The Strategic Move of Crocs, Inc.
By Jennifer von Briesen, Founder & Principal, Frontier Strategy, LLC

Crocs, Inc. Overview

Crocs, Inc. is a U.S. based shoe designer, manufacturer, and retailer that launched its business in 2002 selling Crocs™ brand casual plastic clogs with straps in a variety of solid, bright colors. Love them or hate them, the tremendous popularity of Crocs™ shoes is an undeniable business success story. Crocs' bold strategic move allowed it to break out of the red ocean and achieve both differentiation and low costs to create a blue ocean. The result was rapid growth and global expansion to reach US$847 Million in revenues and US$168 Million of profits in 2007, just six years after launch. Unfortunately, after that, instead of remaining true to the principles of blue ocean strategy, Crocs started to compromise on the very foundation that made it a success. It lost its focus on a few simple styles and started offering a wide range of complicated styles and expanded too aggressively. The result was declining performance and higher costs.

In the rest of this article, the story of Crocs’ strategic move will be explained and will conclude with some perspectives on the company’s current situation.

Crocs Entered A Red Ocean Industry When It Launched in 2002

The U.S. footwear industry in 2002 was $49.3B in annual sales¹, split about 60%-40% between fashion and athletic. Within the fashion footwear segment, categories are well established with shoes representing 55%, sandals representing 25%, and boots and other 20%².

The industry prior to Crocs' strategic move was mature, growing between 1.5%-3% a year, and competition was extremely intense – a red ocean. The marketplace was nearly all imports, with only a relative handful of U.S. firms continuing to manufacture domestically. In 2002, import penetration for all footwear was 98%³. As a result, successful U.S. shoe manufacturers differentiated their products from imported low-cost footwear on the basis of specialization (e.g., sizes/widths, hand sewn features, etc.), quality, exclusive retail channels of distribution, customer service, and brands⁴.

Footwear manufacturers designed, marketed, and produced products based on their target demographic customer segments and fashion trends. Actual production of footwear was typically achieved through a variety of contract manufacturers, often based in Asia. Footwear materials, mainly leather, represented about 50% of the costs⁵, and shoes were mostly assembled by hand (e.g., cutting, gluing, and machine assisted stitching). The majority of

manufacturers worked with traditional limited color palettes, materials, and textures, and created footwear specifically for women, men, and/or children. Large manufacturers invested heavily on building their brands and advertising, and the large athletic shoemakers used paid celebrity endorsements from star athletes such as Michael Jordan (Nike).

Retailers were typically required to buy their shoes from manufacturers months in advance and buy in bulk. Products that didn't sell over time would be marked down to clear out their stock.

How Crocs Challenged Conventional Assumptions of Competition To Create A Blue Ocean

Crocs challenged key industry assumptions and conventions by creating a brand new type of casual shoe, a clog that was partly a shoe and partly a sandal. It used fun, whimsy, and imagination to create a blue ocean by making brightly-colored, comfortable and lightweight clogs with the perfect balance of functional and emotional appeal.

**Crocs™ Features with Functional Utility & Appeal**

- Material has a cushiony feel for long-wearing comfort
- Heel straps hold feet in or can be folded in front for easy slip-on and off
- Soles are slip-resistant and non-marking
- Holes increase airflow
- Material is odor and bacteria resistant
- Small nubs on the inside help prevent slipping and increase blood circulation

**Bright Colors for Emotional Appeal**

*Photo by Elise Robinson on flickr.com*


Material

The company used a proprietary material called Croslite™ – moulded plastic resin – to create a unique clog design with perforated holes. Although the holes made the clogs look funny and cheese-like, this made them more distinctive and original. The holes also made the shoes more comfortable since feet could “breathe.” The material also had special properties that made the shoes lightweight, cushiony and very comfortable to wear, odor-resistant, non-slip, skid-resistant, easy to clean, and waterproof. Compared to traditional materials used by the industry such as leather, Crocs’ material was inexpensive, less variable in terms of quality, longer-lasting, and required minimal manual labor for production. This enabled Crocs to produce its shoes quickly and at an affordable price for its customers.
**Styles and Sizes**
Unlike traditional shoemakers having to produce multiple new styles each season, Crocs only had two styles of clog when it launched and these were intended to appeal broadly to women, men, and children. Because of the loose-fitting nature of the clogs, Crocs could also produce fewer sizes than was typically required. Crocs didn’t focus on particular demographics or segments. It designed for broad appeal across income brackets, ages, and genders.

**Colors and Fun**
One of the boldest moves Crocs made was to launch its product in a wide range of vibrant solid colors. Bright oranges, reds, pinks, and yellows were displayed side by side on vertical racks in stores to grab attention and capture shoppers’ imagination. By breaking traditional color boundaries, Crocs created its own fashion phenomenon. Adding to the fun, Crocs created a crocodile face logo to build a light-hearted brand image.

**Purchase Accessibility**
For retail customers, Crocs changed the game by allowing them to order as few as 24 pairs and stock them in a matter of weeks, not months. Crocs challenged the industry’s conventional replenishment system by delivering colors and styles that customers wanted right away.

For consumer customers, Crocs designed a broad and extensive distribution system so its shoes were available in a variety of retail outlets from specialty stores to department stores and large shoe store chains.

**Marketing & Promotion**
Crocs used creative merchandising (out-of-box vertical displays) and word-of-mouth marketing to build buzz and momentum without having to spend as much as traditional manufacturers on advertising or paying celebrities for endorsements. Celebrities like Al Pacino, Jack Nicholson, Faith Hill, and many others were seen wearing the clogs and once the media
caught on, Crocs benefitted from significant free, viral marketing.8, 9

How Factors That Crocs Eliminated, Reduced, Raised, and Created Achieved Differentiation and Lower Costs

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<td>Which factors were eliminated that the industry long competed on?</td>
<td>Which factors were raised well above the industry's standard?</td>
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<td>Shoe boxes and packaging</td>
<td>Comfort – lightweight, loose-fitting design and cushiony feel</td>
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<td>Hand sewn features</td>
<td>Ease of Use – clogs are easy to put on</td>
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<td>Exclusive retail channels of distribution</td>
<td>Durability – Proprietary resin material called &quot;Croslite&quot; didn't degrade/wear like traditional materials</td>
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<td>Retailers' need to discount prices to clear out inventory due to Crocs' revolutionary replenishment system</td>
<td>Purchase accessibility – more outlets, plus the ability to immediately pull the clogs off the rack/shelf and try them on</td>
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<th>Reduce</th>
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<td>Which factors were reduced well below the industry's standard?</td>
<td>Which factors were created that the industry had never offered?</td>
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<td>Direct labor manufacturing costs</td>
<td>Fun, emotional appeal with crocodile logo and bright colors</td>
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<td>Product materials costs – fewer material components, fewer styles, fewer sizes, etc.</td>
<td>Completely new type of fashionable and functional casual footwear</td>
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<td>Advertising and marketing costs</td>
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E-R-R-C grid © Kim & Mauborgne. Analysis by Frontier Strategy, LLC

Costs were lowered by the elimination of standard box packaging for individual pairs of shoes. They were also decreased by the reduction of stock-keeping units (fewer styles, sizes, etc) and by the use of inexpensive plastic resin material compared to leather and other fabrics. In addition, the plastic resin material allowed Crocs to lower manufacturing costs because the
product could be made faster and cheaper using injection molding machines compared to traditional labor intensive methods. When other shoe manufacturers such as Deckers Outdoor Corporation and Timberland had Cost of Sales averaging 54% in 2006 and 2007, Crocs’ Cost of Sales averaged 42%. Over time, Crocs evolved from using mostly contract manufacturers (standard industry procedure) to also producing its own footwear in facilities in multiple countries around the world (e.g., Mexico, Italy). This speedy production, also made it possible for Crocs to revolutionize the traditional supply chain approach and make its shoes available to a wide range of retailers and consumers within weeks, not months. Crocs was able to build its brand and build momentum with word-of-mouth marketing without traditional high advertising costs.

Differentiation was achieved by creating a completely new type of fashionable and functional shoe that was extremely comfortable to wear and fun because of its bright colors. Whereas most casual footwear available tended to emphasize fashion over function or vice versa, Crocs’ product combined both using its funky look and bold colors to create fashion appeal while using its unique material properties to deliver comfort, ease of use, and performance benefits. Strategically priced around $30 per pair at retail, Crocs were affordable for buyers while providing retailers and the company with attractive margins at the same time. In addition, because of Crocs’ innovative inventory replenishment system, which allowed retailers to order what they needed and get new stock in a couple of weeks, retailers did not need to markdown or discount their inventory.

Perhaps one of the most inspiring outcomes of the Crocs story is that it fostered further local entrepreneurship and new market creation. A stay-at-home mom along with her three children started a business in the basement of their Colorado home called “Jibbitz” making decorative charms for the clogs (that attached to the ventilation holes). Kids loved them so much that sales took off and the mom eventually sold her business to Crocs for $10 million.
How the Strategic Move Grew Demand and Attracted New Customers

Crocs initially targeted its waterproof clogs to water sports enthusiasts (sailors and boaters) but its “think big” vision to create footwear with broad appeal was successful and attracted new customers from all walks of life and regions of the world. Crocs™ shoes are sold in company-operated stores, outlets, and kiosks, on the web, and through domestic and international retailers and distributors13.

After Crocs’ initial launch, demand grew rapidly starting from moms and their daughters, to people like nurses, doctors, and gardeners who spend a lot of time on their feet. Over time, Crocs drew in new customers such as those with health/orthopedic needs and created a special line called Crocs Rx™ designed to enhance therapeutic benefits.

In addition, similar to the way in which Swatch created new demand for watches as fashion accessories, Crocs did the same by using colors and reasonable pricing, turning customers into repeat buyers, with multiple different-colored Crocs for their changing outfits and moods.

Crocs Strategy Canvas

Shoes for everyone that combine comfort and fashion in a rainbow of colors

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<td>Fun-to-Wear Colors</td>
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Results

Crocs experienced outstanding revenue growth for its first six years. It grew from $24,000 in 2002 to $847 Million in 2007. Over the same period, Crocs went from negative profits to $168 Million in net income in 2007\textsuperscript{14}.

In addition, the company achieved tremendous free positive publicity (e.g., celebrities wearing the clogs) and won numerous awards. For example, Crocs was 2007 Brand of the Year winner at the prestigious Drapers Footwear Awards in the United Kingdom\textsuperscript{15}, and also won the Executive Director's Award from the American Podiatric Medical Association (APMA) in 2007 for making a significant contribution to the advancement of podiatric medicine for its medical shoe line, Crocs Rx\textsuperscript{TM}\textsuperscript{16}.

Recent Troubles

Yet in spite of Crocs' phenomenal success, in 2008, Crocs' performance faltered, revenues dropped to $721.6 Million and they showed a net loss of $185 Million. While the depressed economy in 2008 was no doubt a factor in Crocs' revenue drop, a key problem was that the company strayed from its initial strategy of few simple styles to a much wider range of more complicated styles and designs. As shown on a screen shot from the company’s web site below, Crocs’ product line has ballooned to over 350 styles designed for women, men, girls, and boys in a broad range of categories. Going way beyond the initial clog styles that made it successful, Crocs now sells sneakers, boots, flip flops, and dressier styles with heels. Many of these footwear designs now incorporate fabrics such as corduroy and fleece, adding cost and complexity to production.

![SCREEN SHOT FROM CROCS' WEBSITE SHOWING PRODUCT LINE](source: Crocs Company website and Frontier Strategy, LLC analysis)
It also diversified with new brands and accessories, adding further complexity to its business model and operations. For example, the company tried expanding into Croslite™ clothing and also acquired and then had to close a company called Fury Hockey that made sports gear.18

Through the end of 2007 the company had struggled to grow fast enough to keep up with demand, so its response had been to take on more debt and invest in building production capacity and expanding its product line. Crocs built manufacturing plants in China and Mexico and opened new distribution centers in Asia and Europe.17 In addition, the company built inventory in anticipation of continued growing demand which didn’t materialize.

The company veered away from its blue ocean roots of simplicity, a low cost structure, and focused growth and suffered as a result. The company had to lay off over 1,000 staff and close its manufacturing plants in Canada and Brazil.19 And in late September 2009, the company needed to secure $30 million in a new loan agreement with PNC Financial Services Group for working capital and its turnaround20. It remains to be seen what Crocs will do to get back on track, however, the company still has a lot of potential to change course, regain its focus, and recover, especially if it significantly simplifies and scales back its product line and is able to return to a blue ocean strategy lower cost structure.

Summary

In summary, the story of Crocs, Inc., is a great example of a company that created a hugely successful new business by redefining traditional red ocean footwear industry boundaries to create an attractive, blue ocean. After launching in the U.S. in 2002, the company quickly grew to achieve a global presence by staying true for a time to the principles of blue ocean strategy value innovation: maintaining a low cost structure through use of inexpensive materials and efficient, low cost production while simultaneously creating a leap in buyer value through colorful, unique casual shoes that were comfortable, fashionable and fun to wear. The story also highlights how over time, abandoning blue ocean strategy principles and focus can lead to declining results and negative performance.

Endnotes
1 American Apparel & Footwear Association, Shoe Stats
3 Ibid (above 1).
4 Comments of Peter T. Mangione, President of the Footwear Distributors and Retailers of America, March 30, 2004.
5 “Footwear Manufacture, Wholesale, and Retail” industry overview, Hoover’s.
8 Ibid.
10 Frontier Strategy, LLC analysis of income statements from Deckers Outdoor Corporation, The Timberland Company, and Crocs, Inc. annual reports.
11 Ibid (above 6).

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Crocs, Inc. website, August 2009.

Company annual reports and SEC filings.


Ibid.


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About the Author

Jennifer von Briesen is Founder and Principal of Frontier Strategy, LLC based in Boston, MA (www.frontierstrategy.com). She has 15 years of experience as a strategy consultant and has been a Blue Ocean Strategy practitioner since 2002. Jennifer can be reached at JvB@frontierstrategy.com.