

# APPMA Summary: Pet Care Services



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**Packaged Facts**

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**AMERICAN PET PRODUCTS MANUFACTURERS ASSOCIATION  
MARKET SUMMARY**

**PET CARE SERVICES IN THE U.S.**

**JUNE 2006**

This market summary of Packaged Facts' report, *Pet Care Services in the U.S.*, has been prepared exclusively for members of the American Pet Products Manufacturers Association.

Packaged Facts market intelligence reports are specifically designed to aid the action-oriented executive by providing a thorough presentation of essential data and concise analysis. Packaged Facts is a division of MarketResearch.com

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## Introduction

### Scope of Report

This Packaged Facts report examines the U.S. market for pet care services sold to consumers, including veterinary, boarding/daycare, grooming, training, and other (primarily pet sitting, but also including cremation/funerary and travel planning/relocation services). Its focus is on services for dogs and cats, although small animals are occasionally considered in context. Animal breeding and professional large animal and equine services are excluded from this analysis, as are sales occurring within the government, military, and institutional sectors.

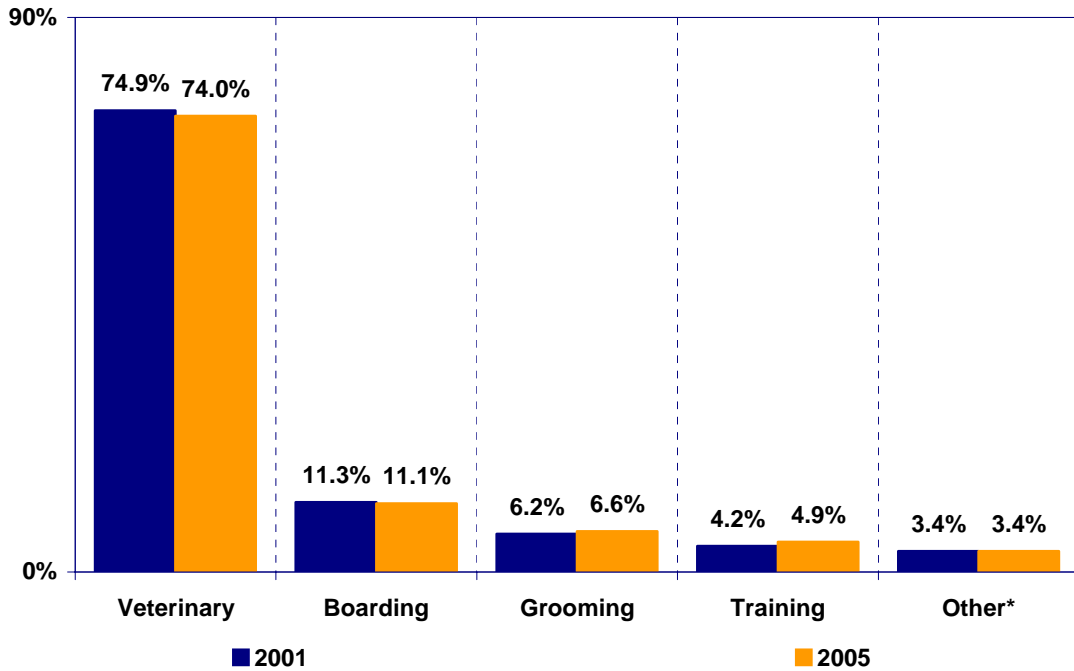
### Category Overlap and Market Quantification

A primary characteristic of this market is a high degree of overlap between the various kinds of service providers. For example, most veterinarians offer boarding and grooming services, though these are often associated with the medical services rendered, such as pre and post surgical boarding, clipping, bathing, etc.; and most boarding kennels also offer pet grooming either as a “complimentary” service (i.e., so the animal will not smell like the kennel when it is picked up by its owner) or as an add-on service. Similarly, some groomers also provide daycare and limited boarding services, as do some pet sitters, who may also offer selected grooming services.

For market quantification purposes, we have therefore developed sales estimates reflecting total revenues for a given channel, regardless of service rendered. That is, our figures for veterinary services include, in addition to medical services and drugs, those ancillary boarding or grooming services that may take place within facilities whose primary business is veterinary care; while our figures for grooming services reflect the total sales of establishments whose primary business is pet grooming, even though some of these revenues (usually a much smaller proportion) may derive from daycare or boarding—and vice versa for boarding kennels, most of which also offer grooming services, as noted above.

## Market Size and Composition

Share of U.S. Pet Care Services Market by Service Type, 2001 vs. 2005 (percent)



\* Includes pet sitting/walking, cremation/funerary, and travel (relocation, planning, etc.).  
 Source: Packaged Facts

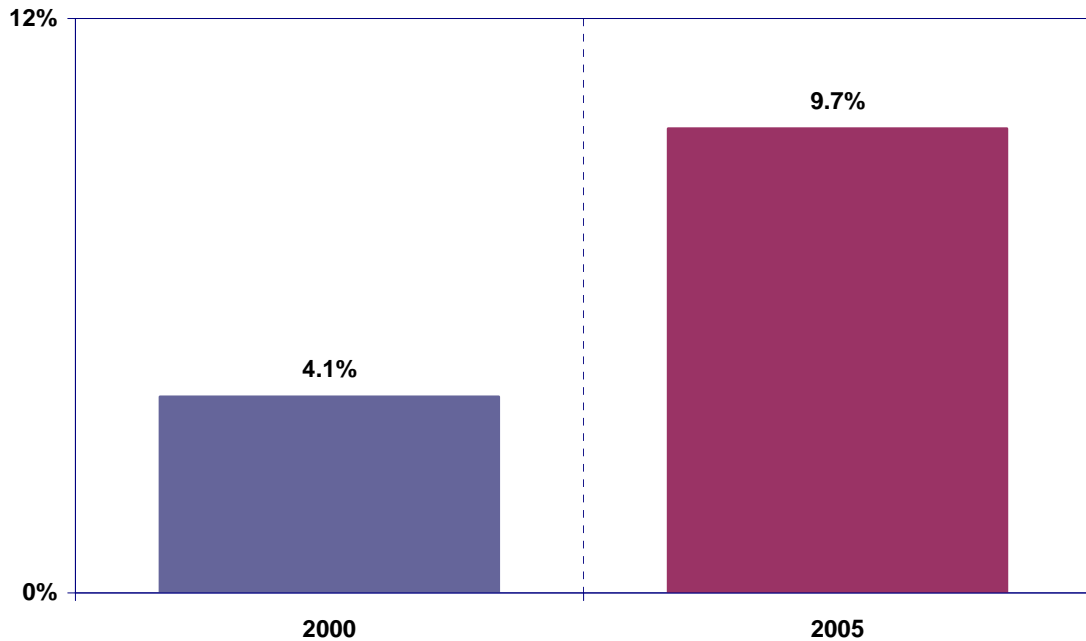
Packaged Facts estimates U.S. sales of pet services at \$18.2 billion in 2005, up 28% from \$14.2 billion in 2001, reflecting a compound annual growth rate (CAGR) of 6.3%. Leading the market in annual growth is the training category, which posted a 10.5% CAGR from 2001 to 2005, followed by the grooming category, at 8%. Veterinary services account for approximately three-quarters (74%) of market revenues, with the grooming and training categories each increasing their share from 2001 to 2005. According to *Pet Product News*' 2005 State of the Industry retailer report, grooming accounts for 54% of pet services sales in pet specialty stores, followed by boarding at 17% and "other" (presumably including training) at 13%.

## Market Outlook

- Pet care services tie into two of the most important trends driving pet-related markets—the “pets as family” (or “humanization”) trend, as well as the related trend dubbed by Packaged Facts as “functional pampering.” That services like grooming and training have tangible health and therapeutic benefits—both physical and emotional, and for both pet and owner—suggests that the sky may be the spending limit for such services.
- For both PetSmart and PETCO, services continue to represent the strongest segment, chalking up steady annual sales gains of over 20% and underpinning both companies’ core strategy of fostering strong relationships with customers by actively promoting pet adoption, “pet parenting,” and lifetime pet care.
- In its 2005 Shopper Preference Study, *Pet Business* reports that the number-one trend of interest among pet store shoppers—cited by 83%—is “more services offered in pet stores.”
- Household spending on veterinary care is rising due to increasing costs, the expanding array of more sophisticated “human-style” treatment options, the rising number of senior pets and those experiencing obesity-related illnesses, and the willingness of pet owners to spend heavily on health-related products and services.
- The great American time crunch is driving growth in a relatively new niche: pet daycare. Although most daycare still takes place in traditional boarding kennels, this is one of the fastest growth add-ons in other areas of the market as well.
- Similarly, a key marketing pitch for pet service providers involves the time and headaches they are able to save on-the-go pet owners, which is the main reason centrally located one-stop service providers are doing well.
- There is a steady movement toward bringing more pet care services into consumers’ homes, with more veterinarians making house calls, more groomers showing up in mobile grooming vans, more trainers conducting private classes chez pup, and a growing army of pet sitters saving pet owners a trip to the daycare center or boarding kennel.

## Competitive Trends

**PetSmart/PETCO Share of Total Grooming/Boarding/Training Market, 2000 vs. 2005 (percent)**



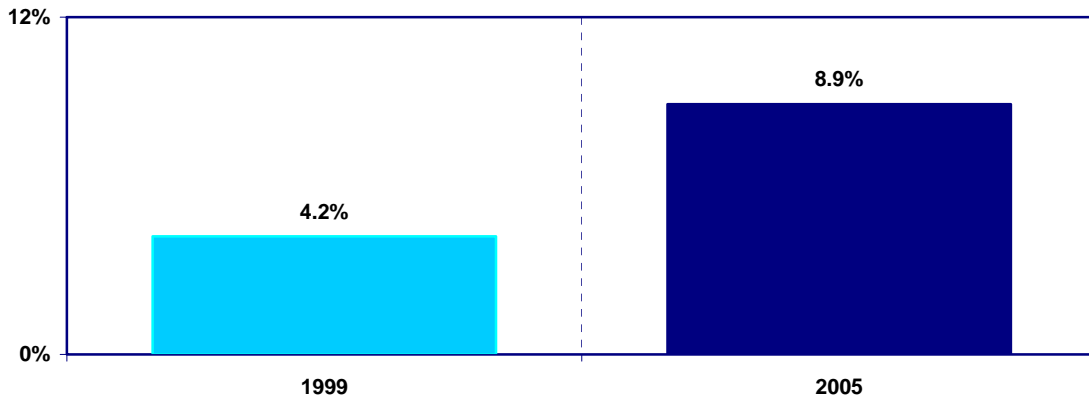
Source: Packaged Facts

The pet care services business is still a mostly local or regional one, characterized by a high degree of fragmentation among thousands of loosely knit providers who are overwhelmingly single-outlet operators. However, it has begun to consolidate in two main areas, veterinary and retail. On the veterinary side, the market is now controlled by two national players, VCA Antech and Banfield, the latter of whose clinics are in PetSmart stores. Behind most of the veterinary consolidation is VCA Antech, which acquired the Pet's Choice chain of animal hospitals in July 2005, and the National PetCare Centers chain in June 2004. Meanwhile, both PetSmart and PETCO continue to pursue pet care services as a primary growth avenue; combined sales of pet services by these two chains grew by a compound annual growth rate of 28.0% from 2000 to 2005, from \$116 million to almost \$400 million, such that they accounted for 9.7% of grooming/boarding/training sales in 2005.

## Competitor Profile: PetSmart, Inc.

PetSmart, Inc., headquartered in Phoenix, Arizona, is the world's largest specialty retailer of pet food, supplies, and services, with approximately 750 stores in the United States and Canada. From 1999 to 2005, pet services more than doubled as a share of PetSmart's total sales, with the company employing approximately 1,500 accredited trainers and 6,600 pet stylists (groomers), in addition to its more than 32,000 sales associates. During this period, the company's pet services sales (excluding Banfield-administered veterinary services) rose from \$76 million to \$299 million, reflecting a compound annual growth rate of 25.6%, compared with an 11% CAGR for company sales overall, which rose from \$1.8 billion to \$3.4 billion.

### PetSmart: Pet Care Service Sales as a Share of Total Sales, 1999 vs. 2005 (percent)



Note: Figures do not include sales of Banfield veterinary services.  
Source: Packaged Facts

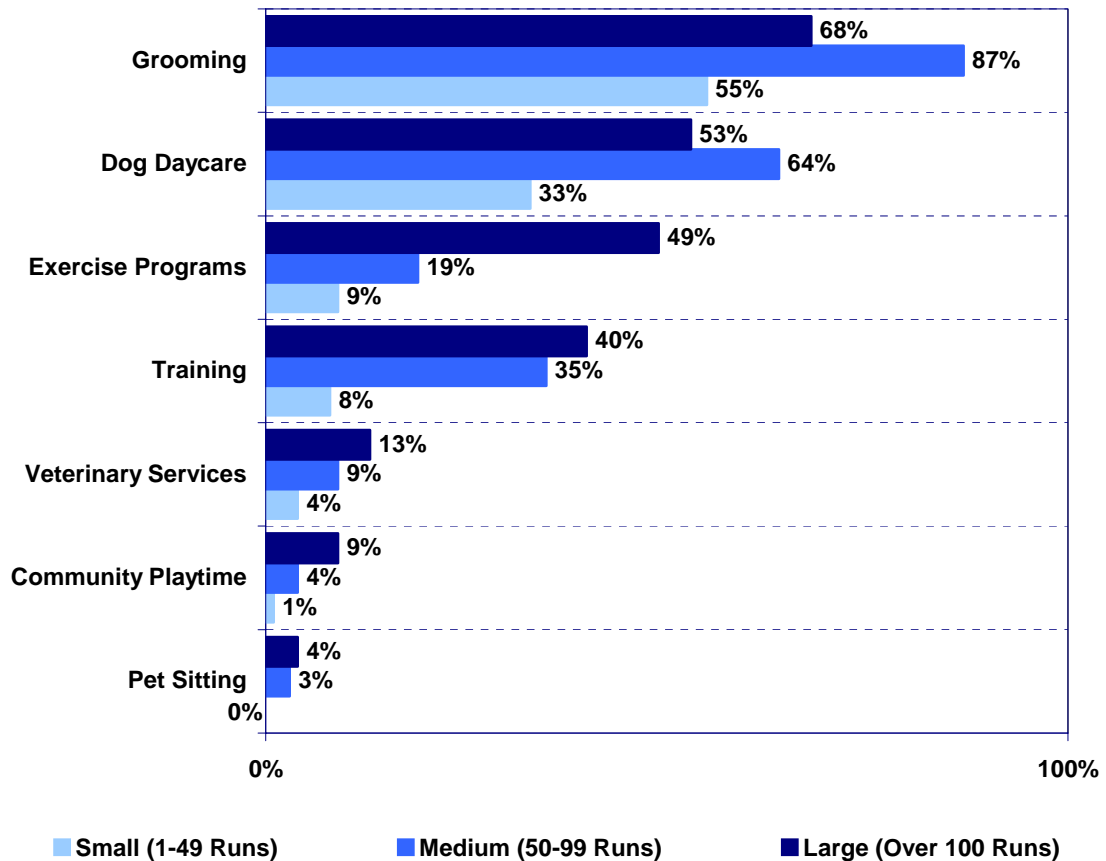
During 2000, PetSmart began to shift its retail orientation toward higher-demand, higher-margin products and services targeting the “pet enthusiast” customer, which the company describes as “passionately committed” to his or her pets, as valuing services and premium products, and as brand loyal and insensitive to price. The company's plan is to provide “cradle-to-grave” services that create an emotional bond between PetSmart and its customers and to position the retailer as “the authority in total lifetime pet care.”

After operating as PETsMART for nearly two decades, during September 2005 PetSmart launched a national print and television campaign spotlighting a change to its logo designed to shift consumer attention from “MART” to “Smart.” In the TV commercials, PetSmart features its training services and tells viewers it's “the best place to find exactly what great pet parents need,” while print ads show pet parents playing with their dogs.

## Service Trends

Although the one-stop trend in pet care services is perhaps most apparent in boarding (with many kennels now billing themselves as full-service pet care centers) and retail (via PetSmart and PETCO), this trend also extends into the veterinary category. In many cases this is not that big of a leap, since most clinics have traditionally offered at least limited groom and board, and the shift to full-service pet care is becoming an increasingly important competitive strategy for independent veterinarians facing off against national chains.

**Common Add-On Services Offered by Boarding Facilities by Kennel Size, 2005 (percent)**



Source: American Boarding Kennels Association Pet Care Services Industry Statistics 2005

The trend toward one-stop pet care is also going strong in the boarding industry as more kennels add services beyond basic boarding; for example, the ABKA reports that 87% of

medium kennels offer grooming and 68% of large kennels do. Add-on services are an important way in which kennel operators can compete with other one-stops as well as independent veterinarians and grooming salons that offer boarding and daycare services. Moreover, because they are zoned to accommodate large numbers of animals, kennels often have an edge over other kinds of pet service providers when it comes to the range of services and the volume of animals cared for. One of the strongest indicators of this ongoing shift is the repositioning of the ABKA as “Your Source for All Pet Care Services.”

Of the many possible add-on services for groomers to consider, daycare may have the most potential, since in most areas daycare does not face the same kind of zoning restrictions as overnight boarding. Also, the one-stop trend in this market and the expansion of PetSmart and PETCO are leading a growing number of independent groomers to take the plunge into retail or extend their current offerings, another attractant being strong grooming product sales on the retail side of the market. Packaged Facts estimates U.S. retail sales of pet grooming and spa products through retail channels at \$175 million in 2005, with sales forecast to grow 33% by 2009 to reach \$232 million.

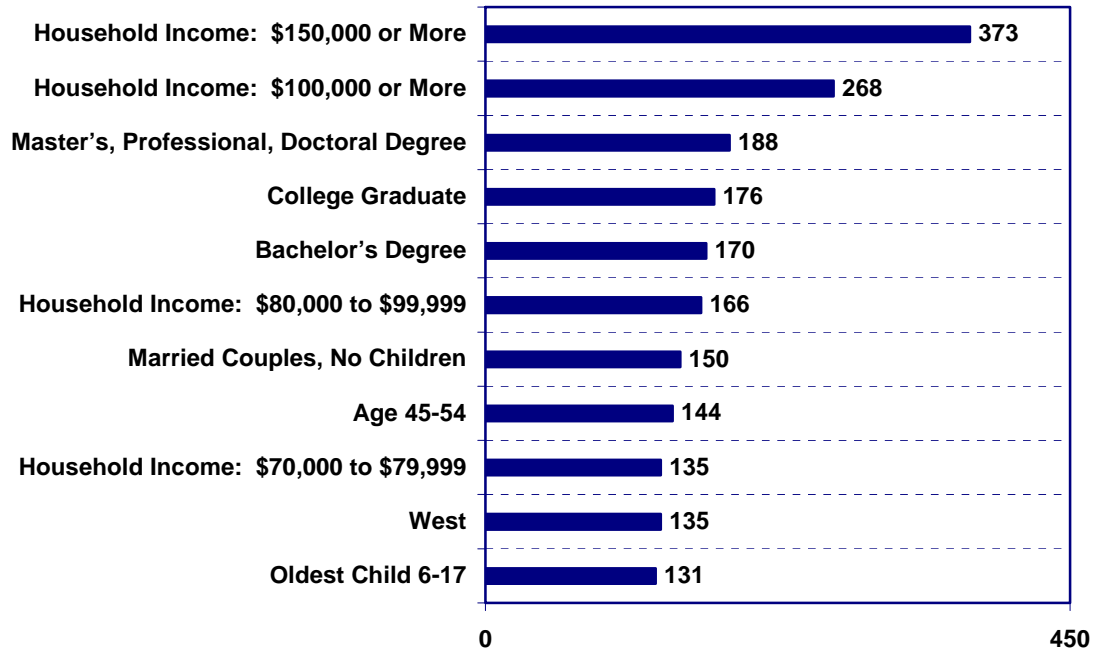
As on the boarding side of the business, and often overlapping with it, a number of chains are emerging as national forces in pet training. Once again, PetSmart and PETCO are at the forefront of this trend, but they are not the only ones with national aspirations. Dog training specialist Bark Busters ([www.barkbusters.com](http://www.barkbusters.com)), which was founded in Australia in 1989 and entered the U.S. market in 2000, bills itself as the world’s largest, most trusted dog training company, with 182 franchised offices in 38 states and more than 280 offices in eight countries.

Similarly, in June 2003 DoggieDay, Inc., a Boston-based organization offering home pet care services to its members, announced the formation of the DoggieDay Franchise Corporation to expand its operations nationwide. In addition to the DoggieDay home-based service, the DoggieDay branded concept also includes DoggieDay PlayCenter (daycare for dogs), The Pet Shop Girls (a neighborhood pet store concept), and Poochies Spa and Boutique (a day spa and boutique for pets).

## Consumer Trends

According to Bureau of Labor Statistics integrated Consumer Expenditure Survey (CES) pre-publication tables for 2004, average household spending on veterinary services increased by 65% from 1994 to 2004, from \$47.56 to \$78.38. Indexed household expenditure data from the 2004 CES survey yield a demographic profile for users of veterinary services that is clearly upscale in terms of both income and education. This profile also underscores the growing clout in this market of aging baby boomers and households without kids.

### Selected High-Index Demographics for Spending on Pet Care Services, 2004 (U.S. Households)

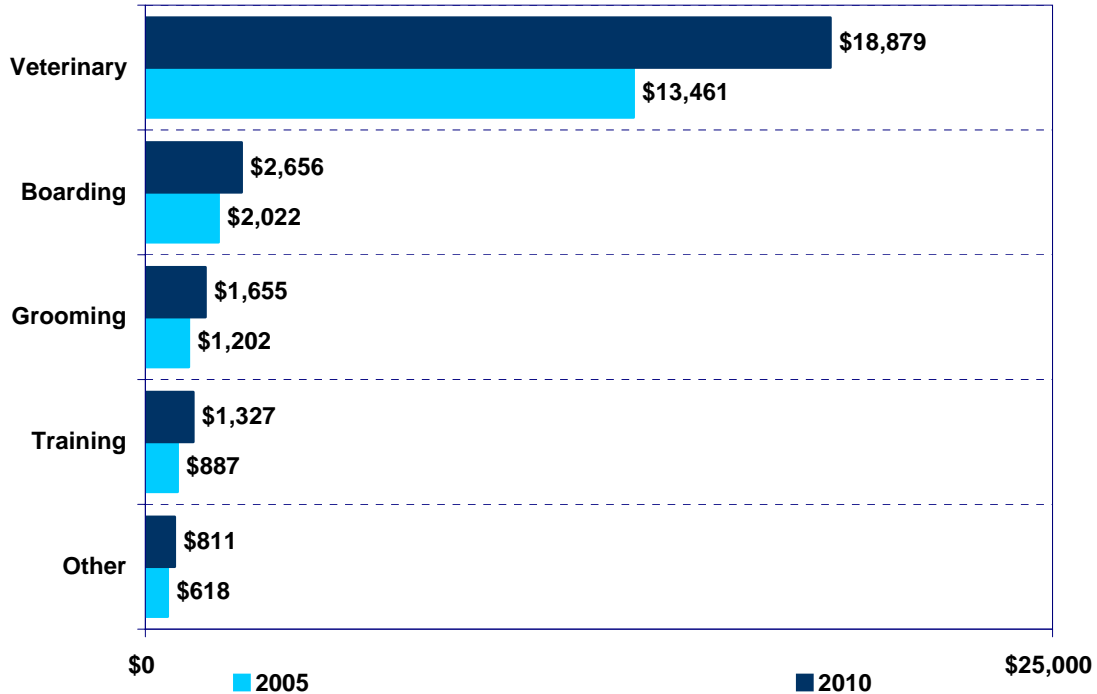


\* Read as follows: U.S. households with an income of \$150,000 or more spent 273% more than the U.S. average of \$25.07 on pet care services other than veterinary in 2004, with an index of 100 representing the average.  
 Source: U.S. Bureau of Labor Statistics, 2004 Consumer Expenditure Survey (pre-publication tables); Packaged Facts

Average annual household spending on pet care services other than veterinary increased 61% from 1994 to 2004, from \$15.53 to \$25.07. The demographic profile for users of pet care services resembles that described above for veterinary services in that these households skew upscale by income and education. For example, U.S. households with an income of \$50,000 or more spent significantly more than the \$25.07 average on pet care services in 2004, with those at the highest level of \$150,000 or more spending 273% more.

## Looking Ahead

**Projected U.S. Pet Care Services Market Revenues by Category, 2005-2010**  
(in millions of dollars)



Note: Revenues from pet services provided through pet specialty product retailers, including PetSmart and PETCO, have been subsumed into their respective categories. "Other" includes pet sitting/walking, cremation/funeralary, and travel (relocation, planning, etc.).

Source: Packaged Facts

Packaged Facts projects that U.S. sales of pet care services will grow at the average annual rate of approximately 7% during the next five years, pushing the market to \$25.3 billion in 2010. A number of trends will continue to alter the market landscape in the short term:

- Higher-cost veterinary care.
- A continued move toward one-stop pet care centers.
- More chain players, with VCA Antech, PetSmart, and PETCO being joined by well-financed "niche upstarts."
- A strong focus on branding.
- A greater emphasis on "convenience care" (e.g., via more flexible pick-up/drop-off).
- Steady growth in doggie daycare.
- More emphasis on at-home pet care services.