



Opportunities to Build a \$1 Billion Pet Food Brand in China

China Import Pet Food Market White Paper 2023

TMALL GLOBAL
天猫国际

C2 CAPITAL PARTNERS

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Tmall Global ('TMG')

As the cross-border e-commerce platform of Alibaba Group, Tmall Global (TMG) always intends to provide the original genuine overseas products for our consumers in China, and help overseas brand have a direct connection with in-border/domestic consumers to establish brand awareness.

Ever since Feb 2014 when Tmall Global established, more than 26,000 brands across 5,300 categories from over 95 countries and regions have joined the platform. As No.1 cross-border platform, Tmall Global has witnessed the change of consumer insights-from purely purchase to self-fulfillment. In July 2020, Tmall Global rebranded its brand slogan to "My global new discovery". At the same time, Tmall Global accelerates brand introduction to China market by providing full-solution for global merchants, not only through flagship-store model, but also direct import and oversea fulfillment model.

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C2 was established in 2018 in Hong Kong, with Alibaba as the anchor investor, to invest in companies capitalising on the consumption growth and consumption upgrade of the growing Chinese middle class. Adopting a long-term partnership model with the management of investee companies, it provides value-added growth capital. C2 intends to support companies through unique China market insights and know-how including, but not limited to, logistics, branding, marketing, omni-channel sales and distribution, and last mile delivery. C2 has invested in leading premium pet food brands from North America. Given its unique value proposition, C2 has helped its partners achieve important milestones in China.

More details, please visit:
<https://c2capitalpartners.com/>

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Introduction



China's pet food market has experienced rapid growth over the past five years, and 2022 is estimated to be another strong year of growth. The leading Chinese e-commerce platform Tmall, revealed data from Double 11 that showed the total pet food market grew ~25% YoY, with premium import brands¹ growing even faster at over ~40% YoY (Double 11 is China's largest annual online shopping festival and can account for up to one-quarter of brands' annual sales).

With many global brands seeing growth slow down in home markets-2022 YoY growth is estimated at ~6% in the United States and ~5% in the European Union markets²-China is becoming a key focus for future growth. As the industry looks toward 2023, brands are curious about how China's pet industry will continue to evolve.

We believe the core demand drivers for pet ownership and pet food premiumization continue to be strong. Even after the significant growth observed in China over the past 5 years, China's pet food market may still be in the early stages of growth. Combined with a potential post-COVID rebound in consumption and international travel, there may be even stronger demand for global pet food brands in the years ahead.

¹ Premium imported brands defined as SKUs priced at 7 USD/kg or higher on Tmall Global

² Source: Euromonitor

The Chinese pet food industry continues to shine in 2022

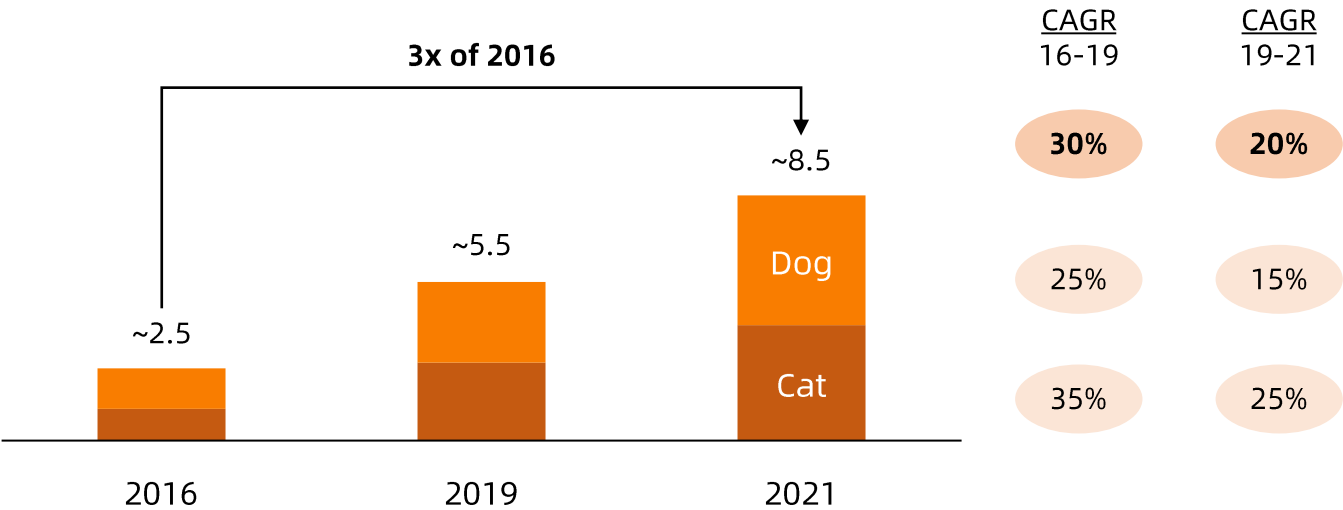


Over the past five years, China’s pet food market achieved ~25% growth per year from 2016 to 2021. This rapid growth highlights pet food as a bright spot among the Chinese consumer products industry and places China as one of the fastest-growing markets in the global pet food landscape. [See Fig 1]

Data on the pet food market’s performance in 2022 is still being compiled, but it is estimated to be another strong year of growth judging from Double 11 sales. Based on data from Tmall, pet food sales grew ~25% YoY during 2022 Double 11, which is even faster than the ~20% YoY growth seen in 2021 Double 11.

[Fig 1] Pet food continued strong growth in recent 5 years³

China Pet Food Market GMV (B USD)



³ Source: Pet-care Whitepaper (Bain, 2022)

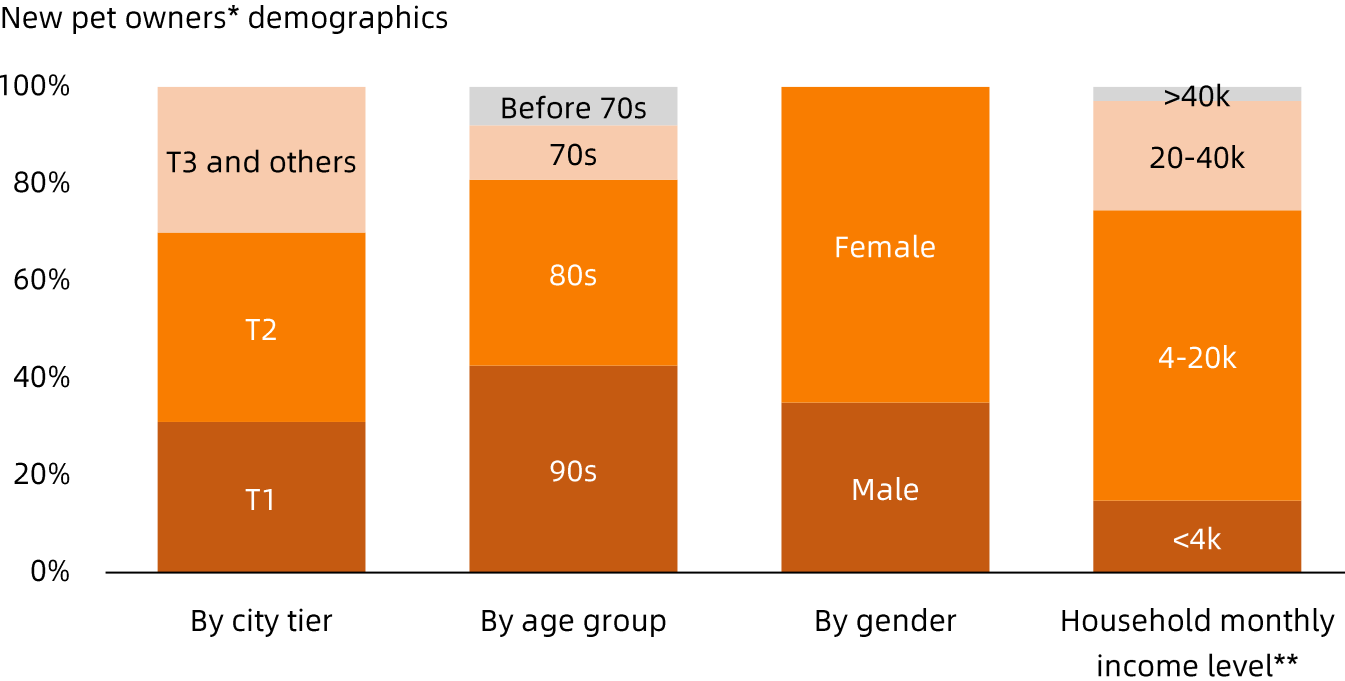
At the core of China’s pet food market’s rapid growth is the expansion of pet ownership in China. An increase in new pet owners-and by extension, an increase in the number of pets-accounts for about half of the market’s growth, while increases in spending per pet make up the other half.

This expansion in pet ownership may be linked to China’s underlying demographic trends. A Bain & Company survey from 2021 showed that ~45% of new pet owners were born in the 1990s and ~35% were born in the 1980s. [See Fig 2] This group of people born in the 1980s and 1990s was the first generation born under China’s one-child policy, and they view pets in a fundamentally different way than their preceding generations.

For this group of consumers, pets are playing an important emotional role as extended family members, which is very different from earlier generations who view pets more as functional animals (such as guard dogs). This shift in attitudes has fueled demand for premium commercial pet food that promotes pet health and wellbeing; and has driven the average per-pet spending on pet food to grow by ~15% each year since 2016.

Although the one-child policy has been discontinued since 2015, the impact on consumer behavior may be longer lasting.

[Fig 2] New pet owners are younger, more female, higher income, and living in Tier 1-3 cities⁴



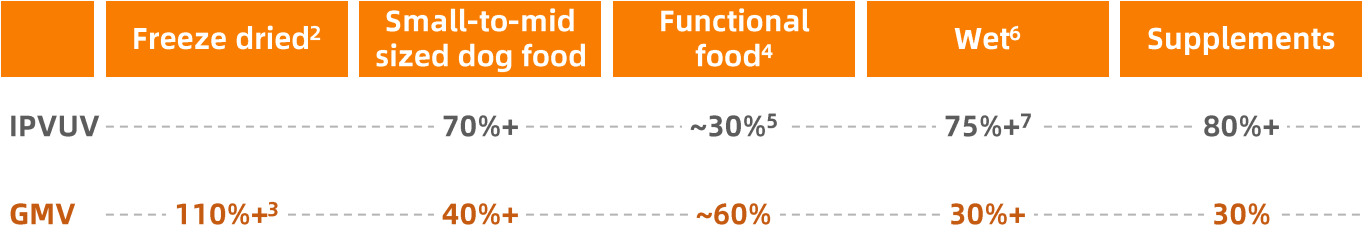
Note: *Pet owners 1~2 years into having their first pet (cat or dog); **Monthly household income in RMB, middle class defined as households with 4k-20k RMB monthly income;

We continued to see this trend of consumers wanting to “buy better” for their furry family members in 2022. During 2022’s Double 11 shopping frenzy, there was especially fast growth in imported pet food, which is often priced at ~50% premium over non-imported products. There was also fast growth in innovative product categories. These include freeze-dried cat food, wet cat food, and super-premium dog food for small and medium-sized dogs, which are also priced at a premium to ordinary kibble. [See Fig 3]

⁴ Source: Pet-food Whitepaper (Bain, 2021)

[Fig 3] Freeze-dried, functional food, wet, small-to-mid-sized dog food, and pet supplements are fast-growing categories, with many successful import brands⁵

2022 Double 11 YoY growth on Tmall platform



Top performing imported brands

1	Vital Essentials	Acana	Blue Buffalo	Ziwi Peak	A Big Hug
2	K9 Natural	Taste of the wild	Taste of the wild	K9 Natural	Gimborn
3	Stella & Chewy’s	Royal Canin	Fromm	Fancy Feast	Vet’s Best

Note: 1. GMV from 10/31 to 11/11; IPVUV stands for the number of consumer searches on related SKUs; 2. Only includes pure freeze-dried, excludes kibble+; 3. Growth based on top 3 freeze dried brands; 4. Selected functions including gastrointestinal, tear stains, immunity, and hair care; 5. Do not include SKUs which launched this year; 6. Only includes Wet Staple Food, does not include snacks; 7. Excludes Ziwi Peak due to outlier



A brief history of import pet food’s growth in China

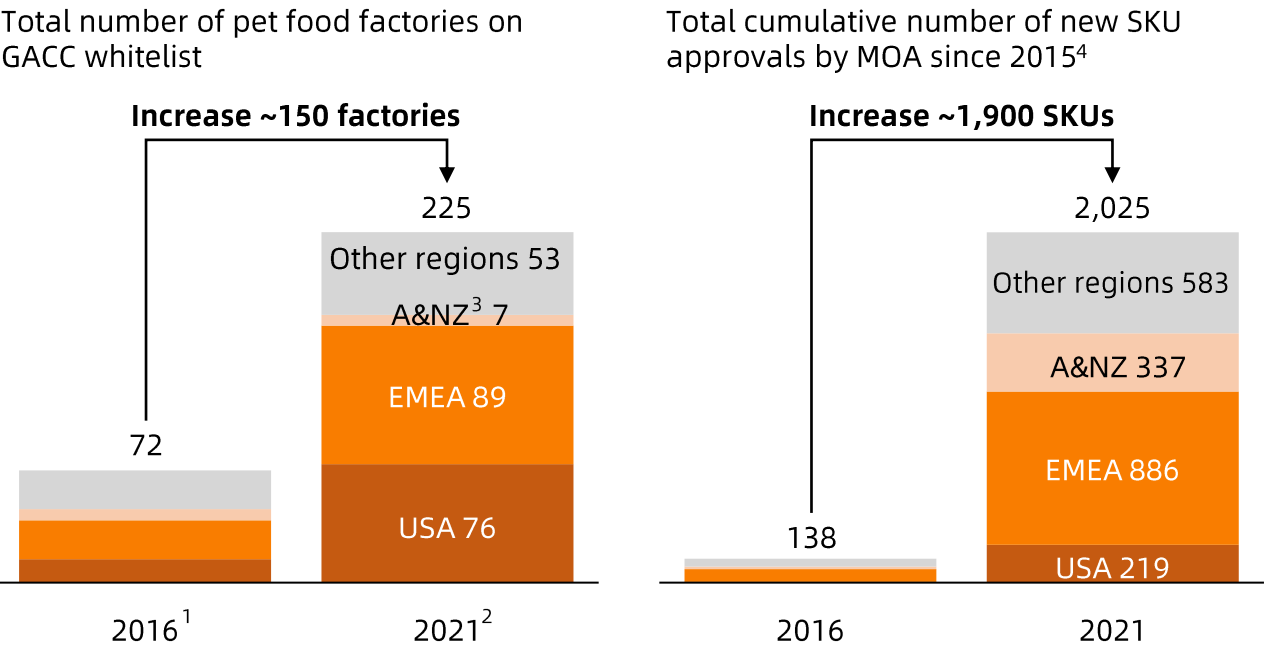
China’s pet food market experienced a particular “opening up” to imports in 2016. This was spurred by two major factors: the easing of import regulations and the creation of the Cross-Border E-commerce (CBEC) channel, both of which have made it easier for import brands to access China’s pet food market.

The first factor is the increased number of factories and SKUs allowed to import into China. There are two key regulations governing the import of pet food into China: GACC (certification for overseas factories where imported products are manufactured) and MOA (certification of individual SKUs for import). GACC and MOA certifications have been growing significantly since 2016 and the number of approved factories & SKUs stands at an all-time high today. [See Fig 4]

The other key factor is the opening of the CBEC channel for pet food in 2016. The CBEC channel was created to bring Chinese consumers further access to foreign products by reducing the logistical and administrative burdens associated with importation. Examples of how CBEC simplifies imports include allowing to ship directly from overseas, accepting payment transfers in the company’s home currency, and not requiring a legal entity within China. All of these help to make it easier for foreign brands to import products into China. [See Fig 5]

⁵ Source: Tmall & Tmall Global

[Fig 4] Number of GACC factories and MOA approvals by region⁶



China will continue to be one of the best pet markets globally



Despite the significant growth already observed in China over the past 5 years, China's pet food market may still be in the early stages of growth. The country is actually relatively low on the pet-ownership penetration curve when compared to other developed countries. Additionally, Chinese pet owners are still spending less per pet compared to owners in other countries with similar household incomes. [See Fig 6]

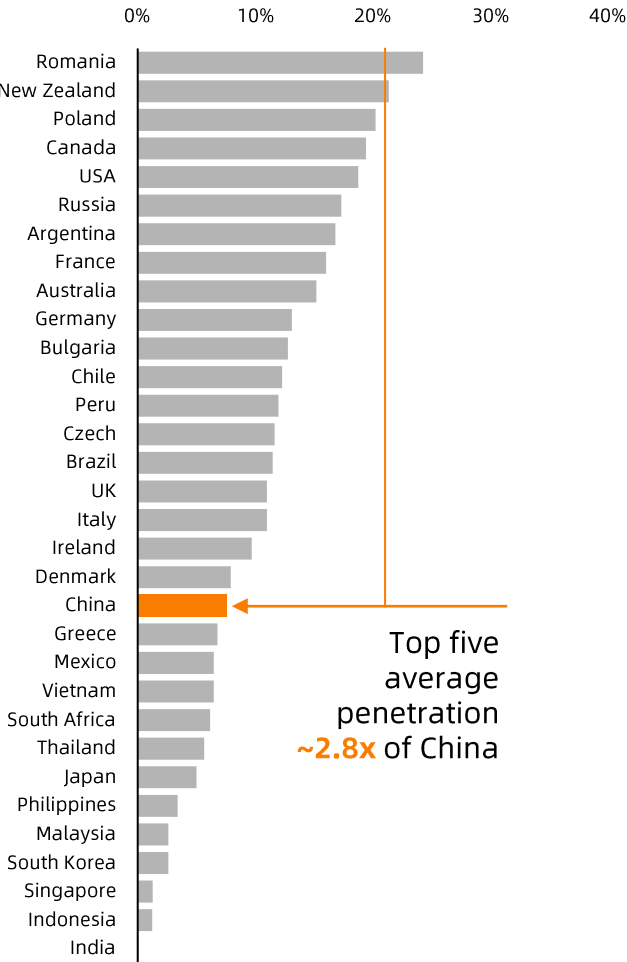
The pet economy also benefits from the Chinese government's strategy to shift towards more equitable growth and a more consumption-driven economy. Aimed at expanding the country's middle class, this economic strategy should provide a tailwind to pet ownership-and by extension, the overall pet food market. Based on a forecast by Bain & Company, China's pet food market is expected to grow from ~8B market in 2021 to ~15B market by 2025⁸

⁸ Source: Pet-food Whitepaper (Bain, 2021)

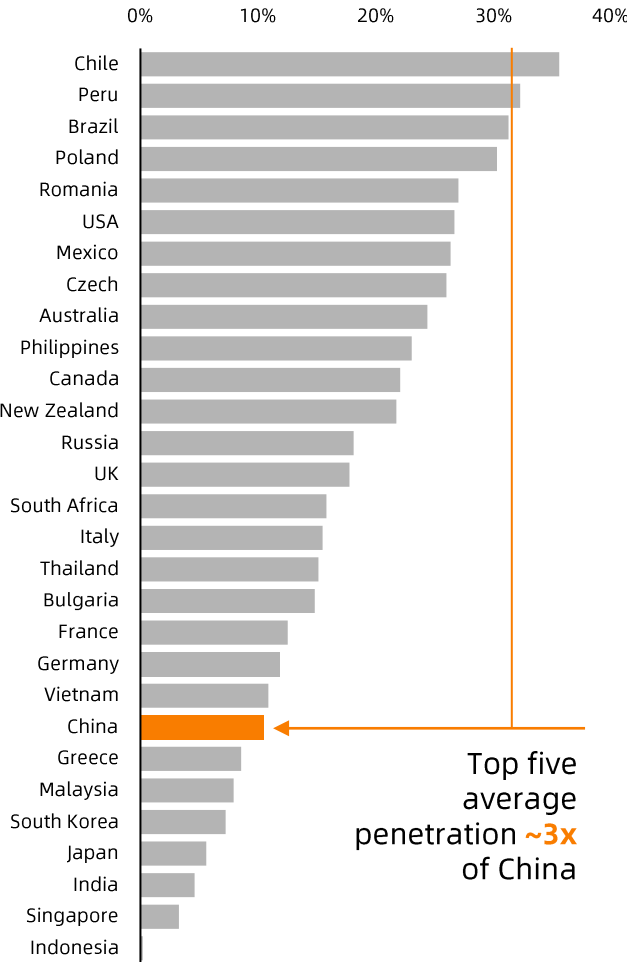
[Fig 6] China's household pet penetration and pet expenses are still significantly lower than those of developed countries, indicating significant future growth.⁹

China's pet penetration rate still has room to rise compared to developed countries

Cat ownership penetration (2021, %)

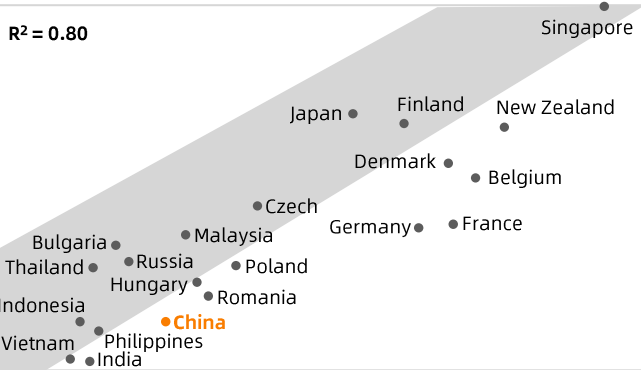


Dog ownership penetration (2021, %)

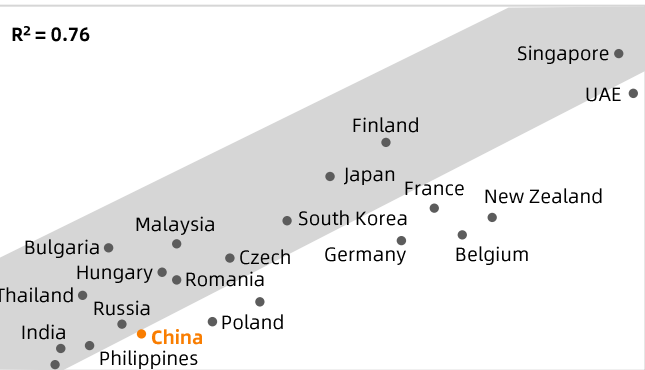


Average pet expenses are still significantly lower than developed countries

Cat food spending per cat (2021, USD)



Dog food spending per dog (2021, USD)



Single household disposable income (USD)

Single household disposable income (USD)

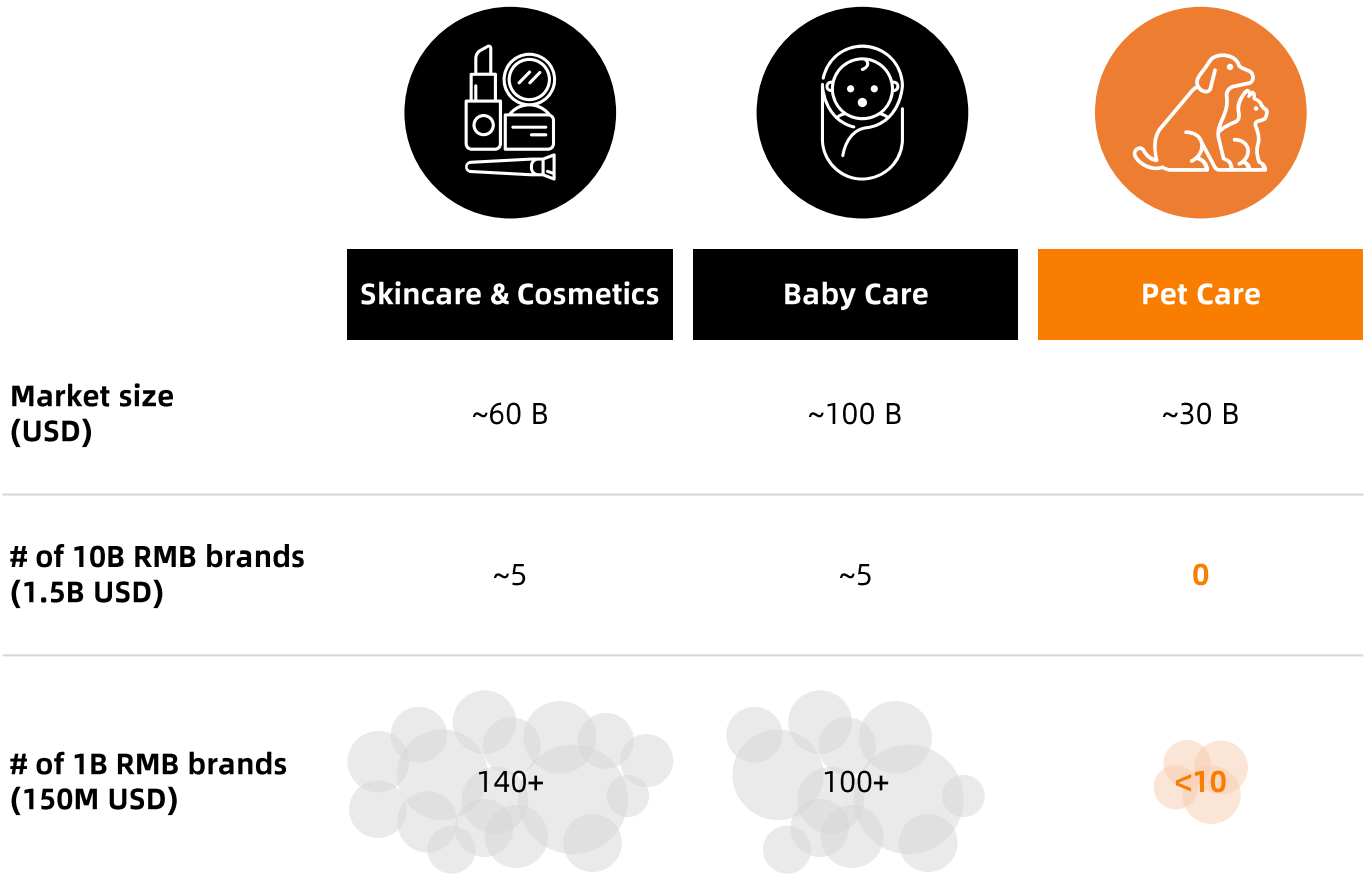
⁹ Source: Pet-food Whitepaper (Bain, 2022)

A large market size is frequently the case in China, but the pet food market is especially unique in having a competitive landscape that is not yet controlled by established brands. Euromonitor data shows that the top three pet food brands in 2021 accounted for ~55% of market share in the United States and ~47% market share in the European Union. For the same year, China’s top three pet food brands only held ~13% of the market share.

It is the early stages of China’s pet food market and the competitive landscape is relatively open. With no clear “winners” in place, there are opportunities for new brands to enter and successfully compete.

To put into perspective: two other categories that saw amazing success for import brands in China over the past 10 years were Skincare & Cosmetics and Baby care. These two categories have a similar size to the pet food market, but they currently have ~10x more brands of scale. A likely reason for this is that China’s pet food brands are still in the early stages of growth-with potential yet for a \$1 billion brand to emerge. [See Fig 7]

[Fig 7] Comparison of scale brands in Skincare & Cosmetics, Baby Care, and Pet Care¹⁰



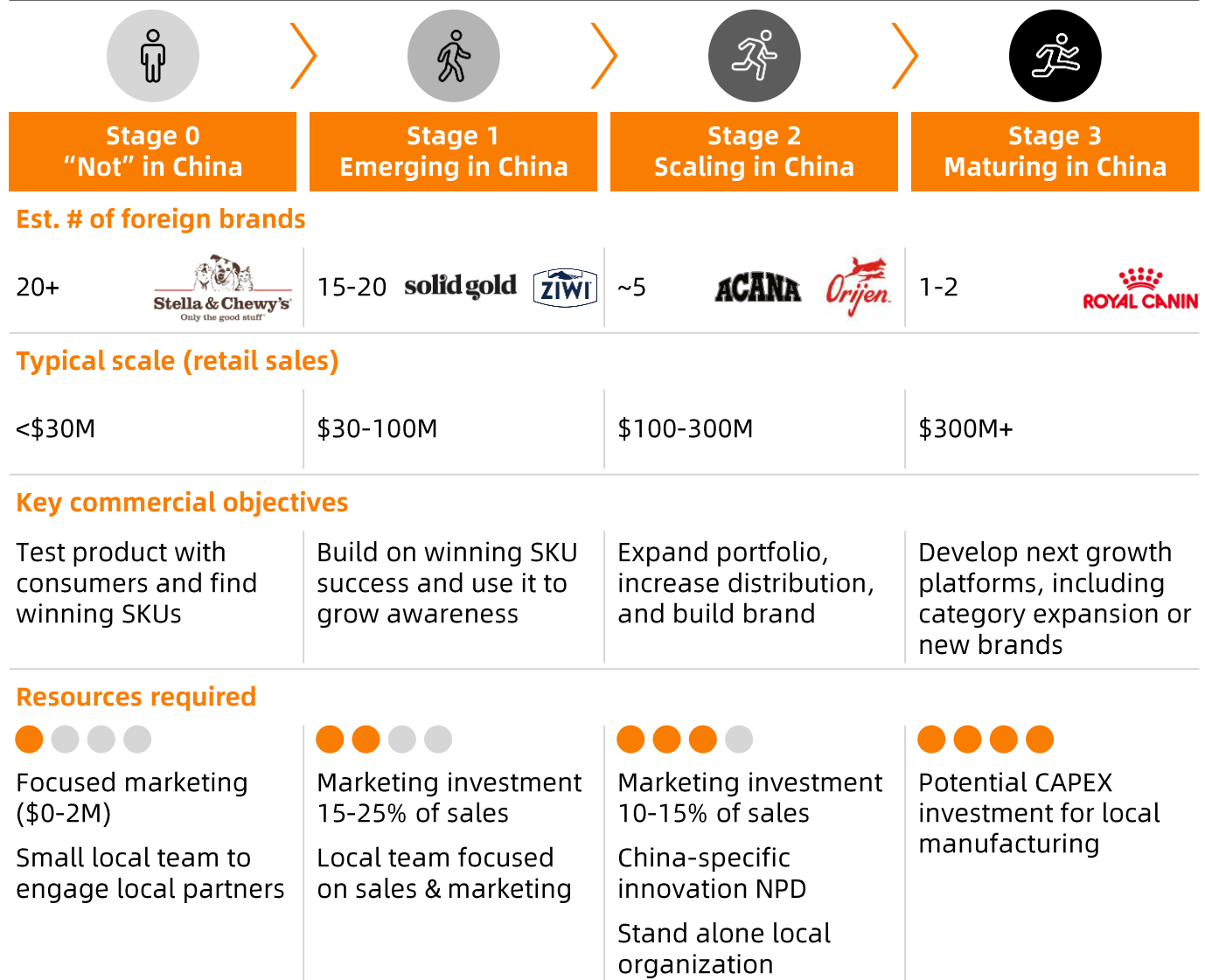
The path to building \$1 billion pet food brand in China



The idea that China is a large market opportunity for pet food is likely not a surprise to most brands-the challenge is how to capture it. Foreign brands are often challenged by how to approach the China market opportunity. Challenges include how to win with Chinese consumers, how to manage cross-border supply chains, and how to navigate one of the most complex online & offline channel landscapes in the world.

Working with Bain & Company, we have developed a multi-stage playbook for foreign businesses on entering and growing their brands within China. The graphic below highlights some of the success factors of each growth stage & examples of pet food brands that have done it best. [See Fig 8]

[Fig 8] Multi-stage China entry playbook



Stage 0: "Not" in China

Entering the Chinese market has become significantly easier over the past decade. The creation of a Cross Border Ecommerce channel combined with the rise of e-commerce distribution partners has opened a low-investment, uncomplicated entrance.

Stella & Chewy's is an example of a recent success story. This fast-growing premium United States-based food brand opened its flagship store on Tmall Global CBEC in 2021. Through partnering with a local investor and leveraging local distributor partners, Stella & Chewy's was able to operate with a lean but agile team and grow the brand to over 20 million USD in retail sales in less than 2 years.

While this "Stage 0" does not bring about significant scale, it gives brands a low-investment opportunity to test China's market. Companies can learn how their products are received by the local consumer and how to operate in the Chinese market before deciding to commit additional resources.



Stage 1: Emerging in China

This is the step where a brand really “enters” the Chinese market. At this step, brands will need to establish a local China team to take greater control over core operations – driving growth through increased investment to build awareness and to strengthen cross-border capabilities, including a general-trade supply chain.

Ziwi Peak, a premium New Zealand-based pet food brand, exemplifies how a smooth entrance into the Chinese market can unfold. After entering China in ~2017, Ziwi Peak found success with products that were relatively uncommon to the market at the time: wet and air-dried cat food.

Seeing the initial success, Ziwi Peak made more meaningful investments and built up a local team. They drove expansion in online and offline channels and amplified marketing for their star wet cat food product. Currently, Ziwi Peak is estimated to have over \$100 million USD in retail sales, and it was the top wet cat food brand on Tmall during 2022’s Double 11.



Stage 2: Scaling in China

Development of a meaningful local business—with sales, marketing, data, and technological capabilities—is essential for achieving significant scale in China. When handled correctly, this local business can turn an increased profit with lasting brand barriers.

Champion Pet Foods, a premium pet food company based in Canada, has achieved this position. This company entered China in the early 2010s with its Orijen brand and was one of the few imported brands in China at the time. Building on this early-mover advantage, Orijen went on to expand in both online and offline channels and is now one of the best-known import brands among Chinese consumers.

Orijen has been able to convert its strong brand strength into growth of different products. Orijen was the #1 imported brand in cat food during Double 11 on Tmall and Acana (which many consumers refer to as Orijen’s sister brand) was the #2 imported brand in dog food. Orijen and Acana are likely to achieve over \$200 million USD combined retail sales in China in 2022, and they are the leading import brands in China’s premium pet food market today.

Following Mars’ acquisition of Champion, we expect Orijen to open a new chapter in its China growth story and go on to navigate Stage 3 of China growth.

¹¹ Source: Euromonitor

Closing thoughts



While 2022's economic environment in China was challenging and there are still some uncertainties about future growth, we continue to believe that there are incredible market opportunities in the consumer products sector, including pet food. Foreign brands can use a multi-stage approach to overcome the challenging task of entering and scaling in China's complex marketplace. By incrementally increasing the risk and investment taken, companies can learn what is their winning model in China and may find rewards greater than the risk taken.