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Seeking Wellness, Younger Pet “Parents” Spur Pet Food Growth Trends

Key Points:

- Pet food spending increased nearly 12% over the past year, according to Circana, primarily driven by price increases. Volume sales, however, fell 2.7% YoY as consumers stretched their pet food dollar.
- Roughly two-thirds of U.S. households have at least one pet. Spending on pet food still has considerable room to grow, both in sales and households.
- Younger generations (Millennials and Generation Z) now are as likely to have a pet as are older generations. Among all generations, GenZ spends the second-highest percentage of their income, suggesting they are prioritizing their pets’ needs.
- As birth rates have dropped, the perception of pets as the new kids is taking hold. Pet health/wellness is foremost on the minds of pet “parents.” Pet foods and treats are showcasing a variety of functional benefits, ranging from dental health to weight management.
- Pet foods brands have potential to build on wellness-oriented claims resonating with younger consumers, extending into the areas of calmness, plant-based options, weight control or healthy aging.



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Introduction

Two-thirds of U.S. households (86.9 million) own at least one pet, according to the 2023-24 APPA National Pet Owners Survey, and pets are popular across generations. In fact, for the first time, the number of GenZ and Millennial pet owners equals that of GenX and Baby Boomers. For Millennials and GenZ alike, the number of their households with a pet has steadily increased since 2018 (*Exhibit 1*).

Those younger generations may be beginning to dominate the pet landscape, but for now, they spend less in the category compared with older groups on average. Per MarketWatch, GenX members spend the most annually on their pets’ food (*Exhibit 2*). GenZ spends the least total in dollars, but they spend the second-highest percentage of their income, a disparity largely due to the higher net worth of the older generations. As GenZ grows in their careers and likewise in their income levels, their spending should increase across the food/beverage space, including on foods and treats for their pets.

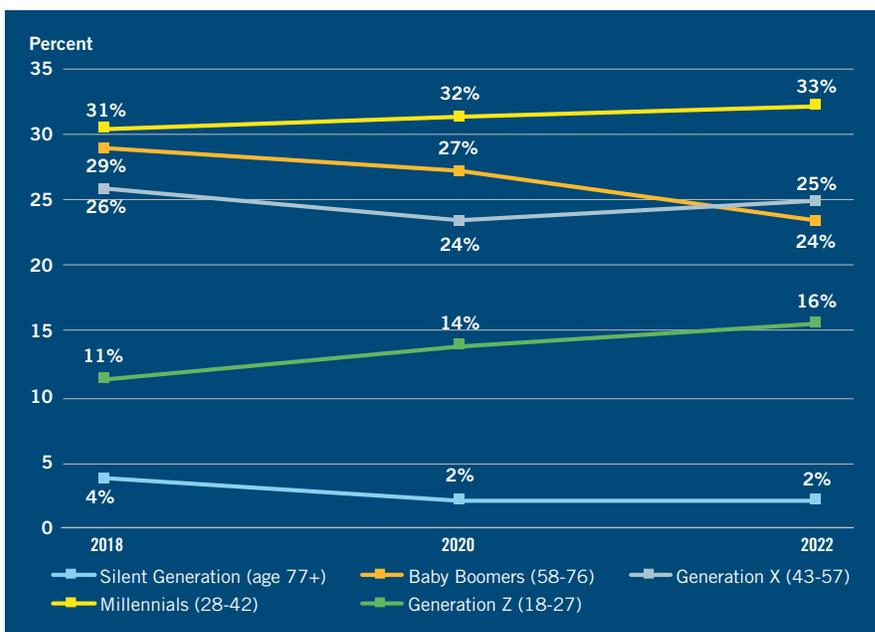


Pet food segments

Just as with human food and beverage categories, increased pet food prices have boosted dollar sales but stalled sales volume. Overall, the U.S. market for pet food stood at \$19.3 billion for the year ending Dec. 31, 2023, a 11.7% increase from 2022 with volume down 2.5%. Dollar sales for the pet food category overall have surged nearly 32% since 2021, according to Circana data (*Exhibit 3*). The cat and dog food segments have outperformed even that considerable rate, each growing in excess of 33% over the past two years.

Two years of steep price hikes amid an overall difficult economic climate have led some pet owners to adjust their spending on pet food, shifting to lower-cost brands and types. While January 2024 continued the slowdown in overall food/beverage inflation seen in recent months, pet food prices increased again, growing at a 4.7% rate in January. Pet food inflation, in fact, has outpaced the national inflation numbers consistently since December 2021, a strong factor in the category's somewhat lackluster volume performance over the past two years. These rising prices led to notable growth in private label share in every

EXHIBIT 1: Total Pet Ownership by Generation, 2018-22



Source: 2023-24 APPA National Pet Owners Survey

Totals may be greater than 100% due to rounding

EXHIBIT 2: Average Annual Spending on Pet Food, by Generation

	Dollars	Percentage of Income
Baby Boomers (1946-1964)	\$842	1.07%
Generation X (1965-1979)	\$949	0.81%
Millennials (1980-1994)	\$679	0.74%
Generation Z (1995-2004)	\$369	0.83%

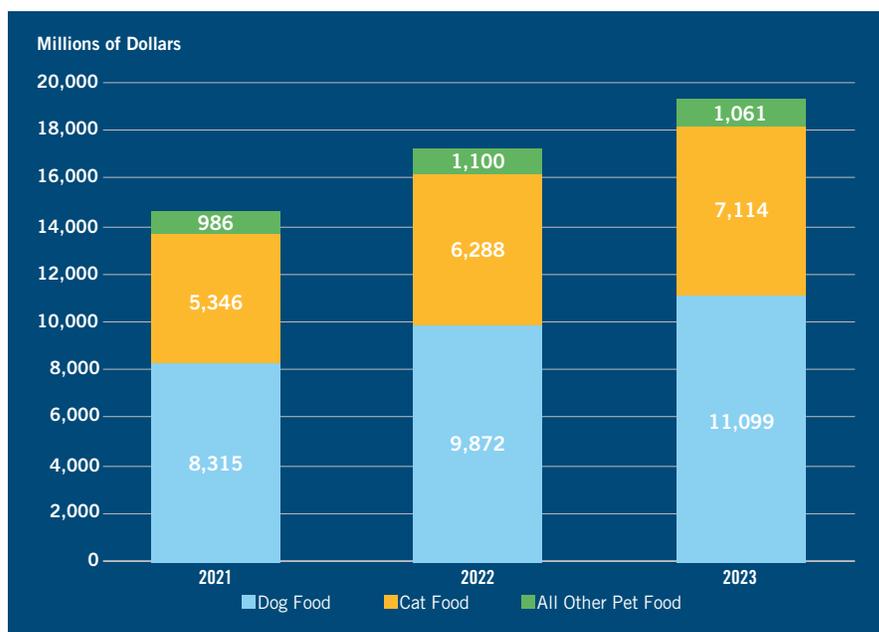
Source: MarketWatch

pet food segment in 2023, per Mintel, a trend that does not appear to be nearing its end. Mintel’s consumer research finds 4 in 10 pet owners would consider switching to a lower-priced alternative, suggesting further potential for smaller brands and private label options to gain market share.

While volume sales for pet foods as a whole have slipped (*Exhibit 4*), the bulk of that volume decline over the past year has been in “all other pet foods” (i.e., neither cat nor dog foods), which experienced an 8.1% volume decline in 2023. Dog food volumes dipped 5.2%, principally in wet dog food, a segment more aligned with premium pricing and likely an area where inflation-conscious consumers trimmed their overall food spending by trading down to either private-label wet options or to dry. Cat food sales volumes, meanwhile, largely kept pace with their 2022 volumes, dropping just 0.4% in 2023, perhaps owing to the lack of options for trading down – or, as cat owners are only too aware, feline intolerance may not permit a shift in brand/product.

General Mills, which owns the Blue Buffalo line of premium pet foods, is seeing the effects of pet owners trading down or looking for smaller-size food options. The company has said that as a result of these challenges, it expects organic net sales in its pet segment to be roughly flat in its first quarter compared with the prior-year period, and the segment’s operating profit margin to be around 19%.

EXHIBIT 3: U.S. Pet Food Dollar Sales, by Segment



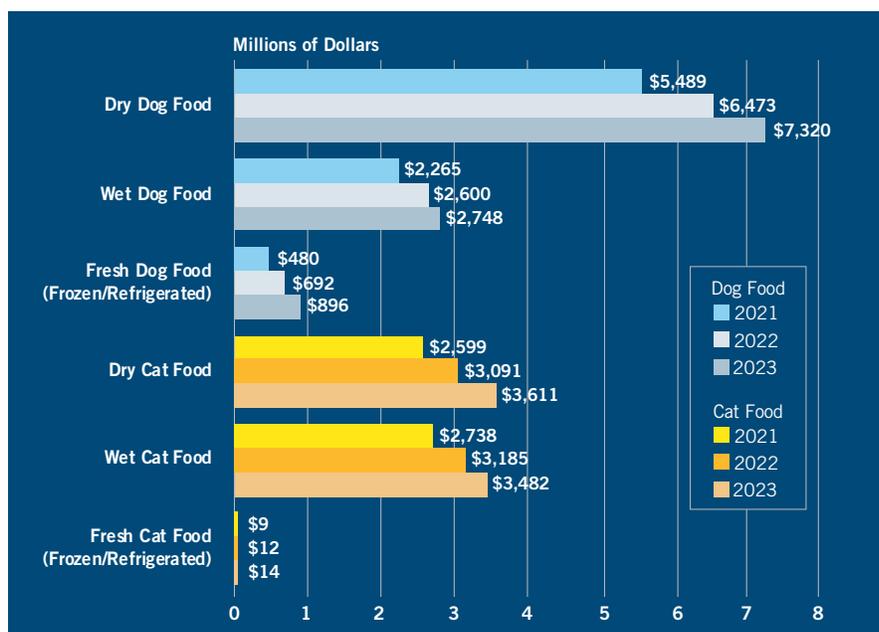
Source: Circana, CoBank. Data includes multi-outlet operators, does not include pet stores or natural food stores. Multi-outlet operators include grocery and supermarket chains, mass merchandisers such as Walmart and Target, warehouse and club stores, dollar stores, convenience stores and military outlets.

EXHIBIT 4: U.S. Pet Food Volume Sales, by Segment



Source: Circana, CoBank. Data includes multi-outlet operators, does not include pet stores or natural food stores.

EXHIBIT 5: U.S. Pet Food Dollar Sales, by Type



Source: Circana, CoBank. Data includes multi-outlet operators, does not include pet stores or natural food stores.

For JM Smucker, which owns Milk-Bone and other pet brands, the trade-down effect has been muted. This is in part because of the varying price points for offered products. Smucker, which in April sold several pet-food brands to Post Holdings (including Rachael Ray Nutrish, 9Lives and Kibbles 'n Bits), said that net sales in the U.S. pet foods segment dropped 40% (\$288 million), compared with the prior-year period. Excluding the divested brands, net sales increased 22%.

The type of pet food with significant growth

While dry foods account for the bulk of market share for both dog and cat food, the more significant growth over the past two years has been in options that are positioned as fresher than typically bagged dry or even canned wet foods (*Exhibit 5*).

Sales growth in fresh segments demonstrate consumer willingness to generally pay something of a premium for foods for their pet companions. Since 2021, fresh dog food sales (foods frozen or refrigerated) are up 86.5% and fresh cat options are up 53.8% in dollar terms. Likewise, while volume sales for the category as a whole

fell 2.5% in 2023, sales volume grew 6.4% in fresh cat food and 19.2% in fresh dog food. Over the past two years, the volume increases for these segments are even more pronounced: 19.7% for fresh cat food and 47.2% for fresh dog food. This growth in fresh options is clearly off of a smaller starting point in terms of both dollar and volume sales. Fresh dog food comprised roughly 4.6% of the category's dollar sales in 2023, a considerable boost from its 3.3% market share in 2021.

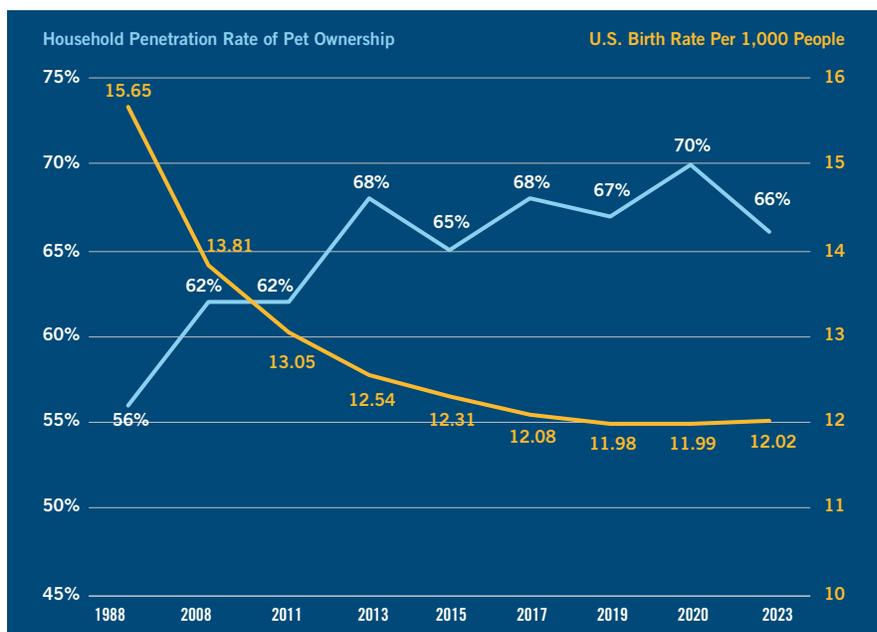
Fresh as the path to healthy

Consumers generally equate fresh options, particularly refrigerated products, with foods that are natural and, by further extension, healthier,

and such leaps of logic likely continue to fuel growth in the foods people are buying for their pets. Freshpet is the top-selling brand in fresh/frozen, accounting for more than 90% of segment sales. However, capacity constraints will likely provide opportunities for other players to enter the fresh (refrigerated/frozen) space. Estimates indicate the fresh segment will expand in the coming years; Bloomberg predicts the segment will account for 11% of the pet food market by 2030.

Mintel research finds more than half (51%) of U.S. pet food buyers perceive freshly prepared foods to be healthy, and nearly 8 in 10 (79%) U.S. pet food purchasers are willing to pay more for healthier pet food products. In fact, two of the top trends fueling the U.S. pet food/treat market are humanization and health/wellness. This has led to an increase in products boasting of a variety of functional benefits, including dental health, weight management and life stage-specific benefits, as well as pet treats that mirror their owner/parent's own dietary demands, i.e., products without artificial colors, flavors and preservatives, in addition to functional health benefits. Mintel's Global New Products Database (GNPD),

EXHIBIT 6: U.S. Pet Ownership Rate vs. Birth Rate



Sources: U.S. birth rate - United Nations; APPA National Pet Owners Survey; CoBank

Pets, the new kids

While the wellness trend is shaping the pet food market, another cultural aspect also seems to be at work: declining birth rates (*Exhibit 6*). With some younger generations delaying having children (or having fewer or none), it stands to reason that their parental instincts may be at play with the foods and treats they are choosing for their pets. As seen in infant/toddler foods, bone health or even potentially brain/growth development in puppy/kitten formulations is clear in pet food marketing. Humanization is driving much of the innovation in the pet food and treat space, but the trend may have only just begun.

Consumers are dedicating more time

and money to their pets, transforming the human-animal bond into something more reminiscent of that between a parent and child.

in fact, finds 21% of 2023's pet food introductions featured a vitamin/mineral fortified claim, as well as 40% with a "low/no/reduced allergen" promise.

Additionally, as the term "health" evolves for pet parents, the nutritional solutions for pets have evolved as well. Pet parents are seeking formulas that provide specific health benefits to their four-legged companions, and among these is addressing weight. According to the Association for Pet Obesity Prevention (APOP), more than half of all dogs and cats were classified as overweight or obese in 2018. Many pet parents are aware of this issue and have become determined to help their pets slim down, driving demand for more functional pet foods. Additionally, pet owners are taking a more personalized approach to address the pet obesity crisis. This belief is more popular with younger pet owners, as 41% of consumers aged 16-34 think their pet would benefit from weight loss. Functional ingredients have, in fact, been a notable area of formulation for pet foods, particularly focusing on gut health and immunity. Such better-for-pet assurances are likely to continue to evolve and broaden notions of wellness for their pets.

Conclusion

As the category's inflation abates, pet food growth will be led by pet nutrition, as owners continue to purchase more premium pet foods, and supported by veterinary care, diagnostics and pet pharmaceuticals and functional foods, all efforts to help pets live longer. As a result, consumers will likely be drawn to products focused on more elderly pet needs and quality ingredients in their pet's foods, regardless of price point. Such interests could see pet foods draw upon claims more common to human foods. SPINS data from April 2023, in fact, found growth in alternatives to beef and chicken in the pet food space, with seafood treats up 7.4%, pork/boar treats up 4.3% and non-animal-based treats up 2%. Pet owners may well be drawn to plant-based and flexitarian diets for nonhuman household members, particularly in households of younger generations, groups already more drawn to such trending dietary choices.

Put simply, today's pet parents/owners are treating their pets as well as – or better than – themselves. As human trends increasingly inform pet nutrition innovations, new ways to support pets' overall well-being will continue to emerge, whether in the form of foods, treats or supplements for their pets' physical and behavioral health. Research shows promise in a variety of functional ingredients for pet applications. High-fiber diets and some biotic strains may help pets maintain a healthy weight. Prebiotics, probiotics and postbiotics may also support digestive health, oral health and help calm stressed animals. Additionally, health-oriented blends may be tailored with functional ingredients associated with certain benefits, such as immune function and skin and coat condition. Furthermore, pet brands could well draw upon human indulgence trends with pet-friendly ice cream and, considering the category has relatively few offerings in terms of beverages, pet drinks with calming ingredients, protein or pre/probiotics. ■

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