

FOOTWEAR TECHNOLOGY: WOLVERINE WORLDWIDE

Wolverine Worldwide has announced a deal to acquire the performance and lifestyle brands of rival footwear group Collective Brands, taking the total number of shoe brands in its portfolio to 16.

The game changes

Sebago footwear at the ocean's shore. Existing Wolverine brands tend to have a much more developed international focus than the four newly acquired brands.

 Sebago



Outdoor footwear group Wolverine Worldwide is to acquire the performance and lifestyle group of Collective Brands. Wolverine has said it expects to complete the deal in the autumn.

Brands included in the performance and lifestyle group of Collective are Sperry Top-Sider, Saucony, Stride Rite and Keds. This part of Collective Brands had combined revenue of more than \$1 billion in its most recent financial year. Under Wolverine's ownership, the brands will continue to be run from their existing headquarters in Lexington, Massachusetts, the companies stated.

"Our company is thrilled to add these four iconic brands to our proven global platform," said Wolverine's chief executive, Blake Krueger. "This transaction provides dynamic portfolio expansion and diversification, and significant additional horsepower in five of our key targeted growth areas: women's, athletic, casual, kids' and retail."

Collective Brands' Payless ShoeSource and Collective Licensing International divisions will also have new owners, with investment firms Blum Capital and Golden Gate taking over, but from a manufacturing and supply chain point of view, the acquisition of the four performance and lifestyle brands by Wolverine is the more interesting development. This, at least, is the view of Blake Krueger.

"This is a transformational moment in our company's history," the Wolverine chief executive says. "This is truly game-changing for Wolverine as it allows us to add over \$1 billion

of top-line sales to our business revenue. We are thrilled to add these four iconic brands to our portfolio and I could not imagine a better fit. The acquired brands complement our existing brands in a remarkable way. I believe we have built the world's pre-eminent collection of lifestyle brands."

Mr Krueger explains that his company has spent a considerable amount of time over the past four years "seeking acquisition options" to diversify its portfolio in targeted consumer areas. When the performance and lifestyle group, which he shortens to PLG, becomes part of the Wolverine portfolio in the autumn, Mr Krueger's group will comprise 16 brands in total and will cover "all major product categories" – athletic, street, outdoor and work, across all ages, all lifestyles and both genders. As well as the four brands coming in from Collective, the Wolverine portfolio will include footwear brands Hush Puppies, Chaco, footwear for the Patagonia and Caterpillar brands, the Wolverine brand itself, Merrell, Sebago, Cushe, Harley-Davidson and, in the workwear sector, HyTest and Bates. It will also continue to include the Track n' Trail retail chain.

It means Wolverine Worldwide will be a \$2.5 billion footwear group, with what the chief executive calls "numerous opportunities for further growth". He makes the point again that the fit between Wolverine's existing portfolio and the PLG brands is good. Sperry, Saucony and Keds have a powerful following among women, he observes, and will prove to be "a great complement" to Merrell, Chaco and Hush

The Wolverine 1,000 Mile boot. The group says it places a high value on heritage and authenticity.

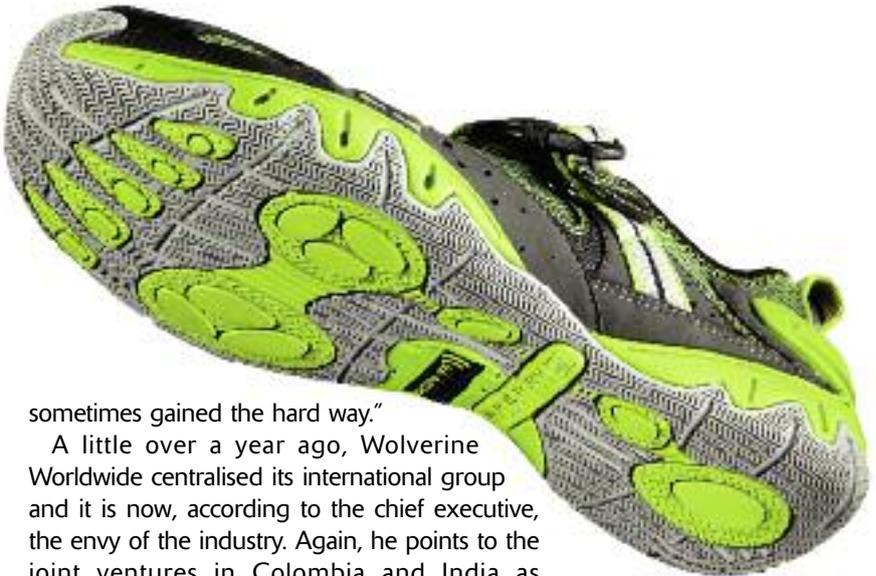
 Wolverine Worldwide

Puppies, while Saucony will also bring opportunities for the group to make more of its global partnerships in the performance and athletic space and will allow the group, combined with Merrell, to provide “a powerful vehicle in the running, training, trail, minimalist and barefoot categories”.

Supply chain partners

“We’ve been global since the international expansion of Hush Puppies in 1959,” Mr Krueger continues. “In 2011, Wolverine’s international operations provided nearly a third of our unit volume, whereas the PLG business is largely in North America, with only 10% of revenue coming from outside.” He says his group will be able to change this through its established distributor relationships and “significant international infrastructure”. His intention is to use this “to slingshot the PLG brands to international growth”, which sounds like good news for Wolverine’s supply chain partners.

There are recent examples of the direction in which the group wants to take its international distribution partnerships. This spring, Wolverine announced that two existing distributors, Forus in Colombia and Tata International in India, will each form new joint ventures with the US-based group in their home territories. “The India and Colombia joint ventures are examples of the options that exist,” Mr Krueger continues. “We will be the ‘go to’ partner for retailers and distributors around the world. Retailers will look to partner with us to drive consumer connections and strategic growth and our international market partners will partner with us to tap their local market options. The size of this acquisition will allow us to enhance our global infrastructure and regional resources. Our supply chain strategy is already at the leading edge and will benefit immediately from the additional scale of these businesses. Our factory partnerships will be stronger. It won’t all be one way because the PLG group has significant supply chain expertise in its own right, but it will gain from our experience, experience



sometimes gained the hard way.”

A little over a year ago, Wolverine Worldwide centralised its international group and it is now, according to the chief executive, the envy of the industry. Again, he points to the joint ventures in Colombia and India as examples of how this is paying off. He is confident it is a model that will prove attractive to other distribution partners, some of whom have been working with Wolverine for 20, 30 even 40 years.

Sperry Top-Sider is a brand that’s on fire, according to Wolverine Worldwide chief executive, Blake Krueger.

 Sperry Top-Sider

Cultural fit

Accommodating the new brands, with their existing teams, is not a prospect that fazes Blake Krueger. He is complimentary of the work the Collective Brands performance and lifestyle group has done under the leadership of chief executive, Gregg Ribbatt. “He and his leadership team have built a world-class organisation,” the Wolverine chief executive says. “These are market-leading businesses that are led by some of the best brand-builders in the industry. We’re very encouraged by what we’ve heard in our meetings with the [PLG] team, many of whom we have known for years, and we look forward to partnering with them. The magnitude of this transaction is certainly larger than our previous ones, but we have added eight brands in the last 15 years and we are confident in our ability to bring the PLG brands in house and help expand their growth.” At the same time, he says that Wolverine will gain “an infusion of talent and ideas” as well as the four new brands.



The new Kinvara 3 is helping to cement Saucony’s place as a prominent running shoe brand.

 Saucony



On the ocean wave

Sperry Top-Sider seems to have made a particularly powerful impression on Mr Krueger. He describes it as a rapidly growing nautical and lifestyle performance brand with a rich, authentic heritage. "Over the past few years, Sperry has transitioned from a boat-shoe brand to a broader, dual-gender, year-round brand with the highest casual footwear market-share in the US," he says. "Sperry Top-Sider's momentum is amazing. Since 2002, it has doubled in size approximately every three years and in 2011 it grew by more than 50%." Despite this significant growth he feels there are still untapped opportunities, and the biggest and perhaps the easiest for his group to execute is international expansion. In 2011, only 4% of Sperry Top-Sider's revenue was generated outside North America and there appear to be few barriers that would prevent the brand from achieving an international performance that is in line with that of the rest of the Wolverine portfolio, the chief executive says. It has a strong women's business, a broad range of price-points and a youthful image, he says, all of which points to good possibilities for international expansion. "We're excited to add such a terrific brand to our portfolio," he concludes. "Sperry Top-Sider is a true gem. It's on fire and has a tremendous amount of potential internationally."

Asked to compare Sperry Top-Sider to Wolverine's existing boat shoe brand Sebago, Mr Krueger says he views them as distinct, both associated with leisure activities around

water, but each with its own strengths. Sebago as a brand is "more premium, more classic", he says, adding that it is strong in Europe and certain other international markets, which is why Wolverine believes a Sebago shop on London's plush Regent Street makes sense. But he says Sebago is still, primarily, regarded as a men's brand, giving it one obvious area in which to look for growth.

He looks at Sperry as much more heavily skewed towards women and younger consumers, but also as "virtually a US-only brand". He remarks that already 50% of its business is non-boat shoe. "There's certainly a place for both of these brands," Blake Krueger insists, "and frankly a lot of growth potential."

Passion for running

Saucony, which he describes as an authentic athletic brand with deep roots in running, is also of "great strategic importance" to Wolverine Worldwide the chief executive says. It holds the number-three position in its category in the US and has built a reputation in the minimalist and lightweight categories. It is also the most global of the four incoming brands, with 23% of its revenue from outside the US (compared to 20% for Keds but only 4% each for Sperry Top-Sider and Stride Rite). He adds that the team at Wolverine believes the Kinvara 3 is a winner. This, the latest in a series of minimalist running shoes, has innovative upper technology for high levels of comfort and flexibility but with reduced layers and weight thanks to its use of a proprietary

In action. The Mix Master, part of the new M-Connect Series from Merrell.



ultra-thin pliable material called FlexFilm, plus a low heel-to-forefoot ratio. "Saucony will continue to carve out market share," Blake Krueger says. "Together with our existing brand Merrell, it will be very powerful across the growing categories of training, running, trail, minimalist and barefoot. Both brands are rooted in technology and innovation and will provide a broad offering for retailers and consumers." The Wolverine chief executive says global interest in running has never been stronger and he says the group will take advantage of this trend at the London 2012 Olympics, which will feature a number of Saucony-sponsored athletes, including US triathlon team members Gwen Jorgensen, Sarah Groff and Laura Bennett.

Meanwhile, innovation continues at Merrell too; it recently launched the M-Connect Series, four new collections for spring 2013. According to the company, M-Connect shoes will offer runners and hikers "enhanced ground connection and a natural glove-like fit" and take the benefits of minimal footwear to the next level "through a matrix of performance solutions based on the needs of the user and the demands of the outside athletic activity". Reflecting links to the barefoot running trend, the four new collections that make up the series are called Barefoot, Bare Access, Mix Master and Proterra. All are built with agility in mind, Merrell said at the time of the launch, and range from zero to a four-millimetre heel-to-toe drop and graded cushioning for necessary protection dependent on end-use and terrain.

Better-grade children's shoes

With regard to Stride Rite, Blake Krueger is of the opinion that its "leading position in the better-grade children's category" in the US is something Wolverine can take to the wider world, enabling it to develop what will be for it a new retail format. "The addition of Stride Rite will fill a need that we've had for many years," he says. "While we've had pockets of success with children's footwear, we have not historically been a strong player in this category. Stride Rite offers us the opportunity to leapfrog and emerge as a market leader, especially in the US."

However, his opinion is that Stride Rite already has a tremendous reputation with mothers. He thinks Wolverine will be able to spread this high regard for the brand around the world, through the wholesale and the retail channels. He also lobs up the interesting proposition of Wolverine using the network of more than 300 retail stores that Stride Rite has in order to expand the presence of the group's other brands in the children's footwear market, with other brands' children's shoes in Stride Rite stores and Stride Shoes in other outlets in the broader Wolverine retail set-up. Seven of the brands in the newly expanded portfolio will have shoes for the pre-crawler to pre-teen segment.

Finally, regarding the Keds brand of casual shoes with canvas uppers and rubber soles, Blake Krueger says it has the heritage and authenticity Wolverine values so highly, but believes the size of the business is a less-than-fair reflection of the brand recognition that the Keds name enjoys. "As everyone knows, vulcanised footwear is a very sizeable space in the global footwear market," he observes. "Keds has a new management team that has developed a plan to take advantage of this and of the deep heritage and brand acceptance that Keds has." 



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