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Business Environmental Analysis: A Case Study of 'Adidas'

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Abstract: *This case study explores the internal and external business environment of Adidas using PESTLE and SWOT analytical frameworks. Adidas, a global leader in the sportswear industry, operates in a highly competitive and dynamic market shaped by technological advances, shifting consumer preferences, and environmental concerns. The PESTLE analysis highlights key external influences such as sustainability regulations, economic fluctuations, and technological innovations that affect Adidas' strategic decisions. The SWOT analysis reveals Adidas' strengths in global branding and sustainability, along with weaknesses like supply chain dependency. Opportunities in emerging markets and digital platforms are counterbalanced by threats from intense competition and political instability. A critical evaluation shows that aligning internal capabilities with external opportunities enables Adidas to sustain competitive advantage. The study concludes with strategic recommendations, including strengthening supply chain resilience, scaling eco-friendly initiatives, and investing in digital transformation to foster long-term growth and adaptability in the global marketplace.*

Keywords: *Sustainability, E-commerce Expansion, Supply Chain Management.*

1. INTRODUCTION

Analysing the external and internal business environment is crucial for understanding the factors that influence an organisation's performance and strategic decision-making. In the sports retail industry, companies operate in a highly dynamic environment shaped by technological advancements, evolving consumer preferences, and intense competition. Effective tools such as PESTLE and SWOT analyses enable businesses to identify opportunities, mitigate risks, and align their operations with market demands (Morrison, 2020).

Adidas, a global leader in the sportswear industry, operates as a private sector entity with a public limited company (PLC) legal structure. The company has a large market scope, operating in over 100 countries, generating annual revenues exceeding \$20 billion (Adidas, 2020). Adidas' vision focuses on innovation and sustainability, aiming to expand its distribution channels by collaborating with e-commerce platforms like Google Shopping and physical retailers such as JD Sports. These initiatives align with Adidas' strategic goal of capturing a larger share of the \$366 billion sportswear market (Allied Market Research, 2020).

Using PESTLE analysis, Adidas can evaluate external factors such as political, economic, social, technological, legal, and environmental influences to predict market trends. Meanwhile, SWOT analysis provides insights into Adidas' internal strengths, weaknesses, opportunities, and threats, aiding strategic decision-making regarding expansion. Together, these tools offer a comprehensive approach to assessing Adidas' position in the marketplace and planning for future growth (Burns & Needle, 2019).

PESTLE Analysis: External Business Environment

The PESTLE framework evaluates the external factors influencing a business, providing insights into opportunities and risks. For Adidas, these factors shape strategic decisions and market performance in the competitive sportswear industry.

Political Factors

- International Trade Regulations & Tariffs: Trade disputes between the US and China increase Adidas' supply chain costs and operational uncertainties (Burns & Needle, 2019).
- Government Support for Sustainability: Regulations promoting eco-friendly production impact Adidas' material sourcing strategies.
- Free Trade Agreements: Policies in Europe facilitate Adidas' market expansion by reducing trade barriers (Morrison, 2020).

Economic Factors

- Consumer Spending Trends: Rising disposable income in emerging markets boosts demand for premium sportswear (Worthington & Britton, 2018).
- Inflation & Currency Fluctuations: Economic downturns can lower consumer purchasing power, affecting sales.
- E-commerce Growth: The shift to digital retail post-COVID-19 helped Adidas maintain revenue streams and expand into new markets.

Social Factors

- Health & Fitness Trends: Rising interest in fitness and athleisure fuels Adidas' growth (Allied Market Research, 2020).
- Sustainability Consciousness: Adidas' focus on recycled materials aligns with consumer preferences, enhancing brand loyalty.
- Changing Fashion Trends: Demand for versatile athleisure products presents new opportunities.

Technological Factors

- AI & Digital Marketing: Adidas uses AI to personalise consumer experiences and predict trends (Burns & Needle, 2019).
- Product Innovation: Advancements in lightweight and sustainable materials strengthen Adidas' competitive edge.
- E-commerce Expansion: Collaborations with Amazon and Google Shopping enhance Adidas' online reach.

Legal Factors

- Intellectual Property Protection: Protecting Adidas' designs safeguards its competitive position.
- Labour Laws: Ethical concerns regarding Adidas' outsourced manufacturing require strict compliance.
- Environmental Regulations: Stringent sustainability laws may increase operational costs (Morrison, 2020).

Environmental Factors

- Climate Change Impact: Adidas reduces its carbon footprint through sustainable manufacturing.
- Consumer Demand for Green Products: Adidas' recyclable footwear enhances brand image.
- Resource Scarcity: Increasing material costs may affect production efficiency.

Examples of Positive & Negative Influences

Positive: Adidas' investment in sustainability aligns with growing consumer demand for eco-friendly products (Burns & Needle, 2019).

Negative: Trade disputes and tariffs disrupt Adidas' international supply chains, increasing costs and delaying product deliveries (Morrison, 2020).

SWOT Analysis: Internal and External Factors

The SWOT analysis evaluates Adidas' internal strengths and weaknesses alongside external opportunities and threats.

Strengths

- **Global Brand Presence:** Adidas operates in over 100 countries with strong market recognition (Adidas, 2020).
- **Sustainability Leadership:** Adidas leads in eco-friendly product innovation, using recycled ocean plastics.
- **Efficient Supply Chain:** Advanced logistics ensure fast product delivery worldwide.

Weaknesses

- **Supply Chain Vulnerability:** Heavy reliance on third-party suppliers increases risk during global disruptions.
- **High Operational Costs:** Continuous investment in innovation strains Adidas' profitability.

Opportunities

- **Emerging Markets Growth:** Expansion into Asia-Pacific and Africa presents revenue opportunities.
- **Digital Transformation:** Investing in AI-driven e-commerce enhances customer engagement.

Threats

- **Intense Competition:** Nike's aggressive marketing strategies challenge Adidas' market share.
- **Economic Uncertainty:** Inflation and currency fluctuations may reduce consumer spending.

Comparison with Nike

Nike excels in branding, celebrity endorsements, and technological innovation, while Adidas leads in sustainability initiatives. Nike's slower adoption of eco-friendly practices provides Adidas a differentiation advantage (Morrison, 2020).

2. CRITICAL ANALYSIS OF FACTORS

The relationship between external PESTLE factors and internal SWOT elements is pivotal in shaping Adidas' strategies. By examining these interconnections, the company can better understand its opportunities and risks.

Influence of PESTLE Factors on SWOT Elements

Environmental factors such as sustainability strongly align with Adidas' internal strengths, particularly its innovation in eco-friendly products like recycled-material footwear. As consumer demand for environmentally conscious brands grows, Adidas can leverage this strength to differentiate itself in the competitive sportswear market (Allied Market Research, 2020). However, this emphasis on sustainability also presents challenges, as adhering to stringent environmental regulations can increase operational costs and limit material choices (Morrison, 2020).

Legal complexities, including labour regulations, impact Adidas' reliance on third-party suppliers. Compliance with global labour standards is essential for maintaining its brand reputation, but addressing these regulations can exacerbate the company's operational weaknesses, such as cost pressures and supply chain vulnerability (Burns & Needle, 2019).

Economic factors, including inflation and currency fluctuations, influence Adidas' ability to expand in emerging markets. While rising disposable incomes in regions like Asia-Pacific provide growth opportunities, economic instability could hinder revenue growth, particularly in markets heavily reliant on discretionary spending (Worthington & Britton, 2018).

Evaluation of Opportunities and Risks

Adidas' planned expansion into e-commerce platforms such as Google Shopping and physical retailers like JD Sports aligns well with the opportunities identified in its SWOT analysis. The growing shift towards digital channels offers a chance to strengthen customer engagement and increase sales. However, Adidas must address the technological challenges posed by rapid innovation cycles, ensuring it remains competitive in the e-commerce landscape (Burns & Needle, 2019).

Adidas also faces significant risks associated with political and economic instability. Trade disputes or tariffs could disrupt its supply chain and increase costs, undermining its profitability in key markets. Additionally, intense

competition from Nike and Puma requires Adidas to continuously innovate and invest in marketing to retain its market share (Morrison, 2020).

Should Adidas Proceed with Expansion?

Based on the analyses, Adidas should proceed with its expansion plans while implementing strategies to mitigate risks. Strengthening its supply chain by diversifying suppliers and investing in local partnerships can reduce dependency on third parties. Simultaneously, capitalising on sustainability trends can enhance its brand appeal and foster long-term customer loyalty.

By aligning its strengths with external opportunities and addressing weaknesses linked to external threats, Adidas can navigate challenges effectively and secure a strong position in the global sportswear market.

3. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Adidas operates in a dynamic global market influenced by external PESTLE factors and internal SWOT elements. The PESTLE analysis highlights the opportunities presented by technological advancements, rising health consciousness, and the growing demand for sustainable products. However, it also underscores challenges such as political instability, regulatory complexities, and economic fluctuations. These external factors align closely with Adidas' internal strengths, such as its strong global brand and innovative approach to sustainability, but they also amplify weaknesses like dependency on third-party suppliers and high operational costs (Burns & Needle, 2019).

The SWOT analysis reveals Adidas' significant potential for growth, particularly in emerging markets and digital platforms. By leveraging its eco-friendly product innovation and robust market presence, Adidas is well-positioned to meet consumer demands. Nonetheless, intense competition from rivals like Nike and vulnerability to supply chain disruptions highlight areas requiring improvement (Morrison, 2020).

Recommendations

To sustain its competitive advantage and mitigate risks, Adidas should: **Prioritize Sustainability:** Strengthen its position as a market leader in sustainability by scaling up eco-friendly initiatives. For instance, expanding the use of recycled materials in product lines can enhance brand appeal among environmentally conscious consumers (Allied Market Research, 2020).

Strengthen Local Partnerships: Reducing reliance on third-party suppliers by forming partnerships with local manufacturers can enhance supply chain resilience and reduce exposure to geopolitical risks (Worthington & Britton, 2018).

Invest in Digital Transformation: Adidas should allocate resources to enhance its digital presence, particularly through AI-driven customer insights and improved e-commerce platforms like Google Shopping. This investment will enable better customer engagement and increased sales in an increasingly digital market (Burns & Needle, 2019).

By aligning these strategies with its strengths and addressing its weaknesses, Adidas can unlock significant growth opportunities and strengthen its long-term market position.

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