

# Billabong business report



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BUSTER**

Billabong was established in Queensland as a private company in 1973. In 2000 it was listed on the Australian Stock Exchange (ASX), becoming a public company with shareholders. Over the years it has established operations across 4 continents with distribution to over 60 countries worldwide.

Billabong has firmly established its brand at home and abroad with its focus on innovative yet functional products. Acquisitions of other brands such as Von Zipper, Element, Nixon and Honolua have helped the Company diversify their product range. The Company has managed to remain competitive in a receding global economy in the past year aided by strong growth sales in the Europe and Australasian sectors. Billabong employs over 1750 staff worldwide and has a strong commitment to all their stakeholders in terms of integrity and governance. (Cory, 2008, website)

## **Introduction**

Founded on Australia's Gold Coast in 1973 by surfer and surfboard shaper Gordon and Rena Merchant, Billabong has since established itself as a prominent Australian icon. The Company sprang from humble beginnings, with the couple designing boardshorts in their flat overlooking Burleigh Heads, cutting them out on the kitchen table and then carting the finished product around to the local surf shop to sell. Gordon's no frills, practical approach to boardshort manufacturing paid dividends, as Billabong grew steadily until his little homespun factory literally burst at the seams.

(Pacificshop, 2006, website) From those inauspicious early days the Company has grown rapidly to become a publicly listed international company. Today, Billabong's core business is the design, production, marketing, distribution, wholesaling and retailing (through shops and

agencies owned by the Company) of surf, skate and skiing apparel; accessories; and eyewear. This report is an analysis of Billabong International's business framework.

## **Business Model and Organisational Framework**

By the 1980s, Billabong had firmly cemented its place in Australian surf culture and was international expansion was in its sights. The Company's first international operation was established in the USA in 1983, followed by New Zealand in 1985 and Europe in 1987. A range of other international operations were established in subsequent years, with Japan opening in 2000 and Brazil in 2001.

Through the 1990s the surf industry grew exponentially and professional surfing gained a newfound respectability. The Company also followed its core customers into other boardsports markets, including skate and snow, where it replicated its proven business model. By the close of the decade, Billabong had been restructured to capitalise on the growing global opportunities in all boardsports sectors.

The restructure set the foundation for an initial public offering in Australia in mid 2000. The move saw the Company's shares publicly listed on the Australian Stock Exchange in August of that year.

Shortly after the public float the Company demonstrated its growth plans with a number of acquisitions including Von Zipper sunglasses brand and the emerging Element Skateboards brand.

The successful integration of those businesses saw the Company add to its stable of brands in following years, with Honolua Surf Company acquired in January 2004, Kustom footwear and Palmers Surf in September 2004, a controlling interest in the beach culture airport-retail business in November 2005 and Nixon watches and accessories in January 2006. Other businesses were also established, including the Element footwear range, the California-based Beachworks retail business and various branded concept stores around the world. (Global Village Partnerships, 2009, website)

## **Business Mission/Vision**

Billabong International's values remain consistent with its foundation objectives, which include:

- a commitment to brand protection and enhancement
- the manufacture of design-relevant and functional products
- marketing in the core boardsports channels such as sponsorship of events and athletes, as well as advertising in selected print media
- to expand into new geographical markets
- to expand the product range, particularly in the core board sports and youth fashion markets
- the professional development of staff and ongoing customer service and relationships
- and to deliver returns to shareholders

## **Leadership**

Gordon Merchant has consistently had a hands-on role in the designing, marketing and sales of for the Company and brand. He currently sits on the

board of directors along with Derek O'HYPERLINK " javascript:;"" HYPERLINK " javascript:;" Neill the CEO, and Paul Naude the Executive Director. The other board members consist of:

- Ted Kunkel
- Margaret Jackson AC
- Allan McDonald
- Colette Paull
- Tony Froggatt

(Billabongcorporate, 2009, website)

## **Financial Position**

According to Billabong's full year financial report, the Company's profit for the year ended 31st June 2009 was \$160.2 million. This was down 9.2% from the same period last year. This is largely in line with the decline in the global economic activity over the past year. The decrease in net profit meant that earnings per share was also down 11.2%.

Although net profit decreased, there was a rise in sales revenue. This was largely due to new acquisitions made by the Company and the adverse movement of the Australian dollar against other major currencies such as the US dollar and the Euro.

Operations in North America felt the heaviest impact from the economic slowdown. However, this was offset by strong sales growth in the South America sector. Europe was the star performer, with an almost 24% increase in sales revenue. Australasia also managed sales revenue gains of almost

8%, largely helped by the resilience of the Australian retail market and supported by the government's economic stimulus packages.

Given the lack of retailer confidence, the steep slowdown in consumer spending in various global economies and the extreme volatility in exchange rates, the Company has performed reasonably well. The forecast for the coming year seems to be conservative in light of the current uncertainty of the global economy. Europe and Australasia are predicted to remain stable, and despite the initial reduction of forward orders in the US, there are promising signs of a recovery. (O'Neill D, 2009, website)

## **Human Resources and Stakeholder Management**

Billabong International has a diverse group of stakeholders that both influence and are impacted by the operations of the Company. These include employees, shareholders, business associates, athletes, suppliers, opinion leaders and customers.

Billabong International employs over of 1750 staff worldwide, with the greatest concentration of staff in California's Orange County, Australia's Gold Coast and Hossegor in France. Employees are the main stakeholders in any company and building and maintaining relationships with employees is vital to maintaining effective relationships with business partners, customers and the community.

Staff are encouraged to expand their skills and potential, and have access to and receive support for further training and to experience opportunities.

Programs for managers to develop vital skills with an emphasis on innovation, planning, leadership and teamwork are a focus of the business.

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The Company also has guidelines and policies for remuneration to ensure a fair approach to rewarding employees. The Company also has a consultative committee comprising staff representatives and senior managers to discuss issues and consider improvements to the workplace.

Billabong International is also committed to conducting business in an ethical and socially responsible manner. This is defined in employee work agreements that effectively form a code of ethics that governs acceptable workplace practices. The Company's corporate governance policy states that the maintenance of all environmental, social and health and safety issues is to be the responsibility of the Board of Directors.

As a public company listed on the Australian Stock Exchange Billabong International is required by law to hold an Annual General Meeting of shareholders to discuss the Company's business. The Company also addresses shareholders at least twice a year to update trading conditions and provide a forward business outlook.

The Company also consistently interacts with stakeholders through the staging of events around the world. These range from the elite World Championship Tour professional surfing contests, through to professional skate and snow competitions and a range of junior and amateur surf, skate and snow events.

At a supplier level, the Company undertakes regular factory visits to conduct audits. During these audits, workers from the shop floor are randomly selected for interviews to help understand workplace standards. Large

posters outlining Billabong's supplier Code of Conduct are fixed to high profile locations within factories to ensure workers are aware of their rights.

Multi-stakeholder meetings that bring together staff from the Company's geographically diverse regions are also held twice annually. These provide a forum to discuss the direction of the business and gain a better understanding of the motivation that drives business decisions.

## **International Nature of the Business**

From its origins in Australia nearly 30 years ago, Billabong has evolved into a global business that operates on four major continents. Its name-Billabong International Limited-now reflects this focus and the promotion and protection of its brands and name are a major component of the business around the world.

The original market for boardshorts and wetsuits was limited in its size, so Billabong (along with several other similar companies) looked to expand their product range to include clothing and accessories. Originally, these were manufactured in Australia. The drivers for Billabong included the need to expand to new and larger markets in order to increase sales and profits, improvements in technology that led to better production and communication, and the advent of global consumers because of the increasingly popular surf culture and lifestyle. This is essentially a global strategy using global branding in that the same, standardised product is sold in all markets. Deregulation of markets and government influences had minimal impact on Billabong.



Billabong also achieved economies of scale through its increase in production, as well as some cushioning of the economic cycle-having operations in both hemispheres, which have opposite seasons, allows the development of products to suit summer in Australia, which can then be sold in the Northern Hemisphere four months later.

The globalisation of Billabong was achieved through:

1. seeking cheaper sources for manufacturing (in Hong Kong and China)- factories were established to produce garments for sale in Australia
2. exporting and distributing in the United States (initially in ‘surf’ areas, such as California)
3. exporting and distributing in France and then in the rest of Europe
4. establishing operations in the United States, France, Japan, New Zealand, Canada, Hong Kong and Brazil that are responsible for importing, distributing and wholesaling Billabong products. This is a form of foreign direct investment
5. the acquisition of other businesses so that they became wholly owned subsidiaries of Billabong. This occurred with Element and Von Zipper- these companies retain their name (brand) but are wholly owned and controlled by Billabong
6. licensing, which allows distributors and some retail outlets to use the Billabong name as part of their operations.

There are several key areas which are important in the management of a business at a global scale:

Financial –Exposure to foreign exchange is a concern for all global companies as well as methods of payment and credit risks. However, the establishment of operations and distributors in various countries ensures that Billabong is in a position to access borrowed funds from overseas if required.

Operations –In order to reduce production costs the majority of Billabong’s manufacturing occurs in China. This is a form of outsourcing and strict procedures are in place to ensure quality control. Billabong has offices in Australia (Queensland, New South Wales and Victoria), the United States (California), France, Japan, New Zealand, Canada, Hong Kong and Brazil. By adopting a global web approach and using subsidiaries, Billabong can move products more easily, avoid some government regulations, be closer to its markets and customers, and avoid some foreign exchange risks.

Employment Relations –Billabong needs to be aware of differences in labour laws and cope with pressures relating to minimum labour standards. The Company also must adhere to the global standards covering factory inspections (on general human rights and environmental issues) and laboratory tests.

## **Conclusion**

The original Billabong business focused on gear for local surfers, before diversifying into clothing and accessories for surfing, snow skiing and skating. Billabong now has over 2200 product lines and is the leading surfwear brand in Australia with its products being distributed in more than 60 countries internationally. Despite the doom and gloom of the current economic environment, Billabong has managed to largely steer clear of any

major short-comings, enjoying success in most of its global sectors. From a small backyard operation in 1973 to today's multi-national publicly floated company, Billabong is certainly an entrepreneur's dream come true.