How Adidas plans on regaining a foothold in China

By Olivier Guyot - 18 March 2022

Adidas is reviewing its strategy for the Greater China area. The German group, which was once a major player in the Chinese market together with the American brand Nike, lost ground in 2021. The Covid-19 pandemic was certainly to blame for this, but other factors also contributed to the affected sales during the last two years in Asia-Pacific. CEO Kasper Rorsted presented the company’s annual results on Tuesday (8 March) that posted a global turnover of 21.2 billion euros, up 16% at comparable exchange rates compared to the previous year.

Its growth is limited to only 3% of the Greater China zone (mainland China, Macao, Hong Kong, etc.), at nearly 4.6 billion euros. The activity in the area is difficult to compare with 2019, since the group used to integrate sales in China with the entire Asia-Pacific region. It is only now in 2021 that the company returned to detailing the Chinese activity. However, the group stated that its operating profit remained stable from 1.137 billion euros to 1.194 billion. It’s possible to find with a little digging that in 2017, Adidas made 3.8 billion euros in China for 1.34 billion in operating profit. Its profitability has therefore collapsed in the region.

The German group has of course been able to rely on Chinese and Southeast Asian production in the past, but its previous profitability in China used to be exceptional with an operating margin of 35% in 2017.

In 2021, its operating margin, which is overall 9.4% compared to 4% in 2020, remained higher in the region than in Europe or the United States, but has fallen to 26%, not that far off from Europe (21.4%) but still far ahead of North America (18.8%).

The group was affected last year since it presents itself as “a difficult market environment". In reality, it was hit, like other Western brands, by a boycott that produced a rupture between some consumers and the brand as well as presenting difficulties on the indispensable Chinese online sales platforms.

As a result, local players Li Ning and especially Anta have taken advantage of this to gain market share. If it is not too ambitious aiming at a sales growth of around 5%, Adidas is implementing a game plan.
A change in direction

The first plan of action: a change in leadership. Adrian Siu replaced Jason Thomas earlier this year, who had been Adidas' CEO of the region since 2019.

"Adrian succeeds Jason, who has taken on the new role of senior vice president worldwide of Franchise," explained Rorsted to financial analysts. Adrian has a long and successful track record at Adidas. He joined the group in 2002 as sales director in Hong Kong and later took on the role of general manager. "Until 2019, Adrian was our senior vice president of sales for the Greater China zone being based in Shanghai. And since September 2019, Adrian has successfully led the transformation of a local apparel brand, CosmoLady, as CEO based in Shenzhen. We are confident that Adrian, together with the China team, will ensure that we return to growth in the short term and capitalize on the attractive opportunity this market offers in the long term."

The mission is clear: to put the brand back on the road it was on before 2020. In order to accomplish this, the management wanted to seduce and reconnect with its Chinese customers. And what better way to do that than with a gold medal? Adidas dressed the snowboarder Su Yiming for the Beijing Winter Olympics, where the champion was crowned. It also invested in marketing to regain its footing.

“Our Chinese New Year campaign generated over a billion impressions and views," said Rorsted, "but it's not the only campaign we've carried out in China so far this year. We've invested double-digit million euros and run a total of three campaigns in the first two months of 2022, which has allowed us to establish an unprecedented connection with the Chinese consumer and generate enthusiasm for the brand. All of this is complemented by a significant acceleration in the creation of China for China products. More than 30% of products will be made specifically for the Chinese market in 2022, which will have a greater business impact."

This in-depth work on the Chinese market should make it possible for the brand to increase their number of products sold at full price. For all of this to happen, the executive explained that the one-third share of products created for the Chinese market should not be exceeded. "I think the important thing is that we leverage our global franchises, since a lot of the marketing is global," said the CEO. "When Kanye (West) or Jerry (Lorenzo) launch something in Los Angeles, it resonates in Shanghai. And we have to make sure that it does because if we only try to make Chinese products in China, then we become 100% head-to-head competition with our Chinese competitors, and lose our advantage as a global company. The key is to engage the consumer with the product and narrative."

"Longer than expected"

Furthermore, the group explained that it has established new partnerships and set up new digital services to optimize its activity. The group is counting on its latest campaigns to arouse the enthusiasm of Chinese customers. "When the product tells a story, it works extremely well with Chinese consumers," said the CEO. And there are many stories that can be told around Jerry Lorenzo (the founder of the brand Fear of God who collaborates with Adidas) or Gucci (which presented its collection at the last Fashion Week in Milan) to name a few.

These initiatives should enable the brand to win back the Chinese market.

"I think getting back to double-digit growth is a long-term ambition for us," said Rorsted. "We are making sure that we continue to grow in the second, third and fourth quarters after a negative first quarter. We also believe that consumer sentiment will, over time, probably change. It may take longer than expected, but we think it will happen because in other market segments such as automotive, electronics or luxury goods, demand for Western products remains extremely high."

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