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Icebreaker: Pioneer in the global Merino market

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CASE ABSTRACT

Wherever Jeremy Moon appears, there is little that remains the same: the founder of the outdoor label “Icebreaker” made merino wool suitable for everyday use and transformed the traditional raw material into an innovative product. In doing so, Moon revolutionized the outdoor apparel industry within 25 years[1].

CASE

Icebreaker: Pioneer in the global Merino market

VISIONS AND INNOVATIVE PRODUCTS

Moon's journey began in 1997 when he discovered the ancient fibre on a merino station of the South Island. He instinctively knew that this material could change his life and would be the opportunity to create a natural alternative to the synthetic fibre used in the outdoor industry[6]. Today, the highest quality and most functional garments are made from merino for the sporty, environmentally conscious consumers[9].

Moon disrupted the apparel industry when he introduced merino for use in competitive sports[11]. Since the seventies, polyester has been the most widely and is still used material for sports and outdoor clothes[12]. Aside from wearing plastic on the skin, Polyester in clothing tends to smell quickly, is not breathable and is highly flammable[13]. Merino wool, on the other hand, combines the best qualities of traditional wool, synthetics and cotton[14]. It is pleasantly soft, breathable in summer and insulating in winter, and doesn't absorb body odour easily. In addition, the material is renewable, recyclable and biodegradable[15]. The company is constantly evolving and bringing new collections with functional highlights to the market[5]. Among other things, Icebreaker will completely eliminate their use of acrylic fibre by 2020, acknowledging their responsibility towards the reduction of global plastic pollution.

MERINO SOURCING, ANIMAL WELFARE AND GROWER PARTNERSHIP

A damaged T-shirt which was sent back to Moon by a disappointed consumer in 1997, was the catalyst to intensify collaboration with the merino growers[16]. In order to gain more control over the supply chain and manufacturing process, the farmers were offered direct contracts[17]. With this step, Moon again turned the industry upside down[18]. Until then, New Zealand merino wool, a highly volatile commodity, had been sold exclusively at auctions[19] where prices were dictated by the supply and demand of the world market. Initially, the contract period was 3 years, but since 2017 Icebreaker has been signing 10-year supply contracts with the farmers in order to gain more planning security for both sides and to continue to guarantee high-quality wool at fair prices[20]. In return, the growers commit themselves to conserving the environment, to using sustainable practices and to complying with ethical standards[21].

Icebreaker has set animal welfare standards with its suppliers and shows that it can be done without mulesing[26]. The Baa Code program allows customers to trace exactly the origin of the garment to the grower of the wool[27]. Icebreaker aspires to be a pioneer in its industry using transparency and traceability. But it is also a marketing strategy to increase the positive buying attitude of the environmentally conscious consumer[29].

PRODUCTION FOR THE GOOD OF THE PUBLIC

The company stands for values such as transparency and sustainability; an image that fits well with the image New Zealand has of itself: "Clean and Green"[35]. Kiwis resented Icebreaker for relocating production to Asia in 2003[36]. For Moon and his team, this was a logical step in the context of international growth. By 2002, Icebreaker had expanded its business overseas[37]. The market had grown so fast that domestic production on the outdated machines could no longer keep up. In China, Moon finally found new innovative technologies that guarantee improved quality and less impact on the environment[38]. Wool processing and the entire production is still being produced there in partnership business collaborations[39].

Icebreaker is conscientious both in the procurement of raw fibre and in the processing used such as energy and water consumption[40]. The company works according to the principles of minimising the environmental footprint and acting with high social responsibility in the manufacturing and finishing processes. Trust in employees and teamwork, commitment to human rights and anti-modern-slavery, and passion for the idea are at the heart of the company.

ICEBREAKER'S BILLION-DOLLAR VISION

For a long time, the rapidly growing company explicitly bore Moon's signature. With the leap to the world market, it was suddenly necessary to run a multi-million dollar company and therefore new challenges. In 2013 Moon has made the chief post to Rob Fyfe, the former boss of Air New Zealand. Until now, Moon has been continuing to be a consultant and mentor of the product development, and can once again do what he does best: be inspired and innovate.

Whether the momentum could be scalable was a tough question for Fyfe to solve. In 2017, Icebreaker's 2017 revenue reached around $155 million[11]. Accordingly, the executive board indicated its vision as doubling the business size by 2022 and turning Icebreaker into a $1 billion firm by 2027[12]. A more qualified marketing team, a broader distribution network and more experienced international strategists were vital to make the vision possible. Thus, the board decided to put Icebreaker in the market[12]. It took Icebreaker 3 years to make the brand appear "grown up" to multinational acquirers. Efforts were made to neaten the organizational process and to implement enhanced operational disciplines[13].

THE ACQUIRER

24 deals were offered when Icebreaker was in the market[14]. The one from VF Corporation (VF) – a U.S based giant apparel retailer, was the most attractive. With a history of 115 years, VF owned numerous popular brands such as Vans, Timberland, the North Face, etc. VF's logistics network located in over 170 countries and owned $40.5 billion of capital worldwide[15]. VF's enormous potential could drive Icebreaker's success in the global markets, particularly ones Icebreaker had been struggling in like the U.S, Asia and Eastern Europe[13]. Also, more stores could be opened in Icebreaker's successful markets like Canada, Australia and New Zealand, which might create additional sales jobs and accelerate sales. Material controls could help ease unit prices if business size grew doubled[13].

Besides VF's capabilities, VF's core principles also played a crucial role. VF had long been promoting sustainability in business[11]. Most importantly, Icebreaker found VF the only acquirer understand its $1 billion vision due to VF's intention to disrupt the apparel industry with ethically manufactured products[11]. VF planned to put both Icebreaker and its existing wool-based brand, SmartWool, in the same portfolio. This could intensely and positively shape the natural fibre category[11]. Moreover, it possibly reduce competition for Icebreaker if it was to join a family of its two direct competitors - the North Face and SmartWool.

JOINING THE BIG FAMILY

After 24 years of a remarkable expedition, Icebreaker closed the deal of $288 million in November 2017 with VF[14]. Moon and Fyfe expressed their enjoyment to watch their "child" growing up. They well understood Icebreaker's values probably be reformed by new encounters ahead[14]. The decision, however, was questionable when Moon received $95 million personally with 33 percent of share[14].

A prime concern was whether Icebreaker could scale up its well-recognized values in such a sophisticated global market whilst trying to sustain its identity. Regardless, immediately after the acquisition, Icebreaker relocated their design creation team back from Portland to their headquarters in Auckland[16]. Its Board of Directors remained unchanged and Icebreaker emphasised its intent to withstand its ethical principles without reshaping to fit mainstream fashion retailers[16].

THE CHALLENGES AHEAD

Social and environmental responsibility

Part of Icebreaker's "amazing story" has been its supply chain principles. Based on the 2018 Ethical Report, VF scored B overall whereas Icebreaker impressively jumped from D- to A+. Icebreaker formerly received the title of "the most improved retail brand". Specifically, Icebreaker had A or A+ in most of the categories; yet, VF scored rather low in some (C in "auditing" and D+ in "empowering employees") [17]. Bridging the gap between the two firms could be challenging for Fyfe. When closing the deal, Icebreaker, still, indicated this gap should not impact the business's fundamental humane values, since both aimed for sustainability across the industry[17].

Supply Chain and Demand

Growing faster and bigger also requires a sustainable source of wool fibre. Within one week after the acquisition, Icebreaker signed 10 year contracts, worth nearly $100 million, with several growers to maintain its long-term relationships and ensure sufficient materials[15]. As VF had a wide distribution and retailing networks, it was projected to double Icebreaker's sales in the next 10 years[15]. 84 percent of its wool fibre came from New Zealand and there could be demand-supply imbalance if New Zealand's wool sources could not meet the demand according to Icebreaker's accelerated growth[18].

CONCLUSION

What began nearly 25 years ago with a great deal of idealism, enthusiasm and a convincing idea has now become a New Zealand brand with global recognition[41]. Icebreaker is sold in over 45 countries and 80 percent of its sales are generated in the Northern Hemisphere[42]. The original idea, however, has remained unchanged over the years; from a natural fibre that keeps merino sheep warm to creating highly functional, natural clothes to enable people to survive in nature. It is still early days since the acquisition and the future will reveal if Moon's vision is retained.

How Icebreaker could sustain and increase its growth was the key challenge presented to Fyffe. Icebreaker's 2017 revenue reached approximately $155 million[23]. Moreover, the executive board set the objective of doubling Icebreaker's size by 2022 and becoming a $1 billion organisation by 2027[22]. To accomplish this objective a more qualified marketing team, broader distribution network and more experienced international strategists would be required. In essence Icebreaker was on the market in order to realise its growth plans[22]. For almost three years Icebreaker sought to make the brand appear sufficiently "grown up" to potential multinational acquirers, an exercise which required significant enhancements of key organizational process and operational disciplines[24].

THE VF ACQUISITION

Although Icebreaker's availability generated interest amounting to 24 potential deals[25], one offer from VF Corporation (VF) – a U.S based giant apparel retailer, was deemed the most attractive. With 115 years of operation, VF owned numerous popular brands including Vans, Timberland, and the North Face[26].. VF's logistical network spanned over 170 countries and the company had a reported $40.5 billion of capital worldwide[26]. VF's scale could help drive Icebreaker's success in global markets, particularly ones in which Icebreaker had struggled such as the United States, Asia and Eastern Europe[24]. Furthermore, Icebreaker could better penetrate existing markets through the opening of additional stores in Canada, Australia and New Zealand[24]. Material controls could help ease unit prices if business size grew doubled[24].

Together with VF's logistical capabilities and scale the core principles underpinning their business were also regarded as a good fit to those of Icebreaker. VF had long promoted sustainable business practices[23]. However, a key reason for the successful completion of the acquisition was that VF were the only potential acquirer to understand and share Icebreaker's $1 billion vision[23]. VF had similar ambitions to transform the apparel industry with ethically manufactured products. Indeed, VF had plans to strengthen the natural fibre product category by placing Icebreaker and its existing wool-based brand, SmartWool, in the same business portfolio[23]. Of course, Icebreaker also saw the benefit of partnering with two of its direct competitors -- the North Face and SmartWool[22].

IN CLOSING THE VF DEAL WORTH

$288 million in November 2017, Moon and Fyfe expressed their joy in watching their "child" grow up[25]. Moon received a 33 percent share of $95 million[25].

SOME CHALLENGES AHEAD

Immediately after the acquisition, Icebreaker relocated their design creation team back from Portland to their headquarters in Auckland[27]. Its headquarters remained in New Zealand and Icebreaker emphasised its intent to stay true to its ethical principles, and not to reshape these to fit mainstream fashion retailers[27]. Nevertheless, there was some concern as to how exactly Icebreaker could scale up its well-recognized values and identity in such a sophisticated global market and alongside such a powerful organisation.

Social and environmental responsibility

Part of Icebreaker's "amazing story" has been its supply chain principles. Based on the 2018 Ethical Report, VF scored a B overall whereas Icebreaker impressively jumped from D- to A+[28]. Icebreaker received the title of "the most improved retail brand"[28]. Specifically, Icebreaker had A or A+ in most of the categories; yet, VF scored rather low in some (C in "auditing" and D+ in "empowering employees")[28]. Bridging the gap between the two firms could be challenging for Icebreaker's management team. Interestingly, when finalising the acquisition, Icebreaker, had indicated that this gap should not impact the business's fundamental humane values, since both Icebreaker and VF championed sustainability across the industry[28].

Supply Chain and Demand

Growing faster and bigger also requires a sustainable source of wool fibre. Within one week after the acquisition, Icebreaker signed 10 year contracts, worth nearly $100 million, with several growers to maintain its long-term relationships and ensure sufficient materials were available[26]. However, as VF had such a wide distribution and retailing network, it was projected to double Icebreaker's sales in the next 10 years[26]. 84 percent of its wool fibre came from New Zealand and therefore, there was potential for some demand-supply imbalance if New Zealand's wool sources could not meet the demand[29].

It is still early days since Icebreaker's acquisition but the future is sure to reveal just how compatible Moon's vision and Icebreaker's growth trajectory actually are.

Questions:

1. What was the rationale for Icebreaker agreeing to the acquisition?

Students might discuss the strategic, managerial and financial motives for Icebreaker. The acquirer VF Corp. is supposed to lift the brand's worth to $1 billion by entering new markets that Icebreaker had not yet been successful in, such as the United States, Asia and Eastern Europe. An increase of sales will lead to a material impact on unit prices, thus the clothing will get cheaper and Icebreaker will be more competitive. The growth of market power by reducing the competition and an increase of efficiency by sharing distribution channels will help Icebreaker to reach their ambitious vision.

2. What are the principal challenges Icebreaker will face in this acquisition process?

The VF Corporation presented a special opportunity for Icebreaker to show that expansion and sustainability can be nurtured at the same time; however, Icebreaker has yet to prove that selling to a multinational corporation can defy the negative connotation it carries. Students will investigate the strategic and organisational fit of both companies which determine the potential to add value. Moon has been a visionary and established an iconic New Zealand based outdoor company which is famous for its unique philosophy and values, its sustainable business model and ethical supply chain approach. Will they be able to integrate successfully without losing their identity? Moon knows balancing growth and values is complex, and Icebreaker should ensure every single factor in its exceptional supply chain stays as happy as they are.

3. Which strategic approach should Icebreaker us for the integration?

Strategic approach in M&A based on two main criteria: Strategic interdependence and need for organizational autonomy. Students can examine the Acquisition Integration Matrix in page 217 of the book "Merger and Acquisition" by Johnston and Whittington. Icebreaker's strategic approach to integration with VF seems to fit well with Preservation, which has low strategic interdependence but high need for organizational autonomy. As mentioned, Icebreaker indicated that it would sustain its New Zealand identity without reshaping its values and that its organizational structure remains the same except for relocating its design team back to New Zealand. It was also pointed out above that its motive to close the deal with VF was to utilise VF's capabilities (Like finance, distribution network, talents) and VF's long-term vision.

4. Have you had any recommendations for Icebreaker to help ensure this integration is successful?

This is an open question for students to analyse which would be best for Icebreaker's future. Students should consider all obstacles underlying such as supply-demand imbalance, ethical gap, human resource integration and knowledge transfer. The article "New Integration Strategies for Post-Acquisition Management" by Angwin and Meadows should help students decide which actions should be taken. For example, Icebreaker should start enforcing their staff to learn about VF's principles and disciplines to reduce any unnecessary conflicts when working with the parent company. Also, training may be required to ensure staff does not feel foreign approaching a larger network and support from VF. Plus, top managers should consider speed of actions and intensive level of controls when implementing any strategy.

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