Making a Merger Decision: Fleetfoot Shoes

Mergers and acquisitions, divestitures and buyouts—so many of these approaches have become commonplace in business in recent years. Some feel that hostile takeovers are nothing more than piracy on the high seas of the marketplace. Others see them as the marketplace acting to rescue the shareholders from the tyranny of bad management. Other approaches—acquisitions, mergers, divestitures—are more civilized, a reorganizing of businesses to the theoretical benefit of everyone.

At best, the decision to join two organizations together should result in some sort of synergy—a whole that is greater than the sum of its parts. That synergistic advantage has to be great enough to compensate for the additional costs, efforts, and time involved in joining two disparate organizations. The synergy can evolve from an organization buying needed technology or expertise, a product or market niche that complements the company’s current position, or a process element such as a distribution network that gives the company a competitive advantage. Brand names, images, and customer bases can also be factors in the decision.

When the head of a company realizes that the business is in trouble and that help may be needed to fix the situation, one approach may be to look for a buyer or a partner. The advantages and disadvantages of a decision such as this have to be weighed carefully, taking the organization and the market into account. The answer is almost never easy or obvious, the stakeholders are many, and the person or persons making the final determination will never know whether the decision was the best one.

Fleetfoot Shoes had been in business for about 85 years. It started in 1917 when Frank Buskins, a chemical engineer, discovered a chemical bonding process for rubber that enabled him to create sport shoes that were far superior to the products currently on the market. The chemical company he was working for at the time had no interest in developing the idea, so with its permission he bought the patent, left the company, and formed Fleetfoot Shoes. Frank borrowed from friends and family, mortgaged his house, and pawned his wife’s jewelry to get started.

Fleetfoot’s big break came when a track coach who had runners in the 1920 Summer Olympics discovered his shoes. The coach made a few comments about the shoes’ traction and flexibility and his runners’ winning medals. The next week, orders poured in for the shoes, as high school and college track stars started asking for the “Olympic Runners.” Frank was in business.

Throughout the years, Fleetfoot developed a strong reputation with the small, professional, high-end market. Professional runners, basketball players, and tennis players relied on the Fleetfoot line, knowing that their shoes would have the best available materials, design, and structure. Frank, and later his son, Felix, continued to experiment and improve their shoes.

The strong research focus that started the company, combined with the fact that both Frank and Felix had a limited understanding of or interest in marketing, meant that even in the 1970s, Fleetfoot Shoes had a small distribution structure that catered to its professional niche. The shoes were easily twice as expensive as most sport shoes on the market, but the athletes who wore them swore that the performance difference was worth the price.

In the 1970s and 1980s, the market for sport shoes changed. Jogging became fashionable, and people were willing to pay more for the “right” shoes. At the same time that their niche expanded, other competitors entered their market. Fleetfoot suddenly found itself competing head-to-head with the largest shoe producers. These companies were good at marketing and had many times the resources to devote to research, even with Fleetfoot’s disproportionate emphasis on R&D compared to that of other shoe manufacturers.

Fleetfoot made the decision to expand R&D and hired a new marketing vice president who helped reposition the company as the “professional secret that the best amateurs were discovering.” It was able to keep a small but strong niche in its distribution network. Fleetfoot was still able to keep its customer base, and its profits, intact.

However, the company wasn’t growing, and as Felix considered handing the reins of the firm to his daughter, Felicia, they met for lunch to consider the future of the firm.

Felicia began her traditional argument with her father the minute he sat down. “We’re going to have to move into the twenty-first century or we’ll never survive. We’re holding our own, but our client base is aging. We’re losing our niche to companies like Nike and Adidas. When a company doesn’t grow, it is on the way to decline.”

Felicia was startled at Felix’s response this time. “You’re right,” he said. “I just got off the phone with Ned, our West Coast distributor, and he said that several of his main retailers are cutting back on our line in order to expand their other offerings. He said a lot of the same things you’ve been saying to me for the last five years. We have to operate differently to compete these days.”

“I believe we still have the best product on the market,” Felicia said. “We just have an outdated distribution network and marketing plan. We’re still primarily selling only in the United States, and most of the growth in our industry is in international markets today. Also, we have no Internet presence, except for a basic Web site and it isn’t very flashy. I’ve heard that the international sales director of Head sports equipment is looking for a move. He also has a great deal of experience in both international and Internet marketing. Maybe we could offer him a vice-presidency and use his skills to develop a new marketing plan as good as our shoes.”

Felicia and Felix hired Ted Hunter away from Head, and he quickly designed a plan for using the Internet to tap into the international market. By using testimonials from famous Olympic athletes from various countries, combined with a discussion of the company’s research efforts, Fleetfoot was able to stand out as the shoe for serious athletes, not trendy but simply “the best.” Felicia moved up to president and Felix to CEO. Fleetfoot grew quickly, and the bank approved the company for a major loan to build a new production plant designed to double capacity.

Servicing the expansion loan, combined with the increased marketing costs and the challenge of managing an international distribution network, put Fleetfoot deeper and deeper in debt. The company was growing, but the increase in overhead was outstripping revenues. In addition, the extra capacity wasn’t needed. Fleetfoot couldn’t grow past a small share of the international market—the other firms had been there longer and were simply too entrenched for Fleetfoot to make the inroads it had hoped to.

By 2002, Felix and Felicia were aware that the company was simply too small and its resources too limited to allow it to survive. Additional debt was not an option. The company was already too leveraged. With the company’s financial difficulties and the challenges facing the stock market, going public (by selling shares of stock) would probably not bring in enough to resolve the situation, and they knew that outside shareholders would introduce a host of new problems. The only reasonable solution was to find a partner or a buyer. The question was whom to approach.

“We certainly won’t have a problem finding a buyer,” Felicia said. “A number of our competitors would love to have our technology and reputation in their portfolio.”

“I’m not so much worried about that,” Felix answered. “I know we will get enough money from the sale to finance the family in comfort. I’m concerned about the other employees. We have some good people who have been with us for years. I want to make sure they are taken care of. Also, I am ready to retire. I’m not sure it’s right for the company to be sold out of the family just as you are about to move into my shoes.”

“The way you jump to conclusions, Dad, makes me think you’re wearing a pair of our sneakers,” Felicia responded. “A buyout may be the best thing for the company in the long run. We don’t have to decide anything quickly. Why don’t I make a few behind-the-scenes unofficial inquiries to see what kind of options open up for us.”

Felicia reported to her father a few weeks later. “Well, there are some interesting possibilities. Here are the four best options I have been able to discover.”

1. Sportsfoot, our main competitor in the small professional market, would be interested in a partnership. The quality of its shoes has been slipping, but the company still has a strong distribution system. By joining forces, we might be big enough to compete effectively in our niche. The only negative is the leadership. Sportsfoot would want us to get rid of Ted and have me go back to running the R&D department, leaving the marketing and operations to its people.

2. Stride-Rite is interested in acquiring us to strengthen its position in the professional market. I would head the division. The company would keep our brand names, our production facilities, and our research efforts intact, including the managers from those areas. Stride-Rite would move Ted Hunter to its marketing department, and all our other managers would get severance packages and first refusal for any openings within the company for a year.

3. General Things, Inc. would like to diversify into the sports market. Currently, the corporation has no exposure in this area and wants to acquire a few top-quality small firms. General Things would leave us totally intact, provide a cash infusion to help us get back on our feet, and give us three or four years of support. The only thing it would require is that we meet its return-on-investment criteria within a schedule we would both agree on. My only concern with General Things is its focus on short-term profits. We could easily get sold again quickly if we don’t meet the corporation’s expectations.

4. The final option is Piede Rapido, the European athletic shoe company. It’s interested in expanding into the U.S. market and would also benefit from some of our technology. The company’s distribution network in Europe could enable us to increase our international share to more closely match our capacity. The problem is that the company has only a limited amount of capital to contribute. The partnership would be based mainly on an exchange of shares. Fleetfoot would remain totally intact. We have worked with Piede Rapido in limited ways before, and our people have always worked well together.

“Well, Dad,” Felicia said. “What do you think?”

### Discussion Questions

1. What factors should Fleetfoot consider in its decision?

2. Which option should Fleetfoot take? Why?