

THE FUR BABY BOOM



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The COVID-19 pandemic changed our lives in many ways. Over the last year, we learned to cook, learned to teach, became amateur epidemiologists, and — in many cases — welcomed new, furry family members, making the most of the unexpected time at home.

A recent Oliver Wyman US pet foods survey conducted in September 2020 found a quarter of pet owners reported getting a furry companion over the past six months (post-COVID), with these new pet owners heavily skewed towards the younger Gen Z and millennial cohort, who tend to spend more on pet care and are more digitally focused.

The pandemic has demonstrated that shoppers are highly brand loyal and that pet food is resilient to downturns. Around 70 percent of pet owners say that they do not plan to make any changes to their pets' diet regardless of the economy or their finances, according to the American Pet Product Association COVID-19 study. Furthermore, the pandemic appears to have underscored the focus on health and functional benefits in pet food. "Quality," "Health & Nutrition," and "Ingredients" are the three most important purchasing criteria for premium pet food purchasers, well ahead of price, according to our survey. While in the sales data, we have seen several health and functional-focused growth vectors in limited ingredient diets, raw, freeze-dried, treats, and supplements/calming additives.

As was the case with many other industries, the pet food category saw an accelerated shift to digitization. Prior to the pandemic, many neighborhood pet stores could focus on offline operations, providing services and high levels of in-store interaction. But as consumers shifted to purchasing online, many neighborhood pet stores were forced to close due to short-term cash flow issues. This digital shift accelerated the adoption of sticky online subscription models, with one such service reporting subscription sales up 43 percent year-over-year in its third quarter 2020. Consumer buying habits also vary across channels, with greater price sensitivity seen in the food, drug, and mass (FDM) retail channel, and online channels. (See Exhibit 1.) This suggests brands and retailers will increasingly need to manage pricing and channel conflict.

The "fur baby boom" and changes in shopping behavior in the wake of the pandemic are setting up the pet sector for a period of growth and change. How can pet food brands and retailers position themselves to win?

Exhibit 1: Key purchasing factors for premium pet food consumers

Purchasing factor rank ¹	Average customer rank all brands surveyed ²	PURCHASING CRITERIA BY CHANNEL			
		Online	FDM ³	Pet Specialty	NHP ⁴
1	Quality	Quality	Quality	Quality	Quality
2	Healthy & nutrition	Health & nutrition	Health & nutrition	Health & nutrition	Health & nutrition
3	Ingredients	Ingredients	Price	Ingredients	Ingredients
4	Price	Price	Taste or pet preference	Taste or pet preference	Natural
5	Taste or pet preference	Taste or pet preference	Ingredients	Price	Taste or pet preference
6	Natural	Natural	Natural	Natural	No Byproducts
7	Preferred brand	Preferred brand	Preferred brand	Freshness	Price
8	Freshness	Grain free	Freshness	No Byproducts	Freshness
9	No Byproducts	No Byproducts	On Sale	Preferred brand	Grain free
10	Grain free	Freshness	No Byproducts	Grain free	Variety

Source: Oliver Wyman US Consumer Survey

¹ Order of top purchasing factors defined by a weighted score based on responses, where ranked 1st = 3, ranked 2nd = 2, ranked 3rd = 1

² N=2,537

³ Food, Drug, Mass

⁴ Neighborhood Pet Stores

PET FOOD BRANDS

Consumer acquisition is critical to drive long-term growth, requiring brands to capitalize on moments of new consideration that tend to be few and far between, given the stickiness of the category. We are currently experiencing a boom in key decision-making moments where pet owners are seeking information on what is best for their pet — such as when new parents first get their pet or when they switch from puppy to adult food — providing an opportunity for brands to become trusted partners in pet care, rather than just providers of products. Specifically, retailers and manufacturers should develop their online brand and marketing presence to aid in these critical decisions; they should also target key points of entry, such as breeders, shelters, and vets, through partnerships, targeted promotions, and marketing materials like new owner welcome kits. All these efforts will turn first-time pet parents into long-term customers post-pandemic, given the tendency of pet owners to return to tried and true foods (75 percent of respondents only purchase one brand) and the recurring and consistent nature of purchase (70 percent of respondents purchase on a monthly basis).

In view of the importance of health, ingredients, and quality to consumers, it is also important for brands to focus future innovation on health and functional benefits by fast following trends in human food, as shoppers project their own preferences onto their pets. Some of these new areas include limited ingredient diets, freeze-dried, personalized nutrition, and supplements such as immunity boosters and CBD. Additionally, ingredients and packaging can no longer rely simply on a clean ingredient label, but also must provide reassurance of the ingredients' functional benefits. Brands can also rapidly accelerate innovation inorganically by identifying M&A opportunities, helping to realize economies of scale and gaining leverage to fight the growing tide of subscription services.

In an increasingly omni-channel environment, brands will be challenged to manage complexity and conflicts in their pricing and promotional programs across their online and offline channels where there are different consumer expectations and needs. A holistic channel strategy that manages price-list proliferation, together with a prudent price pack architecture strategy, will help to mitigate these channel conflicts to drive channel harmony.

PET FOOD RETAILERS

Driving to the right product and services will be crucial. Developing a “fast fail” mindset is critical not only to fast follow trends, but also to manage SKU proliferation and complexity. To drive space productivity, retailers must develop the tools and metrics to rapidly test innovative products, identify underperformers, and push innovative products. One aspect of this assortment optimization equation will be the development of private brands, which represents a huge area of opportunity in the pet category, with strong margins and distinctiveness versus competitors.

Retailers will need to evaluate the unique experience they want to provide in store and online versus competitors. Online giants will win out for convenience as well as price, so retailers will need to think about the broader ways in which they can provide value through education, community, services, and entertainment. We believe that developing an integrated service offering and focusing on customer experience over the long term can help to fill a void left by the closure of neighborhood pet stores and will provide a competitive advantage over online-only players.

Pricing and promotions have also been shaken up during COVID, requiring fewer promotions in an already inelastic category. In the future, we believe pet food consumers will be even less price sensitive overall, but will shop in more omni-channel ways. Retailers will need to be vigilant in evaluating and managing a coherent omni-channel strategy, requiring complex analysis to evaluate the net impact of a product price and promotional move to the company as a whole.

Finally, offline retailers will need to review operating costs carefully, given the continued shift to online and bloated operating models due to COVID safety protocols. Transforming the cost base through a zero-based approach to cost and organizational redesign will be imperative in the rapidly changing pet landscape, especially with the shift to online.

2020 may have been a year for the dogs, but 2021 certainly looks bright for the pet sector.

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