Alex Ovechkin boosts Bauer brand in Russian play

Alexander Ovechkin is a goal-scoring machine, having led the National Hockey League three times in the past six seasons. But the Russian superstar found himself in a slump in 2010—enough of a dry spell, in fact, that he resorted to extreme measures. Frustrated with the CCM sticks he'd been using as part of a multimillion-dollar endorsement deal, Ovechkin began experimenting with other manufacturers.

In the high-priced world of sports endorsements, where athlete and brand are contractually wedded, it was as close to infidelity as you can get. To avoid the possibility of legal problems, Ovechkin covered the rival companies' sticks in black spray paint to obscure their logos.

For Ovechkin, it was an act of desperation. For CCM, which is owned by Reebok, a subsidiary of Adidas AG, it was a branding nightmare. But for another company, it was a golden opportunity. And the timing couldn't have been better.

Bauer Performance Sports—CCM's long-time rival in hockey equipment—was laying the groundwork for a major push into Russia and Eastern Europe. The imminent Sochi Olympics would be the perfect spotlight: Hockey, after all, is a Winter Olympics glamour sport. All Bauer needed was a spokesman for its Russian invasion. Ovechkin, a celebrity in Moscow, would do nicely.

When the two sides sat down to discuss an endorsement in the summer of 2011, the talks culminated in a six-year deal for untold millions (Bauer won't discuss financial terms).

Russia beckons because the hockey market in North America is a mature one that is no longer growing like it once did. "They've been planning for this for a while now," says Trevor Johnson, director of equity research at National Bank Financial. "The Olympics are a good platform, so they want to take advantage of that."

And as a public company, Bauer can't stand still—especially as one whose stock price has more than doubled in the past two years, and is now being watched closely by investors to see if it can maintain that torrid pace. There are mixed signals so far: Revenue rose 7% in fiscal

2013, to $400 million. But profit dipped 16%, to $25.3 million, as Bauer spent to acquire smaller equipment makers to bolster its manufacturing operations. That strategy is designed to spur sales at home, while feeding more products into Bauer's growth markets overseas.

"Russia is our single biggest growth market today," says Bauer CEO Kevin Davis. "It's the faster adoption of Western brands by the Russian consumer that is driving our expansion there."

But while the Olympics and Ovechkin give Bauer two out of three key ingredients for its Russian invasion, the last piece is the hardest one: logistics and distribution. Beyond the challenges the sheer vastness of the nation presents, just finding retailers that can sell the brand properly is a challenge.

Yet the company is pinning big hopes on the strategy working. Bauer isn't only trying to reinvent the Eastern European hockey market; the company, founded in 1927 by the Bauer family of Kitchener, Ontario, is also in the process of dramatically reinventing itself.

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When Ovechkin came into the NHL nearly a decade ago, Bauer was a much different outfit. The company, which has gone through numerous owners over the years, was bought by Oregon-based Nike in 1995, as the global shoe giant launched a foray into hockey. It was a deal that would stamp Nike's famous swoosh onto the game, doing for skates what Air Jordan shoes did for basketball. Or so Nike thought.

The deal never panned out for Nike, which was often criticized for the sub-par quality and high prices of its gear. As for Bauer, its brand suffered. In 2008, Nike retreated from the business, selling Bauer to private equity firm Kohlberg & Co., and Quebecker-turned-Floridian businessman Graeme Roustan, who pledged to revitalize the brand. The $200-million (U.S.) selling price was barely more than half the $395 million (U.S.) Nike paid for Bauer's then-parent, Canstar, 13 years earlier. Though Bauer's headquarters now reside in Exeter, New Hampshire, it has operations in Mississauga, Ontario, and in Saint Jérôme, Quebec, and more than 60% of its shares are held by Canadian investors.

While Nike's hockey ambitions took a toll on Bauer, Davis is careful not to disparage the former owners. (He joined the company as chief financial officer in 2004, became chief operating officer in 2006, and was appointed CEO by the new owners in 2008.) He acknowledges hockey wasn't a priority for a company that dominates the athletic shoe business. "We learned a lot about different ways to do business," Davis says. "The difference is, of course, we were a very, very small part of Nike. And if you're at a leadership level there and deciding where to make your investments, you're going to make it in footwear and apparel—because the growth opportunities are much bigger. We were quite happy to get new owners who had the desire to invest in ice hockey equipment."

Once the deal with Nike had closed, Kohlberg and Roustan set about recapitalizing the business, culminating in a 2011 initial public offering. A private-equity player like Kohlberg won't be a Bauer owner in the long term. The firm generally has a five-to-seven-year horizon on its investments; Bauer's IPO was the first step in Kohlberg cashing out. At the start of November, Kohlberg sold another 6.3 million of its Bauer shares for $12.15 each, reducing its stake to about 12%. The firm has done pretty well on its investment so far: The sale price of the shares was more than 60% higher than the IPO price.

The Bauer that emerged from the IPO was leaner and more hockey-centric than it had been in a long time. And now that the company was public, it had investors who would be looking for growth. But hockey enrolment numbers in Canada and the U.S. were flatlining, if not falling slightly, as some parents steered their children toward sports that involve fewer injuries and lower costs.

So Bauer didn't stay hockey-centric for long. Almost immediately, it went hunting for acquisitions, racking up a series of deals that pushed the company into new areas, such as lacrosse and baseball.

After buying hockey brand Mission-Itech of Kirkland, Quebec, in 2008, Bauer purchased New York-based Maverik Lacrosse in 2010, giving it an entrée to a sport whose equipment has similar designs and technology to hockey. Then in June, 2012, Bauer spent $64 million (U.S.) to buy Cascade Helmets Holdings of Liverpool, New York. A few months later, in October, it acquired Inaria, a sports apparel and uniform manufacturer in Toronto. And in April of this year, Bauer paid $4 million for Combat Sports, an Ottawa company that specializes in composite materials for bats, as well as for lacrosse and hockey sticks.

The strategy, explains Davis, is to pull other manufacturers into the Bauer fold—manufacturers that can help drive innovations in hockey gear, while Bauer meanwhile also injects new capital into the original businesses so they can grow. Athletes tend to want the same things, regardless of sport, Davis says: light, durable, high-tech gear that makes them better at what they do. “It was a reasonable extension for us to say, can we take what we are really good at in ice hockey and leverage it in other sports.”

The Nike days are long gone. “Other than the fact that we still manufacture, sell and design Bauer hockey products, we are a completely unrecognizable business compared to what we were under Nike.”

But Bauer’s acquisition binge was to change the nature of the now-public company in another way as well: Bauer is using its balance sheet to buy growth. “When you look at Bauer with their legacy hockey business, because North America is pretty saturated—just not a lot of participation growth—there’s really not a lot of organic growth there,” says National Bank’s Johnson. “Hockey is obviously still the meaningful chunk of their business, so they’ve been kind of forced to acquire just to keep the growth momentum on track.”

The problem with that kind of strategy is that it eventually burns itself out: The well of acquisition candidates runs dry, the balance sheet tightens or the company finds itself too levered as a result of deals. Bauer needs market growth as well.

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If you are a young Russian hockey player growing up in a major centre like Moscow or St. Petersburg, finding Western hockey equipment is not as hard as it was 20 or 30 years ago. Since the fall of the Soviet Union, North American brands such as Bauer and CCM have increasingly found their way onto the shelves of higher-end sporting-goods stores. Western gear is widely used by top players.

Bauer sits atop the pro market, commanding the lion’s share of players in the Kontinental

Hockey League—Russia's version of the NHL—over brands like Easton, Reebok, CCM and European-focused manufacturers such as Torspo and Russia's EFSI and Miklin.

Of the 472 players in the KHL, 257 of them use Bauer sticks (representing about 54% of the league), 394 wear Bauer skates (83%), and 324 wear Bauer helmets (69%), according to the company's data.

But step outside the metropolitan centres, and beyond the professional levels of the game, and top hockey equipment becomes more expensive or, depending on where you live, a lot harder to get.

Sam Babintsev, a 19-year-old right winger in his second season with the Ontario Hockey League's Mississauga Steelheads, remembers growing up in the industrial city of Angarsk, a remote stop on the Trans-Siberian Railway that is closer to Beijing than it is to Moscow. He learned to skate at age 4 on a lake near his family's home. "When I was in Siberia, I used heavy sticks, heavy skates," Babintsev says. "Sometimes I bought steel sticks." Those sticks were good for cross-checking, he jokes, but less than ideal for shooting.

When Babintsev moved to Moscow at age 9, his horizons opened up. Western brands, particularly Bauer, were far more available. The only problem was the price. "Expensive," Babintsev says. "In Russia, it's maybe twice as expensive" as Canada.

Bauer is attempting to solve those two problems—of price and supply—by cracking the distribution nut and making gear, including entry-level gear, available in cities across Russia. If the expansion works, a stick won't have to sell for double what it does in Canada.

"There are what we call keystone or established price points in hockey, in every major category, that have been the same for the last decade," Davis says. "Those price points haven't moved. What has changed is that the performance of an entry level pair of skates, an $89-to-$99 pair of skates, is drastically better than it was 10 years ago.

"If [Russian players] were using equipment from a company that didn't have access to the same technology that we do, and they pick up a pair of Bauer skates that are 40% lighter than the skates they are using…" That's how Bauer will win in Russia, he figures.

Which is where Ovechkin comes in as brand ambassador. For the past two years, the Washington Capitals star has been the marquee attraction at special events Bauer stages to showcase its equipment for Russian kids—and their parents. Last year, the company hosted an instructional camp for young players on the skating rink at Moscow's iconic Gorky Park. The kids were given Bauer equipment to try. And during the NHL off-season, Bauer hosted hockey practices at a Moscow arena, with Ovechkin leading the kids through drills.

In the absence of large sports-equipment chains that span the whole country, Bauer needs to find retailers that can sell hockey gear the way it wants the equipment sold. "It's about going into a region, finding folks who are capable of retailing our product and having the service to the consumer that we require for our brand," Davis says. "It's a deliberate process; it takes time."

For help with distribution channels, Bauer has partnered with Intercommerce, a company that specializes in importing consumer goods to Russia. Bauer's own people on the ground seek out retailers who are interested in allowing a special Bauer-only section in their store. "It's almost like a shop inside a shop," Davis says.

The approach allows Bauer to retain some control over the way its products are sold. So far, the company has grown from 20 retail partners three years ago to about 150 sporting goods and department stores now. Countries like Latvia, Belarus and Kazakhstan are also on Bauer's radar.

The question, though, is how much room is there to grow Bauer in Russia and Eastern Europe. Even in Canada, data on the hockey equipment market is difficult to come by for financial analysts. Eastern Europe is tougher yet. "It's a very specific question in an area where data is limited," says National Bank's Johnson. "Trying to find stats on Eastern European and Russian hockey participation [and] the amount they actually spend on gear is very challenging. We've had a lot of problems trying to aggregate that."

The other burning question is whether the gains to be made in new markets can offset the maturation of the hockey equipment market in North America. That's unlikely, given the sheer size of the Canadian and U.S. businesses. Though Bauer doesn't break down its financials by sport, Davis estimates that roughly 90% of the company's $400-million revenue in fiscal 2013 came from hockey. Of that figure, $296 million was earned in North America, while the rest of the world, including large retail distribution channels in Scandinavia, accounted for $104 million. Though Russia and Eastern Europe aren't broken out, they would represent a small slice of that pie. So swift growth in those areas wouldn't translate into a major impact on the balance sheet. Not for now, at least.

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Bauer opened its first Siberian office in June, which will act as a distribution and marketing hub for the region.

The outpost is located in Novosibirsk, Russia's third-largest city after Moscow and St. Petersburg. It is still more than 1,400 kilometres from Sam Babintsev's hometown. But it's a start.

"Obviously [Siberia] is not easy to get in and out of, or not easy to get to," Davis says. "So, having a localized office there with our distribution partner, we're able to service the teams out of that region and really continue to pick up market share."

Throughout the country and digitally, advertisements showing Ovechkin in his Washington uniform have been rolled out in advance of the Olympics. The ads speak directly to young Russian hockey hopefuls, with slogans in Cyrillic that seem almost reminiscent of old Soviet posters encouraging the workers to press on: "We see your hard work. We see your return. Long hours. Defeats and victories. We see you," the text proclaims, atop a heroic picture of the NHL star.

Bauer expects its sticks and skates will be used by many of the hockey players competing in Sochi, including much of Canada's squad.

When Ovechkin steps onto home ice, Bauer will be hoping he scores—on the ice, but more importantly, for the brand. Russian eyes will be on his stick, his skates, his helmet and gloves. If all goes right, it will be the start of a beautiful relationship.