

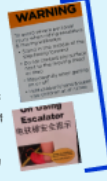
# CROCS Harvard Case Solution & Analysis



### Operational Management

**Croc's Ethical Conduct**

- Company has a duty to warn parents of the dangers of escalator injury
- As of 2008, Crocs had received close to 200 states
- They denied lawsuit allegations but claimed safety was a top priority
- Eventually created warning label yet decided that it was related to current litigation
- "Crocs shoes are completely safe. The popularity of our shoes has indeed drawn attention to a long-existing issue that we think is very important - escalator safety"
- Forgetful consequences should have been clearly addressed



### Supply Chain

Crocs supply chain model allows retailers to place small pre-book orders and order more when they see how well a product sells. Allows customers to place new croc orders within the selling season. "If the product sells well, more will be built and will be back in stock in a few weeks, more will be built within the season"

### Croc's Core Competencies

- Flexibility of Supply Chain
- Unlike the rest of the industry, they respond quickly to customer demand
- No limitation in production and delivery
- Proprietary closed-cell resin, Croslite
- Slip resistant, non-marking, odor resistant
- Custom configurations
- Viewed smaller retailers as vital to building the brand

### Alternatives

- In order to continue developing these core competencies, Crocs needs to maintain its flexible supply chain and continue making products out of Croslite
- Further vertical integration into materials
- They demonstrated Croslite, enabling them to produce a variety unique products with this material
- Maintain control of manufacturing facilities and obtain more retail stores
- Growth by acquisitions
- Crocs purchase of the chem company, Bihitz, was an excellent strategy
- They should continue to acquire deals similar to the ones they have with Disney, Disney-Minded, and various college teams
- Growth by product extension
- Crocs just launched several new footwear products this year
- They have also expanded outside of footwear with products such as sunglasses, phone cases, purses, socks, etc.

### Production and Inventory

- once Crocs realized manufacturers outside Asia could not adopt their supply chain model, they developed company-owned manufacturers in Mexico and Italy
- Manufacturing in each geographic region added both capacity and ability to respond to local customers, having compounding done in Italy led to supply chain inefficiencies
- in 2006, Crocs took control and created state-of-the-art compound facilities in Canada, Mexico, and China
- Crocs could now ship materials to each of the plants
- plants can compound the materials as needed for production
- Snyder is quoted for saying, "we can get an order now, and we don't have to make the compound and colorize it yet, and we can ship it in two weeks"

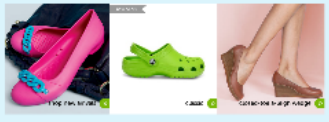
### Service Operations Strategy

**Operational strategy** is the total pattern of decisions which shape the long-term capabilities of any type of enterprise or firm, considered as to the overall strategy through the manipulation of various requirements with respective resources.

- The challenge Crocs had to overcome was finding manufacturers outside of Asia that were flexible enough to work with their supply chain model and warehouse model
- When Crocs could not find one, they created company-owned manufacturing facilities in Mexico, Canada, and Italy
- Manufacturing in each geographic region added both capacity and ability to respond to local customers, having compounding done in Italy led to supply chain inefficiencies
- It is important if the target market can afford to wait for the product and Crocs was willing to wait that extra couple of weeks from their retailers to get the product, which is why the company has been successful and will continue to be so.

### Current Status of Crocs

- Shoe prices average between \$13 - \$20 in recent years
- As of 2010, annual changes have been made to Crocs product line
- Target Market:
  - Boys, teens, tweens, high schools, big shoes, and babies
- Operational target: working people in need of comfortable shoes
- Price target: 13-20
- Supply Chain:
  - Handled most stores rather than making exclusive deals with specific stores
  - \$200 million taken from Blazer Group
  - The private equity firm acquired 13% ownership of the company
  - recent agreement
  - As a result investors' their hope is to make the popularity of the company
  - Plan to take U.S. shares and expand into Asia
  - CEO, John McConnel, will be retiring in April 2014



### Which alternatives are effective?

- Crocs desire to expand its retail stores, on a global scale, fits the current flexibility of its supply chain
- It would be a good decision for them to continue making similar products with their Croslite material
- Crocs growth by acquisition may begin to defocus the company, as a whole, if they are not more selective about which companies they acquire
- However, deals with college teams may help them reach a different market using the name Croslite technology
- It is possible that Crocs product extension is close to reaching a point that is difficult to manage. They may need to have a more narrow scope of products in order to target a specific market.

#### Crocs' Financial Performance Through 2006

Year	Revenue	Net Income	Operating Income	EBITDA
2005	\$100.0	\$10.0	\$15.0	\$20.0
2006	\$150.0	\$15.0	\$20.0	\$25.0
2007	\$200.0	\$20.0	\$25.0	\$30.0
2008	\$250.0	\$25.0	\$30.0	\$35.0
2009	\$300.0	\$30.0	\$35.0	\$40.0
2010	\$350.0	\$35.0	\$40.0	\$45.0
2011	\$400.0	\$40.0	\$45.0	\$50.0

### Warehouse Model (inefficient)

- to ship more efficiently, Crocs changed the warehouse model.
- They used a contract warehousing and distribution firm in Colorado, which handled all shipments.
- All production came to the warehouse in bulk where each shoe was removed, labeled, and warehoused.
- Customer orders were filled from this centralized warehouse.
- the results were inefficient because bulk orders from large customers could have been shipped directly from factory to customer if warehousing and distributing had been near each factory.

### Warehouse Model (Solution)

- Crocs added warehouse operations to each factory, including labeling and other value-added activities.
- For customers that order large quantities, the orders could be shipped directly from the Chinese warehouse.
- The warehouse was owned by a Crocs supplier, run by Crocs personnel and Crocs system.
- Intent was for Crocs to control other fulfillment activities in Asia



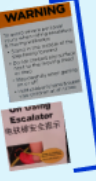
# CROCS Harvard Case Solution & Analysis



**Operational Management**

**Crocs' Ethical Conduct**

- Company has a duty to warn parents of the dangers of escalator injury
- In June of 2008, Crocs had received close to 200 states
- They denied lawsuit allegations but claimed safety was a top priority
- Eventually created warning label yet decided that it was related to current litigation
- "Crocs shoes are completely safe. The popularity of our shoes has indeed drawn attention to a long-existing issue that we think is very important - escalator safety"
- Forgetful consequences should have been clearly addressed



**Supply Chain**

Crocs supply chain model allows retailers to place small pre-book orders and order more when they see how well a product sells.

Allows customers to place new croc orders within the selling season

"If the product sells well, more will be built and will be back in stock in a few weeks, more will be built within the season"

**Crocs' Core Competencies**

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- Custom configurations
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**Alternatives**

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**Service Operations Strategy**

Operational strategy is the total pattern of decisions which shape the long-term capabilities of any type of operations or firm, considered as to the overall strategy through the manipulation of various requirements with respective resources.

Need to determine how to overcome service trading

Manufacture outside of Asia tried some fruitful strategy by working with their supply chain model and warehouse model

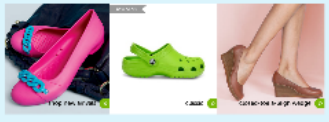
- When Crocs could not find any, they created temporary-owned manufacturing sites they could have total control over production and manufacturing, they did the same thing with distributing line by itself products
- It is fortunate if the target users are up their supply chain model and Crocs was willing to use that model with the product from now onwards to help of the product, which is why the company has been successful and will continue to do so

**Production and Inventory**

- once Crocs realized manufacturers outside Asia could not adopt their supply chain model, they developed company-owned manufacturers in Mexico and Italy
- Manufacturing in each geographic region added both capacity and ability to respond to local customers, having compounding done in Italy led to supply chain inefficiencies
- in 2006, Crocs took control and created state-of-the-art compound facilities in Canada, Mexico, and China
- Crocs could now ship materials to each of the plants
- plants can compound the materials as needed for production
- Snyder is quoted for saying, "we can get an order now, and we don't have to make the compound and colorize it yet, and we can ship it in two weeks"

**Current Status of Crocs**

- Stock prices average between \$13 - \$20 in recent years
- All of its major changes have been made by Crocs product line
- Target Market:
  - Boys, Boys, tweens, high schools, Big shoes, and babies
- Operational target: working people in need of comfortable shoes
- Market target: 13-25
- Home target:
  - Handled major stores rather than making exclusive deals with specific stores
  - \$200 million taken from Blazer Group
  - The private equity firm acquired 13% ownership of the company
  - recent agreement
  - As a result investors' their hope is to make the popularity of the company
  - Plan to take U.S. share and expand into Asia
  - CEO, John McConnel, will be retiring in April 2014



**Which alternatives are effective?**

- Crocs desire to expand its retail stores, on a global scale, fits the current flexibility of its supply chain
- It would be a good decision for them to continue making similar products with their Croslite material
- Crocs growth by acquisition may begin to defocus the company, as a whole, if they are not more selective about which companies they acquire
- However, deals with college teams may help them reach a different market using the same Croslite technology
- It is possible that Crocs product extension is close to reaching a point that is difficult to manage. They may need to have a more narrow scope of products in order to target a specific market

**Crocs' Financial Performance Through 2006**

	2006	2005	2004	2003	2002
Revenue	200	150	100	50	20
Operating Profit	80	60	40	20	10
Net Income	60	45	30	15	8
EPS	1.50	1.12	0.75	0.38	0.20
Operating Assets	100	80	60	40	20
Operating Liabilities	20	15	10	5	3
Operating Equity	80	65	50	35	17
Operating Income	80	60	40	20	10
Operating Assets	100	80	60	40	20
Operating Liabilities	20	15	10	5	3
Operating Equity	80	65	50	35	17

**Warehouse Model (inefficient)**

- to ship more efficiently, Crocs changed the warehouse model.
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- The warehouse was owned by a Crocs supplier, run by Crocs personnel and Crocs system.
- Intent was for Crocs to control other fulfillment activities in Asia



## ***Current Status of Crocs***

- Stock prices average between \$13 - \$20 in recent years.
- As of 2014, drastic changes have been made to Crocs product line
  - Boots, flats, wedges, high heels, golf shoes, and loafers
- Target Market
  - Original target: working people in need of comfortable shoes
  - New target: 13-30
- Supply Chain
  - Flooded retail stores rather than making exclusive deals with specific stores
- \$200 million bailout from Blackstone Group
  - The private equity firm acquired 13% ownership of the company's stock in a recent agreement
  - As a new investor, their hope is to revive the popularity of the company
  - Plan to close U.S. stores and expand into Asia
  - CEO, John McCarvel, will be retiring in April 2014

10 Year Price - CROX



- Reached \$1 billion in annual sales in 2011
- International sales have significantly increased

- Offer more than 300 styles
- Sold in over 90 countries

CROCS INC  
as of 2/3/2014



# Operational Management

## Croc's Ethical Conduct

- **Company has a duty to warn parents of the dangers**
- **As of 2008, Crocs had received close to 200 claims of escalator injury.**
- **They denied lawsuit allegations but claimed safety was a top priority.**
- **Eventually created warning label yet denied that it was related to current litigation.**
- **"Crocs shoes are completely safe. The popularity of our shoes has helped draw attention to a long-existing issue that we think is very important—escalator safety"**
- **Negative consequences should have been clearly addressed.**

## WARNING

To avoid severe personal injury when riding escalators & moving walkways

- Stand in the middle of the step facing forward
- Do not contact any surface next to the moving tread or step
- Step carefully when getting on or off
- Hold children's hand & supervise children at all times



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