



The Opportunity for Pet Food Manufacturing in Louisiana

Louisiana Economic Development commissioned Informa Economics to evaluate pet food manufacturing opportunities in Louisiana. Their report demonstrates the market potential for super-premium and niche pet food products, such as natural and organic products and the viability of a manufacturing facility in Louisiana.

EXECUTIVE SUMMARY

Pet Food Trends and Outlook

- The outlook for pet food sales remains very positive, supported by historical and projected growth in both domestic and international sales and strong, stable growth trends in the underlying drivers of this sales growth.
- U.S. pet food sales have grown at an average annual rate of 4.7% between 1996 and 2005, driven primarily by population and income growth.
 - Pet populations are highly correlated with human population.
 - The higher the household income, the higher their pet food expenditures. These higher earning households are also the driving force behind the growth of the high margin premium pet food market.
- Dry dog and cat food remains the preferred form of pet food, over wet and semi-moist alternatives. This preference is more dominant within the dog food market than in the cat food market.
- Pet food export values also continue to grow. The value of U.S. dog and cat food exports has grown at an average annual growth rate of 7.1% between 1996 and 2006.
- The pet food recalls during spring of 2007 caused many pet owners to alter their pet food purchasing behavior and further strengthened the dry pet food preferences of buyers. It also provided additional support to the already growing natural and organic pet food markets. The recalls can also help to explain the restrained export growth in 2007. While pet food exports increased in 2007, for many growing destination countries, the value of pet food exports did not increase at the same rate as was exhibited in 2005 and 2006.

Industry and Market Structure

- In 2006, Mars, Nestlé Purina, Procter & Gamble, Colgate-Palmolive, and Del Monte held a combined U.S. pet food market share of 74%.
- Most of the facilities owned by these top five companies are located either near dense population areas or near the raw material supplies (i.e. the corn producing Midwest or the broiler production areas of the Southeast).
- Over the past few years the pet food manufacturing industry has become increasingly concentrated. At the same time there are still many small niche players, such as those within the natural and organic pet food markets.
- Whether large or small, “innovation” has been the key word across the pet food manufacturing sector, as the number of new product launches continues to increase. More than 3,000 new products were launched between 2003 and 2006, and that was just the products launched by the world’s top 20 pet food innovators (ranked by the number of new product launches).
- The main retail outlet for pet food in 2005 was the mass merchandiser, claiming 35% of all retail pet food sales, followed by supermarkets with 26%, pet specialty stores with 25%, and other stores (e.g., farm feed stores, internet sales, and drugstores) holding the remaining 15%.
- There is not a large need for additional capacity within the generic pet food market, and only a marginal need for capacity within the premium pet food market. However, there is a need for additional capacity within the super-premium and niche pet food markets (e.g., natural and organic).



Raw Materials for Pet Foods

- Corn and poultry meal are the two principal ingredients typically found within pet food. Other common ingredients include: other meat and fish meals, fats and oils, wheat (which has likely decreased after the 2007 pet food recalls), and soybeans. Louisiana is in an ideal position to provide both poultry meal and fish meal because of its aquaculture and poultry processing facilities.
- However, just as the diversity and specialization of the types of pet food available have increased, so has the variety of pet food ingredients utilized in pet food formulations. Having one of the most diverse agricultural systems in the country, growing numerous fruits, vegetables, livestock and aquacultural products, advantages Louisiana. This provides great flexibility for a pet food manufacturer to select from a shopping cart of ingredients.

Determination of the Type of Facility Needed

- In line with industry growth trends and industry needs, a facility focusing on premium and super-premium pet food would be more appropriate than a large-scale generic brand facility.
 - Furthermore, the gross and net margins for premium and super-premium pet food production are significantly higher than that for generic pet food.
 - Also, Louisiana produces many of the raw materials used in the production of some of these smaller niche pet food markets.
- Given that dry dog and cat food both hold a larger percentage of the total pet food market than wet, and the fact that this segment is growing, a dry dog or dry cat food facility would be recommended.

Major Criteria in Determining a Site

- A relatively smaller scale facility focusing on the premium and super-premium pet food markets (dry food) would imply a site and facility size on the smaller end of the typical range.
 - Site size: 15-20 acres
 - Facility size: 70,000 square feet (SF) to 100,000 SF
- Other factors to consider when determining a site include:
 - Transportation access (rail and interstate highway): rail is generally used for bulk shipments of inbound raw materials and interstate access is important for truck traffic for smaller raw material shipments and for finished product shipments. Proximity to interstate access is of particular importance regarding the ability to reach large population centers by truck within a day's drive time.
 - Utilities: access and cost of access to needed utilities are important considerations to include when determining a site; these include: telecom/broadband, gas, electrical, water, and sewer.

Advantages of Pet Food Manufacturing in Louisiana

- In terms of raw material supply and complementary processing operations, Louisiana produces many of the principal ingredients used in pet food manufacturing, including: corn, poultry, soybeans, and wheat.
- Additionally, many of the less common feed ingredients often used in premium and super-premium pet food are also produced within the state, including but not limited to: rice, sweet potatoes, and fish meal and oil.
- There are several major population and high-income areas within an eight-hour drive from central Louisiana, and there are very few competing pet food manufacturing facilities within this radius. Thirty-three cities of populations greater than 100,000 people can be reached within eight hours drive; the combined population of these cities is over 12 million.
- Additionally, Louisiana's geographical location provides marketing advantages to some of the fastest growing export markets: Mexico, Central America, the Caribbean Islands, and South America.
- Louisiana has an extensive rail network allowing for relative transportation ease and lower transport costs.



- On average, over the past ten years, natural gas and retail diesel fuel prices in Louisiana are below the national average by \$0.33/thousand cubic feet and \$0.048/gallon, respectively.
- On average, the hourly wage rates in the South, and in Baton Rouge, Louisiana, are significantly below national averages. For example, the national average wage rate for a food batchmaker is \$11.92/hr. compared to a Baton Rouge batchmaker hourly rate of \$7.47/hr.

General Financial Parameters of Pet Food Production in Louisiana

- A super premium dry pet food plant typically has gross margins that are in the range of 60%.
- The pet food industry has been experiencing favorable pricing power which has led to expanding net margins that range from 23% to 33%, over the last nine years.
- A super premium dry pet food facility would likely produce 44,000 to 63,000 tons per year and cost approximately \$35 to \$50 million to build.
- Projections show a tightening of margins through 2008, as commodity, fuel, and energy costs rise. However, as the prices for these items are expected to moderate in the future, margins are expected to rebound.

For a complete copy of *The Opportunity for Pet Food Manufacturing in Louisiana* contact Kelsey Short, Director of Agriculture/Forestry/Food Industries at short@la.gov or 225.342.5892.