When Laura Inman took over as CEO of Billabong in May 2012, she knew she had a huge challenge ahead of her to turn around the company. Laura recently announced a $275.6 million loss at Billabong, which means she has a daunting task of turning around the fortunes of the company. However, her previous experience at Target and Officeworks, along with her passion for marketing is likely to stand her in good stead.

Billabong is an iconic Australian brand, closely associated with surf, sun and fun – all great ingredients for an Aussie marketing success. But along the way, Billabong lost its direction – especially in terms of its customer strategy, knowing who are its loyal customers and exactly what they want in terms of athletic products.

The previous CEO of Billabong, Derek O’Neill, made a fatal mistake that is common in companies faced with a financial crisis. He cut the marketing budget and pulled back from investing in the Billabong brand. Instead of seeing the company recover from flagging sales, O’Neill steered the company down a path of further self destruction. The company closed numerous stores and sold off inventory at reduced prices, but did little to develop its presence in key markets. Then, a major American customer, PacSun, began manufacturing its own house brand, providing strong competition to Billabong and further reducing sales in the US.

Marketing lies at the heart of Laura Inman’s turnaround strategy. Interestingly, the Billabong brand has high awareness globally, but until now, this asset has not translated into sales. For example, in Australia, brand awareness is 86% of the population, yet only 46% have actually bought the Billabong label. Globally, this difference is similar and Inman recognizes the high brand awareness means there is a huge opportunity for the Billabong brand.

Despite the strength of the brand, Billabong struggles to differentiate itself in the marketplace from some of its competitors, including its rival Quicksilver. For both brands, their core customers are sports enthusiasts. Yet neither brand has established a strong identity of its own. One of Inman’s first tasks will be to set out a strategy that positions the Billabong brand in an uncluttered space within the sportswear market.

Billabong customers are passionate about the surf, snowboarding or skating. However, there is a significant customer segment who share in Billabong’s brand values of a healthy and active lifestyle, but do not actually participate in sports. This group offers huge potential for Billabong, but the company must work hard to make the brand more attractive. This is true, especially within its retail spaces. The cluttered merchandising in Billabong stores needs to change to reflect the brand image of new and exciting lifestyles. Inman has set out plans to tackle the retail experience and adopt a fresher, contemporary look.

Tracking if Inman’s strategy changes the fortunes of Billabong will make an interesting marketing study. If you were in Laura Inman’s role as CEO of Billabong, what would you do to turn around the company?
Can Billabong market its way back into the black?

27 August 2012 Kath Walters

In releasing both a big financial loss and a new strategic plan, Billabong’s CEO, Launa Inman, stopped short of bagging the lack of financial and commercial discipline in the company she took over in May. The iconic surfwear brand began life as a wholesaler, but later started opening its own shops. With Inman’s appointment came a promise to deliver a strategic plan to save the business, and to answer critical questions about the reasons for its poor performance.

In doing so today, Inman repeatedly complimented the company’s entrepreneurial leadership. But Inman’s own analysis of Billabong’s current position and future potential made the gaps in management all too clear: no research about who the customers are or about what they want, no research on the industry itself, no global financial reporting, a mish-mash of suppliers, and knee-jerk reactions to recent business issues that did more harm than good.

“We need to hold on to the great entrepreneurs [who started the company],” she told investors and analysts. “We need to retain the culture, but become more disciplined. We need to plan and to measure results to ensure the strategy is executed.”

Billabong’s report card was bad: a net loss after tax of $275.6 million on revenue of $1.55 billion, which was down 7.9%.
The company reported significant costs, impairments and charges of $336.1 million, a figure much higher than the proceeds of its partial sale of its best-performing brand, Nixon, which raised $201.4 million.

What went wrong?

Inman says Billabong did not make a mistake going into retail; but it did make mistakes in the way it did so.
The result?
The company has already closed 58 stores, reducing store numbers to 634, and intends to close another 82 in the current financial year.

Paying out leases on closed stores, selling off the inventory at reduced prices, then the reduction in sales from fewer outlets and the partial sale of Nixon all contributed to the significant and exceptional items.

Then a big American customer, PacSun dropped Billabong and started making its own house brand.

When sales fell, the company slashed its marketing budget. “In our quest to save profit, we cut our marketing budget, but that reduced our sales,” Inman told analysts and investors today, shouldering responsibility for a decision taken before her time.

“Then, because of poor sales, we ended up with excess stock and had to mark it down.”
This year’s results
It’s not unusual for a new CEO to make a bit of a write-down at the start of their tenure. Billabong has taken all the pain of selling off its surplus stock at discount prices into 2011-12.
Doing so allows it to allocate a relatively small amount – about $80 million – to restructure its operations over the next four years.
This helps Inman to draw a line under the past management, and achieve the growth figures she has set out – $155 million EBITDA (earnings before interest tax depreciation and amortisation) by 2016 – which have been broken down into six specific areas of change.
Inman pointed out that the total sportswear market is $15 billion, and is growing at about 4% a year.

Which brands will lead the company’s recovery?
Inman believes she can add another $65 million to EBITDA by brand building. She has identified the brands that she believes will deliver the bucks: Billabong ($25 million) and three smaller brands: Element, DaKine and RVCA ($40 million).
This defines Inman’s solution as essentially a marketing one. She wants to convert awareness of the brand into sales. In Australia 86% of people know the brand, but 46% have actually bought it. The number that Inman is interested in is the 53% who would consider buying it in the future.
In America, 47% of the population have heard of Billabong, and only 14% have ever bought it. It’s a big opportunity, in Inman’s view.
Inman points out that Billabong has done well with all the brands it has bought over recent years, with every one of them making more money that they did when they were bought.
Still, she is planning to focus a big marketing effort on only three: skate brand, Element; hiking brand, DaKine; and RVCA, a youth brand.
Why these three somewhat unknown brands? Because their conversion rates are high. Although only 32% of people have heard of Element, 11% have bought Element products, for example.
The problem today is that Billabong is undifferentiated from competitors, such as Quiksilver. When it launched 40 years ago, the idea of a surfwear brand was unique. Now, it is not.
“We want to be famous for something,” says Inman. However, her chosen goal – to be famous for continuously setting a new standard in board sports through youthful lifestyle brands and experiences – did not run off the tongue. The broad point is clear: Billabong needs to be seen as different.

The customers Billabong wants, and what they want from Billabong
Billabong’s core customers are the sports fanatics – the people who surf, snowboard or skate every week, and the participants, who get to it every so often. There are another 34% of people who have active lifestyles, and are passionate about these sports, but do not participate. These offer a big opportunity, Inman says.
There are 34% who have same values but don’t participate as much. This is all about ‘psycho graphic values’: how they perceive themselves and what products they want.
The 19% are the image leaders, the trendsetters. The others say, 'I may not be the best surfer but I think like them, act like them and am passionate about the sport.' We can stretch the Billabong brand to target the 34% without offending the core customer."

This opportunity was questioned by an analyst, who pointed out that Billabong has been selling to “non-participating” customers for a long time, and how would this strategy be different.

“What the research has shown, is that it is not just about the market segment. The question is have we been able to satisfy them? There is no particular outstanding label in the market. And we have the skills. It is all about the product, understanding what the consumers want.

**Using the stores to build brand**

Billabong’s stores are cluttered, full of old stock and sell under a range of “banners”. Inman says: “We need to use the front of our stores, improve our visual display, and have a clear marketing plan. It is all about traffic when it comes to retailing. If you can attract customers, and keep them in the store for eight minutes, they are likely to buy.”

The problem, however, is that Billabong doesn’t know what it wants. “We are not quite sure how the stores should look,” Inman admits.

Billabong has cut as many of its stores as possibly, however. Inman has appointed a global head of retail, Collin Haggerty, to “sweat the assets”. The target is to lift the performance of the remaining stores from the bottom to the top. In particular, Inman wants the lowest 92 stores, which have average sales of $69 million and are making a loss, into the next bracket, on average revenue of $107. Over the next four years, that will add another $35 million to EBITDA, Inman believes.

**E-commerce brands**

The company has two investments in e-commerce sites: SurfStitch and Swell, with sales of $30 million and $20 million respectively last year. Inman has been criticised for her lack of online experience in taking up the Billabong appointment, and is moving fast to outline the online opportunity. “This is our greatest opportunity and we will integrate this with our bricks and mortar,” she says. “We are going to get them onto one platform, over time. So when a consumer comes into our store if we haven’t got the product they want, they can go online or on their mobile whilst in our store, look at stock levels, and order through Billabong or SurfStitch. This is totally integrated retailing.”

SurfStitch sells about 300 other brands, which Inman sees as valuable market research. “We get to understand what is happening and what the trends are.” The company recently started a site for the Billabong brand in America and it is almost bringing in 4% of total US sales, she says.

Asked by an analyst whether this means it is breaking even, Inman says that 4% is about the breakeven mark.
How to achieve the change
Billabong will climb out of its hole as a global company. Inman has already done the global checklist and knows the numbers. She is going to slash 15% of the company's styles. Why? Before about 22% of them deliver 80% of sales. She will cut suppliers by 35% because 85% of purchases are generated by 19% of suppliers. She has appointed three new global heavyweights: the aforementioned Colling Haggerty, as global head of retail; Chris Zyner, head of human resources; and Andy Laws as head of strategy. She has a swag of consultants to help her out. She will set up a “transformation” office dedicated to the turnaround. Inman says the strategy will succeed because it is based on research – finding out what has happened in the businesses, who the customers are and what they want to buy.

(Perspectives 98 Recruitment)

BooBoo of the Week - Billabong

Other than the terrible performance by Billabong, this company seems to have lost its heart and soul. It was once the grass roots surf brand, now it’s a goliath that seems to have forgotten where it came from and why customers loved it. So as part of their recovery they have their new CEO Laura Inman who looks to be lovely. She knows that 52% of their workforce are women and can relate to that. The problem is that she’s never surfed. That was pretty easy to tell as she made her press announcements finely groomed and wearing pearls. Quite simply, that individual impression did nothing to say “we’re bringing the heart and soul of surfing back to Billabong”, it just looked like more corporate speak. This of course is just a single impression and doesn’t really have a bearing on whether or not Ms Inman will be successful in the turnaround (I hope she is), but to get the integrity back, they’ll need to infuse the ‘life is better with a surfboard’ culture in to everything they do. Every impression counts.
Billabong case study

INTRODUCTION

Billabong International is the world’s biggest publicly traded surfwear maker, and is a public company listed on the Australian Stock Exchange. Billabong is engaged in the marketing, distribution, wholesaling and retailing of apparel, accessories, eyewear, wetsuits and equipment in the outdoor boardsports sector. Employing 4500 people worldwide, Billabong products are licensed and distributed in more than 100 countries and available in 11,000 retail outlets.

The name Billabong derives from the Aboriginal term for an oxbow lake, a body of water at the end of a watercourse. Billabong was established to provide surfwear and equipment for water sports lovers near Surfer’s Paradise on the Gold Coast of Queensland. The company was founded in 1973 by Gordon Merchant with his then wife Rena. Billabong’s headquarters remain in Burleigh Heads, Queensland, close to its original customer base, the surfing community of Queensland and NSW. Gordon, a keen surfer, was eager to create functional clothes that made surfing more enjoyable. The business started in the kitchen with the Merchant’s hand-sewn shorts, which were sold through local surf shops. As the clothes grew in popularity, the business diversified into snowboarding and skate apparel, and expanded through licensees into global markets.

Gordon and Rena are no longer involved in its day-to-day management. In 1998, Rena sold off her share to a consortium of investors including lawyer Matthew Perrin and former Qantas chairman Gary Pemberton. With Perrin and Pemberton’s expertise, Billabong restructured its finance and administrative functions to ensure Billabong was well placed to take advantage of large-scale opportunities in overseas markets. Billabong went public in 2000 and has a market capitalisation estimated at $2.4 billion. Gordon Merchant owns a 15 per cent stake in the company today.
External factors influencing the business activities

Economic
- Global economic context and its impact on demand — the global financial crisis in 2008 placed great pressure on retail profit margins due to discounting and promotion expenses needed in a challenging consumer market.
- Exchange rates — primarily influence the price of inputs, price of imported Billabong products and the demand for complementary goods and services such as tourism. Consumers in this industry are loyal, however, as sports is a lifestyle.
- Around 80 per cent of company revenues are sourced offshore, so a higher Australian dollar lowers the company earnings.
- Over the last decade, there has been a rise in global incomes and improvements in the standard of living, which have led to growing popularity in outdoor sporting activities, including surfing, particularly in east Asia and South America, creating new markets for Billabong products.

Geographic
- Eighty per cent of Australians live on or close to the coast, creating a natural market for surfwear and other water-based apparel and accessories.
- Warm weather in summer and strong snowfalls during winter are major drivers of consumer demand in all its markets. In 2010, a very cool and wet summer saw profit forecasts for the Australian market fall significantly. As a global brand, Billabong gains opportunities arising from seasonal variations between the hemispheres to achieve more stable revenues and economies of scale than its more local competitors.

Social
- Youth markets have proven more resilient during recent economic downturns, primarily because surfers, skaters and those involved in snow and other outdoor sports have a passion for their sport. It is not a passing fad, rather a lifestyle; the purchase of sports products is a necessity, part of consumers' identity and their lifestyle. The skateboarding market remains an opportunity for further development.
- Billabong works hard to manage the challenge of remaining 'cool', retaining credibility with youth markets and staying ahead of major trends in sport and youth culture. It heavily supports 'opinion makers', mainly world titleholders in surf, snow and skateboarding sports, many of whom it outfits. Billabong also sponsors major events, and works with creative youth communicators and artists to maintain and develop its profile.
- Recent growth of women's surfing is creating new opportunities for Billabong, which has opened a Billabong Girls website and a range called Billabong Girls.
- Casual dress codes are becoming more widespread in the workplace and in social contexts, creating opportunities for Billabong to grow its casual clothing market. Its initial loyal customer base is ageing and also represents a growing market for 'smart casual' fashion-oriented apparel.
- Demand for environmentally friendly products, including organic products, is creating new opportunities and pressures for Billabong.

Technological
Billabong uses the latest technology and materials to maintain a cutting edge in the outdoor sports industry, and has been labelled a media company as much as an outdoor sportswear and accessory producer and retailer. Internet sales and communication, particularly social networking via its online sites, are critical in building and maintaining the brand in the youth market.
- Billabong produces around 35 hours of high-definition video content annually and around 40 minutes of material each week, which is edited and reworked for mobile phones. Its athletes use sponsored Sony Handycams to create authentic coverage of the athletes' lives. All this material and live coverage of surf tournaments streamed...
directly to its website is used in store videos to build interest in the sports and company's products.

Legal/Political
- Billabong's Code of Conduct clearly establishes the ethical and legal requirements of the company. These include ensuring that all its products comply with all relevant legislation, including product liability, and are produced, or use components produced, in accordance with best practice global employment standards and legislation. It seeks, wherever possible, to use resources in a sustainable manner; for example, sponsoring competitions for eco friendly products such as the eco supreme suede boardshorts made from recycled bottles.

Objectives
Billabong International's major objectives include:
- maintenance and development of its global brand through acquisitions and organic growth and investment
- manufacture of design-relevant and functional products
- marketing in the core boardsports channels
- professional development of staff
- providing ongoing customer service and relationships to continue the success of the company.

Management
Billabong's senior management includes:
- Derek O'Neill, Chief Executive Officer
- Franco Fogliato, General Manager, Billabong Europe
- Paul Naude, General Manager, Billabong USA
- Shannan North, General Manager, Billabong Australasia

The Board of Directors is chaired by Ted Kunkel, formerly CEO of Fosters. Gordon Merchant also remains on the board as Non-executive Director, with his extensive experience in promotion, advertising, sponsorship and design within the surfwear industry. Colette Paul, one of the earliest employees of the Billabong business in 1973, is also a Non-executive Director. Ms Paul, most recently in her role as company secretary until 1999, has been broadly involved in the development of Billabong's business, from its initial growth within Australia through its expansion as a global brand.
Role of the Board of Directors
The directors are responsible to the shareholders for the performance of the group in both the short and the longer term. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the company is properly managed.

The board is involved in:
- setting objectives, goals and strategic direction for each of the major business units
- monitoring financial performance including approving business plans, the annual operating and capital expenditure
- budgets and financial statements
- establishing, monitoring and evaluating the effectiveness of internal controls, risk management and compliance systems
- appointing and reviewing the performance of the CEO and senior management
- approving and monitoring major capital expenditure, capital management, acquisitions, divestments and identified business drivers
- monitoring areas of significant business risk and ensuring arrangements are in place to manage those risks
- ensuring conformance to environmental, social, and occupational health and safety requirements; and reporting to shareholders on performance.

Beyond those matters, all authority to achieve the objectives of the company is delegated to the CEO and senior management.

OPERATIONS MANAGEMENT
Globalisation
Billabong recognised early the advantages of global branding and sourcing, and used a range of strategies to expand internationally; testing the market initially through export, then licensing, global sourcing and production, and retail outlet expansion internationally.

Billabong’s international expansion strategy has focused on building a global brand in the outdoor sports apparel and hardware market by:
- building a strong presence in the large and influential US market
- creating a more sustainable revenue base by acquiring a range of skateboarding, snow and accessory companies and product lines to meet the needs of the sports market, including Von Zipper sunglasses and Element skateboards
- sharing the marketing and product development skills and experience of its staff in a wide range of markets.

Exports and licensing
Billabong first went international using an export strategy in California, New Zealand, Japan and Europe.

With a significant growth in global demand, Billabong later moved to a licensing strategy in North America, Europe, Japan, New Zealand, South Africa, Israel and Brazil. The advantages of licensing include a lower investment, and therefore risk, for the licensor and greater knowledge of local market needs, compared to a wholly owned production facility.

Billabong has recently sought to buy back and cancel licences in an effort to gain greater control over the production and marketing of its products. Full ownership provides margin income rather than royalty payments. It also enables closer financial supervision and accountability, quality control, leverage of shared management information systems, and innovation than occurs with licensing. Full ownership also has benefits, with greater economies of scale through centralised sourcing of products and materials in Hong Kong. A more consistent human resources strategy can be developed with direct employees who share similar compensation and rewards.
Acquisition for diversification

Billabong's acquisitions of a range of skateboarding, snow and accessory companies include Nixon watches and, most recently, Californian youth brand RVCA. Additionally, Billabong acquired Canadian sportswear retailer West 49. This strategy focuses on broadening its global share of the youth market and maintaining its position at the cutting edge of popular youth brands.

Billabong also purchased online sports website Swell.com to move into online retailing options in the large US market. The internet is an essential component of the youth market, and Swell.com has been an established online retailer to the youth market since 2001.

Retail outlet expansion

Billabong International now sells out of over 11,000 retail outlets worldwide, through a mix of specialist outdoor sports retailers and its own branded ‘flagship’ retail outlets.

Opening such outlets at airports such as Changi, Singapore, provides a gateway into new regions to build the global brand.

Buying retail chains such as Surf Dive and Ski has allowed Billabong to sell its brands without having to go through a 'middleman', thus increasing profit margins.

Purchase of the high profile youth retailers Becker Surf and Sport, in one of its largest markets, California, adds value to the 100 outlets it operates in the US. The Becker acquisition also includes an e-commerce site, another avenue to the teen market.

Corporate social responsibility

Government policy and legal regulation

Billabong constantly scans the global political and legal environments, and liaises with governments around the world to ensure its activities comply with often changing government policies and legislation related to human resource management. This includes industrial relations, occupational health and safety, trade practices, product quality, corporate responsibilities including financial management, taxation and
reporting requirements, business competitive behaviour, urban planning legislation and environmental sustainability.

**Environmental sustainability and social responsibility**

Billabong International Limited states that it is committed to ethical and responsible business practices that lead to positive social and environmental outcomes. The company understands the significance of corporate social responsibility to the ongoing growth and success of the business.

Like most global firms, Billabong sees the development of CSR as a 'journey towards social, ethical and environmental excellence'. It is an ongoing process of continual improvement influenced by evolving expectations of consumers, governments and shareholders, and its stakeholders expect progress to be communicated periodically.

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**Group Code of Conduct**

The company has a Group Code of Conduct, which is available in five languages and draws together all of the company's practices and policies. The code reflects the company's values of integrity, honesty, trust, teamwork, respect and a desire for excellence in everything the company does. It reinforces the need for directors, employees, consultants and all other representatives of the company to always act in good faith, in the company's best interests and in accordance with all applicable policies, procedures, laws and regulations relevant to the regions in which the company operates.

Appropriate training programs on the code are undertaken in each of the regions in which the company operates.

Key elements include:

- Lawful and ethical behaviour by all Billabong staff supported by ongoing compliance training
- Avoidance of all conflict of interest situations
- Gift giving and receiving policy indicates that gifts should be moderate, not create an obligation and not exceed a value that the recipient could not be expected to reciprocate, or at a time that may be considered influential in a business decision.
• Facilitation payments are forbidden, unless there are specific, justifiable circumstances and approval is given from the company's legal branch.
• On political contributions and activities, Billabong does not contribute funds, but may contribute to public discussion on relevant policies.
• Fair dealing in all its business dealings
• Equal employment opportunity and an environment free of bullying, harassment and discrimination on the basis of age, gender, Impairment, trade union activity, sexual orientation, relationship status, physical features, political beliefs, pregnancy, race, religion, family responsibilities and/or personal associations
• Use of Billabong assets and resources
• Ethical and legal business, records and information disclosure, and a prohibition on insider trading
• Whistleblower protection for those reporting corrupt or unethical behaviour
• A commitment to a safe workplace and support for environmental initiatives, particularly those that reduce the environmental impact of Billabong activities and products created. These include:
  - a range of community activities to support conservation of the world's ocean environments, such as support for SurfAid International
  - voluntary measurements of its carbon emissions using the National Greenhouse and Energy Reporting Act 2007
  - recycling, reduced use of packaging materials, or greater use of environmentally friendly fabrics and fibres, such as organically grown thread, cotton, water based inks and dyes
  - energy efficient practices including use of LED systems, which use less power in its retail outlets.
• A commitment to support fair work practices via the global standard, Social Accountability 8000, which also includes a Supplier Code of Conduct.
• Adherence to a code of conduct is an important element of 'brand integrity' and customers are quick to avoid companies who do not behave in an ethical manner.

Source: Billabong Global Code of Conduct, 2009

Operations processes and strategies
Billabong uses a centralised global-sourcing strategy to maximise the quality of design, materials, production efficiency and flexibility, timely delivery and cost minimisation from its 400 suppliers.
Billabong outsources much of its production, which means it needs to work closely with its 400 suppliers and customers to transform its inputs and outputs from design, materials used and production techniques applied to achieve cost-effective, high-quality products. It works with suppliers such as INMSTA, who are involved in research and development of new products, such as trademark fabrics SOLARMAX® and THERMOLITE®.

Billabong's products are manufactured in operations located in Australia, North America, Europe, Japan, New Zealand and Brazil. This requires a sophisticated system of quality control/assurance monitoring the producing and delivery schedules. The company's Hong Kong office manages the main international sourcing needs. As previously outlined, Billabong is committed to ethical and responsible business practices and requires all suppliers to abide by its supplier code of conduct.

Case study questions

1. Identify the legal structure of Billabong today.
2. State the likely legal structure initially used by Gordon and Rena Merchant.
3. Evaluate the mix of businesses that now form Billabong Ltd.
4. Outline possible reasons Billabong today is no longer run by Gordon and Rena Merchant.
5. Outline the major features of public companies compared to private companies.
7. Create a table summarising the major strategies used by Billabong to expand overseas and describe the features of each strategy.
8. A major competitor, Ripcurl, has remained a private company and has expanded globally through licensing. Research Ripcurl online and evaluate Billabong's decision to become a public company.
9. Outline the benefits Billabong has gained through overseas expansion.
10. Explain how overseas expansion leads to greater complexity in business.
11. Define the term 'corporate social responsibility (CSR)'.
12. Explain how Billabong demonstrates CSR.
13. Investigate how corporate social responsibility is 'good for business'.
14. Visit SurfAid online and outline the key features of this project.
15. Evaluate the choice of SurfAid as a CSR strategy for Billabong.
16. Discuss the ways in which Billabong's environmental policies may impact upon sustainability.
17. Account for why Billabong has such a detailed code of conduct.