

DRUM note:

Images have been removed from this paper due to copyright restrictions.

Zohara Barth
BMGT350H
Professor Lefkoff
Final Research Paper

Adidas, Where Originality Meets *Actuality*

Adidas is a company where Originality meets *Actuality*. It is fascinating to read about and study as it is very dynamic and has seen major growth since its inception by two brothers, Adi and Rudolf Dassler, in 1948. Soon after it went public, Rudolf Dassler left Adidas to establish Puma, which is still Adidas' rival. Headquartered in Germany, with a global presence, it has established its mission to be a “Global leader in sporting goods industry” (Datamonitor). Later you will read about its vast market share and goals to *further* expand in the international market.

Adidas is in the market for sporting goods and sporting lifestyle. It divided its brand into three categories with separate focuses in 1990. This was their method of segmenting the market and targeting consumers with different interests. The three groups include: Adidas performance, Adidas Originals, and Style Essentials (Annual 1).

Through its Performance offerings, Adidas sells shoes, apparel, and equipment used to play sports. This consists of anything from gymnastics leotards to basketball sneakers to ski gear. Adidas caters to the needs of professional sports teams and individual consumers alike. Adidas Originals include casual clothing, shoes, apparel, and accessories. Many of the line's products reveal either the three-stripe Trefoil or 3-Bar brand mark (Exhibit 1) that are universally recognized by the mainstream public. It is

considered the *heritage* line that continues the legacy as “The Brand with the 3 Stripes” (Logo History). Its easy-to-identify logo, partnered with its short and simple brand name, enhances Adidas’ image in the eyes of the public. It also utilizes relationship marketing as a strategy to draw in its long time customers who have a sense of nostalgia for the three stripes. Adidas’ last category, Style Essentials, allows consumers to show off their style and individuality through their clothing, shoes, and accessories. It takes Adidas Originals to the next level, with more brightness and color (Adidas).

Exhibit 1: Trefoil

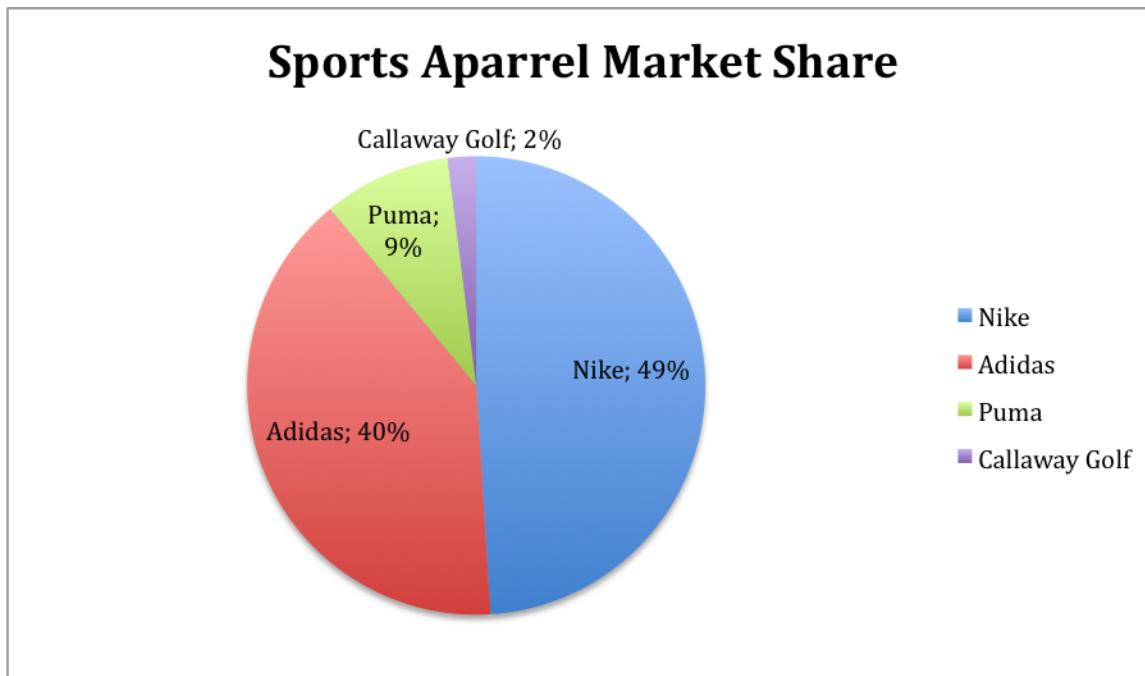
3- Bar

See Appendix: List of Images

Adidas is a competitive company with a large global presence, evident by its footholds in six continents. It is ranked second in the sports apparel industry, followed by Nike, which consistently ranks first. Exhibit 2 shows the market share of the industry published by Yahoo Finance for the last fiscal year (Yahoo). Adidas’ revenues amounted to \$17.42 billion, followed by Callaway Golf \$918.2 million, Puma \$4 billion, while Nike leads with \$21.77 billion. One of Adidas’ major objectives is to surpass Nike in sales in upcoming years, and the recommendations that will help Adidas increase its global presence and exceed Nike in the international market will be presented later.

Exhibit 2:

**Globally 2011
(Revenue in Billions)**



Adidas faces many strengths, weaknesses, opportunities, and threats. The goal of a powerful company is to leverage its strengths and neutralize its weaknesses. This will help it overcome most difficulties in the industry. Adidas has begun many initiatives in order to not only succeed in the market, but also trump its competitors and supply its consumers with the superior footwear, equipment, and apparel that they require.

Strengths:

With its wide geographical footprint, Adidas is able to leverage its brands to establish a strong retail presence. For example, it has been the major sponsor for athletic events worldwide, including the FIFA Soccer World Cups, since before 1970. On the official FIFA website it states that “Adidas is the number one football brand in the world and has been inspired by football [American soccer] ever since the 1920s”

(Organisation). Other upcoming sponsorships include the Japan Football Association until March 2015, the Australian Olympic Team Partner for 2009-2016, and the National Basketball Association (NBA) etc... (Annual 1). In addition, Adidas is the official sportswear partner to the 2012 Olympics in London, a major feat to accomplish (Adidas Eyes). Another strength to consider is Adidas' astonishing level of transparency. On it's website alone, it displays its global initiatives for growth in the coming years. This gives Adidas a competitive advantage in its industry considering the accusations that Nike has suffered in past years about sweatshops and other forms of labor cruelty. Oxfam International, a confederation working to decrease global poverty and injustice, acknowledges Adidas' efforts and stated that it "look[s] forward to further improvements in Adidas's transparency" (Response).

These strengths enable Adidas to continue to expand and penetrate its logo in the open market. Because many parents in the baby boomer, generation X and generation Y segments grew up with Adidas as a staple athletics paraphernalia company, they are comfortable and willing to purchase products for their children from Adidas. They will pass on their brand enthusiasm and help Adidas' legacy persist. Aside from familiarity, parents are willing to advertise Adidas to their children because of its superior quality. In CNBC News, Li Ning, a domestic shoe company with over 2,500 stores in China, admits that Adidas products are made with better-quality materials and offer more competitive prices (Waldmeir). Adidas can leverage its superior quality to the Chinese market (which is my target market) because the company has a competitive strength in this area compared to Chinese companies. Customer value is a feature that does not go unnoticed by consumers of all nationalities.

Weaknesses:

When a company is not careful, its attributes that it considers strengths can quickly turn into weaknesses. This was the case with the Beijing Olympics in 2008. Adidas was the official partner of the Beijing Olympics, allowing it the chance to show “dedication to athletes, products, innovation and leadership” (Adidas Announced). In addition to achieving this goal, it was plagued with excess inventory accumulating in China after the Olympic games. This was detrimental to its financials for 2009 and led to an increase in Adidas’ expenses, according to its 2009 Annual Report.

Another weakness for Adidas is the recent resignation of Vice President and general manager for northern China, Holly Li, who took over as CEO of Esprit. Esprit acknowledges the major loss for Adidas because it is losing an experienced and skilled worker who “managed retail and franchise distribution in China” and had been with Adidas for 11 years (*Chan*). She knew the market and the company very well and has simply left Adidas. This reflects poorly on Adidas’ ability to retain its well trained and qualified employees.

Opportunities:

Adidas should overcome its weaknesses and zone in on its various opportunities. In the 21st century, at a time when people fear that we will expend our resources, it is very important to not only be socially aware but sustainably aware. Adidas is working with the Better Cotton Initiative (BCI) to achieve “improvements in the social and environmental conditions of cotton production” (*About*). It will reduce the use of pesticides in its production, and improve its irrigation systems in order to make them more efficient. This will increase human health and help make clean water more readily

available in places where there is cotton farming on a commercial scale (Brazil, China, India, Pakistan, US, Uzbekistan). Adidas' goal is for 40% of its cotton to meet BCI standards by 2015, and 100% by 2018. Its strategy is to lower "its environmental impact by 15 percent by 2015, relative to (Bardelline)." This proves Adidas' societal orientation with regards to its marketing management philosophy, and is judged favorably in consumers' and investors' eyes. Its corporate social responsibility can attract a new segment of the market: the "green" consumers and those who are more environmentally aware.

Adidas can also use its many athletics sponsorship agreements to its advantage by penetrating its brand mark and name to the many sports fans that watch the Olympics, FIFA World Cups, the NFL and NHL and NBA etc... (Datamonitor). Reuters estimates that 700 million viewers watched the 2010 Soccer World Cup, which amounts to 10% of the global population (Roxborough). During the World Cup is a great time to utilize commercial advertisements and reach many sports fans worldwide and even expand its market to create an international niche.

Research shows that China is an incredibly large market for Adidas (2nd to the US). The 2008 Olympics in Beijing has created a great opportunity for Adidas to market to the youth of China. One might think that the One Child Policy would be a threat to Adidas because it decreases the number of people in the market; however, this is not the case. The number of children in China, ages 0-14 amount to over 235 million people, which is equivalent to 17.6% of its population and 75% of the US population (East). The Chinese market alone is so vast (Exhibit 3), and attracting a fan-base at such a young age will help Adidas with sales and brand recognition in later years.

Exhibit 3 (Word):

See Appendix: List of Images

Threats:

Although Adidas has increased the strength of its brand portfolio through its recent Reebok acquisition, it is still threatened by Nike and its other competitors. It is in the global race to capture the international market. Domestically, Adidas has run into difficulty maintaining its sponsorship contracts due to the threat of a substitute. Just last year, in October of 2010, Nike replaced Reebok as the licensed supplier of on-field apparel for the National Football League (Belson). The New York Times reported that the Reebok/NFL 10-year contract “was originally worth at least \$250 million to the league” and it has most likely appreciated in value over the past decade. This amounts to a *major* loss of over \$300 million to Adidas in the area of professional athletics. This ties into the threat of nearing the maturity stage in the product life cycle. If Adidas does not actively promote its products and logo, its sales volume will peak and market saturation will be reached; soon after, Adidas will decline allowing for its competitors to dominate the market.

Another threat that could hurt Adidas is increasing its prices in 2012. Herbert Hainer, CEO, states that the causes of the markup are “higher raw material and wage costs” (*Magnusson*.) The higher costs will trickle down to Adidas’ customers and

increase the prices. This can turn customers away, and lead them to obtain their athletic gear and sneakers from other suppliers.

Some say *imitation is the best form of flattery*, but this is not the case with the rampant counterfeiting that Adidas faces with its products. In Exhibit 4, you can see the first image that appeared when “counterfeit product” was typed into Google Image. According to the International Authentication Association, current counterfeit estimates “vary from \$200 billion per annum (OECD) to \$600 billion (Progressive Policy Institute)” (Counterfeit). This is detrimental to name-brand companies that lose revenue and income from the mere act of copying its innovative ideas. This costs companies a great deal of money in the areas of research and development, environmental scanning, advertising and promotions. In September, the New Zealand Customs Service intercepted seven shipments of counterfeit Adidas and Reebok-branded clothing (Nordqvist). This is one example where the company was fortunate enough to catch the culprits in the act, but many cases of intellectual property theft go unnoticed. Adidas must be cautious in the realm of counterfeiting, as it is an easy logo to mimic. In addition, as an international corporation, Adidas is always exposed to fluctuating currency rates. This makes pricing products very complicated.

Exhibit 4:

See Appendix: List of Images

Target Market:

This paper focuses on the youth of China, ages 0-14 that spend more time studying than socializing with friends. This segment was chosen because China is an extremely large and growing market whose children are deprived of fun *childhoods* that the youth of the United States and other countries have the privilege of experiencing. According to a survey conducted by the Chinese Youth and Children Research Center (CYCRC), only four out of ten of the participating children claimed to have friends with whom to play (China's). Many of them spend a minimum of eight hours in school, and some spend as long as twelve hours a day in the classroom. Oftentimes, their extra-curricular activities consist of math or music enrichment programs that prolong the children's days even more. They are very stressed because of the high pressure that their parents and teachers place on them.

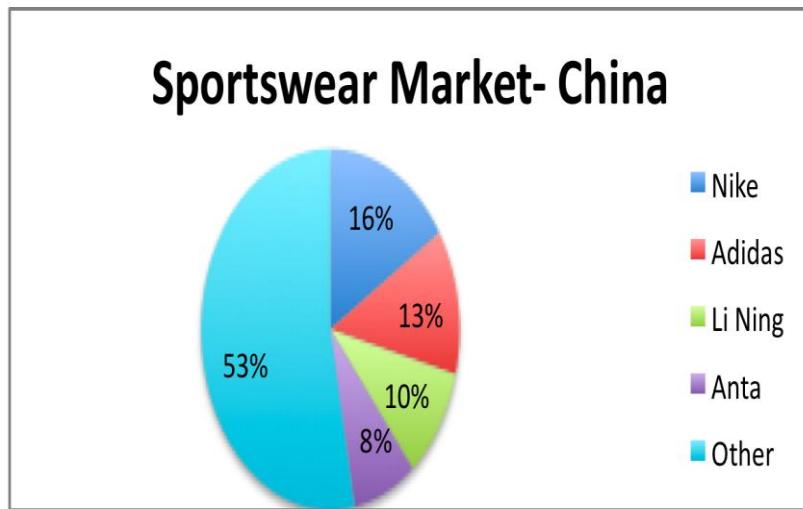
If these students were more involved with athletics, I believe that they will be more well rounded citizens and reduce their anxiety inflicted by their academics. In a study conducted in year 2000, three researchers, Mark S. Tremblay, J. Wyatt Inman, and J. Douglas Willms, found that “youth receiving additional physical activity tend to show improved attributes such as increased brain function and nourishment, higher energy/concentration levels...increased self-esteem and better behavior which may all support cognitive learning” (Tremblay). Actively playing sports can help these children improve their interpersonal interactions and even their academic performance. Adidas can help the youth of China relieve their anxiety and make friends by introducing them to organized sports and innovative products that will enhance their lifestyles.

In addition, in terms of its stricture, a majority of elementary schools in China require its students to wear uniforms each day. The China Post reported many protests of disgruntled students and quoted one stating that uniform regulations “are rigid and unreasonable” (Ma). Adidas’ three categories of products (Performance, Originals, and Style Essentials), which offer apparel, shoes, backpacks, and accessories, can help the Chinese youth create an outlet for their *originality* in a collectivist society. The clothing that they wear is one area in their lives where they have the freedom to make their own decisions without pushing boundaries.

Adidas in China:

Adidas entered the Chinese market in the early 1990’s, and in 1993 it became a manufacturing hub for its products (Mankad). In 2008, its “primary objective [was] building business in China” and it has done so at a fast pace, opening stores at the rate of three a day (Riper). After Adidas was a major sponsor of the 2008 Olympics, it opened the largest Adidas store in the world in the center of Beijing. China is a fiscally and geographically feasible country to further expand its products and sales. Adidas’ current market share in China, 13%, can be seen in Exhibit 5. The “other” component consists of other small domestic brands or global brands whose presence in China pale in comparison to that of Adidas and Nike. Sales in Greater China are currently growing at a 20% rate, accounting for 9% of Adidas’ annual revenues in China (Bagchee).

Exhibit 5:



Adidas has made its mission to target three “attack markets” in its business plan Route 2015. This strategic plan involves increasing global sales and expanding its “key growth markets in North America, Greater China, Russia/CIS” (Annual 2).

Marketing Mix:

Product and Price:

In China, Adidas sells many of the same products that it sells in the United State. It offers the Y-3 Kubo edition sneaker, which is within the Style Essential category. It is meant to “fuse sport and avant-garde design” (Annual 2). It is currently sold in Beijing and Shanghai and will be introduced in smaller cities in the near future. Adidas’ NEO label offers stylish products that are seasonal and appeals to fashionable teens. The 2010 Annual Report states that it offers “sports-casual flavor, constant newness, [for teens] expressing their personality” (Annual 2). It is geared mainly toward the female segment of the market, and for those who are price conscious yet want to be fashion conscious.

Adidas SLVR smart design label was introduced in early 2009, and targets consumers at a mid-price point (Annual 1). It is a sport style shoe meant to add class and

confidence to its owner and lasts for more than one season, which suits the needs of many Chinese students. Adidas also offers Taylormade products, which include its Golf division geared toward upper-middle to upper class consumers who can afford to spend hundreds of dollars on the proper equipment and attire.

The average GDP per capita in China is \$7,600 (East). The prices for Adidas sneakers online are expensive considering the average GDP, starting at approximately \$55 on the Taobao Mall website, which will be discussed later. It is understandable that people would purchase counterfeit Adidas products considering its high price relative to consumer purchasing power.

Place and Promotion:

Adidas began making its products available online to the Chinese market in 2010, through the use of the Taobao Mall. It is a B2C platform that features 70,000 brands from 40,000 merchants and has reached over 180 million buyers (Adidas Unveils). Considering China's crowded cities, declining transportation infrastructure, and convenience, the Taobao Mall is a simple and easily accessible way for Adidas to reach its target market. This also makes shopping easier for parents because they no longer have to fit shopping in to their children's busy schedules. And for those who enjoy frequenting brick and mortar stores, Adidas plans to expand its presence by opening more than 2,500 stores in smaller Chinese cities by 2015 (Smaller). According to the 2010 Annual Report, Adidas' "retail environments are inspirational, athletic, fun and interactive, while at the same time being laid out clearly and logically to make it easy to shop" (Annual 2). Adidas does an impressive job of catering to the needs of its customers by decreasing the amount of time they spend in-store.

Adidas' creativity in terms of its promotions and advertisements are unparalleled in China. On subway platforms in Shanghai it offers commuters (children included) the opportunity to relieve their stress and tension with punching bags for beating during rush hour (Exhibit 6). They exhibit the Adidas 3 bar-logo to remind commuters that Adidas sympathizes with them (Kelly).

Exhibit 6:

See Appendix: List of Images

China is a country where national pride is of major importance to its government and society as a whole. Through institutional advertising, Adidas used Chinese athletes in the Beijing Olympics to promote itself, Chinese athletes, and China as a collectivist nation. The advertisements (Exhibit 7) reveal Chinese fans helping their athletes overcome their competition and succeed in the Olympic games “by blocking a volleyball shot, flicking a pass to a basketball player or helping launch a diver into the air” (Kang). Adidas's market research found that “more than 90% of people in China were interested in the Olympic Games,” the youth included (Kang). The Olympics was a creative way for Adidas to individually target the host country with their loved athletes. This induces pride and excitement in the Chinese market. In addition, the athletes wear Adidas uniforms at Olympic and FIFA games to further promote Adidas.

Exhibit 7:

See Appendix: List of Images

In China, a group of young entrepreneurs realized the necessity for companies to do extensive research on the youth of China, to successfully target them in promoting their favorite brands. Adidas hired this now agency, China Youthology, to assist them in their marketing initiatives in helping children explore their identity as individuals (a very new concept in China) (What). Because the youth mentality and upbringing is very different in every country, this sociology-based approach allows global companies to specialize their advertisements *specifically* to the youth of *China*.

Recommendations:

Originality Meets Practicality:

A sad truth that many Chinese students face is that a higher education is not readily accessible in their communities. More than 136,000 students in Beijing commute to different districts for schooling (Students). Some are required to carry ID cards and passports to gain entry to these foreign districts (Commuting). The punching bags visible in Exhibit 6 actually state that “every year you have to wait on the platform for about 1,824 minutes,” and this is a painful reality that the youth of China must face (Kelly). Seemingly unrelated, in 2003 adolescents listened to music for approximately 21 hours/week, which is an average of 3 hrs/day (Adriano). (Since the penetration of Ipods and MP3 players it is likely that these figures have increased drastically.) The youth of

China will enjoy the Adidas Radio Shoe as a result of this information (Exhibit 8). It will be the first sneaker of its kind, unlike any other that Nike, Callaway, Puma, or Ni Ling offers. The walking powered Adidas Radio Shoe will act as a music device with CD *and* Bluetooth capabilities that allows the owner to conveniently listen to music without carrying an MP3 player. This shoe has the power to enhance ones commuting, jogging, exercising, and studying experiences without fidgeting with a handheld device.

The Radio Shoe is actually in line with parents' expectations of their children's academics. The students can listen to books (or even textbooks) on tape so as not to lose time while crossing borders on a school bus. This will allow them to maximize their time while commuting or doing other menial tasks. In addition, studies show that music has a positive affect on one's memory and retention of information. "The Mozart Effect" explains that information being studied activates the left-brain while classical music (Mozart symphonies in particular) activates the right brain. This can increase brain function and increase information processing capabilities (Neuroscience). The Radios Shoe can enhance a students learning experience while studying. It will combine the cost of a sneaker and MP3 player at the low rate of \$150 (which includes the cost of Bluetooth headphones and a chip that plugs into your computer in order to upload music). Adidas' innovative product allows its owners the ability to *customize* a standardized product.

Exhibit 8:

See Appendix: List of Images

Originality Meets Vitality:

My final recommendation for Adidas is to introduce the Children's Olympics to elementary and middle school students in China. Currently, the government mandates that these students participate in 40 minute/day calisthenics to stretch and relieve bodily tension from sitting in class all day (Burkitt). The Children's Olympics will help these students relieve stress from school and their educational extra-curricular activities in a more physical manner that allows them to let out their pent up energy, and sweat rather than just stretch. It will also give them a chance to socialize and make friends in a non-academic setting, which is a healthy way of improving their interpersonal skills. In addition, they will be able to demonstrate their individual athletics skills in a collectivist society. It will be a new kind of competition that most of them have never experienced.

Adidas will sponsor the Olympics by donating equipment to schools and by bringing in famous and impressionable athletes (both western and Chinese) to help facilitate the games. To introduce the games to China, two schools will be chosen for a pilot run of the program, one in Shanghai and one in Beijing. Ma Xiaoxu and Zheng Zhi, famous Chinese soccer players, will run soccer games in each major city to test the students' reception to the programs. If they thoroughly enjoy the games, the Children's Olympics will expand into more schools in China. Adidas will provide the students with free sweatbands and coupons to use in Adidas stores to purchase apparel and sneakers at discounted rates. The symbols used to advertise the games will remind the kids to smile and have fun (Exhibit 9).

Exhibit 9:

See Appendix: List of Images

Originality Meets Fiscal Reality:

If Adidas makes their prices more competitive, it can draw in those customers who currently cannot afford quality name-brand apparel, sneakers, and accessories. Adidas is capable of bringing down these prices, which is evident from its \$1 shoe initiative in India. This involves the sale of sneakers in India that cost only \$1 to the consumer due to the high levels of poverty (*Magnusson*). At this time, Adidas is selling these shoes at a loss of approximately \$6 because they are not covering their material, shipping, or labor costs. If Adidas sells shoes in China that cover its fixed and variable costs with a *minor* margin of profit, it can advertise its affordability, which will be very well received. Because many of the products are produced in Asia, the shipping costs should not impact the sale price very much.

Christophe Bezu, Adidas' Managing Director in China is quoted in the China Daily saying, "In the near future, we want to bring our innovative products and the Adidas experience to more Chinese consumers. This is why we are planning to "widen our product-offering in lower-tiered Chinese cities" (Chang 1). This initiative and mentality will help Adidas expand in the Chinese market, increase profits, and put shoes on children who previously relied on flip-flops or walked around barefoot.

A cheaper shoe program would make Adidas' prices much more competitive compared to Nike's shoes, which currently cost between 500 and 1,500 yuan (the equivalent of \$74-\$221) in China (Chang 2). These are prices only affordable to mid-high end consumers in large cities. As previously mentioned, the per capita GDP in China is currently \$7,600, therefore \$220 amounts to approximately two weeks of an ordinary employee's wages. In addition, "According to UBS Securities, sports shoes priced

between 170 and 250 yuan (between \$25 and \$36.80) are best sellers in China's second- and third-tier cities" (Chang 1). By selling shoes in China for \$20-\$35, Adidas will become a very competitive brand in the first tiered stores, offering quality in addition to its name brand.

Conclusion:

Adidas is a company that offers its consumers and target market *originality* at a competitive price. It has the means of improving its market share and becoming the number one global apparel company in its league. By targeting the youth of China, Adidas can create a mutually beneficial relationship where the children become walking advertisements while experiencing high quality products at a lower price. The recommendations that I offer can help Adidas thrive in China and expand amongst the younger generation. Adidas will help these children experience childhoods with a higher element of *fun* and *friendship*. In doing so, Adidas will create a market of potential life-long loyal consumers who will frequent their many stores in the future.

Appendix: List of images cited:

Exhibit 1: Samoilescu, Alex. Design 2D Color Theory. Web. 05 Mar 2012.
<http://itp.nyu.edu/~as6319/blog/category/design/>

Exhibit 3: "World Population Stats." *India Press*. Web. 08 Dec. 2011.
<http://tinyurl.com/ca299kz>

Exhibit 4: Vercillo, Dr. Tony. "Spot the Fake." 19 July 1. Web. 5 Mar 2012.
<http://www.tonyvercillo.com/blog1.php/spot-the-fake>

Exhibit 6: Kelly, Tara. "Subway Punching Bags: Chinese Commuters Get To Vent Their Frustrations (VIDEO)." *The Huffington Post*. 08 Oct. 2011. Web. 11 Dec. 2011.
http://www.huffingtonpost.com/2011/08/10/chinese-subway-punching-bag_n_923314.html

Exhibit 7: Kang, Stephanie. "Adidas Ad Campaign Invokes Chinese Nationalism." *The Wall Street Journal*. 03 July 2008. Web. 25 Nov. 2011.
<http://online.wsj.com/article/SB121502881464123819.html>

Exhibit 8: "Sneaker Box." 30 May 2010. Web 5 Mar 2012.
<http://urbanrelations.posterous.com/dj-sam-sneak-launches-new-radio-show-sneaker>

Exhibit 9a: Smiley Gif. Web. 5 Mar 2012.
<http://www.bing.com/images/search?q=smiley%20gif>

Exhibit 9b: *Dreamstime*. <http://www.Dreamstime.com>