

**UNLEASHING OPPORTUNITIES  
IN GLOBAL PETFOOD**

Strategies to 2010

**Executive Summary**

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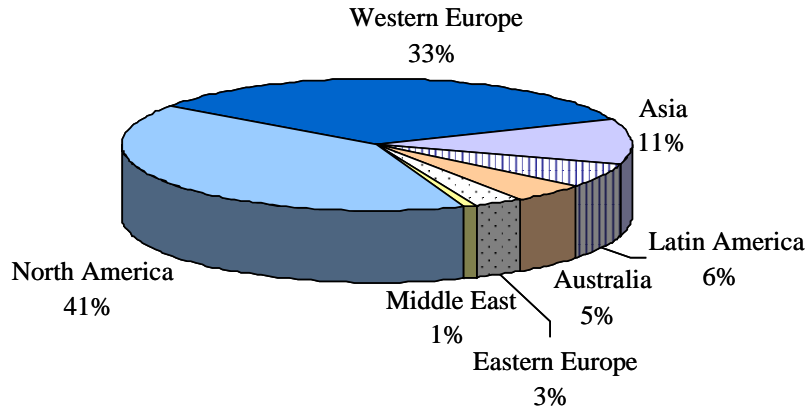
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***Global petfood today***

In 1999, the global petfood market was valued at \$27.5 billion, divided as follows:

***Regional petfood markets (in value) 1999***



Source: PROMAR

In 1997, the most recent year for which comprehensive data were available, sales were \$25.5 billion with total production of 14.6 million metric tons. Cumulative growth between 1993 and 1997 was 22% in value and 14% in volume. This indicates that in addition to growing volume-wise, the global petfood market has been shifting towards higher priced, value-added products.

The world's regional petfood markets and their characteristics are summarized in the following table:

## UNLEASHING OPPORTUNITIES IN GLOBAL PETFOOD

*Executive summary*

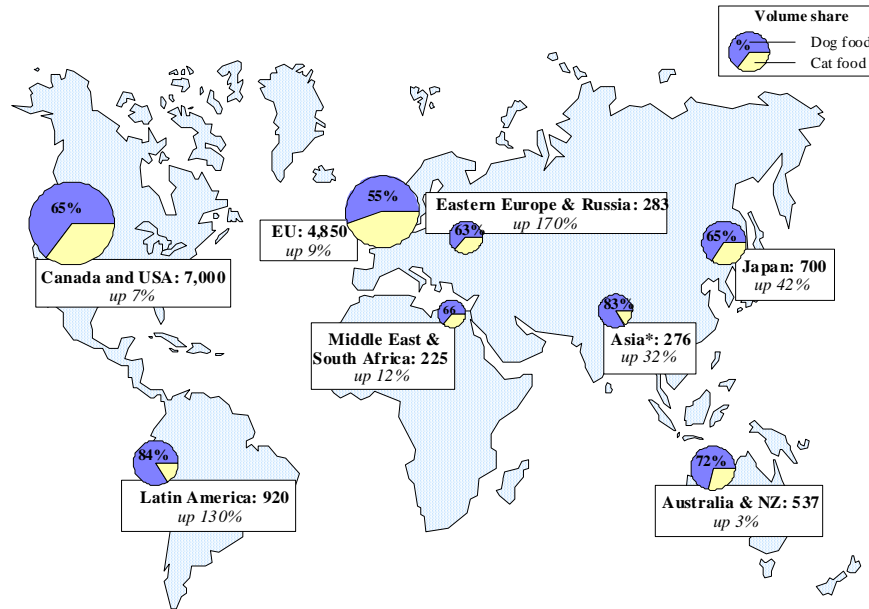
### *Global petfood market data, by region*

	<i>Pet pop (Mil)</i>	<i>Consumer base (Mil)</i>	<i>Number of households (Mil)</i>	<i>Pet/ household ratio</i>	<i>% of households* owning pets</i>	<i>Trends in pet ownership</i>
Western Europe	88	372	134	0.7	45%	Slow/ steady. Stronger growth in Southern EU.
US & Canada	136	304	111	1.2	58%	Slow/ steady: 1.3% in US. Cats outpace dogs
Australia	7	20	7	1.0	53%	Slow-stagnant
Eastern Europe & Russia	75	205	60	1.2	45-50%	Slow (1-3%/year)
Middle East/Africa	5	110	30	0.2	N/A	Slow growth
Latin America	48	343	98	0.5	30%	Growing
Asia	124	1,357	404	0.3	35%**	Growing

Source: Industry sources. \* Dog or cat. \*\* Japan only

Plotted visually, one can get a better feel for market size and composition, by region:

**The global petfood map**  
**Petfood volume in 1,000 mt, % change 1993-1997 and dog/cat food volume split**

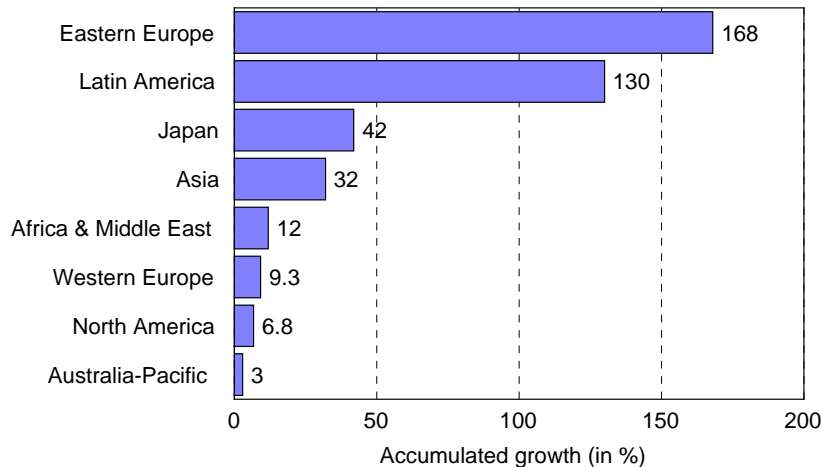


EU: UK, France, Denmark, Belgium, Sweden, Austria, Netherlands, Spain, Portugal, Italy, Germany, Switzerland. Eastern Europe: Poland, Czech Rep., Hungary, Yugoslavia, Ukraine. Latin America: Mexico, Argentina, Brazil, Chile, Peru. Middle East: Turkey, Israel. Asia: South Korea, Taiwan, Hong Kong, China, Thailand, Singapore, Philippines, Indonesia.

\*Excluding Japan Sources: PROMAR, Datamonitor

North America and Europe are clearly the dominant petfood markets; Eastern Europe and Latin America, however, have been growing the fastest:

**Volume growth by region, 1993-1997**



Source: Datamonitor

***World petfood trade***

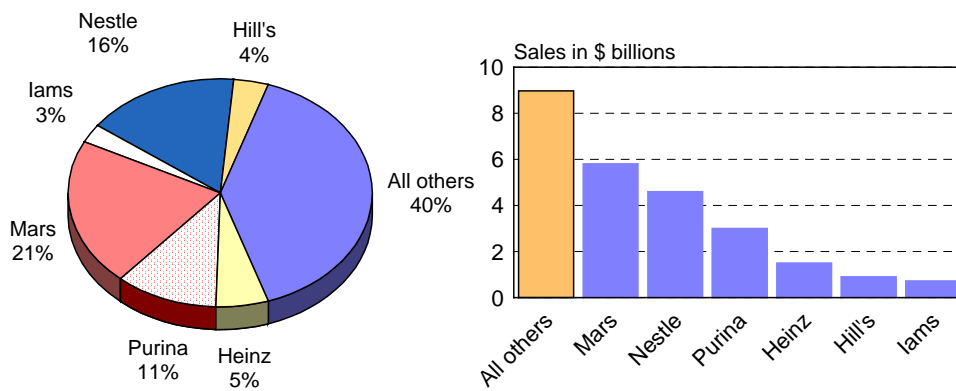
Only 7% of world petfood production is actually traded internationally, and the bulk of this is sold and bought by just a small handful of countries:

- The US (43%), Thailand (14%), Australia (13%), and the EU (10%) account for 90% of exports;
- Japan (33%), the EU (18%), Canada (11%), the US (8%), and Switzerland (6%) account for 76% of imports.

***The petfood industry***

Globally, thousands of companies are involved in the petfood business; many are also active in animal feed and/or pet care businesses. Nevertheless, a small group of multinational food and consumer care companies do play a substantial role in global sales. And their role continues to grow through acquisitions. Today, the world's top players are mass petfood marketers Mars, Nestlé and Purina; together they account for almost half the global market for petfood.

***Leading global petfood players – 1997***



Source: Petfood Industry

Despite this influence, few players have a particularly large share of their own domestic market (except for Pokphand in Thailand).

***Global players: Importance of sales outside of the national market***

<b>Companies</b>	<b>Headquarters</b>	<b>Sales (\$mil)*</b>	<b>World market share (%)</b>	<b>Domestic market share (%)</b>	<b>Foreign sales as % of total sales</b>
Mars	US	5,300	21	5	90
Nestlé	Switzerland	4,100	16	15-20**	99
Ralston Purina	US	2,582	11	14	33
Heinz	US	1,287	5	11	45
Hill's (CP)	US	996	4	8	20
Iams (P&G)	US	800	3	5	30
Doane	US	687	2.5	7	25
Royal Canin	France	360	2.3	3	64
Continentale Nutrition	France	200	<1%	N/A	50
Sagemuller	Argentina	15	<1%	9	N/A
Pokphand	Thailand	N/A	<1%	60	N/A
Guabi -Mogiana	Brazil	N/A	<1%	10	N/A

\* Most recent year available. \*\* Estimates. Source: Industry sources

***Premium petfood***

The premium petfood market represents roughly 10% of world petfood sales, or \$2.5 billion. Hill's, Iams, and Purina lead this segment, with global shares of 33%, 27%, and 15% respectively.

***Industry player types***

We see five distinct player types in the global petfood arena. The primary differentiating characteristics of the player types are:

- The company's degree of focus on petfood (peripheral or core to the business);
- The share of sales outside the company's home market;
- Company strategy; and
- Positioning of the company's products.

***Petfood company player types***

<b>Player type</b>	<b>Key characteristic</b>	<b>Foreign sales</b>	<b>Strategy</b>	<b>Positioning</b>	<b>Examples</b>
<i>Global Player</i>	Peripheral business. Seeks to establish control of production and distribution to support brand.	Over 50%	Be #1 or #2 in all the markets they enter. Create, develop and build mass/ premium markets through quality and consistency, distribution. Marketing driven	Mass/ premium brands	Mars, Nestlé
<i>Specialist</i>	Core business	At least 20%	Build on brand equity. Create markets. Marketing driven	Premium/ superpremium brands	Royal Canin, Iams, Hill's
<i>Searcher</i>	Peripheral business	Under 50%	Go where the growth opportunities are. Defend national position. Production driven?	Mass / standard brands	Ralston Purina, Heinz
<i>Value</i>	Core business	Under 20%	Production driven	Standard / value brands, private label	Doane, Sunshine
<i>Niche player</i>	Peripheral or core business	-	-	Premium/ superpremium	Thompson's Nutritional Technology

**a) *Global Players (Mars, Nestlé)***

*Global Players'* goal is to develop brand equity, and establish a strong presence in all markets they enter. These companies are extremely active on an international scale, using strong marketing strategies to penetrate mass and premium markets, particularly in the emerging economies. They leverage the distribution channels and marketing clout that they enjoy from other businesses. Brand is all-important for global players, which means that they will prefer controlling production and distribution in most markets. They tend to enter markets through acquisition (of the local number one or two brands), but integrate the acquired operation into an international production and marketing strategy, whereby global brands are introduced and marketed alongside local brands. Foreign sales generally account for more than 50% of sales.

**b) *Specialists (Hill's, Iams, Royal Canin)***

The *Specialists* seek markets with premium opportunities for their brands, relying on others' distribution networks. Unlike *Global Leaders*, they do not have the resources to dedicate to local production and distribution. Showing a high level of innovation, their main focus is on

added value, rather than scale. They also try to erect barriers to protect their margins. *Specialists* perform alongside the *Global Players* as powerful industry drivers.

**c) *Searchers (Purina)***

*Searchers* are opportunists that look for the best growth markets. They usually operate in large domestic markets and strive to achieve dominance through scale, first on a national basis, and then regionally across countries, dealing largely in mass market brands. Production driven, the *Searcher* seeks strong volume and margin growth with a minimum of risk. Its development strategy is therefore defensive. Foreign sales generally account for less than 50% of revenues. They tend to grow through acquisition, with the aim of either defending the leading position in a chosen territory, or expanding into new areas.

**d) *Value players (Doane)***

*Value players* are production driven and usually operate in mature or geographically limited markets, competing on price. They offer a portfolio of standard positioned products, and also manufacture private label products for retailers. These are companies for which export today is relatively limited, but for which there is growing pressure to expand abroad, given the low volume growth they face in their domestic market. Outside their domestic market, international business is likely to be conducted on an export basis.

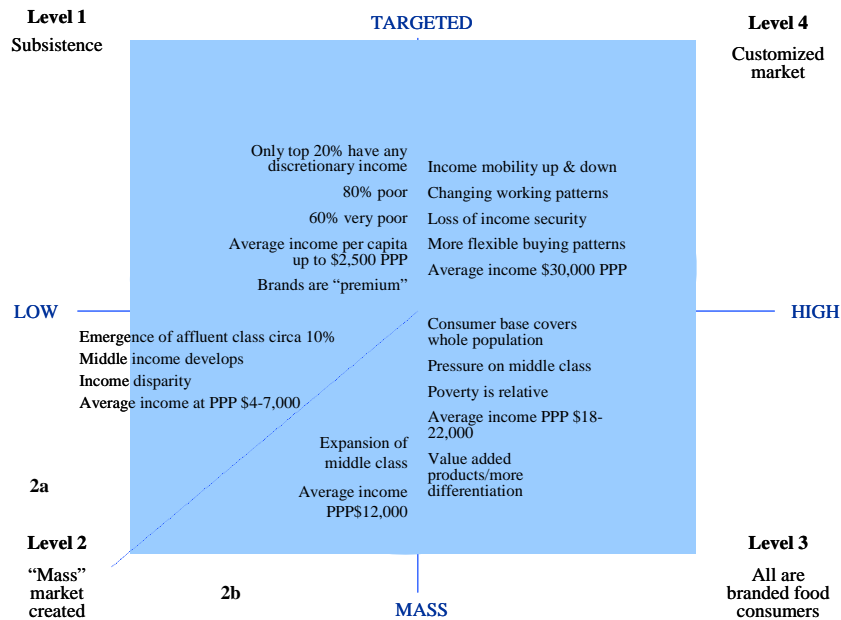
**e) *Niche players (Thompson's Nutritional Technology)***

Niche players focus on high quality products responding to specific customer trends. They operate in mature markets, where there is a small but growing superpremium segment.

***A global income distribution model***

Here we introduce our global income model, which we build on throughout this study. Its basic premise is that there is a similar development pattern through which most countries (markets) pass as they develop. This model can be helpful in understanding how markets evolve, and also in prioritizing market activities on a global basis.

***Global income distribution model***



*Level 1* economies are poorly developed, and income is poorly distributed. Most of the population is too poor to afford processed products.

In *Level 2*, incomes are larger and a mass market begins to emerge, and with it opportunities for petfood processors. *Level 2* can be split into 2a, where middle-income consumers begin to emerge, and 2b, the point at which the industrialization and the mass market begin to take off. For the purposes of this study, we have in our model the income figure of \$8,000 as the level at which processed petfood purchases become viable.

*Level 3* markets have an established industrial base and a middle class. Consumers in these markets are demanding; regardless of price point, products must be inherently of good quality. In *Level 3*, there is another petfood "cutoff," which we estimate at \$25,000, which is the income required to make premium/superpremium petfood purchases a possibility.

*Level 4* markets are the most sophisticated, both in terms of product offerings and consumer awareness. Incomes are sufficiently high for most of the population to be able to afford processed products on a regular basis, and premium products with frequency.

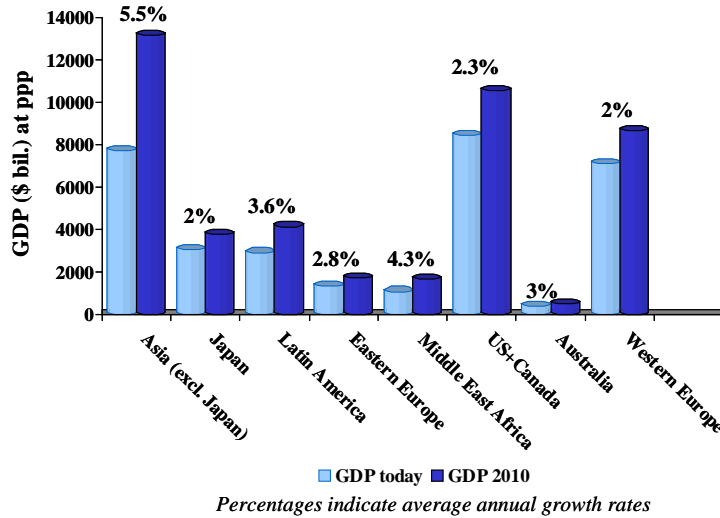
***The forces for change***

Here we will highlight the forces that will most forcefully shape future petfood sale prospects.

***Forces shaping the petfood customer base***

The petfood customer base will be most influenced by income and population growth.

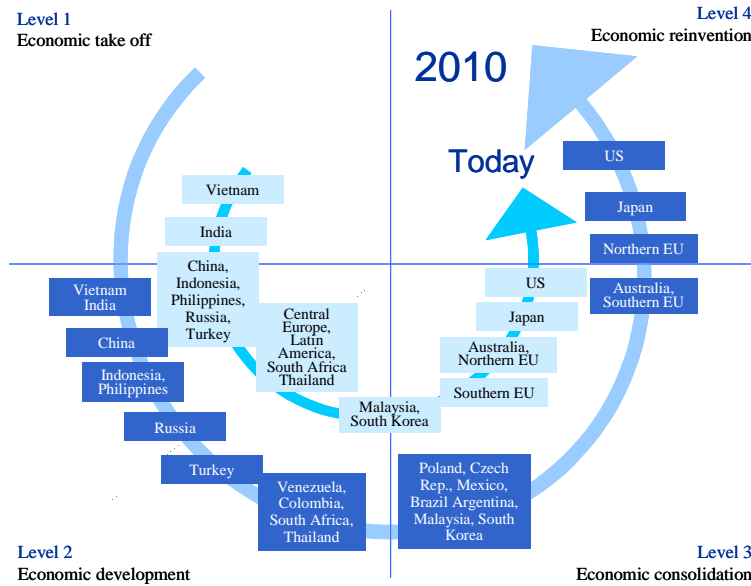
***Income growth projections to 2010***



Source: PROMAR, IMF

Income growth is expected to be strong over the next decade, particularly in Asia and Latin America. Applying expected growth rates to countries, and placing them within the context of the global income model we just presented, one can see how specific markets are likely to evolve.

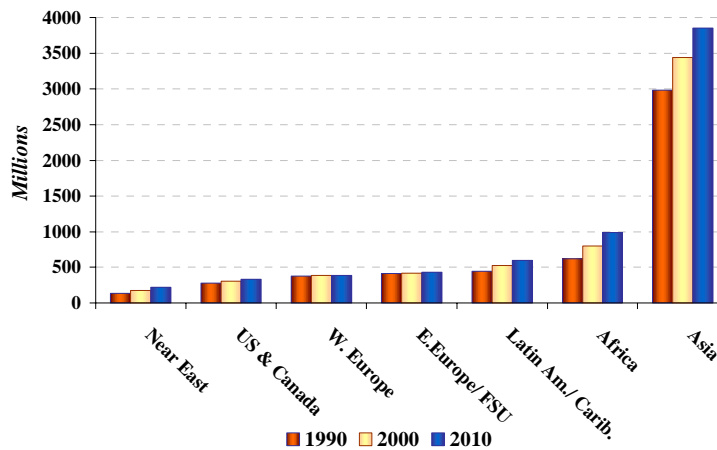
**Global markets in the context of economic growth**



Many international markets will be moving into Levels 2b, 3, and 4 over the next decade. All prime petfood sales territory!

The second force strongly shaping the petfood customer base is population growth, which, as the following graph shows, will take place primarily in Asia, Africa, and Latin America.

**Population growth by region through 2010**



Source: US Census Bureau, World Bank

Finally, other demand-side forces, not quite as strong as income and population but also worth mentioning, are:

***Additional factors influencing the petfood customer base***

<b>Factor</b>	<b>Change</b>	<b>Implication</b>
Household size	Dropping fertility rates are likely to drive average household size down from 3.7 to 3.5 persons	There is a positive correlation between smaller households and pet ownership; also, resources are freed up for pets.
Age changes	The pet-ownership age group (those 20 to 70) will expand from 61% of global population to 65%, for an increase of almost half a billion people.	Expansion of the pet-ownership base, with a slight emphasis over time towards cats, which gain relative importance as pets as a population ages.
Urbanization	Expansion of the global urban population	Favors smaller dogs and cats

In addition to the forces shaping the customer base, several key forces will work to reshape petfood supply and distribution:

***The core forces shaping petfood supply will be***

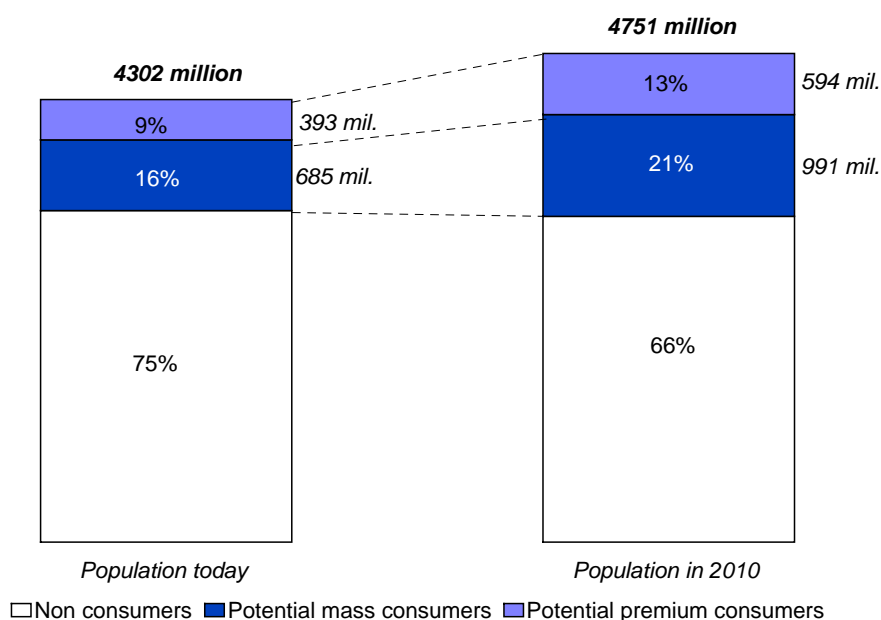
- **Retail industry concentration** - there will be fewer, stronger buyers...on a global basis. In many cases they will be introducing their own private label offerings. This trend will likely continue to exert margin pressure on petfood manufacturers.
- **Petfood industry concentration** – there is still room for further consolidation in petfood. Few companies dominate their home market...
- **Technology and the Internet** will have strong effects on the petfood supply chain, but they will also profoundly influence consumers – first and foremost through education, and secondly, through increasingly customized commercial relationships (e.g. customized products) – though there is no reason these two channels couldn't be one and the same...
- **Opening of markets** – barriers will continue to drop, making the global marketplace more competitive...

These forces are elaborated upon in Section 2.

**Global petfood markets to 2010**

So what do these trends mean? The big picture: substantial growth in the potential customer base, not just for standard commercial petfood, but for premium petfood as well.

**Overall increase in the consumer base to 2010**



Below we provide the detail: the numbers of potential consumers (for mass and superpremium products) by region, today and in 2010, according to our model:

Regions	2000							2010						
	Non consumers (<\$8,000 per capita)		Potential mass consumers (\$8,000-\$25,000)		Elite consumers (>\$25,000)		Total 2000	Non consumers (<\$8,000 per capita)		Potential mass consumers (\$8,000-\$25,000)		Elite consumers (>\$25,000)		Total 2010
	(Mil.)	%	(Mil.)	%	(Mil.)	%	(Mil.)	(Mil.)	%	(Mil.)	%	(Mil.)	%	(Mil.)
Asia	2,535	89	190	7	108	4	2,833	2,519	79	444	14	211	7	3,174
Latin America	270	71	78	21	29	8	377	295	69	92	21	44	10	431
Eastern Europe	232	80	42	15	13	5	287	202	71	66	23	16	6	284
Western Europe	27	8	216	64	95	28	338	12	3	197	58	131	39	340
US + Canada	34	11	133	44	137	45	304	0	0	160	48	172	52	332
Australia	3	16	11	58	5	26	19	0	0	12	60	8	40	20
Middle East/ Africa	122	85	15	10	7	5	144	138	81	20	12	12	7	170
<b>Total</b>	<b>3,224</b>	<b>75</b>	<b>685</b>	<b>16</b>	<b>393</b>	<b>9</b>	<b>4,302</b>	<b>3,166</b>	<b>66</b>	<b>991</b>	<b>21</b>	<b>594</b>	<b>13</b>	<b>4,751</b>

Source: PROMAR model based on estimates and World Bank data

The major areas of consumer growth potential are Asia, where potential petfood consumers could more than double in number over the next decade. Western Europe and North America, however, will be the prime area for growth in the numbers of potential premium petfood buyers.

***Opportunities by region to 2010***

<b>Region</b>	<b>Increase in consumer base (Mil.)</b>	<b>% Increase in consumer base</b>	<b>Increase/ decrease in the share of premium consumer base</b>
Asia	357	119%	-11%
US + Canada	62	23%	+18%
Latin America	29	27%	-16%
Eastern Europe	28	51%	+33%
Western Europe	17	5%	+2%
Middle East / Africa	10	43%	+30%
Australia	4	24%	+15%
<i>Total</i>	<i>507</i>	<i>47%</i>	<i>Stable</i>

Of all regions, Asia will witness the largest increase in the potential consumer base, both in absolute and percentage terms. We say “potential” because we imply they can afford petfood, not that they will necessarily buy petfood, nor in fact that they even have a pet. Potential premium consumers will take a larger share of the overall consumer base everywhere except in Asia and Latin America, where the share of the potential mass consumer base is expected to grow faster.

***Top 10 countries by largest absolute growth of the potential consumer base***

<b>Overall potential consumer base increase (mil.)</b>		<b>Potential premium consumer base increase (mil.)</b>	
China	274	China	55
US	59	US	33
India	29	Japan	17
Indonesia	25	India	14
Thailand	15	Germany	11
Poland	14	Thailand	8
Mexico	11	France	8
Brazil	8	Brazil	5
France	7	Italy	5
Malaysia	6	Mexico	5

Source: PROMAR model

Focusing exclusively on income and population growth around the world (but ignoring the issues of potential “receptivity” to pet ownership and the actual rate of petfood penetration), the countries listed above are those in which the consumer base of potential pet food buyers (with incomes above \$8,000 at PPP) will increase the most in absolute numbers. Not surprisingly, we find here some of the largest countries in the world, as well as the most dynamic ones. By 2010 in China, there could be an additional 274 million consumers earning over \$8,000 at PPP, and 55 million more consumers earning over \$25,000 at PPP.

When we use our model to forecast the top 10 petfood markets in 2010 in absolute size (by using projected growth in conjunction with current petfood market sizes), we find the following:

***Top 10 largest pet food markets in 2010***

<b>Market size (in \$ billion)</b>	
US	16.0
Japan	3.5
France	3.0
UK	3.0
Germany	2.0
Australia	2.0
Brazil	2.0
Italy	1.0
Canada	0.9
Russia	0.8

Source: PROMAR model

Overall, the major petfood markets of 2010 remain the same as today’s, as it will take some time for the fastest growing, but smaller markets to catch up with heavyweights such as the US.

***Fastest growing markets***

Here we considered the top ten fastest growing markets according to their potential consumer base, as well as according to their estimated sales.

***Top 10 countries with the strongest increase in % of their consumer base, 2000-2010***

<b>Increase in the overall potential consumer base (In %)</b>		<b>Increase in the potential premium consumer base (In %)</b>	
China	323	Thailand	255
Indonesia	133	Malaysia	238
Poland	132	China	178
Vietnam	129	India	136
India	97	Czech Rep	122
Hungary	96	Israel	100
Malaysia	95	Vietnam	71
Thailand	92	Colombia	62
Chile	45	Venezuela	62
Israel	42	Mexico	58

*Shaded areas highlight countries with a high proportion of pet ownership.*

Source: PROMAR model.

Again, here we are focusing solely on income and population growth for this portion of our model. Not surprisingly, the countries featured here with the fastest growing consumer base are mostly booming Asian economies with strong growth in income and in population among people aged 20-70. Some Eastern European and Latin American countries are also in the top 10. Most have rather small petfood markets at the present time, but these results provide a hint to pet food manufacturers on where to look for growth over the next decade, and where the most dynamic markets will be. Nimble niche companies, for instance, may find it attractive to establish themselves first before larger players enter.

*According to the sales forecasts from our model, the fastest growing markets (in sales %) to 2010 will be: China, India, Indonesia, Malaysia, Peru, Philippines, Poland, Thailand and Vietnam. Our sales forecasts take into account not only income growth and population increase, but also inherent factors influencing petfood penetration and ownership*

***Petfood markets tomorrow – Summary***

Potential petfood customers will expand by almost 50% over the next 10 years, from 1.1 to 1.6 billion:

- This represents an expansion from one-quarter to one-third of the world’s population.
- Potential premium customers will grow from 1 in 11 to 1 in 8
- Mass petfood customers will expand from 1 in 6 to 1 in 5.

The countries that will show the largest increases in potential consumers are largely in Asia, plus the US. Nevertheless, the largest markets in 2010 are likely to remain the same as today, with the US, Japan, France, UK, and Germany topping the list.

The fastest growing markets will be China, India, Indonesia, Malaysia, Peru, Philippines, Poland, Thailand, and Vietnam.

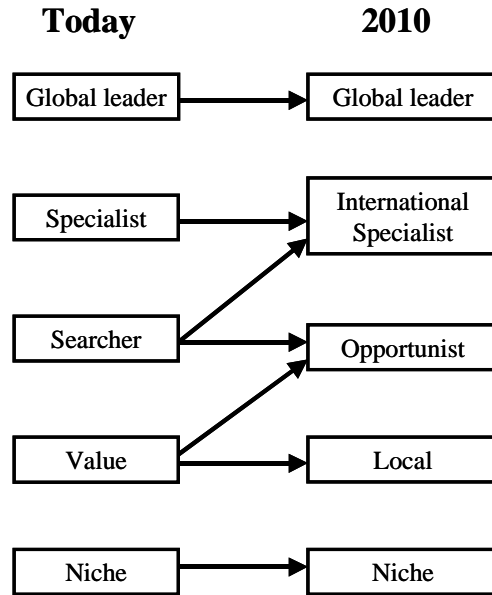
In terms of price positioning, there will be growing pressure on petfood margins globally, increased volumes, and a stronger role for private label in the years ahead.

***Strategies for accessing and prioritizing global petfood markets to 2010***

***Player types 2010***

Will player types be the same a decade from now? We expect there to continue being five types, only some will have changed:

***Changes in player types to 2010***



- By 2010, *Global Leaders* such as Nestlé and Mars will further expand their geographic reach. In addition, they are likely to push more aggressively into premium/superpremium activity.
- Today’s *Specialists*, which currently have a sizeable portion of their sales in a single market, will be much more diversified geographically: they will have production facilities and mass distribution in multiple countries, but focus on level 3 and 4 markets. By 2010 they will have become *International Specialists*. Some of today’s *Searchers* will also develop a more focused premium/superpremium approach and join this category as well (e.g. Purina).
- Most *Searchers* and a few *Value* players diversifying internationally will become *Opportunists*. They will continue to focus on mass/value products. Petfood will become more of a core business, rather than a peripheral one, for those in this category.
- The last two categories will include small and mid-sized players that focus primarily on their regional or domestic markets. They can be divided into two basic types:
  - Domestic (*Local*) companies producing standard/value petfood products. This group will find itself increasingly challenged by the competitive environment, squeezed both by direct competitors and by retailers. Their undifferentiated products may lose most of their relevance in tomorrow’s marketplace; and

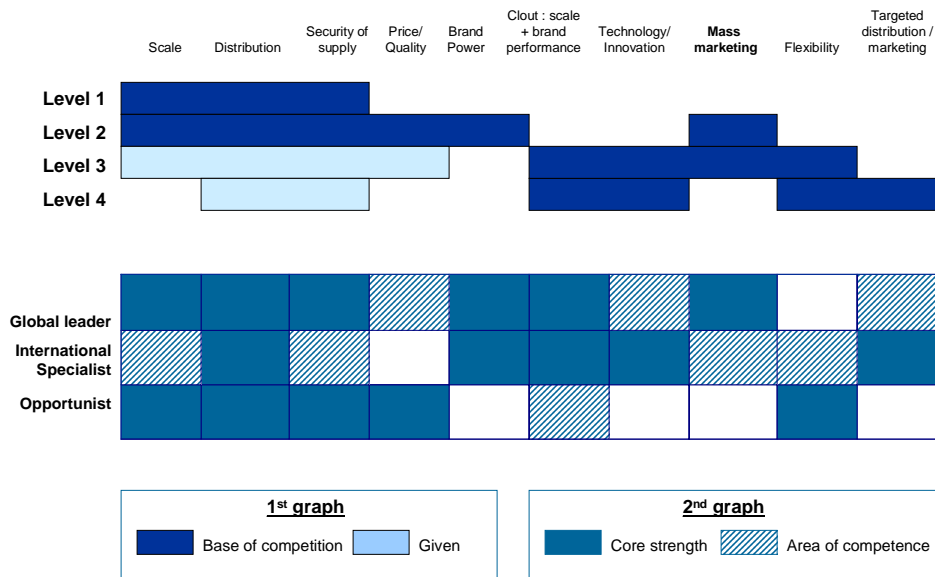
- Dynamic (*Niche*) companies that market premium niche products. This group will include most of the faster growing small and mid-sized players, and will provide acquisition opportunities for larger player types.

***Player types and their competitive strengths 2010 – a comparison***

We now correlate tomorrow’s three core player types (Global Leaders, International Specialists, and Opportunists) with the bases of competition to identify where each player type is most fit to compete. The top portion of the graphic should look familiar; in the bottom half,

- darkly shaded boxes indicate a basis of competition which is core *strength* for the player type in question;
- lightly shaded boxes indicate *competency* in that area; and
- non-shaded boxes indicate *weakness*.

***Bases of competition by level and by player type***



A quick assessment of each player's strengths, compared with what markets need at the various levels of development, highlight the following:

- **Global leaders** have strong competitive positions in Level 1, 2, and 3 markets; in Level 4 markets they have strengths but not quite the same as those of the International Specialists
- **International Specialists** compete best in Level 3 and 4 markets. In Levels 1 and 2, their volumes would be out muscled by Global Players and Opportunists.
- **Opportunists** have skills most suited to Level 1 and 2 markets, though their flexibility and lack of efforts in marketing allow them to supply budget products in Level 3 and 4 markets.

***The keys to accessing tomorrow's markets***

In the pages that follow, we explain the key features of tomorrow's petfood markets, along with the relevant bases of competition and key success factors for each market stage.

***Accessing tomorrow's Level 1 countries***

*Vietnam, India*

<b>Product attributes</b>	<b>Bases of competition</b>	<b>Key success factors</b>	<b>Market driven by</b>
Availability	Scale	Low cost production	Local players
Affordability	Access to distribution	Local presence & knowledge, strong contacts	Foreign multinationals committed to growth and who can afford to take risks
	Security of supply/availability	Access to finance, tight control, commitment to growth	

These Level 1 markets will remain fragmented and disorganized. Their low incomes and often restrictive trade barriers force petfood manufacturers to compete according to scale, access to distribution, and security of supply (both of raw materials, or in the case of imports, reliable and affordable market access). Without significant effort on the part of the manufacturer to develop partnerships, existing distribution systems cannot support high value imported products on a large scale.

***Accessing tomorrow's Level 2 countries***

*China, Indonesia, Philippines, Russia, Turkey, Colombia, South Africa, Thailand, Central Europe (not EU accession countries)*

<b>Product attributes</b>	<b>Bases of competition</b>	<b>Key success factors</b>	<b>Market driven by</b>
Value for money Convenience	Scale Access to distribution Security of supply Price / quality Brand power	Access to finance, cost controls, commitment to growth Local presence/strong contacts/market knowledge Correct quality/price positioning Mass marketing	Multinationals committed to growth, and which can afford to take risks Small and medium sized players which may be involved in regional trade.

In Level 2 we begin to see the emergence of significantly more commercial, better organized distribution structures and associated systems with which petfood manufacturers can work. The Level 1 bases of competition still apply, but extend to include the price/quality proposition and brand power. Mass marketing, therefore, is added to the list of key success factors, along with the need to get the price/quality relationship right in product offerings.

***Accessing tomorrow's Level 3 countries***

*Accession EU countries, Mexico, Argentina, Brazil, Malaysia, South Korea, Southern EU*

<b>Product attributes</b>	<b>Bases of competition</b>	<b>Key success factors</b>	<b>Market driven by</b>
Convenience Health/ nutrition Variety	Clout (scale + brand performance) Technology/ Innovation Low cost production Marketing Flexibility	In depth market knowledge R&D, product innovation Technology Partnerships up and down the supply chain Access to finance, tight control, commitment to growth Leading brands, niche appeal Targeted marketing	Players with scale and leading brands Highly flexible players with excellent cost control Creative, dynamic niche players

Companies in Level 3 markets must work successfully with complex and well-developed distribution structures and systems. Both mass and niche opportunities coexist. As a result, innovation and flexibility become increasingly important.

Petfood manufacturers will be increasingly driven by powerful “downstream” forces in the supply chain, i.e. consumer and retail point-of-sale. The strength of retailers in ten years will be substantially greater than it is today, and supply chain intermediaries will be squeezed from the system as margins become tighter and tighter. From the petfood manufacturer’s perspective, scale will be of prime importance, driving individual operators to increase their international operations.

***Accessing tomorrow’s Level 4 countries***

*Australia, Northern EU, Japan, US*

<b>Product attributes</b>	<b>Bases of competition</b>	<b>Key success factors</b>	<b>Market driven by</b>
Customization Innovation Convenience plus International	Innovation Flexibility Access to (fragmented) distribution and media	Technology, flexible structure facilitating idea exchange, investment in R&D, closeness to market Meaningful relationship with customers, one-to-one marketing and services tailored to specific needs Short lines of decision making Building appropriate portfolios in each market Establishing strong retail partnerships – offline and online	Multinationals with respected global brands Innovative and flexible companies willing to develop partnerships

By Level 4 both tariff and non-tariff barriers are largely eliminated and with this, import protection. Markets are more concentrated, both in petfood manufacturing and at retail, with fewer, more powerful players.

In order to meet the demands of a highly individualized consumer base, retailers will place more emphasis on innovation and customization than ever before. Consequently, petfood manufacturers will have to compete heavily in these areas, as well as along the more established bases of technology, service and scale. They must also strengthen their relationships with these increasingly powerful retailers.

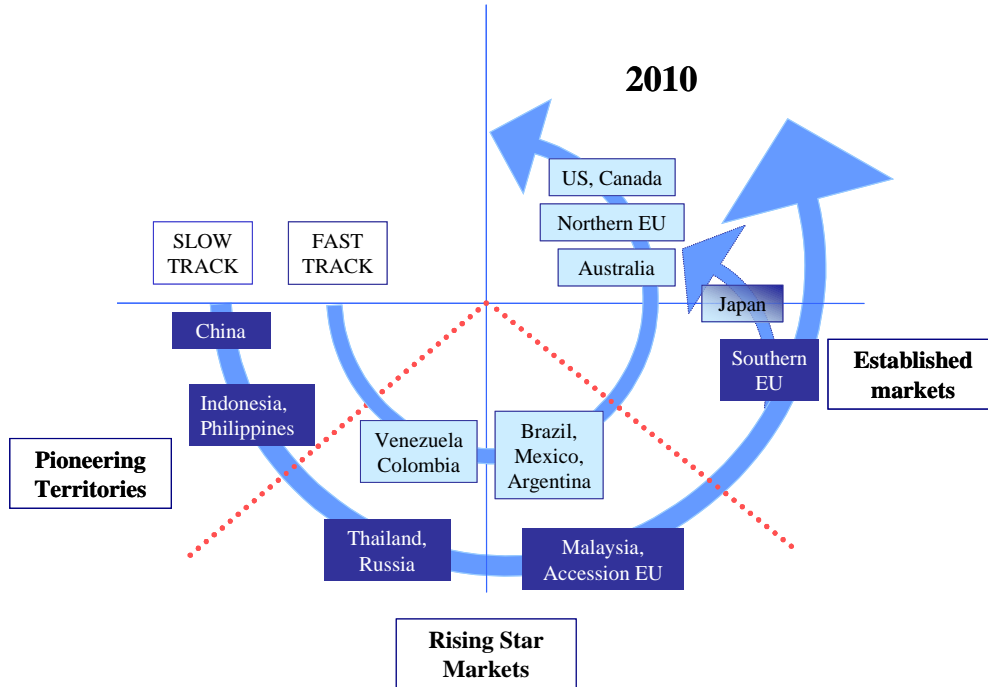
***Global market prioritization – by country groupings***

One way to approach global market opportunities is to take this 4-Level model we have been using and identify potential market groupings. In this case, we come up with

- *Pioneering Territories (in Level 2);*
- *Rising Star markets (in Levels 2 and 3); and*
- *Established markets (in Levels 3 and 4).*

Building on our model to identify them:

***Petfood markets model***



Remember, the dotted lines represent the approximate points at which consumers can afford commercial petfood and premium petfood, respectively.

***Global market prioritization – by risk vs. reward***

The other way which we identified to approach global opportunities was to take the income growth outlined earlier (and built into our model), then plot it along with the relative risks and costs associated with entering and building a petfood business in a given country market (we discuss risks and barriers extensively in Section 3). The result is a risk vs. reward matrix:

***Risk/resource vs. potential petfood rewards: a matrix***

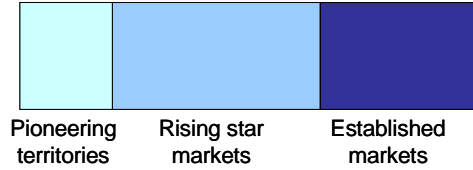
<b>Risk and Resource</b>	<i>High</i>	Vietnam Colombia Belarus India Venezuela		Russia China
	<i>Medium</i>	Indonesia Peru Turkey Czech Rep	Thailand South Africa Chile Israel Malaysia	Brazil Argentina Mexico Korea Poland
	<i>Low</i>	Singapore	Portugal Spain Hungary Italy Austria	Australia Japan Canada US North EU
		<i>Low</i>	<i>Medium</i>	<i>High</i>
		<b>Reward</b>		

In the pages, which follow, we use both these approaches (the “Levels” model and the matrix) to help determine strategic direction for our player types.

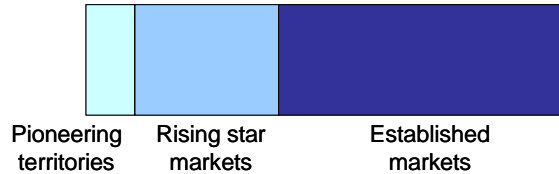
Strategic market portfolio – Strategy by player type

**Global Players** should:

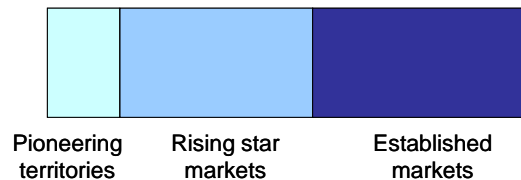
- Expend substantial effort building business in the *Rising Star* markets to ride their expansion from Level 2 to 3;
- Defend their businesses in Level 3 and 4 *Established Markets* vigorously;
- Establish strong positions in core (large) *Pioneering Territories*.



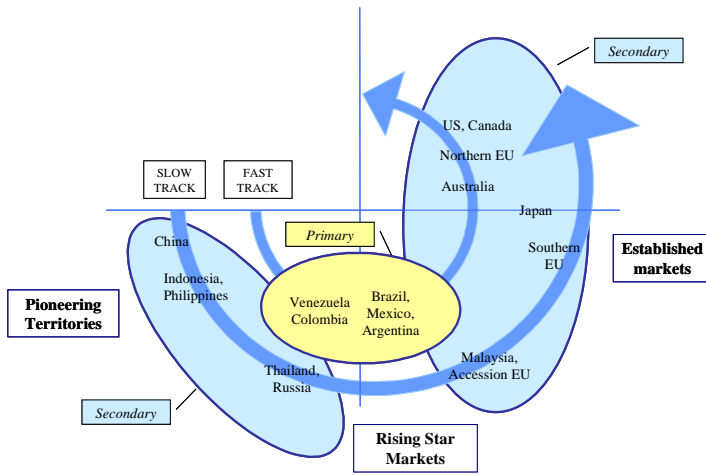
**International Specialists** must focus on the more mature markets, which have the large and growing customer bases they need for their high-end products. They must also build their presence in the larger fast track *Rising Star* markets. Elsewhere, and especially in *Pioneering Territories*, they must pursue only solid export opportunities lest they squander opportunities in their core markets.



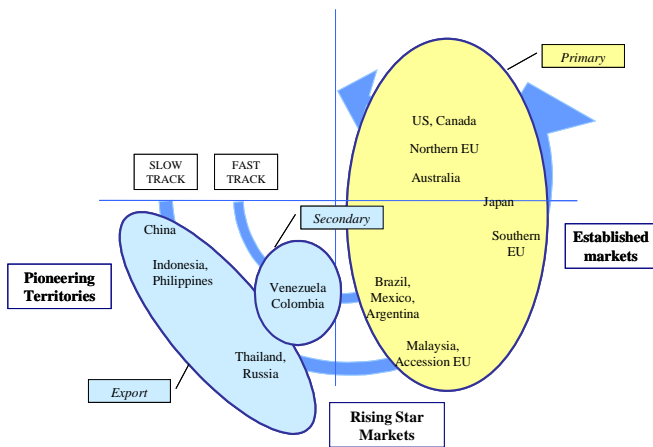
Ideally, the **Opportunists** portfolio would be blended in Established Markets and Rising Stars. However, their production-driven nature means that *Opportunists* generally lack the risk tolerance required in emerging markets - hence few of these opportunities are likely to be capitalized.



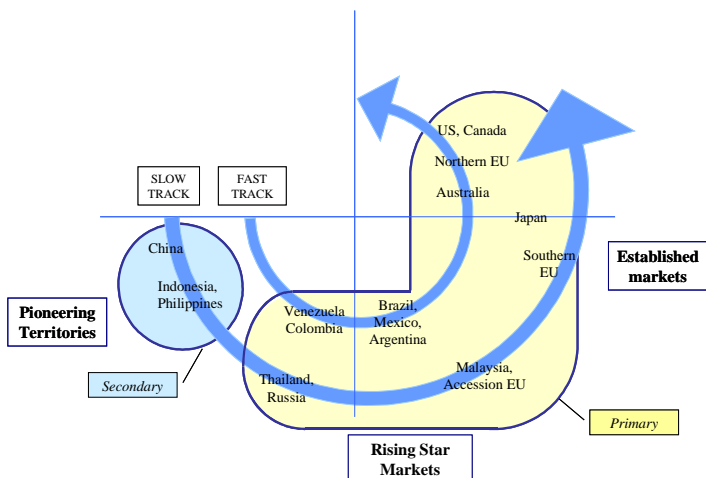
Market focus – Strategy by player type



The “sweet spot” for the *Global Player* is from mid-Level 2, where it can build business and establish positions, all the way through Level 3 where their businesses serve as cash cows, to mid stage 4 at which point competition intensifies and their ability to meet consumer needs with mass products wanes considerably. *Global Players* must make sure, therefore, that they are well positioned in the fast track countries of level 2 and early level 3.

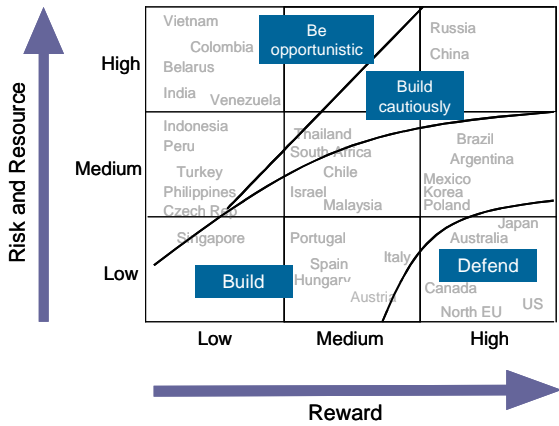


Primary markets for *International Specialists* are Level 3 and 4 markets (and Level 3 Rising Stars), where the premium consumer base is sizeable and growing. Fast track Level 2 Rising Stars may offer opportunities as well. Elsewhere, the focus should be only on exports, exclusively.

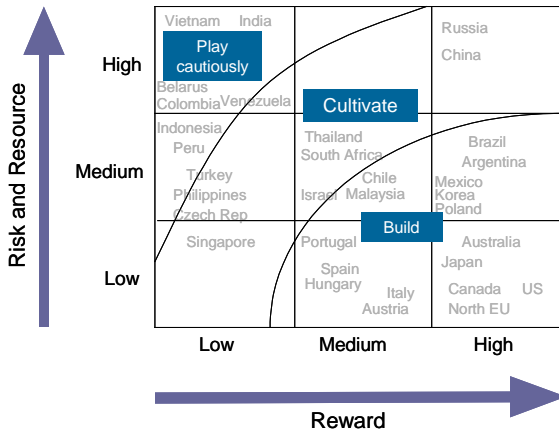


*Opportunists* should focus primarily on the more developed markets. They are likely to focus on the “vertical” portion of the “reverse L” shape to the left. If good acquisition opportunities should emerge in Level 2/3 markets, though, they should be seized through acquisition.

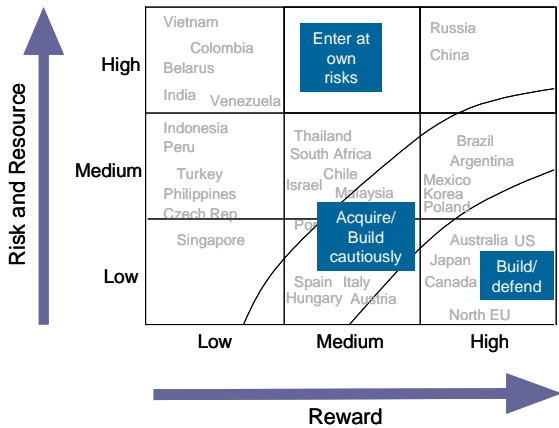
Risk/resource vs. reward – Strategy by player type



*Global Players* should prioritize efforts in the emerging fast track nations, particularly the high reward ones such as Brazil and Mexico; they should actively defend their position in more mature petfood markets (US, Western Europe, Japan, Australia); and building cautiously in the high opportunity, but equally risky, markets such as China and Russia.



*International Specialists* cannot afford to take too many risks internationally. They should focus on mature, high reward markets that are not high risk, while cultivating business in the faster growing/larger developing markets.



*Opportunists*, even more than *International Specialists*, will need to focus on the more developed petfood markets (but may find themselves having to defend also). Cost control and scale will be key. They should also seize opportunities to build in the moderate risk, higher reward markets.