

# Pet & Click

Who are the leaders & what are the limits for internet sales of pet food?

**P**etSmart and **Petco** are the big dogs in the pet-products retailing park. Together, their sales accounted for an estimated \$10.2 billion in 2012—roughly a third of the entire U.S. pet product market. Even online, where the playing field is ostensibly leveled, these two companies dominate. A third, **wag.com**, owned by **Amazon**, is nosing its way in but lots of others have come to play, including long-time catalog sellers like **Drs. Foster & Smith**, as well as internet-only pet e-tailers such as **PetFoodDirect.com** and **SitStay.com**. And let's not forget those independent retailers, still able to meet consumers online with an experience reminiscent of that communal, in-store appeal.

“It’s difficult to overemphasize the importance of the internet in the pet market space,” says David Lummis in his report, “Pet Food in the U.S., 10<sup>th</sup> Edition,” released in July by **Packaged Facts**, and the source of the sales figures above. The channel is ideally suited for pet products, a category where consumers are seeking in-depth information, and also value the convenience of having retailers deliver products—which are often quite heavy or cumbersome—to their door.

While internet sales of pet products accounted for only 4% (\$1.3 billion) of the total \$31.5 billion U.S. market for pet products in 2012, Lummis expects online sales of pet products to grow at a 12% compound annual rate through 2015, to \$1.86 billion—approximately triple the growth rate he predicts for overall pet retail in the same period.

In the supplement arena, **NBJ** research puts internet channel sales at \$207 million in 2012 on 12.8% annual growth. Forecasts indicate continued double-digit growth for the channel over the next five years.

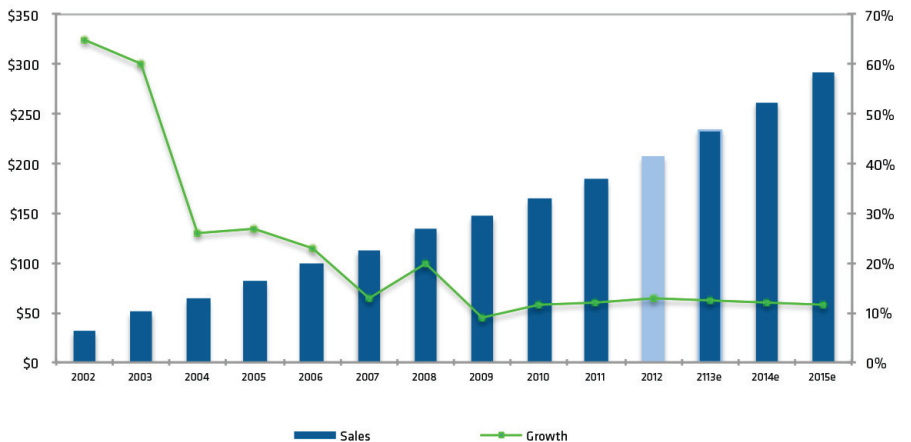
Over the past ten years, internet supplement sales have grown from 5% of the total market to upwards of 12%, placing the internet fourth in line for total market share behind veterinarians, tack & feed stores, and specialty pet store chains. As a point of comparison, that antiquated world of

## \$1.8 BILLION U.S. ANIMAL SUPPLEMENT SALES BY CHANNEL IN 2012

Channel	2012 Sales (\$mil)	Growth
Specialty Pet Store Chains (25+ Stores)	\$250	13%
Specialty Pet Store Independents (25 stores or less)	\$110	8%
Tack/Feed Stores	\$260	5%
Veterinarian/Physician	\$450	4%
Internet	\$210	13%
Mail Order Catalog, Newsletters, etc.	\$160	6%
Direct Response TV, Radio, Media	\$20	2%
Network or Multi-Level Marketing	\$20	2%
Health Food/Natural Retailers	\$150	7%
Natural Pet Retailers (80+ natural/organic animal food/supplements)	\$80	7%
Mass Market Retail (Food/Grocery, Drug, Mass Merchandisers, Club, Convenience)	\$50	2%
<b>Total</b>	<b>\$1,760</b>	<b>7%</b>

Source: Nutrition Business Journal animal nutrition market survey, NASC, SPINS, IRI Group, public company filings and others.

## U.S. ANIMAL SUPPLEMENT SALES & GROWTH IN THE INTERNET CHANNEL: 2002-2015e



Source: Nutrition Business Journal estimates (\$mil., consumer sales)

direct sales via printed media like catalogs and newsletters is growing at half the speed—5.9% in 2012 to reach \$156 million, while direct response TV and radio is even more anemic at 2.3% growth on \$22 million in sales.

According to Packaged Facts, pet owners—and cat owners in particular—are above average in internet use. For example, Lummis states that cat owners are 23% more likely than average and dog owners 15% more likely to agree that “I am doing more shopping on the internet than ever before.” Cat owners are also 10% more likely to agree that, “All things being equal I am more likely to purchase a product online than in a store.”

But will all the spoils go to the retail behemoths, or can the little guys share in the treats? In the bricks-and-mortar world, independent retailers thrive amid their outsized competitors by offering superior customer service and a personalized touch, but is that possible online, where the Great Danes of retail can offer perks like free shipping, better pricing and boundless inventory?

“I think it’s really tough, honestly, unless they’ve got some sort of exclusive product, maybe a private label,” Lummis says, or perhaps an exclusive service.

On the whole, Lummis isn’t optimistic about the appeal of independents translating broadly online. “I think a huge part of the appeal of independents is the shopping experience. You walk in, you know them, they know you, they’re local, they’re friendly. You just don’t get that online.”

But some beg to differ—at least with the tail end of that statement. One is Marty

Grosjean, co-founder of **Only Natural Pet**, a Boulder, Colorado store that focuses on natural & organic pet products. Grosjean says his company has a devoted local clientele, “but probably 90% of our revenue comes from online sales.” What’s more, he says the store’s year-over-year comparable online sales are up about 6%. Grosjean attributes that success to his ability to duplicate the in-store experience online.

### In the mix

That experience begins with offering the specialty and high-quality products his customers seek—no bone of contention there. The physical store and the online sales channel both offer a curated assortment of products, Grosjean says. “We have a set of standards we use to select products so customers don’t have to worry about it, and don’t have to read labels. It’s sort of like the **Whole Foods** model. You can go to the store and know you won’t be getting inferior products.”

The store also carries more cutting-edge merchandise, he says, explaining that even though supermarkets and giant pet-specialty stores are carrying more natural & organic products, “they’re always three to five years behind the independent markets.” Among those cutting-edge products are raw and frozen foods—a niche the big retailers are unlikely to deliver—as well as herbal and homeopathic treatments.

“A good portion of our online sales come from products that are more obscure—supplements, natural or homeopathic solutions, natural flea and tick remedies—that won’t be on Petco.com, Petsmart.com or

Amazon,” says Grosjean.

The store has also worked with a holistic veterinarian to develop a private label. “We think our own formulas are better than many of the alternatives out there. It’s not meant to be a value line,” he says. “It’s a premium line.”

That’s absolutely the right approach, says Jeff Finkelstein, founder and president of **Customer Paradigm**, an interactive marketing agency, also based in Boulder. “You need to have some kind of angle that differentiates you,” he says, and often product mix is the way to go.

“But if you’re selling the same stuff as everyone else, you need to have a back story. Consumers want to connect with people, not just a company.” For example, he says, if a pet e-tailer’s founder was a dog trainer who found a real need for a specific type of merchandise, it’s important to communicate that story. “That’s something people will be engaged with and excited about, and it builds trust and confidence.”

### At your service

Trust and confidence are often what get people in the door, particularly when that door is an online faceless portal, Finkelstein says—and one of the primary places where Amazon and other big retailers fall short. “

A lot of companies want to hide behind a website without displaying the phone number or a way to contact them,” he says. “Consumers won’t always call you, but having the information available creates a perception that they can, and the confidence

CONTINUED ON PAGE 14

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that if they do have a problem, they don't have to go 15 layers deep to find out where they can interact with someone."

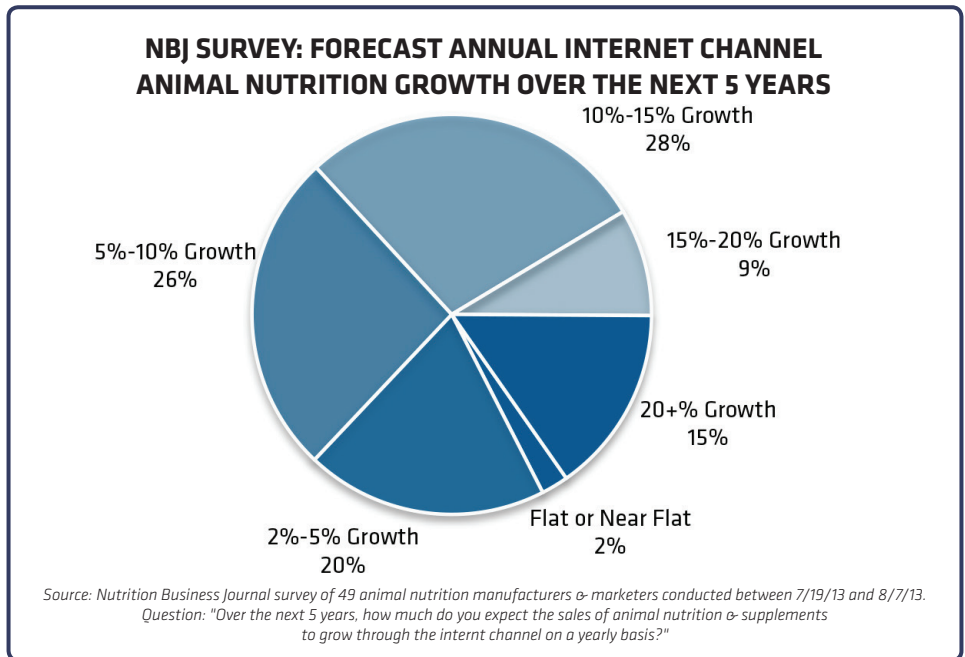
The Only Natural Pet site puts that information in prime real estate at the top of the page, and then goes a step further: It encourages customers to call or email for expert advice. According to Grosjean, "You can pick up the phone and say, 'My dog is scratching. I think he might be allergic. Do you have any food, or is there a supplement I can use, to address that?'"

Customer service can be provided as a push as well as a pull, however. Only Natural Pet uses its email campaign not only to advertise upcoming sales, but also to provide helpful information about pet care. "We're trying to reinforce the fact that we're your trusted advisers and you can find what you need here," Grosjean says.

And when customers do order products, the system recognizes whether they have dogs or cats, and shows them a list of what they've ordered before. "We try to make it easy to reorder your products, and try to emphasize the curated aspect," says Grosjean. Customers who have their pet supplies delivered on a recurring basis through the store's automatic delivery program get a 10% to 15% discount.

Finkelstein says having detailed product descriptions online can also be a key differentiator. "Amazon does a good job of giving basic information," but relies on customer reviews to fill in the details. "It's still a pretty plain Jane anonymous site," he says. "And people crave good quality information about products. If people are shopping for their pet, which is often a stand-in for a child, they want to know all the details about what they're buying. Having a lot of content on the page that's well-written, well-organized and easy to drive down into the details is really a plus."

To that point, Natural Pet's site has an extensive library of articles and videos, browsable by subject. Finkelstein says that kind of rich content—in addition to blogs and strategic use of social media—is criti-



cal in replicating the independent in-store experience. "It says, 'We're the experts. We know the field well and have information and we're putting it out there.' That's going to engage some consumers," he says. "It will also raise the site's profile from a search-ranking perspective."

### Designing your web

While making your content stand out is of primary concern, Finkelstein notes that certain design elements also go a long way toward making your web store feel like a physical store. "Really strong photography is another key area where a small website can outshine most of the big sites. It doesn't have to be expensive, but it should show happy pets and happy owners using the products."

Likewise, video should have a place. If you can't afford to hire a video production person, shoot and edit a video using your laptop, and talk about what you're doing with your store and why. "That kind of thing can be really compelling," and create a sense of your store's personality, he says. "Big retailers can't pay attention to details at the level a small retailer can."

Finally, he recommends that your website load as quickly as possible. "Studies show that a site that loads slowly—maybe 200 milliseconds slower than another—consumers will really prefer the one that's faster. You're talking about 2/10 of a second, or the blink of an eye."

### Come, stay

Lummis says an online presence offers retailers of all sizes additional tools not available in a traditional sales model. Social media enables retailers to create contests, announce in-store specials, promote coupons and solicit valuable customer feedback about specific products as well as about their shopping experience.

And, as Grosjean notes, "It's much more expensive to get a new customer than to retain the ones you have. So we work very hard with our online marketing program—our blog, **Facebook** page, email—to keep our name in front of customers, and to remind them that we have lots of solutions to help them take care of their pets in a holistic way. It's an effective way for us to keep the business growing and keep existing customers engaged and reordering." 🍋