

Puppy love: Pet owners will invest in premium products and services as the economy improves

IBISWorld Industry Report 45391 Pet Stores in the US

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About this Industry

Industry Definition

Pet stores sell a variety of pets, including dogs, cats, fish and birds. Stores also sell pet foods and pet supplies, such as collars, leashes, health and beauty aids, shampoos, medication, toys, pet containers, dog kennels and cat furniture. Some stores also offer pet services, such as grooming and training.

Main Activities

The primary activities of this industry are

Retailing pets
Retailing pet food and supplies
Providing pet grooming and boarding services

The major products and services in this industry are

Live animals
Pet food
Pet services
Pet supplies

Similar Industries

54194 Veterinary Services in the US

Operators in this industry provide veterinary services.

81291 Pet Grooming & Boarding in the US

Operators in this industry provide pet grooming and boarding services.

45411a E-Commerce & Online Auctions in the US

Operators in this industry retail pet foods and pet supplies via the internet.

45411b Mail Order in the US

Operators in this industry retail pet foods and pet supplies via mail order or catalogs.

Additional Resources

For additional information on this industry

www.americanpetproducts.org

American Pet Products Association

www.petage.com

Pet Age

www.petbusiness.com

Pet Business

www.humanesociety.org

The Humane Society of the United States

Industry at a Glance

Pet Stores in 2017

Key Statistics Snapshot

Revenue

\$18.7bn

Annual Growth 12-17

2.7%

Annual Growth 17-22

1.8%

Profit

\$784.4m

Wages

\$2.5bn

Businesses

13,453

Market Share

PetSmart Inc.

38.0%

PETCO Animal

Supplies Inc.

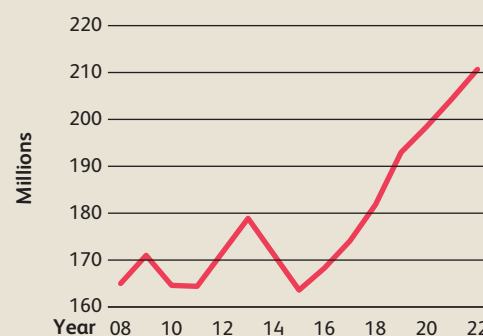
24.5%

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Revenue vs. employment growth

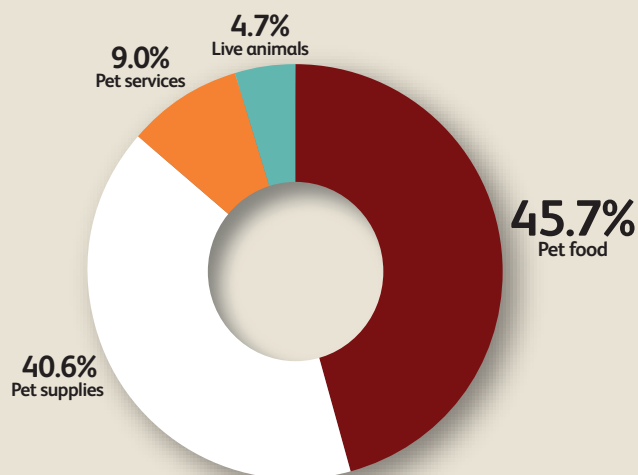


Number of pets (cats and dogs)



SOURCE: WWW.IBISWORLD.COM

Products and services segmentation (2017)



SOURCE: WWW.IBISWORLD.COM

Key External Drivers

Number of pets
(cats and dogs)

Per capita disposable
income

Percentage of services
conducted online

Number of households

p. 4

Industry Structure

Life Cycle Stage

Growth

Revenue Volatility

Low

Capital Intensity

Low

Industry Assistance

None

Concentration Level

Medium

Regulation Level

Medium

Technology Change

Medium

Barriers to Entry

Medium

Industry Globalization

Low

Competition Level

High

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 29

Industry Performance

Executive Summary | Key External Drivers | Current Performance

Industry Outlook | Life Cycle Stage

Executive Summary

The Pet Stores industry purred along over the five years to 2017 as cats, dogs, fish and birds remained popular home companions. Pet parents, or pet owners who treat their four-legged friends as family members, grew increasingly common and facilitated demand for pet stores. Accelerated by economic recovery, the industry expanded strongly during the five-year period, despite increased competition from supermarkets, mass merchandisers and online retailers typically offering consumers greater convenience and competitive pricing.

go beyond traditional grooming, dog walking and training; today, premium services, such as pet therapy sessions, are on the rise. PetSmart Inc.'s PetsHotel offers 24/7 supervision for pets and boosts sales due to its added convenience as a one-stop shop for pet product purchases and services. These positive trends, combined with rising disposable income, are expected to increase profit margins during the period. While new operators are joining the industry, Petco Animal Supplies Inc. and PetSmart account for more than half of industry revenue and steadily increased their respective market shares over the past five years.

The emerging trend of pet parents has bolstered demand for premium pet products and services

Despite mounting external competition, IBISWorld estimates revenue will increase at an annualized rate of 2.7% to \$18.7 billion over the five years to 2017. Continuing its strong growth, revenue is expected to grow 2.3% in 2017 due to rising disposable income.

The emerging trend of pet parents bolstered demand for premium pet products and services. Since pets are treated as family members, pet owners frequently lavish them with all-natural and organic pet foods and treats, as well as high-end services. These pet services

Over the five years to 2022, the Pet Stores industry is projected to maintain strong growth. As the economy continues its upward trajectory and consumers have more discretionary income, revenue from premium products and services is projected to increase. Moreover, the number of pet-owning households is expected to continue rising, yielding greater demand for industry products. For basic pet supplies, however, competition from supermarkets, discount department stores and online-only retailers is expected to accelerate and limit demand. In total, over the five years to 2022, industry revenue is forecast to rise at an annualized rate of 1.8% to \$20.4 billion.

Key External Drivers

Number of pets (cats and dogs)

As households adopt more cats and dogs, demand for industry goods, such as pet foods, medicine and accessories, increases. According to the American Pet Product Association's National Pet Owners Survey, the average dog or cat owner spends between \$200.00 and \$300.00 annually on food for their pet. The number of pets is expected to increase in 2017, representing a potential opportunity for the industry.

Per capita disposable income

Consumers increasingly perceive pets as members of their family, meaning products for pets can be considered nondiscretionary. A decrease in disposable income has little effect on demand because households typically reduce spending on other household and leisure products before cutting down on pet food and toys. A rise in per capita disposable income, however, increases

Industry Performance

Key External Drivers continued

the propensity for households to purchase greater quantities of more expensive goods and premium items. Per capita disposable income is expected to increase in 2017.

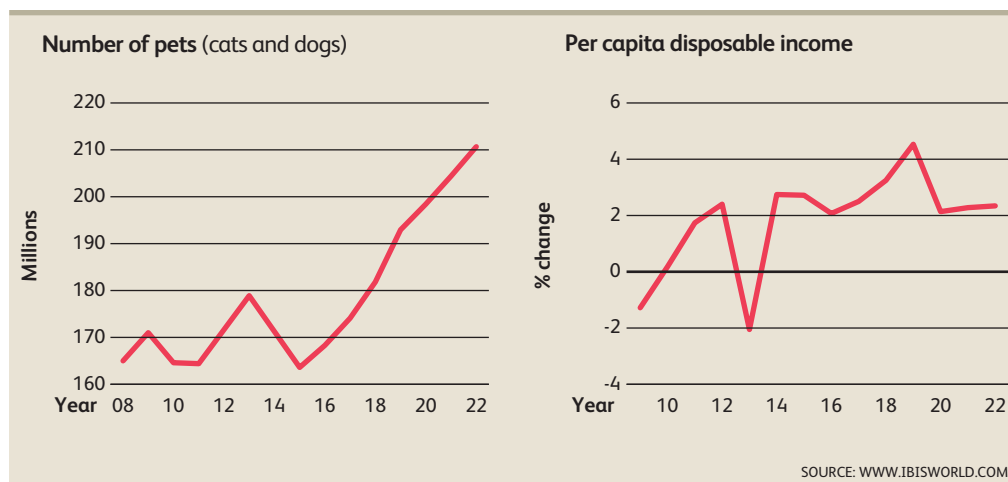
Percentage of services conducted online

Online shopping represents a direct threat to traditional industry retailers. Many online retailers are able to offer products similar to those offered by pet stores, but at lower prices, with wider inventories and the ease of direct home shipping. An increase in the percentage of services conducted online will likely decrease demand for traditional brick-

and-mortar stores, suppressing industry revenue. The percentage of services conducted online is expected to rise in 2017, posing a potential threat to the industry.

Number of households

According to the American Pet Products Association's most recent National Pet Owners Survey, 65.0% of US households own a pet. Consequently, an increase in the number of households will likely increase the number of pet owners in the United States, supporting industry demand. The number of households is expected to increase in 2017.

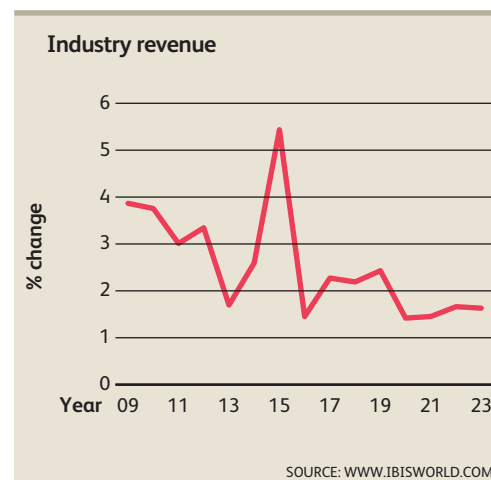


Industry Performance

Current Performance

The Pet Stores industry is anticipated to post strong gains over the five years to 2017 due to the growing number of pet owners who treat their pets like family members. By offering a wider array of innovative, specialized and premium products and services, pet stores cashed in on owners' desires to pamper their pets. In addition, rising pet ownership in the United States led to overall higher demand for pet food and supplies. Consequently, revenue for the Pet Stores industry is expected to increase at an annualized rate of 2.7% to \$18.7 billion over the five years to 2017. Moreover, industry revenue is expected to rise 2.3% in 2017 as higher disposable incomes encourage greater spending on pets.

With strong demand and rising sales, pet store profit margins are expected to grow during the five-year period. Sales of premium pet food, organic products, pet supplies and services particularly drove up profitability because they typically have higher markups. Furthermore, revenue growth outpaced rising



employment and wage hikes, translating to a drop in wages' share of revenue, though wages overall are estimated to increase at an annualized rate of 1.7% over the five years to 2017, totaling \$2.5 billion. Rising price-premium product and service sales, coupled with a slight decline in wage costs, are expected to boost average industry profit margins to 4.2% of total revenue in 2017.

Pets and products

Higher pet ownership and accompanying demand for pet products supported industry growth over the past five years. According to the 2015-2016 National Pet Owners Survey published by the American Pet Products Association (APPA), about 65.0% of US households own a pet, with 42.0% of pet owners owning more than one. Most notably, the millennial generation stands out as a driving force for this industry. The survey highlights that more than 10.0% of pet owners are new pet owners, the majority of which are millennials. Moreover, millennials were also found to spend more than average on pampering pets, supporting industry demand. Over the five years to 2017, the number of pet cats and dogs is projected to rise at an

annualized rate of 0.3%, translating to increased demand for pet supplies.

Operators actively added pet services to capture more of the consumer dollar. According to the APPA's industry spending figures and future outlook, total spending on US pets is expected to increase from \$51.0 billion in 2011 to \$62.8 billion in 2016 (latest data available). Continued emphasis on pet services will be a primary driver for sales. This is particularly important as pet stores opt to differentiate from supermarkets and other retail outlets selling pet food and supplies. As the unemployment rate continues to fall and household disposable income levels rise, consumers will continue to increase spending on discretionary pet services.

Industry Performance

Competition from bigger stores

Pet stores are traditionally small, independently owned operations; more than half of industry operators are nonemployers (stores without paid employees). Even among businesses with employees, most employ fewer than four workers. Due to the predominantly small size of industry operations, external competition from supermarkets and mass merchandisers pressured industry demand. Moreover, small operators within the industry simultaneously experienced heightened competition from big-box specialty stores within the industry; stores such as Petco Animal Supplies Inc. benefit from strong buyer power and shared operational resources through economies of scale. Such competition contributed to overall consolidation of the industry and placed downward price pressures on small specialty stores. As a result, the number of industry operators is expected to lag relative to industry performance, rising a mere annualized 0.4% to 13,453.

In recent years, supermarkets lured customers away from smaller specialty stores, offering the convenience of one-stop shopping. Grocery stores enable consumers to shop for a wide range of household products, including pet supplies, in one location. Time-poor consumers turned to these types of stores to streamline and simplify errands. Meanwhile, mass merchandisers emerged as major retailers of pet products, offering lower prices for frugal consumers. Due to size, stores like Walmart and Costco exert higher buying power and can purchase in bulk from wholesalers. Such cost savings lured

Supermarkets have lured customers away from smaller specialty stores

price-conscious consumers, enabling larger stores to capture higher market share. Moreover, many consumers gravitated online to purchase competitively priced products; e-commerce stores can sell products at lower prices while maintaining profit margins because they do not maintain a retail storefront and, therefore, avoid costly rental rates associated with high-traffic retail space.

High-end goods are primarily sold through specialty pet stores and other niche retailers, providing a degree of guaranteed sales for operators, shielding them from direct competition. This is because manufacturers typically place restrictions on ultra-premium pet products, selling only to specialty pet stores. Such restrictions aided niche retailers targeting high-end markets over the past five years.

Big-box specialty stores, such as PetSmart Inc. and Petco, combine the best of both worlds; these stores offer a broad selection of pet products and operate on a scale large enough to pass cost savings down to consumers. Furthermore, many large stores also provide premium products, a factor augmenting competition for small specialty stores. As a result, big-box stores have posted healthy gains during the five-year period, increasing market share.

Industry Performance

Industry Outlook

The Pet Stores industry will continue fetching a growing share of the consumer dollar over the next five years as pet owners opt to spoil pets. In addition to rising pet ownership, improving economic conditions will boost consumer spending and encourage customers to purchase price-premium pet products and services.

As a result, industry revenue is projected to increase at an annualized rate of 1.8% to \$20.4 billion over the five years to 2022. Despite this growth, the Pet Stores industry will continue combating strong competition from grocery stores, mass merchandisers and a growing number of online-only retailers.

Pet ownership to grow

The number of pets owned by households in the United States is the primary driver of demand for the industry. Since the industry sells pets, including cats, dogs, birds, hamsters and guinea pigs, an increase in pet ownership rates translates to higher revenue for the industry. In addition, a rise in pet ownership will lead to higher demand for discretionary and nondiscretionary products, such as food, treats and toys. To the industry's benefit, demand for pets, especially cats and dogs, is expected to rise over the five years to 2022, driven by three demographics increasingly owning pets: single-person households, millennials and the aging population. IBISWorld projects the number of pet cats and dogs will increase at an annualized rate of 3.9% during the five-year period, contributing to the industry's growing revenue.

Moreover, a rising trend toward higher-margin premium pet products and services is expected to favorably affect profit margins over the next five

A rise in pet ownership will lead to higher demand for discretionary and nondiscretionary products

years. Wages are expected to increase alongside revenue, rising at an annualized rate of 1.8% to \$2.7 billion, assisting the average industry profit margin. Price-based competition from online retailers and supercenters is expected to limit returns, but rising demand and industry consolidation are projected to increase profit. Rising profitability and expanding pet ownership levels will continue attracting new entrants to the industry. The number of companies will continue increasing slowly due to high competition from Petco Animal Supplies Inc. and PetSmart Inc., rising at an annualized rate of 0.9% to 14,075 over the five years to 2022 as industry consolidation stems growth.

Premium products will remain popular

IBISWorld expects natural and organic foods and treats will continue gaining popularity over the five years to 2022, as households continue to view diets as a means of improving pets' overall health. According to the research company Mintel, nutritional value and flavor are two of the top reasons owners cite for choosing pet food, just after price and

value. Natural and organic foods were once a niche segment; however, major food manufacturers, such as Nestle's Purina, Mars's Pedigree and Del Monte Foods all now market natural products sold at major retailers. These high-margin products will be lucrative sources of revenue and profit for pet store operators over the next five years

Industry Performance

Premium products will remain popular continued

With improving economic conditions, demand for specialized pet services is expected to continue rising. Over the past five years, pet services served as primary drivers of growth within the industry, a trend likely to continue as per capita disposable income is expected to grow an

annualized 2.9% over the five years to 2022. With unemployment expected to remain low over the next five years, more consumers will use extra income to pamper pets with services like grooming and boarding. Therefore, revenue is expected to grow 2.2% in 2018.

Changing competition

As disposable income levels increase, customers, namely pet parents, are expected to loosen budgets and splurge on higher-quality items for pets. As a result, consumers will seek options based on factors other than low prices and return to smaller operators that offer premium services at higher prices. Despite favorable conditions, however, competition from supermarkets and mass merchandisers is expected to remain strong for basic pet supplies, such as dry pet food and cat litter. Since these products show little differentiation among brands, consumers will likely continue shopping at large retailers due to discounted prices and increased convenience.

Since much of the industry consists of a high number of smaller stores, niche product marketing will become increasingly important as each operator attempts to set itself apart from other stores. For example,

Competition from supermarkets and mass merchandisers is expected to remain strong

personalized diets for pets are expected to serve as a potential niche market for industry operators, including special food catered to obese animals. Since many pet owners are more concerned with pets' health, the creation of options to improve pet health presents a potential opportunity for industry operators. Several pet food manufacturers identified potential growth in customized food options, taking into consideration pet breeds, life stages, daily activities, amount of time indoors and specific medical conditions.

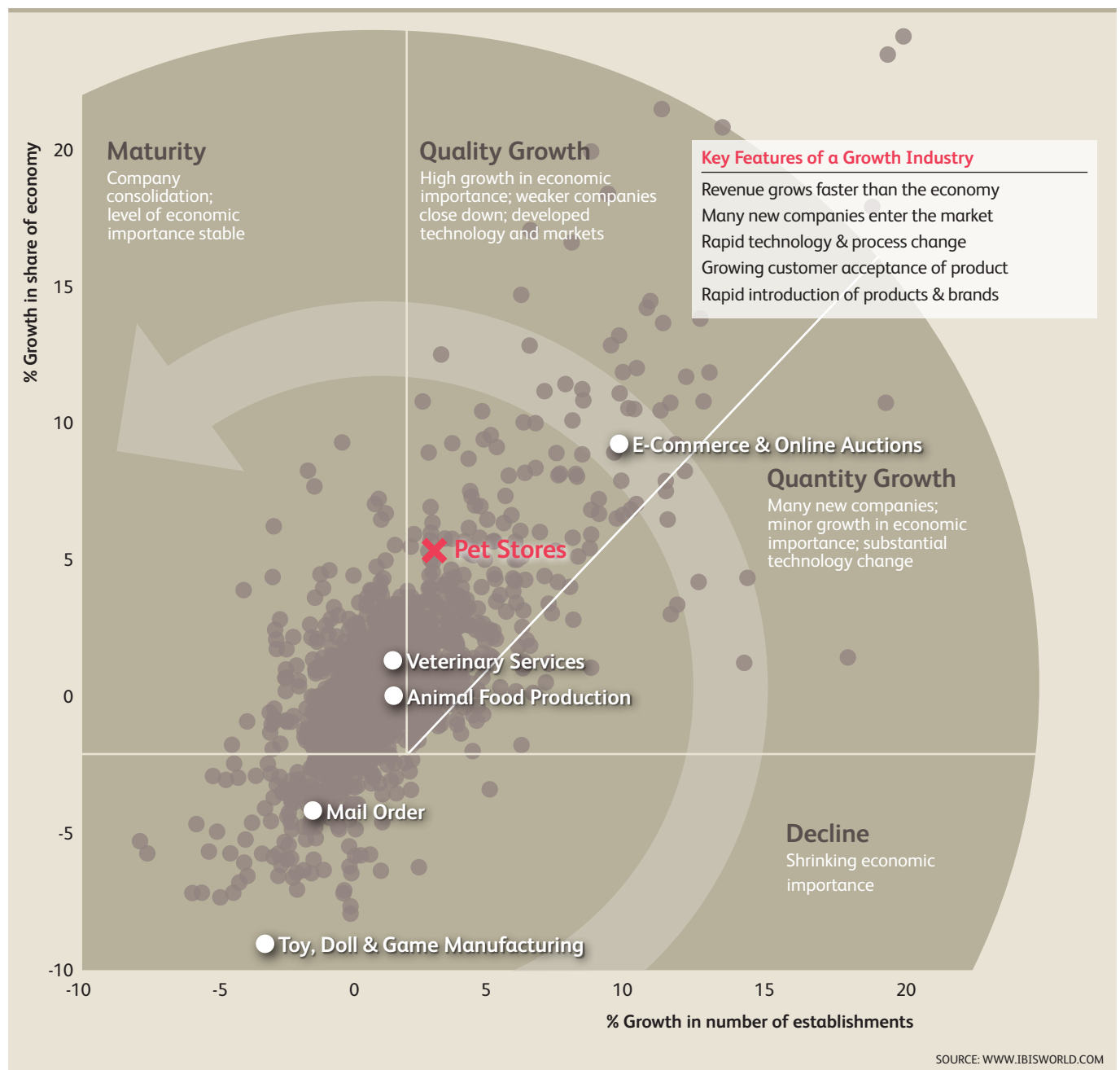
Industry Performance

Life Cycle Stage

The industry's contribution to the economy is expected to grow

Product innovation and services are improving

Pet ownership is continuing to rise steadily, expanding the industry's target market



Industry Performance

Industry Life Cycle

This industry is **Growing**

The Pet Stores industry is in the growth stage of its life cycle. While product introductions and new service offerings are taking place within the industry, such growth is predominantly attributable to changing consumer sentiment toward pet care and expenditure. Industry valued added (IVA), which measures the industry's contribution to the US economy, is expected to increase at an annualized rate of 0.9% over the 10 years to 2022. In comparison, US GDP is projected to grow at an annualized 2.0% during the same period.

Over the five years to 2017, the industry posted strong sales driven by pet owners increasingly humanizing pets. To this point, American Pet Products Association indicated a tipping point was reached in the mid-2000s, prior to the recession, when people began rewarding pets in human terms. Consequently, new products and services emerged in this industry to cater to this trend. For example, an increasing number of pet stores have

started offering premium pet food and treats as well as services such as grooming, training, walking and full-service boarding. Expansion of premium product offerings indicates the industry is still growing.

As an industry made up of retailers specializing in pet supplies, the industry's main threat comes from large general-line retailers such as supermarkets and mass merchandisers and discount retailers such as Walmart stocking a wide variety of products at competitive prices. Online pet store retailers also pose an increasing threat as improved web interfaces and delivery systems make shopping online easier and less costly. Over the long term, both forces threaten industry growth prospects as many specialized retailers will not be able to compete with the economies of scale and extensive distribution networks these retailers command. Specialty pet stores will likely further diversify into services, away from their traditional product lines, to stay competitive.

Products & Markets

Supply Chain | Products & Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

99 Consumers in the US
The Pet Stores industry relies on consumers to purchase pet products and to use industry services.

KEY SELLING INDUSTRIES

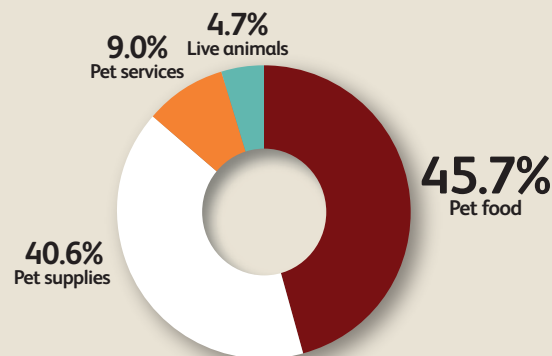
31111 Animal Food Production in the US
This industry supplies pet stores with a vast array of pet food.

33993 Toy, Doll & Game Manufacturing in the US
This industry supplies pet toys and accessories to industry operators.

54194 Veterinary Services in the US
This industry provides veterinary care services such as vaccinations to industry operators.

Products & Services

Products and services segmentation (2017)



Total \$18.7bn

SOURCE: WWW.IBISWORLD.COM

Pet food

Since food is a necessity for all pets, it is not surprising pet foods make up the largest product segment for the industry. This segment covers a wide range of products such as dry and wet food for dogs and cats, bird feed, crickets and worms for reptiles, and other treats and supplements for a number of different household pets. Over the past five years, retailers increasingly provided all-natural and organic food products. These premium pet foods tend to be higher priced with larger markups, a factor benefitting industry revenue. Today, a variety of premium pet foods are available to pets. Examples

include raw diets for dog and cat foods, weight control food for obese animals, specialized formulas for sensitive stomachs, and freshly baked cakes and cookies as treats. This segment endures a high degree of competition, however, from supermarkets and mass merchandisers selling competitively priced pet food products. Consequently, the segment's share of revenue declined slightly over the past five years, accounting for 45.7% of total revenue in 2017.

Pet supplies

Products in this segment include over-the-counter medicines, food bowls,

Products & Markets

Products & Services continued

collars and leashes, pet clothing, brushes and combs, shovels and scoopers, cat litter, cages birds and reptiles, travel carriers and other various accessories for pets. During the five-year period, this segment's share of revenue increased, largely due to rising consumer spending on over-the-counter medicine products, such as flea medicine. This segment accounts for 40.6% of total industry revenue. Spending on pet medicine increased due to soaring costs of pharmaceuticals, as well as higher standards of routine care. Other pet supplies and accessories sold by industry retailers also encounter competition from supermarkets and grocery stores, namely because there are no regulations that limit their sale. To this point, pet supplies are increasingly sold at a variety of retail outlets such as home improvements stores.

Services

Pet services were the fastest-growing product segment for the industry over the past five years, reaching an estimated 9.0% of the total in 2017. Pet

services include full service grooming, haircuts, baths, toenail trimming and tooth brushing. This segment excludes veterinary services. Other services may include activities such as training, boarding and day camps. Greater interest in pet pampering drove much of the rise of this segment. As more pet owners consider their animals as family members, demand for specialty pet services also increased.

Live animal purchases

Live animals are the industry's smallest segment at 4.7% of the total. This product segment is small because a pet is normally a one-off purchase, while products in other segments, such as pet supplies and pet foods, need to be purchased throughout the life of the pet, requiring repetitive spending. Furthermore, major players in the industry only sell small animals and fish, and partner with local pet programs for cat and dog adoptions. Conversely, smaller operations often sell all types of animals: cats, dogs, fish, rabbits, birds, small animals and even reptiles.

Demand Determinants

Demand for pets and pet supplies is affected by the rate of pet ownership, food and supply prices, household income and demographics.

Pet ownership

Pet ownership is a main driver for industry demand by definition, as industry operators are retailers of pets. Thus, as pet ownership increases, the number of pets purchased also rises, leading to higher demand and sales for the industry. In addition, a rise in this number also leads to higher demand for products such as food, treats and toys because these goods are needed every day for the well-being of pets. Pet ownership is on the rise, facilitating industry growth.

Income

Households with higher incomes are able to spend more on discretionary items and services sold at pet stores, leading to higher demand. Over the past five years, pet-owning households with high disposable income were the main customers for luxury and trendy pet products, including premium pet food and designer pet toys. In addition, those with higher incomes tend to travel frequently, so they are more likely to use pet boarding services or purchase products allowing pets to accompany them while traveling.

Demographics and lifestyle

Changes in demographics and lifestyle of households are important determinants

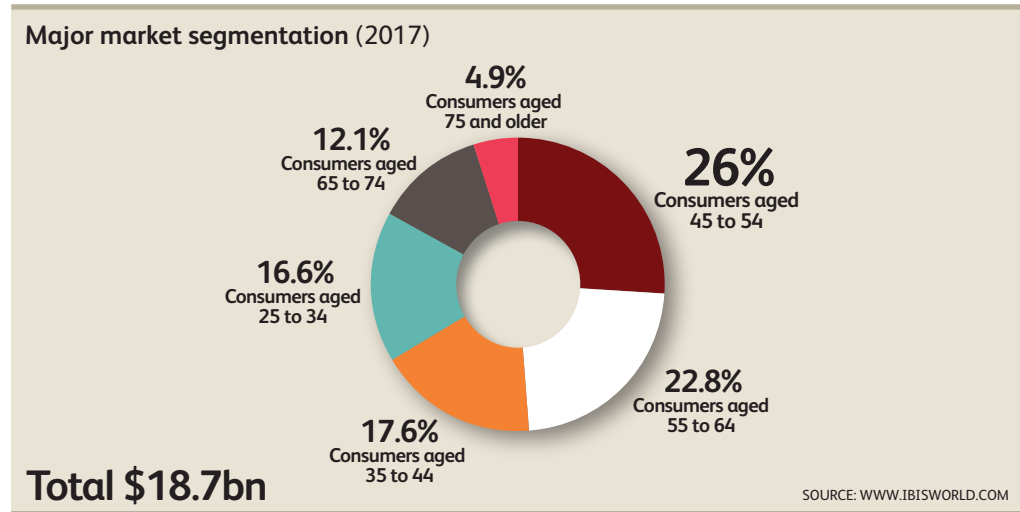
Products & Markets

Demand Determinants continued

of demand. Frequent relocation or longer work hours may reduce a household's willingness to purchase a pet. In addition, households living in apartments are less likely to have pets since many apartments

do not allow pets. The aging population, however, may increase demand for pets, since older demographics often purchase pets for companionship after children and grandchildren leave home.

Major Markets



The largest market for the Pet Stores industry includes consumers between the ages of 45 to 54, who account for an estimated 26.0% of total revenue. A large proportion of this segment can be considered pet enthusiasts, who consider pets family members, according to PetSmart. Consumers in this age group are also likely the sole financial providers of the household, and therefore responsible for household pet expenditures. Furthermore, consumers in this product market are typically established in their careers and have steady income streams, enabling them to spend freely on pet supplies. It has also been suggested that members of this age group look for pet companions to fill the empty space in households after children leave home. Consumers between the ages of 55 and 64 are expected to represent 22.8% of the market; however, this figure is forecast to increase over the next five

years as consumers aged 45 to 54 increasingly enter this age range.

The third-largest market consists of consumers between the ages of 35 to 44, who account for 17.6% of revenue. Consumers in this market typically have families or young children who wish to have family pets. Given how pet companionship can benefit health and behavioral development in young children, consumers in this age group often decide to add a pet to the family. According to the American Pet Products Association, a reported 38.0% of households with children under 18 years old own at least one pet.

Consumers between the ages of 25 and 34 are estimated to account for 16.6% of the market. This demographic group accounts for a lower, but growing, share.

The smallest market is made of consumers over the age of 75 (4.9%). Consumers in these categories have

Products & Markets

Major Markets continued

limited income, decreasing their ability to own or spend on pets. In addition, these two demographics tend to rent apartments or

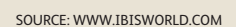
live in retirement homes, and many of these dwellings do not permit pets, hindering the ability of these demographics to own pets.

International Trade

International trade activity is accounted for at the manufacturing level by convention; this domestic retail industry does not technically have imports or exports. Products and supplies in the Pet Stores industry, however, are imported and exported at the manufacturing level, then sold in the domestic market. Precise export and import data on pet

products and supplies is not readily available, as they are categorized into broad segments containing large numbers of non-pet related products. Trends in pet food trade provide some insight into trends regarding overall pet-product trade levels, and are included in the Animal Food Production industry (IBISWorld report 31111).

Business Locations 2017



Products & Markets

Business Locations

Pet stores are primarily located in the Southeast, West, Mid-Atlantic and Great Lakes regions of the United States. Industry locations are based primarily on the number of households in each region, as well as the median income level of households.

Southeast

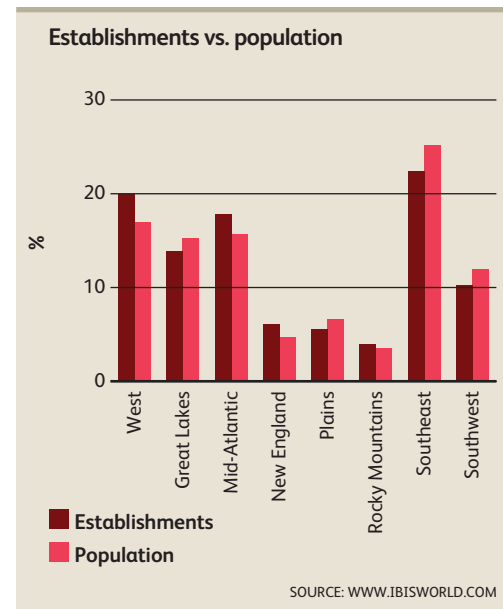
The Southeast holds the highest number of industry establishments; 22.4% of pet stores are estimated to be in the region. The Southeast is the most populated region of the United States with one quarter of the nation's population. Given the higher proportion of households, there is greater demand for industry retailers. Within the Southeast, Florida has the highest number of pet stores at 8.2% of the nation's total.

West

The West has the second-highest proportion of pet stores in the country with an estimated 20.0% of industry stores. California has the highest number of pet stores in the country at 13.5%. The primary reasons for the higher-than-average number of pet stores in the West are population density and income levels. The West has 17.2% of the nation's total population; furthermore, both California and Nevada have higher-than-average median incomes by state.

Mid-Atlantic

The Mid-Atlantic region has an estimated 17.8% of pet stores. The most popular states include New York and Pennsylvania, which account for respective 7.7% and 4.4% of the industry's locations. These states have



some of the highest populations in the United States due to large metropolitan centers. The region also has higher-than-average income levels. Given households within the region have a larger amount of disposable income, they are better able to afford to own a pet.

Great Lakes

The Great Lakes region is the fourth-most popular location for industry establishments. 13.9% of pet stores are estimated to be located in the Great Lakes region. The region is also the fourth-most populated in the nation, accounting for 4.6% of the total population.

Other small participating regions in the industry include: the Southwest (10.2%), New England (6.1%), the Plains (5.6%) and the Rocky Mountains (4.0%). These regions have smaller consumer markets, therefore limiting demand for pet stores.

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

Market Share Concentration

Level
Concentration in this industry is **Medium**

More than half of the Pet Stores industry's revenue comes from two specialty supply retailers: PetSmart Inc. and Petco Animal Supplies Inc. The remainder consists of family-owned stores, small franchises and small chains of pet stores. Despite the moderate degree of concentration, small operators are still able to find niche markets in their geographical locations, rarely expanding beyond those areas.

Over the five years to 2022, PetSmart and Petco are expected to grow in their share of the industry because big-box retailers are able to offer customers a "best of both worlds" scenario, which includes providing broad and industry-specific product selections while operating on such a scale that they can purchase in bulk and pass savings on to consumers in the form of lower prices. Consequently, these stores are expected to grow at the expense of smaller stores.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Attractive product presentation

To appeal to customers and encourage purchases, eye-catching promotions and displays are essential for pet stores.

Experienced work force

It is important to employ a highly capable staff with clear knowledge of the pet industry to better assist customers and boost sales.

Proximity to key markets

Operators need to be located in high-traffic and high-visibility locations, such

as major shopping precincts, to maximize store traffic and sales.

Economies of scope

Successful operators need a range of the most popular pets and pet supplies at different levels of price and quality. Offering a wider variety of products will attract a larger customer base.

Effective quality control

Operators must ensure that pet services are up to standards for each specific animal and breed.

Cost Structure Benchmarks

Profit

Industry profit, as measured by earnings before interest and taxes, is expected to account for 4.2% of revenue in 2017, down slightly from 6.2% in 2012. A growing pet population and an increasing willingness of pet owners to spend on pets, particularly on premium or high-margin products, stabilizes industry profit margins. Furthermore, pet stores increasingly offer pet services, which typically have higher margins. It is important to note, however, that actual level of margins may vary considerably between industry participants. For instance, larger players such as Petco Animal Supplies Inc. and PetSmart Inc.

typically purchase in large quantities, enabling them to spend less per item and improve margins. In addition, their large scale enables them to sell in high volumes at discounted prices. Consequently, they can afford lower markups and profit from larger sales volumes. On the contrary, smaller players in this industry do not have such purchasing power; therefore, the cost of goods per unit tends to be higher for these players, causing lower margins for smaller companies.

Purchases

Purchase costs will remain the single-largest expense for the industry, accounting for an estimated 54.3% of

Competitive Landscape

Cost Structure Benchmarks continued

revenue. Purchases consist of a range of pet food and pet supplies, including collars, leashes, medication, shampoos, dog kennels and pet toys, and a range of pets, including dogs, cats, birds, fish, small animals and reptiles. Purchase expenses increased slightly over the five years to 2017. According to Pet Business, a publication for the pet and pet supplies retailing industry, much of this growth was due to higher prices from upstream industries (i.e. manufacturing and wholesaling industries) that were passed down the supply chain.

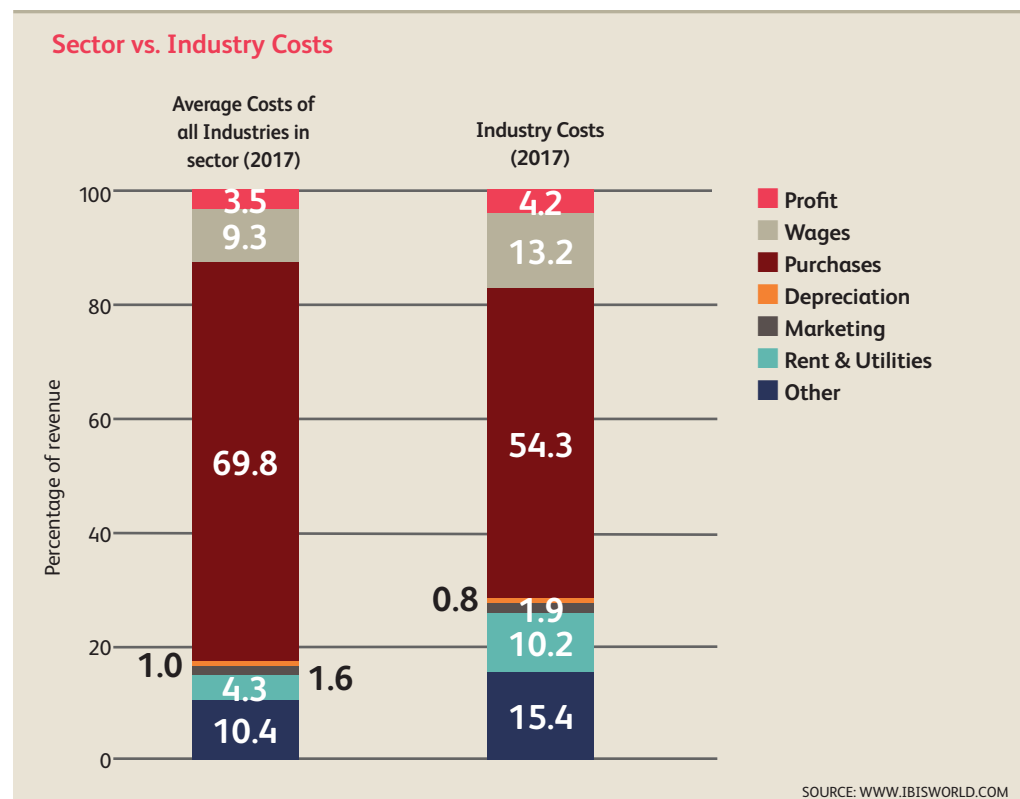
Wages

Due to the labor-intensive nature of the retail sector, wages are estimated to make up the second-highest expense item for pet store operators, accounting for 13.2% of the revenue in

2017. In pet stores, employees are needed to provide care for pets, maintain stock levels and provide customer service. Furthermore, added focus was placed on labor over the five years to 2017 as pet services have become one of the fastest-growing sources of industry revenue. Nonetheless, industry revenue grew at a faster rate than the number of employees or wages, therefore decreasing wages' share of revenue.

Depreciation

Depreciation expenses are expected to account for 0.8% of revenue in 2017. Minimal depreciation is typical for retailing industries, which are very labor intensive and require minimal capital costs in operations. This figure is high compared with other retailing industries because pet stores must acquire special cages and tanks for



Competitive Landscape

Cost Structure Benchmarks continued

animals in addition to shelving and cash registers for stores.

Other costs

Rent and utilities costs are expected to represent 10.2% of revenue. Operators

incur other expenses including administrative, insurance, security and advertising costs. Companies invest 1.9% of revenue toward marketing and advertising to generate traffic and boost sales.

Basis of Competition

Level & Trend
Competition in this industry is **High** and the trend is **Increasing**

Internal

Pet stores compete with each other based on price, product variety, customer service, brand awareness, variety of pet services and store location. Since product purchases make up the majority of sales for pet stores, their main basis of competition is product range, quality and price. Large players like Petco and PetSmart benefit from economies of scope and are able to provide broad ranges of pets, pet foods, pet supplies and pet services with different levels of quality across a range of prices, enabling stores to appeal to individual consumer preferences. They are also capable of offering products through private label brands at lower prices. Both players benefit from being able to buy products in bulk and producing their own products at lower cost, enabling them to offer products at a low price and still attain a profit. Smaller stores are then pressured to provide products at lower prices, which results in lower mark-ups and ultimately lower profit margins. Smaller stores benefit from the ability to offer personalized customer services and mold themselves to the specific needs of niche markets in their local areas.

External

Historically, supermarkets were the primary sellers of pet food products as they stock a wide variety of pet food and supplies and bulk purchases generally enable them to offer lower prices than specialty retailers. In recent years, additional competition came from mass merchandisers and discount retailers such as Walmart and Costco stocking a wide variety of products at competitive prices. Mass merchandisers and discount retailers typically do not sell ultra-premium pet products because they are limited by manufacturers' restrictions.

Further competition comes from the E-commerce and Online Auctions industry (IBISWorld report 45411a) and the Mail-Order industry (IBISWorld report 45411b). According to the most recent National Pet Owners Survey, there is a growing prevalence of online and social media networks specifically for finding pets and pet products, including companies such as Petstore.com, through which consumers can purchase products without physically visiting a store. However, these operators are not classified as part of this industry. In addition, some competition comes from veterinary services as they also sell customized pet food and some pet products.

Competitive Landscape

Barriers to Entry

Level & Trend
Barriers to Entry
in this industry are
Medium and Steady

High levels of competition and regulations associated with entering this industry may deter some potential entrants. Nevertheless, there are various niche markets available for new players to occupy, specifically those specializing in premium and innovative food, products and services.

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A significant factor that can hinder an operator from entering this industry is government regulations. There are federal and state laws regulating pet shops and the sale of animals. For example, the Pet Animals Act 1951 requires pet shops get a license in accordance with the act before they can open. In addition, the Animal Welfare Act of 1966 dictates how pets sold in pet stores must be maintained. Pet shops need to address a range of issues and receive licenses based on federal and state requirements before permission to operate is granted.

Barriers to Entry checklist

Competition	High
Concentration	Medium
Life Cycle Stage	Growth
Capital Intensity	Low
Technology Change	Medium
Regulation & Policy	Medium
Industry Assistance	None

SOURCE: WWW.IBISWORLD.COM

Industry concentration can be another barrier to potential entrants. The only two national retail chains in this industry account for more than one half of industry revenue; smaller stores and franchises account for the remaining portion. Although this industry is highly fragmented, there is intense price competition from mass merchandisers, online operators and catalog retailers, which may provide a barrier for new, independent retailers.

Opening a new pet store and meeting licensing standards is expensive. In addition, a significant share of funding may be directed toward marketing to build consumer interest and recognition. The initial cost of establishing or purchasing a retail outlet, in addition to purchasing and maintaining inventory levels, may be a barrier for new entrants.

Industry Globalization

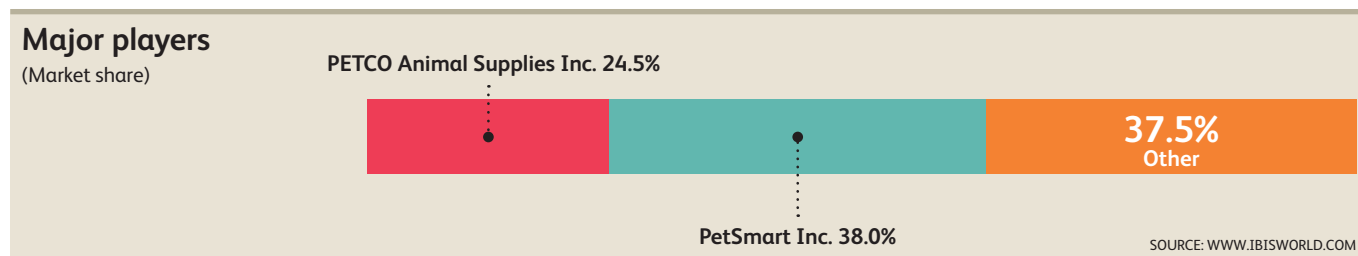
Level & Trend
Globalization in this
industry is **Low** and
the trend is **Steady**

This industry is composed of a large number of small players. Many of the smaller, independent pet supply retailers are family-owned businesses that operate within a local or regional scope. In addition, the industry's major companies are domestically owned;

therefore, this industry has a low level of globalization. The industry's largest player, PetSmart has a network of stores in Canada, while Petco expanded to Mexico and Puerto Rico; however, international sales are still low relative to the United States.

Major Companies

PetSmart Inc. | PETCO Animal Supplies Inc. | Other Companies



Player Performance

PetSmart Inc.
Market share: 38.0 %

Since its establishment in 1986, Phoenix-based PetSmart Inc. has become the top specialty retailer of pet food and supplies. PetSmart operates over 1,477 stores, typically located in regional shopping centers near other superstores and warehouse stores. The company employs nearly 53,000 people in the United States and Canada. By offering more than 11,000 pet products and providing various pet services, PetSmart aims to provide a one-stop shopping experience. In March 2015, the company went private through an \$8.7 billion buyout by BC Partners.

PetSmart categorizes its merchandise into three main categories: consumables, hard goods and pets. Consumables include pet foods, treats and litter, as well as premium products, many of which are not found in supermarkets or mass merchandisers. Pet supplies such as collars, leashes, health and beauty aids, shampoos, medication, toys, pet carriers,

dog kennels, cat furniture, equestrian supplies, birdcages, aquariums and filters make up the hard goods category. Pets sold by the company include fish, birds and reptiles. Larger animals, such as cats and dogs, are not sold in PetSmart; however, they are available for adoption through the PetSmart Charities' Adopt a Pet Program, which was co-developed with humane organizations.

In addition to selling products, PetSmart expanded its service offerings to include in-store boarding facilities, grooming services, obedience training and full-service veterinary services. PetSmart offers a complete pet boarding and day-care service called PetsHotel with 24-hour supervision, an on-site veterinarian, air-conditioned rooms and daily specialty treats. Nearly 200 PetSmart stores include PetsHotel boarding facilities and Doggie Day Camps. PetSmart also offers full-service veterinary

PetSmart Inc. - (US industry-specific) - financial performance*

Year**	Revenue (\$ million)	(% change)	Operating Income (\$ million)	(% change)
2012-13	6,758.2	10.5	503.1	17.4
2013-14	6,984.0	3.3	651.2	29.4
2014-15	6,916.6	-1.0	693.3	6.5
2015-16	7,112.0	2.8	708.8	2.2
2016-17	6,998.2	-1.6	293.9	-58.5
2017-18	7,104.0	1.5	297.5	1.2

*Estimates; **Year-end January

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

hospitals in over 900 of its stores. Pet services are a growth segment for the company and currently account for more than 10.0% of revenue. In fiscal 2015, service sales as a percent of total revenue grew 5.5%. In addition to expanding its services segment, PetSmart continues to expand its retail presence nationwide through store expansions.

Financial performance

Over the five years to 2017, revenue from PetSmart's US operations is expected to

increase at an annualized rate of 1.0% to \$7.1 billion. Company growth was aided by store expansions and rising sales of premium and natural food products. In addition, its pet services line experienced strong demand, enabling this category to consistently expand faster than its merchandise-products category. The company's profit margin also increased, passing the industry average. This has been primarily due to higher margins from its pet-service offerings and the rising sales of premium food products.

Player Performance

PETCO Animal Supplies Inc.

Market share: 24.5 %

Industry Brand Names

Unleashed by Petco

Established in 1965, Petco Animal Supplies Inc. is the second-largest pet supply specialty retailer in the United States. The company is headquartered in San Diego and operates over 1,470 Petco stores, more than 128 smaller-format Unleashed by Petco neighborhood shops and 10 Pooch Hotel locations throughout the United States, Mexico and Puerto Rico. The company expanded to Puerto Rico and Mexico in 2012 and 2013, respectively. The company also significantly expanded its e-commerce offerings in recent years, most notably through the acquisition of Drs. Foster and

Smith in 2015. The company generated \$4.0 billion in total company revenue in fiscal 2014. In August 2015, the company filed for an initial public offering (IPO), but withdrew its offering on February 2016 following a \$4.6 billion acquisition by the Canada Pension Plan Investment Board and CVC Capital Partners.

Petco stores carry up to 10,000 different pet-related items, including pet food, collars, leashes, grooming products, toys, health and beauty aids, kennels and pet houses. Like other industry participants, Petco offers a variety of grooming, veterinary and obedience

PETCO Animal Supplies Inc. - (US industry-specific) financial performance*

Year**	Revenue (\$ million)	(% change)	Operating Income (\$ million)	(% change)
2012-13	3,528.0	13.7	158.9	56.9
2013-14	3,785.2	7.3	136.1	-14.3
2014-15	3,995.4	5.6	121.6	-10.6
2015-16	4,262.9	6.7	196.1	4.6
2016-17	4,378.7	2.7	183.9	4.8
2017-18	4,567.2	4.3	191.3	4.2

*Estimates; **Year-end January

SOURCE: US SECURITIES AND EXCHANGE COMMISSION

Major Companies

Player Performance continued

services for animals, but does not sell cats or dogs. Instead, the Think Adoption First program is used in partnership with local animal welfare organizations. The company also operates an independent nonprofit organization, The Petco Foundation, which has invested more than \$167.0 million to support local animal welfare groups since its inception in 1999.

Prior to the current period, Petco acquired Complete Petmart, an Ohio-based pet specialty chain, in 2011. The acquisition, consisting of 29 stores, expanded the company's reach into Ohio and the Southeast region. Petco also significantly expanded its smaller-store concept, Unleashed by Petco. The smaller-store chain specializes in natural, organic and higher-end pet products and is geared toward expanding the company's presence into urban markets. Finally, the company's recent acquisition of Drs. Foster and Smith in 2015, a mail order and e-commerce company, is anticipated

to increase its online presence considerably as consumers shift to the online marketplace.

Financial performance

IBISWorld estimates that over the five years to fiscal 2018, the company's US revenue generated from brick-and-mortar stores will rise at an annualized rate of 5.3% to \$4.6 billion. Strong sales of premium products were one of the company's main drivers of growth. Petco invested heavily in this product segment amid the recession when it launched Unleashed by Petco, a neighborhood specialty store for premium, natural, organic and raw pet foods. As Petco shifts focus to the smaller store model, the company will also concentrate on increasing online presence through an acquisition strategy. From 2005 to 2015, online sales reportedly increased from 1.2% to 8.5% of total revenue, according to the company's 2015 IPO filing.

Other Companies

PetSmart and Petco are the top dogs in the Pet Stores industry, accounting for more than half of the industry's revenue. While the industry is concentrated at the top, the rest of the industry is composed of a large number of small and privately owned pet stores. In fact, more than half of companies are nonemployers. Furthermore, more than 80.0% of all companies employ fewer than five workers, and at the other end of the spectrum, less than 10.0% have more than 10 workers. Due to the fragmented nature of the industry, most players do not individually account for a considerable share of the industry's revenue.

Pet Supplies Plus

Estimated market share: 4.0 %

Founded in 1988 in Livonia, MI, Pet Supplies Plus is a franchise business with

over 315 stores across more than 25 states. Pet Supplies Plus offers franchises in select states to single store owner-operators and also to area developers that own all stores in a designated market region. Pet Supplies Plus differentiates itself by providing all-natural food products. In addition, it offers a range of different services, such as grooming, self-service pet wash stations and adoptions.

Pet Supplies Plus stores are generally located in high-traffic areas and are limited to about 5,000 to 6,000 square feet in size for smaller markets and 7,000 to 9,000 square feet in larger metropolitan areas. The smaller store concept is designed to keep operating costs to a minimum in an effort to offer pet food and supplies at competitive prices. IBISWorld estimates that Pet Supplies Plus will generate \$750.0 million of industry-relevant revenue in 2017.

Major Companies

Other Companies continued

Pet Retail Brands

Estimated market share: 2.8 %

Pet Retail Brands is a chain retailer of pets, pet supplies and wellness products. The company was formerly known as Pet Supermarket, Inc. and was founded in 1973 in Fort Lauderdale, FL. In July 2016, Pet Supermarket merged with Pet Valu, Inc. to form Pet Retail Brands. Pet Valu was founded in 1976 and is based in Markham, ON. Pet Retail Brands now operates as a subsidiary of Pet Supermarket. The combined business

operates 930 stores in North America, with 185 stores primarily on the East Coast. The company employs nearly 2,200 associates and sells more than 8,000 pet care products, including food, toys, medicine and clothing, as well as small animals, such as hamsters, guinea pigs, rabbits and tropical fish. The company offers a range of high-value pet products and luxury pet items. IBISWorld estimates Pet Retail Brands will generate \$532.0 million of industry-relevant revenue in 2017.

Operating Conditions

Capital Intensity | Technology & Systems | Revenue Volatility
Regulation & Policy | Industry Assistance

Capital Intensity

Level

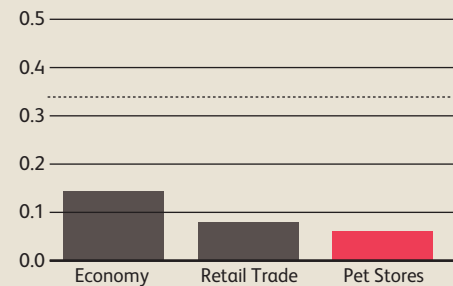
The level of capital intensity is **Low**

The Pet Stores industry, similar to most other retail industries, has a low level of capital intensity. For every dollar spent on wages, an estimated \$0.06 is invested in the store and equipment. Most capital costs are related to shelving, store, computers, cashier equipment and other equipment such as caging for animals, which do not need constant replacement. Conversely, this industry is labor intensive because employees are needed to operate and manage stores, provide customer service and support, restock merchandise and provide care for pets.

The level of capital intensity remained steady over the past five years, reflecting the labor-intensive nature of the retail industry. To this point, the cost of labor within this industry is relatively high compared with

Capital intensity

Capital units per labor unit

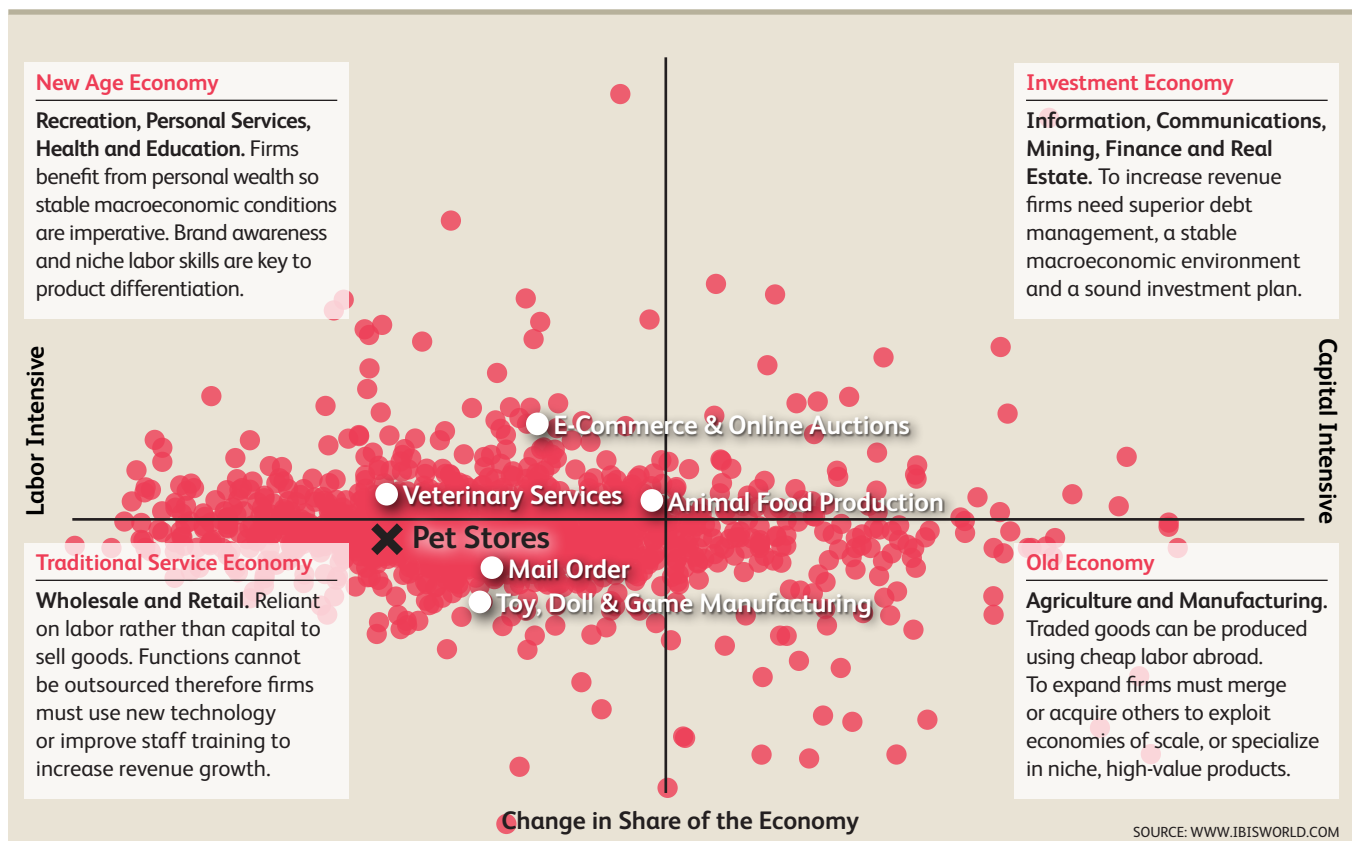


Dotted line shows a high level of capital intensity

SOURCE: WWW.IBISWORLD.COM

competitors such as supermarkets, mass merchandisers and online pet supply retailers. This is because the other stores do

Tools of the Trade: Growth Strategies for Success



SOURCE: WWW.IBISWORLD.COM

Operating Conditions

Capital Intensity continued

not retail pets directly, inherently requiring a smaller staff. In addition, these stores do not incur costs associated with employee training, since workers at these retailers do not require industry-specific knowledge. For

online retailers, labor costs are exceptionally low as they are not required to outlay expenditure on customer service, nor are they required to have shelving, displays or cash registers.

Technology & Systems

Level
The level of
Technology Change
is **Medium**

Over the past five years, there have been few technological advances relevant to the Pet Stores industry. Technological advances in this industry are generally limited to those occurring in similar retail industries, such as computer scanning cash registers and automated inventory equipment. The introduction of this technology has enabled retailers to better manage efficiency of operations and inventory. Technology at checkout led to computerized point-of-sale equipment, which controls and records merchandising, distribution, sales and stock markdowns.

Furthermore, bar code scanning offered the advantages of higher labor productivity increasing the speed at which information is passed, greater control over the distribution of goods and reduced errors along the supply chain. New improvements will boost revenue for larger stores that can afford to invest in the technologies. For example, larger retailers benefit from Radio Frequency Identification (RFID), which provides real time information on inventory and help to reduce shrinkage problems as well as improve efficiency. Many operators are small in size and do not have the financial resources to purchase expensive electronic equipment.

Revenue Volatility

Level
The level of
Volatility is **Low**

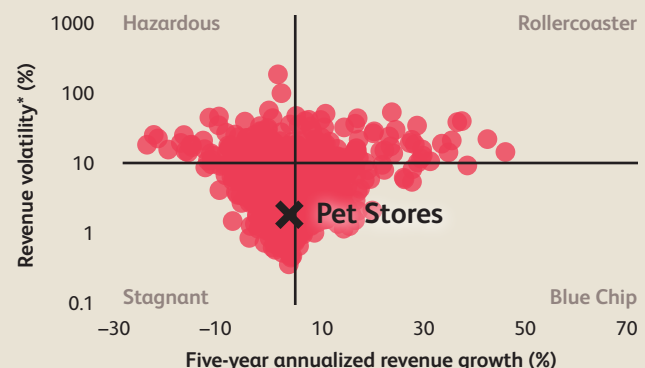
Pet stores sell discretionary (e.g. pets, toys and accessories) and nondiscretionary products (e.g. pet food). While purchasing a pet is generally discretionary, a large proportion of

expenditure on a pet is typically nondiscretionary; these include staples such as food and medicine. Pet stores can offer discretionary services such as day camp and training courses to boost

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment.

When a firm makes poor investment decisions it may face underutilized capacity if demand suddenly falls, or capacity constraints if it rises quickly.

Volatility vs Growth



* Axis is in logarithmic scale

SOURCE: WWW.IBISWORLD.COM

Operating Conditions

Revenue Volatility continued

revenue. The nondiscretionary component of industry merchandise, however, accounts for the majority of

industry revenue. This high level of nondiscretionary demand keeps the volatility of this industry low.

Regulation & Policy

Level & Trend
The level of Regulation is **Medium** and the trend is **Steady**

There are industry-specific and general competitive regulations that apply to this industry. The transportation, handling and sale of small pets are governed by various federal, state and local regulations. In addition, industry participants are subject to environmental regulations imposed by federal, state and local authorities in relation to the generation, handling, storage, transportation and disposal of waste and biohazardous materials, and the sale and distribution of products.

The Pet Animals Act 1951 deems it an offense to open a pet shop unless it is granted a license in accordance with the Act. When deciding to grant a license, district councils need to consider whether there is suitable accommodation and enough food and water, whether the animals are sold at too young an age and whether reasonable precautions have been taken to curb the spread of disease. The Animal Welfare Act (AWA) protects certain animals from inhumane treatment and neglect. The AWA requires that minimum standards of care and treatment be

provided for certain animals that are bred for commercial sale, used in research, transported commercially or exhibited to the public. Retail pet shops are not covered under the Act unless the shop sells exotic or zoo animals or sells animals to regulated businesses. Pets owned by private citizens are not regulated. Regulated businesses are required to keep accurate records of acquisition and disposition and a description of animals that come into their possession.

Many state and local governments have passed additional animal welfare legislation. Over 20 states have regulations governing the sale of dogs and 15 states govern the sale of cats. These regulations stipulate the information that sellers must provide at the time of purchase and various options buyers have if the purchased pet is sick. These states have regulations that enable consumers to obtain a reimbursement when a sick animal is purchased from a pet store. This is known as a "lemon law" that is designed to protect consumers that buy animals from pet shops.

Industry Assistance

Level & Trend
The level of Industry Assistance is **None** and the trend is **Steady**

The Pet Stores industry does not receive any specific government support, in the form of subsidies, tax breaks or otherwise. In lieu of government assistance, the industry relies on trade associations to represent the industry as well as the latest products and trends for pet owners. The most notable among them is the American Pet Association,

which promotes pet ownership and disseminates industry-related information to members. Another notable trade association is the American Pet Products Association. Many veterinary associations also support the industry by reporting on best practices and products recommended for various pets.

Key Statistics

Industry Data

	Revenue (\$m)	Industry Value Added (\$m)	Establishments	Enterprises	Employment	Exports	Imports	Wages (\$m)	Domestic Demand	Number of pets - cats and dogs (Mils)
2008	14,262.4	2,796.5	17,110	14,115	106,460	--	--	2,040.6	N/A	165.0
2009	14,813.8	2,550.2	16,650	13,632	109,167	--	--	2,031.8	N/A	171.0
2010	15,370.3	2,795.4	16,502	13,305	105,327	--	--	2,057.6	N/A	164.6
2011	15,833.0	2,915.8	16,345	13,064	106,581	--	--	2,108.3	N/A	164.0
2012	16,362.6	3,417.7	16,810	13,212	109,478	--	--	2,256.0	N/A	164.6
2013	16,640.2	3,087.2	16,715	12,938	111,847	--	--	2,255.2	N/A	178.9
2014	17,072.1	3,069.9	17,067	13,025	116,598	--	--	2,267.5	N/A	171.3
2015	18,000.1	3,334.1	17,296	13,176	117,020	--	--	2,362.1	N/A	163.6
2016	18,261.5	3,341.0	17,524	13,328	118,576	--	--	2,397.5	N/A	167.4
2017	18,676.5	3,394.6	17,714	13,453	121,360	--	--	2,458.9	N/A	171.7
2018	19,085.5	3,476.3	17,945	13,603	123,455	--	--	2,509.0	N/A	176.1
2019	19,549.1	3,550.6	18,141	13,729	126,230	--	--	2,572.4	N/A	179.9
2020	19,826.4	3,599.4	18,310	13,837	127,682	--	--	2,607.0	N/A	183.7
2021	20,114.5	3,667.1	18,404	13,891	129,389	--	--	2,646.2	N/A	187.3
2022	20,448.8	3,720.2	18,667	14,075	131,378	--	--	2,692.0	N/A	191.6
Sector Rank	39/63	40/63	43/63	42/63	38/63	N/A	N/A	38/63	N/A	N/A
Economy Rank	477/1579	637/1549	346/1579	355/1579	343/1579	N/A	N/A	570/1579	N/A	N/A

Annual Change

	Revenue (%)	Industry Value Added (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)	Number of pets - cats and dogs (%)
2009	3.9	-8.8	-2.7	-3.4	2.5	N/A	N/A	-0.4	N/A	3.6
2010	3.8	9.6	-0.9	-2.4	-3.5	N/A	N/A	1.3	N/A	-3.7
2011	3.0	4.3	-1.0	-1.8	1.2	N/A	N/A	2.5	N/A	-0.4
2012	3.3	17.2	2.8	1.1	2.7	N/A	N/A	7.0	N/A	0.4
2013	1.7	-9.7	-0.6	-2.1	2.2	N/A	N/A	0.0	N/A	8.7
2014	2.6	-0.6	2.1	0.7	4.2	N/A	N/A	0.5	N/A	-4.3
2015	5.4	8.6	1.3	1.2	0.4	N/A	N/A	4.2	N/A	-4.5
2016	1.5	0.2	1.3	1.2	1.3	N/A	N/A	1.5	N/A	2.3
2017	2.3	1.6	1.1	0.9	2.3	N/A	N/A	2.6	N/A	2.6
2018	2.2	2.4	1.3	1.1	1.7	N/A	N/A	2.0	N/A	2.6
2019	2.4	2.1	1.1	0.9	2.2	N/A	N/A	2.5	N/A	2.1
2020	1.4	1.4	0.9	0.8	1.2	N/A	N/A	1.3	N/A	2.1
2021	1.5	1.9	0.5	0.4	1.3	N/A	N/A	1.5	N/A	2.0
2022	1.7	1.4	1.4	1.3	1.5	N/A	N/A	1.7	N/A	2.3
Sector Rank	15/63	23/63	27/63	27/63	13/63	N/A	N/A	13/63	N/A	N/A
Economy Rank	751/1579	943/1549	835/1579	819/1579	545/1579	N/A	N/A	599/1579	N/A	N/A

Key Ratios

	IVA/Revenue (%)	Imports/Demand (%)	Exports/Revenue (%)	Revenue per Employee (\$'000)	Wages/Revenue (%)	Employees per Est.	Average Wage (\$)	Share of the Economy (%)
2008	19.61	N/A	N/A	133.97	14.31	6.22	19,167.76	0.02
2009	17.22	N/A	N/A	135.70	13.72	6.56	18,611.85	0.02
2010	18.19	N/A	N/A	145.93	13.39	6.38	19,535.35	0.02
2011	18.42	N/A	N/A	148.55	13.32	6.52	19,781.20	0.02
2012	20.89	N/A	N/A	149.46	13.79	6.51	20,606.88	0.02
2013	18.55	N/A	N/A	148.78	13.55	6.69	20,163.26	0.02
2014	17.98	N/A	N/A	146.42	13.28	6.83	19,447.16	0.02
2015	18.52	N/A	N/A	153.82	13.12	6.77	20,185.44	0.02
2016	18.30	N/A	N/A	154.01	13.13	6.77	20,219.10	0.02
2017	18.18	N/A	N/A	153.89	13.17	6.85	20,261.21	0.02
2018	18.21	N/A	N/A	154.59	13.15	6.88	20,323.19	0.02
2019	18.16	N/A	N/A	154.87	13.16	6.96	20,378.67	0.02
2020	18.15	N/A	N/A	155.28	13.15	6.97	20,417.91	0.02
2021	18.23	N/A	N/A	155.46	13.16	7.03	20,451.51	0.02
2022	18.19	N/A	N/A	155.65	13.16	7.04	20,490.49	0.02
Sector Rank	31/63	N/A	N/A	39/63	23/63	15/63	37/63	40/63
Economy Rank	1264/1549	N/A	N/A	1123/1579	1053/1579	1037/1579	1391/1579	637/1549

Figures are in inflation-adjusted 2017 dollars. Rank refers to 2017 data.

SOURCE: WWW.IBISWORLD.COM

Industry Financial Ratios

	Apr 2012 - Mar 2013	Apr 2013 - Mar 2014	Apr 2014 - Mar 2015	Apr 2015 - Mar 2016	Apr 2015 - Mar 2016 by company revenue		
					Small (<\$10m)	Medium (\$10-50m)	Large (>\$50m)
Liquidity Ratios							
Current Ratio	1.7	1.7	2.0	1.6	1.7	1.8	1.3
Quick Ratio	0.5	0.4	0.5	0.4	0.5	0.4	0.3
Sales / Receivables (Trade Receivables Turnover)	217.9	277.2	141.0	269.1	311.5	n/c	87.0
Days' Receivables	1.7	1.3	2.6	1.4	1.2	n/a	4.2
Cost of Sales / Inventory (Inventory Turnover)	5.9	5.9	6.3	5.5	5.9	5.4	6.4
Days' Inventory	61.9	61.9	57.9	66.4	61.9	67.6	57.0
Cost of Sales / Payables (Payables Turnover)	21.2	19.5	16.0	17.0	18.1	18.4	11.0
Days' Payables	17.2	18.7	22.8	21.5	20.2	19.8	33.2
Sales / Working Capital	15.2	17.3	15.5	17.3	17.8	14.3	32.0
Coverage Ratios							
Earnings Before Interest & Taxes (EBIT) / Interest	12.4	7.0	5.9	9.7	9.0	25.9	7.8
Net Profit + Dep., Depletion, Amort. / Current Maturities LT Debt	13.6	n/a	n/a	n/a	n/a	n/a	n/a
Leverage Ratios							
Fixed Assets / Net Worth	0.5	0.7	0.5	0.6	0.7	0.4	1.2
Debt / Net Worth	1.8	2.2	1.7	1.7	1.4	1.3	3.2
Tangible Net Worth	34.6	24.5	25.9	24.5	25.7	30.1	8.9
Operating Ratios							
Profit before Taxes / Net Worth, %	36.0	40.9	34.0	33.8	40.8	32.8	n/a
Profit before Taxes / Total Assets, %	16.1	10.8	8.5	11.4	11.2	16.4	6.4
Sales / Net Fixed Assets	23.8	26.0	43.5	24.7	24.8	24.9	21.9
Sales / Total Assets (Asset Turnover)	3.6	3.9	4.3	4.1	3.9	4.3	3.9
Cash Flow & Debt Service Ratios (% of sales)							
Cash from Trading	33.7	36.4	39.4	37.2	38.9	36.1	n/a
Cash after Operations	4.5	3.3	4.9	3.6	3.9	2.3	n/a
Net Cash after Operations	4.5	3.7	5.1	4.1	5.0	2.6	n/a
Cash after Debt Amortization	2.2	1.6	1.8	1.8	1.9	1.4	n/a
Debt Service P&I Coverage	6.2	3.8	5.8	8.7	5.6	10.2	n/a
Interest Coverage (Operating Cash)	8.6	8.3	15.5	15.1	12.7	16.7	n/a
Assets, %							
Cash & Equivalents	13.6	13.3	12.0	14.2	16.1	11.8	9.4
Trade Receivables (net)	8.6	6.5	9.2	7.4	7.6	5.0	10.5
Inventory	44.7	44.9	47.9	43.1	38.7	51.1	49.7
All Other Current Assets	1.4	0.7	4.6	2.9	2.9	2.8	3.1
Total Current Assets	68.2	65.4	73.7	67.6	65.3	70.7	72.6
Fixed Assets (net)	23.7	22.7	16.3	20.8	22.6	15.1	22.5
Intangibles (net)	4.7	5.2	4.1	5.0	4.1	9.4	1.6
All Other Non-Current Assets	3.3	6.6	5.9	6.6	8.0	4.8	3.2
Total Assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Assets (\$m)	719.3	362.6	936.1	729.3	50.5	146.4	532.4
Liabilities, %							
Notes Payable-Short Term	9.8	10.8	12.5	14.9	18.4	6.7	12.6
Current Maturities L/T/D	2.2	1.5	1.3	4.4	5.2	4.4	1.0
Trade Payables	13.9	17.1	24.5	19.6	18.7	16.9	28.1
Income Taxes Payable	0.2	0.1	0.2	0.1	0.1	0.2	0.2
All Other Current Liabilities	14.6	14.9	9.6	8.4	5.7	13.1	12.6
Total Current Liabilities	40.7	44.3	48.2	47.4	48.1	41.3	54.5
Long Term Debt	15.0	20.0	14.3	16.2	16.9	6.8	29.4
Deferred Taxes	0.2	0.1	0.2	0.1	n/a	0.2	0.4
All Other Non-Current Liabilities	4.8	5.8	7.4	6.8	5.1	12.1	5.1
Net Worth	39.3	29.7	30.0	29.5	29.8	39.5	10.5
Total Liabilities & Net Worth (\$m)	719.3	362.6	936.1	729.3	50.5	146.4	532.4
Maximum Number of Statements Used	60	77	85	80	50	19	11

Source: RMA Annual Statement Studies, rmahq.org. RMA data for all industries is derived directly from more than 260,000 statements of member financial institutions' borrowers and prospects.

Note: For a full description of the ratios refer to the Key Statistics chapter online.

Jargon & Glossary

Industry Jargon

INITIAL PUBLIC OFFERING A type of public offering in which shares of a company are usually sold to institutional investors who, in turn, sell to the general public on a securities exchange for the first time.

PET BOARDING AND DAY-CARE Long- and short-term options for owners who need assistance looking after their pets. Services include feeding, walking, grooming and lodging.

PET PARENTS Pet owners who are enthusiastic about their pets and treat them as members of their family.

IBISWorld Glossary

BARRIERS TO ENTRY High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than \$0.333 of capital to \$1 of labor; medium is \$0.125 to \$0.333 of capital to \$1 of labor; low is less than \$0.125 of capital for every \$1 of labor.

CONSTANT PRICES The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the "real" growth or decline in industry metrics. The inflation adjustments in IBISWorld's reports are made using the US Bureau of Economic Analysis' implicit GDP price deflator.

DOMESTIC DEMAND Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS Total value of industry goods and services sold by US companies to customers abroad.

IMPORTS Total value of industry goods and services brought in from foreign countries to be sold in the United States.

INDUSTRY CONCENTRATION An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70 % of industry revenue. Medium is 40 % to 70 % of industry revenue. Low is less than 40 %.

INDUSTRY REVENUE The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA) The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5 %, medium is 5 % to 20 %, and high is more than 20 %. Imports/domestic demand: low is less than 5 %, medium is 5 % to 35 %, and high is more than 35 %.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

Jargon & Glossary

IBISWorld Glossary continued

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than $\pm 20\%$; high volatility is $\pm 10\%$ to $\pm 20\%$; moderate volatility is $\pm 3\%$ to $\pm 10\%$; and low volatility is less than $\pm 3\%$.

WAGES The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.

At IBISWorld we know that industry intelligence is more than assembling facts

It is combining data with analysis to answer the questions that successful businesses ask

Identify high growth, emerging & shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing & new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximizing decisions



Who is IBISWorld?

We are strategists, analysts, researchers, and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real world answers that matter to your business in our 700 US industry reports. When tough strategic, budget, sales and marketing decisions need to be made, our suite of Industry and Risk intelligence products give you deeply-researched answers quickly.

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