

## Mud Bay's Good Jobs Journey

*Zeynep Ton and Katie Bach*

In May 2018, Marisa Wulff, co-CEO of Mud Bay, a chain of 45 pet stores in the Pacific Northwest, took the stage at Mudstock, an annual day of team-building, learning and fun for all Mud Bay employees, known internally as “Muddies.” The theme that year was the 1980s. Dressed in pink leopard-print pants, black biker boots, fingerless gloves, and a pink mohawk, Marisa told the crowd, “As employee owners, we should all have an understanding of the financials of Mud Bay.”

Mud Bay had introduced an Employee Stock Ownership Plan (ESOP) in 2015 as part of an integrated effort to create good jobs and a great customer experience—and to position Mud Bay to live beyond the hands-on ownership and leadership of its three founders (Marisa, her mother Elsa and her brother, co-CEO Lars). Employee ownership was intended to make Muddies think, feel, and act like company owners and to give them a long-term stake in Mud Bay’s future. As Marisa went through the financials, she pointed to strong sales and customer affection, but then highlighted a weakness. Since 2014, Mud Bay had increased wages, benefits, and training while also reducing prices. Net profit margins had fallen from 2.18% in 2014 to 1.99% in 2017. “Profit itself is not a goal,” Marisa concluded, “but it’s critical to our mission.”

As Mud Bay’s cross-functional annual planning team had struggled to squeeze an adequate level of profit out of the 2018 budget, Chief Operating Officer (COO) Tracy Yamane had proposed an idea to raise operating margins: close stores an hour earlier. Monday through Saturday, Mud Bay stores were open from 9:00am to 9:00pm. Closing earlier would better meet Muddies’ needs outside of work and would generate labor savings. Tracy had raised this idea several times over the past couple of years. Marisa had supported it. Lars, however, had strongly opposed it.

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## The Pet Store Industry

In 2017, there were 18,370 pet stores in the United States. Total sales from pet stores, including online pet food and supply sales, were \$25.2 billion, with \$29.4 billion expected by 2022. Traffic to many brick-and-mortar pet stores was under pressure from grocery stores, mass retailers such as Walmart and Costco, and online stores that offered greater convenience and, frequently, lower prices (**Exhibit 1**).

More people were owning pets and willing to spend more on them. In 2018, 68% of U.S. households owned at least one pet. Natural and organic pet products, once a niche segment, were now produced by major food manufacturers such as Nestlé and Mars. Millennials, who accounted for more than a third of all pet owners,<sup>1,2</sup> spent more money than any other age group on their pets and were more likely to pamper their “fur babies” with cashmere Ralph Lauren dog sweaters, CBD-infused<sup>1</sup> gluten-free dog treats for anxiety, mud baths, and “pawdicures.”<sup>3</sup>

PetSmart, the largest U.S. pet store chain—with more than 1,600 stores, including 117 in Canada—had been owned by a private equity firm since 2014. Stores ranged from 12,000 to 27,500 square feet, carried more than 11,000 products, and provided services such as in-store boarding, grooming, obedience training, and veterinary. From 2013 to 2018, PetSmart’s revenue declined at an annualized rate of 0.9%. This decline was driven by decreased in-store traffic and increased online competition, but was partially offset by higher sales of premium products and increased sales of services.<sup>4</sup> In 2017, PetSmart acquired Chewy, an online specialty pet food and supply retailer, for \$3.4 billion.

Like PetSmart, Petco, the second largest U.S. pet store chain, was privately owned. Petco operated 1,552 stores in 2018, including 80 smaller-format “Unleashed by Petco” locations that focused on natural, organic, premium products. In its larger stores, which averaged 14,000 square feet, Petco offered up to 10,000 products. As of 2015, its Unleashed stores averaged 5,000 square feet and carried 5,000 to 7,000 products.<sup>5</sup> Between 2013 and 2018, Petco’s revenue grew at an annualized rate of 1.7%, driven in part by sales of premium products.<sup>6</sup> As Petco struggled to achieve strong organic growth, it turned to acquisitions. In 2015, Petco acquired online pet supply company Drs. Foster and Smith. In 2017, it acquired PetCoach, an online platform that offered on-demand advice from veterinarians, vet-recommended food and supplies, and pet health educational resources. And in 2018, Petco partnered with JustFoodForDogs, a company that provided hand-crafted pet meals with ingredients certified for human consumption. JustFoodForDogs planned to run exhibition kitchens and fresh food pantries in hundreds of Petco stores, where customers and their pets could watch chefs prepare dishes such as venison and squash.<sup>7</sup> (**Exhibit 2** provides financial and operational data for PetSmart and Petco from 2010 to 2014.)

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<sup>1</sup> CBD stands for cannabidiol, a naturally occurring cannabinoid constituent of cannabis.

## Mud Bay's First Two Decades

In 1988, Elsa Wulff bought a small farm store on a hill above Mud Bay outside Olympia, Washington. The store sold a wide variety of items, including local oysters, pop tarts, folk art, hog feed, and dog food. Elsa believed that she had a duty to graciously help everyone, even if it didn't result in a sale, and tried to create an environment in which everyone would feel welcome. Customers loved warming their hands over the wood stove, but in its first full year of operations, Mud Bay lost \$46,000 on sales of \$277,000. In 1989, Elsa's son Lars left the mountain cabin where he had been working on a novel to join his mother, becoming Mud Bay's third employee. In 1993, Elsa's youngest daughter Marisa returned to Olympia after completing her MBA in Holland and began moonlighting at Mud Bay while working full-time for Microsoft.

Believing that success would require focus, Elsa, Lars, and Marisa narrowed Mud Bay's assortment, gradually eliminating almost everything but products for dogs and cats. The store offered the healthiest foods and highest-quality supplies the Wulffs could source, including homemade organic dog cookies they made at a local bagel bakery they rented on Friday nights. They also realized that customers needed information just as much as they needed high-quality food, so Mud Bay began training store employees on dog and cat nutrition and produced educational booklets for customers such as "How to Read a Pet Food Label" and "Natural Flea Prevention."

In 1999, the company had developed a reputation as a pioneer in the nascent category of natural pet retail. Then, in 2000, Mud Bay bought eight stores from a court-appointed receiver charged with winding down the Pacific Northwest's largest chain of home-grown pet stores, Bosley Pet Food Marts.

Unable to compete against the surging national chains, Bosley's had spiraled into insolvency under the pressure of declining sales and poor management. After purchasing its assets, Mud Bay transformed Bosley's conventional full-line pet stores into natural dog and cat food stores by eliminating products that didn't meet its standards, slashing the number of SKUs, and focusing on staff training and customer experience. After two challenging years, Mud Bay was again a profitable company, now with 85 employees and nine stores.

Once Mud Bay had achieved profitability—and years before it had repaired its balance sheet enough to secure additional bank financing—the company began to look forward again, improving and expanding its nine stores and starting to open new locations, first in Washington and later in Oregon. As the years passed and the company grew, Elsa retired, and Lars and Marisa, now co-CEOs, began to focus on codifying and articulating Mud Bay's mission, values and culture. Increasingly, Mud Bay's three-part mission—*1) contributing to the health of dogs and cats, 2) contributing to the happiness of people who care for animals; and 3) building a strong company that we're proud of*—became its spiritual mainspring (see **Exhibit 3**).

## Mud Bay in 2014

By the end of 2013, Mud Bay operated 27 stores, earned \$1.05 million profit on \$38.4 million in annual revenue, and had 261 employees, 225 of whom worked in stores. Roughly 60% of revenue came from pet food products, the balance from pet supplies. Comparable store sales—sales from stores open more than 12 months—grew by 12% in 2013, after averaging below 4% in 2011–2012. Margins were in the low single digits. Lars and Marisa were comfortable with tight margins because they saw the business as being highly predictable. (See **Exhibit 4** for Mud Bay financials.)

A typical store was just over 4,200 square feet, with around 3,750 SKUs. The layout allowed for easy self-navigation. Most non-food merchandise, such as dog collars and cat litter, was on tables and stands, while food lined the walls. Large signs, visible from anywhere in the store, marked product categories. On shelves behind the registers Muddies stocked dozens of food and treat samples, and there were large bins of dog treats on the floors, where dogs could help themselves. (See **Exhibit 5** for store photos.)

### Customer Experience (“The Mud Bay Experience”)

Mud Bay’s go-to-market strategy was encapsulated in the nine elements of a statement dubbed the “Mud Bay Experience.” (See **Exhibit 3**.) Creating the Mud Bay Experience for every dog and cat owner who walked in the door was the over-arching goal of all Muddies, both in-store and in support roles.

At the heart of Mud Bay’s service offering was consultative selling. All Muddies received extensive training in dog and cat health and behavior as well as in the products Mud Bay carried, and engaged customers in detailed conversations about their pets’ needs. Customers would often come to Mud Bay with a question before going to their vet.<sup>ii</sup> “Our staff has the reputation of being the best trained in nutrition and dog and cat behavior in the nation, and people trust us,” Marisa said.

Muddies would do anything reasonable to help pet owners, irrespective of its impact on revenues, in a warm welcoming environment. To help pet owners find the right solutions, Muddies provided free product samples and free information, reached out to colleagues or did independent research, and even sent pet owners to other retailers. As one Muddy said, “Whatever we can do to help the customer or their animal, we’ll do it. It isn’t about sales.” Muddies developed personal relationships with many of their regular customers—human as well as canine and feline.<sup>iii</sup> They frequently played with pets that came in, and, after checking that they didn’t have allergies, offered them treats. First-time visitors to Mud Bay (known internally as “FTVs”) received a “first-time visitor thank you pack” with a handwritten note on nice stationary, a “Welcome to Mud Bay” brochure, and a \$5.00 coupon.

Mud Bay was committed to offering the highest-quality products, from companies that took pet health as seriously as Mud Bay, at low prices, every day. Mud Bay staff visited the manufacturing plants for

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<sup>ii</sup> Muddies were careful not to offer veterinary advice or to contradict the recommendations of a customer’s veterinarian.

<sup>iii</sup> Most of the animals that visited stores were dogs, but a few unusual cats made regular store visits as well.

all food products, even as far away as New Zealand, conducting in-depth interviews with plant and brand managers to assess quality control processes and ingredients. “We are not going to drag the market price down, but we never want price to be a reason someone doesn’t shop with us,” said Marisa. Mud Bay did not offer promotions and had no loyalty program, though they would honor the loyalty programs of brands they stocked, if customers asked.

### Employee Experience

Lars and Marisa had long been committed to creating a great place to work and building a culture of openness and support. By 2014, Mud Bay had a five-member executive team (Lars, Marisa, COO Tracy Yamane, CMO Al Puntillo and Chief Financial Officer Mike Becker), and a shared commitment to creating a great place to work was one of the key principles around which the team aligned.

Many Muddies began as customers, and were attracted to Mud Bay’s culture, as well as to its mission and customer promise. A generous staff discount and the ability to bring dogs to work (as long as they played well with others)—helped Mud Bay recruit people who loved dogs and cats.

**Pay and benefits.** For many years, Mud Bay’s practice had been to pay at or below market rate. Mud Bay had embraced this approach after reading Jack Stack’s *The Great Game of Business*, a popular book for leaders of employee-owned companies and practitioners of open-book management. Lars said that what he learned from this book, and others like it, was to “keep your wages below market, so you can keep your overhead below your competitors’. And keep sharing profits. So it’s not an entitlement, but you share the fruits when they’re there.” In January 2014, Mud Bay’s starting wage was \$10.25/hour (up from \$9.50/hour in 2008), nearly a dollar higher than the \$9.32 minimum wage in Washington and just below the \$10.30/hour median wage for U.S.-based salespeople. Muddies who worked more than 30 hours a week (69% in 2014) were eligible for medical insurance, but high co-pays and deductibles kept participation rates fairly low.

**Work schedules.** Store managers worked to accommodate staff members’ scheduling needs and wishes and tried to provide work schedules at least two weeks in advance.

**Career paths.** In 2014, about 65% of store manager positions were held by Muddies who had been internally promoted. There were five levels of store employees, with increasing managerial responsibility. Store managers could be promoted to district managers, who oversaw an average of seven locations.

**Transparency and profit sharing.** In the early 2000s, Mud Bay adopted open-book management, sharing financial data and strategic plans with all Muddies and giving them a stake in overall performance. Each year, the company aimed to distribute 1% to 5% of compensation in direct profit-sharing to employees, with the actual amount determined by company performance and pro-rated to an employee’s salary or hourly wage. From 2012 to 2014, Mud Bay shared around 6.1% of wages through its gainsharing (profit sharing) program.

**Job design.** Muddies not busy with customers were expected to perform all non-managerial tasks, including shelving and restocking, building displays, making samples, cleaning (including back rooms and bathrooms), and creating signage. After customer service, inventory management took up the most time; stores received up to nine deliveries a week.

**Performance management.** All Muddies received quarterly or biannual performance reviews from their direct managers. Each was rated on a 1–5 scale, based on the extent to which the manager felt the employee had fulfilled the expectations of his or her role. Higher ratings brought higher raises. Store managers and staff did not receive bonuses based on their own store’s performance. All Muddies were eligible to earn gainshares based on the performance of the company as a whole. COO Tracy, store and district managers reviewed daily reports on business metrics, the most important being sales versus budget, sales growth versus the previous year, and the number of First-Time Visitors that had been identified and logged, but numbers were not the highest priority. Tracy and store and district managers used metrics to gain insight and identify stores or areas to investigate further, but they primarily focused their efforts on the quality of customer-staff and staff-staff interactions and on stores’ effectiveness at critical tasks and processes.

## **Mud Bay’s Good Jobs Vision**

In 2014, Mud Bay’s sales performance was strong, but the company was falling short of the executive team’s aspirations to make the company a great place to work. Staff turnover was 48%—relatively low for retail, but high at a company where expertise was so valued. Tracy, who had joined as COO in 2011, insisted that to hire and retain the right people, Mud Bay had to raise wages. “People felt they didn’t have to be leaders because of what they were getting paid,” she argued. However, low profit margins made it hard to justify higher pay.

In the spring of 2014, Mud Bay’s executive team had aligned on a way out of this dilemma: Mud Bay would first invest in higher pay and better benefits, and then look to pay for the investments through stronger sales growth and reduced expenses. It would not be easy, and it wasn’t without risk. Increasing employee productivity and contribution would require significant changes in how Mud Bay ran its business, from merchandising to store operations to staffing to the home-office–store relationship.

Lars believed that for such a large organizational change to succeed, Mud Bay would have to undertake a high-impact and high-involvement change process. With input from the rest of the executive team, he created the curriculum for a series of eight weekly small group discussions. Every store manager together with every member of the home office was assigned to one of the small groups, a total of 67 Muddies in all. Over eight weeks, Muddies explored many of the key choices retailers make and how they could make them to improve jobs and raise productivity and contribution (see **Exhibit 6**).

After eight weeks of discussions, participants elected six store managers, six home office employees, and three district managers to join the five members of the executive team as part of a 20-person

strategic planning team (later named “The Twenty”). The group was charged with developing a “Good Jobs Vision” (GJV) for Mud Bay.

In July, The Twenty met for a two-day workshop. Lars told them, “This is a journey and like most significant journeys, it’s impossible for any of us to say at the beginning exactly how the journey is going to go.” Over two days, The Twenty defined a compelling vision: “By 2017, Muddies will continuously improve, own, and operate one of the best loved retailers in the Pacific Northwest.” They also identified five specific “strategies” Mud Bay would employ to realize its vision: (1) invest in staff, (2) deliver more by offering less at everyday low prices, (3) standardize processes and empower staff through continuous improvement, (4) improve effectiveness by cross-training and operating with slack, and (5) partner with organizations that contribute to the well-being of animals. After The Twenty had defined their vision, the executive team built a 2014-2017 strategic roadmap that identified the key initiatives Mud Bay would use to advance each of the five strategies and realize its vision (see **Exhibit 7**).

### Communicating the Vision

At the end of July, Mud Bay shared with the entire company a document describing the vision and the five strategies. It stated: “We will continue to involve Muddies in the more detail-oriented decisions that follow. Our approach will be to give those who are closest to the action or have the greatest insight the lead role in making decisions. This means, for example, that store leadership teams will play a lead role in standardizing processes and deciding how to empower staff.” It also described how Muddies would learn more about the Good Jobs Vision through online training and at Mudstock, and it encouraged staff to call members of The Twenty if they had questions. The next month, Muddies gathered for their annual Mudstock. They were generally excited about the Vision but also had several concerns about how customers would react to being offered less and how standardization, especially if done without store input, could hinder the creativity and individuality of each store (see **Exhibit 8**).

As company leaders implemented the changes called for in the Vision, they tried to communicate regularly and get feedback on what they were doing through Mudstock, Mud Bay’s internal blog, town-hall style meetings, annual plan descriptions, and year-end look-backs. Lars explained: “We were integrating the language of our Good Jobs Vision and strategies into everything we were communicating to the company. We were making it clear to the company that this wasn’t simply a one-time event. This was actually now becoming part of Mud Bay.” Marisa added: “It’s wasn’t one big initiative. It was, ‘How can we continually improve our company with the GJV?’ So, you are doing small things all the time, explaining why, and then collaborating on the how.”

### Changes Planned and Changes Made from 2014 to 2017

With so many initiatives on the roadmap—and with so many other initiatives being suggested at meetings of The Twenty and at Mudstock—Mud Bay had to prioritize. In 2015, the company invested in staff through higher wages, an increase in the percentage of Muddies eligible for medical insurance,

implementing an ESOP, and introducing a new training curriculum. It reduced the number of SKUs, launched category teams and lowered prices; made some progress in standardization; and made a lot of progress partnering with pro-animal organizations. Through 2018, Mud Bay continued to make changes and launch initiatives that aligned with its five strategies, progressing well in some and falling short on others, especially standardizing processes, creating a culture of continuous improvement, and operating with slack. (See **Exhibit 9** for a timeline of changes.)

### ***Strategy 1: Invest in Staff***

**Pay and benefits.** In August 2014, Mud Bay began to raise hourly wages twice a year in \$.50 increments in addition to yearly wage increases tied to annual performance reviews (an average of \$0.50). From 2014 to 2017, the average hourly wage of most hourly staff had increased from \$11.50 to \$15.00, an annual investment of \$1.5 million, not including payroll tax. Mud Bay’s starting wage at the end of 2017 was \$13.50. (See **Exhibit 10** for average wage data.) As average and starting wages increased, two new compensation issues emerged: 1) Was there enough gap between the rates of pay for new hires and long-term Muddies? (wage compression); and 2) Was it fair to use the same pay scales in areas with widely differing costs of living?

Mud Bay increased the percentage of medical insurance-eligible Muddies by reducing the number of part-time positions, creating “shared key holder” positions that allowed Muddies to work at multiple stores, and redistributing the hours of Muddies who left the company to existing employees first before hiring anyone new. By 2017, 82% of employees were eligible for medical insurance. To increase the percentage of eligible Muddies who actually signed up for medical insurance, Mud Bay increased its contribution percentage and switched to plans with lower deductibles and copays. In 2015, Mud Bay established an Employee Stock Ownership Plan (ESOP) that granted ownership stakes annually to every Muddy who had worked more than 1,000 hours. Muddies were 20% vested after two years and fully vested after six. In 2017, Mud Bay introduced an Employee Assistance Program (EAP), giving Muddies and their families free counseling on personal issues such as finances and mental health. By the end of 2017, the company had not, however, implemented a 401(k) match program, paid maternity/paternity leave, or pet insurance as it had hoped to.

**Training.** Beginning in 2015, the training of new staff members evolved from a day-long classroom session to a self-guided, video-based “first year journey,” supplemented with on-the-job practice and feedback from more tenured Muddies. When they had free time at work, new staff were expected to watch short videos on dog and cat health, nutrition, and products. More senior staff could watch new videos to stay up-to-date on the latest products and health news. Mud Bay also began formally investing in leadership development. In 2016, it launched a “District Manager in Training” program, which involved ride-a-longs and one-on-one coaching with existing district managers for select store managers. In 2017, Mud Bay began teaching its company approach to leadership to every Muddy who had supervisory responsibilities. The program consisted of seven all-day workshops, delivered once per month for seven months to cross-functional leadership cohorts composed of ten to fifteen Muddies. The curriculum was developed by Mud Bay’s Co-CEOs, its newly hired Chief People Officer and its



Learning & Development leader, and it was based on a vision of Mud Bay leadership to which more than a hundred Muddies had contributed their thoughts. (See **Exhibit 11**.) In 2017, Mud Bay also began offering workshops focused on workplace harassment training and on diversity and inclusion.

***Strategy II: Deliver More by Offering Less at Everyday Low Prices***

In September 2014, Mud Bay solicited “Stop Doing” suggestions through blog posts and Survey Monkey in order to create time and free up resources to work on the GJV. The adopted changes included discontinuing faxing and accepting checks, and rejecting special orders on brands that were not part of the assortment. In addition, Mud Bay took three other steps.

**Simplifying assortment.** Mud Bay reduced its number of active SKUs from 3,750 to 3,375 in 2015 and to 3,180 by 2017, primarily by eliminating redundant products; for example, carrying two rather than three sizes of the same dog food. “It reduced the overall workload and knowledge requirement from the staff,” Al said.

**Category expert teams.** To ensure Mud Bay carried the right products, Mud Bay gave store staff a greater voice in product selection. Historically, product introductions and withdrawals were managed by a four-person home office category team. Stores’ involvement was limited to emailing category teams with questions or comments on products, including customer objections when products were discontinued, and voting on new products at Mudstock, where manufacturers set up displays. In 2015, Mud Bay created “Category Expert Teams,” made up mostly of store managers and staff, to advise category managers on which products to add and which to eliminate.

**Reducing prices.** When Al joined Mud Bay as its first chief merchant in 2013, he found that despite the company’s stated commitment to everyday low prices, Mud Bay’s prices for certain products were higher than its competitors. Late in 2014, Mud Bay started putting its money where its mouth was, systematically reducing prices and compressing its gross margins.

***Pillar III: Standardize Processes and Empower Staff through Continuous Improvement***

**Standardizing processes.** Mud Bay made some progress in standardizing the processes for customer returns, special orders, unloading and putting away merchandise, and managing inventory expiration dates. Stores were encouraged to lay out their register counters in the same way—for example, putting scissors in the same drawer in each store—to help district managers and staff who took shifts in multiple stores work more efficiently. In 2017, Mud Bay created a training for the delivery drivers who worked for the company’s distributors in order to standardize how warehouse crews built pallets for delivery, where delivery drivers left merchandise within stores and how Mud Bay prepared items for reverse logistics. Drivers were also introduced to a message board where they could leave and receive notes if there was an issue. Standardization of shared delivery processes cut the percentage of problem deliveries almost in half, from 8.6% in 2016 to 4.8% in 2017. In 2017, Mud Bay improved the way it asked staff for input into store schedules, enabling Muddies to indicate not only the hours they were available to work but also those they preferred.

Much had been accomplished in a few busy years. Still, in the summer of 2018, Mud Bay's leadership strongly believed that much more needed to be done. Lack of standardization in some processes and practices sometimes led to confusion and inefficiency, and, despite annual hand wringing, Mud Bay had made no improvement in inventory adjustments, which cost the company 1.2% of sales in 2017. At least part of this cost, it was believed, could be attributed to unstandardized inventory processes.

Mud Bay also had much work still to do on standardizing its people practices. In 2017 alone, Mud Bay hired over 200 new store staff. All stores still did their own hiring, from soliciting applications to making offers. Managers found their ownership of hiring empowering, but the unstandardized process was inefficient and sloppy: many applicants never heard back after submitting an application. This was particularly problematic because most job applications were current Mud Bay customers. In 2017, Mud Bay hired a Chief People Officer, Michelle Markus, who, among other things, would work on strengthening recruiting efforts, standardizing hiring practices and developing clearer career paths, articulating what skills were required for each position and offering position-specific training.

**Empowering through continuous improvement.** The strategy Mud Bay had the greatest difficulty getting traction on was empowering staff through continuous improvement. By 2018, Mud Bay still had not implemented an idea system. As Al explained, "Stuff bubbles up and I feel like we are a continuous improvement company, but we don't have a solid structure around it." Some of the store staff had another explanation. According to Mark Lipke, a district manager who joined Mud Bay in 2008: "We haven't been yet been able to harness our slack. The idea of GJV was to create space for your staff and teams to have time to think about how to do their jobs more effectively and we haven't been able to do that systematically yet."

For the most part, the standardization and improvement approach was done top-down. There was still an urge to control things from the home office. Lars acknowledged: "We've learned throughout our history and particularly in the past three years how valuable it is to give up that control ...but it's still challenging." Yet Mud Bay had always empowered Muddies to make decisions for customers. Prices were set by the home office, but any Muddy could offer a discount at the register if, for example, a customer said that he or she usually bought a product less expensively elsewhere. The home office issued guidelines for all stores on merchandising, including suggestions on signage. "We spent about six months trying to come out with uniform signage that looked Mud Bay," Al said. But then, for non-core products, they decided to create mini-chalkboards and empowered staff to use their creativity and knowledge of their customers to fill them. "It's been just an explosion," Al continued. "I mean, our artists now I think are one of the biggest parts of Mud Bay culture."

#### ***Strategy IV: Improve Efficiencies by Cross-training and Operating with Slack***

**Cross-training.** Since the first store opened, all Muddies, including store managers, were trained and expected to perform almost all store tasks. This gave stores flexibility: customer conversations were always the top priority and if a staff member was engaged in a long conversation, other Muddies stepped

in to open a second register, restock shelves, or replenish sample supplies. The exception to this was at the “store lead” level. Leads, who were two levels above entry level and just below assistant store manager, included *shift leads*—responsible for monitoring the floor, assessing conversations, coaching staff, and solving more difficult customer issues—and *inventory leads*—charged with receiving, putting away, re-stocking, and monitoring all inventory. In 2017, Mud Bay combined the two roles into a unified lead position in order to increase Mud Bay’s scheduling flexibility.

**Smoothing workload.** Before 2015, two Muddies arrived at the store at 5 am to make sure all overnight deliveries were shelved before the store opened at 9:00 am. In 2015, field leaders encouraged the company to try a new approach: the two store openers would arrive 30–45 minutes early and shelve the largest, heaviest items, storing the rest of the merchandise in the back room. Then, throughout the day, all Muddies would put the rest away during lulls.

**Operating with slack.** Operating with slack required estimating the workload over a given shift or day and staffing stores with more hours than the expected workload in order to give staff time to think about ways to do their job more effectively and efficiently. Mud Bay staffed its stores at higher levels than its competitors, but it was incapable of implementing a task-based staffing system. Instead of planning and tracking separate hours allocations for customer service, putting away merchandise, store opening and closing, community outreach, ongoing training, training new staff and training staff for new stores etc., stores were simply given a total weekly allocation of labor hours based on projected sales for the year. Managers built staff hours schedules based on a rule of thumb (one Muddy for every eight transactions per hour) and staffed all of the other activities they were responsible for as best as they could. In 2016, Mud Bay identified its staffing and scheduling system as a significant area of weakness.

Mud Bay did make a few changes to reduce understaffing and create slack. Rather than banking the labor saved by not having two people arrive at 5:00 am, all stores retained their existing hours allocations, enabling them to put more staff on the floor during opening hours. The “shared keyholder” position was introduced as a way to enable Muddies to work as many hours as they wanted to (up to 40) by working in multiple stores. As of 2018, Mud Bay had evolved this position into a “shared lead” and had 4 shared leads with more projected to move into this position in 2019. The company also shifted from physical to electronic keys, allowing any key-holding staff member to open any store.

### ***Strategy V: Partner with Organizations that Contribute to the Well-being of Animals***

In 2015, Mud Bay nearly doubled the number of company-sponsored pet adoption events, increased its shelter donations by more than 50%, and launched FUTY (From Us To You), an annual festival to honor animal shelter and welfare volunteers. The company also hired three community outreach staff to build relationships with local animal organizations. In 2017, Mud Bay opened its first “Mudlet,” a small-format Mud Bay store, inside the Seattle Humane Society’s building. 100% of operating profits from the Mudlet were donated to the Humane Society.

## Progress

In the middle of 2018, Mud Bay's GJV journey was still continuing. "I feel like we have a way to go on pretty much every aspect of it," Marisa said. Others agreed. According to Chief Information Officer Robert Maas, who joined Mud Bay in 2016, "Our aspirations are so much bigger than our capacity to execute them and we don't have a really good mechanism to plan ideas out. We'll just jam them through." As a result, Mud Bay consistently fell short of implementing 100% of the initiatives laid out in its annual plans. Town halls were planned for 2016 but not implemented until 2017. Budgeting and forecasting software was identified as an important need in 2016 but still had not been selected by the end of 2018. Home delivery was identified as a key opportunity in 2016 but had not been launched by the end of 2018.

Some ideas that were identified early in the process, like implementing a better point-of-sale system that would improve store-level efficiencies, were delayed because of insufficient time, money and/or leadership capacity. And as the company started making changes, the list of ideas it wanted to implement continued to grow. For example, as development and training requirements increased, Muddies asked for additional hours for in-store meetings and training. Another idea that surfaced was the creation of a centralized support team to provide Muddies with immediate telephone support. Field managers and home office staff spent a lot of time answering questions on topics including customer service, products, IT, dog and cat health, accounting and HR. A centralized support team that tracked staff questions and pain points would be able to develop insights that could guide continuous improvement efforts throughout the company.

For the most part, Mud Bay did not attempt to assess the impact of individual Good Jobs initiatives. Analyzing data to understand the impact of various decisions was not a company strength. Lars had his reasons for this:

I grew up in business loving Excel. At the same time, [Marisa and I] both understand very clearly that the business we're in is a business of human beings and that those human beings are making decisions every second that affect what shows up or doesn't show up in Excel. So, I think when you look at something like the cost of pay raises, there is no way that we could say, "It's going to cost us this and we can be confident that we will make it up with this, this, and this." What we had to do is say fundamentally, "We're not paying people enough. If we want to be the sort of company that we want to become, if we want a retention rate of 80% or 90%, if we want people to love their job, we're going to have to pay more." Ultimately, we will have to make the bottom line work, but the truth is that a bottom line is composed of a few hundred lines on an income statement. Although it may be appealing at some emotional level, the reality is that it's very difficult to say this moved 14 basis points in one direction and I made it up with eight basis points here, five basis points here, and one basis point there. It's not reality. It's fiction.

For example, one of the biggest business impacts in 2017 came not from any Good Jobs work, but from a supplier issue that cost the company sales. Nonetheless, by the end of 2017, the company was able to gauge the overall effect of the changes (see **Exhibit 12** for select operational and employee metrics):

### Improvements to Customer Experience and Competitive Positioning

Under Al's leadership, Mud Bay followed through on its renewed commitment to everyday low prices. By 2018, Mud Bay's prices averaged about 7% below the everyday prices of its primary brick-and-mortar competitors, PetSmart and Petco, and about on par with those of its primary online competitors, Amazon and Chewy. "Over the last few years, we've drawn customers because they know they can have confidence in the price," Al observed. In 2017 and 2018, Yelp, Google, and Facebook reviews averaged 4.8 or 4.9 on a scale of 1 to 5. (See **Exhibit 13** for example reviews.) Mud Bay was also in a stronger position to mobilize Muddies to implement customer-facing solutions. For example, in-store weigh stations were introduced to help pet owners keep track of weight goal progress. Rolling out the weigh stations required collaboration between the marketing, store development and store operations teams and the stores themselves. As Marisa said, "We piloted it in a few stores and we tweaked it. We tried different scales. We tried different locations in the store. And because we got feedback, because we collaborated, because we tested, at the point when it rolled out, it was just like, boom."

Larger strategic changes were also becoming easier to make. Late in 2015, the annual planning team realized that dog product sales were on pace to grow 23% compared to only 16% for cat products. Mud Bay therefore proclaimed 2016 "The Year of the Cat," explaining the problem to Muddies and encouraging them to become "cat geeks." By Q2 of 2016, the difference between dog and cat product growth had shrunk to less than one percentage point. Overall, company leaders felt that a stronger and more stable workforce was enabling them to execute changes more easily and would enable them to offer more services to customers in the future.

### Improvements to Employee Experience

From 2014 to 2017, the percentage of employees working at least 30 hours increased from 69% to 82% and the average wage of an hourly store employee increased from \$12.12 to \$15.06. Those changes translated into an average annual earnings increase of approximately \$3,800 for non-managerial employees. According to Lars, "If we didn't raise wages to the point where we take pay off the table, we wouldn't be able to do any of the good things we wanted to do." Store staff turnover decreased from 48% to 31% and Mud Bay staff went from owning none of the company to owning 4.8% of it.

Muddies were proud of the steps that Mud Bay was taking. After 2018's Mudstock, one Muddy commented, "I will stay with this company as long as I possibly can. They still have things to work on, but they're actually trying." Robert Maas spoke about the focus that the GJV brought: "You've either made your customer's life better or you made a Muddy's life better or you've done both. We do as much as we can with the resources that we have."

## Financial Performance

From 2014 to 2017, total sales grew by 70% and same-store sales growth averaged above 9%. While new stores contributed to topline growth, they took around 14 months to become profitable, and nearly 5 years to reach “steady state” (growing at the same rate as an older store). Sales per labor hour, including managerial and non-managerial hours, increased from \$116.86 to \$132.07. Meanwhile, however, cost of goods sold grew from 56.2% to 57.7% of sales due to lower prices. The home office grew from 36 to 56 people, and wage and benefit costs rose, driving a net profit margin decline of nearly 10%. This decrease in profitability did not come as a surprise. The 2015 annual plan stated: “With more stores and strong same-store growth, we expect the highest sales in our history... On the other hand, higher wages, stronger benefits, lower retail prices (by our choice), employee ownership, and a lot of new or young stores all combine to reduce our earnings.”

Lars saw lower profitability as the price to be paid for long-term success: “None of us who lead the company are concerned with these three years of performance as the primary thing we should be focused on. We’re building a company to last for decades and what I’m quite confident about is that the GJV has made us the sort of organization that is much more likely to be here, healthy, growing, and profitable 10 and 20 years from now than we would be otherwise.” Nevertheless, insufficient profitability was preventing the annual planning team from finalizing the 2018 plan and budget.

## Store Hours Decision

The idea of reducing store hours had shown up as early as 2014 among staff suggestions for improving Mud Bay. Now, as she had for the past two years, Tracy made the case for shorter hours to the planning team. Field leaders were hearing from store staff that they disliked staying until 9:30 (half an hour after closing), particularly on Saturdays, when they wanted to be with families and friends; additionally, Muddies reported that the stores were “dead” late in the evening. “So, they were saying, ‘well, we’d rather be at home’, but also, ‘why are we even open now?’” Tracy said. Tracy and her team proposed closing an hour earlier, at 8:00 pm, Monday through Saturday. In addition to helping employees get out earlier and generating labor savings, this would eliminate “clopenings” (when Muddies had fewer than ten hours between ending one shift and beginning the next) and allow the company to staff for 11 hours versus 12 hours, increasing mid-day overlap between openers and closers and removing unpopular short midday shifts.

Marisa was supportive – two years living in France had reinforced her belief in the human value and economic viability of shorter retail hours – but Lars resisted. Lars had moved Mud Bay to its current schedule to match Petco and PetSmart hours, and he worried that closing early would inconvenience customers and violate Mud Bay’s commitment to graciousness. He was also concerned that lost revenue would more than offset the labor savings. Before making the decision, he wanted to see an impact analysis.

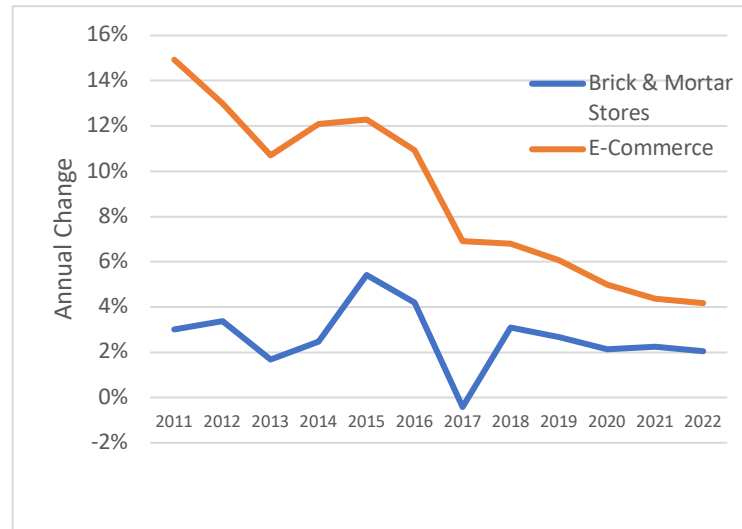
Robert and his team analyzed sales data for almost all of Mud Bay's stores over six different weeks in three different seasons. For each day of the week, they compared the volume of sales during the first two half hours and the last two half hours to the average volume per half hour. Because Muddies frequently made sales before opening and after closing, they also included the half hours before opening and after closing. (**Exhibit 13**)

As the annual planning team gathered one more time to try to agree on revisions to the 2018 budget, they reviewed the analysis. Now it was time for them to make a decision.

**Exhibit 1a Pet Store Industry Data**

Industry growth (\*estimated numbers); sales in \$ billions and number of pets in millions

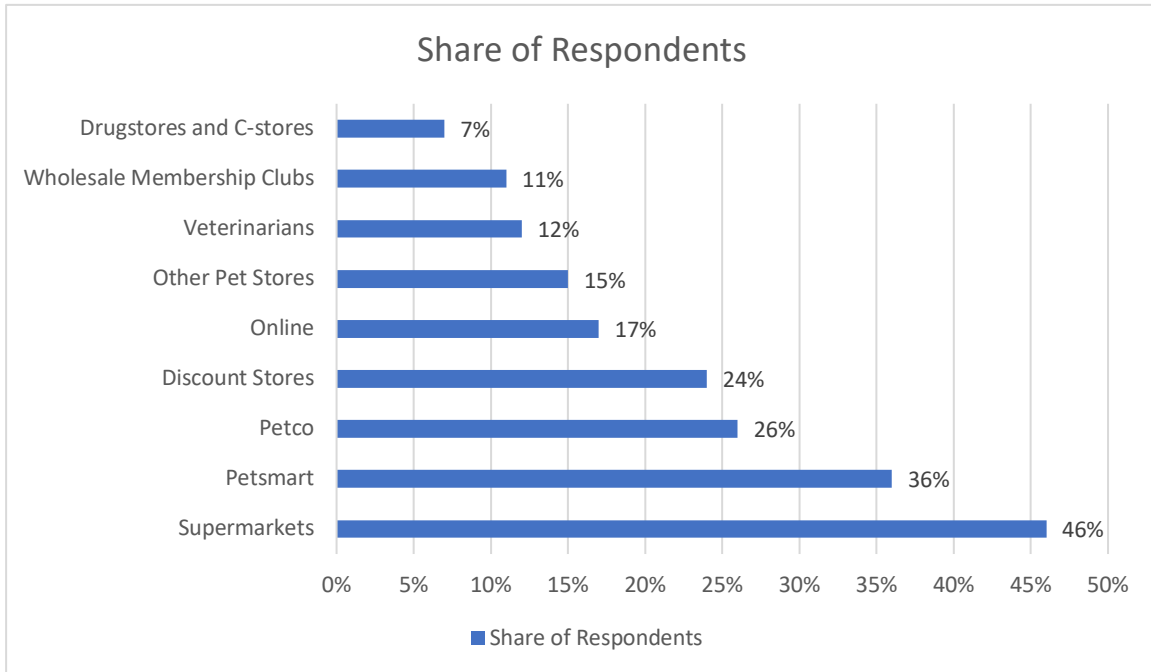
Year	Brick & Mortar Sales	Online Sales	Number of pets (cats and dogs)
2010	15.65	2.88	164.6
2011	16.12	3.31	164.4
2012	16.66	3.74	171.7
2013	16.94	4.14	178.9
2014	17.36	4.64	171.3
2015	18.30	5.21	163.6
2016	19.07	5.78	173.8
2017	18.99	6.18	183.9
2018*	19.58	6.60	186.9
2019*	20.10	7.00	192.7
2020*	20.53	7.35	197.5
2021*	20.99	7.67	202.7
2022*	21.42	7.99	207.2



Source: Kelsey Oliver, "Pet Stores in the U.S.," IBISWorld, 2018.

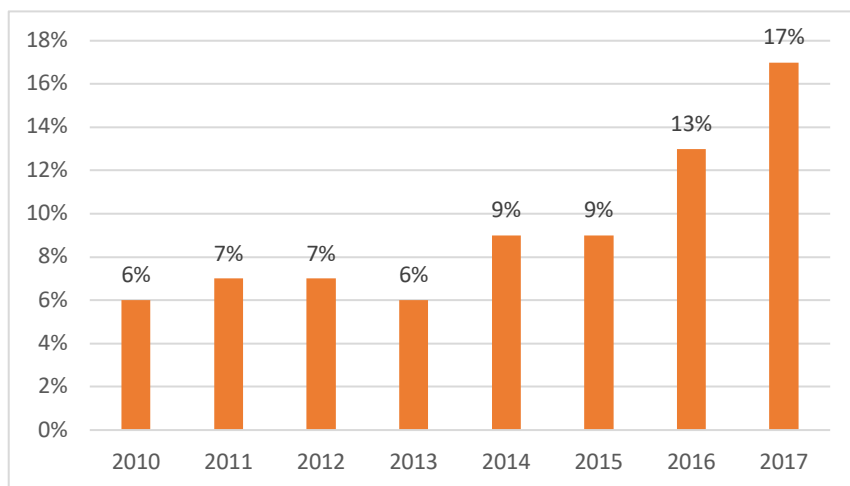


**Exhibit 1b Share of Consumers Using Selected Distribution Channels for Pet Product Purchases in the U.S. in 2017**



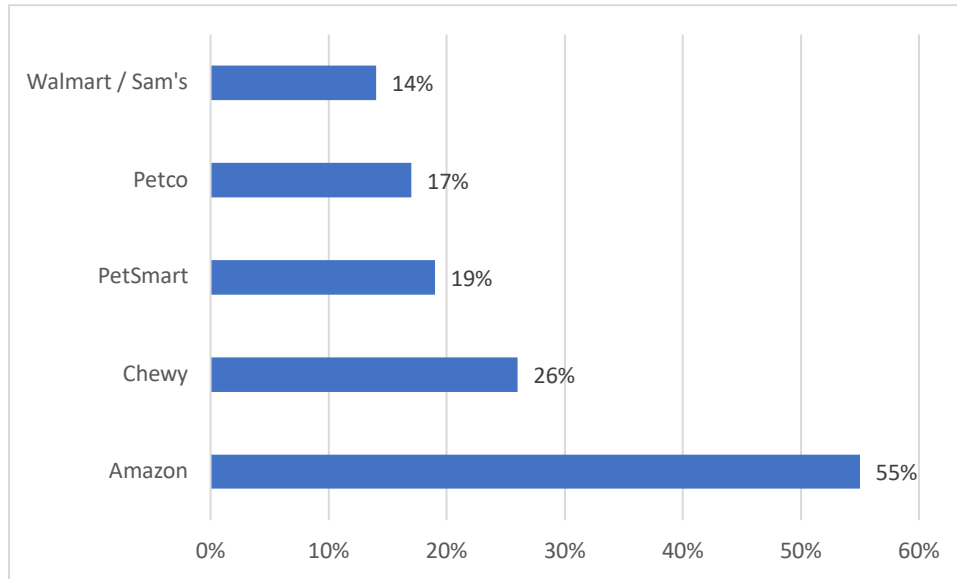
Sources: Packaged Facts; APPA; Statista (<https://www-statista-com.libproxy.mit.edu/statistics/728232/pet-products-consumer-distribution-channels-us/>, accessed August 12, 2018).

**Exhibit 1c Share of Consumers Using Online Channel for Pet Product Purchases in the U.S.**



Sources: Packaged Facts; APPA; Statista (<https://www-statista-com.libproxy.mit.edu/statistics/728236/pet-products-online-consumers-us/>, accessed August 12, 2018).

**Exhibit 1d Share of Online Pet Product Consumers Using Selected Channels for Pet Product Purchases in the U.S. in 2019**



**Exhibit 1e Pet Store (Brick & Mortar) Industry Cost Structure**

Cost	% Revenue
Purchases	55.8
Wages	14.4
Rent & Utilities	9.4
Marketing	1.9
Depreciation	0.9
Other	13.6
Profit	4

Source: Kelsey Oliver, "Pet Stores in the U.S.," IBISWorld, 2018.

**Exhibit 2 Petco and PetSmart Financial and Operational Data**

	2010	2011	2012	2013	2014
<b>Petco</b>					
Net Sales (000s)	\$ 2,869,113	\$ 3,101,862	\$ 3,528,030	\$ 3,785,153	\$ 3,995,368
Gross Profit (000s)*	\$ 884,997	\$ 979,674	\$ 1,124,965	\$ 1,183,298	\$ 1,216,941
Net Income (000s)	\$ 22,468	\$ 63,975	\$ 98,821	\$ 84,765	\$ 75,342
Number of Stores	1064	1145	1230	1314	1383
Comp Store Sales Growth	1.8%	5.2%	7.6%	4.9%	1.8%
Net Sales per Square Foot	\$ 186.3	\$ 192.9	\$ 208.6	\$ 213.4	\$ 217.0
<b>PetSmart</b>					
Net Sales (000s)	\$ 5,693,797	\$ 6,113,304	\$ 6,758,237	\$ 6,916,627	
Gross Profit (000s)	\$ 1,654,531	\$ 1,804,423	\$ 2,062,139	\$ 2,115,937	
Net Income (000s)	\$ 239,867	\$ 290,243	\$ 389,529	\$ 419,520	
Number of Stores	1187	1232	1278	1333	
Comp Store Sales Growth	4.8%	5.4%	6.3%	2.7%	
Net Sales per Square Foot	\$ 213.9	\$ 224.4	\$ 242.8	\$ 243.0	

\* Gross profit excludes cost of sales and occupancy

Source: Petco Holdings Form S-1, August 17, 2015; (<https://www.sec.gov/Archives/edgar/data/1582846/000119312515293270/d42894ds1.htm>, accessed 10/30/2018); PetSmart Form 10-K, for the fiscal year ended February 2, 2014 (<https://www.sec.gov/Archives/edgar/data/863157/000086315714000040/petm-20140202x10k.htm>, accessed 10/30/2018).

### **Exhibit 3 Mission, Values & The Mud Bay Experience**

#### **MISSION**

To contribute to the health of dogs and cats and the happiness of those who care for them as we build a strong company we're proud of.

#### **VALUES**

**Accountability:** We follow through

**Education:** We empower with knowledge

**Integrity:** We do the right thing

**Generosity:** We help others succeed

**Responsibility:** We use our best judgement

**Fun:** We create workplaces that are filled with laughter

#### **THE MUD BAY EXPERIENCE**

Gracious	Dog and cat owners are the reason we're here, and we'll do anything reasonable to help them.
Healthy	Everything we carry is healthy and well-made.
Happy	Visiting our stores is a happy and educational experience.
Solutions	We give useful, accurate answers and focus on helping people choose healthy foods for their dogs and cats.
Fair prices	Our prices are among the lowest in the area.
Satisfaction	If something doesn't work, we'll happily take it back.
Clean	Our work spaces are well-organized, and our displays sparkle.
Carry-outs	We carry out purchases over fifteen pounds.
Consistently varied	The human experiences we create are unique to each moment, customer, staffer and store, but each reflects Mud Bay's values and character.

*Source: Mud Bay.*

**Exhibit 4 Mud Bay P&L and Select Balance Sheet Metrics**

	2011	2012	2013	2014	2015	2016	2017
<b>Mud Bay P&amp;L</b>							
Store Retail Sales	28,990,887	33,010,827	38,430,683	45,518,036	54,659,273	66,504,680	76,707,575
Cost of Sales	17,373,753	19,235,746	21,546,927	25,587,137	31,170,989	38,338,038	44,263,661
Gross Profit	11,617,134	13,775,081	16,883,756	19,930,899	23,488,285	28,166,642	32,443,914
Occupancy	2,701,913	3,048,659	3,569,523	4,293,386	5,145,031	5,993,794	6,839,910
Wages, PTO	2,989,973	3,854,652	4,355,297	5,490,277	6,963,053	8,915,389	10,199,537
Payroll taxes & benefits	474,223	568,699	688,251	890,808	1,101,502	1,424,329	1,711,536
Profit Sharing	19,396	98,410	140,000	181,200	55,763	-	118,216
Other	1,505,080	1,701,560	2,021,805	2,519,498	2,841,851	3,251,894	3,634,405
Depreciation	262,363	339,309	411,321	519,638	640,854	792,616	934,197
Total Operating Expense	7,952,948	9,611,289	11,186,197	13,894,807	16,748,055	20,378,023	23,437,802
Operating Income	3,664,186	4,163,792	5,697,559	6,036,092	6,740,230	7,788,619	9,006,112
General & Administrative	3,146,207	3,131,672	4,043,244	4,423,701	4,854,513	6,044,369	6,819,738
ESOP Contribution					125,000	399,000	438,352
Other (Income) Expense	(33,362)	49,423	(23,874)	(14,741)	(24,381)	32,793	694
Interest Expense	116,044	83,479	69,496	17,131	2,953	43	-
<b>Profit Before Taxes</b>	435,297	899,218	1,608,693	1,610,001	1,782,145	1,312,415	1,747,328
Total Income Tax Expense	(152,824)	(311,749)	(556,307)	(618,483)	(671,669)	(583,619)	(222,364)
<b>Net Income (Loss)</b>	282,473	587,469	1,052,386	991,518	1,110,476	728,796	1,524,964
<b>Select Balance Sheet Metrics</b>							
Cash	557,045	1,224,625	1,387,655	1,405,504	1,832,253	1,905,729	2,132,356
Total receivables	637,770	340,217	1,203,356	797,127	1,419,693	744,553	1,113,983
Total payables	2,017,893	2,726,865	3,589,357	4,275,789	5,000,712	4,958,056	5,786,989
Inventory	2,732,374	3,193,223	3,365,219	4,158,755	4,637,932	5,181,968	6,664,448

Source: Mud Bay.

**Exhibit 5 Mud Bay Store Photos**



Source: Casewriters.

**Exhibit 6 Example Discussion Questions for Mud Bay's 8 Weeks of Small Group Discussions**

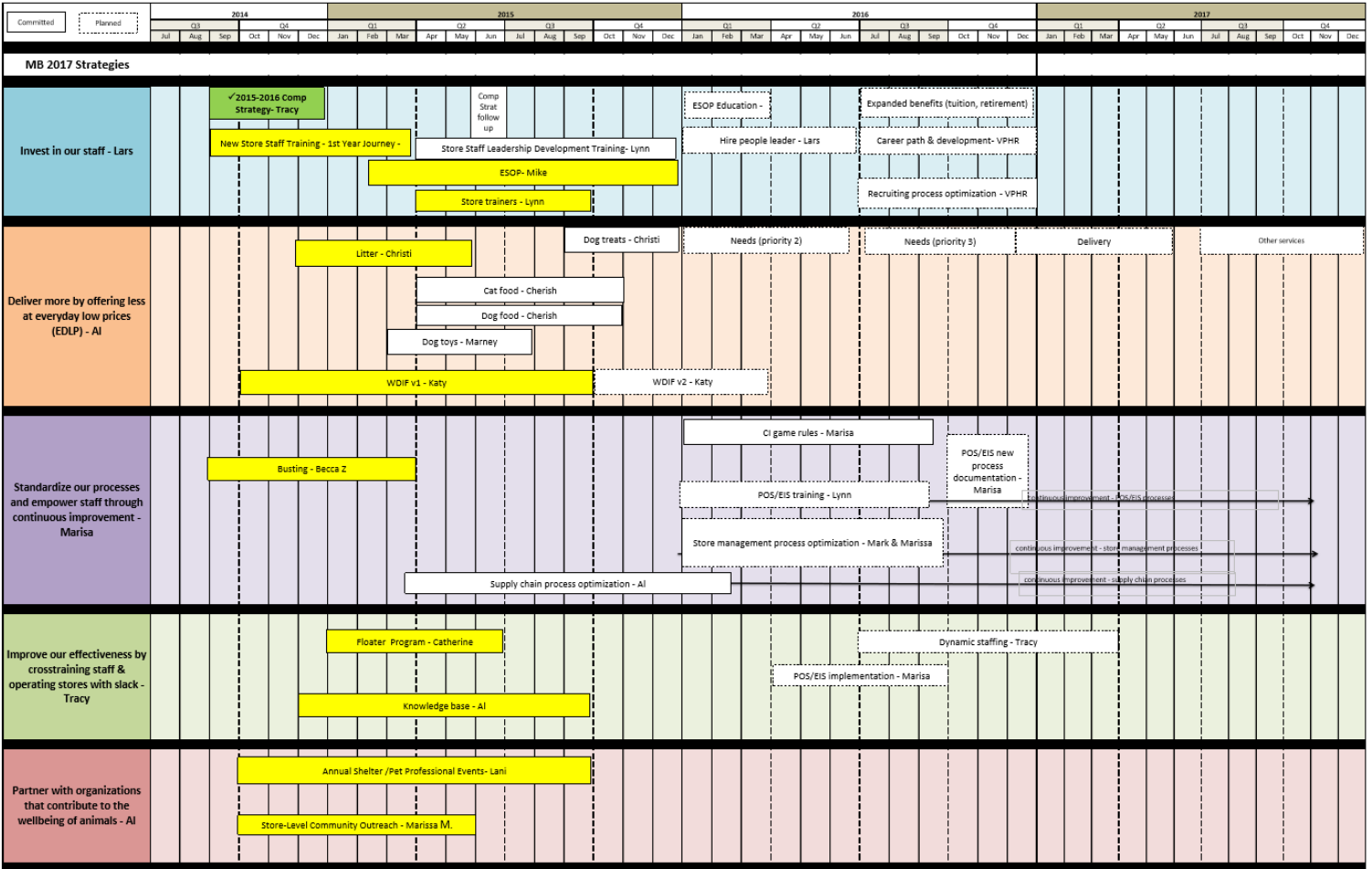
- Are retail staff a key asset to invest in or the largest expense to minimize?
- Should processes be standardized or should staff be empowered to use their judgment—or both?
- Should retail roles be highly specialized or should staff be cross-trained and empowered to move between different tasks?
- Should pricing be set at levels that maximize the profitability of transactions or at levels that maximize the volume of business units?
- What are the advantages and disadvantages of offering more or fewer product choices?
- Should retail staffing levels be set at a level that minimizes expenses or maximizes sales or someplace in between?
- Should schedules be designed to maximize business efficiency or maximize staff members' quality of life?

**Exhibit 7 Mud Bay's GJV Roadmap (as of January 2015)**

Updated 11.20.14

Mud Bay 2017 Roadmap - DRAFT

Vision: By 2017, Mudlics will continuously improve, own and operate one of the best loved retailers in the Pacific Northwest



Updated 1.13.15



### ***Exhibit 8 Mudstock 2014 Assessment of Mud Bay 2017***

What aspects of Mud Bay 2017 are most EXCITED about?

1. Investing in staff: full-time jobs, opportunities for advancement
2. Higher pay and stronger benefits
3. Offering less at EDLP: Fewer brands, more knowledge, in-depth training
4. Mud Bay staff are owners of Mud Bay
5. Cross-training and Operating with Slack

What aspects of Mud Bay 2017 are we most CONCERNED about?

1. Fewer products: Making customers unhappy (and losing them) because we don't have what they want
2. Standardization: Too much standardization causing loss of individuality, culture, being Consistently Varied
3. Overpromising and underdelivering: setting the right priorities, saying no, getting things done by 2017
4. Not enough communication between stores and home office, not enough store input in decisions
5. Maintaining our culture and integrity

### ***Exhibit 9 Timeline of Changes***

#### **2015:**

- ESOP launched
- 10% SKU reduction
- Category teams introduced
- New approach to busting (putting product away) rolled out
- Change in training approach (shift to video-based 'first year journey')

#### **2016:**

- DM development program launched
- Additional SKU reduction (<5%)
- Electronic keys
- Shared key holder position introduced

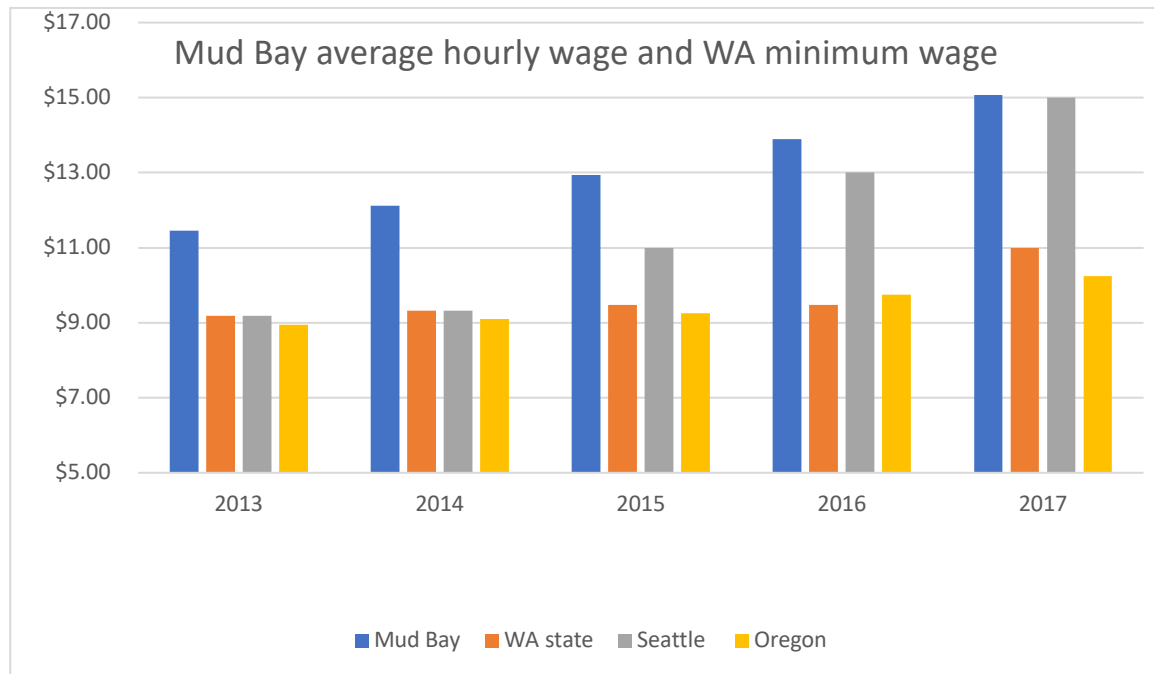
#### **2017:**

- Employee Assistance Program launched
- Availability and preference form for scheduling launched
- Delivery standardization (training for drivers) rolled out
- Unified lead position rolled out
- Additional SKU reduction (<5%)
- Pricing analyst hired (to ensure EDLP)

#### **Across the entire time period:**

- Wage increases
- Ongoing price drops, beginning in 2015

**Exhibit 10 Mud Bay's Pay Data 2013 – 2017**



Sources: Mud Bay; [://www.ini.wa.gov/WorkplaceRights/Wages/Minimum/History/default.asp](http://www.ini.wa.gov/WorkplaceRights/Wages/Minimum/History/default.asp) (accessed August 31, 2018); <https://www.usatoday.com/story/money/nation-now/2017/06/27/report-finds-seattles-15-minimum-wage-may-hurting-workers/431424001/> (accessed January 31, 2019); <https://evans.uw.edu/sites/default/files/NBER%20Working%20Paper.pdf> (accessed January 31, 2019); [https://www.oregonlive.com/money/index.ssf/2014/09/oregon\\_minimum\\_wage\\_will\\_incre.html](https://www.oregonlive.com/money/index.ssf/2014/09/oregon_minimum_wage_will_incre.html) (accessed January 31, 2019); <https://www.oregon.gov/boli/whd/omw/pages/minimum-wage-rate-summary.aspx> (accessed January 31, 2019) [https://www.washingtonpost.com/blogs/govbeat/wp/2013/09/25/is-seattle-headed-for-a-15-minimum-wage/?utm\\_term=.92b461448b58](https://www.washingtonpost.com/blogs/govbeat/wp/2013/09/25/is-seattle-headed-for-a-15-minimum-wage/?utm_term=.92b461448b58) (accessed January 31, 2019).

**Exhibit 11 Description of Mud Bay Leadership: How We Work Together**

**HOW WE WORK TOGETHER**

**With open minds**, listening, asking questions, seeking to understand.

**With open hearts**, speaking honestly, connecting with others, letting ourselves be vulnerable.

**With empathy**, self-awareness and a sense of humor.

**With good judgement** and a focus on long-term outcomes

**With passion** for Mud Bay's mission, a desire to learn and a drive to do the extraordinary.

**Walking our talk**, doing our share and being true to ourselves.

**Sharing ownership**, empowering others, assuming good intentions.

**Exhibit 12 Select Operational and Employee Metrics 2011-2017**

	2011	2012	2013	2014	2015	2016	2017
<b>Sales and growth metrics</b>							
# stores	23	24	27	32	35	40	44
Total Sales (000s)	\$ 28,991	\$ 33,011	\$ 38,431	\$ 45,518	\$ 54,659	\$ 66,505	\$ 76,708
Comp Store Sales growth	1.5%	5.9%	12.1%	9.8%	12.1%	11.0%	4.8%
Sales per square foot	\$ 278.60	\$ 302.41	\$ 318.95	\$ 316.52	\$ 351.46	\$ 377.61	\$ 394.19
Transactions	1,014,977	1,118,296	1,263,147	1,462,053	1,724,062	2,073,083	2,348,230
First-time visitors (FTV)			10,420	23,168	28,978	35,827	42,977
<b>People metrics</b>							
Number store employees		206	225	261	306	334	364
Number warehouse employees		4	3	4	5	6	8
Number home office / field employees		28	33	36	38	44	56
Starting hourly wage (beginning of year)				\$ 10.25	\$ 11.25	\$ 12.25	\$ 13.25
Average hourly wage (hourly employees)			\$ 11.45	\$ 12.12	\$ 12.94	\$ 13.90	\$ 15.06
Total hours worked (hourly employees)			289,182	342,319	405,163	467,707	516,020
Average hourly wage (salaried employees)			\$ 18.78	\$ 19.68	\$ 20.65	\$ 21.78	\$ 24.00
Total hours worked (salaried employees)			51,925	61,664	70,746	80,997	92,681
% employees working over 30 hours			65%	69%	73%	74%	82%
Employee turnover	48%	46%	45%	48%	36%	33%	31%
<b>Other operational metrics</b>							
Inventory turnover		6.49	6.57	6.80	7.09	7.81	7.47
Shrink	\$ 9,870	\$ 161,689	\$ 36,129	\$ 105,682	\$ 112,356	\$ 131,902	\$ 153,007

Source: Mud Bay

***Exhibit 13 Example Customer Comments on Yelp***

**March 2018:** Mud Bay has helped us through many a crisis with our cats, starting when they were kittens. The staff is so knowledgeable about any and all products they carry and everybody I've interacted with goes out of their way to help you and provide information, not just about what they sell but pet needs and behavior in general. Also, all products they carry are high quality and if something doesn't work for your pet (like the crinkly cat tunnel mine ignored for 2 weeks), you can return it for store credit. If they can't resell it, they will donate what you return to a shelter.

**August 2017:** Moved to Seattle recently and planned to continue ordering my dog's food online. I walked into a Mud Bay to grab a can of wet food for my pup during the stressful in-transition period of my move where I didn't have a solid address to receive mail/shipments. They sent me out with three giant cans of wet food to try as samples, didn't charge me a dime! They don't stock my dog's specialty food, but assured me they could order it for me on a regular basis.

**July 2017:** I have never had a bad experience at any Mud Bay locations, and this one is especially pleasant to go to. Doug has helped me on both occasions I've been in and has provided stellar and friendly service! With his help, I found my cat's absolute favorite toy (after an extensive analysis of her play habits/vetting of literally all the options), as well as a wet food that won't upset her delicate stomach. He was also able to make a full return for a window seat my cat was afraid of while another employee only offered store credit (that's fine as well but a full return is preferable).

**November 2016:** Ballard Mudbay has always been on our route home from work. My dog comes to work with me so the route home always held the promise of lamb lung treats and genuine love from the magnificent people who work there. Thanks Evan Herring, for having the hugest heart for Gups and all of the other dogs and cats and birds and people who come in, and taking care and filling it full of people to work with you, with the same genuine care and love of animals.

**March 2016:** What keeps me coming back to Mud Bay is the great customer service. We brought our new pup straight here after we picked him up from the animal shelter, and one of the employees walked us through the entire store using a list they provide for what you need when you get a dog. She was incredibly helpful, providing us with a bunch of different information about the many products available; and it was clear she didn't have an agenda when it came to trying to sell us on something.

**Exhibit 14 Cumulative sales from six weeks in 2017, across all Mud Bay stores, by half hour (combines sales from two weeks in April, two in August and two in late October, 2017)**

Note: the “Total” column is a summation of all sales during that half hour across all Mud Bay stores for the six weeks considered. For example, the \$32,666 figure under Monday, 9-9:30am represents the sum of all Mud Bay store sales for that half hour period during those six weeks. The day total for Monday represents the sum of six weeks’ worth of Monday sales, across all stores.

	Mon	Tues	Wed	Thu	Fri	Sat	Sun
	Total	Total	Total	Total	Total	Total	Total
<b>a 8:30-8:59am</b>	\$830	\$400	\$360	\$351	\$732	\$606	
<b>b 9:00-9:30am</b>	\$32,666	\$31,155	\$32,523	\$34,297	\$41,365	\$54,419	
<b>c 9:30-10:00am</b>	\$36,478	\$35,049	\$35,718	\$36,074	\$43,283	\$63,957	\$1,912
<b>d 10:00-10:30am</b>							\$85,047
<b>e 10:30-11:00am</b>							\$87,076
<b>f 18:00-18:30pm</b>							\$84,019
<b>g 18:30-19:00pm</b>							\$75,186
<b>h 19:00-19:30pm</b>							\$7,486
<b>i 19:30-20:00pm</b>						\$51,463	
<b>j 20:00-20:30pm</b>	\$55,268	\$50,054	\$53,174	\$56,440	\$52,063	\$43,340	
<b>k 20:30-21:00pm</b>	\$42,236	\$42,445	\$43,044	\$45,198	\$40,869	\$31,160	
<b>l 21:00-21:30pm</b>	\$1,655	\$2,232	\$2,179	\$2,823	\$3,280	\$2,339	
<b>Day Total</b>	<b>\$1,616,986</b>	<b>\$1,509,375</b>	<b>\$1,557,260</b>	<b>\$1,562,441</b>	<b>\$1,708,915</b>	<b>\$2,054,144</b>	<b>\$1,758,475</b>

## Endnotes

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1 Kelsey Oliver, “Pet Stores in the U.S.,” IBISWorld, 2018.

2 Richard Fry, “Millenials Projected to Overtake Baby Boomers as America’s Largest Generation,” Pew Research, March 1, 2018 (<http://www.pewresearch.org/fact-tank/2018/03/01/millennials-overtake-baby-boomers/>, accessed August 12, 2018).

3 Peter Haldeman, “The Secret Price of Pets,” The New York Times, July 4, 2018 (<https://www.nytimes.com/2018/07/04/style/how-to-pamper-your-pet.html>, accessed August 12, 2018); Alix Strauss, “Thought the Interview for Preschool Was Hard? Try the One for Doggie Day Cars,” The New York Times, August 16, 2018 (<https://www.nytimes.com/2018/08/16/nyregion/thought-the-preschool-interview-was-hard-try-the-one-for-doggie-day-care.html>, accessed August 31, 2018); Paul Sullivan, “From Massages to ‘Pawicures,’ These Resorts Have It All for Pets,” The New York Times, August 12, 2018); <https://www.ralphlauren.com> (accessed August 12, 2018).

4 Kelsey Oliver, “Pet Stores in the U.S.,” IBISWorld, 2018.

<sup>5</sup> Petco Holdings, Form S-1, August 17, 2015 (<https://www.sec.gov/Archives/edgar/data/1582846/000119312515293270/d42894ds1.htm>, accessed 10/30/2018)

6 Kelsey Oliver, “Pet Stores in the U.S.,” IBISWorld, 2018.

7 Jennifer Van Grove, “What Is Your Dog Eating?” Los Angeles Times, May 19, 2018 (<http://www.latimes.com/business/la-fi-petco-just-food-for-dogs-20180519-story.html#>, accessed July 15, 2018); Peter Haldeman, “The Secret Price of Pets,” The New York Times, July 4, 2018 (<https://www.nytimes.com/2018/07/04/style/how-to-pamper-your-pet.html>, accessed August 12, 2018).