INVESTMENT BANKING

The Pet Supplements Industry Is Booming and Requires More Capacity and Capabilities

With forecasts for strong continued growth, the industry needs capacity and value-added services from outsourced manufacturing partners. For investors, there is potential to partner with both contract manufacturers and brands with longer-term opportunities in vertical integration.

Authors

Christoph Wunn
Head of Pet Products & Services,
William Blair
+1 312 801 7770
cwunn@williamblair.com

Axel Leichum
Partner, Head of North America,
CIL Management Consultants
+1 872 315 6993
aleichum@cil.com

George Jaye
Associate Director, Consumer Goods
CIL Management Consultants
+1 872 294 0675
gjaye@cil.com

Key Takeaways From This Article

- Outsourced manufacturing is expected to remain the default operating model for the pet supplements industry, making it an attractive segment for contract development and manufacturing organizations (CDMOs) to capture organic growth, with potential for M&A/bolt-on acquisitions. Capacity has improved, but continued expansion is needed to sustain the current level of market growth.
- Brands have opportunities to capture share and build long-term consumer advocacy in a still-nascent category. For potential investors, and for contract manufacturers looking to align with high-potential brand partners, indicators of future success include a strong digital presence and marketing strategy, retail partnerships, and in-house R&D/new product development (NPD) capability and/or close collaboration with CDMOs.
- Vertical integration has longer-term potential for brands to build product differentiation and defensibility, capture additional margin, and gain greater control and certainty over supply. It may better position an asset for a future exit to a strategic buyer. But given outsourced manufacturing's continued strong margins, capital at present might be most effectively allocated to marketing initiatives.

Assessing a Growing Market

William Blair and CIL Management Consultants recently conducted targeted interviews with retailers, branded providers, and CDMOs to discuss where the pet supplements market is headed in the next three to five years. The conversations centered on what's behind the growing demand and its sustainability; whether there is sufficient manufacturing capacity and the potential for expansion; how competitive differentiation is evolving; and drivers and barriers to vertical integration.

Our findings are detailed in this report, which we've broken into the following sections:

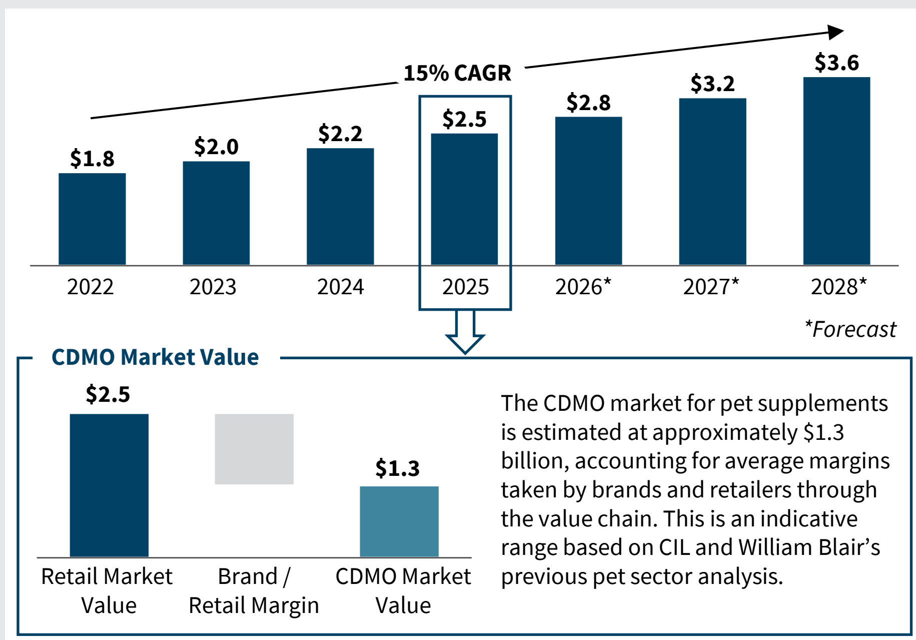
- Pet Supplements Supply and Demand Dynamics
- Strategies for Expanding Capacity
- Investment Opportunities With CDMOs

Pet Supplements Supply and Demand Dynamics

Not long ago, pet supplements was a niche category, mostly limited to veterinary clinics and specialty retail. Beginning around 2015, digitally native brands made supplements more accessible and benefit-driven—replicating the tone and visual language of human wellness brands—with many achieving scale during and after the COVID-19 pandemic. This evolution was supported by continued growth in pet ownership; consumer investment in pet wellness brands and contract manufacturers innovating with new formats, flavors, and functionality; growing consumer awareness and adoption; e-commerce adoption (which paved the way for digitally native brands); and more recently, brick-and-mortar retail adoption.

In 2025, the pet supplements market is estimated to be approximately $2.5 billion and is expected to outperform the wider pet market going forward, with industry insiders predicting a range of 15% to 20% growth (see exhibit 1). But as the space matures and competition intensifies, the path for growth has shifted.

Exhibit 1: U.S. Pet Supplements Market Size and Growth[1] (in Billions)



At present, most pet supplements brands outsource manufacturing so they can focus on sales and marketing. That also allows brands to be nimble and maintain a diverse product portfolio, leveraging different manufacturers for different formats. But whether the strategy is sustainable given recent trends is an open question. Industry insiders rate current category capacity as "moderate," but noted a lack of top-tier manufacturing and a dearth of CDMOs that offer unique formats. As

1. Source: CIL market models.

one industry insider said, "If the market continues to grow the way it is, I think manufacturing capacity will be a constraint or potential pain point over the next three years."

Strategies for Expanding Capacity

Expanding capacity, in the medium term, will likely be driven by existing CDMOs, organically or through M&A, given the high barriers to entry and the lower strategic priority that brands place on adding manufacturing capacity themselves. There have been several acquisitions and expansions by CDMOs in the space in recent years. If demand continues, brands will likely need to consider other approaches, namely taking production in-house or vertically integrating (see exhibit 2).

Exhibit 2: Comparing Different Strategies for Adding Capacity

	Brand	Manufacturer
M&A	**A Vertical Integration** Brands acquire contract manufacturers and vertically integrate	**C Capacity Acquisition** Manufacturers acquire other CDMOs
Organic	**B In-Sourcing** Brands develop in-house manufacturing	**D Capacity Expansion** Manufacturers build extra capacity or pull operational levers

Medium-term likelihood: Lower Higher

	Medium-Term Likelihood	Benefits	Drawbacks
A Vertical Integration	**Low/Moderate:** Unlikely in the medium term as brands must reach necessary scale, and there are benefits to maintaining access to a range of CDMOs.	• Potential margin gains • Product differentiation and defensibility • Availability of supply	• Less nimble/ difficulty sourcing multiple formats • Significant capital required
B In-Sourcing	**Low:** Barriers to entry and a low strategic priority for brands, who are more focused on growing adoption/capturing market share.	• Product differentiation and defensibility • Availability of supply	• Significant capex requirements • Lack of manufacturing expertise
C Capacity Expansion	**High:** Leading CDMOs typically have near-term operational levers to expand capacity, with the option to expand or build additional facilities over the medium term.	• Organic growth generally more sustainable/lower risk	• Speed to market (typical one- to two-year lead time for new facilities)
D Capacity Acquisition	**High:** Potential for larger players to acquire additional capacity and new capabilities/formats.	• Breadth of offering • New customers • Readily available capacity	• Significant capital required • Potential integration issues

Investment Opportunities With CDMOs

Outsourced manufacturing continues to deliver strong margins and is likely the default operating model in the near term, providing CDMOs the opportunity to capture organic growth and creating potential for M&A and bolt-on acquisitions. CDMOs investing in value-add services such as R&D/NPD, offering high-quality procurement, and focusing on strategic partnerships with leading brands are in high demand and are expected to outperform the market.

Notably, the supplements category is still nascent and undergoing adoption growth, presenting opportunities for brands to capture share and build long-term consumer advocacy. For potential investors, and for contract manufacturers looking to align with high-potential brand partners, key indicators of future success include:

- A strong digital presence and marketing strategy, both of which are key to building brand awareness, online conversion and retention, and in-store sales velocity.
- Retail partnerships to unlock potentially transformational distribution gains as traditional brick-and-mortar retailers continue to adopt and allocate shelf-space to supplements.
- In-house R&D/NPD capability and/or close collaboration with CDMOs, to build meaningful and defensible product differentiation.

In terms of investors supporting the market, one leading branded player said, "I expect capacity constraints to exist going forward unless there is investment in those manufacturers so they can better help us."

Longer Term: Vertical Integration

Longer term, vertical integration presents a compelling opportunity as the category matures. One benefit is increased product differentiation (and defensibility) as acquiring a manufacturer allows a brand to bring R&D and NPD in-house. "You are insulating your brand equity and formulas," one insider said. "It is another level of ownership." Other value drivers include margin gains—which can be reinvested into R&D, operational capabilities, and sales and marketing—and greater supply certainty.

To successfully execute on a vertical integration strategy, brands will need to reach adequate scale to realize benefits, with one industry insider noting, "The tipping point is if you can acquire a manufacturing facility that you can fill 70% on day one and it is with somebody you already have a relationship with." Additionally, having confidence that the CDMO will be able to maintain other brand relationships and manage potential conflicts will be important to avoid switching/loss of revenue.

Conclusion

The strong growth and trendlines in the pet supplements space are creating a need for greater and greater capacity while competition is intensifying. As a result, brands must prioritize innovation, clear differentiation, and proven efficacy to sustain momentum—while contract manufacturers need to not only invest in additional capacity but move beyond basic fulfilment, offering formulation support, clinical validation, and faster speed-to-market to stay relevant in a more competitive, sophisticated landscape.

The possibilities to drive value for both contract manufacturers and brands—and longer-term opportunities related to vertical integration—are worth considering for investors. For more information, please don't hesitate to reach out to William Blair or CIL Management Consultants.

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