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## A STUDY OF ANALYSING STRATEGIC CHANGERS AND ORGANISATION ENVIRONMENT IN ADIDAS INC ORGANISATION

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### ABSTRACT

*Adidas company background was analysed and studies thoroughly to understand Adidas' strategic changers and change management. The Adidas Company has evaluated by using method of SWOT and PEST for understanding company strengths, opportunities, weaknesses and threats, for providing critical explanation of their strategic management and its effectiveness of new strategic aims. This report was shown back ground of the company, the next part will be analysed internal and external environment of the company for understanding effectiveness of achieved their goals. Finally that will be found out the finding and providing management recommendation for improving their management systems and strategic changes in effective way.*

*Key words: Adidas, SWOT analysis, PEST analysis, strategy*

### BACKGROUND OF THE ORGANISATION

Adidas is a German multinational corporation that designs and manufactures sports shoes, clothing and accessories founded in 1949 by Adolf Dassler. The Adidas group consists of Reebok sportswear company, Taylor Made Golf Company, FC Bayern Munich and Runtastic that headquarter based in Olympiaring, Herzogenaurach, Germany (Seifert 2006; Piller et al., 2012).

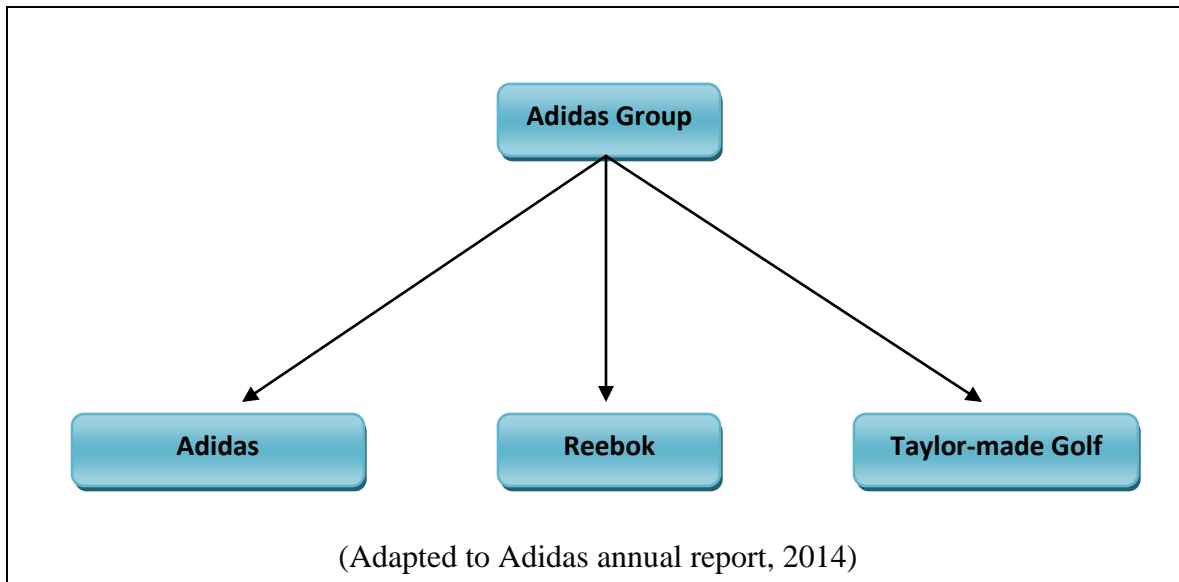
German national football team victory in 1954 world cup brought Adidas name on football pitches everywhere as they made the lightweight football boots for the national team. According to Forbes (2015) Adidas brand value is worth more than \$17.1 billion. Today Adidas has 1746 concept stores, 779 factory outlets and 316 concession corners and other around the world (Statista, 2015). The Adidas Group's net sales amount to about €14.53 billion in 2014 and have more than 53,731 employees from around the world (Adidas, 2014).

The mission of adidas Group strives to be the global leader in the sporting goods industry with brands built on a passion for sports and a sporting lifestyle (careers.addidas, 2016). The concept of the Adidas's mission statement;

states they are innovation and design leaders who produce a products for all skills level of athletes to achieve peak performance, organisation more consumer oriented therefore improve the quality, appearance, feel, image of the their products and organisation structure and values are match with the consumers' expectation, they are socially and environmentally responsible, motivate creativity and diversity, and financially rewording their employees and shareholders because they are global organisation (careers.addidas, 2016). Adidas follows core values such as performance (sport is foundation and executional excellence), passion (heart of our company, moving forwards, innovating and improving), integrity (honest, open, ethical and fair) and diversity (take different ideas, strengths, interests, cultural backgrounds and healthy debate and opinions) for to be the market leader in sport foot wear and apparels industry (careers.addidas, 2016).

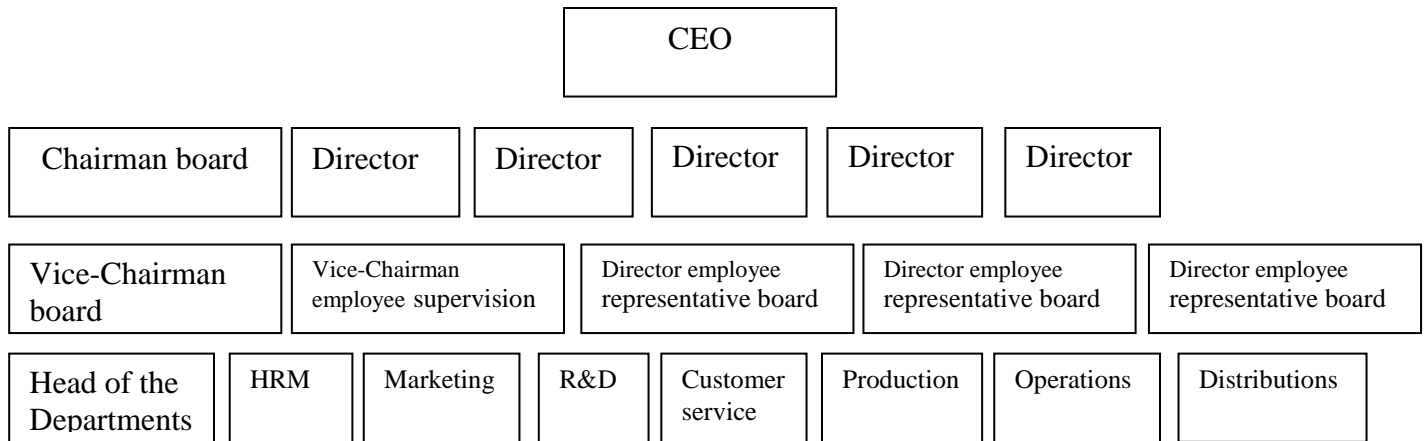
The Adidas organisation produces three different brands of products for the sport industry such as Adidas, Reebok and Taylor-made golf (Adidas annual report, 2014).

**Figure 1: company structure on brand basis**



The structure of Adidas organisation is well designed as well as there are different functional departments such as production, marketing, R&D, customer service, operations, distribution and human resource with clearly defined job at all levels.

**Figure 2: Adidas organisation structure**



(Adapted to Adidas annual report, 2014)

Adidas has proper arrange and clearly define tall organisation structure for function their task, thus, Adidas organisation structure reflects their authority comes from top to bottom which mean every key decision take from top level and transfer them to down (Slack & Parent, 2006). Consequently, the next part is dedicated to discuss Adidas’s strategic plan which they are implemented in last decade that analysis will be used SOWT and PEST method for critically evaluating organisation’s efficiency and effectiveness.

**STRATEGIC PLANNING WITHIN ADIDAS**

**Strengths**

The Adidas has strong strengths for develop their business in the world sport’s apparel and footwear industry. Therefore they are using different strategies to face different circumstance in global business. Adidas group is the second lagers sport brand in sport goods industry capturing 33.9% of market shear. This has been divided as 15.5% for Adidas, 9.6 for reebok and 6.9% for Taylor-made Golf (Sharma et al. 2014). The brand name is a product’s most valuable asset of increasing their sales which effects overall product quality, product innovation, development, and service level and brand image (Sharma et al., 2014). The Forbes (2015) has indicated that Adidas brand value worth more than \$17.1 billion. The Adidas has good product differentiation in sport goods market, their three company divisions target different customer; the sport performance division produce product

for sportive and athletes, sport heritage target on fashionable sport foot wear segment in street and sport style is linked to the future of sport wear. These three different segments show the proactive strategic approach in Adidas (sharma et al., 2014; Adidas annual report, 2014; Mahdi et al., 2015; Seifert, 2006). Supporting to their product differentiation concepts, Adidas creates rich organisation culture that is automatically influence employees for the innovation as well as Adidas business model is highly oriented on creating innovative products designed to meet customer needs and wants (Mahdi et al., 2015). To be a sustainable organisation Adidas strongly concern about right balance between their shareholders and the needs and concerns of their employees including their supplier's factories and also environment (Adidas annual report, 2014; Mahdi et al., 2015). Adidas is critically evaluated consumers' buying behaviour and focus their investment in the best market and distributing channel in different countries along with best supply chain management which is closely communicated and hence its helps to customize their product as wide range of customers (Mahdi et al., 2015). Thus Adidas has customisation option for the customer which is provide a service for customer to select their product according to size, colour and performance criteria of themselves. After three week customer can collect their customisation product in their nearest Adidas retails shop (Sharma et al., 2014). Adidas is secured its leading position in the worldwide sport industry by keeping their financial stability. Adidas is increased their turnover 3.4% in 2004. Furthermore Adidas is second largest global supplier of sports goods with a sales volume of around 12 billion euros across all brands. The core brand Adidas has net sales of 8.7 billion euros in 2010 (Piller et al., 2012). As a cost cutting strategy Adidas is outsourcing their production to the low wagers countries such as Indonesia, Thailand and China (Mahdi et al., 2015; Moser at al., 2007).

## Opportunities

These strengths of Adidas have stable and protect their position in the global sport foot wear and apparel industry. However there are several opportunities in sport industry that can be help Adidas to increase their sells and position in sport market.

Customer demand has been increased in international athletic shoe industry after 2004. As a result of that US industry revenues rose 4% and increasing price and large sales volume. Furthermore Latin American and Asian market is positively developed that advantage open for major sport shoe brands. As well as jogging is develop as a common sport in society. These market segment sales have increased more than 50% since 2000 that new trend is positive sing for Adidas to increase their sales. Thus, all major brands face the challenge rapidly growing product variety and assortment complexity. Customers in sport industry can be divided into professional athletes,

recreational sportsmen, fashion oriented consumers, convenience oriented consumer, and bargain hunters. That product variation is good opportunity for Adidas to match within their product differentiation (Sharma et al., 2014; Piller et al., 2012). The demands of premium brand is increasing in the developing economies, major sport brand only consider the Indian market due to their growth rate of 33% in premium product. That has shown the future business opportunity in other developing economies. Thus, the backward integration strategy will be smart strategy, that will be followed by Adidas as its helps to secure their patent right as well as integrate their R&D with the operation team in order to work in open system (Marketing91, 2016). The work of sharma et al (2014) asserts that cost control and reduction so as improve the gross margin of Adidas, sponsorship to individual along with the team, regional sports events and merge and acquisition could be increase mass awareness regarding lifestyle and quality. On this basis it may be inferred that miadidas strategic program can be increased sales because it is the only full customisation business in the athletic industry as well as it has possibility to build strong customer relationships, thus Adidas has opportunity on turn to mass customisation fat form through major product planning and variety of management tool in put throughout the entire division (Piller et al., 2015). These opportunities could be expanded the Adidas' business in sport industry.

### **Weaknesses**

However Adidas should be minimised their weakness to get advantage from that opportunity. The researcher and academic in the field have highlighted several weakness of the Adidas group of company. A study by sharma et al (2014) shows that Adidas has no significant improvement in gross margin due to high operation cost, excess diversification and quality variation. The quality variation is happened due to outsource of production, Adidas outsourcing 97% of its global production to 3rd party manufactures base on Asia, with 35% of this going to China that is lead to low quality and lack of labour law practice in their outsource company even child labour offence which are major criticism about Adidas in global market that is directly affected to their brand image (Sharma et al., 2014; marketing91, 2016; wordpress, 2016). Furthermore Adidas has no configuration system available for online sale as well as no relationship management system implemented to facilitate reorder. Adidas is highly depend on external partners in manufacturing and logistics, consequently they have to spend more money for logistic. On the other hand Adidas has unsolved conflict from integrating customisation system in the inline system (Piller et al., 2015). In addition Adidas product are expensive relatively other sport brand excluding Nike therefore most of people cannot affordable Adidas products.



## Threats

As company Adidas has to face threats in global sport industry. Nike is the major competitor of the Adidas, over the period of several years Nike has shifted its focus to football with the aim of acquires the international recognition which is considerable challenge for the Adidas because Adidas was dominated the football market (Mahdi et al., 2015). As well as Nike is the market leader in America and Asia and has the same product as well as same price range. However ultimate risk is the fake Adidas products manufacturing in Asia which are much low quality and sell cheaper than Adidas. The low income customer would buy that fake articles (Borowski, 2011; Sharma et al., 2014; Piller et al., 2015). Adidas is losing to differentiate their products appeal as competitor create similar offers as well as potential risk with foreign currency exchange fluctuation ( Piller et al., 2015; Sharma et al., 2014).

## PEST ANALYSIS

### Political

On the other hand Adidas has to be operated within the PEST environment atmosphere which is directly impact for the organisation performance. The political stability is very important for the any country as same as the business organisation. Adidas is a global organisation therefore it is bond by different governmental rules and regulations which are affected by many way in to company such as work Schedules, labour law, tax regulation, price exchange control and so on. Adidas is mainly located in Germany which is politically Stable County that is strongly affected for constant operation of Adidas (Borowski, 2011). In particular, Adidas has great risk of sudden changers of germen government policies such as increase import resistance, minimum wage policy, import tariff and duties that would discomfit the free flow of goods. Adidas is providing especial training session for their employees to improve health and safety and HR system which is importance for the quality assurance standards (Slideshare, 2016). Furthermore Adidas is supporting and protecting their employees by following all the current labour laws (Hayouma, 2010).

### Economic

As global company Adidas is providing good support for German economy, Adidas is supporting to reduce unemployment rate by increasing year the number of employees. As well as industrial production growth has been increased in Germany during 2001 to 2004 from 1% to 1.7. Adidas was a reason of this growth as of the

huge sponsorship in 2004 Olympic Games (Hayouma, 2010). Furthermore Germany is one of high labour salary payment country in the Europe therefore Adidas locates their factories in Asia (Slideshare, 2016). Moreover Germany is the world second largest trader as well as they had a capacity to keep their GDP growth 4.7% during the world's economic crisis which has positively affected to the German companies' to keep their breakeven (Economywatch, 2016; Borowski, 2011).

### **Social**

Adidas is doing their business all around the world therefore they have professional employees with multi-cultural background; the organisation has to consider all aspects of society such as religious, ethnical issues and various cultures. To implement successful marketing strategy Adidas has to take account to all these social differences on each and every country which they are operated (Borowski, 2011). In addition Adidas should understand the social trend that helps to increase their sales, as an example Adidas has an opportunity to expand their revenues within UK football season (Fashiongear.fabre2fashion, 2016). According to the Adidas Annual report (2014) as a consumer base company Adidas have declared their product in any raise, age, religious and lifestyle and always focus their fashion with special design to people who like sports and athletics.

### **Technological**

World business has been changed after new millennium which is growing with the new technology than before, the world business has moved to the online trades, as following new technology Adidas has introduce online shopping for their customers which was implemented become more efficient and attract more customers as well as make purchasing much more easily accessible for their consumers (Mahdi et al., 2015). In addition Adidas has been opened a new kind of performance store with different features and sales experience in Paris, 2006 which is built by using new technology such as configurators, laser and infra-red technology, command generated by gesture translation, a virtual mirror, a digital 3-D universe and radio frequency identification (Kamenev, 2006). On the other hand Germany is one of the high investment countries in the area of research and development in Europe. Especially in sporting goods market as well as they spent 67 billion Euros in 2009 for R&D and also reduce tax for the Research and development projects (Borowski, 2011; Statisches, 2011). Whereas encourage the new innovation in the country that is good advantage for the Adidas to improve their products through new technology.

## FINDINGS

The Adidas is second largest sport foot wear and apparel company in the world which is providing different sporting goods and cloths for customers according their preferences ( Adidas annual report, 2014; Mahdi et al., 2015; Seifert, 2006) . They use modern technology for manufacturing their goods and sell their product throughout the world (Adidas annual report, 2014; Mahdi et al., 2015). Therefore Adidas implement sustainable management strategies and good customer care system for take care of their customers and employees, achieving their goals and objectives, Adidas is thinking cultural differences and practising multi-cultural human resource management (Borowski, 2011).

Adidas is operating in the Germany which is a politically stable and economically stable country as well as German government encourages their entrepreneurs for innovation that could be grated advantage for archive their main goals (Hayouma, 2010; economywatch, 2016). In addition Adidas has more opportunities to enhance and expand their business in terms of jogging, athletic sectors and growing economic countries (Sharma et al., 2014; Piller et al., 2012; Moser et al., 2007). These advantage and opportunities are towards Adidas on their ultimate goal of “to be the globe leader in the sporting industry”.

However Adidas should have to manage their weaknesses and external threat for archive their company goals. As company Adidas has face several difficulties doing their business in globe market such as higher operation cost, quality variances, highly depend on external partners, fake manufacturing and foreign currency exchange fluctuation. A part from that Nike is the main competitor of Adidas therefore there have great risk to achieved their ultimate goal (Mahdi et al., 2015).

## CONCLUSION

The finding reflect that Adidas has significant advantage and strengths for sustainable their business. The strategies adapted by Adidas have been successful implemented in several areas. In particularly, Adidas has respond successfully different customer need by using three different division in company as well as preforming stable in athletic industry by implementing miadidas strategic programme (Piller et al., 2015). The above outlined advantage and opportunities have provided significant help to Adidas group to achieve their aims, goals and mission. However there are several weaknesses and threat should be avoided by using strategic ways and should be implemented strategies for survive in competitive environment.

## MANAGEMENT RECOMMENDATIONS

Adidas has major problem with their high operation cost therefore they should have implement strategic for reduce operation cost such as maintain good supplier portfolios, merge similar departments, respond faster to opportunities and disruption, improving production plan and inventory management and use new management system for improving resource utilisation. In addition Adidas has to expand upon its customer interaction process by introducing another online shopping configuration system rather than miadidas shop units. In particularly, Adidas should attend the product integration development, customer intergradation and sales activities manufacturing and customer relationship management (Moser et al., 2007).

Furthermore Adidas has quality variation problem due to out-sourcing their manufacture production therefore company should implement quality assurance practice and procedures throughout the entire business for increase sales. Thus, Should implement new energy serving plans to reduce the phone, Internet, power, wages, and general office expenses to reduce operating cost. The problem of increasing operating cost which is the main reason of the decline of the net profit in Adidas Company. The earning per share declined to € 2.43 in 2014 due to this reason. Therefore, from next financial year, the company should establish cost cutting goals, maximise employee's task efficiency as well as re-evaluate suppliers and try to find comparable quality but less charge.

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## Appendix one: SWOT Analysis of Adidas Group

### Strengths

- Adidas is the second largest foot wear company in the sport industries; it has 33.9% market shear (Sharma et al., 2014).
- Adidas has more than 17.1billion worth brand value (The Forbes, 2015).
- Adidas has good product differentiation according to the customer needs, addressing these different needs using by three different divisions (sharma et al., 2014; Adidas annual report, 2014; Mahdi et al., 2015; Seifert, 2006).
- Organisation culture influence and encourage employees for new innovation as well as business model of company is oriented to innovative product design regarding customer needs and wants (Mahdi et al., 2015).

- Implementing environmental friendly policies and make right balance between shareholders and employees needs and concern to be a sustainable company (Adidas annual report, 2014; Mahdi et al., 2015).
- Introduce a customization option for customer which has provided opportunity for customer manufacture Adidas product according to their preference (Sharma et al., 2014).
- Adidas has a good sales volume across all brands (Piller et al., 2012).
- Use out- source for manufacture as a cost cutting strategy to low wages countries (Mahdi et al., 2015; Moser et al., 2007).

### Opportunities

- Significant improvement of customer demand in sport footwear and apparel industries after 2004 (Sharma et al., 2014; Piller et al., 2012)
- Jogging is developed as a common sport in society that has increase more than 50% since 2000 (Sharma et al., 2014; Piller et al., 2012).
- Customer buying habits is tolerated more waiting time because custom made clothing becoming a trend (Moser et al., 2007).
- There are more opportunities in growing economy for sport premium product (Marketing91, 2016).
- Adidas has significant opportunity to make good customer relationship and turn to mass customisation business through their miadidas strategic programme because it is the only one customisation business in athletic industry (Piller et al., 2015).

### Weaknesses

- There is no significant improvement in gross margin due to high operation cost (sharma et al., 2014).
- Adidas has quality variation due to out-sourcing their products' manufacturing (Sharma et al., 2014; marketing91, 2016; wordpress, 2016).
- Adidas have a blame regarding low labour law practise in their outsource factories (Sharma et al., 2014; marketing91, 2016; wordpress, 2016).
- There is no proper configuration system available in online sale as well as no relationship management system implemented to facilitated reorder (Piller et al., 2015).
- Adidas highly depend on external partners in manufacturing and logistic (Piller et al., 2015).

- Price of products are expensive relatively other sport brands therefore most people cannot affordable Adidas products (freeman, 1999).

### Threats

- Nike has moved to world football market for gaining more international exposure that was great risk for Adidas because they was dominated football market (Mahdi et al., 2015).
- There is great risk of fake manufacturing of Adidas brand in Asia that would buy low income customers; it is directly affected sales and reputation of the company (Borowski, 2011; Sharma et al., 2014; Piller et al., 2015).
- There is potential risk with foreign currency exchange fluctuation (Piller et al., 2015; Sharma et al., 2014).
- Lack of brand loyalty and price sensitive market (Sharma et al., 2014)

### Appendix Two: PEST Analysis of Adidas Group

#### Political

- Adidas is based in Garman which is politically stable country (Borowski, 2011).
- Company has to comply with government rules and regulations (Slideshare, 2016).
- Adidas has to practice and protect current labour laws and world labour agreement within the company (Hayouma, 2010).

#### Economic

- Providing significant support for the German economy in terms of reduce unemployment rate, improve production growth and support to Gross domestic product (Hayouma, 2010).
- Germany is world second lagers trader that is positively effect for companies to grow up their business around the world (Economywatch, 2016; Borowski, 2011).
- Germany is one of highest minimum wage country in Europe which is directly influence to Adidas organisation (Slideshare, 2016).

#### Social

- Adidas is an international organisation; they have multi-national professional staff therefore they have to consider all aspect of society (Borowski, 2011).



- Company has to understand social trends norms and believes (Fashiongear.fabre2fashion, 2016).
- Organisation has to consider all aspect of social backgrounds because of it is a customer base company (Adidas Annual report, 2014).

### **Technological**

- Adidas was introduced online marketing and make easy for customer (Mahdi et al., 2015).
- Built a new outlet with latest technology (Kamenev, 2006).
- Government encourages the organisation for research and development (Borowski, 2011; Statisches, 2011).

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