

Puma Prague*

Learning from the Sports Shoe Industry

Reference Number 0007/2013

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Series
Case

Introduction

In late Fall of 2005, Piotr Cichecki, general manager, was sitting together with the sales and retail director of Puma Prague discussing the marketing, sales and finance budget for the following year. The team was preparing the final budget proposal for 2006 which had to be sent to the regional headquarters. They were aware that pending changes to the corporate structure was soon to be implemented.

To date all budgetary requirements were submitted directly to the regional headquarters ("RHQ") in Salzburg, Austria via direct vertical reporting lines. Presentations, discussions and final negotiations for budget were undertaken by the regional director for Eastern Europe, Erwin Kaiser. Final decision for all budgetary decisions was made in corporate headquarters in Herzogenaurach, Germany. The subsidiaries such as Puma Prague received their budget allocation directly from the regional headquarters in Salzburg.

Over the last few years, Piotr Cichecki had developed a good and open relationship with his co-general managers in the other Eastern European countries. He had once asked the General Manager for Warsaw to source some sports shoes for a key client because the deliveries from the suppliers were delayed. He could always contact Erwin Kaiser at RHQ when he had operational concerns. From time to time he would contact the Corporate Marketing Office at Herzogenaurach when there were marketing endorsements requests from the largest clients in Prague.

Earlier in the year there had been several news releases about a new organizational structure. The pending change in business structure perturbed Piotr Cichecki. In November Piotr Cichecki was invited to participate in a global senior management meeting where the new business structure was to be presented.

Company History

Puma in the 1920s

Puma first originated from the entrepreneurial initiative of Rudolph Dassler. He began working at the age of 15 at the same shoe factory as his father where he learned the essential aspects of business and shoe production. Rudolf was young, assertive and consequent in his learned trade. It was only after World War I when he started to broaden his management awareness. He took a position at a porcelain factory and in a leather wholesale business in Nuremberg, Germany.

Rudolf Dassler went back to his hometown in Germany in the early 1920s to start a footwear manufacturing business with his brother, Adolf. In 1924 the "Gebrüder Dassler Schuhfabrik" was formally incorporated. Its main products were slippers and outdoor shoes. The brothers shared the responsibilities equally with Rudolf handling the business and Adolf handling the production and technical operations. Within a few years, the brothers decided to phase out of the current product line due to difficulty in the markets. Instead the Dassler brothers decided to focus entirely on manufacturing sports footwear, specifically track shoes and football boots which was an upcoming market at this time.

In 1925 the company received an order for about 10,000 pairs of athletic shoes from its first client, the sports club in Herzogenaurach. With its new found- image among sports persons and sporting good companies, the company grew despite the Great Depression in the late 1920s. A majority of the athletes in the 1928 Olympics wore Dassler shoes.

The Split Up

The company flourished in its chosen niche of sports footwear for the next few years. It started to sponsor star athletes in the mid-thirties to enhance its reputation. The track star Jesse Owens was wearing Dassler track shoes in the Berlin Olympics in 1936. Jesse Owens won four gold medals in his star events.

The Gebrüder Dassler Schuhfabrik continued to operate during the Second World War. In 1948, Rudolf and Adolf had a major falling out which eventually led to the demise of the Dassler Company. The firm was split up into: Adidas became Adolf's business while Rudolf set up the Puma Schuhfabrik Rudolf Dassler. Workers in the Dassler Company were asked to choose which of the two new firms they would prefer to join. The brothers ceased all communications with one another. From that point, the two newly created companies would be competitors.

The PUMA Brand

The Puma brand would gradually gain recognition with the support of star athletes, especially runners and soccer players. In 1950 the Puma "Atom" shoe was worn by several German players at the first international soccer match post-WWII. The Olympics event was another avenue for the Puma brand. The success of the athletes wearing Puma shoes in the Helsinki games catapulted the company into a new level. First, it opened the British market for the company. Second, Puma was awarded the rights as the "official shoe supplier" by the American Olympic Committee in 1952 and in 1956. The American women 400 meter track team were wearing Puma track shoes when they won the Olympic gold medal in 1952 games. The soccer star Pele wore the Puma "King" shoes during these years.

Puma also developed its export business. By the late 1950s Puma was a brand identified in 55 countries in five continents. Austria was chosen as the first licensed manufacturing location outside Germany. As the company continued to expand its presence overseas, the firm evolved from a sole proprietorship into a partnership called the Puma Sportschuhfabriken Rudolf Dassler Kommanditgesellschaft in 1959. The other co-owners in the company were the wife and the sons, Armin and Gerd, of Rudolf Dassler. The export business covered 100 countries by 1962.

During the next decade the Puma brand was identified for its ' innovative products. Puma developed the "vulcanization" process for soccer shoes in the early 1960s. This process "joined the soles to the uppers". All other sports shoes manufacturers were to adapt this new technology in the next years. Around the same time Puma also developed a "uniquely shaped sole for running shoes that supported the natural movement of foot when in motion." Puma was the first sports shoes manufacturer to use the Velcro strap.

Change in Management and Ownership

Armin Dassler took over the management of the company in 1974 when Rudolf Dassler died. He had managed the Austrian subsidiary in Salzburg since the early 1960s. The

company continued to thrive under Armin's management and eventually went public in 1986. The company was then renamed to Puma AG Rudolf Dassler Sport. Innovation was still an essential ingredient in the success of the business.

The S.P.A. technology was introduced by Puma in the mid-1970s. This was sports shoes with a higher heel which relieved tension on the Achilles tendon. The Puma Duo flex sole, developed by Armin Dassler in 1982, allowed the foot better mobility using special slots. The Trinomic sport shoe system cushioned the runner's foot with hexagonal cells between sole and shoe. The latter was introduced in 1989. Other innovations included a window by a kid's sole which allowed parents or sports guardians to determine if the sports shoes still was the perfect fit. The expensive Puma Disc System used a disc to tightened wires of athletic shoes instead of laces.

The Puma brand continued its momentum as star athletes wore Puma products. A milieu of world famous names of various sport disciplines carried the Puma logo on their sports shoes during the 1970s and 1980s. Tennis stars Guillermo Villas, Martina Navratilova and Boris Becker; football stars Marcus Allen of the Oakland Raiders; baseball stars Jim Rice and Roger Clemens of the Boston Red Sox, as well as George Brett of the Kansas City Royals; sprinter Evelyn Ashford and Renaldo Nehemia to name a few.

Despite its success in brand awareness, profits slowly deteriorated in the late 1980s until it turned to losses by the early 1990s.

Puma's athletic footwear still had high brand name recognition but fifty percent of sales originated from the lower priced range footwear sector by the mid-1980s. The product cycle of each type of model was short and required constant product innovation. This implied investment in research and development costs as well as higher marketing costs for the new footwear. Margins drastically deteriorated by the late 1980s resulting in negative profit for almost a decade.

By 1991 Puma International was founded. This served as the holding company for the profit centres in Australia, Austria, the Far East, France, Germany and Spain. Each division was independent of the other. In the same year Proventus, a Swedish conglomerate, purchased Puma's outstanding common stock traded in Frankfurt and Munich while injecting DM 50 million of fresh capital.

Similar to Adidas, Puma repositioned itself by focusing on the high end, premium priced footwear markets. Its main competitors became Nike and Reebok. This change in marketing strategy resulted in further financial losses as well as decreased sales. Market share position likewise decreased for Puma in the early 1990s. In addition, new product innovations such as the Puma disc further deteriorated Puma's already weak financial position.

In 1993 there was a need for a change in management. Jochen Zeitz became chief executive officer in late 1993. Under his leadership, Puma underwent a market oriented "fitness program" which involved effective cost cutting measures and organizational restructuring. This was Phase one of the long-term company development. Zeitz aimed to streamline functions and create an entrepreneurial corporate culture. The purchasing and the product development departments were merged. A centralized distribution system

The Next Step: Expansion after Restructuring

By late 1996 Puma had re-established itself as a profitable and successful market driven company. New alliances and higher investment in international marketing and product development was the emphasis of the company in the mid to late 1990s. Shareholders re-

ceived dividends for the first time as the company achieved its ' highest sales in three years. Proventus reduced its ' holdings to 25 per cent via a stock offering at the Munich and Frankfurt Exchanges. In the same year the Monarchy Regency movie and distribution firm purchased 12.5 per cent stake from Proventus. The other half of 12.5 per cent was purchased the following year. As the single largest shareholder, Monarchy was interested to build relationships in the sports world in order to diversify into new markets. Zeitz, on the other hand, believed that such an alliance would help Puma in its ' marketing efforts.

Puma started to concentrate on international business with emphasis on building the "sports lifestyle name" brand globally. An Italian subsidiary began operations in 1997. A new subsidiary was created in the UK in 1999. By this time the United States became the most important market for Puma. The Japanese market was another important strategic market where license fees were still 10 per cent.

Puma continued to grow in the next few years. It successfully landed long term contracts as the official supplier for shoes and textiles for the Women's Tennis teams in 1998. In the next year Puma was one of four suppliers to the American National Football League. During the 2000 sports seasons 13 NFL football teams wore Puma shoes and nine basketball teams. Serena Williams signed a five year contract in 1998 for both promotional activities for Puma wear as well as movie and music engagements with Monarchy. The corporate strategy seems to have worked as Puma 's sales increased especially in the United States. Now the company was well positioned for the future.

The PUMA Brand and Culture in a Momentum Growth

By 2001 Puma continued to reposition its brand as "one of the most desirable sports life style brands in the world." Profits continued to grow. Brand recognition was further strengthened by direct investments in key markets such as Eastern Europe, Japan and South Asia. Strategic alliances were closed with several markets. Retail became a critical competent function for Puma. Expansion in in-store merchandising was given priority. The launch of store openings in high density cities was another important step to extending the brand's visibility.

Compared to its competitors, Puma was still a small player in terms of the global sports merchandising market. In 2002, Puma launched Phase 3 of its ' corporate growth strategy. Football and running were the key sports for Puma. Puma 's management board knew that it had to be innovative and progressive for the future. They had to select a unique approach for the PUMA brand and identify other types of sports which complemented the goal to be a desirable sports lifestyle brand. As a senior executive in Puma says, "Sports lifestyle is the challenge for a new market which realizes that consumers are demanding sporty products and styles that they can wear not only in the fitness studio or the pitch, but also in their free time." This was critical for the continued success of Puma as a company and the PUMA brand.

In addition to the unique positioning of its brand, Puma aimed to promote its corporate culture. Management emphasized the values of "passion in the world of sporting endeavour; openness where teamwork flows seamlessly and empowerment; self-belief to make things happen; and an entrepreneurial spirit which demands a willingness to think outside the box."

By 2004 the PUMA brand was identified as one of the most influential brands globally by a well known market research firm. In June 2005 consolidated sales increased by 13.3 per cent in Euro terms with global brand sales reaching EUR 1.2 billion. Gross profit margin

was above 53 per cent with net profit margins stabilizing at 12 per cent similar to the previous year.

In the Fall of 2005 Puma had successfully positioned itself for the next phase of its corporate strategy. Phase IV was referred to as the "Expansion" implying the expansion of product categories, the expansion of the non-PUMA brand, and a regional expansion. Management wondered if Puma AG's current corporate structure could sustain the demands required by this expansion strategy for the future.

Puma International and the Regional Hubs

Puma International has three virtual headquarters located in the U.S.A. (Boston), in Germany (Herzogenarauch) and in Hong Kong. Each virtual headquarters managed key functions such as Products, Brand, Product Supply and Growth in a matrix system. Each headquarters and each function is then subdivided into the three product category of apparel, footwear and equipment. (See Appendix A10.1)

The function Product refers to Research & Development and sourcing. The Brand function is for the marketing and strategic management of the brand. Product Supply function involves logistics, warehousing and supply services. The Growth function implies sales, after sales service and general distribution. Finance falls under the strategic planning sub function.

According to Bauer, chief operating officer for Puma AG, regionalisation is shaped by the similarities in the market conditions and cultural practices. Regionalization is possible when there are economies of scale, similarities in market conditions and practices, product harmony, price stability, complementary discount structures and an accounting system as a control mechanism. Regional hubs have central market competence in the region. A regional general manager ("RGM") must have a feel how the regional market operates and how to lead the team. Regional marketing strategy and regional product management is an important structure to have. The RGM must be able to identify the right product mix for markets within his area of responsibility. His leadership in managing each market as part of a whole region is critical to the success of the business. Therefore, human resources, finance, logistics and technology functions support the structure of the region. There are five core elements needed at the regional level: operating strategy, distribution systems, marketing strategy as applied in the national level, product strategy (which products can sell at the national level) and retail.

There is a regional hub in Hong Kong for the Asia, one in Chile for Latin America, one in Boston for North America, one in Australia for the Pacific region, one in Germany for Europe and in Austria for Eastern Europe, Middle East and South Africa. The regional hubs are critical for being close to the market. Geographic groupings is the simplest given the time differences and the distance.

The overall goal is to create regional hubs in the forthcoming years. For example, France, Spain and Portugal could be a regional hub under one General Manager. Another possible hub could be Eastern Europe with the Czech Republic, Poland, Bulgaria and Romania. There is also an Asian region with sub-hubs in Malaysia, Burma and Vietnam.

Regional Headquarters in Salzburg, Austria

Puma AG owns 100 per cent of Puma Austria. Puma Austria is the 100 per cent owner of Puma Poland and Puma Prague in the Czech Republic. It is also part owner of the subsidi-

ary in South Africa, in India and the sub-hub in Dubai. As a regional headquarters, Puma Austria's main responsibility is the continued development of Eastern European business operations as well as the identification of opportunities in new, emerging markets. Puma Austria is also responsible for licensees and distributors in about 40 countries.

RHQ Background and Erwin Kaiser

The main role of Puma Austria as a regional headquarters is to support the development of business operations in a geographic area. The regional headquarters was to expand the business operations in each country and identify opportunities to complete business deals. The regional headquarters showed distributors how Puma does business and imprinted the "Puma way." Find a distributor and set up a business. All distributors in Eastern Europe fell under the auspices/responsibility of Puma Austria.

In the early 1990s, Erwin Kaiser undertook the task of developing the Eastern European countries. Austria was chosen as the regional basis due to the similarities in history and culture with the Eastern European countries. It was a time when Eastern Europe was coming out of the communist era and Cold War. The economic situation in these countries was still uncertain and unstable for a multinational like Puma. It was difficult to do business given eco-political situation. Kaiser decided to approach each market based on the customer demand and adjusted selected products to the local market conditions. One could describe the approach as "non-conformist" when compared to the corporate rules of Puma Holding AG. The goal was to first set up a marketing and sales operation in the local market for each country. In most cases 70 per cent to 80 per cent of the sales were based on the international collection. The remaining 20 per cent are goods adopted for the local market preferences.

Under the leadership of Erwin Kaiser, Puma Austria successfully gained the know-how and the competence as the "specialist" to establish Puma as a new business in emerging and difficult areas. Unlike other regional headquarters heads, Kaiser felt he had the management freedom to carry out certain decisions. Puma Austria eventually served as the holding company for the Middle East and South Africa. There are discussions of setting up a Malaysian subsidiary which would eventually fall under the Hong Kong regional hub.

As a manager from Warsaw explains, "The Austrian advantage is, however, that these guys are existing in these markets, since ages, since years. And my colleagues in Austria know much more about the market in Eastern Europe than my colleagues in Herzogenaurach. This is clear because they are responsible for this market for (sic) 15 years. Most of the guys in headquarters (Germany) have never been here before."

"Ideal" Structure

The regional headquarters supported the Eastern European subsidiaries and start-up markets in all functions such as marketing, retail, logistics and finance. Each regional functional head is in touch with the functional heads in the subsidiaries such as Poland, the Czech Republic, Hungary, and so on. All major strategic decisions for the Eastern European subsidiaries are discussed with Puma Austria. All feedback regarding international problems and solutions are received by the Eastern European subsidiaries through Puma Austria. Each country general manager in Eastern Europe reports directly to Erwin Kaiser, the regional head.

Finance and Budget

Finance and budgeting for Eastern Europe is centralized in Puma Austria. Each country reports its proposed budget to Puma Austria. The financial budget for the region is combined into one report for headquarters. Approval for each country budget is determined in regional headquarters. If a country general manager ("GM") wants to make changes to the existing budget during an operating year; then there will be a consultation between the GM and Erwin Kaiser. If there is an issue regarding capital investment, then it would be essential to inform Erwin Kaiser.

Financial control stays at the level of the regional headquarters for the Eastern European subsidiaries. Costs and expenses are the responsibility of each country. The GM files the budget and is then in charge of expenditures. In order to manage the flow of financial information and general data, regional headquarters installed similar information and computer systems in all the Eastern European subsidiaries.

Sourcing and Logistics

Puma Austria is responsible for the regional sourcing and logistics for Eastern Europe. There is a "custom free" central warehouse in Austria which facilitates all purchases of the subsidiaries in the region.

Marketing

There is a global marketing competence in Boston and a European marketing centralized in Salzburg. In the event conflict and/or differences in opinions arise, then critical marketing issues will be referred back to Boston. Day to day administration for marketing operations is handled at the regional level. As Kaiser says,

"We have become a company of meetings. There are unending meetings where each functional group meets with the regional specialists to discuss numerous issues."

Puma Prague

Current Management and Operations

Piotr Cichecki is the GM for the Czech Republic for Puma in Prague. He joined the company in October 2001 when the subsidiary was first established. Since then Puma Prague has grown 6X achieving record sales. The operations initially started as a distributor with a policy of a quick turnaround of products and profit. As a subsidiary, direct investment in brand recognition for the local market became the primary goal. It was critical to establish the brand as a "sports lifestyle" in the Czech Republic. The Czech soccer national team carried Puma products which facilitated the visibility of the brand. He says:

Puma does not compete with Nike and Adidas directly. We do not want to be the biggest in the Czech Republic. We are concentrating more on fashion lifestyles. In the Czech Republic the Puma brand is very strong in the fashion lifestyle market. In sports Puma is number three here.

By mid 2005, the Puma brand was well established in the Czech market and was gradually developing in Slovakia. Cichecki has overall responsibility for the operations which includes finance, marketing, sales, logistics and human resources. Each function has a designated director in the Czech Republic who reports directly to him. Each director is also in touch with the regional head or European functional hub. He says,

It is an interesting job. It is not like having just one particular focus. Actually it is the overall operation because we have to operate on both sides. We do the wholesale here. Also, we do the overall retail here; retail operation and wholesale operation altogether.

In the Fall of 2005, Puma Prague had eight fully owned retail stores with a projected sixty stores planned for the next few years. The emphasis of Puma Prague was to expand in the retail section.

There were plans to expand the retail store ownership initiative in Slovakia by January 2006. A legal entity must be set up in Slovakia if a firm wants to enter the retail market. A limited liability company will be established in 2006 which will be 100 per cent owned by Puma Prague. All existing distribution contracts were to expire by the end of December 2005.

Cichecki described his day to day management of Puma Prague as 60 per cent for operational issues and 40 per cent for strategic issues.

Actually I am trying ...that we are in line with the budget that we sell to the right customers, right distribution channels, that we are in line with marketing and logistics is in function. And we put the right people and the people do what they are supposed to do. ...It is difficult because you concentrate too much on the operational issues, for example legal issues, lawyers, new contracts for the retailers.

Communication with Puma International (Herzogenaurach, Boston or Hong Kong) was on a daily contact in terms of conference calls, video conference calls, and so on. In addition there was a lot of administration work via the email.

The employees hired since the beginning have all stayed with Puma Prague. Cichecki had made sure that the new person "fit" with the rest of the team. To date the attrition rate has been zero.

Marketing and Promotion

Puma AG allows for cultural differences in marketing its products. As such Cichecki felt that Puma Prague had a high level of autonomy and flexibility in developing its marketing strategy for the local Czech markets. The national marketing strategy had to coincide with the framework of the global strategy of Puma AG. Puma Austria as regional headquarters recognized the ability of Puma Prague in executing its marketing strategy and did not demand for things to be done in any particular way. Sometimes Cichecki felt that Puma Prague was so independent of Puma Austria. "They would say, "This is your budget, your responsibility. Do it your way!"

Even if a global campaign or materials are used, Puma Prague included its own local content to each campaign. Most campaigns were differentiated locally based on the activities such as the events sponsored or athlete sponsorship. Depending on the budget Puma Prague would sometimes have to contact the regional headquarters marketing in Austria regarding certain high resolution pictures and PR materials. Kaiser and his team was the

data base of all information. "We would need to go through the pipeline even if the discussion was in HQ Herzogenaurach." (Erwin Kaiser, Regional Managing Director, Puma Austria)

Product Development

Puma Prague normally participated in sending feedback on the product samples and styles directly to the global hub for product development in Boston. Localized preferences were also reported so that changes in colour, style or feature could be added to the global collection. Then all orders from the Eastern European countries for the upcoming global collection were sent to the regional headquarters Puma Austria.

There was a grouping of product orders for standard products in the collection for the region. Each pair of sports shoes had a specific style that was for a specific market/country. Cichecki and his team aimed to make the best product choice for the Czech market. Sometimes Puma Prague ordered the trendier products directly via the French or Italian subsidiaries as regional headquarters had no access to these trendier products. Take the example of the Ferrari collection. It was launched in Italy but Cichecki was interested in having this collection for the Czech Republic. So he contacted the GM in Italy directly. Regional headquarters and headquarters knew that there was in-buying among the subsidiaries directly.

Sourcing/Warehousing

Puma Austria as regional headquarters was a support organization in terms of sourcing. All the Eastern European affiliates and subsidiaries ordered all goods directly from Puma Austria. It consolidated the orders of Puma Czech Republic, Poland, Austria, Russia and others. This centralized sourcing via Puma Austria facilitated each country to reach the minimum order quantities required by the supplier. Puma Prague had its own warehouse which served as a central depot for both the Czech Republic and Slovakia.

Interaction with Regional Headquarters Puma Austria

In Cichecki's opinion, Puma RHQ Austria was a "good service organization with competences." Its main function was as support for marketing, sourcing and related activities as well as human resources. It was now viewed as a consulting service. Puma Austria was an essential ingredient in setting up the business operations in the Czech Republic and other Eastern European countries. Contact with Kaiser as the regional headquarters head was on a daily basis. Cichecki describes the reporting lines:

In the earlier days we had to report everything to Austria and then to Germany via the official channels. All proposals were submitted this way. Now each functional director contacts the European functional head directly if a project was to be implemented on time, or if decisions had to be made immediately. Austria is informed subsequently. But that is because of the existence of a regional headquarters.

Cichecki reported directly to regional headquarters in Austria. However, Puma AG had an open communication channel. Sales and marketing issues were handled directly with the hub in Germany; while finance and sourcing were still important functions carried by Puma Austria. If he had marketing issues to settle, Cichecki "discussed everything with the

marketing department in headquarters." If there were outstanding issues in finance, then he would contact the finance person in Salzburg regional headquarters.

In the current scenario, Cicheki was not even sure if he had an official boss. If he needed something specific, then he had to discuss it with some guys in German, in Austria and in Boston.

It is not like having one person. You just report and communicate with Austria. Actually, it is a multi-cultural link. Our finance director communicates directly with Puma Germany in many issues.

In some cases Cichecki needed to negotiate with three or four persons located in different cities. He wanted to open a concept store in the Czech Republic. First, he had to discuss this with Puma International Retail located in Germany. The second step was to discuss the budget investment with the Finance Director in Puma Headquarters who was also located in Germany. The third person he contacted was Erwin Kaiser in the regional headquarters Puma Austria in Salzburg. But Kaiser was not interested with this new project as this was "not his business." Finally, Cichecki needed to speak to the marketing persons located in Boston regarding his ideas for a localized Czech Republic version of the Puma concept store. In other words, Cichecki need to persuade international marketing Boston, international finance and international retail to get the green light to go ahead with the project. If the international retail director said no but Cichecki wanted to undertake the project; then the strategic planning director asked, "Who decides?" No one knew the answer.

The process can be very slow. In Austria they will call to Germany. That would be very complicated. Everyone knows his competences. If I need something from Boston, I will call Boston or to Germany. ... For example, for international spot marketing the guy sits in Herzogenarauch. Nobody had a clue about it in Austria. So we discussed it ...That's what I like about this structure.

On the one hand, it is very complicated. On the other hand, it gives you flexibility to negotiate with them and to persuade the people. If you had one boss, it is sometimes easier to make a decision. On the other hand, you have no chance if he says no. It depends on the negotiation skills and on the argument.

To date there was sufficient communication and spontaneity within the existing structure. The open lines allowed better communication. But the subsidiaries were growing. Direct discussion with the functional groups shortcut the information and decision flow. Going through RHQ in Salzburg, Austria was simply too complicated. It still worked till now. But growing tensions are foreseeable.

Cichecki felt that Puma Prague did not need a regional headquarters in Austria anymore given the growth of business in the Czech Republic. He felt that the role of Puma Austria as RHQ for Eastern European countries would lessen.

"Honestly, I think we will lose the interdependency we have now."

Its role, however, in the development of other operations in other countries such as the Middle East area was critical. India and Dubai are currently still part of the Austrian coverage.

Relations with Other Subsidiaries

By 2005 Puma Prague had outperformed Poland and Hungary in terms of sales per capital and profit margin returns. Cichecki, however, felt that comparisons were not that critical as each market was different. "It is not about competition. It is about cooperation." There was some kind of cooperation, exchange of ideas and information flow of success stories through international meetings.

There were sport shoes replicas from the Czech national soccer team that sold successful. The GM of Poland then contacted Cichecki to inquire how Puma Prague had launched this sales campaign. Similarly, Cichecki had contacted the Hungarian GM to learn how the Blue Star jeans label was launched in Hungary. In another scenario, Cichecki called the GM in Warsaw to purchase 3,000 pairs of sports shoes from its existing stock. The supplier was late in delivery to Prague and Cichecki had promised the stock to a top client. Puma Prague received the shoes in 48 hours.

Cichecki also tried to maintain an open and cordial relationship with the larger subsidiaries such as Italy, France and Norway. Day to day operational cooperation normally existed between the smaller subsidiary and the larger ones. The open communication was important such as in direct orders for trendier products.

The Puma culture was essential in the development of the subsidiaries' cooperative and communicative environment. There were international meetings where ideas were presented, concepts discussed and projects planned. There were twelve regional meetings per year (once a month), about four international meetings which also include the distributors. In addition there are GM meetings, marketing meetings, international retail meetings, and so on. Communication was the key.

Oncoming Changes

Piotr Cichecki knew that Puma Ages long term strategy was to consolidate the established subsidiaries in Eastern Europe and Western Europe. Currently, all the Eastern Europe operations report directly to the Puma Austria RHQ. The larger subsidiaries were very independent and reported directly to the RHQ in Germany or to the "hub competence."

There was to be one general manager for all of Europe. Cichecki would report directly to the GM for Europe. The European regional headquarters will be located in Herzogenaurach in Germany together with Puma AG headquarters. A total of twenty-eight (28) countries would fall under this division. This would include all E.U. countries plus Switzerland. There would also be GMs for North America, South America, Africa, Asia and Australia. Now there was going to be one direct boss for Cichecki. No one could say formally what the changes would be. Cichecki felt that:

There is uncertainty about what's going to happen now in this chain. Of course, you created some good communication links to regional hubs. And now all those links will be cut off to establish really new communication links. And actually these are things which create attention.

There was, however, the issue of competences. Certain subsidiaries and regions are better in finance or sales or product design. Then there is marketing which is centralized in Boston headquarters and Hong Kong headquarters. Setting budgets would be a battle if Europe was taken as one region. There would no longer be a regional headquarters to protect the smaller, less established subsidiaries.

With the pending changes looming, Cichecki was not sure how to address the next phase in the corporate growth strategy for Puma Prague. Should he continue to rely on Puma Austria for financing and accounting data? Was it important to inform regional headquarters about the selection of product styles for the national collection? Where and how would Puma Prague source its ´ products for the next year? How would Puma Prague now handle its key account clients who also have a presence in other European countries? Rumour had it that additional virtual layers would be inserted in the already complex multicultural matrix structure.

That’s still a question mark. I think that will be kind of hybrid. It will not change from day one. To be honest I don’t know the exact structure because now this is sure what’s going to happen. But we will have a discussion about it when it is official. But for the period of half a year Austria will be our sourcing base for us. It will not change as we have placed the orders for the next season. Now we are making orders for the autumn/winter 2006. ...It will take some time to change the complete structure. Puma International or whatever it will be.

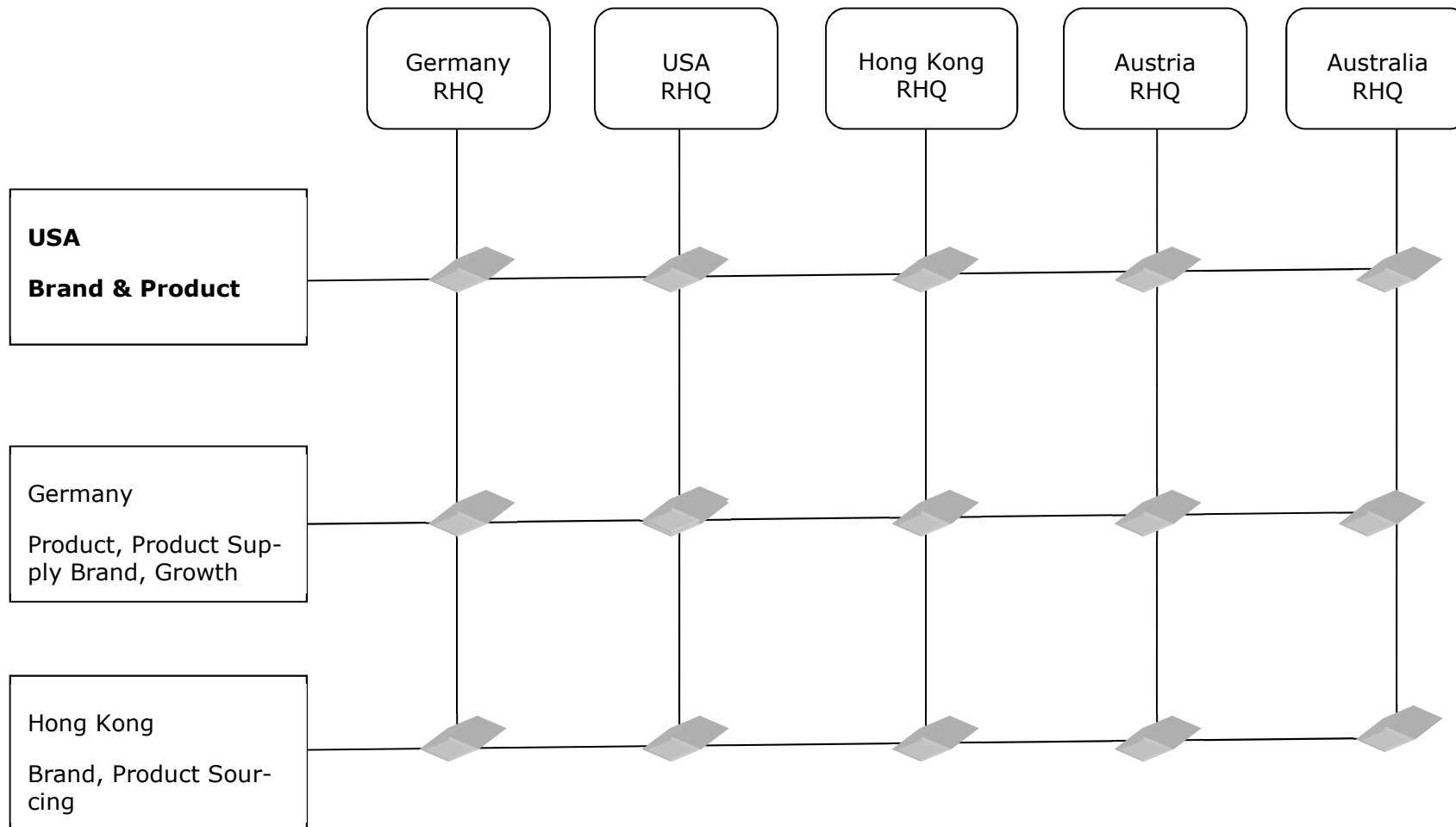


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Appendix

Appendix A1: Virtual Matrix Corporate Structure as of July 2005

Puma's corporate structure is a virtual matrix. The vertical axis represent the virtual headquarters ("VHQ") whereby each VHQ is a functional competence center. The horizontal axis represent the regional headquarters such as Puma Austria.



Appendix A2: Puma AG 's Corporate Values

Puma 's corporate as quoted from the corporate website:

Our Values

PUMA plans to evolve the organization through the fostering of unique company values, all compatible with the personality of the brand. These can be best summarized in four words: Passion, Openness, Self-belief and Entrepreneurship.

Passion

PUMA is not a business that manufactures and sells soap powder or ballpoint pens or instant coffee. It is a business rooted in the passionate world of sporting endeavour. The history of the brand resonates with the echoes of great athletes and legendary performances, celebrated in stadiums across the globe. PUMA makes products designed to facilitate the individual achievements that evoke the most passionate responses.

Openness

Today's marketplace is one of the fastest changing and dynamic on the planet. To respond quickly and effectively in this environment demands a culture of openness, where opinions can be shared without fear of blame and where old wisdom can be questioned without the fear of antagonism. In this culture, respect and understanding flourish naturally, teamwork flows seamlessly, barriers dissolve and a much over-used word, empowerment, takes on real meaning.

Self-belief

Global businesses face new challenges every day. It is the quality of the people in these businesses and their belief in their own abilities that enable these challenges to be overcome. Puma's recognition of this is reflected in its determination that everyone in the company understands and embraces the company values, as well as benefits from the experience and integrity of their colleagues. Only with self-belief will individuals have the confidence to make things happen, take the tough decisions and realize their ambitions for themselves and, ultimately, for the business.

Entrepreneurship

Few businesses succeed without great ideas. PUMA has been built on them and needs them to flow relentlessly hour by hour, day by day. This demands a willingness to think outside the box, to zig where others zag and to seek inspiration beyond the more obvious boundaries of our business universe. Such creativity has inspired the PUMA brand strategy. It will also be needed to make it a reality

Source: <http://about.puma.com>

Appendix A3: Selected Financial Information for Puma AG

Business Phase	Momentum			Investment				Restructuring		
(in millions of USD \$)	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Consolidated Sales	1,530.3	1,274.0	909.8	598.1	462.4	372.7	202.5	279.7	250.5	211.5
Gross Profit	794.0	620.0	396.9	250.6	176.4	141.7	108.2	102.3	94.0	79.0
Gross Profit Margin	51.9%	48.7%	43.6%	41.9%	38.2%	38.0%	35.8%	36.6%	37.5%	37.4%
Consolidated Profit	258.7	179.3	84.9	39.7	17.6	9.5	4.0	34.6	42.8	24.6
Net Profit Margin	16.9%	14.1%	9.3%	6.6%	3.8%	2.6%	1.3%	12.4%	17.1%	11.7%
Total Assets	942.3	700.1	525.8	395.4	311.5	266.6	222.9	176.6	147.7	106.5

Return on Equity	47.0%	46.8%	33.7%	22.5%	13.4%	8.5%	4.1%	35.8%		
Return on Capital Employed	156.5%	120.7%	81.1%	32.8%	20.6%	17.8%	6.8%	41.4%		
Cashflow Return on Investment	42.1%	43.5%	32.2%	20.3%	13.8%	11.1%	4.6%	18.3%		

Source: Puma Annual Report 2004