Kicks’ Winning Strategy

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Kicks Winning Strategy

Kicks is a company that was founded on the most basic of principles business had to offer. By following these rules within its strategies, Kicks was able to position itself as the most powerful player in the industry. A company’s strategy is defined by the specific market positioning, competitive moves, and business approaches (Thompson, 2012). Kicks’ position started the same as everyone else. Competitive moves built the production value at the beginning while watching the competition lay out their own strategies. Once the company was at an even middle ground as far as market share was concerned, Kicks had a superior production process that could be tapped to take over the sales worldwide. While it may be a simple business approach, having a best-cost provider minded core value became very lucrative when combined with advanced production value and knowledge.

**Strategic Vision**

The underlying basis for Kicks’ strategic vision is that of market share, style and quality ratings, and accessibility. When developing a strategic vision, it is essential that the company first have a clear understanding of its current financial and non-financial standing amongst its regional and global competitors (Weseman, 2012). In years 11-13, Kicks has held a solid position and market share in both the internet and wholesale markets ranging from 23% -29%. However, style and quality ratings were slightly lower than other companies at S/Q 4-5 compared to S/Q 5-6. Finally, leading competitors held similar or only slightly higher numbers of internet models and often lower retailer demand. These factors established that the company was in the similar range of its primary competitors in the internet and wholesale segment (the company participated in the private-label segment in year 12 though it was not a vital piece to achieving the corporate vision). Thus, it was time to truly develop a strategy and a strategic vision to capture the majority of market share while enhancing style and quality and making products more widely available.

Kicks’ long-term goal is to ultimately develop quality shoe lines that are affordable, comfortable, stylish, and accessible to customers of various ages and abilities. And, without become complacent, the strategy is less focused on destroying the competition and more on building a dependable brand for the customers, shareholders, and employees. Much like denim jeans, athletic shoes are a mainstream wardrobe necessity and wildly popular with children, teenagers, and athletic adults. Additionally, they are worn for comfort and durability amongst people who spend a lot of time on their feet (Thompson, 2012). Kicks did not want to overlook such a magnitude of such a target market and also recognizes the inevitable of sharing the overwhelming demand. Finally, the organization wants to ensure supplies are ethically sourced, waste is responsibly disposed, and corporate citizenship is important company-wide. Ultimately, Kicks’ strategic vision evolved into, “Our vision is to ethically and responsibly develop a quality branded shoe line for global customers of all ages and ability.”

**Performance Targets**

Kicks recognized many financial performance targets it must achieve in order for its vision to come to fruition. The first is increasing earnings per share. In year 11, the EPS came in at $2.57, well behind two of its competitors. Yet, in six years and with the steady growth of production and sales, Kicks’ EPS has risen nearly triple its year 11 reports. With future growth, the company aims to see a 15% increase in EPS over the next five years. Return on Equity is another performance measure Kicks uses to gauge how well the company is utilizing investments from shareholders. The S&P 500, a measure of the top companies in the world, averaged ROE at 10% -18% in the last ten years (Eisen, 2013). By comparison to its competitors and the S&P 500 index, Kicks is surpassing ROE targets. Maintaining an 18%-25% (or a 20% historical average) ROE is the current corporate goal. Finally, Kicks knows its credit rating is beneficial for obtaining loans and keeping interest rates low. Credit ratings can also be a risk indicator to prospective shareholders and investment partners. Kicks aimed to maintain an A- (or higher) credit rating for the next five years.

In addition to financial targets, non-financial measures also indicate organizational performance. Kicks uses its image rating to ensure it is meeting expectations in branded style and quality ratings, market share, and corporate citizenship. High image ratings also entice private label buyers to supply Kicks’ athletic footwear (Thompson, 2012). Thus, the organization continually seeks quality materials and offers a Total Quality Management program and Best Practices Training to its employees. Additionally, in the past five years, the company has generated a corporate-citizenship plan including a wide-range of environmental, charitable, and ethical efforts. While the specific involvements may strategically change, it will remain important to Kicks to positively contribute to the planet, its employees, and charitable causes.

Finally, as part of its strategic vision, Kicks uses its market share to indicate how well the company is globally performing in the internet, wholesale, and private label segments. Kicks is following the strategic path of many newcomers in the global shoe market to capture its objective market share. Tom Kuefler, brand manager for Bontrager Softgoods, finds that while some athletic shoe companies advertise high-end shoes with high-end prices, he would rather alter the materials and price the shoes at a more affordable range. Bontrager predicts this is the best strategy to increase sales volume and secure a greater market share (Formosa, 2010). Kicks is following Kuefler’s lead and trying to make shoes affordable to a larger market.

**Competitive Strategy**

**Competitive Strategy for Branded Footwear**

The branded footwear strategy that Kicks has employed really centered around the best-cost production theory. Using this concept was a key component in allowing the base production value of branded shoes to remain as low as possible while maintaining a competitive quality rating of five stars in order to compete with the competition in every region of the world. The key points in working for best-cost production centered on updating several factors that can remain liquid throughout each year of production.

Each year Kicks made a point to relook at the percentage of superior materials used in the brand shoes making process in order to take full advantage of pricing trends as well as the needs for quality assurance. The number of models used for production remained the same for Kicks from the very beginning, as the numbers provided the company with a competitive array to offer the consumers. Using the same amount of different styles has allowed Kicks to center its budgeted amount of enhanced styling and features on the same production lines for years. Keeping in line with the idea of constant reinvestment into the same lines of production has allowed Kicks to use the lowest cost for total quality management and Six Sigma programs. The production lines took advantage of a constant flow of reprogramming (and retooling as needed) which made for the most efficient process with the lowest scrap rate in the industry.

Kicks has developed two faculties, one in Asia and one in North America in order to supply the two main continents with product while keeping its needs for oversea shipping down to a minimum. This has allowed for more land and train travel, and also allowed us to keep tariff expenses as low as possible. Keeping the company balanced in both regions was a decision that was made early on and can be seen in the growth strategy of both areas being simultaneous within new production. Taking advantage of the low cost production within Asia is a key factor in keeping production cost low. For this, Kicks strives for a 66% production rate out of the Asian faculties. As the years progressed, building of capacity tried to maintain this ratio in order to best fill the growing demand while maintaining a low tariff cost.

To supplement this strategy, Kicks maintains a belief in the equal treatment of all employees within the company. A standard 1% base wage increase is guaranteed for every employee, regardless of region. The incentive pay for quality production has remained within the same percentage brackets for both factories, as well as the best practices investment in every aspect of the production value stream. Keeping the employees in a constant growth cycle for their profession is as important to Kicks as the company itself growing, and only by growing as a team could Kicks demand the number one spot in the industry.

**Competitive Strategy for Private Label Footwear**

Private label footwear has been a very small part of Kicks’ overall competitive strategy. While many companies feel this segment offers a competitive edge, Kicks’ best-cost supplier for the largest consumer base has been a core value. Attempts that have centered into merging any extra production over the needs of the branded footwear category was inconsistently advantageous in the beginning stages of the strategy execution as it did not coincide with the main goals of the company.

As Kicks evolved into the most dominant force for wholesale and branded production, management focused efforts into the basic belief in supply and demand scenario when analyzing the private label sector. Once Kicks realized that the Latin America region was not being supplied with enough private label shoes to meet demand, it immediately sectioned of a certain amount of production from the North American plant in order to fill this under-utilized segment (North America being used in order to avoid in Tariffs). This proved to be profitable, and Kicks has since maintained a private label strategy of filling in private label segments only when a differential between sales and demand can be realized.

**Production Strategy**

Kicks’ production strategy was at the very core of the company’s objectives. In the most basic terms possible for business, no strategy for any company can work without a solid production infrastructure. Kicks believed in a two-pronged approach for global dominance. Keeping a factory in North America and in Asia allowed for the best outcome in shipping and receiving. This enabled the company to meet supply and demand as quickly as possible while also avoid unnecessary tariffs. The bulk of the production was done in Asia, but allocating a solid third of the production conducted in North America seemed to meet with the demand trends. This allowed the North America plant to focus its shipments in such a way as to take advantage of NAFTA agreements and lack of tariffs.

The production chains in each factory were given a solid core of TQM and Six Sigma budgets in order to keep a constant increase to production efficiency on well-established lines. Kicks understands that it cost more to build new lines and make them operate up to standards than is does to evolve an existing facility. This also built employee loyalty due to a constant need for new hiring, a policy of in company promotion, and a sense of corporate social responsibility by using programs dedicated to the local areas around the factory. Once Kicks had a solid foundation of production, the sales and distribution had a perfect core to pull from in any way that met the demands of the marketplace.

**Workforce Compensation Strategy**

It is very important to Kicks to pay fair wages and properly incentivize employee production. When business is struggling financially, it is often the employees who take pay cuts. While this is a popular choice to avoid bankruptcy, it is simply not the only option. Experts suggests that financial success is far more dependent on brand loyalty, innovation, and the quality of products and services than it does on prices and costs (Pfeffer, 2004). Thus, for the past seven years, Kicks has committed to reinvesting profits into employee compensation (amongst other operation-sustaining factors). Like each of the competitors, Kicks offers fair base wages to all workers; however, each year employees received a 1% increase in these wages. In addition, an incentive pay was offered for all workers for each pair of non-rejected shoes produced. Finally, the company’s efforts toward Best Practices Training resulted in a nearly 50% decrease in overall rejected pairs from 6% to 3.2%. Compared to its competitors, Kicks spent below the average, and often the lowest, in total compensation. Yet, by year 17, the company had the nearly the lowest reject rates and earning the company the highest operating profit in the industry.

**Finance Strategy**

Kicks’ investor relations were built on the principle that the increasing value of owning stock within the company is more advantageous than a dividend payout principle. Thus, dividends were paid to shareholders in the last year, once all other financial needs had been met by the company to secure its core value investment strategy within its own company. Once Kicks had achieved dominance within the industry, it plans on paying out an annual dividend. However, the past seven years has been dedicated to securing production value chain and developing a market share dominance that management felt was adequate to satisfy core values. Unfortunately, it would only be future years that investors would become a primary focus. Ultimately, Kicks has always been built on a stakeholder strategy rather than a shareholder one.

Since Kicks has had a core value of believing in itself and its teammates, the belief within the strategy and the company led it to buy back shares on an annual basis without fail. Keeping the treasury stock at the highest levels possible allowed Kicks to keep the profits within the company, and allowed us to reinvest into the company strategy as a whole. Debt was used only when needed, and even then only in the beginning. Kicks has always worked for, and now maintains, an A+ credit rating by not only proving to be profitable every year but also by paying of short term debt ahead of schedule. In the future, a new loan will be taken with this A+ credit rating to build another facility in the Latin America region, as the profit margin of that area has proved to be the most promising for future endeavors as far as production value and margins of direct cost for sales. Even with the future plans in place, the dividends will now start to be paid out annually on a more consistent basis; however these will only be paid out as long as Kicks remains the most dominant company within the market.

Finally Kicks has maintained a strong triple-bottom-line core value by investing heavily in the corporate social responsibility every year, even winning a gold star award for first place in the industry in years 14 and 15 along with a second place in the most recent year. For businesses, sustainability is a powerful and defining idea: a sustainable corporation is one that creates profit for its shareholders while protecting the environment and improving the lives of those with whom it interacts (SBS, 2013). Kicks has a continual effort shown in providing a diversified workforce, an ethical environment for all employees, and a use of recycled as well as green materials in order to keep with the concept of a triple bottom line.

**Additional Analysis**

**Rivals**

Kicks first athletic-shoe rival is Athletic Force. Each year, Athletic Force was Kicks’ largest competitor in both the internet and wholesale segments. Athletic Force also had a very strong market share in the private-label segment that Kicks opted not to partake. Athletic Force’s largest strength was in its models offered and retailer demand. The competitor continually offered competitive support to its retailers and a short delivery time. Their high S/Q rating and rebate offers made Athletic Force very attractive to shoe buyers. Unfortunately, their lack of celebrity appeal may have been detrimental in years 11-14. Kicks’ strategic approach to out-competing Athletic Force began in year 11 with the building of new production capacity. Kicks also offered lower internet and retail prices than Athletic Force. By year 17, Kicks had outsold their primary competitor in the internet and wholesale segments for the North American and Europe/African regions.

The second competitor to Kicks is BeeRok, a fierce opponent to the company. Until year 16, BeeRok had narrowed their market niche to the private label segment. Here BeeRok took the majority of the market share for all four regions and outperformed every other competitor. Additionally, their market shares for the internet and wholesale segments ranged primarily from 19% - 26% which reflects an overall average for the industry’s four competitors. Financial summary analysis of cash on hand, debt to assets ratio, and long-term debt suggests that BeeRok attempted to reinvest earnings into the company but chose not to take out loans in order to do so. In years 13, 14, 15, and 16, BeeRok added plant capacity without borrowing. However, year 17 left BeeRok with $0 cash on hand and nearly the highest total assets. It appears Kicks had many of the same growth and reinvestment goals as BeeRok but chose to accomplish these through borrowed money. Loans allowed Kicks to build additional plant capacity, repurchase stocks, and pay dividends while still having ample current assets. Further, Kicks was able to increase corporate social responsibility efforts and Best Practices Training. Each of these initiatives increased earnings per share, stock price, revenues, and image rating. Ultimately, Kicks out-competed BeeRok by responsibly utilizing borrowed funds to improve the company and increase shareholder value.

The final competitor for Kicks was Court Crushers, a smaller, idler player in the industry. Despite their high style and quality ratings and low expenses, Court Crushers appeared hesitant to take risks or change their competitive strategy. Their model availability in both the internet and wholesale segments was incredibly detrimental to Court Crusher’s sales and ultimately its operating revenue. Additionally, their high prices or low offerings had a negative impact on industry standings. For example, BeeRok and Court Crushers were the only two players in the private label segment for the majority of the last seven years. The demand for private label shoes is increasing at a steady annual rate (approximately 8%) and Court Crushers had an opportunity to control the private-label segment. Yet, Court Crushers consistently offered less than 10% of overall demand. They failed to take advantage of a (nearly) guaranteed market share. Finally, the competitor lacked growth and remained stagnant for the greater part of the seven years. Kicks outcompeted Court Crushers by expanding plant capacity early, increasing shareholder wealth, improving corporate social responsibility, and simply out-selling the competitor.

**Lessons Learned**

The greatest lesson learned over the last seven years was to avoid complacency. Industry growth and changes offer vast opportunities to increase sales, earnings, and market share. Each year must be met with thorough analysis of years past, a gauge of competitor’s strategy, and the willingness to take risks to control the market. For example, after three to four years of complacent pricing, Court Crusher’s movement was quite predictable. Yet, price competition became quite active amongst the other three companies in the last three years. There was never a question as to *if* Athletic Force or BeeRok planned to lower their prices; it was only by *how much* were they going to be lowered. It became clear very early that complacency was Court Crusher’s disease and it would quickly become Kicks’ if not avoided.

Kicks’ objective from the early years was to market to the masses, reinvest in the employees, and focus on how to acquire the largest market share. The company took a risk by building additional capacity at the very beginning. The managers wanted to capitalize on its reasonable credit rating early to fund the new capacity, stock repurchase, dividend payments, celebrity endorsements, and TQM programs. Ultimately, these and other investments paid off for Kicks. The company found that by improving internal operations and stabilizing relationships with retailers offered the greatest returns. A winning strategy starts from within the organization.

Kicks’ financial success did not come without a price. Lessons were specifically learned in the private label market where Kicks’ early sales were highly unsuccessful. Driven by a lack of segment knowledge, the company pulled out of the market after only two years. If it were to re-enter the private label market, it would be with a greater understanding of how that market operated. This was a huge lesson to both managers as they had over-priced and over-demanded their shoes. When Kicks re-entered the market in year 16, prices were lower and their demand was far more aligned with the expected growth. Another lesson learned is to take risks based on trends, not hope. One smart example is reflected when each company had been pricing their wholesale shoes on the dollar. One company opted to reduce their prices by $0.01 or $0.50 making their shoes only slightly lower priced than others. Small price changes earned the company far greater sales.

**Trends**

Revenue trends are easy to identify as they are almost always relevant to other growth factors. The more capacity a company has to produce, more often there is more for sale, and sales revenue increases. This was true for Athletic Force, BeeRok, and Kicks as they all built capacity multiple times within the last seven years. Each had rapid growth in sales. However, one cannot accurately represent revenue trends without highlighting the costs associated with them. Each company’s cost of pairs sold was fairly consistent (ranging from 54%-59%) from years 11 through 13. Yet, in year 14, costs start to increase dramatically for Athletic Force and Court Crushers to 63% and 10% respectively. While Court Crushers did achieve a higher than average style and quality rating, the associated costs had deteriorating effects on both company’s operating profit (of which Court Crushers has yet to recover).

Athletic Force, BeeRok, and Kicks each consistently outperformed investor earnings per share (EPS) expectation and year-end stock price. Naturally, EPS rises each year with the increase in revenue and stability of costs. However, the low revenue and higher costs Kicks experienced in year 11 and the excess of costs experienced by Athletic Forces in year 14 are represented by a disappointing EPS. Court Crushers increasing costs prevented them from meeting investor expectation on earnings per share or year-end stock price until year 17.

As previously mentioned, the average return on equity (ROE) for the S&P 500 is approximately 15% (Eisen, 2013) setting the baseline for the four competing companies in the athletic shoe industry. Both BeeRok and Kicks performed at or above this expectation in years 11 through 17. Athletic Force performed well on return on equity in years 11 through 14, then fell well below (as low as 11.7%) in the next two years. The company then recovered in the last two years. While Court Crushers did not meet the S&P expectation within the last seven years, they did fairly consistently improve their ROE. Kicks doubled expert expectation and their own goals in year 17 with a 32% ROE.

Trends in annual credit ratings were as to be expected. Kicks took out a large loan in year 11. Thus, their default risk ratio was very low and received a lower credit rating than the other players in the industry. As the loan was repaid, Kicks’ credit rating increased. Athletic Force also borrowed funds in year 14 to build additional capacity. Their credit rating remained the same as the loan was small (paid off by year 16) and their default risk ratio low. BeeRok managed to grow their business without borrowing and thus their credit rating remained the same. Court Crushers did not build additional capacity, buy back shares of stock, or pay dividends to shareholders. Thus, they may not have found borrowing necessary and had a stable credit rating.

The annual image rating was expensive and often was not directly related to revenue or profit margins. However, the image rating was important because it reflected the efforts put forth toward the triple bottom line. Corporate social responsibility requires a commitment to the community in which corporations interact. Experts suggest that incorporating a triple-bottom-line theory of people, environment, and profits will benefit the company’s ethics, morale, and ultimately, profit (Painter-Morland, 2006). It is evident that BeeRok and Court Crushers made their image rating a primary focus. BeeRok, however, had the revenue to sustain this image rating and contribute to corporate growth while Court Crushers could have scaled back on image ratings cost to put toward more revenue-driving activities.

Trends in global unit sales and in the private-label segment were rather predictable. The previous years reported the demand. Thus, with the expected growth, it was easy to determine the next year’s expectations. BeeRok recognized this immediately and took advantage of the absence of players. BeeRok consistently controlled private label’s market share for the majority of the last seven years. The internet and wholesale segments were far more difficult to predict. Many variables such as models offered, price, style and quality ratings, retailer support, retailer demand, and celebrity appeal each contributed to the pairs sold and ultimately a controlled market share. In years 11 through 13, Athletic Force had a major market share in all three segments. However, in year 14 Athletic Force pulled out of the private label segment and drastically overpriced (or were undercut on) their internet model offerings. The following years brought price and retailer wars. Yet, year 16 and 17’s wholesale and internet segments varied and did not clearly present a market-share “winner.”

**Conclusion**

From the very beginning, Kicks was a company that was all but overlooked due to a successful strategic approach. While maintaining the company’s core values, a need for building a company from the ground up became as important as keeping a business strategy just as simple. Kicks knew that evaluating the competition, evaluating the customers, and finally evaluating its own ability was the best course of action at the first leg of a long journey. Evaluating the competition was invaluable as managers saw the flaws in their strategic approach to creating immediate value with no concern for growth in the future. During this time, Kicks built a better value stream. Simultaneously, management analyzed customers and their purchasing behavior - which products they buy, where they buy them, when, and how they pay (UK/business, 2009). Keeping track of this allowed a better insight into untapped market segments that was overlooked by the competition and allowed Kicks to become a savvier seller when taking market share by force. All of this would not have been possible without the very first step: evaluating the organization’s own ability. The most basic concept in sales is knowing what the organization has to sell, even before it knows how much you have or how much it is worth. Kicks became a company with the best production stream in the world and that, above all else, was the foundation in which it was built upon to dominate the market.

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