

DECK Unable to Revive Classic UGG Boot or to Create Interest in New UGG Products

Companies: COLM, DECK, SKX, VFC

September 9, 2015

Research Question:

Can Deckers meet its own high expectations despite the declining popularity in its UGG Classic shearling boots?

Summary of Findings

- This is the first part of Blueshift Research's two-part report on Deckers Outdoor Corp.'s (DECK) UGG brand. This report focuses on the supply chain; the second report will center on retail sources and will be released in the first week of October.
- All sources representing the UGG supply chain reported lower demand year to year for [the Classic \(shearling-style\) boots](#), confirming Blueshift's [May 13 findings](#).
- Sources reported flat demand for non-shearling UGG footwear, for which Wall Street and Deckers have forecast growth.
- A U.S. distributor said UGG Classic boots are down 10% to 15% in volume orders and down 70% in inventory year to year.
- European distributors reported flat sales for UGG Classic boots and low demand for the brand's non-shearling styles.
- An UGG manufacturer in China said orders are down 10% for the Classic boots and are flat for non-shearling UGG styles year to year.
- Both a manufacturer in China and a U.S. distributor source said boot prices overall are up 5% year to year because of China's higher labor and manufacturing costs. UGG Classic boot prices are stable for distributors and lower for manufacturers year to year.
- Both shearling supplier sources said shearling prices are at their lowest level in years, \$9 to \$12 per pelt. One reported recently selling a large amount of shearling to Deckers, which was taking advantage of the low prices.
- A Chinese manufacturer source echoed a statement made by a supplier in Blueshift's May 13 report that Deckers was considering moving production out of China.

Silo Summaries

[1\) U.S. UGG Distributors](#)

This source said demand for UGG Classic boots is decidedly lower year to year. **His UGG shearling boot orders have dropped 10% to 15% since last year. He forecast flat sales for the brand, including its non-shearling styles.** Overall boot prices have risen 5% year to year, but shearling boot prices have been stable.

[2\) European UGG Distributors](#)

Both sources, who together represent around 6,000 outlets, expect sales of UGG Classic boots to be flat year to year, and said non-shearling UGG styles have not yet gained traction with consumers. Inventory is expected to be the same as in the same period last year. One said pricing is stable overall, while the second source said pricing is slightly higher for shearling styles but unchanged for non-shearling styles.

[3\) Shearling Suppliers](#)

One of these two sources said shearling demand from Deckers is lower year to year. The other source reported recently selling Deckers 40,000 square feet of shearling, adding that the company was taking advantage of the 30% price drop in pelts.

[4\) Manufacturers in China](#)

This source said **orders are down 10% year to year for UGG shearling boots and are flat for the brand's non-shearling styles.** Lower demand outside of China and more knockoffs within China are to blame. Prices to produce shearling-style boots are lower year to year because of lower pelt costs, while production costs on non-shearling styles are up due to increases in wages, power costs, and general manufacturing costs. **This source reported hearing that Deckers already has ceased some production in China.**

[5\) Fashion Specialists](#)

Both sources view the UGG brand, particularly its shearling styles, as less popular year to year, and said UGG faces a crowded market of non-shearling shoes.

Deckers Outdoor Corp.'s UGG Brand

	YY Sales Outlook for UGG Classic Boots	Shearling/Boot Prices YY	Non-Shearling Demand YY
U.S. Distributors	↓	→	→
European Distributors	→	→	→
Shearling Suppliers	↓	↓	N/A
Manufacturers in China	↓	↓	→
Fashion Specialists	↓	→	↓

Background

Deckers' [first-quarter earnings](#) neither impressed nor rattled investors. The company slightly exceeded estimates and saw strong growth in its Teva brand, but comps fell for its UGG line. Deckers' non-UGG brands like Teva and Sanuk accounted for 47% of the quarter's sales. Deckers announced at a conference that it intends to fulfill distributor bookings first with its specialty Classic and non-Classic lines and then deliver its Core classic line, limiting the amount of core Classics a distributor can order. Deckers also is said to be raising prices on its non-Classic UGG, possibly by double digits. It has placed hopes on strengthening its Classic collection with the [release of the Classic Slim](#) in November. Shearling farmers have reported Deckers is purchasing less shearling, but this could be attributed to the company using more [UGGpure](#), which is shorn wool sewn into a durable backing. The company expects 9.1% growth in the calendar fourth quarter and 8.6% growth for its next fiscal year.

Blueshift Research's [May 13 Deckers report](#) found UGG continuing to become less popular among its key demographic of younger women. Suppliers forecast weaker sales for UGG boots, while store sources were mixed on the brand's popularity. Shearling prices were down, and farmers reported fewer orders from Deckers. Our [Dec. 17, 2014, Deckers update](#) found that UGG's popularity had not improved since our [Oct. 8 report](#).

Current Research

Blueshift Research assessed whether those in Deckers' supply channel were seeing any improvement in UGG demand since the spring. We employed our pattern mining approach to establish six independent silos, comprising eight primary sources (including five repeat sources) and four relevant secondary sources focused on UGG's sales potential in Europe and China as well as UGG shearling vs. non-shearling styles:

- 1) U.S. UGG distributors (1)
- 2) European UGG distributors (2)
- 3) Shearling suppliers (2)
- 4) Manufacturers in China (1)
- 5) Fashion specialists (2)
- 6) Secondary sources (4)

Next Steps

Blueshift Research's report in the first week of October will gauge consumers' and retailers' take on the popularity of UGG Classic boots and Deckers' other footwear brands. We also will monitor Deckers' manufacturing plans, which may include moving out of China.

Deckers Outdoor Corp.'s UGG Brand

Silos

1) U.S. UGG Distributors

This source said demand for UGG Classic boots is decidedly lower year to year. His UGG shearling boot orders have dropped 10% to 15% since last year. He forecast flat sales for the brand, including its non-shearling styles. Overall boot prices have risen 5% year to year, but shearling boot prices have been stable.

Key Silo Findings

Sales

- UGG sales overall are comparable to last year except for the Classic shearling boot line, for which demand is down at least 10% year to year.

Inventory

- UGG inventory ordered was lower. The source's UGG shearling boot orders dropped 10% to 15% for the fall season.

Pricing

- Overall boot prices are higher by 5% year to year. UGG shearling prices are stable.

1) U.S.-based executive buyer and seller of boots, including UGGs and other Deckers footwear; repeat source

Deckers likely will be unable to meet its high expectations for fourth-quarter growth. The popularity of the UGG Classic boot continues to decline. The slight uptick in demand for some of the newer, non-shearling styles will not be enough to move the needle for the brand in general. The source bought far less inventory from Deckers this year. Orders of the brand overall fell 15% to 20% and were down 10% to 15% for Classic boots specifically, a decision based on the shoes' poor sales in 2014 and excess inventory from last year.

Sales

- "Sales for boots overall have been OK in general. I would say UGG sales are comparable for the overall brand compared to last year, but if you look at the Classics they are not seeing as much growth."
- "Our system does not differentiate between the Classic boots with shearling vs. the UGGpure boots, and the consumers do not seem to notice the difference."
- "Most of our UGG boots are bought and sold late in the season, so it is hard to judge right now in terms of volumes."

Inventory

- "We did not order as much volume this year overall, and our orders of the Classic were less based on the proof of sales from last year. Sales were down in 2014, so we did not buy as much inventory or seek to increase inventory because we assumed we would be able to carry over and get what we need if things change."
- "With the UGG Classic we are confident we have enough inventory and what we need. We did not want to invest in excess inventory because we typically can buy more product on short notice when we need it."
- "Our inventory of the Classic is currently lower than normal. Normally we would carry excess. I would say the inventory of the Classic we are carrying this year is down 70%. In part that is because we had a lot of excess inventory left over from last year, so we bought 10% to 15% less this year. But it feels like it's 70% less because of last year's excess and carryover. Plus, demand is not as high. Even in the past when demand was high we could always get enough on short notice."

Pricing

- "Boot prices overall are up by 5% this year over last year. We are seeing increases in price from our sellers, which in part relates to the situation in China."

Normally we would carry excess. [T]he inventory of the Classic we are carrying this year is down 70%. In part that is because we had a lot of excess inventory left over from last year, so we bought 10% to 15% less this year. Plus, demand is not as high.

U.S.-based executive buyer and seller of boots, including UGGs and other Deckers footwear

Deckers Outdoor Corp.'s UGG Brand

- “Classics did not go up in price, but some items did have an increase. We took some increases in their casual and non-shearling styles and their slippers. It was a slight increase, but even in that category they did not increase prices as much as in the past.”
- “I think they had so many big price increases over the years in what they sell to us. At some point you have to cap it off.”

Other

- “Demand has been less this year for the Classic. We were down by 10% to 15% in demand.”
- “The Classic has reached a limit. The slippers still do well. As for boot demand, it is down in the Classic category.”
- “We expect to see stability in demand for some of their styles while the Classic may be stable or down.”
- “We expect the non-shearling styles to do reasonably well. That category will be better than last year. We are predicting there will be a 5% increase in demand, which really is not a lot.”
- “The [Cardy](#), which are the knit boots made from a sweater material, may see increased demand. They have made some new versions of the Cardy boots, and we anticipate that they will be well received. And the only shearling in those styles is the UGGpure.”
- “I am not sure they will meet their expectations. Deckers typically has very high expectations, and at this point there are too many copycats out there. Even [Costco](#) has put out its own shearling boot. It is of decent quality and much cheaper. There is less focus on UGGs in general, especially since consumers can get genuine sheepskin that is cheaper elsewhere.”

2) European UGG Distributors

Both sources, who together represent around 6,000 outlets, expect sales of UGG Classic boots to be flat year to year, and said non-shearling UGG styles have not yet gained traction with consumers. Inventory is expected to be the same as in the same period last year. One said pricing is stable overall, while the second source said pricing is slightly higher for shearling styles but unchanged for non-shearling styles.

Key Silo Findings

Sales

- Both said sales of UGG Classic boots will be flat year to year. Non-shearling UGG styles are not in demand.

Inventory

- Both expect inventory to be in line with demand and stable year to year.

Pricing

- 1 said prices are stable.
- 1 said prices are slightly higher for UGG shearling styles and are stable for the brand's non-shearling options.

1) Europe-based UGG distributor

Demand for UGG Classic boots fell a few years ago after the footwear was no longer considered the height of fashion. Still, customers loyal to the brand have kept demand level. Deckers wants buyers to adopt non-shearling UGG footwear in addition to the Classics. Buyers are resistant because of the lack of demand in Europe.

Sales

- “Sales for the classical UGG boots have stabilized; they neither decreased nor increased significantly. There is no real difference in volume between 2014 and 2015.”
- “They are not the ultimate fashion accessory they were a few years ago, but they are still in demand. And there is a core group of clients who still buys them.”
- “There is real interest in some of the Classic shearling UGG styles, especially in the colors black and chestnut.”
- “The non-shearling styles are not really in demand, and buyers do not want to take them in.”
- “Buyers do not want to be forced to take the non-shearling styles in as there is no real market for them in Europe. This has caused an ongoing conflict with Deckers.”

Deckers Outdoor Corp.'s UGG Brand

Inventory

- “The inventory did not change in volume, but you never know if you meet the demand exactly.”
- “As demand has stabilized, the inventory has stabilized too and does not differ much from the previous year. We are prepared for the same volume of request.”

Pricing

- “The market does not accept an increase in price right now, so prices are overall stable. This is also what happens with the pricing for UGG boots.”
- “As we did not sell mentionable amounts of non-shearling Deckers shoes, there is no real experience with pricing.”

Other

- “We see no indications that sales for UGG boots could go down considerably in the future. There is a core group of clients who love the shearling UGG boot and refurbish every year with a new style or color.”
- “We understand that Deckers wants to have articles that also sell in summer, but the sandals and other non-shearling shoes just don't match European tastes and don't sell.”

The non-shearling styles are not really in demand, and buyers do not want to take them in. We understand that Deckers wants to have articles that also sell in summer, but the sandals and other non-shearling shoes just don't match European tastes and don't sell.

Europe-based UGG distributor

2) European UGG distributor

The UGG Classic boot still is going strong, even this summer, and should remain popular during the next few years. The only danger to UGG Classics is the possibility of wider pant legs becoming more fashionable. The brand's non-shearling styles have not fared well in Europe, but demand could strengthen next year based on the popularity of “soft clogs.”

Sales

- “Classical UGGs are going strong this year. They are already selling now, even though we have 30 degrees [Celsius] and a very hot summer. The same goes for [Emus](#), which are lower priced, and even for [Skechers \[USA Inc./SKX\]](#), which are the even simpler version for buyers who start in that segment.”
- “There is no difference in volume between 2014 and 2015 for UGG shearling styles.”
- “Non-shearling styles are not going well. But I foresee the possibility for more success in 2016 as soft clogs will be a big thing next summer. Some of the styles could fall into that segment and have more success.”
- “The '70s will be a fashion reference next summer. This would help clogs and other styles of the non-shearling produced by Deckers to gain traction.”
- “Finally Deckers could have styles that work in summer if that happens. This has not been the case up to now.”

Inventory

- “We predict demand to be as strong as last year. Everybody has acted accordingly and ordered roughly the same amount. The Classic UGG boot is still very much sought after.”
- “It all depends on the weather if you have ordered too little, enough or too much. Predictions are very difficult.”

Pricing

- “In general prices have risen for us buyers. That means prices will be higher in the shops but not considerably so.”
- “Prices for UGGs will be only slightly higher than last year.”
- “As non-shearling styles were not really working, we do not have many experience with pricing. Of course they are much lower-priced than the shearling boots. We will be able to say more next year hopefully.”

Other

- “The shearling styles are still very popular. There is no massive increase, but demand is stable in comparison to the last few years.”
- “Non-shearling styles are only of interest in the summer, not for fall/winter. You can say more about them only after summer 2016.”
- “Pants will have wider legs next year; even flares will return. That might be a problem for Classic UGGs as you cannot wear them over pants as you can now with the slimmer pant styles. But how and if that affects the sales volume in 2016 and in coming years is still to be seen.”

Deckers Outdoor Corp.'s UGG Brand

3) Shearling Suppliers

One of these two sources said shearling demand from Deckers is lower year to year. The other source reported recently selling Deckers 40,000 square feet of shearling, adding that the company was taking advantage of the 30% price drop in pelts. Inventory levels are stable. One source believes consumers identify UGG with shearling and not as a fashion brand.

Key Silo Findings

Sales

- 1 said demand for shearling is lower year to year.
- 1 said Deckers visited in August and bought up to 40,000 square feet of skins to take advantage of low pricing.

Inventory

- Both reported stable inventory because production is lower.

Pricing

- Both said pricing is down significantly year to year.
- 1 said shearling prices are 30% lower year to year.
- Prices are U.S. \$9 to \$12 per pelt.

Other

- 1 thinks people view UGGs solely as a supplier of shearling type boots, not as a fashion brand.

1) Managing director of a major Australian processor and exporter of sheep skins/shearling; repeat source

Demand for UGG shearling boots continues to decline, and sales are considerably lower year to year. Most of the shearling now used in UGGs comes from normal grades rather than from the highest level, which once was synonymous with the Deckers Outdoor name. Inventory is stable. Shearling for UGG boots hovers around \$10 to \$12 per skin for the highest-grade raw material—a 20% drop in pricing compared with six months ago and 30% lower year to year. Deckers has shifted its focus from UGG shearling boots to non-shearling UGG styles, but this source believes consumers still identify UGG with shearling rather than a non-shearling fashion brand.

Sales

- “Demand and sales for UGG have been much lower year to year. Skins for UGG are now graded from normal buying [pool of raw material] rather than specifically purchased for UGG production.”
- “UGG sales of shearling type boots are dramatically lower.”

Inventory

- “Inventory would be stable as production of UGG boots is much, much lower. Our inventory is also lower due to the lower supply created from good sales for other products, mainly garments vs. boots.”

Pricing

- “Prices for shearling used in boots is about 30% lower this year vs. last year.”
- “Shearling for UGG is now [U.S.]\$10 to \$12 per skin [for the high-grade skins], which is about 20% down from prices six months ago and 30% down compared to 12 months ago. Prices are lower on lower AUD\$ as well.”

Other

- “UGG is now mainly selling non-shearling boots. Their focus now is either on synthetic materials or leather, not shearling.”
- “I don’t hear much of anything about manufacturing for UGGs anymore. Their synthetic products could be and likely are coming from somewhere outside of China.”
- “Can Deckers meet its own high expectations? Who knows? The question is whether people see UGG as a fashion brand or a supplier of shearling-type boots. I believe they are thought of for the latter.”

Demand and sales for UGG have been much lower year to year. Skins for UGG are now graded from normal buying [pool of raw material] rather than specifically purchased for UGG production.

Managing director of a major Australian processor and exporter of sheep skins/shearling

Deckers Outdoor Corp.'s UGG Brand

2) President of a global supplier of sheepskin/shearling; repeat source

Shearling demand industrywide is steady among manufacturers, including Deckers. However, Deckers recently bought additional shearling from this supplier for use in products that will hit stores in the fourth quarter of 2016. The early purchase takes advantage of falling prices in high-end shearling, currently selling for \$9 per skin. Prices in 2014 were \$13 to \$14 per skin, which will be used in boots that will hit stores this fall. Either way, Deckers margins are good, thanks to the continuing decline in shearling prices and the lower labor and production costs in China.

Sales

- “We see steady demand overall for raw materials, but that’s mostly demand for product for the Chinese market and Eastern European market and not specific to UGG.”
- “Deckers did come in here about two weeks ago so they could take advantage of the current attractive pricing. They bought 35,000 to 40,000 square feet of skins from us. The price of the types of skins they use is on the decline. On a delivery basis [includes shipping], the cost [in 2015] is \$9 per skin. Last year at this time it was \$13 to \$14 per skin on a delivery basis. And before that [in 2013] it was several dollars lower. The price of these skins has been steadily declining.”

Inventory

- “My understanding is that they are quite comfortable with their inventory position. ... What we have done when material has been so inexpensive is that we stop worrying about inventory levels and increase inventory. But if you increase inventory and it does not sell, it won’t mean much. They do not appear to be making a move on their current inventory levels, however.”
- “But given the price of raw material and the fact that they got caught short last year, I would not be surprised if they got more aggressive with inventory.”

Pricing

- “The material in boots now and for the fall 2015 season [September–December] is most likely the \$13 to \$14 skin. The material they bought from us is more likely for the fall of 2016 in-store product, although some of it could get in to January product, which would catch the tail end of the 2015–2016 winter season.”
- “Having said that, their margins should be quite good this year and next, and the price decline gives them room to play with pricing. Whether they use it to attract more volume or to play with their prices at the luxury level is unclear. But their margins are much improved over last year.”
- “From a margin standpoint, things are significantly better for Deckers than they were three to four years ago. The cost of raw material has dropped steadily for several years, and now the cost of production because of what’s going on in China will aid them as well. China has lowered the cost of labor, and now the cost of the material is lower. Costs are lower than they have been in years. Of course, if an item is not in demand, it doesn’t matter much.”

4) Manufacturers in China

This source said orders are down 10% year to year for UGG shearling boots and are flat for the brand’s non-shearling styles. Lower demand outside of China and more knockoffs within China are to blame. Inventory is in line with demand. Prices to produce shearling-style boots are lower year to year because of lower pelt costs, while production costs on non-shearling styles are up due to increases in wages, power costs, and general manufacturing costs. This source reported hearing that Deckers already has ceased some production in China.

Key Silo Findings

Sales

- Orders for UGG shearling boots are down about 10% year to year.
- Orders for non-shearling boots are flat year to year.

Inventory

- Inventory is in line with demand.

Deckers Outdoor Corp.'s UGG Brand

- A lower amount of inventory is on hand due to lower demand.

Pricing

- The price to produce shearling boots has decreased year to year because of lower material costs.
- The price to produce non-shearling boots has increased about 5% year to year due to higher labor and manufacturing costs.

Other

- Deckers has already decreased its manufacturing in China.
- Manufacturing costs in countries like Myanmar and Vietnam are one-third of those in China.

1) Sales manager of a Deckers manufacturer in China; repeat source

Overall boots orders for fall 2015 increased about 10% year to year, but orders for UGG shearling styles decreased about 10% because of too many similar products within China and lower demand outside of China. Also, the UGG style has become less fashionable. Inventory is in line with demand. The average price per non-shearling UGG footwear overall for fall increased 5% because production costs are up, including in wages, logistics and power. However, the average price per UGG shearling boot for this fall fell about 20% because the cost of good-quality shearling has declined significantly. The source said many shoe manufacturers, including Deckers, have moved out of China because of labor costs.

Sales

- "Fall orders in terms of volume of UGGs styles that use shearling decreased about 10% compared to the same period last year because there are too many similar products in the market. ... The UGGs style is gradually falling out of fashion compared with the past couple of years."
- "Fall orders in terms of volume of UGGs styles that use non-shearling material remained the same compared to the same period last year. Customers normally choose UGG for its shearling styles. ... UGG has high recognition and acceptance for its shearling boots, but it is not really popular in non-shearling boots."

Inventory

- "I think we have just the right amount of inventory to meet the demand. We had adjusted the production slightly according to gradually declining inventory."
- "Our current inventory level is lower year to year because demand is decreasing."

Pricing

- "The average price per boot for UGG styles that use shearling for this fall decreased about 20% compared to the same period last year because the price of good quality shearling dropped significantly. Its current price is just 40% of last year's level."
- "The price per boot for UGGs styles that use non-shearling materials for this fall also increased 5% because production costs are up, including salaries, logistics and power."

Other

- "In China, there are too many counterfeit UGGs. This is a big problem, and obviously UGG hasn't got the good way to solve it."
- "I have heard UGG has already decreased its retail prices in China in order to shrink the price gap between this country and the international market."
- "Deckers has terminated their relationship with some Chinese partners. As one of its biggest UGG manufacturer, even we are getting fewer orders now."
- "Since China's labor costs are increasing too fast, I have heard many shoe manufacturers are moving outside of China to Vietnam, Burma [Myanmar], etc. These countries' labor costs are just one-fourth to one-third of China's."

Fall orders in terms of volume of UGGs styles that use shearling decreased about 10% compared to the same period last year because there are too many similar products in the market. ... The UGGs style is gradually falling out of fashion compared with the past couple of years. Fall orders in terms of volume of UGGs styles that use non-shearling material remained the same compared to the same period last year. Deckers has terminated their relationship with some Chinese partners. As one of its biggest UGG manufacturer, even we are getting fewer orders now.

Sales manager of a Deckers manufacturer in China

Deckers Outdoor Corp.'s UGG Brand

5) Fashion Specialists

Both sources view the UGG brand, particularly its shearling styles, as less popular year to year, and said UGG faces a crowded market of non-shearling shoes. One said Deckers has failed to revive the popularity of its UGG shearling styles and to create demand for its non-shearling UGG products. One source said pricing for UGG Classic boots is stable. The second said pricing of boots overall is higher because of an increase in manufacturing costs.

Key Silo Findings

Sales

- Both said UGG, particularly its shearling styles, has become less popular.
- UGG's non-shearling boots face a crowded category that includes Columbia Sportswear Co.'s (COLM) [Sorel](#), [Hunter](#) and [Pajar](#).

Inventory

- 1 said retailers cut their UGG inventory after 4Q14 brand weakness.

Pricing

- 1 said pricing is stable on UGG Classic boot styles.
- 1 said prices for all boots are up because of higher manufacturing costs.

Other

- 1 said UGG should invest in more R&D to transfer the qualities that consumers loved about its shearling styles—namely comfort, warmth and fashion—to its new products.

1) [Ani Collum](#), partner/analyst at industry consultancy Retail Concepts; repeat source

Although some of UGG's new footwear styles and non-shearling boots may do well and attract new customers, they are unlikely to drive meaningful volume or sales, and they lack the mass-market appeal and cache of the UGG Classic boot. Deckers will not meet its growth expectations for the calendar fourth quarter, with or without price adjustments.

Sales

- "Deckers has to deal with a couple of issues. The brand was very popular, and it was initially designed by fashion-forward thinkers and trendsetters. Then the boot went mass-market, across many demographics and age groups and nationalities, and they are no longer out there alone as the ugly but lovable boot. Now everyone has them. They moved from being influential and a trend leader to sliding down the ladder, and now every elementary school girl has a pair or has it on her Christmas list. That is great for volume, but you have to move on to something else by taking the elements that made the boot popular initially and infusing them into a new product. I do not think they have been successful in reinventing something new or creating the next best thing."
- "They have expanded into the men's market and expanded product in other lines and other styles. The newer styles are very nice and appealing, but they do not have the same cache and fashion-forward image as the shearling boot."
- "They need a product developed around the fashion elements that made the Classic popular and apply it to a new product."
- "The writing is on the wall once your brand's iconic product no longer has influence over the masses and the designers have failed to reinvent a new product."
- "The non-Classic footwear has some nice pops in its assortment, but I don't see them making a difference. None of the newer styles or concepts have what the Classic boot had in terms of appeal. It's just more stuff out there."

They moved from being influential and a trend leader to sliding down the ladder, and now every elementary school girl has a pair or has it on her Christmas list. That is great for volume, but you have to move on to something else by taking the elements that made the boot popular initially and infusing them into a new product. I do not think they have been successful in reinventing something new or creating the next best thing.

[Ani Collum](#), partner/analyst at industry consultancy Retail Concepts

Deckers Outdoor Corp.'s UGG Brand

There may be some revenue growth because they have added more product to the assortment, but it won't be enough to make a difference or move the needle."

Pricing

- "From what I've seen, prices of the UGG Classic appear stable."
- "Raising the price on the fashion styles is smarter than raising the price on the basic shearling Classic, especially since there are so many knockoffs of the shearling boot."
- "With the newer styles that are more unique to UGG but more about fashion, they can get away with upping the price unless a knockoff of those newer styles comes out. Then I'm not sure a price increase makes sense."

Other

- "I agree with Deckers' assessment that the shearling boot is much like the blue jean in that it's an item you must have in your closet. But look at what happened to Levi's: Once the innovator of an iconic staple, they ultimately lost out when others came into the picture with denim styles. Levi's is still trying to leverage the traits that one made it a universal leader."
- "They need to put a priority on innovation rather than adding tweaks to existing products. You could argue that the need more R&D to figure out how to feature the benefits of the shearling boot in other products."
- "I see some innovation by Deckers with the [Wellington-type rain boot](#). It's a rubber boot like the Hunter boot but at a price point that is 50% less. It looks like they are going after that market, which is an interesting and smart move, and it may help them recoup some of the volume they lost but not be seen as a trade down from the Hunter because both brands have stature."
- "Typically the woman with the UGG classic in her closet will also have a Hunter boot, but Deckers is priced at \$80 vs. Hunter's product price of \$150 to \$160."
- "There are other things they could do with R&D. Over the years many have griped about the shearling boot durability. It can look old quickly, especially if you are out in the mud or rain. It may be less of an issue with the Classic than the non-Classic models."
- "They have made some adjustments such as moving to the slim look or adding embellishments like buttons, but I'm not sure they hold up. It would be advised to tweak some of the fabrications in the technology to keep the non-Classic styles more durable."
- "They should have taken the key and unique elements of the boot, which is comfy and warm and fashionable, and applied it to another product sooner than later. ... Now the UGG shearling boot is sitting in the midst of all the clutter in that space."

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Ani Collum, partner/analyst at industry consultancy Retail Concepts

2) Jason Brown, veteran footwear consultant to brands, CEO of Thom Brown shoes and founder of online site [Kixters](#)

Large retailers have cut back on UGG orders, and the brand's newer styles have not yet generated the one-time popularity of the Classic boot. Also, Deckers faces stiff competition from brands that already own the non-shearling space. Shearling products in general are being overtaken by faux fur, and the UGG style is overshadowed by cold-weather boots from Sorel, Hunter and Pajar. Boot prices overall will increase this year because of higher manufacturing costs in China.

Sales

- "I would love to be optimistic about overall footwear sales for 2015, but the reality is the brick-and-mortar channel is getting weaker and being offset by online sales. With our brick-and-mortar volume sales, I will be happy if it's flat. But nationally, ecommerce is increasingly taking over in particular in the footwear space."
- "Overall footwear will be up, but some of it will depend on your position in different channels and how well placed you are in a channel. I would expect increases in ecommerce sales but, more to the point, the struggle right now is between brick-and-mortar and ecommerce."
- "Our ecommerce sales overall will grow by 10% to 15%, and that growth will come from just our own site."

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- “[Amazon.com Inc./AMZN](#)] has a lot of third-party deals and exclusivity with vendors who choose not to do business directly. But Amazon also faces challenges with its third-party retailers. There also increasingly has been competition in the space from sites like [Rakuten \[Inc./TYO:4755\]](#) based in China and [Jet.com](#), which offers membership by invitation only.”
- “The UGG Classic is no longer considered a fashion item. It started as a California surf product. It became popular and then a mainstream fashion staple in the suburban product area. UGG is like a commodity now.”
- “I still think where UGG is most viable is in cold-weather areas, for kids, and it is still a very strong fourth-quarter gift item. It is the only one that has a viable Christmas business.”
- “However, if you are talking about shearling, it has been offset by fur, faux fur and there has been a big spike in other product alternatives to UGGs. For example, Sorel boots are fabulous. The Hunter rubber Wellington boot has picked up in the cold weather and après ski category. Pajar boots out of Canada sell for about \$200 a pair and appeal to the après ski crowd. There are other rain products like [Bogs](#). There are so many other alternatives that are out there now in the cold-weather category. UGG doesn't own the space anymore, and that's why they are trying to branch out.”
- “I personally can't say whether volume sales for UGGs are flat or down. I can tell you there is definitely concern among retailers. UGG lacked in performance in November of last year, so many cut their orders and bought more conservatively. I heard that Nordstrom did a big cut on UGGs because the product wasn't selling.”
- “I can't really speak to the non-shearling styles. They look good. They are not horrible. There is a brand equity and the name brand that can carry it.. But there are challenges because they are going up against products that are stronger in the categories they are trying to penetrate.”

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Jason Brown, veteran footwear consultant to brands, CEO of Thom Brown shoes and founder of online site [Kixters](#)

Inventory

- “[A number of retailers have] said they were altering their orders [of Decker's UGG] in the fourth quarter of last year in preparation for the 2015 seas. Retailers cut a lot of the UGG merchandize, and that could affect what consumers buy.”

Pricing

- “Prices are up categorically across the board [to retailers]. Material prices have increased, and products made in China are now more expensive. At the same time the Chinese government has reduced the number of producers for footwear and shifted it to other segments. With labor costs up and material costs up, it translates into the manufacturers' costs going up to the retailers, and ultimately that gets passed to the consumer.”
- “In every area of retail, not just boots and footwear, manufacturers are making their best efforts to maintain prices. They know that when they raise prices, it potential makes you less competitive. There is pressure across the industry to be price-competitive.”
- “On the whole issue of pricing, the manufacturers have more control than ever before, in my opinion. It is a big subject at retail meetings. Essentially I see it as price fixing and collusion to prevent margin erosion. Most manufacturers have their core products and their fashion products, and they are running into price erosion on their core products.”
- “The IMU [initial markup unit] traditionally was 50% to 51%. Now they have raised the whole price to the retailer but not to the consumer. ... [Nike Inc.'s/NKE] Converse took its core product IMU from 50% to 51% down to 48% for the retailers, but they did not raise the MSRP [manufacturer's suggested retail price]. They just shaved it off the retailers' profit. This has been going on for a couple of years to keep prices stable.”
- “There is inventory build in most cases for core products.”
- “Pre-Internet, the prices were left alone, and in many cases 10 years ago there was no MSRP. ... As soon as the Internet became viable for selling, it was easier to compare pricing. Retailers might be selling a product for \$250, but with a warehouse business like [Amazon's] Zappos, acceptable margins are much lower so they can sell the same item for \$240. That's where the whole genesis of discounting began, with the Internet, and it's created a war between online and brick-and-mortar.”

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- “It started to cause huge disparities in pricing. Manufacturers were concerned about controlling the integrity of the brand and the pricing. That’s when the IMAP [Internet minimum advertised price] came into effect, and it was designed to protect the [brick-and-mortar] retailers. But it also helps the manufacturer and the retailer control the brand.”
- “The next morph was the scheduled break date. If the IMAP was set at \$200, then dates were written in so that not until Nov. 15 or whatever date could the Internet retailer break the price. That’s how manufacturers are controlling the integrity of the brand. Of course, some brands never come off the IMAP, and if you go online you see the price is just about the same online and brick-and-mortar. All of the major players are within 5¢ of one another, and that is how the business runs now.”
- “They have gone to great lengths to protect their image and the brand, and pricing is a big part of it.”

Other

- “Now [Deckers is] reacting to the decline in their core product category and looking for other products with different engineering and looks. There is nothing wrong with that, but at one time they owned their core category in shearling and no one could compete with them. Now there is a lot of competition.”
- “They are looking at producing fashion stuff with wedges and oxfords. They look nice, but are they competitive? I don’t know. Plus, they are trying to compete in categories that are the specialty of other companies. [Deckers is] trying to reinvent the brand, and they could achieve it. But I do not yet see anything in the other categories that can do it for them.”
- “I have no specific information about Deckers’ efforts to move manufacturing. In general, most manufacturers are looking for other places to produce. Vietnam, Romania and Indonesia are destinations.”

Secondary Sources

The following four secondary sources discussed UGG’s sales potential in Europe and China as well as UGG’s shearling vs. non-shearling styles.

Europe and China Sales Potential

Deckers lowered its UGG pricing in China as it expanded into smaller to midsize cities. However, the new pricing is still 30% to 40% higher than in other countries. Casual and fashion footwear is expected to grow faster than athletic shoes in Europe during the next six years.

Sept. 4 China Radio International [article](#)

Foreign brands are becoming less expensive in China. But even after a recent price drop, UGG is still 30% to 40% more expensive in China than in other countries. Small to midsize cities soon will comprise 66% of China’s middle class; thus, brands like UGG and Muji have begun realizing much growth in these areas.

- “Foreign brands are becoming cheaper in China as a result of their pursuit for consumers in lower-tier cities along with competition from the e-commerce market. However some consumers still think their goods are more expensive than the same ones sold overseas even after the price reduction.”
- “Meanwhile, others are still happy to see the price cut on high quality goods.”
- “Recently, popular Japanese lifestyle brand MUJI and Australia UGG have re-priced products on the Chinese mainland. This is the third adjustment that MUJI has made in the past year. It cuts some one hundred products by an average of some 20 percent.”
- “In a written response, MUJI says that sales in stores went up by nearly 160 percent in the past two weeks, and that the purpose of price adjustments is to close price gaps among different countries.
- “Another lifestyle brand, UGG Australia, also made similar moves last month. However, even after the price changes, products on the Chinese mainland are still some 30 percent to 40 percent higher than in other countries.”
- “Ken Chen, Managing Director of consulting firm L.E.K., says customs duties are one factor contributing to higher prices on the Chinese mainland. ‘At least a few years ago when there was less information that signaled what the brand stands for, that price is a strong signal of product [premium], of safety, of quality. Brands using agents, or even they do it on their own. The percentage (of consumers) might be small of high income earners, but the absolute

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numbers are just huge. So that they see a ready and able to buy consumer base for their higher-priced products, so why not go for the higher margin?"

- "He also said, as consumers become more sophisticated and exposed to additional product offers on the Internet, they will increasingly be on the lookout for more offers and value for money goods."
- "In addition, the market has recently become more competitive on the Chinese mainland."
- "According to research by L.E.K. Consulting, despite the increasing use of e-commerce platforms in purchasing foreign brands, people in lower-tier cities visit and make purchases in physical stores more frequently than those in upper-tier cities. Economist predicts that by 2020, 66 percent of China's mid-income consumers will come from medium-sized or small cities."

June 9 Vamp Footwear [article](#)

The European footwear market is trending toward nonathletic footwear. Dress, casual and fashion footwear will be the main beneficiaries from this trend through 2021.

- "The European footwear market is in a transition period with new styles and sustainable initiatives launching across footwear categories. In particular, non-athletic footwear, including dress, casual and fashion footwear, is an industry bright spot."
- "A new study, 'Footwear Market: Europe Industry Analysis Size, Share, Growth, Trends and Forecast 2015-2021,' released by Transparency Market Research, estimated non-athletic footwear to have the most significant growth over the forecast period, as consumers are seeking durable and fashionable footwear. The increased interest is owed to changes in fashion and more women entering the workforce. The segment is expected to dominate the footwear market from 2015 to 2021, with casual leading."
- "New footwear designs, especially ethical footwear and recycled footwear, is also driving the market. The report said eco-conscious products resonate strongly in the men's category."
- "Newness, coupled with the increasing purchasing power of Europe's youth population, is expected to boost the demand for shoes in France, U.K., Italy, Spain, Germany and the Netherlands. Italy is projected to witness fastest growth, however Europe overall will benefit from improvements in technology, more e-commerce and the rapid expansion of shopping centers."

Shearling vs. Non-Shearling Styles

Deckers plans to heavily promote its UGG Classic boot line this winter. The company also introduced a new Classic collection line that will push UGG toward high-fashion.

June 10 [webcast](#) from Deckers at the Piper Jaffrey Conference

Deckers' non-Classic products have outpaced its Classic line in terms of growth, but the company anticipated aggressive campaigning around its Classic collection this holiday season. It began requiring that retailers prebook non-Classic orders first and then fill in with Classics.

- "Response has been great. As a matter of fact, over the last couple years the significant growth has come from the new products. And it's come from the specialty classic, it's come from the casual product, the fashion product."
- "So this year I think you're going to see from us a very aggressive product-specific campaign around classics for the holiday in addition to all the innovative new specialty classic and casual product."
- "We have to treat classic a lot like the jeans industry evolved. There are skinny jeans, there are acid washed jeans, there are stone washed jeans, there's stovepipe jeans, there's boot cut jeans. They're all still jeans. And unfortunately for Levi, they figured that out about ten years too late. We've sort of read that book and understand that classic has to be treated a lot like that same thing."
- "Our strategy has been in the last several years to migrate the wholesale customer from high dependence on core classic in their pre-book to less dependence on core classic in their pre-book. And more of those pre-book dollars being used for innovative new product, core classic, casual, fashion boots, et cetera."
- "So our goal is to allow the pre-book to be more driven by specialty classic and the other products I mentioned. And then be in a position to fill in the core classic, which we feel is a safe inventory risk."
- "Classic pre-book orders are down because we plan it to be down. That was part of the strategy. And last year, as I said, I think we got caught. We didn't have enough classic in the fill-in cycle and we also didn't have enough classic --

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I mean, enough of the other products to even attempt to fill in an order. Once people blew through that, we ran out of product. Because that's more or less bought to the order."

Aug. 6 Business Insider [article](#)

Deckers introduced the Classic Luxe collection in order to push UGG toward high-end fashion.

- "The footwear and apparel company recently revealed its newest collection. The new boots are described as a, 'sleeker, more fashion-forward silhouette, with more refined features and a slimmer, more contoured construction,' in a [press release](#). Customers can purchase the shoes starting August 6, 2015; different styles retail anywhere from \$250 to \$295. This is a steep hike compared to the [most classic UGG style](#), which retails for \$155."
- "The brand tapped iconic model [Carolyn Murphy](#) as the face of its new collection because she's 'elegant and refined' like the new boots. Murphy views the new collection as a shift away from traditional styles and a push towards high-end fashion for the company. Murphy views the new collection as a shift away from traditional styles and a push towards high-end fashion for the company."
- "The limited-edition line was designed in Italy with goat suede and Merino Twinface. The boots also feature a leather heel. There are two styles, 'Abree' and 'Karissa', that come in a number of colors and variations.
- "Murphy has fronted campaigns for top designers worldwide, and she sees a correlation in the luxury market between the new UGG's collection and some of the brands she's previously worked with."
- "The model even ventured so far to say the new UGG boot is 'the new Converse'."

Additional research by Carolyn Marshall, Gloria Shao and Christiane Mannini.

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