
PETWORLD

John Shepherd, executive vice president of marketing at PETWORLD, a leading retailer of pet products and supplies in the United States, was looking over the company's 2012 financials. The year had seen a dip in sales, fewer people coming into the stores, and comparable store sales that were weaker than expected. Competition in the pet-care market was increasingly fierce. A variety of players, big and small, were fighting for market share. The industry itself had changed rapidly in just a few years, and its continued growth and financial success required constant innovation and creativity. Shepherd needed to identify ways in which PETWORLD could create a unique and entertaining way to leverage the in-store experience to generate both store and online sales.

Company Background

The first PETWORLD store opened in 1988 in Los Angeles. By 2013, the company had 1,278 stores in the United States, Canada, and Puerto Rico and more than 52,000 employees. PETWORLD's 2012 revenues were \$6.7 billion, with \$389,529 thousand net income (see **Exhibit 1**). PETWORLD carried a wide range of items totaling approximately 11,000, including food, supplies, grooming products, toys, and treats. The stores also sold tropical fish, reptiles, birds, and small mammals (mostly guinea pigs and hamsters). Over the years, PETWORLD had differentiated itself from other retailers by adding such services as boarding, grooming, obedience classes, adoption centers, and veterinary care in many PETWORLD stores, all supporting its motto: The Premiere Place to Pamper Your Pet. The company's core values were "to provide quality lifetime care to every pet, every parent, every time." There was also a frequent buyer program called PetSave, which offered discounts and coupons.

Shepherd, who had been with the company since the early 1990s, considered the upbeat ambiance of PETWORLD stores one of the company's biggest assets. The focus was on the customers, both two- and four-legged. Employees received many hours of training, which included a curriculum and role-playing techniques, and each new employee was shadowed by an experienced associate for the first three months at work. Customers came to PETWORLD not only for its retail products, but also for its various services, a selection that had rapidly expanded in the past 10 years. Because customer service was a top priority, annual staff bonuses were based on positive customer feedback.

Local animal shelters brought dogs and cats to the adoption center in each store to showcase them for adoption. These centers were highly popular and, particularly on weekends, a huge draw for the public. The past several years had also seen a rise in sales of Halloween costumes for pets, and in October, the stores were crowded with costume-seeking customers usually accompanied by their animals.

This fictional case was prepared by Bidhan Parmar, Assistant Professor of Business Administration, and Jenny Mead, Senior Researcher. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2014 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. To order copies, send an email to sales@dardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation. Our goal is to publish materials of the highest quality, so please submit any errata to editorial@dardenbusinesspublishing.com.

PETWORLD had a strong e-commerce and community website, through which it sold products and offered advice on a variety of topics, from general pet care to training tips and health care. The company also had a charitable division, PETSPROVIDE, which operated the in-store adoption centers and in 2012 distributed \$28.5 million in grants to animal welfare groups throughout the United States.

On average, 88% of PETWORLD's sales came from merchandise; the remaining 12% came from services. There were three categories of merchandise: Consumables, which included food, treats, and litter, equaled 52.8% of sales in 2012. Hard goods, such as leashes, toys, and beds, made up 33.9% of sales that same year. Pets (freshwater fish, small mammals, birds, and reptiles) were 1.7% of sales.

In-store experience

PETWORLD store size ranged from 13,000 to 28,000 square feet, and the total square footage of all stores was 28.2 million. Although the varying sizes of PETWORLD stores dictated different layouts, the company had worked to give all stores a light, airy, and open feel. Walking in, customers would see checkout lanes on the left and cashiers who greeted every entering person. Displayed on the right side of the store were all the dog supplies, such as treats, collars, harnesses, toys, and other nonfood items. On the left side, from front to back, were the small mammal, bird, reptile, and fish supplies, and the creatures themselves were located closer to the back of the store. The last half of the left side was devoted to cat products.

Each store had a wide center aisle stocked with animal-themed cards and seasonal, humorous, and other inexpensive items. At the very back of the store, the veterinary products and services could be found, along with a pet salon to the left. The obedience class area was midway down this wide aisle on the far right, and the adoption center was midway down on the left side. There were always cats from various animal shelters in cages, and adoption events would take place on weekends. Volunteers walked the dogs that were up for adoption around the store throughout the day. Two or three times a year, PETWORLD would host a big adoption event in its parking lot for animal shelter groups from the surrounding areas.

Competitors

Pet-centered retailers, primarily PetSmart and PETCO, were the company's biggest competitors, but PETWORLD and others also faced competition from supermarkets (historically, the largest sellers of pet food products), warehouse clubs, smaller pet stores, veterinarians, and e-commerce sites. PETWORLD had 36.2% of market share, and PetSmart, its closest competitor, had 35.4%. Other large-scale US competitors included Petland, Pet Supplies PLUS, and Petland Discounts. E-commerce sites—particularly Amazon, because of its free delivery—were encroaching on the large brick-and-mortar stores. Shepherd was aware that e-commerce sites had particular advantages for customers (e.g., no lugging heavy bags of food to and from the car, comparison shopping, and ease of product research).

Pet-Care Industry/Trends¹

Shepherd thought about the changes in pet ownership attitudes he had witnessed—both in the 50 years since he was a child and during his long tenure at PETWORLD. Changing attitudes about pets had fueled rapid growth in the pet-care industry starting in the late 1990s. In a trend that some experts referred to as the

¹ Information in this section was taken from "Pet Industry Market Size & Ownership Statistics," American Pet Products Association, www.americanpetproducts.org/press_industrytrends.asp (accessed Apr. 16, 2014) and "Lucky Dog: Pet Owners Will Invest in Premium Products as Disposable Income Rises," IBISWorld, September 2013, <http://www.ibisworld.com/industry/default.aspx?indid=1103> (accessed Apr. 16, 2014).

“humanization of pets,” many people perceived their pets as family members and treated them as their children. Several studies also identified the health benefits of owning a pet: reduced stress, loneliness, and depression; lower blood pressure and cholesterol levels; and increased participation in exercise and outdoor activities.² People were now willing to spend more money on their animals, even during the 2008 financial crisis. An increasing number of premium and service items were available, such as toys that claimed to raise a pet’s IQ, advanced medical care, pet therapists, pet funeral/burial arrangements, and first-class travel accommodations—JetBlue had a frequent pet flyer program—and accessories for four-legged travelers. Shepherd was amused that animal teeth brushing, something inconceivable 15 years ago, was now wildly popular and highly recommended by veterinarians. Indeed, PETWORLD carried close to 100 types of pet teeth-cleaning devices and toothpastes.

In 2012, the amount of money spent on pet care was \$53.33 billion³ (see **Exhibit 2** for a financial breakdown). Estimates for 2013 were \$55.53 billion; pet retail stores were expected to scoop up \$15.9 billion of that total. Approximately 68% (about 82.5 million homes) of US households owned a pet in 2012, compared with 56% of households in 1994 (see **Exhibit 3** for a breakdown of total pets in the United States). The increase in pet-related sales was not confined to the United States; markets in China, India, and Russia had grown dramatically, and worldwide sales of pet-related items and services had hit \$81 billion in 2010.⁴ According to *Inc.* magazine, pet care was one of the best industries for those wanting to start a business; specific ideas included luxury grooming establishments, high-end pet hotels, and TV channels just for dogs.⁵

Organic and natural pet food sales had boomed in recent years, primarily because of the 2007 debacle involving pet food imported from China that was tainted with melamine (an estimated 3,500 animals had died). The year 2012 was another bad year for conventional pet food, including multiple recalls for Diamond Pet Foods. As a result, PETWORLD had introduced many more lines of natural products, including some from Burt’s Bees, the well-respected natural products company (owned by Clorox), which had expanded into pet products. PETWORLD had also partnered with the GNC (General Nutrition Corporation) to create GNC Meds, a line of premium pet vitamins.

Also on the rise were more options for vacationing with pets. Increasingly, motels, hotels, and vacation cottages were declaring themselves pet friendly. A number of pet travel websites had sprung up, including TheJetSetPets.com, which billed itself as “the luxury travel source for pampered pets on the go.”⁶

The Human/Animal Connection

Numerous scientific studies documenting the close connection between humans and animals had been published over the years. PETWORLD also had conducted its own surveys and interviews with pet owners on an ongoing basis. The overwhelming majority of the interviewees were passionate about their pets. Comments included:

² “Health Benefits of Pets,” Centers for Disease Control and Prevention, April 20, 2013, http://www.cdc.gov/healthypets/health_benefits.htm (accessed Apr. 16, 2014).

³ For comparison, pet-related sales in 1994 were \$17 billion.

⁴ Bioniche Life Sciences annual report, 2012, <http://www.bioniche.com/pdf/2012/Bioniche-Annual-Report-Final-2012.pdf> (accessed Apr. 16, 2014).

⁵ “Best Industries 2012: Pet Care | 7 Great Business Ideas,” *Inc.*, <http://www.inc.com/ss/best-industries-2012/caitlin-berens/7-big-business-opportunities-pet-care#0> (accessed Apr. 16, 2014).

⁶ “Hot Hotels for Petsetters,” TheJetSetPets.com, <http://thejetsetpets.com/> (accessed Apr. 14, 2014).

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- “I couldn’t imagine not having a dog in the house.”
 - “My cocker spaniel is family. I’d give up my husband before I’d give him up.”
 - “I’m a widower in my 60s. Adopting my cat was the best decision I’ve made in my life. I used to be lonely. That’s a thing of the past.”
 - “She’s our third child, only with four legs.”
 - “I met my future wife when I was walking my lab, Gus. I think she only spoke to me because I had a dog. When we got married, Gus was the ring bearer. Seriously. He did a great job.”
 - “I often tell my patients that owning a pet is one of the best medications for depression.”
 - “My cat sleeps in my bed. Usually on my chest. He weighs 20 pounds, but I don’t mind.”

Looking Ahead

In trying to assess what might drive growth and draw more customers into stores, Shepherd had looked at market research predicting the trends for 2014 and beyond. The trend of pet humanization was expected to grow and drive sales, particularly high-end or niche. Pet ownership–related sales were estimated to top \$64 billion in the coming year, while sales-and-service-industry revenues were forecast to rise at 4.0% annually, reaching \$19.3 billion by 2018. Pet ownership in the United States had grown over the past decade, from 152 million owners in 2004 to 175 million in 2013, and some experts predicted this number would reach 200 million by 2020. The recovering economy would no doubt benefit the industry, particularly since disposable income was projected to rise over the next five years at an annualized rate of 2.4%.

Shepherd was meeting with his marketing staff later in the day to go over the various options they could implement. Whatever the new in-store solution was, it needed to meet several criteria: fit in the store without displacing merchandise or services; pay for itself over time; increase both store and online sales; enhance the relationship between people and their pets; and fit with PETWORLD’s core values and brand. Shepherd thought there had to be ways to leverage the store experience. PETWORLD just had to identify these additional areas of innovation. Shepherd was counting on those people who truly loved their pets. He just needed to dig deeper into that passion.

Exhibit 1

PETWORLD

Financial Highlights
(in thousands, except gross profit and per-share amounts)

	2012	2011	2010
Net sales	\$6,758,237	\$6,113,304	\$5,693,797
Service sales	\$ 740,471	\$ 674,859	\$ 618,755
Gross profit	30.5%	29.5%	29.1%
Net income	\$ 389,529	\$ 90,243	\$ 239,867
Earnings per share	\$ 3.55	\$ 2.55	\$ 2.01
Operating cash flow	\$ 653,007	\$ 575,420	\$ 457,645

Other Highlights

Total stores	1,278
Total employees	52,000
Total 2012 in-store pet adoptions	405,000

Data source: PETWORLD annual report, 2013.

Exhibit 2

PETWORLD

Breakdown of 2012 Pet-Related Sales
(in billions of dollars)

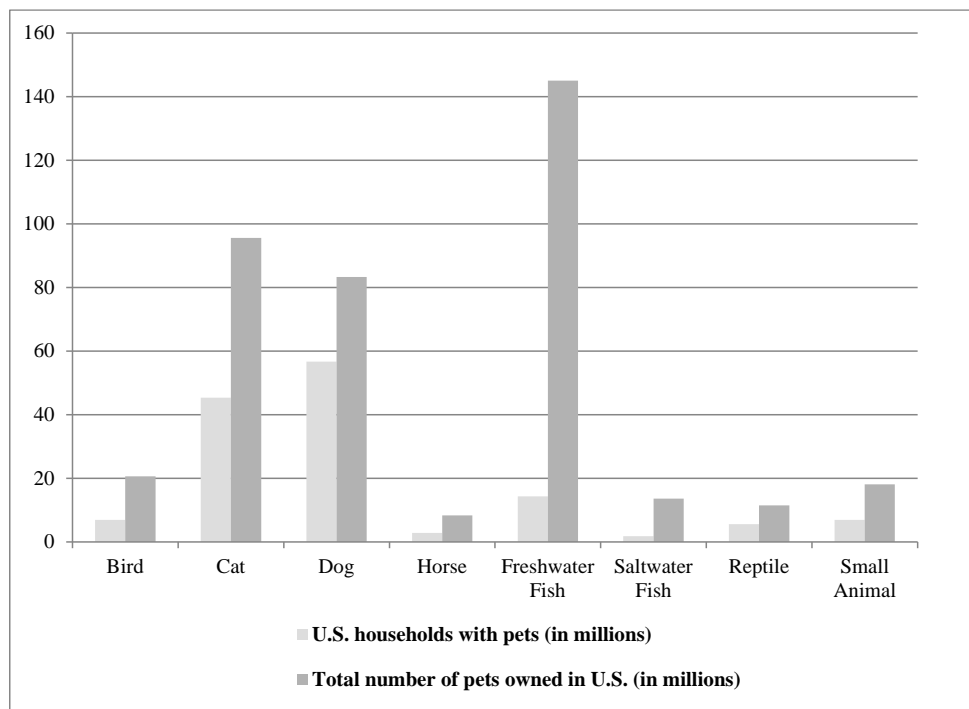
Pet food	\$20.64
Supplies and over-the-counter medicine	\$12.65
Veterinary care	\$13.67
Live animal purchase	\$ 2.21
Grooming, boarding, and other services	\$ 4.16
Total	\$53.33

Data source: http://www.americanpetproducts.org/press_industrytrends.asp.

Exhibit 3

PETWORLD

Number of Pets in the United States
(by household and total)



Data source: http://www.americanpetproducts.org/press_industrytrends.asp.