

ADIDAS STRATEGY adidas has a clear mission – “to be the leading sports brand in the world”. To accomplish this mission, the brand comprises two divisions that reflect two distinct market segments: Sport Performance and Sport Style. Product and marketing initiatives at adidas primarily focus on five global priorities, which are expected to generate over 80% of the brand’s top-line growth until 2010: running, football, basketball, training and Originals. The adidas brand attitude “Impossible is Nothing” drives all brand communication initiatives and helps strengthen the brand’s bond with consumers. With a well-defined and segmented distribution approach and a premium-price strategy, adidas clearly positions itself as a top-notch brand in all markets.

NEW BRAND STRUCTURE ESTABLISHED In 2007, the adidas brand continued to gain momentum – both financially [▷ see adidas Business Performance, p. 096](#) and operationally. adidas further evolved its organizational structure, moving from three to two divisions. With Bernd Wahler in Sport Performance and Hermann Deininger in Sport Style, adidas appointed two Chief Marketing Officers who have full ownership of their respective divisions. During the year, adidas not only established the two-divisional structure on a global level but also rolled it out in the regions of North America and Europe. Further, the brand appointed Patrik Nilsson as new President of adidas North America to further strengthen its market position in the region.

EUROPEAN DISTRIBUTION FURTHER STRENGTHENED In Europe, adidas continued to refine its distribution with various initiatives. For example, the brand extended a strategic partnership with its key account Intersport International Corporation. Within the scope of this cooperation, adidas offers customized product ranges in Intersport stores in categories such as football and running in 32 markets worldwide. Additionally, adidas and Intersport will continue to work closely on joint marketing and event-related initiatives. adidas also successfully implemented a segmented distribution strategy in the UK [▷ see Risk and Opportunity Report, p. 104](#) and continued its strong retail expansion in Russia.

PARTNERSHIP NETWORK FURTHER EXTENDED adidas further expanded its portfolio of promotional partnerships in 2007. The brand entered into a Tier One partnership with the London Organising Committee of the Olympic and Paralympic Games (LOCOG), to become the Official Sportswear Partner of the London Olympics in 2012. Brand adidas also extended partnerships with the German, Spanish and Hellenic football federations. In addition, the brand signed multi-year agreements with race car driver Dale Earnhardt Jr., Texas A & M University and the University of Michigan. In the Sport Style division, adidas agreed on a multi-year product collaboration with a leading denim producer, Diesel, starting in February 2008.

MARKETING CAMPAIGNS LAUNCHED SUCCESSFULLY With respect to brand communication, adidas successfully launched the newest installment of its “Impossible is Nothing” campaign – the largest global brand campaign ever implemented – in over 50 countries. Late in the year, adidas also kicked off its Olympics and global football campaigns for 2008.

INNOVATION LEADERSHIP THROUGH PERSONALIZATION adidas’ innovation philosophy encompasses every facet of the brand’s business – from product design and development to brand marketing, promotion partnerships and distribution. In this area, personalization represents a key focus. Personalized product concepts at adidas include:

- ⇒ Interactive product concepts such as miCoach – a new individual training system to be launched in March/April 2008, which can sense, understand and adapt to the consumer’s needs.
- ⇒ Customized solutions such as the mi adidas platform or the TUNiT football boot concept, which offer consumers the opportunity to specify certain product features.
- ⇒ A broad selection of well-defined product families such as adiSTAR, adiZero and Supernova and technologies such as Clima, TECHFIT™, ForMotion™ and BOUNCE™, offering consumers extensive choice, according to their individually defined needs and requirements.

In marketing and distribution, personalization includes providing tailor-made offerings – be it online or in stores. Personalization will be the brand’s lead innovation concept and a driving force of the adidas business going forward. It will guide all efforts in product design and development, (digital) marketing and distribution.

SPORT PERFORMANCE: EQUIPPING ATHLETES TO ACHIEVE THEIR OWN IMPOSSIBLES No brand has a more distinguished history or stronger connection with sport than adidas. Everything at adidas reflects the spirit of its founder Adi Dassler. That means adidas intends to support and equip all athletes in the best possible way to help them achieve their optimal performance. Therefore, adidas Sport Performance remains the brand's primary focus both in terms of product and brand initiatives. The division will continue to generate at least 70% of adidas brand revenues going forward. Although the adidas Sport Performance division offers products in almost every sports category, the key priorities are:

- ⇒ Running
- ⇒ Football
- ⇒ Basketball
- ⇒ Training

In all these areas, adidas strives to be the leading global brand in terms of sales. 80% of revenue growth in the Sport Performance division between now and 2010 is expected to come from these four categories. Additionally, adidas plans to further extend its global market leadership position in the tennis category going forward.

adidas aims to consistently present the brand attitude "Impossible is Nothing" in targeted and relevant consumer communication. The "Impossible is Nothing" brand campaign encourages consumers to achieve their own personal "impossible" goals – no matter what they might be – and underlines that adidas will help them in their pursuit of these goals.

SPORT PERFORMANCE – RUNNING: BUILDING CREDIBILITY WITH HIGH-PERFORMANCE ATHLETES Running continues to be adidas' highest category priority and will be critical to the brand's success moving forward. Because of the category's global importance, the brand is committed to support running with a substantial portion of overall marketing spend – now in both event and non-event years. adidas holds the number two position in terms of sales in the category globally.

The brand's philosophy is to inspire and enable runners on all levels. adidas focuses on building credibility with the high-performance athlete first because for the brand this credibility is the foundation for eventually tapping into the broader opportunity in the running category, the casual runner. As runners tend to seek consistency and proven technologies, the adidas product range is built on several well-established product families that address specific consumer needs (e.g. adiSTAR, Supernova, Response, adiZero, BOUNCE™). By segmenting and tailoring distribution, supporting retail partners and utilizing partnerships with selected global marathon events (e.g. the Boston, London and Berlin Marathons), the brand expects to leverage its product offering globally and further strengthen its position in the running market.

SPORT PERFORMANCE – FOOTBALL: INCREASING THE BRAND'S LEADERSHIP POSITION Being the most popular sport worldwide, football is clearly one of adidas' key strategic priorities. For over 50 years, adidas has led all major developments in football boot technology and balls. adidas is the world's leading football brand in terms of sales. Building on its success around the 2006 FIFA World Cup™, the brand strives to increase its leadership position by continuously creating the industry's top products and fully leveraging its outstanding portfolio of promotion partners.

Promotion partners include leading football associations (e.g. FIFA, UEFA), national federations (e.g. Germany, France, Spain, Romania, Greece, Argentina, Mexico, Japan), leagues (e.g. Major League Soccer in the USA), clubs (e.g. Real Madrid, A.C. Milan, Chelsea FC, Liverpool FC, FC Bayern Munich, River Plate) and individual players (e.g. Kaká, Lionel Messi, David Beckham, Michael Ballack). In 2007, adidas' momentum in the category continued and the brand further strengthened its global market position.

In 2008, most product and marketing efforts will revolve around the European Football Championship (UEFA EURO 2008™), which represents a key platform for the brand in Europe. The event also has a significant global relevance, evoking strong interest among football fans worldwide. Based on new product and marketing concepts plus a proven strength in translating those into commercial success, adidas expects to extend its leadership in the category going forward.

SPORT PERFORMANCE – BASKETBALL: LEVERAGING THE NBA PARTNERSHIP

adidas is the number two brand in terms of basketball category sales worldwide with a strong presence outside of North America. Increasing its footprint in basketball therefore represents another key component of the adidas brand strategy. In particular, basketball is a key category to drive growth in North America. adidas intends to strengthen its position in the category by emphasizing the brand's unique positioning – with a clear focus on individual and team performance.

In this context, the brand's long-term partnership with the NBA is a critical asset. This agreement includes exclusive licensing rights to all NBA on-court and warm-up apparel as well as NBA-branded footwear for all teams. It also ensures adidas' visibility at all 2,460 NBA games and allows the brand to effectively promote and harness its outstanding roster of individual players such as Kevin Garnett, Dwight Howard, Tim Duncan, Chauncey Billups, Tracy McGrady and Gilbert Arenas. [see adidas Products and Campaigns, p. 129](#) Over 20% of all NBA players today wear adidas footwear.

Due to the NBA's increasing visibility and popularity around the globe, the partnership represents an important vehicle to drive the adidas basketball business in Asia and Europe. The portion of adidas basketball sales generated outside of North America is growing rapidly. As a result, the brand's overall basketball business is expected to be split evenly between North America and international markets by 2010.

SPORT PERFORMANCE – TRAINING: EXPANDING THE MEN'S AND WOMEN'S APPAREL BUSINESSES

Training is the industry's largest apparel category. At adidas, training is the single biggest sports category for both men and women – and one of the adidas brand's key strengths. Moreover, adidas is the global leader in training apparel and strives to extend this leadership position going forward.

In the men's segment, adidas' cross-category performance-driven compression apparel concept TECHFIT™ [see adidas Products and Campaigns, p. 129](#) represents a key image and commercial driver. The brand expects to expand the TECHFIT™ business in 2008 on the back of strong communication and sports marketing support. In addition, adidas will work closely with key retailers and support them with a quick replenishment and "never-out-of-stock" program.

adidas has identified women's training as one of its most important growth opportunities. [see Risk and Opportunity Report, p. 104](#) Therefore, adidas intends to further grow the business with extended product offerings in the high-end adilibria, the dance-inspired Fuse and the gym-focused Clima 365™ collections. In addition, to support these product concepts, adidas will run a global communication campaign centered around yoga. The brand will also continue to carefully extend the product offering and distribution of its acclaimed adidas by Stella McCartney range.

SPORT STYLE: CAPITALIZING ON BRAND AUTHENTICITY AND HERITAGE

The market for streetwear and lifestyle fashion represents a unique opportunity for sporting goods companies as it is more fragmented and larger in size than the market for products used in sports activity. In addition, profitability in the sports lifestyle market is typically higher as a result of lower R&D expenses. Further, the sports lifestyle market is growing faster than the market for actual sports products.

adidas is a brand with an authentic sports lifestyle offering based on its unique sport heritage. This distinction offers adidas a clear advantage when competing with the numerous fashion brands which are attempting to enter this market. To best tap the potential of the sports lifestyle market, adidas created a dedicated Sport Style division primarily focused on its Originals and fashion (e.g. Y-3, Porsche Design) businesses. In 2008, adidas plans to further strengthen its lifestyle proposition with the addition of a separate lifestyle fashion program targeting more commercial price points. The Sport Style division is expected to account for up to 30% of adidas brand sales in the medium to long term.

SPORT STYLE: EXPANDING ADIDAS ORIGINALS

The adidas Originals business is the cornerstone of the Sport Style division. Brand communication and attitude of adidas Originals are built on the message "Celebrate Originality". [see adidas Products and Campaigns, p. 129](#) All product and marketing initiatives at adidas Originals focus on authenticity, creativity and individuality. Since its introduction, adidas Originals has been positioned as a niche business with corresponding product, marketing and distribution strategies. Going forward, however, adidas Originals will widen distribution and extend its product offering and communication efforts. In this way, adidas Originals plans to fully capitalize on the strength and brand equity of adidas.

To best meet the needs of a wide consumer base, adidas Originals addresses three consumer segments:

⇒ The *Metropolitan* consumer looks to sport, street and fashion references as a basis for self-expression. In this consumer segment, adidas will build on key trends such as driving-inspired and low-profile footwear (e.g. Sleek for women). Furthermore, adidas will launch its first jeans collection as part of the new product collaboration with Diesel in 2008. Moreover, adidas will extend its product offering with the introduction of new product concepts such as the environmentally-friendly adidas Grün and the women-specific Handbags for Feet collections. [see adidas Products and Campaigns, p. 129](#)

⇒ The *Urban* segment presents a bold, urban look that takes references from sport, street and particularly hip hop lifestyle. In this consumer segment, authenticity and heritage are critical. adidas was a pioneer in this segment with its connection to music artists Run DMC in the 1980s. Today, adidas continues to resonate with urban consumers with the iconic Superstar shoe or product ranges related to its partnerships with Missy Elliott and the NBA (i.e. lifestyle basketball products).

⇒ In the *Coastal* segment, adidas targets a young consumer group inspired by action sports. This includes a continued focus on the brand's successful skateboarding-inspired product offering.

To ensure future sales growth in the sports lifestyle market, adidas will offer new concepts and – at the same time – further differentiate and segment distribution at wholesale and in adidas own-retail stores.

SPORT STYLE: BUILDING A FASHION BUSINESS ON THE SUCCESS OF Y-3 Another key element in the Sport Style division is the high-end Y-3 fashion collection developed in collaboration with designer Yohji Yamamoto. Introduced five years ago, the Y-3 business has grown substantially and has become a key image driver for the adidas brand. Through Y-3, adidas has created its own niche in the highly competitive world of fashion. New collections are launched twice a year at the New York fashion week. To drive the Y-3 business worldwide, adidas focuses on controlled space initiatives with high-end retailers as well as own-retail activities. In 2008, adidas expects to grow sales in the fashion category at a double-digit rate.

OPTIMIZING WHOLESALE BUSINESS Success in both Sport Performance and Sport Style requires an effective distribution strategy. The right presentation and availability of consumer-relevant product as well as excellent customer service at the point-of-sale are critical in this context.

adidas generates around 83% of its revenues through its wholesale business – where adidas sales subsidiaries sell footwear, apparel and hardware/accessories to retail partners. In general, the brand's customers include sporting goods, sport specialty, athletic specialty and family footwear retailers as well as high-end department stores and directional accounts in the Sport Style division. To preserve the premium image of the adidas brand, it generally does not sell its products to value or discount chains.

In a few markets, where adidas does not have its own sales subsidiaries, the brand partners with third-party distributors that sell its products to retail. To have maximum brand control, however, adidas' strategy is to continuously buy back distribution rights and establish own sales organizations as appropriate. [▷ see Risk and Opportunity Report, p. 104](#)

In 2008, adidas will also continue to optimize its wholesale proposition by further segmenting its product offering to retailers. After the successful introduction of the new distribution model in the UK, the brand plans to roll out similar models in other major European markets.

EXPANDING CONTROLLED SPACE In line with the Group's distribution strategy, [▷ see Group Strategy, p. 044](#) the adidas brand focuses on the expansion of controlled space:

⇒ By further growing its own-retail business and extending the mono-branded store network particularly in emerging markets,

⇒ By diversifying its own store formats and establishing a multi-dimensional store portfolio comprising Metropolitan stores, concept stores, e-commerce and factory outlets, and

⇒ By accelerating its roll-out of shop-in-shops with key retail partners in mature markets.

In 2007, adidas made significant progress in all these areas. The brand's own-retail sales and store number continued to increase strongly. Own retail now accounts for 17% of adidas brand revenues. [▷ see adidas Business Performance, p. 096](#) The number of mono-branded stores in emerging markets and the number of shop-in-shops also grew significantly.

In 2008, adidas plans to further extend its controlled space initiatives. Together with its retailer partners, the brand will continue to open shop-in-shop formats in mature markets and new mono-branded stores in emerging markets. In markets with an underdeveloped retail landscape and where market access via partners is not possible, adidas plans to further extend its own-retail business.

As part of the continued growth of its own-store network, the adidas brand will open its largest store in the world in Beijing in spring 2008, which will showcase both Sport Performance and Sport Style products. Going forward, the brand expects to introduce more such Metropolitan stores as appropriate. adidas will also further diversify its store base introducing category-specific concept store formats. Moreover, the brand will pilot its first European online shop in the Netherlands in the first half of 2008.

GROWING AVERAGE SELLING PRICES AND PROFITABILITY

adidas offers the vast majority of its footwear, apparel and hardware products at high- and mid-level price points. The brand's goal is to strengthen both its market position and revenues by driving continuous growth in average selling prices and increasing profitability. adidas believes a strong brand image is the best defense against a promotional retail environment (i.e. competition at retail via price wars) and is prepared to give up short-term revenue opportunities as necessary to preserve the long-term market position. [▷ see Risk and Opportunity Report, p. 104](#)