



181°

**CASE STUDIES ON SUCCESSFUL
BRAND LICENSE PARTNERSHIPS**

No. 3

Deuter Sport GmbH & Co. KG

and

Duke Trading Co. Ltd.

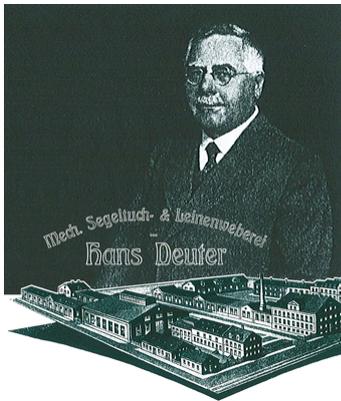
for

Outdoor Apparel in South Korea

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DEUTER HISTORY AND BRAND

Deuter Sport is a company based in Southern Germany which heads the outdoor sports division of Schwanhäuser Stabilo family holding.

Starting in 1898 with products like bags, sacks, tents and truck canopies made from linen and sailcloth, Deuter looks back on a very long tradition. In 1919, luggage, backpacks and other leather goods were added to the range. In 1968, Nylon was first introduced as technologically advanced material in Deuter backpacks. By 1984, Deuter launched the patented aircomfort system, a revolutionary mesh carry system to facilitate aeration and sweat transport between backpack and back. In 1989, Deuter was split into two separate entities; one for industrial tents, and one for the backpack and travel business which was to become Deuter Sport. By the end of the last century, Deuter ceased all luggage and leather business and focused exclusively on outdoor and biking backpacks and sleeping bags. Today, city daypacks complement the range of Deuter products. Since 2007, Deuter Sport is part of Schwanhäuser Holding.

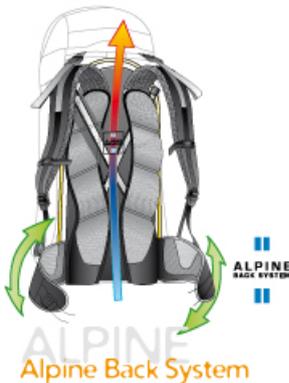


Today, Deuter Sport is one of the leading and most respected outdoor brands worldwide. Its products are designed for high-end uses and incorporate latest functional designs. Since its inception, Deuter has always supported explorers, adventurers and extreme athletes. Among others, Deuter was part of the first ascension of the Eiger North face in 1934, of the first ascension of Nanga Parbat in 1953, and of Gerlinde Kaltenbrunner's quest to become the first woman to climb all 14 eight-thousanders without supplementary oxygen (accomplished with the climb of K2 in 2011). Deuter customers feel well-equipped to carry their stuff on the ridges, walls and summits of mountains; on snow, glaciers and ice; in deserts, woods and wilderness; on trails, slopes and tracks; and in urban jungles. From half-day adventures to months-long expeditions.

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Deuter's current product range comprises well over 300 different models of backpacks and travel bags, sleeping bags and related accessories like rain covers, drinking streamers and other. Deuter supplies its products worldwide to the specialized outdoor and travel retail through own sales subsidiaries and local distributors. Pricewise, Deuter compares with other leading outdoor brands. As a result of its focus on backpacks and the size of the range however, Deuter offers not only average but also the most high-end models in most segments of the market which is why the Deuter brand is perceived to be top-notch.



Many of the leading outdoor brands follow an extended brand strategy and offer a full range of different outdoor products – including apparel, footwear and hardware (i.e. The North Face, Columbia, Patagonia, Marmot, Jack Wolfskin, Salewa, Mammut, Millet, LaFuma, Berghaus, Montbell, and others). Deuter follows a different strategy – that of being a global leader in a specific product category: backpacks.

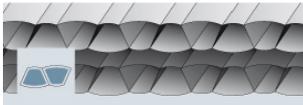
As a result of strategy, licensing was never a significant option for Deuter. Neither brand extension licensing into other product categories – as per strategy. Nor international licensing into other territories – backpacks are more or less the same all over the world and do not require local designs, styles of fits. All the same, Deuter maintains a very interesting brand licensing partnership since 2004 which is worth looking at. The license covers outdoor apparel in the territory of Korea, with Duke Trading Co. Ltd. being licensee of the Deuter brand.



MANUFACTURING PARTNERSHIP WITH DUKE TRADING



Duke Trading's connection with Deuter started in 1992 when Duke received some sample orders to produce and supply backpacks to Deuter. Happy with the quality supplied by Duke and concerned about shortages with other suppliers, Deuter quickly shifted higher order volumes to Duke. Within few years, Duke qualified as exclusive manufacturer of Deuter backpacks (except biker backpacks). What began with 35 sewing machines in Korea back in 1994, has evolved into highly specialized backpack manufacturing operations in Vietnam. Today, 3.500 employees are exclusively producing all backpacks and accessories for Deuter. The manufacturing exclusivity is mutually beneficial. Deuter guarantees to not place orders with other suppliers, and Duke guarantees to not produce for other outdoor brands.



DISTRIBUTORSHIP

With their partnership intensifying, it was around 1998 when Duke applied to become the official importer and distributor of Deuter products for the Korean market. Deuter was happy to accept. After some years of experience with distribution of backpacks in the Korean market, Duke realized that Deuter's specialized but otherwise limited range of backpacks created a major obstacle, for two reasons. First, most other Western competitors entered Korea with a full range of products. And second, multibrand store retailing was small and stagnating, whereas retail growth happened in new-built shopping malls and monobrand stores. Deuter's specialized range of "backpacks only" did not work too well under these circumstances. In other words – the success of Deuter in Korea was limited as long as the product range was not extended to cater to the requirements of the Korean retail system.



APPAREL LICENSE



Duke initiated discussions with Deuter to extend the product range into outdoor apparel. Initially, Deuter was not interested since it was not according to strategy. It was only after Duke developed some convincing samples of apparel products that Deuter accepted to grant Duke an exclusive license to design and market Deuter outdoor apparel in Korea, starting in 2004.

Since, Duke developed and established a full range of apparel comprised of Extreme, Trekking, Comfort, Performance, Accessoires, Bike, Underlayer and Underwear. There are two main collections each year – summer and winter. Parts of the collection can be seen on www.deuter.co.kr. The apparel collections are designed by a Korean design team and approved by Deuter. Marketing is country specific and includes i.e. team sponsoring and TV placements. Approx. two thirds of the apparel





collection are produced in Duke's own factories in Vietnam, the remainder being sourced from Chinese suppliers (i.e. down jackets).

Deuter apparel is distributed through 50 mono-brand stores (48 of which are operated by franchisees), plus some shop-in-shops in department stores and multibrand sport retail stores, plus a web shop. Deuter apparel enjoys an upper mid market price position (i.e. 40 EUR for a functional polo shirt or 210 EUR for a softshell jacket).

The positive aspect for Deuter resulting from the apparel license is: Deuter backpacks would not have been sold in any of the 65 stores carrying Deuter apparel. Today, Deuter has over 100 sales points in Korea, of which only 35 are independent backpack specialists or outdoor multibrand retailers. As a result of the apparel license, Deuter was able to more than triple its distribution spread for backpacks. Even more, the apparel license made the brand much more visible in the territory; brand revenues from apparel are more than 4 times larger than revenues from backpacks. Backpack sales in South Korea account for 2% of Deuter's worldwide brand revenues, apparel sales for 9%. Quite impressive for one single country on a list of over 50 countries to which Deuter supplies.



In the last few years, Deuter made some cautious steps to transfer the apparel concept developed in Korea to other Asian markets – yet without success, and for three major reasons. Designs, styles, fits and materials of the apparel collection are for the Korean consumer whose needs seem to be specific. In no other Asian territory is the distribution system for backpacks similarly restricted as in Korea. And Deuter's specific image to be a backpack specialist is even stronger in other countries than it was 10 years back in Korea.

SUMMARY

The Deuter-Duke case study shows how a licensed product extension can support the internationalization strategy of the core products of the brand owner. Deuter's success with backpacks in Korea would have been considerably smaller had this business not been flanked and backed by a localized outdoor apparel business operated under license.

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