

Pet Industry Report

Online Activity Boosts Revenue

Wide Acceptance of Pets

During the COVID-19 pandemic, pet shelters saw an increase in adoptions and foster opportunities for countless households. Though many animals were returned to shelters following the slow revitalization of the U.S. economy, many households chose to keep their animals as a new addition to the family. By 2021, nearly 90.5 million households owned a pet, equaling about 70% of all U.S. households (American Pet Product Association).

The vast majority of pet owners view their furry friends as full-fledged members of the family and are opting for premium foods and products. According to the American Pet Products Association (APPA), 2020 total U.S. Pet Industry expenditures equated to \$103.6 billion for items such as food, treats, supplies and vet care among other services. By 2021, total expenditure jumped to almost \$124 billion, a 9% YOY increase beginning with \$90.5 billion in expenditures in 2018 (APPA).

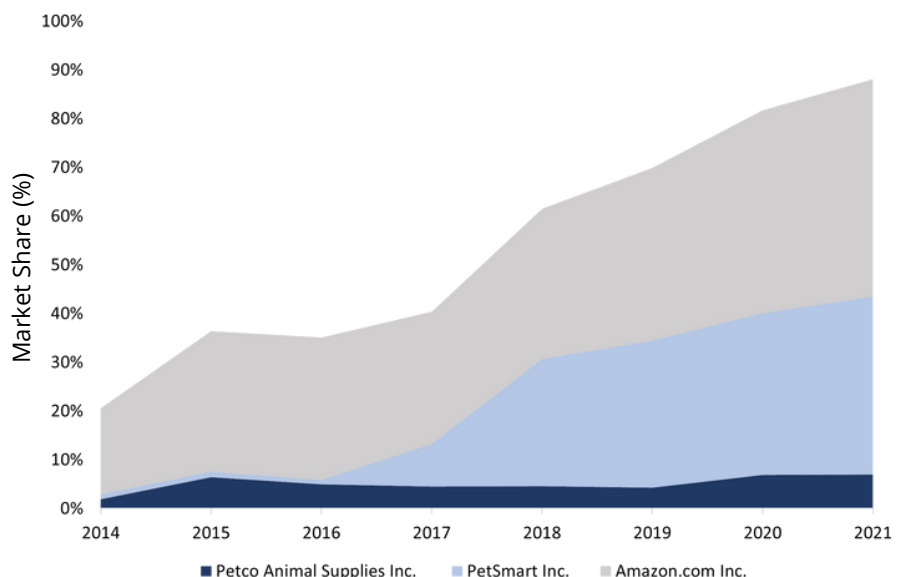
Momentum behind supporting the quality of life for these furry family members is not forecasted to slow down any time soon, but operators will need to understand the buyer landscape to properly compete against substitute products.

Consumer Access Amongst Industry Growth

Strong revenue growth, compounded by inflation and an increase in pet owners, has spurred an influx of new market entrants. However, operators are affected by consumers access to internet, as well as their comfort using e-commerce tools. Current competition from grocery stores and mass merchandisers will continue to affect market share from boutique brick-and-mortar stores (IBISWorld).

Regardless of consumer access, new entrants are predominantly operating through e-commerce platforms, with a few choosing to operate using an omni-channel approach, selling online and through a small brick-and-mortar store.

Major Online Pet Retail Market Share 2014 - 2021 by Company



Source: IBISWorld

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Prices across e-commerce sites have continued to increase due to a combination of extended supply chain disruptions and inflated operating costs. Similarly, fluctuating oil prices have generated both upstream and downstream disruptions, namely higher transportation and shipping costs that e-commerce retailers are working to mitigate ([IBISWorld](#)).

Consumer Purchase Preferences

Pet food accounts for the largest market segment of online pet retailers at 56%, with pet supplies accounting for 36% ([IBISWorld](#)). While generic pet food sales at local grocery stores garner the largest revenue stream within the traditional consumer pet retail market, premium or specialized foods are not typically sold geographically near consumers and are only just beginning to rise in popularity and preference.

Specialized food products are often confined to one geographical area due to supply chain restraints and/or weather conditions required for particular organic ingredients.

As a result, these specialized product retailers rely on online and e-commerce sales for the majority of their revenue outside of partnerships with local brick-and-mortar stores.

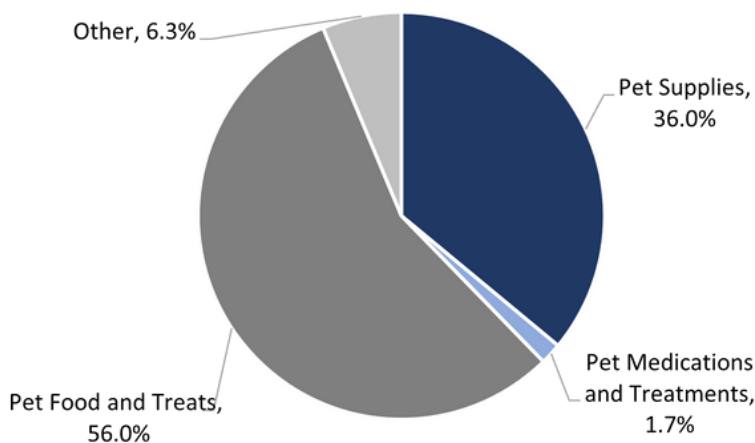
The pet supplies segment includes a larger array of products: toys, bedding, food bowls, leashes, brushes and combs, shovels and scoopers, cat litter, cages and aquariums, travel carriers and many other accessories comprise this market. This segment's share of revenue has declined over the past five years primarily due to competition. Since the market encompasses a wide variety of goods with very limited regulation, competition is intense. Pet supplies are increasingly sold at a variety of retail outlets which siphons demand away from e-commerce channels ([IBISWorld](#)).

Other market segments within the industry include pet medications and treatment, grooming, training, adoptions and education. While these market segments generate revenue, they cannot be utilized solely for online sales. Online retailers can recommend veterinary services, trainers or other grooming locations, but this does not lead to substantive revenue for online retailers. These referral-based market segments only capture about 2% market share as they act as upstream suppliers for various brick-and-mortar operators that wouldn't naturally be considered direct e-commerce competition.

Demand Based Ease of Purchasing

The number of pets in the United States is directly related to demand for supplies and food. As households buy and adopt more pet family members, the need to feed, medicate and keep them happy increases. Demand for pet food and supplies sold through online stores depends on the overall need for these items and the ease with which they can be purchased.

Online Pet Product Segmentation



Source: IBISWorld

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To further understand consumer purchasing trends, market segments must be broken into generations ([IBISWorld](#)).

According to the APPA, the largest percentage of pets owned by any one generation are millennials at 32%. Millennials are known to follow a nontraditional path by waiting to get married or starting families at a later age ([CNBC](#)).

Increased per capita disposable income for millennials is relatively low for brick-and-mortar stores, however, due to their busier schedules than other generations, it's easier for purchases to be made via online platforms.

APPA reported that in the last 12 months, the average amount of money spent on food or treats at any given moment was over \$300. This does not include the purchasing of toys, vet visits, or grooming and boarding services.

Businesses such as Chewy.com, SpotandTango.com and APupAbove.com are subscription-based platforms that millennials, and Gen Zs are leaning into as opposed to the brick-and-mortar stores which remain the preference of baby boomers or Gen Xs ([Supermarket News](#)). In response to decreasing market share for brick-and-mortar retailers, many have developed and launched e-commerce platforms to compete with online-only pet retailers.

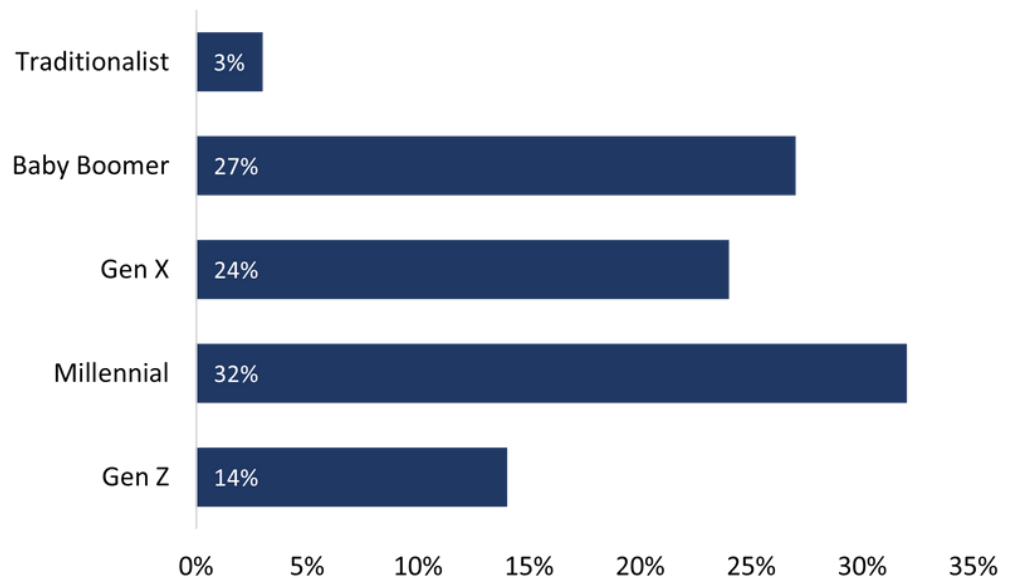
Expansion & Consolidation Efforts

Some 80% of retail pet stores have a website, though only 30% actively use it to sell products. This usage data is expected to grow as more millennials and Gen Zs begin to own at least one pet per household, according to the Pet Business' Retailer Handbook.

It's vital that pet retailers begin to understand the demographics of Gen Zs and start adapting to existing behaviors as a means of generating sales ([Pet Business](#)). Winning over their demographic will take time, and successful market penetration via retailers will include **economies of scope, a loyal customer base, the ability to manage stock on hand, having a user-friendly website and the establishment of a brand name.**

Although PetSmart acquired Chewy.com in the largest e-commerce acquisition to date, today's box stores, mass merchandisers and other brick-and-mortar retail stores are not expected to acquire online retail competitors in the near future ([IBISWorld](#)).

***Pet Ownership in 2021
by Generation***



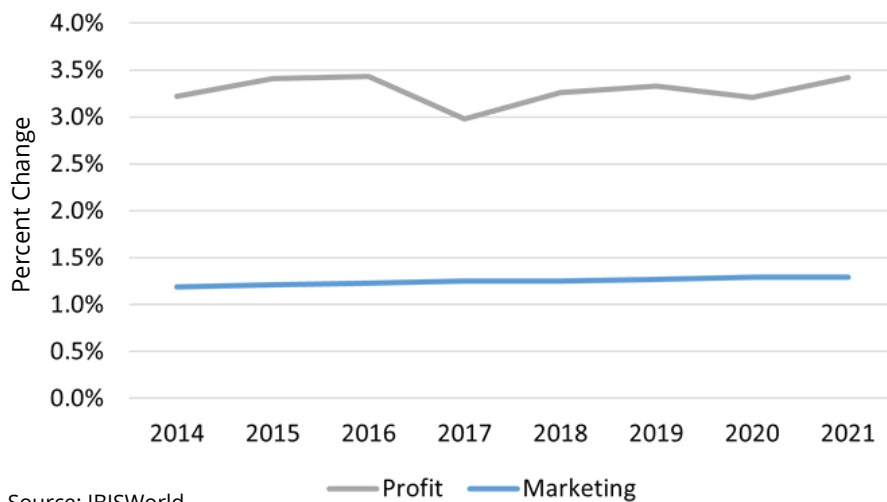
Source: IBISWorld

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The Chewy.com transaction alone signified the increased relevance of e-commerce as a sales channel for pet retailers. However, niche product marketing will soon become the main focus for differentiation efforts as all retailers work to distance their products from one another.

Advertising spend in the industry is expected to rise in tandem with profit. Fundraising and financing efforts are becoming a common practice for small retailers to remain competitive with mass merchandisers and big box retailers.

Historical Industry Profit vs. Marketing Growth by Year



Source: IBISWorld

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