

TAKING THE PLUNGE: NEW LUXURY VENTURES

As he paced up and down in his apartment, David Shrank glanced nervously at the clock. An hour and a half had already gone by, and he had yet to make the call. Earlier in the morning, he had finally managed to refinance the mortgage for his apartment at a lower rate. That had allowed him to take out an additional \$15,000. So much depended on that \$15,000. He was about to “take the plunge,” and he figured the extra money would sustain him while he put his new venture on the road to breakeven.

Shrank was a senior consultant at IBM. He wanted to call his boss, the head of Global Media Entertainment Strategy, and ask for a leave of absence of six months. That practically meant deferred resignation, and Shrank knew it represented the point of no return.

The Adventures of David Shrank

Shrank was a second child. His father built houses and developed other real estate in New Jersey. He had inherited the entrepreneurial spirit from his father and had always been involved in one venture or another. In his words:

Senior year in high school, I had a friend with a T-shirt business. So, when I was about to go to college, even before I showed up, I printed, with the help of this friend, about 1,500 “University of Miami, Absolute” pocket t-shirts. I had them shipped down to Miami, and when I was moving into the dorms, I was walking around selling them. I made like \$5,000 to \$ 6,000 the first weekend of school. And that paid for all my fun for the year.

But I had a big supply of T-shirts and couldn’t sell all of them. I ended up getting some salespeople, so I didn’t have to go around selling them anymore, and I just built in a little profit margin. I had a network of people selling these T-shirts. Later on, I would even go to other schools and do it. I always had these little businesses going.

This case was prepared by Saras Sarasvathy, Associate Professor of Business Administration, with the assistance of N. Ali (MBA '06). It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2009 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. To order copies, send an e-mail to sales@dardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation. ♦

Shrank was not new to difficult decisions either. While he was attending college in Miami, he dreamed up another idea: operating a summer kiosk on Long Island Beach, where his parents had a beach house. At the time, 3-D pictures were very popular, and he invested \$5,000 for nice framed 3-D pictures, intending to sell them to passers-by on the beach. He had begun the business with \$10,000 borrowed from friends and family, \$5,000 of which would be necessary for rent and other administrative purposes. Because Shrank was a bit nervous about his sole reliance on 3-D pictures, he also stocked his kiosk with other items, such as suntan lotion, towels, and sunglasses. His largest outlay, however—\$5,000—went for the 3-D pictures.

Business season at the beach was from Memorial Day to Labor Day. The opening weekend went fairly well—the kiosk sold some pictures. Then Shrank returned in June to find that all his 3-D pictures had been ruined. Stored in a shed near the beach, the framed pictures had clouded over and discolored in the salty air. It was a disaster.

Shrank realized it was a mistake to sell pictures on the beach in the first place. How many people, when walking around in shorts and T-shirts, wanted to buy pictures? Sunglasses had been selling well, so he figured that he should sell sunglasses to make any money during the summer.

I was asking my friends—it was pre-Internet days, and you just could not find information about sunglass importers. So, I was driving, this is where you learn that you have to get lucky a little bit sometimes, I saw this huge sunglass kiosk on the side of the street down at the beach. And there was a guy sitting there in a beach chair, it was just like a big gravel field with a tent, with a chicken running around. And I said to the guy, “Is your boss here?” And he said, “I’m the boss.” I said, “Where do you get your sunglasses from?” He said, “I’m the importer.” And it turns out that this guy sitting there was the guy selling them to my distributor, and I had this life-changing meeting with this guy and the chicken, where I said to him, “I have no money left.” He ended up crediting me my first order, and all the inventory, and gave me all these racks.

We took two or three days, we shut down, I spray-painted all these things, cleaned them, hosed them down, and we reopened as the Style’n Shades. We had about 500 pairs on display every day. They were mostly \$8 to \$15, but there were some other ones we had that were \$18 to \$30—the upscale ones. And next door to us was an airbrush store. They made me a new sign, you know, this great sign that said “Style’n Shades.” This whole process took about two weeks; it was a gut-wrenching two weeks. I mean, I thought I was bankrupt. But we opened the store, and we started selling 50, 60 pairs of sunglasses a day, every day—it was just a boom.

It wasn’t even like you had to sell. They were selling themselves. There was a line. It was crazy. I was going back to this guy every week. There were so many lessons we learned in this thing, because he would show me a pair of sunglasses,

and I would say, “Those are the ugliest sunglasses; no one is going to buy those.” And he said to me, “Look, not everyone is going to buy the ones you like.” And sure enough, the uglier they were, the more they sold. So I didn’t even question him anymore. He would just give me box after box, and we would sell them.

After graduating from the University of Miami, Shrank went to work for Anderson Consulting for four years. In 1999, he applied to the Darden Graduate School of Business Administration at the University of Virginia and was admitted. The sunglass business story was one of his admission essays. After completing his MBA at Darden, Shrank went to work for IBM (See **Exhibit 1** for Shrank’s résumé):

When I was leaving U.Va., I actually wasn’t planning on getting a job. Elliott Weiss [a professor at Darden] and I talked about this a lot. He had encouraged me that this was the time in my life to take a chance. But it turned out my father had cancer; he passed away. I didn’t have the financial support at that point. I didn’t want to do anything to disrupt my mother’s situation at that point. So I ended up getting a service-type job.

The Opportunity for New Luxury Ventures

Even though he was working as a full-time consultant, the entrepreneur in Shrank was always looking for opportunities. The corporate world suffocated him. He worked nights and weekends to find the right business to start. One day, he came across the book, *Trading Up*, by Michael Silverstein and Neil Fiske. The book traced the cultural forces behind the rise of a bohemian bourgeois class in the United States, whose members, according to the authors, possess more disposable income than ever and are willing to pay a high premium for “new luxury” goods. The book intrigued Shrank, and he began chewing over turning it into new venture opportunities. He felt the notion of trading up was a good starting point. He knew many things were trading up, be it iPod, or Lexus, or everything in Pottery Barn.

So, once you start looking for ideas, you’ve got a bit of a focus. One day, I was at my friend’s office, who’s my dentist. I am getting my teeth cleaned, and this hygienist comes in and she overheard me and my friend talking about business ideas. And she tells me that she is baking these high-end dog biscuits for her dog, and she brings them to Central Park, and she’s got tons and tons of people who want to buy these dog biscuits. And instantly, I knew that this was a trading-up sort of product. People buy these because it’s an emotional connection. It gets you; you are doing something for your pet. It was really compelling. And the more I looked at those dog treats, the more we found trading up in that space. I started studying the pet industry.

Shrank had one other person to work with on his new venture ideas—Karen Thomas. Thomas had recruited the Princeton University graduate to IBM; they had worked together ever

since. Shrank and Thomas talked about the “trading up” phenomenon, particularly in the pet food industry. They decided to undertake intensive market research, which culminated in an “Initial Opportunity Definition” document.

The U.S. Pet Food Industry

By 2005, the total U.S. pet products market amounted to roughly \$32 billion. It had grown 6.7% annually since 1994. Of the total pet products market, pet food represented 43%. At \$8.7 billion, dog food was the largest and fastest-growing category in that segment; dog treats made up an estimated \$1.8 billion of that market.¹

Besides the increasing size of the pet products industry, Shrank and Thomas identified three key market trends, which together created the demand for an all-new category of dog-related products called the “out-of-home” category.

- The humanization of pets: Pet ownership had shifted from families with children to singles and empty-nesters for whom pets began taking the place of children. Only 18% of households in the United States that have a dog have children under the age of 18.
- Increased travel: More pet owners had begun taking their pets everywhere they went.
- Out-of-home: A new segment in the pet products market opened up.

Exhibits 2 through 5 show different trends in the pet food industry and the new opportunity in out-of-home category.

The New Luxury Ventures Idea

Shrank looked at the dog treats market. He wanted to create something high-end in line with his “New Luxury Ventures” idea for the “out-of-home” segment—maybe some treats-to-go for dogs. But the market was already crowded with small and large players.

So we focused on this “out-of-home” segment. There was this huge hole. You walk down the aisles of the pet shops, the pet stores, at the superstores, and 99% of everything in there—the food, treats, everything—is really designed to be stored and consumed within the home.

In that vein, somebody recommended that we come up with, which I thought was actually a fantastic product, a portable air-conditioner for your car, sitting in the window. Dogs die in a car if you leave them in there on a hot day, and there would be buyers for this air-conditioner.

¹ All data taken from David Shrank’s initial opportunity definition document.

And then, one day, I was in the park, and I saw a dog drinking out of a puddle. I thought, “Oh my God, how come nobody has done this yet?” This is really something that is so simple, and it’s difficult to believe nobody has done it to date. I did some math that night, case study style. We have 66 million dogs, each of whom needs 16 ounces of water every day, which gives us the total universe of consumption.

That was the birth of the idea “Pup Cups”—portable drinking water for dogs.

The Advisors

Throughout the opportunity development process, Shrank sought advice from people willing to listen to his business ideas and give him feedback—an informal network of friends, most of whom were entrepreneurs. Shrank talked to them about quitting his job and starting his own business. The general response was that, no matter what his business plan projected, he should (1) set aside money for 12 months of living expenses, because that was how long it would take to earn his first dollar (2) Have enough additional money to cover unexpected business costs.

One person Shrank talked to more specifically about the Pup Cups idea: Gene Anderson, the father of his former girlfriend. An established retail industry businessman, he had many of his own products on superstore shelves. He strongly cautioned Shrank that with only one product line and no infrastructure, it would be difficult to service big box stores.

The Call

Shrank had a lot going through his mind. Over the last few months, he had done all the background research possible. He had assembled what was beginning to look like a startup team consisting of himself, Thomas, and a few advisors. But he had other worries.

He was concerned about competition. What if one of the bigger players decided to come after this segment with a similar drink-to-go for dogs? Even before he could get his products on the shelves, big companies such as Nestlé and Purina could flood the market with similar products. And they would do it if they saw the opportunity.

He was also worried about the money situation. Was \$15,000 enough to sustain him and his startup for the hard year to come?

Questions about his immediate next steps also nagged him. Would he need an office from the very beginning, or could he work from home? How was he going to approach the pet superstores without an infrastructure? How would he develop the product and take it to market?

Shrank flipped once again through the “Initial Opportunity Definition” document and smiled as he looked at the page of cartoons he had pulled together, each one anthropomorphizing man’s best friend: One featured a dog ordering in a restaurant, another made clear that a dog has given a human a good personal reference, and a third portrayed a dog using a false human identity online. He glanced up at the clock again, his hand hovering over the telephone.

DO NOT COPY

Exhibit 1

TAKING THE PLUNGE: NEW LUXURY VENTURES

DAVID L. SHRANK

Work Experience

2001-Present **IBM, Business Strategy Consulting** **New York, NY**
Senior Consultant, Media and Entertainment Industry

- Led four teams to evaluate and optimize a client's major business units including international and TV rights, consumer products, domestic TV ad sales, ILicensing and merchandising. Presented findings of over \$30 million in annual savings and \$10 million in incremental annual revenue to the chairman.
- Developed the "future of news consumption" strategy for a news organization, leveraging next-generation search technology from an IT company's emerging business ventures group.
- Developed digital media strategies for a client to monetize its video footage into new business models around a newly launched television network.
- Managed a team of five European consultants to deploy over 50 sales strategy workshops across 17 industries in seven European countries, which identified and pursued over \$100 MM in sales opportunities for IBM
- Designed a corporate Internet strategy for a sports media company and presented findings to the chairman, CEO and CFO. The strategy resulted in a \$10 million ecommerce implementation for the client
- Conducted and published a study examining the future of TV, radio, and outdoor advertising business models and presented conclusions to media executives at a big three broadcast TV network
- Structured an ROI analysis for one of the big three broadcast TV networks to determine the strategic and financial benefits for improving its advertising sales systems and processes, which resulted in planned revenue increases of over \$70 MM
- Led a study to evaluate the financial threat of digital piracy for a \$15 billion media conglomerate through an analysis of legal, technical, and economical mitigation strategies

Summer 2000 **FreeRide.com** **New York, NY**
Manager, Business Development Group

- Created a direct email marketing product, which included market analysis, business model design, ROI analysis, product launch and management training to operate the \$ 3MM per year business

1995-99 **Accenture** **New York, NY**
Senior Consultant, Media and Entertainment Practice

- Facilitated the divestiture of a media conglomerate's educational publishing business by designing and rebuilding the corporate shared services to support the remaining businesses
- Led four organizational design and implementation teams concurrently to rebuild a \$700 million book publisher's accounts payable, corporate purchasing, human resources and payroll functions

Consultant, Media and Entertainment Practice
 • Prepared an advertising agency's finance group to meet SEC reporting requirements prior to its IPO

Education

Darden Graduate School of Business Administration **Charlottesville, VA**
University of Virginia

Master of Business Administration, May 2001

Class of 1965 Academic Scholar, Section Social Chair, Consulting Club

University of Miami

Bachelor of Business Administration, Dual Major: Finance and Management, May 1995

Coral Gables, FL

Exhibit 2

TAKING THE PLUNGE: NEW LUXURY VENTURES

The U.S. Pet Products Market



Source: David Shrank.

Exhibit 3

TAKING THE PLUNGE: NEW LUXURY VENTURES

The U.S. Pet Food Market

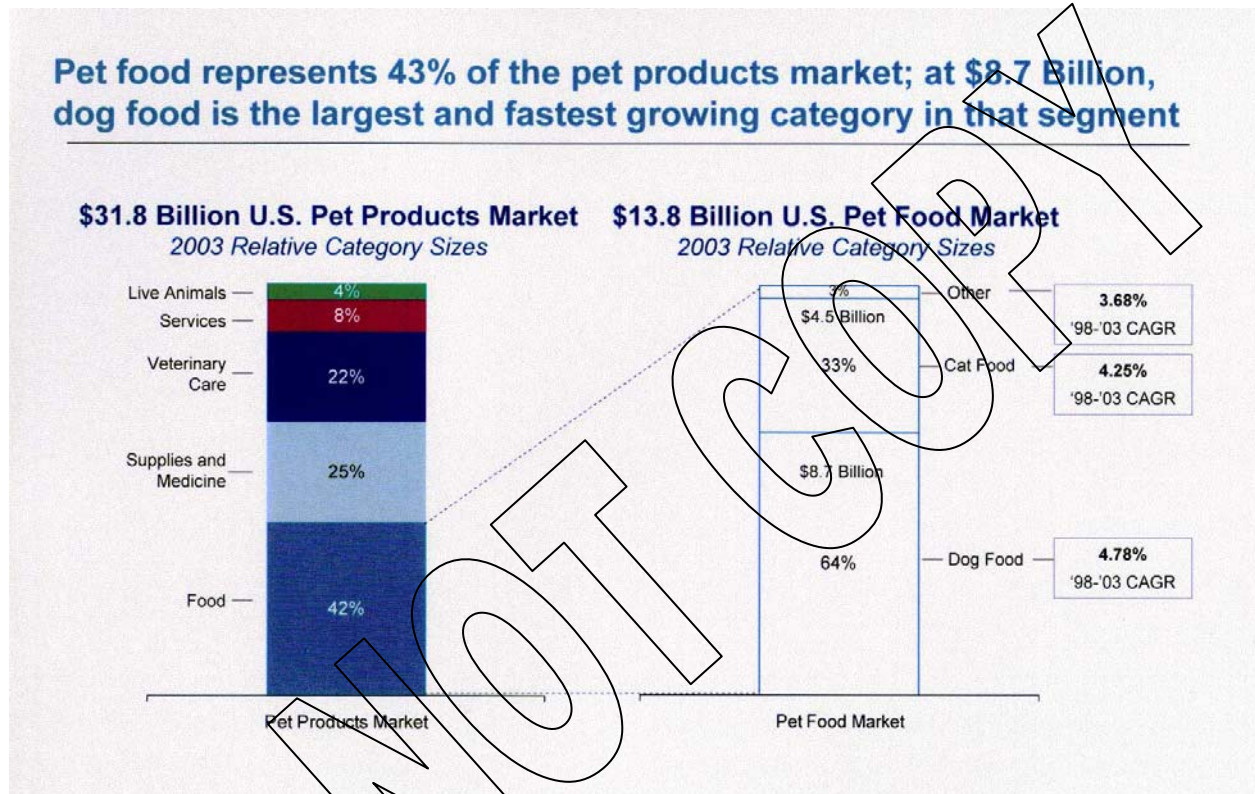
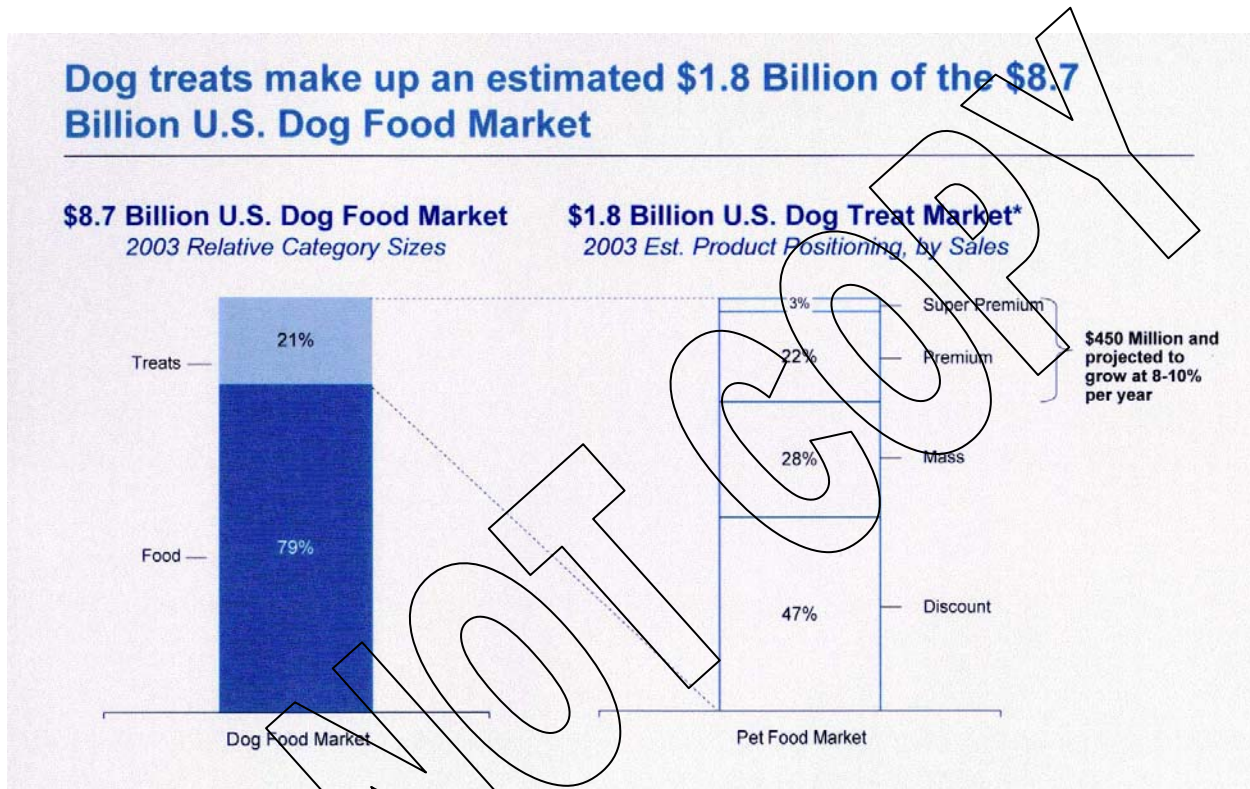


Exhibit 4

TAKING THE PLUNGE: NEW LUXURY VENTURES

The U.S. Dog Treat Market

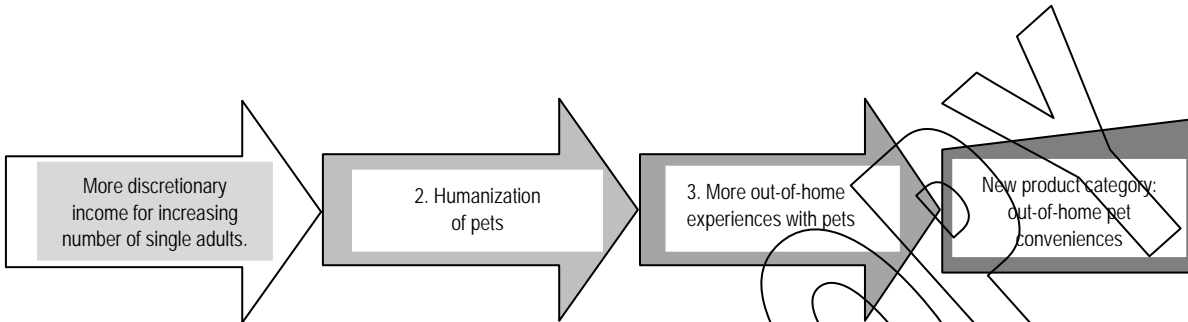


Source: David Shrank.

Exhibit 5

TAKING THE PLUNGE: NEW LUXURY VENTURES

Key Trends Reshaping the Dog Treat Industry



Source: David Shrank.