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U.S. Pet Industry: Trend Watch 2013

During 2011, U.S. pet industry sales totaled $56.67 billion, up from $54.56 billion in 2010, according to Packaged Facts' *U.S. Pet Market Outlook, 2012-2013*. Although this is only a 3.9% increase, it represents $2.1 billion in additional market value, with pet food and veterinary services contributing most of these dollars. During 2011, sales of pet food rose 4.5% to $19.2 billion (an $830 million gain) and sales of veterinary services rose 4% to $20.00 billion (a $770 million gain). Pet services' 5% increase brought the category to $6.35 billion (up $300 million), and pet supplies' 2% increase brought sales to $11.1 billion (up $220 million). Looking ahead over the next two years, "all four pet market categories will register equal or slightly improved performance," the report predicts, with a number of trends in play that will continue to drive, shape, and reshape the U.S. pet industry during 2013 and beyond.

The Shelter Thrust

Growth in the U.S. pet market depends on growth in the pet population, which in turn depends on the availability of pets and their sourcing. And here the tide—including of public opinion—is moving away from pets purchased in stores or from breeders, and toward those obtained from shelters and other animal welfare organizations. In Packaged Facts' March 2012 Pet Owner Survey, nearly three-quarters (72%) of pet owners agree that "People should adopt pets from shelters and not purchase them from shops/breeders," with 42% in strong agreement. Helping to drive the trend, virtually all of the major players in the pet industry, as well as most smaller ones, are avid supporters of shelter adoptions, which are often the direct alternative to acquiring a pet from a retail store or breeder. What's more, the momentum continues in this direction via myriad cause-related initiatives within the industry, including PetSmart's new in-store adoption centers.

Premiumization

Continuing a decade-long trend, most of the dollar growth in the U.S. pet market is coming from higher-ticket sales of products and services as opposed to volume gains. Fueling this trend is a steady stream of superpremium products and services, with natural and organic fare including grain-free pet foods especially important on the products side, and expensive high-tech medical therapies, pet medications and supplements, and luxury services especially important on the services side. Footing much of the premium bill are higher-income demographics. From 1998 to 2008, U.S. households earning $70,000 or more grew from 33% of the aggregate pet market expenditure to 56%, according to U.S. Bureau of Labor Statistics *Consumer Expenditure Survey* data, and this surge was consistent across all pet product and service categories.

Humanization

Overlapping with premiumization and also in force for several years now, the humanization trend has multiple facets. First, it's a natural expression of the "pets as family" trend, whereby pet owners treat their pets like children and are highly receptive to products similar to the ones they use for themselves. Many of the services and products entering the market are directly reminiscent of human fare, no doubt appealing to the pet owner as much as the pet. Examples include veterinary procedures like chemotherapy, MRIs, and hip replacements; pet supplements like glucosamine and omega 3s; human-grade pet foods that contain superfruits or are gluten free; designer pet supplies, including Burberry apparel and Simmons Beautyrest pet beds; luxury services including boarding options more like hotel rooms, and even a pet-specific airline, Pet Airways. A concomitant trend is the increased market involvement of makers of human products, a trend likely to gain additional momentum in the years ahead.

Channel Loyalty—Not

Upscale market component notwithstanding, U.S. pet owners' deal-seeking behavior throughout the recession and its aftermath of economic sluggishness has come at a cost to retailers, and not just in terms of dollars spent. The percentage of dog or cat owners who are channel-loyal—those who purchase their pet supplies solely in a given retail classification—is on the decline. In 2006, 53% of pet product shoppers (26 million) were channel-loyal, but by 2011 this figure had fallen to 41% (22 million), according to Experian Simmons' Spring (12-month) surveys. From 2007 to 2011, no major pet product channel escaped the decline in channel loyalty. At the same time, supermarkets and discount stores still maintain a considerable lead in terms of channel loyalty. Consumers visit these outlets on a frequent basis to meet a wide range of shopping needs, and it's hard to beat the convenience of picking up the pet supplies along with the groceries and other household items.

Pet Medications Moving into Mass Channels

The U.S. retail playing field for pet medications is rapidly expanding in-store and online. One catalyst is the new retail availability of formerly vet-only brands like Bayer's Advantage, which helps to draw shoppers into the pet health departments of mass-market retailers. The other part of the equation, and one that may hold even greater stakes, is retailers' aim to tap into the prescription side of the pet medications business. During 2012, Walmart began featuring the prescription Humulin Insulin as its "Low-Price Solution for Pet Diabetes" online, while wielding a "Save on Pet Medications" floor talker in stores announcing the new prescription heartworm medication PetTrust Plus (a generic version of HeartGard Plus) and directing shoppers to the Walmart pharmacy. Target began offering veterinary pharmaceuticals in 2010, and human medicines often used for companion animals have long been available at Target pharmacies, including through the chain's $4 generic program. Grocery and drugstore retailers are also getting into the pet medications game. In July 2011, Kroger began targeting pet owners with a variety of human medications carried by Kroger pharmacies across the Mid-Atlantic region, and Walgreens is now covering pet medications with its Prescription Savings Club card.

Consolidation

M&A activity in the pet market continues to draw smaller companies and brands under larger corporate or investor umbrellas. In veterinary services, the two leaders, VCA Antech and Banfield, continue to take a larger bite out of the market by acquiring competitors and opening new hospitals. In non-medical pet services, PetSmart and Petco continue to advance in large part by adding stores, and national franchise operators like Camp Bow Wow (boarding), Fetch! (pet sitting and dog walking), and Aussie Pet Mobile (mobile grooming) have become major forces in their respective areas. In pet products, assembling stables of innovative brands via acquisitions (as opposed to developing them from the ground up) has become an earmark competitive strategy, including in the case of major players like Procter & Gamble (marketer of Iams, which recently acquired Natura and its natural brands), Mars (which in the past few years has acquired brands including Greenies and Nutro), United Pet Group, Central Garden & Pet, Petmate, and others. The trend is also seeing new companies buying into the pet market, as with Perrigo's September 2012 acquisition of Sergeant's Pet Care Products, Inc.

Cross Pollination

The U.S. pet market used to be divided along fairly sharp lines, including between services and products, and between food and nonfood products. Today, these lines are a good deal less precise, with service providers and product makers increasingly interacting, and with top pet specialty retailers PetSmart and Petco major forces in non-medical pet services. In 2007, pet food giant Mars acquired the Banfield chain of pet hospitals, adding to the pet health expertise Mars enjoys through its Waltham Centre for Pet Nutrition in the U.K.; therapeutic pet food makers including Hill's and Iams are major supporters of veterinary programs; pet insurance provider Pethealth Inc. is also an online seller of pet products via its Tango.com storefront, and the examples go on. Cross pollination serves to exploit existing strengths and develop new ones and, as such, will be more and more commonplace in the years ahead.

Globalization

Given the market involvement of market players like Nestlé, Mars, Hagen, Tetra, Pfizer, and most of the other pet medications makers, it's fair to say the U.S. pet market has always had a strong global component. But as U.S. pet companies look abroad for growth and foreign companies to the United States, the U.S. pet market is becoming even more global. Pet companies established in the U.S. are avidly mining less developed parts of the world for growth, especially the BRIC nations (Brazil, Russia, India and China); the U.S. pet insurance business now encompasses two major players crossing over from Canada, Pethealth and Trupanion (Vetinsurance in Canada); and Canadian pet retailer Global Pet Foods recently entered the U.S. market. As another sign of the times, for the first time at the American Pet Products Association Global Pet Expo, in 2012, the show included an international pavilion designed "to enhance global access to the U.S. pet products market." Expect the trend to continue in 2013 and beyond as mature markets including the United States, Western Europe, and Japan increasingly poach on each other's turf and push harder in developing regions.