

The Rise of Pet Humanization

Consumer Discretionary



**BINGHAMTON
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Pet Movement

Growing Trends

The consistent increase in global consumer spending in the household and pet care categories is attributed to the growing trend of pet humanization, as consumers increasingly see their pets as **family members**.

Over **67%** of US households own a pet.

Pet humanization is set to continue to drive sales of pet products and services. This ranges from physical services, such as grooming and daycare, to e-commerce goods, such as food and toys. The focal point of this trend is technology, especially in the environment post and during the pandemic. The category is evolving to become increasingly **premium**, as consumers are prepared to **spend more** on pet food and products that are healthy, nutritious, and improve living conditions.

Pet Food Premiumization

This normalization of premium pet foods has caused such a fundamental shift in the pet food category, that pet owners now expect brands and retailers to have a variety of **better-than options** from which to choose. They are willing to take the time to find products that address their concerns and align with their values.

US consumer expenditure has gradually increased yoy, growing ~ **560%** from 1994 to 2019.

Pet industry expenditure in the US was forecasted to reach approximately **\$99B** in 2020. **84%** pet owners think manufacturers should do more to ensure the **safety** of pet food and treats. Nearly $\frac{3}{4}$ want to know the origin of their pet food and see increased transparency in the ingredients.

Urbanization & Low-Maintenance Companions

While this industry has become more personalized and expensive, the increased shift to urbanization is forcing people into smaller spaces and longer working and commuting hours; thus, **large and high-maintenance pets are not feasible**. **Aging populations** look for small, trouble-free pets for companionship, and increasingly, so are young singles. These animals range from **hamsters** to the most popular urbanized pet: **fish**. This shift to low-maintenance pets contributes to the growth of the market, creating a more **niche** market for anyone looking for a companion.

However, despite the increase in popularity of low-maintenance pets, pet humanization continues, with the continued bond between humans and their pets

driving the market. And as long as this pet-to-owner relationship holds, there is no stopping the humanization of pets.

Segments

Pet humanization can be broken down into **four** segments:

1. Pet Food
2. Health Care
3. Insurance
4. E-Commerce

Pet Food

Pet food sales have continued to skyrocket: as people are increasingly conscious about what they put in their bodies, these concerns have translated to their pets as well. Growth is driven by premium products, from high quality **protein-based meals** to additional **additives and oils** that promote animal health. Owners are looking for the best products available to feed their companions. Data from *Nielsen* reveals impressive growth rates of **37.5%** yoy for dog food for the week ending March 14, 2020, followed by a **54.7%** for the week ending March 21. Similarly, cat food experienced gains of **38.7%** and **52.8%** respectively. These gains come with the fact that owners are willing to spend more. From 2009 to 2018, US pet food spending has increased at a CAGR of **6.3%**.

Cumulatively, that means a **72.7%** rise over those nine years, or an additional **\$12.8B**.

Health Care

With companies like Teledoc allowing people to meet a doctor virtually, a market has opened up for **virtual pet veterinary visits** as well. In the current pandemic-centered environment, limiting the number of face-to-face interactions and long lines in public places like the doctor's office is crucial. Thus, **telemedicine** is becoming a staple. The growth of pet telemedicine is not growing as fast as human telemedicine since animal treatment is more hands-on. Nevertheless, sign-ups for these virtual services at companies have dramatically increased. For example, sign-ups for **TeleVet** have recently increased **7x**, and whiskerDocs reported a **15%** uptick in use, both in just a week. Furthermore, Banfield Pet Hospital's Vet Chat tool saw a **60%** increase in use over a recent two-week

period. This segment is just in the beginning stages, with a large appeal to the **85M** families that are looking after their beloved pets.

Insurance

With over **150M dogs and cats** in the US, only **3% are insured**, creating room for market penetration. Globally, the pet insurance industry reached **\$3.33B** in 2018 and is expected to grow at a CAGR of **16.3%** through 2028.

E-Commerce

An estimated **43%** of online pet product buyers are shopping on pet specialty websites, such as Chewy.com.

E-Commerce encompasses the entire pet humanization trend. **41%** of online pet product buyers go through more general websites, like Walmart.com. *IBISWorld* project the pet product e-commerce industry to reach **\$15.5B** by 2025, growing at a CAGR of **6.9%**. Online retailers are expected to comprise over 60% of this.

Major Players & Competitive Space

Players

1. **Chewy:** online retailer of pet food and other pet-related products (PetSmart Subsidiary)
2. **Covetrus:** large distributor of veterinary supplies
3. **Elanco:** animal health provider (spinoff of Eli Lilly)
4. **PetIQ:** drug maker for animals and operates veterinary clinics
5. **PetMed Express:** largest animal-oriented pharmacy

Competition

As the pet market has become a competitive space, **e-commerce** is currently the most concentrated. Players like Chewy have to compete with general retail giants such as Amazon, Walmart, and Target, who have grown their presence in pet e-commerce. With the shift away from brick-and-mortar stores, the e-commerce industry is the key to sustaining future profitability. The two largest pet superstores, PetSmart and PETCO, have thrived on this, accounting for $\frac{1}{2}$ of all online pet product revenue. This shows how penetrated the market has become.

This competition forces companies to stand out by **pricing affordably**. Chewy is at the top of this list. Their ability to grow **50% for three consecutive quarters** can be found from their **subscription service method**. Their **“auto-ship”** service is a differentiating factor that accounts for **70%** of their sales and will help drive growth and maintain their competitive advantage.

Growth & Outlook

Global Outlook

While the US pet market has been booming, so has the global pet market. Global pet market expenses will exceed **\$269.9B** by 2025, with increasing costs for veterinary services, popularization of premium services such as mobile grooming, and e-commerce trends taking flight. Breaking it down geographically, the US holds the title of planet's **largest pet food market** by far. Furthermore, the Asia-Pacific region leads global momentum of sales growth for dog and cat food, and Europe is on pace to grow the third fastest. The specific CAGRs are as follows:



Overall, dog and cat food are to grow at a global CAGR of **4.9%** by 2025.

The Impact of COVID-19

Since the pandemic, an issue of pet food shortages has arisen. Pet owners are experiencing delays on packages. This issue, though critical, was developed **due to the sudden surge of orders**.

“People were buying more pet food, but you didn’t hear that at the beginning of the pandemic when people were buying toilet paper.”

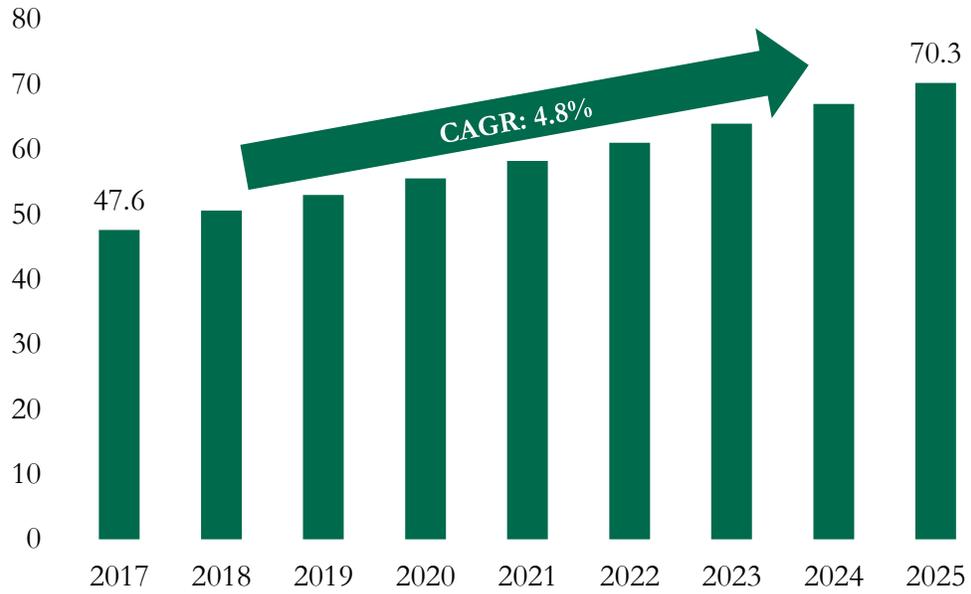
~JJ Lewis, VP of Enterprise Sales for logistics company GlobalTranz Enterprises

One of Lewis’ customers, a pet product supply company, saw a whopping **300%** increase in freight volumes. This sudden uptick in the pet market has created shortages for every pet supply company, but the issue is seemingly short lived, as the market has realized this increase and continues to mitigate it with a responding uptick in supply. A more sustainable pet food supply chain is in the works, with suppliers preparing more food and goods than ever before.

Another impact that has accelerated due to the pandemic is foot traffic. PetCo reported a **35% drop** in traffic at their US locations. This shift through acceleration was imminent due to the easy accessibility in the e-commerce markets.

The Figures

Global Dog Pet Food Market Size (in \$B)



Top Pet Food Website Market Share Breakdown

