

## **Chapter 2: Brief Introduction to the Company, the Product, and the Market**

This chapter has the objective of giving a brief introduction to the company and umbrella brand Puma, as well as to the licensee, Cosmopolitan Cosmetics, and its licensed brand, Puma Fragrances. Also, the most important characteristics of the fragrance market and the different steps in developing fragrances are to be outlined.

### ***2.1. Puma History***

#### ***2.1.1. The Foundation and the First Thirty Years of Puma***

In 1924, Rudolf Dassler and his brother Adolf founded the shoe-factory “Gebrüder Dassler Schuhfabrik” in Herzogenaurach, Germany. During the Berlin Olympic Games in 1936, almost every member of the German Football team wore Dassler shoes and American hero Jesse Owens won four gold medals, wearing Dassler shoes. (“Puma Company History”, n.d.)

Despite the company being successful, the two brothers fought and split up in 1948. While Adolf Dassler continued the company, he and his brother had founded, registering it in 1949 under its new name Adidas, Rudolf Dassler create his own shoe-factory “Puma Schuhfabrik Rudolf Dassler” in 1948 to compete with his brother Adolf right next door in Herzogenaurach. The same year, Rudolf Dassler introduced the Puma Atom, Puma’s first football shoe. (Steinkirchner, 2004; “Puma Company History”, n.d.)

In 1970, Brazilian football star Pelé helped Brazil to win the World Cup in Mexico wearing Puma football boots. The next major sporting success came in 1985 when Germany’s Boris Becker won Wimbledon wearing Puma shoes and playing with a Puma

racket. He was the youngest and only unseeded player to win this prestigious event. (Steinkirchner, 2004; “Puma Company History”, n.d.)

Despite these prestigious events in the company's history, by the end of the eighties, Puma was an “economic basket case” sold in big department stores for very little money. The problem was that Puma had lost itself in the mass market and was still producing in Germany, which made their shoes too expensive and not competitive enough. They needed a new strategy. (Steinkirchner, 2004)

### ***2.1.2. The Turnaround***

In 1993, at age 30, Jochen Zeitz was named chairman and CEO of Puma AG. This same year Puma lost \$32 million on sales of \$190 million. As its fourth chief executive in only a few years, Zeitz was striving to return the 45-year-old sports apparel company to profitability by cutting costs by 40%. Thus, he became the youngest chairman in German history to head a company listed on the German stock exchange. Zeitz shifted Puma’s production from Germany to Asia, and when U.S. retailers affronted the brand, he contracted Antonio Bertone, a young hipster who cruised clubs and concerts giving the shoes away to trendsetters, as well as pitching the shoes to urban boutiques where the same young crowd hung out. (Leand, 2001; Kitchens, 2002)

The positive results of the strategy could already be seen by 1996, when Puma earned \$29 million on sales, which meant a leap of 18% to \$225 million. Since 1996, Zeitz has continually rolled out new styles and the upward trend of Puma seems to have no end. The financial results for the first quarter 2001 showed a consolidated sales increase of 18.1%, a rise of the gross profit margin to 14.1%; and an increase of earnings per share of

14.3%. In 2004, Puma reported the strongest quarter in history with a sales growth of almost 17% (23% currency neutral) in the third quarter, also achieving their highest gross profit margin ever in a quarter. For the first nine months of 2004, currency neutral sales increased by 22.5%. In Euro terms, sales were up 20.1% to €1,257 million, thus nearly reaching full year sales of the fiscal year 2003. (Leand, 2001; Kitchens, 2002; “Puma Press release”, 2004)

Puma’s global branded sales, including consolidated, as well as licensee sales, totalled €90 million during the third quarter of 2004, which signified an increase of 17.2% (15.2% in Euro terms) over the previous year. Sales from licensees were up by 15.3% or 14.5% respectively. (“Puma Press release”, 2004) In the fourth quarter consolidated sales were up 20%, and with 51.9%, Puma reached the strongest gross profit margin in a fourth quarter. The earnings per share reached €2.31 in the fourth quarter of the fiscal year 2004 compared to €1.51 in the quarter of 2003. (“Consolidated financial results 2004”, 2005)

The highlights of the fiscal year 2004 were that for the first time in history worldwide brand sales exceeded €2 billion and consolidated sales were almost up 23% currency adjusted. The income before taxes reached a record level of €71 million and the earnings per share increased 43% over the whole fiscal year to €6.06 (“Consolidated financial results 2004”, 2005). After looking at some interesting and important figures that prove the success of Puma, the next section will explore the strategy of Puma that made this about-face possible.

## *2.2 Puma's Strategy*

In order to reach this great turnaround, Zeitz followed his goal to reposition Puma as a brand and build a competitive advantage through being not just a sports brand, but a sports lifestyle brand. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] (Cosmopolitan Cosmetics GmbH)

In order to achieve this goal, Puma emphasises its distinctiveness, individualism, spontaneity, internationalism and sporting heritage. A very important part of the brand strategy is to keep a close eye on the distribution channels so that the products remain desirable and do not become mass products in order to reassure sustainable growth. ("Puma Corporate Values", n.d.)

Puma is clearly focusing on fashion and therefore represents an obvious contrast to Nike and Adidas that clearly emphasise performance. Although performance remains to be very important to Puma, it always accentuates style even when getting into major sports. (Ray & Karnitschnig, 2004)

### *2.2.1. Company Structure and Corporate Strategy*

On the corporate level Puma's strategy is based on the mission "to be the first truly virtual sports company" given that, in order to be successful in an increasingly dynamic and fast-paced industry, it is of absolute necessity that the organisation be as flexible and efficient as possible. ("Puma Company Structure", n.d.)

A virtual organisation is basically the exact opposite of traditional vertical strategies. Instead of managing activities of the value chain through direct ownership of businesses, virtual organisations obtain resources or strategic competences through building a network of independent enterprises, suppliers, and consumers that are connected through information technology in order to allocate skills, cost and access to another's market. (Fitzpatrick & Burke, 2003; Byrne, 1993)

A widespread feature related with virtual companies is an organisational object known as a hub, which is an irreducible core of a virtual company that contains all the fundamental organisational functions or the infrastructure needed to oversee the allocation, management and coordination of subcontractors or strategic partners as work advances through the value chain (Dickerson, 1998). Hubs usually hold only those executive functions that are crucial to their unique competencies and/or cannot be more efficiently/effectively executed by subcontractors. (Fitzpatrick & Burke, 2003)

In order to achieve this goal of becoming the first truly virtual sports company, Puma has decentralised its structure and has developed a virtual corporate structure, which is supported by a matrix organisation with a vertical (functional) and horizontal (geographic) focus.

#### Vertical Focus

Puma's virtual headquarters are comprised of decentralised core competency centers located within Germany, the U.S. and Hong Kong. Dispersed amongst these core competency centers are Puma's seven corporate functions consisting of product, product supply, brand, growth, structure, brand value and culture. Each of these functions represents several sub-functions, which are managed

comprehensively with a "big picture" perspective. These functions have also been strategically positioned where specialisation and management know-how is optimal.

#### Horizontal Focus

Through its matrix organisation, Puma achieves further geographical focus through its subsidiaries, as those in Germany, USA, Hong Kong, Austria and Australia are also regional hubs. The hubs were created to oversee Puma distributors, licensees, as well as some subsidiaries within the respective regions. Germany is responsible for Western Europe, USA for the Americas, Austria for Eastern Europe, Africa and the Middle East, Hong Kong for Asia, and Australia for the Pacific Region. This structure places Puma in a dynamic position to capture regional differences and local variances, enabling the company to fine-tune and incorporate them into its global brand initiatives. ("Puma Company Structure", n.d.)

In order to manage the matrix organisational structure, Puma created the Group Executive Committee, which incorporates the functions of brand management, product, finance, and growth management, legal and organisational structure into one central part. The cross-functional communication, which results from this accomplishment, additionally enhances Puma's corporate agility. Through this lively structure, Puma is able to realise efficiencies in areas such as product lifecycle, management and sourcing. The aim is to reduce lead times and costs while simultaneously encouraging improvement and quality. These advances are the source of Puma's competitive advantage, which is based on the

corporate strategy and company structure that have been described above. (“Puma Corporate Strategy”, n.d.)

Summarising, one can say that Jochen Zeitz did something with Puma most people would have never thought possible. He revived the brand that was thought to be dead and made it into one of the most desirable sports brands in the world. Ten years ago Puma was ten times smaller than its competitor, Adidas, and positioned itself as a mere sports brand that mainly sold soccer shoes in department stores and even in bargain basements. Now the brand stands for the successful mix of the influences of sport, lifestyle, music and fashion, with its products sold in more than 130 countries around the world. The brand sales of Puma in 2004 exceeded €2 billion for the first time in history and compared to Adidas brand sales of 2004 that nearly reached €6.5 billion, one can see that Puma has been able to close the gap significantly from being ten times smaller to only being about three times smaller. (Cosmopolitan Cosmetics GmbH; “Consolidated financial results 2004”, 2005; “Adidas-Salomon Kennzahlen”, n.d.)

The product range now includes athletic and lifestyle apparel, footwear, and accessories. Even though Puma was an undesired and “uncool” brand in the early 80’s it used this slump as a platform to grow and unfold its enormous potential to get off and get going. Today Puma is the perfect example for a revival success story of a brand believed to be dead. (Cosmopolitan Cosmetics GmbH)

### *2.2.2. Puma's Challenge*

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] (Cosmopolitan Cosmetics GmbH)

Another question and challenge for Puma is how to stay cool and desirable in the future since they have had an impressive turnaround and a very steep increase in success that could lead to oversaturation which could mean problems such as remaining at the same level of creativeness, distinctiveness and trendiness in the future. Their answer to fulfil the high expectation they have established is through developing first-class collections, clearly distinguish themselves from their competitors, rely upon their differentiated distribution policy, produce an artificial shortage of the products, and supply the consumer with entertaining communication. (Kitchens, 2002; "Puma Brand Strategy", n.d.)

Puma has high brand awareness in most European countries, the Netherlands leading with 93%, followed by Switzerland with 89%, Germany with 83%, then Spain with 82%, Poland with 76%, the United Kingdom with 76% and Italy with 56%. (Cosmopolitan Cosmetics GmbH)

Puma has been more and more active in the licensee business with the following licensees:

Sunglasses: Licefa Perfektion, Germany

Swimwear: Le Bonitas, Italy

Bodywear: Schiesser-Lifestyle, Germany

Socks: Dobotex, Netherlands

Watches: EganaGoldpfeil, Germany

Fragrances: Cosmopolitan Cosmetics, Germany

A very important aspect of Puma's strategy is to provide solid guidance to Puma licensees so that the brand's objectives and direction are maintained, and the new image that has been established over the last years does not get diluted. (Cosmopolitan Cosmetics GmbH) In the next, part a closer look is taken at the licensee Cosmopolitan Cosmetics and the brand extension Puma Fragrances.

### ***2.3. Cosmopolitan Cosmetics GmbH***

In October 1997, all fragrance and cosmetics activities of the Wella-Group, which consisted of Muelhens, Rochas and Gucci perfumes, and all subsidiaries and regional offices, were combined under Cosmopolitan Cosmetics GmbH & Co KG. The headquarters were established in Cologne, Germany with manufacturing sites as well in Cologne and Poissy, France. Cosmopolitan Cosmetics is now present in over 150 countries worldwide, owning subsidiaries or regional offices that cover all important geographic areas of the fragrance business. (Cosmopolitan Cosmetics GmbH)

Their licenses include Gucci Perfumes, Gabriela Sabatini, Cindy Crawford, Tom Tailor, Anna Sui, Mont Blanc, Ellen Tracy, Puma and many more. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] (Cosmopolitan Cosmetics GmbH)

An interesting unexpected turnaround happened two years ago, in March of 2003, when Procter & Gamble (P&G) acquired 77.6% of Wella's voting shares paying 3.2 billion Euros in cash to the descendants of the founder of the German hair care and cosmetics business. Since Cosmopolitan Cosmetics is a 100 percent daughter company of Wella, P&G also is now preparing to plug Cosmopolitan Cosmetic's fragrance brands into its own fragrance business, where its licensed brands like Hugo Boss, will provide Cosmopolitan Cosmetic's brands with amplified geographic reach. This will also have a positive influence on Puma Fragrances that has been very successful in Germany and still has great potential internationally. (Ellison, 2003; Ellison & Sidel, 2003; "Family matter in hair care sector", 2003)

*2.3.1. Puma Fragrances*

[REDACTED]

[REDACTED] (Cosmopolitan Cosmetics GmbH)

[REDACTED]

[REDACTED] (Cosmopolitan  
Cosmetics GmbH)

### *2.3.2. Development of a New Fragrance*

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]



### ***2.3.3. Dealing with a Young Target Group***

Adolescents are more endeavoured than others to define their own personality and are constantly searching for recognition and acceptance. Brands give them the possibility to form themselves and their personal role. Youths use fragrances a lot more than other age groups and are also more interested in new launches. They are willing to try something new and switch brands and are also very responsive to brands. Therefore, young target groups are very attractive for the brand industry given that they have a very high interest in brands. The fragrance market has the objective of establishing a connection between the supply of the brands and the demand of the target group. (Cosmopolitan Cosmetics GmbH)

### ***2.3.4. The Fragrance Market***

The fragrance market is embossed by licensed brands out of all kinds of product categories. Although there are also very few concept brands that are not based on a known brand name, experience has shown that fragrances that are based on an already existing brand name are more successful because they can build on the already existing image. Since fragrances have a strictly emotional benefit, the image and the associations that are connected to the brand become especially important. Following are some examples for licensed brands in the fragrance market out of very different product categories:

|                |                  |
|----------------|------------------|
| Fashion:       | Jil Sander, Joop |
| Underwear:     | La Perla         |
| Shoes:         | Panama Jack      |
| Jewellery:     | Bulgari, Chopard |
| Leather goods: | MCM, Aigner      |

|                   |                 |
|-------------------|-----------------|
| Tobacco products: | Davidoff        |
| Motorcycle:       | Harley Davidson |
| Sportswear:       | Adidas, Puma    |
| Stars:            | Michael Jordan  |

A perfume is a luxury article that controls and is controlled by the mood and emotion of humans, like hopes, dreams and longings. Especially those aspirations are the driving force in the purchasing decision. Brand labels, designers and communication are references for impulses. Fragrances do not have a rational benefit. They create a strictly emotional world of experiences. This emotional world can be defined by society and consumer trends, by predominant values, desires and aspirations, as well as by brands and personality. (Cosmopolitan Cosmetics GmbH)

After having given a brief introduction to Puma, Cosmopolitan Cosmetics, and Puma Fragrances, as well as a short overview over the fragrance market, the purpose of the next section is to give some theoretical background in significant fields of marketing that are closely related to the topic and research.