Adidas: A Strategic Audit

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Abstract

Adidas is a leader of today’s sportswear industry with its core competencies being footwear and apparel. Adidas employs various strategies to remain competitive in the industry against powerful companies including Nike and Under Armour. The industry is strongly defined by the high levels of competitive rivalry, among other forces. Adidas is directly affected by various factors in their external environment including political, economic, social, technological and environmental factors. It also has various opportunities and threats that affect its external environment and help determine the company’s success. Adidas’s internal environment explains the basis of their strategic decisions and why certain aspects have and have not worked. As with any business, Adidas has a set of strengths and weaknesses that contribute to its performance. Through a set of strategic decisions made by strong company leadership, Adidas remains above average within its industry. Adidas’s future is contingent upon their ability to improve profits and take risks that lead to great rewards.

*Keywords: Adidas, strategy, SWOT, internal, external, environment, recommendations, implementation, evaluative criteria, contingency, competencies, sportswear industry*
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Adidas is a public company that is a leader in today’s sportswear industry. Through a history of ups and downs and a series of strategic decisions, Adidas has gained itself a reputation as a respected brand against competitors like Nike and Under Armour. In assessing Adidas’s future, getting a more detailed look into their external and internal environments will help give insight as to where Adidas should head next.

Company Background

Adidas was founded in 1949 by a German man by the name of Adi Dassler, in the small German town of Herzogenaurach, Germany, where the company is still headquartered today (History, 2019). Originally, the company had begun as a joint venture in 1924 between Adi Dassler and his brother Rudolf. However, tensions during WWII would lead the two to numerous disagreements that would eventually culminate in their official split in 1948, at which time Rudolf started his own business that would become the company Puma (Smit, 2006). Following the split, Dassler officially registered the “Adi Dassler adidas Sportschuhfabrik” in 1949 as well as a shoe that would later come to be recognized as the foundation for the famous Adidas “3-Stripes” logo (History, 2019).

In 1978, Adi Dassler passed away, and the Adidas brand was officially passed on to his son, Horst (History, 2019). However, nine years after taking over, Horst unexpectedly died, and his daughters inherited his rights to Adidas and began looking for buyers for the company (Smit, 2006). In the years following, Adidas experienced much-changing leadership, each accompanied with less than effective strategic decisions, that led to record losses and the company nearly going bankrupt in 1992 (History, 2019).
In 1993, Robert Louis-Dreyfus was named CEO and handed a dying company accompanied with the immense task of salvaging the brand and restoring it into an industry competitor once again (Smit, 2006). Under Louis-Dreyfus, Adidas went public in 1995, and, in 1997, acquired Salomon Group, consisting of its brands Salomon, TaylorMade, Mavic, and Bonfire (History, 2019). Following Louis-Dreyfus’s remarkable revitalization of Adidas, a new CEO, Herbert Hainer, was named in 2001. Hainer would remain CEO for the next 15 years, leading the company through different milestones including the introduction of a streetwear line, the acquisition of Reebok, and the creation of the Energy Boost running shoe with a new cushioning material unlike any in its class before (History, 2019).

In 2016, Adidas was handed off to its current CEO, Kasper Rorsted. Adidas now consists only of its Adidas and Reebok brands, a strategic move to focus on their core competencies through the divestiture of their other brands acquired over the years including hockey brand, CCM, and TaylorMade (History, 2019). Adidas’s current product lines consist of footwear and apparel primarily in the sportswear category. They operate in international markets with company headquarters in Herzogenaurach, Portland, Boston, Panama, Amsterdam, Shanghai, and Hong Kong (Headquarters, 2019).

The Supervisory Board of Adidas is composed of sixteen members that oversee their Executive Board, as well as perform other major company functions including the approval of financial statements (Supervisory board, 2019). The Executive Board of the company consists of six members including the CEO and five others whose individual responsibilities include: global sales, global brands, finance, global human resources, and global operations (Executive board, 2019). Adidas’s company mission is “To be the best sports company in the world.” and is fueled
by the culture they infuse into their employees through the three C’s that they believe are the key to a winning team: confidence, collaboration, and creativity (Culture, 2019).

**Situation Analysis**

**External**

Adidas falls within the sportswear industry alongside competitors like Nike, Under Armour, Columbia, Lululemon Athletica, and more. The sportswear industry has generated hundreds of billions of dollars of revenue up to this point and is expected to continue growing in the years to come. Adidas has been a long-standing player in the industry and is recognized globally as a leading brand. However, getting an overall look at the industry itself can help give us a look as to where Adidas may stand in the future.

How structurally attractive is the sportswear industry? The strongest force in play in this industry is likely the competition. The threat of new entrants in the sportswear industry is relatively low. New entrants disrupting the market is always a risk; however, in this industry, in particular, competing with already established powerhouses requires a high cost of capital to gain a recognizable name. The costs to develop a brand that can compete are high, and the sportswear industry is characterized by economies of scale rather than economies of scope.

The threat of substitutes in this industry is low to moderate. While there are many brands to choose from, the majority of consumers in this industry look to have their sportswear designed with sport in mind and thus don’t go outside of the general industry for these particular apparel needs. However, there is the option of shopping in general apparel areas for the cost-benefit and thus the threat of substitution can be moderate.

The bargaining power of suppliers in this industry is relatively low. The abundance of suppliers for the raw materials needed in this industry is high, making it easy for companies like
Adidas to shop around and find the suppliers most beneficial for them. Most companies in this industry have this same power when it comes to choosing their suppliers and thus the bargaining power of the suppliers is low.

On the other hand, the bargaining power of consumers in this industry is fairly moderate. The number of options available, as well as the ease of switching from one brand to another, makes it easy for consumers to shop around and find what suits their individual needs and wants. Because these companies’ products are dependent on how well they are doing in sales, this gives consumers in this industry a bit more control.

The strongest force in this industry is competitive rivalry, which is a relatively high force. There are several leading companies in the sportswear industry that are close to one another in performance. Likewise, other contributing factors to this are the slower overall growth of the industry as well as the lack of switching costs for consumers. Each company in this industry is constantly trying to outdo the other and come up with the newest product first to gain more market share. The rivalry amongst these can determine how much time and money they are investing in research and development to beat out the competition.

Overall, the industry is not necessarily an attractive one for someone wanting to enter it as a brand new company. However, for the established brands that have a share in the market already, it may be an attractive industry to stay in given that you can compete with the big players. With competition being the strongest force, it will require more capital and likely more investment in research and development, but those companies that can meet this will find themselves reaping the benefits.

Analyzing Adidas’s current external environment involves several important components, the first of which is the political environment. Adidas operates in international
markets as well as operates a supply chain that exists internationally. These factors mean that Adidas is affected by international trade laws, labor laws, and product safety regulations in multiple countries that it must manage effectively. Adidas also is affected by the recent import tariffs that have been imposed by the Trump Administration in regards to Chinese imports specifically, as China is one of Adidas’s top five supplier sites in the Asian region (Supply chain approach, 2019).

Adidas’s economic environment, in the US specifically, is benefitted by the decreasing unemployment rate as well as the general increase in minimum wage rates over the last few years as these factors can lead to more disposable income for consumers. Adidas is also affected by changes in tax laws; in 2018, Adidas was negatively impacted by US tax reform, which caused a revaluation of Adidas’s deferred tax assets in the US (Adidas delivers record results in 2018, 2019).

Adidas has been benefitted in its social environment in recent years with the new social shift towards healthier lifestyles. Today’s society is more focused on maintaining good health than ever before and this creates more interest in Adidas’s product offerings. Social media has also become a huge marketing medium that Adidas has taken advantage of through different campaigns on these platforms. Furthermore, both in terms of the social environment and physical environment, the company has met society’s increasing concern for environmental sustainability by pushing to use more sustainable materials in their products. A recent partnership with Parley emphasizes this commitment to the planet; a new line of shoes has been created out of plastic waste rescued from beaches in the effort to keep this waste from polluting the ocean and endangering its inhabitants.
In terms of Adidas’s technological environment, the sportswear industry has seen an increased push for improving products’ value through increased research utilizing new technologies that can analyze athletes’ movements with more clarity than in the past. The industry has also seen a push for technology that allows athletes to track their fitness, such as through the use of wearable technology like smartwatches.

Adidas has several opportunities and threats within their external environment. The biggest opportunities that they have comes with increased consumer interest in the online retail market. Adidas does take advantage of this aspect by offering both of its brands’ products through online platforms. Pushing for more dynamic websites with better consumer information can attract customers to purchase from Adidas’s online retail sites which can push their sales and margins. Another opportunity for Adidas is to continue adding celebrity and athlete endorsements and sponsorship agreements to increase their visibility to consumers.

Current threats to Adidas include the intense competition that they are seeing from companies like Nike and Under Armour in the US markets and internationally. Another threat is the increasing production of counterfeit products such as look-alikes for Adidas’s Yeezy line, a collaboration with Kanye West. Counterfeit products are popping up on online markets such as Amazon.com at prices that threaten to take away from Adidas’s sales, and could potentially hurt the brand’s image if people aren’t able to distinguish the real shoe from the fake.

Adidas’s strongest competitor in this industry is Nike, which holds its fair share of the market and is recognized globally as a leading brand. Nike is also the single largest seller of athletic footwear and apparel in the world; in 2018, Nike brought in $36.397 billion in revenues, up nearly six percent from 2017 revenues (Nike, 2018). Nike’s growth in revenues has been consistent, seeing positive growth over the last five years with gross margins remaining in the
mid-forty percent range each year (Nike, 2018). Nike sponsors many athletes, including NBA player Lebron James and professional tennis player Serena Williams.

Another one of Adidas’s key competitors in the industry is Under Armour. Under Armour brought in $5.193 billion in revenues in 2018, up about four percent from 2017 (Under Armour, 2019). Under Armour brings in less revenue than Nike or Adidas, but competes strongly in the North American market when it comes to footwear and apparel. Notable athletes sponsored by Under Armour include NBA player Steph Curry and Olympic skier Lindsey Vonn.

Adidas’s strategy in remaining competitive in the market and holding a top spot is rooted in three distinct areas: speed, cities, and open sourcing (Strategy, 2019). These three areas are focused around improving how they deliver, where they deliver, and how they create. This allows them to push themselves to be the best sportswear brand for their consumers. They also have implemented a new acceleration plan to foster brand momentum and growth through an increased focus on their brand portfolio, prioritizing their North American market, using technology for increased efficiency, and implementing ONE Adidas—a set of initiatives designed to increase their global impact (Strategy, 2019). Adidas is highly aware of the competitive nature of their industry and continually focuses on how they can improve to stay ahead of the game.

**Internal**

Looking internally at Adidas will allow us to pick apart the strengths and weaknesses of their current strategies as well as gain insight as to what strategies could be most beneficial for them in the future. Does Adidas have a distinct competitive advantage? While they can compete with the other top runners in their industry, I wouldn’t consider Adidas to have a certain competitive advantage that gives them absolute dominance in the market place. This doesn’t
mean that they are failing in the industry by any means; however, they must continue to push themselves in coming up with new ideas to keep up with businesses like Nike so that they don’t lose their enviable position in the market.

Adidas recognizes that its core competencies are that of footwear and apparel. They cite the divestiture of hockey brand CCM and golf brands TaylorMade, Adams Golf, and Ashworth as a decision to focus more on these competencies through their Adidas and Reebok brands with their “Creating the New” strategy (History, 2019). This strategy shows that Adidas knows its strengths in the industry and has a grasp on what it will take to capitalize on them. Adidas also has a strong source of human capital behind the brand that helps feed their competitiveness; they even snatched some key designers from their biggest rival Nike, during 2015 (Doke, 2016). They also rolled out a new campaign with the headline “Calling all Creators” around that same time under the direction of Karen Parkin, the Chief HR Officer appointed in 2014 (Doke, 2016). Parkin showed so much drive and success in this role that she now serves on Adidas’s Executive Board and is in charge of global human resources (Executive board, 2019). In regards to leadership, Adidas’s current structure seems to be working for them. As noted before, the executive board is made up of the CEO and five others. According to glassdoor.com, CEO Kasper Rorsted’s approval rate is currently 79 percent (Working at Adidas, 2019).

In terms of profit, Adidas is doing well. While they aren’t quite at the levels of their biggest rival, Nike, they have been showing relatively consistent numbers over the past few years. In 2018, Adidas brought in €21.915 billion in revenues, and states that they saw a currency-neutral increase of 8 percent in revenues from 2017; specifically, the Adidas brand saw a nine percent currency-neutral increase in net sales from the previous year while the Reebok brand saw a three percent currency-neutral decrease in net sales from the previous year (Annual
The company’s gross margin has slowly but steadily been increasing over the past five years from 47.6 percent in 2014 to 51.8 percent in 2018 (Annual report 2018, 2019). From this growth in profit, Adidas is likely in a growth stage of their industry life cycle but could be nearing maturity if they don’t continue to make improvements in their products and take risks necessary to improve.

Adidas has a variety of strengths and weaknesses that contribute to the position of their company in the industry. One strength of Adidas is its current financial performance in the North American and Asia-Pacific markets, each up fifteen percent in revenues from 2017 on a currency-neutral basis (Annual report 2018, 2019). Adidas stated in their company strategy that one area that they wanted to emphasize was the North American market, and this strategy seems to be working for them. In addition to this, Adidas’s presence in several international markets adds another strength as it exposes them to a wider customer base and reduces the risk of their dependence on one market alone. They also heavily focus on and invest in research and development activities to mitigate competition risk as it is one of the strongest forces of their industry.

Adidas also has several weaknesses and issues that are worth noting for their potential impact on their future performance. The first is their dependence on third-party suppliers in their supply chain. In March 2019, it was revealed that Adidas is currently facing supply chain problems in their North American market with bottleneck issues leading to a lack of manufacturing capacity to match the growing demand for their mid-priced apparel (Germano, 2019). The problems are expected to be solved within the year but CEO Rorsted stated that the issue could cost the company an estimated $225 to $400 million (Germano, 2019). Despite the setback, the company still expects to see growth in the North American market this year.
Another current weakness of Adidas is the growth and performance of their Reebok brand, especially in the US markets. The profitability of Reebok is significantly below where the company would like it to be. They recognized this deficiency and rolled out a plan in 2017 to increase Reebok’s profitability and share of the market through initiatives focused on the US market specifically. With this, they have expressed a desire to make the Reebok brand more female-focused by putting “women at the heart of everything,” with a goal of the women’s sales of this brand to constitute 50 percent of the overall business (Annual report 2018, 2019). Another current weakness that Adidas faces is the fact that they are underperforming in the female market. The female market is one of the fastest growing segments of the sportswear industry and Adidas has stated that they have a vested interest in appealing to their female consumers. They have begun to roll out new marketing efforts and products targeted towards the female market such as the Pureboost X, a shoe designed specifically for women. However, in a study conducted in 2018, a sample of US respondents was asked what their favorite sportswear brands were. Out of 609 female respondents aged 18 and over, approximately 28 percent of female respondents selected Nike as their favorite and only about eight percent stated that Adidas was their preferred brand (Statista Survey, n.d.).

**Strategy Alternatives**

With the external evaluation of the industry and all of Adidas’s strengths and weakness in mind, what are some options for Adidas going forward? First, Adidas could play it safe and continue with their current strategy in attempting to improve Reebok’s position in the market as well as focusing overall on the North American markets for continued growth. As one of the top three main competitors in the athletic footwear and apparel industry, Adidas has a strong hold in the market. They are above average in the overall industry and show growth in their financial
measures, specifically revenues and gross margins. Continually adding new celebrity and athlete endorsements on their products, such as their latest collaboration with Beyoncé announced this past month, will be an essential piece going forward if they were not to adopt any major changes.

Another option for Adidas is to divest its Reebok brand altogether. Divesting its CCM and TaylorMade brands was a move in the right direction in focusing on their core competencies of footwear and apparel. However, the Reebok brand is currently not showing incredible performance in comparison to other brands in the industry. In divesting Reebok, they could focus more of their energies on the Adidas brand alone and what they need to do to improve the product offerings to compete with the industry leader, Nike. In divesting the Reebok brand, they could still retain some of the product designs and incorporate them into items branded as Adidas, which would reap greater brand recognition. Divesting Reebok could also improve profitability by removing the negative tug on the company’s overall profitability measures.

A third option for Adidas is to appeal to the female market by creating a shoe in collaboration with a professional female athlete that would bear her namesake. Doing so could further show Adidas’s public dedication to the female market by taking their efforts a step past partnerships and sponsorships that exist for brand awareness purposes. Similar to the steps they took with the Pureboost X, they could create a new athletic shoe that is both designed for women and supports the latest push for giving women more visibility in sports.

**Recommendation**

The strategy that I would recommend to Adidas is to collaborate with a female professional athlete and create a shoe designed specifically for females in that sport. The primary evaluative criterion driving this decision is the goal to increase both Adidas’s sales in the female market and their reputation with women. With the female market being one of the fastest
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growing consumer bases of the industry, taking the lead in this area could greatly contribute to Adidas’s overall performance as a company. This could potentially lead to increased earnings and higher earnings per share, benefitting stockholders. It could also increase brand attitudes and loyalty towards Adidas as a company that truly supports women and stands with them in the fight for sports visibility. This criterion is also why I would suggest implementing this strategy before the divestiture of Reebok. Adidas has stated that one of its strategies moving forward with Reebok is to make it more female-focused; they have also developed a set of initiatives that could lead Reebok to becoming more profitable after some time (Annual report 2018, 2019). A secondary criterion driving this recommendation is the goal for an improvement in profits. The creation of a women’s-specific shoe could generate more sales by attracting the female market to Adidas not only for that sport in particular but for all products in general because of their true support of women.

Implementing this strategy would be feasible for Adidas. They already have the technology and expertise needed to design a shoe specifically towards women, as they demonstrated with the Pureboost X. Furthermore, Adidas has publicly made known their interest in helping women gain visibility in sports through their “She Breaks Barriers” initiative, which calls for equality in media representation and the removal of barriers for women in sports (Adidas continues push, 2019). While this campaign is an admirable move and shows their dedication, other brands have taken similar actions in supporting women. Adidas is pushing for more women’s visibility in the media, but what actions are they taking within in their own company? Yes, they sponsor numerous female athletes and teams; however, they have several current shoe lines named after professional male athletes, including NBA players Derrick Rose,
Damian Lillard, James Harden, and Tracy McGrady, and none named after professional female athletes.

Furthermore, creating a shoe for women in a particular sport is something that’s hardly ever been done by a shoe company before, and no current player has a signature shoe for any brand. Less than ten professional female athletes can claim this feat (Whiteside, 2017). While the signature shoes may not have been madly successful before, now is the best time to take a more aggressive approach with the increased buzz around women’s sports visibility. Coupling the release of a shoe of this type with their “She Breaks Barriers” movement could go to show their seriousness and dedication to the campaign. Adidas currently advertises its basketball shoes as “unisex,” yet women’s feet are distinctively different than men’s and could be benefitted from different designs targeted toward their unique needs. Successfully unveiling a shoe designed for women and named after a professional female athlete, can set a precedent for other companies to follow. It will challenge these companies to truly back the women of sport by giving them the same type of treatment that they have for professional male athletes.

Implementation

How is Adidas going to implement this strategy? As I mentioned before, they already have the technology and expertise to conduct the necessary research. I believe the easiest sport to implement this strategy will be basketball, as they have explored this area before with great success. However, they will need to show a commitment to advertisement and promotion of the shoe so that it doesn’t prove to be a flop as other attempts have been. The first step in implementing this plan will be finding a professional female basketball player with which to partner. Since women’s sports are so poorly represented in the media, a key piece of this plan
will be finding someone with national recognition to help with the reception of the shoe when it is first released.

Adidas has many female players they could choose from. One option is to select a rookie likely to be drafted into the WNBA this year. A viable option here is Arike Ogunbowale, arguably one of the most well-known college players in the game today. She holds a 2017 national title and has also been a contestant of Dancing with the Stars and made an appearance on Ellen. Not only that, but she has been given public accolades by NBA legend Kobe Bryant. However, I think Adidas’s best move here for the introduction of the first-ever shoe named after a female athlete is a well-established player. I would suggest Sue Bird. Bird is a well-known legend of the WNBA and is about to embark in her 17th season with the WNBA. She’s a two-time WNBA champion and a ten-time WBNA All-Star (Sue Bird, n.d.). She was also named as a basketball operations associate for the Denver Nuggets this past November; a position that can help with the media exposure of the shoe (Pelton, 2018).

In the inaugural deal for the partnership between Adidas and Bird, Adidas will need to set a contract and price. A two-year contract could be a feasible one to get the ball rolling and allow for adequate time to test how the product will be received. As far as money goes, Adidas will need to offer a decent deal to attract Bird and can then increase this based on the success of the shoe for following contracts. Bird currently sports Nike shoes as Nike is the official outfitter of the WNBA; taking her on as the pilot of this new deal could be risky and difficult to switch her from Nike. If this were to become a serious issue Adidas could always go with rookie Arike Ogunbowale as the face of their new shoe; the promotion of the shoes would just require more aggression and dedication with a WNBA rookie.
Looking at other previous Adidas deals can help us reach a reasonable financial figure for the endorsement. Derrick Rose and Damian Lillard reportedly made endorsement deals with Adidas worth $185 million for thirteen years and $100 million for ten years, respectively (Windhorst & Rovell, 2014). WNBA players make about twenty percent of an NBA player’s minimum salary (Lamonier, 2018). Thus, I think Adidas could make a reasonable offer to Sue Bird—or Ogunbowale, if necessary—of about $1.5 million for two years, as this figure would be close to twenty percent of the deals that NBA greats have received from Adidas, but lessened for the riskiness of the investment. Beyond the payment to Sue Bird, Adidas will need to invest a decent amount of money into the marketing of the shoe. Adidas spent €3.001 billion on marketing in 2018, which demonstrates that they have the capacity and capital to invest in this new venture (Annual report 2018, 2019).

Adidas should plan for about three-to-six months for the research and development of the shoe. This will allow them enough time to conduct proper tests to make that the shoe is properly equipped for the female basketball player. Following the design, Adidas will need to allow an additional four-to-six months for the manufacturing of the shoe before it can be officially released. It is during this time that the majority of their promotion will occur. Adidas will need to take a highly proactive stance with promoting the shoe to ensure that it is received well in the markets. One way that they can start this is coupling the shoe with the “She Breaks Barriers” movement. This provides a foundation for their campaign to grow from. Once the shoe finally hits markets approximately eight-to-twelve months from the beginning of the research and development stage, Adidas can further promote the shoe through the media as well as outfit some of its NCAA women’s basketball teams in them to get the shoe some initial exposure.
Adidas should allow at least a two year testing period to see if the shoe will be well received in the current market. If Adidas gets through the initial release and contract period of two years and finds that the products did not meet expectations even after thorough promotional efforts, then they can opt not to do a contract extension with Sue Bird. Any costs to implement the plan will be considered sunk costs and won’t be relevant at this point. For any remaining stock, Adidas can run price deductions or ship out the product to its NCAA teams for their use. From there, they can either choose to continue making a women’s-specific basketball shoe without the namesake or scrap the idea altogether based on what seems more profitable.

Based on the evaluative criteria described, this strategy should be an attractive one for Adidas to undertake. It falls directly in-line with their cultural principles of confidence, collaboration, and creativity. Based on the social push today for women in sports and the increasing market share that women are taking in the sportswear industry, the strategy could push Adidas to the new horizons that they have been hoping for. Overall, Adidas is a well-run company that demonstrates excellence in its industry. While they may not be at the level of the industry leader Nike, they show promise for the future. Continuing their focus on their core competencies of footwear and apparel will allow Adidas to maintain their place in the market and continue improving in the industry.
References


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