

Issue: The Pet Industry

The Pet Industry

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## Will Millennials keep it booming?

### Executive Summary

With spending on pets in the United States rising annually and projected to reach almost \$100 billion by the end of the decade, the pet industry is considered virtually recession-resistant by experts who study it. They cite factors such as the multigenerational appeal of pets, studies showing a correlation between good human health and pet ownership, a growing celebrity pet culture that spawns spending on luxury goods for animals and global expansion. Challenges to the industry include credibility questions stemming from pet food recalls, animal-rights legislation that could limit sales of animals, online competition and company mergers and acquisitions.

Here are some of the key takeaways:

- Spending on pets in the United States continued to increase even through the 2007-09 recession and hit an estimated \$62.75 billion in 2016.
- One economist estimates that spending on U.S. pet products is growing 50 percent faster than the overall retail sector.
- One driver of the industry's growth is the spread of "pet parenting," the tendency of some couples to treat their pets as surrogate children.

### Full Report



A dog sporting a designer outfit on the runway at Pet Fashion Week NY. (Timothy A. Clary/AFP/Getty Images)

Adelle Girvan and Korey McKinney recently moved into a posh apartment complex outside Boston. The young couple was lured by amenities that included an outdoor pool, fitness studio and free all-day coffee. But what really cinched the deal was the 3,000-square-foot, indoor-outdoor, on-site dog daycare center for their beagle-Labrador mix puppies, Thor and Zeus.<sup>1</sup>

"It was a huge, huge perk," Girvan, 23, said. "Dogs should be able to run free, and since we have an outdoor dog park, that was a huge plus for me."<sup>2</sup>

As Millennials like Girvan and McKinney follow in the footsteps of the Baby Boom generation in embracing pet ownership, the percentage of U.S. households with a pet hit 65 percent last year, up from 56 percent nearly three decades ago, according to a survey by the American Pet Products Association (APPA).<sup>3</sup>

And with pet ownership growing, the market for pet products of all kinds has expanded with it. Americans' spending on pets has risen every year since 1994 – even during the recession years of 2007-2009 – and reached an estimated \$62.75 billion in 2016, according to research by the APPA.<sup>4</sup> The U.S. Bureau of Labor Statistics estimated that spending on pets averaged more than \$500 per household in 2015, the most recent year for which it collected data on the subject; that exceeded the average amount spent on alcohol, landline phone lines or men's and boys' clothing.<sup>5</sup>

The result is a true growth industry. One market research firm that specializes in the pet business, Packaged Facts, projects that total sales will be nearly \$100 billion by 2020.<sup>6</sup> "With an industry growing at 4.6 percent a year, a retailer has to be doing something very wrong" if it's not turning a profit, says investment banker and pet business consultant Carol Frank, who is based in Boulder, Colo.

That doesn't mean the industry is trouble-free. Its retail businesses face challenges that include increased online competition, a mergers-driven consolidation that is squeezing smaller independent outlets, proposed animal-rights legislation that would limit sales of pets in stores and addressing concerns about pet food safety stemming from a 2007 recall.<sup>7</sup>

Nevertheless, the overall outlook is positive. Total spending on pet products is growing about 50 percent faster than the retail sector as a whole, according to Brian Beaulieu, an economist with the research and consulting firm ITR Economics of Manchester, N.H.<sup>8</sup>

One reason for the industry's enduring success may be what Nobel-Prize winning ethologist Konrad Lorenz once identified as "kindchenschema," or the combination of traits that make a creature cute and adorable to humans.<sup>9</sup> While Lorenz was studying human infants, some of these traits, such as a large head relative to body size and big eyes, also help make kittens and puppies appealing and may subconsciously encourage impulsive buys or adoptions.<sup>10</sup>

Another reason: the growth of “pet parenting,” the tendency of some couples to treat their pets as surrogate children. The pet parenting trend started with Baby Boomers, and Millennials have hopped on the train, according to Acosta, a sales and marketing firm in Jacksonville, Fla. “Pet owners see their pets as not only companions but cherished family members,” it said in a 2016 report. “Ninety-four percent of pet owners indicate their pet is part of the family; 80 percent report they treat their pets like their children.”<sup>11</sup>

In addition, studies suggest that pet ownership has a positive effect on human health, bringing benefits that include lower stress, improved cardiovascular health, reduced allergic sensitivities and less hypertension.<sup>12</sup> A 2015 study for the Human-Animal Bond Research Initiative Foundation (HABRI), a Washington-based research group, found that pet ownership saves more than \$11.7 billion annually in health care costs.<sup>13</sup>

Retailers’ participation in “cause marketing” – collaboration between for-profit and nonprofit enterprises – also channels economic strength into the pet industry. This happens through stores participating in the rescue and adoption of shelter animals, partnering to provide health services and neutering, and offering individual grants.<sup>14</sup>

For example, [Nestlé Purina](#) says it invests more than \$30 million annually in pet welfare, benefiting more than 2 million pets; in November 2015 it donated a dollar to the American Kennel Club (AKC) Canine Health Foundation, up to a maximum of \$75,000, for each time a dog owner used the hashtag #dogthanking and @Purina on Facebook, Twitter, or Instagram.<sup>15</sup>

Similarly, the big-box retail chain [PetSmart](#) says it helps coordinate adoption for 400,000 dogs each year and recently acquired AllPaws, an online and mobile adoption platform, to facilitate adoption.<sup>16</sup> The dog toy and collar retailer [Planet Dog](#) donates 2 percent of every sale to its nonprofit foundation that funds the training and placement of service animals.<sup>17</sup> Halo Pet Foundation, a nonprofit that seeks to disseminate information on the responsibility of pet ownership, fed 1 million meals to animals in shelters nationwide in 2010.<sup>18</sup>

Packaged Facts found that consumers increasingly choose their pet vendors based on the role they play in pet welfare and rescue, with the percentage rising from 33 percent in 2014 to nearly 44 percent in 2016.<sup>19</sup>

“The more that animal welfare is recognized as part of the industry, the more that pet owners will embrace” that vendor, says Steve Monahan, founder of Green Pets America, an Atlanta-based animal welfare group. “Things are moving in that direction.”

Stores also capitalize on the environmental movement, stocking shelves with eco-friendly products. “Females make up 70 percent of the monetary decision-makers for pet products,” says Frank, “and Millennials care about frozen and refrigerated, natural, organic, raw, and other sustainable premium food products. They want pets to follow their own diets.”

Pet parenting has gone global, with worldwide pet products and services reaching a record \$100 billion in 2014, according to the international market research company Euromonitor International:<sup>20</sup>

- China’s pet industry took off in the mid-2000s as its economy produced more disposable income and families began to regard animal companions as beloved family members. Dog licensing fees were lowered from \$285 a year to \$42, and the country’s growing adult middle-class is choosing to spend money on pets.<sup>21</sup> China has become a formidable pet trade show hub, with Pet Fair Asia in Shanghai bringing in hundreds of vendors.<sup>22</sup>
- India will increase its pet trade in the next few years at a 10 to 15 percent annual rate, according to Euromonitor.<sup>23</sup> Top growth areas include grooming, pet spas, pet behaviorists, yoga for dogs and pet magazines. India also is starting to offer dog-friendly gourmet restaurants.<sup>24</sup>
- Nestlé in 2011 announced investments totaling \$48 million in its pet food factory in Vorsino, Russia, about 60 miles southwest of Moscow.<sup>25</sup> The company’s goal was to double production of wet food within three years. In 2010 the global food conglomerate [Mars Inc.](#) reported net profits increasing by 33 percent for its Royal Canin Russian subsidiary.<sup>26</sup> Russia will join the world pet trade show market with ParkZoo, an annual three-day event scheduled this year for September in Moscow to showcase more than 200 Russian and foreign companies.
- Another developing market is Brazil, with one of the largest pet populations in the world, where annual sales increase 12 to 17 percent each year.<sup>27</sup>

## Growing the Market

According to the American Pet Products Association, half of Millennials are carrying on the Baby Boomer pet ownership tradition.<sup>28</sup> This generation of 83 million people – larger now than Boomers – is more ethnically diverse than its predecessors, with 44.2 percent belonging to a minority or distinct ethnic group, according to the U.S. Census Bureau.<sup>29</sup>

Hispanics are the second fastest-growing ethnic group in the United States, second only to Asians, according to Census data.<sup>30</sup> And the Pet Ownership Statistical Breakdown, compiled by the market research firm Mintel, shows that 53 percent of Hispanic-American

households have dogs and 34 percent have cats.<sup>31</sup> Hispanics are also “disproportionately important” as bird owners, according to Packaged Facts.<sup>32</sup> Manufacturers will need to market to this fast-growing segment, says Frank, as well as to Asian-American dog owners whose numbers went from 1 million in 2004 to 3 million in 2014.<sup>33</sup>

This comes as Boomers – and their pets – are aging. This may help explain why, according to a Purdue University study, slightly more than 50 percent of pet owners believe that “humans have an obligation to provide the best standard of care for dogs that they are capable of.”<sup>34</sup> Options include electronic gadgets such as GlucoPaw blood glucose monitoring; costly pharmaceutical, rehabilitative, and surgical interventions; tests such as MRIs; and procedures for torn knee ligaments, intervertebral disc disease and ear canal surgery.<sup>35</sup>

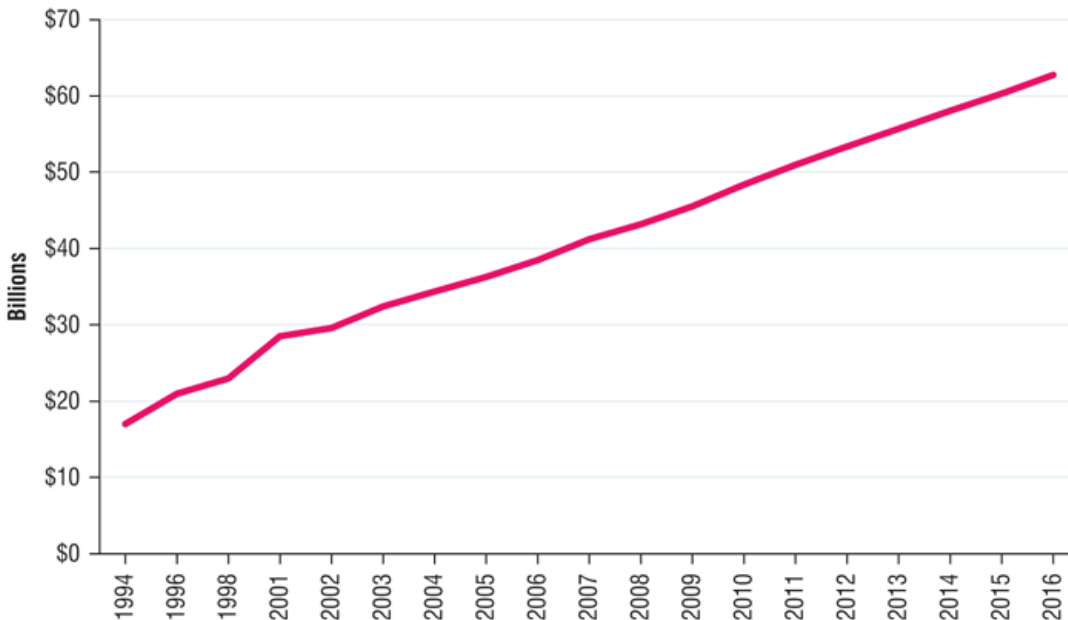
Does this create a growth opportunity for pet health insurance? Not so much, says David Goodnight, a veterinarian and senior consultant for the pet health management consulting firm Brakke in Dallas. Goodnight says only 1 percent of animals in the United States are insured. Among the reasons for the low number are that the insurance is fairly costly (policies offered by Nationwide and AKC go for around \$65 per month with a \$250 annual deductible) and most pet owners haven’t been made aware of its benefits, says Goodnight.<sup>36</sup> A falloff of visits to veterinarians since the 2008 recession is another factor holding back the demand for pet insurance, he says. Also, Goodnight says pet owners feared insurance companies would make all the medical decisions, paralleling concerns about human health maintenance and preferred provider organizations.



Showing off her cat at an exhibition in Wuhan, China. (STR/AFP/Getty Images)

## U.S. Pet Industry Spending Has Grown Steadily

**Expenditures topped \$62 billion in 2016**



Note: Data points from 1995, 1997, 1999 and 2000 are not present because the source data does not include figures from these years.

Source: “Pet Industry Market Size & Ownership Statistics,” American Pet Products Association, <http://tinyurl.com/h7qpvz>

Total expenditures on pets in the United States have more than doubled in the past 15 years and have grown every year for the past two decades. Spending in the pet industry was estimated to be \$62.75 billion in 2016,

an increase of about \$2 billion from 2015.

Another driver of consumer spending on animals is a pervasive celebrity pet culture, which encourages splurges on fashions, collars, costumes, leashes, beds, strollers, and other luxury goods from name designers such as Chanel, Burberry, and Coach. Pet owners have options ranging from an inexpensive I-Love-Mommy T-shirt to a \$350 crystal-encrusted poop bag holder or even a \$3.2 million diamond-studded dog collar.<sup>37</sup> If these items sound a bit too elitist, consumers can look to product tie-ins for movie or TV titles such as “Beverly Hills Chihuahua,” “The Secret Life of Pets,” “101 Dalmatians,” “Pit Bulls and Parolees,” “Lucky Dog” and “Dr. K’s Exotic Animal ER.”

Lily Muñoz Comiskey, of Eclipse Marketing Services in Cedar Knolls, N.J., also cites pet marketers/influencers such as the online celebrities Grumpy Cat (650,000 Twitter followers), Boo the Pomeranian (17 million Facebook fans) and Marnie the Dog (2 million Instagram followers).<sup>38</sup>

Meanwhile, specialty retailers hawk innovative pet accessories including backpacks, life jackets, harnesses, GPS collars and automated feeders. In 2015, one-third of pet owners bought toys for their pets, 17 percent bought pet costumes and 10 percent purchased pet strollers, according to Mintel.<sup>39</sup> Millennials are more likely than other demographic groups to buy high-margin accessories to dress up their “kids” for cutesy photos on Facebook and Instagram.<sup>40</sup>

The “pets are family” trend also means increased pet travel, with trips to work or vacation sites increasing the need for socializing and training so pets behave. It spawns niche services such as Doggie Daycare, boarding facilities, pet agility training, rally courses and obedience shows, and sports outings to dog parks and play dates. Pet parents also stay devoted to the end, with pricey parting purchases like elegant urns and memorial plaques. Even more predictable is the steady consumer demand for food and supplies along with seasonal peaks in such spending at Christmas and Halloween.

Profit margins are healthy – as high as 70 percent for chew toys, bones, luxury clothes and other accessories.<sup>41</sup> For smaller pet stores, much of the profit comes from selling premium food products not always available at big-box retailers.

## Bothering the Bottom Line

One tenet of the pet parent ethos is the desire to feed companion animals at the same nutritional level as humans. The pet industry doesn’t always live up to those expectations. The 2007 Food and Drug Administration recalls of melamine-contaminated pet foods from China severely damaged consumer confidence in pet food safety, and companies are still trying to win it back.<sup>42</sup> Consumers now crave “clean” labels, meaning easier-to-read contents and source information.<sup>43</sup> “Increased transparency is much more important to Millennials,” says consultant Frank. “The simpler the better.”

Debbie Phillips-Donaldson, editor of the Rockford, Ill.-based trade magazine *Petfood Industry*, agrees. But she says the 2011 Food Safety Modernization Act, which was aimed at strengthening protections against food supply contamination, and the Food and Drug Administration Amendments Act of 2007, which added to the agency’s authority and resources, have made foods safer than they have ever been, with zero tolerance for salmonella.

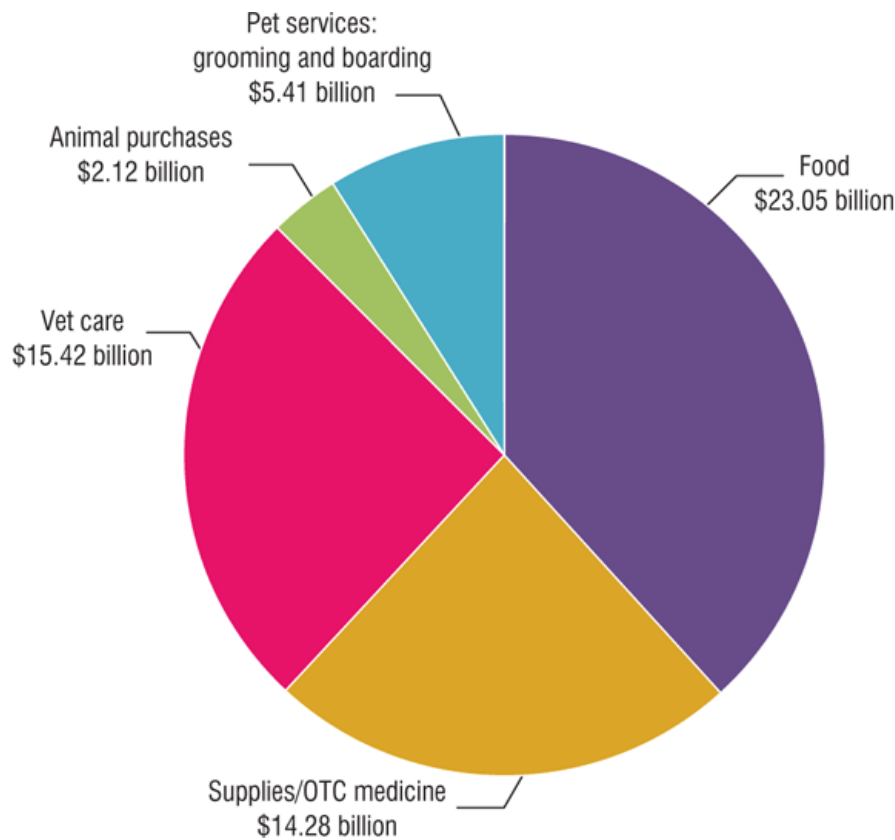
“More needs to be done, but pet companies have limits,” says Phillips-Donaldson, referring to the U.S. Department of Agriculture (USDA) regulations imposed on food labeling, which require an explanation of the sourcing of materials. She says the labeling may wind up sounding so scientific that consumers will think there is nothing natural about the pet food, creating more confusion than transparency.

Also, many consumers insist on exotic protein for their pets to correlate with human tastes: for instance, kangaroo, emu, and venison. What began as a food allergy option has now become a marketing ploy and a contributor to demonizing companies that use certain pet food byproducts, Phillips-Donaldson says.

## Food is Biggest Pet Expenditure in U.S

**Consumers spent \$23 billion on it in 2015**





Source: "Pet Industry Market Size & Ownership Statistics," American Pet Products Association, <http://tinyurl.com/h7qpvz>

Of the \$60 billion spent by consumers on pets in 2015, more than one-third was spent on food for their household companions. Veterinary care ranked second, while only about 3.5 percent of spending went to purchases of animals.

Another challenge to the pet industry is animal rights legislation that could potentially ban sales of pets. Some in the industry are concerned that this could in time limit the supply of rescue animals – those saved by adoption from euthanasia or abuse and neglect.

"Our job is to weigh in and make sure the good [measures] pass and the bad is left out," says Mike Bober, president of the Pet Industry Joint Advisory Council, which lobbies on behalf of pet stores and breeders. For example, he says that while most local animal rights ordinances have either exempted shelters and rescue groups or required stores to exclusively sell animals obtained from rescues and shelters, one measure now under consideration in Delray Beach, Fla., would prevent stores from having a direct relationship with rescue groups.

Bober says consumer choice, which allows for humane USDA-licensed breeding, is his organization's goal. "There isn't a one-size-fits-all approach that will work," he says, noting what he calls the inevitability of "bad actors" and "puppy mills."

Bober says statistics suggest that if commercial breeding were stopped, a shortage of rescue animals would arise in about seven years. His estimate is based on a new study by researchers at the Mississippi State University College of Veterinary Medicine that found that the number of dogs euthanized in U.S. shelters has dropped to fewer than 780,000 per year. That number contrasts sharply with the estimate of the American Society for the Prevention of Cruelty to Animals (ASPCA), which says 1.2 million dogs die annually in shelters.<sup>44</sup> The Mississippi State study was funded by the pet industry.<sup>45</sup>

"Should pet ownership be a luxury, or available to everyone?" Bober says. He says only 4 percent of pet stores sell dogs or other animals and that these establishments might not survive without that "distinguishing aspect."

Steve King, president of the Abingdon, Maryland-based Pet Industry Distributors Association, says spaying and neutering have had a major impact on the number of accidental litters. But, he says, to maintain the status quo, 7.8 million dogs need to be replaced each year. As dog households increase, industry experts say the supply will not meet demand, since 80 jurisdictions so far have banned the sale of puppies by pet stores.

"It's simplistic to say live animals should not be sold," says King. "The shortage of pets is regional, not local, and a shortage of pets could price people out of the market."

The ASPCA asserts that there is no shortage of animals to be rescued, given that about 7.6 million animals, including 3.9 million dogs, enter shelters every year. “Due to these overwhelming intake rates, shelters often struggle to adopt out all – or even most – of the animals who come through their doors,” the organization says on its website.<sup>46</sup>

Another challenge for the pet industry is a trend toward consolidation through increased mergers and acquisitions, making competition more difficult for small independent retailers. As it is, about 20 percent of all pet product sales come from the two giants, PetSmart and [Petco](#).<sup>47</sup> Donaldson says she has “mixed emotions” about the results of consolidation, since the industry is now seeing acquisitions by large, non-pet players. For example, [J.M. Smuckers](#) acquired Big Heart Pet Brands in 2015, Nestlé Purina PetCare recently acquired Merrick Pet Care and the dog toy company [Outward Hound](#) acquired Petstages.<sup>48</sup>

“lams started out private, sold out to [Procter & Gamble](#), and that went down bad,” Donaldson says, citing a 2013 recall of lams dry pet food because of possible salmonella contamination.<sup>49</sup> “So industries may have learned from that and accepted a hands-on policy that does not cut back on premium ingredients.” (lams was later sold to Mars.)

Online sales may be the most serious challenge for independent pet retailers, says King. With sellers ranging from [Amazon](#) to [Chewy.com](#) offering free delivery, a vast product selection, convenience and competitive prices, pet owners may opt for e-commerce, as has happened in so many other industries. Potential online customers include busy parents, Millennials and aging pet owners who cannot drive any more or carry heavy bags of pet food.

Online shopping has shown the most growth of any sector in pet industry in the past five years; 8.2 percent of pet owners bought pet products online in 2015, and the amount is expected to increase to 20 percent in the next few years, King said, citing industry studies.<sup>50</sup>

On the other hand, small retailers and service providers can compete with e-sales by offering outstanding customer service, live animals and innovative products, King said. He recommended that such retailers eliminate high-priced specialty items because they are easily price-shopped online and it is difficult for small retailers to compete in that area.

“People want to support local stores in their community,” says King, who espouses the marketing value of social media as well as the specialization of pet inventory such as aquarium stock. “They also want to buy American/USA and take advantage of a knowledgeable sales staff that understands the needs of their customers.”

## About the Author

Janice Arenofsky is a professional writer whose most recent book is “Work-Life Balance” (Greenwood Press, 2017). She also has written business-related articles for Equal Opportunity Publications, American Libraries, Columbia Journalism Review and Scientific American.

## Chronology

<b>19th-20th Centuries</b>	<b>Pet ownership creates an industry.</b>
<b>1866</b>	The American Society for the Prevention of Cruelty to Animals is founded.
<b>1954</b>	The Humane Society of the United States is established.
<b>1950s-1970s</b>	TV animals such as Lassie and Rin Tin Tin, as well as animated films and programs including “Lady and the Tramp” and “Felix the Cat,” stimulate the Baby Boomer generation’s interest in pets.
<b>1958</b>	The American Pet Products Association is founded. Currently the leading trade association in the pet industry, it is made up of more than 1,200 pet product manufacturers, their representatives, importers and livestock suppliers.
<b>1965</b>	Petco, the first big-box pet retailer, sets up in business.
<b>1966</b>	The federal Animal Welfare Act, which regulates the treatment of animals in research, exhibition, transport and by dealers, is signed into law.
<b>1987</b>	PetSmart, another big-box pet retailer, establishes its first two stores, in Arizona.
<b>1990-Present</b>	<b>A new generation fuels industry expansion.</b>
<b>1990s-2000s</b>	Millennials embrace Baby Boomers’ affinity for pets, influenced by iconic media productions such as “The Lion King,” “Beverly Hills Chihuahua,” “The Aristocats” and the remake of “101 Dalmatians.”

- 2000** Online mass market merchandising of pet food and supplies takes hold.
- 2007** The U.S. Food and Drug Administration (FDA) recalls melamine-tainted pet food products made in China.... The FDA Amendments Act, which provides for an electronic animal drug product listing directory is signed into law.
- 2008** Social media sites on Twitter and Facebook, such as petparadise.com and dogtopia.com, underscore the humanization and marketability of pets for adults and children.
- 2011** Pet products go high-tech with gadgets that include automated feeders, home cameras, watering contraptions, timed doggie doors and GPS and activity-oriented tags and collars.... The Food Safety Modernization Act, which shifts the focus from responding to contamination to preventing it, is signed into law.
- 2016** Niche services, such as pet pharmacies, sports training and alternative medicine/holistic veterinarians, proliferate.

## Resources for Further Study

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#### Books

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## The Next Step

### Pet Insurance

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## Organizations

### American Pet Products Association

255 Glenville Rd., Greenwich, CT 06831

203-532-0000

800-452-1225

203-532-0551 (fax)

[www.americanpetproducts.org](http://www.americanpetproducts.org)

Trade association for around 1,200 manufacturers of pet products.

### American Society for the Prevention of Cruelty to Animals (ASPCA)

424 E. 92nd St., New York, NY 10128-6804

[www.aspca.org](http://www.aspca.org)

888-666-2279

Nonprofit organization that was the first humane society established in North America and is today one of the largest in the world; founded on the belief that animals are entitled to kind, respectful treatment and legal protection.

### Human-Animal Bond Research Initiative Foundation

615 M St., N.W., 2nd Floor, Washington, DC 20036

202-296-0905

[www.habri.org](http://www.habri.org)

A non-profit research and educational organization that gathers, funds, and shares scientific research on the health impacts of pets.

### Pet Industry Distributors Association

3465 Box Hill Corporate Center Drive, Suite H, Abingdon, MD 21009

443-640-1060

443-640-1086 (fax)

[www.pida.org](http://www.pida.org)

pida@kingmgmt.org

Organization for wholesaler-distributors that promotes partnerships with suppliers and customers.

### **Pet Industry Joint Advisory Council**

1615 Duke St., Suite 100, Alexandria, VA 22314

202-452-1525

[www.pijac.org](http://www.pijac.org)

INFO@PIJAC.ORG

A group that represents pet retailers and breeders; stated goals include promoting responsible pet ownership and ensuring the availability of pets.

### **World Pet Association**

135 West Lemon Ave., Monrovia, CA 91016

626-447-2222

626-447-8350 (fax)

[www.worldpetassociation.org](http://www.worldpetassociation.org)

info@wpamail.org

An industry organization that sponsors trade shows, conferences and educational programs.

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