

FOODLINK

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THE BI-MONTHLY NEWSLETTER FOR IMPORTERS OF U.S. FOODS

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PET CARE INDUSTRY ROUNDUP:



PREMIUM TREND EXTENDS TO PET FOOD AISLE

The U.S. pet care industry is healthy and growing! Spending on pet care and services totaled nearly \$55 billion in 2013—up three-fold in the last 20 years, according to the American Pet Products Association (APPA), detailed a report by BMO Capital Markets. Within that, sales of pet food, supplies, healthcare and other products are an estimated \$36 billion, and this is expected to grow 5.5% over the next five years.

A dominant theme in recent years is the “humanization” of pets. Treating pets as members of the family has spurred strong growth in premium-priced pet foods featuring higher quality ingredients, and the introduction of new categories, including the “repurposing” of human pharmaceuticals for use in pets.

More than half (56%) of all U.S. households own a pet, 63% of pet owners consider their pets to be family members, and another 33% feel their pets are their companions,

according to the American Veterinary Medical Association. A similar survey conducted by Packaged Facts suggested a greater percentage (83%) of pet owners view their pets as family members.

In the pet food category, there is a pronounced shift to natural/organic/fresh ingredient-based products, reflecting a similar trend in human food consumption. Food safety issues, particularly the devastating tainted melamine-related recalls in 2007, contributed significantly to the shift toward premium and natural pet foods. This shift in purchasing behavior is expected to gain further momentum.

A recent survey of pet food shoppers by Mintel found that 79% of shoppers agree with the statement “The quality of pet food is as important as the quality of human food.” Only 17% believe that “All pet food is the same quality.”

Pricing no longer seems to be a barrier to purchasing premium pet foods and treats. BMO’s analysis of underlying sales trends indicates that pet care sales are less sensitive to

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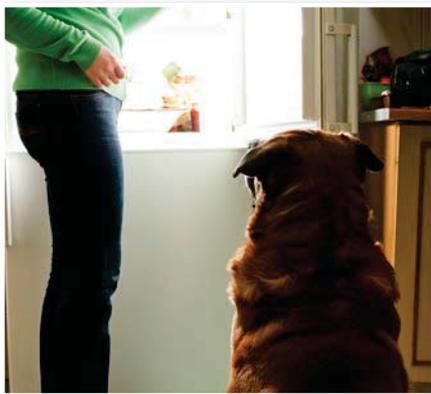
PET CARE INDUSTRY *Continued*

pricing and income levels than the foods that consumers buy for themselves. Data from IRI (which includes food, drug, and mass, or FDM) and Euromonitor (which includes FDM plus pet specialty) suggest steady gains in market share for premium pet food.

Interestingly, during the economic downturn when consumers of all income levels reduced spending, pet owners cut back on their personal discretionary spending before spending less on their pets, according to an IBISWorld industry report.

The average dog or cat owner spends about \$250 annually on food for their pet, according to APPA's National Pet Owner's Survey.

Premium cat and dog foods and treats generated estimated sales of \$3 billion in 2013 or 15% of Euromonitor's 2013 estimated sales of all cat and dog food of \$20.8 billion. Frozen/refrigerated pet food (generally higher end pet food) experienced double-digit dollar sales growth in measured channels in the year ending October 6, 2013—substantially higher than the 1%-2% growth seen in most dry/wet dog and cat food segments.



There is a growing demand for science-based natural foods and treats that are better suited for the age, breed, and specific condition of pets. Consumers are becoming more cognizant of how diet impacts the health and well-being of their pets. A recent Mintel survey of dog and cat owners found that roughly three-quarters (76%) indicated "they are likely to purchase pet food that is formulated for their pet's lifecycle." Fifty-one percent are likely to buy pet food that is formulated for weight loss or maintenance.

There are approximately 70 million pet dogs in the U.S., and almost 15% are more than 11 years old. With pets living longer than ever before, there

are more health-related issues such as excessive weight gain and osteoarthritis occurring. These healthcare issues, being managed by owners and veterinary practices, are boosting pet spending. Some 12% of dogs and 14% of cats are considered overweight, according to APPA's 2013/2014 National Pet Owners Survey.



TOP COMPANIES IN PET CARE

The top 20 companies in pet care generate approximately 75% of industry revenue. Nestle is the market leader with 2012 sales of \$7.9 billion. The Swiss-based company's dollar share of 27.4% in pet care exceeds that of Mars (No. 2 at 10.5%), Del Monte (No. 3 at 8.0%) and private label (No. 4 at 7.4%) combined. The top three companies in pet care generated \$13.2 billion in revenues in 2012, or approximately 45% of total pet care sales. The top 5 companies (Procter & Gamble Co. is ranked No. 5) enjoyed nearly 60% share of revenues, generating \$17.1 billion in sales.

There's been much consolidation in the industry. BMO analysts tracked nearly 80 mergers and acquisitions since 1999, with some assets changing hands more than once. Food transactions accounted for two-thirds of the activity (53 transactions), with many recently focusing on natural and organic pet foods. At the start of 2014, Nestle boosted its holdings with Colorado-based Zuke's Performance Pet Nutrition. This spring, Mars Inc. unveiled plans to acquire Procter & Gamble's *Iams*, *Eukanuba* and *Natura* brands in North America, Latin America and other countries. The \$2.9 billion deal is expected to close during the second half of 2014. Mars, which already owns pet care brands such as *Pedigree*, *Whiskas*, *Banfield* and *Royal Canin*, also has an option to acquire Procter & Gamble's pet care business in several additional countries, reported *Reuters* (April 9).

WHICH CHANNELS ARE CAPTURING SALES?

Pet superstores and the internet are gradually gnawing away at market share. Within the \$41 billion retailing market, grocery stores represent the largest share of pet care sales at 36%, followed closely by pet superstores at 30%, according to Euromonitor. BMO Research's analysts project pet superstores (PetSmart and Petco) will continue to gain share, grocery stores will maintain share, and mass merchandisers will continue to cede share to superstores and the internet. The internet has been gaining ground steadily, advancing from 1% share in 2005 to 4% share in 2010 and 6% in 2013.

PetSmart noted that its future growth should be driven in part by an intensifying shift toward premium pet care products, including: additional shelf space for premium/natural products at the expense of conventional products; more natural food/treats for dogs; an increased selection of channel exclusive cat food/treats, and expansion of its fresh and raw offerings.

FORECAST TO 2018

Euromonitor predicts that pet food sales will increase 6% a year, based on population growth of about 2% annually and price/mix of about 4%. The cat and dog populations are each expected to grow about 1% a year.

The demand for pets, especially cats and dogs, is expected to rise during the five years to 2018. This trend will be driven primarily by more single-person households and the aging population, two demographics that increasingly own pets, according to IBISWorld. Increased pet ownership translates into overall industry growth. Also, new entrants will be attracted to the pet industry. The number of companies in the industry is projected to increase at an average annual rate of 1.6% to about 14,611 in 2018, according to IBISWorld.



FOOD SERVICE TRENDS:

THE RACE IS ON TO ROLL OUT MOBILE ORDERING, PAYMENT TECHNOLOGY



Food service operators are scurrying to launch app-based ordering and payment initiatives to enhance service and target younger digitally-connected customers. Conducting business as quickly and accurately as possible has become a priority in this increasingly digital nation, where the experience of waiting is becoming obsolete. While customers in general do not want to wait for anything, the feeling is particularly strong among the nation's youngest generations, Generation Z and Millennials. These generational groups have grown up with the speed of technology at their fingertips and are accustomed to instant gratification.

"Mobile is the biggest shift in quick service restaurants since the drive-thru," Jeff Jenkins, mobile lead for Taco Bell, told *Nation's Restaurant News*. "If you can get 10 million people to download your app, you're putting a portal to Taco Bell in 10 million pockets."

Taco Bell is testing mobile ordering in a few restaurants in Orange County, CA. The Irvine, CA-based chain, which has a mobile application that allows guests to order ahead using smartphones, plans to roll out mobile ordering chainwide by the end of 2014, according to *Nation's Restaurant News*.

Wendy's already has mobile payment in 85% of its U.S. restaurants. Presently, it is testing mobile ordering and a mobile loyalty program, reported *Food Business News* (May 9).

Panera Bread launched Panera 2.0, a digital ordering, payment and operations platform to enhance guest experience for "to go" and "eat-in" guests. The new technology includes options for

customers to place an order up to five days in advance, order from their table or anywhere in the restaurant using their mobile device and fast lane ordering kiosks to reduce wait time. The Rapid Pick-Up option enables customers to pick up their food at a pre-determined time without waiting in line. The program also includes options for customers to store payment information for future use. Panera expects to roll out Rapid Pick-Up to most of the entire café system by the end of 2014, and a full series of Panera 2.0 elements to substantially all cafes over the next 36 months.

Domino's Pizza is integrating Google Wallet into its Android ordering app. Customers with an Android device can now pay for online orders using Google's digital wallet, which digitally stores credit, debit and loyalty cards on their mobile phone.

The mobile market is projected to grow quickly, outlined *Nation's Restaurant News*. The number of consumers using mobile payments is expected to swell to 500 million in 2017, up from 75 million in 2012, according to research service BI Intelligence. In addition, the value of U.S. mobile transactions is expected to soar to \$244 billion in 2017, up from \$15 billion in 2012.

Meanwhile, nearly three-quarters (74%) of consumers aged 18-34 say they would order takeout or delivery on a mobile device if the option were available, according to a National Restaurant Association survey. Fifty-two percent say they would use electronic payment.

Ann Arbor, MI-based Domino's Pizza further boosted its technology initiatives with a new iPad ordering application. It features a 3D custom pizza builder that uses animation software to show customers what their pizza will look like. Digital ordering accounts for about 40% of Domino's Pizza sales in the U.S., reported *Mlive.com*.

Pizza Hut is also employing new technology to give customers enhanced ordering options. The company partnered with Chaotic Moon studios to create an interactive concept table letting customers build and customize their pizza order on the spot. The novel concept lets diners select their pizza size, sauce and cheese, and toppings. They can also add a side order from the menu. After choosing

a mode of payment, customers have the option to play games while waiting for their order.

The company sees the interactive concept table as something that could be "the future of Pizza Hut dine-in ordering experience," reported *PSFK*.

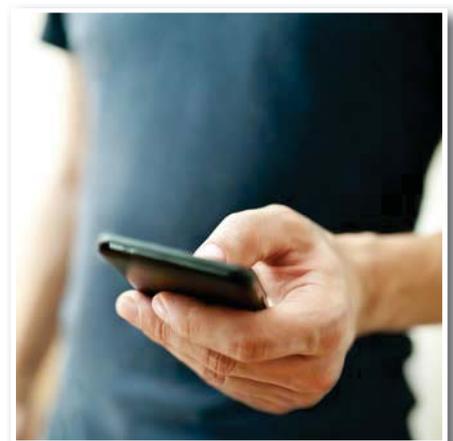
The 383-unit Dickey's Barbecue Pit chain has mobile and online ordering capability via a mobile-optimized website in place in more than 80% of its system.

Smartphone Ownership Update:

Nearly six out of 10 Americans (58%) own a smartphone, up from approximately one-third in 2011, according to Pew Research Center.

Among 18-29 year olds, 83% own a smartphone, 30-49 (74%), 50-64 (49%) and 65+ (19%).

"Young professionals are living off their mobile devices now with social media and e-mail, so we needed to be able to allow them to order our food and complete the transaction on their mobile device," said Jeff Gruber, director of communications for the Dallas-based chain. "You have to make it easy for the customers to get your food," added Mr. Gruber, according to *Nation's Restaurant News*.



Calendar of Events

SEPTEMBER

1-4: Abastur*
Mexico City, Mexico
Centro Banamex
www.abastur.com

2-4: Seafood Expo Asia*
Hong Kong
Hong Kong Convention
& Exhibition Centre
www.seafoodexpo.com/
asia

18-20: Natural Products Expo East*
Baltimore, Maryland USA
Baltimore Convention Center
www.expoeast.com

OCTOBER

5-9: SIAL Paris*
Paris, France
Parc des Expositions de
Paris-Nord Villepinte
www.sialparis.com

15-17: Food Ingredients Asia*
Jakarta, Indonesia
Jakarta International Expo
www.figlobal.com

**Food Export Association of the Midwest USA and Food Export USA-Northeast will be at this show.*

FEATURED PRODUCTS:

Sojos Raw Dog Foods

Since 1985 Sojos Raw Dog Foods, located in Minneapolis, Minnesota, has been mixing up fresh batches of homemade dog food and treats. Products are made from scratch with whole food. Unlike kibble, Sojos has no fillers, no preservatives, and no artificial colors or flavors—just simple, real ingredients. Their family-owned company has the same steadfast dedication to providing the freshest, most healthy pet food and treats out there. Their meats are freeze-dried and 100% raw. Their raw fruits and veggies are gently air-dried to preserve nutrients as well. Sojos Complete Turkey is a wholesome, grain-free dog food that you simply combine with water to create your own fresh, homemade dog food. One pound rehydrates to five pounds of fresh, raw food. Made with USDA freeze-dried raw turkey. For more information, email info@foodexport.org.



Exclusively Pet Inc.

Exclusively Pet, Inc., based in Milwaukee, Wisconsin, offers a line of ready-to-export dog cookie treats that are made with natural, human-grade, and kosher ingredients. The products are free of animal parts, by-products, and fillers. They are sold in a variety of packages, bulk boxes, gift packs, and displays. Treats sold under the Exclusively Dog label include Classic Cookies, Gourmet Cookies, Sandwich Crèmes, Best Buddy Bits, Best Buddy Bones, Gift Packs, and Bulk. For more information, e-mail info@foodexport.org.

Grandma Mae's Country Naturals

Grandma Mae's Country Naturals all natural dog and cat food is the perfect balance of proteins and other natural and holistic ingredients, the product of a collaboration of dedicated professionals who have devoted decades to ensuring that pets receive the very best nutrition. The highest quality natural ingredients are brought daily to the rolling farmlands of upstate New York and Eastern Ohio, where they're tested, washed, blended, cooked, and then inspected before being packaged and shipped to your local pet store. Grandma Mae's Country Naturals contains no additives, animal by-products, artificial colors, flavors, or preservatives. For more information, e-mail info@foodexport.org.





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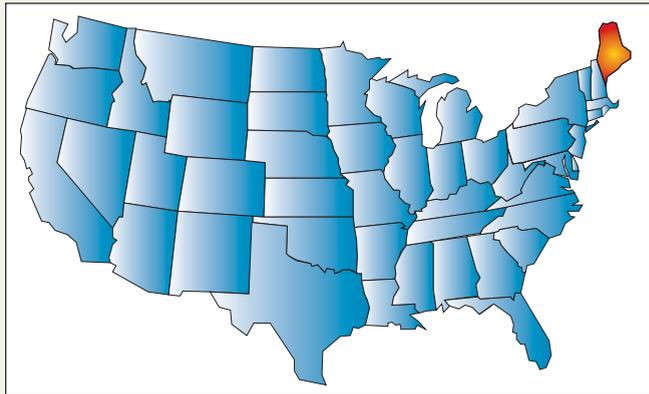
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STATE SPOTLIGHT: Maine

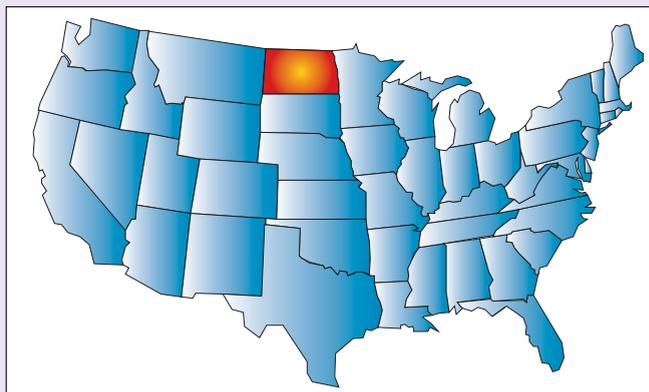


- ✓ Agriculture in the state has developed into a diverse industry, and the state's over 8,100 farms are the stewards of over 1.2 million acres of land.
- ✓ The small, diversified farms across Maine supply niche markets with organic produce and meat, value-added products, as well as fiber products.
- ✓ Maine is the largest producer of brown eggs and wild blueberries in the world.
- ✓ Maine is 2nd in the country in the production of maple syrup and 8th in the production of potatoes.
- ✓ Maine ranks 2nd in New England in milk and livestock production.
- ✓ The region is home to many small and medium sized renowned manufacturers of condiments, jams, confectionery products, cheeses, baked goods, & organic foods.
- ✓ In 2013, Maine exported \$102 million in processed food products with top markets including Canada, Mexico, Japan, South Korea and Costa Rica.
- ✓ In 2013 exports of fish and seafood from Maine added up to \$376.9 million, ranking 4th in the nation, top destinations including Canada, Japan, China, Hong Kong and South Korea.

2013 TOP AGRICULTURAL EXPORTS:

LOBSTER FRESH, LIVE, CHILLED, DRIED	Total Value: \$243.2 million
SALMON, FRESH & CHILLED	Total Value: \$48.8 million
SALMON FILLETS FRESH & CHILLED	Total Value: \$31.1 million
POTATO PRODUCTS, PREPARED & FROZEN	Total Value: \$26.9 million
CHICKEN MEAT, PREPARED & PRESERVED	Total Value: \$25.9 million
SEA URCHINS, LIVE, FRESH & CHILLED	Total Value: \$24.5 million
CRANBERRIES & BLUEBERRIES, FRESH	Total Value: \$24 million
CRANBERRIES & BLUEBERRIES, FROZEN	Total Value: \$19.4 million
LIVE EELS	Total Value: \$14.6 million
LOBSTER, PREPARED & PRESERVED	Total Value: \$9.7 million
POTATOES, FRESH (EX. SEED)	Total Value: \$8.7 million
LOBSTERS, INCLUDING IN-SHELL, FROZEN	Total Value: \$7.3 million
CORN (EX. SEED)	Total Value: \$6.4 million

STATE SPOTLIGHT: North Dakota



- ✓ North Dakota is home to the Red River Valley whose rich black soil makes this area one of the most fertile in the world.
- ✓ Nearly 90% of North Dakota land area is made up of close to 31,000 farms and ranches. Agriculture is the largest segment of the state's economy and is responsible for almost one-fourth of the state's employment.
- ✓ The state has become the nation's leading producer of crops such as sunflowers, field peas, dry edible beans, lentils and canola.
- ✓ North Dakota is also a major producer of sugar beets, potatoes and other commodities.
- ✓ Milk is also a big commodity and the state produces enough in one year to fill over one billion glasses.
- ✓ North Dakota ranks in the Top 10 in the United States in the export of soybeans and products, wheat and products, feed grains and products, and vegetable oils.
- ✓ In 2013 North Dakota exported \$243.1 million in processed food products, with the top markets including Canada, Mexico, Australia, France and Japan.

2013 TOP AGRICULTURAL EXPORTS:

DENATURED ETHYL ALCOHOL & OTHER SPIRITS	Total Value: \$105.1 million
WHEAT (OTHER THAN DURUM) AND MESLIN	Total Value: \$105.1 million
DISTILLER'S GRAINS	Total Value: \$81.6 million
CORN, OTHER THAN SEED CORN	Total Value: \$75.6 million
MALT, NOT ROASTED	Total Value: \$67.9 million
RAPESEED/COLZA OILS & FRACTIONS	Total Value: \$62.7 million
SUNFLOWER SEEDS	Total Value: \$61.2 million
SOYBEANS FOR OILSTOCK OR CONSUMPTION	Total Value: \$48.7 million
PEAS, DRIED, SHELLED	Total Value: \$45.3 million
BEANS, DRIED & SHELLED	Total Value: \$41.1 million
RAPESEED/COLZA SEEDS	Total Value: \$27.1 million
HIGH FRUCTOSE SYRUPS & SOLIDS	Total Value: \$20.3 million
BARLEY, OTHER THAN SEED	Total Value: \$19.9 million

NEWS BRIEFS

The popularity of specialty foods is soaring! U.S. sales of specialty food and beverages hit \$88.3 billion in 2013, a record for the fourth consecutive year and a jump of 18.4% since 2011, according to Specialty Food Association's *State of the Specialty Industry 2014*. Cheese and cheese alternatives remain the segment's largest category, with \$3.99 billion in retail sales, followed by meat, poultry and seafood; and chips, pretzels and snacks. The fastest growing categories include nut and seed butters at 51%, eggs (35.8%) and frozen desserts (28.2%). Nearly three-quarters (70%) of specialty retailers surveyed cite "local" as the claim that is most important to consumers today. Distributors say they believe non-GMO has the highest potential for growth among all product claims over the next three years.

Americans are willing to sacrifice variety and price in order to eat more consciously, according to the 2014 Cone Communications Food Issues Trend Tracker. While family satisfaction was most important among consumers with 97% considering it a priority, 93% also considered health and nutrition and 77% considered sustainability important

factors when deciding what to purchase. Sixty-six percent would pay more for locally grown food and nearly half (46%) would sacrifice variety to do so.

The digital impact on in-store shopping is expanding more rapidly than expected. Digital technologies influence 36%, or \$1.1 trillion, of in-store retail sales which will likely increase to 50% of in-store sales by the end of 2014, according to research from Deloitte Digital. Eighty-four percent of visitors reported using digital for shopping-related activities before or during their most recent trip to a store, and 22% of consumers spend more as a result of using digital.

Consumers are actively seeking more ways to incorporate protein in their diets and food firms are rushing to meet the demand. A poll by The NPD Group found 78% of respondents believe protein contributes to a healthy diet, and more than half said they want to get more protein into their diets, reported *Food Business News*. "Consumers want more protein in their diets," NPD chief industry analyst Harry Balzer stated. "While our interest in protein is growing, we're looking for

alternatives to meat. Many of us are looking to lower the cost of our protein sources, and animal meat is generally more expensive than plant-based protein. The cost of meat helps explain the growth in Greek yogurt and other alternate protein sources." Emerging sources of protein include: quinoa, pumpkin seeds, pea protein, chickpeas, pecans, beverages and a variety of cookies.

The youngest generations (Generation Z and Millennials) and Hispanics will drive the U.S.'s eating patterns over the next five years, according to The NPD Group's study, *The Future of Eating: Who's Eating What in 2018?* These generational groups (through mid-30s) want more involvement, not necessarily more complexity, in preparing their food and meals, particularly at breakfast. Breakfast foods that are perceived to be fresher and require more preparation or cooking, such as eggs, hot cereal and center plate proteins, are projected to increase by 8% over the next five years. The tastes and choices of U.S. Hispanics, which make up a large percentage of the Generation Z and Millennials

groups, will also continue to grow in importance over the next five years. NPD's research suggests Hispanics, including those born in the U.S., will continue to prepare and cook traditional Latino foods. The consumption of Hispanic foods, excluding frozen, is forecast to increase by 7% over the next five years among U.S. Hispanic Millennials. This group also prefers foods that are fresh and natural and enable the cook to control the flavoring of the end product. Generation Z and Millennials made up over half of the U.S. population in 2013.

More than half of U.S. chain restaurants will expand light-or low-calorie menu items during 2014, according to a new survey by Spendiffer. Fifty-two percent will add offerings to their gluten-free menu, 37% of chain restaurants plan to serve more locally sourced items and the use of organics will increase by 13%. "Operators recognize that a growing number of customers have health-related dietary restrictions, and they are revamping their menus to include choices for them, as well as those who simply want more healthful choices," said Spendiffer president and CEO Maryanne Rose.

MISSION STATEMENT

The U.S. Foodlink newsletter and e-mail bulletin are brought to you by the Food Export Association of the Midwest USA and Food Export USA-Northeast, two state regional trade groups located in the U.S. that promote exports of U.S. food and agriculture. U.S. Foodlink was created to provide readers credible data and information in an easy-to-read format.

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