

PET FOOD

EXECUTIVE SUMMARY

The pet food industry in Kansas has been a source of growth and is poised for additional growth in coming years. Kansas sits in the KC Animal Health Corridor, which includes several of the world's largest pet food manufacturers, along with more than 300 companies and organizations involved in animal health and nutrition. Pet food sales from the businesses within the Corridor accounts for over half of the total U.S. pet food sales, and a significant portion of the total Kansas exports were animal and pet food exports. Proximity to pet food ingredients which are grown or produced in Kansas are a significant advantage for this region. Pet owners are a growing segment of the population, and the purchasing power in this demographic opens up great potential for this industry.

Although great opportunity exists, the industry also faces some challenges which could serve as a barrier to the kind of growth that is possible. Food safety regulations are increasing within the pet food industry and impact facilities, equipment, workforce and labeling. Several other federal policies impede efficiency in business as well. Distribution of product is a challenge, needing improved transportation infrastructure as well as storage options. Hiring and maintaining a workforce is difficult particularly in rural communities with a lack of housing.

Converting these opportunities into productive economic growth will require the development of a long-term growth strategy based on input from both public and private stakeholders in the pet food industry. Public outreach, both locally and internationally, could set Kansas up as the leader in pet food manufacturing. Education and government organizations can play a key role in promoting opportunities for innovation and expansion within new and existing businesses. Proactive efforts from key players in this sector can result in growth for the pet food industry in Kansas.

STATUS

With the growing trend of pet ownership, the pet food industry, which includes dog and cat food along with food for birds, fish, reptiles, hamsters and other pets, is poised for additional growth. This business growth can develop into a larger market of value-added products from the resources available in Kansas. Two of the top five pet food companies own manufacturing operations in the state. According to estimates prepared by the Kansas Department of Agriculture and based on the Implan economic data model, the animal food industry in Kansas has a total direct output of approximately \$5.08 billion and creates 3,546.8 jobs. The industry supports a total of 18,675.6 jobs and provides a total economic contribution of over \$8.34 billion. The dog and cat food manufacturing industry alone employs 2,181.0 with a direct output of over \$3.12 billion. The dog and cat food manufacturing industry supports 11,134.8 employees through indirect and induced impacts and creates a total economic contribution of approximately \$5.03 billion.

Pet food manufacturers located within the KC Animal Health Corridor represent 61 percent of the total pet food sold in the United States. Founded in 2006 and anchored by Manhattan, Kan., and Columbia, Mo., the Corridor comprises more than 300 companies and organizations involved in animal health and nutrition, including leading universities and research institutions. Also located in this region are several facilities of some of the United States' and the world's largest pet food manufacturers. These Corridor pet food manufacturing companies also account for 49 percent of global pet food sales.

According to the Euromonitor International data available at the end of 2016, global dog and cat food sales alone amounted to about \$80.2 billion. In Kansas, animal and pet food exports were at 4.2 percent of total pet food production which equates to \$206.9 million and ranks this category 4th in state exports.

The 61 percent of U.S. pet food sales cited by the Corridor amounts to just over \$14 billion of the U.S. total of \$23 billion, which corresponds to data from the American Pet Products Association (APPA). Companies with a business location within the Corridor represent 56 percent of the total animal health, diagnostics and pet food sales, which totals almost \$50 billion in sales (total global sales = \$88.2 billion). Companies located within the Corridor represent 67 percent of the total animal health, diagnostics and pet food sold in the United States, totaling \$21.5 billion in sales (total U.S. sales = \$32 billion).

Data from research firm GfK shows 51.6 percent of all U.S. households own a dog or cat. Among millennial households, the percentage rises to 57 percent with another 20 percent reporting they intend to get a dog or cat. Also, 10 percent of U.S. pet owners are new to ownership, equating to nearly 8 million new pet owners within the last year, the majority of which are millennials.

In addition, many other players in pet food fall outside the "animal health and nutrition" mission of the Corridor but are important pieces of our vibrant industry. These include equipment manufacturers, processing support organizations, testing and lab services. The Corridor website lists hundreds of similar organizations by category, its "service provider" members. This industry employs nearly 20,000 people with approximately 3,000 of these jobs in Kansas.

OPPORTUNITIES

In order to develop a strategic growth plan for the pet food industry, it is important to understand the areas where Kansas has a comparative advantage and the best opportunities for growth or expansion.

Factor	Implications for Growth and Development Opportunities
Capital of the Pet Food Industry	No state or region has proclaimed itself as the pet food capital. Kansas could present itself in recruitment efforts as the key player in the pet food industry.
Export Infrastructure	Maintaining and improving export infrastructure will help ensure demand for Kansas pet food products around the world. Good roads for trucks and plenty of rail access across the state along with a state-of-the-art intermodal facility are key to a strong export infrastructure along with a central location in the United States.
Ingredient Sources	Pet food uses sorghum, animal renderings, other grains or grain by-products grown or produced in Kansas. Meat is the number one ingredient in premium dog and cat food. Manufacturers note the importance of processing facilities located near the ingredient supply.
KC Animal Health Corridor	There is room for growth as other animal health companies locate to the KC Animal Health Corridor that stretches from Manhattan, Kan., to Columbia, Mo.
Policy Environment	<p>Kansas tax law allows sales tax exemption for farm machinery and equipment and various ag-based inputs. These state tax code provisions make Kansas a more attractive state for growth or expansion.</p> <p>At the federal level, Kansas is fortunate to have elected members of Congress who strongly support the agriculture industry. The Kansas congressional delegation will play an important role in influencing positive changes related to federal regulations or legislation, including a national traceability system, international trade, federal taxes, transportation rules, natural resources and more.</p>

OPPORTUNITIES

Factor	Implications for Growth and Development Opportunities
<p>Regulatory Compliance</p>	<p>With the innovations at Kansas State University in pet food safety, Kansas is a leader in regulatory compliance and providing a safe, wholesome product.</p> <p>Many existing pet food manufacturing facilities will be unable to comply with the Food Safety Modernization Act’s changes to manufacturing regulations in the next 3-5 years. There is a huge opportunity to attract replacement capacity to Kansas. Some estimates suggest the opportunity of 15 additional plants in Kansas in the next 5-8 years.</p>
<p>Supporting Institutional Infrastructure</p>	<p>K-State University and KDA house expertise to guide processors looking to get started or expand in Kansas. They can help businesses be successful in the regulatory environment as well as offer some unique start-up and marketing assistance. Having both grain processing and large animal expertise at K-State is an important part of being the pet food capital.</p>

SUCCESS STORIES

- K-State Pet Food Program Strategy Planning group gathered representatives from the industry, K-State, KDA and economic development and decided to host the Pet Food Experience workshop in Manhattan again since the first one was well attended.
- The Petfood Forum relocated to Kansas City from Chicago; the relocation was received with enthusiasm and the event will be held in Kansas City for the next four years.
- The KDA ag marketing division secured a STEP grant to include a trade mission trip to Pet Food Forum–Asia. The department took two Kansas pet food industry companies to the forum and the VICTAM trade show in late March.
- The pet food curriculum has become a separate area of focus within the K-State grain science program allowing students to learn to work specifically in the pet food business.

CHALLENGES

While Kansas is poised for major expansion in the pet food sector, the following factors represent challenges serving as barriers to achieving the objective of the strategic growth plan.

Challenge	Details of Challenge
<p>Consultants</p>	<p>Much of the work done in economic development around where companies choose to locate or expand is managed by consultants. Kansas needs to have more proactive interaction with the major consulting firms across the country so that Kansas is always on their minds for possible locations.</p>
<p>Consumers</p>	<p>The fastest growing segment of pet food is “grain-free” which is not so good for a major grain-producing state like Kansas. This trend is linked to misperceptions about inflammation and dermatitis issues in pets being caused by grain.</p>

CHALLENGES

Challenge	Details of Challenge
<p>Critical Infrastructure</p>	<p>Transportation infrastructure is critical for pet food processing. Access to processing facilities with roads that can handle tractor trailers and access to rail for receiving raw commodities is important.</p> <p>A lack of adequate housing in rural areas compounds the issue of a shortage of agricultural workers. Communities need to clean up houses and/or neighborhoods which are in poor condition and explore some spec home construction to offer to prospective employees. The state and federal government don't help the issue by subsidizing low-income housing in rural communities.</p>
<p>Distribution</p>	<p>Pets are where the people are — the largest consumer base is on the coasts and around other major urban centers which also means most of the product has to be shipped long distances if it's made in Kansas.</p> <p>Many small manufacturers of pet food need a warehouse and distribution facility but aren't big enough make it work. A facility that could do this work for several small companies is needed particularly in serving the Kansas City market or housing for shipment from the Kansas City area.</p>
<p>Education of the Scope of the Industry</p>	<p>There is a lack of awareness that the pet food industry focuses on all companion animal type pets (birds, fish, reptiles, hamsters, etc.) and not just on cats and dogs.</p>
<p>International Trade</p>	<p>More work is needed to gain market access for Kansas pet food products around the world in terms of awareness, trade policy and shipping. Companies do not think of Kansas as a place to move their business. We need to market the state as the pet food hub for national and international companies. International buyers need to think of Kansas first when they are looking to source product.</p>
<p>Microbiological Testing</p>	<p>There is no private lab in Kansas where pet food manufacturers can have their products tested for micro concerns such as salmonella. This is important for smaller operations that may not have the production to justify their own laboratory as well as for outside confirmation of internal testing.</p>

CHALLENGES

Challenge	Details of Challenge
<p>Policy</p>	<p>The increasing food safety regulatory environment has placed an additional burden on pet food manufacturers to implement processes, including upgrading equipment, sampling product, documenting activities and hiring additional employees to complete all of this work.</p> <p>The U.S. has an antiquated view of poultry meal and poultry by-products as the only country in the world with split definitions. Other species don't have split definitions.</p> <p>Though not unique to Kansas, there exist significant challenges due to federal laws and regulations, including: Waters of the U.S., the Endangered Species Act, burdensome Occupational Safety and Health Administration regulations and more.</p> <p>Inconsistent labeling requirements, licensing requirements, etc. exist from state to state. Pet food is a national and international business making consistent requirements very important to streamlined operations.</p> <p>Corporate farming laws in Kansas make it difficult for poultry production and poultry is a major meat ingredient in pet food.</p>
<p>Supply Chain</p>	<p>From an ingredient-sourcing perspective it is difficult to get ingredients such as rabbit, venison, duck, potatoes, sweet potatoes and field peas all of which are popular in formulations today. This could potentially drive production to the west coast to be closer to these ingredients and the large population base.</p>
<p>Workforce Development</p>	<p>Pet food manufacturers, similar to other agricultural companies, face challenges finding and hiring qualified candidates.</p> <p>In the pet food industry, it is often more challenging to find employees who are willing to work in manufacturing rather than finding employees with a specific level of education. Hiring and maintaining a work force particularly in the rural communities is a challenge.</p> <p>The educational system and current culture focuses heavily on preparing high school students for college, and undervalues the opportunities available in technical careers for students with a strong work ethic.</p>

NEXT STEPS IN STRATEGIC DEVELOPMENT

Leaders from throughout the Kansas pet food industry will continue to collaborate in the development and implementation of a long-term strategic growth strategy with input and discussion among key partners. Industry-identified desired growth outcomes, initially developed in 2016, will be implemented by industry and key partners and updated annually at the Kansas Governor's Summit on Agricultural Growth.

PET FOOD INDUSTRY OUTCOMES



Growth Objective:

Establish Kansas as the pet food capital of the world by increasing support of the pet food industry, attracting new businesses to the state and expanding opportunities for existing companies to increase sales and profitability.

The following outcomes will be the result of industry collaboration and effort to grow the Kansas pet food industry:

Phase 1 (Begin within two years)

- National reputation as the destination for expansion in the pet food industry through trade show displays, marketing initiatives, advertisements, recruitment trips, and proven success.
- Expanded laboratory testing to provide Kansas companies with quality services and fast turnaround. For example, salmonella testing for pet food and ingredients would be a benefit in northeast Kansas since most samples are currently sent out of state.
- Private and public collaboration to develop and construct manufacturing facilities or distribution centers as spec plants to attract and accommodate new companies to Kansas.
- A competitive and competent workforce to meet the needs of pet food companies in Kansas. Connections between the pet food industry and high school agriculture education programs would encourage more interest in careers in pet food that would lead students to pursue specialized training in technical schools, community colleges and universities.
- Continued support of the pet food minor in the grain science and industry department in the K-State College of Agriculture.
- Effective and accessible pet food manufacturer training programs on the Food Safety Modernization Act.
- A marketing program to promote the importance of the pet food industry in Kansas, similar to the dairy initiative.
- Ongoing professional dialogue to analyze and prioritize ideas within the pet food industry. Potential topics would include value-added products, specialty ingredients, marketing, consumer trends, investors, research, etc., and would build upon the Pet Food Forum held in Kansas City.
- Fully functioning pet food industry association at the state and national level to advocate for the pet food industry.
- Effective array of “soft” incentives (e.g. mentorships, internships and training on interaction with financiers) to ensure that companies have access to the best information, workforce and financing to economically grow and thrive in Kansas communities and bring pet food products to market. The need for physical space for small-scale product development also exists.

Phase 2 (Begin within 2-4 years)

- Facilities to meet the needs identified by the industry, to possibly include incubators, manufacturing facilities or distribution centers.