

Keep Adidas Running Fast

IN A POST-COVID-19 WORLD

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Case 1 Overview

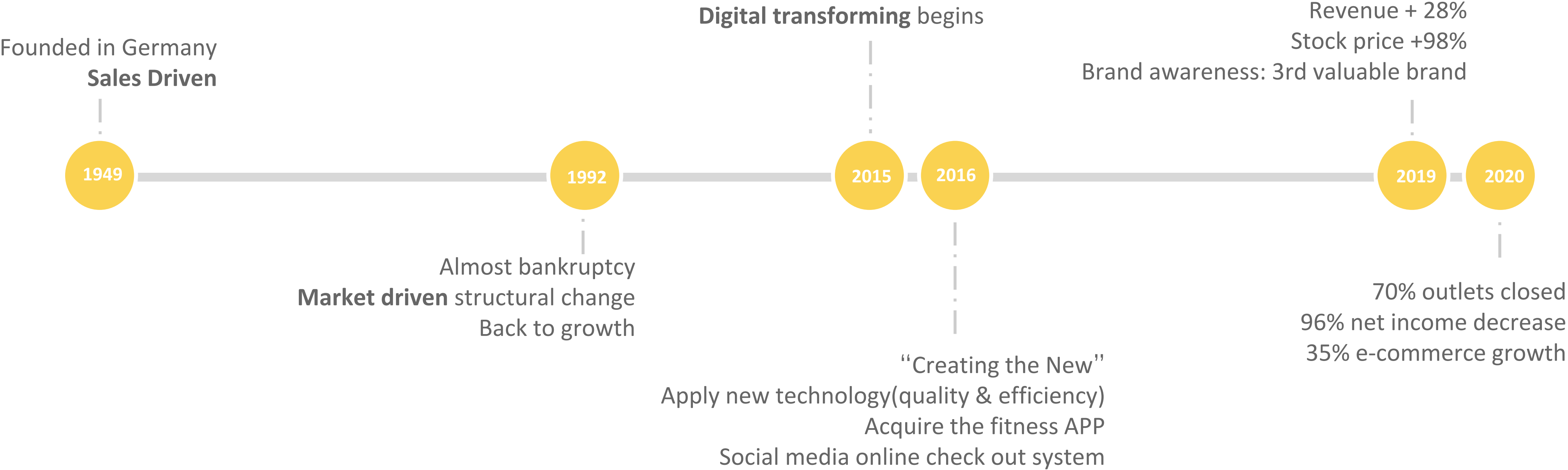
-Background

- Adidas Group is the world's second global apparel sports company.
- It began **digital transformation** in 2015, which helped it sustained high growth in the 2016-2019 period.

-Problems

- The outbreak of the COVID-19 pandemic and lockdown policy have changed **consumer habits** and global **business landscape**, which hit Adidas by **96% decrease** in net income compared to the first quarter of the previous year, while **e-commerce** was the only channel obtain positive sales growth with **+35%**.

Timeline



2 CHALLENGE

96% net income decrease(1st quarter, 2020).

70% stores remained closed during February to May, 2020.

Contagion, self-isolation, and economic uncertainty changed the way consumers behave¹

Behavior changes, such as digitalization adoption, will reshape consumer decision journeys and companies will need to adapt fast.

1. <https://www.mckinsey.com/industries/retail/our-insights/how-covid-19-is-changing-consumer-behavior-now-and-forever>



Long-term supply chain challenge

This disruption has amplified existing supply chain digitalization and diversification issues for global companies with current or intended supply chain operations in Asia Pacific.

Demand fluctuation management

The widespread vaccinations could bring a rebound of in person consumption very quickly.

3 OBJECTIVE

RETHINK, RECOVER, RESTRUCTURE



Recover: increase revenue to pre-crisis levels

2019 gross profit: 12.3 billion euros

2020 gross profit estimate: 10 billion euros



Redesign the organizational structure



4 ANALYSIS

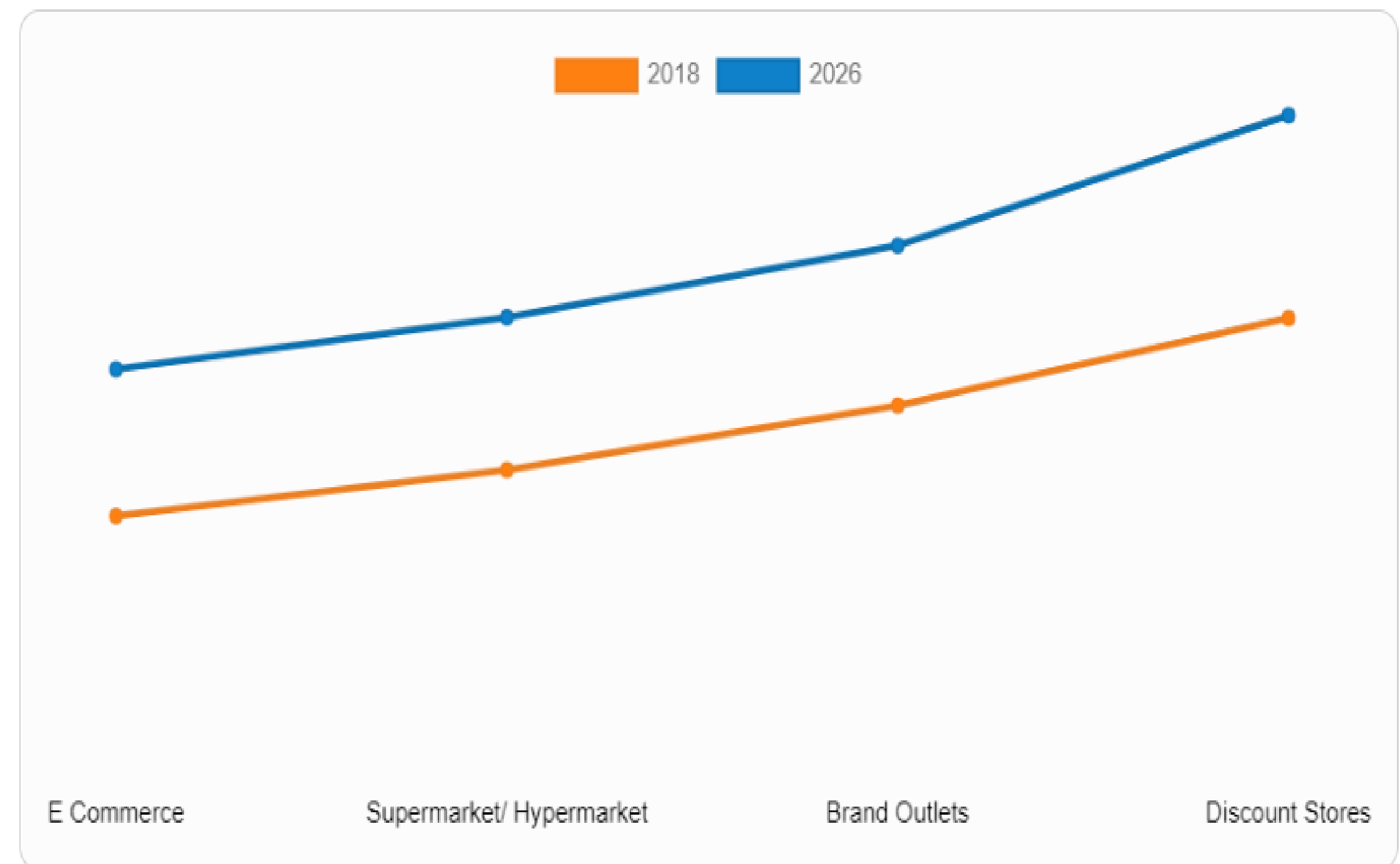


Industry

E-Commerce segment witnessed a large increase in the future

Sports Apparel Market

By Distribution Channel



Advantages

Competitive in gross profit and stock price:

Raised Target E-commerce revenue beyond €4 billion

Initiated part of digital ecosystem:

Omnichannel: App/Online Store

Instagram Checkout Tool

Flagship Store

Customer Experience:

Partnered with technology company

Production: 4D Futurecraft shoes

Liquid Printing

Star products: Yeezy products by Kanye West

Stable supply chain system

Disadvantages

High proportion(73%) in Asian supplier and location

98% footwear in Asia

Relatively expensive price

Low operating efficiency

Inaccurate prediction (fit)



5 STRATEGY



Control supply chain risk



Keep building digital ecosystem



Adjust product mix through acquisition

1. Control Supply Chain Risk

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Diversify the supply base to reduce risks

- Most of production suppliers located in Asia (98% Footwear; 91% apparel; 81% on hardware)
- Increase flexibility and reliance of the supply chain
- Increase reliance on Europe and America



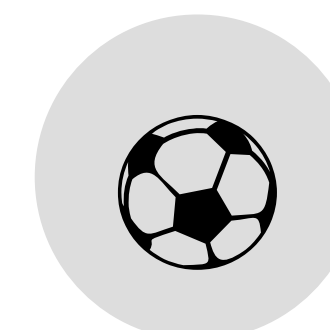
Monitor key strategic partner risk

- 45 key strategic partners shared 90% and 89% production volume and production value
- Build dynamic partnership per market demand



Enhance the effectiveness of Internet of things

- Assist integration of communications, control and information processing
- Widespread the application of new tech



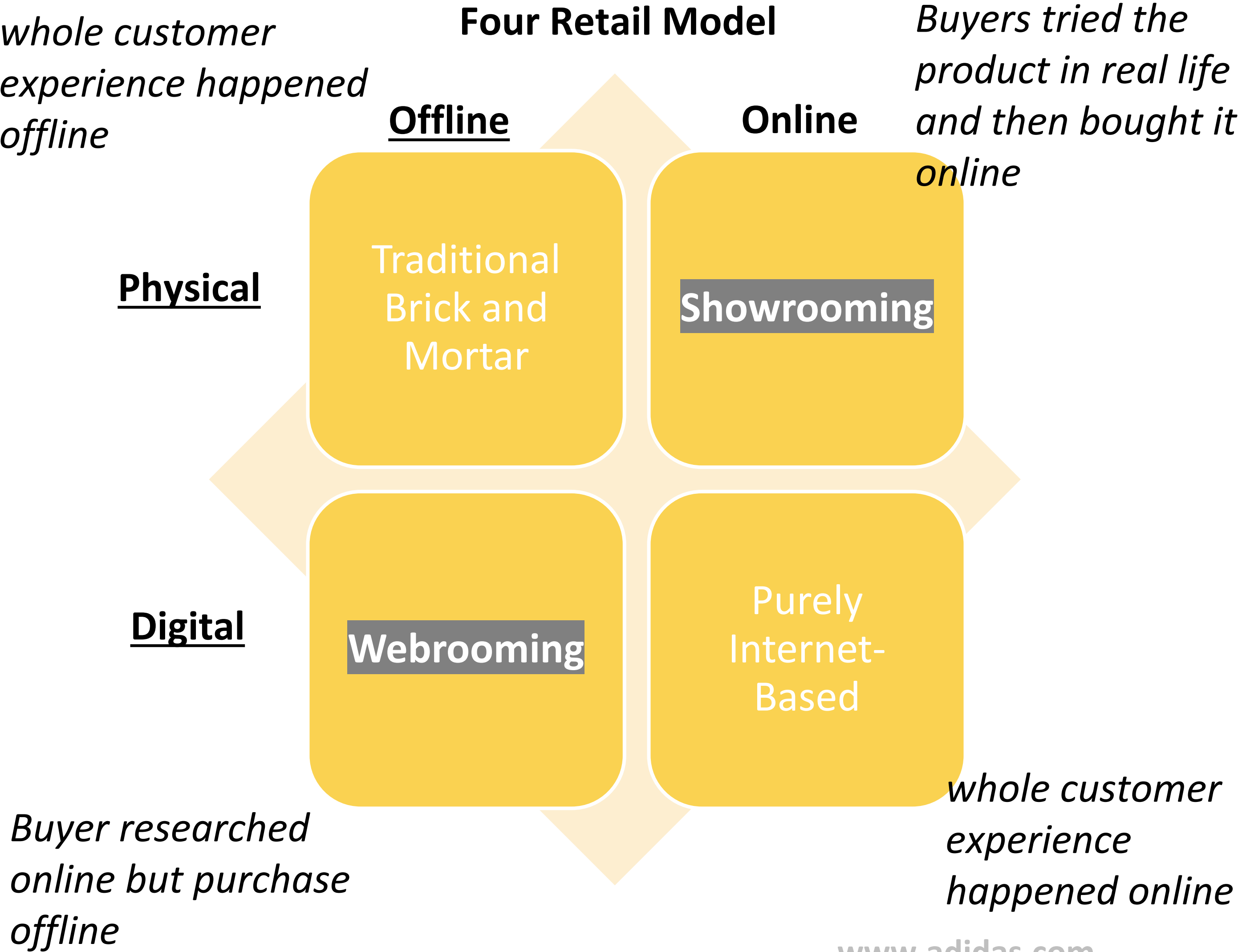
Stock critical raw materials & Hold safety stock

- Secure materials for demand-pull inflation
- Stock the inventory that carried with outdated risk

2.Keep Building Digital Ecosystem

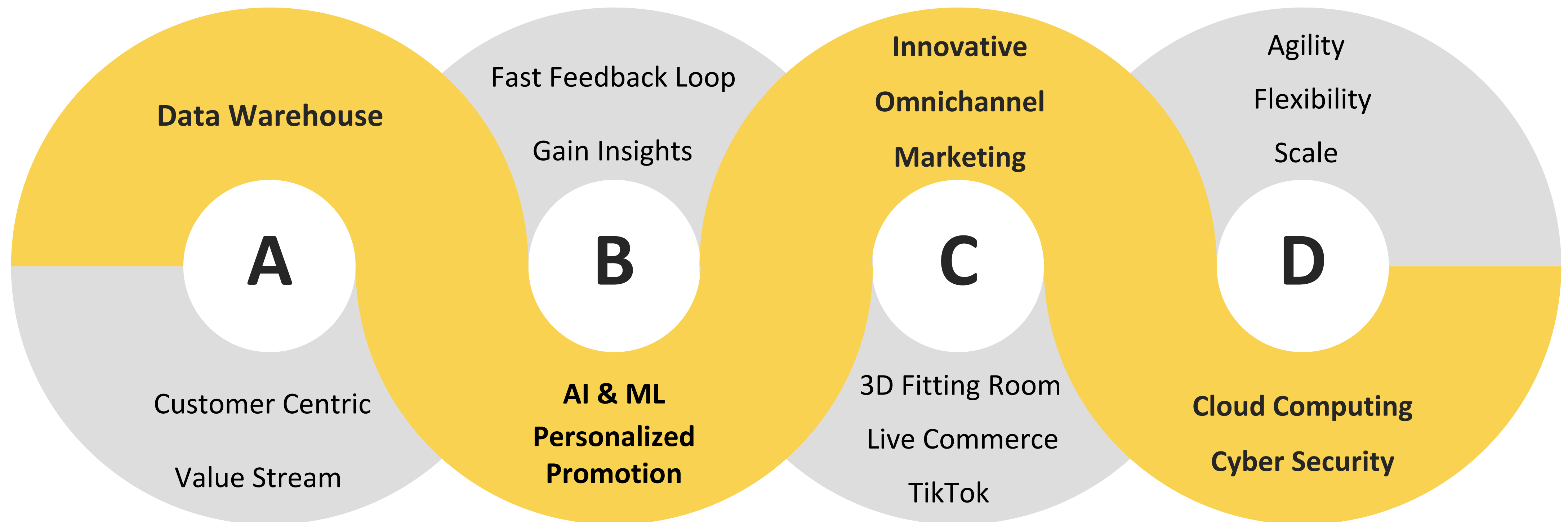
Hybridized digital platforms and physical stores

- Focus on Showrooming and webrooming retail model
- E-commerce would account for roughly 20% of total retail sales in 2023
- Digital platforms evolving physical store, not exterminating physical stores
- Bring the experience of physical shopping to online customers
- Improve the user experience: unmanned drone aircraft, etc.



Key Digital Drivers

WITH ADIDAS SPORT



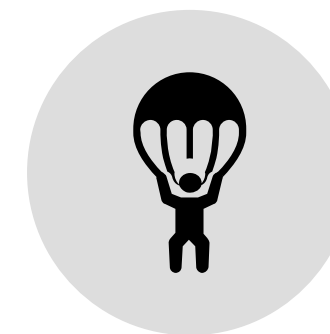
3. Adjust Product Mix

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Price sensitive market

Price is relatively high compared to cheaper brand:
median men's shoe price for Adidas is \$75, for Reebok is \$58. ¹



Shoppers are also becoming more prudent spenders

China's household deposit balance increased by 8% compared with end-2019. ²



Acquiring a sports brand targeting lower tier cities and rural areas

Asia pacific and emerging market:
Gain market share and revenue.
Reduce risks.

1. <https://priceconomics.com/how-much-do-shoes-cost-for-men-vs-women/>
2. <https://www.statista.com/outlook/259/101/sports-outdoor/asia>

6 EVALUATION

- In 2019, the revenue generated by E-commerce is € 3 billion(+34%).
- In 2020 Q1-Q3, E-COMMERCE growth rate is 51%, thus the revenue contributed by E-commerce is $3 \times 1.51 = 4.53$. let's say 6.1 billion if take Q4 into the account.
- **Forecast:** Assuming the average additional increase of the revenue caused by our efforts is 20% a year. The natural growth rate is 40%, the expected revenue generated by Ecommerce in 2021 is $6.1 \times 140\% \times 120\% = 10.2$ billion.
- Considering 96% of global stores are open at the end of September, and the expected the spike of revenue spending after vaccination, **we are confident our plan will reach the goal.**



7 CONCLUSION



Control supply chain risk



Keep building digital ecosystem



Adjust product mix through acquisition





REFERENCE

1. Statistia: <https://www.statista.com/>
2. Global Supply Chains in a Post-Pandemic World: <https://hbr.org/2020/09/global-supply-chains-in-a-post-pandemic-world>
3. How COVID-19 is changing consumer behavior—now and forever: <https://www.mckinsey.com/industries/retail/our-insights/how-covid-19-is-changing-consumer-behavior-now-and-forever>
4. Sports Apparel Market: <https://www.alliedmarketresearch.com/sports-apparel-market>

Thank You!

Any questions?

