

Monitor
Deloitte.

Case study
example
“Footloose”



In the Middle
East since
1926

Footloose

Introduction

Duraflex is a German footwear company with annual men's footwear sales of approximately 1.0 billion Euro(€).

They have always relied on the boot market for the majority of their volume and in this market they compete with three other major competitors.

Together, these four brands represent approximately 72% of the 5.0 billion € German men's boot market. The boots category includes four main sub-categories:

Work boots, casual boots, field and hunting boots, and winter boots. Work boots is the largest sub-category and is geared to blue collar workers¹ who purchase these boots primarily for on-the-job purposes. Casual boots is the fastest growing sub- category, and is geared more towards white collar workers² and students who purchase these boots for week-end / casual wear and light work purposes.

The four key competitors in the market are Badger, Duraflex, Steeler, and Trekker.

¹ Blue collar workers: wage earners who generally work in manual or industrial labour and often require special work clothes or protective clothing, which are replaced approximately every 6 months

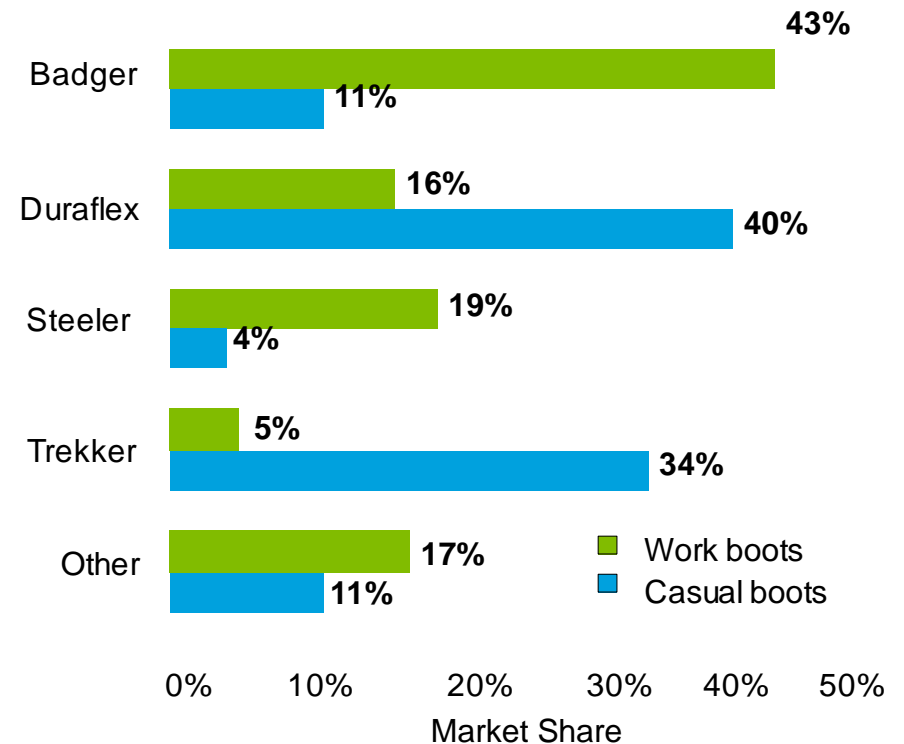
² White collar workers: salaried employees who perform knowledge work, such as those in professional, managerial or administrative positions

Competitor profiles

Badger and Steeler are both well established as work boot companies, having a long history and strong brand recognition and credibility among blue collar workers. At the other extreme is Trekker, a strong player in the casual boot market but a very weak player in work boots. Duraflex, however, is a cross between the other competitors, having a significant share in both work boots and casual boots.

Historically Duraflex had an even stronger position in the work boot sector. However, since 1996 when the company began selling casual shoes and focusing on the growth opportunity in casual boots, sales of the Duraflex work boot line have steadily declined. Also, around the same time Duraflex shifted its emphasis, Badger became a much more assertive competitor in the work boot market, increasing its market share to 43% in just three years.

Market Share of Work and Casual Boots by Company (2013)



Consultants' role & data collected

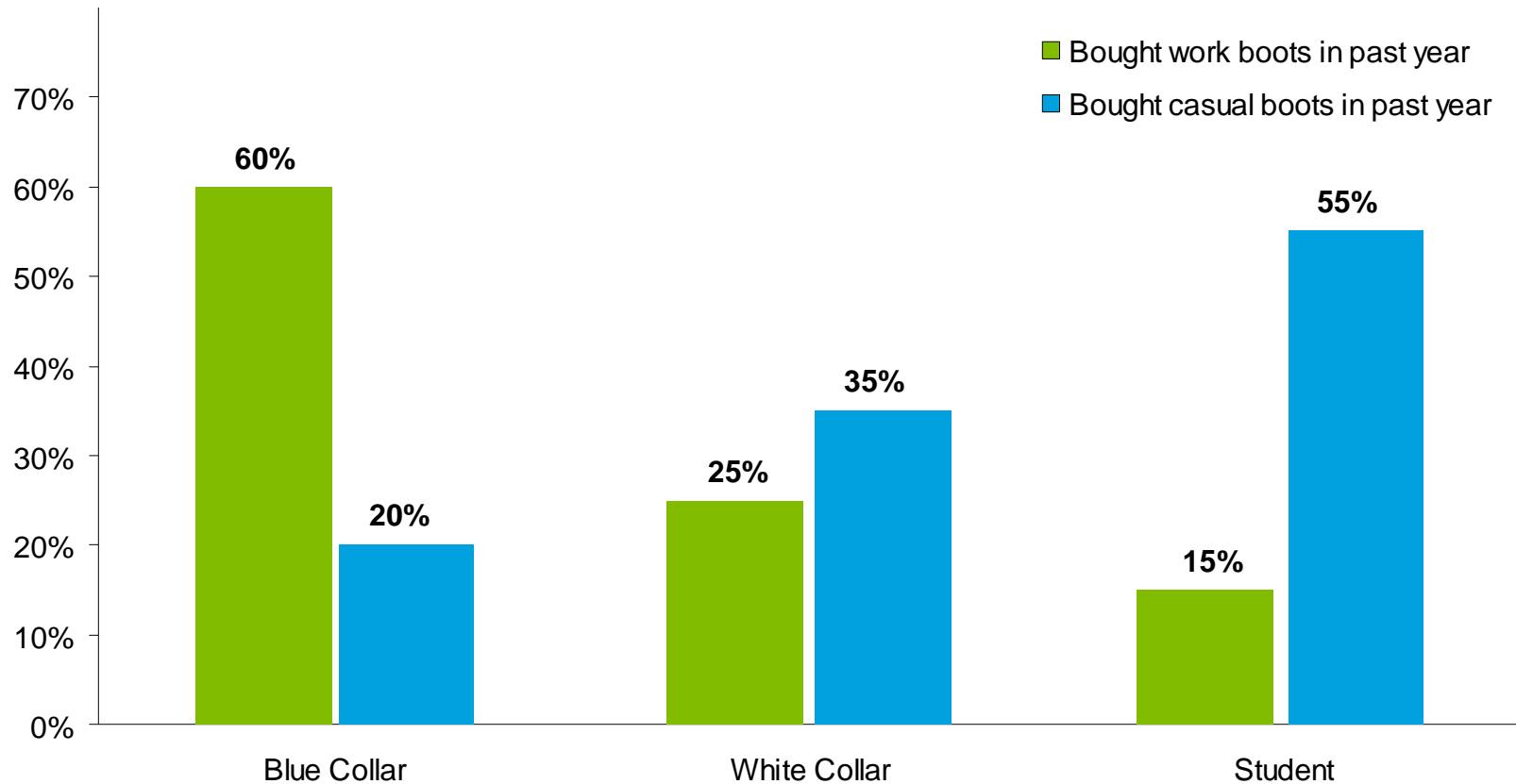
In the fall of 2013, Badger launched a new line of aggressively priced work boots. The strong success of this line has caused Duraflex's management to re-evaluate their position in work boots. With limited additional resources, management must now decide if they should focus their efforts on competing with Badger in the work boot sector, or focus their resources on further strengthening their position with casual boots.

In January of 2014 Duraflex hired a leading consulting firm to conduct research to help management in its decision making. To make an informed recommendation, the consultants realized they needed to collect information that would enable them to size the market and better understand Duraflex's competitive position.

To begin with, the consultants developed a 20 minute quantitative telephone survey that was conducted among 500 randomly dialed consumers across the country's 6 primary regions. In addition, the consultants completed some internal cost and pricing analysis for Duraflex's work and casual boot lines. The market pricing analysis showed Duraflex competing at the premium end of the market for both its casual and work boot lines.

Exhibit one

Propensity to Buy Boots by Population Segment (Male Population 12+)



Population Average

11.0 MM

12.0 MM

7.0 MM

Price Paid for Boots

140€

130€

110€

Exhibit two

Channel preference by Brand

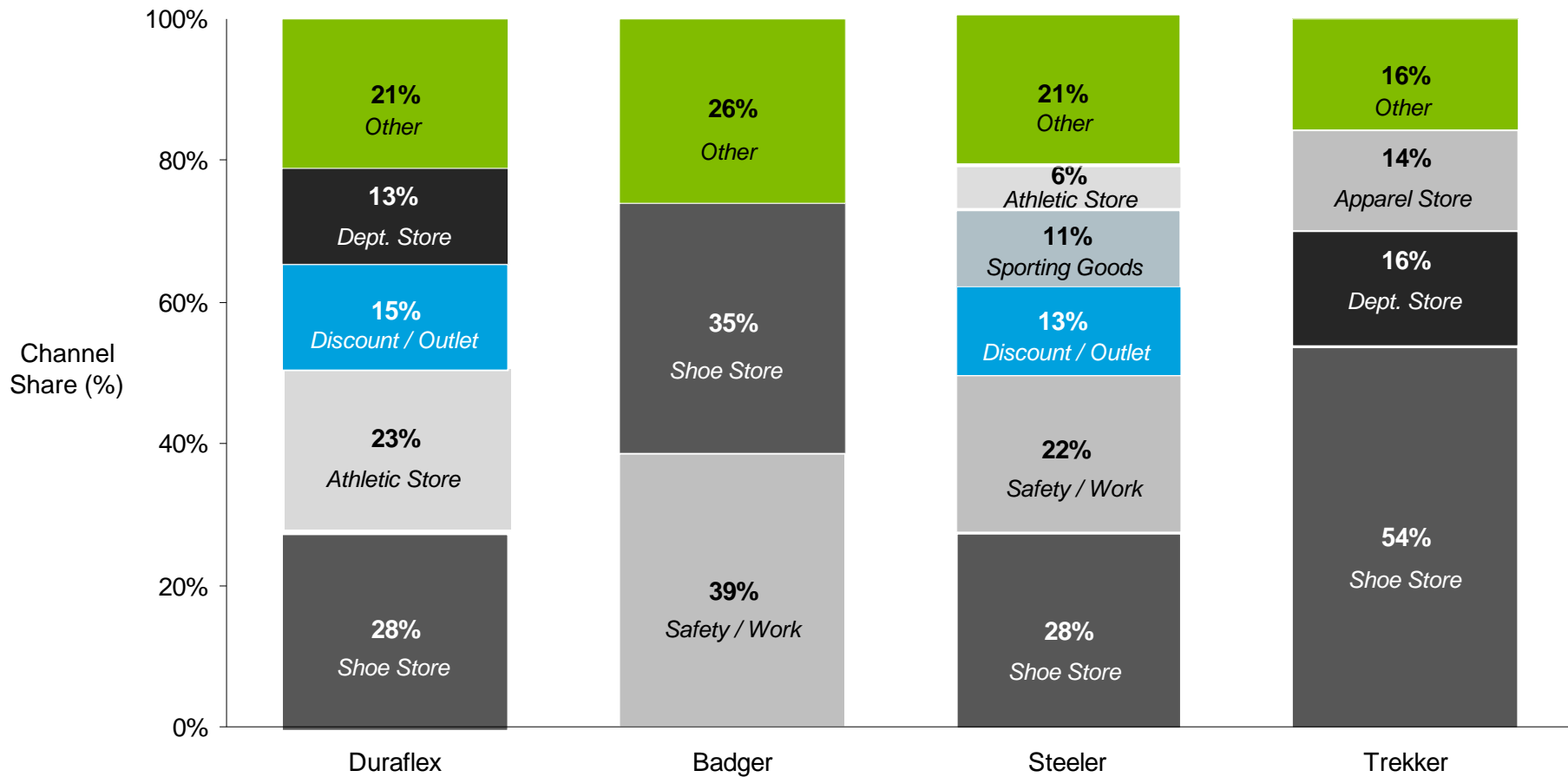


Exhibit three

Buyer Purchase Criteria by Brand

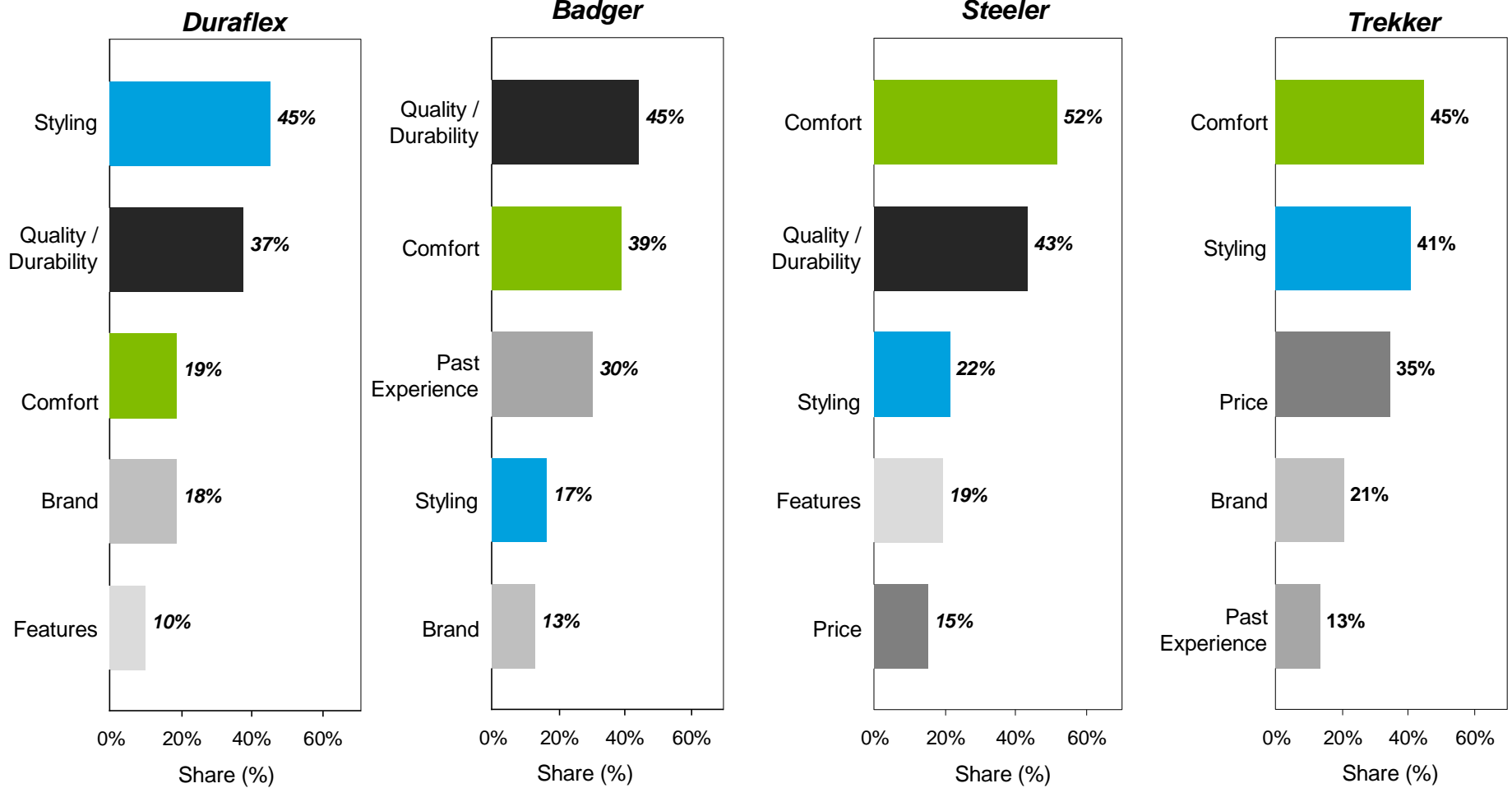
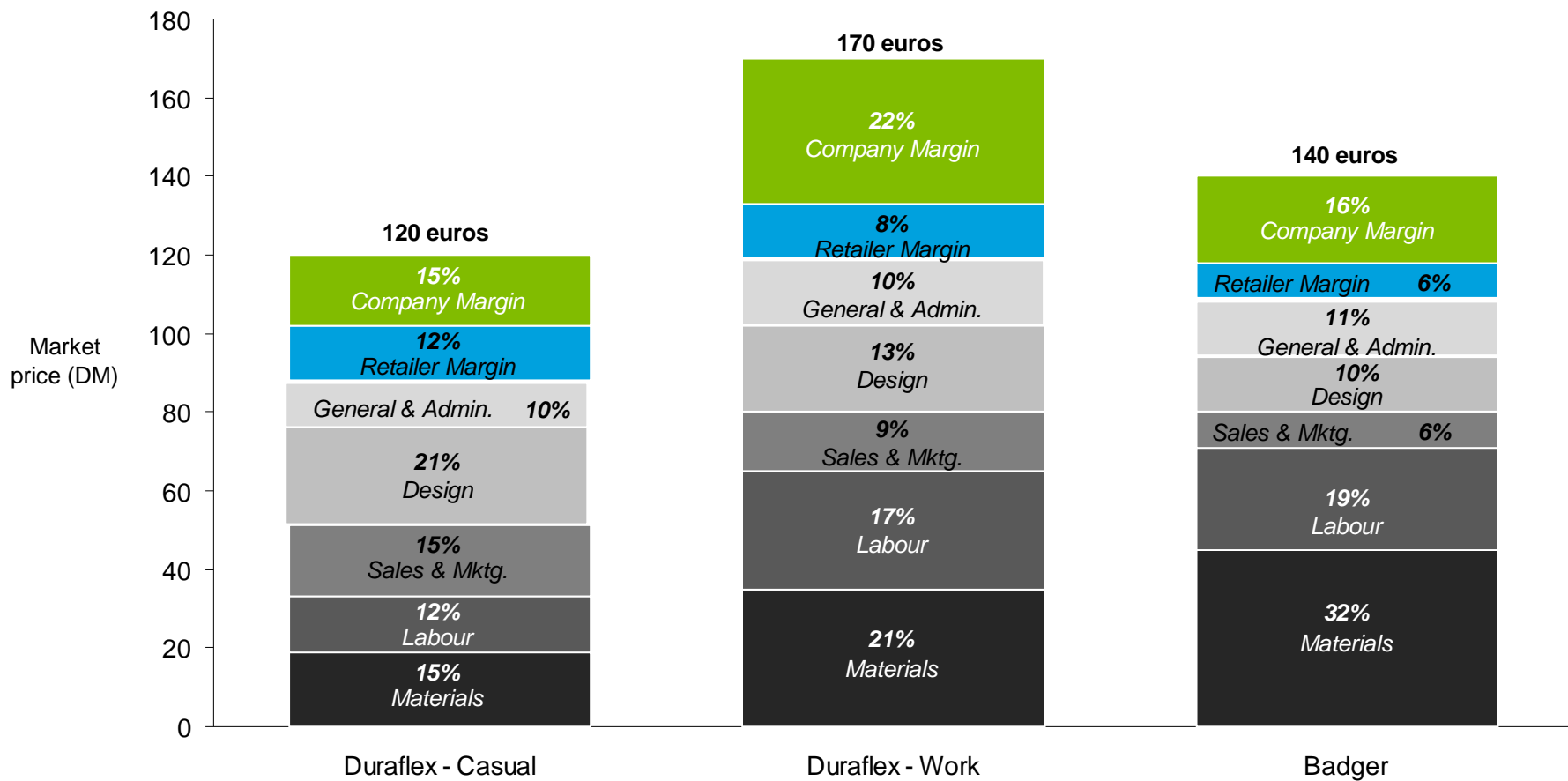


Exhibit four

Retail Price of Selected Boots, Split by Price Component



Case study questions

Work through these questions on your own, using the text and exhibits in the preceding slides. An answer key is provided in the slides that follow...

- 1. How big is the work boot market (expressed in euros)? Does Duraflex get more of its revenue from work boots or casual boots?**
- 2. Explain why Badger is outperforming Duraflex in the work boot market.**
- 3. What changes would you recommend to Duraflex's work boot strategy? Why? Would you recommend they introduce a sub- branded boot line?**

Answer Q1

1. How big is the work boot market (expressed in euros)? Does Duraflex get more of its revenue from work boots or casual boots?

To find the size of the market, we can use the following equation:

$$\begin{aligned} & (\text{Average Boots Price}) * (\% \text{ of male population that bought work boots in past year}) \\ & * (\text{total population for the segment}) * (\text{number of pairs bought in a year}) \end{aligned}$$

Exhibit One gives us the populations for each segment and the percentages that bought boots. We therefore need to find the number of boots sold and the average price of each pair. For this question, the candidate will need to make some assumptions.

1. Average number of boots purchased per user

- For work boots, we know that blue collar workers purchase **an average of 2 pairs per year** (from Introduction, Footnote1)
- White collar workers and students who buy work boots probably use less rigorously and less frequently, therefore *probably only 1 pair per year*
- For casual boots, we can make a reasonable assumption, knowing that casual boots are purchased primarily for weekends and light wear (from text) so the average number of pairs should be no more than work boots from Exhibit 1 (i.e. *1 pair per year*)

2. Average price per pair of boots

- Work boots cost more (compare Blue Collar vs. Student) so the average price should be higher than 140 € for all (150 € is reasonable); casual should be lower than student (100-110 € is reasonable).

Answer Q1

1. How big is the work boot market (expressed in euros)? Does Duraflex get more of its revenue from work boots or casual boots?

The total market value will then be the sum, for each segment, of the following equation:

$$\begin{aligned} & (\text{Average Boots Price}) * (\% \text{ of male population that bought work boots in past year}) \\ & * (\text{total population for the segment}) * (\text{number of pairs bought in a year}) \end{aligned}$$

$$\begin{aligned} & (\text{€150} * 60\% * 11\text{MM} * 2) + (\text{€150} * 25\% * 12 \text{MM} * 1) + (\text{€150} * 15\% * 7 \text{MM} * 1) \\ & = \text{€2,588 MM} \end{aligned}$$

The following table shows another way to see it:

	Population	% Buying Work Boots	# Pairs work boots bought / year	Price Per Pair (€)	Segment Size (€)
Blue Collar	11.0 MM	60%	2	150	2,000 MM
White Collar	12.0 MM	25%	1	150	450 MM
Student	7.0 MM	15%	1	150	150 MM
				Total	2,600 MM

Answer Q1

1. How big is the work boot market (expressed in euros)? Does Duraflex get more of its revenue from work boots or casual boots?

Following the same procedure the casual boot market is then:

(Average Boots Price) * (% of male population that bought work boots in past year)
*** (total population for the segment) * (number of pairs bought in a year)**

$$(\text{€}100 * 20\% * 11\text{MM} * 1) + (\text{€}100 * 35\% * 12\text{MM} * 1) + (\text{€}100 * 55\% * 7\text{MM} * 1) \\ = \text{€}1,025\text{MM}$$

Or:

	Population	% Buying Work Boots	# Pairs work boots bought / year	Price Per Pair (€)	Segment Size (€)
Blue Collar	11.0 MM	20%	1	100	220 MM
White Collar	12.0 MM	35%	1	100	420 MM
Student	7.0 MM	55%	1	100	390 MM
				Total	1,030 MM

Answer Q1

1. How big is the work boot market (expressed in euros)? Does Duraflex get more of its revenue from work boots or casual boots?

Summary:

- We know from the table on slide 2 that Duraflex has a 16% share of the work boot market and 40% of the casual boot market, therefore:
 - **Duraflex's revenue from the work boot market = 16% * 2,588 MM = 414 MM**
 - **Duraflex's revenue from the casual boot market = 40% * 1,025 MM = 400 MM**
- So Duraflex gets most of its revenue from work boots, even though the revenues are almost evenly split

Our Answer:

The size of the work boot market is ~€2.6 billion. The casual boot market is ~€1.0 billion large. Duraflex generates €414 million from work boots and €410 million from casual boots. Depending on the assumptions taken, work may be slightly larger but the two should be relatively close.

Answer Q2

2. Explain why Badger is outperforming Duraflex in the work boot market.

Ways to approach the question

According to the data we have, and what we know as industry dynamics, the analysis can be split in 4 main areas that would demand further study:

- Distribution
- Buyer Purchase Criteria by Brand (BPCs)
- Pricing
- Cost analysis

Even if you have many good ideas to answer this question, you won't be impressive without STRUCTURE. You don't need a formal framework, just be methodical and organised in your approach – and summarise at the end!

Answer Q2

2. Explain why Badger is outperforming Duraflex in the work boot market.

Distribution

- Duraflex is not sold where work boots are being purchased. Exhibit 2 shows that Badger's and Steeler's boots are often purchased in safety / work channels, whereas Duraflex does not have a significant presence in them
- *Therefore, Duraflex will need to broaden distribution if it is to increase its share; it needs to get shelf space in the relevant channels*

Buyer Purchase Criteria by Brand (BPCs)

- Exhibit 3 shows us that Badger's top two associated criteria are: "Quality / Durability" (45%) and "Comfort" (39%). The same holds true for Steeler. Thus, these seem to be critical criteria for work boot market
- However, Duraflex's top criteria are "Styling" (45%) and "Quality / Durability" (37%), with Comfort is a distant 3rd at 19%, far from its competitors figures
- *Duraflex is not meeting the key needs of blue collar workers and will need to strengthen its "comfort" perception*
- Additionally, we should note that Badger has built up a loyal customer base: "past experience" as a criteria represents 30% and is 3rd on its list of associated criteria

Answer Q2

2. Explain why Badger is outperforming Duraflex in the work boot market.

Pricing

- We know that Badger is launching an “aggressively priced” work boot line. Duraflex can alter its pricing strategy, e.g. lower its own boot price
- However, looking at Exhibit 3, among the stronger work boot market competitors, we see that only Steeler shows price as a top BPC (and then it is the lowest one) – potentially because they are the lower cost option in this market
- *Given that price does not appear to be an important criteria for work boot consumers, Duraflex will likely not realise great benefits from this strategy, and will also lower its profits in so doing*
- *We know from the case that Duraflex has premium price positioning, hence lowering its price may lead to perception of lowering quality*

Cost Analysis

- *Comparing Badger to Duraflex work boots, from Exhibit 4, there is one key area where Badger proportionately and absolutely spends more than Duraflex: “materials”. This supports their perception of “quality / durability” and “comfort” among their consumers. Also, they spend more on “labour”*
- Retailer margin is lower for Badger – due to significant presence in safety / work channel
- Sales & Marketing spend is lower for Badger – potentially driven by lower marketing requirements in safety / work channel as well as established brand name among blue collar workers; Also, Badger has built a loyal customer base, and it is less costly to maintain existing customers than attract new ones
- *Badger has lower margins (both absolute and relative); given already higher market price, Duraflex has limited flexibility to raise its boot prices; Duraflex may lower its margin somewhat and shift emphasis to labour and materials*

Answer Q2

2. Explain why Badger is outperforming Duraflex in the work boot market.

Summary

- Duraflex is not sold where work boots are being purchased
- Duraflex is not meeting the key needs of blue collar workers, as it is weaker than competitors on the critical 'Comfort' dimension
- Badger prices its boots more competitively, which is likely to be particularly appealing to the large work boot market; this has helped develop a large and loyal consumer base
- Badger has lower retailer margins (both absolute and relative) and spends less on Sales & Marketing

Answer Q3

3. What changes would you recommend to Duraflex's work boot strategy? Why? Would you recommend they introduce a sub-branded boot line?

Ways to approach the question

There are two reasonable answers to this question. The company can either:

- *Focus on increasing its work boots activities, or*
- *Emphasize casual boots*

Each option has its own justifications and implications

The important thing with a subjective question is not what you answer to the question, but how you answer the question – pick a point of view and support it with critical reasoning!

Answer Q3

3. What changes would you recommend to Duraflex's work boot strategy? Why? Would you recommend they introduce a sub-branded boot line?

Increased work boot market focus

Justification:

- Represents approximately 40% of Duraflex's business (from question 1), making it very difficult to profitably ignore this market
- While Duraflex does have greater market share in the casual boot market, we know from information given in the case that the casual boot market is smaller in size than the work boot market, which may indicate less opportunity for share growth; also, we derive lower margins (15% vs. 21%) from casual boots (from Exhibit 4)
- Given that Badger is introducing a new work line, they may see new growth potential in the market which Duraflex may also want to capitalise on
- Building a stronger image among blue collar workers may entice them to try other Duraflex footwear products

Implications:

- Enter safety / work channel – we may be faced with pressure from Badger exerting influence on retailers in this channel
- Build “comfort” and “quality / durability” perception among blue collar workers
- Increase proportion of costs allocated to materials and labour – potentially reducing company margin
- There may be unique / niche positionings for Duraflex (suggestions should be well thought out)
- Introduce sub-brand or increase promotion of brand with a focus on blue collar workers: may include on-site promotions, advertising in industry publications, or advertising in magazines / on television during programmes with a higher blue collar readership / viewership

Answer Q3

3. What changes would you recommend to Duraflex's work boot strategy? Why? Would you recommend they introduce a sub-branded boot line?

Emphasize casual boots

Justification:

- Stronghold for Duraflex right now (40% market share)
- Fastest growing market
- Represents approximately 40% of Duraflex's business (from question 1), making it very difficult to profitably ignore this market
- Focusing additional resources on work boot market would risk of alienating casual boot buyers (white collar workers and students)
- "Style" is the top BPC for Duraflex (from Exhibit 3). From the statistics on Badger and Steeler, we know this is likely not an important criteria for the work boot market. By focusing on the casual boot market Duraflex can devote additional resources to keeping up with styles to better appeal to this target

Implications:

- Unlikely to be a strong competitor reaction, since Duraflex is already dominant player
- Duraflex will not need to enter new distribution channels
- Candidate should discuss a strategy for work boot market – either winding down, maintenance etc. and implications of this



This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte network”) is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte’s more than 220,000 professionals are committed to making an impact that matters.

About Deloitte & Touche (M.E.)

Deloitte & Touche (M.E.) is a member firm of Deloitte Touche Tohmatsu Limited (DTTL) and is the first Arab professional services firm established in the Middle East region with uninterrupted presence since 1926.

Deloitte is among the region’s leading professional services firms, providing audit, tax, consulting, and financial advisory services through 26 offices in 15 countries with more than 3,000 partners, directors and staff. It is a Tier 1 Tax advisor in the GCC region since 2010 (according to the International Tax Review World Tax Rankings). It has received numerous awards in the last few years which include Best Employer in the Middle East, best consulting firm, the Middle East Training & Development Excellence Award by the Institute of Chartered Accountants in England and Wales (ICAEW), as well as the best CSR integrated organization by CSR Levant.

About Monitor Deloitte

Monitor Deloitte is the strategy practice of Deloitte Consulting. From strategy through execution, Monitor Deloitte in the Middle East helps deliver improved performance by increasing growth and de-risking strategic choices through strategy professionals who employ cutting-edge approaches embedded with deep industry expertise, working with leaders to resolve critical choices, and drive enterprise value.