

FA22 SAMANT

STRATEGIC MANAGEMENT

CROCS, INC.

COME AS YOU ARE™

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CROCS

- Founded in 2002 by Lyndon "duke" Hanson, Scott Seamans, and George Boedecker jr.
- Flagship product designed as an odorless, lightweight boating shoe.
- Utilized patented material now known as "crosllite".
- Gained traction through word-of-mouth marketing.



Products

1

CLOGS

The classic clog line, previously known as the "beach" model. Comes in many colors and variations, including fleece lined variants and platform variants.



2

OPEN-TOED SHOES

More traditional, sandal-style aquatic shoes, similar to competing brands open-toed offerings, but also constructed out of the Croslite material.

3

OTHER SHOES

Other, more traditional footwear offerings, including boots, slippers, and even sneakers. Uses smaller amounts of croslite material.





INDUSTRY DETAILS

INDUSTRY DESCRIPTION

Companies that are involved in the production, design, and sale of footwear, including shoes, boots, sandals, etc.

DETAILS

Footwear products are categorized typically into two broad categories: athletic and non-athletic.

MARKET SIZE

The overall global market for footwear sales was estimated at \$373.19B in 2021 and is expected to register a CAGR of 4.3% from 2022 to 2030

Crocs Vision, Mission, Values Analysis



Vision:

To have everyone comfortable in their own shoes.

Mission:

To provide comfort for three key segments of local and global communities: families, animals, and the environment.

Values:

- Delightfully Democratic
- People-Purposed Design
- Inherent Simplicity
- Imaginative Innovation
- Unapologetic Optimism
- Confidently Comfortable

SHARED VALUE CREATION ANALYSIS

Value Creation for Society

- Crocs effectively identified the need of consumers during the Covid-19 Pandemic
 - "Free Pair for healthcare" initiative
 - focused primarily on e-commerce sales
- Collaboration with celebrities
- Transitioning company to be more environmentally conscious

SHARED VALUE CREATION ANALYSIS

Value Creation for Shareholders

- Crocs inc. is one of the leading footwear brands
 - Market value of \$4.45B as of Sept. 28, 2022
- Crocs emphasis on ecommerce sales increased digital sales by 25%
 - Digital sales represent 36% of revenues
- Brand Purpose
 - Clearly defining the goals and values of crocs

SHARED VALUE CREATION RECOMMENDATIONS

- Crocs EXCELLED in shared value creation during the pandemic
- Maintain Market share and customer loyalty
 - **Threat:** fast changing fashion trends
 - **Threat:** global recession
- Continue Celebrity collaborations/endorsements
- provide consumers with sales/discounted merchandise
- Donation initiatives



2

**GENERAL & EXTERNAL
ANALYSIS**





GENERAL ENVIRONMENTAL ANALYSIS

INDUSTRY 5 FORCES

- POLITICAL/LLEGAL
- ECONOMIC
- SOCIO-CULTURAL
- TECHNOLOGICAL
- ECOLOGICAL

POLITICAL/LEGAL

CROCS TRADEMARK INFRINGEMENT SUITS

21 companies including Hobby Lobby and Walmart Inc.

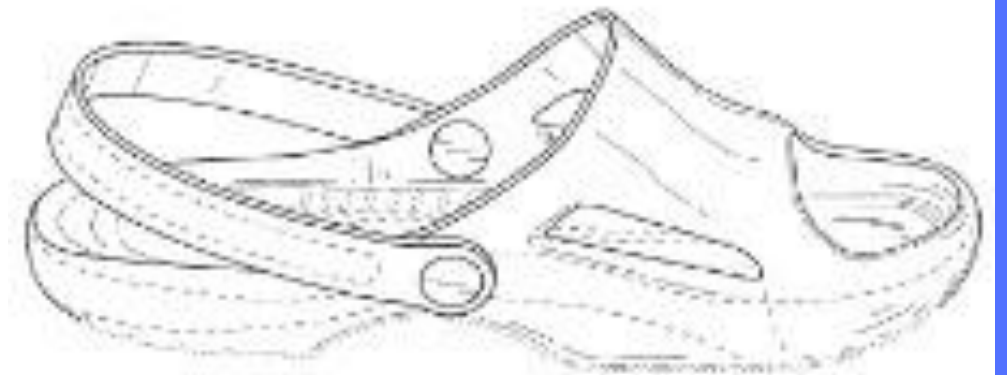
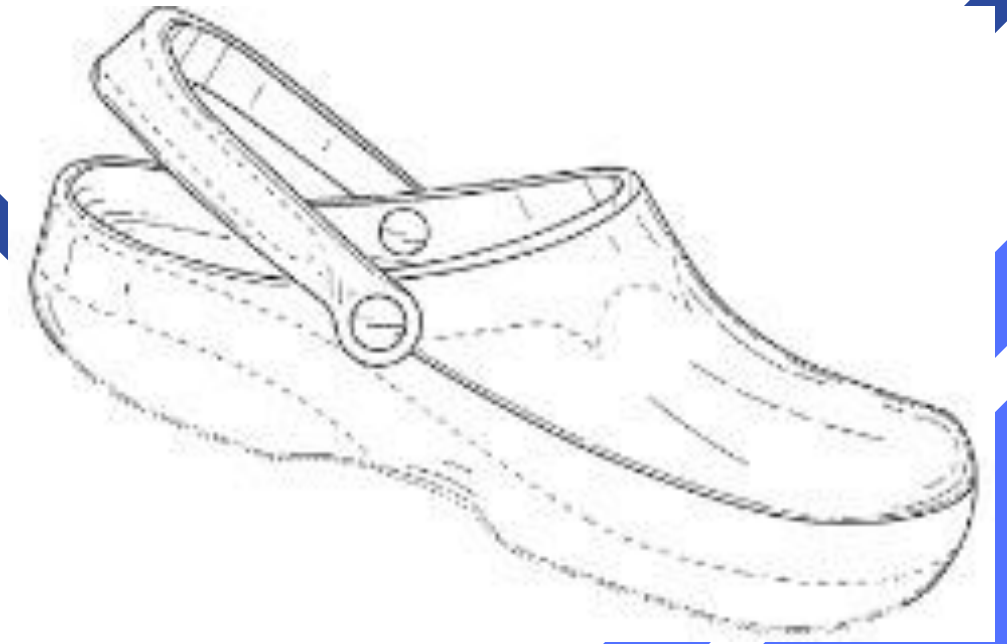
COUNTERFEIT FOOTWEAR LEGISLATION PROPOSAL

Influenced by The Footwear Distributors & Retailers of America (FDRA)

- Would allow U.S. CBP to seize goods containing patent infringements

CROCS 5 ACTIVE PATENTS

- "Breathable footwear pieces"
- "Breathable work shoes and methods for manufacturing such"
- 3 other "Footwear" patents that cover aspects of physical appearance



Economic Analysis

Factors

Labor Costs

Economic growth rate

Inflation rate

Business cycle stage



SOCIO-CULTURAL

FASHION

Initially considered ugly, Crocs were a shoe solely meant for practical comfortability; after the 2008 recession, Crocs regained its market share by repositioning itself as a fashionable product.

PERSONAL EXPRESSION

The clashing appearance of Crocs has associated them with a break from what is considered “traditional”. Many people will use Crocs to showcase their unique fashion sense.

CULTURE

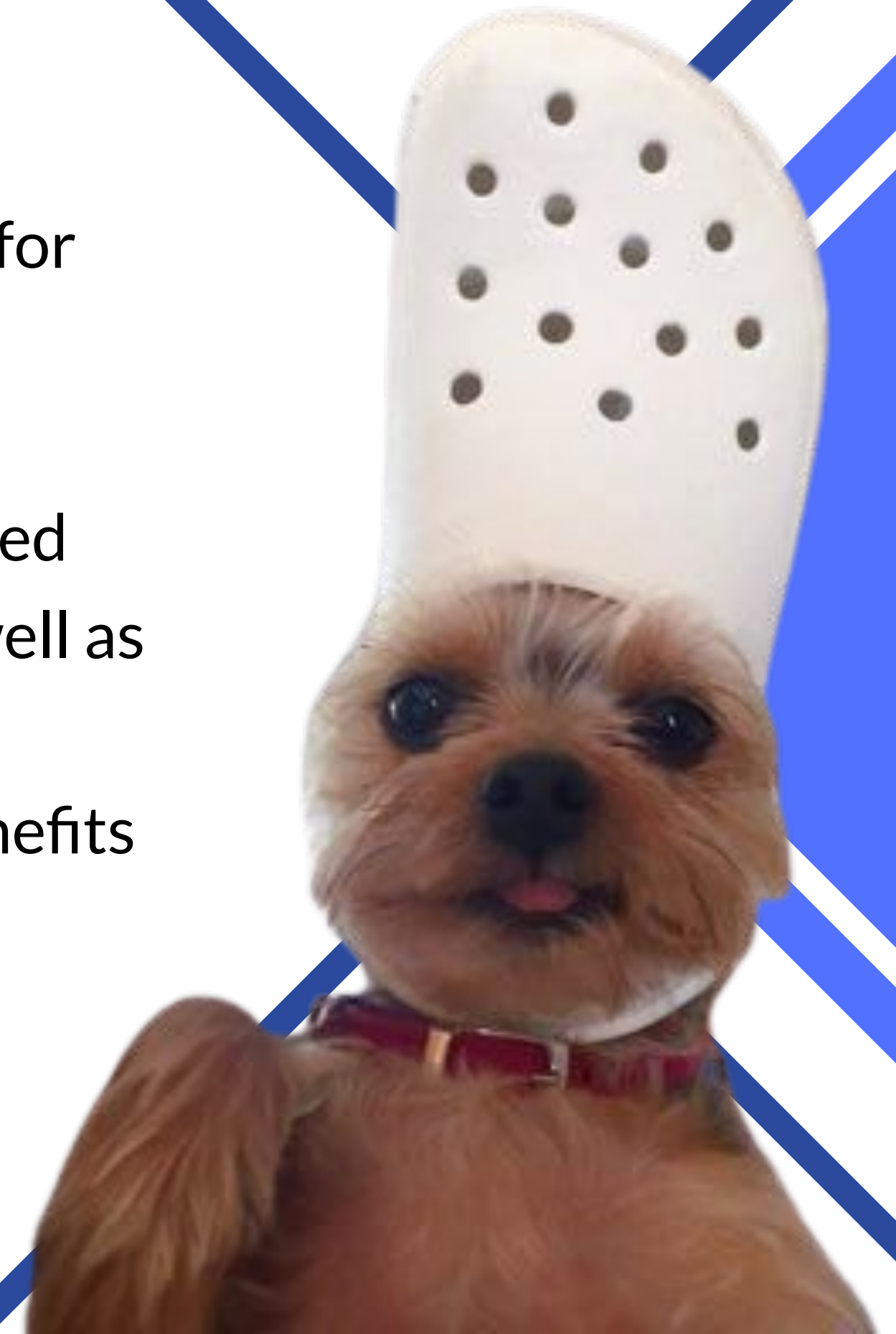
Many large celebrities, such as Justin Bieber and Post Malone, have curated their own special crocs product variations. Crocs are associated with a rise in interest in a focus on comfortable clothing, over fashionable clothing.



TECHNOLOGICAL

TECHNOLOGICAL

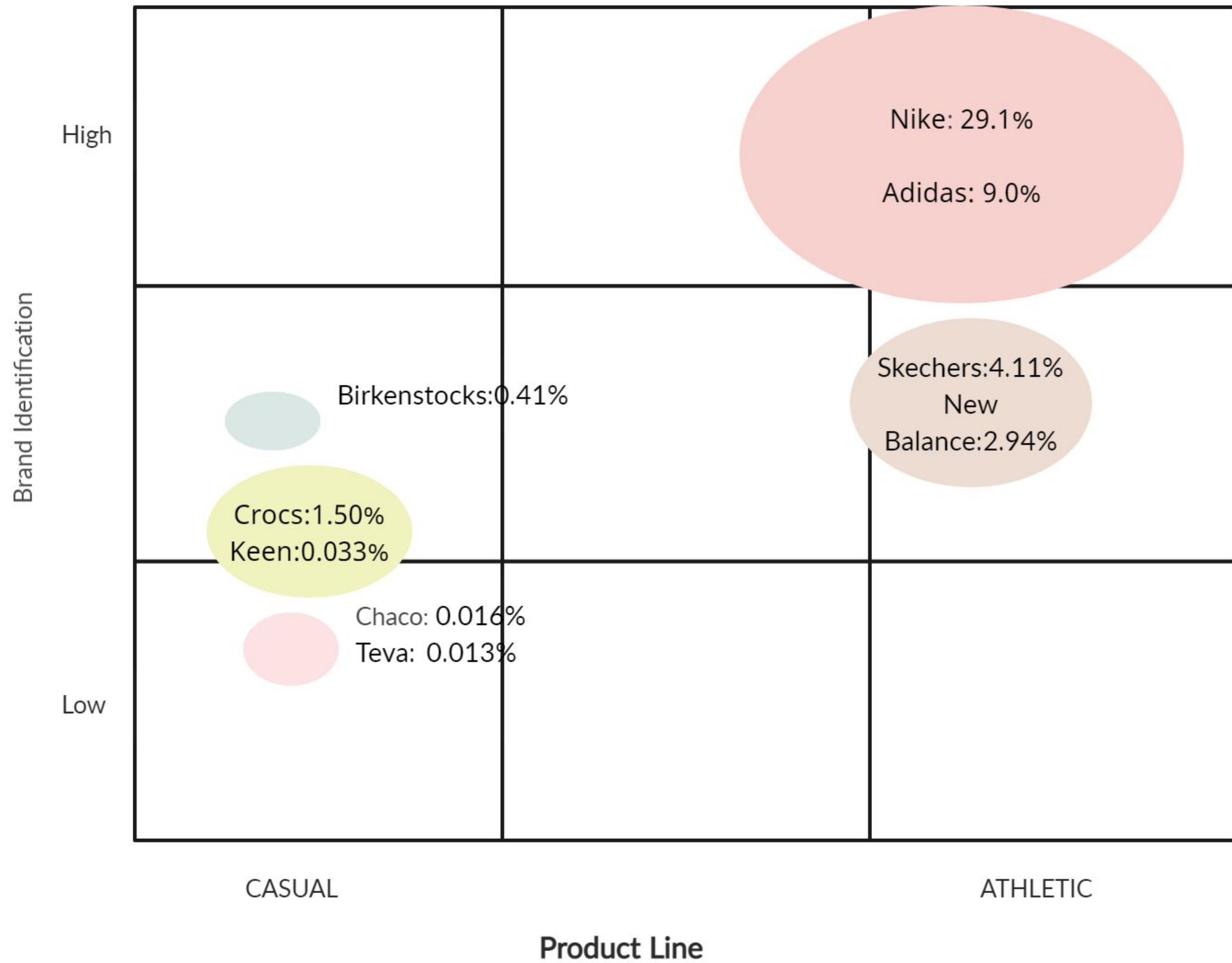
- Modern shoe companies are constantly looking for ways to perform better, last longer, and provide something that is new—always innovating.
- A recent trend in shoe tech has been the increased options in sizing, including different widths, as well as a commitment to a more comfortable shoe.
- Consumers regard features, advantages and benefits of the product, brand reputation, trends, and perceived value when making their purchase decisions.



ECOLOGICAL

- Environmental Standards
 - Laws and Regulations
 - The Paris Agreement: Enhanced Transparency Framework
 - Carbon Neutrality targets
 - Carbon Pricing
- Societal expectations for sustainability within the apparel industry
- Mass production and waste
- Environmental Impact Reports
-





PORTER'S 5 FORCES

RIVALRY AMONGST EXISTING COMPETITORS

High: the footwear industry is extremely large and many other competitors like Nike or Adidas have a much more extensive product line that will cater to more consumers than a casual sandal/clog that Crocs provides.

BARGAINING POWER OF SUPPLIERS

High: most apparel companies rely heavily on the materials provided by suppliers in order to produce their products (shoes).



PORTER'S 5 FORCES

BARGAINING POWER OF BUYERS

Low: the buyer market for the footwear industry is extremely large; footwear is a modern day need. With such a saturated market, buyers have the ability to pick and choose. Buyers are also increasingly price sensitive and help determine the price point of many contenders in the industry.



PORTER'S 5 FORCES

THREAT OF NEW ENTRANTS

Low: The footwear industry is very attractive, meaning that entrants will be drawn to it, however, the footwear industry is an oligopoly, meaning there are a few major firms, competitors have interdependence, and there are many barriers to entry. These barriers include economies of scale, capital requirements, and advantages independent of size

THREAT OF SUBSTITUTE PRODUCTS

Moderate: many companies have tried to emulate Crocs' style/business strategy in the past and many copycats arise every day to try and undermine Crocs' price strategy. Birkenstock, Teva, Chacos offer a more durable shoe that can be considered more stylish while still serving the same purposes.



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INTERNAL ANALYSIS

Crocs Inc.



Value Chain Analysis

Support Activities

Research & Development

Information Systems

Human Resources

Accounting & Finance

Policies & Procedures



KEY RESOURCES & CAPABILITIES

- The patented **Croslite/Bio-Croslite Material**, which is used in the production of a majority of Crocs products
- Crocs' unique **Brand Image and Reputation**, as a brand associated less with fashionability and more with personal comfort, allowing them to occupy a unique space within the industry
- Crocs' unique approach to **Supply-Chain Operations**, allowing the organization to keep supply up with demand through difficult circumstances (such as the COVID-19 pandemic)



Ratio Analysis: Crocs

Financial Ratios	2021	2020	2019
Return on Investments	108.76%	52.89%	42.37%
Return on Assets	54.49%	33.59%	19.79%
Return on Equity	476.31%	147.68%	84.69%
Return on Revenue	31.37%	22.57%	9.71%
EBITDA Margin	30.24%	16.26%	11.07%
Operational Ratios	2021	2020	2019
Inventory Turnover	4.60	3.66	4.14
Receivables Turnover	13.01	9.96	11.07
Payables Turnover	16.83	13.26	14.23
Working Capital Turnover	8.31	6.89	7.32
Total Asset Turnover	1.74	1.49	2.04
Cash Turnover	13.26	11.33	10.63

- **Crocs Ratio Trends:**

- Return on equity was the most affected financial ratio increasing 391.62% from 2019
 - Attributable to increased net income and share repurchase
- Payables and receivables changed by similar amounts from 2019-2021
- Overall there were no significant changes in Crocs' operational ratios.

Competitor Ratio Analysis: Skechers

Financial Ratios	2021	2020	2019
Return on Investments	21.43%	4.29%	16.53%
Return on Assets	12.57%	2.52%	8.73%
Return on Equity	23.03%	5.36%	16.85%
Return on Revenue	11.81%	2.15%	6.65%
EBITDA Margin	11.74%	6.01%	12.07%
Operational Ratios	2021	2020	2019
Inventory Turnover	2.17	2.37	2.55
Receivables Turnover	7.73	6.67	7.47
Payables Turnover	7.17	6.17	6.82
Working Capital Turnover	3.26	2.16	3.30
Total Assets Turnover	0.97	0.79	1.07
Cash Turnover	6.41	4.19	6.18

- **Skechers Ratio Trends:**
 - Significant drop in both financial and operational ratios from 2019 to 2020
 - Impact of Covid-19 (Revenues decreased by \$623 million)
 - Company performance has improved since 2020, and now closely resemble performance in 2019

Accounting Profitability Analysis: CROCS vs Skechers

Performance Ratios	CROCS (2021)	Skechers (2021)
Return on Invested Capital	26.93%	18.28%
Return on Revenue	31.37%	11.81%
COGS/Revenue	38.83%	50.69%
R&D/Revenue	0.59%	0.39%
SG&A/Revenue	9.22%	40.19%
Working Capital Turnover	8.31	3.26
Fixed Asset Turnover	9.4	2.8
Inventory Turnover	4.18	2.64
Receivables Turnover	10.65	6.67
Payables Turnover	16.83	7.17

- **Crocs Competitive Advantages**

- **SG&A/Revenue:** Skechers spends 30.97% more on SG&A expenses, while Crocs ROR is still 19.56% higher
- **COGS/Revenue:** Crocs limited product line has allowed for Crocs to minimize costs and increase profits
- **Fixed Asset Turnover:** Crocs requires less money for fixed assets, which allows for Crocs to invest more money in product development

- **Competitive Disadvantage**

- **Payables Turnover:** Skechers is paid much faster than Crocs

Value Chain Analysis

Primary Activities

Supply Chain Management

Operations

Distribution

Marketing & Sales

After-Sales Service



VRIO ANALYSIS FOR CROCS



VRIO Analysis for Crocs Tangibles					
Resource	Valuable?	Rare?	Costly to Imitate?	Organized to capture Value?	Competitive Implications
Retail Stores	Yes	No			Competitive Parity
Equipment (Molds)	Yes	Yes	Yes	Yes	Competitive Advantage

VRIO Analysis for Crocs Intangibles					
Resource	Valuable?	Rare?	Costly to Imitate?	Organized to capture Value?	Competitive Implications
Croslite/Bio Croslite patent	Yes	Yes	Yes	Yes	Competitive Advantage
Reputation	Yes	No			Competitive Parity
Brand Image	Yes	No			Competitive Parity

VRIO Analysis for Crocs Capabilities					
Resource	Valuable?	Rare?	Costly to Imitate?	Organized to capture Value?	Competitive Implications
Marketing	Yes	No			Competitive Parity
Responsiveness to Demand	Yes	No			Competitive Parity
STP	Yes	No			Competitive Parity
Wholesaling	Yes	No			Competitive Parity

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Group 2

BUSINESS STRATEGY





CURRENT

DIFFERENTIATION STRATEGY

- Crocs has capitalized on being “different”

STRATEGIC ISSUES/PROBLEMS

- Staying relevant within the footwear industry
- Maintaining a competitive advantage within the non-athletic footwear industry
- Reducing waste production

STRATEGIC ISSUE STATEMENT:

How can Crocs effectively integrate cost leadership and differentiation to maintain a competitive advantage within the non-athletic footwear industry?

First Strategic Alternative Evaluation: Lean Manufacturing

Shoe customization: Achieving differentiation through lean manufacturing



<p>Eliminate: Which of the factors that the industry takes for granted should be eliminated?</p>	<p>Reduce: Which of the factors should be reduced well below the industry's standard</p>
<ul style="list-style-type: none"> ● Retail Stores - Reduce fixed costs (rent/utilities) - Crocs revenues from e-commerce have grown 16.82% in 2022 	<ul style="list-style-type: none"> ● Inventory turnover ● Production Costs ● Waste production
<p>Raise: Which factors should be raised well above the industry standard?</p>	<p>Create: Which factors should be created that the industry has never offered?</p>
<ul style="list-style-type: none"> ● Competitive advantage ● Customer lifetime value - Customer acquisition - Customer retention - Brand loyalty 	<ul style="list-style-type: none"> ● Customizable slip-resistant clogs ● New way to personalize fashion/style

Second Strategic Alternative Evaluation: Leave it Alone

Don't Make Changes: Maintain the company's strong position by avoiding any huge changes

- Crocs maintains a strong differentiation strategy
 - Quirky, lovable style
 - Celebrity endorsements/tie-ins
 - Industry Average prices
 - Unique position within the industry
 - Healthcare workers
 - Supply chain operations
 - “Controversial” nature



Third Strategic Alternative Evaluation: Cost Leadership Strategy

Cost Leadership:

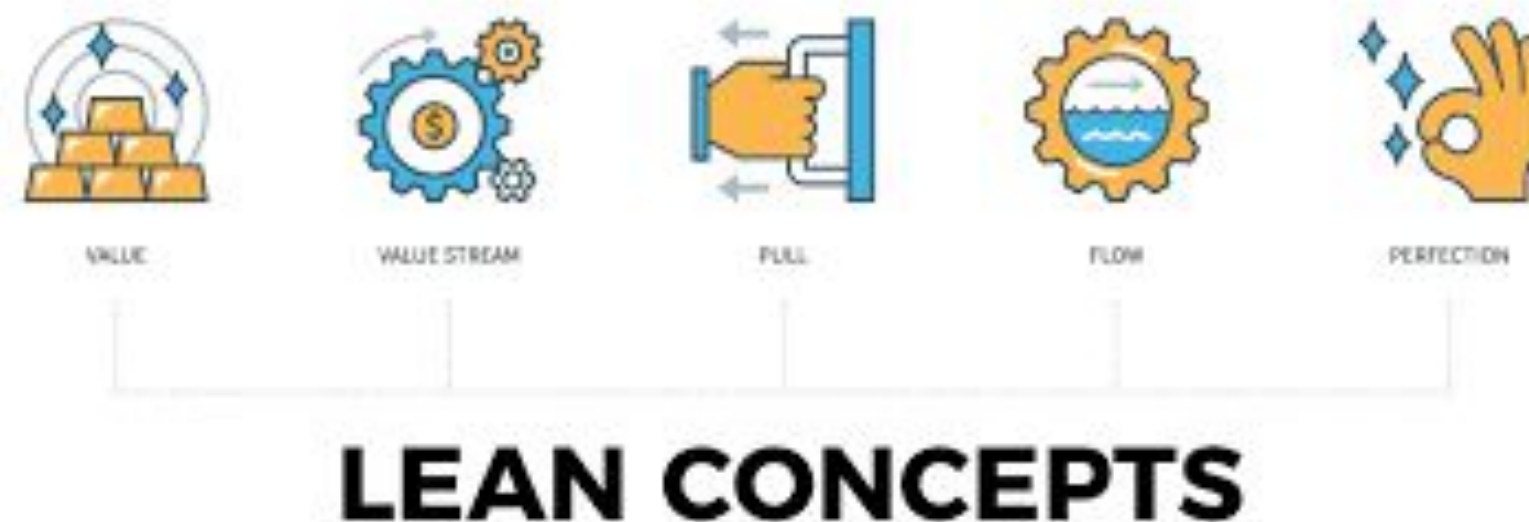
<p>Eliminate: Which of the factors that the industry takes for granted should be eliminated?</p>	<p>Reduce: Which of the factors should be reduced well below the industry's standard</p>
<ul style="list-style-type: none"> - All unnecessary costs - Inefficiencies in production 	<ul style="list-style-type: none"> ● Inventory ● Services (store employees) ● Product cost to consumer
<p>Raise: Which factors should be raised well above the industry standard?</p>	<p>Create: Which factors should be created that the industry has never offered?</p>
<ul style="list-style-type: none"> - Production Scale - Sourcing raw materials - Competitiveness 	<ul style="list-style-type: none"> ● Advanced technology (JIT Inventory, AI) ● RFID tags (allows for transparency and more detailed information about whereabouts during the production process)



Chosen Strategic Alternative Evaluation: Shoe Customization with a Focus on Lean Manufacturing

What is Lean?

- Creating value while minimizing waste
- Continued learning from mistakes
- Proficiency in manufacturing



Balanced Scorecard: Value Creation

Goals	Measures
<ul style="list-style-type: none">• Time to Market• Waste reduction• Product Focus	<ul style="list-style-type: none">• Inventory turnover ratio• Cost and cost savings of waste removal• Percent of total sales from customizable options



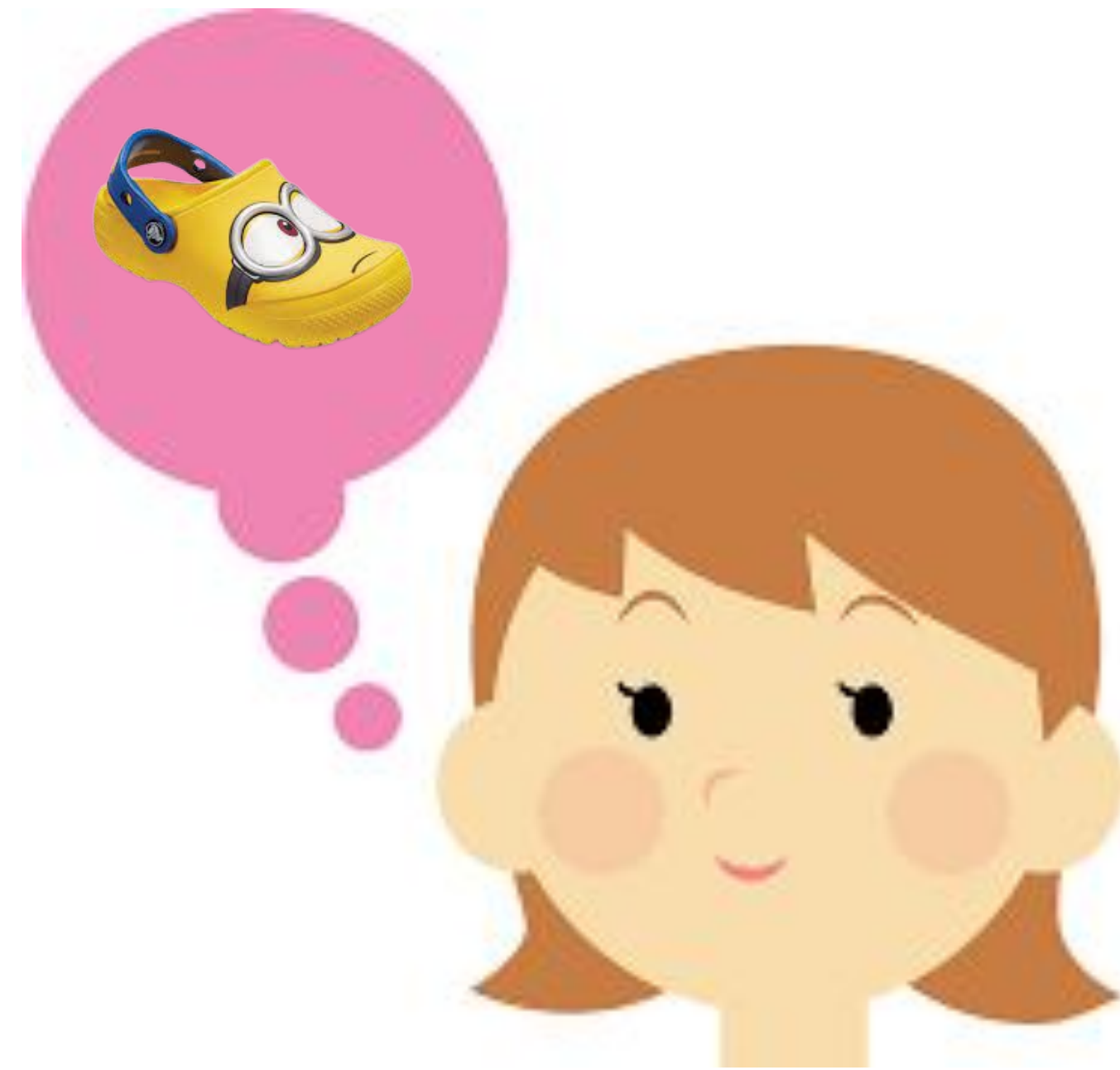
Balanced Scorecard: Core Competencies

Goals	Measures
<ul style="list-style-type: none">● Increased customer loyalty● Customer value creation● Fast production● High shoe quality● Positive work environment	<ul style="list-style-type: none">● Net Promoter Score<ul style="list-style-type: none">- Gauge customer loyalty, retention, and satisfaction● Production time logs<ul style="list-style-type: none">- Designated stations for customized Crocs- Track defects● Adequate lean training<ul style="list-style-type: none">- After work survey



Balanced Scorecard: Customer Perception

Goals	Measures
<ul style="list-style-type: none">● Increased Customer satisfaction● Increased Revenues● Speedy delivery● Personal style attainability● Fashionability● Comfort● Fun	<ul style="list-style-type: none">● On-time delivery (defined by customer)<ul style="list-style-type: none">- Ensure quick delivery- Track lags in delivery- RFID tags● Customer satisfaction surveys<ul style="list-style-type: none">- Directly gauge satisfaction with products and services● Word-of-mouth<ul style="list-style-type: none">- Track general conversation about brand perceptions (social media, etc.)



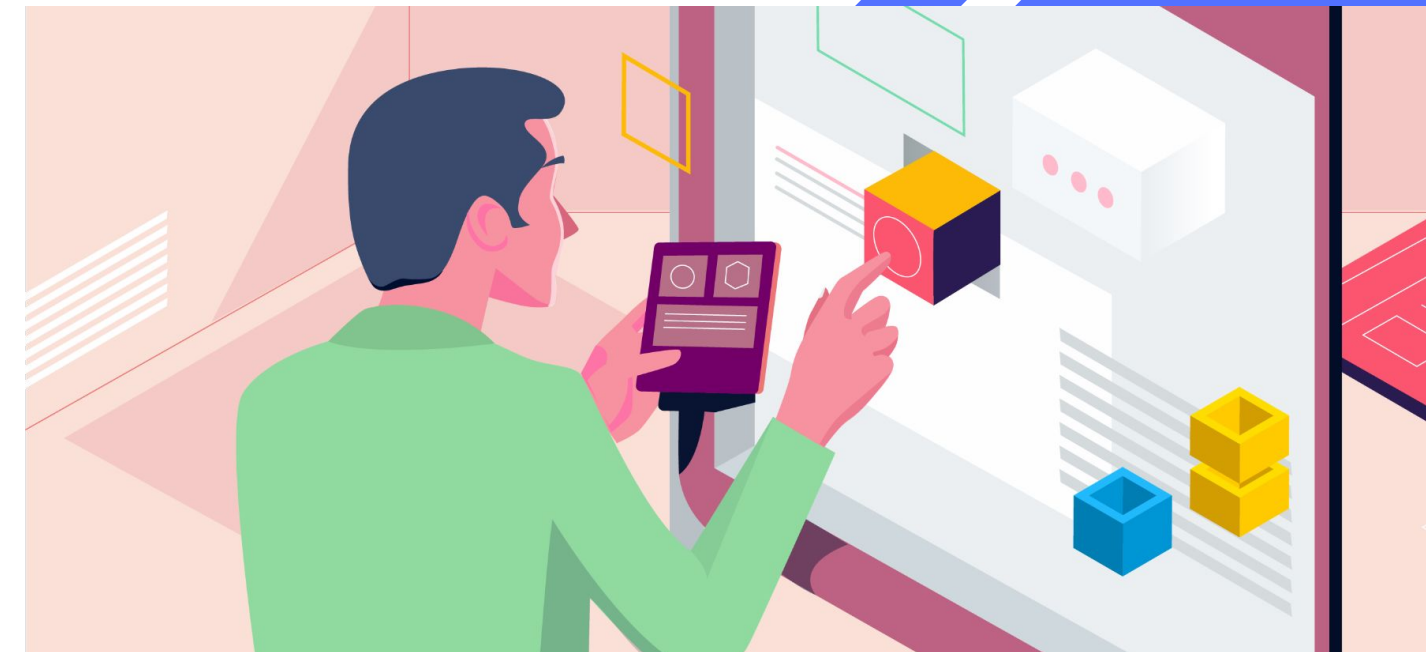
Balanced Scorecard: Shareholders

Goals	Measures
<ul style="list-style-type: none">● Increase Stock Value● Increase Overall Wealth● Increase Firm Value● Increase rights of shareholders	<ul style="list-style-type: none">- Economic gain for shareholders- Retain key employees- Increased voting of shareholders for financial endeavors



Assumptions Regarding Implementation

- Increase Customer Demand
 - Customization is rising in popularity
- Decrease costs associated with manufacturing
 - Eliminate waste
 - Lower production volume
- Attract new Customers
 - Increase positive Word-of-Mouth (WOM)
- Increase Customer Satisfaction
 - Customized products are shown to increase customer satisfaction



Investments Needed for Implementation

- RFID
- AI
- Machines
- Dividend
- Manufacturing plant locations

NOTICE

RFID

system

in use

Value Chain Activities & Capabilities Needed

Supply Chain Management & Distribution

- **Incorporate more in-house manufacturing operations in the U.S**
 - 69.5% of consumers are from North America
 - Shipping and distribution is located in Denver, CO
 - Foam Creations
- **Communication between manufacturing operations**
 - Implementation of artificial intelligence

Operations

- **More control over operations in in-house manufacturing**
- **Shutting down retail stores**
 - Decrease fixed costs (rent/utilities/wages)
 - More money to invest into manufacturing equipment
 - Focus operations on e-commerce sales

Marketing & Sales

- **Maintain heavy focus on marketing and sales**
 - 9.22% SG&A/Revenue
- **Create multiple campaigns focused on the customizable Crocs**
 - utilize celebrity endorsements
 - "How do you Croc"

After Sales Services

- **Maintain the same after-sale services**
- **Help maintain differentiation-based goals**
- **Increase brand loyalty**
- **Net Promoter Score survey**
- **Fast customer service response times**

Value Chain Activities & Capabilities Needed

Research & Development

- **Limit management approval process**
 - “fail early and learn fast”
- **Split R&D department into teams**
 - each team has one project (decrease number of WIP projects)
- **Eliminate information silos**
- **open communication between all teams**

HR & Information Systems

- **HR will be responsible for developing a team that deals with lean-specific processes**
 - Employing lean management professionals
 - Top-down lean management training
- **Open communication**
 - Monitor reaction of employees
 - After-work survey
 - Employ changes where/when necessary

Accounting & Finance

- **Automating financial and accounting processes**
- **Focus on value from customer’s perspective**
- **Notify management of any spot defects, redundancies, and wasteful steps**
 - guidelines for team to follow when this occurs to ensure fast response times

Policies & Procedures

- **Maintain inclusivity**
- **Ensuring a positive work environment for all levels of operation**
- **Lean-focused policies and procedures for each line of work**

Potential Implementation Challenges

- Transition from a large volume of on hand inventory to on demand production
 - employee learning curve
 - commitments and relationships with suppliers
- shareholder approval
 - high upfront costs
 - outstanding shares and treasury stock
- customers perceived value of customization
 - possible higher prices
 - temporarily longer lead time
 - advertising

Outlook for Success: Lean Manufacturing

Advantages:

- Improved efficiency opens the door for employees and resources to be used for more innovation and quality control.
- Elimination of waste, improved quality.
- Centered on customer value.
- Financial benefits.

Disadvantages:

- Tighter constraints in production.
- Disgruntled workforce.



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