

The Path Forward for Dusty Rocker Boots

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Introduction

As Leslie Thompson sat drinking coffee in the rocking chair on the back porch of her west Texas home that evening in the fall of 2014, many questions rolled around in her mind. Her story had been a whirlwind over the past 2 years and she had been amazed at the response to her new line of western boots. But she wondered what the path forward looked like. How could the business continue to grow and scale? Could she really make money in her role as product designer and wholesale distributor? What about her single supplier in Mexico? Should she sell more direct to end consumers online? Should she continue to warehouse inventory and fill her own orders? And the biggest question of all - was this whole thing worth the worry? The sun set and the clock eventually sounded 12 times as she tried to get to sleep.

Background

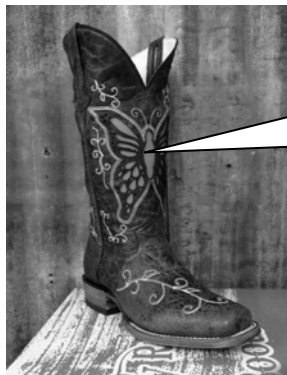
Leslie had grown up in west Texas and was very much a product of that culture, both with respect to fashion style and its “can do” spirit. She had completed a college degree in physical education and had taught school and coached for almost 10 years. One morning in the spring of 2012, Leslie was getting dressed for her teaching job but was not satisfied with her boot choices and couldn’t find a pair that matched her clothes. In coaching she had seen interchangeable colored attachments for youth athletic shoes. She thought “why can’t women’s boots have a similar type of changeable colored attachment?” She then came up with the idea to insert a colored piece of cloth inside the upper portion of a boot (known as the “shaft”), visible through a designed patterned opening. (See Figure 1 and DustyRockerBoots.com.) She coined the term “interchangeable inlay” for this solution to her fashion crisis. Initially, she simply wanted to make herself a pair of boots for personal use, but she soon realized that this could be a great business idea. She had absolutely no training or experience in starting or operating a business, but she and family and friends were passionate about her new idea.

Startup Timeline

Her first obstacle was finding someone to take an interest in her idea and make sample boots for her. She went to several boot shows in Dallas and tried to generate interest. She didn’t have much luck at the boot shows she attended, but she made some good contacts including an executive from a major boot brand. Through that contact she was introduced to some manufacturing sources in Mexico who could develop the sample boots she had been wanting. Leslie soon took out a small business loan of \$60,000 (line of credit) from her bank. She used some of the borrowed money to pay for lawyers to advise her and protect her intellectual property rights. In September, 2012, the LLC was officially formed under the name of Dusty

Rocker Boots, LLC (DRB). She used more of the funds to purchase a small supply of sample boots. In October, 2012, the first small shipment of boots arrived from the supplier in Mexico. Initially, she kept her inventory in her garage and in a pool house. In March 2013, Leslie showed her samples at a booth at the Dallas Apparel Mart and the response was phenomenal, receiving \$80,000 in sales orders. In June 2013 she built a \$35,000 warehouse on her ranch property to house the inventory and the operations for cutting the interchangeable inlays. She continued to personally design various styles of cutout shapes in the boots.

Figure 1. Product Example.



Colored inlay is visible through patterned cutout in upper shaft of the boot. Inlay is inserted and removed from inside the boot.

(dustyrockerboots.com, 2015)

Industry Overview and Competitive Landscape

Western style boots were nothing new and had been worn for centuries. They were originally used for working purposes on farms and ranches. As times changed, boots had become an important commodity in a large western fashion industry. But the cowgirl boot industry was as tough as the product and the women who wore them, and DRB had to deal with many well-established competitors, including Corral, Tony Lama, Ariat, Lucchese, Justin and others. In order to compete with them, DRB would have to match the competition's basic style, comfort and durability while offering the unique interchangeable inlay, which was a differentiating feature that no one else in the industry had yet implemented.

The good news was that western boot sales had become a very large and growing industry. According to (www.equities.com, 2014), the U.S. western wear markets represented approximately \$8 billion in retail sales in calendar year 2013. The western wear market was comprised of footwear, apparel and accessories totaling \$3.0 billion, \$3.5 billion and \$1.5 billion in annual retail sales, respectively. Between 2009 and 2013, the western wear market experienced estimated annual retail sales growth of about 7%. Expansion of the western wear market had been driven by the growth of western events such as rodeos, the popularity of country music and the continued strength and endurance of the western lifestyle.

The great thing about "cowgirl" boots was they appealed to a large portion of this market. Women of all ages wore cowgirl boots in their daily or weekend fashion line up. However, considering the "interchangeable" nature of Dusty Rocker Boots, the target market was narrower. Leslie's concept targeted more "fashion-conscious" women than the average customer; someone who was frustrated with current products and wanted boots that actually matched the color of their outfit, without the expense of buying multiple pairs of boots.

In addition to being upset about the lack of fashion in cowgirl boots, Leslie was also upset at their retail prices. Many companies offered fashionable boots, but at steep prices that were well over most consumers budgets. For this reason, she wanted a maximum retail price point of \$298, with some models priced under that amount. Her strategy for choosing that price was to consider the perspective of the customer, assess how much value her boots created, and how much the customer was willing to pay for that value.

Current Situation

After 2 years, DRB carried 3 product lines of women's boots: the major one (with the interchangeable inlay), another line with embroidery only, and a third line which was equestrian style, commonly referred to as riding boots. Although the model with the interchangeable inlay had been the defining concept that launched the business, the other types of boots without the inlays now comprised a significant portion of sales. There were 32 styles of women's boots with 13 sizes each (size 5 to 11 including half sizes). Of these, a few styles and sizes were a large percent of demand. There were 20 different color options for the interchangeable inlays. In addition to western-styled boots, they sold five different shirts with printed words on them. The shirts were the same kind of style the boots were and appealed to the same target market. In the summer of 2014, Leslie saw a need for a men's line of boots and launched a second line, Broken T Boots.

Boot Manufacturing Supplier

One of DRB's primary growth issues in the fall of 2014 was the company's only manufacturing supplier. Leslie had found her manufacturer while attempting to learn how to establish her business at a Dallas market show. At the market show, Leslie met a contact who had in turn introduced her to a woman that represented COFOCE, which is the Chamber of Commerce for the state of Guanajuato, Mexico. This meeting connected DRB with a manufacturing company called Araban located in León, Mexico, where a footwear supplier cluster exists. In that area there were multiple factories and tanneries for many of the major shoe and boot brands. The Araban factory was a very old (1920s) and respected quality producer. Leslie travelled to the supplier's factory and their hide tanneries multiple times.

While Araban had low labor costs and high quality and relatively short travel time and distance to west Texas, there were problems that needed to be addressed. The manufacturer had difficulty completing orders on a timely basis. Araban's manufacturing process for the boots did not take a significant amount of time. The time issue was mainly due to the leather making process at the tanneries. Leslie had selected several different tanneries which all had different lead times for leather production. Some tanneries even required minimum order quantities. As a result, Leslie's quoted lead time from Araban in Mexico was 8 weeks but the actual time was usually around 12 weeks. On several occasions, Leslie had documented orders being over a month late, while customers were waiting for her products on the other end. This frustrated Leslie and affected DRB's business. Besides the lead time problem, capacity to handle DRB's growing volume would become a constraint at some point. Another issue with Araban was the communication and cultural barriers. Because no one at DRB spoke fluent Spanish, it became a major problem communicating with a Spanish speaking company, especially when problems arose with DRB's orders. These issues increasingly impaired DRB's ability to grow.

Ordering, Receiving and Distribution Processes

Besides designing new boots and inlays, Leslie personally performed many of the daily operations including the accounting and invoicing. She reordered inventory based on a reorder point model, that is, when a specific boot inventory reached an amount that was just enough to

cover forecasted demand during the supplier lead time, an order was placed for more. A typical shipment included 300 to 400 pairs of boots. Each order had large quantities of some models/sizes, and just a few of the lower volume items. Leslie had arranged an automatic repeating purchase order every 30 days for the top selling models/sizes. The supplier factory did not impose a minimum order quantity, but she rarely ordered less than 300 to 400 pairs because of shipping costs. She did not feel that the less demanded styles/sizes would become obsolete inventory because those models had always sold eventually, without any price discounting. She paid the factory 30 days after receipt of goods.

A full time employee and another half time employee received incoming shipments from the supplier, checked quality, and picked inventory for shipping to fill orders. DRB used Fedex Freight for both inbound and outbound logistics and thereby received a discount. Her order fulfillment lead time to her retail customers, for inventory in stock, was 3 to 5 days. Otherwise they had to wait the full 8 to 12 week lead time or more from the supplier. Besides receiving and picking orders, the employees also measured and cut the interchangeable inlays.

Marketing and Sales Processes

DRB sold almost exclusively to small boutiques (by the fall of 2014 there were 108 stores in 15 states) using five part time sales representatives in the field. To alleviate concerns and questions from customers, the sales force functioned as intermediaries. Whoever held an account handled customer service. Sales representatives were also responsible for receiving payments, initiating post-sale follow-up phone calls, and seeking feedback about the product and service.

Once a sales order was received, DRB shipped the order to the retail store customer. Leslie invoiced customers when the boots were shipped, and the terms were payable upon receipt although some customers waited up to 30 days to pay her. Her terms to her retail customers were that they could not discount below manufacturer's suggested retail price (MSRP) for 120 days. Her sales representatives had access via a virtual private network (VPN) to the inventory system so that they could accurately check stock availability and status – on hand, on order, and already promised.

DRB marketed and sold direct to end customers at a few shows, especially the annual National Rodeo Finals at Las Vegas. Leslie also sold a very small quantity direct, via her website. For those direct orders, her profits were much larger, since she pocketed the retailer's margin. She operated her own website but considered it a hassle.

DRB spent a very small portion of their overall budget on advertising. Most of their advertising was done face to face by the sales reps in the field and at trade and market shows where the sales team did a lot of networking in order to gain extra sales. Online advertising through their website and Facebook was another way DRB marketed their product with customers although its impact was unclear. They did not utilize magazine/catalog advertising, television commercials, or online advertising/search engine optimization.

Financial Performance

DRB sales the first full year from October 2012 to September 2013 were \$278,400. From October 2013 to September 2014 gross sales were about twice that at \$510,000. That was comprised of about 3366 pairs of boots sold wholesale to retailers, and 100 pairs sold direct online. In September 2014 she held \$200,000 in inventory after a slow summer, but sales then rebounded going into the fall.

Her MSRP guideline for retail pricing ranged from \$249 to \$299, depending on the boot model, which was a mid-range price point in the market. Her price to the retailers was about half that amount. Her average cost for boots from the supplier, (landed cost including freight, customs,

etc.) was \$77 per pair, and average price to retailers was \$143. The boot price included 1 set of inserts that came with each pair of boots. Her outbound shipping costs averaged about \$7 per pair. She paid a 5% commission to sales staff if the lead had come from her, 10% otherwise. The internal costs for direct labor and raw materials were about \$6 per inlay set. The full time employee received \$24,000 per year and the part time employee was paid \$10 per hour. Sales of extra interchangeable inlays also provided an additional source of revenue, priced between \$20 and \$26. When she started the business, she anticipated that the interchangeable inlay inserts would be “gravy” money – the “icing on the cake”, but that volume of sales of the inserts did not materialize. Besides the one insert included with the boot purchase, some customers tended to make their own additional inserts.

The only money she was taking out of the business was just for her car and gasoline – about \$1000 per month. Miscellaneous costs for utilities, office supplies, etc. totaled about \$500 per month. The rest of the revenue went into funding inventory and paying down her debt. Her debt financing was through a personal line of credit. She continued to own all equity.

Going Forward

Leslie Thompson had created a very promising new brand in Dusty Rocker Boots and wanted to continue to grow her business. Her strategy at this point was to expand to more of the United States through her sales to the boutique retailers channel as well as direct internet sales. Leslie had several ideas on how to solve her manufacturing issues, although she was open to various possibilities about using suppliers or even making them herself. She was also open minded about continuing to store inventory and fill orders versus outsourcing those processes.

Adding an additional Mexican boot manufacturer was one option to gain capacity and reduce dependence on Araban. She surmised that a 2nd Mexican source could cost more than the original source but the delivery time could be shortened. Or should she find a U.S. based manufacturer, which would be more reliable and simplify the issue of communication barriers? A U.S. source would cost more but that labor cost increase would be offset somewhat by reduced inbound logistics costs, resulting in a landed cost per boot pair of about \$108 with a lead time of 2 to 3 weeks. She hated the option of raising her retail price point, since one of her original objectives was to provide fashion boots affordable for the average consumer. If she could find another Mexican or U.S. manufacturer, should she continue to also utilize their original manufacturer for some of the production? Yet another option was to produce the boots herself for a cost of about \$100 per pair and a 1 to 2 week lead time. It so happened that an idle boot factory existed only about 45 minutes from her home. Perhaps some of the expertise still existed in that area. Finally, Leslie was aware that some competitor’s boots were made in China, but she thought that Chinese sourced boots were of lesser quality, and Mexico was light years closer to west Texas in terms of both logistics and culture compared to China.

Besides manufacturing, the other operations issue was warehousing and order fulfillment.

Should she continue to perform the distribution processes herself, or outsource it?

A growing business felt like a good thing, but it seemed like there were always new decisions to be made. The mode of operation during the first 2 years of startup was not necessarily the way to move forward.

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