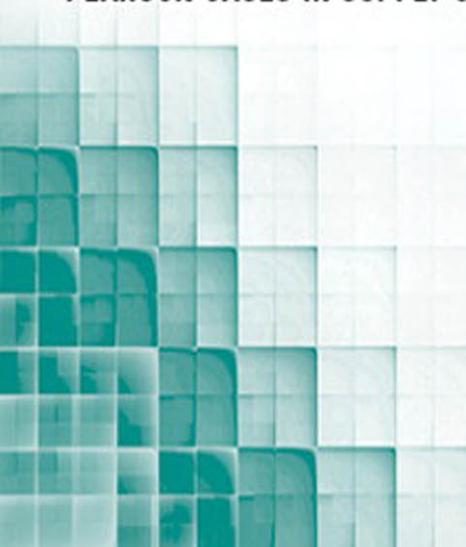


Maintaining Financial Success and Expanding into Other Markets at FeedMyPet.com

MATTHEW J. DRAKE

with Charles A. Wood, Duquesne University

PEARSON CASES IN SUPPLY CHAIN MANAGEMENT AND ANALYTICS



The case is reprinted from
The Applied Business Analytics Casebook
by Matthew J. Drake

Maintaining Financial Success and Expanding into Other Markets at FeedMyPet.com

Matthew J. Drake
with
Charles A. Wood, Duquesne University

Vice President, Publisher: Tim Moore
Associate Publisher and Director of Marketing: Amy Neidlinger
Executive Editor: Jeanne Glasser Levine
Operations Specialist: Jodi Kemper
Managing Editor: Kristy Hart
Project Editor: Andy Beaster
Compositor: Nonie Ratcliff
Manufacturing Buyer: Dan Uhrig

© 2014 by Matthew J. Drake

Publishing as Pearson

Upper Saddle River, New Jersey 07458

Pearson offers excellent discounts on this book when ordered in quantity for bulk purchases or special sales. For more information, please contact U.S. Corporate and Government Sales, 1-800-382-3419, corpsales@pearsontechgroup.com. For sales outside the U.S., please contact International Sales at international@pearsoned.com.

Company and product names mentioned herein are the trademarks or registered trademarks of their respective owners.

All rights reserved. No part of this book may be reproduced, in any form or by any means, without permission in writing from the publisher.

ISBN-10: 0-13-382222-2

ISBN-13: 978-0-13-382222-9

Pearson Education LTD.

Pearson Education Australia PTY, Limited.

Pearson Education Singapore, Pte. Ltd.

Pearson Education Asia, Ltd.

Pearson Education Canada, Ltd.

Pearson Educación de México, S.A. de C.V.

Pearson Education—Japan

Pearson Education Malaysia, Pte. Ltd.

Reprinted from *The Applied Business Analytics Casebook: Applications in Supply Chain Management, Operations Management, and Operations Research* (ISBN: 9780133407365) by Matthew J. Drake, Ph.D., CFPIM

Maintaining Financial Success and Expanding into Other Markets at FeedMyPet.com

Charles A. Wood, Duquesne University

Introduction

The first-ever 10-Q quarterly financial reports have just been filed with the SEC (U.S. Securities and Exchange Commission), and John McCloud is very happy with his company's performance so far. FeedMyPet.com just conducted its first IPO last month, and has raised an amazing \$89 million after only one year in business (see Exhibit 1). After starting FeedMyPet.com last February, just a little over a year ago, Cindy Jones, FeedMyPet.com's COO (Chief Operating Operator), joined John McCloud, founder and CEO (Chief Executive Officer) of FeedMyPet.com, to review the year's company activities.

Like many new startups, FeedMyPet.com had a rough time getting started. Expenditures were high, especially in the area of advertising, which was necessary to increase name recognition. There were also some problems with an inadequate business plan formulation and a lack of initial market research that caused some industry analysts ("negativos" as McCloud calls them) to be unenthusiastic about the company, but the market has spoken, and McCloud couldn't help but smile as he thought of the investing community—the true visionaries

in the business world—who flocked to the recently held IPO. The additional capital will allow the firm to accomplish amazing things.

FeedMyPet.com is an online business that sells pet food, pet accessories, and pet supplies direct to consumers over the Internet. The public offering raised so much money that FeedMyPet.com was able to purchase its main competitor, KennelTime.com, leaving it to rule the entire online pet marketplace. McCloud attributes his vast success to several factors:

- FeedMyPet.com has a dedicated support staff of 280 people (whereas most online pet shops have around 30 employees). This staff is much more responsive to customer needs than the skeleton staff at other online pet product companies.
- FeedMyPet.com offers free shipping. Dog food bags and cans are heavy, and the cost of shipping can approach the cost of the dog food. Some competitors have tried to pass these costs on to the consumer, thus alienating the client base; but FeedMyPet.com did not make that mistake and has been rewarded with the largest market share of any online pet product retailer.
- FeedMyPet.com has an advertising campaign that spans across a variety of media, including TV, print, radio, web-based ads, and even its own FeedMyPet.com magazine. This marketing was important, especially right before the IPO, when advertising drove up the price of the initial stock!

The advertising campaign started last year with a 5-city advertising campaign rollout and has now expanded to 10 cities, and has finally gone nationwide with a \$1.4 million Super Bowl ad that introduced the country to its answer as to why customers should shop at FeedMyPet.com: “Because Pets are People Too!” The cute ad featured a large man in a dog costume, won several awards, and had the highest recall of any ad that ran during the Super Bowl. Name recognition was at an all-time high. After the ad, FeedMyPet.com went public with an IPO that raised millions. McCloud is sure that extensive advertising has

played a large part in FeedMyPet.com's success and that the advertising budget will continue to grow to ensure that the company remains successful.

To deliver pet supplies, FeedMyPet.com made significant investments in infrastructure such as computer networking and data warehousing. FeedMyPet.com's management maintained that the company needed to realize a revenue run rate that supported this infrastructure build-out. McCloud's fellow executives believe that revenue needs to approach \$400 million to hit the break-even point, and that it will take a minimum of four to five years to hit that run rate. But investors are still on board; with the stock price on the way up, McCloud perceives no problem with cash flow at FeedMyPet.com.

As McCloud and Jones contemplate the future, they discuss two important topics that require Jones to conduct some additional investigation:

- **Maintaining financial success**—Clearly, FeedMyPet.com has become the de facto leader in the online pet products industry in a fairly short time. Investment and revenues have followed this market leadership. How might FeedMyPet.com's leadership leverage into other ventures? And how does FeedMyPet.com not only dissuade future online competitors, but also coerce current offline "bricks and mortar" shoppers to move their shopping for pet products online?
- **New marketing plan**—Marketing has clearly been the key to FeedMyPet.com's success. The Super Bowl ad drove up investment, and all the previous marketing campaigns have increased market share. Now that FeedMyPet.com is flush with capital, additional marketing plans should be considered.

With so much available cash, McCloud feels comfortable in attacking these issues. McCloud and Jones have discussed various responses to these topics, and the \$89 million that they have raised in the recent IPO will fund strategies that heretofore have not been possible.