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S&P/ASX 200	AUD/USD	TOP GAINER LNG	TOP LOSER LYC
+0.83%	+0.13%	+7.02%	+0.00%
5547.2000	\$0.79	\$3.05	\$0.05

True cost of puppy love

ROGER MONTGOMERY THE AUSTRALIAN FEBRUARY 08, 2014 12:00AM

FOR those readers who own a pet, I'd like you to consider the amount you may spend on your cat or dog over the course of its lifetime. Think about all the vet bills, food, toys, grooming products and training sessions. Do you have a number in your head?

Would it surprise you to know that the total cost of a pet is between \$30,000 and \$40,000? These totals are estimates by Petbarn, the specialty pet care retailer. This may sound like a big number if you're a pet owner - someone who considers a dog to be just a dog. But it may be considered a small one if you consider yourself to be a pet lover - the type of person who treats their pets as part of the family.

Pets have become big business, and Petbarn has managed to carve out a very profitable niche in this market.

By focusing solely on pet lovers, the company has grown its network of iconic yellow stores from 10 in 2006, to 124 last year. Such is the growth potential of the business that management is targeting a network of more than 200 stores in Australia and New Zealand.

A key factor of Petbarn's success is its staff. The company aims to make customers feel more than welcome when they bring their pets into the store, so having staff that instinctively fawn over animals is a key hiring criterion.

Once attention has been lavished on their loved one, the customer is then educated about the products. The business relies on attracting customers with high-turnover, low-margin goods, then upselling the premium brands. Pet food accounts for nearly half of the company's sales and provides a good example of these selling techniques.

For instance, dog owners are probably well aware of the mess that can ensue from feeding their dog cans of meat. The premium packet products will tend to result in cleaner "outputs", which for many customers is a compelling reason to switch once they are informed. For those who remain unconvinced, the staff may also point out that while premium food is more expensive by the packet, it will typically result in smaller serving sizes, which makes the cost per serving comparable.

Petbarn will embark on its next stage of growth as a merged entity with Greencross, the listed chain of 100 veterinary clinics. The merger has created Australia's largest integrated consumer-facing pet

care company, and will provide almost the full range of products and services required for pet ownership.

Co-locating the veterinary clinics and retail outlets will result in considerable synergistic benefits, by increasing foot traffic and the range of products in each centre. The merger will also be strengthened by a combined customer loyalty program of more than one million pet lovers. This is a valuable long-term proposition when you consider that each customer could spend more than \$30,000 on their four-legged family member.

Management is confident that 10 to 12 Petbarn stores can be rolled out each year, while the merged company is also planning to co-locate a Greencross clinic in every Petbarn store. This should provide further earnings growth as there is minimal overlap between centres.

Unfortunately, the market appears to have already accounted for the company's growth prospects, as its enterprise value is 16.5 times its forecast FY14 earnings before interest, tax, depreciation and amortisation. It may be a case of puppy love for those looking to invest at this time.

Roger Montgomery is the founder of Montgomery Investment Management.

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