

# UGG Surplus for Producers, Not Retailers; No Low Shearling Price for DECK

Companies: DECK

September 27, 2012

## Research Question:

**Does the market have a surplus of UGGs because of last year's warm fall and winter, and has UGG's popularity waned this season?**

## Summary of Findings

- Supplier and manufacturing sources said surplus [UGGs](#) in Chinese manufacturing plants are restricting [Deckers Outdoor Corp.](#) (DECK) from taking advantage of 50% lower shearling prices. Also, these sources as well as UGG buyers said UGG's popularity has declined.
- UGG manufacturers in China said buyers' UGG orders have fallen 10% to 20% year to year, in line with UGG's reportedly waning popularity. Manufacturer sources had said orders fell as much as 35% in our [April 2012](#) report and 20% in our [October 2011](#) report.
- Suppliers said orders for high-end shearling used in footwear have declined between 20% to 70% year to year. Still, manufacturers and suppliers alike reported an increase in non-footwear shearling demand, which could move shearling prices off their recent lows.
- Supplier and manufacturer silos have been a lead indicator in our previous three Deckers reports. Our [April 2011](#) report predicted an increase in shearling prices. In October 2011 suppliers said Deckers faced margin pressure from rising shearling costs. Then in April 2012 manufacturer sources' UGG orders were down as much as 35% year to year.
- Most retail and consumer sources believe UGG's popularity has stayed the same or increased year to year. Retailers said gauging UGG demand would be premature as the season has just begun.
- Retail UGG supplies are on par with demand, but three of 10 stores expect to sell out of popular UGG styles later this season.
- No retail source has seen [price declines](#) for Classic UGG styles reach the retail level. A buyer source said the reduction, which is given to buyers as a credit for next year's purchases, is "bogus."
- A retail source and a customer both reported greater demand for UGG's hard-soled boots.

	UGG Inventory	UGG Popularity
Supply Chain	↑	↓
Manufacturers	↑	↓
Buyers	↑	↓
Retailers	→	→
Customers	N/A	→

## Silo Summaries

### 1) SUPPLY CHAIN

All three sources said demand for footwear shearling in general has decreased as much as 60% to 70% year to year, but one said demand from a Chinese manufacturer has picked up in recent weeks. Two sources believe UGG's popularity has declined. Two also said **Deckers' main manufacturing sources in China have high inventory levels made with shearling that Deckers purchased last year at twice the price. Thus, Deckers is not able to take advantage of pelt prices that now are 50% lower.** Deckers reportedly has had legal issues over operational and financial problems with at least one key manufacturer in China, according to two sources.

### 2) MANUFACTURERS IN CHINA

Orders from UGG buyers have decreased 10% to 20% year to year for these two sources, which they pinned on the brand's declining popularity. Shearling prices for 2013 are expected to increase 5% to 10% year to year because of greater demand from UGG competitors.

### 3) BUYERS

Both sources said their UGG orders have decreased year to year because of carryover inventory from last season and lower sales. One said UGG's popularity among noncore customers may be waning. The second source said **UGG is giving buyers merchandise credit after lowering its prices on Classic styles.**

### 4) STORE VISITS

UGG's popularity has increased year to year for three sources, is stable for five and has declined for one source. The remaining retailer did not comment. One source blamed UGG's lower popularity on the brand's higher prices on certain styles. One source cited **less demand for soft-soled boots like UGGs and greater call for hard-sole boots**, but others said the boot season has not been underway long enough to provide a solid read on sales. **They also reported having no UGG supply issues, but three expect to sell out of the most popular UGG styles later this season.**

### 5) CUSTOMERS

UGGs have gained in popularity for two sources and have maintained their popularity among four others. The remaining source made no comment. Two sources do not expect to buy UGGs this year, and another believes the brand's growth has plateaued because many people interested already own a pair. **Six female sources have not seen the brand catch on with men, but our sole male source said he would consider hard-soled UGGs.**

# Deckers Outdoors Corp.'s UGG Australia

## Background

Sources in Blueshift's April 2012 [report](#) voiced concerns about UGG demand, including two manufacturers whose UGG orders for the fall/winter season had fallen as much as 35% year to year. Also, six of 11 retail sources said UGG sales had decreased as much as 50% year to year, partly because of an unseasonably warm winter in 2011–2012. Sources said cold weather would be needed this fall/winter to clear out excess inventory.

In our October 2011 report, manufacturers said orders fell as much as 20% year to year. All three supplier sources said UGG faced margin pressure from rising shearling costs. Also, all three Chinese manufacturer sources said their costs had risen 25% to 35% year to year. Our supply chain silo was more positive on shearling supply than in our April 2011 report. Retail sources reported no shortage of UGG supply, also a change from our April 2011 report, in which sources had said demand outstripped supply.

In April 2011, Blueshift was the first to warn of impending troubles for Deckers. A shearling shortage, resulting from a “perfect storm” of rising commodity costs, increased demand, and Australia’s decade-long drought despite the recent floods would start Deckers’ struggles. Retail sales at this time were stronger than retailer expectations.

## CURRENT RESEARCH

In this next study, Blueshift assessed whether UGG’s popularity had waned for the 2012 back-to-school season and determined if a surplus of UGGs existed because last fall/winter’s warm weather. We employed our pattern mining approach to establish and interview sources in six independent silos:

- 1) Supply chain (3)
- 2) Manufacturers in China (2)
- 3) Buyers (2)
- 4) Retailers (10)
- 5) Customers (7)
- 6) Secondary sources (3)

We interviewed 24 primary sources, including five repeat sources, and identified three of the most relevant secondary sources focused on top designers’ increased demand for shearling used in outerwear, a back-to-school shopper asking for advice on whether to buy UGGs or [Toms Shoes](#), and a *Vogue* editor’s praise of UGGs despite his industry peers’ dislike of the brand.

## Next Steps

Blueshift will revisit retail sources later in the boot season to gauge UGG’s popularity and stores’ UGG inventory levels. We also determine whether suppliers have seen Deckers lock in shearling purchases while prices are low and whether shearling demand for footwear has improved. Finally, we will revisit manufacturer sources to see they have begun using shearling for UGGs that was bought at lower prices.

## Silos

### 1) SUPPLY CHAIN

All three sources said demand for footwear shearling in general has decreased as much as 60% to 70% year to year, but one said demand from a Chinese manufacturer has picked up in recent weeks. Two sources believe UGG’s popularity has declined. Two also said Deckers’ main manufacturing sources in China have high inventory levels made with shearling that Deckers purchased last year at twice the price. Thus, Deckers is not able to take advantage of pelt prices that now are 50%

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lower. Deckers reportedly has had legal issues over operational and financial problems with at least one key manufacturer in China, according to two sources.

## ► Executive with a major Australian shearling supplier; repeat source

Shearling demand in the footwear segment is down by 20% year to year, even though raw material costs have dropped by 40% to 50% since last year. The source believes demand is down because manufacturers' inventories are high, forcing Deckers and other footwear makers to work off excess supply. This also means UGG boots on retail shelves were made with shearling purchased when prices were excessively high. Demand for UGGs in Europe has taken a dive. If popularity also has waned in the United States, it likely is unrelated to weather.

- "We have enough material to meet our demand. There is no shortage. There is little or no demand from Deckers or any other footwear manufacturer. Footwear is not big right now."
- "Demand for footwear in general is less than 20% of what it was from last year. I am not saying there is no demand for shearling, just no demand for it within the footwear segment. But demand has increased for other projects because the price has finally come down."
- "Deckers' popularity is waning. I really see that the Deckers' fashion in Europe is finished. The Europeans have just moved on from the UGG boot."
- "We don't get any demand from Deckers directly. Deckers primarily uses two factories for its supply: [Henan Prosper](#) and Xinji City Meihua Leather Co. We do not supply to Henan Prosper, but we do supply to Meihua so some of our material is used in Deckers [boots]. But we have had zero demand this year from any of the shoe manufacturers, and we believe it is because they are still carrying stock from last year. There must be excess inventory. We don't believe Henan Prosper has sold all of its excess from last year."
- "Demand from [Meihua] has been weak until about two weeks ago. Henan has been buying in big numbers this year in Australia, and they are making a big push. But I don't know if they are buying product for Deckers or some other customer. We have heard that Deckers is in court with Henan Prosper, that Henan Prosper has accused Deckers of canceling an order. Meanwhile, Deckers has said Henan Prosper is using money [payment] for future production from money paid for back production. We don't know if this is true or not but it came from a reliable source in the [United] States, which gives it weight."
- "In times of high demand, manufacturers have used shorn lambs [for shearling] or spring lambs [for suede]. Spring lambs are especially good for suede, but at this time there is very little demand for shorn [shearling]. We believe it's because manufacturers are looking for suede, which is in demand. This year we saw our main supply customer order much less [shearling] quantity than in previous years even though the raw material price was about half of what it was last year."
- "Deckers bought when it was high. Now that the price is down, Deckers has reduced its demand."
- "The [shearling] material in the Decker boots on U.S. retail shelves would have been processed already and purchased from a much more expensive batch. The raw material we are processing now will be for purchase from September to December [and] will be in stores in about January and February. But by then, the boot season is over."
- "Our information is that things are starting to correct."
- "As for quality, the old trick in leather goods is that what goes in on the inside where no one can see the material is not the same as what goes on the outside where it is visible. It is not unusual for some manufacturers to use a lower-grade material for the sole and a higher grade for the upper. What we do not know is whether Deckers has instructed its manufacturers to do this or whether the manufacturers are doing it on their own."
- "The other way to make things more cheaply is to buy skins in areas other than Australia, such as the United Kingdom. If you buy out of the UK, it is going to be 30% cheaper than from Australia. Their suede [skins] are pretty good, but their wool [shearling] does not have the same density. Rumor is that Deckers is buying a certain percentage of their raw material from the UK, but we are not certain."

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*Executive, Major Australian Shearling Supplier*

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# Deckers Outdoors Corp.'s UGG Australia

## ➤ Executive with a major Australian sheepskin/lambskin supplier; repeat source

Demand for high-quality, Australian shearling used in footwear products is down 60% to 70% year to year, but shearling demand for non-footwear products remains solid. Chinese manufacturers' UGG inventory is excessively high, prohibiting Deckers from taking advantage of much lower raw material prices. The source blamed sluggish demand on the economy and waning interest in UGGs. Deckers has had operational and legal problems with two key manufacturers in China.

- "There is a massive unsold surplus of UGGs. The main factories in China are full of them."
- "Shearling demand for footwear has been reduced ... a fall of between 60% to 70% [year to year]. The demand for lambskins in general has been as strong in 2012 as in 2011. However, it has been supported by increases in demand from other products such as [Mouton](#) garments in Russia and decoration and furniture from China."
- "The fall in footwear demand can ... be explained by a mild Northern winter, poor global retail performance particularly in the U.S. and Western Europe, and a saturation of the market of UGG-type products. The long lead time of skin purchase in Australia, UK and the U.S., the time needed for tanning and shoe manufacturing in China, and shipment to final markets is a six- to nine-month process. ... Because UGG had been selling out every year and demand was growing constantly, they kept buying and producing through 2011 without any real knowledge of how the season would work out."
- "Our 2011 prices moved from \$20 [per skin/pelt] to a peak of \$44 and then closed out the year in the mid-\$30s. Our 2012 prices started in the mid-\$30s but moved to the mid-\$20s at the end of April. We have been in the \$15 to \$25 range [per pelt] through to now. Prices are \$20 to \$22 at the moment, about 50% below last year's prices at this same time. The boot buyers are purchasing skins [from] Prosper and Meihua but at significantly reduced levels compared to last year."
- "Markets for other [non-footwear products with shearling] remain strong. Based on all of our current customer feedback, we expect good sales in China and Russia for 2012-2013. Russia's demand is strong and benefiting from lower prices. It is season-based, and a cold winter is the biggest factor in the success of their selling season. The Chinese domestic market for all products, including footwear, is stable to soft. ... The reports I receive from [UGG's] Chinese-based competitors is that the market is already oversupplied and UGG will struggle to achieve significant growth and not enough to offset their falling U.S. sales."
- "UGG had traditionally been a contract buyer and didn't own any production [facilities]. They contracted with a Taiwanese company, [Stella \[International Footwear Ltd.\]](#), to supply finished boots. Stella in turn contracted with two main tanners to supply the skins: Henan Prosper and Meihua. The Chinese tanners were responsible for skin buying. Henan Prosper purchased mainly from Australia whilst Meihua bought mainly from the UK, South Africa and Ireland to avoid the high prices in Australia. Sort of contradicts the 'UGG Australia' name when the biggest skin supplier was supplying non-Australian skins!"
- "During 2011, UGG changed direction and became more involved in the supply chain, buying directly from suppliers. It made a \$80 million loan to Henan Prosper for future supply, which could be seen in its Dec. 31, 2011, accounts as an 'other receivable.' That loan resulted in legal action between Prosper and UGG. It has since been reduced to \$40 million by the supply of product from Prosper. The supply has been at above market rate, offsetting UGG's ability to enjoy lower skin prices."
- "With such low production during 2012, I do expect to see some impact of UGG related buying over the next two to three months. This is the peak supply period in Australia for suitable skins, and if they don't buy these skins now, they will have to wait until next August. We are seeing a slow increase in activity for UGG-type buyers, but I would still say they are 50% below last year. UGG will also find it difficult to get their manufacturing chain and partners back in action as they have all been filling their production capacity with other product types."
- "I see UGG as an arrogant but incredible marketing machine that took an unfashionable and low socioeconomic product from Australia and turned it into the must-have product of the last five years. The growth has been unimaginable. From an Australian perspective, we cannot believe people want to wear these horrible boots! ... I

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think they got too big and believed that the UGG brand success would translate to other product types. UGG flip-flops? You must be joking! The UGG brand was sheepskin footwear for the cold, not surf sandals. If I want a ridiculously expensive jacket, I'll find a better brand than UGG. I think they went too far and are now paying the price. Most people in the skin industry are [betting on] a collapse of the UGG brand. ... Most of us are discussing how to profit on UGG and think the best way would be to short them!"

## ➤ Sheep rancher and U.S. pelt supplier in the upper Midwest; repeat source

Despite tight flock supply, the price of pelts/wool used for garments and boots has dropped dramatically in the past year, tumbling 50% for high-end pelts. Low-grade pelts have fallen even more, but are not used in high-end garments or boots. Demand for high-grade pelts also has dropped worldwide and has squeezed Deckers and other garment/shoe manufacturers. The source believes consumers simply cannot afford the cost of luxury boots and that Deckers has lost its edge.

- "Worldwide demand for skins is extremely low, and it doesn't matter whether the buyer is Deckers or some other consumer of pelts for manufacturing. It's not because there is a supply glut of too many pelts, because the supply of sheep and flocks are the lowest they have been in 15 to 20 years. And that is worldwide."
- "The flocks are low. Part of the problem is the economy, and part of the problem is that some of the ranchers are older and no one wants to do the work anymore."
- "I raise lambs for the meat and the pelts, and I get paid separately for the skins. The price has gone from \$27 per hide a year ago down to \$7 per hide now, and sometimes all the way down to \$1.50/hide. They tell us that the world economy on both meat and hide and everything else is down. On the skin/wool side, just about every manufacturer [has] lost the market or lost the ability to market the products. I'm really surprised that it has dropped so far, so fast."
- "The higher-quality [pelts are] 25% of what it was a year ago. The lower-quality [pelts] are going for 50¢ a pelt. Some of the skins are sold with the wool and some hides without. The manufacturer may tan the skin with the wool on to make a boot with the higher grades. With the lower grades they could be used in gloves, but they are not high enough quality for boots."
- "As for Deckers and UGGs, I can't believe that it hasn't run its course. I think by now the hype over the UGG boot is gone. ... Ten years from now the style may come back, but right now, it's over."

## 2) UGG MANUFACTURERS IN CHINA

Orders from UGG buyers have decreased 10% to 20% year to year for these two sources, which they pinned on the brand's declining popularity. Shearling prices for 2013 are expected to increase 5% to 10% year to year because of greater demand from UGG competitors. One source's prices to buyers have risen 5% year to year, but profits are down because of increased costs.

## ➤ Manager of an UGG manufacturer; repeat source

UGG orders are down 10% year to year. The price of imported shearling for 2013 production has increased 10% year to year because more UGGs competitors are demanding shearling. This manufacturer's prices to buyers have increased 5%. Profits are down year to year.

- "Demand from UGG buyers has been reduced since the second half of last year, and it's not a surprise that this year the demand is decreasing too, but not very much. It has been reduced only less than 10% from the same period of last year. Last year's weather had a big impact on consumers' demand of UGG boots, but weather conditions may be different this year."
- "Total demand for shearling in the market is very high although the demand from UGG manufacturing is slightly down. ... More and more factories produce similar boots, so that the total demand for shearling is increasing."
- "Consumers have more choices, so they may choose other brands with lower prices than UGG boots."

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*Manager, UGG Manufacturer*

# Deckers Outdoors Corp.'s UGG Australia

- “Raw materials this year are sufficient. Our company bought and has stored shearling since April.”
- “Although shearling supplies are sufficient, the prices are still very high.”
- “Shearling imports and purchases are for the production of 2013 spring and autumn, so we can predict that the raw materials prices for 2013 production will increase 10% from this year.”
- “Prices for buyers are a little higher than last year, by around 5%. Actually, our manufacturing profit rate is down.”
- “I am looking for other materials to substitute shearling in order to reduce the costs, but I haven’t found a proper one. As an UGG OEM, I cannot change the raw materials because the company didn’t change them.”

## ➤ Salesperson for an UGG manufacturer; repeat source

Raw material supplies are much better year to year, but orders from UGGs buyers have decreased 20% year to year because the brand is less popular. Shearling prices for 2013 production are expected to increase 5% year to year.

- “Demand from buyers decreased from last year, by 20%. The lower demand may be because the brand is losing its popularity.”
- “Although UGG cannot enjoy the sales levels from previous years, demand won’t be reduced much more. I guess it will keep stable at a certain level.”
- “We started the fall/winter 2012 production in June. The materials have been ready since the second half of last year and are sufficient, at least more sufficient than the same period of last year.”
- “I think sheep shearling supplies for 2013 spring are sufficient. ... The storage of shearling can be used for the 2013 spring production wave.”
- “Prices for imported woolen shearling are almost the same as last year’s. They increased less than 3% because the price of sheep shearling hit a record high in 2011 due to weather. This year has had normal weather and normal production volumes.”
- “Prices of materials for fall/winter 2013 must rise from this year, at least by 5%. Higher shearling prices have pushed some European governments and Australia to subsidize sheep farmers in order to keep the ordinary exports.”
- “We produce OEM boots according to buyers’ design and requirements, and UGG has changed some designs but maintained the same materials.”
- “UGG is using the same amount of shearling per shoe. We didn’t substitute materials.”

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*Salesperson, UGG Manufacturer*

## 3) BUYERS

Both sources said their UGG orders have decreased year to year because of carryover inventory from last season and lower sales. One said UGG’s popularity among noncore customers may be waning. The second source said UGG is giving buyers merchandise credit after lowering its prices on Classic styles.

## ➤ Buyer for a regional and online retailer for more than 15 years

UGG orders have fallen 5% to 10% year to year because of price increases and slightly lower sales. Still, the source does not expect UGG to go away anytime soon. Inventory carryover was not a negative as UGGs always sell. The brand’s popularity has not waned among the core customer—those who have five or six pairs—but the price hikes may deter the newer UGG customer. UGG’s quality and shearling usage have not changed, but sizing was altered when manufacturing was moved to China three years ago. The men’s line is only a small revenue source for this female-focused retailer.

- “Our orders are definitely down—5% to 10%. The way last season went, being a little off as well as in light of the economy, we projected down. Knowing the price increase, we played it a little tighter.”
- “Popularity might be waning a bit. Not for their core customers, those who have five or six pair. The noncore might have bought last year, and

Popularity might be waning a bit. Not for their core customers, those who have five or six pair. The noncore might have bought last year, and when they see the price increase will not buy again this year.

*Buyer, Regional & Online Retailer*

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- “Prices for consumers went up by up to 20% on some styles. It came out in January and went into effect in July. That upped our costs as well.”
- “We were hit a little by the warm winter, but it doesn’t matter when you know you can sell your surplus the following year. We also knew the prices were going to increase, so a surplus was OK.”
- “Our [UGG] sales come in December. We have a small window. In November, there’s a little uptick.”
- “When manufacturing was moved to China about three years ago, you could definitely tell the difference in the fit; it became a whole size bigger.”
- “UGG has not changed their [shearling] parameters. The quality is still there.”
- “Other companies are definitely using a lot less shearling. They can’t keep up with the price. The shaft will have shearling, but everything else won’t.”
- “UGG has no competition. They are too grand. [Aussie Dogs](#) are really good quality—a step up from UGG even—but no one knows them. Cloud Nine [Sheepskin] went out of business. They couldn’t absorb the costs.”
- “People keep waiting for UGG to drop off. I don’t think it’s going to change much. Their competition would have to throw money at marketing and advertising. No one is going to top them; they are not going away.”
- “Men’s UGGs are not huge for us. Men’s fashion lines are not our business.”

## ➤ Buyer for a large UGG retailer for more than 10 years

UGG is giving buyers a merchandise credit for this year’s orders after announcing the price drop for Classics last week. The source does not believe UGG’s claims of passing on its sheepskin savings. UGG orders were down this year because the retailer had carryover from last year and sales were flat to down 5% last fall/winter.

- “UGG reduced wholesale prices on their Classics. We are receiving credits for this year’s order. They said the cost of sheepskin went down so they lowered their retail. It’s a permanent deflation, not a sale.”
- “I don’t buy it. Why reduce the wholesale and give merchandise credit? For next year, yes. But it doesn’t make sense [to take the hit] on this year’s [prices].”
- “They are giving retailers the markdown ahead of time.”
- “Another retailer I talked to feels the same way. It’s bogus.”
- “Our orders are down. We carried more last year [so we have carryover], but we planned up because of inflation. ... Our sales were flat to down 5%.”
- “We are in a holding pattern, a little guarded. We are watching to see what happens week to week.”
- “We buy some of their high-end product, \$400 retail, but it has not done well.”
- “One gauge I use is what my kids want. I was buying them a pair every year, but they didn’t want them last year or this year.”
- “The weather has to get cooler [for this year’s sales]. ... Our UGG sales window is eight weeks.”

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*Buyer, Large UGG Retailer*

## 4) RETAILERS

UGG’s popularity has increased year to year for three sources, is stable for five and has declined for one source. The remaining retailer did not comment. One source blamed UGG’s lower popularity on the brand’s higher prices on certain styles. No source has seen the announcement of lower Classic prices take effect on the sales floor. One source cited less demand for soft-soled boots like UGGs and greater call for hard-sole boots, but others said the boot season has not been underway long enough to provide a solid read on sales. They also reported having no UGG supply issues, but three expect to sell out of the most popular UGG styles later this season. One source already competes for UGG business with department stores and now faces additional competition from a new UGG store. Five sources who commented on [UGGs for men](#) were mixed on the line’s popularity.

# Deckers Outdoors Corp.'s UGG Australia

## ➤ [Dillard's](#) sales associate, Atlanta

UGG inventory remains at the same level as last year, and the brand is becoming increasingly popular among women and men alike. The line is more diverse and now includes house shoes/slippers and tennis shoes. The store is a little understocked, but new shipments are arriving. Men's UGG purchases are increasing, particularly of house shoes, but the store offers very few other products from the men's line.

- "Our supply is the same [as last year] right now, but we are beginning to get in shipments."
- "UGG's popularity is gaining. We sell them year-round as opposed to just in the winter."
- "The line is becoming more diverse by offering house shoes and tennis shoes."
- "UGGs go up in price every year. We don't set that; the manufacturer does. The shoes go up between \$10 to \$20 based on the style and popularity of the shoe."
- "We don't have a lot of variety of men's UGGs. However, the sales are increasing in that department because the men are buying the UGG house shoes."

*Reporter Observations:* On our 20-minute visit on a Wednesday afternoon, no customers looked at UGG shoes.

## ➤ [Neiman Marcus](#) sales associate, Chicago suburb

UGG inventory is higher than during last fall/winter, during which all boots were under-ordered. Sales are expected to pick up in October, and customers may not be able to find the size or style they want. Prices have increased 10% on certain styles. UGG slippers are available in other store departments. The store sells out of the 200 to 300 pairs of men's UGG slippers it orders each fall/winter.

- "We missed the boat on boots last year and under-ordered. Luckily, since the winter was warm, it did not hurt us too badly."
- "Inventory is really good now for all the boots. This time last year we didn't have nearly the boot inventory."
- "We have the appropriate inventory. We have all styles and sizes available. But if customers wait more than a few weeks to purchase, they may not find what they want."
- "The trend with UGGs is still going on. I don't see it changing this winter from last year. They are as popular as ever."
- "I have sold three pairs of UGGs in the last two weeks."
- "UGG sales are starting to pick up, but it is still quite warm outside. Sales really fly once it gets a little cooler."
- "Some of the UGGs have gone up in price since last year. The [Classic Tail](#) went up \$10, but the sequined style [[Classic Tall Sparkles](#)] did not increase."
- "We do get a few of the trendier styles in, such as the sequins. The brown sequined style is new for us this year. Otherwise, we sell the Classic styles."
- "The waterproof [styles] are doing well."
- "We do sell men's UGG slippers too. ... We get them in mid-October, early November. Our men's UGG slippers ... are very popular. We get in 200 to 300 pairs in four to five different styles. They sell out in a month or two every year."

We have the appropriate inventory. We have all styles and sizes available. But if customers wait more than a few weeks to purchase, they may not find what they want.

*Sales Associate, Neiman Marcus  
Chicago, IL*

*Reporter Observations:* During Blueshift's visit on a Wednesday afternoon, no other customers were in the shoe department and only one associate was working in the area. The shoe department was small but featured very high-end designer brands. Approximately 20 pairs of UGGs were on the left back wall.

## ➤ [Journeys](#) store manager, New Jersey

UGGs have risen beyond being a trendy purchase. Although customers initially may buy UGGs for fashion, they then become loyal to the brand. Sales are expected to be higher than last fall/winter despite higher prices.

- "I predict that UGGs are going to do better this year over last. I sold eight pairs last week, and it's not even boot season yet. In a week or two they are going to start flying off the shelves."
- "Prices have gone up, by about \$10 to \$20. It's a supply and demand thing. People want what they have to offer, and the company knows that customers will pay more for the quality."
- "The one boot that does not seem to be doing as well is the three-button style, the [Triplet](#). They raised the price about \$40, which may be the problem."



# Deckers Outdoors Corp.'s UGG Australia

- “We haven’t seen any supply issues.”
- “Maybe UGGs start as a trend-based purchase, but once people have a pair, they really like the quality, warmth and comfort. Maybe younger kids buy for fashion, but frankly a lot of older people, myself included, don’t even like the way they look but buy them for what they are.”
- “College kids are buying more. They started in high school and are continuing.”
- “It hasn’t caught on as a trend for men in this area. Men buy the [Ascot](#) or [Scuff](#) shoes. It looks like a slipper. I’d say most of them are buying them just as something to wear around the house and don’t even realize that you can wear them out. ... They are big among the surfing community and swimmers. I was a swimmer, and that’s when I bought my first pair. I would live in flip-flops most of the year, but UGGs were great when it got cold. You wouldn’t want to put on gym shoes right out of the pool, but UGGs were perfect to slip on.”
- “We have people that come in who have bought knockoff UGGs. They complain about the quality—that the boots aren’t warm enough or have fallen apart.”
- “Competitors might be [Minnetonka \[Moccasin Co.\]](#) or [Rocket Dog](#) boots. They both have fur-lined styles, but they aren’t as sought-after as the UGGs. People buy those other styles if they don’t have enough money for UGGs. Once they can upgrade to UGGs, they do.”
- “[Dr. Martens](#) are also selling very well, even though they aren’t as popular as UGGs.”

**Reporter Observations:** Two sets of customers entered the store during our Monday morning visit. Neither group looked at the UGGs, which were displayed on the department’s rear wall.

## ➤ **Zappos customer service representative**

UGGs have a solid customer base that returns every fall/winter season. The season has just started, but so far sales are steady. The source cited no major changes in UGG pricing or availability.

- “I’ve worked at Zappos for over four years. UGG sales for the season don’t really take off until October or November. So far sales seem to be on par for this time last year.”
- “UGGs are awesome. We sell a lot of them. They are like the Guess Jeans of the ’80s.”
- “I don’t expect last year’s warm weather to have an impact on this year’s sales. People buy them season after season, even in Southern California where there is 100° weather. The lining is moisture-wicking.”
- “The price seems to be consistent with previous years.”
- “We have not had any problems with inventory.”
- “We don’t claim to have the lowest prices on UGGs. We discourage people from buying discount UGGs, even if they aren’t purchasing from us. There are a lot of knockoff UGGs out there that are poor quality.”

## ➤ **Bloomingdale’s sales associate, Chicago**

Regular UGG shipments through December will keep inventory strong, but styles and sizes will begin to run short after the holidays. UGGs are considered a classic, must-have shoe and have become a back-to-school purchase. Prices have increased on certain styles by \$10 to \$15 a pair. [Hunter](#) is UGG’s main competitor and has increased its prices by \$10 a pair as well.

- “UGGs are beyond being popular. It is a classic shoe now. It is a must-have. Everybody has them.”
- “When you were growing up, you would get a new back-to-school pair of shoes. Now, kids get a back-to-school pair of UGGs.”
- “We are just starting to get replenished now. We have a decent amount of stock with regard to the different styles, but we do not have all the sizes now.”
- “We just got some Bailey Button and Classic Tall in today. We anticipate more stock coming in but not that many new styles. We tend to stick with the more Classic styles that do well.”
- “We get shipments in up until December/January. Our stock is pretty solid until then; after Christmas, we start to run out of styles and sizes.”
- “The slippers are very popular but have not caught up to the boots. A person might have one pair of UGG slippers but also have three pairs of boots.”
- “Some UGGs have increased in price since last year. The Classic Tall was \$200 and now is \$210. The Bailey Button has also increased \$15 per pair.”

**When you were growing up, you would get a new back-to-school pair of shoes. Now, kids get a back-to-school pair of UGGs.**

*Sales Associate, Bloomingdale’s  
Chicago, IL*

# Deckers Outdoors Corp.'s UGG Australia

- “The Mini Bailey in the new fall colors is doing well, especially with the younger kids. That is what sold best for back-to-school.”
- “Hunter boots are their main competition. We sell a lot of Hunter boots and they are \$100 less than UGGs.”
- “Hunter boots have gone up \$10 pair this season, which is the same level some UGGs have increased in price.”

*Reporter Observations:* The department had only one other customer on our Wednesday afternoon visit, and this middle-aged woman was trying on high-end, designer shoes. The UGGs were poorly positioned in a corner, and were composed of traditional styles and colors. About 20 pairs of UGG boots and six styles of slippers were on display. The Hunter boots were right next to the UGGs.

## ➤ **Nordstrom sales associate, Chicago area**

The UGG trend is as strong as ever. This store has never had issues with UGG overstock, and sells a few pairs daily. The source expects to run short of sizes and styles in about a month. Sales were not impressive during back-to-school but have picked up since the weather has cooled. The Classic Tall and Classic Short remain top sellers, but the UGG riding boot, the [Cydnee](#), is emerging as this season's hot seller.

- “The UGG trend is never going to end. It is just going to keep going and going.”
- “The warm winter last year did not affect our UGG sales. They were still very strong.”
- “UGGs are in a league of their own. No certain brand competes with them.”
- “We sell at least a couple of pair of UGGs every day.”
- “Right now we have all sizes and styles in stock, but in three to four weeks that will not be the case. We will begin to sell out of certain ones.”
- “We do not have over-inventory. That has never happened. We always hope we order enough, and we always run out as winter continues.”
- “Everybody wears UGGs. That is why they will never go out of style.”
- “They are popular with every age. That is why their sales keep growing and growing.”
- “We did not really sell that many UGGs for back-to-school. It has been picking up the last week or so now that the weather has cooled down.”
- “The Classic Tall and Short remain the most popular styles.”
- “The UGG riding boot style is also doing very well. All riding boots are hot sellers. That is what is in this season.”
- “Our best-selling boot right now is the Enzo Angiolini [‘Saylem’](#) Riding Boot for \$159.95. We are selling out quickly.”

**We did not really sell that many UGGs for back-to-school. It has been picking up the last week or so now that the weather has cooled down.**

*Sales Associate, Nordstrom  
Chicago, IL*

*Reporter Observations:* UGG boots were in the shoe section's front and center during our midday Wednesday visit. The shoe section was busy, as usual. At least 15 salespeople were working the floor, and 30 customers were trying on shoes but not UGGs. A few women browsed the UGG display. No UGGs were on sale.

## ➤ **David Z. manager, New York**

The boot season has just begun, but the source expects UGGs to remain popular despite the price increase on certain styles. The source also reported having no history of inventory issues with UGG. The men's line has not had great success.

- “It is still very early in the season for UGGs.”
- “I expect them to do as well as last year. They are still very popular.”
- “The prices have gone up.”
- “We have never had a problem with our inventory of UGGs.”
- “We sell men's UGGs from time to time.”

## ➤ **Journeys co-manager, Atlanta**

UGGs remain popular, but price hikes could be an issue. Also, the source expects UGG customers to continue to wear the shoes they purchased last year. The store has a greater supply of UGGs, including four new styles, but customers are not looking at the brand. Sales of the men's line are stable, but UGGs are not overly popular among men.

# Deckers Outdoors Corp.'s UGG Australia

- “Even though the shoe is still popular, I think people are just going to wear the shoe they bought last year.”
- “Our stock this year is more than we had last year of the UGGs. We have more of the classic shoe, and they have introduced four new styles this year.”
- “Right now we have just enough inventory. No one is really looking for UGGs.”
- “We have the sizes and styles in stock that customers ask for, but mostly they want the Classic UGG.”
- “The prices have gone up. This shoe [the Classic] last year sold for \$179, and this year it costs [close to \$200].”
- “The sales for the men’s line in UGGs is stable, but they aren’t as popular among men.”

Even though the shoe is still popular, I think people are just going to wear the shoe they bought last year.

Co-manager, Journeys  
Atlanta, GA

Reporter Observations: No customers were in the store during our 15-minute Wednesday afternoon visit. UGGs were positioned at the back of the store and close to the department register.

## ➤ Nordstrom salesperson, Southern California

Soft-sole UGGs are much less popular year to year, but the hard-sole versions have posted greater sales. Back-to-school sales of UGGs were not as strong as in previous years in the women’s department, but female customers have figured out that the kids’ department carries up to a woman’s size 8 shoe and at lower prices. This store’s UGG sales typically increase around the holidays, but a large UGG store will open in December in a mall that also has a Neiman Marcus and Bloomingdale’s, which carry UGGs. The source said many male friends wear the Classic Shorts, but she was not familiar with the trends in the men’s department. [Toms Shoes](#) is taking the most market share from UGGs.

- “UGGs are a lot less popular now. Everyone has their UGGs.”
- “The clogs usually sell out. ... Sales of the [hard-sole] boots are increasing year to year because they are so comfortable.”
- “Back-to-school sales were OK. I saw a couple of girls buy them. But the kids’ department carries up to a woman’s size eight, and a lot of people buy them there because they are cheaper.”
- “It’s been over 90 degrees. People aren’t thinking about boots. Sales will pick up around Christmas, and that’s when people buy the Classics as gifts.”
- “We will have to wait and see what happens when the UGG store opens, which is supposed to happen in December.”
- “I’ve definitely noticed a size change but no difference in shearling—other than when they have to dye it; then it becomes less soft.”
- “Men buy the [sturdier] boots, though a lot of my guy friends wear the short Classics.”
- “Toms is what is taking market share away from UGGs.”

Reporter Observations: On a Saturday morning, very few customers were shopping in the shoe department. The store carried a large selection of soft- and hard-soled UGGs.

## ➤ Neiman Marcus salesperson, Southern California

This store had very few UGG styles, and those available were poorly positioned within the department. UGG’s reported lower prices for Classic styles were not reflected within the store. The source was unaware that an UGG store was being opened in the mall. Local customers do not buy UGGs until the end of the year.

- “This time of year, only tourists buy the UGGs. Our regular clients don’t buy them until December.”
- “I wasn’t aware the prices dropped. All those decisions are made by our head office.”

Reporter Observations: No shoppers were in the shoe department on a Saturday midday. The store carried only five UGG styles, which were tucked away in a corner.

# Deckers Outdoors Corp.'s UGG Australia

## 5) CUSTOMERS

UGGs have gained in popularity for two sources and have maintained their popularity among four others. The remaining source made no comment. Two sources do not expect to buy UGGs this year, and another believes the brand's growth has plateaued because many people interested already own a pair. Six female sources have not seen the brand catch on with men, but our sole male source said he would consider hard-soled UGGs.

### ➤ Female, late teens, Atlanta suburb

UGGs have become more popular at this source's school, including among boys. She will wear the shoes she purchased last year because they are in good condition. She has not shopped for UGGs this year and cannot comment on the brand's inventory levels. The popularity of the men's line will depend on the inclusion of more masculine styles. The Classic UGG boot will not sell well among boys and men.

- "UGG is gaining in popularity. I see more people at school wearing them."
- "My shoes I bought last year are still in good condition, so I'll wear them again this year."
- "I haven't heard anything about a surplus or shortage of UGGs."
- "I know some guys from high school that have bought UGGs."
- "If the styles become a little more masculine, then yeah, I think the men's line will gain popularity. However, if it is the boots, it won't attract men."

If the styles become a little more masculine, then yeah, I think the men's line will gain popularity. However, if it is the boots, it won't attract men.

*UGGs Customer  
Atlanta, GA*

### ➤ 30-year-old female, St. Louis

UGGs are gaining in popularity and are in ample supply. This source had not noticed any price increase and said UGGs rarely go on sale. She bought her UGGs online because of a \$50 price difference. Her male friend likes UGGs but believes they are for women. Many of her other male friends find UGGs unattractive, even on women.

- "UGGs are gaining popularity because now I understand the appeal of such shoes since I got my first pair last year. Before I owned a pair, I never had any desire for a pair. Now I rave about them to my friends."
- "Prices seem about the same as last year."
- "UGGs rarely go on sale if at all. Sometimes a few can be found at the end of the season. I noticed because I looked last year, toward the end of winter after I had received my pair for Christmas."
- "I recently got a second pair from Macy's—the Tall Classic in black. I would not mind a pair of the Short Classics too, but they are too expensive to rationalize another pair."
- "When my boots were purchased online, they offered free shipping, no tax and were about \$50 cheaper than in the stores."
- "I did not need to buy another pair. ... I just wanted another pair. My first pair are in good enough condition still that I will be wearing them this season."
- "I have not noticed if there is surplus of UGGs this season. I do not believe the warm season will affect people buying them because I have seen many young people wearing them year-round."
- "When looking at the store this season, they seemed to have the pairs I was interested in, in all the colors and sizes."
- "I wore my UGGs recently, and a male friend commented how he wished he could wear them because they are so soft. ... He is from a more Southern state where the weather is not a cool, so he most likely has never seen a man wear them."
- "I know a lot of men actually find UGGs very unattractive on women, so I cannot see them having much of a desire to buy a pair themselves."

### ➤ Female in her late 30s, Atlanta suburb

The popularity of UGGs has not changed since last year. The source's daughters will continue to wear the UGGs she bought them last year, but she may buy them each a pair as Christmas gifts. She has not noticed a surplus of UGGs in stores. She does not know any men who buy UGGs, nor does she believe the men's line will grow in popularity.

- "The popularity of UGGs is the same as it was last year."
- "My girls will wear their UGGs from last year ... but that doesn't mean I won't get them a new pair for Christmas."

# Deckers Outdoors Corp.'s UGG Australia

- “There is definitely not a surplus of UGGs in the stores.”
- “The stores have the sizes I need, but if they don’t, they will order them for you.”
- “I don’t know any men who buy or wear UGGs. They aren’t really the market for the shoe.”
- “I don’t think the UGGs will be popular for men. The shoes aren’t manly enough.”

## ➤ Female in her mid-60s, Southern California

UGGs still are very popular among females of all ages but especially among teenagers, who buy multiple pairs. The recent price drop on Classic boots may push the source to buy another tall pair this year, instead of the Bailey Button style she was planning to buy next year. The source’s daughter and granddaughter are UGG enthusiasts as well, but the granddaughter likely will not get another pair this year. The source would never buy UGGs for her husband, especially not the soft-soled type. She was not aware of any inventory issues.

- “UGGs are definitely still popular among my granddaughter’s friends and at her school. ... She is 17 and has three pairs. ... She’s buys them for fashion, but I don’t think she’ll get a new pair this year.”
- “A lot of friends my age have a pair or two, and I see moms coming into our [pediatric] office wearing them all the time.”
- “I love all the new styles but not the prices. They are so expensive.”
- “I was going to buy a new pair next year—maybe a different color or the button style. But if the prices have dropped, I might get them this year.”
- “I have never seen UGGs on sale. I would buy them online if they were on sale, but really I’d probably still only go to Nordstrom.”
- “We would never buy knockoffs. Only UGGs. I’ve looked at the [shearling boots] at Costco, but the [materials] are so hard.”
- “I would never buy UGGs for my husband, not even the slippers. Men might buy the sturdier boots but definitely not the soft [Classic] boots or slippers. Maybe if the price was right, but even then I doubt it.”

**I would never buy UGGs for my husband, not even the slippers. Men might buy the sturdier boots but definitely not the soft [Classic] boots or slippers. Maybe if the price was right, but even then I doubt it.**

*UGGs Customer  
Southern California*

## ➤ Female in her mid-40s, Staten Island, NY

UGGs remain popular because many customers tend to buy new pairs each season. Cost increases have not affected the brand’s appeal. UGGs for men appear to have gained little traction.

- “UGGs are still very popular in Staten Island. I have several pairs and intend to buy another this year.”
- “Almost everyone I know owns at least one pair. But people are still wearing them quite a bit, and most people buy new boots every year. I’d say that they are about at the same popularity level as last year.”
- “I love that they are so warm, and you can wear them with everything—skirts, leggings and pants.”
- “I haven’t heard of any sort of shortage.”
- “I haven’t noticed much of a change in price.”
- “I would be willing to pay a premium for UGGs over similar shoes.”
- “I never see men wearing them. I know my husband wouldn’t. I can’t say why exactly except that they just aren’t seen as being a ‘man’s shoe.’”

## ➤ 18-year-old female, New Jersey

Fashion-conscious customers are likely to purchase new UGGs this year. UGGs remain popular among high school girls but have not really caught on among boys or men. The source has not noticed any changes in inventory or pricing for UGGs.

- “I still have my pair from last year, but I plan on buying a new pair this year. I haven’t shopped for them yet, but haven’t heard anything about shortages or people having problems getting what they want.”
- “I must have about eight pairs of UGGs. I buy a pair every season. They are still popular, and I’m sure everyone will buy them this year.”
- “I haven’t noticed much of a change in pricing.”
- “My brothers bought UGGs when they came out for men a few years ago. But the shoes haven’t really caught on. I don’t think that a marketing campaign will change that. I don’t see any guys wearing them.”

# Deckers Outdoors Corp.'s UGG Australia

## ➤ Nordstrom employee, 39-year-old male, Southern California

This source is required to wear UGGs for work, but said his male friends and he would never willingly wear the boots because they are too puffy and slippery. He said UGG's hard-sole boots might go over better. An advertising push is unlikely to change his mind. Kids' UGGs were the product of the day during a morning meeting. An UGG store is opening in a large location near another UGG retailer.

- "I would never wear UGGs, especially outside. The soles are slippery."
- "They are too puffy for me, even as slippers at home."
- "I don't know any of my friends who would wear them."
- "I wouldn't care if David Beckham were the spokesman. ... It would have to be someone hot and current like Joe Manganiello."
- "Maybe the [hard-sole] boots would do OK."
- "The kids' UGGs are cute. They were the featured product today. They do that with a different product every day [during the morning meeting]. Not necessarily [because sales are down], but that can be one of the reasons. My department's targets are great, so we don't have featured products."
- "There is a huge UGG going in this mall. It's like three store fronts."

## Secondary Sources

Our first secondary source discussed top designers' increased shearling demand for their 2012–2013 collections, particularly for outerwear. This supports one supply source's view that shearling demand is rising but not for use in high-end footwear. We also found a Yahoo post requesting opinions on which brand to buy for back-to-school: UGGs or [Toms boots](#). (Toms was also mentioned by one of our retail sources as taking share from UGG.) Our third secondary source focused on a *Vogue* editor's support of UGGs, which goes against the general opinion of the fashion world.

## ➤ Sept. 17 FourcMag.com [article](#)

Shearling outerwear is part of this year's top designer collections. [Etro](#), [Hermès](#) and [Zegna](#) are a few of the collections featuring new shearling styles.

- "The shearling coat is for the rugged and classy. Its [sic] the outerwear piece that bridges the gap of rough around the edges and clean cut. Etro, Hermes and Zegna are just some of the collections that are reinterpreting the classic staple."
- "The bulkiness has been tapered from the 1970's appeal of New York screen writers and west coast police officers for a new look we can all appreciate."

## ➤ June Yahoo! Answers [post](#)

A back-to-school shopper sought opinions on purchasing boots from UGG or Toms. Opinions were mixed, but supported one primary source's belief that Toms represents competition for UGG.

- "Toms Wrap Boots or UGGS for back to high school? Can you help a girl make up their mind? Are Tom's Wrap Boots, Uggs, or Toms classics in style for back to school and if so what colors. ... Links would be sooo helpful! Thanks!"
- Response: "Not the wrap boots. Personally I would go with a short chestnut boot from Ugg (Australia) because we're in school all winter. But if you want to wear it on the first day of school or the first few months probably the toms."
- Response: "I'd go for the Toms Wrap Boots. A nice Fall color! Uggs are so out of style now I think. And they're just ugly granny boots."

## ➤ Sept. 12 Styleite [article](#)

*Vogue* editor André Leon Talley, who got his start under Andy Warhol, recently spoke out in support of UGGs after being spotted wearing the brand at New York Fashion Week. The comments stand out in an industry that generally has looked down on the brand.

- "When I discovered UGGs, it was a revelation. I love UGGs. UGGs can be as chic as heels for women. UGGs are comfort shoes and it's important to have a shoe that gives you a sense of comfort. I have about 15 pair of UGGs

# Deckers Outdoors Corp.'s UGG Australia

— the same shoe, the same color. And I also have the bedroom slippers. It's my shoe of choice at this moment of 2012— it has been my shoe of choice. I love that you noticed I'm wearing UGGs.”

- “UGGs for me are a moment of utilitarian comfort that keeps you anchored in the reality of today's world, which is very important. People have forgotten, and we're all so busy running around, and these shoes give me a grounding. Men also have shoes, but sometimes, those tight little fabulous shoes are not exactly the thing you could wear for eight hours a day.”

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Additional research by Carolyn Marshall, Silvia Yu, Maggie Purcell, Tina Strasser, Cindy Elsberry, Debbie Moss and Lindsay Gadsby

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