

[For Issue 7, 2008 of Pets International]

Veterinary Services and Pet Medications: U.S. Market Synergies

Veterinary Spending on the Ups

Reflecting veterinarians' role as key arbiters of pet health, U.S. spending on veterinary care has been rising steadily for more than a decade and is the fastest growth market segment, ahead of food, non-food pet supplies and other types of services. According to the U.S. Bureau of Labor Statistics, average household spending on veterinary services rose 84% during the decade from 1996 to 2006, from \$50.85 to \$93.77. This figure translates into aggregate consumer spending of \$11.14 billion in 2006, and other sources place the figure considerably higher. In its 2007 *U.S. Pet Ownership & Demographics Sourcebook*, the American Veterinary Medical Association reports that U.S. dog and cat owners spent \$23.2 billion on veterinary care during 2006, and Packaged Facts estimates small animal practice revenues at \$15.9 billion in 2007, while projecting a 9.6% compound annual growth rate for the 2007-2012 period.

Although in part a function of veterinary inflation, this upward trend reflects a sharp rise in the number of veterinary specialists, which in turn reflects the expanding array of more sophisticated and expensive diagnostic and treatment options for companion animals. Owing in large part to the adaptation of human health and medical technologies, the vast range of technologies and procedures available for pets now includes CAT scans, MRIs, organ transplants, pacemakers, radiation therapy and chemotherapy, with cancer treatment among the fastest growth areas, along with health conditions related to obesity and aging.

Pet Medications Also a Booming Market

Pet medications are part of a huge and highly developed global market for animal health products encompassing medications for agricultural applications as well as companion

animals. Packaged Facts estimates global sales of animal health products at the manufacturers level at \$18.4 billion in 2007, up from \$13.9 billion in 2003. Since the late 1990s, the global animal health industry has swung towards the companion animal sector, which accounted for approximately 45% of sales as of 2007, up from two-fifths in 2003. Extrapolating from these figures, Packaged Facts' October 2008 report, *The U.S. Market for Pet Medications: Prescription and Over-the-Counter Remedies as Consumer Products*, places U.S. sales of pet medications at the retail level at \$4.96 billion in 2007 while predicting an 11.6% compound annual growth rate through 2012.

Shared Market Drivers

Several "shared factors" are contributing to the success of veterinary services and pet medications in the U.S. market. Clearly helping to drive the pet healthcare boom in the United States is the aging pet population. Specific to pet medications, the growing population of older pets means that more companion animals are suffering from age-related issues leading to more frequent trips to the vet, such as joint, coronary, cognitive and immune-system-related conditions. Correlating with the rising population of senior pets is the growing tendency of pets to be overweight or obese, which suggests additional opportunities for pet medications of many types, including those targeting high blood pressure, congestive heart failure and diabetes.

Equally important is the much-touted pet market humanization trend. Although marketers have been positioning pet products on the human/animal bond for many years, only since the turn of this decade have they come to understand just how potent this approach can be in influencing pet owners to spend far more than ever before in pet market categories across the board. At the same time, virtually all of the top global pharmaceutical companies are developing and adapting human-style products for pets, an area in which companies like Pfizer, Merck (part owner of Merial), Schering-Plough, Bayer, Novartis and Wyeth (through its Fort Dodge division) are positioned to excel.

In addition, because veterinary services and pet medications aren't cheap, the shifting demographic mix of U.S. pet owners toward higher-income households is a positive sign. Concurrently, a growing range of pet insurance options are putting basic and advanced pet

healthcare options in the range of more middle- and lower-income consumers, while contributing to strong growth in pet insurance premiums. From 2003 to 2007, the North American pet insurance market posted a compound annual growth rate of 26%, according to Packaged Facts' May 2008 report, *Pet Insurance in North America, 2nd Edition*, with double-digit growth expected to continue through 2012.

The Veterinary Connection

It would be difficult to exaggerate the importance of veterinarians in helping to influence and grow the market for pet medications. As evidence of the key role of veterinarians in the market, one need look no further than the top two brands of topical antiparasitics, Merial's Frontline and Bayer's Advantage, much of whose phenomenal success can be attributed to veterinarians' early and ongoing allegiance to the products. According to the American Pet Products Association (formerly the American Pet Products Manufacturers Association), veterinary recommendations are the second most important factor in flea/tick product selection for 36% of dog owners and 24% of cat owners, second only to effectiveness.

Strong growth in veterinary revenues bodes well for antiparasitics and other types of pet medications, as does the related trend whereby pet owners are seeing their veterinarians more often. According to the American Veterinary Medical Association, the number of visits to veterinarians made by dog-owning households rose 25.4% from 1996 to 2006, from 95.2 million to 119.4 million, while the number of visits made by cat-owning households increased 6.0%, from 59.7 million to 63.3 million.

A Shifting Retail Landscape

The positive trends discussed above suggest a rosy future for veterinary services and pet medications alike, although a number of emergent trends appear set to alter the market landscape in the coming years. Foremost among these, Packaged Facts predicts, will be the cross-over of "ethical" brands (i.e., those nonprescription medications for which the manufacturer has voluntarily limited sales to veterinarians) into retail channels, especially in the area of antiparasitics. Perhaps presaging such cross-over, Merial's Frontline is already widely available in retail channels, with many types of OTC and prescription pet medications

also widely dispensed online. In any case, marketers continuing to sell through veterinarians exclusively will need to explore new ways to appeal to them, including by addressing the hot-button issue of product diversion, as Summit VetPharm is doing with its new Vectra lines and proprietary tracking technologies.

Clearly, there is much room for pet medications to grow in retail channels, where the range and penetration of OTC pet medications are surprisingly narrow, and where sales of topical antiparasitics have always taken a distant backseat to those of the veterinary brands. Accordingly, the official cross-over of ethical brands would likely give the entire OTC pet medications departments of pet specialty—and perhaps even mass-market—retailers a much-needed shot in the arm, attracting consumer attention and resulting in major category expansion. What’s more, Packaged Facts predicts that, as previously ethical brands begin to show up in retail channels, we will see new products emerge under powerful pet market brands, echoing trends in the pet insurance market. A likely market entrant into flea/tick topicals is Nestlé Purina, which in December 2007 launched Gouttes Anti-Puces Pour Chiot et Petit Chien (Flea Repellent Drops for Puppies and Small Dogs) in France, under the famous Friskies name.

Nestlé Purina’s Friskies Flea Repellent Drops (France)

