

Pet Business: Latest Research Findings in 2009

- Spending on the pet, a "member of one's family" is strong, and the creation of new services is contributing to expanding the market -

➤ **Research Outline**

Yano Research Institute has conducted a study on the pet business in Japan as described below.

1. Research period: March to May 2009
2. Research targets: Pet foods and supplies manufacturers, wholesalers and retailers
3. Research methodologies:
Face-to-face interviews with relevant personnel, supplemented by interviews via telephone and e-mail, and literature researches.

➤ **Key Findings**

- ◆ **Total pet market keeps growing, increased in fiscal 2008 by 2.5 percent compared to the previous fiscal year.**

The total pet market size in fiscal 2008 was 1,137.1 billion yen, increased by 2.5 percent compared to the previous fiscal year. In addition to the progress in the development of environment for living with pet, the generation of new services to meet the diversified needs of pet guardians has contributed to expanding the market.

- ◆ **Pet foods market has achieved over 1 percent growth owing to the effect of price increase.**

The pet foods market, which had long been experiencing sluggish growth, has achieved over 1 percent growth in fiscal 2008, owing to the effect of price increases most players have implemented in late 2007 to early 2008 in response to the materials and oil price increases.

- ◆ **Product segments related to keeping the pet indoors are expanding, and the growth of new supplies is expected.**

With the key words, such as "keeping the pet indoors", "aging pet" and "smaller size pet", product segments for the support of living environment have expanded. Further growth of new supplies, such as chemicals for training and body towels, is also expected.

- ◆ **Pet-related, peripheral industry is diversifying to meet the users' needs, with a particular expectation on the industry segments for the support of aging pets.**

Various new services are being generated to meet the users' needs, and the market expanding. Especially, the services to support the aging pets are expected to increase from now on.

➤ **Report format:**

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➔ Research Summary

1. Overview of the total pet-related market

The total pet market is comprised of pet foods, pet supplies, pet animals and the other-related industries, and its market size in total (based on retail price) in fiscal 2007 was 1,109.5 billion yen, increased by 2.8 percent compared to the preceding fiscal year. The steady growth of the market is expected in fiscal 2008 as well, and the market size is estimated to be 1,137.1 billion yen with the increase by 2.5 percent from the previous year. Under the long lasting “pet boom”, the market has been steadily growing year after year. In fiscal 2008, the market is over 15 percent bigger compared to the market in fiscal 2002.

In recent years, as social environment has changed and the family ties weakened compared to the past, increasing number of guardians are treating their pet same as a member of their family, and a tendency is becoming stronger to seek healing through their pet. Under these circumstances, a concept of “being together with a pet” in everyday life is gaining a social recognition and understanding. In response to the various needs of the guardians, new services and products are being created and introduced into the market, enhancing the development of easy-to-keep-pet environment.

Observing the market by segment, due to the growing popularity of small size pets and the decrease of feed consumption, the sales of pet foods have decreased in volume. However, the spending for pet, a member of a family, is strong on various services and supplies such as highly value-added premium foods. In addition, new services are generated and expanding in the peripheral businesses, contributing to expanding the market.

2. Overview of the pet foods market

The total pet foods market size in fiscal 2007 was 278.3 billion yen (based on the shipment value from the manufacturer), increased by 1.5 percent compared to the preceding year, of which dog foods account for 147.7 billion yen (101.3% y/y), cat foods 113.6 billion yen (102.2% y/y) and the others including small animals 17 billion yen (99.4% y/y). In fiscal 2008, the market size is projected to be 284.9 billion yen with the increase by 2.4 percent compared to the previous fiscal year.

Characteristics of pet keeping in recent years include “smaller pet size”, “aging of pet”, “increase of indoor pet keeping” and “pursuit of safety and ease of mind”. In these several years, due to the increase of smaller size dogs, aging, decrease of feed consumption due to the decrease of physical activities by keeping the pet indoor, and so forth, the feed consumption per pet is decreasing the total shipment of pet foods has been gradually decreasing in volume. Under these circumstances, the total shipment of pet foods in value has been narrowly exceeding the preceding year by the increase of demand for health-conscious, expensive pet foods. From late 2007 to early 2008, however, pet food manufacturers have substantially increased their pet food prices by increasing the sales prices or decreasing the contents volume, in response to the material price increase and the other cost increases such as packaging and transportation cost caused by the oil price increase. Although the shipment in volume had decreased temporally after the implementation of price increase, it has recovered at an early stage, and contributed to increasing the market by more than 1 percent since the later part of 2007.

3. Overview of the pet supplies market

The pet supplies market size in fiscal 2007 was 154.0 billion yen (based on the shipments in value from the manufacturers), increased by 4.8 percent compared to the preceding year. In fiscal 2008, the market size is projected to be 159.0 billion yen with the increase by 3.2 percent from the previous year. The pet supplies market includes consumption articles such as litter box filler, and durable goods such as clothes and cages.

In fiscal 2009 and after, the pet supplies market is expected to keep growing focused on necessary items for indoor pet keeping such as litter box sheets and fillers, and new items including training chemicals and body towels. Impacted by the recession started in the later part of 2008, however, pet guardians are becoming cautious in spending on items such as pet clothes. Thus, low growth of the market is expected to continue for a few years to come, and the market size in fiscal 2009 is estimated to be 162 billion yen with the increase by 1.9 percent from the previous fiscal year, and in fiscal 2010

165 billion yen, increased by 1.9 percent respectively.

Same as in the pet foods market, pet supplies market is expanding in the product segments for the support of living environment with the increase of “keeping the pet indoors”, “aging of pet” and “shift to smaller size pet”. As an example of items for supporting the indoor environment, litter box sheets and fillers, which are indispensable for keeping the pet indoors, have been increasing remarkably in recent years.

4. Overview of the pet-related peripheral industry

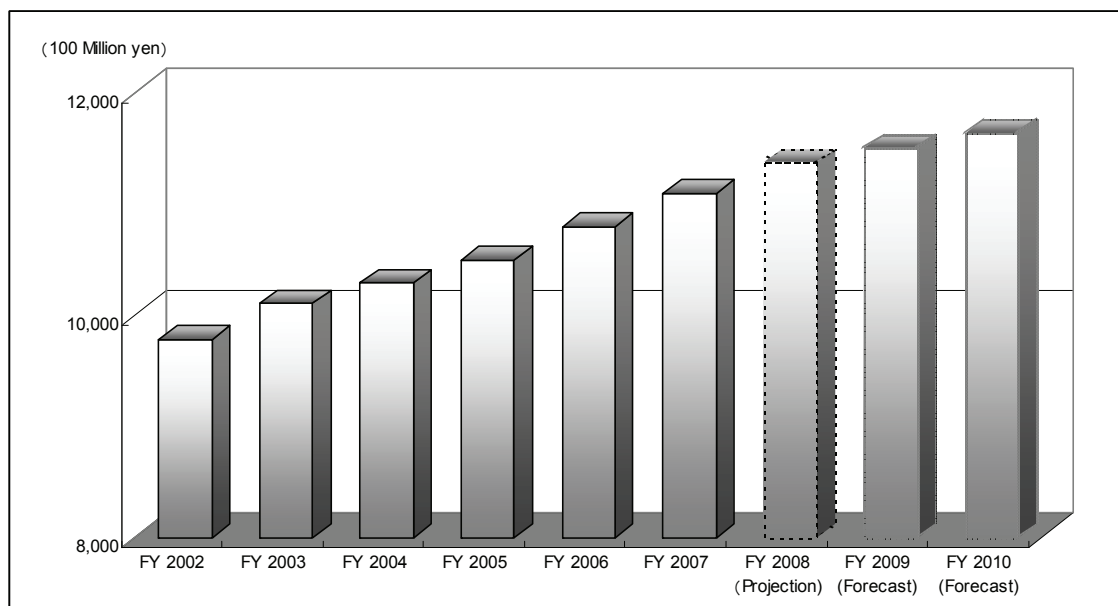
Pet-related peripheral market can be divided into 4 major segments comprised of pet keeping support service such as pet training and trimming, amusement service such as dog runs and pet parks, pet life service such as pet hotels and cemeteries, and information service such as book stores and magazines.

As it has become easier to keep the pet in condominiums and apartment houses, pet keeping has been increasing among single-person and husband-and-wife households without a child, and the needs for pet hotels and the hotels for staying together with the pet are particularly as the pet can not be left alone. Further, pet-related environment and services are being enhanced as shown in the rapid development of commercial facilities people can visit with their pet.

Especially expected to grow from now on is the market segment for supporting the aging pets. Due to the progress of aging and increase of lifestyle-related pet diseases, pet owners are becoming conscious about the well being of their pets, and the frequency to seeing an animal doctor is increasing. As a new optional service at the time of pet sales, a pet insurance has been introduced into the market, which is designed to cover the likely to be expensive medical fees for the pet. Also, as there are increasing requests for aged pet counseling and nursing services, and nursing facilities, new services to support these needs are expected to grow as well. Thus, the potential demand for the services as described above has been further increasing.

These pet-related peripheral industries are driving the growth of pet business in total, which has been expanding steadily in recent years. As increasing number of people are thinking of their pet as a partner, and desire to live together in every aspect of their lives, including clothing, foods, housing and various services, the demand for those new products and services have increased and contributed to driving the growth of the market.

Fig. 1: Total Pet Market Size Transition & Forecast

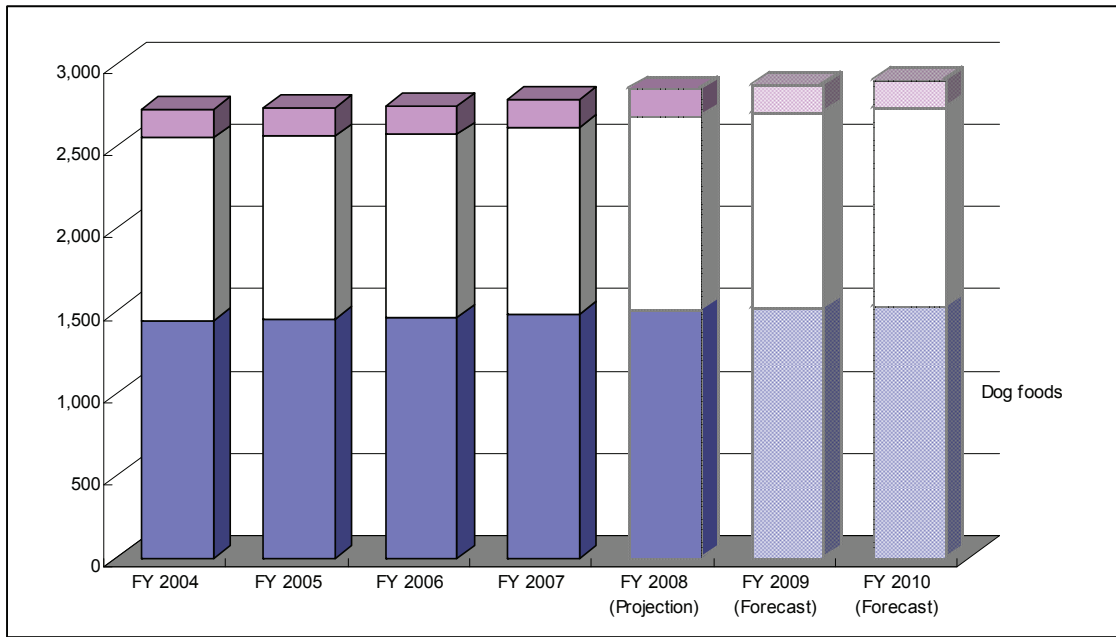


Note 1: Based on the retail price

Note 2: (Projection)= Projected value, (Forecast)= Forecasted value

Estimated by Yano Research Institute

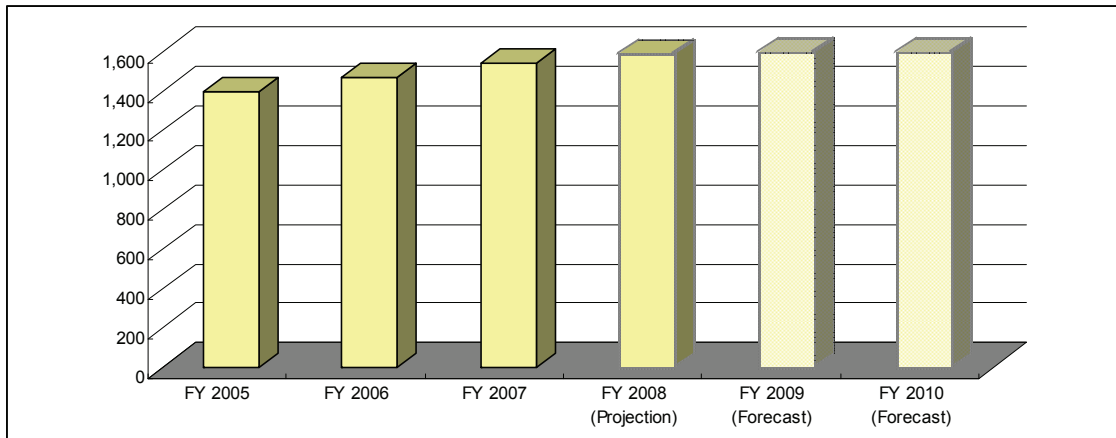
Fig. 2: Pet Foods Market Size Transition & Forecast



Note 1: Based on the shipment in value from the manufacturers
 Note 2: (Projection)= Projected value, (Forecast)= Forecasted value

Estimated by Yano Research Institute

Fig. 3: Pet Supplies Market Size Transition & Forecast



Note 1: Based on the shipment in value from the manufacturers
 Note 2: (Projection)= Projected value, (Forecast)= Forecasted value

Estimated by Yano Research Institute