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HIGH TIMES LOW TIDES

Bob McKnight, chief executive, and Harry Hodge, chairman, of Quiksilver. Photo: Peter Braig

Quiksilver's high times and low tides

In this excerpt from his new book, *Salts & Suits*, **Phil Jarratt** documents the rough ride through the corporate jungle for an Aussie surf icon.

Air France flight AF7638 from Paris Charles de Gaulle banked in a tight arc over the Bay of Biscay, then straightened for its final approach into Biarritz. Bob McKnight lifted his head from *The International Herald Tribune* and looked out the window at the hundreds of dots beyond the breakers at la Cote des Basques.

As the plane continued its descent, the dots became people, people on surfboards. Big crowd for a weekday, McKnight thought. Good for business. But then, it was the season.

Not "The Season", as in Parisian couples in matching Lacoste golf shirts with upturned collars dragging their poodles along the crowded and turd-dotted promenades, but the surf season. Mid-September, normal people back at work, endless days of sunshine and offshore breezes, with strong ocean swells rolling in from the Irish Sea.

McKnight loved the south-west of France, particularly at this time of year. He closed his eyes and recalled images of sunlit waves peeling across the white Hossegor sands ... Why then, as the plane's landing wheels engaged with a clunk, did he feel such a sense of dread about this visit?

A driver whisked McKnight and his wife, Annette, through the narrow streets of the old resort town to the Hotel du Palais.

Their room looked out over the pool to la Grande Plage, dazzling in the afternoon sun, but after an 18-hour journey, all Bob and Annette were interested in was sleep.

"Shit!" The phone's ring was louder and shriller than it had any right to be. McKnight sat up, checked his watch and cursed again. Fifteen minutes of quality power nap. "Yeah, who is it?"

"Bob, it's Greeny. I'm in the bar. We need to talk."

McKnight scanned the scene in the hotel bar and made straight for a cloud of blue smoke in a far corner. A tanned and bony hand reached out and gripped his. "Good to see ya, Buzz. Sit down and I'll get you a drink."

It was 1992 and Quiksilver was in trouble. The dogs were barking at it and the investment analysts were passing on the message. On September 9, just a few days before McKnight flew to France, the company reported a 74 per cent plunge in profits for the third quarter. This was horrible enough, but not exactly a shock.

Both sales and profits had been dropping alarmingly for five straight quarters, while 30 per cent of the company's retail account base had just disappeared. America was in the grip of a recession and at retail counters all over the country, discretionary items such as sportswear were languishing.

But the economic downturn was only the beginning of the problem for Quiksilver.

While most apparel manufacturers' profits were headed south, the *Investor's Business Daily* reported, "high-flying Quiksilver Inc's earnings headed to Antarctica".

"I'm still checking for a pulse," quipped Gary Jacobson, an analyst for Kidder, Peabody & Co, who just 18 months earlier had rated the stock a buy with the equally flip endorsement "Hey dudes, surf's up – looks radical. (That's good)". The fashion trade's *Daily News Record* noted: "Surfwear got really big because of the neon craze, but that was a number of years ago. You can't ride the crest of a wave forever."

And so the obituaries were stacking up. On top of recession and changing fashions, the past year or so had seen consumer confidence take a major hit from the global tensions surrounding Operation Desert Storm in Iraq, and closer to home the surfwear market had suffered from widespread media reports of syringes on the beach in New Jersey, pollution in California and shark attacks on three coasts.

The beach looked bleak, and in a modern world of gas masks, riots and bomb explosions, young consumers had started to make a statement by embracing the street, or hip-hop culture – the sounds of the ghetto and the look of the op shop.

By 1992 Quiksilver was taking severe blows to most parts of its corporate body. Domestic sales revenue had dropped from a high of $91 million in 1990 to less than $60 million in 1992, assuming that the fourth quarter went to hell in a handcart like everything else ... and it did.

But the real problem that McKnight and his company faced was much more deep-rooted and fundamental than the ebb and flow of money. The glue binding Quiksilver USA and its Australian parent company was called a "sharing agreement", in which there was meant to be a free flow of ideas, product designs and marketing concepts.

But the agreement was totally reliant on the goodwill of a small group of friends who had started out a decade or so before on the basic premise that integrity and authenticity were everything, and that Quiksilver was all about boardshorts. But McKnight knew that the wheels of industry would not turn, and the investors would not write their cheques, on the basis of surf trunks alone.

Quiksilver USA's acquisition of Quiksilver Europe in 1991 should have brought the Quiksilver family back together, since it made the Americans big licensees again (after the sale of the trademarks, Quiksilver Inc had retained licenses for only a few small Central American territories), and therefore bound by certain contractual codes of conduct.

Instead it fuelled the mounting antagonism between licensee and licensor. In the interests of getting the Europe deal done, the Australians had accepted a lesser royalty than they felt was fair, and months later the smell of the deal lingered on. To Alan Green, (partner) John Law and (licensing boss) Bruce Raymond, it was further evidence of the unacceptable corporatisation of Quiksilver's American operation.

Quiksilver's Global Directions meeting convened at Quiksilver Europe's headquarters on the northern fringe of the resort town of Saint-Jean-de-Luz. All the major players were there and in conversations over coffee in the corridors, McKnight began to sense a common goal coalescing.

"Globalisation" was a word much used and little understood, but in Saint-Jean-de-Luz it seemed the time had come to pay it more than lip service.

As the Quiksilver executives moved into the meeting room, for the first time since leaving California Bob began to feel that some positive outcomes were a possibility.

Alan Green stood in front of the group and scrawled the company's credo on a flip chart:

To be a worldwide surfing/boardriding label based on authenticity and reputation of excellence.

To provide our markets with purity of concept.

To give our customers products they can wear with pride because they represent quality and value from a real foundation.

Authenticity, purity, real foundation... boardshorts, boardshorts, boardshorts, thought McKnight, squirming in his seat and wondering what it was that Alan Green didn't get about supply and demand.

The chairman of the Global Directions meeting scribbled on the flip chart and asked rhetorical questions throughout the morning session and into the afternoon. Everyone at the meeting respected the plain-talking Aussie for building the brand from scratch over 20 long years, fighting fiercely to retain its integrity every step of the way.

Quiksilver was Alan Green's creation and always would be, despite the fact that he had moved out of the driver's seat a long time ago. Everyone knew that, and Greeny's advice was to be accepted as one would accept the wisdom of a tribal elder.

But this, McKnight thought, was too much. Greeny had arrived in France pissed off and he wasn't getting any happier as he worked himself into a lather, scribbling and pontificating.

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door behind him, threw back a few sheets on the flip chart and wrote a message in thick, black capital letters.

Chairman Green attacked the final session of the day with new energy, invigorated by his caffeine and nicotine break. Hopefully the bastards are learning something, he thought as he scrawled mission statements on the chart.

Twenty minutes on, he flipped back another sheet and turned to write his bullet points. He stopped and drew a long breath. Confronting him on the sheet was the message: THE CHAIRMAN IS AN ASSHOLE.

He spun and faced a giggling audience. "Right, f--- the lot of you. If you stupid bastards think this is all a f---ing joke, you can sit here and giggle by yourselves." Greeny spoke more in sorrow than in anger, but as he packed his things the fury rose in him. Pens, keys, cigarette packs bounced off walls as he made his way to the door.

McKnight followed him into the corridor and chased him down the stairs.

"Alan, I wrote it. It was a joke, right? I'm really sorry."

Greeny stopped, turned, and lit a cigarette with one hand while he spoke. "Of course you wrote it, Buzz, but you're the joke, mate, and I don't want you in my face right now."

Alan and Barbara Green had organised a getaway dinner for that evening, across town at le Chambre d'Amour, a cluster of cafes on the beachfront at Anglet, not far from the McKnights's hotel. The idea was to relieve their French hosts for one night, while enjoying some family time with their spouses.

Now, as he sat in his hotel room with a cigarette and a glass of red wine, Greeny re-organised. He phoned John Law, telling him that McKnight had to be "sorted out", and that it had better be done quickly and quietly. Fearing an ugly scene, "Lawro" arranged a separate dinner for the spouses.

McKnight and the Australians sat in the back corner of a beachfront cafe around a small table covered with a salt-grimed plastic tablecloth. Salads, mussels, sardines and shrimp sat untouched. Only the bottles of wine at the centre were being consumed, and even these with less than the usual gusto. A cool breeze had sprung up from the ocean, bringing with it thick, dark clouds. The light was disappearing, the summer was ending.

Green and Law were at McKnight's throat. The abuse was deeply, intensely personal.

As far as McKnight was concerned, the founder of the brand was coming on like a Monday morning quarterback. As much as he loved and respected the guy, Greeny had never run a $100 million company. There were things about this level of business that he simply didn't get. Greeny swigged some wine, then banged his glass on the table to underline his next point about McKnight's failings. Suddenly McKnight could take it no more. He dropped his head to the table, cradled it in his arms and wept.

Green looked at his friend for a moment, then sighed, stood up and touched McKnight lightly on the shoulder as he left the table.

"It's all right, Buzz," he murmured as he passed. "It's all right, mate."

They'd hit rock bottom now. The only way to go was up.

In the wake of the economic downturn after the September 11 terrorist attacks, Bob McKnight appointed Bernard Mariette, the flamboyant president of Quiksilver Europe, his global 2IC, positioning the Frenchman to guide the brand's destiny in the new century. Mariette took this as a license to gamble everything on the acquisition of an ailing ski company, a move that lost the company a billion dollars and brought it to its knees.

By 2004, Bernard Mariette was at the height of his powers, strutting the world stage with a curious mix of breathtaking pomposity and audacious corporate positioning. Virtually everything he did in the name of Quiksilver courted serious risk, and yet he seemed above question, beyond the normal checks and balances.

The roll-out of Quiksilver concept stores throughout Europe, for example, continued at warp speed even as the Euro economy showed signs of a wobble, and Britain went into a retail decline. Shop leases on high streets and malls were signed even though the fit-out construction crew had no chance of scheduling them for months, and the once-immaculate look of a Quiksilver Boardriders Club became shabby and makeshift as a result of the unholy rush to complete and move on to the next.

At a time when pay TV networks in Europe were struggling for market share and advertising revenue in an increasingly crowded marketplace (and advertising rates were consequently more affordable than they'd been in years), Mariette announced a joint venture with Rip Curl to create their own boardriding channel and put a stop to networks like Eurosport and Fox showing

Quiksilver's growing library of branded footage. The joint venture never materialised but relations with the pay sports networks suffered hugely.

Mariette worked feverishly in Europe to build his profile, but most news organisations were not that interested in a surf boss without a surfboard. When he did score a big interview, he invariably blew it with braggadocio. The *Independent on Sunday* in London caught him after a big lunch with his pal, the Quiksilver Europe general manager, Peter Bloxham, and made mild fun of the situation, painting him as a slightly mixed up revhead in a surf hat in an article titled "He'll have fun, fun, fun – except for 'stupid questions from analysts' ". Bernard was predictably furious.

With the assistance of vast and expensive teams of public relations flacks, strategists, fortune tellers and mind readers, Bernard Mariette had convinced everyone that mattered that his particular vision for Quiksilver's future was the only logical way forward.

The vision was bound up in a theory known as "The Five Universes of Outdoors", an impressive body of work compiled by market researchers in support of a position that Mariette had long since reached – that Quiksilver was growing too big for the surf market.

Within its five universes, outdoors encompassed everything from golf to mountain biking to scuba diving to in-line skating. Quiksilver had already flirted with golf, through an apparel line called Fidra, and gone nowhere. The rest of the turf was anathema to a surf company, apart from the places where they had already planted a flag: snow, skate and surf.

Nevertheless, the Five Universes paper was an interesting road map of the market, and might have been used effectively to position Quiksilver, Roxy and their new stablemate, DC Shoes.

But Bernard Mariette's big idea was more grandiose than that: it centred on a chance meeting with Laurent Boix-Vives, the septuagenarian chairman of the century-old French ski company Rossignol, in the French Alps in the winter of 2001.

Boix-Vives, 78 years old when first approached about selling to Quiksilver, had bought out the founding Rossignol family back in 1956, and had presided over a successful family of brands for almost 40 years. But in the past decade the company had struggled to retain a 30 per cent market share, while its profits had declined dangerously.

Rossignol was indeed still a great name in snow sports, but it was a French hard goods manufacturing company that had not moved with the times, and had been haemorrhaging money for years.

Despite the potency of its brand, and its ski offshoots Dynastar, Lange and Look, it had no apparel product to speak of. The group's golf brand, Cleveland, was in better shape, but not by much. The company's biggest issue was margin, for which the solution was relocation of manufacture, but this was a French iconic brand, and moving offshore was unthinkable.

Exactly how closely the Quiksilver board looked at these issues has never been revealed, but the entire Quiksilver executive seemed to be in the thrall of the charismatic Frenchman, who kept repeating his mantra, in forum after forum, from analyst conference calls to late night boozy tete-a-tetes, that Quiksilver had no option but to march forward into the outdoors market.

The spin was that Quiksilver with Rossignol would become the biggest player in a huge and growing market. You knew it was working when even Bob McKnight started talking about the Five Universes.

It was only a matter of time. If anyone in Quiksilver thought the emperor had no clothes, he was too frightened to say it. The man known to at least one board member as "Mad Mozart" was unstoppable.

Salts & Suits by Phil Jarratt is published by Hardie Grant, $35 rrp.

When he did score a big interview, he invariably blew it with braggadocio.

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