

The Reebok Core Board
Analysis of a Global Sport Product

Mark G. Hecox
Southern New Hampshire University

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Abstract

The complexity of developing and successfully launching a global sport product can be overwhelming to international sport business managers who lack a global product & marketing perspective and understanding. It is the goal of this analysis to investigate the development and evolution of a global sport product, the Reebok Core Board, using the contingency theory conceptual framework by examining product and situational factors that led to key challenges faced by Reebok when developing and launching a “global sport product”. There is a detailed assessment of major internal and external conditions shaping outcomes when the Reebok Core Board was launched in the global fitness market. The author endeavors to provide future international product and marketing managers with useful insights and strategic perspective when faced with managing international complexity. Areas of examination for the international business professional include; sport product development, sport marketing, international sport business, alliances, sport consumer research and strategic planning. This historical analysis case study utilizes multiple sources of data including executive interviews, non-confidential marketing plans and secondary resources.

Sport Marketing: Contingency Theory Framework

Contingency theory approaches to management date back to the 1960’s with Lawrence and Lorsch’s (1967) work on enterprises adapting to their environment from an open systems perspective. In the application to international business issues, Turnbull (1986) developed alternatives to the Stages Model related to firm internationalization.

Contingency conceptual model frameworks rest on the premise that firm strategy may be shaped by the environmental conditions/factors it faces and that firms may become more responsive to market complexities when using this approach. This approach has also been extended throughout the marketing discipline. Specifically, in sport marketing, contingency theory has been particularly useful given the unpredictable nature of sporting outcomes. Shank (2005) notes that the use of a contingency conceptual model approach can be particularly useful for sport organizations when developing their marketing strategy. Shank (2005) notes three areas of sport business that make this conceptual approach particularly appealing. One, sport businesses/marketers face “unpredictable and rapidly changing environments” especially with teams winning and losing and individual players being traded each year. Two, this conceptual approach “suggests that no one marketing strategy is more effective than another” but rather “one particular strategy may be more appropriate than another for a specific sports organization in a particular environment”. Three, a sport organization interacts with many different systems and does not operate in isolation. He goes on to differentiate between internal contingencies (controllable by the organization: firm’s vision, mission, objectives, marketing goals, strategy, and culture) and external contingency factors (outside the control of the organization: competition, legal/political, demographics, technology, culture, physical

environment, economy) that may be considered. The goal is to conduct the strategic marketing process in congruence with the relevant internal and external contingencies in order to optimize marketing resource deployment and decision making and gain a competitive advantage.

Product Development and Innovation in the Global Sporting Goods Industry

Product development and innovation in the global sporting goods industry has enjoyed significant growth over the last 3 decades (SGMA 2005). However, there have historically been significant variations in innovation across different sport industry sectors depending on several factors including lifecycle stage of the sector, industrial structure and competitor concentration, technology introduction and acceptance, sport federation rules and sport consumer preferences (Desbordes, 2002). Sport product development may be influenced by internal contingencies such as Vision and Mission of company, organizational objectives, marketing goals, organizational strategies (multiple levels), and organizational culture and external contingencies such as competition (direct and indirect), technology, cultural and social trends, physical environment, political, legal and regulatory environments, demographics, economic (micro and macro) (Shank 2005) .

Sport enterprises are becoming more sophisticated in their approach to new product development. As pressure to innovate, reduce development timeframes and minimize development costs increase, sport enterprises are seeking ways to benefit from the proactive management of the new product development (NPD) process in the context of organizational learning. According to Saban and Lanasa (2000), organizational learning in this context can be defined as “the capability, which enables an organization to acquire and process new information on a continuous basis to elevate knowledge and improve decision-making.”

This shaping is dynamic over time and not static. In addition, sport product development may be conducted within close proximity and in parallel to the sport consumer throughout the development process, leading to a better match between product value attributes and consumer needs and wants. Unlike some other industries that might have a development emphasis on technology performance.

Identification of key underlying motivations for participant behavior provides a platform for better segmenting the needs and wants of specific sport consumer segments. (Rohm, Milne and McDonald 2006) The understanding of and strategic alignment of the sport consumers needs and wants with the sport product development process and subsequent marketing communication development is critical to product success by better communicating and delivering features and benefits valued by the sport consumer.

Global Fitness Equipment Industry

Structure

The global fitness equipment industry is generally segmented into two parts; home fitness equipment and club fitness equipment. Home fitness equipment sales accounted for approximately 70 % of sales and club fitness equipment accounted for approximately 30%. Club fitness equipment is designed for higher usage rates found in health club environments. Correspondingly, health club fitness equipment may be priced significantly higher than home equipment and offer higher grade components for more durability. The leading industry supply manufactures generally specialized in one segment or the other. In the club market, leaders such as Life Fitness tended to focus singularly on the health club market, producing very high quality product. Later they moved into higher end home equipment as well. Distribution of these products tended to be through distributors and direct. In the home market, Icon Health and Fitness dominated the US market with over 45% market share. The US market accounted for approximately 50% of global fitness equipment sales for both segments. Distribution was focused on sporting goods, specialty fitness and mass retailers. Direct to consumer marketing via infomercials was also a strong driver for this segment. Internationally, the market was very fragmented and the market leaders (Life Fitness and Icon) initially approached the market with an export strategy. In certain regions of the world, such as Europe, local brands tended to dominate (for example Kettler in Germany).

Key trends

In the 1990's, US home fitness equipment sales grew significantly from approximately \$1 billion wholesale in 1990 to \$3 billion wholesale in 1999 and \$3.2 billion in 2004. (SGMA 2005). Much of this growth was fueled by the sales of cardiovascular equipment such as treadmills, exercise bikes and elliptical trainers. Sales began to plateau in 2001. Consumers began shifting their participant interest in fitness to include more strength training in their fitness routine. Internationally, home fitness equipment markets varied dramatically in their development. Certain European markets such as UK and Germany were well developed in their consumer retail distribution of home fitness equipment. However other markets such as Spain, France, and Russia among others were still in their relative infancy. In Asia, Japan was well developed, but others such as South Korea and Taiwan were just developing. South America was the least developed, although Brazil showed strong growth potential.

Health club membership continued to grow. From 1990 to 2004, health club membership in the US approximately doubled from 21 million to 42 million. The health club and fitness facilities growth of rooftops went from 17,000 in 2000 to 26,000 in 2004 (SGMA 2005) during this period. In the US, health club companies such as 24 Hour Fitness and Bally's led the way. Health club growth internationally also grew significantly as more European chains expanded aggressively (for example Fitness First).

Fitness consumers in both the health club segment and the home segment began to purchase and participate in more strength training activities. Group exercise instructors began to offer more strength training oriented class offerings in health clubs and manufacturers developed more complete strength product lines for clubs and retailers. In addition, trends popularizing yoga and Pilates approaches to fitness became more accepted in the mainstream fitness movement.

Reebok International: Reebok Core Board and Core Training

Background

In March of 1999 Reebok International Ltd. was presented with a new fitness product concept. The concept, referred to as a “core stability training board” had been created and successfully used in practice by a Canadian Physiotherapist.

Key Reebok executives responsible for the Reebok global fitness business reviewed the concept and prototype product and felt it possessed strong potential for the global fitness equipment market place and would support Reebok strategic objectives. Reebok had been seeking the next “Reebok Step”, which it successfully launched in 1989 selling more than 1 million units worldwide over a 10 year period. This helped successfully establish and position Reebok as the leading “fitness” brand in the global fitness industry and among fitness consumers. Reebok used fitness equipment like the Reebok Step combined with fitness instructor and consumer programming from its “Reebok University” to enhance its fitness footwear and apparel business by providing fitness consumers with key product extensions and authentic training programs for the health club and the home market environments. One of the first managerial decisions that Reebok faced was whether to internalize product development and other value chain activities related to the development and commercialization of the core board.**

Reebok decided to use external strategic partners to commercialize the Reebok core board product for the health club and home retail fitness markets while focusing its primary investment on the marketing of the product and core training concept. Reebok’s core competencies in product development resided in footwear and apparel and not in fitness equipment “hardware” development. However, Reebok felt that it could effectively develop and deploy the “software” programming that fitness instructors and consumers needed with the core board through its Reebok University Training Department

****Ironically, it had been a little over a decade earlier that Reebok was faced with similar decisions regarding a product that is now considered the stalwart product that pioneered group exercise in health club studios around the world: The Reebok Step. Back in 1989, Reebok had been approached by a soon to be guru of aerobic fitness, Gin Miller who presented a simple yet compelling fitness concept, a step device that could be used to perform various musically choreographed dance inspired workout moves in a fitness class lead by a qualified fitness instructor. Reebok would enjoy a leadership position that would translate into meteoric growth for its Princess Aerobic shoe whose development by Paul Fireman was revolutionizing the athletic footwear business globally. Together, these two forces conspired to forge Reebok’s dominant position as the number one fitness brand globally. By changing the way people perceived athletic footwear and how they worked out, Reebok became the leader in fitness by delivering break-through innovations that were credible and authentic for fitness participants. Reebok invested and managed the development and launch of the Reebok Step internally (in-house).**

Reebok had built an extensive global network of elite fitness trainers known as Reebok Master Trainers. These trainers were the who's who of highly credentialed, well respected and well known fitness leaders in their respective markets. In addition, Reebok University had established an affiliate program, the Reebok Alliance, which had over 60,000 members worldwide. Members were generally fitness instructors who worked in health clubs and fitness related businesses globally. Reebok felt confident that it had the "human infrastructure" necessary to develop and launch the "software" programming that would complement the Reebok core board "hardware". The software was seen as a necessary "how to" part of the Reebok core board product experience.

It was proposed that the Reebok Core Board and core training fitness programming be Reebok's innovative follow up to the group exercise and personal training market in which Reebok had enjoyed a dominate innovation leadership position resulting from the Reebok Step. Many leading health clubs, top fitness instructors and consumers were clamoring for the next Reebok fitness revolution. In addition, the Reebok core board would capitalize on a key developing trend in the global fitness and group exercise market, functional stability strength training (for core muscle groups).

EXHIBIT I

Reebok Marketing Communications for Core

What is Reebok Core Training?

Reebok Core Training

- Dynamic, multi-dimensional training system based on athletic training & sports rehabilitation principles
- Complete & challenging workout designed to optimize power, balance, & functional strength

The Reebok Core Board Technology

- Ground breaking adjustable board with three dimensional training capabilities
- Only board on the market that offers tilt, torque, and recoil

BRAND POSITIONING:

- Reebok is the leader in fitness products and programming

WHY IS IT SO SIGNIFICANT?

Reebok Core Training will revolutionize the way people work out and how they think about their workout; very similar to the craze created 10 years ago with Step Reebok

Communications Efforts

- Educate target about benefits of building core muscles
- Focus on drawing men to Core Training -- women will naturally experiment with a new class
- Generate excitement and word of mouth through grassroots marketing efforts
- Consider NOT using an endorser/spokesperson
- Create plan to understand the home exercise consumer before launching Core Training in retail



Reebok Core Board Global Marketing

The following analysis utilizes the contingency conceptual model approach as generally outlined by Shank (2005).

Internal Contingency Factors

Vision: "Reebok redefines the world of fitness and sports training"

Mission: "Reebok will revolutionize fitness and sports training with Reebok Core training and equipment. Reebok will deliver the Reebok Core training concept and board to the sports and fitness consumer. Reebok will build equity with its most important customers by **Discovering** a new way to workout, by **Designing** a breakthrough training concept and core board technology and by **Delighting** them with the user experience."

Key Reebok business objectives for the core board initiative included:

- Introduce the Reebok core board and training into health clubs to build grass roots support
- Land Reebok core training and equipment in all leading health clubs in the US and key international markets (G7- US, UK, France, Japan, Spain, Germany and Italy) in 2001
- Re-energize the fitness and sports industry enabling Reebok to recapture its leadership position
- Successfully integrate the Reebok core business into the overall strategic goals of Reebok International (Be Reebok) and interactive marketing strategies (including Reebok University)
- Build critical mass of consumer awareness around Reebok Core training in order to support a successful US and key international (G7) market retail launch in 2001
- Achieve Reebok financial breakeven in 18 months
- Generate a Reebok positive ROI in 24 months
- Capture maximal mass market sales volume of core boards and videos
- Maximize the incremental footwear and apparel sell in and sell through opportunity with key Reebok retail partners

Key Reebok global marketing strategies:

- Execute an integrated Reebok marketing asset strategy to launch and deliver Reebok core training to the fitness and sport training market
- Maximize the penetration of Reebok core training into the US and key international markets by tapping the global Reebok University human infrastructure (master trainers, alliance members etc.)
- Leverage core competencies of Reebok equipment strategic alliance partners to develop, manufacture and deliver Reebok core boards
- Utilize a Reebok Core training infomercial (consistent with Reebok brand image standards) to help create consumer awareness of Reebok Core training

- Leverage Reebok’s international distributor marketing assets to ensure a successful global launch. This was to be supported by joint co-ordination between the local Reebok footwear and apparel distributor and the local Reebok fitness equipment distributor
- Create, produce and deliver a breakthrough Reebok core training video series that generated excitement around the Reebok core training phenomena
- Integrate the Reebok sales team with equipment strategic alliance partner sales team in order to maximize the sell in (leverage) of Reebok Core training equipment, footwear and apparel. Additionally, the sales strategy was to support Reebok’s ability to garner incremental premier retail presence for the Reebok brand in footwear and apparel

Reebok’s Fitness Culture and Positioning

Reebok created Reebok core training and the Reebok core board based on a breakthrough training technology and consumer market research. By synthesizing the intrinsic human need for self improvement and feeling good with the functional needs of improved strength and performance for an active lifestyle, Reebok endeavored to redefine sports and fitness. Reebok’s goal was to communicate the key benefits to consumers globally. The Reebok Core marketing initiative was to fully support the Reebok brand message (“Discovering, innovating and redefining the active, athletic lifestyle”) and brand vision (“Reebok will become the global brand for active and athletic performance products and style”). The Reebok core board would be consistent with the brand design and product philosophy (“The aesthetics and quality of any given Reebok product must be equal to the functionality of that product and both, the function and the aesthetic, must be natural and integral to the product”).

Reebok felt it faced several challenges including delivering a new, exciting concept and product to both the professional and consumer markets simultaneously, creating awareness for Reebok Core globally and educating both markets about the new training concept as well as the product. Reebok sought to utilize its core competencies in marketing (grass roots, RU programming, RU human infrastructure, events, video, equipment etc.) by effectively leveraging its key marketing and educational assets. Reebok’s ownership of the global Alliance human infrastructure allowed Reebok to quickly and aggressively market and deliver core to the health club/professional and consumer markets. Combined with an innovative “Reebok Core Tour”, Reebok created a marketing beachhead in 20 strategic US markets. This was integrated with a focused retail and direct response rollout strategy in these markets beginning in Q4 2000 and Q1 2001 in order to create a critical mass of exposure and excitement. This approach would be a template for international market launches scheduled to follow. Each market sought to have leading health clubs, instructors and retailers simultaneously supporting the core launch. This targeted approach would ensure deep penetration and allow Reebok to create the necessary “forest fires” to successfully drive Reebok core training nationally and globally.

Reebok Core Board Product Development Strategy

Reebok decided to externalize most of the product development, manufacturing and distribution value chain activities. Reebok would utilize the strength of strategic alliance partners to develop product and support club and retail distribution as well as the sales and some trade marketing for the Reebok core boards and programming. Reebok would focus internal resources on the marketing activities related to health clubs and consumer retail that would allow it to strategically align with footwear and apparel marketing goals and enable it to leverage existing fitness assets. The following illustrates some of the key research findings that helped shape the product design formulation and product marketing strategies.

Consumer Market Research:

Reebok conducted market research with US and international market consumers, fitness professionals and health clubs. Some of the highlights were:

CONSUMER TARGET

- 18-39 fitness enthusiast (male & female)

KEY INFLUENCERS

- Fitness Professionals
- Sports Rehab/Physical Therapists
- Athletic Trainers
- Coaches/Teams

When asked to describe the best aspects of the Core Training program, respondents mentioned:

- **Total Body Workout**
 - ◆ Strength and cardio combined
 - ◆ For the mind and the body
 - ◆ Quick and intense
- **Core Benefits**
 - ◆ Improves balance
 - ◆ Builds stabilizer muscles
- **Something new**
 - ◆ Unique, different
 - ◆ Fun
 - ◆ Challenging

Core Training Program

- Build program to emphasize strength training as key element for a total body workout
- Offer short (15 -30 minute) executions of Core Training classes to induce trial and appeal to men
- Train instructors to incorporate strength training into Core Board use

Reebok felt that it needed to diversify some of the potential financial and global commercialization risk and was willing to relinquish some control of the product and process to achieve this. Reebok had procured intellectual property rights (IP) from the inventor and also established its own IP strategy for the product moving forward. Reebok, based on its IP history and knowledge from the footwear design side of its business, felt confident that it could protect its designs and stave off competitive challenges. Strategically, Reebok also recognized that Wall Street did not place much value on the equipment side of the business; rather, it wanted Reebok to stay focused on its core footwear and apparel businesses. However, the potential future global value to

the brand of setting a new global fitness trend was acknowledged and viewed positively for its potential impact on corresponding brand energy and footwear/apparel sales.

Reebok initially had two core boards developed, one for club (target price to club \$199) and one for retail (target MSRP \$149) both shipping late Q4 2000. The club version would be more durable for heavy club use. Additionally, Reebok envisioned developing other versions of the board in order to possibly capture the key mass market volume opportunities in the global market place, unlike the Reebok step experience, where Reebok did not completely capture the key mass volume. Rather, the step competition, not as concerned with footwear and apparel branding related issues, entered lower end distribution. Reebok decided not to allow its brand to enter lower end distribution channels for footwear, apparel or fitness equipment. It desired to protect higher end distribution channels and offer higher quality product that delivered higher margins. However, Reebok did consider using an alternative “generic” brand to create a lower end core board product that could be used in mass market distribution channels and not threaten the Reebok branded product at the higher end.

The Reebok core product collection also included the Reebok video series. These three Reebok core videos were intended to play a very important role in generating awareness and creating real value for consumers. This was the necessary “software” for the core board hardware product. The videos helped demonstrate how to use the Reebok core board and also helped consumers and trainers create their own workout routines using the board based on their specific needs. This would, in theory, lead to greater customization of the product to specific consumer needs.

EXHIBIT II

Reebok		PRODUCT 2001	
	Footwear		
	Q3	CORE Lite	\$80
	Q4	Power Zone Mid	\$80
		Power Zone Low	\$75
	Apparel		
		DMX Training Collection	M & W 10/1
	Reebok Core Board		
		Club (\$199.00 MSRP)	
		Retail (\$149.95 MSRP)	includes RU video sampler & brochure

Reebok
PRODUCT 2001



- ♦ **Reebok University Manuals \$24.95 Each**
Basic Training
Hard Core Strength (Q2 2001)
- ♦ **Reebok University Workshop Series**
for Group Fitness, Personal Training &
Strength & Conditioning Coaches
- ♦ **Reebok University Video Series \$24.95 each**
Reebok Power Zen Training
Reebok Sports Core Training
Reebok Hard Core Training
(French, English, Spanish, Japanese,
German)
- ♦ **Core Training Portable Equipment**
Core Bag, Tubing, Medicine Balls, Mat, Gloves

Reebok Distribution Strategy

International distribution activities (board sales, inventory risk, fulfillment and partial marketing for both home and club segments) of the Reebok Core board would be performed by the current Reebok home and club equipment distributors in their respective markets. Reebok equipment distributors would align and integrate with the local Reebok footwear and apparel distributor to create a synergistic effort supporting the Reebok Core marketing initiative. Reebok US would support and develop global collateral materials for hand-off packages to international markets to ensure brand and message consistency. New media creative and production would be US based, but local market adaptations would be made.

The Reebok core board retail distribution strategy would be focused on Reebok's strategically important key sporting goods retailers. Reebok was seeking a higher penetration of its footwear and apparel in this distribution channel and viewed the core board initiative as away to leverage additional footwear and apparel placement. This logic presumed that the Reebok core board would become the next Reebok Step and key sporting goods retailers would make it a "Must Have" hot retail fitness product. The targeted sporting goods retailers were aligned with the 20 city launch tour in Q1 2001 in order to optimize impact while helping to ensure that a critical mass of awareness and demand had been created to drive retail sell through in key markets at the selected retailer rooftops. Additional launch tours were being planned for European, Asian and South American markets.

Reebok Core Board Public Relations Strategy

Reebok engaged in an aggressive global PR campaign that generated over 43 million impressions in just under 6 months. Reebok Core training became the buzz of the fitness industry in early 2001. Grass roots event were used to generate awareness of the product and training programs. Initially, the fitness professional market was targeted. By

penetrating this market first, Reebok hoped to establish a high level of credibility and awareness among top trainers in the health club market. This would help set the stage for a consumer market entry by creating a health club member buzz in key influencer markets around the globe.

EXHIBIT III



The following illustrates the global Public Relations (PR) objectives and goals outlined by Reebok for the Reebok Core Training Program:

PR Objectives

“Reebok Core Training, the next evolution in fitness and athletic conditioning, will revolutionize the worlds of fitness, wellness, sport and physical therapy like never before. In addition to leveraging Reebok’s strong fitness heritage, all PR efforts will focus on communicating Reebok Core Training as a new training philosophy that applies whether your goals are oriented towards fitness, wellness, or athletic conditioning. Only Reebok has a multi-tiered fitness initiative that connects the brand to consumers, fitness instructors and Master Trainers in ways that add meaning to their lives; PR efforts will emphasize how through this initiative, only Reebok is uniquely positioned to launch this revolutionary new program, Core Training.” (Reebok International PR memo)

PR Goals

- Position Reebok as the leading source of timely and accurate fitness news and information, including the most effective, relevant and popular fitness programs around the globe.
- Generate extensive media outreach for the launch of Reebok Core Training, the Reebok Core Board and the Core Tour using strategic, proactive national and local media relations targeting men’s and women’s fitness and consumer

- publications, national media, TV, radio and print dailies in key markets, and fitness and industry trades.
- Maximize the availability of “star” spokespeople, including Reebok University Master Trainers, professional athletes, the inventor, celebrities and celebrity trainers as well as scientific research to build credibility around the core training concept.

EXHIBIT IV

Reebok Core Board – Timeline--- Key Dates overview

- **March 1999**
Inventor and strategic alliance partner present the Core Board prototype and concept to Reebok
- **April 1999**
Reebok decides to support a commercialization initiative and bring the Reebok core board and training concept to market. Reebok evaluates internal versus external development options
- **June 1999**
Reebok declines to fully invest, and Reebok decides to use external strategic alliance partners for global commercialization
- **September 1999**
Partners present first designs of Reebok Core Board to Reebok and suggest January 2000 production as target
- **November 1999**
Reebok completes Core Global Business plan
- **July 2000**
Reebok and health club market strategic alliance partner launch Reebok Core Training (RCT) developed by Reebok University and begin to market RCT in key first phase markets. Marketing efforts based on promise of September, 2000 delivery of club core board
- **January 2001**
US based strategic alliance design and production partner delivers the first Reebok Core Boards – one year later than originally targeted and 5 months later than committed production dates- Health club market distribution alliance partner ships first boards into US market on January 22, 2001
- **February of 2001**
Reebok / Health club market distribution alliance partner initiate “Operation Success” to repair damage of late delivery
- **March 2001**
Reebok supports alliance partner sales campaign to recapture sales lost to late production. Reebok and alliance partner begin key market launches----LA, NY, BOS
- **April 2001**
Distribution alliance partner begins to focus on new sales and penetrating key markets. Reebok experiences new leadership change at C.E.O and C.M.O. positions.
- **2002 – 2003**
Reebok US internalizes US health club market sales function in attempt to improve core board sales. Core global marketing budget reduced by 30%.
- **2004-2005**
Reebok ends internal sales effort at the beginning of 2004. Externalizes all marketing efforts globally to equipment strategic alliance partners. Reebok shifts global brand focus away from fitness related positioning to performance and “Urban lifestyle” positions.
- **2006-2007**
Reebok acquired by Adidas Group. Global branding strategy re-evaluated. Reebok equipment partners continue with minimal core board marketing and sales success

External Contingency Factors

Competition:

Reebok Core Board Strategic Alliance Partners

Based on strategic considerations outlined previously in the product development section of this paper, Reebok sought external development partners in 1999. While Reebok would provide some internally developed input based on its market research, Reebok would come to rely on its global network of strategic alliance equipment partners for the commercialization of the core board concept. Reebok lacked the competencies specific to this type of hardware development. In addition, since Reebok did not own any manufacturing resources, they did not possess a capacity to produce the product. A US based, high tech sporting goods manufacturer on the west coast of the US was identified as a potential partner who possessed a materials competency (carbon fiber and other) as well as showed extreme enthusiasm for creating a relationship with Reebok on this and other product fronts (bikes and golf). Reebok reached a point in the development process requiring Reebok to begin paying for design costs, tooling expenditures and commit to minimum quantity production requirements.

The fitness equipment business team had carefully prepared a business plan with full P/L to justify the investment in the board and project. Reebok senior management decided not to invest based on recent precedents set for not investing in non-footwear and apparel businesses. This was contrary to how Reebok approached the development of the Reebok Step. As a result, the potential development partner was not willing to front the entire development and financial risk.

As a result of the Reebok decision, the potential development partner under consideration withdrew from the project and Reebok decided to engage its US retail fitness equipment strategic alliance partner to develop the entire project. This partner had very limited knowledge and experience in designing, developing and manufacturing health club grade fitness equipment. At that point Reebok essentially lost complete control over the development process, a tradeoff it felt it was willing to make in order to minimize its financial risk.

Reebok had structured its global fitness equipment business using multiple strategic alliance partners. Rather than give a single alliance equipment partner global rights, Reebok decided it would approach the global market on a regional basis and recognized that there were no true “global players” in the fitness equipment business. Rather, the primary market share leaders were leaders in their respective domestic markets and employed international export only models for international sales. Hence it was felt that regional players could offer the best depth of market knowledge and resource commitment and the focus needed to support Reebok’s fitness equipment business. In addition, it was important for these partners to understand, support and align with the existing Reebok footwear and apparel distributors in their local markets.

Among the assembly of a network alliance partners, there existed a tenuous relationship between the international partners and the US based retail market partner. This relationship strain stemmed from a competitive structure where the US partner had begun aggressive expansion into certain international markets with other brands and viewed the other Reebok network partners as direct competition. This led Reebok to rethink its global supply chain strategy.

In order to minimize Reebok's core board production risk in the event that the relationship between the US retail market supplier (and primary manufacturer) became inoperable, an alternative product development and sourcing initiative was launched. The primary goal was to establish a reliable international market supply chain that would not suffer from potential production prejudices created by the competitive singular position of the US supplier. This program proved to be very successful and led to an improved Reebok core board design and a lower cost, while retaining the Reebok design aesthetic and key Reebok core DNA elements. As mentioned in the product strategy section, Reebok had been aggressive in developing a strong intellectual property position with key patents to protect the product.

During the early period of launching the product globally, Reebok encountered minimum knock offs and viewed the key competition to the board as other group exercise activities in the club. (At the time, spinning, Taebo and Powerstick were competing for floor space in the health club studios) Clubs had adoption fatigue and felt they already have too many new programs. There was hype about many programs, so Reebok core training did not stand out or receive the press in the way that Reebok Step did.

Physical Environment

- Boards fight for studio space with all of the other group exercise props. This had not been the case when Reebok launched the Reebok Step. It was the first "hardware" that entered an un-crowded group exercise studio environment. The physical environment had changed. The density of competing group exercise programs and equipment in this space was very high (Step, Body Bar, yoga, medicine balls, hand weights, ropes, rings, etc.)
- The equipment was heavy and hard to move in and out of the studios. Storage of the core boards was a major issue, not only at the product level, but in general for the studio environments of the club

Economics

- Cost – Purchasing the Reebok Core Board comes out of the clubs' studio budget, which was limited and typically separated from the regular equipment cap-x budget.
- For the first year, the US produced core board cost and supplier pricing strategy did not support or generally allow for a profitable international core board distributor driven strategy. This discouraged many international distribution partners from pushing early adoption strategies in their respective health club and consumer retail markets for the Reebok core board.

Technology

- Programming was still being proven and developed. Teachers needed guidance and were not able to create and iterate choreography on their own. They did not know what to do next.
- The programming was not versatile enough to become a group exercise trend. The movements on board were limited. Instructors were having a hard time coming up with their own material and consumers/members needed a broader range of movement and workout routines using the board.
- Time- Other new workout programs with hardware product, such as spinning cycles, needed about 4 years from introduction to full acceptance when demand began to really accelerate. The gestation period for this program was going to be much longer than one year.

User Demographics

- Lack of interest/understanding by trainers and members (participants) due to the complexity of the programming and the skills required to conduct the classes and the programmed movements
- Intimidation factor (it was not as basic as riding a cycle, jumping on a trampoline or stepping on a step). It was harder to teach and harder for the member to get.

Global Challenges:

Over the first three years of the launch, Reebok and its strategic alliance partner's expenditures globally on the product launch and subsequent marketing efforts were in the millions. However, the diffusion and adoption of the product by health clubs had been much slower than expected. Other group exercise modalities such as spinning and taebo were crowding the group exercise schedule in clubs and limiting the presence of the new Reebok Core Training classes. In addition, each core board had to be stored in the studio and occupied precious space otherwise used for additional class participants. This was causing club equipments buyers to think twice about bringing in a new training program that required additional hardware. Additionally, clubs were dealing with delayed delivery of the Reebok core boards from the US manufacturing supplier and quality issues that would impact their ability to offer Reebok core classes at their clubs.

Although enthusiastically embraced at the key trade shows and by fitness instructors & trainers and fitness class participants, the Reebok core board and related training program for health clubs growth rate was disappointing. Subsequent research indicated that while the product itself was innovative and well received, fitness instructors were having some difficulty creatively iterating the base programming received from Reebok (aka creating new, fresh class workout routines from the original programming and training they received from Reebok's training unit, Reebok University- this was a staple of the Reebok Step success- fresh, easy to evolve Reebok Step programs were constantly developed every few months and passed on to instructors so instructors could introduce their own creative slant on the programming for their specific classes- Fresh programming-workout routines were critical to the further development of the Reebok

Step fitness experience) Additional feedback also indicated that instructors had a more difficult time teaching functional stability/core training as a concept (verses a simple aerobics and cardiovascular concept like the Reebok Step) to their classes due to more complex physiologic principles and movements involved. This also typically required a more highly qualified instructor with an exercise physiology background.

Forensic Analysis:

I. Level of Acceptance:

Data gathered from interviews with instructors, club operators, equipment sales representatives, Reebok executives and users.

- Reebok had shipped just over 9,000 boards into the US market in the first year (March 2001- March 2002), far short of its conservative scenario goal of 35,000 units. The number of clubs in the US who have purchased boards was approximately 600. Internationally, Reebok shipped approximately 8,000 boards most going to the European market (UK, France and Germany). Others shipped to Asia (Japan, Korea Taiwan) and South America (Brazil). Again, this was far short of the international market goal of 25,000 for the first 12 months.
- Overwhelmingly positive feedback from survey of 3000 early adopters of core training conducted by Reebok University
- Users and instructors suggested that the overall concept of core training was very good and was in alignment with the global fitness functional training trend. Awareness of Reebok Core training and board is high among health club instructors, owners and users.
- Personal trainers understood the Reebok Core training method and concepts immediately and used boards constantly with their clients to supplement their training
- Usage and traction in clubs (traction means once core is installed in a club i.e. boards in the studio and trainers trained, the number of group classes per week grows steadily on the schedule, demand increases and “core” became an established group exercise program within the club) was mixed. In some clubs that had been trained, and aggressively support the program, classes were full. In other clubs, they had pulled the core training specific classes from their schedule and began integrating the boards into other programs. This is a double-edged sword. On the one hand, core was becoming more versatile in its application and used in other contexts (i.e. for instance the board may be used for 15 minutes as part of another group exercise class routine). On the other hand, it lost its singular identity as a stand-alone class and was either removed from the schedule as a “Core” class or the growth of the stand-alone core classes was significantly limited on the schedule.
- Club owners, instructors and equipment buyers wondered where Reebok was going with the overall core program and if Reebok would continue to support the marketing and programming evolution over the coming years necessary to sustain long term growth. They were looking to Reebok to see what the vision was 1, 3 or 5 years ahead.
- The first reaction from group exercise instructors was mixed. Some loved it immediately and some found the programming too complex and struggled to iterate creative programming development on their own.

- International marketing support and integration with and execution support from Reebok footwear and apparel distributors was patchy at best. The fitness equipment distributors lacked the scale and scope of resources necessary to support a globally coordinated launch. They had relied on Reebok’s global footwear and apparel distribution network for incremental help and support which rarely materialized due to changing local market priorities often in conflict with Reebok global headquarter priorities. Additionally, Reebok was generally decentralized in its power structure with international markets and failed to command global compliance on Core board related activities and budgeting. While some international fitness markets fully supported the initiative (Reebok UK, Spain, France, Japan and Brazil) others failed to align with the initiative. Some of this was attributed to Reebok HQ sending mixed signals on which brand positioning they wanted to drive: Fitness or Sport Performance.
- Product quality issues plagued the early launch stage. The US manufacturer, who had little experience in the design and development of health club grade fitness equipment (which required higher standards of quality and durability), failed to meet the quality standards established by Reebok. Health clubs began experiencing quality related issues immediately and word spread quickly through the global fitness industry. Other health clubs were hesitant to bring the product into their studios until quality defects were fixed for fear of having members become disenchanted with the Core board group exercise experience. Reebok and its health club distribution partners exerted a significant effort to rectify the product quality issues with the US supplier and make significant efforts to minimize any damage to the Reebok reputation within the health club community. This effort required a significant diversion of resources from launch efforts that ultimately impacted overall results negatively.
- Approximately one year after the US supplier’s core board began to ship to US distribution and international partners, the new international supply chain partner began production. This product was considered a better product (both quality and features) at a lower cost. It allowed the international distributors to earn a profit on board sales. However, with the original board delays and quality problems, the international markets had an uphill battle to regain confidence and profits from the previous year. Additionally, the retail consumer launch had been significantly delayed.

II. Barriers to Acceptance & Global Sport Managerial Lessons/Suggestions

- Given changing internal priorities within the Reebok organization (many related to a new C.E.O. and new C.M.O in mid 2001), there needed to be more consistent integration and support of the Reebok Core initiative into (i.e. feature board) mainstream Reebok marketing and advertising globally. Many Reebok footwear and apparel international distributors did not share the branding, core initiative or budget priority structure of Reebok HQ wanted. Given the length of time needed for product and programming adoption (3-4 years), Reebok’s marketing resource commitment and integration consistency need to support a sustained effort to help enable a “slow burn” approach.
- Reebok needed to evolve programming and include current trends (yoga, Pilates, kickboxing, plyometrics, etc.). The complementary nature of the “software” programming (the “how to” for the product) to the core board “hardware” could not be

overstated. Each needed the other. A participant's value of the Reebok core product experience was dependent on the successful delivery of the "software" whether by professional instructor at a health club or in-home direct media to the consumer. By developing more practical movements (teaching instructors more choreography and how to develop their own iterations) that can be easily understood and adopted quickly by the mainstream instructor base, Reebok could have created a strong positive feedback loop that would have helped achieve a tipping point.

- Reebok's choice of externalizing distribution and other value chain activities related to the global launch of the Reebok Core Board and Core Training created challenges related to strategic resource allocation, control and prioritization. Reebok's distribution alliance partners had mixed priorities sometimes at odds with Reebok's objectives. Many of the equipment distributors had limited financial and managerial resources to support the Reebok core board global launch initiative. The focus was to sell boards at a profit, not necessarily invest in brand building. They had believed early on that the local Reebok footwear and apparel distributor in their local market (for example, Reebok UK in England) would be funding a significant proportion of the Reebok Core Training marketing expense. However, while the footwear and apparel distributors were supportive of the global launch campaign, they felt that any incremental marketing expense related to supporting the core board/core training, while good for the brand in general, should be used to directly support footwear and apparel sales focused marketing, not used to support the sale of Reebok core boards (where the profits of core board sales go to the equipment distributor). Reebok footwear distributors felt that the real benefit of the Reebok core global campaign was energizing the Reebok brand and ultimately supporting the sell through of its footwear and apparel at the local level. The local footwear distributors were generally sympathetic to the needs of the equipment distributor, but stopped short of providing financial support for activities that did not translate into immediate footwear sales. Without Reebok's headquarters direct control over this strategic resource allocation process, it was difficult to build a consistent global critical mass of support for the launch and execution. As a result, successes around the world were lumpy at best.
- Reebok needed to improve its sales strategy and influence its strategic partners to do so as well. Reebok would continue to aggressively target top trainers as key influencers to impact health club sales. Additionally, they needed to support them with incremental resources that incentivized them to promote the growth of Reebok Core training in clubs, teams, schools and other institutional environments. Reebok needed its equipment partners to more fully develop their health club sales force to sell group exercise segment of the club business.
- Reebok learned what the "product experience" really meant to its "health club" customer. Not just the consumer using the board. Reebok discovered that successful core board sales into health clubs are strongly related (complementary) to successful selling (and training execution) of the programming first. The sales strategy needed to adjust its product positioning and offering as program based with equipment attached, not the reverse. (.i.e. sell and deliver the software first, then the hardware). Reebok also needed to develop a more compelling way to demonstrate to clubs how to use the board in multiple settings so that they understood the versatility of the product and would have

been more willing to spend the money and give up the large amounts of storage space required.

- Reebok's misfiring of a well coordinated global marketing effort to support the launch was undermined by late, sub standard product delivery of core boards from the US supply partner. Given the tightly coupled nature of the global launch, this led to serious problems for health club market penetration efforts and subsequent consumer retail launches.
- In order to better deploy the training programs necessary for the successful sale of core boards, Reebok need to make better use of new media & technology options in delivering more trainings to instructors and then followed up with ongoing updates such as monthly on-line bulletins with new choreography. In addition, the use of internet marketing and fitness community based target marketing needed to play a larger role in the global campaign.
- Reebok needed to influence a significant sales and marketing push toward sales to large international health club chains. As key market influencers, when they adopt, they lend credibility to the product, training program and trend. Generally, their smaller competitors will have to follow to keep up, leading to additional penetration.

Conclusion

The complexity associated with a global product launch of this nature may best be described in terms of a tightly coupled complex system. On the macro level, Reebok's inability to effectively coordinate the timing and execution of the various global marketing related activities targeted at the health club market caused inconsistent outcomes and limited success. Activities such as; fitness instructor seeding, Core Tour replication and development, grass root consumer and trade events, simultaneous delivery of instructor trainings and boards to clubs, consumer direct response program and retailer program were limited and negatively impacted by a loss of control of the product development and production process and an unwillingness to take significant financial risk associated with the commercialization of the Reebok core concept. Additionally, internal management changes that diverted critical resources and negatively impacted a 3-4 year required sustained effort necessary to successfully ground Reebok core training in the global fitness market place.

On a micro, local level scale, Reebok was faced with other tightly coupled marketing execution serial events that were seriously disrupted by US supplier delivery delays (close to 1 year) and other factors cited. The required activities surrounding a successful Reebok core board installation at a health club was dependent on the simultaneous delivery of the core boards, training of instructors by Reebok University, local Tour PR and successful support of local club marketing activities launching the program to the club's members. Without a seamless, well coordinated effort between Reebok marketing, the club equipment distribution partner, Reebok University and the core board manufacturer, the health club initiative suffered fits and starts that ultimately prevented maximal Reebok core program placement and success in the group exercise space.

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