

***Strategic Management Assignment 1 2018 –
Differentiation Strategy of Adidas***



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1 EXECUTIVE SUMMARY

Started in 1949, Adidas is a multinational corporation that designs and produces a wide range of athletic and sports lifestyle products, and Adidas is the second largest sportswear company around the world. Innovation has always been the focus of Adidas since the era of founder, Adi Dassler, and till 2015, 'creating the new' becomes the core strategic choice of Adidas.

This report identifies that Adidas choose differentiation, one of Porter's generic strategies, as its strategic choice to gain competitive advantages in sportswear industry since Adidas has continuously developed various and unique products with sustainable materials and high technology. Differentiation strategy occurs when a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. Examples are given in this report to demonstrate how Adidas has implemented this strategy: its partnership with PARLEY which releases a series of products made of sustainable and eco-innovative materials, foundation of speedfactory to shorten production process and launch of high-tech product, ADIDAS 4D to differentiate itself in current environment.

Advantages and disadvantages of differentiation strategy are also discussed in this report. The merits of this strategy is an above-average return, higher customer loyalty and ability to reduce threats from suppliers. On the other hand, the possibility of being copied, higher cost of differentiation and difficulties in achieving true differentiation can be pitfalls of this strategy.

Considering current environment and potential negative impacts of differentiation strategy, recommendations are given in the last part of this report, which is to seek balance between existing and new products when it comes to financial issues and apply for patents in order to reduce duplicates.

2 INTRODUCTION

2.1 REPORT REMIT

The main aim of this report is to introduce and find out what strategy Adidas has utilised to develop its current competitive position and give a critical evaluation on the strategy that Adidas has applied. Recommendations based on the analysis of the advantages and disadvantages of their strategic choice are also given.

2.2 BACKGROUND OF THE ORGANISATION

Headquartered in Germany, Adidas is a multinational corporation that designs and produces sports-related products including shoes, clothing and accessories (ADIDAS-GROUP, 2018). It is the second largest sportswear manufacturer in the world, which employs nearly 57,000 people from about 100 nations. The company reported that the net sales increased by 15% year- on-year to €21.218 billion, the operating profit margin increased by 120 basis points to 9.8%, and net profit from continuing operations increased by 32% year-on-year to €1.43 billion for the year 2017 (ADIDAS-GROUP, 2018).

2.2.1 HISTORY OF ADIDAS

On 18th August 1949, Adidas was registered by Adi Dassler and grew steadily until the death of Dassler. It revived after Robert became the new CEO who refocused on innovations in 1993 (ICD Research, 2013). The company was renamed Adidas AG since Reebok joined the team in 2006 (ADIDAS-GROUP, 2018). In 2008, Adidas launched its e-commerce platform in major markets (ICD Research, 2013). The company acquired Five Ten in 2011 (ICD Research, 2013). Strategic plan, 'Creating the New', for the next five years was presented in 2015 and Kasper Rorsted became the new CEO in 2016 (ADIDAS-GROUP, 2018).

2.2.2 MISSION AND STRATEGY CHOICE OF ADIDAS



Figure 2-1 The Mission and Strategic choice of Adidas (ADIDAS-GROUP, 2018)

The mission of Adidas is to be the best sports company in the world, and ‘Creating the New’ is the core of Adidas’ strategy. (ADIDAS-GROUP, 2018)

2.3 DEFINITIONS OF MAJOR CONCEPTS

2.3.1 STRATEGY

Strategy is the pattern of settlement in a company that determines and reveals its objectives, purposes or goals, produces the principle policies and plans to achieve these targets , ascertains the scale of business that the company should get involved in (Andrews, 1991)and adjust the competitive advantage of the company (Henderson, 1991).

2.3.2 STRATEGIC MANAGEMENT PROCESS

Strategic management process is a sequential set of analyses and choices that can increase the possibility that a company will choose a strategy which generates competitive advantages. (Barney & Hesterly, 2005)



Figure 2-2 The strategic management process (West, et al., 2006).

2.3.3 STRATEGIC CHOICE

Strategic choices involve understanding the underlying bases for future strategy at both the business and corporate levels and the options for developing strategy in terms of both the directions and methods of development (Johnson et al 2011).

2.3.4 BUSINESS LEVEL STRATEGY

Business-level strategies are actions that companies take to provide value to customers and gain competitive advantages by exploiting core competencies in a single industry or single market. (Barney & Hesterly, 2005) .It is concerned with a firm's position in an industry, relative to its competitors and to the five forces of competition(Johnson et al 2011).

2.3.5 COMPETITIVE ADVANTAGE

When a company creates more economic value than its competitors, which is the difference between the perceived customer benefits and cost associated with a firm's products or services, the company has a competitive advantage. (Barney & Hesterly, 2005)

2.3.6 PORTER'S GENERIC STRATEGIES

Generic strategies outlined by Professor Michael Porter in 1980s are the three basic strategies of cost leadership, differentiation and focus open to any business.

		Competitive advantage	
		Lower Cost	Differentiation
Competitive scope	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target	3A. Cost Focus	3B. Differentiation Focus

Figure 2-3 Three Generic Strategies (Porter, 2004)

Each of the generic strategies involves a fundamentally different competitive advantage path that combines the type of competitive advantage sought with the scope of the strategic target in which competitive advantages is to be achieved (Porter, 2004).

In cost leadership, a company builds and maintains plant ,equipment, labour costs and working practices that deliver the lowest costs in an industry (Lynch, 2015).In a differentiation strategy, a firm seeks to be unique in its industry with several dimensions that are valued by most customers and meet these important needs (Porter, 2004).The focus strategies aim at cost advantage or differentiation advantage in a narrow segment (Porter, 2004).

On the one hand, Porter's generic strategies outlines the essential features of separate strategies which provides a broad guidelines for actions on a business-level (West, et al., 2006). However, on the other hand, Porter's generic strategies have practical limitations

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when choosing appropriate strategy for the company since it will highly depend on the firm's key resources and capabilities (Lynch, 2015). Once the firm fails to attain or sustain the strategy, it becomes 'stuck in the middle' with no competitive advantage (Porter, 2004). Besides, this model is rather static and prescriptive when compared to other strategy models such as Bowman and Faulkner's strategy clock since the business environment can be very chaotic and complex (Barney & Hesterly, 2005). To adopt rigidly defined strategy may result in flawed decision making.

In conclusion, if only treated as part of a broader analysis, Porter's generic strategies can be a useful tool.

3 MAIN BODY

3.1 IDENTIFICATION OF THE DIFFERENTIATION STRATEGY

Differentiation strategy occurs when the products of a company meet the needs of some customers in the market place better than others (Lynch, 2015). This strategy can be based on the product itself, the marketing approach, the delivery system, the brand image and a broad range of other factors (Porter, 2004). As the second largest sportswear company, Adidas has a well-known reputation around the world and it promotes products by contracting the most famous athletes and international celebrities, which leads to a strong brand (Awais, 2015). Besides, innovation has always been the core strategy of Adidas since 1949, it constantly exchanges ideas and needs with world-class top sportsmen and coaches (Awais, 2015; QUARTZ, 2018). After a series of repeated tests, Adidas has continuously developed various and unique products that combine new technologies with ergonomics such as ALPHAEDGE 4D. These two factors show that Adidas choose to achieve differentiation.

Another significant sign of differentiation strategy is the cost and price of product. According to Porter(2014), a firm that can achieve and sustain differentiation will be an above-average performer in its industry if its price premium exceeds the extra costs incurred in being unique. Compared to its biggest rival, in order to maintain the innovation of products, Adidas has invested more in the technical research and development of products, resulting in higher costs, which can be seen in the figure3-1 (SOLEREVIEW, 2013). Therefore Adidas is more likely to adopt differentiation strategy instead of cost-leadership strategy.

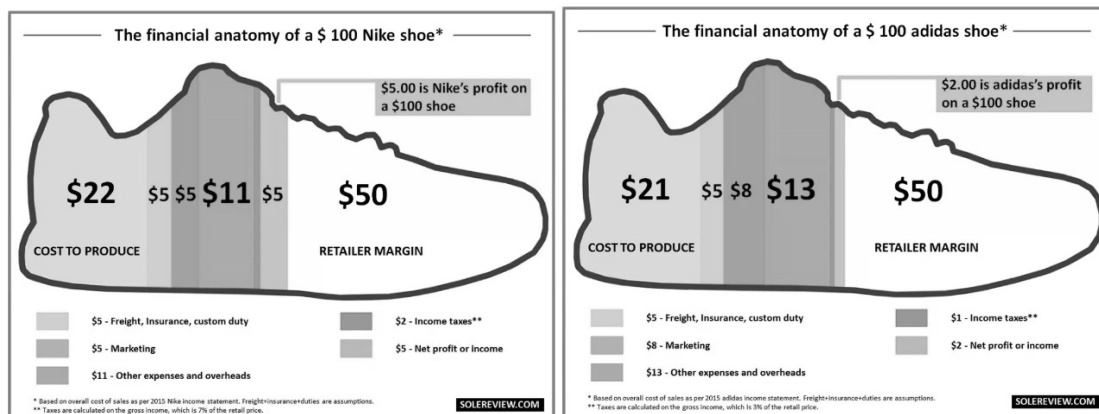


Figure 3-1 The comparison between the financial anatomy of a \$100 Adidas/Nike shoe (SOLEREVIEW, 2013)

As shown in Figure 3-2 and Figure 3-3 (ADIDAS-GROUP, 2018), Adidas desires to be the best sports company in the whole world and sells over 900 million units of products to 7 main regions, which illustrates its target is a broad scope instead of a narrow segment. That is to say, Adidas adopts differentiation strategy instead of focus strategy which aims at a narrow target.

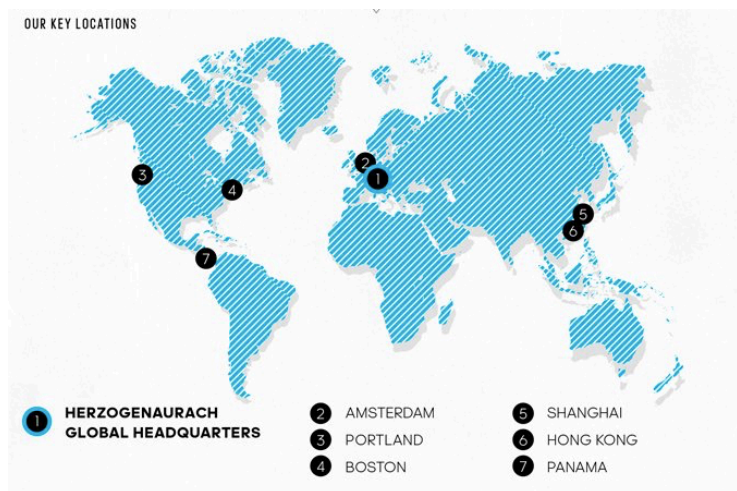


Figure 3-2 Adidas' Key selling locations (ADIDAS-GROUP, 2018)



Figure 3-3 Adidas Production Categories (ADIDAS-GROUP, 2018)

3.2 IMPLEMENTATION OF THE DIFFERENTIATION STRATEGY

As an innovative firm, Adidas have multiple sources of differentiation and have taken actions to differentiate itself. Three examples will be given below to demonstrate how Adidas has implemented the differentiation strategy.

3.2.1 SUSTAINABLE PRODUCTS – PARTNERSHIP WITH PARLEY

In 2015, Adidas started their partnership with Parley for the Oceans, who is regarded as a thought leader in ocean conservation (ADIDAS-GROUP, 2018). In the making of every Adidas x parley shoe, a catalyst eco-innovative Parley Ocean Plastic created from upcycled plastic waste, is used as a replacement for virgin plastic and prevents approximately 11 plastic bottles from entering oceans (ADIDAS-GROUP, 2018). The sustainable product is quite attractive in this era since the whole world is concerned about environmental protection issues. This partnership differentiates Adidas from a sustainable and environmental perspective with products that are better for not only consumers but also the planet, which can be seen as a great and unique value for the customer and distinguishes Adidas from most sportswear firms who use regular plastic materials. And it also help Adidas build a brand image who is willing to undertake corporate social responsibility and this image will attract more customers.

3.2.2 COMPLETELY AUTOMATED PRODUCTION LINE – SPEEDFACTORY

Adidas was awarded the ‘German Innovation Prize 2018 in the category Large Enterprises’ for Speedfactory, which allows each individual shoe to speedily adapt the design, cut and fit to an individual customer (QUARTZ, 2018) And this new technology also shortens the production cycle and gets shoes to market three times faster than traditional means by concentrating the sneaker-production process with automated machines in a single space and market where the shoes are sold (Business insider, 2018) Speedfactory makes Adidas’ operations faster and more flexible to meet different demands of customers in this changing

era. The customizable products show Adidas' uniqueness and will increase customers' loyalty. And in this fast-paced society, efficiency is regarded fairly important, so this efficient production process differentiates and gives an edge to Adidas when compared to conventional firms.

3.2.3 FUTURECRAFT– ADIDAS 4D MIDSOLE

On 14th November 2018, Adidas announced the global launch of ALPHAEDGE 4D, which provides stability, energy return and breathable cushioning during an intensive training run or workout. (Adidas-news, 2018) Printed with light and oxygen, the Adidas 4D uses a digital light technology that can use data to translate the needs of a performance category and individual customer directly into a midsole (Adidas-news, 2018). Compared with traditional sneakers, Adidas 4D utilising up-to-date technology is more appealing and may be linked to a good quality image since technology is the dominant force in the modern society. The ability to translate individual needs is likely to increase consumers' loyalty since personalized service is valued in this era. So this featured product enhances Adidas' differentiation.

3.3 ADVANTAGES & DISADVANTAGES OF DIFFERENTIATION

3.3.1 ADVANTAGES OF DIFFERENTIATION STRATEGY

First of all, achieving differentiation can earn above-average returns in an industry because it is rewarded for its uniqueness with a premium price (Porter, 2004). For example, Adidas produce a shoe at the cost of \$23 which include the extra costs incurred in being unique and sells it at a premium price (\$100) to increase margins and avoid the need for a low-cost position.

Secondly, differentiation strategy increases customer loyalty and reduces consumers' sensitivity to price (Lynch, 2015). Attracted by the company's uniqueness, customers are

more likely to be loyal to the distinguished brand than companies who adopt cost-leadership strategies. And the higher margins enhances supplier power and mitigates buyer power since customers lack comparable alternatives and become less price sensitive (Porter, 2004).

Thirdly, differentiation may reduce the threat of suppliers who can raise the prices of the products and these increased supply costs will eventually be passed on to the customers in the form of higher price (Porter, 2004). Those firms without differentiation may fail to raise the price since customers have numerous alternatives, however, a differentiated company such as Adidas attracts loyal customers who are more likely to accept increased prices. Therefore, such unique company can maintain profitability even though the suppliers raise the costs (Barney & Hesterly, 2005).

3.3.2 DISADVANTAGES OF DIFFERENTIATION STRATEGY

Firstly, direct duplicate of product differentiation may occur if the bases of product differentiation are easy to duplicate (West, et al., 2006). Since differentiated firms have to inform the customers of what makes their products or service unique, its features and attributes may be copied by its competitors and then the firm may lose its edge (Lynch, 2015).

Secondly, the cost of sustaining the differentiation may be too high. The sustainability of differentiation depends on its multiple source of uniqueness, continued perceived value to buyers and cost advantages (Porter, 2004). However, if a firm spend too much on differentiation such as new technology or novel materials and fail to recover their cost in the price premium, the firm may fall into the financial crisis (West, et al., 2006).

Thirdly, the persuasive differentiation should stem from sources of value that customers can perceive and measure (Porter, 2004), which means simple uniqueness does not necessarily

link to differentiation. It may be difficult for firms to identify the true differentiation and they may spend too much money in vain.

4 CONCLUSION

Through conducting and analysing the Porter's Generic Strategies, this project demonstrated that Adidas, as an innovative company, has implemented differentiation strategy as their business level strategy to achieve a competitive advantage in current environment. And Adidas has taken many actions such as building speedfactory, releasing sustainable and high-tech products to enhance its differentiation. While differentiation strategy can have positive impacts on firms such as Adidas who adopt it since it will bring higher payback, increase customers' loyalty and reduce the threats of suppliers, there are also several pitfalls in this strategy: the uniqueness can be copied and the cost of being differentiated may be too high, and it is also difficult to define the true differentiation. So Adidas should take more actions to sustain differentiation.

4.1 RECOMMENDATIONS

To avoid exorbitant cost, it is recommended that Adidas should seek a balance between improving existing unique products and developing numerous new products which may bring financial risk if it is not valued by the costumers when enhancing differentiation. It is also recommended that Adidas should seek patents for the innovative products to reduce duplicates.

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