

Adidas Makes Big China Push

Sporting-Goods Company Aims to Add 2,500 Stores in Country, Increasing Links to Basketball

By LAURIE BERRYETT

BEIJING—Adidas AG is expanding its business in China in an attempt to overtake rivals that have gained market share during recent years.

The German sporting-goods company on Tuesday announced plans to add 2,500 stores in China by 2015, including 500 by the end of next year, up from 112 now. Upscale outlets, featuring Adidas's high-end fashion lines, are planned for larger Chinese cities, where many consumers favor the company's biggest global competitor, Nike Inc.

Adidas is eager to reach China's more-sophisticated shoppers, who live in cities such as Beijing and Shanghai and are accustomed to spending more on clothing than those in the lower-tier cities. The company will also try new tactics in markets already saturated with sporting-goods stores, designing shops that target consumers by the sports that interest them, according to Colin Currie, Adidas's senior vice president of marketing and sales.

The company also intends to widen its distribution in China to 1,400 cities by 2015, from 500 currently.

"China is an important market for us and consumers want access to our products," Adidas Chief Executive Herbert Hainer said during an interview.

The big push for growth in China comes as Adidas works to regain its popularity with Chinese consumers after the company's business slumped in the country following the 2008 Beijing Olympics. During the run-up to the Olympics, the company, based in Herzogenaurach, Germany, oversupplied its Chinese retailers and was forced to take back inventory.

In the meantime, rivals Nike and Li Ning Co., China's leading sports-apparel maker by revenue, gained ground.

In 2009, Nike had 10.2% of China's 93-billion-yuan (\$14 billion) sports-wear market, according to research firm Frost & Sullivan. Li Ning held 10% of the market, while Adidas had 9.6%.

Sporting Rivalry | Adidas takes on rivals in Chinese market



Customers shop for sneakers in an Adidas outlet in Beijing.

Market share of top 10 sports-wear brands in China by revenue



Note: One billion yuan = \$150.5 million.

Sources: Frost & Sullivan, China (market share and expenditure); the company (sales growth); ImaginChina via Associated Press (photos).

Total expenditure on sports-wear in China, in billions of yuan



Adidas sales growth, third quarter and nine months 2010, by region



"We're building a plan to become No. 1," Mr. Hainer said.

Adidas's global revenue rose 20% to €3.47 billion (\$4.71 billion) in the three months ended Sept. 30 from €2.88 billion a year earlier, partly because of the World Cup. Sales in China increased 9%.

The company's world-wide net profit increased 25% to €266

million from €213 million.

To gain broader popularity in China, Adidas also plans to boost its presence in basketball, a sport it typically emphasizes less than its competitors. The sport, rather than individual players, will be incorporated in marketing and product design, Adidas executives said.

Some analysts say this is a

tactic to encroach on turf that Nike normally owns through endorsements by National Basketball Association players, including Miami Heat star LeBron James.

Li Ning is using that strategy, too, having recently signed a multimillion-dollar endorsement contract with the Philadelphia 76ers' Evan Turner, adding to

the company's existing deal with Shaquille O'Neal of the Boston Celtics and other players.

"You may argue that it's a 'me too' approach, but if you want to thrive in sporting goods in China, you have to be big in basketball," said HSBC analyst Erwan Rambourg.

Adidas is also trying to make itself known among China's emerging recreational athletes. In October, it sponsored the Beijing Marathon, the company's first running competition in China. More running sponsorships are in the works, according to Adidas. The company is also partnering with fitness chains giving clothing to fitness instructors and buying advertising space in locker rooms and over treadmills. The sale of clothing at fitness-center shops is also under consideration.

Small cities continue to be important to Adidas, as their populations are newcomers to China's expanding middle class. In those markets, Adidas plans to further roll out its NEO brand, a teen-targeted casual line. With prices about half those of other Adidas brands, NEO is intended to be the gateway line that will lead consumers to higher-end products.

E-commerce will also be a bigger part of the company's growth strategy. In August, Adidas opened a store with China's biggest Web retailer, Taobao.com, which is a unit of Alibaba Group.

Sales on the website are still tiny at this point, but Internet shopping is booming in China making the Web a critical sales channel, Adidas said.

Globally, the company aims to pull in €500 million in Internet sales by 2015. Adidas declined to disclose current Internet sales figures.

North America, with retail revenue growth of 14% in the third quarter of 2010, remains Adidas's largest market.

China isn't likely to overtake the U.S. in the next five years Mr. Hainer said. "What you have seen is that we are growing fast in China," Mr. Hainer said. "Don't worry about where we will be in the future."