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Market Brief - Product

Italy: Pet Food: Excellent Export Opportunities

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Pet Food Market Summary

The pet food market in Italy continues to be positive after years of substantial growth. It is still considered a growth market for future years. Although Italian pet food production is developing, the demand outstrips the domestic supply. Imports of US \$432 million represented approx two-thirds of the petfood market in 1996; most market leaders manufacture outside of Italy. Many U.S. companies already supply the Italian market either directly from the United States or through European affiliates. European producers are the main competitors for the Italian pet food market. The intense pet food sales competition is based primarily on price and a quality image.

The number of pets in Italian homes is increasing steadily. There were 52.4 million pets living in Italian homes in 1996, roughly a 10% increase over the 48 million pets in 1994. About one-half of Italian families possess some form of pet in their homes; e.g., dog, cat, bird, aquarium or other little animal. This percentage is expected to increase.

Pet food in Italy is very expensive. Italians spent an average of \$200 a year on pet food for birds to over \$2,000 per year for dog or cat food. The same can of wet dog food available in the United States for around \$1.00 costs closer to \$2.00 or \$2.50 here in Italy. A 10 pound bag of dog food costing \$5.00 - 8.00 in the United States cost two to three times as much here in Italy.

The main reasons for the increase in pet numbers are the low Italian birth rate and an increase in the singles population. Both of these sociological factors spur the demand for companionship provided through pet ownership.

The pet food market leaders are Dolma (Mars/USA), Nestlè and Spillers. These companies, and the others competing in this industry use R&D expertise, positioning strength, distribution clout, pricing, advertising, trade conditions and other promotional activities to dominate the Italian market.

Private labels in the supermarket and grocery chains is the latest market trend. This allows the stores to capitalize on the brand loyalty to their retail image. They are also able to provide low priced, high quality products, not to mention preferential space and location on the store shelves. There are roughly 30 supermarket and grocery chains in Italy.

There are three pet food distribution channels in Italy. The major one is the supermarket and grocery chains that accounts for forty percent of sales. The other two are pet shops and specialty stores that account for thirty five percent of sales. The pharmacy and discount store distribution system accounts for most of the remainder. Butcher shops and small Mom&Pop-type independent groceries also account for around seven percent.

The distribution system is the key to success in Italy. The primary objective is to penetrate the key distribution channels first (supermarket, grocery and specialized stores) and then reinforce strength within them. These very diverse distribution channels require different product ranges, price structures and to a certain extent, R&D.

Challenges for new products entering the market are:

- identifying importers and distributors;
- a high degree of concentrated trade marketing and promotional activities by the market leaders;
- the necessity of utilizing R&D technical know-how to penetrate the market;
- S the need for substantial investments to maintain competitiveness (investment requirements include sustained R&D for new product innovation, trade discounts, advertising and strong promotional investments; and
- the trend towards lower price positioning against the high cost of sustained R&D for new product development.

However, these challenges are encouraging the further development of distribution channels outside of the supermarket and grocery chain channels. For example, Nestlè, now conducts over 20% of its business outside of the mass channels of distribution and was expected to reach 30% during 1997. Other companies are concentrating their marketing efforts in the pet shops and specialty stores or the pharmacy distribution system. Few companies are able to actively participate in all three distribution channels.

Identify potential importers and distributors at ZOOMARK'99.

ZOOMARK is Italy's major Pet food and Pet supply trade show held biannually in Milan. The U.S. Department of Agriculture and the Department of Commerce jointly organize and sponsor a U.S.A. Pavilion. If you are interested in participating in this show focused on the Italian pet industry, please fax or e-mail the Agricultural Trade Office in Milan for more information.
Fax: 011-3902-659-9641. E-Mail: ATOMilan@fas.usda.gov

Total Turnover of Italian Pet Food Market

1996

(Totals may not add due to rounding)

Dog Food	US \$382 million
Dry	259
Wet	122

Cat Food	US \$304 million
Dry	83
Wet	221

Total Dogs+Cats	US \$686 million
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Other types of Pets	US \$ 34 million
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Total Pet Food Sales	US \$720 million
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Imported Pet Food	US \$432 million
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Pet Food Industry Market Leaders

Company Sales/Total Italian Yearly Purchases

Company 1996 Italy only

Dolma	22%
Hill's	4
Nestlè	13
Purina It.	2
Spillers	9
Wonderfood	4

Market Leader Company Profiles:

Dolma: has a wide and deep product range and is present in all price categories. They remain the market leader due to strong brand image and positioning of basic products, plus niche market products such as dietetic specialities.

Cesar is the leader in single-portion wet dog food.

Dolma also was the confirmed leader in advertising in 1996 with 54,5% of total advertising investments in the cat food segment and 40,7% in dog food.

Nestlè: has a good basic range of products with some strong brand awareness in names like Friskies, Gourmet and Encia (bird and fish food).

New product activity in the last couple of years has helped increase market share. They launched single-portion packaging of Gourmet Gold Duo (2 meat layer version of Gourmet Gold). Gold forecast a 25% increase in sales during 1997. And the division Encia is market leader for bird and fish food.

They also have clout with the retail distributors due to their large diversified company portfolio of products (coffee, cheese, meats, etc.) and are able to guarantee a strong trade margin.

Spillers: is the only market leader which pursues a strategy of both basic branded merchandise and private label production. (manufactures for Conad) With the acquisition of Quaker Chiari e Forti brands they also acquired a service contract for administration and distribution of products. Spillers has a leadership position in Italy in product development.

Hill's: this is the company to watch! Sales increased 51% in 1995, and 40% in 1996. This excellent performance is due to the high quality of the products and the collaboration between the manufacturer and the specialized distribution system that includes veterinarians.

Market Leaders' Brands in Italy

<u>Company</u>	<u>Key Brands</u>
Dolma	Cesar, Pedigree Pal, Markies, Ciappi, Loyal, Sheba, Whiskas, Kitekat, Brekkies, Katkins
Nestlè	Friskies, Gourmet, Friskies Menu, Encia
Spillers	Félix, Fido, Vitto, Doko, Dokat, Grand Prix, Top Cat, Top Dog, Katto, Suprium, Prime, Selcet
Wonderfood	Eukanuba, Iam's, Eukanuba Veterinary Diet
Hill's	Science Plan, Prescription Diet

Pet food Production, Supply and Demand:

Production	246,500 metric tons
Imports	410,000
Exports	2,700
Yearly Sales	629,500

Packaging Suggestions

Certain product and packaging features are considered to enhance a more modern and innovative product image and contribute to the success of market promotion activities. These include:

- package: interesting graphics which create a strong visible impact, sizes convenient to display, easy to carry, recyclable;
- format: single portions, cartons, vacuum sealed envelopes;
- flavors: ocean fish, pink shrimps, chicken, rabbit, etc.; and
- content: morsels, chunks, dry shapes, vitamins, proper flavors.

Trade Price Structure by Sales Outlet

Ex Factory Price	100	100	100	100
Supermarkets/Chains	25			
Discount		18		
Wholesalers			20	20
Traditional Retailers			15	
Specialized Channels				30
Consumer Price	125	118	135	155

Critical Success Factors/Marketing Mix for Pet Food

Following is the industry's determination of what items are critical to the successful marketing of pet food in Italy. Based on percentages.

	Cat	Dog	Birds/Fish
Product R&D	7	5	---
Product Range	12	14	25
Innovation	10	5	8
Price	12	18	11
Advertising	25	22	--
Trade Relationships	34	36	56

Import Requirements

Italy is a member of the European Union and follows its import requirements and tariffs for pet food. All imports of pet food from the United States must be accompanied by animal health certificates. Certificates vary by the contents of the product. Only products from companies on an approved plant list maintained by USDA's Animal Plant Health Inspection Service will be issued certificates.

If the pet food contains animal protein derived from mammalian waste it must be heat treated at 133 degrees Celsius for a minimum of 20 minutes at a pressure of 3 bar with a particle size prior to processing of not more than 5 cm. requires one type of certificate.

Tariffs vary from 12 to 35% depending upon the type of ingredients contained in the pet food.

It is extremely important to get a local importer or distributor to assist you in understanding the pet food labeling rules and regulations. Your local contact will also ensure that your product doesn't get held up in Customs or run into some other type of problem.