Dummy Report for Strategic Management Assignment 1 2018 – Analysis of Adidas- in Porter's Generic Strategies

MODULE NAME: **STRATEGIC MANAGEMENT& SUSTAINABILITY (M3X9111)**

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1. EXECUTIVE SUMMARY

The purpose of this report is to demonstrate and analyse the strategy Adidas used in the process of its development with the model Porter's Generic Strategies.

The founder of Adidas, Adolf Dassler started making shoes in 1920, and constructed Adidas in 1949. With great innovation and great collaboration with Olympic games, Adidas gained great popularity and became the world's leading sports shoes supplier in 1960s. However, it was replaced by Nike in the late 1970s. Attempts to invent new products and explore wider market gradually helped Adidas overcome difficulties and back to the leading position in Europe.

Adidas has applied differentiation strategy, which is implemented by professional technology suitable for athletes, special product style and significant marketing method.

This report only presents a simple analysis of strategies of Adidas. However, for a company who has survived long period from a small enterprise to the leading role, there are definitely multiple and more complex strategies worth doing research on.

Adidas ought to exert better technology into its products, which is bound to contribute to inventing more comfortable and fascinating products. It can keep paying highly attention to innovation in style designing, thus being able to play a leading role in Fashion area. Adidas ought to continue its collaboration with Olympics and superstars, which can greatly cultivate people's trust on this brand and attract attention of more and more fans.

2. INTRODUCTION

2.1 REPORT REMIT

The founder of Adidas, Adi Dassler, in his 20s, made his first shoes in German in 1920. For nearly a hundred years after that, Adidas has gone through being set up as a company, becoming famous all over the world, getting defeated by other rising sporting goods industries and winning back its leading position in Europe again. During this process, Adidas has overcome multiple difficulties to achieve continual success, which is worthy doing research on. The purpose of this report is to demonstrate and analyze the strategies Adidas used in the process of its development with the help of Porter's General Strategies, and submit some proposals accordingly.

2.2 BACKGROUND OF THE ORGANISATION

Adi Dassler, who is not only a skilled shoemaker, but also a sports-loving amateur track and field athlete. Encouraged by his conviction to furnish athletes with best gym shoes, he constructed a shoe company with his brother Rudolf Dassler in 1924. The performance of it was fairly mediocre initially, however, this company gained a sharply increasing popularity when Jesse Owens won the gold medal at the 1936 Olympics, wearing the shoes of Adi Dassler.

In 1949, Dassler brothers split into two because of family disputes. Rudolph took away half of the company's equipment and set up the Puma, while Adolf founded Adidas on the basis of his existing business, with the name derived from his first name and the initial three letters of his family name.

In 1954, The West German Football Team who wore Adidas shoes beat Hungary and won the World Cup, partly because Adolf twisted a special nail into the shoes, making the athletes hold fast on the muddy field at the time. This event has contributed to more popularity of Adidas and in the 1960s, it became the world's leading sports shoes supplier.

In late 1960s and early 1970s, the sports shoe industry showed a prosperous scene. Americans are increasingly concerned about their health. Millions of people who have not taken part in physical activity are also looking for ways to exercise. However, Adidas did not realize that the civilian sports has become a trend, but still focus on professional sports shoes. Adidas's position was challenged by a failure to anticipate sales and an

underestimation of market competition. Eventually, it was replaced by Nike in the late 1970s.

After that, Adidas spared no efforts in inventing new products with creative technology, and a series of famous products were rolled out such A3, ProPLA, which gradually helped him back to the leading position in Europe.

2.3 DEFINITIONS OF MAJOR CONCEPTS

2.3.1 Strategy

From the 18th century to the 20th century, the word "strategy" came to denote "a comprehensive way to try to pursue political ends, including the threat or actual use of force, in a dialectic of wills" in a military conflict, in which both adversaries interact(Lawrence Freedman, 2013). It is "a system of finding, formulating, and developing a doctrine that will ensure long-term success if followed faithfully."(Vkadimir Kvint, 2009).Strategy describes how the goals will be achieved by the means (resources), and can be intended or can emerge as a pattern of activity as the organization adapts to its environment or competes(Simandan, D., 2017). Strategic behaviour generally involves setting goals, determining actions to achieve the goals, and mobilizing resources to execute the actions(Lawrence Freedman, 2013;Simandan, D., 2018).

2.3.2 Business level strategy

It was until 1980 that strategy was entitled to create competitive advantage for a company. Business-level strategy focuses on positioning itself against competitors and staying up to date on market trends and technology changes.(*Madison Garcia,2018*). Liao (2005) argues that business-level strategies reflect the firm's view about where and how it has an advantage over its rivals in a product market. Managers often lack knowledge about business-level strategies that may affect the selection of MSMs, which can influence enterprise growth and performance in the host country. Following Porter (Liao, 2005).

2.3.3 Competitive advantage

A competitive strategy involves a series of systematic and related decisions that give a business a competitive advantage over other businesses (Schuler & Jackson, 1987; Dowling & Schuler, 1990), which can produce competitive advantage represents that a company is

able to create value for customers more than it costs for creating it. Value is what buyers are willing to pay, and superior value comes from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price (Gareth Hales and Carolan Mclarney, 2017) The manager should be able to define what the sources of the enterprises' competitive advantage are, how the competitive advantage issued for strategy formulation and at the same time its sustainability during the strategy period (Ehmke, 2008; Ellis and Calantone, 1994). Competitive advantage can be sustained only if it can survive attempts to replicate it by competitors (Ghemawat, 1995) Competitive advantages are quite essential for companies to outperform others in every industries.

2.3.4 Porter's generic strategies

In the book Competitive Advantage: Creating and Sustaining Superior Performance(1985), Michael Porter expressed the opinion that outstanding performance was able to be achieved in a competitive industry by implementing a generic strategy, which is now known as Porter's General Strategies.

Porter's General Strategies include three mutually exclusive generic strategies, cost leadership, differentiation and focus. The framework has become very popular in practice and academia for evaluating both macro and micro issues relating to strategic orientation in an economy (Porter, 1985, 2000, 2001; Allen, 2007). Porter asserts that competitive advantage rests upon how well the executed strategy generates value.

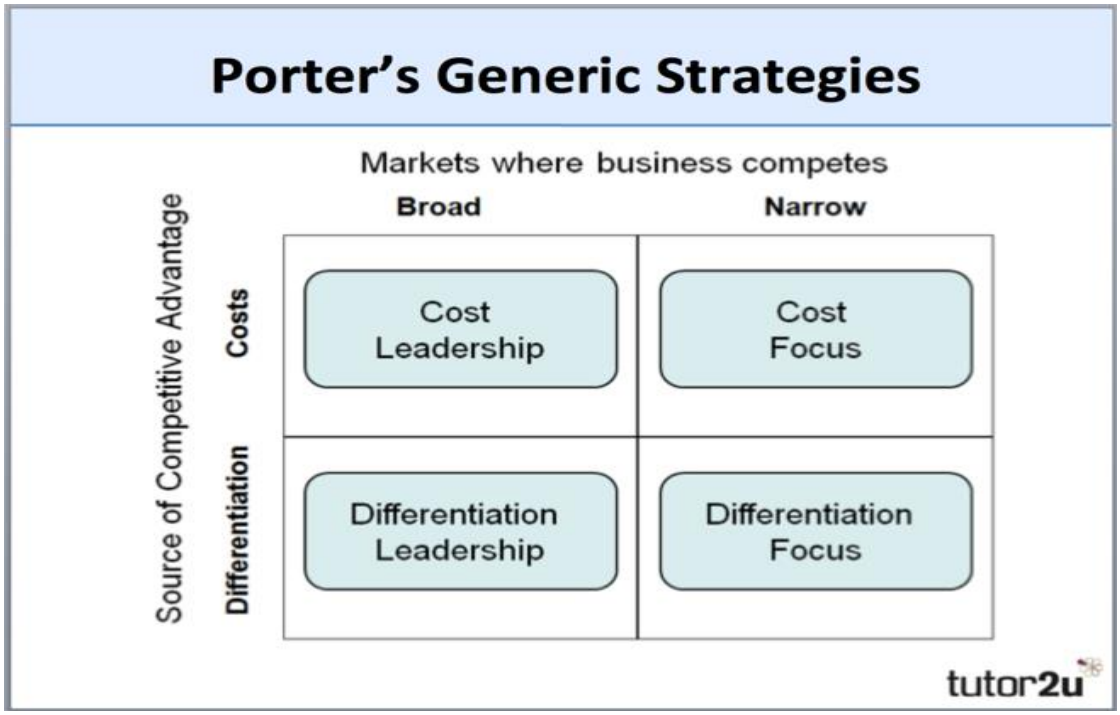

FIGURE 2-1 -Porter's generic strategies

Firms who use a cost leadership strategy intend to provide themselves with a beneficial low-cost environment so that they can attract more customers and earn money through flexibility compared to others. Cost leadership is able to be accomplished by large number of products utilizing economies of scale, cost minimization, total quality management, just-in-time manufacturing, bench marking, etc.

Conversely, a differentiation strategy may be achieved by investing in developing products or services that offer exceptional characteristics that the customers desire, enabling the firm to command premium prices.(Online, 2018) On the other hand, differentiation, which is achieved through unique products or services that consumers place a premium value on, permits more sustainable advantages to accrue to the firm since such attributes cannot be easily imitated by competitors (Grant, 1991). A differentiation strategy generally includes firm-specific and product-specific innovations and focuses on inventing special products or other positions that are not likely to be copied.

The strategy of focus is to specialize on a particular customer group, a segment of a product line, or a special part of market. Both cost leadership and differentiation strategies are designed to achieve their goals across the whole market, while the focus strategy just concentrates on a targeting object. This central idea should be taken into account in every

functional approach so as to get best outcome. This strategy is able to serve a narrow strategic object with high efficiency, thus surpassing the competitors (Online, 2018).

Although research posits that pursuit of either of the generic strategies, differentiation or cost leadership, enables a firm to achieve better performance (Porter, 1980, 1985; Hambrick, 1983; Miller and Friesen, 1986 and others), Porter (1996, 2001) argues that cost leadership strategy is easy to be copied while a differentiation strategy is harder to imitate since it applies special creativity in products and service and will take time to be replicated.

However, there are also some scholars arguing that this model is too simple to demonstrate strategies a company exerts in its development, thus it may not be that reliable to give instructions.

3. MAIN BODY

3.1 IMPLEMENTATION OF THE STRATEGY

The most frequently used strategy of Adidas from the perspective of Porter' s general strategy is differentiation.

3.1.1 Specialty Differentiation

Encouraged by the idea to create best shoes for athletes, Adolf attached great significance to innovation that he spared no efforts to improve the professional function of his products from the beginning. It was as early as 1920 when Adolf invented his first shoes in the conviction of making the best sneakers which were able to be distinguished from other sports shoes, and he had always being working hard to get his shoes perfected. In order to complete this objective, he continued to watch professional athletes playing sports, communicate with them and participate races by himself to get best inspirations.

Adidas took product innovation as its driving force and it has been the initiator of many technological breakthroughs, winning more than 700 patents. Adidas created world's first pair of skates, the first pair of multi-nailed shoes, the first pair of rubber cast football nail shoes etc. One of the most famous and unbelievable example is in 1954, when the shoes of Adidas played a quite vital role in the World Cup, which now is widely known as Wunder von Bern. In the game, the Jedi, which was nearly impossible to win then, however, beat the Hungary to become the champion by a miracle. And it partly because the special multi-nailed shoes made by Adolf benefited the players greatly in the muddy football course.

FIGURE 3-1 -Adidas shoes in Wunder von Bern

After that, at the Montreal Olympics in 1976, athletes who wore Adidas products accounted for 82.8% of all individual medal winners, leading to the boost in sales to $1 billion. Till today, after the hard-working of this company, the general public trust on Adidas deeply. There is no doubt that innovation and excellence of Adidas' products have provided the brand with multiple preponderance than many other sports brands.

3.1.2 Style-designing Differentiation

Adidas has achieved great success in the differentiation of design, including the design of logo and products. In about 100 years development, the brand logo of Adidas changed a lot, but they are always able to convey special spirits, and keep their uniqueness all the time. Adidas has three main lines: sports performance (three-stripe), sports originals (clover) and sports style (ball logo). Here is a graph about the Adidas brand logo development.

FIGURE 3-2 -Development of Adidas logo

With the development of brand, Adidas pays high attention to its brand right. Three-stripe is a classical logo, and there were several enterprises who had some conflicts about logo with Adidas because of slight or severe familiarity. For example, Belgian company Shoe Branding Europe failed in its appliance to register a shoe company with the two-stripe logo in 2009. Also, Adidas sued US car company Tesla for using a three- stripe logo similar with its trademark in 2017 and was successful.

FIGURE 3-3 -The similar logo of Tesla and Adidas

Adidas is very clear that a highly recognizable brand logo is conductive to company development , in which people can have a deep and special reflection of this brand.

Special attention is also paid to products style designing, so as to decide Adidas' leading position in fashion in sports footwear. Fashionable products always draw in multiple followers. Such as Y-3, a new brand created by the top designer worldwide (Yosho Yamamoto) as creative director. Yohji Yamamoto has combined the clear character, new materials and multi-pocket style into the Y-3 designing, thus presenting a perfect sporting brand image in fashion with great creativity. Furthermore, there are some other popular products that have beautiful designs and would not be out of style even in many years, thus appealing to millions of fans.

3.1.3 Marketing Differentiation

Another typical method about differentiation strategy is the method Adidas took in marketing. It is obvious that although Adolf concentrated more on providing athletes with best shoes, he had already realized how to generalize his shoes and maximize their popularity. Adidas has a long history with the Olympics. Jesse Owens won the gold medal at the 1936 Olympics in Germany, and photographs of Owens wearing Adidas running shoes

were widely circulated around the world. From then on, the Olympic Games became the most ideal sponsor of Adidas.

FIGURE 3-4 - **Jesse Owens in 1936 Olympics**

FIGURE 3-5- **The shoes Jesse Owens worn in 1936 Olympics**

Actually, Adolf offered Jesse Owens his sneakers for free because of his guessing him to win the gold medal, through which he could seize the opportunity that his shoes gained a sharply increasing popularity.

In 1996, Adidas chose the centenary of the modern Olympics to celebrate the great achievements of the past and to look at the future blueprint. Adidas attaches great importance to the Olympic stage, at the same time as Adidas products can get improved due to athletes'

review, its reputation and liability could also be raised. The players in Olympic game can be furnished with professional sneakers, which is a win-win situation.

Adidas' long cooperation with Olympians and competitions has enabled Adidas to establish strong ties with the Olympic movement. Another idea for Adidas is to launch new products on the occasion of a special sporting event. The tradition began at the 1956 Melbourne Olympics, when Adidas introduced its affiliate, Melbourne, with an improved multi-nailed. That year, players in Adidas sneakers broke 33 records and won 72 gold medals.

With the number of star chasers growing rapidly in recent years, the influence of star spokesman cannot be emphasized too much. To appeal to this situation, Adidas has paid special attention to superstars as well. In China, for example, Adidas has collaborated with many famous superstars, and nowadays with Eddie Peng, Han Lu, Jackson Yee, etc. to popularize its products.

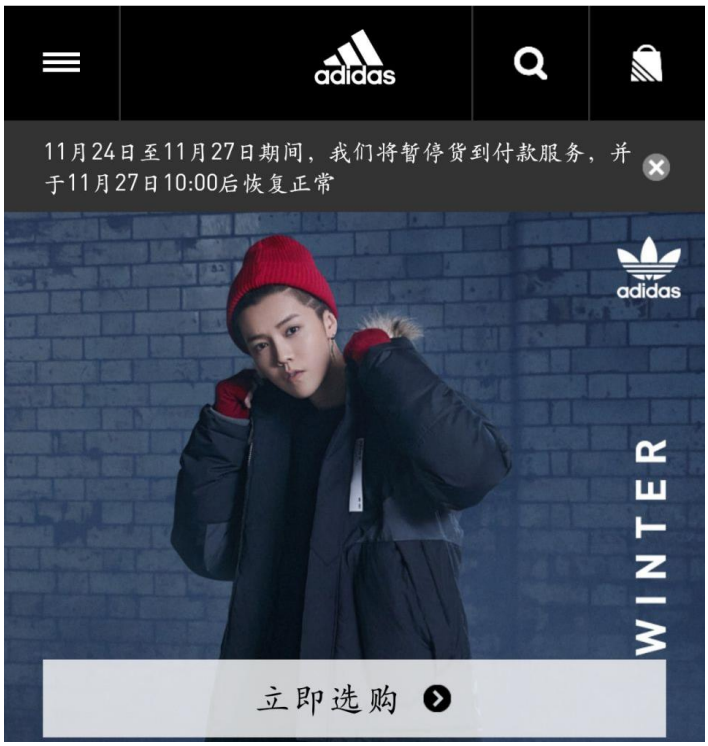

FIGURE 3-6 - Han Lu in the Adidas website in China

The movement is also in line with earlier Adidas chief Kasper Rorsted 's strategy, in which he emphasized shifting the company's marketing direction to digital media. In March 2017,

Caspar said at CNBC that Adidas would abandon television advertising as it sought to triple its e-commerce revenues by 2020. (Online, 2018)

3.2 ADVANTAGES & DISADVANTAGES OF THE STRATEGY

3.2.1 Advantages

Suitable implement of differentiation is able to benefit company a lot. It can accomplish following items.

To establish customer loyalty to the enterprise.

To form a powerful industry entry barrier.

To enhancing the bargaining power of the enterprise to the supplier.

To weaken the bargaining power of buyers. Through the differentiation strategy, the enterprise makes the buyers be in lack of comparable product choice, which will reduce the sensitivity of the buyers to the price. On the other hand, through product differentiation, buyers have a high conversion cost, making them rely on the enterprise.

3.2.2 Disdvantages

Differentiation strategy also contains a series of risks:

May lose some customers. If a competitor with a cost-leadership strategy lowers the price, customers may choose it to save money.

The factors contributing to the difference in the product requirements of customers are weakened. When the user becomes more and more sophisticated, the characteristics and differences between the products are not as obvious as before, and the differences may be ignored.

A large number of imitations reduce the perceived difference. Especially when the product develops to the mature stage, it is easy for the manufacturer with technical strength to Imitate.

Excessive differentiation may also lead to abnormal marketing.

4. CONCLUSION

Firstly, Adidas ought to exert better technology into its products, which is bound to contribute to inventing more comfortable and fascinating products.

Adidas can keep paying highly attention to innovation in style designing, thus it is able to play a leading role in Fashion area.

Adidas ought to continue its collaboration with Olympics and superstars, which can greatly cultivate people's trust on this brand and attract attention of more and more fan.

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