

## Market Outlook [October 2011]

### Higher-Income Households Still a Key Market Segment

Higher-income consumers are a crucial component of the pet market, with those households earning \$70K or more annually accounting for over half of the overall pet market expenditure, Packaged Facts estimates based on Bureau of Labor Statistics *Consumer Expenditure Survey* data. After numerous years of steady increases across all pet market categories, this household income segment's share of market declined for the first time in 2009 as a function of the recession. However, \$70K households still account for 61 percent of expenditures in veterinary services, 65 percent in non-medical pet services, 48 percent in pet supplies, and 44 percent in pet food, with all of these shares up dramatically since 1999.

Higher-income demographics are an essential component of the U.S. pet market on numerous levels. First and most obviously, they have more discretionary income and are thus more likely to be bigger spenders in general. As a result, they support the all-important premiumization trend, whereby most of the dollar growth in the market continues to derive from higher priced products and services as opposed to volume gains in product sales or more frequent visits to the vet, groomer, etc.

Second, they serve as an important front-line defense during time of recession, since more affluent consumers are less likely to feel the most severe effects of the economic downturn, and to demonstrate pent-up demand for discretionary and luxury goods post-recession. Throughout the current recession and its lingering impact, these households are, this column opines, second only to human/animal bond in helping to insulate against losses across all pet market categories.

Third, higher-income consumers are not just prone to spending more, they are also more likely to read labels and pay attention to health claims. As a result, they are more likely to understand and appreciate why higher priced products are worth the extra dollars in terms of potential pet health dividends. This makes them loyal customers for marketers and brands that deliver, as well as prime targets for new products with compelling value-added appeals.

Looking ahead, these more affluent households will continue to drive pet market spending as they continue to edge up along the luxury product continuum, offering one more reason to factor them into your merchandising and marketing plans.