Case - Helly Hansen in Asia[1]

In 2012 the Canadian pension fund, Ontario Teacher's Pension Plan (OTPP), bought the majority stake of Helly Hansen AS from Altor for about 2 billion Norwegian crowns ($350 million USD) well above Altor's initial investment. OTPP won the bid against a number of major retailers, including apparel giant VF Corp, European outdoor apparel maker Jack Wolfskin, South Korean conglomerate E. Land, French luxury and retail group PPR - owner of both Gucci and Puma - and Columbia Sportswear. This was the latest in a long row of changes in ownership of the sports and fashion-wear company over the last thirty years. In fact ever since the family owned firm established back in 1887 was introduced on the Oslo Stock Exchange in the 1970's, Helly Hansen has been the object – some might call it the victim – of repeated ownership changes, with subsequent changes in strategic orientation: an adventurist venture capitalist took control over the company in the beginning of the 1980's, but - after some turbulent years - sold his stake to the branded goods company Nora (later merged with Orkla) some years later.

The new owners introduced new, but - alas - ill fated production lines in their factory in Moss and more turbulence was awaiting the firm before the situation eventually "calmed down" in the beginning of the 1990's. In 1995 - RGI (Resource Group International), a Seattle based holding group controlled by Norwegian investor Kjell Inge Røkke, bought 50% of Orkla's (previously Nora) stake in 1995. Together the two owner groups would replace management and restructure the firm, closing down much if not all of internal production in favour of contracted production in Far Eastern Asia, in disagreement with the former management (pre-RGI/Nora). Production was now controlled through a Hong Kong based outsourcing company, Li&Fung Ltd., and by the end of the 1990s as much as 80% of total production would be carried out on contract in Asia; a model that would remain pretty much the same from then on.

[1] This case is written by professor Carl Arthur Solberg, with the great assistance of Carl-Adam Sjölander and Peter Tonning-Olsen. Information in the case is provided by the two latter, and supplemented with material from sources such as Wikipedia, HH's own website, Moss Avis, Symphony Holding Ltd, Thompson, Malakay, Reuters, MBASkool. The persons described in the case may be real, but the dialogues in the case are the pure invention of the author. Any resemblance with these persons' real opinions and real statements is coincidental.

HH caught the eyes of new investors and in 1997 Orkla and RGI agreed to sell 70% of their stake (all of RGI's, and 20% of Orkla's) to Investcorp, a Bahrain-based investment fund known at the time amongst other things for its ownership of luxury international brands such as Tiffany, a jewellery firm; and Gucci, a luxury apparel and accessories firm. Investcorp brought in new management from Adidas, and HH continued to expand its international business, but continued also to struggle for much of the early 2000s, posting losses from 1999 until 2005. Determined to get out of what had been a difficult process Investcorp decided in 2006 to exit and subsequently sold their stake to Altor Equity Partners, a Nordic based Investment fund investing in medium sized businesses. Helly Hansen had been through many years of tumultuous changes in ownership, leadership and strategy. The acquisition however, set in motion a process that would see a great many things change. Helly Hansen's turnaround process is noteworthy a few reasons. First, it saw a company that had for a long time been struggling turn around relatively quickly. Second, it did so in an economic environment overshadowed by an economic downturn and depressed consumer confidence.

Throughout this period Helly Hansen continued to innovate as it had done historically, and by the early 1980s they had begun to experiment with performance fabrics providing both waterproof features as well as breathability. The sojourn reached a form of finish with the patenting and launch of *HellyTech*, a fabric coating finalized and launched in 1984. HH continued to innovate in the hopes of staying off competitors, and by 1986 with the recently patented and released *HellyTech*, Helly Hansen would finish and formally launch its 3-layer concept under the name of *WeatherSystem*.

It was known as a quality supplier towards the maritime sector, but had also begun targeting other markets, including the Outdoor, Skiing, Hiking, and Mountaineering segments. On the back of a McKinsey project in the early 1980s Helly Hansen would re-organize its business by centralizing design to Moss, and organizing into three "profit centres"; Scandinavia, North America, and Special Products. In 1981 HH entered the United States more seriously with the opening of a North American HQ in Redmond, Washington. By the mid-1980s Helly Hansen had global sales in excess of $100m USD annually and a global staff of about 1600.

By 1995 as much as half of their business would now come from the categories affiliated with Outdoor sports and activities. Throughout much of the mid to late 1990s, even though revenues were on the rise, the firm posted net losses. The 1990s also saw Helly Hansen depart from its core image after the brand was picked up by rapper L. L. Cool Jay and hence – quite effortless - received much attention in an unexpected part of the market. The romance with the underground rap scene lead the firm into products which focused less on technology and more on fashion elements. The flirt with the underground rap scene eventually ended up returning to more traditional segments, though it can be argued that they had now transitioned into becoming a firm with a clear focus on fashion *as well as* performance.

Today Helly Hansen is a medium-sized international apparel firm based out of Oslo, with a clear focus on Workwear as well as the Outdoor segment in sports apparel. It has approximately 500 employees worldwide across two key divisions (Sport and Workwear). Until 2010 it consisted of three divisions, the third being HH Survival which was divested for financial as well strategic reasons. Whilst HH Sport and Workwear are similar until distribution, Survival dealt in very different products and had a business model that was primarily rental based. Feeling that management did not have the time or resources to manage such distinct business models, the sale went through and was used to make Helly Hansen debt-free.

HH positions itself primarily in the Outdoor Sports and Workwear segments, but overlap both with Organized Sports primarily where the organized sports have a strong outdoor focus such as free-skiing, cross-country skiing, and sailing. Similarly, they overlap with fashion but consider it a secondary requirement to functionality, as expressed in their vision of their consumer who *needs functionality*, but *wants beauty.* Visualized below:

Figure 2.3.5 Source: Helly Hansen

Helly Hansen Sport is the larger division, with 215 employees working primarily in wholesale and the retail divisions related to Outdoor and Sporting apparel. The Workwear division employs 39 people and sells to a variety of professionals in construction, oil and offshore, marine, etc. The organization is heavily centralized and shares many key functions. An organizational chart is included below:

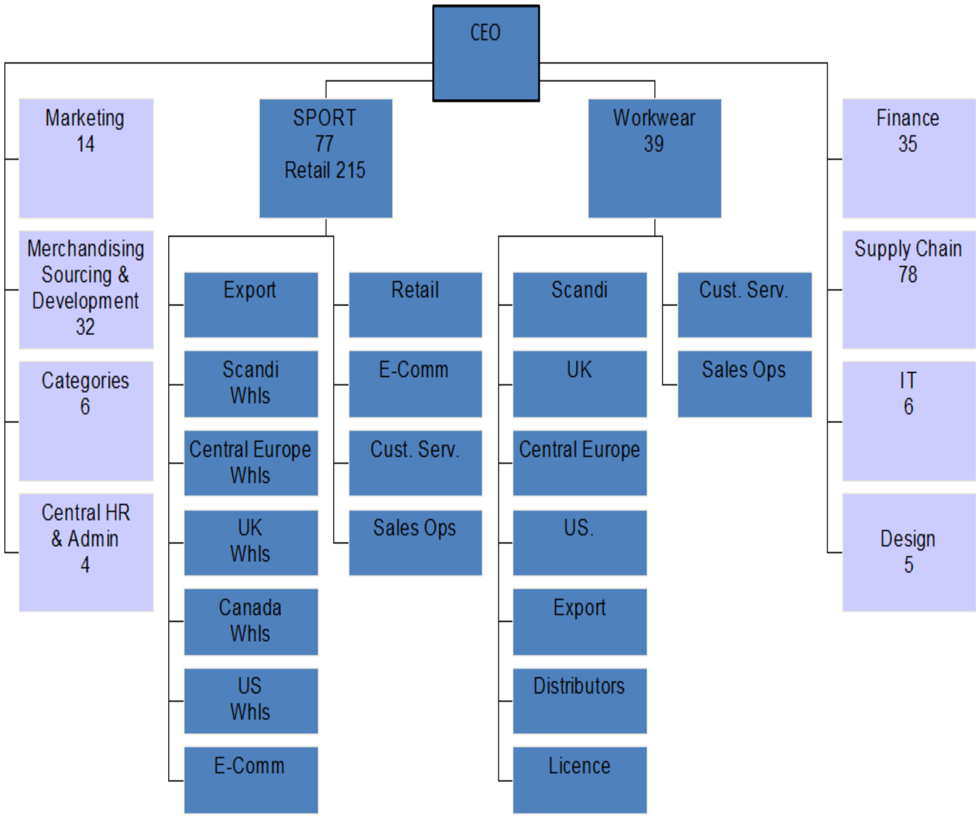

Figure 2.3.1 Organizational chart (Whls = Wholesale) Source: Helly Hansen

In 2011, Helly Hansen had revenues of approximately NOK 1600m and an EBITDA of NOK 142m with positive growth in both revenue and EBITDA over the last few years despite a heavily competitive industry affected both by warm winters and depressed consumer demand linked to the economic downturn in the world.

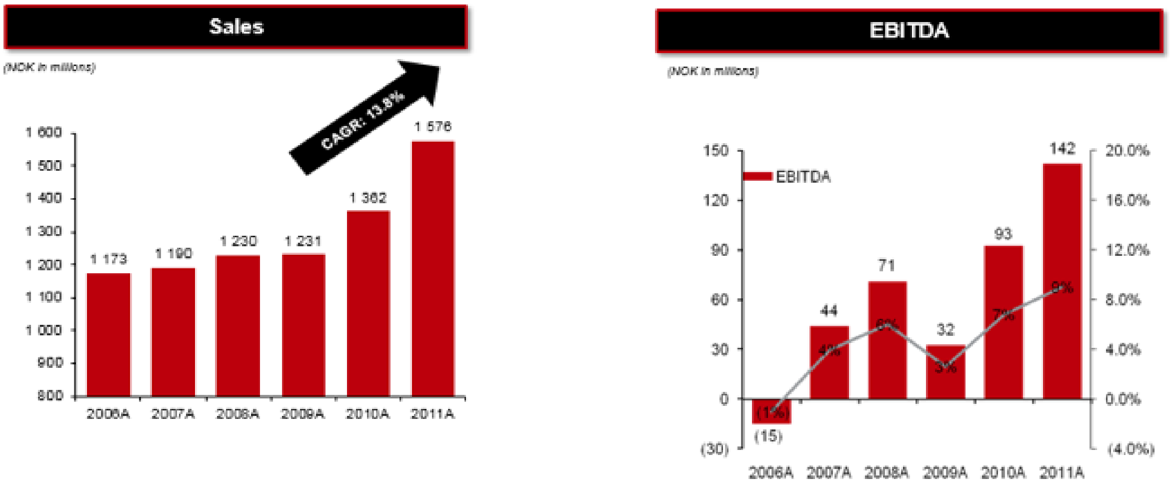

Figure 2.3.2 Source: Helly Hansen

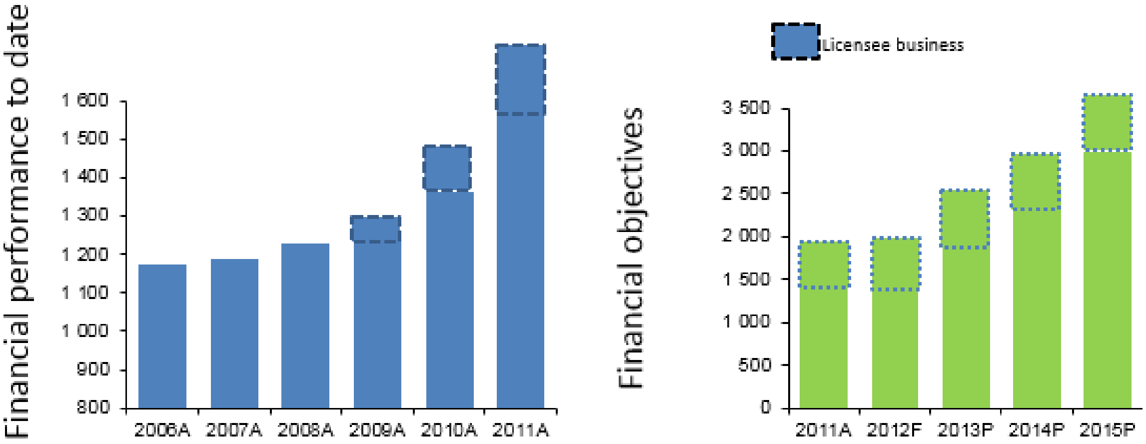

Figure 2.3.3 Source: Helly Hansen

Helly Hansen has a retail presence across five continents just in excess of 40 countries. They operate approximately 145 stores, and have a growing licensing business. Split across regions, approximately 30% of their revenue are generated in the Nordics, 29% in America, 27% in greater Europe, and 14% in Asia Pacific. They are active in the following markets, through own subsidiaries, distributors, licensees and franchisees:

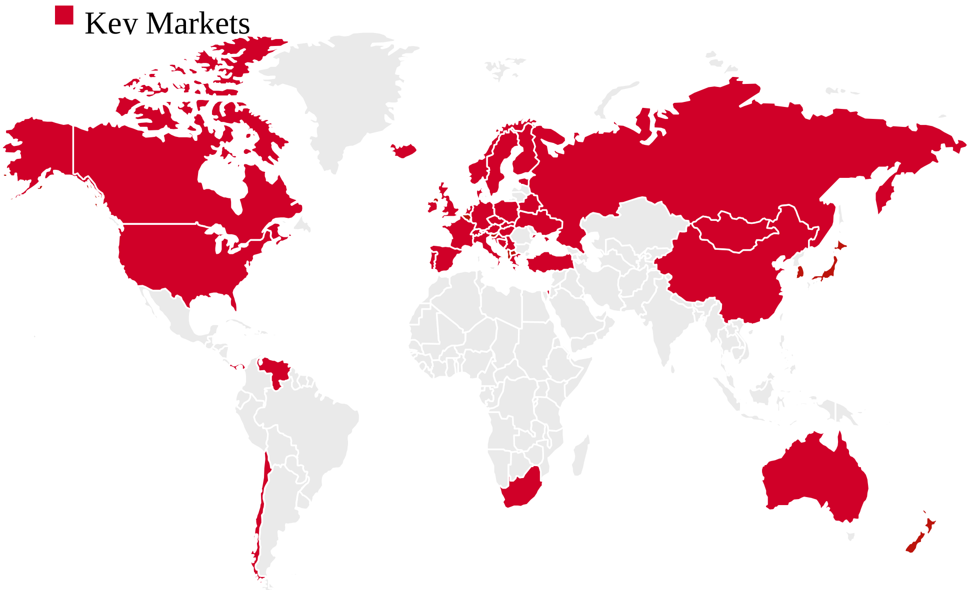

Figure 2.3.4 Source: Helly Hansen

Helly Hansen uses a centralized approach to logistics, supplying its stores and clients from two warehouses located in Europe (The Netherlands) and North America (Canada). Besides its two main distribution centres, HH has sourcing offices in Hong Kong and China and sources most of its actually production from China, and outsources 60% of that sourcing to Li & Fung, a Hong-Kong based global sourcing firm which though centred in Asia has operations worldwide.

The company identifies as many as 150 competitors in Norway alone, including well reputed global brands such as Patagonia, Arcteryx, Timberland, Musto, North Sails, Columbia, Gill, Craft, ACG (Nike), Mammut, Black Diamond, The North Face, etc.

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Carl Sjölander, the CEO of Helly Hansen had gathered his senior management team in order to discuss the situation in Asia, and more specifically in China. In this region HH uses a combination of distributors and licensees based on the fact that they are a relatively small firm and lack the resources to manage everything themselves. This is a huge market but also a very different one than the Western markets they are involved in. They entered in 2010 a licensing deal with a big Chinese company, Symphony Holding Ltd based in Hong Kong, with a plan to open 100-150 stores over the next five years.

"The relationships", Mr. Sjölander said, "enable us to carry out the necessary product adaptations (in Asia primarily Size) and SMUs (Special Make Up) even though we internally lack the resources". The adaptations are made based on regional differences; for instance the body size differential between the North American market and the Chinese, South Korean and Japanese markets is significant and requires a degree of adaptation. Mr. Sjölander continued: "Though our licensees enjoy some room for product adaptation, they still need to have the designs approved by HQ as well as any related branding and marketing and so we retain, after all, a grip on what the brand and its products should stand for".

This strategy was developed some years ago and everyone in top management agreed on the main intention: tap into a growing market without spending too much resource, be it on management or finance. However, after some years of operation they have experienced some serious deviations from the well developed design templates provided by Oslo. Filip Francke, the vice president of North American operations sighed. He had more than 20 years of international sales, marketing and logistics experience in Europe, North America and Asia. "That is all fine", he said, "but we all know that in reality there are gives and takes. Yes I do agree that our contract gives us some power and there is little room for maneuvering, and in principle little is left for push and shove or opportunism. However, a large licensee who performs well may be able to gather more power than is explicitly set out in the contract and may use this to for instance request certain SMUs at a given price point, to develop their own advertising material or to add some products to satisfy local variations in demand. And the Symphony Group is not just anyone; with an annual sales of about 2 billion NOK (2,5 billion HK Dollars) and with a lot of other brands in their portfolio, such as Berghaus, Speedo, Pony, Haggar and Mango we are just one of several partners. I am afraid that it is not easy to get them to adopt our way of thinking the way we want."

"I agree", Erik Burbank interjected. He was the VP Marketing of the company. "We all know that we need to take a closer look at our strategy in East Asia. Although we have a presence in China, South Korea and Japan, we need at some point in time to more seriously follow up those three markets more closely. Our licensing partners are in many ways serving us pretty well, but I think we can agree that they somehow do not really grasp the essence of what we want to be in those markets. Their advertising material gives a very different image than the one we build in other markets. They say that things are different in Asia, and of course I do agree. On the other hand I also think that some times the importance of these differences are being exaggerated and they use them to run their own show. The 'not invented here syndrome' is clearly present when they set into practice our templates. We have just worked hard to make our brand appear in a uniform way across markets and that has to be translated into all facets of our marketing. It's about all the aspects of our brand: types of products, in types of messaging, point of distribution. Brand positioning isn't only about marketing, it's about the big M which is product and distribution and traditional small marketing like an ad. We cannot risk ending up again as a patchwork of different images just a few years after we have succeeded in finally getting our brand image right.

> Symphony Holding Ltd writes about themselves on their home page:
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> The Group has diversified its business into retail and branding. Our first investment in brands was the participation in buy-out of Converse, which went into bankruptcy in 2001. It was rapidly turned around and was sold to Nike profitably. Converse remains an important client of our contract manufacturing business. In late 2004, we invested in a company which became the licensee of Reebok in China. This became so successful that it was sold in 2006 to Adidas/Reebok, again profitably. The Group is currently invested in brands including leisure and sports shoes brand Pony, US respected men's apparel brand Haggar and top ladies fashion footwear brand AEE Italy. Other than that, the Group is presently the distributor and licensee and/or franchisee of Speedo, Berghaus, Helly Hansen and Mango in China.
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> In 2009, the Group jointly formed JFT with Toyota Tsusho Corporation, a member of Toyota Motor Corporation, for the retailing and marketing of apparels, footwear and accessories originating from Japan, Europe and United States. JFT covers over 100 brands, including Japanese top golf fashion brand Heal Creek and Viva Heart. In March 2010, JFT became the exclusive distributor for internationally renowned Edwin jeans in Hong Kong and Macau.
>
> In order to create synergistic value to our brands and further strengthen our branding business, the Group extends its business to outlet mall development and operations. Acquired the land use rights at Hushi Tai Development Zone of Shenbei New District in Shenyang, a pilot new development in Northeast China, the Company has plans to develop the land into a mixed-use development of factory outlet mall, entertainment complexes and eco-industrial attractions, covering the world's premium brands at bargain.

"Well this might be true", VP Finance conceded, "but on the other hand we do not spend much resource to operate in these markets. And you also have to realise that Asians have not only different preferences but they are also smaller in size than Europeans and Americans. The only thing we do is to give them our templates and design, the rest is taken care of by them. And everything is sent back to Oslo for control. This is a low cost operation for a small company like ours, while we at the same time can reap the benefits of the presence of our partners. No way would we be able to build a network of outlets any near the one that Symphony eventually will open".

Recent brand store openings had in fact prominently included areas of Asia, as it has emerged as one of the areas of focus for Helly Hansen. The company recently marked the opening of the Beijing store this past April, and Japan saw its first stores open in July. Not to be left out is South Korea who sees four shops launch this September.

"And in any event", he added, "I don't think that competition really warrants that we develop the same image in markets that are so different as Asia and for instance Europe or the US. Of course all the majors are there, but the locals are possibly even more important in each of these markets".

But Mr. Burbank was of a different opinion: "I am not so sure about that, he riposted. "The problem is that once you have someone developing your brand image in an unwanted direction in such large markets as China or Japan, you will have a hard time rectifying that image once you realise that you should get control. Of course we have not yet reached that stage yet, but I think we need to pretty soon do something to straighten the leash – especially in China. I think that one major long term problem in China is that the market seemingly is more concerned with style than with performance. Whereas the former has been slowly coming on to us over the last two decades, performance is really part of our blood and veins. This is our heritage, and we build it into our brand image. So any deviation from that will jeopardise our brand image in the longer term. We then have three options as far as I am concerned: we could take over the operations and establish ourselves with a wholly owned subsidiary, or we could enter into a joint venture with our licensing partner, or we could continue as we go right now, but with a lot more resources to follow up and control our partner".

"And – as I see it", he continued, "globalisation is taking on and I believe it is paramount for a brand like ours to be firmly present in these fast growing markets. Also the markets in North America and Europe are if not stagnating, so at least showing a slower pace of growth. I think that now is the time for us to assert our presence in Asia, and I think we should start with China, its biggest market, and also the market where we feel most frustrated by our partner. They have grown pretty fast – starting to open malls over the last three years and planning for another 90-100 till 2015. If we don't move now we risk losing momentum in this important market", he concluded.

"I agree" – Mr. Sjölander acknowledged -" but on the other hand we have worked hard to set up this deal, and I think that we should give it a chance. Symphony Group is a well respected player and I think that we should put more muscle behind our dealings with them. In our last meeting we agreed that we needed to address this issue. For instance, we discussed how our newly launched Microsoft Lync Server could be implemented in their stores. This allows much more direct contact between our Oslo HQ, both to help the design team to develop products and the marketing team to adjust marketing material"[2].

"I believe this will revolutionise the way we will operate" Richard Collier, Vice President of Merchandizing, Sourcing, and Development said enthusiastically. "There is a lot of incredible competition for the global accounts we serve, so we have to have the best product and deliver on time. To do that, we've got to communicate all the way through the supply chain. Our suppliers can use Logitech HD cameras to show samples to the developers in Oslo. We previously had to send an entourage of people to Asia to check samples every year. Now, only half of the team will need to go," IT manager, Sandy Abrahams added supportively.. "Everybody is excited about this; especially the people who are tired of so much traveling and the managers who want to save money, and if we can get our Chinese partners to use it I think we will much more easily be able to transfer our ways all the way down to the retailer."

"They may be big, but everything is not that rosy", was the more temperate comment from the Mr. Francke. "In fact last year their sales fell more than 20% to below 2 billion HKD and they posted a loss in excess of 200 million HKD. They attribute this to transfer of part of their manufacturing facilities to Vietnam – actually more than half of their some 30 units are located there. But this operation resulted in severance payments and write offs of their plant facilities in the order of 80-90 million HKD. Of course this will most likely improve their

[2] According to Wikipedia Microsoft Lync Server (previously Microsoft Office Communications Server) is an enterprise real-time communications server software, providing the infrastructure for enterprise instant messaging, presence, VoIP, ad hoc and structured conferences (audio, video and web conferencing) and PSTN connectivity through a third-party gateway or SIP trunk. These features are available within an organization, between organizations and with external users on the public internet or standard phones (on the PSTN as well as SIP trunking).

longer term cost position, but right now, they aren't as strong as you would believe in the first place".

Mr. Sjölander tried to sum up the discussion so far: "There is a short term perspective in this situation, and there is a long term perspective, the short term being that we have just a couple of years ago set out on a licensing partnership with a company that ambitiously is about to set up a great number of retail outlets in the world's potentially largest market. I don't think we can afford to rub this kind of partnership just some years after we have entered it. On the other hand, our partner does not fully grasp the essence of our brand philosophy and that gives us some problems in the longer term, since our brand image in the longer term will be localised in a global competitive situation. And we should not forget that our industry is in for more changes over the next five-ten years, with ownership shuffles and new opportunities arising around every corner. The last rumours are that Canada Goose (annual sales of roughly C$200 million) are in search for new investors, and that we are on the list of potential bidders together with Nike, Adidas, The North Face, and Percival. In other words, we need to position ourselves and we need to get our things straight; otherwise I believe we risk to get stuck in an impasse of blurred brand image, a situation we just managed to emerge from only less than a decade ago".