How the adidas Group's Corporate Strategy Has Resulted In Growth and Increased Profitability Within the Sportswear Industry

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How the adidas Group's Corporate Strategy Has Resulted In Growth and Increased Profitability Within the Sportswear Industry

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How the adidas Group’s Corporate Strategy Has Resulted In Growth and Increased Profitability Within the Sportswear Industry

A Senior Comprehensive Project

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4/7/17

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Abstract: The adidas Group has been one of the few worldwide leaders in the sports and leisurewear industry since its inception in 1949. Only recently has the firm been able to completely change its brand image and has seen an increase in consumer desirability. The goal of this paper is to determine how its corporate strategy has led to a source of differentiating competitive advantage. My research suggests that adidas has seen firm growth, increased net income, revenue, and sales through their differentiating and unique competitive advantage, operational effectiveness, and strategies it has implemented. My research also suggests that the partnership with Kanye West and Pharrell Williams is an inimitable ability and can be considered a sustainable source of competitive advantage.
Introduction

This composition discusses how and why Adidas has gained differentiating competitive advantage in the sportswear industry through their collaborations as well as technology and best practices being sources of operational effectiveness. The key questions and goals to be answered are: what is differentiating competitive advantage, what are the criteria for it, what strategies adidas has utilized to gain this advantage, the products and services that adidas has created through their advanced technology and best practices, and whether their competitive advantage and operational effectiveness correlates with profitability. In order to answer these questions, the methodological approach will be through a case study. The salience behind this topic relates to the difficulty in becoming a market leader in an industry. It is necessary to never be complacent and to realize that consumers’ wants and needs are always changing and if one doesn’t fulfill consumer demands, then another firm will. The literature review was conducted through the research of scholarly books and articles on competitive advantage, brand image, corporate strategy, and factors that lead to competitive advantage. Over the past decades, there have been fluctuations in the firm that has the current competitive advantage in the sportswear industry. There are 16 articles and one book that are very relevant in explaining why adidas is in its current market position and how the brand is on track to one day becoming the world leader as a sportswear brand. The articles explain the theory behind competitive advantage.
Chapter 2: Literature Review

The articles reviewed relate to the different methods of achieving competitive advantage. It is evident that there are several ways of doing so and when a company thinks they have gained it, there are always competitors attempting to mimic it. Throughout all of the articles, the overarching themes seemed to be that it is almost impossible to quantify competitive advantage into an actual number without there being some bias or unaccounted for variable, and that being a socially responsible company will almost always lead to a differentiating competitive advantage. With any article, there are always flaws. The literature review discusses the important aspects and take-aways and offers perspectives as to where they can have improvement.

For a company to be at a competitive advantage, it can either be temporary competitive advantage and last for a short period of time or long lasting and be a sustainable competitive advantage. One article discusses the differences between the two and the implications it takes to attain them. The authors argue that it is very difficult to achieve sustained competitive advantage. A company with a strong market position is not enough to be sustainable because there is always the chance that a destructive environment could occur. For instance, when a new technology emerges, the market leaders would have to invest more money into research and development (R & D) to attempt to imitate. Firms that possess rare, inimitable resources or capabilities can achieve sustainable competitive advantage (Huang, et al; 2015, p. 618). However, this is under the assumption that firms are heterogeneous and factors are imperfectly mobile among firms.

Another common theme in the literature is the constant reference to Michael Porter's work. In this article, the author mentions Porter's five forces as important for gaining market position, which include supplier and buyer power, threats from potential
entrants, substitute products and internal rivalry. All these forces can contribute to a firm finding itself in the optimal position to gain competitive advantage.

The methodological approach used in this study was a regression that included 165 random firms. According to the results, all three of Huang’s hypotheses were suggested to be correct. The only weakness within this article is the lack of description in the background of firms that they used in the study. Was it in one particular industry or was it a wide array of different markets? It would also help the author’s argument become more tangible in describing the differences between temporary and sustained competitive advantage, if there was a “real world” example that was offered.

There are multiple variations of ways that a firm can go about achieving competitive advantage. Another article discusses the different paths that a firm could achieve competitive advantage, which are by differentiation and cost leadership. In order to test the authors’ many hypotheses, all of which relate to how competitive advantage influences firm performance, the authors’ gathered extensive data on Slovenian firms. What was very admirable and showed the substantial amount of effort put into the study were the many independent variables that related to both financial and non-financial performance. Aside from the many strong points of the article, there were some problems that should be addressed.

The article discusses how the manager of each Slovenian company was asked to rate their current competitive advantage on a scale of -5 to +5 (Cater and Pucko, 2005, p. 124). Letting the managers decide their own competitive advantage can often lead to biases and their decisions may not be the most accurate. The other shortcoming with this article is the weak hypotheses that were offered. It seems obvious that “Firms with competitive advantage are more successful than firms that have no competitive advantage” (Cater and Pucko, 2005, p. 122). With the amount of data collected in this study, the authors’ could have had a much more detailed hypothesis.
The next article focuses primarily on how a firm’s management could influence competitive advantage. The article argues that there are certain quality management practices that can generate competitive advantage. The two hypotheses in the article are that top management leadership has a significant positive effect on competitive advantage and that customer focus has a significant positive effect on competitive advantage (Elshaer and Augustyn, 2016, p. 1289). The article’s empirical method is based on data from Egyptian hotels. Their rationale behind this was because there is a high level of competition and a heavy emphasis on quality management within this industry (Elshaer and Augustyn, 2016, p. 1291).

It was evident that their results only supported the third argument that only some quality management practices are sources of competitive advantage. The regression showed that process management and quality data have a small insignificant negative effect on competitive advantage. Is it possible that the example of “hotels in Egypt” was a bad example, and that a different industry would have yielded different results?

The next article included concerns a firm’s ability to convert consumer data into a competitive advantage. Some of the difficulties in converting the data that the article mentioned are inadequate communication between data people and decision people, data overdose and distraction, analytics evolution, and an enormous amount of data (Vreins & Brazell, 2013, p. 32). As the article explains, interactive predictive tools have been used for a broad range of marketing decisions. A specific example they give is the continuous market feedback tool, which allows a firm to see how their pricing and product decisions affect profits. They are able to use survey data to simulate the effect of what alternative scenarios might have on the company. This article is effective in giving examples of interactive predictive tools and companies that utilize them, but the article fails to give supporting evidence as to whether it is actually true if these predictive tools actually lead to competitive advantage. It would make sense to include a regression that
considered firms that use the interactive tools and firms that do not to determine if it does actually affect profit and can lead to competitive advantage.

With regard to the idea of differentiation to gain competitive advantage, the concept of servitization is a viable means of attaining competitive advantage. As the article describes it, “servitization is a business-model change and organizational transformation from selling goods to selling an integrated combination of goods and services.” (Bustinza, Bigdeli, and Baines, 2015, p. 53). Through this, companies are able to differentiate themselves by offering services and a competitive advantage is the outcome of this shift.

The empirical side of the case was the use of a predictive regression analysis on four different organizational structures related to service implementation, and seeing if they have relation to the two elements of competitive advantage, which are differentiation and customer satisfaction (Bustinza, Bigdeli, and Baines, 2015, p. 57). According to their findings, customer satisfaction can be a source of competitive advantage if services are developed directly through business functions. When differentiation is the key mechanism, a specialist service or external partner should develop advanced services. Although the article is admirable, the one flaw that the authors should address is if servitization could be considered sustainable or temporary competitive advantage.

When undertaking research on competitive advantage, the concept of unshrouding is another means in which a company can distinguish themselves from competitors. Unshrouding is when a company is able to explicitly reveal to its consumers a certain benefit associated with their product. It could be a service or “add-on” product that is affiliated with the original product that competitors do not possess (Dahremoller, 2013, p. 551). The main example of an unshrouding company that the author presents is the Citibank advertising the convenience of its wide coverage of branches.
For the empirical analysis portion of the study, the author uses a proof to determine whether myopic or educational consumers will buy the “add-on” product or instead look for a substitute from a different company. The author uses another proof to determine the incentives associated with firms to unshroud the add-on and compare the shrouded profits with the unshrouded profits (Dahrmoller, 2013, p. 556). The article’s conclusion is that unshrouding isn’t sustainable in a competitive market environment when firms exhibit heterogeneity in add-on profitability.

There are a number of ways in which this article can be improved. There were not nearly enough examples of companies that have unshrouded, so there is no distinct sense of what an “add-on” product could be. The inclusion of the proofs and explanations behind them were thorough, but the article did not use real data from companies to estimate the function so we are basing the results purely on assumptions. This article has the potential to be very potent and informative, but it is evident that further research must be done.

In order to gain capabilities to be at a competitive advantage in an industry, it is important to undertake research and be aware of your competitor’s strategies. One way of doing so is through benchmarking. This article discusses what constitutes marketing capabilities that would be suitable for benchmarking, and the process for properly executing a benchmarking practice. By the article’s definition, benchmarking is a market-based learning process by which a firm attempts to identify best practices that produce superior results in other firms and to replicate these to enhance its own competitive advantage. (Vorhies and Morgan, 2005, p. 80).

The goal of the article was to see the potential performance benefits of benchmarking from the following eight market capabilities: Production development, pricing, channel management, market communications, selling, market information management, market planning, and market implementation (Vorhies and Morgan, 2005,
They collected data on the eight marketing capabilities through a mail survey of the top marketing executives of 748 U.S. firms from six different industries. According to their conclusions, it is evident that benchmarking is a key market-based learning tool, and that the normative benchmarking theory, which states that marketing capabilities associated with superior business performance can be recognized and the marketing capability gap between a firm and top performing benchmarks explains significant variance in business performance (Vorhies and Morgan, 2005, p. 91).

Unlike the other sources, this article offers its own take on their limitations and how the study could be further enhanced. There is mention as to how they were unable to collect data for other organizational capabilities such as R & D. They also indicate how their eight capabilities were too broad and could’ve been more detailed (Vorhies and Morgan, 2005, p. 91). Aside from the authors mentioning their own flaws, another area of improvement could have been a more in-depth explanation of the process of benchmarking. They described it in three stages that include the search stage, gap-assessment and capability enhancement stage but their description is very brief and it seems like the process involves many more steps than what was stated.

Brand loyalty is considered an intangible asset, which can be a source of competitive advantage. Another article aims to investigate and identify factors influencing customer loyalty in regards to the sportswear brands Nike, adidas, Puma, Reebok, and Fila. The article describes loyalty as: “The profound commitment to re-purchase a preferred product or service. Such purchase action is repeated in the future and may lead to the re-purchase of a certain brand or set of brands” (Nasirabadi and Bokaei, 2013, p. 1907).

The authors’ methodological approach is based on surveying the city of Tehran about the athletic brands that they used. Based on the data they gathered through the questionnaires, seven independent variables were formulated. They include: corporate
reputation, image brand, brand name, customer satisfaction, promotion, price, and brand loyalty. A Spearman correlation coefficient was used and all of their hypotheses were confirmed. They found a meaningful relationship between brand loyalty and corporate reputation, as well as a significant relationship between brand image and brand loyalty. Of the six hypotheses, all of them were suggested to be correct. The work of the authors was quite exemplary and it was very interesting how Puma is the market leader in Iran and not more well-known companies like Nike or adidas. In Iran, product quality is the main factor influencing brand loyalty of customers. To expand on this study, it would be interesting to conduct the same study in other parts of the world to see if there is a different factor that would influence brand loyalty to customers.

Many of the articles used have made reference to Michael Porter. Porter is a renowned and highly accomplished professor at Harvard Business School and is known for his groundbreaking theories on economics and business strategy. One of his written works is a very comprehensive book that covers almost all facets of competitive advantage, including global industries, nations, its implications, and even the effect that government policy may have. In his book, Porter emphasizes the importance of five competitive forces that determine industry competition and distinguishes the difference between lower cost and differentiating competitive advantage. Porter also argues that it is difficult, if not impossible to achieve both versions of competitive advantage (Porter, 1990, p. 38). It is quite interesting how much of an influence Porter has had on economic related literature. Many of the ideas and concepts from other literature on competitive advantage refer to Porter’s original work.

Towards the beginning of the book, Porter mentions how he conducted a study on why nations as a whole gain competitive advantage in particular industries (Porter, 1990, p. 21). He did a four-year study on ten important trading nations that include: Denmark, Germany, Italy, Japan, Korea, Singapore, Sweden, Switzerland, U.S., and the
U.K.. Some of the data that was included was annual growth in GDP, population, and imports and exports as % of GDP. Porter claimed that the best measure of international competitive advantage is the presence of substantial and sustained exports to a wide array of other nations and significant outbound foreign investment based on skills and assets created in the home country (Porter, 1990, p. 25). In Porter’s study, he only found data from developed and leading industrial powers. It would have been an interesting dynamic if he included data from a third world company to show just how skewed the data is towards the industrial countries. A salient question for Porter is if he still believes that it is impossible for a company to simultaneously hold differentiating and low-cost competitive advantage. This book was published in 1990 and it would be interesting to hear if there is any dynamic change in technology that could lead to a company achieving both forms of competitive advantage.

Interestingly, competitive advantage can be prevalent for any industry. It is important to know that Internet firms’ goals are also to build and sustain a competitive advantage. For Internet firms, there are three key components that are critical to sustaining competitive advantage. They include: the consumer decision-making process on the web, customer relationship management (CRM), and firm performance (Javalgi, Radulovich, Pendleton and Scherer, 2005 p. 662).

Within the article, the authors consistently emphasize how CRM can be a means to gain sustainable competitive advantage for Internet firms. They describe CRM as a multidimensional concept consisting of methodologies, technologies, and e-commerce capabilities used by companies to manage customer relationships. CRM is a vital strategic tool that seeks to build and develop relationships with targeted customers to maximize their value and magnify firm performance. The article also focuses on the importance of the design of the website itself. A website must be attractive, informative, possess great positioning, and have a great delivery (Javalgi, et al; 2005 p. 665).
Competitive advantage can be gained if a website’s interface has effective communication and delivery and the layout is appealing to the viewer.

Overall, this could be considered a highly regarded article. The idea of competitive advantage within websites is an idea that can be overlooked and this article was able to seamlessly explain the factors that contribute to it. To further enhance this article, it would help the authors’ case if empirical research was conducted to back the information presented. An idea would be to conduct a survey to the public to rate the ease of use and visual appeal of websites like Amazon, ebay, and Nike.com.

Continuing off of the trend of Internet and technology, social media can also be a means of gaining competitive advantage for firms. Social technology sites are translating unparalleled profits for firms. They are able to use social technology for customer service, increased awareness/exposure, gaining new customers, marketing, and networking and professional relationships (Nord, Paliszkiewicz and Koohang, 2014, p. 92). The four most popular social media sites that are used for company advertising are Facebook, Twitter, LinkedIn, and Youtube. This article’s aim was to find out which social media site is the most popular among companies and what are they attempting to gain from using social media for their business.

To answer this question, a questionnaire was administered. MBA students from Oklahoma State University interviewed members of firms from all different industries that utilize at least one of the four most popular social media platforms for their business. Their findings show that Facebook is the most popular among the four sites with 98.3 percent of the respondents indicating that they are currently or plan on using Facebook for their organization in the future (Nord, Paliszkiewicz and Koohang, 2014, p. 94). Their reasoning behind the usage was for communication, customer service, creating awareness, gaining new customers, increasing profit, and marketing. The article states that: "If you can harness social media marketing, you don’t have to pay for advertising
anymore” (Nord, Paliszkiewicz and Koohang, 2014, p. 98). The article concludes by stating that social technologies offer a competitive advantage to businesses, all while providing a global reach that may not have otherwise been possible.

Since the definition of competitive advantage was never actually stated throughout the article, it seems like the authors do not understand the meaning behind it. Since these social media sites mention that they are a free service, companies aren’t really gaining a competitive advantage in the industry if everyone has access to it. Some companies might be able to utilize social media more effectively than competitors but even if that is the case, it can still be easily be mimicked by others. The article’s actual intent is to describe how a company can be more profitable, build brand awareness through social media, and become more successful if they properly harness social media. Rather, this article describes how social media can be a form of operational effectiveness.

Maximizing profit at all costs seems to be the most important goal for almost any firm. However, one article argues that it is important to follow the stakeholder approach instead. The stakeholder approach is prioritizing stakeholder’s (customers, employees, shareholders, and the community) needs first and enhancing profit is not as important. In this article, the authors claim that there are many benefits with applying a stakeholder-value position and increasing corporate social responsibility (CSR). Some of these include increased profit over time, better public image, better use and protection of natural resources, and a means of attracting better employees (Maruffi, Petri, Malindretos, 2013, p. 72).

As a result of becoming more socially responsible, this can positively impact the sustained competitive advantage of a firm. Practicing CSR is a differentiating method of obtaining competitive advantage. Companies can gain tangible and intangible benefits from practicing CSR and by projecting good governance and social responsibility unto
the world. The article makes clear that implementing CSR into a firm will not impede the goal of increasing a shareholder’s wealth. The long-term benefits of being a stakeholder-value positioned firm will outweigh that of a shareholder-value positioned firm.

After reviewing the article, it is evident that the authors make the distinction between the difference of a stakeholder and a shareholder approach very easy to understand. The article also makes mention to relatable and well-known companies like Patagonia, Honda and Whole Foods, who have all practiced CSR policies as a source of competitive advantage and were able to differentiate themselves from their competitors (Maruffi, Petri, Malindretos, 2013, p. 72). The two qualms with this article are that it is very obviously biased towards the shareholder approach and that CSR may not be a source of competitive advantage.

They disregard any benefit of following the shareholder approach and only mention the negatives associated with it. The authors need to realize that sometimes a company needs to attempt to maximize their profits when they first enter an industry to stay competitive and then once they become profitable, they can change to a stakeholder approach. It is also evident that CSR practices can be utilized by any company in an industry. If a company sees profitability through practicing CSR then competitors can just mimic these practices.

Going off of the idea of social responsibility, there is another article that claims that when honesty is fully transparent, it can provide a competitive advantage. The article describes social responsibility as: “The conscious and deliberate choice to make certain consumption choices based on personal and moral beliefs.” (Pigors and Rockenbach, 2016, p. 407). The aim of this article is to study the influence of firms’ honesty on consumers’ purchasing decisions in a duopoly market. The authors find that when firms’ honesty is fully transparent, consumers’ likelihood to buy from a firm
significantly increases with the firms’ honesty. They conclude that the effect is strong enough to make honesty a competitive advantage.

The article’s empirical approach was very unique and unlike any other from the articles included in the literature review. Their experiment entails a bilateral Bertrand duopoly, with two firms A and B, and two consumers X and Y. The two firms offer a good on the market, consumers can purchase only one unit of the good and each firm may serve both consumers. Each customer has a fixed valuation for the good and each firm has two managers and two workers. The manager determines the price for the units of the good offered and the worker produces the firm’s units of the good. The workers do not know the exact production environment and must guess. The firm’s managers have complete information on the production environment and worker’s guess. The accuracy of the worker’s guess determines the production costs that entails for the firm. If the worker guesses correctly, the worker entails low production costs, or otherwise would entail high production cost if guessed wrong. Because of the manager’s complete information of the guess, they can either be honest or lie. If the manager informs the worker that he/she guessed correctly then the worker will receive a higher wage and the opposite will occur if the manager says that the worker guessed incorrectly (Pigors and Rockenbach, 2016, p. 408). These different scenarios are all made aware to the customers and their reaction is the determinant of whether it is true that a firm’s honesty has an effect on consumer’s buying habits and is a sustainable source of competitive advantage.

After reviewing this article, it is certain that it contains the most complexities and would not make sense for someone without experience in econometrics. Their experiment, although very unique and well executed, could’ve been explained in a manner so that the “lay man” could comprehend. The other critique is their statement: “To the best of our knowledge, we are the first to investigate the profitability of honesty in
competitive markets.” (Pigors and Rockenbach, 2016, p. 415). It would help to understand the amount of research these authors have undertaken to find other studies on profitability of honesty in competitive markets. It seems like a very bold claim for such a broad topic.

It is evident that people believe that practicing corporate social responsibility can be a form of competitive advantage. There is a third article that studies the implications of the utilization of the stakeholder approach in relation to competitive advantage. This article’s research investigates the relationship between a firm’s environmental efforts and the sustainability of its competitive advantage by analyzing the effects of change in firm environmental performance on the persistence of profitability growth. They examine corporate environmental performance (CEP) as a resource that adds to sustainability of the competitive advantage of the company and provides consistency for superior performance. The article contains two hypotheses that they are testing. The first is that improvement in CEP is positively associated with the persistence of superior performance of a firm and the second is that improvement in CEP is negatively associated with the persistence of inferior performance (Yadav, Han, and Kim, 2016, p. 4).

In order to test their hypotheses, they produce two regressions where the first one measures a firm’s superior performance and the second measures the change in return on assets. In the second regression model, the independent variables are the persistent component of ROA growth, the effect of a change on ROA growth and the change on the persistence of ROA growth. According to their findings, environmental performance helps to sustain the competitive advantage of the firm. The improvement in environmental performance shows a positive correlation with profitability growth with moderate statistical significance. Thus proving their first hypothesis to be correct. They conclude that the improvement of environmental performance enhances the firm’s
environmental performance and as a result, will let firms set a price premium for products with environmental attributes and increases customer satisfaction from the consumption of environmentally friendly products (Yadav, Han, and Kim, 2016, p. 11).

After reviewing many articles on competitive advantage, it seems conclusive that following the stakeholder position will differentiate your company from competitors but is not a sustainable source. Upon reviewing this article, it is evident that it is very organized and well written. However, there were only a few examples of companies that exhibit corporate social responsibility mentioned in the article. In today’s society, there are quite a few well-known examples of companies that have become profitable through having a good environmental reputation. It could have enhanced the message of the article if more were mentioned.

Another relevant article argues that competition has shifted from products to business models. This article’s methodology starts by giving an extensive general definition of a business model. With regard to Chinese new ventures, they define business models as configurations depicting contents and structures of value propositions, creation, and capture activities (Liu and Jiang, 2013, p. 346). Next, the authors identify four different designs of business models, which are focused cost innovation, integrated cost innovation, focused value innovation, and integrated value innovation, and gives us an example of a Chinese firm that exemplifies the characteristics of each business model (Liu and Jiang, 2013, p. 347).

An example of one of the business models the authors mention is integrated cost innovation. This is when bundling activities within a system are designed complementarily for cost innovation and value creation (Liu and Jiang, 2013, p. 351). The example firm they use is called Flush Network. Flush integrates a range of value creation and captures activities to satisfy relevant customers. Their services involve development and maintenance of online trading system, financial information and data
services, and financial web information services. Customers are appeased and “locked-in” by increasing network externalities and switching costs.

Upon reviewing this article, it was a very informative and engaging read. The graphs that were depicted with the description of each business model really complemented each definition. The methodology and layout of the article was well organized, logical, and succinct. The examples of the firms they offered that fit each business model really helped give an understanding of the meaning and salience behind each model. A question for the authors is what empirical method the authors used in order to find the Chinese firms that they made reference to? If they were to mention how they went about finding these firms, it would add depth to the article and would answer any doubts that critics would have with the findings.

Another means of gaining competitive advantage for firms is by following the four principles of a term coined by authors Ellen R. Auster and Lisa Hillenbrand called “stragility”. Stragility encompasses four different skills that include: sense and shift, embrace inner politician, change fitness, and inspire and engage (Auster and Hillenbrand, 2016, p. 40). They define stragility as the art of strategic, agile, people-powered change. This article describes the meaning behind each of the four skills, suggestions for how a firm can attempt to pursue these skills, and real world examples of a firm that has either successfully utilized stragility and a firm that was complacent and did not.

The example of the company that did not follow stragility was Blackberry. In 2007, Blackberry was considered the dominant keyboard-equipped mobile phone and was well known in the global market. However, Apple’s iphone disrupted the market and took away much of Blackberry’s business market share. The authors rationale behind this is because it is commonplace for a company to “lock and load” on a strategy if they are earning profit and are market leaders. The company must continuously “fine-tune”
the strategy by paying attention to changes in market and consumer demands and never be satisfied with the company’s current state (Auster and Hillenbrand, 2016, p. 41). The example they offer of a company that has used stragility is Macy’s. Macy’s is deeply in touch with internal and external dynamics and shifting strategies to deliver their mission. They implemented a strategy that adhered to the specific buyer needs in stores in different regions. For example, the atmosphere and product line in a New York store would be different than that of a store in Miami.

Overall, this article appeared to be informational and fascinating. The company examples that they offer related very well to the idea of stragility. In order to further enhance this article, there are a few suggestions for doing such. It is evident that the idea of stragility is term that was coined by the authors and is not an actual economic term. It is important for them to mention how well known this term is and if businesses and industries are actually aware of it. Was Macy’s actually aware of the idea of stragility when using their strategy or do they just possess skills that are similar to stragility? In addition, this article is also relatively brief. To further strengthen their argument, the authors should expand on each skill set required for stragility and offer more examples of companies that have related strategies.

Gaining a competitive advantage can also be attained through the employees of a company. If a company is able to inspire and motivate their employees to be innovative, then that is in and of itself a source of competitive advantage. Although the article claims that innovation will not produce competitive advantage. Innovation must be tied to strategic planning in order to be successful. If an innovation is not within the firm’s strategic plan then they won’t have the capabilities to exploit it effectively.

The article claims that in order for a firm to successfully motivate employees, there are five core values that motivate innovation that must be followed. These include: curiosity, risk-taking, openness, patience, and trust. In addition, there are also eight
elements for the process of motivating innovation, which include: purposes, goals, strategies, strengths, structure, systems, culture and inspirational leadership (Dustin, Bharat, and Jitendra, 2014, p. 4). The article offers a few examples of firms that have gained a competitive advantage by motivating their employees to be innovative. One of the companies mentioned is the search engine Google. Google very much values the opinions of their employees and allows them to brainstorm and research while on company time. Google also has an unorthodox company culture. Google emphasizes rapid change and quick decision-making for their employees. Employees get approval on a new project within a few days as opposed to waiting for months. Another means of motivating employees is the idea of self-directed learning. Google recruits employees that have a passion to teach themselves as opposed to sitting in on a training program. Google’s working environment is very appealing to people and as a result their strategy is able to attract some of the best recruits from around the world (Dustin, Bharat, and Jitendra, 2014, p. 5).

Another example of a firm that has succeeded in motivating their employees to be innovative is Apple Inc. The work environment at Apple is letting their employees be themselves. Employees are able to dress casually at work and like Google everyone’s opinion is valued no matter what position you hold. Apple also motivates its employees to innovate by providing employee stock options as financial incentives. Their reasoning is that if an employee has financial interest in the company this causes an increase in productivity (Dustin, Bharat, and Jitendra, 2014, p. 6). Like Google, Apple is able to attract highly skilled workers because of their enticing work environment.

Although this is a highly commendable article, there are still two faults worth noting. The first is that it is very noticeable how often the authors make reference to outside sources in the text. There is nothing wrong with making reference to other scholarly sources but it seemed like they would say, “According to” in almost every other
sentence. When reading the article, the constant references to other sources made it appear as if there was no original content and ideas from the authors. The other problem relates to the fact that Google and Apple have been successful in motivating their employees to innovate. But it would have added to the article if there was mention to the rewards that were reaped from all the investments that the companies put towards their employees. Was there a specific example of a time that an employee in a non-executive position that came up with a revolutionary new idea that the companies implemented because of their work environment?

Based off the literature on competitive advantage, it is evident that the articles and book discussed have no definitive scope and it is overall pretty broad. There are no proven successful means of achieving a competitive advantage and it can be attained in a number of ways. Even though the overall literature was broad there are still some key takeaways that have been learned. For one, gaining a competitive advantage is a difficult feat to attain since there’s always a competitor that will attempt to mimic you. A company can lose their competitive advantage if they stay complacent within their industry. They must ensure that their ability stays inimitable and competitors are constantly struggling to figure out how to mimic it. A company can also lose their competitive advantage if they do not stay up to date with current market trends.

In order to sustain their competitive advantage, a firm must possess an executive board that understands what is of value to consumers. In addition, the firm must act as a cohesive unit throughout their entire value chain. It also appears that a competitive advantage can usually be derived from a technological advancement whether it’s through cost leadership or differentiation. Lastly, a firm needs a conclusive strategy in order to go about attaining a competitive advantage. This strategy must be engrained within every value chain of the firm and every activity that they execute must be in accordance with their strategy.
The articles also demonstrate the profound influence that Michael Porter had on the other authors. Since Porter has coined the actual term, it is very evident that the idea resonated with many authors, firms, industries, professors, and students studying economics. The reason why the competitive advantage literature was so broad is because of the numerous ways that firms have figured out how to gain it and as time goes on, firms will continue to find more unique and creative ways of gaining competitive advantage. Although the possibilities seem endless, the difficult part is if this advantage will be appealing to consumers and if it will result in profitability.
Chapter 3: What constitutes differentiating competitive advantage

The company adidas is a producer of sportswear and sports equipment that designs, develops, produces, and markets a range of athletic and sports lifestyle products (Ford Equity Research, 2017). Currently, the brand has been making tremendous strides at becoming the worldwide leader in the sportswear industry by obtaining a differentiating competitive advantage through their athletic and lifestyle shoes that they offer from their collaborations with outside sources. Competitive advantage is a phenomenon that puts a company at a favorable or superior business position and the company possesses the ability to generate greater value for its shareholders. According to Porter, there are two means of obtaining competitive advantage (Porter, 1985, p. 38). One is through cost competitive advantage, otherwise known as comparative advantage. This is the ability for a firm to produce a good or service at a lower cost than its competitors (Porter, 1985, p. 38). Thus, they can sell the product at a low cost.

A differentiating competitive advantage is when a firm is able to produce a product or service that is unique and distinguishable from its competitors. The firm can charge a price premium for their product or service and consumers will still be willing to buy it. These two basic types of competitive advantage, combined with the scope of a firm’s activities produce three generic strategies for achieving high performance in an industry: cost leadership, differentiation, and focus (Porter, 1985 p.11). The focus strategy has two variants, cost focus and differentiation focus. Within the focus strategy, this entails a company attempting to appeal to a small consumer base or a niche market. The firm selects a specific segment in the industry and modifies its strategy to suit certain consumers within that industry. In cost focus, a firm seeks a cost advantage in its target segment. In differentiation focus, a firm seeks differentiation in its target segment. It is important to note that within the broad target, the two strategies are mutually
exclusive and neither can be achieved simultaneously. The same holds true if a firm has a focused consumer base. A firm can only attain one or the other (Porter, 1985 p. 38). Based on the strategies exercised by adidas, it is obvious that the firm is gravitating towards a broad differentiating competitive advantage.

![Table 3.1 Michael Porter’s Competitive Advantage Chart. (Porter, 1985)](image)

Obtaining this type of competitive advantage is by no means easy and there are certain criteria that a company must possess in order to be considered as operating at a differentiating competitive advantage. One of the criteria for possessing a differentiating competitive advantage is controlling an inimitable ability. There is the argument that it is impossible for a company to hold a quality or ability that is inimitable because a competitor will always be able to mimic them. However, as we will delve into later, it is evident that within the athletic shoe industry, it is possible.

A differentiating competitive advantage is not the ability for a firm’s value chain to produce the product at a price lower than its competitors. Instead, the company’s product or service must possess technology that is unique and superior. Consumers will still be willing to buy the product if it is at a higher price than competitors because consumers perceive a higher value for the product. However, there is no advantage if
the uniqueness of the product isn’t perceived by the consumer. If a company creates a product that is unique but isn’t of value to the consumer then they will not be willing to pay the price premium. A firm needs to be certain that the differentiating ability that the product possesses will still be of worth to the buyer.

It is important to understand what creates value for the customer. For a firm to hold a differentiating competitive advantage they must be able to have a feel for changes in market trends. Having a strong grasp of the current direction of the industry and how it could change is another critical component in differentiating competitive advantage. A firm must never be complacent, even if they are the current market leaders. They must continuously innovate their products and predict and react to changes in the market or else their competitive advantage will not be sustainable.

Another circumstance to have a differentiating competitive advantage is the company’s brand image. If you were to look at a certain industry that has many different homogenous firms competing against each other, it would be evident that there is nothing unique about any of the companies. They would all have the reputation of possessing a non-distinctive brand image. The company that has a very recognizable, distinct, and accepted brand image will be a factor towards differentiating competitive advantage.

Aside from the intangible assets necessary for a differentiating competitive advantage, there must also be statistical proof that the firm is succeeding. It is imperative to have evidence that there is firm growth and profitability within the industry. One means of discerning firm growth is if there is steady increase in the firm’s stock price throughout the years. Another is through the firm’s quarterly reports. Noticeable increases in net sales, profits, and assets throughout the years are all good signs of a sustainable competitive advantage. If a company has the following qualities: an inimitable ability; offer a unique and superior product; understand what consumers value;
the ability to predict market trends; possess a distinct yet positive brand image; have verifiable evidence that there is growth within the firm, then the company has achieved differentiating competitive advantage and will be able to reap the rewards that are associated with these qualities.

Differentiation provides security against competitive rivalry because of brand loyalty by customers and results in lower sensitivity to price. It can provide entry barriers for competitors as a result of customer loyalty and the need for competitors to overcome the product or service uniqueness. It can also diminish buyer power because there are no comparable alternatives. Finally, a firm that has differentiated itself to achieve customer loyalty should be better positioned vis-a-vis substitutes than its competitors (Barnat, 2017).
Chapter 4: Duopoly Theory Chapter

In order to understand the empirical side of adidas’ strategies, it is important to comprehend the nature of decisions in a duopoly market. Considering that Nike is adidas’ major competitor, the athletic footwear industry can be regarded as a duopoly. A duopoly is a situation in which nearly all of the market for a given product or service is dominated by two firms (Nicholson, 2014 p. 479). The global sportswear industry is considered a duopoly with adidas and Nike being the two most dominant firms.

One of the basic concepts involved in a duopoly market is the Cournot model. This model is when each firm assumes the other firm’s output will not change if it changes its own output level (Nicholson, 2014 p.481). Within the Cournot model, there is the reaction function, which is a function or graph that shows how much one firm will produce given what the other firm produces. Imagine that Nike chooses its output level (q1) on the assumption that the output of adidas (q2) is fixed and won’t be adjusted in response to Nike’s actions. If the total market output for the two firms is: \( Q = q1 + q2 = 120,000 - P \) and if we are assuming that q2 is fixed, the demand curve facing Nike is given by \( q1 = (120,000 - q2) - P \). This means that a portion of market demand is assumed to be taken by adidas, and Nike makes its choice of what is left. This function

![Diagram](image.png)  

Figure 4.1: The reaction function of Nike shows how that firm will react on the assumption that adidas’ output choice is not affected by the level of q1 produced. The function for adidas shows a similar reaction for adidas. Only at the point of intersection of the two curves (q1 = 40, q2 = 40) will both of the firms’ assumptions be realized. The point of intersection is called the Cournot equilibrium point. (Nicholson, 2014 p. 482)
is an example of a reaction function. Nike produces half the output demanded at a price of zero after allowing for adidas’ production. The output level chosen by Nike will depend on the level of output that adidas is assumed to produce. If adidas chooses to produce 60,000, Nike would choose 30,000 \[ = (120,000 - 60,000)/2 \] and market price would be $30,000 \[ = 120,000 - (q_1 + q_2) = 120,000 - 90,000 \]. adidas might perform a similar analysis and arrive at a reaction function that expresses \( q_2 \) as a function of \( q_1 \) as the equation: \( q_1 = 120 - q_1/2 \).

Within a duopoly market, there is the question of which firm will be the leader and which will be the follower. This leader-follower relationship is known as the Stackelberg model, which is a generalization of the Cournot model in which at least one firm knows the other’s reaction function (Nicholson, 2014 p. 483). If Nike and adidas assumes the other is a follower, each will produce 60,000 and will be disappointed at the final outcome. However, if the two firms act like a follower, the situation will return to Cournot equilibrium, which is when each firm makes the correct assumption about what the other firm will produce. Both firms will typically try to be the leader and this will lead to awful consequences for the two firm’s profits. The best case scenario is an agreement between the two firms, which is where each promises to adopt the follower strategy which would lead to larger industry profits than those that are made when one or both of the firms try to adopt the leader strategy.

The behavior of a duopoly market can also be explained through game theory, which is the study of the strategies used by the “players” in a game and the payoffs they receive. In this case, the “players” are Nike and adidas. The various courses of action that the firms take are the strategies, and the outcomes of a game for each firm, are the payoffs. They depend on what strategies have been chosen.

Sometimes, strategic considerations in a game can be complex and the appropriate course of action is for firms to simplify the problem by treating it like a game
against nature. With this approach, the opponent (“nature”) is neither malevolent nor benevolent and doesn’t engage in strategic thinking. Nature makes choices randomly without thought into the possible consequences for its “choice.” In the game, neither Nike nor adidas has a dominant strategy. As a result, each firm will choose their strategy based on whatever information and intuition they have available. For example, Nike could treat this as a game against nature and pay no attention to adidas’ decision. Nike would just focus on its own payoff matrix and view the occurrence of a particular strategy for adidas, as a fact of nature, and decided by some random process. In this situation, there are a few ways that Nike might select a strategy. The use of the type of pessimistic logic we used before would suggest choosing strategy a2 since the minimum payoff there (1) exceeds that for a1 (0). However, this wouldn’t be an appealing choice if adidas were known to have an inclination for high advertising budgets.

An approach to this problem that is consistent with usual economic models of choice in uncertain situations would be for Nike to subjectively assign probabilities that reflect the likelihood of strategies b1 and b2 occurring. Using these probabilities, Nike would then choose the strategy that offered the highest expected value. If Nike believed b1 and b2 were equally likely, the expected payoffs associated with each strategy would be: Expected payoff of a1 = ½(0) + ¼(3) = $\frac{3}{4}$ and Expected payoff of a2 = ¼(4) + ¼(1) = $\frac{5}{4}$ and a2 would be the favored strategy. However, if Nike believed adidas really did tend to prefer b2, it might assign a probability of ¾ to that strategy (and ¼ to b1), in which case expected payoffs would be: Expected payoff of a1 = ¼(0) + ¾(3) = $\frac{9}{4}$ and Expected payoff of a2 = ¼(4) + ¼(1) = $\frac{5}{4}$ and thus a1 would be preferred (Nicholson, 2014 p. 497).
This decision making approach can be called Bayesian decision theory (Nicholson, 2014 p. 487), which is the definition of subjective probabilities for outcomes of a game and use of those probabilities in making strategic decisions. This Bayesian approach to strategic decisions is widely used in economics and other disciplines. It is evident that there are many factors that contribute to the nature of the duopoly market. The industry possesses an interdependent nature of decisions. In the athletic shoe market between Nike and adidas, the firms seem to monitor each other closely and read and react to each other's every move.
Chapter 5: Operational Effectiveness

Besides adidas’ competitive advantage through their inimitable ability, the firm can also attribute its profitability and success to its operational effectiveness. According to Porter (IACBE, 2017), operational effectiveness is any number of practices that enable an organization to better utilize its resources, better implement its processes, and achieve its missions and goals. Operational effectiveness is about continuously improving functional performance. Basically, operational effectiveness refers to doing the same activities as other companies, but doing them better or more efficiently (Porter p. 61, 1996). It's important to note that operational effectiveness is not an efficient and sustainable means of differentiating a company from competitors. A competitor will always be able to mimic the practices of the firm that has attained an operational effectiveness. It can be argued that the technology behind adidas’ footwear and their best practices can be considered forms of operational effectiveness. Lately, the adidas Group has been utilizing state-of-the-art technology to create footwear that has been able to encompass style, quality, and comfort. The group’s advanced use of technology has created the BOOST technology as well as sustainably innovative products.

I. Technologically Innovative Shoes

Adidas has utilized its technology to create footwear that encompasses a modern aesthetic, comfort, and performance. Adidas has been able to do this through the creation of the Ultra Boost running shoe in 2015. The shoe retails at $180, which is considered a decently high price point for similar models. The price doesn’t seem to take away from the incredible demand surrounding the shoe. Adidas has had numerous releases of different silhouettes of the model and every time they seem to sell out instantly at retailers and online. The main selling point of the shoe is the BOOST technology incorporated into the shoe. The BOOST material makes up the entirety of the sole of the shoe. The Ultra Boost uses thermoplastic polyurethane (TPU) to create the
individual pods that make up the sole (Edwards, 2015). This in turn will release a better energy release for the shoe as well as staying in the same shape despite the weather change. The heel of the shoe is constructed to be incredibly supportive of the Achilles tendon. The upper part of the shoe has maximum flexibility and consists of 4-way flexible primeknit upper, which can expand up to 10 mm when running. During the process of designing the shoe, adidas used a technology called the Aramis analytical kit, which is also used by companies such as NASA, Boeing, and Audi. Aramis uses a system of cameras and sensors that that show the flexion in a person running thanks to a 3D location measuring image. By this system, every movement from the skin, muscle, and bone can be mapped. The results of the measurements were taken into account when designing the ultra boost to ensure that barefoot running and wearing the ultra boosts flex in similar ways. Before the initial release of the shoe, adidas proclaimed the shoe as being, “The best running shoe ever.” Although companies often make bold claims like this, due to the adidas Ultra Boost’s unprecedented success, in this case, their claim is validated.
In the summer of 2016, adidas released two silhouettes that utilized boost technology. These were called, Ultra Boost “Uncaged” and the AlphaBounce, which both were instant hits and sold out online on adidas retailers in roughly 24 hours (Edwards, 2015). Paul Bowyer, Senior Director of Running for adidas North America, made the following statement regarding the company’s recent success with running shoes, “The momentum we have in running is undeniable. adidas has the best innovations in the industry with BOOST, Primeknit and now BOUNCE. And today, with high style performance products and impactful execution, we’re connecting with consumers like never before. Adidas Running will continue to accelerate and we’re eager to share what’s next” (adidas Group, 2016). Adidas has made strides in their running shoes with their revolutionary style, comfort, and Boost technology. Consumers are willing to pay the $180 retail price point because of all the benefits associated with the shoe.

adidas has recently unveiled another shoe that incorporates the BOOST technology into the model called the NMD. This shoe retails at $170 and unlike the Ultra Boost, it is not considered an athletic shoe but rather a casual or lifestyle shoe. However, just like the Ultra Boost, the NMD has seen noticeable popularity. Much of the shoe’s appeal comes from its modern-looking aesthetic and its ability to capture present-day fashion (Woolf, 2015). The appealing design along with the comfort and boost technology integrated into the shoe is why it has been so attractive to the masses. Nic Galway, Vice President of Global Design for adidas Originals and one of the main people responsible for the UltraBoosts and Yeezy boosts, described his thought process when designing the shoe as wanting it to make certain that the NMDs and the Ultra Boosts were distinguishable. He also claimed that every aspect of the shoe has a purpose. As Galway describes it, “There was nothing on the shoe that didn’t need to be there. Everything has a function. You have the Boost foam. You have the primeknit
upper, which gives it a real modern sensation. They’re not decorative. It informed a very new, unique silhouette in its own right,” (Welty, 2015). It is apparent that the work that adidas has put into the shoe has paid off. The shoe has seen incredible demand in retail stores across the globe. Finding the shoe at a retail price is difficult and the re-sell price, depending on the colorway, is often double the retail price.

Figure 5.2: Image of the adidas NMD shoe (Sole Collector, 2015)

BOOST technology is just one example of how adidas has created an innovative product. Another way in which adidas has been continuously innovating their products is through the recently groundbreaking new technology of 3D printing. adidas has unveiled the Futurecraft 3D shoe which is made with a 3D midsole that can be tailored to a person’s specific foot. For every person, the shoe would have their own footprint elements, including exact contour details and precise pressure points (Alvarez, 2015). On December 15th, 2016, adidas released the 3D shoe in extremely small quantities for a price set at $333. Adhering to the strategic choice of “cities,” adidas only released the
shoe in New York City, London, and Tokyo, which were adidas’ metropolitan areas of focus. The release of the shoe was very well received and peaked the interest of many consumers who weren’t able to acquire a pair. Thus, exemplifying adidas’ goal of creating brand desire. As a result, the demand and popularity is so immense that on Ebay, the shoe goes for upward of $4,000.

II. Sustainably Innovative Products

As previously mentioned in the literature review, practicing CSR can be a profitable practice. This approach is to value the stakeholders’ (customers, employees, shareholders, and the community) needs over immediate short-term profit (Maruffi, Petri, Malindretos, 2013, p. 72). One of adidas’ best practices is being a sustainable company and recognizing its responsibility towards the environment, employees, and people who make their product. Adidas believes that there is a balance between shareholder expectations and the needs and concerns of their employees, workers in their supply chain, and the environment. Adidas’ extended sustainability motto is “sport needs a space” which is a direct outcome off of their business strategy of “creating the new”. Their sustainability practices identify six priorities to address stakeholder and environmental issues.

Figure 5.3 – The strategic priorities that address stakeholder and environmental issues (adidas Group, 2016)
There are three other examples how adidas has utilized its CSR practice to create footwear that is innovatively sustainable and able to catch people’s attention through its attractive aesthetic.

The first innovatively sustainable product is the release of the Ultra Boost Uncaged Parley. For this release, adidas has collaborated with the company Parley. Parley is a non-profit organization whose mission is to address the major threats towards our oceans through collaborations with other companies, relief efforts, and informative speeches (McCarthy, 2016). Unlike other Ultra Boosts, this style is made almost entirely out of plastic recovered from the ocean. Although an official release date has yet to be set, sometime in 2017 the brand plans to produce over one million pairs of the sneaker from more than 11 million plastic bottles. Eventually, adidas also plans to eliminate virgin plastic from its supply chain altogether and hopes to expand its plastic cultivation to beyond its shoe line. Unlike adidas’ competitors, the company has been evolving the athletic and casual wear shoe industry as we know it. Never before have we seen a shoe created from plastic bottles recovered from the oceans of Maldives that could be considered a legitimate running shoe while being fashionable.

Continuing off of the trend of sustainably innovative products is the creation of shoes that are biodegradable. In November of 2016, adidas presented the Futurecraft Biofabric. This shoe features a synthetic spider silk called Biosteel that is 100% biodegradable and built for athletic performance. The material offers a unique combination of properties that are critical for performance, such as being 15% lighter in weight than conventional synthetic fibers as well as being the strongest fully natural material available (adidas Group, 2016). In regards to the shoe, James Carnes, Vice President of Strategy Creation at adidas said: “In a year of ground-breaking innovations from adidas, the announcement our partnership with AMSilk – and the unveiling of the
adidas Futurecraft Biofabric shoe – is another step in our commitment to redefining the sport industry.” (adidas Group, 2016)

After about two years of impact wear, the shoe owner can easily dissolve the shoe. The shoes come with an enzyme pack and can be safely disintegrated in a matter of hours with the addition of water (adidas Group, 2016). Although the shoe has initially been created, it has yet to be released to the public. However, the brand plans on making the shoe available to consumers sometime in 2017. The adidas Futurecraft Biofabric is the very first shoe in its kind with the ability to completely disintegrate. The brand’s sustainable and innovative platform has caught noticeable attention from consumers.

The third innovative yet sustainable project that adidas has recently been in the process of becoming a product that will be available to consumers is the Sport Infinity soccer cleat. Adidas will be leading a cross-industry WARP consortium project, known as Sport Infinity, in which they will research into a new generation of fully recyclable sporting goods. The project is funded by the European Commission and aims to identify and develop innovative recyclable materials that will enable the automatic production of easily customizable sporting goods, allowing greater design freedom (adidas Group, 2016). Basically, every gram of the soccer cleat could be broken down and recycled into a 3-D shapeable material for another creator to mold into the product they want without the use of adhesives. Glenn Bennett, executive board member of global operations, commented in regards to the Sport Infinity soccer cleat: “Following the announcement of SPEEDFACTORY and our partnership with Parley for the Oceans, Sport Infinity is the next step in our commitment to innovation and sustainability. This project will close the sustainability loop, creating a high-performance product that can always be recycled.” (adidas Group, 2016)
The Sport Infinity research project has the potential to be revolutionary and completely change how soccer cleats are produced and designed. Using worn-out cleats and combining them with scrap materials to create new cleats that will eliminate waste while still being appealing to consumers is a direct result of a product that has stemmed from the brand’s superior sustainably innovative practices.

These sustainable initiatives that adidas has taken have not gone unnoticed. For the 17th consecutive year adidas has been included in Dow Jones Sustainability Indices (DJSI), which evaluates the sustainable performances of the largest 2,500 companies listed in the Dow Jones Global Total Stock Market Index. Within the sportswear industry, adidas was ranked best in seven criteria including: Brand Management, Innovation Management, Risk & Crisis Management, Environmental Policy & Management Systems, Operational Eco-Efficiency, Corporate Citizenship & Philanthropy, and Stakeholder Engagement (adidas Group, 2016). The DJSI is considered to be a long-
running sustainability benchmark and an effective platform for companies that would like to adopt sustainable best practices. The DJSI bases its ratings through a thorough analysis of corporate economic, environmental and social performance, in which they assess issues like corporate governance, risk management, climate change mitigation, supply chain standards, labor practices, branding, and customer relationship management. It is evident that the sustainable innovation initiatives that adidas has implemented into their footwear, clothing, and through their value chain have been rewarded by their consistent inclusion in the DJSI.

Adidas’ advanced technology can also relate to their superior supply chain. The company strives to become closest to every customer by building and managing a supply chain that quickly responds to changing market needs and supports multiple distinct business models. Adidas has been able to do just that with the introduction of the SPEEDFACTORY that is to be built in Atlanta, Georgia in late 2017. This industry-defined, state-of-the-art facility will allow adidas to create products more quickly and closer to U.S. consumers. The SPEEDFACTORY will advance adidas’ consumer-centric approach to production creation, which will allow the brand to decentralize production and react faster to consumer needs. The factory is equipped with state-of-the-art manufacturing technologies enabling adidas to create products in increasingly high volumes with advanced complexity in color, materials, and sizes (adidas Group, 2016).

Through the factory, adidas is opening the door for revolutionary customization of high-performance products with unique fit, comfort, and look. In addition, this Atlanta based factory will allow adidas to source and produce locally, limiting long shipping distances and will drive the brand’s commitment to sustainability. The Atlanta factory will be more than 74,000 square-feet and will be fully functional by the end of 2017. adidas’ focus for the factory will primarily be on running footwear with the plan on producing 50,000 pairs in 2017 (adidas Group, 2016). Their ambition is to produce half a million
pairs for running and other categories. In order to keep up to date with market trends as quickly as possible, these facilities are staffed with robots that are programmed to make shoes at an incredibly high speed and volume. The U.S. SPEEDFACTORY will create approximately 160 new job opportunities. The U.S. factory will be an important complement to the original SPEEDFACTORY in Germany. The “endless opportunities for customization” that the creation of the SPEEDFACTORY relates to adidas’ predicted market trend of customization will be an important future component of consumer’s desires. Aside from the employment opportunities and the opportunities for customization, the SPEEDFACTORY has shifted adidas away from utilizing unethical practices in Asia, an issue that has plagued the industry for decades.

III. adidas Cultural Ascendency

In 2015, Complex named adidas the best men’s style brand of 2015 (GQ, 2016). Besides the many successful collaborations that adidas has had with other companies and cultural figures, the company has also been able predict and create market trends. Adidas has been able to popularize retro styles that originally released in the 1960’s and 70’s. Adidas has also created new clothing and shoe designs that attempt to capture that retro style. The brand’s newly recent promotion of retro styles can be considered a best practice that the company has been utilizing. The subsidiary to adidas called adidas Originals, which is considered to be the heritage line of the company has revitalized the cultural shift towards these styles. Adidas Originals has found the niche in the market as an “athleisure” brand. This is considered casual clothing meant to be worn both for exercising and general use (Forbes, 2016). Athleisure clothing has been able to fill the gap in the market where clothing that was functional wasn’t particularly stylish. Shoes like the adidas Superstar, Stan Smiths, and Gazelles have all been seen newfound demand and popularity. Adidas has made many strides towards reintroducing these classic models that seem to have almost been forgotten. But due to the shift in the
market towards athleisure, adidas felt like it was the right time to bring these classic styles back to life.

For example in 2014, we saw the reincarnation of the classic Stan Smith model that was originally released in 1964. Leading up to its release, adidas released a statement regarding the shoe: “A global fashion icon will be reborn in Spring/Summer ’14 as the legendary Stan Smith returns from its sabbatical. Removed from the shelves for the past few seasons, the classic silhouette has been re-invigorated and updated for the modern day while still staying true to the look and shape of the original” (The Branding Journal, 2015). Adidas took on a specific approach to make the new release as successful as possible. The first part of their market strategy was a fully integrated campaign with a focus on social media. Adidas was able to create hype around the sneaker in 2013 when they released a black and white, documentary-style interview with Stan Smith accompanied with icons like Derrick Rose and Lucio Castro where they talked about the rich history and nostalgia behind the sneaker. In addition, adidas created a sense of rarity associated with the shoe. Adidas has managed to significantly boost sales by removing the shoe from the market. Because of the heavy amount of promotion for the shoe, its release gave the shoe a perception of rarity, which attracted many consumers. To add to the shoe’s sense of rarity, adidas has placed close attention to the number of shoes they supply. The company bases their inventory off of demand. Some of the classic models sell out relatively quickly because the limited supply increases demand and fuels a renewed desire for the iconic shoe. Adidas strategically planned the release of the shoe in 2014 since this marked the 50th year anniversary of the Stan Smiths.
According to the NPD Group, while the U.S. athletic footwear industry grew by 8% in 2015, there has been a consumer shift from performance footwear to retro styles. Matt Powell, vice president and sports industry analyst of the NDP Group stated: “Performance footwear, particularly running and basketball, cooled off in 2015 and we saw a rise in the more casual and retro styles. This will be an important trend to watch in 2016. The hiking shoe category has also been, and should remain, strong as we continue to see the merging of outdoor and athletic.” From 2014 to 2015, the Classics category grew by 30% and is the capturing share from all other major categories (NPD Group, 2015). It is apparent that in current popular culture, there is a resurgence of fashion from years past. Adidas has successfully latched on to the trend by re-popularizing products from adidas Originals and the Stan Smiths are a prime example.
adidas Group’s shift towards classic silhouettes that they have released many years ago is an example of a best practice that the company has been utilizing. This practice seems to have resulted in success for adidas. Competitors like Nike and even lesser known brands like Asics have mimicked this practice and have also re-released similar retro styles. The practice of bringing back previous popular styles from the adidas Originals line was a clever decision by the brand but the profitability through this practice is not sustainable because soon every competitor will revert back to retro styles.

**IV. adidas’ Movement Towards a Luxury Sportswear Brand**

Another best practice that adidas has employed is its movement towards a “high end” sportswear brand. Adidas has been able to create the image and likeness of their brand but through clothing and shoes that are made from “luxury” materials and pricing that can be comparable to designer brands like Gucci and Louis Vuitton. 2002 saw the birth of the most influential cooperation in sport and fashion to date with the Y-3 men’s and women’s collections (SSENSE, 2017). The brand’s name is Y-3, which comes from the combination of Japanese fashion designer Yohji Yamamoto and “3” representing adidas’ signature three stripes. The partnership between Yamamoto and adidas has revolutionized the industry.

A reason why competitors like Nike have originally not attempted to mimic a collaboration similar to adidas’ is because normally consumers do not associate a sportswear brand with a luxury brand so there was probably reservations about whether this endeavor would be profitable. These reservations are true in the sense that although this collaborative brand has been in business for about 16 years, they have only recently gained popularity. The concept of mixing high fashion with sportswear has not been a phenomenon until recently. A large part of the fad is due to the many cultural icons such as athletes and artists who have influenced this trend. One of Y-3’s most popular
silhouette’s was the release of the Y-3 Qasa High. The incredibly unique design and luxurious quality of the shoe attracted much media attention and although the retail price was $400, the shoe still sold out in retailers everywhere. Adidas has been able to build and manage a diverse brand portfolio with distinctive brands and Y-3 is a contributor to this through its fusion of luxury and sport performance.

Continuing with adidas’ strategy to veer towards luxury fashion is their collaboration with the designer Raf Simons. The Belgian designer’s collection is considered metropolitan underground fashion that is inspired by music and the rebellious energy of youth culture. The brand encompasses athletic influences, minimalism, and futuristic prints and color schemes, that gives his line a futuristic yet nostalgic look (SSENSE, nd). adidas Originals and Raf Simons have released a number of collaborative footwear that has been well received from consumers. The releases have ranged from minimalistic looks to colorful and futuristic looking footwear and everything in between (GQ, 2017).

Another recent high fashion collaboration for adidas is in conjunction with subsidiary adidas Originals and designer Alexander Wang. Wang’s line has strong influences from 90s streetwear and sportswear that captures the contrasts of metropolitan life. Much of Wang’s work relates closely to the “retro” image that adidas Originals has. The two brands complement each other very well and a collaboration was a smart move to further push the brand towards the differentiating brand image of offering a premium product. There are two separate releases set to be in retailers for the 2017 spring and fall season. These will be the second and third releases that adidas Originals has had with Alexander Wang. The first collaborative effort between the two brands took on a unique approach to be available to consumers. The initial release was sold exclusively in a “pop-up truck” (Phelps, 2017). Basically, it was sold in the same manner one would buy products in the urban streets of New York City. Adidas was trying
to give the collaboration a sense of high fashion meshed with urbanization. However, the second release which will be available in March of 2017, will be sold in seven global retailers including Barneys in New York, Dover Street Market Ginza in Tokyo, Joyce in Hong Kong, Boon the Shop in Seoul, and Colette in Paris.

The other recent collaboration with a renowned designer was announced on January 12, 2017 with Gosha Rubchinskiy. This collaborative effort is unique in the sense that soccer meets with high fashion for the first time. The co-operate is being dubbed adidas soccer x Gosha Rubchinskiy and the variety of pieces include tracksuits, scarves, and footwear. The range of garments is an embodiment of the Russian youth culture of today. In regards to the collaboration, Rubchinskiy commented: “The next two years signal some of the biggest years in sport for my home country, Russia, as we prepare for our first ever FIFA World Cup in 2018. By teaming up with adidas Soccer it’s enabled me to celebrate the youth of Russia in the eyes of the world by creating garments which combine my vision of fashion with the best sportswear brand on the market.” (adidas Group, 2017). Rubchinskiy’s intended undertones of the clothing line are that of culture, authenticity, and the balance between globalism and localism (Kansara, 2017). The Russian designer sees his work as “international but with a Russian accent”. He understands that there is a strong discontent for globalization in Russia and that people are scared of the thought of losing their identity. Rubchinskiy believes that this collaboration bridges the gap between globalism and localism and that there should always be a balance of both.

The resurgence of Y-3 and the collaborative efforts with a few notable designers have changed the consumer’s brand image of adidas. Although adidas is the first in the industry to deploy this best practice, Nike has taken strides to towards “high end” designs that they have utilized in the release of the “Snakeskin” Air Jordan IV and the “Pinnacle” Air Jordan I, which both retailed at $400 (Welty, 2016). Any best practice that
appears to work well for a company and is able to be imitated, will always have companies that will attempt to copy.
Chapter 6: Group Strategies and Means of Achieving Competitive Advantage

Adidas has been able to challenge Nike in the sportswear industry through attaining competitive advantage. Competitive advantage is a circumstance that puts a company at a favorable or superior business position and the company possesses the ability to generate greater value for its shareholders (Porter, 1985 p. 38). As it currently stands, Nike is the global leader in the sportswear market, while adidas sits behind them in second. Adidas is on track to becoming the market leaders in the sportswear industry through their footwear being a source of differentiating competitive advantage. For clarification, the global footwear market can be broken into two categories, which are athletic and non-athletic shoes. Athletic shoes include running and cross training, soccer, golf, basketball, hiking, baseball etc. Non-athletic shoes include casual footwear, dress footwear and boots such as hunting, winter, and military boots (NPD Group, 2016). Adidas has been able to differentiate themselves through certain models from both the athletic and non-athletic footwear categories. The company uses innovation differentiation in their rise towards becoming market leaders. In this version of differentiating competitive advantage, the focus is to enhance product quality, performance and design, which adidas has primarily accomplished through their unique strategies. Of course adidas must never get complacent and must continually deploy their strategies in order to harness their advantage and compete with Nike.

I. adidas Group Strategy

Adidas’ source of competitive advantage can be rooted from their overall corporate strategy, which is its long term plans and approaches towards the intended visions and objectives. It is a general framework that specifies the organization’s’ plans, policies and approaches to meet its objectives, goals and end results (Ovans, 2015).
Within adidas’ corporate strategy, the brand has a specific mission and a strategic business plan. Their mission is to “be the best sports company in the world”. Meaning it designs, builds, and sells the best sports and fitness products in the world, with the best service and experience (adidas Group, 2017). To achieve their mission, adidas has set six specific initiatives to become the best sports company in the world.

The first is to have authentic sports brands. Their brands are driven to create and innovate through a common passion for sport and sporting lifestyle and focus on their core competencies. This approach allows it to develop and create products, experiences, and services that are tailored to consumer’s needs and desires. The next is to have investments focused on highest-potential markets and channels. The group prioritizes its investments on markets that offer the long term growth and profitability opportunities. The third is to create a flexible supply chain. The brand is committed to meeting consumer needs by providing a constant flow of new and relevant products for consumers and high service levels for customers (adidas Group, 2017). The fourth initiative is innovation, where the brand continues to perform and design by leveraging extensive R&D expertise within the company and by defining “Open Source” as a key strategic choice. The next initiative is focusing on sustainability. Adidas is committed to striking a balance between shareholder interests and the needs and concerns of shareholders and stakeholders. Lastly, there is the aim towards creating long-term shareholder value. The brand is committed to increasing returns to shareholders with above-industry-average share price performance and dividends (adidas Group, 2017).

Within the corporate strategy, the adidas Group has a strategic business plan. The plan will last until 2020 with the headline for their five-year strategic business plan being “creating the new”. The strategic plan of “creating the new” has three strategic choices in which they want to focus on in their 2020 strategic business plan that include: “Speed”, “Cities”, and “Open Source” (adidas Group, 2015). When adidas says “Speed”,

they are referring to significantly reducing production lead times and increase in-season creation. As part of the effort, adidas will significantly enhance its capabilities to reproduce seasonal best-sellers to fulfill consumer demand. The firm will expand its programs for products that are replenished on a constant basis to ensure that the most desired products are always available and never out of stock. Frank Denglos, Vice President Speed of the adidas Group remarked: “It will change the way we create, manufacture and distribute our products. It will revolutionise our current business model. Speed will be a key competitive advantage for us as we transform the adidas Group into the first true fast sports company.” (adidas Group, 2015). Speed is a critical and powerful lever for creating brand desirability. The company believes that being fast will give it decisive competitive advantages, which include: improving product availability, decreasing risk, creating additional net sales, and generating more contribution (adidas Group, 2017).

The strategic choice “Cities” is to build continued growth in all relevant geographic markets with a focus on six global cities: Los Angeles, New York, London, Paris, Shanghai, and Tokyo. Their reasoning is that 80% of global GDP is generated in cities and global trends are increasingly being influenced from metropolitan areas. Adidas will over-proportionally invest in talent, attention, and market spending across these cities. By “Open source”, this entails the adidas Group to focus its investment across its core brand portfolio: adidas, Reebok, and TaylorMade. The Group is also attempting to further strengthen the company’s ties with its consumers. adidas plans to strongly engage with customers, retailers, athletes, and partners to make them even more connected with the brand than ever before. The result will be an increase in brand advocacy and consumer desire.

In addition, adidas has a goal to create an end-to-end ecosystem that connects consumer communities to relevant products, activation, and retail experiences through
the sports categories: Consumer communities, products, activation, and retail experiences. The brand plans to further develop its strong relationship with consumers who identify with key sports (consumer communities). It will continue to focus its products on the six cities by having certain limited edition items be exclusively available within these cities (products). Have commitment to drive meaningful interactions its consumers (activation). Finally, to have environments where consumers find and interact with its products (retail experiences).

The group’s third strategic choice is “open source”. “Open source” is a collaboration-based innovation model that aims to build brand advocacy by opening the brands’ doors to the creator and inviting that person to help mold the future of sports and sports culture (adidas Group, 2017). Through “open source”, adidas intends to: Provide access for externals, acquire and nurture creative capital, new insights, skills, competencies and specialized knowledge, explore new territories to create unprecedented brand value for the consumer beyond mere transactional businesses, and strengthening the consumer’s perception of our brands as leaders in sport, by providing consumers access to the progress of our projects and creation processes (adidas Group, 2017).

“Open source” incorporates three strategic initiatives: Creative collaborations, athlete collaborations, and partner collaborations. Creative collaborations entail targeting outside thinkers that would increase creative capital through new tools, new environments and new perspectives. Their athlete collaborations would aim to build communities of athletes that help shape the future. Their athlete partnerships will hopefully help the brand engage and interact with a broader consumer community, it will continue to focus on its digital space and physical space. The partner collaborations intend to open up the brand’s knowledge of sport to collaborate with the best partners in
the field. By exchanging core competencies, adidas plans to create unique value for its brands and consumers (adidas Group, 2017).

Adidas hopes that the result of a strategy built on “speed”, “cities”, and “open source” will yield tangible and intangible assets. Their objective is for Group currency neutral sales to grow at a high-single-digit rate on average per year until 2020, net income to increase around 15% per year on average, and an increase in targeted dividend payout ratio to 30%-50% (adidas Group, 2015). In addition, due to the focus on cash creation, adidas’ cash flows are expected to grow at a rate faster than the operating profit every year until 2020. The adidas Group will also continue its multi-year shareholder return program of up to €1.5 billion, launched in the fourth quarter of 2014.

The main intangible asset that the Group hopes to attain is brand desirability from its consumers.

Adidas’ “creating the new” strategy can be broken up into six different pillars, which include their markets/channels, their team that develops the products, their supply chain, their sustainability, their brand portfolio, and innovation (adidas Group, 2014).

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Figure 6.1 – adidas’ six strategic pillars (adidas Group, 2015)
Their six pillars of strategy gives us a more specific direction as to how adidas will achieve their goals for their 2020 strategic plan through every facet of the firm. The most noticeable results of adidas’ strategy has been their ability to differentiate themselves from their competitors through its collaborative efforts as well as its operational efforts adidas has gained through its technological advances.

One of the criteria for a differentiating competitive advantage is to have the ability to predict market trends. According to adidas, the three trends that are shaping the sportswear industry are: digitalization, urbanization, and individualization (adidas Group, 2015). Adidas believes that everything that can be digitized is being digitized. Digital services offer completely new possibilities to connect and interact with customers. In terms of urbanization, adidas holds that the appeal and power of brands will be determined in large and expanding cities. These key cities are where consumer’s perception of the brand will be shaped and from there they will spread to the rest of the world. The company accepts that individualization plays a part in future trends because consumers’ relations to brands is increasingly based on their individual experiences with a brand, campaign, or product. Adidas will keep these predicted market trends in mind with every strategy it implements and every product or service it makes available to the public.

II. Source of Competitive Advantage: Kanye West

Within the sneaker industry, having a celebrity or athlete endorsing your shoe can be considered an inimitable ability and thus a sustainable source of competitive advantage. Much of Nike’s success in the shoe industry and for their brand as a whole, was their signature Michael Jordan line of shoes. Jordan is widely considered the greatest basketball player of all time and Nike was able to reap the rewards of his
insurmountable influence. Having an individual that has an enormous influence on society that either markets or designs a company’s shoes is a quality that cannot be mimicked by others. One could argue that Nike held a differentiating competitive advantage through the influence of Michael Jordan. Since Jordan is currently retired, he does not have quite the same impact that he once held when playing. Jordan was basically the poster child for Nike. In the peak of his playing career in the 1980s and early 1990s, his footwear along with the “jumpman” logo became absolutely iconic. Adidas has never had a partnership with anyone even close to comparable to Jordan until only recently. Today, adidas can safely say that they have an individual with an impact comparable to Michael Jordan in the designer/artist Kanye West.

Kanye West is considered to be one of the most culturally influential musical artists of today. As West even stated: “I am standing up and I’m telling you. I. Am. Warhol. I am the number one most impactful artist of our generation, in the flesh. I am Shakespeare, Walt Disney. Nike. Google. Now who’s gonna be the Medici Family and stand up and let me create more?” (Martins, 2013). Although this statement seems a bit pompous and absurd, there is no denying West’s impact on adidas thus far. Towards the end of 2013, West agreed to design shoes for adidas. Upon West’s signing, the company released the following statement: “For 2014, we welcome one of the most influential cultural icons of this generation, Kanye West. Well known for breaking boundaries across music, film, and design and partnering with our history in street wear culture and leading innovation in sport, we look forward to a new chapter. Details to follow.” (adidas Group 2014).

Nike has been able to generate enormous revenue by giving Michael Jordan his own brand within the company that includes his own shoe and clothing line. Nike has also been able to turn the Jordan Brand logo, otherwise known as the “Jumpman” into an icon that almost everyone recognizes. Because of the remarkable success
associated with West’s shoe line, adidas has decided to take a similar route that Nike has done with Michael Jordan and create a completely new brand of shoes, clothing, and accessories called adidas + KANYE WEST. The long-term partnership with West was officially announced on June 29, 2016 and adidas has called it, “The most significant partnership ever created between an Athletic brand and a non-Athlete”. To differentiate the brand from regular adidas products, there will be stores opening that exclusively sell the adidas + KANYE WEST products (adidas Group, 2016). In addition, West’s line will run its own business unit, which includes a dedicated staff in adidas’ North American headquarters in Portland, Oregon. The expansion plan will include the addition of retail stores that will serve as distinct hubs for adidas and West developed YEEZY products. To further expand the adidas + KANYE WEST line beyond its current lifestyle focus, the collaboration will start to introduce performance-intended designs, offering options for both sport and “street”. The partnership has aroused excitement from consumers and members of the adidas community. Erik Liedke, adidas CMO, commented: “Kanye is a true creator who has the ability to see things others don't. We are excited and honored to build on this partnership, and eagerly look forward to defining the future together. With adidas + KANYE WEST we are exploring new territories by opening up the sports world to Kanye’s creativity. This is what adidas has always been about, empowering creators to create the new.” (adidas Group, 2016).

The most significant contribution that West has brought to adidas is the Yeezy Boost 350 and 750. West designed two shoe silhouettes that have seen massive success among the footwear industry. Ever since the initial release of the shoe in June 27, 2015, there has been tremendous desire surrounding every release (KicksOnFire, 2015). Both the 350 and 750 silhouettes encompass a minimalistic look, boost sole, and primeknit and suede upper component and retail at $200 and $350 but will re-sell on secondary markets for over $1,000 for each release which will be explained more in
The adidas Yeezy Boosts in general are considered to be one of the most difficult shoes to purchase at a retail price (Sneakernews, 2017).

The works of West have been a large contributor to adidas' current brand image and perception and has been a revelation to the company as a whole. CEO of the adidas Group Herbert Hainer spoke on behalf of West's influence on the company when he stated: “We want to keep on releasing the Yeezy trainers and to build on the momentum they've given us in the US market. The shoe is making adidas stand for something unique.” Hainer describing West's influence as “unique” is the exact word that describes differentiating competitive advantage. Having an attribute that is unique and inimitable that consumers would be interested in purchasing is what West has brought adidas in his signature line of shoes. One of the main reasons for West's severance with Nike was his designing limitations. Unlike Nike, adidas has given their sponsored athletes and endorsers including Kanye West, many liberties and freedom to help adidas create new and innovative products.
III. Source of Competitive Advantage: Pharrell Williams

Like Kanye West, adidas has also given independence to other notable fashion icons like Pharrell Williams. Williams is considered to be a very influential person in today’s popular culture. The multi-talented actor, designer, musical artist and producer has had previous success in his own clothing brands called Billionaire Boys Club™ and Ice Cream™. Williams has had nothing but success in his designs he has created for adidas and has been a large contributor to their success. One of his most popular projects was the release of “Supercolors,” which was William’s ultra-saturated iteration of the adidas Superstar model in 50 hand-picked PANTONE colors (Karsen, 2016). The release was an instant hit by the public for its unique approach on a classic adidas shoe that has always known to be simplistic. Besides being a musician, entrepreneur, record and film producer, Pharrell Williams has always been an outspoken political activist. One of the reasons that adidas partnered with Williams was in hope that he could channel his beliefs and ideologies into his clothing and shoe designs. Williams did just that with his construction of the “Hu” collection. He released these five pairs of NMD shoes with the intention to “explore humanity and celebrate diversity around the world” (Pearson, 2016). More specifically, the line of shoes pays homage to Native American culture and aesthetic. In addition, it brings attention to the controversy of the pipeline construction through Native American lands in North Dakota. It is evident that adidas has had success with Pharrell Williams and Kanye West, but adidas has also made clear that the productions and designs with these two figures are completely different entities. Adidas wants its consumers to be aware that the productions and designs between the two are independent of the adidas Group’s standard production and design processes.
The Group’s recent collaborations with Williams and West are abilities that are inimitable and unable to be copied by competitors. Nike can simply not find a figure that can emulate West and Williams. The duo simply has too much influence on popular culture and society. Since Jordan is an athlete, his influence has slowly diminished since retirement. As long as West and Williams continue to produce music and stay relevant in society then their influence will probably never fade and this will continue to be a source of differentiating competitive advantage for adidas. The collaborations with West and Williams are prime examples of adidas’ strategic choice of an “open source”. The partnership with the two icons is considered to be a creative collaboration, which is one of the strategic initiatives for “open Source” (adidas Group, 2017).
Chapter 7: Data and Analysis

The adidas Group has experienced profitability and firm growth through their differentiating competitive advantage and their operational effectiveness. Looking at the quarterly report of adidas, there is a remarkable increase in net sales, gross profit, and operating profit in the adidas Annual Report 2016. Net sales increased from $16.9 billion to $19.3 billion (14% increase), total assets has increased from $13.3 billion to $15.1 billion (13.7% increase) and operating profit has increased from $1.1 billion to $1.5 billion (36.3% increase). Besides these overall increases for adidas as a group, there is also evidence that shoe sales have increased significantly (adidas Group, 2016). By comparing the Nine Months Report from 2015 to 2016, there has been a 27% (currency neutral) increase in net sales of footwear from $6.5 billion to $7.7 billion, in addition to a 13% increase in apparel and a 10% increase in hardware. As previously mentioned, adidas has been able to differentiate themselves through the technology and uniqueness associated with their shoes. It has been evident that their footwear has been the dominant selling point for adidas. By breaking the firm's net sales into the three different categories: Apparel, footwear, and hardware, it is clear that footwear is the leading seller of the three. In 2014, hardware sales totaled $1.5 billion (euros) in net sales, apparel was $6.2 billion, and $6.6 billion in shoes. In 2015, net shoe sales shot up to $8.3 billion, while apparel and hardware stayed relatively constant at $6.9 billion and $1.5 billion respectively (adidas Group, 2016).

Adidas has also seen a stark rise in their assets, which are resources with economic value that a corporation owns or controls with the expectation that it will provide future benefit. From Sept. 30, 2015 to Sept. 30, 2016, there has been a 9.7% increase from $12.9 billion to $14.2 billion. On adidas' consolidated income statement there has been noticeable increases in cash generated in the difference of the year. The most noticeable increases have been for operating profit, which has increased 40.7% in
a year’s time span. Net income has seen a 59.3% increase and Net income attributable to shareholders has had a 60.5% positive change. In addition, adidas’ stock price has been in an immense upward trend in the last 12 months. It has increased approximately 63.9% in the last 12 months and is currently sitting at $82.31 as of February 17, 2017 (Ford Equity Research, 2017). This historical performance should lead to above average price performance in the next one to three months.

### NET SALES BY PRODUCT CATEGORY €
**IN MILLIONS**

<table>
<thead>
<tr>
<th>Product</th>
<th>Nine months 2016</th>
<th>Nine months 2015</th>
<th>Change</th>
<th>Change (currency-neutral)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Footwear</td>
<td>7,719</td>
<td>6,405</td>
<td>21%</td>
<td>27%</td>
</tr>
<tr>
<td>Apparel</td>
<td>5,568</td>
<td>5,111</td>
<td>9%</td>
<td>13%</td>
</tr>
<tr>
<td>Hardware</td>
<td>1,316</td>
<td>1,232</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>Total</td>
<td>14,604</td>
<td>12,748</td>
<td>15%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Table 7.1: Compares the net sales of adidas’ 3 core products and how they have changed for theNine months report for 2015 and 2016 (adidas Group, 2016)

### adidas Consolidated Income Statement (€ in millions)

<table>
<thead>
<tr>
<th></th>
<th>Year ending Dec. 31, 2016</th>
<th>Year ending Dec. 31, 2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit</td>
<td>9,379</td>
<td>8,168</td>
<td>14.80%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,491</td>
<td>1,059</td>
<td>40.70%</td>
</tr>
<tr>
<td>Income before taxes</td>
<td>1,444</td>
<td>1,039</td>
<td>39.00%</td>
</tr>
<tr>
<td>Net income from</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>continuing operations</td>
<td>1,019</td>
<td>686</td>
<td>48.50%</td>
</tr>
<tr>
<td>Net income</td>
<td>1,020</td>
<td>640</td>
<td>59.30%</td>
</tr>
<tr>
<td>Net income attributable to shareholders</td>
<td>1,017</td>
<td>634</td>
<td>60.50%</td>
</tr>
</tbody>
</table>

Table 7.2: Consolidated Income Statement comparing the financial performance for 2015 and 2016 (adidas Group, 2017)
Along with adidas’ increase in their number of shares throughout the years, their market capitalization (market cap) has also seen a steady rise. Market cap refers to the total dollar amount market value of a company’s outstanding shares. It can be calculated by multiplying a company’s outstanding shares by the current market price of one share. Market cap is usually a good sign in determining the size of the company. Companies can be categorized as either small-cap, mid-cap, or large-cap depending on their market cap (Investopedia, 2016). Typically, a company with a market cap of $10 billion or more would be considered a large-cap firm. adidas’ stark rise in market cap has been quite noticeable. In January of 2013, their market cap was sitting at $18.7 billion and in February of 2017, it is currently at $31.79 billion (Google Financial, 2017).

Figure 7.1 – Shows the stark increase in adidas’ share price over a 3 year period (Statista, 2017)
Besides the evidence of increases in overall profitability and net sales, there is also proof of adidas’ growth as a company. For example, adidas’ worldwide footwear production has been steadily increasing throughout the years. For the year of 2013, adidas mass produced approximately 256 million pairs of shoes. In 2014, that number increased to 258 million and the most recent available data shows that in 2015, 301 million pairs of shoes were produced for consumption.

Another component of adidas’ growth is the increase in the number of employees. There has also been a stark expansion in employees from 2010-2015. The graphs below depict the steady increase in the number of employees for the adidas Group and net sales worldwide (Statista, 2015).

Figure 7.2 – Evidence of the increase in adidas’ footwear production (Statista, 2016)
adidas has been very pleased with their recent success thus far. Current adidas Group CEO Herbert Hainer released two statements regarding the company’s success when he stated: “The stellar financial performance in the second quarter is proof positive that our strategy is paying off” and “I am glad to confirm that we are in great shape. 2016 will be a year of records for the adidas Group. But we will not stop there. In years to
come, we will continue to grow across all categories, channels, and geographies and
drive our profitability to new heights” (adidas Group, 2016).

Within the shoe industry, the very limited and sought-after pairs can be a worth
much more than the original retail price in which it was sold. The shoes that are valuable
are often resold at consignment stores or websites like Ebay and StockX at an inflated
price. These stores and sites that sell rare shoes at an elevated price are often referred
to as the secondary market. Besides data from financial reports and stock prices, the
secondary market is another indicator of adidas’ growth, increase in popularity, and
improving brand image.

In 2014, Nike, which included its subsidiary Jordan Brand accounted for 96% of
the secondary market while adidas accounted for a mere 1%. Things quickly changed in
2015 with the release of the Kanye West’s Yeezy Boosts. The releases of Yeezys were
commanding thousands of dollars in the reseller market. The 750 brown model was
reselling at a margin of over 400% of the retail price as well as the Turtledove 350 model
reselling at a margin of over 300%. By 2015, adidas rose by 19% in the re-sell market.
The breakdown of the market share looked like the following: Nike: 77%; adidas: 20%;
Other: 3% (Luber, 2016).

Another shoe that had a significant pull in the secondary market besides the
Yeezys, was the adidas NMD. Adidas has accomplished a feat that they have never
done before by having every single NMD ever released sell out in retail stores. Adidas
has released over eighty different NMD colorways and every single one has been
profitable for resellers. By the end of 2016, adidas has continued to steadily improve
their market share in the secondary market. Adidas holds 30% of the market, Nike has
67%, and 3% for other (Luber, 2016). If Adidas continues their revolutionary new
designs, then they will continue to steal shares from Nike in the secondary market.
The strategies conceived by adidas, which led to their differentiating competitive advantage were a big contributor to their solvency and profitability as well as their
increased presence in the secondary footwear market. Adidas is starting to nip at the feet of Nike in the running for the number one sportswear brand in the world. If adidas continues with their strategies, then they will continue to challenge Nike and one day become the market leader.
Chapter 8: Conclusion and Suggestions

Adidas’ broad differentiating competitive through their inimitable ability has completely redefined the company’s image and has given the firm a noticeable increase in its desirability from consumers. Adidas’ 2020 strategic plan of “creating the new”, to build brand desire and their three strategic choices of “cities”, “open source”, and “speed” have all been implemented into the specific initiatives that adidas has employed in order to gain a differentiating competitive advantage. The firm’s inimitable ability is its partnership with Kanye West and Pharrell Williams can be considered a source of sustainable differentiating competitive advantage. The brand’s best practices of utilizing innovative technology and movement towards retro and luxury styles can all be considered sources of operational effectiveness. Through these practices, adidas has created products like the Ultra Boost, NMD, 3D printed footwear, footwear made from ocean plastic, biodegradable footwear, and recycled soccer cleats. One major takeaway from this case study is that every product and service that the brand has produced derives from its corporate strategy. West and Williams have had a profound effect on the desirability and brand image of adidas. In addition, the company’s best practices have also contributed to the recent consumer demand surrounding the firm. The result has been firm growth, profitability, and an increase in shareholder wealth.

The other takeaway is, although never stated in their corporate strategy, the company’s main area of product focus is their footwear. All of their most popular and best selling products are the footwear the brand offers. Adidas must continue on the path they’re currently in if they want to continue to be profitable and surpass Nike as the market leader. Adidas must not become complacent if they’re able achieve the goals in their 2020 strategic plan and must continue to produce innovative products, expand their brand portfolio, grow as a firm, and appease their shareholders and stakeholders.
If adidas wants to perform at the same level as Nike, it is critical that adidas doesn’t lose their partnerships with their current cultural icons. Having Kanye West and Pharrell Williams creating your product is an inimitable value, which is a source of sustainable competitive advantage. Competitors like Nike will never be able to mimic this value because there is only one Kanye West and Pharrell Williams and they are currently working with adidas. It is absolutely crucial that adidas does not lose these figures.

It will be interesting to see whether the brand with three stripes will be able to carry this momentum going into the future and whether they will meet their objectives of their plan for 2020.


