

LBO FEVER! HOW THREE MANAGERS WENT FOR BROKE

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# BUSINESS MONTHLY

EXCLUSIVE POLL  
WHY CEOs FEAR THE '90s

## SOLE MAN

PAUL FIREMAN'S  
STRUGGLE TO KEEP  
REEBOK ON TOP

By John Sedgwick





# TREADING ON AIR

*Dumb luck and marketing dazzle made Reebok the hot company of the '80s. Now Paul Fireman is straining to keep up the magic.*

BY JOHN SEDGWICK

**T**O THE AMUSEMENT OF TELEVISION viewers and the befuddlement of stock analysts, Reebok International Ltd. spent \$25 million last year on a series of outrageous ads that, under the theme "Reeboks Let U.B.U.," proclaimed its sneakers to be the footwear of choice for fairy godmothers, three-legged men, bobby-soxed twins and tuba-playing swimmers. The ads' director, Bill Hamilton of the advertising agency Chiat/Day, termed the campaign "marketing as theater," but others called it a flop, an assessment that was given some credence when the campaign was curtailed after a shorter-than-expected run. *Advertising Age* went so far as to suggest that Reebok was not only canceling the ads but also firing Chiat/Day, which would make it the second advertising firm to be dismissed by Reebok in a year and a half.

The company vigorously denies these reports, but the continuing public debate over its advertising reflects a deeper uncertainty about Reebok's future. Its stock price, which lost 34 percent of its value in the year after the October 1987 market crash, fell by 7 percent more when the company announced that third- and fourth-quarter earnings would be down, partly because of the high expenses for the U.B.U. campaign. Analysts wondered whether the bright light of the athletic-shoe industry, the fastest-growing company in the history of American business, was just dimming or whether it was actually blacking out entirely. It was Reebok, after all, that had in the six short years between 1981 and 1987 zoomed from \$1.5 million in sales to \$1.4 billion, an annual growth rate of 155 percent. Along the way, it deposed the reigning sneaker king, Nike, and garnered, by some estimates, an astonishing 37 percent of the



The surreal U.B.U. spots made noise but missed the point.

\$3.5 billion athletic-shoe market, knocking its rival back from 25 percent to 18.6 percent.

Then in 1988 Nike returned fire with \$20 million worth of hard-hitting commercials featuring the football and baseball star Bo Jackson and a very straightforward theme: "Just Do It." Nike quickly reclaimed its 25 percent of the market. Reebok's share fell to 32 percent, and analysts began predicting that Nike would recapture the lead in early 1989. Worse for Reebok, Nike's profits were increasing even faster, since it was able to sell its highly touted, high-performance line of Nike Air shoes—which employ an air-mattresslike cushioning system that is, in some versions, actual-

ly visible through a slot in the sole—at a substantial premium. Nike's best-selling Air Jordan basketball shoe, for example, retails for \$110 a pair, while Reebok's best seller, the six-year-old Freestyle aerobics shoe, goes for \$50. Neither costs much more than \$15 to produce.

It is unlikely that either Reebok or Nike will fail as a corporate enterprise because of an advertising campaign. But the messages delivered in their ads get at the heart of Reebok's problem. If you live by fashion, you die by fashion. Just as the U.B.U. ads placed style over content, the Reebok company has been built on fashion over performance. This follows a principle codified in the company as the 80-20 rule: Eighty percent of all athletic shoes are never put to their intended use. Most running shoes aren't run in; few basketball shoes ever drive to the hoop; and most aerobics shoes cut class. As with aviator glasses and safari jackets, customers for athletic shoes are mostly going for a certain sporty look. What makes the business so complicated is that in spite of 80-20, customers still tend to evaluate athletic shoes on their supposed performance val-

ment of a leading sporting-goods store sums up Reebok's dilemma: "Let them be U.B.U. We be Nike."

Reebok's high-flying founder and chairman, Paul Fireman, admits that when he first saw the U.B.U. ads at company headquarters in Canton, Massachusetts, "I had to turn in my seat a few times" to try and figure them out. But he insists that he likes them. "I'm intrigued by the campaign," he says. "I find it exciting, innovative and creative." To Fireman, these are terms of highest praise. With his soft cheeks and gentle eyes, he looks something like an overgrown cherub, and he could easily portray one of the characters in the U.B.U. ads. If the corporate world is gray, Fireman comes across in pastel colors. To him, there is no good and bad or even effective and ineffective. There is only the exciting and the dull.

Fireman has recently ceded day-to-day control over the company to the newly installed chief operating officer, C. Joseph LaBonté, while he attends to the big picture. "It's not that I'm glad to get the day-to-day stuff off my back," he says. "It's that I only have one back." But he keeps

Despite the plentiful rewards, Fireman claims no responsibility for Reebok's phenomenal success. "You'll think I'm nuts," he says, "but remember Tinkerbell? Remember her little wand? Remember her magic dust? The difference between good products and great products, between good marketing and great marketing, is Tinkerbell's magic dust." It's not exactly a formula for success that can be taught at the Harvard Business School, but he is completely serious.

The shoe business is, in short, show business, which may explain why the three big guns Reebok recently installed in the executive suite have no specific experience in the shoe business. LaBonté comes from the presidency of Twentieth Century Fox, where he helped produce *Star Wars* and *Chariots of Fire*. Frank J. O'Connell, president of Reebok Brands, was the highly successful chief executive of HBO Video whom LaBonté knew from his days in movies; and Mark R. Goldston, chief marketing officer, was once the president of Fabergé USA.

**I**N A WORLD WHERE IT IS better to be lucky than good, Paul Fireman has been very lucky indeed. He did not divine the central paradox of the athletic-shoe marketplace; he tripped over it. A college dropout, Fireman had taken over his family's fishing- and hunting-equipment business (B.C. Recreational, which no longer exists) and was looking for something to add to his line when he spotted an interesting-looking running shoe at the annual sporting-goods trade fair in Chicago in 1979. The shoe was produced by a small British concern called Reebok (after a speedy African antelope), which had been around since 1895 and had provided shoes for many illustrious runners, including the 1924 Olympic team immortalized in *Chariots of Fire*. Fireman acquired the license to sell Reeboks in North America, but his plans fizzled because the market was already saturated and his shoes were more expensive than most of his competitors'. "It was tough," says Jim Barclay, Fireman's partner from the early days. "Really tough."

In 1982, Barclay was in California trying to drum up interest in Reeboks when he discovered that women were besieging shoe dealers with requests for something called an aerobics shoe. Maybe, Barclay told Fireman on his return, Reebok should try to produce one. Fireman could barely spell aerobics, but he trusted Barclay's instincts, and despite the reservations of their financial partner, Pentland Industries, they decided to enter the aerobics market with a shoe that combined a comfortable, colorful, stylish ballet-slipper top

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## AROUND REEBOK, FIREMAN IS SAID TO HAVE A KNACK FOR PUSHING A CONCEPT TO THE VERY LIMITS OF GOOD TASTE.

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ue. So the designers have to use some sleight of hand to provide the technical details of a specific sports shoe—be it tennis, basketball or even cycling—while actually delivering a penny Loafer.

Reebok was the first major athletic-shoe company to catch on to this central paradox of the business. It has gained market share largely by going outside its traditional arena and stealing from the casual-shoe business. Its gains have come far less from vaunted Nike than from Bass Weejun. And as Reebok has risen, so has the athletic-shoe industry as a whole, expanding by 42 percent in the past three years alone. Athletic shoes now account for more than a third of all shoes sold. Unfortunately, the fashion appeal on which Reebok founded its business appears, perversely, to be passing out of style; now performance—meaning the technical superiority in which Nike has always held the edge—is back on top. A joke circulating in the buying depart-

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*John Sedgwick's most recent book, The Peaceable Kingdom: A Year in the Life of America's Oldest Zoo, is due out in paperback this winter.*

his hand in designing products, and despite some new high-profile marketing talent in upper management, associates still believe Fireman has the best sense in the company for which shoes will sell. Around Reebok, he is said to have "tweaking magic," that inscrutable knack for pushing a design or a concept to the limits of good taste where excitement resides. He is also, says LaBonté, extremely good at "screwing up a meeting," meaning he can turn everybody around in a hurry if he feels they are heading in the wrong direction.

For these skills Fireman is well compensated. In 1987, he received salary and bonuses totaling \$15.4 million, which made him the third-highest-paid executive in America. It is a fact he would rather the public didn't know, since he styles himself as a regular pizza-loving, poker-playing kind of guy. His financial arrangement stems from the dog days of 1981 when he and his backers negotiated a pie-in-the-sky contract in which he was guaranteed 5 percent of the company's pretax earnings over \$20 million. "Back then \$20 million was a fantasy," Fireman says. "But isn't it wonderful that some fantasies come true?"



Nike's direct and powerful appeal to serious athletes (top) hit glitzy Reebok where it hurt: market share. Fireman quickly responded with a campaign emphasizing fashion (bottom). But the ads have apparently failed to slow Nike's momentum, forcing Reebok to rethink its strategy.

with a durable rubber sole. They called it the Freestyle. It was shipped to stores in the spring of 1983, and for three or four months it—like all the Reeboks before it—languished on the shelves. Then Fireman and Barclay got the bright idea of placing the shoes, via discounts and giveaways, on the key feet in the market: those of the slim and sexy instructors at the front of aerobics classes. Suddenly, orders that had come in for eight pairs here and 12 pairs there started coming in for 150 pairs and 250 pairs at a time, and they haven't stopped.

Although the Freestyle started purely as an aerobics shoe, customers enjoyed the combination of comfort and style enough to wear them elsewhere. Much to Reebok's good fortune, Cybill Shepherd wore her tangerine-colored high-tops to the Emmys, and Mick Jagger donned his black ones for a rock video. The Freestyle is now the largest-selling athletic shoe of all time, and is still the heart of Reebok's business.

**R**EEBOK QUICKLY OUT-grew its roots, and in 1985 the Massachusetts company bought out the British firm (though the company's origins are still visible in its Union Jack logo). Year by year, Reebok kept growing faster than anyone imagined possible: \$3.5 million . . . \$13 million . . . \$66 million . . . \$307 million . . . \$919 million . . . \$1.4 billion. Early on, Barclay was asked how big he wanted the company to be. "One dollar over \$75 million," he said, explaining that would put it ahead of New Balance, which wasn't even in the top five at the time. Now that Reebok is approaching \$2 billion, New Balance is barely visible in its rearview mirror.



The company sustained the growth by refining its products for the aerobics market while maintaining the trademark Reebok chic. And it branched out successfully into new categories: running, tennis, basketball, cycling, walking and even children's shoes (called, cleverly, Weeboks). In 1986, Reebok started to spend some of its ample cash reserves to buy up competing companies, such as Avia (\$180 million), which produces high-performance basketball shoes, and Rockport (\$118 million), a walking-shoe company that has since acquired the boot maker John A. Frye Company. It also began buying into new areas, such as Ellesse sportswear for women. In each case, Reebok instructed the acquisitions to market aggressively, even if it meant giving the parent company a thump. "If we have to lose business," LaBonté explains, "we'd rather lose it to ourselves."

For a while, nearly everything the company touched went platinum. Reebok captured 40 percent of the tennis-shoe market; Avia's sales climbed by 47 percent after the takeover. And Tinkerbell was working overtime, for even Reebok's blunders suc-

ceeded. When an early order of Freestyle shoes came from the Korean factory with wrinkled leather, wrinkled leather became "The Look," and when distribution continued to lag behind demand, the resulting scarcity only inflamed customers' desires. Sloppy delivery actually saved Reebok's credibility after an early foray into sportswear produced a line of popular but shabby goods. "Our distribution was so bad that we didn't ruin ourselves," says LaBonté. "Most of the clothes didn't reach the shelves in time for the holiday sales."

Now, after six years, Tinkerbell seems to have taken her magic elsewhere, and Reebok's very success is a large part of the problem. In the glory days, Reeboks seemed to consumers to be a personal discovery. Now that as many as 50 million have been sold in a single year, everybody owns a pair—not just teenagers, but teenagers' parents and grandparents. Imagine the problems Mercedes-Benz would have if everybody drove a Mercedes-Benz.

And the Reebok brand's lack of zip is mirrored by a staidness within the Reebok company. Once upon a time, everybody stayed up late opening the cartons of shoes

together, decisions were made on the fly and everything was gravy. Now Reebok has become a corporation, with a good portion of the stultifying bureaucracy that the term implies. Barclay left this fall because of it, complaining darkly about "meetings and meetings and meetings."

The biggest blow of all, though, was that people weren't talking about Reeboks any more. They were talking about Nike. That was galling. Nike! Two companies in the same business could hardly be more different. Nike, of Beaverton, Oregon, was founded by Philip Knight, a ferociously competitive former middle-distance runner on the University of Oregon track team who was determined to produce the best possible running shoe. Joined by his former track coach, William Bowerman, Knight assembled a team of dedicated runners and rode the '70s jogging boom to success. Reebok, by contrast, was founded on the other coast by a mild-mannered marketer with a side interest in golf, a man whose chief ambition for the company is, in his own words, "to have fun."

At last year's annual sportswear show, the Nike booth displayed the company's

mind. For his part, Knight calls Fireman "the enemy." He says he is furious that Reebok forced him to lay off 280 employees a few years ago, and he won't be satisfied until he has forced Fireman to take the same medicine.

**F**IREMAN DISMISSES Nike's resurgence as inevitable after such a precipitous decline. And he pooh-poohs Nike Air as nothing more than marketing. "The air has no residual value," he insists. "It's just sex appeal." But Fireman does acknowledge that Nike has popped him one and that his company is better for it. "We're Mike Tyson," he says. "We're so good, we're almost invincible. For the longest time, we couldn't get any boxing matches, so we tried to stay in shape by sparring, doing roadwork and shadowboxing. Now, finally, we've got a fight, and we're getting smacked a few times where we never got smacked before. But that's the best thing that has happened to us in a long time. You've gotta have the competition. That's what keeps you sharp."

ner of, say, a Rolex watch or a BMW. Rather, they bring out the wearer's personal identity. As Marty Cook, a Chiat/Day copywriter, so memorably expressed it, Reeboks let U.B.U. The letters themselves are simply a mnemonic device to inscribe the message directly on the viewer's brain. And the various levels of the ads—they feature Hungarian folk music and recitations from Emerson, Montaigne and Shakespeare along with the bizarre characters—provide something for everyone to grab on to.

Reebok higher-ups insist that critics who claim the ads are too oblique are all wet, that the campaign was never designed to sell shoes—although they admit they would not have been disappointed if it had. The company just wanted to get people thinking about Reeboks again. Fireman calls the campaign a "sorbet" to cleanse the pallet after the last campaign and prepare the way for U.B.U.'s phase two, which will get down to specific shoes.

Reebok's ambitions for the project were to break through the advertising clutter, to attract the fashion-conscious women on whom Reebok depends and to capture the imaginations of those all-important trend-setting teenagers. In the first of these goals, O'Connell is confident the ads succeeded, and the storm of controversy only reinforces his conviction. As he says, "Who on God's green earth would have ever thought that athletic-footwear advertising would be on the lips of everybody in the country?" The verdict is split on the other two goals. Women were, presumably, taken by the jazzy fashion aspect of the ad, but the jury is still out on those trend-setting teenagers.

In a sense, the U.B.U. campaign was also intended for Reebok headquarters, to assure employees who had doubtless been dizzied by the sudden shift from start-up to mega-corporation that Reebok was still a start-up at heart. By being so open-ended, the ads succeeded in playing the meaning of Reebok both ways. Just as the ads explicitly mass-marketed individuality in an attempt to return to the good old days when Reeboks were unique, the campaign tried, implicitly, to reinvigorate a \$1.4 billion corporation with that old entrepreneurial vim by letting Reebok B. Reebok—quirky, funky, different. One of the things Fireman liked best about the ads was that the company had the courage to run them at all. And he notes with pride that Nike would never have done it.

Courage may be just what is needed, because Reebok is in an inherently perilous position. Historically, the athletic-shoe market has not been kind to industry leaders. It typically gives them about five years in the sun, then shunts them into oblivion. Five years ago, Nike was number one, and

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## LAST FALL FIREMAN'S PARTNER LEFT THE COMPANY, COMPLAINING DARKLY OF 'MEETINGS, MEETINGS AND MEETINGS.'

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purity: It resembled a Greek temple (presumably of Nike, the Greek goddess of victory) and featured a tuxedo-clad pianist riffing the keys of a white grand piano. Reebok's display was a postmodernist version of Stonehenge with a colossal U.B.U. on each of the four walls. A vast video wall flanked the entrance. Inside, the Chicago City Limits comedy group performed, and scantily clad dancers writhed to a disco beat. Different. As the ads proclaim, "Just Do It" Nike is for doing; "U.B.U." Reebok is for being. One grunts, the other floats; one is of the body, the other of the mind.

While the press has been inclined to play up talk about a sneaker war between Reebok and Nike, the truth is that this is less open combat than it is the sniping of two social rivals, each of whom is shocked that anyone could possibly prefer the other. For its part, Reebok generally doesn't even deign to acknowledge Nike—which, of course, is far different from not seeing that it is there and gaining fast.

Paul Fireman has never met Philip Knight. He claims that Knight refuses to see him but that he himself would not

Given the Nike competition, however, the Reebok U.B.U. ads are particularly hard to figure. Nike was winning by stressing the performance of its shoes. Analysts figured that the sensible response was for Reebok to produce ads stressing performance, too. But Reebok saw its challenge differently. The company had tried a mildly performance-angled series of ads the year before, showing a bunch of tough inner-city kids playing nose-to-nose basketball in Reeboks. They didn't work because they weren't credible. Plus, Reebok didn't want to be seen as responding to Nike.

Instead, Reebok believed it needed, in Fireman's term, to "re-energize" the Reebok brand, to make it a household word like Kleenex or Scotch Tape and to let the name alone carry the company into the future. Market research showed that Reebok was right up there with Coke and Pepsi as one of the best-known brand names in the country, and, amazingly, it ranked in the top five around the world. Unlike most status items, however, Reeboks are not, in the words of the Reebok Brands president, Frank O'Connell, a "badge" endowing the owner with a set of attributes in the man-

five years before that Adidas was first. Nike, of course, is still a contender, but Adidas has barely 6 percent of the American market today. By this calculation, Reebok's years of supremacy are just about over, and no doubt the grumblings about the company reflect the industry's eagerness to get on with the inevitable.

So how will Reebok beat the odds? By marketing the hell out of itself. Phase two of the U.B.U. campaign will be unveiled this month and will do what outside experts had expected Reebok to do during phase one—go toe-to-toe with Nike in offering the product-specific performance advertising that retailers have been clamoring for ever since they saw Nike's "Just Do It" ads. The pallet, in Fireman's terms, has been cleansed.

Having seen the success of Nike Air, Reebok will counter with its own Energy Return System, which, it claims, goes beyond the cushioning and stability of the Nike Air to provide a kind of superball-like bounce. Thanks to tubes of plastic Hytrel embedded in the sole, the shoes will allow wearers, as the old P.F. Flyers once advertised, to "run faster and jump high-

ways stood for a combination of fashion and performance, that the original Free-style had a technical foundation for its good looks. Maybe so, but the look is all anyone remembers—and it was all that was emphasized by phase one of U.B.U. It remains to be seen whether the next round of commercials can counter that impression. To this end, Reebok has signed up Danny Manning, the Los Angeles Clippers rookie and Kansas all-American, to wear its Commitment basketball shoe. (The company is painfully aware of the risks of attaching a product to the reputation of a star athlete; its last high-profile basketball spokesman was Len Bias, the Celtics draft choice who died of a cocaine overdose before he played his first game.)

There is a net under this high-wire act. Even if phase two of the campaign doesn't sell shoes any better than phase one did, it will still have succeeded: By spending so much money on advertising, Reebok will raise the price of getting attention so high it will effectively shut out the less-well-financed opposition. It may not hurt wealthy Nike, but at least Reebok can be assured that no other Reebok will rise up

## BY ADVERTISING SO HEAVILY, REEBOK IS RAISING THE PRICE OF ATTENTION, SHUTTING OUT POORER COMPETITORS.

er" (or, in U.B.U.-speak, "run fast R. N. jump I. R."). Physicists have dismissed as negligible the benefits to be derived from the four-joule bounce Reebok claims the Hytrel will provide, considering a runner produces 1,000 joules per stride. Besides, other critics contend, most buyers will be more interested in using up energy than in saving it. But Fireman is undeterred. "At least they're talking about it," he says. The real benefit of Energy Return, one has to assume, is that it provides some "talking points" to assure customers of its technical value. By one account, Reebok technicians are even trying to think of ways to open up a Nike-like window through which buyers can see the technology.

And Reebok will use the breadth of its market to break out of the performance-versus-fashion box. It will stress the technological appeal of ERS for the big-spenders at the high end of the market and push fashion at the low end. Yet even the performance side will be fashionable, having been tweaked to the max by Fireman and company.

Can a product be all things to all people? Reebok claims that its shoes have al-

to knock it off.

At a breakfast for retailers before the trade fair last fall, Fireman pushed the idea that they should "franchise" Reeboks by setting aside a corner in each of their stores to display his products. He was fully aware that retailers would also display Nike—and possibly number-three Converse and a few others. But he also knew that the proposal—if accepted—would lock the rest of the nearly 80 brands now competing for a spot on the shelves out in the cold.

So Reebok can't fall all that far. If everything goes according to plan, Reebok and Nike will be the McDonald's and Burger King of the athletic-shoe industry—dividing the market between them to the exclusion of smaller competitors. For all Reebok's evident dislike of Nike, and vice versa, they need each other. Fireman will give a little ground now, but he'll come charging back soon. As he says, "Maybe we'll win this fight with Nike, and maybe we'll lose, or maybe it'll be a draw. I don't know. But it's going to go on and on. And I'll tell you this. It's gonna be a Thrilla in Manila." So much for Tinkerbell. ■

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