



Competitive Strategy: Case study, Adidas



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SOLMAZ SAFARI

Executive Summary

The report seeks to identify the competitive strategy used by Adidas Company a leading manufacturer and marketer of sportswear. Adidas is a company that was founded in 1920 with its headquarters based in Germany. The company markets its products through its own retail stores and franchise shops across the world. Adidas is market leader owning major sportswear brands including Adidas and Reebok. The sportswear industry is a competitive market with over 300 players. The company has employed a competitive strategy known as Differentiation strategy that has led the company to having a competitive advantage over the other competitors. This has been implemented across the different market segments including footwear, apparels and hardware. In each of the different market segments, Adidas has developed products that have unique attributes to the consumers resulting in premium prices and high margins. The company has continuously invested in products that offer unique attributes to customers including the Smart shoe and the Dry Dye technology that saves on water during the dyeing process. The company also boasts of being technologically innovative by understanding the needs of consumers and developing products that aim to satisfy these needs. This strategy comes with a lot advantages since the company is able to have loyal customers who pay a premium price on the products leading to high profits for the company. The strategy has been employed successfully by other retail giants like Coca Cola and they are reaping benefits. The strategy also comes with its own risks especially when a company invests heavily on product differentiation, and the competition comes up with an imitation of the same leading to failure of the brand. The shortfalls of differentiation strategy are also highlighted. By virtue of Adidas operating in a competitive and dynamic market, the company has to be on the lookout for any new innovations coming from the competition and it should be able to react

appropriately to guard its market position This report also recommends that while Differentiation strategy is working well for the company, but going forward the company should continue researching on niche markets where they can employ a hybrid strategy system. The hybrid system can help the company penetrate new markets with low priced products targeted to the mass market while still maintaining their premium market. The report also recommends Adidas to continue investing in Research and Development to continuously launch new products that satisfy new and existing needs of the market.

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2: INTRODUCTION

The current business environment has continued to become more competitive and organisations have to continually assess the situation, carrying out research and surveys in order to come up with business strategies that are viable and sustainable. The business environment is continuously changing; therefore, organisations must try to keep up with the change for survival.

This report seeks to identify the competitive business strategy employed by Adidas, a leading sportswear manufacturer and marketer in Europe. It goes ahead to define the concepts and themes that arise from the discussion. The report also looks at how Adidas has implemented this strategy while at the same time evaluating the advantages and disadvantages that arise from this strategy.

2.2: Background of the Organisation

Around 1920, Adolph Dassler whose father was a cobbler founded a German shoe company Gebrüder Dassler which later came to be known as Adidas (Conway, 2017). The company concentrated on making leather shoes with nail studs and track shoes with spikes (Conway, 2017). The company operates in a competitive industry with over 300 competitors including Reebok International Limited (USA), Fila Limited (South Korea), ASICS Corporation (Japan) and Anta Sports Products Limited (China) among others (Brown & Brison, 2018). Adidas at the moment concentrates on design, product development and production of a variety of athletics, sportswear and lifestyle products with headquarter of the company being based in Herzogenaurach, Germany (Conway, 2017). The company's product portfolio is divided into three: footwear such as track shoes, active wear such as tracksuits and hardware such as bags and balls (Chaston, 2017).

The Company distributes its products through retail shops, franchise shops, department stores and online customers and operates in Europe, America, Middle East, Africa and Asia markets (Ranjan,

2016). For the fiscal year ending December 2017, the company reported revenues of 21,218 million Euros which was a 14.8% increase as compared to 2016(Windfeuer, 2018). The company distributes its products through its own stores and franchise stores around the world and the flagship brands include Adidas and Reebok (Windfeuer, 2018). As at the end of 2017 the company had its own 2500 stores and 13000 franchise stores. Additionally, the company markets franchise brands which include NMD, Gazelle, UltraBOOST and Alphabounce among others (Erus, 2016).

2.3: Definition of Major Concepts

2.3.1: Strategy

According to Kotler and Keller (2003) strategy is a plan of action or actions that when put in place aim to achieve certain goals. In the business environment, an organization will put in place actions that will assist them to gain advantage over competition. While choosing a certain strategy, companies will try to hedge from uncertainties and risks involved and therefore will not end up with fixed plans but strategic choices that are able to move them to the next level (Kotler& Keller, 2003). These plans are deliberately made in advance and sometimes can be a ploy to distract or mislead a competitor (Kotler& Keller, 2003). Strategy can also be considered as a position, therefore an organization can be in a certain geographical position and is planning to expand its business operation internationally. Therefore, in business, strategy is all about differentiating the company from other competitors while providing products and services (Kotler& Keller, 2003).

2.3.2: Business Level Strategy

All business organisation activities are geared towards satisfying customer needs in order to achieve a return on investment and these are done through business level strategies (Aaker, 2012). These are activities and actions taken to provide customers with value for money services or products. This in turn helps the company gain competitive advantage by exploiting the core

competencies in a particular product or service segment (Aaker, 2012). This strategy takes a look at the organisations position in the industry as compared to the competitors. Business level strategy is focused towards customers and will raise questions such as; who will be served? What needs are to be met? How will they be met? (Team, 2015) These decisions need to be made by senior management of the organization and this will determine the strategic direction that the organisation will take.

The organisation needs to know its customers in terms of demographics, geographical location, personality traits, how they consume the products, tastes and values in order to provide a product or service that satisfies these needs (Kotler& Keller, 2003). After understanding the customer, the organization must be able to identify the products and services that this customer requires in order to obtain and sustain a competitive advantage (Mahdi et al., 2015). Lastly the organisation must organise its resources in the best way possible by implementing value addition strategies to meet the customer demands (Borowski, 2011).

2.3.3: Competitive Advantage

According to Srungaram (2008), competitive advantage is the ability of the company to stay ahead of the current competition by offering consumers greater value by either lowering prices or offering greater benefits on a certain product over the rest of competition. This is done by evaluating the current position of the organisation against the competition and looking at opportunities and gaps that exist then try to fill them in order to step up or improve the position of the company (Srungaram, 2008). An organization can create a competitive edge in terms of cost leadership, product/service differentiation, innovativeness, effective operations, adaptability and technological enhancement (Kotler & Keller, 2003).

2.3.4: Porter's Generic Strategies

Michael Porter came up with four generic strategies that an organization can use in order to beat competition. These are: cost leadership, differentiation, cost focus and differentiation focus (Kotler & Keller, 2003). In order to choose the appropriate strategy, it is important to assess the competencies and strengths of the organization.

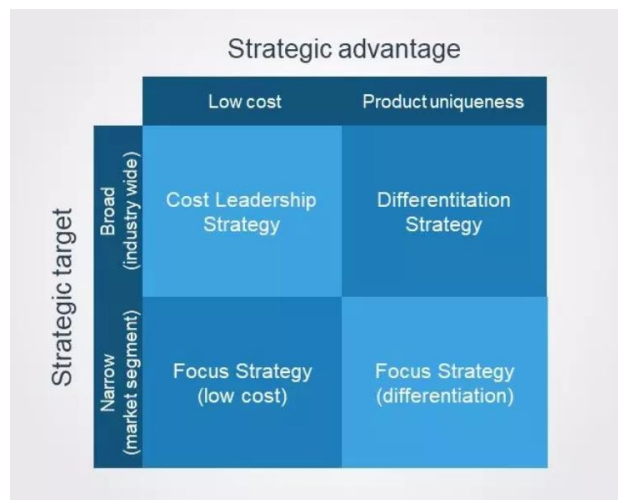


FIGURE 0.3.4 - Porter's Generic Strategies Model (Aaker, 2012)

Cost Leadership strategy: An organization can make a decision to offer the lowest price possible in the market by keeping the operating costs as low as possible or by ensuring that they have a larger market than competition and then offer average prices (Aaker, 2012). The bottom line here is to maintain low operating costs by having efficient logistics and having low costs on both labour and materials which are major production components and can be internally controlled (Aaker, 2012).

Differentiation Strategy: In this strategy, an organisation targets a high demand market and then offers a product or service with very unique features as compared to competition thereby making

it more attractive to the rest (Srungaram, 2008). This requires the company to conduct extensive research and development in order to come up with a high quality innovative product or service. The company then carries out an effective marketing program of the product or service so that the consumers can understand the unique benefits on offer (Borowski, 2011).

Cost Focus Strategy: This strategy can be adopted by an organization that is focusing on a niche market that has little competition. By having a better understanding of the dynamics in that market the needs of consumers, the company can operate low costs thereby serving that niche effectively (Borowski, 2011).

Differentiation Strategy: An organization can adapt this strategy by identifying a niche market with little competition and then offer a product or service with unique attributes that cannot be compared with competition (Aaker, 2012) The company then effectively markets the product or service to the intended consumers in order to develop strong brand loyalty (Aaker, 2012).

Shortfalls of this Model: The risk of adopting Porters model is that a company can embark on entirely concentrating on cost cutting measures sometimes at the expense of other important factors which may lead to loosing vision of the bigger objectives of the organisation (Aaker, 2012). Sometimes when diffentiating a product an organisation is required to spend heavily on upgrading the brand and spending heavily on advertisement which may end up being a cost and not an investment. The shortfall of the focus strategy is that sometimes the niche market might be too small to justify the attention the company is giving it.

3: MAIN BODY

The main strategy employed by Adidas is the differentiation strategy Adidas is committed to product innovation in line with the changing needs of the consumers while differentiating its products from the other competitors (Lok, 2017).

3.1: Differentiation Strategy

This strategy involves making products unique by targeting a certain cadre of consumers. This might involve changes in quality, reliability, performance or the design of the product or service (Lok, 2017). For example, Subaru cars can be differentiated on the basis of how they perform on the road and the success they have had on motor rallies. Differentiation strategy involves resources in terms of time and capital yet the manufacturer is not sure how the customer will respond to the differentiated product (Lok, 2017). However, Product differentiation helps the company create a product that is superior to competition resulting in competitive advantage for the organization (Lok, 2017).

Differentiation strategy thrives in markets where different customer needs can be identified and products or services designed to meet those needs(Lok,2017). Innovations allows for reshaping the way a product is used or how it works (Conway, 2017). Thus, laptops are an innovation of desk top computers but operate in different ways and places and also require unique technical solutions. Successful implementation of differentiation strategy builds brand loyalty among customers and this helps Adidas as a company to sell its products at a premium therefore resulting in higher profits for the Company (Muller, 2017).

3.2: Implementation of the Strategy

Adidas has implemented the differentiation strategy in most of product categories by making the products unique and different from the competition products (Scott, 2014). Additionally, the products offer unique benefits to the consumers and therefore they are ready to pay a premium for Adidas products (Scott, 2014). Adidas has a strong presence in world level events such NBA and FIFA, European Football, in line with the differentiation strategy, the company has made product developments that are different from competition.

A case example is the development of Adidas Dry Dye. The product was developed with a global focus of getting a solution to save water. Adidas has partnered with Thailand based company, Yeh Group in coming up with a product that does not require water in the dyeing process (Tansey, 2017). This technology has evolved over the last five years to eliminate the use of water and in its place use pressurized carbon dioxide (Tansey, 2017). By using the Dry Dye technology in dyeing of tee shirts and other apparels, the company is saving water bills.

According to Tansey (2017) Adidas has also recently launched a new product known as adiPure 360 training shoe. This is a multi-directional and multi-purpose training shoe that allows customers feet to move as intended by nature to get the most out of the training work out. This shoe has been manufactured for both men and women in addition to the ongoing Adidas Product Differentiation strategy (Brown & Brison, 2018). Adidas as a company is focusing more on technological innovations and has come up with Smart shoes for the customers. These shoes help the customer to improve performance and are more reliable and by doing so, they develop long lasting relationships with the athletes who believe that Adidas is serious about improving their performance (Conway, 2017). The smart shoes have a sensor and helps to sense the customer's temperature, heart beat for the customers to be able to gauge themselves while on the track. The

main purpose of this strategy is to position Adidas brand as an innovative leader and help to differentiate these products from the competition (Conway, 2017).

3.3: Advantages and Disadvantages of Differentiation Strategy

Each of Porter's generic strategy offers advantages that an organization can leverage on and improve its performance or disadvantages that might affect the performance of the company negatively (Cao et al., 2014).

Advantages

When the differentiation strategy is well executed, it helps the company to get premium prices for its products and services (Parguel et al., 2016). This enables the company to enjoy high mark-ups on products resulting in high profitability, for example Coca-Cola enjoys a profit margin of about 33% from its products (Aaker, 2012). Wal-Mart's cost leadership strategy delivered a margin of less than 4% in 2010 which is far much lower as compared to Coca-Cola (Aaker, 2012). Differentiation also helps to build customer loyalty, loyal customers are not price sensitive and are therefore the most desired customers for many organisations because they are unlikely to switch to competition even when lower prices are offered (Siali et al., 2016). Differentiation strategy also helps to create barriers and protects the industry from competition. For example, the existing competition between Coca-Cola and Pepsi has made it difficult for a new entrant to attract the loyal customers from the two companies (Shin, 2013).

Disadvantages

The main shortcoming of differentiation strategy comes when customers are not willing to pay more to obtain the unique features on the brand leading to some good brands failing to perform. Some customers also prefer value for money products, therefore they may not be ready to pay

premium for services and products being offered (Mckinney&Shin, 2016). Customers might also desire the unique features being offered but cut throat competition has led imitations which have eroded the uniqueness of the product, therefore customers have no reason to pay premium.

4: CONCLUSION

This report highlights a brief history and background of Adidas from when it started operations and the competitive industry that the company operates in. Major concepts are defined and the key strategic approach of Adidas is identified as differentiation strategy. The report also looks at how Adidas has implanted the Differentiation strategy in product differentiation thereby gaining competitive advantage over its competitors. Porter's strategy has also been evaluated looking at the shortfall that come with and how a company can see the strategy to gain a competitive edge in business. The document also evaluates the implementation of the strategy and highlights the advantages and disadvantages of differentiation strategy. Finally, recommendations are made in light of the different strategies.

4.1: Recommendations

Adidas should continue with what they are doing by continuing to invest heavily in Research and Development and keep coming up with unique products in line with the needs of the market. Existing products can still undergo improvements to meet the desires of customers. Adidas has a large capital base, therefore the company can look at a segment of the market and come up with a product that is of good quality but with a low price. This should be targeted to the mass market and drive volumes sales on the basis of average prices. Adidas can also employ a hybrid system strategy, a combination of both Differentiation and cost leadership. The various products will then be targeted towards different markets.

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