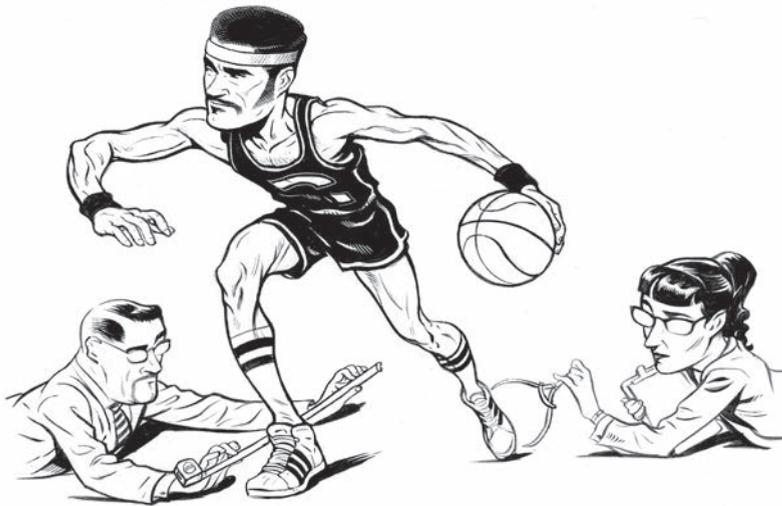


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How Adidas Found Its Second Wind

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BY NICHOLAS IND, ORIOL IGLESIAS, AND MAJKEN SCHULTZ



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How does a company cope with change? It's a question that looms large for many executives who are struggling to keep up with the breakneck pace of business. Those who fail to answer it may face loss of market share, or, in extreme cases, financial ruin. All too often, companies respond to these pressures by fixating on the future. What will consumers want? Where will technology take us? What are the most critical emerging business opportunities?

Although these are important considerations, this future-focused perspective leads some companies astray. They are constantly looking forward, not realizing that their greatest strength could be hidden

in their past. Companies such as Adidas, Lego, Burberry, and Apple have lived through phases during which their heritage was ignored, their identity was blurred, and their strategic focus was lost. However, at some point, each company realized that it had a distinctive history rich with memories, experiences, and signature processes that could be used to design the future — not through a slavish adherence to tradition, but through thinking differently about strategy, innovation, and products.

In the case of Adidas, an important transitional event — record losses and near bankruptcy — pushed the company to reconnect to its past. In the late 1970s and 1980s, Nike's rise gave Adidas a jolt. Adidas responded to these new competitive pressures by pursuing growth frantically in new directions. The com-

pany was distracted and lost sight of the capabilities that had formed the backbone of its earlier success. Adidas would later experience a resurgence in the market, but only after it channeled its heritage.

Today, at the company's global headquarters in Herzogenaurach, in southern Germany, and at its U.S. headquarters in Portland, Ore., managers, innovators, and designers pore over company history, discuss its relevance, and determine what to discard and what to keep. In a process full of both continuity and change, they reach back to the lessons of the past and stretch forward to adapt to the changing needs of athletes and consumers. The results speak for themselves: Adidas has transformed itself from a consistent loss maker in the late 1980s and early 1990s to a brand with a market cap of US\$17.1 billion.

Rediscovering and rejuvenating capabilities is not a simple process. To better understand how Adidas accomplished it, we interviewed senior managers from the company's marketing and innovation departments, designers, product developers, and history managers (including longtime employees who were able to recall the challenges of the previous era), and analyzed Adidas's published and archived materials. In doing so, we identified steps that any established company can follow. When leaders rediscover their company's heritage and learn what works and what doesn't, the core assumptions and values of the past are reabsorbed into the organizational culture, and come to define the company's strategic choices. As Adidas found, the key is not only reconnecting with the past, but knowing how to use it effectively to meet the future needs of consumers.

The Best for the Athlete

Adi Dassler, a cobbler by training and a keen sportsman, started a shoe company with his brother Rudolf in 1924. Adi's method seemed simple: He observed athletes, talked to them about their needs, and then experimented with novel ways of solving their problems. This iterative process relied heavily on prototyping and testing. While Adi concentrated on innovation and production, Rudolf was busy selling.

The brothers were successful from the beginning. Adi acquired his first patent on a pair of running shoes in 1925, and three years later a runner wearing the Dassler brothers' shoes won Olympic gold. In 1936, Jesse Owens won four gold medals in their shoes. By 1938, the company was producing 1,000 pairs of athletic shoes a day.

After World War II, the brothers fell out and split the existing business. Rudolf set up Puma, and Adi launched Adidas. The two companies reflected the brothers' interests: Puma adopted a more sales-oriented business model, and Adidas was more product focused. Until the arrival of Nike in the 1960s, these two companies dominated the global sports shoe market.

During Adi Dassler's lifetime, Adidas continued to expand and develop into new markets and sports. But the company was always united by Dassler's belief in "only the best for the athlete" and his philosophy of industrialized craftsmanship. The latter involved creating products that were designed to perform for individual athletes but that could be produced at an industrial scale. As part of this philosophy, Dassler collected used Adidas athletic shoes to analyze wear and tear and to inspire employees (who began contributing

shoes to Dassler's collection). Dassler never treated this personal archive with reverence; instead, it was highly pragmatic, enabling him to identify and solve design and production problems.

After Dassler's death in 1978, his wife, Käthe, and son-in-law Alf Bente took over. When Käthe died in 1984, Adi and Käthe's son Horst became CEO. By this time, Nike had become a formidable competitor, and had displaced Adidas as the

in 1984. Jordan ultimately signed with Nike.

The problem is obvious from a look at the advertising from that era. Whereas Nike demonstrated continuity, Adidas introduced a new campaign, communicating a different proposition, every year. The messages even varied across countries — largely because Adidas had grown internationally through third parties and lacked any real control. In the key U.S. market, it had four

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largest sports shoe brand. In an attempt to stay relevant, Adidas's new management tried to assert its independence from the past. Most of Dassler's shoe collection was thrown into storage boxes; some of it was donated to employees and museums. His books of copious notes were packed away.

The strategy pursued in the late 1970s and 1980s, involving an expansion into leisurewear, was a rejection of Adidas's heritage. The results were mostly poor — not least because the company at that time lacked the capabilities to compete to win in arenas beyond shoes. Employees were confused about the company's direction, innovation had no focus, design and product quality deteriorated, margins suffered, and opportunities were missed. Most notably, the company passed on signing a sponsorship deal with basketball superstar Michael Jordan when he was drafted into the NBA

independent distributors. The company was struggling. Horst Dassler understood some of the problems, and particularly the need to manage the company brand better. But after his untimely death from cancer in 1987, with mounting losses and lenders threatening to cut credit unless more money was pumped into the business, the family decided to sell.

A Journey of Rediscovery

In 1989, with the company at a crossroads, then CEO René Jäggi decided to invite two ex-Nike managers, Peter Moore and Rob Strasser, to visit Adidas. Moore had been creative director of Nike and the designer of the Air Jordan brand, and Strasser had been Nike's marketing director. As the guardians of Nike's image, they promoted the importance of a clear and consistent approach to building a brand. They had left Nike a couple of years be-

fore to set up a business to help create and develop other sports brands.

Moore remembers their first visit to Adidas vividly. They were taken to a small museum of artifacts at the company's headquarters. As Moore told us, "It took only about five minutes in the museum before I realized that these people had a gold mine in their hands, and that they really had no idea what they had."

company was foundering and looking over its shoulder at Reebok (a brand that Adidas would acquire in 2005) and Nike. This, Moore and Strasser believed, was a mistake. A brand like Adidas had to lead, not chase. Free of cultural blinders, Moore and Strasser used the marketing skills they had developed at Nike to draw selectively from Adidas's history. Initially as consultants

quality. For example, they placed restrictions on the color, sizing, and placement of the logo, and initially even on the colors of the shoes themselves. They wanted consumers to focus on the quality of the shoe, and not be distracted by other features. They wanted to make the product the hero, just as Dassler would have done. "The idea of Equipment was that it was a model that you could build the whole company around," Moore told us. "The model was to go back to what Dassler had tried to do all his life, which was to make the best products for the athlete to compete in." Reconnecting in this way was emotionally uplifting — especially for those who had worked with Dassler — and helped restore employees' confidence. Today, Performance represents the core of the Adidas brand and accounts for more than 75 percent of its sales.

Second, Moore and Strasser understood that Adi Dassler's approach to design, which emphasized functionality over style, had created a portfolio of timeless, authentic shoe designs. The shoes were no longer cutting-edge in terms of their athletic performance (the technology had moved on), but they had a strong emotional appeal, especially in the burgeoning street-wear market epitomized by the Adidas-wearing hip-hop group Run DMC and its fans.

Adidas had struggled to create a leisurewear line, but it seemed the company unknowingly already had one. In a brief memo to the Adidas board, Moore set out the idea for a new brand of street-wear shoes. The suggestion was to take some key models from the past and modernize the quality, comfort, and fit. Rather than blurring the clarity of Equipment, Adidas recognized that this new line should have a separate

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It can be difficult for managers to see the truth about their own organization. Accepting "the way we do things around here" can create a form of groupthink. Often, outsiders who come into companies, unencumbered by the existing culture, reinstitute strategies firmly rooted in the firm's capabilities. Some examples are Jørgen Vig Knudstorp, the first non-family member to be named CEO of Lego; Angela Ahrendts, the American who turned around British fashion icon Burberry; and Steve Jobs, who had a second, triumphant tenure at Apple, the company he had founded and from which he had been ousted. Of course, it may not always be practical to have outsiders challenging the status quo. But at a minimum, insiders should be questioning and self-critical.

Moore and Strasser believed that over the years since Adi Dassler's death, Adidas had lost confidence. Consequently, instead of looking to its own capabilities, the

and then as the creative director and CEO of Adidas America, respectively, they defined a new strategy and approach to innovation that guides the company to this day.

The Heart of the Business

In looking to Adidas's past, Moore and Strasser recognized two unique capabilities. First, they saw that the core of the company had been Adi Dassler's hands-on approach to innovation — his philosophy of industrialized craftsmanship. Dassler's closeness to athletes and his intimate understanding of their needs had created a stream of innovative products that enhanced athletic performance. When the company lost its connection to athletes, quality suffered.

Moore and Strasser recommended renewing Dassler's approach, and developed a new product line called Adidas Equipment. For Equipment, which was launched in 1991 and later evolved into Adidas Performance, Moore and Strasser created branding rules that emphasized product

name, “Originals,” and a distinctive presentation. As a testament to the success of the approach, Originals is now a \$2.8 billion business. All of the shoes selected for updating at the launch of the initiative are still produced today, including the Stan Smith tennis shoe, 60 million pairs of which have been sold.

Documenting a Heritage

We know that tacit knowledge is a powerful driver of innovation, but as long as it remains tacit, it has the potential to be forgotten. Managers are sometimes too busy managing to properly record and archive what they are doing. Sometimes (as with Dassler’s shoe collection and notes) experiences are seen as unimportant. Yet one lesson we can derive from Adidas is that mechanisms need to be found to make a company’s capabilities explicit through the ongoing management of artifacts that provide the organization with inspiration and direction.

Moore and Strasser’s look backward was intuitive — based on a gut feeling that Dassler’s philosophy was still relevant. One might wonder why no one inside Adidas could see this. Bernd Wahler, the former head of innovation at Adidas, told us that the value the brand’s authenticity provided to consumers and employees had been lost. “They [Moore and Strasser], as the big Nike guys, were talking about Adi Dassler with so much respect,” he said. “Rob Strasser made Nike look like copyists and positioned Adidas as the true authentic sports brand — which it is, but people had forgotten it.” Wahler recalls that the way Moore and Strasser reworked the positioning changed the company’s orientation significantly by bringing the organization’s capabilities back into view.

Strasser died in 1993, but Moore became the company’s global creative director and has remained the conscience of the brand ever since.

When it came to documenting the past, Moore began to realize that the tacit knowledge that had underpinned the Adidas culture was disappearing as the influence of Dassler and his contemporaries waned. One Adidas manager who had worked with Dassler had taken on the role of collecting and cataloguing the products he could find. But Moore knew that to really bring the knowledge of the past back into view and make it relevant for the future, he would have to make it explicit. (See “The Practical Wisdom of Ikujiro Nonaka,” by Sally Helgesen, *s+b*, Winter 2008.)

This tacit-to-explicit conversion began in the mid- to late 1990s under Moore’s guidance, and was solidified over the next decade. In the

pages of Dassler’s notes, and a selection was published internally as “Adi Dassler Standards.”

The company now uses its knowledge of the past to guide its future direction in tangible ways. For example, when new products are being developed for forthcoming seasons, the history management department is briefed on the approach. The department then uses the explicit knowledge contained within the archive to search for and select ideas and artifacts from the past that have a relevant connection. These are presented and discussed with the designers. As concepts evolve and develop, the history management team provides new sources while designers consult the archives for their own inspiration.

Back to the Future

Although Adidas looks to its past, it doesn’t live in it. Adidas is not simply

Leaders need to manage the tensions among what to remember, what to forget, and what to adapt.

early 2000s, the company story was documented in an internal publication. In 2009, a history management department was established. Part of its task was to rebuild the archive by buying back shoes and clothes from collectors and asking for donations. Managers were also asked to think about their current work and what they wanted to save and document. The re-created archive currently holds 90,000 items and 10,000 images. Alongside the archive, in 2011, the company published a 600-plus-page history book. Additionally, managers located thousands of

a retro brand reworking old models. Rather, it uses its capabilities alongside insights into consumer behavior to create contemporary and innovative products. Embracing its history doesn’t mean being limited by it. It means being innovative in ways that are in line with the capabilities that were developed from the beginning.

Company leaders need to manage the tensions among what to remember, what to forget, and what to adapt. This is not a matter of simple trade-offs, but rather a result of a deep understanding of the nature of the brand. At Adidas, Adi Dassler’s phi-

osophy drives innovation and gives the brand authenticity — which, in turn, influences employees' sense of identification, the reputation of the business, and consumer choice. As Al Van Noy, a senior vice president of Adidas Future, explained, "I look at this as a modern-day Adi Dassler workshop, living in his spirit and with the vision that he had when he approached innovating for athletes."

Managers have to look outward to better understand customers, but also inward to see how to use technology to create product and service improvements. In Dassler's era, this approach was embedded in his way of working with athletes and his constant experimentation. For example, in the 1954 soccer World Cup in Switzerland, the West German team won, against all expecta-

his continual search for new solutions, and his engineering mind-set remain "a guiding force." "I think Adi Dassler was always about minimalism, just giving the athlete what he needed," adds Steve Vincent, a senior vice president of Adidas Future. "And that inspired our Adizero collections, where we've taken soccer shoes down to 99 grams, and basketball shoes down to under nine ounces."

The company also extends its way of thinking into its partnerships. Adidas selects partners largely on the basis of their potential for alignment with the values and philosophy of the company. It encourages partners to uncover the essence of the Adidas brand, while pushing them to challenge it. For example, whereas the main Adidas brand is

distinctive cuts and materials. The radical designs of McCartney and Yamamoto open up new audiences and sales channels while also encouraging Adidas's own designers to be more adventurous. As Steve Vincent says, "That's the challenge — to do completely disruptive things that no one's ever seen or expected, but still feel like they should come from this brand."

It's an important lesson for companies facing rising competition and uncertainty, and wondering how to distinguish their brand. The answer may be hiding in plain sight. Look beneath the surface to uncover the deeper insights that have driven innovative thinking before, and then think about how to integrate them into the company's strategies. As Dassler himself once wrote, "Come to work every day as if it were the first time. This will prevent you being blinded by routine." The past should be a source of inspiration, not constraint. It should be used selectively when it has the potential to add value. +

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tions, wearing lightweight Adidas shoes with new screw-in studs. At the time, traditional soccer shoes weighed in around 500 grams (or roughly 18 ounces, and about twice that when wet). Dassler observed that in a 90-minute game, on average, a given player's foot was in contact with the ball for just 90 seconds. So he reengineered soccer shoes to be lighter (only 350 grams, or about 12 ounces) and geared more toward running.

Today, the company's innovation team is guided by this way of thinking. Van Noy says that Dassler's understanding of materials,

rooted in continuity, mainly because it needs to stay closer to mainstream consumer needs and desires, partners such as Yohji Yamamoto (Y-3) and Stella McCartney can take the brand in more experimental directions, drawing on their premium fashion positioning.

Even though Yamamoto resembles Dassler in his interest in craftsmanship and functionality, Y-3 twists the heritage of the Adidas brand and its design language further than Adidas itself does in sports style. Similarly, Stella McCartney extends the idea of Adidas sports performance products through

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