The Top Pet Industry Trends For 2018

"As the pet industry has shown tremendous growth and prosperity over the past 20+ years, we now see a highly 'transitional' time forthcoming as millennials begin to take over baby boomers as the pet product and service power purchaser. With this transition comes much growth and opportunity if companies work mindfully, quickly and nimbly to satisfy the changing wants and needs of the consumer. "

- Leslie May, founder of Pawsible Marketing



Overview and Highlights

The pet industry has seen amazing growth over the past 20+ years and many product and service petrelated companies, especially those in the forefront, have garnered amazing growth and sales. In addition, small and medium sizes companies have also been able to launch and grow into sustainable pet businesses over the past years surpassing expectations.

While the pet industry for years has been labeled 'recession proof' or 'recession resistant' by many leading pet industry insiders over the past 8+ years, the current climate of the pet industry can now be called 'transitional'.

Much change and volatility is forthcoming in the pet industry, for several major reasons and we dive into these items further within our report:

- The distinction of the humanization of pets has reached its realization. Yes, pets are a part of our family, we get it. The changing demographic of prolific pet owners, i.e., the millennial demographic and younger generations, also the upcoming pet product and service power purchasers, don't know pets in any other way.
- The changing demographic has very different wants, needs and demands than the previous pet related power purchaser, i.e., baby boomers, and they currently have less financial resources for pets and pet related product and service purchases.
- Technology has completely changed the landscape of the pet industry. Over time, as millennials
 take over baby boomers as pet product and service power purchasers, digital purchasing and
 providing will continually gain momentum in the pet space. Those who have not positioned
 themselves to market, serve and provide digitally will be left behind.
- The novelty of the uniqueness of the industry of pets is disintegrating and is now following similar patterns of other sustainable industries. Consolidation is a key factor in this changing landscape.

What are the effects of these paradigm shifts?

- Consolidation will continue within the pet industry as companies are primarily not positioned to satisfy the wants and needs of the new demographic pet product and service power purchaser and their technology prowess.
- The struggle of brick and mortar only providers will continue as the demands of younger tech savvy generations continue to emerge unless they develop demanded niches and create the highest level for customer experience.
- The availability of new, healthy and innovative pet products and services of the highest quality, particularly in the areas of foods, treats, gear, and healthcare, will be demanded by the new generational consumer to satisfy their needs for their pets and their wallets.
- Customer demand and their specific wants for their pets will necessitate the need for
 manufacturers and retailers to blur of the lines of the traditional supply chain within the pet
 industry. The success of their businesses will be directly correlated to the strategic decisions
 they make for their business as they progress through their growth stages.

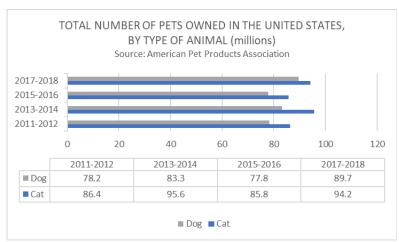


Careful and considerate pricing strategies will be required by pet related product and service
providers to fulfill the needs of the new generational pet loving power purchaser as their
disposable incomes vary from those of the baby boomer generation.

The facts/the market/the changing demographic

It was in 2012 when we first predicted and began discussing the change in demographic of the pet product and service power purchaser.

Baby Boomers made the pet industry. During the economic boom following the Great Depression and World War II, over 75 million children were born. These children, known as baby boomers, were the largest generation of Americans to be born in US history, and the first generation to take pets into their home and create the pet humanization affect.

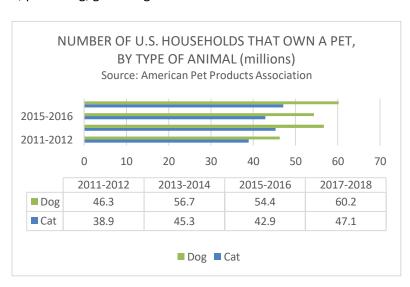


As this generation aged and became

empty-nesters they grew to consider their pets as replacement 'kids,' lavishing even more discretionary funds on them with innovative toys, sports and activities, healthier foods and treats, supplements, higher levels of veterinary care, day care, pet sitting, grooming and more.

Now the shift of the pet product power purchaser is in it's infancy as Gen Y/millennial pet ownership has officially surpassed baby boomer ownership by three percentage points to now account for 35 percent of all pet owners.

Baby Boomers, those born between the early to mid-1940's to years 1960-1964 are now approximately ages 72 to 54 and include about 76 million Americans.

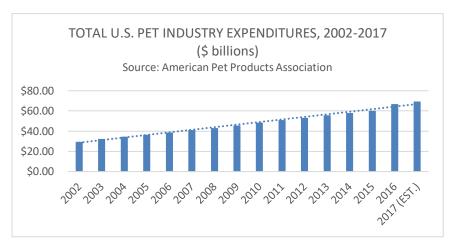


Millennials, and young Americans

born between 1982 and 2000, now number 83.1 million and represent more than one quarter of the nation's population. Their ages now range from 36 to 18 years of age. Their size exceeds that of the 75.4 million baby boomers, according to new <u>U.S. Census Bureau</u> estimates in 2015.



You can see from the included charts that US ownership of pets (specifically dogs and cats) has reflected this change in demographic over the past eight or so years with pet ownership declining in the years of 2015-2016 as the age of baby boomers reached retirement age and millennials were just beginning to solidify their entrance into adulthood.



Forecasted projections from the <u>American Pet Products Association</u> indicate an uptick in pet ownership for the upcoming forecasted year of 2017-2018 back to the levels of 2013-2014 reflecting the younger generations entrance into their prime spending years.

Baby Boomers vs Millennials: Notable Differentiators

According to <u>Goldman Sachs</u>, "one of the largest generations in history is about to move into its prime spending years. millennials are poised to reshape the economy; their unique experiences will change the ways we buy and sell, forcing companies to examine how they do business for decades to come."

We agree....not only continuing to target baby boomers, but also taking a concerted effort in targeting the millennial generation will bring a wealth of opportunity for pet product and service companies in the coming years. But first we need to understand these differing demographics to learn how to serve the new pet product power purchaser:

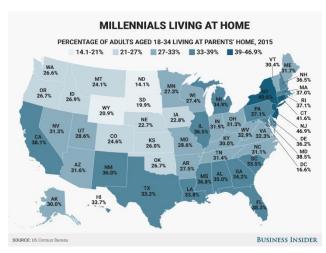
Housing

Housing situations by individuals can be an indicator of pet ownership. Although the <u>U.S.</u> <u>homeownership rate</u>, at 63.9 percent Q32017, has now fallen to near its lowest level in more than five decades, a high percentage of baby boomers own their own home and are now thinking about downsizing if the housing market will allow them the convenience, opportunity and savings going forward.

Contrast that to stats that show on average, nearly one in three millennials lives in their parents' home according to the US Census Bureau. In addition, the report indicates on the topic of marriage, "In 1975, a 57% majority of young adults aged 18-34 lived with a spouse, while just 26% of adults lived in their parents' home. In 2016, only 27% of young adults lived with a spouse, while the proportion of 18-34-year old's living with their parents went up to 31%, becoming the most common living situation."

In regards to renting, according to Pew
Research, "Last year, millennials headed
18.4 million of the estimated 45.9 million households that rent their home. By comparison, only 12.9 million Generation X and 10.4 million Boomer households were renters. Among households headed by a member of the Silent or Greatest generation, 4.1 million were renters."

In addition, "millennials are significantly less likely to own their home than prior generations of young adults when they



were the same age. For example, in 1982, 41% of households headed by those younger than 35 (the approximate age of Boomers at the time) owned their homes. In 1999, 40% of households in this younger age bracket (then Gen Xers) owned their dwelling. By 2016, the share had dropped to 35%. The Great Recession did lead to a widespread increase in renting across households of all ages, but homeownership declined most among younger households."

Pet Ownership Disparity

According to APPA's 2017-2018 National Pet Owners Survey, 68 percent of American households now own a pet, accounting for 84.6 million pet-owning households, up from 79.7 million pet-owning households in 2015.

The American Pet Products Association also indicates that millennials are now the primary petowning demographic, at 35 percent of U.S. pet owners as compared to baby boomers' 32 percent.

Disposable Income and Purchasing Power Variances

As more and more millennials solidify their spot in the adult workforce the purchasing power and disposable income for this generation will increase. But for now, they are just beginning to spread their wings in the disposable income category.

In addition, millennials are reportedly <u>saving more</u> than other generations, <u>have higher</u> <u>expenses in comparison to other generations at their current age, and are making less than their counterpart generations at current ages.</u>

According to <u>Deloitte Center for Financial Services</u>, "Boomers will continue to be the wealthiest generation in the United States until at least 2030 (figure 2). Their share of net household wealth will peak at 50.2 percent by 2020 and decline to 44.5 percent by 2030, quickly tapering off thereafter as mortality rates escalate."

Consequently, with U.S. consumer's peak earnings, spending, and investing years between ages 35 and 55, we have yet to see the millennials as the pet product and service power purchaser.



Generational Expectations

For baby boomers growing up without technology their sense of urgency and expectations are much lower. Consequently, they move a little more slowly, aren't as demanding, are willing to wait for what they want and take the time to find the answers they need. For some technology may play an important part of this process (i.e., later BB's) but for some the old fashion way works just fine.

Millennials grew up in an on-demand way of life. If they need something, they will find a way to get it as quickly, confidently and in the least expensive way possible.

Perceptions of Loyalty

Baby Boomers grew up in the industrial revolution. Many baby boomer individuals stayed with companies until retirement and pension allocation. Generally, they were corporately loyal from beginning to end.

Now that the days of corporate loyalty are falling by the wayside, this leaves millennials to assume they need not be loyal to corporate America but may be if it serves their wants and needs. This leads to a very different view of corporate culture and companies in general going forward. For millennials loyalty is desired but is overshadowed by the ability to fulfill what they want and need. In other words, if they need it now, or need it less expensive, they will find it.

Movement in the Primary Pet Power Purchaser

Baby Boomers grew up in a time when the harder you worked the more you got ahead and the more money you would make. In some baby boomer households, the wife/mother didn't work, leaving the income to the male of the household and the shopping, rearing, and upkeep to the female. Hence, baby boomer women are much more likely to be the primary pet product and service purchase of the two.

Those times are gone and millennials, after watching their parents work long hard hours, realize that a work-life balance is key to a happier life. Both male and female millennials are more participative in the process of running their lives, whether that be shopping, working, rearing or leisure. Consequently, we will see an uptick in the percentage of males (in addition to the primary female percentage) who become pet product and service power purchasers for all types of pet related categories.

Purchasing Behaviors

Many pet businesses in the past put all their efforts in targeting and marketing to baby boomers. While baby boomers currently have more disposable income, greater financial stability and quality of life than their younger counterparts, millennials will become the pet product and service power purchaser in years to come. Consequently, pet businesses should make a concerted and diligent effort to court this up and coming pet industry consumer.



A year or so ago, Oracle performed a consumer research report entitled, 'How Millennials and Baby Boomers are Shaping the Today and Tomorrow of Retail.' In this report they covered a variety of subjects from the latest trends on global consumer shopping behavior across online, mobile and in-store channels, to the differences in shopping behavior of baby boomers and millennials, and more. They surveyed 13,250 consumers, in 12 countries including the UK and USA.

Here are some highlights of what they found:

- Oracle's research found older shoppers (74% of over-60s) prefer to shop in-store still (compared to (59.7% of under-30s) and they think it is far more important to be able to see and touch products before they buy (20% compared to 8.7%).
- Older shoppers want their questions answered by people they can talk to and they want to be given the confidence and human assurances that their transaction is safe and their purchases protected (48.6% of over-60s feel more secure shopping in-store, compared to 32% of under-30s).
- While baby boomers are more likely to shop in-store and take items there and then than
 the millennial shoppers, millennials are more likely to visit the store to collect items they
 have ordered online, or research instore and then shop online. Both need products on
 shelves, both need a comfortable experience, both need information.

What about mobile? The Oracle report states:

- 36.8% of millennials have shopped on their mobile phone via an app or mobile website in the past 12 months. 38% expect to do so more over the coming year. The demand is less evident among the baby boomers 4.8% of baby boomers have shopped on their mobile over the past year, with 7.3% expecting to do so more in the coming 12 months.
- 95.5% of millennials and 68.4% of baby boomers say they would regularly check product information on their mobile phone, in-store, if they were able to do so.
- 36.3% of millennials want to see retailers roll out better mobile services and 31.7% want to see a mobile experience that is more joined-up with the in-store experience.

Other Pet Industry Key Influence Trends

Competition and Consolidation

As we outlined in 2014, the landscape of competition has changed dramatically over the past years in the pet industry as nearly every industry, in addition to the pet industry, sees our market as a growth opportunity, and seeks to capitalize on that opportunity.

The pet industry has historically lagged behind other industries in the areas of consolidation, acquisitions, licensing, co-branding, private labeling, partnerships, marketing, pricing, distribution and more. But no more...



Within the past few years we've seen tremendous consolidation: From PetSmart's acquisition of Chewy to solidify their online efforts and PupBox to venture into the subscription craze; to Mars, Inc's (parent company of Mars Petcare) \$7.7B acquisition of VCA, operator of nearly 800 animal hospitals and 60 diagnostic laboratories in the United States and Canada; to Phillips Pet Food & Supplies', a major pet product distributor, acquisition of Pet Flow, another online retail success story. Acquisitions are not only becoming larger but are becoming more and more significant to how products are distributed and sold. These acquisitions, as many are, are done in an effort to strengthen and solidify the future of the acquiring companies as they struggle to keep up with the ever-changing marketplace; while providing the small and midsized players they acquire to exit the game at the end of their cycle.

We are certain that this trend will not only continue, but flourish. We expect to see more and more significant announcements of acquisitions, consolidations, partnerships, investment infusions, private labeling and co-branding agreements in the coming years.

Technology

There is no doubt about it; technology has changed our lives. It's changed how and what information we can gather, it's changed our ability to satisfy our wants and needs and it's changed our ability to communicate and perform a wide variety of daily tasks.

Of greatest concern to the pet industry is the change in how individuals can learn about your company and its products and services, compare product and service pricing, reviews, ingredients and recommendations, and shop; as well as how pet companies manufacture, deliver, market and sell to the pet loving consumer.

Major pet industry players have historically not been well positioned to advance and innovate in the new digital age. Early baby boomers didn't understand tech, later baby boomers had to learn it and how it could help in their lives. However, millennials grew up living with technology and know no different. It is second nature for them to be able to reach out via tech to learn, research, find recommendations and shop for pet products and services anywhere, anytime.

Consequently, those who don't invest and embrace technology as part of their product and service development, delivery and sales will be left behind.

Key Pet Industry Product Trends

Senior Pet Products and Services & Health and Veterinary Care

Just as we as humans have changed the way we think about health, wellness, healthcare and senior care, so have we begun to look differently at the health and care of our pets. In addition, because of advanced in care over the years, pets are living longer than they ever have in history.

Consequently, we see various continuation of trends in the areas of senior pet products and services and health and veterinary care including:

- A continuation of the advancement and availability in veterinary care to closely mirror human healthcare. Everything from the proliferation of MRIs & CTs to stem cell therapies, transplants, stent procedures; and alternative treatments such as massage, acupuncture, chiropractic, herbal treatments and more.
- As the expense of healthcare and veterinary care for pets increases, we will see an increase in
 the use of pet insurance. Humans have become very knowledgeable and adept at understanding
 the insurance marketplace over the past years, therefore we expect to see more consumer
 demand for transparency and clearness in pet insurance offered by various companies, and we
 see this mostly unregulated industry get a push by consumers to be more regulated as time goes
 by.
- With knowledge comes understanding and increased decision making on behalf of the consumer
 and the healthcare provider. Consequently, we will see an increase in the tools utilized by pet
 lovers and healthcare providers to help better understand and monitor pet's health and activity
 with the goal of heading off illness. Some technology monitoring and testing services and
 devices are on the market but aren't yet fully developed in the way we see this trend going.
- With this healthcare growth, comes complicated and difficult to understand healthcare issues
 for pet parents; consequently, we wouldn't be surprised if we see the beginning growth of
 health care and information management practitioners for pets added to practices and as
 independent consultants.
- We also see increased services pertaining to the aging pet population including in-home hospice services and out-of-home senior care, as consumers look for services to care for their senior and ailing pets.
- Seeking to provide the happiest, healthiest life possible we see consumer demand for targeted senior related pet products and services to address specific conditions relating to aging, i.e., joint comfort, weight management, mental and brain acuity, constipation, phobias and more.

Health, Clean, USA still reigns

Baby Boomers, since the big pet food recall of 2007, have learned a lot about high quality, real, clean, healthy, safe, organic and Made in the USA pet products. And, studies have shown that millennials are consumers that care about the quality of products for themselves and their pets. The Internet has provided a wealth of educational information and friend/family recommendations to help consumers discover the best way to care for their pets. Everything from pet food, treats, toys, gear, healthcare, grooming, day care and more will be under scrutiny by the pet loving consumers.

Therefore, we believe that, as we've seen over the past few years and increased demand for healthier options for their pets. From pet food and treats, to supplements, toys, gear and more....Made in the US, organic, safe, eco-friendly, green, non-GMO, will be in demand. In addition, those with increased transparency in ingredients and processes in manufacturing and in the service of pets will have advantages over those companies who don't readily disclose.



Foods, treats, supplements

According to <u>Packaged Facts recent report</u>, "Pet Food in the U.S., 13th Edition," overall pet food sales increased almost 6 percent and topped \$26 billion in 2017. And the market is forecast to continue a respectable growth trajectory annually through 2022.

As home delivery of foods for preparation services (i.e., Blue Apron, Hello Fresh) are becoming popular among the human population, we expect to see an increase in these types of services available for pets. Whether these services prepare meals specific to the needs of your pet or prepare and send ingredients that consumers prepare, home delivery will be an increased option for consumers.

Allergies and specific conditions have arisen for pets over the past years, consequently we see a continuation of the trend of limited food and treat ingredients, novel proteins, single proteins, and added supplemental ingredients to target specific conditions (i.e., joint care, calming, heart health, mental acuity, etc.).

In addition, the types of foods that we feed our pets has developed over the years and we see a continuation of these developments to not only include kibble, but raw, freeze dried, pre-prepared, homemade, supplemented and more.

With increased age, baby boomers have taken to supplements to improve their health and target specific conditions. We see this trend continuing and growing with the pet supplement market to closely mirror what has occurred in the supplement/vitamin market for humans.

What does all this mean? The takeaway...

As a pet product and service company you need to still market heavily to baby boomers yet make a concerted effort to market to younger generations, i.e., millennials if you haven't been doing so. You will need to 'up your game' in the areas of quality, pricing, delivery and branding to stand out among the masses.

With the proliferation of pet products and services that are currently and upcoming in the market, consumers are now in the driver's seat, changing what and how companies offer and how they market their products and services. This also means you need to:

- Realize the shift that the customer experience now reigns supreme. Pet loving consumers increasingly have an extreme number of choices when looking for products and services for their pets. It's up to you as a pet business owner to create an outstanding and enticing customer experience that resonates with the new pet loving consumer. That means...being available anywhere, anytime; having product/service information, reviews and answers completely transparent and available on and at all outlets, checking your pricing strategies over multiple channels, and being more flexible and responsive.
- This new 'customer experience' also extends throughout the supply chain from manufacturer to distributor to broker to retailer to consumer.



- The new pet loving consumer will demand high service, responsiveness, stellar customer service, full disclosure, strong ethical marketing, truth in advertising and want to be reached in a variety of ways through presumer marketing, demographic marketing, testimonial marketing, location-based marketing, free, open communications, on a more personal level and in a very prolific way.
- Be much more creative in reaching these new segments, while still satisfying their marketing 'speak' to the baby boomers.

Think of your product and service as part of the lifestyle of the pet loving family. Having their pet thrive, not just survive is key for the pet product and service power purchaser. This means:

- Providing only healthy, clean, green pet products and services to your prospective and current customers. Look at sustainable practices as a motivator for younger generation purchasers.
- Finding your niche and staying true to that niche.
- Expanding your offerings to further solidify the relationship you have with your pet loving customers.
- Broaden the availability of your products and services through multiple channels and distribution, partnerships, (perhaps) private labeling, licensing, co-branding and more.

Manufacturers, retailers, distributors, service providers and everyone involved in the supply chain for pet products and services must stay with the times, they must stay on top of upcoming trends and they must evolve, change and be nimble to satisfy the changing wants and needs of the consumer.

Pet businesses that move and act to change with the times and align their businesses, products and services to the current and future wants and needs of the new pet loving consumer will be much more successful in the short and long term, and better position themselves to evolve and become a respected leader in their market.

Watch for our upcoming article on the Top Pet Industry Marketing Trends for 2018.



Leslie May, founder of Pawsible Marketing, is a 35-year marketing veteran, with over 10 years in the pet industry. This is her eighth-year investigating and predicting trends within the pet industry. Prior to becoming an independent marketing and branding consultant for the pet industry, May held executive marketing positions with VIFI (an Internet banking company), Wellpoint, Anthem, Macmillan Publishing and more. With branding as her passion, May has been featured in Entrepreneur Magazine's "10 Branding Successes (and How They Did It)," listed as one of Entrepreneur Magazine's 100 Brilliant Ideas, and featured along with Oprah, Martha Stewart, Lillian Vernon and more in the book 'Entrepreneurial Women: New Management and Leadership Models.'. May is frequently sought after for her thoughts and knowledge relating to the pet industry and has appeared in articles in Adweek, Progressive Grocer, Newsweek, Huffington Post, Daily Beast, Fox Business and more. She now lives in a

cabin in the mountains of North Georgia with two dog agility obsessed herding dogs and a dog loving senior cat. Learn more about May and her company by visiting the Pawsible Marketing website and blog.



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Sources:

Insurance Information Institute
American Pet Products Association
Goldman Sachs
Pew Research
Business Insider
US Census Bureau

