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Custom Contents

CASE 2

Adidas

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It was April 1993 and Robert Louis-Dreyfus had just become the majority shareholder of Adidas, after purchasing 15 percent of the company. Pioneer in the sporting goods industry, Adidas had once ridden the waves of great success but had now sunk to its lowest ebb. Louis-Dreyfus was now confronted with the challenge of how to turn around the company, currently faced with a deficit of close to US$100 million.

There were numerous hurdles on Louis-Dreyfus's road to creating the best sports brand in the world. The company was losing market share in some of its major European markets and had neglected the vast American market, where Nike and Reebok were now firmly established. Nike and Reebok had outmarketed Adidas. They had developed brash marketing campaigns supported by huge budgets and begun targeting teenagers and women with lower quality, more fashionable leisure products.

Adidas had struggled through turbulent organizational and management changes after the death of its founder Alfred "Adi" Dassler in 1978. (Refer to Exhibit 1 for the Adidas company history.) The company had remained in the family until 1990, at which point Bernard Tapie, a French business tycoon and populist politician, bought it. Tapie had since been jailed following his involvement in a soccer-fixing scandal. Adidas had subsequently been declared bankrupt and left to a number of French banks who, in turn, approached Louis-Dreyfus for help.

The company was in economic and organizational disarray. It was, however, just the type of challenge Louis-Dreyfus liked. He seized the opportunity to save Adidas and give it a new lease on life.

This case was prepared as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation. Copyright © 1998 by **IMD**—International Institute for Management Development, Lausanne, Switzerland. All rights reserved. Not to be used or reproduced without written permission directly from **IMD**, Lausanne, Switzerland.

THE SPORTING GOODS INDUSTRY AND KEY INFLUENCING FACTORS

The first thing Louis-Dreyfus did as CEO was analyze the sporting goods industry. He knew little about it, apart from being a fanatical soccer fan. His past career had been in advertising, pharmaceutical market research and his family's banking business. (Refer to Exhibit 2 for details on Louis-Dreyfus's career.)

Market Overview

In 1992, the world sporting goods market was estimated at $43 billion.[1] The top three geographical markets were the US, accounting for approximately 50 percent followed by Western Europe with approximately 25 percent, and Japan with 10 percent. Industry analysts expected the market to grow by 28 percent to $55 billion by 1998. (Refer to Exhibit 3 for worldwide sporting goods industry statistics.)

The market was divided into three segments: clothing, footwear, and equipment. Given the recent trends for using sports clothing both for leisure and sport, the clothing segment accounted for over half of sales. The footwear segment accounted for a third of sales, and sports equipment accounted for the remaining 13 percent of sales.[2]

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EXHIBIT

1 | The History of Adidas, 1920–1993

It all began just after World War I in 1920 in Herzogenaurach, a small village in the south of Germany. Alfred "Adi" Dassler, a German amateur athlete, and his brother Rudolph began making slippers with soles made from old tires. Adi converted the slippers into gymnastics shoes and soccer shoes with nailed-on studs or cleats. At the 1928 Amsterdam Olympics, German athletes first showcased Dassler shoes to the world. In 1936, the brothers achieved a major breakthrough when Jesse Owens agreed to wear their shoes in the Berlin Olympics, where he won four gold medals. By 1937, the Dassler brothers were manufacturing shoes for more than 11 different sports.

In 1949, however, the two brothers quarreled, and Rudolph left to establish the Puma sports company, while Alfred registered Adidas and the now-famous three diagonal stripes. Alfred was the innovator and used his connections in the athletic arena not only to promote Adidas, but also to develop new materials and techniques. Adidas grew from strength to strength, and athletes continued to wear the company's products at the Olympic games and soccer World Cup.

The first samples of Adidas footwear were used at the 1952 Helsinki Olympics. In 1954, Germany won the World Cup, wearing the new screw-in studs on their soccer shoes. In 1963, the first Adidas soccer ball was produced. And in 1967, clothing was added to the product range. Alfred continued to use the Olympic Games as a forum to promote his shoes. By the Montréal Olympics in 1976, over 80% of medal winners were Adidas-equipped athletes. Business was booming, and Adidas had become a household name in the sporting arena, synonymous with sporting achievement.

In the 1970s, however, two major changes affected the fortunes of Adidas. Nike entered the American market in 1972, with low-quality, fashionable products and was followed by Reebok in 1979. Nike targeted teenagers with leisure wear; Adidas continued to focus on performance shoes for athletes and the middle-aged category. Then, in 1978, Adolph Dassler died.

Adidas struggled through the 1980s. It had to deal with major management changes and was quickly outrun by changes in the industry. The street popularity of Adidas faded as newer, more aggressive companies like Nike and Reebok took control.

Footwear. North America accounted for approximately 50 percent of worldwide sales of branded athletic footwear. In 1992, Nike was the leader with 32 percent of the market, followed by Reebok with 21 percent. Adidas held a mere 4 percent market share in 1992 (compared with a previous high of 70 percent) and was ranked seventh.

The European market represented 31 percent of worldwide sales. Adidas was the leader in its home market, Germany, and Italy. However, the company had lost its leadership position to Nike and Reebok in France, Spain and the UK.

(Refer to Exhibit 4 and Exhibit 5 for statistics on the athletic footwear market and major-player market shares.)

The Trends in Sports in the 1990s

The market was undergoing many changes in the early 1990s. It was developing fast and was increasingly being affected by fashion trends:

EXHIBIT

2 | Robert Louis-Dreyfus's Background

Robert Louis-Dreyfus (47) was appointed chairman of the management board of Adidas on April 7, 1993.

Prior to his appointment, he was CEO of Saatchi & Saatchi, London. He restructured and recapitalized the company, sold businesses and cut 4,000 jobs. In 1993, the company returned to profitability.

With IMS International, a market research company that serviced the pharmaceutical industry in over 70 countries, he held the position of COO from 1982–1983 and CEO from 1984–1988. He built the company up from a market capitalization of $400 million to $1.7 billion and then, in 1988, sold the company to Dun & Bradstreet.

From 1974 to 1981, he was managing director for diversification with Louis-Dreyfus SA, his family's company and one of France's largest privately held companies.

He also worked in finance at the merchant bank S.G. Warburg in London.

EXHIBIT

3 | Geographical Breakdown of Wholesale Volume of World Sporting Goods Market (US$ billion)

				ESTIMATED			
WORLD	**1990**	**1991**	**1992**	**1995e**	**1996e**	**1997e**	**1998e**
North and South America	**22**	**23**	**24**	**28**	**29**	**30**	**30**
U.S.	20	21	22	25	26	26	27
Canada	1	1	1	1	1	1	1
Central America	1	1	1	1	1	1	1
South America	1	1	1	1	1	1	1
Europe	**11**	**11**	**11**	**12**	**13**	**13**	**14**
Western Europe	10	10	10	11	12	12	12
Eastern Europe	1	1	1	1	1	1	1
Asia	**4**	**5**	**5**	**5**	**6**	**6**	**7**
Japan	4	4	4	4	4	4	4
Others	1	1	1	1	2	2	3
Pacific	**1**	**1**	**1**	**1**	**2**	**1**	**1**
Australia	0	1	1	0	1	1	1
New Zealand	0	0	0	0	0	0	0
Africa	**0**	**0**	**0**	**1**	**1**	**1**	**1**
Others	**1**	**2**	**2**	**2**	**2**	**3**	**3**
Total	**40**	**41**	**43**	**49**	**52**	**53**	**55**

Source: "Adidas: A Star in Stripes," *UBS Global Research,* October 1995.
Note: Figures are rounded up.

EXHIBIT

4 | Worldwide Athletic Footwear Market

1992 BRANDED ATHLETIC FOOTWEAR SALES BY REGION AT WHOLESALE PRICES (US$ Million)

	Total	**Europe**	**North America**	**Latin America**	**Asia Pacific**
Sales	13,700	4,300	6,500	1,200	1,700
% of sales		31%	47%	9%	12%
Pairs of shoes (millions)	612	124	391	44	53

Source: Harvard Business School, Planet Reebok, Case number 9-594-074.

1993 USA ATHLETIC ADULT SHOE MARKET (US$ at Wholesale Prices)

1993	**US$ million**	**%**
Basketball	1,600	26%
Cross-training/fitness	1,150	18%
Walking	800	13%
Hiking/outdoor	650	10%
Running/jogging	525	8%
Aerobic	380	6%
Tennis	325	5%
Golf	280	4%
Cleated/studded shoes	275	4%
Other	225	4%
Other court	40	1%
Total	**6,250**	

Source: Merrill Lynch, Adidas Report, Jan. 14, 1997.

EXHIBIT 5 | Market Shares in the US and European Athletic Footwear Market

1984–1992 MARKET SHARE % US ATHLETIC FOOTWEAR MARKET (Primary Sport Retail Chains)

%	1984	1985	1986	1987	1988	1992
Nike	33	30	20	18	23	32
Reebok	3	14	31	30	27	21
Adidas	10	8	6	5	4	4

Sources: "Adidas: A Star in Stripes," *UBS Global Research*, October 1995; Athletic Footwear—Industry Report, "U.S. Branded Athletic Footwear," Salomon Brothers, Inc., Steinberg, H.R., Figure 3, New York, May 1, 1989..

1993 MARKET SHARE % EUROPEAN ATHLETIC FOOTWEAR MARKET (Primary Sport Retail Chains)

%	Adidas	Nike	Reebok
UK	13	26	32
France	21	27	24
Germany	32	19	17
Italy	17	15	16
Spain	13	14	21

Source: Nielsen published in *International Management*, July/August 1994.

1990–1992 MARKET SHARE IN GERMANY (Adidas's home market)

%	Jan-90	Jan-91	Jan-92	Nov-92
Adidas	47	41	35	33
Nike	9	12	19	20
Puma	17	17	13	14
Reebok	5	7	10	12
Asics	5	5	6	6

Source: Adidas/UBS estimates.

- People, and in particular women, were taking more interest in health and sports. They gave leisure time more attention, especially in Europe and the US, as more positive attitudes towards health emerged, characterized by the development of aerobics and other fitness sports.
- Young people were changing the philosophy of sport and setting the trends. Sport was no longer reserved for an elite group of gifted people. New "fun" sports that involved everyone were developing: street sports such as street basketball and soccer, mountain biking, and sliding/gliding activities.
- Athletic footwear was no longer reserved for professional exercise and competition but had also become a part of leisurewear, particularly for the under-25 age group. Eighty percent of sports shoes were now used for casual wear.[3]
- The development of outdoor recreation sports, such as skiing, golfing, jogging and hiking, was encouraging growth of functional outdoor clothing. Less prone to fashion changes than the more youthful "street" and "fun" sports, outdoor recreation sports required authentic, performance products.
- In parallel to this movement, casual footwear was also expanding outdoors with the growth in popularity of brands like Timberland. The casual shoe

market in the US was estimated to be worth over $5 billion. Timberland's sales had increased by over 40 percent to $420 million in 1993.
- Traditional sports, such as soccer in Europe and basketball in the US remained, nevertheless, extremely popular.

Product Research and Development

Although fashion and design were important factors in the sporting goods industry, particularly for the under-25 age group, technology was a key element of success and provided manufacturers with their key differentiation factors. Unlike fashion, technological advances gave companies a lasting competitive edge over their rivals.

For the sports footwear sector, 1 to 3 percent of annual footwear sales was reinvested in the development of new products and technology that were designed to provide increased comfort and performance for the consumer.

Production

By 1992, most sporting goods companies outsourced the main part of their footwear production to the Far East for cost reasons, although some of the clothing production was still maintained in Europe or the US. In-house company-owned factories manufactured approximately 10 percent of production. Sourcing and production lead-times for footwear were 5–8 months. Depending on the quality of the shoe, between 20 and 40 percent of production costs were related to personnel costs, 20 to 40 percent to material costs, and 20 to 30 percent to other costs. Price differences between regions resulted mainly from a difference in personnel costs.

Retail Product Cycles

There were two distinct seasons in the sporting goods industry that dictated the timeline of the production process: summer/spring and autumn/winter. Sixty percent of the footwear production and 75 percent of the textile production were renewed each year and replaced by new models and/or colors. Tight control of inventory and production planning was critical.

Distribution

The distribution process depended largely on the size of the company and the market. The bigger the manufacturer and the more important the market, the more likely it was that the company would bypass distributors and sell directly to a retailer.

In Europe, manufacturers tended to distribute via a wholesaler or local distributor who, in turn, distributed to the different retailers. The distributor was responsible for warehousing, distribution and marketing of the product. It was estimated that wholesale distribution, when used by the manufacturer, represented 20 percent of the final customer price.

In the US, on the other hand, manufacturers tended to sell directly to retailers who, in turn, sold to the customers. Retail distribution added an additional 100 percent to the manufacturer's price.

Many of the retailers were former athletes or coaches who had shifted into the business side of sports at the end of their sporting careers. The 1990s, however, was the era of change in retailing. Rapid consolidation took place, and old-line sporting goods stores went bankrupt or were sold off to major regional chains.

There were four kinds of retailers:

1. Independent specialized chains of sporting goods retailers, which accounted for approximately 60 percent of the distribution of sporting goods:
   - In the US: Foot Locker, Sport Authority, and Foot Action.
   - In Germany: Intersport, and Sport 2000.
   - In France: Decathlon, Intersport, and Go Sport.
2. Department stores and hypermarkets: Hypermarkets were particularly popular in France.
3. Shoe shops.
4. Mail order. Mail order was more popular in the UK than in other countries.

ADIDAS AND THE COMPETITIVE ENVIRONMENT

The next challenge for Louis-Dreyfus was to analyze his two major competitors: Nike and Reebok. Although the industry had been monopolized by Adidas since the early 1920s, all this had changed in the 1970s when first Nike and then Reebok entered the US market and started to aggressively attack Adidas in Europe.

Nike was now clearly established as the worldwide leader, with sales of over $3.4 billion in 1992. Two-thirds of Nike's sales were generated in the US, and over 75 percent of sales were in footwear.

4 Reebok was in second position, with $3 billion in 1992 worldwide sales. Like Nike, the US was Reebok's single biggest market, representing over two-thirds of sales. Approximately 90 percent of Reebok sales were in the footwear segment.

Adidas was now in third position, with $1.7 billion in sales in 1992. It was not surprising that, as a European company, 75 percent of Adidas sales were generated in Europe, with only 15 percent in North America. Furthermore, unlike its direct competitors, Adidas had a broad portfolio, with 55 percent of sales generated by footwear, 40 percent by clothing, and the remaining 5 percent by equipment.

(Refer to Exhibits 6 to 9 for financial information on Nike, Reebok and Adidas.)

Nike's Key Strategies

Phil Knight, an amateur runner, and his one-time coach Bill Bowerman founded Nike in Oregon, USA, in 1964. The company's principal business activity, according to its annual report, involved the "design, development

EXHIBIT 6 | Nike Financial Information

EVOLUTION OF NIKE FINANCIALS 1990–1992
(US$ million; Year ended May 31)

	1990	1991	1992
Total Revenues	2,235	3,004	3,405
Cost of sales	1,384	1,850	2,089
Gross profit	851	1,154	1,316
Gross profit margin	38%	38%	39%
Selling, general and admin	455	664	761
Operating profit	396	490	555
Other expenses, interest and taxes	154	202	225
Net income	242	288	330
Net profit margin	11%	10%	10%
Geographical Revenues			
US	1,755	2,141	2,271
Europe	334	665	920
Asia/Pacific	29	56	76
Canada, Latin America and other	116	141	139

Source: Nike Annual Reports.

BREAKDOWN OF NIKE SALES BY SEGMENT 1990–1992 (US$ million)

	1990	1991	1992
US footwear	1369	1676	1,748
US clothing	266	326	361
Other brands	120	139	162
Total US	**1,755**	**2,141**	**2,271**
	79%	71%	67%
International footwear	369	652	868
International clothing	110	210	267
Total International	**480**	**863**	**1,134**
Total Nike	**2,235**	**3,004**	**3,405**

Source: Nike Annual Reports.

EXHIBIT 7 | Reebok Financial Information

EVOLUTION OF REEBOK FINANCIALS 1990–1992
(US$ million; Year ended December 31)

	1990	1991	1992
Total revenues	2,160	2,734	3,023
Cost of goods	1,288	1,645	1,809
Gross profit	872	1,089	1,214
Gross profit margin	40%	40%	40%
Selling, general and admin	556	666	807
Operating profit	316	423	407
Other expenses, interest and taxes	138	188	331
Net income	178	235	76
Net profit margin	8%	9%	3%
Geographical Revenues			
U.S.	1,655	1,883	1,982
UK	0	380	415
Other Europe	385	296	425
Rest of world	120	175	201

Source: Reebok 1993 Annual Report, Edgar Online.
Note: In 1992, there were important restructuring changes related to the write-down of Avia and estimated losses from the planned sales of Ellesse and Boston Whaler.

BREAKDOWN OF REEBOK SALES BY SEGMENT 1990–1992 (US$ million)

	1990	1991	1992
US footwear	1,172	1,336	1,472
US clothing	43	53	60
International	475	833	1,008
Other brands (including Avia, Rockport, Boston Whalers and Ellesse)	470	512	483

Source: Reebok 1993 Annual Report, Edgar Online.

and worldwide marketing of high quality footwear, apparel and accessory products."

It also sold a line of dress and casual footwear and accessories for men, women and children under the brand "Cole Haan."

Nike: Market Positioning and Segmentation. While Nike associated itself with top athletes and portrayed itself as a serious brand for world-class athletes, the company broadened its image to appeal to teenagers and young adults. Knight had said,

> *The secret of the business is to build the kind of shoes professional athletes will wear, then put them on the pros. The rest of the market will follow.*[4]

major marketing tool
contact with top athletes
then appeal to teens & young adults

Nike dominated the basketball, American football and baseball shoe categories because of the success of the "Air Jordan" basketball shoe and clothing campaign.

Nike: Product Research and Development. In addition to the company's own staff of specialists, Nike used research committees and advisory boards made up of coaches, athletes, trainers, and other experts to review designs, materials, and concepts for product improvement.

Nike had developed the "Air-Sole" technology with the help of Frank Rudy, a NASA engineer who developed the idea of using air in athletic shoes to reduce the shock of impact. The process used pressurized gas encapsulated

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EXHIBIT 8 | Adidas Financial Information*

ADIDAS FINANCIALS 1989–1992 (US$ million; Year ended December 31)

	1989	1990	1991	1992
End of year exchange rate US$/DEM	*0.59*	*0.67*	*0.66*	*0.62*
Total sales	1,887	2,229	2,208	1,704
Change in inventory	4	–15	–21	–24
Other operating income	61	49	74	77
Total revenues	1,952	2,263	2,261	1,758
Cost of materials	1,264	1,400	1,411	1,094
Gross profit	688	864	849	664
Gross profit margin	35%	38%	38%	38%
Personnel costs	258	297	287	242
Depreciation and amortization	36	33	33	27
Other operating expenses**	386	440	466	407
Operating profit	8	93	64	–13
Other expenses, interest and taxes	84	58	53	79
Net income	–77	35	11	–92
Net profit margin	–4%	2%	0.5%	–5%
Number of Employees	9,532	9,067	8,329	6,401

**Includes advertising, promotion and travel expenses, services, rent and lease, legal and advisory fees, and commissions.

	1989	1990	1991	1992
End of year exchange rate US$/DEM	*0.59*	*0.67*	*0.66*	*0.62*
Fixed assets	139	149	139	132
Current assets	846	995	872	669
Total assets	985	1,144	1,011	800
Equity	127	169	178	168
Equity as % of total assets	13%	15%	18%	21%
Investments in tangible assets	37	31	34	38
Depreciation of tangible assets	34	31	31	25

Source: Adidas annual reports.
*Note that Adidas financial data were reported in German DM. For the purposes of the case, the financial data have been converted to US$.

in polyurethane. Nike claimed that Nike-Air cushioning allowed athletes to train longer and feel more comfortable while reducing their potential of injury.

Nike: Marketing and Advertising. Nike leveraged athlete endorsements as the key element in its advertising strategy. The company chose top-class athletes with brash personalities—John McEnroe and André Agassi (tennis), Ronaldo (soccer), Michael Jordan (basketball)—which particularly appealed to the young market and was consistent with the image Nike wanted to promote.

Nike had created Nike Sports Management with the objective of creating a coherent portfolio of marketing agreements for the company's endorsement activities. Nike also moved into career management of its sports stars. "We are not a shoe company, we are a sports company," said Liz Dolan, vice president of corporate communications. As of early 1993, a new venture had also been created with Creative Artists Agency and Michael

for athlet endorsement.
carelotary images

EXHIBIT 8 | Adidas Financial Information *(Continued)*

ADIDAS GEOGRAPHICAL REVENUES 1989–1992
(US$ million; Year ended December 31)

Geographical Revenues	1989	1990	1991	1992
Total	1,887	2,229	2,208	1,704
Europe	1,265	1,652	1,660	1,258
% total	67%	74%	75%	74%
North America	442	370	347	258
% total	23%	17%	16%	15%
Asia Pacific	80	84	92	93
% total	4%	4%	4%	5%
Latin America	41	56	66	70
% total	2%	3%	3%	4%
Africa	59	67	43	25
% total	3%	3%	2%	1%

Source: Adidas annual reports.

BREAKDOWN OF ADIDAS SALES BY SEGMENT (US$ million)

	1989	1990	1991	1992
End-of-year exchange rate, US$/DEM	*0.59*	*0.67*	*0.66*	*0.62*
Footwear	1,014	1,163	1,179	900
% total	54%	52%	53%	53%
Clothing	686	846	823	651
% total	36%	38%	37%	38%
Equipment, royalties, and other	188	220	206	153
% total	10%	10%	9%	9%

Source: Adidas annual reports.

Ovitz to "redefine and expand the world of sports entertainment."

The company invested most of its advertising budget in television spots targeted at young customers, and on new television and cable television (MTV). The spots sold lifestyle, a combination of sports and music, fashion, and fun. With a small agency in the US, Weiden and Kennedy, Nike developed a series of hundreds of short, creative spots using the sponsored athletes, with one single slogan, "Just do it," that were also run in overseas markets with minimal adaptation.

On average, Nike's advertising budget accounted for an estimated 10 percent of sales. In 1992, Nike spent $180 million in the US and between $80 million and $100 million in Europe.

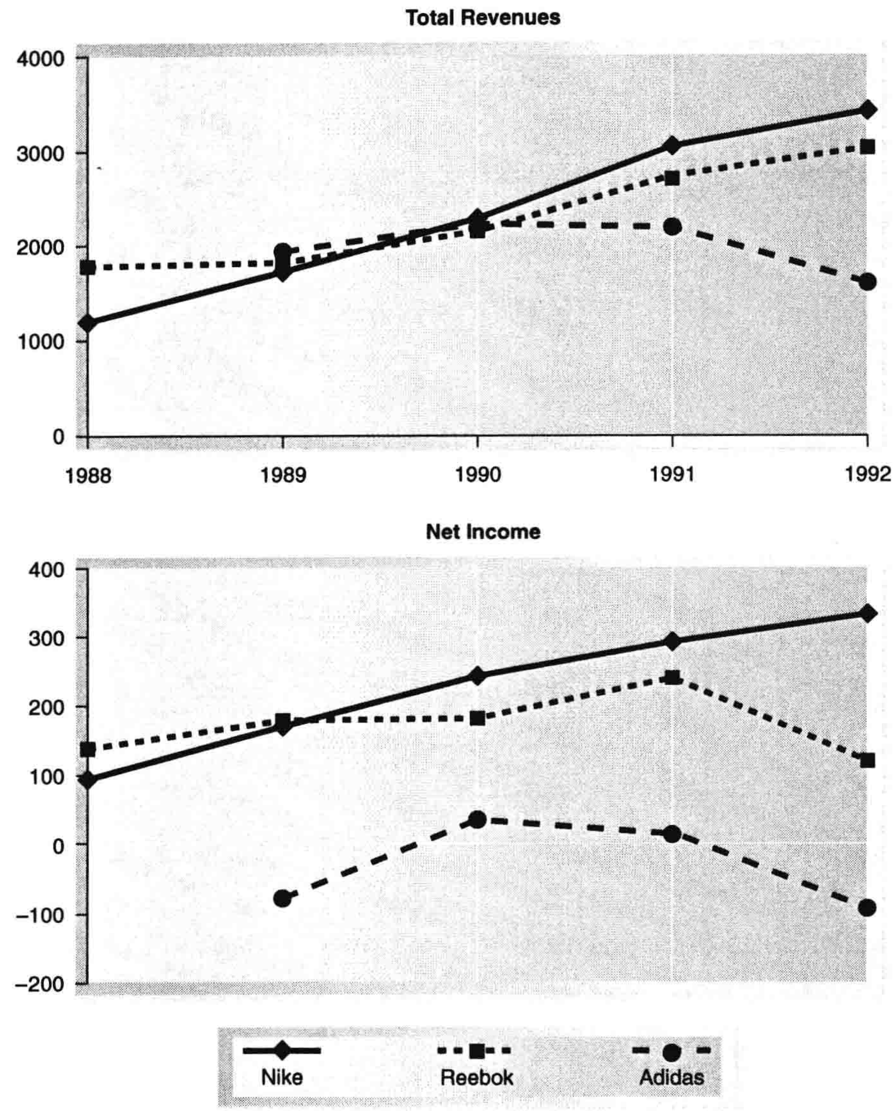
Nike: Production. Nike behaved like a marketing and design group and had totally outsourced its footwear production primarily to Indonesia, China, South Korea, Taiwan, and Thailand. The company also had manufacturing agreements with independent factories in Brazil, Hungary, Italy, and Mexico.

Approximately 40 percent of apparel production for sale in the US was manufactured in the US. All of the non-US apparel was manufactured outside the US.

Nike: Distribution. Nike sold its products to approximately 14,000 retail accounts in the US and through a mix of distributors, licenses, and subsidiaries in approximately 80 other countries.

Nike would help distributors by giving them sales

EXHIBIT 9 | Comparison of Total Worldwide Revenues and Net Income (US$ million)



Source: 1988–1992 company annual reports.

support and training. Over the last five years, Nike had bought back previous distributors in Denmark, Belgium, Spain, Switzerland, Italy, Finland, Portugal, and the Netherlands. There were still independent distributors in Austria, Ireland, Greece, Turkey, and Eastern Europe.

Nike's retail strategy was to sell shoes through different channels to different target segments. Nike sold shoes for athletes in specialized shops, for sportspeople in sports stores, for amateur sportspeople in department stores, and for the mass consumer in shoe stores. Nike had pioneered the "futures," or pre-ordering, process. Due to the strong demand for Nike products among retailers, Nike held a commanding brand position. Consequently, 77 percent of Nike footwear products were pre-ordered in 1992. This strategy had considerable impact on inventory management, production planning, and securing retail accounts.

In 1990, Nike opened its first Nike Town store in Portland, Oregon, a 20,000-square-foot mall with 14 stores that sold equipment for 25 sports. In 1992, the company opened its second Nike Town store in Chicago. Nike was expecting to open 10 to 12 other Nike Towns all over the US.

Reebok's Key Strategies

Reebok had two major divisions: Reebok and the Specialty Business Group. The Reebok Division was responsible for

> *designing, producing and marketing sports and fitness footwear, apparel and accessories that combine the attributes of athletic performance with style, including footwear for basketball, running, soccer, tennis, track and field, volleyball, football, baseball, aerobics, cross training and walking activities, as well as athletic apparel and accessories.*[5]

The division's athletic apparel and accessories included Reebok-branded products, the "Above the Rim" brand of basketball clothing and accessories, and the "Tinley" brand of running and cycling performance clothing. The division also produced clothing and accessories for toddlers and infants under the brand "Weebok."

The Specialty Business Group consisted of Reebok-brand outdoor products and golf products under the "Greg Norman" brand, along with the company's other major brands, including "BOKS" casual footwear, "Avia" women's fitness products, and "Rockport" outdoor and casual clothing.

Reebok: Market Positioning and Segmentation. Reebok was a fashion-oriented sports company whose goal was to become the number one performance sports and fitness brand. The company was organized by product group, with fitness (aerobics, cross training, walking) generating 52% of sales, followed by sports (running, basketball, tennis, football, baseball, soccer, etc.) with 44 percent of sales, and casual footwear with 4 percent of sales.

Reebok's rise to success was fueled by the launch in 1982 of "FreeStyle," the first aerobic/dance shoe designed for women. Freestyle had captured the vast majority of the female sporting market and branded Reebok as a fitness company rather than a performance sports company. Although it had also developed its own technology, Reebok had never really been accepted as an authentic sporting goods producer. The company's strength lay in trendy shoes.

Reebok: Product Research and Development. Reebok had developed "pump" technology, which was an integrated system of one or more inflatable air chambers that could be adjusted to fit the instep of the foot and hence allow athletes to achieve a customized fit.

"Instapump" technology was Reebok's latest development, a new inflatable technology that used the features and benefits of the pump technology in lightweight performance shoes. An inflator containing a carbon dioxide cartridge was used to inflate the chambers instantly. This technology was tested at the 1992 Olympic Summer Games in Barcelona and the 1992 US Tennis Open.

Reebok had also recently developed the "Hexalite" and "Graphlite" technologies that helped improve shoe comfort, stability, and strength.

Reebok: Marketing and Advertising. In 1991, Reebok had invested most of its advertising budget in the "Pump Up and Air Out" campaign in direct competition to Nike's "Air" technology. In 1992, Reebok's media advertising budget was $85 million in the US, $25 million in Asia, and $10 million in Europe. Sixty percent of its advertising was used in television spots and the remaining 40 percent in print media.

The company's objective was to develop its image as a serious sports company, not simply as a fitness company. Reebok had recently made a strong strategic push in the sports market, gaining increased visibility on playing fields and sports arenas worldwide through endorsement arrangements. The company signed Shaquille O'Neal, a 21-year-old basketball player, and developed a campaign targeted to males aged 12 to 34. The objective was to enhance the company's performance image in basketball. Other athlete endorsements included Michael Chang, Michael Stich, and Jimmy Connors (tennis), Arturo Barrios (running), Emmitt Smith (cross training), and Ryan Giggs (UK soccer).

10 Reebok had also just launched its first global marketing campaign. The objective of the "Planet Reebok" campaign was to build a stronger global brand for Reebok and position it as a global company, present in all areas of sport and fitness. Reebok also adopted a new performance logo that provided a single, easily recognizable symbol for Reebok products around the world.

Advertising accounted for 60 percent of Reebok's marketing budget, followed by sponsorships (20 percent), promotions (10 percent), merchandising (10 percent), and public relations (5 percent).

Reebok: Production. Like Nike, Reebok had outsourced most of its production, although some of the clothing and footwear component parts were still sourced in the US. Indonesia, China, Thailand, and South Korea accounted for over 80 percent of the company's overall footwear production.

Reebok: Distribution. Reebok's products were distributed and marketed in 140 countries. The company's US distribution strategy emphasized high-quality retailers and sought to avoid lower margin mass merchandisers and discount outlets. Reebok's footwear was distributed primarily through specialty athletic retailers, sporting goods stores, and department stores. Distribution of clothing was predominately through professional shops, health clubs, and department sporting goods and specialty stores.

In the early 1990s, Reebok's growth had been driven by expansion outside the US, especially in Europe. Reebok had wholly owned subsidiaries in Austria, Belgium, Canada, Chile, France, Germany, the Netherlands, Italy, Russia, and the UK and majority-owned subsidiaries in Japan and Spain. Reebok also marketed through 32 independent distributors and joint ventures.

Reebok also had "concept" stores located in Boston, Santa Monica, and New York that sold a selection of Reebok's footwear and clothing, and it had also opened a retail store in Moscow in Spring 1993. Reebok operated 30 factory-direct stores.

ADIDAS: CURRENT POSITION AND FUTURE STRATEGIES

Adidas: Market Positioning and Segmentation

Adidas had established an image of seriousness, performance, and quality. Customers associated Adidas with authenticity and regarded Adidas as a genuine sporting goods company, not a fashion company. As a result, the company was more popular with middle-aged categories than with teenagers.

Adidas was also essentially a man's brand. This was primarily because the company's heritage had been in men's shoes, and the share of sports articles used for leisure purposes in the early 1990s was higher among men than women.

The company's five core categories of products were soccer, tennis, cross-training, basketball, and running, which accounted for approximately 90 percent of turnover. Each country chose the range of products most suitable for sales in its market.

Adidas and Soccer. The cornerstone of Adidas was soccer. The first Adidas soccer shoe was created in 1925. The German soccer team, which won the 1954 World Cup, wore the first pair of Adidas soccer shoes with screw-in studs. Adidas was now the worldwide leader in soccer footwear, apparel, and hardware, with market shares up to 60 percent in Germany, 48 percent in the US, and 45 percent in France. Hardware consisted essentially of sales of bags and balls. The first Adidas football was used at the 1970 World Cup, and the first collection of Adidas clothing was used at the 1974 World Cup.

Footwear. Footwear accounted for over half of Adidas sales. In 1992, Adidas had 2,000 different footwear models.

The Adidas premium brand, "Adidas Equipment" products, was sold on average at \$62, and all other products were sold at \$57. Prices were much lower than those of Nike and Reebok. For example, Nike could sell premium-brand shoes for more than \$115.

Adidas clearance sales accounted for 30 percent of sales, which was much higher than the average for competitors, which rarely exceeded 10 percent.

Adidas: Product Research and Development

Adidas was the inventor of the so-called "Torsion Technology." The torsion system consisted of a pair of cross supports running from the front to the back of the shoe, allowing movement and at the same time maintaining shoe stability and strength.

Adidas research and development was focused on the creation of new footwear and textiles. Footwear and textile creation, which had previously been attached to the production department, had been integrated into the marketing and sales department.

Adidas: Marketing and Advertising

The strength of Adidas was in international and Olympic events in which participants were amateurs, and endorsement contracts were made with national sporting associations rather than individuals. The Adidas brand had been built through event marketing rather than individual athlete endorsements. Adidas promoted the Olympic games and major sports events in soccer, tennis, running, basketball, and outdoor activities. The company supplied team athletes with Adidas products and benefited from the resulting coverage in press and television. This strategy and the quality of its products had in the past enabled Adidas to win leadership in the athletic, professional, and semi-professional sports class and position its brand as a "professional," high-quality brand among customers. (Refer to Exhibit 10, which illustrates the different major sports events sponsored by Adidas between 1990 and 1992.)

In 1992, Adidas had spent $60 million on advertising in Europe, of which $28 million was spent in Germany. On average, the advertising and promotion budget accounted for 6 percent of sales, and 75 percent of the marketing budget was spent on promotion. TV advertising was covered by a single spot, which stressed the quality of Adidas products and would be shown all year long without change. A major American advertising company created the advertising.

EXHIBIT 10 | Major Sports Events Sponsored by Adidas in 1990–1992 by Sport Category

Soccer	In the 1990/91 season, over 20 teams wearing Adidas products won major-league or cup honors in national and international competition.
Tennis	Steffi Graf and Stefan Edberg wore Adidas-brand shoes and clothing.
Running	Adidas was the dominant supplier in the shoe and textile sector for the Track and Field World Championships in Tokyo. In 1992, Adidas supplied the most prestigious marathon events in the world, such as Boston, London, and Berlin.
Basketball	Dikembe Mutombo, number 55 of the National Basketball Association's Denver Nuggets and new player in the US National Basketball League, wore Adidas-brand shoes and clothing.
	Adidas was also well represented on the basketball court during the 1992 Olympics, having equipped teams such as China, the CIS, Spain, and Germany.
	In NCAA basketball, the organization of US college basketball teams, Adidas supplied two of the leading teams—The University of Indiana and rival Duke University.
Outdoor Activities	In 1992, Adidas sponsored the first Adidas Adventure Cup—an outdoor spectacular in which participants competed in mountain biking, climbing, and cross-country running. Many television channels broadcast this event. In Germany alone, six television channels covered the Adidas Adventure Cup.

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