



## Supplements – A Bright Spot in the Pet Industry

As we embark on a new year, it's an opportune time to reflect on the "bright spots" within the pet industry that present exciting prospects, particularly as the pet industry broadly has faced a more challenging 2023 than many of us hoped or expected. One area that particularly stands out is the pet supplements market, which has shown remarkable growth and potential.

### Defining Pet Supplements

Pet supplements include a range of non-prescription, dosage-based products targeting various health issues in pets, such as hip and joint pain, dental health, skin and coat issues and digestive health. These supplements are available in diverse forms, including soft chews, pills, liquids and topicals. Dental chews are generally included in this category whereas other 'functional' treats broadly are not.

### Historical Market Context

The U.S. pet supplements market, already exceeding \$4 billion, is burgeoning with a strong annual growth rate of 10-15% over the past five years (2018-2023). Key factors contributing to this growth include the overall increase in the pet population, growing awareness of the category and its benefits, deeper integration of pets into family units, innovative product and delivery system developments and broader retail availability. Growth accelerated during the pandemic (2020-2022) to 15-20% per annum due to a surge in pet adoptions, strong momentum in awareness growth and increased attention to pet health during this time period. Over the last year (2022-2023), the pet supplements market has continued a similarly strong growth trajectory, growing in line, if not slightly faster than 2020-2022, due to continued strong volume growth and outsized pricing growth as a result of inflation.

The pet supplements category saw significant momentum on Amazon / Chewy over the past five years, leading the online-only channel to outpace overall market growth. Pet supplement brands are now

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starting to move into brick-and-mortar retail in a bigger way (primarily pet specialty stores to date, but also some FDMC players), which is expected to be the next frontier of growth for the category.

## Optimistic Outlook for Pet Supplements in 2024 and Beyond

Looking ahead, the pet supplements market shows promising growth potential.

There is significant whitespace remaining in terms of penetration. Current market penetration stands at 25-30% of pets (i.e., dogs and cats) overall (and lower if widely popular dental chews are excluded), indicating substantial room for expansion. Penetration is currently higher among dogs (30-35%) and lower among cats (20-25%). In light of pet humanization trends, one might compare this to human supplements, which now have an 80-85% penetration rate.

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Further, a number of strong, enduring trends drive confidence in continued category growth, including but not limited to a continued focus on pet health and wellness, an aging pet population (what we sometimes refer to as the “silver tsunami” of aging COVID-19 pets in the forecast period), increased awareness of supplement benefits and expanding retail presence. Notably, the shift of supplement sales to physical retail spaces, including specialty pet stores and mass merchants, is an exciting lever that will propel awareness growth and growth in consumer access to the category.

## Identifying Winning Brands in the Pet Supplements Market

The pet supplements market is saturated with thousands of brands, each vying for market share. These brands can be segmented by brand positioning and go-to-market strategy, for example:

- Consumer-facing brands, which boast consumer-friendly branding and positioning that is approachable. These brands tend to primarily sell through online channels
- Clinically focused brands, which have historically been more focused on the vet channel and prioritized educating veterinarians vs. consumers
- Select hybrid brands that have managed to bridge these two categories

While all segments of brands are experiencing strong growth, we do see some differences. Notably, consumer-facing brands collectively and on average have grown fastest as they have taken advantage of the exposure to consumers online. These brands have the ability to educate consumers on the benefits of pet supplements online where they do not have the challenges of sitting on shelves alongside other pet brands that consumers already know and trust.

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Looking ahead, winners may take many forms, but one thing that will be true across the board is differentiation will be increasingly critical as thousands of brands compete for more limited shelf space in B&M retail channels and strong positioning in crowded online channels where customer acquisition can often be challenging. As consumers become more knowledgeable about pet supplements, the ability of brands to differentiate in terms of product efficacy and product innovation will be critical to continued success. The rapid growth of the pet supplements category saw a major influx of players into the space with many of them leveraging contract manufacturers to develop “me too” products very similar to those already out in the market.

As the category and manufacturing ecosystem develops, winning brands will demonstrate the ability to invest in differentiated new product development focused on addressing real pet health and wellness issues with products that have ingredients with proven efficacy. It will also be

imperative that brands market their products to consumers in a way that highlights the health and wellness benefits while positioning the benefits in a consumer-friendly way that is not overly complex / scientific. Further, a growing number of investors (private equity and strategics) view strong clinical positioning and / or strong evidence regarding efficacy as table stakes for investment.

We are bullish about some of the emerging leaders who offer a wide range of products and could transition into B&M retail with a “brand block” on shelf. There are also some category ‘specialists’ who have established a commanding presence in one or two categories and also have a strong chance of winning coveted shelf space. Among these players, a critical question is whether they can expand into new categories from their initial specialty. Finally, while clinically focused brands are growing slower today, veterinarian approval and backing could become an important differentiator in this market as competition heats up.

## How We Can Help

For those seeking to navigate this dynamic market, advisors at Lincoln International and our co-author, L.E.K. Consulting, can provide valuable insights and strategic guidance. Leveraging our understanding of the pet supplements market and its trends, we help stakeholders identify and capitalize on emerging opportunities.

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