First in Show Pet Foods, Inc.

**BUAD 6300 Strategic Marketing and Analysis**

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**Issue**

First in Show Pet Foods, Inc. has been a major producer of dog food for show dogs within the dog show circuit for several years. They create high-quality and high-priced products for show dogs and now see an opportunity to enter into new retail channels with their product due to changing attitudes and perceptions within the dog food industry, regarding dog food consumers. Their greatest concerns are how they should go about breaking into the retail channel, who to target, how to promote their product, how much to allot to this initiative, and where to start selling their product. First in Show Pet Food, Inc. executives are carefully considering how to launch their Show Circuit brand dog food into the greater Boston market.

**Background**

*Industry*

In 2009, dog food sales will total about $10 billion at manufacturers’ prices. However, fewer than half of US dogs are regularly fed prepared dog food. This indicates there may be untapped potential within the dog food industry with regards to the prepared dog foods segment. As of 2008, the dog food industry share was broken down by category: Dry (65%), Canned (15%), and Treats (20%). Interestingly, frozen/prepared dog foods were not on the list, leaving a huge potential market for First in Show Pet Foods, Inc. to tap into. Entering the prepared dog food market at the retail level would almost certainly entail added risks and costs. 15% of new products introduced to supermarkets each year are destined for the freezer case but 80% of these products fail.

There are four major trends within the dog food industry:

1. Increasing Dog Ownership – There are currently 65 million dog owners in the US and this number is continually growing.
2. Pets as Family Members – Pet owners see their animal companions as a part of the family and assign human characteristics to them. 75% of dog owners consider themselves mom and dad and 95% of dog owners pet and hug their dog every day. As a result, dog owners in the US spend $20 billion a year on vet bills, dog toys, dog medications, clothing, accessories, and furniture.
3. Premium and Super Premium Dog Foods – Higher-quality and higher-priced dog foods, in addition to increasing dog ownership, has fueled the increase in dog food sales growth.
4. All Natural Dog Foods – There is an increasing trend in the emphasis of all-natural, no additives, no preservatives, and vitamin and mineral enriched dog food products. The graph below shows the large percent change in claims over just a two year period.

|  |  |  |  |
| --- | --- | --- | --- |
| **Claim** | **2006-2007 Frequency** | **2007-2008 Frequency** | **Percent Change** |
| *No Additives/Preservatives* | 95 | 146 | 53.7% |
| *Vitamin/Mineral Enriched* | 94 | 144 | 53.2% |
| *All-Natural* | 107 | 138 | 29.0% |

*Competitive Landscape*

There are roughly 50 dog food manufacturers and 250 dog food brands in the United States. However, only 5 companies made up 75% of dog food sales in 2008. These companies include: Nestle Purina PetCare, Iams (owned by Proctor & Gamble, Inc.), Hill’s Pet Nutrition (owned by Colgate-Palmolive Company), MasterFoods USA, and Del Monte Foods. Private labels also accounted for about 9% of total supermarket dog food sales (where private labels are sold).

*Market Segmentation*

The following is a breakdown of retail channel distribution in 2008:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Supermarkets** | **Mass Merchandisers** | **Pet Superstores** | **Farm/Feed Stores** | **Veterinarians** | **Internet Retailers** |
| *% of Market Channel* | 36% | 25% | 20% | 7% | 6% | 6% |

*Industry Success Factors*

Dog food is very heavily advertised each year. The industry average for advertising expenditures is approximately 2% of sales revenues. Successful dog food manufacturers invest heavily in advertising and other marketing initiatives. Advertising in the dog food industry is primarily achieved via television (commercial or television show advertising), newspapers (the primary purpose of this medium is to distribute coupons), and magazines.

**Strategic Issues and Problems**

*Situation*

First in Show Pet Foods, Inc. is a major producer of the finest quality dog food for show-dog kennels in the United States. It was originally designed by a mink rancher whose mission was to put together the finest ingredients to improve the coats of his minks. This high quality dog food quickly moved from the mink ranch to the dog show circuit where kennel owners quickly noticed improvements in their dogs’ coats. They provide a unique dog food which promotes coat health and overall improved dog health. They use federally inspected beef by-products, beef, liver, and chicken (85% of the product’s volume is from meat) and premium quality fortified grains (15%), they do not use any additives or preservatives, and the product is packaged frozen to prevent spoilage.

While First in Show Pet Foods, Inc. is widely recognized among the kennel market, they are interested in transitioning into the retail dog food market where their Show Circuit brand frozen dog food would essentially be a “new product.” However, a few important questions must be addressed before making such a huge decision:

1. Product – How big should a case be and in what volume should the product be sold? What should the packaging look like? What will their competitive advantage with this product?
2. Price - What should the suggested retail price be for a case of Show Circuit brand dog food? How much money should be invested in marketing initiatives initially?
3. Promotion – How should Show Circuit brand dog food be advertised? Who should the target market be? What position should the company take within the market? How will we direct consumers to our product?
4. Place – Where should Show Circuit brand dog food be sold? What retail channels should be used to sell the product? Where at within the retailer should the product be located?

*Potential Promotional Alternatives*

There is a wide variety of promotional/advertising alternatives which First in Show Pet Foods, Inc. can take. Listed below are some of the most viable options being considered:

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| --- | --- | --- |
| **Channel** | **Advantages** | **Disadvantages** |
| *Supermarket* | Supermarkets are the largest retail channel used for selling dog food. Therefore, most consumers would see the product if sold here. Since Show Circuit dog food is not well known in the retail dog food market, this would be a good place to introduce it to the masses. | Show Circuit dog food is of the highest quality; selling it at a supermarket within the reach of most consumers’ means it is easily accessible to all and therefore might not be seen as the highest quality available. |
| *Mass Merchandiser* | This is the second largest channel for the dog food industry. Therefore, many people would have the opportunity to be introduced to Show Circuit dog food if it were on their shelves. | The disadvantages would be similar to the disadvantages already discussed regarding the supermarket channel (above). |
| *Pet Store* | Those who shop at pet stores know that they can find the highest quality items for their pets at a pet store. Those who are willing to pay higher prices for better dog food would be more accessible within this channel. | While the percentage of dog food sold via this retail channel is high, it is not the highest. This would prevent Show Circuit dog food from reaching the maximum number of consumers. |
| *Veterinarian* | Those who bring their pets to the veterinarian are either conscious of their pet’s health, in need of improving their pet’s health, and/or come to their vet for a trusted recommendation of high quality dog food. | The percentage of this channel is very low and therefore consumer awareness would be very low and the product would not easily accessible if this were the only channel used. |
| **Location** |  |  |
| *In Human Freezer Section* | This would allow consumers to grab the product while shopping without having to visit an additional aisle for their pet food needs. | Consumers might be confused as to the dog food location. If they need dog food and are used to dry dog food, then walking to another section to hunt for a new type of food might not be highly probable until they are more aware of the brand as this could be seen as an inconvenience. If consumers are not specifically looking for dog food, they might walk right past the location. |
| *In Pet Food Aisle* | If consumers are specifically looking for dog food, they will have an easier time finding Show Circuit dog food if it is conveniently located in the pet food aisle. | Since the product is frozen, a freezer section must be available in the dog food aisle. The availability of such an option may vary by retailer. |
| **Promotion/Advertising Methods** |  |  |
| *Newspapers (Coupons)* | Consumers are willing to try new products if they receive some sort of discount promotion. Newspapers provide them with these discounts (coupons) which may convince them to make the initial trial purchases. | Newspapers are not as popular or as regularly read as they once were, especially among the younger demographics. |
| *Television Show Advertising* | Promoting Show Circuit through existing television shows may significantly increase brand awareness. | This option is very costly. Careful consideration must be taken to ensure that the audience is part of target market. |
| *Television Commercials* | This has the potential to accurately reach the target market with the Show Circuit message. Television commercials have the potential to inform audiences of the Show Circuit brand and how they can find it within the retailer. | This option is very costly. With the rising popularity of DVR and other alternative methods for receiving television programming, many people are now tuning out or avoiding commercials. |
| *Online Advertising* | Internet usage has been increasing across all demographics. Therefore, exposure/access to a larger audience is possible via this method. | Many people tune out or avoid online advertising and online advertising is not always as effective as intended. |
| *In Store Spokesman* | Consumers would be able to gather more information about the benefits of the product and possibly receive coupons or samples. This would make the learning experience more personal for consumers. This could be highly beneficial if used in conjunction with pet store channels to target those individuals who are genuinely concerned with meeting the full potential of their pet’s well-being. | Could be seen as a nuisance and is up to the discretion of individual retailers as to whether or not this is appropriate within their location. |
| *In-Store Advertising Material* | This form of advertising could be beneficial because consumers purchasing dog food will see a Show Circuit dog food advertisement while making a purchasing decision. | If consumers are brand sensitive, spending more on in-store advertising material may be ineffective in changing their decision. |
| *Paw Prints Leading to Product Location* | This would consist of paw print stickers behind placed on the floor in the dog food aisle and a trail of paw print stickers would lead the customer to the frozen food section where Show Circuit dog food would be available. This would capture the consumers’ attention while simultaneously providing a few facts about the product. | Permission to utilize this type of promotion would be at the discretion of individual retailers. |

**SWOT Analysis**

*Strengths*

First in Show Pet Foods, Inc.’s greatest strength regarding their Show Circuit pet food is that it is of the finest quality and has been used and recommended by professional show-dog owners for years. Show Circuit brand dog food is in a unique position in the sense that it will be located right next to the “people food” in Boston area supermarkets. Segregation from other dog food brands highlights Show Circuit’s high quality and super premium status. Being the only pet food in a freezer aisle full of “people food” will ensure consumers are able to separate Show Circuit from dog food brands of inferior quality.

*Weaknesses*

Show Circuit dog food is very costly to produce due to the inclusion of fresh meat and premium quality fortified cereal grains. High production costs must be passed on to dog food purchasers who have been traditionally categorized as very price sensitive. Studies have indicated a general lack of consumer appeal regarding frozen dog food and one major challenge marketers face is convincing consumers to accept a product that takes up valuable home freezer space and requires significant thaw time prior to meals. Marketing experts have indicated that the problem of low appeal can quickly be turned into an asset with “the first dog food made to appeal only to dogs” marketing campaign.

Retailers who sell Show Circuit dog food at the manufacturer’s suggested retail price will sell the product at a lower margin compared to other frozen foods that have traditionally yielded relatively higher margins. This may make persuading frozen food buyers in management at supermarkets difficult. Food brokers must convince supermarket frozen food buyers that relatively low margins will be offset by higher product turnover.

First in Show Pet Foods will launch Show Circuit dog food with limited distribution resources. As a relatively small player in the pet food industry, First in Show Pet Foods, Inc. must utilize their limited resources efficiently. With the inability to support distribution in all Boston area retail channels, First in Show Pet Foods has chosen the supermarket retail channel as its sole distribution channel. Supermarkets dispense 36% of all dog food in the United States (which the Boston area represents); the highest volume of all dog food retail channels.

*Opportunities*

Executives at First in Show Pet Foods, Inc. view the prepared retail dog food market as a major growth opportunity for their Show Circuit brand of dog food. Fewer than half of all dogs are regularly fed prepared dog food, indicating that the $10 billion (2009) dog food industry has yet to tap the full potential of the prepared dog food segment. Additionally, dog food consumers have shown increased interest in organic and all-natural dog foods that are of premium and super premium quality; organic dog food sales grew 64% in 2008. Many consumers are willing to pay premium prices for organic dog foods.

American dog ownership has consistently increased in recent years. Additionally, dog owners are more likely to consider their pet a member of the family (while considering themselves to be “Mom” or “Dad”) and are increasingly investing more into their pets. First in Show Pet Foods, Inc. views this increasing focus on pets being a member of the family as an opportunity to educate consumers in healthy dog food choices.

Management at First in Show Pet Foods, Inc. view the Boston market as an untapped and vital opportunity to be the first to offer frozen dog food to Boston area dog owners. Distribution channels and consumer buying behaviors are representative of the country as a whole. A successful launch in the Boston market will lay the groundwork for transition into a nationwide launch.

*Threats*

Perhaps the biggest external threat to First in Show Pet Foods, Inc. is the large number of dog food manufacturers already well-established within the US. 50 dog food manufacturers currently sell 350 dog food brands nationwide. The top five companies – Nestle Purina PetCare, Hill’s Pet Nutrition, MasterFoods USA, and Del Monte Foods – represented 75% of all U.S. dog food sales in 2008. As a relatively small company, First in Show Pet Foods, Inc. has a limited amount of distribution resources. Additionally, all five of the major dog food producers are heavy advertisers and fiercely defend their market share.

Another significant threat involves supermarkets who may be reluctant to allocate freezer space to a new and unproven product. Frozen foods typically have a higher margin than other supermarket items while Show Circuit’s margin is significantly smaller. With a low margin and high likelihood of failure (80%), frozen food buyers who represent supermarkets may cautiously decide not to provide freezer space for Show Circuit pet food. It is highly likely that First in Show Pet Foods, Inc. will need to budget approximately $50,000 for slotting fees paid to supermarkets to purchase in-store freezer space.

*SWOT Overview*

|  |  |
| --- | --- |
| **Strengths** | * Super-premium quality * Recommended by professional show-dog owners * Located next to people food in supermarket |
| **Weaknesses** | * Costly to produce * Product requires thawing time and freezer space * Lack of consumer appeal for frozen dog food * Low margin for retailers * Company has limited distribution resources |
| **Opportunities** | * Prepared dog food market has yet to be fully tapped * Growth in premium and super premium dog food sales * Growing popularity in organic and all natural dog foods * Increased dog ownership within the United States * Pets increasingly viewed as members of the family * Opportunity to be first in Boston market * Successful Boston market launch lays groundwork for national launch |
| **Threats** | * 5 biggest dog food producers own 75% of market share * Competitors heavily advertise * Dog owners are generally price sensitive * Difficulties convincing retailers to provide freezer space |

**EvaluatioN OF OPTIONS**

*Option 1*

Referring back to First in Show Pet Food, Inc.’s strengths and how they coordinate with potential opportunities, one option would be to continue distribution within supermarkets. Locating product next to “people food” and having the potential to move product within the 36% volume channel, the highest percentage of pet food sales, is the main benefit. Due to the unlikely location of dog food in the frozen food aisle and the limited distribution resources available, it is recommended that in the initial release of Show Circuit in major metropolitan areas, the following advertising plans should be launched.

As newspaper readership is down nationwide, coupons mailed in local packages such as JB Dollar stretcher or Valpak should be utilized to encourage the product’s initial purchase. Primetime television advertising of First in Show Pet Food, Inc. products will also encourage brand awareness and purchases, as families watch commercials showcasing what healthy dog food can do for their very own family pet. Another television commercial option is to advertise on specialty shows concerning dogs, such as the famous Westminster Kennel Club Dog Show, The ESPN Outdoor Games that showcase dogs and various contests of agility and jumping, and other shows that display dogs and their hunting abilities. A third television advertising option would be to attach Show Circuit to a Saturday morning cartoon show as a sponsor for children to identify with. Children will then encourage parents to purchase First in Show products the next time the family is in the supermarket.

As previously mentioned, First in Show will maintain their space in the frozen food aisle, differentiating themselves from the rest of the dog food options. Associated with this maneuver are placing adhesive paw prints on the floor of the frozen food aisle in supermarkets leading to the Show Circuit brand dog food in the freezer case. The paw prints can even go up on the actual freezer door, illustrating a dog once found as if he is leaving a trail for others to follow.

This option is strategic according to Michael Porter in that First in Show Pet Food, Inc. has differentiated themselves with a specific type of dog food: frozen and health conscious. They also have established their product as the leader and groundbreaker in the niche category of a premium ingredient, frozen, ready-to-thaw healthy dog food. First in Show Pet Food, Inc. has addressed a growing need of organic and healthy dog food for show dogs and eventually the common house pet and has established a valuable and unique position in the market. They have chosen to specialize in frozen dog food rather than dry or canned food. Once the differentiation has proven successful, First in Show Pet Food, Inc. can then place their product in other channels, such as mass merchandisers and pet stores.

*Option 2*

This option would involve First in Show Pet Food, Inc. starting slow, building a base and expanding when the time was right. This involves operating at an independent pet store and farm/feed store level, due to the limited distribution resources. Although only operating in 6-12% of the volume sold of pet food, these markets allow the nature of the premium and super premium ingredients, the high quality, and potentially higher price to give an aura of exclusivity to the product. It could potentially take a longer time to build brand awareness, but a strong base can be built with loyal dog owners who understand the kind of product their dog deserves. The product itself will be located in its respective aisle within pet stores and farm/feed stores.

As previously mentioned, television advertising will increase with commercials run in the right primetime slots, as well as connected to the right programs that will reach the right target market of families/individuals who do/will own a dog. However, the amount of commercials on the airwaves would be less, as the product itself would be in fewer places to purchase. Coupon mailers from the specific pet store where First in Show Pet Food, Inc. is being sold as well as advertisements from the farm/feed stores should help increase initial purchases.

This option is strategic according to Richard Oliver in that First in Show Pet Food, Inc. understands its market share is low, and they are building a base of operations from which to conduct their war. First in Show Pet Food, Inc. is thinking outside the box with a prepared meal for dogs sold frozen, which Oliver notes is strategy as network. They will also have the opportunity to interact with customers in a smaller setting, learning from their cliental about how to make their product better and how to make themselves more efficient, which are aspects of strategy as a machine and strategy as biology, according to Oliver. Once First in Show understands itself better, they could then expand into chain pet stores, mass merchandisers, and eventually supermarkets.

*Benefits Breakdown*

Option 1 has the benefit of reaching the most people, as supermarkets sell the greatest volume of dog food. However, this benefit comes with the most cost. Added to the $50,000 cost of slotting for freezer space in the supermarkets, is the increased cost of advertising on television as well as mass mailers of Valpak and others, totaling around $700,000; as noted in the Appendix A-maximum advertising budget. Also, there is the point of sale display costs of the adhesive paw prints in the frozen food aisles during the product launch.

Option 1 has another benefit of potentially building brand awareness rather quickly, which is one of the major objectives of First in Show Pet Food, Inc. Also, the advertising on television and signage in stores will assist customers in locating the product, another goal to achieve. The advertising and coupons will also continually speak of the high quality ingredients inside Show Circuit dog food.

Option 2 has the benefit of building brand awareness in a more controlled way and continuing the premium and high quality image of show-dog food. The costs associated with this option also include the slotting fee of $50,000 and marketing and advertising expenses as previously mentioned of $700,000; as noted in the Appendix A-maximum advertising budget. However, this option does have the availability of using fewer resources on advertising, as a smaller percentage of the total volume of sales will be accessed. This option could use a $500,000 advertising budget from Appendix A-minimal advertising budget.

Option 1 with a $700,000 advertising budget, $50,000 slotting fees, and other fees (listed in Appendix A) will generate an estimated net profit before tax of approximately $184,000. Option 2, spending less money on advertising, could potentially generate $250,000 profit. However, option 2 would need to generate sales of $10 million, a tough task in a small market of independent pet stores and farm/feed stores. Option 1 makes the most sense as it works the hardest to reach the objectives of building brand awareness, helping customers find the product in stores, and continually letting the customers know about the high quality of the product. Although the net profit from spending $700,000 versus $500,000 on advertising drops, the drop can be considered acceptable as building brand awareness through marketing and advertising is most important in the first year of sales.

**Final Recommendation**

It is recommended that First in Show Pet Foods, Inc. use option 1 at with a $700,000 marketing budget for the initial year in the Boston Metropolitan area. After the initial year and if all goes as planned, First in Show Pet Foods, Inc. will be in a good position to pursue other retail channels in the future to further their brand awareness.

*Product*

The product should be sold as a case of 12 tubs in packaging that is consisted with their all-natural and premium image; possibly in green containers rather than clear plastic. First in Show Pet Foods, Inc. will establish their product as the leader and groundbreaker in the category of a premium ingredient, frozen, ready-to-thaw healthy dog food and simultaneously establish a valuable and unique position within the market.

*Price*

As per Appendix A-maximum advertising budget, the manufacturer’s suggested retail price will be $10.99 per 12-tub case.

*Promotion*

Since advertising plays a critical part in the success of a product within the dog food industry, advertising should be a top priority for First in Show; especially considering the high first year failure rate. To encourage brand awareness and purchases, a few advertising avenues should be taken: (1) Coupons should be mailed via local coupon packages, and (2) Television advertising will be used to reach the masses. Primetime television advertising should be used to encourage brand awareness and purchases, advertising on specialty shows concerning dogs should be used to reach the specific target market of dog owners and families with dogs, and attaching Show Circuit to a Saturday morning cartoon show as a sponsor for children to identify with would be beneficial.

*Place*

Supermarkets should initially be the main channel of distribution for First in Show Pet Foods, Inc. Their product should be located next to “people food” in the frozen food aisle to uphold the image of premium quality; differentiating themselves from the rest of the dog food options. The only barrier to this strategy is the fact that consumers might not be sure of how to find the product and therefore placing adhesive paw prints on the floor of the frozen food aisle leading to the Show Circuit brand dog food in the freezer case would be beneficial as well as a good form of advertising.

**APPENDIX A**

*Financial Analyses*

**Pro Forma Income Statement – 2009 First in Show Pet Foods, Inc. – Minimal Advertising Budget**

Sales $10,000,000

Cost of Goods Sold (8,696,130)

Gross Profit $1,303,870

Marketing Expenses

Television $359,000

Newspapers/Magazines 100,500

Collateral (sales pack) 9,750

Agency Fees 25,500

Miscellaneous 5,250 (500,000)

Slotting Fees (50,000)

General, Administrative, and Miscellaneous Fixed Costs (500,000)

Net Profit Before Tax $253,870

**Contribution Analysis**

*Assumptions: $7.87 variable costs per unit, $500,000 marketing expenses, $50,000 slotting fees, $500,000 fixed costs, $1.18 unit contribution margin, 7% food broker commission, 13.5% margin for retailer, manufacturer’s suggested retail price of $10.99 per 12-tub case*

Unit break-even volume: 889,831 cases (12-tubs per case)

Dollar break-even volume: $8,052,971

Unit break-even volume + 15% return on sales: 1,023,306 cases (12-tubs per case)

Dollar break-even volume + 15% return on sales: $9,260,917

**Pro Forma Income Statement – 2009 First in Show Pet Foods, Inc. – Maximum Advertising Budget**

Sales $11,000,000

Cost of Goods Sold (9,565,749)

Gross Profit $1,434,251

Marketing Expenses

Television $529,000

Newspapers/Magazines 130,500

Collateral (sales pack) 9,750

Agency Fees 25,500

Miscellaneous 5,250 (700,000)

Slotting Fees (50,000)

General, Administrative, and Miscellaneous Fixed Costs (500,000)

Net Profit Before Tax $184,251

**Contribution Analysis**

*Assumptions: $7.87 variable costs per unit, $700,000 marketing expenses, $50,000 slotting fees, $500,000 fixed costs, $1.18 unit contribution margin, 7% food broker commission, 13.5% margin for retailer, manufacturer’s suggested retail price of $10.99 per 12-tub case*

Unit break-even volume: 1,059,322 cases (12-tubs per case)

Dollar break-even volume: $9,586,864

Unit break-even volume + 15% return on sales: 1,218,220 cases (12-tubs per case)

Dollar break-even volume + 15% return on sales: $11,024,894