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The CHALLENGES OF MARKETING BUDGET PREPARATION IN UNCERTAIN TIMES

Aditi Saini and Jaydeep Mukherjee wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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It was early June 2020, and Archana Roy, the marketing head responsible for Fitzie’s Eastern Europe, Middle East, South Asia, and Africa (EMESAA) region, had to create the regional marketing plan for 2021. Fitzie manufactured and marketed sports and lifestyle footwear and apparel products globally. Due to the COVID-19[[1]](#footnote-1) pandemic, the global sales forecast for Fitzie in 2020 showed a steep decline of 33 per cent over 2019; correspondingly, the marketing budget had been cut for the year. A base plan for 2021 had to be submitted by the end of September 2020 to account for long production lead times and the global logistics that were involved. Roy had to ensure that appropriate marketing funding was secured for her region to deliver on the 2021 business goals and to keep Fitzie employees motivated. If the top management did not approve her proposal for the EMESAA region, then marketing budgets were likely to be slashed, which would seriously jeopardize the long-term sustenance of the Fitzie brand in EMESAA, as well as bring down 2021 revenue potential.

In the past two years, the EMESAA region had delivered above 10 per cent year-on-year growth in sales and profitably, though its net promoter score (NPS)[[2]](#footnote-2) did not show corresponding improvement (see Exhibit 1). However, planning for the future was difficult, as the COVID-19 pandemic had severely hit most consumer businesses. The global gross domestic product was expected to contract by 4.9 per cent in 2020, though recovery and growth of 5.4 per cent was projected for 2021.[[3]](#footnote-3) Fitzie’s EMESAA marketing budget had been cut by almost one-third, and the challenge was to still deliver the desired sales objectives. The broad choices for doing so were to (1) reallocate the budget in proportion to the revised revenue forecast of the countries, (2) allocate funds based on the recovery potential of each market, or (3) change the advertising focus from brand building to commercial product sales. Roy had to consider the impact that the budget cuts and the pandemic would have on the attainment of Fitzie’s 2021 business targets, long-term business sustainability, and stakeholder expectations.

GLOBAL SPORTS AND Fitness INDUSTRY

The global sports and fitness industry had been growing for the past three years and was projected to increase at a compound annual growth rate of 5 per cent at the beginning of 2020.[[4]](#footnote-4) Footwear and apparel were the two biggest revenue streams for most sporting companies. With an increasing number of people looking at sports and fitness options in their daily lives, the category was well poised for growth.

The competition was intense and was dominated by entrenched global players such as Alohomora and Natter. Alohomora’s global revenue grew 6 per cent in 2019, whereas Natter’s grew by 7 per cent. Both companies were projected to increase by between 6 per cent and 8 per cent in 2020. Fitzie was a distant third player in terms of global sales, and there were a few emerging players that were gaining credibility as premium sportswear brands.

FITZIE—GLOBAL

Established in the 1950s and headquartered in the United States, Fitzie manufactured and marketed apparel and footwear. It catered to two key categories—sports and lifestyle. The sports category comprised products for strength training and running. The lifestyle category comprised everyday wear and fashion products. A significant portion of Fitzie’s global revenues came from North America, followed by Europe, while the remainder came equally from three regions—Asia Pacific, South America, and EMESAA.

Fitzie aspired to be perceived as the best fitness brand in the world. Its approach to marketing was rooted in experimentation and in finding new ways to enable consumers’ fitness journeys. To achieve these goals, up until 2019 Fitzie had invested in various competitive sports and fashion events. At the beginning of 2020, Fitzie had exited out of most fitness and fashion partnerships for which it used to pay royalties or licence fees. In an effort to meet the yearly profit targets desired by shareholders, Fitzie’s global leadership team had decided to put the money back into the company’s bottom line. Global leadership prioritized three things: growing shareholder value by driving revenue growth, increasing profitability, and driving consumer excellence through product creation and rich storytelling for long-term sustainability. Of these three priorities, revenue growth was of utmost importance.

FITZIE’s BUSINESS IN the EMESAA REGION

In 2019, revenue from EMESAA grew by 11 per cent, and EMESAA was Fitzie’s fastest-growing region. It accounted for 15 per cent of Fitzie’s global revenues in 2019, and the share was expected to increase to 17 per cent in 2020.

Business Categories

In 2019, revenue from the EMESAA region was made up of the sports category, which contributed 75 per cent, and the lifestyle category, which made up the remaining 25 per cent. Both categories contained various product lines. All product lines were sold under Fitzie, which functioned as the umbrella brand, and sub-branded as per their features and benefits. For example, the key product line intended for serious runners, which featured an extra bounce and cushion effect in the footwear products to propel users forward and hence enhance speed, was branded as Fitzie Kinetica. Overall, Fitzie’s pricing was comparable to that of market leaders Alohomora and Natter across both sports and lifestyle categories.

In both categories, only a few key premium product lines were advertised. The premium product lines within each category were grouped as either sports icons or lifestyle icons.[[5]](#footnote-5) Only the icon product lines were advertised and accorded marketing priority, which built Fitzie’s brand image. Sports and lifestyle icons accounted for only 27 per cent of the EMESAA region’s sales but commanded 98 per cent of the total marketing budget (see Exhibit 2). The product technology of icon products was patented and trademarked. Sports icons had an edgier look and featured cutting-edge technology. They were designed for a premium audience with a fitness-first approach and featured an element of style. The average pricing for sports icon footwear products was €130[[6]](#footnote-6) per pair. Lifestyle icons were classic Fitzie product franchises that captured the company’s rich heritage with contemporary and relevant updates for a cool, retro look. Very little proprietary product technology went into these icons, but the products were marketed with the attitude of “everyone needs these because they go with everything.” The company did not enjoy any cost advantage against competitors, as all products were manufactured at similar facilities and sourced similarly. Lifestyle icons allowed consumers to combine sporty looks with making a fashion statement. The average price for lifestyle icon footwear products was €100 per pair.

Fitzie’s mainstream products (referred to as its non-iconic product lines) were not supported with significant advertising and were considered commercial in nature. The majority of Fitzie’s sales was derived from low-margin, non-iconic products that were barely advertised. Fitzie’s non-iconic product lines had little product differentiation compared to those of competitors; hence, the company believed that the strong brand image of the icons was important for selling these products. These non-iconic product lines included low-priced sports and lifestyle products for men, women, and children. The children’s portfolio was minuscule, contributing less than 2 per cent of total business share. Pricing for all non-iconic footwear product lines was within the €70–€80 range.

Retail Channel Landscape

Prior to 2020, the EMESAA region had been almost entirely driven by offline retail. Different sub-regions within EMESAA had different franchise partners who had the rights to sell the Fitzie brand in retail stores. The brand, however, was tightly controlled by the parent company, and Fitzie gave detailed direction for retail storytelling every season and conducted regular audits to ensure a consistent look and feel of the brand throughout the region. In 2019, offline retail stores drove 99 per cent of Fitzie’s sales revenue in EMESAA, and only 1 per cent came from e-commerce. All retail stores were present in the premium shopping malls of Tier 1 cities. For all markets, offline stores operated on razor-thin profits, while e-commerce fared better, primarily because it did not incur costs related to maintaining physical retail stores.

Overview of Marketing Approach

The brand marketing framework used by Fitzie had three main key performance indicators (KPIs): (1) upper-funnel awareness, wherein a campaign was expected to reach 70 per cent of the target audience with a frequency of four exposures; (2) a mid-funnel click-through rate (CTR); and (3) a sell-through rate (i.e., the percentage of products sold) for lower-funnel conversion (see Exhibits 3 and 4).

Target Consumer

Fitzie’s marketing communication targeted 18-to-34-year-olds who were involved in fitness and health. The company subdivided this demographic segment into game-changer consumers (early adopters) and sporty consumers. Game-changer consumers wanted to better themselves, with fitness as a key enabler, and paid considerable attention to product technology. This group purchased Fitzie’s iconic product range to always be on-trend and fit. Sporty consumers were fitness oriented but did not care much about cutting-edge product technology. This group wanted to take after the athletes and designers they followed online. Although this sporty audience was a growing segment, its brand choice was influenced by the perceptions and choices of game-changer consumers.

In 2019, 40 per cent of Fitzie’s EMESAA business came from these 18-to-34-year-olds, and 45 per cent came from 35-to-55-year-olds. The average basket size, similar for both audience groups, was €90 per transaction, with a purchase frequency of 2.3 times per year. Since the median age in all countries in the EMESAA region was less than 30 years,[[7]](#footnote-7) the potential of the 18-to-34-year-olds demographic segment was considered higher. These consumers were highly digital-, social-, and mobile-technology savvy. Unaided brand awareness of Fitzie remained flat, at 98 per cent. Consideration for Fitzie was at 58 per cent, whereas consideration for the competition was at 74 per cent. Consumer perceptions of Fitzie’s brand attributes scored low on being fun, cool, and fashionable but scored high on being high-quality, credible, authentic, and favourable for sports.

EMESAA MARKETING PLAN AND EXECUTION FOR 2020

Key Priorities and 2020 Planning

There were five country marketing directors in EMESAA, one for each of the five sub-regions—namely, Eastern Europe, Middle East, South Asia, North Africa, and South Africa. Marketing directors were responsible for planning and locking plans with their respective sales channel heads (i.e., the retail sales head and the e-commerce sales head) (see Exhibits 5 and 6). In November 2019, the EMESAA marketing team had shared with country marketing teams three key priorities for 2020:

* Win with icons. Promote icons as blockbusters, with high reach and awareness among the core audience of 18-to-34-year-olds. Set the target reach at 70 per cent among the audience, with frequency of exposure at four or more times for the top two campaigns (one sport product and one lifestyle product).
* Deliver consideration and conversion through digital and e-commerce media, leveraging product storytelling and content to entice consumers to buy. Twelve consideration-driving campaigns and 20 conversion-driving campaigns were recommended.
* Win with women and children. The women’s segment was still emerging, with no clear brand that had penetrated and scored a large share of the market in EMESAA. The women’s and children’s segments could prove to swing the market in favour of Fitzie.

Following this, marketing budget allocations for 2020 were shared with the teams (see Exhibit 7). Preference was given to markets with more focus on digital and e-commerce channels. Markets that had shown higher growth in 2019 and where targets had been overachieved were prioritized; South Asia and Eastern Europe showed strength in both of these parameters. While the country teams agreed on the need to drive the stated priorities, the marketing spend for 2020 was lower than it had been in previous years. The country teams’ projected net sales were also €8.6 million lower than what was expected from EMESAA. The EMESAA marketing team explained that the percentage reduction in the marketing spends was essential to drive profitability and meet the expectations of the global team. However, Roy assured the teams that she would pitch for more funds to be allocated to high-performing markets in the mid-year review.

The country teams of the EMESAA region had started 2020 enthusiastically, with their biggest sports icon launched in February. On average, markets spent 60 per cent of their budgets on digital advertising. The remaining 40 per cent was evenly split between television and print advertising, promotional events, and online influencer marketing. In January and February 2020, the EMESAA marketing teams had been performing per EMESAA’s expectations, with the Fitzie Kinetica product line receiving a lot of positive mentions and EMESAA’s revenue performance better than the other two comparable regions (South America and Asia Pacific [APAC]).

Impact of the COVID-19 Pandemic

Just when everything had started falling into place and the country marketing teams felt equipped to meet EMESAA expectations and deliver 10 per cent growth for the region, the COVID-19 pandemic hit. One country after another went into lockdown, and soon everyone in the company began to see 2020 as the big reset year.

Fitzie was not alone, as the entire sports and fitness industry in the EMESAA region was negatively affected in 2020 by the COVID-19 pandemic. The lockdown measures across all countries had led to decline in consumer demand, retail store closures, and lower consumer confidence due to the cancellation or postponement of all major sports events.[[8]](#footnote-8) Alohomora’s revenue dropped by 26 per cent in the first half of 2020. Natter’s quarterly revenue declined by only 1 percent, which it claimed was due to a strong digital presence offsetting the steep decline in retail store sales. As per Fitzie’s sources, Natter’s limited sales drop was actually due to deep discounting (to the extent of 50−60 per cent) to liquidate inventory. This was clearly not a sustainable option beyond a few months, as it would cut deep into Natter’s profitability. Alohamora was not showing signs of making any such move. This promotion-driven model was clearly unprofitable for the industry at large, yet the expected inventory pileup had to be tackled.

2020 Plan Revamp

During lockdown, everything had to be revamped—immediately. The EMESAA team had reached out to the APAC team to understand what approach they had taken since the pandemic, which had hit their sub-region a bit earlier. The APAC team had halted marketing for the first quarter and then continued with the same icon product storytelling as they had done before. There was a small slump in sales during the first quarter, but growth had started to pick up, though not as per the original plan. E-commerce was already quite evolved in the APAC region, supporting this growth trend.

The EMESAA marketing team had also briefed agency partners simultaneously. Their most pressing questions concerned how consumer behaviour was being affected and, hence, what marketing efforts the agency would recommend given the team’s limited spend. The agency came back with a few interesting findings based on an online survey it had conducted: Consumer preferences had shifted in a multitude of ways. Consumers between the ages of 18 and 34 were most concerned about the impact of the pandemic, but only 40 per cent of them said they were shopping less frequently and had actually reduced their spending. This group had a strong response to brands with purposeful brand messaging, with 72 per cent of respondents saying they would be more likely to purchase from companies that they felt were doing good for society and the environment. Consumers over 35 years of age saw the most impact on their employment, with 78 per cent shopping less frequently and 90 per cent seeing a reduction in their spending in the clothing and footwear category. Almost overnight, consumers had become mobile and digital-savvy. The media habits of 35-to-55-year-olds were showing the highest increase in average time spent on social and digital media. These consumers were paying more attention to their health, too. Fitzie’s unaided brand awareness remained flat for all age groups; however, consideration increased to 62 per cent with 18-to-34-year-olds and to 68 per cent for 36-to-55-year-olds. Overall, consumers showed lower likelihood to experiment with “flashy” or “edgy” brands but a higher inclination toward brands that were generic and touted as “value for money.” Although these findings could not predict what consumers wouldactually do, they provided Fitzie with some idea about consumers’ changing expectations about the future.

Accordingly, starting in April 2020, the EMESAA marketing team worked on fitness content capsules for the remainder of 2020. These fitness capsules were created to help consumers create a fitness routine when outdoor activities were restricted due to the pandemic. The communication tonality was positive and energetic, and key messaging revolved around home fitness workouts. Product integration was extremely subtle. Digital influencers were engaged to help spread the message beyond the brand’s organic channels. Push messaging was not sent out to the audience group. Because the global team had asked to freeze spends, all of this was done with minimal spending on the influencer network and through organic channels. Employees were turned into ambassadors, and they brought high amounts of energy online to engage with consumers through various fitness challenges. The reach and engagement results across the region within one month were beyond expectations; achievements included more than 20 million unique impressions and a CTR of over 5 per cent—results that were unheard of for any past campaigns.

By the end of May 2020, the EMESAA marketing team had realized that the biggest gain due to the pandemic was e-commerce; hence, it was very important to scale e-commerce efforts and to continuously optimize these efforts to yield results. As the most profitable distribution channel for Fitzie, e-commerce was growing by more than 100 per cent in most regions, with the Eastern Europe e-commerce team on track to complete their full-year target in only two months. South Asia e-commerce was also experiencing triple-digit growth. Fitzie’s pilot on Amazon India (South Asia’s biggest revenue driver) was successfully executed, with Fitzie showcasing better results than even Alohomora and Natter. A key reason identified for Fitzie’s better performance was increased reach into smaller cities where Fitzie had lower physical presence versus the competition.

For the most part, retail channels were shut down. Once stores started opening in May and June 2020, footfall was one-tenth what it had been for the same time frame the previous year, though the conversions stayed steady. To increase footfall, the sales team and supply team were demanding deeper discounts and new marketing stories, as retailers were sitting on a pile of inventory that had to be sold.

Overall, business kept dropping, and the yearly achievement was expected to reach only €200 million by the end of 2020. In line with this, and to conserve cash, Fitzie’s global team had reduced the EMESAA marketing budget to €15 million in 2020. Since there was a sense of urgency and no other information was available, the EMESAA marketing team had to proportionately cut 2020 spending for all markets of the region.

Fitzie’s global leadership team announced to all Fitzie employees the importance of conserving cash (i.e., keeping costs low) to stay competitive. The global team was planning to start a consolidation phase of logistics, sales channels, media partners, and organizational structure. No one knew what exact actions the global leadership team was planning to take, but it was clear that staying profitable was of high importance. The business environment was so uncertain that it was difficult to understand if past actions of the brand that had led to growth would prove fruitful in the future. The global team was planning to closely follow the weekly forecasts of all regions to ensure that targets stayed on track and that any required tweaks to the plan could be made on the go.

DEVELOPING the EMESAA MARKETING PLAN FOR 2021

Considerations for the 2021 Planning Decision

Taking into consideration both what the brand had done before the pandemic and what it had learned during the crisis, it was time to give shape to the future. Roy had two weeks to (1) put together her marketing allocation proposal, (2) align country sales and marketing stakeholders, and (3) present her proposal to the global team for sign-off. According to her calculations, the minimum marketing budget needed to meet reach, CTR, and conversion KPIs was €19 million (see Exhibit 8). However, EMESAA’s budgets had been slashed by the Fitzie global team to €14.1 million for 2021. This meant that marketing now had only a 5.3 per cent marketing-spend-to-sales ratio to deliver on target KPIs, as opposed to an 8.3 per cent ratio in 2019 and a 7.5 per cent ratio in 2020. As such, serious reconsideration and reprioritization of advertising budgets was needed in order to maximize the impact to the business.

To complicate matters further, consumer behaviour and media consumption had changed substantially during the COVID-19 pandemic; hence, the plan for 2021 had to account for these changes. Research conducted by McKinsey & Company found that COVID-19 had changed consumer behaviour in multiple ways:[[9]](#footnote-9) Consumer sentiment was at an all-time low. Consumers were pessimistic about economic recovery, more mindful of their spending, and trading down. They had restricted their spending largely to essentials, such as grocery and household supplies, and had cut back on discretionary categories. Less than 30 per cent of consumers were comfortable leaving home. Consumers that were going out were mainly doing chores such as grocery shopping or, sometimes, socializing with friends; however, they were staying away from travel and crowded spaces. Digital and low-contact services were gaining traction, as was the demand for trusted brands. If consumers could not find their preferred product at their preferred retailer, then they were ready to try alternate brands and outlets. Value was increasingly important for consumers who were trying out a new brand or retailer. While the above consumer behaviour trends were generally consistent globally, there were some variations across different countries.

Options

Based on the reports about changes in consumer behaviour as well as discussions with sales channel teams and country marketing teams, Roy finally arrived at several broad options regarding her plan for 2021.

Option 1

The first option was to proportionately allocate the marketing budget to each country based on the countries’ sales target for 2021, with limited full-funnel activation. The idea was to allocate the available budget in a way that was proportionate to the revised revenue forecast of each of the markets. Since the marketing-to-sales ratio had reduced significantly, upper-funnel awareness initiatives had to be limited and the consumer-reach targets commensurately reduced to only 30 per cent. The media mix would be changed to provide more emphasis on social and digital initiatives as opposed to outdoor events. However, when presented with this option, the sales teams were ready to commit to sales of only €224 million.

Option 2

As above, the second option was to proportionately allocate the marketing budget to each country based on the countries’ sales targets for 2021; however, the marketing strategy would be revamped by focusing on commercial products (non-iconic products). For all markets, investment in upper-funnel awareness would be pulled back and reallocated to driving consideration and purchase. The marketing budget would be pulled out of the upper funnel and reallocated to mid- and lower-funnel initiatives to increase consideration and purchase among the existing user base with the help of discounts. A continuous stream of new marketing stories would be delivered through retail, digital, social, and e-commerce platforms to communicate product benefits, with emphasis on promotions and discount-related selling. The sales channel teams felt that this equipped them to deliver target sales of €265 million.

Option 3

The third option was to allocate funds as per the marketing KPIs and sales recovery potential of 2021 (projected incremental sales over 2020). This would essentially include changes such as driving sports icon products and withdrawing completely from lifestyle icons. Media spends for digital formats across the entire marketing funnel (upper, middle, and lower) would be increased for markets with high allocation. For markets with low allocation, awareness marketing would be withdrawn and spent only on consideration and purchase (middle and lower funnel) to drive sports icons. For this option, the sales teams’ sales commitment added up to €240 million.

Taking these parameters into consideration, Roy evaluated the different markets and prepared an allocation (see Exhibit 9). Roy asked her brand health tracking team to run a simulation on all three options, which provided NPS extrapolation. As per the simulation, option 1 was most conducive to keeping brand equity intact, which, along with sales achievement, was a KPI for gauging the performance of the marketing team; however, this option was least conducive to delivering business targets for the sales team (see Exhibit 10).

Each of the country sales and marketing teams needed to sign off on the plans. Also, it was important that each and every team in EMESAA was convinced about the allocation and was motivated to perform. As such, Roy’s choice had to factor in (1) the possibility of closing the negotiation with the country teams, (2) ease of implementation on the ground, (3) motivation of the team, and (4) short- and long-term business results. She was also concerned that if her proposal plan did not land well with the global team, they would cut the budgets further and reallocate them to other regions.

The pandemic made projecting the future a very difficult task with many unknowns. Roy even contemplated the option of allocating the 2021 budget exactly as it had been allocated in 2020 and then letting the country marketing directors decide on the most effective utilization. This would be relatively easy to implement, and each country would take care of its local-level optimization, given its own market realities as they emerged. The regional marketing team could help each country with the necessary support for executing its plans, thereby maximizing the country’s capabilities. In this plan, the country sales and marketing teams would not be asked for any commitment to sales figures but would be expected to meet their targeted sales in 2021.

Roy was hard-pressed for time and had to quickly decide on the best way forward for ensuring the short- and long-term performance of EMESAA, the constituent countries, and her own team.

EXHIBIT 1: NPS of competitors

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Brand Name** | **Q4 2018** | **Q1 2019** | **Q2 2019** | **Q3 2019** | **Q4 2019** | **Q1 2020** |
| Alohomora | 72 | 66 | 68 | 66 | 69 | 67 |
| Natter | 66 | 58 | 62 | 64 | 64 | 64 |
| Fitzie | 46 | 47 | 46 | 47 | 47 | 48 |

**NPS of Fitzie across Different Age Groups**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Age (Years)** | **Q4 2018** | **Q1 2019** | **Q2 2019** | **Q3 2019** | **Q4 2019** | **Q1 2020** |
| 14–18 | 46 | 47 | 44 | 46 | 43 | 44 |
| 18–25 | 48 | 47 | 48 | 55 | 53 | 53 |
| 26–34 | 37 | 39 | 37 | 23 | 28 | 24 |
| 34–55 | 46 | 47 | 47 | 43 | 45 | 46 |

NPS was the percentage of consumers with a high likelihood to recommend the brand (i.e. promoters that scored between 9 and 10 on a scale of 0–10) minus the percentage of consumers with a low likelihood to recommend the brand (i.e., detractors that scored the brand lower).

NPS gap to competition: Fitzie’s NPS value versus the average arithmetic mean of competitor NPS value for each quarter was used to compute NPS gap to competition.

Consumers surveyed: A total of 105,470 consumers (50% men and 50% women) who spent €100+ (or the local equivalent) on branded athletic footwear and/or apparel per year were surveyed.

Methodology: Online survey conducted across key EMESAA regions: Turkey, India, United Arab Emirates, Saudi Arabia, South Africa, and Egypt.

The top three areas of exploration using the NPS survey:

Gauging brand equity in the form of NPS as a key performance indicator.

Understanding Fitzie’s performance on most influential drivers (e.g., hip, genuine, innovative, stylish, cutting-edge sports technology).

Examining the brand’s health in relation to the competition.

Note: NPS = net promoter score; Q = quarter; € = EUR = euro; US$1 = €0.8990 on June 1, 2020; EMESAA = Eastern Europe, the Middle East, South Asia, and Africa.

Source: Company data.

EXHIBIT 2: SALES AND MARKETING BUDGETS (€ Millions)

|  |  |  |
| --- | --- | --- |
| **Product Lines** | **2019 EMESAA Net Sales** | **2019 Marketing Budget** |
| Lifestyle Icons | 46.5 | 7.4 |
| Sports Icons | 33.7 | 16.8 |
| Non-icons—Commercial—Sports and Lifestyle—Men’s Apparel and Footwear | 98.7 | 0.2 |
| Non-icons—Commercial—Sports and Lifestyle—Women’s and Children’s Apparel and Footwear | 69.7 | 0.1 |
| Non-icons—Commercial—Sports and Lifestyle—Cross-Squad | 47.7 | 0.1 |
| **Total** | **297.3** | **24.6** |

Note: € = EUR = euro; US$1 = €0.8990 on June 1, 2020; EMESAA = Eastern Europe, the Middle East, South Asia, and Africa; Cross-Squad products could be interchangeably used or positioned as lifestyle or sports products, depending on market need

Source: Company data.

EXHIBIT 3: MARKETING FRAMEWORK

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Awareness (Upper Funnel)** | **Consideration (Middle Funnel)** | **Conversion (Lower Funnel)** |
| **Key Performance Indicator** | Reach | Click-through rate | Sell-through rate |
| **Measurement per Campaign** | 70% reach at 4+ frequency | Market specific | Market specific |
| **Target Consumers** | 18-to-34-year-olds with high affinity toward fitness and fashion | 18-to-34-year-olds with high affinity toward fitness and fashion | 18-to-34-year-olds with high affinity toward fitness and fashion |
| **Content Objective** | Highlight stylish and sporty cues for overall brand building through icons | Highlight product features and product technology | Focus on promotional and purchase-driven messaging |
| **Number of Recommended Campaigns per Year** | 2 | 12 | 20 |
| **Channels** | Television, digital, social | Digital, social, influencers, events | Digital, social, e-commerce, retail |

Source: Company data.

EXHIBIT 4: EMESAA MARKETING BUDGETS AND PERFORMANCE IN 2019

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Eastern Europe** | **Middle East** | **South Asia** | **North Africa** | **South Africa** | **Grand Total** |
| **Marketing Spend (€ Millions)** | 5.2 | 5 | 9.6 | 2.6 | 2.2 | 24.6 |
| **Net Sales (€ Millions)** | 70.2 | 65.8 | 99.2 | 33 | 29.2 | 297.4 |
| **Marketing-Budget-to-Net-Sales Ratio (%)** | 7.41 | 7.60 | 9.68 | 7.88 | 7.53 | 8.27 |

Note: € = EUR = euro; US$1 = €0.8990 on June 1, 2020; EMESAA = Eastern Europe, the Middle East, South Asia, and Africa

Source: Company data.

EXHIBIT 5: MARKETING Organizational STRUCTURE OF Fitzie’s EMESAA IN 2020

Marketing Head EMESAA Region

Country Sales Directors (Retail & E-commerce)

CEO EMESAA Region

Sales Director EMESAA Region

Country Sales Directors

Event Manager

Digital Marketing Manager

Brand Activation Manager

Visual Merchandising Manager

Country Marketing Directors

Note: EMESAA = Europe, Middle East, South Asia, and Africa; CEO = chief executive officer.

Source: Company data.

EXHIBIT 6: KPIs OF the EMESAA MARKETING TEAM IN 2020

**Marketing Head—EMESAA Region—KPIs with Weights**

* Revenue, 30%
* Demand Generation, 50%
* NPS Gap to Competition, 20%

**Country Marketing Directors—KPIs with Weights**

* Revenue, 30%
* Demand Generation, 50%
* NPS Gap to Competition, 20%

**Country Sales Directors—KPIs with Weights**

* Revenue, 90%
* On-Time Execution, 10%

Note: EMESAA = Europe, Middle East, South Asia, and Africa; KPI = key performance indicator; NPS = net promoter score.

Source: Company data.

EXHIBIT 7: MARKETING BUDGETS AND SALES PROJECTIONS for FITZIE’s EMESAA REGION IN 2020

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Eastern Europe** | **Middle East** | **South Asia** | **North Africa** | **South Africa** | **Grand Total** |
| **Marketing Spend Allocation (€ Millions)** | 5.6 | 4.2 | 10.4 | 2.4 | 2.0 | 24.6 |
| **Net Sales Forecast**  **(€ Millions)** | 80.2 | 50 | 108 | 41.6 | 39.4 | 327.8 |
| **Marketing-Budget-to-Net-Sales Ratio (%)** | 6.98 | 8.40 | 9.63 | 5.77 | 5.08 | 7.50 |

Note: € = EUR = euro; US$1 = €0.8990 on June 1, 2020; EMESAA = Europe, Middle East, South Asia, and Africa.

Source: Company data.

Exhibit 8: EMESAA MARKETING BUDGET FOR 2021 (€ Millions)

Minimum Budget Requirement Calculation

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **EMESAA Constituent** | **Cost for Reach**  **(2 Campaigns per Market)** | **Cost for Consideration**  **(12 Campaigns per Market)** | **Cost for Conversion**  **(20 Campaigns per Market)** | **Minimum Allocation Required** |
| **South Asia** | 3.9 | 4.6 | 0.4 | 8.9 |
| **Middle East** | 0.2 | 2.5 | 0.1 | 2.8 |
| **South Africa** | 1.3 | 1.1 | 0.1 | 2.6 |
| **Eastern Europe** | 2.0 | 1.4 | 0.2 | 3.6 |
| **North Africa** | 0.1 | 1.4 | 0.1 | 1.6 |
| **Total** | **7.5** | **11.1** | **0.9** | **19.4** |

Target audience: 18-to-34-year-olds

Affinity: Fashion and sports

Cost of reach is derived from the following calculation:

* Cost of reach = (Total impressions) × (Cost per 1,000 impressions) × (1,000)
* Total impressions = (Consumer universe) × (Reach % among target) × Number of exposures

Cost of consideration is derived from the following calculation:

* Cost of driving consideration = CPC (Cost per click) × Audience pool
* Audience pool for retargeting = (Click-through rate × Unique impressions of current campaigns) + Audience pool from past years’ campaigns

Note: € = EUR = euro; US$1 = €0.8990 on June 1, 2020; Cost of conversion is assumed at 5% of cost of reach and consideration based on past executions; EMESAA = Europe, Middle East, South Asia, and Africa.

Source: Company data.

EXHIBIT 9: MARKETING BUDGET ALLOCATION OPTIONS FOR 2021

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Option 1** | **Eastern Europe** | **Middle East** | **South Asia** | **North Africa** | **South Africa** | **Gap to EMESAA Target** | **Grand Total** |
|
| Marketing Spend Allocation (€ Millions) | 2.8 | 2.2 | 6.3 | 1.4 | 1.4 |  | 14.1 |
| Net Sales Forecast (€ Millions) | 49 | 32 | 80.8 | 30.8 | 31.4 | 41 | 265 |
| Marketing-Budget-to-Net-Sales Ratio (%) | 5.71 | 6.80 | 7.80 | 4.55 | 4.46 |  | 5.31 |
| **Option 2** | | | | | | | |
| Marketing Spend Allocation ((€ Millions) | 2.8 | 2.2 | 6.3 | 1.4 | 1.4 |  | 14.1 |
| Net Sales Forecast (€ Millions) | 61 | 42 | 94.8 | 31.8 | 35.4 | 0 | 265 |
| Marketing-Budget-to-Net-Sales Ratio (%) | 4.59 | 5.18 | 6.65 | 4.40 | 3.95 |  | 5.31 |
| **Option 3** | | | | | | | |
| Marketing Spend Allocation (€ Millions) | 3.5 | 1.7 | 7.3 | 0.6 | 1 |  | 14.1 |
| Net Sales Forecast (€ Millions) | 65 | 32 | 85.8 | 26.6 | 30.5 | 25.1 | 265 |
| Marketing-Budget-to-Net-Sales Ratio (%) | 5.38 | 5.31 | 8.51 | 2.26 | 3.28 |  | 5.32 |

Note: € = EUR = euro; US$1 = €0.8990 on June 1, 2020; EMESAA = Europe, Middle East, South Asia, and Africa.

Source: Company data.

Exhibit 10: OUTCOME OF THE SIMULATION—PROJECTED NPS GAP TO COMPETITION

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Year** | | | | | | | |
| **Option** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** |
| Option 1 | 26 | 29 | 31 | 23 | 24 | 26 | 28 | 34 |
| Option 2 | 26 | 29 | 31 | 23 | 24 | 23 | 22 | 20 |
| Option 3 | 26 | 29 | 31 | 23 | 24 | 24 | 24 | 26 |

For projections simulation, each of the options was pegged as the following scenarios:

Option 1: Strong Fitzie brand equity growth due to awareness spending and moderate competitive growth. The projection function used was logarithmic.

Option 2: Slow Fitzie brand equity growth due to only consideration and conversion spend with existing audience (i.e., no new audience outreach and moderate competitive growth). The projection function used was the S-curve.

Option 3: Moderate Fitzie brand equity growth due to limited awareness spend and moderate competitive growth. The projection function used was logistic.

Note: NPS = net promoter score.

Source: Company data.

1. COVID-19, an infectious disease caused by a new coronavirus called severe acute respiratory syndrome coronavirus 2, was declared a pandemic on March 11, 2020, by the World Health Organization. [↑](#footnote-ref-1)
2. NPS measured customer experience and predicted business growth. [↑](#footnote-ref-2)
3. International Monetary Fund, *World Economic Outlook Update*, June 2020, accessed September 10, 2020, <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>. [↑](#footnote-ref-3)
4. Technavio, “Global Sports and Fitness Wear Market,” accessed September 10, 2020, <https://mms.businesswire.com/media/20191126005547/en/759161/5/sports.jpg?download=1>. [↑](#footnote-ref-4)
5. The term icon was used to describe these product lines because the company believed that these products would be iconic symbols of the sports and fitness industry. [↑](#footnote-ref-5)
6. € = EUR = euro; US$1 = €0.8990 on June 1, 2020. [↑](#footnote-ref-6)
7. “The Average Age in Global Comparison,” WorldData.info, accessed September 10, 2020, <https://www.worlddata.info/average-age.php>. [↑](#footnote-ref-7)
8. Gael Fashingbauer Cooper and Mark Serrels, “Tokyo 2020 Olympics Will Now Take Place in July 2021, Due to Coronavirus,” CNET, March 30, 2020, accessed September 10, 2020, <https://www.cnet.com/news/tokyo-2020-olympics-will-now-take-place-in-july-2021-due-to-coronavirus/>. [↑](#footnote-ref-8)
9. Tamara Charm et al., “Consumer Sentiment and Behavior Continue to Reflect the Uncertainty of the COVID-19 Crisis,” McKinsey & Company, October 26, 2020, accessed November 12, 2020, https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/a-global-view-of-how-consumer-behavior-is-changing-amid-covid-19. [↑](#footnote-ref-9)