

OnLine Case 10.1

Adidas, Nike and Umbro

The German sportswear business, Adidas, is currently second to Nike, the world-leader, for sports shoes (trainers) and associated sports clothing and other related products.

In 2005 Adidas sold Salomon (skis and ski wear) to Amer Sports (of Finland); it had acquired Salomon some eight years earlier but not found the merger to be successful. In part using the money it gained from this sale, Adidas bought Reebok. Its aim at the time seemed to be to allow it to challenge Nike more effectively. It jumped to 21% US market share from this acquisition, but Nike still had 36%. Reebok had started out as a British company but it had become American.

These competitors are very dependent upon their brands, images and reputations. Their products command a premium price because of the brand association. They all offer multiple and specialist ranges (shoes for individual sports, for example), they all innovate (both technology and design), they concentrate manufacture in low labour cost countries, they sell through the same outlets to some extent (but do run their own specialist franchises) and they feature celebrity endorsements in their advertising and promotions.

In the past Reebok had been successful with a range of shoes that were seen as more casual and not specific to any one sport. The black Reebok trainer was distinctive and ubiquitous. Adidas wanted the Reebok brand to become more of a 'performance brand'.

In the first year (2006) integration proved to be trickier than had been anticipated. Was the story going to be same as with Salomon? A backlog of orders was building up, with supply problems.

In 2007 Nike bid to buy Umbro, a much smaller competitor – but one focused on football. Success would give Nike 40% share (and global leadership) in football boots and shoes. It was in this sector that Adidas (with 35%) was ahead. Currently Nike had 32%, Umbro 8% and Puma 5%. Umbro had an exclusive deal with the Football Association for supplying England shirts to both the team and the market generally. Nike and Umbro together would own the shirt contracts for 12 of the 20 Premier League teams.

But entrepreneur Mike Ashley held 15% of the shares in Umbro and he wasn't convinced. Ashley was a controversial character. He had founded Sports Direct, which he floated successfully just before issuing a profits warning! He also owned Newcastle United – where he had alienated many of the club's fans by 'losing' popular manager, Kevin Keegan, even though he had appointed him. As the club struggled to win games towards the end of 2008, the club was on the market. Ashley was looking to get out – but at a profit.

In response to the bid by Nike Ashley increased his shareholding in Umbro to 29.9%. At 30% he would be required to bid himself, which some

commentators thought would provoke opposition. He might be looking to block Nike; he might be looking for a quick profit. He simply said he wanted a say in what happened to Umbro in the future and he was not convinced acquisition by Nike was the best way forward. Umbro represents some 10% of the turnover of his sports stores. In respect of past decisions, his approach did not seem illogical. He had acquired suppliers such as Dunlop, Slazenger and Lonsdale so he could control their distribution. He could manipulate wholesale and retail prices and influence, if not control, their routes to market.

Whilst this has been evolving Adidas has closed the market share gap with Nike, particularly in Europe. It has used the Reebok brand to sponsor the Beijing Olympics (2008) and the European football championship.

Question. Just how important are the Number One and Number Two positions in an industry? What are the implications of 'overall' market share and share of specialist segments such as football shirts?

How do you view the tactics of Mike Ashley?