

Strategic Alliances in the Sport Industry:
A Case Review of Reebok International and the NFL

Dr. Mark G. Hecox

Associate Professor of Sport Management

Southern New Hampshire University

A version of this paper is published in: Hecox, M. G. (2007). Strategic Alliances in the Sport Industry: A Case Review of Reebok International and the NFL. In B. G. Pitts (Ed.), *Sport Marketing in the New Millennium: Selected Papers from the Third Annual Conference of the Sport Marketing Association*. Morgantown, WV: Fitness Information Technology.

Abstract

Leading sport businesses are recognizing the potential for added value by developing a strategic alliance strategy that enables them to access new resources, share risk and tactically manage key alliances to gain competitive advantage. Through strategic alliance partnerships, sport firms may be more effectively accessing and commercializing new technologies, developing sport products and services, creating and distributing media, enhancing sales and marketing activities, deploying customer service and expanding internationally. Additionally, there are also pitfalls that need to be recognized and proactively managed before, during and after the strategic alliance's life.

A relevant case study in the sport industry is the strategic alliance developed between Reebok International and the National Football League (NFL). This strategic alliance was established in 2001 to re-engineer and further develop the NFL branded licensed apparel business. The analysis of this case examines the strategic intent behind the formation of the alliance, key challenges faced by both organizations in the development and management of the alliance, benefits derived, and other issues related to the formation and active management of a strategic alliance in the sport industry.

Strategic Alliances in the Sport Industry:
A Case Review of Reebok International and the NFL

Chaotic, complex, uncertain, competition, growth and internationalization..... these words are often associated with the business of sport. While these may be positive attributes when managed effectively, they can lead to unique challenges for sport marketers. This essay case study builds on previous literature on strategic alliances developed in other industries such as automotive, computer, airline, pharmaceutical and chemical/petroleum, but here is applied to the sport industry. A specific case review of the Reebok/NFL strategic alliance is used to highlight key elements of strategic alliance identification, formation and management. By examining this case, it is the goal of the author to help illuminate the potential value to sport enterprise managers of using a strategic alliance organizational form. Recommendations are made for sport enterprise managers seeking to use strategic alliances as an organizational strategy for growth and to gain competitive advantage.

Sport enterprises around the globe are faced with new competitive pressures and the need for substantive growth opportunities. These firms, whether small localized sport businesses or multinational sport firms, are encountering significant competition from within the sport industry and from external sources such as the entertainment industry. Competition for the sport consumer mindshare and discretionary expenditures are forcing modern, successful sport enterprises to seek competitive advantages in new and compelling ways. In addition, these sport firms are seeking new frontiers of growth in geographic and consumer markets by creating and delivering new sport value

propositions as well as reinforcing their value commitment to their existing consumers. One strategy that sport enterprises can employ to help achieve this goal is by the development and use of a strategic alliance strategy. It is suggested in this essay case study that the appropriate use of a strategic alliance strategy may lead to the development of growth opportunities and a resulting competitive advantage for the firm. By closely examining the Reebok International (RBK) and National Football League (NFL) strategic alliance for licensed apparel, we can begin to identify some of the critical success factors that may contribute to a successful strategic alliance strategy in the sport industry. Additionally and perhaps most importantly, this paper may help sport business partnership managers avoid some of the common pitfalls of a failed alliance strategy by applying some of the key lessons learned from other industries who have used strategic alliances successfully (and not) to create incremental shareholder value.

Strategic Alliances

Strategic Alliances are an organizational approach that a firm might choose to use to accomplish certain goals. This approach is different than an acquisition which may prove to be too costly, risky or impractical. In addition, it differs from an “internal” organizational approach whereby to achieve the goal, the firm conducts all of the necessary activities internally with its own resources. A firm may not have the necessary internal resources (financial or managerial) and hence it may not be practical or possible for the firm to successfully conduct these activities. However, there is an approach that is somewhat between the two extremes, the strategic alliance. Gomes-Casseres (1996) distinguishes a strategic alliance organizational approach from the acquisition and

internal approaches by defining a strategic alliance as “An inter-firm alliance is an organizational structure to govern an *incomplete contract* between *separate firms* and in which each firm has *limited control*”.

In this definition, Gomes-Casseres (1996) identifies three primary elements of a strategic alliance organizational structure. First, it consists of an incomplete contract, which generally means that at the beginning of a contractual / business relationship you and your business partner(s) cannot identify and spell out everything related to achieving your mutual goals in a written contract. For example, when a sport manager places a T-shirt order with a supplier (vendor), all of the specific details (sizes, styles, colors, delivery dates, cost, payment terms etc.) of the order can be spelled out in the purchase order (contract). The relationship between the buyer (sport organization) and the seller (t-shirt vendor) can be spelled out. However, in a strategic alliance relationship, there are many unforeseen circumstances (both good and bad) that may arise during the relationship that cannot be adequately anticipated at the start of the alliance nor captured and addressed in a written contract. As these unforeseen conditions arise, the partners will be required to consider them in their ongoing decision making process and deal with them in the context of the alliance relationship. The second element in the alliance relationship structure is that the alliance must be between two or more separate enterprises with each contributing resources to help create mutual value. One company is not buying the other company and the relationship is not between wholly owned subsidiaries of the same company. The contribution of resources by each alliance partner firm should not be redundant and in theory at least contribute to developing incremental value above and beyond what each firm would or could produce individually. The third

element of the definition is related to the first two, because each partner in the alliance is jointly participating in the decision making process during the relationship, each firm has limited control over the relationship decision making. Gomes-Casseres (1996) highlights this point “Because the partners remain separate firms, there is no automatic convergence in their interests and actions. As a result, to deal with unforeseen contingencies inherent in the incomplete contract, the partners need to make decisions jointly”. This last element can lead to challenging organizational interactions if not properly managed throughout the relationship.

In addition to identifying and understanding the key definitional characteristics of a strategic alliance, sport enterprise managers must also think beyond the alliance mentality of alliances as “single” or “stand alone” deals. Rather, as developed by Bramford, J.D., Gomes-Casseres, B., & Robinson, M.S. (2003), enterprise leaders should think much more broadly about the scope of their overall strategic alliance strategy. In other words, managers should think about developing a company wide comprehensive strategic alliance plan that anticipates how strategic alliances will and should be used within the company to support its major strategic objectives. Rather than narrowly developing strategic alliances for the sake of individual department or functional area needs, all strategic alliance development and management decision making should align with the broader strategic objectives of the firm and support them in a consistent manner. Additionally, each individual strategic alliance should align with other strategic alliances in order to support a firm’s broader goals and minimize redundancy and partner conflicts, when possible.

Much of the early literature on strategic alliances has been derived from a focus on industries outside of the sport industry. Specifically, Doz and Hamel (1998) explored strategic alliances in the telecommunications, automotive, computer and chemical industries and illuminated how leading firms in these industries successfully (and some not successfully, for example, Iridium Satellite) used a strategic alliance strategy to develop global competitive advantages in certain sectors of their businesses. They note that strategic alliances are:

characterized by instability, few fixed objectives, ambiguity, and evolving partner relationships. Alliances cannot be crafted and set on “autopilot”. They require ongoing management of the relationship within a clear strategic framework. Nor can they be treated as mere “projects”. Doz and Hamel (1998).

The lesson for sport enterprise managers is that just because you create and sign the “deal” does not necessarily mean it is aligned with your enterprises’ overall strategy, your alliance strategy or that you can leave it alone to manage itself.

Strategic Alliances in the Sport Industry

The global sport industry continues to grow at a pace ahead of most other industries (6.8% verses 1-3%) Pitts and Stotlar (2002). Along with this tremendous growth comes additional competition for consumers, markets and resources. Successful sport enterprises need to engage consumer, product and geographic markets at new speeds and scope in order to gain competitive advantages for their domestic and international markets. As our industry benefits from globalization, our firms must adapt

to the dynamics of the new sport marketplace. According to the Sporting Goods Manufacturers Association's (SGMA), "The State of the Industry 2005" report, the top growth strategy cited by manufacturers of sporting goods is "Seek alliances or partnerships". This was ahead of other strategies such as acquisition or merger. Sport business partnerships are being created between single and multiple firms from both inside and outside the sports industry. For instance, the cross industry integration of new materials technologies has led to higher performance carbon fiber products (bikes, golf clubs, tennis racquets, auto racing, sailing etc.). Additionally, new media and internet technology alliances have led to exciting product and service collaborations that are providing our industry with global growth opportunities, new products & services and delivery options. (for example: GPS technology in sport training equipment, Internet delivery of sport media content, entertainment industry collaboration, current expansions underway for 2008 Olympic and China sport market penetration & development).

Why might sport enterprises want or need to engage in an organizational approach such as a strategic alliance? They may want to create incremental shareholder value by successfully developing & launching new products and businesses, enter and develop new geographic markets, expand into new consumer market segments, access new organizational learning opportunities, align with network and/or competitive partners to gain scale or other advantages, access & commercialize new technologies, manage or reduce certain risks, preempt or counter a competitors' move, and enhance distribution options (including media).

The sport industry enjoys some unique qualities of uncertainty not often found in other industries. These include, but are not limited to, uncertain outcomes of sport

products (the general unpredictability of game outcomes- one year a team has a winning season, the next it has a losing season), the emotional intensity and commitment of certain sport consumer segments (and the resulting effects for sport marketers), the need for cooperation among competing organizations (teams in leagues must work together at some level to ensure the broader health of the league) and the current growth rates and globalization of the sport industry. Along with these qualities, comes unique risks and the appropriate use of a strategic alliance strategy may help sport enterprise managers better manage this risk. If sport industry leaders can learn from the lessons of other industry pioneers then perhaps sport managers will be better equipped to recognize why, when and how to formulate strategic alliance strategies and use these strategic alliance partnerships effectively to meet organizational goals. In addition, as our industry comes under more competitive pressure from other industries (for example the entertainment industry), the use of strategic alliances may help sport enterprises adapt more quickly and effectively to the changing environment . This might lead to better long-term sustainable growth and evolutionary benefits for our sport industry constituents and stakeholders.

Some of the key aspects of strategic alliances that have contributed to value creation and capture in other industries and to some extent in the sport industry to date, are summarized well by Ernst (1998). He articulates six key ways in which an enterprise can use a strategic alliance to create and capture value. First, a company can use strategic alliances to build new business. A current example of this in the sport industry would be the alliance between Reebok International and the NFL for licensed apparel. Although the specific details of this alliance are discussed later, one of the key objectives for

Reebok was to create a new successful licensed apparel business and for the NFL to resurrect a business in decline.

Second, companies can create value by accessing new markets. This may mean new geographic markets (internationalizing their sport business) and/or new consumer market segments. Interestingly, the use of strategic alliances in the sport industry appears to have been successfully and broadly used on the media side of the value chain. For example, Rupert Murdoch's assembly of a global sport media empire via his News Corporation. While much of this empire building is based on an acquisition strategy focused on further vertical integration of content development, distribution and sale of sport entertainment products (Stotlar 2000), News Corporation utilizes a broad alliance strategy to gain access to both new geographic markets and consumer segments. In addition, the other two key global sport media players, Disney and AOL Time Warner employ key alliances to ensure sport content access and distribution. Given the high investment cost and risk of entering a new geographic markets with foreign direct investments, a sport firm may choose to enter via a strategic alliance with a local market partner who is already successfully operating in the targeted international market. Partnerships with local companies offer local expertise and efficiencies. Although there are inherent risks with a local partner, the potential benefits such as speed to market, lower capital outlay, shortened learning curve etc. provide a viable option that should be considered carefully. As the market for the sport firm's product develops and the firm begins to increase its ability and willingness to enter the market in a more comprehensive way, the strategic alliance partnership may evolve in nature to a different form such as an

equity partnership or buy-out. Hence, a strategic alliance may provide the entering company with a real option for the future growth of the market at a lower initial risk.

Thirdly, alliances can provide companies access to skills and learning. For instance, certain leading sporting goods manufacturers have created alliances with technology companies (formerly derived from NASA) to create competencies in electronic, material design and manufacturing processes leading to significant product innovations (golf clubs, bicycles, ski's etc) and ultimately allowing a company to further develop these needed competencies internally and gain competitive advantage. Fourth, enable companies to gain scale. In Europe, small independent bike retailers have used strategic alliances to form retail buying groups (example BICO, Intersport etc) to increase their bargaining power with bike manufacturers and pool marketing resources to better compete with larger big box sporting goods retailers.

Fifth, strategic alliances can improve supplier effectiveness and may help manage or reduce risk. Sporting good firms are relying more on their supply chain partners for financial and managerial investment in the development of their sport products. With the dizzying array of new technologies available, leading sport product companies are requiring their supply partners to seek out and help commercialize new technologies. By sharing this capital investment risk, leading firms are better able to identify and adapt to key product and market forces and avoid being locked into an outdated technology or product feature. Supply partners too realize the inherent benefits of a more involved partner relationship by gaining access to strategic planning and increased bargaining power.

Sixth, firms may use strategic alliances to gain access to or create networks of alliances to create value. By forming key alliances, firms may gain access to exclusive arrangements that might prevent their competition from gaining and benefiting from other relationship equity based benefits and knowledge. In the sport industry, an example of this would be Coca-Cola Co. long term partnership with the International Olympic Committee (IOC). An example of how firms might use alliance networks to achieve a competitive advantage can be found in the red hot satellite radio wars. XM Satellite Radio is battling Sirius Satellite Radio for market and technology standard domination using alliance partnerships with key sports entities. By creating these alliance partnerships, each company is seeking to have their satellite radio format and technology platform achieve the dominant market position and become the consumer standard for the industry. (similar to VHS vs. Beta or the current digital file format battles being waged on-line). In addition, both XM Satellite and Sirius Satellite have created these alliances with key sport properties to access important target consumer bases. XM Satellite has strategic alliances with – MLB, NCAA, PGA Tour, NASCAR, IRL, World Cup Soccer, USTA. Sirius Satellite has strategic alliances with- NFL, NBA, NCAA(split content based on conferences), NHL, English Premier League, Horse Racing, Arena Football, NASCAR (2007-new 24/7 channel) Lefton, T. (2005).

Chaotic, complex, uncertain, unpredictable- these words are often associated with the business of sport. While these can be blessings by providing the sport consumer with high emotional value sport products, these attributes can play havoc with sport enterprise managers seeking stability and predictability for business planning purposes. The inherent risks associated with the nature of sport compel sport enterprise managers to find

ways to reduce or manage these risks. Risk related issues can bear heavily on sport business decision making. As the size and sheer mass of the global business of sport continues to increase it is requiring leading sport firms to garner greater amounts of capital, managerial and technological investment. In addition, the pressure to reduce, deflect or share some of this risk is paramount. The appropriate use of a strategic alliance strategy may help to off-set some of these risks by allowing firms to minimize capital and managerial outlays necessary to acquire the latest technology, enter a new geographic or consumer market, provide necessary value added services that it may not currently offer or provide flexibility to accommodate sudden market changes.

In addition to risk, many sporting goods companies and related firms operating in the sport industry are struggling to keep up with the growing resource demands being generated by the globalization of sport. No one company can go it alone in today's global marketplace. In order for sport enterprises to access necessary resources at minimal risk and cost, they will seek strategically relevant partnerships that allow them to offer value added products & services in ways that might not be possible on their own. By focusing on what a sport enterprise does best or what it is more profitable at (i.e. its core competencies), a sport enterprise may choose to create value added relationships for those value chain activities that other firms may do better or less expensively. As a result, a sport enterprise may enhance its product offering by accessing the resources of others and delivering incremental value. By procuring these key resources via a strategic alliance strategy, sport enterprises may have the opportunity to create a compelling point of difference in their sport product offering and ultimately develop a sustainable competitive advantage.

Sport Industry Cooperation

Although not completely unique to the sport industry, alliance collaboration with competitors is sometimes necessary and may offer opportunities for building the sport business not otherwise found by going it alone. According to Culpan (2002), “As technology and the globalization of business advance with unprecedented speed and magnitude, firms in almost all industries-traditional and emerging-are engaging in unorthodox competitive modes. This new competitive mode requires product and process innovation, quick responses, and high customer service while maneuvering between competition and cooperation”. In the automotive and computer industries, collaboration via strategic alliances are not uncommon by firms seeking to defray risks associated with significant financial outlays, new market entry, technology standards competition and organizational learning. However, there are risks with this collaboration as well and may provide the opportunity for these firms to become “a low-cost route for new competitors to gain technology and market access” Hamel, Doz, and Prahalad (1989). They note that collaboration with competitors needs to be managed carefully and should essentially be viewed from a competitive context, but in a different form. Firms must enter the alliance with their own clear objectives and understand what the major objectives (both stated and unstated) are for their alliance partner(s) and hence must be careful not to share too much critical information that might lead to giving up your competitive advantage. In the sport industry, one of the relatively unique aspects of competition between teams, is their need to cooperate at some level for their own economic benefit and the economic benefit of the broader league. Westerbeek and Smith (2003) have noted this special interdependency

with competitors leads many sport enterprises to “enter partnerships and alliances in a competitive environment”. However, they go on to suggest that strategic alliances should not be limited to teams and leagues, but rather may be especially valuable for cross league promotion (Manchester United and the New York Yankees), internet based collaboration (NFL Teams combining for NFL.com) and international market development (International Olympic Committee, IOC and the Sydney Organizing Committee for the Olympic Games, SOCOG and related sponsors, agencies and media).

In the sport industry, many alliances appear to exist mostly in the marketing end of the value chain, however, a scan of partnership announcements in the sport industry over the last 5 years bears some early evidence that strategic alliance development in the sport industry might be developing in other segments of the value chain such as technology development, global media development and distribution, and customer service. Future research into the shape of the value chain hierarchy for sport alliances in the sport industry (verses other industries) may shed further light on important details and future trends in this area.

Potential for Strategic Alliance Failure

Strategic alliances are not without criticism. Many strategic alliances fail to achieve the stated (and unstated) objectives of the partners. Strategic alliances may fail to meet the objectives of the partners for different reasons. They may fail for fundamental business reasons. One of the partner firms may become financially distressed, the originally identified business opportunity may not have developed as planned or the resource contributions expected by one firm failed to meet expectations of the partners.

Other reasons may include internal and external situational factors that contribute to the alliance failure. A firm's general business or marketing strategy may shift due to unforeseen market changes, new company leadership may re-define strategic priorities and direction leaving the alliance abandoned or the governance structure directing joint decision making is not effective at meeting the needs of partner firms. In addition, the partnering firms may lack the necessary alliance managerial focus to effectively launch and execute the alliance. Upon developing and entering an alliance, many companies and individuals take on a deal mentality, whereby once the deal is "done" the celebration begins (i.e. press release is announced, the stock price may go up, etc.). Rather, the real work begins after the deal is signed. Remember, you now have two or more separate companies making decisions (unless you have set up a JV where the parent companies have agreed to allow the JV autonomous rule). The management of a strategic alliance takes on a new dimension. The partnering firms have different corporate cultures, different decision styles and changing internal priorities. Overtime, this can make the management aspects of a strategic alliance especially challenging. Without the appropriate skill sets required at the organizational and individual level to cope with this, alliances may be still born. Companies and individuals can develop a capacity for managing alliances over time gained by experience. However the learning curve is steep and can be costly if not done right. Sports firms must make sure that the alliance in question was developed in the context of a broader alliance strategy for the overall firm, not just in a vacuum for one specific deal and that there exist the necessary managerial skills and abilities to manage the alliance over time.

When considering the “how” of strategic alliance development each alliance is itself an individual case with unique situational characteristics based on the individual needs of the partners at that time. However, lessons gleaned from other industries may shed light on some of the potential causes for the failure. Ernst (1998) identifies seven key areas of focus that strategic alliance developers and managers need to consider carefully. They include: 1. identify and define objectives clearly for each partner 2. choose partners carefully making sure they are financially capable, not distracted by their core business issues, that there is a relatively good cultural fit and bargaining power is acceptable 3. create the right alliance structure 4. make sure there is a clear and manageable governance structure 5. plan for the evolution of the relationship and exit strategy 6. plan for growth 7. plan for possible expansion of the scope of the strategic alliance into additional areas of opportunity.

Reebok International (Reebok) and The National Football League (NFL)

Reebok

Reebok's heritage dates back to the 1890's when Joseph William Foster made some of the first known running shoes with spikes. In 1895, J.W. Foster and Sons, were making shoes by hand for top runners around the world and by 1958 the company was named, Reebok, named for an African gazelle.

In 1979, Paul Fireman, discovered Reebok shoes at an international trade show and subsequently negotiated for the North American distribution license. He then introduced three running shoes in the U.S. that year at premium price points. By 1981,

Reebok's sales exceeded \$1.5 million. In 1982, Reebok introduced the first athletic shoe designed especially for women and specialized for aerobic dance classes. The shoe was called the Freestyle™. With this innovative introduction, Fireman and Reebok helped drive three major trends that transformed the athletic footwear industry: the aerobic exercise movement: “the influx of women into sports and exercise and the acceptance of well-designed athletic footwear by adults for street and casual wear”. Reebok (2005)

As explosive growth followed, Reebok developed a leadership position in key footwear categories leading in 1985 to Reebok completing its initial public offering (stock symbol is NYSE: RBK). In the late 1980s, Reebok expanded its business to international markets which now include more than 170 countries.

In 1992, Reebok initiated a transition from a company focused primarily on fitness and exercise to one equally involved in sports. Reebok developed new footwear and apparel products for football, baseball, soccer, track and field and other sports and recognized the importance of authentically connecting with athletes on the field of play. As such, Reebok signed numerous professional athlete endorsements, team affiliation and federation sponsorship agreements. In the late 1990s, Paul Fireman made a strategic move to align the Reebok brand with a broader league based strategy starting with the NFL.(1)

NFL

While the precursors and heritage of the NFL extends back to the late 1800's, the transition from the American Football Professional Association to the National Football League (NFL) brand occurred on June 24th, 1922. NFL (2005). Since this, the NFL business organization and brand have developed into one of the worlds leading sport

enterprises. Today, the NFL is considered the most valuable and profitable sport organizations in the world. According to Ozanian (2004) the average team in the NFL is worth \$733 million and revenue for the 32 teams was a total of \$ 5.3 billion with an operating income of \$851 million representing a 16% operating margin. The valuation of the teams is helped significantly by the NFL's media contracts for broadcasts on national television. According to Ozanian (2004), this 8 year agreement is worth \$17.6 billion. Historically, the NFL has been very progressive and innovative in building their business. Of particular note has been their leadership in developing an enormous licensing business from within the organization. The NFL established NFL Properties to develop and manage the NFL licensed businesses. This was counter to the direction other leagues were taking. NBA, MLB and NHL pursued their licensed businesses using outside agencies rather than developing this business in-house. NFL Properties ultimately became the role model for league licensing and today is responsible for over \$3 billion in NFL licensed merchandise retail sales.

Situation

Prior to the strategic alliance in 2001, both the NFL and Reebok were faced with serious business challenges with their respective apparel businesses. First, the NFL was experiencing a significant market distress for its licensed sports apparel business. The NFL, by its own admission, had enjoyed several years of growth in the licensed apparel business and continued to pursue this growth by increasing the number of licensees that were allowed to produce and market the NFL licensed apparel business. In addition,

other leagues like MLB and NBA were also experiencing similar symptoms of distress in their licensed apparel businesses according to SGMA (2005):

In the early 1990's, when sports logo apparel was a hot fashion, at least three major licensors-MLB, NFL and NBA-responded by handing out licensing agreements to dozens of companies. The market was flooded with products, some of them shoddy. League branded apparel was available everywhere, even in gas stations. Prices fell. Brand images were tarnished. No one made any money. Some top licensees went bankrupt. It was a bitter lesson.

With respect to the NFL licensed apparel business, competition among the licensees had increased so dramatically, that soon product quality, pricing, and distribution deteriorated significantly causing several companies to file for bankruptcy and leaving the NFL with a declining licensed apparel business. The NFL experienced a negative brand impact among consumers resulting from the poor product quality and negative brand experience perceptions. In addition, the retail trade was critical of the NFL and its licensees. Many retailers who had been loyal to the NFL branded apparel business began experiencing a decline in store sell through and felt that a lack of authentic product differentiation was a root cause. This soon led to channel friction among leading NFL license apparel retailers.

Reebok International was also faced with a declining on-field brand presence as it culled back its endorsement contracts with key NFL players to bring its sports marketing budget in line with the size of its current business. Previously, both Reebok and Nike had spent aggressively to secure as many marquee on-field athletes who could make the Vector or Swoosh visible on the field of play during the game. The cost to Reebok effectively and efficiently procuring, activating and managing a critical mass of endorsed athletes for a significant on-field game day presence was becoming prohibitive and unrealistic given the size of the business and compared to Nike.

As a result of this situation and a recognition that there were multiple internal factors (within the NFL and Reebok organizations) and external factors (industry and market issues) contributing to this situation, both sport enterprises recognized that there was a need for change. If you want a different outcome, you will need to do things differently. There needed to be a fresh approach. Reebok's Chairman and CEO, Paul Fireman and business associate, Bob Kraft along with NFL commissioner, Paul Tagliabue, developed a new business model for the league that would ultimately help solve both sport enterprise's dilemmas by creating a strategic alliance known as- On Field Apparel Group.

Nature of the Strategic Alliance Partnership

The strategic alliance between Reebok and the NFL was created to re-develop the NFL's licensed apparel business whereby Reebok and the NFL would work together to design, develop and market innovative, fashion forward apparel that would enhance the NFL and Reebok brands. The scope of this vision included both on the field performance apparel and off the field lifestyle apparel.

The backbone of the strategic alliance partnership agreement provided for a 10 year exclusive NFL license to Reebok beginning in the 2002 NFL season. This NFL licensed merchandise agreement allowed Reebok to manufacture and sell uniforms, sideline apparel, footwear and NFL branded apparel. In addition, Reebok received the rights to develop an NFL branded fitness equipment business. In addition, Reebok became the exclusive rights holder to develop, market and sell all 32 NFL teams' on-field uniforms, sideline apparel, practice apparel and headwear.

While the backbone of the alliance is a license agreement, the overall structure of the relationship is closer to a joint venture. Both the NFL and Reebok contributed financial and managerial resources to develop "The On-field Group" which was the entity that would execute the objectives of the alliance partnership. This organization would be housed inside Reebok's world headquarters in Canton, MA and headed by a veteran leader in the sporting goods industry, David Baxter. While the day to day operations would be directed by this organization, there would still be a strong joint decision making presence by Reebok and the NFL on all key strategic issues.

Objectives for Reebok

In the sport industry, Reebok is battling its chief rival, Nike for market share and brand cache among many consumer segments. Nike's size and market share dominance has forced Reebok to identify and capture innovative marketing opportunities. In the race to develop a compelling on field and sideline brand presence for the nearly 165 million NFL fans, Reebok (2001 total revenues \$ 3.02 billion) was being outspent by giant Nike

(2001 total revenue \$9.48 billion). As such, Reebok saw an opportunity to gain this much sought after on-field presence through a deeper partnership with the NFL. By doing so, Reebok would gain access to some of the highest rated sport broadcasts in the US market, not to mention athletes. Reebok would also effectively block its competitors from the same access, thereby establishing a competitive advantage in this licensed apparel market segment. In addition, according to SGMA (2004), the overall NFL licensed business in 2002 accounted for \$ 2.5 billion in retail sales, this meant the NFL, although challenged in the apparel category, was solid. This could mean a solid, profitable business opportunity that would complement branding objectives. Wall Street might like that.

Reebok's apparel business had enjoyed significant growth success into the late 1990's, however, it had began experiencing a significant decline due to shifting fashion tastes, new competitor threats (apparel fashion companies like Tommy Hilfiger and Ralph Lauren entering the athletic apparel markets) and internal operating issues. It needed a new apparel business & marketing opportunity. By garnering the exclusive rights for the NFL and Team brands, and aggressively developing a licensed apparel business, Reebok would be able to leverage its existing core competencies and enhance its performance brand positioning with the NFL league and NFL brand association.

In the sports retail trade, shifts had occurred in power from manufacturers to retailers. Shelf space was fast becoming a competitive front on which the athletic footwear and apparel wars were being waged. Another dimension of the Reebok & NFL alliance centered on the NFL granting exclusive retail channels of distribution to Reebok for its licensed apparel categories. These exclusive channels included athletic specialty (Footlocker, Lady Foot, Athletes Foot, etc.), Sporting Goods (The Sports Authority,

Gart's, Dick's, Galyan's, etc.), and better Department Stores (Sears and Nordstrom's). In addition, Reebok would have exclusive distribution rights in all distribution channels for important product categories like jerseys, headwear, footwear, classics and equipment. These exclusive opportunities would help provide Reebok with leveraging opportunities for its other footwear and apparel businesses as retailers who wanted NFL branded and team apparel would have to work with Reebok.

Objectives for the NFL

In the 1960's, the NFL had established itself as the pioneer of sport licensing. While other leagues used outside agency resources to establish their brand licensing businesses, the NFL decided to bring the management of this important operation in house by establishing NFL Properties. As the NFL grew their licensed businesses to over \$ 3 billion in retail sales, they began to reach a point of diminishing returns due to the infighting among licensees for market share. In addition, the ability to control quality and ensure a positive brand experience for NFL fans became problematic and led to a distressed apparel business as pointed out earlier. Some of this was also caused by the use of the old multiple licensee business model and NFL playing a passive role in the monitoring of key fashion trends, product quality issues, and sport lifestyle trends. By aligning with a single, leading sport enterprise like Reebok, the NFL could take a more proactive role in the development and management of its licensed apparel business and provide its consumers with a more compelling, on-trend product assortment. In fact, Paul Fireman, CEO and Chairman of Reebok international outlined a strategy to broaden the scope and appeal of the NFL branded product to go beyond just the regular season and

incorporate a year around lifestyle approach that would appeal to the core consumer market segments and others. By doing so, Reebok and NFL would also provide justification to retailers for staying in NFL licensed apparel beyond the normal selling season. The combination of these might help rebuild and expand the growth and profitability of NFL's licensed apparel business.

A key objective for the NFL entering into the alliance was to improve the NFL brand. The brand had been damaged by the decline in product quality which affected consumer perception of the brand and quality retail trade willingness to carry the NFL branded apparel products. Additionally, most of the focus on the NFL branded apparel business was on replica jerseys only. This was very limiting (marketing myopia) for consumers of NFL branded products. The new alliance called for identify and expanding the number of ways NFL consumers could connect meaningfully with the NFL brand.

The NFL sought to align with a partner that shared compatible goals and market understanding. The Reebok corporate culture was closely aligned with understanding the interests of spectators and their teams. Reebok was not a small, one dimensional licensee with limited resources who sought only financial objectives. Rather, Reebok had done its research homework and together with the NFL identified this market opportunity. When a resource mapping analysis was performed, each sport enterprise possessed separate, but complementary resource offerings making it sensible to align in an effort to capture this opportunity. Additionally, the NFL felt that Reebok, based on its partnership track record with the Greg Norman and Ralph Lauren companies, possessed the alliance experience necessary to make a successful licensed apparel business outcome. This the NFL felt

would lead to better service of for the NFL fans seeking a superior NFL branding experience.

As part of expanding the NFL branding experience beyond its core fan base, the NFL recognized Reebok's expertise in the women's sport market. Reebok had been a pioneer in women's fitness and understood how to effectively relate to this consumer segment. The NFL saw this fan market segment as a strategic priority and had strong evidence to suggest that it had the largest female fan base of any major professional sport in the US. As a result, the NFL targeted this segment and the youth segment as a key priority for brand extension. Both NFL and Reebok also understood that this consumer market segment was driven by fashion and style. By bringing the right blend of fashion, style, performance technology, fit and materials, the NFL could offer these consumers a more compelling NFL branded apparel product line and brand experience.

Last, but not least, the NFL wanted to find a way to capitalize on the fitness and performance dimensions of the brand by authentically entering into the fitness equipment market. Because NFL players train almost year around, fitness is a big part off their overall training regime. Hence, if NFL athletes are using fitness training as a means to an end for preparation to high performance on the field during the season. If these consumers might benefit from NFL branded fitness equipment for performance or health and wellness reasons. As result, the NFL granted Reebok an exclusive right to use the NFL brand for the fitness equipment product category. Reebok's heritage in fitness and its existing successful global fitness equipment licensed business positioned it as an experienced partner in this area.

Critical Success Factors

As of the middle of 2005, the alliance between Reebok and the NFL has been successful from a financial and brand perspective. David Baxter, President of the On-Field Group, expressed that the alliance between Reebok and the NFL “has met or exceeded Reebok’s and the NFL’s expectations”.

In hindsight, some of the critical success factors that have led to this sport strategic alliance achieving this to date include:

- There existed a genuine business opportunity with the potential for real growth. The NFL licensed apparel business had been proven fundamentally sound, however its demise was related to the use of an old business model that had not changed with environmental contingencies over time (to many licensees with the wrong incentives). Now, according to David Baxter, the application of the new exclusive licensing and strategic partner business model to this business opportunity has enabled Reebok and the NFL to create and deliver the best product into the right channels at the right price. It has allowed for the smoothing of seasonal business cycles that played havoc with the previously under capitalized licensees and allowed better utilization of capacity over time. The outcome of this is that the full potential of the business opportunity has been more fully realized.
- Both Reebok and the NFL had a broader alliance strategy in place and when this opportunity arose, they were prepared to evaluate it and execute this individual alliance successfully in the context of their broader strategy. Reebok had identified that an alliance strategy with the leagues would be better than trying to

buy their way in against Nike and other competitors. The NFL had used alliances successfully in other areas of its licensed and media businesses and felt that this model would fit.

- Early in the alliance creative development, each organization was able to clearly identify and state its objectives for the alliance to the other partner. Reebok was clear that it desired a stronger visual branding presence on the NFL field of play during televised games and sought to develop a meaningful licensed apparel business. The NFL wanted to clean up its licensed apparel business by reducing the number of licensees, improve product quality and deliver a higher quality brand and lifestyle experience to its fans and sport consumers as well as the retail trade.
- Both the NFL and Reebok were fundamentally and financially sound. Although the licensed apparel business segments needed to be overhauled, these represented a relatively modest portion of each companies' overall business and neither company was desperate to enter the alliance. Each sport enterprise could deliberate on the decisions and contribute to the resource requirements necessary for a successful alliance partnership. In addition, this also created a relatively even level of bargaining power on both sides that contributed to fair terms negotiations. In addition, both the NFL and Reebok were aligned on the licensed apparel business as a core business opportunity. Each possessed a competency in this area and shared a company cultural connection to both sport and football that enabled the companies to capitalize on the strength of share values.

- Top to top support. Paul Tagliabue (NFL Commissioner) and Paul Fireman (Chairman & CEO) of Reebok International were fully behind this initiative and championed the creation and execution of the alliance. With this top down support, each organization provided the necessary managerial direction for the alliance to give birth. Strategic direction and planning were clear and the level of commitment to the alliance partnership was sound. As will be discussed under the challenges section, maintaining the alliance as a priority in the context of other competing initiatives within Reebok and the NFL has proven complex.
- The right structure for the alliance was created. Both the NFL and Reebok had deep histories in running licensed businesses and were familiar with this organizational form. This familiarity provided for a somewhat reduced organizational learning curve to get the alliance developed and launched. In addition, by housing the operational side of the alliance in the Reebok headquarters facility, both the NFL and Reebok enjoyed a more direct connection to the design and development resources needed to deliver a superior NFL licensed apparel product line. The structure also provided for good managerial communication between the NFL and Reebok that help facilitate key joint decision making when necessary.
- The original alliance creators crafted a plan for the future evolution of the alliance by including the possibility of joint equity ownership structures as the business grows. Interestingly, this future business planning is now coming into play as the alliance will be under greater scrutiny as the NFL considers the potential future

implications of the Adidas acquisition of Reebok anticipated to be complete in early 2006.

- At the beginning of the alliance, Reebok and the NFL envisioned a broadening of the scope of the alliance to include other product categories outside of licensed apparel. The general concept was to expand the product and brand offering into a lifestyle approach that would include NFL and Reebok branded (some co-branded) products including fitness equipment. As the alliance has continued to grow, many opportunities for Reebok and the NFL to jointly collaborate have presented themselves. (for example, on joint entertainment opportunities with the super bowl). As partners, they have evaluated them and sometimes acted and sometimes decided to pass. None the less, by virtue of being in the relationship together, many opportunities have presented themselves that otherwise may not have come to light if the NFL and Reebok had not developed a strategic alliance together.

Challenges

The alliance between Reebok and the NFL has not been without its issues. Fortunately for both partners, several critical areas of joint decision making have been conducted under the pre-established governance umbrella, making for reasonably fair compromises when needed. Some of the areas in the alliance relationship that have been most challenging include:

- Branding priorities and strategy. As might be expected, both sport enterprises possess leading global brands. As such, discussions and decisions surrounding whose brand should be first, on top, below, bigger, brighter etc. have proven

challenging. However, to date, rational minds have prevailed and these issues have generally been resolved along resource contribution lines. (i.e. who is paying the most). In addition, each sport enterprise assigns their brand a certain “brand value” and there have been differing approaches to the interpretation of this value and it’s relevance in certain decision situations.

- Contractual interpretations of originally agreed upon legal and business principles contained in the alliance agreement needed to be constantly revisited in light of changing circumstances. While this may seem a natural occurrence as the alliance grew, each organization is very entrenched with its legal heritage and standard licensing business practices. As a result, it was difficult for each to move off of their traditional positions in the context of shared licensing business decision making.
- Ongoing alliance priority. While the alliance formation and launch was supported by senior management, the daily realities of keeping the alliance as a top priority within both Reebok and the NFL has been challenging. As both sport enterprises are very large, complex and full of other projects or initiatives competing for attention and resources, there is a constant battle to keep the alliance top of mind within the organizations. In fact, according to David Baxter, President of the On-Field Apparel Group, “trying to get management to singularly focus on the issues at hand in the partnership is like herding cats”. Both organizations have other priorities and the managers of the alliance have had to develop a strong internal PR and communication effort to maintain frontal visibility for the alliance.

- The start up of the alliance required extra time (almost 2 years) and money due to the pre-existing commitments the NFL and teams had to other licensing partners as well as some confrontation from certain teams who were not aligned with the league moving to this new exclusive licensed apparel business model.
- Alliance scope expansion was originally considered by Reebok and the NFL when the NFL granted rights to NFL fitness equipment. Although a serious attempt was made to develop this portion of the business, conditions in the fitness equipment industry did not support the opportunity. As a result, this portion of the alliance underperformed expectations despite a mutual commitment and effort from both partners.
- Difficulties in cross functional co-ordination between Reebok departments and various departments within the NFL corporate structure. By virtue of their sheer size and complex make up, each organization faced challenges in aligning and coordinating activities across their respective broader organizations. While the On Field Apparel Group (OAG) was focused on its primary objectives of creating, producing, delivering and marketing NFL branded licensed apparel, some other departments responsible for shared service support to OAG found it difficult to adapt. In addition, given the sometime tenuous relationship between the NFL league and individual teams and players, the co-ordination of certain developmental and promotional activities related to the alliance, but dependent on individual team co-operation, was made difficult by perceived divergent objectives amongst team representatives.

Lessons for Sport Strategic Alliance Managers

Sport enterprise managers face some unique challenges as they experience the unprecedented growth of the sport business industry. While the uncertainty associated with the nature of sport is what provides us our compelling point of difference among all industries, sport managers must find ways to successfully adapt to this ever-changing environment. One tool that might make sense would be to consider the development of a strategic alliance strategy and subsequently identify and execute strategic alliance partnerships that enable the enterprise to achieve its goals without assuming all of the potential risks of this uncertainty. It is difficult enough for today's successful sport enterprises to stay abreast of innovations, geographic market expansion, and increased value density of their sport product, much less assume all of the resource, capital and managerial risk necessary for long term growth and a sustainable competitive advantage. Crafting and implementing a well co-coordinated strategic alliance program that aligns with the overall objectives of the sport enterprise and helps to create authentic value that perhaps would have been unattainable if the enterprise tried going it alone, could help achieve growth with less risk.

In the Reebok and NFL case, the strategic alliance shifted the focus of the licensed apparel business for both the NFL and Reebok away from the short-term perspective of licensing royalties and TV exposure fees to a longer term focus on enhancing the quality of the product, distribution and broadening the scope of sport product offered to consumers. The assumption was that by having this longer-term focus

the returns for the business would not just be royalties but also increased fan commitment and interest and a better platform for long term sustainable growth. By sharing brand, financial and managerial resources, each company was able to create a new sports business value proposition that is leading to a win, win for each.

As a result of this analysis and discussion of the NFL and Reebok strategic alliance, the following suggestions can be made for the sport enterprise alliance manager when considering strategic alliances:

- Develop an overall alliance strategy for your sport enterprise. Working with top management, make sure that you state the objectives of your alliance strategy and individual alliances goals clearly and make sure they align with the organizations' objectives. There should be a good business reason for developing the alliance. This will also help enroll and gain top down management support which in turn will help the alliance achieve the necessary internal management support.
- Make sure the roles and stated goals of the alliance partners are spelled out as clearly as possible. As part of understanding your alliance partners' stated (and unstated) needs, it is important to that each partner share their specific expectations and desired outcomes before the alliance is consummated (for example: Reebok- we want to develop a US licensed apparel business with revenues of \$XXXX, by the year YYYY with a profit of \$ ZZZZ and we would like to achieve XXXX number of on-field branding impressions per game).
- Determine the appropriate structure of the alliance (license, joint venture, or other equity or non-equity form) and how the joint decision making will be handled.

- Identify the alliance team early on who will create the alliance and those who will manage it once it is born. Ask yourself and your organization, “do we have the managerial and resource capacity and ability to execute and manage this alliance?”
- Proactively manage the alliance as an asset. Make sure to identify and communicate those things you want from the alliance. Assume there is another company (competitor) out there lurking to take the alliance from you. Make sure you are on your toes and anticipating the challenges to the alliance and taking the necessary actions.
- Define the scope of the alliance. What value chain activities will the alliance cover (marketing, R&D, distribution, customer service etc.) and what timeframes are expected.
- Specifically identify what resources will be contributed by each partner at the beginning and during the alliance as best you can. As the alliance gains momentum, resource contributions may need to be adjusted
- Communicate necessary alliance details and goals across your organization and make sure to convey clearly how each department will need to support the alliance. Ongoing communication within your organization and with your partner organization(s) is critical. Invest in the time and effort to do so.
- Understand the financial/resource condition, strategic business direction and corporate culture of your potential alliance partners. Ideally you want to partner with someone who has a strong financial position and can operate from a position of resource strength. If the culture of the company is such that all decision making

is made by the President, and middle management has no real decision making authority, you will need to structure the alliance governance to reflect this.

- Establish both formal (regular scheduled meetings between alliance managers) and informal (social gathering or cross visits) communication opportunities.
- Constantly monitor external and internal contingencies (and environmental factors) so you can potentially modify the alliance as needed to remain effective.
Be flexible.
- Identify ways to evaluate the alliance over time to know if it is working for your sport enterprise. This may be objective measures (sales, market share, attendance levels etc.) or more qualitative measures like manager interviews.

References

- Gomes-Casseres, B. (1996). *The Alliance Revolution: The New Shape of Business Rivalry*, Cambridge, MA: Harvard University Press.
- Doz, Y.L., & Hamel, G. (1998). *Alliance Advantage: The Art of Creating Value through Partnering*. Boston, Massachusetts: Harvard Business School Press.
- Bramford, J.D., Gomes-Casseres, B., & Robinson, M.S. (2003). *Mastering Alliance Strategy*. San Francisco, CA: Jossey-Bass.
- Stotlar, D. (2000). Vertical Integration in Sport. *Journal of Sport Management*, 14(1),1-8.
- SGMA International. (2005): *The State of the Industry 2005*, North Palm Beach, FL: SGMA International.
- Hamel, G., Doz, Y.L. and Prahalad, C.K. (1989). *Collaborate with Your Competitors-and Win*. In HBS Press (Eds.) *Harvard Business Review on Strategic Alliances* (pp. 1-21). Cambridge, MA. Harvard Business School Publishing Corporation.(2002).
- Pitts, B.G. and Stotlar, D.K.(2002). *Fundamentals of Sport Marketing* (2nd ed.). Morgantown, WV: Fitness Information Technology, Inc.
- Culpan, R., (2002). *Global Business Alliances: Theory and Practice*. Westport, Connecticut: Quorum Books

Ernst, D. (1998, September) The Search for Alliance Value. *The Alliance Analyst*.

Reebok (2005). Corporate website. Retrieved August 2005, from
www.reebok.com/useng/history/2000.htm

NFL (2005). National Football League corporate website. Retrieved August 2005, from
www.nfl.com/history/chronology/1921-1930

Nike (2001). Money Central/MSN website. Retrieved August 2005, from
news.moneycentral.msn.com/ticker/sigdev.asp?Symbol=NKE

Reebok (2001). Money Central/MSN website. Retrieved August 2005, from
<http://news.moneycentral.msn.com/ticker/sigdev.asp?Symbol=RBK>.

SGMA International. (2004): *The State of the Industry 2004*, North Palm Beach, FL:
SGMA International.

Lefton, T. (2005, August 1). XM wins a point in satellite radio sports war with USTA deal. *Street & Smith's Sport Business Journal*, 8(14) August 1-7, 4.

Ozanian, M.K., (2004, September 3). Football Fiefdoms. *Forbes.com*. Retrieved August 2005 from http://www.forbes.com/business/2004/09/02/cz_kb_0902nflintro.html.

Footnotes

1. In addition to the NFL Strategic Alliance, Reebok has created partnerships with the other major leagues.

“Reebok and the NBA in August 2001, Reebok formed a 10-year strategic partnership with the National Basketball Association under which Reebok will design, manufacture, sell and market licensed merchandise for the NBA, the Women's National Basketball Association (WNBA) and the National Basketball Development League (NBDL), the NBA's fledgling minor league. Beginning in the 2004-05 season, Reebok will have the exclusive rights to supply and market all on-court apparel, including uniforms, shooting shirts, warm-ups, authentic and replica jerseys and practice gear for all NBA, WNBA and NBDL teams. Reebok will also have exclusive rights, with limited exceptions, to design, manufacture, market and sell headwear, T-shirts, fleece and other apparel products for all teams in most channels of distributions. Reebok will also develop, market and sell an exclusive line of NBA-branded basketball shoes and expand their line of Reebok Classic fashion products to incorporate NBA-branded apparel. Prior to league exclusivity in 2004, there was a transition period in the 2001-02 season during which Reebok was on-court with 11 NBA teams and all WNBA and NBDL teams. The agreement expands to include 19 NBA teams in the 2002-03 season. Also in the 2002-03 season, Reebok will have the exclusive rights to design, manufacture, market and sell replica jerseys for all NBA, WNBA and NBDL teams.” Reebok (2005).