



Racing Ahead

With a strong focus on the track ahead, the adidas Group is set to exceed its personal best in years to come.

Images courtesy of adidas

The adidas Group is determined to outstrip its competitors with a series of ambitious strategic goals for the coming years. At the group's 2013 Investor Field Trip in Herzogenaurach, Germany, leaders and senior executives mapped out a strong future for the company.

This future will see the group meet and even exceed its strategic business plan, Route 2015. This plan was designed to prepare and transform the group for long-term sustainable growth and success.

The group recently reaffirmed its Route 2015 targets and predicted that it would reach sales of €7 billion and an operating margin of 11 per cent in 2015. This year, the senior executives predict that the group's sales will grow at a high-single-digit currency-neutral rate. Leaders within adidas believe that this development will be driven by growth in all brands, regions, and markets in 2014, with the running and football segments as key drivers.

The adidas Group's CEO Herbert Hainer addressed the financial community at the 2013 Investor Field Trip and spoke about the

importance of the event. "I must admit, I always look forward to these events because right here you really see what this great company is all about," Herbert said. "The passion, the inspiration, and the drive for success my colleagues have shown in their presentations mirrors our common desire as a management team; to build the leading sporting goods company in the world."

To meet this mission and desire, Herbert and his team established the Route 2015 business plan in 2010. Herbert says this plan will uniquely prepare adidas for smart, future growth. "Since the outset of the plan, we have made some exceptional progress, driving growth in key categories, improving profitability, and tightly managing our capital.

"While this is good, more importantly and even more fundamentally, on Route 2015 we began a journey of significant organisational change. That ongoing journey has a simple and clear goal: to build the capabilities deserving of a modern and fast-paced organisation like ours; one that is robust and flexible to withstand change; one that is constantly informed and ready to

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react to the needs of the consumer; one that is living its heritage as the creator of the unexpected; and an organisation that is ready to enable a seamless consumer journey across all channels and markets."

A lot of change has occurred across the group since this plan was initiated in 2010. In 2013, at the plan's halfway point, staff throughout the company reflected on how it had transformed the group. Herbert spoke frankly to them at the recent investor day.

"After three years, we are not where we thought we would be in terms of the numbers, which is clear from the downgrade to guidance we had to make in September. Since the outset of Route 2015, the environment has served up a constant stream of challenges, be it input cost pressures, adverse currency movements, or a persistently weaker European market. We've also had bad luck with injuries to some of our key athletes.

"However, the most important thing about a high-quality management team is that they know what to do about it—and believe me, we have the insight, the character, and the determination to stay the course. >



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While the peak of the mountain from today's viewpoint may be a little higher than we thought at base camp, we have all the equipment, the know-how, and the people we need to climb it."

During his address, Herbert highlighted examples of how the company has utilised innovation and imagination to fight back against these market challenges. He pointed to the group's game-changing, multi-billion, long-term growth platforms like Boost, Clima, and miCoach. He spoke about the dedication and creativity the group demonstrated in building not just one, but three highly diverse, authentic, and inclusive brands for the sports style consumer in Originals, NEO, and Classics.

The group has also been developing its signature brands with adidas' Sport Performance remaining focused on providing athletes with innovative performance products to help them achieve their personal best. The company's new platform, Boost, introduced an innovative new technology into the running category in 2013, creating a new footwear segment called 'energy running'.

adidas announced that Boost will be integrated into all performance running shoes in 2014. Additionally, Boost will be introduced in other categories, including basketball footwear. adidas predicts that total Boost volumes will reach 15 million pairs in 2015.

As this and other new developments drive the company forward, Herbert states that the group's immense brands and capabilities will form the foundations for its success. "In the second half of Route 2015, we will accelerate our growth and profitability by uniting our brands and capabilities to create a seamless consumer experience. We will realise our promise to drive consumer desire at every touch point from brand building, to the field, and to getting the product in their wardrobes.

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"To realise this vision, we will also continue to adapt, change and invest as a company. By the start of 2015, we will have completed many of our big and more intensive organisation programs. With this work behind us, we will see a steep change in operating cost leverage for the group. However, leverage only comes with quality top-line growth. Through our portfolio of brands, we are a growth company, and we have all the ammunition and concepts to do so."

One of the major predictions of the investor day was that in 2014 the group's sales are expected to grow at a high-single-digit currency-neutral rate. Herbert states that the leadership team examined the group's strong pipeline and full order book to reach its conclusion.

"We will grow in all markets, all channels, and all brands. In terms of profitability, while we will continue to invest, we expect a step up in the rate of operating margin improvement, which we anticipate to increase by around one percentage point [in 2014]."

As he drew the investor day to a close, Herbert congratulated staff and partners on the progress they had made. "I am proud that we have been able to share a lot of success together so far on our Route 2015. An approximate 13 per cent earnings compound annual growth rate is a good return for our efforts in the first three years.

"However, we are a high-performance company and we want more. We know we can deliver the big results when it counts. Just look at 2010-2012 when we generated almost 3 billion euros in additional sales. We will make sure that we do what is right for the long-term success of our group. We will make bold decisions and pursue our goals with determination and focus. I am convinced that we have everything in place to reach new heights, break records, and drive long-term sustainable value."

This determination to exceed expectations and break barriers will see the adidas Group explore new channels and markets in coming years as the innovative company develops. •