Adidas targets the Chinese interior

Patti Waldmeir in Shanghai NOVEMBER 16 2010

Adidas, Europe’s biggest sports goods maker, will open 2,500 stores and expand its sales network to 1,400 Chinese cities, in an effort to regain market share lost to foreign and domestic competitors in one of the world’s most rapidly growing retail markets.

The German company is one of many consumer goods multinationals that have recently decided to shift their focus from near saturated “first tier” cities like Shanghai and Beijing to target smaller cities and less affluent consumers, where they believe growth potential is higher for foreign brands.

Adidas plans to reach far into the Chinese interior to open the new stores. Initially this will be in municipalities with as few as 500,000 people and then, by 2015, in cities with a population of just over 50,000, company officials said in Shanghai on Tuesday.

“We will be in seventh tier cities by 2015,” said Christophe Bezu, Adidas managing director for greater China. At present, the company has 5,600 stores in 550 cities.

The product mix in smaller cities will be chosen so that the entry price for consumers would be 15 per cent less than in Adidas’ existing shops in larger cities, he added. The company would be targeting “middle affluent” consumers with average disposable income of Rmb5,000 ($753) a month.

Herbert Hainer, Adidas chief executive, predicted that the strategy would allow the German group to regain the number two market position that it recently lost to Li Ning, the Chinese sportswear manufacturer.

Li Ning, named after the Olympic gymnast who lit the flame at the opening ceremony of the 2008 Beijing Olympics, recently announced plans to take its brand upmarket to compete more directly with foreign brands like Adidas and the market leader Nike.

Li Ning’s move up to second position could prove a seminal moment.

Retail analysts see it as one of the first signs in the retail field that Chinese products can rebrand themselves as not just cheap but desirable.

Li Ning has strong sales and distribution networks in the lower tier cities that Adidas hopes to penetrate.

Mr Hainer dismissed Adidas’s recent problems in China as a purely temporary phenomenon related to overstocking in the run-up to the Olympics.

Adidas China sales returned to growth in the third quarter, with currency-neutral sales rising 9 per cent year-on-year in China compared with 10 per cent for the group as a whole, he said.

Mr Hainer predicted double digit sales growth in China over the next five years.

Adidas made optimistic projections before the Beijing Olympics, predicting its China sales would exceed €1bn ($1.4bn) by this year. Mr Hainer now says that target will be reached next year.