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TAIWAN PET FOOD MARKET

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Taiwan

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EXECUTIVE SUMMARY

- It is estimated that in 1993, total pet food consumption in Taiwan was valued at US\$40.9 million, which represented approximately 36 million kilograms of the following four categories of pet foods listed below:

i. Dog Food

ii. Cat Food

iii. Fish Food

iv. Bird Food / Others

- In 1993, imported pet food accounted for approximately 90% of total pet food consumption.
- Based on value, dog food presently dominates the overall pet food market and accounts for 43% of total pet food consumption. Fish food, in turn, represents an estimated 40%, while bird and cat food make up a nominal 10% and 4% respectively. The remaining 3% consists of a range of exotic pets such as monkeys, turtles, lizards, and snakes.
- Total consumption of pet food items is expected to increase steadily by an estimated 30% annually over the next five years. This increase is attributed to the following primary factors :

i. The overall number of pet owners is rising as a result of greater spending power among Taiwanese consumers. The elderly and single people, in particular, are purchasing more pets now as companions.

ii. Although the majority of dogs and cats in Taiwan are currently fed left over table scraps, this trend is gradually changing toward pet foods. This change is primarily due to the overall change in lifestyle over the last five (5) years.

- According to discussions with several key players within the industry, average profit margins for importers of pet food items are approximately 10%, distributors 8-10%, and retailers 10-15%.
- Companies wishing to export pet food products to Taiwan should consider the following key points:

A. The large number of unauthorized companies importing pet foods into Taiwan has significantly reduced the profit margins for legitimate agents. Thus to effectively compete in the market, new companies need to offer additional services such as product information and literature, quality guarantees, and product exchange services.

B. As a significant percentage of dog and cat food owners still regularly feed their pets table left-overs, pet food companies need to educate buyers as to the convenience and nutritional benefits derived from providing specialized pet food as opposed to table scraps.

- Though currently no quotas are in effect, importers of pet foods face a tariff of 5.0% on the C.I.F. price.

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1.0 TRENDS IN CONSUMPTION

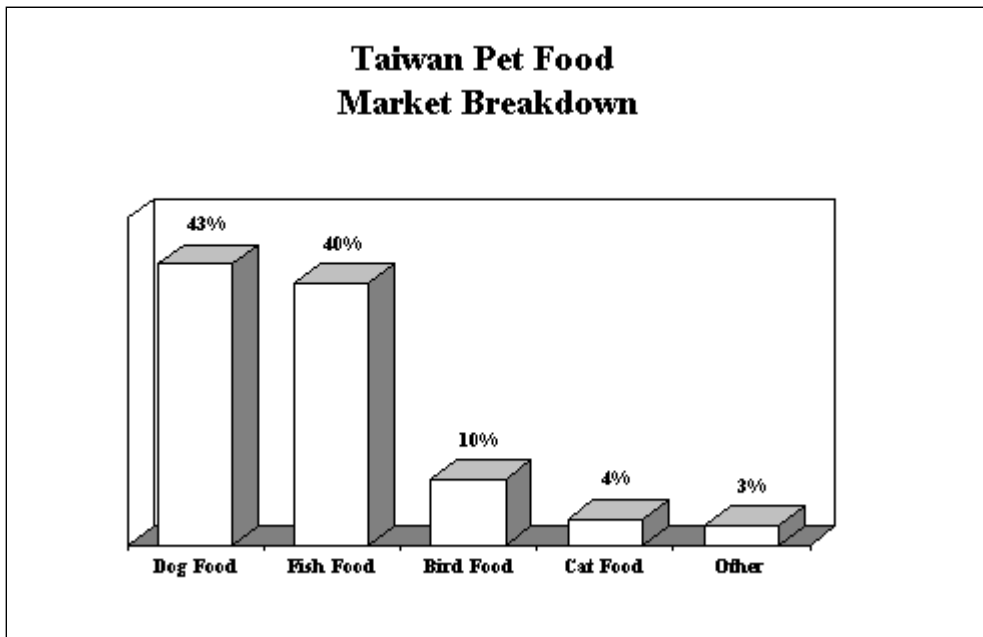
1.1 Consumption: Present and Past

Present

It is estimated that in 1993, total pet food consumption in Taiwan was valued at US\$40.9 million, which represented approximately 36 million kilograms of the following four categories of pet foods listed below:

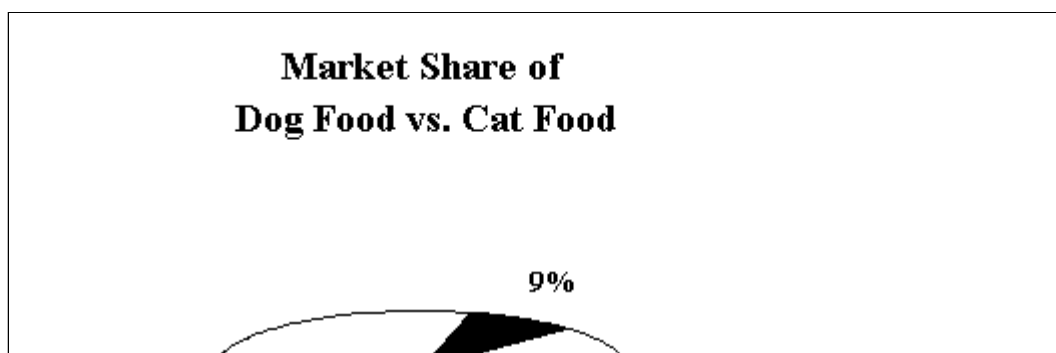
- i. Dog Food
- ii. Cat Food
- iii. Fish Food
- iv. Bird Food / Others

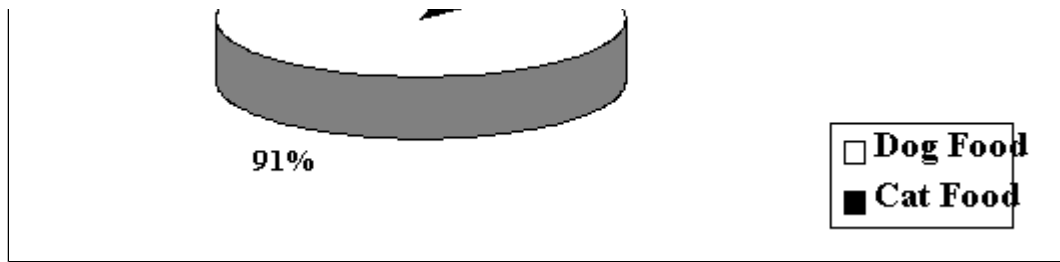
Based on value, dog food presently dominates the overall pet food market and accounts for 43% of total pet food consumption. Fish food, in turn, represents an estimated 40%, while bird and cat food make up a nominal 10% and 4% respectively. The remaining 3% consists of a range of exotic pets such as monkeys, turtles, lizards, and snakes.



Source: FBR Statistical Analysis

For further clarification, the total market share of dog food versus cat food is depicted in the following chart.





Past

Pets in general have served a practical purpose in Taiwanese society throughout history. Twenty years ago, cats were used to control the rat population and dogs primarily for protection of one's home and possessions.

However, due to the economic explosion in Taiwan during the 1980's, consumer's disposable income rose dramatically, which in turn allowed for purchases beyond everyday necessities. As a result of this increased wealth, people began purchasing a variety of different types of pets as symbols of status and prestige.

The Taiwanese are infamous for maintaining exotic, sometimes even endangered animals as pets, such as monkeys, tigers and bears. However due to recent pressure from international animal protection organizations, Taiwan has come under scrutiny due to its anticipated entry into the WTO (the successor organization to GATT). As a result, the government has been forced to put tighter restrictions on these kinds of pets.

Pure-bred dogs in particular are considered to represent wealth and prosperity to the Chinese, hence are the most popular type of pet to own. Cats, in contrast, represent a mere 4% of the total pet market, and are the least popular type of pet.

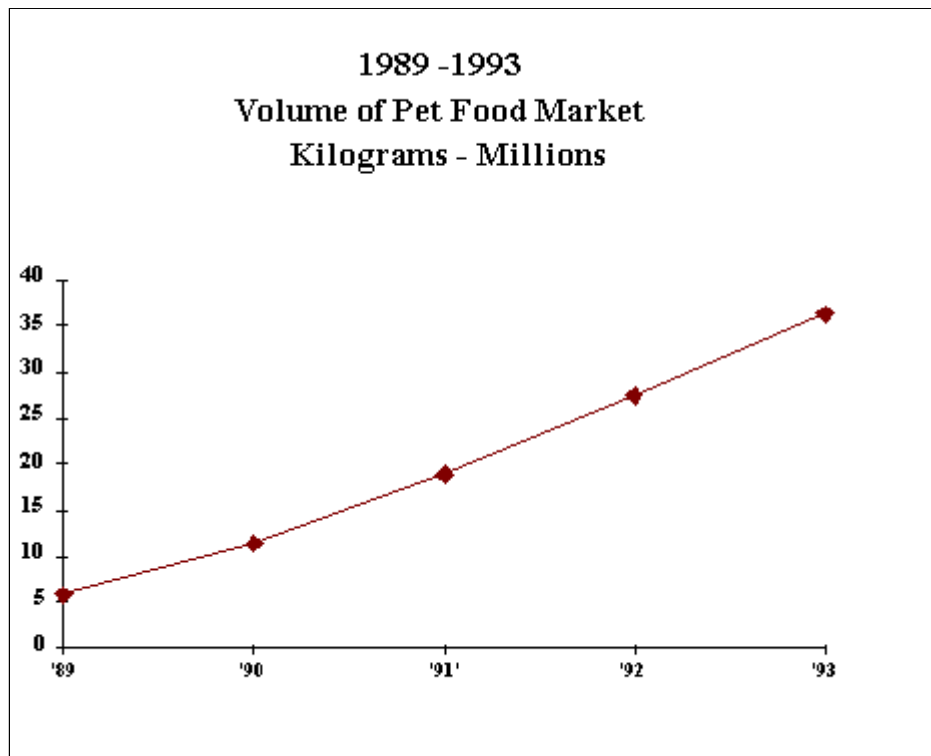
In Chinese tradition, because cats are believed to have nine lives, they are considered to be associated with ghosts and evil spirits. Although this traditional belief is less prevalent today, it continues to have a strong influence on Taiwanese people. The majority of cat owners today are women, who tend to purchase expensive pure-bred cats.

Consumption values for the last five (5) years are depicted in the following table and chart :

Total Pet Food Market Size, 1989-1993

	1989	1990	1991	1992	1993
Market Value US\$ Millions	5.8	12.7	21.8	30.1	40.9
Annual Growth	-	118%	72%	38%	35%
Market Vol. Kilograms-Millions	5.9	11.4	18.9	27.5	36.4
Volume Growth	-	93%	65%	45%	32%

Source: FBR Statistical Analysis



Source : Board of Foreign Trade

1.2 Factors Affecting Growth Rate

Discussions with several key players within the industry revealed that total consumption of pet food items is expected to increase steadily by an estimated 30% annually over the next five years.

This increase is attributed to the following primary factors :

- i. The overall number of pet owners is rising as a result of greater spending power among Taiwanese consumers. The elderly and single people, in particular, are purchasing more pets now as companions.
- ii. Although the majority of dogs and cats in Taiwan are currently fed left over table scraps, this trend is gradually changing toward pet foods. This change is primarily due to the overall change in lifestyle over the last five years.

Fewer people are now eating at home, opting for the convenience of fast food restaurants, which in turn has reduced the availability of table scraps. Working individuals are becoming increasingly accustomed to purchasing pet food as an alternative to left-overs.

1.3 Sub-Markets

Dogs & Cats

In Taiwan, dog and cat foods are distributed among two types of sub markets.

These include :

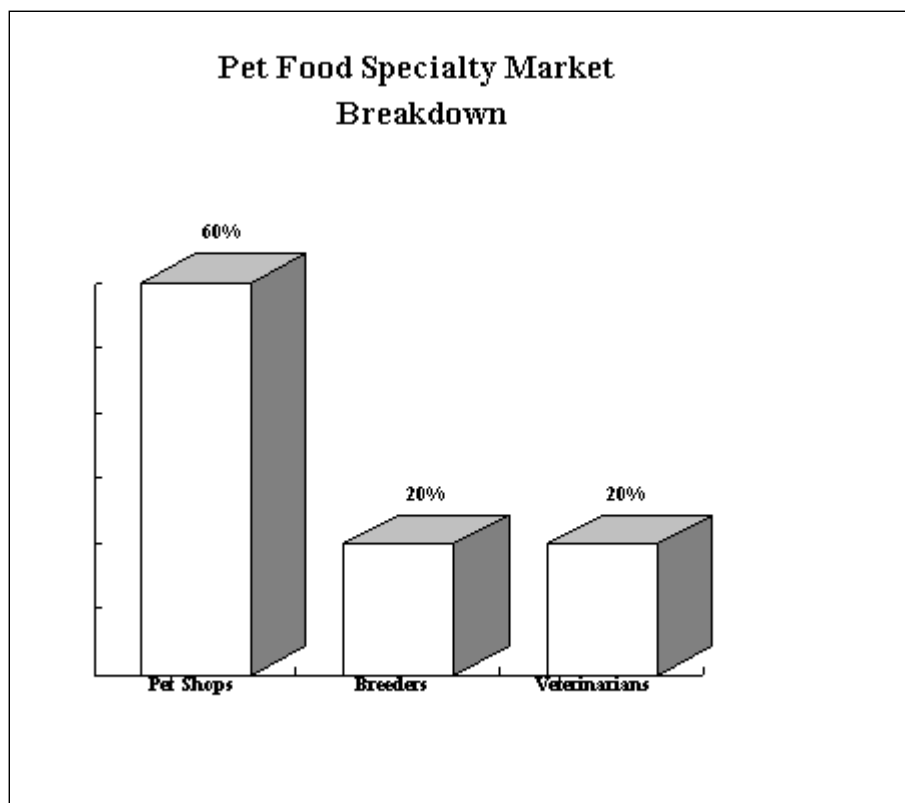
i. Pet Specialty Market

ii. Consumer Retail Market

According to the key players within the industry, the pet specialty market represents an estimated 70% of total dog and cat food sales, of which one hundred percent is imported pet food. This sub-market includes the following three (3) types of enterprises which specialize solely in pets :

- Pet Shops
- Dog and Cat Breeders
- Veterinarians

Pet shops account for approximately 60% of the total specialty market, while breeders and veterinarians represent the remaining 40%, as depicted below :



Source: FBR Statistical Analysis

According to key players within the industry, the following brands of pet food are distributed within the specialty pet sub-market in the proportions listed below:

Consumer Market

Brand	Market Share
IAMS	40%
PURINA	15%
SCIENCE	13%
NUTRAMAX	5%
Others	27%
Total	100%

Pet Shops

Pet shops specialize primarily in the sale of a few select types of dogs and cats. These shops are also engaged in the retail sale of pet food, as well as a limited quantity of pet toys and accessories.

Breeders

Breeders are comprised of both dog and cat breeders and are located throughout Taiwan. There are approximately one thousand (1,000) of these types of breeders island-wide.

Veterinarians

Veterinarians and pet hospitals which specialize in the treatment of dogs and cats are also engaged in the sale of pet food. There are approximately 700 of these types of clinics located throughout Taiwan.

The consumer sub-market, which represents approximately 30% of total dog and cat food sales, consists of the following three (3) types of retail outlets :

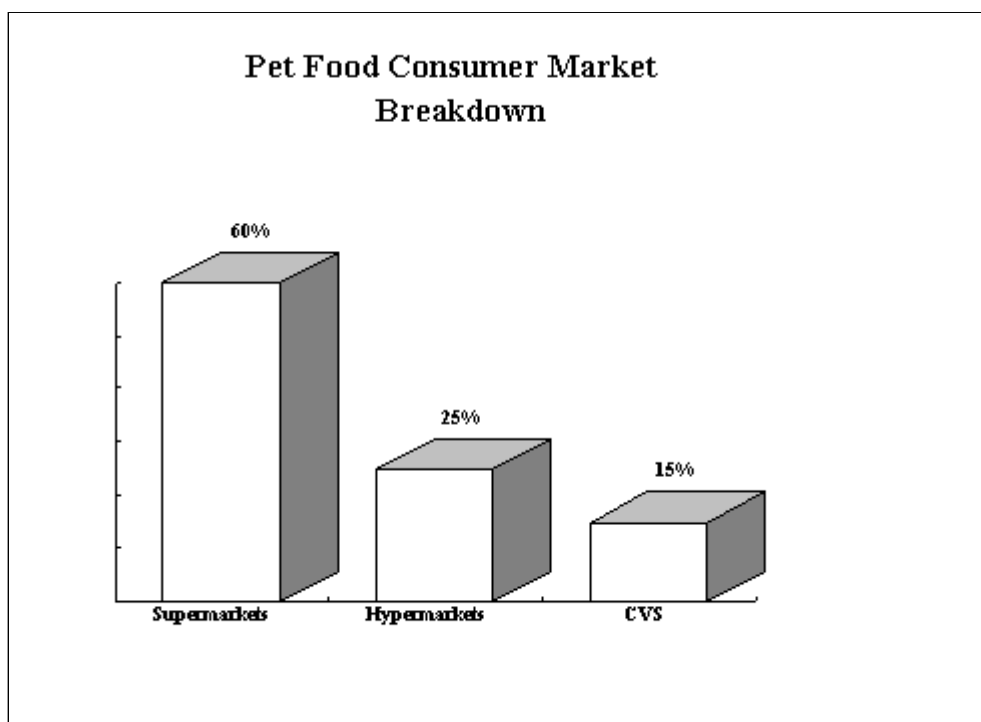
- Supermarkets
- Hypermarkets
- Convenience Stores

This sub-market is dominated by the following brands of pet food, in the percentages listed below :

Consumer Market

Brand	Market Share
PEDIGREE	80%
FWUSOW \ PRESIDENT	15%
Other Imports	5%

Within the consumer market, supermarkets and hypermarkets account for 85% of total sales, as depicted in the chart below :



Source: FBR Statistical Analysis

There are approximately five (5) major supermarket chains with an estimated four hundred (400) to five hundred (500) total locations island-wide, and are comprised of the following companies :

- i. WELLCOME
- ii. MATSUSEI
- iii. KASUMI
- iv. PARK N SHOP
- v. HYPERMART

Although hypermarkets only opened in the late 1980's, they are quickly spreading throughout the island and are expected to continue to grow in popularity. Two (2) of the largest chains are listed below:

- CARREFOUR
- MAKRO

The following six convenience store chains currently operate a network of outlets island-wide :

- i. 7-11
- ii. O.K.
- iii. Family Mart

iv. AM/PM

v. NIKOMART

vi. HI-LIFE

Birds & Fish

Bird and Fish food are distributed almost exclusively in shops which specialize in birds and fish, respectively.

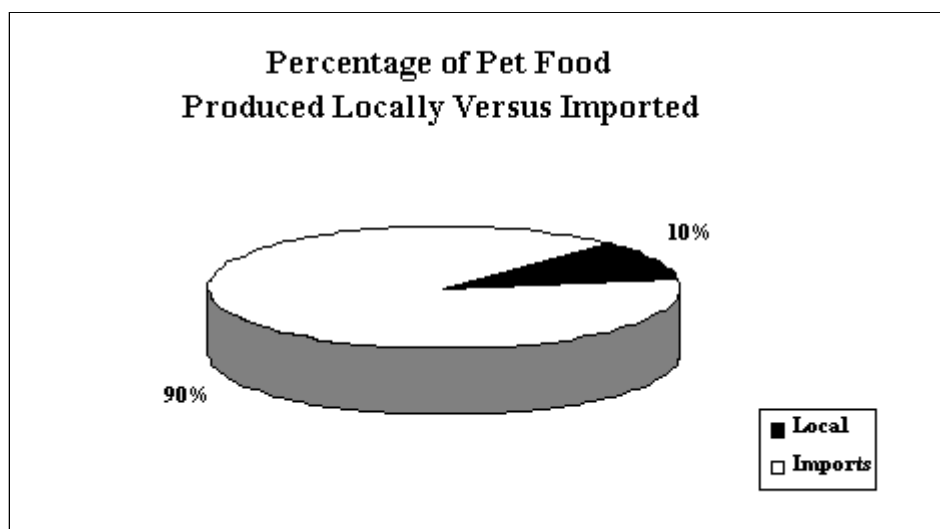
Three years ago, in 1991, it was quite popular in Taiwan to maintain a fish aquarium. At that time there were an estimated three thousand (3,000) fish stores located island-wide. Recently, however, fish prices have dropped considerably, hence only two thousand 2,000 fish stores currently remain.

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2.0 DOMESTIC AND FOREIGN COMPETITION

2.1 Percent Locally Produced Versus Imported

In 1993, imported pet food accounted for approximately 90% of total pet food consumption. This is depicted below:



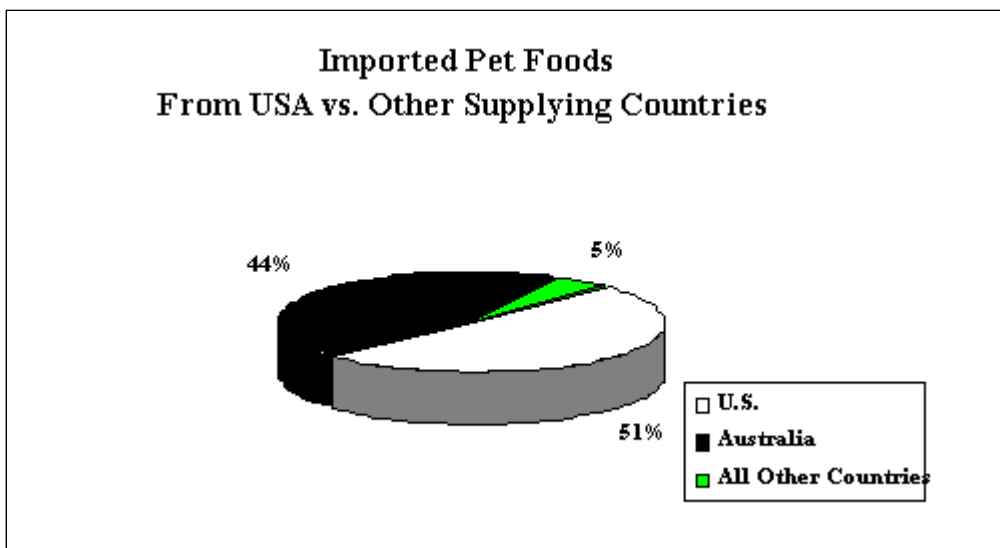
Source: Board of Foreign Trade

2.2 Market Share By Supplying Countries

Exporting countries of pet foods to Taiwan in 1993, and their respective market shares are listed below :

Rank	Country	Market Share
1	U.S.	51%
2	Australia	44%
3	France	3%
4	New Zealand	1%
-	Others	1%
-	Total	100%

Source: Board of Foreign Trade



Source: Board of Foreign Trade

2.3 Advantages & Disadvantages - Locally Produced Versus Imports

Though local brands are typically less expensive, imported pet food brands are commonly viewed as being significantly higher in quality. Quality is the primary reason for pet owners willing to pay a higher price.

2.4 Major Brands and Respective Market Shares

The leading brands of pet foods, broken down by type, and their respective market shares are as follows :

Dog Food

Consumer Market

Rank	Brand	Market Share
1	PEDIGREE	80%
2	PRESIDENT	10%
3	FUSO	5%
-	Others	5%
-	Total	100%

Source : FBR Statistical Analysis

Specialty Market

Rank	Brand	Market Share
1	IAMS	40%
2	PURINA	15%
3	SCIENCE	13%
-	Other	32%
-	Total	100%

Source: FBR Statistical Analysis

Fish Food

Fish Food

Rank	Brand	Market Share
1	HAI FONG	36%
2	TETRA	28%
3	PRESIDENT	9%
4	JBL	6%
5	HAI WANG HSING	4.8%
6	SERA	3.2%
-	Others	13%
-	Total	100%

Source: FBR Statistical Analysis

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3.0 DISTRIBUTION AND PRICING

3.1 Distribution Channels

Larger pet food importers with significant market shares simultaneously employ dual channels of

distribution.

The first channel is to sell to a distributor, who in turn sells directly to the various retail outlets, breeders and veterinarians.

The second channel is for the importer to sell directly to larger retail outlets, and breeders.

This process is depicted below :

Overseas Exporter --> Taiwan Importer --> Distributor --> Retail Outlets Breeders Veterinarians

Importer

According to the Board of Foreign Trade, there are a total of fifty six (56) importers of pet food. After importation there are an estimated one hundred (100) distributors involved in the distribution of pet food in Taiwan.

3.2 Mark-Ups at Distribution Stages

According to discussions with several key players within the industry, average profit margins for importers of pet food items are approximately 10%, distributors 8-10%, and retailers 10-15%.

3.3 Comparison Between Retail and Export Price

Exports of dog food currently average NT\$41 (US\$1.57) per kilogram while average retail prices for a similar product range from NT\$70 to NT\$90 (US\$2.69 to US\$3.36).

3.4 Price Comparison - Locally Produced Versus Imports

Examples of prices for both locally produced pet food and imports are listed below:

Dog Food

Brand	Size	Price	Origin
PRESIDENT	1 kilogram	NT\$70 (US\$2.69)	Local
" "	2 kilograms	NT\$107 (US\$4.11)	"
PEDIGREE	2 kilograms	NT\$114 (US\$4.38)	Imported
BUDDY	2 kilograms	NT\$99 (US\$3.80)	Imported

Source : FBR Statistical Analysis

Cat Food

Brand	Size	Price	Origin
WHISKAS	190 grams	NT\$18 (US\$0.69)	Imported
9 LIVES	156 grams	NT\$17 (US\$0.65)	"
TOP CAT	185 grams	NT\$15 (US\$0.57)	Imported

Source: FBR Statistical Analysis

3.5 Recommendations for Promotional Activities

Companies wishing to export pet food products to Taiwan should consider the following key points:

A. The large number of unauthorized companies importing pet foods into Taiwan has significantly reduced the profit margins for legitimate agents. Thus to effectively compete in the market, new companies need to offer additional services such as product information and literature, quality guarantees, and product exchange services.

B. As a significant percentage of dog and cat food owners still regularly feed their pets table left-overs, pet food companies need to educate buyers as to the convenience and nutritional benefits derived from providing specialized pet food as opposed to table scraps.

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4.0 PACKAGING

4.1 Local Legal Requirements for Packaging

With the exception of pet foods that contain medicine, Taiwan does not have any legal requirements in regards to the packaging of pet foods.

For medicated pet foods, it is required that the medicine type and quantity be printed in Chinese on each package.

4.2 Consumer Preferences

Packaging for pet foods come in a variety of material types and sizes. The most popular materials and sizes for dog and cat foods, and their respective market shares are as follows:

Dog & Cat Food:

Material	Market Share
Paper Bag	70%
Metal Can	30%

Size	Market share
2 kilograms	40%
15 kilograms	30%
Others	30%

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5.0 IMPORT REGULATIONS

5.1 Local Tariffs, Non-Tariff Barriers, and Quotas

Though currently no quotas are in effect, importers of pet foods face a tariff of 5.0% on the C.I.F. price. There are also several miscellaneous fees, as listed below:

Tariff and Fee Schedule*

Pet Food Tariff	5.0% of CIF Price
Harbor Construction Fee	0.5% of CIF Price
Trade Promotion Fee	0.05% of CIF Price
Customs Clearance Fee Per Shipment	NT\$500 (US\$19.23)

* **Exchange Rate: US\$1 : NT\$26**

It must be noted that, although there are no other known legal trade barriers, petty bribery and other illegal import barriers do exist. However, these are considered quite insignificant and unlikely to affect business dealings in Taiwan.

5.2 Local Standards for Grading and Sanitation

Taiwan does not currently maintain any special grading or sanitation requirements in regards to pet foods.

5.3 Special Import \ Quarantine \ Testing Regulations

Taiwan does not currently maintain any other special import or testing regulations in regards to pet foods.

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