

# The pet supplies category has been resilient. But Petco and Chewy may see challenges ahead.

Article

**The trend:** The pandemic-driven boom in pet adoption has made the pet supplies category fairly resilient even in the face of inflation. But that strength may be waning.

- **Chewy beat expectations as its FY Q4 net sales rose 13.4% year-over-year (YoY) to \$2.71 billion**, outpacing the expected \$2.64 billion. Its adjusted earnings per share of 16 cents significantly exceeded the expected 1 cent.
- **Petco** also performed better than expected. The retailer's **fiscal Q4 sales grew 4.2% YoY** to \$1.58 billion, slightly above the consensus estimate of \$1.57 billion. Its adjusted earnings per share of 23 cents fell just short of the expected 24 cents.

Despite those better-than-expected results, there are signs of trouble ahead. Pet owners have been **hit hard** by rising costs, which Petco says have driven consumers to pull back on **discretionary spending**—a trend the retailer expects to continue for at least a few more quarters.

**A tough environment:** We expect pet supplies sales to grow 7.1% YoY this year, up from 6.1% YoY last year, per our **Pet Products Retail Sales forecast**. But that growth largely reflects rising prices rather than an uptick in volume as pet food prices rose 15.2% YoY in February, **per** the US Labor Department.

- The challenging economic climate has driven “significant growth” in Petco’s **Wholehearted** private label brand, and also caused some shoppers to cut back on discretionary supplies, said CEO **Ron Coughlin** during the company’s earnings call.
- The retailer expects fiscal year 2023 net sales of \$6.15 billion to \$6.28 billion, which would be a gain of 1.8% to 4.0%. That’s well short of the \$6.36 billion guidance that Wall Street analysts had expected. It also expects FY23 adjusted earnings per share to decline between 21 cents and 13 cents.
- Chewy’s guidance of fiscal year 2023 net sales of \$11.1 billion to \$11.3 billion (which would be an increase of 9.9% to 11.9%) is in line with analysts’ expected \$11.1 billion. However, the retailer saw its active customer count decline to 20.41 million from 20.66 million a year ago, which is a warning sign.
- Other retailers are eyeing an opportunity to attract cost-conscious consumers. For example, **Dollar General** earlier this month launched its **rebranded** dog and cat food private label line, **Nature’s Menu**.

**Looking for growth:** Pet supplies purchases are rapidly shifting online. **We expect ecommerce sales to account for 45.7% of all US pet products sales by 2025**. That would be a dramatic shift from ecommerce’s 31.0% share in 2020.

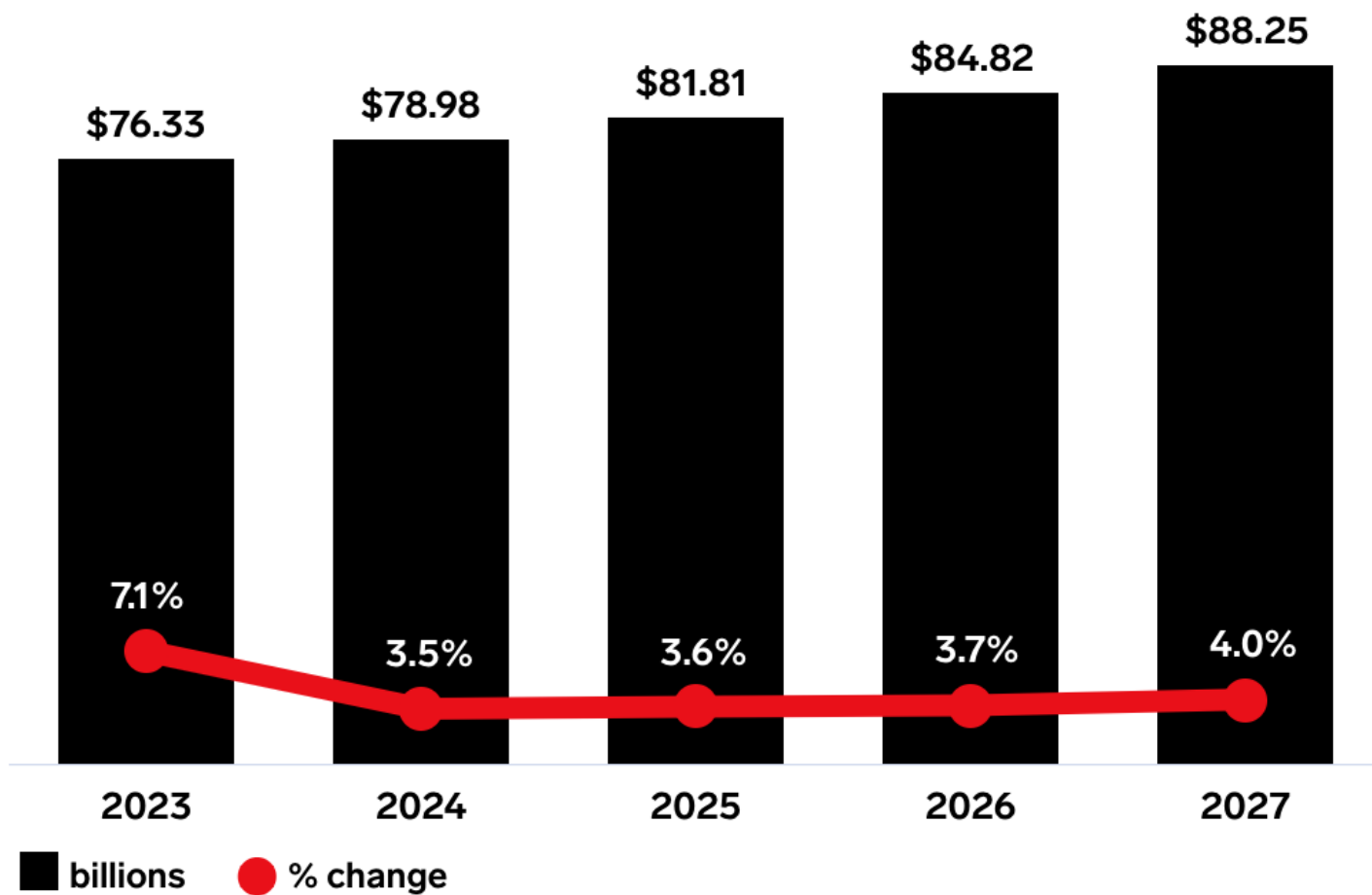
- Chewy has long leaned into consumer desire for convenience by offering subscription programs, which also help boost repeat engagement among customers. The company saw autoship sales jump 17.5% in Q4 as subscription sales accounted for 73.3% of overall sales, up from 70.7% a year earlier.
- Petco is also similarly looking to subscriptions to spur growth. The retailer on Wednesday announced an [exclusive partnership](#) with **Freshpet** to offer a fresh pet food subscription.
- The partnership with Freshpet is one way that Petco is aiming to capture a piece of the fast-growing fresh-frozen pet food category, which it says will reach \$6 billion within the next four years. The retailer, which also offers veterinary care and grooming services, is also looking for new revenue streams by “becoming a services business,” Coughlin [told](#) Yahoo Finance Live.

**The big takeaway:** At the end of the day, pet owners need to feed their pets. But retailers in the category are not immune to headwinds such as inflation.

- That may force retailers such as Petco and Chewy to find more ways to offer consumers value and convenience to avoid losing share.

## Pet Products Retail Sales

US, 2023-2027



Note: excludes travel and event tickets, payments such as bill pay, taxes, or money transfers, restaurant sales, food services and drinking place sales, gambling and other vice goods sales

Source: eMarketer, February 2023

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