



## **Adidas: Sprinting Ahead of Nike**

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## Table of Contents

<b>Executive Summary</b> .....	<b>3</b>
<b>Introduction to adidas AG</b> .....	<b>5</b>
<b>Six Forces Analysis</b> .....	<b>5</b>
<i>Rivalries</i> .....	5
<i>Substitutes</i> .....	6
<i>New Entrants</i> .....	6
<i>Customers bargaining power</i> .....	6
<i>Suppliers bargaining power</i> .....	7
<i>Complements</i> .....	7
<b>Current Strategies</b> .....	<b>7</b>
<b>New Strategies</b> .....	<b>9</b>
<i>Develop the <math>\mu</math> ('micro-A'), the adidas 'Smart Shoe'</i> .....	9
<i>Work to Rebrand Reebok Image</i> .....	11
<i>Focus on Emerging Markets</i> .....	13
<i>Focus marketing efforts at large sporting events on key products</i> .....	14
<b>Conclusion</b> .....	<b>14</b>
<b>References</b> .....	<b>15</b>

## Executive Summary

adidas Group, the world's second largest producer of sporting apparel has had a long and rich legacy of producing some of the highest quality and most technologically innovative sporting equipment particularly footwear. Champion athletes and sports teams trust the three stripes of adidas for helping them to achieve outstanding performance when they need it most. A world leader, adidas commands nearly a quarter (22 %) of the worldwide athletic footwear and apparel market. In the American sporting footwear and apparel market, the largest market for sporting footwear and apparel in the world, adidas holds 22% market share. In the race to be the world leader in sports apparel, adidas trails behind only Nike, which holds a worldwide market share of 33%. adidas may currently trail behind Nike, but its rich legacy and focus on innovation, in addition to a new guiding strategy that perfectly blends marketing and technology can help adidas sprint ahead of Nike and grab the lead in both the American and emerging markets of Asia and Latin America.

adidas' 2005 purchase of Reebok, another leader in athletic footwear, is beginning to show signs of paying off in the race with Nike especially in many emerging markets. Furthermore, adidas is beginning to grow its image as a general footwear and apparel manufacturer which greatly helps in the race.

For adidas to take the lead in the race for worldwide dominance in the athletic footwear and apparel market in addition to the general footwear market, we suggest it implements the following strategies:

- Develop the  $\mu$ A('micro-A'), an adidas line of Smart Shoes integrating microprocessors
  - Builds on adidas 1 by creating a line of shoes with microprocessors that adjust cushioning and support according to terrain and playing conditions
  - Allows serious athletes to monitor playing conditions along with body conditions
  - Can enable adidas to gain even great popularity among athletes and sports teams
    - Enable adidas to gain ground in basketball and football
  - Allows adidas to gain greater recognition for technology in sports
    - Beats any possibly comparable Nike product
  - Target Athlete demographic
    - looking for a high quality premium shoe with high performance standards
    - Target them with the  $\mu$ A

- Work to rebrand the Reebok image as a lifestyle shoe company
  - Create a premium brand but target it to young people, women and others who are into fashionable shoes
  - Market Reebok at more upscale retailers such as Nordstrom or Macy's
  - Consider Opening up
  - Target women with ActiveR-a Reebok product line specially designed for women with 'active lifestyles'
- Get a strong hold on Emerging Markets like China and India
  - Market towards youth in these countries
  - Form partnerships with local manufacturers to gain entry into markets
  - Market Reebok more in emerging countries such as China and India
    - Reebok already has leadership in India
  - Need to target youth especially in emerging markets where they make up a large percentage of population
- Focus marketing efforts at large sporting events on key products
  - Provide Championship teams with µa and other technologically advanced products
    - Allows company to get credit and notoriety if team wins
    - Use position as outfitter of sports teams to market and test new products such as the µa.

## **Introduction to adidas AG**

adidas success is steeped in the laurels and ethic of its founder. When Adolf 'Adi' Dassler, a veteran of World War I and founder of adidas' Group, began producing shoes out of the scarce materials available in Germany after World War I, he had a simple vision for his company: provide athletes with the best suited pair of shoes for their respective sport. He followed up on his simple vision of producing the best shoes with three guiding principles: produce the best shoe for the requirements of the sport, protect the athlete from injury, and make the product durable and able to withstand the extreme conditions of sport. Many of Dassler's original shoes were design for soccer and track & field, two popular sports in Europe at the time. The reputation and size of Dassler's company grew quickly. By the mid 1930s, Dassler's company employed over 100 people and had a reputation of making some of the world's best sports shoes.

World War II took its toll on the company but Dassler and his company showed great resiliency in the face of hardship. After the war, Dassler renamed his company adidas, a portmanteau of his first and last name. In 1954, Dassler and adidas gained acclaim when its innovative studded cleats helped the underdog West German soccer team defeat the favored Hungarian team in the World Cup Finals. Many attribute the then technologically advanced studded sole adidas with helping the players on the wet and soggy field. Dassler continued to lead the company until his death in 1978. Horst Dassler, Adi's son then took control of the company until his tragic death from cancer in 1987.

In 1993, French businessman Robert Louis-Dreyfus took over adidas and began to revitalize the company. In 1997, adidas merged with skiing equipment maker Salomon and later on in 2001, Herbert Hainer became head of adidas Group. To gain a greater market share and penetration in the U.S. market and better its operations, adidas acquired Reebok International Ltd., makers of Reebok shoes, in 2006. Today, adidas continues its rich heritage of harnessing technology to make some of the best shoes. The company employs over 31,000 people around the world with more than 2,600 employees at the company headquarters in Herzogenaurach, Germany. Many of the company's most innovative products such as the adidas 1 are designed at research centers in Portland, Ore., and Scheinfeld, Germany.

## **Six Forces Analysis**

### Rivalries:

adidas largest rival is sporting apparel giant Nike, which controls over 33% of the worldwide market for athletic shoes, a large but surmountable lead against adidas. In addition,

other much smaller rivals in the United States and Europe include Puma, Asics, and New Balance. In China, adidas faces competition from Li Ning, China's biggest athletic shoe manufacturer. All these companies hope to eke out a piece of the market from adidas but with a more focused strategy adidas can easily counter its rivals, large and small.

#### Substitutes:

Substitutes for adidas products come from rival manufacturers such as Nike, Puma, Asics, and New Balance. The price differential between manufacturers is not big and consumers can easily change from one product to another. As athletic footwear is many times a premium product, consumers are willing to spend more money with the belief that they can get a higher quality and more durable shoe capable of handling different playing conditions. So, consumers are looking to buy quality and value. In addition to large rivals, substitutes for adidas' products especially in the apparel market come from smaller and more localized companies around the world. Almost 75% of the global athletic apparel market and 18% of the global footwear market belongs to local apparel manufacturers such as China's Li Ning.

#### New Entrants:

Typical entry barriers for new companies in the sporting apparel and footwear industry are high due to the large economies of scale needed for manufacturing, distribution, research and development, and other operations. Entering the apparel and footwear business requires high initial capital investments in order to acquire land, build factories, and develop new product. Furthermore, developing and selling highly innovative products requires large marketing and advertising costs that make the barriers to entry even steeper. In addition, as consumers are looking to purchase premium products, manufacturers must carry strong reputations that take several years to develop and in the mean time, consumers will tend towards manufacturers with already strong brand names.

#### Customers bargaining power:

Customers carry large bargaining power as they can always threaten to buy rival products. Switching costs are typically very low and many do switch to a rival's products if the rival offered trendier or hotter products or if the rival's reputation for footwear in a specific sport (e.g. soccer) is very high. Large selection among several brand names, in addition to large price variations, allow consumers to choose shoes suited to their preferences in design, comfortability, and price. The lack of complements also increases buyer bargaining power as the buyer is never locked to a specific product.

### Suppliers bargaining power:

The suppliers' bargaining power is high as well, since adidas makes contracts with famous athletes or teams (such as Chelsea FC, Liverpool FC, NY Giants, LA Lakers, David Beckham), to promote and advertise its products. But famous teams and athletes most of the times dictate the terms of the contract thus increasing the suppliers bargaining power. Moreover there is great competition observed to sign contracts with famous sporting events (Olympic Games, NBA, FIFA World cup and Eurocup), which is a fact that makes supplier's bargaining power bigger. If they can choose among several competitors they can easily threaten to pick the one with the best offer.

### Complements:

Currently, adidas partners with Samsung in producing a shoe plus a phone scheme that uses wireless biometrics to display information on an adidas-branded Samsung phone. In addition, packaging shoes with other products, such as apparel, eyewear, basketballs or golf clubs creates another complement for adidas. Moreover, selling different products which are signed by its contracted athletes or teams create another complement. Technology used in apparel such as Climacool) also creates a complement, making consumers buy adidas Climacool products.

### **Current Strategies**

adidas Group follows several strategies to place its product in the market, however most of them are strategies adopted by Nike and simply followed by adidas. First we will analyze the marketing strategies followed by adidas Group. adidas focuses in big sporting events such as Olympic Games, FIFA cup, Eurocup, NBA and acquires the rights of the official sponsor. This has been achieved last year as well by acquiring the right of sponsoring the Olympic Games in Beijing. Additionally adidas sponsors big, famous athletic teams in the soccer industry, such as Liverpool FC, Chelsea FC, AC Milan, FC Bayern Muenchen and several other German soccer teams, due to the company's German roots. The company focuses mostly on soccer teams, but sponsoring of big basketball clubs such as LA Lakers and Football teams such as NY Giants (after Reebok acquisition) also exist. In addition to hot sponsorship deals, adidas Group has endorsements with some famous athletes, such as David Beckham, Venus Williams (tennis player) and Curt Schilling (baseball player).

adidas Group acquired in 2005 Reebok, the second largest American athletic shoe maker, after a friendly takeover worth 3.8 billion dollars, which combines two major brands with links to both athletic and lifestyle. With this acquisition, adidas Group will increase its

strength and will try to grab more market share and gain access to bigger markets (especially the US market). This acquisition is a step to gain ground against the leader, Nike. Reebok at that time had the 12.2% of the US athletic shoe market share and the 9.6% of the global athletic shoe market share. Moreover Reebok endorsements enhanced adidas Group's marketing strategy by adding names in the list of its endorsements, such as Yao Ming (NBA basketball player), Jay-Z, 50-Cent, Shakira (singers) and Christina Ricci (actor). Furthermore Reebok's sponsorship deals with NBA, NFL, NHL and Major Baseball League added to the ones of adidas Group exposing it even more to the US market. In addition to all that, adidas Group creates synergies by the acquisition of Reebok in areas such as sourcing, transportation costs, warehousing and other areas.

Another strategy followed by adidas, on the news that Apple and Nike were going to expand their iPod partnership, is the cooperation with Samsung Electronics to produce the so-called shoe + phone scheme, which uses wireless biometrics to display information on an adidas-branded Samsung phone. Moreover, in 2008 the two companies announced a mobile phone that works with adidas shoes and apparel to plan, track and motivate users in training (MiCoach). This partnership creates complements for adidas apparel and footwear.

adidas Group is also trying to increase its sales in the emerging market of China. After the sponsorship of the Olympic Games in Beijing, adidas Group has opened the largest adidas store in the world measuring 3,170 sq. m. in the center of Beijing. adidas Group expects to increase the number of its stores in China to 6,300 by 2010 from over 4,000 now. They expect to reach 1 billion euros sales (1.5 billion dollars) by 2010. adidas Group has been opening stores in China at the rate of three a day for the past three years, with the goal to overtake Nike as the local market leader.

Finally, we should mention that adidas focuses on embedding technology in apparel and footwear, as a means of differentiating its products from its competitors. A result of its big R&D expenditures towards this strategy is the innovative ClimaCool technology and the first micro-controlled footwear, adidas 1.

## **New Strategies**

In this section, we identify several new strategies that adidas Group can undertake to build a solid brand image and promote brand value among its different brand names and gain market share in existing and new markets and among different consumer demographics. With each endeavor, we outline what to implement, how to implement it, and why it should be implemented, in addition to what adidas Group can gain from it.

### Develop the $\mu$ ('micro-A'), the adidas 'Smart Shoe':

For many years, adidas has had a very strong reputation for incorporating technology in its footwear. We believe that the development of a product line of 'smart shoes' called the ' $\mu$ ' ('micro-A') will build on this reputation and show consumers that adidas is serious about innovation and using technology to improve athletic performance.

The  $\mu$  line of smart shoes incorporates a microprocessor/embedded controller, sensors, and tiny motors along with memory and battery. The sensors work to continually monitor, measure, and provide data regarding the terrain, impact of each step, athlete's body temperature, ambient temperature, and athlete's heart rate. This information will be continually fed to a microprocessor which causes motors to adjust cushioning and airflow within the shoe.

As the electronics involved in the  $\mu$  can be quite complicated and athletes in sports such as running and basketball frequently replace their shoes, we plan to make the majority of the electronics reusable and removable from the shoe. In addition, we plan to keep the weight of the electronics due a minimum as many athletes feel most comfortable in shoes that weigh less. For instance, many runners prefer running barefoot. When an athlete buys a new pair of  $\mu$  shoes he can simply reuse most of the electronics from his previous pair. New generations of electronics will be developed but each generation of electronics can be reused in a different pair of shoes that use the same generation of electronics. Other features that can be incorporated with the product include a wireless GPS system that allows runners to determine their exact location, distance traveled, and speed from the shoe's GPS by wearing a small wireless GPS wriststrap. The shoes embedded memory can store information about workouts such as average heartrate, body temperature, calories burnt and impact of each step. Athletes can then transfer this information to a personal computer by USB link with adidas MEGaTrainer software that allows athletes to monitor their workouts and understand how quickly they move, how hard they step, and the distance they have traveled during their workout.

The  $\mu$  will be developed with a different line for each sport that incorporates many of the movements and actions in each sport along with measurements of performance such as speed and height. For instance, in basketball the  $\mu$  can monitor how high the athlete jumps and how hard of a landing they make. With each jump, the shoe will automatically adjust cushioning to enable higher jumps and when the athlete returns to the ground, the shoe will adjust again to make for a softer landing to reduce injury in addition to stiffening the shoe's sidewall to prevent ankle injuries. Gyroscopes and accelerometers can monitor how quickly athletes turn and move down the court to help players develop better agility on the court. In soccer and football, gyroscopes and accelerometers can monitor how hard the player kicks the ball and how fast they do so, along with stiffening portions of the shoe necessary for a harder kick.

The  $\mu$ 's marketing should focus first on professional athletes and teams to develop a reputation for the product. As adidas already serves as the official outfitter of the National Basketball Association (NBA) and other prominent sports leagues, it should first test out the product with professional athletes. This can later prove useful for marketing as future marketing of adidas products can rest on the success of the  $\mu$ . Later, adidas can begin marketing the  $\mu$  to consumers as a product used by the most successful athletes. Marketing will prove crucial to the success of the  $\mu$  as adidas cannot simply develop the most technologically advanced shoe but must also market it as a shoe designed specifically for athletes.

The costs of developing such a technologically advanced product as the  $\mu$  are not as steep as it might seem as the adidas has already developed the adidas 1, the world's first shoe with a microprocessor. adidas 1 received great reviews from the athletic community and such a product is desired among athletes. Much of the technology for  $\mu$  has already been developed by adidas with the adidas 1 and further developments require only small improvements in areas such sensor technology and motors. The greatest development challenges will come only from developing the reusability of the electronics and adidas MEGaTrainer, the software to monitor athletic performance which will be totally new. Thus, adidas has incredible leverage with such a product as it is remarkably more advanced than the adidas 1 yet contains many small improvements in technology. The  $\mu$  will also create a huge technology gap between Nike and adidas which adidas can use to its advantage. Nike has yet to come up with any similar product and doing so will require significant investments in research and development. Furthermore, patent protections also guarantee adidas rights as the sole user of smart shoe technology it develops.

The  $\mu$  has the potential of not only growing adidas reputation in incorporating technology in sports but also among athletes in specific sports such as basketball and football.

Nike has long led in basketball and football but with the  $\mu$ a, basketball and football players will be drawn to adidas because it can provide them with valuable information about how to improve their performance and will enable them to do so. Athletes prone to injury will appreciate the ability of  $\mu$ a to reduce their susceptibility to injury with many of its injury reducing features.

Furthermore, adidas can gain a tremendous advantage over Nike because the innovative nature of the product will make adidas appear to be the leader in athletic footwear. As many athletes demand a product that can deliver both monitoring and performance improvement capabilities, they will come to believe that adidas is the better brand at delivering a product that can do both. This can become cyclical with positive feedback as when more athletes find they perform better with adidas  $\mu$ a, it will cause other athletes to become buyers of adidas products because they will want to compete against the better performing athletes using adidas products. All of this can ultimately lead to much higher revenue, profit, and market share in sports that adidas already leads and in sports where adidas lags in revenue, profit, and market share.

#### Work to Rebrand Reebok Image:

Adidas purchase of Reebok has only begun to show payoffs but we believe that it is quite possible for it to gain even more from the purchase if it rebrands Reebok as highly fashionable line of shoes meant for multipurpose use and active lifestyles. Rather than market Reebok as the low end of shoe market it should market it as a premium brand designed for use in aerobics, fitness, and general fashion. This is not too difficult to do as Reebok had already begun to focus more on fashionable footwear before its purchase.

In order to rebrand Reebok, adidas Group should first phase out its high performance athletic shoe line and reposition itself in the casual footwear and active footwear market within the next 3-4 years. The high performance athletic shoe line can be absorbed into the adidas brand. adidas Group should consider opening Reebok retail outlets that market Reebok as highly fashionable or begin marketing Reebok at more upscale department stores such as Macy's and Nordstrom. By the same token, it should end marketing Reebok at lower end retailers such as Footlocker.

During this rebranding phase, Reebok should make sure it maintains a very high level of quality and durability of its shoes. Increased brand value can also be derived by maintaining this high level of quality and incorporating new technology to promote Reebok as not only a highly fashionable and premium shoe but a high quality, durable shoe as in the casual shoe market, consumers look for comfort, style, and durability.

In this makeover, Reebok should work with major fashion designers such as Calvin Klein to develop a highly fashionable product line of shoes meant for active and casual use. By working with major fashion designers, Reebok gain brand image as an upscale and more sophisticated shoemaker. Reebok should first develop a line of casual but highly fashionable shoes designed by Calvin Klein that blend quality and fashion.

The rebranding of Reebok can help adidas Group make larger inroads with women. Women are many times not drawn to shoes marketed for fiercely athletic or marketed with the endorsement of famous athletes. Instead, women desire shoes that strongly blend fashion, comfort, and functionality. They want a shoe that can be useful for all aspects of an active lifestyle. Therefore, marketing Reebok as a highly fashionable line of shoes meant for active lifestyle might enable adidas to make larger inroads with women.

Reebok should begin a line of highly fashionable shoes geared toward women with active lifestyles. The ActiveR ('active-R') product line of shoes mixes style, comfort, and functionality. The product line includes shoes for aerobics and fitness in addition to casual walking. A successful marketing campaign should focus on promoting Reebok as the shoe for women with active lifestyles. Print advertisements should show what activities women commonly do when wearing ActiveR in order to promote it as a shoe designed for active women. Comfort and fashion should be promoted extensively in these advertisements.

Making inroads with women especially in the casual shoe market has the potential to reap great benefit for adidas Group. Women are typically an untapped demographic and in addition many women buy several pairs of casual shoes for use in everyday activities. By tapping the female demographic especially in the casual shoe market, where women spend more money and no clear leader exists, adidas Group can carve out a position as a market leader among 'repeat buyers'.

The overall rebranding of Reebok should be done to prevent internal competition within adidas Group where the Reebok division is seen as the less successful sibling of adidas and to keep consumers from believing that Reebok is a cheaper substitute for a premium adidas product. Furthermore, it creates a new demographic base for adidas Group as it serves not only the needs of athletes but also more of the general public. In addition, by rebranding Reebok as more of a casual shoemaker, this allows adidas Group to enter the general footwear market where no clear leader exists and using its size and the Reebok brand name, capture the lion's share of the general footwear market.

### Focus on Emerging Markets:

Emerging markets in Asia and Latin America can give adidas significant leverage over Nike. Already, adidas has the lead over Nike in markets such as India and Japan and is tied with Nike for leadership in China. Sales growth in Latin America has been tremendous as the company saw a 38% increase in sales in 2007. adidas can gain significant ground over Nike in emerging markets if it first tries to prevent external competition in these markets by forming strategic partnerships with local apparel manufacturers in attempt to control local manufacturers' competitive strengths. They can cooperate with local manufacturers, so as to get some critical information about how this foreign market works. By that way they will also come closer to the local government, and they will generally get the first mover advantages. Moreover, after cooperating with the local manufacturer and in a sense of payback, adidas can be the medium for the local manufacturer to export his goods. For instance, in China, adidas competes with local manufacturer Li Ning, in addition to Nike. These additional manufacturers make it tougher for adidas to compete with Nike as they not only compete with Nike but also eat a large amount of adidas' market share.

Moreover, emerging markets open a new marketing channel for adidas. In China, adidas should work with Chinese basketball superstar Yao Ming who is under contract with Reebok to develop a new line of basketball shoes meant specifically for Chinese basketball players. Commercials and advertisements should include Yao's endorsement and include him playing against local Chinese youth in attempt to win over the large number of Chinese youth. Adidas should also work to develop local youth leagues for sports like basketball, running, soccer, and football to develop local interest in the sports. Although these might not initially create many buyers of adidas products, it generates youth interest in these sports and markets the adidas name.

As cost is still important to many consumers in markets such as India, adidas should first develop a low-price shoe meant for the middle consumer in India. It should market the Reebok brand as a high-quality but low-priced foreign product. Second, it should use its superior engineering skills to design a high quality shoe meant for use by athletes in the local popular sport. As adidas has always sought to develop products for athletes, this will allow it to grow in popularity among local athletes. For instance, in India, adidas should first study cricket and then work with famous Indian cricket players and its superior engineering skills to develop a high-quality cricket shoe and also apparel for cricket. It should then market these shoes with the endorsement of the same famous cricket players. This will draw not only local cricket players but also a large amount of youth who are attracted largely by the athlete's endorsement. In addition, it will allow adidas to better understand the country and develop a product suited to local sensibilities.

By following the above proposed strategies in emerging markets, adidas can gain potential market share, increase its sales and profits and build a good brand name in these new markets. Furthermore, as noted before, these markets will also open new marketing and manufacturing channels.

#### Focus marketing efforts at large sporting events on key products:

Most of adidas prior marketing efforts have focused on sponsoring major sporting events with the belief that consumers will get a glimpse of the brand at the sporting events but this marketing strategy fails to provide large profits. For instance, adidas gambled big in sponsorship at the Olympics but the results of its efforts have been mixed. By marketing simply a name at large sporting events, adidas fails to directly target the consumer who will only know of the brand if it is marketed toward him through a specific product. As adidas already has exclusive rights to outfit many sports teams and leagues in addition to sponsorship rights at many of the world's leading athletic events, it should market its shoes at the events by providing one of the championship teams with its products. If the team wins, adidas should immediately inform spectators about the adidas shoe that the winning team used and attribute part of the victory to the adidas shoe. This way, adidas can gain recognition as providing the winning team with the shoe needed for victory but also marketing to the consumer a specific adidas product.

#### **Conclusion**

For adidas to gain market share and take the lead as the world's leading athletic footwear and also general footwear maker it must implement the four strategies suggested. We believe these strategies will enable adidas to gain a greater reputation in technology and innovation in comparison to Nike. Athletes who strive for footwear that provide better performance will find adidas to be the brand capable of doing so which will further adidas reputation. The rebranding of Reebok will enable adidas to gain a stronghold in market that Nike has no position in, the casual footwear market. In addition, the entry into casual footwear, marked with increased marketing toward women by focusing on shoes meant for an active lifestyle will enable Reebok and adidas Group to gain favorability over Nike with women in a market segment that Nike cannot compete in. Finally, by focusing on emerging markets and working to develop relationships with local manufacturers in addition to developing athletic footwear for local tastes and preferences, adidas Group can grab and hold a much larger piece of market share than Nike. Thus, if adidas Group implements these strategies it can 'sprint ahead' of Nike.

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