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Case study: PetSmart searches for a sustainable strategy

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PetSmart Searches for a Sustainable Strategy

Abstract

This case details a PetSmart's struggle to find a sustainable strategy. It was started as a "big box" pet specialty category killer store in 1986. It went public in 1993 and rapidly expanded through acquisition. It focused on product variety and price which put it in direct competition with mass merchants, especially discounters and wholesale clubs. Loses in the 1990s led the company to hire Philip Francis to turn the operation around. As a result of restructuring dictated by Mr. Francis, PetSmart became profitable. Its supply chain was improved by adding distribution centers, standardizing and down-sizing stores, improving product quality, increasing services offered, moving away from a low price orientation, and developing a customer and pet friendly in-store experience. Robert Moran took over leadership of PetSmart in 2009. His emphasis has been on realizing the humanization of pets as members of the family, focusing on PetSmart's target market, increasing store productivity, and adding new stores more slowly.

The Pet Market in the USA

Americans love pets. In fact, approximately 62 percent of households have at least one pet. They own approximately 172 million fresh water fish, 94 million cats, 78 million dogs, 15 million birds, 14 million small animals, 13 million horses and 11 million salt water fish. Total spending on pets for 2010 is estimated at $47.7 billion. Pet food alone accounts for $17.6 billion followed by vet care at $12 billion, supplies/OTC medicine at $10.4 billion, pet services at $3.4 and animal purchases at $2.2 billion[1]. Table 1 below itemizes the average annual cost of maintaining of maintaining dogs and cats by category of spending. It shows that while pet food is important other expenses, especially veterinarian expenses, make up a larger portion of the total.

Table 1 Average Annual Amount Spent on Dogs and Cats

Cost category	*Dogs*	*Cats*
Surgical vet visits	$555	$278
Kennel boarding	273	225
Food	229	203
Routine vet visits	225	203
Groomer/grooming aids	66	22
Treats	4	37
Vitamins	61	28
Toys	40	19

Source: American Pet Products Association, 2012

Retail Structure/Competition

Because the market for pet food is large, it is sold through numerous retail channels: supermarkets, pet superstores, mass marketers, farm and feed stores, vets and kennels, warehouse clubs, and other stores. More recently dollar stores, drug stores and internet retailers have expanded their offerings in pet food, accessories and medical related items. Table 2 below details the share of sales by channel and the sales trend [2]. The U.S. Census of Retail Trade reported 7,626 pet and pet food supply stores with sales of $7.6 billion in 2002. Five years later there were 8,782 stores with sales of $11.4 billion. Average sales per store jumped 29 percent to almost $1.3 million. The industry was highly fragmented until 1990 when pet food superstores like PetsMart and PETCO began a consolidation of the industry. The 2007 Census shows the top four firms with 2,039 stores, $7.1 billion in sales and average store sales of almost $3.5 million. The remaining stores averaged only $641,000 in sales[3]. Clearly, the big box category killer superstores are marginalizing the smaller stores and firms.

Table 2
Pet Food Distribution Channels

Channel	*Share of Sales*	*Trend*
Supermarkets	39	Up
Pet superstores	21	Up
Mass merchandisers	22	Up
Farm and feed stores	8	Flat
Vets and kennels	7	Flat
Warehouse clubs	3	Up
Other	7	Down

Source: Mintel, The Pet Food & Supplies Market, 2007

PetsMart's Situation (1999-2001)

In 2001, PetsMart was a national pet retailer operating 484 stores. It started in 1986, went public in 1993, and grew rapidly mainly through acquisition of regional specialty stores[4] (see Appendix A). As a publicly traded company (PETM), it was experiencing stagnant growth across the chain and a declining stock price ($29 to two dollars a share from 1997 to 2001). Gross profit had declined by three percentage points from 2000, and operating costs had climbed seven percentage points, negatively impacting the bottom line. Growth from new stores was also problematic. Incremental store openings totaled just one from 1999 to 2001. Sales per square foot were declining: in 1999 sales averaged $177 per square foot, 2000 sales averaged $163, and 2001 sales averaged $160. Comparable store sales growth was equally alarming at 6.3 percent, 4.6 percent, and 1.4 percent in 1999, 2000, and 2001 respectively. Debt to equity was sharply rising, with

PetsMart reporting negative asset gains from 1999 to 2001. PetsMart's costs were growing quickly, with no offset from revenues[5] (See Appendix B).

The problems faced by PetsMart could be attributed to their warehouse strategy, which offered bulk product at the best price. Stores operated on low labor costs and minimal services resulting in a lower price. Supply chain issues were part of PetsMart's problem, with Mr. Francis commenting that "PetsMart's distribution model was of 1960's design". Challenges affecting PetsMart included:

- 30 day lead time for product to reach stores.
- 36,000 square foot stores with 16,000 square feet dedicated to back stock.
- $750,000 tied up in inventory at each location.

PetsMart also realized very little revenue from ancillary services. In 2001, ancillary services, such a grooming, accounted for five percent of total sales with little room to expand[6].

PetsMart's downward spiral was due to competition, distribution, and supply chain inefficiencies. PetsMart's competition came primarily from two sources: mass channels such as Walmart and Target, and pet specialty channels such as PETCO and regional independents. Mass channels were price focused; building their brands on value and convenience. During 2001, mass retailer Wal-Mart was expanding at a rapid rate. They were nearing 3,500 stores nationwide, and located within five miles of most American residences. With Walmart controlling price, scale, and customer traffic at their supercenters, competing head-to-head on a price strategy guaranteed little chance of survival. Target's approach was similar to Walmart's. They targeted Wal-Mart's low price and increased theirs by a few cents. Target was more concerned about creating a customer experience to attract the middle income shopper rather than competing on price alone. In contrast to Target, Mr. Francis commented "in 2001, PetsMart looked like Home Depot having a bad day"[6]. Their warehouse store was under a price attack by mass competition, and their stores were not in position to offer consumers a differentiated shopping experience. Mass channels were driving the margins out of consumables, pulling customers into their stores to capitalize on profitable hard goods.

With PetsMart trying to combat the increased competition on price from the mass channels, PETCO and other independent channels began challenging PetsMart distribution. Offering similar brands and products, PETCO was winning with a customer service approach. Their core customers looked to "pamper" their pets, through upscale goods and consumables. They were not as concerned about mass channel attack on price, as their profitability involved higher price points to drive profit margin. In PETCO's model, guests were willing to trade price for an improved shopping experience. PETCO maintained steady growth, and their distribution outlets were similar in number to PetsMart's.

Another issue pressing the survival of PetsMart was the change in product distribution driven by venders. In 2001 Procter and Gamble decided that their newly acquired brand Iams was suited for broader distribution. In 2000 Iams was sold exclusively through pet specialty channels and independent retailers. Iams was introduced into the mass channel in 2001, instantly causing a negative effect on PetsMart's sales. The volume loss from competition on a differentiating brand was substantial, as was the reduction in consumers entering the store. Mr. Francis concluded that "Initially Iams going mass costs us two percent in sales revenue, and two percent due to [consumer] trip revenue.[6]" Procter and Gamble was not the only major brand opening distribution to mass channels, multiple vendors followed suit, fueling a price war.

In 2000 PetsMart stores had about 700 square feet dedicated to services, primarily grooming. Services accounted for three and a half percent of total store space. "We used to have to conduct [dog] training in the backroom." Ancillary services at PetsMart initially had little traction. "There has always been a market for boarding dogs and cats, usually by a mom and pop facility. Boarding locations were systematically under-capitalized." Veterinary services were inexistent as were day care offerings for working or vacationing families' pets. Service was not a part of PetsMart's warehouse strategy, nor was online shopping. PETS.COM, a competing e-retailer, quickly realized what Mr. Francis described as a "density of volume" problem. "A $20 bag of dog food costs $20 to ship. A $60 Dog-Gloo costs $60 to ship.[6]"

PetsMart was competing in an industry whose profitability anchored on hard goods such as leashes and toys, yet whose survival was conjoined with consumables such as food and treats. Low margin consumables were used to drive customers to the store, in which they would then fill their shopping carts with high margin hard goods. Consumables were split by species, with dog items anchoring sales with 80 percent of total volume. Within the consumable side of the business, the major players included Mars (Nutro), Purina, Masterfoods, and Procter and Gamble (Iams). Each brand also distributed product offerings across various types of retailer. In order to encourage trading-up, pet stores place their premium products on front shelves, and the widely distributed grocery and mass products in the back of the store.

Decisions to Be Made

Before joining PetsMart as president and chief executive officer in March 1998, Mr. Francis was president and CEO of Shaw's Supermarkets and corporate vice president of wholesale for Roundy's, Inc. He had spent his career in and around the grocery channel, and understood the power of supply chain, operations, and retail administration. He had been on the board of directors for PetsMart since 1989, but as he said in a college presentation, "you learn quickly that middle managers have a better idea of where the company is heading, than the members of the board."[1] Mr. Francis' time spent as a member of the board turned into full control after a planned succession fell through. Upon becoming CEO, Mr. Francis was very concerned about how to build trust. "I was very careful to watch how I used my pronouns when I joined PetsMart. I made sure I asked 'how is *our* business' instead of 'how is *your* business'. I always framed it as though I had been there for years by asking 'what did *we* do…"[7]

Mr. Francis immediately began laying the groundwork for future growth. "We started off pretty sober, knowing that of every five turnarounds, four are not successful. If there's anything we did to begin the turnaround process, it's simply that we took the view that we needed to fix the core business and its broken elements. At that time, we weren't focused on growth, on branding, or on any of the fancy things. We had a company where inadequate infrastructure was the issue, and we methodically began with that work first."[8]

Mr. Francis entered the business competing against "category killers", retailers standing on two legs – dominant variety and dominant price. With the colossal growth of Walmart, who was offering exceptional variety and price, "I saw the need to add more legs to the two-legged stool. Why [would consumers] come to a bad looking store just for price?" Continuing to compete head to head with mass retailers solely on price was not an option for PetSmart.[6]

Pressure on product assortment was also a concern. When Mr. Francis took control of PetsMart in 1999, he presented a challenge to senior management. "What happens when one of our key exclusive brands go mass?"[6] Mr. Francis began generating ideas to combat such a problem, so when Iams began distribution into the mass channel in 2001, PetSmart was prepared. Mr. Francis was also looking at ways to utilize scale, and ways to create an environment that would offer more then just low priced dog food.

From PetsMart to PetSmart

Upon assuming control Mr. Francis immediately began drawing from previous experience to identify inefficiencies in the supply chain. As for profitability measures, strategically placed distribution centers would weed out almost $80 million of excess inventory, freeing up cash and increasing the profitability of PetSmart. Distribution centers would also decrease store inventory and shipment lead times. Within a year of his assumption of control, PetSmart developed three central distribution centers, two for consumables and one for hard goods.[6]

While working on supply chain issues, Mr. Francis also identified the situation as a chance to change the dynamics and direction of the company. Mr. Francis systematically left the warehouse culture and began to focus on shopper experience. He changed the capitalization of the firm's name, from PetsMart (The dog food mass merchandiser) to PetSmart (the place for "pet parents" to find positive ways to improve their pet's life).

He changed the prototype store to a smaller footprint, from 36,000 square feet to 26,000 square feet, as excess inventory would now be kept in the DCs instead of the back room of stores. This increased the percentage of selling space and improved store productivity. He also looked at methods to change the dynamics of the store front. Mr. Francis' challenge to add "more legs to the stool" soon developed into a winning strategy. "We became a five legged stool focusing on price, variety, customer service, in-store experience, and ancillary services."[6] PetSmart was shedding their warehouse pedigree and looking to create a shopping experience for pet parents and their pets.[6]

In migrating away from a low price strategy, Mr. Francis identified other potential drivers for shoppers to enter the store. Pet services were a growing industry, and could be used to generate loyalty and excitement in store. Grooming services were already in place, but did not generate the traffic and profitability necessary for growth. PetSmart began looking at offerings such as veterinarian clinics (PetsHospitals), and day/night care facilities for owners leaving on work or vacation trips (PetsHotels). Services requiring less capital were also developed, including pet photography and in-store training. "Pet Photography is a much bigger, higher margin service then most realize."[6]

PetHotels, a day/night care for dogs, began as an idea from the creator of Alpha Graphics, a Kinko's-like company with 1,500 stores in 17 countries. When the founder brought the idea to Mr. Francis, he initially approached the concept with reservation. Initially, Mr. Francis opened a 5,000 sq. foot addition to a local PetSmart and continually expanded the idea. With input from customers, and increasing popularity in testing markets, a larger 7,000 square foot PetsHotel was opened. This facility added expanded play space for dogs, as well as various activities and feeding treats. "Unlike Hilton and Sheraton, PetHotels business is highest on the weekend, with pet owners leaving out of town."[6] PetHotels offer 24 hour care for visiting pets, clean facilities, and recycled air every two to three minutes.

"We have a morning snack, which is dairy-free frozen yogurt and afternoon 'Yappy Hour'. We also have 'Doggie Day Camp' for all our hotel guests. The dogs go to supervised play time throughout the day. We have a phone booth. The owner can call in, and your 'friend' can meow or bark at you. It's a speakerphone, so if the human is in tough shape and needs to hear from their dog, we can respond to that need. Our guests drink filtered water. We turn the air over every few minutes. We have suites that include a cot with a fleece blanket and a television turned to Animal Planet. People are thrilled to have the choices. It's kind of a guilt reliever for the human who has to abandon their pet for a short time."[9]

One of the reasons PetSmart has been able to capitalize on the PetHotels concept comes from decisions based on scale. "It costs $1.1 million today to add a PetHotels. It costs $2.6 million to build a free standing hotel. Expanding a PetHotel involves extreme capital efficiency." Mr. Francis also added, "We can also put a vet in there all night to capitalize on the facilities." PetSmart currently dedicates 7,700 sq. feet to stores geared with a PetHotels, roughly 30 percent of a typical 26,000 sq. foot store.[6]

Another service offering incorporated into the store layout was the joint venture with Banfield, a highly regarded veterinary company located in the Pacific Northwest. Banfield was originally founded in 1955, and by 1990 had become a trusted name in pet care. In-store hospitals were designed to offer convenience to consumers and are currently targeted toward non-veterinary schools demographics. "Veterinary school graduates practice close to the schools they attend. Why saturate the market with PetHospitals?" Mr. Francis described another advantage of multiple ancillary offerings, "having grooming housed with a vet allows a groomer to question the vet concerning animal they are working on."[6]

In reinventing PetSmart's image, Mr. Francis brought another key strategy from his grocery background into the pet specialty channel, loyalty cards. PetSmart's card, PetPerks, provided core shoppers with promotional discounts which increased loyalty. From the company's perspective, the addition of PetPerks was not just to provide value to shoppers, but to understand what services were being used and how to cross merchandise. For example, if PetSmart noticed that a customer was using PetHotels, buying food, but not taking advantage of grooming services, they would target mail a coupon for a "free bath". PetSmart could also identify which promotions drove the highest trips, which brands commanded the most loyalty, and the impact of price elasticity on their customers. One of the more strategic choices was the decision not to sell dogs to customers. PetSmart decided instead to undertake a very aggressive adoption program. It facilitates approximately 1,100 pet adoptions daily and almost five million since the inception of the program.[10] When customers want to adopt a dog, they begin by searching a PetSmart sponsored website, 1-800-Save-A-Pet.com. This site enables potential owners to search for dogs that are available at adoption agencies across the country. They can also search by characteristics such as size, color, and age. The website also creates an emotional tie to the pet with photos and profiles available for each animal. This concept has two major impacts on the business. First, the new owner picks up the adopted pet at a local PetSmart, and becomes emotionally attached to the PetSmart brand. Second, new pet parents will initially spend several hundred dollars in veterinary services, hard goods, and consumables.

Thus, the company moved away from a product and low price strategy to a differentiation strategy emphasizing service, total pet solutions resulting in greater customer loyalty. With the addition of services, price became less of a liability. Mr. Francis focused on services to outpace the price value. “One of our big bags of Purina is $20. We try to price our food within five percent of Wal-Mart. Let’s say on Wal-Mart beats us on price by $1.50. Would customers be willing to visit a store that provides adoption, training, grooming, and food for a $1.50 premium?” Shoppers who take advantage of pet services will pay a slightly higher price for convenience.

Mr. Francis focused on differentiated distribution to drive loyalty and increase revenue. PetSmart introduced private label offerings and explored niche markets. Many of their products can only be found in pet specialty channels. High margin super premium brands and organic products are not currently offered in club, grocery, and mass channels. PetSmart carries full distribution of bridge (products bridging grocery and specialty – Iams or Purina ONE) and grocery brands, strategically trying to trade their shoppers up to premium brands.

Mr. Francis understood the need for an online presence, even though competitor PETS.COM had failed in the online market. Selling smaller specialty products like shampoos and hard goods can generate incremental volume online. “We focused on content and community when looking at an online strategy”.[6] Mr. Francis’ criterion for a successful online site involves driving in-store traffic. PetSmart made a strategic decision to discontinue their mail-out circular. Their monthly ads are now online. PetSmart.com provides vast resources on pet adoption and care, with subtle product solutions for interested consumers. PetSmart is also trying to defend against low overhead online giants such as Amazon stealing share in high profit hard goods.

Where is PetSmart today?

Through the leadership of Philip Francis, PetSmart has been transformed from a struggling price fixated retailer, to a pet care goliath. The pet specialty store segment of the market is dominated by PetSmart and to a lesser extent PETCO. PetSmart has 1,232 stores with sales of $6.1 billion and a market share of 44.4 percent. PETCO has approximately 1,000 stores with revenue of $2.9 billion and a market share of 20.7 percent. Other companies include Pet Supplies Plus which operates 239 stores in 22 states, generates $540 million is sales with a market share of 3.6 percent; Pet Supermarket operates 115 stores in the southeast, California and Nevada, generating

$235 million in sales with a market share of 1.6 percent; and Pet Food Express operates 41 stores in northern California, generates sales of $90 million with a market share of less than one percent.[11] The rest of the specialty pet store segment is highly fragmented and made up of small chains and independent operators.

Philip Francis was succeeded by Robert Moran as president in 2009 and CEO and chairman in 2012. Prior to joining PetSmart, he was president of Toys ‘R’ Us Canada, spent 20 years at Sears in various financial and merchandising positions including president of Sears de Mexico. He was also an executive with Galerias Precidas of Madrid, Spain.[10]

Mr. Moran is very excited about the chances for future growth of PetSmart. He sees PetSmart reaching maturity with 1,800 stores in the U.S. PetSmart currently has 1,232 store including 1,154 in the U.S., 73 in Canada and 5 in Puerto Rico. It typically opens 40 to 50 new stores annually. Stores range in size from 12,000 to 27,500 square feet and carry approximately 10,000 unique stock keeping units. In addition, it offers pet grooming and training in all stores plus pet boarding through their PetSmart Hotels or PetsHotels brands and 799 veterinary hospitals in conjunction with Banfield under the name Banfield The Pet Hospital. Loyalty is built with their PetPerks program. PetSmart also connects with pet parents via their e-commerce web site PetSmark.com.[10]

PetSmart’s vision is “to become the Happiness in Store experience that our knowledgeable, caring associates deliver to our pet parents each day”. The foundation to creating an in-store experience by providing solutions that help pets live long, healthy, happy lives.[10] To achieve this requires PetSmart to understand market trends.

The humanization of pets is the major overriding trend. Consumers are increasingly becoming pet parents who see and treat their pets as members of the family. This has resulted in premium products in pet foods, many of which are higher priced with higher gross margins and exclusively available in specialty pet stores. The 2007 melamine-contaminated dog and cat food problem reportedly caused more than 3,500 animal deaths further reinforced the trend toward natural and organic pet foods. The natural and holistic food sales market has been growing at a 20 percent annually. [11]

Humanization has also impacted sales of pet supplies. Higher quality and personalized products include monogrammed sweaters, digitized collars, designer clothes and accessories. Companies like Paul Mitchell, Omaha Steaks, Harley Davidson and Old Navy are now offering dog shampoo, pet apparel and toys.[11]

Humanization has impacted pet services the most. Full service grooming, haircuts, baths, toenail trimming and tooth brushing are growing in importance. Veterinary services and medicine are growing even faster with the emphasis on health and longevity. [11]
Vet care is estimated at $13.6 billion and pet supplies and over the counter medicine at $11.8 billion for 2012.[1] Concern for obesity and pet health insurance are some other emerging trends.

How has PetSmart reacted to the trend toward humanization? First their customer insights programs tracts customers shopping behavior and preferences. They have identified their target market as female, average age 46, strong emotional bond with pet, wants the best for her pet, and affluent with income 30 percent higher than the average household and spends 78 percent more than the average pet owner. The primary focus is on customers with a “heart” who shop PetSmart 10 or more times a year. This segment accounts for only 13 percent of their customers, but 51 percent of sales and have an average amount spent of $657 per year. Their secondary target market is the “smart” customer who shops PetSmart two to nine times a year. They account for 48 percent of the customers, 41 percent of the sales and average $150 in annual customer spending. The last customer group is the “mart” segment which accounts for 39 percent of the customers, eight percent of the sales, but only spends $34 annually.[12]

Second, PetSmart has increasingly focused on channel-exclusive pet foods. They have also developed and expanded their proprietary brands. For example, in consumables they have Great Choice in the good category, Authority and Dentley’s in the better category and Simply Nourish in the best category. In hard goods they have Great Choice in the good category, Top Paw and petholiday in the better category and Martha Stewart Pets, Toys ‘R’ US Pets and GNC in the best category.[12]

Third, PetSmart continues expanding pet services. It has grooming and training in all of its stores, 194 PetsHotels, and 800 Banfield, The Pet Hospitals.[12] Services sales were $675 million or 11 percent of total sales in 2011. PetSmart does not include sales of Banfield which is 20 percent owned by PetSmart.[10]

Fourth, above all, PetSmart is focusing on the consumer’s in-store experience. Associates are trained to know customer and pet names. They strive to provide Total Lifetime Care, Superior Service, clean stores, short check-out lines, a strong in-stock position, an effective supply chain and outstanding pet care.[10]

PetSmart’s operating statements and financial position improved significantly in the early 2000s. Sales and profits increased 103 percent and 383 percent between 2002 and 2009, largely bolstered by the addition approximately 100 new stores a year. Under the leadership of Moran from 2009 to 2011, sales have increased by 21 percent to $6.1 billion and profits have increased by 50 percent to $290 billion. New store growth has moderated to adding 40 to 50 annually (see Appendix C). Emphasis has shifted to improving store productivity by pursuing its differentiation strategy and improving its customer focus, especially on the humanization of animals.

PetSmart's rapid rise, fall, resurgence and redirection have been challenging. It has become best in class among the specialty pet store industry, yet it faces continuing challenges from consumer trends, competitors, suppliers as well as becoming complacent. Robert Moran and the executive leadership seek was to grow the company through its differentiation strategy focusing on pet parents and pets Lifetime Care. Has PetSmart found a sustainable strategy?

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[1] American Pet Products Association, APPA web site, retrieved July 19, 2012.

[2] Mintel, The Pet Food & Supplies Market, Mintel Group Ltd., London, 2007.

[3] U.S. Census Bureau, Census of Retail Trade, 2001 and 2007.

[4] PetSmart, PetSmart web site, retrieved August 10, 2012.

[5] PetSmart Annual Reports, retrieved from PetSmart;s web site, August 7, 2012.

[6] Francis, Philip, interview at PetSmart Headquarters, Phoenix, AZ, May 2, 2008.

[7] Francis, Philip, Guest Lecturer at Marshall School of Business, University of Southern California, January 2008.

[8] Dalton, Catherine M. A Passion for Pets: An interview with Philip Francis, September 15, 2006.

[9] Jones, Justin, "Philip Francis of PetSmart", International Herald Tribune, February 8, 2008.

[10] PetSmart, 2011 PetSmart Annual Report, retrieved from PetSmart website, August 8, 2012.

[11] IBISWorld, pet Stores in the U.S., retrieved from IBIS World web site, August 8, 2012.

[12] PetSmart, Investor Presentation First Quarter 2012, retrieved from company web site, May 2012.

Appendix A: Selected PetSmart Chronology Taken From Annual Reports

1980s Jim and Janice Dougherty run a store called Petfood Supermarket. They develop the concept of a discount pet food warehouse.

1986 Doughertys secure a venture capital loan from the Phillips Van Heusen Corporation and become incorporated as Pacific Coast Distributing, Inc.

1987 Doughertys open two stores under the name The Pet Food Warehouse.

1988 Five additional stores are established in Arizona, Colorado, and Texas.

1989 Samuel J. Parker Joins the firm and Phil Francis becomes a Director of the company

1989 Pet grooming services are offered for the first time in its Colorado store. We change the name and logo of our stores from PetFood Warehouse to PETsMART.

1990 We contract with a veterinarian company to bring mobile clinics to our stores to perform vaccinations.

1992 We open our own permanent adoption centers, which we call the Luv-A-Pet Adoption Center.

1993 PETsMART goes public, listed under the symbol "PETM".

1994 We reach an agreement with Medical Management International in Portland, Ore., to operate full-service, state-of-the-art vet clinics in our stores.

Purchased Weisheimer Companies which operated 29 PETZAZZ stores in the Midwest.

1995 Purchased PetStuff and its 56 stores

Purchased Pet Food Giant and its 10 superstores

Purchased Sporting Dog Specialties the leading catalog retailer of pet supplies and accessories.

1996 Purchased Pet City Holdings, the largers pet specialty retailer in the U.K. that operated 57 Pet City stores.

Entered Canada by opening eight stores in Ontario.

Purchased State Line Tack, the leading catalog retailer that specialized in discount riding an equine supplies.

1997 Inventory problems are encountered; Sam Parker, President and CEO who took the company public resigns.

The company reports a loss of $34.4 million and stock price falters. Sam Parker, former President and CEO, resumes the position of CEO to try and get the company back on track.

1998 Phil Francis becomes our new President and CEO. We begin opening smaller stores (19,000 square feet vs. 26,000 square feet) in markets that can only support one store.

2000 Our stock price hits an all-time low.

2000 Medical Management International, Inc. operates the 239 vet clinics in our stores under the name Banfield, The Pet Hospital.

2001 The company begins a new advertising campaign entitled 'PETsMART: All You Need for the Life of Your Pet.'

2002 We begin testing PETsHOTEL in two of our Phoenix stores. In addition to our two major distribution centers, we now have six smaller distribution centers in Phoenix; Ennis, Texas; Gahanna, Ohio; Hagerstown, Md.; Newnan, Ga.; and Reno, Nev.

2003 We finish remodeling our stores, so now all of our stores are more customer and pet friendly, easy to shop, bright and vibrant.

2004 We open our third major distribution center, which is in Ottawa, Illinois.

2005 We become PetSmart. We continue to update all of our stores.

2006 Services grow by 26 percent. We open our 50th PetsHotel and announce that we plan to open a total of 435. Our sales for the fiscal year are $4.2 billion and our EPS is $1.33.

2007 Purchase 19 SuperPet stores in Canada.

2009 Robert Moran is appointed Chairman and CEO.
Philip Francis becomes Executive Chairman.

2012 Philip Francis retires.

Robert Moran takes over complete leadership of PetSmart.

Appendix B -- From Growth to Crisis

PetSmart Financials FY 1993-1998

Fiscal Year	**2/1/98**	**2/2/97**	**1/28/96**	**1/29/95**	**1/30/94**	**1/31/93**
Operating Financials						
Net Sales ($ in mil.)	1,791	1,501	1,168	924	545	320
Gross Profit ($ in mil.)	434	426	308	246	149	96
Oper., Gen. & Adm. (S in mil.)	412	343	270	238	154	93
Net Income ($ in mil.)	-34	43	-9	-6	-5	3
Operating Percentages						
Gross Profit	24.2	28.4	26.4	26.6	27.4	30.1
Oper., Gen. & Adm.	23.0	22.9	23.1	25.8	28.3	29.1
Net income	-1.9	2.8	-0.7	-0.7	-0.9	1.0
Selected Operationg Data						
Stores at End of Period	468	376	297	269	192	103
Net Sales per Square Foot ($)	177	176	172	162	175	197
Net Sales Growth (%)	19.3	28.5	26.4	69.7	70.4	79.5
Comparable Store Sales Growth (%)	4.6	11.9	12.5	19.1	19.8	19.0
Inventory Turnover (Times/Year)	5.6	5.0	5.5	5.4	5.1	5.4
Average Store Inventory ($ Thousands)	679	800	714	673	561	580

NOTE: Data are rounded.

Source: PetSmart SEC Filings and Annual Reports

Appendix C -- Recovery and Refocus

PetSmart Financials

FY 2006-2011

Fiscal Year	**1/29/12**	**1/31/11**	**1/31/10**	**2/1/09**	**2/3/08**	**1/28/07**	**1/29/06**
Operating Financials							
Net Sales ($ in mil.)	6,113	5,694	5,337	5,065	4,673	4,234	3,761
Gross Profit ($ in mil.)	1,804	1,655	1,519	1,495	1,437	1,308	1,173
Oper., Gen. & Adm. (S in mil.)	1,301	1,226	1,150	1,126	1,085	986	862
Net Income ($ in mil.)	290	240	198	193	259	186	183
Operating Percentages							
Gross Profit	29.5	29.1	28.5	29.5	30.7	30.9	31.2
Oper., Gen. & Adm.	21.3	21.5	21.6	22.2	23.2	23.3	22.9
Net income	4.7	4.2	3.7	3.8	5.5	4.4	4.9
Selected Operation Data							
Stores at End of Period	1,232	1,187	1,149	1,112	1,008	908	826
Net Sales per Square Foot ($)	224	214	205	202	210	208	206
Net Sales Growth (%)	7.4	6.7	5.4	8.4	10.4	12.6	11.8
Comparable Store Sales Growth (%)	5.4	4.8	1.6	3.8	2.4	5.0	4.2
Inventory Turnover (Times/Year)	9.5	9.3	9.5	8.7	9.3	8.7	9.4
Average Store Inventory ($ Thousands)	523	519	490	525	497	537	484

NOTES:

Data are rounded,
From PetSmart SEC Filings and Annual Reports

Appendix C -- Recovery and Refocus (Continued)

PetSmart Financials

FY 1999-2005

Fiscal Year	**1/30/05**	**2/1/04**	**2/2/03**	**2/3/02**	**1/28/01**	**1/30/00**	**2/1/99**
Operating Financials							
Net Sales ($ in mil.)	3,364	2,993	2,695	2,501	2,224	2,110	2,109
Gross Profit ($ in mil.)	1,039	900	783	710	557	572	528
Oper., Gen. & Adm. ($ in mil.)	781	681	630	640	536	484	470
Net Income ($ in mil.)	158	125	79	40	-31	-32	23
Operating Percentages							
Gross Profit	30.9	30.0	29.1	28.4	25.0	27.1	25.0
Oper., Gen. & Adm.	23.2	22.8	23.4	25.6	24.1	22.9	22.3
Net income	4.7	4.2	2.9	1.6	-1.3	-1.5	1.1
Selected Operating Data							
Stores at End of Period	726	643	583	560	533	484	534
Net Sales per Square Foot ($)	205	197	188	177	161	163	175
Net Sales Growth (%)	12.4	11.1	7.8	12.4	5.4	0.0	17.8
Comparable Store Sales Growth (%)	6.3	7.0	9.6	6.5	1.4	4.6	6.3
Inventory Turnover (Times/Year)	10.0	9.7	10.5	9.2	6.9	5.6	6.3
Average Store Inventory ($ Thousands)	465	481	441	485	605	780	686

NOTES: Data are rounded, NA = Not Available, Source of information – PetSmart SEC Filings and Annual Reports