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> PREMIUM PET FOOD

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Sep 3, 2007 12:00 PM, By AMANDA BALTAZAR

The pet food scare earlier this year has encouraged many shoppers to turn to organic and natural food for their cats and dogs

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This year got off to a shaky start for the pet food industry with the recall of 5,300 items and a consequent drop in dog and cat food sales.

Now the industry is bouncing back and resurfacing with a different focus.

Consumers who saw their favorite national brands and private-label lines pulled from shelves have turned to premium, natural and organic pet foods.

Retailers, like 19-store D'Agostino, have adjusted their product mix to accommodate the shift.

"We thought the best reaction would be to change our direction to offer premium products to gain sales back," said Neil Buckley, director of grocery, general merchandise and health and beauty care for the Larchmont, N.Y.-based chain.

D'Agostino shoppers are willingly paying a premium, which in some cases is double what they were paying before, according to Buckley.

Industry observers note that shoppers of the pet food category are sometimes as selective as consumers who frequent the baby food aisle.

"There is a segment of shoppers that is constantly seeking variety, but they will be more discerning when it comes to brands they will trust," said Spencer Blaker, a consultant with Willard Bishop, Barrington, Ill.

After hitting grocery shelves across North America earlier this year, pet food containing melamine-contaminated wheat gluten from China left thousands of pets sick or dead, according to published reports.

One of the most affected companies was Menu Foods, manufacturer of both national-brand and private-label pet food for retailers including Wal-Mart, Publix, Wegmans, Food Lion, Schnuck's, Giant Eagle, Hannaford Bros., Hy-Vee and Price Chopper, among others. Consequently, many stores are now devoid of store-brand pet food.

In June, Menu Foods announced that three of its private-label retailer customers discontinued their contracts with the manufacturer, deciding instead to produce pet foods themselves or source products elsewhere. Although Menu Foods didn't return a request for comment, SN has learned that Wegmans is among the retailers that have switched their private-label product provider. Doane Pet Care, Franklin, Tenn., is now producing the Rochester, N.Y.-based retailer's Bruiser brand pet food.

Doane Pet Care tells consumers that it cannot guarantee that none of its ingredients are sourced from China or that its biscuits are free of wheat gluten.

Consumer apprehension in the face of questionable products has led

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to the fare on people's plates resembling what's in the small bowls at their feet.

Wholesome Entrees from Purina One, for instance, come in chicken, turkey, beef, lamb and salmon varieties, and each includes a side of brown rice, barley or long-grain rice as well as oatmeal, potatoes, carrots, eggs and spinach.

"We as humans tend to project or 'humanize' our pets in many ways," said Blaker. "If organic, natural and benefit-based products are good for us, they must certainly be good for our pets."

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Premium pet foods like these experienced a dramatic 25% spike in sales immediately following the pet food recall, according to Bob Vetere, president of the American Pet Products Manufacturers Association, Washington. This figure has settled down, however, “now that people realize this food is more costly than they can afford.”

While sales have plateaued, retailers say they're higher than they were before the recall.

Organic and natural pet food unit sales have increased by 32% at United Supermarkets over the same time last year, according to Suman Lawrence, business manager for living well/specialty.

Although the growth in sales cannot be solely attributed to the recall, “we found that with the scare, people definitely started looking at ingredients and what they're feeding their pets,” she said. “Once they started doing that, they continued to do that.”

United changed its product mix as a result of the recall. One of its new introductions was a natural brand line called Pet Promise.

Premium pet foods are fully integrated in all of United's locations except for in its larger Dallas stores, where organic and natural pet food commands its own three-foot section.

“It's nice to have a whole set grouped together, because it lets [customers] know we're really into this,” said Lawrence.

United was about to move forward with a Menu Foods manufacturing contract for a private-label product at the time of the recall, explained the retailer's grocery category manager, Dale Pinkston. For the moment, it is sticking with its current private-label manufacturer, Federated Group, while it reevaluates the idea.

It's typically Empty Nesters buying these products, Pinkston explained, and they're treating their pets like their long-gone children. “So, high-end products are going to be growing as the population gets older.”

Natural and organic pet food sales constitute just 5% of pet food sales, he said, but that's significant, considering that five years ago this category was nonexistent.

Bashas', Chandler, Ariz., wasn't too badly hit by the recall, since it doesn't offer private-label pet food. Still, the retailer did have to remove some national brands from its shelves. It is moving more into organic and natural pet foods, but is treading softly, said Jack Paulk, category manager, pet, paper and laundry.

“[Customers] are looking for better quality and are willing to pay more,” he said. “They're much more aware today of where their products come from and what's in them.”

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Natural products are outselling organics, said Paulk, probably because they're sold at a slightly lower price point.

Industry figures back up what is happening in the nation's pet food aisles. According to data from SPINS, Schaumburg, Ill., organic cat food sales totaled \$2.6 million for the 24 weeks ending in July, a 112% increase over the same time last year. Organic dog food sales for the same period were \$4.1 million — 91% higher than during the same period the prior year.

A portion of the rise in sales can be attributed to new product introductions.

Just 35 new organic dog food products were launched in 2005, but in 2006 there were 227 new items, and for cats the figure jumped from 14 new organic products in 2005 to 191 in 2006, according to Datamonitor's Productscan Online, Naples, N.Y.

"The pet food recall did shake consumer confidence, and one way to win it back is to market and develop products which have ingredients which are above reproach," said Tom Vierhile, Productscan's executive editor.

The way in which retailers handled the recall also helped build trusting relationships with their customers.

Speed is of the essence, in both communication and actions.

"The important thing for us is how quickly the product is removed from our shelves and how fast the information gets to our customers," said Paul Simon, spokesman for Schnuck Markets, St. Louis. The retailer's private-label line was sourced from Menu Foods.

"Once we were alerted to the recall, we immediately had postings in each pet food aisle in all of our 101 stores. We also alerted the media as to which products were carried by Schnuck's so that they could pass the information on to their readers, viewers and listeners."

As soon as D'Agostino got word of the recall, it pulled product from its shelves, and asked all stores to display the information in the pet food aisle. The stores do not merchandise a private-label pet food line.

"Most important is refilling the shelves to have product available," said Buckley. "We've changed the assortment, and now it's very important to educate customers and let them know that our product is safe. We are [now] trying to be quicker to the draw in educating consumers."

As part of this campaign, D'Agostino will post information about its pet food in its flyer and in posters in store windows. The posters get a lot of attention, he pointed out, given Manhattan's high volume of foot traffic.

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Pet food sales are up at Bashas'.

"I think it was because we didn't leave our shelves empty for too long," said Paulk.

Bashas' stores were proactive during the recall, he pointed out. They pulled more products from the shelves than they needed to, to make doubly sure that no recalled product was purchased. The retailer also put up signs letting customers know what was recalled, telling them why there were holes in the shelf, and how they could get a refund on previous purchases.

Menu Foods could take a lesson from the way retailers handled the recall.

"From a mechanics and safety point of view, [Menu Foods] did the right thing, but from a public relations point of view, they hid," said Vetere. "The important thing is to give out the information. People will hear the information and stomach it better than they will no information at all."

The burden now, he said, is for the pet food manufacturers to prove they're reputable.

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