Bark Case Analysis

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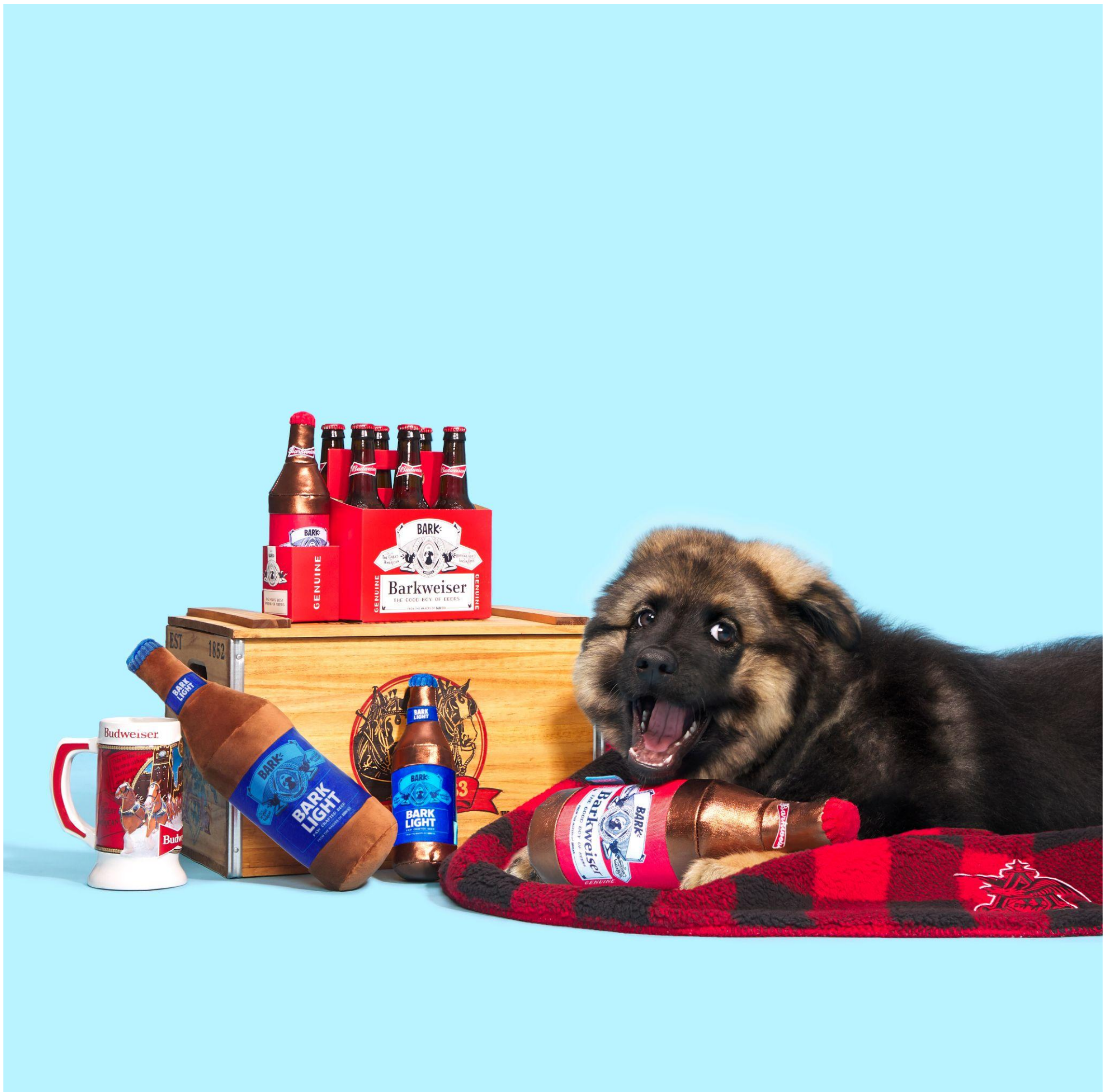

Disclosures:
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As of the time of this writing, I currently hold $BARK shares w/ an average price paid of $6.95611.

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Introduction

Bark, Inc. is a vertically integrated business founded in 2012 that sells dog related products. The business' core product, similar to Lootcrate, is a monthly subscription service called Barkbox that gives subscribers a new box containing dog toys and treats each month. The toys and treats are random, but oftentimes follow a specific theme or licensed IP. They also operate other segments such as Bark Play, Bark Eats, Bark Bright, and Bark Home. The company was previously run by CEO Manish Joneja who previously served as a leader in Amazon's worldwide operations division. However, it was recently announced that the company's co-founder Matt Meeker will now be taking over the helm of the company as CEO. The company trades in the NYSE under the ticker symbol $BARK.

The goal of this case analysis is to holistically evaluate Bark's business as well as determine where the company can best expand its operations to deliver new segments of growth in the future once their core product segments have further matured.

SWOT Analysis

Strengths	Weaknesses
• Vertically integration increasing margins • Machine learning on proprietary customer data to increase upsells and cross sells • Product diversification across play, food, health, and home • Brand awareness through omni-channel distribution • Enhanced relationship with customers via in-depth data	• Small product-line breadth • Dependent on cultural views towards dogs as pets • Stock price likely to be affected by SPAC stigma in the short term • Not as well known by pet owners in comparison to Chewy
Opportunities	**Threats**
• Implementing a customer loyalty system • Creating an online course to teach new pet owners about raising and training dogs • Continued growth in Play, Food, Health, and Home product segments • International expansion into new markets	• Chewy's online marketplace and the Chewy Goody Box • Rising inflation may reduce discretionary spending by consumers • Rising interests rates may negatively affect valuation as a growth company • Alternative subscription services such as Butternut Box

Conclusion:

Based on the SWOT analysis, Bark, Inc. has many strengths that it can leverage to provide superior products and services to its customers. Its focus on catering to dogs limits its product-line breadth, but allows for them to better focus on quality by being niche. Leveraging machine learning and proprietary data on their customers and their pets will allow Bark, Inc. to better cross-sell and upsell its products to its customer base. However, there is definitely a threat from Chewy should Chewy choose to more aggressively come after Bark's customer base by releasing similar products and services themselves. Bark has plenty of opportunities to grow by implementing a customer loyalty program, entering ed-tech for dog training, and expanding its existing product lines into new geographic markets. They could also look towards companies such as Butternut Box in the U.K. as a potential acquisition target to more quickly expand their operations internationally. In addition, if they wanted to expand in the US, they could also look towards PupBox as an acquisition target.

Porter’s Five Forces Analysis

Competition from rival sellers:
The biggest competition for Bark comes from Chewy. Whereas Barkbox has a subscription box called Barkbox, Chewy has Goody Box. The Goody Box is priced at around $24.99 - $34.32 in comparison to Barkbox which starts at $23. Because there aren’t many other companies that are directly competing with Barkbox in the US with subscription boxes filled with toys and treats, the competitive pressures stemming from rival sellers is low.

Competition from potential new entrants:
There is the possibility that Chewy more directly competes with Barkbox’s product lines and branding. It is also reasonable that Petco or Petsmart might also choose to sell subscription boxes for dogs. The cost of entry into the industry is relatively low as anyone could start up a subscription business online. The biggest hurdle for competing with Bark would be in having a vertically integrated product development. This would require significant capital investment that most people would not have access to to achieve scale. As a result, Petco and Chewy might be the most obvious companies for Barkbox to keep on their radar as the competitive pressures from potential new entrants is medium.

Competition from producers of substitute products:
The substitute products for Barkbox are simply individual dog toys and treats. As of February 1st, 2021, there are nearly 13,130 pet stores across the United States. Chewy is the largest online retailer for pet products and as a result has a wide breadth of dog toys and treats for pet owners to choose from. Petco and Petsmart both offer wide selections of toys and treats as well. The saturation in the industry makes the competition from producers of substitute products high as pet owners have many options to choose from when it comes to buying treats or toys for their loved pets.

Supplier bargaining power:
Based on the 10Q for the quarterly period ended September 30, 2021, during the three months ended September 30, 2021 and 2020, Bark had “one supplier that accounted for 22% of total finished goods purchased and two suppliers that accounted for 38% of total finished goods purchased, respectively.” This would indicate that Bark has spread out their manufacturing across more suppliers in 2021 versus 2020, helping to lower the bargaining power of their suppliers. Based on this, I would suggest that Bark’s suppliers have a low bargaining power.

Customer bargaining power:
Based on the 10Q for the quarterly period ended September 30, 2021, during the three and six months ended September 30, 2021 and 2020, Bark did not have any customers that accounted for 10% or more of total revenues. The Company had two customers that accounted for 51% and three customers that accounted for 84% of gross accounts receivable as of September 30, 2021 and March 31, 2021, respectively. The Company’s accounts receivable relates to sales to customers within the Commerce segment, which represented 10.8% and 11.1% of total revenue for the three and six months September 30, 2021, respectively.“ Based on this, Bark’s customer

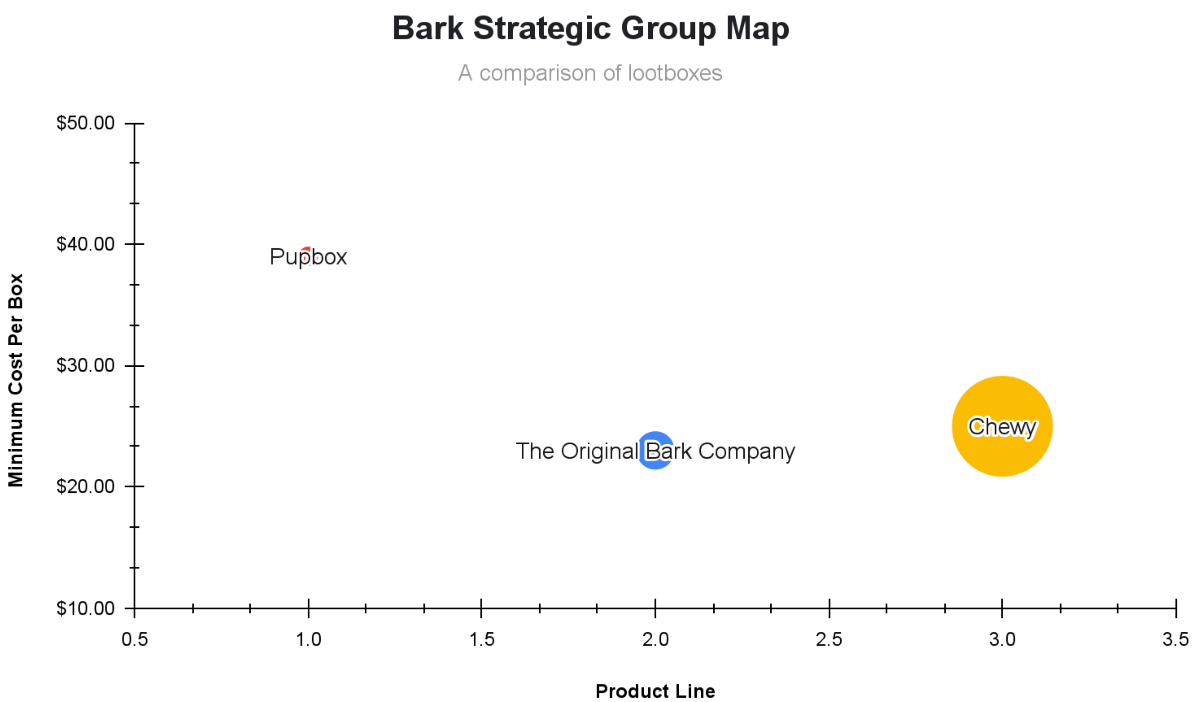
segments are well diversified. Although Bark is subject to medium to high bargaining power with respect to customers within the commerce segment, which makes up sales through major retailers and online marketplaces, the majority of their revenues do not come from any one individual or company when defining major customers as those who accounted for 10% or more of total revenues. The majority of Bark's clients have alternative businesses that they can shop at such as Chewy in order to get toys and treats for their pets. However, I believe that Bark's focus on providing an "experience" in a box gives them a unique advantage that cannot be easily acquired at online retailers such as Chewy. In that sense, I believe that Bark's customers have low bargaining power. However, because of the fact that customers within the commerce segment have high bargaining power, the overall strength of pressure from customer bargaining power is medium.

Strength of the Five Forces:
See above for reasonings

Force	Strength of Pressure
Competition from rival sellers	Low
Competition from potential new entrants	Medium
Competition from producers of substitute products	High
Supplier bargaining power	Low
Customer bargaining power	Medium

Conclusion:
Bark is uniquely positioned to create value to dog owners everywhere through strong branding and unique product offerings. With low competitive pressures from rival sellers and medium competitive pressures from potential new entrants, Bark has plenty of room to make itself a household name for dog-oriented products. While Bark might not have any direct competitors, Bark is subject to high competitive pressures from producers of substitute products. There are many other retailers that sell dog toys and treats such as Chewy. Bark may face challenges should their brand image decline or prices rise to a point where their current customers look towards producers of substitute products at cheaper prices. In terms of their supplier and customer bargaining power, Bark appears to be well diversified across multiple suppliers. The majority of their pressures in this category stem from customer bargaining power as there are only a few customers in the commerce segment. In order to work on reducing pressures from customers of the commerce segment, Bark should continue to reach out to many other brick and mortar retailers as well as e-commerce retailers to expand the reach of their product lines.

Strategic Group Map



Conclusion:

For the purposes of creating a strategic group map, I decided to compare the subscription boxes from Pupbox, Bark, and Chewy. Bubble sizes were determined by revenues. Although Pupbox doesn't have much information regarding their sales since their appearance on Shark Tank in 2016, I estimated it by assuming their sales grew by a CAGR of 35%. This number, although high, was chosen because of Bark's historical CAGR. The Product Line represents how wide of a breadth of products each company has to offer consumers. Pupbox had a low product line breadth while Chewy had a high product line breadth. Pupbox is significantly more expensive than Barkbox putting it at a competitive disadvantage. Although the price of the Chewy Goody Box is only marginally higher than Bark's, they have a significantly wider product line as they sell many individual toys not only for dogs, but other pets as well. In order for Bark to remain competitive with Chewy, it must continue to grow and strengthen its brand image by building brand partnerships with strong IP's. Their wide assortment of themes and collaboration with brands such as Marvel, Scooby Doo, and the NBA will prove to be a valuable asset moving forward in building strong product differentiation. If Bark successfully creates a high-end brand image for their toys, they have the potential to be viewed as the Apple of the dog industry with Chewy being viewed as the Android alternative to iOS.

Weighted Competitive Decision Matrix

		The Original Bark Company		Chewy		Pupbox	
Key Success Factor	**Weight**	**Rating**	**Score**	**Rating**	**Score**	**Rating**	**Score**
Price	0.2	9	1.8	8	1.6	6	1.2
Brand Partnerships	0.3	9	2.7	7	2.1	4	1.2
ML	0.2	8	1.6	7	1.4	0	0
Social Media Presence	0.1	8	0.8	6	0.6	7	0.7
Revenue Growth	0.2	8	1.6	7	1.4	5	1
Totals	1		8.5		7.1		4.1

Conclusion:

Based on the weighted competitive decision matrix, Bark seems to have a stronger score based on the chosen key success factors. Bark's subscription box is cheaper than both competitors and they have stronger partnerships with brands such as Disney to help them create products that might appeal to younger dog-owners. Bark and Chewy are both utilizing machine learning to forecast demand for their products. However, I believe that Bark's dataset with personalized information regarding their subscribers and dogs will help them to produce more specialized products that their consumers will want via their add to box upselling whereas Chewy's products are more generalized similarly to a store like target. Bark also appears to have a stronger social media presence than Chewy and pupbox, likely due to their focus on targeting dogs. With stronger revenue growth, I believe that Barkbox is poised to expand and become the household name for dog products.

Financial Analysis

		Historical		Growth Estimates	Chosen %			Forecast		
(numbers in thousands)	2019	2020	2021	or % of Revenue		2022	2023	2024	2025	2026
Revenue	191441	224335	378604	40.63%	35%	511115.4	690005.79	931507.8165	1257535.552	1697672.996
COGS	84326	88921	152664	34.55%	0.35	206096.4	278230.14	375610.689	507074.4302	684550.4807
Operating Exp.	141310	160640	224139	25.94%	26%	302587.65	381260.439	480388.1531	605289.073	762664.2319
EBIT	**-34195**	**-25226**	**1801**			**2431.35**	**30515.211**	**75508.97436**	**145172.0492**	**250458.2829**
Less Taxes	0	0	0			0.21	0.21	0.21	0.21	0.21
Less Capex	-1936	-4677	-4825			-7446.141725	-10052.29133	-13570.59329	-18320.30095	-24732.40628
% of Revenue	-1.01%	-2.08%	-1.27%	-1.46%	-1.46%					
Plus Depreciation	505	1397	2405			1534.872434	1933.939267	2436.763477	3070.321981	3868.605696
% of Revenue	0.26%	0.62%	0.64%	0.51%	0.51%					
Less Changes in Working Capital	19051	7012	-16545			-22335.75	-30153.2625	-40706.90438	-54954.32091	-74188.33322
% of Revenue	9.95%	3.13%	-4.37%	2.90%	-4.37%					
Unlevered FCF	**-50805**	**-26164**	**25576**			**$33,237.53**	**$66,246.51**	**$116,366.35**	**$191,030.86**	**$300,651.39**
PV						$23,657.82	$42,100.85	$66,029.39	$96,782.18	$135,999.42
Sum	364569.6649									
TV	$1,948,514.80									
NPV	$2,313,084.46									

Value Per Share	$13.46

Inputs	
Discount Rate	12%
Terminal Growth Rate	2%
Shares Outstanding	171900

Conclusion:

When constructing the DCF for BARK, I chose to use a lower revenue growth rate than that of the historical CAGR as a bear case. I projected revenues, COGS, and operating expenses by determining their historical CAGR and projecting it out 5 years. For capital expenditures, depreciation, and changes in working capital, I maintained a ratio with respect to revenue. Based on the DCF, the estimated value of $BARK shares is $13.46 should they manage to continue to grow at the rate they do. I believe that this shows that the company has deep value that isn't being reflected in its current market trading price.

Ideas for New Segments

Bark Resort

How can Bark continue to grow into new product segments and expand beyond its current offerings? I believe that one way Bark can stand out and continue to build its brand as an American household name would be to create a dog resort that pet owners could go to and enjoy a vacation with their loved pets. The resort could provide traditional amenities as other resorts such as a:

- Spa
- Pool
- Gym

Generally when pet owners want to go on a vacation, they must leave their pets with someone they know or at a dog hotel. However, both of these options separate dog owners with their pets. At Bark Resort, pet owners could experience their vacations with their pets. The resort could feature all sorts of pet friendly activities for dog owners to participate in such as a:

- Unique dog park
- Dog training workshops
- Doggy daycare

Ideally, the resort would have enough amenities to keep guests entertained and staying within the resort. However, as this would be a bit of an experiment, it might be useful to position the resort close to a popular site such as one of Disney's theme parks. This would also present an opportunity to further develop relations with The Walt Disney Company as a store within the resort could sell Bark x Disney collaboration items creating new opportunities for upselling.

Bark Education

Another way that Bark can continue to expand its presence would be to create a MOOC for dog training. This service could be provided free to existing subscribers or offered as a separate subscription. Bark Education could provide weekly new videos about how to take care of and train your dogs. Videos could range from basic care such as learning about pet insurance to learning how to train your dog to give you a high five.

Bark Designer

It's no surprise that dog owners like to accessorize their pets for the gram. Currently Bark doesn't have many accessories to sell to its customers. Bark Designer could create new dog collars, clothing, and other accessories. This could also present an opportunity to collaborate with designer brands such as Versace.

Conclusion

The Original Bark Company main competitive advantage is in its branding and relationships built with owners of strong IP's. Despite competition from companies such as Chewy and Pupbox, I believe that Bark's competitive advantages are strong enough to carve out its future in the dog industry. There are plenty of opportunities to expand into new product segments once it turns profitable and the growth of its existing product lines slows down. I believe that the financials for the company are strong and that revenue should continue to grow by at least 30% annually for the foreseeable future.