

**Name: Shazeeye Kirmani****Student ID:****Answer 1: Industry Analysis**

The industry that PetSmart competes in is the Pet Care Industry which includes pet food, clothing, healthcare and other pet services. This is an attractive industry with spending reaching \$41 billion/year (number which doubled from a year ago). Americans spend more on pet care than what they spend on movies, video games and music put together. After consumer electronics pet care is the fastest growing at 6% per year. It also is heavily endorsed by celebrities such as Oprah, Paris Hilton and Rachel Ray.

Let's analyze this industry using Porter's 5 forces:

Threat of Rivalry: Moderate but moving towards High

PetSmart owns 30% of the market while Petco another rival owns 20% and the remaining 50% of the market is shared by smaller rivals. The threat of rivalry is moderate as the 2 big players play in different areas. Petco has not embraced the services strategy as aggressively as PetSmart. Petco also focuses on a variety of animals (including iguanas and tarantulas) while PetSmart has less variety. PetSmart stores are located in "power centers" charging lower prices than Petco while Petco is synonymous as the "neighborhood pet store". The reason rivalry is moving towards high as many big companies are entering or wanting to enter this attractive market. Nestle's pet care products outperformed its other divisions. P&G and Polo Ralph Lauren have made it explicit that they are looking at opportunities to enter this market. There are also individual entrepreneurs such as Cesar Millan or the "dog whisperer" and Amy Nichols who started her own doggy day care that make rivalry in this industry moderate but moving towards High.



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Barriers to entry: Low to Moderate

The barriers to entry for this industry are low as is evident by Amy Nichols who quit her sales job to start a doggy day care. If one needs to get into the pet food business or pet health care on the other hand one needs to follow regulations. Overall, pet services such as day care and grooming and couture has low barriers to entry while pet food and healthcare has high barriers to entry.

Buyer Power: Low to Moderate

With the number of burgeoning pet care services pet parents have multiple choices. Since this industry is so fragmented- a single company does not offer all services- pet parents may find it difficult to search for the right service at the right price but with this industry only getting bigger it will soon be easy for pet parents to be spoiled with the unlimited choices. The switching costs are low for buyers.

Supplier Power: Low to Moderate

The suppliers of pet food can also supply to regular food chains and with a few regulations can cater to pet stores. The health care pet industry vertical has a high supplier power with vets requiring specialized services but the rest of the industry the power is low especially the pet clothing and grooming and services industry.

Threat of Substitutes: Low



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The threat to substitutes is low as can be seen in the revenue for this industry. Americans spend more on pet care than what they spend on movies, video games and music put together. As seen having a pet and taking care of it is not easily substituted by other forms of companionship.

Overall this is an attractive industry.

Industry Trends:

The industry will only grow as empty nesters, single professionals and couples without children fill the void of isolation in their lives with a pet.

The industry is currently fragmented and not all services are under one roof and this will only get consolidated in the future with the biggest player with the most market share offering a one stop shop for all services.

Annual growth of 6% and the growing need of isolation to bond with a pet makes this an attractive industry.

The threat from big players entering this industry is viable and capturing market size early on is critical for PetSmart.

Consolidation between services (health care, pet food, etc) is an industry trend and companies merging with their verticals such as manufacturing their own pet food is another foreseeable industry trend.

The most important trend in this industry is how well are you able to connect the emotional needs of pet owners with respect to their pets.

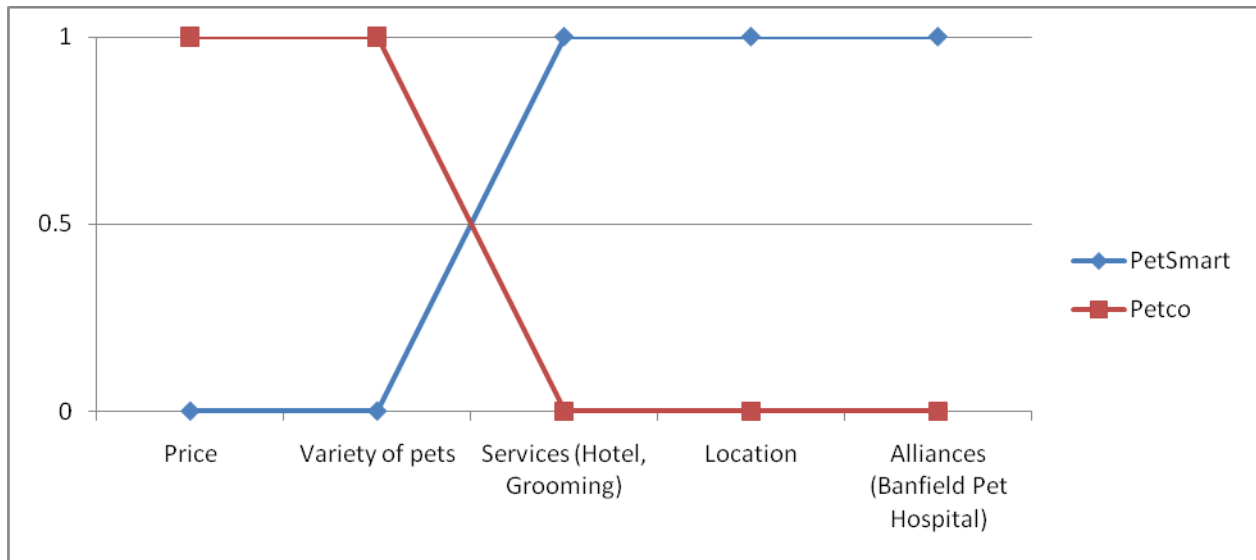


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Answer: PetSmart’s strategy:

Value Curves



Legend: 1 = high and 0=low

PetSmart’s strategy was to connect emotionally with pet owners by providing services (services strategy) such as adoption, grooming, training, day care and pet hotels. These luxurious pet services made pet owners feel that their pets were being treated as well as family and thus commanded the higher market share (30%) of the pet care industry. Petco their rival which held 20% market share concentrated on selling a larger variety of pets at a premium price (11% more than PetSmart). As PetSmart was a services strategy it partnered with alliances such as Banfield to help in hospital needs and its stores were located in “power centers” unlike Petco whose stores were “neighborhood pet stores” and much smaller in size.



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How does this affect the Competitive advantage for the firm?

By focusing on the emotional bond for pet owners, PetSmart commands a greater loyalty and market share. Their focus on providing fish tanks for cats and dog suites for dogs among their many other services instantly connects with pet owners who are more than willing to pamper their pets and increasing their willingness to pay. This emotional focus with pet owners is one of the reasons why Francis was willing to take a loss on a recall for a tainted food product that got sent out accidentally by proactively mailing out owners and even paying vet bills. His focus on quality of the pet hotels instead of rapid expansion is another instance where Francis is more concerned with a strong connection with pet owners that company profits.

With respect to the costs, Francis manages operational efficiency by minimizing the number of items it stocks on its shelf space. He also reduced the average size of the store to better manage costs. The addition of the new hotels bring in added revenue while costs are maintained to a minimum as hotels share the heating, air conditioning etc of the existing stores. The addition of the hotels to the existing stores cuts the cost by half than building a standalone hotel.

Another key difference in the strategy between PetSmart and Petco is that Petco is privately held while PetSmart is not and Francis wants to keep it that way by maintaining the stock price and competitive advantage of the chain.



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Value chain identification

Verticals	PetSmart	Petco
sell animals	extensive: a wide variety from dogs, cats, tarantulas, iguanas, etc	limited: no dogs or cats but smaller animals like fish, and birds
sells pet food	limited treats: snacks, treats, etc	snacks, treats, litter products
sells pet supplies	limited pet supplies	dog collars leashes health and beauty aids, aquariums, bird cages, etc
sells pet services	limited: provides grooming and day care in some locations	extensive: adoption, grooming, training, day care and pet hotels

As seen from the verticals PetSmart has focused more on services to pets while Petco has focused more on selling pets. This seems to be a smart strategy as services are unlimited and recurring revenue sources for a pet while Petco’s strategy is limited once a pet is sold. The critical part of the strategy is the emotional bond created with owners once a relationship is established. Pet therapy can be also equated to human therapy (pet owner). This is one of the reasons PetSmart offers climate controlled rooms for owners who get their pets for services. They also have phones (bone phones) so that owners can talk with their pets if they have gone on vacation.

Fit with competitive advantage/sustainability:

There are high barriers to imitation of PetSmart’s value proposition. Once an emotional bond is created switching costs are high as owners can get comfortable with the level of service and

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emotional value delivered through these services. It will be difficult to provide the level of trust built even if new entrants were to start such a services strategy. Though it's easy to build the dog hotel, PetSmart provides many other services and these integrated activities and resources are difficult to imitate. Also, PetSmart's alliances with Banfield only strengthens its position in the Pet Services industry. Their experience curve in the services industry gives them a strong hold over future innovations in the pet services industry which is difficult to imitate. As they have a strong pet owner relationship it's a network effect that will only spread once certain owners associate themselves for treating their pets at PetSmart thus adding to a sustainable competitive advantage. Also, the favorable market growth helps PetSmart.

Thus this services strategy and connecting with pet owners emotionally as well as the integrated set of activities in the value chain at PetSmart make PetSmart difficult to imitate and help them maintain their competitive advantage. Though PetSmart needs to innovate and provide more to maintain this sustainable advantage. Some suggestions are listed below.

Answer 3: Recommendations to Francis

Using the four actions framework: create, eliminate, raise and reduce I propose the following:

1. Raise: Continue to focus on services and add to these based on trends. For example pet obesity is a big trend hence providing pet diet plans and support will grow the pet food (diet meals for pets) vertical as well as services vertical (customer support), which is recurring revenue and ties into their current strategy.

A limitation of this suggestion is that existing diet plans companies can easily enter this market with some modifications to their food to cater to animals.



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2. Create: Provide pet super stores: hotel, grooming and hospital all in one. Owners will be willing to come to pet super stores. Based on maximum revenue based on location super stores that are a one stop shop for all pet owners can attract and even take away from mom and pop stores. Visiting vets from Banfield (their already existing pet hospital) can be a part of this super store. This will also increase revenue for other verticals. For example, after the dog is treated at the vet the owner may pamper him or her at the spa and then buy the month's food supply at the pet supply store.

A limitation of this suggestion is that a lot of capital is required to create this and Francis is already working on expanding his pet hotels so this suggestion can probably wait once that is implemented and a detailed cost-benefit analysis of this suggestion is carried out.

3. Raise: Owners like to be a part of the pet grooming ritual as it fills an emotional need for the owners. Provide see-through rooms where owners can watch pets being groomed or trained while they wait (instead of waiting in waiting rooms). Remember, this is a business that caters to human needs through the pet. Feelings of belonging, care and connections are expressed through pets and sharing in these activities only strengthens the connection.

A limitation of this suggestion is that this may be a small market (or not). In today's busy world few may want to watch their pets being groomed. Again market research and testing will clarify this point.



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4. Eliminate: As only 2% of their revenue comes from selling other pets such as birds and fish, etc evaluate if you still want to keep that business or use the revenue from there to better focus on the lucrative services, supplies and food verticals at PetSmart

A limitation of this suggestion is that this will change or limit the scope to only dogs and cats.