

## Written Assignment 2 - ENTR 3400

NAME AND ID:

1. Akid Tamjid Rahman 218080895 Section B
2. Tsz Yan (Fey) Law 219071547 Section C
3. Saikat Ghosh 218354365 Section B
4. Dilpreet Bansal 218803213 Section B
5. Ali Amer 218880286 Section C

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### Lean Startup Mentality

Pets.com: The Rise and Decline of a Pet Supply Retailer Ivey Publishing (Ivey 9B13D007)

### **Executive Summary**

Pets.com, a major participant in the internet pet supply sector, is facing issues that threaten its long-term business existence. High operating costs, aggressive marketing, and severe rivalry have stretched its business model, necessitating a comprehensive long-term plan. A two-pronged strategy is advised to solve these difficulties. To begin, a targeted decrease in operating expenses, with an emphasis on marketing and logistics, is intended to bring immediate relief as well as long-term financial stability. This includes a thorough analysis of expenditures and the execution of long-term cost-cutting solutions. Second, pursuing geographical growth in overseas markets allows the organization to diversify its income streams and expose itself to a bigger client base. Despite the initial expenditure, this strategy can result in a more robust and internationally competitive firm in the long run. Targeted cost-cutting, effective client acquisition, market research for worldwide prospects, and investments in worldwide promotional and logistical infrastructure are among the crucial activities. Increased revenue, better satisfaction with clients, more job stability, employee growth prospects, and closer partnerships with suppliers are all anticipated results. Pets.com hopes to change its business model by adopting these efforts, attaining steady growth, and skillfully navigating the ever-changing online pet supply industry. The suggested approach offers a road map for resolving pressing issues and setting up the business for longevity in a demanding and developing sector.

### **Problem Statement**

#### The Main Problem

The Primary challenge of Pets.com lies in its inability to sustain a profitable business model due to a combination of factors. First, the company has found itself entangled in an exceedingly competitive field within the online pet supply market. The intense competition has forced Pets.com to engage in aggressive pricing strategies and causes it to lower its profit margins. Consequently, the company faces the dilemma of achieving substantial growth while struggling to maintain profitability, these issues can be harmful to pets.com to achieve long-term business sustainability.

## Overarching Issue

Pets.com was facing financial difficulties due to overspending on marketing, including a costly Super Bowl commercial, which had strained the company's funds and made it more expensive to acquire new customers. The absence of a warehouse on the East Coast has been an obstacle to Pets.com's logistical capabilities, it makes Pets.com hard to efficiently compete and manage costs. Additionally, establishing trust in online shopping, especially in the pet supplies industry is a challenge, as customers often prefer in-person shopping for pet products.

## Users and Objectives

1. Pets.com Customers: To go through a simple and affordable internet purchasing process. Consumers wanted dependable delivery services, a wide selection of premium pet supplies, and fair prices.

2. Pets.com Investors:

- I. Owners: The primary goal was to augment the market value and profitability of the organization, guaranteeing considerable returns on their investments.
- II. Shareholders: prefer to see Pets.com demonstrate solid financial stability and market potential, both of which are essential for the long-term profitability of investments.

3. Pets.com Internal Team:

- I. Employees: Focused on contributing to the company's growth while seeking job security and professional development.
- II. Management: They aimed to guarantee effective functioning, contentment among the workforce, and the triumphant accomplishment of the organization's strategic objectives.

4. Pets.com Suppliers: To develop lasting, mutually advantageous partnerships with Pets.com. They aimed for steady demand for their goods, prompt payments, and an efficient supply chain.

5. Pets.com as a Company: To survive in the competitive e-commerce market, it was necessary to balance stakeholder participation, operational effectiveness, and financial stability with customer satisfaction.

## Company Analysis

### External Environment

#### Opportunities:

The trend of e-commerce presents a significant growth opportunity for the company. The pet supply market, valued at \$23 billion, offers a good opportunity for market expansion.

#### Threats:

Pets.com faces a lot of competition from different online pet shops, and also traditional brick-and-mortar shops. The absence of a warehouse on the East Coast increases operational costs, and the company also needs to work on high marketing expenses as well as selling products below the cost which compromises profitability.

#### Internal Environment

##### Strengths:

Pets.com has strong brand recognition, which was achieved through marketing campaigns. The company provides customers with good services and experience. It also successfully generated funding through an IPO, this step can further increase customer trust in the company.

##### Weaknesses:

Pets.com has a problematic business model. Frequently overspent on marketing and selling products at a loss. The company later had questionable financial stability as its stock price decreased. The company is also very limited in its geographic presence, and this pulls back market reach and growth.

#### **Sub-issues**

1. High Customer Acquisition Costs: To draw clients, the business made significant investments in marketing campaigns, such as the creation of its well-known sock puppet. In order to mitigate this, Pets.com had to reevaluate its pricing and marketing plans, concentrating on more effective and economical ways to draw in new clients and keep existing ones.

2. Inefficient Inventory Management: Pets.com's difficulties with inventory control were another problem. The business frequently experienced stockouts, which upset customers and raised operating expenses. This inventory mishandling damaged the brand's reputation and misused resources. To solve this, it was necessary to put sophisticated inventory systems in place and potentially switch to a quick replenishment approach in order to better match stock levels with actual consumer demand, reduce expenses, and increase customer satisfaction.

3. Inadequate Competitive Differentiation: In the highly competitive online pet supply sector, Pets.com likewise had difficulty standing out from the competition. The company struggled to create a unique value offer that would set it apart from competitors in a crowded market. Pets.com struggled to cultivate a devoted customer base as a result of its inability to differentiate itself from the competition, which raised marketing expenses and reduced customer retention. In order to stand out from the competition, Pets.com had to establish and market its unique selling propositions, which may include high product offerings, exceptional customer service, or innovative technological solutions.

Every one of these sub-issues added to the difficulties Pets.com encountered. A plan of change in operations, marketing, and competitive positioning was necessary to address

them. The difficulties of conducting business in the quickly changing e-commerce sector were highlighted by the fact that the company's road to sustainability and profitability remained obstructed in the absence of these adjustments.

### **Alternatives to Address the Problem:**

#### **1: Lowering Operational Costs**

- Long-Term Impact: If cost-cutting initiatives are not appropriately applied, they may influence quality or innovation.
- Short-Term Impact: Immediate cost-cutting advantages, offering immediate financial relief and the possibility of reinvestment. Initial changes and potential operational interruptions may need cautious management.

#### **2: Geographic Expansion – Enter International Markets**

- Long-Term Effect: Revenue stream diversification, reduced reliance on a particular market, and increased overall business resilience. Significant investment is required, as well as knowledge of various markets and associated regulatory complications.
- Short-Term Impact: Increased client exposure, potentially increasing sales and market share. Short-term profitability may be impacted by initial setup costs and marketing expenses.

#### **3: Form strategic alliances with pet service providers.**

- Long-Term Effect: Forming alliances with grooming parlours, vet services, and other pet-related service providers can generate a variety of revenue streams. It adds to Pets.com's value offering by serving as a one-stop shop for pet owners' requirements. Successful partnerships need continuous work in negotiations and service compatibility is critical to the strategy's success.
- Short-Term Impact: The immediate increase of service offerings without the need for major infrastructure improvements is the short-term effect. Increased consumer loyalty as a result of additional services. Initially, the integration of many services may cause operational issues.

#### **4: Improved Digital Marketing and Retention**

- Long-Term Impact: Investing in cutting-edge digital marketing techniques and client retention initiatives can result in a lifetime value boost and enduring customer loyalty. Continuous marketing approach innovation and continual investment in client involvement are required.
- Short-Term Impact: Straightaway impact on client satisfaction and the possibility of a rise in customer retention. Rapid response to market developments. Initial capital outlay for technology and marketing tools.

## Considerations and Comparison

Pets.com must make the selection based on financial health, risk tolerance, and strategic objectives. A hybrid strategy might be considered.

## Recommendation

To solve Pets.com's serious issues, the following detailed proposals are proposed:

### Strategic Operating Expense Reduction:

- For more cost-effective client acquisition, implement long-term cost-cutting methods such as targeted digital marketing campaigns, social media involvement, and partnerships.

### Logistics System Optimization:

- Invest in enhancing the supply chain system's efficiency to simplify procedures and reduce delivery times.
- Form alliances with reputable shipping providers to guarantee quicker and cheaper delivery alternatives.
- Use innovative technologies for real-time supply chain tracking and optimization.

### Market Research and Customer Engagement:

- Conduct frequent customer evaluations and surveys to acquire insights into market trends and evolving consumer preferences.
- Use data analytics to study client behaviour and customize services to changing demands.
- Create a constant feedback platform to respond to consumer complaints quickly and improve overall satisfaction. Putting the client at the forefront of all decisions to guarantee that strategies meet the requirements and expectations of the customer.

Pets.com can negotiate the competitive landscape and position itself for sustained development in the online pet supply industry by deliberately taking these steps.

## Impacts on Users and Objectives

Profitability and firm value increase; higher long-term, sustainable growth:

- Financial Strategies: Putting cost-cutting measures into action, allocating resources as efficiently as possible, and looking into generating new sources of income.

- Innovation: Launching new goods and services, utilizing cutting-edge technology, and outpacing market trends.

Customer satisfaction improves as a result of better efficiency and maybe lower prices:

- Process Simplification: Improving the online purchasing experience from browse to checkout by streamlining stages and eliminating friction.
- Customer Feedback: Researching and replying to customer feedback proactively to resolve concerns and improve satisfaction.

A more sustainable company strategy can contribute to job stability and growth opportunities:

- Staff development and training: Investing in staff training increases their talents and adaptation.
- Diversification of Roles: Allowing employees to take on new duties and contribute to various elements of the organization.
- Internal Mobility: Encouraging mobility inside the organization to retain outstanding employees and build a growth culture.

Increasing efficiency in operations may result in better, more dependable supplier relationships:

- Supply Chain Optimization is the practice of optimizing the manufacturing operation to minimize lead times and costs.
- Communication and Collaboration: Strengthening ways to communicate and cooperate among suppliers to improve accountability and assurance.
- Negotiation Strategies: Negotiating improved terms and conditions with suppliers to ensure a mutually beneficial alliance.

## **Conclusion:**

Pets.com faces a complex problem that goes beyond its current financial and operational issues, to sum up. The overall issue is the requirement to adapt to the fast-changing scene of online purchasing within the pet supplies business. A high cost of operation and severe competition, along with significant marketing expenditures, highlight the need for a thorough change.

Pets.com must not only solve existing financial and operational difficulties but also engage effectively with dynamic advances in both technology and consumer habits to negotiate this challenging terrain. This requires remaining current on technical changes, recognizing changing consumer tastes, and innovating to provide new and appealing value propositions. By using a comprehensive strategy that includes both internal operational improvements and tactical adjustments to outside market influences.