
Section 6

EXTREME MAKEOVERS

Adidas

Never give up on an aging champ

Back in the early 1930s, in a tiny German town with a hard-to-pronounce name, a young man called Adolph Dassler heard about a brilliant American sprinter, Jesse Owens, who was coming to compete in the Berlin Olympics.

Dassler, who preferred to be known as Adi, and his brother, Rudolph, made sports shoes in their little workshop in Herzogenaurach in Middle Franconia.

Dassler experimented with new materials including shark skin and kangaroo leather for his running shoes, and would later accumulate hundreds of patents. He approached Owens and offered to make him a special pair of running shoes to compete in. This being long before the days of celebrity endorsements and lucrative contracts, Owens happily accepted his free shoes and went on to win four gold medals in Berlin in 1936, annoying Hitler to no end and giving the Dassler brothers an idea that was to prove the foundation of what became the world's biggest sportswear company: get athletes to wear your shoes and other people will pay for them.

They managed to survive the war but not each other: in 1948 Adi and Rudolph had a famous falling out—some say it was about Nazism, others claim it was over a girl—and never spoke again. Rudolph took half the shoe-making machines and set up a new business on the other side of the river Aurach, calling the venture Puma. Adi called his business Adidas (from “Adi” and “Das”—not, sadly, an acronym for “All Day I Dream About Sex,” as the rumor used to go) and a year later incorporated the three stripe trademark. Unlike Nike's swoosh, which was dreamed up by a design

student, Adidas's three stripes originally had a practical purpose, helping to support the arch of the foot.

Both brothers pursued athletes to wear their shoes, an increasingly successful strategy as events began to be televised, but Adi pulled ahead decisively in 1954 when he outfitted the West German World Cup soccer team with new cleats that had replaceable screw-in studs instead of the standard molded pattern. The final was on a wet day, giving the cleat-wearing Germans an advantage over Hungary and their first World Cup victory.

Dassler had another secret weapon: his son, Horst. Dassler had five children—four daughters and one son—and encouraged them all to join the business. His wife, Kathe, also worked at headquarters and after Dassler's death in 1978 ran the business herself. But Horst was something else—according to one report, when he was sent by his father to hand out shoes at the 1954 Melbourne Olympics, he bribed workers at the docks to stop Puma equipment being unloaded.

By 1960, Adidas had a lock on the Olympics, with 75 percent of track and field athletes wearing Adidas shoes; at the 1972 Munich Olympics, every official wore Adidas and the majority of the athletes did too. The roster of Adidas-backed stars grew to include high jumper Dick Fosbury, gymnast Nadia Comaneci, and Muhammad Ali and Jo Frazier, who faced each other in 1971, both wearing Adidas.

Adidas was the premium brand of its day, so most athletes would have worn its products willingly. But Dassler knew how to cultivate contacts and built relationships with the International Olympic Committee that guaranteed its status as the official supplier (which it is to the National Olympic Committee in China in 2008). When Dassler died in 1978, age seventy-eight and yet to retire, Horst, who had opened his own branch of the firm in France, cemented his position as a sports "godfather." He had developed enormous influence across the various sporting bodies, particularly as he helped

them to maximize their commercial opportunities through a marketing company he had cofounded.

Horst took complete control of Adidas in 1985, but died two years later, at age fifty-one. After Horst's death, his sisters squabbled over the direction of the company and it lost market share—from an all-time high of 70 percent of the U.S. sports shoe market, Adidas rapidly hit a low of under 3 percent, attacked largely by Nike but also by the swathe of other brands that erupted during that decade's sportswear boom.

In 1989, a swashbuckling French business-rescue specialist called Bernard Tapie stepped in and seduced the sisters into parting with Adidas for what was regarded as a bargain \$320 million. Tapie, who became France's Urban Affairs Minister, was spread too thinly to manage the company properly and soon found he could not pay the interest in his loans (he later went bankrupt and spent six months in jail after a match-fixing scandal). In 1992, a French bank found another buyer for Adidas, now losing more than \$100 million a year.

Even the otherwise relentlessly upbeat official company history refers to the early 1990s as "a difficult transition period." But the new buyer, a Harvard MBA called Robert Louis-Dreyfus, had a strong track record of successfully rescuing moribund firms. He struck an incredible deal with the bank, buying a 15 percent stake in Adidas with a partner for an initial stake reported to be just \$10,000 each, with the banks and other investors providing the rest of the capital. He sacked most of the senior management, slashed costs, and doubled marketing spending.

In the United States, Adidas bought a Portland-based sports marketing company called Sports Inc. and turned it into Adidas America in 1993. It was headed by two former Nike executives, Peter Moore and Rob Strasser, who had been instrumental in projects such as the Air Jordan and the "Just Do It" marketing campaign. Unfortunately, Strasser died of a heart attack shortly after

the buyout, but he had time enough to persuade Adidas to set up its U.S. operations in Nike's home turf, which proved an enormous stimulus to the brand, criticized in the past for being out of touch.

Luck also played a part: with retro a major trend in the mid 1990s, Adidas rereleased a line of classic "old-school" sneakers that was an enormous hit and most likely a complete surprise to Nike, then focused on high-tech innovation.

Adidas went public in 1995 and has slowly clawed back market share. Louis-Dreyfus has reportedly turned his initial \$10,000 investment into a stake worth some \$390 million.

In 1998, Nike, keen to boost its sales of soccer cleats, sponsored the Brazilian team in the World Cup, backed by an enormous global advertising campaign. But it was France, wearing new Adidas "Predator" cleats, who took home the trophy. The war continued off the field: Nike signed the Manchester United soccer team; Adidas signed its star player, David Beckham. Nike recently claimed to have edged out Adidas as the top supplier of soccer footwear in Europe, but Adidas is still ahead globally, and supplies more balls and apparel.

Off the field, Adidas is still playing the retro card with its line of originals, backed by a marketing campaign that draws on the brand's historical connections with popular culture, particularly hip-hop (Run-DMC, one of the first mainstream hip-hop acts, were Adidas fans, and even had a hit single in 1986 called *My Adidas*). In 2004, the sky-blue 1976 model S176 was re-released after starring in the remake of *Starsky and Hutch*, and the recent rerelease of the old school "Superstar" sneaker generated queues in front of sneaker stores around the world.

Adidas has also, however, reinvested in technology, taking on Nike at its own game. In 2000, Australian swimmer Ian Thorpe won three gold medals at the Sydney Olympics wearing a bizarre full-body suit made by Adidas; more recently, the company introduced Adidas 1, a \$250 computerized shoe that responds electron-

ically to provide different levels of cushioning, and a custom fitting service that measures your feet as you run on a treadmill and sends the details to the factory called Mi Adidas.

More significantly, in mid-2005 it announced plans to buy and merge with Reebok, which meant that the number two- and three-placed brands were joining forces against number one, Nike.

The company is also expanding its retail presence, opening large stores in New York, London, and, more significantly, China, where CEO Herbert Hainer announced plans to open forty stores per month for forty months, on top of the existing five hundred outlets—just in time for the 2008 Olympic Games.

REFERENCES

The Advertiser, Brand Week, The Business, BusinessWeek, Calgary Herald, Courier Mail, Economic Times of India, Economist, Financial Times, Fortune, The Independent, Montreal Gazette, The Observer, Newsweek, New York Times, Sunday Telegraph, Toronto Financial Post, USA Today