Adidas External Business Environment Analysis (PESTEL Analysis)

Posted on September 29, 2018

Executive Summary

This paper analyzes the internal and external environment of the Adidas Company. Adidas is a renowned company that has been operating for over fifty years. It has a strong financial backing and the highest number of employees. However, this research paper presents the PEST analysis of Adidas and the VRIO framework Analysis of Adidas. The PEST analysis looked at the external environmental factors that affect the operation of Adidas in the market. The VRIO framework of analysis analyses the internal issues that affect Adidas and, most importantly, the competitive advantage that Adidas has against its competitors in the market.

Introduction

Adidas is one of the leading companies in the manufacturing of shoes and sports apparel worldwide. It has its headquarters in Herzogenaurach, Germany, and it does business as an American depositary receipt in the United States. Adidas has a market capitalization of USD 19 billion and a total of USD 16 billion annually. It is, therefore, a stable sportswear company, and this gives it a market advantage over its competitors. It started producing shoes in 1949, and since then, Adidas has registered steady growth. The company produces a variety of sportswear that fits the market. Adidas employs over five hundred thousand employees across the world and produces over 660 million products annually (Anthony, 2016, p. 12). It, therefore, means Adidas is one of the largest companies in terms of production of sportswear, second only to Nike. The company generates over USD 14.9 billion dollars every year, based on a 2014 financial report. Adidas is a complex company, and it keeps things simple, lean, and faster to make sure it outsmarts its competitors in the market.

2.0. Adidas External Business Environment Analysis (PESTEL Analysis)

2.1. Political factors

Adidas is an established company that supplies, distributes, and ships its products globally, and therefore, it is required to abide by international supply chain procedures and follow political procedures as well when doing business online. However, political factors affect companies, and

Adidas is not unexceptional (Tipu, 2015, p. 16). The political instability, unrest, terrorism, and war affect Adidas's performance in the market. This has made Adidas change its strategy of venturing into new markets and keeping the already ventured markets. The changes are likely to cause the company a significant amount of losses since the shipment of products to these countries, such as Syria and other countries that face unrest, must be stopped.

2.2. Economic

Since Adidas was started, it has faced significant financial changes so that it can establish itself. In 2005, Adidas faced a financial downturn. However, economic factors such as inflation, unemployment, per capita income, unemployment, and taxes negatively impact the profit of the company since they contribute to the deduction of revenue (Jayawardhana, 2016, p. 30). The unemployment rate and inflation affect customers negatively and are likely to decrease the purchasing power of customers and the company's capital cost. According to Alsbiei (2015, p.15), companies only realize growth in an environment where the rate of inflation is low and per capita income is also high; therefore, Adidas's performance in countries like Venezuela is likely to decline due to a high rate of inflation and the unemployment rate as well.

2.3. Social

The market segment of Adidas is about design, and it needs a serious analysis of social factors to outsmart competitors in the market. However, the company creates a unique design that can be used by all ages. The company's designs and production take into account age, lifestyle, and religion, and it has been one of the driving factors of success for the company (Alsbiei, 2015, p. 12). The social factors are considered by the company, and they determine the innovation and buying character of every person; therefore, Adidas has implemented various social factors through Islamic TV and others to get its products to customers.

2.4. Technology

Adidas has identified itself as a technology-driven company. It has implemented various systems and technologies that give it a competitive advantage in the market. Technology will help boost the quality of delivery services and production of products, saving time, energy, and effort. Though Adidas has not fully utilized technology in the production of products, it produces products such as smart balls. It has online stores that customers can use to purchase products (Mahdi1, Mohammed, & Taher, 2015).

2.4. Environmental

The company does not produce any products that are restricted and can interfere with the environment. Adidas's production method helps in reducing the amount of gases being emitted into the atmosphere. The main goal of the company is to make sure that it produces sustainable and quality products for the market and observes environmental issues as well.

2.5. Legal

Adidas is patented, and therefore, Adidas has the ownership of the IP system and intellectual property. The company has also designed a patent to protect the company against copiers and infringement. It also serves as protection against counterfeit businesses. However, Adidas must be aware of imports, exports, and sales so that it does not face legal action from other countries.

3.0. VRIO framework of Adidas

Adidas is a renowned sportswear manufacturer that has been in operation for over sixty years. It has a strong financial background and is the second-largest sportswear company in terms of market share. Adidas' market strategy and its products, which are highly innovative, are some of its core competencies in the market. It acquires Reebok so it can gain a competitive advantage, which can allow it to compete with other players like Nike. It is also important to note that Adidas manufactures its products in Asia in some of its factories and subcontracts to minimize wages, which, in return, makes the company more profitable. In addition, Adidas operates in almost 64 countries worldwide and is still opening other stores in the Middle East and Africa, and therefore, this provides more advantage to the company compared to its competitors, which has limited stores.
The study also found that Adidas has an effective point of sale across all its stores worldwide and is involved in the constant innovation of products. It has a strong market presence in Europe, and therefore, it gives the company access to the sporting culture environment. As a result of its strong presence, Adidas registers high sales turnout in Europe and the United States as well.

Bibliography

Alsbiei, O. 2015. ADIDAS GROUP Strategy Analysis. *researchgate.net/publication/281740663_ADIDAS_GROUP_Strategy_Analysis*, 2-34.
Anthony, H. 2016. Adidas Financial statement analysis. *http://rstudio-pubs-static.s3.amazonaws.com/326634_589f2d4871af4a88a39164eb6fa4d3c2.html*, 2-35.
Jayawardhana, A. 2016. Financial Performance Analysis of Adidas AG. *European Journal of Business and Management, 12* (7), 2-45.
Mahdi1, H. A., Mohammed, A., & Taher, I. M. 2015. A Comparative Analysis of Strategies

and Business Models of Nike, Inc. and Adidas Group with special reference to Competitive Advantage in the context of a. *International Journal of Business Management and Economic Research*, 2-34.
Tipu, S. A. 2015. Adidas Group Strategic Analysis. *STRATEGIC MANAGEMENT*, 2-34.