

catering to upmarket customers

Before you decide to target affluent buyers, you must be willing—and able—to deliver the three things these discerning customers demand. BY JEFF SIEGEL

When Christopher Woodside opened Pretentious Pooch, his Baltimore dog boutique, three years ago, he knew his product mix would have to be different. And not just a little bit different to distinguish his shop from chain stores, but a lot different to reach his target customer base.

“I think there are three things you have to do to reach upscale customers,” said Woodside, one of the store’s two owners. “And one of them is unique products. I spend a lot of time researching products.”

That’s why he recently spent 90 minutes surfing the Internet in search of a treat that no one in his market area stocks. His find? Hawaiian-manufactured products from Barkaroo Bakery (Kapaa, Hawaii) in flavors like ginger, chicken teriyaki and fresh mint.

The key here, as Woodside noted, is his demographic—the upmarket consumer. Higher-income pet owners make up a growing share of the

pet market, according to several market research reports. But catering to these customers entails more than offering luxury and boutique items—especially in today’s challenging economic environment. It entails an entirely different brand proposition, including better-quality products presented in a better-looking environment with better customer service.

“This demographic expects more,” said Scott Testa, a marketing professor at St. Joseph’s University (Philadelphia). “You have to do a better job catering to the customer. They accept the fact that your product is more expensive, so you have to find a way to add value to it and differentiate it.”

A Growing Market

Fortunately for pet retailers who want to target the upscale market segment, sales of better-quality products, particularly food, are increasing, according to Mintel International, a leading market research company with offices throughout the world. In an August 2008 report, Mintel estimated the overall pet food and supplies market would total \$28 billion by the end of the year, an increase of 25 percent in inflation-adjusted figures since 2003. Such growth is due primarily to the emergence of line extensions and new brands of foods that concentrate on wholesome, natural ingredients and indulgent meals that pamper pets, according to the report.

This growth also can be attributed to consumers’ growing preferences for quality superpremium foods

perceived to be higher in quality—a reaction to the pet food recall of 2007.

It also reflects the well-established “pets as part of the family” mindset—or, as Mintel calls it, pet personification. This “will continue to affect pet trends as there is growing concern about the ingredients and materials used in the food and products that we feed ourselves and our pets. Consumers are scrutinizing labels in order to find products made in the [United States], and for locally sourced ingredients. Eco-conscious consumers are also seeking products that reduce their carbon footprints.”

“You can argue about whether any of this makes any difference in terms of the pet, but honestly, if you ignore those facts, you aren’t helping your business,” said Rick Wamre, a small-business consultant based in Dallas. “If you want to attract this demographic, you need to have products that they want to buy.”



What's the Demographic?

The federal Bureau of Labor Statistics defines higher-income consumers in its 2007 Consumer Expenditure Survey as households making more than \$70,000 annually, where the average income is \$130,455 per household. They are slightly more male than female, overwhelmingly white, and well-educated—79 percent have attended college, compared to 60 percent for the U.S. population overall. And they are definitely in the minority: They represent just 37.3 million of the 120.2 million households in the United States.

But they spend almost twice as much on pets annually as the average U.S. family: \$995 versus \$560 (tracked in a BLS category called “Pets, toys, hobbies and playground equipment”). By comparison, the next most affluent group, families making \$50,000 to \$69,999, spend only \$584 a year on the pet category.

Is Upscale Your Niche?

This doesn't necessarily mean upmarket consumers need to be your focus. “At the end of the day, it's like



all retailing,” Testa said. “You have a certain niche and you have a certain market, and you have to deliver for that market.”

And these consumers aren't right for all retailers. Wal-Mart's biggest (and perhaps its only) marketing mistake this decade came when it targeted upmarket consumers as it expanded outside of its rural, blue-collar base. Its stock price fell about 20 percent between 2000 and 2005 and its sales growth lagged behind its main competitor, Target. Wal-Mart has since abandoned its upscale ambitions, and it was one of only two U.S. companies in the Dow Jones average whose stock price rose in 2008.

So the first question you need to ask yourself is if there are enough upmarket consumers in your trade area to make pursuing them profitable. You can answer that question easily enough by looking at how well your most expensive inventory sells. In addition, you can collect simple demographic data from your customers via an e-mail survey or an in-store questionnaire.

However, said Wamre, savvy owners and operators should already have a good feel for that sort of thing, based on their experience, the store's location and their experiences with their customers.

You also have to decide if you can successfully make—and sustain—the kind of effort needed to satisfy more demanding customers. Because, said Dr. Michael Delmer, a veterinarian who runs Advanced Animal Care Center, a pet clinic in Huntington Station, N.Y., “this demographic does not want to wait 30 minutes for their appointment. So I have to rearrange my schedule to make sure that they don't wait.”

For retailers, that means upmarket consumers don't expect big-box-style service or even independent pet store service. They expect “I'm the only customer you have” service, said Testa.

Three-Prong Approach

If you decide to focus on upmarket consumers, you need to do three things: Stock better-quality, truly unique products in a best-quality environment, and provide the best possible customer service.

Quality products are not just more expensive,

UPSCALE SALES IN A RECESSION

Upmarket consumers represent an increasingly attractive audience for pet retailers, but they come with a drawback—and it's not their demanding nature. It's the recession, and whether the downturn will stop growth in this segment in its tracks.

“It's pretty basic,” said Rick Wamre, a Dallas-based small-business consultant. “When consumers feel flush, they're going to spend more money and buy more expensive things. If they don't, they're going to shop at Wal-Mart.”

Upmarket pet retailers interviewed over the past several months expected the high-end market to hold up through the first quarter of this year. Most said business had not declined appreciably in 2008; some even said it had been a good year. They aren't quite sure what will happen in the rest of 2009, but they aren't too pessimistic. They don't think the recession will force consumers to cut back on food and supplies for animals they see as members of the family.

This dovetails with the results from an August 2008 study by Mintel International, a leading market research company with offices throughout the world. It expects pet food and supply sales to increase 18 percent by 2011, related primarily to the growth of better-quality foods and products—precisely the type of merchandise upmarket consumers want.

But the report also acknowledged that some pet owners are being forced to make recession-based decisions about pet spending. So far, these haven't affected the pet business the way they have other industries. However, if the recession is longer and harsher than expected, that will almost certainly change.

—Jeff Siegel

but offer added value, said Woodside. It's the difference between stores like Neiman Marcus and Nordstrom, and Wal-Mart and Target. You can buy shoes at each, but they are far from the same kinds of shoes.

And your products have to stand out. Woodside buys from 400 vendors, something he thinks is unique for a

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FAST Facts

OF THE 52.8 MILLION HOUSEHOLDS THAT OWN A DOG OR CAT, 17.4 MILLION QUALIFY AS A PREMIUM PET HOUSEHOLD. IN OTHER WORDS, THEY ARE A SINGLE-PERSON HOUSEHOLD WITH AN INCOME OF \$50,000 OR MORE, A TWO-PERSON HOUSEHOLD WITH AN INCOME OF \$75,000 OR MORE, OR A HOUSEHOLD OF THREE OR MORE PERSONS WITH AN INCOME OF \$100,000 OR MORE.

Source: "Market Trends: Premium Pet Demographics and Product Purchasing Preferences," Packaged Facts

BETWEEN 1995 AND 2005, OWNERS MAKING \$70,000-PLUS MORE THAN TRIPLED THEIR SPENDING ON PETS—FROM \$5.2 BILLION TO \$18.6 BILLION. THESE OWNERS ACCOUNTED FOR HALF OF ALL PET-RELATED EXPENDITURES.

Source: "Market Trends: Premium Pet Demographics and Product Purchasing Preferences," Packaged Facts

retailer his size. "It's easy to buy from a couple of distributors who each have 400 lines," he said. "One call, and then you're done. But that's how you get in a rut. Yes, it's more work and a lot more to manage, but in the end you're going to have products that no one else does."

The second part of your upscale brand is making sure your pet store doesn't look like a traditional pet store. Stores that cater to upmarket consumers avoid Pegboard and other traditional pet store fixtures. They hang chandeliers instead of overhead lights, and install the same boutique-style shelves and fixtures—even furniture—found in high-end salons for people. Pretentious Pooch, for example, has a 6-foot by 8-foot German crystal chandelier and its pinstriped painting scheme includes areas most customers never see, like the bathroom.

Similarly, Jay Kirsch, a retired

high school teacher who co-owns Barker Street Gourmet Dog Bakery and Boutique (The Woodlands, Texas), carpeted most of his 1,600-square-foot selling space. "My goal is to make things look like a home," he said.

Best-possible service, of course, is the most important part of the equation. It means offering:

◆ **Perks and extras.** Think bottled water and coffee, or a no-questions-asked return policy. If upmarket customers want aggravation when they return a product, they can get that elsewhere, said Woodside. His store has to be different.

◆ **Personalized customer greetings.** Kirsch says it's not enough to say hello when every customer enters the store. He asks about their pet and makes an effort to know the animal by name.

◆ **The unexpected.** Barker Street

U.S. PET EXPENDITURES BY HOUSEHOLD INCOME

Over the course of 10 years, households with incomes greater than \$70,000 have become the largest consumers of pet products.

	HOUSEHOLD INCOME LESS THAN \$70,000	HOUSEHOLD INCOME GREATER THAN \$70,000
1995	72%	28%
2000	65%	35%
2005	49%	51%

Source: "Market Trends: Premium Pet Demographics and Product Purchasing Preferences," Packaged Facts

PET CATEGORY EXPENDITURES BY UPMARKET HOUSEHOLDS

By 2005, households with incomes greater than \$70,000 accounted for more than half of total spending in three of four pet market segments.

	1995	2005
Pet food	23.8%	42.7%
Pet services	51.1%	61.7%
Pet supplies	22.8%	50.1%
Veterinary supplies	30.1%	53.9%

Source: "Market Trends: Premium Pet Demographics and Product Purchasing Preferences," Packaged Facts

gift-wraps every purchase, no matter how small, from three cookies to a leash or collar. Kirsch says he adapted this from Tiffany & Co., the upscale jeweler, which presents every purchase in a Tiffany's box. "I have a Petco across the street from me," said Kirsch. "So I have to do something that sets me apart. I have to go the extra step and the extra effort, and it goes a long way. If we present their purchase to them beautifully, they'll be back."

So far, the effort has paid off for retailers like Woodside and Kirsch, and for Dr. Selmer, who makes \$50 house calls in a mobile clinic to save his clients

a visit to his office. Part of it, he said, is to keep customers who may not be able to get to his office. But another part of it is offering that best-possible customer service. "My practice targets a higher-level customer," he said. "They can afford it—and they want that level of care."

The question, then, is whether retailers who choose to cater to upmarket customers can consistently provide that same level of service. **pa**

Jeff Siegel is a freelance writer in Dallas. He has covered the pet industry for nearly 20 years.

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—Janet Fountain, Owner of Party Animals (Baton Rouge, La.)



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