

# **PETSMART: A CASE ANALYSIS**

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## **ABSTRACT**

This case analysis reports on current trends in the pet product industry, discusses the current operations of PetsMart, and report briefly on major competitors in the industry. A teaching note has been prepared. This case is recommended for use in a management course, such as Strategic Management, after discussion of the competitive environment and competitive strategies.

## **INTRODUCTION**

There is a growing phenomenon in the United States and around the world that an increasing number of people now consider pets members of their immediate family and pet owners having a growing desire to pamper their pets. With the growth of Baby Boomers and empty-nesters, couples that do not have children, and more people delaying marriage and children, many pet owners have elevated the status of their pets. The American Pet Product Manufacturers Association (APPMA) reports that consumer spending on pets is expected to reach \$35.9 billion in 2005 and many pet owners will be purchasing luxury pet products [8]. The 2005/2006 APPMA National Pet Owners Survey reports that more than 69 million households (63%) own a pet and 45% of those households own more than one type of pet [11]. The trends of rising pet ownership and greater spending per pet bodes well for PetsMart, the number one U.S. retailer of pet food, supplies, accessories, and services [11].

## **COMPANY HISTORY**

In the mid 1980s the owner of a California pet supply wholesaler thought that he could make more money if he opened retail stores and provided the supplies for those stores. He hired Jim and Janice Dougherty to run his first store called Pet Food Supermarket located in Las Vegas. Eventually 4 more stores were opened in Phoenix. The Doughertys met Ford Smith, a retailer, who had developed a plan for a giant pet supply store while he was in business school. They opened 2 PetFood Warehouses in Phoenix in 1987 and opened 7 new stores in 1988 in Arizona, Colorado, and Texas. PetFood Warehouse became PetsMart, the Doughertys left the company, and Sam Parker became CEO in 1989. Parker and his management team developed a business strategy for PetsMart. In 1993, PetsMart went public and in 1994 the company developed a strategic alliance with Medical Management International, Inc. to create veterinary centers in the stores and the company formed PetsMart Charities which was created to save the lives of homeless pets. At fiscal year end January 30, 2005, PetsMart operated 726 retail stores in North America (25 of which are located in Canada) that range in size from 19,000 to 27,000 square feet and offer over 12,900 items.

## **PRODUCTS & PET SERVICES**

PetsMart offers 3 categories of products that contribute 93% of its revenues in 2004. 1) The pet food, treats, and litter category includes the premium cat and dog foods along with the national brands of pet foods that are typically found in supermarkets and pet stores. This category comprised 39% of revenues

in 2004. 2) The pet supplies and other goods category includes collars, leashes, health and beauty aids, medication, toys, pet carriers, equestrian supplies, aquariums, filters, and bird cages. This category contributes 51% of revenues. 3) The pets category includes fresh-water tropical fish, domestically bred birds, reptiles, and small pets and contributed about 3% of revenues in fiscal year 2004 [1].

## **COMPANY OPERATIONS**

**Strategy:** PetsMart has identified a group of pet owners that it calls ‘pet parents’. These pet owners are passionately committed to their pets and consider their pets to be family members. PetsMart’s strategy is to attract and keep these customers by being the preferred provider for the lifetime needs of pets. This is accomplished through a number of initiatives including expansion, reformatting stores, providing pet services, an emphasis on the customer, and strengthening brand identity.

**Distribution:** PetsMart operates a hybrid distribution system that includes full truckload shipments to individual stores and the splitting of full truckloads among several stores that are located close together. The forward distribution centers handle products that require rapid replenishment. PetsMart operates 9 distribution centers, 6 of which are forward distribution centers, with plans to open a new center in Illinois in the fall of 2005. The distribution network and integrated information system has reduced store inventory, allowed for more efficient use of store labor, improved in-stock positions, and improved distribution center productivity. Suppliers ship merchandise directly to distribution centers where it is received and allocated to the stores. Transportation of merchandise from distribution centers to stores is contracted through third party vendors.

**Suppliers:** PetsMart does not enter into long-term commitments with its vendors. The company buys from several hundred vendors worldwide. However, the two largest vendors account for about 15.2% of fiscal 2004 total sales. Currently, most vendors of premium pet foods do not allow their products to be sold in supermarkets, warehouse clubs, or mass merchandisers. PetsMart purchases a large amount of pet supplies from vendors with limited capacity, thus there is no assurance that these vendors will be able to meet company needs. Overseas vendors may be unable to meet requirements such as timely delivery, acceptable product quality, or packaging and labeling requirements.

**Information Systems:** New technology employing automatic call distribution features and wireless handsets that allow customer service calls to be routed efficiently to the proper area of the store was introduced in 2004. Also introduced in 2004, new pricing label and inventory control systems that will provide the company with real time capabilities for inventory updates and better price control. These systems will be completely in place by the end of 2005. A voice recognition and new technology radio frequency solution for picking product was implemented in all but one distribution center in fiscal 2004. The implementation of price optimization software used to manage base prices and PetPerks prices was completed in 2004.

## **INDUSTRY CONDITIONS**

The 2005/06 APPMA National Pet Owners Survey indicates that approximately 91 million cats and 74 million dogs are members of the 69 million households in the United States that own a pet. The industry, excluding equine, veterinary services, and catalog and e-commerce sales, is expected to grow 6% annually through 2010 according to the APPMA [11]. The pet product industry can be divided into 5 categories: 1) food, 2) supplies/medicines, 3) veterinary care, 4) pet services, and 5) purchases of pets.

## **Industry Competitive Environment**

PetsMart's top competitors include PETCO, Target, and Wal-Mart. However, other competitors include Grocery stores such as Ahold USA, Albertson's, and Kroger; Discount warehouses such as Costco; smaller pet stores such as Fat Cat, J and J Dog Supplies, Pet Valu, PetCareRx, and PetMed; and independent local pet supply stores [4]. The pet food and pet supply retail industry is highly competitive with the entrance of other specialty retailers into the pet food and pet supply market and the expansion of pet-related products being offered by supermarkets, warehouse clubs, and mass merchandisers [1].

### **TEACHING NOTE FOR PETsMART**

#### **Teaching objectives and suggested assignment questions:**

Objectives:

- 1 To apply the concepts of macro environment and industry analysis.
- 2 To apply the concepts of internal company analysis.
- 3 To analyze a leading company in a growth industry.

Suggested Assignment Questions:

- 1 What are the characteristics of the pet products and services industry?
- 2 What macro-environmental factors (driving forces) affect this industry?
- 3 What information does a Porter's Competitive Analysis provide about the conditions of this industry?
- 4 What competitive strategy is PetsMart implementing? Is the strategy working? Is the strategy appropriate given the industry conditions?
- 5 What are the internal strengths and weaknesses of PetsMart? What are the external opportunities and threats?
- 6 What recommendations would you make to PetsMart's management team?

REFERENCES AVAILABLE ON REQUEST