

Analysis of Growth Strategies of Adidas Group



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Abstract

Adidas is considered to be a global leader in the field of sports footwear, apparel and accessories. A study (2004) reveals that Nike is the sole leader in sports goods industry capturing 38.14% of the market, followed by Adidas (33.9%), Reebok (21.19%) and others (6.78%). Though Adidas has the largest International portfolio of sport ambassador, sponsors football teams and has the highest brand image; however, it is lagging behind Nike. The study tends to highlight the impact of global sporting events on the strategies and their implementations on performance of the company. Hence, the objectives of the present study were : (1) To analyze the growth strategies undertaken by Adidas Group during five years (2007-2011); (2) To study the impact of Adidas-Reebok merger; (3) To study the effect of mega sports events held in Asia on the growth of Adidas Group. Annual reports of the Adidas Group available at the company's website served as the main source of secondary data. The findings reflect that Adidas Group has steadily grown in Asian as well as global markets over the five years of the period of study.

Introduction

Sport has always played an important role in every society since time immemorial. However, the format of playing sports has evolved over the years from small, individual and group events to mega events in the form of Asian Games, Commonwealth Games, World Cups and Olympics. The advancements in the field of sports raised the need for specialized sports gear and accessories, enabling the sportspersons to improve their performance and meet their goals and targets. This need of the sportspersons is being satisfied by the Sports Goods Industry. Now-a- days, the Sports Goods Industry not only provides the essential items for playing but has become a role model for fashion industry as well. It also creates general awareness about sports and helps organize sports events through sponsorships. With the evolution of sports goods industry, the number of global players has remarkably increased, such as Nike, Adidas,

Puma, Converse and Reebok, resulting in cut-throat competition.

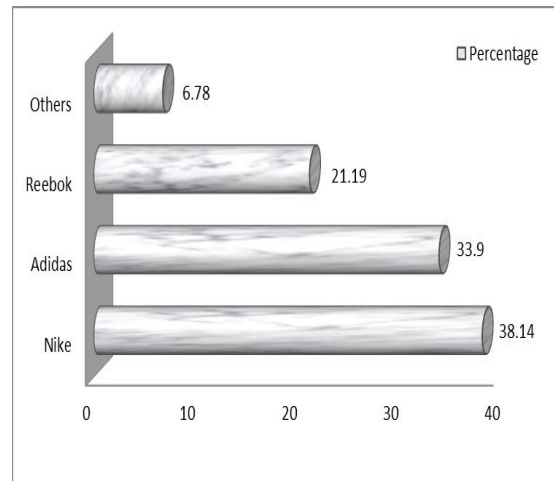
The Adidas company was registered in 1949 and was named after its founder 'Adi' from Adolf and 'Das' from Dassler; For over 80 years the Adidas Group has been part of the world of sports on every level, delivering state-of-the-art sports footwear, apparel and accessories. Today, the Adidas Group is a global leader in the sporting goods industry and offers a broad portfolio of products with the strategy of continuously strengthening its brands and products in order to improve their competitive position and financial performance. Though the company started its business so early, its survival became difficult with the entry of more and more companies eating into their market share and resulting in decreased margins. For sustainability and growth, it became essential to innovate, reduce cost and prices, and form systematic plans and strategies for growth.

Growth strategies lay down guidelines which companies can follow in deciding the nature, magnitude and speed of growth in its operations. The company can follow two prolonged approaches of strategies, either internal or external or may be a combination of both. Internal growth strategy, which deals with expansion, modernisation and diversification is gradual and involves little change in the existing corporate structure. External growth strategy may be done through integration, joint ventures and mergers, and is more aggressive involving huge financial resources and drastic changes in the organisational structure.

The Adidas group's growth strategy till the early 90's focussed on the internal growth. However, changes in the global economic environment and increased technological advancement in the late 90s resulted in adoption of external growth strategy option by the Group. Over the years, the company has adopted the strategy of merger and acquisition in order to grow and diversify. As a result, now the **Adidas Group** includes **Adidas** dealing in footwear, apparel, and accessories; **Reebok** dealing in footwear, apparel and accessories; **TaylorMade-Adidas Golf** dealing in golf equipment : metal-woods, irons putters, golf balls, footwear, apparel and accessories; **Rockport** dealing in dress, casual and outdoor footwear, apparel and accessories; and **CCM-Hockey** dealing in hockey equipment and apparel. Activities of the company and its around 170 subsidiaries are directed from the Group's headquarters in Herzogenaurach, Germany. It is also home to the Adidas brand. Reebok Headquarters are located in Canton, Massachusetts. TaylorMade-adidas Golf is based in California. The company also operates creation centres and development departments at other locations around the world, corresponding to the related business activity.

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38.14% of the market, followed by Adidas (33.9%), Reebok (21.19%) and others (6.78%). Though Adidas has the largest International portfolio of sport ambassador, sponsors football teams and has the highest brand image; however, it is lagging behind Nike.



Hence, the study was carried out with the following objectives:

1. To analyze the growth strategies undertaken by Adidas Group for five years (2007 to 2011).
2. To study the impact of Adidas-Reebok Merger.
3. To study the effect of mega sports events held in Asia on the growth of Adidas Group.

Methods

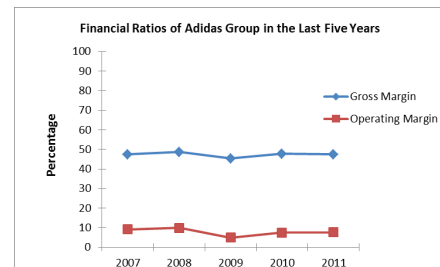
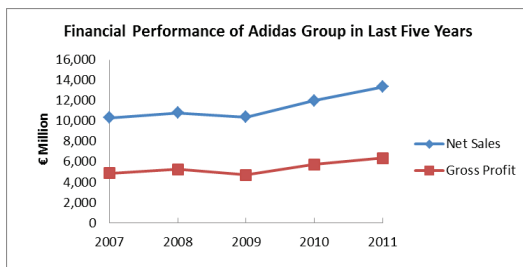
The research has been conducted by using secondary data mainly obtained from the Annual Reports of the Adidas Group for a period of five years (2007-2011). The variables included net sales, gross profit and two profitability ratios i.e. gross margin & operating margin. The performance of the company over the period of five years has been summarized in the form of SWOT analysis.

Analysis of Data

The data on selected variables has been presented in Table-1 and illustrated vide figures.

Table 1 : Financial Aspects of Adidas Group During 2007 to 2011

Variable	2007	2008	2009	2010	2011
Net Sales (€ Million)	10,299	10,799	10,381	11,990	13,344
Gross Profit (€ Million)	4,882	5,256	4,712	5,730	6,344
Financial Ratios					
Gross Margin (%)	47.4	48.7	45.4	47.8	47.5
Operating Margin (%)	9.2	9.9	4.9	7.5	7.6



Findings

The analysis of data in Table-1 illustrated vide demonstrated figures reveals that :

1. There is an increase in the net sales and gross profit over the period of five years under study, except 2009, which was the period of global recession.
2. The gross margin (% of gross profit to net sales) has not improved significantly despite increase in sales.
3. The operating margin has rather declined, reflecting that the operating expenses are increasing.
4. Review of annual reports reveals the following findings as per the objectives:

Growth strategies undertaken by Adidas Group during five years (2007-2011)

From being a manufacturing and sales based company to a marketing company during 90s, the Adidas Group has been actively focusing on diversification of sports goods segments and countries through mergers and acquisitions. As a part of this growth strategy, it acquired a number of companies like Rockport, Salomon, Stella McCartney and Reebok. Since 2010, the group has intensified its efforts to achieve the target of being number one by outperforming the total market growth, GDP as well as sporting

goods market and its competitors. In 2011, the group started Global Brand campaign "All Adidas", showcasing the presence of Adidas into different sports, cultures and lifestyles and creating a fusion of sports music and fashion world; expansion in all segments, brands and regions; and reduction in operating expenses as percentage of sales. The group has adopted five pillared innovative approach - faster, cooler, stronger, smarter, and natural - unveiling of new products and consumer experiences like never seen before. This strategy has been unveiled for mega events. In order to achieve its long term mission of becoming the global leader in sports-goods industry, the group, has also restructured in the form of "Route 2015" focusing on crossing all barriers to become number one.

Impact of Adidas-Reebok Merger

Following merger of Reebok Ltd. with Adidas group in 2006, the company has expanded despite increase in its operating expenses. Because of this strategy, the Adidas group has benefitted from brand identities along with wide range of products and markets. This is also reflected in increase in sales 2007 onwards, except in the year 2009, which was an exceptional year due to global recession. The combination of these two global brands resulted in anticipation of cost synergies by combining the

sourcing activities of both the groups. However, the operating margin has declined over the last five years. The reason for this may be attributed to increased operating expenses in the form of royalty payments to Reebok Ltd.

Effect of Mega Sports Events Held in Asia on the Growth of Adidas Group

Beijing Olympics (2008), FIFA World Cup (2010), CWG (2010), and Asian Games (2010) were among the major mega events during 2007-2011. The financial performance of Adidas group has improved during last five years and the sales improved during 2008 and 2010. Though mega events serve as publicity forums for companies to become sponsors, given a choice, sportspersons might prefer certain other brand fulfilling the specific requirement of a particular sport. Others may choose low cost products. Since the mega events are held on regular basis throughout the world, there is no significant increase or decrease in the sales/ profit. Hence, the company's increased financial growth post-mega events may be attributed to increased publicity and visibility.

Conclusion

The findings reflect that the Adidas Group has steadily grown in Asian as well as global markets over a period of last five years. The strategies adopted by Adidas have been successfully implemented in several areas. They always ensure that the needs of various consumer groups are fulfilled by going into partnership with high-end designers and technology. The performance of Adidas Group during the selected period of study (2007-2011) has been summarised in the form of SWOT Analysis which is presented below :

Strengths : Increase in sales; core competencies; opening of concept stores; and innovations based on its in-house R&D.

Weaknesses : No significant improvement in gross margin; high operating expenses; excess diversification; outsourcing resulting in quality variation; and obsolescence of fashion accessories in sports industry.

Opportunities : Cost control and cost reduction so as to improve the gross margin; sponsorship to individual athletes along with teams; sponsorships to regional sports events; mergers and acquisitions; and mass awareness regarding lifestyle and quality.

Threats : Competition from local brands; existence of duplicate products; lack of brand loyalty; price sensitive market; and foreign exchange fluctuations.

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