



# Pet Channel Themes

*Important disclosures can be found in Appendix*

August 2023

## (PIC) Pet Channel Themes: Top Takeaways From SuperZoo

SuperZoo was well attended this year from a pet supplier, distributor, and retailer perspective, with traffic and meeting schedules appearing similar to pre-pandemic levels. Our conversations at the show focused on retailer market share trends, 2H23 and 2024 outlooks, supply chain, healthcare, and innovation. In general, 2H23 demand appears to be leaning more cautious with consumers continuing to limit spending in discretionary categories and some incremental trade down into opening price point items/smaller packs in consumables. To offset this, we are seeing more promotional programs as in-stocks continue to recover, and as promotions continue to be taken advantage of by consumers.

In healthcare, the biggest change coming out of the show was Walmart appears to be making more investments into their pet healthcare capabilities. We are hearing of Walmart looking to expand their OTC catalog of healthcare and supplement products in store, as well as closing down their Rx online business (ending Allivet partnership) with rumors of opening a new direct pharmacy in 2024.

The tone on 2024 appears muted, with most categories expecting to be past any inflation-related tailwinds to help drive dollar sales growth. As consumer spending is not expected to rebound significantly (or possibly at all) next year, most suppliers appear focused on featuring value-oriented items. Our work suggests opening price point and lower ASP products, as well as larger pack sizes, will likely continue to outperform mid-tier price points. There is some optimism that a return to near pre-pandemic inventory levels, and a normalized promotional calendar, could drive some demand – however, industry participants appear to be planning 2024 fairly cautiously.

### Sales Trends – Consumables

- Latest channel feedback points to some degree of moderation across the broader pet consumables market, as most suppliers lap price increases from 2022 that helped drive dollar sales growth.
- Additionally, our work noted some incremental step down to small pack sizes and lower price points.
- Overall, sales momentum appeared to slow in July, but still sounds in line with budgets.
- We continue to hear demand across the ultra-premium tier remains intact, with high income households still willing to spend on quality.
- Feedback suggests Consumables are still on track to grow high single to low double digits in 2023.

### Sales Trends – Hardgoods

- Hardgoods sales continued to sound soft and likely trending below prior year levels.
- There appeared to be some optimism around the Prime Day event and competing promotions on other pet retail platforms, however feedback is mixed on sustainability of the recent demand spike.
- Innovation in toys appear to be towards high tech interactive toys, which were the attention of the show (i.e. board games you can play with your dog).

### Sales Trends – Pharmacy/OTC Healthcare

- Feedback was optimistic on pharmacy sales in 3Q driven by feedback of a longer flea and tick season.
- By channel, we are seeing roughly in line to slightly softer than expected in clinic sales, improving and better than expected OTC demand, and very strong alternative Rx channel growth.
- We are seeing manufacturers ramp pharmacy advertising investments to help sustain the flea and tick season and capture sales from softer vet clinic trends.

- Research indicates Walmart is looking to revamp their online pharmacy and is breaking their partnership with Allivet. We are hearing Walmart is looking to set up their own, direct pharmacy, with potentially offering in store pick. We are hearing the new offering is likely to come in 2024 and will have a new name.
- We are hearing Walmart make investments into expanding pet healthcare, supplements and OTC products in the medium term, and believe the change in Rx is likely tied to a larger effort to become more involved in the healthcare category.

## Market Share Trends

- **Feedback on the pet specialty channel appeared more cautious on 2H outlooks**, primarily driven by ongoing market share leakage to Walmart and dollar stores who offer lower price points and value.
- The pet specialty channel is expected to continue to face challenges with **consumers looking to consolidate trips and seek out value at mass/value accounts**.
- **Petco appears likely to see continued sales growth and market share challenges** as consumers don't have as many options to trade down within the core Petco assortment.
- Feedback suggests there was some opportunity for Petco to better communicate the recent round of layoffs across the merchandising organization.

## Pet Retail Rankings

2021	2022	2023	Change vs. Prior Year
PETSMART	Walmart	Walmart	↔
petco	PETSMART	DG FAMILY DOLLAR	↑
target	petco	amazon	↑
Walmart	amazon	chewy	↑
COSTCO WHOLESALE Sams Club BJ's	COSTCO WHOLESALE Sams Club BJ's	COSTCO WHOLESALE Sams Club BJ's	↔
chewy	target	PETSMART	↓
amazon	DG FAMILY DOLLAR	Kroger Albertsons	↑
Kroger Albertsons	chewy	target	↓
DG FAMILY DOLLAR	Kroger Albertsons	petco	↓

Source: Company Websites, CRC Analysis

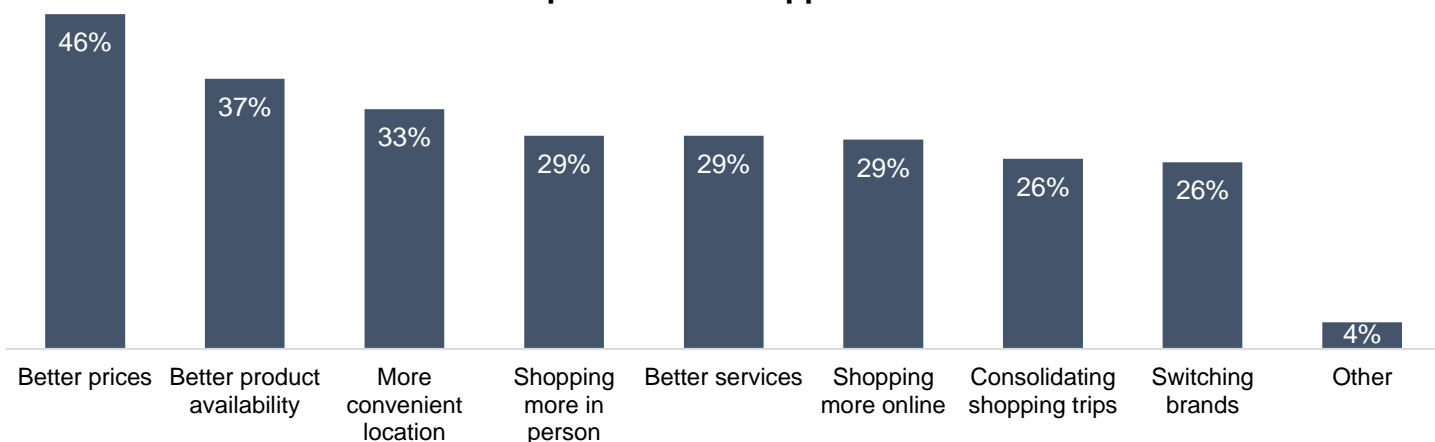
## 2023 Outlooks and Early 2024 Feedback

- **The tone on the back half of 2023 leans cautious**, with consumers likely continuing to limit spending in discretionary categories, looking to trade into opening price point items, smaller pack sizes, and private label products.
- There is some speculation that student loan repayments starting this fall could add some additional pressure to already stretched consumer budgets.
- Hardgoods categories appear to remain especially challenged relative to Consumables, with consumers limiting discretionary purchases.
- Most industry participants are expecting 2024 to remain a soft year in terms of consumer demand, with some uncertainty ahead of the next presidential election adding to the muted spending environment.

## Pricing & Promotions

- Retailers appear to be monitoring what they believe to be key inputs to manufacturers' production processes, and **approaching certain suppliers for cost decreases as certain commodities, freight costs, and labor rates stabilize.**
- **Most in the pet supplier community appear to be planning to ramp promotional activity in 2H** partially as a way to stimulate unit volumes and offset retailer asks for incremental funding (increase trade spending).
- We are also seeing more willingness to invest in digital advertisements by vendors.

### Why are you changing where you are shopping over the next 6 months for pet food and supplies?

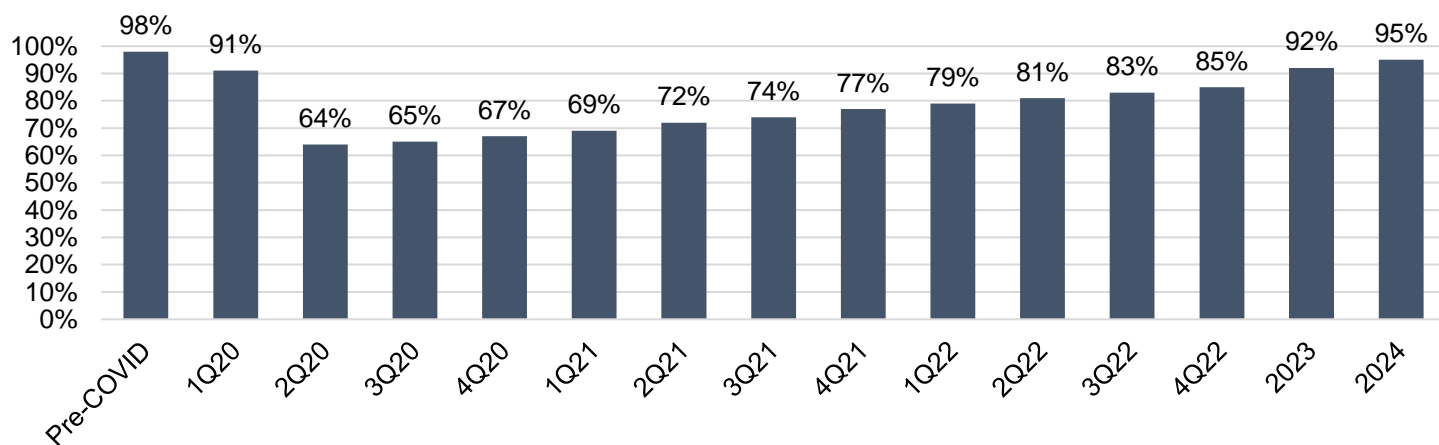


Source: CRC Consumer Survey, April 2023

## Inventory & Supply Chain

- Feedback suggests **most retailers are looking to manage inventory more conservatively going forward**, partially to help reduce elevated carrying costs.
  - Our work also suggests supply chain execution has improved relative to earlier in the year, with fewer capacity constraints leading to more predictable lead times and product flow.
- Feedback suggests both Tractor Supply and Petco has actively reduced OTC inventories.
- It appears in-stocks have continued to recover, however **most believe there are still retailers who appear to be higher priority vs. others and a full recovery is likely still 12+ months away.**

### CRC Estimated In-Stock Recovery Timeline



Source: CRC estimates



## **APPENDIX**

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