ECOMMERCE STRATEGY FOR FOOTWEAR MANUFACTURING START-UP

by

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Abstract

This paper defines and analyzes an eCommerce strategy for a footwear manufacturing start-up firm and assesses the financial impact this eCommerce strategy has in supporting the firm's business model. The market analysis of the importance of eCommerce determined the online channel's market share and influence on consumer purchasing decisions, while the industry analysis examined the competitive landscape and industry forces as drivers of forward integration from manufacturing to wholesale and retail of footwear.

ECommerce strategy is defined with prioritized goals and targets to support business strategy. Assessment of eCommerce technologies, supporting both Business-to-Business and Business-to-Consumer commerce, selects a solution to support the firm's eCommerce strategy. Analysis of cost structure in the footwear industry value chain, the start-up firm, and the eCommerce-supported wholesale and online retail constructs a financial model that demonstrates the impact of eCommerce.

Keywords: eCommerce strategy; footwear manufacturing; footwear industry; B2B; B2C; Business-to-Business; Business-to-Consumer

Executive Summary

The 7 Puddles, an early start-up firm, is the focus of this top-down footwear market analysis that demonstrates that they have a small to medium sized opportunity to launch a footwear product line for infant/toddler users in the active outdoor lifestyle niche market segment that has outperformed other markets during the recent recession. The addressable market size and market region prioritization is:

1. United States: has an addressable market size of approximately $50 million and a cost structure that benefits from the NAFTA agreement;
2. Germany, France, UK (the top 3 European countries): have an addressable market size of approximately $50 million;
3. Mexico and Canada: have a combined market size of $12 million and a cost structure that benefits from the NAFTA agreement; and,
4. other European countries: represent a total size of $50 million in a highly fragmented market.

The analysis of consumer purchasing behaviour demonstrates that the online channel is of high importance for competing in the footwear market. It is not only the fastest growing online retail category, expected to reach over 10% of the footwear market size by 2014, but also the most influential medium on offline purchases, with three times more purchases influenced by the online channel than actual sales completed online.

The 7 Puddles' target market is highly competitive and comprised of several groups of competitors: small one-brand firms, large brands, large collections of brands, and mega brands. The 7 Puddles, as a one-brand firm with a niche market of infant/toddler users, has two options for growth once it saturates the initial target market: either to extend product-line outside initial age group or to become a part of a larger brand collection. The highly competitive footwear industry has low profit margins across the industry value chain from manufacturing to wholesale and through to retail. The 7 Puddles, as a one-brand firm with a niche market, has limited revenue and profit growth opportunity in manufacturing alone. Furthermore, brand development and fashion adaptability are key success factors that contribute to the increased negotiating power across the industry value chain.

ECommerce technologies provide an opportunity for The 7 Puddles to quickly develop the brand, respond to changing fashion trends, and achieve higher revenue and profits, by integrating forward to wholesale and online retail. The eCommerce strategy presented here and proposed technology solutions support The 7 Puddles to develop the brand online, launch new products, aggressively penetrate the market and increase customer lifetime value, and finally yet importantly, use online channel's influence to drive offline purchases.

Mature eCommerce technologies offer a solution with low capital requirements to support the eCommerce strategy in wholesale and online retail. It enables The 7 Puddles to integrate forward its manufacturing operations and grow the wholesale and online retail operations to $15 million revenue and to a $15 million valuation in five years, by investing $250k for the working capital needs of these operations.

The eCommerce growth strategy requires The 7 Puddles to manage the business at break-even in the first two years, with negative free cash flow due to working capital requirements, and to decrease the expenditures gradually from the third year, as it penetrates the US market. Following the US market, the company can follow a similar strategy for market development in the European markets that strongly match with the capabilities that The 7 Puddles will develop in the online channel.

Acknowledgements

I would like to thank Prof. Rick Colbourne, my academic supervisor, for the guidance and practical advice on business analysis and report writing. I am grateful to Juan Gomez who introduced me to his start-up firm, committed ample time and patiently answered my numerous questions, and followed my progress with interest. I owe big thanks to my colleagues David Whitehead and Glen Sampson for their advice.

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Glossary

AOV	Average order value (AOV) is calculated by dividing sales by number of orders taken.
B2B	Business-to-Business describes commerce transactions between businesses, such as between a manufacturer and a wholesaler, or between a wholesaler and a retailer.
B2C	Business-to-Consumer describes activities of businesses serving end consumers with products and/or services.
BECAC	Break-even customer acquisition cost is the cost at which business can monetize a customer. It is calculated based on customer lifetime value, average order value and net contribution margin.
CAGR	Compounded annual growth rate is a business and investing specific term for the smoothed annualized gain of an investment over a given time period.
CPM	Cost per mille (in Latin mille means thousand) is a commonly used measurement in advertising to define what it costs to show the ad to one thousand viewers.
eCPM	Effective cost per thousand impressions (eCPM) is calculated by dividing total earnings by total number of impressions in thousands.
FCF	Free cash flow is a measure of financial performance calculated as operating cash flow minus capital expenditures.
MAP	Minimum advertised price is a suppliers pricing policy that does not permit its resellers to advertise prices below some specified amount.
MSRP	Manufacturer’s suggested retail price is the price at which the manufacturer recommends retailers sell their products.
Online Audience	Online audience is a body of participants in the internet medium, with various demographic profiles and behaviour in the medium.
PPC	Pay per click is an Internet advertising model used on websites, in which advertisers pay their host only when their ad is clicked.
SaaS	Software-as-a-Service is software deployed over the internet through a subscription or a "pay-as-you-go" model.
WACC	Weighted average cost of capital

1: Introduction

The 7 Puddles Footwear Technologies is an early start-up firm planning to launch a new design of children footwear for infants and toddlers through developing an innovative design of a soft-soled footwear based on a combination of recycled, high-performance, technical materials and latex-like polymers. The firm's focus is on the lifestyle consumer market of outdoor active and environmentally conscientious customers and its product line is comprised of three products matched with the first three stages in children's' walking development: pre-walking, first-steps, and walking-trainers.

Juan Gomez, the founder, has previous experience in starting, growing and managing an apparel manufacturing business: Manufactura Textil S.A., in Guadalajara, Mexico, from 1999-2001. Since 2001, he has held various mid to senior level roles in finance and financial planning in Kodak/Creo, Vancouver, Canada. Michael[1], the other founder, has spent the last nine years in mid management positions (operations, manufacturing, and supply chain) in one of the leading firms for soft-soled children footwear and in another leading outdoor apparel and gear firm. In these positions, Michael managed the production and supply chain of both natural and recycled high-performance technical material. The 7 Puddles plans to use the founders' experience to establish production and operations in Mexico, coupled with their practical understanding of the NAFTA regulations, to produce a high-quality product at the lowest North American manufacturing cost. The founders recognize the changes in the wholesale and

[1] Name changed to protect privacy.

retail of footwear over the past decade, in response to the emergence of online channels, impacts on the brand, pricing power, and the possibility for integration across the industry value-chain from manufacturing to wholesale and to retail. The first phase launch of their products will be in the North American market with an optional expansion to European markets planned for the second phase. The founders recognize the importance of brand on pricing power in the footwear industry value chain and plan to brand their footwear products under the "7 Puddles & 7 Hills" moniker[2], which represents footwear for today's puddle skippers and furniture climbers who will become tomorrow's voyagers across the seven seas and seven summits.

ECommerce has benefits to various goals of a business, including: "new product development; brand development; market penetration to decrease customer acquisition costs and, in turn, decrease marketing expenses; improvements in inventory and distribution management to reduce operational costs; and improved service delivery" (Barkley, Markely & Lamie, 2007, p. 14). Consequently, eCommerce must be an integral part of the business plan instead of an add-on (Barkley, Markely & Lamie, 2007, p. 14). Therefore, this paper presents the business plan of The 7 Puddles, including the supporting eCommerce strategy.

The business plan starts with the market research of the global footwear markets by geographical scope to identify primary target markets for The 7 Puddles product launch. The market research continues with analysis of the markets by product scope, to analyze characteristics of the market for children's footwear and identify key driving factors of the markets in which The 7 Puddles plans to launch their products. Finally, the

[2] Conceived of as a children's version of the popular idiom "Seven seas" and the adventurous voyage Seven Seas and Seven Summits that includes sailing across all seven seas and climbing all seven highest peaks - one for each continent.

consumer behaviour analysis demonstrates the importance of the online channel in the target markets.

The analysis of the competition identifies strategic growth options for a start-up firm in the competitive landscape. Furthermore, the competition analysis defines the demographic profile of target customer segment, based on the demographic profiles of customers of identified competitors. Following the market and competition research, the industry analysis identifies the appropriate strategy for The 7 Puddles and the key success factors for a firm with that strategy.

Finally, defining the eCommerce strategy, together with selected technologies, supports The 7 Puddles business strategy. The analysis of cost structure of The 7 Puddles, including eCommerce strategy and operations, constructs financial projections and business valuation to demonstrate the impact of the eCommerce on the business.

2: The Global Footwear Market

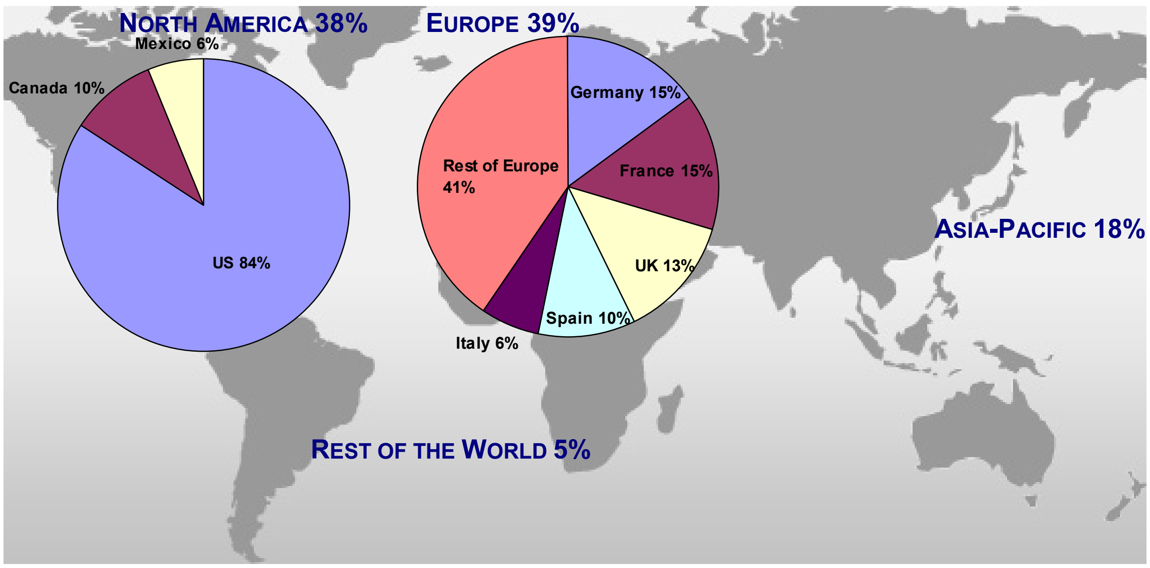
Footwear as a product has a dual purpose – it is a necessity, but also a fashion item and these two purposes create a mix of factors that drive the market. Key economic drivers that contribute to the growth of the overall footwear market are first, demographics (population growth rate), second, disposable income as a measure of discretionary income, and third, consumer purchasing sentiment as a measure of willingness to spend discretionary income (Sivasailam, 2010b). The key market driver for necessity footwear purchases is price. However, this is less so for fashionable footwear purchases.

The following top-down analysis of the global footwear market and its segmentation into footwear categories provides information on the market size for The 7 Puddles, which plans to launch its footwear product line in North America and later to expand to European markets. It focuses on market segmentations, by region and by footwear category, to define the addressable market and prioritize global market regions for The 7 Puddles.

2.1 Major Regions in the Global Footwear Market

The global footwear market as defined by retail sales of footwear has reached $200 billion in 2008 (Datamonitor, 2009i). The majority of the global footwear market is in the regions characterized by high populations, developed economies and the highest disposable incomes. With Europe representing 39% and North America 38% of the global footwear market, Europe and North America combined account for almost 80% of the market, while the Asia Pacific market represents 18% and the rest of the world the remaining 5%.

Figure 1 - Global Footwear Market Share by Region (Source: Datamonitor, 2009a, 2009i, Euromonitor 2009a, 2009b, 2009c)



The footwear market in North America can be broken down further, in which the US accounts for 84%, Canada 10% and Mexico 6% of the footwear market respectively (Datamonitor, 2009a, Euromonitor 2009a, 2009b, 2009c). The European footwear market, while slightly larger, is highly fragmented over 20 countries (including Russia) and an uneven distribution pattern of population levels and discretionary income levels characterizes this market. The top five countries by footwear market, Germany, France, UK, Spain, and Italy, make up 60% of the European market (Datamonitor, 2009b), while other European countries individually represent less than 6% of the market share. Therefore, the main global regions of footwear market are, by representation, North America and top five European countries with over 60% of the global market. Another possibility would be even narrower focus in Europe on only the top three European countries (Germany, France, and UK). Together with North America, they would still represent more than 50% of the global market. The fragmentation of the European market poses a significant challenge for the expansion of a footwear firm due to additional cost for launch and operations in each country. Therefore, launching in the European market requires careful selection of countries and consideration of cost and market size. The launch in the top five countries may require a phased approach, as the top three countries (Germany, France, and UK), which represent 45% of the European market, are most promising due to their market size.

Globally, the footwear market is a stable and mature market with growth in low, single digit, percentages of compounded annual growth rate (CAGR), and a growth trend which is expected to slow down from around 4% to around 3% CAGR (Datamonitor, 2009a, 2009b, 2009i). The more specific regional market size and trends of the children's footwear category coupled with insight into the importance of the online channel inform the detailed analysis of The 7 Puddles in the children's footwear market presented below.

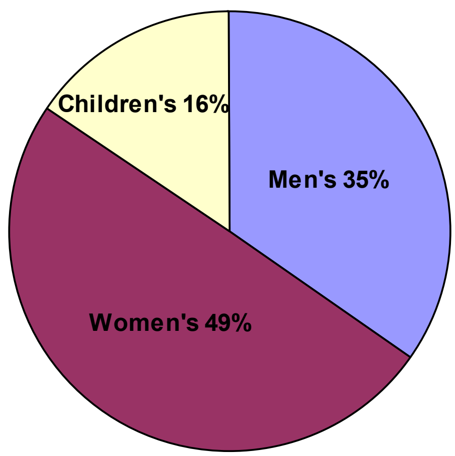
2.2 The Target Category of Children's Footwear

Industry and market classifications identify three footwear categories: men's, women's, and children's. As The 7 Puddles plans to launch a product line of infant and toddler footwear, the most appropriate way to determine market size is to start with the examination of the children's footwear market category. The following market analysis examines the current market size, key driving factors, five-year trends, and the short-term impact of the recession.

2.2.1 Market Size

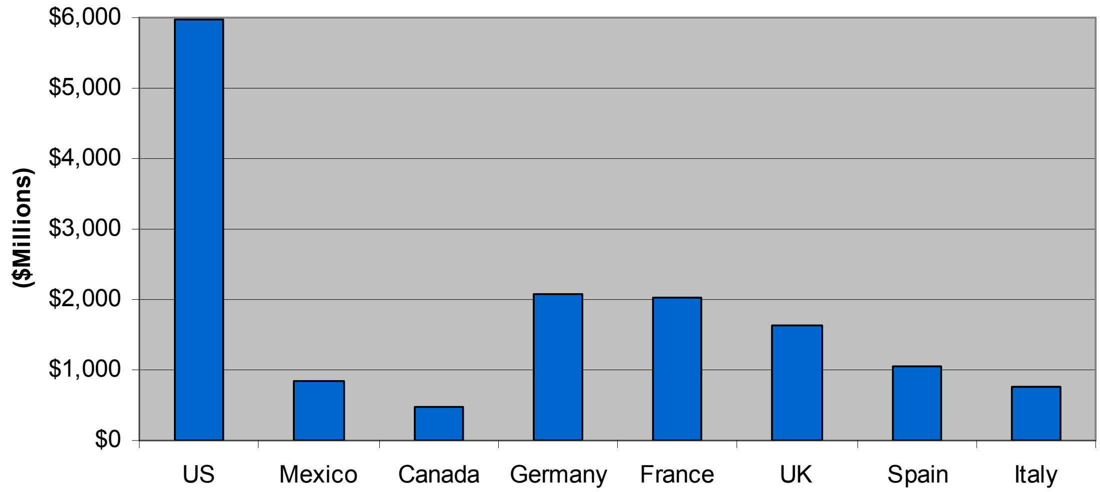
In the main regions of global footwear market, defined as North America and the top five European countries, the share of the children's category of the global footwear market in 2008 ranged from 10% in Canada to 25% in Mexico, with an average share of only 16% (Figure 2) (Euromonitor 2009a - 2009i).

Figure 2 - Footwear Market Share by Category in Main Global Regions (Source: Euromonitor 2009a – 2009i)



The market share differences in the children's footwear category, as percentage of the total footwear market, among the main countries does not significantly change the ranking of the countries by value of the market share. The United States (US) is the leader with $6 billion children's footwear market (Figure 3), with Germany, France and the United Kingdom (UK) trailing at about $2 billion, and others below $1 billion (Euromonitor 2009a - 2009i).

Figure 3 - Market Size of Children's Footwear (Source: Euromonitor 2009a – 2009i)

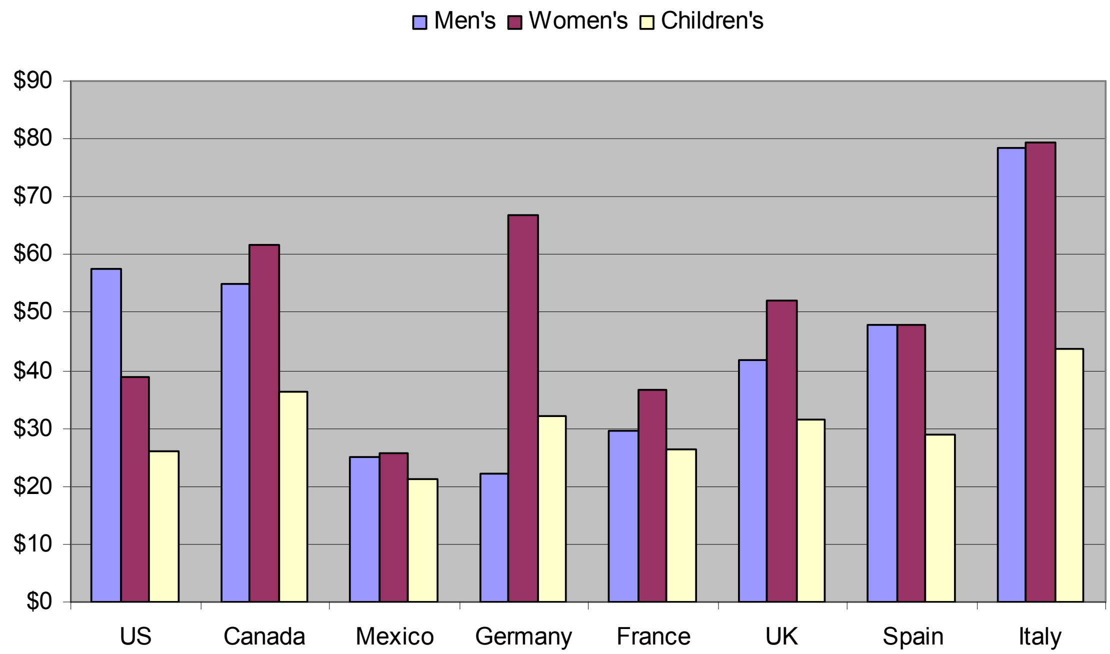


The US is clearly the primary target market for launching children footwear products while the top three European countries combined (Germany, France, and UK) represent a strong secondary market, equal to the size of the US market. Other countries in North America and Europe with smaller market size would benefit from trade/tariff agreements with primary North American and European countries and represent attractive markets once the primary target market is penetrated.

2.2.2 Key Driving Factors

The key market driver for necessity footwear purchases is price, while this is less so for fashionable footwear purchases. Furthermore, pricing power, as determined by disposable income and consumer sentiment, influences the ability of footwear firms to earn profits with specific products. Therefore, it is important to analyze the pricing in the children's footwear market to assess the nature of purchasing decision as fashion or necessity item. The following analysis compares the average price of a children's footwear item sold in the markets as determined by dividing market value (total sales) with market volume (total units sold). The average price of a unit of footwear as a ratio of value and volume in the main market regions, for example, varies from a low of $21 average unit price in Mexico to $25-$30 in most of other countries, excluding Canada at $36 and Italy, the highest, at $44 (Figure 4).

Figure 4 - Average Unit Price of Footwear by Category (Source Euromonitor, 2009a - 2009i)

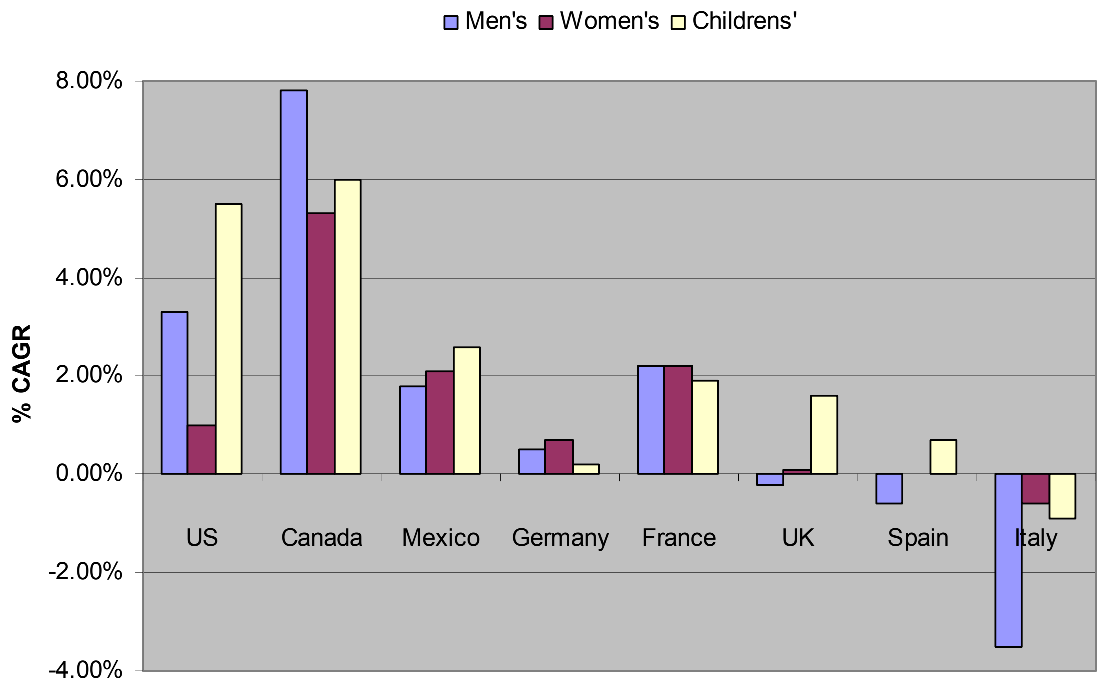


The lower average unit price of children's footwear indicates a necessity driven market in which price is a key factor driving the market. In contrast, high value of average price in Italy and, to a lesser extent Canada, indicate higher consumer sentiment in which decisions are mainly fashion driven in those two markets.

2.2.3 Positive Growth Trends

Although the children's category accounts for only 16% of the footwear market, as a category, it is projected to outperform all other categories from 2008-2013 (Euromonitor, 2009a – 2009i). Growth in North America is anticipated to outperform growth in Europe (Figure 5), with about 6% CAGR in US and Canada compared with less than 2% CAGR in the top five European countries, especially Italy which is projected to experience negative growth (Euromonitor, 2009a – 2009i).

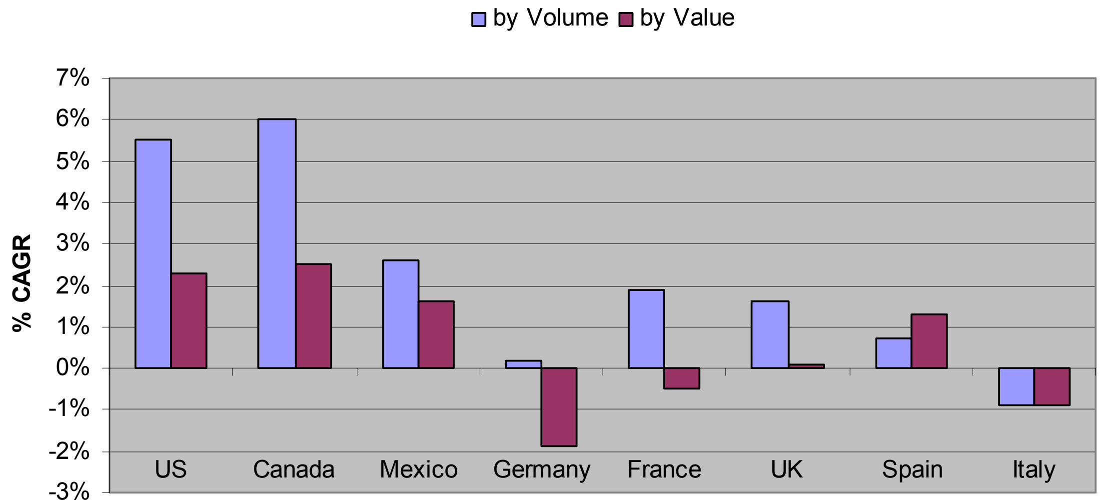
Figure 5 - Market Growth Forecast 2008-2013 by Volume (Source: Euromonitor, 2009a - 2009i)



Higher than average growth in children's footwear category along with the highest projected growth rate being in North America, makes the North American market more appealing to The 7 Puddles for launching and marketing a new children's footwear product line.

The forecast growth of the children's footwear market projects higher growth by volume rather than growth by value (Figure 6) indicating that the average unit price in the children's footwear market can be expected to decline below the current level (Euromonitor, 2009a - 2009i).

Figure 6 - Children's Footwear Market Growth by Volume/Value 2008-2013 (Source: Euromonitor, 2009a - 2009i)



The forecast growth of the children's footwear market indicates extenuation of the price pressure in this market despite growth in market volume. This forecasted price pressure in the growing children's footwear market should increase the importance of the firm's ability to compete by price.

2.2.4 Short-Term Impact of Recession on Children's Footwear

The financial crisis that started in 2008 and the economic recession that followed, have significantly affected retail markets worldwide. The economic conditions and the two key driving factors of the footwear market, disposable income and consumer confidence, have deteriorated compared to pre-crisis levels and will influence the market potential for The 7 Puddles product launch. However, despite the slowdown in retail markets recorded for May 2010, both month-over-month (MOM) and year-over-year (YOY), the children's footwear and apparel category is projected to remain the most buoyant retail market with 2% YOY growth in contrast to the decline of 3.7% YOY projected for the footwear and apparel market overall (MasterCard Advisors, 2010). The resilience of the children's footwear market during the economic downturn and the projection of faster growth in economic recovery in 2008-2013 indicate that The 7 Puddles can expect to launch products into a growing market.

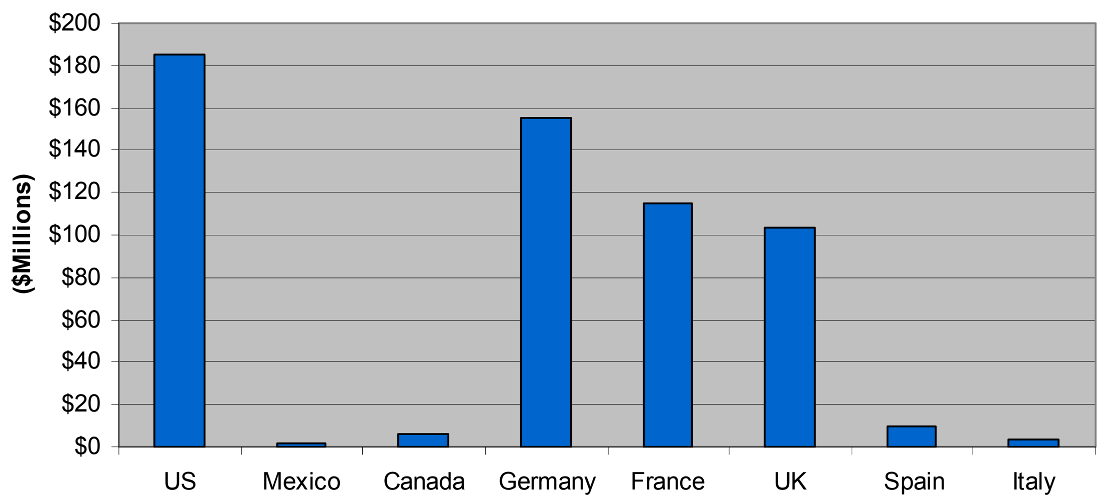
2.3 Online Channel Importance in Footwear Market

Increased penetration of Internet and online communications worldwide positions the online channel more centrally in facilitating improved revenues and profits for firms through establishing brand recognition and eCommerce. Customers are increasingly using the online channel at various stages of purchase decision process, from product search, to product feature research and comparisons, to actual online purchases. The 7 Puddles' strategy to reach customers and establish a brand for active outdoor lifestyle depends on the importance of the online channel in the children's footwear market. Therefore, the analysis of the footwear market that follows, which determines the size of the online channel, growth trends of the channel, and cross-channel influence on the offline channel, is considered vital.

2.3.1 Online Retail

In 2008, online retail represented less than 10% of the footwear market globally (Euromonitor, 2009a – 2009i). The top footwear markets, by online channel share in 2009 were the top three European markets (Germany, France, and UK) where the online space accounted for up to 11% of the footwear market in all categories (Camus & Freeman Evans, 2009), and US where it was 9% (Mulpuru, 2010). The size of the online channel in the children's footwear market can be estimated by applying the relative shares in the footwear market on the size of the children's footwear market, assuming approximately even participation of all footwear categories (men's, women's, and children's) in the online channel. In North America and the top five European markets, the size of the online retail of the children's footwear was $581 million in 2008 (Figure 7), based on the children's footwear market size, previously discussed in 2.2.1, and relative online channel market share of the footwear market in 2008 (Euromonitor, 2009a – 2009i).

Figure 7 - Online Children's Footwear Retail Size in 2008 (Source: Euromonitor, 2009a - 2009i)



In the online footwear retail space alone, the top three European countries are two times the size of the US by absolute market size (Figure 7) (Euromonitor, 2009a – 2009i). While the online footwear retail market is more significant for the top three European countries than the US, it is of low importance in the other markets.

2.3.2 Positive Growth Trends

The online retail segment of footwear market has grown rapidly over the period 2003-2008, at growth rates ranging from 12% CAGR in Canada to 52% CAGR in France, and by significantly outperforming overall footwear market growth, the online footwear retail space is increasingly more important for footwear retail (Euromonitor, 2009a – 2009i). This analysis projects the growth trend to continue in the near term in both US and Europe (Freeman Evans & Camus, 2010; Mulpuru, 2010).

Figure 8 - Footwear Online Retail Growth from 2008 to 2014

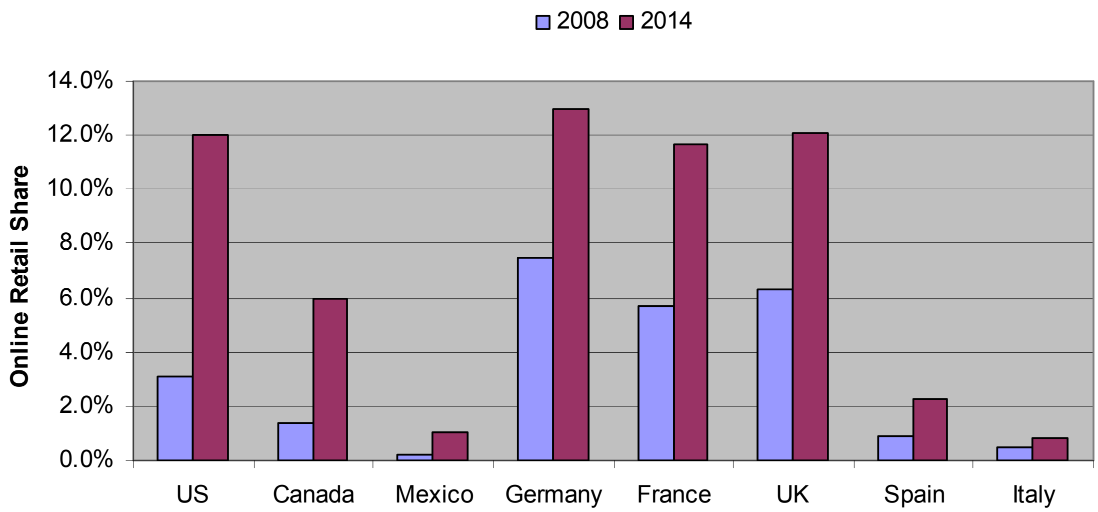


Figure 8 demonstrates fast growth in US followed closely by growth in the European countries, which currently lead in online footwear retail. It further demonstrates the expected growth of the US online footwear retail market to 12% by 2014 to close in on the leading European countries: Germany, France and UK (Freeman Evans & Camus, 2010; Mulpuru, 2010).

2.3.3 Short-Term Impact of Recession on Online Retail

In context of the economic recession, the online footwear retail space experienced divergent growth at opposing ends of the demographic category of family-income. While overall growth in 2008-2009 was flat at about 0%, growth of the online retail space among low-income family segment (<$50k) declined drastically due to a significant drop in disposable income, while the online retail in medium-income family segment ($50k-$100k) and high-income family segment (>$100k) continues to grow (Table 1) (ComScore, 2009).

Table 1 - Online Retail Growth in 2009 by Family Income (Source: Comscore, 2009)

Online Retail / Family Income	Segment Size	Segment Growth	Total Growth (Segment Size * Growth)
Under 50k USD	**20%**	**-10%**	**-2.0%**
50-100k USD	**47%**	**2%**	**0.94%**
Over 100k USD	**33%**	**3%**	**1%**
Total	**100%**		**~0%**

Given that the risk of stagnation of the online retail segment during a recession affects mostly the low-income families and, as The 7 Puddles launch will target mainly medium-income and high-income customers as discussed in section 3.3, it is not expected that the firm will suffer from the adverse effects of the recession.

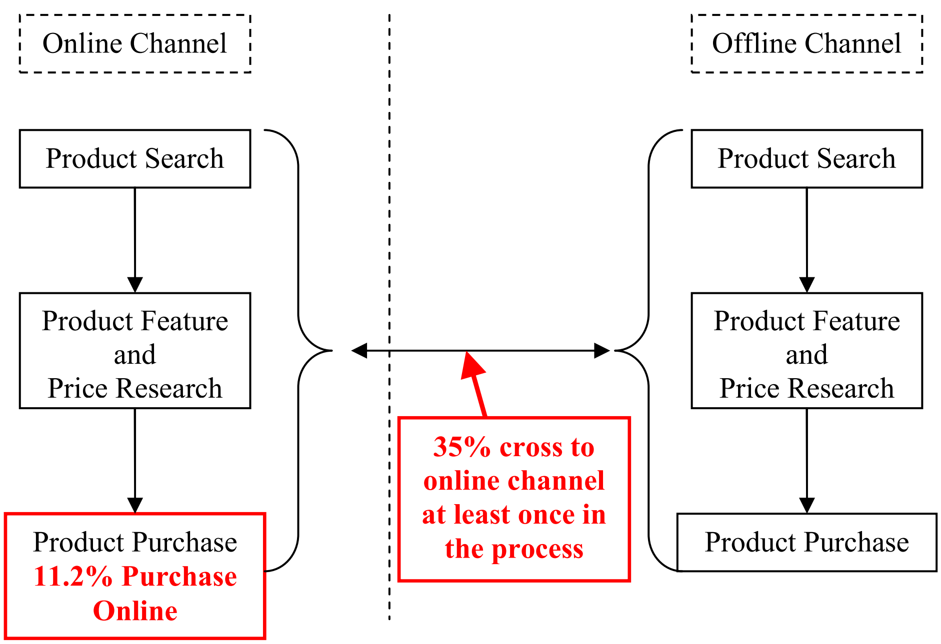
2.3.4 Online Channel Drives Offline Purchases

Consumers use the online channel to make purchases of children's footwear, but are also increasingly using the online channel in the purchase decision-making process, even in cases in which the consumer makes the final purchase in a brick and mortar retail outlet (offline channel). Consumers have opportunity to use online channel in every step of the purchase decision-making process and, generally, follow three steps:

1. Product Search
2. Product Feature and Price Research
3. Product Purchase

In this process, consumers start from product search, and proceed through one or more steps in researching and comparing products, features and prices, before they make a decision to purchase. The split between online and offline shoppers, for the footwear and apparel category, in Europe, in the first step (Product Search), is 17% online and 83% offline (Camus & Freeman Evans, 2009). Even though there are no available data specific for the second step in footwear and apparel category, the available data for all online retail categories indicates that 78% of 83% of consumers that start their search for footwear product offline do not use the online channel in any step of their purchase decision-making process.

Figure 9 - Footwear and Apparel Cross-Channel Purchase Decision Paths (Source: Camus & Freeman Evans, 2009)

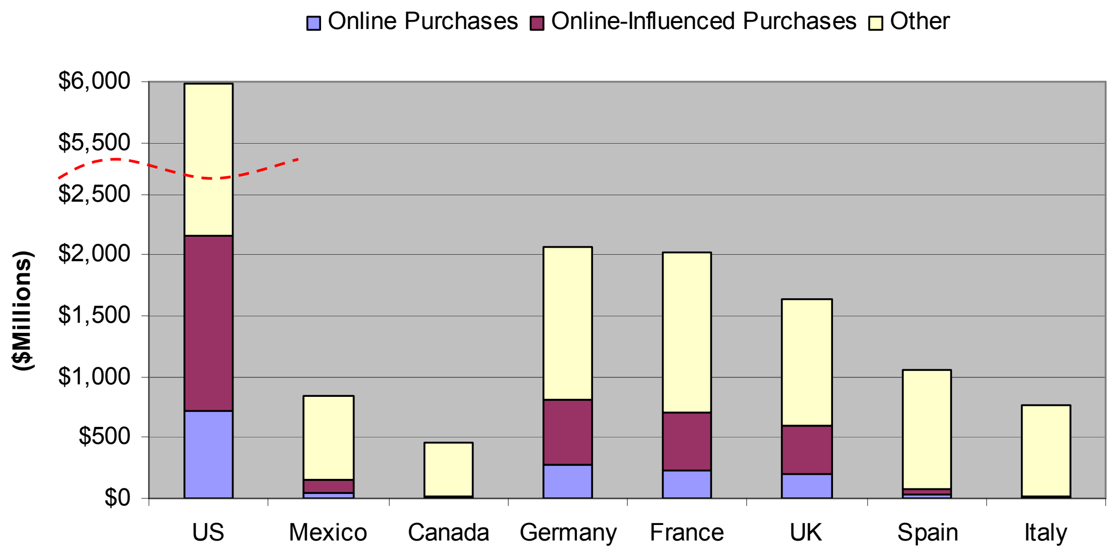


This means that 65% of all footwear and apparel consumers do not use online channel in any step of the decision-making process. Therefore, it can be assumed that the online channel influences the purchase decision-making process of 35% of consumers compared to 11.2% of reported purchases in online channel (Camus & Freeman Evans, 2009), or in other words, the online channel influences three times more purchases than those reported as online purchases. As the consumer can perform any of these steps online or offline, it is increasingly important that firms provide products and product information via the online channel to influence consumers' footwear purchase decision-making behaviours.

2.4 The 7 Puddles' Addressable Market and Region Prioritization

The top-down market sizing presented above is useful for understanding of the size of the opportunity and the growth trends that open up the market for new entrants. The children's footwear market in main markets (North America and top five European countries) will experience a modest single digit growth over the next several years until 2014 at which time it will level off at around $15 billion. During the same period, online channel sales is projected to over $1.5 billion of footwear sales or over 10% of the market, while the online channel will influence $4.5 billion or about three times as many purchases (Figure 10).

Figure 10 - Online Channel Influence in Children's Footwear Market in 2014



The US has been identified as the most attractive market for The 7 Puddles launch because it is three times larger than the next market in size, it is a signatory to the NAFTA agreement, (benefits The 7 Puddles' cost structure), and because by 2014, it will represent the largest online footwear market globally. Moving forward from the US market, The 7 Puddles will have to make a decision between entering the rest of the North American market and/or the top three European countries. Mexico and Canada represent quick wins for The 7 Puddles due to the NAFTA trade agreement, but together they represent an approximate 25% increase over the US market. In contrast, the top three European countries (Germany, France, and UK) combined are approximately the same size as the US market but with a much larger share of customers influenced by the presence of online channels. If US market penetration is successful, European markets represent a stronger match with the development of the The 7 Puddles capabilities in the online channel. In formulating future strategies, The 7 Puddles will need to balance off the benefits that NAFTA tariff regulations bring to entering into the remaining North American market against the benefits of entering leading European markets based on the firm's strategic capabilities in the online channel. From a growth-oriented perspective, it is more desirable that The 7 Puddles expands to Europe after success in US making the top three European countries a second priority for The 7 Puddles.

The US, as the top priority children's footwear market with total $6 billion in size and modest growth, represents a relatively small market for a niche lifestyle brand and limited age-span of product users. Unless the chosen lifestyle becomes the dominant lifestyle of the future, The 7 Puddles can expect to capture a single-digit percentage of the market worth approximately $50-$100 million and is in the range of some incumbents such as Robeez that grew to about $30 million in revenues at the time of its acquisition in 2006 (Boston Business Journal, 2006). Following the US market, the company has an opportunity for market development in the European markets that are approximately the same size as the US market.

3: Competitive Landscape

As a start-up, The 7 Puddles will face competition from similarly positioned firms on entering into the children's footwear market. Sustaining a competitive advantage will depend on how the firm chooses its target market segments and product and brand positioning. As most of The 7 Puddles competitors are vertically integrated and involved in the design, marketing, brand management, retail and manufacturing of footwear, the analysis that follows focuses on brand ownership and positioning rather than position in the vertical industry value chain. Research identified the following firms as competing in infant/toddler footwear. They are organized according to brand positioning and revenues:

1. large mega brands (Adidas, Nike);
2. large collections of smaller unique lifestyle brands (Collective Brands, Wolverine);
3. medium size brands (Clarks, Sketchers), with Crocs between medium size brand and large collection; and,
4. small brands (Robeez, Simple Shoes, Pediped, See Kai Run, Jack and Lily, ShooShoos, and Elefanten).

As the small brands are recognized as the closest competitors to The 7 Puddles, as a new niche brand entrant, the detailed analysis that follows focuses on firms in this group and is followed by an examination of the market's competitive dynamics and The 7 Puddles' options for growth.

3.1 Small brands

The identification of small brands that occupy the same market space into which The 7 Puddles plans to launch is important as it will help to identify the firm's competitors along with key growth strategies. The firms were identified in two ways: firstly, from interviews with the founders of The 7 Puddles based on their professional experience; secondly, from online search results. The online searches were performed for terms describing baby, infant, and toddler shoes and footwear in English and German with the search engine set to display results for US, Germany, and UK, targeted as the top markets in North America and Europe. This research identified the following seven brands as the closest competitors, each with presence in more than one country: Robeez, Simple Shoes, Pediped, See Kai Run, Jack and Lily, ShooShoos and Elefanten.

Robeez, founded in 1994, in Vancouver, Canada (Robeez, 2010b), produces soft-soled baby footwear made of natural leather. It grew to almost $30 million in revenues when Stride Rite acquired it in 2006 (Boston Business Journal, 2006). Following the acquisition, it became one brand in a portfolio of brands. Currently, the brand owner, Collective Brands, produces three product models, mini shoes and 1st stepz™ in addition to the already identified soft-soled shoes.

Simple Shoes founded in 1991 in the US struggled on the market for over a decade until it started its ecological product line in 2004 (Simple Shoes, 2010b). It produces both children's and adult footwear and is positioned as being "planet-friendly" by using sustainable materials and supply-chain activities, which was recently expanded to include recycled materials.

Pediped, founded in 2005 in the US, began with the launch of three product models: one for pre-walkers; another for toddlers transitioning to walking; and, a third model for walking children (Pediped, 2010). Pediped prides itself for paediatric society approvals and has expanded it product lines to include shoe charms, hair clips, tights, and socks. Pediped's strength is that it focuses on creating a range of fashionable designs for all of its products.

See Kai Run, founded in 2004 in the US, started with a product model for toddlers transitioning to walking which was later expanded into both products for infants and older children from 3-8 years (See Kai Run, 2010). See Kai Run positions its products as high quality, paediatric, with urban styles.

Jack and Lily is located in Vancouver, Canada (Jack and Lily, 2010). Its products, branding and product positioning are similar to the original soft-soled shoes produced by Robeez.

ShooShoos, founded in 1996 in Cape Town, South Africa, was created with philanthropic reasons to help disadvantaged communities where the shoes were being manufactured (ShooShoos, 2010). ShooShoos continues to emphasize its philanthropic values in addition to using high quality non-toxic materials, mostly leather.

Elefanten, founded in 1896 in Germany, produces children's footwear for all stages of children development, from crawlers to 6 years and older (Elefanten, 2010b). Its products are solidly built and engineered to provide support for growing feet. Elefanten creates a special ecologically friendly product line in addition to traditional product lines.

There are number of similarities among the above seven firms, in terms of their history, brand and product positioning. The section that follows examines how the brand and product positioning of these competitors is important for The 7 Puddles market entry in context of the potential competitive response of these firms.

3.2 Competitive Dynamics

The close competitors of The 7 Puddles, as identified in the previous section, have similar histories, brand and product positioning in both their features and growth paths. Table 2 presents a summary of the brand and product positioning that influences competitor responses to the entry of The 7 Puddles as follows.

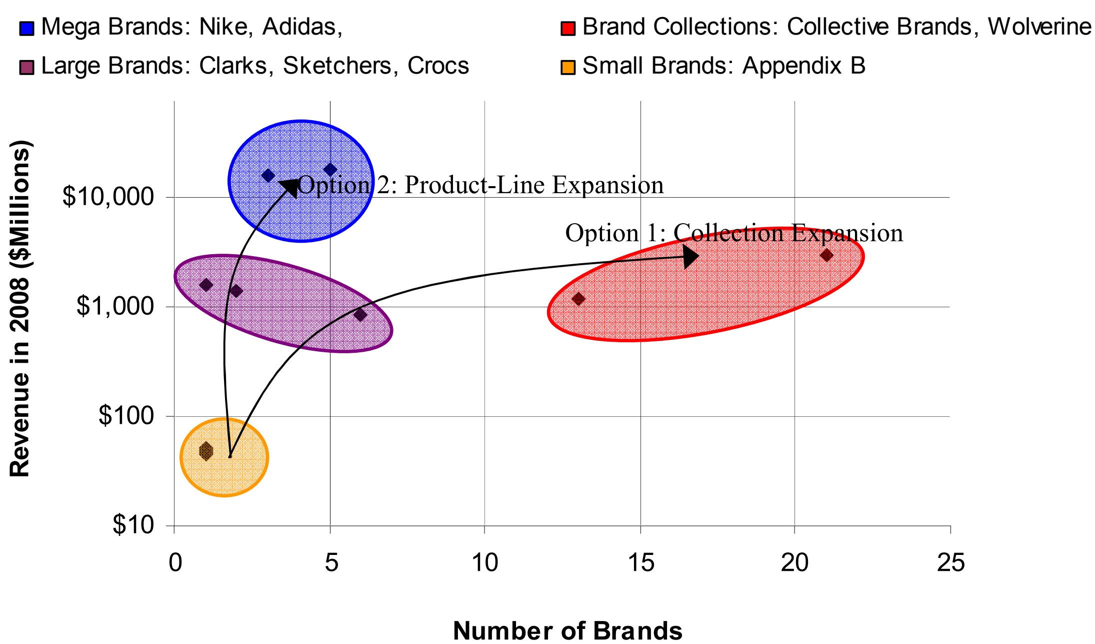
Table 2 - Brand and Product Positioning of Competitors

Feature	**Materials**			**Fashion Design**		**Sole**		
Firm	**Natural leather**	**Ecological, organic**	**Recycled**	**Fashionable**	**Simple**	**Soft sole**	**Paediatric**	**Engineered support**
Robeez	X				X	X		
Jack and Lily	X				X	X		
ShooShoos	X				X	X		
See Kai Run	X				X	X		
Pediped	X			X			X	
Simple Shoes		X	X		X	X		
Elefanten		X			X			X

The brand and product positioning of competitors is central to the analysis of the market's competitive dynamics.

Niche brands have an opportunity to build out and dominate their own niche market by employing the niche strategy (Grant, 2007, p. 333). However, the size of the niche limits the growth options. The competitive landscape of these firms demonstrates two main growth paths for niche firms. The first option for growth is by expansion of the collection of unique brands and the transformation into a brand management firm (Figure 11).

Figure 11 - Growth Paths in Footwear Market



In this process, a firm may acquire brands or be acquired by a larger brand collection. An example of this chain of acquisitions is the Stride Rite acquisition of Robeez in September 2006 for $27.5 million USD (Boston Business Journal, 2006), only to be acquired by Payless Shoes in May 2007 for $900 million (Pardy, 2007) who then changed the name to Collective Brands.

The second option for growth is the expansion of the product line under the brand to larger market segment not limited to infant/toddler shoes (cross-category).

Cross-category footwear brands such as Clark's, Skechers and Crocs, for example, produce both children and adult footwear under the same brand.

As a new entrant to the market, The 7 Puddles will trigger different responses from incumbents, which may range from no reaction to collusion to direct price war. The response of incumbents depends upon their strategy for growth, brand and market positioning. Based on the grouping of incumbent competitors in the competitive landscape, reactions will be similar among incumbents within a group.

Large Mega Brand incumbents, such as Nike and Adidas are unlikely to focus on a small niche brand, as they are pursuing growth at a larger scale. They have a few brands with wide target market segments, and it is unlikely that they would be concerned by a start-up such as The 7 Puddles until it grows at least to a medium-size brand such as Clark's, Skechers or Crocs.

Mega Collections of Brands, such as Collective brands and Wolverine are growing through acquisition of smaller brands with established unique lifestyle market characteristics. If The 7 Puddles successfully grew to define and lead a unique lifestyle brand, it could become an acquisition target of those firms, similar to the Robeez acquisition by Stride Rite, an owner of multiple brands at the time before Payless Shoes acquired it.

Medium Size Brands, such as Clark's and Skechers are unlikely to change strategy and start acquiring brands. They are, however, in a better position to develop products that compete directly with The 7 Puddles in the niche active outdoor lifestyle market.

Small Brands are the closest competitors to the 7 Puddles and are likely to have different responses depending on their own brand positioning. Simple Shoes would find it difficult to compete with similar products due to its positioning as footwear made of natural and organic materials. The 7 Puddles could threaten Simple Shoes' presence in active outdoor lifestyle market where it is currently retailed by REI and MEC. The likely response would come in the way of emphasizing value of natural and organic materials versus recycled and high-performance materials. Elefanten is not likely to consider The 7 Puddles a threat due to the positioning of its footwear as engineered to support feet. Therefore, it is not likely to react to The 7 Puddles market entry. Robeez, Jack and Lily, and ShooShoos position themselves as producers of soft natural leather based products, so it would be difficult for them to develop a product with features similar to those of The 7 Puddles under the existing brands. They are more likely to view The 7 Puddles as a threat and to compete with their current brands, emphasizing the softness of leather and natural origin of the product versus recycled and high-performance materials. Pediped positions itself as a fashionable and paediatric shoe made of natural leather that supports growing feet. It could decide to launch a fashionable product made of recycled high-performance materials under the same brand and compete directly with The 7 Puddles.

Consequently, the analysis of competitive responses identifies Simple Shoes and Pediped as two main competitors. In the case of Simple Shoes, The 7 Puddles could threaten their active outdoor lifestyle market where they have organic products currently distributed in retailers such as REI and MEC; and in the case of Pediped, it could compete with a more fashionable product made of similar materials.

In addition to understanding brand and product positioning (see section 6.3), The 7 Puddles will need to identify and reach target customer segment(s). The competitive environment provides insights into target segments that The 7 Puddles plans to reach. Therefore, the following analysis compares demographic characteristics of online audiences of identified competitors to establish the demographic profile of the target customer segment(s).

3.3 Demographic Profile of the Target Customer Segment(s)

The demographic profile of the target customers provides insight into buying habits, demographic characteristics tied to macro economic and market trends, and target profile for brand advertising. Although The 7 Puddles has not yet launched its product line, research can estimate a reliable demographic profile of target customers based on those demographic profiles of online audience of the close competitors' websites. Therefore, the analysis in the following sections uses demographic profiles of online audiences to define the target demographic profile of The 7 Puddles' customer and to identify distinct customer segments.

3.3.1 Online Audience Profiles

Following is the analysis of the online audience of the close competitors of The 7 Puddles, as identified in section 3.2, based on the available demographic profiles from Quantcast for US websites: Simple Shoes, Robeez, Crocs, Pediped, and ShooShoos (Appendix A). This section analyzes the demographic profiles of the online audience by the following attributes: Age, Gender, Ethnicity, Children in Household, Income, and Education.

3.3.1.1 Age

The Quancast index, a measure of how an individual site's audience compares to the US internet population as a whole[3], for age groups of 18-34 years and 35-49 years, indicates those age groups as dominant by index factor of 1.3-2. There is between 1.3 and 2 times more participation in the audience of the selected websites than in the average internet population. This is in correlation with the age when most of the population is having young children or has friends and family in the age group that has young children at home. The split of the Quantcast groups at 35 does not serve the purpose of this demographic profiling because research indicates that the middle range overlapping the two groups is the focal age group for The 7 Puddles: 30-40 years of age.

3.3.1.2 Gender

Gender of the audience does not display prominently defining characteristics of the audience, because it only slightly differs from an average online audience. Among the selected websites, Quantcast index for female visitor participation is in range 1-1.2, which is close to the average internet population. Therefore, the expected target audience should have close to even split by gender, because the average online audience has almost even split by gender to 51%/49% for female/male audience.

3.3.1.3 Ethnicity

The Ethnicity breakdown is slightly in favour of a Caucasian audience with Quantcast index of 1.2. The only exception is the website of Pediped where the Hispanic audience has index value of 1.4, indicating higher than average participation of the

[3] "The *index* shows how an individual site's audience compares to the internet population as a whole. For example, an index of 100 indicates a site's audience is equivalent to the demographic make-up of the total internet population. Any increase over 100 means that the property is over indexed and attracts a more concentrated group of a particular demographic group than in the general internet population." (Quantcast, 2010b)

Hispanic audience on the Pediped website. However, given the high percentage of Caucasian ethnicity (78%) and low participation of Hispanic ethnicity (9%) in the average internet population, it can be expected that Caucasian ethnicity is dominant in the audience of The 7 Puddles overall.

3.3.1.4 Children in household

The “children in household” attribute shows distinctly different demographic distribution than the average internet population. Firms selling children shoes only (Robeez, Shooshoos, Pediped) have Quantcast index value higher than 3. This indicates three times higher audience participation from families with 0-2 years old children than the average. Other two firms, Simpleshoes and Crocs, which sell both children and adult shoes also have higher values of Quantcast index, ranging between 1.15 and 1.3 for families with 0-2 years old children. The averaging of the audience for children and adult shoes on these two websites reduces the quality of information by blending the two segments. In the next children age group, 3-12 years old, Robeez, Pediped, and Shooshoos also have high Quantcast index values, approximately 1.2.

The two children age groups together, 0-12, present a distinct separation of the online audience on two segments: parents and givers. Forty percent of the online audience belong to a group with no children in an age range of 0-12 in the demographic category “children in household.” Assuming there is no alternate purpose for children’s shoes, this audience is the audience of givers purchasing gifts for children of friends or family. This means that almost one-half of the online audience represent giver-customers, customers purchasing gifts, which is an important consumer segment with a different purchasing behaviour. This is a low estimate of the giver-segment of customers as a portion of audience with children also makes purchases for gifts.

3.3.1.5 Income

Income groups of the audience shows some divergence between the firms. The firms focused on children's shoes only (Robeez, Pediped, ShooShoos) have Quantcast index values of 1.4 to 1.7 in the income group $60-100k. Considering participation from adjacent categories $30-60k and $100k+, the audience is mostly in $50-100k (middle-income) category used by ComScore for measuring online retail (ComScore, 2009). The firms with shoes for both children and adults (Simple Shoes and Crocs) have different demographics on income attribute. While Crocs has generally higher Quantcast index values for higher income groups, with 1.2-1.3 index value for both $60-100k and $100k+ category, Simple Shoes appears to have two distinct groups with high Quantcast index values in low and high income groups, $30-60k and $100k+ group. The explanation for this divergence could be the mix of footwear in their offering from children to adult.

Overall, the income groups are encouraging for market demand in retail and online retail specifically, as the growth in this segment has been strong despite the recession, as discussed in section 2.3.3.

3.3.1.6 Education

Education groups indicate high participation of audience with college and graduate degree, with the only exception of ShooShoos that has dominantly an audience with only college degrees. The overall expectation of The 7 Puddles online audience is a high education.

3.3.2 Demographic Profile of The 7 Puddles' Target Customers

Based on the above analysis of demographic characteristics, The 7 Puddles' demographic profile of target customer can be defined as 30-40 years of age, medium to high income, medium to high education, and most importantly, split into two distinct target groups of giver-customers and user-customers. Table 3 presents the percentage of the audience within target demographic profile for each characteristic.

Table 3 - Demographic Profile of Target Customers

Demographic Characteristic	Target	Audience Percentage
Age	30-40	More than 50%
Gender	average (average is distributed almost equally between Female and Male)	100%
Ethnicity	average (average is predominantly Caucasian ethnicity)	100%
Children in household	**Parents**: 0-12 year old children	60%
	Givers: no children in age range 0-12 years old	40%
Income	$50-100k	More than 50%
Education	high, college or graduate degree	80%

The almost even split of children footwear customers, to those with children in age group of 0-12 and those without, demonstrates the significance for The 7 Puddles, as a children footwear firm, to target both customer segments, those buying for children in their household (user-customers) and those buying gifts (giver-customers).

3.4 The 7 Puddles' Growth Options

The analysis of the competition identified several competitor groups and firms expected to compete closely with The 7 Puddles. This analysis expects the most intense competitive reaction from Pediped and Simple Shoes, and to some extent from Robeez, Jack and Lily, and ShooShoos. Furthermore, the analysis of the brand and product positioning by feature of the identified competitors provides information for The 7 Puddles to plan its own brand and product positioning (see section 6.3) in order to carve out its market segment. Additionally, the analysis of the demographic characteristics of the target segment(s), based on demographic profiles of online audience of competitors' websites determined: first, that The 7 Puddles has two target segments of customers (user-customers and giver-customers) that are used to define the eCommerce strategy in section 7.1; and second, the demographic profile of those target segments that provides information for marketing activities, discussed in section 7.5.

The grouping of competitors on the competitive landscape identified four groups and two common growth paths: product-line extension and brand collection expansion. This influences selection of the overall business strategy for growth of The 7 Puddles that requires consideration of the footwear industry characteristics analyzed in following section.

4: Vertical Integration in the Footwear Industry

The previous market analysis and prioritization provided information on opportunity size demonstrating that the US market is the most attractive market with around $50 million niche market opportunity for The 7 Puddles, followed by the top three European countries. The competitive landscape analysis presented four groups of competitors and identified several small one-brand firms as the closest competitors, primarily, Pediped and Simple Shoes, and also, to a lesser extent Robeez, Jack and Lily, and ShooShoos. The footwear industry structure and competitive forces influence the strategy, sources of competitive advantage, and the key success factors for The 7 Puddles. The footwear industry value chain begins with material suppliers, moves through manufacturing to wholesale and retail. ECommerce, understood as a set of technologies that facilitate particular business models, offers opportunities for connecting and bypassing some of the elements in the footwear industry's traditional value chain. Therefore, the analysis that follows examines the footwear industry value chain from manufacturing to retail, and includes eCommerce.

4.1 Competitiveness in the Footwear Industry Value chain

Porter's (2008) industry analysis framework identifies five forces that define industry characteristics and influence company strategies: Threat of New Entrants (i.e. Entry Barriers), Threat of Substitute Products, Competitive Rivalry within an Industry (i.e. Competitiveness), Bargaining Power of Customers (i.e. Power of Buyers), and Bargaining Power of Suppliers. Generally, footwear, as a necessity product, does not have substitute products. The only substitute products for any specific footwear could be another footwear/apparel category, e.g. casual vs. sportswear, or infant soft-soled shoes vs. anti-slip socks. Consequently, the analysis of the industry does not cover substitute products, but focuses instead on the remaining four industry forces from the Porter's five forces framework (Porter, 2008): Entry Barriers, Competitiveness, Power of Buyers, and Power of Suppliers.

Table 4 - Industry Characteristics in Footwear Industry Value Chain

	Manufacturing	**Wholesale**	**Retail**
Entry Barrier	**Low** Low capital requirements, mainly for labour	**Medium** Medium capital requirements for technology (supply-chain, inventory, distribution management)	**Low** Low capital requirements, mainly for rent and labour
Competitiveness	**High** Large scale manufacturers and globally outsourced manufacturers	**High** Seasonal nature of product results in continuous competition	**High** Competing with brand-exclusive stores, online retail, department stores
Power of Buyers	**High** Low negotiating power due to global availability of manufacturers, except for manufacturers with established brands	**Medium** Large retailers and department stores have power to buy directly from manufacturers	**Low** Necessity item, purchases made in stores with proximity
Power of Suppliers	**Medium** At larger scale where high quantity lock-in is required; Low at small scale where able to source small quantities globally	**Low** Power of manufacturers is low, except branded products or private label product lines	**Low** Power of manufacturers is low, only big brands have medium power

The assessment of the four industry forces, on a low-medium-high scale, in the footwear industry value chain, from manufacturing, to wholesale, and through to retail, is summarized in Table 4. The assessments are based on the following analysis that is performed for each industry force, across the footwear industry value chain.

4.1.1 Barriers to Entry

The barriers to entry are low to medium across the industry because of low capital requirements presented by high labour to capital ratios (high labour intensity). The labour intensity is high, with retail having the highest labour to capital ratio of 12.4, trailed by manufacturing with 7.6 and wholesale with 4.6 (Sivasailam, 2010a, p.36; Sivasailam, 2010b, p. 31; Panteva, 2010, p. 31). Wholesale's barrier to entry is medium due to medium capital requirements with respect to technology for supply-chain, inventory, and distribution management. Therefore, barriers to entry are low for manufacturing and retail, and medium for wholesale.

4.1.2 Competitiveness

Competitiveness is high across the industry due to mainly low entry barriers and low capital requirements. The high labour intensity in manufacturing coupled with non-dependence on geographical proximity, as is case for retail, has resulted in global outsourcing of footwear manufacturing to countries with low labour costs such as China and India, and more recently, to even cheaper locations such as Indonesia and Vietnam. In contrast, however, retail is subject to competitive pressure from online retail that enables cost-effective expansion of geographical reach. Wholesale competitiveness is high due to seasonal nature of footwear and continuous competition over the next desired product design. Wholesalers without a known brand are particularly vulnerable to pressure from other brand owners able to bypass wholesale by utilizing both B2B and B2C eCommerce channels to connect directly across the industry value chain.

4.1.3 Power of Buyers and Suppliers

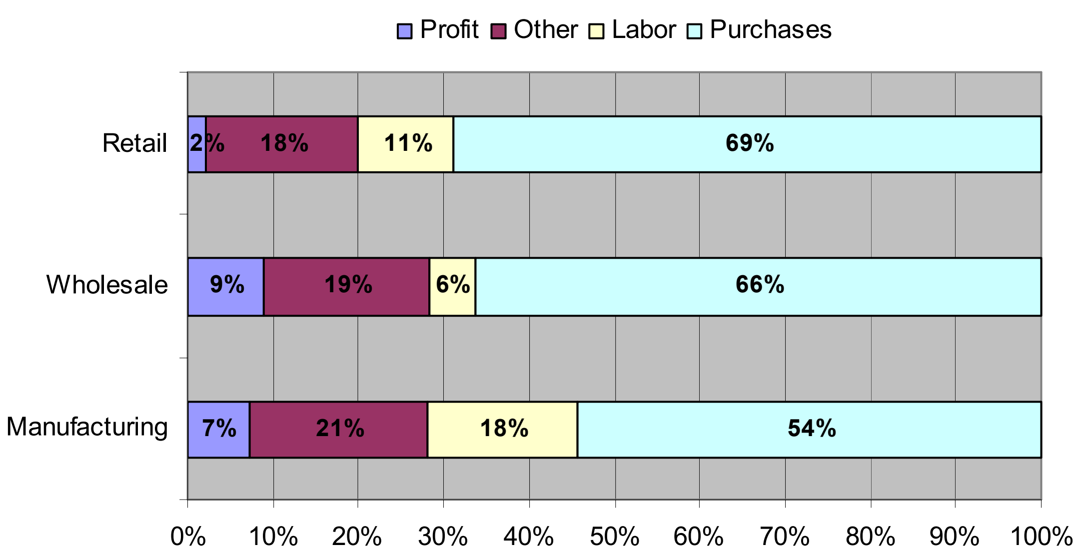
The power of buyers and suppliers, specifically negotiating power, varies across the industry value chain. From the perspective of manufacturers, global sourcing availability can produce the unfavourable result of low negotiating power. From the perspective of retailers, in contrast, the result is more favourable with high negotiating power due to an advantageous geographical location that gives them control over proximity-dependent buyers and a large number of suppliers among wholesalers or even manufacturers. However, the two most influential factors on the negotiating power in the footwear industry value chain are: firstly, the brand ownership that gives power to the brand owner in any industry (manufacturer, wholesaler, or retailer); and secondly, the vertical integration that makes the negotiation process an internal process. The importance of these two factors for strategy and ability to earn rents in the footwear industry value chain is analyzed in the following section.

4.2 Higher Rents from Vertical Integration and Brand Management

The industry analysis determined that the footwear industry is highly competitive, and with low entry barriers, which reduces the attractiveness of the industry because it reduces ability to earn rents. The firms in the footwear industry seek different ways to improve their competitive advantage and negotiating power, and in turn, earn higher rents. As discussed in the industry analysis, the two factors that increase competitive advantage and negotiating power are brand development, and vertical integration. Consequently, one strategy pursued by major firms has been vertical integration across the industry value chain to achieve cross-chain efficiencies, while another strategy has been brand management to increase negotiating power (in both directions, with suppliers and buyers).

The footwear industry, on average, has low profitability across the footwear industry value chain. In the cost structure of footwear manufacturing, wholesale and retail industries (Figure 12), the average profit ranges from 8.9% in wholesale over 7.2% in manufacturing and to only 2% in retail (Sivasailam, 2010a, p.36; Sivasailam, 2010b, p. 31; Panteva, 2010, p. 31).

Figure 12 - Footwear Industry's Average Cost Structure (Source: Sivasailam, 2010a; Sivasailam, 2010b; Panteva, 2010)



The major firms in each of these industries tend to perform better than average and have grown to represent a large share of the market. Therefore, the following sections identify the major firms, and analyze if they employ strategies that include brand development and vertical integration.

Despite the low concentration in all three industries (manufacturing, wholesale, retail), a few, approximately three to four, large firms represent approximately 25-30% of the industry (Sivasailam, 2010a, p.36; Sivasailam, 2010b, p. 31; Panteva, 2010, p. 31). In case of the footwear wholesale, for example, only four firms, The Timberland Company, Jones Apparel Group, Adidas, and Nike, represent more than 25% of the industry, of which Nike alone represents 12% (Panteva, 2010, p. 21). The top four firms in the footwear retail industry represent an even higher 30% of the industry, with the largest, Collective Brands, representing over 11% on its own (Sivasailam, 2010a, p. 21). Wolverine World Wide represents the largest manufacturer with over 4% of the footwear manufacturing industry (Sivasailam, 2010b, p. 21). Although the major firms in each industry are vertically integrated across the industry value chain, they are still considered part of one of the industries – the one they started from before their vertical integration.

Wolverine World Wide, for example, is the largest manufacturer and has integrated forward to include wholesale and retail with over 90 retail stores in North America (Datamonitor, 2009f, p. 5). Nike Inc., the largest wholesaler, has presence in the chain from manufacturing to its own retail stores (Datamonitor, 2009d, p. 6). Collective Brands Inc., the largest retailer, has integrated backwards to operate wholesale (Datamonitor, 2009g, p. 15) and has also acquired manufacturing operations through the acquisition of brands manufactured in their own factories such as Robeez.

The major firms in the footwear industry value chain are all vertically integrated, although traditionally classified in the industry in which they originally started from before vertical integration. Additionally, all of the major firms have developed brands that increase their competitiveness and negotiating power, as presented previously in section 3.2. Consequently, vertical integration and brand development are important factors for a new entrant, such as The 7 Puddles, to earn rents in the footwear industry.

4.3 The 7 Puddles' Strategy

As The 7 Puddles faces significant challenges in its quest to establish profitable operations and grow market share in a highly competitive industry dominated by big brands and vertically integrated firms, it plans to focus on designing and manufacturing for the active, outdoor lifestyle, niche footwear products market for infant/toddler users. The challenge is not necessarily starting the manufacturing operations, as capital requirements are low, but is in establishing a brand and achieving negotiating power through developing options to connect directly with retailers or end customers.

The niche strategy involves identifying a segment with stable or growing demand that other firms are unlikely to enter, and then establishing The 7 Puddles as the leader in that segment and this represents a viable option in a declining manufacturing industry (Grant, 2007, p. 333). Even US footwear manufacturers, with four times higher labour costs than Mexican manufacturers[4], have benefited from niche strategy in a declining market as demand for high-quality niche products grew by almost 20% in 2008 (Sivasailam, 2010b, p. 17). The 7 Puddles can balance out the twice higher labour cost than those in lower labour cost countries, such as China and India, by locating manufacturing facilities in North America thereby benefiting from NAFTA tariffs.

Power of buyers/sellers, specifically negotiating power, is low to medium within the footwear industry value chain. A small start-up firm, without established brand or large economies of scale to improve its negotiating power, is in an unfavourable position in the footwear industry to establish partnerships with its suppliers and buyers. This, in turn, raises the firm's costs for negotiating such contracts. On the other side, the low

[4] This is where The 7 Puddles plans to establish manufacturing operations,

capital requirements for starting manufacturing operations provide an opportunity for vertical integration between manufacturing, wholesale and, possibly, retail. Therefore, vertical integration is beneficial to a new entrant in the footwear market with a niche brand strategy. Online retail, as an avenue for greater geographical reach, offers an opportunity for a footwear manufacturer to achieve a direct connection to buyers and complement the shoe store presence in select retailers. Therefore, The 7 Puddles plans to employ a niche brand strategy with vertical integration from manufacturing to wholesale, and through to online retail. In order to succeed, it will need to excel in a set of key success factors, which are analyzed in the following section.

4.4 Key Success Factors

Sivasailam (2010a, 2010b) and Panteva (2010) identify a comprehensive list of key success factors in the footwear industry value chain, from manufacturing, to wholesale, and through to retail (Table 5). This comprehensive list contains key success factors that are important across the industry value chain, key success factors with varying applicability to different strategies, and key success factors that are closely dependent to one another and, therefore, closely correlated. Therefore, the following section identifies and analyzes the applicability of key success factors in context of The 7 Puddles' niche brand strategy.

Table 5 - Key Success Factors in Footwear Industry (Source: Sivasailam, 2010a; Sivasailam, 2010b; Panteva, 2010)

Key Success Factors		
Manufacturing	**Wholesale**	**Retail**
Brand	Brand	Brand
Economies of scope	Supply contracts in place for key inputs	Clear market position
Fashion trends adaptability	Guaranteed supply of key inputs	Inventory management
Understanding of tariff rates	Prompt delivery to market	Cash flow management
Economies of scale	Cost-effective distribution system	Fashion trends adaptability
	Inventory management	Attractive product presentation
	Intellectual property protection	Quality customer service

4.4.1 Manufacturing

Establishment of brand names is important for manufacturers, because "brand strength can create consumer demand for branded footwear products" (Sivasailam, 2010b, p. 20). Based on the previous industry analysis that demonstrated importance of a brand, and the niche brand strategy employed by The 7 Puddles, which requires the brand as the means of establishing leadership position in a niche market, brand is an important success factor for The 7 Puddles.

Economies of scope define the ability of a footwear manufacturer to produce a wide range of footwear products that can satisfy a wide scope of consumer demand. In the case of a niche brand strategy, the size of the target niche limits the growth opportunities. Therefore, economies of scope are important in the niche strategy as an option for growth that can result from ability of the leader in the niche market to provide a wide range of products to satisfy a wide scope of the consumer demand under the same brand. Economies of scale, as an ability to produce footwear at lowest cost as result of large production volumes, is an important factor in a price driven market, such as the children's footwear market, as previously discussed in section 2.2.2. However, this factor is less important in the niche brand strategy, due to the limited size of a niche that limits the ability to produce large volumes and, in turn, benefit from economies of scale. Therefore, economies of scale are not identified as a key success factor for The 7 Puddles.

Fashion trends adaptability, "as an ability of a footwear manufacturer to adapt to changing fashion trends, provides major competitive advantages" (Sivasailam, 2010b, p. 20). This is an important key success factor in the footwear industry regardless of strategy, because of high competitiveness in the footwear industry resulting from changing trends and seasonal nature of the business, as discussed in section 4.1.2.

Understanding the tariff rates, and specifically "implications of changing tariff rates and import duties" is required for formulation of competitive strategy in the footwear manufacturing industry as it impacts the cost structure in a price driven market (Sivasailam, 2010b, p. 20). Understanding of NAFTA trade agreement is important for The 7 Puddles, because both Mexico[5] and US[6] are signatories to the NAFTA agreement.

The analysis of the comprehensive list of key success factors in the footwear manufacturing industry, and their applicability on the niche brand strategy and The 7 Puddles identifies the following key success factors for The 7 Puddles: brand, economies of scope, fashion trends adaptability, and understanding of tariff rates.

4.4.2 Wholesale

Establishment of brand names is important in the footwear wholesale industry for the same reasons it is important in the footwear manufacturing industry, as a result of industry competitiveness discussed in section 4.1.2. Supply contracts for key inputs is

[5] This is where The 7 Puddles plans to locate its manufacturing operations.
[6] This is the primary target market for The 7 Puddles launch.

considered “essential for meeting customer demand” by Panteva (2010, p. 18), while guaranteed supply of key inputs is another factor by Panteva (2010, p. 18) that enables “footwear wholesalers to deliver on agreements with customers”. These two factors, both related to the supply-chain, ensure the ability to deliver products to meet customer demands. In the case of The 7 Puddles, the vertical integration between manufacturing and wholesale moves this relationship inside the firm and simplifies the production and supply planning. Therefore, to simplify the analysis for The 7 Puddles, the two factors identified by Panteva (2010, p. 18), the supply contracts for key inputs and the guaranteed supply of key inputs, are combined under one key success factor for The 7 Puddles, the supply-chain.

Panteva (2010) identifies prompt delivery to market as another factor with importance for “meeting customer demand for footwear on time” (p. 18), while cost-effective distribution is important factor for firms to keep costs low. Achieving operational efficiency in delivery system requires both prompt delivery and cost-effective delivery. Furthermore, another key success factor based in operational efficiency is “ability to control stock on hand that can impact firm’s profitability”, i.e. inventory management (Panteva, 2010, p. 18). Therefore, to simplify the analysis for The 7 Puddles, the three factors based in operational efficiency (prompt delivery, cost-effective delivery, inventory management) are combined under one key success factor, the inventory and distribution management.

Finally, the intellectual property (IP) protection, as “ability to protect/copyright brands and sign exclusive contracts” is important to protect brands and exclusive contracts (Panteva, 2010, p. 18). While The 7 Puddles has internal exclusivity of products as result of vertical integration between manufacturing and wholesale, the IP protection is nevertheless important to protect the brand value.

The analysis of the comprehensive list of key success factors in the footwear wholesale industry, and their applicability on the niche brand strategy and The 7 Puddles simplifies the list to identify the following key success factors for The 7 Puddles: brand, IP protection, supply-chain, and inventory and distribution management.

4.4.3 Retail

Establishment of brand names is important in the footwear retail industry for the same reasons it is important in the footwear manufacturing and wholesale industries: because of industry competitiveness discussed in section 4.1.2. Another factor identified by Sivasailam (2010a), the clear market position, as a means to “convey a clear and consistent company image” (p. 22), is closely related to the brand factor in the niche brand strategy because brand positioning largely determines the market positioning of retail. Therefore, to simplify the analysis for The 7 Puddles the clear market position is not considered separately, but under the key success factor of brand.

The ability to control stock on hand, i.e. inventory management, and the cash flow management that is directly related to abilities for efficient inventory management to reduce cash requirements, are two factors identified by Sivasailam (2010a) as key success factors for the footwear retail industry. In order to simplify the analysis for The 7 Puddles these two factors, based in operational efficiency have been considered under the already identified factor for inventory and distribution management.

Fashion trends adaptability is ability to “ensure supply of footwear products currently favoured by the market to help generate sales to targeted customers” (Sivasailam, 2010a, p. 22). This factor, as already considered for The 7 Puddles in analysis of both the footwear manufacturing and wholesale, is important across the industry value chain. Therefore, it is identified as one of the key success factors for The 7 Puddles.

Finally, Sivasailam (2010) identifies importance of two store related factors: attractive product presentation and experienced work force. The attractive product presentation, as “store and product display that induce purchases and reinforce company image”, helps companies to increase sales, while “experienced work force ensures quality customer service” (Sivasailam, 2010a, p. 22). The 7 Puddles plans to use eCommerce for online retail and to support wholesale, which results in lower importance of these factors for The 7 Puddles, because it does not plan to open bricks and mortar stores. Therefore, these factors identified by Sivasailam (2010) are not identified as key success factors of The 7 Puddles business overall. However, eCommerce strategy definition and eCommerce solution selection (see section 7) considers these factors for The 7 Puddles’ online channel presence.

The analysis of the comprehensive list of key success factors in the footwear retail industry and their applicability on the niche brand strategy and The 7 Puddles simplifies the list to identify the following key success factors for The 7 Puddles: brand, fashion trends adaptability, and inventory and distribution management. The attractive product presentation and quality customer service are considered in the eCommerce strategy that will provide online retail presence for The 7 Puddles.

4.5 The 7 Puddles' Key to Success

The analysis of the comprehensive list of key success factors across the industry value chain identifies factors that are important for the niche brand strategy and plans for vertical integration of The 7 Puddles, as well as simplifies the list by combining closely related factors. Starting from the total of nineteen factors in the footwear manufacturing, wholesale, and retail, the list is reduced and simplified to seven key success factors for The 7 Puddles presented in Table 6.

Table 6 - Key Success Factors for The 7 Puddles

Key Success Factor	Description
Brand	establishment of the brand name to achieve competitive advantage and negotiating power
Intellectual property protection	protection of the brand value to sustain the competitive advantage
Fashion trends adaptability	ability to adapt to changing trends to generate sales to target customer segment
Economies of scope	ability to produce wide range of products to satisfy a wide scope of consumer demand in target customer segment
Understanding of tariff rates	understanding of the tariff rates and import duties to produce competitively priced products
Supply-chain	ensuring supply of materials required to produce and deliver products to satisfy the demand
Inventory and distribution management	operational efficiency in management of inventory and distribution to reduce: stock on hand, cash requirements, distribution times and distribution cost

The identified key success factors for the niche brand strategy with vertical integration in the footwear industry define areas in which a firm employing that strategy needs to excel in order to succeed in the footwear industry. The 7 Puddles needs to develop capabilities and acquire resources in these areas in order to succeed in the children's footwear market with the chosen strategy. The following section presents the analysis of internal capabilities and resources of The 7 Puddles and their alignment with the key success factors to determine the gap between existing and required capabilities and resources.

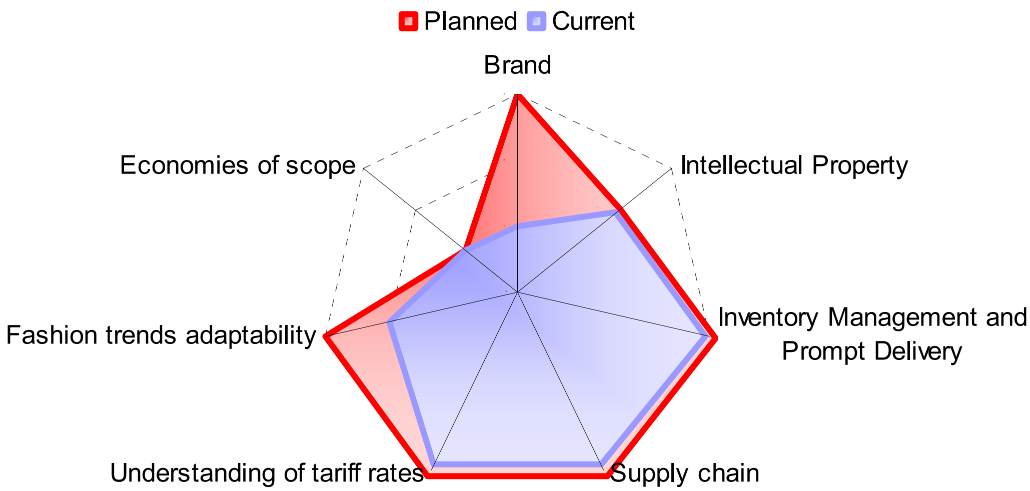
5: The 7 Puddles' Core Capabilities

The 7 Puddles, as a start-up firm, depends mostly on the capabilities of its founding team and the resources available to them to achieve sustainable competitive advantage and success in the footwear industry. The firm's strengths and weaknesses, across key success factors, can be used to define current and desired capabilities for The 7 Puddles strategy (Boardman, Shapiro, Vining, 2004). The key success factors for The 7 Puddles as identified in the previous analysis are brand; IP; fashion trends adaptability; economies of scope; understanding of tariff rates; supply-chain; and inventory and distribution management.

5.1 Internal Capabilities and Key Success Factors

The founders of The 7 Puddles have experience managing footwear and apparel manufacturing plants in Mexico and Canada and, therefore, core footwear manufacturing capabilities are considered one of the firm's strengths. Figure 13 presents the alignment of capabilities with the key success factors on a low-medium-high scale, based on the analysis that follows.

Figure 13 - Internal Capabilities in Industry Key Success Factors



Brand management, sales and marketing are weaknesses of the founding team due to their lack of experience. The founders plan to address this weakness through expanding the team to include an experienced marketing and brand management professional from the footwear industry. This will improve the human resources aspect of The 7 Puddles and strengthen its coverage of key industry success factors.

Intellectual property protection in the footwear industry is limited to trademark and copyright protection due to the treatment of footwear as an essential need. While, The 7 Puddles owns a product model design developed by the founders, designs cannot be protected, with the exception of logos, which, together with brand names and slogans, can be protected by a trademark. This limits The 7 Puddles' ability to build a sustainable competitive advantage over imitators. The founders have limited experience with IP protection through working for one of the known brands in footwear industry and, although this experience is not centred on IP, the team has medium capabilities in IP protection. However, being limited to protecting intellectual property through trademark and copyright requires the development and positioning of strong brand in which IP protection will be of value in sustaining competitive advantage.

Fashion design, as an artistic capability to create a number of designs on the existing footwear model, is a weakness of the founding team, as both a resource and capability. While the founders have backgrounds in industrial design and new product development that resulted in the new design of the shoe, this success factor requires fashionable designs managed on a few product models that can be easily adapted. The founders do not have experience in fashion, but they have experience in working with artists to create multiple designs of children's footwear. Consequently, fashion design, as a resource, is easy to acquire through the managerial capability of the founders. The medium strength of The 7 Puddles in fashion adaptability comes from its ability to acquire and manage human resources in that role in order to build the capability.

The 7 Puddles has medium capabilities to capitalize on economies of scope by providing several products under the same brand. The opportunity for utilizing economies of scope depends primarily on establishing a brand with three core footwear models (pre-walker, first-steps, and walking-trainer) and on developing the ability to produce matching apparel made of similar recycled high-performance technical material. Therefore, The 7 Puddles has medium capability to capitalize on economies of scope, because of founders' prior experience in manufacturing of apparel, which is very similar to manufacturing of soft-soled footwear.

The experience of the founding team in NAFTA tariffs is high as result of more than 5 years individually, more than 10 years combined, in procuring materials worldwide for production and sale of products in the North American market. The product design and manufacturing plan of The 7 Puddles ensure that their products will enjoy duty free status in North America as defined under the current NAFTA agreement.

The experience of the founding team in managing production, operations, supply-chain in both Mexico and Canada provides them with strong capabilities in operations management in general. Additionally, one of the founders has a decade of experience in managing finance for a large global manufacturing firm, which provides the team with strong capabilities in financial and cash flow management. Therefore, The 7 Puddles has high capabilities in key success factors related to operational efficiency, supply-chain, and inventory and distribution management.

5.2 Competitive Advantage

The 7 Puddles has two sources of competitive advantage that it plans to develop. Firstly, it will develop its own brand to establish leadership position in the niche market and secondly, it will own the product design and manufacturing process to create barriers to imitation. The 7 Puddles anticipates that brand establishment and manufacturing capabilities will align to establish and sustain competitive advantage of the firm in the selected niche market.

5.2.1 Brand and Manufacturing Advantage

The 7 Puddles cannot fully prevent the imitation of the product, since product design cannot be protected as intellectual property. However, owning the design and manufacturing process increases cost and time required for imitation, which they estimate to provide about one year of advantage over imitators. This will provide time to build a recognizable brand and to develop and maintain a higher quality product under the brand.

To protect the brand value, incentives for imitation will need to be isolated through active media campaigns and signalling of aggressive actions to potential product imitators (Grant 2007, pg 211).

5.2.2 Cost and Differentiation Advantage

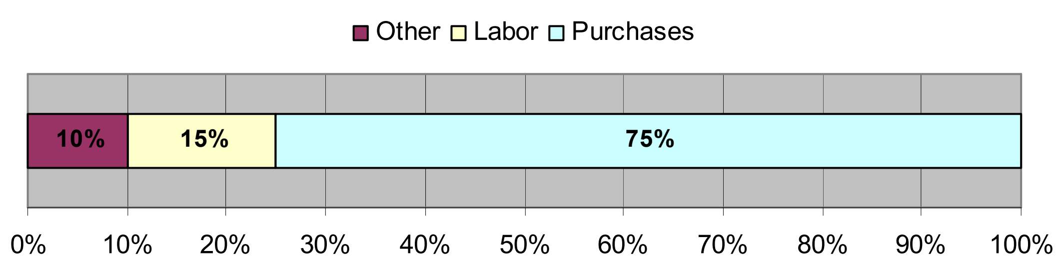
The firm's competitive advantage is a combination of cost advantage and differentiation advantage. The ability to produce a high-quality branded product in Mexico at labour cost that is about four times lower than in US-Canada and two times higher than in low labour cost countries, makes it more difficult for imitators to develop a process to produce imitations at a competitive price. The manufacturing cost advantage will enable The 7 Puddles to compete in the price range of leather-based products with a high-quality product made of recycled high-performance technical materials, which are more expensive than natural leather.

5.3 Cost Structure

The 7 Puddles strategy of brand development shifts focus from manufacturing to marketing, wholesale and retail operations. Owning manufacturing operations is important to achieving cost advantages and to increasing the difficulty of imitation in the first years identified as critical for brand development. The 7 Puddles is setting up the operations so that manufacturing is a cost centre, while marketing and distribution are profit centres. Therefore, profit is not included in the cost structure of the manufacturing, but in the wholesale and online retail cost structure that is analyzed in section 7.6. If The 7 Puddles was to focus only on manufacturing of the footwear, The 7 Puddles team estimates the profit margin at 5% on top of the production cost, based on industry averages (see section 4.2) and competitive offers from manufacturers in wholesale markets. The 7 Puddles is organizing its operations to keep open the option of outsourcing the manufacturing when the brand has been developed as a source of competitive advantage.

The 7 Puddles has the benefit of small-scale manufacturing operations and has access to the pre-walker product model at cost of $7.50 for small batches of 1,000 units at 1,000 units/month production capacity. This cost drops to $6 by scaling the operations to 10,000-unit batch at 10,000 units/month production capacity. The main portion of the cost are the materials which account for up to 75% of the cost, while labour costs account for 15%, and other costs (rent, utilities, depreciation) account for the remaining 10% (Figure 14). The total product cost, without the manufacturing profit, defines the cost of goods sold (COGS) used in later sections to define cost structure for wholesale and online retail operations of The 7 Puddles.

Figure 14 - The 7 Puddles' Manufacturing Cost-Structure



The cost structure for the other two models, first-steps and walking-trainers, increases the total production cost by 20% for first-steps product model and another 20% for walking-trainer product model. The increase in production cost is result of increased material and process costs, with almost identical shares of materials, labour and other costs as for pre-walker model shown in Figure 14.

Based on comparative prices of other infant/toddler branded products, The 7 Puddles expects that suggested retail pricing of pre-walker, first-steps, and walking-trainer will be $25, $30, and $35 respectively in the US market. The founders expect to spend $4-$5 on the cost of sales for wholesale and sell the three models to retailers at around 60% of the suggested retail price, i.e. $15, $18, and $20 for the three models respectively. The wholesale product packages are small batches of 12, 24, and 36 units with accompanying branded product stand and sales material, with retailer's ability to reorder six or more units. The detailed cost structure for wholesale and online retail is analyzed in section 7.6, based on expected pricing in retail and wholesale, the costs of sales in the wholesale, and eCommerce targets and costs that are analyzed in sections 7.2 and 7.6.

5.4 The 7 Puddles - Building on Strengths

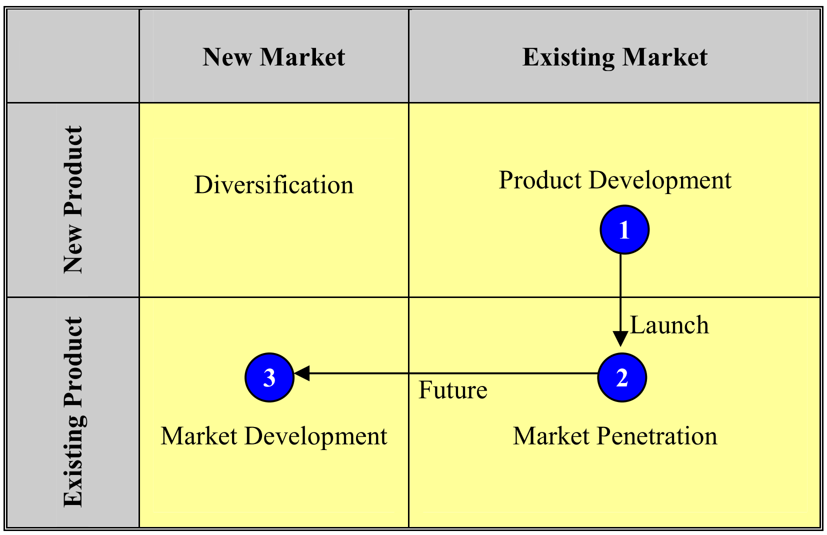
The analysis of alignment between internal capabilities and key success factors (see Figure 13) demonstrates that The 7 Puddles needs to develop capabilities in brand management and fashion trends adaptability, in order to succeed with a niche brand strategy. The 7 Puddles can use its manufacturing strengths to protect the process and the product from imitation in the first years until the brand is developed. The strength in manufacturing also enables The 7 Puddles to efficiently scale-up the operations during the product launch and market penetration with acceptable product cost.

6: The 7 Puddles' Product and Market Development Strategy

The 7 Puddles plans the launch of a new product design of children footwear. The new product design requires the firm to focus on the new product development process and the strategic direction across a number of other strategies: Time-to-Market, Low-Product-Cost, Low-Development-Cost, Product-Performance-Technology-and-Innovation, Quality-Reliability-Robustness, Service, and Responsiveness-and-Flexibility (Crow, 2010). The product design developed by The 7 Puddles aims at offering a product with advanced features: flexibility (softness of footwear sole), material quality (technical high-performance), weatherproofing (functions indoor and outdoor in different weather conditions), feet support (barefoot-like softness with support), and feature of material origin (recycled material). The 7 Puddles combines the strategic orientation of Product-Performance-Technology-and-Innovation with Low-Product-Cost to achieve market-acceptable price point.

The product-market development strategy is important for a start-up to gain market traction with the right product and generate cash flow for further development. Therefore, as discussed in section 2.4, The 7 Puddles' product-market development strategy is to launch the product in the US as the highest priority market, and focus on increasing market penetration through targeting two main customer segments: first, user-customers that are purchasing for their own children, and second, giver-customers that are making purchases for gifts. The two segments, as discussed in section 3.3.2, have approximately equal share of the total customer base. After successful market penetration in US, the firm will consider market development to pursue growth in the rest of North America and Europe with the same product. Figure 15 shows the product and market development strategy using the Ansoff matrix (Ansoff, 1957).

Figure 15 - Product and Market Development Strategy

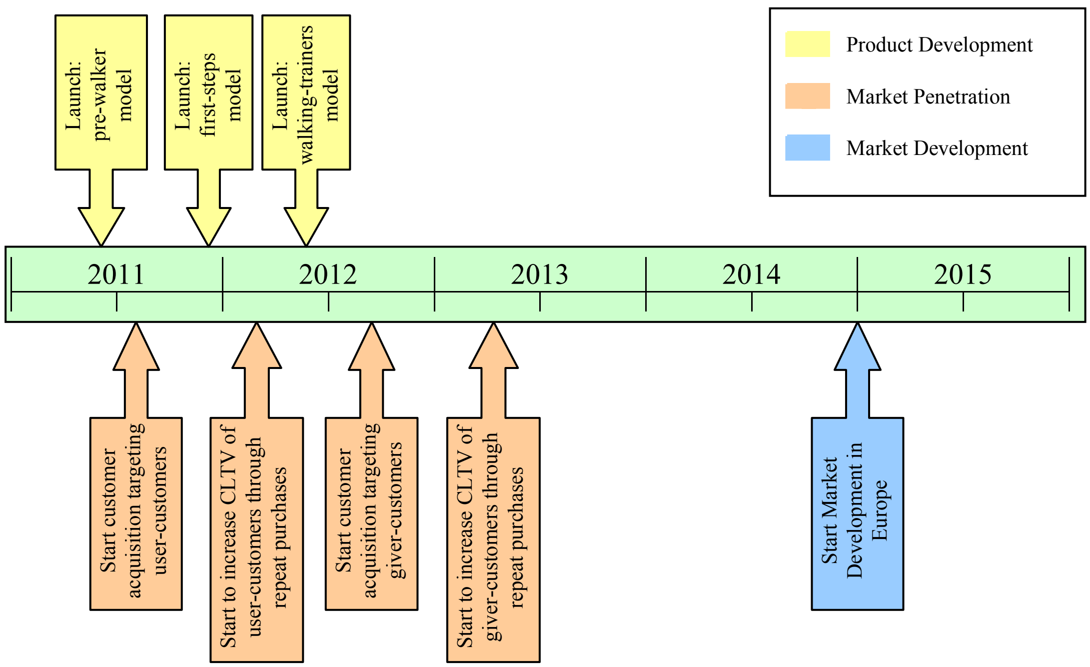


The three stages of product-market development include immediate steps, as well as future steps, for the first five-year period of The 7 Puddles. The section that follows describes the timelines and activities in more detail and the product and market development activities required to support the business strategy of establishing the brand and forward integrating to wholesale and through to online retail channels. Following that, the focus shifts to pricing policies that support brand positioning and prevent cross-channel conflict, as well as product and brand positioning of The 7 Puddles and will provide a plan for implementing the product and market development strategy.

6.1 Product and Market Development Timeline and Activities

The product and market development strategy is defined by three stages: first, product development to launch three products; second, market penetration to increase market share in US; finally, the future market development in Europe. The start of activities in these three stages that is presented on Figure 16, illustrates overlap between first two stages as each of the three product models is launched – pre-walker, first-steps, and walking-trainers.

Figure 16 - Product and Market Development Timeline



6.1.1 Product Development

The product development stage focuses on developing the three product models and launching them in sequence in a 6 months cycle, starting with pre-walker in mid-2011, followed by first-steps at the end of 2011, and finally walking-trainers in mid-2012. The launch of each of the models is planned in two phases: first, launch of the product with simple single-colour designs to the early-adopters, and second, following the positive feedback, launch of the product in a series of fashion designs to offer greater selection to the consumers.

6.1.2 Market Penetration

The market penetration stage closely follows the product development and the launch. It starts with customer acquisition to increase the number of customers, followed by activities to increase the sales to the acquired customers. There are two ways to increase sales: by increasing size of the order and by increasing purchase frequency. The 7 Puddles, having a limited product line at launch, has limited options to increase the size of the purchase. Therefore, The 7 Puddles will focus on increasing purchase frequency.

In the market penetration activities, The 7 Puddles can separately target different customer segments. The two distinct customer segments of approximately same size are user-customers and giver-customers, as demonstrated by demographic profiles of online audience in section 3.3.2. Successful penetration of the market segment of giver-customers requires that The 7 Puddles penetrate the user-customer market segment first to establish the product as a desired gift for user-customers. Therefore, the market penetration activities that target the giver-customer segment follow the activities that target the user-customer segment and directly benefit from early-adopter users from the previous product development stage.

6.1.3 Market Development

Market development is a future opportunity for growth of The 7 Puddles. Once the significant share of the US market is taken, and growth in the US market slows down, the second best market to expand into are the top three European countries (Germany, France, and UK), as previously discussed in section 2.4. The 7 Puddles can expect that market penetration in US will be the primary focus until year 2015, when the start of market development in Europe is planned, as shown on Figure 16. The 7 Puddles will be in a much better position to expand into new markets at that time because it will have the full product-line available, an established brand in US, and the experience from the market penetration in US.

6.2 Pricing Policy for Brand Value Protection

Manufacturers and brand owners have an interest to set the retail price in wholesale and retail channels to control the price signalling and, in turn, brand value. The price setting not only supports brand value, but also prevents cross-channel conflict between different distribution channels in wholesale and online retail that The 7 Puddles plans to utilize. There are several options for price setting, including contractual limits to pricing via manufacturer's suggested retail price (MSRP) or minimum advertised pricing (MAP). MSRP defines the lower limit on pricing in the sales channel. MAP sets the limit only to pricing displayed by the distribution channel in advertising while actual price may differ by implementing sales process where final price is determined in a non-advertised step of the selling process. Example of this is the commonly used "add item to cart for final price" shopping experience on eCommerce websites, where final price is shown only in the shopping cart. The weakness of both approaches is the ability to enforce these limits on non-conforming sales channels. The ability of enforcement depends highly on the negotiating power between manufacturer and sales channel. Manufacturer's involvement in wholesaling or retailing operations increases their enforcement power of price setting.

The 7 Puddles will use the MSRP to set the price to protect the offline retail from online competition, as majority of sales are expected to occur in the offline channels. Furthermore, in markets where online channel is important, it will achieve an advantage by having its own online retail store to support the brand and provide information to consumers through the online channel. Therefore, MAP is not a preferred choice for The 7 Puddles because it could enable price competition in online retail channel.

6.3 Product and Brand Positioning

Product and brand adoption and recognition require appropriate positioning to the target market segment representing the lifestyle. The 7 Puddles' new product design for infant/children footwear is aimed at a specific outdoor active lifestyle market segment and competes by features of the product. The positioning of the product and the brand requires emphasis on the superior features of the product as perceived by the consumers is summarized in Table 7.

Table 7 - The 7 Puddles' Product and Brand Positioning

Characteristic	Positioning
Product features	lightweight and comfortable, yet protective for active children
Material features	high-performance technical material for active children
Environmental features	product made of recycled materials
Sole	barefoot-like flexible and durable anti-slip sole made of latex-like polymers
Outdoor features	water-repellent product for both indoor and outdoor use, for puddle jumping
Lifestyle	product for today's puddle jumpers and furniture climbers, tomorrow's adventurers over seven seas and seven summits

The European markets will require different positioning of the sole features due to increased interest among European consumers for engineered support of feet in development (Elefanten, 2010a); contrary to North American beliefs that barefoot-like footwear supports proper feet development. Therefore, at the market development stage for Europe, the developers will need to position the sole features as flexible and durable support for feet development at every stage.

7: eCommerce Strategy

The market analysis in section 2.3 demonstrated the importance of the online channel in the primary target markets for The 7 Puddles (see section 2.4). Based on this market analysis and the following industry analysis (section 4.2), The 7 Puddles has adopted a niche brand strategy with vertical integration through the industry value chain. Ecommerce, as a set of technologies to support online channel presence, requires a strategy to support the overall business strategy in developing the brand and to provide a means of integration through the industry value chain to footwear wholesale and retail. The multiple strategic goals and stages of The 7 Puddles growth require prioritization of the supporting eCommerce goals. Furthermore, the selection of eCommerce tools needs to support the strategy throughout multiple stages and for prioritized goals and targets. The alignment of eCommerce strategy starts with prioritizing eCommerce goals in line with business goals of brand development and product-market development strategy, then setting targets, and finally the selection of solution to support eCommerce strategy.

7.1 eCommerce Goals

As previously discussed, The 7 Puddles' strategic goals of brand development and integration through the industry value chain require eCommerce strategy with supporting goals. The top three goals for eCommerce are: first, to support brand and product development as a key source of competitive advantage and the first stage of the product-market strategy; second, market penetration as the second stage of the product-market strategy; and finally, utilizing online channel influence to drive offline sales. The following sections provide discussion of these goals.

7.1.1 Product and Brand Development

Brand and Product Development, the first stage in product-market development, focuses on product launch the first of the three product designs, the pre-walker model, followed by the launch of the other two models, the first-steps and the walking-trainers (see section 6). The eCommerce priorities for brand and product development are summarized in Table 8.

Table 8 - The eCommerce Priorities for Brand and Product Development

Priority	Goal	Assisting activities
1.	**Brand Development:** Provide online focal point for all brand development activities	Promote consumer product ratings and reviews online to build brand awareness and reinforce the brand positioning by increased trust in ratings and reviews.
		Promote social media coverage from a social media campaign to selected mum bloggers such as members of West Coast Women Bloggers Network or adventure bloggers such as Seven Seas and Seven Summits (www.sevenseassevensummits.com).
		Promote social product recommendations by providing integration and ability to recommend product (send a product page) to friends on major social networks.
2.	**Product Launch:** Lower the barrier to new product adoption by creating no-risk trial to recruit early adopters and increase loyalty	Launch time-limited free shipping campaigns.
		Provide easy returns with full satisfaction guarantee.
3.	**Product Development:** Enable direct feedback to product development team from wider group of early-adopters	Provide feedback to product development team based on consumer product ratings and reviews.

7.1.2 Market Penetration

Market Penetration, the second stage of product-market development, focuses on phased customer acquisition in US as the primary market. The eCommerce strategy in this stage needs to support market penetration with early adopters from the user-customer segment. Following success with the user-customers, the eCommerce strategy needs to support market penetration with the second major group, the giver-customers, when the product can be positioned as a desirable gift by a user-customer. The eCommerce priorities for market penetration are presented in Table 9.

Table 9 - The eCommerce Priorities for Market Penetration

Priority	Goal	Assisting activities
1.	**User-customer acquisition**	Utilize the affiliate program, advertising, and time-limited coupon campaigns for aggressive acquisition of user-customers at maximum, break-even customer acquisition cost (BECAC).
2.	**Increase purchase frequency of user-customers**	Utilize email-marketing campaigns to increase repeat purchases of acquired user-customers in order to increase CLTV.
3.	**Giver-customer acquisition**	Utilize the affiliate program, advertising, and time-limited coupons campaigns for aggressive acquisition of giver-customers at BECAC. Provide the wish list and gift registry integration, and gift packaging option.
4.	**Increase purchase frequency of giver-customers**	Utilize segmented email-marketing campaigns to target giver-customers separately from user-customers.

7.1.2.1 Pure-Play Online Retail Advantage in US

Pure-play retailers, those without bricks and mortar stores, in US have an advantage based in sales tax regulation. The regulation requires online retailers to collect sales taxes only in states in which they have physical presence. Consequently, pure-play online retailers have to collect tax only in states where they are registered and have operations. Although sales tax is a flow-through for the retailer, not collecting sales taxes enables retailers to offer lower total pricing to consumers. The 7 Puddles can utilize this in US market to further improve its market penetration by offering the same price as its partner retailers according to MSRP, but without sales tax and with free shipping the total price to customer would be lower by the level of state sales tax.

7.1.3 Influence Offline Purchases

The third goal of eCommerce is to support integration from manufacturing to wholesale and through to retail as well as to utilize the influence of the online channel on offline purchases to increase The 7 Puddles' market share. Based on the market analysis as discussed in section 2.3, it is anticipated that the offline channel will account for the majority of sales during the first five-year period, beginning with approximately 90% of the sales. Therefore, The 7 Puddles' eCommerce strategy needs to support this channel through its wholesale operation to retailers. The eCommerce priorities for influencing offline purchases are presented in Table 10.

Table 10 - The eCommerce Priorities for Influencing Offline Purchases

Priority	Goal	Assisting activities
1.	**Wholesale to offline retailers only**	The 7 Puddles will reinforce its own online presence by wholesaling only to offline retailers while allowing other online channels to join an affiliate program only.
2.	**Drive offline purchases**	Provide a store locator online to enable consumers to find a local store to research and purchase the product.
3.	**Support wholesale through eCommerce platform**	Enable wholesale customer accounts with bulk pricing of products, demo stands, free downloads of sales and marketing brochures, and a loyalty program for retailers.

7.2 eCommerce Targets

The previous section defines goals and priorities for the eCommerce strategy to support the overall business strategy of The 7 Puddles. The initial targets for eCommerce goals are set for the primary market of the US, based on both top-down estimates of market size and online channel importance, as well as bottom-up estimates of the firm's sales growth targets, mainly in the wholesale. In 2011, the first year of product launch, the launch itself will take approximately half a year, leaving only six months for market penetration. Therefore, total sales are estimated are at 25k units in 2011 (6 months), then doubling that rate year-over-year to 100k in 2012 to 400k in 2014. The eCommerce targets for online channel are summarized in Table 11:

Table 11 - The eCommerce Targets for Online Channel

	Metric	Target
1.	**Online channel's share of total sales**	Start at 12% in Year 2011 with a growth rate of around 25% CAGR.
2.	**Average Order Value (AOV)**	1.2 times the average product price. Due to phased introduction of three models with increased pricing (pre-walkers, first-steps, walking-trainers) AOV target value increases from $30 in 2011 to $36 in 2014.
3.	**Customer lifetime value (CLTV)**	The firm targets to achieve, on average, three unit purchases from acquired customers by 2014, either through repeat purchases or through multiple-item purchases. Thus, the target for total revenue per customer would be around $100.
4.	**Customer Acquisition Cost (CAC)**	The BECAC strategy skews this metric in first stage of market penetration due to the firm spending all available funds in the first years, even on less than average performing channels up to the BECAC. The target to achieve by the 2014 is $10, by gradually lowering the expense on customer acquisition. The target, $10 CAC, represents 10% in the cost structure, assuming that the company meets its target of $100 total revenue per customer.
5.	**Influenced offline purchases**	Percentage of the online unique visitors to leave the website from the store locator page as a measure of the online channel's traffic directed to the offline channel – 10%.

The eCommerce goals, priorities and targets define key performance metrics for eCommerce as a business unit of the firm. The key performance metrics together with targets require a continuous operational process for managing performance, which requires a set of eCommerce technologies as a solution to support them.

7.3 eCommerce Platforms

Traditional division of eCommerce activities is into two categories of Business-to-Business (B2B) and Business-to-Consumer (B2C) to reflect different set of technologies and business model adoption in firms. B2B has had a focus on automation of supply-chain and wholesale, while B2C has more closely reflected the retail industry online. Consequently, it is common for firms to have separate B2B and B2C initiatives, which in the case of The 7 Puddles would be to consider eCommerce for wholesale and retail separately. Recent trends in eCommerce technologies have led to the maturity of several eCommerce platforms with encompassing support for both B2B and B2C. Consequently, approximately one-half of eCommerce platforms in B2B and B2C research include both (Walker, 2009b; Walker 2010). Therefore, The 7 Puddles should consider using the same platform for both wholesale and retail.

The following categories, based on the technologies, pricing models and solution delivery, can divide the eCommerce platforms for retailers: Marketplaces; Open Source; SaaS – Configurable; Customizable; and Bespoke. The customizable solutions can be delivered as hosted (outsourced hosting to solution provider), or hosted in-house by the retailer. Table 12 presents the typical solution categories for retailers by size (in annual revenues). The key categories of eCommerce solutions to consider for The 7 Puddles, which has an, up to $50 million, opportunity (see section 2.4) are Marketplaces, Open Source, SaaS - Configurable and Customizable – Hosted. The following sections analyze these solutions to select appropriate solution for The 7 Puddles.

Table 12 - eCommerce Solutions for Retailers by Size (Source: Walker, 2009b; Walker 2010)

	Small Retailers		**Medium Retailers**		**Large Retailers**
Online Retail Sales	<$5mil	$5mil - $25mil	$25mil - $1b	$1b-$5b	>$5b
Solution Type	**Marketplace or Open Source**	**SaaS or Customizable-Hosted**	**Customizable: Hosted or Buy**	**Customizable: Buy**	**Bespoke**
Solution / Platform	Amazon, Yahoo, eBay, Alibaba, osCommerce Apache OFBiz Magento Spree [4]	Shopify [4] Volusion BigCommerce	ATG [2] Demandware [1] Elastic Path Software [2] Fry [2] IBM [2] iCongo [2] Microsoft [2] Salesforce.com [1] Hybris [3] Intershop [3] NetSuite [3] Oracle [3] SAP [3] Sterling Commerce [3]		

[1] – B2C
[2] – B2C & B2B
[3] – B2B
[4] – Spree is an open-source clone of Shopify SaaS solution

7.3.1 Marketplaces

Marketplace solutions are very cost effective as they start at under $100 per month and offer capability for retail and/or wholesale of products in major Marketplaces, such as Amazon, eBay, Yahoo, Alibaba. The marketplace presence is important for retailers that are focusing on cost leadership instead of differentiation by brand, as it does not provide direct contact with the customer and an ability to provide rich content and information about products. Therefore, this type of solution does not offer The 7 Puddles an ability to achieve pricing power with differentiated product (Randall, 2009).

7.3.2 Open-Source

The open-source solutions, although commonly thought as inexpensive because of open-source software license, require significant cost in customizations. They are convenient solutions for small retailers that require very specific customized solutions and have the technical skills required to implement customizations. The cost of such solution can vary from a few thousand dollars to tens of thousands of dollars.

7.3.3 SaaS

The SaaS solutions have been gaining ground in the market in recent years, by offering both additional features and lower cost. Consequently, all three SaaS solutions listed in Table 12 offer pricing that starts under $100 per month, an extensive list of features, integration interfaces, and customizability. SaaS solutions have been expanding upward to medium-size retailer market also. They are successful in offering a wide range of features including features required by The 7 Puddles to support its eCommerce goals, priorities and targets, as discussed in previous section:

- support for wholesale via customer-specific pricing;
- support for product variants for multiple colour/size of same product;
- advanced product visualizations for detailed zoom and rotation display to present high-quality product;
- full control of website design to enable the creation of unique store designs;
- wish-list and gift registry integration;
- integration with marketing tools and analytics; and,

- integration with third-party providers of other eCommerce related services for: payment processing, order fulfillment, analytic, affiliate platforms, email marketing, and survey tools.

7.3.4 Customizable

The customizable platforms offer superior capabilities for customization over SaaS platforms. However, these capabilities come at additional cost to retailers that need features not offered by the SaaS platforms. The customizable solutions serving mostly retailers in the medium-size range of $25 million - $1 billion, offer superior features and customization capabilities over the SaaS solutions. On the other hand, their cost is significantly higher than that of SaaS solutions, with average deal size in the range of $200k – $300k (Walker, 2009b).

7.3.5 eCommerce solution

Based on the previous analysis of different categories of eCommerce solutions, the SaaS solutions offer a cost-effective solution for start-up firms in both wholesale and retail. They represent an effective alternative to marketplaces and open-source solutions by cost, while supporting the growth of the retailer into the range of $5 million to $25 million in revenues. The SaaS solutions are already moving into the medium range $25 million - $1 billion in revenues. Consequently, the SaaS solutions are expected to provide capabilities for a medium-sized firm, in several years, by the time a retailer/wholesaler start-up like The 7 Puddles grows to that range. Therefore, a SaaS solution is most adequate for The 7 Puddles as a start-up to manage its wholesale and possibly retail operations.

Among the three specific SaaS solutions listed in Table 12, Volusion is best suited for The 7 Puddles, because it has better support for product variants than BigCommerce and better support for wholesale and customer-specific pricing than Shopify. The support for product variants is important to footwear retail as it allows easy management of multiple size and colour variants of the same product. In addition, Volusion supports a wish-list feature for customers so they can add items for future purchases and supports integration with gift registry Wishpot, where customers can create and save registries and share them through social networks. The support for giver-customers is important, because this market segment accounts for almost half of the market for The 7 Puddles, as demonstrated in section3.3.2. Therefore, Volusion is the primary selection for a solution for The 7 Puddles.

7.4 Consumer Insight and Online Channel Analytics

The 7 Puddles' has an eCommerce strategy with goals, priorities and targets for supporting brand and product development, market penetration, and the offline channel. While initial targets are set, based on the market analysis and projections, the process for managing performance to those targets requires analytics of online channel performance and insight into changing consumer behaviour online. Therefore, an important part of the eCommerce solution for The 7 Puddles are online surveys coupled with website analytics.

Online surveys offer direct insight into online audience expectations and experience of the online channel for information. Furthermore, online surveys offer information on offline purchases driven by the online channel. A free online survey tool, the 4Q online survey enables easy collection of information on four questions: experience rating on scale 1-10, a multi-choice question on purpose of website visit, a question on result of visit as success or failure, and a fourth question is for any other comment. The 7 Puddles can use 4Q online survey to find out about audience purpose of visit:

1. Product Information
2. Product Purchase
3. Shipping Cost
4. Store Location
5. Product Ratings/Reviews

The real-time results of the survey correlated with website analytics tools are able to identify geographic, seasonal, and consumer segment trends and changes of trends in a short time frame.

7.5 Online Marketing

The online marketing as part of the eCommerce strategy has an important role to support the eCommerce goals of brand and product development and market penetration. The 7 Puddles can use advertising to support both customer acquisition and increased purchase frequency priorities and targets. The affiliate marketing enables outsourcing of the customer acquisition, while email marketing enables an increase in purchase frequency. Therefore, the following sections describe, in more detail advertising, affiliate marketing, and email marketing as part of the eCommerce solution and process supporting the eCommerce strategy.

7.5.1 Advertising

The online advertising strategy of The 7 Puddles needs to balance the priority of early-adopter customer acquisition to support product launch with the priority of supporting brand development. The most direct customer acquisition method is through pay-per-click (PPC) advertising on search engines, where more than 40% of the online consumers start their purchase decision-making process (Mulpuru, 2008). On the other hand, the brand development requires a larger reach over a longer timeframe, most commonly through display advertising. The balance of priorities also must consider cross-channel effects, since The 7 Puddles' products will be available in both online and offline channel.

The display ads, while having a lower effect on customer acquisition for online purchases, have a wider reach and result in increased offline channel purchases (ComScore, 2009). Therefore, The 7 Puddles should adopt the initial target of 90/10 split between display and PPC in its advertising budget as the most effective split to optimize the use of budget to support both priorities and both channels (ComScore, 2009).

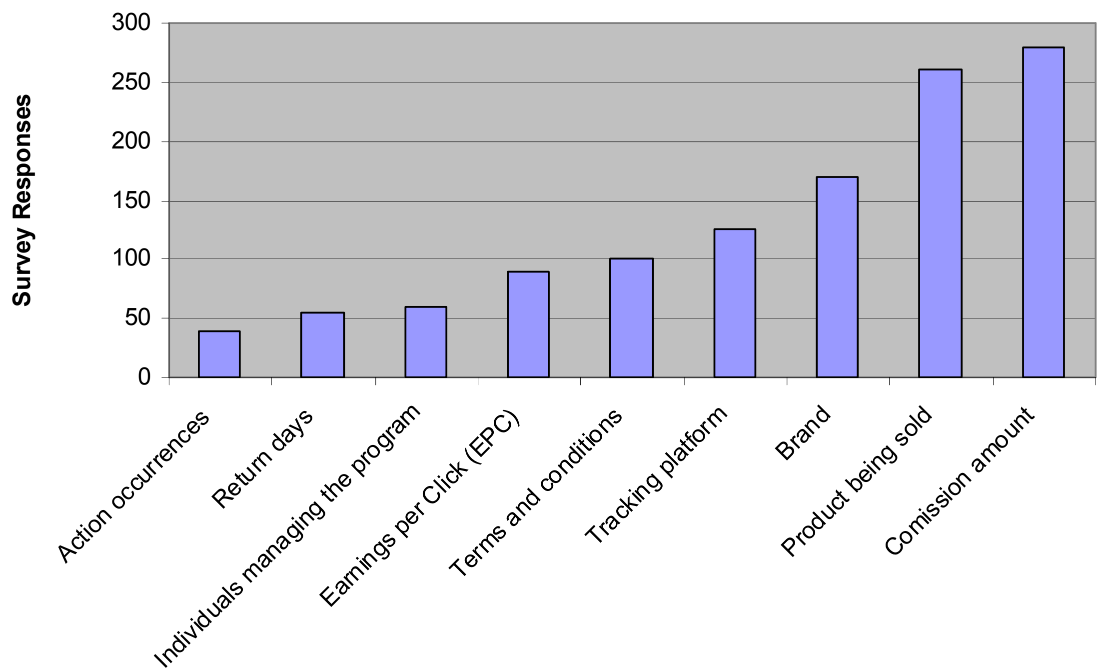
7.5.2 Affiliate Marketing

Affiliate marketing enables businesses to outsource marketing and customer acquisition to affiliates that receive a reward for each customer acquired. Affiliate marketing enables business development by developing a large number of channels with masses. The affiliate marketing is easy to engage and terminate, and easy for both sides to have a large number of partners. The 7 Puddles can use Commission Junction as an affiliate-marketing platform to establish relationships with social media content creators which are looking to monetize their content and audience.

The top three most important decision making factors an affiliate looks for when joining a program are by far ahead of other factors (Affiliate Benchmarks, 2008):

1. Commission amount;
2. Product being sold; and
3. Brand.

Figure 17 - Important Factors for Decision to Join Affiliate Program (Source: Affiliate Benchmarks, 2008)



These top three factors align well with the firm because the firm has a large enough gross margin to be able to offer competitive affiliate commissions. The commissions offered to affiliates by competitors of The 7 Puddles range from 5% to 15%, for example: Crocs 5-10%, Robeez 8-10%, Simple Shoes 10-15% (Crocs, 2010; Robeez, 2010a; Simple Shoes, 2010a). The 7 Puddles is building a specific product that aligns well with content creators and thought leaders in the field of parenthood and active lifestyle: mom bloggers, adventure bloggers, and related newsletters.

The firm's strategy for developing affiliate partners is to offer:

- A tiered affiliate commission model to provide incentives to reach specific goals, with special offers to top performers (VIP commissions).
- Help to affiliates to develop the channel by providing: content, keyword lists, and custom landing pages.

7.5.3 Email Marketing

The email marketing is a key priority for the process to manage and increase the purchase frequency as part of the eCommerce strategy. There are many popular tools for email marketing, with similar features. One of the most popular tools is the MailChimp that offers a SaaS solution with free starter plan. It makes a safe selection choice for The 7 Puddles for email marketing solutions. Segmented email campaigns will increase frequency of purchases, for example:

- Next size offers to a user-customer segment based on previous purchase timing and purchased shoe size;
- Annual and Holiday offers to the giver-customer segment;
- Seasonal offers to both customer segments.

In addition to increasing purchase frequency, the email marketing campaigns are also useful in increasing conversion rates by way of reminding customers about their abandoned shopping carts.

7.6 Cost Structure of Wholesale and Online Retail

ECommerce has priorities to support both wholesale to offline retailers and The 7 Puddles' own online retail store. Since The 7 Puddles' manufacturing is considered a cost centre, and eCommerce supports both wholesale and retail, the eCommerce is the profit centre of the firm and its cost structure defines the firm's revenue model. The wholesale and retail have some common expenses set by percentage of retail price that is presented in Table 13, while detailed breakdown of the cost structure in both wholesale and online retain is provided in Appendix E.

Table 13 - Cost Structure of Wholesale and Online Retail

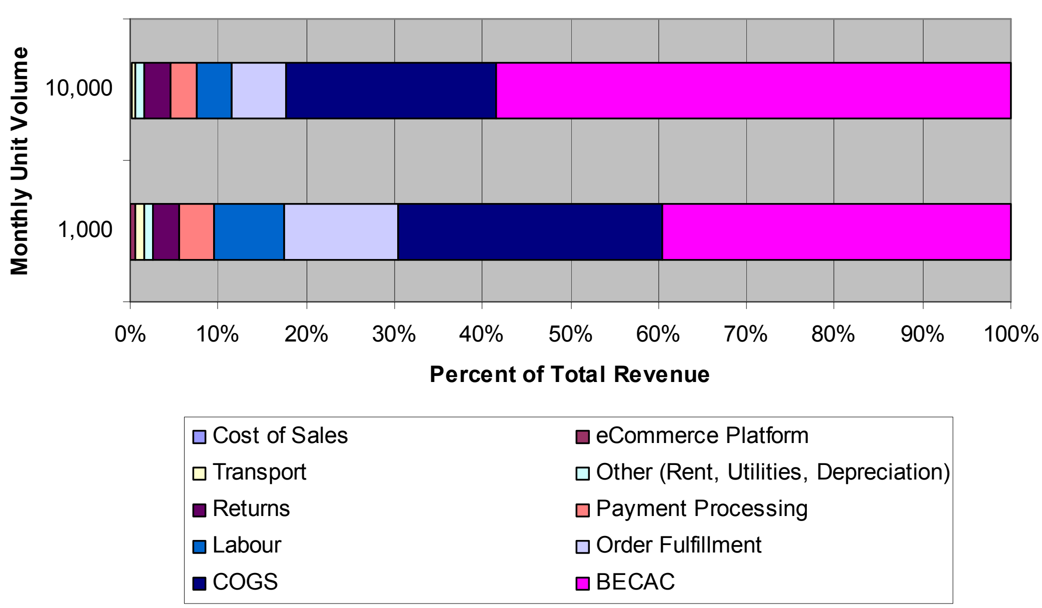
	Item	Cost
1.	**eCommerce platform**	Less than $100/month, i.e. less than 1% at projected starting order volumes.
2.	**Transport to warehouse(s)**	Less than $0.25/unit at batch levels of 1,000 units or more, i.e. less than 1% at projected starting order volumes.
3.	**Returns**	Estimated at 3%, 50% higher than industry standard 2% due to novelty of the product.
4.	**Order Fulfillment**	Cost starts at $4 per order at outsourced fulfillment centres such as Webgistix, Shipwire, or Fulfillment by Amazon, then decreases with increase in volume.
5.	**Payment Processing**	Less than 4% with PayPal, but can decrease to less than 3% with higher volume and own merchant account.
6.	**Cost of Goods Sold**	Starts at $7.5 per unit for pre-walker model at 1,000 units per month volume (5.3 Cost Structure). It decreases to $6 per unit with batch size going to 10,000 units per month.

The wholesale has one channel-specific expense. The sales expected to occur through direct sales in person with an estimated cost of about $5 per unit for the duration of the account that managed by each sales person. This amount includes the cost of the client call centre through which retailers can place orders by phone.

The online retail has additional expense of the client call centre for orders and support, estimated at 1% per order. Additionally, the online retail has costs of sales, i.e. customer acquisition, cost of advertising, affiliate fees, coupons and free shipping campaigns. These costs, determined by BECAC working backwards, with priorities to spend the maximum available budget on customer acquisition in early stages of the business is the shipping cost of between $3 and $6 per order in the US. Consequently, in case of free shipping, this is an additional expense for The 7 Puddles online retail operations.

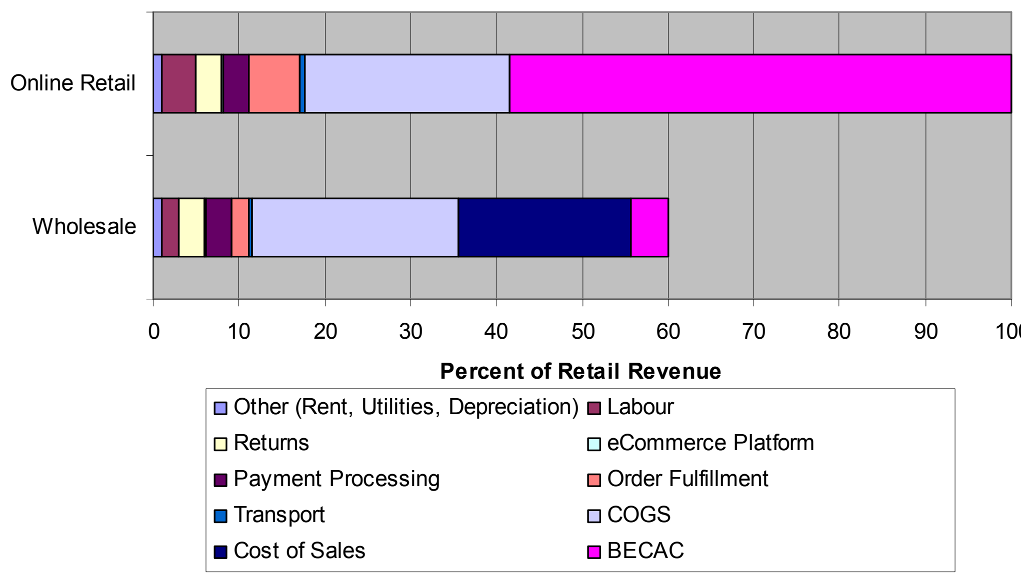
The cost structure of online retail (Figure 18) shows the increase in BECAC from 40% to 58% with the increase in scale (volume). The BECAC is the break-even budget from online retail to be used for different customer acquisition campaigns: affiliate commissions, email-marketing costs, advertising (PPC and CPM). Unlike affiliate commissions paid only on successful acquisition, the costs for PPC, CPM and email campaigns have to be managed according to achieved conversion rates to keep the total cost of customer acquisition within budget. The marketing management cost (human resource cost) estimated at $1,000 per month for outsourced services is included in the cost structure under category for labour.

Figure 18 - Online Retail Cost Structure



The comparison of cost structure between wholesale and online retail (Figure 19) reveals a much lower available budget for advertising in the wholesale channel, only about 5% compared to 40-60% in online retail. Two factors influence the difference in available advertising budget: cost of sales in wholesale channel for direct sales salaries and commissions, and lower wholesale price than online retail price. On the other hand, the available advertising budget in online retail needs to cover customer acquisition cost that is, in the wholesale budget, covered by the cost of sales (salaries and commissions). In order to balance the advertising budget allocation for uses other than customer acquisition, the same 5%, available in the wholesale channel, are deducted from the online retail BECAC. Thus, the BECAC in online retail for managing customer acquisition cost is budgeted at 35%/55% of online retail revenue at 1k/10k monthly volume respectively.

Figure 19 - Cost Structure in Wholesale and Online Retail Channels at Monthly Volume of 10,000 units



The structure of the business to include manufacturing as a cost centre and the cost structure of wholesale and online retail as profit centres together with supporting eCommerce strategy and technologies provides the basis for the revenue model.

8: Financial Model

The construction of the revenue model for the firm is based on the firm's structure, cost structure in channels, and strategic targets for the first stage of market penetration in US as the primary market. This stage is critical for the success of the firm and the key results, from that stage, will determine the firm's success as well as enable the firm to make decisions on future growth. The following table summarizes key revenue model assumptions based on eCommerce targets, while income statement and balance sheet projections are provided in Appendix C

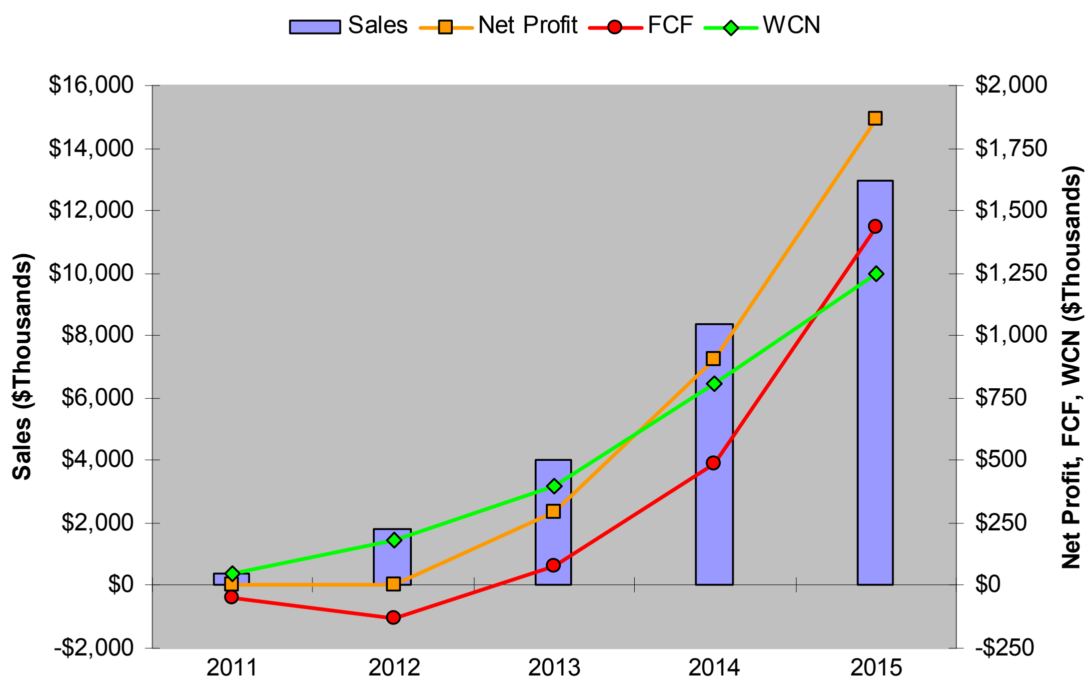
Table 14 - Financial Model Assumptions

Assumptions	2011	2012	2013	2014	2015
Online Retail Share (% of sales) [1]	12%	15%	18%	24%	30%
Unit sales (in thousands) [2]	25	100	200	400	600
Wholesale price as percent of retail (average)	60%				
Average Unit Retail Price [3]	\$25	\$27.5	\$30	\$30	\$30
Average Order Value (Online Retail) [4]	\$30	\$33	\$36	\$36	\$36
Average Order Value (Wholesale) [5]	\$270	\$297	\$324	\$324	\$324
COGS + SG&A expenses as % of sales [6]	100%	100%	90%	85%	80%

[1] – 25% annual growth of online retail share
[2] – Sales forecast for 2011 is only for second half of the year, because of product launch activities in the first half.
[3] – Average retail price grows with introduction of higher priced models (pre-walker, first-steps, and walking trainers)
[4] – Average order value (Online Retail) has a target of 1.2 times the average unit retail price
[5] – Average order value (Wholesale) is based on average 18-unit order at 60% of the retail price
[6] – Reduced CAC to target of \$10 (10% of total revenue per acquired customer) in online retail lowers the total COGS+SG&A expense as share of sales.

The firm requires working capital for the first three years. In the first two years, while business is being run at the break-even point (zero profit) the working capital needs (WCN) are estimated to be \$50k in 2011 with a further \$135k required in 2012 (Figure 20). In the third year, as the firm decreases customer acquisition cost from break-even point to meet the target for COGS + SG&A, as 90% of sales, the year-end net profit of $290k is insufficient to cover WCN of approximately $390k. Therefore, the firm requires access to an estimated $250k, for working capital requirements, from year 2011 to the third year, 2013, after which it will be able to provide working capital from the profits.

Figure 20 - Financial Projections



The firm valuation is frequently determined by common multiples used in specific industries or by discounted cash flow method based on the cost of capital. The discounted cash flow valuation of the firm assumes 20% weighted average cost of capital (WACC) and growth rate of free cash flow (FCF) after the 2015. The residual value of the firm in 2015 is $15 million (Appendix D). Another company valuation method, valuation using multiples, determines the value of a company by comparing financial ratios of relevant companies. The acquisition of Robeez in 2006 at about 1x multiple of its revenues (Boston Business Journal, 2006) provides a comparative point for valuation of The 7

Puddles based on multiples. The valuation of The 7 Puddles in 2015, based on projected $13 million revenue in 2015 and 1x revenue multiplier used in acquisition of Robeez, is $13 million. This is within 15% of the residual value in 2015, based on discounted cash flow, which confirms the approximate valuation. One of the most important factors for growing firm value (increasing FCF) is ability to reduce cost of customer acquisition and reduce advertising expense as percentage of sales to achieve final 80% COGS + SG&A by 2015 in wholesale and online retail combined.

The 7 Puddles has an opportunity to grow a $15 million business, with the US as primary market, over 5 years with $250k initial capital investment. The business would reach profitability in the third year by running the business at break-even point projected year-over-year during the first two years. The investment risk is minimized to WCN of $50k in year one and $135k in year two, while interim results during those two years would provide additional checks and balances on the original growth plan.

9: Conclusion

The 7 Puddles has a small to medium sized opportunity to launch a footwear product line for infant/toddler users in active outdoor lifestyle niche, with a roughly $50 million addressable market in US, and further market development of similar size in the top three European countries (Germany, France, and UK). The share of online retail and the influence of the online channel in purchasing decisions are growing rapidly and expected to reach over one third of purchases by 2014, reinforcing the importance of the online channel for demand creation and brand development. The low profit margins in footwear manufacturing and the low contribution of the manufactured product cost in the retail price limit the growth potential of the firms focused on manufacturing for a small market. However, The 7 Puddles has an opportunity to integrate forward to wholesale and online retail by using mature eCommerce technologies with low capital requirements. The forward integration would enable The 7 Puddles to take profits from a cost structure that includes wholesale and online retail up to the retail price of the footwear, and to develop a brand to achieve competitive isolation. The 7 Puddles can execute a niche brand strategy with forward integration across the industry value chain enabled by eCommerce strategy and solutions. This strategy would enable The 7 Puddles to grow its wholesale and online retail operations to an estimated $15 million business in the US market over the period of five years with a small initial investment of $250k for working capital to fulfil the needs of the wholesale and online retail operations. The eCommerce strategy establishes the priorities and targets managed by the operational process, which The 7 Puddles can repeat for market development in other markets.

Appendices

Appendix A - Online Audience Profile of Footwear Manufacturers (Source: Quantcast, 2010a)

Website	**SimpleShoes**																	
Age	**Share**	**Index**	**Gender**	**Share**	**Index**	**Ethnicity**	**Share**	**Index**	**Children**		**Share**	**Index**	**Income**	**Share**	**Index**	**Education**	**Share**	**Index**
3-12	4%	56	Male	42%	85	Caucasian	86%	110	N	0-17	67%	114	$0-30k	12%	67	No col	40%	90
13-17	6%	49	Female	58%	113	African	2%	27	Y	0-17	33%	79	$30-60k	34%	127	Col	41%	101
18-34	40%	136				Asian	4%	97	N	0-2	88%	98	$60-100k	25%	91	Grad	18%	125
35-49	30%	108				Hispanic	6%	70	Y	0-2	12%	115	$100k+	29%	103			
50+	21%	88				Other	2%	107	N	3-12	81%	112						
									Y	3-12	19%	67						
									N	13-17	86%	107						
									Y	13-17	14%	71						
Website	**Robeez**																	
Age	**Share**	**Index**	**Gender**	**Share**	**Index**	**Ethnicity**	**Share**	**Index**	**Children**		**Share**	**Index**	**Income**	**Share**	**Index**	**Education**	**Share**	**Index**
3-12	1%	14	Male	41%	83	Caucasian	93%	120	N	0-17	48%	81	$0-30k	8%	46	No col	20%	45
13-17	1%	7	Female	59%	115	African	1%	15	Y	0-17	52%	126	$30-60k	27%	102	Col	59%	144
18-34	53%	182				Asian	2%	43	N	0-2	66%	73	$60-100k	43%	152	Grad	21%	145
35-49	37%	132				Hispanic	3%	30	Y	0-2	34%	325	$100k+	22%	80			
50+	8%	34				Other	1%	65	N	3-12	70%	97						
									Y	3-12	30%	107						
									N	13-17	91%	113						
									Y	13-17	9%	47						

"The *index* shows how an individual site's audience compares to the internet population as a whole. For example, an index of 100 indicates a site's audience is equivalent to the demographic make-up of the total internet population. Any increase over 100 means that the property is *over indexed* and attracts a more concentrated group of a particular demographic group than in the general internet population."(Quantcast, 2010b)

Continued from previous page: Appendix A – Online Audience Profile of Footwear Manufacturers (Source: Quantcast, 2010a)

Website Crocs																			
Age			**Gender**			**Ethnicity**			**Children**				**Income**			**Education**			
	Share	**Index**		**Share**	**Index**		**Share**	**Index**			**Share**	**Index**		**Share**	**Index**		**Share**	**Index**	
3-12	4%	41	Male	37%	75	Caucasian	91%	116	N	0-17	61%	103	$0-30k	9%	49	No col	37%	81	
13-17	5%	44	Female	63%	123	African	2%	25	Y	0-17	39%	95	$30-60k	22%	82	Col	47%	115	
18-34	32%	110				Asian	3%	64	N	0-2	86%	96	$60-100k	36%	129	Grad	16%	113	
35-49	36%	129				Hispanic	3%	40	Y	0-2	14%	131	$100k+	33%	119				
50+	23%	99				Other	1%	93	N	3-12	73%	100							
									Y	3-12	27%	97							
									N	13-17	85%	105							
									Y	13-17	15%	78							
Website Skechers																			
Age			**Gender**			**Ethnicity**			**Children**				**Income**			**Education**			
	Share	**Index**		**Share**	**Index**		**Share**	**Index**			**Share**	**Index**		**Share**	**Index**		**Share**	**Index**	
3-12	6%	82	Male	30%	62	Caucasian	82%	105	N	0-17	56%	94	$0-30k	15%	86	No col	47%	105	
13-17	8%	67	Female	70%	136	African	6%	63	Y	0-17	44%	108	$30-60k	25%	96	Col	41%	99	
18-34	33%	111				Asian	3%	63	N	0-2	83%	92	$60-100k	31%	110	Grad	12%	84	
35-49	31%	111				Hispanic	9%	105	Y	0-2	17%	167	$100k+	28%	102				
50+	23%	96				Other	1%	88	N	3-12	67%	93							
									Y	3-12	33%	118							
									N	13-17	82%	101							
									Y	13-17	18%	92							

"The *index* shows how an individual site's audience compares to the internet population as a whole. For example, an index of 100 indicates a site's audience is equivalent to the demographic make-up of the total internet population. Any increase over 100 means that the property is *over indexed* and attracts a more concentrated group of a particular demographic group than in the general internet population."(Quantcast, 2010b)

Continued from previous page: Appendix A – Online Audience Profile of Footwear Manufacturers (Source: Quantcast, 2010a)

Website Pediped

Age	Share	Index	Gender	Share	Index	Ethnicity	Share	Index	Children		Share	Index	Income	Share	Index	Education	Share	Index
3-12	1%	19	Male	42%	86	Caucasian	79%	102	N	0-17	46%	77	$0-30k	10%	53	No col	23%	51
13-17	2%	17	Female	58%	113	African	2%	17	Y	0-17	54%	131	$30-60k	23%	88	Col	60%	146
18-34	50%	170				Asian	3%	76	N	0-2	67%	74	$60-100k	48%	172	Grad	17%	119
35-49	37%	133				Hispanic	15%	182	Y	0-2	33%	317	$100k+	19%	68			
50+	10%	40				Other	1%	70	N	3-12	69%	95						
									Y	3-12	31%	112						
									N	13-17	87%	108						
									Y	13-17	13%	66						

Website ShooShoosUSA

Age	Share	Index	Gender	Share	Index	Ethnicity	Share	Index	Children		Share	Index	Income	Share	Index	Education	Share	Index
3-12	3%	39	Male	46%	94	Caucasian	85%	109	N	0-17	46%	78	$0-30k	12%	67	No col	31%	68
13-17	7%	60	Female	54%	105	African	5%	58	Y	0-17	54%	130	$30-60k	33%	122	Col	57%	138
18-34	36%	123				Asian	2%	57	N	0-2	69%	77	$60-100k	40%	142	Grad	13%	88
35-49	38%	135				Hispanic	6%	69	Y	0-2	31%	295	$100k+	15%	55			
50+	16%	68				Other	1%	69	N	3-12	67%	92						
									Y	3-12	33%	120						
									N	13-17	85%	106						
									Y	13-17	15%	74						

"The *index* shows how an individual site's audience compares to the internet population as a whole. For example, an index of 100 indicates a site's audience is equivalent to the demographic make-up of the total internet population. Any increase over 100 means that the property is *over indexed* and attracts a more concentrated group of a particular demographic group than in the general internet population."(Quantcast, 2010b)

Appendix B - Firm Groups by Revenue and Brand Collection Size

Firm	#Brands	Brands	Revenue 2008
Nike	5	Converse, Chuck Taylor, All Star, One Star, Jack Purcell	$18 billion
Adidas	3	adidas, TaylorMade-adidas Golf, Reebok	$16 billion
Collective Brands	21	Abaete for Payless, Airwalk, American Eagle, Champion, Dexter, Dukes, Dyelights, Dyelights, genetic, Grasshoppers, Hind, Keds, Lamar, LTD, Rage, Robeez, Saucony, Skate Attack, Sperry, Sperry Top-Sider, Stride Rite	$3 billion
Wolverine	13	Bates, Cat, Harley-Davidson, Hush Puppies, HyTest, Merrell, Patagonia, Sebago, Stanley, Wolverine, Track 'N Trail, Cushe, Chaco	$1.2 billion
Clark's	1	Clark's	0.9 billion GBP
Crocs	6	Bite, Crocs, Fury, Jibbitz, Ocean Minded, YOU by Crocs	$850 million
Sketchers	2	Cali Gear, SKECHERS	$1.4 billion
Robeez, Simple Shoes, Pediped, See Kai Run, Jack and Lily, ShooShoos, and Elefanten	1 per firm		Robeez about $25-$30mil in 2006 (Boston Business Journal, 2006). Other estimated at $10-$100 million

Appendix C - Financial Projections ($Thousands)

BALANCE SHEET [7]	Year	2011	2012	2013	2014	2015
Cash needed for operations		49	182	363	710	1,037
Receivables		32	145	323	668	1,037
TOTAL ASSETS		**81**	**326**	**685**	**1,378**	**2,073**
Payables		32	145	290	568	829
TOTAL LIABILITIES AND NET WORTH		**81**	**326**	**685**	**1,378**	**2,073**
Working capital needs (WCN)		49	182	395	810	1,244

PROFIT AND LOSS [8]	Year	2011	2012	2013	2014	2015
Sales		405	1,815	4,032	8,352	12,960
Cost of goods sold + SG&A		405	1,815	3,629	6,264	8,424
EBITDA		**0**	**0**	**403**	**2,088**	**4,536**
Income tax		0	0	113	585	1,270
Net Profit		**0**	**0**	**290**	**1,503**	**3,266**
	Year	**2011**	**2012**	**2013**	**2014**	**2015**
- Increase in WCN		49	133	206	302	244
Free cash flow (FCF)		**-49**	**-133**	**85**	**1,201**	**3,022**
Accumulated FCF		-49	-182	-97	1,105	4,126

[7] Fixed assets and depreciation are excluded, because they are negligible at (<$10k) compared to overall model

[8] Fixed assets and depreciation are excluded, because they are negligible at (<$10k) compared to overall model

Appendix D - Discounted Cash Flow Valuation ($Thousands)

Year	2011	2012	2013	2014	2015
Free cash flow (FCF)	-49	-133	77	487	1,432
Residual value according to future growth rate of 10% with wacc 20%					**15,754**
Total cash flows, incl. residual value	-49	-133	77	487	17,187
Discounting rate (wacc)	20%	20%	20%	20%	20%
Discounting factor	0.83	0.69	0.58	0.48	0.40
Discounted cash flows	-41	-92	44	235	6,907
Addition of discounted cash flows	**7,053**	**(Present value of the company)**			

Appendix E - Cost Structure in Wholesale and Online Retail Channel

Online Retail	Monthly Unit Volume	
	1,000	10,000
	Cost as % of Retail Price	
Cost of Sales	0%	0%
eCommerce Platform	0.5%	0.1%
Transport	1%	0.5%
Other (Rent, Utilities, Depreciation)	1%	1%
Returns	3%	3%
Payment Processing	4%	3%
Labour	8%	4%
Order Fulfillment	13%	6%
COGS	30%	24%
BECAC	39.5%	58.4%

Cost Structure at 10,000 Monthly Volume	Wholesale	Online Retail
	Cost as % of Retail Price	
Other (Rent, Utilities, Depreciation)	1%	0.1%
Labour	2%	0.5%
Returns	3%	1%
eCommerce Platform	0.1%	3%
Payment Processing	3%	3%
Order Fulfillment	2%	4%
Transport	0.5%	6%
COGS	24%	24%
Cost of Sales (salaries & commissions)	20%	0%
BECAC	4.4%	58.4%

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