

# Retail Intelligence

## PET CARE

It may be difficult to picture your childhood pet—dog or cat—blowing out the candles on his birthday cake. While we'll never know if Fido or Fluffy ever made a wish, we do know that more and more pet owners are having birthday celebrations for their pets. **The pampering doesn't stop there.**

A recent Nestlé Purina survey indicates that pet owners are humanizing their furry friends more than ever. For instance, one cat owner said the following when asked, What do you do that you consider spoiling your cat? "Every morning my cat, Mouse, gets a small dish of 10% cream. The unique thing about this is not the fact that he has the drink, but that my husband and I are drinking coffee at the same time. We always ask Mouse if he wants 'his coffee.'"

If that doesn't convince you of the strong emotional bond that people have to their pets, and therefore the importance of taking pet food and pet care items as seriously in store as you do other food categories, perhaps the numbers will convince you.

In 2004, about six out of 10 Canadian households owned a pet, according to a

Nestlé Purina study. There are more than 12.7 million pets in Canada, of which 8 million are cats and 4.7 million are dogs. The number of both cats and dogs has seen double-digit growth since 1992; however cats out-number dogs and have been growing stronger.

So what does all this mean to your grocery aisles? The Pet Category represents \$1.2 billion in all channel sales nationally, and that's up 6% versus the same period a year ago, according to ACNielsen (52 weeks ended March 19, 2005). Pet owners are spending more annually on pet products than consumers spend on other major consumer packaged goods categories. Annual spending per household for a dog owner is \$420, and \$200 for a cat owner, according to the American Pet Products Association (2003-04).

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The key to cashing in on pet sales is to ensure shoppers are aware of the pet aisle in store. You can do this by making it attractive, interesting and easy to shop, with signage and promotions that will draw consumers to and through the pet aisle.

### HUMANIZING PETS

With the humanization of pets comes a willingness of pet owners to pay a premium price for added value products. "Added value" can mean different things to various consumers, so here's the low-down on the pet care consumer and what they're looking for in the pet aisle.

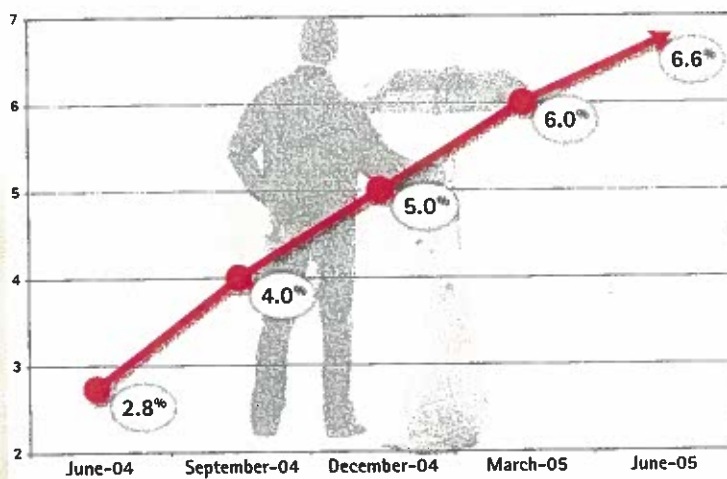
At the same time that an increasing number of consumers are trying to eat healthier, many pet owners are also concerned with feeding their pets healthy, high quality, nutritious foods. These pet owners are more highly aware of the pet's dependency on them and so feel a greater responsibility for the pet's care. They want to get it right and may be information seekers, looking for advice on their purchase. Purina

## SECURE DEDICATED PET ENDCAPS

- A dedicated pet care endcap communicates to consumers that this is "a place for pets."\*
- Pet endcaps call attention to the pet department, draw in "aisle skippers" and increase traffic flow down the aisle.
- Pet endcaps call attention to the pet aisle and provide a permanent venue to promote pet-related items 52 weeks of the year.
- Make certain that the endcap is on the inside corner in relation to the predominant traffic flow.

\*Source: Purina Lifestyle Focus Groups.

## RECOMMEND THE BRAND THAT'S ON THE UP AND UP!



PURINA® BENEFUL® MARKET SHARE – DRY DOG FOOD  
GROCERY CHANNEL

Source: AC Nielsen Market Track Dry Dog - to June 31, 2005 Beneful Market Share

Trademarks owned by Société des Produits Nestlé S.A., Vevey, Switzerland

Purina® Beneful® brand dog food has consistently achieved share growth in the dry dog food category quarter after quarter. Since June 2004, the dry dog food category has grown +5% and Beneful® has driven that growth at +49%.

Purina® Beneful® brand dog food is the perfect balance of taste and nutrition for the consumer that is always looking for ways to make their pet happy and healthy.

\*Source: AC Nielsen Market Track—Growth Rates from June 2004 - June 2005



Healthful. Flavourful. Beneful.™

ONE is an example of the type of product that would appeal to this group. Offering information on the shelf about the nutrition and quality of the pet product is one way to meet their needs and secure their purchase.

In the quest to maintain their pet's health, some pet owners are likely to purchase more customized products. Specialty diets aren't just for our species. Managing weight is a concern of pet owners, plus there are products that can meet the needs of those with large breed dogs and of indoor cats. Providing information for these shoppers and pointing them to the right products is important.

If pet owners who are primarily concerned with the nutrition of their pet's food can be considered their pet's "parent", then the owner who wants to ensure their pet enjoys the food is perhaps their pet's "best friend". These consumers may purchase products such as Beneful dog food and Friskies Stuffed Morsels cat food because they want their pets to be happy. They are experimental and will try new things, seeking experiences which will bring greater happiness and a longer life for their pets.

There is another shopper who is looking for taste and nutrition for family meals and for their pet's food. Consumers want their pet to eat healthy, but because there tends to be a strong emotional connection, many want their pets to enjoy the food, too. "The demand for healthy products hasn't distracted from the demand for pet food that tastes good, too," says Frank Rispoli, National Manager - Trade and Category Development for Nestlé Purina PetCare. "Consumers who are looking for the balance between taste and nutrition, are loyal to our Beneful line of dry dog food. It uses vegetables and meat to create a perfect balance between nutrition and taste."

There's also a segment of the pet owner population who like to make the most out of every day by trying new things—having fun is important! For these shoppers, treating their pets to a little indulgence or treat is essential. When you consider all the various reasons consumers purchase different items for their pets, you can see how important it is to have a wide assortment in the pet aisle.

## ALWAYS IN STOCK

The consumers who purchase added value products, whatever segment they may fall into, are loyal and willing to pay a premium price. Their decisions are based on the strong bond that they have with their pet. With that, the high value consumer that indulges their pet, and the health and nutrition driven consumer are looking for those particular products in the pet food aisle.

Every instance that you are out of stock the potential for lost sales grows, particularly in pet food. In the pet care aisle, if an item is out of stock, one in five pet care consumers would switch stores to purchase the product. In the same study, 50% of consumers indicated willingness to switch stores if three to four items they intended to purchase were routinely out of stock.

While you need to ensure the assortment reflects the different choices consumers may make on the added value segments of pet food, you also need to have the different formats of food pet owners purchase. Most pet owners buy more than one format. For example, dry and wet cat food are often purchased together, and a dog owner is likely to buy both dry dog food and dog treats. Space on the shelf for all formats will better equip you for strong pet, sales, keeping in mind that consumers with pets are a large population.

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## PET CARE

Dry is the leading cat food segment, making up 54.7% dollar share, and growing at 9% versus the year ago period, according to ACNielsen Homescan (52 weeks ended March 19, 2005). Still, 59.2% of dry cat food buyers also purchase wet cat food (ACNielsen Cross Purchasing Analysis). It's important to have the right mix of both segments on shelf.

Dog food is similar in that dry is the leading segment, representing more than 60% of all category sales, followed by dog snacks, wet, and semi-moist. Premium brands account for more than half of all dog food sales, while super premium represents a third. Super premium dry brands such as Purina ONE account for more than half of all dry dog food sales in all channels nationally, driving the growth of the category. According to the same ACNielsen research, 56.1% of dry dog food buyers purchase dog treats.

Once your pet products reflect consumer needs, you can leverage space by merchandising. By merchandising high traffic items, like dry food in the

middle of the pet section, the opportunity to capture incremental sales increases.

## REACHING SALES HIGHS—VERTICALLY

With so many segments and brands in pet care, it's easy to see why adjacencies play such an important role in merchandising the pet category. A U.S. grocery study conducted by Nestlé Purina compared sales rates of pet food when dry/wet was set vertically versus horizontally. The results: sales rates showed double-digit increases in stores where the food was set vertically.

You can increase impulse, multi-segment purchases and the overall profitability of a consumer by positioning the dry pet food staple with wet food and treats. Nestlé Purina recommends that the aisle be vertically blocked by pet food form—dry, wet, treats—based on the consumer decision-making process. "This allows the pet shopper to quickly make like

## Q: How can you help change your pet aisle profits?

PURINA ONE™ brand pet food provides your customers excellent pet nutrition and profitable results for you.

- A rewarding line of innovative formulas for puppies, dogs, kittens and cats
- Supported with the PURINA ONE 30-Day Performance Challenge on radio and television
- New packaging for maximum impact at shelf

A:

The logo features the word "PURINA" in a small, black, sans-serif font above a large, stylized "ONE" in a light grey, outlined font. Below "ONE" is the text "brand PET FOOD" in a small, black, sans-serif font.

ONE CAN MAKE A DIFFERENCE.™

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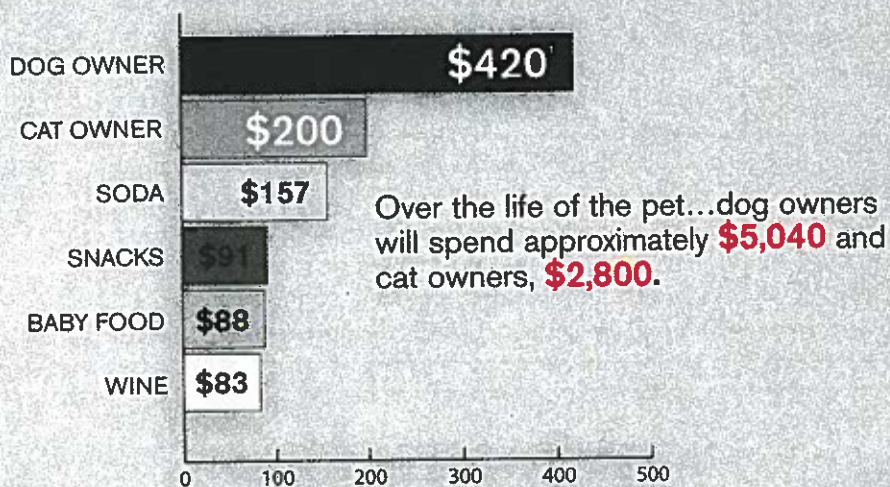
[www.purina.ca](http://www.purina.ca)

 **PURINA**®  
Your Pet, Our Passion.™

## PET OWNERS SPEND MORE ANNUALLY ON PET PRODUCTS THAN CONSUMERS SPEND ON OTHER MAJOR CPG CATEGORIES.

...Making pet care a better investment long-term than these other categories.

### ANNUAL SPENDING PER HOUSEHOLD<sup>3</sup>



Source: 1- American Pet Products Association, 2003/2004 "Dog/Cat owners were asked to record specific dog/cat related expenses based on their recalled spending levels (which might be over or understated)"  
2-Canine & Feline Nutrition, 1995, The Complete Book of the Cat 1947; 3-ACNielsen Syndicated Channelfacts, 2003

product comparisons," says Rispoli. "Given that one-third of pet care shoppers don't walk the length of the aisle, if wet or dry foods are not vertically blocked many of your customers may never see your entire selection."

The typical grocery store should be vertically blocking pet care sections of 32 feet or more of dog and cat, he adds. Any less will reduce your assortment. Impulse and multi-segment purchases are increased when correct adjacencies are incorporated into the section. While dry food may be the staple diet, wet foods and the highly impulsive treats segment increase the purchases and the overall profitability of the pet owning consumer.

As an extension to vertically blocking by pet food form—dry, wet, treats—consumers select a brand group, such as Cat Chow, and then look for the age-specific or special need formulas that we talked about earlier. For example a kitten owner will likely buy adult formulas of the same "parent" brand of food as the cat ages (ie. Kitten Chow to Cat Chow). In terms of special need formulas, the buyer looking for weight management or hairball control will likely stay within the "parent" brand when making the purchase (ie. Cat Chow to Cat Chow Indoor Formula). Merchandising by brand rather than special formula follows the consumer decision-making process.

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EXPERTISE YOU CAN USE

In addition to product innovations, Nestlé Purina PetCare is offering innovative thinking in terms of assisting grocers to identify methods of improving their category performance. Inspired by the growth in the pet category in the U.S., the company has developed a National Trade and Category Development Group. Nestlé's global reach expanded the Group's visibility of trends, enabled resource development, and access to global synergies and best practices.

"We are unique in that we focus on just one category. For us, it's pet food all day long," says Frank Rispoli, National Manager - Trade and Category Development. "Within this category, we have a large portfolio of products, which complements different needs of the retailer and consumer."

Pack size and format have been changing over the years as pet food manufacturers continually evolve to meet the needs of consumers and retailers. Cat food multi-packs are popular among pet owners who value convenience because the format is quicker to shop, easier to carry and store in the home, and has a perceived/real value.

While the multipacks are gaining popularity, the majority of sales are still in single can purchases. For the canned users seeking variety, the ability to purchase singles is important. This shows, again, the value of having a full assortment of pack sizes on shelf. Clearly showing the variety of flavours and formats, such as grilled or marinated, drives sales in this category.

"The larger sizes of dry dog food are becoming more popular with dry dog food consumers and having these sizes in your store is key to any grocery store pet aisle due to the loyalty that these sizes bring," says Rispoli. Innovations in shelf-saving design like Purina's short 16 kg bag allows more retailers to mer-



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WHY FANCY FEAST®

BRAND GOURMET CAT FOOD

VARIETY PACKS?

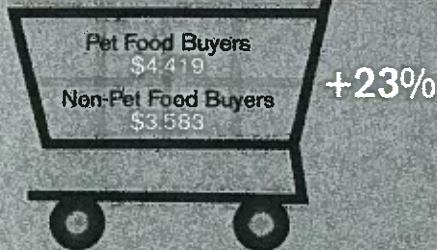
Consumers value the convenience of variety packs as they offer the flavour selection they seek in a package format that is easy to carry and store at home.



Good taste is easy to recognize.™

A PET OWNER WHO SHOPS AT GROCERY IS A VALUABLE CUSTOMER TO ATTRACT, BASED ON PET AISLE AND TOTAL STORE SPENDING.

## DOLLARS PER SHOPPER



Pet owners' total grocery store shopping basket value is 23% higher than non-pet owners.

Source: ACNielsen HomeScan Shopping Basket - 52 weeks ending October 30, 2004

chandise popular large bags of dry dog products such as Purina ONE, Dog Chow and ALPO in-line instead of front end racking or not carrying these popular sizes at all in store.

## LONGER VISITS TO THE PET AISLE

Another key to ensuring success in your pet aisle is limiting the boomerang effect. You probably recognize this term as it's a battle you're fighting in all centre store aisles. The boomerang effect occurs when a consumer enters the aisle, finds their product and then quickly exits the aisle in an effort to minimize the amount of time spent in store. Properly positioning products on the shelf can maximize the total purchase opportunities and minimize the boomerang effect.

## IN ORDER TO INCREASE TIME IN THE PET CARE AISLE:

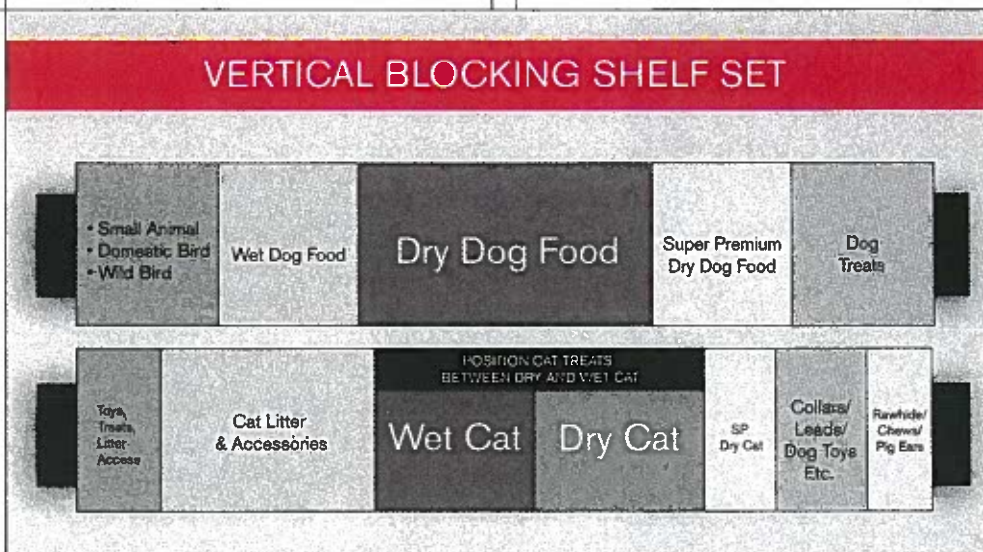
- ▶ Place planned purchase items such as pet food and litter toward the centre of the aisle, which will expose the shopper to more real estate and maximize the opportunity for impulse purchases.
- ▶ Place pet products on both sides of the aisle, intersperse treats and accessories.
- ▶ Place fun/impulse items in hot zones and at the end of the aisle to attract the attention of people walking past the aisle, drawing in "aisle skippers."

Merchandising is what warrants investment, not discounting. According to ACNielsen MarketTrack data for national grocery banners, the per cent of pet food bought on deal is quite low. It's 10.7% for the latest 52 weeks, just 9.6% in the latest 12 weeks, and 9.0% latest four weeks for the period ending Aug. 6, 2005. Merchandising is the method to use to attract pet owners and build category sales.

Impulse purchases in pet care are high particularly for dog and cat treats. Since there isn't one product on the market to satisfy all their needs, pet owners tend to buy a variety of treats. Off-shelf merchandising of dog and cat treats through "clip strips" and display shippers are highly recommended, advises Rispoli.

Three out of four dog food buyers purchase dog treats an average of six times per year. Dog treats are segmented into three distinct groups—hard treats, soft treats, intermediate chews—which can be cross-promoted together because dog owners may buy all three at one time given the different needs they fulfill for owner and pet. "Promoting dog treats with foods is a great way to increase the average dollar ring," says Laila Hulays, Shopper Insights Manager

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for Nestlé Purina PetCare. “Adding a dog treat to the average dry dog food purchase can increase the dollar ring 41%.”

Penetration and purchase frequency of cat treats is lower than for dog treats. Four out of 10 cat food buyers purchase cat treats an average of four times per year. Hulays advises getting these impulse items in front of your buyer because adding a cat treat to the average dry cat food purchase can increase the dollar ring 43%.

### HAPPY BIRTHDAY, TOTO

This trend to treat the pet as family results in a growing market for pet non-essentials. Grooming is evolving into the doggie spa, there are cat sitters who will live in your home to keep your cats company when you’re on vacation, and consumers are more willing to spend on gifts and treats for their pets. While the pet care category does not have a major seasonality factor, treat sales do align with the holiday season because pets are being included more and more in household celebrations. Consider increasing off-shelf merchandising programs for treats during Easter, Valentines, Halloween, and Christmas.

One way to capitalize on the gift-

giving season is to promote pet treats early and often. This will encourage consumers to purchase, use the treats, and then repurchase prior to the holidays—similar to candy sales. According to an ACNielsen Channel Facts Pet Treats Motivation Study, more than three-quarters of dog owners and two-thirds of cat owners purchase gifts for their pets, with the primary gift-giving season being Christmas.

And the proof is in the percentages: December sales are 24% higher than the average month for soft dog treats, 19% higher for hard dog treats, and 27% higher for cat treats.

Finally, innovation is a key growth driver in the pet category. New SKUs of branded products accounted for \$123 million in sales in the grocery channel over the last three years, according to ACNielsen MarketTrack. There is a significant market for new products within the pet care category. Consumers are willing to treat their pets to something new, so it’s important to get to shelf quickly with launches and trial sizes.

Ultimately, keeping their pets happy is key for pet owners. Investing in your pet care section can ensure loyal shoppers—and not just of the four-legged variety!

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