

# Billabong analysis

[Business](#), [Company](#)



Billabong International Limited is an Australian based clothing company that established its business in 1980's and expanded internationally through its franchises and acquisitions. The business is engaged in the marketing, distribution, wholesaling and retailing of apparel, eyewear, accessories, wetsuits and hard goods in the boardsports sector under the Billabong, Element, Von Zipper, Honolua Surf, Kustom, Palmers Surf, Xcel, Tigerlily, Sector 9 and RVCA brands (Billabongbiz, 2013). The company is headquartered in Queensland, Australia with 6, 000 employees and they operate across many countries such as Australia, North America, Europe, Japan and the rest of the world.

Billabong has emerged a number of sports and youth labels such as RVCA, and Surjection (Billabongbiz, 2013). They continue to expand their brand image by sponsoring promotional events and some of the athletes. The rival brands of Billabong are Quiksilver and Rip Curl as these companies are iconic surf brands. In order to perform Billabong International Limited effectively, the board of directors are structured into six non-executive directors, two executive directors and the chairman who are responsible for the shareholders of Billabong. However, due to recent recession, the new CEO, Launa Inman, has been appointed.

## **2 - Financial Analysis**

The profitability performance of Billabong International Limited is not effective as it is -45. 71% in Q2, 2013 (GoogleFinance, 2013). Similarly, net profit margin of the company is -50. 72% which represents the profit after subtracting the indirect expenses. Overall profit performance is showing a negative sign and the firm have experienced shrinking sales and rising

debts. However, with respect to gross profit margin, it shows a positive figure as it amounts to 50.21% in Q2, 2013.

This shows that the profitability after accounting for the cost of goods sold is good and highly effective for the company, but the negative net profit implies that the indirect expenses of the company are significantly higher. The plans of the company are to focus on its core brands in the next four years, cut styles by 15% and achieve improvement in its supply chain for both the wholesale and retail operations

## **2.1 Identification and evaluation of Billabong's global strategy**

The marketing mix helps a business to determine its sales and finally determine the success or failure of a business. For this reason, it is the most essential element of business when determining a marketing plan. Billabong International Limited makes broad use of the marketing mix in their marketing plan.

Billabong International Limited has diversified their product range not only related to surfing. Their positioning strategy is a high quality, high priced, fashionable product. Billabong gains customer satisfaction by offering quality products that is not vulnerable or ruined easily despite the harsh conditions of many of their products intended uses, such as swimmers, skis and snowboards. Billabong has been successful in making brand images by appealing as an internationally known for professional surfing, and through its wave logo and sponsorship of international events.

By doing this, it has not only gained international markets, however it has also become a prestige and status symbol for its target market. The product

and positioning of Billabongs products is the most important element in its marketing mix as it ensures the long term survival of the company and continued high sales. By meeting customer demand, positioning itself as a well-known and trusted brand with a vast amount of prestige it has ensured that sales remain high.

### **2. 1. 2 Promotion**

Billabong uses a strong promotion mix to highlight and reinforce its image and product. A combination of an interactive website, promotional magazines and flyers, personal in store selling and strong public relations through both sponsorship of sporting events and famous athlete using Billabong products have generated a strong brand images amongst its industry. Billabongs sponsorship of international sporting events and sporting stars also helps to promote their brand not only in Australia but also on the international market as well.

### **2. 1. 3 Price**

Billabong uses a competition-based pricing method in which it sets its prices at a similar level to those of its competitors to ensure that their customers will not wish to buy the cheaper products. However, Billabong is awkwardly positioned between Rip Curl and Quiksilver. Especially wetsuits and women's jeans are higher than Quiksilver's. They rarely use below market value pricing to avoid creating a image of less prestigious products.

Surf brands – Average price comparison

(Source: EDITD, 2013)

#### **2. 1. 4 Place**

Billabong uses various methods to ensure that their product reaches the market place. With stores in more than 100 countries Billabong uses wholesalers to ensure that their products reach the retailers. Billabongs positioning also comes into effect with place as it must ensure that its product remains out of discount and department stores and remains only in specialty stores. Because of this Billabong has adopted an exclusive distribution network where the product is only available in specialty surf shops.

#### **2. 2 - SWOT Analysis**

A business can implement a SWOT analysis to decide which marketing strategy to apply.

#### **2. 3 – Current Target Market**

Billabong is a brand which offers various types of products designed to accommodate various lifestyles. Their extensive product ranges are for surfers, boarders, beach lovers, and the sensible fashion people. Even though it is difficult to identify comprehensive characteristics of this industry, the majority of consumers are males and females who are aged between 14 and 29. (Goldcoast, 2013)

According to Australian Business Solution (2011), there are an increasing number of casual dress codes at Australian workplaces and social gatherings which has led to a high demand for affordable and modern look at workplaces. Billabong's new casual-line is aiming to meet such demand and targeting office workers.

Due to Billabong's sports image, it has been entrenched in consumers' mind especially among teenagers and youths. When these consumers grow older, they will be pleased to see Billabong to provide expanded casual-line offering to meet their new needs. The new product line is a modern, up-scale look but also inexpensive casual dress codes at workplaces. Therefore, it will better resonate with age group 25 to 39 years old who have built careers and gained stronger buying power.

#### **2. 4 - Reasons for Billabong's international expansion**

Australia has small population compare to other regions that place significant restrictions on its total sales revenue and Billabong's future objectives. Billabong's expansion helped to boost their total sales revenue by over 70% in 2003-04. Increase in sales has also allowed the firm to lower its production cost by achieving economies of scale and lower risks. In 2003, Billabong adapted video conferencetechnologyin order to make thecommunicationand exchange of ideas across the world for its overseas offices easier.

Furthermore, by working in more than 100 countries obtained cushion impacts of the entry of a new competitor and economic cycle into any of their industries. Global expansion supported the extension product life cycle for numerous products and easier access to resources and technology.

### **3. Identification and evaluation of the external environment**

To better understand Billabong's global expansion strategy, both Porters Five Forces and a PESTEL analysis will be undertaken.

### **3. 1 - Porters Five Forces**

#### **3. 1. 1 The Competition**

Since 1970s, there was a significant rising popularity of the beach and surfing, and then three major companies (Billabong, Quiksilver and Rip Curl) have become a symbolic of surfing. These brands manage to establish strong credibility within surfing subculture and it was also equally consumable by non-surfers who identified with the lifestyle. In the 1990s and 2000s, Billabong started to aggressively pursue international expansion by emerging sports and youth labels such as RVCA and Nixon watches to gain market share. However, in 2012, there was a significant loss of \$287m. (Billabongbiz, 2013)

#### **3. 1. 2 New Entrants**

There is still room for a new entrant as the global demand for surfing apparel is expected to remain strong. For instance, Hollister – Abercrombie & Fitch started off with a local manufacture that successfully moved into surfing clothes and retailing. Moreover, smaller brands like Byron Bay label, Afends has dramatically grown in the last decades by selling its products through independent and online stores. Afends gained reputations among young surfers and skaters from Australia and California.

#### **3. 1. 3 Suppliers Power**

As Billabong has become an internationally well-known brand, they outsource its manufacturing by using small to mid-sized companies in order to keep economies of scale. Billabong uses Hong Kong as the central

sourcing division to provide most of its products to Australia and New Zealand. These suppliers have no bargaining powers.

#### **3. 1. 4 Consumers Power**

Due to the size of Australia population, consumers actually have not enough bargaining power. However, to the global extent, consumers are likely to find other tailors which would provide products that would be cheaper than existing ones.

#### **3. 1. 5 Product Substitutes**

According to the Urban Market Research (UMR) survey, findings indicate that Nike (13%) has overtaken the lead from Billabong (10%) as the best choice for Australia's youth. Other rival brands such as Quiksilver and Rip Curl have also expanded their popularity. Young females prefer 'disposable fashion' with affordable price such retailers like Cotton on and Supre. Country Road and Colorado would be other substitutes for Billabong, but it has different quality and style compare to Billabong.

### **3. 2 – Industry Analysis**

### **3. 3 – PESTEL Analysis**

#### **3. 3. 1 - Political factors**

Benefit from the worldwide trade barriers which allowed exportation procedures much easier for Billabong International Limited to other regions. The rate of import duty decreased from 17. 5% in 2005 to 10% in 2010 as the Australian governments maintained tariff barriers for protecting the domestic clothing and manufacturing industry. (Wellers, S., 2007) The announcement of bilateral trade agreements by World Trade



Organisation (WTO) has affected Billabong International Limited. Since 2005, all Australian businesses required to produce their financial reports to International Financial Reporting Standards. Hence, it makes easier for Australian accounting standards into global practices and cost of implementation was significant.

### **3. 3. 2 - Economic factors**

The growing popularity of surfing and skateboarding has been impacted by improvement in standard of living and the consumer spending power. As Billabong International's products are distributed in more than 100 countries and the majority of the revenue is generated by other regions, the firm is continually influenced by fluctuations in currency. Every each year, value of earnings has shown loss when it was reported in Australian dollars. From the global point of view, Billabong's global expansion was encouraged by its high incomes from Asia and South America that enabled to create new markets.

### **3. 3. 3 - Social factors**

Billabong's brand awareness has been influenced by the growing popularity of surfing and skateboarding among the broader community. Identifying customer tastes were depends on various types of traditions and cultures. For instance, U. S preferred bright colours products while Australia preferred faded and weather beaten colours. Complications in writing contracts with different languages have encouraged the firm's ability to operate in global markets. – errors on contracts could lead to future conflicts. Difference in oragnisationalcultureand practices on different regions are their major concerns. For instance, Australia has relaxed workingenvironmentwhile U. S

and Japan are more intense. Further, European countries are imposed on limiting working hours by governments.

#### **3.3.4 - Technological factors**

Cable television and internet has attracted millions of new customers in surfing and skateboarding which helped Billabong's products market towards a wider customer base. E-commerce has simplified the logistical and organisational difficulties when operating a global business.

#### **3.3.5 – Environmental factors**

Consumers pay more attention on environmentally friendly products – source of materials, where materials are sourced, and whether production processes have negative impacts on the environment.

#### **3.3.6 - Legal factor**

Billabong ensures to protect intellectual property rights issues such as brand logo, names and trademarks from unauthorised piracy.