IEOR 4998 Group Paper 2

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Company Description

Our idea is to open a boutique positioning pet related store that sells pet products and provides pet service. Our pet products include pet daily goods, pet fashion and pet medicines and Pet service include pet care,pet grooming, pet medical care and pet training. The company will combine both offline and online channels. The company offers pet products both offline and online like our competitors. However, our company also offers part of pet training and pet medical care service online while traditional businesses only offer offline services. That is because study shows that under the covid-19 pandemic, it is inconvenient and time consuming to make medical care reservations for pets.

Our value proposition is to offer a one stop solution for all pet owners to solve all the daily problems wherever they are. Our mission statement is to help pets enjoy the world as much as human beings. Similar to our competitors, our company focuses on providing pets goods and services. However, we emphasize more on achieving those purposes more conveniently for pets owners.

The main target customers are those middle-class generation z and generation alpha who own dogs or cats. According to our study, 1 in 2 Gen Z pet owners provide their dogs and cats with healthy or organic food. Gen Z-ers are also by far the most likely generation to celebrate their pets' birthdays (81%) and dress up their pets for birthdays, holidays, and other festive occasions (43%). Given that they have different habits than other competitors' target population - millennials - we expect to break into the market through this diversification.

Our business model is a subscription based membership model. Customers will pay a membership fee to enjoy our products and services like Costco. Our revenue will come from membership fee, online service fee, products sales fee and offline service fee. This business model attracts customers to shop more in our stores.

Qualitative Discussion of Growth Engine and COCA Estimation

Summary:

We think that the COCA can be a low value due to our strategic advertising plan to utilize the social media traffic. The COCA is estimated to be $31.11. Our LTV will be comparable to our major competitors. Key factors that determine our scalability are: supplier production, storage & cost, and workforce efficiency & size. Our market size will start out small but grow at a promising paste.

Assumptions:

For the calculation of COCA, we assume to have an account on instagram, with about 20k followers.

Analysis:

Our cost of customer acquisition will be a reasonably low value for the following reasons:

1) We can take advantage of the popularity of social media to reach potential customers with a relatively low cost. Customers can be attracted by a nicely designed poster or interesting pet-related post when browsing online. The advertisement cost for creating social media accounts and posting blogs will be considerably lower than using conventional methods.
2) Our major way to attract members is by "word-of-mouth". By trying to make our products and services reliable and cost efficient, we believe that the customers will be excited to share their great shopping experience with close friends, families, colleagues, etc.
3) Seasonal special discounts and referral rewards will be the major source of cost for reaching more customers. Seasonal discounts can help reduce product backlogs and referral rewards are only for new customers that actually make orders.

The LTV is expected to be comparable to that of our major competitors'. A pet owner's need to purchase pet products & services will exist at least within the lifespan of his/her pet. Our churn rate and discount rate will be close to our competitors' as long as we can provide a similarly competitive variety of products.

Thanks to the development of e-commerce, we can get as many customers as our advertisements are able to attract. Our scalability depends on the capability of product production of our suppliers, storage availability and costs, customer support team size and work proficiency, and schedules & the number of pet service providers.

Our market size as a late entrant to the pet market will start out small. But we think that we can scale up fast using our business model and advertising strategies.

COCA estimation:

Poster design cost ($/month)	1200
Followers	20000
Reach rate	24.60%
Reach count	4920
Conversion rate	2.20%
trial customers	108
referal award	20
COCA	31.11

data source: flick.tech, bazaarvoice.com

Key Performance Indicator and Measurement

Summary:

In the early stage of establishing the company, a good KPI system needs to be established. The pet service industry is generally a service plus retail approach, and setting KPIs based on performance will inevitably lead to many problems. Therefore, there is still a lot of uncertainty about the setting of KPI. But these following KPIs can help the company to grow well in the early stage of establishment.

Assumptions:

Beauticians and employees are mainly engaged in service work, and it is difficult for them to devote themselves to attracting customers and selling the whole process. Employees' KPIs are passive. The most fundamental reason for the growth of pet store performance is likely to be the word-of-mouth effect. Putting the KPI assessment of employees on customer satisfaction is the real way to drive performance improvement.

Analysis:

At the same time, KPI assessment can be done by collecting customer satisfaction information. For example, every time the service is completed, let the customer sign the order, let the customer rate the satisfaction, and put the satisfaction in the most conspicuous place. At the same time, a negative evaluation risk plan is established. For employees whose negative evaluation ratio reaches a certain standard, in-training or other personnel arrangements shall be carried out.

For the formulation of pet store KPI indicators, a very important indicator is customer activity. The specified metrics are that 30 percent of customers are very active, 60 percent are generally active, and 10 percent are not very active. Activity can be analyzed through data, and activating customers can also improve the company's survival rate. Around the customer activity, you can create opportunities to visit the store and fully communicate with customers. At the same time, KPIs should also be formulated for income data, pet grooming accounts for 20%, sales account for 40%, pet medical care accounts for 20%, and others account for 20%.

The following points are also important indicators. The customer flow of each store needs to reach 500 people a day. According to the customer flow data, the peak period and the downturn period are analyzed, and corresponding adjustments are made to adopt different marketing strategies. Such as promotions during a downturn. The turnover rate needs to reach 50%, employees need to be fully familiar with products and services, do a good job in sales according to the service process required during training, and handle objections raised by customers accurately and in a timely manner. The return to store rate for new customers needs to reach 60%. Each store needs to reach 200 new registered members every month. And in the first two years of the establishment of the company, the monthly net profit has increased by 3%.

At the same time, the degree of care within the company is also a very important indicator. The degree of care cannot be quantified, but what is done around the degree of care can be quantified. There are meetings within the company twice a week, and questions and suggestions from employees need to be resolved during the week. In the company, the boss should care for the employees, the employees care for the customers, and the customers contribute value.

Business Model Canvas

Summary:

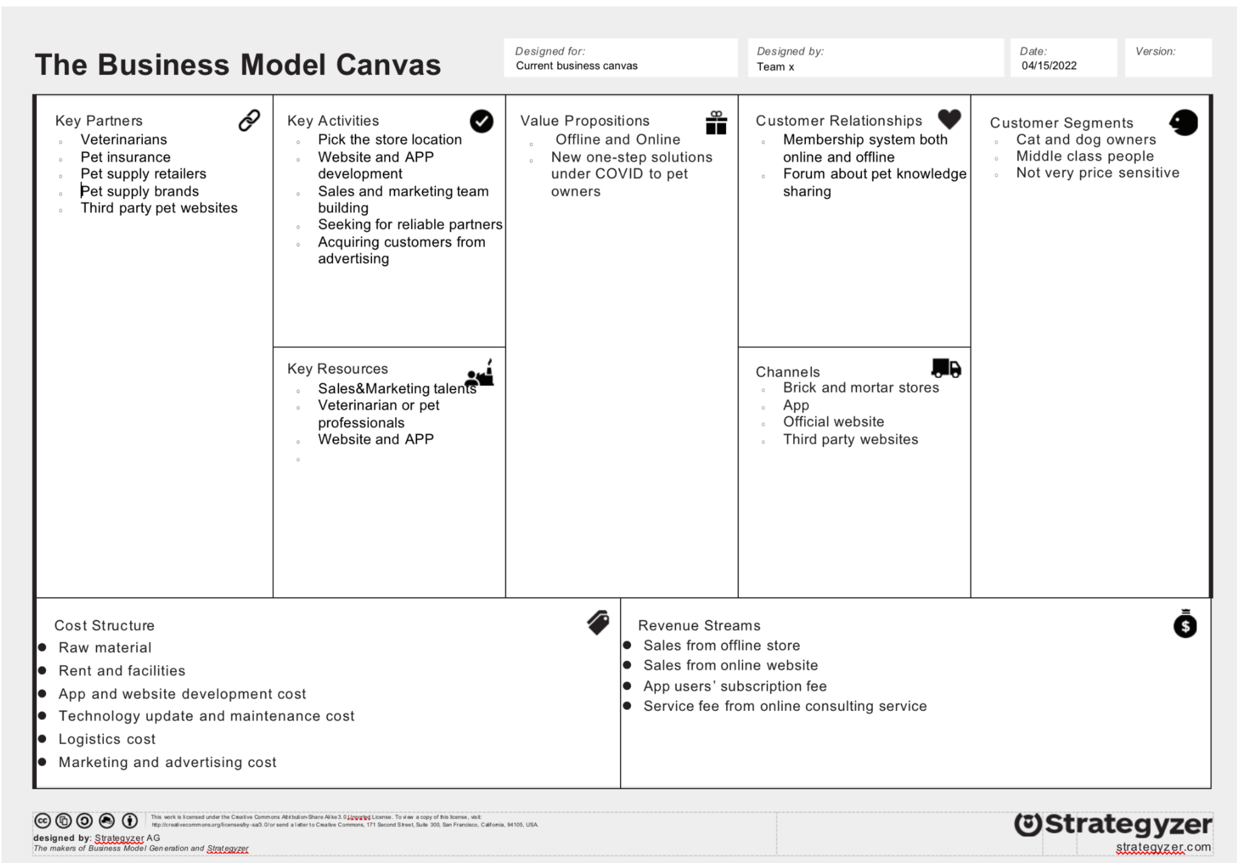
We have designed two business canvas for our company, one is our current business canvas, and the other is where we see our company in two to three years. There are some common items in these two canvases, and the items in red are the new things we plan to do when our business grows larger. For the first business canvas, we care more about implementing our idea, building our brand, and acquiring the early loyal customers. At that time, we will focus on the offline channel more and will start our online business model as a trial. Also, our main target customers are only cats and dogs. As soon as our online business model works, we plan to shift our focus to the online channel because we consider it as a potential new solution to pets care, and we will invest the most of our budget on marketing. We want more people to know our brand, and will care about the KPIs like new subscribers, repurchase rate and average price.

Assumptions:

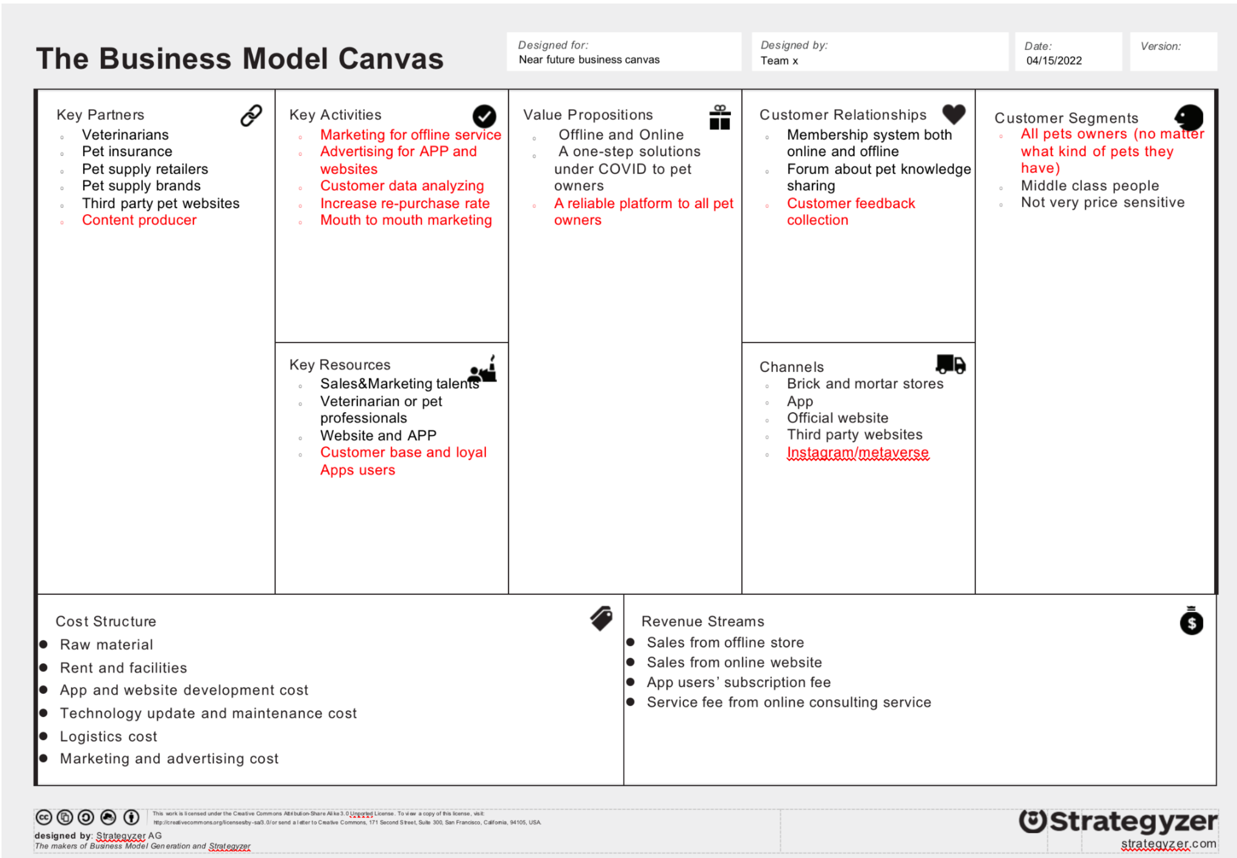
The first business canvas is designed based on our current idea and the second business canvas depends on the success or failure of the current business model, and the progress of the first model. Currently, we plan to achieve the blueprint of the first business model in one year and the second model in two to three years.

Here are our two business models:

1) Current business canvas



2) Business canvas in two to three years



Unit Economics/Breakeven and A LTV Calculation

Summary:

Unit economics/breakdown analysis and a LTV calculation are important for our company to be successful in the future, since we not only need revenue but also profit to maintain our company. For unit economics, it can help our company to predict the profit, optimize our product and assess market sustainability. In our case, we would like to use the “One Customer” Unit. We would like to assume that the revenue of a set of dog toys is $25, the cost is $15 per year and marginal contribution is $10 per year. For the period of 4-years, the Calculation for Lifetime value is 16.113.

Assumption:

Our company sells a set of Dog’s toys (4 pieces) online as the specific category. The set of toys has a marginal cost of $15, and we sell the set of toys at price $25. The data shows that each customer after buying one set of toys for his/her dog has a 50% chance of buying another set of toys in the next year. We also assume the discount rate is 30% per year, and we will consider the customer who buys their first dog toys to be year zero.

Analysis:

The way to approach unit economics is to strip the business model to the minimum of “one unit”. There are two ways to approach unit economics: “One Item Sold” and “One Customer”. First, we need to decide on which approach we should take. Since our company provides different categories of products and services, including pet food, pet toys and pet grooming, The unit in our analysis should be the “One Customer”

Next analysis step is to look into the ratio of two different metrics: Customer Lifetime Value(LTV) and Customer Acquisition Cost. There are also two ways to model the LTV, the first one is predictive LTV, which is to help our company to predict the average customer would likely to act in the future. The formula for measuring predictive LTV is Predictivie LVT = (Average Number of Transactions x Average Value of An Order x Average gross margin x Average lifetime of a customer)/ # of customers in this period of time. Another way to model the LTV is particularly helpful for startups like our company. Flexible LTV would help the company account for the potential changes in revenue. The formula for calculating flexible LTV is: Flexible LTV = Average Gross Margin Per Customer Lifespan * (Retention Rate / (1 + Discount Rate - Retention Rate)).

After stating these key concepts and formulas, we can dive into the analysis part. We categorize the cost into fixed and marginal costs. For example, the fixed costs can be the renting fee and cost of leasing machinery, and marginal costs are the raw materials and worker’s salary. The contribution margin per unit is how one unit’s sales contribute to our company's profit. For example, if we could have revenue from selling the Dog’s toy around 25 dollars, and after minus the cost of labor $3, cost of shipping fees $2 and purchase price $5, the contribution margin should be $15. The contribution margin x number of units sold should be larger than fixed costs in order to have profit.

Year	0	1	2	3	4
Revenue	25	25	25	25	25
Cost	15	15	15	15	15
Marginal contribution	10	10	10	10	10
Retention	100%	50%	25%	13%	6%
Expected contribution	10	5	2.5	1.25	0.625
Discount rate	30%	30%	30%	30%	30%
PV	10	3.84615385	1.47928994	0.56895767	0.21882987
LTV	16.1132313				

Summary

In this paper, we provide a description of our business idea on the pet market and conduct several analyses on it. Our company provides both pet products and services online and offline, with a subscription based membership model. The company targets genz and gen alpha customers, while pursuing a value proposition of offering a one stop solution for all pet owners to solve all the daily problems wherever they are.

Based on our analysis, we find that COCA could be low due to our strategic advertising plan to utilize the social media traffic (estimated to be $31.11). But our LTV will be comparable to our major competitors: if we assume the revenue is $25, the cost is $15 per year and marginal contribution is $10 per year. For the period of 4-years, the Calculation for Lifetime value is 16.113. Regarding KPIs, we find that customer activity, store turnover and employee are important indexes to track. Based on our analyses, the business idea is feasible and has great potential.

Reference

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