

# Focusing on Armchair Athletes, Puma Becomes a Leader

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By KEVIN J. O'BRIEN

ERZOGENAURACH, Germany - Ten years ago, the German footwear maker Puma was on the brink of bankruptcy, struggling under eight years of losses, \$250 million in debt, and a warehouse filled with 1.5 million pairs of cheap \$10 sneakers.

How times have changed. Last month, Puma said that it made a profit for the 10th straight year, bolstered by sales of its stylish \$90 Mostro, a suede designer shoe, and that it planned to increase pretax profit by at least 10 percent this year. Net profit more than doubled in 2003, exceeding analysts' estimates, to 179.3 million euros (\$219.6 million) from 85 million euros, as sales surged 40 percent, to 1.274 billion euros.

Debt-free since 1994, Puma entered 2004 with a cash surplus of 174 million euros and a growing reputation for taking fashion risks, like its one-piece, shorts-and-shirt uniform worn by Cameroon's soccer team in the African Nations Cup. The uniform drew protests from Joseph S. Blatter, president of the soccer world body FIFA, who said in January that the sport required separate tops and shorts.

"Puma has learned from its mistakes," said Roland K□nen, an analyst at Bankhaus Lampe in D□sseldorf, who has a buy recommendation on Puma shares. "Now it's targeting specific consumer groups with custom shoes and going out of its way to be different. They are setting trends, no longer following them."

The architect of Puma's turnaround, its 40-year-old chief executive, Jochen Zeitz, said that Puma was poised to raise sales at least 10 percent in 2004 as the company, the world's No. 5 maker of athletic shoes, burnishes its image as the Cinderella of sport shoes. Puma started 2004 with a record backlog of orders worth 722 million euros, up 36 percent from a year earlier.

"One of the reasons we are successful today is because we went a completely different route," Mr. Zeitz, who became chief executive in March 1993 at the age of 29, said in an interview. "This is an industry that started out serving athletes. It's not just about athletes anymore, but about people who like to wear sporting clothing because they like the look."

A crucial element in Puma's revival was Mr. Zeitz's decision in 1998 to make footwear and apparel aimed at consumer segments like snowboarders, car racing fans and yoga enthusiasts. Puma morphed into a fashion brand, drawing on designers like Jil Sander of Germany, Neil Barrett of Britain and the American model Christy Turlington, who began offering Puma's Nuala yoga line in 2000. "The strong earnings show that Puma is on its way to establishing the Puma name as a real fashion brand, not just a passing trend," said Daniela D□rr, an analyst at B. Metzler & Sohn, a private bank in Frankfurt.

Puma's Frankfurt-traded shares have almost tripled in price, to 168.71 euros Thursday, since March 7, 2003. In that period, shares of Nike Inc. listed in the United States rose 56 percent and the German shares of Adidas-Salomon, 26 percent.

Most analysts credit Mr. Zeitz, a young executive from Mannheim, Germany, who has been labeled a wunderkind in a country of gray-haired chiefs in their mid-60's. The son of physicians, Mr. Zeitz started in 1986 by marketing skin care products at Colgate-

Palmolive in New York. He speaks six languages, flies his own plane, hunts wild boar and surrounds himself with young executives and designers in their 20's and 30's.

"When I became C.E.O., I just didn't think about my age too much," said Mr. Zeitz, wearing black jeans and an open-collared shirt. "I'm sure many people did think that my age mattered, but I didn't. That was probably because of my age."

After becoming chief, Mr. Zeitz closed Puma's shoe factory near its headquarters in Herzogenaurach, a town of 23,000 about 30 miles northwest of Nuremberg. He cut the work force by almost half, to 367, from 719, eliminating a layer of vice presidents and regional managers, and shifted production to contractors in China, Vietnam and Taiwan.

Puma returned to profit in 1994, beginning a 10-year streak of climbing earnings during which sales of Puma-brand shoes and apparel tripled to 1.7 billion euros last year.

"Puma is one of the few German companies in recent years to grow its business organically without takeovers," said Jörg Frey, an analyst at Bank Sal. Oppenheim in Frankfurt. "Jochen Zeitz is a big reason why Puma is thriving today."

Puma has 4.5 percent of the \$17 billion global athletic footwear market, according to Sporting Goods Intelligence, an industry researcher based in Glen Mills, Pa. While trailing Nike, Adidas-Salomon, Reebok and New Balance, Puma is growing at a faster rate.

Former colleagues say Puma is benefiting from Mr. Zeitz's eclectic, internationalist background by catering to the varying tastes of Asian, North American and European consumers. Besides his native German, Mr. Zeitz speaks English, French, Spanish, Italian and Portuguese. Language skills were an advantage when he began his career devising plans to market skin care products at Colgate-Palmolive. He joined Puma's marketing department in 1988.

"He's a true international guy who can blend into just about any culture," said Jerry Vittoria, who worked with Mr. Zeitz at Colgate-Palmolive and is now vice president for product development at Firmenich Inc., a Swiss fragrance and flavor maker, in Princeton, N.J.

In March 1993, Puma was far from a challenger when Mr. Zeitz, then Puma's marketing head, was chosen by the Swedish-based investor group Aritmos, Puma's majority shareholder, to become the company's fourth chief executive in four years.

"Back then, Puma was a loser, a me-too brand, with a low image and lousy performance in the U.S. and the rest of the world," said Thore Ohlsson, a 60-year-old Swedish investor who at the time was chief executive of Aritmos and recommended Mr. Zeitz for the job. "Jochen had a vision he could revitalize the brand and restore the luster of its image. I believed in him, but I had to convince my board to take a chance on a 30-year-old."

Puma had been making most of its shoes in Herzogenaurach, which is also home to Adidas-Salomon. The two companies were started by the Dassler brothers, who dissolved their joint shoe business after World War II. Rudolf Dassler founded Puma in 1948 and Adolf Dassler founded Adidas one year later just a mile away.

By the late 1960's, Puma was making shoes for athletes, like the Clyde worn by the New York Knicks guard Walt Frazier. Joe Namath led the New York Jets to the Super Bowl in 1969 in Puma shoes. The soccer legend Pelé was also wearing a pair of Pumas when he led Brazil to the World Cup title in 1970.

Off the field, Puma was run by production managers reluctant to part with costly German production methods even as profits slipped and Puma lost ground to Nike, Reebok and Adidas. Marketing and brand management was not a priority, said Mr. Zeitz, who joined what was then a four-person marketing department.

"When I became C.E.O., Puma was bankrupt on paper," Mr. Zeitz said. "The company had been run by people who thought Germany was the center of the universe and that everything made for the German market could be exported to the world. No one thought about the consumer."

Today, Puma still sells its trademark King soccer spike, but its two best-selling shoes are aimed more at the armchair athlete. Those are the Mostro, a walking shoe with a nubbed wraparound sole, and the Speed Cat, a flat \$65 sneaker modeled on shoes worn by Formula One race car drivers.

Ralf Metzenmacher, Puma's director of European footwear, said that Puma aimed to avoid following the pack by blending fashion and sports. Mr. Metzenmacher said: "About 80 percent of our customers buy our shoes not to compete in, but to wear in their leisure time."

Like his boss and most Puma senior executives, Mr. Metzenmacher, 39, is relatively young. Puma's head of apparel design, Satish Tailor of Britain, is 31, the same age as Puma's brand director, Antonio Bertone, an American based in Boston. Mr. Zeitz says he strives to nurture a young attitude at Puma. There is much work to be done. Through 2006, Mr. Zeitz wants to raise Puma sales each year by at least 10 percent. He says he has the energy to do it.

"I feel younger than ever," Mr. Zeitz said.

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