

# UGG Inventory OK, Costs Rising, Other Materials Considered

Companies: DECK, RL, SHLD

October 6, 2011

## Research Question:

**Will Deckers' UGG inventory levels be able to meet customer demand for the fall and winter?**

## Summary of Findings

- None of our seven retailer sources reported a shortage of Deckers Outdoor Corp.'s (DECK) UGG merchandise. In fact, two have more UGG inventory than in 2010.
- All three sheepskin supplier sources said UGG faces margin pressure. Also, all three sources representing Chinese UGG manufacturers said their costs have risen 25% to 35% year to year.
- Two of three Chinese manufacturers are considering using materials other than shearing. A shearing supplier said Deckers is experimenting with other materials for UGG. Customers were mixed on the use of substitute materials, which might affect UGG shoes' comfort and warmth.
- All three Chinese manufacturers said orders overall are down as much as 20% year to year. Also, one store source said industry orders are down overall because of the economy.
- One sheepskin supplier said supply has improved during the past six months, but two other suppliers said inventory still is short.
- Two of seven stores have seen an increase in men's UGG sales.

## Silo Summaries

### 1) SHEEPSKIN SUPPLIERS

Two of three suppliers said the shearing shortage has continued and will take two years to subside, but the third source said shearing supply has improved during the past six months. All three sources noted potential margin issues for UGG. One said the price of lamb has doubled in the past year and a half. Another reported raising prices to clients 80% year to year. The third source said the price to make boots has risen \$20 during the past two years but that Deckers' price to customers has decline. **One supplier also said Deckers is experimenting with substitute materials such as cowhide and that more high-end competitors are demanding shearing.**

### 2) MANUFACTURERS IN CHINA

All three sources who produce UGGs in China said UGG orders are down compared with last year; orders fell 10% for one source and 20% for another. All three also have experienced the effects of a shearing shortage. Costs have risen 25% to 35% year to year. **Two sources are considering substitute materials, and the third source is turning to domestic shearing suppliers.**

### 3) STORES

None of these seven stores reported inventory supply issues. In fact, two sources reported having more inventory in stock than last year. Prices have been steady for all but one retailer, for whom prices increased slightly year to year. Two of seven sources said men's UGG sales have improved; one said the improvement was directly related to Tom Brady's endorsement of the brand.

### 4) CUSTOMERS

Five of eight customers criticized UGG shoes for not being water-resistant. Sources were split on whether the use of less sheepskin would be a detriment to the brand. Sources who would be fine with less sheepskin still would require the boots to provide comfort; those who considered less sheepskin a disadvantage said substitute materials would provide less warmth and comfort.

	Shearing/UGG Supply Shortage	Shearing and/or UGG Price
Sheepskin Suppliers	➡	⬆
Manufacturers in China	⬆	⬆
Stores	⬇	➡

# Deckers Outdoors Corp.'s UGG

## Background

Blueshift Research's [April report](#) on Deckers' UGG found that suppliers, industry specialists, a manufacturer and UGG competitors all reported a shearing shortage, resulting from a "perfect storm" of Australia's decade-long drought, rising commodity costs and increased demand. Also, two of three Australian-based suppliers did not expect shearing availability to improve until the 2012-2013 season, which they said might affect UGG this coming fall and winter.

## CURRENT RESEARCH

In this next study, Blueshift assessed whether the shearing shortage reported by sources in April was affecting current supply levels at the retail level and if supplies were enough to meet consumer demand. Blueshift employed its pattern mining approach to establish and interview sources in five independent silos:

- 1) Sheepskin suppliers (3)
- 2) Manufacturers (3)
- 3) Stores (7)
- 4) Customers (8)
- 5) Secondary sources (3)

Blueshift interviewed 21 primary sources, including five repeat sources, and included three of the most relevant secondary sources focused on the expected increase in New Zealand's flock size for 2011–2012, the expected decrease in price per head, and the fashion industry's use of shearing in this year's fall and winter trends.

## Silos

### 1) SHEEPSKIN SUPPLIERS

Two of three suppliers said the shearing shortage has continued and will take two years to subside, but the third source said shearing supply has improved during the past six months. All three sources noted potential margin issues for UGG. One said the price of lamb has doubled in the past year and a half. Another reported raising prices to clients 80% year to year. The third source said the price to make boots has risen \$20 during the past two years but that Deckers' price to customers has decline. One supplier also said Deckers is experimenting with substitute materials such as cowhide and that more high-end competitors are demanding shearing.

#### ➤ Lead executive, Australian shearing supplier; repeat source

Australian shearing supply is up and is expected to increase in the fourth quarter. Deckers' product prices have dropped but its purchasing costs have increased. Two years ago, Deckers paid \$60 for a pair of UGGs and charged more than \$250 per pair. Today, Deckers' cost is \$80 to \$85, but the consumer price is about \$200 per pair. Deckers could struggle to maintain margins. Deckers has shifted sourcing some shearing supply from Australia to the United Kingdom, which this source said would result in a lower-quality product.

- "Since April, the supply of sheep has been coming into balance, and supply seems steady. We are starting a new season. Although the production is a little lower than expected, we are starting to see better supply. October and November are expected to be good supply months, and we expect the season to be good. We have had a lot of rain, and that's the reason the breeding season has been good. ... Assuming the weather stays steady and the drought is over, supply should increase. We are not expecting a massive [supply] increase, but we do expect an increase by a couple of percentage points per annum."
- "Prices are still up and started to increase last year. But since April they are down. The price per skin was \$40 before Easter, and they are now

Two years ago, it cost them \$60 per pair, and they were charging the consumer online in the mid- to high \$200s. Today, the supply chain cost is \$80 to \$85 a pair, but online the consumer price is \$190 to \$200 a pair. The cost is going up, but the selling price is going down.

*Lead Executive  
Australian Shearing Supplier*

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\$30 to \$32. That has been steady since the \$30 benchmark. Top product historically has been \$20 per skin. Prices are still high. U.S. demand is high, European demand is high. We have not seen any shortage or panic buying.”

- “Price is dictated by the consumer. ... Two years ago, it cost them \$60 per pair, and they were charging the consumer online in the mid- to high \$200s. Today, the supply chain cost is \$80 to \$85 a pair, but online the consumer price is \$190 to \$200 a pair. The cost is going up, but the selling price is going down.”
- “Deckers’ model is good. For the last five to 10 years, they have had great margins. Now they are faced with maintaining their margins to maintain growth as demand shrinks. Deckers’ margin and net profit will decrease over the next 12 months, as a percentage of sales.”
- “Deckers has changed the sourcing of the product moving some supply from Australia to the UK. The company is an anomaly. It’s a U.S. company, an Australian brand, produced in China and made [increasingly] with skins from the UK. They have no factories, no product. Their business is marketing.
- “They will produce a product of lesser quality. The people they contract with in China are now buying their skins from the UK. Some of our skins are used, but there has been a shift. The UK lamb leather is of better grade, but the wool is not. From our point of view, the UK has an inferior product.”

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*Lead Executive  
Australian Shearling Supplier*

## ➤ **President of a major sheepskin supplier and tannery; repeat source**

Shearling remains in short supply, and Deckers may be forced to seek alternative materials to sustain strong growth. This supplier has raised his price to customers by 80% in the last year, and expects retail prices to increase. He also expects Deckers to meet demand but growth to falter because of the finite shearling supply. Stabilizing supply could take two to four years. Deckers is rumored to be experimenting with raw materials, using less shearling and more cowhide. More high-end competitors are using shearling, including [L.L. Bean Inc.](#) and [Ralph Lauren Corp.](#) (RL).

- “There is absolutely still a shortage. The global kill has declined substantially because of a drought in the U.S. and a drought in Australia. The kill in the U.S. and Australia, the major supplier of raw material, is way down. It has not been unusual to lose 5% to 10% [of the supply], and there has been a decline in the production numbers for years. Additionally, people are getting out of the trade and flocking, no pun intended, to urban, not rural areas.”
- “We are seeing higher demand and sales are higher, but it’s because you have more people chasing fewer goods. It’s not that they are selling more; it’s just that the product is more expensive. At the same time we see increasing competition for the material in the fashion industry, which can realize the highest price for the supplier. Leather and sheepskin are increasingly popular with designers. L.L. Bean is getting big into sheepskin. Our business with [Polo](#) this year is four times higher than last year for the raw material [for jackets]. Shearling purchased in volume has gone from \$3.75 a square foot to \$5.74 a square foot. Our price to footwear buyers has gone up 80% in the last year, and we’re questioning whether that was enough. UGG uses maybe two square feet per boot, but in a jacket made by Polo [bomber jackets] they use four square feet. So the price increase consumers see at retail will depend on the product line. There has been a steady increase in price because of the raw material, which is at historic highs. But we also have seen in the last six to eight months price reach a new plateau. The thing is, the numbers are finite. There are only so many shearling skins and so many animals for slaughter. And a lot of the skin on the animals is not suited for UGG boots.”
- “[Deckers] will meet demand if they simply want to sell twice as many boots or to stay on a growth path. But it will be impossible to sustain growth unless they substitute with other materials or use less of the raw material. There are limits for their product. Their business may grow, but to do so something has to change.”

“If they get into cowhide or synthetic, it will change their basic production and formula for success. If they achieve their goal, it could work. But they have based their product on top-line shearling, and anything else is not what they based their success.”

*President  
Major Sheepskin Supplier & Tannery*

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- “I don’t know what they have on their drawing boards. The rumor in the trade is that [Deckers is] moving away from using so much shearling. If they go away, they would have to substitute wool or move from lamb to cowhide. The question is, will the customer accept the changes? ... If they get into cowhide or synthetic, it will change their basic production and formula for success. If they achieve their goal, it could work. But they have based their product on top-line shearling, and anything else is not what they based their success.”
- “There is some truth to the idea that the UK sheep have different characteristics. The best shearling for UGGs is from American sheep, but we just do not have enough here. So their volume is out of Australia, and they are forced to look elsewhere. If they are clever, they will use the lesser shearling inside the boot where it cannot be seen. I think they are doing a lot of that to test the waters. They can use cowhide where they can and less shearling where they can, but it’s a challenge to figure out the right mix and it’s a risk.”
- “UGG does use material from the U.S., and the people who produce for them buy from the U.S. I sell to some of their producers. ... I think they are experimenting with other materials and cutting back on shearling. I think they are trying to figure out a way to manage the shortage, but it’s a big problem to be on a growth path based on a raw material that is not growing. The only way you can grow is to raise the price. And you can raise the price of the boot, but you won’t sell more boots without the supply.”
- “It’s been interesting to see what’s happened because of shortages. Take one of our customers, an UGG competitor, that used to require product material with no blemishes. If there was even a flea bite that left a tiny spot, we could not ship it. Our customers are changing their ways, and now they even advertise that the coloration and blemishes are part of the natural characteristic of the skins. The qualities they would not accept before, they accept now. UGG’s reputation is for only using the high end so they have a lot of wiggle room.”
- “It could be two to four years before we see if the flock is rebuilding. Australia plays the biggest role because they have a national program and produce the most raw material. The U.S. plays a minor role. The phenomena of UGG boots, in fact, created a lot of demand, and the success of UGG itself has aided the increase on the demand side. I think we are in for a long-term run before improving the supply. It takes a long time to rebuild a flock and herds. There have been some [recent] increases and the number of slaughters in the U.S. and Australia are up, but it is more of a short-term event that is leveling off. There are low numbers with a lot of different people and product lines chasing the supply.”
- “I don’t think they are losing market share, but there’s a lot of competition coming from surprising places. Other well-known designers with well-known names are moving in. Chanel [S.A.] is doing a [shearling boot](#). [Sears Holdings Corp.’s/SHLD] [Lands’ End](#), [Minnetonka \[Moccasin\]](#) and [Totes Isotoner Corp.’s] [Acorn](#) are moving into boots. There are a lot of high-end brands.”
- “Their product line may allow them to pay more for the raw material, and if other producers of other product lines have to go to alternative materials, there will be more units available. UGG can take more share using a price level against competitors that forces them to drop out. The problem is, it’s still a finite material. At some point, they may be the only game in town, enabling them to use everything in the supply, but they still can’t achieve more growth using a material that is not growing.”
- “[UGGs] are not doing well in China, where the growth of the middle class has increased demand and competition. [Yellow Earth \[Co.\]](#) caters only to the domestic population, and they have the most popular boots.”

## ➤ Sheep and sheepskin producer, central United States

The sheep/shearling shortage of the last few years has continued, adding pressure to inventory levels and prices for Deckers and others that make products with shearling. The source expects supply to balance in roughly two years contingent on weather conditions.

- “There is still a shortage of shearling in Australia because there just aren’t that many sheep. The lower numbers are due to the drought and a sell-off of sheep. ... But it’s not just in Australia. Last I heard, the sheep numbers around the world were down.”
- “Prices for the end product are high and will stay high, and I’m basing that on a simple supply/demand equation. The cost of buying and raising the live animals is at a record high in the U.S., Australia and all around the world. ... About a year and a half ago the lamb itself was selling for about \$1.10 a pound, and now the live animal is selling for \$2.25 a pound. That means the price of the material goods went up, and the cost of the end product went up. Much was due to the drought in Texas and the drought in Australia, which hit the sheep farmers hard.”
- “It is more than likely that we will see the price of UGGs and other goods that use shearling go higher in the fall. To produce enough shearling to get the amount you need for supply takes roughly one and a half years of

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breeding, even before you start the production process. Building the supply cannot be accomplished overnight. I would say it could be close to two years before we replenish the influx of pelts into the market, especially for shearing. And that is if we get better conditions.”

- “The recovery of the U.S. and Australian supply depends on certain conditions. The numbers will go up in any event; it just depends on when Mother Nature allows it. It is hard to say when we will see an increase in the supply. We need a few good years of rain in both countries. That’s because the animals have to have grass and forage to eat. If there is nothing to eat, they can’t produce babies.”
- “Some believe, at least in the short term, that the best prospects for improving the supply may come out of Russia, where they have better management and distribution. There are quite a few sheep farmers in Russia and Eastern Europe, but it’s hard to get [their sheep] out of the country. At this time, there is not much tanning in the U.S. Pelts are mostly tanned in Eastern Europe and Russia, which are now the largest countries in tanning. It takes a lot of chemicals to tan, and there is no way the EPA would let that go through.”
- “If the prices remain steady or increase, we will see other nations start to raise sheep. We have not seen that yet because sheep are labor-intensive to raise.”
- “I don’t think we will see a change in quality for shearing, in general. If anything, the drought and the stress on sheep create finer fibers, so they have softer fleece.”
- “Unfortunately, the pelts cannot be harvested from the live animal. The pelts have to come from slaughtered animals, and when it comes to the primary product [food] a lot of them don’t have the quality of fleece required by the fashion industry. Some would be too itchy. There is a wide gamut of animal bred for different markets. The five to six fastest growing breeds for market have no wool. They have hair. That trend started when wool prices were low and it cost more money to shear them than it was worth. Most sheepskin is used for rugs with three-eighths of an inch of rug, but a lot of time there are black or gray fibers and coarser wool and that’s OK because it is not against the skin. But the color typically used in UGGs is pure, and they do not accept black fibers. Traditionally, UGG has used to softest pelt and tends to go with [Merino](#) sheep or [Rambouillet](#) sheep raised in Australia. Actually, Rambouillet is the largest flock bred in the U.S., but the [variety] bred in the U.S. may have ewes that were crossed with something else that does not produce as fine a fleece. Our system of animal agriculture in the U.S. is different, and most of the animals wind up going into feedlot operations. In Australia, the system is more based on wool production, not meat.”
- “China is growing as a player in sheep production, but they also are one of the top buyers of shearing, with most going to consumers in their growing middle class. Do they stockpile? I don’t know, but it wouldn’t surprise me. The Australians used to do the same with their wool and had it warehoused but developed a surplus. They eventually dumped it on the market, and that’s what started the price fluctuations that led to fewer production of sheep. In a two-year period the price of sheepskin went from \$5 and \$6 a pound, to 30¢ and 40¢ a pound. The nice thing about wool is once it is tanned, it can last forever if properly stored. I suppose someone could be sitting on a warehouse full of pelts, just waiting for the right price and no one would know.”

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*Sheep & Sheepskin Producer*

## 2) UGG BOOT MANUFACTURERS IN CHINA

All three sources who produce UGGs in China said UGG orders are down compared with last year; orders fell 10% for one source and 20% for another. All three also have experienced the effects of a shearing shortage. Costs have risen 25% to 35% year to year. Two sources are considering substitute materials, and the third source is turning to domestic shearing suppliers.

### ➤ Sales department manager for an UGG boot manufacturer, China

This source has enough shearing to meet fall/winter production demands, but has turned to Chinese shearing suppliers in the face of shortage issues during the past six months. Shearing prices have risen approximately 35% year to year. Production has been relatively lower than in 2010.

- “During the past six months, we definitely have faced shearing shortage problems. ... The high price ... is testing our profit, but for my company the negative impact is limited because we have domestic shearing suppliers, and we have considered using other cheaper woolen shearlings as well.”

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- “We’ve prepared enough shearlings for this fall/winter production.”
- “We have many channels to source woolen shearlings, and there a number of places that produce high-quality wools, including China.”
- “The shortage of woolen shearling is due to three issues: global inflation, Australia’s floods, and international trading of woolen shearlings.”
- “It’s too soon to tell when this shortage situation could improve. We are concerned more with the production and international trading.”
- “No matter which kind of woolen shearlings you source ... the rising price is almost unstoppable due to inflation. We estimate that this year’s shearlings cost 35% more than in the same period last year.”
- “This year’s production is a little bit lower than last year’s. Our clients mostly are from overseas, but in the past two years demand for domestic shearling definitely has grown. We also try to make different products with different materials based on clients’ requests.”
- “In the UGG manufacturing process, we firmly insist on using shearlings because most products will be exported to foreign countries. They have strict requirements.”

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*Sales Manager, UGG Manufacturer  
China*

## ➤ General manager for an UGG manufacturer, China

The snow boot manufacturing industry has seen costs increase 25% to 30% but orders decline 20% year to year. This source reported occasionally being unable to purchase Australian shearling in the past six months. The manufacturer is considering using substitute materials.

- “Orders have decreased 20%. It’s a big plunge for an export-oriented company like us; the profit margins are considerably lower. EU countries and North American orders have been reduced significantly.”
- “The industry saw a 25% to 30% expense increase.”
- “During the past six months, we have sharply sensed the shearling shortage’s effects. For us, the bulk of business relies on exporting to foreign countries; the higher material prices and labor payments have driven output prices up greatly. We sometimes could not purchase the Australian woolen shearlings, and storage is always insufficient. Some other manufacturers may have different situations because fake UGGs may use cowhide as raw materials.”
- “We don’t have enough woolen shearlings storage, but we could consider using some other shearlings or substitutes.”
- “We’ve heard UGG production this fall and winter could see some shortages directly related to the Australian floods.”
- “The shearling supply shortage can be explained by three factors: the flooding in Australia; the Australian dollar vs. the U.S. dollar ... and some Western investors chasing after woolen shearling.”
- “The Chinese shearling market has seen some ease in the supply chain recently.”
- “We may consider using some substitutes for shearling.”

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*General Manager, UGG Manufacturer  
China*

## ➤ Business director for an UGG manufacturer in China

This company has been highly affected by surging shearling prices and shearling shortages in China. The source reported losing 10% of UGG orders year to year because of lack of supply. Shearling prices have increased almost 30% compared with 2010. The source reported interest in looking for substitute materials.

- “Compared with the same period last year, we have lost almost 10% orders of UGG boots. The shortage in Merino wool shearlings and the high shearling prices have led this round of UGG boot shortage.”
- “We are slightly affected by the shortage. ... For the UGG snow boots section, we rely on UGG Australia providing Australian Merino wool shearlings. ... The costs for shearlings and manufacturing are higher than before.”
- “This year’s woolen shearling prices may rise 30% [compared with 2010].”
- “If there are some possible woolen shearlings compatible with our manufacturing standards and at proper prices, we may consider to use them, like [Xinjiang fine sheep wool](#).”

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- “Our woolen shearing supply is inefficient, so we may consider substituting with other materials for the UGG boots, mainly with the shearlings from other parts of the world, including China.”

## 3) STORES

None of these seven stores reported inventory supply issues. In fact, two sources reported having more inventory in stock than last year. Prices have been steady for all but one retailer, for whom prices increased slightly year to year. Two of seven sources said men’s UGG sales have improved; one said the improvement was directly related to Tom Brady’s endorsement of the brand.

### ➤ Shoe seller in Chicago; repeat source

This store is carrying 25% more UGGs than fall and winter of 2010, which is a reflection of the store buyer’s faith in the brand. UGGs currently sell better online than in stores, but store sales are expected to increase once cooler weather arrives. The store is not having any issue receiving UGG stock, and the source had not heard of a shearing shortage. UGG has no real competition because it is in a niche market.

- “Right now, we have 25% more UGG styles in stock than we did at this time last year, and we are expecting a few more in. I was just commenting to my associate that I don’t know where we are going to put all the UGGs.”
- “We don’t expect any issue with UGG stock this year. At this point, I feel that we actually have too many on hand, and we are getting more in.”
- “We did not run low on UGGs last year, and we didn’t have any backorders either. The supply was fine. We have a pretty good relationship with them, so our orders are filled in a timely fashion.”
- “UGGs have been popular for a while, and I think that will continue. Obviously, our buyer does too by looking at the larger inventory this year. They sell very well for us online. They have not been selling too hot in the store, but we expect sales to pick up as the weather continues to get cooler.”
- “UGGs are still very popular.”
- “I have not heard anything about a shearing shortage. ... We have not had any problems getting our orders in so far this season.”
- “We are carrying more of the casual-style UGGs. Last year we had this short leather boot in black with a heel last year. This year it is available in three colors.”
- “Nothing competes with UGGs. They are like [Dansko \[Inc.\]](#). They have their own niche market. There are certain people that wear them, and that’s what they like to wear.”
- “Not too many men ask about UGG [boots](#). ... We don’t carry them. We just have the shearing [slippers](#). They sell OK.”
- “I think men are scared to wear UGGs. I am considering getting a pair of [Classics](#), and I will just buy the women’s because the sizing fits me.”
- “The prices are pretty much the same as last year. They may have gone up a couple of dollars but nothing dramatic.”

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*Shoe Seller  
Chicago, IL*

**Reporter Observations:** UGGs were displayed in the center of the women’s section near the front of the store. Three wall units held 10 mostly traditional styles on each shelf. A circular table next to the shelves displayed more casual UGG shoes and boots. The store also had shearing [inserts](#) for sale. A few pairs of UGGs were on display in the front window. Men’s UGGs were on a display shelf, composed of three to four styles of shearing slippers.

### ➤ Shoe store associate, Chicago; repeat source

This source had not heard of a shearing shortage and said UGG prices are the same as last year. The store regularly runs low on UGGs but likely because of the shoe buyer. The store carries only the Classic styles. The source expects the brand to continue to be popular. This store does not carry men’s UGGs.

- “I hope they ordered more than last year. We run out every year, no matter what.”
- “I don’t know if we run out because they are short at UGGs. I think it has more to do with our ordering and stores pulling inventory from our other stores.”

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- “I don’t know anything about a shearling shortage.”
- “We are carrying the same styles as last year. We stick to the more traditional and Classic styles. That’s what sells and is the most popular, so we don’t veer from that too much.”
- “We may get a few more styles, but we pretty much have everything in that we are getting.”
- “Nothing really competes with UGGs. It really just depends on what you are looking for.”
- “People like UGGs because they are very warm and they like their look. But they are not waterproof. If someone wants that, they usually go for the [Hunter \[Boot Ltd.\]](#) boots.”
- “Women of all ages are buying UGGs. They have been popular for a few years now. It is a trend, and I think it will continue on for a while.”
- “The [Short Classic](#) is \$150, and the [Tall](#) is \$180. ... The prices are the same as last year.”
- “Lots of kids buy UGGs, but my mom wears them too and loves them. I had an 80-year-old woman come in last week to purchase a pair. She loved them.”
- “They do have men’s UGGs, but we don’t carry them. I don’t know if they would sell. We have more of a female clientele here and we cater to that. We do have UGG slippers for men. Most of the guys like to buy the [Merrell](#) boots.”

*Reporter Observations:* The UGGs were on a display shelf to the right of the store entrance. All styles were more traditional but varied in color.

## ➤ UGG store sales associate, San Francisco

This store has not experienced any inventory shortages. The source said the company has shearling suppliers outside of Australia. [Tom Brady's](#) endorsement of the men’s line has boosted this store’s sales, which have increased year to year. More men have visited the store since a nationwide commercial featuring Brady aired on Sept. 12.

- “We get our shearling from other places besides Australia. We have suppliers in places such as Spain. Our store has not experienced any inventory issues.”
- “UGGs are definitely gaining popularity this fall. Sales are up compared to last year at this time. It’s amazing how much Tom Brady is helping our men’s line.”
- “I knew about the Tom Brady endorsement for about a year and thought it would help, but I never imagined it having as big of an impact as it has.”
- “Since Tom Brady’s [commercial](#), we have seen a lot more males visiting our store. They are also buying some of the outdoor boots.”
- “I expect our men’s line to gain even more traction as more advertisements come out.”

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*Sales Associate, UGG  
San Francisco, CA*

## ➤ Shoe store manager, Wilmington, VA

This store has more inventory than last year because of anticipated seasonal demand. Prices are the same year to year. Men’s UGGs do not sell well. UGG has little competition and is sought out by name by customers.

- “We are carrying more of their product this year than last because [UGG] sells well.”
- “Prices went up two years ago but not from last year.”
- “The season has not hit yet, but I think we will have enough to meet the demand.”
- “Men’s doesn’t sell as well.”
- “We have some styles on sale, and they are selling slowing.”
- “No competition. Everybody wants UGGs.”

## ➤ [The Walking Company](#) sales associate, California

Sales and inventory of UGG shoes and boots for women so far have been good. The store only carries one style of men’s UGGs, a boot. The Walking Company’s [Zealand](#) brand represents the only possible competition; it has a line of similar slippers, boots and casual shoes but at a lower price because its products are not made with sheepskin.

- “I have not heard about any shortages of styles or colors or of the sheepskin. I think we are pretty well stocked right now and will be for a while.”



# Deckers Outdoors Corp.'s UGG

- “So far sales are good. It has only just started to cool down a little bit, so it is normal for us not to have sold out of anything this early.”
- “The [moccasins](#) are probably one of the best sellers right now aside the original short bootie. We have not sold as many of the heavy leather boots, but I expect we will as the weather gets cooler.”
- “I have not seen that big of jump in prices overall.”
- “We are carrying a few slippers and moccasins from Zealand line that are similar, but they are not as popular as UGGs. Also, they aren’t exactly a competitor because the lining on the shoes and slippers is not sheepskin. It is synthetic.”

Reporter Observations: The store lacked customers. Inventory of women’s UGGs was very full, but only one pair of men’s UGGs was available. The UGG display was near the entrance. The only promotion for UGGs was a “New Styles” sign on a table.

## ➤ **Managing partner of a shoe retailer**

Although the Classic UGG boot has become less popular during the last two years, the UGG brand has diversified into many other types of shoes, allowing Deckers to retain customers. This source reported an upward trend in prices during the last two years. Raw materials, sheepskin in particular, have become less available. The store has attracted more male customers during the past few years.

- “Demand for the Classic has declined but not at the expense of the brand.”
- “For a few years, the one boot [the Classic style] was huge. It’s become such an ‘it’ item, now people want to have the newer UGG styles.”
- “The brand has done well to expand its offerings. Their iconic boot is no longer the only option. They have different boot styles, sneakers and sandals now. UGG evolved from a one-hit wonder to a lifestyle brand.”
- “Now it’s a wide range [of ages] who are purchasing UGGs.”
- “They’ve started to be more popular with men, too, in the past few years.”

**Demand for the Classic has declined but not at the expense of the brand. ... The brand has done well to expand its offerings.**

*Managing Partner, Shoe Retailer*

## ➤ **Sales associate for a retailer selling UGGs and other brands, Northern California; repeat source**

This sales associate said the store’s inventory has not been affected by the shearing shortage. Retail orders are down year to year but because of the economy. Sales for September and August were the same year to year. The men’s line has not seen a sales uptick related to Tom Brady’s endorsement.

- “I haven’t heard of a shearing shortage.”
- “We’ve had no decrease in inventory and no problem getting the sizes and styles we need when we need them.”
- “Across the board, retail orders are down compared to last year, but that has nothing to do with a shortage of supply from Deckers. It’s because retailers are more cautious with their orders because of the economy.”
- “Sales for September and August were the same year over year. It’s too early to tell about fall and winter sales.”
- “We’re not carrying any more styles or inventory in the men’s line than we usually do. I have not seen an impact from the Tom Brady endorsement.”

## **4) CUSTOMERS**

Five of eight customers criticized UGG shoes for not being water-resistant. Sources were split on whether the use of less sheepskin would be a detriment to the brand. Sources who would be fine with less sheepskin still would require the boots to provide comfort; those who considered less sheepskin a disadvantage said substitute materials would provide less warmth and comfort.

### ➤ **Man in his mid-20s, Midwest**

UGGs will continue to be popular. This source said a waterproof version would improve upon the brand. Use of less sheepskin would lessen UGG’s comfort and warmth.

- “UGG boots have been popular for several years now, and I believe they will continue to flourish in the future.”

# Deckers Outdoors Corp.'s UGG

- “They are comfortable and great for walking in the snow, but if they were waterproof it would improve them immensely.”
- “If UGGs were to have less sheepskin in their boots, I believe it would lower their quality because they would not be as comfortable or as warm.”
- “Their popularity is probably due to the fact that they are so comfortable, as well as the fact that they are suitable for every demographic.”

## ➤ Female teenager, Las Vegas

UGGs have the same level of popularity as last year. Styles are readily available in stores as it is still hot in Las Vegas. This source has not seen any men wearing UGGs.

- “UGGs are still popular—I would say the same as last year. I am buying a new pair this year in gray.”
- “It’s still really hot here, so stores have all the UGGs styles in stock. When it gets colder, then we will see.”
- “From what I have seen, prices are the same as last year.”
- “I haven’t seen any guys wearing them, but I don’t see why they wouldn’t.”
- “I think if UGGs used less sheepskin they may lose the warmth.”
- “They do get wet and the water goes into the boot, but somehow they are still warm. I guess if they were waterproof it would be an improvement.”

They do get wet and the water goes into the boot, but somehow they are still warm. I guess if they were waterproof it would be an improvement.

*UGG Customer  
Las Vegas, NV*

## ➤ Female college student, Midwest

Although this source who owns three pairs of UGGs, she has been surprised by the brand’s sustained popularity. She probably will buy another pair this fall or winter. She does not believe reducing the amount of sheepskin in the boot would deter sales. She criticized the boots’ performance in wet weather but said they are comfortable and warm.

- “I think they are super comfy. I have three pairs and will probably buy another this season.”
- “I am really surprised that UGGs are still so popular, in every age group. I see all ages wearing them, from mothers to ... even toddlers.”
- “I think they [are not good] in snow and bad weather, but they are super comfortable and keep your feet warm.”
- “The amount of sheepskin in the boot wouldn’t affect my purchasing, I don’t care about that or how they look.”

I am really surprised that UGGs are still so popular, in every age group. I see all ages wearing them, from mothers to ... even toddlers.

*UGG Customer  
Midwest*

## ➤ Female college student, Midwest

This source said the boots stain easily from water and that UGG boots would be less warm or comfortable if they contained less sheepskin. She likes the new styles.

- “I see people wearing UGG boots more than half of the year. People will start to wear them in the late fall when it becomes cold at night, and throughout the winter until the early spring.”
- “I also like the new styles that they are coming out with recently.”
- “UGGs are really warm and appropriate for the winter to keep your feet warm although you can easily slip on the ice while wearing them.”
- “The quality of UGGs are good, but they are fairly easy to stain from water or slush in the winter.”
- “If UGG put less sheepskin in their boot, the boots would not be as warm and comfortable, and they would lack quality.”

## ➤ Man in his mid-20s, upstate New York

UGGs are as or less popular than they were last year. Prices are stable year to year, and the brand faces no new large competitors. This source has not seen men wearing UGGs in public. He would wear UGG slippers at home if given a pair.

- “UGGs are not more popular, maybe the same or less popular.”
- “I don’t think the price has changed since last year. They are still expensive.”

# Deckers Outdoors Corp.'s UGG

- “I haven’t seen any new competitor to UGGs compared to last year. There’s still [Romeo & Juliette Inc.’s] [Bearpaw](#).”
- “I have seen UGGs for men in stores, mostly the slippers. I have not seen any men wearing the boots around the mall or anything. Maybe they wear the slippers at home. ... Maybe if someone bought the slippers as a gift I would wear them.”

## ➤ College female student, Midwest

Although this UGG wearer likes her boots, she said they are not water-resistant and rip easily. She would be fine with material substitutions as long as the product remained comfortable.

- “I love my UGGs because they are so comfortable and I get a lot of wear out of them.”
- “I see people wearing UGG boots very often in the fall and winter. While I love my UGG boots, I don’t think they are the best-quality winter boot.”
- “They are not water-resistant at all, and the fabric rips easily.”
- “If UGG decided to put less sheepskin in their boot, I would be happy about the change as long as the comfort level stayed the same.”

I see people wearing UGG boots very often in the fall and winter. While I love my UGG boots, I don’t think they are the best-quality winter boot.

*UGG Customer  
Midwest*

## ➤ Female college student, Midwest

This source believes UGG could successfully use alternatives to sheepskin because it has a strong customer base. She said UGG products are of exceptional quality.

- “UGG could most definitely find other alternatives rather than sheepskin, and should. Their brand has a strong enough backbone of customers.”
- “The quality is exceptional if taken care of.”

## ➤ College male student, Midwest

This UGG owner touts the boots’ comfort and quality. He said the product would be less comfortable if it had less sheepskin.

- “I love UGGs. I own them, and they are amazingly comfortable.”
- “The quality is great, can’t beat it.”
- “They look weird but not when everyone wears them.”
- “If there was less sheepskin, the comfort would go way down.”

## Secondary Sources

A New Zealand livestock Web site stated that sheep flock size is expected to increase 5.7% in 2012 despite a 2.1% decrease in 2011 compared with 2010. This same secondary source expects prices to decrease to NZ \$105 per head from \$116 to NZ\$105 year to year. Two other secondary sources discussed the popularity of shearing clothing this season, with high-end brands leading the way.

## ➤ Sept. 5 The Cattle Site article

Sheep flock size has decreased 2.1% year to year, but the 2011 lamb crop is expected to increase 5.6%, which will increase export lamb slaughter by 5.7%. Prices are forecast to be NZ\$105 per head in 2011–2012 compared with NZ\$116 per head in 2010–2011.

<http://www.thecattlesite.com/news/35765/beef-and-sheep-outlook-for-201112>

- “MLA states that the national sheep flock was estimated at 31.9 million head as at 30 June 2011, 2.1 per cent lower than 2010, with high sheep and mutton prices driving a cull of poor performing sheep.”
- “Despite a 2.5 per cent fall in the number of ewes on hand, the 2011 spring lamb crop is expected to increase by 5.6 per cent on last year, to 26.2 million head. This is expected to flow through to a 5.7 per cent jump in export lamb slaughter, to 20.1 million head, while average lamb carcass weights are forecast to decline 0.9 per cent, to 17.9kg/head.”

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- “Prices for average export lambs (17.9kg) are forecast at NZ\$105/head in 2011-12 (October to September), a decline from the record NZ\$116/head seen in 2010-11.”

## ➤ ASOS Fashion Finder posting

Shearling, particularly shearling jackets, is “the standout trend of the season.” High-end brands from Burberry Group PLC (LON:BRBY) to Prada S.p.A.’s (HKG:1913) Miu Miu are using shearling in their outerwear and accessories.

<http://fashionfinder.asos.com/fashion-trends/womens-AW10/shearling>

- “Prominent on the catwalks across all four fashion capitals, shearling (most specifically the shearling jacket) was the stand out trend of the season.”
- “It was seen as nippy aviator jackets at Burberry Prorsum, knee-length teal and cocktail ready at [PPR SA’s/EPA:PP] Bottega Veneta, and belted 1970’s style at Mulberry [Group PLC/LON:PUL].”
- “Outerwear is the obvious entry point into the trend, but don’t dismiss accessories. Luxury brands like [PPR’s] Yves Saint Laurent and [Labelux Group’s] Jimmy Choo used sheepskin on handbags, sparking a glut of copycat versions all over the high-street.”
- “Alternatively, step out in style and invest in shearling footwear like Miu Miu’s statement ankle boots emblazoned with excessive hardware (read multiple zips, studs or buckles), or take cues from chic French designer Vanessa Bruno, and choose a calf length pair in teddy-bear tan.”

Prominent on the catwalks across all four fashion capitals, shearling (most specifically the shearling jacket) was the stand out trend of the season.

*Fashion Finder Posting*

## ➤ Sept. 21 Next New Fashion posting

Shearling is expected to be the “defining feature of your entire winter look” this season. Even though shearling was on trend last year, it has developed even further this year.

<http://www.nextnewfashion.net/autumnwinter-trend--the-development-of-shearling>

- “Shearling has undeniably developed a great deal over the past year and is now, even more so than before, worthy of our consideration.”
- “Following on from our recent round up of 5 things you really should own for the coming season, I thought that I would expand a little further on one particular item—the shearling jacket.”
- “Without wishing to appear overbearing or forcing the issue, a coat is in all seriousness an investment piece. It requires an awful lot of thought and consideration as it will arguably be THE defining feature of your entire winter look.”
- “Shearling is a style we saw come charging full bore into the mainstream last season on the back of the ever dependable military trend and with a lot of backing from the major design houses; Burberry Prorsum, Dolce & Gabbana [Srl] and [PPR’s] Gucci to name but a few. The situation is no different this year as we see an even greater development in the use of both shearling and fur detailing.”
- “Burberry Prorsum (*centre row*) have been pushing their current focus on colour even further with shearling and fur detailing mixed into their brightly coloured and patterned trenches. They are also reworking the classic aviator inspired styles with checks and bigger collars and bringing the shearling overcoat bang up to date with a high shine finish.”

## Next Steps

Blueshift’s next report on Deckers’ UGG will monitor the company’s use of sheepskin substitutes in footwear. We also will follow shearling costs and their effect on sheepskin retailers’ margins. Finally, we will gauge men’s UGG sales and how they have been influenced by Tom Brady’s endorsement of the brand.

Additional research by Carolyn Marshall, Silvia Yu and Tina Strasser

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