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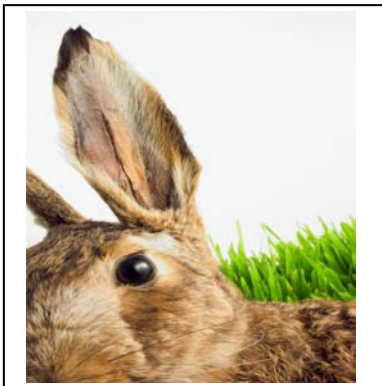
**International
Markets
Bureau**

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Consumer Trends

Pet Food in Russia





▶ **EXECUTIVE SUMMARY**

Russia is a member of the G8 and is among the world's economic leaders, posting an average Gross Domestic Product (GDP) growth rate of 7% per year over the last 10 years. This economic growth has driven demand for pet ownership and prepared pet food products. The sizable gap between prepared and unprepared pet foods presents a potential growth opportunity for this large, untapped market. An increase in disposable incomes has also improved demand for premium pet food products.

The Russian pet food market is worth US \$1 billion and is forecasted to be one of the fastest growing in the world. There is an estimated 17.8 million pet cats and 12.2 million pet dogs in Russia, ranking second only to the United States on the number of pets per capita. The humanization of pets is starting to become very prominent in Russia, as owners are willing to spend more on premium pet food products to pamper their pets. The urbanization of the Russian population has also contributed to the growth in sales of prepared pet foods, as these products are more convenient and are more suitable for the busy lifestyles of urban dwellers.

Multinational companies dominate the pet food market in Russia. Imports account for roughly 70% of prepared pet foods. Mars Inc. and Nestlé are the overall market share leaders. Domestic companies have attempted to penetrate the market, but have been relatively unsuccessful due to the lack of financial resources to compete with the multinational giants.

It should be noted, that Russia's Federal Service for Veterinary and Phytosanitary Surveillance recently announced changes to its licensing requirements, making it more difficult for suppliers of foreign-made pet food to access Russia's pet food market.

Supermarkets are gaining more influence as pet food distributors. Russian supermarkets are increasing in size, which is resulting in more available shelf space for pet food products, providing pet owners more variety and choice.

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▶ **DID YOU KNOW?**

- ▶ Russia imported US \$ 176 million in prepared dog/cat food in 2008, up 189% from 2004.
- ▶ Cat ownership in Russia has been rising steadily.
- ▶ Premium dry cat food sales are growing rapidly and is the fastest growing sector.
- ▶ Dry dog food accounts for 79% of retail sales in the dog food sector, with an expected current value growth of 26% in 2008.



▶ CONSUMER TRENDS

- ▶ Convenience and health benefits have been the main growth drivers for prepared pet foods making it a US \$69 billion global market with a growth rate of almost 6% in 2008.
- ▶ Russia imported US \$176 million in prepared dog/cat food in 2008, up 189% from 2004.
- ▶ Overall expenditures on pet food have increased. At the same time, prepared pet food sales are also increasing in volume.
- ▶ Pet food companies have begun to market their food heavily on nutritional claims, as pet owners in Russia are looking for healthy alternatives to unprepared pet food. This has been a strong driver of growth in the Russian market.
- ▶ In Russia, there were 10 consumer forces guiding the market in 2008: (1) the pet represented as a family member, (2) the influence of women as major pet owners, (3) convenient treats, (4) Chinese recalls sparking interest in local products, (5) heightened awareness of healthy ingredients, (6) growth in pet organics and nutrition, (7) filling an 'empty nest' (8) cleaning up the mess, (9) eco-friendly pet products and (10) emerging pet markets.

▶ PET FOOD RETAIL TRENDS

Expenditure per Pet 2003-2008

Pet food and pet care products by	Annual expenditures per pet 2008 (US\$)	Expenditure/pet CAGR % 2003-
Russia	28.1	24.6
Czech Rep.	52.9	6.7
Hungary	46.6	10.5
Ukraine	8.7	15.9
Romania	18.2	21.8
Slovakia	35.2	10.3
Bulgaria	15.6	13.7

Source: Euromonitor International

Market Performance 2003-2013

Pet food and pet care products by country	Current Value Sales 2008 (US\$ bn)	Current value growth% 2007-2008	Constant value CAGR % 2003-2008	Constant value CAGR % 2009-2013
Russia	1.70	22.4	15.0	12.2
Czech Rep.	0.29	6.8	5.3	4.2
Hungary	0.28	8.6	5.2	4.4
Ukraine	0.19	22.5	7.2	11.5
Romania	0.19	21.9	14.7	8.8
Slovakia	0.04	9.8	5.7	8
Bulgaria	0.04	11.0	6.2	6

Source: Euromonitor International

- ▶ Prepared pet food is sold primarily through supermarkets and hypermarkets which operate in urban Russia. Approximately 75% of the population lives in urban areas. Moscow and St. Petersburg offer the widest variety of pet food products.
- ▶ Russia has one of the lowest annual expenditures-per-pet ratio in Eastern Europe at US \$28, which points to unrealized potential in the high-end pet food and pet care segments.
- ▶ The Russian pet food and pet care market accounts for over 50% of total sales in Eastern Europe, with a forecasted Compound Annual Growth Rate (CAGR) of at least 12% from 1998 to 2013.
- ▶ Dog and cat food accounted for the majority (86%) of Russia's pet food and pet care sales in 2008.
- ▶ The convenience of dry cat food has contributed to a CAGR of 30% between 2008 to 2013.

▶ **CAT FOOD SECTOR**



▶ Cat ownership in Russia has been steadily rising as urbanization has made it more practical for households to own animals that require less maintenance and space.

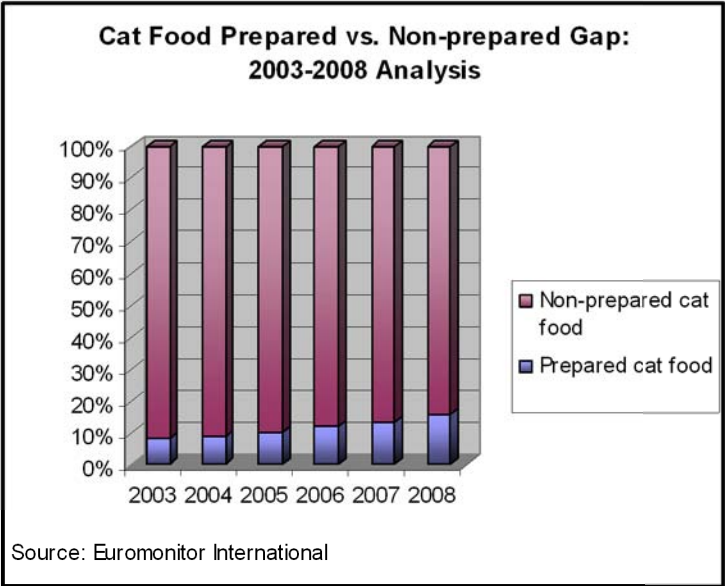
▶ In 2007, the cat food industry growth rate was approximately 23% and reached \$1.1 billion CAD in value.

▶ Prepared cat food is expected to show a constant value CAGR of nearly 13% (2008-2013), and a volume CAGR of 9%.

▶ Russian consumers typically prefer the mid-range dry cat food brands, which account for 53% of sales in the cat food sector, however, premium dry cat food sales are growing rapidly and it is the fastest growing sector.

▶ Premium wet cat food has been identified as a potential niche market showing current value growth of 27% and a volume increase of 14%.

▶ Mars Inc. is Russia's clear leader in cat food, with a sector market share of 48%.



▶ Both Sheba and Mars Inc. are the market leaders in the premium wet cat food category with 68% of market share, while Royal Canin and Feline Nutrition stand as the leaders in the premium dry food category holding the 42% of market share.

▶ The majority of rural residents serve unprepared cat foods, however, prepared foods are becoming more readily available in rural supermarkets, and Russian cat owners are starting to favor the nutritional benefits and convenience of prepared foods.

▶ Companies are using more television and radio advertising to educate pet owners about the benefits of their products.

▶ Consumers are willing to pay more for the convenience of single-serve packaging of premium cats foods.

▶ Cat treats have little popularity in Russia as owners prefer to spend more on higher quality gourmet food than cat treats.

▶ Supermarkets are becoming more popular as distributors of cat foods as retail chains provide more shelf space for a larger variety of brands.

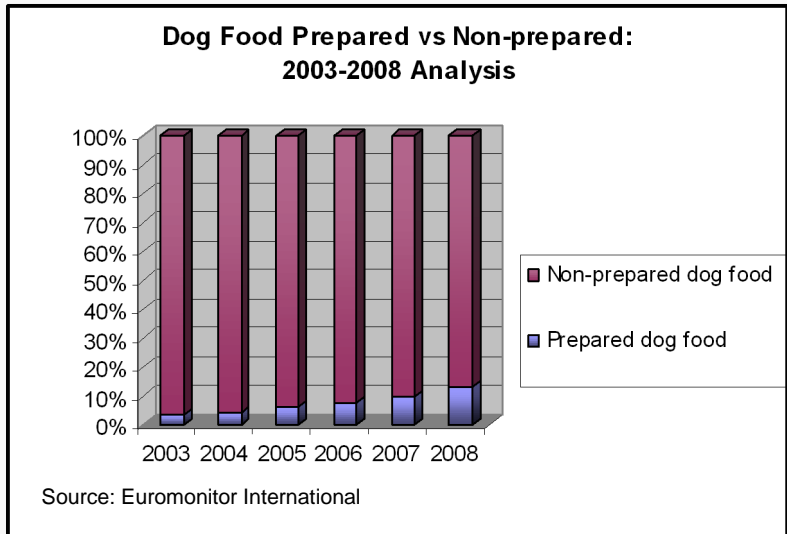
Forecast Sales of Cat Food by Type: % Value Growth 2008-2013		
% constant value growth	2008-13 CAGR	2008-13 Total
Cat food	12.8	82.9
Wet cat food	10.8	66.8
Dry cat food	14.6	97.3

Source: Euromonitor International



▶ DOG FOOD SECTOR

- ▶ Dog ownership in Russia has been fairly constant over the last 5 years, with roughly 18.5% of households owning a dog.
- ▶ Rural dog owners still prefer unprepared foods over prepared foods, but prepared foods are quickly increasing in popularity in urban areas.
- ▶ Dog owners prefer the lower cost, convenience, and nutritional benefits of dry dog food, compared to wet foods.
- ▶ Rising disposable incomes and pet humanization trends are both drivers for growth in the dog food sector, with a predicted 14% CAGR from 2008-2013.
- ▶ Dry dog food accounts for 79% of retail sales, with an expected current value growth of 26% in 2008.
- ▶ Mars Inc. is the leader in retail dog food sales with a 49% market share in 2007. The closest competitors were Nestlé SA (13.2%) and Royal Canin (4.7%).



- ▶ Growth in the dog treats segment is expected to be very strong with a CAGR of 22.1% (2008-2013). The competition in the dog treats segment is led by Alpintex, distributor of the TITBIT brand dog treats, which accounted for 31.6% market share in 2007.
- ▶ Supermarkets are emerging as the main distributors of dog foods by offering a greater variety, which will force companies to offer more competitive prices and justify the costs of their products by marketing the benefits of their brands.

Forecast Sales of Dog Food by Type: % Value Growth 2008-2013		
% constant value growth	2008-13 CAGR	2008-13 Total
Dog food	14.4	95.8
Wet dog food	13.1	85.1
Dry dog food	14.7	98.5
Dog treats and mixes	22.1	171.4

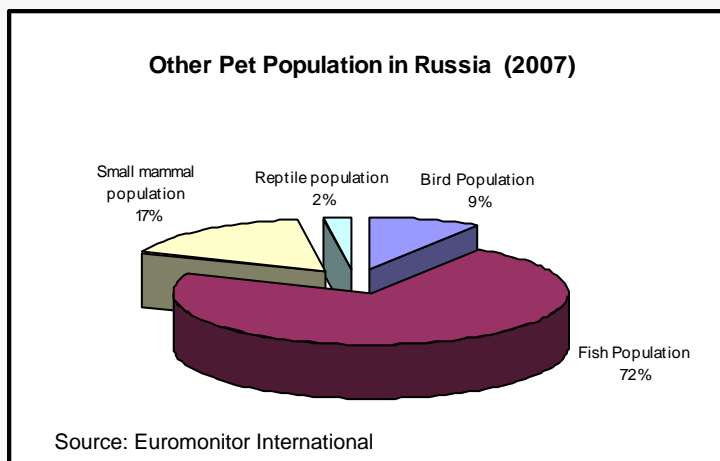
Source: Euromonitor International



▶ OTHER PET FOOD SECTORS

- ▶ Biosphera and Mars Inc. are the value sales leaders in the other pet food sectors which includes birds, fish, reptiles, and small mammals, holding roughly 15% of the market share.
- ▶ Fish are the most popular pet within this sector, as the urbanization movement has left pet owners with less time to tend to higher maintenance pets.
- ▶ Sales of bird food accounted for 39% of the total value of this sector, with a forecasted growth of 16%.
- ▶ Per unit sales of reptiles have also increased steadily in recent years, as pet owners now have easy access to ready meals tailored to specific exotic pets.
- ▶ The other pet food sector is expected to have a CAGR of 6.3% (2008-2013). This can be attributed principally to the rising popularity of bird ownership.

- ▶ The popularity and nutritional benefits of specialized value-added products are expected to increase the unit value prices in the sector.
- ▶ Ownership of exotic reptile and fish species is rising with higher disposable incomes, which presents unique opportunities for higher unit value.



▶ CANADIAN PERFORMANCE

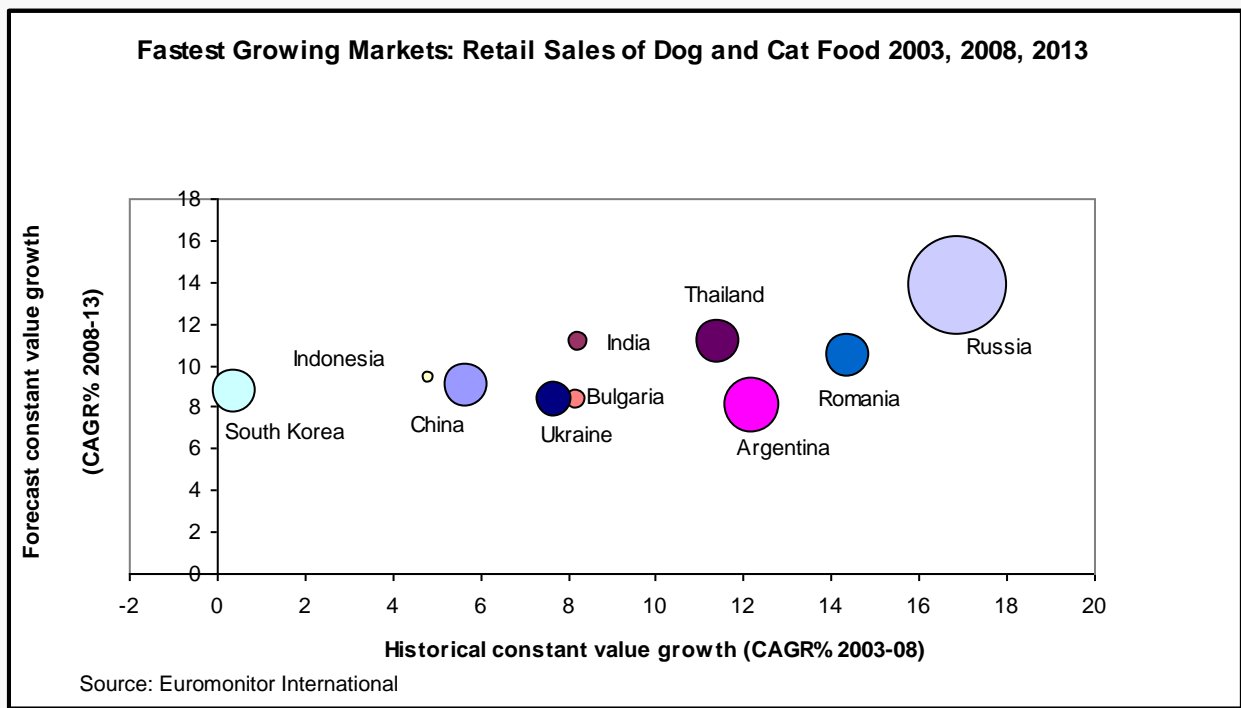
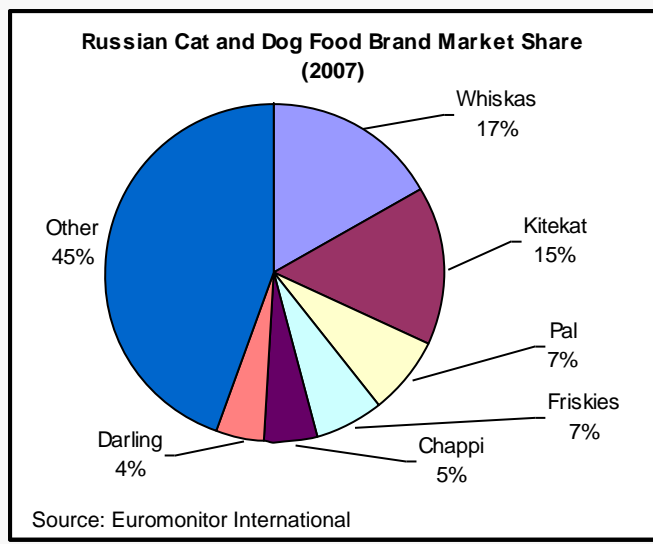
- ▶ Canada exported 3.3 million Kg of prepared dog and cat food to Russia in 2008, with a value of CAD \$5.07 million.
- ▶ Canada tripled its exports of prepared dog food to Russia between 2004 and 2008.
- ▶ Russia's low domestic prepared pet food presence and huge market presents many opportunities for Canadian pet food exporters.



► **COMPETITION**



- Brand loyalty among Russian pet owners has been fairly steady over the last decade as Mars Inc. continues to be the market share leader, owning 52%.
- The Mars Inc. company owns seven out of ten of Russia's most popular cat and dog food brands, including the top three brands Whiskas, Kitekat and Pal. These account for over 39.1% of the market.
- Nestle SA ranks second in market share with 13.5% of retail sales spread across six different brand names.
- Russia is one of the largest markets in the world for pet food products and is forecasted to have one of the highest rates of growth among emerging markets.



The Government of Canada has prepared this report based on primary and secondary sources of information. Although every effort has been made to ensure that the information is accurate, Agriculture and Agri-Food Canada assumes no liability for any actions taken based on the information contained herein.

Pet Food in Russia

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