

Sheepskin boots are still the most iconic UGG product, but the brand is working hard to diversify its offering.

PHOTO CREDIT: UGG



Deckers aims to outgrow sheepskin boots

Owner of the UGG Australia footwear brand, Deckers Outdoor Corporation, has said that a combination of a warm winter and high sheepskin prices made 2012 “a challenging year”.

Deckers’ chief operating officer (COO), Zohar Ziv, recently told analysts that the winters in 2011 and 2012 were the warmest on record in key markets for the UGG brand, such as the north-east of the US. “We get a lot of sales from cold-climate areas such as the north-east,” he said. “But when it’s 18 degrees Celsius in New York City in December, people don’t want to wear or buy sheepskin boots so much.”

In addition to the warm weather, he said UGG had also experienced record high sheepskin prices in 2011 and 2012. “Prices for us went up by 40% in 2012,” Mr Ziv said, “and that was on top of a 30% rise in 2011.” However, he said that prices had come down by 11% at the start of 2013.

In spite of worries about weather and raw material prices, Mr Ziv says Deckers is positive about its potential for progress in 2013; its portfolio covers “all lifestyle segments”, he claims. UGG, with its famous sheepskin boots (although it is

There’s more to Deckers Outdoor Corporation than UGG, and there is more to UGG than the classic sheepskin boots synonymous with the name.

increasingly looking to diversify into other areas of what Mr Ziv calls “accessible luxury comfort”), a billion-dollar brand in its own right, accounts for 84% of revenues at the moment. It will be the end of February before the company’s next annual report comes out, but in the first nine months of 2012, net sales for all Deckers brands were \$797.1 million, compared to \$773.4 million for the first nine months of 2011.

Outdoor performance brand Teva is the next biggest, with a 9% share, followed by action sports brand Sanuk, with 6%. The other 1% is shared by a group that the COO calls the company’s “emerging brands”: Hoka running shoes, Mozo for people who work in the service industry, Tsubo for comfort and

Ahnu for trail, casual and yoga. "We look at these brands as our research and development," Mr Ziv continues, "and we think some of these emerging brands represent a really significant growth opportunity."

Expanding the range of products, particularly those that come under the UGG brand, is at the heart of Deckers' efforts to take this opportunity for growth. The "heritage" segment of the UGG portfolio, which is to say the core sheepskin boots, has a progressively declined, Mr Ziv explains, so more and more non-sheepskin items will take up space in UGG stores and on its e-commerce websites. "Luxury" boots in bovine leather, while not a principal part of UGG's offering, are proving successful, he says, and the company is seeking to attract more consumers to these products. It has reduced the price of them, from between \$250-\$300 per pair to \$200-\$250 per pair. The ones we have seen are handsome to look at but are made by outsource manufacturing partners in Vietnam. If they come with a price-tag for which you could, if you know where to look, buy artisan, handmade Italian boots, you have to wonder what proportion of the \$200 or \$250 Deckers wants consumers to pay just to have the UGG name on the boots (some UGG footwear in the luxury range is made in Italy, but comes under a super-luxury category heading and has a substantially higher price-point).

UGG Men is another example of product category expansion. It began about a year ago when Deckers signed up American football star Tom Brady to be the front man for the brand, or to be "UGG man", as Mr Ziv puts it. "We are very pleased with the progress we have made," the COO says of the strategy for extending the range, "and we will continue to expand beyond footwear into lifestyle. We believe we have the brand recognition to do so."

New UGG products for women will include handbag, apparel and accessory lines. But even within footwear, there will continue to be changes. Slippers, spring-summer items, including casual sneakers and colourful wedged sandals will all receive a push in 2013 having proved popular in 2012. The fledgling children's footwear business has also done well, with a little over 10% of all sales last year. "It should go to 15%," Zohar Ziv says, "and we will keep it there; we don't want to become a children's brand."

At present 380 independent footwear retailers around the world have an UGG shop-in-shop. Deckers describes this as a successful programme because it means the retailer has set



The UGG store in Richmond, near London, one of 77 own-brand retail outlets around the world.

PHOTO CREDIT: UGG

aside shelf-space completely dedicated to the UGG brand and is keen to keep them full and fresh all year round. On average, if these retailers used to stock 40 styles, the figure today is closer to 100, Mr Ziv says, leading to an uplift in sales of between 35% and 50%.

International expansion (which, in spite of UGG's connections to Australia, means outside the US) is another area that offers good scope for growth, he continues. It's a programme that began only six years ago (although the boots seem to have been ubiquitous for longer) and has now grown from being 10% of the brand's business to more than 30% now. Seven out of ten outlets overseas are owned by Deckers, with the other three being operated by its distribution partners. The company wants to continue expanding the model, with Latin America and eastern Europe among the areas it will focus on in the near future.



Sanuk products still display its quirky roots.

PHOTO CREDIT: SANUK



Teva is no longer all about sandals. It's developing year-round products such as the Raith Mid eVent, the Forge Pro Mid eVent and the Forge Pro Mid eVent Leather to attract young, active consumers.

PHOTO CREDIT: TEVA

"When you do this, you need to build the infrastructure," the COO says. "In Europe, we have pretty much done the build-out, but we still have some to do in Asia-Pacific. Now we are looking at extending our distribution in Latin America." Successes in Asia have mostly come from Japan and China, the second- and third-biggest economies in the world, after all. Deckers started distribution in Japan in 2009 and acquired its joint-venture partner in China in early 2012. In Japan, sales grew by approximately 80% in 2012, driven by expansion of wholesale and retail there and the launch of a dedicated Japanese e-commerce site. In China, sales rose by 70% in 2012, with nine new stores opening. An e-commerce site for this market is part of the plan for 2013.

Nevertheless, Japan and China still only occupy positions three and four on the table of best international markets for Deckers. Number one and number two are both in Europe, the UK and the Benelux countries respectively. This is in spite of the challenging economic and weather conditions mentioned above. The company took over direct management of its distribution network in both these European markets in 2011 and the in-house team has done a great job of "repositioning distribution", Mr Ziv insists, pointing out that the previous set-up was "too reliant on the core classic range" and was attempting to put them into too many shoe shops across northern Europe. "We've really cleaned up the distribution in the UK," he adds, "and we are very pleased with our position over there now. We are selectively opening own-brand retail stores in the UK now, and in France, and we will tackle the Benelux market next."

By the end of 2012, Deckers had 77 own-brand retail units around the world, divided between concept and outlet stores. The US, with 15 concept and 11 outlet stores, has the most, but China and Japan run it close with 18 and two and 12 and two respectively. There are nine concept stores and five outlet stores in different parts of Europe, and two and one in Canada. The group opened 30 of these retail operations in the course of 2012, including the first UGG For Men store on Madison

Avenue in New York City in June. By 2015, its plan is to increase the total number to 200.

An important point is that, once Deckers has an improved infrastructure in place in these areas, it will feel able to take some of its other brands, notably Teva and Tsubo, to new markets. Zohar Ziv says there is strong potential for brands such as Teva to grow. "We've changed it from a sandal-only and spring-summer-only brand to having year-round products, including closed footwear to make Teva attractive to younger, active consumers," he says. The group wants to continue diversifying Teva to include a wider range of technical and casual products; it wants Teva to become "a leader in the outdoor footwear market through innovation".

Sanuk, which means 'fun' in Thai, is a brand Deckers acquired in May 2011. It was founded in 1997 by entrepreneur Jeff Kelley, whose first footwear product was a sandal made from carpet. He grew Sanuk to make it well known for its original sandal designs and its irreverent marketing; at the time of the acquisition, Sanuk products were available in 1,700 retail outlets in 40 countries. At that time, according to Zohar Ziv, the brand was achieving annual sales worth around \$45 million, but he says this has doubled in less than two years under Deckers' ownership.

Sanuk, too, will become an all-year-round footwear brand as part of the group's growth plans and will become more widely available in international markets. Mr Ziv explains that there are already more than 50 licensed-partner-run stores in Asia, 35 in Taiwan alone, but he says Deckers believes Sanuk products, ranging from the casual Sidewalk Surfer range to fleece-lined winter boots, have "great appeal". He adds that own-brand Sanuk stores will open in 2013 and that Deckers will continue to build brand awareness.

He accepts that Deckers will continue to be best known for UGG, but points out that the group's six other lifestyle footwear brands are "non-competing" with "meaningful growth opportunities", with only a few of these involving sheepskin. 