

Must be Ruff Case Study

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ABSTRACT

This teaching case study examines the growth opportunities for a fledgling healthy dog treat business with limited time and monetary resources in post-Covid Minneapolis, Minnesota. Reggie Carter founded Must Be Ruff in 2021, and the business has rapidly grown. Must Be Ruff is at a turning point where the business can either strategically grow its profit or remain a hobby business. Must Be Ruff's owner has many worthwhile channel development options to capitalize on the growing healthy pet food and treat segment. Major themes in this case include industry analysis, resource restriction, strategic decision-making, financial decision-making, and competitive advantage.

Keywords: strategy, decision-making, small business, Porter's Five Forces, strategic growth, competitive advantage



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INTRODUCTION

In 2021, New pet parent Reggie Carter was inspired by his family farm roots to create a line of all-natural and healthy dog treats after researching an optimal diet for his Doberman. With the help of his wife Susan and young children, he used his home kitchen to perfect a set of fun-shaped, fresh treats sold at local farmers' markets and community events. Media coverage and public relations (PR) about Must Be Ruff (www.mustberuff.co), the new business, led to opportunities to sell at high-traffic events such as the 2022 Minnesota State Fair with more than a million potential customers.

Rather than moving to a brick-and-mortar retail operation, the business focused on small event retail sales and wholesale distribution with dog-friendly businesses such as pet resorts, taprooms, restaurants, and wine bars that offer doggie desserts for their patrons. In 2023, Must Be Ruff was offered the opportunity to sell its products at Target Field, the home of the Minnesota Twins professional baseball team at their 81 home games. The business is at a crossroads. This opportunity requires additional resources beyond what Reggie and his family had planned. Must Be Ruff's owners must make strategic decisions regarding the mix of distribution channels (wholesale, retail, and online sales) to allocate their time and resources efficiently. This fledgling business cannot pursue all options in the short term. Reggie and Susan must decide how to grow strategically to increase profitability so Reggie can draw a full-time salary to replace the job he quit to run the business.

MUST BE RUFF DOG TREATS

Background

Many entrepreneurs start a business based on their family needs, and Reggie Carter is no exception. In 2020, this Minnesota snowplow driver worked the overnight shift. During the Covid-19 pandemic and civil unrest in Minneapolis, Minnesota, he was concerned for his young family's safety while working. He purchased a Doberman puppy for companionship and security.

Reggie's background research showed Dobermans lead shorter lives than other dogs. This was counterintuitive to Reggie who grew up on a Mississippi farm where the dogs ate human food and lived long lives. Reggie was inspired to make fresh dog food for Kirby, their puppy. The dog thrived, but Reggie's wife Susan challenged him, why feed a dog fresh food when Kirby's treats have the same preservatives we are trying to avoid in processed dog food?

Product Development

Doing research and development in their home kitchen, a business was born. The family, including Reggie and Susan's young children, created a set of fresh, natural treats in fun shapes that launched Must Be Ruff, a dog bakery to share Kirby's favorite treats with other dogs. The business launched in 2021 with specialty items like doggie donuts, birthday cupcakes, and his staple product - bagged soft treats. Reggie and Susan learned a lot in the first year of business, including the challenges of complying with state food labeling and safety regulations. There were branding and packaging decisions, and the distribution challenge that came with a fresh, not shelf-stable product that needed to be refrigerated or frozen.

Distribution Channels

Must Be Ruff is currently defined as a hobby business. Following the COVID-19 pandemic, the public returned to attending larger events, and Reggie distributed his product through local farmers' markets and retail events. In Minnesota, the majority of these happen from April through October. The media coverage of Must Be Ruff led to notoriety and opportunities to sell the products wholesale to retailers such as pet resorts, doggie daycares, as well as restaurants, taprooms, and wine bars that allow patrons to bring their dogs. Loyal customers from the events also established a small retail trade through online orders with deliveries or pick-up locations at some of the regional wholesale partner locations.

Marketing & Branding

Must Be Ruff's early marketing came from news stories and word-of-mouth promotion about this new Black-owned business that arose from the pandemic and the civil unrest in Minneapolis-St. Paul. Reggie's life story as a Mississippi farm boy transplant and the engagement of the whole family in the business generated opportunities for selling at events and meeting new wholesale partners. The Must Be Ruff brand focuses on natural and fresh foods designed to 'treat' one's dog as a family member, with Kirby as their mascot and inspiration. Reggie set up a website for information and offered event customers and interested parties an online option for purchasing treats throughout the year. As Reggie has minimal experience in marketing, Must Be Ruff implemented no search engine optimization (SEO) or advertising beyond PR and personal selling.

Growth Opportunities

Word-of-mouth and PR led to an offer to sell at the Pet Pavilion in the 2022 Minnesota State Fair, one of the largest fairs in the U.S., who were eager to diversify their vendors and products. This 12-day event brought over a million people past Must Be Ruff's booth. This increase in product demand necessitated expanded production outside the Carter's newly renovated commercial/ home kitchen into a shared commercial kitchen and the need for offsite cold storage. Reggie quit his full-time job, and with the help of Susan and the kids, they successfully debuted at the fair. Reggie knew they didn't have the resources to capitalize a brick-and-mortar doggie bakery, so conservatively they continued with the mixed distribution model.

In 2023, a new opportunity arose with Target Field, home to the Minnesota Twins professional baseball team. Must Be Ruff was offered a vendor space for the 81 home games that would put Must Be Ruff products in front of over 1.8 million fans. An opportunity like this provides PR value, but the sales are not on the scale of the state fair and are not limited to a few weeks in the summer when the whole family can help provide the labor. This business must examine production, distribution, and access to capital to manage growth and capitalize on the marketing and notoriety the company has enjoyed since its launch. Whether to take the Target Field opportunity or decline it depends heavily on scaling this business to a point where it can support a full-time salary for Reggie and still leave time for Kirby to get walks and playtime with her family.

INDUSTRY 5 FORCES

Buyers

The dog food market is anticipated to grow by 4-6 % annually from 2023-2033. With the humanization of dogs, the number of households with dogs and the per year spending for dogs is rising and increased more quickly during the pandemic. The number of households with dogs in the US grew, with 56% of homeowners owning dogs in 2016, and 66% in 2020. Spending per dog has increased by 10 % annually from 2021 to 2022.

Dog food owners are brand loyal to their dog food choice, 87% of dry dog food purchasers buy only one brand, as do 79% of wet dog food customers. However, there are shifts in the desired qualities of dog food and treats with consumers' priorities in dog food and treats evolving similar to human food products that focus on taste and long-term health value. In 2022, health claims such as joint, brain, and bone health were prevalent in new product launches.

Older generations are more likely to maintain the pet care attitudes and behaviors they have had for years, investing more in food and veterinary items. Millennials and Gen Z have consistently increased spending year over year and have higher purchases online. They also are more likely to purchase items on a subscription basis and more likely to purchase new types of dog food, treats, and toys.

Substitutes

The major wet and dry dog food market players have not changed their products in recent years and include Mars, Nestlé, Diamond Pet Foods, J.M. Smuckers, Blue Buffalo, and Global Pet Care. In addition to the key companies that sell wet and dry food, there is a growing specialty market of premium products and dog treats. Refrigerated and fresh pet food is the fastest-growing of these premium markets. Substitutes for local fresh food treats include packaged treats, frozen treats, jerky strips, bones, and chews.

Leading Dog Biscuit/Treat Vendors	Dollar sales		Price per unit	
	Current	% change vs YA	Current	Change vs YA
TOTAL DOG TREATS	\$3,541,708,896	9.6%	\$6.04	9.4%
Big Heart Pet Brands	\$921,116,485	6.4%	\$4.48	8.2%
Private label brands	\$512,536,509	13.3%	\$6.18	12.5%
Nestlé Purina PetCare	\$484,147,883	10.6%	\$5.54	11.2%
Mars Petcare	\$352,038,879	7.1%	\$9.48	11.1%
General Mills	\$251,134,293	6.5%	\$12.23	8.2%
Petmatrix	\$195,128,066	2.5%	\$11.31	1.7%
Blue Buffalo	\$132,250,093	12.9%	\$5.93	3.1%
Ainsworth Pet Nutrition	\$80,880,912	-1.0%	\$5.72	9.1%
Spectrum Brands	\$78,253,362	20.4%	\$6.73	6.6%
Arthur Pet Products	\$67,724,280	38.7%	\$12.93	13.9%

Total US Multi-Outlet (Grocery, Drug, Mass Market, Military and Select Club & Dollar Retailers) Time: Latest 52 Weeks Ended Aug. 7, 2022
Source: Chicago-based market research firm IRI

SOURCE: <https://www.petfoodprocessing.net/articles/16439-state-of-the-us-pet-food-and-treat-industry-2022>

Chewy.com, an online retailer owned by PetSmart, offers a large variety of dog treats through internet purchasing and scheduled delivery. Dog macaroons are one gourmet treat that Chewy.com offers, but nutritional information is not provided to customers at the point-of-purchase. Additional treats on Chewy.com fit the “look” of a gourmet dog treat without the promise of nutritional or all-natural ingredients. Chewy.com offers consumers convenience but is not a comparable product to local gourmet dog treat companies.

Threats of New Entry

A dog treat business can be built at home to keep costs low. Building a brand for a new business would take time, but many home businesses use low-cost social media and word-of-mouth to build the initial market demand. These micro-businesses are localized in their market reach and lack the distribution capability for growth and competitiveness. They will likely experience rapid initial growth and remain a hobby business without strategic growth.

Rivalry

In July 2023, the rivalry in the gourmet, health-conscious fresh local treats in the Minneapolis metro area is three companies, including Must Be Ruff.

Treat me too (<https://treatmetoodogtreats.com>) is a bakery specializing in handcrafted dog treats. This bakery has a detailed website and a social media presence with Facebook. It offers a highly diversified product selection with healthy, nutritional ingredients and options for shipping and local pick-up of products.

Dreamy Pups (<https://www.etsy.com/shop/DreamyPupsUS>) creates homemade treats and dog care items. This company has an Etsy page and minimal social media presence. It offers highly nutritious treats and dehydrated snacks and provides products via shipping.

Suppliers

Dog treats have many potential ingredients (<https://www.petfoodinstitute.org>). Most recently, wheat flour and meat/bone meal are the top ingredients in dog treats. Veterinary researchers have identified more than 40 essential nutrients for dog food. Like human foods, organic and all-natural ingredients are essential to competitive advantage.

Pet food operates in a unique space regulated by both the federal and state Departments of Agriculture making testing a recipe and labeling essential to the manufacturing process. Knowledge of the regulatory environment is as valuable as the supplies provided and suppliers who provide more than raw ingredients exercise greater power.

Supplier power in pet food is based on the ability to certify the quality of the ingredients, the supply chain timeline, and the sustainability of the supply chain as the business grows. Combined with regulatory expertise, supplier relationships are essential and challenging for fledgling businesses. New Entrants to pet food must compete with human food manufacturers for supplier attention which further increases the supplier power for this business. The smaller the volume of ingredients purchased; the more supplier power is exerted in the relationship with the business.

CONCLUSION- WHAT NOW?

Reggie and Susan must give Target Field an answer; they know that this opportunity might be lost forever if they say no this year. Must Be Ruff participated in the Twins home opener event at Target Field. As a result, it increased market awareness of the products, but sales per hour were lower at Target Field than at the MN State Fair or other events where Must Be Ruff sold products. The realities of growth management are of concern for Reggie and Susan. Should Must Be Ruff take the deal with Target Field for the remaining 80 Twins home games recognizing the need to invest in more labor without a guarantee of return on investment? Big events, like Target Field, have the potential to build brand awareness quickly and generate more sales opportunities, which is very tempting. The financials (see the appendix) for 2022 demonstrate that the business is profitable, but Must Be Ruff must earn more profit to move this business from a hobby to a career for Reggie.

Must Be Ruff needs to determine the next step in its strategic growth. Target Field isn't the only option. It can scale up the wholesale trade, focus on retail sales to increase event sales or increase repeat customers through more online sales (and distribution). What would you recommend for Must Be Ruff? Make your recommendation SMART (specific, measurable, achievable, realistic, and timely).

ADDITIONAL CASE QUESTIONS

Which of the industry forces described in the case concern you the most in the growth of the business in the short term and why?

Which distribution channel (wholesale, events, and online) would you suggest the business focus on in the short term for strategic growth and why? Would your suggestion change considering the business's long-term growth and if so, how?

The Target Field opportunity is a turning point for Must Be Ruff. List and describe the critical issues for Reggie who must balance profitability and his time spent on the business. What strategic issues should be considered besides financial return on investment? Using this case and outside research, generate a three-year plan for Must Be Ruff's strategic growth and competitive advantage. Cite your sources.

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APPENDIX**Must Be Ruff Dog Treats****Annual Income Statement -2022**

		% of Sales
SALES		
Retail Sales	\$89,000	
State Fair	\$38,270	29%
Small Events & Online Orders	\$50,730	39%
Wholesale Sales	\$42,000	32%
Total Sales	<u>\$131,000</u>	
COST OF GOODS SOLD		
Ingredients	\$15,720	12%
Packaging	\$8,440	6%
Shipping/Delivery	\$2,808	2%
Total COGS	<u>\$26,968</u>	21%
GROSS PROFIT	\$104,032	79%
EXPENSES		
Payroll	\$12,000	9%
Payroll Taxes	\$918	1%
Direct Operating Expenses	\$2,808	2%
Marketing	\$12,000	9%
Event Expenses (fees, parking, etc.)	\$12,900	10%
Phone & Utilities	\$1,200	1%
Rent/Commercial Kitchen	\$800	1%
Office & General Supplies	\$1,200	1%
Product Storage/Warehouse	\$1,800	1%
Depreciation & Amortization	\$886	1%
Total Operating Expenses	<u>\$46,512</u>	36%
Net Income before Taxes	\$57,520	44%