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 €590 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 €371 million and the earnings per share increased 43% over the whole fiscal year to €16.06 (“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 sport lifestyle brand. (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

Puma faces a couple of different and very particular challenges, one of them being the fact that Puma has a diverse heritage and therefore a distinct current brand perception in different countries. In Central Europe, for example, Puma is perceived as the former soccer brand repositioned as lifestyle brand, while in Eastern Europe Puma is seen as a popular sports and soccer brand that is just upcoming as a lifestyle brand. In the United States and Asia, Puma does not actually have a heritage and therefore is positioned as a pure lifestyle and fashion brand. Hence, one of Puma’s challenges is to respect local particularities and to establish one coherent brand positioning worldwide. (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. (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

In 1996, Cosmopolitan Cosmetics established a license agreement with Puma and in 1997, the first Puma perfume, “Puma Independence”, was launched. This fragrance, in addition to the two subsequent, “Puma Challenge” (1998) and “Puma Sport” (2000), were male fragrances and purely sport positioned. Along with the repositioning of the umbrella brand, Cosmopolitan Cosmetics launched the fragrances “Puma Woman” and “Puma Man” in 2002 and repositioned the fragrance brand as a trendy sport lifestyle brand. In 2003, Cosmopolitan Cosmetics launched “Puma Flowing” for men and women simultaneously, which is called a twin launch, and in 2004 they continued with another twin launch “Puma Jamaica”. Each launch exceeded the success of the previous one. (Cosmopolitan Cosmetics GmbH)

The objective of Puma Fragrances’ brand strategy is to strengthen the worldwide star brand status of Puma Fragrances by reaching €100 million net sales in the fiscal year of 2007-2008 at the latest, and to be an international fragrance brand in line with the master brand’s image and activities. The strategy to achieve this objective is to offer a uniform brand positioning worldwide in order to ensure a homogeneous brand perception, to launch twin fragrances annually, supported by print campaigns and TV commercials, to build up the US and Asia-Pacific markets as future key markets and therefore further internationalise Puma Fragrances by entering new markets (e.g. UK, France). (Cosmopolitan Cosmetics GmbH)

There are various aspects based on which Puma Fragrances is one of the most promising brands in Cosmopolitan Cosmetics’ brand portfolio with a real strong base for
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success. First of all, Puma Fragrance has an enormous international potential due to the high brand awareness, and it is successfully targeting young people by being hip and cool. It is a brand that sets trends by always being in progress and motion, creating emotions and passion, thus holding a very unique position in the Cosmopolitan Cosmetics portfolio as well as in the fragrance market. (Cosmopolitan Cosmetics GmbH)

Looking at the development of net sales, it is impressive to see that in 2003, net sales increased by 61% which represents a result of 25% over budget for the second time in two subsequent years. (Cosmopolitan Cosmetics GmbH)

Puma Fragrances is launched in over 30 countries all over the world, the target group in each country being young people between 14 and 25 years old. The target group is also defined by the characteristics of being trendsetters and fashion-oriented, urban and multicultural. The members of the target group live an authentic way of life, stand by their own convictions and identify Puma as a trendy sport lifestyle brand. (Cosmopolitan Cosmetics GmbH)

2.3.2. Development of a New Fragrance

Since the failure rate in the fragrance market is extraordinarily high, the main goal for Cosmopolitan Cosmetics is to develop fragrances that are able to compete with the competition and avoid flops. Market research has the task of detecting the opportunities in the market and also of identifying the possible risks. In order to maximise the success and minimise the risks of a new product launch, consumer-oriented brand development, market research studies and professional marketing are applied. The development of a new fragrance from the beginning until it enters the market is always accompanied by thorough (Cosmopolitan Cosmetics GmbH)
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When a new fragrance is launched, an idea and concept are first developed and tested, qualitatively and quantitatively. After the decision for one concept is made, the fragrance, the flacon, which is the term used in the fragrance industry for the perfume bottle, the folding box and communication, are developed in accordance with the concept and each of those elements as well is tested quantitatively. (Cosmopolitan Cosmetics GmbH)

It is very important that the final product comply with the needs and wishes of the target group. This is assured through research across different projects like trend studies, consumer analysis, market analysis, analysis of the retail market, enquiry about relevant topics for the target group, as well as through the mentioned research accompanying the project of concept, name, fragrance, flacon, packaging and communication. The developing process reflects the permanent feedback with the consumer. (Cosmopolitan Cosmetics GmbH)

A fragrance has certain intrinsic and extrinsic effects on the consumer. Some examples for intrinsic effects are self-indulgence, stimulation, and self-esteem whereas social effects, erotic effects and the complying with social norms are extrinsic effects. In order to develop fragrances that are superior to those of the competition, the consumers' needs and wishes have to be fulfilled, while at the same time the fragrance has to fit the personality of the brand and meet the technical requirements of the fragrance market. (Cosmopolitan Cosmetics GmbH)
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.