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## BUSINESS

# Pets or People, Big Food Faces the Same Supermarket Battle

General Mills, Smucker and Nestlé each bought pet-food brands in the past three years, and some strains are starting to show



More than 4,500 new pet-food products were introduced last year, according to GfK, up 45% from 2016. Most of those were premium products, which cost more and often generate a higher profit margin for companies. PHOTO: AMY SUSSMAN/ASSOCIATED PRESS

By *Annie Gasparro*

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Food makers betting on pets to make up for falling sales to people are facing some familiar problems.

Pet foods with fancier ingredients are eating away at market share for mainstream brands. Snacks for dogs and cats are selling faster than meals. And a flood of new products is putting pressure on prices.

“The challenges you see across both industries are actually quite similar,” said Chris Mondzelewski, vice president of customer development at Mars Inc.’s North America petcare business. Mars said sales of its largest brand, Pedigree, are growing more slowly than sales of its premium pet foods.

Spending on pet food rose 30% per U.S. household between 2006 and 2010, according to Nielsen. Many of those consumers were young people who bought pets and fed them grain-free kibble and wild-caught tuna before having children or buying houses, analysts said.

“They treat them like it was their firstborn child,” said Beverley Petrunich, owner of DoGone Fun, a dog day-care center in Chicago.

But from 2010 to 2017, spending on pet food per household rose just 5%, according to Nielsen. Many younger people who had put off children and homeownership are reaching those milestones now.

Market-research firm Mintel expects pet-food sales to rise overall about 2% to 3% annually for the next five years, as more people get pets.

General Mills Inc., [GIS -0.33%](#) ▼ J.M. Smucker Co. [SJM -0.34%](#) ▼ and Nestlé SA [NSRGY -0.14%](#) ▼ each bought pet-food brands in the past three years. Nestlé earmarked \$320 million to build another U.S. pet food factory, its first in 20 years. Mars even expanded its bet on the pet industry, last year paying \$7.7 billion excluding debt for VCA Inc., a network of 800 animal hospitals, veterinary diagnostic labs and dog day-care centers.

Some of those investments are already showing signs of strain in a saturated market.

More than 4,500 new pet-food products were introduced last year, according to data analytics firm GfK, a 45% increase from 2016. Most of those were premium products, which cost more and often generate a higher profit margin for companies. The rise in fancier pet foods boosted the average price to \$2.55 a pound at the end of 2017, from \$1.71 a pound at the start of 2011, according to GfK.

“When you put human grade meat into dog treats, the price point gets high,” said Mars’ Mr. Mondzelewski.

General Mills bought Blue Buffalo pet food in April for \$8 billion and put the premium brand on sale in more stores. General Mills’s pet-food sales at retailers subsequently rose 9% in the latest quarter. That is better than the 2% drop for North American sales of its packaged foods like Yoplait yogurt and Hamburger Helper. But it is a slowdown from the double-digit sales growth Blue Buffalo achieved for years before the deal.

Chief Executive Jeff Harmening said in an interview that he was happy with Blue Buffalo’s performance.

Smucker’s pet-food sales fell 2% in its latest quarter, excluding the \$1.9 billion acquisition earlier this year of celebrity chef Rachael Ray’s Nutrish brand, a premium line that says it uses “real chicken” and other high-end ingredients.

The sales drop reflected poor performance by brands like Gravy Train and Kibbles ’n Bits that Smucker bought for \$5.8 billion including debt in 2015. Smucker executives said there is still more opportunity for growth in pet food than human food, especially for premium brands like Nutrish.

“Pet population growth is faster than with humans,” said Bobby Modi, head of pet strategy for the maker of Jif peanut butter and Folgers coffee.

Sales of Nestlé’s pet foods at U.S. supermarkets and drugstores—mostly mainstream brands like Purina—fell 6% in the third quarter, according to analyst Pablo Zuanic at Susquehanna International Group. But sales of premium brands like the Castor & Pollux label it acquired in 2015 rose.

“You have to stay relevant,” said Nina Leigh Krueger, Nestlé’s president of Purina PetCare U.S.

Still, more-expensive pet food might not continue to bring companies the margins that have helped them boost profits. Some pet owners say there are limits to what they are willing to spend, and there are more affordable all-natural options available now.

Jess Cummins said she feeds her cat, Poppysseed, a blend of Mars’s Iams brand that is meant to promote urinary tract health.

It is a step up from Meow Mix, she said, but it isn’t fresh tuna fillets, said Ms. Cummins, a 27-year-old dog walker in Chicago. “I just moved, so money is tight right now.”

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Pet-food sales are estimated to rise about 2% to 3% annually for the next five years, according to market-research firm Mintel.  
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