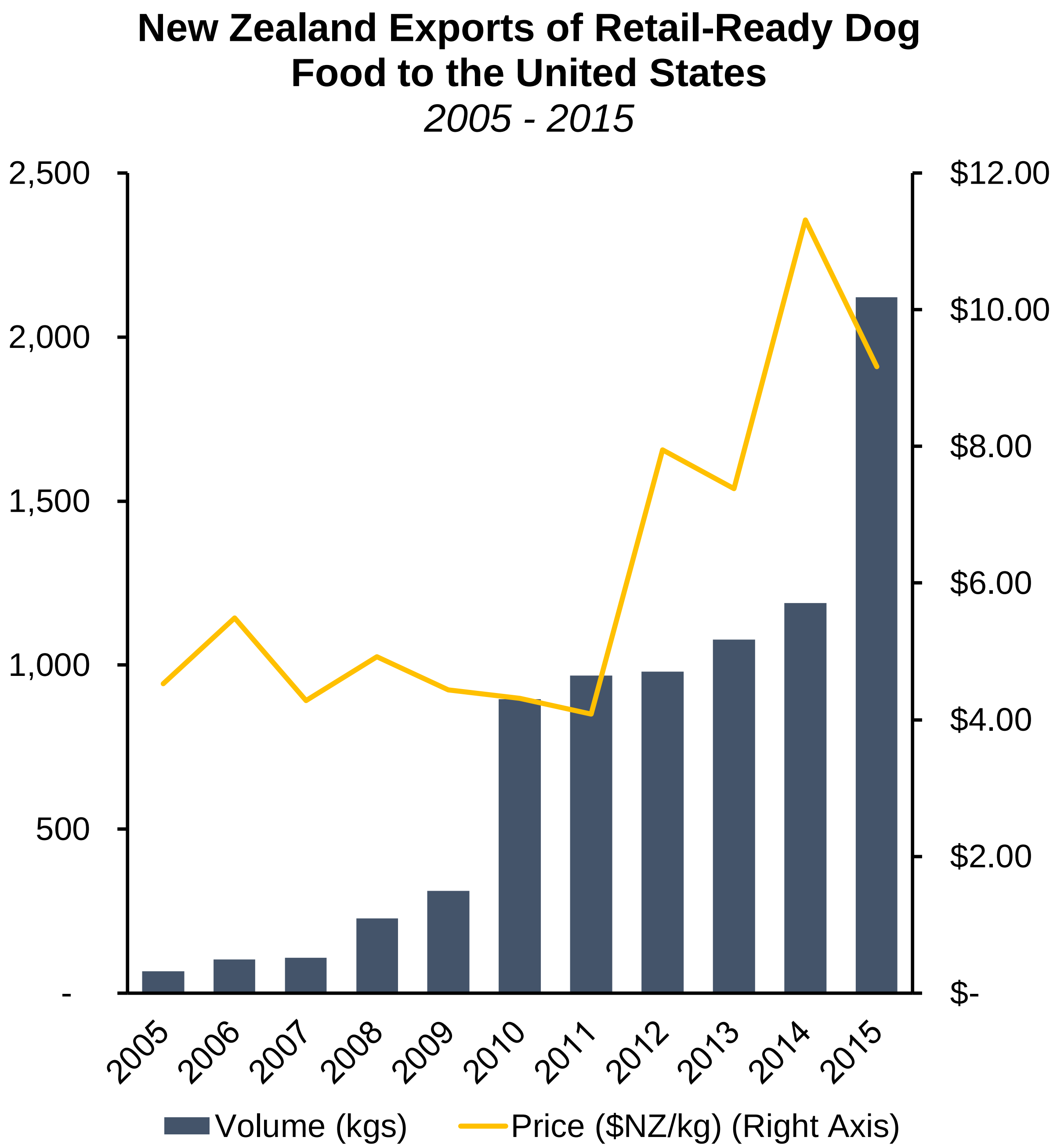
A 17% decrease in US ingredient imports, contrasts a 392% increase in retail ready products

Export Destination	2011	2015	% Change
United States	$ 89,980,451	$ 75,109,108	-17%
Indonesia	$ 43,072,470	$ 52,442,736	22%
China	$ 3,494,962	$ 27,422,026	685%
Canada	$ 4,660,976	$ 9,037,035	94%
Australia	$ 13,155,191	$ 7,571,971	-42%
Other	$ 44,092,929	$ 50,925,397	15%
TOTAL	$ 198,456,979	$ 222,508,273	12%

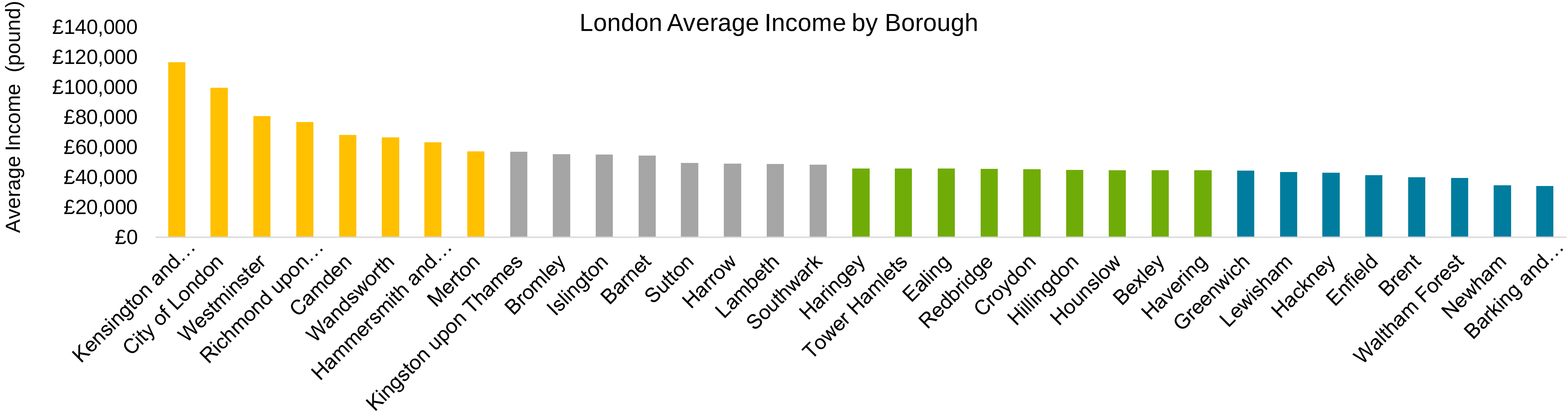


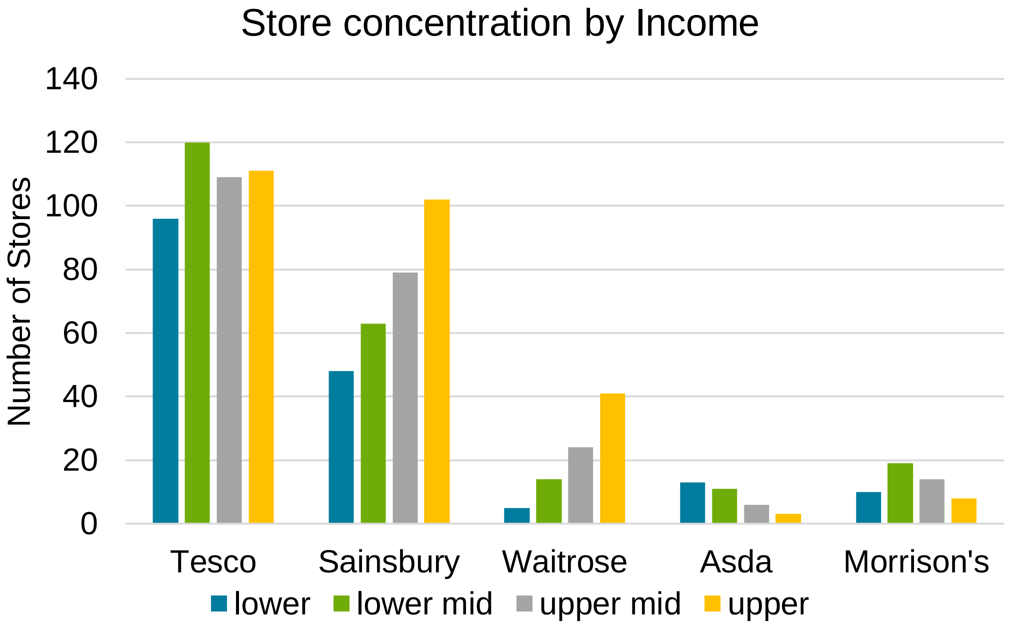
Export Destination	2011	2015	% Change
United States	$ 3,953,572	$ 19,444,732	392%
Taiwan	$ 2,214,056	$ 3,959,733	79%
Australia	$ 1,419,172	$ 2,777,751	96%
Hong Kong	$ 661,303	$ 2,522,756	281%
Japan	$ 5,935,931	$ 2,246,576	-62%
Other	$ 7,361,455	$ 7,525,257	2%
TOTAL	$ 21,545,498	$ 38,476,805	79%


New Zealand Pet Food Exports ($/kg)
2005 - 2015
NZ$ per kg
$8
$7
$6
$5
$4
$3
$2
$1
$-
2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
Animal Products (HS051199)
Meat & Bone Meal (HS230110)
Seafood Meal (HS230120)
Retail Cat Food (HS230910)
Retail Dog Food (HS230910)


New Zealand Exports of Retail-Ready Dog Food to the United States
2005 - 2015
2,500
2,000
1,500
1,000
500
-
$12.00
$10.00
$8.00
$6.00
$4.00
$2.00
$-
2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
Volume (kgs)
Price ($NZ/kg) (Right Axis)

SUPERMARKET STRATEGY London

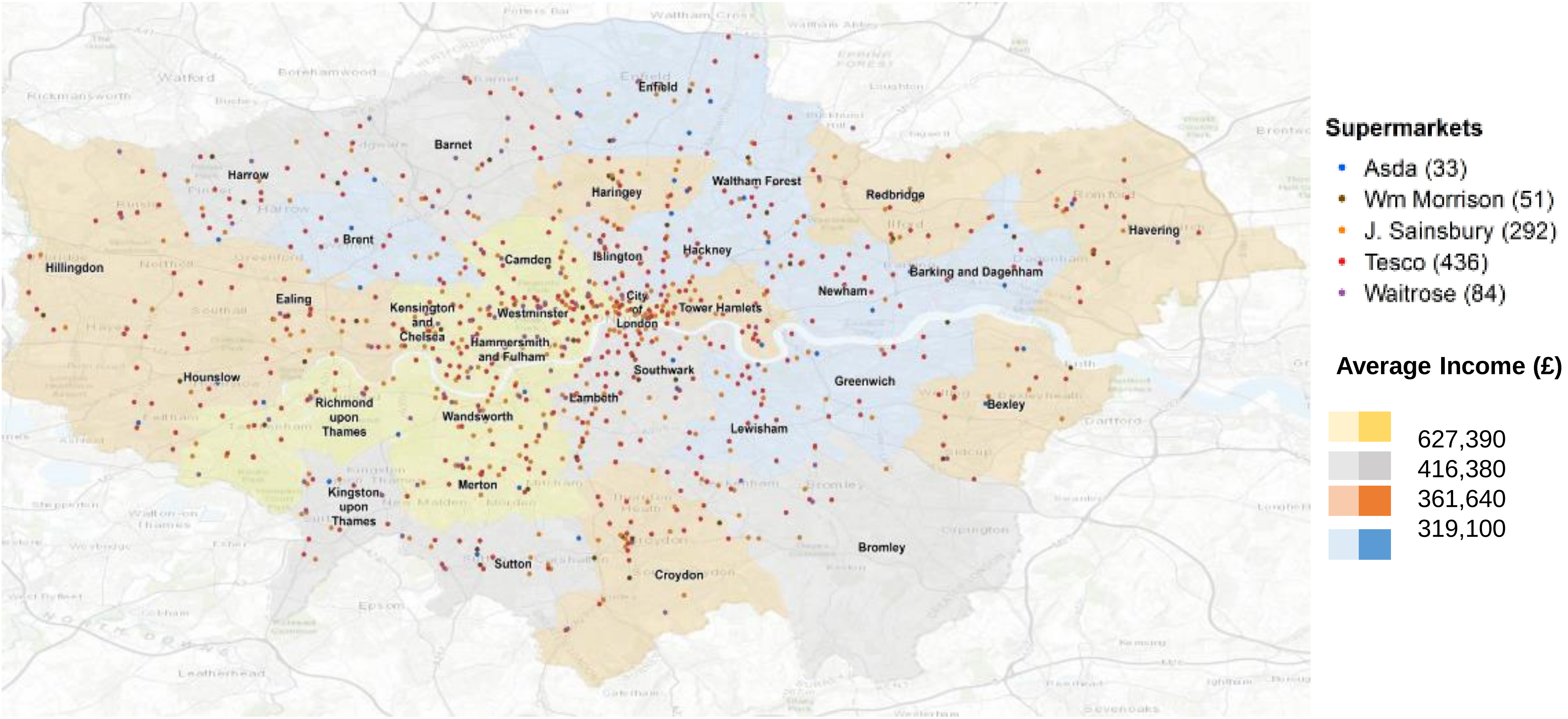




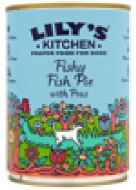
Waitrose have a specific strategy of targeting higher areas with higher average incomes:

- 49% of stores located in London's wealthiest boroughs target only 18% of the London population who earn an annual average income of £ 627,390. This makes up 26% of London's wealth. The other 51% stores target 82% of the population with a lower average income.
- Tesco's and Morrison's have a more equal retail distribution network in London while Asda have 72% of their stores in the lower and mid to lower income range, but target 56% of the London population.

SUPERMARKET DISTRIBUTION London



PRODUCT SNAPSHOT

	Type	Meat	Vegetable	Supplements	Price (Pounds)	Weight (Kg)	Excluded Products
	Wet	Beef Lamb	Parsnip Carrot Peas Potato Aniseed	Prebiotics FOS Prebiotics MOS	1	6.67	Grain Artificial color Preservatives Artificial ingredients
	Wet	Salmon Trout	Green beans Carrot Broccoli Potato Spinach Dill	Prebiotics FOS Prebiotics MOS	1	6.67	Grain Artificial color Preservatives Artificial ingredients
	Wet	Lamb Duck	Potato Green bean Parsnip Carrot Fennel	Prebiotics FOS Prebiotics MOS	1	6.67	Grain Artificial color Preservatives Artificial ingredients
	Wet	Chicken Duck	Green Bean Carrot Broccoli Potato Peppermint Parsley	Prebiotics FOS Prebiotics MOS	1	6.67	Grain Artificial color Preservatives Artificial ingredients
	Wet	Turkey Game Beef	Butternut squash Apple Blueberry Cranberry Rosemary Green Tea	Prebiotics FOS Prebiotics MOS	1	6.67	Grain Artificial color Preservatives Artificial ingredients
	Wet	Salmon Turkey Herring	Potato Carrot Peas Spelt Alfalfa	Omega 3 Omega 6 Vitamin D Vitamin E zinc	2.25	5.63	Grain Artificial color Preservatives Artificial ingredients

London

	Type	Meat	Vegetable	Supplements	Price (Pounds)	Weight (Kg)	Excluded Products
	Wet	Beef	Potato Carrot Apple Green bean Broccoli Flaxseed	Vitamin D3 Vitamin E Zinc Selenium	2.25	5.63	Grain Soya Wheat GMO Artificial color Rendered meat Filler & Jelly Artificial ingredients
	Wet	Lamb	Squash Apple Brown rice Carrot Blueberry Barley Broccoli	Vitamin D3 Vitamin E Zinc	2.25	5.63	Grain Soya Wheat GMO Artificial color Rendered meat Filler & Jelly Artificial ingredients
	Wet	Venison Pheasant Salmon	Potato Butternut squash green bean apple hemp oil	Vitamin D3 Vitamin E Zinc Omega 3 Omega 6	2.25	5.63	Grain Soya Wheat GMO Artificial color Rendered meat Filler & Jelly Artificial ingredients
	Dry	Lamb	Potato Sweet potato Lentil Linseed Peas Apple Carrot Spinach	Vitamin A Vitamin D Vitamin E Glucosamine Prebiotics FOS Prebiotics MOS Omega 3 Omega 6	7	7	Grain Meat meal Dried meat By-product Artificial filler Artificial additives

PRODUCT SNAPSHOT

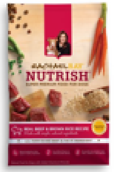
London

	Type	Meat	Vegetable	Supplements	Price (Pounds)	Weight (Kg)	Excluded Products
	Dry	Chicken Chicken meat meal Fish meal	Rice Maize Whole dried egg Beet pulp refined chicken oil	Glucosamine Prebiotics FOS Prebiotics MOS Omega 3 Omega 6	8.99	4.5	
	Dry	Chicken Chicken meat meal	Rice Maize Whole dried egg Beet pulp refined chicken oil	Glucosamine Prebiotics FOS Prebiotics MOS Omega 3 Omega 6	8.49	4.25	
	Dry	Dried pork pork fat	Sweet potato Potato Peas Beet pulp Lucerne	Glucosamine Chondroitin MSM Prebiotics FOS Prebiotics MOS Omega 3 Omega 6	6.97	4.55	Grain Cereal Gluten Wheat Beef Soya Artificial flavor Artificial color
	Dry	Chicken Meal Chicken Fat	Brown rice White rice Oats Beet pulp Brewer's yeast Salmon oil Seaweed oil	Glucosamine Chondroitin MSM Prebiotics FOS Prebiotics MOS Omega 3 Omega 6	6.47	3.85	Wheat Beef Soya Artificial flavor Artificial color
	Dry	Salmon Salmon meal	Sweet potato Brown rice Oats Salmon oil Potato Salmon stock	Glucosamine Chondroitin MSM Prebiotics FOS Prebiotics MOS Omega 3 Omega 6	6.47	3.85	Wheat Beef Soya Artificial flavor Artificial color
	Dry	Lamb meal Green lipped mussels Poultry fat	Whole rice Oats Barley Brown rice Lucerne Tomato	Prebiotics FOS Prebiotics MOS Omega 3	4.97	1.75	Wheat Beef Pork Dairy Soya Egg Artificial flavor Artificial color

	Type	Meat	Vegetable	Supplements	Price (Pounds)	Weight (Kg)	Excluded Products
	Wet	Duck Beef liver Dried beef	Peas Carrot Swede Apple Plum Oats Seaweed	Vitamin A Vitamin D3 Vitamin E	6.75	9.65	
	Dry	Turkey meat meal meat meal Poultry fat	Maize Porridge oats Rice Peas Beet pulp Kelp	Omega 3 Omega 6 Vitamin A Vitamin D Vitamin E	3	1.5	Dairy Artificial flavor Soya Wheat
	Dry	Salmon meal Meat meal Poultry fat	Maize Potato Barley Rice Linseed Kelp	Omega 3 Omega 6 Vitamin A Vitamin D3 Vitamin E Vitamin C	3.48	1.74	Dairy Artificial flavor Soya Wheat
	Dry	Lamb meat meal Meat meal Poultry fat	Maize Barley Rice Beet pulp	Omega 3 Omega 6 Vitamin A Vitamin D3 Vitamin E Vitamin C	3.48	1.74	Dairy Artificial flavor Artificial color Soya Wheat
	Dry	Turkey meal Meat meal Poultry fat	Maize Rice Porridge oats Beet pulp Linseed Kelp	Omega 3 Omega 6 Vitamin A Vitamin D3 Vitamin E Vitamin C	3.48	1.74	Dairy Artificial flavor Artificial color Soya Wheat
	Dry	Turkey meat meal meat meal Poultry fat	Maize Porridge oats Rice Peas Beet pulp Kelp	Omega 3 Omega 6 Vitamin A Vitamin D Vitamin E	3.48	1.74	Dairy Artificial flavor Soya Wheat

PRODUCT SNAPSHOT

New York

Pic		Type	Meat	Vegetable	Supplements	Price (USD)	Price/ lb	Excluded Products
Pure Balance		Dry	Chicken Chicken meal Poultry fat	Brown rice Brewers rice Pea protein Rice bran Beet pulp Dried egg product Oatmeal	Vitamin A Vitamin B12 Vitamin D3 Vitamin E Iron Choline Chloride Riboflavin Folic acid	32.88	1.10	Soy Wheat Corn Artificial color Artificial filler Artificial flavor Preservatives
Pure Balance		Dry	Lamb Lamb Meal Poultry fat	Brown rice Brewers rice Pea protein Dried peas Dried carrot Rice bran Beet pulp Dried egg product Oatmeal	Vitamin A Vitamin B6 Vitamin B12 Vitamin D3 Vitamin E Iron Choline Chloride Riboflavin Folic acid	38.34	1.28	Soy Wheat Corn Artificial color Artificial flavor Preservatives
Pure Balanc		Dry	Chicken Chicken meal Poultry fat	Brown rice Brewers rice Pea protein Beet pulp Rice bran Dried egg product Oat groats Flaxseed	Salt Vitamin B12 Vitamin D3 Vitamin E Iron Zinc	9.58	1.37	Soy Wheat Corn Artificial color Artificial flavor Preservatives
IAMS		Dry	Chicken Chicken meal Fish meal Chicken fat	Whole meal sorghum Whole meal barley Brewers rice Dried egg product Beet pulp Chicken flavor Carrot Tomoato	Potassium chloride Choline Chloride Vitamin B12 Vitamin D3 Vitamin E Niacin Riboflavin	25.85	1.11	Grain Soy Corn By-product meal Preservatives Artificial flavor Artificial color
Rachael Ray Nutr			Beef Chicken meal Poultry fat	Ground rice Brown rice Soybean meal Whole grain corn Corn gluten meal Beet pulp Chicken flavor Dried peas Dried carrot	Dicalcium phosphate Calcium carbonate Salt Vitamin A Vitamin B12 Vitamin D3	29.52	1.29	Preservatives Artificial flavor Artificial filler Poultry by-product meal Wheat Wheat gluten
Rachael Ray Nutr			Turkey Turkey meal Chicken meal Poultry fat	Dried peas Tapioca starch Whole dry potato Beet pulp Flaxseed Chicken flavor	Calcium carbonate Salt Iron oxide Zinc sulfate Vitamin A Vitamin B12 Vitamin D3 Vitamin E	22.98	1.64	Grain Gluten Artificial color Artificial flavor Artificial filler Poultry by-product meal Preservatives
Rachael Ray Nutr			Salmon Salmon meal Fish meal Poultry fat	Sweet potato Dried whole potato Tapioca Dried peas Beet pulp Flaxseed Pea protein Chicken flavor	Calcium carbonate Salt Iron oxide Zinc sulfate Vitamin A Vitamin B12 Vitamin D3 Vitamin E	22.98	1.92	Grain Gluten Artificial color Artificial flavor Artificial filler Poultry by-product meal Preservatives
Rachael Ray Nutr			Beef Beef meal Chicken meal Poultry fat Bison Fish meal	Dried peas Whole dried potato Pea protein Pea flour Tapioca Flaxseed Gelatin Natural flavor	Potassium chloride Choline Chloride Vitamin A Vitamin B12 Vitamin D3 Vitamin E	22.98	2.09	Grain Gluten Artificial color Artificial flavor Artificial filler Poultry by-product meal Preservatives

PRODUCT SNAPSHOT

New York

		Type	Meat	Vegetable	Supplements	Excluded Products
Castor & Pollux		Dry	Chicken Chicken meal Chicken fat Salmon meal	Peas Barley Brown rice Millet Pea protein Flaxseed Natural flavor Dried egg product	Vitamin A Vitamin B12 Vitamin D3 Vitamin E	Chemical perticides Synthetic fertilizer Artificial preservitives Added growth hormones Antibiotics
Castor & Pollux		Dry	Chicken Chicken meal Chicken fat Salmon meal	Peas Barley Brown rice Millet Pea protein Flaxseed Natural flavor Dried egg product	Vitamin A Vitamin B12 Vitamin D3 Vitamin E	Corn Wheat Soy Chemical perticides Synthetic fertilizer Artificial preservitives Added growth hormones Antibiotics
Castor & Pollux		Wet	Turkey Chicken Chicken liver	Pea protein Carrot Sweet potato Pea flour	Vitamin A Vitamin B12 Vitamin D3	Chemical perticides Synthetic fertilizer Artificial preservitives Added growth hormones Antibiotics
Castor & Pollux		Wet	Chicken Chicken liver	Pea protein Carrot Sweet potato Peas	Vitamin A Vitamin B12 Vitamin D3	Chemical perticides Synthetic fertilizer Artificial preservitives Added growth hormones Antibiotics
Castor & Pollux		Wet	Turkey Chicken Chicken liver	Pea protein Peas Pea flour Potato Apple	Vitamin A Vitamin B12 Vitamin D3	Chemical perticides Synthetic fertilizer Artificial preservitives Added growth hormones Antibiotics
Castor & Pollux		Wet	Chicken Chicken liver	Potato Pea protein Peas Dried spinach	Vitamin A Vitamin B12 Vitamin D3	Chemical perticides Synthetic fertilizer Artificial preservitives Added growth hormones Antibiotics
Castor & Pollux		Wet	Chicken Chicken liver	Pea protein Potato Carrot Apple Peas	Vitamin A Vitamin B12 Vitamin D3	Chemical perticides Synthetic fertilizer Artificial preservitives Added growth hormones Antibiotics
Simply Natural		Dry	Beef Beef meal Chicken fat	Garbanzo bean Peas Tapioca flour Pea flour Natural flavor Carrot Bell pepper Tomato	Salt Vitamin A Vitamin B12 Vitamin D3 Riboflavin	Corn Wheat Soy Potato Grain Gluten Animal by-product meal

Luvsome		Dry	Beef meal Chicken meal Animal fat	Whole grain corn Whole wheat Corn gluten meal Natural flavor Brewers rice Oat meal Barley	Vitamin A Vitamin B12 Vitamin D3 Vitamin E	Artificial flavor
Purnia Dog Chow		Dry	Chicken By-product meal Animal fat Chicken	Whole grain corn Corn gluten meal Soybean meal Whole grain wheat Brewers rice Natural flavor	Vitamin A Vitamin B12 Vitamin D3	Preservatives Artificial flavor Artificial color
Purina		Dry	Chicken Dried chicken protein Poultry fat	Cereal Oat groats Barley Rice Dried carrot Dried pea	Vitamin A Vitamin D3 Vitamin E	Wheat Artificial color Artificial flavor
Purina		Dry	Lamb Dried lamb protein Dried chicken protein Poultry fat	Cereal Oat groats Barley Rice	Vitamin A Vitamin D3 Vitamin E	Wheat Artificial color Artificial flavor
Purina		Dry	Salmon Dried salmon protein Dried chicken protein Poultry fat	Cereal Oat groats Barley Rice Dried beet pulp Dried sweet potato	Omega 3 Omega 6 Vitamin A Vitamin D3 Vitamin E	Wheat Artificial color Artificial flavor
Rachael Ray Nutrish		Wet	Chicken broth Chicken	Dried egg product Pea protein Tapioca Sweet potato Green bean Pineapple Natural flavor	Salt Pottasium chloride Choline chloride Vitamin A Vitamin B12 Vitamin D3 Vitamin E	Corn Wheat Soy Gluten Artificial flavor Artificial filler Poultry by-product meal Preservatives
Rachael Ray Nutrish		Wet	Beef broth Beef broth Chicken	Dried egg product Pea protein Natural flavor Tapioca Potato Carrot Green peas	Salt Pottasium chloride Choline chloride Vitamin A Vitamin B12 Vitamin D3 Vitamin E	Corn Wheat Soy Gluten Artificial flavor Artificial filler Poultry by-product meal Preservatives

PRODUCT SNAPSHOT

China - e-commerce

Brand	Pic	Type	Meat	Price/k'g	Excluded Products
Pure&Nature		Dry	Chicken	79.8	Artificial color Artificial flavor
Pure&Nature		Dry	Lamb	49.9	Artificial color Artificial flavor Grain
Schnauzer		Dry	Beef	38.4	By-product meal Preservatives Artificial flavor Artificial color
Purina		Dry	Beef	16.6	Artificial flavor Artificial color
Norris		Dry	Beef	6.6	Artificial flavor Artificial color

Brand	Pic	Type	Meat	Price/k'g	Excluded Products
e-Weita		Dry	Chicken	58.1	Grain Artificial color Artificial flavor Artificial filler Poultry by-product meal Preservatives
Royal Canin		Dry	Chicken	198	Grain Artificial color Artificial flavor Artificial filler Poultry by-product meal Preservatives Soy
Metz		Wet	Chicken	111.7647	
Navarch			Chicken	39.6	Grain Artificial color Artificial flavor

PRODUCT SNAPSHOT

China - e-commerce

Brand	Pic	Type	Meat	Price/k'g	Excluded Products
Purich			Chicken	66	Grain Artificial color Artificial flavor Artificial filler Poultry by-product meal Preservatives Soy Gluten
Bridge			Chicken	56	Grain Artificial color Artificial flavor Artificial filler Poultry by-product meal Preservatives
Prominent			Beef	30	Artificial color Artificial flavor
Norris			Chicken	13.2	Artificial color Artificial flavor

Brand	Pic	Type	Meat	Price/k'g	Excluded Products
Roy Canin			Chicken	47	Grain Artificial color Artificial flavor Artificial filler Poultry by-product meal Preservatives
Iris			Beef	27	Artificial color Artificial flavor Artificial filler Preservatives
Sabvi			Beef	40	Artificial color Artificial flavor Artificial filler Preservatives Grain

CASE STUDY e-commerce

chewy.com

Company Information

Founded:	2011 Ryan Cohen (CEO) and Michael Day (CTO)
Investment:	$50 K
Located:	Dania Beach, Florida
Monthly Users:	9.3 million
Revenue:	$30 – $40 million

Company History

In 2014, Chewy received an undisclosed amount of funding from Boston-based growth equity firm, Volition Capital. In July 2014, Chewy purchased a former Toys "R" Us warehouse and distribution center near Sparks, Nevada. The company would go on to hire former employees and executives from companies like Amazon, PetSmart, Whole Foods Market, and Wayfair. By 2015, the company employed over 1,200 staffers.

Chewy offers over 30,000 pet products, largely for dogs and cats. Its primary product is pet food, and it offers a range of options from gourmet to discount food. Other products include leashes, grooming tools, toys, strollers, and numerous others. Delivery for purchases over $49 is free. Customers can also opt for scheduled food deliveries. Orders can be placed online or by phone. A portion of all purchases is donated to no-kill animal shelters.

The company also employs artists and writers who are tasked with composing hand-written notes for all new purchases. Artists also paint detailed images of customers' pets.

CASE STUDY

Business Model Innovation

Company Information

Founded:	2015 Johnathan Regev Brett Podolsky
Investment:	$2 million (Seed Money)
Located:	New York, USA
Revenue:	Unknown

THE FARMER'S DOG

Company History

- Regev and Podolsky are both dog owners, and the idea, not surprisingly, came to them from personal experience. When Regev moved to New York two years ago, he crashed with his buddy Podolsky while searching for an apartment. At the time, Podolsky was cooking for his Rottweiler, Jada, at his vet's suggestion because of a stomach ailment. Every time he tried to switch his dog back to kibble, she got ill again. "He had this small East Village kitchen, and he was cooking for his 80-pound Rottweiler," Regev recalls. "It was insane."

- Soon, the two had become obsessed with figuring out how to make home-cooked dog food at scale. They spent the rest of 2014 testing recipes and toying with the idea of starting a business to do so. “When we discovered we could have a salary doing this, it was a dream,” says Regev, a graduate of the University of California Haas School of Business. “We had to pursue it.”

Market Position

- A direct-to-consumer subscription-based meal delivery service where owners complete an online questionnaire (age, breed, size, activity level, allergies, preferences) for a customised vet-approved recipe which includes strictly human-grade ingredients, and is developed on the basis of a propriety algorithm. Ingredients use proteins (turkey, beef, pork), and nutrient-rich ingredients like root vegetables, fish oil, and leafy greens.
- If the dog doesn’t like the recipe, the consumer can send back remaining packs for a new mix.
- Meals run an average of $29 a week with the exact cost based on size and activity level – but they have a waitlist of customers.
- The meals are cooked, bagged, frozen, labelled with your information, and sent to the consumer in at least two week instalments within days of creation, in an insulated box.
- It is never deep frozen, and it never sits on a shelf.
- Customer service reps will check in with the consumer to monitor your dog's progress so serving sizes can be adjusted accordingly if your dog is gaining or losing weight.
- Unwanted food is donated to a shelter and DIY recipes are on the website.

CASE STUDY

Business Model Innovation

Company Information

Founded: 2014
James Davidson, CEO
Graham Bosher
Joe Inglis

Investment: £5 million (Angel Investors, Friends and Family)

Located: Richmond, United Kingdom

Revenue: £2 million (2016)

Company History

- The brain-child of entrepreneur Graham Bosher (Grace, the Snack Company) and Veterinarian Joe Inglis (Veterinarian)

Market Position

- Creates individually tailored meals from its warehouse in Heathrow with a proprietary algorithm. This tailors the vitamins and nutrients in a kibble mixes to each dog.
- Can create and deliver over one million unique combinations to its 40,000 customers' homes.
- Given the high reliance on automation, no ingredient premiumisation instead relying on production efficiency
- Strong level of online advocacy and consumer following: over 91% of more than 5,600 reviews have given them a rating of 5/5.
- "We are trying to help people's dogs live longer. We mix three types of kibble [dry feed] for our customers to personalise the best vitamins and nutrients for an individual pet. We have enough kibbles to make over one million different combinations"

CASE STUDY

New Entrant

Company Information

Founded:	2008 Henrietta Morrison (CEO)
Investment:	£150,000 (personal capital)
Located:	Vale of Heath, London
Revenue:	£20 – £30 million

Company History

Concerned about her border terroir Lily’s recurring skin problems and loss of appetite, Morrison begun making meals using fresh ingredients from her local supermarket. After starting the new diet Lily’s health improved which inspired Morrison said. After talking to herbalists, nutritionists and a holistic vet, she felt she had enough evidence of the benefits of her posh pet food to start a business. She launched Lily’s Kitchen in 2008 with £150,000 raised from savings and re-mortgaging her home.

Market Position

- Using only freshly prepared meat and offal, fruit and vegetables, with no unnecessary additives.
- Nearly all of Lily’s Kitchen packaging is recyclable and the dry food bags and treat boxes are also compostable.
- Only water or vegetable-based inks are used for printing packaging and brochures, to help minimise environmental impact from waste and toxicity.
- Lily’s Kitchen does not produce its food in foil pouches, despite many requests from retailers, as these do not break down and generally go straight into landfill. Instead, Lily’s Kitchen uses aluminium trays which can be recycled once the stickers are removed.
- Lily’s Kitchen measures its carbon footprint using measurement platform Carbon Analytics. Its carbon footprint is around 40% lower than the industry average.
- In 2016 it gave away 653,488 meals to over 100 animal rescue centres as part of its Dinner’s On Us Campaign.
- All of Lily’s Kitchen’s significant suppliers (including packaging suppliers) take part in an annual sustainability survey where they gain information on their measurement of energy and water usage, emissions, waste and recycling.

Market Entry Strategy

2010 – 2011: Market Entry

- *Motivation*: Mass produced premium dog food wasn't providing adequate nutrients for small dogs. Proportion of small dog ownership in the UK has steadily grown over the last five years. Lily's Kitchen owner: One in three canines is obese because they are eating the wrong food.
- *Promotion*: Dog diners (dogs eat free with owners), pop up shops
- *Products*: Premium, chemical-free, vet-approved recipes, using only natural and organic produce. All ingredients are continually sourced from 'responsible' farmers and producers. The winning holistic pet brand caters for all pet needs including dairy requirements and allergies.
- *Sales channels*: Initial focus on veterinary surgeries, Waitrose, and Ocado

2012 – 2013: Market consolidation

- *Market commentary from company:* "66 per cent of pet owners will spend the same amount, or even more, on their pet than they would on a partner".
- *Sales channels:* Harrods, Waitrose, Ocado, on line and from vets and more than 400 independent pet food shops and organic food outlets.
- *Products*: Dry dog food, introduced dog food cereal
- *Sales revenue*: 3 million pounds in 2012
- *Controlled growth*: The meats in our trays come from 75 different producers, so we spent a long time working with small organic shops. We built up a loyal customer base and Waitrose has just taken on 14 lines in 212 stores, which is a huge deal for us.
- *Environmental friendly*: All packaging is recyclable. Only pet company to have recyclable dry food bags. They're expensive and very difficult to produce; only one factory in the world makes them.
- *Logistics*: Two warehouses established (Kentish Town and Norwich)

2014 – 2015

- *2015 Sales revenue* - 20 million pounds
- *Market commentary from company:* Consumers find it cheaper to buy premium single-serve products as there is no wastage. Larger sized servings can go off once refrigerated (owners have small pets). Also, owners in Manchester buy the most health supplements for their dogs while there is a focus of high end premium organic food in London
- *Relationship management*: Established relationships with high end London restaurants - Bluebird - and offered free dog food at Hamstead restaurant week
- *Promotion:* Dog's eat free with the purchase of a human meal at The Wells, The Holly Bush and The Horseshoe all day during Hampstead Restaurant Week
- *Competition emerges*: Nutriment, Venison for Pets, and Angell Petco.
- *New product developed*: Snackbars for dogs
- *Shareholding*: Several million pound investment by private equity backer Catterton a leading American consumer-focused private equity group.
- *Sales channels (expansion)* - now available nationwide in Waitrose, Tesco and Ocado as well as in Wholefoods, vet surgeries, organic health food shops and pet shops.
- *Recognition* - UK's Number One Ethical Pet Food Company since launch. Only company to achieve a 100 per cent score in the Ethical Good Shopping Guide. B Corp Status - standards of social and environmental performance, accountability, and transparency.

2016

- *Market commentary from company:* "People are taking an active care and interest in what they're feeding their animals. Growing interest in hypoallergenic and grain-free foods that are said to be more gentle on an animal's stomach."
- *Products:* Relaunched entire dry dog food range (new packaging and some new recipes), Recipes have high meat content of 60-65%. Recipes are enhanced with *the brand's signature blend of 14 botanical herbs*
- *Recognition*: Lily's kitchen range included in Queens Awards for innovation - a category for creating all-natural, grain-free recipes for pets.
- *Expansion*: End of 2016 expanded into Paris, France accompanied by the investment fund L Capital.

Innovation Case Study

KickStarters

- Crowdfunding platform Kickstarter is a potential bellwether for untested consumer demand. Projects which get funded, and the level of funding received are a good indication that consumer demand for a product exists.
- Since 2014 there have been 53 Dog food kickstarters. Of these, 3 were funded, and 1 has become a successful product.
- The successful product, FedWell, offers two products, mainly for the Boston area but with some stockists in Connecticut and New York.
- The original kickstarter sought $20K to develop a small-batch petfood and was marketed carefully to engage Boston residents. The campaign narrative focused on a dog called Fenway, and his owner who developed a healthier food when Fenway was ill.
- FedWell food is oven baked at low temperatures to maintain its nutritional value and flavour, an innovation that's not widespread in the industry.
- "There are no secrets about what we're doing or why," said Lagasse. "Think of your own diet: The less processed foods, the better you're going to feel.“
- The narrative was backed up with a broad and engaging social media campaign, and good incentives for product backers.

Project Name	Country	Date	Status	Funding
Marley's Gnarly Canine Cookies	USA	Jan-17	Unsuccessful	
DOGG DISH	USA	Jan-17	Unsuccessful	
Tipsy Tails Pet Wine	UK	Dec-16	Unsuccessful	
Shape-and-Bake Cookie Dough for Homemade Dog Treats	USA	Dec-16	Unsuccessful	
Pet Pot Pies	USA	Oct-16	Unsuccessful	
All Natural Pet Treats	USA	Aug-16	Unsuccessful	
Rkc & friend	USA	Aug-16	Unsuccessful	
Barkery. Bringing a world of health into our pets lives.	USA	Jun-16	Unsuccessful	
Sweets and Treats... A Starbarks for you and your pet.	USA	Jun-16	Unsuccessful	
Vet Vittles - A Veterinary Approach to Pet Nutrition	USA	May-16	Unsuccessful	
petit chéri - French Gourmet & Organic Pet Food	FR	May-16	Unsuccessful	
Le Petit Chien Bakery (organic, wheat free treats for pets)	CA	May-16	Unsuccessful	
Balanced Blends: Raw Pet Food Delivered To Your Home	USA	May-16	Funded	$ 5,366
Wild Side Raw Pet Treats	USA	Apr-16	Cancelled	
The Great K-9 Company: Pork Crisps Dog Treats	USA	Dec-15	Cancelled	
The Oregon Broth Company, nutritious bone broth for your pet	USA	Oct-15	Unsuccessful	
The Pet Bakery of Oakmont	USA	Oct-15	Unsuccessful	
RawFolk - BARF/PRAY Pet Food	UK	Oct-15	Unsuccessful	
100% pure chicken breast jerky treats PETS	USA	Sep-15	Unsuccessful	
Teddy & Lu: Pet food	UK	Sep-15	Unsuccessful	
Home Grown Crickets	USA	Aug-15	Unsuccessful	
WI.LD BITES	USA	Jul-15	Unsuccessful	
Odin's Kitchen - Premium Dog Foods For Your Pet	USA	Jul-15	Unsuccessful	
Mutt Waggin' Pet Food Delivery	USA	Jul-15	Unsuccessful	
K9 Confectionery Co	USA	May-15	Cancelled	
Healthy Pets Scotland	UK	May-15	Unsuccessful	
Dixie Dog	USA	Apr-15	Unsuccessful	
Daley's Doggie NOSH	USA	Apr-15	Unsuccessful	
KrazyKats Popcorn is Poppin for the Pets and You!	USA	Mar-15	Cancelled	
3 pug's gourmet treats	USA	Mar-15	Unsuccessful	
Doge Kitchen Customized Dog Treats	USA	Mar-15	Unsuccessful	
Romeo's Recipes, Handmade Dog Food	USA	Mar-15	Unsuccessful	
Snaks 5th Avenchew	USA	Mar-15	Unsuccessful	
Junkyard Bones Farm and Pit Bull Rehabilitation Center	USA	Feb-15	Cancelled	
grubbox	USA	Feb-15	Unsuccessful	
The Pet Treat Shop - Naturally Fresh Baked Treats	USA	Feb-15	Unsuccessful	
Companion PBx: Optimizing canine (dog) gut health	USA	Jan-15	Unsuccessful	
BOBBY'S BAKES	AU	Nov-14	Unsuccessful	
Fresh Food Buddies	CA	Oct-14	Unsuccessful	
Pound4pound Pet Food	USA	Oct-14	Unsuccessful	
All Natural Pet Treats	USA	Sep-14	Unsuccessful	
Fedwell Pet Foods: Convenient, Healthy & Totally Grain Free	USA	Sep-14	Funded	$ 20,563
Sweet Bone Barkery	USA	Aug-14	Unsuccessful	
Sierra & Company All Natural Pet Bakery	USA	Aug-14	Unsuccessful	
PipperTime Treats on-the-go Snack Packs for Pets	USA	Aug-14	Unsuccessful	
HavePaws Natural Pet Food	USA	Aug-14	Unsuccessful	
Vegan & Organic Ingredient Pet Treats Company	USA	Jun-14	Unsuccessful	
Organic pet treat made w/ Crickets.	USA	Apr-14	Cancelled	
Holistic Hounds | Natural Products for Pets	USA	Apr-14	Unsuccessful	
Healthy Gourmet Dog Treats	USA	Apr-14	Unsuccessful	
Keptpets, USA Jerky Treats	USA	Apr-14	Funded	$ 2,625
Sweets -N- Treats Pet Bakery and Boutique	USA	Jan-14	Cancelled	
Kennelmaster Foods All Natural Doggie Chicken Chips	USA	Jun-13	Unsuccessful	

Attributes

Protein (min): 22%
Fat: (min): 9%
Fiber (max): 5%
Moisture (max): 10%

Pricing

5 Lb - $36.99
13 Lb - $74.99
25 Lb – $98.99

Ingredients

Lamb, Lentils, Chickpeas, Sweet Potato, Flax, Salmon, Ground Crab Shell, Ground Pumpkin Seed, Coconut Oil, Salt, Kelp, Spinach, Broccoli, Carrot, Beet, Tomato, Shitake Mushroom, Apple, Cranberry, Cherry, Orange, Strawberry, Rosemary Extract

Product Description

Our lamb recipe is a house favorite. Made with lamb from New Zealand (and the US when we can get our hands on it!), our lamb recipe was our flagship product, and one we're still proud to call our best-seller. Based on the homemade recipes of our founder, our Lamb dog food is packed with vital nutrients, and big on flavor! We boast an ingredient label that makes us the best natural dog food, and once your dog gets a taste, we're sure he'll agree. Dogs love Fedwell because it's made with real food ingredients, and they can tell. We've been winning wags of approval with every bag since day one!

Attributes

Protein (min): 22%
Fat: (min): 9%
Fiber (max): 5%
Moisture (max): 10%

Pricing

5 Lb - $32.99
13 Lb - $69.99
25 Lb – $92.99

Ingredients

Chicken, Lentils, Chickpeas, Sweet Potato, Flax, Salmon, Ground Crab Shell, Ground Pumpkin Seed, Coconut Oil, Salt, Kelp, Spinach, Broccoli, Carrot, Beet, Tomato, Shitake Mushroom, Apple, Blueberry, Cranberry, Cherry, Orange, Strawberry, Rosemary Extract

Product Description

Your pup is sure to go wild over our chicken dog food made with high-quality, chicken, fruits, and veggies. Fedwell is gently baked at low temperatures to retain nutrients and flavor. Chicken is an excellent source of protein, amino acids, and B vitamins. When you pair that with a selection of the healthiest fruits and vegetables it makes for a complete and balanced diet your dog will go crazy for. Fedwell makes the world's best natural dog food, and when you look at our labels, you'll understand why we're proud to have that title. You won't find anything synthetic in our labels, only real foods you can pronounce and even eat yourself