Cover Sheet

Adidas: will restricting its business lineup allow it to catch Nike?

Background Summary

Adidas and Nike are the dominant brands that remained at the forefront of sporting goods for decades. The brands have been engaged in a battle for attaining supremacy and wider market shares. The incessant battle between the two rivals is still existent in the modern era. The 100 Global Brand Report of 2017 reveals that Nike is ranked as number 18 while Adidas is at 55. Adidas is a German based company that was founded in 1924 that expanded its business with time. The company is producing over 900 million sports products. The sales generated in 2017 were 19.2 billion Euros. However, its competitor, Nike generated better revenues of $34.4 billion (Warner, 2018).

Problem identification

Nike has managed to obtain wider market shares that threaten the position of Adidas. The later has been struggling to catch up with Nike’s success. Nike is one of the biggest sports manufacturers of the United States that captures 60 percent of the market shares. Adidas has managed to grab only 4.4 percent of the shares in the US market. Outside America, Adidas is enjoying recognizable position, but in Europe the duo is neck-and-neck. Nike's dominance in the world's significant market gives it a sharp edge over Adidas. Adidas face challenges to bridge the gap in the sportswear and footwear. The global victory of Adidas is dependent on its performance in the US. Its rival has a runaway success in the last five years thus allowing it become the world's biggest sportswear company. The revenues of Nike increased by $30.6 billion in 2015. Profits of Nike raised at the rate of double digits, leaving little room for Adidas. The comparison of the two rivals depicts that Adidas needs to adopt a better business strategy that could add sales at a brisk rate and improve its shares in the American sports market (FT, 2018).

Internal factors and external factors

Industry analysis of Adidas depicts that the company has around 100 subsidiaries in the United States, Europe, and Asia. The Adidas Salomon Group sell produces under six brands including; Adidas, Bonfire, Erima, Mavic, Salomon, and TaylorMade. Sporting goods and equipment are sold under the categories of apparel, sporting goods, and athletic footwear. The industry analysis indicates that the company has suffered for the last five years. Fluctuations of the global economy have influenced sales. The sales declined more in 2017. The market shares of the company declined by 2.7 percent. However, the revenues of Nike improved more in 2018 as the company managed to grab more shares resulting in an increase of shares by 9 percent. The third-quarter sales of Adidas increased by 8 percent to 5.873 that were less than the forecasted sales (Adidas, 2017).

The comparative analysis of the two rivals indicates that Nike is enjoying a competitive advantage over Adidas, based on the last five years of comparison. The financial statement of Adidas depicts the company generated a net income of 1.1% in 2017 compared to Nike's 4.4%. This indicates that Nike has a sharp edge over Adidas. The revenues generated by Adidas are 21.1 billion Euro compared to $34.4 billion of Nike (Adidas, 2017).

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| **Adidas** | **2015** | **2016** | **2017** |
| Revenue  | 16.9 | 18.5 | 21.1 |
| Gross margin | 48.3 | 49 | 50 |
| Net income  | 0.6 | 1 | 1.1 |
| Dividend (Euro) | 1 | 1.6 | 2.6 |

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| --- | --- | --- | --- |
| **Nike**  | **2015** | **2016** | **2017** |
| Revenue  | 30.6 | 32.4 | 34.4 |
| Gross margin | 46 | 46.2 | 44.6 |
| Net income  | 3.3 | 3.8 | 4.2 |
| Dividend (Dollar) | 0.54 | 0.62 | 0.7 |

The SWOT analysis provides details of the company's strengths and weaknesses. Adidas aimed at addressing the social factors by offering products for all age groups. The production of diversified products is a prominent strength of the company. A varied range of products for all income groups is an effective strategy for gaining more customers. The company has a strong financial position and operates around 2400 stores across the world. The effective distribution system of the company has allowed it to sell products through different channels such as online selling. Online existence of the company is a prominent strength because it provides company access to different geographical locations. Aggressive marketing through different platforms such as celebrity endorsement, TV ads, and social media networks builds a strong relationship between Adidas and customers. Various collaborations such as association with the International Labor Organization and International Finance Corporations are aimed at business sustainability (Ranjan, 2016).

Adidas has some weaknesses that include high prices due to the integration of innovative technology and production methods. The company is not addressing the needs of lower-income groups. The company is relying on outsourcing methods because 93% of the products are outsourced to the third-party. This is a strategy for availing low labor costs and easy access to resources. The company faces the risks of over dependency specifically in Asian markets. Compared to Nike, Adidas is only offering a limited product line to the consumers (Mahdi, Abbas, & Mazar, 2015).

Adidas has future opportunities that will allow the company to expand its business and improve sales. The product development must focus on addressing customer’s needs and preferences. Due to changes in lifestyle patterns, an increase in education and incomes the demands for premium goods will increase in the future. Adidas can enter into new markets that offer better business opportunities having a high demand for sports goods. Developing a different range of products by emphasizing on product-line expansion will be an effective way of capturing wider buyers (Ranjan, 2016).

The company faces threats due to the strong position of its competitors. Nike is giving tough time to Adidas in American, European and Asian markets. Nike is the top brand in sports apparel and footwear. The highest shares in the American markets are also acquired by Nike. Supplies enjoy more bargaining power because most of the company’s products are outsources. Strict government regulations in China poses significant challenges for Adidas because it manufactures 35% of its products in the Chinese market (Mahdi, Abbas, & Mazar, 2015).

Analysis

The overall analysis indicates that Adidas is the second-best seller of the sportswear in the world. The company is facing fierce rivalry from its biggest competitor Nike. The rival is grabbing high revenues and market shares due to its effective business strategy. Nike has been involved in aggressive marketing and relies on emotional branding that increased its customers. Adidas needs to incorporate strategic changes and reconsider its business goals. The online existence of Nike is better than the Adidas. Adidas lacks a relationship management system for facilitating recorder on online selling. Its high dependence on external partners for logistics and manufacturing has provided better growth opportunities to Nike. Adidas is spending more money on logistics each year that exhibits the need for building an in-house system (Ranjan, 2016).

Alternative solutions

Adidas needs to conduct market research for understanding consumer needs and preferences in different regions. The company must transform or diversify the products for capturing more customers. The needs of customers in Asian markets may be different from the European or US market. Market segmentation is another tool for identifying future business opportunities. Considering Nike’s strategies such as selling emotional benefits of the product will persuade consumers. Adidas can utilize the same concept of emotional branding for influencing consumers. The strategy focuses on telling stories of popular people’s struggles and perseverance. The story involves a popular star, athlete or ordinary people. This encourages people to use their strengths for overcoming weaknesses (Warner, 2018).

The company can adopt a backward integration strategy for securing its patent rights in research and development projects. This strategy aims at forming mergers will suppliers the method will be useful for attaining efficiency in operations and managing costs. This is a practical method that is employed for helping the company bottom line. Relying on fast distribution systems controls costs. This will allow Adidas to gain access to the value chain and gain direct access to the materials when required. Backward integration will also permit Adidas to secure its patent rights and integrate into research and development. It is investing in technology such as smart sportswear is a future strategy for competing with Nike. The company will address the need of future generations by producing innovative products (Mahdi, Abbas, & Mazar, 2015).

Recommendations

* Adidas provides limited products to the customers that depict the scope for product line expansion. By creating more products such as for women, kids, males, older people and youth, the company will be addressing the individual needs of all people (Mahdi, Abbas, & Mazar, 2015).
* By investing in marketing the company can increase its sales. Nike is involved in aggressive marketing that creates more demand for its products. So, Adidas can revise its marketing strategy. Adidas endorse less famous stars compared to Nike so it can sponsor more popular athletes for building an emotional connection.
* Investing in online resources will allow the company to manage its selling activities more efficiently.
* Expanding business in Asian markets and UAE will create more sales.

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