Rover Executes Growth Strategy to Achieve Scale[1]

Brent squinted to make out the Seattle skyline on the horizon. The fall storms made his daily ferry commute darker as the days shortened and the moist air thickened. He liked being outside and walking from the ferry dock to his office, where he served as President and COO of Rover. 2024 had been a momentous year for Rover with a $2.4B transaction that took the young, publicly traded company private. Besides the nice valuation bump, the transition made Brent's life a little less frantic. As a public company, Brent had dedicated nearly five days every three months to activities related to Rover's publicly traded status. The new owners, Blackstone Group, would require regular updates but not the same production needed for quarterly public releases. Now, that time could be focused on executing a strategy with a longer time horizon. But like the mist on Elliott Bay, the way forward was sometimes fuzzy. The US economy was slowing, and the pet services business felt pressured by the slowing travel market.

Rover had grown from an idea in 2011 to a NASDAQ-traded firm with a quarterly run rate that put them in the position to exceed $250M in revenue for 2024 (see Exhibit 1 for Rover's pre-IPO financials and Exhibit 2 for Rover's last four quarters as a publicly traded company). The company had successfully created a new business by building a marketplace for pet services, an industry that was primarily dominated by a shadow market of friends, family, and neighbors. Now, with a new private equity owner, the calculus of acquisitions had changed.

Brent's thoughts turned to a morning meeting with Megan Teepe, Senior VP of Global Growth. That morning, they planned to whiteboard their past acquisitions to refine their execution playbook. Two particularly successful past acquisitions leaped into his mind—DogVacay and Dogbuddy. As the boat slowed to the dock, Brent rehearsed the lessons from past successes to sharpen his thinking about the company's new opportunities.

Early Beginnings

The Rover origin story pointed to a 2011 Seatle-area Startup Weekend (now part of TechStars) hosted by Amazon.[1] The 48-hour competition challenged participants to take an idea and develop a prototype with an associated business plan. That weekend, Greg Gottesman, managing director at Madrona, pitched an idea for an Airbnb for dogs—called "A Place for Rover." The idea was to make it easy for pet owners to find a dog sitter. Madrona was a Seattle-based venture capital firm specializing in seed, startup, Series A, and early-stage investments. A team picked up the Rover idea and won the competition. Captivated by the concept and the team's presentation, Greg convinced a weekend team member, Phil Kimmey, to drop out of school to work full-time to develop the initial platform. When Aaron Easterly, an entrepreneur in residence at Madrona, heard about the idea, he signed on as co-founder and CEO. Madrona provided seed funding, and Rover launched in November of 2011. Rover had over 10,000 active members six months later, and Madrona led a $3.4 million Series A round.[2]

---

[1] This case was written by M. Eric Johnson for class discussion rather than to illustrate effective or ineffective managerial decisions.

Easterly was an expert marketplace builder who had helped build Atlas, an advertising platform designed to manage, track, and measure the performance of web-based advertisement campaigns. In 2007, Microsoft acquired Atlas, and Aaran became a Microsoft employee. After nearly four years at Microsoft, Easterly left to join Madrona (and Microsoft later sold Atlas to Meta). As a pet owner, he immediately understood the Rover idea, but proving that the market existed was more challenging. Dog sitting was a nascent market, with a small formal segment in kennels, but most of the potential was in the shadow market of replacing the services provided by friends and family.

The Rover Model

Rover's business model was a platform that housed a 2-sided marketplace. Dog owners could find local sitters that provided a range of services, from walking and feeding dogs during the workday to taking dogs into their homes to spend a day (doggy daycare) or multiple weeks—much like a kennel. Some sitters would also come to live in the dog owner's home, caring for multiple pets and watching over the house. Sitters could specify their services, availability, and rates. Rover enabled sitters to create online profiles that allowed them to provide personalized services (see Exhibit 3)—market rates varied by the services rendered, number of pets, timing, city, etc. Dog owners could search for available sitters on dates they needed help and see a range of providers with different prices and customer ratings. Rover charged dog owners an 11% service fee (capped at $50) and typically received 20% of the sitter's fee—so Rover generated revenue of roughly 30% of the total paid by the dog owners.

Network effects were critical for most marketplace businesses. Bringing more sellers and buyers together created a virtuous cycle of growth. Easterly's experience led him to believe that marketplace businesses that provided a substitute for an existing service could quickly spring to life and scale. For example, Uber provided a direct alternative to taxis, so building scale for drivers and riders allowed them to snowball. Building marketplace businesses like Rover that required changing consumer behavior was more challenging and time-consuming. Consumers had to change their behavior. To make matters more complicated, a primary segment of Rover's customers were people who traveled, so there were seasonal peaks of demand, and marketing alone could not generate more repeat customers. In such cases, marketing was a brute force, expensive approach.

The Rover team believed that the secret to growth was marketplace efficiency—using data to drive down customer conversion costs and enhance lifetime value. They wanted to constantly increase the likelihood that dog owners who landed on Rover's website found a sitter that was right for them and had a good experience so they would return. Retention and lifetime value were critically important. Unlike a typical Uber ride, there was a big difference between the performance of sitters and, thus, their desirability and customer's willingness to pay. Capturing and displaying those elements to customers required data science excellence and powerful analytics. If done well, analytics could decrease drop-offs in the sales funnel and drive up lifetime value. Easterly had developed an appreciation for data science from his early days at Avenue A, Atlas, and Microsoft. Along the way, he met other like-minded business builders. One in particular was Brent Turner, whom he met at Avenue A in 2014. Their careers tracked each other, and they became close friends. At the different companies, sometimes Aaron reported to Brent and vice versa.

When Easterly launched Rover, he immediately started recruiting Brent, first as an angel investor and then as a partner. While Brent was intrigued, he didn't see Rover as viable. Unlike Uber or Airbnb, there was no legacy business to disrupt; thus, estimating the potential market size was challenging. Brent felt that limitation was a red flag. But after three years of effort and lots of early Rover success, Brent finally climbed on board as COO. It was a great partnership, and Aaron often referred to Brent as his co-CEO.

Domestic Growth through M&A

As Rover developed its US market, so too did DogVacay, an LA-based pet-sitting marketplace founded by Aaron Hirschhorn shortly after Rover in the spring of 2012. While they operated similar businesses, DogVacay initially focused on brand marketing, jumping to an early lead in key markets like Los Angeles and New York. For a time, that created awareness for the category that helped both DogVacay and Rover. But while DogVacay was a strong marketer, it was less effective at the marketplace mechanics, which drove conversion and repeat booking (Rover's focus). Thus, their early lead in key markets started eroding as Rover perfected its approach. The two Aarons periodically talked about combining—from the beginning and throughout the years. Neither wanted to give up on their company, but they kept talking. It was evident to everyone, from investors to the companies themselves, that they belonged together.

When Rover announced in March 2017 that it was acquiring DogVacay, the Inc. Magazine headline was "Two Competitors Finally Merge."[3] Hirschhorn noted, "We've been talking on and off for more than five years, so this is something that has always been on the table."

Rover had brought on Megan Teepe in 2015 to focus on sitter success. When a sitter failed, it often meant the loss of a customer, so enhancing sitter success was closely linked to increasing lifetime customer value. Teepe met early success and was promoted to Vice President, Operations and Sitter Success a year later. She was placed on point in executing the business outcomes of the DogVacay integration.

The Rover team spent countless hours (pre-deal close) considering the merger. Easterly was painfully aware that most acquisitions failed to deliver on expectations and did not want post-close execution failures to destroy the value of the two firms. Going into the acquisition, the two management teams met to discuss the options. They considered three possibilities for the combination: maintaining two separate operations with unique brands, merging the two back-ends and having separate front-ends, or complete absorption of DogVacay into Rover, effectively eliminating the DogVacay platform. After much pre-acquisition discussion, both teams agreed that a hard cut-over to the Rover operation and brand was in everyone's best interest—including pet sitters and customers who would benefit from the scale a combined offering would bring. Rover's platform was better able to convert and retain customers and increase lifetime value.

Teepe led a team that moved into DogVacay's facility on day 1 with a board-mandated goal of a 90-day integration. One challenge was the redundancies between the two firms. DogVacay had many highly paid employees that wouldn't be needed post-integration. Reducing payroll costs was a crucial cash-management issue for the not-yet profitable startup, requiring employee cuts. While painful for the DogVacay employees, the plan included significant financial incentives to participate in the 90-day integration, including bonuses and Rover stock.

The plan worked. Even knowing that most of the DogVacay employees would be eliminated after 90 days, the incentives, clear operating plan, strong communication, and overall team spirit brought both the DogVacay sitters and customers onto the Rover platform in under 90 days. As hypothesized, Rover's analytics quickly showed that some of DogVacay's sitters were non-responsive. Teepe deactivated 12,000 poorly performing sitters from the marketplace in a single day. DogVacay customers saw improved service, and as hoped, those customers' lifetime value increased on the Rover platform. Finally, the unified firm recognized significant marketing savings due to efficiencies in both brand investment and paid channel acquisition.

Global Expansion
In 2018, with DogVacay fully integrated, Rover turned its attention to growth outside the US. Rover had gained its first non-US market with Canada via the DogVacay acquisition. There were already many copycat startups in the developed countries of Western Europe. Rover considered entering Europe via M&A but ultimately could not get to terms with any of the players. As a result, they decided to enter the UK directly, announcing in May 2018 a July service launch,[4] with plans to get to Continental Europe by early 2019. Megan shifted roles to international business development and led the UK launch.

At that time, Rover had been most intrigued by London-based DogBuddy, a promising European provider. The 50-person company was founded in 2013 and facilitated more than 1 million dog overnight stays since its launch. Besides London, it had an office in Barcelona and had been launching services in other European countries. Overall, it was much smaller than Rover, with 25,000 dog sitters on the platform, compared to 200,000 sitters on Rover.[5]

Rover's entry into the European market immediately impacted M&A conversations. By July, DogBuddy expressed openness to an acquisition. A DogBuddy acquisition offered an opportunity to scale Rover's UK and European footprint. That, in turn, would help build the flywheel of conversion rates, customer lifetime value, and expanded marketing. In October, the two firms announced an acquisition agreement that allowed DogBuddy to remain independent, operating under the DogBuddy name but with plans to move onto Rover's platform later. The founder and CEO, Richard Setterwall, was named the European leader, with Teepe leading global growth. The acquisition of DogBuddy gave Rover a presence in the U.K., Spain, Italy, France, Germany, Sweden, Norway, and the Netherlands.[6]

Behind the scenes, the plan was more nuanced and protracted than DogVacay. Unlike DogVacay, Rover didn't face the cash burn considerations that led to the rapid integration. Moreover, Rover had far more to learn in Europe. The Rover team set four specific objectives for the integration:

- Give Rover time to internationalize and localize the Rover marketplace to be ready to operate in DogBuddy's eight countries.
- Put in place a clear incentive structure for the team to hit the target migration timeline.
- Migrate all DogBuddy users onto the Rover platform before the Summer 2019 peak.
- Figure out the medium-term marketing and operating strategies to scale in Europe post-migration.

While rocky at times, the plan ultimately worked. Teepe noted that "we were able to hit our migration timeline, beat our customer migration targets in all countries, and beat our integration cost targets. However, we made some strategic errors in our post-migration operating strategy." DogBuddy CEO Richard Setterwall exited in Oct 2019.

The Near-death Catapult
With the combination of acquisitions and organic growth, Rover gained scale over the next two years, and there was much talk of an IPO. That talk collapsed during COVID-19 when everyone went home and no longer needed sitters. Rover quickly tightened its belt, cutting over 40% of its workforce, and worked feverishly to cut costs and stay alive. That near-death experience put the company back on solid footing. It later enabled the company to thrive in the post-epidemic period when people who had adopted pets during the lockdown returned to work and travel. By late 2020, the company was emerging from COVID, and acquirers began calling. That led to further conversations about the opportunity to go public. That opportunity came quickly in February 2021 when Rover announced it would go public through a special-

purpose acquisition company, officially listing Rover on the Nasdaq exchange for trading in August. However, the post-COVID economic boom and subsequent bust kept the company under pressure.

A year after the public listing, the leadership team traveled to NYC in August (2022) for an opening bell celebration (see Exhibit 4) delayed by the second and third waves of COVID.[7] Since going public, the company had become profitable and doubled revenue. Yet as they rang the bell in New York, the stock traded around $4/share—down more than 60% from the beginning of the year and far more than that from a year earlier (see Exhibit 5). Rover's shares had closed at $11.29 on its first day of trading and reached an all-time high of $14.68 less than two months later. Since then, it had been a crushing path down. Many pointed to growing investor concerns in all firms that went public using a SPAC vehicle. Rising interest rates had closed the door on further SPAC IPOs and hit the valuations of many already trading. Later analysis pointed to the fact that small-cap tech firms got particularly hammered when the market weakened—regardless of IPO status. Easterly defended the move, arguing that it provided liquidity to Rover's employees and injected $325 million onto its balance sheet. Time proved him right, but it was a painful period.

The equity markets improved over the next 12 months, and Rover continued to hit growth and profitability targets. However, the seasonality of the business continued to spook investors. Summer and holiday periods were strong, but the winter months of January-March were painful (see Exhibit 2). With the tailwind of summer 2023, the stock was trading in a zone of $6-7/share in the early fall, far better than the bottom a year earlier but still half of its peak. At that level, the company looked cheap with its associated growth prospects, and Easterly began fielding calls from private equity firms. On November 29, Blackstone announced[8] a $2.3 Billion buy-out to take the company private.[9] The $11.00 per share cash offer represented a 61% premium over the prior 90 trading day. Blackstone, which had more than $1 trillion in assets under management, "will help Rover accelerate parts of its business," Easterly said, pointing to its experience with companies at a similar stage and the advantage of having an investor with a 'long-term horizon.'

Next Move

Hurrying along the rainy sidewalks to his office, Brent knew that DogVacay and Dogbuddy would dominate his white-board discussion with Megan. But he recalled another deal that they should also dissect, GoodPup.

After the IPO, Rover began looking for adjacent businesses that might be added to the platform. GoodPup was a dog training start-up that leveraged people's willingness to do anything virtually in 2020. Dog owners could book private, one-on-one video sessions with experienced dog trainers using an app or a browser.

Rover decided to acquire the small startup as an experiment. When they announced the acquisition in 2021, they noted that the GoodPup platform would be operated independently, so the Rover and GoodPup accounts were completely separate.[10] The service was offered as a subscription for $34 per week, including weekly half-hour appointments with a trainer, a library of training materials, and 24/7 live chat with trainers and veterinarians.[11] The service grew under Rover's ownership, with over 80,000 cumulative customers by 2024. It also won multiple awards, including the #1 rated dog training app on the Apple App Store.[12] It was also named one of the ten Best Dog Training Apps in 2024—#1 in the premium choice category—by Dogster.[13] However, GoodPup had not scaled to expectations post-acquisition, and there were limited apparent synergies with the Rover platform. Rover's pre-acquisition scaling expectations were driven in large part by the virtual conditions of COVID. Post-COVID, customers moved back toward in-person training.

Brent wondered if GoodPup fell into the category of instructive failure. Maybe failure was too harsh. But not what they expected. Nevertheless, it was a good learning experience that should undoubtedly be on the whiteboard.

With these three cases, he felt confident that he and Megan would be able to brainstorm a robust set of learnings that could inform their M&A execution playbook.

Exhibit 1: Rover pre-IPO financials.[14]

Rover Group Income Statement

Financials in millions USD. Fiscal year is January - December.

TTM | ⇄ | Millions | NASDAQ | Download

Year Ending	TTM	Dec 31, 2022	Dec 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
Revenue	217.8	174.01	109.84	48.8	95.05	71.41
Revenue Growth (YoY)	36.07%	58.43%	125.08%	-48.66%	33.11%	-
Cost of Revenue	48.1	41.06	26.54	19.82	23.52	16.17
Gross Profit	169.7	132.95	83.3	28.98	71.53	55.24
Selling, General & Admin	96.98	102.6	55.5	38.15	74.87	81.24
Research & Development	31.31	27.53	22.71	22.57	22.07	16.89
Other Operating Expenses	43.09	32.74	22.26	21.27	28.27	24.56
Operating Expenses	171.38	162.87	100.46	81.98	125.21	122.68
Operating Income	-1.68	-29.92	-17.16	-53.01	-53.68	-67.44
Interest Expense / Income	0.07	0.08	2.95	3.15	0.2	0.14
Other Expense / Income	-12.9	-7.94	44.16	1.42	-1.7	-2.63
Pretax Income	11.15	-22.06	-64.28	-57.58	-52.18	-64.95
Income Tax	0.29	-0.08	-0.23	-0.09	-0.47	-0.27
Net Income	10.86	-21.98	-64.05	-57.49	-51.71	-64.68
Preferred Dividends	0	0	0	0	0	0.49
Net Income Common	10.86	-21.98	-64.05	-57.49	-51.71	-65.17
Shares Outstanding (Basic)	181	182	89	30	29	27
Shares Outstanding (Diluted)	193	182	89	30	29	27
Shares Change	5.74%	104.32%	197.71%	2.60%	7.32%	-
EPS (Basic)	0.06	-0.12	-0.72	-1.92	-1.77	-2.40
EPS (Diluted)	0.05	-0.12	-0.72	-1.92	-1.77	-2.40
Free Cash Flow	7.74	-6.52	7.14	-64.62	-52.99	-41.41
Free Cash Flow Per Share	0.04	-0.04	0.08	-2.16	-1.82	-1.52
Gross Margin	77.91%	76.40%	75.84%	59.38%	75.25%	77.35%
Operating Margin	-0.77%	-17.19%	-15.62%	-108.62%	-56.47%	-94.44%
Profit Margin	4.99%	-12.63%	-58.31%	-117.80%	-54.41%	-91.26%
Free Cash Flow Margin	3.55%	-3.75%	6.50%	-132.42%	-55.75%	-57.98%
EBITDA	26.3	-6.51	-44.58	-35.71	-38.38	-55.15
EBITDA Margin	12.07%	-3.74%	-40.59%	-73.18%	-40.38%	-77.23%
Depreciation & Amortization	15.08	15.47	16.75	18.71	13.6	9.66
EBIT	11.22	-21.98	-61.32	-54.43	-51.98	-64.81
EBIT Margin	5.15%	-12.63%	-55.83%	-111.53%	-54.68%	-90.75%

Source: Financials are provided by Nasdaq Data Link and sourced from the audited annual (10-K) and quarterly (10-Q) reports submitted to the Securities and Exchange Commission (SEC).

Exhibit 2: Rover financials as a public company.

Period Ending:	2023 30/09	2023 30/06	2023 31/03	2022 31/12
Total Revenue	66.2	58.53	41.12	51.95
Revenue	66.2	58.53	41.12	51.95
Other Revenue, Total	-	-	-	-
Cost of Revenue, Total	13.63	12.61	10.78	11.08
Gross Profit	52.57	45.92	30.34	40.87
Total Operating Expenses	57.83	57.24	48.28	49.06
Selling/General/Admin. Expenses, Total	34.44	34.86	28.73	29.32
Research & Development	8.57	8.3	7.3	7.15
Depreciation / Amortization	-0.076	-0.008	0.034	-1.64
Interest Expense (Income) - Net Operating	-0.015	-0.018	-0.018	-0.019
Unusual Expense (Income)	-	-	-	-
Other Operating Expenses, Total	1.28	1.5	1.46	3.17
Operating Income	8.38	1.29	-7.16	2.9
Interest Income (Expense), Net Non-Operating	-	-	-	-
Gain (Loss) on Sale of Assets	-	0.801	0.314	0.598
Other, Net	-2.25	0.668	-2.82	-3.06
Net Income Before Taxes	10.63	-0.183	-4.66	5.36
Provision for Income Taxes	0.128	0.07	0.001	0.09
Net Income After Taxes	10.5	-0.253	-4.66	5.27
Minority Interest	-	-	-	-
Equity In Affiliates	-	-	-	-
U.S GAAP Adjustment	-	-	-	-
Net Income Before Extraordinary Items	10.5	-0.253	-4.66	5.27
Total Extraordinary Items	-	-	-	-
Net Income	10.5	-0.253	-4.66	5.27
Total Adjustments to Net Income	-	-	-	-
Income Available to Common Excluding Extraordinary Items	10.5	-0.253	-4.66	5.27
Dilution Adjustment	0.851	-	-	-
Diluted Net Income	9.65	-0.253	-4.66	5.27
Diluted Weighted Average Shares	192.98	183.62	184.36	205.95
Diluted EPS Excluding Extraordinary Items	0.05	-0.001	-0.025	0.026
DPS - Common Stock Primary Issue	-	-	-	-
Diluted Normalized EPS	0.034	0.02	-0.017	0.015

* In Millions of USD (except for per share items)

Exhibit 3: Rover's personalized touch, sitters regularly update dog owners with pictures showing their pet is doing well under their care.

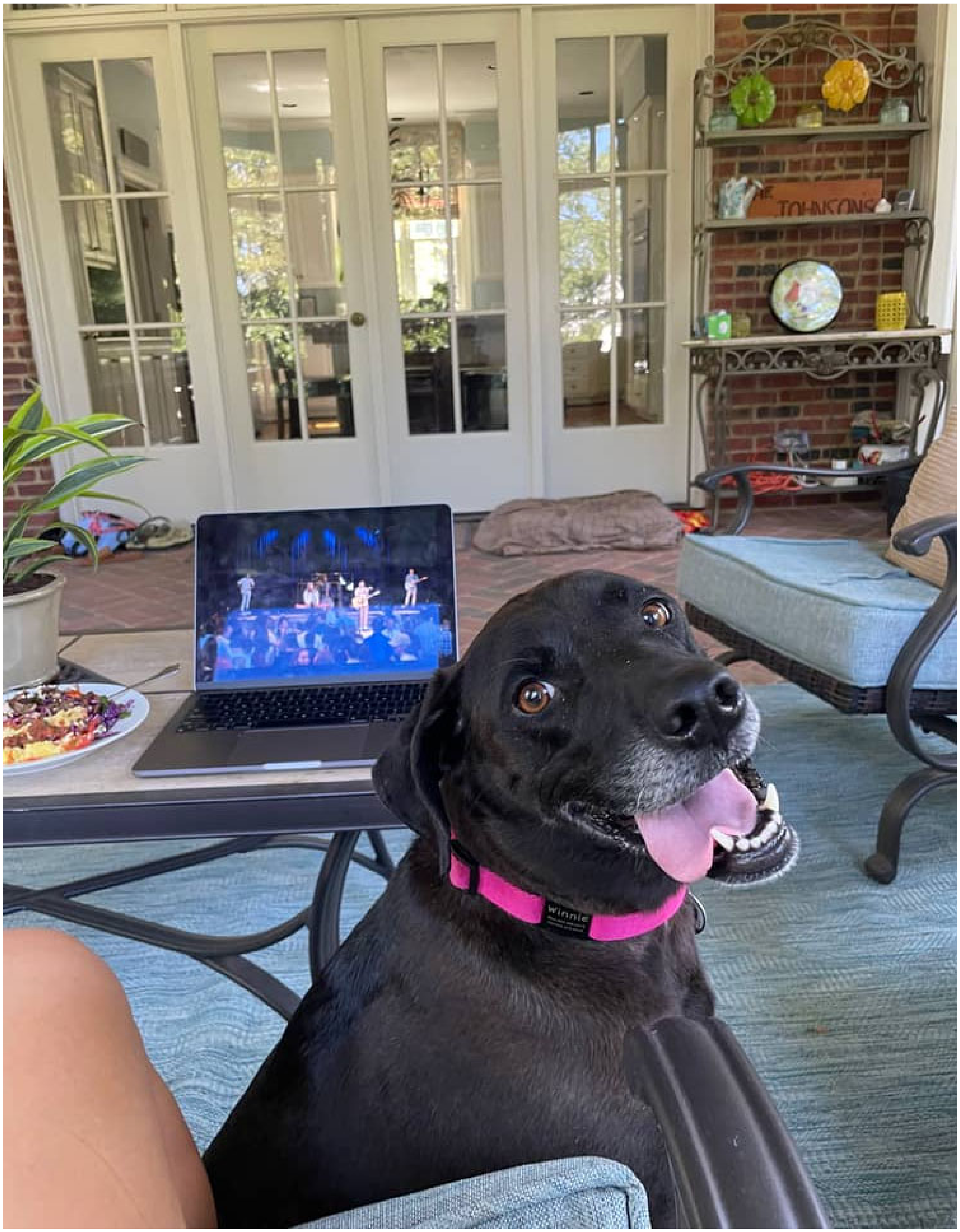


Exhibit 4: Opening bell ceremony, August 2022, delayed an entire year because of COVID.

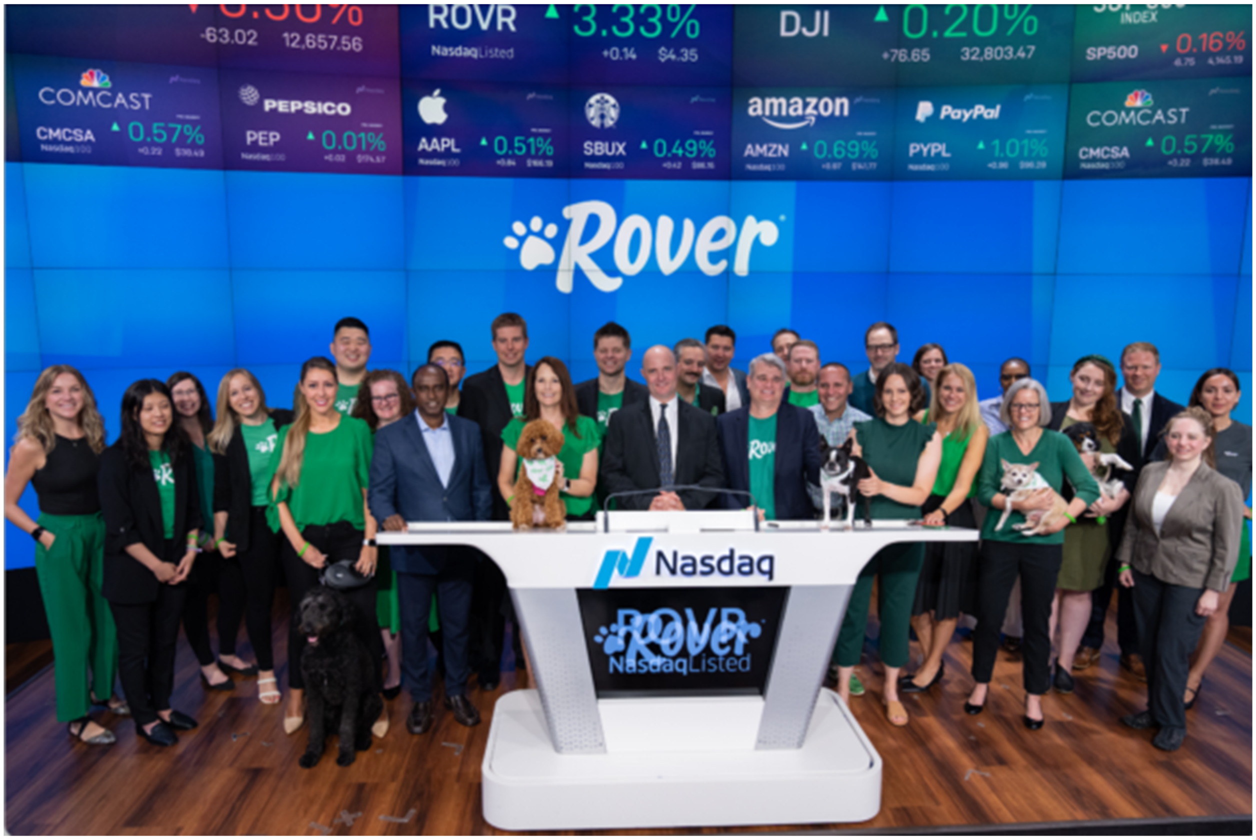
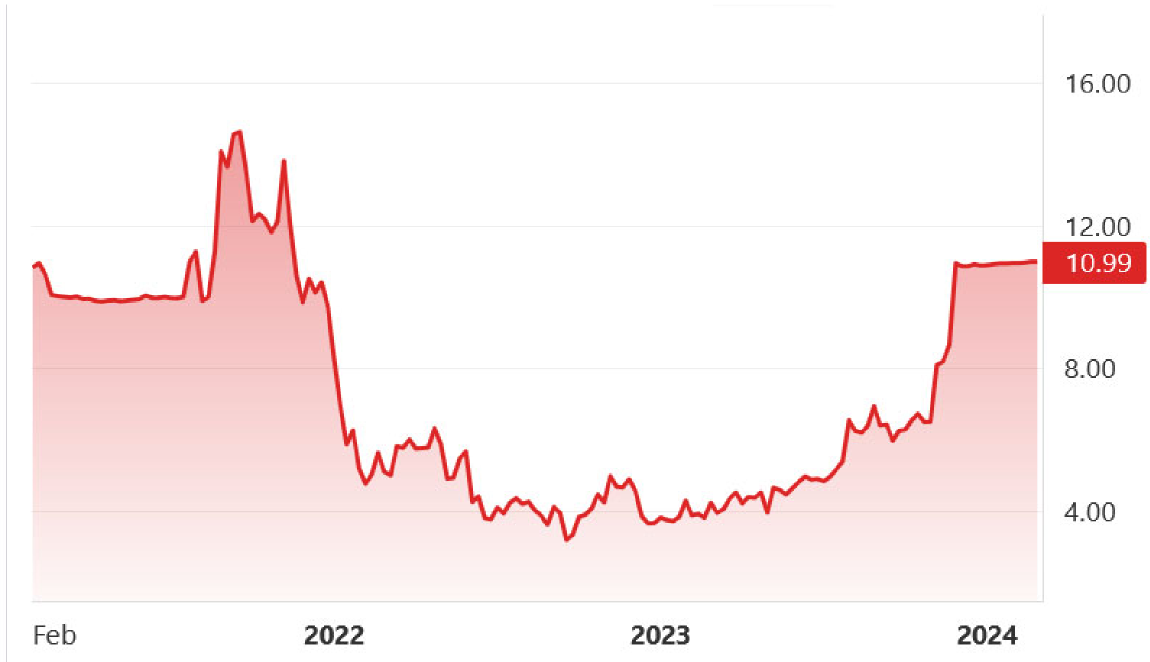


Exhibit 5: ROVR stock price from the announcement of the SPAC merger in Feb 2021 (and initial trading on NASDAQ in August 2021) until the Blackstone acquisition in 2024.[15]



References

[1] https://soundcloud.com/acquiredfm/season-2-episode-10-the-rover
[2] https://www.rover.com/blog/press-release/rover-com-secures-series-funding-launches-national-rollout/
[3] https://www.inc.com/zoe-henry/rover-dogvacay-merge-tackle-the-pet-care-sector.html
[4] https://www.geekwire.com/2018/rover-expands-dog-sitting-business-europe-takes-aim-segments-pet-industry/
[5] https://www.geekwire.com/2018/rover-acquires-u-k-based-dog-care-company-dogbuddy-accelerating-european-expansion/
[6] https://www.geekwire.com/2018/rover-acquires-u-k-based-dog-care-company-dogbuddy-accelerating-european-expansion/
[7] https://www.geekwire.com/2022/a-year-after-going-public-via-spac-rover-rings-the-nasdaq-bell-and-aims-for-international-expansion/
[8] https://www.geekwire.com/2024/rover-ceo-on-companys-next-chapter-as-pet-sitting-giant-completes-2-3b-deal-with-blackstone/
[9] https://www.blackstone.com/news/press/rover-agrees-to-be-acquired-by-blackstone-in-2-3-billion-transaction/
[10] https://support.rover.com/hc/en-us/articles/7267599472148-What-is-GoodPup
[11] https://www.rover.com/blog/goodpup-review/
[12] https://apps.apple.com/us/app/goodpup-dog-training-at-home/id1330109521
[13] https://www.dogster.com/dog-training/best-dog-training-apps
[14] https://stockanalysis.com/stocks/rovr/financials/
[15] https://stockanalysis.com/stocks/rovr/