

798 views | Nov 13, 2019, 08:00am

The Sweet Industry: From Chocolate To Chew Toys



Erin Rooney Forbes Councils Member

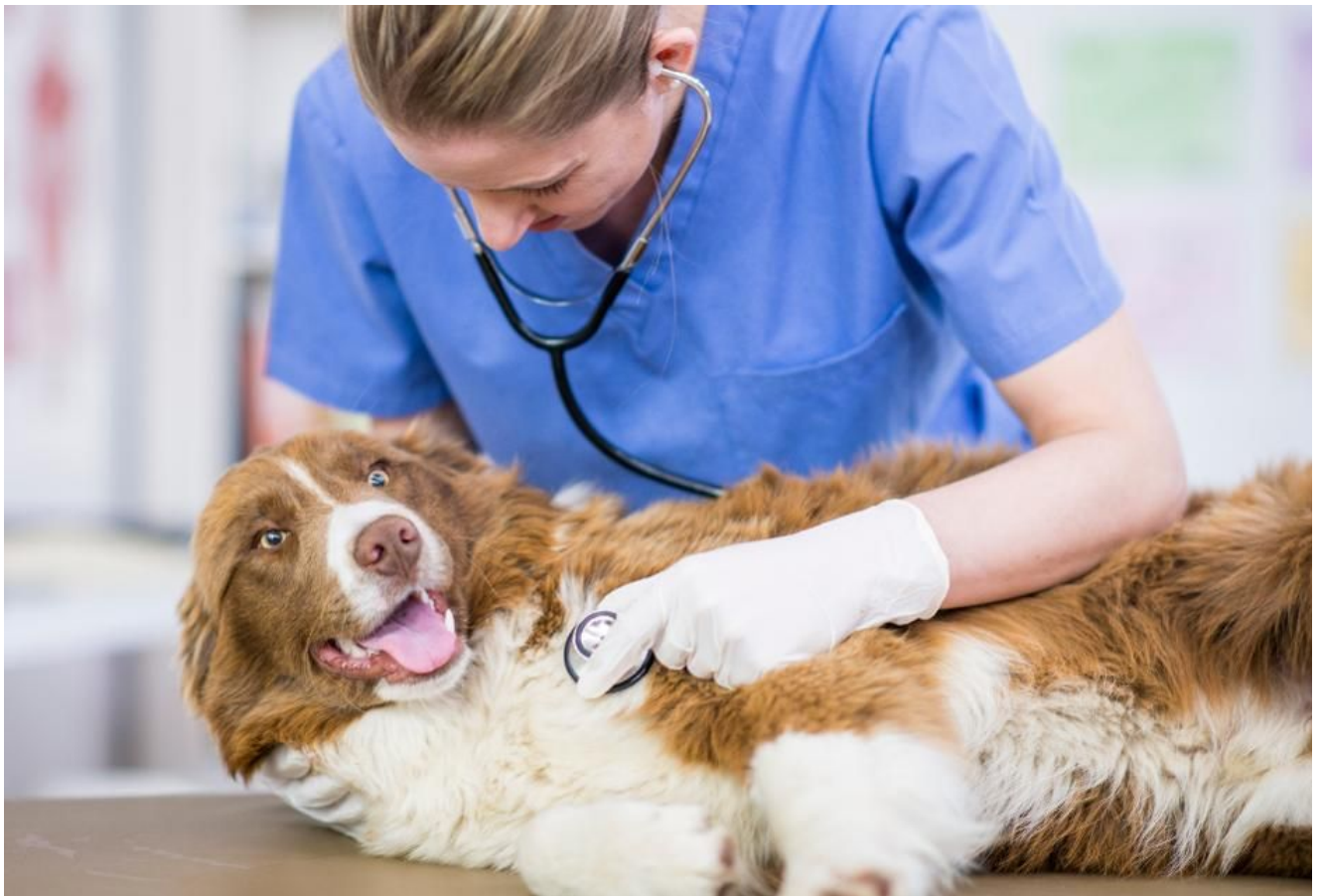
Forbes Business Development Council COUNCIL POST | Paid Program

Leadership

POST WRITTEN BY

Erin Rooney

VP of Business Development and Corporate Partnerships for [AmeriVet Veterinary Partners](#) and a member of Forbes Business Development Council.



Though recent [news reports](#) lament the decrease in birth rate, the gap once filled by 2.5 children may now be occupied by a Bella, Max or Kitty of the four-legged variety. Pet ownership rates are [holding steady](#) in the U.S., and the care that “fur babies” receive rivals that of their humans.

According to the American Pet Products Association, spending on pets reached an all-time high of [\\$72.56 billion in 2018](#). This represents an annual increase over nearly 20 years with no end in sight. Consumer demand for high-quality, organic and boutique pet products for their furry companions seems to be growing, as is their demand for medical care and pampering.

Pet owners aren't the only ones spending money on food, care and supplies. With increasing frequency, private equity (PE) and other investors are acquiring a sweet tooth for the industry.

The New ‘Who’s Who’ Of The Pet Industry

The influx of PE and wealthy family investors purchasing veterinary practices and other sectors of the animal health channels has soared in recent years. These “sweet” industries -- including companies better known for their candy sales -- hold a large portion of corporately owned veterinary practices across North America, Europe and Australia. These practices are largely owned by the Big Five (Mars, Nestlé, Smucker's, Colgate and General Mills) and, according to Statista ([via Food Power](#)) account for 70% of retail pet food sales.

Mars, which is by far the largest global pet food company [by revenue](#), reportedly [employed](#) over 9% of pet veterinarians in the United States in 2016. It reportedly draws more revenue [from pet care](#) than from their legacy candy business.

Another long-term player, Nestlé, ascribes 14% of its sales to its PetCare products on its website. Last spring, Nestlé Purina PetCare announced it would [buy a minority stake](#) in Independent Vetcare Group International, a European veterinary chain, and it expanded its pet care interests beyond products to include clinical car

JAB Holdings, which [owns](#) Krispy Kreme, also moved into the pet care market with its recent acquisition of [Compassion-First Pet Hospitals and National Veterinary Associates](#). With these purchases, JAB adds veterinarian pet care, hospitals and resorts, likely in an attempt to compete with Mars and Nestlé. In other major acquisition news, last year [General Mills purchased Blue Buffalo](#), a high-end natural pet food, and the [J.M. Smucker Company bought Ainsworth Pet Nutrition](#), which is the maker of Rachel Ray Nutrish natural dog food.

In addition to these major players, there are many aggregators and consolidators in [the marketplace](#) (including my firm) looking to partner with or purchase independent veterinary practices. Private equity likes the veterinary space, and for good reason. Healthcare has received steadily [increasing investments](#) over the last several years. Pet care is similarly attractive to investors: According to Reuters, there were at least [\\$8.3 billion in transactions](#) as of April 2018.

Increased Competition

Privately owned practices face a conundrum in the current marketplace. Many baby boomers are planning their exit strategy, and younger veterinarians are often burdened by [heavy school debt](#) that can prohibit them from buying into a practice. Small, independently owned practices are sometimes unable to compete with the synergies and buying power of the larger chains and watch their profitability shrink. This leaves the current owner in the unenviable position of deciding whether to sell to a consolidator or accept a lower offer from an associate who can strategically owner-finance the buy-in. I expect this trend will continue to present opportunities to investors and aggregators as corporate buying power increases and the margin sustainability for these vendors becomes squeezed.

This impact extends beyond small practices. The Big Five could see increased competition from big-box stores and online purveyors. Chewy just announced the pricing of its IPO and, backed by majority owner PetSmart, expects revenues of [\\$4.75 billion](#) (paywall) this business year. Stores like Walmart can now access

veterinary supplies and prescriptions and are escalating their presence in the industry by opening veterinary clinics. Walmart said it plans to open [100 vet clinic](#)

New business models for pet care could add further challenges. Pet vaccine clinics and membership programs like Thrive Plus may appeal to pet owners on a budget, and technology and the use of artificial intelligence could open the door for virtual visits. I believe these options will continue to evolve and grow in the future. It's possible that pet insurance could drive compliance and revenue in practices, but since it is not government-mandated, it may also impact fees providers charge at the point of care.

Pet Care: An Opportunity For Investors And Aggregators

I believe progressive science, steady rates of pet ownership and corresponding spending all contribute to the perception of pet care as an attractive investment. It is a growing, high-cash business that I haven't seen impacted by cyclical spending. Deals may be appealing to practitioners who feel helpless against large chains with larger advertising budgets and younger owners who are interested in joint ventures.

So what does this all mean if you are not a veterinarian but maybe an investor? The trends in the industry are great, and they don't seem to be slowing down. Many other industries have gone through the consolidation that the vet industry is currently experiencing. I've typically seen industries cool off; however, it can take a number of years. In the coming years, I expect that millennial pet owners are going to influence the way veterinary medicine is delivered to their pets. Smart investors will be responsive to that influence and take proactive steps to incorporate communication and educational modalities that resonate with pet owners. Eventually the market will probably cool down, but with the current economy and the advantages of this industry, it looks like it will be a sweet industry for years to come.

[Forbes Business Development Council](#) is an invitation-only community for sales and biz dev executives. ***Do I qualify?***



Erin Rooney

VP of Business Development & Corporate Partnerships for [AmeriVet Veterinary Partners](#) & a member of Forbes Business Development Council. [Read Erin Rooney's ful...](#) **Read More**