The athletic shoe industry in the United States was an $8.25 billion market in 2003. By 2010, industry revenue had hit $21.9 billion with sales of over 362 million shoes a year [Ibis World]. The four largest companies (Nike, New Balance, and Adidas-Reebok) controlled 70 percent of that market [Cassidy 2004]. The industry grew from almost nothing in the early 1980s to a global powerhouse. Reebok (ticker: RBK) can trace its history back to Joseph William Foster, who made some of the first spiked running shoes by hand in London—in 1895. In 1958, two grandsons started a companion company known as Reebok. But, the modern version was born in 1979 when Paul Fireman saw the shoes at an international trade show and negotiated for North American distribution rights. At $60 a pair, the shoes were the most expensive running shoes in America [www.reebok.com].

In 1982, Reebok helped launch the aerobic dance industry with a shoe specifically targeted to women. With explosive growth, the company went public in 1985. Growth continued, supported by the Step Reebok program in 1989. By 1995, the company had grown from $50 million in sales to over $3 billion in a decade. Reebok’s 1993 sales of $2.9 billion placed it second behind $4.4-billion Nike, Inc. The nearly $1 billion increase in sales from 1989 to 1993 indicates Reebok’s success in gaining market share.

Paul Fireman, president and CEO of Reebok
Paul Fireman founded Reebok in 1979 and remains the largest shareholder. From 1986 to 1990, Fireman was one of the ten highest paid executives in the United States. Under his control, Reebok sales grew from $1.5 million in 1980 to $1.4 billion in 1987. In 1988, Fireman relinquished the CEO role to spend time working on other projects, including developing golf courses in Puerto Rico and Cape Cod. In the late 1980s and early 1990s, Reebok suffered from two weak marketing campaigns (“Reeboks Let U.B.U.” and “Physics behind the Physique”). More importantly, the aerobics fitness craze began to subside. Women aerobics shoes were a major component of Reebok sales, so the sales decline hit them especially hard. In 1992, Fireman returned as CEO.

Tom Trainer, CIO
Tom Trainer joined Reebok in 1991 as the chief information officer (CIO). He noted that his role “is to enable the kid in Reebok to stay fresh and creative while also allowing the grownup corporation to compete in global markets” [Pulliam and Pereira 1995]. To accomplish these objectives, Trainer implemented videoconferencing, computer-aided design, the Internet, and laptops for the sales force. The goal was to improve communications among employees, faster development of products, and more effective sales presentations.

Before Trainer joined Reebok in 1991 as vice-president of information systems, the information systems area was less than up-to-date, with no global information system or way to look at data. Communications, primarily by telephone and fax, between the manufacturing partners and worldwide distribution network were slow. Turnaround on new products was equally slow. This was a critical problem because Reebok is a fashion-oriented business with three product cycles a year in footwear and five in apparel. While sales representatives from Nike were walking in with laptops to display their lines, reps from Reebok were walking into offices with bags of shoes.

Trainer’s early days were spent accomplishing short-term projects that got him points with the board of directors. He fired six of eight senior staff. He kept 85 percent of the old programming staff, retraining many of them. In addition to his IS responsibilities, Trainer drove the re-engineering process in the company. To do so, he spent a great deal of time on the road, building relationships
with Reebok executives around the world. He also studied Sony Corporation to learn ways that it meets customer needs.

To accomplish his re-engineering, Trainer formed five megaprocesses that streamlined procedures for production, sales and marketing, research and development, administration, finance, and distribution. In 1992, he presented a four-year, $75-million strategic information systems plan to Reebok’s executive committee. The board approved it on the condition that it give Reebok strategic advantage.

To improve its communications, Reebok installed a privately designed architecture for voice, video, and data. Reebok communicates not only with its worldwide distribution base but also with its ad agency and other suppliers. IT currently developed an electronic image library to enable product shots to be distributed to every country where Reebok does business. The system dropped the new product lead time from six months to three, and, in some cases, 30 days.

Before the new ordering system was installed, orders were first printed out locally and faxed to the international headquarters in London. London would take all of the faxes and send them to the United States to be entered in the mainframe. Different standards for shoe sizes from different countries added to the delay. Once the information was entered in the mainframe, production and manufacturing would evaluate the orders.

To improve this process, Trainer developed a software package called Passport. Passport rationalizes product codes and shoe sizes. It also gives small distributors and subsidiaries access to the system through personal computers. It can also function as a module by plugging into larger systems.

Laptops were also given to the entire Reebok sales force. When orders were paper based, replacing material in a shoe to change its price from $95 to $65 might take 30 days and mean a lost sale. With the new system, these changes could be made almost automatically. Salespeople are able to check inventory and look into special orders. They can also access two years’ catalogs with full motion video and sound clips of Reebok’s advertisements. Lotus Notes is used to store the catalogs with mail links through cc:Mail.

Another Reebok initiative is to use electronic data interchange with 10-15 percent of its retailers. This commitment enables goods to be tracked through shipping companies, customs, and warehouses. Hoover, a data capture system to “suck in” information from databases around the world, is linked to customer databases that track what customers have ordered and what they want.

Reebok experienced some problems implementing the new systems. Particularly difficult was the effort to integrate the Canadian operations into the U.S. business operation. Concentrating development and support in the United States did not take into account the specifics of invoicing under the Canadian law. This mistake added time and resources that had not been budgeted to the project.

**Reebok early 1990s**

In the early 1990s, facing continuing declines in the aerobics’ market, Fireman changed the focus and tried to expand into other areas. To a large extent, Nike was killing the competition—largely by focusing on star athletes and spending more than 10 percent of its revenue on marketing. In the early 1990s, Fireman knew that he would have to compete directly in the sporting world [www.reebok.com]. His basketball market strategy copied a page from Nike, and relied on the new “Shaq Attaq” line supported by Shaquille O’Neal from the Orlando Magic. While sales did increase, they did not reach the 25 percent levels predicted by Mr. Fireman—reaching only 20 percent market share. Additionally, Fireman estimated in 1993 that the outdoor-wear division would
sell $350 million worth of shoes in 1995. Outdoor sales fell far short of the goal, reaching about $110 million.

More importantly, expenses skyrocketed, increasing from 23.6 percent of sales in 1991 to 32.7 percent in June 1995. Experts say shoe company expenses typically average about 27 percent of sales. Investors blamed most of the increase on the cost of endorsements.

**Nike Late 1990s**

At the same time that Reebok was suffering, Nike reported a 55 percent jump in first quarter 1995 earnings, with revenue increasing by 38 percent. Part of the increase was from expanded international sales, with a 34 percent increase in orders from France and Germany. Sales in Japan increased by 65 percent. Nike also expanded sales of tennis shoes, partly through endorsements from tennis stars Andre Agassi and Pete Sampras. In the first quarter of 1995, revenue from tennis shoes increased by 92 percent with a 42 percent increase in orders.

At the same time sales were increasing, Nike managed to decrease its expense ratio. Selling and administrative costs dropped to 22.3 percent of revenue from 25 percent in the prior year. Much of the improvement came from an improved distribution system, including a new warehouse in Belgium that consolidated operations from 30 different facilities in Europe.

Beginning in the late 1990s, the footwear industry lost its luster. However, Nike revenue increased from $3.4 billion in 1998 to $9.0 billion in 2000 to $9.5 billion in 2001, to over $10 billion in 2003 [annual report]. In 2001, Nike installed a customized retail supply chain system from i2 Technologies, Inc. The implementation, including ties to other ERP systems, did not go well, and Nike faced a serious inventory reduction and misplacement. Nike management was disappointed in the problems, and Nike chairman questioned: “This is what we get for $400 million?”

**Reebok Late 1990s**

In 1990, Nike surpassed Reebok in footwear sales. In the year ending in August 1995, Nike had $4.7 billion in sales compared to Reebok’s $3.37 billion. One of the largest battlegrounds was the retail Foot Locker stores owned by Woolworth Corp. The 2,800 retail stores sell 23 percent of U.S. sport shoes, representing $1.5 billion of the $6.5 billion U.S. market for athletic shoes. Sales at Foot Locker stores account for almost 60 percent of the $1 billion U.S. sales gap between Reebok and Nike.

Insiders note that the problems between Reebok and Foot Locker go back to the days when Reebok shoes were selling rapidly. Foot Locker wanted concessions on price and wanted Reebok to make some styles exclusively for them. Reebok was busy selling to other outlets and was unwilling or unable to alter its production and distribution systems. Nike was eager to build custom products for Foot Locker and offered a dozen products exclusively at the chain. Ex-employees at Reebok note that the company had additional problems providing samples and design plans to Foot Locker, claiming that “Sometimes the samples would come in late and sometimes not at all—which got Foot Locker mad. . . . Sometimes, fashions last less than six weeks; if you don’t get it in right then, there goes a major sale.”

Mr. Fireman responded by trying to improve relations with Foot Locker. He also offered to begin building exclusive styles for Foot Locker, but the introduction of the products was uncertain. He also noted that Reebok was working hard to cut costs and improve its order and information tracking system. One problem that remained was that the clerks at Foot Locker stores tended to push the Nike brands harder.

By September of 1995, major shareholders were getting upset with Reebok management. One of the leading outsider shareholders, Glenn Greenberg of Chieftain Capital Management, noted that “The
major shareholders have no confidence in the management of this company. If it was up to us, they would have changed horses or sold the company a long time ago."

Reebok and The Internet
Like other shoe manufacturers, Reebok relies heavily on celebrity endorsements. Signing Alan Iverson (NBA rookie of the year in 1996) and Venus Williams (tennis sensation) gave Reebok greater visibility in 2000. In 2000, Reebok also increased its visibility by sponsoring the Survivor television show with humorous ads. Their Web site followed these themes. In 1997, Reebok installed Radnet Inc.’s WebShare groupware system to maintain its Web site. The system has tools for e-mail, discussion groups, and bulletin boards. The goal was to add interactivity to the site and build a community of users. Marvin Chow, Reebok’s director of interactive marketing noted that “If you just try and use the Web to sell them products, something is missing” [Cole-Gomolski 1998]. More importantly, the system makes it easy for Reebok’s managers to add content. They can add data and pass it to salespeople and retailers automatically using a workflow engine.

The company used QuickTime from Apple to create CDs for its salespeople. Using Macromedia on its Internet site, the company was able to update pricing, styles, and even new photos and displays on the fly. The data was downloaded directly to the sales laptops [Dillon 1998].

Interestingly, the Web site is largely independent from the IT department. Roger Wood, vice president of electronic commerce at Reebok reports directly to the CEO and controls his own technology budget. He observes that “I am able to take down and build up features (of the Web site) without some IT overlord telling me what is good or bad” [Cole-Gomolski 1999].

In 2000, Reebok stopped selling shoes direct from its Web site. It was concerned about competing with the traditional retail outlets. So now the site focuses on image, technical information about products, and then directs consumers to the retail partners.

Enterprise Systems From SAP

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<td>Revenue</td>
<td>3,485</td>
<td>3,128</td>
<td>2,993</td>
<td>2,865</td>
<td>2,900</td>
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<td>Net Income</td>
<td>157</td>
<td>126</td>
<td>102</td>
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Facing weak sales, Reebok began focusing on reducing costs in the late 1990s. Net sales dropped from $3.6 billion in 1997 to $2.9 billion in 1999 to about $2.8 billion in 2000. Worse yet, from 1999 to 2000, gross margin declined from 38.5 percent to 37.9 percent.

In 1995, Trainer went to Eli Lilly [Information Week 1995]. The company ultimately replaced him with Peter Burrows as chief technology officer (CTO). Burrows knew that he needed to replace the aging, custom software that was being used to run the company. The problem was that nothing existed. In late 1995, he sent a dozen Reebok workers to an SAP R/3 course—the goal was to show SAP that its system could not handle the complex details of the apparel industry. Most products are created by hundreds of contract suppliers, generally in Southeast Asia. Product designs change constantly, and the company has to coordinate shipments to thousands of customers. Ultimately, Burrows convinced SAP to develop a custom add-on system called the Apparel Footware Solution (AFS) module. To convince the company to spend the money, VF Corp., the company that makes Lee and Wrangler jeans, also signed on to the project. The two companies helped design the specifications for the new software. The project was far more complex than SAP anticipated, and the initial version was three months late. Leroy Allen, the CIO at VF commented that “I think SAP underestimated the amount of change that had to be made to standard R/3” [Steadman January 1999].
Burrows was counting on the system to handle the major transactions at Reebok, so he could avoid the necessity of rewriting the old applications to become Y2K compliant. By May, 1999, the system was still not fully operational. Among other problems and bugs, the system was too slow to check product inventories and raw material stocks when retailers and distributors placed orders. Burrows noted that “We’re not out of the woods, but SAP is responding. It’s not something we’re taking lightly, and neither are they” [Steadman May 1999]. In the meantime, another 60 apparel and footwear makers had purchased the system by early 1999.

By 2000, Reebok was running the system in only a couple of divisions, such as golf shoes. The company deferred implementation of the full system until at least mid-2001. Burrows noted that he was waiting for additional functionality scheduled for Release 2.5 [Steadman 2000]. Despite the problems in getting the software developed, apparel manufacturers had few other choices.

By 2001, Reebok had 115 retail stores running the AFS system. Burrows was pleased with the ability of the system to maintain accurate inventory records for the stores [Mearian and Songini 2001].

In January 2002, SAP shipped Release 3.0 of AFS. With the bug fixes and new features, Reebok continued to rollout the system in its divisions. Burrows planned to gradually implement Release 3.0 over a few years. Burrows continues to push for new features such as a Web-based system to handle business-to-business transactions with suppliers. In 2002, competitor Nike completed rolling out AFS 2.5 to its 5,000 end users [Songini 2002].

**Competition and the Future**

There is no question that the shoe industry is competitive. There is also no question that it is still dominated by Nike. Yet, Reebok has made gains in the mid-2000s. The retro-trend bolstered sales for Reebok when it re-released older models. (It also convinced Nike to buy Converse.) Competition to sign new stars is also intense. Most observers believe Alan Iverson has significantly boosted Reebok sales. In 2004, Reebok struck a huge note in the international market by signing Yao Ming to market a line of shoes in China. Reebok will also market a line of Yao Ming shoes in the United States [Marcial 2004].

Somewhat surprisingly, Reebok did well in 2003 selling a line of shoes endorsed by Rap stars (Jay-Z and 50 Cent). The shoes were also popular in England [Thomaselli 2004]. On the other hand, Reebok’s 2003 sales gain was also attributed to the feud between Nike and Foot Locker. In 2002, Nike pulled its top products from Foot Locker—trying to negotiate better prices. In November 2003, the companies resolved their problems and Foot Locker again began carrying more Nike shoes. Foot Locker’s clout grew even more in 2004 when it purchased 353 Footaction stores from bankruptcy [Cassidy 2004].

Although Nike is still the strongest seller in the U.S. market, it has struggled to find a management team. In 2006, William D. Perez stepped down after only 13 months as CEO. Reportedly, Perez often clashed with Nike co-founder Philip Knight. Knight promoted Mark G. Parker to the CEO position. The change reminded observers of the situation in 2000 when Mr. Knight returned to the CEO position to replace Tom Clarke as sales fell from 1994 to 2000 [Lublin and Kang 2006].

**Adidas**

In 2005, Adidas-Salomon AG in Germany agreed to purchase Reebok for $3.8 billion. The price represented a 34 percent premium over the existing stock valuation. The sale was closed in 2006. Adidas, a pioneer in the shoe and sporting-goods industries had been struggling in the U.S. trying to find a way to compete with Nike. Adidas was largely considered the engineering leader and produced some of the technically best shoes on the market—but it lacked the marketing flash
appeal of Nike. For example, the company introduced a $250 running shoe containing a sensor and small motor that enabled it to adjust the tension and support based on the terrain. Shortly after the acquisition was closed in 2006, Paul Fireman left Reebok [Reebok Web site].

A key element in the decision was Reebok’s appeal in the urban market—due to its embrace of 50 Cent and Jay-Z rappers. Herbert Hainer, CEO of Adidas noted that “we will expand our geographic reach, particularly in North America, and create a footwear, apparel and hardware offering that addresses a broader spectrum of consumers and demographics.” The global market for athletic shoes is about $33 billion and about half of that total comes from America. In 2004 combined, Reebok and Adidas had about 20 percent of the U.S. market compared to Nike’s 35 percent [Karnitschnig and Kang 2005].

Adidas was formed by Adi Dassler after World War II. It gained attention by creating soccer cleats that helped Germany win the 1954 World Cup. In the 1970s, the company dominated sales in U.S. sporting goods. In 1984, the company passed on the chance to sign Michael Jordan as a rookie. When Nike signed Jordan and created a shoe and advertising campaign around him (Air Jordan), sales and market share skyrocketed. In the meantime, Adidas had been struggling. Mr. Dassler died in 1978, his wife followed in 1984. The couple’s son Horst took over and began restructuring the company, but he died of cancer in 1987. By 1990, the company’s share of the U.S. market fell to 2 percent. The company restructured under new management and went public in 1995, but lacked marketing strength in America. In 2003, Adidas dropped out of the bidding to sign basketball wunderkind LeBron James. Nike signed him to a seven-year, $100 million endorsement contract. Adidas said it preferred to focus on broader contracts instead of one superstar. In 2004, the company spent $100 million to sign eight NBA rookies. Adidas also signed Mohammad Ali, David Beckham, and Sean “P. Diddy” Combs; driving sales among urban consumers and soccer fans [Karnitschnig and Kang 2005].

In 2007, Adidas announced a drop in first-quarter profits, but reported a backlog in sales at Reebok, indicating increased demand [Mengewein 2007]. For the same time frame, Nike reported a 32 percent increase in profits [Casey 2007]. Adidas remains the leader in soccer (football) shoes and gear [2006 Annual Report].

**Information Technology**

Adidas is learning that the sports-shoe market depends heavily on customer sentiment, and there are many ways to get feedback from customers and listen to the market. In 2006, Adidas started selling the Predator soccer shoe in Europe. Several customers complained that the colors quickly faded. But, Adidas learned about the problem almost immediately. The company pays VML to run its computer program Seer to scan Internet blogs for comments about the company. Based on the immediate feedback, Adidas told customers to treat the shoe leather before wearing them [Patrick 2007]. Adidas (and Nike) are also using new media approaches such as YouTube and Second Life to market their products [Devaney 2007].

Adidas also beat Nike to the market with low-profile shoes. The low-price, and low-top shoes caught on quickly in Europe and were picked up by U.S. skateboarders. Sales of the shoes grew to $4.7 billion in 2006—exceeding that of basketball shoes. John Shanley, an analyst with Susquehanna Financial Group, noted that “it takes a longer period of time for them to adjust to some of the fashion shifts in the market. They want to make sure this lifestyle trend has legs and they wanted to make sure before they pursued it aggressively” [Stepankowsky 2007].

Adidas is working to integrate its supply chain—particularly creating closer ties to retail stores. Its World Class Supply Chain initiative aims to share sell-through data from retail stores directly with
suppliers. The goal is to use real-time demand to pull products through the supply chain [2006 Annual Report].

In 2007, Greece surprised Europe by winning the European soccer championship. Adidas, as a leading provider of sportswear for soccer needed to respond quickly. Within days, the company delivered more than 145,000 blue and white Greece team jerseys to stores across Europe. The company used an advanced supply chain management system to synchronize orders across suppliers and subcontractors in a dozen countries [Puryer et al. 2007].

**Reebok 2010**

By 2010, Reebok had an online store up and running on the Web. Customers could now purchase shoes and other apparel directly from the company. Many items were sold at list price, but the store occasionally offered discounts on specialty items [Reebok Web site]. At least at the financial level, Reebok had become integrated into the Adidas Group. In 2010, Adidas Group net sales were almost 12 billion Euros, with 1.9 billion attributed to Reebok [Annual Report]. The Adidas strategy, from their Web site, emphasizes the importance of using information technology to create a flexible supply chain. The company wants to share information from point-of-sale down to the production lines to ensure everyone has the correct information to produce and ship the right products to each market. The strategy also emphasizes the importance of creativity and innovation.

For the first three years after the merger, sales at Reebok fell [Torry and Schwab 2011]. In 2009, Reebok introduced a new “toning” shoe which marketing claimed would help people—particularly women—improve specific muscles simply by wearing the new shoes. By 2010, Reebok was number two in the new market with a 42 percent market share behind only Skechers. Herbert Hainer, CEO of Adidas noted that “It took a bit longer to turn Reebok around because the brand was in worse shape than expected, but the fact is, today, with our two-brand strategy we can definitely reach more customers. We’ve positioned Reebok for fitness and training and we think fitness will play an ever stronger role in society in the future.” Some of the major changes were to pull Reebok out of the low-end market stores such as Wal-Mart and Tesco. Additionally, due to increasing raw-material costs, Hainer determined it was necessary to increase the prices [Brady 2011].

In mid-2011, Reebok settled a lawsuit filed by the U.S. Federal Trade Commission and agreed to pay $25 million in customer refunds to settle charges of false advertising regarding the toning shoes [Mattioli and Randall 2011]. Reebok denied the allegations and continued to sell the shoes with a modified marketing message. David Vladeck, director of the FTC’s bureau of consumer protection noted that “The FTC wants national advertisers to understand that they must exercise some responsibility and ensure that their claims for fitness gear are supported by sound science.”

Little information is available about the day-to-day operations and information technology at Reebok and Adidas. Based on job ads, the Adidas Group Global IT department has about 950 employees and relies on the SAP ERP system, including modules for Retail Inventory Management, BW, AFS, MM Logistics and LE. [Adidas job ads Web site]. A job ad in fall 2010 listed the open position for Head of IT in North America—controlling a team of only about 50 employees at four sites in Portland OR, Canton MA, Spartanburg SC, and Toronto. Based on these numbers all of the operational IT must be running on the German SAP systems, with a core group of e-commerce specialists for the U.S. market.

**Case Questions**

1. Why is business integration important to Reebok?

2. Diagram what information is collected and how it is used in the new system at Reebok. Specify the format of the data collected at each point.
3. When problems arise with the network, or the software, how can they be identified and resolved? How do we set up an IS group to solve problems and help users?

4. How has Reebok been hampered by its information system?

5. Write a report to management that describes the primary cause of the problems, a detailed plan to solve them, and show how the plan solves the problems and describe any other benefits it will provide.

Additional Reading


Cole-Gomolski, Barb, “IT Departments Losing Budget Control, Staff,” Computerworld, April 12, 1999.


Information Week, “Is High-tech a Surefire Cure?” September 18, 1995.


