

***Dummy Report for Strategic
Management Assignment 1
2018 – Porter's Generic
Strategies used by Adidas***



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MODULE NAME

STRATEGY MANAGEMENT & SUSTAINABILITY

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1. EXECUTIVE SUMMARY

What kind of strategy an enterprise uses is very important for its long-term development. In this article, the model of the Potters will be applied to Adidas, an internationally renowned company, which is founded in 1949 and will be analyzed from one of its strategies in turn, For instance, the differentiation. Finally, the advantages and disadvantages of the model are listed.

Overall, Adidas has made good use of this strategy to expand its market in the world, especially in China. However, while emphasizing the difference, it slightly ignores the situation that some of its products are overpriced, and some of its products are under-supplied.

What should be recommended is that, we should pay attention to not only its strengths but also its weaknesses, and in this way can the company really benefit from strategy.

2. INTRODUCTION

In this article, Porter's Generic Strategy will be used to analyze Adidas' strategies.

2.1 REPORT REMIT

What kind of strategy an enterprise uses is very important for its long-term development, and the choice of strategy is made up of many factors, including internal and external factors. Porter's Generic Strategy model is an excellent choice for many companies.

In this article, the model of the Porter's will be applied to Adidas, an internationally renowned company, and will be analyzed from one of its strategies in turn, For instance, the differentiation. Finally, the advantages and disadvantages of the model are discussed.

2.2 BACKGROUD OF THE ORGANIZATION

Adidas founded in 1949, is a member company of the German sporting goods manufacturer Adidas AG. Named after its founder Adolf Adi Dassler, it began producing footwear products in 1920 in Hetsogen Olah. In August 18, 1949, it was registered under the name of Adidas AG. Adidas was originally co-founded by two brothers. After the separation, Adolf's brother Rudolf Dassler opened the sports brand puma. Adidas' classic slogan: "Impossible is nothing". In March 2011, it launched a new slogan, Adidas is all in, with a total of 160 million euros. In June 2017, Adidas was selected as one of the world's top 50 Smartest Companies in 2017 by the Massachusetts Science and Technology Review. On July 19, 2018, Adidas ranked 480 in Fortune 500 world rankings in 2018(www.baidu.com).

Vision: our passion for sport makes the world more peaceful. Attitude: Impossible is nothing. is not impossible; Adidas is all in. is fully committed. Mission: to become the leading brand in the world; Core value of brand: honesty and credibility, responsibility and trustworthiness, inspiration; development and innovation, sincerity and frankness, rich experience. Greater China Principles: Lead, Tell the Truth, Be

Accountable, Simplify, Work Together, Have Fun. Organizational goals of Adidas Enterprises: Adidas Group is committed to becoming a global leader in the establishment of brand industry with sports passion and lifestyle in sports goods. Adidas is committed to continuously strengthening the brand and products to enhance its competitive position. Adidas's innovative and design leaders want all athletes to achieve the highest level of sport and bring the best performance to the market. Adidas has attracted the attention of consumers, which has led to continuous improvement in quality, appearance, feel and image matching of the products and organisational structure, exceeding consumer expectations, and providing maximum value. Adidas is a global organization, responsible for society and the environment, and the owner of a set of creative and diverse ideals. Adidas is committed to continuously improving its financial performance. The ultimate goal of the organization is to lead the sports goods industry to build brand with sports enthusiasm and sports lifestyle, predict and meet the needs of consumers and customers, constantly strive to create an innovative culture, challenge themselves, break the rules and embrace change(www.adidas.co.uk).

By using this culture, the boundaries of the products are pushed, services and processes enhance the competitiveness and maximize the operation of the group. Adidas is committed to meeting all-round needs of customers and consumers, ensuring the availability of products of correct size and color, improving the level of technological innovation, and achieving high-end fashion and high-quality standards of products(www.adidas.co.uk).

2.3 DEFINITIONS OF MAJOR CONCEPTS

➤ Strategy:

Strategies are defined as a kind of planning to achieve the overall goal from the overall perspective, and tactics are only one of the means to achieve the strategy. To achieve strategic success, we sometimes sacrifice part of our interests to win strategic

victory. Strategy is a long-term plan and a long-term goal. It takes a long time to plan strategy, formulate strategy and achieve the goal of strategy(Marc Journeault, 2016).

➤ **Business level strategy:**

Business level Strategy is a general term for all kinds of strategies, including competitive strategy, marketing strategy, development strategy, brand strategy, financing strategy, technology development strategy, talent development strategy, resource development strategy(Marc Journeault, 2016). Although there are many kinds of strategies, their basic attributes are the same. They are all strategies for enterprises, and they are strategies for the integrity, long-term and basic problems of enterprises. Strategy is the long-term and overall plan or plan for the survival and development of an enterprise in an environment of fierce competition in the market economy, on the basis of summing up historical experience, investigating the present situation and predicting the future. A business level strategy is a series of comprehensive and coordinated agreements and actions designed to develop core competitiveness and gain competitive advantage(Per Ledin,David Machin, 2016).

➤ **Competitive advantage:**

Competitive advantage is a position of a company in a competitive landscape that allows the company earning return on investments higher than the cost of investments. Competitive advantage should be relevant, unique, and sustainable.Competitive advantage is a theory that seeks to address some of the criticisms of comparative advantage. Michael Porterproposed the theory in 1990. Competitive advantage theory suggests that states and businesses should pursue policies that create high-quality goods to sell at high prices in the market. Porter emphasizes productivity growth as the focus of national strategies. Competitive advantage rests on the notion that cheap labor is ubiquitous and natural resources are not necessary for a good economy(Per Ledin,David Machin, 2016).

➤ **Porter's Generic Strategies:**

In the 1980s, Professor Michael Porter argued that there were only four fundamental strategic options available to all companies: Porter's Generic Strategy Option.

Although this approach has subsequently been challenged, it does help in developing market – based opportunities(Per Ledin,David Machin, 2016).

Porter's conceptual economic starting point: the need to establish the prices and costs of an organisation in comparison with its competitors. Porter (1980) identified four primary sources of competitive advantage: cost leadership, differentiation ,focus cost leadership, focus differentiation(Porter,1997).



Figure 2-1 The Definition of Porter's Generic Strategies

➤ **Cost leadership**

Cost leadership means lowest cost producer in the industry, continual focus on cost reduction ,economies of Scale,and does not need to set the lowest price in the industry,competitive advantage comes from being more operationally efficient(Porter,1997).

➤ **Differentiation**

Differentiation occurs when the products of an organisation meet the needs of some customers in the market place better than others:branding, superior performance are examples of differentiation that will deliver sustainable competitive advantage.

Assumed that such a differentiated product can then charge and maintain a higher price than its competitors, delivering higher profitability than rivals (Porter, 1997).

➤ **Focus**

A focus strategy occurs when the organization concentrates on a specific niche in the market place and develops a competitive advantage by offering products especially for that niche (or segment).

Porter argued that the competitive advantage inside the niche could be based on the lowest costs.

Focus differentiation strategy means being able to provide products and services to customers better than others (Porter, 1997).

3. MAIN BODY

3.1 IMPLEMENTATION OF THE STRATEGY

Adidas, an international sports brand company, has made good use of one of Porter's Generic Strategies: the differentiation strategy, enabled the company to have better development and expanded its business scope.

For instance, Adidas has three major series: performance (three lines), originals (clover) and Neo (spherical LOGO). They are divided into three sub-brands: Y-3, SLVR, NEO LABEL, which meet different customer needs respectively. And in this way, Adidas can have a larger customer base.



Figure3-1 Adidas' Three Major Series

Another example is that Adidas also launched the ball games and track and field sports apparel, sports shoes, sports apparel, accessories (yoga, watch glasses etc.), casual shoes, men's perfume and skin care products etc.. On December 9, 2009, Adidas and Disney announced that they would join hands in launching new baby and children's wear products.

ForMotion heel (mountain type): ForMotion is a freely mobile heel system that allows your feet to adapt to different ground environments and different movement states.

ForMotion allows your feet to fully experience stable, balanced and natural landing.

ForMotion heel (highway type): ForMotion is a relatively independent connection system, a free-moving heel system, which allows your feet to adapt to different ground environments and different motion states. Active ForMotion Uppers: The elastic material in the middle of the shoe is an important part of Active ForMotion technology, which provides natural comfort for the foot during

exercise. CLIMAPROOF: Climate protection, prevent the invasion of wind, rain and snow, keep feet dry and comfortable in all kinds of adverse weather conditions.

POWERBOUNCE: BOUNCE has replaced the traditional foam bottom material with elastic material and structured design, so as to provide better energy transmission and push for your next move.





Figure 3-2 Examples' of Different Products

Thus, the market has been expanded. Only if the market is big enough can the company make more profits.

The last example is that, Adidas's latest BOOST series has captured a lot of fans' hearts. They are novel in style and are the best choice for people pursuing fashion. The NMD series is a kind of sports shoes designed for urban joggers, with different color matching, which can meet the needs of different people.

It is widely known that teenagers are the subject of consumption, seizing teenagers means seizing the market.



Figure 3-3 BOOST



Figure 3-4 NMD

Overall, the differentiation strategy has totally expand Adidas' market, which helps the company to gain a large amount of money.

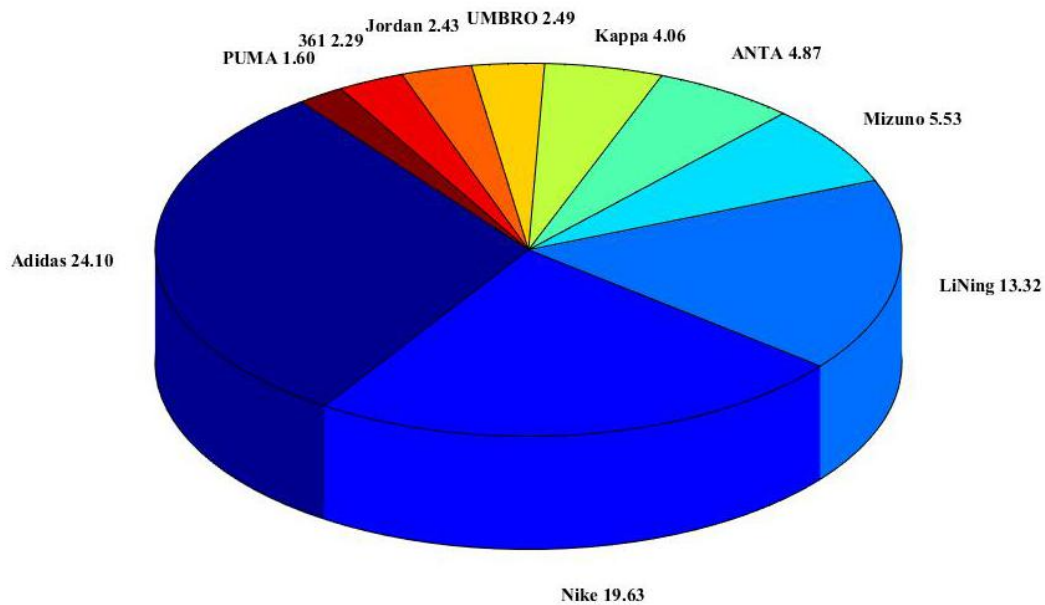


Figure 3-5 Market Share of Sport Brands

3.2 ADVANTAGES & DISADVANTAGES OF STRATEGY

3.2.1 Advantages

The advantage of differentiation is that it can make company distant from others in the market place, it is also the creation of a major competitive advantage, which is very flexibility(Porter,1997).

It can also make people have a more detailed understanding of the particular segment, which can even create barriers to entry.

For instance, Under the influence of economic globalization, Adidas set up production plants not only in developed country, but also in developing countries, such as Vietnam, in order to reduce production costs,so that the products could be different from others. Because they have cheap labor. And then sell the produced sports shoes to the developed countries such as France, Germany, the United Kingdom and so on. In this way, the products of Adidas could have a competitive advantage.

However, although the German mainland is still its largest market, the profit contribution of the Chinese and Russian markets is the greatest. Colin Currie, managing director of Adidas Greater China, once said: "Adidas' annual sales in China will grow by 15% to 20% in the next five years." Differentiation has further led Adidas to withdraw from a series of competitors such as Nike.

3.2.2 Disadvantages

For Differentiation, the weaknesses are that it may have difficulty sustaining the bases for differentiation, and the costs may be possibly higher, it may also have difficulty achieving true and meaningful differentiation. And there are limited opportunities for growth and decline of sector, maybe there are the possibility of outgrowing the market, what's more, there is a reputation for specialisation, which inhibits growth and development in other sectors (Porter, 1997).

For instance, in order to differentiate, Adidas has developed in all aspects, which makes it lose its core competitiveness. Compared with Nike, it is not as fashionable as Nike; Adidas has no technological advantages compared with Arthur, a professional running shoe brand; and compared with Vance Converse, it has less price advantages, but its style is leisure and its price is lower, which can be accepted by teenagers.

4. CONCLUSION

This article analyzes the production and operation of Adidas by using one of Porter's Generic Strategies. We can know that in shoe sales, the results have used the differentiation strategy. It owns three sub-brands: sports performance series, sports tradition series and sports fashion series. For the same kind of sports shoes, it also produces CLIMAPROOF, POWERB. OUNCEF, Motion and other different heel design, so as to meet different customer needs. Balls and other peripheral products maintain a certain market through the strategy of differentiation. And the latest

BOOST series and NMD series ,to bring customers a better experience that other brands can not give

4.1 Recommendations

For the above analysis, the author makes the following two suggestions for the company's strategies.

On the one hand, no matter what strategy, it has its own advantages and disadvantages, so when we use it, we can not ignore its disadvantages. But in general, the advantages of this strategy outweigh its disadvantages. It can make the company gain more market and profit.

On the other hand, when we use differentiation strategy, we should also pay some attention to the cost, which should not be too high.

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