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



November 2018

MODULE NAME

STRATEGY MANAGEMENT & SUSTAINABILITY

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1. EXECUTIVE SUMMARY

Adidas is an internationally renowned leisure brand and sports brand that has been loved and sought after by consumers. This paper analyzes strategies of Adidas products by using Porter's Generic Strategies, and analyzes the focus, advantages and disadvantages of each strategy.

Porter's Generic Strategies is a management strategy model proposed by Michael Porter, which is composed of cost leadership, differentiation, focus cost leadership and focus differentiation. This paper analyzes Adidas by using each strategy in the Porter's Generic Strategies model.

Based on the average price of the Adidas brand T-shirt in 2014-2017, Adidas was judged to have used the cost leadership strategy on the T-shirts. The advantage of this strategy is that the price of the commodity is low, while the disadvantage is that the competitor can imitate and reduce the overall income of the industry.

Comparing the trends of the international four major sports brands in the types of sports shoes and Adidas' own management strategy, it is determined that Adidas uses the differentiation strategy on sports shoes. The advantage is that there are many types of products and consumers have many choices, but consumers do not easily accept the higher prices of featured products.

Taking Adidas' market share in 2017 and Adidas basketball investment in 2017 as an example, it is clear that Adidas uses focus business leadership on basketball sportswear. The advantage of this strategy is that it is low-priced and focused on niche groups. The disadvantage is that it may lead to niche consumers assimilating into ordinary consumers.

Under the leadership of BOOST's new technology, Adidas uses the focus differentiation strategy on running shoes to enable runners to be more professional. The advantage of this strategy is that there are many types of products and focus on niche consumers. The disadvantage is that it may lead to the standardization of niche consumers.

For Porter's Generic Strategies, this paper suggests that the decision-makers of the company should clearly understand the focus of each strategy, and at the same time use multiple strategies in combination with the background of the company to make profits.

2. INTRODUCTION

2.1 REPORT REMIT

The development of a company is inseparable from the strategy of the brand, and the strategy of the brand depends on the environment in which the company is located. Therefore, the development of the company depends on the strategy that fits the environment. The Porter's Generic Strategies is an important model for providing strategies for company development.

In this paper, Porter's Generic Strategies will be applied to the well-known sports brand - Adidas, from cost leadership, differentiation, focus cost leadership and focus differentiation, to propose strategies for brand and to analyze the advantages and disadvantages of existing strategies. To a certain extent, help the development of the company.

2.2 BACKGROUD OF THE ORGANIZATION

Founded in 1940, Adidas is an internationally renowned clothing brand whose main apparel products are sports. At the beginning of the brand's establishment, Adidas' products were sports shoes, and with the continuous expansion of the brand scale and the trend of the times, Adidas derived from sports shoes to produce ball or track clothing, yoga clothing, sports accessories (watches, glasses, etc.) casual footwear, men's fragrances and skin care products (www.adidas.co.uk).

Due to the diversification of products, the trademark of Adidas has also been divided accordingly. It is divided into Adidas three-stripped logo, Adidas clover logo and Adidas style.



Figure 2-1 Trademark of Adidas

As an international brand, Adidas has many spokespersons, among which Messi, Torres and other football stars are most familiar with consumers. Looking forward to the future development direction, Adidas hopes to add more

high-tech technologies, such as artificial intelligence, to the sports products to help consumers better understand the physical condition and moderate exercise.

2.3 DIFINITIONS OF MAJOR CONCEPTS

- **Strategy^[1]**: Strategy is the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.
- **Business level strategy^[1]**: An organization's core competencies should be focused on satisfying customer needs or preferences in order to achieve above average returns. This is done through Business-level strategies. Business level strategies detail actions taken to provide value to customers and gain a competitive advantage by exploiting core competencies in specific, individual product or service markets. Business-level strategy is concerned with a firm's position in an industry, relative to competitors and to the five forces of competition.
- **Competitive advantage^[2]**: Competitive advantage is a condition or circumstance that puts a company in a favourable or superior business position.
- **Porter's Generic Strategies^[3]**: Porter's Generic Strategies is a strategic management model proposed by Professor Michael Porter in the 1980s, which identified four primary sources of competitive advantage: cost leadership, differentiation, focus cost leadership and focus differentiation.

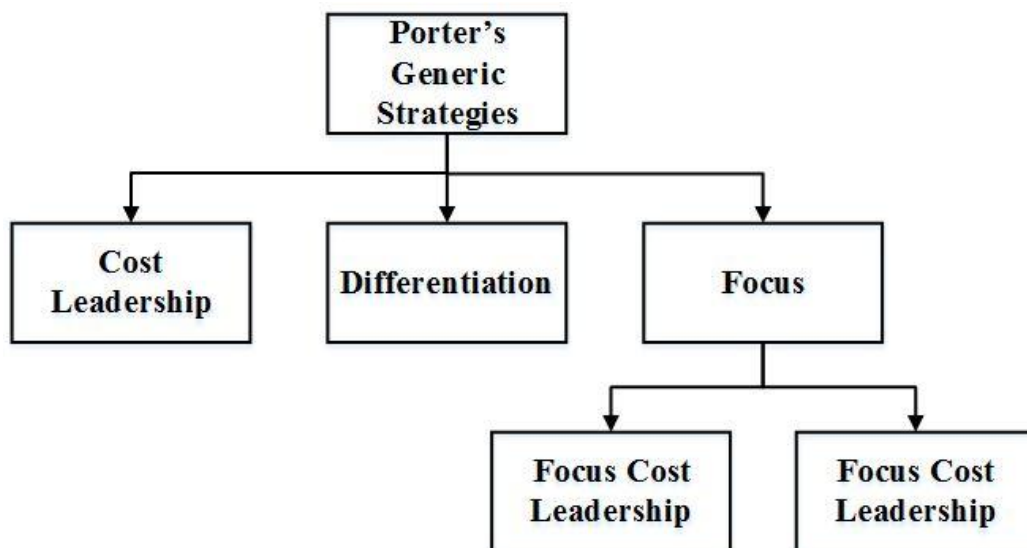


Figure 2-2 The definition of Porter's Generic Strategies

- **Cost Leadership**^[3]: Cost leadership means that companies can gain market share by lowering their production and operating costs, lower than the price of competitors' products, and gain profits above the industry average.
- **Differentiation**^[3]: Differentiation strategy refers to the provision of unique products and services within the industry to customers who are relatively insensitive to price.
- **Focus Cost Leadership**^[3]: The focus cost leadership is to provide products and services to a small number of customers (in a specific area or with specific preferences) at the lowest possible price, however, it is still higher than the cost.
- **Focus Differentiation**^[3]: Focus differentiation strategy means being able to provide products and services to a small number of customers (in a specific area or with specific preferences) better than their competitors.

3. MAIN BODY

3.1 Porter's Generic Strategies

3.1.1 Cost Leadership

As a world-renowned sports brand, Adidas has a wide range of brands. Although the Generic price is high, Adidas also timely applies the cost leadership strategy to sport T-shirts.

Data (www.adidas.co.uk & www.nike.com) from the past five years (2014-2018) showed that Adidas has used the cost leadership on sport T-shirts. Compare the average selling price of Adidas and Nike's nearly five-year sport T-shirts, as shown in figure 3-1.

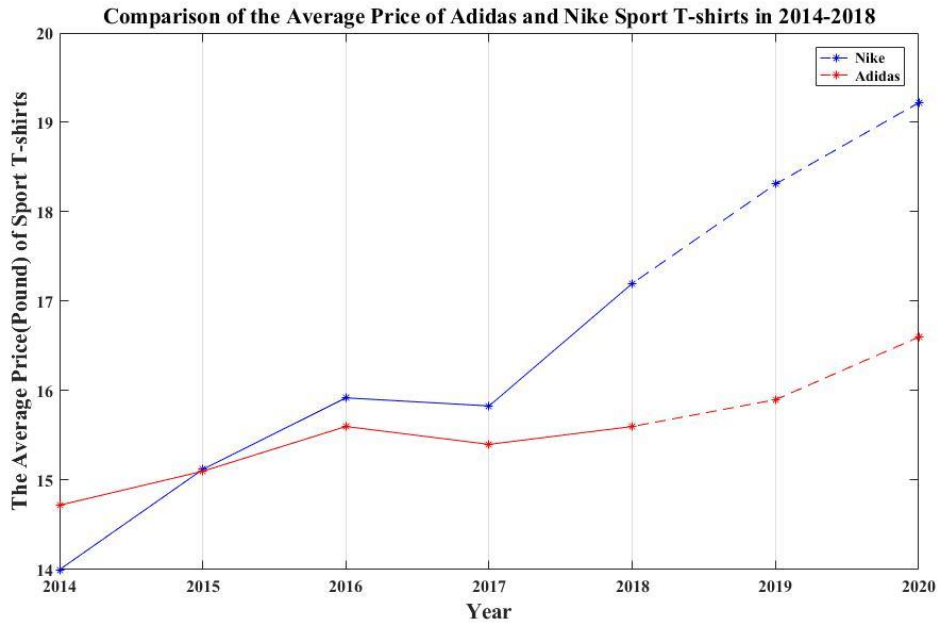


Figure 3-1 Comparison of the Average Price of Adidas and Nike Sport T-shirts

Since 2014, Adidas has reduced the manufacturing cost and processing cost through a series of technical improvements. Under the premise of maintaining the quality of the original sport T-shirts, the sales price of sport T-shirts has been reduced, making Adidas sport T-shirts on the market even more competitive. In addition, the author uses multiple linear regression to regress the data and predict the average selling price of sports t-shirts in 2019 and 2020 under the regression equations, as shown in figure 3-1.

It can be seen that if Adidas continues to adhere to the cost leadership strategy, Nike will continue to maintain its existing sales strategy. In the next two years, the average price of Adidas and Nike sports T-shirts will maintain this trend, and the average selling price is 15.9 pounds and 18.3 pounds in 2019, 16.6 pounds and 19.22 pounds in 2020.

3.1.2 Differentiation

Adidas' sport shoes are also loved by consumers, however, Adidas has a professional attitude on each shoes, so the style and variety of sports shoes are much less than Nike and Reebok, which also affects Adidas sales to a certain extent. However, since 2015, Adidas has introduced a number of famous designers from around the world to design sports shoes for Adidas, and then put the sports shoes on the market. This article lists the world's top four sport shoes brands (Nike, Reebok, Adidas, PUMA) from 2015 to 2017 (<http://www.stats.gov.cn/>), as shown in figure 3-2.

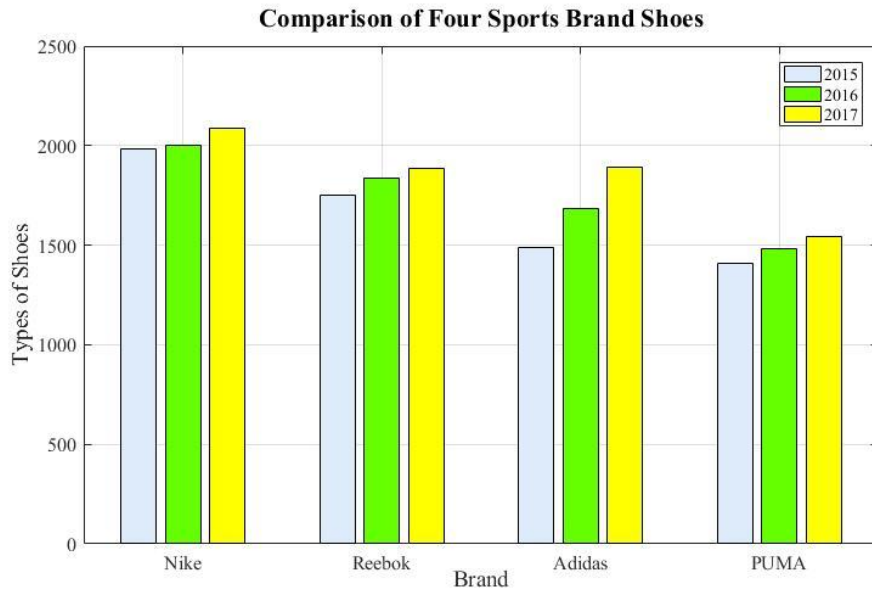


Figure 3-2 Comparison of Four Sports Brand Shoes

In the period of 2015-2017, Adidas' sport shoes showed a rising trend and maintained the original price, making more consumers choose to buy Adidas sport shoes.

3.1.3 Focus Cost Leadership

According to data from Chinese Statistics Bureau, Nike and Adidas accounted for 37% and 28% (<http://www.stats.gov.cn/>) of the Chinese sports brand market respectively in 2017, as shown in figure 3-3.

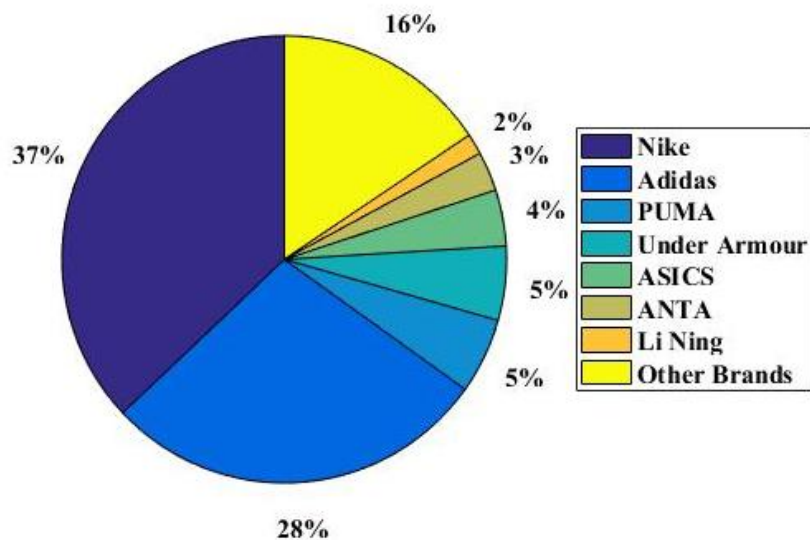


Figure 3-3 Chinese Market Share of Sport Brand

Although Adidas has a high market share in Chinese sports brands, Adidas has less investment in basketball, especially basketball sportswear, compared to its investment in football and running series. For this reason, Adidas uses focus cost leadership strategy to set the company's basketball sportswear as a lower-priced garment and to sell them to the basketball enthusiast, as well as the 2017 data (<http://www.stats.gov.cn/>) , as shown in figure 3-4.

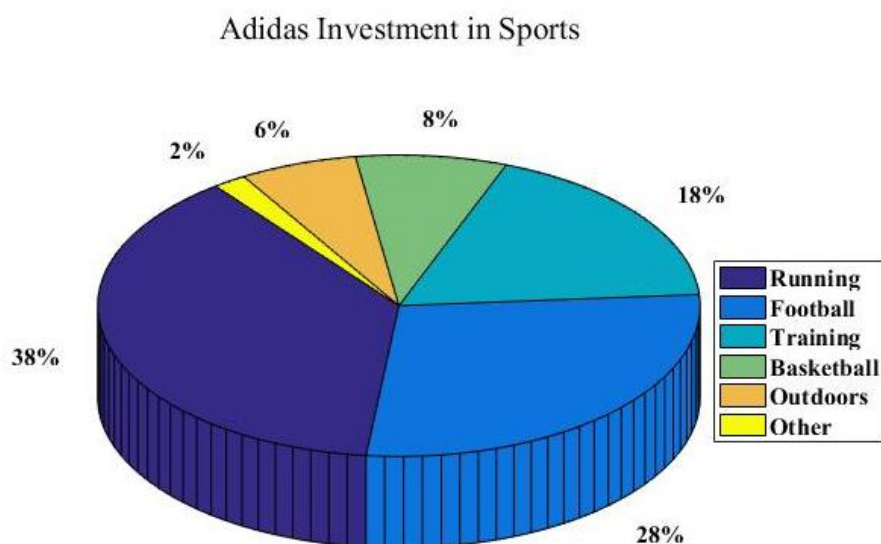


Figure 3-4 Adidas' Investment Percentage in Different Sports

According to this series of data, it can be easily judged that Adidas' strategy for basketball sportswear is the focus cost leadership.

3.1.4 Focus Differentiation

Among the many series of Adidas running shoes, the BOOST series is the first choice for many runners. The reason is that Adidas adds a new material thermoplastic polyurethane elastomer rubber to the sole, which makes the sole of the running shoe softer while maintaining wear resistance. For most runners, softer running shoes protect their knees and ankles, reducing the impact of the ground on the body. After a period of trial release, Adidas applied BOOST technology to running shoes on a large scale, making most running shoes soft and wearable. This allows the majority of consumers not only to enjoy the sports experience brought by the new technology, but also to choose a variety of running shoes according to their own preferences.

This marketing strategy of Adidas is focus differentiation strategy, providing consumers with a good consuming experience.

3.2 ADVANTAGES & DISADVANTAGES OF STRATEGY

3.2.1 Advantages

The advantage of the cost leadership is that it is cheap and accepted by consumers in different salary groups. In addition, it can allow the products to enter the market easily.

The advantage of Differentiation is that there are a variety of products of different quality and price for consumers to choose, to meet the in needs. It can also facilitate the brand to broaden the market^[5], allowing more different types shoes to be selected by consumers.

The advantages of Focus cost leadership and Focus differentiation: Under the premise of inheriting the advantages of the cost leadership and differentiation, the brand can be more focused on niche groups^[5]. For example, the use of BOOST is aimed at runners, and low-cost basketball clothing is aimed at basketball enthusiasts.

3.2.2 Disadvantages

For the cost leadership, its shortcoming is that competitors may imitate and adopt this strategy, and thus reduce the profitability of the entire industry.

For Differentiation, its drawback is that, firstly, it is difficult for customers to give a high-quality evaluation to a typical product, so that they cannot accept the typical product for sale at a higher price. Secondly, competitors may quickly find an effective way to characterize.the imitation difference.

For focus, there is the possibility that consumers' preferences will shift to standardized products in the market.

3.3 USE OF MULTIPLE STRATEGIES

3.2.3 Advantages of Multi-used Strategies

The combination of multiple strategies for a single company (Adidas) enables companies to develop different production and sales strategies for different products, ensuring that the company can make a profit on every product. At the same time, the hybrid strategy can meet the needs of different consumers to a certain extent, such as supplying a specific product to a specific place or consumer.

3.2.4 Disadvantages of Multi-used Strategies

However, the use of multiple strategies has certain limitations and harms. For smaller companies, they don't have many product types, so a single strategy is enough for the company to develop and there is no need to consider multiple strategies. In addition, before using the hybrid strategy, it is necessary to consider whether the strategy is suitable for the company's products. If the wrong strategy is used on the goods, it will bring economic losses to the company

4. CONCLUSION

This paper analyzes the production and operation of Adidas by using Porter's Generic Strategies and finds that Adidas uses cost leadership strategy for sports T-shirts' production and sales. On the basis of strengthening research and design, it uses differentiation strategy for sports shoes and enriches the types and quantities of shoes. According to the brand concentration, the focus cost leadership strategy is used in basketball sportswears. In addition, new technology and new materials are used in running shoes, and the implementation of the focus differentiation strategy is realized.

5. RECOMMENDATIONS

In response to the above analysis, the author makes the following two suggestions for the company's strategiers.

Firstly, each strategy has its own advantages and disadvantages. Before making decisions for the company, company strategiers must clearly consider the positive and negative impacts that each strategy may bring, and bring profits to the company as much as possible.

Secondly, use multiple strategies together. When making decisions for the company, company strategiers should not only use one strategy, but also use multiple strategies to ensure that different products can meet the need of consumers and avoid the negative impact of single decision-making.

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