

Adidas market entry strategy



**ASSIGN
BUSTER**

Adidas aims to achieve the mission of being the leading sports brand in the world. They aim to achieve this by the brand's broad and unique product portfolio spanning from apparel and footwear for professional athletes to premium fashion (adidas-group, 2010). It allows Adidas to address multiple consumer needs, exploit market opportunities from various angles as well as be less affected by one-dimensional market risks. Adidas commitment to product innovation and its rich heritage differentiates the brand from competitors and provides a solid platform for future growth (adidas, 2010).

For over 80 years the Adidas Group has been part of the world of sports on every level, delivering state-of-the-art sports footwear, apparel and accessories. Today, the Adidas Group is a global leader in the sporting goods industry and offers a broad portfolio of products. Products from the Adidas Group are available in virtually every country of the world (linkedin, 2010).

Adidas is a brand name which comprises of a group of companies specializing in athletic footwear, clothes and equipment. After being founded in 1948, the company has several branches, joint stock enterprises and representative offices located around the globe. Its products are sold in more than 160 countries (intercomp, 2010). Today, the total staff employed by Adidas-Salamon AG group extends to 17, 000 (intercomp, 2010). Of this number, over 3000 people are employed by two basic corporate centres- its headquarters in Herzogenaurach (Germany) and its operations centre in Portland, Oregon (USA) (intercomp, 2010). Also located in Herzogenaurach are the strategic business units for Running, Soccer and Tennis as well as the Research and Development Centre. Adidas propose to work on a simple strategy that involves continuously strengthening their brands and products

to improve competitive position and financial performance. The company also operates design studios and development departments at other locations around the world, corresponding to the related business activity. Adidas Sourcing Ltd., a fully-owned subsidiary headquartered in Hong Kong, is responsible for worldwide sourcing (adidas, 2010).

Most marketers face many demands due to globalisation in today's marketplace. Globalisation in simple words can be said to be a trend expiring in the western world which can be easily taken into an emerging market (Jackson and Shaw, 2009). Globalisation involves global markets and global marketing which comprises of customers, competitors and the marketers who help companies to be successful. Global marketing can be defined as the marketing activities which are coordinated and integrated across multiple country markets, may involve standardised products, uniform packaging, similar advertising and coordinated sales campaigns across markets in several countries (Johansson, 2009). There can be five major classes of variables which propel companies towards globalisation in today's world. These are known as globalisation drivers and are market drivers, competitive drivers, cost drivers, technology drivers and government drivers (Johansson, 2009).

Overview of Russia

Russia is the largest country in the world, spanning 11 time zones and covering one-eighth of the world's land surface. It is a combination of 89 different entities that constitute 16 autonomous republics, five autonomous regions, 10 national regions and several provinces and metropolitan cities and most of its residents live in urban areas (icmrindia, 2010). Russia is

sometimes also referred to as the Russian Federation and hosts 141.9 million citizens descending from more than 100 ethnic groups (state, 2010).

The capital and largest city in Russia is Moscow and is increasingly important as an economic and business centre; it has become Russia's principal magnet for foreign investment and business presence. Moscow is rich in cultural tradition with many museums devoted to art, literature, music, dance, history, and science, as well as hundreds of churches and dozens of notable cathedrals (state, 2010). The second-largest city in Russia is St. Petersburg, which was established by Peter the Great in 1703 to be the capital of the Russian Empire as part of his Western-looking reforms.

In Russian economy, the highest emerging industry is retail industry (Aslund, 1995). In recent years, Russia has appeared as a leading name among the countries contributing to retail environment. The fast development of retail trade and high consumer expenditure has been attracting large number of global companies to Russia (Voronkova and Lucey, 2005). Russian economy and business are facing the boom period and are about to gain more momentum in the coming years. As per the estimates in the year 2007, the current financial year GDP would be around US \$733 billion. As per the estimates, the GDP growth rate would remain above 5% till the year 2012 (mapsofworld, 2010). Other participants of Russian economy and business sector are industrial productions, import and export business, agriculture and many others. The main centres of business at Russia are Nizhny Novgorod, Moscow, Vladivostok, St Petersburg and Novosibirsk (mapsofworld, 2010).

Recently thousands of private companies have been carrying out their business in Russia, adding revenue to the Russian economy (mapsofworld, 2010).

Overview of Bangladesh

Bangladesh, formerly East Pakistan, is the second largest Muslim country in the world. The capital, Dhaka, has over 2000 mosques and is known as the city of mosques. Bangladesh is bordered on the west, north, and east by India, on the southeast by Myanmar (formerly known as Burma), and on the south by the Bay of Bengal (mapsofworld, 2010).

Bangladesh is one of the world's most densely populated countries, with its people crammed into a delta of rivers that empties into the Bay of Bengal (bbcnews, 2010).

Most of the people of Bangladesh are restrained to villages, with only 26 per cent living in urban areas. More than 98 percent of Bangladesh's population are Bengalis, who are largely descended from Indo-Aryans; the remaining two per cent includes Bihari's and non-Bengali Muslims who had migrated from India. Bangladeshi culture, in many ways, reflects the culture of Greater Bengal (mapsofworld, 2010).

Bangladesh has been in the course of a rough economic past. Two partitions led to wide economic neglect and even producing jute in large quantities contributed very little towards economic growth, as the country could not find much investment in this sector (mapsofworld, 2010).

The foremost employer is agriculture, but it is unable to meet the demand for jobs. Thus many Bangladeshis – in common with citizens from other countries in the region – seek work abroad, sometimes illegally. The country is trying to diversify its economy, with industrial development a priority (mapsofworld, 2010). Overseas investors have pumped money into developed and the energy sector. Onshore and offshore gas reserves hold out some chance of future prosperity. Urbanization is proceeding rapidly, and it is estimated that only 30% of the population entering the labour force in the future will be absorbed into agriculture, although many will likely find other kinds of work in rural areas (mapsofworld, 2010).

PEST Analysis

All organisations operate in market places that are affected by forces outside their control (Jackson and Shaw, 2009, pp 300). Factors considered within the macro environment affect not only the company but all the other members of its micro environment, namely its suppliers, consumers, etc (Easey, 1995). An analysis of the external factors that influence the firm is known as the PEST analysis i. e. Political, Economic, Social and Technological. PEST analysis of any industry sector investigates the important factors that are affecting the industry and influencing the companies operating in that sector. Political factors include government policies relating to the industry, tax policies, laws and regulations, trade restrictions and tariffs etc. Political factors affect both the producer and the consumer in various ways (Bohdanowicz and Clamp, 1994). A stable political surrounding is the basis for long-term decisions. The economic factors relate to changes in the wider economy such as economic growth, interest rates,

exchange rates and inflation rate, etc. Vignali et. al, (2008), express that economic trends are extremely important for the business and that they depend to a great extent on the governments' politics. Social factors often look at the cultural aspects and include health consciousness, population growth rate, age distribution, changes in tastes and buying patterns, etc. Changes in lifestyle and opinions influence the demand and the way of selling products (Vignali et. al, 2008, pp. 364). The technological factors relate to the application of new inventions and ideas such as R&D activity, automation, technology incentives and the rate of technological change. As in all areas of industry new technology is making great inroads to improve quality of life and increase speed and quality of manufacture (Easey, 1995).

2. 1 PEST Analysis of Russia

(P)olitical factors

The Russian economy underwent tremendous stress in the 1990s as it moved from a centrally planned economy to a free market system. In the political system established by the 1993 constitution, the president wields considerable executive power. There is no vice president, and the legislative branch is far weaker than the executive. Difficulties in implementing fiscal reforms aimed at raising government revenues and a dependence on short-term borrowing to finance budget deficits led to a serious financial crisis in 1998. Lower prices for Russia's major export earners (oil and minerals) and a loss of investor confidence due to the Asian financial crisis exacerbated financial problems (state, 2010). Russia, initially Soviet Union has faced many economic difficulties in the past. The current President Russia is Dmitry Medvedev, but the government is still thought to be run by the

previous President and current Prime Minister Vladimir Putin (bbcnews, 2010). The budget deficit of Russia risen sharply in 2009 to around \$60bn (£42bn). Moscow's revenues are sharply down because of the plummeted oil prices due to a drop in global demand.

(E)conomic factors

The Russian economy is largely dependent on its export resources, oil and gas. The energy giant Gazprom is controversially close to the Russian state and critics say it is little more than an economic and political tool of the Kremlin (bbcnews, 2010). The Russian labour force is undergoing tremendous changes. Although well educated and skilled, it is largely mismatched to the rapidly changing needs of the Russian economy. Official unemployment dropped to its lowest rate of 5.4% in May 2008, and labour shortages appeared in some high-skilled job markets (state, 2010). The economic crisis which began in late 2008, however, quickly reversed this trend and the ranks of unemployed swelled to an International Labour Organization (ILO) estimated 9.5% in the first quarter of 2009; 1.8 million Russian lost their jobs in the first quarter of 2009 alone (state, 2010). , President Dmitry Medvedev claimed Russia's economy will shrink by 7.5% in 2009 (bbcnews, 2010). However, real disposable incomes have doubled since 1999, and experts estimate that the middle class constitutes approximately one-fourth of the population. The economic crisis, however, caused real disposable incomes to drop by 6.7% year-on-year in January 2009, and wages fell by 9.1% year-on-year in January 2009 (state, 2010).

(S)ocial and Cultural Factors

Russia's population was 141.91 million as of January 2009, a very slight decrease from the previous year according to the government statistics service and the Ministry of Public Health. The birth rate in 2008 was the highest recorded in the last 15 years. Life expectancy remains low compared to developed countries, but rose to 61.4 years for men and 73.9 for women in 2007 (state, 2010). Cardiovascular diseases, cancer, traffic accidents, and violence continue to be major causes of death among working age men. Many premature deaths are attributed to excessive alcohol consumption and smoking. A truly healthy Russia will require serious improvements in the health sector and some major changes in current cultural norms. Russia's educational system has produced nearly 100% literacy. About 7 million students attended Russia's 1,090 institutions of higher education in 2006, but continued reform is critical to producing students with skills to adapt to a market economy (bbcnews, 2010).

Unemployment is highest among women and young people. Russia has an area of about 17 million square kilometres (6.5 million sq. mi.); in geographic terms, this makes Russia the largest country in the world by more than 2.5 million square miles. But with a population density of about 22 persons per square mile (9 per sq. km.), it is sparsely populated, and most of its residents live in urban areas (state, 2010).

(T)echnological factors

Russian TV broadcasting is dominated by channels that are either run directly by the state or owned by companies with close links to the Kremlin. The government controls Channel One and Russia One – two of the three

main federal channels – while state-controlled energy giant Gazprom owns NTV (bbcnews, 2010). For most Russians, television, especially via the national networks, is the main source of domestic and international news. There are more than 400 daily newspapers, catering for every taste and persuasion and the major nationals are based in Moscow. Around 38 million Russians use the internet (bbcnews, 2010).

2. 2 PEST Analysis of Bangladesh

(P)olitical factors

The first government of new formed Bangladesh after partition was formed in Dhaka with Justice Abu Sayeed Choudhury as President, and Sheikh Mujibur Rahman (“ Mujib”) who was released from Pakistani prison in early 1972 as Prime Minister (bbcnews, 2010). The president, while chief of state, holds a largely ceremonial post; the real power is held by the prime minister, who is head of government. The president is elected by the legislature (Parliament) every 5 years. The president’s circumscribed powers are substantially expanded during the tenure of a caretaker government. In the caretaker government, the president has control over the Ministry of Defense, the authority to declare a state of emergency, and the power to dismiss the Chief Adviser and other members of the caretaker government. Despite serious problems related to a dysfunctional political system, weak governance, and pervasive corruption, Bangladesh still remains one of the few democracies in the Muslim world (state, 2010). However, democratic institutions and practices remain weak (bbcnews, 2010).

(E)conomic factors

Bangladesh has been through a rough economic past because of two partitions that led to widespread economic neglect and producing jute in large quantities contributed very less towards economic growth, as the country could not find much investment in this sector. The major employer in Bangladesh economy is agriculture, but it is unable to meet the demand for jobs. The country is trying to diversify its economy, with industrial development a priority. Overseas investors have pumped money into manufacturing and the energy sector. Onshore and offshore gas reserves hold out some chance of future prosperity (bbcnews, 2010). The Economist Intelligence Unit expects the fiscal position to remain weak in fiscal years 2009/10-2010/11 (July-June) as the government increases its efforts to implement a wide range of development projects (prlog, 2010). Real GDP growth is forecast to remain fairly stable, averaging 5.7% in 2009/10 and 5.9% in 2010/11, after the economy grew by 5.9% in 2008/09 (prlog, 2010).

Bangladesh deals almost equally in both exports and imports with total exports for Financial Year 2008 are \$21.6 billion: capital goods, food grains, petroleum, textiles, chemicals, vegetable oils whereas total imports were \$14.11 billion: garments and knitwear, frozen fish, jute and jute goods, leather and leather products, tea, urea fertilizer, ceramic tableware (state, 2010). Urbanization has occurred rapidly in recent years and it is estimated that only 30% of the population entering the labour force in the future will be absorbed into agriculture, although many will likely find other kinds of work in rural areas (mapsofworld, 2010).

(S)ocial and cultural factors

The area that is now Bangladesh has a rich historical and cultural past, combining Dravidian, Indo-Aryan, Mongol/Mughul, Arab, Persian, Turkic, and west European cultures. About 98%, Residents of Bangladesh are ethnic Bengali and speak Bangla, thus called Bangladeshis (mapsofworld, 2010). Urdu-speaking, non-Bengali Muslims of Indian origin, and various tribal groups, mostly in the Chittagong Hill Tracts, comprise the remainder (mapsofworld, 2010). Most Bangladeshis (about 88. 3%) are Muslims, but Hindus constitute a sizable (10. 5%) minority (bbcnews, 2010). English is spoken in urban areas and among the educated. Bangladesh is one of the world's most densely populated countries, with its people crammed into a delta of rivers that empties into the Bay of Bengal. Poverty is deep and widespread; almost half of the population live on less than one dollar a day. However, Bangladesh has reduced population growth and improved health and education (state, 2010).

(T)echnological factors

The main broadcasters – Radio Bangladesh and Bangladesh Television (BTV) – are state-owned channels and are considered government-friendly. There is little coverage of the political opposition, except in the run-up to general elections when a caretaker government takes control. TV is the most-popular medium, especially in cities. Foreign, especially Indian, TV stations have large audiences in Dhaka and other cities. State-run radio covers almost the entire country. BBC World Service programmes in English and Bengali are broadcast on 100 MHz FM in Dhaka.

Newspapers are diverse, outspoken and privately-owned. English-language titles appeal mainly to an educated urban readership (bbcnews, 2010).

2.3 Adidas Entry to Russian Market

Adidas boasts a 25 year history of success in the Russian market (intercomp, 2010). Its products are currently sold through 700 outlets in Russia and the CIS, and it owns 70 signature stores in Moscow, St. Petersburg, Nizhny Novgorod, Rostov-on-Don, Novosibirsk, and other places in Russia and the CIS countries (intercomp, 2010). Adidas has also proven to be successful previously in Russia and other European economies. Russia has been a successfully emerging market within the last decade in comparison to Bangladesh. The gross domestic product and geographical comparison of both countries also identifies Russia to be more sound economically and larger than Bangladesh. Russia Retail Market will grow from RUB10. 87trn (US\$425. 0bn) in 2007 to RUB22. 58trn by 2013 (prlog, 2010).

The other factor which supports the move of Adidas towards Russia is the 100% literacy rate in Russia which makes it easier for Adidas within an educated workforce. Bangladesh on the other hand still is a developing country with deficiencies like poverty and uneducated workforce holding the progress of the country to some extent. Similar to Adidas many other international brands have been attracted to Russia such as Nike. The emergence of free market entry in 1993 in Russia significantly made them a potential target for international brands. Bangladesh has been a target of bitter rivalry between two women- Sheikh Hasina and Khaleda Zia – both former prime ministers. They both had been jailed for suspected corruption but were released to contest the vote (bbcnews, 2010). The rivalry between

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these two women has been ongoing for past two decades has been a major factor in the slow economic growth of Bangladesh. Both these economies possess potential to attract international brands but Bangladesh still lack behind Russia in order to be the choice of market for Adidas.

Higher GDP, more educated workforce, previous history of success, larger geographical area and political support are some factors which make Russia the choice of market for Adidas.

- ENTRY METHOD

Entering an international market is never simple or nor automatic for any international brand (Burnett, 1993). There are many different ways to gain entry for companies which are largely dependent on their internal strengths and competitiveness in comparison to the regional competitors. In practice, many firms use a customised approach to entering a market. They determine their competitive advantage over other firms at home or overseas and then plan their entry strategies accordingly (Blythe, 2003).

Jeannet and Hennessey (1992) cited by Blythe (2003), identified the primary market entry strategies which are more recently considered to be divided into three main groups: Exporting, Joint Venture and Direct Investment or Strategic Alliance. Exporting can be described as selling of a product in another country without making a commitment to the local production (Burnett, 1993). Exporting is further divided into direct and indirect exporting. Joint Ventures are joining of a foreign company with an outside partner to share the stock ownership of the new company. Strategic alliances

are the recent method of entry into a foreign market and involve more effort than a joint venture (Burnett, 1993).

The entry method of choice for Adidas to move into Russia should be either indirect exporting or by creating local manufacturing. Local manufacturing might be more useful as it will obtain create more jobs for local people and that will help in creating a good image for the company and the product. On the other hand indirect exporting has been proven to be successful in many European companies for example Japanese soap company Kao (Burnett, 1993).

- COMMUNICATION STRATEGY

A communication strategy of a company must be integrated across the whole range of marketing activity, should include a feedback system, reflect organisational objectives and finally competition (Blythe, 2003). Careful integration and co-ordination of many communications Channels to deliver a clear, consistent and compelling message about the organisation and its products is referred as Integrated Marketing Communications (Kotler, 2001).

Push and pull strategies can be described as marketing strategies with different objectives and operational methods. A pull strategy attracts customers to a brand through advertising and other communications, with the aim of persuading customers to seek the brands and products. On the other hand, push strategy involves incentivising retailers to carry and self stocks (Jackson and Shaw, 2009). Push strategy greatly depends on the personal selling ability of retailers and stockists.

Adidas needs to use the pull strategy in order to successfully move into the Russian market as previously, Adidas has been creating their brand name with heavy advertising on Russian TV channels. For most Russians, television, especially via the national networks, is the main source of domestic and international news (bbcnews, 2010). Adidas, the second largest brand in the market has always flirted with fashion more overtly than nearest rivals. Adidas retain the services of global advertising agencies and use of promotional tools such as costly TV campaigns and guerrilla marketing (Tungate, 2008). The other factors in Russian market discussed in the PEST analysis of Russia such as stable political structure, business culture dominant environment, growing economic conditions, high growth potential, positive demographic trends, innovative/business retail culture and niche opportunities within the retail structure provides strong basis for the use of Pull strategy by Adidas (Hines and Bruce, 2001).

4. 1 Market Segmentation, Targeting and Positioning

Market segmentation refers to the process of identifying a division of a wider market in order to target it effectively within the marketing mix. The selected market segment needs to be sufficiently homogenous to respond to a single integrated marketing mix (Jackson and Shaw, 2009). “ Although every customer is different, it is possible using segmentation, targeting and positioning techniques, to place them into understandable group and to then ensure that we deliver the right fashion products to them” (Thorne cited by Jackson and Shaw, 2009, pg51).

Market Segmentation takes place on many different basis such as demographic, purchasing behaviour, geographic and psycho-graphic

segments of the market. The demographic segmentation relates to topics like age, gender, race, religion, family size etc, purchasing behaviour relates to benefits, loyalty level, user occasion and readiness to purchase, geographic relates to country, town, city, climate, hemisphere, travel time and psycho-graphic relates to social class, lifestyles, spending behaviour and attitudes (Jackson and Shaw, 2009). Although these factors listed above are the most common and relevant, changes in the socio-culture can force marketers to re-evaluate these according to the situation.

The ultimate purpose of market segmentation is to select a target market or markets. The targeting of a market includes segments that company intends to serve and the process of determination of these segments is called target market determination (vignali et. al, 2008). Three marketing strategies can be undertaken by Adidas to identify their target market which are undifferentiated, differentiated and concentrated marketing.

Undifferentiated –can be described as the strategy where the company ignores some of the market segments in order to achieve benefits and thus creates and enters the market with a completely unique marketing mix. The advantage of this strategy lies in lower costs: as the identical product, promotion and price and sales efforts for the whole market ensures low costs (vignali et. al, 2008).

Concentrated –this approach is suitable for companies with insufficient resources for differentiated market and concentrates on one or several segments (vignali et. al, 2008).

Differentiated –this approach focuses on covering all the segments of the market with different marketing mix for each segment. This is appropriate for large international brand names in order to create and spread their brand to every consumer (vignali et. al, 2008).

Adidas will be successful in using differentiated strategy as they will be able to concentrate on each individual segment and create their brand name with the help of right promotional tools. This approach will also be useful as Adidas has been able to advertise heavily using TV adverts previously.

Positioning

Positioning is the development of a service and a marketing mix to occupy a specific place in the minds of customers within target markets (vignali notes). “ Positioning begins with the customer. But positioning is not so much what you say about your products or company as much as it is what your customers say about you.” – Regis McKenna, Relationship Marketing (vignali notes).

Positioning implies adjustment to all marketing activities to the consumer’s expectation in the given segments. The basis for product or brand positioning is market segmentation and Positioning creates competitive advantage.

Adidas needs to identify their target segments, and then needs to utilize the right marketing strategy in order to provide right market positioning for their product in Russia. Adidas chief executive Herbert Hainer has claimed Russia to be the biggest market in Europe for Adidas (retail news, 2008). Positioning can be achieved in six major possible ways which are specific product

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features, Benefits, problem solution, or needs, specific usage occasions, user category, against another “ product” and “ Product class” dissociation (vignali notes)

4. 2 Branding and Brand Equity

The purpose of a brand is to differentiate a product or service from competitor offerings, and to achieve effective positioning.’ (Bruce and Barnes, 2005 as cited in Littler, 2005)

“ A global brand is one that is available in most countries in the world and shares the same strategic principles, positioning and marketing in every market throughout the world, although the marketing mix can vary. It has a substantial market share in all countries and comparable brand loyalty. It carries the same brand logo.” De Mooij (2005).

Branding provides visual cue to convey messages to consumers, it directs customers buying behaviour, differentiates from competitors, acts as positioning, help develop and sell brand extensions and also provides brand equity to company.

Brand equity can be described as the total value of a brand including tangible and non tangible assets such as brand name, loyalty, perceived quality and associations (Jackson and Shaw, 2009).

- **BUSINESS RISK**

Adidas moving into Russia have many advantages; however it also possesses the potential for a few unwanted risk such as Political risk, Economic risk, Commercial risk, Taxes and legislation relating to company incorporation

(Vignali notes). The political risks comprising of foreign policies and the risk of new government policies into action, economic growth is on the rise but Russia did face a crisis in 2008 from which they only recently have recovered (bbcnews, 2010), risk to competitors locally and internationally create a high risk of failure and finally the taxation and other legislation can be quite expensive and have an effect on the marketing strategies of the company.

CONCLUSION/ RECOMMENDATIONS

Russia and CIS countries are set to become Adidas group's biggest market in Europe by 2010, says chief executive Herbert Hainar (retail news, 2008). "Russia is a very dynamic country and is known for world-class athletes as well as enthusiastic fans. By expanding our own retail network in Russia and the CIS countries, we are giving consumers access to a unique brand experience and to achieve their personal best." Martin Shankland, managing director of Adidas group in Russia and CIS (retail news, 2008).

The new BMI Russia Retail report predicts that the country's total retail sales will more than double in local currency terms by 2013, growing from RUB10.87trn (US\$425.0bn) in 2007 to RUB22.58trn by 2013 (prlog, 2010). Rising disposable incomes, an expanding middle class and rising levels of credit penetration are key factors behind retail market expansion. . Russia has around 14 cities with more than 1mn people, and consumers are increasingly looking to modern retail outlets for aspirational purchases. The country's large population – and in particular the affluent urban population of the capital – Moscow, is providing a solid base for the expansion of the retail market (prlog, 2010).

Being an emerging market Russia possesses the potential for being successful for international brands and also poses some threats or risks.

Adidas business entry strategy needs to be very cautious and similar to the strategies used before by them in Russian market. They also needs to have contingency plans in case of failure of the current strategies adopted by the company and also needs to carefully consider the promotional tools.