

# DECK Faces “Perfect Storm” of Drought, Higher Costs and Demand

Companies: BWS, CAB, DECK, PSS, TBL, UA, WWW

April 14, 2011

## Research Questions:

**Facing a potential shearing shortage, when will sales and profits for Deckers Outdoor Corp.’s (DECK) UGGs be affected? Is Deckers successfully growing its Teva line?**

## Summary of Findings

- Suppliers, industry specialists, a manufacturer and [UGG](#) competitors all reported a shearing shortage resulting from a “perfect storm” of Australia’s decade-long drought despite the recent floods, rising commodity costs and increased demand.
- Two of three Australian-based suppliers do not expect shearing availability to improve until the 2012–2013 season, which may affect UGG this coming fall and winter. Farmers who were unable to get lambs to market because of the floods are using this opportunity to breed larger flocks. Two industry specialists noted the U.S. sheep industry’s push to increase flock sizes in 2012.
- Five of six retail sources said Q1 UGG sales were strong or better than expected.
- [Teva](#) sources offered mixed feedback on Teva’s growth. Four of seven reported little to no advertising for the brand. New colors rather than new styles will be available this summer. One source started to carry Teva because of customer requests, but another said the brand is threatened by [Ecco Sko A/S](#) and [Keen Inc.](#)

## Silo Summaries

### 1) SUPPLIER

Three Australian-based UGG suppliers blamed a decade-long drought rather than flooding, including one source who said the drought, greater demand from UGG-type companies, higher fuel prices and commodity inflation have created the “perfect storm.” Two sources said shearing availability will not improve until the 2012–2013 season. One source said farmers are holding onto and breeding their current flocks for 2012–2013, which may hinder supply for winter 2011–2012.

### 2) INDUSTRY SPECIALIST

Three of five industry specialists said the high price of shearing was due to a shortage of lamb, resulting from numerous factors like Australia’s drought and increased demand for lamb meat and shearing. Deckers has not been active in this year’s major industry trade shows thus far, according to one source.

### 3) MANUFACTURER

UGG is facing a new combination of rising demand, doubled material prices year to year, low production levels during the recession, and less lamb production worldwide. UGG already is looking for material substitutions.

### 4) UGG RETAILERS

Although only one of six sources had heard of a possible shearing shortage, that one source was told directly by Deckers that a shearing shortage may affect fall orders. Five of six sources categorized 1Q11 sales as strong or beating expectations.

### 5) UGG CUSTOMERS

All three said UGG pricing has remained steady year to year. One customer does not believe competitors are making inroads but that UGG will remain successful.

### 6) TEVA RETAILERS

Two sources said Deckers rarely advertises the Teva brand. One said Ecco and Keen are a threat to Teva’s share.

### 7) TEVA CUSTOMERS

Two of three sources had seen no advertising by Teva, and offered mixed feedback on Teva’s popularity. Teva products were described as competitively priced.

### 8) COMPETITORS

One source predicted a 10% to 15% retail price increase and said many retailers have been unable to fill their UGG orders. A Clarks source said the brand is gaining on Teva.

|                        | Supply of Sheepskins | UGGs Still Popular | Teva Gaining in Popularity |
|------------------------|----------------------|--------------------|----------------------------|
| Suppliers              | ↓                    | N/A                | N/A                        |
| Industry Specialists   | ↓                    | ↑                  | N/A                        |
| Manufacturer           | ↓                    | ↑                  | N/A                        |
| UGG Retailers          | →                    | ↑                  | N/A                        |
| UGG Customers          | N/A                  | ↑                  | N/A                        |
| Teva Retailers         | N/A                  | N/A                | →                          |
| Teva Customers         | N/A                  | N/A                | →                          |
| Competitors            | ↓                    | ↑                  | ↓                          |
| Competitors’ Customers | N/A                  | ↑                  | N/A                        |

# Deckers Outdoor Corp.'s UGG and Teva Brands

## Background

Blueshift Research's [Dec. 16, 2010, report](#) found UGG's popularity among men starting to grow even before Tom Brady's endorsement and that sales of women's UGGs continued to be strong. Suppliers reported increased orders year to year, as much as 20% for one source. Our [Aug. 20, 2010, report](#) found Decker's UGG still on top of the expanding sheepskin market in terms of popularity. Teva sales represented only [\\$13.3 million](#) of Deckers' total 4Q10 revenue of \$430.1 million, so the brand represents a potential growth area and a complement to Deckers' UGG line.

## CURRENT RESEARCH

In this next study, Blueshift assessed whether natural disasters, including New Zealand's recent earthquake and Australia's flooding, have caused a shearing shortage and affected Deckers' UGG profits. Also, we investigated whether Deckers was growing its Teva line. Blueshift employed its pattern mining approach to establish and interview sources in 10 independent silos:

- 1) Suppliers (5)
- 2) Industry specialists (4)
- 3) Manufacturer (1)
- 4) UGGs retailers (6)
- 5) UGGs customers (3)
- 6) Teva retailers (4)
- 7) Teva customers (3)
- 8) Competitors (3)
- 9) Competitors' customers (2)
- 10) Secondary sources (3)

Blueshift interviewed 31 primary sources and included three of the most relevant secondary sources focused on farmers increasing their flock size as they were unable to get lambs to market during the floods, the floods' effects on Australia's sheep and agriculture, and a condition called [myiasis](#), or "flystrike."

## Silos

### 1) SHEEPSKIN SUPPLIERS

Four of five suppliers, including three who supply to UGG, reported a lamb shortage and higher prices for lambskin. The three Australian-based UGG suppliers blamed a decade-long drought rather than the more recent flooding, including one source who said the drought, greater demand from UGG-type companies, higher fuel prices and commodity inflation have created the "perfect storm." He expects UGG to be sheltered by customer loyalty, but another said the company's margins may be affected. Two sources said shearing availability will not improve until the 2012-2013 season. One source said farmers are holding onto and breeding their current flocks for 2012-2013, which may hinder supply for winter 2011-2012. One supplier noted greater shearing demand from Russia.

#### ➤ Managing director for an Australian sheepskin processor and exporter, including for UGG

Australia's recent flooding actually has boosted lamb breeding after farmers suffered low numbers from a 15-year drought. Farmers now are hanging onto their current lambs to boost their livestock numbers in 2012-2013 and beyond. The effect on UGG likely will not be felt until the 2011-2012 season. However, the "UGG phenomenon" enjoyed by Deckers may come to an end since the company's high raw-material demand has disrupted the normal lambskin distribution in Australia and customers may not willingly absorb higher prices.

- "The low stock of lambs has resulted in the price of live lambs skyrocketing. Live lambs have sold for as much as \$250 which is about \$100 over their recent average. The high price also encourages farmers to hold back their supply and breed more if possible."
- "Lambskins suitable for shearing were selling for \$16 to \$18 at this time in 2010. Prices at the moment are \$40. The price rise [for shearing] started in about September 2010 from about \$20 and peaked at \$42."

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- “Demand has been relatively constant, causing the price increases.”
- “I expect prices to remain at these levels over the next six months for good-quality skins. I expect lower-grade skins, which are currently also at extreme levels, to be reduced over the next six months. Skins suitable for shearing will stay at these levels.”
- “The supply of sheep and lambskins in Australia has been in steady decline for many years. The decline was accelerated by the past 15 years of drought, which lead farmers to reduce stocks as they could not feed them and were being forced to buy food and water. The recent rains in Australia will actually result in an increase in flock numbers; however, they have caused a further short-term shortage of lambs being sent for slaughter. The rains have given farmers new confidence to rebuild their flocks. This leads to a reduction in the number of lambs to be killed this year as lambs will be kept by the farmers to become breeding stock. Farmers are competing with meat works to buy live lambs so that the farmers can use the lambs to breed more lambs next year. We would expect to see a slight improvement in numbers in 2012 and better numbers from 2013 onwards.”
- “The UGG phenomenon caused a disruption to the normal distribution of lambskins from Australia. They exerted significant pressure on the market and caused the creation of very large buyers in China as these companies became the main suppliers to UGG and other brands of shearing boots. The power of these companies to distort the market has been evident since skin shortages were worsening in late 2010. The extreme rise in prices caused by UGG and their suppliers by trying to increase or maintain their production levels at a time of shrinking supply may ultimately cause the end of UGG and the multitude of similar products. The end consumers must have a maximum price they are will to pay.”
- “There are no [raw material] alternatives to Australian lambskins in the volume required. The shearing used in UGG production comes primarily from Australia. A small percentage comes from the USA and a further small percentage from the UK and New Zealand. The lambskins from each country have their own inherent characteristics, and the Australian characteristics are best suited to UGG production. Other types of animals are not suitable. There are already UGG boots made from synthetic materials for the lining, outer or both. The use of synthetics removes the benefits of the UGG in warmth, cooling, etc. However, they are now significantly cheaper. At roughly one skin per pair of UGG boots, the finished skin cost is \$60, whereas a similar amount of synthetic material would be about \$5.”
- “The current shortage of skins would not have caused a problem yet. This has occurred since production for winter 2010–2011 would have finished and the effects won’t be felt until deliveries of winter 2011–2012 boots are going out. The initial stock for 2011 will be OK, but the restocking into Christmas and the New Year may be constrained.”
- “I would expect selling prices will increase for winter 2011–2012. Whether buyers are willing to pay more, we will wait to see. Maybe this will be the end of the UGG phenomenon.”
- “Either Deckers or their suppliers will be suffering reduced margins. However, when the cost of a pair of UGGs goes from \$60 to \$80 and they have a selling price of \$300, there is a decent margin to absorb the rise. Nevertheless, I expect the supply to Deckers would be restricted to a small extent.”
- “As Deckers does not make any UGGs in its own right ... it will be the suppliers that take the biggest hit [in terms of margin pressure]. These are the Chinese tanneries making the skins and boots.”

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*Managing Director  
Australian Sheepskin Processor*

## ➤ U.S. sales representative for an Australian-based sheepskin supplier, including to UGG and other boot manufacturers

This source believes the shortage is due to a combination of environment (Australia’s long drought) and market conditions (an overall commodity inflation), not from recent flooding in Australia. He does not expect shearing availability to increase until at least 18 months from now. Deckers likely will not be severely affected. Lesser-quality boot brands may get priced out by the market, which could curb the shortage.

- “The shearing shortage has nothing to do with the flooding in Australia. It has to do with the number of lambs and sheep going down basically since the 1990s. There were 170 million units of lamb in production in Australia in the recent past, and now it’s down to 85 million, even possibly 80 million, now. The trend line is that there is

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decreasing units of sheep. The drought is a huge reason. ... This drought was so severe, most farmers curtailed their flocks, which has affected market pricing.”

- “UGG’s market share of the raw material has been high. The deal is that part of the shortage issue is based on UGG’s demand, but I don’t care what the commodity is right now. ... We have a general commodity inflation going around the world right now. Sheep and sheepskin are not the only thing affected. Yet if you couple that price increase with the rises in oil, since the product has to be transported, and the general weakness of the U.S. dollar, this is causing a bigger issue. Then you combine that with the high demand from companies like Deckers, and what we have right now is the ‘perfect storm.’”
- “I don’t see any improvement for the next six months, 18 months even, if the drought season is over in Australia and people put more lambs into production, whether that’s in Australia, New Zealand, the U.S. or China. The fact of the matter is that it takes X amount of time to rear a lamb, X amount of time to go to the market and X amount of time to have enough supply coming to the market to change the price. There is nothing that will happen faster than about 18 months. The only thing that could change the market is if the U.S. dollar increases in value.”
- “I don’t see Deckers getting affected dramatically. ... On the other hand, if you end up having some of the smaller players and sales aren’t as robust because their products must go up for their brands, then those extra skins they can’t afford will be available and help bring the price down.”

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*U.S. Sales Representative  
Australian-based Sheepskin Supplier*

## ➤ Operator of one of the oldest sheepskin businesses in Australia, supplier to UGG

Australia’s sheep flock warrants observation as footwear makers seek out its soft [Merino](#) wool. The entire supply chain is affected by the dramatic rise in skin prices and has “spooked” many tanners competing for Deckers’ orders. This source said a large portion of UGG’s skin orders is with Chinese tanner [Henan Prosper](#), which dominates the raw skin market and essentially has become its own competitor.

- “[Lambskin] prices have increased dramatically in the last six to eight months. Most types of lambskins have doubled in price. My average stock at this time last year was around AUD \$12.90 and today it is AUD \$26.75. If I express these levels in U.S. dollars, we have \$13.88 and \$25.47 at this time last year.” Recipients
- “From the position of a raw skin supplier, it is difficult to accurately evaluate the affect of this situation on UGG. As far as I know, UGG place a large part of their total order with the biggest tannery in China, Henan Prosper. Prosper has its own company in Oz for procurement, and this company dominates the raw market and forces up prices to satisfy its enormous demand, approximately 10 million Oz skins per year. Once your demand exceeds your supply, you become your own competitor.”
- “The floods experienced in Queensland did not have any effect on lambskin supplies as the flocks are nearly exclusively Merino in those areas. The flooding in Victoria only meant farmers were unable to take lambs to market for a period of two to three weeks, so the effect of these floods was also negligible. The real impact on lamb flocks in Eastern Australia was the ... drought we experienced between 2001 and 2009. This period meant that many farmers had to sell their breeding ewes due to lack of feed and water. The drought eventually broke during late 2009/early 2010. However, the effects of the drought will continue to impact livestock numbers for another three to four years as farmers rebuild their decimated flocks. The effect of the drought will lessen with each year, but I suspect full recovery will take time. There is a worldwide shortage of lamb. The other big producer in this part of the world is New Zealand. Their lamb flock was reduced by 10% with a cold snap in late September when very young lambs were on the ground.”
- “UGG demand is mostly for Oz skins due to the softness and feel of the wool from Oz breeds.”

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*Operator, Sheepskin Supplier*

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- “Demand shifts are unlikely at this time. We have large demand for Oz skins from Russia for [mouton](#) garments. The Russian tanners will almost exclusively use Oz lambskins for this production due to the leather structure and the wool characteristics.”
- “UK and European skins are selling at approx 60% of the price of Oz skins, but are just not as suitable and mostly go to footwear brands selling at considerably cheaper prices. ... USA skins from California and the Midwest work well, but supply is very limited.”
- “The entire supply chain is facing the price increases due to the footwear fashion—raw skin suppliers, tanneries, shoe manufacturers.”
- “Such rapid price increases have spooked many of the tanners and caused them to be pessimistic about their chance to increase their prices to the end user. This can cause fracturing in the supply chain, but delays can be experienced due to hesitation on the part of the other tanners competing for some of the Deckers order.”
- “It is hard to say what effect we will see on prices over the next six months. Realistically it depends on demand from the tanners, and they depend on demand from the likes of Deckers.”
- “I cannot see any other natural products being utilized for shearling uses. However, acrylics and synthetics are always available. The oil price affects the price of most synthetics.”

## ➤ Owner and operator of a farm with about 60 sheep, Maryland

This source reported a recent, big push for U.S. lamb and now higher demand for U.S. wool, which translates into a higher demand for sheep and more pelts as well.

- “My understanding from the processor is that I am not typical. [For most sheep farmers] it’s not worth it to them to do anything with the pelts. So most people who take their lambs to these places don’t get their pelts back.”
- “I know there’s always this [idea of] how can we compete with Australia and [there’s] a big push for American lamb.”
- “There’s a lot of talk about a higher demand for American wool, and if there’s more demand for the wool there’s more demand for the sheep and there will be more pelts.”

## ➤ Owner of a New Jersey farm that raises and sells small purebred sheep

This source had not heard of any shearling shortages, particularly in Australia, and said U.S. breeders could adequately accommodate the textile, wool and meat industries even a shearling shortage did exist. She does not expect any delays or inventory shortages in the next six months. If prices do rise, everyone in the chain will be affected.

- “We have plenty of breeders here in the states that could adequately fill both the wool, textile and meat industries.”
- “Like everything else, it will be a trickle-down effect [in terms of who takes the hit for price increases].”
- “Affording hay [has been the sheep industry’s greatest challenge this past year [2010].”

## 2) INDUSTRY SPECIALISTS

Three of five industry specialists said the high price of shearling was due to a shortage of lamb, resulting from numerous factors like Australia’s drought and increased demand for lamb meat and shearling. One source said pelts were selling for more than three times their price two years ago. Two U.S. sources note a push by the U.S. sheep industry to increase production; one said farmers will increase their herd sizes in 2012. Deckers has not been active in this year’s major industry trade shows thus far, according to one source.

## ➤ Head of a U.S. sheep industry organization

U.S. sheepskin prices have hit an all-time high, thanks to demand for sheepskin footwear such as UGGs, the Australian floods, and increased demand for lamb meat in the United States. Despite these obstacles, this source expects no delays in UGG products getting to stores. He predicts U.S. farmers will increase their flocks this year and in 2012, though prices for sheep products will remain high and ultimately will be passed down to the consumer.

- “We are now at U.S. sheepskin prices that we haven’t hit ever in history, and it’s being driven by demand and primarily the sheepskin for the footwear market, such as UGGs.”

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*Head of U.S. Sheep Industry Org.*

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- “Lamb meat prices in the U.S. are at historic highs. Wool prices are the highest since '89. Every category that we have in the U.S. is at a 20-year if not historical highs, and they are saying the same thing around the world.”
- “For the most part [the industry] is passing [higher prices] along. It tends to be a domino effect. But if you look at the reality of the cost, it's not substantial. It seems that the people who buy UGG boots [are] not that price-sensitive.”
- “Around every major metro city in the U.S. immigrants are primarily coming from cultures that eat lamb on a regular basis, and they are now consuming one-third of all the lambs we market in the United States. ... They are driving up the price and the demand, and we are also putting more burden on us as producers and as major commercial farms to meet the demand of the major retailers—restaurants, grocery stores, garment manufacturers.”
- “Throughout 2011 and 2012, we're going to see an increase in our numbers in the U.S. for sheep inventory. These prices will promote farmers to increase their herd, and the only way they can do that is to keep more ewe lambs back, by not sending them to slaughter. High prices promote people to increase numbers.”
- “We don't see any see any change in 2011 that will wreck any of our market. At our annual convention in January, all of our economists see it as very positive for the farmers.”
- “We don't see a rapid change or decreasing values for the products. One [reason] is the exchange rate. The U.S. dollar is such that it has made imports more expensive. Currently, we process the vast majority of our hide overseas, as does everyone in the U.S.”
- “Australia is second only to China in terms of sheep numbers, and they have had a terrible drought for most of the last decade, which had a big impact in Queensland. And they did have bad flooding. Australia is now just under 70 million sheep. In 1990 they had 170 million sheep. [This drop is due to] drought. Also, the government dropped their wool program in 1990, and that was the biggest change. In September [New Zealand] lost over 1 million lambs [due to] snowstorms.”

## ► **President of a U.S. lamb producer trade association and a sheep farmer who sells sheepskin pelts**

Lamb numbers worldwide have plummeted because of droughts, economic shifts and other factors while demand for lamb meat and pelts has increased. Good pelts now sell for \$17 each, compared with \$5 two years ago. This increase may be passed along to consumers, but should not hurt sales of UGGs, which already are expensive. The U.S. sheep industry is pushing for increased sheep production.

- “There is a worldwide shortage [of sheepskins] right now, and it's primarily because our lamb numbers worldwide are so low. We just have lost a lot of sheep. Some of it is natural—droughts and economic shifts. In 2008, the economy took a dive, and so did our pelt markets and they felt apart. Now we're at the opposite end: We have gotten rid of a bunch of sheep and can't make [pelts] as fast [as the demand].”
- “Our demand for the meat side of the industry is really great, and we can't begin to meet that demand. I'm assuming demand for pelts must be good because we're getting paid [well] for our pelts rights now.”
- “We supply lambs, and those pelts are sold as raw pelts. They eventually go to UGG boots and airline seats and clothing. Almost all end up in the clothing and garment industry.”
- “[Pelt prices are the] highest I've ever seen. When I sell a load of lambs I will get anywhere from \$0 to \$17 and it all depends on the quality of the pelt, the kind of wool that's on it and a lot of other variables.”
- “In 2009 our good pelts were [selling for] \$5, and now it's up to \$17 for a lamb pelt.”
- “If you pass all of that increase along to the boot, then you could increase the cost of that boot from \$150 to \$160 and totally make up for the price of the pelt. It's [a] pretty insignificant [increase] in my eyes. UGGs don't cost \$150 for what they are made of; it's \$150 because they are UGGs.”
- “[Deckers will] outsource their pelts and put out a bid for a certain number of pelts and a certain quality and wherever they come from. Turkey is one of the countries that does a lot of pelts, and China would be a good player.”
- “We typically see an increase in the number of lambs coming to market at this time of year, starting in about June, and it goes through late fall. I would guess the pelt market will soften and we'll see lower prices.”

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*President, U.S. Lamb Producer Assn.*

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- “The American sheep industry right now has a program going where they are really pushing for increased sheep production, and if that takes place that will add a lot of pelts to the market.”

## ➤ **President of a U.S. state sheep organization and a sheep farmer**

This source had not heard about shearing shortages but confirmed that wool prices are at an all-time high because of increased demand and less Australian supply brought on by drought conditions. He expects material prices across the board to increase because of ethanol mandates worldwide and said consumers ultimately will pay with higher prices. [The American Sheep Industry Association](#) has highlighted the need to increase U.S. flock sizes to meet the rising demand for wool and lamb meat.

- “I am well aware of the problems presented to the sheep and wool industries in Australia. I have not heard any reference to a shearing problem; however, I would also note that sheep numbers in Australia have been decreasing for the last several years due primarily to drought conditions. I am not of the opinion that this trend will reverse itself in the near future.”
- “Wool prices are as high as they have been in memory, and that is a result of supply being down and demand edging up. I would expect shortages, and given that the cotton industry is also being affected by flooding, in other countries, the shortage could have a negative impact.”
- “The cost of grain, forage, fuel, etc., has forced all of us to raise prices to stay in business. Legislatures do not always connect with the unintended outcomes of their votes.”
- “In general, the cost of feed has doubled over the last several years, connected directly to the ethanol mandates worldwide and the result [of the] increase in corn prices.”
- “As fuel and production prices increase, materials go up also. Currently, I believe the entire chain is being impacted. Eventually the customer will pay.”
- “The American Sheep Industry Association has highlighted the need to increase flock sizes to meet the rising demand for both wool and lamb meat in this and other countries. We feel that while higher prices are always welcome, failure to meet increased demand can cause the demand [to] find another protein for the diet.”

## ➤ **Editor of a fashion-focused business magazine**

This source said UGG and Teva have pulled out of some major industry trade shows. Although Deckers markets its UGG line as Australian, he has heard the company buy sheepskins from China. Copycat competitors to UGG are not doing so well in the marketplace, based on his observations.

- “I don’t see [UGG and Teva] lately being as active as before. In fact, Deckers have completely pulled out from the trade shows. Previously, they had featured gigantic booths at [the] [WSA](#) and [MAGIC](#) [trade shows].”
- “I am very doubtful UGG has anything to do with Australian supplies. Deckers market their UGG line as ‘Australian,’ but it’s only the images and the name use (for which they had been [sued](#) ... by the way). I heard that they get their sheepskins from China.”
- “Their closest but not as successful competitors—[EMU Australia](#) [EMU Pty Ltd.] and the new luxury brand [Ausii Boots Australia](#)—are made in China, as are dozens of other copycats. ... And, seemingly, they all are not doing so [well] these days.”

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*Editor, Fashion-focused Magazine*

## 3) MANUFACTURER OF SHEEP LEATHER

UGG is facing a new combination of rising demand, doubled material prices year to year, low production levels during the recession, and less lamb production worldwide. UGG already is looking for material substitutions.

## ➤ **President of a company that manufactures sheep and lamb leather**

Shearing prices continue to rise with increased demand, doubled material prices year to year, and decreased lamb production. UGG is seeking material substitutions while it expands internationally.

- “Raw material costs have doubled. From a manufacturing standpoint, the cost per square foot [for UGG and shearing] has gone from something like \$4 to around \$8 over the last year.”

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- “The lamb production all over the world is down; we estimate as much as 25 million from 2009 to 2010 so it’s not only Australia or New Zealand but also in smaller producing countries like the U.S. Our production numbers are down 11 percent.”
- “Another factor is not only a shortage of material, but also the demand situation, especially in emerging countries like China. Their middle class is growing, and there are so many people that any kind of growth is pulling products [there].”
- “Hides are trading four times what they were a year ago.”
- “Another factor is that in the dismal economic times of ’08 and ’09, people were basically using up inventory. And so now there’s no inventory in the pipeline and a shortage of material, and in addition, increased demand.”
- “My guess is that [UGG] will do a pretty good job [despite obstacles], but I can’t see for the life of me how their profits will not be affected. But on the other hand they are a clever bunch of people out there. They’ve done extremely well so far, but I’m not aware of them ever coming into these shortages of raw material.”
- “They’ve built a monster and they’ve got to feed it, and I think they might be facing something that they haven’t seen before. I know a number of people who supply them. [UGG has] a hard time understanding why they can’t get more sheep and when will the price come down and why can’t we get twice as much.”
- “It’s a very interesting time because [UGG] started to move into Europe in the last couple of years and they opened up a few stores in China.”
- “UGG has been in the market trying to find a suitable substitution and using designs where they are using less shearling on any given boot. They are looking in the hide market and looking at what we call splits [hides that are split in two] and cheaper lining ... to get a similar look. However, I don’t think they are having much luck because similar shortages have been had in the hide markets.”
- “UGG has been aggressive with their pricing and costs with their manufacturers, and there’s not a lot of room for these guys to move and these guys don’t have a choice but to pass that price on to UGG. How much UGG passes that on to the consumer remains to be seen.”

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*President  
Sheep & Lamb Leather Manufacturer*

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## 4) UGG RETAILERS

Although only one of six sources had heard of a possible shearling shortage, that one source was told directly by Deckers that a shearling shortage may affect fall orders. Five of six sources categorized 1Q11 sales as strong or beating expectations. The sixth source had no comment on first-quarter sales.

### ➤ Store manager of an established shoe store, Chicago

This source had heard about a shearling shortage and reported a related backorder expected by Deckers this fall. UGG surpassed this store’s sales expectations last year, and is expected to remain popular. Because of limited space, UGG boots are off the floor from April to July but still sell year-round by customer request. UGG shearling slippers are kept on the floor year-round and do very well.

- “I have heard about the shearling from the Deckers people. It has not affected us yet, and we did not have any issues last season. But for this upcoming fall and winter season, the word is that we may have backorders.”
- “We knew UGGs would do well last year because they are so popular, but I feel that they did even better than we expected and I don’t see their popularity diminishing at all.”
- “The UGGs do great here. We don’t have them on the floor now since they are considered out of season but they still sell. We just don’t have the floor space to keep them on 24/7, but we always have the UGGs shearling slippers on the floor and they do very well, too.”

# Deckers Outdoor Corp.'s UGG and Teva Brands

- “I actually sold an UGG boot yesterday in the knitted style, called [Cardy](#). I also sold another pair just last week. The lady came in and said she wanted the UGG [black Classic Tall](#) so I went to the basement to see if we had it and we did. She was thrilled that we had it and she even got 10% since they are off the floor now and considered just out of season.”
- “The Classic Short and the Classic Tall are the most popular styles of UGG boots.”
- “The [Dakota](#) style is the most popular UGG slipper. They have a new one with a slimmer cut, but we do not have that one yet.”
- “We did carry the men’s UGGs last fall, and the sales were OK. We had four styles on the floor.”
- “Red Wing makes a popular slipper that we carry that also has shearing in it. I wonder if their supply might be affected as well.”

I have heard about the shearing from the Deckers people. It has not affected us yet, and we did not have any issues last season. But for this upcoming fall and winter season, the word is that we may have backorders.

*Store Manager, UGG Retailer  
Chicago, IL*

**Reporter Observations:** Four or five sales associates were gathered near the front of the store, and five customers were present during Blueshift’s hour long visit on a Thursday around noon. One shopper in her mid- to late 50s was trying on a pair of Brown Shoe Co. Inc.’s (BWS) [Naturalizer](#) brand, one female senior citizen bought a pair of Teva sandals and the other customers were browsing. The window displays carried both men’s and women’s shoes and numerous brands including Teva, Collective Brands Inc.’s (PSS) [Saucony](#), [Birkenstock USA GP LLC](#), Naturalizer, C&J Clark International Ltd.’s [Clarks](#), [Dansko Inc.](#) and [Florsheim Group Inc.](#)

## ➤ Warehouse manager and shipping coordinator for an online footwear retail site

UGGs remain incredibly popular despite a slight price increase in 2010. This source does not expect any inventory shortages of UGG boots nor any effect from Australia’s floods. Knockoffs are taking some business away from UGGs. Teva has a large following and its products are competitively priced. However, Teva must work to remain competitive against companies like Keen and Wolverine Worldwide Inc.’s (WWW) Chaco and [Merrell](#) brands.

- “Based on the fact that around the holidays [UGGs] are sometimes really hard to find, I would say they are still popular. I’ve been waiting for the day they’re not popular, and it seems every year their popularity increases.”
- “I would say that there really isn’t a shortage of UGG products.”
- “I do not anticipate any inventory delays for UGGs.”
- “UGG prices were raised slightly last season, in the range of \$5 to \$10 on many styles.”
- “Of course, knockoffs are taking business away from UGGs. There are those who just can’t afford to drop \$200 on a pair of luxury sheepskin boots, so they go to another department store and buy a comparable pair for \$100. But there are also those consumers who are obsessed with branding and will not settle for anything but the authentic UGG product.”
- “The real problem for UGG is the counterfeit products that are running rampant in the market today. I read during the holidays that UGG boots are the No. 1 counterfeited item on the market today!”
- “UGG has some really great new styles for fall 2011 that could be wildly popular with consumers. However, their standard styles will remain the most popular. UGG also has [apparel](#) and [home décor items](#) available, but I don’t think their popularity is near the popularity of UGG footwear.”
- “Teva still has a large following. I’ve found that once a consumer finds a product they love, they remain loyal to that line.”
- “As with any product, Teva must work to stay competitive with other brands like Chaco, Merrell, Keen and other outdoor lines. It seems there are more options for consumers when they are choosing outdoor footwear.”
- “[The] last time I looked at prices of Teva and comparable other brands, they were in the same price range. Just looked at some pricing of Teva online. Their prices are comparable to Keen, a line I’m very familiar with.”
- “I have not seen new product lines for Teva.”
- “I have not seen promos or ads for Teva.”

The real problem for UGG is the counterfeit products that are running rampant in the market today. I read during the holidays that UGG boots are the No. 1 counterfeited item on the market today!

*Warehouse Manager  
Online Footwear Retailer*

# Deckers Outdoor Corp.'s UGG and Teva Brands

## ➤ 20-year veteran shoe seller at an established shoe store, Chicago

This source had not heard about a shearling shortage or an increase in shearling price. However, he said UGG boot prices increased \$5 to \$10 a pair in the fall of 2009. UGG shearling slippers sold very well during the holidays. This source sells many UGG boots to men who purchase them as gifts for women. Unlike UGG boots, competitor La Canadienne boots are waterproof, but they are double the price and more popular among customer over age 35.

- “I have not heard about the increase in shearling price. Our manager is in a meeting right now, and maybe he has heard something but he has not told us. We also carry La Canadienne boots that have shearling linings. They might be affected, too. We don't sell nearly as many La Canadienne shearling boots as we do UGGs, but they are more of an investment at \$200-plus a pair.”
- “I did not notice an increase in the price of UGGs last season, but I do recall there was an increase the previous season, in the fall of 2009. The UGG boots went up \$5 to \$10 a pair then, so maybe since they did not increase last year. They will this year, especially if they have to pay more for shearling.”
- “Now, all we have left in the UGG boots are the Classic Tall and Classic Short styles. We had so many styles and colors at the beginning of last fall, it is hard to believe this is all we have left. There are just a few colors left, too: purple, navy, chestnut, black and gray. Everybody is and was buying them. They did great last year and we expect that they will do great again this year. I expect we will have the whole line again this year.”
- “We sold a lot of UGG boots at the holidays. We had a lot of men coming in and getting them for their girlfriends, wives, daughters and so on—the women in their lives. They are real popular with the younger crowd, too. The teenagers really like to wear them. They prefer the Classic Short or Tall most often. Most of our customers who wear UGG boots are under 35.”
- “The customers who buy the La Canadienne shearling boots are the more sophisticated customers—ladies over 35 who have a little more money to spend as the La Canadienne boots are considerably more expensive than the UGGs. But the La Canadienne shearling boots are waterproof whereas the UGG shearling boots are not. That makes a big difference when you are living in Chicago. The older customers are more willing to pay for a boot that keeps them dry.”
- “The UGG slippers are popular. They were really hot over the holidays. They were flying out of the store. People were buying them for gifts left and right. We expect they will continue to do well.”

*Reporter Observations:* Three associates and two customers were in the store, but no purchases were made during Blueshift's visit. A woman, approximately 45 years old, was trying on [Earth Inc.](#) shoes while a man in his mid-30s was browsing. The store was well laid out, clean and organized.

## ➤ Sales associate for a retailer selling UGGs and other brands, Southern California

Sales of UGG boots have been strong, particularly since colder weather hung around the area for much longer than expected. The source reported no sign of shearling shortages or product shortages except for the UGG [Retro Cargo boot](#). Romeo & Juliette Inc.'s [Bearpaw](#) and [The Timberland Co.](#) (TBL) are relatively well-known competitors.

- “I would say sales have been higher than last year because we've sold out of a few of the styles. The weather this year has kept the post-Christmas demand up high.”
- “We haven't seen any changes with demand. Christmas was unbelievable. We had lines for UGGs in the store almost every weekend. That's quieted down since, but I don't think they are losing popularity. I think everyone has them and they will keep buying them. ... I don't think you can walk across a school campus most of the cooler months now and not see girls wearing them with jeans, and I've even seen girls wearing them in warmer weather with shorts and dresses. So, it's a fashion item and a the brand loyalty is very strong. You can't really compete with [the loyalty of] an UGG fan, just like you can't really compete with a Nike fan.”
- “We haven't heard anything about shortages due to shearling, but we have run out of a couple of styles, particularly the Classic Tall boot. I don't know if that's attributable to the sheep or just a lot of demand. But we are getting a shipment in this weekend, so I expect that we'll be fully stocked for a while.”

I would say sales have been higher than last year because we've sold out of a few of the styles. The weather this year has kept the post-Christmas demand up high.

*Sales Associate, UGG Retailer  
Southern California*

# Deckers Outdoor Corp.'s UGG and Teva Brands

- “UGG also has the new cargo boots coming out that actually look more like a rugged boot than an after-ski boot. It’s selling for about \$200 also. We don’t have any in stock but they are in the catalog. Slippers are not doing so well in this store. It’s mostly the boots, and the most popular style is the Short Classic.”
- “The prices haven’t changed since I’ve been here, which is about one year. But I think if you order by catalog you’ll see a little jump there for some styles. That has not been a recent thing though, so I don’t think it has anything to do with flooding.”
- “I would say there are some competitors out there like Bearpaw and Timberland that are doing OK because they are able to offer something very similar at a much better price. The discounts are almost 75% or so. I know Bearpaw as a similar tall boot for about \$40. ... Some customers might be getting a little tired of the high prices, so if prices do go up they might see some slowdown.”

**Reporter Observation:** The store was very quiet during Blueshift’s visit. The UGG display was prominent, fully loaded with various styles and colors, and well-organized. This store is known for carrying UGGs and had banners throughout touting “The Ultimate UGG Shop” and “Every Style, Every Color, Every Day.”

## ► Sales associate, department store that carries UGGs, Dallas

This source reported strong 1Q11 sales for UGG. She had not noticed any current UGG shortages but said shortages because of the floods more likely would occur in the fall/winter. She also noted a few of UGG’s policies for retailers, namely that retailers cannot increase their orders from the previous season and cannot discount UGG merchandise. The source had not noticed an increase in UGG pricing.

- “We sold a lot for the first quarter, but then UGGs are always in demand and continue to be a sought after item.”
- “I did not notice any inventory shortage due in regards to the floods in Australia, but then UGGs puts an inventory limit on retailers and we cannot order more than we ordered last season.”
- “Also, if there was a shearing shortage, UGGs are assembled in China so by the time China got their product would have been before the flood and inventory would not have been an issue. We will have to see how inventory is for next fall/winter, but we are not expecting any shortages.”
- “Nobody competes with UGGs. There was a company that tried to do a knockoffs, but the teens weren’t buying into it and it failed. Also, people have finally realized that UGGs are a good investment because the leather can get wet and the shoes are very durable.”
- “Prices have stayed pretty standard, and I don’t expect to see an increase.”
- “I don’t know if you are aware but retailers are not allowed to discount UGGs, and those that do usually get their merchandise pulled.”

I did not notice any inventory shortage due in regards to the floods in Australia, but then UGGs puts an inventory limit on retailers and we cannot order more than we ordered last season.

*Sales Associate, Department Store  
Dallas, TX*

**Reporter Observations:** The store was busy on a Friday at 2:30 p.m. Most of the eight sales associates working in the shoe department were helping customers. The UGG display of boots, [flip-flops](#) and [sandals](#) was prominent, and none of the merchandise was discounted.

## ► UGG retailer sales associate, North Carolina

UGG has little competition and was popular during the holidays. This source’s store has not experienced any recent shortage of inventory, and has been able to restock. He would not be surprised if UGG raised its prices.

- “UGG is a brand name and they are very popular, a good quality product and really don’t have any competition.”
- “UGGs sales are No. 1 for us during the holidays. We were selling six to eight pairs a day.”
- “We have not experienced any shortage or inventory problems recently.”
- “We have ... had no problem with restocking, but we don’t have as much stock of UGG during the summer months anyway.”
- “The prices have stayed the same over the last few years.”
- “As with everything, I would not be surprised if UGG raises their prices.”

# Deckers Outdoor Corp.'s UGG and Teva Brands

## 5) UGG CUSTOMERS

All three said UGG pricing has remained steady year to year. One customer does not believe competitors are making inroads while another said less-expensive brands may be taking UGG's share but that UGG will remain successful. The third source recently started to wear UGG's [clogs](#).

### ➤ Fashion consultant, Dallas

UGG prices remain steady since 2003. Although more expensive than competitors, UGGs have better quality and durability. This source does not believe competitors have been successful in going up against UGG.

- "UGGs are more expensive than others, but the product is much better and longer lasting. I have 17 pairs of UGGs in an array of colors and in a variety of styles, but mostly from their Classic line.
- "The Classic Tall boots are \$180 and the Classic Short boots are \$140, and these prices have been the same since 2003."
- "They are usually not on sale. They just let the stock wither down to nothing and by February it is difficult to find a pair in a store in a common size."
- "I don't feel competitors are very successful competing with the brand. I only wear UGGs, and many of my friends are the same."
- "The Jimmy Choo [J. Choo Ltd.] and UGG [collaboration](#) was an interesting one, but I haven't seen anyone actually wearing them out and about."

The Jimmy Choo and UGG collaboration was an interesting one, but I haven't seen anyone actually wearing them out and about.

*Fashion Consultant*

### ➤ Insurance agent and grandmother, North Carolina

This source said UGGs are more expensive than competitors' boots but seem to be the same price as last year and are still easily attainable in retail stores or online. She said less-expensive brands may be taking market share from UGG, but that UGG's shorter boots in various colors should do well in stores this year.

- "UGGs are priced higher than most of the competition, but they are the originals. [They] seem to be the same price as last year."
- "[I] haven't noticed any shortage of products. [Customers] can get [UGGs] at retail stores and online."
- "There are a lot of different brands out there. [These competitive brands] may be gaining ground due to being less expensive."
- "The shorter boot style in great colors will do well, I think."

### ➤ 45-year-old female, North Carolina

This source is loyal to the UGG brand and has purchased multiple styles within the past year but found it hard to find her size this past year. She has started wearing UGGs clogs, which are "more fashion-forward."

- "It was hard for me to find my size in stock this past year, especially the Classic in natural. I must have shopped at four or five stores to find a pair and then had to order my size from the local department store and wait a week."
- "I think traditional UGGs are a trend that will run its course. However, they were popular five years ago and then this last year I think they made a big comeback. ... They have me wearing them and I never thought I would."
- "I have three pairs of UGGs and have branched out to there more fashion-forward styles, and my girlfriends have too. The clogs have become popular with my friends."
- "When I wear my more stylish UGGs, people are surprised to know that mine are indeed UGGs. Most people have the perception that they only make the original style boot."

## 6) TEVA RETAILERS

Our four sources gave mixed feedback on Teva's popularity. Two said Deckers rarely advertises the Teva brand. One said Ecco and Keen are a threat to Teva's share. Still, another reported adding Teva to the brand lineup because of customer requests. Sources said new colors but not new styles were being introduced for the summer.

# Deckers Outdoor Corp.'s UGG and Teva Brands

## ► Sales associate, Southern California

Teva is not doing so well. The source said Deckers rarely advertises or promotes Teva, which is being beat out by the very popular Ecco brand. The store's Teva stock was much lower than that of Ecco and Keen.

- "Teva is not doing well here at all. We don't have any of the water/sport sandals in the store."
- "I'd say sales were pretty low and I wouldn't expect them to pick up too much unless we get a few new styles for summer."
- "Prices seem to be stable for Teva, but I don't know if they've managed to really keep enough styles out there to create awareness."
- "Prices are little lower for Teva than Ecco, but customers ask for the brand all the time. They also are moving a little toward Keen, which is slightly lower than Ecco but not as popular."
- "I don't know if they are growing the line right now, but I can say their competitors are. Ecco has been our most popular shoe in that category for a very long time. We have repeat customers who come in wearing their old Eccos and want to replace them. They are very loyal to the brand."
- "Ecco will send us big banners for the promotions, but we never see anything from Deckers."
- "If there are new Teva designs for sandals, I haven't seen them yet. I know the shoe is pretty cool. It's very lightweight, but I don't know if it's going to be as popular as the Ecco."

Ecco will send us big banners for the promotions, but we never see anything from Deckers.

*Sales Associate, Teva Retailer  
Southern California*

**Store Observations:** This usually popular store was very quiet during Blueshift's visit. Only two styles of Teva, both shoes and not sandals, were available in the women's and in the men's sections. The store, which appeals to those 30 to 60 years old, carried an Ecco banner promoting summer styles, but Blueshift was told that Deckers never sends similar promotional pieces for Teva.

## ► 20-year veteran shoe seller for a store with six store locations, Chicago

Teva [sandals](#) are very popular, particularly the flip-flops, among college-age consumers. The source's store has trouble keeping Teva flip-flops in stock during the summer months. He expects Teva to be as popular as last summer and to be priced comparably year to year. The store just received new Teva sandals, which have new color combinations but no large variations in style.

- "The Teva flip-flops are incredibly popular, especially with the college-aged crowd. They wear the flip-flops with everything. ... We can hardly keep them in stock in the summer. They sell like hot cakes. We expect we will do as well this summer with the Teva's as we did last summer. There is no sign of their popularity dying down at all."
- "Nothing we have in the store for flip-flops competes against the Tevas. They are definitely top dog when it comes to flip-flops. Their sandals do pretty well but nothing compared to the flip-flop sales at this store."
- "I don't believe the Tevas have increased in price since last year. We just got about four or five new sandal styles and three or four new flip-flop styles. I expect we will get a few more in since we are just starting to roll out the new summer styles."
- "We just got the new Tevas on the floor today. I have not sold any yet, but they have only been out for a few hours. The styles are similar to those of last year. I don't see any large variations in style. They just have some new color combinations."
- "We only carry the Teva sandals and flip-flops. We don't carry any of their shoes and never have."

## ► Sales associate at a [Cabela's Inc.](#) (CAB) store in Texas

This source reported seeing no ads or new styles for Teva. She expects the brand's year-to-year spring sales and prices to remain steady. The store was expecting more Teva sandals at the end of the week for a spring display but said no new Teva styles were being introduced.

- "I haven't ever seen any advertising, and most of the sandals are the same designs we've had for a while now."
- "Sales should be about the same as last year for spring. Teva flips sell really well here because they have more colors to choose from and they are prettier than the other brands."
- "Prices are the same, I haven't seen any increase, and they are usually not on sale."

# Deckers Outdoor Corp.'s UGG and Teva Brands

**Reporter Observations:** On a Wednesday at 3 p.m. approximately 12 people were shopping. The shoe department was mostly stocked with Cabela brand shoes as well as [Under Armour Inc.](#) (UA), Merrell and Teva. The only Teva display was a wall of women's flip-flops.

## ➤ Teva retailer, North Carolina

This retailer started to carry Teva last year because of customer requests. Teva is priced better than its competition and enjoys high demand for its flip-flops but not its shoes.

- "We just started to carry Teva this year over the last year; we had a lot of requests for them."
- "Tevs are more competitively priced than their competition [Keen and Merrell]."
- "More men than women are buying the Tevas."
- "The [Mush](#) flip-flops are new and have been selling well so far."

## 7) TEVA CUSTOMERS

Two of these three sources had seen no advertising by Teva, and offered mixed feedback on Teva's popularity and availability. An Arizona source reported seeing more Teva products in stores, but a customer in Chicago said Teva was not as widely available as its competitors. Teva products were described reasonably and competitively priced.

## ➤ Running enthusiast, Arizona

This source owns several pairs of Teva shoes and sandals and said Teva has yet to move into the mainstream market but is popular among outdoor and hiking enthusiasts. She has not seen greater competition for Teva but also said the number of its products has not increased. Teva prices have been steady and reasonable, but this source would like to see more discounts and sales. She expects her Teva purchases to remain the same year to year.

- "I believe that Teva is popular in some circles—mainly outdoor, hiking and specialty stores—but not necessarily with mainstream markets or sports stores."
- "I haven't seen an increase in popularity, but would like to see Teva move into the mainstream market. There are a few more stores that now carry Teva, but no advertising that I am aware of."
- "[Teva's] price is reasonable, but [I] would like the opportunity to have discounts [and] sales from time to time."

I haven't seen an increase in popularity, but would like to see Teva move into the mainstream market. There are a few more stores that now carry Teva, but no advertising that I am aware of.

*Teva Customer  
Arizona*

## ➤ Female in her 30s, Texas

This source said Teva products are reasonably priced and have a loyal following among her family and friends. However, Teva lacks advertising and cannot be bought in as many stores as other brands. If Deckers were to improve these two areas, Teva would gain in popularity.

- "I personally wear them for comfort. They are durable, can be worn with anything and are the only flip-flops I can wear all day. I have gotten family and friends addicted to wearing them."
- "They are popular but they can't be bought in as many stores as other brands. I wish they carried them at surfer type stores."
- "I haven't seen any new products of Tevas lately, but then again they are only in a few stores that I have to go out of my way to go to."
- "I think they would gain in popularity if they advertised and were in more stores."
- "The price of Teva is reasonable for how well they are made and they aren't much higher than other brands."
- "I have never seen an advertisement for Teva and definitely not a special promotion unless the store itself has them on sale just to move out old inventory."

## ➤ Elderly female, Chicago

This source purchases a new pair of Tevas every season and does not believe the brand's prices have increased year to year or that an increase would affect her purchases. She also is loyal to Saucony and Clarks.

# Deckers Outdoor Corp.'s UGG and Teva Brands

- “I only purchase certain brands. My favorites are Saucony, Teva and Clarks. I need comfort and good support and they all have it. They are the only brands of shoes I buy.”
- “They just got in the new Teva sandals yesterday, so I wanted to come see them today. ... I get a new pair every year. I don't buy the flip-flops as I need much more support. The pair of sandals I am getting today sells for \$90.”
- “I think the Teva prices are pretty much the same as last season. I don't care so much about the price since they are good sandals. ... I will continue to buy them even if they increase in price.”
- “I can't really say how popular they are, but I know my friend and I really like them. She is my age and also wears the Teva sandals. ... We get new shoes every year when the new styles come in.”

## 8) COMPETITORS

Our two UGG competitor sources were aware of a sheepskin shortage, which they believe could affect supply for UGGs. One source predicted a 10% to 15% retail price increase and said many retailers have been unable to fill their UGG orders. Another source's line of men's boots reportedly outsold UGG men's boots. A Clarks source said the brand is gaining on Teva.

### ➤ Marketing director, sheepskin footwear manufacturer

This source, whose company purchases skins from Australia, ships to a tannery in China, and distributes sheepskin products in North America, Japan, China and some European countries, expects retail prices to increase 10% to 15% as a result of the market. Shearling orders from UGG have not added to the market shortage as many retailers have been unable to fill their UGG orders. All brands are on the same market plane when in terms of quality sheepskin acquisition and product manufacturing.

- “Yes, we are aware of a shortage of Australian sheepskins that will affect the entire industry.”
- “We have been doing sheepskin for a long time and are generally on top of potential problems in the supply chain long before they become real issues.”
- “With everyone wanting their orders done more or less at the same time, we are getting ready just a little bit earlier than we normally would. Of course, that translates in increased costs because our money is out there a lot longer now.”
- “The shearling shortage has no correlation to UGG sales. In fact, we heard from a lot of retailers that they were unable to reorder or get their initial orders shipped, which shows that UGG is subject to the same issues faced by the rest of us.”
- “I believe that the consumer would be more than open to an alternative to UGGs. ... I definitely believe there is a certain fatigue. However, unless retailers take a leap of faith with an alternative brand, the consumer will buy what's in front of them.”
- “For the upcoming six to 12 months, it is already clear that retail prices must increase by at least 10% to 15%, if not more.”
- “As the increase in price is not only linked to a seasonal or temporary raw material shortage but also to rising manufacturing costs, it is indeed a good solution to maintain value and margins by using mixed materials.”
- “Consumers are still very sensitive to price, and manufacturers are aware of that. Some were trying to hold their price points by using lower-grade or non-Australian sheepskins. Others went to line boots with a mix of materials, like wool and sheepskin combinations.”

The shearling shortage has no correlation to UGG sales. In fact, we heard from a lot of retailers that they were unable to reorder or get their initial orders shipped, which shows that UGG is subject to the same issues faced by the rest of us.

*Marketing Director  
Sheepskin Footwear Manufacturer*

### ➤ Store manager who sells Florsheim and UGG shearling boots for men

The store's sales of men's Florsheim shearling boots outperformed sales of men's UGG boots. The Florsheim boot retails for \$110, comparable to a similar UGG boot. The Florsheim's price and supply could be affected by the shearling shortage.

- “We have carried the Florsheim shearling boot for the last three years and plan to bring it in again this fall because it does well for us. It has not really changed in style since we started carrying it. Why mess with a good thing? It retails for \$110 so the price is comparable to UGG boots.”

# Deckers Outdoor Corp.'s UGG and Teva Brands

- “The Florsheim shearling boot is definitely more stylish and dressy than the UGG boots. It is an ankle boot with a box toe. It has a side zipper, which is a popular style. A side zipper makes the boot easy on and easy off and men really like it.”
- “We definitely sold more of the Florsheim shearling boot than the UGGs. We have only carried men’s UGGs for one season, and I think we are going to have them again this fall. They sold OK but nothing compared to what we sold of the Florsheim. Florsheim is such an established name and brand for men’s shoes.”
- “I think the men’s UGGs will gain popularity. Since we just started carrying them last fall, guys are just getting used to the idea. We will have to just wait and see how they do this year.”
- “The cost and supply [of the Florsheim boot] could definitely be affected with the shortage of shearling. I have not heard anything about it from Florsheim yet like I have the Deckers rep.”

## ➤ Clarks store manager, Southern California

Although this source owns a pair of Tevas, he thinks Clarks is gaining on Teva as an all-around, everyday shoe. Teva’s reputation is not as strong as Clarks in terms of offering comfortable fashion footwear, and Deckers should make a stronger push into this segment in order to grow Teva’s sales.

- “I personally like Teva. I have a pair. But from a sales perspective, I think they are a little weak on the branding. They don’t do a lot of advertising that I have noticed, and they should probably consider a push outside the adventure/sport market.”
- “I think their prices and ours are on par for the most part. I would also say that technology-wise they have a good solid foundation. ... They get a lot of recognition from the hiking and mountaineering camp. They don’t, however, seem to be so popular with the market between 30 and 60.”
- “We’ve got a couple of different models of adventure/hiking/walking shoes and sandals that are equally durable and sporty, but also some styles of the same vein that are slightly more fashionable. If Teva wanted to seriously compete with us as a shoe store, not just a sporting shoe provider, they’d have to branch out in that direction a little more.”

## 9) COMPETITORS’ CUSTOMERS

One of our two sources had switched to wearing boots from UGGs to Bearpaw because of price, but she believes UGG will remain strong. The second source had never heard of Teva despite being a consumer of comfortable sports shoes. She believes Keen offers the best foot support.

## ➤ 29-year-old female college student, California

This source, who was wearing a pair of Bearpaw boots, said she no longer is willing to spend the money on UGGs. She said she can replace her Bearpaw boots twice or three times a year for the price of one pair of UGGs. Still, she said UGG remains popular and safe from cheaper versions.

- “I haven’t bought UGGs in a while, so I’m not looking. I wear Bearpaws. I love them. They are about half the price of UGGs and essentially they are the same thing.”
- “I think their prices are getting ridiculous. I think my last pair of UGGs was the tall ones, and they were about \$120 a few years ago. Now they are almost \$200, and that’s only for the regular bottoms. If you want the rugged bottoms, that’s even more money. I also don’t think they are even all that comfortable. I had a hard time walking in them. My feet slid to the sides and after a few months they were not supporting me at all.”
- “They are still popular. It’s the standard look now for girls on campus: UGGs with jeans, UGGs with shorts. I can’t see it going away. I’m not going to buy them because I can use that money for other things. I’m not attached to the idea of having to wear that brand.”
- “I don’t think competitors can really sway UGG people. It’s too popular. I think there are a lot of movie stars who can afford them and rich kids who will pay for them because they have to have what everyone has.”

**They are still popular. It’s the standard look now for girls on campus: UGGs with jeans, UGGs with shorts. I can’t see it going away. ... I don’t think competitors can really sway UGG people.**

*Customer of a Competitor*

# Deckers Outdoor Corp.'s UGG and Teva Brands

## ➤ Loyal Keen customer, North Carolina

This female consumer in her mid-forties had never heard of Teva despite frequently seeking out comfortable, quality sport shoes. She is a loyal Keen customer.

- "I have been wearing Keen for the last five years or so and have never even seen or heard of Teva."
- "I am a comfort shoe shopper and Keen has been my go-to shoe for that need. I have tried Merrell in the past and find them to be too hard and will not buy another pair again."
- "By the looks of what Teva has to offer on the shelf today I would not be interested to try them. I like the support and stability Keen has to offer. The Tevas look like they give less support."

## Secondary Sources

Our first secondary source described Australian farmers' interest in increasing their flock size after being unable to get their sheep to market during the floods. The second source discussed a condition called flystrike, in which pests infest lambs' coats. Lastly, our third source noted the floods' widespread effects, which cost as much as AUD \$2 billion in infrastructure damage.

## ➤ March 24 posting, Inland Seafood Blog

This post responded to inquiries about lamb meat supply and reported that many ranchers were unable to get their sheep to market and are using this opportunity to rebuild their flock sizes. Thus, supply will be tight this season but should be better going forward.

<http://inlandblog.wordpress.com/2011/03/24/lamb-more-to-bleat-about-this-summer>

- "These floods coupled with very heavy rain in major sheep producing areas (such as New South Wales) resulted in much tighter lamb supply with many ranchers unable to get their animals to market."
- "The drought of recent years was ended with the wet season, and ranchers are taking the opportunity to rebuild flocks diminished during the drought."
- "This will tighten supply this season, but bodes well for better supply in future seasons as these lambs mature into breeding ewes."
- "As with New Zealand, good grass growth means that Australia's current season lambs are in excellent condition."

## ➤ Dec. 14, 2010, article, *The Newcastle Herald*

This article discussed an indirect effect of the flooding: flystrike. Due to humidity and wet weather washing off chemicals use to prevent flystrike, sheep are vulnerable to the condition that can result in death within days.

<http://www.theherald.com.au/news/national/national/general/flystrikefree-sheep-are-not-such-a-stretch-of-the-imagination/2024558.aspx>

- "Humidity has made much of rural NSW the perfect breeding ground for flies, making livestock particularly vulnerable to flystrike and fleece rot."
- "For the past few weeks, farmers have been battling to control outbreaks of flystrike."
- "Once the skin was irritated, the green fly, which causes about 80 per cent of all fly strike, will arrive and lay its eggs, Mr. White said."
- However, he said, hairy maggots—the larvae of the blue-green blowfly, which will only arrive after an animal has flystrike—were the deadliest.
- "They are very severe on sheep and cause death in days."
- "The wet weather was also washing off the chemicals farmers use to prevent flystrike, he said."

## ➤ Jan. 25 news report, *Bangla News 24*

This report stated that the flooding at that time had killed 6,000 sheep and washed away 41,000 hectares of crops costing the agricultural sector as much as \$Aus2 billion in lost production.

<http://www.banglanews24.com/English/detailsnews.php?nssl=f799c7725ba6830f41f0a8f886c6ff94&nttl=2011012513778>

- "The Victorian floods are estimated to have killed at least 6,000 sheep and washed away 41,000 hectares of crops, costing the agricultural sector as much as \$Aus2 billion in lost production and damaged infrastructure."

# Deckers Outdoor Corp.'s UGG and Teva Brands

- “The Victorian floodwaters are threatening small farming communities, and prompted the evacuation of thousands of residents this month, with reports that several homes have flooded as levees failed.”
- “State Emergency Service officials said the floodwaters were rising more slowly than expected, and this could mean they would have a lesser impact in terms of speed and height.”
- “It also means it’s spreading out over a wider area down in the lower areas and that’s going to result in more areas being inundated for potentially longer periods,’ SES deputy incident controller Keith Favelly said.”

## Next Steps

**Blueshift will check in the fall and winter to gauge any inventory issues associated with the shortage of sheepskin supply. We also will monitor UGG’s market share during these seasons to see if knockoffs and competitors have made any leeway. Finally, we will assess advertising for Teva, which sources said was notably absent despite the upcoming summer.**

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Additional research by Marissa Yaremich, Cheryl Meyer, Jacqueline Fox, Erica Franklin, Rebecca Gallegos and Tina Strasser

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