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**BRAND DRIVEN GROWTH:
CASE AMER SPORTS CORPORATION
IN THE SPORTING GOODS INDUSTRY**

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ABSTRACT:

Brands have increased their importance in recent years due to various aspects. In the absence of a comprehensive theoretical framework for the phenomenon of brand driven growth, in this thesis the phenomenon is investigated using a case study as research strategy. Sporting goods industry is a highly competitive and growing, but also maturing industry, which provides a fruitful platform for investigating the phenomenon. Within the sporting goods industry, the case company Amer Sports Corporation is an atypical case, which enables more information to be revealed, because it activates more mechanisms and more actors in the situation studied. The company has a wide portfolio of brands, which enables better targeted offering to each relevant market segment and establishment of a differentiated and authentic brand positioning for each brand. The case company and its business environment are profoundly analyzed through four layers: macro-environment, industry, competitors and markets, and organization.

In the context of the thesis the phenomenon of brand driven growth is investigated using multiple viewpoints during the iterative research process, and the main focus is specified as financial aspect of brand driven growth, including brands' impact on both company's financial performance and shareholder value, i.e. the process how customer value is translated into shareholder value.

As a result of the identified points of convergence of the findings, and theoretical approaches and frameworks used in assessing possible elements of brand driven growth, a framework for the phenomenon has been created, and it serves also as a platform for future research efforts and development of the framework towards a general theory. Brand valuation is a core theme of the framework, and the respective process and its outcomes can be used in an ongoing form in investor relations communication and brand management, and as a tool of strategic control systems to create additional value for the organization and its shareholders besides the common use in acquisitions. Current brand valuation methods are based on single-brand approaches, although multi-brand portfolios are increasingly common. During the research process, a need for further research related to brand portfolio valuation methods was identified.

KEYWORDS: brand architecture, brand driven growth, brand equity, brand management, customer value, financial performance, growth strategy, market-based assets, shareholder value, sporting goods industry

1. INTRODUCTION

This chapter describes the background and the context of the thesis and presents the research problem and key objectives of this study. Also an introduction to the methodology is included. Additionally, the chapter discusses the scope of the study and outlines the structure of this master's thesis.

1.1. Background

Brands and their contribution to the welfare of consumers, customers, companies and shareholders have been increasing their importance during the past decades, and the basic mechanisms have been identified by several researchers from different viewpoints. As there is fairly little coherence in the brand literature and no comprehensive theoretical framework to be used in order to approach the desired research problem through theoretical propositions, the use of a case within its real life context was necessary to be able to profoundly investigate the phenomenon of brand driven growth.

The sporting goods industry is a growing, but also maturing and highly competitive industry, in which the companies strongly emphasize the role of brands in the business success within the industry, and the positioning and leveraging of brands is one of the main sources of competitive advantage. Therefore it was possible to anticipate various important mechanisms related to brand driven growth to be revealed during the investigation process. The case company Amer Sports Corporation (later Amer Sports) is an atypical case within the sporting goods industry, as it has already been able to shift the rules of the game as the company decided to focus on growth in the sports equipment business and has been able to achieve the position as the world's leading sports equipment company. Amer Sports has chosen a house of brands strategy as its branding strategy on the corporate level and has a wide portfolio of brands, and therefore sufficient information was expected to be found in order to identify elements of brand driven growth phenomenon for proceeding further in the investigation process.

This thesis focuses on studying the case company and its business environment in order to create an overall understanding about the practical implications of brands and their contribution to growth and profitability to create a profound understanding of the main aspects of the brand driven growth and a solid basis for further research. The objectives, methodology, scope and structure of the thesis are presented in the next sub-chapters.

1.2. Objectives

As the research strategy is case study, the main objective of this thesis is to analyse the case company Amer Sports within its business environment to identify important elements and appropriate approaches to the phenomenon of brand driven growth, which is the defined research problem. The identification of appropriate approaches during the iterative research process is based on theory triangulation, which in the context of this thesis means the use of triangulation of perspectives to the same data set, as described in the Chapter 1.3. Investigator triangulation was accomplished through the valuable feedback from Managing Director Mikko Luoma from the JTO School of Management, Professor Henrik Gahmberg from the University of Vaasa and Senior Lecturer Henri Hakala from the University of Vaasa during the working process.

The process to reach the objective is based on the use of relevant, multiple sources of evidence in order to collect enough information to reveal the elements and mechanisms, and to facilitate sufficient data triangulation. Robert K. Yin (2003: 85) defines the main six sources of evidence as documentation, archival records, interviews, direct observation, participant observation, and physical artifacts, illustrated in Figure 1. In this study documentation, interviews, direct observations, participant-observation and physical artefacts were used. Archival records were excluded already in the beginning of the research process because of their confidentiality. The applied sources of evidence are described in Chapter 1.3.

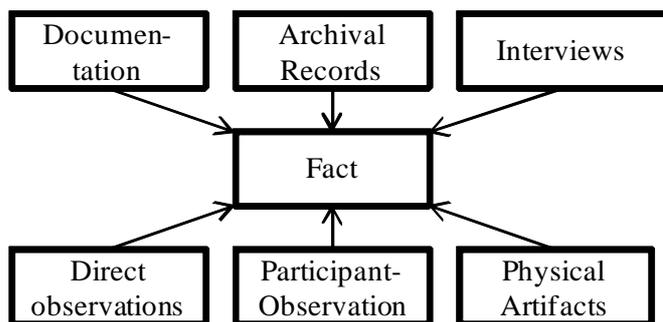


Figure 1. Convergence of multiple sources of evidence. (Yin 2003:86)

1.3. Methodology

The research strategy is a case study, which methodologically involve an in-depth, empirical examination of a single instance, global multi-brand company Amer Sports, within its real life context in the sporting goods industry. The case company is the market leader in the sports equipment business, and it has a wide portfolio of businesses and brands. Sporting goods industry is highly competitive, and on general level the industry is growing, but also maturing, although there are large variations between sports and product categories. This case study aims at describing a case avoiding search for universally valid knowledge, nevertheless some findings can be applicable to other cases.

In case selection, information-oriented sampling was used to find an appropriate, atypical case within sporting goods industry in order to reveal more information, because it activates more basic mechanisms and more actors in the situation studied than typical or average case which is not richest in information. From the three types of information-oriented cases, extreme, critical and paradigmatic, a paradigmatic case type was chosen. This kind of case can be defined as an exemplar or prototype, which highlights more general characteristics of the issues in question. A paradigmatic case operates as a reference point and functions as a focus for the investigation of a phenomenon to identify the theoretical framework and concepts behind it. The embedded, single-case design involves several units of analysis as attention is given also to selected sub-units if necessary to reveal essential issues and enhance the insights into the case.

Chosen methodology is used as an intensive descriptive approach, which aims at gathering knowledge about one object. Descriptive approach as general analytic strategy enables the identification of appropriate causal links especially in situations with high complexity. Along with the chosen general analyzing strategy, explanation building is used as a specific analytic technique to explain the phenomenon. Because of the iterative nature of explanation building and its high complexity as a procedure, the process is not documented in details in the methodological literature. Since this empirical inquiry investigates a phenomenon that is also not well known for me and there is no comprehensive theoretical framework for the phenomenon, it is necessary to select an iterative, exploratory method using no theoretical basis for the investigation process, although various theoretical approaches are used to create a sufficient understanding about the practical implications of the investigated phenomenon within

selected viewpoints. With an iterative method it is not necessary to plan all the phases of the investigation exactly in the beginning of the research process, but after first selected facts are collected and some data have been analysed, plans can be defined more precisely as the investigation deepens the understanding of the issue.

The iterative process resembles a spiral, as described in Figure 2, which gets gradually closer the goal through studying the object from several different viewpoints. During the inspection the most revealing points of view can be specified, the problem can be defined and the understanding of the object can be explained. Thereafter gathering only data related to the problem minimizes the material to be analysed. The iterative process is repeated as many times as necessary to reach a satisfactory result, or time and/or resource constraint has been reached, since an exemplary case study is not the objective of this research process.

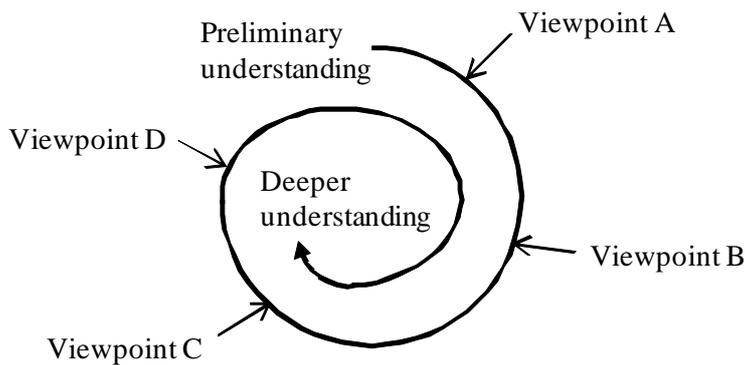


Figure 2. Iterative research process.

1.4. Data sources and collection

The principles of data collection are the use of multiple sources of evidence, creating a case study report and/or database and maintenance of a chain of evidence. Different sources of evidence in data collection typically enable sufficient data triangulation for the establishment of construct validity in investigating a phenomenon. According to Ghauri and Gronhaug (2005:91) data sources are usually divided into two categories: primary data, which is collected for the current research problem, and secondary data, which is collected by others for various purposes. Secondary data is useful to find

information to solve the research problem and also to better understand and explain the research problem, and typically consists of literature, journal articles, studies and reports of institutions and departments such as universities, research institutes, and trade centres, online data sources such as web-pages of companies, governments, semi-government organizations, and catalogues among many others. According to Ghauri and Gronhaug (2005: 93) web sites are nowadays the most important data sources for secondary data. Sources of primary data are illustrated in Figure 3.

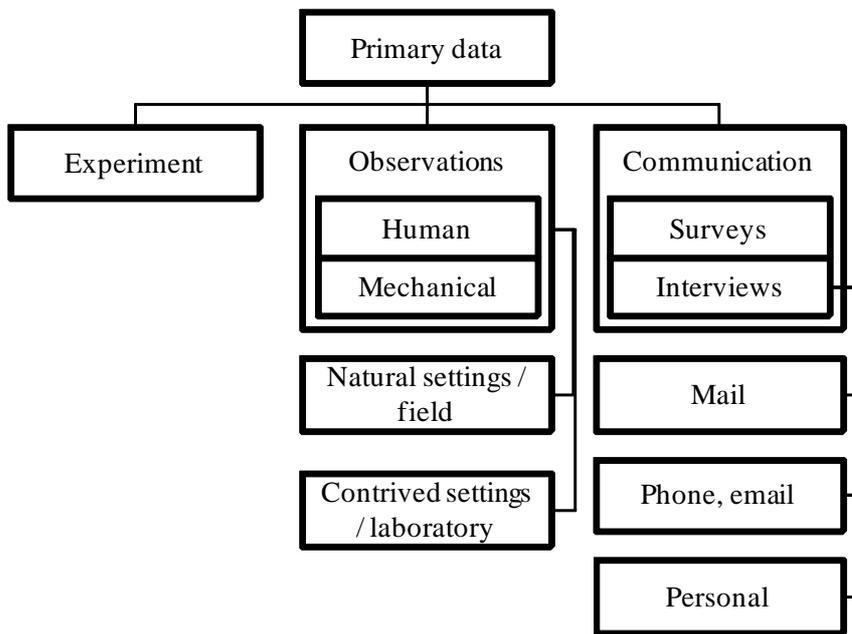


Figure 3. Sources of primary data. (Ghauri & Gronhaug 2005: 102)

Observation as a data collection tool is commonly divided in direct observation, in which the observer observes a natural setting but is not part of the situation and participant-observation, in which the observer is a natural part of the situation or event. The observation method can be based also on mechanical devices such as video camera. Observation can be hidden or disguised to avoid the behavior of people to be influenced. For example, in purchase situation an observer can act as a potential customer or anonymously collects information by using simple and straightforward observations about the environment and customer behavior when they make their

choices in picking up a particular product category or brand. According to Ghauri and Gronhaug (2005: 123) the most commonly used primary data collection method is through communication, i.e. using postal survey or interviews in form of personal, telephone or email interview.

Along the research process it was possible to define documentation as the main source of evidence in investigating the brand driven growth phenomenon in order identify the elements and mechanisms of the phenomenon without being distracted by the existing knowledge and prevailing routines of market participants, and for example twenty companies within the sporting goods industry were analyzed based on the information from annual reports 2007 and/or other relevant information related to the research problem from the web pages of the companies. The relevant sources of documentation included literature and other published material listed in the last chapter of this thesis.

The companies (relevant brand/brands if owned by a parent company) included in the analysis were selected using information oriented sampling and they were following:

- adidas Group (adidas, adidas Golf, Reebok, TaylorMade, CCM, Rockport)
- Acushnet (Titleist, Cobra, Footjoy)
- Campagnolo
- Billabong
- Brunswick (Life Fitness, Hammer Strength, ParaBody)
- Columbia
- Head (Head, Tyrolia, Mares/Dacor, Penn)
- Jarden Corporation (Rawlings, Völkl)
- K2 (K2, Madshus etc.)
- MUSTO
- Nautilus (Nautilus, Bowflex, Trimline, SchwinnFitness, StairMaster)
- NIKE (NIKE, NIKE Golf, Converse, Cole Haan, Hurley, Umbro)
- PPR (Puma, several fairly independent brands endorsed by Puma)
- Quiksilver (Rossignol, Dynastar, Lange, Look, Kerma, Lib Technologies, Gnu)
- Shimano
- Scott
- SRAM
- Tecnica Group (Tecnica, Nordica, Rollerblade, Dolomite, Moon Boot, Lowa)
- Timex
- VF Corporation (Nautica, The North Face, JanSport, Eastpak, Napapijri etc.)

During the investigation period of 1.5.2007-30.4.2008 the main source of evidence was complemented by guided conversations with eight provider and retail representatives and five other market participants' representatives in the sporting goods business, as well as by direct observations of the phenomenon in form of casual data collection in regard to the brands and products of Amer Sports, during forty-two field visits in twenty-one retail stores representing different types of retail channels, i.e. specialist stores, sports equipment chains and large retail stores, as illustrated in Table 1, in the metropolitan area of Finland; first visit in the beginning and second visit at the end of the survey period. The observation was conducted in form of unstructured observation, in which the aim is to record as much as possible during a field visit with the aim of developing a narrative account of the results (Bryman & Bell 2007: 283). In practise the most notable areas of observations were external environment, staff, brands presence, accessibility to products, product presentation, customer flows and interests in products. During the research process the contamination effect of using interviews as a source of evidence was identified and the data collection process regarding interviews was cancelled and already collected data was not further analyzed.

The field visit target area, i.e. the metropolitan area of Finland, was chosen as it is more similar with medium-sized and large cities in Europe in regard to the size of population, and also the amount of inhabitants, i.e. potential consumers, is similar. The most important selection criteria for field visit targets on the level of individual stores was the availability of Amer Sports' products. Secondly field visit targets were selected on the basis of representativeness of the population including importance as distribution channel type, and thirdly targets were expected to be located within certain area in order to do the observations cost effectively within the planned time limits.

As all the brands and products are global ones, the restrictions in interpreting the results of observation activities conducted only in Finland were recognized. However, three of the sports equipment chains and one of the large retail chains were international ones, and because of the ability to make a comparison with similar retail chains especially in Germany, the interpretation can be balanced in accordance to the Northern European context. Though, the amount and importance of specialty stores is smaller, when compared to e.g. Germany, due to the amount of inhabitants, level of net income, consuming habits and role of entrepreneurship. However, international comparisons are not provided within this study.

Table 1. Retail store types included in the direct observation.

	Number of chains	Number of stores
Speciality stores / chains	1	2
Specialty stores / individual		1
Sports equipment chains	5	10
Large retail chains	4	8
Total		21

As the last source of evidence a modified, hybrid model of participant-observation and physical artifacts was used to collect additional information in regard to Arc'Teryx, Atomic, Mavic, Salomon, Suunto and Wilson brands and products, i.e. twenty field visits in retail stores in the metropolitan area of Finland including active participation were combined by testing products from both soft and hard goods categories, as described in Table 2 and 3. In one additional case the Germany based Wilson subsidiary was contacted directly using internet service available. Also aspects of seasonal products and multiple price points were included so that for Salomon's products at least two seasons were included in testing footwear and apparel, and for both Salomon's and Wilson's footwear two clearly different price categories were included.

In addition to the specific areas of observation, listed in Table 2, in each field visit the same set of basic observations was conducted as follows: external environment, service received, presence of brands, product presentation and knowledge about products.

Table 2. Specific participant-observations accomplished per retail store type.

	Specialty stores	Sports equip-ment chains	Large retail chains	Total
Purchase of a product/products	2	10	5	17
Product related reclamation		1		1
Request for ordering a product / orders completed	2 / 0	3 / 1	1 / 1	6 / 2

Table 3. Brands, product categories and lines involved in testing.

	Footwear	Apparel	Accessories	Equipment	Sports Instruments	Amount of product lines
Salomon	4	2	2	2		10
Suunto					1	1
Wilson	4	1	1	3		9
Total	8	3	3	5	1	20

The collected data was prepared according to normal procedures, but as the main source of evidence was during the research process defined as documentation, only relevant findings in regard to the research problem are reported within this study. The rest of the findings were ignored within this thesis as the focus was narrowed to financial effects of brand driven growth during the research process.

The creation of the case study report which follows the research process fulfils both the second and third principles of data collection. Besides of this report, also essential gathered information is stored as case study database in form of excel-sheets, case study notes and documents.

My experience within the sports industry as the President & CEO of Polo Sports Group during five years, as the President of the Polo Association of Finland during seven years, and as the President of the International Snow and Arena Polo Federation during one year proved to be valuable during the research process and data collection procedures. Concerning the use of various sources of evidence, my past experience in customer service research including various performance evaluation methods especially in investment banking business, but also in consumer goods business, i.e. in cars and electronic devices retailing, was of great help.

1.5. Scope of the study

The scope of the study is to analyze the case company and its business environment to identify the drivers and outcomes of the brand driven growth phenomenon. The analysis is based on the framework, illustrated in Figure 4, which consists of four layers: macro-environment, industry, competitors and markets, and organization. The macro-environment level analysis is accomplished by using PESTEL-analysis framework. The industry layer is analysed mainly through Michael E. Porter's five dimensions in regard

to industry structure, and Richard D'Aveni's hypercompetition approach in regard to competitive arenas of the industry, although also other theoretical approaches are in minor roles to analyse the industry. The two last layers, i.e. competitors, markets and company are strongly interlinked with each other. The markets and competitors are presented using simple descriptive approach, whereas the company is analysed using both descriptive approach and SWOT-analysis framework.

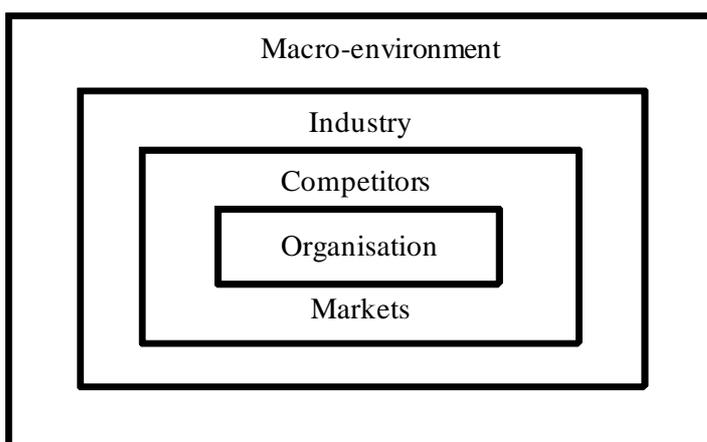


Figure 4. Layers of the business environment. (Johnson, Scholes & Whittington 2005: 64)

All the financial information of companies included in this study is derived from the respective annual reports of the companies, and these sources of information will not be further indicated in the thesis. If nothing else indicated, in all financial comparisons during 2003-2007 numbers are according to the International Financial Reporting Standards (IFRS).

During the research process several relevant viewpoints related to the research problem were identified and appropriate theoretical approaches and models were used to explain the findings, if it felt important during the iterative process. It should be notified that this study report reflects the research process, and no additions which did not occur at the respective phase of the research process can therefore be made afterwards. After the case analysis, the main focus in investigating the brand driven growth phenomenon was

defined as the translation of customer value into shareholder value, i.e. brand driven growth which leads to the increase of shareholder value, as described in Figure 5.



Figure 5. Translating customer value into shareholder value.

The process leading to brand-based customer value and shareholder value is included in this thesis, but the organizational aspects of brand driven growth are excluded. However, the importance of organizations ability to deliver brand promise through integrated branding, i.e. through empowering and enthusing the employees, in order to create a consistent customer experience with a positive bottom line impact and long-term business success and sustainability (LePla, F. J., S. J. Davis & L. M. Parker: 2003), or other similar internal approaches, has been recognized and are included in the model designed along the research process.

1.6. Structure of the study

The structure of the thesis follows the working process, i.e. first a broad understanding of the sporting goods industry and the case company, including its markets, competitors and macro-environmental factors, is created, and using a few selected viewpoints a preliminary research work on appropriate concepts and frameworks, to provide supportive explanations of the issues identified, is done. Then the chosen core themes within the brand driven growth phenomenon are presented, and as last the created model of the brand driven growth phenomenon from the defined perspective is introduced and other conclusions are presented.

In Chapter 2 the sporting goods industry and its main characteristics are introduced. Industry structure is analysed using Porter's five competitive forces framework and the results are presented in the Chapter 2.1. The competitive business environment is assessed in Chapter 2.2. using D'Aveni's four arenas approach. In Chapter 2.3., issues related to the vertical integration phenomenon are presented. The life-cycle model is used to assess the evolutionary development phase of the sporting goods industry,

accompanied by the strategic agility approach of Yves Doz and Mikko Kosonen and related market disruption approach of D'Aveni.

Chapter 3 focuses on the case company Amer Sports. In Chapter 3.1., the strategic profile of the company is introduced and connected to some theoretical concepts when appropriate from the viewpoint of brand driven growth and its elements. The business segments of the company, respective markets and competitive conditions are introduced in Chapter 3.2. In Chapter 3.3., the business environment of the company is analysed on the macro-environment level using PESTEL-analysis, while the company itself is analysed in Chapter 3.4. using SWOT-analysis.

During the investigation process a deeper understanding of the brand driven growth phenomenon and its elements has been created and the selected aspects are presented in Chapter 4. In Chapter 4.1., the basic concept of branding is presented, and thereafter the concept of strategic brand management is presented in Chapter 4.2. In Chapter 4.3., the concepts of brand architecture and brand extensions are introduced including multiple price point strategy approach. As the basic concepts have been introduced, a brand equity framework and selected approaches in measurement of brand equity are presented in Chapter 4.4. The approaches include Brand Asset Valuator method in assessing the sources of brand equity, and both market-to-book ratio and Q-ratio in assessing the outcomes of brand equity. As these ratios are considered to be limited in their approach, the brand valuation model of Interbrand is also introduced. In Chapter 4.5., a complementary approach of market-based assets in shareholder value creation is introduced.

In the last Chapter 5, the conclusions resulting from the iterative research process and wide analysis of the case company and its business environment, using theoretical frameworks and approaches as supportive tools when necessary, are presented with a review of the previous chapters, and including a model of the brand driven growth phenomenon accompanied by a proposal for further research work.

2. SPORTING GOODS INDUSTRY

Sporting goods industry consists of two business categories: hard goods, i.e. durable products with lifecycle over three years, and soft goods, i.e. non-durable goods with lifecycle less than three years. Another common categorization, linked to the previous one as illustrated in Figure 6, is apparel, footwear, apparel, accessories, sports equipment and sport instruments. In the soft goods, market leaders are Nike, adidas Group, VF Corporation, Puma and Columbia. In the hard goods market the largest sports equipment company is the case company Amer Sports.

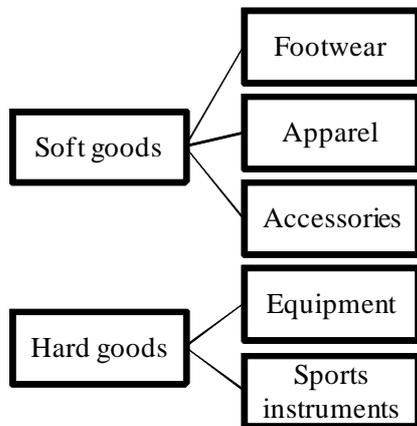


Figure 6. Sporting goods industry categories.

Sports instruments and other digital solutions are fairly new and therefore still small-scale business in the sporting goods industry, and as other digital solutions are often connected to a specific sports equipment product category, such as fitness equipment or football, they often seem to be reported within these categories. The current growth category in digital solutions in general is related to measurement, and a probable development path is towards interactive solutions related to performance measurement combined with content production as the technological evolution continues. In the sports instruments segment the market leader is Polar Electro.

The sporting goods industry is growing steadily as the living standards are rising, people are enjoying greater leisure-time, and awareness of the importance of physical and mental well-being is growing. The market for streetwear and lifestyle fashion is an

interesting opportunity for sporting goods companies as it is more fragmented and larger in size than the market for products used in sports activity, and also profitability is higher because of lower research and development (later R&D) expenses. The sports lifestyle market is also growing faster than the market for actual sports products, i.e. performance products.

Development of the global sporting goods industry was in 2007 fairly mixed, i.e. differences between regions and categories were high. The European sporting goods market was stable, whereas the U.S. market remained highly competitive, and both Asia and Latin America were important for the industry's growth. The largest sport segments are maturing especially in developed economies, and new growth is widely searched from emerging markets e.g. in Asia. Also identification of fields and niches that are still growing will probably have more emphasis in sporting goods companies' growth strategy, besides streamlining operations to reach better profitability and operational excellence. Consolidation has occurred in many mature segments.

Performance and reliability of products, new product development, price, product identity through marketing and promotion, and customer support and service are important aspects of competition within the industry. Marketing of products is significantly involving contracting prominent and influential athletes, coaches, teams, colleges and sports leagues to endorse brands and use the products beside sponsoring sports events and sporting clinics. Athlete endorsement costs are continuously rising, but simultaneously as athletes reach their potential, the co-operative product development process helps sporting goods provider and their other customers to reach their potential. Technologically advanced apparel, footwear and equipment will be in the core of continuous improvement in the performance of athletes also in the future. Research and development efforts are a key factor for success, and technical innovations boost the market growth in general.

Trademarks and patents are used to protect brands and technical innovations against infringement. Trademarks, especially brands, are considered as the most valuable asset of the leading companies in the sporting goods industry, and they are typically registered in most countries with relevant business activities. Utility patents and design patents covering components and features are used to protect products, but as patents expire in certain period of time, also competitors are able to use e.g. certain type of similar technology solutions later on. Success in the sporting goods industry is

nevertheless based on other factors, such as skills in design, R&D, supply chain management and marketing strategy, than patent positions of sporting goods providers. Corporate responsibility issues in the sporting goods industry are as relevant as in any other industry, and usually corporate responsibility also demonstrates an increasing return on investment. Industry specific focus is on labor and working conditions in the supply chain, and on environmental design to create products that are environmentally friendly besides improving athlete's performance.

The mix of product sales may vary considerably from time to time as a result of changes in seasonal and geographic demand for particular types of apparel, footwear, equipment and accessories. The relative popularity of various sports and changing design trends affect the demand, and all sporting goods providers need to respond to these trends and shifts in consumer preferences by adjusting the existing product offerings, developing new products, styles and categories, and influencing sports preferences.

In the next sub-chapters the industry structure, most common competitive arenas, vertical integration phenomenon, industry maturity and need for strategic agility are analysed using selected theoretical frameworks and approaches.

2.1. Industry structure

Michael E. Porter (2004) has identified five competitive forces, described in Figure 7, determining industry structure and providing an approach to value creation and division among existing and potential industry participants. The strength of the competitive forces in an industry determines the degree of investment flows and drives the return on investment to the free market level, which is approximated by the yield on long-term government securities adjusted upward by the risk of capital loss, and industries tend to develop towards a perfectly competitive industry.

All competitive forces jointly determine the intensity of industry competition and profitability, and the strongest forces of each industry affect most the strategy formulation of market participants. In the sporting goods industry the strongest force affecting the current industry development and strategy formulation seems to be buyer power. Especially among the largest companies distribution channel strategies are emphasized and the main actions are directed to enhance distribution strategies towards multichannel models.

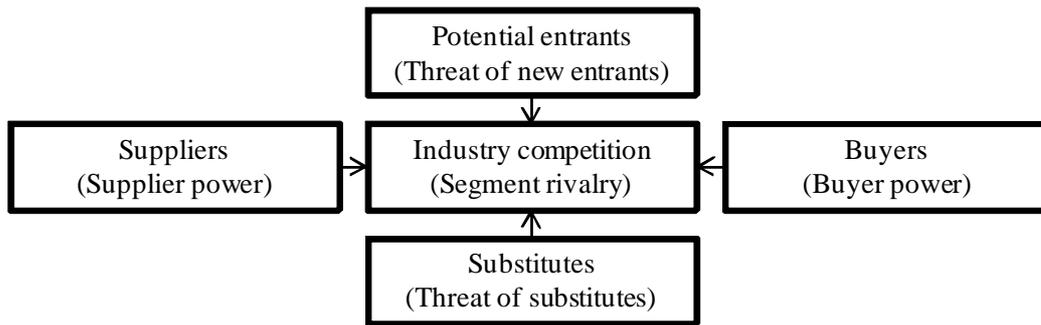


Figure 7. Key structural features of industries. (Adapted from Porter 2004: 4)

The sporting goods industry, and specifically athletic footwear, apparel and equipment industry faces intensive competition on a worldwide basis. Increasing number of companies enter the industry, thus large companies, such as NIKE, adidas Group and Puma have significant size advantage in footwear and apparel business, as well as Amer Sports in sports equipment business.

New entrants to an industry bring new capacity and resources beside the desire to gain market share, and acquisitions into an industry with intent to build market position are viewed as entries even though no entirely new entity is created. The amount of new entrants in the sporting goods industry is increasing, and companies diversifying through acquisitions into the industry from other markets seem to include e.g. private equity investors and large consumer goods companies. At the same time as the industry's attractiveness continuously grows, the likelihood of hostile takeovers might also increase.

For example a casual lifestyle company Quiksilver, Inc. acquired in 2005 the Rossignol Group including brands Rossignol, Dynastar, Lange and Look in winter sports, as well as Cleveland Golf, which was divested in 2007, with the objective of creating the global leader in the outdoor sports lifestyle market. Also the majority of Puma was bought in 2007 by Pinault-Printemps-Redoute (PPR), which owns also retail businesses and luxury brands such as Gucci and YSL. In this type of acquisition cases the acquired companies tend to enter new categories and territories, e.g. Rossignol brand is further transferred into a mountain lifestyle company and its' focus is nowadays clearly on outdoor lifestyle.

On the other hand, sporting goods companies are bought also for speculative purposes e.g. by private equity investors, either to be restructured and sold as parts to maximize short-term revenues, or to reshape the strategy and direct the company to a new growth path to receive financial gains in the longer term. For example Bauer ice hockey brand was bought by NIKE in 2005, and sold to private equity investors Roustan, Inc. and Kohleberg & Co. in 2008 as the market softened and expected growth especially in in-line skating wasn't developed as anticipated and expected synergies including the use of core competencies of NIKE couldn't be achieved on the desired level. Another major reason for the divestment could have been also the need of cash for acquiring a new brand within a more important growth category, i.e. Umbro in football category.

Another emerging trend is that businesses and brands are more rapidly changing ownership between sporting goods companies, i.e. if synergies and financial targets cannot be reached on operational level or brands' strengths cannot be translated into financial benefits by the acquirer in the planned period, the businesses and brands are quickly divested. For example winter and outdoor specialist Salomon was bought by adidas Group in 1997, and sold after several loss-making years to Amer Sports in 2004 excluding the Salomon owned golf brand TaylorMade which adidas Group retained as it fitted better to its' portfolio of brands and growth strategy.

Porter (2004) defines six major sources of barriers to entry, i.e. economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, and cost disadvantages independent of scale. Typical scale economies in the sporting goods industry exist in manufacturing and purchasing, where cost advantages, shared competencies in R&D and design, and marketing operations can be created. Product differentiation, meaning brand identification and customer loyalty, i.e. the concept of brand equity, can be sustainably created only in the long term, and differentiation creates a high entry barrier because of the increasing capital requirements and the coupling with economies of scale in marketing and distribution. Also need to offer customer credit or longer payment schedules to boost orders on the buyer side increases capital requirements. Especially switching costs are more relevant in the sports equipment business both on the supplier side and buyer side, where technology and technical details requiring training have a major role, but also reliability and sustained level of quality of providers in general are related to the switching costs.

In the sporting goods industry, innovative and flexible ordering and distribution system can create significant competitive advantage for sporting goods providers. Sports

retailers increasingly order goods in smaller batches and at shorter notice, and timely deliveries are crucial because of special offers and sales within the retail channel. Access to distribution channels is a prerequisite for success, and the larger the provider, the wider are the distribution alternatives and abilities to develop multichannel distribution models. As the retail plays an important role in the sporting goods industry, competition requires inventions for presentations at retail and thus co-operation with retail partners. Since retailers use brands for differentiating themselves from other retailers, the co-operation has deepened from creating only new expressions of brands towards creation of complete innovative presentations to the stores. Creation of customized products especially for large retailers is increasing, and it also supports the differentiation efforts of retailers. Simultaneously the development of brand owner's own store concepts is increasing. Own store concepts are used to become better connected with the consumers, and thereby to further strengthen the brand image and consumer experience. Expectations for online presence are increasing, and e-commerce services are provided also by sporting goods companies. These two latter trends decrease the bargaining power of the buyers in the retail business, where both the size of retail chains and the importance of large retailers have increased in recent years, especially as the largest retail chains operate internationally.

Typical cost disadvantages independent of scale in the sporting goods industry are intellectual property rights, especially patents, trademarks and industrial design rights. Product or technology know-how cannot widely be considered as an effective entry barrier except in the sports equipment business related to new innovations in materials or production technologies. On the other hand, use of technically advanced materials in the apparel and footwear business and related R&D costs provide an advantage to the largest companies, which typically co-operate with the largest contract manufacturers to develop new solutions. Existence of experience curve leads the industry to develop methods for exchanging knowledge between business units and to the development of competence centres. Enhanced material and design knowledge combined with shared manufacturing processes can create significant cost advantage to the larger companies. Currently the bargaining power of suppliers is not especially high, because the amount of contract manufacturers is increasing as the developing economies evolve, but good suppliers are hard to find and building a relationship fulfilling the quality requirements concerning both products and processes with a new supplier is costly and takes long time.

Expected retaliation of new entrants is not especially high, because of the growth of the sporting goods industry and the benefits of the increasing offering for the industry as a whole. Also industry specific factors, such as co-operation in athlete endorsement processes and combined products of different providers reduce the likelihood of extreme competitive reactions towards competitors. For example NIKE and Amer Sports' Wilson contract the same elite athletes in tennis, NIKE for apparel and footwear, Wilson for tennis racquets, and although Scott and Amer Sports' Salomon and Atomic are competitors in skis, Scott's bicycles and Amer Sports' Mavic cycling systems are complementary products. In the most important sport categories, such as football, and in the most important sports event sponsoring agreements, such as the Olympics, competition can be tough, but otherwise the leading sporting goods companies tend to compete based on the positioning of brands and product introductions, and the focus is rather on increasing profitability through operational excellence than using price competition to gain market share. According to the Porter's (2004: 18) categorization, rivalry in the sporting goods industry could be characterized as gentlemanly, but intense.

Since soft goods, i.e. apparel, footwear, and accessories, are used also for purposes other than sport, substitute products for these categories origin mainly from the streetwear and lifestyle fashion sector. As a competitive move, the sporting goods companies have expanded their businesses to this growth sector. Another major substitute is created by other types of leisure time activities, such as the offering of the entertainment industry, where the sporting goods have no importance. On the other hand, for example Amer Sports has expressed some visionary thoughts according to which the sports industry should offer experiences which are as entertaining as the entertainment industry offering. This could be interpreted so that the sports industry's offering for active participants should be developed towards a more entertaining experience in order to increase the amount of active participants in the long term and simultaneously to increase the demand for sporting goods also in the traditional market for performance products.

2.2. Competitive arenas

Richard D'Aveni's (1995) approach in competitive business environment is based on four arenas, i.e. escalating competition based on price-quality positioning, competition on creating new know-how and establishing first-mover advantage, competition to protect or invade established product or geographic markets, and competition based on

deep pockets and the creation of even deeper pocketed alliances. There are two types of escalation in the approach, the first one within each arena, where competitive moves tend to lead to countermove escalating further the competition, and the second one across the four arenas, i.e. up the ladder described in Figure 8. Companies move to higher level of conflict in each arena, i.e. competitive maneuvers tend to lead to a new level of competition.

According to D'Aveni's one scenario, companies compete in the first arena on cost and quality until further advantages cannot be found, and move to the second arena of know-how and timing. As the benefits of the advantages of the second arena become too expensive or too risky, companies attempt to create strongholds in the third arena to limit the competition. As the strongholds tend to be temporary, companies move to the fourth arena of deep pockets using the size advantage until the companies' resources are depleted or they find alliances to balance off the resources of competing alliances.

The evolution of an industry increases the challenge of gaining and maintaining strategic advantage, and e.g. imitation happens so quickly that many companies may offer almost the same product line. Companies tend to compete on developing know-how that competitors don't have, but also this can often be easily imitated. Current global competition has eroded traditional strongholds, and established competitive positions cannot be hold for long. (D'Aveni 1995: 234)

The process in Figure 8 is described as sequential, but it is commonly proceeding less orderly, depending on the industry. Some industries compete on multiple arenas and at different levels of each arena simultaneously, and there are much more complexity in the real environment. Because companies are looking for growth and profit potential from segments with low or moderate levels of competition, competition tends to escalate from a state of relatively less competition towards higher level of competition.

As competition shifts toward higher intensity, companies develop new advantages rapidly and attempt to destroy competitors' advantages, leading to further escalation of competition into hypercompetition, in which companies actively plan and accomplish a series of competitive moves. Hypercompetition is characterized by the speed and intensity of the movement rather than by the exact pattern followed on the escalation ladder, but as the companies maneuver and outmaneuver each other attempting to neutralize each other's advantage, they simultaneously push toward perfect competition,

where no one has an advantage. Because of the decreasing profits, companies do also attempt to avoid the process toward perfect competition.

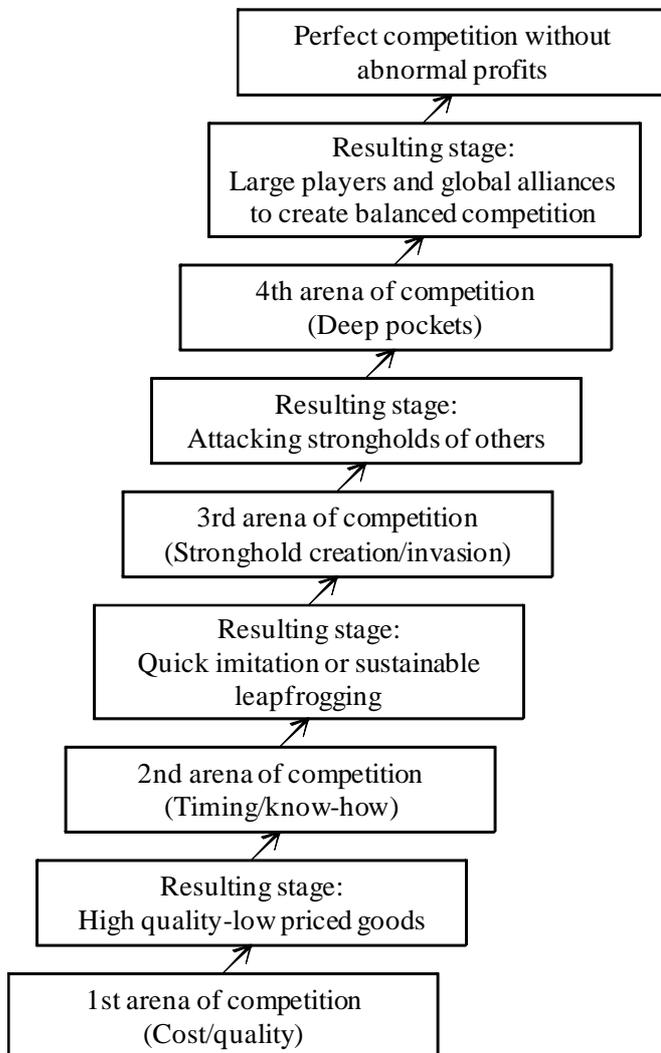


Figure 8. A scenario for escalating competition across arenas. (Adapted from D’Aveni 1995: 235)

According to the categorization of D’Aveni, the sporting goods industry appears to be an industry of high intensity competition, but not yet on extremely high level, i.e. approaching perfect competition. Within the industry competition occurs on multiple arenas and at different levels of each arena simultaneously, and the industry is characterized by a fairly high level of complexity, also because of its’ global nature.

In the sporting goods industry, the two largest companies, NIKE and adidas Group both strive for the position as the largest company in the industry. NIKE is currently the largest with its' revenue of USD 16 325,9 million in 2007, and adidas Group the second largest with its' revenue of € 10 299 million in 2007. Along with the favourable USD/€ exchange rate adidas Group has been able to approach NIKE in its position as the largest sporting goods company worldwide.

As a competitive move NIKE acquired the British football brand Umbro in January 2008 to continue in its' aggressive expansion in the football market, which is a key growth category in which adidas Group is the market leader, and the year 2008 will probably show increasing competition between these two companies, and new acquisitions are likely to occur. Both companies try to develop strategic advantage especially based on strong brands and operational excellence, but also focus on increasing profitability. They appear to compete merely in the timing and know-how arena and strongholds arena, but simultaneously also in other arenas depending on the product category and geographical area. Because of increasing competition and need to improve profitability, the likelihood of widely entering the fourth arena in the near future is currently fairly low.

D'Aveni (2004: 144–150) describes the strongholds arena as an arena where competitors avoid direct competition to make profits, and protect their strong markets, but at the same time might search access to the opponent's market. The dynamic strategic interaction focuses either on geographic strongholds or strongholds are developed around product or market segments, also simultaneously. The competition cycle might proceed differently for each stronghold of a company. E.g. NIKE has created home court advantage in the U.S. market, while adidas Group has done the same in Europe. In Asia adidas Group is currently the market leader, but also NIKE has the leading position in some countries. The competitive positions vary typically in each product category in the sporting goods industry. As Amer Sports has chosen a house of brands strategy, it does not have home court advantage as a company, but its brands might have depending of the country of origin. For example in Europe Salomon, which is owned by the Finnish Amer Sports, but the brand was originally born in France, still has a home court advantage in France and Southern Europe in winter sports.

The eight dynamic strategic interactions in the strongholds arena are following: building barriers to create a stronghold, launching forays into a competitor's stronghold, the incumbent's short-run counterresponses to an attack and delayed reaction, attempts to

overcome the barriers, long-run counterresponses to the attack including defensive or offensive moves, additional reactions of the incumbent to new entrants, and creation of standoffs (D'Aveni 1994: 99-113). In Figure 9, one type of competition cycle in the strongholds arena is illustrated.

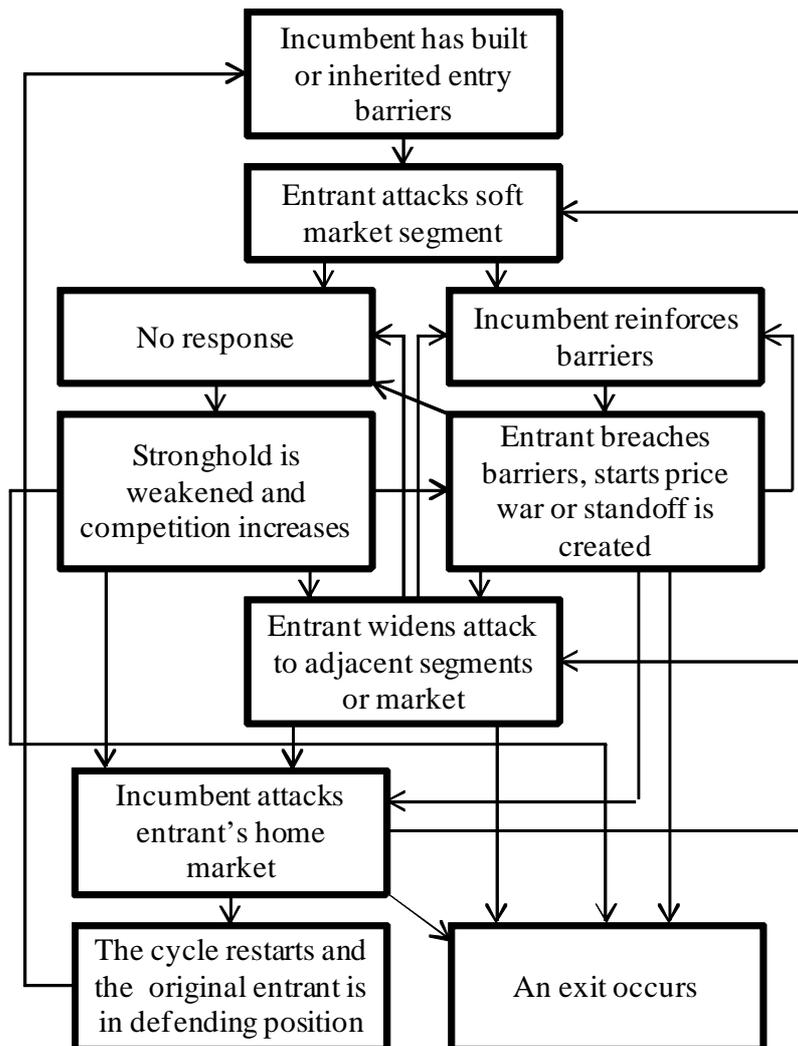


Figure 9. A cycle of competition in the strongholds arena. (Adapted from D'Aveni 1995: 115)

In the timing and know-how arena, illustrated in Figure 10, the cycle of competition is based on leaps to new markets, leaps to new level of quality or new, innovative product

introductions. Arriving first to market with an innovative product creates clear competitive advantage, especially if the innovation can be protected by patents. As imitation is more difficult, competitors have to invest on creating something similar to keep up with the development, which requires both financial resources and time for the process.

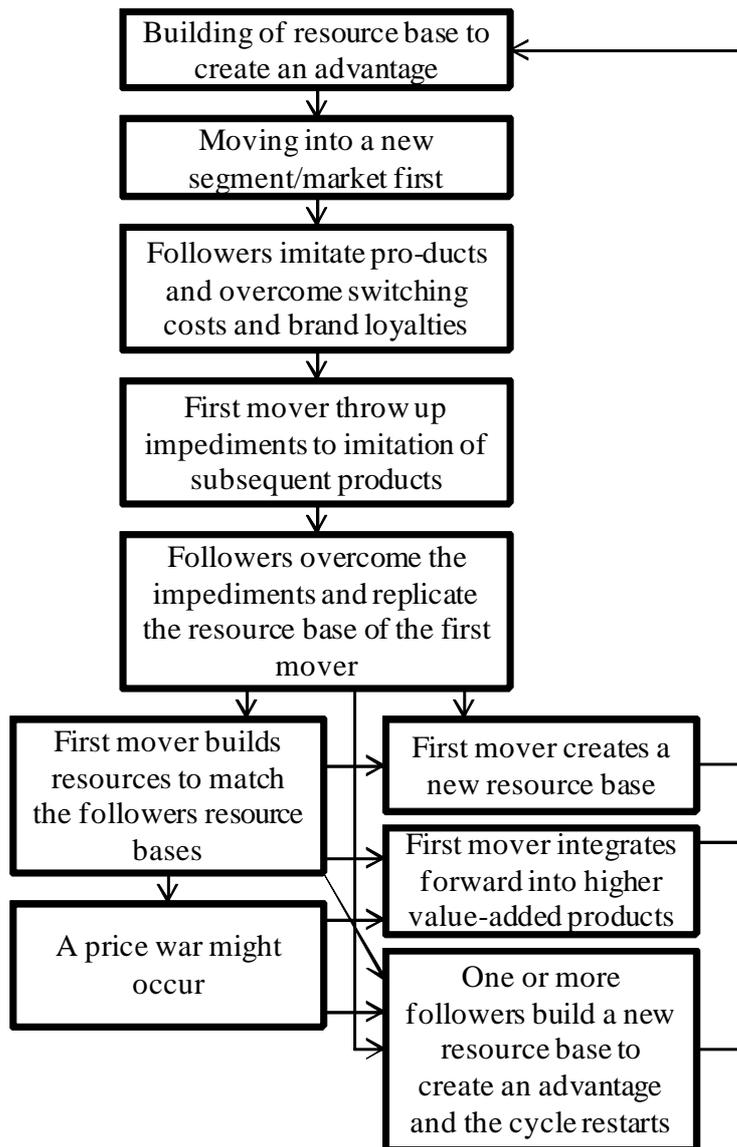


Figure 10. A cycle of competition in the timing and know-how arena (Adapted from D'Aveni 1995: 77)

The illustration shows that the cycle might result in the escalation of competition to a new basis. Moves and countermoves in multi-point competition, which is the current competitive environment also in the sporting goods industry, may take place simultaneously in several locations, and competitive rivalry might be reduced as the risks and costs of moves and countermoves are rising independent of the arena involved. Developing technology and other know-how, and the ability of the company to use these intangible assets determine how the company can position itself to take advantage of timing opportunities, i.e. being first mover in the market or a close follower of the actions of competitors.

The dynamic strategic interactions are capturing first mover advantages, imitation and improvement by followers, creating impediments to imitation, overcoming the impediments, creating transformation or leapfrogging strategy, and forward vertical integration. The leapfrogging or transformation and forward vertical integration strategies tie up resources from building the company's core business, but without these investments the company could face other difficulties in the long term. (D'Aveni 1994: 72-106)

The speed, at which both cycles of competition in Figures 9 and 10, changes over time, and if the process is relatively slow, competition in an industry might settle down to a well-established pattern. As the speed of the competition cycle is increasing and dynamic moves and countermoves by competitors are accelerating to create a condition of constant disequilibrium and change, an industry is approaching a stage of hypercompetition.

In D'Aveni's competition cycle of the timing and know-how arena, forward integration into higher value-added products is one of the available options. As forward integration is a relevant issue in the sporting goods industry, issues related to vertical integration will be presented within another framework in the next chapter.

2.3. Vertical integration

According to Porter (2004: 302-305) vertical integration has strategic benefits in the forms of economies of integration, i.e. economies of combined operations, internal control and coordination, information, stable relationships, and reduced transaction costs of market transactions.

Also David A. Aaker and Damien McLoughlin (2007: 30) define vertical integration as strategic option to create flexibility in order to respond quickly to marketplace demand and to build sales. Vertical integration strategies are also considered as one dimension of product-market growth matrix, as illustrated in Figure 11. The brand stretching aspects of this framework are discussed in Chapter 4.

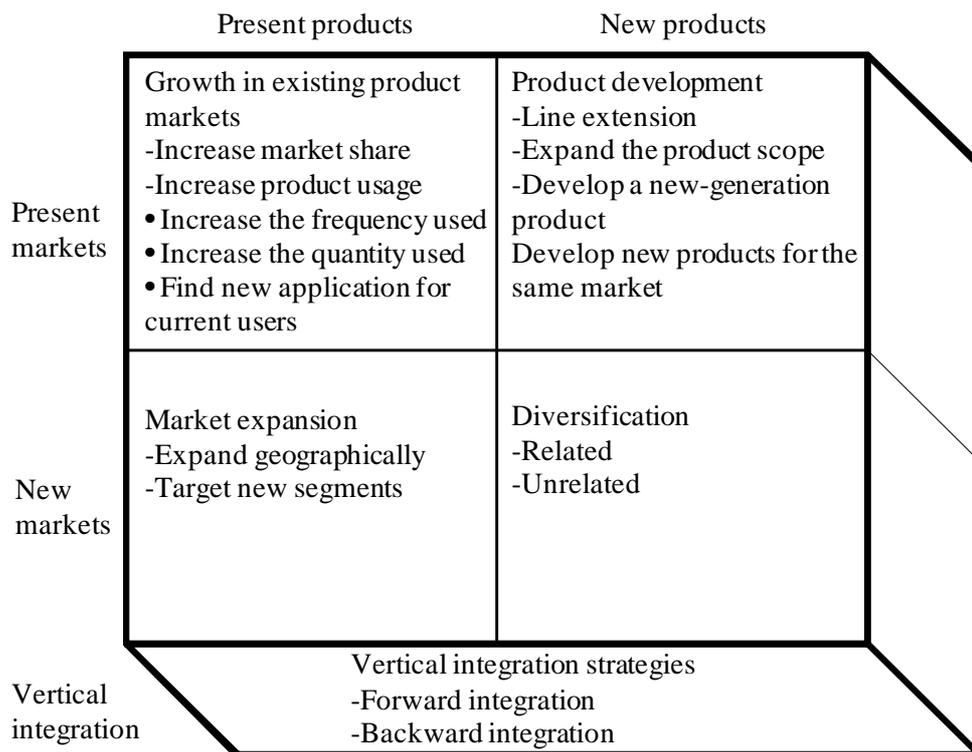


Figure 11. Alternative growth strategies. (Adapted from Aaker & McLoughlin 2007: 258)

Forward integration, which is the current trend in the sporting goods industry, offers additional benefits as it allows the companies to differentiate its products better, because it can control more elements in the sales and distribution process. For example the brand owner has the ability to control the salesperson's presentations, the physical facilities and image of the store's location, the incentives of the salesperson, and other elements of the retail selling function. The basic idea of integration is to increase value added to provide a basis for differentiation and to decrease mobility barriers. Forward integration solves also the challenge of having access to desired distribution channels and reduces

the bargaining power of the other distribution channels. Brand owners also have better access to market information, which allows the entire vertical chain to function more effectively. Earlier market information allows better adjustment of production levels, product mix and characteristics in addition to receiving information about trends in end-customer's tastes. The more cyclical and changing is the demand, the wider are the benefits of timely market information. (Porter 2004: 315-316)

In forward vertical integration the sporting goods providers have different models in their controlled space approaches, including e.g. own-retail business, mono-branded stores run by retail partners, shops-in-shops with key accounts, joint ventures with retail partners and co-branded stores with sports organizations or other brands.

The case company Amer Sports has adopted a multichannel approach in distribution, and besides traditional distribution channels has created both own brand store concept, which is developed furthest at Salomon and Arc'teryx, and online sales, which is currently in pilot phase on a limited scale. The new distribution channels are designed to be complementary to the existing distribution channels. (Next 4/2007: 33-34)

The other direction of vertical integration, i.e. backward integration, combines a core business with its suppliers. The benefits are based on e.g. assurance of the pricing, quality and availability of supplies, and efficiencies gained from coordinating production of supplies. Suppliers need sharing of proprietary knowledge to manufacture component parts or raw materials, and the exact specifications for component parts reveal the key characteristics of the final product's design or the component parts themselves might be the proprietary of the final product, and therefore companies might prefer to avoid sharing proprietary knowledge with suppliers.

In the sporting goods industry in some product categories, such as technically advanced sports instruments, manufacturing function can be partially outsourced, and for example Suunto's sports instruments, which include advanced measurement technology, data processing, and specific algorithms, are assembled in Finland, but component parts are manufactured by contract manufacturers.

Backward integration is currently not common in the sporting goods industry. Basically each element of the supply chain is a potential candidate for outsourcing (Hollensen 2004: 353), but the companies within the sporting goods industry mainly focus on outsourcing of manufacturing functions to contract manufacturers in countries with

lower labour and production costs to improve profitability, and also to increase flexibility, efficiency, resource fluidity, and strategic agility of the organizations. Major contract manufacturing countries are e.g. China, Vietnam, Indonesia, Thailand, Malaysia, Turkey, Honduras, Vietnam, Sri Lanka, Mexico, Taiwan, Cambodia, India, and Bangladesh.

2.4. Industry maturity and strategic agility

In the sporting goods industry many important product categories, and also markets, are maturing, and innovations or other major events fueling continued growth haven't occurred recently in these product categories and markets. Slowing growth means more competition for market share, and competition tends to become more cost- and service-oriented.

Also the industry as a whole is maturing if considering Porter's (2004: 237-240) definition, according to which the companies in a maturing industry are selling to experienced, repeated buyers with good knowledge and wide experience about the products available in the market and their focus is on making choices among brands. Increased competition for market share, technological maturity, and buyer sophistication has already led to changes in manufacturing, marketing, distributing, selling, and research methods, as described in previous chapters.

As the industry matures, the ability to continuously introduce new products and applications becomes increasingly limited, or the cost and risks of product change increases, which lead to reorientation of attitudes toward research and new product development. The respective life-cycle model from development phase through growth and shakeout to maturity and decline is illustrated in Figure 12.

Development	Growth	Shakeout	Maturity	Decline
Few users/buyers Trial of early adopters	Growing amount of adopters Trial of product	Growing selectivity of purchase	Saturation of users Repeat purchase reliance	Drop-off in usage
Few competitors	Entry of competitors Attempt to achieve trial Fight for market share Undifferentiated products	Many competitors Likely price-cutting for volume Shakeout of weakest competitors	Fight to maintain market share Difficulties in gaining/taking market share Emphasis on efficiency/low cost	Exit of some competitors Selective distribution

Figure 12. The life-cycle model. (Adapted from Johnson, Scholes & Whittington 2005: 86)

Nevertheless, as the sporting goods industry boundaries are widening, new markets in developing countries emerge, and within the industry fragmented growth categories still exist, the evolutionary process is proceeding fairly slowly. Digital revolution in the sporting goods market could be one trigger to boost growth, but it hasn't yet been stimulated by major innovations, partially because of the technological development, which restricts the currently available options in commercializing innovative solutions. Performance measurement and related digital solutions seems to be a category where growth is anticipated, but it is currently a fairly small category as a whole.

Due to the maturing process, the sporting goods industry as a whole is becoming more competitive, more complex, and the speed of change increases, and in the long-term operational excellence will not be a sufficient approach for success, as illustrated in Figure 13. Instead, strategic agility will be a prerequisite for success also in the sporting goods industry in the future, and the largest sporting goods providers already actively focus on improving the flexibility and strategic agility of the organizations to be able to respond more quickly to the changes in the market. Both vertical forward integration

and backward disintegration are partially driven by this need, i.e. information about trends and changes in the market are received directly and earlier in case of forward integration, and backward disintegration creates more flexible and efficient manufacturing function.

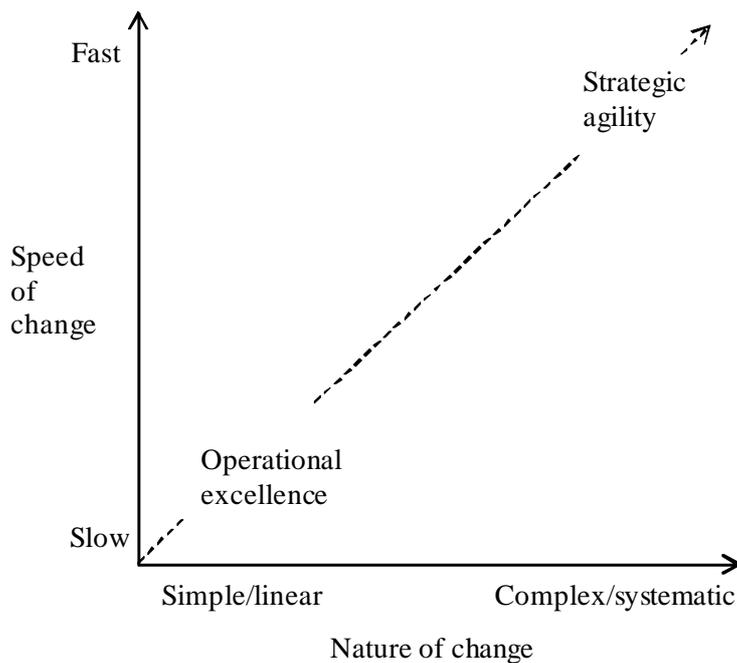


Figure 13. Interaction between the speed and the nature of change. (Adapted from Doz, Yves & Kosonen, Mikko 2008 : 207)

Yves Doz and Mikko Kosonen (2008: x-xiii; 221-233) define strategically agile companies as the ones making fast turns and transforming themselves quickly in order to increase the capabilities of the company to be permanently and regularly able to take advantage of change and disruption in the market. In the fast strategy game nothing can be taken for granted, no competitive edge lasts, and innovation and constant development of new capabilities are the main sources of advantage. The three key dimensions of strategic agility in the approach of Doz and Kosonen are strategic sensitivity, collective commitment and resource fluidity to enable rapid business systems reconfiguration and resources redeployment. The fast strategy game,

originating from the ICT business, is spreading to other industries, and companies also in maturing and more traditional industries do develop strategic agility to leave competitors behind, create new markets, redefine their business models, and renew the way they compete to gain strategic advantage and to transform markets.

D'Aveni has developed a model for actively making disruption in the market to create an advantage, as indicated by Figure 14, in which all three levels of the dynamic planning model are interacting simultaneously and continuously. In planning market disruption actions, the role of brands has to be considered and therefore the available options are restricted by brand objectives. In D'Aveni's model the vision is constantly sharpened and shaped through superior stakeholder satisfaction and strategic soothsaying providing insights into the existing and emerging needs of customers and into new ways of meeting those needs better than competitors. Resource planning focuses on building capabilities for speed and surprise for a variety of actions to carry out the vision. Achieved level of capabilities in speed and surprise can be measured by indicators like product introductions or variety, speed of response to competitors' moves, creativity in design, and flexibility.

In punch-counterpunch planning, a series of tactics is selected, adjusted, and readjusted to meet emerging opportunities or threats, and to proactively create new opportunities for the company, involving shifting the rules of competition, signaling, and simultaneous and sequential strategic thrusts. Companies analyze the competitive environment to identify an action, using speed and surprise, which competitors would not be able to anticipate and defend against, simultaneously avoiding attacks on areas where competitors are on guard. Signaling is used to confuse or influence competitors, and is often the first punch of a series of competitive maneuvers disrupting competitors for creating an advantage. (D'Aveni 1995: 196-200)

D'Aveni's model is interesting from the viewpoint of brand driven growth, because brands both enable the use of more sophisticated tools in causing disruptions in the marketplace, but also limits the available options in order to avoid any damages to be caused to a brand because of competitive maneuvering. It seems that in the sporting goods industry market disruption is usually caused by technological or design innovation, but imitation abilities of the followers are so quick that the created competitive advantage lasts fairly short time. However, in some categories, the main competitors especially at the high end of the market do not necessarily follow the path of imitation – instead they might focus on making their own innovations as

counterpunch. Especially strong brands at high-end of the market would be damaged through active and straightforward imitation activities, because the consumers often expect to get something new and innovative which nobody else has yet as they purchase a new product. At low-end of the market punch-counterpunch activities are probably more rough and tough in their style. Consumer's expectations also towards market leaders are higher, i.e. market leaders are expected to show higher ethical and moral standards in their business practices than the followers.

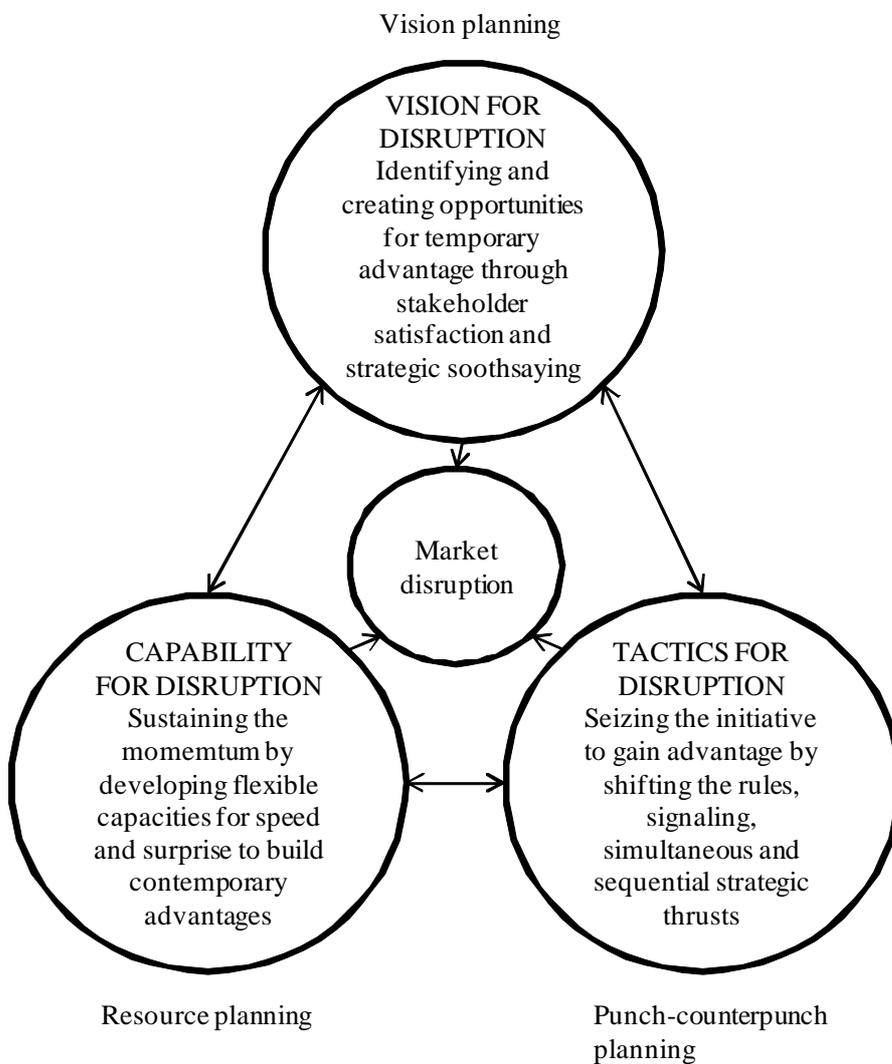


Figure 14. Dynamic planning model for hypercompetitive market disruption. (Adapted from D'Aveni 1995: 196)

3. AMER SPORTS CORPORATION

The case company Amer Sports is the world's leading sports equipment company within the sporting goods industry, offering technically-advanced equipment and products improving performance of active sports participants. The business is balanced by the broad portfolio of sports and the presence in all major markets.

Listed on the OMX Nordic Exchange Helsinki since 1977, Amer Sports had a turnover of 1.7 billion euros and a market capitalization of 1.3 billion euros in 2007. At the end of the year, Amer Sports employed 6,465 people. The company was established in the 1950 with the name Amer Tobacco, and it has developed in 45 years from a tobacco company to the leading global sports equipment company along the acquisition of Salomon in 2005. During the past decade, Amer Sports has undergone structural changes and divested its non-core activities and focuses now on sporting goods.

In Figure 15 Amer Sports' turnover, EBIT/operating profit and market capitalization are illustrated during the period of 1996-2007. Market capitalization is calculated by multiplying a company's shares outstanding by the current market price. It should be notified that the introduction of the International Financial Reporting Standards (IFRS) in 2004 changed accounting policies, and therefore business result figures are not fully comparable between the periods 1996–2003 and 2004–2007.

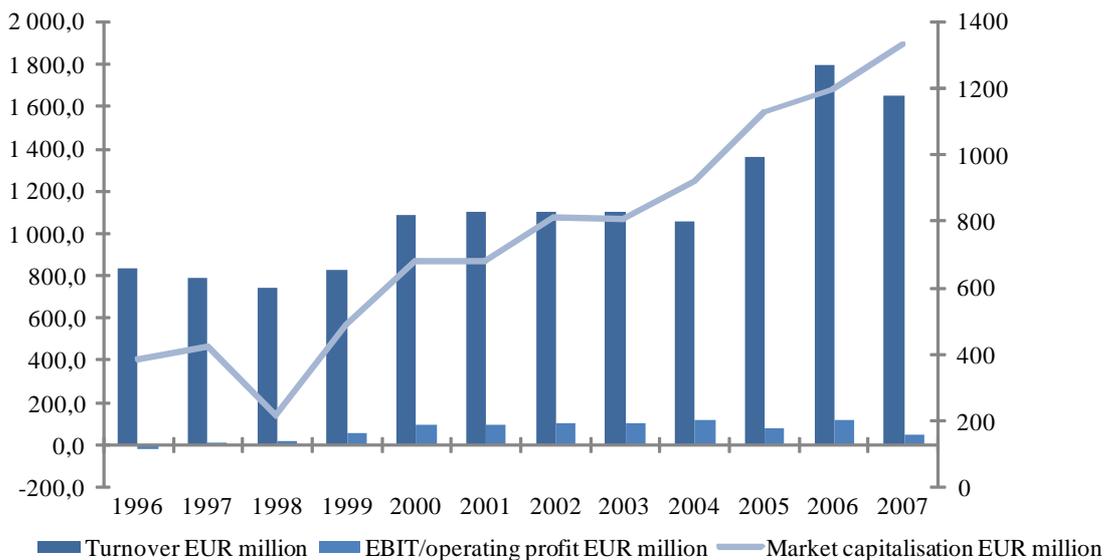


Figure 15. Turnover, EBIT/operating profit and market capitalization in 1996–2007.

For the first time the company entered into the sports equipment business in 1974 through the acquisition of Koho-brand focusing on ice hockey. In 1979 the company acquired Canadien brand and Sherbrooke Sports Division, a manufacturer of protective equipment for ice hockey players, but all ice hockey related businesses were divested in 1986. Though, in the same year the company established a sports division as it bought 80 % of the MacGregor Golf Company. In 1989 the company acquired Wilson brand, and in 1994 Atomic, Dynamic, Koflach and Oxygen brands.

In 1996 Roger Talermo was nominated as the President & CEO in a challenging financial situation, and he started structural changes by a three year reorganization program for Wilson and a result improvement plan for the whole company. MacGregor brand was divested in 1997 after several loss-making years as part of the result improvement process. In 1998 the second stage of the development program was launched and the focus was on developing an efficient distribution organization worldwide and to provide optimal service to the trade.

Profitability improved significantly in 1999, and the company acquired in late 1999 Suunto brand including three years earlier acquired Recta brand, and DeMarini brand in 2000. At the same time the company focused on seeking profitable growth especially through increasing the market shares of the core brands and improving financial performance through further enhancing sourcing and supply chain management. Acquisitions have been communicated as part of the company's growth strategy since 2000, and only part of the acquisitions are made directly by the parent company Amer Group, the rest are made by the daughter companies.

Precor brand became part of company's brand portfolio in 2002, Volant and ATEC in 2003, ClubCom and Cardio Theater in 2004 beside acquiring Fitness Product International. Tobacco business was divested in 2004, and the company was renamed as Amer Sports Corporation. In 2005 Amer Sports made a significant strategic move by acquiring Salomon brand and along also Mavic, Bonfire, Arc'teryx and Cliché brands, whereby Amer Sports became the leading global sports equipment company.

Through these acquisitions Amer Sports has created a wide portfolio of sports and brands, which enable the company to cover a larger share of the sporting goods market simultaneously as the emphasis on authenticity of each brand enables building of strong brands. The brand acquisitions are illustrated in Figure 16.

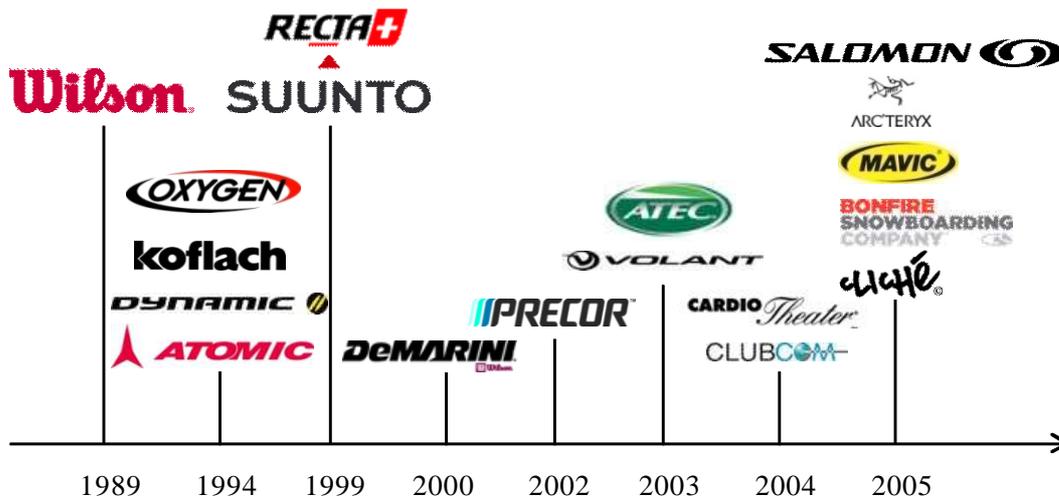


Figure 16. Brand acquisitions of Amer Sports.

In the following sub-chapters Amer Sports' strategic profile and business segments are introduced along with the PESTEL-analysis of the macro-level business environment and the company level SWOT-analysis.

3.1. Strategic profile

3.1.1. Mission and vision

The mission of Amer Sports is to produce sports and fitness products that enable everyone from the enthusiastic beginner to the professional athlete to achieve the best results and most enjoyment from their sports. The playing field is dedication to active lifestyles, sports and wellness. The ambition of the organization is defined as the passion for sports at the core of the business, and the primary motive as setting and achieving targets and moving beyond the limits of the organization in life, business and technology, enabling people to achieve their highest goals in sports and improve their well-being. The vision is to be the industry's leading active sports company, fuelled by authentic brands with products that inspire athletic performance.

The wide offering, indicated by the mission statement, may be based on vertical, category and line extensions of a brand, or on the use of separate brands to cover different price points with respective product characteristics and a larger proportion of the markets. Because of the credibility and authenticity aspects of a brand, the extension

opportunities are limited, and therefore the wide portfolio of brands is in line with the mission and vision statements.

3.1.2. Values

The Amer Sports personnel consist of people of various nationalities with different business cultures, and the shared four values support and guide the operations around the world. Success in competition requires *determination to win* which encourages strong work ethic and high-level performance, *team spirit* together with team work of strong individuals who support the common goals, *fair play* meaning both playing by the rules and recognizing and seeking to remedy possible faults and *innovation*, the prerequisite for development where the prime mover is to always question the way the company and its employees do things. The underlying value of determination to win is strong performance, which creates financial success enabling continuous development of brands and products.

3.1.3. Strategy and goals

Amer Sports' strategy is based on sports, leisure-time activities and well-being, where rising standards of living, greater leisure-time, and growing awareness of the importance of physical and mental health open up future growth potential for the sports equipment industry. The current main goal is to further strengthen its position through a consumer-focused product strategy, strong brands, innovative research and product development, first-class customer service, and an efficient supply chain. Growth strategies might vary between the brands and markets, but the global sales network in general is currently focusing on the development of emerging markets.

In addition to profitable organic growth, the company focuses on finding and effectively harnessing synergy benefits as well as cooperation within the organization. As the consolidation of the sporting goods industry continues, Amer Sports' ambition is to make the product portfolio stronger and improve the strategic position by acquiring companies that fit within the chosen business strategy and strengthen the company as a whole.

It seems that Amer Sports has been able to position itself as value innovator, who doesn't take its industry's conditions as given, and seems to have chosen a slightly unconventional strategic logic. Choosing sports equipment industry as the primary

growth area was one step on this path, and the objective of becoming the largest sports equipment company worldwide has been achieved. Kim and Mauborgne (1998: 32, 48) has identified that the logic of value innovation can be used to identify the most promising possibilities for growth across a portfolio of businesses. According to their definition, being a pioneer in an industry means ability to push the value the company offers customers to new frontiers. On lower levels of the organization, i.e. when considering product offerings of Amer Sports, a value innovation has apparently been achieved both in lightweight equipment, which is developed for fast-paced adventure sports, but simultaneously is suitable for ordinary hikers who appreciate light products, and in footwear concepts for adventure racing, which might become substitutes for traditional running shoes and for products in sports lifestyle categories because of their design and innovative details. The platforms of value innovation include also service and delivery, i.e. logistics (Next 2/2007: 22-23), in addition to products, and also in the area of logistics, which is merely coordinated on corporate level as a cooperative function of business units, Amer Sports seems to have created a value innovation. Nevertheless, the path from value innovations to enhanced growth is a long journey in the current business environment with several uncertainties, and also other factors affecting the growth opportunities have to be balanced.

The strategy of Amer Sports is based on four elements, i.e. global brands, balanced sports portfolio, game improvement products, and customer service and supply chain management.

3.1.3.1. Global brands

The business of Amer Sports is based on strong brands, from which major brands are Salomon, Atomic, Precor, Atomic, Suunto, Mavic and Arc'teryx, all standing on four cornerstones: authenticity, authority, attitude, and aesthetics. These brands are developed within their respective sports segments through adopting a focused brand strategy enabling the creation and management of consistent brand experiences across selected segments and product categories. Most Amer Sports brands have a long history in the sports equipment industry.

The offering is based on advanced, performance-oriented products with attention to detail, high quality and functional dependability. Product development is focusing on the performance improvement of athletes from professionals to everyday active

participants, and is accomplished in co-operation with athletes, coaches, and sports organizations.

According to Kapferer (2008: 392-396) the current trend in multi-brand portfolio approaches is to reduce the size of portfolios in order to focus on growing stronger brands, often targeted to global markets, and to adapt the amount of brands to reflect the changes related to increasing concentration and establishment of distributors own brands in trade. On the other hand, the benefits of a multi-brand portfolio are based on wider growth opportunities, balancing effect on the business, and tactical flexibility, and a multi-brand policy can also create a strong entry barrier as a company is able to offer a complete range of products to retailers, with different brands for each sector of the market, simultaneously enabling optimization of corporate resources to create synergies in e.g. R&D, manufacturing, sales, and distribution.

In the sporting goods industry, the trend has been in recent years more towards increasing the size of portfolios, i.e. the amount of brands, to cover more segments in the market in order to boost growth, but also as a consequence of market consolidation. Simultaneously brand portfolios are managed more disciplined, and brands which don't fit to the portfolio are divested. Amer Sports' branding strategy is based on the house of brands approach, in which the company is not visible for the consumers, and high freedom is allowed for brand organizations in terms of products and communication, although knowledge transfer and cooperation in seasonal design issues between brand organizations are encouraged. However, as the consumers become more aware of the company and its portfolio of brands, the role of the company is becoming more of a shadow endorser, which is not connected visibly to a brand, but provides some advantages of having a known organization backing the brand (Aaker 2004: 51). Amer Sports has a competitive advantage compared to many competitors as it has been a multi-brand house almost since its establishment in 1950, and has a strong heritage in brand positioning.

3.1.3.2. Balanced sports portfolio

Amer Sports provides equipment and products for various sports including winter and summer, indoor and outdoor, individual and team, and thus covering the core sports of the industry. The broad portfolio of sports makes the company a year-round, full-service supplier, facilitating the establishment of lasting business relationships within the industry. The wide range of sports and global presence across all markets balance the

Amer Sports business as the seasons turn and the popularity of individual sports fluctuate.

Management of a corporate portfolio in general is based on the balance of the portfolio in relation to its markets and needs of the corporation, the attractiveness of the businesses in the portfolio in terms of profitability and growth opportunities, and the degree of synergistic fit between the businesses, or the fit between business needs and parental competences, or both. The trend in business portfolio management has been moving away from focusing on the balance and attractiveness towards focusing on the fit criteria, and the sophisticated capital market has encouraged this trend as shareholders are able to smooth their returns by investing in a selection of companies with different earnings profiles and in various sectors. (Johnson, Scholes & Whittington 2005: 327)

As an example, some sports in the portfolio of Amer Sports are assessed in parental matrix in Figure 17, and the same sports in another framework with dimensions of market attractiveness and company's strength in the market are illustrated in Figure 18.

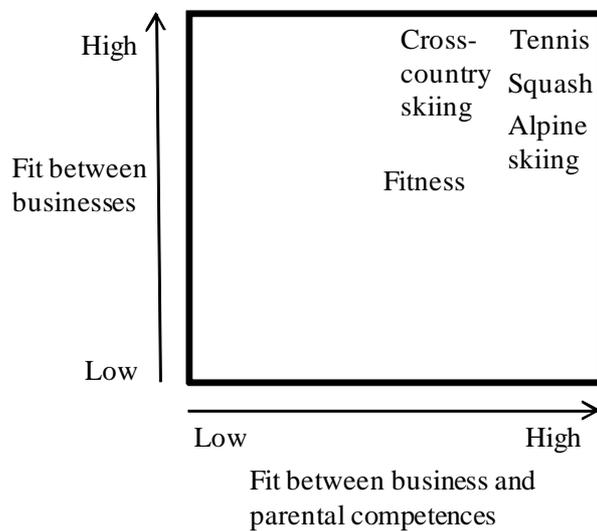


Figure 17. The parenting matrix.

Some sports might be located differently in each framework, depending on the chosen dimensions. In order to assess the position and importance of each sport in the portfolio,

various approaches are necessary. Financial impact of each sport is excluded, because of the ongoing streamlining process concerning some of the businesses, and abnormal weather conditions affecting the businesses in fiscal year 2007, i.e. illustrations are rough estimates of the attractiveness and strength of the position in the market and the strategic fit, referring mainly to the quarter in which a sport appears to belong to. However, a financial aspect to the sports and respective products belonging to various business segments and their business areas is introduced in Chapter 3.1.4.

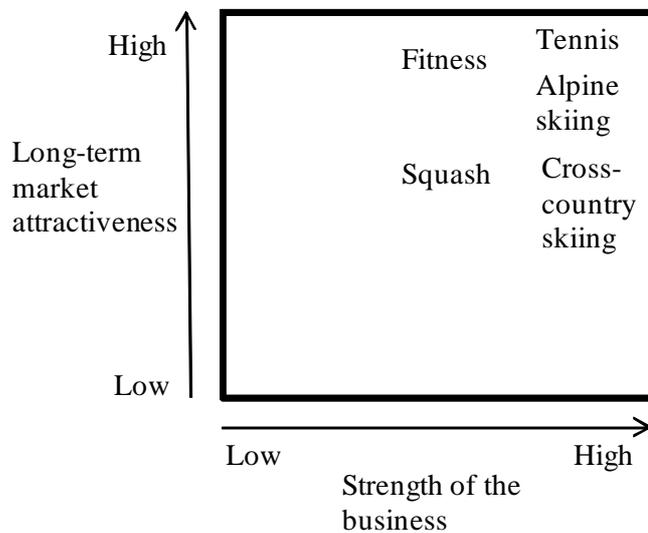


Figure 18. Market attractiveness/strength of business-matrix.

3.1.3.3. Game improvement products

Amer Sports has a profile of being specialist in the selected sports, and successful research and development (R&D) is an important part of the business to continuously roll out technologically-advanced game improvement products to meet consumer needs. The yearly R&D expenses have been consistently 3 % of net sales, though the focus areas within R&D might change over time. The expertise and experience of top athletes are the cornerstones of the product development beside the collaboration with raw material suppliers generating new types of solutions for sports equipment.

A growing trend in R&D within the sporting goods industry is to create innovative environmentally friendly products, i.e. green products, which cause minimal harm on

the environment. However, making a brand environmentally friendly, and simultaneously creating financial benefits from the green work, depends heavily on the authenticity of the green initiatives, which should both address a customer need and enhance the customer experience, and draw on the energy and passion of employees. Customers usually want to participate in the move towards a better environment, but without having additional burden of it.

In addition to other social responsibility activities and actions, Amer Sports emphasizes also creation of better and more durable goods, minimization of raw materials necessary to produce the products, recycling of raw materials and products, and environmentally friendly manufacturing processes and packaging materials. Specifically in product development, e.g. Wilson has introduced new recyclable footwear inserts, which will be standard in all Wilson tennis shoes, and a basketball, which is comprised of a surface made of 40 % recycled rubber. The initiative for the green basketball came from the engineers of the company as they wanted to produce a basketball, which is both affordable and has less impact on the environment. Both of these green solutions enable the customers to easily participate in the green work, as they just need to purchase these items from the wide offering to do their part in supporting the green goals the product represents. In case of the green basketball, every 70 basketballs keep one tire away from ending up in a landfill, which is a concrete green measure for each customers purchase decision. (Next 2/2008: 11-12)

3.1.3.4. Customer service and supply chain management

The company-wide sales, logistics, Asian sourcing and IT functions enable cost-effective operations, and the focus is currently on knowledge management in order to increase the use of shared platforms, to deepen understanding of consumer purchasing behavior, and to improve product development and innovation processes. Continuous development of operations in collaboration with partners, including the whole spectrum of sports retailers from specialist stores to large chains, provides optimal efficiency in the sell-through of products from retail to the consumer. Effective supply chain management creates also better profitability and improved working capital efficiency.

Amer Sports' portfolio of sports and brands differ from the portfolios of other large sporting goods providers, and is well appreciated by retailers. Through its portfolio of sports and brands, which are widely considered to have good long-term growth potential, Amer Sports seems to have been able to differentiate itself among sporting goods providers and has created a fairly strong corporate brand. Corporate brand is an

important discriminator in an increasingly competitive business environment, where branding is a multidimensional construct that includes not only how the customers view the physical products, but also the logistics, customer support, and corporate image and policy that accompany the product (Blombäck 2005: 33). Functions that affect the corporate brand are often coordinated at the corporate level, also to create synergies across the brands to improve financial performance at the corporate level. Combined strategically, corporate and product brands are able to benefit from each other and generate greater results.

The current brand portfolio of Amer Sports is supported by a strong supply chain that offers the customers high quality service in all product categories and market segments. New products are brought to market simultaneously world-wide due to the comprehensive sales and distribution network. According to Kotler and Pfoertsch (2006: 89) a global branding strategy enables increased profitability by reaping the cost reductions coming from standardization, experience curve and location economies. Although some customization in brands and marketing efforts is made to match different local conditions, Amer Sports gains from the standardized brand performance in the form of significant economies of scale with respect to brand investments.

3.1.4. Financial targets

Amer Sports has set its goal on financials as consistent profitable growth. Profitability enables investments in product development and marketing, which are essential tools in strengthening the position as the global leader in the sports equipment industry. The primary focus is to achieve organic growth through the development of innovative products, effective marketing, solid customer service, and an efficient supply chain. Additionally it has been announced that growth strategy might include also some selective acquisitions, as structural changes are taking place within the industry, to support the strategy, strengthen the position, and deliver shareholder value through a combination of dividend payments with the dividend payout ratio of at least one-third of annual net result, and share price performance. Average yearly organic growth target is 5% to outgrow competitors in the competitive field, EBIT of at least 10% of net sales, and profitability better than that of other leading sports equipment companies world-wide. Balance sheet structure is actively optimized and excessively large financial risks are avoided. The company's short-term goals include improvement of cash flow and earnings, and thereby reduction of debt to improve the company's balance sheet structure and provide cash reserves for acquisitions (Next 1/2007: 17). Regarding the

future growth strategy, new acquisitions will likely be targeted to sectors where performance is weighted towards the first half of the year to reduce volatility in financials. The seasonality of net sales is illustrated in Figure 19 according to the business segments, which are introduced in details within Chapter 3.2. The seasonal variations in Amer Sports' operations increased following the addition of Salomon's winter sports equipment to the mix of businesses (Next 3/2006: 22).

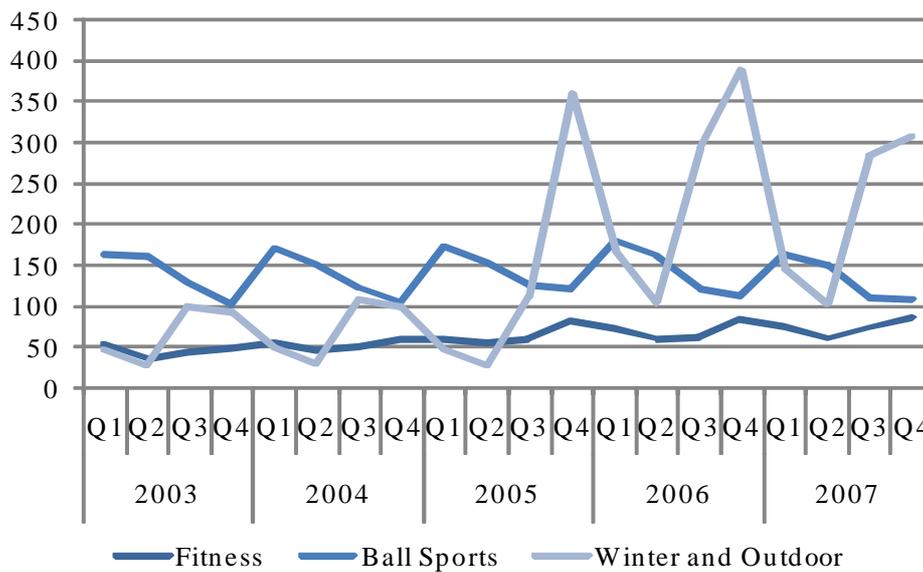


Figure 19. Seasonality of net sales by business segments in 2003–2007.

As a comparison, the fluctuations of the quarterly net sales of Amer Sports, adidas Group and NIKE are illustrated in Figure 20. The numbers of Amer Sports and adidas Group are in € and NIKE's in USD, so they are not comparable, which is not necessary in order to reveal the pattern of fluctuations.

The companies differ from each other in many dimensions. In 2007 adidas Group's division of net sales was footwear 46 %, apparel 42 % and equipment 12 %, NIKE's footwear 61 %, apparel 33 % and equipment 7 %, and Amer Sports footwear 7 %, apparel 7 % and equipment 86 %. The geographical division of net sales in 2007, which was for adidas Group Americas 35 %, EMEA 34 % and Asia Pacific 16%, NIKE Americas 50 %, EMEA 34 % and Asia Pacific 16 %, and Amer Sports Americas 47 %, EMEA 43 % and Asia Pacific 10 %.

The revealed fluctuation patterns in demand result probably from the typical business cycle in the segments and categories involved, major geographic markets, and from the agreements with customers. A wider analysis of the effects of specific sports, product categories, geographical areas and business model on the revenue and operating profit volatility in the sporting goods business would be necessary to reveal any statistical significance of these elements, and is worth further examination in another research framework.

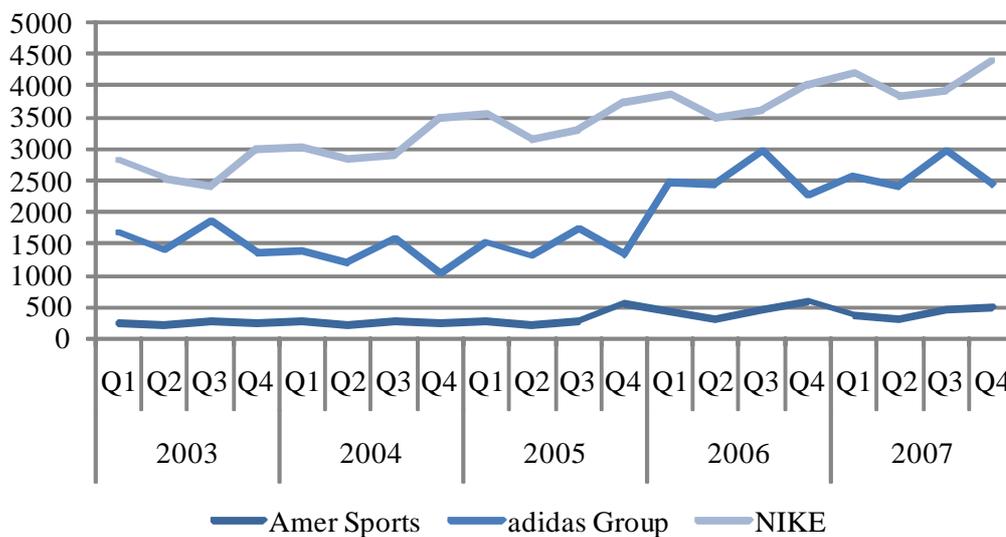


Figure 20. Quarterly net sales in 2003–2007.

According to Diebold (2001: 103) seasonality can be categorized in two categories: deterministic seasonality, in which the annual repetition is exact, and stochastic seasonality, in which the annual repetition is approximate, and it arises from links to e.g. technologies, preferences, and institutions to the calendar. The weather is very important seasonal series, and any technology or product that involves the weather is likely to be seasonal as well. Preferences may also be directly linked to the calendar. One way to deal with seasonality is to simply remove it and model seasonally adjusted series, but these seasonal adjustments are often inappropriate in business forecasting situations and simultaneously as the focus of interest if typically in forecasting all the variation in a series and especially if seasonality is responsible for a large part of the variation, it is not of interest to discard it and produce merely useless forecasts.

As described in Figure 20, the pattern of fluctuations for the three companies reveals tendency to stochastic seasonality, although fluctuations seem to follow certain pattern, which enables more precision in forecasting, but the exact level of the pattern and its' quarterly variations are difficult to forecast. If the general level of fluctuations would be more modest, the probability of more precise forecasts would increase. Anyhow, the fluctuations may be more predictable in some parts of the businesses, but the predictability might vary across products, product lines or product categories, therefore some deeper longitudinal analysis of the business would probably provide useful multipliers for forecasting purposes. The same set of industry specific multipliers could be used for brand valuation purposes. Especially in the launch of a new product it is highly valuable to have certain level of predictability for the acceptance of the new product both in distribution channels and among consumers, and this predictability is increased by the strength of a brand, but is also simultaneously affected by many other relevant factors, which typically may be affected in the medium or longer term.

3.2. Business segments

Current business segmentation consists of Winter and Outdoor, Ball Sports and Fitness. The Winter and Outdoor business is divided in four areas, i.e. Winter Sports Equipment, Apparel and Footwear, Cycling, and Sports Instruments, the Ball Sports business is divided in three areas: Racquet Sports, Team Sports and Golf, and the Fitness business area consists of Fitness Equipment.

In managing its portfolio of businesses, Amer Sports has adopted a combined approach of synergy manager, which focuses on the achievement of synergistic benefits, and parental developer, in which central competences can be used to create value in businesses. An example of synergistic approach is the sharing of activities and resources, such as shared purchasing and sourcing, and optimized R&D, sales, and administrative functions in Winter Sports Equipment-business area. On the upper organisatoric level, in Winter and Outdoor-business segment, two competence centres will be established, one for footwear, outdoor apparel, cycling, ski and cross-country boots and bindings, and another for gliding products, i.e. skis and snowboards.

Some examples of parental developer approach are the organizational approach both in sales and channel management functions, where the commercial operations of all brands are centralized as local Amer Sports offices to create additional value for each business, and similar centralization has been accomplished both in global logistics, and the

sourcing activities in Asia. In Figure 21 the net sales and profitability of business segments are presented in three-dimensional framework to reveal both aspects simultaneously within the period of 2003–2007. The size of each ball refers to the profitability.

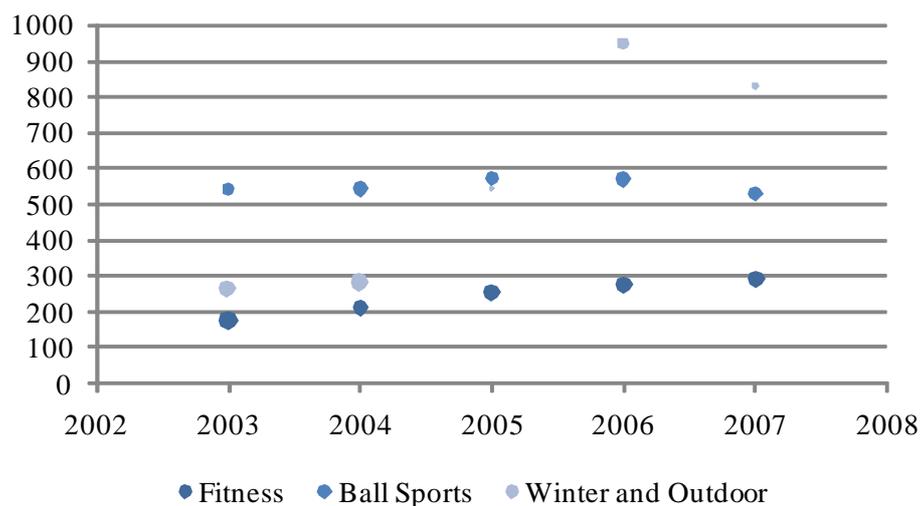


Figure 21. Net sales and profitability of business segments in 2003–2007.

The respective numbers, i.e. net sales and operating profit/EBIT, excluding tobacco, in each year from 2003 to 2007 are presented in Table 4 and in Table 5.

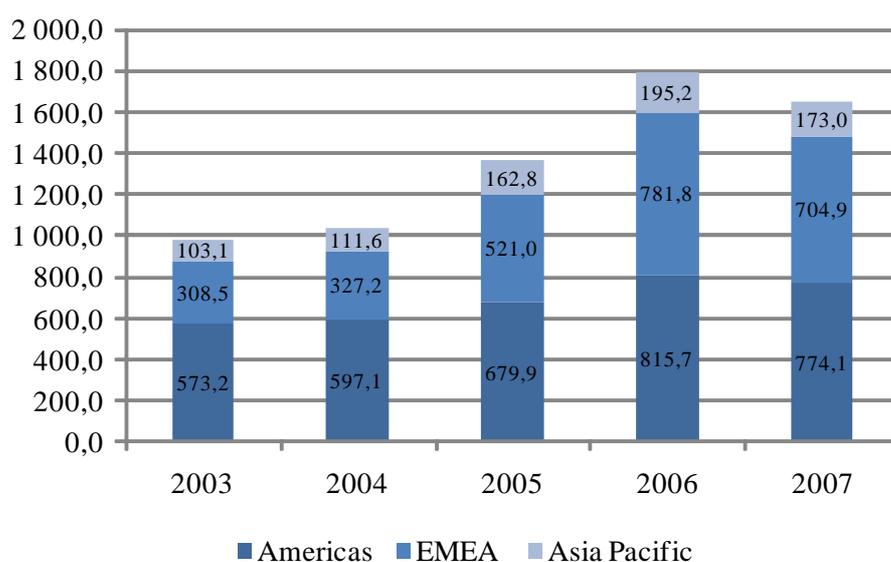
Table 4. Net sales by business segments in 2003–2007.

EUR million	2003	2004	2005	2006	2007
W. & O.	264,8	282,8	541,2	947,5	830,1
Ball Sports	544,5	543,0	570,4	569,6	530,9
Fitness	175,5	210,1	252,1	275,6	291,0

Table 5. EBIT by business segments in 2003–2007.

EUR million	2003	2004	2005	2006	2007
W. and O.	36	37,6	8,9	47,2	20,9
Ball Sports	31,5	52	52,1	54,6	48,2
Fitness	26,8	23,9	31,1	34,8	37,2

The geographical segments are the Americas (North, South and Central America), EMEA (Europe, Middle East and Africa), and Asia Pacific (including Japan and Australia). One of the current focus areas are developing markets, which would indicate growth in all these geographic areas, but especially in Asia Pacific region, which would naturally balance also the effect of currency exchange rates, if the transactions are made in the same currencies as the sourcing operations. Concerning the fluctuations described in Chapter 3.1.4., some differences in typical cash flow patterns within a fiscal year occur compared to the EMEA and Americas regions, but rather towards the end of the year than towards the first half. These differences in revenue fluctuations are of interest when considering the brand's geographic extension opportunities and balancing effect on the business. In the following Figure 22 is geographic breakdown of net sales during 2003–2007 excluding tobacco business (sold in 2004).

**Figure 22.** Geographic breakdown of net sales in 2003–2007.

3.2.1. Winter and Outdoor

In the Winter and Outdoor-business segment, representing net sales, of € 830,1 million in 2007. The division of net sales is illustrated in Figure 23. The mountain sports brand Salomon is the world leader in winter sports and well-established in outdoor sports, and it is known for highly innovative and performance-oriented products. Salomon's sports include alpine and cross-country skiing, snowboarding, and major outdoor sports such as climbing, hiking, adventure racing and trail running.

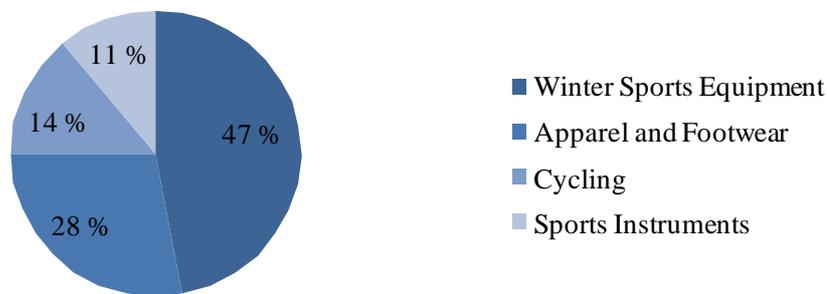


Figure 23. Net sales % by business areas of Winter and Outdoor-business segment in 2007.

Arc'teryx has created innovative construction technology and designs beside being a catalyst to major new fabric ideology to build better outdoor gear, such as innovative and superbly crafted packs, harnesses and apparel. Mavic is a leading cycling systems brand covering road cycling, mountain biking, triathlon and track racing. Atomic is the world's leading manufacturer of alpine skis, and its sports categories include alpine skiing, cross-country skiing and snowboarding. Suunto is the leading manufacturer of instruments for a variety of sports, including diving, training, skiing, hiking, sailing and golf, and Suunto is a market leader in diving computers.

Other brands are Bonfire for snowboard apparel, Cliché for skateboards, Dynamic for alpine skis, Dynamic for alpine skis, Volant for high-segment alpine skis, Oxygen for snowboards, Koflach for expedition, ice climbing and hiking boots, Recta for compasses, altimeters and accessories, Bare for diving, water sports and wading, FitzWright for survival suits and Ursuit for immersion, dry and wet diving suits.

In the winter sports market the estimated amount of alpine skiers is approximately 50 million, and snowboarders 8 million. Winter sports market consists predominantly of Europe, North America, and Asia Pacific, with Europe constituting approximately 57 % of the world market in 2007, the North America approximately 29 % and Asia Pacific approximately 14 %. Winter sports equipment sales were approximately € 1,3 billion in 2007, declining 30 % from the previous year, from which alpine ski equipment represented € 0,9 billion, snowboards € 0,3 billion and cross-country ski equipment € 0,1 billion at the wholesale level. The main competitors in the segment, excluding cycling, sports instruments and diving, are K2, Head and Rossignol among others in the hard goods, but also Nike, Adidas, VF Corporation, Puma and Columbia among others in the soft goods.

Ski sales have traditionally been the primary component of the winter sports market, with trends in ski sales directly affecting sales of bindings, ski boots and other ski accessories. The market for skis has undergone a transformation in the past 15 to 20 years by declining from an estimated 6,5 million pairs sold per year worldwide in the late 1980's to approximately 4,1 million pairs sold in 2006. In 2007 approximately 3,0 million pairs were sold. The reduction in ski sales resulted primarily from a shift in preferences among consumers from skiing to snowboarding in the early 1990's, an absence of significant product innovation, except for the introduction of carving ski in 1996, which has stabilized the overall ski market in the early 2000's, thereby partially offsetting the declining industry trend, and the severe decline in the Japanese market. Also an emerging trend towards renting has decreased consumer interest in purchasing new equipment.

The decline in 2007 resulted mainly from the poor snow conditions worldwide during the 2006/2007 season. The ski bindings market declined from approximately 5,9 million pairs sold per year in the early 1990's to approximately 4,1 million in 2006. In 2007, 3,0 million pairs were sold. The ski boot market increased from 3,6 million pairs sold in 2003 to 4,0 million pairs in 2006. In 2007, 2,8 million pairs of ski boots were sold. In the last years, the snowboard market, led by North America, followed by Europe and then Japan, developed into a new form of winter sport, and the market increased from 0,8 million boards sold in 1995 to a peak of 1,6 million in 2000 and 1,2 million in 2006. In 2007 1,0 million boards were sold due to the poor snow conditions.

The ski and snowboarding industries have faced pricing pressures as a consequence of the market decline and to a lesser extent as a result of the increasing concentration of

sales of sporting goods specialty chains, resulting in consolidation within the industry as weaker brands are acquired or go out of business. As market conditions have favored consolidation, eighteen of the top 26 ski/snowboard brands are owned by four multibrand companies, i.e. Amer Sports, K2 Inc., Quiksilver owning the Rossignol brand, Tecnica Group, which recently acquired the Blizzard brand. Amer Sports, K2 Inc., Rossignol, and Tecnica Group together account for slightly less than 75 percent of unit volume and approximately 82 percent of sales. The ability of manufacturer to offer packages of skis, bindings and boots has become more important. New trends like the Park & Pipe skis, skiercross skis and fat off-piste, i.e. freeride, skis confirm the vitality of the sport. Products targeted at women have become an important factor in the sporting goods in general, and this trend is a particularly important factor in winter sports, in which also fashion and style are playing an increasing role alongside technological trends and innovations.

Amer Sports is a clear market leader in winter sports equipment with the two global brands, Salomon and Atomic, and in 2007 the estimated market share in alpine skis is 29 %, in cross-country equipment 31 %, in ski boots 34 %, and in snowboards 15 %. In all categories the market share was growing from the estimated market shares of 2006. The two previously competing brands complement each other and are being synergistically woven together to take advantage of joint R&D, manufacturing and logistics to improve the company's competitive advantage in a slow market. Atomic is strong in Germanic Europe, while Salomon is strong in France, Southern Europe, the United States and Japan. Product wise Atomic's stronghold is in gliding products, i.e. alpine and cross-country skis and snowboards, and Salomon's in all winter sports boot categories. The growth target of the market share in winter sports equipment is 40 %, which has already been achieved e.g. in Austria, and other objectives are to create the most efficient and flexible industrial network in the industry, enabling cost leadership, to bring innovative products to market, and to invest in and enforce the position of the brands in the industry.

The global apparel and footwear market continues to grow based on the popularity of healthy lifestyles. The total outdoor market is estimated to be approximately € 23 billion, and the outdoor related snow, trekking and hiking market is approximately 50 % of the total market. North America represents approximately 55 % of the market, Europe 30 %, and Asia Pacific 15 %. Amer Sports' brands in the apparel and footwear market are Salomon and Arc'teryx. Salomon is the leading outdoor footwear brand in Europe, and its apparel collection is rapidly increasing the presence in the market. Both

Salomon and Arc'teryx grew in 2007 more than the market, reaching growth rates of approximately 20 % in all main categories. The footwear category represented 53 %, and the apparel and accessories categories 47 % of the net sales. The main objectives of the apparel and footwear business are solid or accelerated growth of Salomon depending of the product category, Europe being the main growth driver, and the increase of production efficiency of Arc'teryx.

The highly competitive market for bicycles and cycling components is growing as the interest in environmental problems and health is increasing worldwide. Demand in 2007 increased for all models in the European markets, but was higher for medium-grade models, especially for hybrid and comfort bike categories. The road bike market remained strong, while mountain bike market decreased. Also e.g. in the U.S., Asia, and Central South America the market for hybrid bikes was growing. Japan's bicycle market is energized as middle-aged and older people buy middle- and high-grade sports bikes as means of enjoying leisure time, and the importance of quality is increasing also in city bicycles. The market is strongly affected by weather conditions, and therefore the volatility of demand is fairly high.

Amer Sports' cycling components brand Mavic manufactures rims, wheels, apparel and footwear for road cycling, mountain biking, triathlon, and track racing at the high end of the market. The estimated size of the high end cycling market in Europe and the U.S. is approximately € 5 billion, and the component sales in the high end cycling market are approximately € 3 billion. The cycling components market consists of several specialized manufacturers, and Mavic with its € 114 million net sales in 2007 is the leading high end rim and wheel manufacturer.

One of the competitors, Japanese Shimano, which focuses in drivetrain, brake, wheel and pedal components, generally organized as groupsets or complete collections of a bicycle's mechanical parts, for children, hybrid, road and mountain bikes, had net sales of approximately € 970 million in 2007. Interestingly, Shimano produces also snowboarding equipment.

The primary competitors of Shimano are Italian Campagnolo, a major manufacturer of road bike groupsets, especially high-end racing bike components, and American SRAM Corporation, incorporating nowadays several acquired brands, such as RockShox, Avid, Trivativ, ZF Sachs and Zipp, a major manufacturer of mountain bike groupsets, which

both have increased their success. SRAM Corporation's net sales were USD 318 million in 2007.

Amer Sports' sports instruments business consist of wristop computers, diving instruments, compasses and precision instruments for diving, training, climbing, hiking, running, sailing, cycling and golf. The net sales of the wristop computers was approximately € 41 million in 2007, and it is the largest product segment of Suunto. The main competitors within heart rate monitor brands are the market leader Polar, Timex, Garmin, Sigma Sport, Reebok, New Balance, Techtrail, NIKE, and Oregon Scientific, and in compasses e.g. Silva, Barigo, Ranger and Carabiner.

The diving market, including diving equipment, wetsuits, dry suits and diving accessories, is fragmented with well over 30 brands, and typically companies produce a number of diving products under various brand names. Mares, one of the largest companies or brands in the market, is the only company designing and manufacturing a complete line of products under one brand name, and it is estimated to have a market share of 13 % in 2007. Other brands in the diving market are e.g. AquaLung, Apeks, Billabong, GUL, Bodyglove, Quiksilver, Tusa, Oceanic, Cressi, Typhoon, Crewsaver, Palm, MUSTO, Spare Air, Sea Quest, Back Pack, and Phantom.

The diving equipment market can be divided into a lower segment, primarily equipment for snorkelling, sold through chain stores with lower average prices and an upper segment, i.e. equipment for scuba diving, sold through specialty stores and diving centres. In the upper segment technological innovations are the key drivers of growth. The worldwide wholesale market in 2007 was estimated to be approximately € 500 million. The overall diving market was slightly growing showing recovery in the important Western European, U.S. and Japanese markets compared to 2006.

The popularity of diving in many emerging economies, such as Russia, Poland, Thailand and South Africa, is increasing. In the diving market Amer Sports' brands are Suunto for e.g. diving instruments, regulators and buoyancy compensators, Ursuit, Bare and FitzWright for e.g. suits and accessories. Suunto is the market leader for diving instruments, i.e. computers, and the net sales of the product category were approximately € 25 million in 2007. Competing brands in diving computers include UWATEC, Apeks, DiveRite, and Delta, among others.

3.2.2. Ball Sports

The Ball Sports-business segment includes Racquet Sports, Team Sports and Golf, and represents net sales of € 530,9 million in 2007. The division of net sales is illustrated in Figure 24.

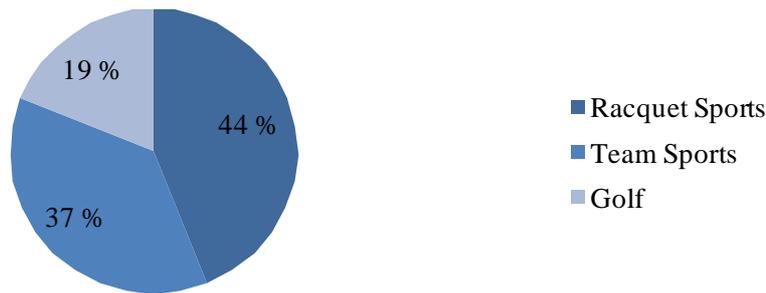


Figure 24. Net sales % by business areas of Ball Sports-business segment in 2007.

Racquet sports in general have suffered a relatively steady decline in participation rates and equipment sales over the past two decades, similarly as some outdoor activities, but declines in the number of players and racquet sales seem to have reached the bottom and are expected to show some improvement over the remainder of this decade. In the U.S. market participation in tennis has increased in the recent years about 10 percent, indicating increasing demand for tennis equipment, although typically it is lagged behind participation rates. From the other two racquet sports categories of Amer Sports, badminton is the world's fastest growing racquet sport, except in the U.S. market, and is particularly popular in Asia, while squash is expected to continue its slide.

The market for tennis racquets at the wholesale level in 2007 was approximately € 305 million. The global tennis racquet market in 2007 has grown in both units and value compared to 2006 as a result of the launch of many new products by several key players in the industry. The market for tennis balls was approximately € 195 million at the wholesale level in 2007, increasing approximately 5 % in units, but decreasing in value. Europe represents 35 % of the world market, North America 31 %, Japan 18 %, and other countries 16 %.

The number of golfers in the primary markets, i.e. North America and Europe, has remained flat or fallen slightly since 2000, and sales figures for many of the golf companies reflect this development. While golf appears to be a saturated market in the Western world, e.g. in China's growing consumer market participation in golf continues to increase.

The global market for golf is estimated to be at the wholesale level approximately € 4 billion, of which clubs represent 71 %, balls 22 %, and bags and gloves 7 %. The geographical structure of the market consists of North America with its market share of 50 %, Japan 28 %, Europe 13 %, and other countries 9 %. The seasonal and cyclical golf equipment market is highly competitive, and brand consolidation occurred in 2007. The industry evolution includes also increasing presence of the private label brands, increasing purchases in golf specialty retail at the cost of green grass locations, and currently low level in innovations.

Amer Sports' market shares on global level in 2007 increased in tennis racquets by one percent to 37 % and balls by one percent to 28 %, remained the same in American football (80 %), basketballs (21 %), baseball gloves (20 %), baseballs (13 %), golf clubs (3 %) and balls (3 %), and decreased in baseball/softball bats by one percent to 13 %.

In racquet sports competitors in tennis include e.g. Head, Babolat, Dunlop, Fischer, Prince, Tecnifibre, Völkl, Karakal, Slazenger and Yonex, in badminton e.g. Babolat, Head, Prince, Yonex, Karakal, Slazenger, Karakal, Ashaway and Carlton, in squash e.g. Dunlop, Head, Prince, Karakal, Tecnifibre and Ashaway.

In team sports competitors in American football include e.g. NIKE and Rawlings, in baseball and softball e.g. Rawlings, Worth, Reydon, Louisville Slugger, Franklin, Easton, Reebok, Miken and Bronx, in basketball e.g. NIKE and Rawlings, and in soccer the largest competitors are NIKE and adidas. In golf competitors include Nike, Callaway, Acushnet with its brands Titleist, Cobra and Footjoy, TaylorMade, Cleveland, Mizuno, Ben Hogan, Ben Sayers, Golden Bear, Jack Nicklaus, Ping, Yonex, Fazer, Lynx, RAM, Asbri, Bridgestone and Srixon among others.

3.2.3. Fitness

In the Fitness-business segment, representing net sales of 291,0 million in 2007. The division of net sales is illustrated in Figure 25. Precor is a full-line supplier of technically-advanced, premium-quality fitness equipment for the commercial and home markets, and its main products are aerobic exercise equipment, strength-training systems and entertainment systems. Precor is the world's leading manufacturer of elliptical crosstrainers. Other brands are Cardio Theater for exercise entertainment systems, and ClubCom for fitness club media networks.

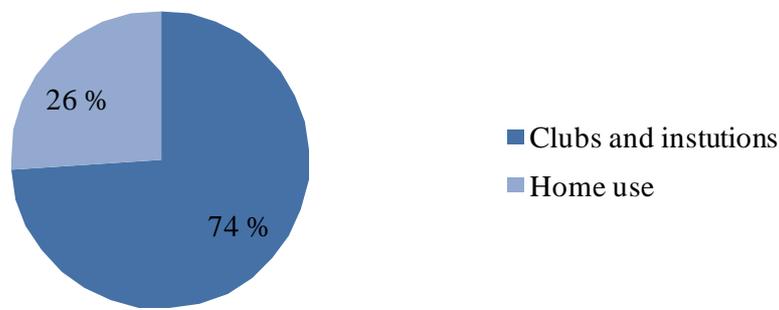


Figure 25. Net sales % of commercial and home markets in 2007.

The global fitness equipment industry is estimated to be at the global wholesale level € 4 billion, from which commercial segment represents € 1,1 billion, and the global market was estimated to grow 5 % in 2007, and for example in the major market of North America both demand drivers, i.e. fitness club membership, mainly driven by female participants, and fitness club capacity, were growing. Customers are typically small both in the commercial and home markets, with the exception of large chains, e.g. club and hotel chains. On the side of manufacturers of fitness equipment, the competitive landscape is highly fragmented with few large manufacturers and hundreds of small ones.

Amer Sports' Fitness-business segment is expected to grow faster than the fitness market based on new product introductions both in commercial and consumer markets. As Americas is the main market with its 76 % share of net sales, economic development

in North America is important for growth prospects. One of the large commercial customers is Hilton Hotels Corporation, which will introduce Precor Fitness Centers in its hotels worldwide (Next 4/2006: 17-18).

Success in commercial markets is partially based on the launch of commercial cardio equipment integrating Cardio Theater personal viewing screens in equipment displays, enabling health club members to listen to individually selected audiovisual entertainment choices while exercising on cardiovascular equipment, and the global leadership in entertainment and messaging within fitness clubs will be further extended based on the solutions of ClubCom, which is fully owned by Amer Sports, and is a pioneer and leader in the field of constructing and operating private television networks for targeted audiences.

The largest competitors are Life Fitness and Nautilus. Life Fitness is the world leader in commercial and home fitness equipment through its three brands Life Fitness, Hammer Strength and ParaBody, and it is owned by the Brunswick Corporation, which is the market leader in the active recreation industry. Net sales of Life Fitness was USD 653,7 million in 2007.

Nautilus manufactures and markets a complete line of innovative health and fitness products within its brand portfolio that includes Nautilus, Bowflex, StairMaster, Schwinn Fitness, and Universal. Net sales of Nautilus were USD 501 million in 2007. Other major competitors on international level include StarTrac, Cybex, Techno Gym, ICON Health & Fitness and Johnson Health Tech among others.

In this chapter issues concerning markets and competitors have been presented. In the next two chapters the emphasis is on analyzing the business environment on macro-economic level and the organization from internal perspective. In the first analysis PESTEL-analysis framework is used, and in the latter SWOT-analysis framework to analyze company's strengths, weaknesses, opportunities and threats.

3.3. PESTEL-analysis

PEST-analysis framework and its common form PESTEL-analysis is commonly used to understand a business environment and its development. In analyzing the macro-level business environment of the case company Amer Sports, the PESTEL-analysis framework, illustrated in Figure 26, is used including political, economic, socio-cultural, technological, environmental and legislative factors are included. These factors are not independent from each other rather many of them are interlinked. Although large organizations or several organizations cooperatively may occasionally attempt to influence macro-economical factors, they tend not to be under the direct control of the organizations (Wright, Kroll & Parnell 1998: 23-24). Results of the PESTEL-analysis are linked also to the SWOT-analysis, in the Chapter 3.4.

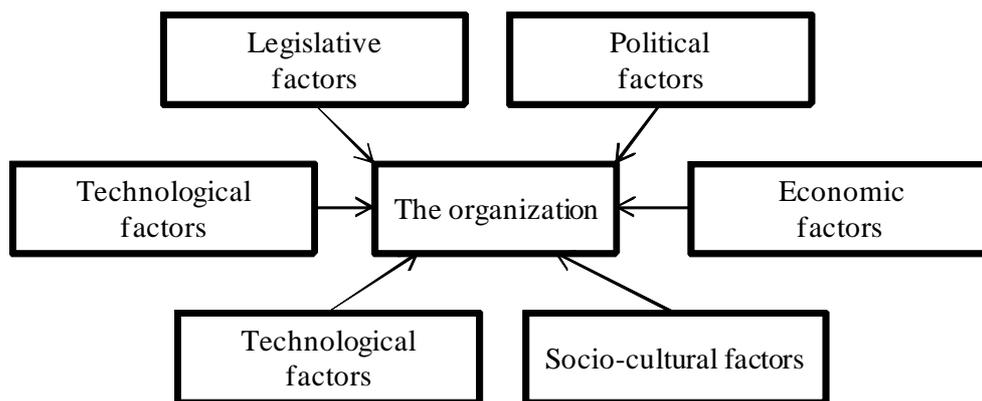


Figure 26. Macroeconomic influences – the PESTEL framework (Adapted from Johnson, Scholes & Whittington 2005: 68)

Political factors

- Political stability often affects positively business opportunities and growth potential also for sporting goods, and might decrease the likelihood of business disruptions. Political approach in taxation, tax-holidays or other subsidies, foreign direct investments, regulatory limitations relating to acquisitions, legislative controls of mergers and acquisitions, offering of appropriate conditions and sufficient pools of advanced factors of production, including an educated labor

force and well-functioning infrastructure are all important factors related to political system and its effect on business.

- Transparency of the regulatory system is essential to be able to anticipate changes and their effects on business. Changes in government regulations, such as import duties, tariffs, quotas, safeguard measures, anti-dumping duties, cargo restrictions, restrictions on the transfer of currency, and other regulations related to international trade can cause disruptions, decreased ability to manufacture products or procure materials, and to import or sell products, and delays in cross-border shipments, increasing also the costs of doing business.
- Social welfare policies including the governmental promotion of healthy lifestyle affect strongly the business opportunities in each country, especially for performance products.
- Terrorist acts and military conflicts increase the risks of doing business in the countries involved.

Economic factors

- International, national and local general economic and market conditions are varying affecting the demand on general level and also for sporting goods, which are fairly sensitive for changes in economical welfare.
- Slowing economy, such as the U.S. economy currently, affects the retail economy and therefore increases retailers' cautiousness with orders.
- Consolidation of retailers and concentration of retail market share among a few retailers increase and concentrate the credit risk of sporting goods providers in case of a shortage of liquidity of one of these retailers, and also increase the risk of insufficient revenues recovery if any one of them substantially reduces their purchases.
- In the global sporting goods industry transactions of the sporting goods providers are conducted in various currencies, i.e. international revenues and expenses origin from sales and operations in foreign currencies, and currency exchange rate fluctuations might result both in higher costs and decreased margins. Fluctuations might also disrupt the business of contract manufacturers by making their purchases of raw materials more expensive and more difficult to finance. Expenses related to hedging activities might be significant, and the effectiveness of hedging is affected by accuracy of sales forecasts, volatility of currency markets, and the availability of hedging instruments.
- Contract manufacturing is moving from previous major countries to even cheaper ones either directly or through subcontracting, causing challenges in implementing

the related business processes and quality controls with new partners. In case of increasing demand, additional manufacturing capacity might not be available at acceptable terms, or delays in production and added costs might occur.

- Raw materials are usually locally available to contract manufacturers, and in case of increasing demand or a significant disruption in the supply of raw materials, alternative suppliers of materials with comparable quality and at acceptable price might not be available at all.
- As the contract manufacturing is located outside the principal sales markets, and goods are transported by third parties over large geographic distances, risks of volatility of transportation costs and delays in shipments are increased because of e.g. availability of transportation, work stoppages, port strikes, infrastructure congestion, delays associated with transitioning between manufacturers, and need to use more faster and more expensive transportation methods because of manufacturing delays or unexpected demand.
- The cost of fuel is a significant component in transportation costs, and increases in the price of petroleum affect profit margins of sporting goods providers. The cost of fuel affects also the travel costs of sport tourists, whose tendency to travel to suitable locations affect the demand for sporting goods especially within seasonal sports.
- Availability of financing services for import-export operations, and other conventional business operations, but also for acquisitions and other corporate arrangements, affect the ability to conduct the daily business operations and to use corporate arrangements in order to boost growth.
- Quarterly reporting and short-term performance pressures might shift the management's attention and resources from strategic planning to create long-term success and competitive moves which would create a substantial competitive advantage.

Socio-cultural factors

- Increased standards of living and rising level of discretionary income in many countries and parts of the world are stimulating the spending more on leisure time activities, active lifestyle, wellness and sports.
- Focus on leisure-time activities is increasing because of e.g. the need to counter-balance the demands of professional careers, and sports provide participants necessary intense physical action.
- Increasing offering in leisure time activities affect the popularity of various sports. Especially the popularity of fitness clubs and outdoor activities are growing, and

the development of facilities to play traditional outdoor games indoor besides other outdoor sports is increasing also the popularity of indoor activities in general.

- Changes in habits to actively participate in the sports are leading to increasing demands on performance of the sports equipment, footwear and apparel, which has affected the role of technical materials, and technical details, and therefore also the role of R&D in the sporting goods industry.
- Increasing awareness of brands, knowledge of the characteristics of products and changes in preferences increase both demand and the volatility of demand.
- Changes in population demographics, including the aging of population and the wealth creation during the professional career, is leading to changes in consuming habits. People live longer, have more time and money to spend for personal interests, and as they want to stay active longer, physical exercising is more emphasized.

Technological factors

- Rapid changes in technology both enhance the growth opportunities in the sporting goods industry and on the other hand might cause significant costs because of the need to keep up with the changes.
- Development of new innovations, including the aspects of technical solutions, materials, design and usability, are important elements of growth stimulation in the sporting goods industry, and therefore development of innovation capabilities and environments stimulating innovations are important within education systems and governmentally led organizations and institutional structures as well as on the industry and company level.
- The companies in the sporting goods industry typically rely significantly on information technology (later IT) in the supply chain, including design, production, forecasting, ordering, manufacturing, transportation, sales, and distribution, and any failure, inadequacy, interruption or security failure of the IT would prevent the companies to effectively operate the business.

Environmental factors

- Changing weather conditions and global warming affect the demand for sporting goods increasing seasonal volatility, but also require changes in business models, product design and manufacturing processes, including also global distribution solutions.
- Environmental protection laws vary, and they affect decisions concerning contract manufacturing and its target countries. Contract manufacturers should comply with

local laws and other standards, such as environmental, health and safety standards, and it's in the interest of the sporting goods providers to produce their products in an environmentally friendly way, but at acceptable costs to be competitive in the market.

- Consumerism is affected by increasing environmental awareness, and the trend of consuming environmentally friendly products, i.e. green products, is becoming stronger. Anyhow environmentally friendly products have to fulfill the expected level of quality, and needs of the consumers, and are increasingly expected to be affordable also for younger consumers.

Legislative factors

- In global business the complexity of the legislative environment is high.
- Partnership networks and third party arrangements increase the challenge of controlling whether the partners, especially the contractors, are in compliance with local standards and applicable local law.
- Intellectual property rights and the extent of protection vary on global level, and can cause infringements of the rights and emergence of products that are counterfeit reproductions, which can affect both the brands' image and their sales as customer preferences shift away.
- Expenses and liability in connection with the protection of intellectual property rights might be significant, as well as the costs of protecting the rights and resolving intellectual property conflicts with other companies, depending on the country and its legislation.
- Becoming a subject to periodic litigation and other regulatory proceedings related to the business can result in unexpected expense of time and resources, and the ultimate outcome of any such proceedings cannot be accurately predicted in any legislative environment. Product liability and general liability insurance coverage might not be sufficient to cover the claims or is not available at an acceptable cost.

3.4. SWOT-analysis

SWOT-analysis, illustrated in Figure 27, is used to summarize the key issues from the business environment and the strategic capability of an organization, and the aim is to identify the extent to which the current strengths and weaknesses, i.e. attributes of the organization, are relevant to, and capable of, dealing with the threats or capitalizing on the opportunities in the business environment, i.e. cope with the conditions of the environment.

Internal origin	Strengths	Weaknesses
External origin	Opportunities	Threats

Figure 27. SWOT-analysis framework

Strengths

- In-depth sporting goods industry experience and insight in addition to a long history in various branded consumer goods business, and expertise in brand positioning and brand management.
- The size of the company enables the use of various economies of scale and the variety of businesses enable the creation of competitive advantages based on shared know-how.
- Multi-brand strategy creates wider growth opportunities, balancing effect on the business, and tactical flexibility, and increases market coverage and trade satisfaction as the company is able to offer a complete range of products to retailers, with different brands for each sector of the market, and enables optimization of corporate resources to create synergies in e.g. R&D, manufacturing, sales, and distribution.
- Experience in acquisitions and integration of new businesses even in challenging business environment.
- Multichannel distribution system, which increases the amount of brands' touch-points with consumers and availability.
- Focus on leadership issues enabling the organization to increase creativity, innovation capability and strategic agility features.
- Long-term focus enabling more complex strategies to be planned and implemented.
- Information systems support demand and supply planning, and inventory control, and increase the ability to sustain, manage and forecast the growth and inventories.
- New product development and introductions, cooperation in R&D, and performance and reliability of products as the focus is on technologically advanced

performance products, and technical innovation capabilities in the design of footwear, apparel and equipment.

- Focus on technically advanced performance products at the high end of the market enables higher margins, which enable wider R&D, and makes it easier to use multiple price points strategy to enhance growth, as it is usually easier to go downwards than upwards when enhancing the offering with vertical extensions.
- Focus on sports instruments and other sports related digital solutions enabling also wider use of the opportunities of the digital revolution in the sporting goods industry.
- Development of environmentally friendly products, and also products to afford young active participants the chance to work on their sport in an environmentally friendly way.

Weaknesses

- Industry and sports portfolio specific cash flow volatility combined with the fluctuations and difficulty in forecasting operating results because of structural characteristics of the ordering process in the sporting goods industry, and the significance of winter sports due to its volatile nature.
- Decreased financial welfare due to the acquisition of Salomon and decreased growth of the winter sports equipment business because of the poor snow conditions. Decline in the debt ratings increases borrowing costs, but the company is able to use additional sources of finance due to its size and credibility.
- Ability to respond quickly for changes in demand for particular products and designs, and therefore to serve distribution channels according to their needs for additional products, which is related to inventory control and insufficient inventories for particular products, leading to decreased operating margins and increased likelihood of diminished growth in addition to affecting customer satisfaction.
- Product quality variations related to management of quality control processes in co-operation with contract manufacturers, which affect brand reputation both in distribution channels and among end-customers.

Opportunities

- Multi-brand strategy enables the customization of brands specific to segments, i.e. better targeting to capture higher revenues by brand differentiation, and additionally enhance growth opportunities because of the existence of a positive

association between number of brands in a portfolio and market share, but also because of the wider extension opportunities.

- The size and growth of the overall athletic footwear, apparel and equipment markets create interesting growth opportunities, as well the digitalization in the sporting goods industry. The competencies of sports instruments business and other digital solutions within the company could be used in enhancing the portfolio of businesses by entering in new segments or product categories.
- Salomon can be considered a highly complex acquisition and integration case because of the cultural and legislative environment, and therefore the experience gathered during the integration process has significantly increased the organizational abilities to acquire and integrate new targets.
- Sufficient size in winter sports segment to enable significant scale economies in the long-run, and creation of competitive advantages in maturing market.
- Timely anticipation and respond to the competitors may decrease costs and stabilize the volatility of consumer demand affecting the abilities to maintain or increase net revenues and profits, and these are supported by increased flexibility and efficiency in the industrial operations, and by establishment of own brand stores, which increases the speed of information flow of end-customer preferences to the organization.
- Acquisition and development of resources enabling the creation of competitive advantage in the market and increasing the probability of gaining from the changing industry boundaries. Establishment of competence centres increases process efficiency and knowledge transfer, but also simultaneously enables rapid expansion in new categories and territories.

Threats

- Economic situation in the U.S., which is the largest market for sporting goods on global level with its share of 50 %. Approximately 40 % of Amer Sports' revenue comes from the U.S. market, but its importance is decreasing as new geographic markets are penetrated.
- The size and growth of the overall athletic footwear, apparel and equipment markets affect the growth prospects of the company in general, but also changes in consumer preferences, and popularity of particular designs, categories of products, and sports, and the challenges in anticipating and forecasting such changes, can have an adverse effect on growth and financial welfare.
- Due to the intense competition in the industry competitors' product offerings, technologies, marketing expenditures including advertising and endorsements,

pricing, cost of production, and customer service, which all are areas of intense competition currently, are sources of threat in regard to future growth. Competition with other companies for the production capacity of independent manufacturers and for import quota capacity exists as well.

- Changes in ownership and speculative owners causing increasing probability for changes in business strategy and development plans. Also the sale of a large number of shares would depress the market price of the common stock, and on the other hand the acquisition of a large number of shares would increase the market price, causing increasing volatility in the share price, which might not be appreciated by other than speculative owners.
- As the common stock is publicly traded, various securities analysts follow the financial results and issue reports with both historical financial results and estimates of the future performance of the company. The analysts' estimates are based on their own opinions and might differ from the estimates or expectations of the company's executives. Stock price volatility and also pressures to create short-term results, at the cost of long-term success and ability to create significant leapfrogs to gain sustainable competitive advantage, might be increased because of the quarterly reporting and analysts' recommendations based on the analysis of the financial information.
- Acquisitions and related integration activities, including streamlining of operations, might cause financial difficulties in case of failure in integrating the businesses to produce expected synergies.
- Due to the global sporting goods business practices in various currencies, currency exchange rate fluctuations might affect the business results, but the impact is partially smoothed through industrial operations in same currencies as commercial operations. Currently the €/USD-position of the company is fairly balanced.
- Amer Sports' customer base is diversified with the five largest customers accounting less than 10 % of annual net sales, and besides a large proportion of production being outsourced, some production facilities are owned by the company, which diminish the effect of losing a significant customer or supplier. However the risk exists and can have significant financial effects.
- The successful protection of intellectual property rights is important, and disputes connected with them might cause material impacts, but also might shift management's focus away from the actual business.
- Seasonal and geographic demand for the products may fluctuate, which can result in fluctuations both in operating results and in stock price. Industry specific short notice by customers in canceling orders, changing delivery schedules or changing

the mix of products ordered also increase fluctuations in demand and decreases the predictability.

- Winter sports equipment represents 25 % of the company's sales, and weather conditions affect the business results in case of poor snow conditions, which are anyhow usually compensated between geographic regions.
- Competition for employees in the sporting goods industry is intense. Ability to recruit personnel fulfilling the needs and requirements of the company, and ability to identify, attract, and retain key personnel, the loss of whom would harm the business is of high importance.
- Liability and other claims asserted against Amer Sports related to existing or already divested businesses could have an adverse effect on business results and future business prospects. Some of the products are used in relatively high-risk recreational settings, and despite extensive testing before market launch, lawsuits asserting product liability claims relating to the sporting goods products might emerge. The company has standard insurance coverage against financial consequences of product liability cases. Claims related to tobacco business, divested in 2004, are currently in process.
- Price increases in raw materials can have a negative impact on product costs and thereby in margins. However the company introduces new products typically every year, which can offset the impact of increasing material costs.
- Failure of the contractors to comply with the code of conduct of the company, local laws, and other standards, such as environmental, health and safety standards for the benefit of workers. A larger part of production is outsourced, and the aim is to minimize risks associated with the supply, quality and price through regular auditing processes. Any disruption in the operations of production facilities and distribution centres owned by the company would also have a negative impact on growth and financial results. Increasing costs of freight and transportation to meet delivery deadlines may affect the margins.

In the Chapters 2 and 3 of this thesis, all layers of business environment have been analyzed using selected theoretical frameworks and approaches to create a profound understanding of the case company and its business environment. In the next chapter, the concept of brand driven growth is assessed using two main aspects, i.e. brand equity and market-based assets. First the basic concepts of branding, brand management, brand architecture and extension are presented. Then approaches and frameworks in brand equity and its valuation, and finally a framework of market-based assets is introduced. The emphasis is on financial impact of brands in business results and shareholder value.

4. BRAND DRIVEN GROWTH

In the context of this thesis brand driven growth includes financial materialization both in shareholder value creation and in business results, which are interlinked. Shareholder value is defined as the value created when economic returns generated from realizing the business strategy exceed the cost of capital employed to realize it. Shareholder value is reflected in the shareholder returns of dividends and appreciation in share price. Shareholder value analysis draws on estimates of a set of value drivers, which are sales growth rate, operating profit margin, income tax rate, working capital investment, fixed capital investment, cost of capital, and forecast period to calculate net present value of forecasted cash flows and the residual value of the business after the forecast period (Anderson & Narus 2004: 10).

Total shareholder value returns vary between companies, and some recent research evidence reveals that total shareholder returns are strongly correlated with the performance of brands. Strong brands with great market presence and a superior ability to convert customers from brand awareness to strong relationships significantly outperform the market. Well-managed brands produce higher shareholder returns, and companies can achieve far better financial benefits from their brands. This relationship between the brands and financial performance of a company is assessed using brand equity approach and market-based assets framework, from which the first one emphasizes the sources of brand equity and how the brand equity can be increased. As the brand management process is focusing on developing and leveraging brand equity, the process is described in Chapter 4.2.

As the practical implications in leveraging brand equity are limited by chosen brand strategy and the brands' ability to be stretched in multiple dimensions, as illustrated in Figure 28, some core issues in brand architecture and brand stretching dimensions are presented in Chapter 4.3. In the literature, the terminology varies, but the basic dimensions in leveraging brand equity at the product management level are line extension, category extension, vertical extension and market expansion, and brand stretching could be the integrating term for these according to the latest literature. It seems that the lack of basic product management knowledge could explain partially the inconsistency in the literature, because the evolution has moved the emphasis in consumer goods business from product management towards brand management, but the basic work at product management level still exist and these two represent two different viewpoints to the business, i.e. they are complementary, not substitutes.

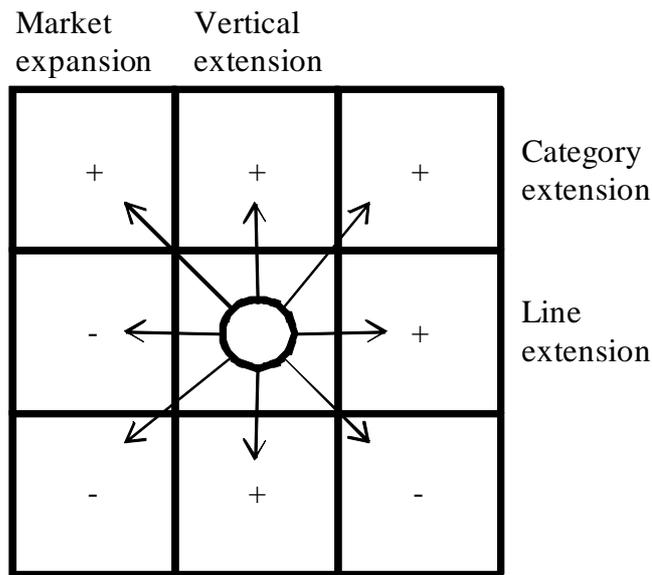


Figure 28. Dimensions of brand equity leverage in relation to product management.

As the focus of this thesis has been defined during the iterative research process as financial impact of brand driven growth, in Chapter 4.4., first the brand equity framework of Aaker is presented including relevant sources and outcomes of brand equity. As Aaker's model does not provide any valuation approach, the Brand Asset Valuator (BAV) is introduced for measuring the sources of brand equity. The measurement of the outcomes of the brand equity has traditionally been based on the balance sheet and various ratios, such as market-to-book ratio and Q-ratio, derived from it. However, the worth of brands and especially strong brands are not included in the stock price or on the balance sheet, more sophisticated approaches have been developed recently. Interbrand's brand valuation model is one of the best known, yet the valuation of brands is just slowly approaching its growth phase as major companies worldwide are implementing brand valuation methods in general, but also as tools to direct the organizations activities towards delivering the brand promise and leveraging the brand equity in an optimal and effective way.

The last framework in the Chapter is based on market-based assets. In the market-based assets approach brand driven growth is linked also to the role of marketing. According to the current trend, marketing should view its purpose as contributing to the enhancement of shareholder value. Simultaneously as the marketing-finance interface is addressed, marketing is expected to take the responsibility of developing and managing

market-based assets, which increase shareholder value by accelerating and enhancing cash flows, by lowering the volatility and vulnerability of cash flows, and by increasing the residual value of cash flows. Anyhow, first in this chapter some basic concepts related to brand driven growth and the valuation approaches are introduced, i.e. branding, brand management, brand architecture and related stretching opportunities are presented.

4.1. Branding

Branding is often defined as a process to distinguish the products and services of a producer from those of another producer using brand elements, i.e. special identifiable characteristics, such as name, logo, symbols, slogan, packaging and design, to create added value to the customers. Czinkota and Ronkainen (1998: 556) define branding also as one of the major beneficiaries of a well-conducted product portfolio analysis.

A brand differs from a product or a service in the form of dimensions, both tangible, related e.g. to the product performance, and intangible, related to more symbolic and emotional issues, i.e. what the brand represents to the consumer, enabling differentiation from other product or service designed to satisfy the same need. Brand equity is a sum of consumers' perceptions and feelings about the product's attributes and how they perform, about the brand name and what it stands for, and in some cases about the company associated with the brand, but increasingly also about the other brands associated with the brand through cross-marketing and co-branding activities, as described in Figure 29.

Consumers benefit from branding in forms of easier decision making process when searching for a product to fulfil their needs on the required level of quality and price. For this purpose consumers need to have some knowledge about the brand and its characteristics. From an economic perspective, brands enable consumers to reduce search costs both internally, i.e. information processing costs, and externally, i.e. time used for searching a product and risk reduction concerning especially quality and performance, but one of the major challenges is to know which distributors have the desired brand and certain product categories and products available, and therefore a multi-channel distribution strategy often offers additional value for consumers in the form of availability. (Solomon, Bamossy & Askegaard 2003: 240-249)

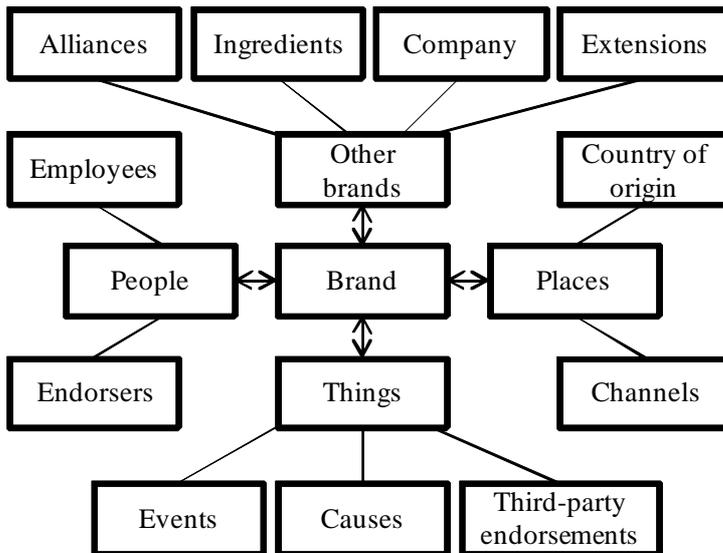


Figure 29. Secondary sources of brand knowledge. (Kotler & Keller 2006: 287)

Simon Anholt (2003: 6-7) has specified the wealth distribution of brands both for companies owning the strong brands and for consumers willing to pay a premium for a specific branded product. Brands tend to create wealth around themselves in the longer term as additional profit enable companies to invest more in R&D to maintain the flow of innovative, high quality new products to market, in marketing to maintain and enhance the profile and power of its brands, and in people and systems to improve its customer service. Strong brands seem to create wealth also on the side of suppliers, distributors, and the society as the wealth gradually spreads out from successful companies and ultimately stimulate economic growth. Nevertheless, this wealth distribution process is based on the success on the level of consumers.

Consumer trust and loyalty is developed along with the increasing awareness and understanding of the brand behaviour, and therefore consistency in product performance, pricing, promotion and distribution programs is appreciated by the consumers. As brands often serve also as symbolic devices for consumers willing to project their self-image and to communicate with other persons, distinctive brand attributes reflecting different values and traits make this process efficient while creating an association with certain types of people.

Competitive advantage for a brand can be created e.g. with product performance using continuous innovation process to improve the performance and essential features correlated with high research and development budgets, and through image associations, which are often the main differentiator between brands within one product category. In order to be successful in the latter approach, it is necessary to understand consumer motivations and desires to create relevant and appealing images surrounding the products, but also to understand how consumers in reality interpret and value the different types of associations and various aspects of the brand image to avoid failures in e.g. introducing a new product line as brand extension.

Subroto Sengupta (2005: 18) has identified several sources of brand failures, e.g. brand awareness is tried to be build before a clear brand position is established, companies are promoting attributes that customers do not feel to benefit from, or trying to reposition a brand without having enough understanding about their target customers. Matt Haig (2003) categorizes the brand failures in nine categories, i.e. classic failures as the meaning of the core brand is forgotten in brand extensions, idea failures as the target market has become obsolete within time or the brand is targeted to an unsuitable product category, extension failures in search for growth options, PR failures as brands tend to have at least one crisis in their lifespan, culture failures when operating on global scale, people failures as the people behind a brand are its main ambassadors, rebranding failures as the fundamental values and strengths of the brand are not in sync with the rebranding objectives, internet and new technology failures, and as last tired brands when brands have lost their vitality because of poor brand management. Aaker (1996: 26-28) has identified also some additional pressures and barriers, both internal and external, inhibiting the building of strong brands, as illustrated in Figure 30.

The external factors, i.e. pressure to compete on price affects the motivation to invest in building strong brands, the proliferation of competitors reduces the positioning options available making implementation less effective, and as last both the fragmentation of markets and media and complex brand strategies together with relationships increase the complexity of the brand building context. The internal factors, i.e. management's temptation to change a sound brand strategy, the organizational bias against innovation and the pressure to invest elsewhere, and as last the pressure for short-term results, all can affect the ability and willingness to build strong brands.

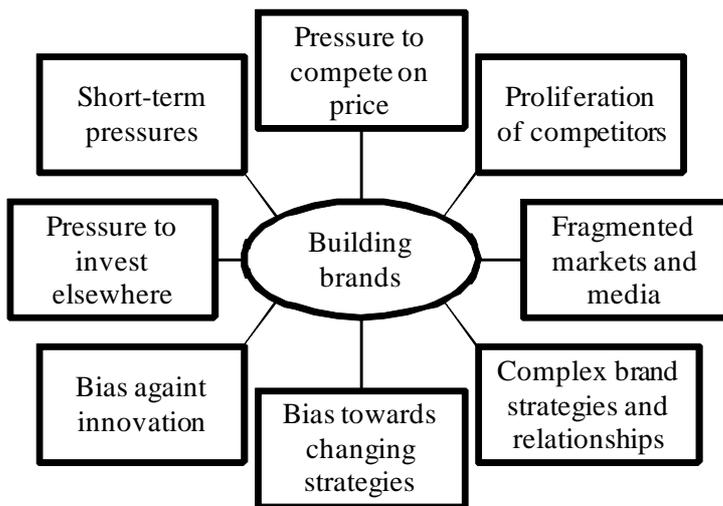


Figure 30. Factors inhibiting the building of strong brands. (Aaker 1996: 27)

Investments in branding, i.e. creation of a product with unique associations for differentiation purposes and identifiable quality and performance level together with positive customer experience in total encourages consumers to choose the brand again, i.e. creates brand loyalty, which provides predictability and security of demand both for the producer and the distributors simultaneously with creation of barriers of entry for competitors products. Therefore branding is considered as a powerful means of creating competitive advantage, which cannot be imitated or duplicated.

At the same time consumers are becoming more experienced and have more knowledge about brands, and it seems that as consumer expectations from brands are increasing more, and the gap between consumers' expectations and consuming experience is increasing. Therefore brand management, focusing on creation and maintenance of brand equity, has become more challenging being nowadays a significant success factor and important core competence in various branded goods businesses.

4.2. Strategic brand management

Recognition of the economic value of brands has increased the demand for effective management of brand assets. In order to increase shareholder value, companies establish procedures for the management of brands that are aligned with those for other business assets, as well as for the company as a whole.

Strategic brand management, illustrated in Figure 31, includes the design and implementation of marketing programs contributing to consumers' understanding of the brand and how they value it in order to translate the created value to financial profits, and activities to build, measure, and manage brand equity. Strategic brand management consists of two layers, one at the corporate level and the other one at the product management level. However, from organizational perspective there are many organizational levels involved as well as in product management (Morse 1998: 14). At the corporate level general branding strategy is formulated to direct the decision-making processes on lower levels of the organization besides being linked to other growth strategies, such as choices among brand acquisition and organic growth of the company.

The first step of the strategic brand management process includes definition of what brand will represent and its positioning with respect to competing brands. Secondly, a brand marketing program is processed including choice of brand elements, marketing activities and other associations, such as the company, country of origin, distribution channels, spokespeople for endorsements, events to be present, characters through licensing, other brands through ingredients or co-branding, and other third-party sources, e.g. through awards or reviews, linked to the brand, with the focus on creating, strengthening or maintaining brand associations. Thirdly, the brand value chain description is accomplished to reveal the value creation process of the brand and the financial impact of marketing expenditures and investments in branding, brand audit process is established to assess the health of the brand and sources of equity, and to produce suggestions for improving and leveraging the brand equity, and brand equity measurement system, including both brand tracking and brand equity management system, providing information for tactical and strategic decision making processes, is established. As the last step, the plan for growing and sustaining brand equity is established.

An important part of the strategic brand management process is the building and measurement of brand equity. The outcomes of brand equity are e.g. greater loyalty, less vulnerability to competitive actions, larger margins, more inelastic consumer response to price increases, more elastic response in price decreases, greater trade cooperation and support, increasing marketing communication effectiveness, possible licencing opportunities, and additional brand extension opportunities.

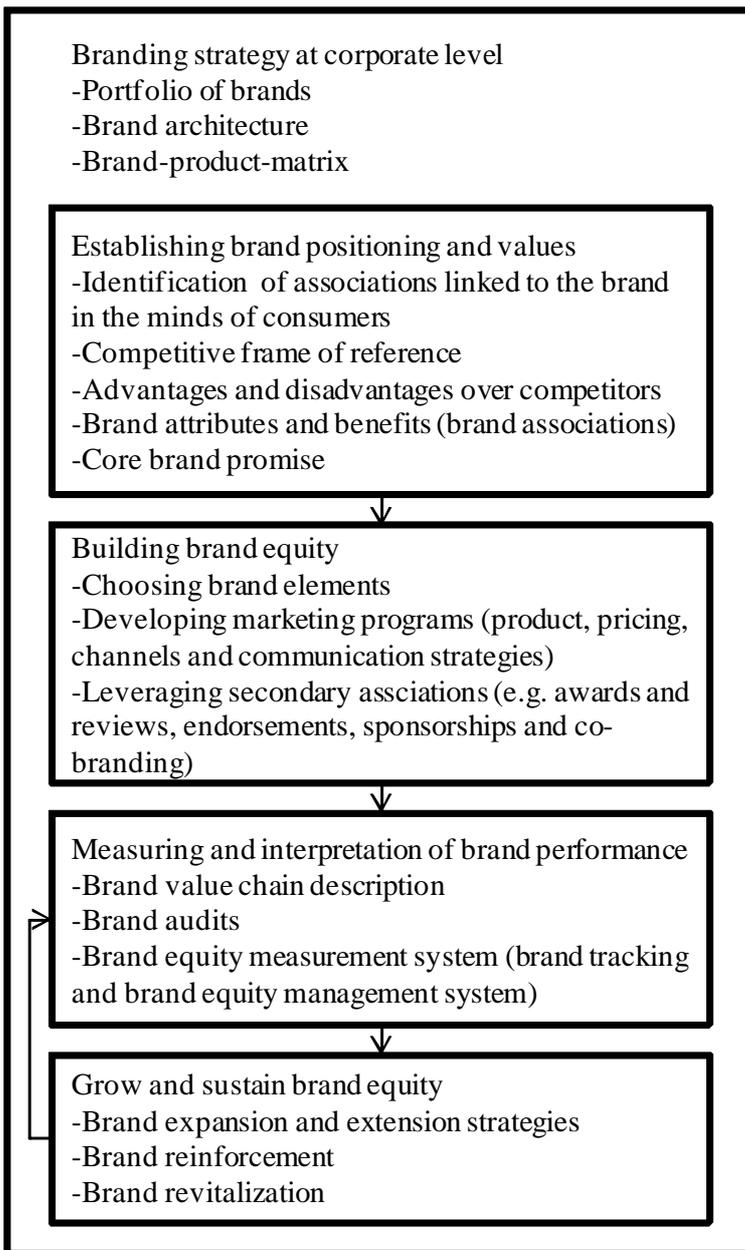


Figure 31. Strategic brand management process. (Adapted from Keller 2008: 39)

Brand valuation as a brand management tool is part of the measurement process, and it has many advantages, such as in decision making concerning business investments as it makes the brand asset comparable to other intangible and tangible assets and resource allocation between the different asset types are able to follow the same economic criteria and rationale, measuring the return on brand investments based on brand value to arrive at an ROI, return on investment, which is comparable with other investments,

enabling better prioritization of brand investments by e.g. brand, customer segment, geographic market, product or service and distribution channel, assessed for cost and impact to reveal which would produce the highest returns, making decisions on licencing, implementing brand value as remuneration criteria, organizing and optimizing the use of different brands in the business according to their respective economic value contribution, assessing co-branding initiatives according to the respective economic benefits and risks to the value of a brand, deciding the appropriate brand strategy in regard to acquired brands using economic rationale, managing brand migration effectively as a better understanding of the value of different brands is created, establishing brand value scorecards based on the understanding of the drivers of brand value to provide focused and actionable measures for optimal brand performance, managing the portfolio of brands based on the overall return from it, and as last communicating the economic value creation of the brand to the capital markets in order to support share price and obtain funding. (Brand Valuation 2004: 9-10)

4.3. Brand architecture and stretching

Brand architecture describes the essentials of branding strategy, and the basic choices are made between the following alternatives: house of brands with more freedom of management for the brands and branded house which gives coherence to the whole business. The main types of brand architecture are product brand strategy and its variants line brand strategy and range brand strategy, flexible umbrella brand strategy, maker's mark strategy, endorsing brand strategy, masterbrand strategy and source brand strategy, from which the four first ones are part of the house of brands approach, and the two latter are categorized under the branded house approach. In practice, companies often adopt mixed configurations of these strategies, i.e. hybrid strategies. (Kapferer 2008: 370-371)

Branding strategy affects the value flows created between the different parts and products of a company. For example investors typically consider a branded house of more value than a house of brands, and prefer all value flows to converge on the stock brand. Branding strategy contributes to the shareholder value creation as the market valuation of the company presupposes that the company capitalizes on all sources of value created by its subsidiaries, brands and sub-brands. The brand policy of each company is a reflection of their business model, the driving force of the competitive edge and profitability. However there are also other parameters, such as cultural environment, pace of innovation and resources, which affect the branding strategy.

The case company Amer Sports has chosen a house of brands strategy and within time, the branding strategy seems to have evolved from large freedom towards more coherence in order to achieve economies of scale in the business at the corporate level. The branding strategy appears to have a three tier approach in its corporate level brand architecture, i.e. corporate brand which is hidden towards the consumers, but visible towards the customers, i.e. retail, and the master brands, which are further divided into two categories. In the first tier are the major brands, i.e. most important global brands, as illustrated in Figure 32.

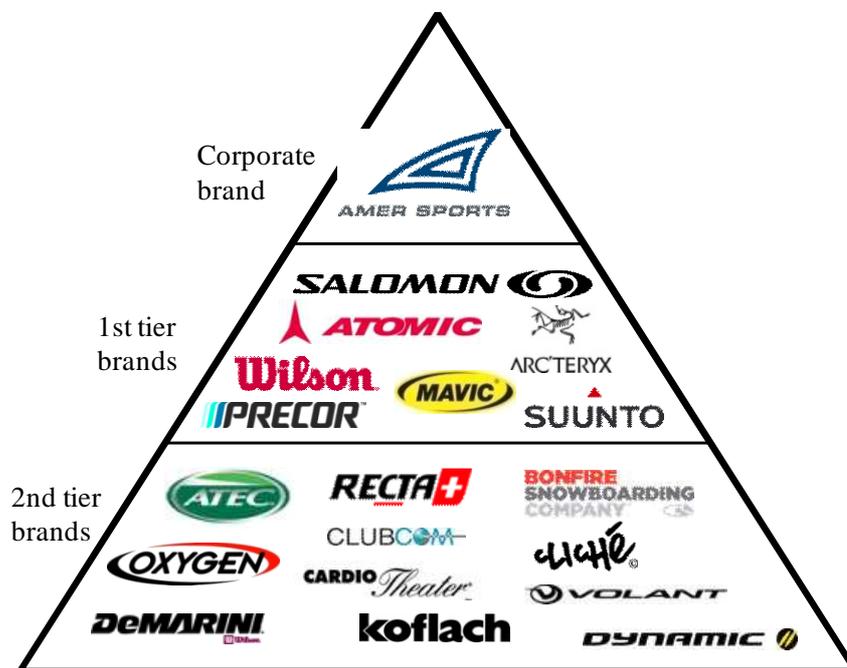


Figure 32. Brand architecture at corporate level.

Outside the normal corporate functions, the corporate brand is used in business activities which are shared by several or even all the brands of the company, e.g. in sales organization, in which both Amer Sports' name is used and offices are established with the Amer Sports look (Next 1/2008: 6). On brand and product interfaces towards the consumers, the corporate brand is hidden behind the brands, but for example on subsidiaries' websites the endorser role is visible by the statement: an Amer Sports company. According to Hatch and Schultz (2008: 161) the interaction between brand

communities within the corporation and corporate brand development delivers improved results in the development of corporate brand, and supposedly the influence is functional also to the other directions, i.e. both levels of branding benefit from each other.

Each standalone brand appears to have own branding strategy on the lower level of the brand hierarchy in regard to both acquired brands and brand extensions. However, color-coordination and cross merchandise cooperation is practiced between the brands (Next 3/2007: 34). Brand migration strategies and schedules concerning acquired brands are typically defined case by case depending on the circumstances. In brand extensions for example Salomon uses only sub-brands and has an excellent structure in its' brand hierarchy, while Wilson seems to use two types of brand extensions, i.e. sub-brands and endorsed brands depending on product category and product line.

Concerning acquired brands, DeMarini, which is a previously an independent brand, seems to be transferred closer to Wilson brand by using one type of endorsed brand lockup, i.e. Wilson logo is used as an endorser of DeMarini brand, while ATEC, which offers training equipment solutions, is retained as standalone without any connection to Wilson, except on organizational level. Often logo migration indicates full migration of the brand to the master brand in the future. Another type of endorsement relationship is created for Wilson Staff, which is a premium golf equipment brand, and has a standalone logo, but is still connected to Wilson in its name. Golf business has more complex brand hierarchy, but on the other hand the structure enables multiple market entries in different customer segments.

On the product level, an example of Salomon's brand hierarchy is illustrated in Figure 33. Salomon is used as the parent brand in all categories and product lines, although the visual element connected to the brand name and the visibility of the actual brand name varies depending on products.

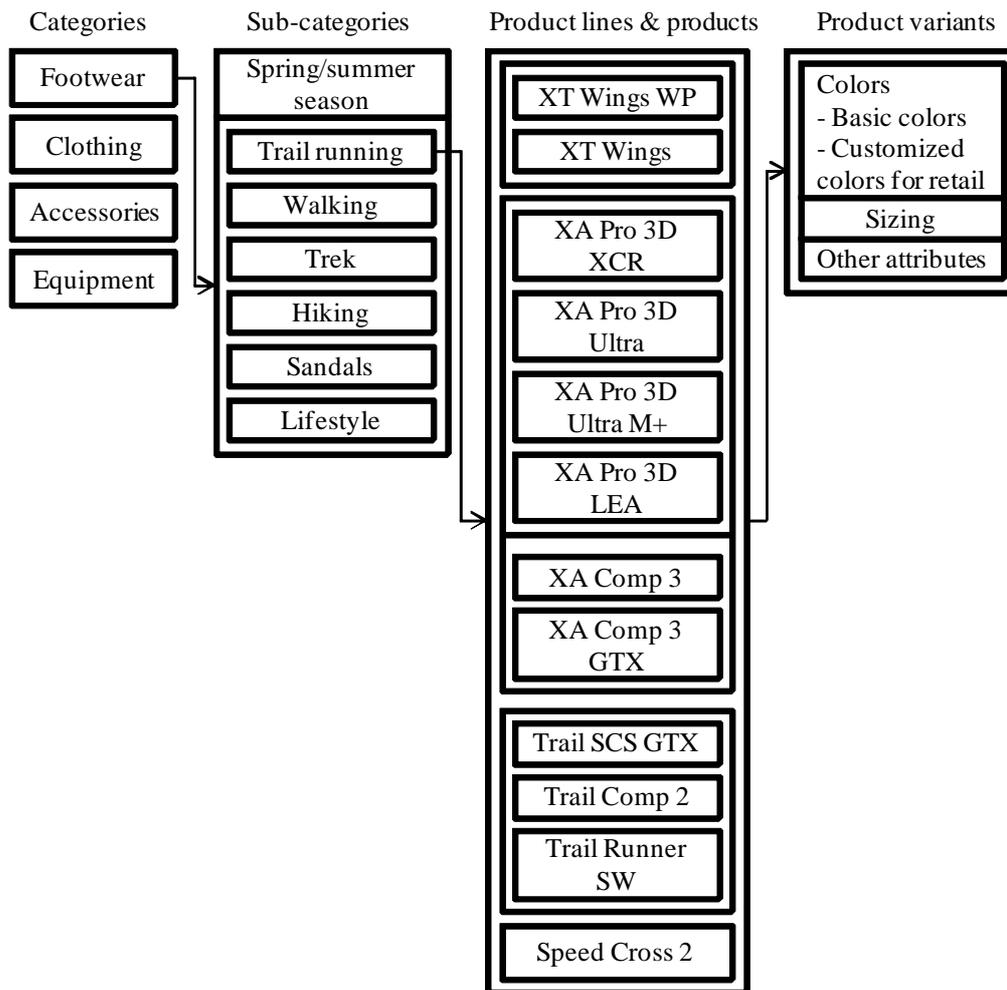


Figure 33. An example of product/brand hierarchy of Salomon.

Despite the significant inconsistency in terminology related to brands, a widely accepted definition of brand extension means extending the use of a brand name into a new category, which should bring in a new solution or opportunity to the category, and simultaneously strengthen the existing business. Line extension, in which typically additional features are added to products, is the most common form of extensions, representing 85 % of new product launches in consumer goods market. There are several advantages and disadvantages related to a line extension, i.e. it facilitates new product acceptance and provides feedback benefits to the parent brand, but simultaneously the parent brand's credibility may be decreased, consumers might get confused, and resistance among retailers might emerge. Companies seeking for high market share and growth generally have longer product lines, while companies

emphasizing high profitability carry shorter product lines consisting of carefully chosen items. Product-line length tends to increase also over time, increasing costs related to e.g. design, order processing, transportation, inventory and promotion.

Another dimension of extensions is vertical extension, in which a company lengthens its product line down-market, up-market or both ways along the price/value-curve, illustrated in Figure 34.

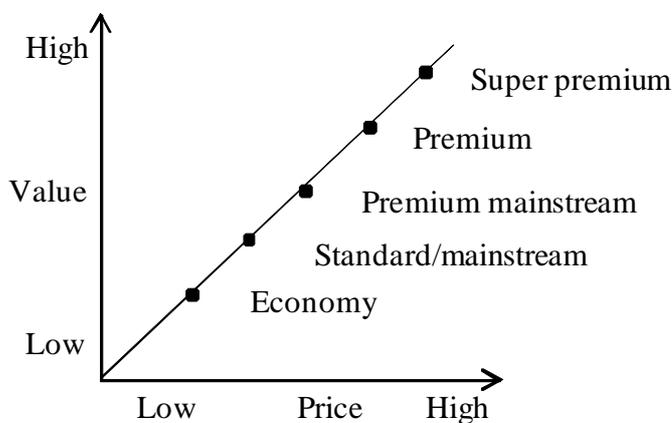


Figure 34. The price/value curve. (Sherrington 2003: 81)

In the highly competitive market environment e.g. within the category of premium brands, entrants tend to compete on price promotions and sales instead of product. As a result customers may shift their focus on price and features of a product instead of the brand, and the maintenance of a brand premium becomes difficult without a fall in market share. In this type of hostile market conditions, there are two directions to head at: up-market where super-premium brands reside, or down-market into the world of value brands with growth potential and volume.

In practice, many markets follow an hour-glass pattern, in which growth is at the top and the bottom rather than in the middle as the consumers increasingly choose either to seek the symbolic and functional rewards of their status or to reduce their expenditures at cost of additional value delivered by branding (Aaker 2004: 230).

Besides of the credibility of the brand in a new space and the abilities to compete in up-market and down-market arenas, at the super-premium end it is necessary to deliver a sustainable point of differentiation, while at the value end a sustainable cost advantage needs to be developed. The ability of a brand to use multiple price point strategy depends on its attributes and benefits for the customers, and this strategy traditionally works well with products based on e.g. technological innovation or specific technical characteristics. (Aaker 2004: 233-238)

In stretching a brand vertically, the basic alternatives are using the parent brand, a sub-brand or an endorsed brand. Sub-brands, which are distinguished from the parent brand, have the potential to permit a brand's entry into an emerging low-end market while reducing the threat of cannibalization and image damage. The separation between the premium brand and the sub-brand is enhanced when the latter offering is qualitatively different or is designed for a different segment. Endorsed brands provide more separation from the parent brand than sub-brands, but the existence of a visible connection between the parent brand and the value entry may also lead to image erosion and cannibalization. Even if risks related to vertical extensions using a sub-brand or endorsed brand do exist and the task is difficult, creating a new, especially a new global brand, is also a highly challenging task and often require significant investments, while the use of an existing brand, sub-brand or endorsed brand, decreases the costs of brand-building and also makes the process less complex.

For the sporting goods, even two-way stretching appears to be fairly common, because often product features create a visible point of difference, and e.g. in branding an upscale offering the original premium offering becomes something less, not something of lower quality. The interest and vitality of a category often resides at the very high end of the market, especially because in many categories innovation and quality occur at the high end, because the higher margins enable larger R&D investments, while premium brands in mature categories focus merely on costs and less on innovations.

For example Amer Sports has a restricted depth and broadness in its branding strategy, which focuses on the high-end of the market, where probably most new entries are made, and enables the R&D necessary to develop technically advanced performance products. Though, within the brands which can be stretched without causing any future damages, a wider offering in multiple price points seems to be common in order to enhance growth, but simultaneously product-line length is being controlled through selecting the items with increasing carefulness in order to enhance profitability. In

footwear and apparel business, where product features and details create a visible point of difference, Salomon is, according to the empirical research results, able to stretch the brand wider, than in alpine skis, in which differences in visible product features are mainly in design within the chosen price categories. A standalone brand Volant covers the highest end of the market with its luxury skis, which are designed by high-grade steel designers who incorporated the material into sports equipment to incorporate the luxury design, high level quality and functionality. Above mentioned findings would be consistent with the results of testing Wilson products, i.e. in tennis shoes features of the products in each price category were visible and therefore the attractiveness of products were good in each price category, but in tennis racquets technical differentiation between price categories was more difficult to identify and required wide knowledge of e.g. materials and their contribution to the performance of a racquet.

Reinforcing brand equity requires consistent investments in each brand's marketing program and product development, but also relevant innovations in design, manufacturing and merchandising. Within a longer period of time any brand can face difficulties in delivering its brand promise and keeping up with sustainable relevance in minds of consumers, and revitalization activities, such as refreshment of old sources of brand equity or creation of new sources of brand equity, are needed to move the brand back on the growth track. Stretching, reinforcing and revitalizing a brand are important forms of leveraging brand equity. In the next chapter, the concept of brand equity and some measurement approaches related to both the sources and the outcomes of the brand equity are presented.

4.4. Measuring brand equity

Aaker (1991: 15-16) defines brand equity as a set of five categories of brand assets and liabilities linked to a brand, i.e. brand loyalty, brand awareness, perceived quality, brand association, and other proprietary assets, such as patents, trademarks and channel relationships, illustrated in Figure 35.

Brand equity has increased its importance from a variety of perspectives: mergers and acquisitions, evaluation of strategies and management impact on value creation, brand extensions, enhancement and exploitation of brand strengths, among others. As there is a general consensus that brands are assets that need to be managed with a long-term perspective, also frameworks for brand value measurement are needed. Brand value

depends on management’s ability to leverage brand strength through tactical and strategic actions to provide superior current and future profits, and lowered risks.

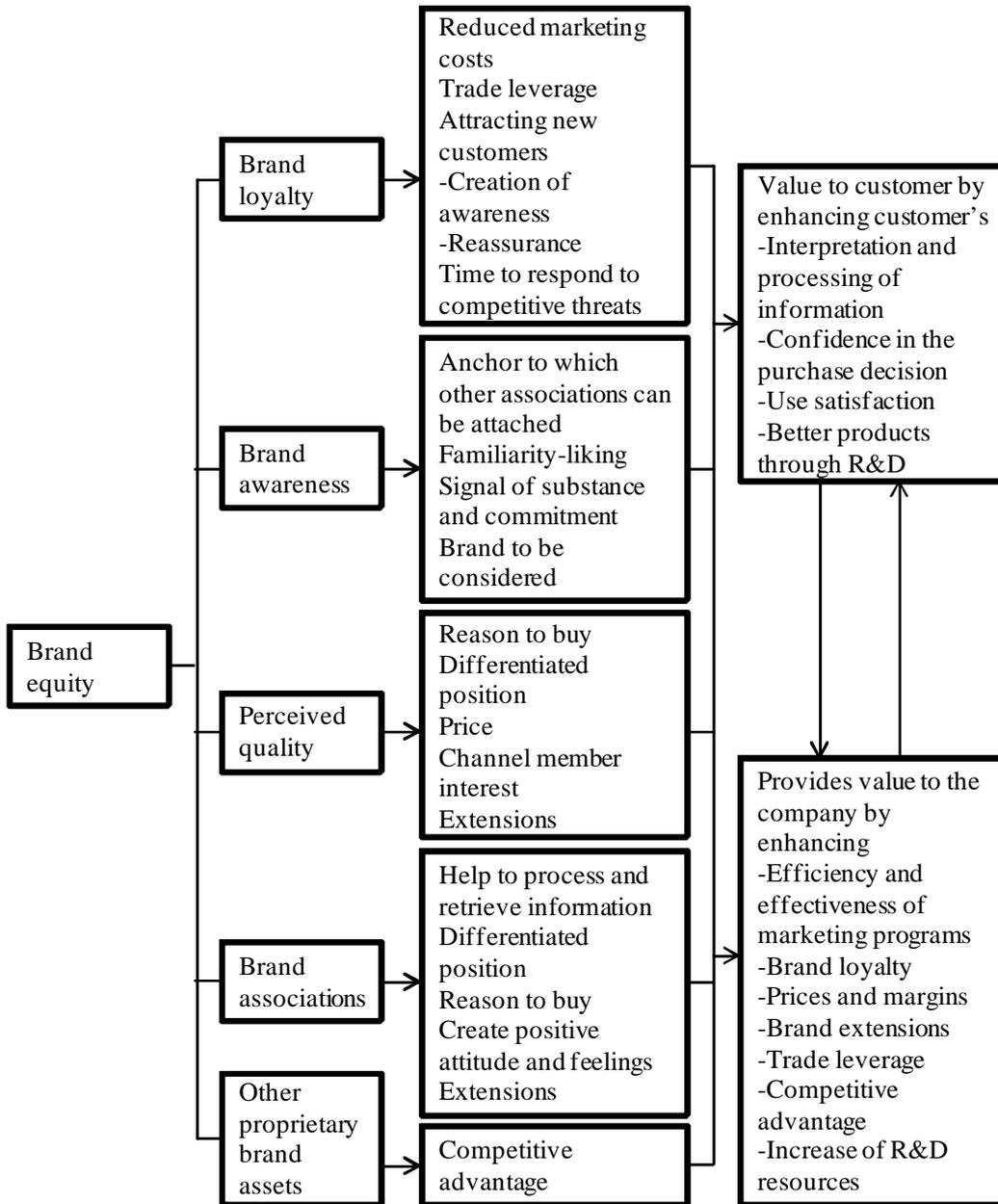


Figure 35. Brand equity framework. (Adapted from Aaker 1991: 270)

In general, measuring sources of brand equity includes measurement of various aspects of brand awareness and brand image in order to estimate brand's strength and value, and there are two major categories in measuring brand equity, qualitative and quantitative. Qualitative brand measures are used to identify possible brand associations, and quantitative measures to estimate the breadth and depth of brand awareness, the strength, favourability and uniqueness of brand associations, the favourability of brand responses, and the nature of brand relationships. One of the approaches in measuring brand equity sources is Brand Asset Valuator, BAV, developed by advertising agency Young & Rubicam, which measures brands on five fundamental factors of equity value, i.e. differentiation, energy, relevance, esteem and knowledge (brand awareness and brand image), and BAV is nowadays also linked to financial analytics, which enables the determination of a brand's contribution to a company's intangible value. The two dimensions of brand strength, composed of differentiation, energy and relevance, and brand stature, composed of esteem and knowledge, are illustrated in Figure 36.

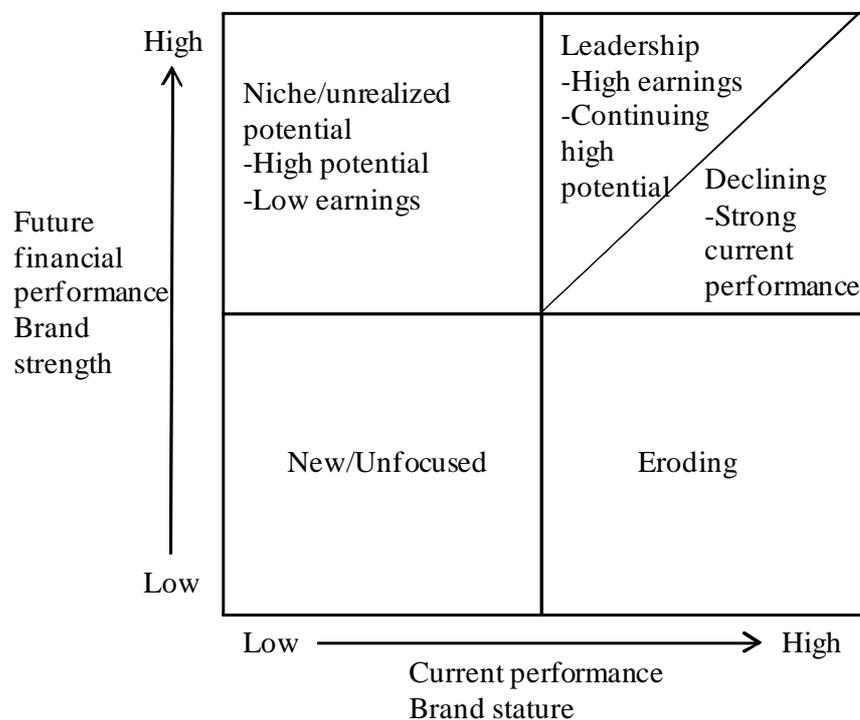


Figure 36. The BAV measures of brand equity. (Adapted from Keller 2008: 395)

After their launch, new brands tend to show low levels on both dimensions, though strong new brands are stronger in differentiation than relevance, but still weak in both brand stature factors. New brands are generally focusing on developing relevant differentiation, which initiates growth in brand strength and moves the brand to the upper quadrant, in which narrowly targeted brands tend to stay. To become a leadership brand, emerging potential has to be translated into stature, i.e. esteem and knowledge of the brand have to be further enhanced. The leadership quadrant might include both older and relatively new brands, since brand leadership does not depend on longevity. Declining brand equity might emerge as the brand's strength is declining and especially esteem is decreasing, while knowledge might still be higher because of the past brand performance. The process towards declination can be avoided by effective brand management, which ensures the continuum of brand vitality. The BAV model provides a broad landscape in which brands can be located relative to other prominent brands or with respect to different geographic markets. However the measures tend to be fairly abstract and are not directly related to product attributes. (Keller 2008: 394-295; Kotler & Keller 2006: 278-279)

In measuring outcomes of brand equity, the valuation approach is based on the widely accepted fact that brands represent a significant value in form of IPRs and are often core issues in mergers and acquisitions. The price premium paid in acquisitions is increasingly based on the value of brands, i.e. the opportunity to earn and sustain additional profits from the brands, especially because of the difficulties, expenses and risks affiliated with creating a new brand. Also the attractiveness of acquisition candidates is largely based on the strong competitive position of their brands and their reputation with customers and/or consumers.

According to Keller (2008: 9-10) net tangible assets, i.e. total assets less liabilities, intangibles and goodwill, and the par value of preferred stock, in a consumer goods company may be about 10 % of the total value, while most value lies in intangible assets and goodwill. As much as 70 % of intangible assets can be supplied by brands.

Amer Sports' brands on the balance sheet are illustrated in Figure 37 during 2003–2007. The proportion of intangibles and goodwill varied between 63-99 % during the period, and was 94 % at the end of 2007.

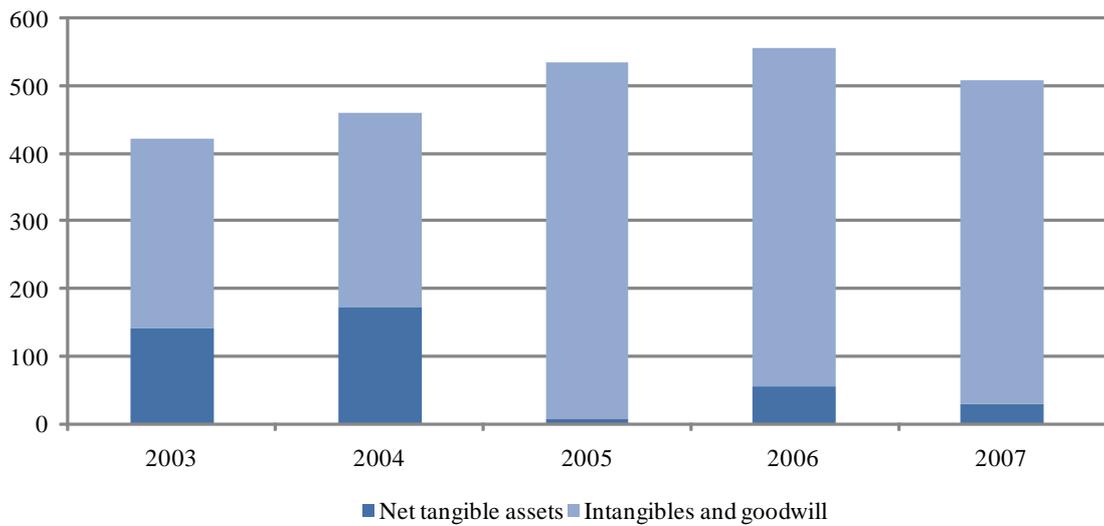


Figure 37. Amer Sports' brands on the balance sheet in 2003–2007.

In the U.S. stock market environment market-to-book value ratios, which measures how much a company is worth at present in comparison with the amount of capital invested by shareholders, have been averaging 3,5 and market-to-replacement value ratios (Q-ratios) 1,9 for the Fortune 500 companies, suggesting that a substantial proportion of a company's economic value may lie in intangible assets. Amer Sports' market-to-book ratio has been steadily growing within the last five years, as illustrated in Figure 38.

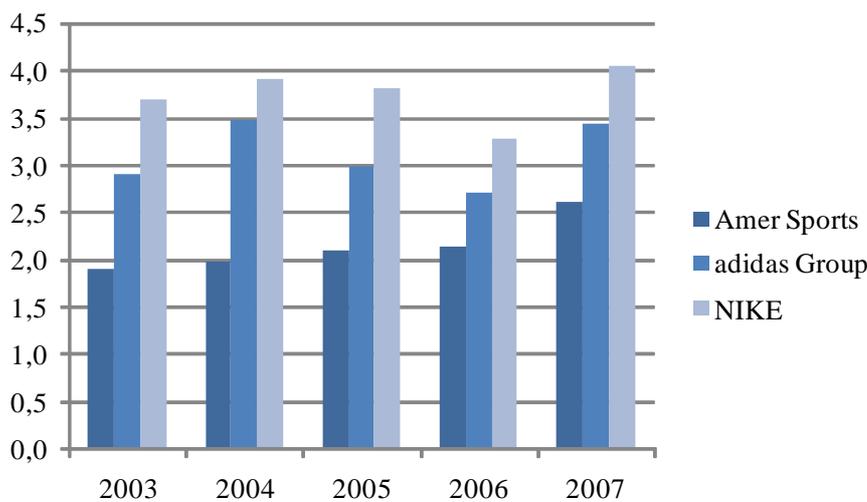


Figure 38. Market-to-book ratio in 2003–2007.

The ratios of the two market leaders in the sporting goods industry are included to create an overall understanding of the level of market-to-book ratio within the industry, as it varies between industries. A lower market-to-book ratio might indicate that stock is undervalued, and a higher ratio might indicate overvaluation of the stock.

Amer Sports' Q-ratio has varied between 0,67 and 1,11 within the last five years, being 0,81 at the end of the fiscal year 2007, as illustrated in Figure 39. The ratios of the two market leaders in the sporting goods industry are included as comparisons.

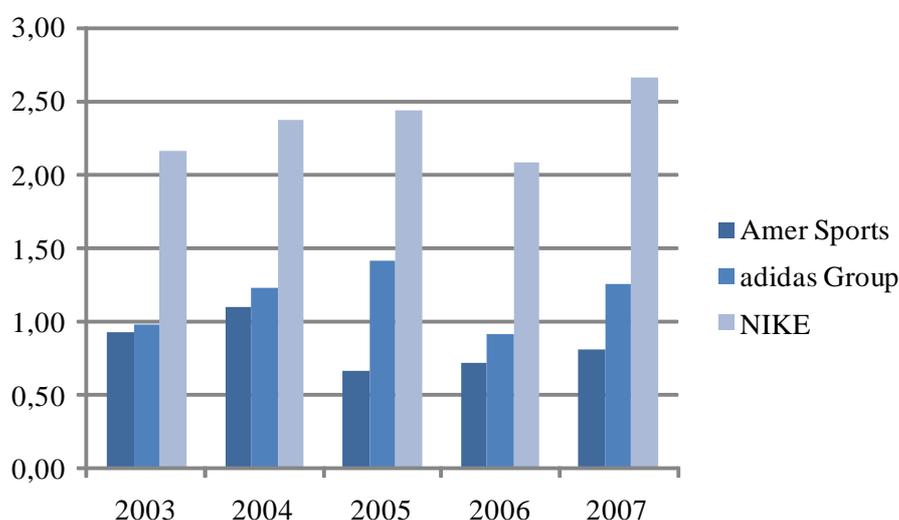


Figure 39. Q-ratio in 2003–2007.

Q-ratio, which is calculated as total market value divided by total asset value, indicates that the combined market value of a company on the stock market should equal to their replacement costs. A low Q (between 0 and 1) indicates that the cost to replace a company's assets is greater than the value of its stock. High Q (>1) indicates that stock is more expensive than the replacement cost of its assets, i.e. stock may be overvalued. According to some research results, Q-ratio tends to be higher for companies with corporate branding strategy than for companies with house of brands strategy.

As the worth of a strong brand is rarely fully included in the stock price of publicly traded companies, and it typically doesn't appear on a balance sheet, new approaches in valuation of brands have been developed recently. Adjusting the balance sheet to reflect

the true value of the company's brands would enable assessment of the purchase premium to book value, but require estimates of capital required by brands and the expected after-acquisition return on investment (ROI) of a company.

General approaches in determining the financial value of a brand are based on the cost, market or income. The cost approach defines brand equity as the amount of money required to replace or reproduce the brand, but has no relation to future profitability. The market approach defines brand equity as the net present value of the future economic benefits derived from the assets, i.e. the approach is based on the relationship of the brand equity to stock market. The income approach defines brand equity as the discounted future cash flow from the future earnings of the brand. (Keller 2008: 415)

One model in brand valuation, illustrated in Figure 40, has been developed by Interbrand, which is a leading brand valuation company. The model is based on the incorporation of marketing, financial and legal aspects. It follows fundamental accounting concepts, allows constant re-evaluation, and fits both for acquired and internally developed brands. The basic assumption is that the value of brand is the present worth of the benefits of the future ownership, i.e. the methodology is based on the present value of the future cash flow which the brand is expected to generate.

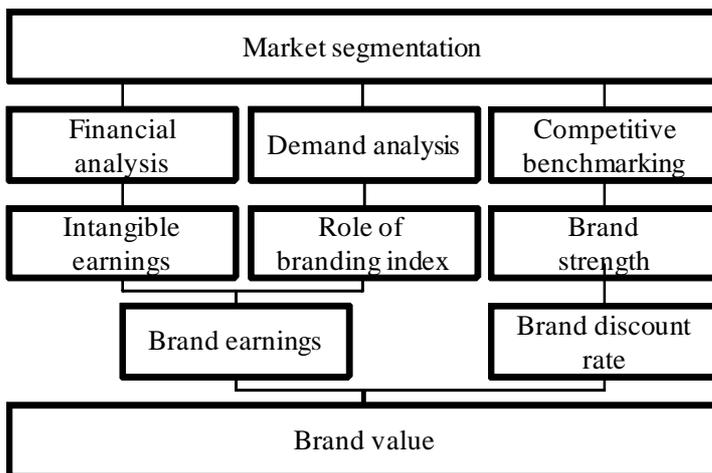


Figure 40. Brand valuation model. (Adapted from Keller 2008: 419)

The valuation includes five steps: market segmentation and calculation of brand value in each segment to produce the total value of the brand, financial analysis to identify and forecast revenues and earnings from intangibles generated by the brand, demand analysis to assess the role of branding as the percentage of intangible earnings generated by the brand, competitive benchmarking, reflecting the competitive strengths and weaknesses of the brand, to derive a brand discount rate reflecting the risk profile of the future earnings using brand strength score, and finally brand value calculation as the net present value of the forecasted brand earnings discounted by the brand discount rate, reflecting the ability of the brand to continue to generate future earnings. (Brand Valuation 2004: 7)

In the approach, intangible earnings are calculated as brand revenue less operating costs, applicable taxes and charge for capital employed, and brand earnings are calculated as the role of branding multiplied by intangible earnings. The brand strength score is a composite of seven weighted factors, i.e. brand's market, stability, leadership position, growth trend, support, geographic footprint and legal protectability, and is expressed as percentage. Brand's market represents a weight of 10 % and means the brand's trading environment in terms of growth prospects, volatility, and barriers to entry. Brands in markets with low level of evolutionary changes are intrinsically more valuable than brands in e.g. high-tech or clothing areas in which they are more vulnerable to technological or fashion changes.

Stability represents a weight of 15 % and means the ability of the brand to survive over a long period of time based on consumer loyalty and past history. Long-established brands that have become part of the fabric of their markets are particularly valuable. Leadership position represents a weight of 25 % and means the brand's ability to influence its market and be dominant force with a strong market share such that it can set price points, command distribution, and resist competitive invasions. A brand leading its market or market sector is more stable and valuable property than a brand lower down the order.

Growth trend represents a weight of 10 % and means the ongoing direction and ability of the brand to remain contemporary and relevant to consumers. Support represents a weight of 10 % and means the amount and consistency of marketing and communication activity. Those brand names that have received consistent investment and focused support are regarded as more valuable than those that have not. While the amount spent in supporting a brand is important, the quality of this support is equally

significant. Geographic spread or footprint represents a weight of 25 % and means the ability of the brand to cross geographic and cultural borders. International brands are more valuable than national or regional brands, due in part to their economies of scale. Legal protectability or protection represents a weight of 5 % and means the brand owner's legal titles. A registered trademark is a statutory monopoly in a name, device, or in a combination of these two. Other protection may exist in common law, at least in certain countries. The strength and breadth of the brand's protection is critical in assessing its worth. (Kotler & Keller 2006: 292)

The valuation of brands is a relatively new concept, and current brand valuation methodology contains a significant proportion of subjective elements. The relative importance of and basis for brand strength, and therefore the usefulness of brand valuation methods, can be expected to vary across industries and valuation situations (Srivastava & Shocker 1991: 21). However, along the increasing recognition that brands are assets that have to be actively managed and are a major source of shareholder value creation, the need to both manage the brands in a disciplined way and assess the financial value of brands seems to be increasing, and the use of scientific valuation methods, which meet also generally accepted accounting principles, for strategic decision making is already common in many of the world's leading companies.

Interestingly, there appears to be no brand valuation model targeted especially to multi-brand companies, although all brands have boundaries in stretching and multiple brands might be necessary to pursue multiple market segments. For example in the sporting goods industry almost all the largest companies seem to have a multi-brand strategy. It might be possible that the brand valuation methods are developed with cooperative partners in such industries where the role of multi-brand portfolios especially from synergistic viewpoint hasn't been as relevant as it appears to be in the sporting goods industry. Introduction of multiple brands in a category is generally based on increased shelf presence and retailer dependence in the store, i.e. coverage of more segments in the market in order to boost growth, attracting consumers seeking variety in order to avoid them to switch to a competing brand, increased internal competition within the company, and yielding economies of scale in advertising, sales, merchandising, and physical distribution.

In the next chapter, the market-based assets framework, which has a direct link to financials and shareholder value, is presented. This framework complements the

previous approaches and frameworks, and enables even wider understanding of brand driven growth from the financial perspective.

4.5. Market-based assets and shareholder value

Market-based assets, which are increasingly addressed to be a major focus area of marketing, arise from the external environment of the company, and consist of relational and intellectual assets. Relational market-based assets are outcomes of the relationships between a company and its key external stakeholders, including e.g. brand equity and channel equity. Intellectual market-based assets are based on knowledge of a company's environment, including e.g. market conditions, competitors, customers and suppliers. Market-based assets do not appear on the balance sheet, and they are largely intangible. However, these assets can be developed, augmented, leveraged and valued. Both asset types are intangible, but can be assessed in terms of their stock and flow.

Srivastava, Shervani and Fahey (1997: 11-13) have created a framework, in which market-based assets are linked to shareholder value, as illustrated in Figure 41. In their approach market-based assets are leveraged to lower costs, since superior relationships with and knowledge of channels and customers lead to lower sales and service costs, attain price premiums, since brand and channel equity lead to higher perceived value, generate competitive barriers because of customer loyalty and switching costs, provide a competitive edge by making other resources more productive, and provide growth options for category and line extensions.

The first column represents outcomes of activities designed to deliver value to customers. The second column summarizes consequences of customer behavior, i.e. outcomes of customer satisfaction or brand equity, and represents various measures of market performance. While market-based assets are expected to boost market performance and lower risks, the valuation approach by markets towards the ability of market-based assets to enhance current and potential market performance is not yet well known. The last column consists of the four drivers of shareholder value, i.e. acceleration and enhancement of cash flows, reduction in risk of cash flow, and growth in business value. (Srivastava et al. 1997: 15-16)

Each market-based asset can potentially influence every driver of shareholder value. As the receipt of cash flows are accelerated, the net present value of the cash flows increases, due to the increased responsiveness of the market to marketing activities

through the effects of brand knowledge, existing brand awareness and positive brand attitude. When customers are exposed to such a brand, they will more likely try, adopt and also refer the brand sooner than otherwise. The more positive the brand attitude, the quicker is the response of customers to new products, increasing the sell-through in trade. Achieving reductions in time to market acceptance has increased its importance besides the speed-to-market variable in new product development, and this increased speed in market penetration with a new product is accelerated by establishing an installed base, i.e. seeding the market using promotions, and leveraging these early adopters to facilitate word-of-mouth advertising to speed up product life cycles and thereby cash flows. The installed base and buyers' expectations of the future installed base are important drivers of the adoption process. (Srivastava et al. 1997: 19-21)

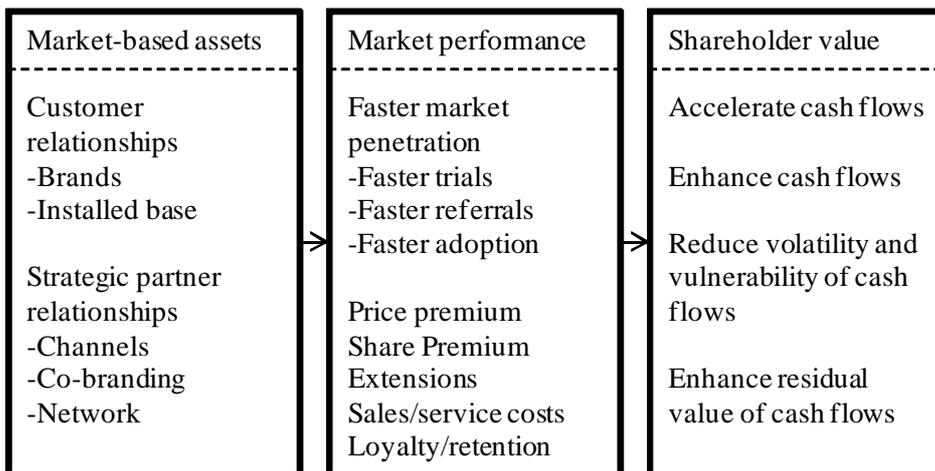


Figure 41. Market-based assets linked to shareholder value. (Srivastava et al. 1997: 15)

Another effect of market-based assets on market penetration cycle times is on network-level. Strategic partnerships also increase the speed of marketplace penetration for new products. Few companies have the ability to penetrate all markets around the world before a new product loses its innovative advantage, and the other ones need to build partnership networks to accelerate cash flows by penetrating a greater portion of the global market in the same time frame. The reduced margins related to partnership arrangements are compensated by the increased speed of cash flows and their net present value. (Srivastava et al. 1997: 21)

The need to accelerate market penetration depends on the industry and product categories, and is especially important when the pace of technology development is rapid, but also in case of innovative or pioneering product design. The achieved level of brand knowledge and expected level of market acceptance affects the decisions concerning market penetration with a new product on geographic level. For example, the case company Amer Sports has the ability to penetrate the global market simultaneously with a new product, using both own sales organization and partnership networks, but this ability is used as competitive advantage only in part of the company's product categories, while some other product categories, e.g. certain type of new fitness equipment, including complex new technological solutions, are by purpose launched with lower speed in order to build an installed base, but also to receive customer feedback for possible further development of technological solutions concerned.

Enhancing the level of cash flows through market-based assets can be reached by generating higher revenues, lowering costs, working capital requirements or fixed capital requirements. Category and line extensions are important mechanisms for enhancing revenues, and these have been discussed in Chapter 4.3.

Well-established and differentiated brands can charge a price premium based on their monopolistic power due to customer switching costs and loyalty. Srivastava et al. (1997: 22) emphasize also that as the customer base is more responsive to advertising and promotions, the marginal costs of sales and marketing are lower for higher equity brands. According to the results from empirical testing of Amer Sports' products, technical characteristics of products increase the switching costs, as it is highly time consuming to try to find out all the relevant alternatives and to make comparisons between them in order to find out the best possible product for the current need, and therefore certain level of loyalty is created already during the first purchase of certain type of product as next time it is simply easier to trust that the producer knows how to accomplish high quality product development according to the evolving needs of consumers and the products are designed according to current trends. During the testing it was confirmed also that offering a selection of products that complement each other and fit well together from the viewpoint of colors and other design characteristics increases consumer's willingness to purchase a complete set of products, and thereby increases switching costs as competitors' products might not fit to the other acquired goods as well.

Strong partner relationships enhance cash flows by reducing the level of working capital and fixed investments as both parties e.g. achieve efficiencies in managing order placement, order processing and inventory holding. They also enable both cooperative development and implementation of new policies and programs, and other ventures, such as co-branding and co-marketing, in which both parties gain access to each other's customer base, leading to lower costs by leveraging other's already existing resources, increased revenues by reaching new markets or making available other's products, and avoidance of fixed investment of creating a new brand, and establishing or extending the customer base. (Srivastava et al. 1997: 23)

According to the results from empirical research efforts and based on the assumption that strong partner relationships are created in a evolutionary way within a longer period of time, it appears to be important for both sporting goods provider and consumer, i.e. retail channels, to invest on the building of a sustainable relationship including training of sales personnel. As sales personnel tends to change over time, it might be difficult to sustain certain level of knowledge especially in technically complex products which might include new features every year without interactive, cooperative planning of current product offering in a store or chain, and plan training accordingly in order to ensure effective sell-through of the products.

The vulnerability and volatility of cash flows are also affected by market-based assets, as lower vulnerability and volatility reduce the risk associated with cash flows, resulting in a lower cost of capital. More stable and predictable cash flow produce a higher net present value, and thereby create more shareholder value. The vulnerability of cash flows is lowered through increased customer satisfaction, loyalty, and retention, and as e.g. the loyalty of the installed base creates also a significant entry barrier to competition, experiential attributes, such as good customer service, affecting customer switching behavior. Also cross-selling of multiple products and services, and thereby increasing the amount of bonds between the parties can increase switching costs. (Srivastava et al. 1997: 24)

The volatility of cash flows is reduced as strong relationships with partners enable better coordination of activities and promote stability in cash flows of all members of the value chain. This reduction of unpredictability of cash flows can be achieved e.g. by sharing of information, automatic ordering and replenishment, and lower inventories. Volatility is also reduced when customer retention is high, because the cost of retaining

existing customers is more predictable than the costs of acquiring new customers. (Srivastava et al. 1997: 25; Srivastava, Reibstein & Joshi 2006: 17)

Residual value, which is the present or expected value of a business beyond the planning horizon, accounts for a significant proportion of the net present value of a business, and is linked to sources of expected future cash flows. Market-based assets are influencing the residual value of cash flows, as e.g. users of earlier versions of product or services might buy both later versions and related products, services and brand extensions, and also contribute to cash flow growth by referring the products and services to other potential users. In industries where cash flows are directly linked to end-customers, the residual value of the business is closely linked to the size, quality and loyalty of the customer base. The quality of customer base refers to e.g. usage volume, willingness to pay a price premium, and loyalty to e.g. higher revenue, lower sales and service costs, lower risk, and more stability in business, leading to lower cost of capital. (Srivastava et al. 1997: 25-26)

Within the framework of market-based assets and shareholder value, the value created by investments in marketing activity is interpreted in a way, which enables further use of the results in another context related to the research problem of this thesis. Along with the globalization, evolutionary development of industries towards maturity and thereby increased competition, increasing knowledge and expectations of customers, and increasing importance of brands and branding, also importance of interdisciplinary knowledge and competencies related to marketing, accounting and management is increasing from the perspective of various market participants in order to be able to manage increasingly complex businesses in continuously altering business environment. Also need for new, innovative theoretical frameworks for facilitating the development of business practices accordingly has increased.

The selected, partially complementary frameworks and approaches related to the investigation process of the brand driven growth phenomenon and all the knowledge gathered from the proper analysis of the case company and its business environment within this thesis provide a solid basis for the creation of a framework for the investigated phenomenon, i.e. all the work done so far has been beneficial and also necessary for the purpose of developing a framework for the phenomenon. In the last chapter, the conclusions of the research process are summarized and the developed framework is presented.

5. CONCLUSIONS

This final chapter summarizes the major findings from earlier chapters and a framework for the brand driven growth phenomenon is presented as a result of convergence across selected appropriate viewpoints and approaches related to the phenomenon, and the findings revealed during the proper analysis of the case company within its real life context.

5.1. Review of the previous chapters

Figure 42 below summarizes the previous chapters and a brief review of the major issues is presented.

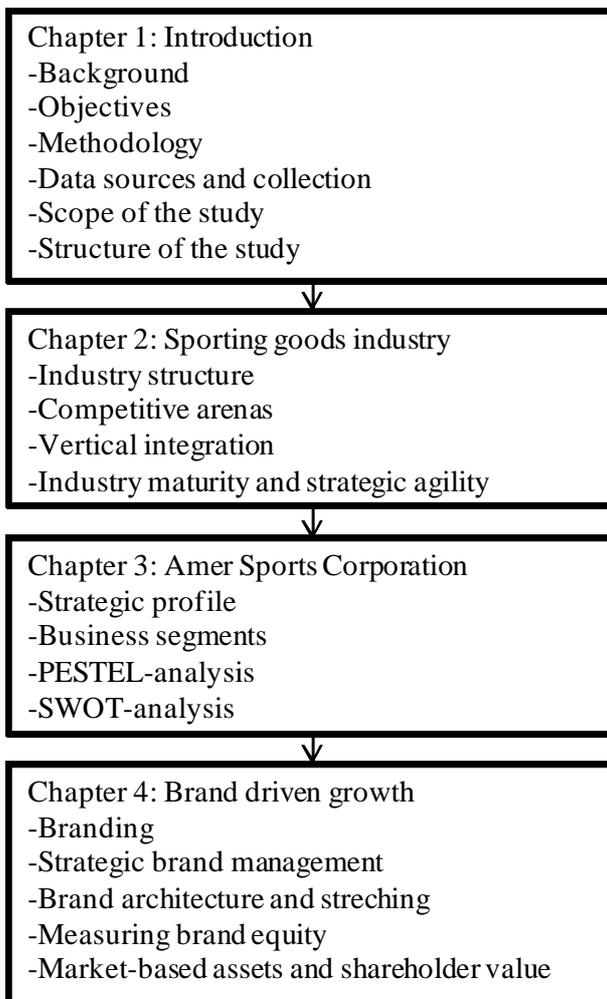


Figure 42. Chapters 1-4 of the thesis.

A brand is a descriptor of the promised value which a market offering delivers to targeted customers and a means of differentiating this value from the value of other competing offerings. This value has to be translated into shareholder value, and the ability of an organization to accomplish a successful translation depends on a business being able to claim an equitable return on the value it delivers to customers, i.e. setting a price in relation to a market offering's value according to the principles of value-based pricing. The stronger the brand in the minds of consumers, the larger margin based on additional value of the branded product may be charged, but as there are various factors which affect the customer value and development of brand equity, the level of complexity tends to be high in regard to branding, valuation of brands, and the mechanisms of brands' impact on company's financial performance and shareholder value.

Since there are no comprehensive theoretical frameworks for these issues, a descriptive case study was chosen as research strategy to investigate the research problem, defined as the phenomenon of brand driven growth, and the analysis of the case company and its business environment from macro-environment level to organization level was emphasized in order to collect enough information about the phenomenon in real life context. The sporting goods industry was chosen because the role of brands is strongly emphasized by all major companies, and both positioning and leveraging brands are considered as a main source of competitive advantage. During the iterative research process industry maturity, intense competition, focus on consumer goods, global business environment and increased customer awareness of brands could be identified as main sources of increased focus on branding. Historically brands origin from the consumer goods business, but nowadays have spread also to other industries.

The case company was selected as it is an atypical case within the sporting goods industry and therefore it was anticipated to activate more mechanisms and more actors in the situation studied. The company has a wide portfolio of brands, which enables better targeted offering to each relevant market segment and establishment of a differentiated and authentic brand simultaneously with increased coverage of multiple markets. The evolution within the industry is more towards increasing brand portfolios than decreasing when considering the largest companies. The importance of brand's positioning is high in a business environment with intense competition. Through unique positioning it is possible to avoid direct competition with competing brands in a category, although imitation of that positioning is not avoidable. Therefore the creation

of blue oceans, which have been identified and conceptualized by Kim & Mauborgne (2005: 185), is a continuing dynamic process also in the context of brands and brand driven growth.

The case company and its business environment were analyzed thoroughly by using four layers of analysis: macro-environment, industry, competitors and markets, and organization. First the industry was analyzed using Porter's five competitive forces framework including suppliers, potential entrants, substitutes and buyers besides the industry competition. Through D'Aveni's four competitive arenas approach it was possible identify the main arenas, timing and know-how and strongholds, in which the competition within the sporting goods industry is currently mainly accomplished, although within the industry competition occurs on multiple arenas and at different levels of each arena simultaneously.

The current trend of forward integration and the need for strategic agility were also assessed. The dynamic planning model for hypercompetitive market disruption was of interest, because the brands bring in some additional dynamicity, but on the other hand also restrict the options of tactics that can be used in order to avoid any harm to the brands. Especially in the context of the case company, it was recognized that the alternatives for competitive moves are affected by the fact that in one market Amer Sports might have a specific company as its competitor, but in another market its products might be complementary to the product offerings of the same competitor. Therefore Amer Sports is considered to have a fairly unique position in the market and highly complex business environment compared to many other companies within the industry, although there are companies which face similar challenges in regard to the selection of competitive moves and countermoves. The wider portfolio of brands a company has the higher is the likelihood of facing these restrictive issues in competing, and e.g. in the sporting goods industry it depends heavily on complementary features compared to substitutability of product offerings within a sport category, but also on endorsement agreements and respective preferences of the athletes.

Secondly the case company was properly analyzed using both simple descriptive approach and SWOT-analysis. Also a PESTEL-analysis of the macro-economic business environment was accomplished. A multi-brand portfolio appeared to be both a strength and opportunity, but on the other hand also prohibits the company to achieve benefits, which companies with branded house strategy are able to achieve. However there seems to be no right or wrong strategies in branding, and often combined or

hybrid strategies are selected by companies in order to benefit from the advantages of both approaches, although also the disadvantages of both will then be included. Various sports and sports categories appear to fluctuate differently when considering the revenue volatility within a fiscal year, and therefore e.g. the case company is searching new acquisition opportunities from areas where revenues are emphasized in the first half of the year, as now the emphasis is more on the latter one. According to some preliminary findings, type of sport appears to be more important factor in regard to cash flow volatility than geographic distribution of markets, but this should be further investigated.

Thirdly the chosen aspects of brand driven growth were introduced including branding as a concept, strategic brand management, brand architecture and stretching dimensions of a brand, brand equity measurement approach including a brand equity framework of Aaker, BAV measures of brand equity sources, and as measures of outcome of brand equity the concept of brand on the balance sheet, market-to-book ratio and Q-ratio were introduced. As these approaches were considered to be insufficient, also Interbrand's brand valuation model and market-based assets approach were presented in the thesis.

According to several research results, a company's stock market performance is impacted by brand equity valuation, and therefore a successful brand management process would have a direct impact on stock price, but only if the results of the brand valuation can be interpreted in a way that investors are able to benefit from them. E.g. stock market response to brand extension announcements, consistent with the tradeoffs inherent with brand leveraging, seems to depend positively on brand attitude and familiarity at the both end of the dimensions, i.e. high esteem - high familiarity and low esteem - low familiarity, in which latter is assumed to be based on low level of risk and large gains if extension would be successful. Also stock market appears to react positively when focus is increased on extracting margins in the marketplace over new product launches. Nevertheless, in order to be able to translate the customer value into shareholder value, the companies persuasively have to demonstrate and document the superior value they deliver to their customers in order to be well equipped to successfully accomplish the translation. This includes also the communication towards the current and potential investors in order to keep them well informed about the strengths and opportunities of brand driven growth through their portfolio of brands. Otherwise the full potential of shareholder value will not be translated in the shareholder value in the form of stock price even if it might be translated in the form of dividends. (Anderson & Narus 2004: 10)

According to some research results investors seem to appreciate the branded house strategy more than house of brands strategy. E.g. in the cosmetic sector, a house of brands is valued at six times the profits, while a branded house is overvalued with the Price-Earnings-ratio to 7 or 8 (Kapferer 2008: 354-355). The calculated ratios, market-to-book and Q-ratio in Chapter 4.4. could indicate that Amer Sports is not able to leverage its brands in full potential, but this cannot actually be verified, because of the consistency of similar results for companies which have chosen house of brands strategy in which the corporate brand is hidden from the end-consumers and thereby has less visibility also towards the investors. When questioning the factors behind these results, the probability of insufficient brand valuation and communication tools for multi-brand houses' purposes seems to be fairly high. Further investigation and probably development of appropriate tools for brand portfolio valuation in order to be able to communicate the value and benefits of the multi-brand portfolio to the investors and other stakeholders would be necessary.

In the next sub-chapter a framework for brand driven growth phenomenon is introduced according to the results from the investigation process.

5.2. A framework for the phenomenon

During the research process in order to investigate the research problem from various viewpoints, some convergence among different approaches related to the brand driven growth phenomenon has been revealed. In the literature some integrative efforts has been recognized, but no comprehensive model has been created and presented in order to create a profound understanding about the complex nature of the phenomenon. Due to the identified points of convergence of the findings and theoretical approaches, it was possible to create a framework, illustrated in Figure 43, for the phenomenon.

Along the research process it was confirmed that brand valuation is a core activity within the phenomenon and its outcomes are essential in managing brand driven growth. Brand valuation methods are currently based on analyzing one brand, although usually companies do have a portfolio of brands and various managerial challenges are related to the entire portfolio instead of only single brands, as referred in the previous sub-chapter.

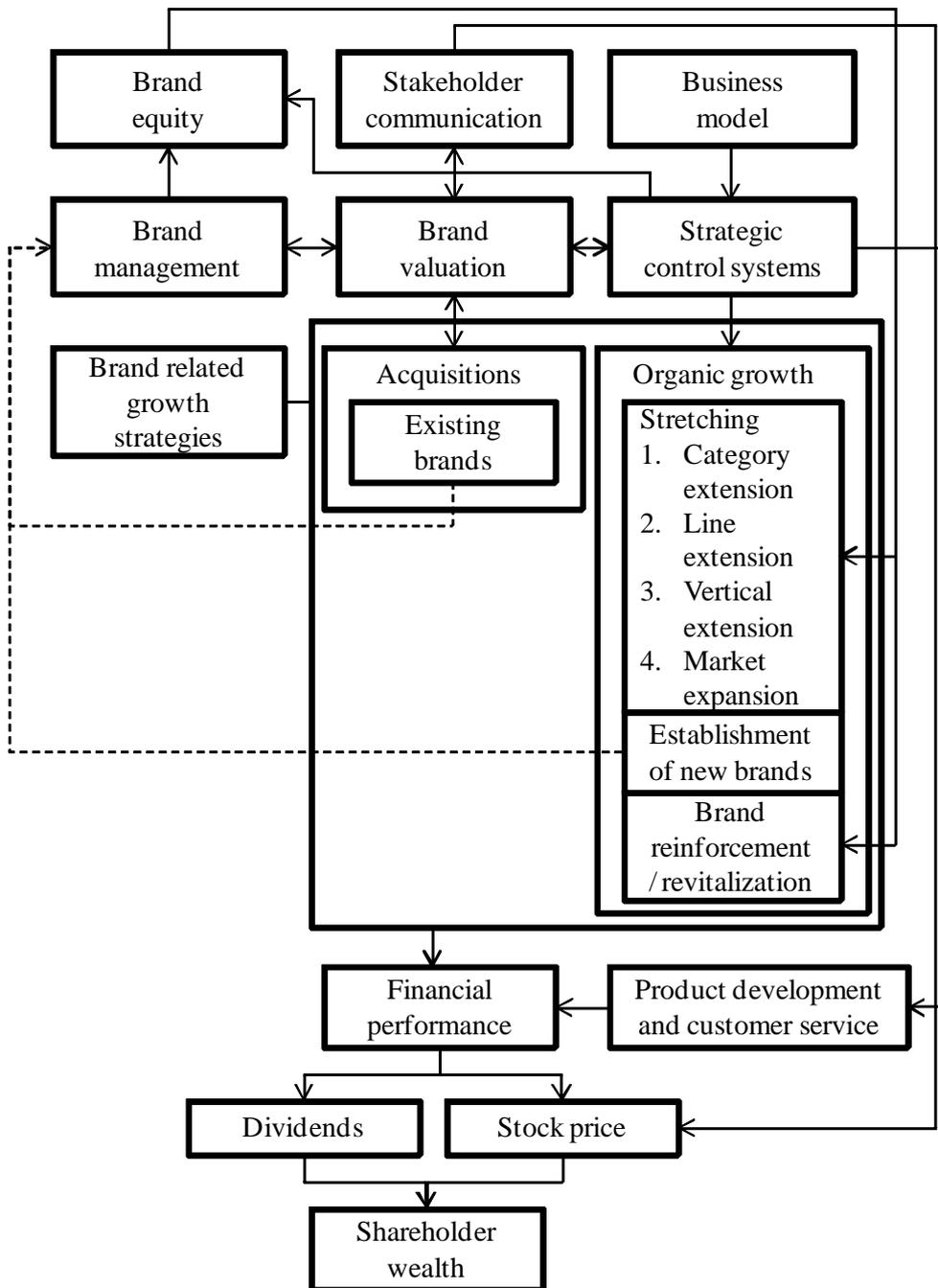


Figure 43. A framework for the brand driven growth phenomenon.

As the framework is based on the findings within this study, it has to be tested and developed further in order to assess the stretching abilities of the framework towards a general model across industries. Although the focus of this study was to create profound understanding of the phenomenon through a case company within its real life context,

common factors and similar structures with other industries have already been identified. These will further investigated in another research context.

The outcomes of brand valuation process may be used in four core activities: to improve stakeholder communication and especially shareholder communication, as a tool for brand management and strategic control systems, and for assessing an appropriate price for new brands acquisition. With an appropriate brand valuation method, a more precise interpretation of the managerial efforts in developing the business in form of investing in brands, although it is not yet visible in the bottom line, is enabled, i.e. both potential and current shareholders will be provided by accurate information about the investments in branding and its outcomes despite the common delay in translation of the investments into increased share price through improved financial performance and future prospects. Thereby investors do gain from the opportunity of using the brand valuation results in assessing the attractiveness of a company as investment target. According Morin and Jarrell (2001: 385) in the management of market expectations implications for management actions include, in cases of both undervalued and overvalued share price, a review of investor relations practices and communications with investors. Ongoing brand valuation could prove to be useful tool for both of these situations.

Brand valuation is commonly used as a tool for brand management, but rather in assessing the sources and leveraging opportunities of brand equity. Through assessing the potential and realized outcomes of brand equity using brand valuation methods, more precise allocation of resources is enabled and simultaneously returns of investment in building brand equity can be better pronounced. Strategic control in the context of this framework refers to the extent to which the organization's strategies are successful in achieving the set goals and objectives in longer term, ranging from a few years to a decade. The intent of control is to modify the organization's strategies and implementation so that the organization's capability to accomplish its goals will be improved, and the corrective actions are ongoing (Wright, Kroll & Parnell 1998: 259). Strategic control includes assessment of both internal and external environment, and both quantitative and qualitative measurements are used. In relation to the brand driven growth phenomenon, strategic control systems contribute as a structure for directing the organization to enhance brand equity leverage and deliver the brand promise in every touch-point with customers and end-consumers, but especially in product development and customer service, through the use of various tools such as establishing reward system based on the value of brands and setting a growth objective in form of growth in brand's strength. Strategic control systems are directly linked to the chosen business

model, which refers to the chosen combination of the purpose, offerings, strategies, infrastructure, organizational structures, trading practices, operational processes and policies, including therefore also activities related to branding such as licencing and financing strategies which may involve valuation of a brand as the decisions are operationalized and thereby are included in normal strategic control systems' procedures.

This framework of the brand driven growth phenomenon should be interpreted as a simplified integrative framework of various previous research efforts and theoretical approaches with an emphasis on practical implications within real life context, and therefore also functions as the basis for future research and development of the framework on more detailed level in order to provide a comprehensive framework and respective managerial implications also in relation to ongoing brand valuation methods. Model testing has been focusing on uncovering possible limitations and errors at this phase of the development work, but as stated also by Sterman (2000: 890), there are no right models, but some of them are more useful than others. Usefulness has been a core value throughout the whole research process and creation of the framework for the brand driven growth phenomenon.

Despite the fact that valuation of a multi-business company is often defined as fundamentally the same as valuing a single-business company, and the values are simply added to receive the entire value of the businesses (Copeland, Koller & Murrin 2000: 302), and the same approach appears to be valid in assessing the value of multi-brand portfolios, it might be worth further investigation to assess the financial value of synergistic and other important effects within a multi-brand portfolio in order to reveal the additional value of multi-brand approaches to the company and its businesses through the use of a pooling method adjusted by relevant effects on the value of brands derived from the multi-brand portfolio approach. This procedure might produce interesting results from the point of view of many stakeholders, because above mentioned $1+1=2$ valuation methods based on common accounting theories are not consistent with real life phenomenon and business decisions. For example in acquisition cases the estimated price of the target is often based on the estimation of synergies with existing businesses and e.g. thereby resulting increased cost effectiveness, which influences the attractiveness of the target. Although it is recommended to calculate both the price including synergistic effects and a standalone price for a target, usually only the first one is accomplished because of its relevancy in decision-making process. Also if a business is able to succeed as a standalone business as well as when being a part of

a larger combination of businesses, it is not necessarily an optimal investment according to current knowledge concerning the effective use of growth opportunities and creation of a sustainable competitive advantage in order to survive in the increasingly competitive business environment.

In current brand valuation approaches related to measuring the outcomes of the brand equity, the process is the opposite, i.e. only single, standalone brands are considered as measurement units. Through the development of brand portfolio valuation methods, both investors and corporate management might gain additional benefits, and therefore some further investigation would be appropriate. The brand driven growth framework or in practise the findings that led to the development of the framework may serve as a platform also for development of possible alternative brand portfolio valuation approaches. Therefore as much relevant information as possible, gathered during the research process, has been included in this thesis, as recommended for modelling purposes.

5.3. Concluding remarks

The iterative process in investigating the brand driven growth phenomenon appeared to be a right choice, although during the process some difficulties were faced concerning both the focus and keeping up with deadlines in the circumstances of having four wonderful children who also needed caring from their mother. During the research process the selection of the viewpoints and decisions concerning the data to be collected were often based merely on intuition, but at the end of the research process it was identified that all the viewpoints and accumulated data facilitated the development of the framework for brand driven growth phenomenon and do also benefit well further research efforts related to the development of both the framework and more accurate measures for brand valuation especially in the context of multi-brand portfolios.

Even if iterative methods and also other unstructured tactics are fairly complex and risky, simultaneously the outcomes of a successful iterative research process can be far better than in using more traditional approaches in research. Iterative processes might be slightly less effective in producing short-term results, but according to my personal experiences they might be more productive in the longer term, especially as existence of experience curve ensures that the more iterative methods are used the better are the abilities and also productivity increases. Therefore an encouraging approach towards more atypical research methods and tactics might be necessary to increase the

probability of making new innovative and possibly even revolutionary findings within theoretical research activities in general. The pressures for the use of effective traditional research approaches might be high, but measurement of the quality of research results should be based on both the usefulness of the results and their abilities to improve business performance in real life context, although also purely theoretical research might produce results which can be used in another research context and is therefore important in the whole spectrum of research activities.

I would like to express my gratitude for the Department of Management of the University of Vaasa and especially to Professor and Head of Department Riitta Viitala, Professor Henrik Gahmberg and Senior Lecturer Henri Hakala for the patience and support in finalizing the research process and producing the most important outcome, a framework for the investigated phenomenon of brand driven growth.

In addition I would like to express my gratitude for the case company Amer Sports Corporation and especially to Max Alfthan, Senior Vice President, Communication, for allowing me to use Amer Sports as a source of information in investigating the brand driven growth phenomenon. Amer Sports proved to be even better than expected as a case company, and therefore I would like to express my greatest appreciation also to the President & CEO Roger Talerio, who has created together with his organization the business model and practices in a way that they contributed extraordinarily well for the investigation of the phenomenon. Also sporting goods industry participants in general have contributed a lot to the investigation of the phenomenon as they have created a great platform for investigation purposes.

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