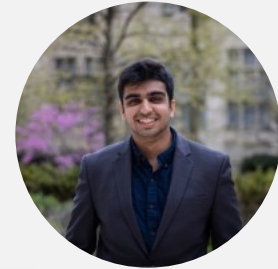


EY-P x Prism Case Competition

Our Team



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Project Scope



Market Analysis

- Pet owning households
- Market segmentation



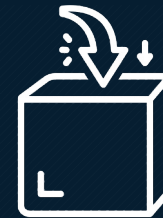
Key Drivers

- Demographic shifts
- Expansion of services
- Pet humanization trend



Geographic Expansion

- Distribution channels
- Regional analysis
- Competitor analysis



Subscription Service

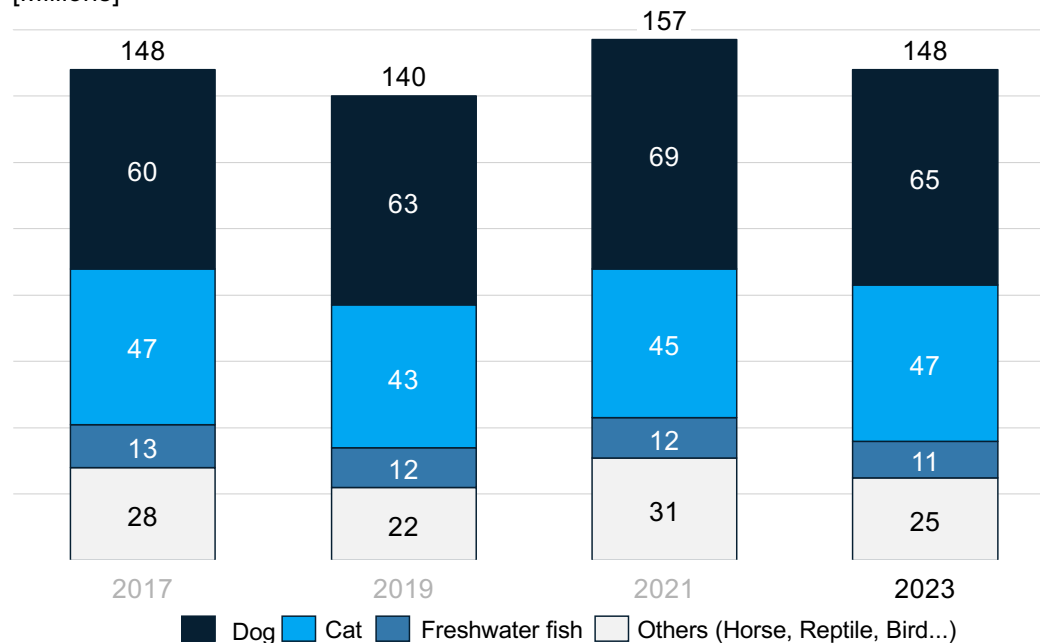
- Market insights
- Subscription tier summary
- Cost-benefit analysis

The majority of pet owning households hold dogs and cats since 2011 in US

Number of Pet Owning Households in the United States in 2023 by Species

Trends

[Millions]



Total number of pet owning households is stable

- The pet industry has remained stable **during macroeconomic fluctuations** such as Covid-19

Pet ownership is fragmented by species

- Suggest **varying consumer needs and preferences**, presenting opportunities for **tailored marketing** and diverse product portfolio

Dogs and cats cover the majority of pet population

- PetSmart can focus on dogs and cats to increase efficiency
- Other pet species might be **too fragmented to target**

Market Background

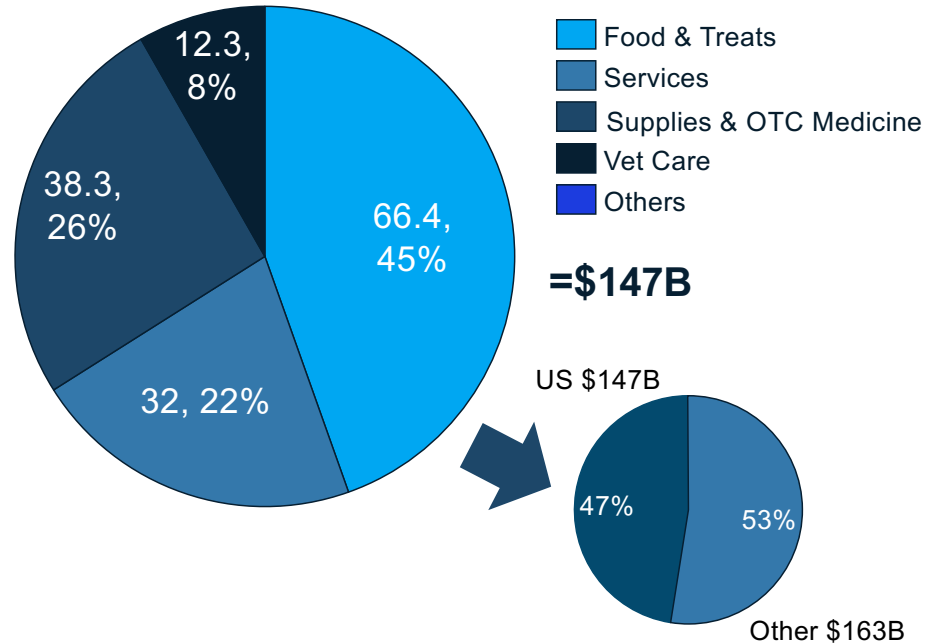
Key Drivers

Geographical Expansion

Subscription Service

PetSmart should target multiple segments because of the size and fragmented nature of the US pet market

US Pet Market Size Segmented by Category in 2023 [Billions]



US Pet Market Size by Pet Population

- **TAM** for pet industry = Number of pet * Average expenditure per pet per year = **\$154B**
- **Initial assumption:** Dogs (40% of the pet owning households) and cats (30% of the pet owning households) make up the whole pet population, so dogs take up 57% and cats take up 43%
- **Less expenditure** for smaller pets of other species, so \$154B is an **overestimate**
- **Number of pet** = Number of households owning pets 86.9M * Average number of pets owned per household (1.46 dogs * 57% = 0.8322, 1.78 cats * 43% = 0.7654) ~1.60
- **Average expenditure per pet per year** = \$1500 for dogs, \$600 for cats ~ \$1113

Demographic shifts, expansion of services, and changing customer preferences drive spending per customer in the US pet market

Area	Trends
1 Demographic Shifts	<ul style="list-style-type: none">The increasing number of millennial and Gen Z pet owners, who are known for spending more on pet care, is directly proportional to the growth in overall market sizeShifts towards higher-income demographics within urban areas will enhance profitability as these consumers are more likely to purchase premium pet products and services
2 Expansion of Service	<ul style="list-style-type: none">Past service expansions have included pet grooming services and veterinary care. Continuing to add services will increase revenue per customer and strengthen our market penetrationIntroduction of subscription-based models for grooming services and health checkups will improve customer retention rates because of convenience and habit
3 Pet Humanization & Wellness	<ul style="list-style-type: none">The trend of pet humanization will drive businesses to offer more personalized pet services, such as custom meal plans and behavioral therapy, which will spur growth in niche marketsInvestments in pet wellness and premium food products will yield a higher return on investment due to increasing consumer awareness and willingness to spend on personalized pet products

Market Background

Key Drivers

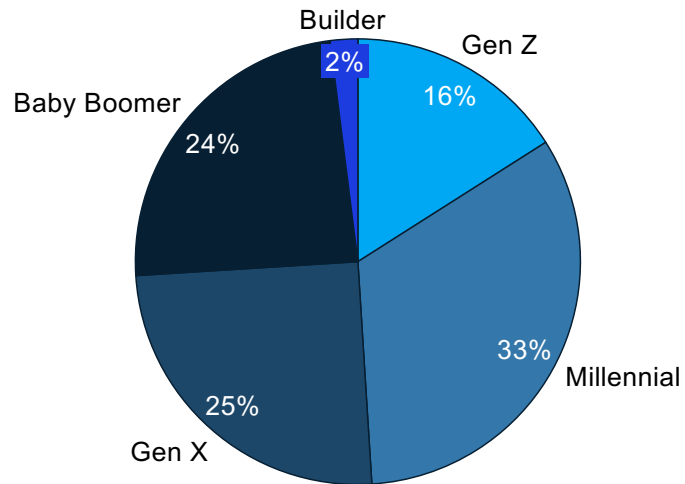
Geographical Expansion

Subscription Service

PetSmart should target suburban millennials as they make up the largest percentage of pet owners

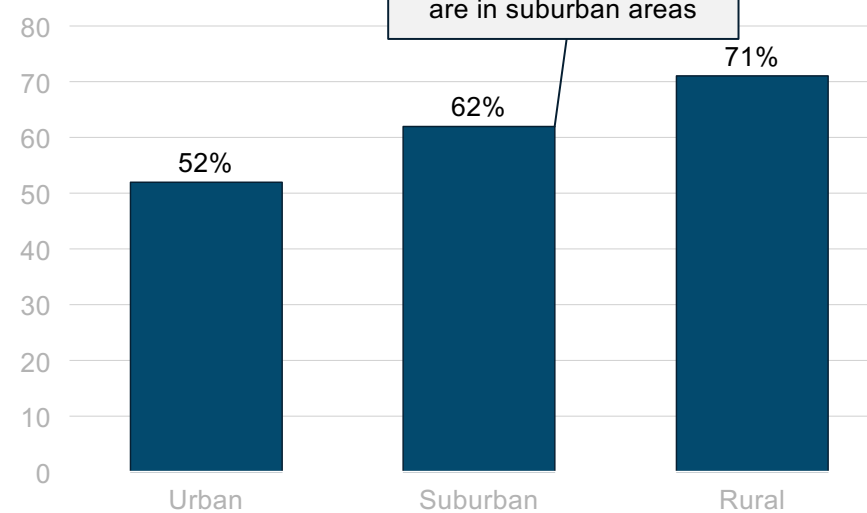
Pet Ownership Broken Down by Generation

[% of people that own a pet]



Percent Pet Ownership by Population Density

[% of households that own a pet]



Use demographic data to inform new product launches and marketing campaigns

Market Background

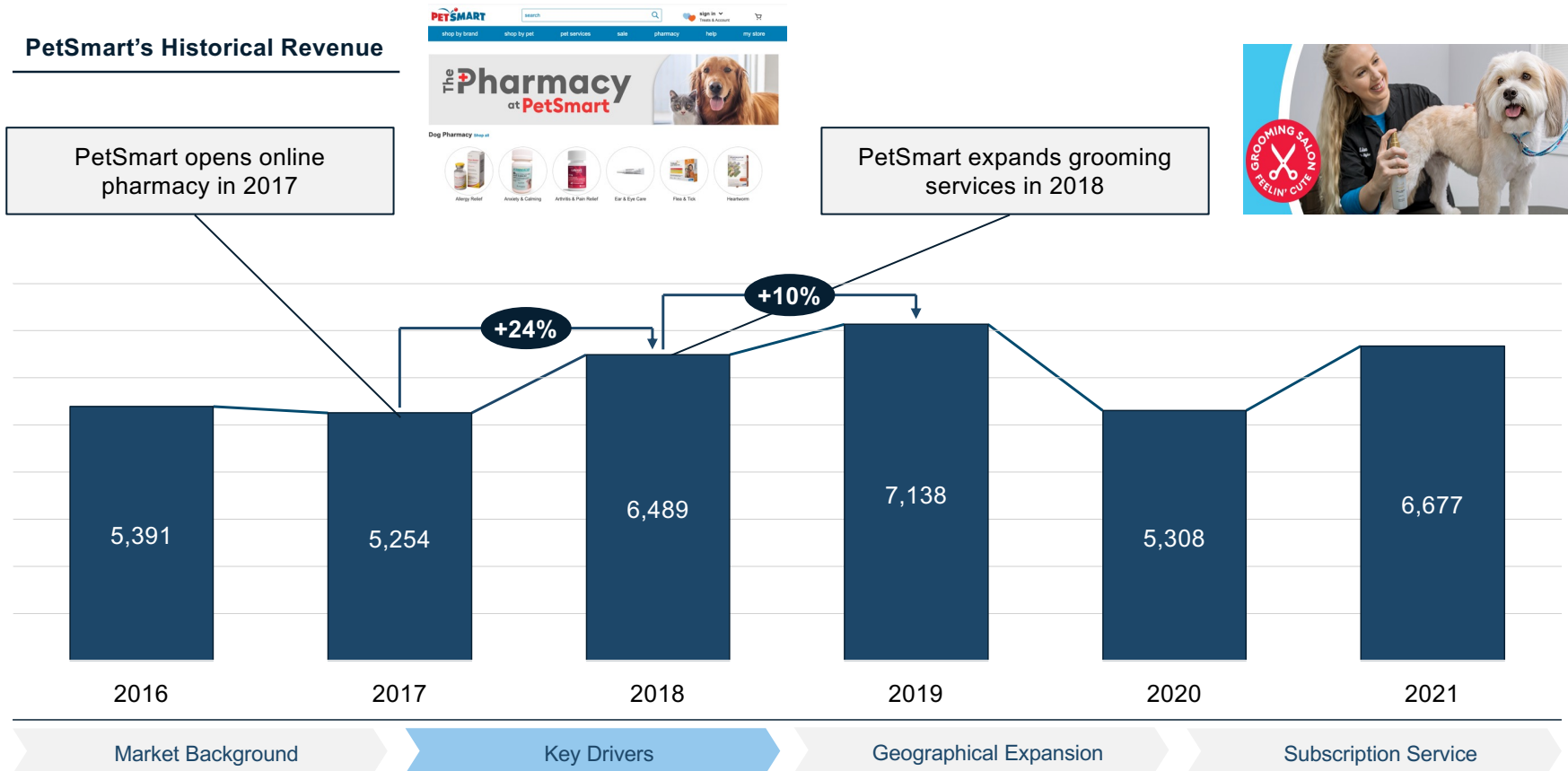
Key Drivers

Geographical Expansion

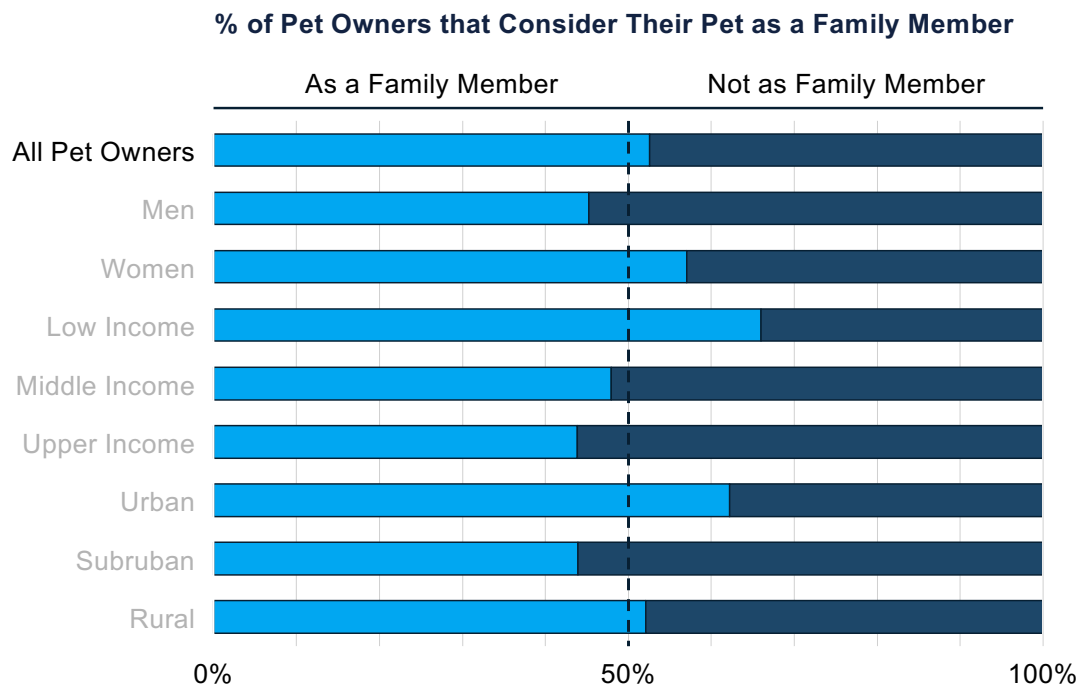
Subscription Service

Historically, PetSmart has had success using service expansion to drive significant revenue growth

PetSmart's Historical Revenue



PetSmart should respond to the growing trend of pet humanization to address various groups of customers



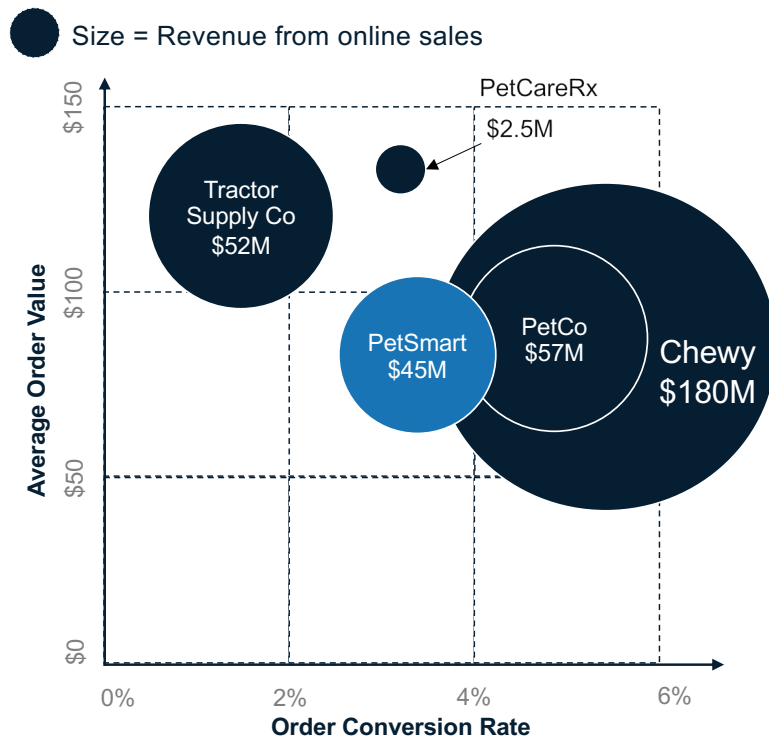
- American **pet expenditure** was \$123B in 2021, **increasing 13%** over the previous year, indicating a **large and fast-growing** market
- Over **114 million** U.S. households own a dog or a cat, which is **half** of US total households
- With 32% of millennials and 14% of Gen Z owning pets, spending on pets is expected to show **continued growth** for many years
- **50%+ of the pet owners** view their pets as **family members** regardless of the species

Future investments should be directed to brick-and-mortar stores as they offer unique benefits that online competitors cannot match



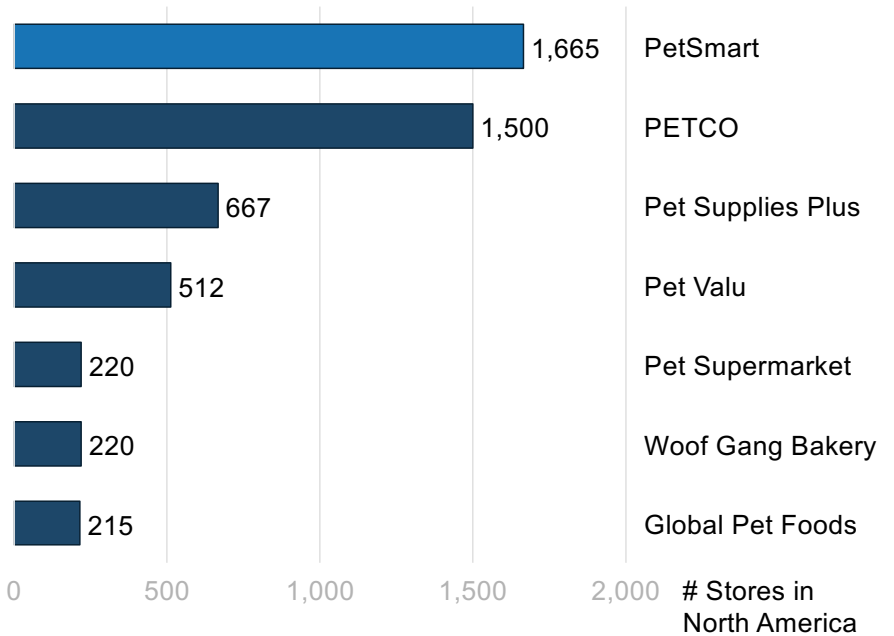
PetSmart should avoid competition in the crowded online pet care market by focusing on increasing in-store service revenue

Pet-Focused Website Revenue Data



PetSmart leads the industry in physical locations

- PetSmart has the necessary infrastructure to expand upon its in-person services, while many online competitors do not



Market Background

Key Drivers

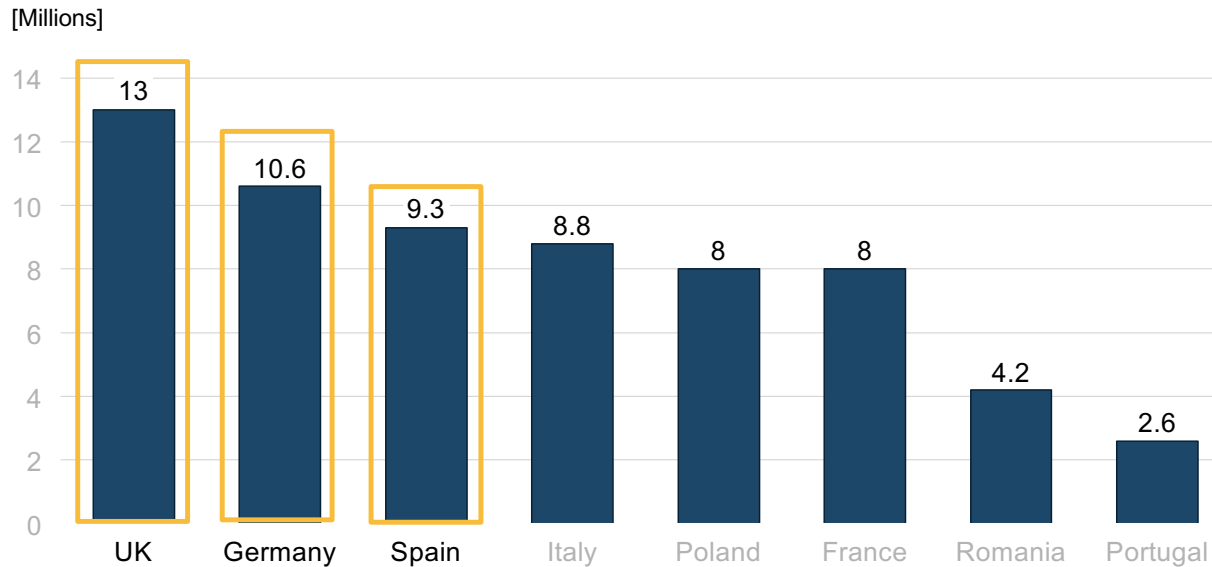
Geographical Expansion

Subscription Service

Expand into European countries with high dog population such as the United Kingdom, Germany and Spain.

Expanding into Europe will leverage PetSmart's previous experience building brick-and-mortar stores.

Pet Dog Population in Europe in 2022 by Country



PetSmart should expand into the European market because...

- Using dogs as a reference, we can see that the **United Kingdom, Germany, and Spain have the highest number of pets**, so PetSmart could expand into these countries.
- Germany and the United Kingdom are cited as being some of the **most pet-friendly countries**, with high pet-ownership rates and amenities such as parks, fountains, etc.
- Spain has a very well-developed veterinary care system and is known to have a **pet-friendly culture**. Spaniards are very fond of dogs in particular.

Market Background

Key Drivers

Geographical Expansion

Subscription Service

PetSmart provides veterinary, pharmaceutical, and pet boarding services that primary European competitors lack



Pets at Home

Based in the United Kingdom

- Offers a variety of services including Pet Care Advice, Pets Grooming, Pet Insurance, Vets for Pets, etc.
- Has consistent **1-star reviews** complaining about customer service and quality
- Missing **pharmacy and pet boarding capabilities**



Maxi Zoo

Largest in Ireland

- Offers pet products and salon services primarily for dogs, cats, small animals, birds, etc.
- Have several **1-star reviews** complaining about slow delivery service
- Missing **veterinary and pharmaceutical capabilities**



Tiendanimal

Headquartered in Spain

- Primarily catered towards dogs and cats, but provide products for other animals
- Offers services such as beauty salons, veterinary clinics, and hospitals
- Missing **pharmacy and pet boarding capabilities**

Market Background

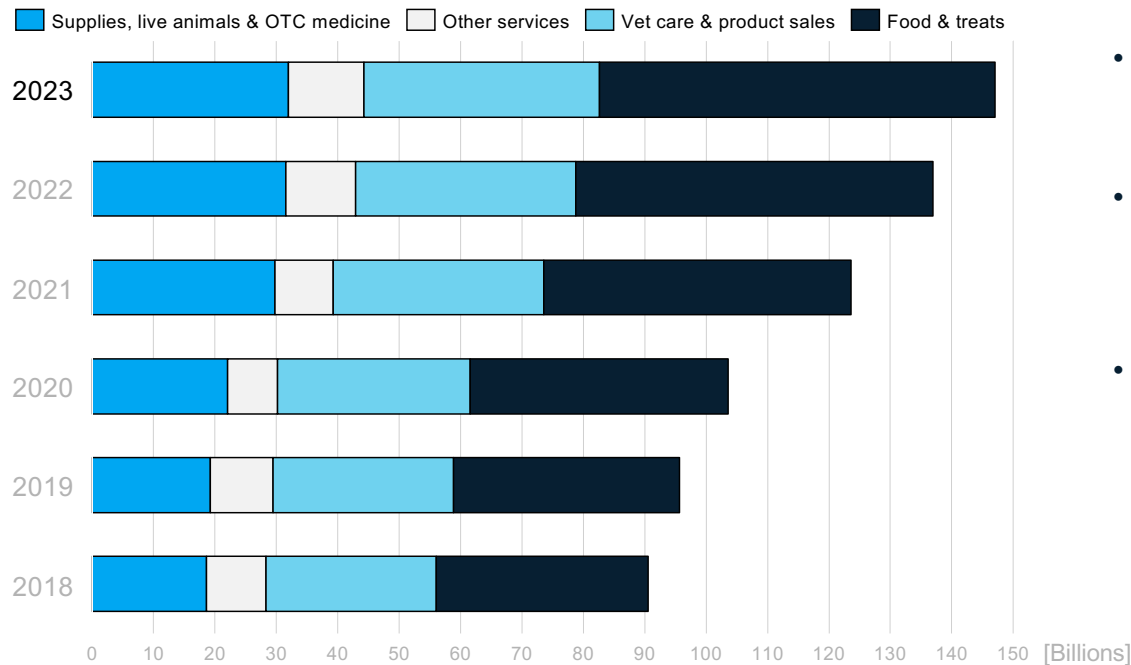
Key Drivers

Geographical Expansion

Subscription Service

Releasing a premium subscription package will increase customer spending across the board

Pet service and product sales growth



Subscription Service Benefits

- Sales growth spans across **multiple categories**, and each category shows **robust market demand**.
- A well-structured subscription service will encourage **more frequent purchases**, and drive spending in **every category**
- Subscriptions provide a **steady revenue stream** that is beneficial for financial planning and ongoing investments



A premium subscription service will have a variety of benefits that support revenue growth




Market Background

Key Drivers

Geographical Expansion

Subscription Service

Providing additional premium services with each tier will incentivize customers to spend more due to pet humanization

Spending on one dog per year in the USA typically ranges from \$1,000 to \$5,500		Iron Tier (\$249/year)	Gold Tier (\$399/year)	Diamond Tier (\$1099/year)
	<u>Grooming Services</u> Premium bi-monthly grooming service (Bath & Full Haircut with FURminator)	✓	✓	✓
	<u>Nutrition Specialist Access</u> Personalized nutritional care including: Nutritional check-ups twice a year and 20% discount on food		✓	✓
	<u>Veterinary Care</u> Comprehensive medical care including: 24/7 Telehealth, Check-ups, vaccines, dental care and bloodwork			✓

Market Background

Key Drivers

Geographical Expansion

Subscription Service

Minimize costs by leveraging pre-existing services, relationships, and infrastructure

Services/Costs		Benefits/Solutions
Personalized Diets – Training costs will be low as PetSmart has 750+ in-store vet clinics and 50k+ pet care associates	▶	Adaptable meal options facilitates ongoing customer engagement , supports the “humanization” of pets
Premium Monthly Grooming – Zero initial costs due to the established grooming service serving 13M+ per year	▶	Regular appointments will increase foot traffic, providing more in-store revenue opportunities
Yearly Check Up – Low fixed costs, standard operating costs	▶	Pet health is a top priority for all, so by offering this service we will entice more customers to pay for the highest tier
Discounts on OTC Medication and Services – No fixed costs, only variable costs based on sales volume	▶	Offering small discounts on a wide variety of PetSmart products and services will drive sales across the board
Marketing Costs – There will be a fixed cost to market these packages to high-spending pet owners	▶	By starting targeted campaigns directed at top spenders on PetSmart Treats rewards and high spending demographics



The benefits of releasing a premium subscription service outweigh the costs

Market Background

Key Drivers

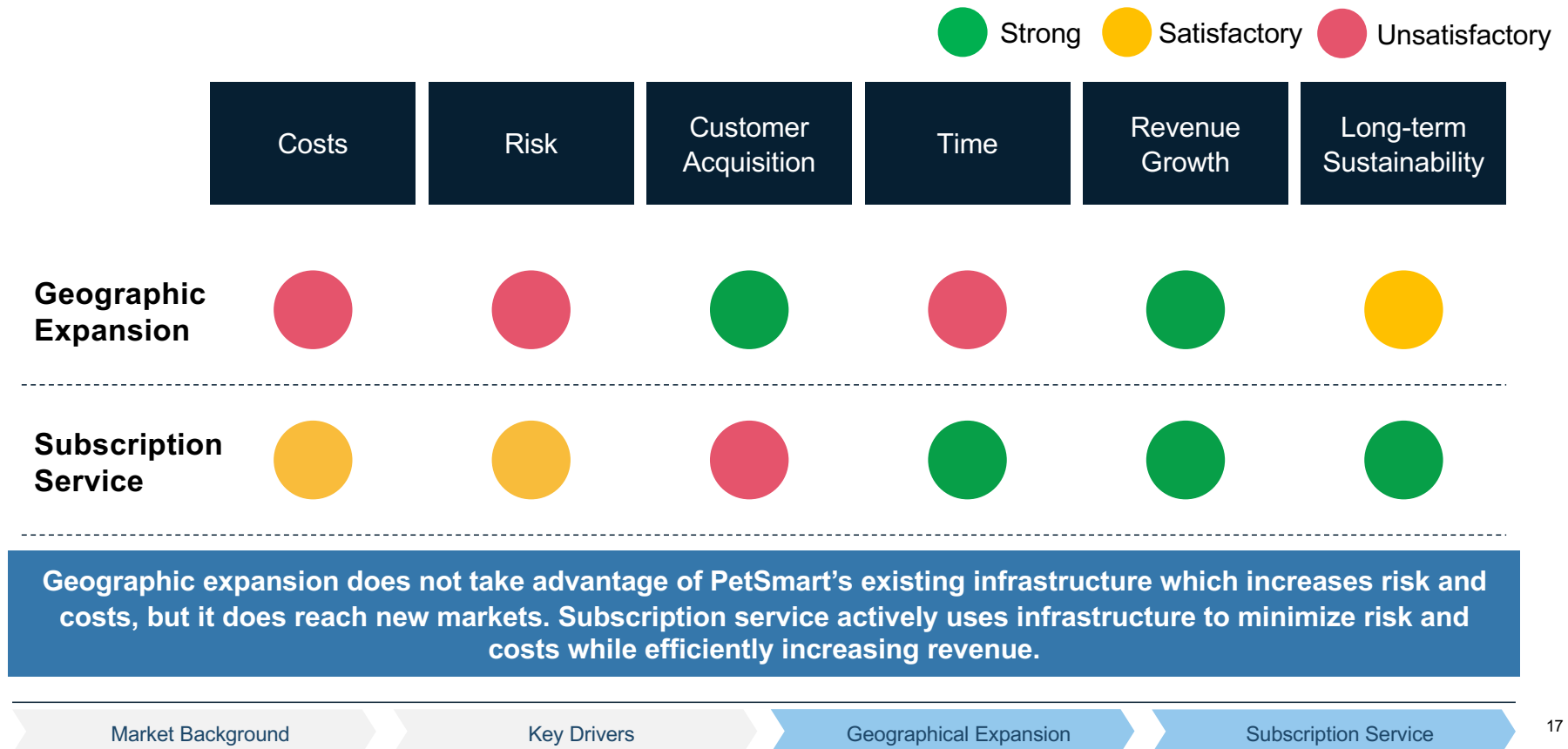
Geographical Expansion

Subscription Service

By acting proactively to implement next steps, PetSmart will be able to effectively minimize risks

Risks	Next Steps
Geographic Expansion	
Pre-existing loyalty to European pet stores may lead to hesitation in shopping at PetSmart	PetSmart provides services and infrastructure that primary European competitors lack
Establishing stores in Europe can require extensive time and resource	Conduct thorough location selection research and resource planning
Currency fluctuations could cause revenue and profit margin goals issues	Find local suppliers and offer localized services so that any losses will be minimized
Subscription Services	
Difficulty in scaling services which require specialized staff and resources.	Create training programs for existing employees will help the program scale in the long-term
Possible misallocation of resources such as over-investment in certain subscription features	Run pilot programs and customer surveys to learn more about customer interests
Mispricing of subscription services may lead to low profit margin or low sales volume	An in-depth pricing analysis with customer feedback will yield a balanced price

PetSmart should prioritize investment in a premium subscription service due to assessment from multiple perspectives



Summary

Strengths



The most stores - wide reach and robust **brick-and-mortar** infrastructure
A **diverse product/service portfolio** - one-stop-shop convenience
Pre-existing services, relationships and infrastructure - **minimal cost** for new strategies

Weaknesses



Limited **customer base** - PetSmart operates only in North America
Non-competitive **pricing** – similar price to competitors such as Chewy and Petco
Weaker **online shopping** - some competitors have higher online sales revenue

Opportunities



Growing pet industry - steadily growing with diverse species and **increasing TAM**
Market trends – younger age, **higher income**, **pet humanization** and **expansion of services**
Geographic expansion - **European market** is large and **competitors lack services**

Threats



High competition - market share divided between **multiple companies**
Subscription risk – **mispricing** may cause profitability and customer loyalty issues
Geographic expansion risk – local European competitors have **established** customer loyalty