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PRACTICAL IDEAS FOR THE BUSY PET RETAILER OF TODAY ... AND TOMORROW

A Backer Publication

2011-2012 PET AGE

Retailer Report

Finding new vitality in troubled categories and embracing Internet marketing helped pet stores get through another tough year. By Jeff Siegel

2011-2012 PET AGE

Retailer Report

In 2008, Amy Nichols sold 20 franchises for her upscale boarding and day care chain, Dogtopia (Tysons Corner, Va.). In 2009, she sold four. In 2010, she didn't sell any.

"Business is not like it was," said Nichols. "It's not, 'If you build it, they will come.' The impression before is that customers will push down your doors. Now, it's more difficult, and if you don't dedicate the time and effort, you're not going to be successful."

So it's not surprising that the weak economy colored the 2011-2012 PET AGE Retailer Survey, which tracked retailer performance in 2010. The overriding results showed that the long coattails of the recession are still slowing the pet business: Fewer respondents reported significant year-over-year volume increases in 2010 compared with 2009, and total dollar volume shrank substantially from 2009. (Total dollar volume also was significantly less than in 2008 and 2007.)

"Personally, when I discuss this with people, everyone has a different mindset," said Michael Johnson, vice president of marketing for Chuck Latham Associates Inc. (Parker, Colo.), which provides sales and marketing services for the pet, veterinarian and equine industries. "But personally, I don't think the pet business is recession-proof. I'm bullish on the pet business, but there will be challenges."

Overall, those interviewed for this story said their impressions and individual results reflect those of the survey, and were consistent with results from the past couple of years:

- The average customer transaction declined 38 percent from 2009 to 2010, from \$82.24 to \$50.77. That's in line with the 2008 average of \$48.26—but, surprisingly, still better than the 2007 average of \$41.89. The reason the 2010 average transaction was higher than 2007's pre-recession level probably is due to the increased popularity of more expensive superpremium, holistic, natural and raw dog foods.
- The average markup for all dry goods declined to 55 percent from 60 percent.
- Fewer retailers (54 percent) said they were considering capital improvements—a three-year low. And only 21 percent—also a three-year low—said they would spend more than \$20,000 to make the improvements.
- The number of retailers who offered no employee benefits of any kind increased a dramatic 15 percentage points (59 percent in 2010, versus 44 percent

44% of pet retailers responding to the survey have been in business more than 10 years. At the other end of the spectrum, **7%** of respondents have been in business one year or less. The average pet store has been in business 12 years.

38% of pet retailers are sole proprietorships. **28%** are limited liability companies. **23%** are S-corporations. **7%** are C-corporations. **4%** are partnerships.

78% of pet retailers have a website.

52% of pet retailers are located in an urban environment (a metropolis, a suburb or midsize city). **24%** are located in a small city with a population of 50,000 to 100,000. **24%** are located in a town or rural area with a population of 50,000 or less.

in 2009)—and has nearly doubled since 2008. Not surprisingly, the average number of employees fell to 3.2 from 6.5, which is not inconsistent with an economic slowdown and a U.S. unemployment rate around 9 percent.

"I think what you're seeing is everyone beefing up their operating practices," said Johnson, who noted that this seems to be true for big and small retailers alike.

For example, PetSmart (Phoenix) has posted better than expected earnings over the past year or so by reducing growth and cutting operating expenses, chief executive officer Bob Mora told analysts.

Survey respondents similarly limited expansion and employee costs.

Said Pattie Lanz, who owns Sasha's Canine Bakery and More (Minersville, Pa.): "We stayed with what we knew and cut expenses. It wasn't the time to do too much differently."

Yet the survey—our exclusive benchmarking tool designed to identify sales and profit trends in pet stores around the country, product categories that are gaining or losing ground, and market leaders in key categories—also found that retailers adapted to the changing economic climate in ways many have not considered before. For example, they finally embraced the Internet as a marketing tool after years of resistance. They also re-examined and refocused their anicillary service efforts.

Getting Web-Savvy

One of the biggest changes revealed in the survey was in marketing, and it may herald a significant change in the way independent pet retailers do business. Typically in a poor economic climate, retailers cut back on marketing and advertising, and wait for the economy to improve. In 2010, not only did they not cut back, they shifted resources to the Internet. In fact, "developing/expanding our Internet presence" made the list of retailers' top five challenges for the first time in the survey's history.

"You have to show yourself in social media like Facebook, and you're crazy not to," said Josh Garrett, co-owner of Jett and Monkey's Dog Shoppe (Des Moines, Iowa), a 1,300-square-foot high-end supplies store. "People aren't going to look in the phone book for your store anymore."

Specifically, about one-third of survey respondents said Internet and email marketing was their most important form of advertising, elevating it to the top of the list of most effective marketing tools—another survey first. In comparison, only 8 percent of respondents cited

Dog Food Slump?

DOG FOOD DRIVES pet retailing, whether the retailer is a small independent or a multinational with thousands of stores. So is it time to worry, given that dog food did not particularly impress in the 2011-2012 PET AGE Retailer Survey?

Only 14 percent of survey respondents named dog food as their fastest-growing category in 2010, versus 21 percent in 2009. Furthermore, dog food represented only 22 percent of respondents' overall gross dollar volume, down from 25 percent in 2009 and just slightly higher than in 2007 and 2008.

It may be too soon to know the answer. The 2010 results may be a blip related to the lingering effects of the recession, with consumers trading down from pricey superpremium foods to less expensive foods. According to Connie Packard Kamedulski, who owns Animal Fair (Ridgefield, Conn.), a 3,000-foot full-line store that sells small animals but not puppies and kittens, more customers than usual are experiencing sticker shock and asking her to recommend a less expensive brand that does the same thing for their pet.

Also possible, said Michael Johnson, vice president of marketing for Chuck Latham Associates Inc. (Parker, Colo.), is that consumers, faced with higher gas costs, are combining shopping trips and skipping the visit to the independent retailer. Instead, they're buying comparable food elsewhere, like the national specialty and big-box retailers. This falls in line with the increasing availability of superpremium brands at the Petco (San Diego) and PetSmart (Phoenix) chains.

Pricing pressure, following the move of superpremium brands to the national chains, could also be at work here, said B.C. Henschen, co-owner with his wife, Kathie, of Platinum Paws (Carmel, Ind.), a 3,800-square-foot pet salon that retails holistic foods. Retailers who are forced to cut prices to compete with the big boxes will see less profit and may well be less enthusiastic about the products.

Less likely, said retailers, is the emergence of a dual market for superpremium, holistic, natural and raw foods, similar to what emerged some 15 years ago when superpremiums debuted in independent pet specialty stores and most dog food was sold in grocery stores. Henschen, for one, said there is still plenty of enthusiasm for high-end food among all consumers, and marketing efforts by the national chains and some manufacturers could spur growth for the independent retailer.

"They're seeing more and more of this food," he said, "and they're learning how to read a bag and learning about what goes into the food. And they're going to start asking questions about the quality of the food they find in the big-box stores, because that's the nature of things. And that's when the independent retailer can gain customers by carrying unique foods."

—Jeff Siegel

the Internet as their preferred form of advertising in 2007.

Furthermore, the average advertising expenditure increased some 20 percent, climbing back to 2007 levels. Also surprising: Referral/word-of-mouth, always one of the top marketing vehicles, was at its lowest level since 2007.

Not only are younger customers, who have grown up with social media, more likely to use social media and the Internet to find out about his store, Garrett said, but retailers in their 20s and 30s, who also have grown up with social media, are more likely to use it to market their businesses. They don't see anything odd about taking advantage of a free service like Google Places, which lists retailer locations and hours.

B.C. Henschen, co-owner of Platinum Paws (Carmel, Ind.), said he has scrapped his Yellow Pages advertising and now mostly depends on the Internet, through target search terms. He also relies on social media: He posted about a new shipment of duck feet treats on the store's Facebook page, and the treats sold out the same day. That's the first time that has ever happened, Henschen said.

Fine-Tuning Services

The percentage of retailers who offered services or planned to add them in the near term returned to pre-recession levels, indicating that retailers still see services as a viable way to make money and add value for their customers. But the fact that fewer stores offered services in 2010 than in 2009 (62 percent, versus 70 percent) indicates they are being more judicious about providing services that make the most economic sense.

Respondents also seemed to recognize the difficulties of adding services in a recession-like economy. How do you add services if you're cutting costs and employees?

"When the business is in trouble, and things are difficult, you have to buckle down and do what you know," said Nichols. "Adding services means adding employees and adding cost, and that's not something that always seems attractive at that time."

Customer demand also factors into this, said Bruce Kelley, owner of AquaTek Tropical Fish (Austin, Texas), a 4,000-square-foot full-line fish and equipment store. He has seen his service business—mostly maintaining off-site setups—decline: "[Customers'] attitude is, when they're making money, to let someone else maintain the tanks. But when they're not making money, they figure they can cut us out and take care of it themselves."

Fish Making a Comeback?

HAS THE FISH business, which has been so slow for so long, started to rebound? Results of the 2011-2012 PET AGE Retailer Survey marked the second consecutive year for optimism.

Fish food and aquarium supplies increased four percentage points in terms of their contribution to average gross dollar volume in 2010 versus 2009. Meanwhile, turns increased almost 50 percent, and the average transaction rose nearly 13 percent. Yes, fewer people said sales were up in 2010 than those who said so in 2009, and more said business was down. Still, the bleeding wasn't as bad in fish and supplies as it was in other categories.

"Yes, I think I'd agree business has gone up slightly," said Bruce Kelley, owner of AquaTek Tropical Fish (Austin, Texas), a 4,000-square-foot full-line fish and equipment store. He said his sales increased in the high single digits. "Now, it's nowhere close to what it was in the late 1990s, but it may be 2027 before we get back to there."

Kelley and several other retailers who sell fish and fish supplies cited a variety of reasons for the uptick:

- **Better service.** "I don't think people want to be bothered with ordering online," said Ed Pecord, the owner of Fish Frenzy Tropical Fish (Ludlow, Mass.), a 1,200-square-foot fish and equipment store. "The fascination with free shipping is over, and they want to shop somewhere more convenient where I'll know what they need. They know that if they can't remember what kind of filter they want, I will."
- **The nano tank.** Touted as a way to boost fish sales, nano tanks seem to be doing just that, said several retailers. Kelley noted that nano tanks allow customers to spend $300 on a saltwater setup instead of $1,500, boosting the popularity of saltwater fish, while Pecord said more people see saltwater fish as easier to maintain than before. Which means it's probably not a coincidence that 33 percent more stores reported carrying saltwater fish in 2010 than in 2009.
- **Other product and technology innovations.** Besides the nano tank, LED lights have boosted sales, said Kelley, and better pumps and filters have made it easier to maintain a tank. And a reduction in time and effort could mean an increase in fish keepers.

—Jeff Siegel

Looking for the Silver Lining

Still, when you dig deeper into the numbers, and add a little more historical context, there's cause for optimism:

- **Dog supplies & accessories and food.** Though 33 percent fewer retailers identified dog food as their fastest-growing category in 2010, and dog food's contribution to average dollar volume decreased by three percentage points, the dog category as a whole is still No. 1. Combined, these two categories gained three percentage points (48 percent in 2010, versus 45 percent in 2009). This put the two categories, once again, ahead of pre-recession levels, when they accounted for just 39 percent of the average store's dollar volume.
- **The fish business.** In terms of contribution to average dollar volume, fish food and aquarium supplies increased by four percentage points (9 percent in 2010, versus 5 percent in 2009). The average customer transaction increased from $23.45 in 2009 to $26.43 in 2010. Among respondents who carried livestock, more than half (52 percent) carried saltwater fish in 2010, versus 39 percent in 2009.
- **Gifts and novelties.** In terms of contribution to average dollar volume, this category showed the largest increase in 2010—up six percentage points from 2009. In fact, it was the fifth biggest contributor to pet store revenue. Gift-related inventory turns and average

customer transaction doubled. And 38 percent of retailers saw year-over-year sales increases in this category, versus 24 percent in 2009.

- **Capital improvements.** True, fewer retailers said they were considering capital improvements. But look past the top-line number, and you find that a higher percentage of respondents said they would remodel their current facility, open an additional location or build onto their current facility than in 2008, the start of the recession. And the percentage of retailers who planned to build a new building or move to a new location more than doubled from 2009 (16 percent) to 2010 (35 percent). Retailers are still looking for opportunities, thanks to lower rents and lots of empty retail space in much of the country.

Also notable: The percentages of respondents who saw year-over-year increases in gross dollar volume and/or net profits held steady in 2010 versus 2009. One such respondent is Connie Packard Kamedulski, who owns Animal Fair (Ridgefield, Conn.), a 3,000-foot full-line store that sells small animals but not puppies and kittens. Business has improved steadily, said Kamedulski. One reason is less competition, no doubt from the recession; there are only two pet stores in her market area and no national chains, compared with five several years ago.

Garrett, too, cited increased numbers for his 15-month-old business. He is optimistic that his combination of unique products, Internet-based marketing and community involvement will continue to fuel growth.

"That's going to add up in the long term," he said. ■

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Gifty, But Not Pricey

THE LAST THING that should be thriving during recession-like conditions is a nonessential category. So why is the gift and novelty business doing so much better, according to results from the 2011-2012 PET AGE Retailer Survey?

Gifts and novelty items ranked fifth out of 12 categories in terms of its average contribution to gross dollar volume in 2010, up from ninth the past two years. More importantly, the category showed the most improvement in contribution to volume: up 6 percentage points from 2009 and up 7 points from 2008. In addition, 38 percent of respondents said their gift business was up in 2010, versus 24 percent in 2009. Retailers managed to double their turns as well.

The answer, said retailers, is simple. They aren't repeating the mistakes of the past—carrying expensive doggy clothes, high-priced totes and the like while trying to copy higher-end retailers. At the same time, they're managing gift inventories more effectively, and jettisoning items that don't sell.

"My customers don't come here to buy gifts," said Jessica Talley, owner of Bubba Rose Biscuit Co. (ÓBoonton, N.J.), a 1,000-square-foot bakery with accompanying retail operation. "I'll let other stores take care of that. I'm looking for function over fashion, something that is functional as well as gifty. And that seems to work well for us."

Lower prices, said retailers, have been crucial to boosting performance in this category. Items that cost $50 are much too expensive, said Talley. Even $20 is too high for customers at Wye Road Feed, a pet supply and feed store in Bishop, Calif., said manager Mare Gilbert.

"I have to stick to the very low end," said Gilbert, who also freshens inventory regularly, trying not to order the same items once they sell out. "People here won't go for the more expensive items."

—Jeff Siegel

ABOUT THE SURVEY

STATISTICAL DATA FOR "The 2011-2012 PET AGE Retailer Report" were compiled using SurveyMonkey, a web-based survey tool.

PET AGE sent e-mails June 14, July 12 and July 27, inviting more than 4,600 retail owners/managers from the PET AGE subscriber list to complete our Internet-based questionnaire. Additionally, we publicized the questionnaire's availability via the "Editor's Note" and advertisements in PET AGE.

Retailers who didn't have access to the Internet or preferred not to complete the survey online received printed versions of the questionnaire.

The 2011-2012 PET AGE Retailer Survey drew 391 valid responses, with a margin of error of 4.9 percent (the "plus or minus X percent" we always hear about) with a confidence level of 95 percent, according to the random sample calculator by Custom Insight, an online survey firm not affiliated with PET AGE.

Percentages will not always total 100 because many responses were rounded, and not all respondents answered all questions.

The 2011-2012 PET AGE Retailer Survey was sponsored by Coastal Pet Products Inc. (Alliance, Ohio), Fromm Family Foods Inc. (Mequon, Wis.), Kaytee Products Inc. (Chilton, Wis.), MiracleCorp Products (Dayton, Ohio) and PetEdge Dealer Services (Beverly, Mass.).

Coastal Pet Products Inc.
www.coastalpet.com

Fromm Family Foods Inc.
www.frommfamily.com

Kaytee Products Inc.
www.kaytee.com/pet-birds/

MiracleCorp Products
www.miraclecorp.com

PetEdge Dealer Services
www.petedgedealerservices.com

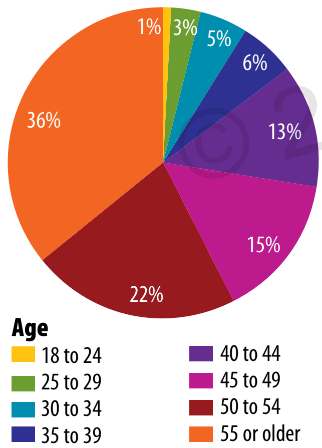
WHO TOOK THE SURVEY

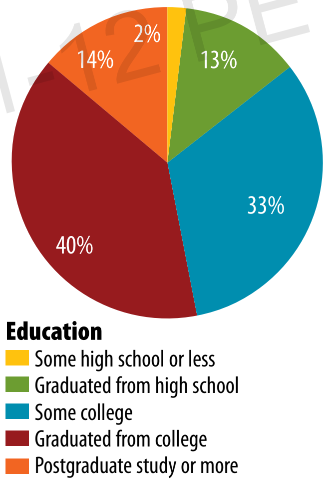
Independent pet supply outlets represented a smaller percentage of respondents to this year's survey. Conversely, significantly more online-only stores were represented.

	2010	2009
Independent pet store that sells companion animals and/or fish	28%	36%
Independent pet store that sells supplies only	22%	31%
Franchise and/or chain pet store	2%	3%
Pet boutique	12%	9%
Pet services facility	12%	12%
Online-only store	15%	3%
Other	10%	6%

WHO YOU ARE

Six out of 10 pet retailers are baby boomers. Nearly seven out of 10 are female. More than half have obtained at least a four-year college degree.





DOLLAR VOLUME & PROFITS

The long coattails of the recession are evident: Fewer survey respondents reported significant year-over-year volume increases in 2010 (46 percent, versus 53 percent in 2009). And fewer retailers reported significant year-over-year profit increases in 2010 (38 percent, versus 45 percent in 2009).

	Gross Dollar Volume		Net Profit	
	2010	2009	2010	2009
Up 25% or more	16%	14%	14%	10%
Up 10% to 24%	16%	25%	14%	17%
Up 6% to 9%	14%	14%	10%	18%
Up 1% to 5%	13%	10%	18%	13%
Unchanged	11%	7%	17%	14%
Down 1% to 5%	14%	8%	11%	10%
Down 6% to 9%	5%	6%	4%	3%
Down 10% to 24%	8%	12%	7%	8%
Down 25% or more	3%	5%	5%	8%

WHERE PET STORES MAKE THEIR MONEY

Dog food and dog products continued to be the largest contributors to average dollar volume in 2010. However, gift and novelty items gained the most ground, up 6 percentage points from 2009.

	2010	2009
Dog supplies & accessories	26%	21%
Dog food	22%	25%
All live animals/stock	14%	12%
Services	13%	14%
Gifts & novelty items	10%	4%
Fish food & aquarium supplies	9%	5%
Bird food & supplies	7%	7%
Cat food	6%	7%
Cat supplies & accessories	6%	4%
Reptile food & supplies	4%	5%
Small-animal food & supplies	4%	4%
Pond supplies & accessories	1%	2%
Other	15%	12%

Totals do not add up to 100% because averages are based on responses for each separate category.

TOP PET CATEGORIES

Half of all survey respondents carried companion animals and/or fish in 2010, up 10 percentage points from the previous year. Although saltwater fish were available in significantly more stores, most other pet categories lost ground. For example, the percentage of stores selling birds dropped 16 percentage points, and the percentage of stores selling puppies and kittens continued to decline.

	% Stores Carrying Category	
	2010	2009
Freshwater fish	69%	66%
Reptiles & amphibians	59%	66%
Small animals	58%	66%
Birds	53%	69%
Saltwater fish	52%	39%
Registered puppies	28%	37%
Mixed-breed puppies	26%	32%
Mixed-breed kittens & shelter/rescue cats	21%	24%
Registered kittens	5%	7%
Other	5%	3%

Totals do not add up to 100% because multiple responses were allowed.

FASTEST-GROWING PRODUCT CATEGORIES

Growth in foods and treats for dogs and cats slowed in 2010. Three out of 10 respondents cited them as their fastest-growing product categories in 2010, versus four out of 10 in 2009.

2010	% Respondents
Dog food	14%
Food/pet food	11%
Raw food/diets	6%
Treats	3%
Collars/leads/harnesses	3%

2009	% Respondents
Dog food	21%
Food/pet food	8%
Treats	6%
Small animal	5%
Raw diets	5%

GROSS DOLLAR VOLUME

Overall, pet retailers reported average gross dollar volume of $421,966 in 2010—nowhere near the $1.58 million average reported in 2009. Significantly more stores reported grosses of less than $100,000 (34 percent in 2010, versus 19 percent in 2009)—and significantly fewer stores reported grosses of more than $1 million (9 percent in 2010, versus 14 percent in 2009).

	2010	2009
Average gross dollar volume	**$421,966**	**$1,575,657**
Up to $99,999	34%	19%
$100,000 to $249,999	20%	23%
$250,000 to $499,999	20%	20%
$500,000 to $749,999	11%	17%
$750,000 to $999,999	5%	8%
$1 million or more	9%	14%
Average gross dollar volume—by business type		
Independent pet store that sells companion animals and/or fish	$481,967	$1,498,132
Independent pet store that sells supplies only	$718,956	$2,525,805
Franchise and/or chain pet store	N/A	$1,633,333
Pet boutique	$168,592	$352,075
Pet services outlet	$153,610	$468,455
Online-only store	$101,547	$40,375
Other	$370,000	$527,906

AVERAGE CUSTOMER TRANSACTIONS

Overall, pet owners shelled out 38 percent less per visit in 2010 than in 2009. That's despite significantly higher spending by reptile owners, bird owners and gift/specialty buyers.

	2010	2009
All transactions	**$50.77**	**$82.24**
Dog owners	$46.62	$56.89
Cat owners	$22.98	$22.29
Aquarium owners	$26.43	$23.45
Bird owners	$22.98	$17.44
Small-animal owners	$17.77	$17.08
Reptile owners	$28.28	$21.22
Gift/specialty buyers	$34.71	$15.78

The median amount that pet stores spent on advertising in 2010 was $2,000.

YEAR-OVER-YEAR SALES CHANGES

Retailers saw year-over-year sales increases in every category except fish food and aquarium supplies.

	2010			2009		
	Up	Unchanged	Down	Up	Unchanged	Down
Dog food	73%	14%	14%	68%	16%	15%
Cat food	51%	30%	20%	48%	26%	27%
Fish food & aquarium supplies	38%	26%	35%	50%	24%	26%
Bird food & supplies	31%	37%	32%	29%	31%	40%
Small-animal food & supplies	46%	36%	18%	39%	28%	33%
Reptile food & supplies	43%	35%	22%	34%	42%	24%
Gifts & specialty items	38%	24%	38%	24%	46%	31%

MARKUPS & TURNS

Overall, retailers' strategy of holding the line on markups resulted in higher turns. Turns for reptile food and supplies as well as gifts and specialty items roughly doubled.

	Average Markups 2010	Average Markups 2009	Average Turns 2010	Average Turns 2009
All dry goods	**55%**	**60%**	**12.0**	**12.0**
Dog food	34%	32%	18.3	17.1
Cat food	34%	33%	12.9	10.7
Fish food & supplies	76%	76%	12.6	8.5
Bird food & supplies	70%	69%	11.8	10.2
Small-animal food & supplies	71%	72%	12.7	7.9
Reptile food & supplies	78%	74%	13.7	6.6
Gifts and specialty items	76%	77%	7.4	3.6
Live animals	104%	83%	N/A	N/A

Averages for "all dry goods" may not equal averages for other categories/lines because averages are calculated separately for each category/question.

On average, pet stores have 2,619 square feet of retail space. 59% have 2,000 square feet or less. 24% have 2,000 to 3,999 square feet. 7% have 4,000 to 7,999 square feet. 10% have 6,000 or more square feet.

FAVORITE FORMS OF ADVERTISING

For the first time, retailers considered Internet- and email-based marketing the most effective form of advertising—perhaps at the expense of direct mail, which lost ground for the second year in a row.

	2010	2009
Average spent on advertising	**$10,622**	**$8,797**
Internet/website/ email marketing/ social media marketing	32%	22%
Referrals/word-of-mouth	28%	32%
Newspaper/shopper advertising	10%	14%
Magazine	7%	4%
Phone directories/Yellow Pages	5%	3%
Direct mail	4%	7%
Radio advertising	4%	7%
Television/cable advertising	2%	5%
Other, including events	6%	1%

ANCILLARY SERVICES

Six out of 10 respondents provided some type of ancillary service in 2010, versus seven out of 10 in 2009. Their profit margins on services shrank 28 percent. Still, 30 percent of respondents plan to add ancillary services in the next few years—the highest percentage in four years. This indicates that retailers still see services as a viable way to make money and add value for their customers.

	% Stores Offering Service 2010	% Stores Offering Service 2009	% Stores Adding Service 2010	% Stores Adding Service 2009
Grooming	54%	61%	40%	31%
Delivery	36%	28%	29%	31%
Boarding exotic animals	23%	6%	7%	N/A
Aquarium/ pond installation/ maintenance	21%	18%	22%	7%
Boarding dogs and/or cats	18%	28%	13%	10%
Pet sitting and/or dog walking	17%	N/A	24%	N/A
Obedience and/or agility training	16%	18%	22%	24%
Day care	12%	12%	24%	17%
Self-service dog wash	8%	22%	22%	35%
Other	7%	8%	0%	21%
None	38%	30%	71%	79%

	2010	2009
Percent of retailers planning to add *any* ancillary service	30%	21%
Average profit margin for ancillary services	78%	108%

Totals do not add up to 100% because multiple responses were allowed.

78% of pet retailers have a website.

EXPANSION PLANS

Half of all survey respondents plan to make capital improvements to their businesses in the next two years, down from nearly six out of 10 the previous year. Twice as many respondents plan to move or build a new building—likely to take advantage of lower rents and empty retail space resulting from recession hangover.

	2010	2009
Retailers planning to expand or make any type of physical improvements to their stores	**54%**	**58%**
Redecorate current facility	4%	N/A
Remodel current facility	50%	66%
Build onto current facility	15%	23%
Open an additional location	20%	22%
Build new building or move to new location	35%	16%
Retailers planning to spend more than $20,000 on project	21%	28%

Totals do not add up to 100% because multiple responses were allowed.

Pet store customers spent an average of $50.77 per visit in 2010.

EMPLOYEE BENEFITS

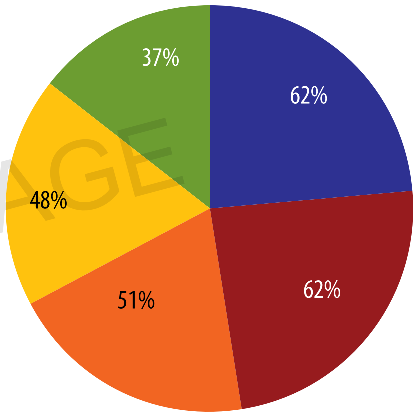
In a vivid sign of the economic times, retailers pared their staffs as well as wages and benefits in 2010. In fact, the number of retailers offering benefits of any kind in 2010 dropped a dramatic 15 percentage points. One of the few bright spots on the benefits front: More stores offered employees health insurance.

	2010	2009
Employee discount	82%	80%
Sales and/or holiday bonuses	57%	53%
Paid vacation	52%	47%
Health insurance	38%	28%
Sick/personal days	35%	40%
Disability insurance	8%	8%
Pension plan	8%	3%
Profit sharing	5%	6%
Life insurance	5%	5%
Other	5%	11%
None	59%	44%
Average number of full-time employees	3.2	6.5
Average number of part-time employees	2.9	4.3
Average salary for owners	$24,294	$34,987
Average pay for full-time employees	$9.79/hr	$9.97/hr
Average pay for part-time employees	$7.78/hr	$7.96/hr

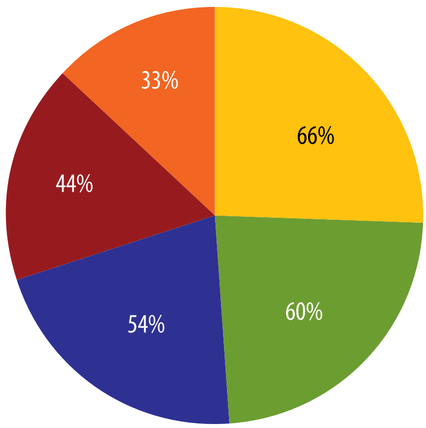
Totals do not add up to 100% because multiple responses were allowed

TOP CHALLENGES FOR PET RETAILERS

Pet retailers are still more worried about the economy and competition than any other challenges they face in the next two years. They are increasingly worried about staying profitable and keeping their doors open. They also recognize the growing power of the Web and the need to keep up with changes in that area.



2010
- The economy
- Competition
- Increasing sales volume
- Maintaining profitability/staying in business
- Finding/training/retaining new employees



2009
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Totals do not add up to 100% because multiple responses were allowed.

Market Leaders in Key Pet Supply Categories

By Percentage of Stores Citing Company/Brand as No. 1 Seller*

DOG PRODUCTS

Apparel
1. PetEdge 35%
2. Ethical Products 13%

Beds
1. Midwest Homes for Pets and PetEdge, tie 19%
2. Precision Pet Products 16%

Collars & Leads
1. Lupine 28%
2. Coastal Pet Products 22%

Feeders
1. Doskocil dba Petmate 28%
2. PetRageous Designs 21%

Flea/Tick Products
1. Merial 41%
2. Central Life Sciences 19%

Foods
1. Diamond Pet Foods 16%
2. Champion Petfoods 12%

Grooming Tools
1. Coastal Pet Products 23%
2. PetEdge 17%

Health & Hygiene Products
1. TropiClean Products 28%
2. Bio-Groom 14%

Housing & Travel Products
1. Doskocil dba Petmate and Midwest Homes for Pets, tie 28%
2. Marchioro USA 11%

Sanitation Products
1. UPG Companion Animals Div./Eight In One 25%
2. Central Garden & Pet/Four Paws Products 20%

Shampoos
1. TropiClean Products 23%
2. Earthwhile Endeavors 16%

Toys
1. Kong Co. 30%
2. PetEdge 16%

Treats
1. A Guy & His Dog dba Zuke's 13%
2. Homemade/local 11%

CAT PRODUCTS

Beds
1. PetEdge 23%
2. Midwest Homes for Pets 21%

Collars & Leads
1. Coastal Pet Products 33%
2. Lupine 30%

Feeders
1. Doskocil dba Petmate 37%
2. PetRageous Designs 19%

Flea/Tick Products
1. Merial 37%
2. Central Life Sciences 28%

Foods
1. Diamond Pet Foods 18%
2. Natura Pet Products 17%

Furniture
1. Ware Manufacturing 27%
2. Local/custom manufacturer 24%

Grooming Tools
1. Coastal Pet Products 28%
2. Central Garden & Pet/Four Paws Products 15%

Health & Hygiene Products
1. Central Garden & Pet/Four Paws Products 25%
2. Sergeant's Pet Products 22%

Housing & Travel Products
1. Doskocil dba Petmate 55%
2. Midwest Homes for Pets 17%

Litter
1. GPC Pet Products/World's Best Cat Litter 31%
2. American Colloid 19%

Litter Accessories
1. Van Ness Plastics 52%
2. Doskocil dba Petmate 43%

Sanitation Products
1. UPG Companion Animals Div./Eight In One 35%
2. Van Ness Plastics 17%

Shampoos
1. Central Garden & Pet 23%
2. Bio-Groom 20%

Toys
1. PetEdge 19%
2. Kong Co. 18%

Treats
1. Nutro Co. 33%
2. A Guy & His Dog dba Zuke's 18%

AQUARIUM PRODUCTS

Aquariums/Tanks
1. Central Aquatics 68%
2. United Pet Group Aquatics 22%

Cleaning Equipment
1. United Pet Group Aquatics 23%
2. Lee's Aquarium & Pet Products 21%

Decorations
1. Penn-Plax 41%
2. Blue Ribbon Pet Products 36%

Filtration Products
1. United Pet Group Aquatics 62%
2. Rolf C. Hagen (USA) Corp. 22%

Foods
1. United Pet Group Aquatics 52%
2. OmegaSea 17%

Health Aids
1. Mars Fishcare North America 67%
2. Seachem Labs 25%

Heaters
1. Rolf C. Hagen (USA) Corp. 38%
2. United Pet Group Aquatics 25%

Lighting
1. Central Aquatics 68%
2. Rolf C. Hagen (USA) Corp. 10%

Meters

1. Rolf C. Hagen (USA) Corp.	41%
2. United Pet Group Aquatics	38%

Pond Products

1. United Pet Group Aquatics	45%
2. Rolf C. Hagen (USA) Corp.	36%

Pumps

1. United Pet Group Aquatics	42%
2. Rolf C. Hagen (USA) Corp.	27%

Test Kits

1. Mars Fishcare North America	54%
2. United Pet Group Aquatics	29%

Water Conditioners

1. Mars Fishcare North America	33%
2. Seachem Labs	30%

BIRD PRODUCTS

Bedding & Litter

1. Central Avian & Small Animal/Kaytee Products	38%
2. Vitakraft Sun Seed Co.	25%

Cages

1. Prevue Pet Products	48%
2. Blue Ribbon Pet Products	23%

Feeding Equipment

1. Penn-Plax	32%
2. JW Pet Co.	24%

Foods

1. Vitakraft Sun Seed Co.	26%
2. Central Avian & Small Animal/Kaytee Products	24%

Health Aids

1. UPG Companion Animals Div./Eight In One	40%
2. Vitakraft Sun Seed Co.	26%

Sanitation Products

1. UPG Companion Animals Div./Eight In One	40%
2. Avian Fashions and Central Garden & Pet/Four Paws Products, tie	28%

Toys & Exercise Products

1. JW Pet Co.	30%
2. Penn-Plax	25%

Water Bottles

1. Lixit Corp.	46%
2. Penn-Plax	32%

SMALL-ANIMAL PRODUCTS

Bedding & Litter

1. Absorption Corp.	55%
2. Central Avian & Small Animal/Kaytee Products	18%

Chew Items

1. Central Avian & Small Animal	50%
2. Vitakraft Sun Seed Co.	34%

Feeding Equipment

1. Central Avian & Small Animal	50%
2. Ethical Products	22%

Foods

1. Vitakraft Sun Seed Co.	30%
2. Central Avian & Small Animal/Kaytee Products	25%

Health Aids

1. Central Life Sciences	15%
2. Oxbow Animal Health	14%

Housing

1. Central Avian & Small Animal/Super Pet	71%
2. Ware Manufacturing	9%

Sanitation Products

1. Central Avian & Small Animal	69%
2. Penn-Plax and Vitakraft Sun Seed Co., tie	10%

Toys & Exercise Products

1. Central Avian & Small Animal/Super Pet	70%
2. Penn-Plax	16%

Water Bottles

1. Central Avian & Small Animal/Super Pet and Lixit Corp., tie	38%
2. Kordon	11%

REPTILE PRODUCTS

Bedding & Litter

1. Zoo Med Laboratories	47%
2. Central Aquatics	23%

Feeding Equipment

1. Zoo Med Laboratories	49%
2. Rolf C. Hagen (USA) Corp.	29%

Foods

1. Zoo Med Laboratories	35%
2. United Pet Group Aquatics	24%

Health Aids

1. Zoo Med Laboratories	47%
2. Rolf C. Hagen (USA) Corp.	25%

Heating Equipment

1. Rolf C. Hagen (USA) Corp.	40%
2. Zoo Med Laboratories	35%

Housing

1. Central Aquatics	61%
2. Rolf C. Hagen (USA) Corp.	31%

Housing Decor

1. Rolf C. Hagen (USA) Corp.	37%
2. Zoo Med Laboratories	28%

Lighting

1. Zoo Med Laboratories	42%
2. Rolf C. Hagen (USA) Corp.	37%

Sanitation Products

1. Zoo Med Laboratories	62%
2. Central Aquatics	31%

Water Bottles

1. Zoo Med Laboratories	50%
2. Rolf C. Hagen (USA) Corp.	34%

GIFT & MISCELLANEOUS ITEMS

Crab Products

1. Zoo Med Laboratories	42%
2. Florida Marine Research	39%

Cricket Products

1. Fluker Farms	69%
2. The Bug Co.	20%

Books

1. Barron's Educational Series	42%
2. Central Garden & Pet/T.F.H. Publications	29%

Calendars

1. BrownTrout Publishers	70%
2. Local/custom	15%

Greeting Cards

1. Avanti Press Inc.	42%
2. Trumble Greetings/Leanin' Tree	28%

Ornaments & Figurines

1. Local/custom	44%
2. Conversation Concepts	20%

** Rankings reflect companies/brands that were cited most often by respondents as their best sellers. Neither rankings nor percentages represent market shares or sales percentages, as respondents were not asked to provide actual sales figures or sales percentages by brand or information about other brands sold in their stores.*