

UGG Popularity, Sales Surge in Late 2012 After Slow Autumn

Companies: DECK

February 6, 2013

Research Question:

Is Deckers' UGG brand set for a 2013 comeback in light of cooler weather and low shearing prices?

Summary of Findings

- Nine of 10 store sources said the popularity of Deckers Outdoor Corp.'s (DECK) [UGG Australia](#) this winter has been steady to up year to year, driven by consumer loyalty to the [Classic UGG styles](#), the brand's new styles and colors, and cooler weather. Slow fall demand turned into brisk holiday sales, straining store and manufacturer inventory.
- Holiday sales increased year to year for four store sources who commented and for both buyer sources. Two other store sources reported selling through their UGG stock and not getting any new inventory during the holidays.
- Store sources and buyers said UGG inventory levels have been relatively low following the holiday sales surge.
- Retail-level discounts have been limited to select fashion boots, for which the number of SKUs has increased.
- Both supplier sources and a China-based manufacturer said UGG stockpiles in manufacturing plants have been diminished.
- Manufacturers said lower shearing costs likely will be offset by higher wages and rents in China.
- Both manufacturer sources said UGGs have become more popular in Asia.

Silo Summaries

1) STORES

Nine of 10 sources said UGG's popularity this winter has been stable or building year to year. Six of nine sources who commented said UGG holiday sales were higher year to year or that they had sold through their inventory. Three others reported lower sales for the brand, and one had no comment. Four sources said inventory levels were too low to meet holiday demand. Discounts have been limited to fashion boots such as the Sparkles.

2) MANUFACTURERS IN CHINA

Our first source said UGG orders for 2013 are stable year to year. The second source's company will not produce UGGs this year because of the low profit margins and better opportunities in producing alternative brand shearing boots. This second source said excess UGG inventory has been addressed, and now UGG inventory for both sources is lower year to year. UGGs have become more popular in Europe and Asia, according to one source, and in Asia and Russia but not in Europe, according to the second source.

3) SUPPLY CHAIN

Both sources said UGG stockpiles in manufacturing plants have been diminished. One said shearing orders started to increase in November when prices were at \$26 per pelt, compared with from their \$20 lows in September. The other source reported steady orders of shearing. One source said UGG holiday sales were strong but that the brand's overall sales and popularity gradually will decline during the next several years.

4) BUYERS

UGGs sales for both buyers had been declining in late 2012 but then spiked during the last two weeks of the year. One source's sales fell in the mid-teens overall but then posted an 8% increase at year's end. Our second source also experienced this late spike but still experienced a 10% overall decline year to year. Both sources said Deckers' tight control on distribution and inventory has resulted in shortages of the most popular sizes and styles.

5) CUSTOMERS

All four sources said UGG is as popular or more popular than ever. The brand is gaining momentum among younger consumers through its new styles and colors.

	UGG Popularity YY	UGG Holiday Sales YY	UGG Inventory YY
Stores	↑	↑	↓
Manufacturers in China	N/A	N/A	↓
Supply Chain	↑	N/A	↓
Buyers	N/A	↑	↓
Customers	↑	N/A	N/A

Deckers Outdoors Corp.'s UGG Australia

Background

Blueshift Research's [April 19, 2012, report](#) found UGG retail sales falling as much as 50% and manufacturers' UGG orders declining as much as 35% year to year, inhibiting Deckers from taking full advantage of lower shearing costs. However, sources reported a possible turnaround for Deckers in Blueshift's [Sept. 27, 2012, report](#) and [Oct. 24, 2012, report](#), with shearing prices remaining low and consumer demand for UGGs stabilizing.

CURRENT RESEARCH

In this next study, Blueshift assessed UGG's sales and popularity during the 2012 holiday season. We employed our pattern mining approach to establish and interview sources in six independent silos:

- 1) Stores selling UGGs (10)
- 2) Manufacturers in China (2)
- 3) Supply chain (2)
- 4) Buyers (2)
- 5) Customers (4)
- 6) Secondary sources (4)

We interviewed 20 primary sources, including four repeat sources, and identified four of the most relevant secondary sources focused on the number of online searches for UGGs surpassing that of iPads, Kindles and Dr. Dre headphones and on popular male celebrities sporting UGGs.

Next Steps

Blueshift will continue to monitor consumer demand for the UGG men's line and UGG orders at the manufacturer level. Also, we will check on shearing prices and Deckers' buying patterns with shearing suppliers in Australia.

Silos

1) STORES SELLING UGGs

Nine of 10 sources said UGG's popularity this winter has been stable or building year to year. Six of nine sources who commented said UGG holiday sales were higher year to year or that they had sold through their inventory. Three others reported lower sales for the brand, and one had no comment. Four sources said inventory levels were too low to meet holiday demand. Discounts have been limited to fashion boots such as the [Sparkles](#).

► Dillard's sales associate, Georgia

UGGs have maintained their popularity and posted a sales increase during the holidays year to year. Demand is high for the Classic styles but low for the slippers. The source described inventory as too low. The store was discounting UGG [riding boots](#) and Sparkles.

- "[UGGs] are not losing popularity. We have people coming in all the time asking for UGGs."
- "We had a big increase in sales for the 2012 holiday season compared to 2011."
- "The Classic style of UGGs is always the most popular, but the slippers are losing in popularity."
- "We need more styles. There are *lots* of UGG styles, and we only carry 20."
- "We don't have too much inventory of any particular style."
- "Our inventory levels are down compared to a year ago but up since fall 2012."
- "We have more Classic styles in inventory compared to the fashion styles, but we have enough inventory of both."
- "The only style we have too little inventory is the riding boot."
- "Right now we are discounting the riding boot, the [Classic Mini](#) and the Sparkles UGGs."

Deckers Outdoors Corp.'s UGG Australia

➤ Nordstrom women's shoe department employee, Southern California

UGGs have become more popular, particularly the Classic styles. Unseasonably high fall temperatures shortened the UGG selling season, leaving this Nordstrom understocked for the holidays because of Deckers' policy that increases shipments by a maximum of 10%. The store never gets enough of the [Bailey Button Triplet](#) boots, and sold through the Classics during the holidays. [Aquatalia Inc.](#) is a threat because its boots are waterproof.

- "The trend for UGGs is up—fashion, Classics, everything."
- "We sold through on the Classics during the holidays, and I'd say they were more popular than last year."
- "The Baileys are very popular. We never get enough stock of the tall Baileys. The [Bailey Charms](#) is a newer variation. The short and tall Classics in chestnut were also popular. Then the grey, then the black and finally the [sand](#). Parents weren't happy about buying the sand because they thought they'd show dirt and wear faster. The sparkle boots are really only for someone who has all the regular UGG styles but still wants to buy a new pair."
- "UGG will only increase your order by 10% to keep people wanting them. Our problem was the fall was very warm. It was hot well into the UGG season. We didn't sell through, so we didn't get enough inventory leading up to Christmas."
- "The brand beating UGGs is Aquatalia [with boots ranging from \$375 to \$698]. They are suede but also waterproof."
- "Men bought slippers as gifts. They knew their wives or girlfriends liked the brand and went with the slippers."

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*Women's Shoe Department Employee
Nordstrom, Southern California*

Reporter Observations: The shoe department was very busy on a Wednesday afternoon, with at least a dozen women trying on shoes. One woman was trying on two Aquatalia styles, but no one tried on UGGs or even looked at the display during our visit. The UGG display was the largest in the department. It was set back to the side of the registers but was visible because of its size. The display primarily held the Classic styles.

➤ Journeys sales associate, Southern California

UGGs were more popular compared with the 2011 holiday season, and inventory was insufficient despite frequent shipments. The warehouse ran out of UGGs at the end of December. The source said the UGG selling season has ended, and she does not expect another shipment. UGGs do not go on sale unless Journeys has an exclusive style. The store does not carry men's UGG styles though customers do ask for them.

- "UGGs are more popular than last year. Two years ago they were really popular, then last year not as much, but this year we had more inventory and [their popularity level is] back to where it was two years ago."
- "Christmas was crazy. We did not have enough UGG inventory. We sold out of most styles or had one size left in everything. At first we were calling the warehouse, but towards Christmas they ran out too."
- "It's not UGG season now; we probably won't get more. But at Christmas every shipment had UGGs in them."
- "Classics never go on sale; in fact, I think they go up [in price] during the spring."
- "The only one we have on sale now is exclusive to our store, and we only have one size left."
- "The Bailey and Classic short and tall are the most popular styles, and chestnut is the most popular color."
- "We get every age buying UGGs—kids, adults, seniors."
- "Guys come in asking for UGGs. No style in particular—moccasins, short Classics and slippers."
- "We don't carry any of the men's styles. We have one boot ... but that was a return for size, which is the only reason we ever get UGGs returned."
- "The [Minnetonka \[Moccasin Co.\]](#) slippers are right here next to UGGs. People will think they're UGGs and then put them back. [The Minnetonka brand does] sell, but if customers have the money, they'll pick UGGs."
- "We get a mix of new and return customers. The new customers are mostly tourists because [UGGs are] cheaper here than where they live. The regulars usually come in before Christmas."

Reporter Observations: The UGG display was located near the store's back wall among other suede and slipper styles during our Wednesday afternoon visit. The display had roughly a dozen Classic styles. One style exclusive to Journeys was on sale, and only one size was left.

Deckers Outdoors Corp.'s UGG Australia

➤ The Walking Company store associate in a Chicago suburb

UGGs are more popular than ever and were described as a necessity by this source. Holiday sales were stronger year to year, and most styles and sizes were sold through by Christmas. The store has not been fully restocked. The source expects a younger audience and repeat business to keep UGGs sales strong this year. This store carries both fashion and Classic styles. Deckers reportedly has advised the store to discount certain fashion styles. An exclusive “Pink Ribbon” [line](#) has been a bit of a sales disappointment.

- “In the last few years, UGGs have gone haywire. They are almost a necessity at this point.”
- “UGGs are as popular as ever. The youth are what is driving our growth—that and repeat customers. People who wear UGGs usually get a new pair every year.”
- “UGGs are big business for us. We feature it three times in the store: in the front window, on a table when you walk in and on the back wall.”
- “All ages love UGGs—from babies to grandmothers. My own grandma even wears them!”
- “Kids younger than ever want to wear UGGs. Now kids as young as five or six are asking for UGGs; a few years ago it was kids a bit older, like age 10.”
- “Our holiday sales in 2012 beat 2011.”
- “Before Christmas, we had four racks of UGGs in the back. On Christmas Eve, we were down to less than one rack. ... We could not get UGGs that the customers wanted. We were sold out of a lot of styles and sizes.”
- “We sold through the Classic style fast. That always happens.”
- “We carry both the Classic and the fashion styles. The fashion does OK but nothing compared to how well the Classic styles sell.”
- “One style that sold fast and well is the all-weather boot called [Noira](#). It was totally sold out before Christmas. It retails for \$270.”
- “We have an exclusive breast cancer line. The boots did well because they are pink, but we have quite a few pairs of the slippers left. I don’t think it was advertised that well. Not that many people know about it.”
- “We had a lot more styles and colors of boots [earlier in the season]. I can’t even remember what has sold out since we had so many, but as you can see there is not a lot left in UGGs. We have more slippers than boots.”
- “We have not been totally restocked as of yet. We got some back in after the 1st [of January], but we are still a bit low.”
- “UGGs tells us what to put on sale and for how much. They totally dictate that.”

In the last few years, UGGs have gone haywire. They are almost a necessity at this point.

Associate, The Walking Company
Chicago Suburb

Reporter Observations: Store traffic was very light during our Wednesday midday visit. The entire left front window of the store was an UGGs display. Inside the store, the brand was featured on a circular table and on the back wall. Classic UGGs comprised two-thirds of the boot styles. About eight fashion styles were on sale, but no Classic styles were being discounted.

➤ Dillard’s shoe department manager, Kansas City, MO

Many UGG styles are very popular, and the brand’s holiday sales were up year to year, thanks in part to cooler weather compared with the 2011 holiday season. The women’s [Bailey Bow](#) was particularly popular. The only discounts were on discontinued styles, and no inventory shortages have occurred. Holiday sales of men’s UGGs were flat year to year but up 40% compared with the 2010 holiday season.

- “Sales of UGGs definitely came on with a blast over the holidays. I really don’t know the percentage of the increase; all I know is that it was up. All of the styles have a good market. There wasn’t a ‘dog’ in the bunch. The Bailey Bow is the best seller.”
- “The Classics and the fashions both sell well. We have more inventory of fashions than Classics. It’s so mainstream.”
- “We carry UGGs year-round. It’s one of the top sellers of anything in the whole store. It’s way up there. It’s an incredible line. A lot dollars go through here. I look for another good year.”
- “Our inventory stays full. If we sell through something, they will replenish them. That’s one good thing about the company.”
- “What sells these is a multitude of things, mainly the quality of the product. It’s the real deal.”

Deckers Outdoors Corp.'s UGG Australia

- “The recent cold weather helped sales a little.”
- “The few UGGs we have on sale [for 25% off] may be ones that have run their course, been discontinued. Most of our line never goes on sale.”
- “The men’s line of UGGs is downstairs, and the kids’ shoes are upstairs. The men’s line is a much more limited market than the women’s. Sales have been stable.”

Reporter Observations: On our Friday afternoon visit, we noted about 30 to 40 different UGG styles and colors of women’s boots, shoes and slippers in a main display and two smaller displays nearby. Only a few styles were on sale. That day, Dillard’s ran a quarter-page ad in the *Kansas City Star* featuring the Bailey Button, the Classic Tall, the [Kona](#) and the Classic Short Sparkles.

➤ The Walking Company sales associate, Southern California

UGG’s popularity has been steady year to year. The store dedicated three sections to the brand before the holidays and sold through many styles, but stock has not been replenished since the holidays. One sparse section for women’s and men’s boots and slippers remained; two other sections were filled with sandals. The source does not think more UGGs have been ordered and expects inventory will dwindle until the summer when they are not out on the floor at all. For women, the Bailey and Classic tall boots in chestnut were the most popular during the holidays; slippers did not sell well. The men’s selection was limited to slippers, though male customers have asked for the style worn by Tom Brady.

- “UGGs are as popular as last year, maybe more.”
- “Leading up to Christmas we had three sections of UGGs; now we only have one. A lot of our stock is sold out, and I haven’t heard about more shipments. I can only guess they didn’t order more. The other two sections are sandals now.”
- “Sales have died down since Christmas when they were really good. We sold out of some styles. Now we pretty much have one size of each style.”
- “There were one or two UGGs on sale in December. ... Waterproof doesn’t really sell here.”
- “Classic tall boots were more popular than the shorts. The Baileys for sure are popular. Chestnut is the most popular color. Slippers didn’t sell as well. We don’t carry the fashion styles.”
- “Our customers are older and buy UGGs as presents. We had them on display in the window [leading up to the holidays], which brought in people of different ages. Those were the types that bought a pair last year and were coming in for a new pair.”
- “We carry a few slipper styles for men. They’ll ask about them and say, ‘I want the ones Tom Brady was wearing.’”

We carry a few slipper styles for men. They’ll ask about them and say, ‘I want the ones Tom Brady was wearing.’

*Sales Associate, The Walking Company
Southern California*

Reporter Observations: The store is relatively close to a Journeys store and in the same mall as a Nordstrom, which both sell UGGs as well. Mall traffic in general was slow during our Wednesday afternoon visit, and The Walking Company had no customers despite the store’s touted “biggest clearance of the season” event. Women’s and men’s UGGs were displayed in the same place, on the first wall display on the left. The display was sparse. A few Bailey boots, slippers and Classics were available for women.

➤ Sales associate for an upscale women’s clothing store, Dallas

UGGs, in particular the Classic styles, are the most popular footwear during the winter and spring seasons. Fashion, rather than weather, dictates the style. Leather styles were discounted by 50% in price.

- “UGGs haven’t lost any popularity at our store. Snow boots are some of the top sellers. Girls still wear them in the spring, so it’s a fashion thing. I don’t think it’s always about the snow. They’re just comfy and cute.”
- “I wouldn’t say there’s one particular best seller. I would say the Classics together probably are the most popular. The snow boots are all basically the same. But the Classics and the Bailey Button are probably the most popular just because they’re so recognizable.”
- “UGGs have a lot of knockoffs. They usually are cheaper. But we don’t carry them. Our customers don’t want them.”

Reporter Observations: An occasional shopper entered the store during our Wednesday afternoon visit. A stand

Deckers Outdoors Corp.'s UGG Australia

immediately to the left inside the front door displayed three UGGs shearling styles, with a prominent sign advertising “50% Off.” Further back in the shoe section, a window display was filled with the Bailey Button in chocolate, sand, grey and chestnut.

► Journeys sales associate, New York City suburb

Holiday sales fell 5% year to year. UGGs remain a fashion staple for some young women and appear to be gaining ground among parents, thanks in part to colder weather. The Classic remains the most popular. Among the newer styles, [Classic Glitter boots in Cloud color](#) have experienced good demand while the blue and purple Sparkles have sold poorly. Inventory levels were too low for the Classic Tall Chestnut and too high for the Sparkle boots, which were on sale.

- “Holiday sales in 2012 were about 5% lower than holiday sales in 2011.”
- “UGGs continue to be popular with young people. They’ll probably always be pretty popular.”
- “They are gaining popularity with older customers. This year I saw more parents coming in to buy UGGs for their kids.”
- “Now that it’s a cold winter and everybody is getting sick, people are looking for boots that are warm and comfortable.”
- “UGGs have been branching out with more styles and colors. It seems like they are trying to be more creative and attract the people who always want to be the first to get the new fashions.”
- “This year we have more styles—about 18 to 20. Last year we had 12 to 15.”
- “The regular Classics are still the most popular. They never go out of style.”
- “The most popular of the new styles has been the UGG Classic Glitter in Cloud. It has sold out.”
- “The Classic Sparkle Boots in purple and blue are also new for us this year, but they haven’t sold very well. I think the colors might be a little too bold for some people.”
- “We have one of every size and color of those [Sparkles] boots, which is a bad sign. We marked them down according to what the company told us.”
- “We got too many Sparkles boots. I’d estimate we got 10% to 15% more than we needed.”
- “The UGG [knit boots](#) are losing popularity because they are not as warm.”
- “Our inventory this year is about the same as it was last year.”
- “I’d say we have the right inventory for most of the boots, but not all.”
- “We didn’t get enough of the Classic Tall Chestnut. We could’ve sold at least 50% more than what we received. They sold out on Black Friday, and we never received more even though they were in demand. Ever since, we’ve been ordering them in the store whenever somebody comes in and asks for them.”
- “You can buy the fashion-style UGGs online, but we don’t carry them in the store.”
- “I haven’t seen anybody come in and ask the heels or the regular, flat riding boots. They want the Classics.”
- “Year to year, the men’s sales have been flat.”
- “Men wear like the waterproof boots most. Some also like the moccasins to hang around the house.”

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*Sales Associate, Journeys
New York City Suburb*

Reporter Observations: On a Tuesday afternoon, UGG women’s boots were prominently displayed on a front table featuring roughly a dozen styles, including a brown Bailey Button, the Classic tall and short in various colors, and the Sparkles in blue and purple (both on sale for \$149.99). About six other women’s styles were displayed on a nearby wall. A small, carousel-style display of UGG men’s rain boots, slippers and other footwear was in the front corner.

► Sales associate for a shoe store in a touristy area of Chicago

Cooler weather has helped sales of UGG, which continues to be a popular brand. Holiday sales did not meet expectations and were weaker than 2011. Inventory has been sufficient. The store mostly carries basic styles and colors rather than fashion styles. The Classic Short continues to be the top seller. The few styles on sale include the [snow boots](#) and the Bailey Button Triplet, for which sales have been brisk.

- “The colder temps lately have definitely helped all boots sales including UGGs. We hope it keeps up. There is no reason to think it shouldn’t.”
- “We never stop selling UGGs, but we would like to see them come back as bit better than they did in December as we have the inventory.”

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- “UGGs have not died down in popularity. They are as popular as ever.”
- “UGGs did better for the 2011 holidays than this past year. It has been an off and weird year.”
- “Our sales were off during the holidays because we have not had the snow and cold weather that we typically have. It was a bit disappointing.”
- “We did not sell out of UGGs this season. We have plenty of stock.”
- “We carry the basic styles and colors. That is what sells the most.”
- “Last year, we carried the sequin style [Sparkles] but did not continue it this year. We don’t have the space for everything. We will leave it to the department stores that have more room. They carry all their styles.”
- “The Classic Short continues to be the most popular style. We carry them in black, brown and grey. All three colors do well. We also brought in the purple this year, and it just did OK.”
- “The styles we have on sale are selling the most. We put them on sale a few weeks ago.”
- “UGGs on sale now are the tie-up snow boot, a purple Classic Short and two colors of the Bailey Button Triplet. Those were \$230 and are \$149.99 on sale.”
- “The only complaint I hear is that UGGs don’t do well in the snow, but they are not meant for that.”
- “We do not carry many of the fashion styles. That is not what our customer wants.”

Reporter Observations: All boots, excluding UGGs, were 20% off. The UGGs were located in the middle of the back of the store and on a few tables. No customers tried on UGGs during our Saturday afternoon visit.

➤ Journeys sales associate, Georgia

UGGs have become less popular among this store’s customer base. Holiday sales slowed year to year. Purchases for the Sparkles and two-toned versions have increased, and inventory levels have been stable year to year. Men’s UGGs have experienced flat sales but are generating interest.

- “UGGs are losing popularity. New styles are coming out, and people are buying knockoffs of UGGs.”
- “For the holiday season in 2012 our sales were lower than for the holiday season in 2011.”
- “The sequined UGGs and the two-toned are getting very popular.”
- “The shoe losing in popularity are the ones without fur on the inside.”
- “We have too much inventory of the black sequined UGG.”
- “We have too little inventory of the chestnut.”
- “The inventory levels are the same compared to last year and to the fall of 2012.”
- “Our inventory of the fashion UGGs is too low.”
- “The men’s line is doing well. The popularity of the men’s line is higher than it was three months ago.”

2) MANUFACTURERS IN CHINA

Our first source said UGG orders for 2013 are stable year to year. The second source’s company will not produce UGGs this year because of the low profit margins and better opportunities in producing alternative brand shearling boots. This second source said excess UGG inventory has been addressed, and now UGG inventory for both sources is lower year to year. UGGs have become more popular in Europe and Asia, according to one source, and in Asia and Russia but not in Europe, according to the second source.

➤ General manager of an UGG manufacturer in China

Orders for 2013 are stable year to year. Inventory is 20% lower year to year and 40% lower compared with the fall of 2012. This source said UGG’s popularity in Asia and Europe has grown by 10%.

- “Orders for winter are stable compared to last year. I expect they will order more in the spring.”
- “The inventory levels have been down 20% compared to last year and 40% compared to the fall 2012.”
- “In winter 2012, orders of Classic UGGs vs. its fashion styles were 50% to 50%.”
- “UGG has the right amount of inventory at manufacturers to meet demand. The inventory is left from 2012 and can be sold mostly in the

The inventory levels have been down 20% compared to last year and 40% compared to the fall 2012.

General Manager, UGG Manufacturer
China

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first season of 2013.”

- “The popularity outside the U.S. is growing. In Asia and Europe, sales are growing in 2012 by at least 10%.”

➤ Sales manager of an UGG manufacturer in China that will not supply the brand this year

Inventory surpluses from 2012 have been distributed. This company will not produce UGGs this year because the profit is too low. UGG’s popularity is growing in Asia and Russia but is declining in Europe. Decreasing shearing prices likely will be offset by increased labor costs.

- “The decline of sheep skin prices may bring advantages to our factory. However, manual labor costs are substantially increasing in China, and rents of factory land have increased 15% this year.”
- “Classic vs. fashion styles are 50% to 50%. The majority of sales in the end market are still Classic styles, but the new fashion style production can bring more orders in a short term.”
- “UGGs have a tight amount of inventory to meet demand. The inventory left over from last year has been placed.”
- “UGG inventory levels are lower than the same period of last year. Compared to the fall, inventory is 5% down; the fall season usually is the highest inventory level season in a year.”
- “Orders of UGG shoes should be the same with last year. However, we won’t take orders from Deckers next year because the profits are very low, and our company plans to produce its own brands.”
- “The popularity of UGGs is growing in Japan, Russia and China. [Its] popularity in Europe has been decreasing a little.”

3) SUPPLY CHAIN

Both sources said UGG stockpiles in manufacturing plants have been diminished. One said shearing orders started to increase in November when prices were at \$26 per pelt, compared with from their \$20 lows in September. The other source reported steady orders of shearing. One source said UGG holiday sales were strong but that the brand’s overall sales and popularity gradually will decline during the next several years.

➤ Executive for an Australian shearing supplier; repeat source

Despite strong holiday sales, this source believes UGG’s business will slow in line with consumer demand for sheepskin boots. The company did not take advantage of lower shearing prices in September, when footwear quality skins were selling for \$20 each. Deckers finally started placing orders again in November and December, when prices were \$26 per skin. Although Deckers has blamed poor margins and losses on raw material prices, the source believes Deckers’ lagging performance is due to excess stockpiles and consumer fatigue for the brand. UGG retail prices in China have decreased.

- “I do not see a comeback for Deckers unless they come up with new product designs or runs. But how many ways are there to make a sheepskin boot? 2013 will be no different than 2012 for Deckers. Margins may improve a little and their discounting may slow, but I don’t believe they will never get back to where they were. The UGG dream is over. That doesn’t mean the company will go bust. Their growth is slowing. If they made \$1 billion last year, you might see them making \$500 million to \$600 million in two to three years.”
- “The average price of skins for footwear right now is in the [U.S.] \$25 to \$26 range. That’s up about 25% from the last time we spoke in September when the price was \$20 per [footwear quality] skin.”
- “Deckers did not take a massive advantage of the lower prices in September. If they had, given the number of skins they need for boots, the price would not have stayed that low. They buy enough to push the price up. The only reason the price was low was because Deckers wasn’t buying. They weren’t buying because they wanted to work off the \$400 million worth of inventories at the manufacturing level. I believe they have worked off the inventories, and the stockpiles at the plants in China are gone.”
- “In November they started to place some orders for next season but at nowhere near their normal levels. My personal view is that they are not selling anywhere near the volumes of boots they used to sell. They

I heard they did more business during the holiday. Do I believe Deckers had good sales in December? Absolutely! A friend in New York sent me a video of after-Christmas sales at their Madison Avenue store. They had to bring in people for crowd control.

Executive
Australian Shearing Supplier

Deckers Outdoors Corp.'s UGG Australia

have been more focused on working off stocks before buying more skins, regardless of the price.”

- “They have had excess inventory and are overstocked from last year. Consumers don’t want last year’s styles, so they can’t get rid of inventory. But they are not willing to invest any further in new materials or new designs until they get rid of the old stuff. It’s a nasty trap to be in.”
- “The price per skin is up because of demand from other areas. We are seeing more demand for the dense wool products than the double-faced type skin used to make boots. The dense wool product is in demand because buying is up in Russia where they need the density for coats, gloves and hats. China continues to grow. Although they traditionally have been more of an end buyer of product for [tannery] processing, there is now more and more demand from the end user.”
- “I heard they did more business during the holiday. Do I believe Deckers had good sales in December? Absolutely! A friend in New York sent me a video of after-Christmas sales at their Madison Avenue store. They had to bring in people for crowd control. ... UGGs were selling but at reduced prices.”
- “UGGs were also being discounted in Asia, an area where Deckers said it expects strong growth. They have expanded from one store to about 10 stores, but we have heard sales are difficult and discounting is prevalent. Prices in China are 40% to 50% of the U.S. prices.”
- “Deckers’ actions have very little to do with the price of shearling. They may say their margins shrank due to the cost of raw materials. But it has more to do with their need to reduce volumes. If the margin shrinks, it’s because they had to discount boot prices to keep their sales going.”
- “We are seeing more demand just for the lining, rather than the outer skin with shearling. There seems to be a move toward having a different outer cover, something like a different leather or fabric. There is a change away from suede on the outside and wool on the inside, a shift away from the typical, traditional suede product.”

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*Executive
Australian Shearling Supplier*

► Executive with a major Australian sheepskin/lambskin shearling supplier; repeat source

Deckers’ stockpiles at Chinese manufacturing plants appear to have been burned off to manageable levels. Cold weather in Europe and Russia has triggered an increase in skin buys but mostly for the heavy density wools and [Mouton](#). Demand and pricing for the high-grade shearling used in footwear and favored by Deckers have been stable but flat.

- “Prices for shearling have only recorded small fluctuations during the spring lamb selling season. I would expect that this means there have been minimal changes in Deckers’ purchasing price.”
- “Inventories at the manufacturing level were high back in September, October and November. We don’t believe that is still the case. We believe many overstocks of the finished skins have cleared.”
- “I cannot really say what UGGs inventory levels are at the manufacturing level. We have seen new orders, but they have mostly been for raw material specifications other than footwear. I believe this is due to a return during the June to December selling season to far more sustainable price levels for raw skins at the abattoir [slaughterhouse]. This would indicate that inventories are at manageable and desirable levels, at least for these other specifications.”
- “Our demand has been reliable. There was a pricing correction between May and June; after the correction prices were relatively stable throughout our spring selling season. Demand has been consistent, and we haven’t seen much change. We were typically able to sell off our offers within 48 hours of listing them on the market.”
- “We have seen some increase in buying activity from manufacturers in the last few months, and we believe this is due to the cheaper prices. But the demand and buying were more for what we call the price point goods, such as car seat covers, linings and rugs. The footwear category that are used in UGGs has not changed much and is stable but less active.”
- “Most of our activity right now is coming from demand in Russia. Demand for Mouton, the sheepskin that resembles beaver or seal, is up. We believe this is due to the drop in prices, which are about 30% cheaper today than they were 12 months ago. We expect that demand to continue and remain consistent because the weather has been very cold this winter in Northern Europe and especially in Russia.”

Deckers Outdoors Corp.'s UGG Australia

4) BUYERS

UGGs sales for both buyers had been declining in late 2012 but then spiked during the last two weeks of the year. One source's sales fell in the mid-teens overall but then posted an 8% increase at year's end. Our second source also experienced this late spike but still experienced a 10% overall decline year to year. Both sources said Deckers' tight control on distribution and inventory has resulted in shortages of the most popular sizes and styles.

► Senior buyer for a large boot retail chain with nearly 120 stores and online sales; repeat source

Store sales of Classic UGGs were down 12% to 18% year to year, but a sudden buying surge at the end of 2012 likely will result in a seasonal increase of 8% for chain sales of UGG boots, in part driven by discounts. For the 2013–2014 season, the chain will increase its orders by 3%. This increase would be higher if Deckers were to loosen its control on pricing and distribution.

- "I don't think Deckers will see a big comeback this year. Our business with them is good, but we do not plan to see much expansion. If they would increase our company allotment of UGGs, it could open new doors for us and help expand sales but that's not the way they operate. I think they will be flat in 2013."
- "Last year, we could have bought more inventory for this season. They go by allocation on the Classic boots, and we did not buy our allocation last year because we were worried about the UGG business. ... For several years, we had price increases. Their price jumped four times in a row. But last year I had carryover from 2011."
- "Deckers definitely keeps tight control on the brand and on pricing. You are not allowed to mark down without authorization from Deckers. ... They told us they decided to lower the price because there was a price reduction for shearling, which struck me as odd because they are buying raw materials a year in advance so anything they were buying in fall would be for the 2013–2014 selling season."
- "Two weeks before Christmas, our sales of UGGs were down by 12% to 18%; that is week over week from the previous season [2011]. In the last two weeks of the year, we saw a surge. By the time the season ends—it runs from September to March—we anticipate seeing a run up of 8% year over year when everything is averaged out."
- "This year our store inventories are less than we planned, so we are in better shape than we were in 2011 when we had significant carryover."
- "We mostly sell the Classic UGG, both the short and the tall. We do carry some of the newer and high-end boots that retail for \$300, but they don't do well. ... There were some markdowns. There was an approved markdown list from UGG, so we were able to drop the prices of certain styles. But there also were styles that were not selling that were not on the list. If it's not on the list, you are not allowed to lower the prices or put them on sale or discount. I went to Nordstrom and saw that they had retagged. ... You are not allowed to do that. I went to Nordstrom again, and they had kept the lower price. They did it first, so we followed."
- "We view it as OK if you have a carryover of 15% of your inventory for the next year. Since sales were good the last two weeks of the year, we estimate that by the end of the season we should be around the 15% level."
- "Our plan for 2013 is to go with a request for a 3% increase in product. Last year our order plan was flat from the previous year, and we had more carryover than expected. ... If they would increase the number of doors we can sell in, I would increase my buy."
- "Some of the new styles did well, but the styles that do best are the Classics."
- "[Berkshire Hathaway Inc.'s/BRK.A] [Chippewa](#) and [Timberland \[LLC\]](#) ... are doing well in Europe, which suggests that UGGs also will do well."

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Sr. Buyer, Large Boot Retail Chain

► Buyer for a regional and online boot and footwear chain with eight Western locations; repeat source

UGG sales will remain steady in 2013 because consumer enthusiasm for the brand has mellowed. The source's UGG sales were off to a slow start in the fall but then spiked in mid-December. Overall, UGG sales fell 10% during the fourth quarter year to year. The chain has had too little supply in certain Classic sizes, but it does not intend to increase 2013 orders.

Deckers Outdoors Corp.'s UGG Australia

- “I have mixed feelings about a comeback for UGGs. I do not anticipate a decline in sales, but I’m also not sure how much of a comeback or increase we can expect. I anticipate doing well with them, but I don’t think we’ll see sales hit the highs of a few years ago.”
- “Our inventories are not high at this point in the season. In fact, Deckers has been out of a number of things we need. They are out of certain popular sizes; even with the Classics, they have been out of some sizes. We think part of the short supply is weather-related. It was warm last year, but it was cold here in December and January and our sales spiked because of that. We definitely have too little inventory to meet our demand.”
- “When the season started, our sales were off and we were struggling in November and December. It picked up when the cold weather hit. ... It stayed warm until the middle of December, and then we had a sudden spike.”
- “We do not get a lot of feedback from Deckers about the inventory lapses. Customers just buy something else or shop around because UGGs are everywhere and easier to acquire.”
- “We ended our holiday season off. In the fourth quarter, our UGG sales were down 10% year over year. I think interest in UGGs has leveled off. It’s still a great product, but sales are not as crazy as they used to be. More people carry them. The Classic styles have always been the most popular sellers for us.”
- “I do not anticipate changing our orders for 2013, and we don’t expect a lot of growth for our UGG sales. We also carry some knockoffs and lower-end boots, but for 75% of the customers looking to buy a sheepskin boot it has to be the UGG brand. They are stuck on the name. The off-brand boots are not as popular.”
- “We have been holding prices. The Classics are about \$200 for the tall and \$160 to \$165 for the shorts. Prices are lower this year than last. I think Deckers realizes they need to keep prices in a range consumers view as affordable. I have noticed no change in quality or raw materials.”
- “Deckers keeps very tight control over supply and price. They allot a certain percentage of number of boots to authorized dealers, and that’s it. When you are out, you are out. I have seen no surplus for any style, but we mostly sell the Classic style.”

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Buyer, Regional & Online Boot & Footwear Chain

5) CUSTOMERS

All four sources said UGG is as popular or more popular than ever. The brand is gaining momentum among younger consumers through its new styles and colors.

➤ Female in her 30s, San Diego

UGGs now are more popular in San Diego, especially the knit styles and new colors. The source buys a new pair of UGGs at Nordstrom every November and will do the same this year unless they go on sale in the spring. Nordstrom’s anniversary sale includes a few select styles, but the source has seen no other discounting. Her husband and two young children also have UGGs, and her friends still buy the brand.

- “UGGs are gaining popularity in San Diego.”
- “Knit UGGs and new colors are gaining popularity, and the moccasin styles are losing.”
- “There aren’t any brands more popular than UGGs.”
- “My husband bought a pair of UGGs last year.”
- “I’ve only seen UGGs on sale twice at the Nordstrom anniversary sale, and that was a specific kind each time.”
- “My friends are still purchasing UGGs, and I buy a new pair every year at Nordstrom.”
- “We have 12 pair of UGGs in our house, both the soft, shearling styles and the fashion styles. I just bought two pairs for my kids at Christmas and a pair for me in November. I do plan to buy more, maybe if they go on sale after winter. If not, then I will buy a pair in November as I do every year.”

➤ Father of two daughters, Kansas City, MO

UGGs are just as popular as ever with this consumer, who plans to buy another pair for his oldest daughter this year. The shoes will be purchased through Amazon.com Inc.’s (AMZN) [Zappos](#).

Deckers Outdoors Corp.'s UGG Australia

- “A lot of kids wear UGGs at school, and I think they will stay popular.”
- “This will be the third winter each of the girls [grades 3 and 5] has worn the same pair of UGGs boots. ... They were expensive, probably more than \$100, but it was a really good purchase.”
- “My oldest daughter wanted them because some of the other girls had them. It was the style and still is. They have the UGGs with the button on the side.”
- “We ... will buy another pair for my oldest daughter this year. The other one will get the hand-me-down in return for getting something else she likes.”
- “We are happy with them. What we like about UGGs is they are warm, durable and fashionable.”
- “My oldest daughter said the next pair she wants are the ones knitted on the outside, with buttons.”
- “We will almost certainly buy the next pair online on Zappos.com. ... They are ... an amazing company.”

➤ New York City woman in her 60s

UGGs remain as popular now as they were last winter among women. People continue to buy the boots for their comfort, convenience and “funky look.” The larger selection and new styles keep the brand relevant to young people. This source and her 33-year-old daughter own several Classic pairs. She recently bought Bailey Buttons for her two granddaughters. She does not know any men who wear UGGs.

- “UGGs are just as popular as they were last winter.”
- “People continue to like them for comfort and convenience, and it’s just a funky look.”
- “They are changing some of their styles and offering more selection, which helps them stay popular with young people. They have opened up their market by offering something for everyone.”
- “I think the Classics will always be popular.”
- “My granddaughters, who are 12 and 13, also wear UGGs. I just bought them each a pair of the Bailey Buttons. They love the buttons on the side.”
- “The flashier styles are too youthful for me, but the kids really like them.”
- “The low-cut boots ... are losing popularity because it’s cold and they don’t cover enough of your legs.”
- “I like UGGs mostly for comfort. I can put them on without socks and don’t have to worry about it.”
- “I have seen some of the men’s boots, but none of the men in my family wears them—and I have a lot of men in my family. I don’t think they are very popular with men.”

They are changing some of their styles and offering more selection, which helps them stay popular with young people. They have opened up their market by offering something for everyone.

UGGs Customer, New York City

➤ Female in her 40s, Chicago suburb

UGGs are becoming more popular among children and their mothers. The larger variety of styles and colors is helping the brand’s growth. This source bought two pairs online for Christmas gifts for her daughters; one pair will be returned because of quality issues. She owns a pair of UGG slippers and next wants a pair of Tall Classic boots. She likes the new Valentine’s Day [styles](#). She said the brand is less popular among men.

- “UGGs ... are as popular as ever. I see tons of moms and kids wearing UGGs.”
- “UGGs are gaining popularity since last winter. They have gotten into glittery kinds. There are a lot more styles. Everywhere you go, people are wearing UGGs. There are many more colored and patterns too.”
- “The Tall styles are gaining popularity. Also the style called [Kensington](#) for \$150 is gaining except they are only in kid sizes.”
- “I just bought both my daughters UGGs for Christmas. I got Tall Classics in purple for my 10-year-old and the pair with long, hairy fur in black for my 12-year-old. She loves them.”
- “I am having a problem with the hairy ones. They are going back because they are already falling apart. The online site advised me to call UGG directly.”
- “My 12-year-old says the Classic Short is the most popular at her school. The color they see the most is the tan.”
- “The Valentine’s pairs are really cute, but my kids would not wear

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UGGs Customer, New York City

Deckers Outdoors Corp.'s UGG Australia

them. I like them, but they are too much money.”

- “I do not see a lot of guys wearing UGGs. I would say they are losing popularity for guys compared to last year. So many women wear them that it is just more of a women’s thing.”
- “My kids say they saw one eighth-grade boy wearing UGGs. That is it.”

Secondary Sources

Secondary sources discussed UGG’s popularity surge at the end of 2012 and online searches for the brand surpassing those for such holiday gifts as iPads and Kindles. One source highlighted 20 male celebrities, from Ben Affleck to Bruce Willis, sporting UGGs, suggesting the brand has infiltrated male fashion. The final source was a Tweet from San Francisco 49er LaMichael James on owning and liking a pair of UGGs.

➤ Jan. 2 [article](#) from *Time’s* style section

UGGs garnered the most online searches for holiday gifts in 2012, beating out the iPad, the Kindle and Dr. Dre headphones.

- “Anyone who unwrapped a brand-new pair of UGGs this holiday season got more than a flashback to 2004; they also received the most popular present of 2012. The sheepskin boots topped Experian Media Services’ list of the most-searched-for products last year. It was an impressive feat for the polarizing brand, which became a holiday must-have some 10 years ago. Yet UGG searches were more common than those for iPads, Kindle Fires, Beats by Dr. Dre headphones and Barbies. It ameliorated a dismal year for UGGs, which saw a 31% sales decrease, prompting talk of price reductions.”
- “Is Tom Brady that lucrative of a spokesman? Does Alexa Chung’s opinion matter but at all? Or is it more that the once trendy product has managed a resurrection to a level of guilty pleasure turned functional retro footwear whose price tag (\$135 and up) still makes it a legitimate gift? Whatever the reason, it topped an impressive array of technology, proving that utility and plush thermal boots really can triumph over logic and crystal-clear digital tablet displays.”

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Time’s Style Section

➤ Dec. 28, 2012 *Glamour* [blog entry](#)

This blogger noticed a popularity decline for UGGs in the fall, but then observed that “practically every girl” in Seattle was wearing a pair at the end of December.

- “UGGs, the furry boot that fell on hard financial times just a few months ago, landed in the top spot as the MOST gifted item this holiday season, according to Refinery29, beating the Kindle, iPhone and those cool Dr. Dre headphones that I secretly wanted!”
- “Did you see UGGs all over the place during the past few weeks? While I was in Seattle, practically every girl sported a pair (and sparkly shearling boots are definitely a thing now). When I reported that sales of UGGs were down a few months ago, the downturn was partially blamed on the escalating price of the boots.”

➤ Jan. 10 Smosh [post](#)

Celebrities from Ben Affleck to Bruce Willis have been spotted sporting UGGs.

- “When a man wears UGGs, he’s making a statement—the statement being, ‘I am deeply, profoundly, secure in my masculinity.’ So much so, you can’t help but respect him. After, of course, you laugh at his terrible choice in footwear.”

➤ Jan. 31 [Tweet](#) from San Francisco 49er LaMichael James

Football star LaMichael James tweeted that he was surprised by his appreciation for UGGs.

- “Never thought I’d own some uggs but now I have a pair and I love them.”

Deckers Outdoors Corp.'s UGG Australia

Additional research by Carolyn Marshall, Silvia Yu, Tina Strasser, Cindy Elsberry, Lindsay Gadsby, Colin Gustafson, Kevin Murphy and Ken Turetzky

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