(BN) Adidas Vowing to Outrun Nike in U.S. With Bouncier Shoes: R etail

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Adidas Vowing to Outrun Nike in U.S. With Bouncier Shoes: Retail 2013-03-10 23:00:11.0 GMT

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By Matt Townsend and Julie Cruz

March 11 (Bloomberg) -- Adidas AG used to tell athletes that "impossible is nothing." The company is taking that advice to heart with a vow to come from the back of the field -- sixth place -- and overtake rival Nike Inc. as the U.S. leader in running shoes.

With its new \$150 Energy Boost shoe that promises users more bounce while expending less energy, Adidas plans to win over the growing legions of runners in the \$15 billion industry and drive sales in the U.S., the world's biggest running shoe market, where it has struggled for years.

The shoemaker is so bullish on what it calls Boost's revolutionary sole that it has pledged to sell 1 million pairs of the shoe this year. Within five years it aims to overtake Nike, a company founded on running shoes, in its home country.

That's like Nike vowing to sell more soccer cleats in Germany, where Adidas rules the sport with sponsorships of the national team and the Bayern Munich professional club.

The goal "is a steep hill to climb," said Matt Powell, an analyst for market researcher SportsOneSource. "Of all the categories in footwear, it's the most crowded. It's hard to get a big chunk of that business after Nike."

While Adidas, the world's largest soccer brand, has been selling running shoes for decades, it hasn't managed to capture the devotion of Americans with shoes some critics have called stiffer and clunkier than Nike's. The "big difference" between the two companies is the U.S. market, Adidas Chief Executive Officer Herbert Hainer told Bloomberg Television last week. In the rest of the world, he said, it's a head-to-head race.

## Sixth Place

Though Adidas is the No. 2 global seller of athletic footwear after Nike, its flagship brand accounts for 4.4 percent of running shoes in the U.S., according to SportsOneSource.

That's good for sixth place. Nike has 54 percent, and smaller companies such as Asics Corp., Brooks Sports Inc. and New Balance Athletic Shoe Inc. all lead Adidas in the U.S.

Adidas sees the push in running as a way to jumpstart its business in the U.S., where soccer trails running. This is even more critical after Reebok, which it acquired for \$3.8 billion in 2006, has disappointed. Adidas wrote down the value of Reebok and other goodwill by 265 million euros last week after re- evaluating its growth prospects. Nike trades at 21 times estimated earnings, versus 17 times for Adidas, though the German company is catching up. Adidas shares have risen 32 percent in the past year versus 1.4 percent for Nike.

# **Fashion Statement**

Running is worth almost twice as much as soccer globally, driven by hardcore marathoners and sprinters as well as newbies entering their first Turkey Trot and fashionistas buying Nike Frees in neon for everyday wear. That could leave running as Adidas' best chance to meet its goal of lifting revenue 14 percent, to 17 billion euros, in the three years to 2015.

Sales of running footwear in the U.S., which accounts for

40 percent of the global total, grew 8 percent last year, versus

0.5 percent for soccer shoes in the country, according to NPD Group Inc. Globally, consumers spent \$15 billion on running shoes in 2011, up 13 percent, NPD reports.

Adidas doesn't disclose revenue by sport, but given its scant market share in the U.S. there's plenty of room to grow.

In 2013, the company's running business will expand more than 10 percent for the third straight year, Hainer said.

"We believe Boost is a game-changing product," Hainer said March 7, at the company's annual results press conference.

"We have the biggest potential in running, and that's where we are focusing our efforts."

### Speciality Strategy

Before it can win the marathon, Adidas has to get a place on shelves. To create hype, Adidas released the Energy Boost shoes on Feb. 27 in about 200 U.S. specialty running shops, which account for 10 percent of sales but have outsized sway. In July, the company plans to start offering them in nationwide chains such as Foot Locker Inc., and by 2015 Adidas will use Boost technology in all its running shoes.

Boost got off to a good start at the Naperville Running Co., outside Chicago. The store sold its allotment of 36 pairs in four days, brisk business for its slowest season, owner Kris Hartner said. He was even more impressed when his staff members showed up for group runs in the shoes.

"That's the true test, is the staff actually wearing them to run?" said Hartner, who worked in research for Reebok and in sales for Adidas before opening the store in 2000. Despite disappointment with Adidas in recent years, he has kept the brand in stock, hoping for a turnaround.

#### **Tiny Capsules**

The foam in the Boost's sole -- developed in tandem with BASF SE -- is made from thousands of tiny capsules instead of a single sheet, like traditional shoes, Adidas says. That makes it bouncier and improves comfort while saving energy, the company says.

Those characteristics are often at odds, according to SportsOneSource. Footwear with a lot of cushioning is less stable and requires more energy. Meanwhile, minimalist shoes that mimic running barefoot -- the last major footwear innovation -- require less energy but lack cushion.

To break through the clutter of claims brands make for their innovations, Adidas is relying on a marketing video of three metal balls that are dropped simultaneously on concrete, traditional sneaker foam and the Boost material. The ball that hits Boost bounces higher and longer than the others.

#### 'Stupid-Proof'

"Consumers are inundated with choice, especially in this market," Eric Liedtke, head of sport performance for Adidas, said in an interview. "We have to make it stupid-proof. To me, the ball-drop video is."

Despite the marketing, there are still skeptics. Johanna Bjorken, the buyer for JackRabbit Sports Inc., a specialty running chain in New York, recently stopped offering Adidas shoes because of lackluster sales. She says she hasn't seen anything in the Boost to change her mind.

"Right now, there are more exciting things out there," Bjorken said. Boost "wasn't enough."

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