White Paper

Emerging Pet Food Retail Trends

A Research Study Sponsored by TC Transcontinental Packaging

TRANSCONTINENTAL PACKAGING

Management Summary

- TC Transcontinental Packaging conducted primary research to understand how pet food shopping is shifting based on shopper trends, preferences, behaviors, needs, concerns, and desires. The research also delves into barriers and opportunities in the grocery channel specifically.
- Pet food is a large and growing industry that provides opportunities for forward-thinking grocery retailers. The retail side is very fragmented with many different channels selling pet food.
- Pet food purchases mirror some larger consumer trends such as the focus on prepared foods, health considerations, and use of unconventional retail channels.
- Pet humanization, pet food premiumization and health benefit considerations are three key industry trends supported by survey data.
- There is a trend toward smaller package sizes, such as single-serve packs that can help pet owners manage their pet's weight or meal portions or be served as a treat instead of a meal.
- Most respondents do not enjoy pet food shopping, though they love their pets. Their main desires are convenience, variety, bringing their pet along and having someone who can answer questions.
- Grocery stores currently garner only 19 percent of pet food sales yet pet food purchases tend to drive store trips and increase overall center-store sales. Compared to their main competitors, supercenters and pet stores, grocery stores are perceived as lacking in several areas.
- Pet food purchase decision drivers include what the pet likes, ingredients and price.
- Grocery chains that want to increase their share of pet food sales will need to reassess their operations from every angle, accelerate the pace of innovation, streamline processes to free up resources for customer-focused initiatives and develop an understanding of their pet food shopper who craves convenience, more choices, better pricing and engagement.

Survey Objectives and Methodology

TC Transcontinental Packaging contracted with EnsembleIQ Research Solutions, which focuses exclusively on retail and retail technologies, to conduct an online survey of more than 500 dog and cat owners in the U.S.. Respondent requirements included being at least 18-years old, serving as the pet food decision maker and having purchased pet food for a dog or cat in the past month. Participants could also not work in pet food or a related industry. While demographic data were tracked, there was no quota or screen established.

The research was conducted during the third quarter of 2017 and focused on expanding knowledge in seven key areas:

- **Attitudes toward grocery stores vs. other channels**
- **Current shopping behaviors and frequency**
- **Lifestyle dynamics impacting shopping behaviors**
- **Benefits and barriers to buying pet food in grocery stores**
- **Perceptions of packaging**
- **Interest in new offerings**
- **Demographic information such as gender, age, race, ethnicity, education, household income and number of people in family**

In short, the survey sought to better understand how pet food shopping is shifting based on shopper trends, preferences, behaviors, needs, fears and desires. The research also delved into barriers and opportunities in the grocery channel specifically.

Ultimately, TC Transcontinental Packaging will use the data to understand the needs of the pet food consumer to drive packaging innovations that will benefit them and meet their evolving needs. The planned second step of our research is to test concepts for the future merchandising of pet food in grocery chains. We want to provide actionable information on how grocers can use the pet food aisle to pull shoppers through center store to drive additional sales.

Pet Food Industry Overview

Steady Growth

Global marketing intelligence agency Mintel predicts the pet food market will continue making steady gains, especially in the treats category. This reflects the significance pet owners place on both indulging and caring for their pets. Many pet food buyers now look for food that aligns with their own personal dietary preferences and focus on well-being .

Pet food sales rose 12 percent from 2012 and 2017, totaling just under $25 billion. The reasons behind the growth are the high esteem pets have in many households as well as a slow increase in the number of pet-owning households over the past decade. But the humanization of pets and the subsequent premiumization of pet food are two key factors driving growth.

Dog and cat food dominate the pet food category with more than a three-quarters share. Market wide, Mintel's forecast calls for moderate growth to continue between 2017 and 2022, with category sales increasing 13 percent to $27 billion.

Fragmented Retail Market

As one might expect with a large, growing segment, many different types of retailers now offer pet food, from mass merchandisers to drug stores, garden centers, and gas station convenience stores, yet Mintel research indicates that both supercenters and pet food stores run neck and neck for purchasing pet food, which is echoed in our EnsembleIQ consumer study. Supercenters are likely preferred for low prices, yet pet food stores are ideal for their wide array of brands and pet-friendly shopping.

In addition, the pet food retail landscape is further changing as more pet owners, and especially more millennial pet owners, shop online in search of greater convenience and better prices.

Broad Retail Trends Influencing Pet Food Market

Pet food doesn't function in a retail vacuum. Broader trends also impact the segment. These trends impact store design and the shopping experience. For example, the focus on prepared meals has emerged as consumers move away from being culinary experts at home and toward prepared foods, meal kits and grocerants. A study shows that 40 percent of the U.S. population bought prepared meals from the grocery in 2016, and this trend continues to grow. People want the same easy yet nutritional alternatives for their pets.

Unconventional competition is also playing a bigger role in the retail marketplace. Conveniences and options abound. Amazon Prime offers free delivery of 100 million items within two days and in some cases, two hours. Uber Eats provides an online food order and delivery platform at the tap of a button. Graze offers a customized box of nutritional, wholesome snacks delivered every week.

Even the world's largest mass merchandiser changed its legal names from Walmart Stores, Inc., to simply Walmart, Inc. President and CEO Doug McMillian stated that "the company felt it was best to have a name that was consistent with the idea that you can shop us however you like as a customer." Simply put, every day consumers are finding new ways of shopping.

All of this means that new business models will continue to emerge. One-size-fits-all wasn't working five years ago, and it certainly is not working today. As our survey data indicate, very few consumers enjoy shopping, and this includes shopping for pet food. To help shoppers rediscover the joy of shopping, it means bringing innovation and finding new ways to engage customers. Some retailers are already moving in this direction and focusing on what the shopper is seeking in a better, more experiential retail environment.

Packaging

A study by Agriculture and Agri-Food Canada (AAFC) on the U.S. market, notes that while metal cans are still the most popular packaging for pet food, their use is decreasing with flexible plastic and paper packaging gaining share. There is also a trend toward smaller package sizes, such as single-serve packs that can help pet owners manage their pet's weight or meal portions or be served as a treat instead of a meal.

Petfood.com also points to a trend toward increased purchases of wet pet food ("Why pet owners are buying more wet pet food," March 10, 2017). With both millennials and baby boomers tending to own cats or smaller dogs, it becomes more affordable to provide wet food. This movement also mirrors trends in human food that include premium ingredients, local sourcing, customized recipes, weight loss and variety.

Innovative wet pet food packaging is being used to help products stand out. One major trend is toward smaller types of containers that include pouches and trays. With the movement toward smaller dogs and cats, average pet food packaging size is shrinking as well.

In contrast, there is also growth in larger economy packs for value-conscious consumers. Other popular packaging trends include resealable packaging, convenient closure options, handles for large food bags, and sustainable, recyclable packaging for environmentally conscious pet owners.

Growth in the interest for healthier fresh and freeze-dried pet foods are driving demand for specialized packaging to maintain product freshness and taste.

Survey Results

The Pet Food Shopping Experience

Relatively few survey respondents (23%) say they enjoy shopping for pet food. On the other hand, negative attitudes toward shopping such as "purchasing pet food is a chore" or "…frustrating" are even less common, representing just 9 percent and 7 percent of responses, respectively. Toping the list of desires are convenience (26 percent), speed (24 percent), bringing their pet along (22 percent) and having someone who can answer questions (18 percent).

Many specialty pet stores, such as PetSmart®, are embracing these trends by incorporating features like a pet spa. Grocery retailers like Hy-Vee are adding pet departments with wide aisles and strategic merchandising that includes a center island, bulk treats and specialty products. Unfortunately, many grocery chains still have rather uninspiring pet aisles.

What's the Prize for Grocery Retailers?

There is plenty for grocery stores to gain, beginning with AAPA's forecasted $5 billion opportunity in incremental sales. With grocery retailers currently garnering only 19 percent of total pet food sales, there is lots of room for growing share of this market.

Further, 57 percent of pet category purchases trigger a trip, according to Nielson, spurring more store visits than any other category. Shoppers plan their pet care purchases more than any other department and choose the destination for the trip based on these plans. Considerable dollars are lost when a grocery establishment is not included in the consideration set.

Each trip is an opportunity to get shoppers to divert from their curated shopping list and increase their basket sizes. Retailers and pet food manufacturers can collaborate on the right aisle layout, product assortment and promotional support to capture and influence the shopper to buy more.

Yet with all the shortcomings, dollar growth in the pet care category has been double that of the overall center store over the past five years, making it the bright spot in an otherwise declining zone. The pet section pulls in shoppers from the perimeter who otherwise may not visit the center aisles and presents new purchasing opportunities for packaged goods.

Three Key Industry Trends Supported by the Survey Data

1

Pet Humanization

Eighty-three percent of pet owners responding consider their pets to be part of the family, a trend seen throughout the pet industry. This gives rise to a wide variety of high-end products and services that are comparable to those for humans – day care, fitness trackers, concierge services, etc.

2

Pet Food Premiumization

Thirty-seven percent of pet owners say they are willing to spend more on a premium pet food brand. This attitude reflects the declining sales of value brands, which decreased 5.7 percent from 2012-2015, while super-premium brand sales increased over 9 percent.

3

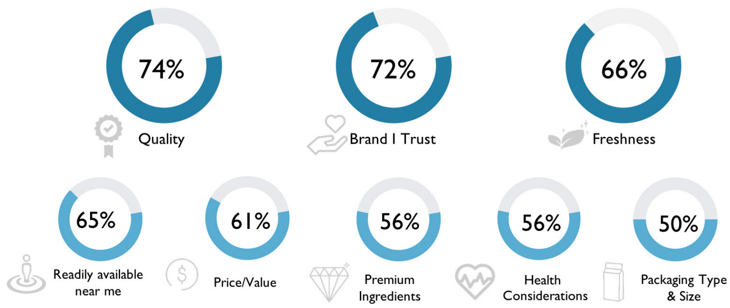
Health Benefits Consideration

Seventy-one percent of pet owners believe the food they feed their pets has an impact on the pets' health and wellness. One of the outcomes is the growth of healthy treats, toppers, and specialty foods seen in the category.

Purchase Decision Drivers

Pet owners place high importance on quality, trusted brand and freshness when making a pet food purchase decision. Also important are price, premium ingredients, health considerations and packaging size. As for popularity of package size, 48 percent of shoppers prefer and purchase medium-size bags.

Persuading owners to switch brands also has its challenges. Fifty-six percent of consumers say they are very loyal to their pet food brand with boomers being the most loyal at 61 percent. Consistent with other general retails studies, the coveted millennials are the least loyal at 50 percent. They're deal seekers and tend to be the most price sensitive generation when shopping for consumer-packaged goods, although they are still seeking premium quality for their pet.



Supercenters Reign

Although four in 10 survey respondents say they regularly shop in grocery stores for pet food, only 22 percent say it's their primary pet food destination. That's far behind the 36 percent who name supercenters as their go-to-spot and on par with pet stores, which continue to gain ground in the space. Overall, however, this group ranks grocery stores second and pet stores third, in contrast to other studies that place pet stores first, supercenters second and grocery stores third.

The online category, which is gaining attention across the entire retail sector, still shows a relatively low usage instance among respondents (9 percent shop regularly and 4 percent shop as their primary outlet). The intent to purchase among total respondents in 2018, however, points to increased usage. Fourteen percent intend to make more frequent online pet food purchases while 4 percent plan to buy less. Thirty-six percent will buy about the same and 45 percent plan no online pet food purchases.

In general, here are the factors – listed from first to last in order of importance – that tend to create brand loyalty:

- **What my pet likes to eat**
- **Product ingredients**
- **Price**

Purchasing Channel Strengths and Weaknesses

The survey respondents identified perceived strengths and weaknesses for each channel, illustrated below with frequency of response beginning at the top of each column:

Supercenter	Pet Store	Grocery Store	Online
Convenient	**Expensive**	Convenient	**Don't know**
Well organized	Well organized	Well organized	Convenient
Enjoyable	Informative	**Lacking**	Informative
Boring	Supportive	**Cramped**	Unique
A Destination	Enjoyable	**Expensive**	Enjoyable/ Well organized (tie)

Looking from the standpoint "needs improvement," grocery stores have the most areas to improve. While they are perceived as convenient and well-organized, they lack product variety, have cramped space and are more expensive than all channels except pet stores, which also tend to have more features that shoppers seek.

Sampling Opportunity

Given that most owners purchase pet food based on what their pets like to eat, sampling may provide an opportunity to switch brands. It's low risk for the pet owner, and trialing is increasing as consumers more carefully weigh the product's value (think millennials) before making a purchase.

If you want to go big, a great example of this tactic was KIND snack bars. KIND placed an ad during the 2018 Super Bowl to give away 3 million bars so that consumers could confirm that they liked the taste before risking a purchase.

There are many tried-and-true methods of sampling from in-store giveaways to direct mail and various approaches to couponing. The bottom line is to give owners a chance to let their pets taste the food and illustrate your confidence in the product's palatability and value.

Opportunities for Grocery Chains

The large size and growth of the pet food market presents a good opportunity for grocery chains. The fact that pet food purchases can drive trips and improve sales performance in an otherwise declining center store makes it even more attractive.

Among survey respondents, grocery lags supercenters and is on par with pet food stores in terms of the number of shoppers primarily purchasing pet food at those outlets. This trend is likely to continue as millennials are more prone to shop pet stores while boomers are more likely to shop grocery chains.

Targeting pet store shoppers may represent a good strategy for grocers who wish to invest in the category. Those who frequent pet stores present a desirable audience of highly educated shoppers who are invested in the process and willing to spend more on premium food.

But to capture this audience, grocery stores must become more price competitive, carry more preferred brands as well as a wider range of flavors and package sizes, have more product expertise available, and create a more inviting retail space.

Few would describe themselves as a pet owner that 'loves' shopping for pet food.

Love Their Pets, Not the Shopping Experience

One of the challenges highlighted by the survey is that few pet owners love shopping for pet food. Most (53 percent) say they are practical when it comes to purchasing pet food. Just a little over 10 percent say they love shopping for pet food.

Interestingly, millennials are significantly more likely to love pet food shopping than boomers. Millennials demand a customer-centric shopping experience – one tailored to their wants and needs as a valued customer. They are looking for seamlessness, which can be defined as the ability to deliver a consistently personalized, on-brand experience for each individual customer.

Yet when it comes to emotions, most shoppers feel neutral about pet food purchases. Marketers know that people think and behave very differently when emotions get tapped. Emotional states trump rational thinking. At the risk of stating the obvious, it's easier to sell to consumers when they are excited.

In conclusion, grocery chains that want a bigger piece of pet food sales must:

- **Reassess their operations from every angle**
- **Accelerate the pace at which they innovate**
- **Streamline processes to free up resources for customer-focused initiatives**
- **Develop an understanding of their pet food shopper, who craves convenience, better pricing, variety, and engagement**

Growth

Pet care is a large (and growing) category. It's especially attractive for grocery given its ability to drive trips and performance in an otherwise declining center store.

Opportunity

Today, reported pet food shopping at grocery lags behind supercenters and is on par with pet stores. This trend is likely to continue as Millennials are more likely to shop pet stores while Boomers+ are more likely to shop grocery.

Desirable Audience

The primary pet store shopper is highly educated, invested in the process and willing to spend more on premium food.

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About TC Transcontinental Packaging

TC Transcontinental Packaging is a leader in flexible packaging in North America. With over 4,000 employees and 28 facilities worldwide, we specialize in extrusion, lamination, flexographic printing and converting of plastic and paper products. Serving a variety of markets, including pet food, cheese and dairy, coffee, meat and poultry, confectionery, supermarket fresh perimeter, agricultural, industrial, consumer good products, beverage, bakery and others, TC Transcontinental Packaging understands that the packaging experience can transform the way consumers engage, shop and buy. TC Transcontinental Packaging blends art, science, and technology to create the wide array of innovative high-performing packaging solutions.

We help you meet the high expectations of pet owners by delivering custom-engineered film and paper laminations featuring superior moisture, grease, water and oxygen barriers (Nylon, PET, Foil). Your customers will come running for our small or large flat-bottom bags and pouches, chub films for fresh foods, and shrink films for bulk packaging.

All our pet food packaging comes with a wide range of features and options including:

- Durable film and paper solutions
- A full spectrum of pouch and bag styles
- Outstanding 10-color graphic reproduction and specialty coatings for shelf appeal
- Superior seals with a variety of temperature ranges
- Convenience features: laser scoring, variety of closure options for easy-open and re-sealing, punch out handles.
- And industry-leading printed shrink films from 30 gauge to 4 mil.

Contact us today to learn how we can help grow your share in the large, expanding pet food industry.

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