

*Time to fly. Trail runner
Christophe Le Saux
heeds the Hoka
OneOne mantra.*

 Hoka OneOne/Pietero

BRAND PROFILE: DECKERS

There's more to Deckers Outdoor Corporation than UGG: six other outdoor, sport and lifestyle brands are giving the group grounds for optimism for growth in 2013.

Hope for other brands as 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", so more of its energy than ever is going into alternative UGG products, from spring-summer fashion sandals to clothing. However, the group says it believes there is a good path for growth for its other six footwear brands, most of which are aimed at outdoor and sports enthusiasts.

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°C 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 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 OneOne 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."

UGG is huge, but Deckers is now preparing to use its flagship name's popularity and ubiquity to promote these six other brands.



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

 UGG

Space in retail stores

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 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%. His comments suggest these arrangements may open up space for the other Deckers brands.

International expansion (which, in spite of UGG's connections to Australia, means outside the US) is another area that offers good scope for growth for UGG and its little brother brands, he continues. It's a programme that began only six years ago (although the boots seem to have been everywhere for a much longer length of time) 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 30% 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. All of its brands have a chance of going with it.

Infrastructure in place

"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.

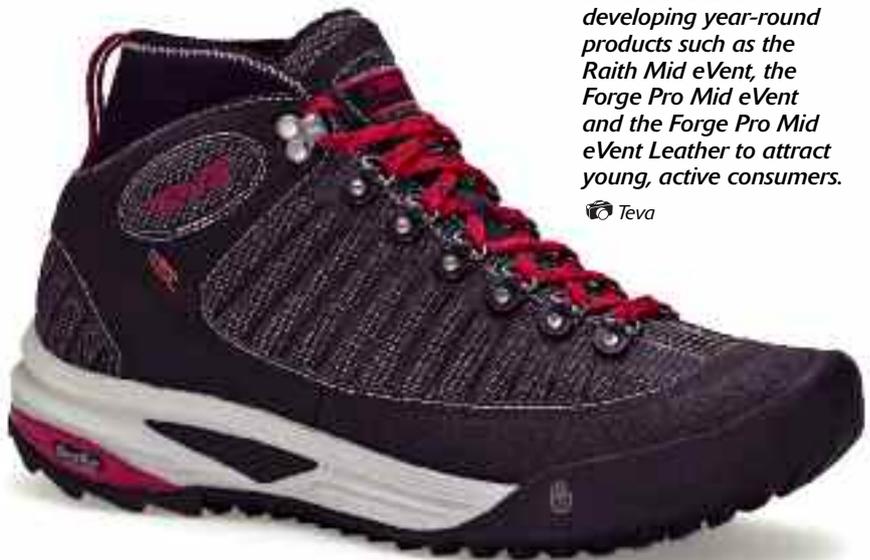
Year-round Teva

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".

Benelux and Germany have been the most successful markets in Europe in terms of results and distribution in recent years. Those close to the brand feel that consumers in these parts of northern Europe have understood and embraced what Teva is about, making these the most likely areas for the newer closed-toe, high-performance Teva products to make a quick impact.

Teva is no longer just 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.

 Teva





Sanuk products still display its quirky roots.



Fun with figures

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.

For the future

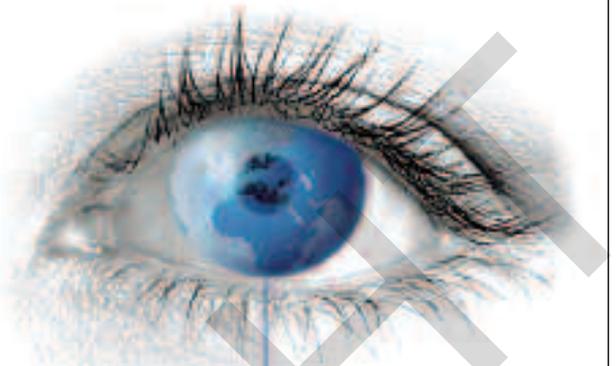
Running shoe brand Hoka OneOne is the brainchild of two gravity sports enthusiasts, Jean-Luc Diard and Nicolas Mermoud. They set out to design a shoe that would help runners cope better with fatigue, impact and muscle strain, taking the name Hoka from the Maori language, translating it as "time to fly".

High-profile athletes who are now hooked on Hoka include Spanish ski mountaineer Emma Roca, Utah-based 100-mile runner Karl Meltzer, trail runner Maud Combarieu, who lives in the Basque Country but is originally from the Indian Ocean island of Réunion, and French Guianese ultra-marathon runner Christophe Le Saux.

And as regards Anhu, founded by two outdoor-loving friends, Jenny Fredericks and Jacqueline Van Dine, in northern California in 2007, the Deckers COO has referred to it as a yoga brand, but it goes further. There are men's and women's collections comprising shoes and boots for hiking, sandals and casual shoes to go with the "yoga lifestyle" offering. Proprietary Anhu footwear technology includes Numentum, engineered to allow the foot's biomechanics to work in the natural way, the brands says, by centring the foot to promote "an efficient, stable and balanced stride".

Mr Ziv 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 hardly any of these involving sheepskin. 

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