PetSmart Sales Not Rebounding Enough; Online Competition Increasing

Companies: AMZN, COST, PETM, TGT, WFM, WMT

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Research Question:
Is PetSmart seeing a continuation of its first quarter slide or will its second quarter be the beginning of a performance rebound?

Summary of Findings

- **PetSmart Inc.’s** (PETM) second quarter does not appear to be rebounding enough from its subpar first quarter. Although eight of 10 PetSmart district managers said sales have risen year to year, seven of them reported only a 1% to 2% increase. Also, nine district managers said they are not on track with their target and characterized results as disappointing.

- Competition has increased as supermarkets roll out premium pet food. Also, PetSmart’s hard goods sales have lost momentum, and it has increased its promotions to move seasonal items and introduce premium products.

- Four district managers said resurgent online competition explains some of the drain on sales at the store level. Online competitors are seeing significant growth. In general, distributors have seen measurable growth in online-only accounts from a year ago, albeit off a low relative base.

- Sources outside of PetSmart said the company’s emphasis on store sales is crippling its online strategy. Online competitors, including independent local and regional stores with a hybrid online/offline strategy, are enthusiastic about their opportunity to steal market share from PetSmart.

- PetSmart sources said they typically gain an extra $10 in additional purchases on a $30 bag of food, but employees’ lack of enthusiasm for and confidence in hard goods mirrors what Blueshift found in its May 2013 report.

- One district manager said the PetSmart pet services have saved the region, and others remarked that the services were brick-and-mortar stores’ prime means of thwarting competition.

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1) **PetSmart District Managers**
Eight of 10 sources said sales are up year to year, though nine sources said results are not on track with company objectives. Hard goods have become stale and there is a lack of enthusiasm for them at the store level and from customers. Four sources said their regions are seeing more competition as customers seek super-premium foods elsewhere, and get food at grocery stores out of convenience. Five sources said promotions are increasing as the stores try to clear out seasonal and surplus items while also introducing premium foods at lower prices. Online is not a threat for six sources. Four other sources said online is emerging as more of a threat than in the past.

2) **PetSmart Store Personnel**
Four of seven sources said their store’s sales increased in May and June. Three other sources said sales were even with the previous year. Four sources said store prices were unchanged, while two others said they were climbing slightly, but remain lower than competitors’. Six sources said their stores are not affected by online competition, while one believes his store has been hurt by online sales.

3) **Executives at Online Competitors**
All three sources said online sales of pet food are becoming more mainstream and now pose a real threat to brick-and-mortar stores like PetSmart. Reduced overhead allows online-only vendors to offer free shipping and discount pricing, leveling the playing field among convenience-oriented and value-oriented shoppers alike. One source said sales have tripled in the last year, and another cited endless opportunities to take business from brick-and-mortar stores. Premium brands have become ubiquitous online and offline, eliminating the first mover advantage PetSmart had in the space.

4) **Pet Food Distributors**
All three sources said sales to online-only retailers have grown significantly off an extremely low base, curbing PetSmart’s growth among brand-conscious pet food shoppers. Supermarkets and big box retailers are eager to add pet food options to fill out the pricing gap between ultra-commodity and ultra-premium brands, putting PetSmart under further pressure to differentiate itself. PetSmart’s reluctance to encourage online sales has given independent local and regional stores an opportunity to regain competitive momentum with hybrid online/offline sales approaches.
**PetSmart Inc.**

**Background**

PetSmart’s first-quarter same-store sales slumped 0.6%, driven by a 2.2% decline in same-store transactions. The company attributed its disappointing performance to greater competition from traditional pet supply stores like Petco Animal Supplies Inc., but also significant challenges from the online channel and specialty pet stores with premium offerings. Bringing new customers into the store or to shop online has been more of a challenge for PetSmart than retaining existing customers. Management expects second-quarter same-store sales to be flat or slightly down because of continued traffic slowdowns.

To combat declining sales, transactions and store traffic, PetSmart is increasing efforts on the consumables side, backed by a marketing campaign to highlight the breadth of its products. It also is making a push to increase online customers, while differentiating PetSmart from the increasing number of competitors with a particular focus on its exclusive and proprietary products. The company will augment its natural pet food options, starting with the June introduction of Nature’s Variety raw and frozen foods in its stores.

Blueshift’s May 2013 PetSmart report showed that demand for premium pet food was on the rise, resulting in more competition for PetSmart in an increasingly crowded environment. PetSmart faced a legitimate, growing threat from traditional and nontraditional offline competitors in the premium and ultra-premium pet food categories. Petco was PetSmart’s primary competitor, though regional brands like Pet Supermarket Inc. and PetValu Canada Inc. were increasing their presence in select markets. E-tailers did not appear to be a real threat to PetSmart.

**Current Research**

In this next study, Blueshift Research assessed whether PetSmart could rebound from its subpar first quarter. We employed our pattern mining approach to interview 23 primary sources, including nine repeat sources, in four independent silos:

1. PetSmart district managers (10)
2. PetSmart store personnel (7)
3. Executives at online competitors (3)
4. Pet food distributors (3)

**Next Steps**

Blueshift’s next report on PetSmart will continue to track food and hard goods sales trends and will follow the growing threat from online stores. We also will expand our source base to include regional chain competitors, supermarkets and manufacturers, and also will speak with hard goods suppliers for insight into products, orders and pricing.

**Silos**

1) **PetSmart District Managers**

Eight of 10 sources said sales are up year to year, though seven of the eight noted the increase was only in the 1% to 2% range. The two remaining sources said their stores’ sales are flat compared with a year ago. Despite these small improvements, nine sources said results are not where they want them and are not on track with company objectives. Sources noted a lack of enthusiasm for hard goods at the store level and from customers. Four sources said their regions are seeing more competition as customers seek super-premium foods elsewhere, and get food at grocery stores out of convenience. These PetSmart stores also have to combat the expansion of competing brick-and-mortar stores in their area. Two sources said nearby regions are also slow, one source said his neighbors are doing better than he is, and another said stores with service centers in the immediate and nearby regions are doing better than those without. Six sources said prices are stable, while two others said prices have risen slightly. Five sources said promotions are increasing as the stores try to clear out seasonal and surplus items while also introducing premium foods at lower prices. Online is not a threat for six
sources, who said customers cannot get premium foods at the same price and with free shipping, nor can they get the grooming services unless they come into a store. Four other sources said online is emerging as more of a threat than in the past, especially in areas that experienced bad winter weather. Six sources said their goal is to have customers spend an additional $10 on extra items when buying a $30 bag of food and $20 when buying a $50 bag. Six sources said Innova, Blue Buffalo and Nutro are the most popular food in the store, while two others said PetSmart’s Simply Nourish is the leading brand.

KEY SILO FINDINGS

Sales Trends
- 7 of 10 said sales are up 1% to 2%.
- 1 said sales are up 5%.
- 2 said sales are stable year to year.
- 9 said sales were not on target with where they and/or management want it to be.
  - Sources used words like “not happy” and “disappointing” to describe current performance.
- Sales are improved from the previous quarter’s poor performance.
- 4 sources said the environment is more competitive.
  - 1 cited customers going to veterinarians for super-premium food PetSmart doesn’t carry.
  - 1 said he is competing more with grocery stores.
  - 1 said Pet Supermarket is growing in his region.
- 1 whose sales were not growing said nearby regions are performing better than his.
- 1 whose sales were back to last year’s level said nearby regions were worse than his.
- 1 whose sales were stalling said nearby regions were also slow.
- 1 whose sales were growing slightly attributed it to the service centers in their region, and said other nearby regions are in the same boat.

Pricing
- 6 said prices are stable.
- 2 said prices were on the rise, though minimally and strategically.
- 5 said promotions are increasing:
  - to clear out low-end surplus items.
  - to introduce new premium foods at a discount.

Online
- 6 said online is not a threat to their stores’ performance.
  - Customers cannot buy fresh/frozen foods at the same price online.
  - Cannot get grooming and health services online.
  - 1 said Walmart Stores Inc. (WMT) is more of a destination than Amazon.com Inc. (AMZN) for customers to buy pet food.
- 4 said online is a threat.
  - 2 said the Internet has become a better competitor and that they are trying to compete by offering more unique products found only in stores.
  - 1 said Chewy is a strong competitor with its free shipping.
  - 1 said Amazon is becoming more of a competitor.
  - 1 said online hurt PetSmart over the winter as bad weather pushed customers to order online, then got them out of habit of coming into stores.

Other
- 6 said their goal is to have customers add $10 to 25% of extra items to their $30 basket of food.
- Goal increases to $20 of extras with a $50 basket of food.
- Hard goods have become stale, and there is little enthusiasm about the products.
  - 2 sources said the category needs a refresh.
  - 1 said there needs to be a new product introduced to reinvigorate the category.
- 6 cited Innova, Blue, Nutro as their most popular food brands.
- 2 said Simply Nourish is their leading brand.
- 1 said New Instincts is not great yet.
1. District manager in the Midwest; repeat source

Sales are at best flat. Overcapacity throughout the pet retail category has curbed growth even for leading chains. Although food still is ramping up in terms of cost per serving, shoppers have demonstrated little loyalty to individual retailers and will switch to online or offline rivals that offer convenience. More robust differentiated products are required.

May 2013: Pressure from entrenched and emerging regional competitors was forcing pet supply retailers to promote proprietary products. Premium food sales were strong but still required work in generating consumer interest. Nonexclusive food brands were becoming less profitable as wholesale and other input costs rose while online and offline pressures frustrated efforts to raise prices. Hard goods were hit-or-miss. Service was a potential growth and loyalty driver, but was more of a defensive business. Although PetSmart had room to fill in its footprint with large and small stores, its small stores might not have been a good way to capture new markets.

Sales Trends

- “I am not going to airbrush the trend, but I’m not going to provide concrete numbers that our competitors can see and crow about. We are not where we want to be. We are not hitting our targets, even today. The summer has been good; don’t get me wrong. Unfortunately the overall environment doesn’t seem to be getting better quick enough for us to get back on track fast enough.”
- “The issue is not so much the weather or a tired consumer, although the weather was terrible and the consumer is not exactly dancing in the streets. For us the problem is that this is an extremely dense part of the country in terms of pet stores. We are still the fourth-biggest chain in this area, which tells you a lot about competition. And the old independent stores never died out here the way they did in other parts of the country.”
- “With so many people fighting for every dog or cat, it’s hard to really win a customer for life. You can keep a customer with the right mix of unique products and service and convenience, but you can also lose that customer the minute someone else can throw together a better all-in-one proposition. Our loyalists are extremely loyal. Everyone else’s loyalists are extremely loyal to those stores. The rest of the market is extremely fickle.”
- “Right now the rest of the market is skewed a bit toward veterinary brands and super-premium foods from Europe. That’s the new fad. We aren’t part of that fad. It happens.”
- “Food exists to give people a reason to come in and get sold the other merchandise. As the food trends come and go, every other department except for the grooming and boarding side is really a hostage to that.”
- “Other regions seem to be doing better than we are. Competition in the suburbs is not quite so entrenched. It’s only in the cities where really affluent families are going above our usual premium offerings and the middle has so many choices to pull them away from us. In the suburbs, PetSmart can be the only game in town, literally.”

Pricing

- “We are seeing our food mix keep stepping up. It’s not so much what we’re doing as a general light bulb turning on that you can spend more on pet food without actually breaking out raw steaks. There are many intermediate steps, and you can find a price point that works for you. As people feel a little better about themselves, they enter the ladder at a higher level.”
- “Toys and other categories haven’t budged. We might end up putting a lot of this year’s stuff on clearance faster—the seasonal stuff left over from the spring is already there—in order to move it.”
it, but that isn’t happening quite yet. The summer isn’t over. There’s still time to move the picnic supplies and things like that.”

- “Our promotions are still pretty serious: things like 25% off super-premium food to get people to try it. We mostly promote proprietary products because who wants to become a showroom for everyone else? If we bring you into the store, we want you to buy things you need to come back to us to get next month or a year from now.”

- “Activity hasn’t accelerated or decelerated. We are more serious about the proprietary trials and less about just offering a free flea collar and tactics like that. The free flea collar gets them in the door, but that door is a revolving door. We want a one-way path to a captive customer. That’s super-premium food, branded products to some extent."

### Online

- “For everything we don’t sell on an us-only basis, the Internet is a real threat. Chewy.com is free shipping all the time. They have just about everything we have that isn’t exclusive. That’s trouble. Amazon is not free shipping, and the prices aren’t terrific. Their vendors actually add their listing fees into the retail price so it actually gets fairly expensive to buy pet food through them.”

- “The Internet is becoming a better competitor all the time in the sense of keeping pressure on us. We never used to have to worry about free shipping. Now Walmart, Chewy, other sites do it. That hurts because it levels the playing field in terms of price. And then in terms of convenience, obviously clicking a few buttons beats driving to the store.”

- “We are responding by leaning more toward things Walmart and Chewy don’t or can’t deliver. Until you can order a house call from a dog groomer from those sites, you can never get bundled food and toys alongside the grooming. On the other hand, this is where we are getting competition from veterinarians, who will package a full diet along with your medical checkup or your boarding or your doggie daycare.”

### Other

- “I tell my people to try for at least 50% above the food bag per visit, but I’m happy with 25% to 30%. If you’re already paying $50 a month for dog food, you’re going to be comfortable throwing another $20 onto that for miscellaneous. It’s practically a blip in the overall budget at that point. As you go down, it gets harder to get real dollars out of the wallet. Where we stop is where pet food itself becomes the blip in an overall grocery budget. Those people are happier in the actual grocery.”

- “I would love more products that really make shoppers perk up and say ‘wow.’ If the product line is unique, we don’t have to fight to have people come in. We can simply open the doors and let the product do the talking. The new products we have now still have to be actively sold. That’s not what the function should be.”

- “We sell a lot of Innova and Nutro in both dog and cat. In general we have dog people. I think the cat people tend to stay at home and have their food delivered. I rarely see them or their pets.”

### 2. District manager in the Southwest; repeat source

Sales are up a bit but still not on target. Some high-end customers have defected, but the premium food brands are still growing as a part of the overall basket. Discounting is somewhat more aggressive in order to encourage shoppers back to the brick-and-mortar stores. Online has cut into sales, and some online competitors may also be gaining ground.

**May 2013:** Foot traffic was steady, and premium food sales were trending upward in this relatively mature territory. Incrementally larger cart value primarily represented the increased presence of higher-quality food. Service seemed to be under a little pressure, but this might have been a seasonal fluctuation. Toys and other hard goods were neither suffering nor moving up market in line with food. Only Petco posed a credible competitive threat in the region.

### Sales Trends

- “We are up a few percentage points over last year. I’d say flat to a little higher, which is disappointing but compared to last quarter it’s actually great.”

- “The weather is better, and people are getting out more. I’m not sure we’re back to where we should be—people evidently bought their pet food from somewhere during the winter—but we’re closer to being back on track.”
“High-end food is up in terms of unit volume and of course dollar sales. The midrange bulk is a little soft. I wonder if people are buying more of it online.”

Pricing
“Prices are not really rising much on a per-pound basis in food because these tend to be bulk bags so we want to keep the overall price point from giving people a shock.”
“Toys and beds are pretty firm but not really rising. We want to bring people in before we start taking more of their money.”
“Discounts are a bit more aggressive on the low-end items to move bags and surplus inventory. Basically, we are pushing our closeouts a little closer in on the sales cycle in order to bring people in and incidentally unload some generic merchandise that wasn’t selling anyway at full retail.”
“The discounting picked up around February and has remained pretty robust compared to last year, but we aren’t getting more aggressive now. It’s a steady pace.”

Online
“I’m not sure if online is a real threat, but we are hearing that our really high-end customers are going elsewhere in pursuit of really premium foods that only veterinarians and foreign companies recommend or carry.”
“Amazon is not hurting us. I hear about Chewy sometimes. That’s a new thing.”
“We have had some good customers switch to the company website and delivery because they didn’t want to leave the house so much in the winter. I run into them now and they are apologetic, but I understand where they’re coming from. It’s all the same, ultimately. As long as they don’t go to Petco.”

Other
“The goal is to load the basket when the customer comes in for routine food. Otherwise there’s no reason not to use the website.”
“Our dog basket target skews at least $10 up from the food for some chewables. Toys are optional, but the real goal there is the rawhide and other treats. Cats are not as treat-driven, but remember, cats entail a big box of litter every few weeks.”
“I think our top brands are in flux right now, to be honest. We are trying to consolidate our food aisles and give more space to our in-store brands. We are all about Simply Nourish, for example.”

3. District manager on the West Coast; repeat source
Food sales are rebounding fast enough to help compensate for continued softness in nonconsumable merchandise, but the overall sales trend remains challenging and only a small percent ahead of last year. Hard goods for pets have hit a wall in terms of market saturation and price point, making cross-selling efforts difficult. Online competition also may be an issue. Services have been a surprisingly robust driver of store traffic, sales and growth. Locations without service centers are not recovering.

May 2013: Store traffic was steadily increasing. A shift toward higher-end food and exclusive products was boosting the basket average. Premium food already accounted for about 40% of the category’s dollar sales but only 20% of unit sales. Additional migration was possible. Vitamin sales were strong. Increased household spending on food was not cannibalizing hard goods. As hard goods shifted up market into more durable products, the category was essentially cannibalizing itself. Online had penetrated as far as it can. “Showrooming” was not a concern as long as proprietary and exclusive brands dominated the product mix.

Sales Trends
“I’m not going to give you an absolute number, but we are still recovering to levels where we were about nine months ago. Year over year we are running a few points ahead of last summer, but that’s largely due to stronger activity in our PetsHotels and other service centers. Those are the real ace in the hole we have now.”
“Our food sales started dragging about this time last year. The problem was that the [inventory] reset didn’t really drum up a lot of interest in our in-house brands and the outside super-premium brands, for whatever reason, weren’t making as many new converts as they had been before. That was bad, but it happens. It already seems to be picking up again in the last few months.”

“I am not happy with where our hard goods are. They are not drawing new people into the stores or making us much of a destination beyond what the food brands already make possible for us. People very rarely come in for a dog toy and add some dog food as an extra. It’s almost always the other way around, but we need them to pull more weight as destination products in themselves.”

“As it is, it can be hard enough to get the food buyers to add a toy to the cart. My thinking is that the hard goods have simply gotten too high in quality to let us keep up-selling forever. The dogs have plenty of nice toys now that aren’t being chewed up instantly. They have all the sweaters they want. They have a nice bed that will last for years if not for the entire lifetime of the pet. Until we can find new things to sell to those households, all we really have left is the consumables.”

“The only other direction I can think of is true pet luxury: boutique furniture, designer clothes, pet jewelry. I’m not sure that’s our kind of store though. As it is, our toys and treats are as expensive as what people buy and feed their children in a lot of cases. That’s OK because the pets are the children sometimes, but there’s not much higher that price can budge.”

“Stores without PetsHotels have really suffered. I have a few service centers in my territory, and you can see that the stores with service centers have bounced back along all categories. Food has remained strong because these stores can demonstrate new food when the pet comes in. Toys have remained strong, furniture has remained strong. If the animal comes into the store, you can sell to the animal and the pet parent will see the value.”

“Services are also a lifesaver because it’s a differentiated business that’s independent from food or toys. It’s not a fixed monthly purchase. It’s not a limited market that people stop buying into when it fills up their house. It’s a haircut that grows out and needs to be renewed on a regular basis. It’s recurring business over and above the food dish.”

“Among my colleagues in other districts, I would say those with service centers are doing OK because they have a way to bring new people into the stores and sell to the animals when they arrive. It’s a regular appointment to come in. Those without a lot of service centers are having a much harder time. I am not sure those stores will come back at all until we get a new product that everybody wants.”

Pricing

“Pricing is stable. We mostly discount services as an excuse to bring people in. There’s a little inflation, but most of it is on our cost side, not the product pricing side in terms of something we pass on to the customer.”

“Promotions are down from the spring, when it was all hands on deck to boost store traffic.”

Online

“Online competition can be a reason why our food sales flattened out. People know our product line now. They know what they like. They’re tempted to shop around for a better deal. Sometimes they find it. We need better exclusive products.”

“I am not seeing much competition from Amazon because our prices are actually lower, even if they throw in free shipping. They are not discounting.”

“Other sites might be discounting but they are not providing extra product suggestions like we do. They are more along the lines of someone is looking for a specific product—usually food, I think—and Googles around until they find the lowest price. Then they grab it and nothing else. The good news is that that person still needs toys and fun things. The bad news is that unless we get them to come in again for that food, we can’t sell the toys as well.”

We are still recovering to levels where we were about nine months ago. Year over year we are running a few points ahead of last summer, but that’s largely due to stronger activity in our PetsHotels and other service centers. ... I am not happy with where our hard goods are. ... People very rarely come in for a dog toy and add some dog food as an extra.

PetSmart District Manager, West Coast

Online competition can be a reason why our food sales flattened out. People know our product line now. They know what they like. They’re tempted to shop around for a better deal. Sometimes they find it. We need better exclusive products.

PetSmart District Manager, West Coast
Other

- “I would like to say we have goals on every bag of dog food, but it’s really a matter of trying as hard as we can to sell something on top of the bag. That’s our goal right now.”
- “Blue is our star. Nature’s Variety. They’re not the majority of what we sell, but we would like for them to eventually be the biggest piece of our overall food department.”

4. District manager in the Northwest; repeat source

Although the current quarter is promising, growth has been only 1% to 2%. Affluent households already have migrated toward higher-price pet foods and tend to purchase toys and other merchandise online. Bringing mass-market customers into the stores is the key to sustainable expansion. Food sales remain dominated by nonproprietary premium brands. Services remain a loss leader.

May 2013: Sales were increasing slightly based on inflation, but premium food sales were proving somewhat elusive outside of urban areas. Affluent households in the area tended to do their own pet dietary research and then buy specialty products online or from independent service providers. Pet supply stores operated as regional hubs for infrequent visitors to stock up on staples as well as exclusive products. Toys and other impulse purchases were relatively weak. The store’s service mix favored boarding over grooming, giving it a chance to demonstrate its premium food. Neither Petco nor PetSmart had a natural advantage in the region, but independent retail was hobby-oriented and regional chains were nonexistent.

Sales Trends

- “We’re still doing OK in the current quarter: not great but good enough. We are primarily a bulk food warehouse, which means operating as sort of a dry food big box with point-of-sale add-ons and eye-catching displays designed to increase that overall cart while they’re here. On that level, overall sales here are maybe edging up 1% or 2% over last year. It isn’t spectacular, but we are growing one customer at a time.”
- “The winter quarter was good but not great. People around here are used to bad weather and shop in bulk to prevent being trapped behind a blizzard with no dog food, for example. They came in a little less often over the winter than normal, but when they came in they bought more than normal in order to stockpile. We are still coming out of that cycle as the big bags finally run empty and people are coming back in again.”
- “The challenge we are facing is how to convert people who otherwise buy dog food the same place they buy their own groceries. If you don’t want to make too many trips over the mountain, convincing you to make a special second stop just to pick up dog food is a bit of a psychological hurdle.”
- “Cat toys are always going to be behind dog toys just because people baby their dogs more than they do their cats. The bonding is different. Cats don’t wear clothes. Cats don’t really like furniture the same way dogs do. Those products are stubborn.”
- “Whatever is new in dog accessories is a top seller purely for novelty. Our job is really to push new merchandise through those shelves to give shoppers that ‘I don’t have that yet’ impulse that might get them to add it to the cart. Otherwise there are only so many beds and balls you can buy.”
- “In food, the raw brands are slow, and in general our house natural brands are not where we would like them to be. The push with the wealthier shoppers has been science brands with extra nutrition—the kind of thing a veterinarian would recommend—so that is doing all right.”

Pricing

- “I don’t think inflation is an issue here. This is really a bit of a luxury product in the sense that it isn’t basement-grade pet chow you get from China by way of the bottom supermarket shelf. We are still successfully urging people to upgrade their food, not seeing them move back down the scale because price is becoming a problem.”
- “We aren’t really running more promotional offers over this time last year. Maybe a little more to get the raw brands and other natural foods moving, but that’s really more customer education and outreach than banging a drum. A lot of our promotional activity is through the service center so we know we already have a customer with money.”
Providing coupons and discounts and samples after a grooming or during a boarding session turns people on to our higher-range products.”

“Other than new product outreach, our promotional activity has actually calmed down since the winter and spring. At the time everyone was focused on building store traffic at any price. Now the trend is better, and we can relax a little.”

**Online**

“I don’t really know how to judge whether online retail is digging into our business. Based on store traffic, we seem to be back on track so people are coming in again. I don’t know whether that means they tried online shipments from our site or somebody else a few months ago and it didn’t work, or they simply dropped off our radar. I know they didn’t go to Petco.”

“I would say there is probably a bit of pressure on the products we stock that people can get anywhere, but that’s true offline as well as online. We are focusing on products that only exist in the PetSmart world and there’s a lot of store-only formats as well. We want the site to drive people into the stores so they can pick up impulse buy items as well as the food they came in to get.”

“On that level maybe pressure from online competitors and even from our own site is becoming a little less of a problem. Every product we sell that someone can’t get anywhere else is a win for us. We want to sell more of those products and less of the things that Walmart or Alberton’s can fight us on over price. Same with Amazon or any dedicated pet website.”

“If they don’t come in here, the next best thing is PetSmart.com. At least the company gets the sale and our competitors starve. But the goal is to get them to come in here because this is where the impulse buying happens. Otherwise people buy a bag of food or some kitty litter on the site and they’re done. No toys, no clothes, no treats. And definitely no grooming or boarding or veterinary checkup.”

**Other**

“We try to sell about $10 to $20 in accessories on a $30 pound bag of food—roughly one customer visit—and $20 to $30 on a $50 pound bag. That’s how it scales.”

“Dogs are easier to sell toys and clothes, as I said. Dogs have birthday parties where other dogs come over. Cats do not. It’s just a fact of life. We make up for it because a meal for a beloved dog costs about what a cat meal costs in a similar family, but with cats the litter is extra. We can sell double the ‘food’ to a cat than to a dog because half of it is litter.”

“Across dog and cat the top sellers are Blue, Innova, Nutro. Maybe that’s 15%, 20% of our food mix right there. Dog is more fragmented in terms of customer loyalty. They like choices. Cats are finicky anyway so once you find a brand the cat will eat, you stick with it and don’t experiment.”

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5. District manager in the Southwest; repeat source

Same-store sales have hit a near-term wall with an estimated 1% year-to-year increase because of a saturated market and a lack of fresh upsell opportunities. Product development has been slow to address the problem. New products like raw food require significant investment in training and customer education while services have proved challenging to scale.

May 2013: Sales and foot traffic trends were positive and momentum was good. PetSmart still was finding organic expansion opportunities, even in this relatively mature territory. The process of shifting food up market might take a generation to fully exploit but will be extremely lucrative for the winners. Prototype small-footprint stores will focus on service and premium food, essentially taking over independent boutique operators’ role. Hard goods and bulk food were peripheral categories. Petco will remain the only serious competitor on an international level unless smaller chains engage in massive consolidation.

**Sales Trends**
“The district is tracking 1% to 2% percent above last year but maybe 3% to 4% above the previous quarter. The seasonality is normal. Post-holidays is usually a little slow because we’re out of the pet gift season and back on a maintenance food routine. Also, some pets that overindulged go on diets.”

“We added one store last year, but it’s already factored into the quarter-to-quarter trend and is only a little bit away from having been open a full 12 months. Maybe it’s bringing in an extra 1% in total sales for the district overall. Factor it out and the district is up about 1% so far this summer over last year.”

“I think it’s just how things go. We have built out our footprint, and people across the territory know us and what we provide. The easy customer wins are already on our side at this point, and it gets harder from here to reach out to people who don’t know us or haven’t experienced the benefits of buying pet products from a specialist store.”

“I could list specific SKUs, but I don’t think it would be too surprising or really relevant. By the time the quarter rolls around, specific products that were hot because of seasonal or holiday tie-ins will already be cooling off again. In general, food is still growing in terms of dollars per regular customer as we keep introducing people to better formulations and higher-price-point alternatives.”

“Products in hard goods keep churning to favor newer initiatives from Martha Stewart and other brand partners while cycling back on older things that people have already seen and either bought or not. On the whole that category needs a fresh start.”

“There are only so many things people want to buy for a dog, much less a cat. There are only so many sweaters or shoes or costumes or balls or games or beds or bowls or toys. I know some new things are in the pipeline, but they haven’t come around fast enough to really make it easier to keep the ‘fun’ side of the cart growing.”

“Food has been tricky because most of our efforts have gone into really innovative approaches to feeding the pet: natural meals, raw meals, products that take time to ramp up in terms of customer awareness and our own internal organization. I think that will restart our growth, but it won’t be for another year or two before it really takes off.”

**Pricing**

“No real discounting. We have been working with targeted promotional offers to bring people who haven’t been in for a while back to the stores and reward loyal customers. That is constantly a work in progress as we get smarter with our promotional dollar. If anything, the pure amount we rebate has dipped a little over the last year because we are assigning our programs to smarter channels.”

“Product to product, pricing isn’t increasing or decreasing. Our goal is to move people up toward higher-priced food and then gradually retire shelf space given over to the low-cost brands.”

**Online**

“Websites are welcome to sell that low-cost food to the 80% of the local population that never comes into our stores. Maybe those people go to Walmart, maybe it’s Amazon, I really don’t know. I suspect it’s mostly Walmart. Amazon shipping on 50 pounds of dog food costs a fortune unless you get a really good deal.”

“My guess is that at worst online is nibbling at our growth but not stealing many customers. If we bring people in once a month or two, we feel like we’ve won. We want to bring them in. We don’t want to sell every pound of dog food because a lot of that food is not really something we want to sell.”

**Other**

“Ideally we would load at least $10 worth of toys and treats around every bulk bag. Bigger bags get as many toys. Higher-price-point brands get nicer toys.”

“Blue Buffalo is our flagship, and Innova, Nutro and [Nestlé S.A.’s/NSRGY Purina are also stars of our dog food line. We push a similar brand set to cats because that’s where the customer awareness is: Innova and Nutro have science behind them. [Colgate-Palmolive Co.’s/CL Hills is also big with the cat families. It’s still mostly dry food with cats. Between these brands, it’s about 20% of our food cart on a good month. I would obviously like it to be more.”

“I would also like to be able to cross-sell services into the food-heavy cart a little better. Services are an obvious win for us because it’s location-based. You can’t buy a haircut on Amazon. But we can’t give an impulse haircut out with every store visit. You have to bring the dog in special and that takes planning and appointments. We couldn’t make...
that many appointments even if people were interested in it. Grooming and training and so on are still a fringe business. There’s room there to grow, but we can’t really fuel that growth as effectively as we can push other categories.”

6. District manager in the Southeast; repeat source

Sales growth has stalled as local brick-and-mortar competitors fight back and new products like frozen foods start their cycle. Summer is seasonally difficult so it may take time for all territories in the vicinity to regain momentum. Promotional activity is accelerating around services in order to boost store traffic. Online is not a threat.

May 2013: Although Pet Supermarket was expanding aggressively as a low-end competitor, more established specialty chains were using product exclusives to move up market and avoid price pressure. Foot traffic was holding up, and the basket average had improved slightly. Food and pet vitamins were an obvious growth market. E-tailers were not a threat.

Sales Trends

- “Growth is not at a level that makes us happy, but we are doing what we can to turn things around. Our winter was actually quite good. Spring has been decent, maybe a little expansion, a few percentage points. We were actually the beneficiaries of the bad weather everywhere else in the country. But now that puts us on slightly flatter footing as we move through spring into summer because our sales were frontloaded.”
- “We are having a little concern with Pet Supermarket moving up into our basic bulk-food business. It isn’t really a serious danger in terms of stealing our more premium customer, but it does dig into our overall footprint and results. Petco is also a real rival where we are as well.”
- “The new fresh and frozen foods have been a bit of an organizational and marketing hurdle. We think we’re beyond the initial setup, so now it’s time to teach customers how it works and why it’s so great for their dogs and cats. I’m looking forward to that process. In the meantime it’s been a bit of a lull between killer products. The big push this year was warm weather clothing like dog swimsuits. Guess what? We sell summer gear all year-round, so it’s not exactly changing our shelves.”
- “I think things are a little challenging for all my neighbors. It’s summer, which is the opposite of where the seasonal peak is for most of the rest of the country. People aren’t excited to be going on pet picnics here. They’re leaving the area for somewhere cooler. That takes the wind out of our sails and our sales as we move back toward October, November.”

Pricing

- “Prices aren’t really moving in one direction or the other. We aren’t discounting or rolling prices back. We are giving out samples or even coupons toward samples, so there’s still a sale to ring up.”
- “What we are doing is a lot of add-on offers to give people a reason to come into the Dog Spa to get a free sample of something we are trying to promote. They try the new products, which is great because these are store-only items in a lot of cases, and we get them to come into the grooming area as well as the store itself.”
- “The goal is to get more visits out of the year-round population we do have access to as we shift into deep summer. It might not have much impact on our merchandise sales or the number of bags of food we shift, but it can shift those bags up in terms of price. And down the road, we’ll see the improvement in terms of incidentals: more frequent visits tend to mean more bottles of vitamins, more toys, more treats.”

Online

- “I am not really concerned about Amazon because they don’t have a freezer section. If they did, the shipping costs would bankrupt everyone. Fresh and frozen food turns us into a pet grocery, which is a fair amount of growing pain but in the long run protects us from online competition. You can’t sell raw meat by mail.”
- “The grooming center is another area the websites can never touch. Our real competition is with independent kennels and veterinarians that sell food on the side, and of course with Petco.”
“I have heard about Chewy and Wag, but it’s the same general thing. They might be able to make inroads on bulk dry and canned food at the quality we offer, but that’s really all they sell. They’re dog and cat food boutiques. We have a more direct and immediate offering here with the grooming and other in-store services, as well as products with very limited shelf lives that won’t ship well.”

Other

- “The way the pricing works out, a treat and regular vitamins fills out the typical food cart pretty well in terms of hitting our goals. Maybe it adds $10 to $20 per monthly visit whether you’re looking at a $30 bag or a $50 bag.”
- “After that, since someone is already pushing a cart around, it’s our job to wedge whatever we can around that bag. That’s the part of the cart that’s having a little trouble right now, simply because the product line is a little tired.”
- “Our real goal is to upgrade the food bag with more raw and fresh and natural foods. Blue [Buffalo] Wilderness is the big success story there, especially for dogs. Cats are trickier. [Nature’s Variety] Instinct is doing better for cats. Right now the top brands aren’t really a huge part of our overall sales but we are working to make them more popular as we phase away from brands like Purina that you can buy anywhere and aren’t really great for your pets.”

7. District manager in the mid-Atlantic; repeat source

Food sales have continued to improve, but first-time customers have yet to embrace new products in other merchandise categories. Economic uncertainty surrounding the fourth-quarter government shutdown and unusually severe weather suppressed nonessential consumer activity. New brands have been slow to catch on. Although services are a bright spot in terms of growth, the base is low. Online is not a threat.

May 2013: Overall sales accelerated slightly as the chain’s new product mix built traction. Food was by far the biggest growth driver in dollars. The process of converting U.S. pet owners to premium food still was in the very early stages. Most food sold in local PetSmart locations was weighted toward proprietary or exclusive brands, leaving more bulk-oriented food to the grocery and big-box channels. Local competition was limited to Petco and independent retailers, all of which were suffering erosion in their core grooming and boarding business.

Sales Trends

- “The sales trend is positive again, but I’m not sure we’re back to where we were last fall. It’s been a very challenging season with the government furlough keeping people out of the store last year—we get a lot of government workers and other people who depend on that for their paycheck in one way or another—and then the freak snow that kept the customer coming in to buy the food and maybe look at the other things. Anyway, with a disruption of a week or two, you can keep most of them on the habit. We had a lot of disruptions early this year and going into last year, so we have a lot of retraining to do.”
- “Food is still edging up because our SKU mix is still edging up into higher pricing per bag on average. That might be isolated to us. I don’t know what it is like across the company. We can keep growing on food even if we run out of new customers and some of the old ones pull back.”
- “I am not happy with where the supplies have gone. The people who kept coming in paused their nonessential buying. A lot went back to buying only the big bag of food at roughly the level they were at last summer. They cut out some of the toys and costumes and things like that.”
- “The complicating factor is that we moved in some new products late last year and they’re taking time to catch on. Fewer new, instant hits means a slower adoption curve there, which means lower overall sales in that category while people catch on to why this is such a fun product for their dog or cat. This is especially true with the new people we get. They’re just buying the healthier food. They’re back at square one as far as the toys and costumes and treats go.”
“I’m not thrilled with what we’ve seen, but it’s not our fault. I think we’ve held onto our shoppers pretty well through the store brands. We didn’t see many people leave us completely. They just come in less often and buy less besides food.”

“The service center has actually been a real lifesaver because it is not a luxury treat for most people. It’s regular maintenance for a dog in particular. Grooming and training and scheduled play time force the family to come into the store with the dog. They can try new things in the store. They’re more inclined to buy. You can’t get any of that with the web site because dogs can’t play online and you can’t cut a dog’s nails online.”

**Pricing**

“Pricing isn’t the issue. Most of our promotion is on the new raw and high-protein formulas in order to keep ramping up the price point on regular food buying. Nature’s Variety, Blue Wilderness, [WellPet LLC’s] Wellness. The goal there is to introduce those brands and that style of food to existing customers and encourage them to come in a little more often.”

“Promotions are about the same frequency as three months ago. It is more of a factor than it was a year ago because we have the new foods to introduce. It’s not so much about outreach to people who have never set foot in a PetSmart. It’s really brand-oriented, a pinpoint thing.”

“Sure, we discount all kinds of things online, but the one issue is that we don’t cut a dog’s nails online.”

**Online**

“I don’t think this is a threat because of the dog nails cutting problem you have online. You don’t bring the dog into a website. There’s very little browsing. You can’t let the dog guide you to what he or she wants.”

“Our own website is similar. It’s a great site but you can’t trim the dog’s nails there and browsing is pretty minimal. People go to the site for necessities and that’s it. We want them to come to the store for fun things beyond the necessary.”

**Other**

“We used to make about half of our overall sales on food and a third on hard goods, with the rest at the service center. Now the hard goods have come down on a lot of transactions, but the ones we are still getting into the cart are higher-ticket items so that balances out a little. Volume is down a fair amount. We are still rebuilding there. Luckily the people who do keep buying toys are the ones who buy nice toys.”

“Maybe one person in 10 who used to buy a toy or a treat regularly a year ago has gone down to just the big bag of food. The toy and treat are becoming occasional splurges for that person. The other people are still pretty much where they like them to be: filling the cart here and there.”

“Among all our cat and dog brands, we are pushing Blue Wilderness the hardest so it is becoming a key part of our sales profile on both sides. Otherwise in any given week the standard mix is still there: Hills, old Purina, Nutro, Innova. It really varies so widely on the dog side in particular that I couldn’t tell you in more detail, and Blue Wilderness is of course growing.”

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8. **District manager in the Northeast; repeat source**

Sales have recovered, but sustainable growth is elusive. Although consumer sentiment rebounded in late spring, rising gas prices have emerged as a drag on sales. Extreme winter weather interrupted shopping patterns to the point where significant incentives were required to motivate regular store visits and fight online competition on commodity product categories.
May 2013: Premium food was definitely the strong spot of PetSmart’s product line and a major driver of store traffic. Consumers viewed increased spending on food as a way to add value to their pet relationships and to minimize veterinary and adoption costs. Character toys and designer accessories also were selling well. More generic hard goods lines were under pressure from online and offline competitors. The new generation of smaller PetSmart stores would emphasize higher-priced, exclusive products.

Sales Trends

- “The good news is that we are back where we were last year in terms of sales and can now start laying the groundwork to grow again. Of course that means that we are nowhere near where we wanted to be nine months ago.”
- “The spring was good, but it feels like it was preloaded in terms of pent-up frustrated demand for fun. People wanted something nice and bright around the house for months but didn’t want to leave the house. They wanted to shop and buy things. Now they’re out again and seem to have scratched that itch. The question is where they go from here.”
- “Right now the stores are busy again in terms of traffic. People are coming in. Sales of consumables are holding on strong, maybe climbing a bit. Sales of non-consumable discretionary merchandise—toys, apparel, furniture—never really caught up again. There was a spurt back in late March and early April and then activity dipped back.”
- “Gas prices are a concern now. People feel OK about the economy, OK about their jobs. If they can find room in their budget to shop, they’ll happily shop. But with gas back up around $4 a gallon and going higher, room in the budget is looking a little tighter again.”
- “My neighbors are maybe in worse shape in terms of what the winter did to them. In the more urban areas, public transportation shut down day after day, digging into the overall number of people who could come into the stores at all. I think those territories lost a lot of faith customers to either our website or other companies’ websites. Whether they get those people back or not is a big question.”
- “We have a more suburban base here and they are used to a little weather, so they kept coming out to get their pet food. We just need to get them back to where they were in terms of frequency and filling their shopping cart.”

Pricing

- “There is definitely more interest in this part of the country in enticing shoppers back into the stores. ... After a few weeks of snow went by, some people slid back onto old habits because they needed food and weren’t able or willing to get to one of our stores. They went to a grocery or a Walmart and tried the best food available there as a necessity. Maybe the dog or cat loved it or hated it. If the animal hated the food, that’s great. But if it was a neutral or positive reaction, that food bowl that we used to own is now back in play. We need to rebuild our ownership there.”
- “Step one is bringing them back into the stores with whatever loss leaders or incentives or coupons or free samples we think that will take. Our promotional activity has stepped up a lot now that we know what we’re up against as competition for that food bowl.”

Online

- “Online ordering really did hurt us over the winter in terms of losing sales of our house brands to Petsmart.com and losing more generic sales opportunities to any number of competitor sites. What really hurt, though, is losing the habit of coming into the store when the bag looks empty and the cans are gone. That’s the habit we have to rebuild.”
- “I can’t say where lost sales go because we don’t track people. My guess is that 90% of the lost sales in urban areas went to online and maybe 50% in the suburbs went to online. The rest went to mass-market outlets: Walmart, the supermarket, wherever people bought pet food before they found out about us. One way or another, pets need to eat. If people don’t come to PetSmart, they’re either buying online or at another store. Our loss is those other outlets’ gain.”

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PetSmart District Manager, Northeast

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PetSmart District Manager, Northeast
“I haven’t heard a lot about Amazon becoming a pet food player. I would be more worried about Walmart.com the next time people’s shopping habits get disrupted. Walmart is more of a food option. People know they can buy pet food there, and it’s got a free shipping offer on most orders. With Amazon, shipping becomes outrageous unless you pay for Prime.”

Other

- “Until we get that food bowl back and get back to trend on growing there where we want to be, upselling to a particular category of nonconsumables is secondary in my mind. I love it if I see someone split their cart 50/50 with food versus everything else. More realistically if we can get some food in a cart, I am happy. That’s where we are. A $30 bag or a $50 bag is a win. Toys and everything else is a little in the background.”
- “That said, a $4 or $5 treat bag or some vitamins on the way to the cash register is pretty compelling and is an easy win. If a few people also get a princess costume or decorations for a dog birthday party, we’re back on trend with the nonconsumables as well.”
- “Our proprietary brands actually held up better than anything else over the last year, simply because these are things you can only get in our stores or on the website. Simply Nourish on the dog side is more of a hit for us than ever because the legacy Alpo business is still dropping away. In cats, Authority is our top seller. We have high hopes for Nature’s Variety and Instinct, even though those are outside brands.”

9. District manager in the Northeast; repeat source

Foot traffic has rebounded and sales are bouncing back from a bad winter, but neither is meeting management targets. Pricing is steady and even inflating in some price-sensitive categories. Discounting is restrained. Amazon is becoming a threat. Although the source was quick to point out differences in online versus offline channel strategies, some defensiveness was evident.

May 2013: Foot traffic was flat at best throughout the first quarter although shopper enthusiasm picked up as the weather improved. Although shoppers were converting to higher-grade food, overall cart growth was up only 5%. Service was a sore spot. Competition was unusually intense given the persistence of strong independent stores as well as Petco. Online was a threat in densely settled areas.

Sales Trends

- “It’s rebounded nicely compared to where we were over the winter. We are seeing shopper volume back near where we want it to be and can look at growing again. I think overall through the region, sales are up 5% to 10% over last year as more pet parents move toward better food.”
- “Just about all the increase is the migration in food brands. We are seeing our most dedicated customers move up the chain, and we are bringing new people in all the time.”
- “We are still not 100% happy with the trend because it seems like every year the winter gets worse and a few people shift their food buying to delivery and never come back in the stores. When that happens, we lose the chance to sell them treats and furniture and toys every month or so.”

Pricing

- “Prices haven’t really changed. Maybe a little inflation around the healthiest natural food brands because those are more closely tied to raw meat prices but otherwise not much movement. We definitely don’t have much power to raise prices SKU by SKU after the winter we had.”
- “Discounting is there but not a huge factor. Instead, we are seeing our regular customers and even the newcomers shift up a little every visit in terms of what they want and what they’re willing to pay. Moving them toward natural brands like New Instincts will obviously help with that.”
- “New Instincts is not selling gangbusters yet because it’s new and we are still working out the kinks of how to position it in all the stores. We are discounting it a little to get people used to it. It’s different enough that we need to offer a little at a lower price point and then go back to what the food is actually worth in the grand scheme of things.”

Amazon is finally becoming a competitor now that Amazon Prime is getting traction. I hear a few people come into the stores looking to match Amazon pricing and coming away disappointed or angry. But really, Amazon competes with Petsmart.com. We work toward a shopping experience that’s more than a commodity.

PetSmart District Manager, Northeast
Online
- “Amazon is finally becoming a competitor now that Amazon Prime is getting traction. I hear a few people come into the stores looking to match Amazon pricing and coming away disappointed or angry. But really, Amazon competes with PetSmart.com. We work toward a shopping experience that’s more than a commodity.”
- “Otherwise, I couldn’t really name any online stores that are getting traction against us. This is a heavily ecommerce-oriented part of the country because of the weather, not everyone drives in the cities and there’s a lot of high-tech workers who are always online anyway. We cater to those who for whatever reason want to come into a store and shop.”

Other
- “I guarantee you we upsell more than the website does. Cat food goes home with vitamins and litter. Dog food gets a stuffed animal, an antler, something to chew on. That’s intuitive but given the price per pound on the foods, every antler or vitamin bottle can multiply the amount we get every customer to spend in the store by 25%, 30% even double in some cases.”

10. District manager in the Southeast

Sales are 1% ahead of last year, but flat from the spring. The goal is to avoid a step back as food purchases level off. Price and promotion have remained steady, and there is little fear of online competition. Hard goods sales are the same whether the customer buys premium food or not.

Sales Trends
- “We are not losing ground at the moment. I think the summer is a little ahead of last year on a comp store basis, but we are still behind where we were going into last fall in terms of absolute numbers. Part of that is seasonal because we don’t have the holidays to drive pet treats for Thanksgiving and pet presents for Christmas. But part of it is just that there’s nothing that’s really exciting people as a must-have item this summer.”
- “All in all we might be up 1% over last summer and flat from the spring. It seems to have hit a lazy period in terms of growth. Of course we would like more, but this is how it goes. When this happens, the goal is to avoid any backsliding. Hold onto what you have.”
- “Food seems to have leveled off in terms of what people are buying. It’s not Alpo, but it’s not ultra-premium raw food either. I think raw food disappointed some people because it hasn’t caught on overly fast. Toys and clothes are about the same as ever. Not many people come in special for a toy unless they’re going to a dog birthday party, which is still relatively rare compared to the food shoppers.”
- “I think it’s the same with everyone around here. Our population is still a little nervous about the economy. They’re not upsizing as much as they were a year ago. They’re cooling off a little on committing to new standard of living for their pets as well as themselves.”

Pricing
- “Our prices are about the same. Same general price point, same general basket size, same general grade of food. There is a tiny slide toward higher-grade food but that’s really our mix. I don’t know if our shoppers feel any fancier or free with their money. It’s just that they pick from what we have and what we have is edging up on a storewide basis.”
- “Our promotions are about the same level as they were last year. We were always pretty active in getting the word out on our great products and services.”

Online
- “I don’t think that’s a real problem. Amazon is expensive even if you get free shipping. They aren’t geared toward the extreme discounts they offer in books. I checked and we have the same prices on our site as we do in the stores, and it’s usually $1 or $2 below Amazon.”

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PetSmart District Manager, Southeast
“If our shoppers go to some other site, we must have made them unhappy. From our floor traffic, I don’t know if we’ve made too many people unhappy. We keep getting roughly the same number of shoppers coming in as we did last summer.”

Other

“Other.

“We would love to add $10 worth of treats and toys to any store visit. The thing about treats and toys is they really aren’t distinct in terms of ‘premium’ and ‘super-premium,’ so the $30 bag of food customer and the $50 bag of food customer are similar here.”

“Cat people save up their love and buy a scratching post or a bucket of catnip instead of a sweater or a stuffed animal. If they love their cat enough to buy toys, they’re already the kind of person to know what their cats hate: stuffed animals, little mice, sweaters. Also, cats don’t come in for boarding ... and they don’t come in for grooming. We are oriented toward dogs.”

“In terms of dogs, Innova is big here. Simply Nourish, Wellness, Nature’s Variety. They’re easily 10%, 15% of our dog food sales right there.”

2) PetSmart Store Personnel
Four of seven sources said their store’s sales increased in May and June. Two were comparing year-to-year sales, while another said sales climbed from the previous quarter. The fourth source said sales were still below expectations despite growth from the previous year. Three other sources said sales were even with the previous year. Two sources said dog food sales were on the rise among high- and low-end brands but were slowing for midrange-quality brands. One source said sales of toys had fallen off. Four sources said store prices were unchanged, while two others said prices were climbing slightly but remain lower than competitors’. Two sources said discounting was higher as they try to entice customers into the store and introduce them to the new, higher-end food brands. Six sources said their stores are not affected by online competition, while one believes his store has been hurt by ecommerce. Customers typically spend an extra $5 to $20 on items when they buy a $30 bag of food. Blueshift observed 30% to 40% discounts inside and outside stores for the Fourth of July.

KEY SILO FINDINGS
Sales Trends
- 4 of 7 said sales were up in May and June.
  - 2 said higher year to year.
  - 1 said higher sequentially.
  - 1 said still not at expectations.
- 3 said sales were the same as the previous year.
- 1 said sales were up for dog food and down for cat food.
- 1 said high-end and low-end food increased, but midlevel food decreased.
- 1 said sales of toys have fallen off.

Pricing
- 4 said prices remain unchanged.
- 2 said prices have risen slightly but are still lower than competitors’.
- 2 said discounting is up as stores try to entice more customers into the store.
  - 1 said they are discounting new/premium foods with introductory offers.

Online
- 6 said online is not a threat to their stores.
- 1 said online is hurting the store.

Other
- Customers spend $5 to $20 in extra items on a $30 food purchase.

Store Observations
- Blueshift observed 30%- to 40%-off promotional signs in clear displays outside and inside the stores.

1. PetSmart store manager in the Atlanta area
Sales for May and June are better by 10% to 20% year to year. Although the source would not comment on the number of transactions, he said foot traffic has increased along with sales. Corporate is becoming aggressive with sales and being more consistent in discounting. Dog food and related products are the best-selling items, but cat-related products have been poor sales performers. Online sales are not an issue as this location price-matches. The average ticket is $30 to $35, and customers spend 5% to 10% over pet food.

**Sales Trends**
- “Our store sales for May/June of this year are better than last year. They are up by 10% to 20%. This year is definitely better for us compared to last year; last year we didn’t have a good plan.”
- “Our sales for May/June of this year compared to last year are higher than we anticipated. The strip mall we are in didn’t have a store next to us last year. This year a store has gone in, so traffic is increasing in our store.”
- “We don’t track the number of transactions, so I can’t give you a number. We look more at the average ticket.”
- “From what I see in the store, we have a lot of customers and, therefore, a lot of transactions.”
- “Dog food is always through the roof. Cat food or consumables for cats is down and selling poorly. We aren’t really seeing a difference in quantity of food being moved but in dollar amount. Mostly because people are feeding stray cats around and buy the higher-end food for the house cats and cheaper food for the strays.”

**Pricing**
- “Over the last year, our prices have remained the same but have increased over the last couple of years.”
- “I’d say the economy is affecting the retail prices.”
- “We are discounting more than a year ago. The company is getting more aggressive with sales. We are offering discounts especially on the weekend to drive customers into the stores.”

**Online**
- “Online competition is not having any effect on our store sales. We are very competitive with price matching of online pricing.”
- “Same goes for Amazon.com, etc. No effect.”
- “Customers aren’t shopping on PetSmart.com. They continue to come into the store. I expect that trend to continue especially since we are rolling out free shipping from in-store and the ability to order on iPads here in the store.”

**Other**
- “We don’t break down consumables vs. hard goods, etc.”
- “The average transaction across the board is $30 to $35, and the customers spend 5% to 10% in addition to food purchases.”

**Store Observations**
- This location was fairly busy on a Wednesday at 6:30 p.m.
- Four customers were checking out at the beginning of the visit. A family was waiting on their pet at the pet hospital, and another family already was in a waiting room. Two customers picked up their pets from the groomer. A few customers were browsing the shampoo and dog food sections.
- A big red sign on the front door offered up to 40% off select products July 2–6. Inside we noted yellow stickers offering sale prices on most items on the shelves. The middle of the aisle had bins and racks with 30%-off dog toys.
- There was a line of five customers waiting to check out while Blueshift’s reporter interviewed the manager, who then started helping at the register.
This manager said a PetSmart store that she had managed until a week ago saw sales double in the prior two months year to year, likely because customers were more aware of its existence. Corporate was surprised at the location’s big second year.

Sales Trends
- "I became manager here a week ago after serving two years as store manager at a different location nearby. At that store, we started out slowly because it took awhile for people to know we were there. They were used to going to Petco and other stores."
- "But sales really picked up in the second year. Our sales doubled for May and June compared to same period in the prior year. We kept adding items and didn’t really take any products away."
- "Sales were below what corporate expected in the first year and above expectations in the second year. It was hard to predict how much business we would get that first year. I think we will have a good quarter. Sales pick up this time of year partly because people buy more flea treatments."
- "Natural Choice has been a big seller in dog food. We just added Nature’s Variety Instinct and it is doing well. Tidy Cat is getting more popular as kitty litter. Nothing is really doing poorly."

Pricing
- "Prices are about the same as a year ago. The price from the vendor can be the main factor."
- "I don’t see many more discounts than last year, but we do have sales going on right now."

Online
- "I don’t think online sales are growing. People can’t get the same products online as they do in the store and they don’t get the customer service."
- "Online buying from the other pet sites doesn’t seem to be hurting our sales."

Other
- "A person buying $30 in pet food might spend anywhere from $5 to $20 on other items. People buying a $50 bag will spend a lot more, maybe $50 to $60 on hard goods and treats. They have more money, and they spend it on their pets."

Store Observations
- The store was well organized and tidy, with flea treatments and dog toys prominently displayed at the entrance.
- There were about 10 customers in the store, just a half hour after it opened on a weekday morning.
- Signs promoted a free dog toy with the purchase of any two dog toys, for five days only. Another sign advertised 25% off Mother Hubbard dog biscuits.
- A rack of brochures on Nature’s Variety Instinct grain-free dog food with a coupon stood near the front of the store. This is a new product for this PetSmart location.
- A large, front-window sign advertised 40% off on selected items over five days. Another sign stated $30 spent by July 6 would earn a $5 savings on the next purchase through August.
- Two dogs were being groomed at the front of the store. A Banfield pet hospital also was available.
- An older couple with a small black dog bought anti-flea products and a chewable toy. A woman bought 10 pounds of Milk Bone dog biscuits in a cart also full of a lot of varied bags of dog and cat food. One man bought about 20 cans of soft cat food.

I don’t think online sales are growing. People can’t get the same products online as they do in the store and they don’t get the customer service. ... Online buying from the other pet sites doesn’t seem to be hurting our sales.

PetSmart Store Manager, Kansas City

3. PetSmart assistant store manager in Wisconsin

This store is having a better second quarter compared with the first quarter. The company continues to open new stores while competitors are stagnant in the area. Since opening nearly a year ago, the store’s sales are solid and increase every month as people discover the location. The biggest draws are the natural foods and treats and fish. In a typical five-hour shift, a cashier sells eight large bags of dog food averaging $40 per bag, and 20 to 30 fish. Grocery store brands do not sell at this location, and most are written off each month due to date codes. Discounting is at the same level as the beginning of the year. The company is focused more on online promotions than on direct mail, newspaper fliers and
paper coupons. Online competition is not viewed as a big threat. Most people who purchase a bag of food also purchase natural treats and sometimes toys.

Sales Trends
- “For the company, second quarter might not be a major rebound, but we are doing better than first quarter here. I hope that is the case with all our stores.”
- “Sales in May and June are what we expected.”
- “Sales are improving every month that we are open. People are still finding out we are here. We are coming up on our one-year anniversary.”
- “This weekend has been slower than usual due to the extended holiday weekend.”
- “Weekdays are typically our slow time, with weeknights and weekends being our big days.”
- “Natural pet foods and, surprisingly, fish are our biggest draws. We sell a lot of fish.”
- “In a typical five-hour shift, a cashier sells 20 to 30 fish; on weekends, they sell 50 fish per shift.”
- “In the same five-hour shift, a cashier will sell about eight large bags of dog food, and typically most of those cost at least $35 per bag.”
- “Our average bag of dog food is $40.”
- “Commercial brand dog food does not sell well at this store—brands you would find at the grocery store.”
- “I end up writing off most of our commercial brand dog food each month due to expired dates. It is good to see people investing more in their pets here.”
- “More and more studies are coming out that say corn is not good for dogs so I see people staying away from products heavy in it. Mostly the treats that are corn-heavy.”
- “The number of transactions is increasing as our customer base expands.”
- “The nearest pet store is 15 to 20 minutes away, so we don’t have much competition here. We just need to keep getting the word out.”

Pricing
- “Since we opened a year ago, prices for consumables and hard goods have been pretty stable.”
- “We are discounting differently than we were a year ago. We are doing less direct mail, fewer fliers in the newspaper, and fewer paper coupons are being mailed out. The company is making a solid attempt to go green, so we are cutting down the amount of paper we use in marketing.”
- “Compared to last year, we do much more discounting through emails to our club members. It is free to join, and there are discounts every day for purchases online or in the store.”
- “We also have printable coupons sometimes right on our website. Then, the customers can pick which coupons they will use.”
- “We try to run promotions as often as possible. When we opened, we had a ton of promotions. We have fewer now, but that is not really a fair comparison since they were mostly grand-opening deals.”

Online
- “Online competition is becoming less of a threat. People like to come in with their pets. They like to try out the toys and see the products. You can’t hear how something squeaks online.”
- “I don’t believe ecommerce sites are affecting our store sales.”

Other
- “If a customer spends $30 on a bag of pet food, they spend $10 to $20 on hard goods and treats.”
- “If a customer spends $50 on a bag of pet food, it would be a natural brand, and they most likely will also buy natural treats at the same time. They spend at least $20 on treats, and sometimes they buy more than one bag of food.”

Store Observations
- During a Sunday afternoon visit, the store was slow and seemed overstuffed for the amount of store traffic.
- The store was advertising a Fourth of July sale of up to 40% off on select merchandise.
Four employees were congregated in the middle of the store discussing displays and inventory. One went to help a woman with dog toys who then also looked at dog beds. Another associate was assisting a woman with natural dog remedies. One dog was being groomed in the salon, and there were two employees in the salon. A different employee was working in the fish area. In total, there were seven to eight staffers on the floor and three shoppers in the store over the 30- to 40-minute visit.

Since the store is new, it was very clean and very organized. The floors were free of debris, and there was no inventory sitting in the aisles. All prices were labeled clearly, and inventory was solid.

4. PetSmart store director in New York City

Sales have gone up year to year though not as much as expected. Higher-end pet food sales have risen 10%, and lower-end pet food products also have posted higher sales. Meanwhile, sales for midrange products such as Blue Buffalo have gone down 3%. Online competitors have hurt sales somewhat; however, many shoppers still prefer to visit the store and handle the products directly.

Sales Trends

- “In general, our sales have been going up by about 8% compared to last year. We were hoping for a 20% increase as we didn’t do as well as we wanted last year, but that honestly didn’t happen.”
- “The number of transactions is increasing.”
- “Sales for May and June are different than we anticipated and are a bit lower. But they’ve still gone up from last year.”
- “People want the extremes but not the middle-range stuff. They either want the more expensive, high-end food, or the cheaper grocery food.”
- “Higher-end retail stuff is doing pretty well. We’ve been really pushing for that and trying to move away from the grocery store brands. Nutra in particular sold very well; that’s more of a midrange to higher-end product. Those sales have gone up by around 10%. On the lower-end grocery brands, [Del Monte Foods’] Kibble ‘n Bits has also been doing well. There’s been a slight increase. You get the people who have been buying that brand for 20 years, and that’s all they want. Middle-tier brands like Blue Buffalo haven’t been doing very well. Sales went down by about 3% for that.”

Pricing

- “Our prices have stayed around the same. There may be an overall average increase, but that’s because we’re trying to shift the products to higher-end food.”
- “A lot of people come here to shop for food. They’ll tell us that a can of food is just 50¢ here but $1 in the grocery store. I think we’re still cheaper than grocery stores.”
- “We’re discounting around the same amount as we have been for the last year.”

Online

- “Online websites definitely hurt us a bit. But still, customers get used to buying in the store and like to see the items. Usually they don’t want to have to wait to receive the items in the mail, and they can just come here and pick up what they need right away.”
- “Some shoppers do look at our website, but they come to the store to buy. PetSmart is creating a service to purchase online and then come pick up items in store; that’s actually going to launch next week.”

Other

- “If a customer spends $30 on food, maybe 50% of the total purchase will be on food and the rest split between hard goods and treats.”
- “For $50, 70% ends up being for food and the rest split between hard goods and treats.”

PetSmart Store Director, New York City
Roughly 90% of the food items were on sale. There were prominent displays for Nature Valley’s Instinct dog food, which had $1 to $2 off depending on the item. Some cat food was available on a “Buy 2 Get 1 Free” promotion. Although there were plenty of sales on toys, there were very few on hard goods such as leashes.

The store was very clean and organized. Customer traffic was fairly active, and several customers were browsing pet food and discussing prices. There was always at least one shopper checking out at the register. Some were purchasing food, pet fish and other general hard goods.

Upon leaving the store, Blueshift’s reporter noted seven shoppers in line for one cashier. All were purchasing pet food, and one shopper also was purchasing a toy.

Some promotion signs appeared to focus on getting shoppers to be PetSmart ShopRunner Loyalty members, offering certain sales only to those members that have the ShopRunner card.

5. PetSmart assistant store manager near Los Angeles

Sales are even with a year ago. The sources has not seen a significant decrease in transaction amounts in the last few several months. Online and brick-and-mortar competitors have come and gone in the past five years and have yet to pose any significant threat. Customers shop about evenly for pet food and toys and accessories, with no real standouts in terms of brands or items.

Sales Trends

- “We are busy, as you can see. I don’t think sales are down in any way. We are even with last year, but I can’t give out any percentages.”
- “It’s been pretty consistent with customers all through the year so far, and I expect it will either stay the same or increase but not decrease.”
- “Nothing is selling more than anything else in this store. It’s about an even match between food and supplies or accessories.”
- “I don’t think we can calculate percentages on food to accessory sales, but I would say customers typically come through with both, not one or the other. Whether they come for food or if they come for accessories, they are generally leaving with a little of both.”

Pricing

- “The store is having an annual sale, which is offering a lot of discounts, some high as 30% off. We run many discounts all year on items throughout the store, but this is our largest sale and it happens to include a much wider range of items.”
- “I’d say prices are higher for certain things, but we don’t see our prices as being out of step at all with competitor prices.”

Online

- “Online competitors are not a threat. We have a website, and I’m not seeing any big issues there. There has always been some form of competition online and offline, but nothing is changing with regard to the number of customers we see come in the store as a result of that.”
- “We have a lot of return customers in this store who use their membership rewards and those who take advantage of the in-store services, such as classes, trainings and grooming.”

Other

- N/A

Store Observations

- This store was very busy on a weekday midmorning. While being interviewed, the source had to call for three sales team members to open up registers. She then jumped on a register herself. Customers were buying a mix of bulk cases of canned cat food, large bags of dry dog food, dog beds, large water dispensers, grooming supplies and paying for grooming services.
- The store was promoting its annual sale with 30% off on a large selection of items throughout all departments. Sales team members at the register were pushing membership signups.
The Instinct Raw frozen and raw foods section featured “NEW” tags and offered some discounts on select items, but this section was empty. Most customers focused on the dry food, toy and accessory aisles. The reptile section was offering sales on some breeds, but we noted no other pet discounts. The grooming section was very busy: four dogs on six of the tables and several in cages either waiting to be groomed, or finished and ready for pickup.

Sales staff were friendly, attentive and out on the floor where customers needed them. Sales team members often spoke to customers about their pets. They seemed genuinely interested.

Sales discount tags were frequent across all aisles, while in front were two displays with heavily discounted items, which included Thundershirt Dog Anxiety jackets, Sentry calming formula, plastic pools and life vests for dogs. There is also a display with THINK Natural Nutrition formula for dogs on sale at the store’s entrance and fliers about the new Instinct Raw foods in racks.

The store is very clean, organized and large. In the back was a glass room in which classes are held. Three of the sales team members had all dogs up for adoption in the room playing, which they do twice a day for the animals.

6. PetSmart store manager near Kansas City, MO

Sales are flat for food and down slightly for hard goods as people are more frugal than a year ago. Prices are two or three dollars higher on average year to year.

Sales Trends

“Sales have been about the same as this time a year ago, not any better.”

“Food sales are about the same but other products, such as toys, are down a little. A year ago people would buy one or two toys each time; now they don’t so much. We have a sale now: buy two toys and get one free.”

“I am not surprised sales are flat. Money seems a little tighter than last year even though people say the economy is supposed to be better. Pet accessories are something people can cut back on. They are more frugal than last year.”

“Our biggest competition on some products, such as Puppy Chow and Pedigree, is Walmart.”

“Science Diet foods for dogs and cats are selling well; they make up about 40% of the food sales. Blue Buffalo dog food is also popular. Nature’s Variety Instinct is not doing well at all. It just costs too much. It’s 50% more than Science Diet.”

“Vitamin pills for dogs have not been a good seller.”

Pricing

“Prices on food, treats and hard goods are up from a year ago, probably by $2 or $3 in the average full basket.”

“Discounts are fewer than last year. There are not as many sales.”

Online

“There isn’t a big change in people buying online. I don’t see that as a threat. By the time people pay for shipping and handling, what you save isn’t worth the trouble and it may even be more expensive.”

Other

“I’m not sure of the dollar amount, but people usually buy two or three other items along with food, whether they buy $30 or $50 worth the food. People buy a lot of chew toys for their dogs. I have a black lab, and he is always destroying his toys and needs new ones.”

Store Observations

There was moderate shopper traffic in the store, with most people looking at food instead of the considerable number of toys.

This store made a big push on its “Buy 2, Get 1 Free” toy promotion.

There was not a lot of advertising on the walls or at the entrance although a sign in the window touted 30% off on thousands of items.

There was a sign on the right entrance telling shoppers that PetSmart will match prices on identical products. At the entrance to the store on the left was a nearly floor-to-ceiling display of aquariums.

A rack of brochures pushed the Nature’s Valley Instinct pet food.
PetSmart Inc.

7. PetSmart assistant store manager near Los Angeles

Sales were a little slow leading up to the Fourth of July holiday but since have begun picking up. The sources said sales have risen roughly 5% compared with six months ago. Food in bulk is on the rise, and most customers purchase wet and dry food for cats and dogs. Sales for toys, medications and accessories are about even with food products, and sales for the new frozen and organic food line are beginning to pick up. Online pet suppliers and smaller mom-and-pop stores do not pose a threat.

Sales Trends

- “We were a little bit slow leading up to the Fourth of July, but as we got up to the holiday we got busier.”
- “Sales were very strong for the calming products for dogs and cats for the Fourth of July holiday, but that’s of course tapered off. We also had pretty steady business in our pet hotel for boarding services and daycare. I think that will stay pretty strong going forward as people do tend to be traveling now and taking vacations without their pets.”
- “I don’t think sales for food are higher or lower than they are for other things, but I would guess we are doing about 5% more sales transactions than we were six months ago, when I was promoted to help manage floor sales. I was previously working in the pet hotel.”
- “I do notice that most customers are shopping in bulk here, buying cases of wet food with large bags of dry food. It isn’t common to see someone just coming in for a couple of cans of food or a toy or one item and that’s it.”
- “Most customers are spending anywhere between $40 and $100, and most of that seems to be on food, at least from what I see. But we sell a lot of higher-ticket items, like dog beds and crates, so a transaction can be a mixed bag or it can be all of one thing, it just depends. I couldn’t really give the breakdown.”

Pricing

- “The specials we have right now on the new food products are starting to have an impact. We put them on sale as a promotion to attract attention, and I think we’re starting to see more and more customers make a switch to the grain free and natural foods. It’s coming slowly.”
- “I think our prices have been consistent and fair. I don’t think we’ve seen huge increases on many of our items in the last year that are out there too far. We have a policy that we’ll match any price on an in-stock item from another pet supply company. All they have to do is bring in the item and show us the receipt; if we have the identical item in stock, we will match it if we aren’t already lower.”

Online

- “I don’t think the online pet stores really pose a threat at all to us. We have a lot of repeat customers who will also use our online store to get items we might not carry in the stores. The inventory on our site is bigger, that’s for sure, but I don’t think we are being challenged by the online pet industry. If anything, it might be that pet owners are buying one off items from those companies, but let’s face it, when it comes to big bags of food and cases of canned food, in-store is much more economical. Shipping costs for those items can be pricey.”

Other

- N/A

Store Observations

- This store was busy in all departments, including the pet hotel and grooming. Most customers had food and flea medications in their carts, and each checkout line had four to five customers.
- Promotions and sales on the new Nature’s Variety Instinct and raw foods were prominent, but we did not note a lot of traffic in the related aisle.
- Most folks were in the flea shampoo and food aisles. There were pets being groomed, and two people lined up at the front desk of the pet hotel, inquiring about boarding services and signing in dogs for the daycare center.

3) Executives at Online Competitors

All three sources said online sales of pet food are becoming more mainstream and now pose a real threat to brick-and-mortar stores like PetSmart. Reduced overhead allows online-only vendors to offer free shipping and discounted pricing, leveling the playing field among convenience-oriented and value-oriented shoppers alike. Free shipping for a minimum purchase (generally $50) has become standard operating practice, and Amazon’s emphasis on its Prime membership will increase the pressure to absorb shipping costs. One source said sales have tripled in the last year, and another cited endless
opportunities to take business from brick-and-mortar stores. Premium brands have become ubiquitous online and offline, eliminating the first-mover advantage PetSmart had in the space.

**KEY SILO FINDINGS**

**Online Sales Trends**
- 3 of 3 said online sales of pet food are becoming more mainstream but still have plenty of ground to conquer before becoming more than an industry niche.
- 1 said site traffic and sales have tripled compared with last year.
- 1 is having to rebuild in 2014 after a stellar 2013 and drop-off in January.
- Online doesn’t have to worry about cannibalizing stores, has lower overhead, can pass savings on to customers. On the other hand, online customers are fickle.
- Online category is scattered with no dominant site.
  - 1 is not impressed with Amazon.

**Brick-and-Mortar Competition**
- National retail chains are in trouble.
- Customers do not have loyalty to one store any longer.
- Premium foods are more readily available, so PetSmart loses its advantage.
  - Blue Buffalo no longer a game changer for PetSmart.
- PetSmart is not evolving to keep up or stay ahead.
- PetSmart’s store brand is sold, not bought, requiring an educated sales floor force and intensive showrooming.
  - Brands that customers actively search for do well online.
- Free shipping is becoming an industry standard as vendors react to developments with Amazon Prime. Offline stores are at a disadvantage in terms of convenience, driving time and costs.
- 1 said PetSmart is losing online sales to other retailers by hiding premium brands within its site in an effort to drive customers to the store.

**1. Pet category manager for a full-spectrum online retailer**

Conflicting agendas at national pet supply chains have crippled their ability to compete online. Mass retailers are having more success folding increasingly upscale pet food into their own convergent channel strategies. Niche retailers are flourishing, but none have achieved critical mass in terms of operations or brand identity. Consolidation is necessary.

**Online Sales Trends**
- “Pet food is part of a more general shift toward public acceptance of online ordering and home delivery. The ability to fill a grocery basket at home and have the goods brought to you is evolving very quickly, and I think the supermarkets and big-box stores are actually in the lead. We have the logistical expertise to route inventory to the premise in a smart way, and we don’t really care whether that cannibalizes our in-store sales or not.”
- “PetSmart and Petco still care about cannibalizing their store traffic, so they starve their websites. They hide their top brands like Blue Buffalo on the site. They want to encourage you to leave your house and buy that brand in the store. I think that’s not a smart approach because we trumpet our Blue Buffalo on our site and set our prices right below PetSmart.”
- “Every bag of Blue Buffalo we sell robs PetSmart of the add-on spending from that customer because he or she no longer comes into the store. And we rob PetSmart of the sale on that bag of food, which is a loss they could have prevented by simply letting their website do its job.”
- “Petco seems similar as far as I can tell. The point here is that unless the site and the stores are all part of the same overall retail business plan, you get the site competing with the stores, and neither the site nor the stores
can present a unified front in the face of outside competitors. Walmart sells Blue Buffalo on its site now and it undercuts Petsmart.com. That's serious."

- “PetSmart helped build the entire premium food movement by throwing shade on the supermarket brands. Now the supermarkets are selling PetSmart brands and PetSmart has to evolve. I don't think they're evolving.”

- “Online pet retail is a huge untapped consumer category. It was ignored for over a decade because shipping is expensive and overall per-pound price points were too small to make it worth anyone's while. Now price points have come up to the point where it is an attractive business. A lot of small sites have sprung up or held on over the years to carve off tiny bits of that business. It's a very fragmented opportunity.”

- “Until someone comes along as a real category leader—someone with the brand recognition of Amazon in books or Netflix in streaming entertainment or even Priceline in travel—the category will be a bit of a mess. It takes years to build that kind of brand. It may never happen. If pet food folds back into the grocery, the birth of online grocery will rob the pet specialists of their market.”

- “Either way, I wouldn't get serious about this category before we see a few dedicated M&A players repeat the original PetSmart strategy of rolling up brick-and-mortar pet shops. You need scale to be relevant. Right now it's still a bunch of low-cost, sleek, small-scale entities.”

**Brick-and-Mortar Competition**

- “There's no loyalty to PetSmart or Petco for introducing people to the premium pet food mentality. There could have been, but those companies were so obsessed with bringing in store traffic that they forgot to build long-term loyalty instead. They don't really have popular house brands.”

- “They have third-party premium brands that are popular with them and just about everywhere else they're sold, and then they have sort of dubious store brands they tell their people to push but without real enthusiasm. PetSmart store brands are sold, not bought. Third-party brands are bought with great enthusiasm wherever the convenience and the price align, which is online.”

- “Blue Buffalo spends a lot of money promoting itself and not its claims. Any manufacturer that can match those claims—made in America, poison-free, natural ingredients, healthy—can win its share of the new premium audience. Any brand that makes those claims has a place in grocery right now in the year 2014.”

**PetSmart helped build the entire premium food movement by throwing shade on the supermarket brands. Now the supermarkets are selling PetSmart brands, and PetSmart has to evolve. I don't think they're evolving. ... There's no loyalty to PetSmart or Petco for introducing people to the premium pet food mentality.**

*Pet Category Manager*
*Full-spectrum Online Retailer*

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**2. CFO for an online pet products retailer**

Online sales of pet food are accelerating again as niche vendors carve out a share of the premium and specialty market. PetSmart and Petco have surrendered leadership in this space. Amazon has yet to invest significant resources in pet food as part of its Pantry program and probably will need to acquire boutique e-tailers to achieve critical mass.

**Online Sales Trends**

- “Pet food online retail is definitely on an upswing, if we are any indicator. We have always been a cult favorite among real animal lovers looking for real quality food and veterinary products, but in the last year our site traffic has tripled and our sales have surged to a similar degree. We are now breaking out into the mainstream. I think a few of our competitors are doing equally well.”

- “I would obviously class us as a leader in the online pet food renaissance. PetFoodDirect.com numbers are also impressive. Not so much Wag or Amazon or the online channels of the national brick-and-mortar chains.”

- “Americans have developed awareness for truly premium pet food that can actually hold up to veterinary scrutiny for being domestically produced, healthy and worth a premium price. For some, that means going back to specialists in their neighborhood like the veterinarians, breeders and other animal professionals. For others, it means taking a recommendation from those people to a website like ours.”

- “I am sure we are not getting better terms than the national chains, but that's all right. We are selling a higher-margin product and have none of the retail overhead that the chains need to stock all their Alpo and Purina. We can
pay a bit more in wholesale and compete head to head on the retail end or even undersell the chains, with free shipping included.”

- “We get all the supply we need. This is a real channel for the brands we work with. They are happy to move more cans and more bags across the market, whether it’s us selling the cans or a local veterinarian. We are probably better partners for the manufacturers than the veterinarians in terms of scale. We’re not PetSmart, but we are still one of their top 10 accounts easily, possibly a top five account in a lot of cases.”

- “The numbers I see imply that compared to other countries online pet retail could grow tenfold for the U.S. market to reach a place where Europe and Japan already are. Home pet food delivery is a fact of life in those countries, and it tends to be the high end of the market. Supermarkets can keep their share because that’s the typical pet. Maybe Walmart.com becomes a player there online, but I don’t know how well Walmart.com is doing compared to the conventional in-store Walmart experience.”

- “Amazon is at worst a sleeping gorilla here. Pet food is not a separate store there. Pet food goes into the Pantry program, where there are only a few terrible mass-market brands on display. And let’s be serious: One bag of dog food fills the box. You’re not truly using Pantry for the purpose of filling out your household’s grocery cart.”

- “To be taken seriously, Amazon will have to quietly or not-so-quietly acquire an existing pet food site or sites. They have no expertise and no credibility in the sensitive area of what’s best for your dogs and cats.”

**Brick-and-Mortar Competition**

- “Blue Buffalo is in Walmart right now. It is also our top brand. American pet consciousness has already shifted. What I take away from this is that you can’t rest on your laurels or brag about how Blue Buffalo is a game changer in your hundreds and hundreds of PetSmart or Petco stores. Blue Buffalo is not a unique differentiator enticing people into your store to look at the other merchandise. It’s the new opening ante where this business is concerned.”

- “It’s been a wild year in this industry, but that’s really been a factor of consumer confidence. Net-net, boutique food sellers had a great year because the trend is away from Alpo and away from ‘made in China’ and straight toward better food at a fair price. Month to month, we see growth in interest come in fits and starts, but once they start buying better brands, they have yet to migrate away or go back down to the supermarket. When Blue Buffalo is the new default, we will be well above that point.”

- “I think the national chains are in trouble. Big-box retail everywhere is in trouble. Free shipping evens the playing field out between online and offline. Technically, gas and local sales tax give us the advantage. We don’t need to do any showrooming. We sell people only what they want. The national chains are built around gigantic, expensive showrooms. That’s not working anymore.”

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**3. Site manager for an online pet supply retailer**

Although online-only vendors have made inroads into conventional pet food channels, 98% of the category remains under the control of brick-and-mortar stores. Shipping still is contentious. Despite Amazon Prime’s success, annual membership models have failed to get traction for more specialized sites. PetSmart is struggling to hold consumer interest as the range of options between commodity chow and ultra-premium food widens.

**Online Sales Trends**

- “Business was booming for us going into the end of last year. We had a lot of people trying online pet food for the first time because finally they had the taste for better-than-supermarket brands, and we finally had the right compelling proposition in terms of free shipping versus the inconvenience of brick-and-mortar shopping. January saw a fall-off, and we are now rebuilding again.”

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**Pet food online retail is definitely on an upswing, if we are any indicator. ... In the last year our site traffic has tripled and our sales have surged to a similar degree. We are now breaking out into the mainstream. I think a few of our competitors are doing equally well.**

*CFO, Online Pet Products Retaller*
“On the whole, it’s a pretty good time for online pet food. This has always been a decent business, but in terms of scale it still represents a tiny tip of the overall pet food iceberg. The statistic I work with says online has doubled in terms of market share since the 2008 recession but at best that only gives us 2% of the total U.S. pet food spend. To put that into context, PetSmart and Petco probably own 25% of the market between them, and easily double that share belongs to Walmart and the supermarkets. The rest of us jockey for position inside the remaining 25%.”

“Now it’s a huge market, and most of the players in our 25% are small enough that we have plenty of room. There’s maybe $250 million for us online-only types to fight over, and since that overall opportunity has doubled in the last five years we actually feel pretty good. Our side of the pie is growing and has almost endless room to take over from brick-and-mortar.”

“We are not having any trouble sourcing product. I can’t imagine we get the same wholesale terms as Walmart or PetSmart or Petco, but we aren’t exactly dominating the market, either. We are a small operator with extremely low overhead and so cannot only absorb higher wholesale costs but pass on real savings to our customers. We sell Blue Buffalo for $1 less than Walmart and $2 less than PetSmart because both of those companies need to pay the rent and their floor staff. All we have is a warehouse and a USPS account.”

“The USPS account gets tricky because bulk food is heavy and shipping gets expensive. We tried a membership program for a year or two, but it just didn’t work. People who shop for pet food online are unwilling to commit to a single store and amortize the membership costs across a whole year of shipments. We had to go back to the more standard ‘free shipping with minimum order’ model.”

“No one will pay shipping for dog or cat food delivery now. That model is dead. If you want free shipping now, you can get Amazon Prime and get a whole lot more than dog food, or you can bundle your shopping and spend $40 to $50 in just about any site and get free shipping that way. I think this is great, actually. We absorb the cost but we scale up a little faster, and our margins are already robust enough that we can still give people a better all-in deal than driving to the store and picking up the bag.”

“I haven’t heard much about Amazon selling a lot of pet food through Prime or Pantry. My guess is that they opened up their platform to the manufacturers to sell direct—I’m looking at some Blue Buffalo listings right now, we undercut them—but in general food on Amazon is expensive. The third-party merchants and direct-sales manufacturers all want MSRP for the convenience of listing online, and by the time they factor in Amazon listing fees they can’t really discount much even if they wanted to. Amazon becomes more expensive than either PetSmart or us, whether you have Prime or not.”

**Brick-and-Mortar Competition**

“I don’t know if national brands will be available in all supermarkets, but I don’t think it matters. A Whole Foods [Market Inc./WFM] or a Trader Joe’s will sell really good dog food if they are moved to do so. Whether that’s Blue Buffalo or Green Cow or Purple Bison, it’s irrelevant to the shopper who really just wants a premium formula for the dog or cat at a comfortable price point.”

“Now that the genie of premium pet food is out of the bottle, proprietary brands seem a little obsolete. It used to be that a family had two or three choices in terms of brand family and then some leeway in terms of big dog, little dog, old dog, baby dog. That was mostly a commodity product and so you could sell it in grocery stores without allocating too much aisle space to the pet bags. Now there are hundreds of choices, and most of that choice is confusing to the consumer.”

“Some people search for a perfect brand for a year or two. Others like a brand because it’s the best thing at the most convenient store for them. What they don’t do is stick with a particular store out of habit. It takes effort to drive to a pet supermarket every month or so. Websites have a bit more loyalty because the habits are ingrained and the inconvenience is much lower. You just point to your browser and click and see where the best coupons are. This is not good news for the pet supermarkets like PetSmart.”

“My guess is that empowered pet food shoppers are fickle. They are going where the best deal is that month. Lately we haven’t had the best deals. Maybe next month we will. I don’t see PetSmart or Petco having the best deals.”
4) Pet Food Distributors

All three sources said sales to online-only retailers have grown significantly off an extremely low base, curbing PetSmart’s avenues for growth among brand-conscious pet food shoppers. Individually, few of these would-be competitors have the scale to pose a serious threat to PetSmart; one source reported refusing to work with drop-ship partners due to their “hobbyist” orientation. Amazon could be a more significant player but has yet to demonstrate the necessary ambition. Supermarkets and big-box retailers are eager to add pet food options to fill out the pricing gap between ultra-commodity and ultra-premium brands, putting PetSmart under further pressure to differentiate itself and drive midmarket consumers into its stores. PetSmart’s reluctance to encourage online sales has given independent local and regional stores an opportunity to regain competitive momentum through hybrid online/offline sales approaches.

KEY SILO FINDINGS

Online Sales Trends
- 3 of 3 said sales to online-only retailers are growing, citing Chewy.com, Wag.com and PetFlow.com in particular.
  - 1 said online-only retailers are taking growth opportunity away from PetSmart, which is not having success online.
  - 2 said are growing off a low base and that even the biggest accounts remain a very small part of the business.
  - 1 said online vendors are especially well suited to sell ultra-premium and ultra-commodity (bulk) food.

Brick-and-Mortar Competition
- 3 said supermarkets and grocery stores are adding what could be considered premium pet food, posing another challenge to PetSmart.
  - 2 said independent, local and regional stores are using online better than PetSmart by adopting hybrid “shop anywhere” online/offline model.
  - 1 said Walmart is making room for premium foods.
  - 1 said independent, local and regional stores remain especially strong in the Midwest.
  - 1 said PetSmart is caught in the middle between premium and low-priced foods.

Distribution
- 2 said the distribution business is consolidating and another pointed out that beyond PetSmart and Petco the retail market remains fragmented and ripe for consolidation.
- 1 said drop-shipping has evolved into a small but real part of the pet food business.
- 1 said drop-shipping is a distraction from the industry’s real center of gravity.
- 1 said autoship in itself does not lock consumers into exclusive vendor relationships but only shifts their shopping online.
- 1 said there is too much food inventory on the market and sees an opportunity for retailers who can help consumers differentiate among brands.

1. Principal for a regional pet products distributor in the East

Online-only pet supply retailers are increasing significantly within the last year and are taking growth opportunities away from brick-and-mortar stores like PetSmart. Only a handful—Chewy, Wag, PetFlow—are seeing robust reorders, but it is enough to keep PetSmart from succeeding online. Although smaller, independent pet supply stores are pushed out by big-box retailers, customers are turning to online stores that have a more personal touch instead of PetSmart or others.

Online Sales Trends
- “The number of ecommerce-only accounts we work with and the total amount of buying they do are both up a lot over the last year. It's a bit of a land grab or a gold rush. A lot of people—veterinarians, animal breeders, groomers—are deciding to supplement their existing business with a web store component that delivers the products they promote in their physical location. Then there are more than a few people who are new to the pet supply world and simply thought this would be a good place to establish themselves as ecommerce operators.”
“We saw a big surge in new account paperwork around last summer, and probably all of that was for online-only or drop-ship additions to a fairly modest existing merchant account. Then the wave flattened out a bit going into the new year, and now we’re back on our normal track of new account formation.”

“Aggregate orders are up because more people are selling more specialty pet products online, and they are ordering their stock through us. But I think most of the accounts won’t be very vibrant for long. Reorders in drop-ship are more of a trickle than a flood, so my suspicion is that 90% of these accounts aren’t moving very much product. The other 10% are generating 90% of the reorder activity.”

“The smaller accounts aren’t aggressively discounting, but they don’t have much physical inventory either so there’s no real incentive for them to dump a few bags of food in order to clear out the warehouse. I think they’re happy with the hobby-level business they’re doing. It’s basically an explosion of cottage operators.”

“Does an explosion of cottage operators hurt PetSmart and Petco? I think PetSmart and Petco have been on the offensive for so long that turnaround here only restores a little balance. The national chains may not find it so easy to grow their market share from here because every local pet store they drive out of business spawns three online sites, and those sites collectively act as a drag on the market share capture available.”

“Among the 10% winners, I would list the usual suspects, the ones that can get some SEO and word of mouth going: Chewy, Wag, PetFlow. These are all established accounts that have been with us for several years. They have built great franchises and are now running tens of thousands of bags of food per month. They’re the equivalent of the old regional chains.”

“PetFlow in particular has done great things in the last year. I don’t know what they’re doing differently but sales to them are up enormously every month.”

“My guess is that these types of companies can rebuild maybe 5% to 10% of the overall pet food business in terms of market share. That ultimately comes from the supermarkets but it also snatches those former supermarket sales from the national chains.”

“We have plenty of supply. Obviously even the biggest dot-com accounts don’t reach the huge breakpoints that we would give a national account, but at that level they’re really near the top already.”

**Brick-and-Mortar Competition**

“Specially brands are definitely making their way toward the supermarket. Private-label versions are getting a lot of interest from the grocery chains so they are looking to clone the claims at a lower price point. It’s still a good deal for them. Walmart already has Blue Buffalo and Costco has Nature’s Domain.”

“Between recalls and the persistent rumor of bad pet food from China, we are seeing pressure throughout our network on the more commodity-like side of our catalog.”

“Small brick-and-mortar accounts are most successful at going online to give their sales an incremental boost. This is because they already have a loyal audience and a base in terms of sales volumes. They aren’t starting from zero. They’re only widening their reach and giving their customers added convenience. As remote online shoppers come onboard, it’s a bonus. It’s what PetSmart should be doing.”

“It’s sort of a food chain of pet food, if you like. PetSmart is eating the lunch of the supermarkets by educating pet owners that more premium choices exist. Meanwhile, from a sheer organic perspective PetSmart and Petco keep outliving local feed stores and independent pet stores in the cities, which are under pressure because management is retiring or dying and nobody wants to replace them. Those sales can go toward the pet big box if there’s one nearby, but lately more of the sales go online.”

“My guess is that some smart online player will target the rural feed stores right away and become a super-bulk mail-order operation. That isn’t happening yet, but in the cities cute niche-focused stores like Wag and
PetSmart Inc.

Chewy are doing this now. As a high-touch pet store closes, Wag and Chewy take over. Those sales aren’t going to PetSmart. They go straight to a more personal-looking site that replicates the old customer experience.

Distribution
- “Distribution is consolidating. There are fewer players that matter and whole channels like animal feed are being acquired or going away.”
- “Drop-shipping is a real phenomenon, but it is still a tiny fraction of all the pet food sold in this country. It is sticky in the sense that someone who goes to an auto-ship relationship for their pets won’t cancel it and pile into the car every month. But it is not sticky by vendor. I am sure a given pet will eat food from multiple sites in its lifetime.”

2. Sales supervisor for a regional pet products distributor in the Midwest

In the area serviced by this source’s company, pet food shoppers are more interested in frequenting the regional chains and independents stores over PetSmart and other national retailers. The expansion of grocery stores as a channel for quality pet food is a further challenge to PetSmart, as is the tremendous growth from online chains Chewy and PetFlow. Still, their success has yet to create a significant drag on the big-box channel. All pet food is moving up market, giving all vendors an incentive to compete more aggressively for share.

Online Sales Trends
- “I see more agitation around the online-only ‘virtual pet store’ model, but we don’t really work with those people. You need a separate place of business and some kind of storage capacity to work with us. My guess is that a lot of the ‘virtual pet stores’ are so small that they barely make an imprint on the industry.”
- “We are seeing some local and regional stores rustle around the ecommerce question, but it really boils down to a web portal that lets people order from store inventory at home and have it delivered. It’s a home delivery system. I think that’s exciting, but it’s something the retailers do for themselves. They don’t really check a box with us that says, ‘This is for my website.’”
- “There are online-only accounts that are interesting. PetFlow is huge and getting bigger. It’s about as big as the regional chains we work with in the Midwest in terms of sales, even though it’s really only a warehouse and a shipping facility and a website. PetFlow is having a great year. Chewy has really revitalized itself. They are doing better than they were.”
- “These are still regional-level accounts. PetFlow is maybe running $12 million in food a year, which makes them substantial by independent pet shop levels and probably gives them an extremely profitable business, but this is a $20 billion market. PetSmart supposedly sells $3.5 billion in food, which means you need to find three or four PetFlow-type competitors to even compete for 1% of that franchise.”
- “There is plenty of premium food to go around. My guess is that quite a few of the novelty web-only operations actually sell it to each other. There’s a little bit of an overstock merchandise mentality going on: If you can find a bag of Blue Buffalo on sale for $48 plus free shipping, buy it and offer it on your site for $50.”

Brick-and-Mortar Competition
- “Our territory contains a lot of traditional regional pet chains and strong, independent stores. We might actually have the majority of that channel in our footprint. This means that we happen to be the part of the country where the big-box stores haven’t had as much luck as elsewhere. Want cat food in the city? Go around the block and pick up a few cans or have a case delivered. You can also pick it up at the grocery. Want dog food in the suburbs? Go to the pet shop that’s been there for ages. You don’t make a special trip to the strip mall to see PetSmart.”
- “The entire marketplace is shifting up from 10¢ to 20¢ per pound toward $1 per pound and beyond. The math is simply too attractive to discount. A supermarket can devote limited aisle space to so many 50-pound bags. Would they rather earn $10 per bag or something between $10 and $50?”

Sales Supervisor
Regional Pet Products Distributor
Midwest

The danger for PetSmart is that there’s so much space between their $50 flagship bag and the $10 supermarket bag that most of the consumer value choices are falling closer to the supermarket. The supermarket is thrilled to move a $15 bag for the same effort as the old $10 bag. The consumer is thrilled to get ‘good enough’ food at 60% cheaper than PetSmart. PetSmart is not thrilled.
“Likewise, there are only so many hungry pets in your neighborhood. Let’s say filling just one dish at $1 per pound puts you on the same footing as filling 10 dishes at 10¢. Maybe you send the other nine dogs away. Maybe you court one or two of those dogs to try a 20¢ dinner and you’re already ahead of the game. That’s what’s going on in supermarket right now and really around the world of pet food.”

“Premium brands are coming to the supermarket. They are already in Walmart, Costco [Wholesale Corp./COST] and definitely Target [Corp./TGT]. The danger for PetSmart is that there’s so much space between their $50 flagship bag and the $10 supermarket bag that most of the consumer value choices are falling closer to the supermarket. The supermarket is thrilled to move a $15 bag for the same effort as the old $10 bag. The consumer is thrilled to get ‘good enough’ food at 60% cheaper than PetSmart. PetSmart is not thrilled.”

Distribution

“We are all struggling to find the right value point between those hypothetical $10 and $50 bags. There is a flood of inventory out there right now that isn’t all that well differentiated. All the consumer really knows is that the pets deserve something better than the conventional chow and there’s room in the budget for better. An extra $40 a month is not going to kill a family budget. So which brand do they choose and where does the final price point establish itself? That’s what we need retail to figure out.”

3. COO for a regional pet products distributor

Although online-only merchants are gaining some traction in the pet supply market, vendors and consumers alike remain resistant to pure ecommerce approaches. Independent pet stores with value-added convergent models are thriving at PetSmart’s expense. Drop-shipping is not the key to sustainable market share for anyone. Consolidation is already underway.

Online Sales Trends

“Chewy is getting some buzz, and its sales definitely seem to be climbing. Other sites—Wag, PetFoodDirect, Pet Supermarket—are also growing quickly, but the base is very low and the sales are uneven. It seems based on month-to-month search engine advertising and not so much on any shift in food buying patterns.”

“Web-only pet food is an old objective at this point. Many hundreds of millions of dollars have been wasted chasing that goal. The difference between then and now is that you have more people spending fewer dollars apiece trying to establish themselves as pet food sites, as opposed to a few massive ventures spending to establish the entire category.”

“Established pet food stores hate online because it makes them think of that [Pets.com] puppet and the TV commercials and the endless lost money. The puppet wrecked the pet industry by dumping inventory for years on end in order to spend its way to critical mass that never arrived. The survivors naturally hold a grudge, and that grudge passes on in the industry DNA.”

“The fact remains that pet food is heavy and expensive to ship and the value per pound is naturally low. A one-pound book may cost $10 or $20 for Amazon to justify its shipping charges. An imaginary one-pound can of dog food may cost $2 at the most, which is less than the shipping fees. Until per-pound costs rise above that point, online pet food will remain a niche item for hardcore web shoppers.”

“That said, offering brands and value propositions you can’t get at your local pet store is a viable strategy. If the price point is rich enough, [the vendor] can eat the shipping costs and the consumer gets a product that would otherwise not be available. That’s a win for both. Or if the volumes are massive enough, shipping freight makes sense on a per-pound basis. There is room at the ultra-premium end and on the ultra-commodity end for online pet food.”

“Most people are in the middle, of course, so these are open questions. Introducing most pet owners to slightly better brands is the retailer’s job. You demonstrate richer foods, show off how tasty and healthy and delicious and nutritious it is. Nobody buys a 50-pound bag of some unknown dog food online at random simply to try new things. Discovery starts and stops at the physical store.”

PetSmart is probably seeing a little new pressure from the grocery channel. I don’t see Walmart aggressively selling better dog food, but I do see Walmart making room for better dog food on the shelves.

COO, Regional Pet Products Distributor
PetSmart Inc.

- “At a certain point discovery reaches the point where the consumer falls in love with a brand and can search for it with confidence online. That’s when you might lose that customer unless you keep actively nurturing the relationship and suggesting new great things. A web-only store can never do that effectively. They don’t know you, they don’t know your dog.”
- “There is probably too much premium food on the market right now. Everyone is grabbing a piece of the juiciest margins, and I think it confuses the consumer to have so many choices. Online, it’s even worse because these are just labels and price points. You don’t see the food until it arrives at your door.”

**Brick-and-Mortar Competition**

- “PetSmart is probably seeing a little new pressure from the grocery channel. I don’t see Walmart aggressively selling better dog food, but I do see Walmart making room for better dog food on the shelves.”
- “Supermarkets are catching on to the appeal of reacquiring customers who have been educated in the delights of better food and don’t want to go back to the old supermarket brands, but are coming back to the supermarket anyway for the family’s more human dietary needs. It’s a basic law of retail that some people will prefer one-stop shopping convenience even if it means sacrificing a little in terms of brand prestige or quality. This is the whole logic behind store brands.”
- “Walmart is the biggest grocer so it naturally has the most invested in becoming or remaining the biggest pet grocer as well.”
- “Our independent pet store partners are moving toward a hybrid online/offline sales presence. They want to be on your Facebook account and in your phone and on the Web waiting for you to shop for pet supplies wherever it’s convenient for you.”
- “But we have done surveys for our customers and we know you usually want your pet food needs instantly gratified so you’ll opt for in-store pick-up; that’s when they can showroom their other merchandise. Meanwhile, these stores have services and doggie daycare and all kinds of fun to make you feel special and in the mood to buy more. The experience starts online and moves offline. That’s a unique proposition that PetSmart and Petco don’t seem eager to develop and the online-only people simply can’t provide.”

**Distribution**

- “Drop-shipping is something we offer, but it’s mostly very small accounts that don’t seem to be growing fast. I don’t think it’s a great way to start a healthy pet business. You’re still a prisoner of search engines unless you find a way to really stand out from the crowd. I can’t really point to anyone who really stands out.”
- “This industry seems concentrated because of the two national chains, but underneath them and the biggest grocery chains—including Walmart—it’s actually very fragmented. I don’t know if PetSmart or Petco can grow much faster in a real sense because there’s nobody really big left for them to buy, but I wonder if there’s room for a regional chain to get aggressive buying independent competitors.”
- “On the distribution side we are already seeing the marketplace thin out as aggressive players absorb older competitors. That has been going on for a few years. What will be interesting is if one of the survivors decides to start selling direct to the consumer through one or more online channels.”

Additional research by Scott Martin, Cindy Elsberry, Kevin Murphy, Jacqueline Fox, Tina Strasser and Eugenia Lee