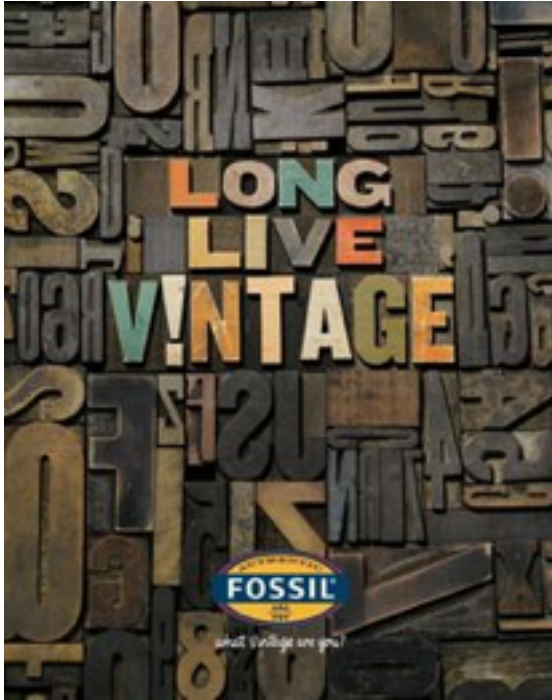


The Great “American” Watch Company



The Fossil story is already enshrined in the bootstrapper's hall of fame. In 1984, at just 24-years young and a college dropout, Tom Kartsotis, tired of scalping tickets outside a Dallas, Texas football stadium and born with a tenacity for business, took an idea inspired by his older brother and never looked back.

It began when Tom Kartsotis left his first entrepreneurial effort, sold his share in the

ticket brokerage business, withdrew his all his savings of \$200,000 and flew to Hong Kong to peruse business opportunities in Import/Export. During his travels around Hong Kong, he explored various possibilities, including dealing in stuffed animals and toys. His brother told him there were huge profits to be made in importing consumer retail goods from the Far East, especially mid-range priced fashion watches. Kartsotis took his brother's advice and hired a Hong Kong manufacturer to produce 1,500 watches and brought the products back to the United States where he sold the watches to Dallas department stores and boutiques. These sales marked the fledgling moments of his new company, Overseas Products International.

Shortly after embarking on his new enterprise, Kartsotis hired a friend, Lynne Stafford, (who he later married) as Overseas Products' Designer and created the "retro" design style that predicated the company's

existence and fueled its growth throughout the 1980s and into the 1990s. With Kartsois at the helm, the company grew exponentially during the 1980s by attracting consumers with designs reminiscent of an era only their parents or grandparents had live through.

Targeting middle- and upper-income consumers in their teens, twenties, and thirties, Kartsois and Stafford designed watches that imitated the styles of the 1930s, 1940s, and 1950s. For inspiration, Kartsois and Stafford pored over old issues of Look, Life, and Time magazines, taking careful note of the fashion styles illustrated in advertisements and devising a design concept that was embraced by a new generation of consumers.

The business boomed in the late 80's-early 90's and lots of people got rich when the Richardson company offered an IPO in 1993. But that was just the beginning. Fossil has roared on, swamping the competition and surviving the severe cycles of the global economy, fashion world, and retailing itself. In 20 years, Fossil revenues grew from \$57 million to \$2.5 billion—an annual growth rate of almost 21 percent. That's worth repeating: Fossil has sustained that huge growth for **two decades**. It has never reported an annual loss, and operating income has soared 40-fold. Built product by product, store by store, country by country—around the idea that **great design, low prices, and broad distribution would bring high sales and brand loyalty**.

The so-called secret or what differentiated Fossil was the focus on fashion and value at a time when no company was really doing that. The image the company communicated was “vintage Americana”, which turned out to be a huge home run. To ensure quality and have control over its production, Fossil started to acquire assembly facilities in the early 90's. As the company's success continued, Fossil expanded into other areas, including leather goods, sunglasses, licensed products

and the company focused on expanding into new geographical markets as well, specifically, international.

Today, the company sells various accessory products under multiple owned and licensed brand names across more than 130 countries worldwide. These products are sold in department, specialty and jewelry stores in addition to the company's own retail stores and e-commerce website. It operates in four segments: North America Wholesale, Europe Wholesale, Asia Pacific Wholesale, and Direct to Consumer.

Other licensed watch lines that Fossil designs, manufactures, and distributes include Burberry, DKNY, Emporio Armani, Armani Exchange, Columbia Sportswear, Diesel, Frank Gehry, Karl Lagerfeld, Michael Kors, Callaway Golf, Davis Cup, Marc Jacobs, Skagen Designs, Michele and Adidas. When referencing Fossil's watch lines, they are generally regarded as a “manufacturer”.

More than 61% of Fossil's non-Swiss-made watch production was assembled through wholly owned or majority-owned factories in 2012. This "vertical integration" allows for better flow of communication, consistent quality, product design protection and improved supply chain speed.

By sharing distribution, marketing, retailing, and its all-important design staff, the company can expand at a discount. It can ride the Fossil brand into multiple categories for far less than operating a separate company, an efficient way to penetrate fast-growing markets in China and Korea. Asia's middle class is about to have an epic growth spurt and, by 2020, the Pacific will have more potential Fossil customers than North America and Europe combined.

During a five-year span, Fossil sales doubled, including a \$500 million increase in 2011. In two years, net income doubled. The stock also was on fire, rising 246 percent from January 2007 to January 2012, a time when the Dow and S&P 500 both lost ground.

Fossil continues to dominate. Starting from a small watch company into what it now calls an **international lifestyle brand**. Here is a look at the Fossil strategy and how this company keeps rising to the top:

Brand strength - We believe a brand's image, individuality, consistency and connection with its customers is paramount in building and sustaining the brand. We believe that our FOSSIL brand name is recognized on a global basis as a vintage-inspired aspirational lifestyle brand with a focus on fashion accessories.

Licensing strength - Since 1997, we have attracted highly recognized and respected brand names to license within our watch and jewelry portfolios. We believe we attract such quality brands due to our ability to provide them with access to our global design, production, distribution and marketing infrastructure.

Breadth of brands and retail price points - Through the multiple brands we distribute, we have developed a broad spectrum of retail price points. Within our watch collections, core retail price points vary from approximately \$7 in the mass market channel up to retail price points of \$4,990 in the luxury distribution channel, although the majority of our collections focus on price points ranging from \$85 to \$600.

International penetration - Since our initial public offering in 1993, we have continued to extend our reach beyond the U.S. by forming and acquiring internationally-based subsidiaries, licensing and developing internationally recognized brands and investing in the growth of our business within many major countries of the world.

Breadth of distribution channels - Our products are sold through multiple distribution channels including department stores, specialty retail stores, specialty watch and jewelry stores, mass market stores, cruise ships, airlines, Company-

owned retail stores, licensed and franchised FOSSIL stores, retail concessions operated by us and e-commerce sites.

In-house creative team - Since our inception, we have developed a talented pool of creative individuals who design our retail stores, websites, products, packaging, graphics, presentation displays and marketing materials, allowing us to deliver a unique and cohesive style and image for each of our brands.

International sourcing - The vast majority of our products are sourced internationally. Most watch product sourcing from Asia is coordinated through our Hong Kong subsidiary, Fossil (East) Limited ("Fossil East"). During fiscal 2013, more than 60% of our non-Swiss made watch production was assembled through wholly or majority owned factories. This vertical integration of our business allows for better flow of communication, consistent quality, product design protection and improved supply chain speed, while still allowing us to utilize non-owned production facilities for their unique capabilities and to cover production needs over internal capacities. Establishing our watch assembly facilities near the component manufacturers also allows us to operate a more efficient supply chain.

Operating cash flow - Our business model has historically generated strong operating cash flows, including \$411.7 million in fiscal year 2013, and \$1.1 billion and \$1.6 billion over the past three fiscal years and five fiscal years, respectively. This strong cash flow has allowed us to fund capital expenditures, Company-owned retail store growth, product line expansions, common stock repurchase programs and acquisitions.

Information systems - Operating and managing a global company requires sophisticated and reliable management information systems to assist in the planning, order processing, production and distribution functions and accounting of each relevant business.

Marketing:

Fossil has there own in-house advertising department which works on design and execution of advertising, packaging and sales promotion.

As far as advertisement goes, Fossil's theme is "aim at evoking nostalgia for the simpler values and more optimistic outlook of the

1950's through the use of images of cars, trains, airliners, and consumer products that reflect the classic American tastes of the period.

The below pointers are the marketing strategies developed by Fossil for its long term sustenance.

- Brand Development.
- Product Value.
- Fashion Orientation.
- Expansion of International Business.
- Introduction of New Product Categories.
- Active Management of Retail Sales.
- Close Relationships with Manufacturing Sources.
- Coordinated Product Promotion.
- Personnel Development.
- Cost Advantages.
- Centralized Distribution

Fossil claims to be able to “read and react” to changing fashion trends quicker than its competitors, giving them an advantage in quickly changing out struggling styles for the newest innovative model. Perhaps more realistically, they cite their business model of owning the distribution in their largest markets and having the ability to offer globally-recognized brands in every area as a major advantage over any regional or local competitors.

Owning the majority of their distribution and having a diverse portfolio of powerful brands – both proprietary and through exclusive licenses – seem to be the biggest advantages for Fossil that we can possibly quantify. In an economically-challenging environment where consumers are forced to trade down on almost everything, offering a branded product synonymous with fashion and [some] status at a price within reach of most consumers gives a very significant edge over any competitor. While brands like Kenneth Cole or Guess have

strong fashion brand recognition and offer watches in the same price range as Fossil, their names are associated more closely with apparel and non-watch accessories. Fossil is a name more closely tied to watches, possibly prompting consumers to choose Fossil over these competitors in most instances.

Key Dates;

1984: Founded as Overseas Products by Tom Kartsotis.

1993: IPO

2001: Acquired Zodiac, a Swiss watch brand.

2003: Introduced Fossil Wrist PDA, which ran on Palm OS.

2004: Purchased Michele Watch, another Swiss watch brand.

2012: Purchased Skagen Designs, another watch brand.

2013: Begins offering "Fossil Swiss" an upscale, Swiss-made watch brand.

2014: Acquired licensing agreement lifestyle brand, Tory Burch.

2014: Partnered with Google on Android based-wearable technology.

Written by Jane Ford

Credits: dmagazine.com; The New York Times; Wikipedia; FossilGroup.com; WallStreetOasis.com;