

Puma AG MarketBuster

Summary

In 1993, the German sports shoe manufacturer Puma was extremely poorly positioned in the industry and was one of the most undesirable sports brands in the world. The company was very close to bankruptcy as a result of a few key, interrelated issues that had persisted since the company's IPO in 1986, namely, a centralized corporate structure, high-cost production in Germany, and an inability to keep up with global trends. Additionally, in the US, the company had lost control of its licensees who operated in favor of maximizing returns and had no vested interest in maintaining the brand image of the company.¹

At the time, to be competitive, a sports-shoe company needed to project an image of "cool" to the consumer. Specifically, companies such as Nike and Reebok spent significant amounts to capture endorsement contracts with leading athletes (such as Michael Jordan in Nike's case) in order to enhance their brand's image. Other companies, like New Balance and Adidas, looked to enhance their brand by sticking to alternative paths. In the case of New Balance, the company catered strictly to older customers with varying shoe widths in the running market. Even when it had a potential commercial success with one of its trail running shoes, the company refused to pursue exploiting the fad.²

A focus like that of Nike or New Balance was exactly what Puma lacked. In order to gain market share and return to its pre-IPO profitability, it needed to determine how it was differentiated from the other companies in the industry. Puma engaged in a three phase strategy to reposition the company amongst its competitors. The strategy was very successful and growth at Puma was remarkable, with sales increasing 30% every year from 1997 through 2003. In 2004, the company's earnings were 257 million euro on sales of 1.53 billion, a significant step up from the losses seen in 1993.

The Story

The company was originally started by Rudolf and Adi Dassler under the name *Gebrüder Dassler Schuhfabrik* in Herzogenaurach, Germany in 1924. The company was renamed *PUMA Schuhfabrik Rudolf Dassler* in 1948 by Rudolf between the two brothers. Adi left the company to found his own shoe company, Adidas. The company went public in 1986 and was immediately followed by the retirement of Rudolf's son, Armin. As of 1993, the company had not made a profit since before going public.³

In hopes of revitalizing the company, Puma's board hired the company's 30-year old marketing director, Jochen Zeitz to be the CEO. Zeitz had very little experience prior to coming to Puma, having only worked with Colgate-Palmolive for two years in the US and Germany.⁴ Puma's brand image had been severely devalued through years of deep discounting and bargain-store sales. To combat high costs, a low brand image, and a lag in keeping up with trends, Zeitz implemented an ambitious three-phase plan.

In the first phase of this plan, Zeitz did what any good executive might do upon assuming leadership of a failing firm: he cut the fat. He led a severe, four-year long campaign of cutting costs, in which he nearly halved the payroll to 367 employees and closed the production plants in Germany, instead outsourcing production to Asia. In addition, Zeitz bought back licensing rights in the US so that he would have closer control over brand image and distribution.⁵

¹Stevenson, 2003.

²Ibid.

³Tomlinson, 2004, p. 60.

⁴Ibid, p. 61.

⁵Ibid, p. 62.

By this time, Zeitz had realized what many others in the industry had as well, that nearly 80% of customers do not wear their shoes for the intended activity of the shoes (i.e. running, basketball, tennis, etc.).⁶ Zeitz, therefore, decided to market the Puma brand as a more fashionable alternative to the more mainstream brands. He considered that increasing the aesthetic and marketing appeal of the shoes instead of the performance characteristics of the product would be highly beneficial to the performance of Puma among its target market. Therefore, in 1997, he decided to embark in a new marketing strategy in the second phase of his company repositioning.

MarketBusting Moves

#33: Shift the dimension of merit

In the second phase of Zeitz's repositioning plan, he aimed to reinvent Puma as a fashionable shoe brand. This move is consistent with "Shifting the Dimension of Merit" in which an existing need with known and adequate solutions is better served by a new product or service that shifts the standard of comparison. In the past, companies like Nike and Reebok were fashionable brands; however, the companies were still concerned more with creating performance footwear and promoting the brand as that of a performance footwear company. To some degree, the most fashionable shoes were those perceived to be of the highest performance by consumers whether due to the actual technology contained in the shoe or to the particular celebrity promoting the shoe (e.g. Michael Jordan and Air Jordans).

Under Zeitz's plan, the Puma would be creating shoes that were fashionable because they looked good and because they were promoted as a fashionable shoe, not a performance shoe. Puma intended customers to now compare athletic footwear based on style and fashion, not performance as was done previously. Keeping in mind that only 20% of customers used their shoes for the intended purpose, Puma shifted the dimension of merit to a more appropriate standard.

To promote the brand as a young, hip, trendy brand, Zeitz and Puma partnered with Monarchy/Regency, a film and television production company, who purchased a 12% share in Puma (a share that grew to 40% before it was sold in June 2004). Through this partnership, Puma obtained free advertising through product placement in films like *Pretty Woman* and *JFK* as well as in television shows like *Will and Grace* and *Friends*. The connection with Hollywood deepened when celebrities like Gwyneth Paltrow and Madonna were seen wearing Puma.⁷ The fact that Puma could obtain free publicity without having to pay these celebrities was key to their growth as a fashionable brand

Further, the company began endorsing more controversial and unique athletes, such as Serena Williams (early in her career), Nicolas Anelka, a notably emotional and controversial French soccer player, and the Jamaican Olympic team, known as a laid-back, "cool" group of athletes. They produced clothing for these teams that were stylish, yet comfortable, and very provocative. For example, the company was at the center of controversy in 2004 when the Cameroon soccer team was fined by FIFA for wearing a one-piece kit designed by Puma. This controversy only spurred sales further, as the target market of the brand seemed to be attracted to a counter-cultural and non-conventional image in the company from which they purchased apparel and footwear.

The company also opened boutiques known as "concept stores" in select cities around the world to sell selected products. Though the stores do make money in themselves, the purpose of the stores is more to build Puma as a brand rather than generating revenues. Currently, the concept stores only generate around 9-10% of total company revenues. However, the stores are infinitely valuable

⁶ Stevenson, 2003.

⁷ Tomlinson, 2004, p. 63.

Key Lessons

Following the Marketbusting move in Phase 2, growth at Puma was remarkable, with sales increasing 30% every year from 1997 through 2003 and would be expected to continue in coming years. In 2004, the company's earnings were 257 million euro on sales of 1.53 billion, a significant step up from the losses seen in 1993 before Zeitz took charge of the company.⁸

The company continued its charge forward through implementing the third phase of its plan beginning in 2002 in which it aimed to become the most desirable "Sportlifestyle" brand on the market. Puma continued exploring the potential of its brand by increasing the brand's desirability and turning this increased desirability into growth in a multitude of international markets and remains successful in its positioning in the present day.⁹

Puma currently plans to have 50 concept stores in operation by 2006 and is actively using the establishment of these concept stores to expand into markets in Eastern Europe and Asia, effectively allowing the company to escape the somewhat mature life cycle of the American and Western European markets. In addition, the company is maintaining its products in high-end, high-margin channels such as concept stores, department stores, and boutiques, lending to the trendy image of the product and allowing the company to command a more favorable bottom line.

The major threats to the company in the future mainly stem from the fact that fashion trends do not often stay in one place for long periods of time. If Puma wants to maintain its position on the top of the fashion food chain, it will need to consistently anticipate and fulfill the fashion demands of its consumers, as well as maintain an air of modernity and relevance. As Puma has now successfully shifted the dimension of merit in terms of its own performance as a company and has reaped the vast benefits, it must now deal with the reality of operating and competing in an industry characterized by rapidly changing trends and fickle consumers.

⁸Geiger, 2005.

⁹'Jochen Zeitz: Chief Executive Officer and Chairman of the Board: Puma AG', 2005.

DRAT Table, Puma AG**SOURCE**

External

Powerful Incumbents	Large, established competitors: Nike, Adidas, Reebok competing along same metrics (performance), competing for major athletic endorsements
Opposition from advocacy groups	Potential discomfort with some of Puma's more provocative outfits
Risk to key external stakeholders	NA
Inertia	Company is used to being secondary to established companies, not being trendsetting
Disruption of customer's system or process	NA
Changes in standards or regulations required	NA

Internal

Internal political maneuvering	Major cost-cutting necessary, need to reconfigure distribution channels/method of conducting business
Reluctance or resistance by those needed for active implementation	Large job losses in Phase 1, major business change in Phase 2, need for employee enthusiasm and cooperation
Resource Constraints	Accumulated losses over past years, need for infusion of capital to embark on rebranding campaign

Platform changes required

Human resource and skills platform	Greater emphasis on marketing orientation, trendsetting skills, need for employees with such abilities
Logistics platforms	Divest production facilities in Germany, outsource production in Asia
Distributor platforms	Concentrate more on high-margin retail channels, development of concept stores
IT and database platforms	NA
Technology platforms	NA
Assets, operations, and systems platforms	Divest of underperforming assets/operations, concentrate on more fashion-oriented assets and systems

Marketbusting Kite

Element	Needed to Support the Marketbusting System
Agenda The key things that the critical people spend time on	1. Watching developing fashion trends 2. Searching for appropriate celebrity sponsors 3. Developing high-performance, fashionable footwear 4. Managing product releases 5. Optimizing distribution strategies 6. Building brand equity
Norms What principles and behaviors are valued?	1. Passion 2. Openness 3. Self-belief 4. Entrepreneurship
News What information and measures are paramount?	1. Sales 2. Segment growth 3. License sales 4. Liquidity/cashflow 5. Investment in product development/design
Allocations What gets resourced and how are people rewarded?	Resources go to 1. Product design/product development 2. Retail store expansion 3. Sport endorsement Rewards and recognition for successes go to 1. Flexibility 2. Social competence 3. Creativity
Structure Power, authority, responsibility structure	1. R&D in Germany and America 2. Strategy in Germany 3. Matrix organization 4. Emphasis on "virtual HQ" 5. Core competency centers
History Key routines that have developed and drive activities	1. Production of performance athletic footwear/apparel 2. Marketing brand to hip, trendy customers 3. Portraying brand as fashionable 4. Utilizing concept stores to test products
Symbols Meaningful actions, ceremonies, icons	1. Puma logo 2. Stripe

Sources

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