

# Adidas strategy

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Within the global sporting goods market, there are three major companies all striving to become the dominant force in the industry. Throughout history, each of these companies has held that title. However, with the US market for athletic footwear and apparel valued alone at over \$US45billion (Katrichis, 2002), all three companies are aiming to outperform the others. At present, Nike clearly leads the way in the global sports brand market with a 43% market share. Adidas runs second. It claims to have a 12% share, just in front of Reebok (Dabkowski, 2002).

To understand how this industry has developed, the strategies of the three dominant businesses' in the following areas need to be considered.

## 2. 0 Market Positioning

Historically, Adidas has promoted an image of seriousness and quality, targeting the serious athlete who was after authentic sporting goods (Boissonnas et al, 1998). However, recent changes in the sporting goods market has forced Adidas to alter this image, aiming their products at the most profitable market segment, the 12-34 age group, who are more concerned with fashion than quality.

The firm believes that by dividing the company up into specific departments it can " best develop and market innovative products, meeting the needs of today's diverse consumers (adidas. com). " Further to this, the company has also had to review the geographic regions it promotes its products in. Sales in Europe, Adidas' largest market grew 7%, to \$2. 7 billion, last year. Adidas' sales are growing fastest in Asia, where revenue rose by 15%, to \$878 million in 2001 (Reuters, 2003). When Nike first entered the sporting goods

market, one of the core competencies it achieved was the company's association with top athletes.

This strategy, a first for the time, enabled Nike to develop a sustainable competitive advantage in the industry. Furthermore, this association appealed strongly to the youth market. Now, Nike dominates the 12- to 34-year old age bracket. The three highest selling segment - basketball, cross training and running - are also the highest spending segments. Nike is the market leader in each of these segments (Gaffney, 2002). Increasingly, fashion has had a major bearing on the market. As a result, athletic gear was no longer reserved for exercise; instead, the concept of leisurewear emerged.

Nike has been best able to adjust to changing trends in the industry. As casual wear expanded outdoors, Nike introduced its ACG range to counter this. As young people determined market trends, Nike began advertising on MTV to promote their company to this evolving market (Boissonnas et al, 1998). Reebok is strongest in the over-45 age segments and weakest in the 12-34 age segments. The over-45 group may have the most disposable income, but the 12-34 age groups purchase athletic shoes much more frequently and are also willing to spend more on shoes for fashion and "coolness" (Orphin, 2001).

Therefore it can be said that Reebok is not properly targeting the most profitable segments in the athletic-shoe market. Reebok appeals more to women, yet they spend \$7 less per pair of athletic shoes, on average. Reebok holds a commanding lead in the aerobic footwear market, at 52%

(ibid). The primary problem Reebok faces is one of positioning. This is directly related to its target markets, which are misaligned with the focus targets of the athletic shoe market. As mentioned above Reebok's strengths lie where Nike, its largest competitor, is the weakest.

While this may seem like an advantage for Reebok, it is not. The segments controlled by Nike are the highest-spending segments in the market, while the segments in which Reebok is strongest spend the least (Gaffney, 2002).

### 3.0 Marketing / Advertising

" A brand is recognized widely by business people and academic researchers alike as one of the most sustainable, and hence, valuable of all competitive advantages (Hanson and Dowling, 2002). " All three sporting good companies in this report have focused heavily on developing strong brand recognition.

All told, athletic footwear makers spent more than \$5.9 billion on advertising and celebrity endorsements last year (Gaffney, 2002). A report aimed at valuing a specific brand estimated that the brands of Nike and Adidas were worth \$8.15bn USD and \$3.60bn USD respectively (Tomkins, 1999). The reason behind this massive capital investment, according to one industry analyst, is that " the U. S. athletic business is as flat as a pancake in terms of overall consumption, so it's all about market share (Stanley, 2003).

" Unable to grow the industry further, sporting companies such as Adidas have to take market share off competitors. In the past, Adidas' marketing advantage has developed from endorsements of international sporting

events such as the Olympic Games and the FIFA World Cup Soccer. At the 1952 Helsinki Games, Adidas footwear was first used. By the 1976 Montreal Olympics 80% of medal winners were wearing Adidas shoes (Boissonnas et al, 1998). However, with new players such as Nike entering the market, there was a distinct shift in the marketing focus.

Herbert Hainer, who took the helm at Adidas-Salomon in 2000 from Robert Louis-Dreyfus, reduced the Adidas marketing budget from 14% to 12% of sales, focusing the company's marketing efforts on key athletes and select sponsored events (Kitchens, 2002). At the same time, Adidas' reduced the number of national teams and international events it sponsored. Key athletes/teams that Adidas sponsors include Football - David Beckham, Zinedine Zidane, Real Madrid Swimming- Ian Thorpe Tennis - Anna Kournikova Basketball -Tracy McGrady, Kobe Bryant (ended 2002)

Combining this with the sponsorship of international tournaments such as the FIFA World Cup, Adidas is following a similar strategy that Nike first developed. The key strategy behind Nike's success has been the endorsement of international superstars. Specifically, the company has targeted athletes in the sports that dominate sales in the footwear market, such as Michael Jordan and basketball, as well as targeting sports that are popular in growth markets the company is targeting, an example being the sponsorship of the Brazilian Soccer team, helping Nike impact the South American market.

It was estimated the company spent \$US200million to sponsor the Brazil team (Cox, 2000). More than any other company Nike has been able to

secure the signature of major sporting stars. According to Nike CEO Phil Knight, " by providing sporting apparel that appeals to professional athletes... the rest of the market will follow (Boissonnas et al, 1998). " Paying Michael Jordan \$US20million a year to endorse the Air Jordan brand has generated untold sales revenue for Nike. Other athletes that Nike endorses are Tiger Woods (golf), Ronaldo (soccer), Lleyton Hewitt (tennis); all considered masters in their respected fields.

Reebok initially experienced success in the female sporting and fitness market. In view of that the company has had to focus its advertising on promoting Reebok as more than just a fitness company. The company has followed a similar strategy to Adidas and Nike, sponsoring world-class athletes to increase the company's exposure. NBA Most Valuable Player Allan Iverson and Manchester United winger Ryan Giggs are the most high profile Reebok sponsored athletes. Reebok has been criticised for not investing enough in stable athletes or advertising campaigns.

The average life of a Reebok ad campaign in the 1990s was less than 2 years, while those of its major competitors, such as Nike's " Just Do It," lasted throughout the decade and established product identity with its customers. Instability in advertising has hampered Reebok's attempt to establish a strong brand presence (Orphin, 2001). 4. 0 Conclusion This report has shown how the sporting goods market has developed as a result of the strategies implemented by Adidas, Nike and Reebok. Also we suggest globalisation of Adidas

It has been clear that as the market has developed, Nike has been the one company that has best dealt with the changing trends in the market, indeed, even driving some of the trends. As the spending patterns of the industry has changed in recent years, Adidas, Nike and Reebok have endeavoured to position themselves in the market to take advantage of such movements. Adidas and Reebok have had the biggest difficulty making these modifications. Nike, benefiting from being the most recent entrant into the market, has been able to capitalise on the youth oriented market and ultimately generate greater sales revenue and market share.

Nike has also been able to exploit its competitive advantage to maximise wealth to shareholders. The company's strategy of endorsing world-class athletes has evidently proven more effect than Adidas' approach of supporting international sporting events. Adidas and Reebok have responded to this by following Nike's approach, endeavouring to attract the teenage market to their products. For Adidas to take market share away from Nike and the other competitors in the sporting goods sector, the company will need to develop marketing strategies that exploit the trends emerging in this multi-billion dollar industry.

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