

Pet food becomes haute cuisine

By Lauren Coleman-Lochner and Leslie Patton, Bloomberg

Brad Kriser has been known to down a dog biscuit or two. Kriser, the founder of an upscale pet-food chain that's opening stores in major U.S. cities, sees his pets as family, and sampling their diet is what good parents do.

"People will really do absolutely anything they can for their pets," said the founder and chief executive officer of Santa Monica's Kriser's, which forecasts that revenue will increase 40 percent this year. "The way that people treat them is sometimes better than their non-furry children."

While fancy dog food has been mostly a luxury item for almost a decade, the trend has picked up considerable steam as the economy has recovered from the financial crisis. The lure of selling dog food for more than twice its traditional price has drawn big-box pet chains PetSmart and closely held Petco Animal Supplies into the gourmet kibble business. It also has private-equity investors eyeing upstarts such as Kriser's.



AJ likes high-quality birthday treats. Photo/LTN

"It's really capitalizing on the trend of health and wellness," said Josh Goldin, a managing partner at Alliance Consumer Growth in New York, a private-equity firm seeking

high-growth consumer brands that invested in Kriser's last year.

His firm is betting big on the trend, with investments in the Honest Kitchen, a maker of human-grade dehydrated pet food, and PawGanics, which sells nontoxic cleaning products for families with pets. PawGanics is already being sold by Petco, the San Diego chain that Texas Pacific Group and Leonard Green & Partners purchased in 2006 for about \$1.8 billion.

The natural pet foods trend started about a decade ago, around the same time consumers started paying more attention to their own food, said Josh McBee, an analyst at researcher IBISWorld in Santa Monica.

Natural products got a boost in 2007 after 4,000 pet owners said their pets were killed by eating contaminated food. The animals died of kidney failure after eating food made with Chinese wheat gluten tainted by the chemical melamine, added to make the protein content seem higher.

Super-premium pet food, which includes most natural and organic products, makes up about 11 percent of the \$20 billion U.S. pet-food market and is growing at a faster pace than lower-priced selections, said Shannon Brown, an analyst for researcher Packaged Facts. Premium and natural foods will help the overall market gain 3.5 percent to 4.5 percent annually for the next few years, she said.

Allison Thompson, 30, said she doesn't mind spending a little extra on grain-free food for Bella, her 6-year-old Boston Terrier.

"She had cancer last year, so I put her on a natural diet," she said, while picking up a 4-pound bag of Fromm Beef Frittata Veg dog food for \$13.49 at a Kriser's in Chicago's Bucktown neighborhood.

Bella is "very picky, but she loves this," Thompson said.

The first Kriser's store opened in Chicago's tony Lincoln Park neighborhood in 2006, across the intersection from a Petco shop. Kriser's expects to operate more than 20 stores by the end of the year, with 11 in Chicago and the remainder divided between Southern California and Denver, where it expanded last year. It's scouting new markets.

The company's executives call their chain "The Whole Foods of Pets" and like to locate shops, which average about 2,400 square feet, near those grocery stores because they serve similar customers – largely affluent and health-conscious.

PetSmart, headquartered in Phoenix and with more than 1,200 locations, also is getting in on the action, selling grain-free Innova Prime dog food made from chicken, peas and turkey for \$52.99 for a 25-pound bag. The chain also sells 33-pound bags of Blue Buffalo Life Protection foods, some made with free-range lamb, for \$51.99. In contrast, a 30-pound bag of Pedigree dog food is \$19.99.

Super-premium brands such as Blue Buffalo have been "a major component of the success of PetSmart over the past couple years," said Sean McGowan, an analyst at Needham & Co. in New York. Not only do the brands carry higher profit margins, they also bring in new customers who purchase other items, he said.

PetSmart shares more than tripled from 2008 through the end of last year. As of the end of last week, they sat at just under \$67 per share.

About 79 percent of pet owners consider the quality of pet food to be as important as the quality of human food, according to market researcher Mintel. That is why closely held Newman's Own Organics, headquartered in Connecticut, began selling pet food about 12 years ago, said Chief Executive Officer Peter Meehan.

"This whole industry has grown up around anthropomorphic behavior of humans – we take trends and things that we're

doing and we apply them to animals,” he said.

Newman’s Own Organics pet food is twice as expensive as some brands. Still, customers are loyal to its offerings – some made with organic beef from Uruguay and lamb from New Zealand, said Meehan, who declined to provide sales figures.

While Kriser’s doesn’t disclose revenue, the chain’s owners say same-store sales may gain as much as 20 percent this year, following increases of more than 10 percent in previous years. The stores try to lure customers with regular events, including pet birthday parties, lectures, and grooming and training sessions.

Kriser and President Ken Grouf, who are cousins, even taste a lot of the food themselves, Kriser said. So how are those biscuits?

“You would probably think that you’re eating Teddy Grahams,” he said.