

Cand. Merc. Program
INTERNATIONAL MARKETING AND MANAGEMENT

Optimizing the Distribution Strategy in US



stella mccartney

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Airida Barusaite 26/12/1987

Advisor: Arne Lycke

Department of Management, Politics and Philosophy
Copenhagen Business School

Executive Summary

All marketing decisions are important in bringing the products to the market, but the distribution is considered as the most influential. Any company can easily make changes in their pricing strategy, create new sales promotion campaigns, advertising, modify their product portfolio, but if the distribution channels are set up every company will find it difficult to transform it.

This master thesis was conducted in collaboration with German sporting goods company adidas, analyzing one of their business units called adidas by Stella McCartney. The analysis is focused on B2B level, and the goals of the study were: firstly, to give a detailed analysis of the US apparel and sportswear market and the distribution structure overview; secondly, to investigate distribution strategy of the company; lastly, to recommend the best suitable and effective distribution channel mix.

The well-known frameworks of PESTLE and Porter's Five Forces were used to investigate the US apparel and sportswear market. US is seen as a very aggressive sports market with a deep sports culture starting from the school kid. It is also very technology and innovation driven market. The market is identified as very competitive because of the new entrants, competition, substitutes, suppliers and buyers. The distribution of apparel is very fragmented and divided into different levels. In the analysis of the distribution channels, it is revealed that the women consumer is less shopping in sporting goods stores, and the main channels used for apparel shopping is department and chain stores, specialties and eCommerce.

By utilizing the Marketing Mix and Distribution Strategy model was exposed that the company's distribution strategy is well established with a distinctive global positioning strategy, nevertheless, the strategy has to be adjusted to the specific US needs.

The company is suggested to flourish their own retail channel through opening flagship stores or women only stores with a more feminine and pleasant atmosphere and a strong brand exposure. In the retail channel the brand should expand into premium department stores as it is the main place for shopping premium apparel. The fundamental point is the emphasis on the eCommerce business, which should be utilized in the own retail channel as well as other retailers' online stores. In all of these, emphasis should be kept on the customer service, pleasant shopping experience and premium atmosphere.

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1. INTRODUCTION

1. 1. Introduction

This thesis is based on the collaboration with adidas AG (adidas), a German sporting goods company that is a leader in the sporting goods industry and offers a wide product portfolio. One of the brands called adidas by Stella McCartney (aSMC) is a unique product in the market because of the collaboration with a world known fashion designer Stella McCartney. This separate business unit creates everything you might need for sports or your active daily life: apparel for running, yoga, studio classes, tennis, weekend activities, accessories and footwear. It is sold globally but the focus in this research is on the United States (US) market as it is one of the biggest markets for aSMC and it has a different distribution system than other markets. Since this brand targets a different end-consumer than the inline of the adidas Women's Training, the product also needs to be delivered into different distribution channels. The selection of the channels requires a proper analysis in order to ensure that the product is delivered in the right place to reach the right consumer. That is always an issue for adidas and Stella McCartney (SMC) management team, because for adidas as a profit driven company it is important to find the best way how to sell more, and for the SMC team matters to make sure that the product is positioned in the right place as a high-end good. Nevertheless, optimizing the distribution strategy and the organization might be a powerful growth driver for the company, and that is what both sides are seeking for.

During my six months internship in adidas Go-To-Market Women's Training/aSMC team I was able to observe and take part in the internal processes, and get a better understanding of how the business works. The current situation in the US shows some difficulties in finding the best distribution channel mix. One of the biggest aSMC customers Neiman Marcus, a high-end fashion department store in US, significantly reduced their number of stores that sell aSMC from 24 to 5 in the year 2013, and in the upcoming season in 2014 they plan to stop the distribution at all (internal documents). Similar situation occurred with Nordstrom and Harrods. That dramatically affected the order volumes of aSMC. The conflict in Neiman Marcus came from the changed concept of the department store that resulted in the difficulties to find the right area in the store to place aSMC products. And it is just one of the

examples. That to be said, the market has a lot of potential for expanding the line, but it is crucial to find the right fit and balance of the distribution channels.

1. 2. Research Question

Based on the above-specified information this thesis intends to explore the optimal distribution channel mix to sell aSMC in US. The following research questions are suggested:

How should adidas by Stella McCartney optimize its distribution strategy to reach the target consumer in the US market?

- ***What are the characteristics of the US sportswear market and apparel industry focusing on the distribution structure?***
- ***Which channels should be better utilized to deliver the aSMC products with their current distribution strategy approach?***

1. 3. Delimitations

The thesis focuses just entirely on the US market since it is one of the most important aSMC markets and it is one of the biggest markets in general. Due to the complexity of the aSMC distribution there is a lot of potential in this market, which could be used for expanding the market share, and that was also one of the reasons why GTM aSMC management wanted to research the US market. The limitations of the scope of this paper were also a reason why just one market was chosen for further investigation.

This research is basically done using B2B approach, just a small analysis of the end-consumer was done in order to understand who is buying aSMC products and where she is going for shopping. The B2B level means that adidas firstly sells its products to other businesses, therefore the customer I investigate in this thesis is the account. This decision was taken because of the job function of the GTM aSMC team, who were cooperating with me in writing this thesis and who are working on the B2B level.

Because of the geographical aspects of the market in focus there were no possibility to do a research in the market itself or visit the market research agencies and relevant parties. In this case, the qualitative research approach was chosen with seven in-depth interviews with the

employees in the global adidas headquarters and the offices in the US market, and one external person working in the marketing research area. The interviewing sample is small and not sufficient enough for such a large study, but I encountered issues with non-response to my email questionnaires from many of interviewees. Not the ideal case is that just one external expert of the market answered my inquire, but the information collected is highly relevant and strong. Thus, the primary data collected is satisfactory due to the profiles and expertise of the interviewees, complemented with adequate amount of secondary data.

The quality of the secondary data is evaluated as high, nevertheless, some of the important databases analyzed did not contain specific information about the sportswear industry, and therefore the general approach of apparel industry was used.

2. METHODOLOGY

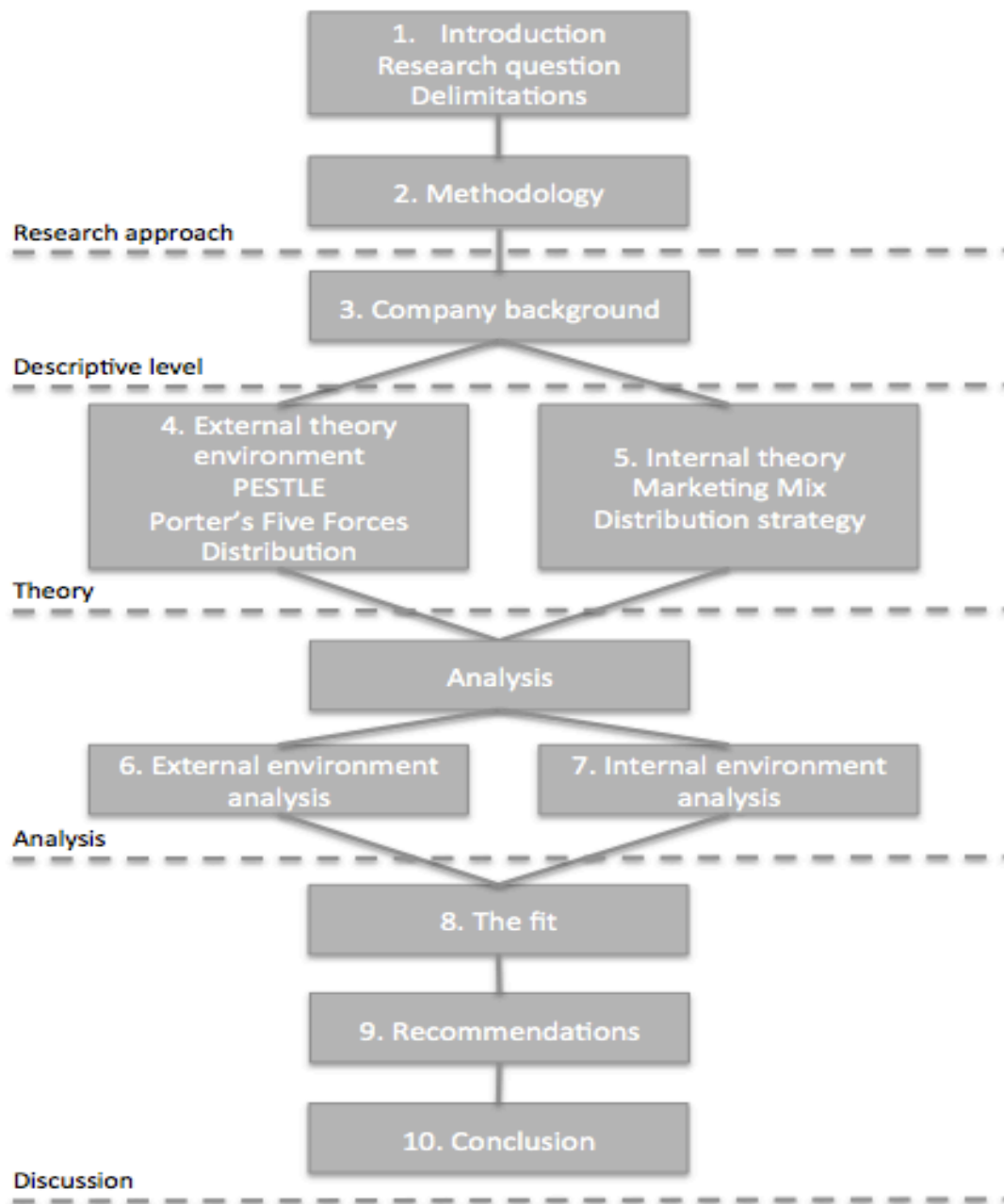
This part of the project visually presents the overall structure of the project, and describes the methodological approach used in the analysis. This chapter analyses the different parts about the collection of data, describes the research strategy and the techniques used for analyzing the data. It is followed by research philosophies, primary and secondary data, qualitative research, interview guide, reliability and validity, and ethical aspects of conducting a research.

2.1. Research Design

The research design is the structure of the study conducted with a purpose to answer the research questions. It is the plan that guides the researcher how to write the study, and what data to collect and analyze (Kerlinger, 1986: 279). Figure 1 is the project design used in this research.

Having in mind the research dilemma and the purpose of the study the combination of explorative and descriptive study is taken in consideration. A descriptive research can be used to investigate many different research objectives. It is important that the problem of the research is clear, and the different variables are examined in order to solve the problem. In aSMC case, the problem is known as a fact as the orders are declining from the US accounts or they stop the distribution at all. Also such aspects as questions, people interviewed, and the method of analysis is defined before starting the data collection (Gupta, 2011: 40). As opposed to descriptive research, the exploratory study is used to improve the final research design by developing the concepts more clearly and having more insights and ideas into the subject (Blumberg et al., 2008: 201). The aim is to understand and to find out why the aSMC range has been cancelled from some of the distribution by further analyzing the findings from the descriptive research.

Figure 1. Project design



Source: own creation

Another aspect to consider before starting the research study is the philosophies of science. It is said that some knowledge of research philosophies helps to build the research design and ensures that you choose the correct one (Blumberg et al., 2008: 19). There are three mostly used philosophies of positivism, interpretivism and realism. This research is conducted by using the philosophy of realism, as it has the aspects of both positivism and interpretivism.

Even though I am using qualitative research method, the experiences surveys are used in order to get the primary data as the knowledge of the experts are assumed as the facts and data. Therefore, the research is value-free and not influenced by human beliefs and behavior. Nevertheless, there are social processes and forces, such as micro and macro level aspects as financial environment, cultural differences and the interpretation of the reality that human cannot control, and that influence our beliefs and behaviors (Blumberg et al., 2008: 22).

2. 2. Data Collection – Primary vs. Secondary Data

In order to make a proper analysis of the market and the company it is crucial to use sufficient data, therefore the quality of data was carefully assessed and chosen. In this research both primary and secondary data were selected and used to be able to answer the research questions. Primary data is used as a basic source for the information because you collect this data from the market and business experts for the purpose specific for this research problem (Schiffman, Kanuk & Wisenblit, 2010: 42). Primary data was collected through the in-depth interviews via phone, e-mail and face-to-face interactions from both the experts of the market in focus and the experts of the business. Unfortunately, it was not possible to have face-to-face interviews with all the respondents because of the distance of the market in focus, but it is strongly believed that this issue did not reflect in the quality of information collected. The first interviewee Stephanie Gross is a manager of GTM aSMC in adidas global office, who was basically interviewed as a business expert about the aSMC business, its distribution, business customers and end-consumers in US. The second respondent Dorothee Kurz, a Senior Manager GTM Women, has more than 10 years of experience and knowledge of the US market as she was living in US for many years, and now in the global adidas office she is responsible for the US market. The third interviewee Cajé Moje, a Merchandise Manager for Own Retail brand and monobrand doors, is a contact of US market located in the headquarters in Portland, US. She is an expert of the market and aSMC business in US. The fourth interviewee was Casey Whalen who is handling the sales of aSMC in the US market. She is responsible just for the fashion group, and is located in the New York City. The fifth person interviewed was Amanda Schefter who is a merchandise manager for Women's Training Apparel in the US market, and she is responsible for the sales to sports accounts. The sixth interviewee Steve Gulbrandson is with the company for three years and he is an account executive for the sports performance accounts, working from the

Portland office. And the last interviewee, Jonathan Gable, is a managing director of the BrainJuicer office that is a marketing research company focusing on qualitative shopper and brand research.

E-mail interviews were also used to gather primary data. This method of collecting data was mainly used with the persons located in US, because it was measured as a more convenient way for interviewee because of the time differences between the continents and the possibility to answer whenever he has time. Unfortunately, not all the respondents got back with the answers; some of them explained it because of the lack of time, some of them did not get back at all. Caje Moje, a Merchandise Manager for Own Retail, got back with the answers via e-mail, and the interview with Jonathan Gable first took place by phone and then followed via e-mail. The drawback of interviewing via e-mail is that you are not able immediately to ask probing and additional questions, and the answers were given straight and forward. Moreover, there is a possibility that a respondent understands the questions in a wrong way. However, the respondents were happy to give more clarity on the answers if needed. In this matter the data collected via e-mail interviews were valuable and relevant for the research.

As an internal adidas employee I was able to observe the working processes and aSMC business characteristics myself, which is considered as a relevant primary data. The adaptability of observation makes it an essential primary source method and a complement for other methods (Blumberg et al., 2008: 345). During the six months internship I was able to get a clear understanding how the business works, to attend the conferences and meetings with the US market, and to get deeper involved in the discussions about the current situation. One of the main advantages of the observation is that it offers an access to the information that any other type of research does not offer (Blumberg et al., 2005: 380). By using observation as a method there is a possibility to deliver biased results as one can get too much involved in the organization, and lose the neutrality and objectivity. One possibility to avoid this risk is to stay as objective as possible. Moreover, in 2012 autumn semester I spent half a year in United States, which also gives me an advantage of understanding the market issues and Americans' shopping behavior.

Another possibility I had as an employee in the company was an access to the internal documents and databases, which I used as a secondary data sources. Secondary data is usually collected and recorded by someone else for its specific purposes (Blumberg et al., 2008: 202), therefore some of the organizational documents are just for the internal use. Thus, I was not able to present the results of some presentations, but mainly the most necessary information was freely accessible such as financial data, annual reports, business structure in US, and specific market information. In addition, to get the proper analysis of the market and the industry various databases as Euromonitor International, Datamonitor were used, also country and market reports found in internet, and to investigate the topic from the theoretical point of view scientific articles, books and reliable sources on the internet were analyzed.

2. 3. Data Collection – Semi-structured Interviews

As the study is conducted as a qualitative research I have chosen in-depth interviews to collect primary data. There are three types of interviews in the qualitative research: structured, semi-structured and unstructured. In this research the semi-structured interviews were used as it allows the interviewee to follow his own thoughts later on after asking quite specific questions. This type of interviews are relevant for this research as the research problem refers to a broad problem area, and therefore for me as a researcher it is necessary to identify the important issues to understand the situation aSMC is facing (Blumberg et al., 2008: 386). The main purpose of using the semi-structured interviews is to understand what the respondents' consider as relevant about the research topic and how they interpret the situation. This type of interviews allows the respondents to provide additional information about the research area and elaborate on their answers. Open-ended questions, followed up with probing ones, are asked in order to evoke additional information. The interviews were conducted at the day and time suitable for the respondents to ensure that they would feel comfortable, which would increase their willingness to provide valuable information. For this reason most of the interviews were conducted on Friday as it is the least stressful and the easiest day at work.

2. 4. Interview Guide

The interview guide is an important part of semi-structured interviews as it serves as a manual to the interviewer to ensure that the necessary areas are covered and the questions are asked in a similar way in all the interviews (Blumberg et al., 2008: 387). The guide is built in a way to reflect the research questions and according to the theoretical framework of the thesis. It is the list of rather specific questions that serves as a basis for all the interviews in order to collect the relevant data. It has a flexible format, and depending on the conversation, follow-up and new questions are raised. For easier flow I sent the questions to the interviewee one day before that he could see upfront what the questions will be about, and that he could follow it easier during the interview. The questions were ordered in a good flow by the topics asked, but it may occur that the order was mixed and the additional questions were asked. Depending on the person interviewed and the information I wanted to find out from this person, some questions were adjusted, some of them were skipped, and some were added. The interview guide was made in English language, as the corporate language is also English. All the interviewees were introduced to the research topic and the purpose of this interview, and in the beginning of the interview some demographic questions were asked to get the background information about the interviewee and the relation he has with a company. The questions were made short and simple to make sure that the respondents could easily understand and answer the questions; nevertheless, clarity was given where necessary. The interviews were made as effective as possible and I tried to make it in the time span of 20 to 40 minutes. With a respondents' permission the recorder was used during the interviews. It ensured that all the information is collected safely and nothing was missed out, and that the interviewer could focus on the follow-up questions and answers while interviewing.

2. 5. Reliability and Validity

Reliability means that the results from the research are repeatable and accurate, and the degree of reliability is measured by the consistency of the results (Blumberg et al., 2008: 455). Validity is described as whether a measure accomplishes its claims, in another words it means if the research method measures what it is supposed to measure (Gupta, 2011: 44).

In-depth interviews via e-mail, telephone and face-to-face with the experts of the market and the business were conducted to ensure that the collected primary data would reflect a reliable

information about the research topics. The questions were considered and phrased very carefully in order to ensure that they are understood correctly and that they collect the relevant data.

In order to ensure the reliability of the research results I was the only person making the interviews, following the interview guide as a template for each of the interview, assuring that the correct additional and follow-up questions were asked and the collected data is valuable and relevant to find out the answer to the research problem. Tape recorder assured that all the data was understood correctly. Even though some of the respondents are related to the company, the questions asked about the market and the business highly reflected their many years of experience and the ability to provide valuable information.

2. 6. Ethical Considerations

As all the parts of doing business, all parts in doing a research should meet ethical requirements. Ethics is named as moral principles and values that influence the actions and decisions of an individual (Berkowitz, Kerin, Hartley & Rudelius, 2004). It is very important to ensure that the study is done in the moral and responsible way having in mind the researcher, participants, business stakeholders and other parties that might have concern (Blumberg et al., 2008: 154). In order to meet all the ethical requirements this research was conducted by norms and standards of behavior. To ensure this, firstly, the interviews were done in the right manner and in the appropriate extent for the interviewee. He was immediately introduced to the topic and the purpose of the research in order to be sure that he is still willing to participate, and he would know where the information from him would be used. I have asked for the permission to use the recorder while interviewing, and ensured that the data will not be used for any other purposes. Secondly, from the very beginning I was noted that some of the files and presentations are just for the internal use, so I was aware that I am not able to use all the secondary data I had the access to in the company. In order to meet all the above mentioned, I stayed professional and competent during all the period I was making the research.

3. BACKGROUND

This section provides relevant background information about adidas Group and the deeper insight into adidas by Stella McCartney business and distribution in order to draw an outline about the current situation and business framework.

3. 1. Company Introduction

Founded in 1949, adidas is an inherent part of the world of sports with a leading business in sports apparel, footwear and accessories. Today, adidas is a global leader in the sporting goods industry with a broad product portfolio from performance to style and fashion brands such as Neo, Originals, Y3 and others. Currently, products from adidas are sold in every country around the world, and according to adidas annual report, adidas have employed over 46 000 people (adidas AG, 2012) and reached sales of almost 15 billion euro (adidas AG Annual Report, 2012). According to the data provided in the Euromonitor International report of 2012, it holds 1,8 proc. of world apparel value share, while in the mean time Nike Inc. has 2,2 % of value share – these two companies take the first and the second place in the world in the apparel industry. Meanwhile, in the US sportswear market the picture is a bit different: Nike has a strong leading position with 19 proc. of retail value share in 2012, and adidas America – only 8 proc. (Euromonitor International, August 2013).

Headquartered in Herzogenaurach, Germany the company directs 170 subsidiaries, and is operating creation centers and development departments all around the world. As of today, adidas owns such brands as adidas, Reebok, TaylorMade-adidas Golf, Rockport and CCM-Hockey. In order to remain sustainable growth in the industry each of the brand is responsible to drive innovation since technological evolution and cutting-edge design is essential for achieving leadership position (Euromonitor International, 2012).

3. 2. adidas by Stella McCartney

Year after year, a woman athlete became more concerned not just about her performance in the track or in the gym but also about her appearance. Fashion and style conscious consumer started looking for stylish and trendy pieces as well in sportswear that she would feel feminine and beautiful while doing her sports. That is the reason why the partnership between

adidas brand and Stella McCartney came into live in 2005 named as adidas by Stella McCartney.

Stella McCartney is a worldwide known fashion designer who has her own line of ready-to-wear, kids, lingerie, accessories and perfume collections, and paying a big attention to a sustainability approach and possibility to involve it in her own creation (<http://www.stellamccartney.com>). The idea of having functional but stylish and feminine sports pieces led aSMC into the huge success as a premium sporting goods brand. This business unit is consisting not a huge part of adidas brand revenues having just 5 proc. of sales of women training business unit in 2012, nevertheless, the collaboration is growing year after year starting from 9 million euro in net sales in 2005 and reaching 38 million euro in 2012 having a constant growth each year by 10-20 proc. (table 1).

Table 1. BU Stella and BU Women's net sales, 2008-2012

	2008	2009	2010	2011	2012
BU Stella	23,979,679	23,613,749	28,517,883	34,947,830	38,540,957
BU Women's	770,517,020	731,446,687	745,037,876	766,983,527	798,887,848

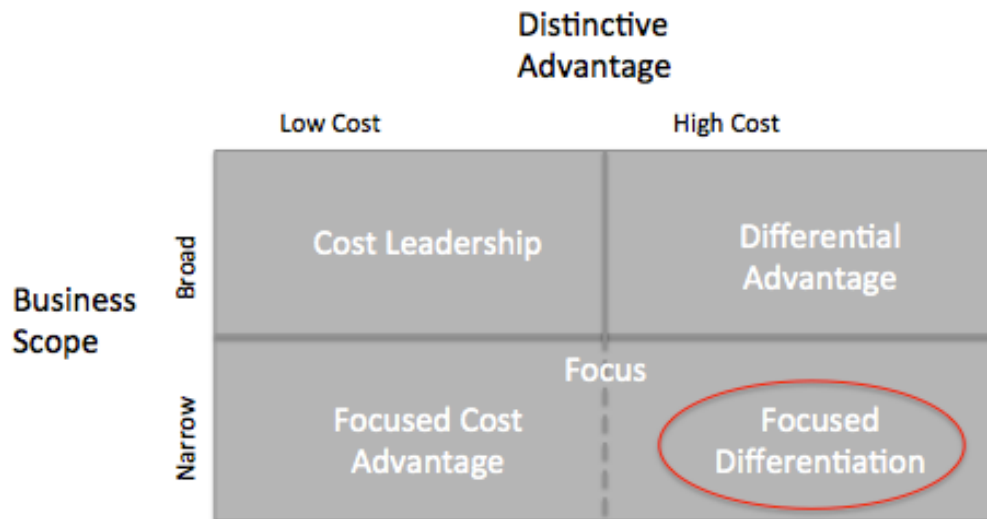
Source: own creation from adidas financial reports

As for now the aSMC is the only one business unit in adidas, which has all the categories under one business unit such as running, cycling, studio, essentials, tennis, weekender, swim, footwear and accessories; running and studio being the most successful ones. aSMC concept has the interest of an urban city female customer who is very fashion and style driven and definitely thinks about her looks while doing sports outside or in the gym. She is a little bit older in the years of 25-35, being independent, with good income and doing sports for looking good, being healthy and socializing. For all these reasons she is willing to pay some extra money for a good quality, feminine and functional sports piece (internal documents; appendix 2).

3. 2. 1. Distinctive Advantage – Differentiation Strategy

Every company has better chances in surviving and profiting from the market when they penetrate a distinctive advantage - differentiation strategy. According to Porter (1985), there are four generic strategies for the distinctive advantage (figure 2).

Figure 2. Distinctive Advantage



Source: Based on Porter (1985) in Hollensen and Opresnik, 2010

aSMC is a premium brand with a high price point for its products, therefore it is difficult to attract a general sports enthusiast to buy the products. First thing it uses for differentiation is the collaboration with a high-end fashion designer Stella McCartney who is well known in the world. The collection is perceived as high quality products with specific technologies incorporated for the sportswear. Following this, the brand is targeting a specific customer who is willing to look stylish while doing sports, and ofcourse, the one who has high income to purchase such products. It is assumed that this customer is rarely going for shopping in the core sporting goods stores because they have too masculine look, dominated dark colors which does not bring a pleasant shopping experience. Here comes another differentiation aspect of the brand that the product is available in another type of distribution channels such as specialty stores, fashion boutiques and yoga or pilates gyms where usually core sporting goods are not available. That is a convenient shopping place for the targeted customer and an easy way to reach her.

To sum it up, the brand is using focused differentiation strategy because it aims to differentiate within its targeted segment, and the needs of the target group are different from

the broader sporting goods market. According to Kotler (2003), a classic way to achieve product differentiation is through niche markets, and the analysis of it follows after.

3. 2. 2. Market-niche Strategy

Market-niche strategy mainly is used by the small companies that are not willing to compete with the large companies. Analyzing the general company strategy, a niche market strategy is defined as “an emphasis on a particular need, or geographic, demographic, or product segment” (Teplensky, Kimberly, Hillman, Schwartz, 1993). Small companies prefer being a leader in a small market instead of being a follower in the large market (Kotler & Keller, 2012: 330). Nevertheless, taking an example of adidas, which is a large leading company in the sporting goods industry, is using a market-nicher strategy with its business unit of aSMC. This strategy is covering the market niches where large companies do not have an interest in covering them, or they do not have the expertize in these markets. Smart niching is a profitable way for the company to gain market share in other segments than the overall business. aSMC offers high value, charge a premium price for its products, and form a strong corporate culture and vision. Even though the net sales of the aSMC takes a small part of the overall company net sales, the aSMC brand achieves high standard margin and brings profitable business to the company. Niching is a profitable business of aSMC because the brand knows its target customers well and can meet its needs much better than the adidas company itself. By using the market-niche strategy aSMC do not reach high volumes, but it achieves high margin for the brand. While using a market-niche strategy it is significant to specialize, thus, aSMC is seen as a channel specialist. For this brand it is very important to ensure that the products are sold in the right place, therefore the brand specializes in serving only specific channels of distribution, which meet the requirements of the brand and the concept (Kotler & Keller, 2012: 331).

Even though aSMC is a part of adidas, in this project and in the real-life case it is operating as a separate business unit. The brand is very unique in the market with its competitive advantage and is able to exploit the market-niche strategy, and if we look at the numbers of net sales the business is growing double digit every year (table 1).

4. THEORETICAL FRAMEWORK AND SYNTHESIS

By providing a proper and accurate theoretical framework you can be ensured that the analysis will be conducted in the way to answer the research questions and solve the research problem. This part is very important for the project as it is the base of the entire research, and it assures that the appropriate data will be collected and analyzed. In this case, the main problem of the project is how to optimize the distribution strategy of the aSMC in the US market. Thus, theories will be applied that help to analyze the micro and macro environment, the industry and the market to be able to develop a strategy that would lead aSMC business into the success.

4. 1. Strategic Fit Concept

If the company wants to be successful in the industry it has to possess a successful business strategy where main components are clear goals, understanding the competitive environment, resource appraisal and effective implementation (figure 3). To cover up all the components mentioned the industry and the firm environment should be analyzed, and linked with a strategy (Grant, 2010: 12). Therefore, the overall framework used in this paper will be the strategic fit concept that says that the strategy needs to be aligned with the firm's micro and macro environment, and it has to define how the firm will reach its long-term goals by using the resources within its environment (Grant, 2010: 13).

Figure 3. The basic framework of the strategy implementation



Source: own adaptation of Grant, 2010

Written in the simple way, the strategy describes how the individuals or organizations achieve their objectives by utilizing their resources in a consistent and coherent manner.

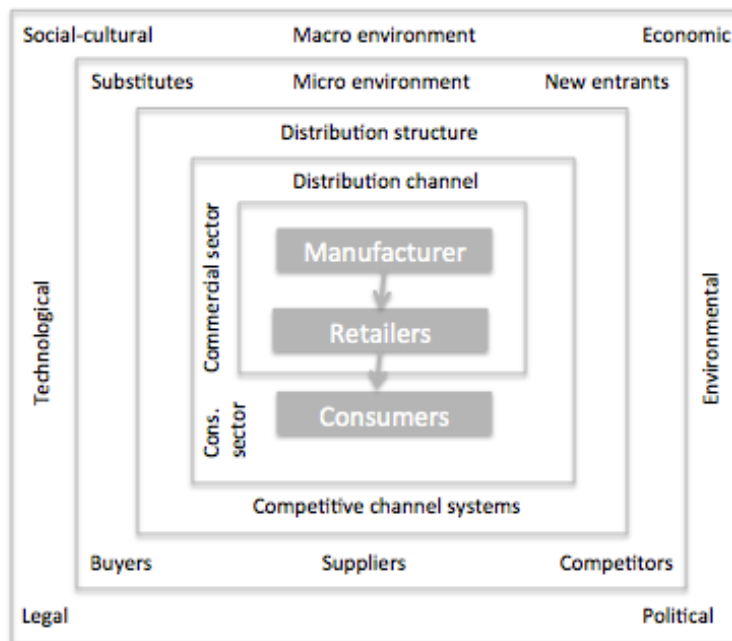
Thus, if the company wants to be successful it has to have a strategy that is integrated within its internal and external surroundings. Because of the instable and changing external environment it is difficult to achieve this consistency, and in this case the major changes in internal firm processes and structures might be required. If the company is not capable to meet the challenges and adjust its internal resources to the changing environment, it is most likely to underperform or fail in the industry (Miles & Snow, 1984).

Based on the strategic fit concept the theoretical framework of this thesis was developed. My main goal is to suggest the most relevant and successful distribution channel mix for aSMC to be successful in the US market. Firstly, I need to analyze the internal aSMC conditions and the sporting goods market in the US in order to analyze the fit in between these two. Therefore, the strategic fit concept is seen as relevant to answer the research questions and the research dilemma. All of the theories used in the thesis will be described in a sequence shown in the figure 1.

4. 2. External Analysis Theories

It is very crucial for a marketing-oriented company frequently evaluate the environment it is operating in, so it could adapt and use the emerging opportunities or avoid eventual threats. This section will be used for the theoretical framework of the external environment, which is the industry and the market. The external analysis will start with defining the boundaries that will help to define the market and the industry in a precise manner. The PESTLE analysis will be utilized based on these boundaries in order to research the overall macro environment of the US. The US sporting goods market will be analyzed by using Porter's Five Forces to find out and assess the specialties of the market the aSMC is operating in.

Figure 4. The channel as a processing subsystem within the environment



Source: own adaptation of Stern & El-Ansary, 1992

Marketing channels have altered over time because there are many factors influencing the structure of the channel, and, of course, these factors change as well. For example, the factors of macroenvironment are evolving all the time, therefore the process of change is continuous. As shown in the figure 4, distribution channel structure is affected by many other systems and factors, and a channel is part of the larger system which restricts its operation or gives some valuable inputs. According to this scheme, I have built the study of the distribution strategy based on this model as all of the parts are relevant for the distribution strategy analysis. Since the macroenvironment is constantly changing, a marketing channel has always to adjust to the changes, therefore the PESTLE model will be used for the external environment analysis. The second step of the analysis is to understand the market and industry environment, and to know other participants acting in this environment, thus the Porter's Five Forces model will be utilized. The third step is the distribution structure, where the analysis of the overall economy's distribution structure involves other channels. Then, in the last part it gets to the analysis of the distribution channels, which are separated in the commercial sector and consumer sector. Also according to Pelton, Strutton and Lumpkin

(1997: 62), while designing the channel it is important to consider market's success factors, the market's attractiveness to new entrants, barriers to entry, and competitor's strengths and weaknesses, as well as the external channel's environment has to be constantly considered. So, it is all included in the model mentioned before. Connecting all of these subsystems mentioned, the final distribution strategy model will be implemented in order to propose the distribution channel strategy for aSMC in US.

4. 2. 1. Defining the Boundaries

Before starting the analysis of the market and industry, one of the most significant parts is to define the relevant industry; it is set its boundaries. Every research has different purposes and context of the analysis, therefore setting the boundaries is a point of view of the researcher. By setting the boundaries you can define external impacts from the market and industry that affect the decisions and performance of the company (Grant, 2010: 64). Firstly, it is needed to define what does the term industry mean, because industry and market link to each other. According to Grant (2010), the main difference is that product markets and input markets analyze industry profitability. Nevertheless, the analysis should start with identifying the relevant market, and it is where the firms compete to supply a specific product. Hooley, Piercy and Nicoulaud (2012: 240) also emphasize the difference between the market and industry. Industry is described as a group of companies that manufacture or provide similar products, and the market is seen as a group of customers who have similar needs, wishes and problems.

According to Day (1992), there are two ways to define the market. Customer-defined markets involve all the products and services, which are used to meet the same customer needs and problems, it means the substitutes of the product. Competitor-defined markets focus on all the competitors, which use similar technologies, serve the same customers, use relative distribution methods and production costs. Customer-defined approach is more useful in evaluating the dynamics of the market, the attractiveness of the other markets and in building strong competitive positions. On the other hand, competitor-based definition is used to respond to price cuts, sales force coverage, and etc.

Market boundaries are defined in a bit different way by substitutability. To make a proper analysis of the market the substitutability should be identified from both the demand side and

the supply side (Grant, 2010: 85). Industry boundaries are changing and moving, and to meet the competition different industries congregate, therefore it is a significant step to define the industry boundaries before I start the analysis to make sure that I analyze the business in the right limits (http://english.ckgsb.edu.cn/sites/default/files/p40_42_strategy.pdf). Industry market boundaries are defined as a possibility to be substituted by other products or services, and industry itself is a group of firms that supply the specific market (Doole & Lowe, 2005: 61)

Market boundaries can be defined in two perspectives: the industry and the geographical boundaries. Geographic boundaries set the borders of the market you are competing in and which one you are analyzing, because it is important to identify if you are operating globally, locally or even just in one of the regions. Market boundaries are defined as how easy the company can sell the products or services in another geographic area, or how easy the customers can switch in between the markets (Doole & Lowe, 2005: 61).

External environment as economic, political, social and demographic trends are all related to the industry environment, therefore it is necessary to look into external issues as it might be critical factors of the threats and opportunities for the company in the future. Following this, I will use the PESTLE model to analyze the external factors.

Following the Porter's Five Forces model before starting to analyze the industry itself it is needed to clearly identify industry boundaries. Then I can go deeper in analysis of the five forces to identify the profitability and the structure of the industry the company is operating in. Despite of there is some critique regarding the Porter's Five Forces model as the intense competition has changed the overall understanding of the industry analysis, still it is one of the most used models for the industry analysis for many years. Nevertheless, the model has not changed itself, but while doing an industry analysis you modify the model to each different case that it would fit your company's profile.

4. 2. 2. Market Analysis: Distribution

In every company that sells products or services there has to be a way how to physically deliver the product to the customer, because most of the producers do not sell their products directly to the final consumers. In this case, the distribution channels are used, and in order to link producers and consumers, there has to be an organized network of agencies and

institutions (Cox & Schutte, 1972). Another vital thing to consider is that the manufacturer's and intermediary's strategies and aims would fit towards the channel end-consumers (Cunningham & Pyatt, 1989). There are number of factors that influence the developed distribution network, and one of the importance would be if the final customer are consumers or other businesses. In this research I focus on the B2B level, though when I talk about distribution analysis I consider the physical product delivery to the end consumer. Yet the analysis of the end consumer is excluded of this research, and the focus is on the channel itself and the stores containing it.

According to Kotler and Keller (2012: 437), a group of reliant companies involved in the action of product delivery to the consumer is called a marketing channel. The right set of channels is an important aspect of the success of the company and has an effect on all other marketing decisions. The whole process of how the products are made, distributed, sold and serviced should be discussed in order to decide for the best set of distribution, but because of the limited scope of the paper the focus will be kept on the distribution part. The biggest decision the marketers need to take in the beginning regarding the distribution is whether to sell through intermediaries or directly to customers (Hooley, Piercy & Nicoulaud, 2012: 314). Both of the options have their own advantages, but it also depends on the market characteristics and on the business possibilities. The most significant benefit of using the intermediaries such as wholesalers and retailers is that they already have an established direct relationship with the customers (Bowersox, 1975). The main disadvantage would be that the retailer has many other products in their stores, therefore the competition is very cruel and usually you do not get any promotional support from the retailer.

Today, a multi-channel approach is increasing rapidly, because the customer wants to have a choice whether to go to the store or order online. Multi-channel approach means that the product can reach the customer in many ways (Hooley et al., 2012: 315). But there are also some drawbacks in using this system as customers tend to redefine the model in their own way and they use the channels in different perspective. It is said that dual-channel customers spend much more than single-channel customers, and, ofcourse, tri-channel customers spend even more (Wildberger, 2002).

Usually it is not possible to maintain the channel strategy effective over the entire product life cycle, especially in such a competitive market as sporting goods, where the low entry barriers change the channel structure over time. While the selling and shopping environment is changing rapidly also the market channels are evolving and even developing a totally new ways of selling goods in order to fit in the changing environment (Kotler & Keller, 2012: 451). The first step in a global channel planning is to analyze and know your customer in that specific market.

An independent producer, manufacturer and retailer form a conventional marketing channel. Each of the player is a separate unit and is operating for its own profits and net sales, not taking care of the profits of the whole system. As these players are operating independently, none of them has any control over each other (Kotler & Keller, 2012: 453). Adding more channels gives a company a very significant benefit of the increased market coverage. It means that more end customers are able to reach and shop for the company's products in more places, but also those who buy in more than one channel usually are more profitable than the ones who shop in one channel (Venkatesan, Kumar & Ravishanker, 2007). Especially luxury brands that very much depend on the exclusivity and personalized service must be sold through appropriate channels. For example, it can be very harmful for the brand's image if the brand goes too deep into the discount stores (Kotler & Keller, 2012: 460). aSMC needs to expand its distribution in order to achieve a higher market share and increase profits, but it is important that it would be sold in the right distribution channels as the brand requires special service and targets a special consumer.

4. 2. 3. PESTLE Analysis Framework

PEST analysis is a very commonly used framework of macroenvironmental factors in strategic management materials. It is also a very crucial technique for any business trying to understand the industry they are in as it is described as a core technique in strategic management (Zisa, 2010). If the company is able to evaluate its environment and foresee potential changes, it has better chances to respond to changes and act faster than its competitors. The analysis of macroenvironment cannot directly affect the profitability, but it affects the whole environment the company is operating in but just to different extent: some companies get a possibility to use the opportunities and to minimize the threats (Haberberg, 2008: 105; Johnson & Scholes, 2002: 102).

The macroenvironment is a set of broad forces that has an impact not only on the company but also on the other stakeholders and players in the microenvironment. The macro level influences the overall business environment as it has the effect on the industry and the company itself (Hollensen & Opresnik, 2010). Nowadays there are different variations of this tool as some analysts have added legal and environment factors, so it got extended to SLEPT, PESTLE or PESTEL. According to Jobber (2010), PEST analysis is enough to use for the macro environment analysis, i. e. political/legal, economic, social/cultural and technological factors. As for the aSMC brand the environment/ecological issues are very substantial, therefore I considered using the extended version of the framework called PESTLE (Paul, Eva, Yeates, Hindle, Rollaston, Cadle & Tudor, 2010: 44). The factors included in the framework are as following:

Political factors describe the influence of the government and pressure groups that affect the activities of various companies in a given society (Cadle, Paul & Turner, 2010). It can have a high impact on the marketing decisions as it might set the rules how the business can be constructed (Kotler & Armstrong, 2009). Political factors such as tax policies, fiscal policy, trade tariffs and other might have a great impact on the economic business environment.

Economic environment consist of the factors that show the economy's performance and that have an impact on consumer buying power and spending patterns, which means that in different countries and regions the economic environment might be very different. Marketers should be aware of spending patterns and major trends not just of the market they are working in, but also outside their home market. The examples could be employment and unemployment rates, interest rates, investments, income, etc. (Kotler & Keller, 2012: 106).

Social and cultural environment also has an impact on the marketing decisions, as the institutions influence a society's main values, preferences, behaviors, also age distribution, population growth and other aspects (Paul et al., 2010). Cultural factors describe the combination of values, traditions, perceptions and rituals of the society where the individual lives (Hollensen & Opresnik, 2010: 64). These differences has a strong affect on the marketing, especially business-to-business marketing. It is an important issue to consider while doing the business with another different company.

Technological environment is becoming one of the most important forces nowadays in the business environment. The technological factors include technology creation, new product generation and market opportunities. This environment affects the marketing processes in a way that various market modeling and decision support systems are used (Hollensen & Opresnik, 2010: 67). It can also create a threat to an existing company by new product generation, but it also opens future opportunities.

Legal factors have both internal and external parts. Some countries have specific laws to regulate the business environment and that affects all the companies operating in that country, and some companies have their own policies, which apply just to them. The examples would be consumer laws, safety standards, labor laws, etc.

Environmental factors are the natural resources that are influenced by marketing activities (Cadle, Paul & Turner, 2010). Marketers should be aware of the trends in the natural environment and align their marketing strategies; just not for all industries these factors are crucial. Environmental issues became much more important during few last decades, and the companies that go together with the environment will have more opportunities in the future business. That would be the factors of weather, climate, global changes in climate, etc.

4. 2. 4. Porter's Five Forces

It is very important to analyze and understand the industry to be able to conclude if the sporting goods industry in US is the right fit for aSMC concept, and if it is a profitable space for the brand. It is necessary to have an overview of the features of the market so that aSMC could concentrate on the right factors that bring threats and opportunities.

Competition is not just about the direct competitors in the industry; the company needs to look much deeper inside the industry if it wants to keep its profitability. There are four more competitive factors the company should analyze: suppliers, customers, potential entrants, and substitute products (Porter, 2008). All the five forces are important to measure in all the industries, but some of the forces have more influence than others in that specific market, and, of course, the ones which has the strongest competitive force affect the profitability the most. aSMC is operating in the US market for many years, but it is important to analyze the industry to understand where the competition is the fiercest and where the company should focus on improving their strategy. Nevertheless, aSMC is an established company in US, but

there is still space for process optimization, especially when we talk about the distribution strategy.

Figure 5. Porter's five forces of competition framework



Source: Based on Grundy, 2006

Threat of New Entrants

New entrants are always one of the most threatening forces as they might change the whole picture and pace of the industry, especially when we talk about such an industry as sporting goods where constantly new brands are coming in. They come to the industry with existing capabilities and experiences from the other markets, fresh ideas and strong motivations with the purpose to gain market share, and, thus, they affect prices, costs and the rate of investment necessary to compete in the industry (Porter, 2008). Nevertheless, the threat of new entrants is measured as barriers to entry that is considered as an advantage for the existing companies. These barriers are seen as temporary ones since the new comers just need time to enter the industry, therefore this factor should be analyzed carefully (Porter, 1980). It is said that the established companies keep their competitive prices if there is high threat of new entrants (Grant, 2010: 71). In aSMC case the high threat of new entrants reduces the profit potential as the company needs to invest in their retail space, or reduce the prices to be able to compete with new comers. Thus, it is significant to have a look into the entry barriers

for the new entrants to measure how high is the threat and assume how much new investment it would require from aSMC. Few barriers of entry to mention would be capital requirements, economies of scale, access to supply or distribution channels, level of experience, expected retaliation and legislation or government action, and customer or supplier loyalty (Porter, 1985: 6).

The Power of Buyers

Powerful customers are an opposite side of the powerful suppliers; by reducing the prices, asking for better quality and services, and playing industry participants off against each other, they take more value at the cost of industry profitability. Buyers are powerful and they try to reduce the prices if they have possibility to negotiate in relation with industry players, especially with the ones that are price sensitive (Porter, 2008). One of the most important determinants of bargaining power is the structure of the market, i.e. the size and quantity of the sellers and buyers (Moyer, 1971). A customer has a power to negotiate, firstly, if it purchases in large volumes in regards of the size of supplier, secondly, if the products in the industry are undifferentiated, thirdly, the buyer don't meet any or few switching costs, or if the buyer have enough of resources to start producing the product itself (Porter, 2008). Buyers' price sensitivity and relative bargaining power are two groups of factors that influence the extent of buying power that companies face from their customers. Price sensitivity of the buyers depends on four main factors; first, the greater the proportion of total cost the item has, the more sensitive the buyers will be about the price they pay. Second, the buyers tend to switch between the different suppliers if the product is undifferentiated. Third, the buyers want lower prices from the suppliers when there is an intense competition among buyers. Fourth, as the product is critical for the buyer's product he becomes less price sensitive and he is willing to pay the requested price (Grant, 2010: 76). Relative bargaining power is concerned about eagerness to do business with another party. The relative bargaining power of buyers relative to that of sellers depends on buyer's information, size and concentration of buyers compared to suppliers, and ability to integrate vertically.

The Power of Suppliers

As every player in the industry, suppliers also strive for the highest value for themselves, and they do this by charging higher prices, providing lower quality or services, or moving the

expenses to other industry players. Suppliers are an important part of the business because they provide the resources needed to produce its goods and services. Therefore, the supplier might have a high bargaining power in such cases when their product is differentiated, there is no substitute for what the supplier provides, low concentration of suppliers, or if industry participants change suppliers they meet high switching costs (Porter, 2008). Actually, the analysis of the bargaining power of the suppliers can be considered as the same as the one of the buyers, just the participants and the firm switch roles. The only difference is that the companies now are the buyers in the industry and the producers of inputs are the suppliers. The main matter is how easy the company can change between different input suppliers and the relative bargaining power of both sides (Grant, 2010: 77). Their relative economic power describes how the value created in the transaction among supplier, buyer and the company is shared in terms of profitability (Grant, 2010; Cabral, 2000).

The Threat of Substitutes

The threat of substitutes is of significance for aSMC as it defines the attractiveness of the industry and can unveil possible threat to aSMC activities that could hurt company's position in the consumers' choice set when choosing the sporting goods. A substitute for aSMC is a product that possesses the same or similar feature as another product in the industry (Porter, 1985: 274). Sometimes it is very difficult to recognize the substitute, but it is very important to be aware of all of them because if the threat is high then the profit and growth potential of the industry gets limited by placing a ceiling on prices (Porter, 2008). The availability of the substitute influences the price the customer wants to pay; so it means if there are no substitutes for the product the customer is insensitive for the price, and if the substitute exists the customer becomes more price sensitive (Grant, 2010: 70). According to this, the existence of substitutes lowers the prices down and reduces the profitability.

Rivalry among Existing Competitors

The competition among established competitors in the industry is the most significant to analyze because it includes all of the four factors mentioned above, and is affecting the profitability of the industry the most. In some industries the profitability is going down because of the fierce price competition between rivals (Grant, 2010: 73). The limitation on the profit potential affected by rivalry depends on two factors; first, on the intensity of the

competition, second, on the basis the companies compete (Porter, 2008). The competition is defined as intensive if competitors are equal in size and power, if industry growth is slow, if barriers to exit are high, and if rivals are highly committed to the business and have desires to lead the industry (Porter, 2008). Most of the competition affecting the profitability is on the price level, but there are also some other dimensions that create competition such as product characteristics, offered service, delivery time or brand image. But these dimensions mostly improve the customer value, increase value relative to substitutes or evoke barriers to entry for new entrants. Rivalry also can increase the profitability of the industry if the competitors are separated in serving different customers with different mixes of products, prices, services, characteristics, or brand identities. Thus, it is important to understand the rivalry of the industry to be able to achieve the positive-sum competition and expand the industry (Porter, 2008). The analysis using this framework will be useful for aSMC to understand the structure of the industry, and by combining with the internal analysis, I will be able to provide recommendations for aSMC how to improve their distribution mix in the US market.

4. 3. Internal Analysis Theories

This part of the thesis is dedicated to the theoretical framework of the internal aSMC analysis where all the core marketing mix characteristics will be analyzed separately. A simplified and adjusted distribution strategy is divided in five separate subparts relevant for aSMC in order to analyze the specifics of the distribution aSMC is using. All of the subparts are investigated separately to get a thorough understanding of each of them. Important to mention, the marketing mix is analyzed specifically for the US market, and the distribution strategy analyzes the overall general aspects of the aSMC brand.

4. 3. 1. Marketing Mix

The marketing mix is presented in the analysis in order to study aSMC's current position in the market and be able to provide recommendations to the company if they are positioning themselves in the right way, or if they should change it.

According to Kotler and Armstrong (2010: 76), when the company wants to achieve the specific response in the target market by mixing together controllable and tactical marketing tools it creates a marketing mix. This is the tool used to influence the demand for its product by delivering value to consumers. The variables of the tool are collected into four groups

known as “the four P’s”: product, price, place and promotion. According to Reid (2007), the product and distribution are the two key variables for analysis, because they are closely related in a sense that the features and positioning of the product influences the type and quality of distribution chosen. In this thesis all of them will be analyzed in order to understand if the marketing mix decisions and activities aSMC is doing in the US market is applicable for that market, or if it needs to be changed, but the main focus will be placed on one of the P’s – the place – as it is the focus of this research. The trade channels and the final consumers will be influenced by the decisions made on the 4 P’s, therefore an analysis will help to assure the successful distribution strategy implementation in the US market. The 4 P’s is relevant as a tool that influences the buyers purchase decision and creates value. The company can change the variables to provide better value for the customer: in the short time it can change their prices, advertising expenses, and sales forces, and in the long time it can change its distribution channels and develop new products (Kotler & Keller, 2006: 19). The product variable is defined as a goods-and-services mix the company provides to the target market, i. e., quality, design, features, services, etc. The price means how much the customer needs to pay to get the product, it also includes discounts, credit terms, list price, etc. Place describes how the product is provided to the consumer and how it is made available in the market, i. e., channels, assortments, locations, etc. And the last one is the promotion that means the communication tools to the consumer that makes up his mind to buy the product (Kotler & Armstrong, 2010: 76).

4. 3. 2. Distribution Strategy

This chapter is the core of the overall analysis because it reflects directly to my research problem. All the research done above leads to the same research dilemma and helps to answer the research questions. Distribution strategy will be analyzed by the model adapted from Jobber (2010), but not all the parts of the model are relevant for this research, therefore the argumentation for the parts chosen will follow in the analysis below.

Distribution strategy analysis will be based on the model in figure 6, which is divided into four segments: product, communication, distribution and channel. In another words, this model includes all of the 4 P’s that are product, price, promotion and place. In this research my aim is to provide aSMC with a proper distribution suggestion having in mind a combination of channels and the characteristics of it. Hence, the part of channel with analysis

of channel alignment will not be analyzed in this study as it is not relevant for answering the research question. The research is focused on the B2B level, so the question is whether aSMC should sell to retail accounts, franchise or focus on own retail, thus, the alignment analysis is not relevant in this case. Another part excluded from this research is distribution logistics as the study does not focus on the physical distribution of the product from its production to the end consumer.

Figure 6. Distribution strategy components



Source: adapted from Jobber (2010)

Product Policies

The overall success of the brand starts with its offering to the customer, it is the product itself. Product is a key element for building the successful business. There are three important factors containing the product: product characteristics and quality, service combination and quality, and price. All these three form a competitive and attractive offering for the customer (Kotler & Keller, 2012: 347). Building a global business the significant part is to adjust the standardized approach with the offering to meet the specific needs of the key markets (Walters & Toyne, 1989). The possibility to reach this is to use the global core product offering which can be altered to specific country market requirements (Bolz, 1992).

Pricing Strategy

Pricing decisions are multifaceted and difficult process, which includes such factors as customers, company, competition, and marketing environment. It is important that the pricing strategy would be aligned with the company's marketing strategy and its target markets and brand positioning, it means the internal and external environmental factors. Price is the one

factor, which is very easy to control and adjust to the changing environment or to the specific market needs (Kotler & Keller, 2012: 405). Also the price is the factor that easily shows to the consumer the company's intended value positioning of the product and the brand, and usually the price level is seen as an indicator of the quality of the product when the information about the true quality is not available. Consequently, pricing strategy influences the revenue and the buying behavior. Therefore, the overall pricing environment is aligned with the internal company's strategies, and then with the consumer the brand is targeting (Hollensen & Opresnik, 2010: 212). In order to provide a premium customer value, price should be implemented in the set together with product, promotion and place.

Communications Strategy

Said it in simple words, communication is the decision about the marketing plan. If the customer wants to make purchasing decision specific information needs to be communicated, and simply, it is the information used to convince the customer to buy the product. It is very important to form relationships with the customer to inform, educate, remind and persuade him about the buying process (Hollensen & Opresnik, 2010: 272). To communicate with the customer there are several different tools available such as advertising, sales promotion, public relations, sponsorship, personal selling, etc. In order to achieve a consistent competitive advantage it is needed to mix different tools together and use a combination of them (Kotler & Armstrong, 2010: 426).

Distribution Density

Distribution channels are sorted in direct and indirect marketing channels. Direct marketing channel has no intermediary levels, it means a product is distributed from producer to consumer (Hollensen & Opresnik, 2010: 240). In all other cases the channel will include one or more independent intermediaries such as wholesalers, retailers, brokers and agents. Then deciding about the distribution, the market coverage is an important aspect. In order to meet the company's coverage goals, a company needs to build a distribution network consisting of dealers, distributors and retailers. There are three different approaches to reach desirable market coverage, and it depends on the internal brand market positioning strategies (Hollensen & Opresnik, 2010: 240). First, the intensive distribution is used to reach the highest brand exposure and consumer accessibility when the product is delivered through the

largest number of different intermediaries and the largest number of individual intermediaries of each type. Second, the selective distribution already selects fewer of the intermediaries to sell their products, but it has to be more than one. This approach is highly used by premium brands in order to have more control in selecting just the best outlets. Third, the exclusive distribution is a very carefully selected distribution where just one wholesaler, retailer, or industrial distributor is used in the geographical area. This approach reduces a buyer's power to decline prices for the same product between dealers, and close cooperation between producer and retailer is utilized.

The theoretical framework draws the overall picture of the analysis and builds a structure of the research, therefore it is important to choose the relevant theories and models that it would help to answer the research question of the thesis. The main models used for the external environment analysis are the PESTLE, Porter's Five Forces and the definition of the market and industry boundaries; the internal analysis is done by implementing the marketing mix and the distribution strategy.

5. ANALYSIS

The analysis part is done by following the theoretical framework set in the chapter before in order to have a clear picture of the external and internal environment affecting the brand in the US market. Firstly, the external environment analysis is presented by using the PESTLE framework, Porter's Five Forces, the detailed apparel and sportswear industry analysis, and also the distribution channel overview in apparel and sportswear in the US market. The internal analysis consists of the marketing mix of aSMC in US, the global aSMC distribution strategy and the overview of the current brand distribution.

5. 1. External Analysis

The following part of the external analysis has the aim to determine the boundaries of the market in focus in this thesis, investigate the structure of it, and define the boundaries, characteristics and the competition within the industry. The analysis is structured and based on the theoretical framework of the external theory part having the focus on the PESTLE, Porter's Five Forces and the distribution structure in the market.

5. 1. 1. Defining Market and Industry Boundaries

Defining market boundaries is a complex process due to the uncertainty factor in the environment. It is seen as a subjective and highly creative process (Aaker, 1995). It is vital to draw a line in the market, which is of the interest to the company, in another words, it is the market seen as a possible target. To be clear, the focus of this chapter is to define the market boundaries and the industry of the operating company in that defined market.

aSMC product categories are sports apparel, accessories and footwear; accessories are separated in hardware accessories such as bags, and software accessories such as gloves or pouches. Therefore, it is most relevant to focus on the markets, which include these categories, as the product is applied to define the market (Grant, 2010: 83).

Following the analysis of the Euromonitor International (2012), adidas is included in the overall apparel industry with its apparel, footwear and accessories products. That is a relevant method of defining the industry boundaries as the substitutes could be seen as daily and casual wear apparel, and the competitors are other apparel brands in the market. Further on the apparel industry is divided in different categories: men's underwear, nightwear and

swimwear, hosiery, women's underwear, nightwear and swimwear, clothing accessories, children wear, footwear, men's outerwear and women's outerwear. In this case, aSMC would fall under women's underwear, nightwear and swimwear, clothing accessories and women's outerwear categories. Following the definition of the market boundaries that it is defined by the substitution factor (Day, 1992), it is not possible to focus just on the women's active wear as all other apparel categories are seen as substitutes for the aSMC products. To sum it up, the analyzed industry in this research is the apparel industry.

Another way to define the market boundaries is the geographic aspect. As the respondents did not highly differentiate the regions in the US saying that all are similar and performing the same having in mind the sports market, the focus is kept on the general US market, which covers the whole North America (appendix 3; appendix 4). Therefore, the products are distributed all over the country with no exclusions. Ms. Moje and Ms. Kurz mention that there are big differences in the different areas, but it is mostly related to the fact where the biggest cities are located. For example, New York, New Jersey and Boston represents a lot of volume from the East coast (appendix 5). In any case, there is no differentiation between the regions.

Apparel Industry in US

Nothing surprising that the world financial crisis, which started in 2008, has changed the outlook of the country's economy and has made some drastic changes in the market landscape. In the US apparel market the prices are pulled down because of the intense competition, shoppers looking for the best deals and increasing input costs (Euromonitor International, August 2013). Compared 2012 with 2011, apparel value growth (2 proc.) has been higher than the volume growth (1 proc.), mainly influenced by the growth in footwear (5 proc. and 2 proc. accordingly) (table 2; table 3). From this fact it could be said that the consumers are willing to pay more for quality products but they buy less in volume. The best times are seen for the accessories categories in both value and volume terms as it is seen as the quick and cheap substitute for updating the wardrobe. Nevertheless, it is noticed a tendency similar to Europeans to dress up well, hence interest in luxury and premium items occur.

Table 2. Sales of apparel by category: Volume 2007-2012

mn units	2007	2008	2009	2010	2011	2012
Clothing	16,549.2	16,424.7	15,958.1	16,767.6	16,705.8	16,848.6
Footwear	2,223.8	2,130.9	2,071.0	2,146.2	2,230.0	2,275.2
Apparel	18,773.0	18,555.5	18,029.1	18,913.8	18,935.7	19,123.8

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 3. Sales of apparel by category: value 2007-2012

US\$ million	2007	2008	2009	2010	2011	2012
Clothing	293,759.3	282,779.7	269,103.0	284,644.0	290,036.9	294,510.7
Footwear	62,748.4	59,474.4	57,314.3	60,947.0	64,775.3	68,118.2
Sportswear	71,404.3	68,603.3	66,773.4	69,363.0	73,872.0	80,034.0
Apparel	356,507.7	342,254.0	326,417.3	345,591.0	354,812.2	362,628.9

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

In 2012, the average unit price in clothing increased by 1 proc., whilst the average unit price in footwear increased by 3 proc. due to increased cotton prices in 2011 (Euromonitor International, August 2013). For the future outlook, the average unit price of clothing is predicted to drop by 9% in constant terms in the forecast period, whilst the average unit price of footwear is predicted to remain flat over the five year forecast period. Health and wellness in the US are very trendy and the trend is becoming more relevant, therefore the sportswear is predicted to show the highest constant value growth and was growing since 2009 by 6-8 proc. each year (table 3).

Table 4. Apparel company shares, 2008-2012

% retail value rsp Company	2008	2009	2010	2011	2012
Nike Inc	3.4	3.7	3.5	3.7	4.2
Gap Inc, The	3.4	3.4	3.2	3.0	3.1
Wal-Mart Stores Inc	2.9	2.5	2.3	2.2	2.3
Hanesbrands Inc	1.8	1.8	1.9	1.8	1.8
VF Corp	1.4	1.5	1.5	1.8	1.8
adidas America Inc	1.6	1.4	1.5	1.7	1.6
Target Corp	1.4	1.5	1.4	1.4	1.5
Ralph Lauren Corp	1.1	1.1	1.1	1.3	1.3
Levi Strauss & Co	1.3	1.2	1.2	1.3	1.2
Fruit of the Loom Inc	1.1	1.1	1.1	1.1	1.1

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

After the recession, the landscape of the US apparel market has changed due to more and more new brands coming from the UK such as Top Shop and Baden, incremental growth in eCommerce and increasing production costs (Euromonitor International, August 2013). In the Table 4 the top 10 Apparel companies in the US are listed, and the leading positions have been always taken by the same apparel companies – Nike Inc., Gap Inc., and Wal-Mart Stores Inc. In comparison of Nike and adidas, Nike has increased its share every year from 2008, except the year 2010, and from 2011 to 2012 it increased by 14 proc., and adidas has lost its share from 2011 to 2012 by 6 proc. All marketers are trying to enter new customer segments by expanding the distribution and gaining the expertise in the eCommerce business.

Having a look in the overall distribution picture of 2007-2012, store-based retailing has a tendency of decline every year, and the internet retailing has the highest growth rate which became almost double from 5,3 proc. in 2007 to 9,2 proc. in 2012. That is a strong aspect that more and more shoppers are feeling more comfortable with the alternative ways of shopping as online (appendix 8-table 11).

Even though it is seen that consumers are becoming more favorable for the online shopping, there are still some challenges to overcome as consumers cannot try the products. Nonetheless, the potential of the e-commerce business is tremendous and lots of marketers are looking into strategies how to succeed in the online retailing. In 2012, sales of apparel via online shopping reached 33,3 billion US dollars with the increase of 12 proc. compared to 2011. Apparel online sales account for 18 proc. of the total internet sales and remains the

largest category in internet sales. Internet retailing in apparel is estimated to increase to over 46.0 billion US dollars by 2017.

Another increasing possibility in the US market is the m-commerce retailing. According to comScore, in the first quarter of 2013 apparel and accessories was the largest product categories purchased on mobile such as smartphones and tablets. There is an increasing tendency of the brands to introduce brand mobile sites in order to have more control over the brand-consumer experience. For example, Under Armour, the fourth leading sportswear company, already in 2011 has created the mobile website in different smartphone platforms.

In the US market there is a high tendency of partnerships and collaborations with third-party companies, for example, in the e-commerce business where the company itself is lacking the expertise in the field. New comers such as Top Shop partners together with established retailers such as Nordstrom in order to flourish from their experience in the market. The interesting fact that after the recession in the US market a mid-range players suffered of the lack of shoppers, but the high-end expensive stores as Neiman Marcus were successful even during the recession. Partnerships with such known retailers are helpful in a way to maintain brand appeal and to offer exclusivity to their shoppers.

Athletic Apparel Market in US

As the health and wellness is getting more admired trend among US consumers, it is seen a great increase in sportswear category, which increased by 8 proc. and has reached 80 billion US dollars in 2012 compared to 2011. The mostly growing category in sports clothing is outdoor clothing which increased by 11 proc. to reach 4,7 billion US dollars in 2012, and in sports footwear - sports-inspired footwear has grown the most by 10 proc. This trend is seen the last 5 years (table 5). The trend of growth of the sportswear is forecasted to continue with a constant value growth by 11 proc. to reach 88,7 billion US dollars by 2017. Having a quick look at the competitive landscape in sportswear industry, Nike has leading positions in the US market with its retail value share of 19 proc., which increased by 15 proc. in 2012 compared to 2011. Lulu Lemon and Under Armour are the second and third best performers in terms of the value growth, respectively, by 45 proc. and 23 proc (Euromonitor International, August 2013).

Table 5. Sales of sportswear: % value growth, 2007-2012

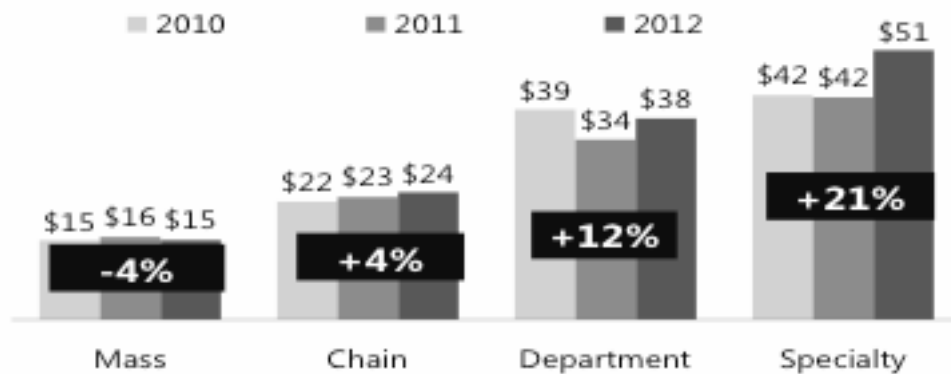
% current value growth	2011/12	2007-12 CAGR	2007/12 Total
Sports Clothing	8.2	2.9	15.2
- Performance Clothing	7.4	2.0	10.5
- Outdoor Clothing	10.8	6.1	34.3
- Sports-inspired Clothing	8.8	3.6	19.2
Sports Footwear	8.7	1.1	5.4
- Performance Footwear	8.3	0.6	2.8
- Outdoor Footwear	6.9	-2.4	-11.6
- Sports-inspired Footwear	10.1	3.4	18.1
Sportswear	8.3	2.3	12.1

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

5. 1. 2. Distribution Channels in US Apparel Market

Looking at the broad picture, most of the revenue in US is coming from three major channels: retail (86 proc.), direct online sales (11 proc.) and wholesale (3 proc.) (PEC Research, 2012). Apparel products are sold in a wide variety of retail formats, therefore the competitive pressure is high for the retailers (Carpenter & Moore, 2010). Retail environment is seen as one of the most challenging due to the number of competitors. On the low end of the market discounters Wal-Mart and Target are present, which has a wide range of products from apparel to foods and everything else you might need on a very low price level. Value department stores such as Kohl's also has low price structure, offer regular promotions, and recognizable brands for the apparel. There is another segment of the stores, which offer trendy popular fashion on the off-price level such as Marshalls, Old Navy and TJ Maxx. On the middle market level mainstream department stores are present. JC Penney and Macy's have an offer of popular brands but usually on a bit higher quality and price level and a bit wider assortment. Another segment to mention is lifestyle specialty retailers such as Gap and Banana Republic which are seen somewhere between the middle and upper market offering popular trendy apparel, high quality for the higher price than department or value stores in the middle market. In the last, there is a high end of the market with premium and upscale department stores such as Neiman Marcus and Nordstrom, which offer designer brands on the high price level and exclusivity (Carpenter & Moore, 2010).

Figure 7. Average retail price increase in retail channels



Source: Cotton Incorporated's retail monitor survey

Table 6. Department comparable store revenues, 2011-2013

		2011	2012	2013
Macy's	Revenue,m	25003	26405	27686
	Growth rate, %	6,45	5,61	4,85
Kohl's	Revenue,m	18391	18804	19279
	Growth rate, %	7,06	2,25	2,53
Nordstrom	Revenue,m	9700	10877	12148
	Growth rate, %	12,44	12,13	11,69
J.C Penney	Revenue,m	17759	17260	12985
	Growth rate, %	1,16	(2,81)	(24,77)
Sears	Revenue,m	43326	41567	39854
	Growth rate, %	(1,63)	(4,06)	(4,12)
GAP	Revenue,m	14664	14549	15651
	Growth rate, %	3,29	(0,78)	7,57
TJ Maxx	Revenue,m	21942	23191	25878
	Growth rate, %	8,15	5,69	11,59
Target	Revenue,m	67390	69865	73301
	Growth rate, %	3,11	3,67	4,92

Source: own creation based on csimarket.com

Having a closer look into the US distribution, it is basically consistent of mass, chain, department and specialty (figure 7). It also contributes to Ms. Kurz saying that “in the US it is very much centralized in the big cities as New York, Los Angeles, San Francisco, you do may have your own flagship stores of own retail, but other than that it is department stores as Macy's, Nordstrom, Barney's on the higher end, and this is where most of the business is

being done”. Specifically in women’s sportswear, it is seen that the distribution increased through department stores, mass merchandisers, hypermarkets and general apparel specialist retailers rather than through sporting goods stores and athletic apparel specialty stores (Euromonitor International, August 2013).

Within the US retail channel, 25 proc. of apparel purchases on a dollar basis are done in mass merchants, 23 proc. in chain stores and 14 proc. in department stores and 11 proc. in specialty stores (figure 8). They all differ from each other on the price level, quality, and the consumer they serve. In chain, department and specialty stores there is seen a unit price increase from 2011 to 2012, which shows that the economy is getting stronger in the US, but on another side, that the unit manufacturing costs get higher (figure 7). If we look specifically in the department store sector, the mainstream department stores as Macy’s and upscale department stores as Nordstrom show positive sales increase by approximately 5 proc. and 12 proc. accordingly through all the years, while the lower profile department store J. C. Penney and Sears show negative sales results (table 6). The customers are getting wealthier, and they are willing to spend price premium for a good quality product. Accordingly, it could be said that the premium upscale department stores are the destination place to go for shopping.

Figure 8. Type of store where most clothes are purchased



Source: Cotton Incorporated Lifestyle Monitor, 2013 October

Consumers might look into specific store attributes when deciding where to go shopping. The main store attributes would be product assortment, customer service, store environment and pricing (Seiders & Tigert, 2000; Hansen & Solgaard, 2004; Fox, Montgomery & Lodish, 2004; Turley & Milliman, 2000). When looking from the producer's perspective, it is important that its product attributes such as quality, price, branding, prestige and fashion would match with the retailer's format store attributes.

Retail Format Store Characteristics

Apparel retail market is classified into three levels: low end of the market, middle market and high-end of the market. The low end of the market is characterized as offering low prices but for that they sacrifice product quality and service (Torres, Summers, Belleau, 2001). Larger product assortment is also one of the features to be mentioned. The off-price retailers are not using the eCommerce advantages yet; there are just few stores, which have their online pages, and it is seen as a lost opportunity for them. Discount stores have a disadvantage of quality and pure assortment, but they are chosen because of pricing and return policies. Retail branding is one of the key strategies in the discount sector, but it is also used in specialty retailers and the department store sector (Hisey, 2002; Lee, 2003).

The middle market department stores and lifestyle specialty retailers are seen as the destination for the consumer who is looking for a good price and good quality products. The general shopping experience is an important factor in these stores mostly created through store environment, lighting and atmosphere, but sales personnel assistance service is not an important feature (Carpenter, Moore, Fairhurst, 2005). Nevertheless, friendly sales staff and good customer service is seen as one of the attributes (Moody's Investors Service, 2013). The shopping malls are seen as a middle market destination place because of its quality, price, cleanliness, assortment, atmosphere and courtesy (Yavas, 2003). Specialty retailers are on a higher price level and the return policy is not that valued, but relevant product assortment and brand familiarity impacts consumers to choose these stores (Shim & Kotsiopoulos, 1992). Usually these stores are chosen for the unique product, which the consumer cannot find in other places (Brennan, Lundsten, 2000). The department stores are seen as the place with shopping enjoyment and recreation, brand loyalty, price competitiveness, knowledgeable salespeople and well-known brands (Carpenter & Brosdahl, 2011). According to Rousey & Morganosky (1996), specialty stores and department stores

are the places where the customer is buying the most.

High end of the market consists of upscale and premium department stores. These department stores are not difficult to distinguish from the other ones: the atmosphere and environment of the stores are pleasant, light, wide with a lot of space; the sales personnel is friendly and always willing to help you with the excellent customer service; the quality of the products is high; the brands portfolio consists of known designer brands and popular trendy brands; the price is premium and exclusive; the location is central and metropolitan. With the significantly growing trend of online shopping the high-end department stores also pay a lot of attention to their online business, as it helps to catch on the decreasing the brick-and-mortar sales. Even their online stores offer pleasant and real shopping experience with virtual fitting rooms and styling suggestions. Another quite a new trend in US is the lifestyle centers (Yan, Eckman, 2009). Lifestyle centers are described as an open-air plan situated near wealthy residential neighborhoods where the upscale national chain specialty stores are located. These areas are compared to downtown district retail areas with more convenient parking locations, modern and hip shopping experience and architectural style (Guidry & Montero, 2005).

Another premium retail format, which belongs to the own retail channel is the flagship stores (Manlow & Nobbs, 2012). Flagship store is seen as a luxury item for the brand, a place with the authenticity features and a perfect example how the brand environment should look like with its clear message and story to the consumer (Tungate, 2009). It confirms with the statement of Moore et al. (2000) that flagships are mainly public relations tools. There are four main characteristics of flagship stores: first, the location is in a prominent area in the large outlet; second, the product assortment is the widest there; third, high-end and premium store environment; and last, brand positioning and values are communicated through that store (Moore & Doherty, 2007).

Talking about online retailers separately, the characteristics important for online shopping are shopping enjoyment, pleasant experience and brand loyalty. Usually a shopper buys the brand he is familiar with (Carpenter & Brosdahl, 2011). But still online shopping stops a lot of consumers because it is not possible to try, touch and feel the product.

In the table 7, the overview of retail formats for apparel in general is presented, with its

specific characteristics. Mainly the retail distribution channels are separated in low end, middle end and high-end of the market where it is differentiated by price, quality, assortment and other features.

Table 7. Overview of retail formats' characteristics

Retail Level	Retail Format	Characteristics	Examples
Low end	Discounters	Wide product range Very low price Retail branding Return policies	Wal-Mart, Target
	Value Department Stores	Low price Regular promotions Recognizable brands	Kohl's
	Off-price stores	Popular trendy fashion Competitive price	Marshalls, Old Navy, TJ Maxx
Mid end	Mainstream Department Stores	Well-known brands Higher quality Retail branding Educated staff Wider assortment	Macy's, JC Penney
	Lifestyle Specialty Stores	Brand familiarity High quality Friendly staff Customer service High price Unique product Retail branding	GAP, Banana Republic
High end	Upscale Department Stores	Designer brands Customer service Sales assistants Metropolitan area Premium price Exclusive	Neiman Marcus, Nordstrom, Saks

Source: own creation

Distribution Channels for Sportswear in US

The distribution in US for sportswear is precise and focused, mainly containing of sporting goods, mall, specialty and moderate department stores (appendix 3), so it could be said that it is retail driven (appendix 2). There are big possibilities in the mall and sporting goods type even for such a trendy brand as aSMC, just such a door should be more premium and upscale

oriented. According to Jonathan Gable, malls are very popular destination for the American consumer as you can find everything in one place, and even some department stores has their anchor there.

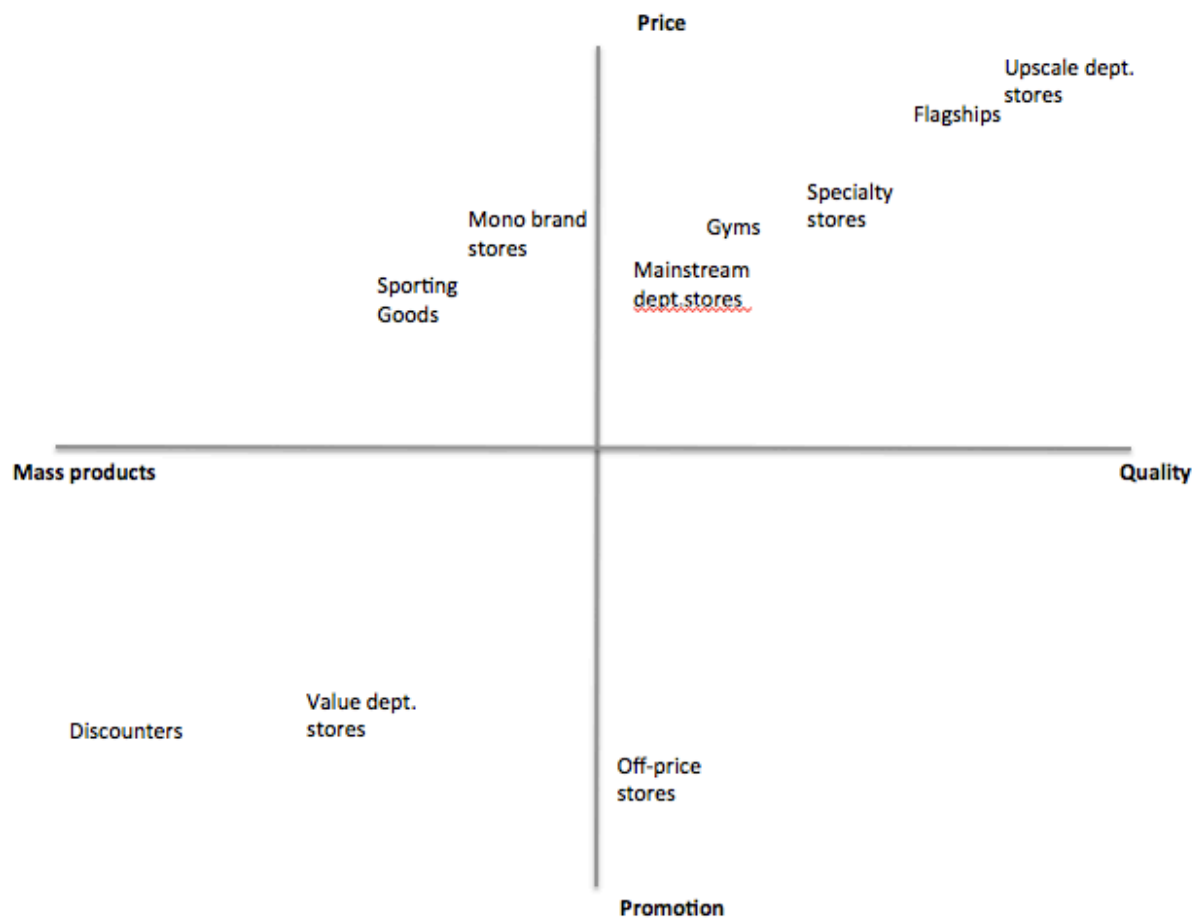
It is estimated that online apparel and footwear sales will reach 40 billion USD in 2013 and 45 billion USD in 2014 (Moody's Investors Service, 2013). The last few years even in the sportswear market there is seen a trend that a lot of bigger accounts transfer to the online channel, and it is expected to continue in the future (appendix 2, appendix 4, appendix 5). The online retailers are becoming the biggest buyers for the sportswear brands, and even small boutiques start their online websites in order to reach new customers and grow the business. According to Mr. Gable, show rooming is a big trend among US consumers as they go to the department stores or boutiques to see and try the product, but then they order it online, because it is easy to find the necessary size there and usually it is cheaper. That is one of the factors why the physical store sales are decreasing year after year (Moody's Investors Service, 2013).

Ms. Casey has separated three different channel types, which are the most popular places to go shopping for the fashionable sportswear in the US: first, online stores, second, sports performance stores, and, third, specialty boutiques (appendix 4). Different from Ms. Casey, Mr. Gable pointed out not a specialty boutique, but the department store as the third option for going shopping for fashion sportswear. A perfect place of the sports performance channel type would be, i. e., gym franchises, which have retail shops in all of their gyms. It is an easy way to reach the targeted consumer who is going to this gym to do some sports. According to Ms. Casey, a specialty boutique is seen as a good place for this kind of premium sports apparel because the customer could find everything in one place: maybe she is coming there to buy a dress for the Saturday night, but she also finds a sportswear piece which is merchandised in the overall boutique range.

According to Ms. Casey, Ms. Kurz and Mr. Gable, one of the main places to go to buy sportswear is the sports performance stores as mono brand stores which fall under own retail channel. It is a place where the brand identity and the message could be expressed the best because the brand has all the control of the store and of the collection ranges. The environment is very sporty, dominating dark colors, which might be not the most feminine

atmosphere for women shopper. Usually own retail stores could be found in the central areas of the cities as a stand-alone store or in the shopping malls. The sales staff and customer service plays an important role in these stores as they are employed by the brand and they are the ones who know the products the best. The assortment of the products is wide and the prices range from the entry price to the premium price.

Figure 9. Positioning map for sports distribution channel types in US



Source: own creation

To sum it up, looking at this detailed distribution overview in the US it is difficult to distinguish the general apparel distribution channel formats from sportswear, because sportswear falls under the apparel segment. Especially, when a premium fashion sportswear is analyzed, the distribution also gets expanded to a fashion type of distribution, which is specialty stores, mid-end department stores and high-end department stores.

5. 1. 3. PESTLE Framework

Political Aspects

The political factors have no influence on the company's distribution strategy and it is believed that it will not give any vital value to the research and the following recommendations, therefore the political factors will not be discussed in detail in this report. It is important to point out that different states of the country has different law basis, thus the trend of selling in some states might be more favorable. These points will be discussed in more detail under the legal factors.

Economic Aspects

The economic recession in the US officially ended in 2009, but the growth potential was low until recently. Since the financial crisis started, the country still endures the high unemployment levels, weak housing market, and high debt of private and public sectors (Euromonitor International, April 2013). It is said, that the economic landscape of the US got stabilized. Because of the European Union political and fiscal measures and programmes in 2012 the financial markets were soothed. In 2012, temporary payroll tax and income tax cuts expired with the new American Taxpayer Relief Act of 2012 (ARTA), and with that to follow, American consumers will experience the effects of higher tax rates and lower levels of disposable income. Because of this consumers will get lower incomes, and, therefore, they will spend less. Other economic factors such as weak employment market for young Americans in their peak wage growth years will influence negatively their lifetime earnings. In general, at the end of 2012 the unemployment rate remained close to 8%, real GDP increased 2%, and GDP growth is predicted to stay slow with 2 proc. growth forecasted in 2013.

Socio-Cultural Aspects

American culture is considered as a Western culture, very much influenced by British culture with trends from other parts of Europe, the Native American people, African Americans and, to a lesser extent, Asian Americans and other young groups of immigrants. There exist many unique subcultures as well.

In US there is seen a strong trend of the gathered population into more densely populated areas as the population of the US grows. According to the 2010 US Census Bureau, 71 proc. of the total population lived in fewer than 500 urbanised areas of 50,000 or more people, and the number in 2000 was 68 proc., thus, the total urban population grew to 81 proc. (Euromonitor International, April 2013). Moreover, urbanisation is predicted to continue in the US. With the population density growing to 36 persons per square kilometre by 2017, much of that growth will be concentrated in major metropolitan areas on the West Coast, Sunbelt states, and Northeast, such as Los Angeles, Phoenix and New York City. Therefore, US is seen as highly urbanized country with a lot of potential for the aSMC brand. But in such a rapid urbanization process the cities are facing issues with the capacity and transportation infrastructure, hence, the citizens started looking for alternatives in order to meet the needs of business and consumers.

The sports culture is very strong in US with such popular sports as baseball, football and basketball, and volleyball, basketball, track/cross country is spread among girls. The extent in America to which sports are associated with secondary and university or college education is unique among nations as it is highly encouraged among young students, offering such benefits as lower academic requirements, tuition free education, etc.

Technological Aspects

Nowadays, the technological environment is a crucial factor for any company as it covers everything from operations, retail, media, production and etc. As the purpose of this research is to optimize the distribution strategy in the US market for aSMC, the technological aspect is seen as vital, having in mind the changing setting of the distribution channels. Today the internet among consumers is used not just for research and other before shopping activities, but it is seen as a fast-growing retail channel in itself (Euromonitor International, April 2013). It was estimated that in 2012, 314 million personal computers were in use, and the internet was used by 79 proc. of the population, up from 75 proc. in 2007. Consumers have plenty of options to connect to the internet for shopping such as desktops, laptops, smartphones and tablets. Retailers continuously invest in technology that provide improved shopping experiences across points of contact, whether the desktop retail website, the mobile site, mobile apps, or in-store.

Environmental Aspects

Environment protection is an important topic in the US, and it has been on the national agenda since 1970. Year by year, the country is going towards saving the environment, therefore many federal and state agencies are included, and many legislation is created that restricts and draws the lines for goods manufacturing companies. adidas is a manufacturing company, thus it always needs to be aligned with the legislation and laws, and be environment-friendly company, even though, adidas is not producing its goods in US; the goods are just imported from other countries. However, the research topic is about the distribution strategy optimization, so it does not include sustainability topics directly, but it definitely influences the customer's choice to buy the product. Talking about the aSMC brand, it is a very sustainable and environment-friendly brand, thus this factor is of high importance to the company and the brand. This fact is a very attractive aspect to the retailers and end-consumers.

Legal Aspects

US is the oldest existing federation in the world. It is a federal republic with autonomous state and local governments; a constitutional republic and representative democracy. In the American federalist system, citizens are usually subject to three levels of government: federal, state and local.

Sales tax is contributed in most of the states of the retail price at the moment you sell for many goods and some services. Sales tax is different in different locations and it varies from 0 proc. to 16 proc. Usually the sales tax is collected at the time of sale, or it might be deducted as use tax by purchasers of taxable items who did not pay sales tax.

In the US there are tariffs or customs duties for the imported goods from many other countries. The tariff of 0-20 proc. must be paid before the goods can enter the country legally, based on the particular goods and country of origin.

Most internet and catalogue retailers do not have to charge state and local taxes in states where they do not have a physical retail place. This regulation is outdated and it might be a reason why the internet retailers have a pricing advantage over conventional retailers. New state laws look into broadening retailing definitions that would force internet retailers to start

collecting sales tax. All the states has their own unique tax code, and some of them do not have sales taxes, so any business running interstate transactions would have to apply or amend sales tax collection systems and procedures to accommodate the new tax. This would position a substantial worry for many small and medium businesses, therefore, businesses with yearly sales under 500,000 US dollars would be discharged (Euromonitor International, April 2013). The state of California already began to collect sales taxes on online sales in 2012; New Jersey and Virginia will begin to collect it in 2013, with Indiana and Nevada to follow in 2014. In major eCommerce states such as California and Texas, retailers' revenues were not affected substantially by the additional sales tax.

Having an overview of the factors, which influence the retail business in US, some of the factors have higher impact, some of them are not relevant in this case. Legal aspects play an important role with the enrolling sales tax for online selling which might change the distribution direction in the future. Socio-cultural aspects are important as well with the increasing urbanization process in US and high sports culture. With such a fast pace of technologies and innovations the distribution structure is in a point of constant change. An increased attention to the environment and sustainability might change the future outlook to current retailers and their offers.

5. 1. 4. Porter's Five Forces

The analysis of Porter's Five Forces is fundamental in understanding the features of the market and how the competitive level is constructed. If the company is able to find out where is the niche place to focus that no one does in the market or still there is a gap, it might be a good place to start the business. It is significant to position the firm from the others in the industry. Therefore, the following analysis is focused on the five forces of the model, which will help to draw the competitive structure of the industry.

Bargaining Power of Suppliers

Suppliers could be considered to be powerful in adjusting the prices, service and delivery. If a company is relied on a few powerful suppliers it can affect overall company's performance and abilities. The suppliers are separated in two different groups: the suppliers of raw materials for the manufacturing companies as adidas, and the suppliers of finished products as input to the company (Murray & O' Driscoll, 1996: 143).

Manufacturing companies always have to take decisions what to make internally and what to purchase from external suppliers. More often it is seen now that buying companies prefer buying than making (Hollensen & Opresnik, 2010: 68), therefore also US is mainly considered as a country, which consumes the products but not produces them. Definitely, there are plenty of brands, which are called American brands, nonetheless, nowadays manufacturing usually is outsourced to Asia because of lower labor and production costs (Euromonitor International, 2013). In this case, it is difficult to measure the real power of suppliers, which are providing the inputs to the companies such as adidas, because they are not operating within the same geographical boundaries, and it is very easy to use suppliers from all around the world due to low shipping costs (PEC Research, 2012). However, there is a market of suppliers of raw materials and other inputs that could be evaluated within the market boundaries. If the density of suppliers is high they are competing with one another, and this is a way to increase the efficiency of suppliers in the market considering the service and the price. If a firm can easily switch between different input suppliers in the market then the supplier power is considered as low; also the relative bargaining power of each party is the issue in measuring the power. Having in mind that there are different product categories in the brand range it is possible to assume that it is dependent on the category. For example, a simple raw material as cotton or polyester supplier could be exchanged easily, but the footwear sole consisting of the special technology is seen as a specific input, therefore, the supplier is not easily changeable. Here it could be said that there are different levels of the supplier power in the market dependent on the specialty they are providing. Nevertheless, buyers in the industry also make sure that not more than 10 proc. of their manufacturing would come from one supplier in order to reduce their bargaining power and be less dependent on them (PEC Research, 2012).

It is said that usually small companies supply such inputs as raw materials, semi-finished products and components to the big manufacturing companies, thus they do not have high bargaining power as a supplier (Grant, 2010). Following this, the US market mainly holds the large companies in sporting goods industry, and the small and medium-sized companies do not have a large market share (Euromonitor International, August 2013). Assuming Grant's (2010) argument, it could be said that the suppliers have low bargaining power due to the fact that mainly large companies characterize the market and hold the bargaining power in their hands.

Threat of Substitutes

In terms of substitutes, it is very difficult to find a truly threatening substitute for the aSMC sportswear, as it is very differentiated collection. Nevertheless, in this part I need to consider the substitutes for the sportswear items in general, so few of them to mention would be as following.

Firstly, a person could choose to work out in casual and daily clothing. For example, in China it is a very big issue, because the sportswear industry is not well developed yet and even though the Chinese people are doing sports more often, it is completely normal and usual to workout in jeans, casual sweater and your daily boots. Ofcourse, this shows that the customer needs to be educated, and that the market has a lot of potential to grow. Nevertheless, the US market is seen as very sporty with deep sports culture, hence, this type of substitute does not has high impact. Secondly, an option to choose a cheaper, not sports specific piece. Today almost every brand as H&M, Mango, Victoria's Secret, etc. has an active wear line in their collections. The items do not have any specific technologies, but they are cheaper and feasible for sports activities. Thirdly, due to the economic down times the customer may decide to wear the same piece for many seasons, and not to buy a new one for a long time. Furthermore, a second-hand item might be defined as a substitute, yet the customer targeted by aSMC is not really going to shop in the second-hand shops.

It is important to mention another type of substitution that can be a threat to the main distribution mode of the sportswear sales, like retail. A very large increase is seen in the growing popularity of the online channel where you can find everything you are looking for in one place. More to mention, auctions as the selling on eBay are also a popular way to sell new and used items.

Nevertheless, there were few of the threats of substitutes mentioned, but the overall power of this competitive force is not remarkable, as in the most common case the customers are looking for a performance item with specific technologies, but stylish and fashionable as they are keen on wearing Stella McCartney items.

Threat of New Entrants

The threat of new entrants is an important factor to have a look into in order to know how competitive and risky the market and industry are. As the entry barriers are lower as much more the market is attractive to new comers. Financial crisis in the whole world affected the US market as well, therefore the difficulties in the sportswear industry are also visible, and this fact should be of importance for the new entrants to consider before entering the business.

The apparel industry is considered to be highly competitive and has relatively low entry barriers (PEC Research, 2012). The capital investment and the costs to enter this business are considered relatively low (Parrish, Cassill & Oxenham, 2004), especially to the small specialty stores like fashion boutiques. Though, the department stores and retail chains might be more difficult as they usually require to provide marketing efforts which in the end might be very costly. Moreover, the marketing support and the strong known brand have higher possibilities to enter the market as the brand is bringing its loyal customers and traffic with it. The competition is fierce among sportswear and apparel brands, but comparably there is an easy access to the distribution channels as one just needs the connection with the retailer. Ofcourse, it depends on which distribution channels the brand wants to enter, because such popular stores as Neiman Marcus or Nordstrom are very selective. The investments might be needed in the creation and production process of a good product and collection, that the brand would be able to present itself properly and attract the retailers to buy its products. Few points to mention, why the market is attractive for new entrants, is that there are just few entry barriers, the brand loyalty is rather moderate, the buyers incur low switching costs while changing the suppliers, and a product differentiation is low (Euromonitor International, August 2013).

According to Parrish, Cassill and Oxenham (2004), the US market is very attractive and highly desirable for new entrants, and especially in the textile and apparel industry. The country has low barriers to trade such as tariffs and quotas, and consumers always ask for lower prices. This opens more possibilities for new comers as the companies in the US are not able to compete with the foreign companies on the price level.

In conclusion, there are low entry barriers to the market and the market is attractive to the new comers, thus, there is a big threat of new entrants in the US market.

Bargaining Power of Buyers

The bargaining power of buyers might be very strong as the powerful buyers might cause the price reduction, require for better quality and service (Murray & O'Driscoll, 1996: 143). This factor of the Porter's Five Forces is analyzed in two different types: the small retailers as the specialty boutiques or gyms, and the big retailers such as department stores and online stores. The buyer power in the US market is dependent on the size of the retailer; the bigger the retailer the higher power it has. Retailers carefully select their suppliers, usually basing their decisions of purchase on the seasonal sell-through numbers. If the sales are not high in the season or if the concept does not fit in their overall store offer, the retailer considers stopping the distribution or it is asking for better conditions and service. The department stores such as Neiman Marcus and Barney's have large purchasing power, thus to have such retailers as the buyers is very beneficial and profitable for the brand.

If there is a large number of brands in the market it increases the retailer's buying power, because the costs are low for switching to another supplier. Following this, it can be considered that the buyer loyalty is low within the sportswear market. Differentiated brands have stronger possibilities to keep the customer because they are the brands with competitive advantage compared with other ones, and that is what the retailer often looks for when making its purchase. Mostly this business is based on the uniqueness, newness and best offers of fair price and good quality.

There is also inequality about the small and big brands and the effect of the big buyer, as the small buyers quite often do not have any other alternative and they have to agree with the big buyers suggested conditions.

To sum it up, it can be said that the bargaining power of buyers are moderate. The main buyers are small specialty boutiques, which do not have high buying power, and the department stores with large buying volumes, which carry also a high bargaining power.

Industry Rivalry

There are few reasons why it is important to analyze the competitors, and their strengths and weaknesses. It is always important to know which direction the competition is going in order to be prepared for their moves or even to outmaneuver them and try to be one step before (Murray & O'Driscoll, 1996: 131). Another thing to mention is that the companies in the market are highly dependent on one another; it means one's moves always have an effect on another company.

Apparel retailers face high competition in the US market because of the wide variety of retail formats available for apparel (Carpenter & Moore, 2010), and, according to Ms. Schefter, because of the number of players in the market. The market is very large and diverse, and the economy of the country is strong, therefore many small and big, local and international companies are looking for its market share in US. The sports market is also developed and wide starting from the kid in school, going to the college with the college sports, and then becoming a unique sports enthusiast in its adult age when she already earns its own money and do sports to stay fit and healthy, and wish to look good in her sports moment as well. That is the customer aSMC is targeting, therefore the competition is quite specific and narrowed down from the broad level. There are many sports brands in the market such as Puma, Nike, Under Armour, Asics and much more to mention, but they are more sports performance driven for such team sports as football, cricket, baseball, etc. Another type of competition comes from the retail chains such as H&M and Forever 21, which also carry the active wear line and offer trendy outfits for sports, but it is not for sports performance, the technologies and innovations are not implemented in the products, and they are targeting another segment of the customer with lower income.

In aSMC case, I need to look into more premium, quality and outstanding brands, which offer a different, stylish and unique product in the market. First to mention, and probably one of the most important, is the Lulu Lemon Athletica brand. They are targeting a similar customer with higher income, a little bit older one from age of 25. Lulu Lemon focus is on the yoga line, they offer products in high quality materials, very strong on the tights and basics, and currently they try to expand their range to more wider offer for running and studio training as well (<http://shop.lululemon.com/home.jsp>). They are not that present in the department stores or malls, but they have a lot of their own showrooms in such cities as New York, Los

Angeles, Miami, San Francisco, Las Vegas and many other in popular and premium city locations. Lulu Lemon also operates through their online store, which has a pleasant shopping experience. The brand is aggressively expanding to other countries such as Canada, Germany, China, Netherlands, etc. Another strong brand is a Lucas Hugh London brand, which is produced in Europe. It could be called out as one of the biggest competitors for aSMC, because the collection also focuses on the fashion and style but not forgetting the highest technologies in the garments. The brand has gained its market share among wealthy, trendy customers in the US market, and it is considered as a premium sportswear brand. The brand is not widely spread in the market, but it also has its own online store, which looks very high-end with nice images, interesting products, and pleasant shopping experience. One of the most successful ranges of the brand is created based on the metropolitan cities inspiration as the products have the fragments of the cities on it (<http://www.lucashugh.com/>). The products of the line could not be found in the physical stores, nevertheless, the products are sold in such premium online retailers as Net-a-Porter, Polyvore, Avenue 32, Style Runner and other (<http://www.net-a-porter.com/>, <http://www.polyvore.com/>, <http://www.avenue32.com/>, <http://www.stylerunner.com/>). In all of these stores the brand is showcased in a luxury manner and excites the consumer with its imagery. Another brand Sweaty Betty is not widely spread in physical locations in US; it has just two its own boutiques in Connecticut and New York. Nevertheless, it is widely spread in Great Britain with its stand-alone stores. The brand focuses mainly on the yoga collection, but has an offer for other sports as well such as running, skiing, and swimming. It is more studio training oriented brand, which is not that differentiated with its products and not widely available (<http://www.sweatybetty.com/>).

Even though the competition in US market is fierce, the market is very specific for such a product. Nevertheless, the aSMC brand is the only brand in the market, which is created in collaboration with a world known fashion designer, and this fact basically is driving the purchase of the product. The retailers likewise the end-customers are very excited about the sportswear collection of Stella McCartney (appendix 4), as she is popular and extensively known in this market. However, such a trend might lead in the more intense competition in the future, as known fashion designers are looking into expanding their brands, either in collaboration with the sportswear brand or creating their own collections.

5. 2. Internal Analysis

This part of the thesis is starting with the analysis of the Marketing Mix, which is used in the US market and has a specific focus on this market, and then the analysis is followed by the internal distribution strategy of aSMC, which is used globally and presented in a more broad way. This part is needed that in the end it would be seen if there is a fit between the external and the internal factors in order to suggest the channel mix it should use.

5. 2. 1. The Marketing Mix

Product

First, and the most important aspect of the aSMC brand is the collaboration with the world known fashion designer Stella McCartney who is very famous in US. This makes the brand and the product to be different in the market: there are not that many examples where the sporting goods brand and high-end fashion designer starts working together in creating stylish but performance oriented products for sports. And as Ms. Gross says “it stands for the luxury and quality in using high quality materials”. The products are created by following the latest trends of the fashion world, and usually it is so that the sportswear market picks up the trends from the New York or Paris fashion world one season later having in mind the pattern, print, colors, styles and etc. Hence, for the aSMC brand is even more important to create an outstanding, different, fashionable, and distinct product that no one else in the market has, and, ofcourse, that the products would stand for the Stella McCartney name. Therefore, it is nothing surprising to see an oversized running jacket, a yoga sweatshirt with bat wings or studs, or a winter west coat with faux fur details. Nevertheless, the style plays an important role in the collection, performance aspect is on the emphasis of the products. The products are all fully functional as in the main adidas sports performance range with such technologies as ClimaChill, ClimaWarm, Boost, etc.

As in the entire fashion world there are two seasons for the collections, spring/summer and fall/winter. Spring/Summer is the more important season for the US market because of the concentration of the big cities on the west coast as Los Angeles, San Francisco and other. Usually the US market is picking up all the concepts of the collection, but the main categories selling in US are running and yoga (appendix 4). Usually the full range has around 300 items, and the number taken by the US market usually is 120-140 (appendix 8-table 20).

Stella McCartney is very much into following the trend of sustainability and ecology, being herself a vegan, thus you won't find any leather or fur details in her products. For saving the environment one season before the collection named 'Low Waste' was introduced, which states that just five proc. of materials have been wasted in producing these items, and these wasted materials are recycled afterwards, when in comparison, in the fashion world usually 70 proc. is wasted. Another technology used for this purpose is the 'Dry dye' where the materials are colored in a specific method that is not harmful for the environment.

For the brand it is very important to offer different, urban, luxurious and high-quality products so the accounts would buy as more products as possible to be able to fully present the concept of the aSMC, and, of course, to sell more and reach higher profits.

Price

As discussed before the aSMC brand is positioned as a premium and high-end sportswear brand, hence the prices of the products are quite high compared to the main line of adidas sports performance products and other sportswear brands in the market, but still lower than the fashion pieces (appendix 1).

The company always goes to the markets with the recommended retail price, which is the same to every market, but each market adjusts the price to its specific needs. According to Ms. Gross, in the US market there will not be anyone who would pay 120 USD for a tennis skirt, but the aSMC recommends 140 USD. Nonetheless, some of the markets even increase the recommended retail price such as Russia, Japan or China. aSMC wholesale prices in US market range from 87-261 USD for a jacket, 33-76 USD for a bottom part, 33-41 USD for a top part, 44-120 USD for a cover-up, 48-109 USD for a footwear, and 9-25 USD for small accessories and 48-87 for sports bags. The prices depend on the product features and technologies used, but the price range for every product category is quite wide. As every market can adjust the prices slightly to their specific market needs, the US prices are mainly reduced by 10-20 proc. from the recommended global price (internal documents). The order minimum is 50 items for a footwear pair, and 30 items for the apparel. In order to be able to sell the products the brand needs to have reasonable prices, but since the brand is using higher quality materials the factual original base price is also higher than in the main line.

Place

aSMC collection is sold to the retailers in the only way by organizing the sell-in meetings in the market. As the US market is separated into two teams, the New York fashion team and the Portland team, they both are using different trade rooms for the meetings and different retailers are invited. A responsible person of the market reaches out for different retailers and offers them to come and see the collection and the presentation of the season. In very rare cases it happens that the retailer calls himself that he would like to see the products (appendix 4). A specific place is prepared for the meeting where different retailers come to see the presentation of the season and the collection. As Ms. Whalen has mentioned from this season they have a dedicated area for the aSMC sell-in meetings where the products could stay all year round. It is very beneficial and convenient for the retailers and for the merchandisers, because if at any point of the time anyone wants to have a look at the collection they are invited into that room (appendix 4). Professional sales representatives and product merchandisers are leading the meetings, as they are able to provide the relevant information for making the order. Every season a Global Brand Conference is taking place in the headquarters of the company in Germany, where the merchandisers get to know the collection, the concept behind and the new technologies and trends implemented in the new collection. After this event they are ranging the collection by picking up the items most suitable for the market specific needs, and then they are presenting this ranged collection to the retailers.

In the own retail and franchise stores, which are monobrand stores, the buying process is done in a different way. The own retail team is using retail space management tools in order to find out which concept and which items are selling the best and are delivering the highest margins. Said it in another words, if the products do not sell well, the brand will have just little space on the floor in the own retail store. With the aSMC products it is always very difficult to fulfill since the concept of the brand do not want to be commercial and sold to every each customer who enters the store. The brand is targeting a specific consumer, and since it is premium and on the higher price point it has to be exclusive. Therefore, usually the aSMC brand does not have a large space area in the own retail stores as the range is not created as the commercial driver.

For the own retail online stores the selling process starts in the global office where the eCommerce team selects the products by analyzing the previous season data, using merchandising tools and following the upcoming seasonal trends. The selected products go to the online stores in all the markets globally.

Promotion

Promotion usually is used to excite and inspire the merchandisers and sales representatives in the market that they would be highly briefed and motivated during their sell in meetings with the accounts (Reid, 2007). There are two parts of promotional mix existing – personal selling and non-personal selling. Both of these two are used by aSMC. The brand is using several important tools to communicate with the retailers during the personal selling process, which are divided into two groups: the ones coming from the global office called sell-in tools, and the ones done locally by the market. The main sell-in tools used by the brand are videos, styling booklet and sell-in catalogue (appendix 1). That is the material, which is used to show to the account during the selling process. Videos are described as the most appropriate way of showcasing the product, because you can see the model wearing it, how she is moving, and you can deliver a proper look and feel (appendix 1). Styling booklet is a booklet with the model photography of the seasonal communication outfits shot in the studio. Sell-in catalogue is more as a working merchandising tool where all the collection is listed by categories containing relevant information about the product and highlight stories of the collection. Merchandisers distribute seasonal giveaways for the retailers as the communication tool and the point of service and attention. The attention to the retailer is considered as a significant point for selling as they appreciate the special service and attention, and it attempts them to make a purchase (appendix 4). As Ms. Gross pointed out another tool very useful for selling is the quotes from Stella McCartney, but it is always very difficult to get. Ms. Kurz mentions that the quotes from known athletes are also very valuable selling tool. Any kind of investment into the brand, such as Above the Line campaigns, PR events, product launches, helps to sell the product as the retailers feel more comfortable to buy higher quantities as well (appendix 2). Another group of the tools used for selling come from the US market itself; it is technology sheets and story telling material (appendix 3). The other respondent Ms. Whalen also mentioned that during their sell-in meetings they always have a model around in case there are questions how loose is this shirt or how long are the

tights. But she emphasized that the styling booklet with the Stella's favorite outfits is the most important and beneficial tool to convince retailer to buy, and also it helps the merchandisers to present the highlights of the upcoming season. Another part considered as a promotional mix is a non-personal selling. Even though usually advertising, public relations and other sales promotions in retail are targeted toward the particular end-customer, nevertheless, it also has an affect on the retailers' decision to purchase the product. aSMC brand is very much driven by public relations and publicity where the information about market offering, the company and, possibly, the channel members used are provided.

It is considered that promotion is very difficult to estimate, such things as time spent, relationship building, coffee with a sweet desert table does not have a price and precise measurable effect. It very much depends on how much the mind and heart of the sales representative is convinced with the product range, and, on the other side, how much of the retailer's share of mind the salesman and the product won. The subjective side of the measurement always exists in the estimation (Reid, 2007).

In conclusion, aSMC offers premium sportswear products in high quality and style, and differentiates itself on the collaboration with the fashion designer. The prices are on a more premium level because of the positioning of the brand and the customers it targets. The main place used for selling the products is the trade shows, which are called sell-in meetings. Promotion strategy is divided into two parts where one is driven from the global office, and the other one from the market itself.

5. 2. 2. Distribution Strategy

After the presentation of the marketing mix of aSMC in the US market, this chapter will continue to analyze the distribution strategy of the brand in general. These policies analyzed below are adopted globally in every market, nevertheless, the distribution strategy model is adjusted to this specific case and not all of the parts will be studied thoroughly. For example, distribution logistics are excluded from this research because this part does not help to answer the research questions and I am not going deeper into the physical distribution of the product.

Product Policies

Some of the product characteristics are the factors, which have an influence on the distribution goals (Pelton et al., 1997: 71). First product characteristic to mention is the unit value. As the aSMC products have a high-value they are sold directly through a company sales force to ensure that a higher margin is attained. The second relevant characteristic is complexity. Complex products usually are more difficult to sell, therefore the competent salespeople are used who has enough of knowledge about the technical features and innovations of the products, and they are able to offer service after the sale. This to be said, complex products which have specific features and attributes like aSMC products are distributed through direct channels by sales representatives and merchandisers. Another factor, which is very important to take into consideration, is that the sales forces should be familiar with the market and the market segments they are serving. It is not enough to be familiar with the product and its specifics, but the market and consumer characteristics are needed to know in order to be able to apply specific selling and presentation techniques. As Ms. Whalen has mentioned during the interview, a merchandiser before contacting someone has always to do its homework to have relevant information about the market, competitors, retailer, etc.

Pricing Strategy

adidas is a global brand that operates in the whole world, therefore it is very significant to ensure that the pricing is aligned in all the distribution channels in the particular market. aSMC as adidas in general, is using an algorithmic pricing method, when the brand tries to ensure a proper profit of the sold unit. As aSMC is a premium brand it has a higher price point than the main line of adidas approximately by 20 proc. (internal documents). The pricing begins with the factual origin base price, which is estimated in the process of creating the product. The brand always tries to ensure to have a very good go-in margin of 65 proc., which is higher than the main line of adidas, which has 55 proc. of margin (appendix 1). According to this and the marketing trends, the recommended retail price is created. The method used would be cost-plus pricing, where the fixed mark-up is added to the cost to establish the price. Nevertheless, the pricing used in the company takes into account market factors such as consumer preferences, brand loyalty and the competition. This price is used globally in every market, but it can be adjusted by each of them to its specific needs and

tendencies. In any case, the wholesale price is calculated by dividing the recommended retail price by 2,3 for the fashion accounts, and by 2 to all other accounts.

Communications Strategy

Communications are the two-way interaction between sender and recipient, which in this thesis case is the counterparts of the aSMC brand and the retailer (Hooley et al., 2012: 309). It is very significant to ensure that the message is clear and reaches the targeted consumer. In adidas the communication process is very complex and involves many different functions and departments. It is a complex setting of public relations, sports marketing, retail marketing, digital marketing, brand marketing and GTM teams. All of these are interrelated and always aligned together to bring the brand and seasonal message to the retailer and end-customer. The market itself is the closest unit for the retailer and the merchandisers provide the direct communication to them. They arrange sell-in meetings, updating calls, presentations of the seasonal collections, distribution of giveaways and provide special attention and service to the retailer. GTM team usually do not have any direct interaction with the retailer, but they are the ones building and providing the tools for the markets such as sell-in catalogues, styling booklet, giveaways, etc. Therefore, the market and the global GTM person has to work closely together in providing the feedback what it is still missing to improve the sell-in process. Other implementations that come from the global GTM team such as shop-in-shop, key items, Le Range, Never Out of Stock, are the tools used to communicate with the retailer created globally to use in every market, and as the tools to surge the purchase decision. Le Range is the package of items and outfits formed every season, and it has to be mandatorily taken by the market in order to globally present the brand and the concept. It is a package of around 50 items, and depending on the market needs it can increase the number of items they wish to have in their package. Other departments as sports marketing, retail marketing, public relations and brand marketing are basically used for the communication with the end-consumer, but, nevertheless, it also reaches and affects the retailer about his decision to purchase. All the adds on television, internet, sponsorships with famous athletes as Maria Kirilenko, other retailers' store areas, media are the stimulus seen to the external retailer and may influence their decision to buy. To sum up all mentioned, the communications tools used by the brand are advertising, public relations, personal selling and sponsorship.

Channel Length

There are many different ways how the company can design their distribution channels to provide the products to the consumers. Each part of the marketing intermediaries that contributes in bringing the product closer to the final buyer is called a channel level (Bucklin, 1971). The number of the intermediary levels indicates the length of the channel (Hollensen & Opresnik, 2010: 236). In every channel, does not matter what product the company is selling, there will be at least two parts – the producer and the final customer (Kotler & Keller, 2012: 442). As the thesis is focused on the B2B level, in adidas for the aSMC brand just zero-level channel is used, which is also called a direct marketing channel. It contains a producer adidas directly selling to the customer, which in this case is a retailer, so it means no intermediary is used to increase the selling process. The sales force is used to sell directly to the retailer such as merchandisers and sales representatives in each of the market. Selling in this way the company is saving the costs of the distributors profit margin. The internal sales force has also to be paid, nonetheless, the incurred costs are lower.

Distribution Density

The next step in designing the distribution channel is to determine how many of intermediaries should be used at each channel level, which is a crucial step in determining the market coverage in the specific geographic area or the number of retail outlets (Stern & El-Ansary, 1992: 227, Hollensen & Opresnik, 2010: 241). In many literature three options are pointed out: intensive, exclusive and selective distribution (Pelton et al., 1997:63, Hollensen & Opresnik, 2010: 241, Kotler & Keller, 2012: 446, Stern & El-Ansary, 1992: 229). aSMC is a premium brand which wants to stay on a high level and on the controllable manner. Thus, the distribution structure used by the brand is the selective distribution, which takes place between the two extremes - exclusive and intensive. In this case, intermediaries used are selected, when more than one but fewer than all of the intermediaries who are willing to sell the products are used. It is very vital for the brand to have the control over the retailer's offered quality of service, in store communication and point of sale materials, and pricing policies, and as well to be able to maintain good relationships in order to gain better marketing efforts (Pelton et al., 1997: 65). The retailers who want to carry the line of aSMC need to fill the application for the global team to be confirmed, hence, in this way the global team ensures that the products go just into the high level stores which meet all the global

requirements (appendix 1, appendix 3). It is significant to ensure that the targeted consumer is shopping in these places and the retailer reveals the positioning strategy of the brand, because by entering the wrong distribution channels the brand image might be damaged in the retailers and consumers perspective. Few of the selection points to mention would be the targeted consumer, profiles of competitors, location, investments in the merchandising space, etc. (appendix 4).

5. 2. 3. Current Distribution Overview of aSMC

Distribution strategy and distribution channels are a crucial topic for the aSMC brand, because it is a premium sportswear collection with a different target consumer in comparison with other sports brands or the general adidas collection. Looking in a global picture, the distribution of aSMC is dominated by retail channel: 51 proc. is sold to retailers, 14 proc. to franchise, and 35 proc. in the own retail stores (table 8). Included in this entire number, 43 doors are selling online as well, or they are pure eCommerce retailers. Mainly the collection is sold in the sporting goods stores, but it is seen an increasing tendency to sell the range in the gyms or resorts as it is the easiest way to reach the targeted consumer directly in the place where she is going to do some sports (appendix 4). Usually it is yoga or pilates studios, or big spa resorts in a big complex. Total number of the doors selling the range is 809 at the moment, and it increased by 5 proc. compared to the year 2012 (appendix 8-table 20).

Analyzing the distribution spread in the US, the picture is a little bit different: mainly the collection is sold in the retail channel led by fashion specialty boutiques (appendix 2). Still it is not the most common place to look for the sportswear apparel, but there is seen a tendency that the aSMC targeted consumer is not commonly shopping in the sporting goods stores. As Casey Whalen from the US Fashion team said, it is very convenient to find some sports apparel next to the nice suit or dress in the store, which is also on the same high quality level. Also the trend is going to the direction that sports apparel is worn daily at home, going outside for a walk or going for grocery shopping, especially when the aSMC products are perfectly designed for that with its trendy and fashionable design. According to Ms. Schefter Ms. Kurz and Ms. Moje, the best working channels are own retail and eCommerce, and especially now there is seen a lot of potential in the eCommerce channel. At the moment aSMC collection is present in five own retail sport performance stores with representation across all of the country, and the New York store has the largest and most premium collection

(appendix 5). eCommerce is seen as the most convenient shopping place, as the products are always merchandised together, there are detailed descriptions about the product and its technologies, so there is no need to worry that the shop assistant would remember every detail and information about the products (appendix 4).

Having a look into the retail side, the channel type of sporting goods is showing the best results at the moment from the sports performance perspective, because in this type of distribution the assortment of the aSMC collection is the widest and the best chosen (appendix 3). On the other hand, from the fashion team perspective, the online channel is performing the best (appendix 4). Some examples of the biggest online accounts would be Rivalve Clothing, ShopBob, Net-a-Porter, Zappos.

aSMC is sold in more than 800 stores worldwide after a careful selection of the doors the brand could enter, having United States, China, Japan, North, Russia and Korea as the biggest and most important markets (appendix 8-table 20). The US is seen as a relevant but very competitive market with having such big metropolitan cities as New York, Chicago, Los Angeles and other, where the target customer usually lives. Out of 139 stores, which sell aSMC line in the US in the current season in 2013, 130 stores is a retail business, which makes it the most used distribution channel for selling aSMC line in the US and globally (table 8). Nevertheless, by the net sales the retail channel is the lowest performing channel in 2012, where the biggest one is own retail and then e-commerce (table 10). It is seen a decline in all of the channels in the year 2012, but the highest decrease by 34 proc. occurs in the retail channel, mainly because of the distribution reduction in Neiman Marcus, Nordstrom and Harrods, and the increasing trend to shop online. The retail channel is split in three different types of distribution: 52 proc. of business is done in fashion/boutique, 27 proc. in sport specialist, and 21 proc. in sporting goods stores (table 9). Having in mind that the target customer is busy, interested in saving time and modern, the online shopping is getting more popular with 43 online stores globally and 10 in US. eCommerce channel is not measured as a separate channel, the number is included in the overview of other channels. Understanding the end customer and where she is shopping helps to focus on the relevant distribution channels and which areas need improvement, nevertheless the analysis of the end customer is excluded from this research. A desire to optimize the distribution strategy of aSMC creates value for the brand of using the right distribution to reach the end customer.

Table 8. Distribution channel overview, 2013

	Franchise	Own retail	Retail	eCom
US	0	9	130	10
All markets	14	278	415	43

Source: own creation from adidas internal documents

Table 9. Distribution channel type overview of a retail channel, 2013

	Fashion/Boutique	Sport Specialist	Sporting Goods
US	68	35	27
All markets	204	88	123

Source: own creation from adidas internal documents

Table 10. Net sales by distribution channel type in US, 2008-2012, euro

	2008	2009	2010	2011	2012
Own Retail	1,564,706	1,432,390	1,559,801	1,697,193	1,477,820
Retail	488,932	515,874	911,080	817,873	542,654
eCom	0	406,358	584,110	718,914	607,931

Source: own creation from adidas internal documents

5.3. The Fit

The purpose of this thesis is to recommend a decision support to a business unit aSMC how to optimize its distribution strategy in the US market. In order to propose a solution the research question with two investigative questions were issued, which are as follows:

How should adidas by Stella McCartney optimize its distribution strategy to reach the target consumer in the US market?

- ***What are the characteristics of the US sportswear market and apparel industry focusing on the distribution structure?***
- ***Which channels should be better utilized to deliver the aSMC products with its current distribution strategy approach?***

The theoretical framework, which is based on the strategic fit concept, is built to be able to provide relevant recommendations and answers to derived questions. The fit is acting as a link for the external and internal environment features and explains that if the company wants to be successful it has to alter its internal organization and strategy to the external industry

environment. It is the goal of the paper to develop a strategy for aSMC that will help to achieve this fit in the US market. To be able to achieve this I have presented the marketing mix and the current distribution strategy of aSMC. I have also provided an overview of the current distribution of aSMC globally and in the US market to understand how the company is operating at the moment. To research the external environment of the aSMC the PESTLE framework is used focusing on the socio-cultural, technological and environmental factors with shorter analysis for the remaining factors. Porter's Five Forces were utilized to understand the structure of the sports industry, its profitability and competitiveness in the US market. A detailed analysis of the distribution channels' structure of apparel and sportswear is provided. I introduce the findings of the research and come up with the most fitting distribution strategy for aSMC in the following paragraphs.

5.3.1. Findings of the External Analysis

The external analysis consists of PESTLE, Porter's Five Forces analysis, and a detailed overview of the apparel and sportswear industry, and distribution structure in US. The PESTLE analysis showed that the main issues of the US market are concentrated in socio-cultural aspect and the technological aspect. A deep culture of college and high school sports, and professional sports makes the country sports aggressive and very attractive to every sportswear manufacturer or retailer, but the focus is kept on the team sports or other college sports. The country itself is very diversified with a lot of metropolitan areas or sports hubs as Arizona, therefore the fashion and necessity for the sportswear is very different all over the country. However, some primary data analysis indicated that the market is very price competitive and the fashion stylite is usually living in the metropolitan areas, where the urbanization process is rising every year. Another factor important in the external environment analysis is the technological aspect. The fast pace of the innovations and technologies coming everyday changes the overall outlook of the market and the shopping behavior. With the increasing use of the internet, smartphones and tablets new ways of shopping and selling evolve and forces the retailers and producers to change the overall business and marketing strategies. The environmental factor also plays an important role in the US as the trends are turning to being more environment-friendly which affects retailers and end-consumers choices. Looking into the economic aspect after the end of the recession

the country incurs slow economic growth each year, and it is said that the economy got stabilized.

From the industry analysis it could be said that the apparel industry is highly competitive with low entry barriers and fierce competition, but the aSMC brand has a competitive advantage of focused differentiation of having collaboration with world known fashion designer. Another big threat is the new entrants, as the entry does not require high investments. The remaining threats of suppliers, buyers and substitutes are evaluated as moderate and the impact to the competitive level of the industry is not significant. In the last part of a detailed overview of the distribution channel structure was revealed that there are no significant differences between apparel and sportswear distribution as the same retail formats are used in US. The overall apparel and sportswear distribution picture could be characterized in three main distribution channel types: department stores, sports performance stores and online stores. Every channel type is defined through different store attributes, which emphasize the specifics of the retail format and the level of it.

5. 3. 2. Findings of the Internal Analysis

The internal analysis is focusing on two frameworks: the marketing mix of aSMC in US and the aSMC distribution strategy used globally. The analysis of the marketing mix in US shows that the 4 P's are adjusted in a sufficient manner to the market needs, because there is another marketing team working in the US and constantly investigating the market, retailers, end-consumers and the trends. The prices of the products to retailers are adjusted to the general market level, but the promotion efforts for selling could be improved in a way of having relevant samples during the selling period, detailed information materials and a clear story to tell as a marketing story. The product is favorably received for the US market with its sustainability approach and the fashionable style coming from the designer Stella McCartney. The distribution strategy enrolled globally has a clear message of the product offer, premium pricing, branding, selective distribution, and the overall positioning of the aSMC range, therefore, the distribution strategy should be aligned in each of the market according to these aspects. It is very important that the product concept would fit in the store concept, therefore the strategies should be aligned regarding the targeted consumer, pricing strategies, product policies, and distribution density.

5. 3. 3. The Fit

External market and industry analysis revealed that the US market has the right consumer and setting for such a product as aSMC collection. With the increasing tendency to move to metropolitan areas, deep sports culture, growing economy and rising awareness of sustainability problems the aSMC product has a right match for success in the US market. In the evaluation of the distribution fit the results showed that the US market is mainly driven by three channels: mass merchandisers, chain stores and department stores, followed by the online channel with a double-digit yearly growth. Each of the retail channel type is distinguished by the specific store attributes such as quality, price, branding, prestige and fashion level, and this approach is used to find a match between the retailer and the brand. Own retail stores as sport performance mono brand stores is a fundamental element in the distribution mix if the brand wants to have a full control over the positioning and other marketing activities. As the internal analysis of the marketing mix and distribution strategy exposed the brand is positioned as a premium sportswear manufacturer with a high price, good quality, special attention to the customer, large promotion activities and the selective distribution where to sell the product. In summing up all of this mentioned, I suggest that aSMC brand should increase their distribution in the retail channel using the high-end department store type of retail format, because the main store attributes as high quality, premium price, designer brands, special customer service, and central location perfectly matches the distribution strategy elements of aSMC. With the ability to have a control over the marketing and other operational processes, awareness and visibility the own retail channel by opening flagship stores as stand-alone aSMC stores or women only stores should be exploited. Knowing that the future business will be concentrated in the online channels, and the ease of merchandising the products, availability and convenience to the consumer, the eCommerce business should be the focus.

RECOMMENDATIONS

Based on the purpose of this research to optimize the distribution strategy of aSMC in the US market, and the results from the internal and external analyses, some changes and implementations should be made to improve the distribution strategy and pursue a better fit in the market to reach the targeted consumer. Even though the brand is pursuing a strong brand positioning strategy and has a competitive advantage against other sports brands in the market, there are some areas for adjustments; thus, the recommendations would include these areas of focus.

Firstly, the focus should be kept on the direct-to-consumer channels as own retail channel, and in order to ensure the profit increase it is necessary to expand the distribution of the own brand stores. Usually the current own brand adidas stores are not the most appropriate place to sell aSMC products as these stores are seen as masculine with dominating dark colors and the lack of high-end details do not attract the targeted consumer for shopping for her sportswear. The best option would be aSMC branded flagship stores in the metropolitan areas as Los Angeles, Orange County or Miami. Another possibility is to open women only stores also in the premium areas where there is more space to deliver the aSMC message and feel to the targeted consumer. As there is seen an increasing trend of the lifestyle centers in the US, it is also seen as a good place for the new flagship store openings.

Secondly, with such a fast changing technological environment the brand should invest into the online shopping strategies of own retail stores, and also expand the distribution into the online retailers. The online stores should have the same premium shopping experience, and the overall online store should be on the same price and quality level going into the fashion direction. The m-commerce strategies should be also included into this segment as the customers shop while they are on the way to work or standing in the traffic jams.

Thirdly, the expansion into the upscale department stores as Nordstrom, Saks, Barney's is needed, also into the middle market department stores as Macy's and Bloomingdale's. These two levels of the retailer formats utilize appropriate store attributes for selling aSMC collection where the emphasis is on the customer service, price level, quality, location and sales staff. These accounts are necessary to have in the distribution channel mix as they

contribute the huge part of the business and it is named as a destination place to go for apparel shopping.

Fourthly, in order to increase the sell-in effectiveness to the retailers and the expansion of the distribution the brand needs to ensure the proper delivery of the sell-in tools, i. e., sample arrival and availability on time, detailed information about the newness and technologies, strong and impactful stories of the season, strong message delivery at the Point-of-Sale moment.

Lastly, the aSMC brand should continue with their current distribution strategy, more precisely, offering the differentiated premium product in the market on a high price level as the aim is to reach the distribution in the high-end market retailers and be presented as a superior sportswear brand. The important aspect is to continue with a selective distribution approach with emphasis on the customer service for the retailers as this approach draws a strong profile in the market and is aligned with the overall brand positioning. aSMC brand could improve their service in the communication aspect as the crucial part for the retailers is the on time delivery of selling tools, sample availability during the sell-in meetings and strong marketing stories of the season complemented with impactful in-store communication for the end-consumer.

CONCLUSION

The purpose of this thesis has been to provide the German manufacturing brand adidas by Stella McCartney with recommendations regarding how it should optimize its distribution strategy in the US market concerning the distribution channel mix. Therefore, two research questions were answered.

In order to answer the first question it was necessary to make a proper market and industry analysis to understand the challenges and opportunities of the apparel market in US. The market is seen as attractive and profitable, but very competitive with high risk of new entrants and low investment costs. It is very dense market with lots of local and foreign apparel brands. aSMC is perceived as a very unique brand with its focused differentiation strategy and niche marketing, which helps to successfully compete in the market. A thorough market analysis focusing on distribution was done in order to understand where the end-consumer is going for apparel shopping and which channels are used the most by American customers. It is difficult to separate general apparel and sportswear channels as especially such a fashion oriented brand as aSMC is relatively equal to general apparel brands. Therefore, it is assumed that the distribution channels used are the same, except of the specific sporting goods stores. Another important part in answering this investigative question was the detailed research of the distribution structure in US keeping the focus on the B2B level and sorting the customers into different levels by their store attributes relevant for this research.

To answer the second question I needed to analyze if there is a fit between the aSMC product and brand features and the distribution formats in US, and to find a match where is the best place to sell the products. aSMC is using a strong distribution strategy globally which reveals a premium positioning in the markets, therefore it is significant to carefully select the distribution where to sell the products. The suitable place for aSMC products is the upscale fashion department stores as well as the middle level department stores.

As aSMC is a premium sports brand where the atmosphere, location, brand exposure and service are fundamental, the perfect place to sell would be the stand-alone flagship stores or women only stores, which also complements the overall adidas strategy to increase the own retail distribution in order to have the control and power to influence the brand equity and

exposure. As the current distribution overview of aSMC shows that the own retail takes just 6 proc. of all the distribution in US compared with 65 proc. globally, there is a lot of space for improvement.

The last and very important part of the strategy is the focus on the online business, which is also not highly exploited in the US market as well as globally. The future business is forecasted to be concentrated in the eCommerce and the emerging trend of mCommerce, therefore the brand should look into the strategies how to better employ the online channel.

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APPENDICES

Appendix 1. Interview with Stephanie Gross

How would you describe the US market? How is it different from other markets?

The US market difference or special market one because it is really huge market or country, a lot of population there, they are very technical driven, very sportive or very sport aggressive, and especially price aggressive. So for us aSMC as a higher or premium sports concept is tough to get into sports stores, because people there don't want to pay so much for sports goods. Other than that, Stella McCartney as a fashion designer is very well known there, and there are a lot of cities where we see huge potential for us, but the distribution in US is a very difficult topic for us, either you have a fashion distribution stores, or a really sports stores which are very price mark downs. So a premium aSMC collection is not fitting in those stores, so that is why it is really hard to bring us into the right distribution. It is our main issue.

How would you describe the US customer?

Most of them are sports keen, and most of them are the one we want to target, they are looking out for being healthy and sporty, and ofcourse there is the other way around when the people are buying into athletics.

What is aSMC customer?

We want to target the athletic stylite, so it can either be the young professional who has just started in the job so she is getting the first own money, who wants to look and feel good, and she is doing sports to look good, to really get in shape, therefore she is also interested in looking good while doing sports. Also if you look at the sizes, mostly we are sold out of the smallest sizes, so it means they are already in a good shape. And we have the other customer who is doing sports for their body and mind, so it would be all the yoga and pilates girls. They are doing sports for their minds, they are also young professionals. The other consumer is the young mother, who wants to get back into shape, who is at home now, they have time to shop.

What would be the age range?

The age range would be from 25 up till 40. We know most of our customers are mid 30 and 30, they are sophisticated, they know what they want, they have a fashion angle to look at it, interested into fashion and the latest trend.

Where Stella customer is shopping? What kind of shops is it?

A lot of them are shopping online, that is why we want to look more into online business. They are also shopping in the metropolitan hyper cities as New York, Los Angeles, Boston, Chicago, where you can see the fashion influence. Most of the time it is a prime area. Also the department stores, premium ones as Neiman Marcus, Nordstrom and Barney's. So it means in the US it is mostly wholesale accounts, because for our concept the typical adidas store is not a good place for her to go.

What is the quality of service offered to aSMC customers? Is the customer very service oriented?

Some research showed that the more you are serving and treating them the more they are buying. Our consumer is used to get a good service, because she is spending more money than some others, so she is expecting the right service for it. And that is why service and the staff training need to be done, they need to know about Stella, the latest trends, sell the concept as one concept together.

What is the scheme of distribution in US?

The US distribution is difficult because firstly, it is the Sports Authority and Sports Direct with Nike, adidas, but they are price driven, have a lot of sports offers, but not really premium and people who are going there are not willing to pay higher prices. The other one we have is fashion distribution, everything is about fashion, high prices. So there is nothing in between these two distribution type of doors. So that is why on one side we are trying to look just into sporting goods accounts or then own retail, which is driven from Portland office, and then we have fashion sales team, who is now doing some distribution for us. They are inviting the big department stores which are mostly fashion driven. They are starting to pull aSMC and for example in Neiman Marcus they had on-the-go concept - it is a concept not on the contemporary floor there the fashion designers are, and they don't have a specific sports floor, so they had yoga products there, few sports brands. That was a perfect location for our concept, but they just have it in a few department stores. Nordstrom also is working

well for us, because they have sports inspired section there they have other sports brands within the fashion world. We also have a lot of premium gyms like Equinox, which is well known, and some premium yoga studios where we see that it is a right location to be for us. And then we are also in few fashion boutiques, where it is mostly just fashion, but we see that our customer is shopping for an evening dress, and yes, she is in shape, she has a good body, and, of course, she is doing sports, and while she is shopping for a dress she might find a needed sports piece. Maybe she doesn't expect to find some sport stuff there, but she knows Stella even though she doesn't know that she has collaboration with adidas.

What is selling in US?

Running category is a very big one. What is funny that our yoga collection is not selling well there, and yoga is very popular in the US. So our guesses are that we are still not in the right distribution, so we are focusing more into yoga, studios or other similar places to sell more there. Another thing is that we have a huge problem with Lulu Lemon in US, it is a very big competitor, they are very good especially in yoga, and they are very well known, that is why sometimes for us it is hard to get into yoga. Also big category is studio, because these products you can basically use for every sports you are doing. Tennis is also big in US with a tennis specialty doors. It is a very popular sport in the US especially with the US Opening. It has changed last season that now BU Tennis is doing the distribution for aSMC barricade, but before we did it.

Why Portland and New York teams decided to separate? Do you think it is beneficial?

Portland has their sales team, and this team used to serve the sports driven accounts. Now then they go into fashion department store, also it is the same with customers, fashion accounts are used to get the different service than sports accounts, I mean they pay more for the products and they are more premium, so they are expecting a nicer show room, a nicer treat and service. One big thing is that all the fashion accounts want to have a different mark down, for example, for sports accounts we give the mark down from 2,1, and fashion accounts are expecting 2,5-2,7, but we are giving them 2,3. So we are losing money if we are giving them higher mark downs, but in the fashion world they have really high prices and they want to make more money. But for us as a sports concept the difficulty is how to find the right balance. So the fashion team is selling the products with the mark down of 2,3 to fashion accounts. And another example, there are accounts who are buying Y3 and Slvr of

adidas, and they heard about aSMC, and then they want to buy them from the fashion team because they don't want to go to separate adidas sales team, they want to do it at once. So we are in locations where normal adidas training products are not in, so the normal sales persons are not going there, but they are interested and that is why they want to buy from one person. Another reason is that the sales people who are serving the sports big accounts which are taking a wide range, and the fashion boutiques are taking much smaller selection, and for the sales people it is not always worth the investment behind it.

For us it is really good that these two teams are separate, the fashion team has a very nice showroom. For example, the US team is going to Nordstrom and showing them the range, but other than that it is just showing on sketches which is not very nice and visual compared than you are going into a nice showroom with all the samples and better service, nice welcome present.

Which channel is working the best/worst?

We have more wholesale accounts than others, then own retail, but looking at the net sales the most we are doing with the own retail. Same reason – in own retail we have fewer stores, but if we are in one then they are buying a bigger range than compared to a range in the wholesale. In wholesale they stock other brands and they make just a small selection, and own retail most of the time are taking a proper range. And also own retail makes more money, because for wholesale we are selling cheaper because they want to make money as well.

Does eCommerce work well? Any specialties as prelaunch or exclusivity?

We have few accounts like Net-a-Porter, which is very profitable for us. We are starting now to look into some prelaunch and exclusive items, which would be just available on eCommerce in order to push the online business. Another very important thing with the eCommerce is that you need to create a real shopping experience. That was a feedback in the past, and also what Net-a-Porter, for example, does very well when you have fun shopping, looking at one tank you get suggestions of few similar ones, matching tights or pants as you would be in the store. In this way you don't have to look through everything. That is the most important thing I think. Then easy clicks and steps how you can buy stuff. Online shopping is very big in US, and with Net-a-Porter we have started just two seasons ago, and Neiman Marcus has online shop as well.

What would be the biggest volume/net sales driver account/store?

Wholesale the biggest for us is Net-a-Porter and Neiman Marcus, and from own retail our stores the Champs Elisee in Paris, the one in London Oxford street, in Berlin, in Japan - the Ginza store. Also in own retail we have women stores in Seoul, which is working well because they have one of the biggest range of aSMC.

Is there a better performing area in US?

It is very difficult to distinguish, but we have a store in New York and Los Angeles, and the one in New York is making more money for us. I would guess that on the west coast there is much more potential for us, because there is a beach everywhere, for people there is very important to look good and show off, there are a lot of rich people, movie stars, celebrities. There is a lot of potential but it is difficult to find the distribution, so we are looking now to open the adidas women store in this area, which would have a much more premium look and feel, so that celebrities would go there as well. And then we need to be in the right location and make it as a flagship store. It should be Los Angeles area or Orange County.

Which channels should you utilize better to maximize revenue?

Definitely eCommerce, but also own retail by trying to open new women stores, because there we have a bigger platform for aSMC and a more premium look with white furniture or not dark adidas male performance store, because adidas is perceived as a male brand. That is why we want to improve our women image by having these women stores with very nice shopping experience, very premium look. We want to get closer to our customer.

What are your main competitors? What are their main strengths compared to aSMC?

The good thing is that we are still very unique in the market. For example, Nike has a more premium collection, but they don't have a collaboration with a world famous designer. But there are other fashion designers who are starting now sports inspired collection, it means they are going into our direction, but they don't have credibility as a sports brand as Stella McCartney has with us. Their products look similar to ours, but it is not a sports stuff, not functional. That is why we are very unique out there. It would be Nike, Alexander Wang, Lucas Hugh, Lulu Lemon. Lulu Lemon is on the high price level, but they don't have collaboration with a fashion designer. Of course, people who are doing sports are buying our products as well as Lulu Lemon. Their products are on a higher price level than our women inline products that is why we consider them as our competitor. As an outdoor and sports

specific as Tennis there is North Face, Columbia, Peak Performance, and Peak Performance is more premium look and feel. These all are going more into outdoor direction, but they are credible and have high prices. Lulu Lemon have started as a yoga brand, but now they are also doing different categories as tennis skirts and other more specific sports styles in different colors, but still focusing on yoga.

How could you increase the effectiveness of higher and lower performing accounts?

For accounts it is always important to have more Point of Sales material (POS). For example, if we have a story we have to make sure that it is told to the customer, so that it is not just hanging somewhere, we need to offer a one pager explaining the concept. For example, a Travel Pack or a Starter Kit. It is small packages where we say there is a story behind. In Starter Kit we have selected the best-selling products from the very beginning when we have started the aSMC in 2005, and the markets have requested many times to bring back these items. It is a tank, a tee, a tight brought together. So we say it is our Starter Kit - doesn't matter if you just start sports or do it for a long time, but you need these three pieces. It is a little bit like a key item attack in women's. In the label there are numbers 2005, so you need to tell what does it mean or you need to make PR stories out of it. So that people would know that it is the best-selling pieces over the years, so they should be good. The Travel Pack story is that if you are traveling these pieces are very easy to fold in your luggage. We have a Packaway footwear which is not using so much space and you can use it for various sports, so doesn't matter if you go for a run or in the gym. I saw now in the few stores that they are hanging it as a normal product, but we want to highlight this product as a special one so we need to provide somehow this information to the customer. It is all about telling stories and this we should do better in our stores. We have these tools and we have the ideas behind the products, and we have Stella who is making up these stories, but we need to talk about it, because otherwise nobody knows the story and you cannot push it. We need also to touch more on events as a Christmas package, Thanksgiving black Friday sales, Valentine's day package, etc., which we are offering but then the markets need to invest in POS material somehow to push the story. That we could do better. Another thing to do it better, we have a hangtag where all the technologies are listed. We should more talk about the benefit you have with this product, i. e., not to name it ClimaWarm, but explain that it keeps you warm when it is freezing outside, etc. It means we need to communicate it in a better way. Or a Techfit tight better to explain that it is a compressing tight which makes you look slimmer, and in the end

is what the women wants to hear. In eCommerce we need a right product copy where we better explain the benefits, especially it is needed in eCommerce where there are no sales persons around. We have also problems in doing translations in different countries. We do it in English and that sounds good, but when we have it in German it sounds horrible. They are translating word by word and not the sense of the message. We are not shooting on models, there are just product images, and it makes it more difficult to imagine how this product will look like in a reality. In adidas eCommerce it is very hard to find sometimes what you are looking for, it takes long and you lose the customer.

How do you measure the effectiveness of the channel/account?

On one side by the buying volume, but the most important are net sales. Sometimes it is difficult to get the net sales per account, because we don't have a system where I could check myself. So I have to ask the market that they would send me the data. We can just check on the country level. We can get the net sales per country, but not separated by different distribution, when again I need to ask the market. We could also improve in this process. I am always requesting the key markets to send me the data of what they sold, not the sellout. In adidas we get the invoice from the wholesale account what they bought from us, but then in the end we don't know how good it is sold in the stores, like which pieces were sold well in full price, which ones they needed to mark down. And these numbers makes a difference for us, because maybe this product was not good for a full price point. We can tell what we sold to the customer, but we cannot see what was sold to the end consumer. That is why sometimes it is tricky and we request this information from the big accounts, but we cannot track the small accounts. We need to track volume because some markets want to increase net sales, therefore they are buying into higher price products, so they are not increasing in volume buying the same amount, but they are increasing in net sales because the products are more expensive. It is their strategy. Buying volumes is the first indication we get, in SS14 we receive it in two months, in July, but we won't know how much they sold. If they were making more net sales in the previous season, then they are buying more in the new season, or if they are increasing volume it is also a good sign. It is a first indication we get for planning, and later we need to follow up.

What do you use to increase the selling effectiveness to the accounts?

There we use sell-in tools as videos, styling booklet, sell-in catalogue. We are offering the material which is used to show to the account. You have products on hangers, and you can show them on models, which it helps the most, and videos are even better. They can see the model wearing it, how she is moving, you can bring over the look and feel. What is also very important, but always very difficult to get, is quotes from Stella, for example, which one is her favorite piece.

Do you make any investments into proper distribution?

We are investing a lot. For example, it is very difficult to get into La Printemps, the department store in France. We want to be in there, but they are very selective. They say you can have this space, but you need to provide the images, the material, etc. So usually the smaller shops are paying for it, we say them what needs to be in the store in order to sell aSMC. There are other accounts which are well known in the world and we want to be in there, so we need to invest. We are doing a visual merchandising there; someone from adidas is coming there, merchandising the products, make sure that it looks nice. The images are most expensive stuff like the windows. In the end we are not paying for the customer, but we are paying that we would look good in there. But this is not done by us; it is done by sales persons in the market, they need to invest. In some stores they say would be great if you provide us with the fixtures - then adidas has to pay for it. We are not really doing something for the accounts, usually they have to do something to get aSMC in. Of course, for our own stores, we, the global are paying. For example, aSMC store in London was a global investment. But if we want to have special fixtures, then the market needs to pay for it in store openings.

What is the pricing strategy of aSMC?

We have a more premium price point, higher than any other women training stuff in adidas, but still lower than fashion pieces. And we always look that we would have a very good go-in margin of 65%, and that is very high compared to women's which is 55%. Originals also have 55%, which is high for them, but we have a higher go-in margin because we have a higher price point in the end. We are using higher quality materials so we have higher FOB. Outside we want that all the markets would have the same price, but there are some markets which have different price strategy, i. e., in the US all the prices are a little bit lower than we

recommend, Russia, China, Japan, Korea are pricing up, so they are increasing the price in order to make a higher standard margin. It very much depends on the market, because in US there won't be anybody who would pay more than 120 USD for a tennis skirt, but we are recommending 140 USD. In this way we are losing a little bit from this market.

Appendix 2. Interview with Dorothee Kurz

What is your job role and how long have you been in the company?

Senior GTM Manager Women Training/Cross-category. I've been in adidas for 7 years now in different positions starting from Brand Marketing and Retail Marketing. In the GTM role my focus market is North America and Latin America.

How would you describe the US market? How is it different from other markets?

The US market, obviously, is already different because of the size. It is one of the key markets that are globally, and I think working in sporting goods in particular because US is still the one key influencing markets when it comes to any sports. So for adidas it is the place where you have to be present, ideally be one of the key brands out there.

How would you describe the US customer?

She is very sporty, big influence coming from the sporting goods industry is the system of college sports and high school sports, which is very unique to the US market. We don't have that anywhere else to that extent. College sports is almost like a professional sports because it is on TV all over the place, has a very big impact and power for all of the US, because if you are a parent and you have kids you want them to get the sports scholarship, and not only because it helps them with the education, but also once you are a college athlete you will have a successful career as well. So I think college sports and high school sports in overall I mean it is normal for high school kid to do 5 different sports. So I think that is very unique to start with. Then again you have that body consciousness that sports are part of being a good citizen. The US I would also see where a healthy competition and ambition to achieve things is ok, it is culture, it is fine to win because then you are a better person. And that comes into place where we talk about the US customer. For the US customer the offer is so immense, prices are down, is very competitive, and obviously in that regard the US consumer is in a very convenient position because all the brands are there with the top offer and top technologies, but at a very good price.

But the prices for Stella are higher, so does the US customer buy such pricy products?

From our end adidas clearly differentiate from the consumer point of view where we have aSMC customer and our big targeted adidas sport performance women brand customer. I think Stella customer is very clear, she has a lot of money, she doesn't care about the price,

rather affluent, so price is secondary, and she cares about the look and status of wearing aSMC. It is a niche customer, it is not a mass market that we are going after, but on one hand side you have the Stella customer, but on another, the wider group that we are going after.

Is there a better performing area of the US like West/East coast? Where is more potential?

I don't have this deep knowledge, but definitely West and East coast are more developed areas, overall people there are a little bit more affluent, more lifestyle oriented compared to all of the South and mid West, I think sports and body conscious plays a big role, for sure. Those are the key areas where you want to be, want to make an impact as a brand, you want to target East and West coast, not Minnesota. We want to be where the key influencers and trendsetters.

What is the scheme of distribution in US?

The US from adidas point of view is very wholesale driven market for all the areas. That is the overall landscape in the US. However, I do think that own retail channels are getting more and more important, because this is really where you can build the brand and fully impact your positioning.

Why it doesn't really work so well with the own retail?

In the US it is very much centralized in the big cities as New York, Los Angeles, San Francisco, you do may have your own flagship stores of own retail, but other than that it is department stores as Macy's, Nordstrom, Barney's on the higher end, and this is where most of the business is being done. You have also a lot of discounters, but it is not necessarily where we want to be. So, obviously, wholesale driven, but also eCommerce is very big and important. eCommerce is certainly the future business.

Which channel is working the best/worst?

US is clearly the wholesale driven market, own retail is very important and has been growing lately also for adidas. And going forward it is very important to have the doors that are brand owned where we can really dial up the brand equity. Whether it is eCommerce on own business or wholesale; that is something of the fastest growing channel.

Which channels should you utilize better?

My personal opinion is that own retail is an important door for different reasons, one is brand equity; it is a perfect place where a consumer comes in with an intention to buy and you can really inspire them with the brand environment. At the same time from the pure business point of view, your margins are slightly different in own retail, which is important not to forget. So own retail is an important one. Also in the US, but you cannot just grow it infinitely, you have to be clever where the consumer is and this is where you should be. That comes back again to your East and West coast areas. US is such a big market, there are a lot of teams, for example, sports teams, where you know Arizona is a little bit of a sports hub, where a lot of people go there, do sports, so maybe it is worth while to be there. Or where big universities are, big teams and very known ones, so it is also an area and the channel. We need carefully to look for to find a perfect location for own retail, and obviously, eCommerce is the area to grow and maximize revenues.

How can we increase the effectiveness of both higher and lower performing accounts?

One area is certainly trade terms, and that is always something to look into with specialty accounts. For lower performing accounts it is useful to make a proper analysis as you do have to do for good performing accounts. On lower performing accounts you need to find out why are they to that respect, is it the wrong products, is it not enough support in terms of packaging, is it purely merchandised, Point of Sales exercise. It also could be that we are not relevant for the consumer who goes into those accounts, or we are relevant but we don't have the products the consumer wants. It could be basically everything, we need to do a deep dive on that end, sometimes you also need to make a call - we shouldn't be in there at all. Ofcourse that is not a decision that happens from one day to another, and especially for a big brand like adidas it depends where is our overall strategy. Not too long ago it might have been a very good performing account, but we felt maybe it is too commercial for brand adidas and it might hurt us in the long term. Then we lose some business, but for the long term investment it is better that we are not a part of that account.

How would you describe a perfect place for Stella products?

aSMC stand alone store in London in Fulham Road is pretty much close to the perfect place just for collection, because it is exactly where that consumer is, right next to Stella McCartney World, so the consumer knows that brand. It is in the area of the city where our

target consumer is, the store environment is more a boutique style, very premium, feminine, it is in a way exclusive. All that gets close to the perfect place. I think in every big city there are places like that, where our target consumer woman goes shopping, where she likes to spend time. The key thing in aSMC store is staff. It is very important thing provided all the other that it is an inviting shopping environment. Service, knowledge about Stella and fashion. Stella consumer goes there and she wants to see somebody who knows the latest of the latest, she wants to hear some gossip either about Stella or Stella's fans as Kate Moss and Gwyneth Paltrow. You don't want to read people.com, you go to the store and you know the latest news on that one. Obviously, the staff is a little bit of the style adviser. Staff is very important, and that is a limitation on eCommerce. eCommerce needs to be very inviting, in a way very exclusive, intuitive, and it is all about the experience of style. It is like you would read Elle or Vogue, you click and just buy, or sometimes you get the style adviser pieces and that could certainly be the virtual site for the shop.

How do you measure the effectiveness of the channel?

Simply as it could be, net sales. Sometimes there are exceptions, for example, if there is a pop-up store, which is more a marketing exercise, then other KPIs like traffic or brand engagement, participation, signing up in a CRM program, but that is an exception. At the end of the day, it all comes down to net sales and how profitable the store is. Net sales might be nice, but if the square meter costs too much we don't make enough of net sales. We need to be profitable.

What do we use to increase the selling effectiveness to the accounts?

Whenever you talk to accounts, it is very important every season to come up with a very impactful sell-in. It all starts with a really good range, good product offer, strong range whether it is color, whether it is product innovation. At the end of the day, the account is afterwards, because you firstly need to convince the account, and afterwards the customer. In the ideal world, it is the same kind of argumentation that you have, so it needs to be a good range with good products to start with. It is very different, sometimes it needs to be good marketing stories, and it does help if you come in as a brand and you say this is a product, we will have a huge ATL (above the line) campaign behind it. If you say we as a brand spend that amount of marketing working budget just to push that product, obviously the account are much more confident to order much more higher quantity. Information on what we spend as a

brand behind certain initiative helps, whether it is certain initiative or what we do as a brand year all on. Also technical information, sometimes it is about new fabrics, new designs, anything like we have tested this product with consumers or we talked to athletes and they liked it; we have 20 athletes and they all tested it and they say this is really great. That does help, of course. For aSMC it always helps to re-emphasize that the products and the looks are designed by Stella McCartney. The information the account might not have that she has received certain awards and that her popularity is really high up, or for aSMC there is another PR launch planned. What is planned during the year, I think all that helps, any research we do into certain products that helps, in terms of visualizing what is actually happening also helps. It is many levels, sometimes it is product information, new technologies, what do we do as a brand to support it.

Appendix 3. Interview with Amanda Schefter

What is your job role in adidas?

Merchandise Manager for Women's Training Apparel

How would you describe the US market? How is it different from other markets?

The US market for Women is complicated with lots of brand players. There is a lot of competition.

How would you describe the US customer?

She is athletic and fashionable. She likes product that will perform for her while also making her look good. Color and fit are the 2 most important things to her when shopping for product.

Is there a better performing area of US, like west coast/east coast?

Not particularly, but the West coast tends to be a little tougher.

What is the scheme of distribution in US?

Sporting Goods, Mall, Specialty, and Moderate Department Stores. We are just getting back into retailers in the Department Store channel, such as Nordstrom.

What is the scheme of Stella distribution?

Stella distribution is limited to a select handful of specialty accounts and Nordstrom.

How does the selection of distribution work?

For Stella, accounts must submit applications for distribution to be approved through Global. For inline, we are not currently in accounts such as JCPenney and Macy's.

Which channel is working the best/worst? Any specialties about any channel?

Own Retail and Ecomm are very successful right now. On the wholesale side, Sporting Goods is working the best.

Which channels should you utilize better to maximize revenue?

We need to be successful in the Mall, Sporting Goods, and Own Retail/Ecomm.

How can you increase the effectiveness of both higher and lower performing accounts?

We need to have a great product line for sporting goods, and an equally great product line for Moderate Department Stores (i.e. Kohl's). We also need more impactful in-store presence and marketing.

What do you use to increase selling effectiveness to the accounts?

Competitive analysis, sell-in product tools, tech sheets, story telling.

Appendix 4. Interview with Casey Whalen

What is your job role in adidas? How long have you been in the company?

Actually, my first day here was July 1st, 2013, so I did get to have just one market appointment for the SS14 collection. I am handling the US sales for the aSMC collaboration at this moment. I am handling just the fashion group.

How would you describe the US market? How is it different from other markets?

I don't have any experience other than the US market, but I can just say that our market is finding form the previous background which is contemporary. A lot of our bigger accounts have transferred to be online accounts, it is not necessarily department stores and specialty boutiques as important as they are to our market, or finding that a lot of our bigger businesses are transplanting their online stores.

So is it mainly the department stores and fashion boutiques as wholesales?

So basically they are not even looking into the business that we are doing through Stella, they are not even our biggest accounts anymore. Our biggest accounts are the online retailers.

Where Stella customer is shopping? What kind of shops is it?

So probably we could brake this into three different components. First, the Stella customer is shopping online, because we are able to merchandise the product beautifully, and looks very enticing there. Second, they are shopping at sports performance stores, whether it would be... we do a lot of businesses with Equinox, I believe they have something in the UK. It is very large gym franchise, and they have retail shops in each of their gyms. We do a large business there and that is the clientele that we are looking to service these women that need performance athletic wear but also want to look nice when they go the gym. So that would be the second component. And then the third component, where people are looking to shop... the customer particularly is going to the favourite little specialty boutiques, there maybe they will be also buying their dress to go out to party on the Saturday night, and then on further week, but they also have a little section of the Stella products because it is so beautifully looking, and also are practical and functional. They can do kind of one stop shopping at their favourite little boutique.

How would you describe a perfect place for the Stella products?

I know we are doing such a strong representation in the performance world, and we also have the growing business interest in the specialty, but I think that online makes the most sense. Because if you use Net-a-Porter, for example, we don't have to worry about sitting next to a brand on a store floor and not making sense. A lot of times when you look at, where the party dresses hang in the store that is a little bit more fancy, it doesn't make sense. Online you don't have to worry about that. The products can live on its own, the customer can shop and they can shop for a few different items but they can merchandise it, they can take a few different pictures, they can list all the...because we do have such performance technology, they can list all that information, so the customer can read all that about the products and all the great highlights and things like that. And we don't have to rely on the sales person on the floor remembering that this particular pant has been part of the collection since start of the line in 2005. And speaking to all the functions and the details, online it is there and they can read that information, and push the sales.

Then my other question would be, the US customer, is she shopping online?

She is. It really has become a very very very big asset. A lot of the boutiques that we work with, let's say located in Pennsylvania, they also will sell products on their store website. It is an easy way to reach new customers in a need to grow your business.

What is the quality of service offered to Stella customers (retailers)? Is it important for them?

We go to market in June and January of each year, so that is kind of the starting point of each of the relationships that we build and the service that we offer. And it is an on-going process. So if there is any question about any of the products, so we answer that. Once we deliver the product, it's probably the busiest time, because that is when we are making sure that they are getting positive feedback from their customers. We want to be able to share that feedback with global, so if we have a call out that our customers loved that blue legging that you offered, would it be able to offer blue as a core color going forward. Just like feedback in that perspective. Fit feedback is also very important. So we do a touch base and we are making sure that they received their goods, if their customer had feedback perspective there. We don't typically forecast a large order if any, but we try to see if they are selling any particular styles. Well, if there is inventory that we can fill that in on, so we can continue to place three

orders immediate orders and continue to drive volume through out the season. We also try to partner, we actually just partnered with the Equinox which is the gym I had spoken earlier. We have a small talk show in one of their retail stores in one of their gym locations downtown. So they set up three beautiful people in the front. They buy the collection each season in addition to what they have bought and brought in, it's like a little capsule that we put together some tights, some sweatshirts, so it is the whole representation of the full collection. And it is brilliant so that their customers would get a little bit excited, that it is a little bit different product that they normally carry on the floor. Some associates from our marketing department were there for the whole first day explaining the product for the customers who were coming in for the workout or even just for the day, working with the associates, getting them excited about the collection, getting them excited about the product, talking about the product and you just really engaging them on it. They really appreciate it and kind of make them feel special to know that they are having someone from the brand there with the insider perspective on the certain styles that perform well this season, the inspiration and things like that. So talk shows are really really helpful and important not only to get the customers in the stores, but the accounts excited that we are paying extra attention. I would say that our service is even the most important asset even from our market appointments, paying attention to the customer that shops in their store. We also pay a lot of attention to the selling reports. Every Sunday and Monday we get generated reports from majority of our large volume accounts, particularly the online ones, so we can monitor what units have been selling, what units have not been selling, what particular styles have been returned, and things like that. So we keep a careful look each week on the sell-throughs, so we can say when we go to the market next time, and the account might say 'oh, I really loved this particular tank', but looking back on selling history we can say 'yes, you did extremely well with this tank, maybe this season instead of two colors we do three or four'. So it is kind of doing our homework and also providing them with the service. And unspoken service until we get to the market, because when we get to market we can show them that we have been paying careful attention to their business. That makes instant more trust in you and that way they feel a little bit more comfortable to work and to open up their powers and continue to grow their business. And that is what at the end of the day we are looking for.

I will jump one question further because you have been talking about the sell-in meetings. How the sell-in process is going? Where and how you sell the products? Do you go to visit the accounts, or do they come to see the collection?

I was a part just of one sell-in meeting for the Spring/Summer delivery, because I just begun. But I know from experience and how the calendar is laid up here for the sell-in periods, we have just recently moved our showrooms to the West Village. So we have a dedicated space for the Stella collection all year round. I know we have a short window time, I think it is about one month when we open our sell-in period, and we invite our accounts to come in here so that they can see the collection fully displayed, and we can get them a proper walkthrough and introduce the collection. We also leave the collection all year round, so if we have customers that are interested, but maybe they haven't opened for the sell-in period. I had two accounts last Friday. They are interested in the collection, they want to take it up for the Fall/Winter 14', so they would come back to our showroom in January for market, but they just wanted to come in and have a conversation, meet me, see a product in person, things like that. So having a dedicated showroom, we just have them to come in, we have some coffee, talk about the product, went through some price points, things like that. It is such a short amount of time, so we want to be able to maximize the appointments that we can have. We use our showroom to its best advantage for all of our appointments here.

What is the scheme of distribution in US? Is it the same for Stella? Is it more department stores, specialty boutiques, or?

There is no consistence formula, it is kind of at the point where we are looking for the accounts that make the most sense to actually represent, where we want to bring and to sit, and continue to grow the business. We don't want the accounts that buy one season and never do it again. We want the ones who will pick up and be consistently successful with the product and continue to grow. So it is across the board, we would like to work probably with at least one department store, to grow that end of the business. Specialty store business is important because they are the ones who consistently come back each season, makes the product performs well and brings strong sell-throughs across the board with the Stella products. So specialty boutiques that do write the line continue to grow their business each season because their customers are very loyal and they know that they can get the products there. And then again with online. We picked up some new online businesses that continue to

grow. I would say that there are no one bigger than the other, all are important, but yes, department stores, specialties, and online.

Which channel is working the best/worst? Any specialties about any channel?

The online accounts are working the best. We have a new partner this season called ShopBob.com. They bought the line for the first time this season, they have incredibly strong sell-throughs across all categories. And they reached out to us to see if they could increase their SS14 buy, this success they had is far with the line. Unfortunately, we were not able to do it because we were so late in the season and we had already placed all of our orders to accommodate them here. But it shows great success that the sell-throughs are so strong, it is a website that brands seek to be a part of, and their customer is really really excited and buy into this brand. And they would like to get back to us and to increase their orders. It doesn't happen a lot I would say, so it was really exciting, and we are looking to grow with them. And when they are coming back for FW14 I anticipate that their projected budget will be much higher than what we have seen before.

Which channels should we utilize better to maximize revenue?

We should, and I know that there have been talks around, that we are developing Stella retail store that will help maximize revenue. The customer in the US is familiar with the brand but it is not the most prominent athletic brand. And I think that if we have some of our own stores so the customer could be excited and familiar with it, we would be able to further expand our distribution. I know that we do have one opening for SS14 in Miami, and I think that will be extremely successful. I think further development of these Stella retail stores would be huge asset to familiarize the customer with the product and help us grow. Continue to grow that desire and request from the specialty stores, the department stores and more online stores will help us grow the business even more.

Does eComm work? Is there an opportunity for the brand?

They are our biggest ones, Rivalve Clothing, Shopbob, Net-a-Porter, etc., are very large business for us, strong sell-throughs each week, and I think it is because you don't have to worry where the product sits on the floor, is it next to product which is too dressy, is it next to the product which is not the same price point we are looking at. So it is an easy home for the product, we are able to pin point the performance technology. The product is so beautiful, and photographs as well, so online it really pop ups out of the edge.

Another question came up, when you are looking for the accounts, what are you looking for? Is it the price level, the overall looks, the portfolio of the brand they are carrying, or?

It would be exactly all of those. We look at the overall esthetical of the store, ideally we want the store to look nice because we want that our nice products would fit in there. Then we look at the other brands that are carried. If the price point is too low we don't want necessarily to be the most expensive product in that store. If it is not a true performance store, because we want people to...we have a very, for instance, Name of Florida, it's the store in the very affluent area, this store in particular caters to a very affluent customer, they sell Gimme Shoe shoes, Lanvin bags, designer and Cartour, they sell our aSMC performance wear so well. Their customer wants to look good when they are going out to dinner, when they are going out to lunch, and they want to look great when they go to the gym. Even if they don't go to the gym, this is what they wear on the weekends. They love the product. So we want align with other brands that makes sense. Again it is that part of the homework process taking in consideration the brand they carry, what the store looks like, what their customers are buying into well.

As I know, Neiman Marcus and Harrods have stopped with Stella. Why? What should the brand do to get back in there?

I can't really speak about Harrods, I'm not familiar with the scenario there, because they are cancelled from the UK. For Neiman Marcus I know that what happened was, they originally evolved the initiative to make a department store within the department store called 'on the go'. It was the cater to the casual and performance life style Neiman Marcus customer. In addition to few other brands, Stella was kind of a pedal stole for the brands that sat around. They were personally very attracted to the line and really invested a lot in it, when they rolled out 'on the go' initiative to the customer Neiman Marcus was not well received. Traditionally, Neiman Marcus customer is a little bit dressier, fancier, not necessarily going shopping in Neiman Marcus in their sports clothing. It is not like a category that drives their business per se. I don't think it had anything to do with our product at all, I think it was not received to their customer and the entire 'on the go' sell part. So not having a place to live on the floor at Neiman Marcus. I don't know if going forward we will do business with them, it is just not sure of the back story so I can't speak anything there. I just know that it wasn't brand specific. It was a Neiman Marcus internal discussion that the idea did not work and

they not gonna proceed with it. And at this point there is no other place on the floor for us to live so it makes sense for us just pull back. I know, for example, Nordstrom, has a devoted active subarea, and each season it performs really well. The Nordstrom customer knows that they can go there and do their shopping, and they can hit up this particular department because it has existed for so long and grown, so the customers become familiar with it. Each season when it's cooler, they add elements, each summer they add bathing suits, it is seasonal but there is always their performance product their. So I know that this business is handled out of our Portland office. I know that they scattered across the US and the Stella product does perform well there.

What is the perception of Stella range? Is it easy to sell, or if there should be made some changes to fit better for the US consumer? Is it on the applicable price level?

I will say that this is the easiest collection that I have ever ever ever had to sell. Brought adidas and Stella McCartney name on the product really excites the customer. I have not had any negative feedback and I have not had anyone that has turned me away and not taking a look at the collection. In comparison to other performance brands that we would want to stay with, we are priced a little bit more aggressively, better priced than some of the others. So I would say that just positive, very easy to sell, no complaints about the products, and price point is just right.

Is Stella McCartney well known in US?

Yes, extremely well known.

How can you increase the effectiveness of both higher and lower performing accounts?

That would be that I would have to take for the next market coming up. I haven't had the chance to work with them because I just came into SS14 market. Mainly taking a look at the previous buys and looking over the sell-through each week to say when they are coming into the market to have your homework done. Saying that I know that you liked our French terry, but looking at your selling your performance leggings and tanks, you sold bad us. So let's focus more here, maybe introduce more colors. So it is just doing your homework and being well versed for the business and the client, a, makes them trust in you, and b, open them up to expanding their budgets and effectively growing their business each season. Tools we use would be sell-in reports that we initiated, and each week getting feedback, having wrapped

up conversations with retailers just asking what is performing, what is not performing, if those particular leggings are running small, let's swap you into larger size or different style.

What do you use to increase the sell-in effectiveness? Which tools you use?

They do get most excited about the styling catalogue, because it lists Stella's favourites. Any time we have inside perspectives to say 'oh that is particular color pallet, that is a particular print or a particular style, it's one of Stella's favourites', they get excited. I know that in the most recent market Miriam was here and she was able to give inside perspective and inside information regarding development and products, so they become very excited and feel that they are getting special care and special attention, so they are more eager to buy than they would be if we just sit there and go through the products itself. So that catalogue in particular is very useful asset. Obviously, that is in addition to the line sheets, having textures is extremely relevant as well, so that we don't go back and forth looking at the article numbers. You got a small drawing. I know that the way it is set up it is not possible, but having the presentation they are doing today and having that information in sell-in would be helpful, but we are on the different schedule. We do always have a model in our sell-in show and appointments. So if there is any sort of question, or just to drive on the sale, we do through the outfits that they would get the overall look. If they have any questions, how this particular tank will fit, we always have a model here to help us to sell.

Another question popped-up, does the stores do any investment to get Stella inside?

It depends. The specialty stores do not call out the separate brands as the department store would do. I know some of the performance stores will merchandise the collection in its own area, but for the most part everyone does merchandise the product within together but within their store. So mostly it is within the layout of the actual store. Sometimes it just comes back to logistics, what they have to offer and things like that. It is not uncommon in the specialty stores for one brand to be carried on the wall one week and then next week carried on the tee stand by the cash register. They change the layout logistics frequently. When you go into Barney's, the shoes are carried together on a little high top table with a block that says adidas by Stella McCartney. Very sleek, very cool. For the specialty stores because of logistics they have to place it as best as it fits.

Appendix 5. Interview with Caje Moje

What is your job role in adidas?

Merchandise Manager for Performance product, own retail B & M doors, NAM
Lead a team of buyers and allocators, oversee strategy to execution for our BCS stores.

How would you describe the US market? How is it different from other markets?

US market is driven by regionality, price, and weather, probably more than most other markets. Because of the diverse backgrounds, what works in certain markets and even cities, can be drastically different in others. Because of this, you have to be conscious of everything from style, value, color, and location on each category.

How would you describe the US customer?

The majority are tech savvy, strive to reach the next class level, and react well to good value propositions. The minority, found in large urban cities, are fashion forward, on trend, with no price resistance.

Is there a better performing area of US, like west coast/east coast?

The largest volume will always come from the Northeast (NY, NJ, Boston). The fastest growing region is the southeast (Florida, Texas) where population has been shifting over the past decade. The west coast, although dense with population, is too spread out over a larger area and is difficult to target for success.

What is the scheme of distribution in US?

We have 3-4 tiers of stores separated by size and volume that we assort by category. The top tier of 6 stores represents about ½ our total volume, and receive the largest assortment, and it tiers down from there. We also assort by category, so stores may look regionally different depending upon which sport or collection performs better there.

What is the scheme of Stella distribution?

Stella is currently in 5 of our doors, with representation across most of the country in major markets. NYSP has the largest and most premium assortment.

How does the selection of Stella distribution works? Any specific selection for footwear?

All stores receive the “Stella loves” items along with Com’s pieces, across app, ftw, and acc. NYSP will receive the max assortment we can afford to fill their SIS.

How would you describe a perfect place to sell aSMC?

Fashion forward urban environment, surrounded by comparable high end retail. Ideally a stand-alone store with dedicated windows and clientele specialists.

Which channel is working the best/worst (whs, OR, eCom, etc.)? Any specialties about any channel?

Best channel in NAM has been Ecom and OR, with success from performance men's and women's apparel, specifically training, running, and soccer. We continue to exceed plan in these areas, and gain market share on key product silo's such as bras, pants, and tees. Honorable mention to Boost ftw, it continues its positive trend since February launch.

Which channels should we utilize better to maximize revenue?

eCom and wholesale. Especially ftw and acc, seems underpenetrated for our consumer.

Is there a difference in working with APP and FTW/ACC distribution?

Although we have different allocators for each category, there is no difference on their distribution. At the store level, Apparel is the focus delivering the most volume, while ftw and acc are second.

How can we increase the effectiveness of both higher and lower performing accounts?

Increased ISC that supports current product, deeper level of basics at a more affordable price structure (we're missing the tourism dollar because there is not enough items for them to participate in), continued tie in's to brand and cultural moments.

What do we use to increase the selling effectiveness to the accounts?

Sell-in kit that explains why product is priced do disproportionally to its surroundings, department specialists and specialists training.

Appendix 6. Interview with Steve Gulbrandson

What is your job role in adidas?

Account executive, working for 3 years.

How would you describe a perfect place to sell the stella products?

Upscale retailers who sell designer labels and/or upscale active product and have a fashion active consumer.

Which accounts do you serve? Which ones are the biggest and most important?

Nordstrom is my only Stella account, upscale department store.

Which accounts should we utilize better to maximize revenue?

I am most familiar with nordstrom which carries Stella in top doors, due to price points can't be an all door program. Stella sell-through is not as strong as we would like it to be. Thus, growing door counts and opening new accounts is challenging and may not be a good idea. And there is much more competition in women's fashion active product in the last 5 years. Lulu, Zella (Nordstrom private label), Lucy were all small or did not exist 5 years ago. UA/Nike are focused on fashion athletic apparel where 5 years ago they were not.

Which accounts should we consider to sell to? How the decision is taken where to sell?

Only accounts that carry designer labels and/or upscale active product and have an active consumer.

What about the eCom in the sports performance stores? Is there an opportunity for the brand?

I am not sure selling to eCom in sports performance stores is a good opportunity. The current Stella accounts online are not selling huge volume, so opening more distribution may just broaden the market and hurt the current accounts vs. growing total business.

What is the perception of Stella range? Is it easy to sell, or if there should be made some changes to fit better for the US consumer?

Big improvements have been made in the fit of the product. In the past many of the styles would only fit a certain body type, now it fits a wider range of consumers. One of the largest issues of selling the line is that samples are not correct or not available, so retailers do not

know exactly what they are ordering. Other issues are that samples come in right before the deadline, so there is very little time to meet with the accounts and adequately prepare.

Is it on the applicable price level?

Lowering prices could increase consumer reach and unit sales, but may also risk pricing a designer product too low and quality may not be as good. Stella product should not cost the same as regular adidas product and should be higher quality. The best way to increase the overall impact of Stella on the adidas business may be to take more design cues from the Stella range and add into the performance adidas lines faster to make that line more fashionable and unique in the market.

What product/range features do you emphasize in the sell-in meetings?

Style direction for the season, color story, technical features, creative features in the product.

What is the customer (retailer) looking for in the products?

Buyers are looking for creativity in the Stella line, they expect to see something unexpected. Recent lines have not only been creative but have also been practical and versatile (good for both workouts and to wear after the workout to run errands, coffee with friends, etc). Proper fit/quality/performance are all expected.

What do you use to increase the sell-in effectiveness?

Selling data from current and last season, selling data from the rest of the market, Stella seasonal files that show direction for the season.

Which tools you use? What do you miss?

Correct samples are very important.

How the sell-in process is going?

Earlier samples, earlier line sheets and correct samples would help a lot. Sample and order deadlines need to line up with regular US product deadlines.

Appendix 7. Mail Interview with Jonathan Gable

How would you describe a perfect distribution setting for aSMC in US?

In my view, the optimal mix of distribution channels for adidas Stella McCartney in the USA will deliver both reach and image which are compatible with the label's upmarket positioning. This would definitely mean a presence in the adidas branded stores (likely the adidas Originals, but not adidas Performance). Second, higher-end department stores such as Nordstrom's, Macy's and Bloomingdale's are important, both as stand-alone locations and as anchor stores in shopping malls. Finally, online is indispensable as a channel even for this designer label: Zappos and net-a-porter are two of the most prominent, but savvy buyers will use an aggregating portal like Polyvore or Lyst. The advantages of these are mainly to see a wide selection in one place, but also to easily compare prices.

What is the distribution scheme in US?

We don't have any detailed data on apparel distribution in the US, but across the entire market I would say the main channels are mass merchandisers like K-Mart and Target, then department stores like the ones I mentioned plus lower-tier ones like JCPenney, then dedicated clothing chains like TJ Maxx, American Apparel or Zara. And of course online channels like Amazon and Zappos. Unfortunately, I cannot say which channels represent what % of the market, but online is definitely growing.

Appendix 7. Interview Guide

1. How would you describe US market? How is it different from other markets?
2. How would you describe US customer?
3. What is Stella customer?
4. Where Stella customer is shopping? What kind of shops is it?
5. What is the quality of service offered to our customers?
6. Is the customer very service savvy?
7. What is the scheme of distribution in US?
8. What is the scheme of Stella distribution?
9. How does the selection of distribution works?
10. Portland and NY fashion team. What goes into each channel? Why they decided to separate? Do you think it is beneficial?
11. Which channel is working the best/worst? Any specialties about any channel?
12. Does e-com work? Any specialties about e-com, as prelaunch, exclusivity?
13. The biggest volume/NS driver account/store?
14. Is there a better performing area of US, like west coast/east coast?
15. What would you say about multichannel approach (various channels for different sized clients)? Would it work better, increase sales?
16. Which channels should we utilize better to maximize revenue?
17. Is there an opportunity in e-com?
18. What could you say about competitors? Do you know anything about competitor online capabilities that put us at a competitive disadvantage?
19. What is done from our side to incent channel partners to align with our goals and objectives?
20. How can we increase the effectiveness of both higher and lower performing accounts?
21. How do we measure the effectiveness of the channel? Account?
22. What do we use to increase the selling effectiveness?
23. Are there any investments or improvements on channel technologies?
24. How big a factor is intermediary costs in finding your optimal distribution channel mix?
25. How the sell-in process is going? Where and how you sell the products? How the range is selected for the US eCom?

Appendix 8. Overview of US Apparel market

Table 11. Sales of Apparel by Distribution Format: % analysis 2007-2012

% retail value rsp	2007	2008	2009	2010	2011	2012
Store-Based Retailing	92.0	91.3	90.8	90.4	89.7	89.1
- Grocery Retailers	4.7	5.1	5.2	5.1	5.1	5.1
-- Modern Grocery Retailers	4.7	5.1	5.2	5.0	5.1	5.0
--- Convenience Stores	-	-	-	-	-	-
--- Discounters	-	-	-	-	-	-
--- Forecourt Retailers	-	-	-	-	-	-
---- Chained Forecourt Retailers	-	-	-	-	-	-
---- Independent Forecourt Retailers	-	-	-	-	-	-
--- Hypermarkets	4.7	5.0	5.2	5.0	5.0	5.0
--- Supermarkets	0.0	0.0	0.0	0.0	0.0	0.0
-- Traditional Grocery Retailers	0.0	0.0	0.0	0.0	0.0	0.0
--- Food/drink/tobacco specialists	-	-	-	-	-	-
--- Independent Small Grocers	-	-	-	-	-	-
--- Other Grocery Retailers	0.0	0.0	0.0	0.0	0.0	0.0
- Non-Grocery Retailers	87.3	86.3	85.6	85.4	84.6	84.0
-- Mixed Retailers	35.9	35.4	35.3	34.2	33.4	32.7
--- Department Stores	23.2	22.4	22.3	21.9	21.4	20.9
--- Mass Merchandisers	10.1	10.2	10.2	9.4	9.2	9.0
--- Variety Stores	0.7	0.7	0.8	0.7	0.8	0.7
--- Warehouse Clubs	2.0	2.0	2.0	2.1	2.1	2.1
-- Apparel specialist retailers	44.5	43.9	43.6	44.0	43.5	43.4
-- Leisure and Personal Goods Specialist Retailers	6.3	6.4	6.3	6.3	6.6	6.7
--- Sports goods stores	5.1	5.1	5.1	5.2	5.5	5.6
--- Other Leisure and Personal Goods Specialist Retailers	1.2	1.3	1.2	1.1	1.1	1.0
-- Other Non-Grocery Retailers	0.6	0.6	0.4	0.8	1.1	1.2
Non-Store Retailing	8.0	8.7	9.2	9.6	10.3	10.9
- Homeshopping	2.4	2.4	2.1	1.9	1.7	1.6
- Internet Retailing	5.3	6.1	6.9	7.5	8.4	9.2
- Direct Selling	0.2	0.2	0.2	0.2	0.2	0.2
- Vending	-	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0

Table 12. Forecast Sales of Apparel by Category: Volume 2012-2017

mn units	2012	2013	2014	2015	2016	2017
Clothing	16,848.6	17,126.4	17,378.6	17,676.9	18,024.7	18,321.1
Footwear	2,275.2	2,296.4	2,351.8	2,360.6	2,380.2	2,407.4
Apparel	19,123.8	19,422.8	19,730.3	20,037.6	20,404.9	20,728.5

Table 13. Forecast sales of Apparel by Category: Value 2012-2017

US\$ million	2012	2013	2014	2015	2016	2017
Clothing	294,510.7	293,635.6	291,465.6	291,655.3	292,367.4	292,748.4
Footwear	68,118.2	67,948.4	69,647.1	70,278.1	71,326.9	72,145.0
Sportswear	80,034.0	83,137.1	85,425.5	87,134.5	88,154.8	88,652.8
Apparel	362,628.9	361,584.0	361,112.7	361,933.4	363,694.3	364,893.3

Table 14. Sales in Retailing by Channel: Value 2007-2012

US\$ bn, retail value rsp excl sales tax

	2007	2008	2009	2010	2011	2012
Store-based Retailing	2,350.6	2,345.8	2,289.5	2,329.4	2,390.4	2,441.3
Non-Store Retailing	247.0	253.5	254.1	266.5	283.7	302.8
Retailing	2,597.5	2,599.4	2,543.6	2,595.9	2,674.1	2,744.1

Table 15. Sales in Retailing by Channel: % Value Growth 2007-2012

% current value growth, retail value rsp excl sales tax

	2011/12	2007-12 CAGR	2007/12 Total
Store-based Retailing	2.1	0.8	3.9
Non-Store Retailing	6.7	4.2	22.6
Retailing	2.6	1.1	5.6

Table 16. Sales in Non-Store Retailing by Channel: Value 2007-2012

US\$ bn, retail value rsp excl sales tax

	2007	2008	2009	2010	2011	2012
Direct Selling	26.4	26.0	24.3	23.8	23.1	22.7
Homeshopping	113.3	112.4	109.9	104.8	102.2	98.1
Internet Retailing	102.4	110.4	115.7	133.6	154.0	177.4
Vending	4.9	4.8	4.2	4.3	4.5	4.6
Non-Store Retailing	247.0	253.5	254.1	266.5	283.7	302.8

Table 17. Sales in Non-Store Retailing by Channel: % Value Growth 2007-2012

% current value growth, retail value rsp excl sales tax

	2011/12	2007-12 CAGR	2007/12 Total
Direct Selling	-1.5	-2.9	-13.9
Homeshopping	-4.0	-2.8	-13.4
Internet Retailing	15.2	11.6	73.2
Vending	2.9	-1.3	-6.5
Non-Store Retailing	6.7	4.2	22.6

Table 18. Forecast Sales in retailing by channel: Value 2012-2017

US\$ bn, retail value rsp excl sales tax

	2012	2013	2014	2015	2016	2017
Store-based Retailing	2,441.3	2,451.4	2,463.9	2,484.7	2,513.0	2,539.0
Non-Store Retailing	302.8	321.2	340.7	363.6	390.2	418.5
Retailing	2,744.1	2,772.6	2,804.6	2,848.3	2,903.2	2,957.6

Table 19. Forecast Sales in retailing by channel: % Value Growth 2012-2017

% constant value growth, retail value rsp excl sales tax

	2012-17 CAGR	2012/17 TOTAL
Store-based Retailing	0.8	4.0
Non-Store Retailing	6.7	38.2
Retailing	1.5	7.8

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources



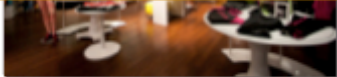


Appendix 9. Internal aSMC documents

Table 20. aSMC number of doors in all the markets, SS11-FW13

Market	SS11	FW11	SS12	FW12	SS13	FW13
AC	38	54	57	60	60	70
Canada	24	31	30	29	28	28
China	28	29	28	29	34	34
CIS	141	121	121	121	121	122
Dubai	25	21	25	25	21	21
France	4	4	9	9	9	10
Greece	25	24	24	24	20	21
Hong Kong	13	13	16	14	15	15
Iberia	18	18	23	19	19	23
Israel	2	2	2	4	4	4
Italy	9	20	36	13	30	31
Japan	30	40	59	35	35	35
Korea	29	33	40	48	47	47
LAM	13	13	7			
Nordic	19	36	33	42	29	33
North	44	47	49	52	49	53
Pacific	6	4	10	10	10	11
SEA	15	16	16	16	18	18
Taiwan	6	7	7	7	7	7
Turkey	22	17	17	21	22	22
US	51	97	122	129	130	139
Brazil	11	12	14	17	21	25
SLAM	28	29	34	42	34	39
Grand Total	601	688	779	766	763	809

Source: own creation from adidas internal documents

Table 21. New distribution template

COUNTRY ACCOUNT	Location: Website: Type of door: Target consumers: Brand portfolio: Fixture: Comments:
<div style="display: flex; justify-content: space-around;">   </div> <div style="background-color: red; color: black; text-align: center; padding: 5px; font-weight: bold;">Please insert images!!!</div> <div style="display: flex; justify-content: space-around;">   </div>	
 stella mccartney	