VOLUME 2, NUMBER 10

News, Analysis and Research of Interest to Running Specialty Store Owners

RUNNING INTELLIGENCE



# Saucony to Change Hands Again

## New parent Company Vows to Retain Specialty Focus

For the second time in about two years, one of the core suppliers to running specialty stores will have a new owner. Last week, Payless Shoe Source, the largest footwear retailer in America, announced they would purchase Stride Rite, Corp. which purchased Saucony in June, 2005.

The transaction, which is valued at $800 million, is expected to close by late August or early September. The announcement triggered immediate speculation that Payless would take the Stride Rite brands, which include Keds, Sperry, Tommy Hilfiger, Robeez and Stride Rite in addition to Saucony, and begin distributing them through its 4,600 shoe stores. But Payless CEO Matt Rubel, a former Cole Haan and J. Crew executive, has been adamant in saying he has no intention of doing so.

Rather, Rubel has been quoted as saying the Stride Rite acquisition is a major step in creating a good, better, best strategy for his company. The soon-to-be-acquired brands will fit in at the top end of the spectrum and the Payless stores will occupy the value end of the spectrum. In March, Payless acquired Collective Licensing International, a brand management company founded by former Brooks CEO Bruce Pettet that controls the trademarks of Airwalk, Vision, Sims and Ultra Wheels. Once the Stride Rite deal is completed, Payless, which will be renamed Collective Brands, Inc., will own 4,500 retail doors, a diverse shoe company which had more than $700 million in sales in 2006, and a brand management company with proven expertise in marketing apparel, shoes and accessories around the world.

For Saucony, the deal has the potential to significantly boost the brand's sourcing and product development capabilities. Payless sold 180 million pair of shoes last year, generating $2.8 billion in sales, and is known for its state of the art sourcing and product development capabilities which are regarded among the industry's best.

Saucony re-organized after Stride-Rite acquired the company in 2005, so chances are good there will not be a major shake up at that division. Saucony has an established and respected management team led by Richie Woodworth, who has spent time at Reebok, Foot-Joy and Nordica, and former Nike execs Fred Doyle and Tom Carleo

Saucony executives and reps received the news during their spring 2008 sales meeting in Danvers, MA and proceeded with a business as usual attitude. After all, for many of them being acquired is not a new experience. ●

**RUNNING INTELLIGENCE** is published twice monthly, and is available only via e-mail. If you are an independent running specialty retailer, and would like to receive ***RI***, e-mail your request to running@formula4media.com. 

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# Retail Registration Opens for The Running Event

Retailers interested in signing up for The Running Event can do so starting today at www.therunningevent.com or by completing the form on page 9 of this newsletter.

The Running Event is a two-day conference followed by a two-day expo scheduled for November 11-14 at The Austin Convention Center. The conference will feature two days of speakers, business sessions and leading retailers sharing their best practices. The expo will feature more than 100 leading suppliers to the specialty running market. More than 175 specialty retailers from America and Canada and a few stores from Europe are expected to attend the event.

THE RUNNING EVENT 2007

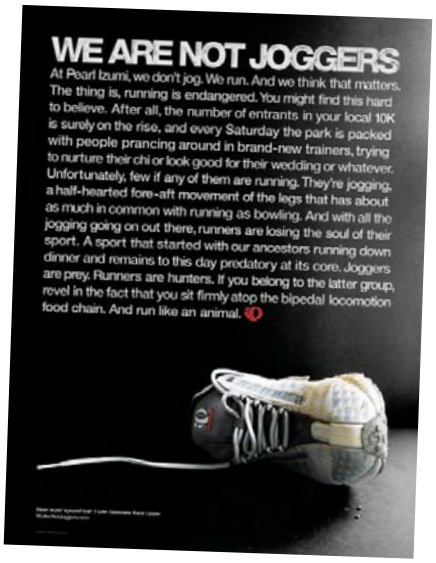
Registration fee is $595 for retailers and $495 for members of the Independent Running Retailers Association. The registration fee includes admission to all conference sessions and the expo, as well as all breakfasts, lunches and the Hall of Fame and 50 Best Awards Dinner.

Registrants can also book their own hotel rooms at the Marriott Courtyard, across the street from the Austin Convention Center by calling 512-236-8008 and asking for the special RUNNING EVENT rate. Retailers with any questions should contact Troy Leonard at tleonard@formula4media.com. ●

# Pearl Izumi Makes Strides in Running

Pearl Izumi is showing off some marketing moves in the running category. Known primarily for its cycling gear, the brand has introduced some excellent running product over the past three years and is now making some noise about it. Pearl Izumi gave away shirts to all participants at The Boulder Bolder over Memorial Day and kicked off a print advertising campaign in Runner's World, Running Times and Triathlete.

The ad campaign is rather bold as well. It proudly proclaims "We're not Joggers." If the campaign sounds like something that came from that other running shoe company in Beaverton, you're not the only one who thought that. The ads were developed by Crispin Porter and Bogusky, which recently opened a Boulder office. Shortly after developing the campaign the agency got an offer to go work with the other guys, but they left behind a wonderful body of advertising that Pearl will run between now and the end of the year. ●



# prAna Announces Brand Merchandising Contest

PrAna, a leading active lifestyle apparel company and nationally recognized wind power advocate, has announced an innovative merchandising program to encourage retailers to design and build prAna-themed environments in their stores. This focus on merchandising is intended to maximize sales on the retail level, highlight best merchandising practices and identify point-of-purchase challenges. Participating retailers will be judged on overall display impact and their ability to communicate the prAna brand and sustainability story.

Image courtsey of prAna

The grand prize winners will be awarded a San Diego vacation for two, including three days and two nights in San Diego, hanging with the prAna crew and engaging in activities such as climbing, surfing, cycling, sailing or even flying to Catalina Island or Palm Springs with prAna founder, Beaver Theodosakis.

The 2nd prize is a full day of climbing with world-class climber Chris Sharma (location TBA). Additional prizes include free prAna product. Every participating store employee will be rewarded with a special pro-deal, and the top three stores will receive financial incentives on their Fall '07 preseason orders.

Photographs will be accepted via email through July 13th and the winners will be announced on July 20th and recognized at the Outdoor Retailer Summer Market trade show in August. ●

## RUNNING SHORTS

**Mark Nenow** has left Brooks to join **Columbia**, fueling speculation that Columbia, which has a huge footwear business, is looking at getting into the running business…

**David Chandler** has joined **Asics** as Vice President of apparel and accessories. He is an industry veteran who has spent time at Reebok, Airwalk and Hind…

**Sanuk**, a flip-flop company that has caused a stir with its Sidewalk Surfer that uses "barefoot" technology is looking at introducing a running shoe. The premise behind the shoe is that its sandal bottom and deconstructed upper allow the foot to spread naturally and absorb shock the way nature intended. "Athletic shoes are over the top with gimmicks and shock absorption," said Sanuk CEO Bob Rief. "We believe that makes the foot lazy and that this design strengthens the arch and lower extremities and even improves the wearer's posture."

**David Cheruiyot** won the 2007 ING Ottawa Marathon, which also served as this year's Canadian national championship wearing Spira shoes, which have been banned by the USTAF. Cheruiyot's time of 2:10:35 set a course record and personal best by over two minutes. Two other Spira runners, Hilary Kimaiyo and David Karanja finished 5th and 8th in respective times of 2:11:13 and 2:17:01. All three raced in the Spira stinger.

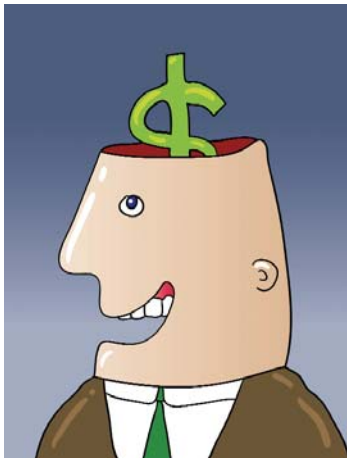
# What are You Worth? (Intelligent Pricing)

**By Parker Karnan**

For about 5 years now, the running market has enjoyed steady growth. In fact, if you look back, the average annual growth rate of the last five years has been about 14.5%. Compound that growth rate, and you realize the market has essentially doubled over the last five years. The number of specialty running rooftops has successfully grown. Existing rooftops have experienced double digit growth. Sporting goods and athletic specialty stores have expanded their running offering, and everybody looks pretty smart. Now don't get alarmed, but first reports show that the growth rate in 2007 is not as dramatic. Growth is about 5% YTD and most of that growth has come from price increases, not unit increases. History indicates that when growth flattens, things get bloody. Are you ready? Here's what to look for, and here's how to get ready.

### What to Look For

The common strategy employed when markets tighten is to outdo the competition on the basis of cost or quality—too offer more for less. Examples include dropping prices, offering BOGO's (buy one get one), cutting costs in advertising or staffing, offering new lower price point products. None of these options sound very appealing, nor should they. But how many times have you heard or experienced a new competitor arriving in a market and advertising, "we will not be undersold!" The stage is set for a bloodbath, and the trick is to prepare before it occurs.





### Getting Ready

The first step is to look at your business and determine if areas exist where you are over delivering and not getting paid for it. In other words, why is your customer choosing to give you their money, and do you place value where they place value? Although I may not know the nuances of your market, I can say with reasonable certainty that you are not the least expensive option in town. Between big box and internet retailers, nearly every footwear product in your store can be conveniently purchased for less. Some vendors have commendably limited their distribution, and some have created SRA only products. These appeasement strategies garner dealer loyalty and can positively impact specialty sales if the vendor brands can drive consumer demand for their products. In many cases, however, the brands do not have the cache or marketing power to drive demand. In other cases the specific products limited to the specialty channel do not generate enough volume to make a difference to the retailer. Regardless, two truths remain. First, if your customer wants to, they can easily find product you sell for cheaper, and second, your customer does not shop with you because of your prices. In a recent IRRA email thread concerning pricing on the Kensei 2 from Asics, an IRRA member and specialty retail store owner wrote,"Is that how we are relevant to our customers by offering shoes at a discount? No, we are about service and experience." He nailed it, and by doing so, answered the question posed in the first step. The customer places value on the service and experience they receive at

## What are You Worth? (continued)

specialty retail. Do your prices reflect that value?

The second step involves examining our industry through the lens of generally accepted norms and comparing those norms across other similar industries. In the world of footwear, the most glaring oddity is the suggested retail margins on athletic shoes. A Fleet Feet, Inc. executive once told me, "I'd love to find the person who first decided that suggested retail margins would be 45% on athletic footwear and let him know what a disservice he has done to retailers across the country." Why do casual shoe and dress shoe suggested retail margins start at 50%? Why can retailers in the pedorthic footwear channel sell the same shoe carried in a specialty running shop for as much as $15 more? Does the customer place a higher value on the service and experience they receive at these stores? No, I have repeatedly witnessed running specialty store employees spend 90 minutes fitting a single customer. Can the customer just as conveniently find the same products provided by these retailers for less? Yes, A Froogle search on Clarks footwear, for example, shows similar online price discrepancies in casual footwear as found in running footwear. The market conditions are similar but the margins are not. Therefore, the most important question to answer is why do the overwhelming majority of specialty retailers abide by manufacturer's suggested retail prices?

That leads us to the third step, determining the proper change in norm behavior and developing a strategy that can withstand and thrive under fierce competition. Retailers have abided by industry driven suggested retail prices for four basic reasons. One, they have never questioned it. Two, they believe the current pricing is fair. Three, they are waiting for a national movement driven by the footwear vendors. Four, they are afraid they will lose customers.

For reasons one and two, retailers should step back and think the way of their customer. Before she walks in the door, she knows you are more expensive than someone. That knowledge has not deterred her. She values you. You offer more. To offer more for the same price, or worse, more for less is not placing value on the same attributes as your customer. Intelligent pricing creates a "sell more for more" philosophy and places a premium on the attributes that are valued. Those immersed in the industry have been lulled into a false belief that 45% margin is fair. Fair according to whom? The only person about whom you should be concerned is your customer.

In the case of reason three, there may come a day where a footwear vendor steps out and adjusts their footwear pricing to reflect keystone margins. It may have a ripple effect across the entire vendor community. Your vendors do not run your business; you run your business, and if you place appropriate customer oriented value on your products today, you will enjoy a larger windfall if and when the vendors make a change. Prices vary across local markets on the same products. There are two Shell gas stations within 3 miles of my house. One station is consistently 5 cents higher per gallon. I frequent both. I can buy the same brand new car for 5% less in Tacoma, WA (40 miles farther) than I can at my local dealership. Bananas vary by 20 cents a pound at two local supermarkets. Local pricing is fluid because operators can learn what the customer values and the premium they will pay. An intelligent pricing strategy comes from your local market understanding. Your vendors will never possess that intimate knowledge.

Reason four is the big one. If you charge more, will you lose customers? Conventional wisdom says that a 10% increase in price will cause a 10% decrease in sales. In this case, that thinking is flawed because you don't lose sales, you lose customers. Lost customers lead to lost units which lead to lost sales. In order to examine this question, let's pull out the calculator and create some scenarios.

## What are You Worth? (continued)

**Scenario #1**
***Current situation***
- The average retail on a running shoe at specialty is $100.
- Cost is $55, leaving you with $45 ($100-$55=$45) in margin or 45%.
- The shop sells 5,000 units in footwear at retail annually ($500,000).
- Under this scenario current gross margin in dollars is $225,000.

**Scenario #2**
***Keystone margins, lose 10% of customers***
- You increase the average retail by 10% to $110.
- Cost remains $55, leaving you with $55 ($110-$55=$55) in margin or 50%.
- The shop loses 10% in volume; sells 4,500 units in footwear at retail annually ($495,000).
- Under this scenario gross margin in dollars increase by $22,500 to $247,500.

**Scenario #3**
***Keystone margins, lose 18% of customers***



- You increase the average retail by 10% to $110.
- Cost remains $55, leaving you with $55 ($110-$55=$55) in margin or 50%.
- The shop loses 18% in unit volume; sells 4,091 units in footwear at retail ($450,000).
- Under this scenario new gross margin in dollars remains unchanged at $225,000.

**Scenario #4**
***Keystone margins, customers remains flat***
- You increase the average retail by 10% to $110.
- Cost remains $55, leaving you with $55 ($110-$55=$55) in margin or 50%.
- The shop sells 5,000 units of footwear at retail annually ($550,000).
- Under this scenario new gross margin in increase by $50,000 to $275,000.

The scenarios reveal that by increasing your footwear going in margins from 45% to 50% you can lose up to 18% of your customer base and still achieve the same profits. Opponents may argue that lost customers will negatively affect sales in other departments such as apparel and accessories. However, the counterargument is that if, in fact, an increase in footwear price slowed traffic, additional time could be spent on the remaining customers, thereby increasing the likelihood of additional sales. Additionally, some of the lost customers may have been problematic in the first place. Increasing prices could weed out those "demon" customers that drain time and resources. Furthermore, strain on staff would ease and employee turnover could dwindle. The stock room could house less inventory leading to increased cash flow. In reality, even in the worst case scenario, store operating profits could likely increase.

What are you worth to your customers? Nearly all store owners I have met say that they don't sell on price. They advocate that service and experience are what differentiate them and catalyze their success. Many have submitted to manufacturer suggested retail because they believed those were the rules of the game. Parallel industries reveal otherwise. You make your own rules; that is partially why you run a small business. Hopefully, this article challenges you to rethink your playbook and earn the credit your valuable customers have given you all along. ●

**Questions or comments for Parker? Interested in talking specifically about your business? Contact Karnan Associates at 206-601-7019 or email parker@karnanassociates.com.**

**Parker is accredited by the Institute for Independent Business and is a member of the IRRA.**

Running IQ

# Penguin Brands

*Megan Russell joined Penguin Brands several years ago as marketing director and was recently promoted to Vice President, Sales and Marketing for the company. In her new position, she is responsible for overseeing the expansion of Penguin Brand's domestic and international sales and the development of its new brand, Ironman Performance Gear. For this edition of Running IQ, she provides an update on her company.*

**Q. Penguin has made several acquisitions over the past few years which have changed the face of the company. Can you talk about that?**

**Russell:** Penguin Brands, Inc. has evolved into a multi-brand company with the focus of being an outstanding partner to independent retailers. We offer all the benefits of a large company, logistics, consolidation of shipments, R&D, etc while still allowing each of our brands to retain its authenticity. Penguin Shoe Care, Nathan, Sorbothane, Penguin Apparel Care, Tectron, and now Ironman Performance Gear are each unique in brand and product, but each have the same core values: serve the end user, strive for product innovation, and partner with dealers. And perhaps, most importantly, all are driven by passion. Just like the owners and operators of independent running shops.

**Q. Can you talk about your specialty focus?**

I came on board a few years a go with the task of creating and developing these recently acquired brands. Each has been wonderfully received. In fact our Nathan hydration business is up 205%. Penguin Sport-Wash sales (the keystone product of our Penguin Apparel care brand) is up over 150%. With these successful launches complete, I now have the pleasure of focusing on partnering with dealers.

Jon Reichlin, Penguin's president, our regional managers, and I spent a lot a good part of 2006 visiting dealers and asking about how we can be a better partner. This year we have implemented many of those ideas. The most frequent responses were to help dealers grow their business through increased traffic and enhanced category/ product knowledge, assistance with local events and opportunities for discounting on products outside of pre-booking.

**Q. You see accessories as a big opportunity for specialty retailers, why is that?**

Growing the dealer's business is a challenge we are more than happy to accept. For 30 years that has been to goal of our shoe care business. We developed that category by taking customers that sold 1 piece of shoe care for every 20 shoe sales, to 1 piece of shoe care per every 5 sales. With all of our brands, we refuse to challenge competitors for market share, we instead challenge ourselves to "grow the pie" - focus on the opportunity and how we can translate that into sales for our customers. To accomplish that,


Megan Russell

we've assembled a great team all focused on incremental growth for independent dealers.

**Q. Can you talk about some of the promotions you've developed and staffing hires you've made to drive traffic and business at retail?**

We have brought on a world-class ultrarunner, Krissy Moehl, formerly the Promotions Director at Montrail to manage our dealer and Coach Outreach program. This program partners with training groups and local coaches to educate consumers about hydration, nutrition, reflective safety, and proper equipment in general. She has given talks to Team in Training coaches, running clubs, and at expos. At each event we promote local dealers and encourage attendees to visit them for more information and discounts. In some cases, the presentation is given at a dealer for a quick increase in foot traffic.

We've brought on a Sales and Marketing Coordinator. Katie Bex is our "conscience," she ensures that every dollar we spend and minute of effort we exert goes not to our sales, but to the sale at a dealer level. She also manages our Direct Marketing program promotion, that offers special pricing on in season items, and our Event Program where we purchase booth space for dealers at expos and offer substantial discounts off the order for the that expo. In many cases, we even come and man the booth. Part of the event program is our Sport-Wash sampling program. In lieu of expensive ads, we give away up to half million samples of Sport-Wash each year at events. It helps the events, introduces the product to customers, and since every single sample includes a coupon with a dealer's name and address, it promotes our dealers.

Additionally, we've brought on a running club director as our new customer service manager. Jeff Crago trains our team on products so they can better assist our dealers. He also brings a great perspective on how running clubs can benefit dealers, and how we can help those clubs. Since our history is in shoe care, there has been a bit of a learning curve for our customer service team. One initiative Jeff will continue is a company supported athlete challenge where customer service members participate in 5Ks, marathons and triathlons. We often support he races by donating products for prizes, but in the name of a local dealer.

And of course, we'll continue to do the most important thing: meeting with dealers to learn about their business, the environment they are competing in, and how we can help them win. At The Running Event, Penguin Brands received the best compliment when a dealer said to me, "it is a pleasure working with you folks." I responded "We try," and he replied "No you DO."

# Mountain States are the Fittest, According to Research Study

What is the fittest region in the country? The Mountain States, according to the National Sporting Goods Association.

Using indices developed from its 2006 Sports Participation studies, NSGA says the Mountain states (MT, ID, WY, CO, NM, AZ, UT, NV) totaled highest for six fitness activities surveyed in its latest participation study. With a totaled index of 669, the Mountain states outranked the Pacific states (WA, OR, CA) and New England (CT, ME, MA, NH, RI, VT), both with indices of 624.

For the six fitness activities, the Mountain states produced an index that averaged 111.5. For the Pacific states and New England, the averaged index was 108.

The six fitness activities included in this analysis were running, aerobics, exercising with equipment, exercise walking, weightlifting and working out at club.

Regional indices were calculated by dividing the proportion of participants residing within a region by the proportion of the total U.S. population residing within the region and multiplying by 100. For example, if 12% of all participants in a sport live in a region that represents 6% of the national population, that region's index of participation would be 200 (12 divided by 6, times 100). This implies that the population of that region is twice as likely to participate in that sport as the national population.

At the other end of the scale, the West South Central states (AR, LA, OK, TX) and the East South Central states (KY, TN, AL, MS) had the lowest totaled indices -- 539 and 540 respectively. The averaged index for both is 90.

The data used for this analysis is from reports published by NSGA for more than 25 years. The Sports Participation Series I and Series II reports provide data on total 2006 participation, frequency of participation, and average number of participation days. Single-time participation, which is not counted in the total, is included separately.

Demographic data on participants includes gender, age, mean age by gender, gender by age, household income, and education of male and female head of household. Geographic analysis includes nine census regions and metro area size. Presence of children is also noted, and Internet usage is reported by gender and age of participants.

In addition to Series I and II, state-by-state data is available in "Sports Participation in 2006: State-By-State." This report covers 33 sports and activities, and provides data on total participation, frequency of participation and total participation days. It also provides indices for each of the states for all surveyed sports.

For more information on pricing for these and other NSGA research reports, please contact the NSGA Research Department, (847) 296-6742, ext. 108, or e-mail: info@nsga.org. Information is also available on the NSGA web site, www.nsga.org. ●

THE RUNNING EVENT 2007

## OFFICIAL RETAIL REGISTRATION FORM

The Running Event is open to running specialty retailers. Please complete this form and follow the payment and submission instructions below.

**November 11-14, 2007, Austin, Texas**

Name _____

Title _____

Company _____

Street _____

City State Zip Code _____

Country _____

Phone _____

Fax _____

E-mail _____

**Name on Badge:**

First Name _____

Last Name _____

Arrival date _____ Departure date _____

**Shirt Size**

**Men** ○ S ○ M ○ L ○ XL

**Woman** ○ S ○ M ○ L ○ XL

**Shoe Size**_____

○ Please check here if you will be participating in the Fastest Retailer in America 5K Road Race

### REGISTRATION FEE

**Conference and Exposition**

- **Includes full conference attendance and all meals**
- **Hall of Fame Dinner**
- **The 50 Best Running Stores in America Awards Dinner**

○ $595.00 per person

○ $495.00 per person for IRRA Members

**NOTE:** One ticket to the Hall of Fame Dinner and the 50 Best Awards is included with each registration.

*Additional Tickets are $150 for the Hall of Fame and $250 for the 50 Best. Please indicate below if you need additional tickets.*

○ **Hall of Fame Dinner**, Monday, November 12: $150 per person

○ **The 50 Best Running Stores in America Award Dinner**, Tuesday, November 13: $250 per person

○ **Attend Exposition only November 13th & 14th** (includes box lunch): $30.00

TOTAL PAYMENT: $

**Check**

Please make payable to Formula4 Media.

Mail to:

The Running Event Registration

P.O. Box 23-1318

Great Neck, NY 11023

**Credit Card:** ○ Visa ○ MasterCard ○ American Express

Name on Card _____

Account Number _____

Expiration Date _____

Security Code _____

Signature _____

Total amount _____

Date _____

**Fax completed from to 516-498-2914 or send to the mailing address above. Registrations will not be processed without payment.**

**Thank you. We look forward to seeing you in Austin.**

**The Running Event/Formula4Media, LLC PO Box 231318, Great Neck, New York, 11023 516-570-6782**