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2024 INDUSTRY TRENDS: PET FOOD

As we enter 2024, we are preparing for an evolution of pet food industry trends carrying over from previous years, all of which are underpinned by lingering inflationary impacts on customer and business spending. According to Packaged Facts, about one-third of pet owners who switched pet foods in the last 12 months moved to a lower-priced option. As inflation persists, some pet owners may opt to trade down on non-discretionary spending for their pets.

The global pet food industry has remained resilient, climbing to over $140 billion in 2023, and is expected to grow at a CAGR of 5.32% by 2028. With more than one-third of global revenue coming from the U.S., the sector can be expected to be guided heavily by North America. Globally, as Gen Z pet ownership continues to rise, younger spending power will influence consumer preferences in areas like health and wellness, sustainability, and value-driven decision-making.

Many trends are similar to what we've seen in recent years, but new categories are beginning to see sub-segmentation as owners seek new ways to benefit their pets. Additionally, manufacturers are using new tech and strategies to gain greater share in a continuously saturated market.

In this report, we highlight five trends in the pet food industry to keep in mind this year:

1. **M&A LEVERAGED AS A TOOL TO DRIVE BUSINESS OBJECTIVES**
2. **SUSTAINABILITY REMAINS TOP OF MIND, BUT MORE NUANCED**
3. **PET WELLNESS EXPECTED TO GROW BEYOND SUPPLEMENTS**
4. **OMNICHANNEL RETAIL EXPERIENCE IS TABLE STAKES FOR PET PRODUCTS**
5. **AI-POWERED TOOLS WILL DRIVE CUSTOMER ENGAGEMENT**

1 M&A LEVERAGED AS A TOOL TO DRIVE BUSINESS OBJECTIVES

Despite slowed M&A activity in 2023, we saw more than 25 M&A deals, including notable transactions from J.M. Smucker, Natural Balance, and Post Holdings. The main drivers of acquisition activity from these major players included the refinement of brand portfolios and the improvement of manufacturing and production capacity.

For example, Post Holdings participated in several pet food deals this year, including an agreement to acquire Perfection Pet Foods that included assets such as two manufacturing facilities. These facilities provided Post Holdings with more capacity to insource additional production. In addition, one of the benefits from the merger of Natural Balance and Canidae included the consolidation of all product manufacturing in a single facility.

Looking ahead to 2024, we expect manufacturers to leverage M&A to gain synergies in manufacturing and work towards hitting profitability goals. The pace of acquisitions in 2024 will be impacted by fluctuating interest rates and available capital from well-positioned acquirers. Categories across treats, supplements, and pet health will be favorable candidates for M&A activity due to the driving health-focused mindset of pet owners.

2 SUSTAINABILITY REMAINS TOP OF MIND, BUT MORE NUANCED

Nearly 70% of worldwide pet owners are concerned about climate change and make daily choices with this in mind. As such, pet food manufacturers should recognize the direction of consumers' preferences and tailor messaging based on what their target consumers value most about sustainability in their pet products. We are seeing pet food manufacturers double down on sustainability efforts ranging from sustainably sourced proteins to sustainable packaging and striving toward carbon neutrality.

Honing in on pet food formulas, mushroom-based and insect-based pet foods are gaining more traction over standard meat ingredients. While far less carbon intensive than meat, mushrooms and insects can provide a significant amount of protein, which is appealing to consumers who seek specialty diets. According to NIQ, pet parents have searched for "vegan" diets for their pets 45% more in 2023 than the previous year. Manufacturers that can enter these growing segments early may be able to stand out compared to traditional companies.

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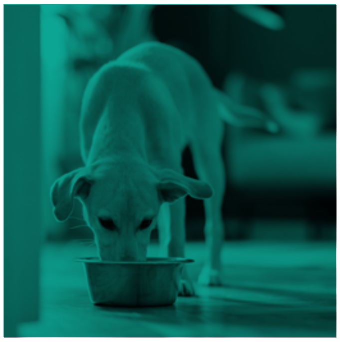
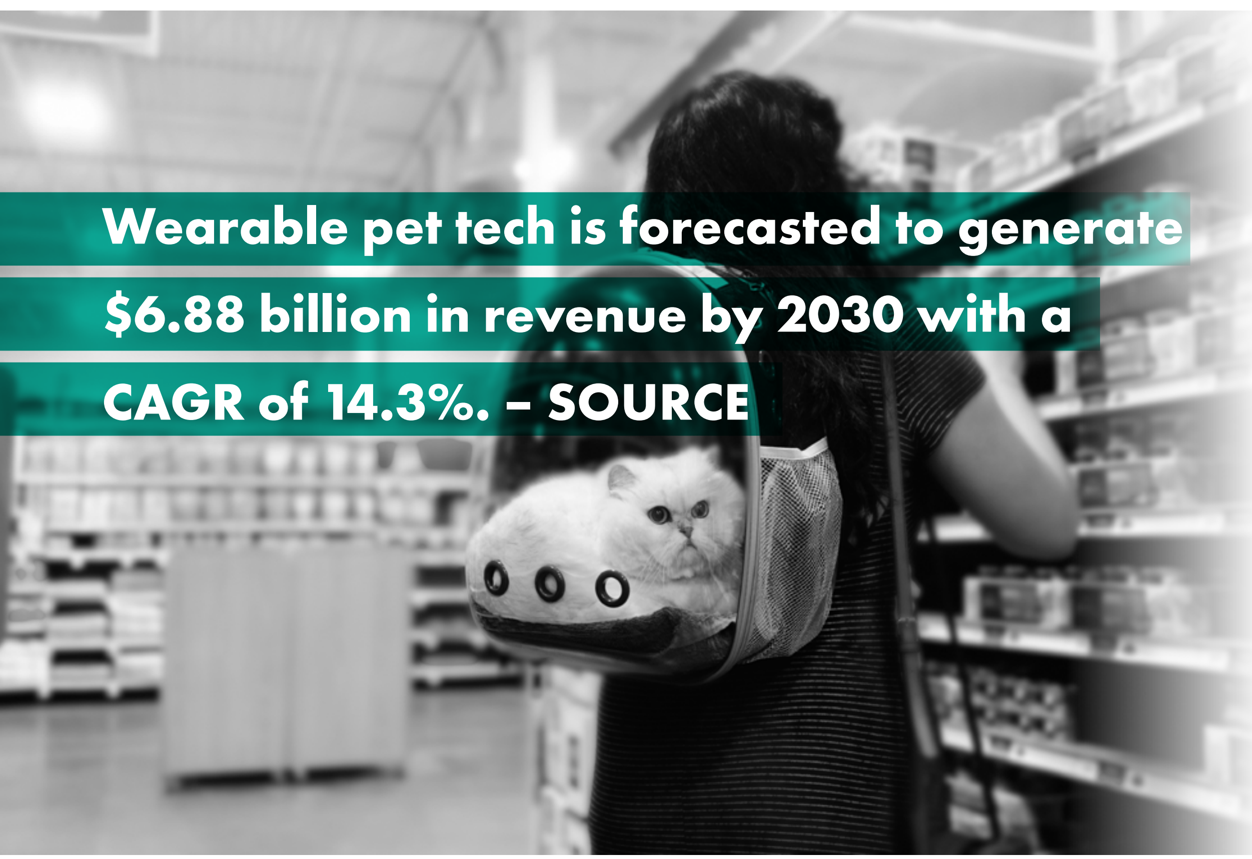


3 PET WELLNESS EXPECTED TO GROW BEYOND SUPPLEMENTS

Pet wellness has been a priority for pet parents and a top driver for the pet supplements category, which is expected to become a $1 billion industry by 2027. However, supplements aren't the only category expected to grow in the coming years. Following similar trends in the human wellness space, pet owners are looking to technology to monitor their furry friends and keep them entertained and moving.

Wearable pet tech, such as radio frequency identification devices, GPS trackers, and motion sensors, is forecasted to generate $6.88 billion in revenue by 2030 with a CAGR of 14.3%. Beyond wearables, owners are investing in customized food and toy products to keep their pets mentally healthy and stimulated. Customized pet nutrition is also becoming more popular for pets with allergies. Pet owners who struggle to find quality food on the mass market have turned to high-end food customized specifically for their pet.

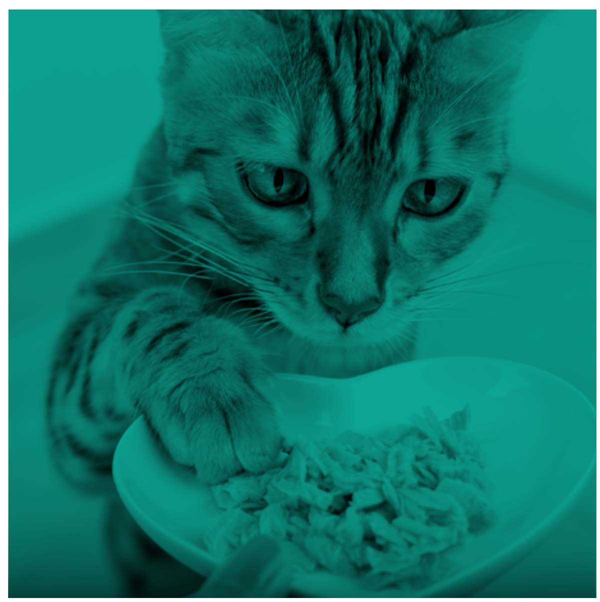
Pet parents are continuously willing to spend to keep their furry family members healthy and are looking for products that support the holistic wellness trend. Manufacturers that understand pet parents' willingness to keep their pet healthy will be set up for success as the holistic wellness trend continues to grow stronger.



4 OMNICHANNEL RETAIL EXPERIENCE IS TABLE STAKES FOR PET PRODUCTS

Covid-19 accelerated the online shopping experience with many customers going online, but as in-person shopping habits make a comeback, it will be crucial for manufacturers to ensure they're meeting customers across all touchpoints of the shopping journey: online, in store, on social media, and on apps. Pet customers are often moving between channels, with 20% saying they usually start their shopping journey online or in-store but then purchase the product in the opposite shopping channel.

Pet customers are also increasingly turning to apps to satisfy their pet needs. The average time spent on the top 10 pet-related apps has gone up 15 minutes since 2021, the largest jump of any lifestyle subgenre outside of supermarkets and stores. The Chewy app has dominated the monthly active users, but customers are also using apps from traditional brick-and-mortar stores – U.S. users of grocery delivery apps were 2x more likely to use pet-related apps than the average consumer.



Pet customers research and shop across every channel, so ensuring your brand is searchable and consistent across all sales channels will create confidence with the consumers and ultimately help to drive more purchases.

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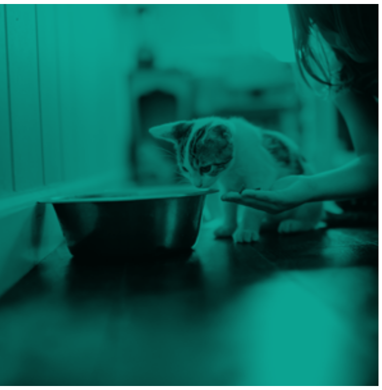
5 AI-POWERED TOOLS WILL DRIVE CUSTOMER ENGAGEMENT

Artificial Intelligence (AI) is permeating the consumer products industry, and pet food is no exception. Pet food manufacturers are exploring use cases for AI to solve for consumers' desire for convenience and efficiency, as well as ultimately to provide the best possible life for their pets. AI technology is increasingly being leveraged by brands for manufacturing, product innovation, and customer experience to name a few use cases. We've seen a few notable pet food manufacturers leveraging AI in action, including:

- Freshpet is using AI to increase customer support and satisfaction with AI chatbots.
- Colgate-Palmolive recently opened a new factory that uses robots and AI to move products to help workers operate more efficiently.
- BioCraft is replicating the processes of pharmaceutical companies by using AI to cultivate lab grown meat and further alternative protein product innovation.

Advancements in AI will continue into 2024, and as such, pet food manufacturers should evaluate which use cases to explore that will deliver against their strategic goals – whether to improve customer satisfaction, increase operational efficiencies, or further innovation.




LOOKING AHEAD

The pet food industry will continue to grow in 2024 with similar trends as 2023, but we'll start to see even more nuanced category segmentation and tech adoption across the industry. Customers will look for holistic brands and products that fit their beliefs and keep their pets healthy, while manufacturers will use M&A strategies and AI adoption to become more cost-efficient and stand out in the industry. Pet food manufacturers can gain a competitive advantage in the coming years by positioning themselves to capitalize on holistic wellness, maintain the omnichannel experience, and be at the forefront of AI adoption.

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