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A leg up: Owners' increasing desire to pamper pets will continue to drive demand and revenue

IBISWorld Industry Report 45391

Pet Stores in the US

June 2010

Alla Bronshteyn

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About this Industry

Industry Definition

Pet stores sell a variety of pets, including dogs, cats, fish and birds. Stores also sell pet foods and pet supplies, such as collars, leashes, health and beauty aids, shampoos, medication, toys, pet containers, dog kennels and cat furniture. Some stores offer pet services, such as grooming and training.

Main Activities

The primary activities of this industry are

Retailing pets
Retailing pet food and supplies
Providing pet grooming and boarding services

The major products and services in this industry are

Live Animal Purchases
Pet Food
Pet Services
Pet Supplies

Similar Industries

54194 Veterinary Services in the US

Establishments primarily engaged in providing veterinary services.

81291 Pet Grooming & Boarding in the US

Establishments primarily engaged in providing pet grooming and boarding services.

45411a E-Commerce & Online Auctions in the US

Includes establishments primarily engaged in retailing pets, pet foods and pet supplies via the internet.

45411b Mail Order in the US

Includes establishments primarily engaged in retailing pets, pet foods and pet supplies via mail-order or catalogues.

Additional Resources

For additional information on this industry

www.appma.org
American Pet Product Manufacturers Association
www.petage.com
Pet Age
www.petbusiness.com
Pet Business
www.hsus.org
The Humane Society

Industry at a Glance

Pet Stores in 2010

Key Statistics Snapshot

Revenue

\$13.6bn

Annual Growth 05-10

3.5%

Annual Growth 10-15

3.0%

Profit

\$759.8m

Wages

\$2.0bn

Businesses

19,767

Market Share

PetSmart, Inc.

30.9%

PETCO Animal
Supplies, Inc.

19.9%

p. 25

Revenue vs. employment growth

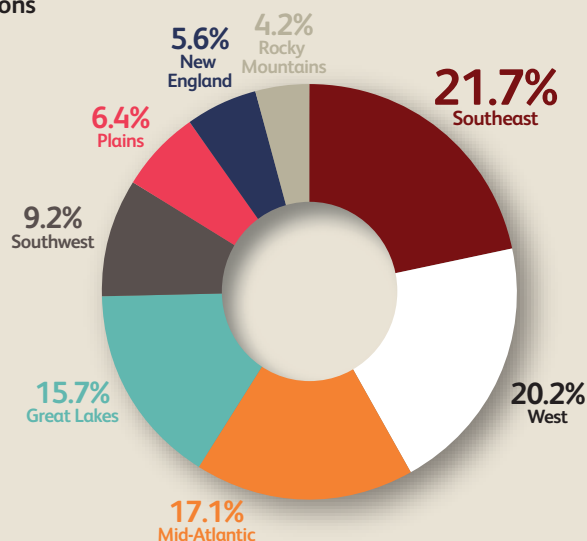


Number of pets (cats and dogs)



SOURCE: WWW.IBISWORLD.COM

Business locations



SOURCE: WWW.IBISWORLD.COM

Key External Drivers

Number of pets
(cats and dogs)
Per capita disposable
income
Number of households
Competition from
supermarkets and
grocery stores

p. 4

Industry Structure

Life Cycle Stage	Mature	Regulation Level	Medium
Revenue Volatility	Low	Technology Change	Medium
Investment Requirements	Low	Barriers to Entry	Medium
Industry Assistance	None	Industry Globalization	Low
Concentration Level	Medium	Competition Level	Medium

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 33

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

The Pet Stores industry is ahead of the pack when it comes to sales. The industry is expected to grow by 3.2% to \$13.6 billion in 2010. Pet food, accounting for more than 50.0% of sales, is the driving force behind revenue growth because stores provide a wider variety of innovative premium food, customized to pets' diets, lifestyle and health needs. Pet supplies, accounting for 25.0% of the revenue, have also been evolving as companies continue to create more eco-friendly and all-natural products that have a less harmful effect on pet health.

The industry is dominated by two major players, PetSmart and Petco Animal Supplies, who together comprise about 51.0% of industry market share. Because the top players account for the most growth in the Pet Stores industry, smaller operators have to differentiate themselves with unique product types, outstanding customer service and lower product prices in order to compete. As larger players continued to expand in the past five years, the number of establishments in this industry grew at an average annualized rate of 2.5%, reaching nearly 20,000 stores in the United States.

Services are in high demand from pet owners who see their pets as members of the family

Pet parents is the newly coined term to describe a growing market of owners who consider pets to be a member of their family and purchase premium products to ensure their pet lives a comfortable life. The trend of pet indulgence also drives the popularity of pet services; this segment increased in share of revenue from 10.2% in 2009 to 10.4% in 2010. As a result of increasing pet sales, revenue is estimated to grow at an average annualized rate of 3.5% over the five years to 2010.

According to the American Pet Products Association, pet ownership is on the rise, with 62.0%, or 71.4 million, of US households owning a pet, up from 64 million households in 2002. An increase in the pet population coupled with interest in innovative and premium food, products and services will continue to drive revenue growth. Nonetheless, growth will be tempered due to intense competition with other retailers of pet food and supplies, including supermarkets, mass merchandisers and warehouse clubs as they expand their pet food and product stock. Over the five years to 2015, IBISWorld predicts that revenue will increase by 3.0% to \$15.7 billion.

Key External Drivers

Number of pets (cats and dogs)

Cats and dogs are the two most popular household pets. An increase in the number of household pets will lead to an increase in industry revenue.

Per capita disposable income

This industry is affected by the level of real household disposable income. If income increases, then households are more likely to either spend more money on purchasing new pets or on additional products and services for existing pets.

Number of households

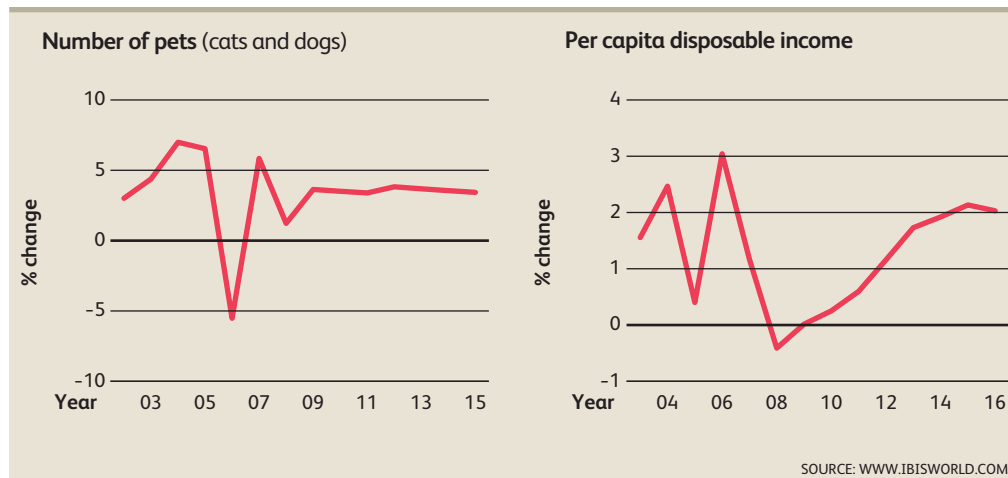
Demand for pets is largely influenced by family formation because more than 38.0% of all pets in the United States are owned by families with children.

Competition from supermarkets and grocery stores

Supermarkets and grocery stores are major retailers of pet food supplies. This influences the competition faced by pet stores as pet food and supplies purchased in a supermarket or grocery store are not classified as part of this industry.

Industry Performance

Key External Drivers continued



Current Performance

Despite the economic downturn, the Pet Stores industry is ahead of the pack compared with other retail industries. Financial resilience in this industry is powered by households' tendency to treat their pets like members of the family, as well as the increase in pet ownership overall as more Americans become pet owners and continue to add new pets to their families. Pet stores are also cashing in on pet owners' desires to increase the comfort in their pets' lives by producing more innovative, specialized and

premium products and services for pets. The effects of the recession, which was primarily felt in 2008 and 2009, are still negatively impacting the amount of money customers spend on premium products and services. However, in 2010, improved economic conditions will boost spending on merchandise sold by this industry. As a result, industry revenue will grow by 3.2% in 2010 to reach \$13.6 billion. This will contribute to annualized industry revenue growth of an estimated 3.5% over the five years to 2010.

Recession-proof pet stores

Although the industry is not immune to deteriorating economic conditions, retailers can find comfort in knowing that Americans' love for pets will keep the registers ringing. Some families will hold off purchasing a new pet in 2010, but most current pet owners will keep purchasing food and other supplies that are necessary for their pets' survival. In the past five years, the leading contributor to revenue has been pet food – dog food in particular – responsible for 52.5% of industry sales, according to the American Pet Products Association. The average American spends approximately

Families may delay purchasing new pets in 2010, but current owners will keep purchasing food

\$200 dollars on cat or dog food. While the average American household has less discretionary income and is spending less on pet food, the growing number of pets has expanded the market overall. In theory, as long as pet ownership increases, pet food sales will too. In

Industry Performance

Recession-proof pet stores continued

addition, the well-publicized cat and dog food recall of 2007, which was attributed to the death of more than 3,500 animals, has guided purchasers toward higher quality, more expensive (and higher margin) pet food.

Perhaps the most significant consumer group driving sales for premium products and services are pet parents, those who consider their pets to be family members. There is increasing enthusiasm among this group to incorporate their pets into many family activities and, thus, purchase products and services for their pets that can provide them with comfortable lifestyles. Accordingly, growing interest in pet pampering has ignited some sales growth in the pet services category. Large players such as PetSmart are profiting from parents' needs by providing services such as pet hotels, grooming and day-care services. In 2010, revenue generated from these services is expected to grow and account for 10.5% of industry sales, an increase of 0.3 percentage points from 2009, boosted by higher consumer sentiment.

Most of the revenue growth in the industry has been driven by the

Pet pampering has led to increased innovation and purchasing of high-end pet products

expansion of two key players, PetSmart and Petco, at the expense of small private pet stores. Many smaller businesses have experienced lower profit margins because they have been decreasing their product markups and absorbing the costs in an effort to keep their customers happy. The larger players have not been subjected to the same profit squeeze because they benefit from the lower product prices that come from buying in bulk and other economies of scale. Both Petco's and PetSmart's profit levels will account for more than 5.0% of their revenue. On the other hand, smaller stores' profits shrunk in 2009, accounting for about 3.0% of their revenue. These stores' profits are expected to grow slightly in 2010 as more consumers are willing to buy higher-end pet food and supplies.

Man's best friend

Industry growth over the past five years has largely been attributed to a higher pet population and the accompanying higher demand for pet products. IBISWorld estimated that about 63.0% of US households (approximately 71.0 million) will own a pet in 2010. Changing demographics, new lifestyle trends and a shift in American attitudes have resulted in pet ownership increasing dramatically in recent years. The 2005-2006 National Pet Owners Survey showed that the number of pet owning households in the United States in 2005 was 69 million; 5 million more than in 2002 and 18 million more than in 1988.

Cats and dogs together account for

Share of pet ownership by household

Pets	2010 (%)
Birds	4.5
Cat	32.7
Dog	39.0
Equine	3.3
Freshwater Fish	11.4
Saltwater Fish	0.6
Reptile	4.0
Other Animals	4.5

SOURCE: AMERICAN PET PRODUCTS ASSOCIATION

more than 70.0% of US household pets; more households own dogs, but more cats are owned within each household.

Industry Performance

Man's best friend continued

Over the last couple of years, the share of cat and dog ownership has increased. Fish account for about 12.0% of ownership, with freshwater fish dominating the fish segment. Bird ownership accounts for about 4.5%; the share of households that owned a bird

decreased from 5.1% in 2006. Saltwater fish and equine make up the smallest share of pet ownership, accounting for 0.6% and 3.3%, respectively, in 2010. Horse purchases have declined due to the high costs and large space needed to maintain them.

Meow Mix and Puppy Chow

Many premium pet foods are not sold through supermarkets, warehouse clubs and mass merchandisers, due to restrictions put in place by manufacturers. Instead, these products are sold primarily through specialty pet stores or niche retailers that directly operate in this industry. In addition, premium pet food growth is also attributable to both the marketing of premium brands by retailers and a heightened nutritional

awareness among pet owners, especially after the 2007 pet food recall. There are vast varieties of pet food available now with new innovative types of pet foods released frequently. Premium pet food includes anything from natural and organic ingredients to gourmet flavors of food. Food can be customized to the pet's stage in life, daily activities, its time spent indoors and outdoors, breed and specific medical conditions.

Couture pets

The highest degree of innovation is occurring in the pet product and services selection in response to increased demand from pet parents, especially for cats and dogs. Consumers want to include their pets in their everyday activities and purchase products to increase the pet's happiness. Animal clothing, accessories and exercise equipment are just some examples of products that keep an animal's tail wagging. Furthermore, some consumers are now demanding higher quality and more personalized pet products, including designer fashion pet clothing and toys. For example, Gucci offers a dog carrier costing as much as \$600. The trend toward pet indulgence has been a significant contributor to the growth of industry revenue and value added over the past few years.

Over the five years ending in 2010, one of the fastest-growing segments in

the industry has been pet services. This was largely attributed to the rise in the number of pet owners who indulged their pets and devoted a high amount of household income to them. Both PetSmart and Petco offer value-added pet services, such as grooming and pet training. In 2002, PetSmart launched PetsHotel, which is a complete pet boarding and day care service and now has more than 140 pet hotels offering their services. Airlines and hotels are also cashing in on the trends of pet parents with many offering specific pet-friendly accommodations. Now pet owners are increasingly taking their pets with them when they travel and on vacation, increasing the demand for travel-friendly pet products and services, such as sleeping bags, travel water and food containers.

Another trend within this industry is the increased use of eco-friendly and

Industry Performance

Couture pets continued

natural pet supplies for pets. Pet supplies account for more than 25.0% of revenue for this industry. Pet owners have grown more concerned with negative effects of chemicals in pet cleaning supplies and other products, such as cat litter. More owners are

turning to all-natural pet cleaning products that are phosphate-free or are made with vegetable enzymes. This follows the increase in purchases of organic and all-natural products, including pet food, cat litter, shampoos and conditioners.

Survival of the fittest

The total market for pet and pet supplies is estimated to reach about \$46 billion by the end of 2010. Specialized pet stores covered in this report account for approximately 26.0% of the total market. The entry of nontraditional and externally competing industries has led to a leakage of revenue from the Pet Stores industry to competing industries. There is intense competition with other retailers of pet food and supplies, including supermarkets, mass merchandisers and warehouse clubs, many of which are larger and have significantly greater ranges of stock offered at lower prices. In recent years, supermarkets' share of total pet food sales has decreased as a result of increased competition from specialty pet superstores such as PetSmart and Petco. Specialty pet retailers offer a broad range of pet food and supplies at competitive prices, some of which cannot be purchased in a supermarket due to manufacturer restrictions. They also offer expertise and customer service to pet owners that cannot be found in general merchandise stores. Furthermore, there has been a growing level of competition with online and catalog retailers.

Non-industry retailers like supermarkets create competition with their high inventory and low prices

The major players in this industry invest considerable resources in building brand awareness and public relations to promote their brand. In 2009, PetSmart organized a special pet birthday party at its store to celebrate the anniversary of the store's own birthday. Petco organized a Chihuahua race earlier this year and will hold a hamster race where owners are invited to race their pets around a track inside the stores. Petco has been the sponsor of Petco Park, the home of the San Diego Padres, since 2004. Both chains work with local humane societies to provide pet adoptions within their stores. This year, Petco helped raise more than \$3 million dollars for shelter donations, and PetSmart has sent various relief vehicles to troubled areas, including neighborhoods affected by wild fires and flooding.

More room to grow

The Pet Stores industry will experience steady growth over the five-year period ending December 2010. IBISWorld estimates that the number of industry firms has grown at an average annualized rate of 1.7% and will operate

19,767 locations around the United States in 2010. The top two players, PetSmart and Petco, will continue to undergo a series of acquisitions of small operators that could not survive the economic downturn. Previous

Industry Performance

More room to grow continued

acquisitions include retail pet store chains Petstuff and Pet Food Giant. As these large companies grow their market share, many smaller operators will struggle to remain competitive and either merge with other pet stores or

close down altogether. Employment growth for this industry is likely to increase by 2.8% per year over the five years to 2010, totaling nearly 111,000 people and paying total wages of \$2 billion.

Industry Outlook

The next five years are looking positive for the Pet Stores industry. While many other industries in the retail sector will experience a decline in revenue as households restrain unnecessary and discretionary spending, pet stores will continue to profit from the high margins of their pet food and pet services. Consumer spending on necessary items, such as pet food, will account for the highest proportion of revenue earned. Pet parents will not easily give up pampering their pets and may even cut

down on their own personal expenses in order to continue purchasing the same quality of pet goods and services. Large retail pet stores will continue to lower prices and offer promotions to encourage consumer spending, which will dampen revenue somewhat. Expenditure in combination with the growing animal ownership trend will increase sales through 2015. IBISWorld estimates revenue to grow at an annualized rate of 3.0% to \$15.7 billion by 2015.

Improve economic conditions will drive demand

As consumer confidence and discretionary income rise, sales will accelerate and in turn revenue will increase by 3.6% from 2010 to 2011. As the economy gets back on track and consumers are able to spend more on their pets in 2011, retail pet stores should expect to see more generous increases in annual revenue.

The trend toward increasing pet ownership by US households will continue over the next five years. A growing older population who are empty nesters and regard pets as companions will drive this. Pet

Pet ownership will continue to grow in number in the next five years

ownership by those in the 25-to-34-year-old age groups will also grow as people continue to form families later in life and substitute pets for children in the meantime. There will also be an increasing number of children under 18 in pet owning families; about 38.0% of these households with kids will have pets.

Natural products gain popularity

As consumers become more aware of negative health effects of chemicals within their pet supplies such as pet cleaning products, litter, toys and other

supplies, they will turn toward more healthy products. Increased innovation from pet stores is expected in terms of catering to consumer needs. Lines of

Industry Performance

Natural products gain popularity continued

phosphate-free and products made with vegetable enzymes are predicted to expand. Because these products are high tier, they will carry a higher price along with higher price markups. As a result, natural products are expected to drive revenue and income up for this industry.

Pet owners will increasingly desire all-natural, healthy and niche pet food products

External competition sways away some consumers

IBISWorld estimates that share of revenue within the scope of the Pet Stores industry will decline to approximately 31.0% by 2015, down from 35.0% in 2011. Industry retailers will continue to place lower price markups on products in order to remain competitive with discount retailers and big box stores. As a result of price competition, profit levels will remain stunted, accounting for about 5.0% to 6.0% of revenue. Supermarkets are becoming increasingly aware of the need to follow pet superstores' strategies through competitive pricing and product diversity. Though limited in premium pet food stock, supermarkets and mass merchandisers can broaden their product lines and diversify their products and services and provide a lower price on merchandise to intensify competition with pet stores over the outlook period.

Smaller pet stores will need to stay ahead of the game over the next five years by remaining fashionable in terms of store layout and unique product offerings. Many small pet stores have started to focus on niche products and developing a loyal consumer base. The two major players in this industry, PetSmart and Petco, do not sell cats or dogs, so there are opportunities for smaller players operating in this sales area. In order to remain competitive, small pet stores will need to continue to compete through local advertising, personalized customer service, convenient store locations and employees with pet expertise. Smaller stores will need to focus on products that are of

interest to their customers, such as organic, healthy and tasty pet food. IBISWorld estimates that by 2011, the number of enterprises and, in turn, employees will increase steadily over the outlook period ending in 2015. Over the five-year outlook period ending in 2015, the number of enterprises is expected to have an annualized growth of 2.9%, and employment will bloom with an expected annualized growth rate of around 2.8%.

Over the outlook period, there will be an increasing trend toward natural pet food products. Pet owners are continuing to review their animals' diets as a means of improving overall health, resulting in their pets' living longer and healthier lives. Currently more than 10 million cats and dogs are consuming weight management food. This trend is in line with an increase in consumer health awareness for both humans and pets in the United States. According to pet retailers, there is a niche market opportunity to cater to the more health-conscious pet supply consumers. Early results have proven that health-conscious pet owners tend to spend more on pet food products that are nontoxic and cruelty free. Some pet food manufacturers have identified future growth potential in life-stage targeted products. Furthermore, products that will make life more convenient for the owners, such as automatic food and water dispensers, will yield sales as people get more busy and continuously look for ways to make their daily life more efficient.

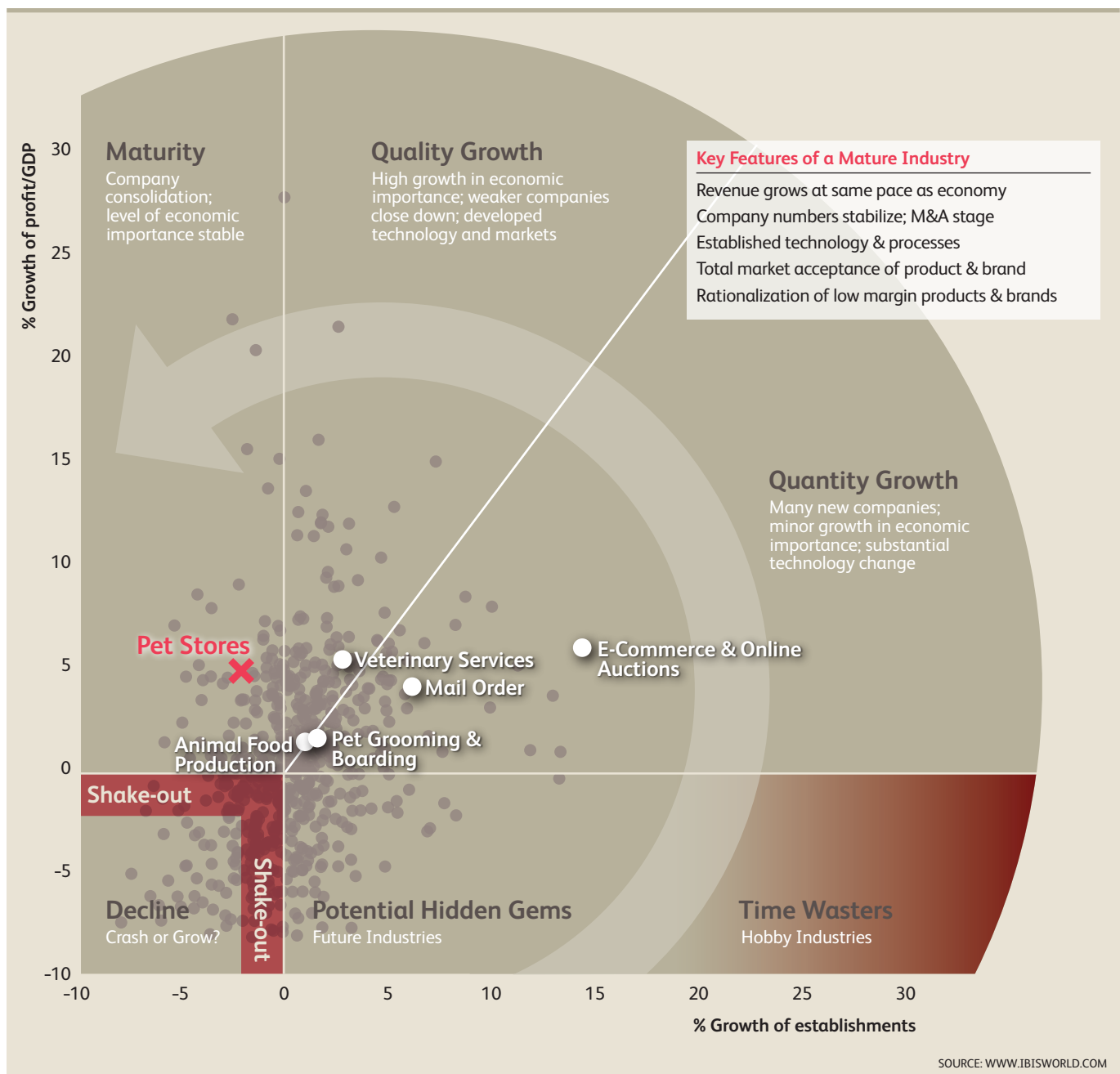
Industry Performance

Life Cycle Stage

The industry's contribution to the economy is expected to grow over the five years to 2015, suggesting that this industry will perform better than the US economy

The number of establishments will increase over the five-year period ending in 2015

The rate of change in the industry's technology is medium and is limited to larger players



Industry Performance

Industry Life Cycle

This industry
is **Mature**

The Pet Stores industry is in the mature stage of its life cycle. The industry value added will continue to grow at an average annualized rate of 3.2% over the 10 years ending in 2015. Although growth is positive, it is at a similar level as the overall economy. Revenue is expected to remain steady post 2010.

The total number of pet stores is estimated to rise by an average rate of 3% annually during the 10 years to 2010 reaching over 22,000. Most of the growth will be a result of the expansions made by the top two players. However, the amount of small players and non-employers is actually estimated to decrease by approximately 1.8% in 2010. This trend is occurring

because independent retailers are finding it increasingly difficult to compete on price with the large retailers.

This industry is experiencing limited advances in technology. In previous years, technology advanced through such innovations as computer scanning cash registers and automated inventory equipment. Some changes are occurring such as the introduction of Radio Frequency Identification (RFID), but are usually limited to larger players with bigger spending budgets. IBISWorld estimates that no significant advancements besides minor cosmetic improvements in technology will occur in the outlook period ending in 2015.

Products & Markets

Supply Chain | Products & Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

99 Consumers in the US
The Pet Store industry relies on consumers to purchase products.

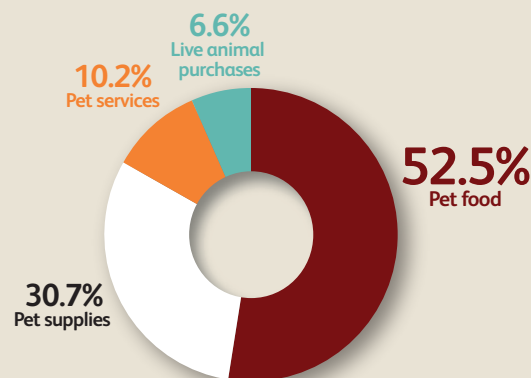
KEY SELLING INDUSTRIES

31111 Animal Food Production in the US
Supplies this industry with variety of pet food.

54194 Veterinary Services in the US
Provides veterinary care services such as vaccinations to this industry.

Products & Services

Products and services segmentation (2010)



Total \$13.6bn

SOURCE: WWW.IBISWORLD.COM

Pet food

Obviously food is a necessity for all pets, so it is not surprising that more than half of the industry's revenue is generated from this segment. This segment of the industry grew from 2008 to 2009, and is expected to accelerate in revenue growth as the economy recovers and premium brands become more popular.

Although national supermarkets and mass merchandisers offer pet food, manufacturer restrictions limit premium food sales to pet store retailers. Also, since the massive food recall in 2007, many owners are conscious of the quality of pet food they purchase for their four legged family members and spend more money on customized premium food.

IBISWorld expects specialty pet

retailers to dominate the sales of premium pet food over the outlook performance period as they offer a large variety of innovative premium pet food products. Premium pet food products include natural products and products for pets with sensitive skin and stomachs. Specific pet foods are also available for indoor cats, outdoor cats, for certain breed of dogs, for obese animals, for animals with a medical condition, and for pets that are young, old, energetic or lazy. Some pet foods even offer different levels of nutrients for each life stage.

Pet supplies

Accounting for the second largest product segment in this industry, the Pet Supplies product segment will experience growth

Products & Markets

Products & Services continued

from 2006 to 2010. Competition is often high for pet accessories due to the large volume of products and the absence of any regulation that limits their sale. Pet Stores have a slight edge over supermarkets and mass merchandisers because they are able to sell a greater variety of goods. Pet supplies typically include products such as beds, collars/leashes, food bowls, pest control agents (flea/tick), clothing and toys. Some specialized pet stores also sell over-the-counter medicine, but many are restricted from doing so.

Services

Pet services have been increasing as a percentage of net sales and will continue to rise, from around 9% in 2006 to around 10.4% by the end of 2010. Pet services include full service grooming, haircuts, baths, toenail trimming and tooth brushing, but exclude veterinary services. Other services may include such activities as training, boarding and day camp. Much of the rise has been driven by a demand for enhanced services and a greater interest in pet pampering. For example, PetSmart allocates 800 square feet per store for grooming services. Another example is hotels for pets; PetSmart provides boarding for dogs and cats as well as 24-hour supervision by caregivers. In the 2008 fiscal year, PetSmart operated more than 140 PetHotels and aims to continue expanding over 2010. Other services may

Live animal ownership segmentation (2010)

Animal	Share from Total (%)
Birds	3.6
Cats	22.7
Dogs	18.9
Equine	3.2
Freshwater Fish	41.7
Saltwater Fish	2.7
Reptiles	3.3
Other Animals	3.9

SOURCE: AMERICAN PET PRODUCTS ASSOCIATION

include pet insurance, lawyers providing pet trusts, and funeral services.

Live animal purchases

The live animal segment of the industry has experienced some growth from 2006 when it accounted for 6.2% of sales to 6.7% in 2010. The top players in the industry only sell small animals and fish, and partner with local pet adoption programs for cat and dog adoptions. Other smaller retailers sell all types of animals: cat, dogs, fish, rabbits, birds, small animals and even reptiles. This product segment is small because a pet is a one-off purchase. The other segments, such as pet supplies and pet foods, need to be purchased throughout the life of the pet. Live animal purchases can be broken down further, to explain the distribution of sales generated by each animal category.

Demand Determinants

Demand for pets and pet supplies is affected by the rate of pet ownership, food and supply prices, household income, demographics, and health awareness.

Pet ownership

Pet ownership is on the rise with more people not only purchasing animals, but

also adopting them through rescue shelters. According to the 2009/2010 National Pet Owners Survey, 62.0% of US households own a pet as compared to 56.0% in 1988. Some of the increase in pet ownership can be attributed to rising popularity of pet adoptions. According to the National Council on Pet Population Study and Policy, about 65% of pet

Products & Markets

Demand Determinants continued

owners acquire their pets free or at low cost. Although stores may lose out on profit from pet purchases if adopting continues to increase in popularity, they still profit from all the products and services needed to take care of the new pet additions to the family. The more pets a family has, the more food, supplies and services will be needed for that pet.

Prices

Prices of pet food and supplies are a key determinant of demand. Two key trends are emerging in relation to the pricing strategies of pet food and pet supplies. Firstly, there has been considerable growth in private label products, which tend to be cheaper than branded products. Secondly, there has been an increase in more expensive, premium products such as specialty food products and designer fashion pet wear. Having these two different pricing strategies allows pet stores to target different consumers, either price conscious consumers or quality conscious consumers.

Income

Households with higher incomes spend more on discretionary items and services sold at pet stores. In addition, those with a higher income tend to travel more. In turn, they are more likely to use pet boarding services or purchase products that allow more comfort for both them and their pet to travel together. Pet

owning households with high disposable income have increased expenditure on luxury and trendy pet products, including premium pet food and designer pet toys.

Demographics and lifestyle

The change in demographics and lifestyle of households is also an important determinant of demand. If households are frequently relocating or working longer hours, then these factors may reduce a household's willingness to purchase a pet. In addition, many apartments do not allow pets so most pets live in purchased households. The largest pet owning segment is aged 45 to 54 years old, many with an "empty nest" after their children leave home. Demand for pets is also influenced by family formation because more than 38.0% of all pets in the United States are owned by families with children.

Health issues

As people become more aware of health and well-being issues in their own life, they are carrying on their preferences when purchasing pet food and supplies. Furthermore, the pet food recall of 2007 made many consumers stray away from cheap pet food. Increasing in popularity are organic and pesticide-free products. Pet food such as that customized to pet's health issues, life stage and activity level are becoming increasingly popular with owners as well.

Major Markets

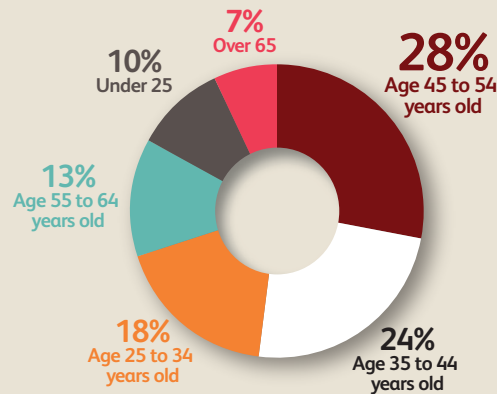
The largest segment of the Pet Store Industry accounts for 28% and is the 45 to 54-years age group. Many members of this age group are looking for pet companions to fill the empty space in their households after all of their children leave home. According to pet retailing chain PetSmart, a large proportion of this segment can be considered as pet

enthusiasts, who are committed to their pets and regard them as a family member. The second largest segment is the 35 to 44 year old age group, which accounts for 24% of the overall market. Many of this group's members get pets as companions for themselves and their children. According to the APPA, about 38% of households with children under

Products & Markets

Major Markets continued

Major market segmentation (2010)



Total \$13.6bn

SOURCE: WWW.IBISWORLD.COM

18 years of age own a pet.

Another 18% of the market is composed of people age 25 to 34 year old. The current trend among young people in the US is to hold off marriage and starting a family until they are in their late 20s or early 30s, mostly in part due to their busy schedules. Instead of starting families, young couples opt for owning pets as a replacement for children. The third smallest segment, 55 to 64-year old group, with 13% of market share, is expected to increase the most in the next few years as the high population

from the 45 to 54-year old category ages.

The under 25-year age group is the second smallest market segment, which accounts for 10% of the overall market. The low market share is due to the busy lifestyle and low discretionary income of this age group. The smallest market of pet ownership is the over 65 category, which accounts for 7% of the total market. At this stage people are usually more concerned about taking care of themselves and do not have the same resources or the energy as those in the younger groups to own a pet.

International Trade

Products and supplies in the Pet Store industry are traded at the manufacturing level and then sold in the domestic market. Precise export and import data on pet products and supplies is not readily available as they are categorized into broad segments that contain a large number of other non-pet related products. Fortunately, trends in pet food trade provide insight on levels of trade for other products and supplies. According to the latest official data provided by the International Trade Commission, imports for all kinds of pet food amounted to \$753 million in 2010,

while exports reached \$2.2 billion-- Canada is the leading partner in trade.

Imports

There is a lower rate of US imports than exports, although US imports have been increasing at a faster rate than exports. Despite strong growth, there is evidence that more pet food is being sourced from international locations than domestic producers. The top five importing nations together account for 82% of US imports of pet food, mostly from Canada. There is data to suggest that Canada's share of imports is declining at the

Products & Markets

International Trade continued

expense of rising demand from the US for products from China and Thailand as they compete with Canada in product prices. For example, the proportion of demand for Canadian products fell from 64% in 2002 to around 30% in 2010, China's share increased from 6% to approximately 30% in 2002 and 2010 respectively. There is further evidence to suggest that Thailand and the United Kingdom also are raising their contribution to imports. Thailand and United Kingdom have increased in US imports from 6.4% in 2002 to around 11% in 2010, and from 1.8% in 2002 to around 10% in 2010, respectively.

Exports

The US will export around \$2.2 billion dollars worth of pet food in 2010, up by almost 60% from \$1.3 billion in 2002. Over the five years ending 2010, exports of pet food grew at a slower average rate

Import and export trade data of animal food (2005-2010)

Year	Imports (\$ million)	Exports (\$ million)
2005	450	1,530
2006	575	1,745
2007	677	1,946
2008	751	2,229
2009	753	2,156
2010	770	2,300

SOURCE: US INTERNATIONAL TRADE COMMISSION

than imports. The US exported the highest amount to Canada at approximately 29% of total exports. On its tail is Japan with around \$340 million dollars in pet food imports from the US, accounting for over 16% of all US exports. Mexico accounts for the third highest amount of exports from the US.

Products & Markets

Business Locations 2010



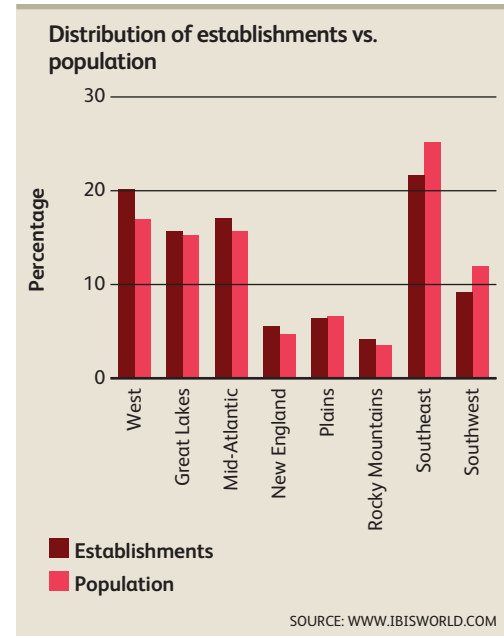
Products & Markets

Business Locations

The number of establishments in each region correlates to the population level and consumer demand in each region, which in turn affects the employment level and aggregate wage costs of each region. In theory, the greater the number of residents, the stronger the demand for pets and pet supplies. Business location information is only available for firms with one more employee. IBISWorld estimates that the Southeast region has the largest number of establishments, approximately 21.6% of the share of establishments in 2010. Accordingly, it also has the highest US population with 25.2%.

The West, Mid-Atlantic and Great Lakes regions capture the next three highest shares of establishments in 2010, at about 20.3%, 17.2% and 15.7% respectively. In turn, these regions also account for a high share of the US population, the West with 17.0%, Mid-Atlantic with 15.7% and Great Lakes with 15.3%.

New England and the Rocky Mountains account for the smallest share of industry establishments in 2010, at about 5.6% and 4.2%, respectively. The proportion of the population is also low



for New England with 4.7% and the Rocky Mountains with 3.5%

Breaking it down further

In 2009, the Southeast dominated the shares of industry establishments with 21.6%, along with the highest share of employees at 20.7% of the industry, and high industry wage share of 19.8%. The

Distribution of employment, wages and establishments (2010)

Region	Employment (%)	Wages (%)	Establishments (%)
Great Lakes	16.8	14.8	15.7
Mid-Atlantic	16.6	16.2	17.2
New England	5.4	5.7	5.6
Plains	6.1	5.6	6.3
Rocky Mounts	4.0	4.2	4.2
Southeast	20.1	20.6	21.6
Southwest	11.1	11.7	9.1
West	19.9	21.2	20.3

SOURCE: US CENSUS BUREAU COUNTY BUSINESS PATTERNS

Products & Markets

Business Locations continued

West tailed behind the Southeast with 20.3% industry share in establishments, share of employees at 19.8%, and an annual wage share of 21.7%. At the lower end of the scale the Rocky Mountains accounted for the lowest share of industry establishments, employees, and wages of 4.2%, 4.1%, and 4.4% respectively. Accordingly, this region has the lowest share of population of 3.5%.

While factors such as income and population concentration are important, a large number of unquantifiable factors also impact on the geographic spread of establishments. Wealth, demographics, housing density, and local fashions are going to impact on the demand for pets and pet supplies, influencing the type of

Population projections (2010)

Region	Population (%)
Great Lakes	15.3
Mid-Atlantic	15.7
New England	4.7
Plains	6.6
Rocky Mounts	3.5
Southeast	25.2
Southwest	12.0
West	17.0

SOURCE: US CENSUS BUREAU COUNTY BUSINESS PATTERNS

pets purchased and the ongoing supplies needed. These types of factors may also explain why some regions have a greater share of establishments than population.

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

Market Share Concentration

Level
Concentration in this industry is **Medium**

More than half of the Pet Store industry revenue comes from two specialty supply retailers: PETCO and PetSmart. The other portion of the industry consists of family-owned stores, small franchises and small chains of pet stores. Due to this nature of the industry, the concentration level is medium. Concentration is not high because many small operators are able to find a niche market in their geographical location, and rarely expand beyond that area. In addition, product transportation costs are high relative to

the value of the product. PETCO and PetSmart are expected to grow their shares as they continue expansion through acquisition of small operators. IBISWorld estimates that by the end of 2010, the industry will have approximately 16,400 firms and around 55% of those firms will be operated by single owner/small family businesses. Around 60% of all other stores, excluding single owner or small family businesses, employ between one and nine employees.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Attractive product presentation

In order to draw customers and encourage purchases, eye-catching promotions and displays are essential.

Experienced work force

It is important to employ a highly capable staff with clear knowledge of the pet industry to better assist customers and boost sales.

Proximity to key markets

Operators need to be located in high-

traffic, high-visibility locations, such as major shopping precincts.

Economies of scope

Operators need a range of popular pets and pet supplies at different levels of price and quality. Offering a variety of products will attract a larger customer base.

Effective quality control

Operators must ensure that pet services are up to standard for the specific type of animal and breed.

Cost Structure Benchmarks

The Pet Store industry realized a profit margin of around 5.6% in 2010. The profit margin has increased in recent years, due to a growing pet population and an increasing willingness of pet owners to spend on their pets, particularly on premium or high margin products. It is important to note that the actual level of margins may vary considerably between industry participants. PETCO and PetSmart spend less money per item as they purchase in bulk. They also sell such a high volume of products that they can afford to decrease their prices and profit from the frequent rate of purchases

made by customers rather than large markups. Smaller players do not have the same purchasing power so their cost of goods sold tend to be higher.

Most costs associated with this industry fall into the purchase category, estimated to account for 70.1% of the industry revenue in 2010. Purchases include a wide range of pet food and pet supplies. Pet supplies include collars, leashes, medication, shampoos, dog kennels and pet toys, and a range of pets including dogs, cats, birds, fish, small animals and reptiles. Premium pet food and pet supplies carry a higher markup and drive profit.

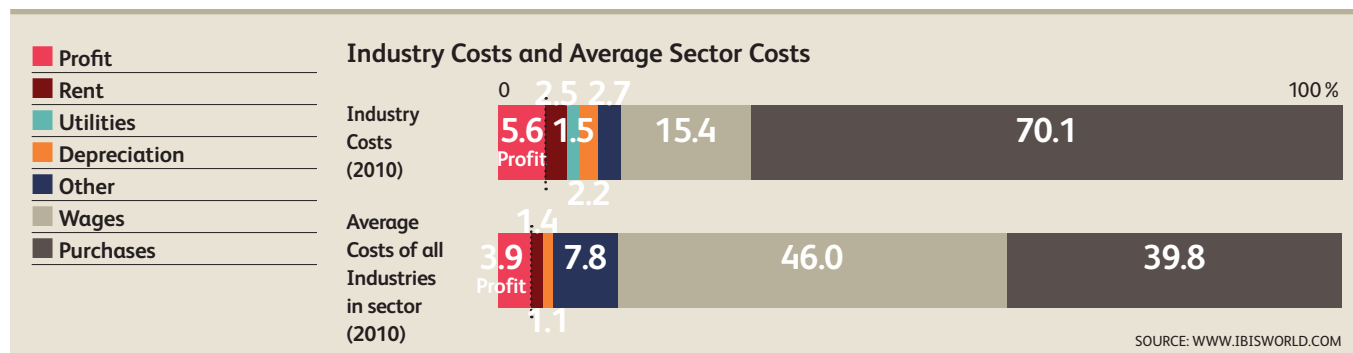
Competitive Landscape

Cost Structure Benchmarks continued

Due to the labor intensive nature of the retail industry, wages are the second highest expense item for pet store operators, accounting for 15.4% of the revenue in 2010. Labor is needed to help serve customers and to maintain stock levels. In addition, labor is needed for and the renewed focus on pet services and improved customer service, especially for the large pet supply chains.

Depreciation accounts for about 2.2% of industry revenue. This low level of depreciation is typical for a retailing industry as is it very labor intensive and requires minimal capital costs in

operations. In addition to shelving and cash registers, there are special capital costs for this industry relating to cages and tanks for animals, fish and birds. Rent and Utilities are low, accounting in total for 4% of industry revenue. Other expenses, which account for 2.7% of revenue, include advertising, promotional costs and administrative costs. Most advertising costs are generated by the large pet store companies that have national campaigns, while smaller store companies invest much less money into local advertising.



INDUSTRY CODE AND TITLE		2005-2010	2011-2015
31111	Animal Food Production	●	●
54194	Veterinary Services	●	■

Costs for operators in the Pet Stores industry are affected by the price of goods and services from supplier industries. IBISWorld has estimated the trends of key input prices over the previous five years and for the coming five years. ■ is good news for this industry as IBISWorld expects the price of key inputs to fall; ● shows where this industry is negatively affected as IBISWorld expects the price of key inputs to rise; ■ means price changes will not be a key issue for the industry.

SOURCE: WWW.IBISWORLD.COM

Basis of Competition

Due to medium barriers to entry and growing profitability from premium products and services, there are a large number of pet store operations, giving the industry a medium level of competition. This industry has been growing strongly over the past decade as

a result of favorable demographic trends and the growing tendency of pet owners to treat their pets as members of the family. In recent years, industry participants have exploited these trends and cashed in on higher margin products and services, such as premium pet food

Competitive Landscape

Basis of Competition continued

Level & Trend
Competition in this industry is **Medium** and the trend is **Increasing**

and high-quality grooming services. In addition, the players in this industry are protected from external competition in the premium pet food product segment, because there are often manufacturer's restrictions on the distribution of premium products to supermarkets. Industry participants are also protected from external competition from supermarkets and discount retailers in the growing area of value added pet services such as grooming and obedience training.

Internal

Pet Stores are constantly competing with each other in price, product variety, customer service, brand awareness, variety of pet services, and store location. Since product purchases make up the majority of sales for pet stores, logically their main basis of competition is product range and quality, along with some influence by price. Large players like PETCO and PetSmart benefit from economies of scope and are able to provide broad ranges of pets, pet foods, pet supplies and pet services with different levels of quality across a range of prices to appeal to individual consumer preferences. In addition, they are capable of offering products through their private label brands at a lower price. Both of these players benefit from being able to buy products in bulk and producing their own products at lower cost, which allows them to offer products at a low price and still attain a profit. As a result, smaller stores feel the pressure to provide more products at a lower price, which results in lower mark-ups by these stores and ultimately lower profits. However, smaller stores benefit from their ability to offer personalized customer services and mold to the

specific needs of the niche market in their local area.

The two major players in this industry also invest considerable resources toward brand awareness and loyalty. For example, PETCO is now the major sponsor of PETCO Park, the new home of the San Diego Padres. In addition, both PETCO and PetSmart are heavily involved in pet charities and animal welfare organizations. In 2004, PetSmart introduced a new customer loyalty program in order to drive repeat customer traffic.

External

Historically, the sale of pet food products has been primarily through the supermarket channel. Large supermarkets stock a wide variety of pet food and supplies. Bulk purchases by supermarkets generally enable them to offer lower prices than specialty retailers. In recent years, additional competition has come from mass merchandisers and discount retailers such as Walmart and Costco that stock a wide variety of products at competitive prices. However, mass merchandisers and discount retailers do not sell ultra-premium pet products as they are limited by manufacturers' restrictions. Further competition comes from the e-commerce & Online Auctions industry (NAICS 45411a) and the Mail-Order industry (NAICS 45411b). These competing industries include companies such as Petstore.com through which consumers can purchase products without physically having to visit a store; however, these operators are not classified as part of this industry. In addition, some competition comes from Veterinary services as they also sell customized pet food and some products.

Competitive Landscape

Barriers to Entry

Level & Trend
Barriers to Entry
in this industry are
Medium and Steady

High levels of competition and stringent regulations associated with entering this industry may deter some from entering the industry. Nevertheless, there are various niche markets available for new players to occupy, specifically those that specialize in premium and innovative food, products and services.

A significant factor that can hinder an operator from entering this industry is government regulations. There are federal and state laws regulating pet shops and the sale of animals. For example, the Pet Animals Act 1951 requires pet shops to get a license in accordance with the Act before they can open. In addition, the Animal Welfare Act of 1966 dictates how pets sold in pet stores must be maintained. Pet shops need to address a range of issues and receive licenses based on federal and state requirements before permission to operate is granted.

The industry's concentration can be intimidating as well. There are only two national retail chains in this industry and together they account for over half of industry revenue; smaller stores and franchises account for the remaining portion. Although this industry is highly fragmented, there is also intense price competition from mass merchandisers, online operators and catalog retailers,

Barriers to Entry checklist

	Level
Competition	Medium
Concentration	Medium
Life Cycle Stage	Mature
Investment Requirements	Low
Technology Change	Medium
Regulation & Policy	Medium
Industry Assistance	None

SOURCE: WWW.IBISWORLD.COM

which may provide a barrier for new, independent retailers.

Opening a new pet store and meeting licensing standards is expensive. In addition, a significant share of funding may be directed towards advertising and marketing, in order to generate consumer interest and recognition. The initial cost of establishing or purchasing a retail outlet, in addition to purchasing and maintaining inventory levels, may be a barrier for new entrants. Barriers are also greater for new smaller retailers because forming reliable supply relationships with wholesalers and manufacturers may prove to be difficult. Existing and well established distribution relationships may deter potential operators from entering this industry, as it provides an advantage to existing retailers by giving access to low priced high quality goods.

Industry Globalization

Level & Trend
Globalization in this
industry is **Low** and
the trend is **Steady**

This industry is characterized by a large number of small players. Many of the smaller, independent pet supply retailers are local family owned businesses. In

addition, the amount of foreign ownership in the major players is immaterial. Therefore, this industry has a low level of globalization.

Major Companies

PetSmart, Inc. | PETCO Animal Supplies, Inc. | Other

Major players

(Market share)

PETCO Animal Supplies, Inc. 19.9%



PetSmart, Inc. 30.9%

SOURCE: WWW.IBISWORLD.COM

Player Performance

PetSmart, Inc.

Market share: 30.9 %

Since its establishment in 1987, PetSmart has grown to become the top specialty retailer of pet food and supplies.

PetSmart currently operates around 1,100 stores, typically in “power centers” located in regional shopping centers near other superstores and warehouse stores, and employs around 34,000 associates in United States and Canada. By offering over 10,000 pet products and providing various pet services, the retailer aims to provide a one-stop-shop experience with everyday low prices for pet lovers.

PetSmart categorizes its products into 3 main categories: Pet Food, Treats and Litter; Pet Supplies and Other Goods; and Pets. The Pet Food, Treats and Litter category includes premium products, many of which are not found in supermarkets or mass merchandisers. Collars, leashes, health and beauty aids, shampoos, medication, toys, pet carriers, dog kennels, cat furniture, equestrian supplies, birdcages, aquariums and filters make up the Pet Supplies and Other Goods category. The Pets category includes fish, birds, reptiles, and small pets. Larger animals such as cats and dogs are not sold in PetSmart, but are available for adoption through the PetSmart Charities’ Adoption Program developed with the local humane organization.

In addition to selling products, PetSmart has expanded its service to include in-store boarding facilities, grooming services, obedience training and full-service veterinary services (offered in over 730 of the PetSmart

stores). In 2002, PetSmart launched a complete pet boarding and day care service with 24-hour supervision, an on-site veterinarian, air-conditioned rooms and daily specialty treats called PetsHotel. Currently, around 140 of PetSmart stores include PetsHotel boarding facilities and Doggie Day Camps and aims to build 400 more PetsHotel facilities in the future. In 2007, PetSmart acquired 19 stores from the Canadian Super Pet chain to increase its Canadian presence and exited the equine products business. In 2008, PetSmart opened 104 new stores and expects to open 40 net new stores in US in 2009.

The company was negatively affected by a recall of pet foods, made by Menu Foods in early 2007, and in 2008 it suspended the sale of birds in its stores nationwide after discovering that a high number of birds carried a bacterial infection which had the potential to spread to humans.

Financial performance

PetSmart will experience growth in fiscal 2010 through expansion of its stores and hotels. In fiscal 2010, as the economy recovers, IBISWorld estimates that PetSmart sales will grow by 3% to around \$4.17 billion. In 2009, the company had comparable store sales growth of 3.8%. PetSmart’s sales of pet food, pets, and services covered by this industry will reach \$4.06 billion in 2009, up 8.4% from 2008. Both pet merchandise and services segments performed well, with pet services accounting for approximately

Major Companies

Player Performance continued

PetSmart Inc. – financial performance

Year	Revenue (\$ million)	Net Income (\$ million)	Employees
2005	2,691	171	30,300
2006	3,008	183	34,600
2007	3,387	185	38,400
2008	3,739	259	43,000
2009	4,052	193	46,000
2010*	4,194	211	47,000

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

10% of the revenue related to the industry. PetSmart continues to expand its line of products, now offering more choices in natural and organic categories. The retailer will benefit in revenue from new store opening in 2009 and 2010 in addition to its expansion of PetsHotels. Over the last five years to 2010, PetSmart's revenue has increased at an average annual rate of approximately 11% – it's not very likely that PetSmart will be giving up its spot as the leader of the pet store industry pack.

In fiscal 2008, sales revenue rose by

10.4% to \$3.7 billion, and the company generated a net income gain of \$258.7 million. Some of the growth is driven by 112 new store openings in 2008. In addition, comparable store sales increased by 2.4%. The company was able to provide a large assortment of pet products as well as pet services, which as a product group increased by 22% over the period. Higher demand for pet services became an increasingly important sales avenue. Services included grooming, training, boarding and day camp.

Player Performance

PETCO Animal Supplies, Inc.
Market share: 19.9%

Established in 1965, PETCO Animal Supplies is the second largest pet supply specialty retailer in the US, behind PetSmart. PETCO is the only specialty pet supply store with store locations in all 50 US states. Despite the current economic down turn, the company aims to open its 1,000th store this year. Their product range is extensive and includes pet food, collars, leashes, grooming products, toys, health and beauty aids, kennels and pet houses. Like other industry participants, PETCO also offers a variety of veterinary and obedience services and does not sell cats or dogs. An adoption program is used in partnership with local animal welfare

organizations. PETCO's new "Think Adoption First" initiative is run in conjunction with the PETCO Foundation and adoption partner, Petfinder.com.

In 2006, Texas Pacific Group and Leonard Green & Partners took the company private for the second time; the deal was valued at \$1.8 billion. In 2003, PETCO introduced a new 'Pisces' store design, which positioned its aquatic center in the middle of a racetrack walkway, which allows customers to easily navigate the store. The same group, Texas Pacific Group and Leonard Green & Partners, took PETCO private for \$600 million in 2000; PETCO returned to the public sector in 2002. In

Major Companies

Player Performance continued

Petco Animal Supplies Inc. – financial performance

Year	Revenue (\$ million)	(% change)	Employees	(% change)
2005	1,812	9.6	16,900	10.5
2006	1,996	10.2	17,900	5.9
2007	2,200	10.2	18,200	1.7
2008	2,400	9.1	18,700	2.7
2009	2,550	6.3	19,100	2.1
2010*	2,700	5.9	19,500	2.1

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

the mid 1990s, PETCO pursued an aggressive expansion policy and made 19 acquisitions, adding over 200 stores in 28 states over five years.

Financial performance

The company has experienced strong revenue growth over the past seven years and IBISWorld predicts that it will experience some growth in 2010. Since the company became private in 2006, its financials are no longer available to the public. IBISWorld predicts that in alignment with other major specialty food retailers, PETCO will most likely benefit from the growing interest in pet services, as well as continue to profit from its current wide variety of premium food products. IBISWorld forecasts that in 2010, PETCO will experience an increase in revenue of over 2.5%, reaching approximately \$2.7 billion. Over the five years to 2010, the company's revenue has grown at an average annualized rate of 8.3%. As the economy begins its recovery, purchases

of high-end food will drive sales up. In addition, PETCO will continue expanding their services to keep up with competition. IBISWorld estimates that PETCO earned revenue of \$2.4 billion in fiscal 2008, and grew revenue by approximately 1.2% in fiscal 2009. Revenue increased from \$750 million in fiscal 1998, to \$2 billion in 2006, representing an average increase of 14% annually. Much of the company's growth has occurred in the pet food segment as well as from opening a range of new stores. In addition, the company has upgraded its existing stores into a "millennium" format, which enhances product presentation and emphasizes higher margin products.

A key to the company's success has been its ability to differentiate by offering destination-shopping experiences – that is, making shopping fun and interesting. In order to fulfill this further, PETCO launched a new store design in 2009, featuring "racetrack aisles," allowing more customer traffic.

Other Companies

PetSmart and Petco are the top dogs in the pet store industry, accounting for more than half of industry revenue; the rest of the industry is made up mainly of small, independent pet stores. These

smaller stores usually have a market share of no more than 4.0% or 5.0%, with most having a market share of 1% or less. Smaller operators are likely to be sole proprietorships or employ one or

Major Companies

Other Companies continued

two. The smaller retailers do not have the same luxury as the larger stores of bulk buying and carrying a vast variety of products. According to the 2008-2009 Pet Age Retailer survey, retailers have been decreasing their dry food product markups from around 6.02% in 2006 to approximately 58.0% in 2007. These are the lowest markups in seven years, and stores are absorbing manufacturers' price increases instead of passing increases to their customers. Companies are not earning as much profit from their revenue as in previous years, as they are absorbing rising costs and decreasing mark-ups in hopes to retain their customer base. Dog food is the main driver of sales for small retailers, accounting approximately 20.0% of sales in 2007; this is increasing because consumers have been purchasing more premium food since the pet food recall in 2007.

Pet Supplies Plus

Estimated market share: Less than 4.0 %

Pet Supplies Plus is a franchise business operating more than 200 stores across 21 states of the United States. Pet Supplies Plus offers franchises in selected states ranging from single store owner/operators, to area developers who own all stores in a designated market region. According to company information, the purchase of a Pet Supplies Plus franchise will cost between \$400,000 and \$600,000. Pet Supplies Plus stores are generally located in high-traffic areas and are limited to about 5,000 to 6,000 square feet in size

for smaller markets and 7,000 to 9,000 square feet in larger metropolitan areas. The smaller store concept was designed to keep operating costs to a minimum in a bid to offer pet food and supplies at competitive prices. Revenue in 2010 is estimated to be \$520 million.

Pet Supermarket Inc.

Estimated market share: Less than 2.0 %

With a market share of less than 2.0%, Pet Supermarket Inc. is a small, family-owned retailer of pet supplies and medicines. Pet Supermarket operates over 100 stores in Florida, Alabama, California, Georgia, Kentucky, Nevada and North Carolina. Pet Supermarket sells birds, fish, kittens, puppies, reptiles, small animals and a range of pet food and pet supplies. IBISWorld estimates revenue hit \$235 million in 2009.

Pet Food Express

Estimated market share: Less than 1.0 %

Another operator is Pet Food Express, an independent retailer chain operating about 32 stores throughout Northern California. The company offers a range of pet supplies including beds, bowls, feeders, carriers, cages, flea control, food, grooming, medication, sanitation, toys, leashes, harnesses and tanks. Many stores also feature self-service pet washes, adoptive services, dog-training classes and low cost vaccination. The company also operates an online store at www.petfoodexpress.com. IBISWorld estimates total company revenue of \$95 million in 2009.

Operating Conditions

Structural Risk Index | Investment Requirements | Technology & Systems
Industry Volatility | Regulation & Policy | Industry Assistance | Taxation Issues

Structural Risk Index

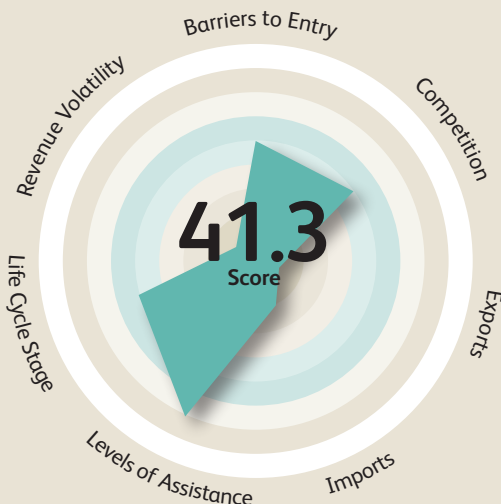
Industry Relax Points

Exports
Imports
Revenue Volatility

Industry Pressure Points

Levels of Assistance

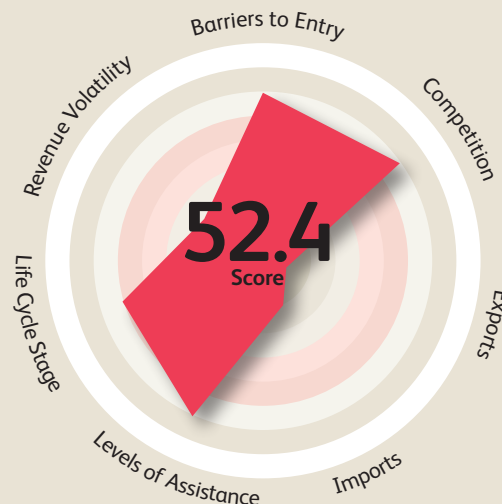
Pet Stores



IBISWorld has scored key elements of industry structure on a scale of 1 to 9 – the higher the figure, the greater the risks to businesses operating in the industry.

Operating conditions in the Pet Stores industry are less risky than in other

Retail Trade



industries in the Retail Trade division. The industry structural risk index totals 41.3 points compared to 52.4 points for the Retail Trade division as a whole (100 points equates to extremely poor operating conditions).

SOURCE: WWW.IBISWORLD.COM

Investment Requirements

Level

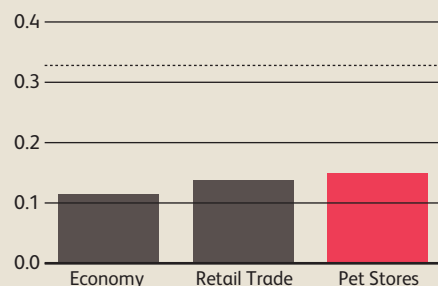
The level of investment required is **Low**

The Pet Stores industry, similar to most other retail industries, has a low level of capital intensity. For every dollar invested in the store and equipment, \$6.7 dollars is spent in labor. Most capital costs are related to shelving, store, cashier equipment and other equipment, which does not need to be constantly replaced. On the other hand, this industry is labor intensive because employees are needed to operate and manage the stores, provide customer service and support, and restock the merchandise.

The level of capital intensity has remained steady in the last five years, reflecting the labor-intensive nature

Capital intensity

Capital units per labor unit



Dotted line shows a high level of capital intensity

SOURCE: WWW.IBISWORLD.COM

of the retail industry. The cost of labor within this industry is relatively

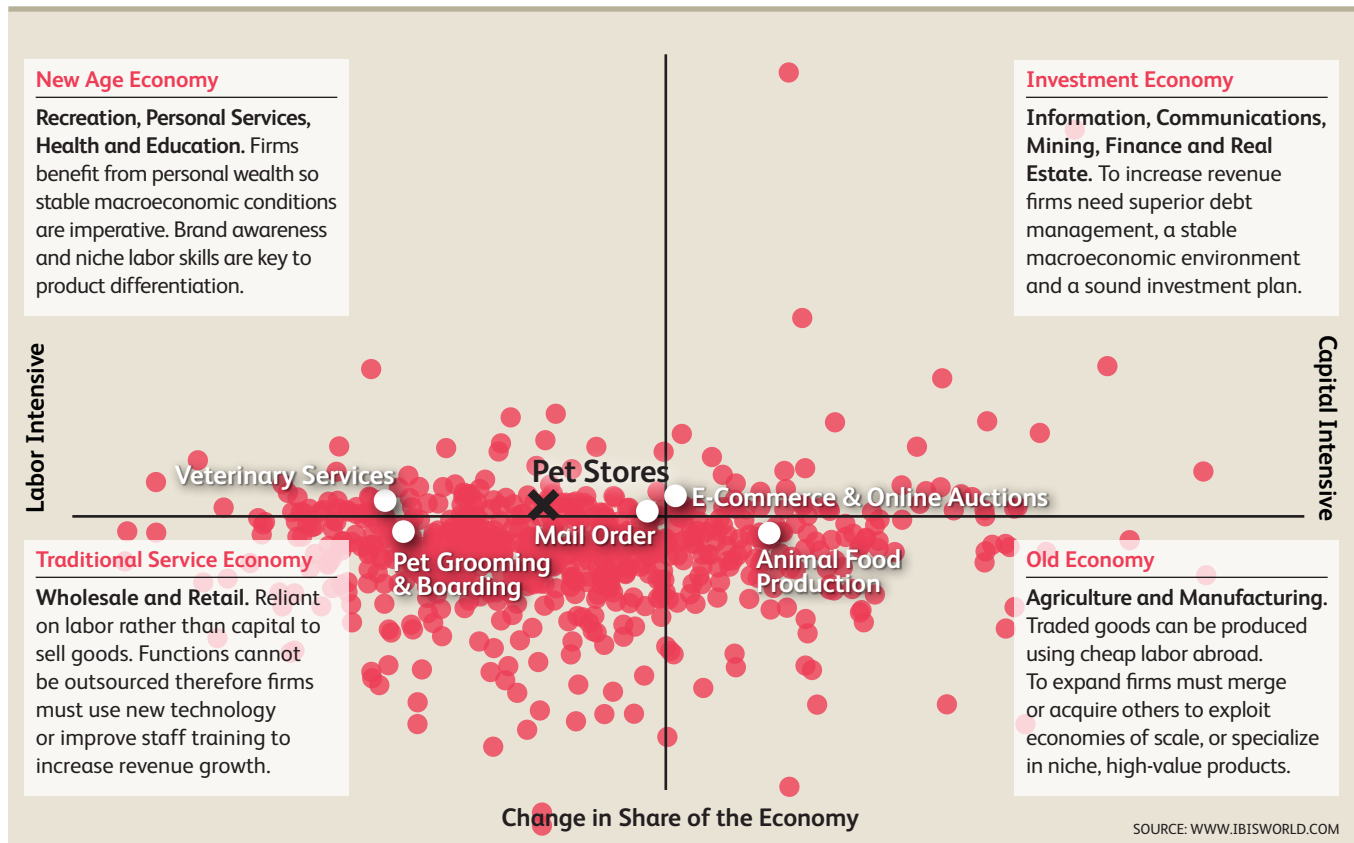
Operating Conditions

Investment Requirements continued

high compared to that experienced by online pet supply retailers. E-tailers are not required to train staff or

outlay expenditure on customer service, nor are they required to have shelving, displays or cash registers.

Tools of the Trade: Growth Strategies for Success



Technology & Systems

Level
The level of
Technology Change
is **Medium**

Technological advances in this industry have included computer scanning cash registers and automated inventory equipment. The introduction of this technology has enabled retailers to better manage efficiency of operations and inventory. Technology at the checkout has led to computerized point-of-sale equipment, which controls and records merchandising, distribution, sales and stock markdowns. Bar code scanning offers the advantages of higher labor

productivity that increases the speed at which information is passed, ensures greater control over the distribution of goods, reduces errors along the supply chain. New improvements will boost revenue for the larger stores who can afford to invest in the technologies. For example, larger retailers will benefit from Radio Frequency Identification (RFID), which provides real time information on inventory and help to reduce shrinkage problems as well as improve efficiency.

Operating Conditions

Revenue Volatility

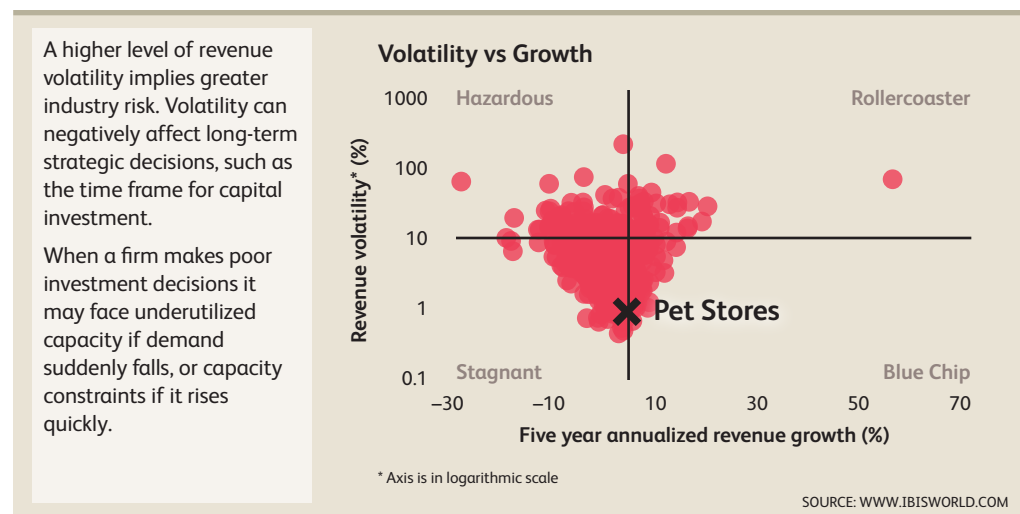
Level

The level of Volatility is **Low**

Pet Stores sell both discretionary (e.g. pets and toys) and nondiscretionary products (e.g. pet food). While purchasing a pet is generally discretionary, a large proportion of expenditure on a pet is nondiscretionary because the animal needs food, medicine and certain supplies in order to survive. Expenditure on pet food makes up 52.4% of expenditure on pets.

Expenditure on pet supplies and medicine makes up a further 31.2%, while new pet purchases account for only 6.5% of total revenue.

Together the nondiscretionary component of industry merchandise accounts for more than 80.0% of industry revenue. The high level of nondiscretionary demand keeps the volatility of this industry low.



Regulation & Policy

Level & Trend

The level of Regulation is **Medium** and the trend is **Steady**

There are industry specific and general competitive regulations that apply to this industry. The transportation, handling and sale of small pets are governed by various federal, state and local regulations. In addition, industry participants are subject to environmental regulations imposed by federal, state and local authorities in relation to the generation, handling, storage, transportation and disposal of waste and biohazardous materials, and the sale and distribution of products.

The Pet Animals Act 1951 deems it an offense to open a pet shop unless it is granted a license in accordance with the Act. When deciding to grant a license, district councils need to consider whether there is suitable

accommodation and enough food and water, whether the animals are sold at too young an age and whether reasonable precautions have been taken to curb the spread of disease. The Animal Welfare Act (AWA) protects certain animals from inhumane treatment and neglect. The AWA requires that minimum standards of care and treatment be provided for certain animals that are bred for commercial sale, used in research, transported commercially or exhibited to the public. Retail pet shops are not covered under the Act unless the shop sells exotic or zoo animals or sells animals to regulated businesses. Pets owned by private citizens are not regulated. Regulated businesses are required to keep accurate

Operating Conditions

Regulation & Policy continued

records of acquisition and disposition and a description of animals that come into their possession.

Many state and local governments have passed additional animal welfare legislation. Approximately 16 states have

regulations that allow consumers to obtain a reimbursement when a sick animal is purchased from a pet store. This is known as a “lemon law” which is designed to protect consumers that buy animals from pet shops.

Industry Assistance

Level & Trend
The level of Industry Assistance is **None** and the trend is **Steady**

Tariffs apply to the import of goods, adding additional charges to their cost. In general, tariffs provide ‘protection’ for the local manufacturers of these goods. However, the protection of the manufacturer is generally at the expense of the consumer who has to pay more for these goods.

All things being equal, the higher the price of a retailer’s goods, the lower the demand for those goods. Tariffs can have the impact of causing consumers to choose to spend their money on other products, often from outside the industry. In this case, it may make the cost of keeping a pet more expensive, causing less people to buy pets.

Key tariffs

Goods	Low rate	High rate
Saddlery, harness for any animal (excluding dogs)	2.8	2.8
Dog leashes, collars, muzzles, harnesses	2.4	2.4
Pet food	0.0	0.0

SOURCE: USITC

Given the relatively small level of the tariffs (pet food does not have a tariff), IBISWorld considers tariffs to have an insignificant negative impact on the Pet Stores industry.

Taxation Issues

Level
The level of Tax Burden is **Medium**

There are two specific types of taxes applicable to this industry: sales tax and use tax. Sales tax is applicable to the retail sales of tangible property, while use tax is applicable to the purchase of an item for use in a state from an out-of-state retailer. In addition to the sales and use tax, local jurisdictions in each state are also empowered to apply their own local sales and use tax.

There is no state tax imposed on goods sold in Alaska, Oregon, or Montana. The tax rates in the remaining states vary from 2.07% in Delaware (the lowest), to 8.25% in California (the highest). Mississippi, Rhode Island, New Jersey and Tennessee account for the second highest states tax of 7.00%. In addition, products may be subject to local jurisdiction taxes that can range from zero to as high as 7.0%.

Key Statistics

Industry Data

	Revenue (\$m)	Industry Value Added (\$m)	Establishments	Enterprises	Employment	Exports	Imports	Wages (\$m)	Domestic Demand	Households With Pets (Million)
2001	9,609	1,778	16,313	14,722	80,488	--	--	1,394	N/A	63
2002	9,720	1,842	15,458	13,968	83,635	--	--	1,463	N/A	64
2003	10,216	1,959	16,009	14,390	87,099	--	--	1,540	N/A	66
2004	10,789	2,079	16,653	14,777	91,965	--	--	1,626	N/A	69
2005	11,422	2,182	17,435	15,124	95,998	--	--	1,714	N/A	68
2006	12,074	2,295	18,121	15,404	100,337	--	--	1,812	N/A	69
2007	12,549	2,409	18,727	15,834	104,522	--	--	1,894	N/A	69
2008	12,876	2,447	19,056	15,992	106,714	--	--	1,919	N/A	70
2009	13,146	2,466	19,193	16,170	107,866	--	--	1,947	N/A	71
2010	13,567	2,534	19,767	16,429	110,892	--	--	2,005	N/A	71
2011	14,055	2,597	20,099	16,866	113,157	--	--	2,035	N/A	72
2012	14,491	2,652	20,794	17,244	117,488	--	--	2,102	N/A	74
2013	14,911	2,702	21,131	17,744	120,309	--	--	2,176	N/A	75
2014	15,269	2,805	21,799	18,369	124,761	--	--	2,240	N/A	77
2015	15,719	2,854	22,311	18,948	127,171	--	--	2,304	N/A	78
Sector Rank	40/64	42/64	38/64	36/64	38/64	N/A	N/A	41/64	N/A	N/A
Economy Rank	392/695	503/695	194/693	184/681	259/695	N/A	N/A	410/687	N/A	N/A

Annual Change

	Revenue (%)	Industry Value Added (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)	Households With Pets (%)
2002	1.2	3.6	-5.2	-5.1	3.9	N/A	N/A	4.9	N/A	1.6
2003	5.1	6.4	3.6	3.0	4.1	N/A	N/A	5.3	N/A	3.1
2004	5.6	6.1	4.0	2.7	5.6	N/A	N/A	5.6	N/A	4.5
2005	5.9	5.0	4.7	2.3	4.4	N/A	N/A	5.4	N/A	-1.4
2006	5.7	5.2	3.9	1.9	4.5	N/A	N/A	5.7	N/A	1.5
2007	3.9	5.0	3.3	2.8	4.2	N/A	N/A	4.5	N/A	0.0
2008	2.6	1.6	1.8	1.0	2.1	N/A	N/A	1.3	N/A	1.4
2009	2.1	0.8	0.7	1.1	1.1	N/A	N/A	1.5	N/A	1.4
2010	3.2	2.8	3.0	1.6	2.8	N/A	N/A	3.0	N/A	0.0
2011	3.6	2.5	1.7	2.7	2.0	N/A	N/A	1.5	N/A	1.4
2012	3.1	2.1	3.5	2.2	3.8	N/A	N/A	3.3	N/A	2.8
2013	2.9	1.9	1.6	2.9	2.4	N/A	N/A	3.5	N/A	1.4
2014	2.4	3.8	3.2	3.5	3.7	N/A	N/A	2.9	N/A	2.7
2015	2.9	1.7	2.3	3.2	1.9	N/A	N/A	2.9	N/A	1.3
Sector Rank	14/64	24/64	8/64	18/64	7/64	N/A	N/A	18/64	N/A	N/A
Economy Rank	160/694	212/695	42/693	76/681	66/695	N/A	N/A	94/687	N/A	N/A

Key Ratios

	IVA/Revenue (%)	Imports/Demand (%)	Exports/Revenue (%)	Revenue per Employee (\$'000)	Wages/Revenue (%)	Employees per Est.	Average Wage (\$)	Share of the Economy (%)
2001	18.50	N/A	N/A	119.38	14.51	4.93	17,319.35	0.02
2002	18.95	N/A	N/A	116.22	15.05	5.41	17,492.68	0.02
2003	19.18	N/A	N/A	117.29	15.07	5.44	17,681.03	0.02
2004	19.27	N/A	N/A	117.32	15.07	5.52	17,680.64	0.02
2005	19.10	N/A	N/A	118.98	15.01	5.51	17,854.54	0.02
2006	19.01	N/A	N/A	120.33	15.01	5.54	18,059.14	0.02
2007	19.20	N/A	N/A	120.06	15.09	5.58	18,120.59	0.02
2008	19.00	N/A	N/A	120.66	14.90	5.60	17,982.65	0.02
2009	18.76	N/A	N/A	121.87	14.81	5.62	18,050.17	0.02
2010	18.68	N/A	N/A	122.34	14.78	5.61	18,080.66	0.02
2011	18.48	N/A	N/A	124.21	14.48	5.63	17,983.86	0.02
2012	18.30	N/A	N/A	123.34	14.51	5.65	17,891.19	0.02
2013	18.12	N/A	N/A	123.94	14.59	5.69	18,086.76	0.02
2014	18.37	N/A	N/A	122.39	14.67	5.72	17,954.33	0.02
2015	18.16	N/A	N/A	123.61	14.66	5.70	18,117.34	0.02
Sector Rank	31/64	N/A	N/A	49/64	23/64	25/64	46/64	42/64
Economy Rank	579/695	N/A	N/A	504/695	406/687	489/693	617/687	503/695

Figures are inflation-adjusted 2010 dollars. Rank refers to 2010 data.

SOURCE: WWW.IBISWORLD.COM

Key Statistics

Historical Performance

In the early 1970s, this industry was relatively small and made up of a variety of small/independent operators and a handful of larger retail chains. From the late 1970s, the industry underwent fundamental change following the development of pet superstores and super-premium pet food. This gave rise to the current major players in this industry, namely PetSmart and PETCO Animal Supplies. The super-premium pet food segment proved to be very successful during the 1980s, as consumers increasingly purchased these

premium products to specialty superstore retailers. Like supermarkets, superstores can offer much lower prices due to the amount of stock they hold, and premium pet food products are generally not sold in supermarkets. In addition, independent pet stores have found it difficult to compete and have either been taken over by one of the larger companies or gone out of business.

Another significant factor contributing to this industry's growth was the strong rise in the number of pet owners and pets. In the last decade, the number of US households that own at least one pet has increased from 58% to 62%.

According to the annual Pet Owners Survey, changing lifestyles and demographic shifts from traditional families to single households as well as married baby boomers have contributed to the significant rise in pet ownership. Over the past decade, pet owners have also been increasingly willing to spend more money on pet supplies, pet toys and luxury products.

Between 1997 and 2004, industry revenue rose by 3.7% annually, from \$7.9 billion to \$10 billion. Over this time, establishment numbers fell by an average rate of 6.0% annually, to 15,479 locations around the United States. The decline indicated a phase of industry consolidations, where companies would merge to take advantage of the benefits from economies of scale and the exit of underperforming stores.

The number of homes that own at least one pet has more than doubled in the last decade

products from superstores, which ultimately led to growth in other segments such as pet supplies. As these segments continued to grow, industry participants expanded or opened new pet superstores. In addition, there were many acquisitions, including PetSmart's acquisitions of Weisheimer Companies in 1994, and Petstuff and Pet Food Giant in 1995. Similarly, Petco Animal Supplies made 19 acquisitions between 1994 and 1998.

Pet superstores and store chains have grown to become a large part of the retail sector for pet supply products. Conversely, supermarkets and independent pet stores have suffered due to the exclusive distribution of some

Jargon & Glossary

Industry Jargon

OVER-THE COUNTER (OTC) MEDICINE A medicine sold on shelves of retail stores that can be purchased without a prescription.

PET PARENTS A term for a group of pet owners who are enthusiastic about their pets and treat them as a member of the family.

RADIO-FREQUENCY IDENTIFICATION (RFID) A small electronic device that provides real-time information on inventory; larger retail stores use it to improve efficiency.

IBISWorld Glossary

BARRIERS TO ENTRY Barriers to entry can be High, Medium or Low. High means new companies struggle to enter an industry, while Low means it is easy for a firm to enter an industry.

CAPITAL/LABOR INTENSITY An indicator of how much capital is used in production as opposed to labor. Level is stated as High, Medium or Low. High is a ratio of less than \$3 of wage costs for every \$1 of depreciation; Medium is \$3 – \$8 of wage costs to \$1 of depreciation; Low is greater than \$8 of wage costs for every \$1 of depreciation.

DOMESTIC DEMAND The use of goods and services within the US; the sum of imports and domestic production minus exports.

EMPLOYMENT The number of working proprietors, partners, permanent, part-time, temporary and casual employees, and managerial and executive employees.

ENTERPRISE A division that is separately managed and keeps management accounts. The most relevant measure of the number of firms in an industry.

ESTABLISHMENT The smallest type of accounting unit within an Enterprise; usually consists of one or more locations in a state or territory of the country in which it operates.

EXPORTS The total sales and transfers of goods produced by an industry that are exported.

IMPORTS The value of goods and services imported with the amount payable to non-residents.

INDUSTRY CONCENTRATION IBISWorld bases concentration on the top four firms. Concentration is identified as High, Medium or Low. High means the top four players account for over 70 % of revenue; Medium is 40–70 % of revenue; Low is less than 40 %.

INDUSTRY REVENUE The total sales revenue of the industry, including sales (exclusive of excise and sales tax) of goods and services; plus transfers to other firms of the same business; plus subsidies on production; plus all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); plus capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED The market value of goods and services produced by an industry minus the cost of goods and services used in the production process, which leaves the gross product of the industry (also called its Value Added).

INTERNATIONAL TRADE The level is determined by: Exports/Revenue: Low is 0–5 %; Medium is 5–20 %; High is over 20 %. Imports/Domestic Demand: Low is 0–5 %; Medium is 5–35 %; and High is over 35 %.

LIFE CYCLE All industries go through periods of Growth, Maturity and Decline. An average life cycle lasts 70 years. Maturity is the longest stage at 40 years with Growth and Decline at 15 years each.

NON-EMPLOYING ESTABLISHMENT Businesses with no paid employment and payroll are known as non-employing establishments. These are mostly set-up by self employed individuals.

VOLATILITY The level of volatility is determined by the percentage change in revenue over the past five years. Volatility levels: Very High is greater than $\pm 20\%$; High Volatility is between $\pm 10\%$ and $\pm 20\%$; Moderate Volatility is between $\pm 3\%$ and $\pm 10\%$; and Low Volatility is less than $\pm 3\%$.

WAGES The gross total wages and salaries of all employees of the establishment.

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