Reebok International Essay, Research Paper

Reebok International Ltd.

BUSINESS SUMMARY

I. General Background Information

Reebok International Ltd. is a worldwide sports and fitness company influencing the athletic lifestyle of the world since 1895. The story of Reebok International Ltd.

began in Victorian England when Joseph William Foster created the first known running shoe with spikes for members of his local running club. Mr. Foster had a

victorious clientele of distinguished athletes through his company J.W. Foster & Sons.

With the ability of being an aspiring entrepreneur, Mr. Foster handcrafted shoes for affluent runners during his time. Foster’s grandson’s later expanded their

grandfather’s visions of igniting a passion for winning, to do the extraordinary, and to capture the consumer’s heart and mind. They later transformed J.W. Foster &

Sons into Reebok International Ltd., named after an African gazelle during 1958.

Reebok’s corporate headquarters is located in Stoughton, Massachusetts. This is where twenty six percent 26% of Reebok’s 6,300 employees work on being a leading

worldwide designer, marketer and distributor of sports, fitness and casual footwear, clothing and equipment. The corporate office’s business phone number is (617)

341-7150 located at 100 Technology Center Drive Stoughton, Massachusetts 02072, U.S.A.

II. Financial and Statistical Information

Reebok International Ltd. has had a good financial period supporting the fact that future prospects and financial outlook do seem rewarding. Reebok International Ltd. currently has three subdivisions: the Reebok brand, Rockport , and the Greg Norman collection. The Reebok brand, the largest of the three, focuses their products on athletic sports, fitness, and casual footwear,

apparel, and equipment products. Rockport’s product line consists of dress wear and shoes. The company is also the North American licensee for Ralph Lauren footwear, which launched a new line early this year. Finally the Greg Norman business is

more focused on golf apparel.

Anyone investing into a company should evaluate their opportunities of minimal risk along with their ability to control their own destiny, to get profits. Giving a company such as, Reebok International the financial backing it needs to develop new innovative ideas would be contributing to this fact. This would later provide stockholders with rising earnings per share. As a result, a decision like this would basically enable an individual like you or I to reap what we have reluctantly sown.

According to available graphs, Reebok International’s stock prices during the years of this present decade have been steadily increasing, based on 52-week high stock prices. For example, a 45.3 high in 1996 increased to a 52.9 high in 1997. Again, focusing on the fiscal years of 1996 and 1997, revenues have grown respectively with that of the company’s earnings per share. Sales have increased 4.7% from $3,478.6 mill. in 1996 to $3,643.6 mill. in 1997 while earnings per share increased 15% from $2.00 per share in 1996 to $2.30 per share in 1997, also. Reebok’s net income decreased by a factor of 2.8% having $ 138.9 mill. during 1996 drop to $135 Mill during 1997. Administrative, Advertising, and product development expenses have been rising from year to year

contributing to the decrease in net income. The stronger U.S. dollar has had an adverse impact on the worldwide sales of Reebok International compared to that of previous years. The increase of net sales was primarily due to an increase in domestic footwear

and apparel sales. Even though the gross profit for Reebok Int’l increased by a factor of 1.17% from $1,334 mill. in 1996 to 1,349.6 mill. in 1997, the Gross margin still declined from 38.4% in 1996 to 37% 1997. The company’s net profit margin declined 7.26%

from 3.99% during 1996 to 3.7% during the 1997 operating cycle. Reebok’s return on assets decreased respectively with that of its return on equity as well. Return on assets decreased 1.28% from 7.8% during 1996 to 7.7% during 1997 while return on equity

decreased 25% from 1996 to 1997 respectively 3.35%, 2.51%. Furthermore, a stand still in company profits is primarily due to company start-ups, shorter production runs and increased airfreight costs.

The financial activity of Reebok International has been the same for the past two years. The company has turned its accounts receivable over 6.49 times during 1997, compared to 5.89 times during 1996. Based on a operating cycle of 360 days it took Reebok An average of 55.5 days to collect it’s accounts receivable during the 1997 period. Compared to the average number of day’s (61.12) it took Reebok to collect its accounts receivable during the 1996 operating cycle this was indeed a good improvement. Reebok International has turned its inventory over 6.46 times during 1997, similar to 6.39 times during 1996. Even though the average days in inventory ratio has been the same for the 1997 and 1996 periods respectively, 55.70 and 56.35 the company has initiated plans to improve operating efficiencies, including improved inventory management, credit management, purchasing power and customer service. Reebok intends to accomplish this goal through the acquisition of an enterprise – wide global management information system.

Reebok International’s financial position does seem to be maintaining well despite the recent change in the market. The company’s working capital was 887.4 mill. during 1997 and 946.1 mill during 1996. With current assets of 1,464.8 mill. and 577.5

mill of current liabilities Reebok had a current ratio of 2.53 to 1 (1,464.8 / 577.5 = 2.53 in current assets for every $1 in current liabilities) compared to 2.8 to 1 during the 1996 period. The decline in the current ratio was the result of a long-term debt, being

classified as a current liability of 50.0 mill at the end 1997 which was in 1998 and the pre – payment of 100.00 mill toward a long-term debt.

The long-term solvency of Reebok International has prospered over the past year. Reebok’s debt to equity ratio has declined respectively with that of the company’s debt to assets ratio. The debt to equity ratio has decreased 36.97% from 2.38% in 1996 to

1.5% in 1997 while the debt to assets ratio declined 16.71% from 55.3% in 1996 to 45.06% in 1997. The primary source of Reebok International’s cash flow is from sales revenue and various notes, which are then expensed towards financial debt and inventory

management.

It can be concluded that Reebok International’s trend in stock prices does not necessarily reflect the company’s net profit and gross margin but reflect progress in earnings per share and revenues. As Reebok International stock prices increase from year to year, company earnings per share upsurge, as well. Since earnings per share are based on the average number of common equivalent shares outstanding; the decrease in earnings per share favor stockholders, as a result of the company repurchasing 23%

$17 mill. in shares. Future investors would be therefore, investing into a moderate priced stock (in this point in time) at a low price hoping to sell high in a so called promising future.

III. Current Topics

With the write up of an article by Marcia Vickers; she proclaims that Reebok International Ltd. is focused, after tripping over its laces. The article summarizes the fact that management under Paul B. Fireman (Reebok’s founder and chief executive) in the past has been unresponsive to shareholders but, current actions has caused the company to see the light. “He has been criticized at times as arrogant, unresponsive and a reason for Reebok’s high management turnover.” (Vickers 3)

Reebok has had the longtime reputation for making quality shoes in the past but, it currently has achieved the unrespectable label of being a laggard. Reebok International Ltd., once controlled 33 % of the athletic-shoe market while its current competitor, Nike

only controlled 20% of the market share during the late 80’s. Ever since, the company took its eyes off the prize and tried to exploit a risk in the retail industry; the company has headed downhill ever since, trying to recuperate. “The country’s largest pension

fund, the California Public Employees Retirement System, named it to its annual ‘top 10 financial laggards’.” (Vickers 3) Nike, Reebok’s archrival in the athletic-shoe market currently reigns above and beyond the rest of its competitors in the 90’s, including

Reebok.

If you were to evaluate the success of Reebok during last winter based on its goals which include: igniting a passion to win, to do the extraordinary, and to capture the consumer’s heart and mind; you would conclude that Reebok was a defective company that lacked marketing skills. The company has been selling a women’s shoe named the incubus which, had a demonic marketing flap attached to it. “Trouble was, as an Arizona newspaper reader pointed out, an incubus is an evil spirit that in medieval times was

thought to prey on sleeping women, having sex with them.” (Vickers 3) As a result, you could conclude that Reebok has definitely ignited a passion to fail, to do the unordinary, and to lose the consumer’s heart and mind.

Fortunately, future prospects do look rewarding based on the fact that the company has focused less on retail products, which have less staying power with consumers compared to sporting goods. Reebok has recently hired a new President/C.E.O. Carl Yankowski of Sony-marketing two months ago. Coincidentally, Reebok has restructured its marketing plan three times within the past two months. As a result of Reebok’s new technologies, an increase in company back orders (which predict growth in sales) happened for the first time since 1994 in 1996. This has been promising for two reasons. The first reason is the DMX Series 2000 sneakers, which is designed to increase internal airflow to cushion and stabilize the feet. The second reason is that, the new products are being advertised by top-tier celebrity endorsers like, Allen Iverson of the NBA’s Philadelphia 76ers. “The Iverson-endorsed shoe, ‘The Question’ (his nickname is ‘The Answer’), met with such great demand that much of the inventory

sold out when the shoe made its debut last month.” (Vickers 3)

IV. Conclusion

In conclusion, investing into Reebok International Ltd. at this point in time would be a risky decision based on the fact that; financial activity remained motionless for the last fiscal year while stock prices gradually descend. Annual high and low stock

figures escalated while net profit declined from 1994 to 1997. According to the analysis of the stock tracking, the daily close for the provided weeks closed at around $16 per share. As a result, the average investor would be paying a decent price for the stock

while looking forward to reaping a decent profit in the future. Therefore, I would commend buying into Reebok International Ltd.; if you are a risk taker! I also feel that, if an effective marketing plan does go into execution along with the continuous promotion for the new products such as the Question under the control of Carl Yankowski, purchasing this stock will be a prosperous acquisition within two years.

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