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Small Animal Segment Underestimated Yet Essential

Small animals such as rabbits and hamsters are easy to underestimate as a factor in the U.S. pet market, yet essential to its long-term health. The tendency to shortchange this segment stems from the small number of households that own small animals versus dogs or cats, and to the relatively small size of the market for small animal food and accessories. Small animals' importance to the future prospects of the overall market relates both to the crucial role of children in the market and to the competitive trend whereby marketers and retailers are looking to bolster pet ownership, expand their product range, and develop life-long relationships with pet parents. From a product and competitive standpoint, the small animal segment also overlaps heavily with the bird segment of the market, tying in closely to those fortunes as well.

U.S. Household Penetration at 5%

According to 2008 Experian Simmons consumer survey data, 54% of U.S. households (60.5 million) keep pets—but this figure drops to just 15% factoring out dogs and cats. After dogs and cats, fish (8%), and birds (5%) are the most popular types of pets, with reptiles, rabbits, and hamsters each claiming about 1%-2% of households as fans. Combining figures for rabbits, hamsters and pet types other than those listed separately below (and not taking into account cross-ownership) means that small animal owners represent approximately 5% of U.S. households (or under 6 million), at best.

**Pet Ownership in the United States: 2008
(percent and number of U.S. households)**

Ownership	Percent
Any*	53.6%
Dogs	35.3
Cats	26.1
Other Than Dogs or Cats	15.0
Fish	7.9
Birds	4.8
Reptiles	2.1
Rabbits	1.3

Hamsters	1.0
Other Than Pet Types Listed	2.9

* Read as follows: 53.6% of U.S. households keep pets.

Source: Packaged Facts' January 2009 report, *Pet Food in the U.S.*, based on data from Simmons Market Research Bureau's Spring 2008 *Study of Media and Markets*. This material is used with permission.

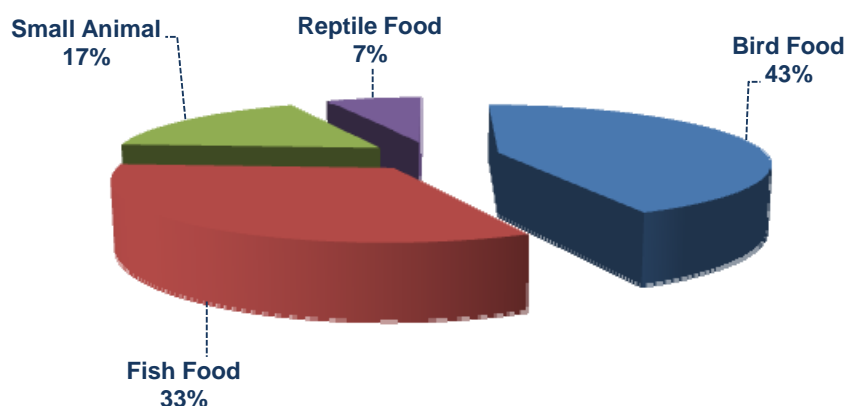
Demographic variations occur, of course, by type of pets kept. The Gen X age 30-44 cohort, who are in prime time for child rearing, are much more likely to have pets other than dogs or cats (20%, compared with 15% of households overall) and to have more than one type of pet (26%, compared with 20% of households overall), making this group top prospects for small animal ownership. The Southeast is also prime territory for keeping multiple types of pets (23%), as are households with an income of \$50,000 or more and, especially, households with children (29%). Approximately one-third of small animal owning households own more than one of the same type of pet.

A Relatively Small Market Component

Reflecting their low level of U.S. household penetration is small animal products' position in the U.S. independent pet specialty channel. According to *Pet Age's* 2008-2009 Retailer Report, small animal supplies (including food) places ninth among retailer categories, accounting for 4% of sales, compared with 39% for dog supplies and 11% for cat supplies. In *Pet Product News International's* 2007-2008 State of the Industry report, small animals and related products are the No. 7 category, at 5% of sales, down from 6% two years ago. By comparison, dogs/related products represent 48% of sales, followed by aquarium/fish products at 18% and cats/related products at 12%.

Looked at as a share of pet food sales in the United States, the role of small animals is equally modest. According to Packaged Facts' January 2009 report, *Pet Food in the U.S.: Health, Humanization and High Quality Ingredients in an Increasingly Value-Driven Global Market*, total U.S. retail sales of totaled \$17 billion in 2008, with dog food at approximately three-fifths (61%) of sales, cat food at about one-third (34%), and other pet food at 5%. Breaking this "other pet food" figure down yields a 17% share for the small animal segment, which amounts to less than 1% of all U.S. pet food sales.

Share of Sales of Other Pet Food by Animal Type: 2008 (percent)



Source: Packaged Facts' January 2009 report, *Pet Food in the U.S.*

Reflecting slow growth in the number of small animals kept as pets in the United States—currently at approximately 24 million, according to the American Pet Products Association—U.S. retail sales of food for animals other than dogs or cats (including fish, reptiles, and birds as well as small animals) have been sluggish of late, growing by a compound annual growth rate of just 1.4% during the 2005-2008 period as marketers continue to experience heavy pricing pressures from mass-market retailers as well as lower-priced private labels and bulk foods. A declining pet bird population has also contributed to the stalemate in the category, largely offsetting gains in faster-growth areas such as premium foods and prepacked live crickets, trends that will likely continue through 2010.

Product Premiumization—and Getting Back to the Basics

With the population of small animal not growing by leaps and bounds, marketers have taken their cue from the dog/cat side of the market in scaling up product selections with better-quality premium offerings on both the mass-market and pet specialty sides of the street. Key new product thrusts include natural products, fortified/functional products, those positioned along gourmet lines, and products offering greater convenience and ease of use. Marketers also continue to segment the market with varieties targeted to specific pet types and health conditions. Noteworthy product thrusts include:

- Species-specific foods emphasizing digestibility of ingredients, and pellet size and durability;
- Special diets and supplements, such as Performance Food’s hypoallergenic Totally Ferret Turkey Formula, which is geared toward ferret owners concerned about allergies to chicken (a common ingredient in most ferret foods).
- Gourmet foods, following trends in human foods via the inclusion of ingredients like sun-dried tomatoes, pistachios, and papaya.
- At the other end of the spectrum, marketers like Oxbow Pet Products have been “getting back to basics” by promoting hay as a tasty, healthy food option for herbivorous animals like rabbits, guinea pigs, and chinchillas.
- “Growing foods,” such as AgriPet’s Healthy Greens for Small Animals mix, which comprises live greens and herbs like endive, white clover, and dandelion greens, and comes in individual growing pots.

Looking Ahead

Whereas kids are a lessening factor toward dog and cat ownership in the United States, they are still a major driver in the small animal segment. APPA reports that 39% of the nation’s 71.1 million pet owners have children, and this figure ramps up to 66% among small animal owners. Even more important, kids are the future of the *entire* pet market, since the young rabbit and hamster owners of today are—with a lot of savvy marketing and a little luck—the big-spending dog and cat owners of tomorrow. In the short term, the difficult economic prospects facing many Americans could favor small animals over larger pets, which are both more difficult and more expensive to maintain. Looking further down the road, however, it will be up to marketers and retailers to make sure this market gets the attention it needs and deserves.

Implying this trend is already underway are competitive shifts such as Vitakraft’s push into the U.S. market via its August 2008 acquisition of Sun Seed, suggesting that traditional market lines between companies fielding products for dogs and cats versus other types of animals are blurring, a competitive trend Packaged Facts predicts will significantly alter the U.S. pet market landscape within the next few years. Along these lines, companies to watch include

Mars—which has been on an acquisitions tear and is already active outside the dog/cat segment via Mars Fishcare North America; and Spectrum, whose pet division is heavily invested in small animals and—based on the company’s attempt to sell the division to Salton in mid 2008—seems likely to change hands in the next one to two years. The “new blood” infusion of a Mars small animal division—whether via the acquisition of Spectrum or Central Garden & Pet (another big gun in the U.S. small animal/bird market)—could be just what is needed to put the “other pet” segment on a higher growth track that will ultimately also drive growth in dog and cat ownership and product sales.