

Pet Industry Report



FRANCHISE  DIRECT

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Pet franchise industry report

This report is based on the U.S. pet franchise industry. The data contained in this report was drawn from the Franchise Disclosure Documents (FDD) of a representative sample of 17 pet franchises and published industry sources.

Introduction

Owning a pet franchise is the perfect opportunity for people to combine their love of pets with the desire to own their own business. A pet franchise is ideally suited to someone who would happily spend their time surrounded by animals of all shapes and sizes.

The pet franchise industry has many different franchised concepts that offer a wide variety of pet products and services. These services can range from pet waste management services to dog behavioural therapy.

Many of these franchised businesses can be started as home based enterprises with a fairly low financial investment. For more information on startup costs and other information, please refer to the franchise information section of this report.

The following is a breakdown of the pet industry into 7 main categories.

Categories of pet franchises

1. Pet sitting/ dog walking

A pet sitter is responsible for the well being and care of their clients' pets while they are away. The pet sitter may be needed for a day or more depending on the client's needs. Duties include playing with the pets, feeding them, brushing them, and possibly giving them medication or injections. A pet sitter may also offer other services to make life easier for the client such as changing cat litter boxes, bringing in newspapers and mail, watering plants, taking out the trash and pulling blinds and curtains to give the house a "lived in" look while the clients are away.

2. Dog training

The field of dog training requires great skill, patience and a love for all canines. A dog trainer not only has to train the dog but they must also, in a sense, train the owners of the dog. The dog owners must continue the work put in place by the trainer to achieve success and good behavior from their pets.

3. Pet grooming

Pet groomers offer cleaning and grooming services for pets. These services can range from a simple bath and brush with nail and ear cleaning to a more advanced shed-less treatment. Many groomers will offer extra grooming services such as electric toothbrushes and mouthwash for canines or manicures complete with nail polish, for birds. A pet groomer plays an important role as they are generally the first person to spot a skin condition or other medical conditions that may need to be brought to the attention of a veterinarian.

A pet groomer not only has to be strong enough to lift bigger animals onto grooming tables but they must also be behaviorists who can deal with animals who may bite or scratch.

Many groomers will offer products to help keep the pet owners house smelling clean and fresh. These products include automatic, self-flushing litter boxes, cleaning cloths for dirty paws and scented air fresheners.

4. Retail pet shops

Retail pet stores offer anything from food and basic supplies to more expensive luxury items. A pet retail store can be based online or operate from a specified location.

5. Pet waste removal services

A pet waste removal service provides exterior waste removal and disposal and other pet waste management services.

6. Pet Photography

Many pet photography franchises will offer their services through a mobile studio.

7. Veterinary Services

Veterinary Hospitals offer a full-range of comprehensive medical services for all types of animals.

The following table offers a brief description of the services offered by the 17 franchises selected for this report:

Name of franchise	Brief description
Aussie Pet Mobile	Provides pet grooming services from a Sprinter Van. The services provided include bathing and grooming domestic pets.
Bark Busters	Offers dog behavioral therapy, obedience training and support services in the comfort of their customers' homes. Bark Busters also offer group obedience courses and puppy training at veterinary and pet store outlets. They sell pet care products, and educate their customers regarding dog psychology.
Banfield Pet Hospital	Provides full-service veterinary pet hospital and health center.
Camp Bow Wow	Offers dog day care services, dog boarding services, grooming, training, dog walking, dog sitting, the retail sale of dog food and merchandise and assorted other services and products.
Dogs Rule Resort	Provides pet daycare, boarding and grooming as well as offering retail items including pet toys, food and various treats.
Doo Care	Offers exterior pet waste removal, pet waste disposal and other pet waste management services, servicing private residences, commercial properties, apartment complexes, and home owner associations.
Doody Calls	Provides exterior pet waste removal service and disinfecting odor removal service for residential yards, apartment complexes, commercial properties, and home owner associations, and other pet-related services.
Fetch! Pet Care	Provides daily care of client's pets in and around their own familiar environment while their owners are away. In addition, they offer care of the client's home while they are away, which includes bringing in the mail, watering the plants, rotating the blinds, and adjusting the lights.
Wag n Wash	Offers self-service pet bathing, professional grooming services and the retail sale of pet supplies, pet accessories, pet bakery items and pet deli items.
In Home Pet Services	Offers pet services including walking dogs and care for pets in their homes when their owners are away or unable to care for them.

Lil' Pals Pet Photography	Contacts veterinarians, pet groomers and other pet businesses, and schedules to take pictures of the pets of their clients in a mobile studio.
Pet Butler	Sells pet waste clean-up and removal services and related products and services.
Pet Land	Retail pet store offering to the general public a variety of pets, pet supplies, and pet-related items.
Pets are Inn	Boards household pets (predominately dogs and cats) through a network of "Host Families" - people chosen by Pets Are Inn franchise owners to care for individual pets in their homes.
Three Dog Bakery	Stores selling personalized cakes, muffins, pastries, and novelty baked items that are baked in the store, dog food, as well as ancillary items such as dog bowls, leashes, and collars, cookies, dog biscuits, dog training treats, and cat treats
Snaggle Foot	Home-based business which provides dog and pet care services such as pet sitting, vacation visits, dog walking, puppy breaks, boarding, and pet taxiing.
Wild Birds	Sells birdfeeders, birdseed and nature-related gifts

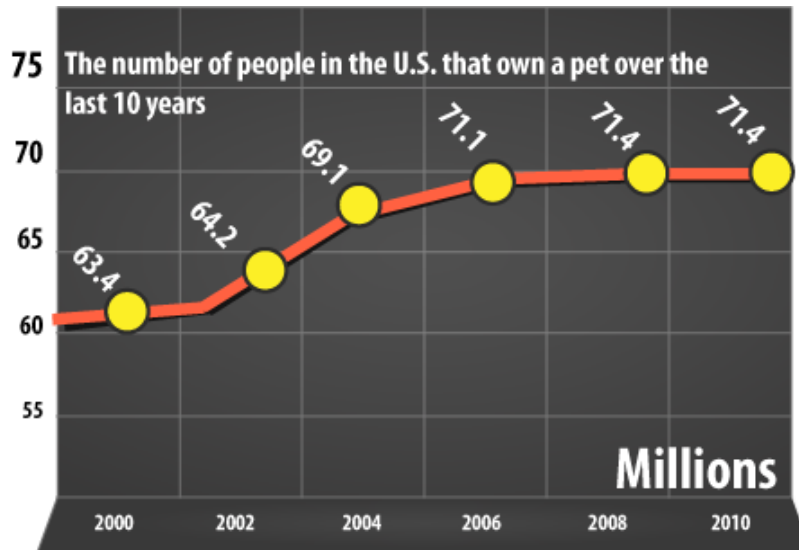
Pet Industry Overview

Size of Market

According to the 2009/2010 National Pet Owners Survey, 62% of households in the U.S. own at least one pet, which equates to 71.4 million homes across the U.S.¹ The pet owning population grew from 51.7 million households to 71.4 million households between 1998 and 2008. This growth of 38 % means the population of pet owners has outpaced the population of US households.

¹ American Pet Products Association, 2009-2010 APPA National Pet Owners Survey, *Statistics and Trends*, www.americanpetproducts.org

The following depicts the number of people in the U.S. that own a pet over the last 10 years (in millions):

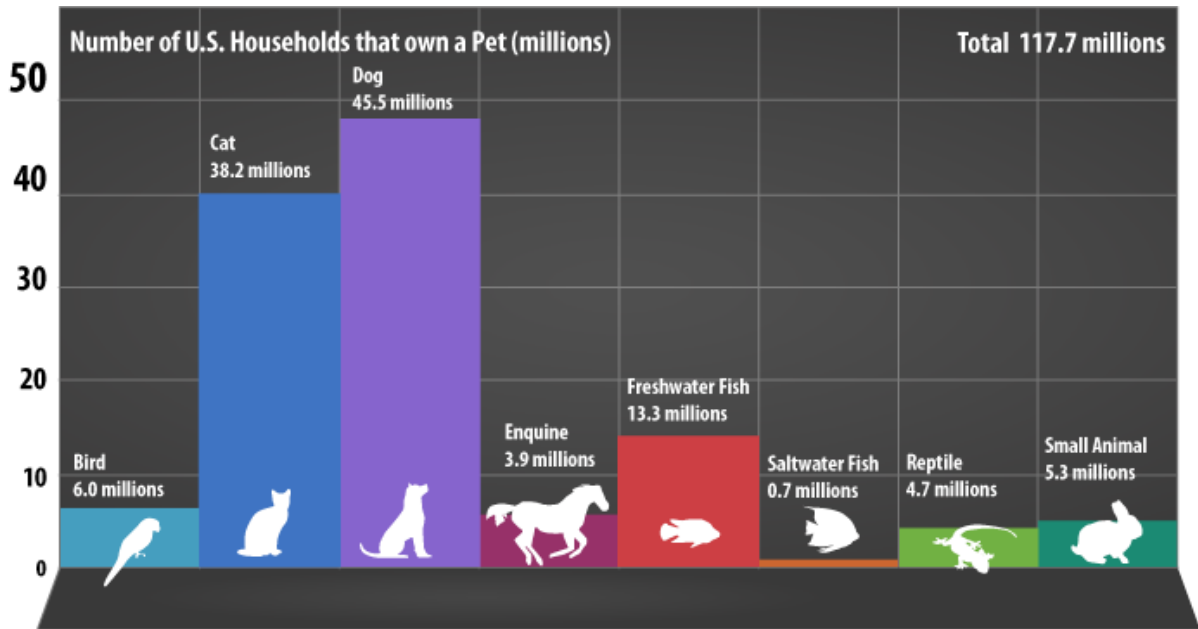


There has been strong growth across the pet industry as pets are playing a more important role in peoples' lives. Pets are a source of love and comfort that many people desire. In this fast paced society more people focus on their careers and less on having children or are waiting until later in life to have them. Pets are taking the place of children and their owners are generally referred to as "pet parents". Also, as the baby boomer generation ages, pets are filling the gap left by departing children.

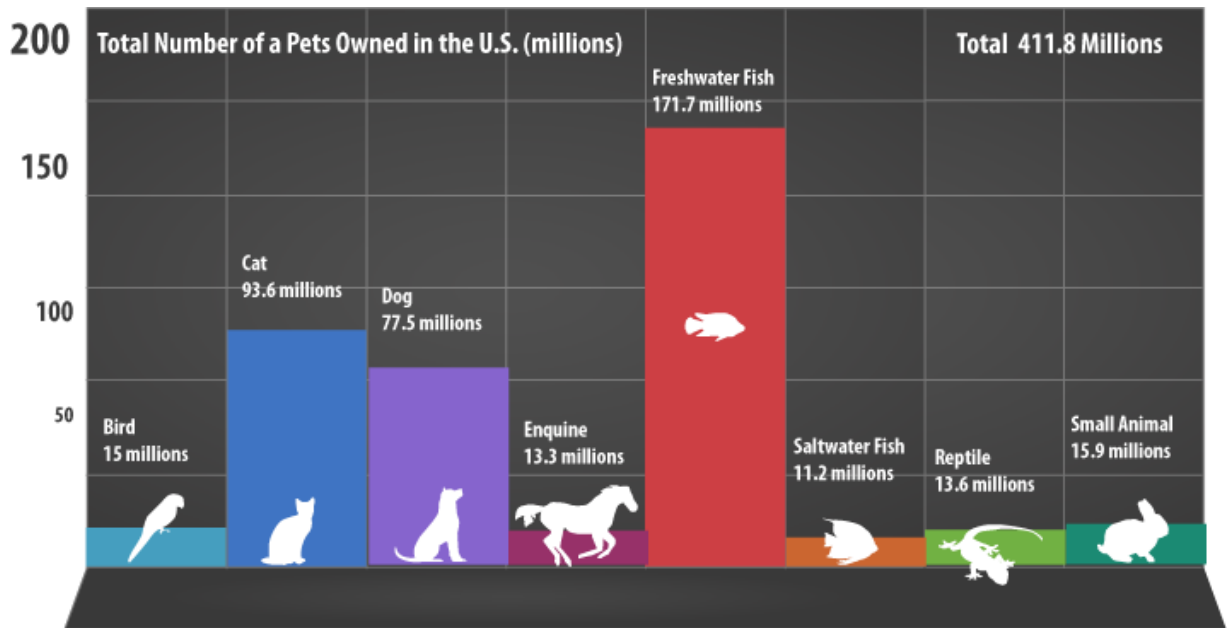
Bob Vetere, American Pet Products Manufacturers Association COO and Managing Director said:

"The strong growth in the [pet-care] industry demonstrates what an important role pets are playing in the lives of Americans. They have become a part of the family. Spending across all sectors, from pet food and veterinarian care to toys and treats, reflects what lengths we are willing to go to for our pets."

The graph depicts the number of U.S. households that own a pet (in millions):



The following graph depicts the total number of pets owned in the U.S. (in millions)



According to the U.S. Census Bureau 2007 Economic Census², which was released in August, 2010 there are over 32,000 pet related employer establishments in the U.S., employing nearly 250,000 people. The following table shows the revenue, the number of employer establishments and the number of paid employees broken into three separate sectors of the pet industry.

	Employer sales, shipments, receipts, revenue, or business done (in thousands)	Number of employer establishments	Number of paid employees for pay period including March 12
<i>Pet and Pet Supply Stores</i>	\$11,410,952	8,782	101,538
Pet Care (except veterinary) Services	\$2,346,025	11,353	52,509
Exterminating and Pest Control Services	\$8,692,683	12,642	95,764
Total	\$22,449,660	32,777	249,811

Sales Growth

Despite the economic situation of recent times the pet industry remains strong. For 2010, it is estimated that \$47.7 billion will be spent on pets in the U.S. Thirty-eight percent of this is estimated to be spent on food, 23% on supplies and over-the-counter medicine, 27% on vet care, 5% on live animal purchases and 7% on pet services such as grooming and boarding³.

According to a report released in July, 2009 by market research publisher Packaged Facts entitled "*Pet Care Services in the U.S. 3rd edition: Riding the Multiservice, Premium/Luxury and Corporate Waves*" the pet industry sales increased by 5% in 2009. Packaged Facts also reported that sales for pet care services in the U.S. will experience a compound annual growth rate of 9% over the next five years⁴.

² : U.S. Census Bureau, 2007 Economic Census, 2007 Economic Census of Island Areas, and 2007 Nonemployer Statistics. Released 8/27/2010

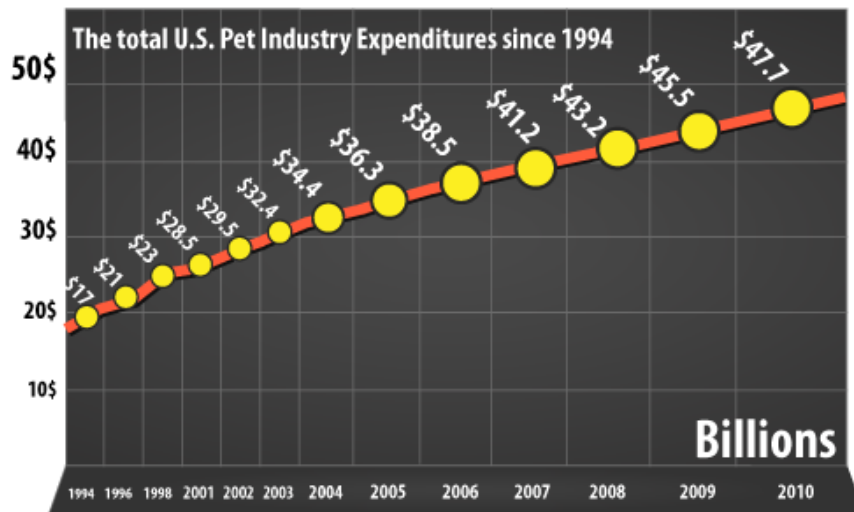
³ American Pet Products Association, 2009-2010 APPA National Pet Owners Survey, *Statistics and Trends*, www.americanpetproducts.org

⁴ *Pet Care Services in the U.S., 3rd Edition: Riding the Multiservice, Premium/Luxury and Corporate Waves*, Packaged Facts, July 1, 2009.

The following table offers a breakdown of the sales of the U.S. pet industry for 2009 and the estimated breakdown for 2010⁵.

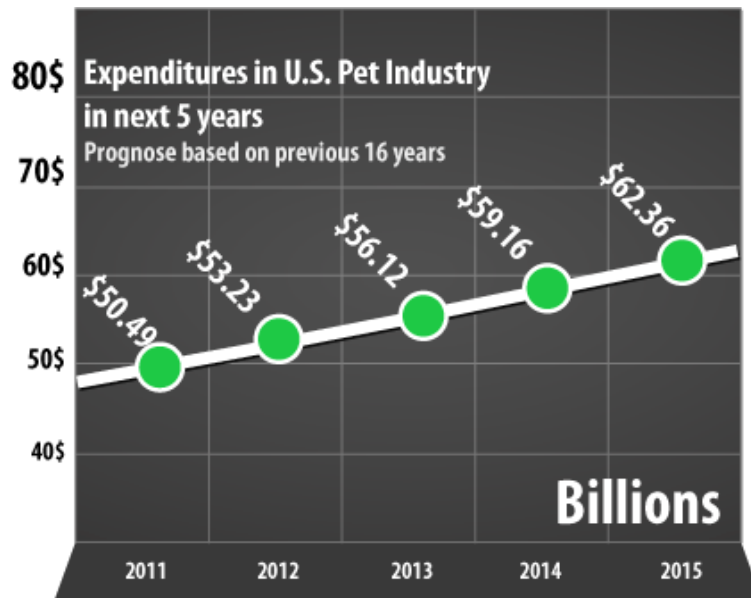
Actual Sales within the U.S. Market in 2009		Estimated 2010 Sales within the U.S. Market.	
	In 2009, \$45.5 billion was spent on pets in the U.S.	For 2010, it is estimated that \$47.7 billion will be spent on pets in the U.S.	
Breakdown		Breakdown	
Food	\$17.56 billion	Food	\$18.28 billion
Supplies/OTC Medicine	\$10.41 billion	Supplies/OTC Medicine	\$11.01 billion
Vet Care	\$12.04 billion	Vet Care	\$12.79 billion
Live Animal Purchases	\$2.21 billion	Live animal purchases	\$2.21 billion
Pet Services: Grooming & Boarding	\$3.36 billion	Pet Services: grooming & boarding	\$3.45 billion

The following graph depicts the total U.S. Pet Industry Expenditure since 1994:



⁵ American Pet Products Association, 2009-2010 APPA National Pet Owners Survey, *Statistics and Trends*, www.americanpetproducts.org

The following graph depicts estimated of the expenditure in the U.S. pet industry based on data from the last 16 years:



Franchise related fees and information

The table below provides information on the initial franchise fees and estimated initial investment required to open a single unit of 17 pet franchises. It also contains a detailed profile of each franchise which presents these costs in more detail. The profiles are extracted from the Franchise Disclosure Documents (FDD) of the 17 franchisors.

Estimated initial investment:

Name of franchise	Franchise Fee – Low-	Franchise Fee – High-	Estimated Initial Investment – Low	Estimated Initial Investment – High
Aussie Pet Mobile	\$40,000	\$40,000	\$100,000	\$118,642
Bark Busters	\$37,500	\$37,500	\$71,100	\$96,400
Banfield Pet Hospital	\$65,000	\$65,000	\$237,000	\$466,500
Camp Bow Wow	\$50,000	\$50,000	\$355,000	\$750,000
Dogs Rule Resort	\$22,500	\$45,000	\$147,700	\$342,000
Doo Care	\$24,500	\$24,500	\$38,398	\$56,996
Doody Calls	\$24,500	\$24,500	\$47,230	\$69,920
Fetch	\$6,000	\$6,000	\$14,295	\$30,500

Wag n Wash	\$30,000	\$30,000	\$448,100	\$678,570
In Home Pet Services	\$6,000	\$6,000	\$7,200	\$31,100
Lil' Pals Pet Photography	\$10,000	\$10,000	\$61,200	\$71,200
Pet Butler	\$22,900	\$22,900	\$39,450	\$64,850
Pet Land	\$30,000	\$30,000	\$559,500	\$989,500
Pets are Inn	\$35,000	\$35,000	\$46,450	\$74,650
Three Dog Bakery	\$32,500	\$32,500	\$268,500	\$382,500
Snaggle Foot	\$8,000	\$8,000	\$10,300	\$17,350
Wild Birds	\$9,000	\$18,000	\$87,365	\$124,719
Average	\$26,671	\$28,524	\$149,340	\$256,788

Average Opening Costs:

Fee	Average Amount – Low -	Average Amount – High -
Opening Inventory	\$13,950	\$20,225
Grand Opening Advertising	\$4,629	\$6,429
Travel and Living Expenses while Training	\$1,200	\$2,575
Insurance	\$975	\$2,522
Additional Funds for 3 months	\$10,157	\$22,821

Averaging Ongoing Franchise Fees:

Fee	Amount
Royalty	6%
Renewal	\$5,165
Transfer	\$8,833
National Advertisement	2%

Length of the franchise agreement

The average term of a pet franchise agreement is ten years with the average option for renewal ranging between eight and ten years. As can be seen in the table above, the average cost for renewal of a pet franchised business is \$5,413.

Financing

Of the 17 franchises selected for this report only three offer some form of financing. The financing offered is generally to provide a certain portion of the initial franchise fee to be paid back over a specific length of time at varying interest rates.

Training

Each franchise offers training for new franchisees. This training will vary greatly from franchise to franchise depending on what services or products the franchise offers. The training is split into on-the-job training and classroom training. The average length of time for on-the-job training is 32 hours and the average length of time for classroom training is 57 hours. The franchisee is responsible for all the travel and living expenses incurred by themselves and their staff while training. The average cost of living expenses while training ranges from \$1,144 to \$2,482.

Trends for the pet franchise industry

Upscale pet products and big brands

As we have seen 62% of homes in the U.S. have at least one pet. As pets play a more important role in peoples' lives, pet parents are willing to spend more. Items available for pets range from the normal to the extreme. Available for purchase are faux mink dog blankets, cashmere sweaters, hammocks, wedding dresses and tuxedos. There is also a huge range of jewellery available for pets.

Demand for upscale pet products and products with well known brand names are increasing as pets play an ever more important role in the lives of consumers.

An increasing number of big brand names have seen an increase in sales for designer animal apparel. Harley Davidson for example now offers a wide range of products (all with the Harley Davidson logo) such as:

- A range of dog and cat toys
- Dog bowls
- Dog sweatshirts
- Dog brushes
- Dog collars

Many hotels are now pet friendly

Many hotels have become pet friendly and now offer facilities for customers who do not want to leave their pets at home. These hotels range from luxury chains, where pets receive special treatment to reasonably priced hotels which place more emphasis on functionality.

This has had a negative effect on the pet sitting sector of the pet industry as more pet owners bring their animals with them rather than leave them with a pet sitter or at a pet boarding house. However, as there are nearly 72 million pets in the U.S. the services of dog sitters and pet boarding establishments are still very much in demand.

Aging pet population, weight management and specialty diets

Pets are living longer due to improvements in animal care and environmental issues. However as pets live longer they are suffering from more medical conditions. One of the most common conditions is obesity and there has been a marked increase in the number of animals that are considered obese.

Thirteen percent, of dogs are now considered to be obese or overweight, up from 9%. This is estimated at nearly 10 million obese dogs in the U.S. and among these, 6 million are now on special diets. 21% of cats, up from 14%, are reported to be obese and of these 13 million cats are on special diets.

This has lead to an increase in the demand for specialty food and medicine for pets.

Pets are not only on specialty diets for medical reasons; many pets are on specialty diets purely because of the preferences of the pet parent. For example

- Almost two million dogs and cats are fed kosher pet food
- More than four million dogs and cats are fed vegetarian pet food
- Close to two million dogs and cats drink flavored water while nearly eight million dogs and cats drink plain bottled water.

Pet retail stores supply pet parents with all the necessary ingredients for specialty diets for pets. This is a strong and growing sector of the pet industry that is set to experience increased growth.

Pet supplies and over-the-counter medicines

Up until 2009, spending in pet supplies and over-the-counter medicines was steadily increasing each year. The expectation in 2009 was that this trend was set to continue. However, the growth was more modest than expected. Spending in pet supplies and over-the-counter medicines reached \$10 billion, an increase of 2% from the previous year. In comparison to the 6+% growth recorded from previous years this is a modest growth. The American Pet Products Association (APPA) projects continued growth of 2% in 2010⁶.

Pet insurance continues to move towards the mainstream

Pet insurance is a growing segment of the pet industry. *Embrace Pet Insurance* estimates the size of the US pet insurance market to be \$332 million in premium in 2009, up from approximately \$272 million in 2008 (a 22% increase). At the end of 2008, it was estimated that there were over 800,000 pet insurance policies in force with total direct written premium across the industry of \$272 million. *Embrace Pet Insurance* also expects the pet insurance market to reach \$400 million in 2010 and to grow to \$600 million by 2013⁷.

Outlook

The pet franchise market is strong and growing. Consumers are more willing to spend on pet pampering than ever before and this trend is set to continue. There is also an ageing pet population which means there will be an increase in spending for over-the-counter medicines and veterinary practices. As stated previously, it is estimated that the industry will experience an annual compound growth of 9% over the next 5 years.

With so many pet franchise models to choice from, a pet franchise may be the perfect opportunity for someone with a true love for animals to start their own business.

⁶ The American Pet Products Association, *Industry Statistics and Trends*, www.americanpetproducts.org/

⁷ Embrace Pet Insurance, *U.S. Pet Insurance Trends for 2010*, www.embracepetinsurance.com