

Bear Market Can't Dog Pet Industry's Numbers

by Amy Lieberman, zootoo.com

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NEW YORK -- The economy might be tanking, but experts say the pet industry is not likely to go down the tubes with it -- for now, at least.

PetSmart Inc., of Phoenix, saw sales grow 8.5 percent during 2008, and 2.3 percent during the first quarter of 2009.

PetSmart opened 112 new stores and 45 new PetHotels during 2008, though it was also forced to close eight stores.

While Senior Vice President Chip Molloy noted that the company continues to "remain cautious about the economic climate" and to not anticipate more than "low-single digit sales comps" this year, the company generally expressed an optimistic attitude, given its recent performance.

"Despite the macro-economic pressures, I am proud to announce that PetSmart was still able to deliver on both sales and earnings per share growth for the quarter," said company chairman Phil Francis last Wednesday in a statement releasing the chain's 2008 fourth quarter net income as \$78.4 million, or \$.62 per share.

The results are a \$3 million increase from PetSmart's 2007 fourth quarter net income of \$75.4 million, or \$.59 per share.

Other pet-focused companies and private store owners are also likely to benefit from the industry's semi-impervious standing, says Bob Vetere, president of the American Pet Products Association.

APPA estimated that in 2009, Americans will spend an approximate \$45.4 billion on their pets -- a \$2.2 billion increase from what pet owners shelled out in 2008.

It released these findings at the Global Pet Expo in Orlando, Fla., an annual pet industry showcase event held from Feb. 12-14.

"I hate to use the word 'recession proof,' but the industry has certainly shown resistance in its performance up until this point," Vetere said.

"People are cutting back on a lot of areas, but are not cutting back on their pets. They are postponing those vacations or downgrading their cars just to make sure that Fido and Fluffy are well taken care of."

Given the constant influx of negative news on the economy, it can be hard to believe that the pet industry is faring as well as it is, Vetere concedes. Yet he cites an increasing number of empty-nest baby boomers, in addition to society's overall humanization of pets, as contributing factors behind the trend.

"Baby boomers have had their children leave home and move on, and they are looking for something else to care for," Vetere said. "Lo and behold, there's Spike. He never talks back and doesn't take

the car out late at night, and it's like, 'I love you, Spike.' This is a new child to hover over."

Especially in stressful times, focusing on pets can make people feel more at ease, Vetere says of why people care about their pets now more than ever before.

"People find animals comforting," he said. "It's a very compelling drive right now."

The hollow sound of an empty piggy bank is perhaps less comforting than a purring cat, or a blissfully snoring dog.

Yet as Rick Hutchens, owner of Whole Earth Pet Supply in Lady Lake, Fla., explains, the two worlds don't always coincide.

"We don't get a lot of, 'Oh I can't buy treats this week because my stocks went down.' We just don't hear that," he said.

Although customers may not readily disclose information about their stock portfolio in the check-out line, it doesn't negate the worry of mounting expenses.

After all, pet products aren't getting any cheaper -- pet food prices alone climbed 13.5 percent during the last quarter of 2008, Barclays Capital analyst Michael Lasser reported to Reuters. While animals still have to eat, rising prices remain troublesome for cash conscientious pet owners, according to Barry Berman, founder of NextPet, a coalition of 480 pet stores across the country.

"Prices of premium pet food have continued to go up and that worked when the economy was confident and strong," Berman told ZT Pet News. "There is anxiety, though, that customers won't pay 20 to 30 percent more for the same thing that they did a year ago.

"There is a challenge to hold on to a customer when you are selling a higher priced product in a weaker economy."

Nevertheless, APPA predicts that in 2009, pet owners will spend the most -- a record breaking \$17.4 billion -- on food. In 2008, people contributed \$16.8 billion to feed their pets.

Following food, pet supplies will be at the forefront of pet owners' minds, APPA forecasts. People are expected to spend \$10.2 billion on products this year, a slight increase from last year's \$10 billion.

Vet care takes third place in the projected spending bracket for 2009. Pet owners are expected to fork over \$12.2 billion to maintain their animals' health, as opposed to the \$11.1 billion they spent in 2008.

"Food is food," Vetere explained of pet owners' reported first priority. "You have to feed your pet and people are becoming increasingly conscious of

how they are going to feed their pets. They want them to have the best food."

"Any human trend, like with organic, green products, you can expect to see that with pets, too. People want their pets to live a healthier and longer life."

Part of PetSmart's recent financial success could be attributed to selling higher-priced brands of pet food, said analysts quoted by The Associated Press.

Smaller pet product stores, like Hutchens', have also found success in marketing higher-priced natural food and health products.

While the natural, organic "concept is fairly new in the area," Hutchens said, the retirement community of Lady Lake appears to have embraced it. Whole Earth Pet Supply has been open for a little longer a year, and continues to increase its revenue.

"Things have been going great," Hutchens said. "They really are very good."

Hutchens operates within an online network of around 900 pet store owners, he says; only a few have complained of crippled sales.

"In most areas, retailers are doing pretty well," Berman agreed. "We don't have the exact data, but we talk to the store owners and would say that in most parts of the country dog and cat food and supplies have been strong in the past six months."

The small animal and fish market, on the other hand, have been "a little bit soft," Berman said.

Particular areas -- like Michigan, Florida and California, for example -- appear harder hit, Berman also said.

In Philadelphia, a pet boutique called "In the Dog House," is now learning the hard way that "cutesy" products are also quickly on their way out the doggy door.

The store has reported the same sales as last year, but as co-owner Jenna Williams says, "there just isn't the same growth. There isn't a decline, either."

Keeping in line with APPA's findings, In the Dog House has found most success in selling "practical stuff," according to Williams, like food, treats and toys, versus more frivolous items, like sweaters and T-shirts. At the same time, In the Dog House continues to retain its clientele, as well as appeal to newcomers.

"Our customers are still increasing," Williams said. "There are more people coming in. The average amount a customer spends is lower, but the interest hasn't declined."

It's a factor of love, which industry experts hope will continue to see the pet market through the country's troubled times.



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