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international operations Billabong sought to improve the marketing and promotion of its products, gaining higher margin income rather than royalty payments. Through management information systems, financial oversight, and economies of scale through central product sourcing, Billabong hoped to facilitate efficient market expansion as it diversified its product line. The company employed in-store merchandisers and account managers to oversee in-store presentation of its brand merchandise and the international network of commissioned salespeople became direct employees of Billabong with regular pay and sales incentives. Billabong formed a central product sourcing subsidiary in Hong Kong in 1999. While external suppliers existed, 40 percent of licensee sourcing originated with Billabong, allowing the company to reduce costs, provide consistent quality, insure timely delivery, and become flexible with changing market conditions. Also, the company established direct distribution facilities in Victoria and New South Wales, Australia.At the time of the initial public offering of stock, Billabong products were sold in more than 2,600 surf and extreme sports shops around the world. Revenues at Billabong nearly doubled from A\$64.5 million during fiscal year ended June 30, 1998 to A\$112.3 million during fiscal 1999 on the strength of the U.S. market. Billabong USA recorded revenues of A\$25.6 million in 1999, resulting from three months in sales of mens products, after taking over from Billy International, and six months of sales in young womens products, after the debut of Billabong Girls. Billabong products were distributed through over 900 surf, snow, and skate shops in the USA. In Australia sales to 600 accounts, for a total of 850 retail outlets, reached A\$46.3 million in fiscal 1999. In Europe, where the product line included wet suits, accessories, and snowboarding equipment, Billabong products sold through 1,100 independent retail outlets in 25 countries and two company-owned stores in France. European sales generated A\$40.4 million in sales. Billabong planned to expand into North Africa, the Middle East, and Asia, to expand its line of snowboard apparel and accessories in the United States, and to launch a line of swimwear for young women.In July 2000, Billabong initiated the sale of 120.4 million shares of stock, including 11 million shares from oversubscription. Shares sold to institutions at A\$2.60 per share and to retail investors at A\$2.30 per share, each accounting for about half of stock purchases. The IPO raised A\$295 million in capital, exceeding the goal of A\$277 million. Strong demand for Billabong stock required the offering to close three days ahead of schedule, with the exchange price rising to more than A\$3 per share on the Australian Stock Exchange. The stock offering included half of Gordon Merchants 51 percent interest in the company, with 60 percent of total company shares sold.One of the first actions that Billabong took in extending its international reach was to take over the licensee operation in Japan, the fourth largest market for surfwear, after the United States, Europe, and Australia. While the licensee had sold \$13 million in merchandise, compared to the leading surfwear brand, Quiksilver, at \$43 million, Billabong planned to capture a greater share of the Japanese market. With headquarters in Osaka and a sales office in Tokyo, Billabong began official operation in Japan on January 1, 2001.In early 2001, Billabong sought to diversify its product line without diluting its brand name by purchasing two apparel and accessories companies, Von Zipper and Element, both based in the United States. Von Zipper specialized in sunglasses and eyewear for extreme sports, such as snow goggles. Von Zipper formed in 1999 and quickly established itself as an up and coming brand. Element, founded in the early 1990s, was considered one of the leading brands of skateboarding apparel and accessories worldwide. Billabong retained key staff at both companies and allowed them to retain their unique identities and independent operations, providing capital resources to expand product lines and distribution to select retailers. News of the acquisitions prompted an increase in Billabongs share price to over A\$5.50.By fiscal 2001, sales at Billabong increased to A\$380.2 million, 15 percent higher than projected in the prospectus and 68 percent higher than the previous year, while net profit rose to A\$42.1 million, 12.6 percent higher than forecast. Taking direct control of license distribution had a strong impact on revenues as did the formation of Billabong USA. Sales in Australia and Asia increased 26 percent to A\$118.8 million, sales in North America increased 50 percent to \$179.3 million, and sales in Europe, where distributors in Italy and Belgium were converted to company-controlled operations, sales increased 50 percent to A\$82.1 million. Billabong expected sales to grow approximately 15 percent in Australia/Asia and 25 percent in North America and Europe in 2002. In the United States, Pacific Sunwear, a chain of beachwear clothing stores accounting for20 percent of sales at Billabong USA, announced plans to double the number of outlets in the United States.While Billabong has maintained its commitment to surfing throughout its history through sponsorship of events and athletes, in 2001 Billabong initiated a new extreme surfing event, the Billabong Odyssey. This event challenged surfers to a three-year search for the biggest waves in the world, specifically, a search for the never-before surfed 100-foot wave. The idea for the project came as an extension of Project Neptune, an expedition to a surf break 100 miles off the coast of San Diego. The legendary Cortes Bank sea-mount had never been surfed before, but Mike Parsons, a surfer on the Billabong Team, rode a 66-foot wave, winning the Swell XXL for the years biggest wave. This adventure exhibited new possibilities for mid-ocean surfing by using motorized watercraft to tow surfers farther out to sea, an extreme form of surfing that began in the 1990s. Billabong invited internationally renowned surfers to participate in the event and planned eight expeditions of four to six surfers. Billabong offered a prize of A\$1,000 per foot of face height to the surfer who rode the biggest wave each year and an A\$500,000 prize to any surfer to ride a 100-foot wave.Principal SubsidiariesBurleigh Point Ltd.; Element; Thin Air; Von Zipper.Principal CompetitorsBurton Snowboards; Gotcha International; Hurley International; Quiksilver, Inc.; Rip Curl; Rusty International.Further ReadingAustralias Billabong Acquires US-Based Element, AsiaPulse News, July 3, 2001.Australias Billabong Acquires US-Based Sunglasses Company, AsiaPulse News, March 9, 2001.Australias Billabong Public Offer Closes After Strong Demand, AsiaPulse News, July 28, 2000.Billabong Founder on the Crest of a Wave as Firm Debuts on ASX, AsiaPulse News, August 11, 2000.Billabongs Rise Follows Pacific Sunwear, Los Angeles Times, March 8, 2001, p. 4.Earnest, Leslie, Billabong Fills Three Spots on U.S. Team, Los Angeles Times, September 9, 1998, p. 9.____, Front Line of Surf-Wear War, Los Angeles Times, February 26, 1999, p. 1.____, Hurley Rides Enthusiasm for New Styles, Los Angeles Times, September 9, 1998, p. 13.Mariow, Michael, Bob Hurley Giving Up Billabongs U.S. License, Daily News Record, June 10, 1998, p. 4.Marriner, Cosima, Billabong Catches Boomer, Sydney Morning Herald, August 12, 2000.____, Billabong to Drop in on Rivals Wave in Japan, Sydney Morning Herald, July 10, 2000.Rennie, Philip, Meet the Chairman of the Surfboard, Business Review Weekly, December 1, 2000, p. 46.Williamson, Rusty, Billabong Catches U.S. Wave, WWD, June 3, 1999, p. 21.Mary Treadi

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