

Market Outlook [May 2010]

PetSmart and Petco Defining and Changing Pet Retail Landscape

What's up with PetSmart and Petco—not so much a question as the primary force in pet market retailing, with the two chains boasting combined 2009 sales of nearly \$8.4 billion. This figure translates into over one-quarter (26 percent) of all pet product sales in the United States, Packaged Facts estimates, as well as approximately 15 percent of non-medical pet service sales. At the same time, both chains continue to expand at a rapid clip, with 2,100 stores in operation as of December 2009, a 4 percent increase over 2008.

To weather the recession, PetSmart slowed store additions in 2009. But the company still opened 43 units during the 39-week period ending November 1, 2009, bringing its total store count to 1,149. In a November 18, 2009 press release, CEO and President Bob Moran called this expansion a testament to the strength of the PetSmart brand and the loyalty of its customers since the company is “still battling a challenging retail environment.” PetSmart hit the 1,000 store milestone in 2007, and Petco followed suit in 2009, adding 50 units compared with around 60 in each of the five years prior.

Although PetSmart is public and Petco private (for now), the two companies share a number of similarities—from their pet parent pitch, to their focus on national brands and private labels alike, to their emphasis on higher-margin products and services, with Petco now moving steadily into the “at-home” services segment (i.e., pet sitting and mobile grooming). That said, the two chains seem to be edging in different directions, and those divergent trajectories could significantly change the pet retail landscape within the next few years, with important consequences for consumers and vendors.

In particular, PetSmart appears to be positioning as a more direct competitor to Walmart, with heavy-duty value themes increasingly characterizing the chain's activities. Whether PetSmart will be able to beat Walmart as its “Save Money. Live Better” game remains to be seen, but with the help of committed vendors and loyal shoppers it's not out of the question. On the other hand, Petco has been bolstering its image as a health and natural player, suggesting an even more intensive focus on pet-specialty-exclusive brands and the new smaller-format Unleashed by Petco shops, with a 2010 IPO possibly in the cards.

Stay tuned.