

PETLAND FRANCHISE ESG ANALYSIS

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Abstract

Petland is a retail pet store chain that sells puppies and other pets, but their business model has come under scrutiny due to concerns about animal welfare. The purpose of this project is to analyze Petland's business model, including their expenses, revenues, supply chain, pricing and credit card strategies, usage of puppy brokers, legal spending, and other relevant factors to determine whether it is a sound investment for a socially focused investor. Petland is a franchise-based business model that results in high revenues. However, when selecting a franchise, an investor likely cares about more than just profit. When rating Petland's ESG efforts, Petland falls below the mark. Petland's franchise business model is heavily dependent on the sale of puppies. Their sourcing of puppies, credit card financing, lobbying presence and poor track record caring for live animals indicates that Petland should not be invested in by a socially responsible investor.

Research Questions

The questions I aim to answer are:

- a) Is purchasing a Petland franchise a viable investment opportunity?
- b) Is Petland a socially focused business and does it align with socially responsible investing principles?

Data Collection Methods

I utilized a variety of primary and secondary sources to conduct the analysis. The data collection methods used in this study provided a comprehensive understanding of the pet industry, ESG information and the external factors surrounding Petland.

Key Data Elements:

1. Literature review on ESG investing: I used Oklahoma State's library resources and academic journals, as well as Google Scholar to develop an understanding of ESG investing and socially responsible investing principles. I heavily relied on ESG rating metrics to develop their own independent ranking of a Petland franchise.
2. Financial review of Petland's franchise performance and business model: I was able to obtain financial records from the internet of Petland's franchise disclosure document and company-level financials: The franchise disclosure document provided detailed information on the requirements and obligations of Petland franchisees, as well as company-level financial performance. The company-level financials were analyzed to understand Petland's overall financial health and performance of its company-owned franchise locations.
3. Legislative review of Texas humane legislation: I attended the Texas Humane Legislative Network's Lobbying Day to gather information on the legal and regulatory environment for animal welfare issues in Texas. The event provided an opportunity to speak with legislators and animal welfare advocates, and gain insights into legislator's experiences with Petland. While Petland franchises are located throughout the United States and internationally, anecdotes and legislation references will be made primarily to Texas due to my experiences.

4. Field study: I visited the Petland Frisco location and observed their sales processes and store layout to gain a first-hand understanding of the Petland franchise business. I took notes on the overall customer experience, the puppies and products offered and the sales process.

5. Evaluation of ESG Practices: I utilized the above research (literature review on ESG investing, financial review of Petland's franchise performance and business model, legislative review of Texas humane legislation, field study) to complete an evaluation of Petland's ESG performance.

Limitations

Petland is a private company and is not required to disclose the same level of information a public company would. Due to this lack of information, I had to make assumptions in some financial and ESG areas. If an assumption is made, it will be denoted as such. With that being said, the data collection methods listed above provided a sufficient understanding of the Petland franchise business.

Findings

Literature Review for ESG

Key terms:

1. Environmental, social, governance (ESG) investing is a trending method of investment. It seeks to balance financial returns with positive environmental and social impact.
2. Socially responsible investing (SRI) is an approach to investing that considers the ethical, social, and environmental impact of investments. Socially responsible investors invest in companies that align with specific ethical or social principles. For example, they might avoid investing in tobacco, weapons, or fossil fuels.

There is a belief by investors who practice ESG or SRI that companies with strong ESG or SRI will deliver long-term returns and have a positive impact on society. These methods can function as an advocacy for positive change in companies.

With that said, ESG investing exists within a broader spectrum of investing based on financial and social returns. Within this spectrum, ESG investment focuses on maximizing financial returns, and utilizes ESG factors to assess risks and opportunities. It examines factors other than assessment of short-term performance and commercial risks to that performance.

The distinction between ESG funds and social impact funds is still not clear. Some investors use ESG as a tool for risk-management, but others use it to improve their position on sustainable

finance to align with social issues. ESG financial ecosystem, ratings methodologies, and investment-driven investment approaches are different.

Impact investing is considered, along with ESG investing, as it seeks to generate a positive social return that is measurable and reportable, alongside a financial return. Sustainable finance funds include approaches that involve ESG exclusion, ESG inclusion, and impact. Sustainable impact investing seeks social returns alongside financial returns rather to explicitly enhance long-term returns. Table 1 below, taken from “ESG Investing: Practices, Progress and Challenges” shows the spectrum of social and financial investing. The focus of the thesis will be on sustainable and responsible investing, ESG investing.

Table 1. The spectrum of social and financial investing

	Philanthropy		Social Impact Investing		Sustainable and Responsible Investing ^B	Conventional financial investing
	Traditional Philanthropy	Venture Philanthropy	Social Investing	Impact investment	ESG investing	Fully commercial investment
Focus	Address societal challenges through the provision of grants	Address societal challenges with venture investment approaches	Investment with a focus on social and/or environmental outcome and some expected financial return	Investment with an intent to have a measurable environmental and/or social return	Enhance long-term value by using ESG factors to mitigate risks and identify growth opportunities.	Limited or no regard for environmental, social or governance practices
Return Expectation	Social return only	Social return focused	Social return and sub-market financial return	Social return and adequate financial market rate	Financial market return focused on long-term value	Financial market return only
	Social impact		Social and financial		Financial returns	
		↔		↔		

Source: stylised adaptation from OECD (2019), “Social Impact Investment, the Impact Imperative for Sustainable Development,” based on earlier versions from various organisations; for illustrative purposes only.

Utilizing ESG strategies in investment decisions has grown exponentially. ESG investments in the US is now “20% of all professionally managed assets” (Boffo and Patalano, 15). Contrary to

popular belief, ESG investing is not always for the purpose of social change. Most institutional investors “use ESG primarily to compete on improved risk adjusted returns and risk management” (Boffo and Patalano., 17). Within the ESG landscape, there are a variety of stakeholders. Stakeholders of relevance include ESG ratings providers, ESG index providers, ESG users, and disclosure bodies.

ESG ratings providers include firms that analyze a company’s data to determine an ESG score. Some scores are based on quantitative methodologies, weighing metrics on identified quantitative data. Large ESG providers include MSCI, ISS ESG, Sustainalytics, Bloomberg, Thomson Reuters/Refinitiv. MSCI’s scores range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC). Some use an academic rating scale from A+ to D-, like ISS. Other rating methodologies are numerical with Sustainalytics providing ESG risk ratings from 0-40+, with 40+ being severe ESG risk. Many ratings providers measure industry relative ESG quality, while some measure absolute quality. Within these rating systems, there is some variation in goals. MSCI’s goal is to “support ESG risk mitigation and long-term value creation” (Tayan, 1) whereas Sustainalytics is focused on “the degree to which a company’s economic value is at risk” (Sustainalytics, 1).

An investor should consider any variation, however minuscule, to ensure the ratings are in line with their objectives. ESG ratings providers use public data, quasi-public and private data. Public data includes company-released reports, marketing materials, press releases, filings with the SEC, and media reports. Quasi-public information collected could include “data captured in

government, regulatory, and NGO datasets” (Tayan, 1). Private information could be questions answered by the company in response to questionnaires or surveys. One might wonder what happens when they a rating provider cannot find data. Depending on the ratings provider, there are a variety of outcomes. When there is an absence of data, MSCI assumes the company’s performance is industry average. However, ratings providers like FTSE assume the company’s performance is the worst. While some believe this method is punitive, it is to encourage companies to be more transparent. Others estimate the data using advanced statistical techniques to fill in the blank value. Table 2 below, taken from “ESG Investing: Practices, Progress and Challenges”, shows the different factors considered in an ESG analysis.

Table 2. ESG criteria

Environmental factors	Social factors	Governance factors
Natural resource use	Workforce	Board independence
Carbon emissions	Human rights	Board diversity
Energy efficiency	Diversity	Shareholder rights
Pollution/waste	Supply chain	Management compensation
Environmental opportunities		Corporate ethics

Source: ESG Rating providers, OECD, selected themes for illustration.

ESG index providers help track and benchmark performance of ESG-heavy portfolios. ESG index providers have overlap with ratings providers, such as MSCI, FTSE, Bloomberg, and Reuters. These index providers help guide overall ESG portfolio management. The indexes come into the play after the ratings have been established. ESG users might include asset managers, institutional investors, and public authorities. There are a variety of individuals that would

benefit from the ESG ratings and indices provided. Not only institutional investors, but retail investors take an interest in ratings.

Disclosure bodies provide the framework that helps ESG ratings providers to rate companies. Framework developers like the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI) help provide guidelines for good practices on disclosure documents. Disclosures aid in the development of ESG ratings. The United States Government Accountability Office reviewed ESG disclosure practices and found that there were many differences in how companies reported ESG and the lack of detail and variation between reporting likely made the information less useful to the audience. Other regulatory agencies such as the SEC and Division of Corporation Finance are also working on ESG related works. Not only the United States regulatory authorities are taking note, but Japan and Europe are looking at regulatory reforms. A standardized reporting system for ESG seems it would provide the public the most useful information.

ESG integration “refers to systematic and explicit inclusion of ESG risk and opportunities in all key aspects of an institutional investors’ investment process” (Boffo and Patalano, 33). ESG integration can be recognized by dedicated governance overseeing ESG integration and resources given to ESG considerations associated with portfolio management. Ideally, investors would utilize ESG integration in their approaches to investing.

In terms of ESG performance, ESG financial performances are at or above traditional indices.

Academic studies “suggest that firms with better ESG disclosures have better risk management frameworks, and that more disclosure can create better reputational management, which has intrinsic value” (Boffo and Patalano, 36).

Financial Review

Key terms:

1. Humane pet store ordinance: Ordinance that requires pet stores that sell dogs and cats to acquire animals from humane sources (shelters and rescues)
2. Puppy mill: An inhumane high-volume dog breeding facility that churns out puppies for profit, ignoring the needs of the pups and their mothers
3. Commercial breeder: Breeders with eleven or more breeding females who acknowledge selling twenty puppies or kittens in a calendar year (TX)
4. Hobby breeder: Breeders with less than eleven breeding females or those who sell those than twenty puppies or kittens in a calendar year (TX)
5. Dog broker: A person who buys, sells, or offers to sell dogs at wholesale for resale to another or who sells or gives one or more dogs to a pet store annually. "Dog broker" does not include an animal rescue for dogs, an animal shelter for dogs, a humane society, a medical kennel for dogs, a research kennel for dogs, a pet store, or a veterinarian.
6. Minimum standard of care for dogs in USDA licensed facility: Clean food and water, enclosure in which dog can turn freely, stand, sit, and lie.

Petland is a retail pet store supplying puppies, kittens, small animals, birds, and fish. It is the largest retail pet store selling puppies and the only national pet store chain still selling puppies. Ed Kunzelman started Petland in 1967 and began franchising in 1971. It is a private company that is still run by the family with Elizabeth Kunzelman, the founder's daughter, being the VP of Legislative and public affairs at Petland.

SWOT Analysis:

Strengths	Weaknesses	Opportunities	Threats
Beginning to diversify offerings including sale of animals, pet products and training.	Pet product mix is lacking in variety and quality compared to competitors.	Opportunity to offer online pickup and auto-ship for pet products like other leading pet retailers.	Laws being passed prohibiting sale of dogs/cats in pet stores.
Product, puppies, are very easy to sell and bring in high profits.	Prices for puppies are significantly higher than a typical breeder.	Adding training for the public to purchase instead of Petland customers only.	Allegations by the Humane Society of the United States, Bailing Out Benji, and other animal advocacy groups.
Petland is the largest retail pet store selling puppies.		Adding grooming services.	
Petland has an international presence.			

PESTLE Analysis:

Political	Economic	Social	Technological	Legal	Environmental
Government policy on regulation of puppy mills or large-scale commercial breeders	Customers level of disposable income is falling due to a recession.	Lifestyle choices such as activity levels and time commitments impact the population's ability to own a puppy.	From outside perspective, website appears to be outdated.	If there is a change in regulation (ex: humane pet store ordinance), Petland is known to send in lawyers to challenge the ordinance	Petland sources their puppies from all over the United States – there is an opportunity to move to a more local sourcing model to lower carbon footprint
Unstable political environment of industry with significant lobbying expenditure expected.	Dog ownership has risen by 6.1% from 2016 – 2022 which can be correlated with an increase in demand for dogs	Millennials trend towards dog adoption rather than purchasing a purebred puppy – could lead to decreased demand	In 2017, Petland took an innovative approach to a new POS system	Petland in most cities complies with local ordinances that do not prohibit sale of puppies in retail stores (Houston)	Better health measures could be investigated to prevent spreading of sickness like in Petland Frisco
Significant legislature at state level in Texas impacting commercial breeders Petland is partnered with – SB 876/HB 2238	Certain dog breeds like Frenchies or French Bulldogs are in high demand and short supply	Texas population is becoming more educated over time with growth in “Bachelors or Higher” categories which is correlated to higher social mobility and lifetime earnings – ownership of pets identified a trend for higher household income predicting ownership	Competitors like Petco and PetSmart have mobile app while Petland does not		
Significant legislature at state level in Texas impacting ability to sell dogs in pet stores like Petland – HB 870			Competitor Pet Supplies Plus allows for order ahead, deliver from store and auto-ship while Petland Frisco's website does not		

Porter's 5 Forces

Threat of New Entrants	Bargaining Power of Buyers	Threat of Substitute Products	Bargaining Power of Suppliers	Rivalry Among Existing Competitors
In terms of a new entrant opening a retail store to sell puppies, low. Risk of government intervention with selling puppies in pet stores is too high to for a newcomer to make an investment. If considering the general pet industry (breeding dogs, pet supplies), threat is high. Low barriers to entry and low capital requirements for new entrants.	There are many customers looking for puppies. The typical customer order is low in terms of quantity, but high value. If the buyer is informed of breeder options, high bargaining power of buyer. If customer is unaware of reputable breeders, bargaining power of buyer low. If a buyer feels connected to the puppy, they have low bargaining power and low price sensitivity.	In terms of retail pet stores selling puppies, there are no large competitors for the consumer to go to. In terms of finding a purebred puppy, there are many options of breeders. The buyer is likely to substitute for the reputable breeder if they have done research as the substitute is a better quality (less likely to carry disease) and cheaper product.	The breeders Petland purchases from are typically large-scale commercial breeders/brokers which have lots of puppies. Even with the large-scale commercial breeders, the supplier's product can easily be replicated and replaced. Bargaining power of suppliers is low.	Petland has no competitor of the same size as them. The competitors that Petland has in terms of pet products include PetSmart, Petco, Chewy, Pet Supplies Plus, Hollywood Feed and more. The pet industry is trending towards online purchasing and delivery. The pet industry is growing. Customers do not face high switching costs and it is easy to use more than one pet retailer for products.

Business Model Canvas

Designed for: Petland Franchise Designed by: Abby Allison Date: 1/12/2023 Version:

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
<p>Key partners include breeders and brokers. Brokers that are heavily associated with Petland include</p> <p>Additionally, Petland keeps a positive relationship with legislators and community chamber of commerce. Another key partner is the Calvary Group who protects individuals in the animal industry and advocates for less regulation. These partnerships are super useful in mitigating risk.</p>	<p>Value proposition requires keeping a variety of purebred puppies in stock. The customer purchases the puppy in the Petland store, so Petland must maintain a friendly, welcoming, and clean environment.</p>	<p>The value proposition to the customer is a purebred, cute puppy immediately. If a customer goes to a reputable breeder, they might have to wait weeks or months before the puppies will be available. If a customer is not able to afford a puppy, they can easily apply for a Petland credit card. This is not an available option when getting a puppy from a breeder.</p>	<p>Petland doesn't focus on maintaining customer relationships like a typical pet retailer would. This is because the bulk of their revenue comes from puppy sales which shouldn't need to be repurchased for another 10 years.</p>	<p>Most of the public likes dogs and have dogs as family pets. This leads the researcher to believe that it is a mass market appeal strategy. Due to the lack of public information, the researcher could not prove with any certainty what segments specifically Petland targets.</p>
	<p>Key Resources</p> <p>Resources required for success are vendor relationships with puppy breeder and brokers. Petland heavily stresses the importance of their confidential operating system in their franchise disclosure document.</p>		<p>Channels</p> <p>If you google "purebred puppy frisco", Petland is the second result. Petland is likely using SEO methods to make sure they are present online. Petland also posts on Facebook and many people/customers are on Facebook.</p>	

Cost Structure	Revenue Streams
<p>Economies of scale high given that Petland is the largest retail store selling dogs. Petland does rely on outsourcing because they do not breed their own dogs. With Petland being an in-person business, they have high fixed costs like rent and utilities.</p>	<p>The primary revenue stream for franchisees is puppy sales, a franchisee even citing 85% of revenue. Petland salespeople use dynamic pricing and price based on customer interest, with no set price for the puppy. Customers have been known to pay anywhere from \$2000 - \$10000 for a pet and are estimated to only cost the Petland store \$300-\$400. If we were to take the lower end of the sale price \$5000 and the higher end of the cost to Petland \$400, Petland has a profit margin of 92% for puppies at face value. This excludes the cost of maintaining the puppies, but is impressive, nonetheless. Petland franchisees also make money from the sale of pet products. Another source of revenue is credit card sales. If a buyer cannot afford the puppy, they will apply for financing in the store with a Petland credit card.</p>

General Advantages:

- Support and Training: Petland provides training and support to their franchisees like site selection, store design, inventory support and marketing.
- Easy to sell, profitable product: Puppies are hard to resist and can be sold at high margin. Average store gross revenues of \$4,376,208 and median store gross revenue being \$3,986,477.
- Economies of scale: Petland is the largest retail pet store that sells puppies. Franchise companies often negotiate better deals on inventory due to their purchasing power, which can result in lower prices.

General Disadvantages:

- Legislation: The sale of dogs and cats in pet stores is at legislative risk. The five largest Texas cities have all passed humane ordinances. States such as California, Maryland, Maine, Washington, New York, and Illinois have all passed humane ordinances. Texas Senators and Representatives are considering a humane ordinance in this legislative session, as well. While a humane ordinance does not dictate the closure of Petland, it significantly alters the business' strategy. Most of the revenue comes from puppies, so they will need to strategize their offerings to continue the franchise. This has been done successfully in cities that have passed humane ordinances but would be seen as a disadvantage for the significant change to the business.

- Regulation: Stores selling live animals are subject to regulation of their health and living conditions. Cities may require that pet stores meet additional standards for the health and safety of the animals. However, this could interrupt your business. After a concerning undercover investigation by the Humane Society of the United States into Frisco Petland, the city of Frisco increased the level of regulation to ensure the health and safety of the animals. Every quarter in Frisco, the Petland store must commit staff attention to providing city animal control officers with information. This takes away time that they could be working on the store and could feel invasive to some shop owners.
- Competition: Leading pet stores like Petco and PetSmart have most of the pet store market share. In terms of their selling of dogs, consumers are trending towards adoption. Reputable breeders are a significant competitor for Petland. Petland even states in their franchise disclosure document that “Petland stores also face competition from local breeders, breeders who market and sell animals through internet sales, as well as local animal shelters, humane societies and rescue operations who many offer dogs, cats or other animals to the public” (Petland).

Petland Financial Performance Area	Petland Financial Performance Result	Commentary
Franchise Fees	\$40,000	Comparable to pet supply franchisor, Pet Supplies Plus.
Royalty Fees	4.5% of gross revenues	Comparable to pet supply franchisor, Pet Supplies Plus.
Average Unit Volume (AUV)	\$361,670.85	Appears to be in line with annual EBITDA of competitor, Pet Supplies Plus.
Gross Profit Margin	13.79%	Estimate based on 20 company-owned stores.
Operating Expenses (costs of sale, direct and indirect)	Average of \$2,696,342.3	
Franchisee Satisfaction	1.5% franchisee termination rate, .4% franchisee cessation rate	Lower than average termination and cessation rate

Company-owned retail store info	Total for company-owned stores	Average for company-owned stores
Revenue	\$61,160,263	\$3,058,013.15
Costs of Sale	\$26,716,788	\$1,335,839.40
Direct Operating Costs	\$26,013,324	\$1,300,666.20
Indirect Operating Costs	\$1,196,734	\$59,836.70
Total company stores in fiscal year reported	20	1

Gross profit per store	= average revenue – average cost of sale – average direct operating cost
Gross profit per store	= \$3,058,013.15 - \$1,335,839.40 - \$1,300,666.20
Gross profit per store	= \$421,507.55
Gross profit margin	= (gross profit per store / average revenue per store) * 100
Gross profit margin	= (\$421,507.55/\$3,058,013.15) * 100
Gross profit margin	13.79%

Of the 74 total stores, 20 are company owned. Financial data was only available for the 20 company owned franchises, therefore making assumption that the 20 are representative of all.

Legislative Review

- Environmental: Petland has no reporting on carbon emissions, product carbon footprint, financing environmental impact, climate change vulnerability, water sourcing, biodiversity, and land use.

- Social: There is significant scrutiny for sourcing their dogs from puppy mills and not providing adequate care for their animals. Petland has high product liability and stakeholder opposition. They should attempt to better community relations.
- Governance: Petland is privately held and is not required to disclose their governance practices. They have a code of ethics and conduct.

Petland has faced significant opposition from animal welfare organizations for sourcing their puppies from puppy mills and improperly caring for animals. The Humane Society believes that Petland is the largest retailer of puppy mill dogs, and the company controls the approved breeders a franchisee can purchase from. This issue can be complex and multifaceted.

Sourcing of pets

Petland sourcing from puppy mills is not as straightforward a statement as one might think. Animal welfare organizations believe that even a USDA licensed breeder can be a puppy mill operation. Groups like the Humane Society of the United States believe that USDA standards are “bare minimum survival standards, not optimal standards of care... it is legal to keep dozens or even hundreds of breeding dogs in small wire cages for their entire lives” (Humane Society). The USDA refers to the breeders they are regulating as customers rather than as entities they are regulating, even assigning them ‘customer numbers’. One way the USDA makes money is by charging for breeder licenses and license renewal. If a breeder does get their license suspended from the USDA for violations, they can reapply for a USDA license under a different name or have another name on the registration and continue the same commercial breeding operation

as before. A breeder at the same address will receive a violation and then will be selling the same breed of dog under a new LLC name.

Another occurrence is the new application for a USDA license is at the same license but registered to a parent or family member of the violating breeder. Some city ordinances, like in Frisco, require the breeder to not have violations. The USDA has no incentive to stop the occurrences of re-application of a breeder with violations because a new license is money to the USDA. It is very rare that the USDA will revoke a license. At a Samoyed breeder, the USDA had not revoked her license before the local police had to get involved for animal cruelty. The APSCA has reprimanded the USDA for failure to act when the USDA “observed over 100 violations of the Animal Welfare Act at [commercial breeder] Daniel Gingerich’s facilities” (ASPCA). The Department of Justice had to step in and act. Even though the USDA was failing their duty as a regulator, “there was never an attempt by USDA/APHIS leadership to take responsibility for their inaction” (ASPCA). Many animal welfare individuals criticize Petland for using ‘USDA licensed’ as a misleading tactic. The way Petland describes a USDA license, the average consumer would assume they would be following high standards. The anecdotes above show that a USDA license has no real tact given that the legal standard for animal cruelty is easier to enforce than to revoke or suspend USDA license.

The city of Frisco has an ordinance that states a breeder with USDA violations within the past two years cannot be sold in Frisco. The Frisco activists have noticed that a breeder will receive a violation and then a breeder with the same address breeding the same dog, but a different LLC

name comes into the store. Another way Petland stores get out of regulation of puppy sources is by using brokers. Another part of the Frisco ordinance is a requirement to disclose the source of the puppy on a visible kennel card. A puppy might be born at a puppy mill, picked up by a broker and when they are up for sale at Petland, the puppy mill name will not be visible – but the broker. Petland can get around the transparency part of the ordinance by stating the broker is the source of the puppy rather than the actual breeder/puppy mill.



In contrast to the views of animal welfare organizations, there are other specialty groups/lobbies who support lesser regulation of dog sales. The Calvary Group is a “member-based company made up of animal owners and animal-related business” and wishes to “protect [their] private property rights and [their] businesses from the radical animal rights extremists legally and legislatively nation-wide” (Calvary Group). Mindy Patterson, the Calvary Group’s

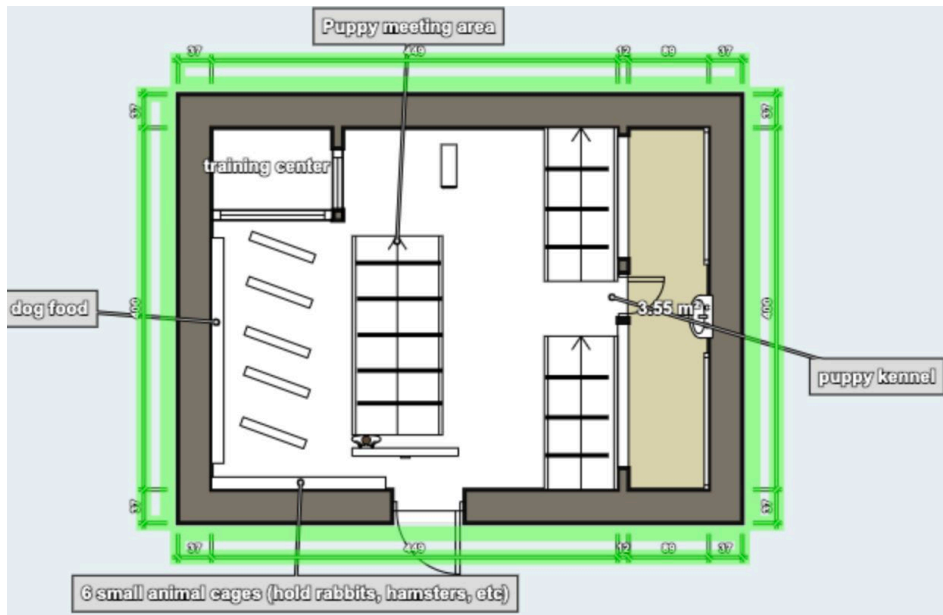
spokesperson, believes that consumers do not want to know what breeder their dog came from and argues against breeder transparency. The Calvary Group believes that passing humane ordinances or requiring more of the pet stores and breeders are violations of constitutional rights. She says, “passing these laws vilifies the breeders, vilifies pet stores and makes the USDA look like a sham” (Patterson, Puppy Kingpin Podcast Ep 6). In May 2022, the city of Dallas passed a humane ordinance. Mindy Patterson of the Calvary Group, along with Petland employees, the franchisee, Petland executives and lawyers, spoke out against the humane ordinance. The primary reason for opposition by Petland was that the franchisee makes 80% of its revenue from the sale of dogs and cats, so will have to shut down the store. They made note of all the jobs that would be lost. Independent individuals cited reasons like a violation of freedom and the inability to have a purebred dog, even saying the shelters only have mutts with behavioral issues. After the city passed the ordinance, Petland Dallas franchisee Jay Suk’s franchise company, D&J Pets, filed a lawsuit against the City of Dallas. He argues that the “ordinance discriminates against the store and violates the Texas Constitution” (Dallas Morning News).

Field Study

Conditions in Petland stores were revealed in Humane Society undercover investigations. It is important to note that the Humane Society is opposed to Petland, so they were highlighting the worst of the worst. With that being said, the conditions reported in the undercover investigation are jarring. The investigation is based at the Frisco Petland location. The investigation includes graphic photographs and imagery. For example, if a rabbit is injured, they

are placed in a back room instead of being taken to a vet. The rabbit did not recover, so they put the rabbit in the freezer. The investigator noticed underweight dogs suffering from health issues (coughing, wheezing, bloody diarrhea, and vomiting) and they were not given vet care. The employees routinely force-fed puppies instead of taking them to the vet. If a sick dog showed signs of improvement, they were put out front for sale and purchasers were not always told of the medications the dog was receiving or even that they had been ill. The store did not give the records to buyers because they were worried, they “might reject” a puppy who had been sick. In a recent report from Frisco’s animal control, 1/3 of Petland’s dogs were sick and even some that were sick were being placed for sale.

On the following page is a visual of the Frisco store layout to understand the priority placed on selling dogs. The majority, approximately 70%, of the store layout is devoted to selling dogs.



In terms of employee relations, they appear to be lagging in terms of support for their staff. There are no benefits for employees reported other than a standard employee discount. The sales staff are compensated based on commission from the sale of animals, reportedly 8%. There are no public diversity and inclusion policies posted on their website, however, they receive a 3.1/5 stars on Glassdoor.

Petland is a family-run, private company. There is no public information on executive compensation or board composition. There is a reported stock-based compensation of \$187,500 in 2021. In terms of transparency, there is a lack of reported information on corporate governance. According to Open Secrets, spent \$50,000 on federal lobbying in 2021

and \$40,000 in 2022. Petland has a record of suing local municipalities who enact humane ordinances.

Evaluation of ESG Practices

1. Environmental: Petland has no posted initiatives to reduce its environmental footprint.

According to the Animal Legal Defense Fund, pet stores like Petland contribute to environmental problems through their sale of puppies from puppy mills. Puppy mills, where dogs are bred in large quantities under inhumane conditions, generate significant amounts of waste and require large amounts of resources, such as water and electricity, to maintain their operations. Additionally, transporting puppies across the country has a significant carbon footprint.

2. Social: Petland's utilization of brokers to conceal the real source/breeder of the puppy raises concerns about animal welfare and consumer transparency. According to the Humane Society of the United States, brokers often obtain puppies from puppy mills, which are notorious for their inhumane and unsanitary conditions. The lack of consumer transparency about the true source of the puppies sold at Petland stores is a significant concern for animal welfare advocates and consumers who want to know the origin of the pets they are purchasing.

3. Governance: Petland's lack of reported information on the board of directors raises concerns about transparency and accountability. Additionally, Petland's significant lobbying and legal expenditures to prohibit regulation of selling dogs raises concerns about the company's commitment to ethical and transparent business practices. The outsourcing of

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their dog guarantees also raises questions about their commitment to customer service and satisfaction.

4. Community: Petland's support of local causes to a small extent may indicate a limited commitment to community involvement. The negative reputation the company has earned in the Frisco community after a Humane Society investigation exposed their poor treatment of animals is concerning for the company's relationship with local communities.
5. Employee Relations: Petland's lack of benefits for franchisee's employees and only provision of a store discount raises concerns about their commitment to employee welfare. The company's lack of mention of D&I initiatives is also a concern. Salespeople being compensated by an 8% commission on sales of dogs may create incentives for pushy and potentially unethical sales practices.
6. Health and Safety: Petland's requirements for frequent hand sanitation for those petting the puppies is a positive measure for health and safety. However, the numerous reports of sick dogs and lack of proper quarantine procedures raise significant concerns about the company's commitment to animal welfare and customer satisfaction.
7. Ethics and Integrity: Petland's long history of being sued by unhappy customers, vets, and ex-employees, as well as their denial and attacks on opposition when faced with reports of wrongdoing, raise significant concerns about the company's commitment to ethics and integrity. The promotion of the canine care certification considering these issues raises questions about the validity of the certification and Petland's commitment to animal welfare.

Looking holistically, Petland's actions impact a wide variety of stakeholders. Upstream they are providing money to puppy mills and downstream they are being sued by unhappy customers, inputting illness and trauma from puppy death in communities and creating credit card debt for those infatuated by a puppy. The more animal welfare organizations get the word out about Petland's practices, fewer consumers will be interested. Informed consumers will likely go to a reputable breeder or a non-profit.

Based on research of other companies and their practices, I assessed Petland's ESG on an academic scale (A-F). Considering the aforementioned information, Petland's ESG rating would be an F. The company's significant environmental impact, lack of transparency and commitment to animal welfare, and questionable business practices and ethics all contribute to a low ESG rating.

Conclusion

Petland offers a good investment opportunity from a financial perspective. However, opening a Petland franchise is not a good investment for socially focused investors due to concerning ESG issues such as animal welfare issues, lack of transparency and questionable business ethics.

If you are a socially focused investor, you should not invest in a Petland franchise and consider other franchise opportunities. If you decide that poor ESG results do not bother you, consider creating an exit plan. Humane ordinances are a very real risk to the Petland business model. If

you were to invest, consider the ability to add services such as grooming to not be so reliant on puppy sale income if it were to be outlawed.

Given that Petland is a private company and does not report the same financial information a public company would, assumptions had to be made. Notable areas of assumption include the financial data and governance information.

The most interesting area for future research would be the demographics of Petland customers. Based on some of their tactics and the testimonies of Petland 'victims', I am fascinated by how someone would spend thousands more dollars at a Petland for a lower quality puppy than for a puppy from a reputable breeder. Additionally, many customers sign up for credit cards to finance the dog and this indicates that there could be a lack of financial literacy. Another area for further research includes the demographics of those that buy purebred vs. shelter dogs.

Appendices

Resources

Appendix A

Breeder/Broker	Location	Dog Type		Violations?
Jeff Gits on Hobby	Oklahoma	Aussiedoodle/Mini Australian Shepherd		
Preferred Canine	Ohio	Broker	31-B-0194	n/a
Golden Seal Canines	Ohio	Broker	31-B-0193	n/a
Bogg's Creek Kennel	Indiana	Cocker Spaniel	32-A-0245	n/a within 5 year
Pinnacle Pet	MO	Broker	43-B-3700	n/a
Becky Busboom	NE	Cane Corso/English Bulldog	47-B-0116	n/a
G&M Kennels	Oklahoma	English Bulldog	73-A-1747	n/a within 5 year
Fulton Enterprises	MIN	Broker	41-B-0202	n/a within 5 year
Pet City Houston	TX	Broker	74-B-0783	n/a
B's & Gays LLC	KS	Broker	48-B-0081	n/a within 5 year
Jack Martin Hobby	OK	Mini Australian Shepherd		
Darin Miller	MO	Maltipoo/Morkie	43-A-6528	n/a
Ervin Jay Yoder	KS	Havachon	48-A-2203	Teachable mome Did not have proper identification
Wistine L Schrock	OK	Samoyed	73-A-2701	Teachable mome Several dogs counted that were not recorded into inventory
Select Puppies	IA	Broker	42b0314	Teachable mome 3 trash cans no lid
Puppy Smart LLC	MO	Broker	43-B-3796	n/a
Jessica Phillips Bucklin	MO	Cookachon	43-	
Primo Puppies LLC/Tammie Adams	MO	NewlyPoo Mini	A-6475	n/a
Phillip Marsh Hobby	OK	German Shepherd	43-A-6577	n/a
John M Hirschberger Hobby	IL	Pembroke Welsh Corgi		
Christy Jess	IL	Rotweiler	33-A-0591	n/a
Amy Pitae Hobby	OK	Mini Australian Shepherd		
Verna Schrock	OK	Goldendoodle Mini F1b	73-A-2821	n/a
Lacey Moore Hobby	OK	Yorkshire Terrier		
Danny Schrock	OK	Mini Pooodle	73-A-2701	Teachable mome Several dogs counted that were not recorded into inventory
Lovina Troyer	OK	Poochinese	73-A-2738	n/a

Appendix B

Pet Industry

1. The pet industry is a multi-billion dollar industry. In 2021, pet owners in the United States spent over \$123.6 billion on their pets, up from \$103.6 billion in 2020 (source: [American Pet Products Association](#)).
 1. Pet stores specifically- the market size, measured by revenue, of the Pet Stores industry is \$23.7bn in 2023. ([IBISWorld](#))
 2. The market size of the Pet Stores industry is expected to increase 0.8% in 2023. ([IBISWorld](#))
 3. The market size of the Pet Stores industry in the US has grown 1.2% per year on average between 2018 and 2023. ([IBISWorld](#))
2. Pet ownership is widespread. According to the same source, 67% of U.S. households own a pet, which equates to about 84.9 million homes. (source: [American Pet Products Association](#)).
3. The pet industry is creating new job opportunities. According to the [Bureau of Labor Statistics](#) employment of animal care and service workers, including pet groomers, trainers, and caretakers, is projected to grow 22% from 2019 to 2029, much faster than the average for all occupations.
4. Owning a pet has positive effects on mental health. Studies have shown that pet ownership can help reduce stress, anxiety, and depression, and improve overall mental health (sources: [Harvard Health Publishing](#) and [Psychology Today](#))

Pet Products:

5. Pet fashion is becoming increasingly popular. In 2020, the global pet clothing market was valued at \$4.04 billion and is projected to reach \$5.8 billion by 2027 (source: [Grand View Research](#)).
6. Pet technology is on the rise. In 2020, the global pet tech market was valued at \$6.5 billion and is projected to reach \$22.3 billion by 2025 (source: [MarketsandMarkets](#)).
7. The demand for natural and organic pet products is growing. In 2020, the global natural and organic pet food market was valued at \$6.63 billion and is projected to reach \$11.36 billion by 2028 (source: [Fortune Business Insights](#)).

Appendix C

	Petland	Pet Supplies Plus	Earthwise Pet Supply https://www.franchisedirect.com/pet-franchises/earthwise-pet-supply/financials/			
Royalty	4.5% of total gross revenues for the first and second franchised stores.	2% of monthly gross sales for first 12 months of operations; 3% of monthly gross sales after first 12 months of operation				
POS Leasing Pmt	User maintenance fee \$129/month	Estimated at \$300 - \$400 per month (based on capital costs of \$17,250 - \$22,000).				
Advertising	Locally, 5% of gross revenues per month & national advertising fund contribution; up to 2% (currently 0.5%) of gross revenues	Currently 3.5% of Gross Sales (2/3 toward local spend as directed by the franchisor and 1/3 into the National Advertising Fund (NAF) with a maximum annual total contribution (local and NAF) of \$100,000.				
Late Fee	10% on amounts past due.	The lesser of 1.5% per month or the highest permissible interest rate.				
Audit Fee	Actual cost of audit; plus late payment fee	25% of the royalty on unreported gross sales plus the royalty and other required fees due, and applicable late fees.				
Renewal Fee	None.		\$2,500			
Transfer Fee	1/2 of the then-current franchise fee for a new franchise store		\$5,000			
Additional Training Fee	Currently there is no fee, but the franchisor reserves the right to charge a fee, not to exceed \$1,500 per day.	\$300 per day				
Insurance	Cost of insurance. If the franchisee fails to insure, cost of insurance plus \$10 administration fee per day.	Cost of insurance; if franchisees fail to maintain insurance as required, the franchisor has the right to procure insurance on the franchisee's behalf and charge an 18% administrative fee in addition to the cost of the insurance.				
Indemnification	Varies	Amount of claim or judgment.				

Appendix D

Violator:

Name: PATEL, JAYESHKUMAR M	DOB: [REDACTED]	Age: 58
Address: 2950 GENTLE CREEK TRL , PROSPER, TX 75078		
Height: 503	Weight: 175	Hair Color: BLK
Eye: BRO	SSN:	
DL No: [REDACTED]	Issuing State: [REDACTED]	Expire: 0
Born In:		
Marital Status:		

Charges:

Charge Type: C, CLASS C MISDEMEANOR	
Section: 4335	VIOLATION OF ANIMAL ORDINANCE
Incident NO:	
Warrant:	State Code:
Bond: \$0.00	or Fine: \$0.00
Remarks: 14-10 FAILURE TO SECLUDE SICK ANIMAL TO AN ISOLATION AREA ANIMAL STILL FOR SALE CHIP# [REDACTED]	

Vehicle(s):

Year:	Make:	Model:	Color:	Style:
LIS:	LIC:	LIT:	LIV:	VIN:
Remarks:				

Narratives: No Narrative

Issuing Officer(s): SUTTON, KATIE #3718 WEDDLE, AMANDA #3501

Disposition: **Disposition Date:**

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