

# Global Economic Environment and Marketing

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## Project 2 Assessment

Submitted By:

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## **1. Introduction**

The rapid globalization and changing economic scenarios change the working conditions for organizations in global economic environment. The survival of global corporations is based on effective competitive strategies, revolutionized innovations, and sustainable business practices (Ferraro et al., 2005). Strategic marketing initiatives are required for organization to excel in changed economic environments. Sustainable marketing activities are relatively new practice in multinationals and global companies to meet the challenges of rapid deprivation of natural resources, threats to natural environment due to industrial activities, and the increased awareness of environmental concerns in consumers (Miller & Cioffi, 2004).

According to Kotler and Pfoertsch (2006), strategic planning for effective utilization of resources and understanding the market requirements are major tasks in new markets. This paper is based on the sustainable marketing strategies of leading global sports brand Addidas in Chinese market, primarily because the major production of this brand in this region and it major hub for export in this industry. The paper discussed the changes in company strategies to adjust the target market requirements in innovative and sustainable manner. The marketing strategies, segmentation and targeting, and sustainable business practices are discussed.

### **1.1 Company Description**

Adidas was established in 1948 in Germany and rapidly progressed to a sports brand in local and overseas markets. The company has major competition with Nike in international market and possessed global presence in sports apparel, shoes, and perfumes markets. The company owned three leading brands of Adidas, Adidas Golf, and Reebok. Adidas has major store operations in more than 30 countries with more than 600 stores worldwide apart from sales in super stores and shopping malls. The company is in leading position in China and has served as official sponsor in major events such as Beijing Marathon in 2013. The company offers competitive positioning in the market with highest sales recorded in the market (Adidas, 2016).

## **2. Microenvironment Analysis-PEST**

PEST analysis in Chinese macro-environment for Adidas is discussed below:

### **2.1 Political**

Chinese market has observed a recent change of government in 2012. New government took strict actions against corruption and provided favourable and competitive environment for MNCs like Adidas. The income disparity and economic growth of this market is also monitored closely with effective regulatory policies in every sector. The reduction in import duties on shoe leather will boost the competitive manufacturing environment for Adidas. The fair wage policy of Adidas will help to manage the riots of labour for high wage rates. On the other hand, raised trade tensions of China and EU countries can affect negatively on Adidas manufacturing in China (Adidas, 2016).

### **2.2 Economic**

The stable tax structure and low import duties on leather has been favourable to the production of Adidas in China. On the other hand, the counterfeit brands of Adidas are also made in the region; therefore, the brand faces economic threats as it is difficult to control the illegal production. Also, the counterfeit brands challenge originality of brand in Chinese and international markets, resulted in the loss of brand image as well (BBC, 2012). The environment concerns of production in China required effective supply chains and green production practices. The public sentiments against the company consider Adidas responsible for environment degradation like other MNCs. Also, the demand of increased wages for Chinese labour is another economic issue that will decrease the manufacturing viability of China as a cost effective alternative to Germany.

### **2.1 Socio-cultural**

The consumers' base in China is highest and Adidas has market of 1.3 million consumers in this market (CIA Fact book 2016). The youth constituted around 33% of total population and comprised on the major target market for Adidas. Increase in internal migration to urban areas, changes in lifestyles, inclination towards health life and of physical activities has a positive impact on Adidas sales. The raise in living standards made foreign sports brands accessible to local consumers (BBC, 2012). The involvement of Adidas as an official sponsor in 2010 China

Olympics and 2013 Beijing Marathon have also increased the awareness of the brand in local consumers.

## 2.4 Technology

The rapid changes in technology have enabled industries to access modern product developments at lowest rates. The introduction of smart shoes by Adidas, green supply chain, air dry fabric production, and environmental friendly materials use in shoes and accessories production have enabled the company to excel in Chinese as well as other market. On the other hand, the issues of copy right breach, counterfeit products, and access to sustainable technology are some major concerns of the company in the target market.

## 3. Marketing STP for Adidas:

The sustainable marketing strategies are dependent on the segmentation and appropriate targeting of the consumers market. Effective positioning is also a vital component (Kotler & Pfoertsch 2006).

### 3.1 Segmentation

According to Liqin et al (2009), sustainable marketing practices are based on the careful division of operation markets in homogeneous groups of suitable characteristics to the concerned brand. The segmentation profile in Chinese market is based on following criteria:

**Table 1: Segmentation profile of Adidas**

Segmentation Type	Criteria	Segment characteristics
<b>Geographic</b>	Region	Greater China
	Density	Urban and rural
	Climate	Tropical, medium to extreme weather
<b>Demographic</b>	Age	10-30 years old
	Gender	Males and females
	Education	school, college, and University, formal plus technical

	Profession	Students, athletes, professionals
	Life Cycle	Individuals, single or married
	Race	Any ethnicity, universal brand
	Income	£20K per year and more
	Personality	Athletic, health conscious, adventurous, variety seekers, inclined to foreign brands.
<b>Psychographic Segmentation</b>	Lifestyle	Independent, Socially active and healthy life, influence on family and friends.
	User	potential and existing users of sports shoes and accessories
	Brand Loyalty	High foreign brands loyalty
	Usage	Regular, in daily practice
<b>Behavioural Segmentation</b>	Benefits	-Trustworthy sports brand -International brand image -Comfortable and durable

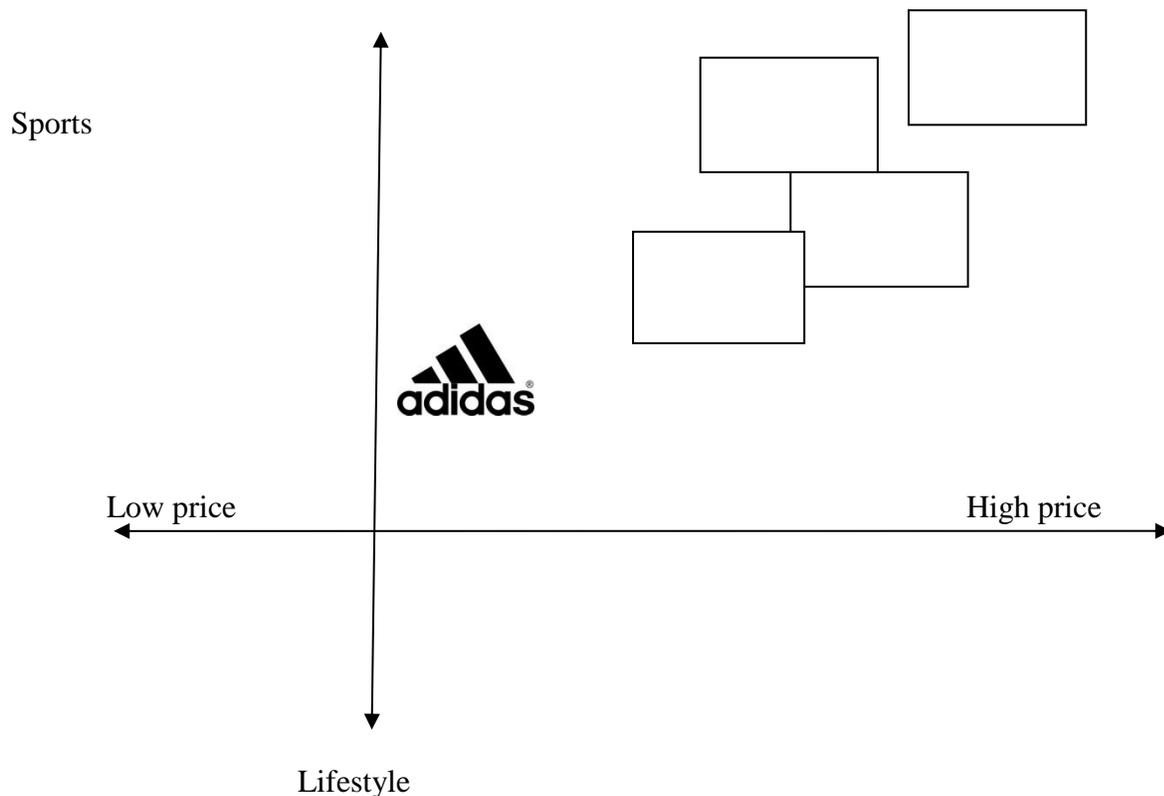
### 3.2 Targeting

Globalization and international companies' arrival in this region has increased the awareness and changes in youth lifestyle in last decade. The young population is the major segment targeted by Adidas due to the sporting lifestyle, preference of gym memberships, and endeavours to stay fit in life to be competitive. The actual target group of the company is youth and athletes of age group 10 to 30 years. The other group of this target market is local sports personalities playing the games like athletics, basketball, soccer and other sporting activities. Soccer is in early development stage in China, so company is targeting young soccer teams to promote its soccer shoes. Furthermore, the health conscious and brand oriented target market is aware of latest fashion and sports trends. This trend of target market force company to adopt sustainable marketing strategies

### 3.3 Positioning

Positioning is the creations of desired image in minds of consumers so that they can perceive the associated benefits and differences of the brand with respect to competitors (Keller 2012). Adidas is positioned as a high price premium brand in Chinese customers market. The closest competitors

are Nike, Puma, Asics and Reebok. According to the international market position, the perceptual map of these brands is as follows:



*Fig. 1: Perceptual map*

Adidas is positioned as a sustainable sports shoe brand with comparatively low price as compared to the other foreign brands in this market. This positioning of Adidas as an affordable foreign sports brand has increased the sale in price sensitive segments of target market.

### **3.4 Sustainable Branding**

The branding strategy defines the activities of a brand to influence the purchasing decision and awareness of target market in long term (Keller 2012). Adidas is following a competitive branding strategy to influence the target market as a high quality yet affordable sports brand in China. The digital marketing campaigns easily termed Adidas as an active advertiser and sponsor of mega sports events. The online advertising is addressing the ever increasing population of citizens in the region. Another important aspect is the status of a socially responsible brand in this market. The

decision of a multilevel branding structure based on functional characteristics of Adidas and Reebok has positively affected the sales in this region as compared to the previous vertically integrated branding structure (Adidas website 2016).

According to Hower (2015), Adidas is included in the list of 167 top brands with “greenest” status of supply chain. The brand is included in top 10 brands in this list along with Apple and H&M. The basic criteria of this ranking are the extent to use sustainable sources. This high score demonstrate that the sustainable supply chain of Adidas assisted in improving the information disclosure and public contribution in China (Hower 2015). The brand profile of Adidas can be expressed in the table 1 below:

*Table 1; The brand profile of Adidas (extracted by author)*

<b>Brand Name</b>	<b>Adidas</b>
<b>Product Category</b>	principal and most admired global sporting goods
<b>Logo</b>	
<b>Packaging</b>	Sustainable recyclable material packaging
<b>Slogan</b>	Nothing is impossible
<b>Brand values</b>	Authentic, Innovative, Passionate
<b>Brand Image</b>	Inspirational, Honest, and Committed
<b>PLC Stage</b>	Growth phase in Greater Chinese market

#### **4. Sustainable Competitive Advantage**

According to Andrew (2011), sustainable competitive advantages are long term superiority over competitors through socially responsible business innovation, resource development, or company

assets benefits. The competitive advantage for Adidas in Greater China is to lead the market through sustainable business practices in long term (Christopher & Russell 2008). The company has adopted Route 2015 plan. According to Adidas (2016), this plan follows a strategy to achieve quality growth and sustainable progress in long term by fulfilling customers' desire with unique brand experience and premium sporting products.

The challenging market scenarios in Greater China have provided Adidas an opportunity to compete with global leading sporting goods brands. The Route 2015 plan has generated enormous success for the company through sponsorships of major events such as Beijing Marathon 2013, a road race with IAAF Gold Label for last five years in succession. The high profile sponsorship of Beijing Olympics 2010 acted like the start of Adidas success in China. The sustainable strategies behind this leading position are discussed below:

- 1** Adidas is considered as one of the top three most sustainable organizations globally and recognized as the best company of Europe with a leading status in sporting goods industry in Global 100 Index (Adidas website 2016).
- 2** The creation of '4P' strategy of sustainability has defined the core values of the business. These 4Ps provide bases for the marketing strategies and assist the corporate values of performance, integrity, passion and diversity. The successes from previous years are added in the efforts of next year's strategy. As a result of these 4P's, Route 2015 was formed.



*Fig. II: 4P's of sustainability Source: Adidas Website (2016)*

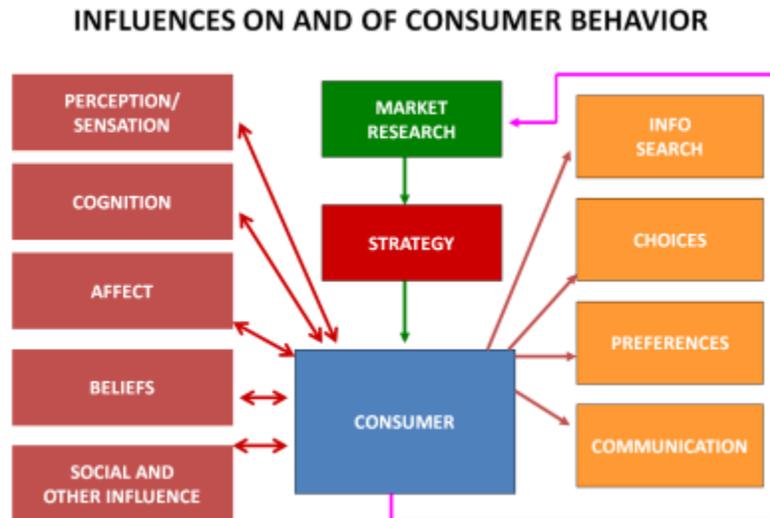
- 3 The strategic partnership with BlueSign technologies added another milestone in achieving sustainable green supply chain. The blue sign status of suppliers declare that they are used all permissible materials. Thus strategy provided chemical innovation that the company committed to produce 99% PFC free products by December, 2017.
- 4 The revolutionary innovation of DryDye fabric saved company 100 million liters of water in water free dyeing technology in 2014 alone (Adidas 2016). This carbon based dyeing process also saved 60% energy as compared to the traditional dyeing mechanisms.

Hence, through the above strategies, company has followed a culture of continuous innovation and gradually achieved the status of a leading company in the future sustainable economy of Greater China and worldwide.

## 5. Impact on Consumer Behaviour

Kotler and Armstrong (2012) asserted that the impact of marketing and branding strategies do have impact on the decision making process and brand association of consumers. Companies adopt and promote strategies to impact the consumers' perception positively about the brand (Toften & Hammervoll 2010).

**Consumer Decision making:** Internal and external factors affecting the consumer behaviour and transform the impact of a brand through prior experiences, promotional activities, word of mouth, and other marketing communication modes.



*Figure III; Consumer behaviour. Source: Kotler (2012)*

According to a recent article of Russell (2016), the interview of Collin Currie, Adidas MD for China was shared with firsthand information about consumer behaviour. According to Russell (2016), Adidas is moving from large cities of China to the consumers of small cities. The behaviour of consumers as a result of public relation and promotional campaigns in China is based on the demographic and economic conditions. Adidas has closely observed these two segmentation criteria to understand the behaviour of primary target market. According to Currie, affluent and middle class consumers with yearly income of RMB 80,000 (8,600 pounds) and above are primary target market for Adidas. These consumers are proved to be educated, socially active, and influenced by foreign brands as status symbols.

**2. Socio-Cultural behaviour:** The cultural and social structure of Chinese consumers also play a vital role in selection of a brand. According to Hofstede national culture dimensions, Chinese consumers behaved cumulatively as compared to individualistic behaviour in Europe, with high power distance, and long term view of the relationships.

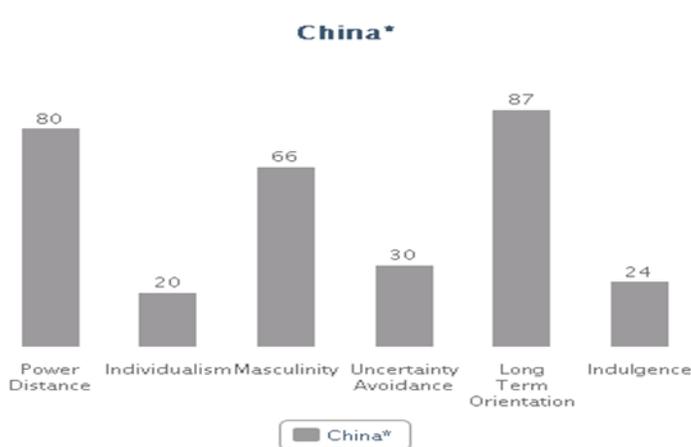
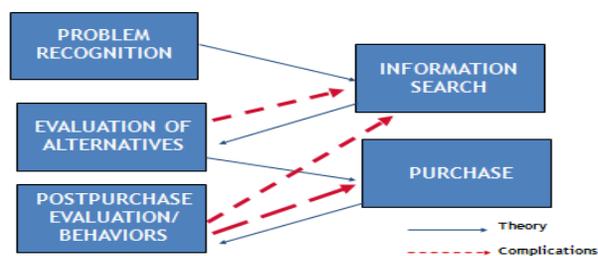


Figure IV; Consumer behaviour. Source: Hofstede centre (2016)

Also, with socio economic and technological development in China, consumers are more internet savvy, future oriented, and prefer cost and time effective purchases. Apart from the manual store, Adidas prime strategy is to reach small cities in China through online sales (Russell 2016). The increase in netizens in China is multifold due to high proportion of youth, therefore, the online sales model will be more successful due to its resource effectiveness.

**3. Post purchase dissonance:** Another important aspect of consumer behaviour is post purchase dissonance (Kotler 2012). In order to save consumer from post purchase issues, Adidas is providing effective after sales services to Chinese consumers.

The customized models designing is also important in China due to the short height and feet size of majority population. The website



avigation assistance and after sales services are also important considerations of these customers in online shopping. The establishment of customer database, interactivity through website, and handling customers queries on social media sites are important factors that affect customer satisfaction in online sales. Therefore, the collection of customer data in this market will also provide consumer trends, purchasing habits, and premium choices for Adidas products (Russell 2016). Successful management of long term customer relationship can increase the brand association ad loyalty in Chinese consumers.

## **6. Conclusion and Recommendations**

In conclusion, the Adidas group has successfully managed the financial stability and sustainability in Chinese market through innovative production and marketing strategies. The reactions of consumers, employees, and other stakeholders supported the efforts of the company to stay as one of the top three sustainable companies of the world. Also, the innovative and environmental friendly branding strategies of the company assisted in penetrating Chinese market faster than its competitors and acquired the status of most preferable sporting goods brand in China.

Furthermore, the company is following a multi brand portfolio with two distribution channels of wholesaling and retailing. This strategy shortens the distribution hierarchy and linked the global supply chain effectively. In long run, the sustainable leading position of Adidas will need continuous innovation and research activities. The sensitivity to the fair wage practices, environmental protection standards, and use of innovative material solutions will help the company to sustain their competitive advantage. Moreover, close monitoring of consumer behavior factors and effective control of marketing and sales activities will add the value in green supply chain practices in China. The changes in customer's trends and variation in competitor's strategies will act as a reliable source to update existing strategies.

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