

# History of adidas essay



**ASSIGN  
BUSTER**

The adidas Group is globally the second largest manufacturer of sporting attire, controlling almost a quarter (22%) of the market compared to the 33% currently commanded by its biggest rival Nike<sup>1</sup>. Although a multinational company, it was founded originally in Germany and thus its central headquarters are situated in Herzogenaurach, and home to more than 2600 workers<sup>2</sup>.

Furthermore worldwide the adidas group employs approximately 40, 000 people and has grown to encompass a number of other brands such as Reebok, TaylorMade and Rockport. Its growth as a company is also reflected in its product range developing from simple footwear to a plethora of goods such as eyewear, clothing and perfume. A measure of its success is that its Products are obtainable in nearly every country throughout the world<sup>3</sup>. The company is held in esteemed regard throughout the sporting world and its athletes, by producing sports footwear, apparel and accessories that are both innovative and of the highest quality.

This reputation has been forged from a rich 80 year history of creating such products mixed with an undesired passion for sport and its culture<sup>3</sup>. For the adidas group to maintain this innovative mindset In modern times, they have to employ teams of designers, product developers and biomechanical experts at technology centres based in Portland, USA and Scheinfeld, Germany<sup>3</sup>. An important cornerstone of their strategy to continue to remain successful is to continuously strengthen their brands and products<sup>3</sup>.

In recent times due to increased awareness of civil rights and the Earth's fragile environment, this has led large multinational companies to place a

large emphasis on things such as sound labour and environmental practices. Otherwise their brand would be tarnished, leading to a reduced financial performance and non-sustainable business. Therefore contained within the next few pages is a review of the overall performance of the adidas Group; in terms of sound governance practices and its integration of both sound business ethics and human values into the organisation<sup>2</sup>. 2. History

When documenting the history, success and ideology of the adidas group, it is obvious one man was paramount to the organisation, its founder Adolf (Adi) Dassler. His primary aim when establishing his then fledgling business was to supply all athletes with the finest equipment available, which he began to attempt to create in 1920<sup>3</sup>. In 1924 he combined with his older brother, Rudolf forming the Gebrüder Dassler Schuhfabrik (Dassler Brothers Shoe Factory). This partnership became quite successful as they began to equip a number of athletes, such as at the 1928 Olympics, thus laying a foundation for international expansion.

The full potential of this tactic came to fruition when the great Jesse Owens strolled to 4 gold medals using their shoes, causing a great deal of worldwide exposure and hence increase in exports<sup>3</sup>. However the onset of the Second World War stunted the continued growth of their company and this was further exacerbated after a dispute between the brothers, which eventually led to both of them parting ways.

Thus in the years following the war, Adi Dassler decided to make a fresh start and take 47 workers with him to manufacture new products. These were built upon both a strong previous knowledge and many new innovative

ideas, and included many new innovations like making the first screw-in stud football boots. Eventually in 1949 he registered his company as ‘Adolf Dassler adidas Sportschuhfabrik’, or as it was more commonly known ‘adidas’<sup>3</sup>.

However Adi Dassler was not simply concerned with overseeing the manufacturing of sport shoes but was concerned with growing his company into a global brand. A vital tool in his quest to achieve this was to use media, TV in particular, to orchestrate and make the public aware of his product’s latest innovations.

A particular facet of this strategy was to get well-known sport-stars to wear his merchandise while performing their unique talent, thus providing him with the perfect marketing tool<sup>3</sup>. It enabled adidas products to become visible to a global audience and become known for their quality<sup>2</sup>. These principles allowed Dassler to dominate the shoe industry, enter new sports and develop a plethora of new sports equipment like handball balls and boxing glove<sup>2</sup>. Some of these feted athletes included Muhammed Ali, Sepp Herberger and Franz Beckbauer.

At the beginning of the 1960’s Adolf passed the reins of Adidas AG group to his son Horst. He kept true to many of the company’s business principles instilled by his father and continued to oversee Adidas go from strength to strength (a global brand). However in 1987 Horst died unexpectedly and the family heirs decided to transform the company in to a corporation, which in 1989 lead them to eventually sell it<sup>2</sup>. It was at this point that the company entered in a short crisis period. This crisis was was epitomised by bad

management from Frenchman Bernard Tapie and the stern emergent competition from rival companies like Nike and Reebok<sup>4</sup>.

This short phase of poor performance was eventually broken in 1993 by French businessman Robert Louis-Dreyfus, who put a sustained effort in to revitalising the company<sup>1</sup>. He initiated some vital strategic decisions; including the flotation of adidas on the stock exchange and the acquisition of the Saloman Group. This included many large and profitable subsidiary groups, such as Saloman itself, TaylorMade, Maxfli and Mavic<sup>3</sup>.

Since 2001 Herbert Hainer has taken the role of CEO in the organisation and has tried to wrestle back some of the market share taken by competitors. The largest and most significant step taken under his stewardship has been to acquire Reebok International Ltd., the manufacturers of Reebok shoes, in 2006<sup>1</sup>. After this purchase the company changed its name to adidas AG. It was felt that by merging two such respected and sought-after brands that the new Group would reap a number of benefits (global brand); for example greater infiltration in to the U. S. market<sup>1</sup>. Upon the time of writing it is still questionable whether these goals have been reached.

### 3. Corporate culture of Adidas Group: Vision, Values and Strategy

Introduction Commonly adidas state their undesired passion for sport; something that many sport fans can relate too. In fact some hardcore fans often state that sport can cause such euphoric feelings that almost nothing else can come close too, apart for maybe marriage<sup>5</sup>. They endure much hard labour and make many incredible sacrifices to support their chosen team and buy their memorabilia. However a fact that bypasses the average fan is

that sport has become a business no different to that of large well-known corporate establishments, with a company's chief aim to return a profit<sup>5</sup>.

For almost 90 years the adidas group has been prevalent within the sporting world, providing state-of-the-art accessories and attire. Throughout this period it has had one clear objective and mantra when carrying out their business; to be the number one sports brand in the world<sup>2</sup>. Since Adi Dassler founded the company, they have wanted a strong brand image and share their enthusiasm for sports by generating a particular lifestyle through their merchandise. Thus to accomplish this mission a clear, comprehensive business strategy is necessary<sup>3</sup>.

**Business Structure** The most successful and the central brand of the Group is Adidas. It is a brand developed by using top-end technology and the latest design techniques, causing many consumers to identify with its innovation and authenticity. The Adidas brand is organised into three product design divisions: Adidas Sport Performance, Adidas Sport Heritage and Adidas Sport Style<sup>3</sup>.

This structure is novel to the industry and they feel it is the best technique to meet changing consumer demands, while remaining rooted to the brand's principles. Although originally producing only footwear, apparel and hardware products, they have now embraced the importance of fashion and lifestyle in sports. This has allowed the brand to diversify and enter new markets. In total the Adidas brand has in the region of 100 subsidiaries based around Europe, Asia and the US, with each having their specific manufacturing and market focus<sup>3</sup>.

Reebok was a serious competitor to adidas, so if the group wants to become more successful it is vital that the two brands continue to clash. Thus in response to this the Adidas group plan to carve separate specific niches in the market for adidas and Reebok. While adidas continues to focus on competitive sports and fashion, Reebok will now be directed towards active sports and try to become the leading brand used in training for these physically demanding activities.

To reach this desired endpoint of sustainable growth the adidas group have set a number of tasks, such as becoming the leader in the customisation and interactivity areas of the industry. In 2009 the adidas group was restructured in to a diverse multi-brand structure intended to maintain long-term sustainable growth in the business. It caused the formation of a Global Sales and a Global Brands unit; with the former dealing with the company's commercial activities, while the latter concentrated on marketing. It is felt such an initiative will provide a solid platform for any future expansion and captures their drive to overtake Nike<sup>3</sup>.

Another important mantra that the adidas group feeds into is that consumers want choice. They aim to satisfy this need by incorporating a multi-brand strategy, which they feel enables them to investigate areas as both a niche and mass player<sup>5</sup>. The adidas group state that it is something that allows them to provide specialist products to an extremely large customer base. To some degree this is true as TaylorMade, adidas, Rockport and Reebok are all very different brands who cater for different sets of customers and thus will to a degree produce specialist products for their targeted market. One other

important trait this maintains is that each brand keeps its unique identity, while enabling the company as a whole a diverse product base<sup>3</sup>.

## Goals

According to the adidas Group, a reasonable short-term target is to outperform total market growth, outgrow its major competitor ' Nike' and achieve a growth rate of 15% in its compounded annual earnings<sup>3</sup>. To do this they plan to invest heavily in their brands over the next 5 years to attain their imposing self-set targets (investor day)<sup>6</sup>. A common motto throughout the adidas group and one echoed by CEO Herbert Hainer is that brand success means business success<sup>2</sup>. By sticking to this premise they think they can achieve sustainable growth with a set of extremely popular brands that lead their respective fields (investor day).

To accomplish their goals, the adidas group is not only concerned with growth projects but also by growth initiatives and efficiency projects. These are not restricted to one specific brand or area, and include such things as eCommerce. They have also identified a raft of significant growth markets; namely China, Russia, India, UK and Latin America<sup>3</sup>. For instance in China the adidas group launched its largest store in the centre of Beijing after the Olympics had ceased, and plan a large increase in the number of stores throughout the country. This has led to a reported rate of three new stores opened per day Nike as the leading sports brand in the country<sup>1</sup>.

Business culture Their business culture is constantly evolving and has been influenced from a number of factors. Not surprisingly the key individual in its development has been Adi Dassler, who focused on creating innovative ideas



and striving to establish a relationship between athlete/consumer and company<sup>2</sup>. Leading through innovation is a strong trait of the Adidas group; something which has caused them to constantly confront standard customs and accept change.

They believe the use of cutting-edge technology in the manufacturing of their products, and augmenting both customer services and internal processes are practices necessary to ensure sustainable leadership<sup>3</sup>.

Obviously if the adidas group are to achieve their targeted position in the market than it is essential that the operating profit grows. Thus any decision to be made in the company ultimately revolves around whether it will improve profitability, create greater value for their shareholders or garner significant cash flow<sup>1</sup>. This requires meticulous management of their working capital, while also ensuring that the most advantageous capital structure is in place. Generally throughout the company's history they have managed to serve their shareholders well with a norm of above-average share price performance and dividends<sup>2</sup>.

## Marketing

The huge sporting events such as the Olympics and FIFA world cup are a major focus of the adidas group's marketing strategy. They place much value on acquiring the rights to become the official sponsor of these extravaganzas, and up till now they have been successful in accomplishing that premise<sup>2</sup>. This is reflected in them currently holding these rights for the aforementioned big events (Olympics and FIFA world cup).

However they do not only restrict themselves to sponsoring these big events, but also sponsor famous sporting teams<sup>2</sup>. In football this includes FC Bayern Munchen, Chelsea, Liverpool and Real Madrid; in rugby they sponsor the All Blacks (New Zealand); and the New York Giants in American football. The final significant part of their strategy is the tactic of signing large endorsements with famous sportsmen and women; for example David Beckham (football), Yao Ming (basketball) and Venus Williams (tennis)<sup>1</sup>.

Although the sponsoring of teams, events and athletes is a major component of the adidas group's marketing, it does carry much risk<sup>7</sup>. The ability it has in raising the profile of the product and other positive benefits from the 'allegiance' can quite easily be offset by the damage to the brand from the actions of the team or person in question (team-sponsorship) <sup>4</sup>. A recent example of this was the unfortunate travails of Tiger Woods whose unacceptable and excessive private life ruined the clean image he had created for both himself and his partners Nike. Adidas themselves are no stranger to such disasters, as they had to terminate their sponsorship of professional cycling teams after doping scandals (team-sponsorship).

### Criticism

A strong criticism of many of the strategies employed by the adidas Group to place their product on the market; is many of their ideas are neither novel nor unique but are either simply copied or slight alterations from those used by Nike. A move symptomatic of this culture was the reactive nature of adidas announcing their shoe & phone scheme with Samsung, in the wake of the news that Nike were expending their iPod partnership<sup>1</sup>. A major

discrepancy with the leadership of the adidas group and its chief competitor was the lack of a slogan until 2004. This was a large gaffe from adidas as they had nothing to compete against the legendary 'Just Do it' from Nike and will take now take many years from them to build a message with the same prestige. Their campaign, 'Impossible is nothing' was opened with much fanfare and a host of famous stars including Muhammed Ali, David Beckham and Tracy McGrady<sup>6</sup>.

4. Ethics analysis of the Adidas group Introduction The world today compared to the one in place when Adi Dassler founded adidas was very different. Today there are many additional aspects necessary to create a profitable brand image and thus a sustainable business. Our environment has deteriorated significantly as humans continue to extract an increasingly amount of natural resources to fulfil our growing energy demands.

Secondly labour laws are a lot more intensive and enforcement has amplified tenfold, as people have increased awareness of the pitfalls of such malpractices. Thus infiltrating these factors into the common everyday practices of adidas was not an issue during the group's formative years. Put simply the adidas group cannot afford to ignore some of the wider impacts created from their business duties<sup>2</sup>. This runs on the ideology that businesses, particularly global institutions, like people, have a moral duty to look after these important issues<sup>8</sup>.

Although the cynics may point out that there is no need to market something which is morally right and should be simply carried out because it is our duty as humans. Upholding and developing brand image and reputation is a vital

cog in enhancing profit growth for the company, particularly as they continue to spread to new areas and regions of the world<sup>3</sup>. Otherwise the adidas group will face grave financial risks from an era of high consumer awareness. To alleviate any potential risk, they have sought to define precise and concise statements on their goals and values for their brands. These are marked by efficient and consistent messages to all targeted consumers and on ensuring social and environmental standards are at a high level<sup>9</sup>.

4. 1 Importance of the environment and a sustainable Business As described in the preceding pages the adidas group is a global institution and therefore holds a responsibility to care for the environment and maintain its upkeep in a healthy state for future generations. Thus as a consequence the adidas group openly promote environmentally friendly conduct, as they know it is necessary to maintain the long-term value of the Group. This is particularly true as environmental impacts occur at many stages of a product's lifecycle and from the activities of their 40, 000 employees.

The most detrimental impacts to the environment occur during the manufacturing of their products, which exploits much energy, water and chemicals<sup>9</sup>. However mitigating the impacts during this process is difficult as they are mostly outsourced to independent suppliers; thus the Adidas group can only give them suitable training and guidelines. The level of influence that can be imposed by the group is highly inconsistent and dependent on a number of elements<sup>9</sup>. In their strategy they focus on reducing the risk of specific manufacturing processes and suppliers, on building partnerships to improve whole industry's performance; and by giving guidance and training to their suppliers.

An example of such endeavours to improve environmental efforts is providing key suppliers in Asia with environmental workshops. Another instance was the introduction of an energy-saving programme with individual suppliers in North China<sup>10</sup>. In recent times the adidas group have been working with their suppliers to guarantee that they conform to Workplace Standards set by the group. When trying to do so, they assist their suppliers in searching for practices that reduce environmental impacts and design better products<sup>10</sup>. Although the ultimate running of the company is dependent on its profitability and the results achieved; the method of achievement is also paramount. Thus companies such as the adidas group have a clear vision of an enhanced environmental performance and should be held accountable for all their actions<sup>9</sup>.

This means that although much of the manufacturing of their products is outsourced to independent suppliers, the adidas group must be held liable for any negative environmental effects. Thankfully the adidas are group are committed to such first-class practices and it is something they take seriously as reflected by their relatively good rating in a recent review. However it is important to note that no company can become sustainable immediately; rather it is a long journey with many short-term milestones<sup>10</sup>.

**Environmental targets & Strategy** To this point the ultimate goal of the company is reduce their environmental footprint until they become a “ zero-emissions company’ <sup>10</sup>. In reality this is a far way off, but in the meantime they have set a number of key ‘ step changes’ <sup>10</sup>. Currently the adidas group have a strategy in place until 2015 that has numerous objectives attached to it. However they have found that developing an environmental

strategy is not an easy process, particularly in regards to producing a complete plan; hence assessments evaluating certain fields of their environmental performance are still ongoing<sup>11</sup>. Unfortunately this has prevented certain sought after measures from being drafted or introduced.

The vital pretence of creating a good strategy is to assess each component of the company, understanding the location of the key impacts and then to create a strategy for remedying them. Thus sound environmental practice involves thoughtful solutions and efficient resource use<sup>11</sup>. In designing their environmental policy three core principles have been adhered to; resources have to be used in a sustainable manner, reduce emissions, and limit chemical hazards. In conjunction with this is that primary focus is on preventing climate change, water and energy conservation and waste reduction<sup>10</sup>.

Some of the crucial targets of the group's plan are to cut energy use by 20%, cut carbon emissions by 30%, and reduce their usage of paper by 50% per employee. To achieve their carbon cutting aims is that renewable sources of energy will be utilised to account for another 10% of carbon emissions; along with an effort to introduce carbon offsetting methods. In combination with these two elements of the carbon cutting strategy is the general effort to lower energy consumption and intensity<sup>9</sup>.

Importantly goals are not only set for the overall company as each individual site has their own precise goals and targets. To help create this blueprint environmental assessments were carried out all their major administrative and production sites, as well as important warehouses. This data was then

infiltrated to specific management plans for each of these locations. Additionally at the five principal administrative sites (that cover the USA, Canada and Germany), adidas have recently implemented a certified Environmental Management System (EMS). This system is based upon gaining awareness of where the environmental impacts are located, finding a solution for those of considerable size and pledging to the continued enhancement of environmental processes.

A principal component of the adidas group's overall strategy to reduce their environmental footprint was to launch a number of schemes and initiatives. One such scheme was titled the 'Green Company initiative', which was introduced in October 2008 and was one of the pioneering steps of their attempt to become environmentally friendly<sup>9</sup>. The basis of this scheme is that it is necessary to reduce the company's environmental impact at a local level; for example at their warehouses, offices and production sites. It is carried out using three primary principles; to entrench environmentally friendly methods in to all their practices, to maximise environmental efficiency, and to utilize people's enthusiasm for a greener planet.

Another initiative organised by the adidas group was the 'Green Team' concept<sup>9</sup>. This aimed to encourage the active involvement of staff in green practices from the bottom-up. Each primary location of the group has a 'Green Team', which includes all staff members devoted to leading environmental schemes<sup>9</sup>.

Raw Materials

Currently the adidas group uses many non-renewable sources of material, such as those that are made from the primary components of oil. Thus in order to build a future business that is sustainable; the overall reliance on these synthetic fibres must be abolished or at the very least reduced.

Furthermore to reach this goal, crop grown materials must be cultivated using improved techniques that do not harm the environment. Overall the critical impact of product materials must produce reduced waste and have a low impact throughout their lifecycle<sup>11</sup>. In order to satisfy these requirements the adidas group has a number of initiatives in place such as avoiding the use of endangered species, eliminating PVC and using more sustainable materials<sup>11</sup>.

In considering if a material is sustainable numbers of its elements are studied to attain if it has lower impact throughout its life-cycle than conventional ones. Sustainable materials will perform more favourably in terms of crop, energy and water use, and include recycled polyester and organic cotton. There is much potential for such materials as technology continues to improve and new materials become available<sup>10</sup>. An important concept of making sustainable products a success is their marketing, which requires crafting ideas and establishing how and whether these products will be successful in the marketplace<sup>10</sup>.

This involves demonstrating the facets of unique ranges of sustainable products by highlighting their environmental credentials<sup>10</sup>. Environmentally friendly products are to be designed with innovative guidelines that do not compromise overall performance. This includes increasing the amount of



styles that have environmental features to their core. 4. 2 Corporate Responsibility to the community and Labour Laws. Supplier Activities

As a global company, the activities of the Adidas group have many impacts on the wider community<sup>3</sup>. If they do not take the potential seriousness of these impacts in to account than the company faces a severe risk of losing brand image. Furthermore another requirement if the business is to become the leading company in their industry is that they cannot simply just adhere to standardised laws and directives, but must go beyond these prerogatives. Big brand athletic apparel institutions, such as the adidas group organize the international distribution of an assortment of high quality products<sup>12</sup>.

These commodities are predominantly assembled at external independent suppliers dispersed throughout the globe. As a result the adidas group is placed in the role of the socially responsible corporate power, and must prevent their products from becoming spoiled by such heinous acts as sweatshop labour<sup>12</sup>. Thus it is placed in a vortex of conflict of how to establish and uphold labour standards in regions, where the employees of external suppliers have modest if any legal safeguarding against exploitation<sup>12</sup>.

There are three primary moral concerns that shape the general disquiet in international labour standards. Firstly, a recent growth in demand for cleanly manufactured products has arisen and many consumers find those tainted by exploitative labour unethical and unacceptable. Secondly, companies want to evade a situation of unfair international competition where a race occurs to force wages and conditions to their most unpleasant. Lastly, policy-

makers want to stop any further reduction in backing for the global trading system<sup>12</sup>. However, the adidas group are motivated by loss of, brand image and the recent recognition of social responsibility and thus attempt to uphold these core standards among their main contractors<sup>12</sup>.

Adidas have begun to progress in applying their own certified corporate policies at their supplier's factories, as they now take responsibility for their full supply chain<sup>10</sup>. This ensures that these factories adhere to minimum standards set by the adidas group. Newly introduced standards for staff include complaint mechanisms, training for management, the membership of independent verification schemes through the Fair Labour Association and ensuring permanent compliance teams in factories for regular internal audits<sup>13</sup>. Internal Employees

Looking after a company's employees is critical to achieving global success. An essential pre-requisite of a successful company is to develop and assist its staff, while providing them with realistic incentives to progress in their respective careers. These are virtues with which adidas believe in and promote in their internal business affairs<sup>9</sup>. It appears that they treat and remunerate their staff fairly, by only rewarding individuals who have achieved certain targets and promoting staff that have performed admirably, as well as pertaining the relevant qualifications and experience.

The adidas group as an employer are accountable to the health and safety of their staff<sup>9</sup>. Thus they aim to allow staff to have a healthy work-life balance is another important aspect that adidas promotes<sup>9</sup>. However employees can sometimes abuse this condition and must adhere to the Employee Code of

Conduct<sup>2</sup>, in order for the Adidas group to remain successful. The adidas group see their staff as critical to their commercial success and promote employee-orientated leadership, increased transparency in their communications to employees, and incentive schemes<sup>9</sup>. A number of other prerogatives must be met to improve their performance in society, such as attaching themselves to goodwill gestures and making a genuine attempt to improve the careers of employees. This has become more imperative in recent time s due to the global financial crisis endured by people<sup>10</sup>.