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*The following report has been developed from the case material and auxiliary regarding the case
company that do not supersede the case's year of publishing 2016*

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Introduction

Adidas AG (referred to as "Adidas" henceforth) is a German company founded in 1949 by Adolf Dassler. Some years later, by the 1960s, Adidas manufactured equipment across various sports, and in 1975 the "Copa Mundial" boots were soon to become one of the world's most popular football boots. In 2006 the acquisition of Reebok made it possible for Adidas to compete with Nike as the number two athletic shoemaker in the world. Ever since these two brands have become synonymous with the sportswear industry.

This paper will elucidate the principles underlying Adidas's market position and situation, followed by a comparative analysis of Adidas's and Nike's competitive positioning. Thereafter, the focus will be on a new product Adidas is introducing, outlining the competitive landscape and strategic marketing decisions.

1. SWOT analysis of Adidas's market position

Highlighted in the below SWOT analysis are Adidas's internal strengths and weaknesses while facing external opportunities and threats, all based only on the case study information given.

Internal	
Strengths	Weaknesses
<ul style="list-style-type: none"> High brand equity Diverse product portfolio (<i>wide and deep</i>). Develops a fashion position for the brand → collaborations with fashion designers. Builds differentiation in ways such as sports endorsements and fashion collaborations. Offers consumers the opportunity to participate in brand design. Exceptionally high levels of brand awareness among the consumer base. Developed retail network in China. Rather strong market share in key markets (<i>Western Europe and Russia</i>). Cost efficient production 	<ul style="list-style-type: none"> 95% of production is outsourced → little control over product quality. Problems with retooling Reebok → struggles to maintain pace with Nike. Primarily using <i>existing</i> networks → Adidas Originals Facebook page and other apps. Massive marketing expenditure is necessary to maintain market share and brand awareness and keep up the pace with other brands. Low market share in USA.
External	
Opportunities	Threats
<ul style="list-style-type: none"> Stable demand from recurring customers → repeat purchases. Growing tendency in a lack of price sensitivity → <i>If the perceived aesthetic or function of the product is high enough.</i> Growing tendency in consumers buying sports apparel not for exercise → but as fashion apparel. The 'Controlled space' strategy, improving brand control by extending its retail operations → increase company-owned and -operated stores and extending mono-brand franchise operations. High online market growth. Increasing GDP per capita (PPP) in emerging markets. Strong market growth in countries outside Europe. 	<ul style="list-style-type: none"> Unforeseen currency fluctuations and economic crisis → retailers in many countries responded by price-cutting. High competition intensity → High risk of substitution since many brands offer basically the same products. Highly trend-based consumption → constant need for product development. Political barriers. Competitors aggressively pursue market share → <i>it is crucial for Adidas to rapidly and repeatedly getting marketing and product decisions right.</i>

1.1 Internal Factors

Several strengths are contributing to Adidas's rather strong market position most of them underpinned by its sales channel strategy and social media strategy. The highly intensive competitive environment within sports apparel has led Adidas to differentiate its branding towards using sports endorsements and collaborations with fashion designers. Positively, it increases the brand awareness within the consumer base encompassing both the Healthy lifestyle-oriented and the more Fashion-oriented consumers. Using Adidas's already established network helps strengthen the relationship with current consumers, but they risk missing out on potential customers. A growing demand for high-quality product, partly caused by the growing GDP per capita, makes the outsourced production a factor of concern, due to Adidas's lack of control of production and thereby low influence on the quality assurance. Further, Adidas's marketing expenditures is critical for the sales and are therefore high because of the highly saturated market making it a necessity for high expenditures on marketing, just to maintain the already captured market share and keep the pace with its competitors.

1.2 External Factors

Looking into a future prospect, from a macrolevel perspective the global economy is experiencing a stable growth, noticeable is the increase in GDP per capita (PPP) in emerging markets and an expanding middle-class in general, and hence a strong market growth outside Europe is seen, thus making the opportunity for Adidas to leverage growth within this middle-class segment. The economic growth has led to an increase in demand for high quality products and a lack of price sensitivity, all together emphasising the opportunity to develop Adidas's brand position. Furthermore, the proportion of people with internet access keeps expanding, hence a more focused interaction with consumers on social platforms and apps will increase the brand awareness positively encouraging to word-of-mouth marketing and encouraging recurring customers. Further, consumers show a growing tendency in buying sports apparel as fashion pieces and not for sports purposes. The strategy of collaborating with fashion designers meets the demand for more personalised products and sports apparel bought for non-exercise purpose but rather as fashion pieces. On the contrary, threats contributing to Adidas constantly having to spend huge amounts on marketing and promotion; due to the high competition intensity and competitors aggressively pursuing market share. Consumers are likely to substitute the products regardless of the brand, since many brands offer similar products. These factors are pushing Adidas to rapidly and repeatedly getting market and product decisions right, so they do not lose market share.

1.3 Summation of Adidas's market position

Summarised, Adidas has several strengths and opportunities which could underpin a Matching strategy, which will be elucidated later on, in regard to developing their competitive advantage, to respond the expanding middle-class and social and behavioural changes. Facing future threats, Adidas must work on marketing and product strategy to differentiate from the competitors to have an advantage in a highly saturated market competing with aggressive competitors.

2. International Market Selection using MACS Approach

To appraise the options for Adidas to introduce the new high-performance and sustainable sneaker and to identify the most attractive country for the introduction of the new product, the MACS approach is applied. The evaluation is based upon weighted criteria in Market Attractiveness, to where several macroeconomic screening criteria will be used for determination. Hereafter, Competitive Strength will be estimated using fine-grained screening criteria, relative to each of the selected country markets.

Market Attractiveness	Weight	USA	China	India	Mexico	Canada	Japan	Brazil
GDP per capita (PPP)	15	105	30	15	60	90	75	45
Market size: Million US\$ absolute market growth, 2014-2019	15	105	90	75	60	45	30	15
Market share, 2014: Adidas	20	20	100	120	80	60	140	40
Population with internet access (%)	15	75	45	30	15	90	105	60
Proportion of people aged between 20-34 (Units: '000)	10	50	60	70	30	10	20	40
Political Risk	15	90	15	45	60	105	75	30
"Psychic" distance from home market to target market	10	50	20	40	10	70	60	30
Total	100	495	360	395	315	470	505	260

Competitive Strength	Weight	USA	China	India	Mexico	Canada	Japan	Brazil
Brand equity	15	105	60	75	30	90	45	15
Customer loyalty	5	15	30	35	5	20	25	10
Product fit to market demands	20	120	80	60	40	140	100	20
"Psychic" distance from home market to target market	10	20	40	50	60	10	30	70
Local market knowledge and Network	10	60	40	50	20	70	30	10
Competition intensity (Ranked, 1 = high to 7 = low intensity)	20	20	60	100	120	40	80	140
Market share, 2014: Adidas	15	75	210	240	150	105	255	90
Total	95	415	520	610	425	475	565	355

	USA	China	India	Mexico	Canada	Japan	Brazil
MA	495	360	395	315	470	505	260
CS	415	520	610	425	475	565	355
	910	880	1.005	740	945	1.070	615

Figure 1: MACS Approach country appraisal*()**

Note*: sources and raw figures are stated in appendix

Note**: Figures from external source (i.e., not the case material) are all extracted from the year of 2016 (the publication year of the case)

2.1. Market Attractiveness Elaboration

In terms of market attractiveness, seven weighted criteria of differing significance are used to assess how supportive exogenous market factors are in support of expansion to a respective country. Market Share, 2014: Adidas is the most highly weighted criteria, which relate to the share of net market value and the overall industry in the respective country reflecting the degree to which Adidas has been embraced by the populous. Political Risk being second highest weighted is to give an impression the risks caused by corruption and bribery. Equally weighted is GDP per capita (PPP), introducing a new high-performance sneaker the GDP per capita (PPP), reflecting the purchasing power, present and future, in the respective countries, is to make an indication on whether the consumers have the means to buy this new product.

By synergising these implications, the socioeconomic criterion GDP per capita (PPP) and Population with internet access (%) reflect to which degree the demography of each respective country will be reachable through Adidas's marketing mix. Also, the very high rate of internet access in Japan is a proxy for technological propensity reflecting a high potential for willingness to engage with automation.

USA experience a growth in GDP per capita while Japan outvie in internet access and Adidas's present market share. Overall, Japan, USA and Canada rank highly on a grand scale, whereas Brazil and Mexico less favourable markets.

2.2. Competitive Strength Elaboration

The seven chosen criteria are to predict to which degree Adidas has the ability or advantage to excel and become successful in the respective competitive market. Weighting the Product fit to market demand and Competition intensity highest are to indicate the necessity for the need of adaptation or extension of the product line to the market to increase Adidas's market share from other aggressive competitors. Entering a highly saturated market entails high risk of not being able to penetrate the market and take a market stable position. Furthermore, a highly saturated market can indicate a tendency in consumers' behaviour as they will show a low brand loyalty and thereby a high substitution rate will happen since the offered products are similar. India scores higher on several parameters making it a favourable market in regard to Adidas's competitive strength. Also, Adidas has a large market share in India, growing network and retail stores compared to Nike.

2.3. Overall recommendation

India scores highest on the criteria measuring the competitive strength and Japan scores $610 - 565 = 45$ points less than India. When looking at the overall results both India and Japan are also classified as an A country in which to invest and grow. Five of the seven countries are also classified as A countries and would also be attractive markets. Thus, the recommended country to introduce the new high-performance and sustainable sneaker to is to be Japan.

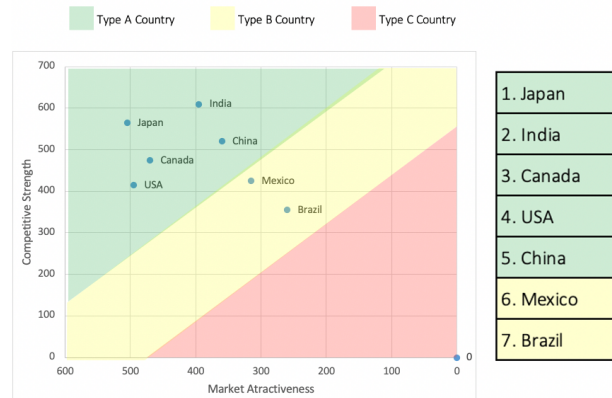


Figure 2: Market Selection matrix and ranking of countries with combined MACS scores

3. Target Segment and Segmentation Approach for Japanese Market

By recommendation based on the analysis of the MACS approach, Japan is identified as the target market, which leads Adidas to find its target segment herein. In order to make a highly specified target segmentation there is a need for psychographic and demographic segmentation. These approaches together with some criteria of observable purchasing behaviour synergise and allow Adidas to target a segment based on behaviour and attitudes alongside traits. A pitfall by only using *one* segmentation approach can be an unspecified target segment not willing to pay premium price for the product or not interested in the features of the product at all.

Japanese specificities impacting Japanese consumer behaviour and purchasing habits. Despite internationalisation are minimising the psychic distance Japanese consumer behaviour still differ in many aspects. Japanese are generally technologically interested, which is reflected in the MACS analysis, and they work long and hard hours. The emergence of a new generation, often referred to as Millennials and Generation Z, shows a social change, they buy less but have high-quality standards and are more health and environment-conscious and disregard material possessions, but are seeking entertainment and great service. Adidas already has a large market share and thereby having an advantage in being a strong market player. Underpinned by these facts, a significant opportunity lies within targeting the “young urban professionals”, encompasses the early adopters and early majority categories. Japan-VALS Framework (Strategic Business Insights, n.d.) also propose very similar segments as the Self-Innovators and Self-Adapters desiring personal experience, graphic entertainment and fashionable display confirming the discussed elements earlier.

This target segment is relatively convenient for Adidas through some aspects as it appears than young adults worldwide happens to show similar desires and demand patterns due to globalisation creating more homogenous markets. Adidas do not have to convert their entire marketing mix, but merely adopt some aspects to the cultural differences and trends.

Demographic Segmentation Age: 18 - 35 Income: Medium - High Occupation: Professionals Housing: Urban	Psychographic Segmentation Lifestyle: Health and environment-conscious Tech: Use to technology and is a part of their everyday life Categories: Innovators and Early adapters	Observable purchasing behavior Desire: Entertainment Interest: High-quality and great service Purchase method: online, but appreciate physical store
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Figure 3: Conjoint analysis of specifications

4. Marketing Research using the Choice-Based-Conjoint Approach

4.1 Product concepts with highest and lowest overall value

Knowledge is crucial for a company to perform on a high level and navigate in a direction of making better and more precise marketing and product decisions right. By conducting a conjoint analysis and configuring a product based on the given characteristics and attributes from the case study information, it becomes possible to know the segment's preferences and thereby more precisely adapt the marketing mix to reach potential consumers in the most appropriate way. Adidas will by conducting a conjoint analysis be able to figure out the most important aspects of the product, but also where it will be necessary to change features so an appropriate price can be matched and justified for the product as a whole.

Product concept with the highest total utility		
Sole:	Polyurethane	3
Upper:	Nylon	2.2
Cushioning:	High-performance	2.5
Brand:	Nike	3
Price:	45 USD	4
Total utility: 3 + 2.2 + 2.5 + 3 + 4 = 14.7		

Product concept with the lowest total utility		
Sole:	Rubber	0
Upper:	Leather	0
Cushioning:	Normal	0
Brand:	No name	0
Price:	95 USD	0
Total utility: 0 + 0 + 0 + 0 + 0 = 0		

The mix of specifications that will generate the highest total utility will be a high-performance shoe with a polyurethane sole and upper of nylon by *Nike* sold at the lowest price, 45USD, resulting in a total utility of **14.7**. On the other hand, a normal shoe by a *no name* brand consisting of a rubber sole and leather upper sold at the highest price 95USD, results in a total utility of **0**. Both generations are useable for Adidas, it is now possible to conduct the most optimal mix of features and which to avoid. Using the same characteristics as the Nike mix, but substituting the brand, Nike, with Adidas, we get a total utility of **13.7**. In summation, a high-performance shoe with a polyurethane sole and upper of nylon by *Adidas* sold at the lowest price, 45USD is recommendable.

Product concept with the highest total utility		
Sole:	Polyurethane	3
Upper:	Nylon	2.2
Cushioning:	High-performance	2.5
Brand:	Adidas	2
Price:	45 USD	4
Total utility: 3 + 2.2 + 2.5 + 2 + 4 = 13.7		

Figure 4: Recommendation for Adidas based on a Conjoint Analysis

4.2. Best configuration for Adidas

To determine the best configuration for Adidas based on the three different compositions, Adidas 1 (A1), Adidas 2 (A2) and Adidas 3 (A3) the following formula is used for calculation:

$$P_{it} = \frac{e^{\left(\sum_{j \in J} \sum_{m \in M_j} \beta_{j,m} x_{i,j,m}\right)}}{\sum_{i' \in t} e^{\left(\sum_{j \in J} \sum_{m \in M_j} \beta_{j,m} x_{i',j,m}\right)}}$$
 where nominator represents stimulus i in a choice set (e.g., A1) and the denominator representing all stimuli i in a choice set (A1-A3, the total market share). The market share for A1 is 10.6%, A2 is 10.6% and for A3 it is **63.8%**, a throughout calculation is done in Appendix¹.

¹ Appendix 10.7. Calculus: Best configuration for Adidas

By interpreting the results, the shoe 'Adidas 3' will take a market share of **63.8%** making it the favourable choice. Adidas 3 consists of a high-performance sustainable shoe with an upper of nylon and sold at a price of 65USD.

4.3. Consumers' willingness to Pay

When developing new products, it is crucial for a company to be aware of the market trends and demands in their target segment and gather necessary knowledge of these trends and how to develop the product for the optimal adaptation to the segment and thus ensure a sufficient sale. A way of determining whether the consumers are more willing to pay for a certain characteristic is found by their willingness to pay respectively to the characteristic. Environmental awareness is a steady and consistent trend that is without any doubt going to be one of, if not the most, important factor for all parts in the value chain to adapt to since requirements, laws and restrictions are to change companies behaviour, and not at least consumers demand especially the Millennials and Generation Z, being in Adidas's demographic segmentation, are showing a growing environmental consciousness. Consumers show a willingness to pay **8.75USD²** more per unit for sustainable plastic. Furthermore, there is a high willingness on paying **31.25USD³** more per unit if the product is characterised as high-performance compared to normal. This could be a reflection of the macroeconomic development in the main GDP per capita (PPP)(World Bank, n.d.) worldwide, where an increasing GDP per capita (PPP) in the middle class is worth noticing for Adidas segmentation analysis. Consumers experiencing a higher income will presumably change buying behaviour and seek products not only covering the basic needs but now the psychological needs (Dr. Saul, n.d.).

Adidas should focus on developing high-performance shoes with features being made of sustainable plastic. Despite sustainable plastic being a costly material, the price for the overall product set for the consumer can be justified by the attributes from the high-performance model made with sustainable plastic. This will contribute to differentiating the product from similar products on the market.

4.4. Price increase and price elasticity

Assuming all other parameters are kept unchanged except for price, the price elasticity is to be calculated by

the following formula: $\varepsilon = \frac{\frac{x_{t+1} - x_t}{x_t}}{\frac{p_{t+1} - p_t}{p_t}} = \frac{\frac{150.000 - 250.000}{250.000}}{\frac{65 - 45}{45}} = -0.9$

With a price elasticity in the range of $0 > \varepsilon > -1$, classifies the product as inelastic. The revenue before the price change, from 45USD to 65 USD, was $q_1 * p_1 = 250.000 * 45 = 11.250.000\text{USD}$ and after $q_2 * p_2 = 150.000 * 65 = 9.750.000\text{USD}$. Adidas should not raise the price on their shoes, due to the decrease in number of units sold resulting in lower revenue, thus the higher price will not compensate for the lower quantity sold.

5. Adidas's and Nike's competitive position analysis in Japan

5.1. Competitive position analysis with the Positioning Strategy Approach

The market of which Adidas operates within is characteristic by being highly saturated and with a high competition intensity. The Japanese market is very attractive and in order to position Adidas in this market in consistency with its mission and vision, but at the same time being able to adapt to the social behaviour, cultural

² Appendix 10.8. Calculus: Consumers' willingness to pay

³ Appendix 10.8 Calculus: Consumers' willingness to pay

difference and demand. As Adidas and Nike being among the top leading brands of sportswear in Japan a comparative analysis is conducted to find where the companies differ and how.

Comparative Analysis of Company Positioning

Company	Adidas	Nike
Country of origin	Germany	United states
Quality	<ul style="list-style-type: none"> • High Quality 	<ul style="list-style-type: none"> • High Quality
Price	<ul style="list-style-type: none"> • Premium price 	<ul style="list-style-type: none"> • Premium price
Promotion	<ul style="list-style-type: none"> • Sustainability • Environment consciousness 	<ul style="list-style-type: none"> • Bold and Brave → Dare to go against norms and prejudices • Endorsing human rights
Internationality	<ul style="list-style-type: none"> • Operates in many countries 	<ul style="list-style-type: none"> • Operates in many countries
Target segments	<ul style="list-style-type: none"> • Young athletes who are interested in trendy sports apparel 	<ul style="list-style-type: none"> • Young adults with progressive values and healthy lifestyle
Brand awareness	<ul style="list-style-type: none"> • Very high 	<ul style="list-style-type: none"> • Very high

Figure 5: Comparative Analysis of the Competitive Position of Adidas and Nike

From the comparison analysis, it is clear that Adidas and Nike have similar market competitive positions. The category with the most significant difference is the promotion targeting a slightly different target segment. Adidas is creating a link between their brand and sustainability and environment consciousness, where Nike differentiate their promotion strategy by creating link between their brand and the fight for human rights and progressive values.

5.2. Development of Adidas's competitive advantage

The comparison analysis allows Adidas to further examine how to develop its competitive advantage in the Japanese market to strengthen its competitive position. The Strategic Triangle (CCC) is used to determine how Adidas can develop its competitive advantage. A competitive advantage should be relevant for customers, perceptible and sustainable in the sense of the company being able to build upon this in the long term. Ideally, the advantage should be hard for competitors to imitate, thus lowering the risk of piracy and imitated products that can weaken Adidas's reputation. By elucidating the three elements of the CCC approach an overall strategy for Adidas can be conducted.

Company-focused strategy: Adidas is cost-effective by having outsourced 95% of its production, enabling them to allocate expenditures on R&D and Marketing as key focus areas in the value chain, exploiting these areas to develop their differentiation and positioning strategy, following the differentiation leadership generic strategy (Warren J. Keegan, 2013).

Consumer-focused strategy: A growing demand for high quality and sustainable products with fashionable features lets Adidas exploit its existing market knowledge in Japan generating an organic intercorrelation with the company-based strategy.

Competitor-based strategy: To create a more superior image Adidas should strive to be a synonym for sustainability, exploiting consumers environment consciousness, since Nike pursue progressive values and create a link between human rights and its brand.

With the analysed internal and external factors, a Matching Strategy is able to encompass several of the elements within the strategic triangle. Focusing on external factors as lack of price sensitivity, environment consciousness and sportswear as fashion apparel matched with Adidas's strength in developing a fashion position for its brand and high brand equity. A strategy towards matching these aspects is to create a concept of Adidas being a synonym for sustainability while adapting its products to cultural fashion trends. Visualised in a perceptual map this strategy will distinguish Adidas as a more fashionable brand than Nike in Japan.



Figure 4: Perceptual Map of Adidas new position in Japan

6. Adidas's Strategy Adaptation to Japan

For Adidas in order to distinguish themselves apart from its competitors when introducing the new and high-performance shoe to the Japanese market, a clearly defined branding strategy will contribute to their differentiation.

6.1. Branding strategy and Marketing Mix

The Japanese are collectivistic, and the culture of origin is important, even if they will have to compromise on quality. A change in social behaviour is happening, therefore, despite this collectivistic characteristic Japanese start to show a positive attitude towards global products (AGP) and are being rather neutral towards local products (ALP) (Steenkamp & De Jong, 2010). On that note, Adidas should have a glocalisation approach in mind when positioning their new product. By reason of Adidas's already high brand awareness in Japan and positive consumer response from a previous fashion collaboration with a Japanese fashion designer, Yohji Yamamoto dating back to 2003 (Spagnolo, 2018), for utilisation reasons Adidas should engage another fashion collaboration with fashion designer Junya Watanabe, also Japanese, as a part of a line extension of the previous fashion collaboration, which was a big success, and shows opportunities for more collaborations in the future.

Product

As Adidas should seek to develop a fashion position for the brand in Japan, the new high-performance and sustainable shoe should be a product in the continuous line extension for Japan. Despite a growing demand for Western brands some features such as colour needs to be adopted to the Japanese market. The collaboration with Junya Watanabe is important both parties engaged throughout the entire development process of the shoe and with Watanabe's contribution to make it fit to Adidas's target segment 'Young urban professional'. Furthermore, ensuring the experience of buying a high value product the 'premium concept' must be carried out by leverage the package to match the premium fashion feature of the shoe.

Price

During the market entry phase the shoe is to be introduced by a skimming strategy with the geocentric pricing approach. The high price is associated with a high perceived quality and makes it possible to take advantage of consumers' willingness to pay. In the Japanese culture some numbers are considered as lucky and others as

unlucky. A psychological price below a round number should not contain the four or nine, where in western countries it is normal to set the price at e.g. 9.99€. In Japan it should be seven or eight (Tanuki, n.d.) symbolising luck. The price will decrease during the product's lifecycle, due to apparel experiences a rapid decrease in value as soon as it is bought. Furthermore, the fast-changing trends in fashion will be reflected in a rather fast decrease in demand after the innovators and early adopters purchased the product. Later there will be a discount when the late majority and laggards are to show interest in the shoe.

Place

Following the strategy of developing a fashion position for the brand and take market share they will establish a new and high-tech flagship store in Tokyo. This greenfield project will be supported by a hired Japanese consulting bureau contributing with knowledge of the Japanese market, the retailing systems, and the importance of Japanese cultural norms in negotiation processes. A unique flagship store with interactive VR simulation stations, sustainable interior and a lounge area set the framework for an experience satisfying several needs and meets the buying behaviour of Japanese changing from not only *what* they buy but also *how* they buy it. (J.M. Huysveld, 2015) The shoe is sold in the flagship store and on a B2C platform where it can be purchased at adidas.jp. This exclusive distribution encourages consumers to visit the flagship store or using their online channel for purchase, thus the exclusive coverage by limited physical access is compensated by the easily accessible online platform.

The fashion collaboration is beneficial for both parties, Adidas becomes a promotion channel for the designer, and Adidas strengthen its product concept and brand equity and awareness. (Spagnolo, 2018)

Promotion

Despite the globalisation and some markets changing towards being more homogenous, Japan is still quite patriotic and culturally insular. The promotional strategy should be adapted to the Japanese market and language. A dual channel promotion strategy should be used and initiated by an advertising agency. As the target segment being commonly active users of the key players in social media, utilising Facebook, Youtube and Instagram advertising and interaction with consumers on Twitter (Wong, 2016) is cost-effective. Additionally, in order to drive traffic to its webpage, Adidas should invest in Google Adwords and SEO. Jointly, an informative advertising featuring Junya Watanabe. Using the recognised designer underpin the fashion feature of the shoe and this national celebrity endorsement is critical as Japan is a high-context culture meaning a lot of information resides in context. Additionally, seeking to encourage a consumer culture of 'buy less, but better' is provoked by the premium categorised new high-performance and sustainable shoe, and thereby satisfying Maslow's Asian hierarchical need for status (Elite Think egg., 2015), which is a current trend within the target segment.

The shoe will be launched on the grand opening date of the flagship store, making it possible for Adidas to both hype up the shoe and create expectations to the new flagship store in Tokyo having Junya Watanabe to attend and exclusive selected scarce of influencers within the 'Young professional urbans' who are active with many followers on the social medias.

6.2. Expenditures on adaptation

A calculation of the marketing expenditures and the contribution margin, and with Adidas having a profit margin at 6.6%, the break even will be a sale of 105,559 units. Any sales exceeding this number of units, the

new introduced high-performance shoe, will lead to profits for Adidas. For financial, operating, performance reasons it is important for the company to know the timeline for when to expect to have the costs covered. Looking into Adidas market share of Japan's absolute market growth, it can be expected that a total revenue of their products sold in Japan are to cover the cost *within a year*, which elaborated in Appendix 10.10. The

Marketing Costs				Explanation of the extracted figures	
	Price	Quantity	Total cost		
SEO (per month)	\$ 3.500,00	12	\$ 42.000,00		https://www.webfx.com/internet-marketing/the-cost-of-marketing.html
Google AdWords	\$ 3.800,00	12	\$ 45.600,00		https://www.webfx.com/blog/marketing/much-cost-advertise-google-adwords/
Facebook ads (CPC)	\$ 0,97	2000000	\$ 1.940.000,00		https://www.webfx.com/social-media/how-much-does-facebook-advertising-cost.html
Instagram (CPC)	\$ 0,20	2000000	\$ 400.000,00		https://www.webfx.com/social-media/how-much-does-it-cost-to-advertise-on-instagram.html
Youtube (\$900 per month)	\$ 900,00	12	\$ 10.800,00		https://www.webfx.com/internet-marketing/how-much-does-youtube-advertising-cost.html
Total Marketing Cost			\$ 2.438.400,00		

Break even estimation				Explanation of the extracted figures	
Revenue for a year	€	32,64	in million	Case Material	
Net profit for a year	€	2,15	in million	Case Material	
Profit margin (net profit for a year / revenue for a year)*100		6,60%		Case Material	

Sales price of the new high-performance and sustainable shoe	\$	350,00	Qualified estimate based on previous collaboration	https://www.adidas.com/us/y_3
Contribution margin (per unit) (Sales price*profit margin)	\$	23,10	in million	
Number of units for Break Even		105.558,4	Units	

Figure 6: Japan Break Even Modelling

Note*: Comma and Period are swapped due to Excel set up on Danish features.

Innovators and Early Adopters buying behaviour enables this prospect based on Roger's classification of adaption for innovation with an estimate of a revenue in the currency YEN, ¥, converted to US\$32.64 million.

7. Online Channel Marketing

7.1. Adidas's online channel for marketing

As discussed, Adidas selects exclusive distribution and selective coverage making⁴, makes its crucial for Adidas to have efficient distribution channels seeking reintermediation, a completely online distribution channel trying to eliminate intermediaries. The target segment is also characterised as medium to heavy user of technology and will see the easy accessibility as beneficial when to compare prices, products and purchasing orders. Free shipping will encourage 'high risk' purchases and multiple purchases. Promotion is crucial as well for enlighten the target segment of *how* and *where* to see, try and purchase the product, but also the service that before, due and after purchase.

7.2. Media Budget Allocation

Marketing is a crucial part of how Adidas disseminates their vision and mission and also creating brand awareness to their consumer base. Allocating expenditures on respective channels resulting in the most efficient way of reaching the target segment with the objective that all expenditures contribute to the most optimal promotion mix and best response from consumers.

The media budget of 100,000USD is to be allocated on different channels. The given sales reaction function is as given: $y = 100 + .1 * Display + .6 * Paid Search + .4 * Social Media + .3 * Influencer$. The most optimal expenditure allocation should be in the prioritised ranking: Paid Search = 42,857.14USD, Social Media = 28,571.43USD, Influencer = 21,428.57USD and lastly, Display = 7,142.86USD being the least effective⁵, the ranking reflects the trend in an increase of internet access and social media, which is recommended to exploit.

⁴ Retail stores also being taking into account

⁵ Appendix 10.11. Media Budget Allocation

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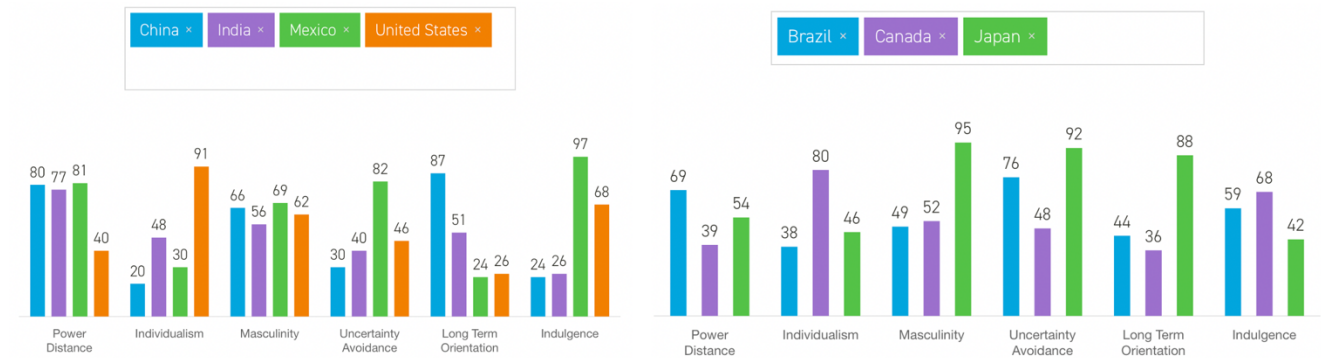
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10.2. Psychic Distance Raw Data



Source: (Hofstede Insights, n.d.)

10.3. Psychic Distance Calculation

Cultural (Psychic distance) calculation								
	Home Country	USA	China	India	Mexico	Canada	Japan	Brazil
Power distance	35	40	80	77	81	39	54	69
Individualism	67	91	20	48	30	80	46	38
Masculinity	66	62	66	56	69	52	95	49
Uncertainty Av.	65	46	30	40	82	48	92	76
Long Term	83	26	87	51	24	36	88	44
Abs. distance		109	132	128	162	95	101	130
Rank (abs. distance)		5	2	4	1	7	6	3
Euclidean distance		65	74	62	85	54	49	63
Rank (abs. distance)		3	2	5	1	6	7	4

10.4. Market Attractiveness Raw Data

Insert Metrics below	Weight	USA	China	India	Mexico	Canada	Japan	Brazil
GDP per capita (PPP)	15	57.951,6	13.572,6	5.839,9	19.323,7	46.472	39.964	14256,2
Market size: Million US\$ absolute market growth, 2014-2019	15	10,400	6,200	2,400	1,800	1,600	1,200	0,700
Market share, 2014: Adidas	20	5	14	16	10	7	17	6
Population with internet access (%)	15	86	53	22	9	91	93	61
Proportion of people aged between 20-34 (Units: '000)	10	67075	308032,2	327792,6	29850,2	7342	19799,4	51726,8
Political Risk	15	86	67	70	79	92	85	68
"Psychic" distance from home market to target market	10	109	132	128	162	95	101	130
Total	100	125.323	321.877	333.871	49.435	54.101	60.061	66.249

10.5. Market Attractiveness Sources

Criteria	Source(s)
Market size: Million US\$ absolute market growth, 2014-2019 and Market share, 2014: Adidas	Case Study Information
GDP per capita (PPP), Population with internet access (%)	World Bank (Bank, 2016)
Proportion of people aged between 20-34 (Units: '000)	(Euromonitor, 2016)
Political Risk	(PRS Group, n.d.)
Psychic Distance	(Hofstede Insights, n.d.)

10.6. Competition Strength Raw Data

	Weight	USA	China	India	Mexico	Canada	Japan	Brazil
Brand equity	15	7	4	5	2	6	3	1
Customer loyalty	5	3	6	7	1	4	5	2
Product fit to market demands	20	6	4	3	2	7	5	1
"Psychic" distance from home market to target market	10	2	4	5	6	1	3	7
Local market knowledge and Network	10	6	4	5	2	7	3	1
Competition intensity (Ranked, 1 = high to 7 = low intensity)	20	1	3	5	6	2	4	7
Market share, 2014: Adidas	15	5	14	16	10	7	17	6
Total	95	30	39	46	29	34	40	25

10.7. Calculation: Best Configuration for Adidas

$$\text{Market Share of Adidas 1} = p_1 = \frac{e^{(8.8)}}{e^{8.8} + e^{8.2} + e^{10.7} + e^9} = 0.1057 \approx \mathbf{0.106}$$

$$\text{MS of A2} = p_2 = \frac{e^{(8.8)}}{e^{8.8} + e^{8.2} + e^{10.7} + e^9} = 0.1057 \approx \mathbf{0.106}$$

$$\text{MS of A3} = p_3 = \frac{e^{(11.5)}}{e^{11.5} + e^{8.2} + e^{10.7} + e^9} = 0.6376 \approx \mathbf{0.638}$$

10.8. Calculation: Consumers' willingness to pay

$$WTP_{SP} = \Delta WTP_{jm1,jm2} = \frac{(PU_{j,m1} - PU_{j,m2})}{\frac{\text{Spand Utility Price}}{|\text{Absolute Price Range}|}} = \frac{2.8 - 2.1}{\frac{4 - 0}{95 - 45}} = \mathbf{8.75USD}$$

$$WTP_{HP} = \Delta WTP_{jm1,jm2} = \frac{(PU_{j,m1} - PU_{j,m2})}{\frac{\text{Spand Utility Price}}{|\text{Absolute Price Range}|}} = \frac{2.5 - 0}{\frac{4 - 0}{95 - 45}} = \mathbf{31.25USD}$$

10.9. Break Even Calculation

Marketing Costs			
	Price	Quantity	Total cost
SEO (per month)	\$ 3.500,00	12	\$ 42.000,00
Google AdWords	\$ 3.800,00	12	\$ 45.600,00
Facebook ads (CPC)	\$ 0,97	2000000	\$ 1.940.000,00
Instagram (CPC)	\$ 0,20	2000000	\$ 400.000,00
Youtube (\$900 per month)	\$ 900,00	12	\$ 10.800,00
Total Marketing Cost			\$ 2.438.400,00

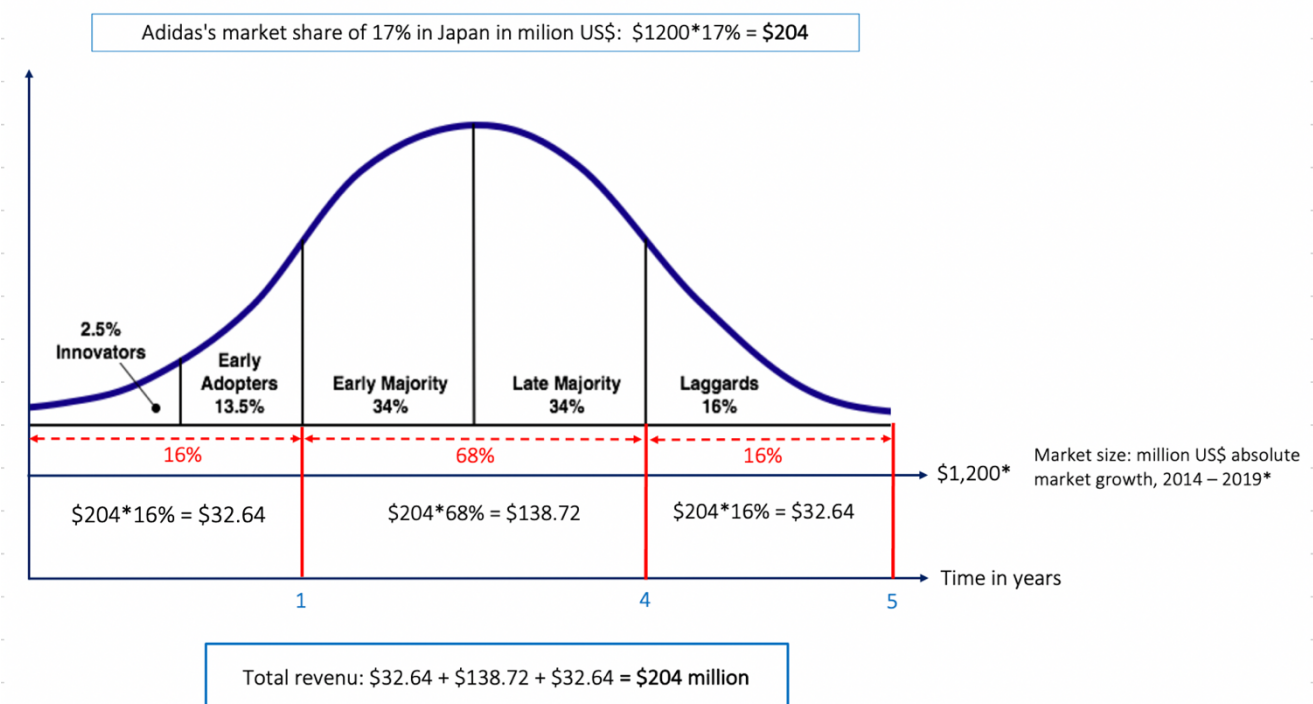
Explanation of the extracted figures

<https://www.webfx.com/internet-marketing/the-cost-of-marketing.html>
<https://www.webfx.com/blog/marketing/much-cost-advertise-google-adwords/>
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<https://www.webfx.com/internet-marketing/how-much-does-youtube-advertising-cost.html>

Break even estimation			
Revenue for a year	€	32,64	in million
Net profit for a year	€	2,15	in million
Profit margin (net profit for a year / revenue for a year)*100		6,60%	Case Material
Sales price of the new high-performance and sustainable shoe	\$	350,00	Qualified estimate based on previous collaboration
Contribution margin (per unit) (Sales price*profit margin)	\$	23,10	in million
Number of units for Break Even		105.558,4	Units

Limitations: The Marketing Costs do not consider previous expenditures on adaptation such as R&D, but only marketing relating to the present promotion of the new high-performance and sustainable sneaker.

10.10. Revenue Timeline for Cost Covering



Timeline of revenue based on Roger's Classification of Adoption for Innovation

*Figures from case material

This model is of own construction.

- The timeline is based on the predicted absolute market growth in Japan from 2014 to 2019. This timeline has been consolidated with Roger's Classification of Adaption for Innovation limiting the adaption process to 2019 – 2014 = 5 years.

- Adidas has a market share of 17% in Japan⁶, which gives them an absolute share of $\$1,200 * 17\% = US\204 million in this period of time, assuming the distribution is depending on the percentage of consumers in the category.
- The classification is divided into three groups:
 1. Innovators and Early Adaptors with a total spending on: $\$204 * 16 = US\32.64 million
 2. Early Majority and Late Majority have a total spending on: $\$204 * 64 = US\138.72 million distributed on three years.
 3. Laggards spends $\$204 * 16 = US\32.64 and happens at the end of the product's lifecycle (PLC).
- Now knowing the distribution of the total revenue, we can when can expect to have covered the costs.
- Total Marketing Costs at $US\$2,438,400.00$ ⁷ will be covered by the revenue from Innovators and Early Adaptors within the first year giving Adidas a revenue on $US\$32.64$ million.

Limitation: the revenue is based on the sales of all of Adidas's' products in Japan. There has not been distinguished between apparel, footwear and others.

10.11. Media Budget Allocating

Display:	$\frac{.1}{(.1+.6+.4+.3)} * 100.000 = 7,142.86\text{USD}$
Paid Search:	$\frac{.6}{(.1+.6+.4+.3)} * 100.000 = 42,857.14\text{USD}$
Social Media:	$\frac{.4}{(.1+.6+.4+.3)} * 100.000 = 28,571.43\text{USD}$
Influencer:	$\frac{.3}{(.1+.6+.4+.3)} * 100.000 = 21,428.57\text{USD}$

⁶ Case Study Information

⁷ Appendix 10.9. Break Even Calculation