

THE PET INDUSTRY TODAY

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Industry Analysis

Today, the pet product industry is a large and rapidly growing market. According to the American Pet Product Manufacturers Association (APPMA), the market for pet products and services was \$23 billion in 1998, \$27 billion in 2000, and is expected to grow to \$29 billion in 2001.¹ By 2005, the industry is expected to grow even more to \$33.5 billion, according to a study by Business Communications Company on *The Pet Industry*². Within this category, pet food accounts for the largest category of pet related products – \$10 billion, while pet supplies, including dog and cat toys, collars and leashes, cages and habitats, and books, total \$5 billion. Major pet-related services, including grooming, obedience training, and veterinary care, account for \$9.5 billion. The latter two categories – supplies and services -- account for \$14.5 billion – about half of the pet products industry.³

Significantly, this market is growing rapidly. As reported by the leading industry publication, *Pet Business*, which celebrated its 25th anniversary in 1998, the pet industry first began to organize itself into an industry in the early 1970s. Though the American Pet Products Manufacturers Association was formed in 1958 and the Pet Industry Distributors Association began in 1968, the industry was still relatively small and unformed in the early 1970s. Essentially, it was a small, but growing industry, which was made up of small private manufacturers, distributors, retailers, and other enterprises.⁴

Then, in the late 1970s and late 1980s, everything changed with the development of two major business successes – super-premium pet foods and pet superstores, resulting in the rise of a few dominant players in the industry in the 1990s. The super-premium pet foods phenomena was kicked off in 1976 by Iams Company, now number two in the industry, but then a small Ohio company producing food for mink. Iams introduced the Eukanuba brand, as a high-protein, high-fat, meat-based brand, and the following year the Science Diet company came out with its own premium entry. These brands were soon followed by other competitors, leading to the rise of over 70 super-premium pet foods today, though this category is dominated by a few market leaders, including Ralston-Purina (now the biggest) and Iams.⁵ Other major premium

brands include Science Diet, Nutro, and ProPlan, while the major supermarket brands include Alpo, Friskies, and Kal-Can.

The success of these premium pet foods in turn led consumers to increasingly go to their local pet shop on a regular basis, which led to the growth in sales of other pet products and accessories. As a result, by the mid-1980s, the pet industry took off as premium pet foods boomed with more and more brands. Then, as consumer purchases of both pet foods and supplies increased, this growth led to the beginning of the pet superstore, launched in 1987 in Phoenix, Arizona, by PetSmart, which has become the market leader with over 525 stores.⁶ The other big superstore, number 2 in the industry, is Petco, which has nearly 500 stores in about 40 states.⁷

Yet, while pet foods may be the largest segment of the industry at 47% of the market, the most rapidly growing market segment is pet supplies, which represents 5.5% of the market. These supplies include dog and cat toys, collars and leashes, cages and habitats, and books. This segment is projected to increase from \$5.2 billion in 2000 to \$6.9 billion in 2005, according to the Business Communications Company *Pet Industry* study.⁸ Other pet services, such as for training and pet care, accounting for 2.2% of the market, are expected to increase, too, from \$5.2 billion to \$6.9 billion in 2005. The other major pet industry category, veterinary services, with 4.6% of the market, is expected to increase from \$7 billion to \$8.8 billion during this same time period.⁹

Another growing opportunity in the pet industry is exporting of U.S. produced pet products, which are slightly under \$1 billion a year, as of 2000. They are expected to grow about 4.8% between 2000 and 2005.¹⁰

The reason for this tremendous growth in pet products and supplies is due to the growing number of pet owners and pets. According to a survey conducted by the American Animal Hospital Association, there were approximately 235 million households which owned pets – especially in homes with families with children between the ages of 5 to 19. These households represent about 60% of all US households, and 40% of these households own more than one pet, according to an APPMA study. Another study by Sloan Trends & Solutions in 1998 found that the average household with pets spent about \$350 on their pets in 1998.¹¹

As for the number of pets – according to the American Pet Association's statistics as of 1998 (to be updated in late 2001), there were approximately 43 million dog owners who owned 62 million dogs, and about 34 million cat owners, who owned 75 million cats, for a total of 137 million pets.

While the superstores and discount stores account for over 50% of U.S. sales volume, pet supplies are sold by many other retailers in a highly fragmented market. Among these other retailers are supermarkets, discount stores, other mass merchandisers, specialty pet stores, direct mail houses, Internet retailers, and veterinarians.¹² Plus various organizations are devoted to pets, including pet clubs and associations, some of which sell pet supplies and other pet products.

Market Analysis

The Pet Owner Market in the U.S.

The market for pet products has been growing rapidly, since a large category of current pet owners can be considered “pet enthusiasts”, as characterized by the leading wholesaler PetSmart. These customers are “passionately committed to their pets” and regard their pet like “a family member.”¹³ These customers are the biggest buyers of a variety of pet services, including grooming, pet training, and veterinary services, which are all potential markets for people who want to better communicate with their pets. For example, such customers often take their pets with them when they go to PetSmart stores to shop, and many watch grooming and pet training at these stores. Many also participate in the PetSmart pet training classes, besides buying toys from a specialty “Toy Shoppe” for pets that has become part of the PetSmart superstore.

There is also a growing market for pet-themed novelty-gift products, which is like a talking Barbie Doll, Tickle-Me Elmo, or Billy Bass Talking Fish, is the broad general consumer market. Besides the range of pet owners, from the less committed to the true pet enthusiast, this market also includes the huge mass market for fad and novelty products. This market includes people of all ages. However, as with novelty and fad products generally, this market is likely to be ephemeral – lasting perhaps a year or two for any new product entries in this category. Still it is a huge market, given the more than 43 million dog owners and 34 million cat owners, who own respectively over 62 million dogs and 75 million cats.

The strong commitment of these owners for their pets is shown by some of the 1998 statistics provided by the American Pet Association.¹⁴ These show how millions of owners treat their pets much like their own children or other family members by buying them gifts, celebrating their birthdays or displaying their pictures. More specifically, these statistics show that:

- 28.5 million dog owners purchased Christmas gifts for their dogs.

- 9.8 million dog owners celebrated their dog's birthday, such as by giving their dog a special treat, meal, cake, ice cream, new toy, or a new bone. Around 5-10% of these owners sang or wished their dog a happy birthday, gave their dog a party with other dogs or pets, took their dog to a favorite place, or took birthday photos.
- 37 million cats got Christmas gifts from their owners and 13 million of them had their birthdays celebrated.

A more recent 1999 survey by the American Animal Hospital Association of 1100 pet owners showed how very deep this attachment runs,¹⁵ in that most owners see their pets as more than just pets, but part of the family. For instance, from 40-100% of all respondents reported that they:

- Give their pet a Christmas or Hanukkah present (100%)
- Include their pet in holiday celebrations (87%)
- Consider their pet "smart" or a "genius" (75%)
- Sing or dance for a pet (65%)
- Celebrate a pet's birthday (63%)
- Take time off from work to care for a sick pet (53%)
- Prepare special meals for a pet (52%)
- Take their pet to work (44%)
- Display a pet's photograph at work (43%)

This commitment is especially strong for dog owners. More than half of all U.S. dog owners say they are more attached to their pets than to at least one other human being, and from 4-13 million say they are as attached to their dogs as they are to their best friend (13 million), children (6 million), or spouse (4 million). Over half of these dog owners (25 million) train their dogs to perform at least one trick.

The reasons dog and cat owners give for acquiring their pets further shows the great appeal of a product enabling them to better communicate together. According to the American Pet Association, the owners mentioned these reasons, some giving multiple responses: 56-62% specifically said they wanted "someone to communicate with"; while 83-84% sought companionship, and 90-93% wanted someone to play with.¹⁶

The Growth of Premium and Specialty Products

In sum, the dog and cat owner market is a vast one in which owners show a high level of attachment and commitment to their pets, as well as a strong interest in communicating and building the relationship with them. In turn, these factors have led owners to make more purchases of not only basic pet products, but to purchase more premium and specialty pet products of all types. For example, the following facts on Pet Industry Trends, available from various sources, illustrate this growing market for premium and specialty pet products.¹⁷

- Between 1997 and 1998, the number of dog and cat products claiming to have natural, holistic, or nutraceutical properties increased 21% and 50% respectively.
- Due to the growing market for health conscious pet products has been growing, premium pet food brands, such as Hills Science Diet, Nutro, Eukanuba, and Iams, now represent 30% of the total pet food market.
- A growing number of pet food products are being produced for behavior modification, as well as offering a variety of health benefits, including weight reduction, disease control, and skin and coat health.
- Companies are developing more specialized products to take into consideration a pet's breed, stage of life, and current lifestyle, since consumers have become more interested in learning about their pet's likes and dislikes – which could be something they want to communicate about.
- Consumers have become increasingly interested in the emotional and mental stability of their pets, so they are seeking products that treat a variety of emotional conditions, such as hyperactivity, motion sickness, sleep disorders, anxiety, and depression. This interest in their pets' feelings is another reason they want to better communicate with their pets.
- Due to the healthy expanding economy of the 1990s, American pet owners have been able to “lavish unprecedented spending on their pets”. Since these owners often consider companion animals, such as dogs and cats as members of their family, pet food companies have cashed in on this emotional bond. For instance, Funda Alp, a spokesperson for the American Pet Products Association stated that “love does translate into dollars.”¹⁸
- Researchers have identified an emerging consumer trend of “pets parents”-- people who think of and treat their pets like children, and pet behavior specialists note many similarities between the two, such as the way both children and pets learn through play and exploring the world around them. In response to this growing pets parents market, a growing number of companies have been

bringing out toys and specialty products for pets. For instance, PetSmart and Hasbro teamed up to create a line of pet products inspired by the best-loved and most-remembered classic toys for kids called the “Paws ‘N More” line, which includes a puppy key teether and pacifier and play mat and fish mobile for cats.¹⁹

¹ PetSmart, Inc., 1999 Annual Report, p. 3.

² Business Communications Company Report 034Y: *The Pet Industry: Food, Accessories, Health Products and Services*, available from www.bccresearch.com, published 10/3/00.

³ PetSmart, Inc. 1999 Annual Report, pp. 3-4.

⁴ Dennis J. Farrell, “Pet Business Silver Anniversary: 25 Years Retrospective,” *Pet Business*, (available online at www.petbusiness.com/Retro.htm, 4/19/01) p. 1.

⁵ *Ibid.*, pp. 1-2.

⁶ *Ibid.*, p. 2.

⁷ “Petco Animal Supplies, Inc.,” Hoover’s Online Company Capsule, p. 1.

⁸ Business Communications Company Report 034Y: *The Pet Industry: Food, Accessories, Health Products and Services*, available from www.bccresearch.com, published 10/3/00.

⁹ *Ibid.*

¹⁰ *Ibid.*

¹¹ PetSmart, Inc. 1999 Annual Report, pp. 3.

¹² *Ibid.*, p. 4.

¹³ PetSmart, Inc. 1999 Annual Report, Introduction, pp. 3-5, Business Section, p. 5.

¹⁴ “Fun Pet Statistics”, American Pet Association, March 1998, p. 1-2. Available from www.apapets.com/petstats2.htm.

¹⁵ American Animal Hospital Association, 1999. Available online from www.watt.com.

¹⁶ *Ibid.*, p. 2.

¹⁷ “National Trends”, available from garnet.acns.fsu.edu/~ibb9718/trends.htm.

¹⁸ From “The Record”, 1998, cited in “Global Trends”, available from garnet.acns.fsu.edu/~ibb9718/trends.htm.

¹⁹ “Developmental Needs,” Release from PetSmart, available online at www.wattnet.com.