

Families fell even more in love with pets during the pandemic, but we're still decades away from "peak pet" in Europe

Accelerated by Covid lockdowns, we've seen thousands of families welcoming new furry friends into their homes. Our own proprietary consumer research shows that the pet care market is worth as much as €80B in Western-Europe, across food, health, and other services such as insurance. And with workplaces adapting to flexible hours and even allowing animals into offices in a post-pandemic world – the "pet boom" is here to stay.

Investors have taken note: we've seen high levels of Venture Capital and Private Equity activity in the sector, including record amounts of funding raised by players such as Manypets and large buyout transactions such as the take-private of Zooplus. At Verlinvest, we've been actively investing in this sector since 2015, backing much-loved brands such as Chewy (USA), Tom&Co (France and Belgium), Heads Up For Tails (India) and Katkin (UK).

Headroom for growth in Europe

People often point to the US to illustrate the growth potential of the pet care market in Europe. Indeed, both the percentage of households with pets and the average spend-per-pet in the US are each more than 50% higher than in Europe. However, we don't need to look across the Atlantic to gain confidence in the markets' growth prospects.

While Europe might benefit less from specific human socio-demographic tailwinds compared to the US (e.g. around traditional family formation), each new generation of pet-lovers is clearly spending more money than their parents on their pets. According to our research, younger consumers (18-34 years old) are spending up to 73% more on their pets compared with older generations. This spending gap is particularly pronounced in markets where the category is less "developed", as illustrated by the chart below for France and Germany. A significant portion of this gap is driven by spending on health and wellbeing (vet services, pet supplements, grooming services...), and by a more premium food diet (e.g. more fresh and "natural"). In addition, the average life expectancy of pets is increasing, with higher and more specialised spending on senior pets adding to the opportunity.

Inflation headwinds

In the current macro-economic environment, households have reduced overall spending and anecdotes from the frontline seem to indicate a slowdown in spending on premium non-food products and discretionary services, and an acceleration of growth in Private Label sales. However, historic data can help to reassure sceptics in the pet care sector, as it shows that the market has been incredibly resilient to economic downturns in the past - see the chart below ("Pet Care" refers to market sales value, source: OC&C, Euromonitor).

According to Morgan Stanley data, price elasticity in the category is reducing historically, which shows that the disconnect between the economic climate and the performance of the pet care category is becoming even more pronounced. In our own research, less than 15% of consumers interviewed said that they intend to reduce spending on their pets, even lower than the 25% who intend to spend less on baby products and well below the more than 50% of people cutting back on discretionary categories such as apparel, travel, entertainment etc. None of this should come as a surprise, when you realise that up to 18% of pet parents organise a birthday party for their pets according to some surveys (source: dogofriends.be).

Winning business models

Barriers to launching a direct-to-consumer (“DTC”) pet-food brand or setting-up an online pet retailer are low nowadays, as access to production, web-shop technology and last mile logistics has improved significantly in the last 10 years. However, challenges to scaling these businesses successfully remain very high and the opportunity for real disruption remains untapped in Europe. The grocery retail channel, filled with mainstream and dusty brands from large CPG players, is still the largest channel in pet food, accounting for up to 50% of sales in a country like France. According to our own proprietary research, surveying pet owners across five main European markets, very few brands have managed to build a distinctive proposition that commands real consumer pull or pricing power. This usually translates to high and rising costs of customer acquisition. For example, with few exceptions, we found relatively undifferentiated levels of consumer advocacy across 21 surveyed brands of Dog Food in the UK (see chart below).

What’s also clear from our latest research is that online-only and subscription-only is not the answer, as only a small minority of consumers are ready to completely turn their backs on the convenience and experience of visiting a local offline store (often accompanied by their pets). Vets will continue to play a major role across the sector, being the most trusted source of advice according to our research – 60% of those we surveyed said they trust advice from their vets above all else. We also found that two thirds of consumers are interested in cross-buying between food products and health services.

Based on this research and our experience over the last decade looking at pet investment opportunities across the world, I believe the profit pool in pet care will tilt towards brands that combine a seamless omnichannel experience with a broad product and service offering. This will be a challenge for many existing brands and business models, and I believe it will put marketplaces and retailers on the front-foot. Executing on this vision, these platforms will be able to build communities around their brands and become the go-to trusted advisor for families as soon as new furry friends enter their lives.

Conclusion

If you’re reading this as an entrepreneur or investor, the message should be clear: this is a multi-decade growth opportunity in Europe, which is rare to find. It’s an opportunity that calls for further innovation and professionalisation, providing ample opportunities for Venture Capital and Private Equity players. For entrepreneurs, whether it’s developing a new raw-coated kibble, a product range that cracks the code on ESG, an online-first vet subscription service, or a

chain of grooming salons, the opportunities are endless.

The happiness that pets bring to families is priceless, just as your new pet-product or service could be.

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