Adidas economics flashcard

1. Traditional organization forms of a company and kinds of risks involved in each of the different forms.

Organization of different companies is always different. It usually depends on the size of the firm and could be one of the following – U form (unitary form), M Form (multidivisional form), Flat organization, H-form (Holding company). The size of a company plays a major role because small organizations are usually managed centrally and the hierarchy is well thought out and clearly recognizable. On the other hand the larger companies tend to be a lot more complex internally and even if they have a well developed managerial staff the technological changes and other influences may be a reason for a change while searching for the most suitable organizational structure for them. Here is a more detailed explanation of the organizational forms mentioned above:

U form (unitary form) is the term used to describe smaller companies whose activities are grouped into different departments like Human Resources, Marketing, Sales etc. Each of these departments is able to provide specialist expertise to the company's operation. The managers of different departments have responsibilities to the chief executive who coordinates them and has to make sure they are on the right track and communicate well. If the number of products is big the divisions have to be more complex as well – into geographical areas for example.

Possible problems with communication and control may occur if the company starts to grow because one manager cannot manage too many employees.

M Form (multidivisional form) is a good way of maintaining good control in a company which is larger. This type of organizational structure is made up of divisions which are more autonomous and have their own resources and management hierarchy. It could also be said that such companies are made up of several smaller firms. These firms (the actual divisions) have their own operating procedures but are accountable to a board of directors. One of the major benefits in this situation is the greatly reduced information flow thanks to the fact that the small divisions are all responsible in their own right for different products, markets or services.

Possible problems include the desire of different divisions to be better and compete with the others which may harm the company as a whole.

Flat organization refers to a company in which most of the managers and supervisors at middle level have been removed and the general managers are in direct contact with the people doing the sales. It removes the problem with bureaucracy most of the multidivisional companies may come to suffer from. It is worth noting that with modern technology taking more and more part in everyday business life many companies have decided to move back to unitary or multidivisional structures. Things like e-mail, management information systems and the ongoing increase in the use of smart phones which allow modern technology to be even more mobile have made it easier for managers to communicate with their subordinates much more easily.

Possible problems involve the extensive use of technology and the major mistakes that can follow from relying mostly on technology.

H-form (Holding company) – is one of the more complex organizational structures a business can adopt. It is found in companies which with time have expanded their business on an international or global scale. A holding company is one that owns enough of the controlling interest in another company to control its board of directors and thus it’s management. The controlled company in it’s turn can be a holding company as well and thus a network of holdings can be created and maintained. It is good to keep in mind that even though one company may be a holding the smaller companies within it usually maintain their right to make strategic decisions.

Possible problems can be the differences that the parent could have opposed to the interests of the controlled companies (holdings).

2. Factors in the economic environment influencing the business of Adidas©

Economic factors are one of the major influences on a company’s success and the social, technological, environmental, ethical and legal factors could all interfere with the operations of companies in different industries in one way or the other. In the case of Adidas it is obvious that the different markets the company is positioning itself into are creating a relevant amount of economic factors that the company has to assess on a regular basis.

Political factors Athletic companies are a major distributor of clothing and accessories in every country and it is obvious that they are affected by laws and political tensions in different countries. Adidas is a major part of the oligopolistic market of athletic apparel in world scale together with other brands like Nike©, Puma© and Fila©. National and international tax policies, employment laws, trade restrictions and regulations have major effect on the company operation.

Microeconomic factors The sports industry is an oligopolistic market and the competition is highly competitive. Rivals to Adidas© like Nike©, Fila© and Footlocker© are all trying to keep up with the rising demand for sports products. Some of them have created niche products that have allowed them to dominate a certain zone of the sports apparel market like Nike© for example did by partnering with Apple Inc.© for their line of running shoes. The fact that Adidas is the major

Macroeconomic factors – The world recession has affected all companies worldwide but looking at the financial data made available by Adidas it is obvious that the company is recuperating. The sales have been in a steady rise since 2005 and have not been affected much by the unstable economic environment in world scale. It is easy to see that Adidas does not intend to give it’s place on the market.

Technological factors Nowadays there is a general demand for availability of products online and Adidas just like every other sports company on the market is keeping a strong presence through the use of modern technology. It is good to note that Adidas were the company to launch the first running shoe with integrated microprocessor in 2005. It was not a success but modern innovations constantly being developed in the creation of new products have also helped some of Adidas’ products stand out such as the LST (Light Stabilizing Technology) used in high end models of their eyewear range.

Environmental factors Adidas is following the continuous strive of companies and businesses to become more environmentally friendly. The sustainability consciousness of the firm has been officially recognized by the DJSI (Dow Jones Sustainability Index) which tracks and selects companies based on their commitment to environmental sustainability, financial performance and positive relationship with stakeholders. The fact that Adidas has been selected to join the index for the 11th consecutive time in 2010-2011 is a good indication of the company’s position about environmental issues.

Social factors Like most of the international brand companies, Adidas© are usually criticized about the degree to which they practice their company ethics and their commitment to the welfare of their employees. By having factories in Asia (China) the company creates new jobs and helps the economy of non European countries grow. The firm has stated that the employees are crucial to their business and as a proof in 2010-2011 Adidas© has also been included in DJSI sustainability index for their dedication to upholding and supporting human rights.

3. Adidas© and Porter’s 5 Forces model.

3. 1 Major factors from each force and how they influence the industry.

3. Sports apparel and goods are bought and distributed all around the world and while Adidas have successfully created a brand identity and are continuously employing modern technological factors it is obvious that the leader in the largest market in the world (USA) is still Nike. The market share of Adidas-Reebok in USA increased right away after they merged in 2005 but a constant assessment of the threats, bargaining power and rivalry intensity

on the market is crucial in order for the company to keep up with the demand and advancement of the modern market.

3. 1 Threat of new entrants With established names like Nike, Adidas, Reebok (owned by the Adidas group), Fila etc. in the sports industry the threat of new entrants is quite low. The big companies are already established and can effectively control their costs while also having brand identity.

Bargaining power of buyers The choice of products for casual customers in this industry is high which makes the bargaining power of buyers high. The successful use of Internet to constantly reach new customers and creating a positive brand identity are the road to success for Adidas©.

Bargaining power of suppliers Supplies needed by the sports companies can be found easily and the bargaining power of suppliers is low. Large number of the suppliers actually become dependent on big companies like Adidas and Nike that continuously use their services.

Threat of substitutes The specification of the goods that Adidas deals in makes it hard for buyers to substitute the product. Adidas is famous for having athletes that use the products of the company. They need the specific sports shoes provided to them and they do not have a lot of choice, which makes the threat of substitutes low.

Intensity of rivalry and industry competitors The global scale on which the sports companies are operating and the introduction of technological factors like the internet and electronic stores have ensured an easier way to reach customers. The rivalry among sports companies has grown together with the companies themselves and will continue to grow with the creation of new ways to attract customers.

Reference

http://en. wikipedia. org/wiki/Adidas