

Environmental and competitive factors



Puma AG started their strategy by making the brand more profitable. The main changes that took place were from the company's accounting practices. During these changes and process of restructure, there are different political factors that must be considered e. g. the environmental issues. In today's world more persons and organisations are focusing on different issues regarding the environment. PUMA is outsourcing from other countries so it will have to deal with the different international and local laws that must be followed in order to maintain the continuous process of the development. Trade restrictions and tariffs are another important political factor that has to be considered since PUMA is following the one of the strategies of competitors like Adidas and Nike in outsourcing production in Asia. Asian countries have a considerable lower labour rate as compared to America and Europe. Another political factor would be the political stability of the company since it's a multinational company which produce and sell their products around the world it would be affected by the political issues and events of other partnering countries that they do business with.

Economic Factors

The Political Factors are connected to the Economic factors that affect the development process of the company. The monetary and stock exchange issues, economic situation and trends of the home economy and partnering countries are important due to the fact that the political factors impact on the social mentality of the possible customer. Also the different employment laws must be considered because different countries have different cultures and beliefs and regulations as far human resources are concerned.

Social Factors

The number of Social Factors might that affects PUMA's development process is more than any other factors because Social Factors have the most important impact or taste or demand of the customer regarding one product or service.

The increasing number people into sports is an advantage for PUMA because there will be an increased market size.

Another important factor is that sports are considered an important sector in the tourism industry.

Sports is considered a good form of exercise for persons who are or want to become fit and healthy.

The sports sector is somewhat of a lifestyle industry which has been constantly evolving in terms of personal taste, popular games as well as technologies (Plunkett Research Ltd 2008).

Sports such as Diving, Skateboarding and other extreme sports are gaining popularity and much be considered as an important factor in Puma's strategy-making and management.

The needs of Women in sports wear as there are increasing number of women entering the sporting world in the past few years especially in America. An average of 33% of female students play sports in high schools and the female population who play at the University has increased three (3) times. Woman are competing in almost every sport. (US Diplomatic Mission

to Germany 2008). As a matter of fact more girls and women who are participating in different sports that have traditionally been set out of bounds for women such as soccer, ice hockey, wrestling and rugby (US Diplomatic Mission to Germany 2008).

The company needs to young kids who play sports in their schools, this is based on age distribution and demographics.

Behavioural attitudes of customers are important, the company needs to what went wrong during the their first implementation strategy, where low quality, low cost, low priced products which eventually led to an overall low sales figure for the brand itself. As a result of this it can be concluded that customers are more geared towards high-value and lifestyle oriented products more people are availing luxury products. The reason behind this phenomenon is that customers believe that the higher the price of a product, the higher its quality.

Another factor is comfort, customers want to feel comfortable, and this is considered as one of the most important criteria of many customers in buying products and availing services.

The views of the media – the views of the company and the media are different on some very essential issues. Hence PUMA business strategy has to deal with the media and their differences, rather than changing the views of journalist (Evans 1987. p. 160) Also the Internet can have a negative effect in the sense that persons and other organisations can post anything they want to say on the web which can affect the brand and image of the company . A company's product or service is what it is and what the

customer thinks it is. PUMA may have their products on the market but a customer won't avail anything if he/she thinks that another company's brand or product is better (BAFA n. d.) Puma had already established its name in the market and had a track record of quality products so it wasn't hard for Puma AG to re-establish its name in the industry however it is hard to regain in quick manner its prior company image.

It is important to use fashion and role models to spread the brand and raise brand awareness to potential customers. The specific personality chosen to advertise the product has to be chosen well because that person would be considered as part of that brand. Seeing famous individuals from different fields of sports wearing the products of the company will help to re-establish the image of the PUMA brand.

Sponsoring major events can improve the awareness of the customers regarding the brand can also influence the behaviour of the customers towards the products, also sponsoring different famous individuals can influence the behaviour of the customers towards the products. It is said that the destination's brand image becomes linked and related to the event's brand image, and the event's brand image becomes linked to that of the destination brand (cited in Ritchie & Adair 2004, p. 239).

Ethical issues pertain to the corporate social responsibility or CRS of the company. It is the activity that helps the company to connect with the different ethical values, transparency, human resource relations, compliance with legal requirement as well as their respect for the communities in which they operate and works (cited in University of Miami n. d., p. 2). Recently

more companies are focusing on their activities and plans regarding CSR as part of the marketing strategy due to the fact that according to the study of the Economist Intelligence Unit or EIU, in cooperation with the Oracle Corporations, CSR has a great impact to the relationship and connection between the company and its important stakeholders such as investors, clients, workers, dealers, vendors and more importantly, the government (Economist Intelligence Unit 2005, p. 3). EIU conducted its survey during October 2004; using data from its respondents that consists of 136 executives and 55 investors. The outcome shows that 85% of the respondents believe that CSR is considered an important of their investment decision. The results doubled compared to the results of the study during 1999. Also 88% believe CSR is vital in the decision-making process. The study also showed that the most important benefits of SCR is brand enhancement (61%) (Economist Intelligence Unit 205, pp. 3-4).

Technological Factors

PUMA focuses on a series of R&D activities as well as applications of automation and new technologies, especially those that are connected to the Internet. Another factor that may affect development o is the maturity of technology since technology can be considered restless in terms of development. Global communication is also important because PUMA is a company operating in different parts of the world. Also different laws for e. g. intellectual property rights need to be considered.

Porter's competitive forces model (focusing on rivalry between competitors)

Puma AG's primary goal is in re-establishing their brand image and there are different forces that can affect the decision – making process as well as implementing different strategies.

Threat of New Entry – Puma AG was once the most admired brand in the world, re-establishment of this brand name will not be costly but there will be a great demand for initial investments as well as fixed costs for maintenance and other related costs.

Economies of scale – Puma needs to use the power of media and entail what they want customer to know about the company during the image rebuilding process.

Geographical Factors – This will focus on the different cultures that can affect the demand and the operations of Puma AG.

Brand Loyalty- This can be the main factor in the company's image development due to the fact that Nike, Adidas and Reebok had already established its name in the market and has gained loyalty from their current customers, however considering that existing companies have already had close contact and strong relationships with the customers the threat of entry into this industry would be low.

Competitive rivalry- PUMA has a moderate number of competitors which means that there are a small number of companies to share the sales of the sports apparel industry. Due to the fast market growth and continuous

improvement in these industry sales will increase but there will be a disadvantage in the industry because of the low cost of switching as well as low levels of product differentiation meaning customers can switch from one brand to another.

High need for strategies – Each company in the industry will have different strategies towards catching the attraction of customers.

High exit barriers – all machinery and capabilities are all specialised so it is difficult to sell these.

High competitive rivalry – since the size and trend of the industry is high and strategy management is important.

Supplier Power- Brand reputation and the inclusion of reliable suppliers is an important consideration. The main advantage is that the suppliers in this industry are fragmented since the destinations of the different suppliers are important for the production process so the powers of suppliers are not too high.

Changes in market distribution – This affects the overall performance of each and every employee included or operating in the industry. Fashion and trends are great factors that can push substitution for the customer which can also be prevented by strong customer loyalty and good customer relationship. Threat of substitution in this industry can be considered high due to the fact that each company has almost the same products and services that are being offered.

Great customer power over the performance of the industry due to the fact that their choice can greatly affect their behaviour towards the product and can also be affected by the undifferentiated products that are being offered by the players. However this can be compensated by the large number and size of the buyers as well as the importance of the products to the customers.

Task 2

Assess Puma's resources and capabilities

What are its strengths and weaknesses?

Strengths

Puma Strength lies in its famous brand name.

Puma can be seen as a young innovative brand, a sports lifestyle brand , a socially responsible brand

The company offers a variety of products such as Athletic foot wear, Apparel, Accessories, and Gloves.

Sponsoring Athletes – By sponsoring some of the world's most famous players like Deigo Maradona and Pele` Puma became established as one of the most important suppliers of soccer shoes and accessories. Sponsorship also helped Puma became the world market leader in tennis rackets.

Restructured cost efficient organisation -Low working capital and accounts receivables

Weaknesses

Very small number of outlets.

Unhealthy sales- Some of its products were sold cheap in a bid to facilitate customers from all classes of society. This cause upper class customer not wanting to wear Puma's products.

Financial Resources

Puma doesn't have allot of financial resources as compared to Nike and Adidas. Its subsidiaries in different parts of the world help the company have additional financial resources. From an accounting perspective establishing or implementing subsidiaries is an advantage because of different legal protections and substantial tax advantages. It will help to offset the profits as well as the losses of federal taxes and state and international levels in a part of a given business with another. Another advantage is the profits and losses of subsidiaries will be taxed where the subsidiaries are located and also liabilities and credit claims are locked in part of the subsidiaries and cannot be pressed to the company, hence the reasons why assets and credits of the parent company will be maintained and will continue its performance and the subsidiaries even if the subsidiaries experience financial problems.

This will help in joint venture establishment where a partnership of one or more companies that owns a portion of a new business operation.

Subsidiaries also has disadvantage one of which is that the accounting process will become more complex and difficult and legal paperwork can become lengthy and expensive.

During 2001, Puma AG produced €35.6 million in royalty because of its licensing business (Puma AG. com 2007, p 10), which enabled the company to have more financial resource via licensing or where it allows others companies or associates to use their technology, activities, processes as well as the Puma AG product name to produce new lines of products. Puma AG shares their knowledge and skills while earning money with the use of this licensing process and most importantly it will serve as an extension of their product line. Royalty fees happens to also be a mass since it is included in the law with accordance to intellectual property.

The main disadvantage of this method is that the product and brand will have the license from the company and will automatically have the image of the licensing company. Any problems with the product or brand can affect the licensing company, hence the reason why it is important to know the capabilities of the different companies who are wishing to have a licensing agreement from Puma AG.

Human Resources

Outsourcing the production process and procurement of raw materials to Asia was one of Puma AG's strategy since the labour and production cost in Germany and other European countries are very expensive. Asian countries has cheap labour and production cost and the materials that were needed were readily available. This strategy enables the company to reduce the working capital especially in the area of inventory by 21%, approximately 70% of Puma AG's logistics are outsourced. Outsourcing reduces the cost as well as economies of scale, it also will help reduce the physical space that

the business needs. Due to the above reasons Puma AG will be able to improve its productivity as well as its efficiency in terms of operations. In addition there is no need for specialist knowledge or the latest technology. Outsourcing can help to overcome different skills shortages (Barrett & Baldry 2003, p 158).

There are also several disadvantages to outsourcing such as less control over management which makes it to control the outsourcing provider than controlling own employees of Puma AG. Also the service of outsourcing is outside the business which is why it can cause waste of time, money and effort if one of the outsourcing company goes bankrupt because the company will then have to switch to another provider. Above all outsourcing can seen as very expensive and risky.

Intangible or Intellectual Resources

Research and Development (R&D) is one of the most important aspects of Puma AG. R& D management and development is been done in Germany and America which will help create new innovation that will cater for German and American sports. R&D is important since it handles the innovation process of the company which ultimately helps the company in gaining a competitive advantage by providing customers with new products, services and the latest development of the company from time to time. This allows the company to maintain a high level of interest from their customers. The customer feels that their products and services are made for their individual needs and demands, thereby allowing Puma AG to maintain its position in the market.

Puma is a very competitive organisation.

First, the company's financial position is extremely strong. The financial growth of PUMA has been phenomenal. Secondly, Puma is more diversified than the competition. The company markets a wide array of show-wear, which has been possible by early strategic

Puma's Strength

Puma's integrated partnership and acquisition strategy enables it to sustainably grow without diminishing the brand's equity and cannibalizing its core product line.

PUMA and the Alexander McQueen partnership: Alexander McQueen is a famous fashion designer who is known for the " juxtaposition between contrasting elements: fragility and strength, tradition and modernity and fluidity and severity". His collections are distributed in over 39 countries through 194 wholesale accounts including specialty shops and department stores.

The partnership with Puma is formed in 2005 and focuses on a footwear collection that conveys the physical and mental power of sports in an innovative way. This partnership can help PUMA expand its global market presence, distribution footprint and customer targets in a way that extends the brand into sports lifestyle without perplexing its core meaning. McQueen integrates unique his design capabilities with Puma's brand equity to diversify his talents. The purpose of this partnership is to represent the PUMA

brand through the powerful associations connected to athletic sports via the PUMA McQueen footwear product line.

PUMA and the Yashuhiro Mihara partnership: Yashuhiro Mihara strives to re-design sneakers. Mihara begins his shoe label, “Mihara Yasuhiro”, in 1997 and distributes the collection to 50 accounts a year later. The partnership with Puma is formed in 2000, five years before the PUMA McQueen partnership. Mihara’s core competencies in footwear design and development are aligned with PUMA’s core competencies in footwear design and development. They are also aligned on the vision of challenging the sneaker design. Specifically, Mihara’s collection with PUMA is inspired by animals and their environments in which they live. This is quite fitting for a brand represented by an animal. The purpose of this partnership is to represent the PUMA brand through the re-definition, re-vitalization and re-engineering of the sneaker via the PUMA Mihara footwear product line.

PUMA acquisition of Tretorn: Tretorn makes refined, yet simple rubber-made products. PUMA acquires Tretorn in 2001. This acquisition may not be as aligned with PUMA’s core brand, but it helps PUMA expand its global market presence, distribution footprint and customer targets. Tretorn’s brand strength in the rubber-made footwear category can help PUMA extend its brand into a recreational sports category, unlike the Mihara or McQueen partnerships which demonstrate the rawness and boldness that are generally associated with competitive sports. The purpose of this acquisition is to represent the PUMA brand as one that is functional for a recreational sports enthusiast, not one who is evoked by competitive sports footwear re-engineering and juxtaposed style elements.

PUMA acquisition of Hussein Chalayan: PUMA acquires a majority stake in Hussein Chalayan in 2008. Chalayan is highly regarded for his performance-based fashion productions. Chalayan is inspired by architectural theories, science and technology. According to PUMA, the relationship puts an emphasis on the company's more fashion forward ranges, as it continues to post growth in its performance categories of football, motorsport, running and sailing. Growth in core categories can plateau over time, but can be maintained through retention activities at the distributor and customer level. However, innovation and diversification are essential for fashion companies in a market of transient tastes and fierce competition. The purpose PUMA's acquisition of Chalayan is to adapt to the fashion forward market through an inorganic arrangement, rather than an organic arrangement, to penetrate a market that is on the periphery of the core brand.

Puma's Opportunities

Product development offers Puma many opportunities. The brand is fiercely defended by its owners whom truly believe that Puma is not a fashion brand. However, like it or not, consumers that wear Puma product do not always buy it to participate in sport. Some would argue that in youth culture especially, Puma is certainly a fashion brand. This creates its own opportunities, since product could become unfashionable before it wears out i. e. consumers need to replace shoes.

The business could be developed internationally, building upon its global brand recognition. There are many markets that have the disposable income to spend on high value sports goods. E. g. emerging markets such as China

and India have a new richer generation of consumers. There are also global marketing events that can be utilized to support the brand such as World Cup, the Olympics, IPL, and Soccer World Cup.

Puma's Threats

The external threats that are impacting on the company's operations are concentrated to competitive threats, litigations, and in the manufacturing arena. First, the harsh competition from the main competitors in the industry is significant. To keep-up with the competition's penetrating efforts will cost a lot of money and put a lot of pressure on marketing and research and development. Also, the short product lifecycles play an important role in the return on investment in a particular product line. Furthermore, weakening markets may be a serious threat.

Puma is exposed to the international nature of trade. It buys and sells in different currencies and so costs and margins are not stable over long periods of time. Such an exposure could mean that Puma may be manufacturing and/or selling at a loss. This is an issue that faces all global brands.

The retail sector is becoming more and more competitive. This ultimately means that the consumers are shopping around for a better deal. So if one store charges a price for a pair of sports shoes, the consumer could go to the store along the street to compare prices for exactly the same item, and buy the cheaper of the two. Such consumer price sensitivity is a potential external threat to Puma.

Is “ virtuality” a strength or weakness? Discuss, giving your reasons.

Puma AG is considered the first virtual sports company in the world. The company uses the virtual organisational structure that is an opportunistic coalition of interior competencies which are distributed among different entities in one company or even in different companies that are dependent with each other.

The company’s structure consists of a global management structure with several headquarters being supported by a strong and updated Information Technology infrastructure. This enables Puma AG to have a structure that is decentralized and focuses on competence centres. The main reason for a decentralized structure as opposed to a centralised structure is because the communication activities that will be done and focused inside the organisation will help decrease the advantages and benefits of cross- cultural energy, regional and local efficiencies and knowledge about staff in the company that is based in multiple locations around the world (Puma AG 1999, p 28).

A virtualised structure enables the company to foster a cultural melange as well as helping to enrich a mix of sports, lifestyle and fashion influences that are being encountered at different major trendsetting centres and regions in the world. The application of IT and application of a virtual organisation structure is not considered as a luxury but a necessity by the business (Puma AG 1999, p. 28).

Virtualization can be considered an advantage it enabled Puma AG to manage and use different information about cultural differences of customers and employees to create new products and services that will be appreciated by their customers. The structure also helped the company to focus on its continuous effort in pursuing a more flexible and efficient organization that is fitted to the organisation in order to thrive in the increasingly dynamic as well as fast-paced industry (Walter Partner 2004, p1).

Virtualization can be considered as strength for Puma AG since it had helped the company to regain its position in the market and its brand image. One of the primary benefits of virtualization is that it helps the company to manage their warehouse. This huge change and increase in sales volume as well as improved volume of orders causes the company to have a shortage of finished warehouse hence the reason why more space is needed.

Instead of building a new warehouse, the company decided to use the same logical centre and temporarily rent additional warehouse when needed. This is the reason for implementation of the warehouse management system which handles the storage location management that administrates virtually each and every product

Task 3

A winning strategy

Fits the company's situation well

Helps achieve a sustainable competitive advantage

Results in better company performance

What evidence is there to suggest that Puma's strategy in recent times has been a winning strategy? Since 2003 up to present, how has the company performed in terms of competences developed, effective use of resources and financially in its three key markets of footwear, apparel and accessories?

The German sportswear company Puma was practically nonexistent some years ago with increasing financial difficulties and a lurking bankruptcy.

Except for a few German hardcore fans nobody was interested in Puma, customers would rather choose Nike or Adidas. Back in those days Puma was not fashionable to wear. After strong financial measures and functional reorganization the company began to get back on track. In 1998 executives decided that it was time for a systemic re-branding of Puma and a change of strategy that would later set an example in the industry.

By shifting their brand proposition Puma broadened their target market from solely sport to lifestyle and even fashion. Yes, a strategy that has now been copied and applied by the likes of Nike, Adidas, Reebok and others. Not without reason mind you, as this has become an extremely lucrative business. So far Puma single handedly redefined the term sneaker – at least in Europe – and definitively set a new trend that would eventually be

followed by fashion brands such as Gucci, Dolce & Gabbana, DKNY, Prada and many more top players in the ultra hip and trendy fashion industry. But what role did design play in this spectacular turn-around?

A winning strategy that fits the situation of a company well can help to achieve a continuous competitive advantage. This statement can be applied in the situation of Puma AG. In order to improve the position and overall performance of the company different strategies have been implemented.

In 2007, the company has been able to boost its heritage business by French 77; it is a product concept that was inspired by 70's tennis superstar Guillermo Villa. The concept of the product focuses on the sport-fashion crossover, timelessness, sophistication as well as irreverence (Puma 2005 p. 3.). In addition to that, the company also focuses on the side of women by showing the sophisticated side of the women's category of the company's product which has been showed in the I'm Going campaign (Puma 2005. p. 4)

The primary evidence to the success of the strategy of the company showed during 2006, when Puma had joined the top echelon in the world of team sports suppliers. The said event happens due to the efforts as well as continuous visibility of the company's product in the Woman's football World Cup. Puma AG is considered as the third most worn by having 25% share. The products are also visible in the Rugby World Cup, where the company sponsored more than 70% of the athletes.

There are also situations which show that the strategies of Puma AG are not enough to maintain its position in the market for e. g. its net income.

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Puma AG can generate revenues by selling different sports related products. Puma is selling their products to different kinds of retailers as well as specialty shops. The company produces its athletic footwear having €1.4 billion or 58% of the during 2007, apparel having €827.3 million or 38%, and accessories having €158.3 million or 6.7%. All of this line of products is under four brands which are Puma, Treton, Mihara and the Rudolf Faddler Schuhfabrik (cited in PPR 2007). From 1999 to 2000 the sales the company had grown so as the expenses which are why the net sales of the company are low.

The total revenue of Puma from 2006 to 2007 had decreased by 0.6%. This event was the effect of the weakening of different currencies against the euro. Other than that we can see a significant change of sales every year from 1993. The total revenue had increased to €541.3 million.

As the company sales grows so does its expenses. The majority of these expenses came from marketing and retailing activities that summed up to €272 million during 2005 and increased to €420 million during the year 2006 and 2007. In general the operating expenses had increased by 50% between 2005 and 2006 that caused the net income of the company to fall (Puma 2007, p. 2).

Another weakness of Puma is its inability to have a huge exposure in the US market. Due to the fact that the company focuses more on European countries. It is in the interest of the company to focus their strategies in raising brand awareness in the U. S because it's considered as one of those most powerful countries in terms of sports in the world. Puma AG doesn't

have strong exposure to the US market, only 25.3% of its sales during 2007 came from the US, this dropped from 28.3% in 2006 (Puma 2007, p. 9).

However, Puma AG is focusing its strategies in different emerging markets by pursuing expansion in countries like South Korea, Croatia as well as Romania.

The backlogs are considered different orders that have been set to ship within the next 6 months. For 12 years the backlog during the end of the fiscal year is increasing. By the end of 2007, the company had a total of €1.2 billion in backlog, having a total of 6.1% increase compare to the backlog of the prior year.

The company in spite of the 3.2% decrease in the sales in the region of the America which was caused by the market of the US managed the said 6.1% increase. Also the said 3.2% decrease was compensated by backlog growth, having a total of 26% in the Asia/Pacific Region. This is the result of the increasing brand awareness campaign of the company in Asia (Puma 2007).

From the data shown in the case study it can be determined that strategies and techniques is not yet superior enough to regain the past position of the company in the market, however it is a big step and development from its previous position in which the company was almost bankrupt

1. This strategy was well matched to the sports apparel industry and the competitive conditions, Puma's best market opportunities and other aspects of its external environment.