

Columbia Sportswear

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Early to bed, early to rise, work like hell and advertise.

Gert Boyle

Chairperson of Columbia Sportswear

Columbia Sportswear Company (Columbia) is a leader in the highly competitive industry of active outdoor apparel. The firm's success is a result of its ability to effectively design, manufacture, and distribute outdoor apparel. Making these outcomes possible are Columbia's innovation skills, the equity of its brand, and strong marketing. Columbia's broad product lines include everything from outerwear and footwear to camping equipment and skiwear. The firm has grown from a small hat company founded in the 1930s into a company with a global strategy and a physical and online presence spanning Asia, Latin America, Africa, and Europe.

To appreciate fully the evolution of Columbia from "a corporation that was a niche manufacturer of outdoor clothing aimed at fishermen...into an international brand and publicly traded powerhouse,"¹ one must understand the level of perseverance, work ethic, dedication, and attitude of Gertrude Boyle: now in her late eighties, but still "One Bad Mother."² Gert Boyle took over the family business in the early 70s after the sudden death of her husband. A candid and straightforward person, Boyle has often admitted that, having never worked a day in her life, she had no idea what to do when she first began running the company.³ Despite her lack of experience, Boyle helped turn Columbia from near bankruptcy and collapse into a billion dollar publicly traded organization. Along the way, she relied on her natural business savvy and perseverance, overcoming family tragedy and even an attempted kidnapping.

Columbia's corporate culture and business personality reflect a great number of the ideals that Gert Boyle's leadership had imbued into the company. Her sharp wit, dedication, and love for the company are legendary, as proven in November 2010 when an armed assailant forced Boyle at gunpoint from her garage and into her home. Thinking on her feet, Boyle activated a silent alarm to contact police and escaped shaken, but largely unharmed.⁴ After the incident, the local police chief stopped by Boyle's home but "made the mistake of wearing a North Face jacket," ... "The police chief asked if she was all right. True to her personality Boyle said, 'I was OK until that jacket walked in here.'"⁵ As evidenced, even in the most unimaginable and frightening situations Boyle stays true to herself. Her relentless commitment has been a driving force behind Columbia's growth and profitability, proving that "the buck still stops with Ma."⁶

History of Columbia Sportswear

The story of Columbia Sportswear began in 1937 when the Lanfrom family escaped Nazi-controlled Germany and settled in Portland, Oregon. There, Paul Lanfrom bought a small hat distributorship named Rosenfeld Hat Company and, fearing the name could hurt sales, renamed it The Columbia Hat Company.⁷

The Columbia Hat Company became relatively successful but like many small companies, Paul started to butt heads with the firm's suppliers. In Paul's opinion, the best solution for The Columbia Hat Company was to begin manufacturing its own hats. This decision would greatly affect the direction Columbia would take, ultimately becoming the juggernaut that it is today. In the late 40s, Paul's daughter, Gertrude, married Neal Boyle and he

began working alongside his father-in-law learning the ins and outs of the business. In 1963, Neal Bole assumed control of the Lafrom family business. With the help of Gert, who designed and created the first Columbia fishing vest, Neal turned The Columbia Hat Company into Columbia Sportswear. Columbia Sportswear manufactured and sold high quality hunting and fishing apparel. In 1970, tragedy struck when Neal died suddenly of a heart attack, leaving Gert in sole control of Columbia.

When she took control of the company, Columbia was "teetering on the brink of insolvency," causing Gert to look for someone to buy the business.⁸ After a long search, Gert was only able to find one potential buyer who offered her a paltry \$1,400 to buy Columbia. True to her feisty personality, she laughed at and then declined the offer.

A few years later Gert's son, Tim, came on board to help run Columbia. In 1976, Tim led Columbia in a new direction, dropping the wholesale unit of the business to focus on building Columbia's brand name and presence. Tim also placed Don Santorufoin in charge of Columbia's purchasing and manufacturing divisions. Tim's choice paid off as Don was integral in moving the majority of Columbia's manufacturing operations to Korea. The decision allowed Columbia to produce outdoor apparel at the exceptional quality that its customers had come to expect, but at a fraction of the cost. Once this happened, Columbia was able to lower its prices and sell its apparel to the more cost-conscious outdoorsman.

During the 80s, Columbia's designers created a jacket that propelled Columbia to a leadership position in the outdoor apparel market. Known as the Interchange System, the product's design was made up of a "light-weight shell jacket and a warm liner that zipped together, giving the wearer three jackets for different weather conditions."⁹ Columbia used its Interchange System to create its first ski jacket – the Bugaboo. Columbia introduced the Bugaboo to the market in 1986 and sold the millionth Bugaboo jacket in 1992, making it "the best-selling parka in ski apparel history."¹⁰

Over the next two decades, Columbia continued expanding its presence in the outdoor apparel market by introducing new apparel lines. These lines included the Convert snowboarding line in 1994, the Omni-Shade sun protection line in 2008, and the Titanium golf apparel line in 2009. Columbia also grew by acquiring some of its competitors. It acquired Sorel in 2000, Mountain Hardwear in 2004, both Montrail and Pacific Trail in 2006, and OutDry Technologies in 2010.¹¹ During this time, Columbia also expanded into the retail business both domestically and internationally. In 1995, the firm

opened its first store in Portland and two years later it opened its first international retail store in Seoul, South Korea.¹² These business decisions allowed Columbia to record sales of \$1 billion in 2004.¹³

Today, Columbia has net sales of nearly \$1.69 billion, and its products are available for purchase in over 100 different countries. Columbia reports that its products are "distributed through a mix of wholesale distribution channels, direct-to-customer channels (retail stores and e-commerce), independent distributors, and licensees."¹⁴ Columbia's retail stores include 63 outlet retail stores and 51 brand retail stores around the world.¹⁵ Exhibit 1 shows that Columbia's operations are broken into four distinct geographic regions: the U.S. (56.0 percent of net sales), Latin America and Asia Pacific (LAAP–20.1 percent of net sales), Europe, Middle East and Africa (EMEA–16.3 percent of net sales), and Canada (7.6 percent of net sales). Exhibit 2 shows the firm's two business units (or divisions): Apparel, Accessories, and Equipment (78.8 percent of net sales) and Footwear (21.2 percent of net sales).¹⁶ Exhibits 3a and 3b provide consolidated financial data.

Exhibit 1 Columbia Regions

	Year Ended December 31,		
	2011	2010	% Change
	(In millions, except for percentage changes)		
United States	\$948.0	\$881.0	8%
LAAP	341.0	263.4	29%
EMEA	275.4	222.4	24%
Canada	129.6	116.7	11%
	<u>\$1,694.0</u>	<u>\$1,483.5</u>	14%

Source: Shareholder Information. Columbia. Accessed 20 Apr 2012 at <http://investor.columbia.com/annuals.cfm>.

Exhibit 2 Columbia Divisions

	Year Ended December 31,		
	2011	2010	% Change
	(In millions, except for percentage changes)		
Apparel, Accessories and Equipment	\$1,334.9	\$1,213.3	10%
Footwear	359.1	270.2	33%
	<u>\$1,694.0</u>	<u>\$1,483.5</u>	14%

Source: Shareholder Information. Columbia. Accessed 20 Apr 2012 at <http://investor.columbia.com/annuals.cfm>.

Exhibit 3a Columbia Sportswear Company Consolidated Statements of Operations

(In thousands, except per share amounts)	Year Ended December 31,					
	2011	2011 (% of net sales)	2010	2010 (% of net sales)	2009	2009 (% of net sales)
Net sales	\$1,693,985		\$1,483,524		\$1,244,023	
Cost of sales	958,677	56.6%	854,120	57.6%	719,945	57.9%
Gross profit	735,308	43.4%	629,404	42.4%	524,078	42.1%
SG&A	614,658	36.3%	534,068	36.0%	444,715	35.7%
Net licensing income	15,756	0.9%	7,991	0.5%	8,399	0.7%
Income from operations	136,406	8.1%	103,327	7.0%	87,762	7.1%
Interest income, net	1,274	0.1%	1,564	0.1%	2,088	0.2%
Income before income tax	137,680	8.1%	104,891	7.1%	89,850	7.2%
Income tax expense	(34,201)	-2.0%	(27,854)	-1.9%	(22,829)	-1.8%
Net Income	\$103,479	6.1%	\$77,037	5.2%	67,021	5.4%
Earning per share:						
Basic	\$3.06		\$2.28		\$1.98	
Diluted	3.03		2.26		1.97	
Cash dividends per share:	\$0.86		\$2.24		\$0.66	
Weighted average shares outstanding:						
Basic	33,808		33,725		33,846	
Diluted	34,204		34,092		33,981	

Source: Shareholder Information. Columbia. Accessed 20 Apr 2012 at <http://investor.columbia.com/annuals.cfm>.

The Apparel Industry and Commodity Prices

Columbia specializes in designing, sourcing, and distributing outdoor apparel products. Because of the nature of the raw materials required to produce its products for sale to customers, commodity prices significantly affect Columbia and its operations. The price of crude oil provides a clear example of these effects. After falling to a cost of \$35 a barrel in December 2008, Brent Crude spot prices increased steadily to \$120 a barrel by mid-2011.¹⁷ This 243 percent increase in oil prices dramatically affected Columbia's cost of doing business. Specifically, oil prices directly affect the price of the petrochemicals used in the textiles incorporated into Columbia's garments. It had pushed up the price of the purified terephthalic acid used in the production of polyester fiber by 60 percent during the time between roughly September 2010 and the late spring of 2011, translating into a higher cost of goods.¹⁸

Oil prices also affect the cost of transporting and distributing Columbia's products. Being dependent on products manufactured outside the United States and having a global distribution footprint, the effect of oil

prices on freight costs are a large concern for the company. In fact, in the United States, the average cost to import a 20-foot container increased 5.6 percent from 2008 to 2011.¹⁹ With crude oil prices expected to increase 3.2 percent each year from 2011 through 2016, the price of oil is an especially important issue for Columbia Sportswear to monitor and to incorporate into its cost structures.²⁰

The Apparel Industry and Weather Phenomena

In February 2012, Columbia reported record-setting revenues of \$1.69 billion – a 14 percent increase from the previous year.²¹ Yet, despite a financially successful year, in March 2012, Columbia announced a 2 percent reduction in its worldwide workforce of 4,100. Part of the reason given by CEO, Tim Boyle, was Columbia's historic trend of weak growth in years following unseasonably warm winters. According to Boyle, "orders for the following winter are lower if the previous winter was mild." Company sources state that unseasonably warm weather slows winter gear turnover and negatively affects orders for the following year.²²

Exhibit 3b Columbia Sportswear Company Consolidated Balance Sheets

(In thousands)	December 31,			
	2011	Vertical Analysis 2011	2010	Vertical Analysis 2010
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 241,034	17.4%	\$234,257	18.1%
Short-term investments	2,878	0.2%	68,812	5.3%
Accounts receivable, net	351,538	25.4%	300,181	23.2%
Inventories, net	365,199	26.4%	314,298	24.3%
Deferred income taxes	52,485	3.8%	45,091	3.5%
Prepaid expenses and other current assets	36,392	2.6%	28,241	2.2%
Total current assets	1,049,526	75.9%	990,880	76.5%
Property, plant, and equipment, net	250,910	18.1%	221,813	17.1%
Intangible assets, net	39,020	2.8%	40,423	3.1%
Goodwill	14,438	1.0%	14,470	1.1%
Other non-current assets	28,648	2.1%	27,168	2.1%
Total assets	\$1,382,542	100.0%	\$1,294,754	100.0%
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	\$148,973	10.8%	\$130,626	10.1%
Accrued liabilities	104,496	7.6%	102,810	7.9%
Income taxed payable	12,579	0.9%	16,037	1.2%
Deferred income taxes	954	0.1%	2,153	0.2%
Total current liabilities	267,002	19.3%	251,626	19.4%
Other long-term liabilities	23,853	1.7%	21,456	1.7%
Income taxes payable	15,389	1.1%	19,698	1.5%
Deferred income taxes	1,753	0.1%	-	0.0%
Total liabilities	307,997	22.3%	292,780	22.6%
Shareholders' Equity				
Preferred stock, 10,000 shares authorized; none issued and outstanding	-	0.0%	-	0.0%
Common stock (no par value); 125,000 shares authorized; 33,638 and 33,683 issued and outstanding	3,037	0.2%	5,052	0.4%
Retained earnings	1,024,611	74.1%	950,207	73.4%
Accumulated other comprehensive income	46,897	3.4%	46,715	3.6%
Total shareholders' equity	1,074,545	77.7%	1,001,974	77.4%
Total liabilities and shareholders' equity	\$1,382,542	100.0%	\$1,294,754	100.0%

Source: Shareholder Information. Columbia. Accessed 20 Apr 2012 at <http://investor.columbia.com/annuals.cfm>.

According to the National Oceanic and Atmospheric Administration, the winter of 2011-2012 was the fourth warmest winter recorded in the last 117 years.²³ While on a global scale the general society continues to debate

climate change and global warming, the fact that climate and temperature affect companies with products that are heavily skewed toward a particular season is a given and is a reality with which Columbia must cope.

The Apparel Industry and Shifting Demographics of Participation in Outdoor Activities

As a company dedicated to outfitting outdoor activities such as skiing, mountaineering, climbing, and trail activities, one of the primary issues that affects the firm is the changing demographics related to outdoor activities. According to the 2011 Outdoor Participation Report published by the Outdoor Foundation, there were strong growth trends in participation in some of Columbia's key outfitting sports such as climbing, trail running, and backpacking at 19.8, 5.8, and 9.2 percent respectively.²⁴ These growth percentages (that occurred despite economic recession that was occurring at the time) help bolster a relatively strong counter-cyclical trend for outdoor activities.

In terms of future growth, specific figures important to Columbia include youth participation rates and key growth demographics. For example, male youth participation in outdoor activities declined from 57 percent to 53 percent from 2009 to 2010 while female participation increased from 43 percent to 47 percent.²⁵ If this trend continues, it may create some long-term effects on the design and marketing of Columbia's product line. Additionally, recent data suggests increasing participation of non-Caucasian groups in outdoor activities, which may also affect the nature of the products Columbia chooses to manufacture for different customer groups.²⁶

Columbia's Omni-Heat Electric Products and Legal Issues

In March 2012, Innovative Sports Design filed a lawsuit against Columbia, claiming that the company pilfered technology that led to the creation of Columbia's electrically heated clothing line, Omni-Heat Electric. According to the lawsuit, Innovative Sports met with Columbia from 2004 to 2007 to pursue a partnership to develop battery-powered clothing. The partnership never materialized and meetings ended in 2008. The lawsuit claims that Columbia later developed a product with elements similar to Innovative Sports' technology.²⁷ Perhaps as a direct response to intellectual property based lawsuits, Columbia stated the following in its year-ended 2011 10-K, "As we strive to achieve technical innovations, we face a greater risk of inadvertent infringements of third party rights or compliance issues with regulations applicable to products with technical innovations such as electrical components."²⁸ The electric products are

part of the general Omni-Heat line, which has grown to 40 percent of Columbia's total SKU and is believed to be a primary source of growth.²⁹

Columbia's Competitive Rivals

Nike Inc.

With over \$20.86 billion in revenues in 2011 and 38,000 employees, the small company created by Bill Bowerman and Phil Knight in 1972 is the undeniable king of sportswear. Nike has a strong global presence as indicated by the fact that the firm has a sales presence in 170 countries as it sells apparel, footwear, sports equipment, and accessories.³⁰ With the scope of its product line, Nike is a heavyweight in the highly competitive apparel industry. Anchored by its innovative product R&D and world-class marketing, Nike seeks to satisfy the needs of its loyal customers. It also benefits from an array of subsidiaries such as Converse, Hurley, and Umbro.

While both Columbia and Nike compete in the sports apparel and footwear industry, Columbia's focus on outdoor apparel and footwear narrows the competitive space within which the firms compete against each other. Key products, such as Nike's winter athletic jackets, and accessories, such as backpacks, are common ground for competition between the two companies. However, Nike's All Conditions Gear footwear – with its line of outdoor boots and trail running products – pits Columbia and Nike products head to head. Exhibits 4a and 4b provide financial data for Nike.

VF Corporation – Timberland and The North Face

One of the largest apparel companies in the world with \$9.3 billion in annual revenues and 58,000 full-time employees, VF Corporation (VF) designs, sources, manufactures, and distributes a wide variety of apparel and accessories through its basket of brands.³¹ Brands owned by VF include Wrangler, Vans, and Nautica, with its primary form of competition with Columbia coming from its Timberland footwear and The North Face outerwear brands. As evidenced by its diversification, VF's businesses focus on different market segments. Accordingly, Columbia's challenge is to understand the degree to which VF will emphasize its businesses (such as The North Face) that compete directly with one or more of Columbia's product lines.

Established in 1968, The North Face brand specializes in outfitting outdoor enthusiasts and athletes with products that target specific activities such as climbing,

Exhibit 4a Nike Consolidated Statements of Income

(In thousands, except per share amounts)	Year Ended May 31,					
	2011	2011 (% of net sales)	2010	2010 (% of net sales)	2009	2009 (% of net sales)
Revenues	\$20,862,000		\$19,014,000		\$19,176,000	
Cost of sales	11,354,000	54.4%	10,214,000	53.7%	10,572,000	55.1%
Gross Margin	9,508,000	45.6%	8,800,000	46.3%	8,604,000	44.9%
Demand creation expense	2,448,000	11.7%	2,356,000	12.4%	2,352,000	12.3%
Operating overhead expense	4,245,000	20.3%	3,970,000	20.9%	3,798,000	19.8%
Total selling and administrative expense	6,693,000	32.1%	6,326,000	33.3%	6,150,000	32.1%
Restructuring charges	-	0.0%	-	0.0%	195,000	1.0%
Goodwill impairment	-	0.0%	-	0.0%	199,000	1.0%
Intangible and other asset impairment	-	0.0%	-	0.0%	202,000	1.1%
Interest expense (income), net	4,000	0.0%	6,000	0.0%	(10,000)	-0.1%
Other (income), net	(33,000)	-0.2%	(49,000)	-0.3%	(89,000)	-0.5%
Income before income taxes	2,844,000	13.6%	2,517,000	13.2%	1,957,000	10.2%
Income taxes	711,000	3.4%	610,000	3.2%	470,000	2.5%
Net Income	\$2,133,000	10.2%	\$1,907,000	10.0%	\$1,487,000	7.8%
Earnings per share:						
Basic	\$4.48		\$3.93		\$3.07	
Diluted	4.39		3.86		3.03	
Dividends declared per common share	\$1.20		\$1.06		\$0.98	

Source: Annual Reports. Nike. Accessed 20 Apr 2012 at <http://investors.nikeinc.com/Investors/Financial-Reports-and-Filings/Annual-Reports/default.aspx>.

hiking, and trail running.³² Its popular brand of jackets using third-party waterproof technology (such as Gore-Tex fabrics) directly competes against Columbia's Omni products. Established in 1978, Timberland is an outdoor apparel and footwear company acquired in September 2011 by VF. The combination of The North Face and Timberland brands creates formidable competition in almost every category in which Columbia produces products.

At the corporate level, it seems that VF has the skill needed to form and then manage the roughly 30 unique brands that constitute its overall portfolio of product offerings. Its ability to handle everything from design to distribution and remain competitive in diverse segments of the apparel market is a testament to its understanding of its customers. Exhibits 5a and 5b provide VF's financial data.

L.L. Bean

Leon Leonwood Bean launched his firm, called L. L. Bean, in 1912. At the time of its founding, this company was a mail-order firm selling a single product: the waterproof boot. In operation now for over 100 years,

L.L. Bean has grown from its humble beginnings into a global company specializing in outdoor apparel and gear. With revenues of \$1.44 billion in 2011 and 4,600 worldwide employees, L.L. Bean is Columbia's most similar competitor in terms of size and target market.³³ Even so, the company is significantly different in terms of how it competes.

Started as a mail-order business, L.L. Bean continues to exploit its established reputation and brand equity by circulating over 200 million catalogues each year, worldwide. As a mail order firm, L.L. Bean was an early adopter of the online retail model, launching its online shopping service in 1996.³⁴ The firm remains a strong competitor in the outdoor apparel and gear business by leveraging its historic brand name and well-developed distribution capabilities. Additionally, L.L. Bean has a strong reputation for the quality of its customer service standards. These standards were the foundation for the firm's earning of Customer Choice awards for best retail customer service in 2008, 2009, and 2010 from the National Retail Federation Foundation and American Express.³⁵ The ongoing outdoor learning classes L.L. Bean offers in its retail outlets are a prime example of

Exhibit 4b Nike Consolidated Balance Sheets

(In thousands)	May 31,			
	2011	Vertical Analysis 2011	2010	Vertical Analysis 2010
ASSETS				
Current Assets:				
Cash and equivalent	\$1,955,000	13.0%	\$3,079,000	21.4%
Short-term investments	2,583,000	17.2%	2,067,000	14.3%
Accounts receivable, net	3,138,000	20.9%	2,650,000	18.4%
Inventories	2,715,000	18.1%	2,041,000	14.2%
Deferred income taxes	312,000	2.1%	249,000	1.7%
Prepaid expenses and other current assets	594,000	4.0%	873,000	6.1%
Total	11,297,000	75.3%	10,959,000	76.0%
Property, plant, and equipment, net	2,115,000	14.1%	1,932,000	13.4%
Identifiable intangible assets, net	487,000	3.2%	467,000	3.2%
Goodwill	205,000	1.4%	188,000	1.3%
Deferred income taxes and other assets	894,000	6.0%	873,000	6.1%
Total Assets	\$14,998,000	100.0%	\$14,419,000	100.0%
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Current portion of long-term debt	\$200,000	1.3%	\$7,000	0.0%
Notes payable	187,000	1.2%	139,000	1.0%
Accounts payable	1,469,000	9.8%	1,255,000	8.7%
Accrued liabilities	1,985,000	13.2%	1,904,000	13.2%
Income taxes payable	117,000	0.8%	59,000	0.4%
Total	3,958,000	26.4%	3,364,000	23.3%
Long-term debt	276,000	1.8%	446,000	3.1%
Deferred income taxes and other liabilities	921,000	6.1%	855,000	5.9%
Commitments and contingencies	-	0.0%	-	0.0%
Reedeemable preferred stock	-	0.0%	-	0.0%
Total Liabilities	5,155,000	34.4%	4,665,000	32.4%
Shareholders Equity:				
Common stock at started at value				
Class A convertible - 90 and 90 shares outstanding	-	0.0%	-	0.0%
Class B - 378 and 394 shares outstanding	3,000	0.0%	3,000	0.0%
Capital in excess of stated value	3,944,000	26.3%	3,441,000	23.9%
Accumulated other comprehensive income	95,000	0.6%	215,000	1.5%
Retained earnings	5,801,000	38.7%	6,095,000	42.3%
Total shareholders' equity	9,843,000	65.6%	9,754,000	67.6%
Total liabilities and shareholder' equity	\$14,998,000	100.0%	\$14,419,000	100.0%

Source: Annual Reports. Nike. Accessed 20 Apr 2012 at <http://investors.nikeinc.com/Investors/Financial-Reports-and-Filings/Annual-Reports/default.aspx>.

Exhibit 5a VF Corp Income Statement

(In thousands, except per share amounts)	Year Ended December					
	2011	2011 (% of net sales)	2010	2010 (% of net sales)	2009	2009 (% of net sales)
Net Sales	\$9,365,477		\$7,624,599		\$7,143,074	
Royalty Income	93,755	1.0%	77,990	1.0%	77,212	1.1%
Total Revenues	9,459,232	101.0%	7,702,589	101.0%	7,220,286	101.1%
Costs and Operating Expenses:						
Cost of goods sold	5,128,602	54.8%	4,105,201	53.8%	4,025,122	56.3%
Marketing, administrative and general expenses	3,085,839	32.9%	2,574,790	33.8%	2,336,394	32.7%
Impairment of goodwill and intangible assets	0	0.0%	201,738	2.6%	121,953	1.7%
Total	8,214,441	87.7%	6,881,729	90.3%	6,483,469	90.8%
Operating Income	1,244,791	13.3%	820,860	10.8%	736,817	10.3%
Other Income (Expense):						
Interest income	4,778	0.1%	2,336	0.0%	2,230	0.0%
Interest expense	(77,578)	-0.8%	(77,738)	-1.0%	(85,902)	-1.2%
Miscellaneous, Net	(7,248)	-0.1%	4,754	0.1%	1,528	0.0%
Total	(80,048)	-0.9%	(70,648)	-0.9%	(82,144)	-1.1%
Income Before Income Taxes	1,164,743	12.4%	750,212	9.8%	654,673	9.2%
Income Taxes	274,350	2.9%	176,700	2.3%	196,215	2.7%
Net Income	\$890,393	9.5%	\$573,512	7.5%	\$458,458	6.4%
Net (Income) Loss Attributable to Noncontrolling Interests	(2,304)		(2,150)		2,813	
Net Income Attributable to VF Corporation	\$888,089		\$571,362		\$461,271	
Earnings per share:						
Basic	\$8.13		\$5.25		\$4.18	
Diluted	7.98		5.18		4.13	
Cash Dividends Per Common Share	\$2.61		\$2.43		\$2.37	

Source: Investor Relations, Annual Reports. VF. Accessed 20 Apr 2012 at <http://phx.corporate-ir.net/phoenix.zhtml?c=61559&p=irol-reportsAnnual>.

the company's strong focus on customer service. In recent years, the company has expanded by increasing its number of bricks-and-mortar stores worldwide to 40 stores domestically, 20 stores in Japan, and 63 stores in China.³⁶ Because L.L. Bean is a privately held corporation, detailed financial data are not available.

Recreational Equipment Incorporated (REI)

Better known by its acronym, REI focuses on high-end outdoor gear and clothing and operates as the largest consumer cooperative in the United States with 4 million members. From its modest beginning as a 23-member cooperative located at a gas station in Seattle, REI has not only opened 110 retail outlets but has developed

a strong online presence as well. REI carries well-known brands such as Columbia as well as its own REI branded products.³⁷

With revenues of \$1.79 billion and 10,000 employees, the company is similar in size and target customers to Columbia. As a cooperative, the company enjoys some unique privileges. For example, REI's strong brand equity—as an environmentally responsible company committed to cooperative activism based on a common love for nature—define the company's personality and image.

REI perhaps best represents a unique element associated with the competitive arena that Columbia faces; while REI carries Columbia brand outdoor clothing and accessories, the company also competes with Columbia with its own product lines. Major retailers that order, stock, and

Exhibit 5b VF Corp Balance Sheet

(In thousands)	December			
	2011	Vertical Analysis 2011	2010	Vertical Analysis 2010
ASSETS				
Current Assets:				
Cash and equivalents	\$341,228	3.7%	\$792,239	12.3%
Accounts receivable, less allowance for doubtful accounts of \$54,010 in 2011 and \$44,599 in 2010	1,120,246	12.0%	773,083	12.0%
Inventories	1,453,645	15.6%	1,070,694	16.6%
Deferred income taxes	106,717	1.1%	68,220	1.1%
Other current assets	166,108	1.8%	121,824	1.9%
Total current assets	3,187,944	34.2%	2,826,060	43.8%
Property, Plant and Equipment	737,451	7.9%	602,908	9.3%
Intangible Assets	2,958,463	31.8%	1,490,925	23.1%
Goodwill	2,023,460	21.7%	1,166,638	18.1%
Other Assets	405,808	4.4%	371,025	5.7%
Total assets	\$9,313,126	100.0%	\$6,457,556	100.0%
LIABILITIES AND STOCKHOLDERS EQUITY				
Current Liabilities:				
Short-term borrowings	\$281,686	3.0%	\$36,576	0.6%
Current portion of long-term debt	2,744	0.0%	2,737	0.0%
Accounts payable	637,116	6.8%	510,998	7.9%
Accrued liabilities	744,486	8.0%	559,164	8.7%
Total current liabilities	1,666,032	17.9%	1,109,475	17.2%
Long-term Debt	1,831,781	19.7%	935,882	14.5%
Other Liabilities	1,290,138	13.9%	550,880	8.5%
Total Liabilities	4,787,951	51.4%	2,596,237	40.2%
Stockholders Equity:				
Preferred Stock, par value \$1; shares authorized, 25,000,000; no shares outstanding in 2011 and 2010	0	0.0%	0	0.0%
Common stock, stated value \$1; shares authorized, 300,000,000; 110,556,981 shares outstanding in 2011 and 107,938,105 outstanding in 2010	110,557	1.2%	107,938	1.7%
Additional paid-in capital	2,316,107	24.9%	2,081,367	32.2%
Accumulated other comprehensive income (loss)	(421,477)	-4.5%	(268,594)	-4.2%
Retained earnings	2,520,804	27.1%	1,940,508	30.1%
Total equity attributable to VF Corporation	4,525,991	48.6%	3,861,219	59.8%
Noncontrolling interests	(816)	0.0%	100	0.0%
Total stockholders equity	4,525,175	48.6%	3,861,319	59.8%
Total liabilities and stockholders equity	\$9,313,126	100.0%	\$6,457,556	100.0%

sell Columbia products have begun to manufacture and promote their own private label brands. This phenomenon represents a complex yet increasingly common element Columbia faces while competing with other firms. See Exhibits 6a and 6b for REI's financial data and Exhibit 7 for a comparison of Columbia and its competitors.

Starting and Finish Lines

Columbia sources all of its products from independent manufacturers based in Asia. According to Columbia, the company sources from independent factories in 15 countries with 72 percent of its apparel, accessories, and equipment manufactured in China and Vietnam. While Columbia maintains that using independent manufacturers allows it to increase or decrease production capacity, maximize flexibility and, ultimately, improve product pricing, the fact remains that it deals with large suppliers that also manufacture apparel, accessories, and equipment for Columbia's competitors. In fact, five of the top factory groups that Columbia contracts supply 25 percent of the global production of apparel and accessories.³⁸ However, because Columbia lacks the ability to produce apparel internally it has no choice currently but to rely on outsourced production for marketplace success. Because of this situation, Columbia's performance in the volatile and seasonal apparel market depends on

the ability of its suppliers to deliver products in an efficient and timely manner.

Columbia relies on sales through wholesale, direct-to-consumer, and independent distributors. While Columbia's brand and ability to innovate are strong, it is not unique. Aside from the competitors discussed previously, major retailers served through the wholesale channel are increasingly competing against Columbia products through private label merchandise.³⁹

Potential New Competitors

Columbia primarily competes in an industry that is driven by consumer demand and highly susceptible to seasonal volatility. Successful entry into the apparel industry is challenging due to the economies of scale and operational efficiencies needed to compete successfully. The saturated nature of the apparel industry, even within the smaller sportswear segment in which Columbia competes, and the fact that it appears to be a standard-cycle industry forces firms to compete for market share and brand equity – a situation that usually requires significant resources.⁴⁰ In addition to resources, the nurturing of relationships for many years is the foundation for forming efficient distribution channels within wholesale channels in the apparel industry. Because of this, new entrants may find the forming of efficient distribution

Exhibit 6a REI Consolidated Statements of Income

(In thousands)	Year Ended December,			
	2011	2011 (% of net sales)	2010	2010 (% of net sales)
Net sales	\$1,798,009		\$1,658,751	
Cost of sales	1,034,924	57.6%	929,787	56.1%
Gross profit	763,085	42.4%	728,964	43.9%
Operating expenses:				
Payroll-related expenses	336,175	18.7%	331,159	20.0%
Occupancy, general and administrative	310,674	17.3%	281,233	17.0%
Total	646,849	36.0%	612,392	36.9%
Operating income	116,236	6.5%	116,572	7.0%
Other income, net	12,190	0.7%	13,055	0.8%
Income before patronage refunds and income taxes	128,426	7.1%	129,627	7.8%
Patronage refunds, net	81,871	4.6%	79,848	4.8%
Income before income taxes	46,555	2.6%	49,779	3.0%
Provision for income taxes	16,387	0.9%	19,549	1.2%
Net Income	\$30,168	1.7%	\$30,230	1.8%

Source: Financial Statements and Report of Independent Certified Public Accountants. REI. Accessed 20 Apr 2012 at <http://www.rei.com/content/dam/documents/pdf/2011%20REI%20Financial%20Statements.pdf>

Exhibit 6b REI Consolidated Balance Sheets

(In thousands)	December 31,			
	2011	Vertical Analysis 2011	2010	Vertical Analysis 2010
ASSETS				
Current assets:				
Cash and cash equivalents	\$140,813	12%	\$177,454	17%
Short-term investments	197,443	17%	174,993	16%
Accounts receivable, net	17,048	2%	16,153	2%
Inventories	316,088	28%	259,961	24%
Current deferred income taxes, net	34,439	3%	41,196	4%
Prepaid expenses and other	12,457	1%	11,504	1%
Total current assets	718,288	63%	681,261	64%
Property and equipment, net	399,282	35%	366,609	35%
Deferred income taxes, net	5,967	1%	6,747	1%
Other	7,934	1%	7,757	1%
Total assets	\$1,131,471	100%	\$1,062,374	100%
LIABILITIES AND MEMBERS' EQUITY				
Current Liabilities:				
Accounts payable	\$146,610	13.0%	\$117,019	11.0%
Customer-related obligations	115,200	10.2%	100,438	9.5%
Patronage refunds payable	94,704	8.4%	90,942	8.6%
REI Visa rebate payable	40,799	3.6%	37,738	3.6%
Accrued payroll and related benefits	45,369	4.0%	59,514	5.6%
Retirement and profit-sharing liabilities	13,753	1.2%	26,528	2.5%
Business taxes and other accrued liabilities	30,335	2.7%	26,074	2.5%
Income taxes payable	5,923	0.5%	16,178	1.5%
Total	492,693	43.5%	474,431	44.7%
Deferred rent and other long-term liabilities	57,667	5.1%	54,098	5.1%
Total Liabilities	550,360	48.6%	528,529	49.7%
Members Equity:				
Memberships	160,054	14.1%	143,217	13.5%
Accumulated other comprehensive income	392	0.0%	131	0.0%
Retained earnings	420,665	37.2%	390,497	36.8%
Total	581,111	51.4%	533,845	50.3%
Total liabilities and members equity	\$1,131,471	100.0%	\$1,062,374	100.0%

Source: Financial Statements and Report of Independent Certified Public Accountants. REI. Accessed 20 Apr 2012 at <http://www.rei.com/content/dam/documents/pdf/2011%20REI%20Financial%20Statements.pdf>

channels quite difficult even if they have the resources to organize and use them.

In spite of these challenges, opportunities may exist for new competitors to enter the markets in which

Columbia and its competitors compete. This may be especially true in emerging markets. For example, some domestic firms that are located in the emerging markets in which Columbia competes may have an easier time

Exhibit 7 Competitor Comparison

(Dollar value in thousands)	Columbia	VF Corp	NIKE	REI	LL BEAN
General Comparison:					
Sales Volume	\$1,693,985.00	\$ 9,365,477.00	\$20,862,000.00	\$1,798,009.00	\$1,440,000.00
Number of physical stores	114	1053	689	110	93
Ownership	Public	Public	Public	Co-operative	Private
Valuation Measures:					
Market Capitalization	\$1,640,000.00	\$16,480,000.00	\$49,870,000.00	N/A	N/A
Forward P/E Ratio	13.61	13.80	18.79	N/A	N/A
Enterprise Value/EBIT DA	7.49	12.65	13.60	N/A	N/A
Liability Ratios:					
Liquidity					
Current Ratio (Current Assets/Current Liabilities)	3.93	1.91	3.21	1.46	N/A
Quick Ratio (Cash and Equivalents/Current Liabilities)	0.90	0.20	0.49	0.29	N/A
Solvency (Total Debt/Equity for most recent quarter)	0	46.77	3.63	0.10	N/A
Common Size (Total Liabilities/Total Assets)	0.22	0.51	0.34	0.49	N/A
Turnover (A/P Turnover: COGS/AP)	6.44	8.05	7.73	7.06	N/A
Asset Ratios:					
Accounts Receivable					
Common Size (AR/Total Assets)	25.43%	12.03%	20.92%	1.51%	N/A
Turnover (Sales/AR Average)	2.60	4.95	3.60	54.16	N/A
Inventory					
Common Size (Gross Profit/Sales)	43.41%	46.24%	45.58%	42.44%	N/A
(Inventory/Total Assets)	26.42%	15.61%	18.10%	27.94%	N/A
Growth ((2011 Inv - 2010 Inv)/2010 Inv)	16.20%	35.77%	33.02%	21.59%	N/A
Turnover (COGS/Average Inventory)	1.41	2.03	2.39	1.80	N/A
Fixed Assets					
Common Size (PPE/Total Assets)	18.15%	7.92%	14.10%	35.29%	N/A
Turnover (Sales/Average PPE)	3.58	7.06	5.15	2.35	N/A
Management Effectiveness:					
ROA (Trailing 12 Months)*	6.66%	9.87%	12.99%	2.67%	N/A
ROE (Trailing 12 Months)*	9.97%	21.23%	22.59%	N/A	N/A
Profit Margin (Trailing 12 Months)*	6.11%	9.39%	9.68%	1.68%	N/A
Stock Information:					
Beta*	1.34	0.90	1.01	N/A	N/A
Dividend Payout Ratio (Dividends/Net Income)*	28.00%	33.00%	27.00%	N/A	N/A

* Source: finance.yahoo.com accessed 14 Apr 2012. Yahoo Finance retrieves Forward P/E Ratio from Thomson Reuters and Dividend Payout Ratio from Morningstar, Inc.

Other Sources: Columbia 10-K year ended December 31, 2011 at <http://investor.columbia.com/annuals.cfm>; VF Corp 10-K year ended December 31, 2011 at <http://phx.corporate-ir.net/phoenix.zhtml?c=61559&p=irol-reportsAnnual>; Nike 10-K year ended December 31, 2011 at <http://investors.nikeinc.com/Investors/Financial-Reports-and-Filings/Annual-Reports/default.aspx>; REI Audited Financial Statements at <http://www.rei.com/content/dam/documents/pdf/2011%20REI%20Financial%20Statements.pdf>; L.L. Bean Company Fact Sheet at http://llbean.com/customerService/aboutLLBean/images/110531_LLB-Fact-Sheet.pdf.

negotiating lower costs with suppliers with headquarters in the same nation or region. Additionally, cultural knowledge may expose opportunities to yield greater sales – for example, perhaps through more culturally attuned marketing or design as executed by domestic firms. Overall then, Columbia’s executives must constantly study its industry environment to assess the likelihood of facing new competitors at different points in time and in different markets.

Faster, Higher, Better

Columbia has made a name for itself by providing exceptional apparel and footwear at a reasonable price. For example, an average Interchange jacket costs approximately \$200, whereas the same style jacket made by The North Face costs around \$300. Columbia incorporates an equal or greater amount of technology into each product it sells, and does so at a lower price.

Throughout the majority of its existence, Columbia Sportswear has focused on technology and innovation. This mindset has allowed the firm to create different technologies that ultimately create value for its customers. These technologies (listed below) are the foundation for developing different products with the ability to satisfy different customer needs.

- **Omni-Tech and Omni-Dry:** these technologies help apparel repel outside elements while still allowing the product to be breathable.
- **Insect Blocker:** a chemical built into the apparel that repels different types of insects and lasts for over 70 machine washes.
- **Techlite:** a technology used in Columbia’s footwear lines to reduce the symptoms of impact as well as increase the overall support and foot comfort of the wearer.
- **Omni-Wick:** a new development that removes excess perspiration by absorbing it and allowing it to evaporate quickly.
- **Omni-Shield:** an innovation that resists stains from almost all liquids (such as drinks, mud, tree sap, and/or animal blood) that one might encounter in the outdoors.
- **Omni-Grip:** a technology used to increase the traction and stability of its footwear lines.⁴¹

At the end of the day, Columbia Sportswear does not seek recognition as just another innovative company; instead, the firm is striving for recognition as the leader of innovation in its market. A great example of this mindset occurred in October 2010 when Columbia

announced the creation of its Omni-Heat Thermal Electric technology. The new line of products using this technology incorporates an electric heating system in all of the product line’s jackets, gloves, and boots. This move not only proved its commitment to innovation to its consumers; it also allowed Columbia the opportunity to capture the high-price market segment on which competitors tend to focus. The fact that an Omni-Heat Thermal Electric jacket costs between \$750 and \$1,200 and a pair of gloves costs around \$400 reflects the “higher-end” nature of this segment of the markets Columbia serves.⁴²

Creating a Product Portfolio

Timely, appropriate, and effectively executed acquisitions account for a large part of Columbia Sportswear’s growth. In fact, over the years, Columbia acquired major brands such as Sorel, Mountain Hardwear, Montrail, and OutDry. Each of these acquisitions created conditions through which Columbia has improved its performance. In September 2000, Columbia acquired Sorel for \$8 million when that firm filed for bankruptcy.⁴³ The Sorel acquisition allowed Columbia to gain knowledge, as well as better footing, in the outdoor footwear category.⁴⁴ In January 2006, Columbia continued its acquisition of knowledge and reach in the footwear market when it acquired Montrail for \$15 million.⁴⁵ The Montrail acquisition gave Columbia better insight into the lightweight footwear segment of the market, whereas the Sorel acquisition gave it superior knowledge in the cold-weather footwear market sector. See Exhibit 8 for sales generated by these acquisitions during 2010 and 2011.

Columbia’s most recent acquisition – OutDry Technologies – was in 2010. OutDry created a patented membrane lamination technology that allowed it to create products that were “drier, lighter and more

Exhibit 8 Columbia Brands

	Year Ended December 31,		
	2011	2010	% Change
	(In millions, except for percentage changes)		
Columbia	\$1,391.5	\$1,262.4	10%
Montrail Hardwear	142.3	121.9	17%
Sorel	150.3	89.7	68%
Other	9.9	9.5	4%
	\$1,694.0	\$1,483.5	14%

Source: Shareholder Information. *Columbia*. Accessed 20 Apr 2012 at <http://investor.columbia.com/annuals.cfm>.

comfortable for all outdoor enthusiasts.”⁴⁶ Columbia plans to incorporate this technology into its apparel so it may better serve its customers. Notwithstanding these acquisitions, the largest (and probably most important) acquisition in Columbia’s history was that of Mountain Hardwear.

Serious mountaineers hold Mountain Hardwear in great esteem and the demand for its products was growing quickly in 2003. To meet this demand, Mountain Hardwear needed to grow rapidly; however, it was unwilling to take on the massive amount of debt needed to fund its expansion. Columbia acquired Mountain Hardwear for \$36 million in April 2003. Without question, this acquisition increased Columbia’s knowledge of outdoor apparel. More importantly however, it allowed Columbia to vastly improve its knowledge of the outdoor accessories (such as tents and sleeping bags) market. When Columbia bought Mountain Hardwear, it used its excess cash to expand Mountain Hardwear’s manufacturing and distribution capabilities, while simultaneously increasing Columbia’s product line.⁴⁷ In each of these acquisitions, Columbia found a way to gain knowledge and insights while increasing its share of various markets including those of outdoor apparel, footwear, and accessories.

Columbia’s Leadership Structure

Columbia has twenty members within its top management team with Timothy P. Boyle serving as President and CEO. Key individuals within the team include Michael W. Blackford as VP of Global Innovation, Thomas B. Cusick as VP of Finance and Chief Finance Officer (CFO), and Peter J. Bragdon as VP of Legal and Corporate Affairs and General Counsel and Secretary. Blackford, Cusick, and Bragdon’s direct contributions to the firm’s use of the balanced scorecard to assess its capabilities and areas in which improvement are needed are thought important to the firm’s ultimate success. In this context, CFO Cusick represents the financial assessment portion of Columbia while Blackford represents assessment of innovation. As highlighted previously, Columbia’s drive for innovation may lead to challenges in intellectual property compliance, calling for strong legal counsel from Bragdon.

Although it is a publicly traded company, Columbia has maintained a strong organizational culture rooted in the ideals established when it was a small family-owned company. The most logical reason for this lasting characteristic is the strong familial line of leadership that has guided the company since its establishment in

1937. Throughout its history, no other corporate leader embodied Columbia’s hardworking and feisty spirit as well as Gertrude Boyle who unexpectedly had to assume the leadership role after the death of her husband. Her leadership and the succession of her son, current CEO and President, Tim Boyle, has guided the company through the tumultuous and competitive landscape of the outdoor apparel industry.

Among other actions, Tim Boyle and the top management team focus on maintaining Columbia’s resources and capabilities. A key reason for this is that Columbia’s success remains rooted in its ability to aggressively innovate and market its products to customers – old and new. There is no doubt that historically, Columbia’s success is a product of the decisions made by the firm’s strategic leaders. The continuity of the top management team members in turn has simultaneously contributed to continuity in the strategies the firm seeks to implement successfully.

The Board of Directors is comprised of nine individuals and chaired by the company’s iconic leader and longest serving member, Gertrude Boyle, who has served since 1978. At 87 years old, Chairwoman Boyle is also the oldest serving member of the Board of Directors, which has an average age of 65 (Exhibit 9).

While Sarah Bany, Tim Boyle, and Gertrude Boyle have family ties, the board shows a diverse mix of members in that some are from outside the family and the firm itself. Additionally, the board’s composition reflects a heterogeneous mix of industry specialists ranging from Edward George from the banking industry to John Stanton from the telecommunications industry. Points of concern for the board may include issues such as the time constraints and dedication of its directors, as only Edward George and Gertrude Boyle are retired and some members, such as Stanton and Klenz, serve on multiple boards. Lastly, while there have not been any ethical concerns related to the corporate governance of Columbia’s board, with Gertrude Boyle being 87, there are implications concerned with succession and the future composition of Columbia’s board of directors.

The Hike Ahead

As is the case for many organizations, numerous challenges face Columbia as it strives to achieve its goals and competitively dominate the outdoor activities apparel market. Effectively managing seasonal fluctuations, protecting the firm’s intellectual property, and maintaining profitability through economically challenging times are three major challenges Columbia is facing. Although Columbia has the reputation as a leading innovator

Exhibit 9 Columbia Sportswear Board of Directors

Name	Title	Principal Occupation	Director Since
Gertrude Boyle	Chairwoman	Chair of the Board of Directors, Columbia Sportswear Company	1970
Timothy P. Boyle	Director	President and CEO, Columbia Sportswear Company	1978
Murrey R. Albers	Director	President and CEO, United States Bakery	1993
Stephen E. Babson	Director	Managing Director, Endeavour Capital	2002
Sarah A. Bany	Director	Co-owner and Executive Vice President of Brand Development, Moonstruck Chocolate Company	1988
Andy Bryant	Director	Executive Vice President of Technology, Manufacturing and Enterprise Services and Chief Administrative Officer, Intel Corporation	2005
Edward S. George	Director	Retired Director, First National Bank San Diego	1989
Walter T. Klenz	Director	Retired Managing Director, Beringer Blass Wine Estates	2000
John W. Stanton	Director	Private Investment, Trilogy Equity Partners and Trilogy International Partners	1997

Source: Shareholder Information. Board of Directors. Accessed 4 Dec 2012 at <http://investor.columbia.com/directors.cfm>

with cutting-edge technology and high quality outdoor activity products, the industry is highly competitive. Moreover, the increasing popularity of performance- and technology-driven outdoor activities apparel has increased the attractiveness of this sector of the market for several current and potential competitors. As noted earlier, another challenge for Columbia is associated with taking actions to protect the firm's intellectual property from competitors and any counterfeit operations that might surface to present customers with "fake" products that look similar to Columbia's offerings. Furthermore, retail distribution channels (including Dick's Sporting Goods, Sports Authority, and REI) account for the majority of Columbia's sales. As a result, managing profitable relationships and limiting the power of retailers is another challenge Columbia and its leaders face.

Seasonality and High Variability in Sales

Typical of the outdoor apparel market, Columbia consumers' seasonal trends typically influence customers' purchasing decisions. As temperatures around the world drop during the fall and winter seasons, the demand for Columbia's products increases, especially in the outerwear product category. Historically, outerwear is the highest selling product category contributing to the majority of Columbia's net sales. On average from 2008 to 2010, outerwear accounted for about 38 percent of Columbia's sales. Outerwear, by design, protects those wearing it from harsh, cold, and inclement weather conditions commonly encountered in the fall and winter seasons. Due to the nature of the product and market

volatility, the majority of outerwear sales take place during the fall and winter months.

In 2011, approximately 65 percent of our net sales and all of our profitability were realized in the second half of the year, illustrating our dependence upon sales results in the second half of the year, as well as the less seasonal nature of our operating costs.⁴⁸

In terms of revenues, Columbia typically finishes the fiscal year strong and realizes most of its sales in its third and fourth quarters. However, because operating expenses occur throughout the year, sales skewed toward the fall and winter season create forecasting challenges. Columbia must determine if sales during the colder seasons will generate enough revenue to reach profit goals and cover operating costs throughout each year.

Because Columbia relies intensely on above average sales during the fall and winter seasons, historically, it faces periods of weaker growth after unseasonably warm winters. Weather phenomena, such as dramatic climate changes and the steadily increasing number of what appear to be unseasonably warm winters across the nation, are some of the most unpredictable challenges facing Columbia. An unseasonably warm winter not only results in a drop of demand for Columbia's products, but also creates hardships felt across the entire organization. For instance, in the past, unseasonably warm winters have created (1) excess inventory, (2) decisions to reduce the prices of the firm's products, (3) slow sales, (4) a drop in orders from retailers, (5) a reduction in workforce,

and (6) dramatic decreases in future demand. According to the US Environmental Protection Agency,

*...the average surface temperature of the Earth is likely to increase by 2 to 11.5 ° F by the end of the 21st century... the average rate of warming over each inhabited continent is very likely to be at least twice as large as experienced during the 20th century. The warming will differ by season, with winters warming more than summers in most areas.*⁴⁹

Moving forward, the changing weather and all the issues it creates for Columbia will be an ongoing challenge for the organization and its leaders.

Columbia's sales skewing toward the fall and winter seasons also proves its product lines mostly appeal to consumers living in locations that traditionally experience colder seasons. This is a challenge because, due to the recreation and leisure connotation of Columbia's product lines, sales and consumer demand greatly depend on "consumers' discretionary spending patterns."⁵⁰ Similar to many other organizations, Columbia has witnessed a decrease in consumer discretionary spending attributable to the challenging economy that characterized many markets throughout the world from roughly 2007 through at least 2012. Evidence showed that during this time, consumers spent less and aggressively hunted for better bargains by abandoning brand loyalty behaviors and switching to private labels or store brands for lower prices and special offers.⁵¹ Specifically, these trends present Columbia with key issues because the active lifestyle apparel market is one of the few growing sectors in retail and participation in outdoor activities is also on the rise. From 2009 to 2010 for example, participation in the United States in outdoor activities – such as triathlons, white water kayaking, and mountain climbing – were up 64 percent, 35 percent, and 20 percent respectively.⁵² Growth in the outdoor and active wear markets coupled with Columbia product lines' one-dimensional appeal to consumers suggest the organization isn't reaching its full potential. Columbia's leaders must examine its position in the market and industry and move forward to increase market share in spite of economically tough times.

Intellectual Property

In recent years, innovative and highly technical products that enhance performance have come in high demand in the active lifestyle and athletic apparel market. For organizations competing on innovation and technology, differentiating one's products from those of competitors is imperative. As an industry leader in innovative outdoor active wear, Columbia has done just that, but not without

the challenge of protecting its technology and innovative designs from substitutes developed by competitors and counterfeit operations. The Outdoor Industry Association estimates Columbia's losses between \$100 and \$200 million a year due to counterfeit or "knock-off" Columbia products sold worldwide, accounting for an average of about 10 percent of Columbia's sales in 2010.⁵³ This sales percentage not only includes lost sales Columbia might have attained, but also the damages that low quality, counterfeit goods have on Columbia's image. Counterfeiting is an epidemic; popular Columbia products are reverse-engineered and reproduced to create products that fool consumers into thinking they are buying authentic Columbia brand products.

Although securing trademarks and patents to protect the technology and designs in Columbia's latest products would help Columbia create a niche in a highly competitive market, several key issues surround this challenge. In the United States, successfully securing a patent takes an average of 22 months. In the fast-moving cyclical world of apparel and fashion, 22 months might as well be a lifetime. Many second-movers in the apparel industry can develop substitutes in less time and quickly penetrate the market. Furthermore, Columbia's products may be innovative from the perspectives of consumers and industry participants, but that does not guarantee that the firm's designs and ideas are indeed sufficiently innovative to support receiving a patent as a means of protection.

Maintaining Profitability

Columbia is in a unique situation; although retailers account for a majority of its sales, several of these same retailers are also major competitors selling their own private label branded outdoor activities apparel. For instance, as noted earlier, REI sells its own popular brand of outdoor activity apparel that competes with Columbia's products. Columbia's products are sold everywhere from small independently operated sporting goods stores to international sporting goods chains and major department store chains. Many of these retailers have one thing in common that endangers Columbia's unique relationship with them: deep pockets full of ample resources. Columbia's overall profitability depends largely on retailers successfully selling its products to consumers. The power, money, and resources of retailers pose a major threat to Columbia. Retailers can use this combination to create their own products similar to Columbia's products. Moreover, retailers could leverage their power and place major demands on Columbia – such as special discount pricing. Furthermore, the threat retailers pose to

Columbia is more pressing given that the firm does not have a suitable direct-to-consumer operation in place. With only 114 physical locations and a website that the firm failed to launch until 2009, Columbia recognizes its lack of direct channels to consumers, publishing in its 2010 Shareholders' Annual Report, "the main purpose of this [direct-to-consumer] operation is to enhance consumer brand awareness, increase brand equity, and build a strong emotional connection with brand."⁵⁴

Essentially, Columbia's dependence on retailers for the majority of its sales has created an unusually competitive environment. Its challenge moving forward is to maintain strong relationships with these fierce, but essential, competitors. The demand for e-commerce is another key issue Columbia's leaders will have to resolve. E-commerce is a growing part of the active apparel industry and quickly becoming a minimum expectation

of consumers. Columbia will have to enhance its current IT technology and create integrative information systems. The e-commerce segment of its business will further challenge Columbia's unique relationship with its retailers. As online shopping grows in popularity, Columbia will have to find or determine the best way to present consumers with online shopping options through both retailers and its own website. Columbia faces successfully balancing pricing, product exposure, and expanding the business in the online space, while maintaining its relationships with and limiting the power of retailers. With all of these challenges, is Columbia's historic success threatened? What actions should the firm's leaders initiate to maximize the likelihood of continuing success for the firm established over eighty years ago?

NOTES

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