Case Study - Barry Davis: Back on Board?

Introduction:

At age 36, the last place Barry Davis expected to find himself was sitting in the front row of a classroom studying accounting with ‘kids’ almost half his age. More than age separates Barry from the other students. A lifetime of experience has been lived in the past six years, owning and working in surf and skate shops throughout Canada, California, Hawaii, Australia and Puerto Rico. Now within five months of finishing his diploma, Davis is both looking forward and looking back.

Barry Davis has had an entrepreneurial spirit since the age of twelve, when he began sharing his love of skateboarding with other kids. He had a passion for skateboarding from a young age. In the early days he taught skater skills and tricks to other kids. Rather than receiving money, he accepted sports trading cards for payment. He wanted to make a difference and share his love of boarding. He often gave away his old skateboards to boys who did not have one. That was just the way skaters were – they spread the passion and enthusiasm. He also knew back then that it was important to fix a board rather than to have it gather dust in the garage.

After graduating from high-school, and working at skate shops for a few years, Davis, then 22 years old, started a small business with fellow skater, Jim Russell. While they both shared a love of skateboarding, the friends could not be more different in terms of their approach to business. Davis was the goal-oriented, focused, analytical side of the business while Russell was the impetuous, let’s get it done and over-with marketing ‘geek’. For six years, they successfully built their business to a level of success they had not thought possible. They were designing and building skateboards, selling their decks through shops in Banff and Jasper, Alberta as well as in Davis’ home town of Brandon, Manitoba.

The signs of trouble were easy enough to miss at first. Russell, living in Calgary at the time, was usually on the road promoting the business throughout the British Columbia interior and in Vancouver. He visited ski-resorts during the winter in order to build business contacts for summer-time sales. What Davis did not know was that Russell was promoting the sale of snowboards, a product that the business had never produced. The skill in building skateboards, Russell thought, would surely transfer over to the production of snowboards. He knew Davis had the technical understanding and the contacts necessary to ‘deliver the goods’. Russell entered into contracts with businesses and delivered the contracts to Davis. Upon receiving the contracts, Davis was shocked. He could not design the snowboards. The business was successful but there was no way for them to manufacture them – while both ‘boards’, the materials and technology were different. It was an impossible task. While they scrambled to find someone who could manufacture the snowboards, the contracts kept rolling in.
Davis could not find any other Alberta or BC manufacturer to subcontract the snowboard business. Russell tried to explain what he had done – signing contracts without the consent of his business partner. His enthusiasm and marketing ‘hype’ had gotten away from him. He promised what he ultimately knew he could not deliver. Davis eventually found a manufacturer in Ontario to undertake the business. The snowboards were delivered. The contracts were completed. The Davis-Russell skateboard partnership was over. Davis retained the rights to all the skateboard name, business, designs and technology. Russell walked away with all the client files. Davis took his share of what was left in the business and moved to live with family in Brandon. Russell stayed in Calgary but was never able to successfully build a business.

Davis had always had a desire to travel. The money he had coming out of the business became both his future business and travel fund. For the next year, Davis travelled to several countries; he eventually landed in Australia where he managed and then bought a skateboard shop. He remained in Australia for five years before selling his successful business. Davis took the proceeds and moved back to Calgary.

Looking back at his experience with Russell, Davis recognized that there were parts of managing a business that he had overlooked. The financial aspects of the business came easily to him but he did not have the skills to launch a business. His entrepreneurial spirit was still strong but tempered by the reality of the loss of his business. While his time in Australia was successful, he knew that he needed to solidify his technical skills to expand his business. He decided to take time out to return to school and get his diploma in accounting, with a minor in marketing.

Although he had his money in the bank, Davis worked part-time at a skateboard shop. It was at this time he met the woman who would become his fiancé. Their marriage was scheduled a few months after his graduation. His fiancé recently graduated from medical school and received her license to practice medicine. Her dream of building a practice had come true. Davis’ dream was still alive – to revive his skateboard business. He had a major life choice to make – either move ahead and becomes an accounting professional or returns to his passion. He was looking back on all he has achieved and knew that it was now or never. His fiancé believed in his dream.

**Anatomy of a Skateboarder**

Skateboards are not an unknown product. They vary in style from the standard size skate deck designed for tricks in the skateboard parks to sophisticated high-tech boards used in international competitions. They are used as a means of transportation, as an activity, as an ‘art form’ and as a profession. What links these uses are the boarders themselves.
Barry Davis shares some unique characteristics with other boarders:

- the ability to overcome challenges through sheer persistence
- a sense of control and power
- the appreciation of solitary pursuits
- a sense of freedom and autonomy
- the connection between mind and body
- an intense degree of concentration on a single focus
- self-determination
- self-confidence
- experiencing a sense of being ‘in the groove’ and ‘in the zone’

A Profile of the Skateboard Consumer

Recent research tracking the purchasing practices of those participating in, or influenced by, board sports, provides a profile of a ‘typical’ skateboarder: an average to upper-income 13-16 year old male who skates everyday, who has 5+ years of skating experience and who purchases 5 or more skateboards a year. Their favourite brands of skateboards are: ‘Girl’, ‘Plan B’, ‘Chocolate’, ‘Element’. Based on online data, the cost of a board is $80.00.

Expenditures on the apparel side of the business varies according to income level. Based on data for the spring 2011, the top four board sport clothing brands for upper income teens are Volcom, LRG, Vans, and Hurley. For average income teens, the top five board sport brands are Fox Racing, Vans, DC, Hurley and LRG. Teens in the upper income level also purchase clothing that fits in the broader category of action sports clothing with the most popular brands produced by Pacific Sunwear, Volcom, Zumiez and LRG. For average income teens, American Eagle and Nike are preferred brands in action sports clothing. In terms of footwear, upper income teens prefer Nike, Vans, Steve Madden and UGG Australia. Vans is the preferred brand for average income teens.

A trend in department stores is the availability of apparel which may attract lower-income teens. Tony Hawk, a ‘super-star’ skateboarder, has a line of clothing in Kohl’s, a store similar to Winner’s in Canada. A key growth area is that of ‘cross-over’ brands, particularly for women. Similar to the growth of yoga-wear as street-wear, cross-over brands have their roots in board sporting but are widely accepted and worn by those interested in the boarder lifestyle. The attractiveness of the lifestyle has been enhanced beyond participation through access to media and the growth of national retailers such as Zumiez.

Although the average skateboarder is 13-16 years old (38% of the consumer base), another 33% is represented by 17-24 year olds who have more disposable income. The older skater buys more expensive boards, more apparel and purchases a greater number of boards per year.
They also cross into other board sports beyond skateboarding. Travelling to experience skating in other countries is an emerging trend as is purchasing goods which are made from renewable or recycled materials.

The Changing Canadian Board Sport Market

Major retail giants have announced that they are moving into Canada. Target has confirmed that they are planning to have in excess of 200 stores in Canada and, within six years, will have approximately $6 billion in sales. Express Inc, an American fashion chain, will open 50 stores in the next 5 years. Large Canadian retailers will likely experience declining profit margins and some of these retailers may disappear. Foreign retailers enter the market quickly through acquisition of existing Canadian chains firms who have a suitable location and size. Major brands which may enter the Canadian market include Marshall’s, J.C. Penney, Norstrom’s, Kohl’s and Dick’s Sporting Goods. The wave of new American and other foreign retailers will change the competitive retail market and will make the fight for market share even more difficult for Canadian specialty board sport shops.

Two major changes have already impacted the specialty board sport market. West 49, Canada’s premier specialty retailer of fashion and apparel related to the youth action sports lifestyle, was acquired by Billabong, an Australian sportswear and casual clothing manufacturer. West 49 operated in excess of 130 stores across Canada and was the largest skateboard and snowboard chain. Zumiez, Inc. an American specialty retailer, with in excess of 400 action sports and accessories stores, has entered the Canadian marketplace, opening two stores in Vancouver shopping malls as well as three stores in the Toronto area.

The entry of Zumiez into Canada may well have a major impact on existing specialty retailers. Some American business writers draw a parallel between Zumiez, a mall-based skate-store chain, and the impact of Walmart on independent retailers. Writing in about.com, Bud Stratford states:

This one is a particular thorn in my side. Why, you ask? Because, Indianapolis was recently blessed with two brand-spankin’ new Zumiez stores! Yay for us. Not so yay, for our two long-standing “core-retailers”. Since, those Zumiez locations just-so-happen to be right up the street from both of those core retailers. ..... I’d have to suggest at this point that our manufacturing base might take some time to do a little bit of soul-searching on this issue, because it seems that a tough decision just might be fast at hand. That issue is going to be: Are we going to support our infrastructure of independent, core retailers”, and everything that they do, and represent? Or are we going to support a corporate-owned, mall skate-store chain, and everything that they do, and represent?
Beyond the impact of American chains moving into Canada is the issue of the quality of skateboards being produced. While skateboards from well-known companies were typically made in the United States, blank decks – those without a design – were made in China and were often of lesser quality. More recently the majority of skateboards have been made overseas. In skateboard.about.com, Steve Cave argues:

SOME board companies in China have stepped up a bit, and make better boards than they used to. Some are still cranking out the same old garbage. And, to make it worse, it’s getting harder to tell where your boards are coming from. Some companies like Almost, just come out and say that they make their boards in China, and people blast ‘em for it! So other companies keep it hush hush. And some companies are just complicated – like Girl. Did you know that Girl skateboards are made in China, from wood cut in Canada, and then printed in the US? So are Chocolate skateboards, because they are part of the same company....

Price and competition are not the only concerns expressed by skateboard enthusiasts. Chris Stevens, founder of Oldschoolskateboarding, argues that the true cost of cheaply produced skateboards is not on the price tag. Instead, the ‘true costs’ must be measured in terms of the impact of the lack of environmental and labour controls in massive overseas factories which are harmful to the environment and where people are exploited. Stevens argues that “… as the product is moved on and sold in huge corporate chain stores the exploitation continues with our citizens and communities.”

Concerns with respect to price, quality, socio-economic impact and environmental issues exist not only in the board sport industry. All firms, whether they are corporate chains or specialty retailers, have to find their way to compete. Stratford argues that price-wars do not work and that skateboard shops must differentiate themselves from their competition. Skategeezer, writing in skateboard.about.com, offers the perspective of an older skateboarder who feels that the focus on the male teenage skater ignores the rest of the buyers who have a passion for skateboards. Generation X and the boomers are being ignored. Skategeezer’s advice: focus on creating the dream that skateboarding provides …tap into the freedom and experience that skateboarding creates:

.....skateboarding needs to shed its myopia. There is a pushback …from those who feel that exposing or marketing other types of skateboards or skaters, we’ll somehow lose the core. You won’t. You won’t simply for the fact that you’ll create the process of building brands that appeal to different types of skaters.

The culture of the skateboarder has not, however, been lost. Recent articles in blogs and magazines have identified a new movement where young and old skaters are rediscovering the almost forgotten art form of skateboarding – style over tactics.
The feelings and characteristics of the skateboarder are undergoing a renewal as more skate parks are developed and more opportunity to skate exist. Moreover, there is a challenge being laid down to consumers – to buy online from shops owned by skateboarders is fine, however, the local shops are where consumers should buy. The argument that consumers should move away from the large retailers is that the skater-owned shops sponsor contests, invite professional skateboarders to their cities and provide a place where people can come by and simply hang-out, picking up tips and watching videos.

**Conclusion**

Davis wonders, given all of the changes in the Canadian marketplace and within the industry itself, how does he revive his business?

What Davis does know is that Calgary is the right place to start again. Based on his business experience and his participation with the local skateboarding association, he understands the market. Approximately 20 specialty shops are located directly in Calgary. There are an estimated 35,000 skaters in the city (approximately 3.2% of the population). Calgary, as compared to other major cities in the west has only 7,311 square meters of outdoor permanent skate parks. Winnipeg has almost twice the area for skate parks with only 75% of Calgary’s population. According the City of Calgary ‘Skateboarding Amenities Strategy 2011’, there is a need for an additional 22,655 square meters of skateboarding area to meet current needs and 25,791 square meters to meet projected needs over the next ten years. One or more Indoor skate parks with an area of 1,850 square meters are also needed. The opportunity to participate in the growth of skateboarding in Calgary fits Davis’ passion, personality and commitment to traditional skating.

Davis has raised some seed money from a group of friends; he is also ready to invest $25,000 for his marketing launch campaign. He has an option to lease a retail shop in the Beltine area which is located just to the south of the downtown core of Calgary. However, Davis needs to know how to address the needs of the market and how to implement his marketing campaign:

1) Should Davis re-open his new retail business under the same brand name or should he create a totally new brand? His focus has changed (retailing vs. manufacturing). Years ago, Davis had built a “cult-like” reputation under the name Hot Shot Boards, but perhaps that reputation had been tainted.
2) Given his experience in his past business, should he also manufacture the boards or should he simply distribute boards made by other firms?
3) If Davis adds a line of apparel or shoes should he try to sell his line to other retail clothing shops in Calgary? (Branding Issue?)
4) How could he differentiate his business? Is there a niche he could fill?