

Nike, Adidas TOE to TOE in Europe

The Beaverton company struggles to grow in the market while Adidas plots to regain its traditional dominance



The main entrance to Nike's European headquarters near Amsterdam, the Netherlands, is named for company co-founder Bill Bowerman. Nike's European sales are nearly as large as rival Adidas-Salomon.



Michael Beck, 29, tries on a \$60 pair of Adidas soccer shoes at a Frankfurt, Germany, sporting goods store. In Europe, Adidas has long relied on consumers such as Beck, who grew up wearing only German sneaker brands.

By BOAZ HERZOG
THE OREGONIAN

The hundreds of Adidas-Salomon sales reps meeting to celebrate the company's new Switzerland office grew silent as executive Michael Rupp began venting. For half an hour, Rupp, in charge of the sneaker company's central European business, assailed their complacency.

If things don't change, Adidas might become an also-ran, Rupp says he told the gathering.

Shoppers still buy more Adidas gear in Europe than any other brand, but Nike is narrowing the gap, even selling more sneakers. And it's gaining in Germany, Adidas' home country and the world's third largest economy.

"We have to fight for our future," Rupp says he told his crew in June. It's time to launch into "forward-oriented attack mode."

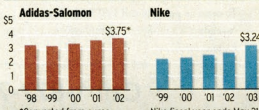
The sneaker wars are escalating across Europe.

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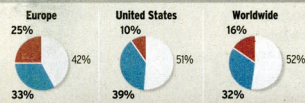
SNEAKER WARS

Adidas-Salomon still reigns over rival Nike in total European sales, including shoes, apparel and equipment, but Beaverton-based Nike has spread its dominance of the sneaker market from the United States to Europe and the world.

European net sales (in billions of dollars)



Footwear market share



Sources: Nike, Adidas-Salomon, Sporting Goods Intelligence

TED MITCHNER/THE OREGONIAN

Shoes: Olympics, World Cup shape contest

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Beaverton-based Nike, the biggest company with headquarters in Oregon and the state's lone Fortune 500 firm, sees Europe as its next conquest, having defeated Adidas in the United States. Adidas, whose U.S. operations are based in Portland, has headed the battle cry.

The industry's two biggest titans face enormous pressure to capture Europe. Their shareholders continue to demand profit, sales and stock-price gains. But in recent years, Nike and Adidas have found diminishing returns in a mature U.S. market, the world's largest for athletic shoes and clothing. Nike did more business outside the United States for the first time in its last fiscal year. And after several years of stagnation, Adidas expects its U.S. sales to fall this year.

Europe, however, is a region rich with potential.

The population of Western Europe, wealthy compared with the world as a whole, is 25 percent larger than the United States. But residents, per capita, buy fewer than half as many athletic shoes as Americans. Plus, handfuls of Eastern European markets, such as Poland, are emerging with millions more soles to pad. In addition, next summer's Olympic Games in Greece and the 2006 World Cup soccer tournament in Germany will give the sneaker brands enormous exposure for their goods.

"This is a huge opportunity for us," says Frits Van Paaschen, a Nike vice president and general manager of its European region.

But both brands face big hurdles.

Research shows that Nike needs to downplay its status as a big American brand to stem backlash that accelerated with this year's war in Iraq, unpopular in much of Europe. On the other hand, Adidas must attract a generation of consumers who, unlike their parents, weren't raised on a sneaker diet limited to German brands.

Adidas' challenges

Through much of the mid-20th century, Adidas owned Europe. Hometown rival Puma—like Adidas, based in the northern Bavarian village of Herzogenaurach, Germany—was its biggest threat for decades.

Nike changed everything.

At first, Adidas shrugged off Nike's 1968 birth. But then it watched with increasing alarm as Nike grew into a powerhouse that sold about as many sneakers in the United States as Adidas, Reebok and New Balance combined.

Marketing itself as an unconventional American alternative, Nike entered Europe about two decades ago. By 1998, it had lobbied out Adidas as the No. 1 sneaker seller. And since then, Nike has narrowed Adidas' edge in overall sales, which count clothing and equipment.

Today, Adidas realizes it's dangerous to rely on tradition, habit and brand loyalty.

For decades, the company has counted on consumers such as Michael Beck, a lanky 29-year-old auditor.

Shopping for soccer shoes inside SportArena, a big sporting goods store along downtown Frankfurt's famous Zeil shopping district, Beck can't decide between a \$60 pair of Adidas or \$50 Pumas. He's never worn Nike—and doesn't plan to start.

Growing up in the former East Germany, "I only knew of Adidas and Puma," Beck says. "If you use certain brands all of your life, it's difficult to change."

But the global marketplace has given younger consumers more choices, including Nike. Adidas executives have recognized that the benefit of a well-known name goes only so far in attracting fickle youth.

"We were always living off of our heritage," says Rupp, the Adidas executive.

Sure, Adidas has sponsored the national German soccer team for decades, and it started outfitting Olympic gold medalists such as sprinter Jesse Owens in 1936—before Nike co-founder Phil Knight was born. Adidas founder Adi Dassler even pioneered the use of spiked track shoes in the 1920s.

But what, Rupp asks, has Adidas done lately?

Left unattended, the brand's glory fades, he says. Adidas should be "the great brand of today."

Nike's obstacles

For Nike, bigger is not always better.

In fact, research suggests that Nike's status as an American icon is hurting its image overseas, including important European markets such as Germany and France.

Resentment from the U.S.-led war in Iraq and a wave of corporate

scandals have begun to undermine American brands abroad, especially well-known ones such as Nike, according to a study released in July by RoperASW. As a result, the firm found, the percentage of Germans who regularly use or own a Nike product dropped to 29 percent this year from 49 percent in 2002. The percentage fell to 38 percent in France, down from 45 percent.

Indeed, Nike's European sales have flagged over its last three fiscal quarters, compared with year-earlier periods, currency exchange-rate fluctuations aside.

Nike officials, however, dispute the Roper findings and deny that anti-U.S. sentiment has cut sales. They point to a 21 percent rise in European orders for delivery by January—again, without accounting for currency changes.

Other researchers say Nike has long had trouble with brand backlash in various regions, especially among the young.

"Nike deals with this problem constantly," says Kathleen Gasperini, a partner in Los Angeles-based market research firm Label Networks.

The largest pockets of European resistance are found in France, Germany and Spain, Gasperini says.

Nike has consulted the firm multiple times in the past three years to get advice on how to market to young trendsetters, she says, describing the company as "some-what out of touch with the youth market."

Nike's tactics

As an upstart brand in Europe two decades ago, Nike portrayed itself as a cool American brand, says Phil McAveety, Nike's vice president of European marketing.

But what works in the United States, McAveety says, only goes so far in Europe.

Take sports marketing, for example. Nike perfected the art of athlete association by latching onto basketball legend Michael Jordan in the 1980s. The endorsement deal with Jordan prompted kids to skip school to snap up new releases of his signature shoes.

But the phenomenon was largely confined to the United States. For one thing, Europeans don't play hoops much.

"Basketball shoes sell VERY poorly," writes Rene Spitz in an interview posted on the shoe-center.com Web site. Spitz is vice manager of kickz.com, an athletic shoe retailer based in Munich.

Nike's basketball lines often take months to sell out at kickz.com, and Jordans are "no exception to the rule," he writes.

But in recent years, Nike has adopted more Eurocentric tactics.

To crack the European passion for soccer, Nike, following the lead of Adidas, has signed multimillion-dollar sponsorship deals with popular teams, such as England's Manchester United, and players such as Ronaldo, who plays for Spain's Real Madrid.

"This is very important," says Steve Bischoff, a sales associate at

the Karstadt Sport store in downtown Munich. "People like their stars. When they see stars wearing clothes, they want them."

The expense is paying off, Bischoff says. He never overheard young customers calling Nike cool until the brand began spending on soccer.

Since then, he says, Karstadt has gradually increased its allocation of Nike products. Now, Nike's sales at the store run neck and neck with Adidas.

Beyond soccer sponsorships, Nike is using unconventional ways of attracting youth. For example, Nike negotiated with the Berlin Senate this summer to create a sports park in a poor section of East Berlin. During the next two years, Nike plans to turn the site into a complex replete with running track, basketball court, soccer field and beach volleyball court, as well as skateboarding and mountain bike areas, says Pier Paolo Righi, Nike's general manager in Germany.

"We're trying to inspire and have fun with the kids," says Righi, who declined to disclose the park's costs.

Nike expects the park to become a prime venue where the company can trot out its sponsored athletes from Germany, such as Dallas Mavericks forward Dirk Nowitzki, and Berlin's pro soccer team.

Enhancing Nike's image is one problem. Finding retail outlets is another.

Nike has a far shorter track record with German retailers than Adidas, which dates to the 1920s.

"This, for us, is a big challenge," Righi says.

To help the company get over it, Nike has opted increasingly to sell directly to customers by opening franchise stores across Europe.

The stores are less than half the size of a typical NikeTown, but they enable Nike to control how its products are presented and bring "excitement" to the retail floor, Righi says.

Outlets opened in the past year include ones in Austria, England, France and Spain. Next up is the first opening in Germany, slated for next month in Hamburg.

Righi is quick to point out, however, that ultimately Nike's "success path will go through existing retailers."

But retailers are often put off by the lower profit margins that Nike offers. On a pair of \$100 shoes, for example, its margins are typically \$3 to \$5 less than other brands', says John Horan, publisher of industry newsletter Sporting Goods Intelligence.

"But when you get down to it, if a consumer walking into the store is asking for Nike, the retailer is going to have to carry them," Horan says.

Adidas' counterattack

Nike has gained momentum. In the past five years, its European sales have risen faster than Adidas', but don't count out Adidas, industry observers say.

Adidas has capitalized on a retro

KEY INTEREST RATES

Annual interest rates at Portland-area institutions last week

	Money Market Accts				Loans		
	\$1,000 Rate	min. Yld.	\$5,000 Rate	min. Yld.	CD Rate	CD Yld.	Auto loan
	Banks						
American Pacific Bank	N/A	N/A	1.24	1.25	1.27	1.28	7.20
Bank of Portland	0.99	1.00	1.14	1.15	1.24	1.25	N/A
Bank of Tigard	0.99	1.00	1.14	1.15	1.24	1.25	N/A
Northern Bank of Commerce	0.55	0.55	0.55	0.55	0.86	0.86	N/A
	Money Market Funds						
Columbia Daily Income	0.34	0.34	0.34	0.34	N/A	N/A	N/A
	Credit Unions						
First Tech Credit	N/A	N/A	0.8963	0.90	0.996	1.00	3.69
OREGON Telco Community CU	0.80	0.80	0.95	0.95	1.30	1.31	3.79
PACE	N/A	N/A	1.39	1.40	1.69	1.70	3.70

NOTE: The rates are as of Nov. 19. Rates may change daily without notice.
 CD - \$5,000 certificates, 6-month term
 Auto - Rate for \$10,000, 48-month, new car loan (down payment varies; norm is 20 percent).
 Check lender for current rates, discount for deposit account, and possibility of fee or longer term.
 N/A - Rates are not available or not offered.
 MM - Check lender for higher rates on larger balances.
 v - Rate is variable
 f - Rate is fixed
 t - Tiered rate
 Source: Lending Institutions. Rates reflect quotations by main office and branch personnel. Rates are subject to change daily.

NORTHWEST 50 INDEX

The WM Group Northwest 50 Stock Index is compiled by WM Advisors, Inc. of Seattle. Figures shown are for week just ended.

	Close	Change	% Change
Northwest 50	8,562.36	-106.28	-1.23%
Retail wholesale trade	2,547.50	-	-1.20%
Technology/manufacturing/construction	2,721.75	-	-1.96%
Transportation/transportation equipment	1,114.73	-	-1.82%
Natural resources	643.69	-	+1.31%
Finance/insurance	1,126.34	-	-0.82%
Utilities	408.35	-	+0.21%

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