

Competition in the footwear industry



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The Footwear Industry is a mature industry; it consists of giant players like Nike, Reebok, & Puma on one hand and millions of small retailers in the unorganised sector on the other. This industry presents a myriad of interesting observations – there are highly specialised segments where performance is the driving force – like running shoes, basketball shoes, and soccer shoes. But to some, a highly ‘fashionized’ shoe is the priority.

Therefore the industry is in a creative phase where performance and fashion have now been merged to create a new hybrid, called lifestyle segment.

The competition in this industry is mostly non-price atleast for the established legendary players like Nike and Adidas. They compete for mind share of the customer and aspects like marketing campaigns, brand ambassadors, product proliferation and branding, spell success. Brand Stickiness is high once a customer has experienced a brand and has been satisfied, indicating that price stickiness is less which is also due to affluent lifestyles, prosperity and rising purchasing power of the customer today.

Nike and Adidas are the two mammoths of the industry today. Nike is the world leader with a close follower as Adidas & Reebok combined (post Reebok’s acquisition by Adidas in 2006).

The report attempts to study the internal & external environment in which Adidas operates and competes. To give the study a 360 degree perspective, various aspects of the industry like market trends, customer profile, competitive analysis and are covered.

I. Corporate Mission

‘ Mission Statements are an insight into a company’s intent, it tells various stakeholders the basic premise for the existence of an organisation – why does it do what it chooses to do, who does it deal with, what does it aspire to become – all these are essential elements of a company’s mission statement’, Rossiter, J. R., & Bellman, S. (2005). Marketing communications: Theory and applications.

The Mission Statement of Adidas is as follows:

“ Adidas-Salomon strives to be the global leader in the sporting goods industry with sports brands built on a passion for sports and a sporting lifestyle. We are consumer focused. That means we continuously improve the quality, look, feel and image of our products and our organizational structures to match and exceed consumer expectations and to provide them with the highest value. We are innovation and design leaders who seek to help athletes of all skill levels achieve peak performance with every product we bring to the market. We are a global organization that is socially and environmentally responsible, creative and financially rewarding for our employees and shareholders. We are committed to continuously strengthening our brands and products to improve our competitive position and financial performance.

In the medium term, we will extend our leading market position in Europe, expand our share of the US footwear market and be the fastest growing major sporting goods supplier in Asia and Latin America. The resulting top-

line growth, together with strict cost control and working capital improvements, will drive over-proportionate earnings growth. “

(Mission Statement sourced from [www. adidas. com](http://www.adidas.com))

Adidas is a German company by origin and it had acquired Salomon SA in 1998 as a part of its expansion strategy. It purchased Reebok in the year 2006 to re-strengthen its position and focus on its core businesses of athletic footwear and apparel. The company has been known for its continual zest for innovation, a trait mastered by its founder Adolph Dassler. A detailed analysis of the mission statement reveals the following – Post Salomon acquisition, Adidas was clear that it wanted to expand & establish itself in a gamut of sports and focus beyond athletic shoes and aptly be known as a sporting goods company. It always had lifestyle in mind while thinking of performance. Customer centricity was always high and a continuous improvement to provide more than the customers expected was essential to Adidas. The management realises that athletic performance is the ethos of the company and innovation is required to deliver high performance. Their mission statement also talks about the scale and the scope by mentioning that it is a truly global conglomerate. It realises its responsibility towards employees, shareholders and the society equally. It mentions that Europe, US, Asia and Latin America will be the focus; the company will strive to maintain its cost, increase its top line and deliver the best to all stakeholders.

Deliberating on the mission statement, it appears to be a well focused and an all encompassing one. After the acquisition of Reebok in 2006, Adidas has

reinforced its core strategy which had got diluted post Salomon take over as the product line got too diversified to gel with each other or to enable smooth management of the business overall.

If one were to write a revamped Mission statement for Adidas considering the current competencies, its focus and the industrial environment in mind, the following can be a suggestive and an all encompassing attempt –

Adidas Mission Statement

“ We will exploit technology judiciously in our entire product lines of footwear and apparel, both in performance and fitness segment, to extend benefits to all our stakeholders globally – either in the form of more comfort, better technique in sports, advancement in the materials used, competitive prices, more eco-friendly use of raw materials and maximum growth to enable them to get the best value proposition from us”.

II. Core Competencies

The Core competencies form the basis of edge over the competition. It signals what one company does superbly better than the other, by virtue of which it can reap excellent benefits. Adidas has the following core competencies –

Living the three core values

The vision got established in 1920 when Adolph Dassler started designing the first shoe ever. And ever since then to now, three things have not changed and that is the three genuine intentions of the company – manufacture each shoe as a masterpiece for the requirement of the sport, avoid the sportsman from injury and make the product long lasting and value

for money. Adidas has sworn by these three values and even over decades, these core values have never been disintegrated. Even when athletes talk of performance, they vouch for Adidas. Continuous innovation and mastering the art of perfection, Adidas believes in outdoing itself each time and this is clearly visible in the vast product range it offers. Be it athletics, tennis or soccer, Adidas is a name integral to success of sportsmen alike.

Strategic Expansions & organic integrations

Management at Adidas has made the right decisions at the right time.

Whether it be entering into a merger or divesting, such strategic activities have been well thought of and well timed. In 1999, Adidas wanted to expand beyond athletic shoes and apparel and that is when it bought Salomon which had huge established inroads into other sports such as skiing, skating and golf. It also had presence in bicycle production. Thus Adidas became a true sports equipment, shoe and apparel manufacturer but it retained the identity of different brands, a wise decision as it became easy to disintegrate with Salomon around 2005, when it could no longer handle the vast & mutually exclusive set of businesses. In 2006, Adidas's decision to acquire Reebok was equally strategic; it was a two pronged strategy as firstly Adidas & Reebok combined together could compete with Nike, the industry leader in a more vigorous manner. Secondly it gave Adidas a platform to create its presence in the lifestyle segment where it was earlier non-existent. Adidas was always known as a performance brand and Reebok as a lifestyle and a fitness brand; the coming together of the two is a lethal combination as it presents a complete proposition to all kinds of customer segments. The

decision for both the brands to maintain their brand identity is again a well informed decision as it avoids cannibalisation.

Technology & Innovation

The core competence of Adidas is its continuous zest to innovate. It lives and maintains its performance image very meticulously. At the same time, it has constantly believed in innovating, this was exemplified to the world, when in 2002, Adidas along with the Japanese designer Yohji Yamamoto launched an exclusive range of sneakers which were sold at a whopping \$590.

Branding & Internet

In the year 2000, Adidas launched its website with e-commerce applications functional. Adidas knows that the footwear and apparel industry is very mature; in order to stay abreast against fierce competition it is vital to invest in web marketing and branding. The site ensures ease of use, speed and easy navigation. It has both – brick and mortar own brand outlets and a vast network of retailers, distributors and online stores. The self branded stores enable a direct contact with customers and reading their pulse, building face-to-face relationships with them and personifying the brand with the POP merchandise at these outlets. Internet has enabled Adidas to reduce its cost and increase its reach drastically. E-commerce has provided Adidas far fetching benefits over the competition, the customer data retrieved through the net can be researched upon to understand the customer profiles and their buying behaviour. This enables the management to design highly customer centric communication, discounts and offerings. Though Nike has been a close player reaping all these advantages, other major companies like Converse, Puma, K-Swiss are no way near.

III. PESTL Analysis

PESTL analysis is an excellent technique to gauge the external environment in which a company operates. These factors are mostly if not always, uncontrollable and an organisation has to find its position within this cloud.

Political

Adidas enjoys presence in the entire Europe market, post its acquisition of Reebok in 2006 it has created inroads in the US as well. The company has expansion plans in Asia & Latin America. At most of these places, the political domain remains stable as they are largely democratic set ups. This implies that the government will not pose undue restrictions or introduce stern impractical decisions to be followed blindly by the organization.

Elections every four or five years, (in UK & most Asian countries respectively) also do not impact Adidas much as it does not really get impacted by the ruling party. There are other aspects like stable currency, minimum wages, hygienic working conditions in factories, stipulated working hours per week that are more critical factors for Adidas to adhere to. This is one reason as to why most of these big players are shifting their manufacturing base to Asian countries like India and China while retaining the R&D and designing at their home countries.

Economic

Economic conditions have a considerable impact on the sales & operations of Adidas. The inflation rate, the purchasing power of customers, consolidation and buy-outs hugely affect the revenues. World economy suffered one of the biggest recessions in the past two years; with the fall of Lehman Brothers

and the shaking of the entire financial sector, people lost jobs and unemployment touched a historical high figure. Purchasing power fell drastically as most of the people all over the world, especially in the US and Canada started living on their savings. The economic crisis in Asian countries also mean that labour and manufacturing costs would now rise impacting the net earnings for Adidas.

The stability of government and of currency, tax rates, inflation, import and export duties, special economic zones and subsidies; all these are critical economic factors that can impact Adidas and other players in the industry.

Social

This comprises of the culture, beliefs, demographics, psychographics, education levels and spending habits and lifestyle of the target audience. A factor that is too significant for any player to ignore especially when it enters into a new market; this is the most important factor that can break or make a brand.

Culture, social groups, race, religion impact how people live in a society and thus marketers have to pick up the cues sensibly as to how to operate in that environment. Adidas has used this knowledge wisely. Its famous slogan – ‘Impossible is nothing’ captures it beautifully as it gels with the youth today globally. The youth today is characteristic of breaking the rules, exploiting their potential and wanting to unfold the undiscovered. It is this spirit which associates the brand with this audience perfectly.

The education level and the pace at which the society moves are reflected in advertising today. Reebok’s advertising of its range Easy Tone is another

example to demonstrate this aspect. Today women are highly conscious of their figure; Reebok's advertising where it claims that Reebok shoes and slippers will enable the users to have a well toned figure could not have found acceptance a decade back.

With the arrival of internet, the way people shop is also changing. Now Adidas and other major companies have started selling through online stores and promote the same by giving heavy discounts.

Technological

Continuous innovation and the use of technology is a great imperative in the industry. The breakthrough use of technology signifies some definite improvement – more comfort, superior running performance, more support and cushion, better hold on the ground, reduction in manufacturing costs or in customer price!

The original perforated technology of Geox which claims that it enables its shoes to breathe and overcomes the problem of sweaty feet is a remarkable achievement for the brand'; it not only creates a niche for itself but enables the company to sell its range at a high premium.

Nike's 360 air max, Adidas 1 and Crocs colourful shoes for outdoors, are all examples of constant innovation in the industry.

Legal & Regulatory

Legal & Regulatory impact the advertising & branding significantly. Let us take an example of Nike when it was planning to enter the Spanish market – Nike could have faced the biggest challenge of establishing its mark in Spain

because of a trademark issue. This was a decade long litigation case where the Supreme Court found out that the Nike name was a registered trademark of a former distributor called Cidesport. Nike could only use its swoosh but not its name on any of the products. This could have been a great set back and would have demeaned the brand equity. However Nike got lucky when in 2009 Supreme Court reversed its ruling post Nike's appeals.

“ Adidas need to make sure all their promotions give a true representation of the products being advertised, as to not break the laws of the Trade Descriptions Act. It needs to make sure all of their retailers have sufficient knowledge of Adidas products in order to obey the Trade Descriptions Act, as if Adidas give the retailers sufficient information and they give customers incorrect information about the product, then it is the retailer breaking the Trade Descriptions Act rather than the manufacturer”, (www. adidas-salomon.com/en/news/archive/2000/2000-07.asp, August 2010)

IV. Market Analysis

Let us analyse the athletic footwear market through Porter's Five Forces model to gain a holistic view of the market -

Barriers to Entry – High to Moderate

Brand Loyalty is extremely high; economies of scale and scope also restrict entry for small players as the industry is dominated by few giant players who reap huge benefits from the volumes and the supply chain integration.

Economies of scale include advertising & marketing costs, R&D spent in addition to voluminous production and economies of scope would include benefits like umbrella branding, available to large conglomerates like Nike &

Puma. However, a new entrant will not find it difficult to find suppliers or raw materials largely of the fact that is a billion dollar industry which is still largely unorganized.

Bargaining Power of Buyers – Moderate to High

Switching cost is low for the buyers as options are endless except in the case where brand loyalty is extremely high. Buyers have easy access to the products through online shopping as well. Though the big players dominate the industry's rate but they cannot decide these prices ignoring customers. Billions are spent by these players on market research and studying consumer profiling and buying patterns which shows that buyers have high bargaining power in the market.

Bargaining Power of Suppliers – Extremely Low

The raw materials used in this industry are rubber, cotton and foam. The giants like Nike & Adidas lay out stringiest norms which a supplier has to comply with in order to mean quality. Switching between suppliers is also very high in the industry. The supplier power is extremely low, most often than not, these suppliers work at norms and prices governed by the big players of the industry.

Threats of Substitutes – Low

The substitution is quite low as it is not possible for sneakers to be replaced by fashion or high- heeled shoes. Similarly between tennis shoes and running shoes, there cannot be a replacement.

Rivalry among Existing Competitors – High

The rivalry amongst firms is extremely high and mostly being non-price.

Each firm lives and dies by the brand identity it creates. There is fierce competition between Nike & Adidas. Specialty shoes like Geox, Rockport and Ecco also compete in niche segments.

V. Customer Analysis

Adidas has a brand identity of being performance oriented, technically superior and with strong European roots. Therefore to study the customer type, Adidas looks at three broad types of customers –

Governed by Superior Performance: This is typically a customer who looks for premium performance. Be it an athlete, a tennis player, a soccer lover or a college going student who values technological advancement would choose Adidas over other brands.

Fitness & Health: This segment is best captured by Reebok as it promotes fitness and aerobic shoes. These days the campaign is running globally by Reebok for its Easy Tone shoes where the slogan is ‘take the gym with you’. Be it running shoes, aerobic shoes or shoes for casual wear, Reebok has captured huge market share. This range is particularly selling like hot cakes both in US and Asia amongst women as they are constantly worried about toning their thighs and hips. Adidas has wisely let Reebok focus in this segment so that there is no cannibalisation in sales.

Lifestyle Shoes & Apparel: Reebok and Adidas have had significant increase in the market share, competing very closely with Nike in the apparel industry. Easy Slippers, T-Shirts, jackets and jumpers enjoy brand loyalty by

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customers. Adidas does big promotions in this segment. The recent FIFA World Cup championship saw players wearing Adidas T-Shirts with the legendary three stripes logo.

Customers of these big brands generally have a very gullible temperament and that's the reason these big players engage in celebrity marketing in a big way. Celebrities are chosen with great caution and deals worth millions of dollars are done with these sports sport stars. The idea is to have a rub off effect on the brand and establish strong associations. For e. g. Nike and the coming together of Michael Jordan promoted the shoes in the basketball segment successfully. Even after when he retires, Nike's Air Jordan segment collected significant revenues for the brand. Adidas had tied up with David Beckham and was one of the official sponsors for World cup in 2006; later years saw the sale of Adidas mount like never before. Even till date Adidas leads the industry in soccer shoe sales.

VI. Competitive Analysis

The footwear and apparel industry is in a mature phase with fierce competition for market and mind share of the customers.

Nike is valued at around 14 billion dollars and is the market leader, followed closely by Adidas & Reebok combined at around 12 billion dollars (as per the 2006 statistics captured from their websites). Mostly the firms compete on brand image, web site designs, service, advertising & celebrity endorsements and innovation. Nike has had a slight edge over its competitors from the time it launched its products as it has considerably

invested in R&D and high tech designs. But Adidas has narrowed this gap drastically in recent years.

Brand image focus is very high in the industry. Example of this can be seen in the case of Nike. Nike chooses to sell its regular range through high end retailers only, it had refused to sell through Sears post the Sears – Kmart tie up as it feared brand dilution, it instead started retailing its low priced Starter range through this channel.

Technology focus and specialisation is high. Nike focuses on performance plus style, Adidas as seen as a high end performance shoe and it leads the market in the soccer industry. Reebok is deemed as a fitness and health conscious brand. New Balance talks only performance and is seen as a no-nonsense brand. Crocs has positioned itself as an outdoor wear brand is predominantly used for boating. Puma is seen as a stylised brand both for footwear and apparels, it has never really spoken of high end sports performance and this focus has helped the brand create its space in the lifestyle segment. Hence it is imperative that each player positions itself well and delights the customer in that segment rather than being all over the place.

Below is a diagram of the total market share of competing firms (post Reebok & Adidas integration)-

(Chart sourced from [www. hoover. com](http://www.hoover.com))

To conclude, one analyses that it would be prudent for close rivals to think of innovative ideas to increase the overall market for performance and lifestyle shoes than just competing on the market share with each other.

VII. SWOT Analysis

“ SWOT analysis refers to the technique of mapping the strengths, weaknesses, opportunities and threats for an organisation.” (P. Kotler, S. Adam, L. Brown and G. Armstrong 2001) While the first two are internal to a firm, the last two are more from an industry orientation overall.

Strengths

Adidas has an image of high performance and a favoured brand for buyers who seek technology over style

The acquisition of Reebok complements the brand as it allows a larger portfolio of high end performance based shoes (Adidas) and fitness & lifestyle range (Reebok)

Known for its constant innovation, Adidas and Reebok Easy Tone being the case in point

Association with sports championships enable the brand to be positioned as the leader for Soccer segment

The intellectual quotient of management is seen as very high, as Adidas has been known to take the right decisions at the time (evident from all the mergers & acquisitions which the brand has done)

Association with celebrities like David Beckham adds to the Brand value and high TOMA (Top of Mind Awareness)

User friendly and high brand appearance web site enabling high online presence

Vast product portfolio to choose from – Shoes for running, tennis, soccer, skiing, golf and related line of apparel, jumpers, watches etc.

Weaknesses

Adidas has a vast product portfolio but still has a high dependence on soccer shoes as compared to Nike which has several high revenue bearing products

Has become synonymous with market-follower tag and Nike being the market leader, to most customers it becomes a second choice only

The Adidas/Reebok acquisition results in cannibalisation of each other's sales rather than targeting competitors. This is because there is a lack of well defined differentiation between both the brands

Not seen as innovative as Nike and is alleged to copy Nike in its advertising, promotions and celebrity endorsements

Opportunity

Highly brand conscious youth wanting to own a pair of branded shoes only

Increasing love for Soccer where Adidas is perceived as the official brand leader

High value placed on fitness & sports for a healthy lifestyle, resulting in an increase in the overall industry

Advanced technology available

Use of internet, online marketing and e-commerce widening geographical markets and connecting the globe virtually

Threats

World Economy recession which has impacted the purchasing power of consumers drastically

Competition from online stores who have presence only through e-commerce and sell shoes at heavy discounts because of their low cost manufacturing strategy

Changing consumer preferences and lifestyles

Reducing popularity of sports because of frantic working lives

Increasing power of suppliers to set terms, e. g. Wal-Mart

New competitors entering the market

Price war between competitors

Cheap replicas available in the market

Conclusion

Adidas has come a long way over the decades and is now positioned second largest & most popular player in the athletic footwear industry. Each

company in the industry today is trying to reduce its manufacturing costs by shifting the production to Asian markets. Adidas & Reebok have strengthened their combined market, post the integration. This is a well suited strategy to compete with Nike and grow by expanding into the emerging markets – US & Asia. It would be wise if Adidas focuses on its core competencies and engage into aggressive marketing & branding. Critical areas for success are summarised as follows –

Three critical focus areas which Adidas should be focusing on currently are –

1. Strong & Highly differentiated Brand Positioning for Adidas & Reebok Brands: A serious attempt must be made to create a positioning for both the brands. What does Adidas stand for as compared to Reebok? The Company must strategise Adidas as a sports performance brand and create a niche for athletic, tennis, golf, soccer, both in sports & apparel. It should position Reebok as a fitness brand and let it handle aerobics, running, walking and casual shoes and apparel.
2. Focus on increasing the total market by innovative marketing: Adidas should creatively focus on increasing its total customer base, it should look at promoting soccer in clubs and schools and offer scholarships and start interacting with the children at an early age so that they become loyal customers for life. Reebok should tie up with gyms & could offer discounts on Reebok shoes and apparel. It can tie up with specialty clinics fighting obesity and over-weight, sponsor health check up camps and give aids for other related causes. This will help the brand in two ways – one is that it would help create an image of a socially responsible company and secondly

reinforce the strategy to capture the ever increasing health conscious customers of today.

3. High end use of technology: Undoubtedly R&D & technology will remain the catalyst of this industry. Adidas will only be able to survive if it continuously focuses on improving the quality & performance of its shoes. So when Nike says ‘ Just do it’, Adidas should scream aloud the spirit ‘ Impossible is nothing’.