

How can Adidas survive and improve in a consistently changing environment and strong competition?

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Abstract. This report aims to investigate how can Adidas survive and improve in a consistently changing environment and strong competition. This report focuses on the multi-billion dollar shoe industry in 2021, with green, sustainable, and innovative themes. Sports and fashion will become the trend of the future industry. Adidas' global revenue is 21.23 billion euros, lagging behind the powerful Nike, with a growth rate of 16% compared to 2020, but still lagging behind the level before the 2019 pandemic. A turbulent environment, capturing consumer demand and supply chain management are the main risk issues. The company has made progress in climate change and SDG's, establishing a good brand image, but only 42% of supplier facilities met the standards and lacked the comprehensiveness of goals. They are committed to commercial product innovation, but there is a lack of internal innovation and innovative product sustainability. They opt for a detailed and systematic approach to supply chain management. They also pay attention to employee development and a fair environment, but lack concern for daily life. Adidas has a sound risk management system and has effectively responded to epidemic risks, but measures to address small and potential risks need to be improved. Because they have a certain business scale and continue to work hard, Adidas can survive in the constantly changing environment and competition, but surpassing Nike may require breakthroughs.

Keywords: Adidas, company analysis, future outlook

1. It is recommended:

- Adhere to the "own the game" strategy
- Focus on remaining debt, keep up with trends (lifestyle, technology and digitalization) and continuously improve flexibility
- Encourage employees to innovate internally and continue to care
- Establish a good corporate image (climate change and SDG's)

2. Introduction

This report studies the overview of the footwear industry and Adidas, using qualitative and quantitative data. Adidas' commercial activities will be analyzed for viability and growth. In addition, shortcomings, future predictions and suggestions will be given. This report uses an international perspective for industry and organizational analysis, as well as data from some regions.

2.1 Industry Review

As a Multi-Billion U.S. Dollar well-known industry, the shoe industry is the production, R&D, operation and sales activities of luxury footwear, sneakers and athletic footwear, as well as other related segments (Smith, 2022). Many large multinational companies in the global shoe industry in China are supervised by the State Administration for Market Regulation, mainly Nike, Adidas, Puma, etc.

As mentioned in PESTLE, the turbulent world environment results in global trade fluctuation. The economic situation affected by the epidemic is still not optimistic, inflation affects people's consumption methods. Moreover, people also pay more attention to green sustainable development. A trend in the global shoe market is that sports shoes are becoming more and more popular due to the increasing awareness and enthusiasm for health activities. Sports shoes have also become a symbol

of people's daily fashion. This trend has also driven the footwear industry to collaborate with designers, clothing brands and artistic images. Conclusively, Green, Sustainable and Innovative are the main themes of the shoe industry.

3. Corporate Review

3.1 The Business/Organisation

Adidas headquarters is located in Hürth, Germany, and its SIC is 5139. As mentioned by Business Canvas, the company is committed to the innovation, design, development and marketing of sports and lifestyles, by continuously developing satisfactory footwear, clothing, accessories and other products with inspiring experiences (Adidas, 2021). The founder Adolf Adi Dassler, because he can fully catch the demands of the athletes and has exquisite talent and craftsmanship, athletes in the world have chosen Adidas. The development all the way has become an irreplaceable position to this day, which is the company's strength mentioned by the SWOT analysis.

In 2021, as a multinational company, it has 2184 global retails (Tighe, 2023). Adidas USPs that differentiate from others are not only selling sportswear to people but also promoting a sports lifestyle through high-quality products and continuous innovation. Nike, Puma, Under Armour, Converse, and New Balance are also major competitors.

According to Business Canvas analysis, Adidas mainly segments customers based on geographical regions. Greater and North America are the most important markets of Adidas, because these regions account for more than 40% of the company's annual retail sales (Adidas, 2021). At the same time, they are also classified according to their lifestyle into attributes, sports enthusiasts, and image seekers.

The increasing penetration of digitalization has expanded the sales process, which is an opportunity for the company as mentioned by SWOT analysis. Not only is it the new DTC mode (e-commerce combined with physical stores), but new digital tools are already online and ready for expansion, such as "Click", "S. Core" and "Digital Showroom". Additionally, as you can see in the SWOT analysis, new technologies have enabled better product innovation and performance breakthroughs, such as 4DFWD and Techfit Period-Proof Tights.

3.2 Financial Review of the Organisation

The overall financial situation of Adidas in 2021 is better than in 2020, but it still needs to be continuously improved compared to 2019 and its competitors. From Figure 1, it can be seen that compared to other competitors in the same sector, Adidas' revenue situation is relatively stable and in the middle, while Nike is still a strong competitor.

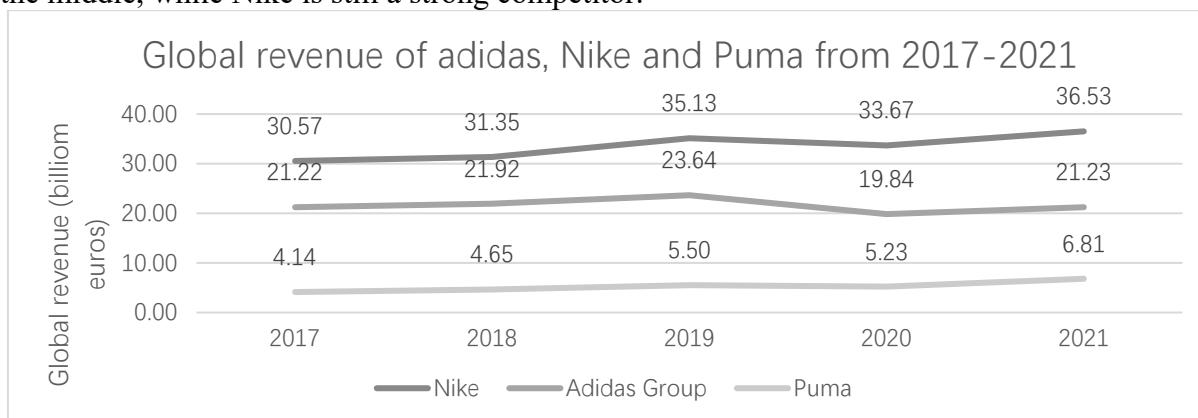


Figure 1 Global revenue of adidas, Nike and Puma 2017-2021
Source: (Statista, 2022)

The indicators of the company's operating conditions (net sales and gross profit) and financial positions (liabilities and retained earnings) are showing good trends (Adidas, 2021). However, the indicators of the share price at year-end, cash and cash equivalents and trademarks have decreased

compared to the previous year, reflecting that the financial status of the company's operations still has hidden dangers that lack of cash management and have potential poor year-end performance.

The improvement of operating profit margins, as the main financial KPI of operating progress, provides the company with the development direction of good product quality and operating efficiency in the long term. The growth of operating profit improves operating cash flow and eases the company's pressure.

3.3 Key risk issues

Adidas may be affected by the volatile external environment in multiple ways, especially in the short term. An orderly supply chain and revenue from large-scale offline sports events may be negatively affected. In addition, the ability to create and provide products that resonate with retail partners and consumers is a risk, especially in the fashion-related business field. As mentioned in the SWOT analysis, Adidas has outsourced a lot of business in weaknesses, so whether to maintain a strong relationship with partners and the degree of dependence on specific partners are specific risks.

4. Critical analysis of key decisions taken by the organization

The company's strategy is "Own the Game", taking full account of relevant stakeholders and social development based on performance, but some ideas are not comprehensive.

4.1 Climate change adaptation

Climate change is a threat to Earth's health, animal survival and human well-being (NASA, 2023). Climate change may cause traditional production of raw materials such as cotton may not be able to be supplied normally, which influences the company's normal business and even directly affect operations. To address climate change problems, Adidas has developed an "Environmental Footprint Tool" to monitor the decarbonization of the entire value chain and analyze the results to reduce emissions in a targeted manner (Adidas, 2021). They also establish and implement comprehensive chemical management plans in their supply chain through monthly chemical consumption and inventory reports. As of the end of 2021, only 42% of supplier facilities have achieved chemical use that meets the ZDHC MRSL Level 3 standard (Adidas, 2021). It indicates that Adidas needs to continue to pay attention to the use of supplier chemicals and manage their cost investment on climate change.

4.2 Intrapreneurship and innovation

In 2021, Adidas also adheres to providing consumers with sustainable concepts in innovative technologies, materials and products. They are also committed to successfully commercializing innovative concepts. The prices of some innovative products are relatively higher than the average selling price level and the consumer group is relatively limited. This type of innovation may not be able to promote the rapid growth rate of the company's income as the Question marks in the Boston Matrix analysis, which may only stay in the Dogs area. In addition, companies rarely mention the involvement of intrapreneurship in innovation, which may be due to the bias towards innovation in professional areas such as materials technology. Innovating the appearance design of footwear products may be a better development in line with the trend of footwear gradually becoming a personalized expression.

4.3 Supply chain management

As mentioned in the SWOT analysis, the majority of production is outsourced by Adidas, resulting in a large, multi-level and diverse supply chain. They adopt a detailed and systematic approach to supply chain management. They have established a supply chain code of conduct for everyone involved in the supply chain. To ensure the implementation of the guidelines, they also developed multi-level monitoring and execution processes, such as using a rating system to evaluate suppliers

(Adidas, 2021). In addition, they also use the drawing of supply chain risk maps to ensure that suppliers produce in a socially and environmentally responsible manner (Adidas, 2021). The delivery process is subject to volatile external environments such as the pandemic and Adidas flexibly adopts multiple channels to ensure delivery. However, the excessive proportion of production outsourcing is still an inevitable hidden danger, making it difficult to achieve complete supervision of every large supplier. Combining digitization with regulatory methods may be beneficial for comprehensive control.

4.4 Talent management

Adidas' talent management is based on Diversity, Equity, and Inclusion (Adidas, 2021). Their talent management measures mainly focus on performance and learning development. Adidas has set key KPIs for measuring the success of its new employee strategy and provided training programs on skills and abilities for employees and managers to continuously improve (Adidas, 2021). The company opposes racism and gender discrimination and has established good and fair talent management (Adidas, 2021). Compared with other companies, some companies devote their energy to the optimization of the workplace environment, employee help and other more humanistic talent management fields, which is their lack.

4.5 Embedding sustainable development goals

Adidas uses the SDG's as a framework to link them with its commitments to human rights and sustainable development (Adidas, 2021). They are already able to link environmental priorities with sustainable development goals. For example, environmentally friendly manufacture, use and disposal. Although Adidas has practiced a certain degree of SDG's, it is mainly invested in the form of donations in public undertakings and lacks the implementation of some goals.

4.6 Risk management

Adidas has established a comprehensive and consistent risk management system to manage all major risks (Adidas, 2021). In the risk management process, Adidas adopts identification, evaluation, mitigation, monitoring and reporting. Due to the risks of uncertainty caused by COVID-19, Adidas has actively invested in the adoption of digital platforms and various transportation methods, which has successfully promoted consumer participation and brand building. It is one of the reasons for the 16% increase in revenue (Adidas, 2021). The entire major risk management process of Adidas is relatively complete and comprehensive, but the content of small and potential risk management still needs to be improved and careful consideration.

5. Future outlook of the company

5.1 Finance

From the financial data dashboard, it can be seen that net sales have recovered compared to 2020, but their performance is not as good as before the pandemic in 2019. In the future, by continuing to adhere to goals and strategies, except for major mistakes, net sales would continue to grow.

Meanwhile, the debt has decreased compared to 2020, but the level of long-term borrowing is still relatively high compared to before the epidemic. In the future, the company may need to continue to bear outstanding debts from the pandemic, which may increase financial pressure. Therefore, in the future, companies may focus more on debt repayment to avoid negative high debt financial conditions. In addition, the net sales divided by different regions in the dashboard are mainly concentrated in EMEA and North America in 2021 at about 61%. In the future, as shown in Appendix E2, the company should continuously focus its business on these two sub-markets and pay special attention to the Greater China region, which is the third largest net sales volume of about 22%. Due to the huge 40% increase in Latin America net sales, the company should also pay attention.

5.2 Operations

In the constantly changing world environment of the future, Adidas should also adhere to a flexible and agile operational approach to cope with possible changes. There are still issues with operational details such as innovation, personnel management and outsourcing mentioned earlier. They should strengthen internal innovation, focus more on employee life and leverage outsourcing through internet regulation. Additionally, Adidas would continuously develop and improve its online operation model based on offline store operations to better increase flexibility and comply with the trend of the digital age in the future. Enhance users' online experience when purchasing products and fully utilize the data brought by online operations.

5.3 4IR transition to 5IR

4IR focuses more on the emergence of technology, while 5IR focuses on how technology can better benefit humanity through the three values of people-oriented, sustainability, and resilience (Xu *et al.*, 2020). In business, Adidas should not only actively adopt new technologies (AI, Big data, etc.), but also pay attention to the three core values of 5IR (such as sustainable and environmentally friendly production), which may better promote Adidas' going concern in the future. To better combine new technologies such as AI and Internet technology with the company's operations and sales to serve human services.

6. Summary

This report studies the situation of the footwear industry and Adidas Company, investigating and analyzing the company's decisions from six aspects. Finally, the company's prospects are presented from three aspects. A turbulent environment, capturing consumer demand and supply chain management are the main risk issues. The supplier's equipment did not fully meet the standards and lacked the implementation of some SDG's goals. The company lacks attention to internal innovation and employee care. The sustainability of innovative products, small risks, reliability of outsourcing and liabilities need attention. Because they have a certain business scale and continue to work hard, Adidas can survive in the constantly changing environment and competition, but surpassing Nike may require breakthroughs.

To achieve the company's continued operation and continuous growth, it is recommended that the company adhere to the "own the game" strategy. Establish a good corporate image (climate change and SDG's). Focus on remaining debt, keep up with trends (lifestyle, technology and digitalization) and continuously improve flexibility. Additionally, engage employees to innovate internally and continue to care.

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