HARVARD | BUSINESS | SCHOOL

9-502-077
JUNE 22, 2002

YOUNGME MOON
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Vans: Skating on Air

Fourteen year-old boys have three things on their mind: sports, music, and girls. Our goal is to own the first two . . . the third, we'll let the kids handle on their own.

—Gary Schoenfeld, president and CEO of Vans

Early evening April 22, 2002: Gary Schoenfeld, the CEO of Vans, was standing in the middle of the star-studded, invitation-only crowd that had turned out for the Hollywood premiere of *Dogtown and Z-Boys*, a documentary about the history of skateboarding. Smiling, Schoenfeld noticed that many in the crowd were wearing the specially-designed Dogtown shoes the company had sent to all invitees.

Vans was best known for selling footwear and apparel to skateboarders and surfers; the company also sold products for other alternative sports, including snowboarding, BMX bike-riding, motocross, wakeboarding, and supercross (Vans called these activities "Core Sports™"; see **Figure A** for a description of each sport). Vans had financed the *Dogtown* film at the request of one of its sponsored athletes, skateboarding pioneer Stacy Peralta.

Now, as Schoenfeld looked over the crowd, he could not help but feel a sense of satisfaction. After seven years at Vans, Schoenfeld had managed to turn the company around, revitalizing the brand and transforming Vans into a $350 million business (see **Exhibits 1** through **3** for additional financial information). In a market in which the customers were notoriously fickle and few brands ever topped $100 million in annual sales, this was quite an accomplishment.

At the same time, Schoenfeld was keenly aware of how fleeting success could be. Exactly 20 years before, the company had gotten a big boost from another movie, a cult classic called *Fast Times at Ridgemont High*. Eager to capitalize on the increased demand for its products, Vans had expanded too rapidly and had ended up in bankruptcy. While Schoenfeld was determined not to repeat the mistakes of the past, he felt strongly that Vans was at a crossroads:

> I believe that at $350 million, we're not maxed out. I look at Nike as a $9 billion brand. Can we be 10% of what Nike is? Yes, that doesn't feel uncomfortable to me. On the other hand, I'm not running the business to become a $1 billion company. We've got to proceed incrementally, so as not to alienate our core customer base.

Senior Researcher David Kiron of the Global Research Group prepared this case under the supervision of Professor Youngme Moon. Authors give thanks to Research Associate Brenda Cheng for her assistance. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

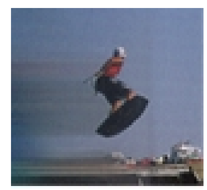
Already, Schoenfeld had broadened Vans' product assortment and expanded its distribution system. The company now sold everything from women's sandals to outdoor hiking shoes, in retail outlets ranging from company-owned stores to mass-market chains such as Foot Locker and J.C. Penney. The company was also involved in a number of entertainment-related ventures: In addition to financing *Dogtown*, Vans operated a snowboarding camp in Oregon, it licensed content to videogame developers for Microsoft's Xbox and Sony's Playstation, and it was in the process of starting a record label. Schoenfeld commented:

> The biggest question I'm dealing with today is how to drive that next stage of growth. Which product categories should we participate in? Which distribution channels should we be in? I know that lots of shoe industry people are wondering, why is Vans getting involved with movies, with record labels, with videogames? But what they don't realize is that our vision is to integrate ourselves into the places our customers are most likely to be.

Figure A Vans' Core Sports

Surfing
The sport of riding the surf on a surfboard.

Wakeboarding
A short, broad water ski ridden like a surfboard by a person towed by a motorboat.



Skateboarding
A short board mounted on small wheels

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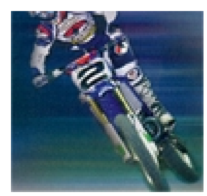
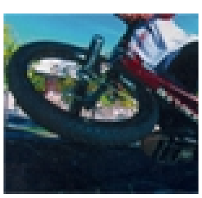
Motocross
A closed-course motorcycle race over rough terrain.

Snowboarding
A board-like wide ski ridden in a surfing position downhill over snow.

Supercross
An indoor version of motocross.





BMX
Abbreviation for bicycle motocross. A cross-country bicycle race over rough terrain.

Source: Vans; casewriter research.

The Early Days

Paul Van Doren launched Vans in 1966 with his brother James and two partners. Steeped in the techniques of footwear manufacturing,[1] Van Doren set out to make the most durable and affordable casual deck shoe in the market. The result was a rubber-soled shoe that was reinforced with clay and was twice as thick as those produced by the competition. The upper canvas was double-stitched, and the entire shoe was washable. At prices ranging from $2.49 to $4.99 a pair, Vans shoes were, according to one industry observer, "built like a battleship."[2]

Unlike other shoe manufacturers, Vans sold its sneakers directly to consumers out of its own retail store in Anaheim, California. At the time, industry insiders derided the unconventional business model because "nobody had a store that sold only sneakers." The skepticism didn't dissuade Van Doren, however, who opened his second, then his third, and then his fourth retail outlet within months.

Source: Vans.

Promoting the stores was strictly a grassroots affair, managed almost entirely by Van Doren with the aid of his children. Van Doren's son Steve recalled, "When a new store was ready to open, my dad would give me a bunch of flyers to pass out after school. The family was always involved that way." Steve also recalled how the senior Van Doren acquired customers—"one surfer at a time":

> I remember there was a surfing competition once, down near Costa Mesa where we grew up. My dad, who was not a surfer, headed down to the beach to show the surfers our shoes. He walked straight up to this really famous Hawaiian surfer, Duke Kahanamoku, and said, "Hey Duke, I like your shirt. Why don't you let me make you a pair of shoes that match that shirt? All I need is some material to match it." Duke grinned, turned to his buddy—who was wearing an identical shirt—and made him take his shirt off and give it to my dad. My dad took the shirt, used the material to make the shoes, and delivered them to Duke the next day. That's how we did business at Vans back then.

Surfers were not the only ones who enjoyed customized Vans. Because manufacturing was done in-house, customers could choose from a "Baskin Robbins-like"[3] assortment of more than 50 fabrics and colors. Steve Van Doren—who more than 30 years later was still promoting Vans products, albeit in a more official capacity as vice president of promotions—explained:

> From the beginning, you could choose your own canvas fabric and color. No one else could do this because nobody else had his own factory. The kids would come in and they'd say, "Oh, I want green on this side, yellow on this side, blue on this side, make the tongue checkered…" Or if one foot was a seven and the other was a nine, we'd accommodate that too, for a dollar extra. By making only the shoes people wanted, we were able to avoid the inventory problems that afflicted other footwear companies.

"At one point," Van Doren continued, "every school in Southern California, the cheerleaders, the drill teams and the marching bands, they were all wearing our shoes. We were the only company that could match the school colors." Vans was also a favorite of hard-to-fit customers, who required

[1] Prior to launching Vans, Van Doren worked for 25 years at the nation's third largest footwear manufacturer, Massachusetts-based Randolph Shoe Company.

[2] Ed Leibowitz, "The Ultimate Trendoid Sari Ratsula's Job Is To Figure Out What Teenagers Will Embrace Next As A Fashion Statement For The Feet. This Is No Joke. This Is Risky Business," *Los Angeles Times,* December 8, 1996.

[3] Baskin Robbins was a popular ice cream store chain in the United States known for its wide assortment of flavors.

non-standard widths and lengths. As a result, by the end of the 1960s, the canvas, easy-to-wash shoes had developed a small but loyal following among the Southern California surf set.

Dogtown and the Birth of the Z-Boys

The 1970s ushered in a wave of anti-establishment, anti-Vietnam, anti-war sentiment among American youth. It was within this context that—in a depressed area of Santa Monica, California (a place dubbed "Dogtown" by its inhabitants)—a talented group of disenfranchised teenagers began creating a new style of skateboarding that ultimately ended up redefining the sport. This group of self-described misfits (the "Z-Boys") took pride in pushing the limits of conventional skateboarding, becoming the first to replicate complex surfing moves on asphalt park embankments and the upper lips of empty swimming pools. (See **Figure B**.)

Figure B The Z-Boys in Action

Source: Vans.

For these skateboarding rebels, Vans quickly became the sneaker of choice. The vulcanized rubber "waffle" soles were ideal for maintaining a solid grip on the skateboard, and the double-stitched canvas was perfect for withstanding the wear and tear associated with the reckless sport. Tony Hawk, a skateboarding icon who grew up idolizing the Z-Boys, recalled, "I would climb walls in them, [the shoes] were so grippy." In addition, the price was right. Glen Friedman, who grew up skating with the Z-Boys, put it simply: "We wore Vans because they were seven bucks, end of story."[4]

In 1975, the Z-Boys dominated the first national skate competition in Del Mar, California, wearing matching blue Vans deck shoes and T-shirts emblazoned with their team name, Zephyr. Their innovative moves overwhelmed both competitors and judges, who had no categories for judging their style. In the words of Zephyr member Tony Alva, it was clear "we were a step above."[5]

Word quickly spread, and skaters around the country began emulating Z-Boy skating techniques. A number of skateboarding magazines were launched, and dozens of outdoor skateparks began opening all over North America. Skateboarding was on the verge of becoming a $400 million

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[4] Maureen Tkacik, "Nike nips at skate-shoe icon Vans as extreme becomes mainstream," *The Wall Street Journal*, April 24, 2002, p. 1.

[5] G. Beato, "The Lords of Dogtown," *Spin Magazine*, March 1999.

business,[6] and Vans—whose sales had risen rapidly—appeared to be ideally positioned to take advantage of its close affiliation with the radical sport.

Just as quickly, however, the market began to decline. By decade's end, the infatuation with skateboarding had been replaced by a fascination with other alternative sports (such as BMX riding), dozens of skateparks had closed as a result of the skyrocketing cost of liability insurance, and skateboard manufacturers had suffered tremendous losses. According to one skateboarding historian, by the end of 1980, "skateboarding [had] died."[7] That same year, Paul Van Doren turned the company over to his brother James.

Topsy-Turvy

The ensuing eight years were turbulent for Vans. In 1982, a youth-oriented movie called *Fast Times at Ridgemont High* featured a teenage surfer dude named Jeff Spicoli (played by actor Sean Penn) hitting himself on the head with a pair of black-and-white checkerboard Vans slip-ons. The movie catapulted Vans back onto the national scene, creating virtually insatiable demand for its shoes.

Source: Vans.

James Van Doren responded by broadening Vans' product mix in an effort to grab share from Nike and Reebok in the (then) rapidly expanding athletic shoe market. Soon, Vans was producing shoes for baseball, football, soccer, basketball, wrestling, boxing, and even umpiring. But the move backfired: High production costs at its California-based factory, strong competition from mainstream brands, and an unreceptive market led first to debt, and in 1984, to bankruptcy.

Paul Van Doren returned to revitalize the company. "We just put it back on the same road," he explained. "To hell with fashion trends."[8] Things started to look up again, as Paul managed to get the company out of debt, pay back 100 cents on every dollar owed, and then sell the company in 1988 to a private equity firm, McCown, DeLeeuw Co.

The rollercoaster ride continued into the early 90s, however, when a variety of factors thwarted Vans' struggle for growth. A deep recession hit the nation in 1991; the Gulf War followed in 1992. Oil shortages led to higher rubber costs, which led to higher shoe prices and lower margins. Meanwhile, "grunge" fashion trends and "urban chic" replaced the surf-and-sun look.

By the mid-90s, the company had closed one of its two factories, had laid off 1,000 workers, and had replaced a number of its company-owned stores with off-price outlets to move $10 million of slow-moving inventory.[9] In short, the volatile currency of "cool" no longer favored Vans.

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[6] G. Beato (1999).

[7] Michael Brooke, *The Concrete Wave: The History of Skateboarding*, (Toronto, ON: Warwick Publishing, 2001).

[8] Leibowitz (1996).

[9] Kelly Barron, "Vans–-No Loafin': The Orange Company must restore its image and a series of financial and management upheavals," *The Orange County Register*, June 11, 1995.

The Turnaround

In 1995, Gary Schoenfeld took over operations at Vans; two years later he assumed the mantle of CEO. One of Schoenfeld's first moves was to close Vans' remaining factory, effectively eliminating the company's manufacturing division. He explained:

> For more than 25 years, Vans' competitive advantage was its U.S. manufacturing with a cycle time of 19 days from receipt of order to completion of finished goods. Yet by the mid-90s, anyone could go to Asia and make stuff cheaper and with a far greater range of styling. There were no barriers to entry. Fortunately, the brand was strong. When you mentioned Vans to people, they knew what the name meant: young, fun, Southern California, beaches, skateboarding, and surfing. So our point of difference was going to be our heritage, our connection to this new generation of sports, the kids who played them, and their lifestyles.

In the late-90s, it was estimated that about 25 million Americans, mostly between the ages of 6 and 24, participated in some kind of alternative sport. This number included an estimated 7.8 million skateboarders, 4.7 million snowboarders, 2.7 million wakeboarders, and 3.7 million BMX bikers.[10] "Extreme sports" were believed to be more popular among boys aged 12 to 15 than Major League Baseball or the National Hockey League,[11] and more teenage males watched the X-Games on ESPN than the SuperBowl.[12]

Vans' customer base included both hardcore enthusiasts as well as occasional athletes. The former tended to spend hours of their free time practicing their sport, while the latter tended to exhibit a broader range of interests. By far, the most popular of Vans' core sports was skateboarding. The average Vans customer was a white, skateboarding male between 12 and 18 years of age who lived with his parents in the suburbs. His interests typically included punk or hip-hop music and videogames, and he most likely held skateboarder Tony Hawk in much higher esteem than Michael Jordan.[13]

Schoenfeld believed that the company's key challenge was maintaining a relationship with these unpredictable, fashion-conscious kids, so he actively solicited input from his young staff members (many of whom were skateboarding aficionados) to figure out a way to reach this youthful demographic:

> One of my most important jobs was to *listen*. We have lots of people within the company who are part of the lifestyle. . . they live it, embrace it, lead it. They were the experts, not me. I never pretended to be the target customer. So I spent a lot of time sitting with athletes, talking with Steve Van Doren and a number of young people in the company who were passionate about core sports.

Some of these discussions involved debates about which sports could "legitimately" be considered "hardcore." In recent years, a number of alternative sports—including snowboarding, BMX bike riding, rollerblading, and so on—had grown in popularity, and it was not clear which of these should be included under Vans' "Core Sports™" umbrella. As Schoenfeld remembered, "We considered each of these sports very seriously. Over time, we decided to officially add five sports

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10 American Sports Data, Inc., based on 1999 estimates.

11 Teenage Research Unlimited.

12 Based on a TV Guide report (June 1998), John J. Shanley and Paula Kalandiak, "Vans, Inc." *Wells Fargo Van Kasper*, February 8, 2001.

13 Based on a survey by Alloy Inc., cited in Tkacik (2002), p. 1.

[see **Figure A**], but we also rejected a number of sports—like rollerblading and skiing—that we didn't believe were consistent with our message."

More generally, Schoenfeld's in-house listening sessions led to the development of a revamped marketing approach. The centerpiece of the new approach was the sponsorship of a number of carefully-selected, alternative sporting events and related forms of entertainment. As Schoenfeld put it:

> Our goal was to create a proprietary branding platform that would build on our unique heritage and give us a long-term leadership position. We always knew a Nike or Reebok could outspend us, so we focused on furthering the authenticity of our brand and connection to the lifestyle associated with core sports.

The Promotional Mix

Triple Crown Series

One of the first events that Vans sponsored emerged out of a suggestion from Steve Van Doren who, as vice president of promotions, spent much of his time cultivating personal relationships with prominent skateboarders. Van Doren suggested that Vans create a world championship of skateboarding as a mechanism for recognizing skateboarding's elite.

The inaugural event was a humble affair—nothing more than a couple of ramps set up in a parking lot in Newport Beach, California—but the response "from the street" was astonishing: Over 10,000 kids jammed into the parking lot to witness the two-day competition. Van Doren marveled, "ESPN ended up airing the event 8 to 10 times and we got tons of magazine exposure, which meant we spent a paltry $50,000 for publicity worth 7-figures! At that point, we knew we were on to something."

The following year (1998), the company recast the competition as the "Triple Crown of Skateboarding." This time, the competition consisted of three different events (street skating, bowl riding and vertical ramp riding) designed to reflect the various specialties of the top professional skateboarders in the world. Around the same time, Schoenfeld learned that the owner of a Hawaii-based competition called the "Triple Crown of Surfing" was retiring and was willing to sell Vans the rights. Schoenfeld recalled,

> Once we owned both the Triple Crown of Skateboarding and the Triple Crown of Surfing, a light bulb went on in our heads and we said, "Why don't we create the Vans Triple Crown *Series*?" We then added two more sports [snowboarding and wakeboarding], along with a couple more sponsors. The final step was taking the extravaganza to ESPN and convincing them to televise it.

By 2000, the Triple Crown Series had become so big that NBC outbid ESPN for television rights. Two years later, the competition had grown to include seven alternative sports and 21 events, and a number of major sponsors (including Ford, Mountain Dew and Microsoft) had become involved. Moreover, the competition had become a global attraction—Triple Crown Champions hailed from several continents, including North America, South America, and Europe. (See **Exhibit 4** for Triple Crown Series attendance data.)

Vans Warped Tour

In 1996, Vans signed on as one of the sponsors of the Warped Tour, a series of concerts that traveled to various cities, showcasing up-and-coming punk, hip-hop, and hard rock bands. Schoenfeld explained:

> The philosophy behind the Warped Tour was to feature acts like Blink 182 and Green Day before they hit it big. It was a very grassroots, low-priced, kind of music event that fit well with our image. Most of the kids who attended the Warped Tour were between 13 and 20 years old; they spent their day wandering between six different stages featuring dozens of smaller bands. The approach was totally different from other concert tours like Lilith Fair and Lollapalooza, which focused on well-known acts. When we got involved, we added things like a "reverse daycare center," where parents could hang out while their kids had fun.
>
> It was at this point that my father had an idea. He suggested that, since our Triple Crown Series was really for *professional* athletes, we should create some kind of *amateur* event, where kids around the country could compete for a chance to become the Amateur Champion of Skateboarding. Steve Van Doren took the suggestion a step further by proposing that we *combine* the amateur competition with the Warped Tour. His thought was, why not set up a skate ramp next to the music stages so that skateboarding could become an integral part of the whole scene? That way, we could take the competition from city to city, crowning local champions along the way.

Tour organizers embraced the idea almost immediately, and the Warped Tour Amateur Competition became an annual event. Each year, Vans crowned amateur winners in the Tour cities; the winners from all the cities were then invited to attend a competition in Southern California, where a single amateur champion was selected. The grand prize was an official sponsorship from Vans; i.e., the amateur became one of Vans' sponsored athletes. Schoenfeld grinned, "For the kids, it's all pretty exciting." (Eventually, Vans ended up buying the Warped Tour; see **Exhibit 4** for Tour attendance data.)

Vans Skateparks

Although skateparks had been popular in the late-1970s, most had been forced to shut down by the end of the decade because of liability costs. In 1997, however, California passed legislation that categorized skateboarding as a "hazardous sport." The legislation made skateboarders personally responsible for the risks associated with participation in the sport; in other words, skateparks could no longer be held liable for skaters' injuries.

Vans responded to the new legislation by opening its first skatepark in November 1997. Located in an outlet mall in Orange County, California, the 46,000 square-foot skatepark could accommodate 150 skaters at a time. Admission cost $7-$9 for a two-hour session.

Local skateboarders greeted the opening with enthusiasm. More than 100,000 paying customers showed up the first year (along with nearly 2 million skatepark visitors), generating about $2 million in revenue.[14] Most skaters were 12 to 14 year-old boys, although customers' ages ranged from 5 to 35. According to Van Doren, the skateparks created a "win-win" for parents and kids: "Parents are excited because we provide a place where their kids can exercise safely—we run it clean, we don't

[14] Revenues included the sale of merchandise. (All Vans skateparks sell Vans merchandise.) Skatepark members, who paid an annual $50 fee, received admission discounts.

put up with any stuff; this is the Disney element we borrowed. And the kids love it because they finally have a technically-sophisticated arena in which to practice their moves."

The Orange skatepark was followed by the opening of two more skateparks in 1999, three more skateparks in 2000, and two more skateparks in 2001. (See **Exhibit 4** for recent skatepark attendance data.) By 2002, dozens of skateparks were back in business around the country; 11 of the most technically-superior were owned and operated by Vans.

Endorsements of Athletes

The one element of Vans' 2002 promotional mix that was *not* new was the company's endorsement strategy. Vans' endorsement of athletes dated back to the 1970s, when it had become the first footwear company to sponsor a skateboarder. That skateboarder had been Stacy Peralta, director of *Dogtown* and an original Zephyr team member: "[Vans was] the first shoe company to ever pay attention to skateboards. They took a liking to us Z-boys when everyone else dismissed us. Once a month we'd get free shoes from the Little Corner store in Santa Monica. And they've stayed authentic ever since."[15]

Figure C. A Few of Vans' Sponsored Athletes[16]

Source: Vans.

By 2002, Vans was actively endorsing over 600 athletes across all seven of its core sports. (See **Figure C** above for a look at some of Vans' endorsed athletes.) As Schoenfeld explained, the company's affiliation with these high-profile athletes not only built brand credibility, it also enabled Vans to build bridges to new consumer markets:

> All of our athletes are very carefully selected. We want our athletes to be icons for kids, not posters on police station walls. Plus, they've got to have charisma. So we're interested in the whole package. For example, we've got a skater named Geoff Rowley from England. This

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[15] <www.sonyclassics.com/dogtown/falshmovie.htm>, (accessed April 21, 2001).

[16] From left: Omar Hassan, Willie Santos, Steve Caballero, Ethan Fowler, Tony Trujillo, John Cardiel, Dustin Dolin, Jim Greco, Geoff Rowley, Bastien Salabanzi.

guy's 25-26 years old, and he's one of the most well-known skaters in the world right now. But he's also got a certain look, a certain style, that we think resonates with a lot of kids out there.

Another one of our athletes is from France, Bastien Salabanzi, who's just 16. He's a real up-and-comer, and he's got a completely different image. He's multi-ethnic, into hip-hop music. So what he allows us to do is to be a little bit more urban and credibly extend the brand beyond a strictly suburban type of message. So as an example, we used a graffiti artist to design the insole of his shoes.

Now compare Bastien to Jason Adams from San Jose. Jason lives off of caffeine and country music. He despises anything trendy, hates fad diets, and has got a pot belly to prove it. And then compare Jason to Jim Greco, who's pretty much a punk rock icon. So we market him in a totally different kind of way. The list goes on and on, but the point is, we let the diversity and the unique personalities of our athletes both market and define the sports and lifestyle positioning of our brand.

Endorsement contracts for individual athletes ranged in value from $200 to $2500 a month. Sponsored athletes often received free shoes and apparel, and the most elite athletes were given "Signature Shoe" contracts that could result in six-figure shoe royalties (royalties typically ranged from 50 to 75 cents a pair). Vans' skateboarder Steve Caballero, for example, made $200,000-$300,000 a year from royalties alone. One of Vans' athletes explained:

For me, the appeal of having Vans as a sponsor is not so much their historical connection with the sport, which they're really pushing now. Rather, it's that they really take care of their athletes. Steve [Van Doren] is truly behind the skaters and it's great to be with a solid company that has dug down deep into the core of the sport.

The Channel Mix

Vans distributed its products through both retail and wholesale divisions.[17] On the retail side, Vans owned and operated 65 full-priced stores that sold a wide range of Vans products for men, women, and children. In recent years, the company had also opened 62 outlet stores, which generated lower gross margins than the full-priced stores, but were well-positioned to handle excess inventory and slow-moving merchandise. By 2002, Schoenfeld had supplemented these retail stores with the 11 skateparks, each of which sold a large line of Vans footwear, apparel, and accessories. (See **Exhibit 2** for sales by division.)

On the wholesale side, Vans sold its products through a number of national and independent retailers. This part of the business had undergone significant fine-tuning since 1995; the end result had been the segmentation of the company's wholesale partners into three distinct "tier" groups:

- **Independent Specialty ("Core") Skate Stores.** These first-tier stores consisted of independent skate shops frequented primarily by skate professionals and hardcore enthusiasts. Examples included stores like Blades on the east coast, Jack's Garage on the west coast, and Fast Forward in Texas. In addition to carrying Vans products, independent skate shops generally offered a variety of niche, hardcore brands, which meant that Vans products in this channel tended to compete against small, highly-specialized competitors. First-tier core shops represented about 10% of Vans' domestic wholesale business.

[17] Vans also had an international division, which accounted for about 25% of sales.

- **Mall-based Specialty Stores, Better Department Stores, and Sporting Goods Stores**. The second tier of wholesale distribution included mall-based specialty chains (e.g., Pacific Sunwear, Journeys, Foot Locker and Finish Line), better department stores (e.g., Nordstrom's), and sporting goods stores. The chains tended to carry a number of mainstream brands, including Nike, Adidas, Puma, and Skechers. Second-tier retailers represented 35% to 45% of Vans' domestic wholesale business.

- **Moderate Department Stores and Family Shoe Stores**. The third tier of wholesale distribution included moderate department stores such as Mervyn's and Kohls, and family shoe stores such as Famous Footwear. Third-tier retailers represented 45% to 55% of Vans' domestic wholesale business.

One of Schoenfeld's early goals had been to increase Vans' overall penetration, both at the core shops and in the second- and third-tier outlets. He had accomplished this goal slowly but steadily during his tenure, so that by the beginning of 2002, the company's products were being sold in over 12,000 domestic locations (versus just 6,000 in 1995), including more than 600 core skate shops.

The Product Mix

In addition to the changes in the distribution system, Schoenfeld had worked on overhauling Vans' product development process: "Having been a domestic manufacturer of vulcanized shoes for 30 years, we had to completely transform our approach to product in order to become truly competitive with the rest of the industry, which enjoyed far greater flexibility working with third-party factories in Asia." The organizational structure Schoenfeld installed was structured and iterative, and incorporated feedback from several sources, including in-house merchandisers, athletes, and core retailers. (See **Figure D** below for a description of Vans product development process.) Schoenfeld believed there was still room for improvement in this area; as he put it, "we need to be recognized as a leader both in terms of how we have built our brand as well as with the products we bring to the market."

The general philosophy behind Vans' product strategy was to create a product portfolio that corresponded with the segmentation of the company's various distribution outlets. (See **Table 1** below.) This strategy was reflected in the following footwear lines:

Signature Collection. This collection consisted of shoes that were designed to match the skating style of Vans-endorsed athletes; examples included the "Geoff Rowley," the "Cardiel 2" (named after skate veteran John Cardiel), and the "Santos III" (named after technical skate whiz Willy Santos). Signature shoes were distributed through independent skate shops, full-priced Vans stores, and Vans skateparks.

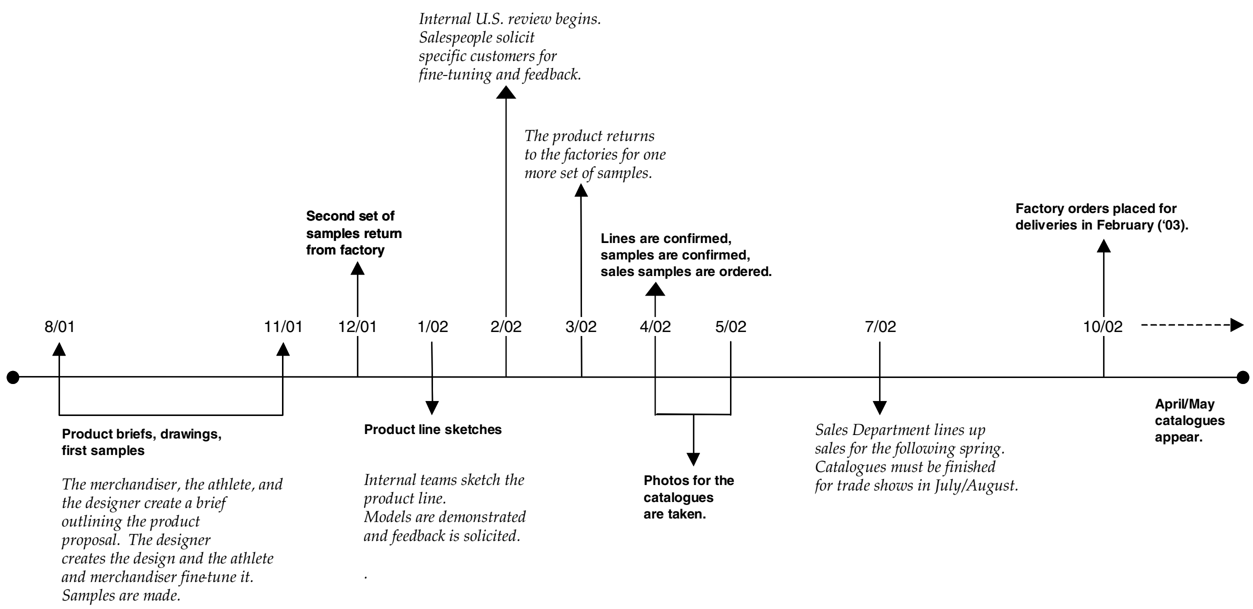
Pro Series Collection. The Pro Series shoes were highly technical products, designed for serious skaters. They were sold through limited distribution to independent skate shops only.

Skate Performance Collection. These shoes, which tended to appeal to the general youth market, were targeted to skateboarders who were not professional athletes but expected functionality and durability. They were sold primarily in athletic footwear outlets and fashion/lifestyle stores.

Skate Casual Collection. This collection consisted of non-technical shoes for consumers who were interested in "skate look" footwear at lower price points. This collection was primarily targeted for third-tier wholesale distribution.

Vans also produced a **Classics Collection**, which consisted of its original deck shoe in a variety of styles; this collection was sold in all retail channels. More recently, the company had introduced new lines of **sandals** and **outdoor** (hiking) shoes.[18]

Figure D Vans' Product Development Process



Source: Vans.

Table 1 Footwear Lines by Channel (xxx reflects primary distribution target)

Product Line	VANS Stores (non-outlet)	Independent Skate Shops	Mall-based Specialty	Dept. Stores/ Sporting Goods	Price Range
Signature	xxx	xxx			$55-$85
Pro Series		xxx			$70-$90
Skate Performance	x	x	xxx		$45-$75
Skate Casual	x		x	xxx	$35-$65
Classics	x	x	x	x	$30-$50
Sandals	x	x	x	x	$20-$40

Source: Vans.

[18] The company also sold bike shoes and snowboarding boots.

Competition

By 2002, the number of skateboarders in the United States had grown to an estimated 12 million, creating an $800 million market for skate shoes.[19] And while the rest of the athletic footwear market was stagnant, the skate shoe market was growing at a healthy clip. (See **Exhibits 5** through **7** for additional industry data.)

Because of this, Vans now faced increased competition on three fronts: (1) larger companies, such as Nike and Adidas, were attempting to make inroads with the alternative, anti-corporate, youth crowd; (2) medium-sized competitors, such as Airwalk and Skechers, were competing with Vans in various mass distribution channels; and (3) smaller, hardcore brands, such as DC and eS, were competing with Vans for the loyalty of the skateboarding enthusiast.

Nike. During the 1990s, Nike made several attempts to win over skate shoe customers. Nike's most ambitious marketing effort, in 1995, involved clever TV ads featuring cops chasing golfers, runners, and tennis players, with the tag line: "What if we treated all athletes the way we treat skateboarders?"[20] Nike won several advertising awards for the expensive campaign, but to no avail: The skateboarding community refused to accept the brand, and Nike ended up withdrawing its product.

By 2002, however, Nike was peddling a new, retro-styled "Dunk" shoe to independent skate shops. Nike had also purchased an ownership stake in Savier shoes; the private company had immediately taken advantage of Nike's technology to produce a technically-advanced skate shoe that was apparently generating positive word-of-mouth within the skateboarding community.

Although Vans' sponsored athletes were remaining loyal—one of Vans' athletes had recently turned down a lucrative Nike endorsement—Schoenfeld admitted, "Of course I'm concerned about Nike. Remember, Nike's marketing budget alone is larger than our total revenues."

Adidas. Adidas' efforts in the skate shoe market revolved around DAS, an alternative sports sub-brand the company had launched in 1998. Adidas's conspicuous trademark, three left leaning stripes, was nowhere to be found on DAS products, and the entire product line was being kept out of Adidas's traditional distribution channels (which consisted primarily of mall-based stores). Instead, Adidas was attempting to distribute the DAS line exclusively through specialty skate shops because, according to one Adidas manager, "That's where the kids who are into [extreme] sports are shopping today. . . If you look at what's happening in teen fashion, most of it is coming from specialty and going to the mainstream retailers."[21]

Airwalk. Founded in 1986, Airwalk had risen to prominence during the early 1990s, primarily through its strong support of skateboarding athletes and events. At its peak, Airwalk had enjoyed annual revenues of more than $200 million. The company had subsequently attempted to transform itself into a billion-dollar megabrand but had failed miserably, largely because its expansion into department stores had been perceived by its core customer base as "selling out." Airwalk's new CEO

[19] 2002 estimates; Kate Betts, "The whoosh of what you'll be wearing," *The New York Times*, May 5, 2002.

[20] Zina Moukheiber, "Later, Skater: Hey, dude, skateboarding is hot, but the wrong kind of skateboard promotion is bound to backfire on your marketing department," *Forbes*, November 29, 1999.

[21] Simon Ashdown, "Adidas courts smallness to sell extreme gear," *TeenScreen*, March 1, 2000.

was currently focusing the company on three sports—skateboarding, snowboarding, and BMX bicycling[22]—and the brand was struggling to regain market share.

Skechers. Founded in 1992, Skechers made flat, well-cushioned trendy sneakers that appealed to teen and female consumers. (Sketchers was the market leader in the female skate shoe segment.) Its edgy advertising campaigns used big name endorsers such as Rob Lowe and Britney Spears. Skechers sold many categories of men's and women's shoes, and had significant penetration in most of the mall-based retailers.

Sole Technologies (Etnies, eS, and Emerica). Sole Technologies owned three niche brands, all of which were extremely popular among skate enthusiasts. In fact, in a 2001 survey of skateboarding enthusiasts, all three of the brands had made the list of top ten skate brands, with eS occupying the top spot.[23] The eS and Emerica brands were only available in independent skate shops. The Etnies brand (the company's biggest moneymaker) was sold in both independent skate shops and mall-based specialty chains. It was generally believed that Sole Technologies sold more shoes in the independent skate channel than any other company.

Other Niche Brands. Other niche brands—such as DC Shoes, Circa, DVS, ipath, Lakai, Osiris, and Globe—also marketed shoes to the skate community. Schoenfeld commented, "Within the core segment, momentum tends to fluctuate a lot. A year or two ago, I'd have said that Etnies had all the momentum. Today, I'd say it's DC." Most of the products produced by these smaller companies were priced at $65 to $100, and were sold in core skate shops. Occasionally, one of these brands would gain enough mainstream market recognition to penetrate the second-tier retail outlets; DC and Etnies were two examples.

Homeward Bound: I wish I was

After the *Dogtown* premiere, Schoenfeld headed home. On the drive back, he considered several issues that the company needed to resolve in the new fiscal year. In the past, Vans had always been organized into three business units: retail, wholesale, and international. But Schoenfeld was now considering reorganizing the company along six business lines:

1. Men's Footwear
2. Women's Footwear
3. Kids' Footwear
4. Apparel (e.g., clothing, backpacks, and other accessories)
5. Entertainment (e.g., Triple Crown Series, Warped Tour, *Dogtown* movie)
6. Hard Goods (e.g., wheels, helmets, pads, and other paraphernalia)

Footwear: Men's, Women's, and Kids'

In footwear, much of Schoenfeld's energy was focused on two struggling product lines:

- **The Women's Collection**. In the core sports community, girls and young women constituted an underdeveloped market. As one line manager put it, "We've got to be in this category,

[22] Ashdown (2000).

[23] Slap 2001 Reader Survey. The Top Ten list: eS (17% of the vote), Osiris (14%), Vans (11%), DC (10%), Circa (6%), Emerica (8%), Etnies (5%), Adio (5%), Globe (5%), DVS (4%).

there are hordes of ladies who want to be part of this skate-inspired, Southern California lifestyle." But after several years of effort, Vans' women's collection still only made up about 15% of the company's sales. Part of the problem was that the company's 15-month product development cycle had a hard time keeping up with the pace of fashion trends among teenage girls. Schoenfeld added, "Women's footwear has been much more of an item-driven business for us. A certain shoe will catch on, and we'll sell a lot of that one shoe. But it's always hard to sustain; tastes bounce around so much in this segment."

- **The Outdoor Line**. In the late 1990s, Timberland and Merrell—two outdoor shoe brands—had started to become fashionable within the skateboarding community. In response, Vans had decided to produce its own line of outdoor hiking shoes. Schoenfeld explained, "Skateboarders and snowboarders don't necessarily go working out in a gym; they go running out on trails and hills. So why should we give this business away to companies like Timberland or New Balance?" To date, sales of the outdoor line had been unimpressive, although to be fair, Schoenfeld believed the product line needed more time to build a market. Long-term, Schoenfeld felt strongly that the company needed to "broaden the universe of what Vans products look like."

Entertainment

Vans' entertainment division consisted of the Vans Triple Crown Series (which the company was now producing for NBC), the Vans Warped Tour, and the skateparks. The division also included a number of new projects that Schoenfeld realized were raising questions about the company's strategic direction. For example:

- Vans was currently in the process of promoting the full-length documentary, *Dogtown and Z-Boys*. The project had originated when Vans athlete Stacy Peralta, one of skateboarding's original talents, had asked the company to finance a film he wanted to make about the birth of modern skateboarding. Once the film had been completed, it had been submitted to the 2001 Sundance Film Festival. The film had not only been accepted, but it had ended up winning two major awards at the Festival—the Best Director Award and the Best Audience Award. Vans had then partnered with Sony Pictures Classic to distribute the movie, which was already receiving glowing reviews from critics. (See **Exhibit 8** for sample reviews.)

  Schoenfeld was the first to admit that he was entering uncharted territory with the *Dogtown* promotion: "The reality is, we don't know the first thing about the movie business. But at the same time, I do believe that this is all part of building buzz about our brand. Just how big the movie's going to be—we'll have to wait and see, but we're confident that the PR will far outweigh whatever cost we end up having in the film."

- In March of 2002, six weeks before the national release of *Dogtown*, Vans announced the creation of its own record label—Vans Records. Its mission was to develop and distribute music by artists emerging out of the skate, surf, and snowboard communities. The music label was headed up by Steve Van Doren and Jim Lindberg, a Warped Tour veteran of the punk band Pennywise.

  Van Doren explained the logic behind the record label launch: "We don't really know how to make and sell music, but we have a built-in farm system for artists through our Warped Tour, so we're trying to take advantage of that. Plus, lots of top skaters are in bands, and our guess is that kids out there are interested in hearing their music." Schoenfeld added, "Vans Records is a perfect complement to the Warped Tour. It's really a natural move for us considering our core sports positioning." The plan was to distribute Vans music through traditional music outlets, skate shops, Vans retail stores, as well as at events such as the Warped Tour.

- In recent years, Vans had begun working with videogame developers to produce games based on Vans Triple Crown Series. The company had already produced two games for the Sony Playstation (it was still collecting sales-based royalties off of these games), and it had recently signed a three-year deal with Microsoft Xbox. Schoenfeld explained, "Gaming is a huge market and we own a lot of proprietary content. I can't say for sure how this will play out, but its an extremely powerful medium for reaching our target customers and therefore an area we want to be in."

As Schoenfeld drove home, he offered some final thoughts about the future of the business:

> At times, some of the people on Wall Street have been critical of our getting involved in things like movies, music and videogames—we're a shoe company after all! But one of the things that really distinguishes our brand is that it's based on a unique heritage. Remember, we are the company that sold customized deck shoes to Duke Kahanamoku before the rest of the world even knew what the surf culture was about. We are the company that produced the seven-dollar grippy shoe that the Z-Boys couldn't live without. In other words, no one is as closely identified with the surf-and-skate lifestyle as we are. . . so I believe we have an opportunity to become the lifestyle brand representing these sports.

Exhibit 1 Annual Earnings Model, VANS, Inc. (Fiscal Year ends May, dollars in thousands)

	1995	1996	1997	1998	1999	2000A	2001E	2002E
Total revenue	$88,055	$117,407	$159,391	$174,498	$205,128	$277,220	$334,664	$399,180
Cost of goods sold	60,340	71,095	96,691	112,198	118,458	158,651	189,890	225,753
Gross profit	27,715	46,312	62,700	62,300	86,670	118,569	144,774	173,427
Selling and distribution	19,355	23,447	28,113	33,570	46,392	64,306	80,197	96,839
Marketing, advertising, and promotion	5,439	8,281	13,162	17,138	20,685	20,229	23,652	27,265
G&A	8,291	4,699	6,085	6,711	8,951	11,124	12,950	15,617
Other income	(1,622)	(1,933)	(2,783)	(2,161)	(5,998)	(862)	(1,286)	(1,600)
Operating income	(3,748)	11,818	18,123	7,042	16,640	23,772	29,261	35,306
Net Income	$(37,134)	$3,148	$10,437	$(2,677)	$8,724	$12,086	$15,441	$22,464
Margin Analysis								
Gross profit	31.5%	39.4%	39.3%	35.7%	42.3%	42.8%	43.3%	43.4%
Selling and distribution	22.0%	20.0%	17.6%	19.2%	22.6%	23.2%	24.0%	24.3%
Marketing, advertising, and promotion	6.2%	7.1%	8.3%	9.8%	10.1%	7.3%	7.1%	6.8%
G&A	9.4%	4.0%	3.8%	3.8%	4.4%	4.0%	3.9%	3.9%
Operating margin	-4.3%	10.1%	11.4%	4.0%	8.1%	8.6%	8.7%	8.8%
Net income	-42.2%	2.7%	6.5%	-1.5%	4.3%	4.4%	4.6%	5.6%

Source: Company data.

Exhibit 2 Divisional Sales Analysis, VANS, Inc. (Fiscal Year ends in May, dollars in thousands)

	1995	1996	1997	1998	1999	2000A	2001E	2002E
U.S. Retail Sales	**$24,600**	**$29,400**	**$36,999**	**$46,985**	**$60,413**	**$77,761**	**$104,468**	**$127,068**
% of U.S. sales	32.8%	32.3%	32.1%	37.7%	40.8%	41.7%	43.4%	43.4%
% of total sales	27.9%	25.0%	23.2%	26.9%	29.5%	28.4%	31.2%	31.8%
Wholesale	**$50,500**	**$61,700**	**$78,127**	**$77,501**	**$87,546**	**$108,663**	**$136,104**	**$165,940**
% of U.S. sales	67.2%	67.7%	67.9%	62.3%	59.2%	58.3%	56.6%	56.6%
% of total sales	57.4%	52.6%	49.0%	44.4%	42.7%	39.7%	40.7%	41.6%
U.S. Sales	**$75,100**	**$91,100**	**$115,126**	**$124,486**	**$147,959**	**$186,424**	**$240,572**	**$293,008**
Int'l Sales	**$12,955**	**$26,307**	**$44,265**	**$50,012**	**$57,078**	**$87,086**	**$94,092**	**$106,172**
% of total sales	14.7%	22.4%	27.8%	28.7%	27.8%	31.8%	28.1%	26.6%
Total Sales	**$88,055**	**$117,407**	**$159,391**	**$174,498**	**$205,037**	**$273,510**	**$334,664**	**$399,180**
Additional Data								
Vans Stores	79	82	84	101	110	126	134	144
Skateparks	--	--	--	--	1	4	7	13

Source: Company data.

Exhibit 3 Vans' Revenues by Product Line and Division (FY 2001)

	Domestic[a] Wholesale	International Wholesale	Retail	Other[b]	Total
Sales as % of Total by Division					
Men's	> 50%	> 70%	40-45%	0.0%	54.3%
Women's	20-25%	5-10%	10-15%	0.0%	15.1%
Kids	15-20%	5-10%	15-20%	0.0%	15.1%
Snow	<5%	5-10%	<5%	0.0%	3.1%
Apparel/Accessories	<5%	<5%	10-15%	30-40%	6.5%
Entertainment	<5%	<5%	5-10%	15-20%	3.0%
Hard Goods	<5%	<5%	<10%	0.0%	1.6%
Royalties	<5%	<5%	<5%	40-50%	2.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Total Channel as % of Total Revenue	38.4%	25.3%	31.6%	4.6%	100.0%

Source: Vans documents.

[a] Includes e-commerce.

[b] Other apparel is VanPac/VASH; other entertainment is HCSC; other royalties is ITC.

Exhibit 4 Attendance at Triple Crown Events, Warped Tour Events, and Vans Skateparks

VANS TRIPLE CROWN SERIES ATTENDANCE NUMBERS—2001/2002

Event Name	Attendance
Mountain Dew Pro Nationals of Snowboarding	9,500
Vans Championships of Snowboarding	17,500
Ford Ranger North American Championships of Snowboarding	15,800
Ford Ranger Wakeboarding Pro	11,500
Mountain Dew WWA Wakeboard National Championships	5,500
Vans WWW World Wakeboard Championships	9,500
Mountain Dew National Championships of BMX	10,000
Right Guard Xtreme Sport BMX World Championships	5,500
Vans Championships of BMX	30,000
Vans Slam City Jam North American Championships of Skateboarding	30,200
Mountain Dew National Championships of Skateboarding	14,300
Xbox World Championships of Skateboarding	30,000
Mountain Dew Nationale of Supercross	45,000
Ford Ranger Pro of Supercross	39,000
Vans Championships of Supercross	34,000
Xbox Pro of Freestyle Motocross	9,500
Mountain Dew National Championship of Freestyle Motocross	14,960
Vans Championships of Freestyle Motocross	23,000
G-Shock Hawaiian Pro	4,500
Rip Curl Cup	5,000
Xbox Pipeline Masters	9,500
TOTAL	**373,760**

VANS WARPED TOUR ATTENDANCE NUMBERS—2001

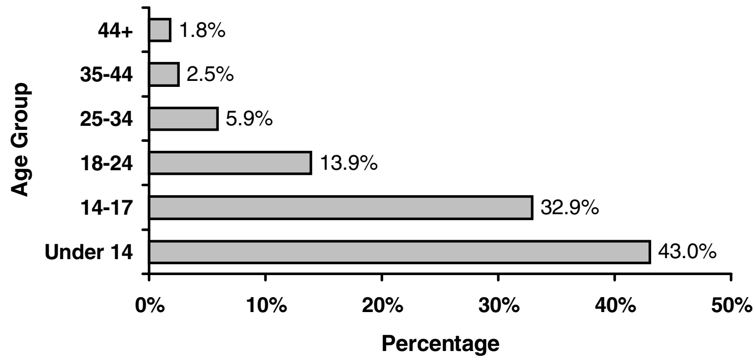
45 North American tour stops		
Total	540,000	Up 35% over 2000 tour

VANS SKATEPARKS ATTENDANCE NUMBERS—2001/2002

Total—Fiscal '02	5,071,784	
Total x 1.5	7,607,676	This total reflects a 1.5% increase, based on counter misses, such as when two guests enter the park and the counter only registers one hit

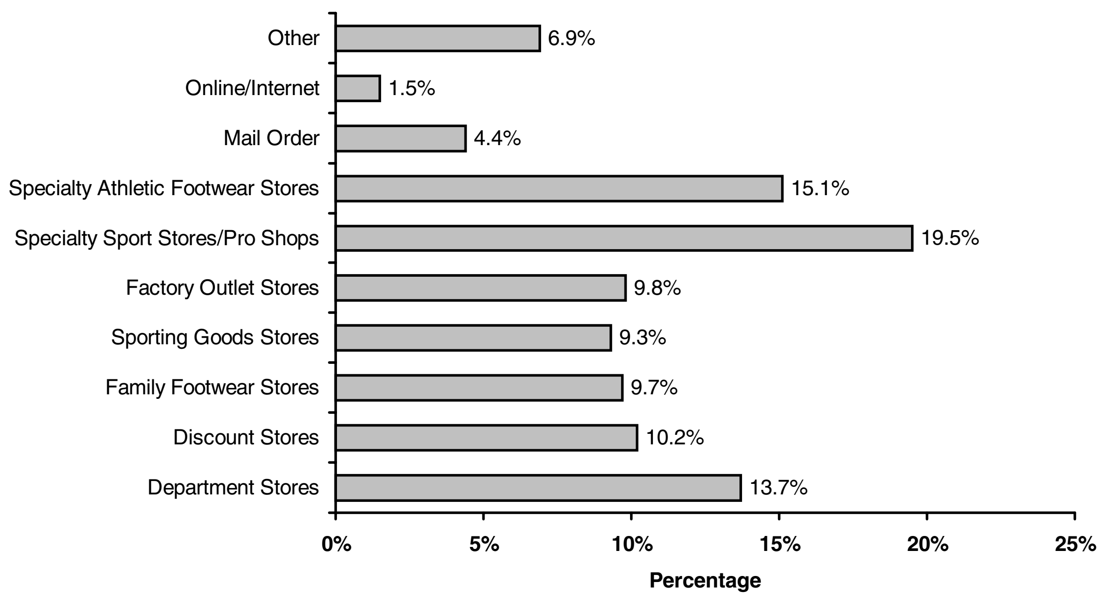
Source: Vans.

Exhibit 5 Total Industry Skate-Shoe Dollar Expenditures by Age Group (2000)



Source: Adapted from Sports Business Research Network, <www.SBRnet.com>; category: Footwear, Skateboarding, (accessed April 21, 2001).

Exhibit 6 Total Industry Skate-Shoe Unit Purchases by Retail Outlet (2000)



Source: Adapted from Sports Business Research Network, <www.SBRnet.com>; category: Footwear, Skateboarding, (accessed April 21, 2001).

Notes: "Specialty Athletic Footwear Stores" include Foot Locker, Foot Action, and other mall-based chains. "Specialty Sport Stores/Pro Shops" include independent skate shops. "Factory Outlet Stores" include Nike and Vans stores. "Sporting Goods Stores" include Sports Authority and Big 5. "Family Footwear Stores" include Florsheim's and Payless. "Discount Stores" include Kmart and Target. "Department Stores" include Macy's, Federated, Hudson, and Filene's.

Exhibit 7 The Skate-Shoe Market: Marketshare Percentage by Brand (based on unit purchases)

	1997	1998	1999	2000
Vans	33.6	37.4	39.6	46.9
Airwalk	26.4	14.8	12.8	6.2
Skechers	1.4	7.7	8.5	5.2
Nike	5.0	5.5	1.8	5.2
Adidas	2.9	3.3	4.3	4.6
Etnies	--	--	--	4.1
DC Shoes	n/a	4.4	1.2	3.6
Soap	--	--	--	2.1
Payless	2.1	7.1	2.4	2.1
Converse	2.9	2.2	1.2	1.5
K-Mart	--	--	--	1.0
Avia	--	--	--	1.0
American Eagle	--	--	--	1.0
Simple	4.3	--	--	1.0
Easy Spirit	n/a	1.1	--	1.0

Source: Adapted from Sports Business Research Network, <www.SBRnet.com>; category: Footwear, Skateboarding, (accessed April 21, 2001).

Note: Excludes brands with less than 1% marketshare.

Exhibit 8 Sample Excerpts from Reviews of *Dogtown and Z-Boys*

Stephen Holden of *The New York Times*:[24]

[A] giddy, thrilling, rock 'n' roll-saturated history of skateboarding in Southern California.

"Dogtown and Z-Boys," which has won audience awards at the Sundance and AFI film festivals, could be described as a shrewd entrepreneurial exercise in self-mythologizing. But as this taut, viscerally propulsive insider's history of the sport in its early years skids and leaps forwards with a jaunty visual panache, it is impossible not to be seduced by its hard-edged vision of an endless teenage summer…

Beyond being an exhibition of physical prowess and daring, the essence of skateboarding excellence is that elusive personal quality known as style. That's why the movie's suggestion that skateboarding is an art form—with its emphasis on grace, inventiveness and self-expression—doesn't seem so far-fetched.

Owen Gleiberman of *Entertainment Weekly*:[25]

[A] dazzling crafted documentary about the teenage surf punks of lower Los Angeles who singlehandedly transformed skateboarding into the extreme sport it has become…

Sure, it's only skateboarding, but the thrill of "Dogtown" is that the kids who had the audacity to kick a concrete sport into the third dimension, carving up space with their boards, were as obsessive in their fervor as the creators of punk rock or Cubism. The movie invites you to share their free ride.

Mark Holcomb of *The Village Voice*:[26]

Treading a fine line between documentation and sales pitch, Stacy Peralta's *Dogtown and Z-Boys* is a hyperbolic account of the birth of outlaw skateboarding in the early '70s. Its po-faced portrayal of the era as slightly less epochal than the Renaissance may be risible, but its spirit of iconoclastic abandon—however canned—makes for unexpectedly giddy viewing.

The film traces the lives and careers of the Zephyr Skating Team. ... Thirty years later the moves they pioneered are the stuff of network-TV sportscasts and multimillion-dollar ad campaigns.

Kenneth Turan of the *Los Angeles Times*:[27]

You could draw a straight line, as the new documentary "Dogtown and Z-Boys" doesn't hesitate to do, between the Z-Boys, a scruffy group of outlaw Southern California surfers and skateboarders of the 1970s, and a modern extreme-sports movement so pervasive it's gotten into the Olympics and onto U.S. postage stamps…

[T]his doc was co-written and directed by Stacy Peralta, a Z-Boy himself. Also Vans, the sneaker company oh-so-casually mentioned as the Z-Boys' shoe of choice, financed the film. Isn't it wonderful when friends help friends?

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[24] Stephen Holden, "Skating on Top of the World During an Endless Summer" *The New York Times,* April 26, 2002.

[25] Owen Gleiberman, "Dogtown and Z-Boys," *Entertainment Weekly*, April 26, 2002.

[26] Marc Holcomb, "Buy Low, Sell High, *The Village Voice*, April 24-30, 2002.

[27] Kenneth Turan, "Skating into History" *Los Angeles Times,* April 26, 2002.