

Priva

South Korea & Turkey

Observations & Ruminations

Korea Capital Markets Institute – TEPAV Seminar on
“HOW TO AVOID MIDDLE INCOME TRAP: POLICY LESSONS FROM KOREA”
17 September 2013, Tuesday, Ankara

PANEL: “A general discussion: How do Korea and Turkey compare in terms of development experience?”

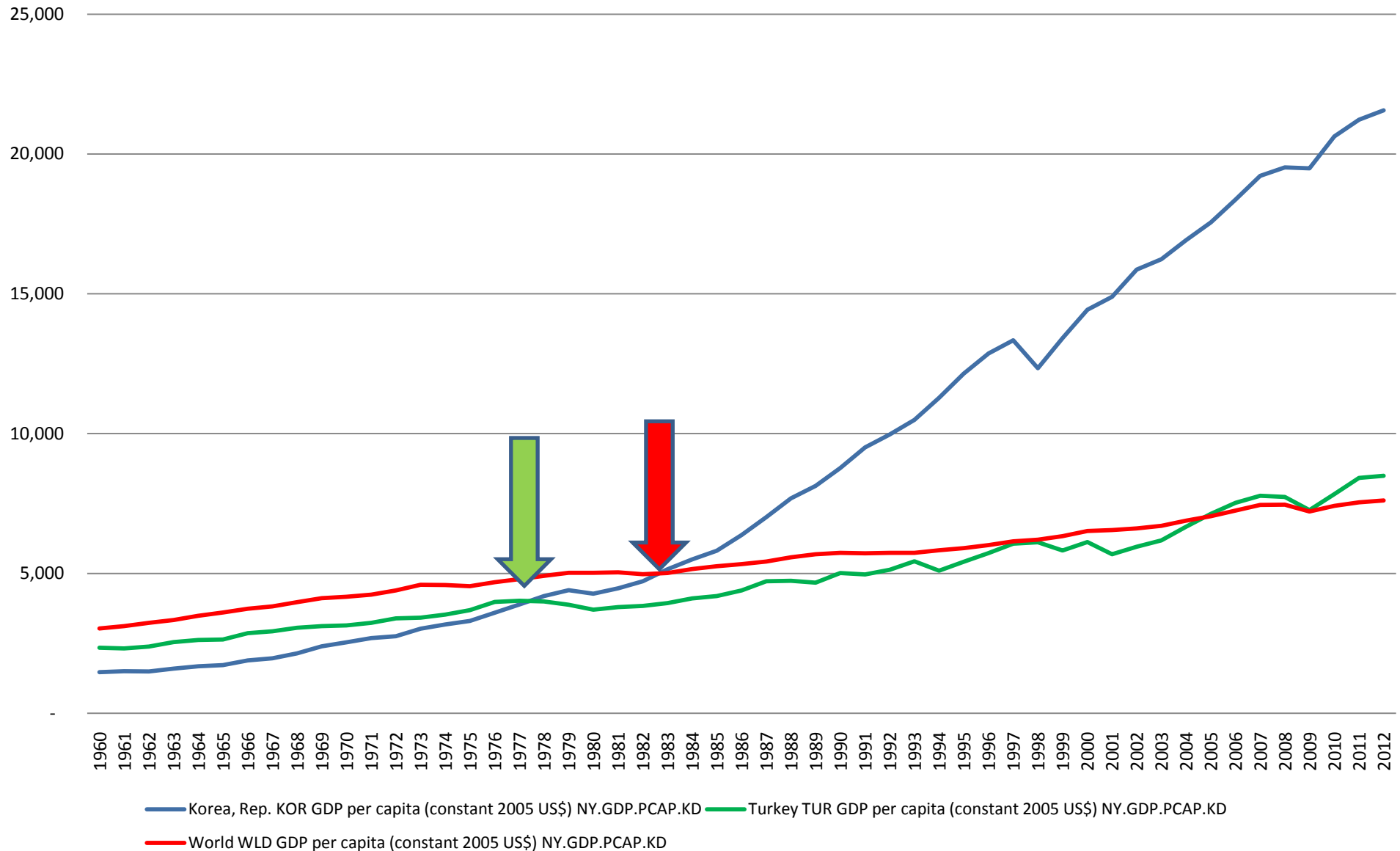
Ercan Erkul
2013

Korea: new member of the 20-50 club in 2013

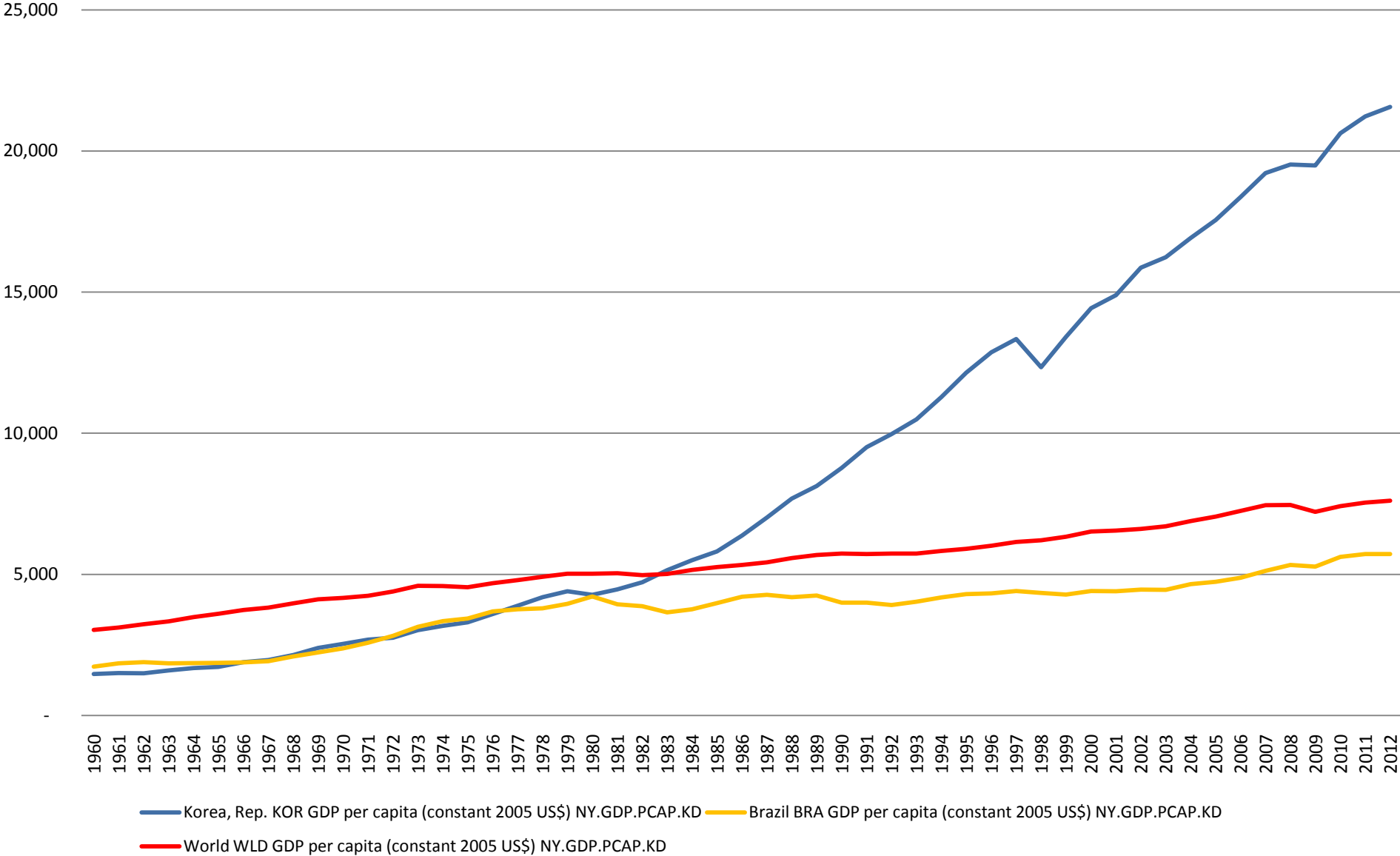
S. Korea joining '20-50 club' marks new chapter in development history

- SEOUL, June 23 (Yonhap) -- South Korea joining the ranks of the **exclusive "20-50 club"** marks a new chapter in the development history of the country, the government said Saturday.
- The finance ministry said as the country's population has passed the 50 million mark and it has been able to maintain a per capita income of over US\$20,000, South Korea has achieved an unprecedented feat for a newly industrialized economy.
- The 20-50 club is a coined term by the local media to highlight countries who possess sizable populations and yet maintain high levels of personal income. There are many countries around the world with per capita exceeding \$20,000, but many have small populations. Besides South Korea, there are **25 countries with a population of 50 million**, although many have low incomes and are still in the process of economic development.
- "South Korea is the **seventh country to meet the two criteria**, and the first country that was not an industrialized economy before World War 2 to achieve this," the ministry in charge of the country's economic policies said.
- Japan was the first to meet the standard in 1987, followed immediately by the United States in 1988, with France and Italy making the list in 1990. Germany joined in 1991 with Britain being included in 1996.
- "All the other countries have gone on to increase their per capita to \$30,000, an indication that a sizable population is an important factor for sustainable economic growth," it said.
- The ministry, however, said that despite the achievement, the country must take steps to cope with rapid aging of the population caused by the record low birthrate, and a slowdown in economic growth potential as the country will face a drop in people of working age.

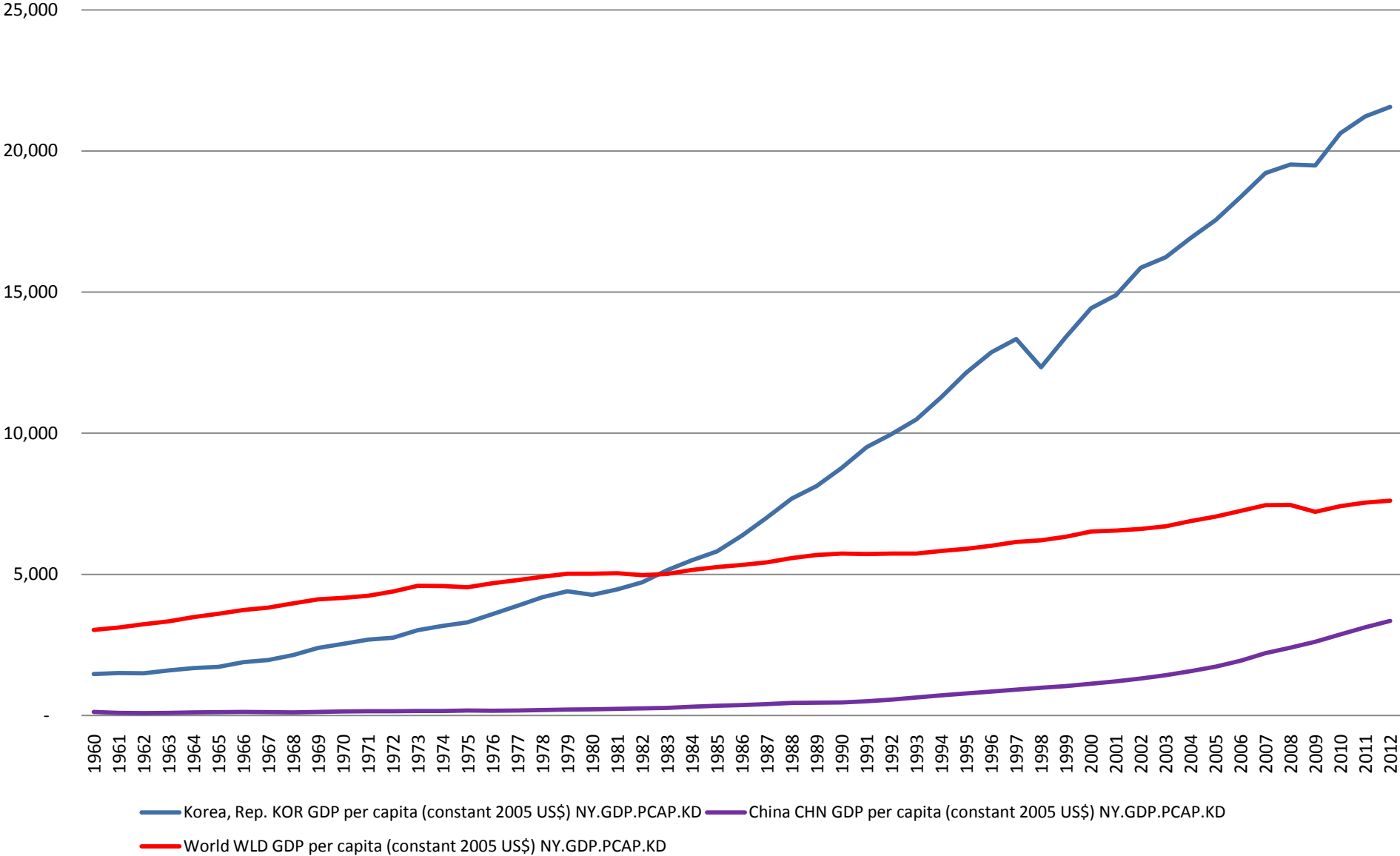
Turkey-Korea GDP per capita



Brazil-Korea GDP per capita



China-Korea GDP per capita



Grand Barrier of World Average Income (WAI) > WAB

Grand Barrier Reef



Growth miracles: Lucas 1993

- IN 1960, THE PHILIPPINES AND SOUTH KOREA had about the same standard of living, as measured by their per capita GDPs of about \$640 U.S. 1975. The two countries were similar in many other respects. There were 28 million people in the Philippines and 25 million in Korea, with slightly over half of both populations of working age. (...)
- From 1960 to 1988, GDP per capita in the **Philippines** grew at about **1.8 percent** per year, about the **average for** per capita incomes in **the world as a whole**. In **Korea**, over the same period, per capita income grew at **6.2 percent** per year, **a rate consistent with the doubling of living standards every 11 years**. Korean incomes are now similar to Mexican, Portuguese, or Yugoslavian, about three times incomes in the Philippines, and about one third of incomes in the United States.
- I do not think it is in any way an exaggeration to refer to this **continuing transformation of Korean society as a miracle**, or to apply this term to the very similar transformations that are occurring in Taiwan, Hong Kong, and Singapore. Never before have the lives of so many people (63 million in these four areas in 1980) undergone so rapid an improvement over so long a period, nor (with the tragic exception of Hong Kong) is there any sign that this progress is near its end. **How did it happen? Why did it happen in Korea and Taiwan, and not in the Philippines?**

Growth miracles: Lucas 1993

- **Questions like these can be addressed at many levels.** It is useful to begin simply by listing some of the **features** of these transformations in addition to their income growth rates.
 - All of the East Asian miracle economies have become large scale **exporters of manufactured goods of increasing sophistication.**
 - They have become **highly urbanized** (no problem for Singapore and Hong Kong!)
 - and increasingly **well-educated.**
 - They have **high savings rates.**
 - They have **pro-business governments**, following differing mixes of laissez faire and mercantilist commercial policies.
- **These facts -or at least some of them- must figure in any explanation of the growth miracles, but they are additions to the list of events we want to explain, not themselves explanations.**
- We want to be able to use these events to help in assessing economic policies that may affect growth rates in other countries.
- **But simply advising a society to "follow the Korean model" is a little like advising an aspiring basketball player to "follow the Michael Jordan model."**
- **To make use of someone else's successful performance at any task**, one needs to be able to break this performance down into its component parts so that one can see what each part contributes to the whole, which aspects of this performance are imitable and, of these, which are worth imitating. **One needs, in short, a theory.**

Samsung: a success story

Samsung Giving Apple A Run For Its Money

Sep 14 2013, 18:45

“... while Apple’s iPhone may be the biggest selling smartphone in the U.S., it is still a distant second in the worldwide market. According to a [recently released report by Gartner](#), during the second quarter of 2013, smartphone sales grew from 153.77 million units to 225.36 million units. South Korean electronics giant, **Samsung** ([SSNLF.PK](#)), was the clear leader, with **71.38 million units**, accounting for **31.7%** of the global market. **Apple** came in second with **31.9 million units**, or a **14.2%** market share. Compare that with the previous quarter, when Samsung had 29.7% and Apple 18.8% of the market. Slowly but surely, Samsung is widening its lead, and Apple’s new phones will have a tough time catching up. The main advantage that Samsung is capitalizing on, today, is its much better channel coverage in the low end of the smartphone market, especially in the emerging geographies.”

“Originally founded as a trading company in 1938, Samsung is now the largest business conglomerate in South Korea. It offers a wide range of products that range from insurance, shipbuilding, electronics and construction, to name a few. Of late, Samsung’s electronics and semiconductor business has become its core business operation. Samsung’s biggest advantage over other players like Apple and Google (GOOG) lies in its **diversification**. Not only is the company a **leader in the smartphone segment**, it is also the **second-largest vendor in the overall semiconductor market worldwide**.”

“Samsung’s stock is trading at 906,000 Korean won (~\$628.76) with a market capitalization of 227.39 trillion won (~\$0.158 trillion). It touched a 52-week high of one million won (~\$694.06) in May 2013.”

http://seekingalpha.com/article/1693982-samsung-giving-apple-a-run-for-its-money?source=email_rt_article_readmore&app=1

Why market values Samsung so low?

Top 10 Semiconductor Companies (USD Billion)

	Company	Country	Sales	Profits	Market Value (MV)	MV/Profits	MV/Sales
1	Samsung Electronics	Korea	187.8	21.7	174.4	8.04	0.93
2	Intel	USA	53.3	11	105.7	9.61	1.98
3	Qualcomm	USA	20.5	6.6	111.6	16.91	5.44
4	Taiwan Semiconductor	Taiwan	17.4	5.7	89.9	15.77	5.17
5	Texas Instruments	USA	12.8	1.8	38.8	21.56	3.03
6	ASML Holding	Netherlands	6.2	1.5	28.9	19.27	4.66
7	Broadcom	USA	8	0.7	19.7	28.14	2.46
8	SK Hynix	Korea	9.6	-0.1	18	NA	1.88
9	Applied Materials	USA	8.1	0	16	NA	1.98
10	Tokyo Electron	Japan	7.6	0.4	8.5	21.25	1.12
Total			331.3	49.3	611.5	12.40	1.85

“For the recently ended quarter, Samsung saw revenues grow from \$40.71 billion a year ago to \$47.54 billion. Earnings were also significantly up at \$41.61 for the quarter, compared with \$29.06 a year ago. But **analysts are not too happy with the performance. During the past quarter, Samsung has increased spending on R&D and marketing. Despite that, sales of the Galaxy S4 phone have been less impressive.** Samsung does not disclose segment sales, but analysts estimate that it sold nearly 20 million units of the latest S4, falling short of market expectations for the phone.

Apple believes that Samsung has grown into its position by copying several of its patented innovations. In fact, last year, the courts had awarded Apple \$1.05 billion in damages by ruling that Samsung had violated patents. Since then, through appeals, damages have been reduced and several patent copy issues are being re-examined. While courts deliberate, Samsung has continued to release newer products.

International contracting industry: number vs revenue

 **Milliyet.com.tr** 25 Ağustos 2013
BASINDA GÜVEN

“Türk müteahhitler zirveye göz koydu

Dünyanın en büyük 225 müteahhiti listesinin 2012 sıralamasında 33 Türk şirket var. Arap Baharı'ndan ağır yara alan Türk yatırımcılar bu alanda 16 milyar dolarlık iş üstlenerek listedeki ikincilik konumunu korudu.”

 **Radikal**

17/09/2013

İnşaatta Türkler zorlanıyor Koreliler ilerliyor



GÜVEN
SAK

En büyük inşaat şirketlerinin toplam gelirleri içinden Türk şirketlerinin aldıkları pay 3,8'den yüzde 3,3'e gerilemiş.

International contracting industry: number vs revenue

HOW THE TOP INTERNATIONAL CONTRACTORS SHARED THE 2012 MARKET																	
DESIGNER NATIONALITY	# OF FIRMS	INT'L REVENUE		MIDDLE EAST		ASIA		AFRICA		EUROPE		UNITED STATES		CANADA		LAT. AMER / CARIB.	
		\$ MIL.	%	\$ MIL.	%	\$ MIL.	%	\$ MIL.	%	\$ MIL.	%	\$ MIL.	%	\$ MIL.	%	\$ MIL.	%
AMERICAN	33	71,516.9	14.0	11,932.4	13.1	22,691.8	16.3	2,652.2	4.7	8,127.0	7.9	NA	NA	18,889.7	68.7	7,223.9	14.4
CANADIAN	3	1,237.0	0.2	181.4	0.2	70.4	0.1	286.2	0.5	296.8	0.3	193.4	0.4	NA	NA	208.7	0.4
EUROPEAN	58	254,989.8	49.9	26,305.6	28.8	58,158.2	41.9	17,962.8	31.6	83,111.0	81.3	38,027.7	86.2	7,117.7	25.9	24,306.9	48.6
BRITISH	3	12,177.3	2.4	1,743.6	1.9	3,363.7	2.4	837.5	1.5	2,008.2	2.0	3,974.6	9.0	132.5	0.5	117.2	0.2
GERMAN	4	43,496.0	8.5	1,871.4	2.0	22,476.4	16.2	695.8	1.2	6,919.7	6.8	10,008.2	22.7	1,169.2	4.3	355.3	0.7
FRENCH	4	43,244.5	8.5	2,064.1	2.3	5,990.2	4.3	5,062.6	8.9	20,454.7	20.0	4,047.0	9.2	2,755.5	10.0	2,870.5	5.7
ITALIAN	17	30,934.5	6.1	8,689.3	9.5	3,808.7	2.7	7,400.7	13.0	5,468.3	5.3	608.2	1.4	671.2	2.4	4,288.3	8.6
DUTCH	2	7,444.0	1.5	362.6	0.4	811.0	0.6	165.9	0.3	5,905.3	5.8	0.0	0.0	50.6	0.2	148.7	0.3
SPANISH	12	72,889.3	14.3	4,429.7	4.9	20,426.1	14.7	1,457.6	2.6	16,028.8	15.7	13,802.7	31.3	1,960.8	7.1	14,783.6	29.6
OTHER	16	44,804.2	8.8	7,145.0	7.8	1,282.2	0.9	2,342.7	4.1	26,326.1	25.7	5,587.0	12.7	377.9	1.4	1,743.3	3.5
AUSTRALIAN	4	10,197.0	2.0	1,190.8	1.3	4,649.3	3.3	61.6	0.1	934.6	0.9	2,133.3	4.8	1,017.8	3.7	209.7	0.4
JAPANESE	15	21,016.7	4.1	2,339.8	2.6	14,118.5	10.2	654.4	1.2	506.7	0.5	2,310.3	5.2	307.1	1.1	780.0	1.6
CHINESE	55	67,065.3	13.1	9,311.1	10.2	24,003.2	17.3	25,487.4	44.8	1,622.5	1.6	592.1	1.3	1.0	0.0	6,048.0	12.1
KOREAN	15	41,389.7	8.1	26,700.9	29.2	9,782.3	7.0	2,732.0	4.8	309.9	0.3	598.4	1.4	111.8	0.4	1,154.4	2.3
TURKISH	38	16,804.3	3.3	5,210.1	5.7	3,002.6	2.2	2,316.1	4.1	6,104.7	6.0	2.6	0.0	0.0	0.0	168.3	0.3
BRAZILIAN	4	11,898.9	2.3	26.3	0.0	0.0	0.0	2,304.7	4.1	427.3	0.4	235.7	0.5	0.0	0.0	8,904.9	17.8
ALL OTHERS	25	14,759.9	2.9	8,119.7	8.9	2,337.9	1.7	2,407.6	4.2	822.5	0.8	13.0	0.0	47.8	0.2	1,011.4	2.0
ALL FIRMS	250	510,875.5	100.0	91,318.1	100.0	138,814.2	100.0	56,864.9	100.0	102,262.9	100.0	44,106.4	100.0	27,492.8	100.0	50,016.1	100.0

SOURCE: ENR. NOTE: EXCLUDING \$176.4 MILLION FROM ANTARCTIC / ARCTIC OR UNALLOCATED

- Average Revenue per firm is 442 mn USD for Turkish, 2759 mn USD for Korean contractors.
- Turkey is the 10th biggest contractor nation, Korea 5th.

International contracting industry: EPC focus of Korea

National Origins and Markets of International Contractors

	General	Manufacturing	Power	Water	Sewer/Waste	Industrial/Petroleum	Transport	Hazardous Waste	Telecom	Total USD
1 USA	11%	1%	5%	1%	1%	67%	15%	0%	0%	70,856
2 China	23%	0%	24%	4%	1%	13%	33%	2%	0%	65,485
3 Spain	24%	1%	16%	4%	3%	13%	36%	1%	2%	64,796
4 France	16%	0%	7%	1%	0%	30%	43%	1%	2%	41,303
5 S.Korea	7%	2%	21%	1%	1%	61%	7%	0%	0%	40,688
6 Germany	36%	2%	5%	4%	4%	19%	24%	1%	4%	35,372
7 Italy	3%	0%	4%	8%	1%	66%	18%	0%	0%	30,792
8 Japan	19%	20%	2%	1%	1%	41%	13%	0%	1%	20,477
9 Austria	38%	0%	0%	4%	3%	7%	49%	0%	0%	17,149
10 Turkey	42%	1%	7%	9%	2%	14%	25%	0%	0%	16,632

- Korea targeted the engineering, procurement and construction (EPC) projects, especially in the GCC countries.
- “One of the most striking aspects of the GCC energy EPC market in the last few years has been the rise of the South Korean contractors as the dominant players. This is not a surprise to South Korean companies who seem to have a talent in going up the learning curve relatively quickly.” <http://www.arabianoilandgas.com/article-8505-rise-of-the-south-korean-contractor/1/print/>
- But, USA contractors are, still leaders in so-called front end engineering and design (FEED) and project management (PMC) work. <http://www.verticalresearchpartners.com/research-note.cfm/engineering-and-construction-e-c-if-you-can-t-beat-em-join-em-epc-prospects-to-build-in-the-me.>
- “bne - 21.05.2013: Turkey's Petkim officially announced that it has signed an EPC (engineering, procurement and construction) contract with a consortium of Tecnicas Reunidas (Spain), Saipem (Italy), GS E&C (South Korea) and Itochu (Japan). The parties have 49 months to build the STAR refinery for a cost of USD 4.35bn, excluding financing. <http://www.balkans.com/open-news.php?uniquenumber=175056>

Defense News Top 100 for 2013 (USD)

Row Labels	Values		
	Sum of 2012 Defense Revenue*	Count of Company	Sum of 2012 Defense Revenue*2
US	250,045,418,270	42	62.33%
UK	45,162,507,923	10	11.26%
France	18,890,542,120	5	4.71%
Russia	15,796,893,343	7	3.94%
Netherlands	14,912,960,000	1	3.72%
Italy	13,678,508,234	2	3.41%
Japan	11,280,830,000	9	2.81%
Israel	7,598,669,850	4	1.89%
Germany	4,737,436,000	3	1.18%
India	3,576,731,340	2	0.89%
Sweden	3,013,080,000	1	0.75%
So. Korea	2,519,370,000	3	0.63%
Singapore	1,889,148,501	1	0.47%
Norway	1,778,281,184	2	0.44%
Turkey	1,555,779,955	2	0.39%
Brazil	1,068,061,654	1	0.27%
Swiss	964,601,050	1	0.24%
Finland	851,067,200	1	0.21%
Canada	833,482,160	1	0.21%
Spain	595,466,136	1	0.15%
So Africa	434,939,200	1	0.11%
(blank)			0.00%
Grand Total	401,183,774,120	100	100.00%

Turkey-Korea cooperation in defense

Turkey & South Korea's Altay Tank Project

Nov 25, 2012 17:36 UTC by Defense Industry Daily staff

Latest update ^[?]

Project updates from Otokar, SSM; Formal rollout.



Turkey's tank fleet is currently made up of American M-48s and M-60s, some of which have been modernized with Israeli cooperation into M-60 Sabra tanks, plus a large contingent of German Leopard 1s and Leopard 2s. That is hardly surprising. America and Germany are Turkey's 2 most important geopolitical relationships, and this is reflected in Turkey's choice of defense industry partners. The country's industrial offset requirements ensure that these manufacturers have a long history of local partnerships to draw upon.

In recent years, however, a pair of new players have begun to make an impact on the Turkish defense scene. One was Israel, whose firms specialized in sub-systems, upgrades, and UAVs. The other is the Republic of [South] Korea, who has made inroads in the Turkish market with turboprop training aircraft, mobile howitzers... and now, main battle tanks.

Athletic Footwear Warfare: Surviving in an Oligopoly

JUNG Tae-Soo Research Fellow Samsung Economic Research Institute

I. A History of Latecomer Success

The athletic footwear industry has seen tremendous growth over the last 100 years, turning into a US\$70 billion apparel juggernaut. Dominated by Nike, Adidas, Puma and Reebok, the industry pivots on marketing expenses and advanced technologies that dwarf the general fashion industry and creates a formidable barrier to market entry.

Nevertheless, the history of manufacturing athletic shoes is dotted with latecomers overcoming seemingly insurmountable odds to lead the industry. How they entered and thrived in an oligopoly offer lessons on being adaptable and agile.

II. Fluid Landscape

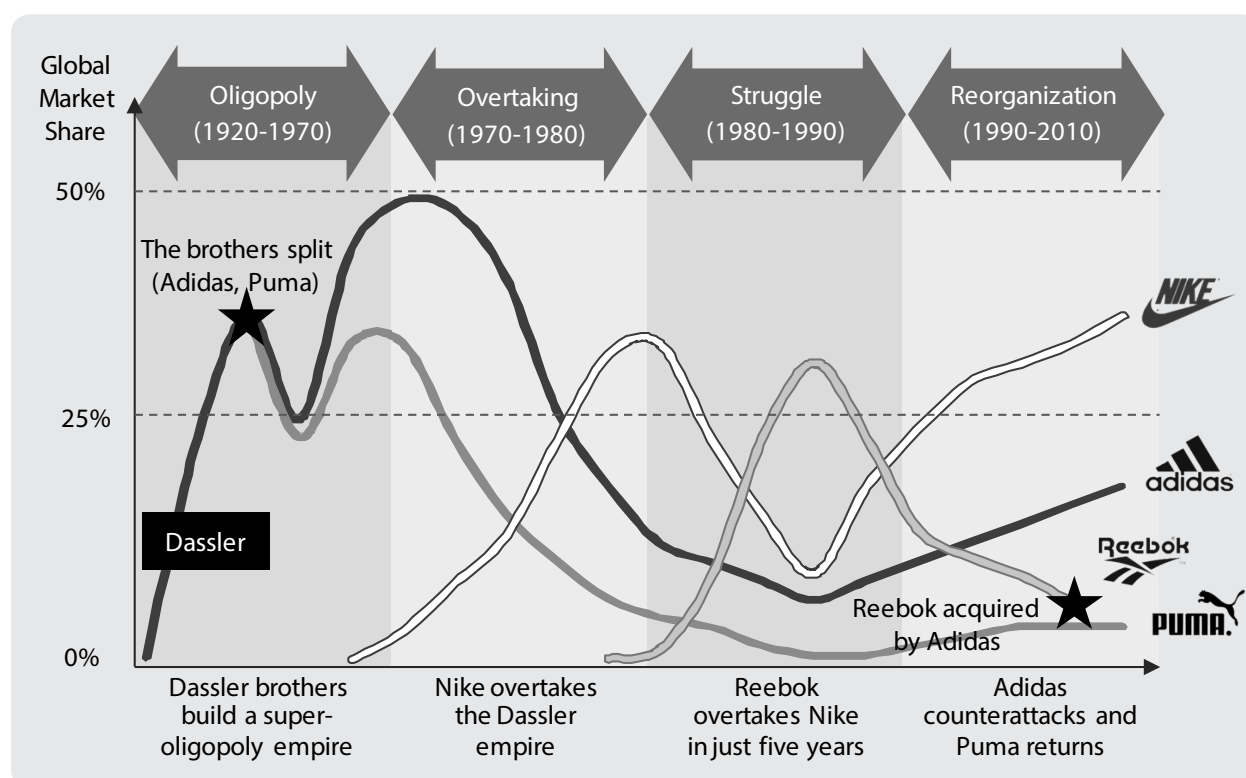
Since its birth in 1920, the modern athletic shoe industry has gone through four major changes in its landscape.

1. Oligopoly (1920-1970): Dassler brothers dominate

Major Strategy	Lock-in strategy, targeting the top of the pyramid (athletes, international competitions and sports associations)
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Two brothers in Germany, Adolf and Rudolf Dassler, started the modern athletic footwear industry in 1920 but their relationship deteriorated and in 1948 they split to form two separate companies Adidas and Puma. To-

The 100-year History of Athletic Shoes



gether or apart, the Dasslers constituted a super-oligopoly market claiming an 85% market share for 50 years.

The Dassler brothers developed a pyramid-shaped marketing model that “locked up” athletes and athletic events, a strategy widely emulated today in sponsorships by companies related and unrelated to sports. At the top of the pyramid, the Dasslers focused on establishing a connection to star athletes, sports associations and international sports events such as the Olympics and World Cup. The association then had a ripple effect, stimulating sales to sports enthusiasts and eventually the mass market. The Dasslers’ super-oligopoly had such wide breadth and influence that they had a voice in the appointment of International Olympic Committee (IOC) President Juan Antonio Samaranch and FIFA President Joseph Sepp Blatter.

The Dasslers also had a technical advantage, thanks to their research and development (R&D) in producing the best shoe for specific sports. For example, in 1940, the brothers were the first to put track shoe spikes on the soles of football shoes. Such innovativeness helped imprint the assumption that a shoe made by the brothers offered a competitive edge and that attracted athletes and ordinary sports enthusiasts.

Adidas and Puma were fierce rivals until the 1960s. However, Puma slipped behind Adidas, which had aggressively strengthened ties with FIFA and IOC, and devoted less effort in tapping foreign markets.

2. Overtaking (1970-1980): Nike catches up to vast empire

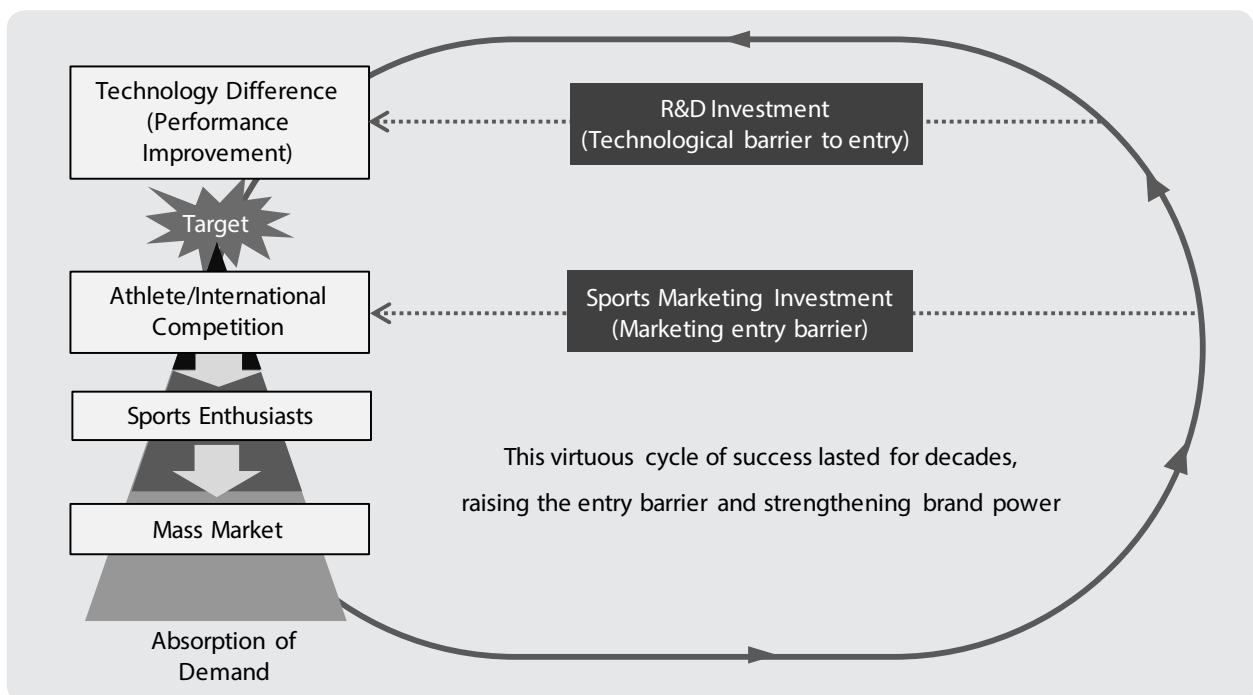
Major Strategy	Directly target mass demand by riding the leisure boom
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Adidas’ dominance ended in the 1970s with the emergence of Nike, which was founded in 1964 by Philip Knight, a former middle-distance runner, and Bill Bowerman, his coach at the University of Oregon. Knight had convinced Onitsuka Tiger (now Asics) to give him US distribution rights of its Tiger shoes and he and Bowerman formed Blue Ribbon Sports. They modified the Tiger shoes and by the early 1970s they were ready to strike out on their own, with their new Nike company name and its iconic “swoosh” logo. Nike shoes debuted in 1972. They were lighter than other running shoes and had a new innovation -- waffle-like nubs for better traction. The shoes were an immediate success.

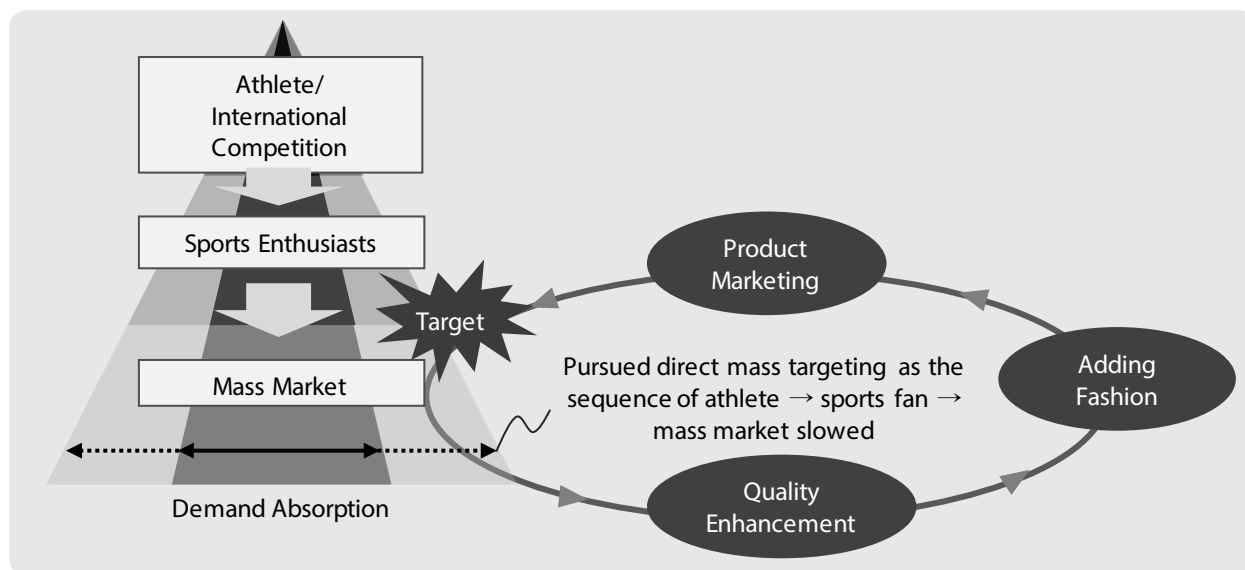
Unlike Adidas, Nike adopted a bottom-up strategy. It quickly recognized the jogging boom in the US and its marketing campaigns targeted the ordinary person getting exercise. Broad popularity in the US, Asia and Europe ensued. In the late 1970s, Nike slashed its operating costs by relocating production in Asia. The move fattened profits, which were poured into R&D and marketing. The subsequent results included the highly popular Nike Air shoes and “Just Do It” advertising campaign.

Meanwhile, Adidas stuck to its pyramid model. It ignored

Dassler Brothers’ Success Route in Athletic Footwear



Nike's Success Formula



its distributors' warnings about the trend toward leisure sports, regarding the feedback as resistance or interference against headquarters, and kept its production in Europe, ceding the operational expenses advantage to Nike.

Adidas eventually found itself locked up in a lawsuit filed by distributors, suffering huge losses. The company's US market share plunged to below 5% from over 70% in the 1970s. In addition, sponsor contracts with athletes, associations and international competitions took a beating. By 1980, Adidas was on the brink of collapse, watching

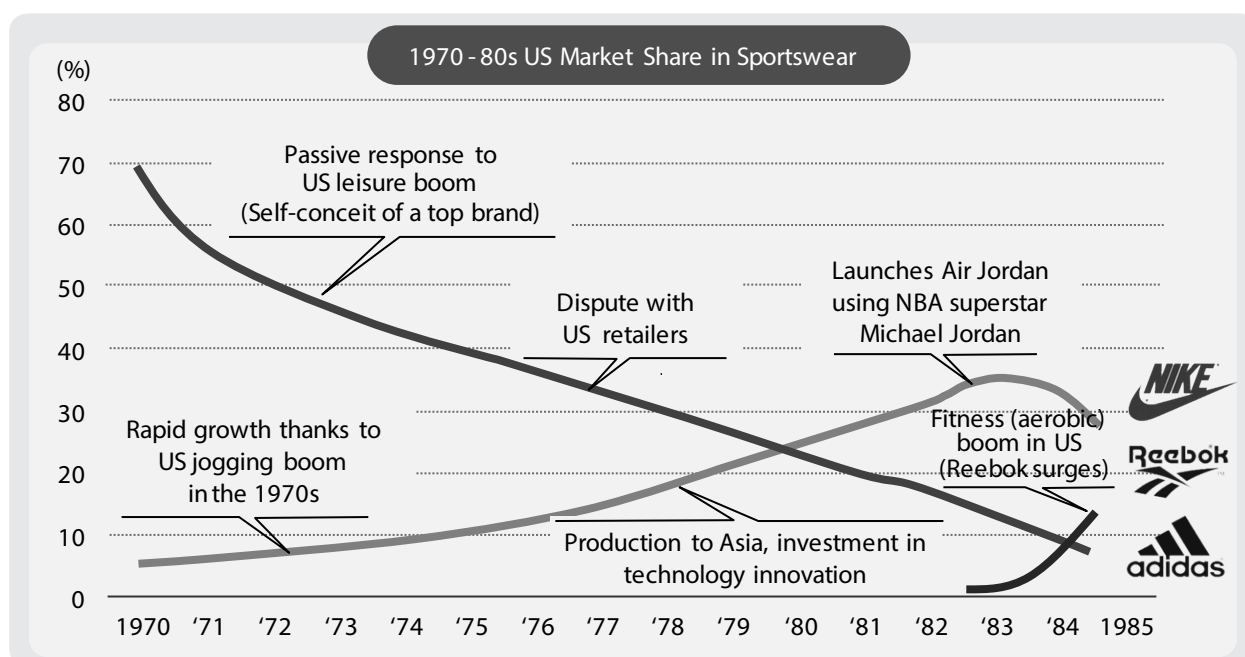
Nike widen its dominance and fatten its profit margin.

3. Struggle (1980-1990) Reebok's attack and Nike's counterpunch

Major Strategy	[Reebok] Adopt Nike's mass target (women leisure demand) strategy [Nike] Counterattack by using Adidas' "star branding" strategy, but with a different twist
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In the 1980s, Nike faced its own comeuppance. UK-

Adidas' Decline in US Market (1970-1980)



based Reebok entered the US market in 1980 and sales multiplied by 300 times to US\$900 million in just five years. By 1987, sales reached US\$1.4 billion, beating Nike not only in the US but also in the global market, to become the world's No. 1 athletic footwear maker.

Reebok's success was achieved by refining Nike's strategy of appealing to the leisure sportsperson. The UK company focused on the surging popularity of women's fitness and aerobic exercise, which followed in the wake of the jogging boom. Reebok created a new category, "fitness wear," and fed the burgeoning demand for leisure sports apparel for women. But it also positioned its core product "Freestyle" outside the market for aerobic exercise wear, declaring its apparel was suitable for jogging and trekking, too. That encroached directly into Nike's main arenas.

With sales and profits plunging, Nike faced its worst of crisis since its founding. It counterpunched by lifting a page out of Adidas' playbook: "star player branding." Shifting from its mass marketing of running shoes, Nike signed up leading athletes. Thanks to its commitment to R&D and marketing, it was positioned to unveil Nike Air with basketball star Michael Jordan, who was nicknamed "Air Jordan." Other couplings were established in golf (Tiger Woods), tennis (Maria Sharapova) and American football (Jerry Rice). Also, Nike rolled its "Just Do It," slogan, which became one of the most widely recognized catchphrases of the 1980s.

Reeling from Nike's new strategy, Reebok mimicked Nike once again by launching "pump" basketball shoes with basketball star Shaquille O'Neal as its spokesman. But the shoes could not beat Air Jordan. In addition, Reebok showed loopholes in the management of retail distribution. Market share plunged and Reebok was acquired by Adidas in 2005.

4. Reorganization (1990-2000): Adidas' counterattack and Puma's comeback strategy

Major Strategy	Expansion into general sportswear (shoe + apparel + equipment) added by fashion
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Adidas embarked on a comeback under new CEO Robert Louis-Dreyfus in 1992. He quickly targeted the company's chronic high-cost structure, closing a French plant that was the main culprit of high costs, and moved the production system to Asia. He also tackled high marketing costs related to contracts with athletes and sponsorships of sports events.

After the revamp, Adidas expanded its focus from footwear to general sportswear to seek differentiation with Nike. For brand innovation, it recruited Rob Strasser and Peter Moore, who had led Nike's success in the 1980s with "Just Do It." The two strengthened market sensing, a chronic weaknesses at Adidas, and launched a simplistic "Equipment" brand for fashion conscious consumers and "Originals," a retro-line of Adidas shoes. Adidas also bolstered its apparel line with emphasis on fashion, differentiating itself from Nike's stress on athletic performance. Thanks to its adjustments, Adidas' annual sales growth of the past 10 years has surpassed Nike.

Meanwhile, Puma, which was on the brink of bankruptcy in 1990 due to reckless over-expansion, found its own CEO for a turnaround. In 1993, Jochen Zeitz, age 30, took the reins and implemented a three-step plan: restructuring, brand repositioning and profitability enhancement. Afterwards, it focused more on fashion than functionality, and created "sports lifestyle," a segment between performance products and general fashion. The changes enabled Puma to resuscitate.

Air Jordan: The Legendary Sneaker that Saved Nike

- Nike, after releasing Air Jordan in 1985, saw sales increase five times in just five years, from US\$800 million to US\$4 billion
- After releasing Air Jordan 1 in 1984, Nike released 25 versions of Jordan series for 26 years until 2010
- Helped by Michael Jordan's remarkable play and popularity, sneakers became a must-own by basketball fans and young people. Robbery and murders even occurred in Nike stores.



III. Implications

Innovation for consumer goods companies starts by identifying changes in lifestyle and new ways of thinking. From the athletic footwear rivalry history, one can notice a channel through which demand expands: change in consumer lifestyle → change in perspective on products → massive new demand. Companies that recognize the changes and can take advantage of them will be positioned to dominate the market. This dynamic gives latecomers a way to overcome market leaders. Meanwhile, leading companies need to stay alert even to small changes going on around the industry.

Understanding consumer trends will be possible only when different capabilities are accumulated. In the consumer goods industry, hit brands are forgotten as new ones arrive. Market sensing, the R&D capability, speed of product planning and launching, and cost competitiveness should be constantly strengthened to have an efficient system of product creation. Flexibility also is imperative. Market trends are bound to change, and various strategies need adjustments or complete makeovers. Nike beat Adidas and was able to defend and keep its top position because it constantly exercised flexibility. It relocated its production, invested in R&D to develop new technologies and shifted its marketing strategy when it fell behind Reebok. SERI