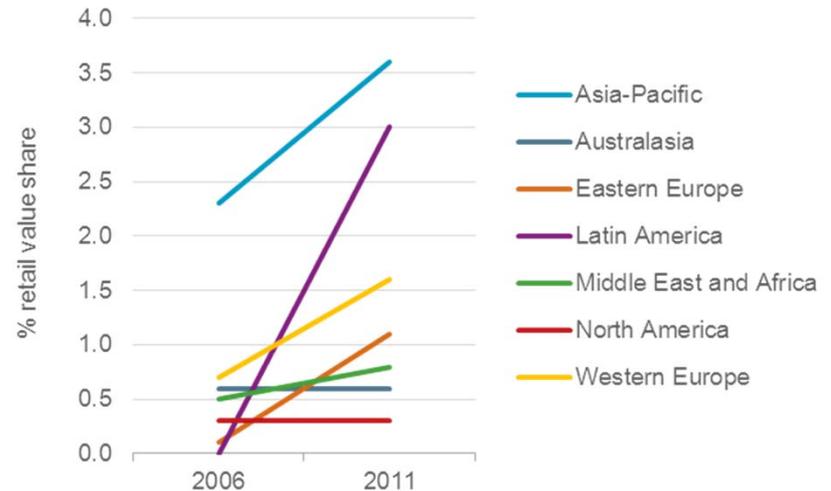


## Recent recession drives pet owners to shop online

- Internet sales remain fairly insignificant, accounting for less than 2% of overall pet care retail value sales worldwide in 2011.
- Even in developed markets, internet retailing remains at best a niche channel. For example in North America and Australasia, internet retailing accounts for less than 1% of pet care value sales.
- That said, the bulk discounts that many online retailers provide have proven to be particularly appealing to hard-pressed pet owners who were adversely affected by the recent recession. This is particularly the case in Western and Eastern Europe.
- The effects of the sharp economic slowdown in key Western European markets, such as German, France and the UK, as well as continued economic uncertainties in debt-ridden countries such as Greece, Spain and Portugal, will lead to many consumers being more cautious in their spending.
- In the UK, both supermarket and pet specialist retailers are investing in their internet business operations to cater to growing demand for more cost effective pet food and pet products online.

Pet Care via Internet Retailing  
2006/2011



- A good example is Ocado in the UK, which is looking to expand its online grocery business to include pet food. The decision was made after consumer feedback to its site indicated that there was demand for pet food purchasing.
- Ocado now features information and advice on pet health and nutrition provided by TV vet Joe Inglis. This marks the first attempt by a grocery retailer to compete with pet specialists by offering advice.

## Pet specialist retailers also moving towards online sales

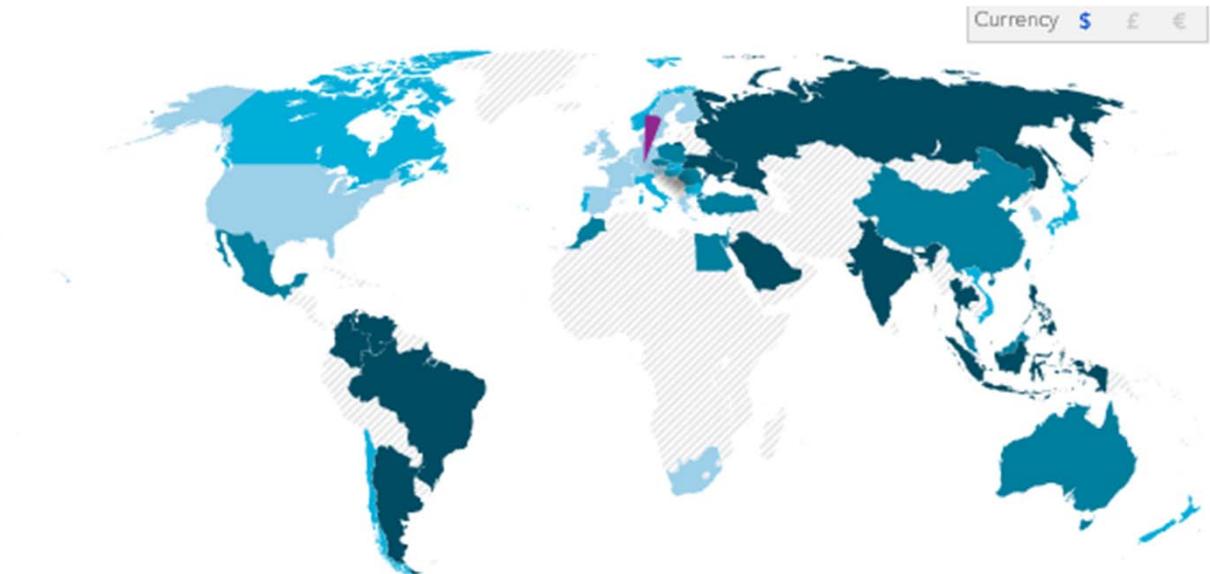
- In Europe, the leading pet superstores Pets at Home and Fressnapf launched internet operations in 2008 and 2009 to complement their bricks and mortar operations. According to these companies, both aim to build a significant multi-channel business that enables their customers to access an even greater range of products from anywhere at any time, and have their purchases conveniently delivered to them at home.
- According to a recent press interview, Pets at Home is investing significantly in its internet operations and is aiming for online sales of £25 million during the 2010-2012 period. Due in part to the additional investment by these retailers to develop their online businesses, internet retailing of pet care in Germany and in the UK increased its share over the full year 2010 to 1% and 2%, respectively.

### PET CARE STORE-BASED RETAILING



#### Historic Growth i

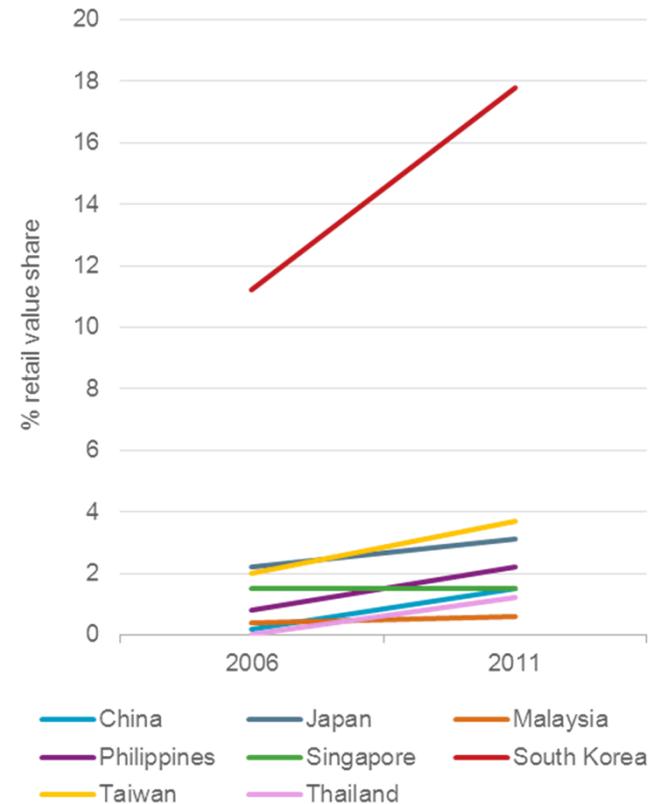
Retail Value RSP, US\$ mn, Current Prices, YOY  
Ex. Rates, 2006–11 CAGR



# Asia-Pacific offers great internet opportunities

- While still in its infancy in most of the world, internet retailing has quietly taken off in a number of Asian markets, most notably South Korea, where online sales are estimated to account for 18% of pet care retail value sales in 2011.
- Online sales of pet care are expected to grow rapidly in developing markets, thanks to increased household penetration of internet usage. For example, in 2010, there was at least one internet user in every Chinese household, while in 2005, only three in 10 households had at least one internet user.
- Another growth driver for expanding internet sales in developing Asia-Pacific markets is the growing pool of affluent consumers, many of whom have higher consumption expectations and quality standard than their local store-based retail infrastructures can hope to satisfy at the present time.
- This creates opportunities for retailers as well as manufacturers to use the internet to derive significant profits from selling relatively niche and premium products to affluent consumers.
- For example, regional dog ownership is on the rise, especially in China, where affluent consumers keep dogs to flaunt their wealth and social status. Beneficiaries of this trend could be the major manufacturers – and retailers – of premium brands like Royal Canin, Eukanuba and Hill's Science/Prescription Diet.

Asia-Pacific Pet Care via Internet Retailing 2006/2011



# China: Royal Canin leverages the growth of B2C online retailing

- A case in point is Royal Canin in China, which saw its value share in premium dog and cat food expand by 11 percentage points, from 32% in 2006 to 43% in 2010.
- This phenomenal success is in part due to its strong distribution through online business-to-consumer (B2C) retailers, such as Tmall.com, as well as online pet specialist retailers, such as www.kudipets.com.
- Tmall.com, which was launched in 2010 by Taobao.com (a Chinese equivalent of Ebay), is a growing online platform for on-line shops that operate in the form of companies' owning e-stores of their own or through third-party shopping sites.
- www.kudipets.com is the online B2C retailing arm of Beijing Bo Ai Pets Co Ltd, China's leading pet superstore, which offers more than 10,000 kinds of pet products online, ranging from pet food and pet care products to pet services. Due to the broad variety of products and services provided, the company has successfully been recognised by consumers as the top choice for purchasing pet care products.
- Royal Canin has been working in close partnership with www.kudipets.com, and it is one of the brands that is featured prominently on the website.

- According to Euromonitor International forecasts, internet retailing in China as a whole is expected to outperform other channels, achieving a 42% constant value CAGR over 2010-2015. This is thanks to convenience and lower prices, as well as the wide range of products available through key B2C channels such as Tmall.com.
- Learning from the success of Royal Canin, key players operating in the premium segment, such as Iams and Hills, should venture more aggressively into the internet retailing channel to broaden their reach in China, especially as the store-based retailing infrastructure is still underdeveloped in large parts of the country.

