



Brazil's Pet Food Market: From Underdog to Upperdog

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Madalena Spinazzola
Strategic Planning Manager
PremieR Pet

Our agenda for today!

- 🐾 Brazil: Country Facts
Evolution of social and economic environment
- 🐾 How the changes in the socio-economic scenarios influence people's relationship with pets and respective care habits
- 🐾 Brazil's pet food market profile
- 🐾 Challenges and Trends



Brazil



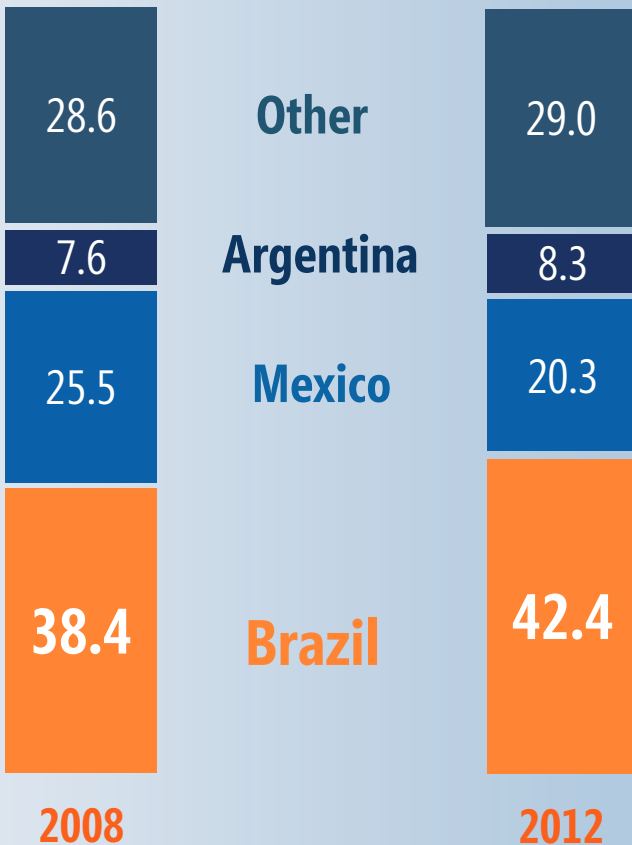
**Much more than
Samba, Beach and Soccer!
The new land of opportunities**

A big country with the 5th largest population



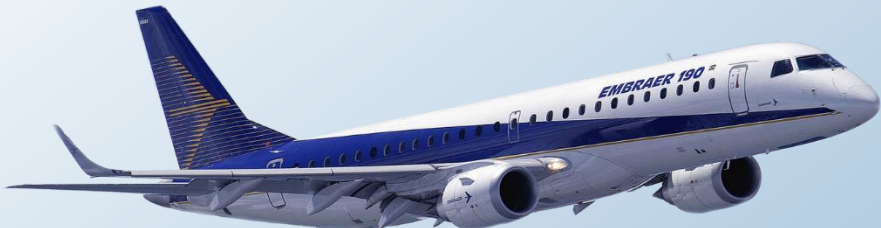
... a leading economic role in Latam!

% of total Latam GDP



... highlighted by many successes!

- ④ 3rd largest aircraft manufacturer
- ④ 4th largest food producer (after China, India, USA) with much smaller population and \$ 77 BI in exports
- ④ 2nd in soy, 1st in oranges, 3rd in corn, 2nd in beef
- ④ 61% of land are preserved native forests (England: 1%)



Although wealth is concentrated geographically...



58% of income
is concentrated
in **4** states

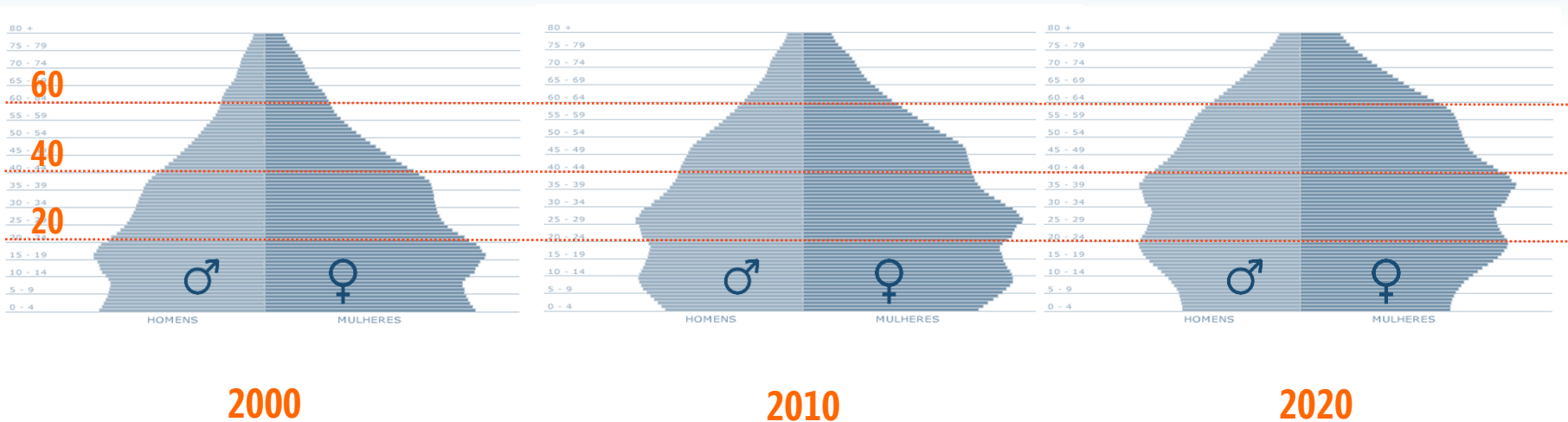
Population by Region (MM)

South	SE	Central	NE	North
27.4	80.4	14.0	53.1	15.9

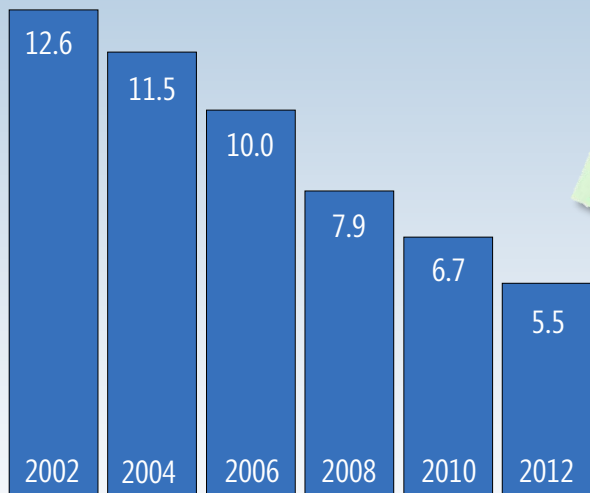


Population profile is getting closer to developed countries

More economically active people
Higher life expectancy
Dramatic fall in birth rates



People have more Money in the Pocket!



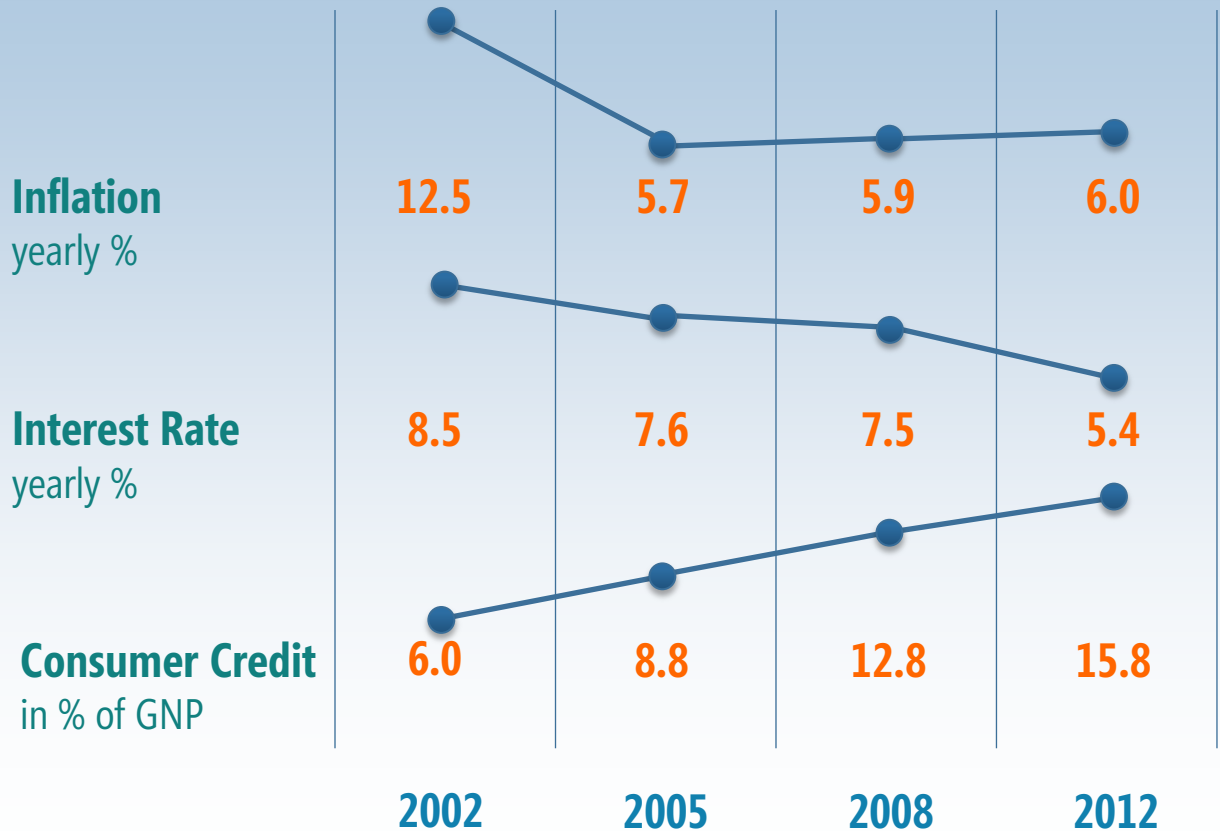
Less Unemployment
% of active population



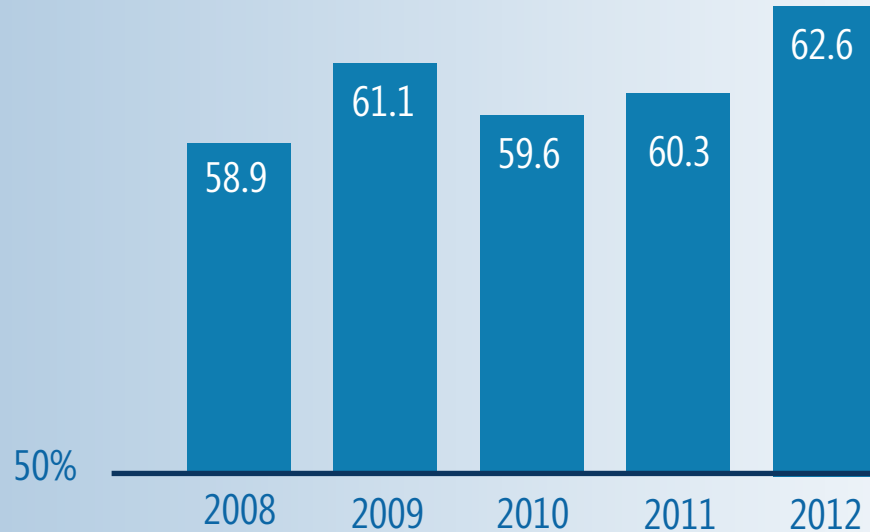
More Income
minimum wage in US\$



Credit availability led to a prosperity mindset...



...as a result, families are buying more!



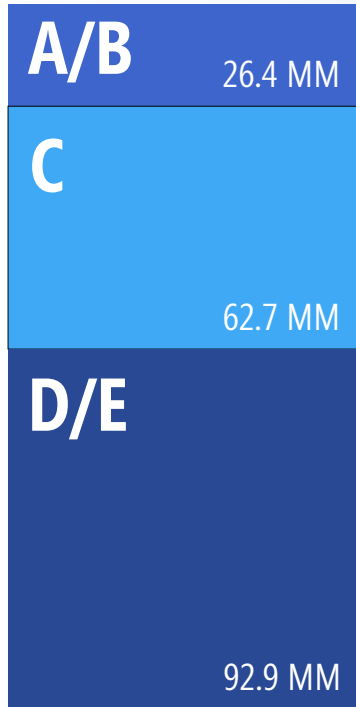
Household Consumption
as % of GDP



IBGE
yearly data



HH expenditures increase led by the growing middle class!



2005



2010



**Those who please the C class,
will dominate the market!**

Social behavior trends are also changing...

Fewer people per HH: **13,2%** decrease in 10 years



- 🐾 More childless couples: from **13,8%** in 2001 to **18,5%** in 2012
- 🐾 Couples are delaying having children & having fewer children
- 🐾 People getting older and living alone

Current economic situation and social behavior deeply influence the dynamics of pet ownership and care.

Demographic :

Childless couples

Only child

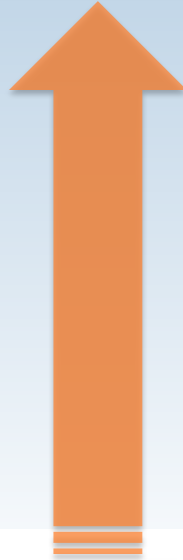
Older people

Economic :

Prosperity mindset

Consumption

Employment/ income/credit



Pets are becoming family members

- 🐾 Only child
- 🐾 Childless couples
- 🐾 Elders alone
- 🐾 People living alone

sibling/best friend
child
companion
protector



with expensive habits & tastes!

- 🐾 Dog Spa
- 🐾 Hotels for pets
- 🐾 Pet hospitals
- 🐾 Fashion accessories for pets
- 🐾 Birthday parties
- 🐾 Premium & Super Premium Pet Food



BRAZIL


A Passion for Pets



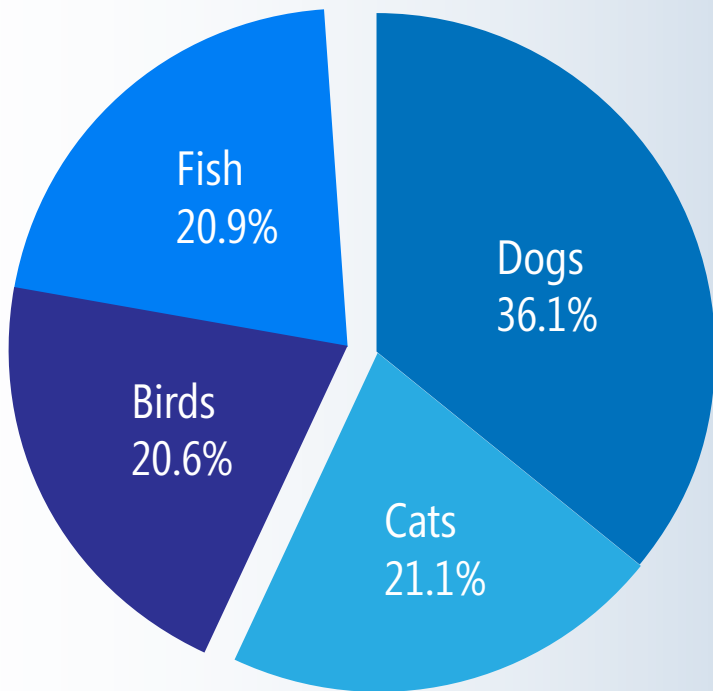
Almost 100 MM pets and growing!



4th largest pet population in the world

 Euromonitor, Brazil pet population 2007 to 2012 (000)
Cats, dogs, birds, fish, small mammals, reptiles

Today we will focus on dogs and cats!



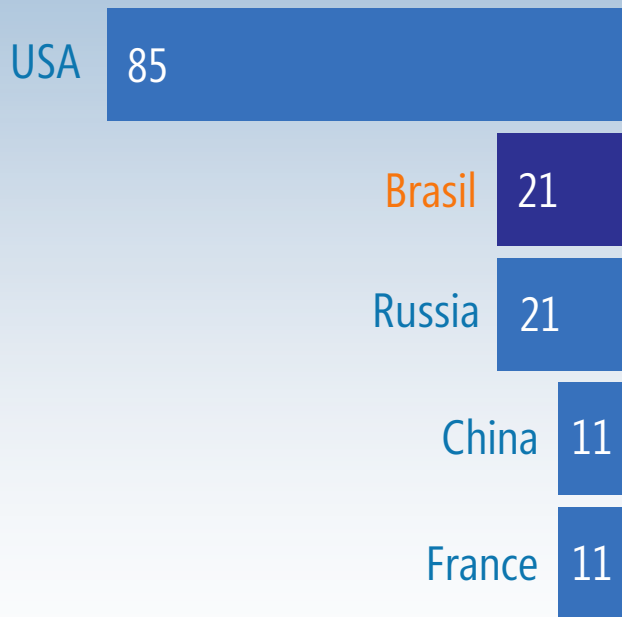
57%



Euromonitor, Brazil pet population
000 of animals

We have the 2nd largest Cats & Dogs population!

Cats



2nd

Dogs



Half of all HH have at least 1 pet!

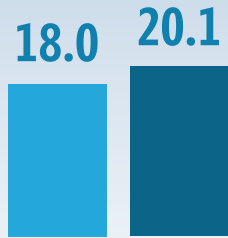


- 🐾 46% of HHs have at least one pet
- 🐾 50% of all cats and dogs are in **C** class HHs



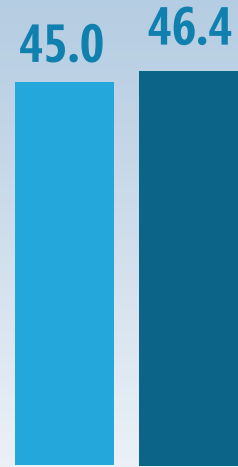
Number of HHs with dogs and cats increasing

From 2007 to 2012



Cats

1.8 cats/HH



Dogs

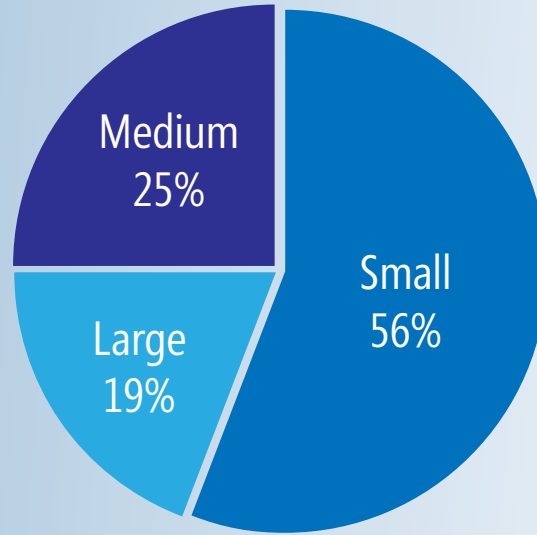
1.5 dogs/HH



among the 36MM dogs, small ones rule !



> 50 pounds

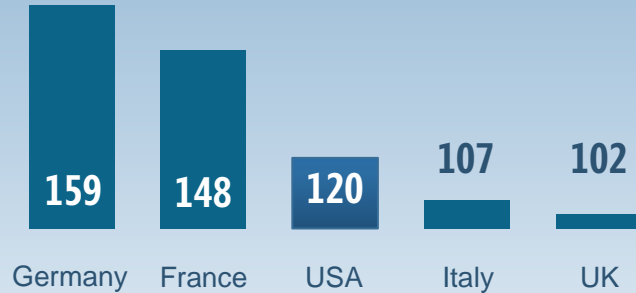


36 MM Dogs
Small places = Small dogs



< 20 pounds

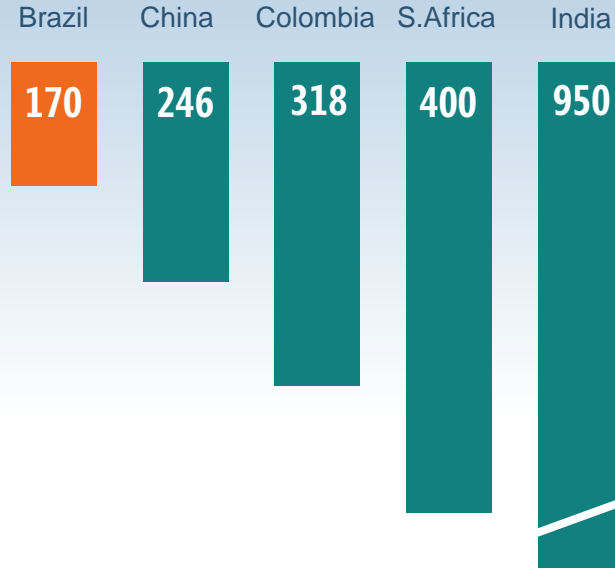
Rich countries prefer cats, right?

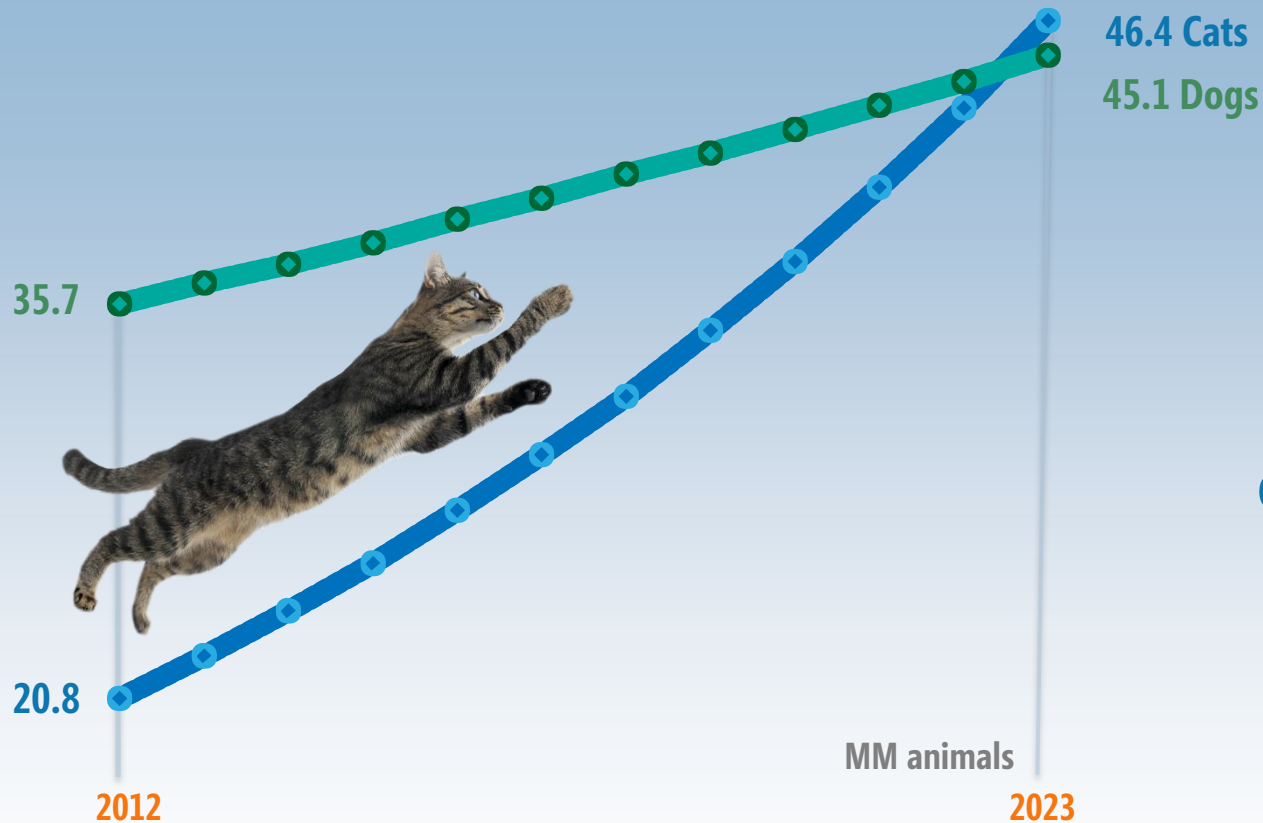


% cats/dogs



% dogs/cats





By **2023** cats will outnumber **dogs** in Brazil!



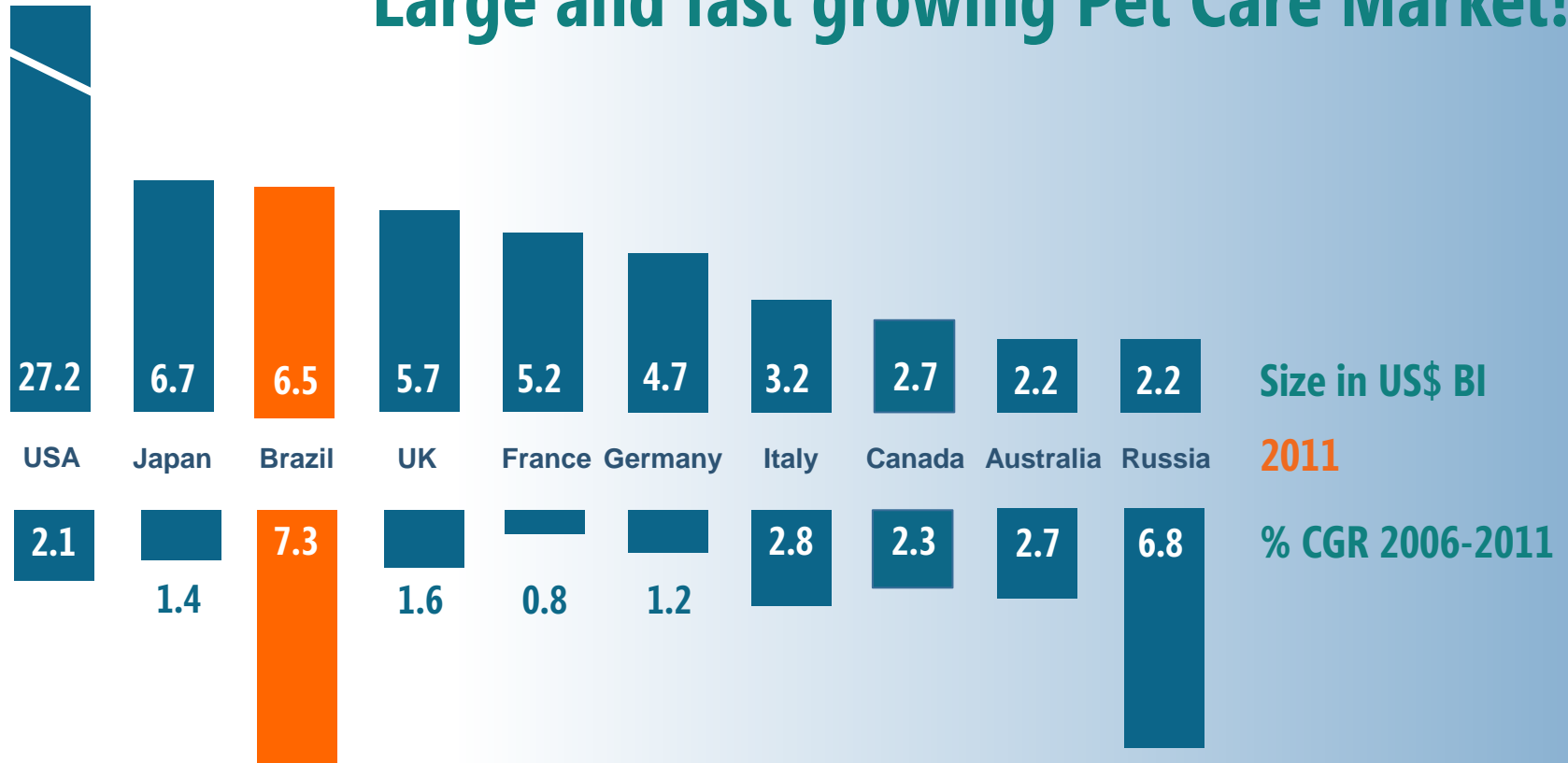
Euromonitor – Millions of animals
growth rates: dogs 2.1% - cats 7.6%

,,, well, we are getting there!

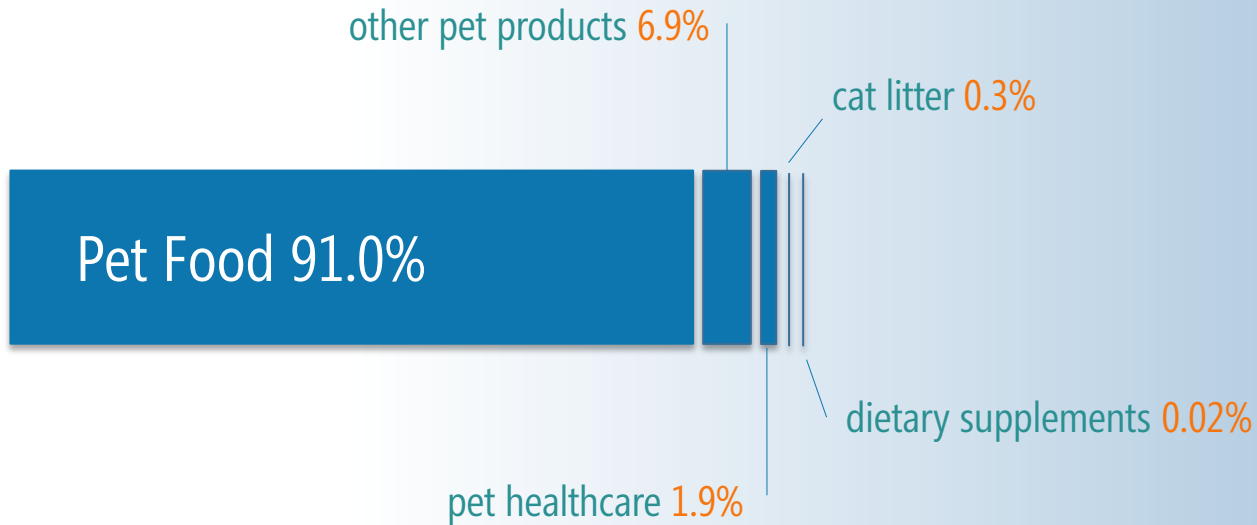
Pet Care Market



Large and fast growing Pet Care Market!

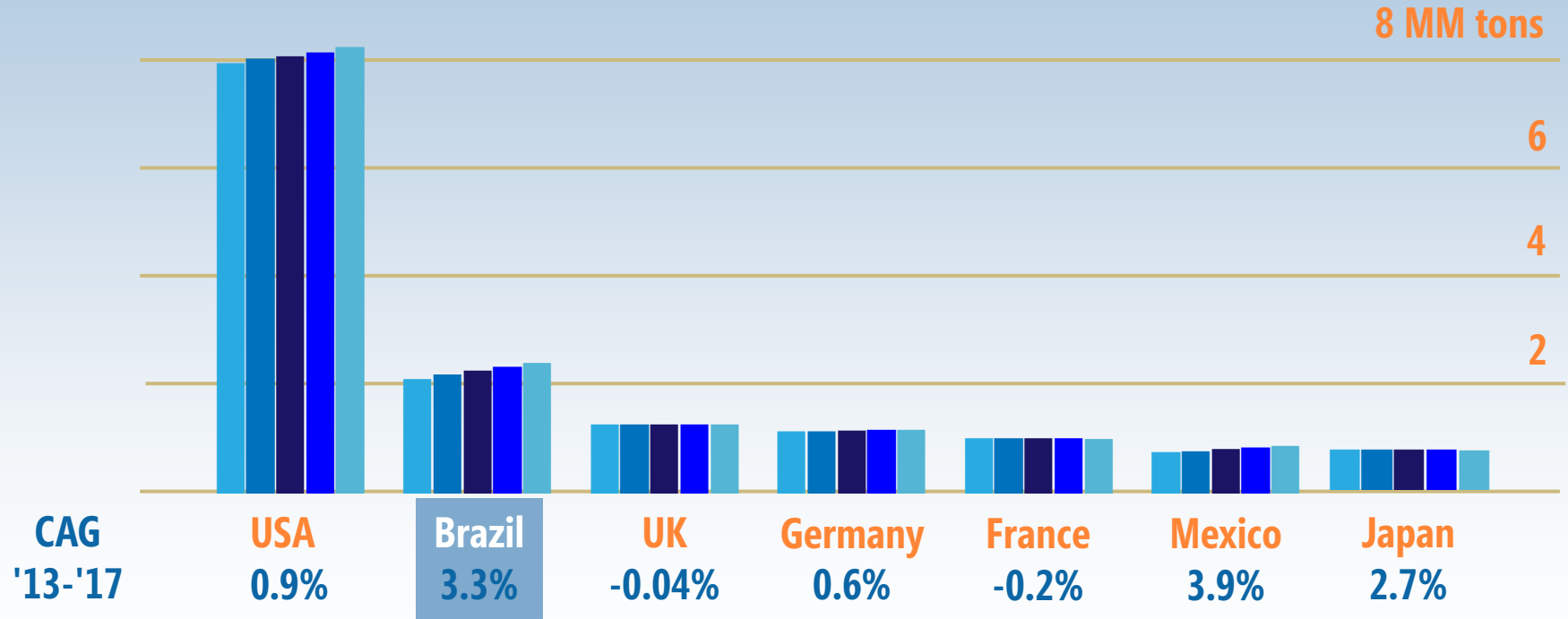


Driven by pet food, of course!

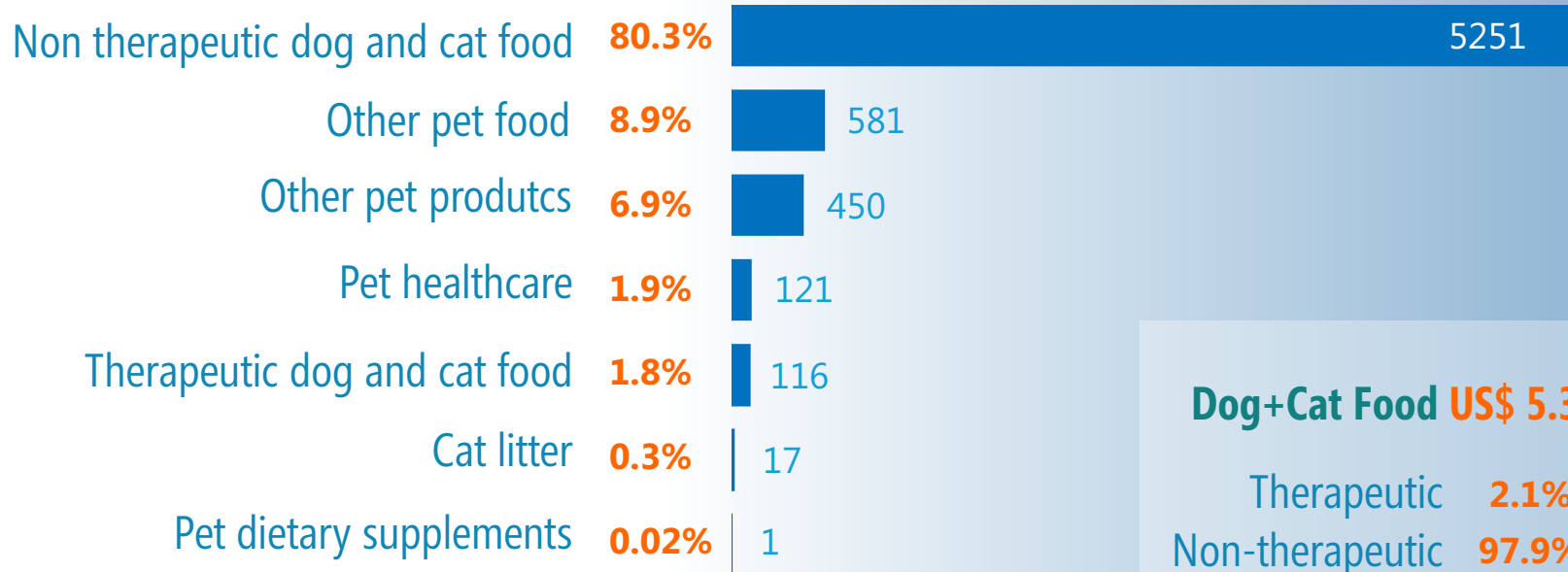


Euromonitor 2012, retail value sales
Pet care: all animals

Brazil is the second largest pet food market in volume, and will keep its position for at least the next 4 years



Dog + Cat Food represents 82.1% of total Pet Care Market

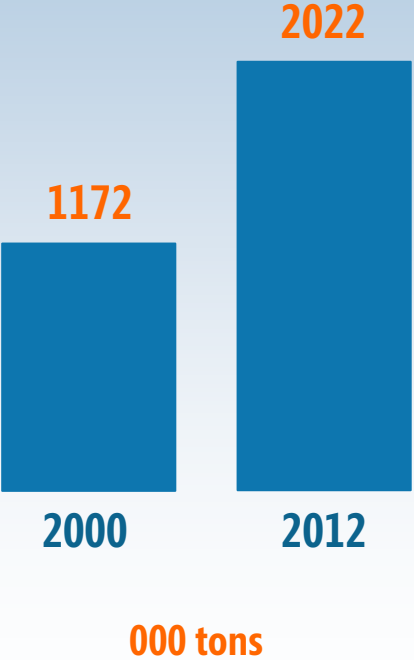


Dog+Cat Food US\$ 5.3 BI

Therapeutic 2.1%
Non-therapeutic 97.9%

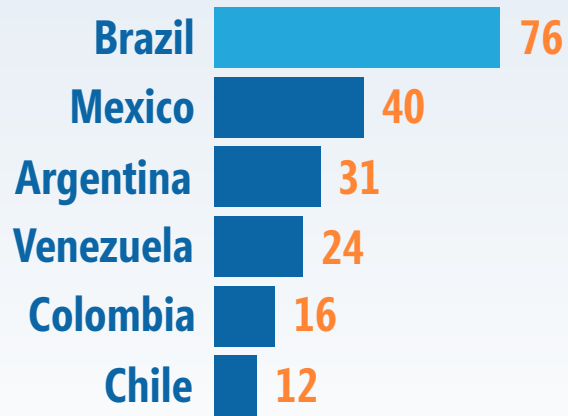


Brazil's Dog + Cat food market doubled in 12 years!



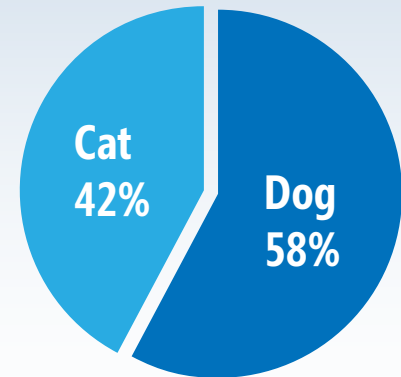
and Brazil leads LATAM on **new product** development!

2012 – Dog + Cat Food Product Launches



... although cats represent 20% of the pet population and 8 % of sales...

Product Launches 2012



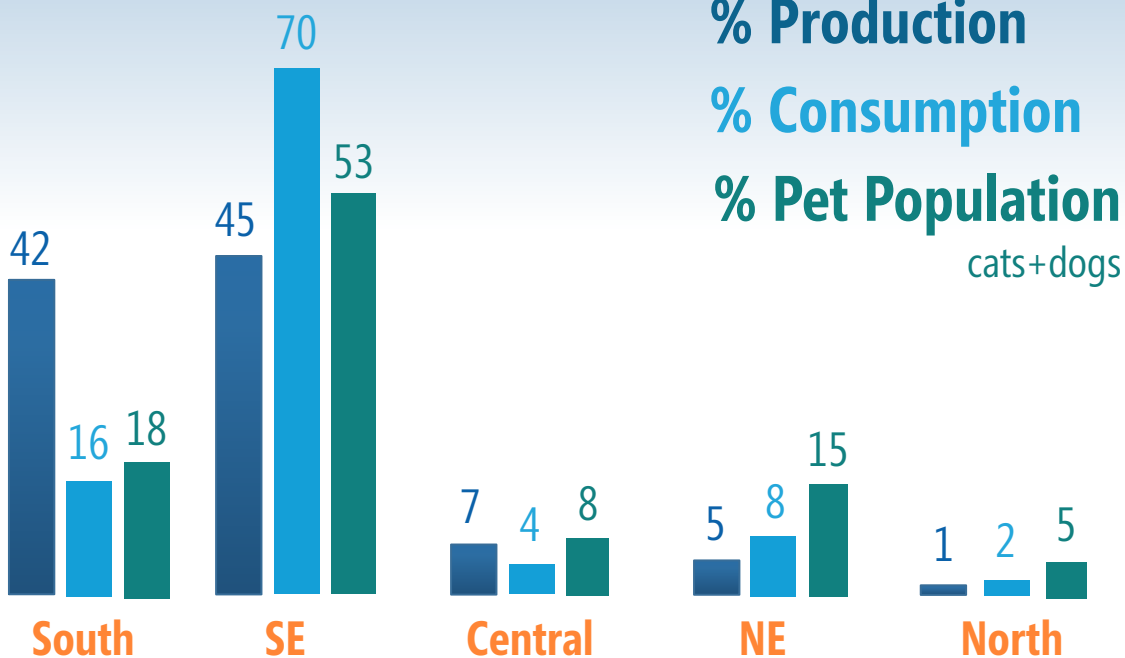
Value is concentrated in the wealthiest regions where the **production** plants are



US\$ 5.3 BI



Abinpet
IBGE
pet food





Understanding the Pet Food MKT Segmentation in Brazil

Still a very basic segmentation

Format

Wet
Dry
Treat



Price

Super-Premium
Premium
Economy



Health

Therapeutic
Non-therapeutic



In Brazil dry food is the chosen alternative

Brazil



1%

Treat

15%

1%

Wet

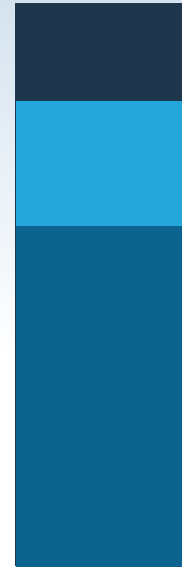
23%

97%

Dry

62%

USA



...due to cost and storage advantages

- 🐾 Wet is...
 - \$\$\$ to feed dog
 - \$\$\$\$\$ to feed cat
- 🐾 Longer shelf-life and no need to refrigerate after opened
- 🐾 Firmer droppings



Although small, "Treats" is a fast growing premium segment!

Cats

Vol=**7%**

Value=**16%**

Dogs

Vol=**27%**

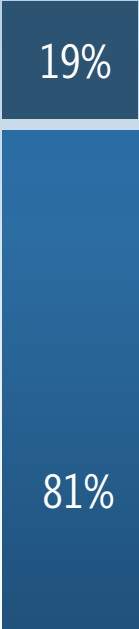
Value=**35%**



The premium pet food segment is still small...



Brazil



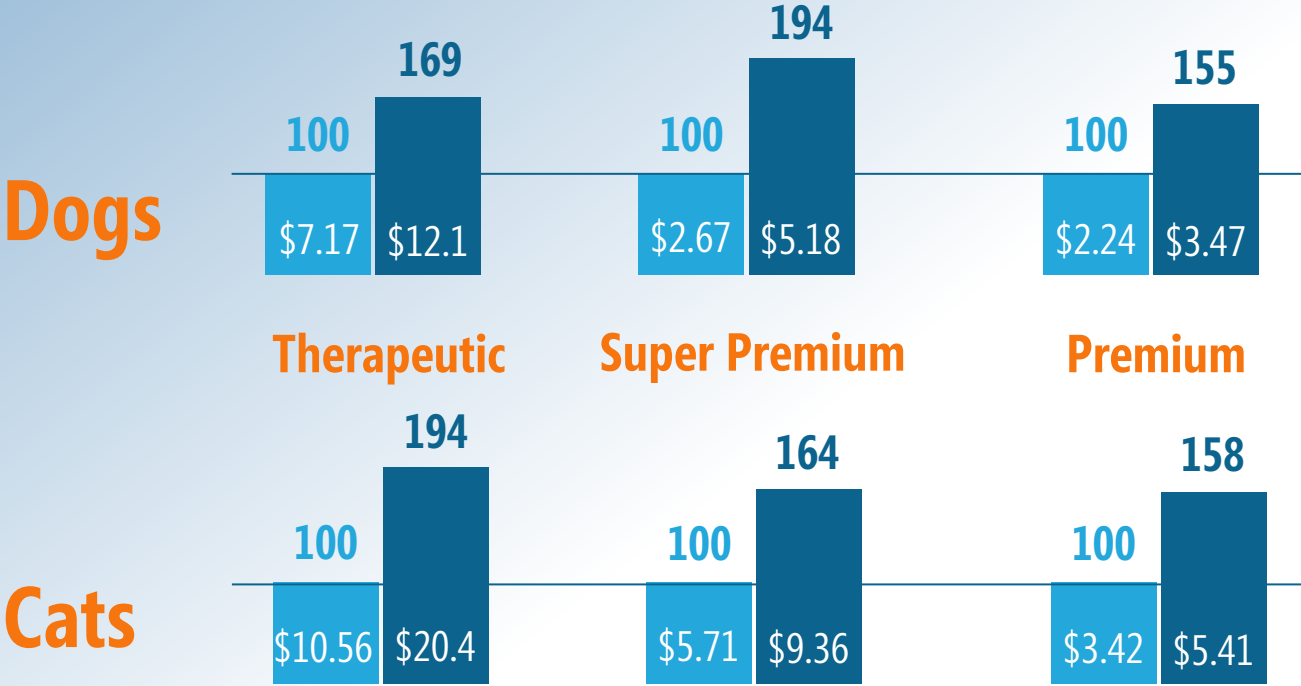
premium & super premium

economy & standard



USA

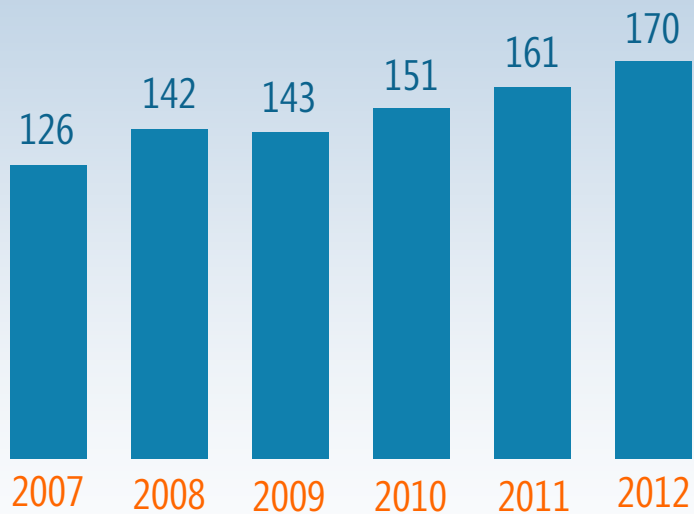
Pet food in Brazil is very expensive...



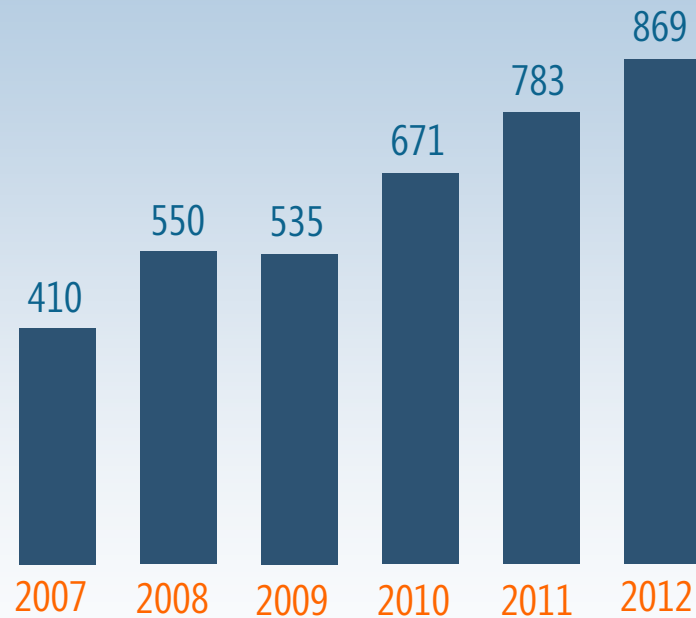
The premium/super premium segment will grow in the short term!

- 🐾 Total PET FOOD value is growing more than the volume

Cat food market

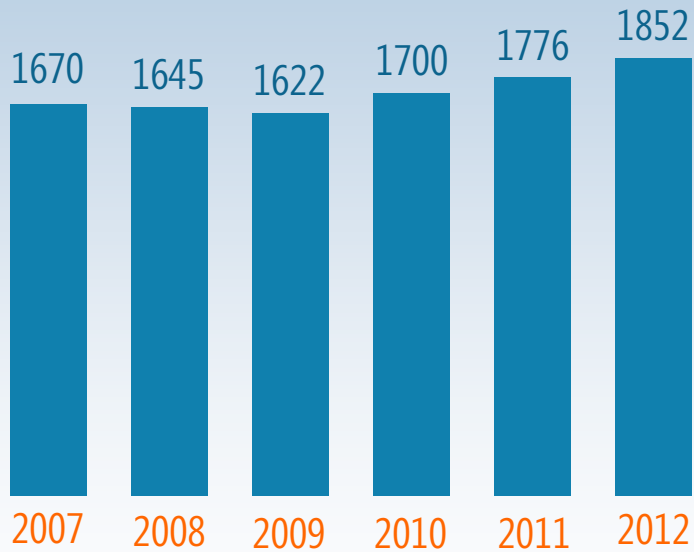


Volume (tons) **CAGR = 6.2%**



Value (US\$000) **CAGR = 16.2%**

Dog food market



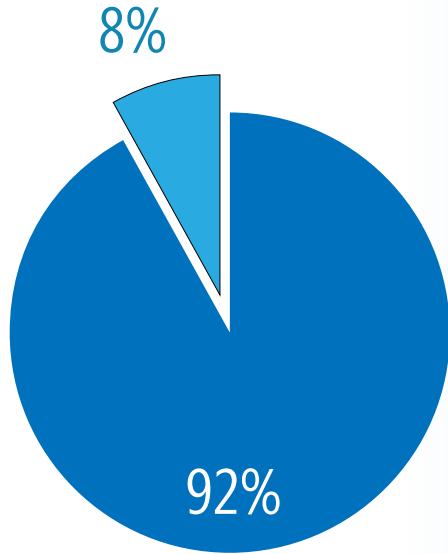
Volume (tons) **CAGR = 2.1%**



Value (US\$000) **CAGR = 15.2%**

The premium/super premium segment will grow in the short term!

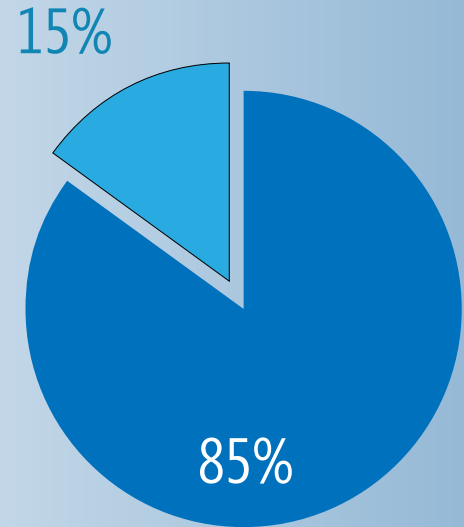
- 🐾 Total PET FOOD value is growing more than the volume
- 🐾 Cats eat more expensive food and... they are growing in numbers faster than dogs



tons

Dogs = volume

cats
dogs



R\$

**Cats = more expensive
and value added
products**



The premium/super premium segment will grow in the short term!

- 🐾 Total PET FOOD value is growing more than the volume
- 🐾 Cats eat more expensive food and... they are growing in numbers faster than dogs
- 🐾 A lot of VETs that could recommend premium pet food

Vets are drivers for premium pet food



Brazil: 193 veterinary schools

USA: 28 veterinary schools

The premium/super premium segment will grow in the short term!

- 🐾 Total PET FOOD value is growing more than the volume
- 🐾 Cats eat more expensive food and... they are growing in numbers faster than dogs
- 🐾 A lot of VETs that could recommend premium pet food
- 🐾 More sophisticated segmentation is already happening

And more segmentation is already happening!

- 🐾 Age
- 🐾 Lifestyle
- 🐾 Size
- 🐾 Flavor
- 🐾 Breed



Competitive Scenario

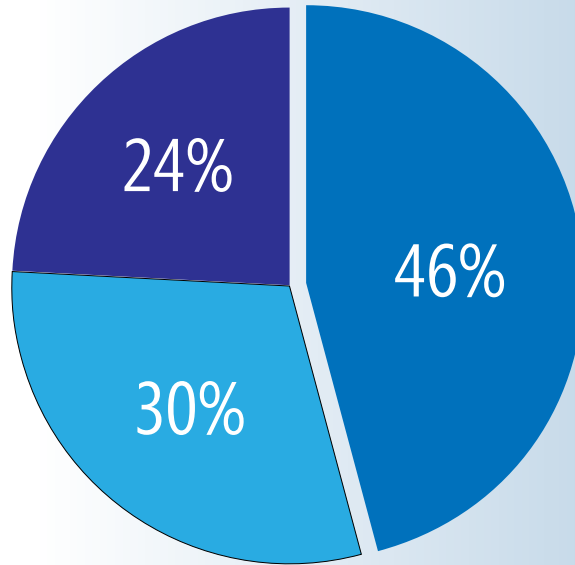
Very competitive...

126 local and multinationals companies



7 multinational companies = 46% market
119 Brazilian companies = 54% market

Other
Brazilian

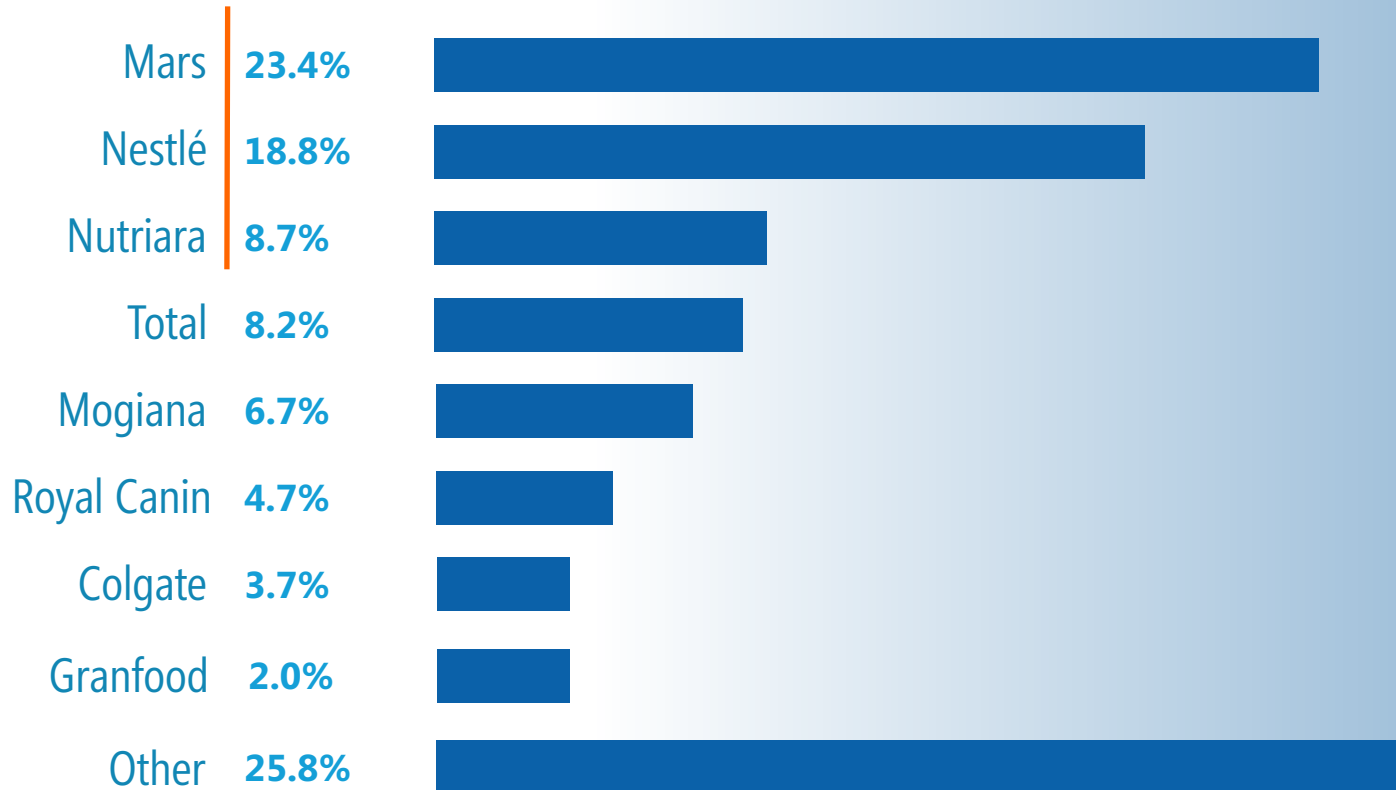


7 Multinational
companies

5 largest
Brazilian
companies

Total market Value is very concentrated!

3 companies = 51% market value



5 top players = 91 brands

	# brands dogs	# brands cats
Mars	3	2
Nestlé	10	4
Nutriara	25	16
Total	7	7
Mogiana	11	6



Pet Owner Purchase Behavior



Increasing % of HH income spent on Pet Food: from **0.35%** in 2000 to **0.77%** in 2010¹



while **59%**² still offer
leftovers as food for
pets



1: Fipe
2: Abinpet

Who Buys Pet Food?

Women are the primary owners and those who take care of the pets!

Woman, wife

59%

66%

Man, husband

19%

18%

Adult child

11%

9%

Teen child

6%

4%

Small child

2%

0%

Who is the owner
Who takes care



Is she loyal ?



- 🐾 First pet food usually recommended by the vet while puppies and kittens
- 🐾 Adult pets: low frequency of visits to the vet
- 🐾 Pet owners believe the pet will get "bored" with the same brand/type everyday
- 🐾 Purchase decision is made in the store, where influencers attack!

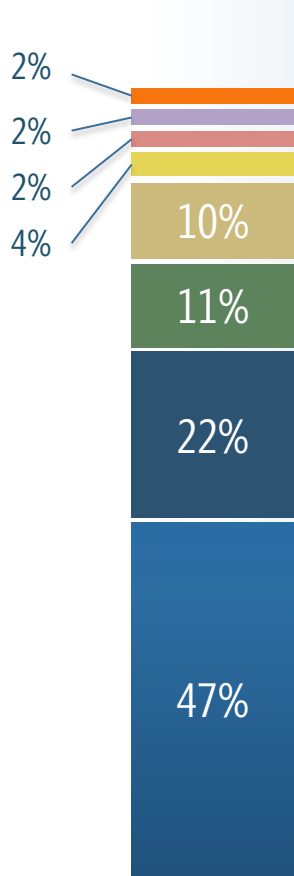
Where they buy



70% volume sold by pet shops & small stores



Brazil



other grocery

veterinary

internet

pet superstore

hypermarkets

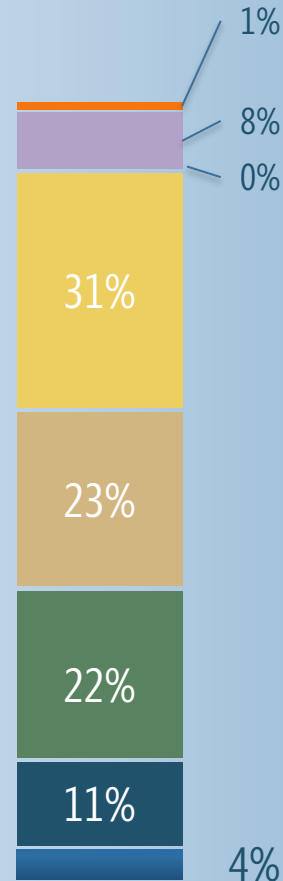
supermarkets

other non-grocery

pet shops



USA



Trends: Opportunities & Challenges



Trends


- ④ C class will continue to lead the volume growth of price oriented brands
- ④ Premium segment will grow but new consumers will enter the segment through less expensive premium brands
- ④ Dry segment will continue to be the main choice

Trends

- 🐾 Pet shops will focus on services, value added products and highly segmented pet food
- 🐾 Chain stores and supermarkets selling prime shelf space will benefit leader brands while restricting small players



Challenges



Inflation
High HH debt
No tax decrease

- 🐾 Price/cost reduction pressure throughout the supply chain
- 🐾 Natural selection of brands
- 🐾 Brands will further segment their product lines in order to avoid profitability issues and commoditization

Opportunities

- 🐾 Increase the vet community engagement in order to leverage consumption habit for industrialized pet food (premium & super premium)
- 🐾 Campaigns to lead more HH to convert to industrialized pet food – target C class
- 🐾 Technical Sales Force focused on Pet shops and Clinics to leverage premium & super premium brands
- 🐾 Cat food market and Treats will be the focus for new product development
- 🐾 Huge volume opportunity for geographical expansion, especially in the Northeast if production is located there

Premier Pet®

ALIMENTOS DE ALTA QUALIDADE



Madalena Spinazzola
madalena@premierpet.com.br



That's all Folks!