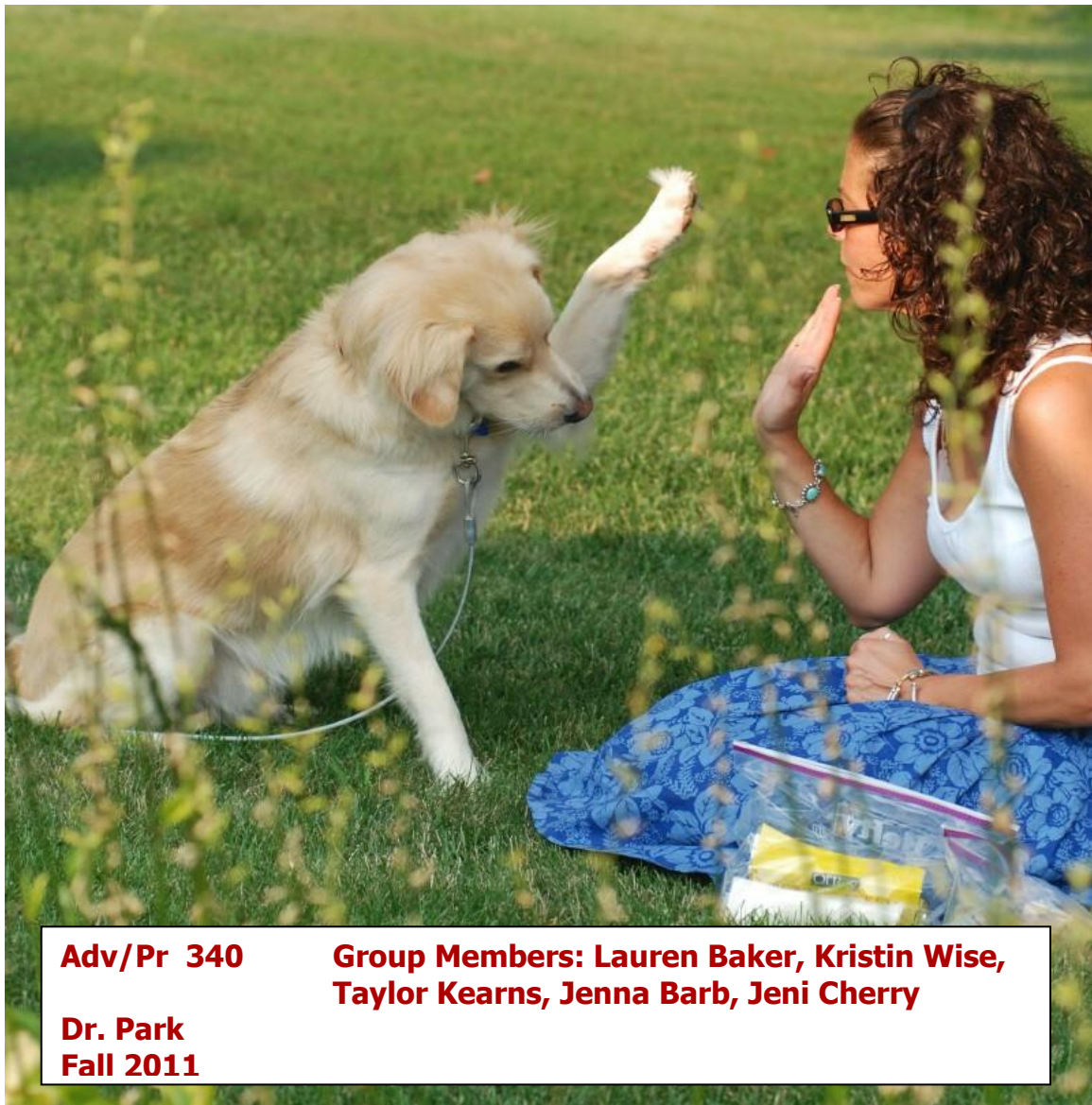




## **Situational Analysis**



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## Introduction

PetSmart was founded on the vision of supplying lifetime care to every pet, every parent, and every time. The idea for the company was hatched by the Dougherty couple in Arizona. This company is at the top of the pet industry and for good reason; they strive for customer satisfaction with great value and friendly service.

The pet industry is an ever-expanding industry with a promising future. Pets are now considered by many as family and this has resulted in the term used by our generation, “pet parent.” A pet parent is someone who values their pets as part of the family and

is willing to surpass basic needs in order to provide their pet with a luxurious lifestyle.

The following situational analysis is compiled of information regarding the client, PetSmart. This analysis will give insight on the history, workings, financial statistics, competitor information, and future expectations for the industry. The report provides detailed facts regarding the current industry and economic factors, specific information on PetSmart and its main competitors, and finally facts on pet industry consumers and how best to target them.

## Industry Overview

### Brief History

Jim and Janice Dougherty first conceived the idea for a pet superstore in 1986; however, the first two stores did not open up until 1987. The stores opened in Arizona and were called PetFood warehouse. Shortly after opening, the names changed in 1989 to the official and current name, PetSmart. The company started out by opening each store individually but then began to buy out smaller chains to better adapt to the quickly growing market.

In the following decade PetSmart expanded its business by offering a variety of services. It

began to offer full-service pet salons, mobile pet clinics, an equine department, pet adoption centers and the list continues to grow. It also branched out by selling a variety of pets, such as birds, fish, hamsters and exotic animals. Many other companies joined in the brand

Timeline

**1965** – Walter Evans opened veterinary supplies business called UPCO

**1976** – Evans opens first retail store in California

**1980** – PETCO opens first store outside of California

**1986** – PetSmart founded by Jean and Jim Daugherty as Pacific Coast Distributing, Inc

**1994** - PetSmart Charities was founded

PETCO went public as the largest pet specialty retail chain in the industry

**1999**- PETCO Foundation was established for charitable giving to animal-related causes

**2000**- the poor market led PETCO back to private ownership

**2001**- Launch of PETCO. com

**2003** – PetSmart opens first three PetsHotels

**2007** – PetSmart opens its 1000<sup>th</sup> store

Many of its efforts went into preventing pet overpopulation and euthanasia. Present day it is still extremely active in many charitable organizations and have developed PetsHotel, a safe and comfortable place for pet owners to leave their pets during a trip.

expansion during this time period as well.

Not only did PetSmart expand its company in the competitive market but it also began charitable foundations and in 1994 formed PetSmart charities.



The current trend in the pet superstore industry is focused on pet health. PetSmart is promoting nutrition for animals by using natural products. Even through the economic downturn people are treating their pets like family and are becoming increasingly conscious of the health of their pets. They are

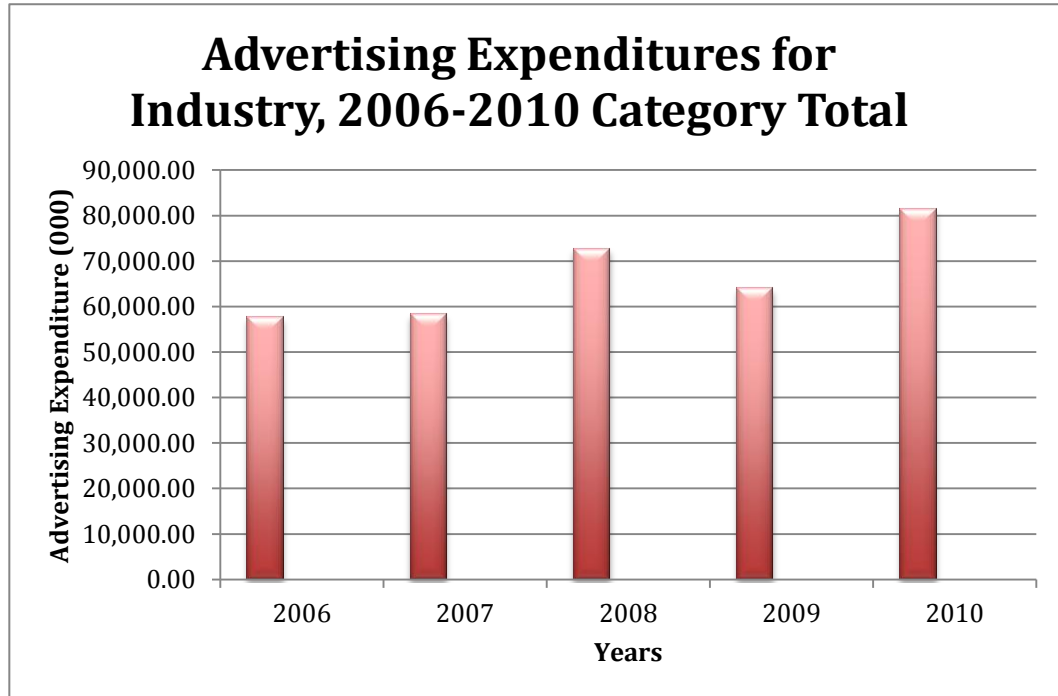
currently moving away from the “mart” mentality to the “smart” mentality when it comes to caring for your pet.

On the opposite side of the spectrum places like WalMart and KMart are offering products at extremely discounted prices to attempt

to take away part of places like PetSmart and Petco’s markets.

Size of Industry Sales

The Pet Superstore industry has seen a steady increase over the past five years. Even through the United States’ economic crisis the pet industry has consistently increasing revenue.



AdSpender 2010

## Competitors

PetSmart’s primary competitor is PetCo. Between the two companies they are the leaders in retail for the pet industry. In 2008 they had a combined sales of almost \$8 billion. (2-290) Petco alone had sales over \$2.7 billion in 2008. They have been able to increase rate of sales at a healthy pace since 2000. They have similar values and concepts as PetSmart. (2-295)

The rest of the market is made up of companies targeted towards discount prices such as WalMart, Pet Supplies Plus, or smaller private companies. (2-297)

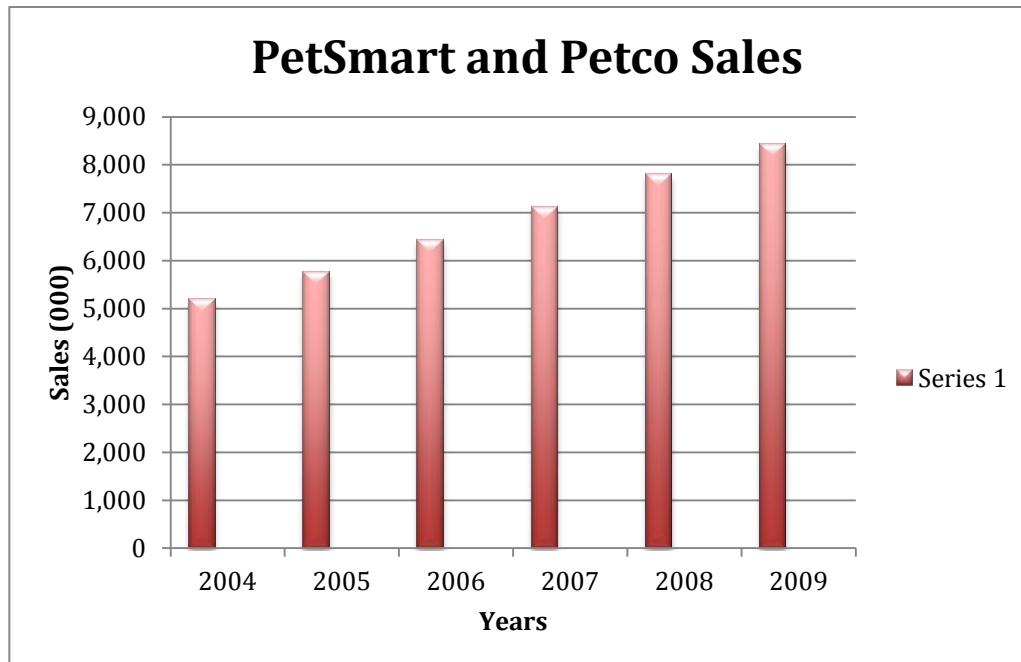
Advertising

During the past five years the amount spent on the advertising industry has generally increased, with the exception of a slight decline in 2008. According to AdSpender, the main media outlets are network, cable, television and magazines. In the earliest year over 242 million dollars were spent on the industry; this increase has continued all the way to the last year of

statistics available, which is 2010. In 2010 over 678 million dollars were spent on the advertisement industry. If you break down the expenditures by quarters you will see that the most money was spent in the third quarter (July1-Sept. 30). This trend in advertisement is most likely a result of pet owners being more active during the warmer months.

## Stages in the Product Life Cycle

The Pet superstore industry is in the growth stage of the product life cycle



## Seasonality

According to media expenditures, the pet supermarket industry spends the most advertising money during the second and third quarters. The industry spends more money during the warm months of the year. (AdSpender) It is safe to assume that the reason behind this is a result of pet owners wanting to spend more time outdoors with their pets and people are inclined to be more active during the warmer seasons. This then results in the need for more supplies (i.e. toys, treats for training, leashes, etc.).

## Growth Potential/Forecasts

According to Packaged Facts the pet market outlook is very good. The

leading share in the market right now is veterinary services. In 2009 sales in this category increased by 10 percent and had a projection of a 6 percent sales rate increase in 2010 and 2011. (2-6) With the advancement in medical supplies and procedures for pets, along with an increase in the importance of the “pet-parent” relationship, the veterinary market will consist of 41 percent of sales by 2014. (1-25)

## Economy

Despite the recent economic downturn, many people continue to be attached to their pets and are becoming more conscious of the health of their pets. The fact that pet ownership is increasing reinstates the positive outlook

on the pet market, helping to put the industry in a recovery phase. According to American Pet Products Association President Robert Vetere, "People become more attached to their pets in times of uncertainty and stress, so we continue to reward them for their unconditional love and companionship. Couple this with the trend of humanizing products and services for our pets and the result is an overall increase in spending so we can strengthen that human animal bond."(1-10)

Pet products and service rose by 5 percent in 2009, adding two and a half billion to the market during the recession. The retail sales industry has been projected to increase by 2.5 percent throughout 2010. Housing and employment are also supposed to improve. The economy is slowly but surely recovering. (1-5)

### **Legal & Regulatory Issues**

There are very strict regulations within the pet industry. Organizations like the Food and Drug Administration (FDA), American Pet Products Association (APPA), the US Environmental Protection Agency (EPA) and the Pet Industry Distribution Association (PIDA) work to help enforce these laws at local, state and federal levels. These regulations apply to anyone in or looking to become a part of the pet industry. Laws have been put in place to monitor and regulate the labeling, sale and production of all pet products as well as shipping, handling, and sale of animals. (13)

The FDA works hand in hand with the department of agriculture for each state on a general scale to regulate the manufacturing and distribution of pet food and more specifically every single

ingredient used has to meet certain standards depending on the state. In 2007 the Food and Drug Amendments Authorization Act required the FDA to spread new laws for pet food by 2009 and under the Bioterrorism Act, all food must be registered with the FDA. Most states have very particular procedures for registering all pet products sold. (13)

Products that fall within the category of pesticides must register through the EPA. Like registration for pet food, there is also a registration fee concerning

Pesticides. (2-25) Some products may be excluded from the Pesticide list, if and only if, all ingredients are exempt. (13)

There are many strict regulations about the sale and transportation of animals in the United States.

Registration forms must be filled out and transportation must take place within a certain and quick timeframe to best benefit the animal. The Animal Welfare Act (AWA) sets a minimum of standards for the handling of commercial animals. The purpose for shipping or transporting the animal must be clearly defined and approved. (8) Currently in Glendale, California the City Council has been trying to ban the sale of dogs and cats within the city limits. Organizations like PIJAC (Pet Industry Joint Advisory Council) are fighting against bans like this because the results will not be positive for the pet. (11)

Societal & Cultural Considerations  
The most popular cultural trend in the pet industry right now is that of the "pet parent." The human-animal correlation is what Packaged Facts calls an "untapped goldmine." (1-23)

**Pets as Family:**

In 2009 75 percent of cat owners agreed a lot that they would consider their cat as a family member, 77 percent of dog owners agreed a lot, and 73 percent of all pet owners agreed a lot that their pets are a part of the family. (2-57))

This trend is great for the pet industry because the *U.S. Pet Ownership & Demographics Sourcebook* showed data that suggested that those who consider their pet as family tend to spend more money on their pet than those who don't. (2-56)

### **Traveling and Pets:**

As people follow the trend of being a "pet parent" they also become more inclined to follow other trends, like traveling with their pets. This has opened up an entirely new aspect to the pet industry with airlines and hotels providing pet oriented alternatives.

Under the Safe Air Travel for Animals Act, effective in June 2005, requires airlines to report all incidents involving animals to the Department of Transportation's Aviation Consumer Protection Division (ACPD). This has brought about a new form of emphasis on pet travel and has inspired services like Delta's Pet First. (1-72).

When pet owners cannot bring their pets with them there are options like PetSmart's PetHotels, a service that allows the owner to leave their pet in a safe and reliable environment while they are absent. (9)

### **Green Movement:**

The pet industry is no exception to the fast-growing trend of going green. This green movement is beneficial for the animals and for companies' business aspect. The green products draw customer appeal and changes like the one that Cardinal Labs in Azusa, CA have made, switching their plant to run

on solar power, helps save money as well. (1-65)

### **Mobile Grooming and Veterinary Care:**

Right now there is only a small following but this type of grooming is the hottest trend in the grooming industry right now. PetCo has recently paired up with Aussie Pet Mobile, who was named #1 in the pet category of *Entrepreneur's* magazine Franchise 500 list. (1-73)

Packaged Facts predicts that mobile veterinary care like ambulances will hit a high growth rate within the next few years as well. (1-74)

Total us pet industry expenditures 2001-2010

AdSpender

