

Market Outlook [February 2008]

Smaller Retail Concepts Going Big Time

Signs are that the independent pet specialty sector is about to get a boost, due to a number of momentum-gaining trends signaling good things to come for entrepreneurial independents. One indicator is the swing back toward smaller store formats among mega-retailers of human (and pet) fare, including Wal-Mart with its Neighborhood Markets and Whole Foods with its Whole Foods Market Express. Until recently, the core strategy of both chains has been to open ever larger stores. But both are now keeping a close eye on the U.S. market entry of Tesco, the U.K.-based mega-retailer whose edgy new Fresh & Easy convenience stores appear to be more in line with the shifting shopping and eating patterns of U.S. consumers.

Signaling a shift back toward smaller stores in the pet specialty channel, higher-income demographics continue to increase their share of U.S. pet market spending, with \$70K+ households already accounting for approximately half of market sales. This is especially good news for independent pet stores and online sellers, whose shopper demographics skew strongly to high-income households, including dual-earner two-person households. On the other hand, because many pet owners view pet superstores as the main competitors to discount stores, the product pricing gap between these channels continues to narrow, along with consumer perceptions of the differences since both channels are inescapably “big box.”

Tesco knows that smaller stores offer convenient locations and “in-and-out” shopping—along with desirable products and a level of customer service—that few of its competitors can match. And like Tesco’s Fresh & Easy, independent pet stores—the most nimble of any pet product retail format—are well-suited to meet the needs of time-pressed consumers for whom price is not always the bottom line. At the same time, there’s no doubt that there’s power in numbers, leading back to a question posed in the previous installment of this column: Where is the Starbucks of the pet specialty channel? Put differently, where in the future of pet specialty retailing is that compelling small- to mid-sized retail format—whether a chain of company-owned stores, or a franchise network—that will fill the growing consumer-need gap between big boxes on the one side and locally owned (and sometimes dusty) independents on the other?

Not far away, this column predicts.

For a look at some of the top contenders, stay tuned.