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CROCS (A): REVOLUTIONIZING AN INDUSTRY'S SUPPLY CHAIN MODEL FOR COMPETITIVE ADVANTAGE

If the products sell extremely well, we will build more in season, and will be back on the shelves in a few weeks. And we'll build even more, and even more, and even more, in that same season. We're not going to wait with a hot new product until next year, when hopefully the same trend is alive.

—Ronald Snyder, CEO of Crocs, Inc.[1]

On May 3, 2007, Crocs, Inc. released its results for the first quarter of the year. The footwear company, which had sold its first shoes in 2003, reported revenues of $142 million for the quarter, more than three times its sales for the first quarter of 2006. Net income, at $0.61 per share was more than 17 percent of sales, nearly four times higher than the previous year.[2] These results far exceeded market expectations, which had been for earnings of $0.49 per share on $114 million of revenue.[3] As part of the earnings release, the company announced a two-for-one stock split. Immediately after the announcement, the stock price jumped 15 percent.

The growth and profitability of Crocs, which made funky, brightly colored shoes using an extremely comfortable plastic material, had been astounding. Much of this growth had been made possible by a highly flexible supply chain which enabled the company to build additional product to fulfill new orders quickly within the selling season, allowing it to respond to unexpectedly high demand—a capability that was previously unheard of in the footwear industry. This ability to fulfill the needs of retailers also made the company a very popular supplier to shoe sellers.

[1] Quotations are from interviews with the authors, unless otherwise specified.
[2] Press Release, "Crocs, Inc. Reports Fiscal 2007 First Quarter Financial Results," May 3, 2007. Online at http://www.crocs.com/consumer/press_details/688244 (accessed May 4, 2007).
[3] Rick Munarriz, "Ugly Shoes, Pretty Profits," The Motley Fool, May 4, 2007. Online at http://www.fool.com/investing/high-growth/2007/05/04/ugly-shoes-pretty-profits.aspx (accessed May 7, 2007).

David Hoyt and Amanda Silverman prepared this case under the supervision of Michael Marks and Professors Chuck Holloway and Hau Lee as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The case was revised in March 2011 to include full year 2007 results.

This success also raised questions about how the company should grow in the future. Should it vertically integrate or grow through product line extension? Should it grow organically or through acquisition? Would potential growth paths exploit Crocs' core competencies or defocus them?

CROCS, INC.

In 2002, three friends from Boulder, Colorado went sailing in the Caribbean. One brought a pair of foam clog shoes that he had bought from a company in Canada. The clogs were made from a special material that did not slip on wet boat decks, was easy to wash, prevented odor, and was extremely comfortable. The three, Lyndon "Duke" Hanson, Scott Seamans, and George Boedecker, decided to start a business selling a new design of these Canadian shoes to sailing enthusiasts out of a leased warehouse in Florida, as Hanson said, "so we could work when we went on sailing trips there."[4] The founders wanted to name the shoes something that captured the amphibious nature of the product. Since "Alligator" had already been taken, they chose to name the shoes "Crocs."

The shoes were an immediate success, and word of mouth expanded the customer base to a wide range of people who spent much of their day standing, such as doctors and gardeners. In October 2003, as the business began to grow, they contacted Ronald Snyder, a college friend, to become a consultant for the company. Snyder had been an executive with Flextronics, a leading electronics contract manufacturer, heading up the company's design division. He had extensive experience in manufacturing operations, mergers and acquisitions, and sales and marketing. When he first started consulting with Crocs, Snyder said, "I thought I would work a few hours a day. I thought it would be restful."[5] But seeing the rapid growth of the company based on word-of-mouth marketing, Snyder joined Crocs in June 2004 as its president, becoming CEO in January 2005.

When Snyder joined the company it was headquartered in Colorado, but essentially distributing shoes made by the Canadian manufacturer Finproject NA. One of Snyder's first moves was to purchase Finproject, which was renamed "Foam Creations." Crocs now owned the formula for the proprietary resin "croslite[tm]" that gave the shoes their unique properties of extreme comfort and odor resistance. The company now also controlled manufacturing. Snyder encouraged the company to think big. He brought in a number of key executives from Flextronics, and built infrastructure in preparation for growth. (See **Exhibit 1** for Crocs executives and directors.) He also launched the product worldwide. Snyder explained the rationale behind launching worldwide at an early point in the company's life:

> The plan was, we're going to launch the world in order to get a brand out that would be a sustainable brand with this funky-looking, strange product. Other, larger shoe companies, or even larger apparel companies, could have knocked us off, and could have gone into Europe before we got there if they had infrastructure in Europe.

[4] Diane Anderson, "When Crocs Attack," *Business 2.0*, November 1, 2006.
[5] Ibid.

> So, being Flextronics guys, and understanding that the world is flat, and you can get everywhere fairly quickly, we said, 'We need to launch the world pretty much at once.' We delayed a bit in South America, but now we're there fairly strong, too. But we needed to launch everywhere in order to have us be the brand that had sustainability. That's what we've been able to pull off at this point. We were in every country you can think of before anybody else had any real capability to ship product in other countries besides the U.S. Certainly, there are knock-offs in all those other places, but they are just known as knock-offs. They are not known as originals, which is what we were hoping to achieve.

Crocs started its sales efforts on a grass-roots basis in the U.S. The company participated in many trade shows in every industry that could benefit from the product, such as garden shows, boat shows, and pool supply shows. As stores began carrying the shoes, Crocs personnel worked closely with the stores. Snyder observed, "If you just put up a rack of funny-looking shoes, I don't think they would have done anything. But we got in there with some of our own people, or our reps, and stood around and got people excited." Crocs also went to a wide range of events, such as concerts, festivals, and sports tournaments, to talk to customers about the shoes. The company took a similar approach in other countries, but the momentum generated in the U.S. helped foreign adoption.

The company initially used representatives and distributors in the U.S., but brought this function in-house in order to control costs. In other countries, Crocs had its own sales staff wherever possible, but as of mid-2007 had some third-party distributors in some locations.

In addition to a popular product and a global strategy, Crocs developed a supply chain that provided a competitive advantage. Traditional industry practice was for retail distributors to place bulk orders for each season's inventory many months in advance, with little ability to adjust to changes during the selling season. The Crocs model did not impose these limitations on retailers—the company could fill new orders within the season, quickly manufacturing and shipping new product to retail stores. (The traditional practice, and the Crocs supply chain will be described in detail below.)

From 2003 through 2006 the company had phenomenal growth. Revenue in 2003 had been 1.2 million. By 2006, it was $355 million, with a net income of $64 million (18 percent of revenue). Crocs went public in February 2006, with an initial market capitalization of over $1 billion. After the Q1 2007 earnings release, the market cap passed $2.7 billion. Sales outside of North America grew from 5 percent of total revenue in 2005 to 25 percent in 2006. In its Q1 2007 earnings release, the company said that it expected 2007 revenue to be between $670 and $680 million. (The company had historically reported results that comfortably exceeded expectations.[6]) (See **Exhibits 2 and 3** for company financial information.) Crocs' financial performance was far superior in many respects to others in the footwear industry (**Exhibit 4**).

[6] Munarriz, loc. cit.