

Reimagining Retail: How pet care is changing in the US and loyalty drivers from pet retailers others can emulate

Audio

On today's episode, in our "Retail Me This, Retail Me That" segment, we discuss how pet care is moving online, the best pet services retailers are offering, and how recession-proof the category is. Then, for "Pop-Up Rankings," we rank the top four loyalty drivers from pet retailers that other businesses can emulate. Join our analyst Sara Lebow as she hosts vice president of content Suzy Davidkhanian and director of Briefings Jeremy Goldman.

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Episode Transcript:

Sara Lebow:

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Hello listeners today is Wednesday, June 14th. Welcome to Behind the Numbers Reimagining Retail and eMarketer podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's episode topic is pet care.

Let's meet today's guests. Joining me for today's episode we have VP of Content for our retail desk, Suzy Davidkhanian. Welcome back, Suzy.

Suzy Davidkhanian:

Hey Sara, thanks for having me.

Sara Lebow:

Thanks for being here. Also here with us is Senior Briefings Director, Jeremy Goldman. Hey Jeremy.

Jeremy Goldman:

Hey Sara, as a pet person I am so excited to be with you today.

Sara Lebow:

I know, I'm upset that your new puppy couldn't make the recording today.

Jeremy Goldman:

We need to change the office rules.

Sara Lebow:

Let's get started with our first segment, news and reviews, where I give the news and our guests tell me their reviews. Today's story is a June 7th story from CNBC titled, "Amazon is pursuing too many ideas and needs to focus on best opportunities, analyst says in letter to Jassy." The open letter states, "Amazon doesn't own its own narrative," and it argues that the company's mixed focus is disrupting initiatives that "only Amazon can do." So Suzy, your review of this story in 60 seconds is.

Suzy Davidkhanian:

So for me, the story was twofold. One, from what I understood, their original way of being was operating like everything was day one, right? So, from the get-go they're always talking about what's next, what's new, keep innovating and at the same time, they were operating on this cash cow model where they had some really, really big margin, strong, bringing in lots of revenue that subsidized and or carried the complete weight of others so they were always trying new things. And now, it looks like obviously post COVID, recession, economic uncertainty, they need to be more careful with where they're spending their money and the whole thing can't lift.

But what I would caution is this sort of thinking through red light, green light, yellow light in that you can't just because something is not ultra successful upon the first year like grocery for example, if you pull the plug immediately, you might really lose out. So, make sure that as a company, you think about your narrative in terms of long-term growth and the money that you've been sinking into some of the businesses so that you don't feel disjointed and that you really are just tweaking and reiterating and not just canceling yourself out.

Sara Lebow:

So, you don't think Amazon should suddenly pull the plug on a bunch of initiatives?

Suzy Davidkhanian:

I think you have to be strategic about what you pull your plug on. If you've tried something for 10 years, then you've made \$0 maybe. But if you've tried something for a year, for example, stores, stores is 85% of sales right now, maybe it's going to get to 80% in the next three years but it's still a bulk of sales and especially in grocery. So, if Amazon continues to double-down on stores and grocery, could it ultimately win? Maybe, there's no reason to believe not. Is it going to win short term? Probably not, there's a lot of competition in that space.

Sara Lebow:

Passing this one off to Jeremy, your review of the story in 60 seconds is.

Jeremy Goldman:

I think that Amazon internally sees that there is some softness in certain parts of their business and because of that, they have to keep going. They have to keep building new sectors and

new potential avenues of monetization. So, I think that is the right strategy. I think the question is, do you want to have 20 major initiatives simultaneously or should you have 17 or 16? There's no necessarily perfect number but if you take the fact that even there's speculation that they're going to have an ad-supported tier for Prime Video, that's something that was reported on last week by the Wall Street Journal and by our own briefings team.

And I think that that's the kind of thing that if you see softness in retail media ad spending, which is still expected to grow in the US almost 20% this year, that's the kind of thing that you have to invest in. You have to try to find new ways to monetize. So, I ultimately I'm actually sticking out for Amazon here.

Sara Lebow:

Yeah.

Suzy Davidkhanian:

I would say one thing it's that for any company, Amazon included, you can't come up with a strategy and continuously change it. You change the tactics but your mission has to remain constant for some time to see if it's working or not. And I think the way this article is written, we're not talking about the overall mission of Amazon and we're just talking about the parts and pieces. And it's okay to change up your parts and pieces as long as you get to where you want to go.

Sara Lebow:

Yeah, I mean, in Jeremy's example of the Prime Video ad tier in particular, I think it's really smart for Amazon, a huge retail media network to invest more in CTV advertising. Now it's time for our next segment, "Retail Me This, Retail Me That" where we discuss an interesting retail topic. Today's topic is the pet care industry. Some 66% of US households, Jeremy's included, own pets, that's according to Forbes Advisor. Do you guys have any guesses on what the most popular pet is in the US?

Jeremy Goldman:

Chinchillas?

Suzy Davidkhanian:

No, it's dogs.

Sara Lebow:

Suzy got it. Jeremy, what are you thinking?

Jeremy Goldman:

I obviously did not think it was actually chinchillas and yes, since you asked I did have two chinchillas while doing my MBA.

Suzy Davidkhanian:

I don't even know what those are.

Sara Lebow:

Oh, they're soft, you can look them up later. Maybe we'll include one in our Instagram post. So, 33% of these pet owners are millennials, that's the biggest cohort followed by Gen X then boomers. During the pandemic pet product sales rapidly moved online for good reason. Right now, about 38% of pet product retail sales are online according to our forecasts. But by the end of 2027, we expect that more than half of pet product sales will take place online. For context there are only three categories we track that will have higher e-commerce sales penetration than pets by 2027. With all of that data in mind, this rapid move online doesn't seem like a pandemic blip but e-commerce growth has slowed. Suzy, can you tell us more about this pivot to online for pets?

Suzy Davidkhanian:

Sure. I think part of it is the base for pets was low, right? So, when you have the low base and people see the value in ordering things online and getting shipped to your house, especially if you think about pets, it's like heavy bags of pet food or cans of cat food. It's the same thing over and over again, it lends itself very well to subscription and or replenishment type items. Basics, not a lot of thought goes into it. I'm not talking about the ancillary things like the toys but least the heavy things. So, it makes sense that people started doing it during the pandemic they didn't have choice and have opted to stay into that.

Another part of it is that there are many, many, many more smaller brands that are coming into the market and are starting with direct to consumer. And this whole notion of pet parents and humanizing the pets and wanting to make sure that your pet has the best food in the best quality of life, ensures that some of these smaller brands can really find their place by doing a

lot of personalization, which I think works much better online. So, definitely not a blip. I think part of the sales that we're seeing is also the increase is also just due to inflation. People are maybe buying less things, but things are just more expensive.

Sara Lebow:

Sure. Jeremy, anything to add there?

Jeremy Goldman:

Yeah, no, I would just say that obviously I agree with everything Suzy said, but I think that it's interesting that you have ultimately very few people who eat the exact same thing every single day. And with a pet, especially once it gets past the puppy or kitten stage, it's possible that you're able to purchase the same exact thing for them for years on end. So, as a result, I've thought a lot about like the customer acquisition cost in this area. If you can keep that customer, it's very, very valuable because there's a chance that maybe they're not going to churn for a while if you do everything right and if you treat them well.

Sara Lebow:

You heard it here first, Jeremy is not cooking different gourmet foods meals for his pets every day. That's definitely a great point about the loyalty though, that's I think a way a lot of these smaller D2Cs like Suzy mentioned, make money is from these loyal return customers. We know Chewy is one of the fastest growing large e-commerce companies in the US growing by 11% this year. Why have D2Cs seen so much success and will they continue to beat the Amazons of the pet industry?

Jeremy Goldman:

This is a tricky one, I think that the answer is yes, they are going to continue to be successful. But at the same time as some of these larger players realize that they have a stagnant growth in a few different categories, they are going to go after these D2Cs. So, part of the reason why there's like a perceived specialization and it's the same reason why there are stores that cater to babies specifically because people want to feel good about their investments in their baby. And the same thing is true about pet care.

You want to represent that you care enough about your pet that you didn't just go to the local CVS, you went to a specialty place that really focuses solely on pets. But then, if you look at some of Amazon's numbers, their growth within the pet care category actually far under

indexes in relation to their growth in a number of other categories. So, what that tells me is that there's definitely an opportunity for players like Amazon to refocus in this area, especially given the fact that they're trying to continually be more of an everything store.

Sara Lebow:

Yeah, pet products only make up 2% of Amazon's e-commerce sales according to our forecast.

Suzy Davidkhanian:

But I do think there's something about digitally native, not direct to consumer but digitally native, which is what some of these brands used to be. And now, they're just employing direct to consumer as a strategy as well as being in stores versus a multi-branded store or online retailer marketplace like Amazon that always started like that. The reason some of these brands have been so successful is because they've carved out a niche that people have come to expect. It's like reduced product assortment, it's easy to find what you're looking for, generally speaking. I mean, you're not the consumer of the goods and you have no idea what the goods are like so you're the purchaser, which is kind of different, it's a bit like Jeremy was saying for baby care.

For pet care you are never going to be the consumer, at least as a baby maybe you remember, maybe not. But as a pet, you don't know what they like or not like, but you feel an emotional connection and so you want to the best you can. And so, that's why I think we're also seeing a lot of these smaller digitally native brands. Who's not seeing, remember what it's called The Farmer Dog-

Sara Lebow:

Farmer's Dog?

Suzy Davidkhanian:

Yes, that's the one. The Farmer Dog.

Sara Lebow:

They had that Super Bowl commercial.

Suzy Davidkhanian:

And it's all over my Instagram. I don't have a dog but it's all over my Instagram feed. So, people, pet parents are going towards these smaller, more niche sort of whether it's sustainable, no grains, I mean, there's all these attributes that they're looking for. And so, that's probably where these companies do better than an Amazon. But all of that still does probably a little bit better than in store in terms of it's so much easier online to look for specific attributes. Just think about how you're shopping for yourself if you're looking for low sodium than it is to go in the store and look it up.

Sara Lebow:

Yeah, I mean, that's a great point that since you don't really need to see or feel the product when it comes to pet food because you're not the consumer, it's really good area for online. I also think those D2Cs that focus on food as opposed to toy of the month are in a lot better shape because your pet needs food every month, does not necessarily need a new toy every month. Although I have a feeling that the pet owners of the world might disagree with me.

Suzy Davidkhanian:

Well, I think some of those toy of the month, I mean, we did hear Chewy last quarter, not this quarter, talking about how they're seeing the impact of inflation and economic uncertainty in some of their business. And it's those fun surprise sort of toy, what is not must have for a pet. But it is interesting to see that there are a lot of these random boxes, and I was reading about how BarkBox, and so even in pets, it's the same thing as in human stuff. They're partnering with brands like SpongeBob and doing boxes and they're partnering with other, like there was a YETI dog bowl, I don't know if you guys saw that. So I think yes, dog toys not a number one priority, especially when times are tough. But at the same time, I think on the backend, these retailers and these brands are thinking about how do you partner with others to try and drum up business?

Sara Lebow:

And that's a huge opportunity for dogs that watch a lot of SpongeBob. Speaking of one of those big retailers, Walmart announced last week, maybe the week before that they'd include pet telehealth in with their Walmart+ subscription. So, Suzy I'll go to you first on this one. Can we expect other retailers to offer similar pet services both online and in stores?

Suzy Davidkhanian:

So, I mean, it's a hard one, right because it's so narrow. I know we said there was a very large percentage of the population that owns a pet, but at the same time it's still a portion of the population. So, you're not going to go to buy the Walmart membership program just for that, right? That's not going to be the driver. But in every other part of retail when we talk about it, you're trying to as a retailer, reduce friction, add value, make things as easy as possible, help your consumer save time and add value whatever that means to them.

So, probably Walmart did some research and they sell a lot of pet food and they have a lot of households that have pets. And so, they thought that would be a nice extra add-on, it's like how Petco has ... I went and bought a toy for my doggy nephew and they have the groomer and then there's an area for the training of the dogs. Then there's an area where the doggy can try out the toy if they want to before they buy it. So, I feel like any retailer needs to think about ancillary services to try and drum up business and be more sticky.

Sara Lebow:

I love the idea of a doggy nephew.

Suzy Davidkhanian:

Oh my God, I love my doggy nephew.

Sara Lebow:

My last question in this top half is about the concept of the pet industry as being recession-proof. I've seen this term that the pet industry is recession-proof all over the place in Forbes, the Guardian, Modern Retail, MarketWatch, but inflation for pet food and services was over 10% in April according to the US Bureau of Labor Statistics. Is pet care really recession-proof? Jeremy, you go first on this one.

Jeremy Goldman:

No and yes, because I'm an analyst and that's what we say. But basically, it is largely recession-proof, it is more recession-proof than a lot of other categories in part because there's data out there that suggests that people are willing to pull back on purchases for themselves before their children. And the same thing is true of their pets, whether or not they should think like that, that's another story. But if you look at actually the inflation, yeah, it's gone up even more than grocery for pet food.

And then, if you also look at the growth of this category, if you look at our own forecast in terms of pet e-commerce numbers over the next few years, what you'll see is that the amount being spent is going to outstrip, realistically speaking the number of pets that are out there. So, what that really tells us is that people will be spending more on the pets that they have already, despite the fact that it's been a relatively inflation-wary populous. So yes, in short, it is relatively recession-proof, it's not entirely, it all depends on the size of the recession.

Sara Lebow:

So, people are spending more money on the same number of pets.

Suzy Davidkhanian:

But I also think people, I mean, it's recession-proof, obviously you can have a pet and return it and you can't not feed your pet but I do wonder if at some point and I'm not pet parent so I don't know, but if at some point when you have to make choices, you maybe trade down to private label, I'm not really sure. Or maybe you buy one less toy than you used to. 'Cause I think the basket sizes are getting smaller because the cost of goods are increasing. And it's not their fault, all of the different components that go into food making, all the commodity things are also more expensive. And so, it's really hard. But there are some things you obviously you can't cut out, food, you got to feed your pet.

Jeremy Goldman:

I would just say to that yes, I think it's something that we should be watching very closely just to see if there is any pullback. But we have at the very least seen with consumer goods, with grocery, we have seen a little bit of consumers trading down. I have not yet found any data about people trading down with respect to their pet food. I'm sure it's definitely happening, it's just a question of to what extent does that actually happen because you can't explain to your pet, "This is why we're feeding you something different and your stomach is turning for a few days as we're switching one food to another." And I think it could be the very blissful ignorance of a pet that works in its favor in this situation.

Sara Lebow:

Okay, let's keep moving. Now it's time for Pop-Up Rankings, where we take a look at specific examples and we rank them. Today we'll be ranking four loyalty drivers from pet retailers that other retailers can emulate. So, these are loyalty drivers that work for pet owners, work for

pets that other retailers should maybe be looking to. Jeremy, why don't you kick us off with the first loyalty driver?

Jeremy Goldman:

Yeah, it's very important to make good use of the real estate that you have right now, especially if you're not known for pet. There are a number of retailers that are somewhat known for pet but they're not a specialty retailer. Target comes to mind, Walmart also and they do, generally speaking, they have the footprint, it's a little bit more difficult to rework your store. But for other retailers, it is important to think about are you using and optimizing your space effectively? There are some retailers that do a really good job of essentially bringing people into store to watch services being given to pets like grooming or classes. And those are generally the specialty retailers. But could that work for a larger retailer that's trying to add some ancillary services and bring in some incremental revenue and maybe some extra foot traffic in the process?

Sara Lebow:

The idea is that you come in and you watch dogs being trained ...

Jeremy Goldman:

People do it.

Sara Lebow:

And then, you spend some money?

Jeremy Goldman:

People do it.

Suzy Davidkhanian:

Or if you're at Walmart, you start bringing in Bark or some other well-known pet food brand to drive traffic and make the life of your existing customer easier 'cause now they don't need to spend money on delivery or they don't need to go to another website and spend an extra 10 minutes. So, like Jeremy's saying, anything that helps make the customer's life easier should end up working.

Sara Lebow:

Okay. So, any sort of combination bringing people into those brick and mortars. Suzy, why don't you give us the next loyalty driver from pet retailers?

Suzy Davidkhanian:

Oh yeah, so it's kind of in the same vein of anything that makes it easier for your customer is going to help drive loyalty. If you as a customer feel understood and you feel like the brand that you're shopping knows you, then you are more likely to keep going to them. And in this instance for pet food, especially subscriptions work or subscription in terms of it just keeps coming to you and you don't have to replenish it because it's there or subscription like the Amazon Subscribe and Save where you're also saving money. So, that's definitely a good way to make it a no-brainer.

Sara Lebow:

I read in Forbes that Chewy said that nearly 75% of their sales came from the company's Autoship program. So, those long-term, you set it up to buy food every month and it sends you that food once a month. I think that's a great automatic driver of loyalty because you would have to opt out, you've already opted in.

Suzy Davidkhanian:

And it's especially important when it's food, right 'cause they also do the Autoship for toys. There's the toy club of the month and that stuff, that's the ones that'll get cut first if you're thinking about your expenses. But yes, anything that you can make super easy for your consumer that they don't have to think about it, it magically appears when they need it, it's kind of like how we talk about my fridge and the water filter just magically appears when I need it when the button goes red in my fridge, that's a win.

Sara Lebow:

Okay Jeremy, give us another loyalty driver from pet retailers that other retailers can emulate.

Jeremy Goldman:

Yeah. So, for those of you who don't know in the last year, I got two kittens and a puppy. And the reason why I got them is because sadly last year, I lost two really old cats and a really old dog. So, this episode is dedicated, I just decided to Puck, Avalon and Clover and Chewy sent us personalized cards as owners when we lost pets and they're all very personalized. I feel bad

for the people doing this, imagine the carpal tunnel, but they're sending these very heartfelt messages that essentially build that loyalty and remind you why you are transacting with a specific retailer because they really, really care about the category and you completely get it and you become so incredibly brand loyal.

And that to me is one of those things which again, can you build that overnight if you're Amazon? Absolutely not. But could you do it over time if you were a different retailer and a non-specialty retailer? I think so. I mean, I think we have hotel chains that are known for fresh cookies, that's not the kind of thing that necessarily became ownable overnight until you started doing it. So, find out what your version of the Chewy heartfelt card could be and you have a good chance of fostering significant loyalty.

Suzy Davidkhanian:

I was at a very cute hotel in Spain and with their turndown service was chocolate and it was amazing. And then, I was at a very nice hotel in Texas where they also had chocolate and it was not as amazing. And so, I think you need to pick the right thing to leave, whether it's cookies or notes or whatever it is so that people have a very positive halo.

Sara Lebow:

Well, it's got to be an honest personalization, right? If I got a note from Amazon after my dog passed away, I'm not sure how I would feel about that. But I have a different emotion toward maybe Chewy so I might feel a little better.

Jeremy Goldman:

And that's why I'll just say I think you can build that over time, it doesn't have to be the exact same thing. And you're right, people do have preconceived notions about these major retailers. But figure out what your thing that's ownable is and then stick with it, it is possible to build that.

Sara Lebow:

Okay, and then closing this out Suzy, what is our last loyalty driver from a pet retailer that others can emulate?

Suzy Davidkhanian:

So, I feel like this is again, own your thing and in everything we talk about really it's like be authentic, know your brand, know your customer, private label. I mean, a lot of these digitally native brands are technically private label, right? They are their own brand vertically integrated brands, which is what private label is. Clearly a driver if you are looking for, we always talk about Good & Gather but there are the Barks, and I don't actually know the private labels in pet foods.

But if your dog loves a certain kind of food and it's someone's unique brand, then you're going to keep going there. You're not going to go and buy Purina or Meow Mix or whatever the other brands are because your dog loves this particular brand. So, make sure that you build a solid private label brand with lots of these attributes and features that pet parents are looking for so that they keep coming to you. And that again, as we're translating it to other areas, it's the same.

Sara Lebow:

I think that wraps it up nicely. On that note, thank you for joining me today, Suzy.

Suzy Davidkhanian:

Thanks so much for having me. I have to be honest, I'm a little bit scared of doggies but I love my doggy nephew and I'm trying to be more open with petting dogs in my elevator.

Sara Lebow:

What's your doggy nephew's name?

Suzy Davidkhanian:

Cooper.

Sara Lebow:

Okay. Cooper?

Suzy Davidkhanian:

Yes, we should put him on Instagram, I'm ready.

Sara Lebow:

All right, we'll put Cooper on Instagram, we'll put Jeremy's three pets on Instagram. We'll put my doggy sibling on Instagram as well, that's Belle. Thank you for being here Jeremy.

Jeremy Goldman:

It's a pleasure as always, thank you so much.

Sara Lebow:

Please give us a rating and review wherever you listen to podcasts and follow us on Instagram @behindthenumbers_podcast. Thank you to our listeners and to Victoria who edits the podcast along with the help of her beautiful dog, Chester. We'll also put Chester on Instagram. Victoria Slacked to me earlier today and said Chester signs autographs so ...

Suzy Davidkhanian:

That's so cute.

Sara Lebow:

Shoot us an email if you want an autograph from Chester, I guess.

Suzy Davidkhanian:

I want one.

Sara Lebow:

We'll be back next Wednesday with another episode of Reimagining Retail and eMarketer podcast. And tomorrow join Marcus for another episode of The Behind the Numbers Daily.