

Digital Pet Product & Service Platforms The Diversity of the Industry

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ABSTRACT

With the changes of the times and the rise of the Internet industry, online commerce has become a place that can generate huge profits. While life quality is getting higher, people's demand for pets is also gradually increasing. The rise of the online pet economy represents the arrival of a new era. These new pet product & service platforms provide solutions to different needs of consumers through websites, and at the same time solve the inconvenience of geographic location and communication. For China, the rise of the pet industry represents another step forward in the national cultural level. The nationals have more sufficient knowledge of pet keeping, which quality of life of pets has received more attention in China and has gradually been on par with other countries. In this paper, the empirical analysis of the industry, the fundamental components and growth drivers, and the business models that have potentials in China are presented and discussed with relevant case studies.

Keywords: *Pet, Pet Industry, Chinese pet market, Business model analysis*

1. INTRODUCTION

In recent years, electronic products and the Internet have allowed people's needs to be met with simple clicks. While innovative products and services are mainly for the human consumers, pets are also gaining more attention and included into a special audience group. The traditional profit model is pet shop. Stores' profits are generated from goods that restocked from suppliers. As a close location for pet foods and supplies from the owners' place, customers are expected to return with high frequency. But this method has natural limit that prevent entrepreneurs from expand their business and find new opportunities.

The first big change of the industry was the emerge of Petco and PetSmart in the late 80s into the 90s. Later a mass number of distributors started to consolidate and expand their business. Unlike the traditional "pet shop" business model, these online stores and platforms has gained popularity in recent years due to the growth of economy, innovations, and competition [1]. "The idea that consumers can replenish their pet's food, medication, or anything else in just a matter of minutes is one reason why online shopping continues to grow throughout the pet sector. Pet owners are now able to order and re-order their pet care products without even leaving the house." Moreover, platforms have developed into automatic

payments and continuous subscriptions. Products will show right at their door periodically. This paper analyzes the unique characteristics of popular pet products and services platforms, which the Chinese pet industry could use for reference to innovate and optimize its own model of operation.

2. MARKET OVERVIEW

2.1. Overview of Pet Economy in China

There are three stages of development on the pet industry in China: the budding stage (after 2005), the Exploration stage (after 2015) and the high-speed development stage (after 2028-2030). Based on research conducted by Equal Ocean [2], an investment platform of technology and industry, the total market size of pet industry in China is between 1900-2100 billion CNY. It also suggests that there are around 68 million pet related companies appeared between year 2005-2020. Specifically, 86.3% of them are founded after year 2015.

Since the Chinese pet industry is still in the exploration stage, there are only two listed companies: Zhongchong and Peidi. Comparing its Q1 revenues in 2020 and 2019, Peidi's revenue growth rate reached 48.74% while Zhongchong had a decline of 78.77% comparing last year, which resulted in a decline of 2.03% in total.

According to statistics from Equal Ocean, from January 2019 to July 2020, there were a total of approximately 2.3 billion RMB in equity trading. Among them, the number of companies operating category covering out food is the largest, with a total of 18; followed by pet supplies and pet services, with 12 and 11 companies respectively. Pet food, pet supplies and pet services are more interrelated in the three sub-sectors, as opposed to more independent pet medical and live retail.

At the present stage, Part of pet owners in China have a paucity of knowledge reserves for how to scientifically rise pets, and the consumption ability of pet owners is restricted by undereducation, which includes not aware of the particularity of pet diet, not understanding the differentiated of pets at different growth stages, and a lack of pet health knowledge reserves, so the owners are unable to distinguish its physical health status.



Figure 1 Pet Industry Growth by Region [4]

2.2. Overview of Pet Economy in the US

Pet industry in the US is slightly difference than China's. Besides the largest spending in both market, pet food, grooming and toys are other common denominators.

Americans tend to adopt pet rather than purchase one, and have a better awareness of scientific breeding, the reserves of pet caring knowledge are relatively sufficient, and the threshold is also higher than the Chinese market. US pet owners spent more money on pet medical, insurance, and over-the-counter medicines. They contributed \$30.2 billion to pet hospitals in 2020, which their pets have a regular physical examination every year, and some special cares are required during the first and last year [3]. The first year is mainly for vaccines and birth control surgery, and the last tear is for medicine or surgery to prolong the life of the pet as much as possible. Also, pet health product including insecticides, joint medicines, and certain pain relivers are necessities in their pet care routines. On account of expensive surgery or treatment costs, people tend to take good care of their pets and keep them as healthy as possible.



Figure 2 US Pet Industry Sales by Category [4]

3. MARKET GROWTH ASSESSMENT

3.1. Industry Growth Analysis

In the US, the industry is currently worth around \$99.0 billion [6]. Majority of spending are non-vet-related services and products, followed by pet food and treats. Data provided by the APPA indicates that the pet industry have grown 4.4% in 2018. A growth of 4.3% of pet related PCE (Personal Consumptions Expenditures) should give the credit to increased availability of specialized pet food and diet, which caused by consumer's willingness to pay. Especially the Millennials, which data shows that they are spending almost 44% more a month than Baby boomers on their dogs [4].

3.2. Analysis of Industry Growth Drivers

3.2.1. E-commerce & Competition

With the substantial increase of e-commerce, the place with most opportunities is online. Indeed, the online pet market has almost quadrupled. The conversion of all transactions to online makes it more convenient for consumers to purchase, plus different marketing and operational strategy, such as subscription box, discounts and holiday/festival special offers, small investment and high return has made pet economic growth violently.

3.2.2. Coronavirus

With nationwide lockdowns and quarantines constraining people from going outside, in May-December 2020, around 70 percent of US residents reported that they are spending more time with their pets. At the same time as the lifestyle changes, pet ownership rates continue to rise due to the pandemic. More people choose to keep pets in isolation to add fun to life and relieve loneliness. Pet ownership rates continues to rise due to the pandemic. In a pet ownership survey conducted by Emma Belford, 10 percent of respondents in the US reported acquiring a new pet.

3.3. Key Industry Trends

3.3.1. Pet Supplies Take Off

According to research conducted by Grand View Research, the pet supplement industry will hit 1 billion in 2027 approximately. To maintain a better health of the pet, pet owners are willing to by product such as catfish oil and dog vitamins [5][6]. Small pets’ owner, including rabbit, chinchilla, and hamster, also buy supplement such as hair relieve and probiotics.

3.3.2. New Innovation of Product & Service

New innovations among pet significantly increased. There are some entirely new pet categories, such as pet wipes, pet toothpaste, frozen/freeze dried food, and many kinds of dietary supplement [5].

3.3.3. Owners Prefer Natural Food Brands

A survey of 2,181 pet owners indicates that around 43.6% of owners put the food quality of their pet in priority of themselves [7]. Owners tend to look for food that are made of organic ingredients, and rich vitamins [6]. Thus, natural food brands have been developing rapidly.

4. BUSINESS MODELS THAT MIGHT HAVE POTENTIAL IN CHINA

There are three US companies that might have potential business models in China: Rover, Chewy, and Barkbox.

4.1. Rover

As China’s employment pressure increases and the time spent with pets decreases, such as business trips, sickness or emergencies that cause pets to stay alone at home. Pet owners sometimes fail to take care of their pets’ daily lives. An official pet care website with a large base like Rover can solve these problems.

4.1.1. Company Overview & Data

Rover is the first one-stop pet platform in the United States, founded by Aaron Easterly, the CEO of Rover. It follows the philosophy of “everyone deserves to experience the unconditional love of pets, and exists to make that possible.” [8] The platform connects consumers with the closest, high-quality caregivers, and all of which went through background checks. All information of the sitter and related reviews are shown on their profiles that allow customers to accurately determine suitability. Rover have overnight service and daytime service for dogs and cats owners, including boarding, house sitting, day car, waking, drop-in visits, in-home grooming, etc.

Since 2014, they have more than 2 million users placing orders, 96% of the geographic coverage of the service in the United States and 87% of repeat customers. A revenue growth of 100% in FY 2021 and an estimated growth of 107% in FY 2022 demonstrates a forceful strength of Rover, which can also be shown with a long-team targets of 20%-25% [8].

4.1.2. Profit Model

On Rover, pet owners can choose the corresponding services, including caring for pets at home, feeding and watering, walking the dog (accompanying and playing), short-term home care, etc. The website will match suitable, professional pet caregivers for pet owners to choose, which also includes the distance filter. Comments and reviews of the pet caregivers will be shown under their profile, provide extra information about the person. The price is set by the pet caregiver themselves, which makes this website a two-way-choice platform. At present, there is no such product in China that can meet the various needs of pet owners, so this is a good business opportunity in the Chinese pet industry.

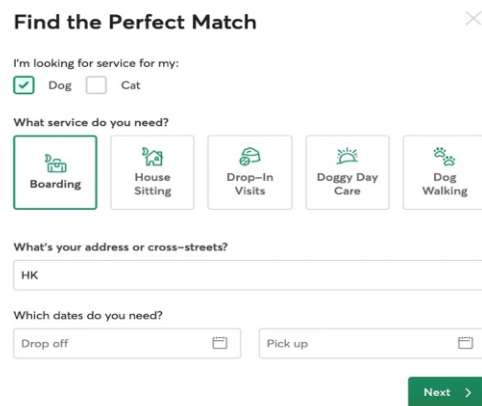


Figure 3 Profit Model—Rover (Rover.com)

4.1.3. Potential Opportunities in China

In China, pet shops are the main source of pet caring when the owner needs it, which the quality and rationality could not be guaranteed. Incident like animal blind box, animal stealing, and animal abusing reflexed a serious problem of animal’s life quality in China. A unique platform like Rover could solve pet owners’ worries about the overall life quality of their loved pets, also improve the standard of pet caring organizations. As an official and professional platform of providing pet cares and services, Chinese owners will be thrilled to put the responsibility to the platform. With real-time updated good reviews, more and more customers will put their trust in the platform and kept use it as returning customers.

4.2. Barkbox

4.2.1. Company Overview & Data

Barkbox, as the name indicates, is a monthly subscription box that provides dog food products, services and experiences. It serves more than 1 million dogs every month through subscription and retail distribution of BarkBox and Super Chewer. It has 250K monthly customer contacts and ships more than 200K monthly customized assortment. By using upselling and cross-selling strategy, the company grew from an add-to-box revenue of \$1,608,000 in FY18 to a revenue of \$17,520,000 in FY21 [9]. With the intention of provide the best service to dogs and dog owners, it has a vertically integrated product line including play, food, health and home themes.

BarkBox have successfully retained 94.1% of customers in Fall 2021 and 94.6% of them in Q4, fall 2021. With net revenue of \$369 million, 65% in revenue growth, and 60% gross margins in FY 2021E [9].

4.2.2. Profit Model

In the BarkBox investor presentation, the phrase “expand food, home and health product services” hinted that the main revenue comes from blind boxes. Barkbox draw “cakes” to customers in a way like gambling, plus cross-selling, so that customers have the desire to buy the product. After building up the trust and reliance between the brand and the customer, there is a larger probability that the customer will buy extended product including food, health, and home.



Figure 4 Brand Structure and Blind Box Themes—BarkBox (barkbox.com)

4.2.3. Potential Opportunities in China

Product innovation is currently lacking in China's pet industry. Merchants are imitating and learning from other people's products, which there is hardly any true innovation. It is a good opportunity to increase the freshness of Chinese consumers in the form of blind boxes, thereby promoting the growth of China's pet industry.

4.3. Chewy

4.3.1. Company Overview & Data

Chewy is one of the largest e-commerce platforms that sells pet related items. What makes it different from other e-commerce websites is that it is very inclusive and has a wider range. Moreover, it not only contains cat and dog supplies, but also other pets such as fish, reptiles, and amphibians.

The uniqueness of the brand made it quickly monopolize most of the US pet market. Similar to China's Alibaba, this business model not only gives consumers more choices, but also makes it easier for consumers to build dependence, thus becoming a long-term repeat customer.

4.3.2. Profit Model

With its mature and convenient online sales model, customers can shop what they need by a few clicks. Coupled with diversified pet products and services, more than 2000 brands are available to pet owners, including food, toys, daily supplies, and health products. After the company went public, chewy has developed over 17 retail locations in the United States [10].

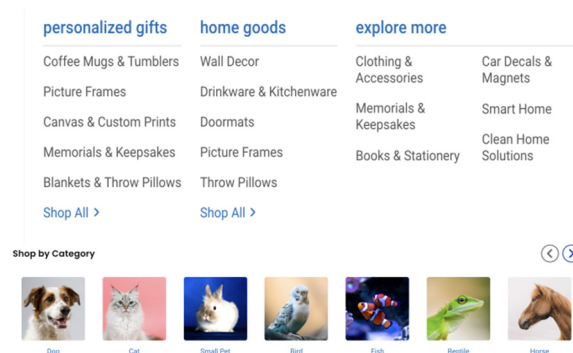


Figure 5 Website Structure—Chewy (Chewy.com)

4.3.3. Potential Opportunities in China

Chewy is very much like Alibaba in China. But Chewy is more professional and specialized because it only sells pet-related products, which is its most unique and competitive advantage. When pet owners value product safety and professionalism the most, this business model that uses the professionalism of the website to increase credibility will be quite successful in China.

5. PILLARS

On the other hand, building the brand reputation and maintaining innovation and uniqueness in China is a challenge for entrepreneurs. Despite the competition

between the platform and local pet stores, e-commerce in China is also huge. The e-commerce industry may also use platform customers to expand its business and become a competitor in pet industry

The lack of awareness of scientific pet raising in resulted in unstable and unwarrantable quality of Chinese pet products. In this case, most Chinese consumers will still choose high-quality imported products. The national policy, transportation input, and the cost of commodity import, and export are all things that merchants should consider.

6. CONCLUSION

The above business models can be improved after investigating the portraits of Chinese consumers. With the support of Chinese e-commerce companies, these business models can be implemented online and offline simultaneously, attracting merchants to settle on the platform, building trust between merchants and costumers, and making them repeat customers.

The pet industry still has a lot of room for development in China. With the improvement of people's quality and awareness of pet raising, the requirements for products and services will naturally be equal to the world. The adoption of these business models can even achieve the effect of encouraging people to breed scientifically while boosting pet economy.

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