

THE “mi adidas” MASS CUSTOMIZATION INITIATIVE

This case was prepared by Professor Ralf W. Seifert as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.



This case won the 2006 European Case Award, in the category Production and Operations Management, granted by ecch in association with Business Week.

This case also won the 2004 POMS International Case Writing Award sponsored by the Center for International Business Education and Research (CIBER) at Indiana University.

Rolf Reinschmidt, head of the Forever Sport Division of adidas-Salomon AG, was reviewing adidas' mass customization (MC) initiative: “mi adidas”:

We all talk a lot about experiences these days--experiences that consumers and retailers expect to have with brands like ours [adidas]. Well, here is an experience our brand is uniquely able to offer, differentiating us significantly from the competition and building an incredible image for the Forever Sport Division.

It was October 2001. Reinschmidt sat down in his office and reflected on his experience to date. He had been sponsoring mi adidas to create a customization experience. The journey had started many years earlier, with the company providing tailor-made shoes for top athletes. Now, customized shoes had been made available on a much broader scale. Competitors also tested the market, and a trend toward MC was visible in other industries from PCs to made-to-measure jeans. The time had come to make specific recommendations on the best course of action for mi adidas.

Reinschmidt had three alternative routes to choose from:

- *Withdraw:* Celebrate the success and PR effect accomplished to date but quietly withdraw from MC in order to focus on adidas' core business.
- *Maintain:* Maintain the developed capabilities and selectively run mi adidas fairs and planned retail tours following top events such as the Soccer World Cup and world marathon series.
- *Expand:* Expand mi adidas to multiple product categories and permanent retail installations; elevate it to brand concept status while further building volume and process expertise.

mi adidas had gained substantial momentum--it needed direction.

Global Footwear Market¹

In 2000 the global footwear market was US\$16.4 billion.² North America accounted for 48%, Europe 32% and Asia/Pacific 12% of the market. The degree of concentration in the footwear segment was relatively high, with the three largest companies controlling roughly 60% of the market: Nike commanded 35%, adidas 15% and Reebok 10% market share. Nike was particularly strong in the US market, with a 42% market share in footwear, but also led in Europe with 31%. adidas was significantly stronger in the European footwear market, holding a 24% market share compared with its 11% market share in US footwear. (Refer to ***Exhibit 1*** for regional market share information and trends for adidas, Nike and Reebok.)

adidas-Salomon AG

For over 80 years adidas had been part of the world of sports on every level, delivering state-of-the-art sports footwear, apparel and accessories. (Refer to ***Exhibit 2*** for a history of adidas.) In 2001 adidas-Salomon AG's total net sales reached €6.1 billion and net income amounted to €208 million. Its main brands were adidas with a 79% share of sales, Salomon with 12%, and TaylorMade-adidas Golf with 9%. The company employed 14,000 people and commanded an estimated 15% share of the world market for sporting goods. Headquartered in Herzogenaurach, Germany, it was a global leader in the sporting goods industry, offering its products in almost every country of the world: Europe accounted for 50%, North America for 30%, Asia for 17% and Latin America for 3% of total sales.

Forever Sport Division

In 2000 adidas was reorganized into three consumer-oriented product divisions: Forever Sport, Originals and Equipment.³ Forever Sport was the largest division with products "engineered to perform." Technological innovation and a commitment to product leadership were the cornerstones of this division. Sales fell into a few major categories: Running 32%, Soccer 16%, Basketball 11%, Tennis 9% and Others 32%.⁴ Reinschmidt was the head of the division. He reported directly to Erich Stamminger, head of global marketing for adidas-Salomon AG.

mi adidas

"mi adidas" was envisaged as an image tool and a center of competence for the Forever Sport Division. Christoph Berger, director MC, was responsible for mi adidas and led a small but dedicated team. Berger came from an old shoemaking

¹ Sporting Goods Intelligence (SGI)

² Total market value based on wholesale prices.

³ The reorganization officially took effect January 1, 2001. In 2002 the organization was revised again and the Forever Sport Division became the Sport Performance Division.

⁴ adidas-Salomon AG, 2001 Annual Report

family and followed a traditional apprenticeship as a shoemaker himself. Having earned an Executive Master of Business Administration (EMBA), he started working for adidas in 1995. The pilot was sponsored directly by Reinschmidt and Stamminger. Without formal line authority, however, Berger had to draw implementation support from the various functions and use external contractors to complement his team. (Refer to **Exhibit 3** for a project breakdown.)

mi adidas was launched in April 2000 to provide consumers with the chance to create unique athletic footwear produced to their personal specifications. The idea was not entirely new, as adidas had provided tailor-made shoes to top athletes for many years. Now mi adidas could be experienced by many consumers at top sporting events and select retailers. The project initially offered only soccer boots but was to be expanded in 2001 to offer running shoes. For 2002 the plan was to further build volume and expand the offering into the customization of basketball and tennis footwear. (Refer to **Exhibit 4** for the initial mi adidas rollout plan.)

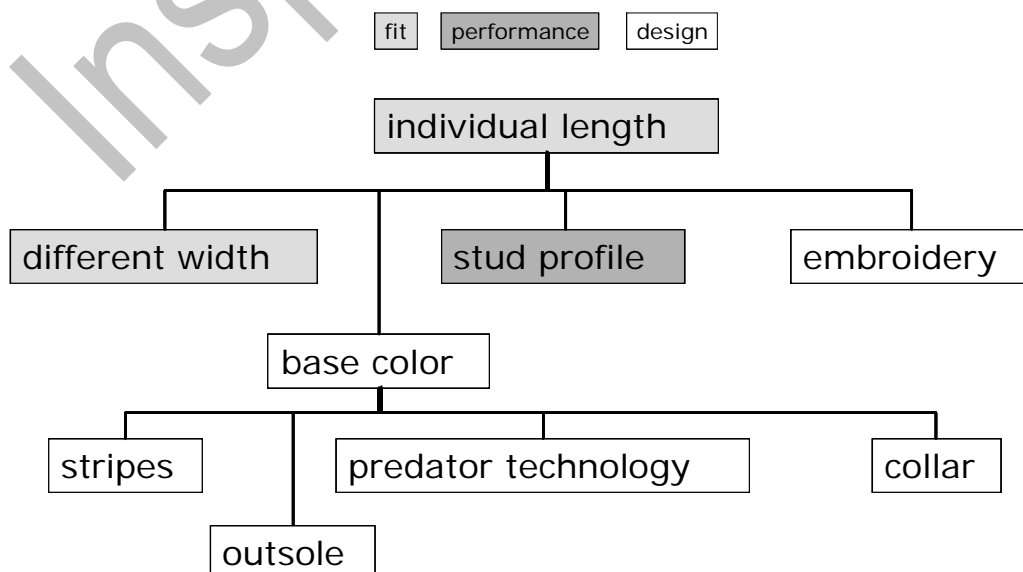
Phase I: The mi adidas Pilot

The first phase of the mi adidas project was a small pilot to evaluate the feasibility and prospects of mass customizing athletic shoes. The objectives were clear-cut: offer a customized product, test consumers' demands for customized products and fulfill their expectations as far as possible. The pilot allowed both project team and functions to gain hands-on experience in marketing, information management, production, distribution and after-service of customized shoes. It also provided a basis for a rough cost-benefit analysis and future budgeting.

Product Selection

The pilot mandate was soccer boots. A Predator® Precision boot already in production was offered for customization with regard to fit (size and width), performance (outsole types, materials and support) and design (color combinations and embroidery).

Figure 1: Combination Logic of Predator® Precision Soccer Boot



Marketing: Event Concept and Communication

The pilot was 100% event based. Over a two-month period in 2000, six events were held in different European cities: Newcastle, Hamburg, Madrid, Marseille, Milan and Amsterdam. Consumer recruitment was very selective, using local market research agencies, phone calls, written invitations and pre- and post-event questionnaires. (Refer to **Exhibit 5** for details of the customer recruitment process for the pilot.) The target group was 50 participants per event and country.

The MC unit was designed in a rather neutral technology-oriented style stressing the brand's tradition as the athlete's support. A white cocoon (evoking a mysterious atmosphere with its shape and color) housed the 3-D foot scanner, the heart of the unit (*Picture 1-left*). A newly developed matching matrix software supported scanning and fitting. At a separate fitting terminal, a selection of sample boots was available for testing fit preferences (*Picture 1-right*).



Picture 1: MC Unit: 3-D Foot Scanner Station (left) and Fitting Terminal (right)

In addition, a design terminal (*not shown*) had a laptop on which the participants, assisted by adidas experts, could customize their soccer boot in terms of materials and design. The stations also displayed material and color samples to facilitate the decision-making process. (Refer to **Exhibit 6** for details of the customization steps.)

Today, it is a brand new, revolutionary, and futuristic experience. Soon it will be as normal as buying individualized glasses at an optician.

Consumer Feedback

adidas consumers greeted mi adidas with tremendous excitement.

Consumers loved the product. 100% want a customization service available in the future.

Shortly after the introduction of mi adidas, even adidas headquarters started to receive direct inquiries from interested consumers who wanted to purchase a customized shoe. Franck Denglos, marketing coordinator, reflected on his experience with the mi adidas pilot:

The concept and its execution gave consumers a strong positive impression of the brand. They left with the perception that adidas was acting as a leader. However, we have to keep in mind that their perception was highly influenced by the impressive tool, run by highly qualified adidas experts. Plus, during the pilot, the shoe was free.

Competitors' Footwear Customization Initiatives

Several competitors offered a similar service:

Nike Inc.

Nike Inc. decided to bring MC to the web in November 1999. Nike's NIKEiD program enabled online customers to choose the color of their shoe and add a personal name of up to eight characters.⁵ For this service, Nike asked the regular retail price for the shoe plus a \$10 custom design fee and shipping charges. Delivery of the footwear was advertised as being within three weeks for the US market. To keep fulfillment and distribution under control, however, Nike imposed an artificial ceiling and only accepted up to 400 US-based orders per day.⁶

Reebok International, Ltd

As of 2001, Reebok had not launched (or announced) its own mass customization initiative. Instead, it marketed its full foot cushion for its top of the range running shoe, the Fusion C DMX 10. Utilizing DMX@10 technology and 3-D ultralite sole material, Reebok provided 10 air pods to help distribute air for custom cushioning and to achieve the ultimate in shock absorption.⁷

New Balance Athletic Shoe, Inc.

New Balance opened its first "width center concept unit" at Harrods in London in April 2001. Coming from a long tradition of making arch supports and prescription footwear to improve shoe fit, the US-based company first manufactured a performance running shoe in 1961. By 2001 New Balance featured a range of athletic shoes and outdoor footwear. Although New Balance did not offer a customization of shoes, it typically offered its products in three (at times up to five) different width sizes to optimize shoe fit.⁸

Custom Foot Corp.

Custom Foot Corp. was one of the leading pioneers of mass customizing shoes in terms of fit and design. Featured in cover stories of the *New York Times*, *Forbes* and *Fortune*, the company seemed to show a whole industry new ways of doing

⁵ <http://nikeid.nike.com>

⁶ "Nike offers mass customization online." Computerworld, November 23, 1999

⁷ <http://www.reebok.com>

⁸ <http://www.newbalance.com> and New Balance Athletic Shoe, Inc., Press Releases, April 20, 2001

business: Custom-made Italian shoes, delivered in about three weeks, at off-the-shelf prices. But after a glorious start in 1995, Custom Foot went out of business and closed operations in summer 1998. Its concept for blending customization and mass production had failed, as the whole system could not handle the enormous complexity of the process.⁹

Creo Interactive GmbH

In 1998 Creo Interactive designed a totally new shoe based on a modular concept for the sole, the main body and the tongue. This shoe could be produced in just 83 working steps compared with Custom Foot's 150 to 300 steps.¹⁰ Leveraging the Internet as an interface for configuration, Creo offered pure design customization in terms of colors and patterns. By locating production in Germany, it was possible to swiftly fulfill European market needs. However, three years into the venture, Creo Interactive closed operations in 2001.

Customatix.com of Solemates, Inc.

Based in Santa Cruz, CA, Customatix.com allowed consumers to log onto its Internet site and choose from a vast array of colors, materials, graphics and logos to create their own personalized portfolio of designs online. "150 choices you can put on the bottom of your sneakers."¹¹ The blueprints were then transmitted to the company's factory in China, where the shoes were manufactured and shipped to the consumer's doorstep within two weeks. The shoes retailed for \$70 to \$100 per pair, including import duty and delivery charges.

The biggest problem we have is, people don't believe we can do what we do.

Dave Ward, CEO of Customatix.com¹²

Phase II: The mi adidas Retail Tours

The decision to proceed with the "Customization Experience" project was made after the successful completion and stringent evaluation of a pilot project conducted in the second half of 2000 in six European countries. During the test project some 400 pairs of the revolutionary adidas Predator® Precision soccer boots were custom built and delivered to a select group of consumers in Germany, France, England, Spain, Italy, and the Netherlands. Delivery time took two weeks on average. Consumer satisfaction was overwhelmingly positive.¹³

⁹ Piller, F.T. *Mass Customization*. Wiesbaden: Gabler Verlag, 8/2001: 397.

¹⁰ Piller, F.T. "The Present and Future of Mass Customization: Do It – Now!"

¹¹ <http://www.customatix.com>

¹² K. Smith, "Fancy Feet." *Entrepreneur's Business Start-Ups*, 7/2001

¹³ adidas-Salomon AG, Press Release, April 2, 2001 (refer to **Exhibit 7** for the full press release).

The pilot project was mainly seen as a first attempt to evaluate the requirements of “normal” consumers, as opposed to those of top athletes, with whom adidas had an ongoing relationship. Taking the successful concept of the pilot to the retail channel, however, meant facing different and new challenges. For the pilot, certain issues to do with back-end processes were adapted to current processes or not covered at all. Now, these would require more attention. In addition, a new retail unit (*Picture 2*) had to be created that was smaller (10 to 20 m²), easier to transport, more durable, and user friendly.



Picture 2: New Retail Unit Running

Retailers

Retailer interest in mi adidas was overwhelming. In Germany alone, almost 1,000 athletics specialty shops wanted to participate. However, only 50 German retail stores could be part of this second phase: the first retail tours in 2001. Soon retailer selection became a sensitive issue within adidas: Marketing preferred small athletics specialty shops for a maximal image effect and utmost retailer commitment.¹⁴ Sales, however, favored big key accounts for reasons of relationship management. In addition, country selection was controversial: In some countries retailers were accustomed to paying a fee to a manufacturer for being able to host a promotion such as mi adidas. In other countries, retailers had never paid a fee for in-store promotions and might even demand a fee from the manufacturer instead. Depending on the final selection verdict, retailer feedback ranged from enormous enthusiasm to vast disappointment (even sporadic threats to withdraw business from adidas altogether).

Once selected, the retailers took care of consumer recruitment. To support them in marketing mi adidas, they were given a package of communication tools: CDs,

¹⁴ Some specialist stores got very excited about mi adidas and lined up local sponsors to equip entire sports teams with customized shoes while hosting the mi adidas retail unit at their outlet.

posters, invitation cards, registration cards and folders. Some retailers felt that the material was not engaging enough and demanded more support. Subsequently, the countries modified and translated the tools to fit the needs of their consumers more directly. Yet consumer turnout (and order placement) varied greatly from one retail store to another, depending on the commitment to mi adidas.

Whereas the pilot was 100% event based, retailers played the central role in the second phase and accounted for roughly 90% of the order volume. Using multiple mi adidas retail units, well over 100 retailers participated across Europe in 2001.

Customization Process

The customization process was still run by adidas experts and emphasized the “brand experience” theme. The 3-D foot scanner, however, had been replaced by a simpler FootscanTM unit, which was used in combination with a static measurement device for length and width measures. At the same time, the proprietary matching matrix software continued to evolve and directly conformed to consumer preferences in three out of four cases. The overall process had become very stable. 50 to 80 “customization experiences” could be handled per day during an event while about 15 to 20 were possible at a retail outlet.

Recent survey results seemed to confirm European consumers’ interest in customized shoes. Although a focus on design customization was much simpler from a configuration perspective, consumers rated a customized design as much less important than a customized fit. In addition, individual preferences varied significantly across different European countries (and to a lesser extent also between men and women), necessitating further research for a targeted offering.¹⁵

Product and Pricing

The athletics footwear market was characterized by rapid product turnover. In 2001 mi adidas already featured its second product generation in soccer boots. The customized version of this soccer boot sold for a 30% to 50% price premium over the catalog price of €150.¹⁶ In addition, the product offering was expanded into running shoes. After successful internal presentations of mi adidas for Running at the adidas global marketing meeting in March 2001 and the Investor Day in July 2001, preparations were made to launch the project in the Running market. In September 2001 mi adidas for Running was introduced to the market during the Berlin Marathon. Consumers were either recruited or invited by PR, or they were impulse buyers who passed by and became interested. Within three weeks, they received the shoes. For 2002 the plan was for mi adidas for Running to be present at all adidas-sponsored marathons (i.e., Paris, Boston, London, Madrid, Rotterdam, Prague and Berlin) and to go on a retail tour in the relevant country after each event.

¹⁵ Jäger, S. “Market Trends: From Mass Production to Mass Customization.” EURO ShoE project, March 3, 2002, Innovation in the European footwear sector conference, Milan

¹⁶ “Individuelle Maßanfertigung von Sportschuhen.” *Schuhplus / infocomma*, October 15, 2001

Consumers

Consumer feedback was excellent. In particular, the short delivery time and the opportunity to design their own shoes impressed the consumers. mi adidas also attracted strong interest from the press: Two television stations (Bayerischer Rundfunk and Fox TV) and many articles featured adidas' MC initiative and hailed it as a major milestone.

Although we received this good feedback, there were several technical problems that had to be tackled. These problems caused delays and in some cases wrong production...

Information Management

Information management throughout the entire process was critical: Basic consumer data, product options, biometric knowledge and product specifications had to be merged for order taking. In addition, sourcing, production, distribution, payment and reordering required appropriate IT backing.¹⁷

Information is the most important conversion factor of successful mass customization.

Many challenges in terms of the scope and integration of the required IT infrastructure remained:

- a) The mi adidas kiosk system for order creation led to technical problems with synchronizing information generated offline (e.g., order numbers and customer records) with adidas backbone systems such as the sales system and customer master database
- b) The traditional sales system was not designed to process orders of individually customized shoes with detailed information on each article
- c) The IT systems for distribution needed to be extended for an organized distribution and return process
- d) Consumer data captured via mi adidas could not be transferred to the adidas CRM system.

There were ways around these problems, but they resulted in limited centralization and poor accessibility of data.

The initial rollout was clearly under-budgeted. For example, eRoom [*Exhibit 10*] was chosen as the web accessible repository for the technical documents. This decision was not entirely supported by Global IT and is seen as a short-term solution until an alternative can be found.

All development, configuration and support for mi adidas had thus far been absorbed by the business and no costs had been charged to the project budget for IT

¹⁷ Dulio, S. "Technology Trends: From Rigid Mechanical Manufacturing to Mass Customization." EURO ShoE project, March 3, 2002, Innovation in the European footwear sector conference, Milan.

solutions, beyond the mi adidas kiosk application and scanning software. The kiosk application was developed by a contractor. However, no helpdesk was available for support and future system integration. The IT department was worried:

The speed of implementations, the time needed to support both SAP and non-SAP countries and the limited resources Global IT presently has to support this, leads to the conclusion that we may fail to maximally deliver mi adidas globally.

mi adidas had progressed fast--calling for a completely new set of requirements.

mi adidas, even such a small project, has forced the IT department to think about how close we are getting to our consumers and what is needed to support this development.

Production

By 1992 most sporting goods companies had outsourced the main part of their footwear production to the Far East to reduce production costs. adidas followed suit and outsourced all textile production and 96% of footwear production during its turnaround in the mid-1990s. The outsourced footwear production was divided between Asia (China, Indonesia, South Korea, Taiwan, Thailand and Vietnam), Eastern Europe and North Africa. Depending on the quality of the shoe, between 20% and 40% of production costs was related to personnel costs, which were the main driver for cost differences between regions.¹⁸ Contract manufacturers focused on footwear assembly and sourced input materials from local suppliers as needed. (*Refer to **Exhibit 8** for a supply chain overview.*)

adidas maintained a small footwear factory in Germany, in Scheinfeld, near its headquarters. Here, models, prototypes and made-to-measure performance products could be manufactured and tested. In addition, special shoes for Olympic sports such as fencing, wrestling, weightlifting and bobsled were made. However, Scheinfeld was not excited at the prospect of taking mi adidas production in-house. Furthermore, material provisioning for a vast set of customization options could be more costly in Scheinfeld because it was too far away from volume production sites and suppliers.

The production processes used for the mass customization shoes were the same basic processes used in mass production. For the MC events, however, a combination of development sample room and mass production facilities was used (*refer to **Exhibit 9** for a comparison*). This combination was chosen to allow for the highest level of control and quality while providing a minimal “disruption” to the factory’s daily mass production schedule.

A program like mi adidas, without dedicated facilities, manpower and materials resources, will always be perceived as an interruption to the overall process of creating shoes.

¹⁸ IMD adidas case IMD-3-0743 (GM 743), January 26, 1999

Yet the capacity of the sample rooms was limited¹⁹ and its operational format was not designed for volume scale effects. The mass production facilities, by contrast, were not meant to handle a lot size of one²⁰ nor were they set up to allow for close linkage of individual product flow with corresponding customization information. Such a process was not in place and the workers lacked training and language capabilities to handle production according to detailed written product specifications.

Variability is simply not in our business model!

Although the assembly of a customized shoe was theoretically straightforward, provisioning the required material proved to be time consuming. Delays were exacerbated when material was needed that was not currently available for in-line production. In this case, special material provisioning resulted in significant inventory costs as materials for the top of the range models in question were expensive. From a production perspective, a better understanding was needed of the value-cost trade-off between the marketing perception of customer value-added versus inventory and production costs for specific customization options. For example, design customization in terms of multiple colors was not ideal from a material provisioning perspective because different shoe sizes already meant different component sizes (e.g., strip length varied with the shoe size), which would now have to be available in a range of colors. These trade-offs and the options available for new shoes should ideally play a much more prominent role right from the start--in designing products for MC. Karl-Josef Seldmeyer, vice president, head of global supply chain management, summarized his experiences:

For today's volumes, the combined complexity of fit, performance and design is too much.

Distribution

Timely mass customization also depended on proper execution of communications and logistics to meet the seven-day lead-time from order receipt to ex-factory shipping. Starting from July 2001, the mi adidas process was changed from a pilot with deliveries direct to the final consumer to a process that involved the retailers in customization and distribution. After customization at the retailer shops, orders were no longer transferred directly to the sourcing systems. Instead, they were routed from the retailer to the respective subsidiary's sales system and from there to Logistics Ordering Systems, using the subsidiary's regular buying process. The addressee was no longer the final consumer but the individual retailer in whose shop the customization had taken place. The individual retailer was now responsible for distribution to the end consumer. (*Refer to Exhibit 10 for an overview of the mi adidas order and product flow.*)

¹⁹ For the mi adidas pilot, volume was limited and production was not a problem. In general, a development sample room, however, could not handle more than 500 to 1,000 pairs per month.

²⁰ Production set-ups were often made only once per day producing large batches of footwear.

Communication and Competing Initiatives

With the push into multiple product categories, communication became more difficult. In particular, the extremely technical and highly advanced customization process could not be adequately promoted as the mi adidas budget did not support targeted messaging by category. However, increasing the marketing spend was not then an option, since marketing saw MC as just one of many initiatives. After all, they already supported top athletes via a special care team and tailor-made shoes made in Scheinfeld. Since it was naturally in competition for resources and management attention with other recent initiatives, mi adidas was often seen as secondary to designated brand concepts such as “a³”²¹ and “ClimaCool”^{TM,22}. Hence a³, “Football never felt better” and Clima acted as overriding messages for the upcoming marathons, Soccer World Cup and Roland Garros, respectively.

Communication activity and spend needs to be regulated, ensuring that brand concepts are not undermined by ongoing mi adidas activity.

adidas’ Own Retail Activities

To further strengthen its brand, adidas had also just stepped up its own retail activities, increasing the number of its own retail outlets from 37 in 2000 to 65 in 2001. Most notable here was the opening of two concept stores in Paris and Stockholm as well as an adidas Originals store in Berlin.²³

Negotiating Continued Internal Support

By October 2001 mi adidas was an established initiative and the generally positive brand image effect was widely accepted within the organization. Although mi adidas had become bigger, the organizational set-up had not substantially evolved. To date, much of the support for the project from different functions of adidas was granted on a goodwill basis. As time progressed and volumes increased, it naturally became more and more difficult to persuade core business units to fully support this initiative, especially out of their own cost centers.

The annual budget for mi adidas had basically stayed identical during its first years.

The situation was not ideal. Although the functions continued to support mi adidas and took pride in its success to date, the ultimate responsibility for mishaps, of course, rested with the project team. Should mi adidas be elevated and play a more

²¹ a³ was a functional technology combining cushioning, stability and light weight. It managed the foot’s natural movement by dissipating harmful impact forces, stabilizing and guiding the foot through the entire footstrike, and retaining and redirecting energy from the rear foot to the front foot. adidas planned to introduce the concept for running shoes in 2002 as the most technical, functional design available.

²² ClimaCoolTM was a footwear technology concept offering 360 degrees of ventilation and moisture management. In scientific tests, it produced 20% dryer and 20% cooler feet. Targeting regular or serious athletes, adidas planned for a staggered market introduction across products in 2002.

²³ adidas-Salomon AG, 2001 Annual Report

independent role or should it be better integrated into the existing matrix to be in sync with adidas' core business, with the functions in turn assuming more accountability? A clear evaluation was made difficult by the current practice of attributing mi adidas sales to the respective countries, hindering separate accounting.

The Future of mi adidas

Reinschmidt wondered if the time was right to scale mi adidas to the next level (Phases III and IV; refer to *Exhibit 3*)? The pilot (Phase I) had been very successful and adidas had developed and refined important new capabilities. Consumer feedback was enthusiastic and retailers fared much better during repeat offerings of mi adidas. Yet the initial retail rollout (Phase II) had been somewhat slower than projected, falling 40% to 50% short of the targets established in the original rollout plan.

Future Alternatives

Reinschmidt had come to the conclusion that mi adidas needed clearer direction. Once again he reviewed the three generic alternatives that the company could embark on:

mi adidas could be turned into a commercial tool over the course of the next years and now was the time to decide upon this.

Alternative 1: *Withdraw* – Celebrate the success and PR effect accomplished to date but quietly withdraw from MC in order to focus on adidas' core business.

mi adidas had been launched two years earlier and now featured a soccer and running shoe. As the product life for these model cycles ended, so would mi adidas. Current commitments would be honored but any further investments in the MC initiative were to be avoided. New PR tools would soon take the place of mi adidas.

Alternative 2: *Maintain* – Maintain the developed capabilities and selectively run mi adidas fairs and planned retail tours following top events such as the Soccer World Cup and world marathon series.

mi adidas would continue in its current form and scope and be allowed limited organic growth. Investment would be minimal and MC responsibilities would be more fully integrated into the existing functions. mi adidas would be part of (and governed by) adidas' annual planning cycle. As new boots were introduced to the market, a customizable derivative of those models would be created for mi adidas; the kiosk application, promotional material and back-end processes, etc. would be adapted accordingly.

Alternative 3: *Expand* – Expand mi adidas to multiple product categories and permanent retail installations; elevate it to brand concept status while further building volume and process expertise.

mi adidas would be scaled up in terms of both volume and product categories. Increased marketing spend and revised back-end processes would support its rollout. Permanent installations at select retail stores would complement the event and retail tour concepts to foster more continuous order flow and steady volumes. Further investments would ensure a degree of independence for mi adidas and help develop MC into a potential business model in its own right for adidas.

Decision Looming

Reinschmidt had the alternatives lined up and it was up to him to come to a sensible recommendation based on the various inputs received. He had just started to summarize a set of key issues that should determine which alternative to choose, as well as his assessment of the alternatives, when he was interrupted...

Inspection Copy

Exhibit 1
Global Footwear Market: Regional Overview
*adidas footwear sales*²⁴

Region	2001 Net Sales	Net Change vs. 2000
North America	€18 million	- 10%
Europe	€1,200 million	+ 15%
Asia	€71 million	+ 39%
Latin America	€122 million	+ 3%

Note: adidas' total net sales in 2001 were €4.8 billion.

*Nike footwear sales*²⁵

Region	2001 Net Sales	Net Change vs. 2000
USA	\$3,209 million	- 4%
Europe	\$1,423 million	+ 9%
Asia Pacific	\$632 million	+ 14%
Americas	\$360 million	+ 5%

Note: Nike's total net sales in 2001 were \$9.5 billion.

Reebok footwear sales

Region	2001 Net Sales	Net Change vs. 2000
USA ²⁶	\$931 million	+ 1%
UK*	\$484 million	+ 1%
Europe*	\$410 million	- 4%
Row*	\$256 million	- 4%

Note: Reebok's total net sales in 2001 were \$3.0 billion.

²⁴ adidas-Salomon AG, 2001 Annual Report, Year Ended 12/31

²⁵ Nike Inc., 2001 Annual Report, Year Ended 5/31

²⁶ Reebok International, Ltd., 2001 Annual Report, Year Ended 12/31

* Footwear share of net sales estimated based on Reebok International, Ltd., 2001 Annual Report.

Exhibit 2

A Short History of adidas: 1920-2001

It all began in 1920, when Adolph “Adi” Dassler and his brother Rudolph made their first shoes in Herzogenaurach, a small village in the south of Germany. Using the few basic materials available after World War I, Rudolph began making slippers with soles made from old tires. Adi converted the slippers into gymnastics shoes and soccer shoes with nail-on studs or cleats. The idea was as simple as it was brilliant: Provide every athlete with the best possible equipment.

At the 1928 Amsterdam Olympics, German athletes showcased Dassler shoes to the world. In 1936, the brothers achieved a major breakthrough when Jesse Owens agreed to wear their shoes in the Berlin Olympics, where he won four gold medals. By 1937 the Dassler brothers were manufacturing shoes for more than 11 different sports. In 1948 the two brothers quarreled and Rudolph left to establish the Puma sports company, while Adi registered the name adidas and, the following year, adopted its now famous three diagonal stripe trademark. The first samples of adidas footwear were used at the 1952 Helsinki Olympics.

In 1954 Germany won the World Cup, wearing new screw-in studs on adidas soccer shoes. In 1963 the first adidas soccer ball was produced and clothing was added to the product range in 1967. By the Montreal Olympics in 1976, over 80% of medal winners were adidas-equipped athletes. Business was booming. adidas had become a household name in the sporting arena, synonymous with sporting achievement.

In 1972 Nike entered the American market with low quality, fashionable leisurewear targeting teenagers. Reebok followed suit in 1979. Following the death of its founder in 1978, adidas struggled through turbulent organizational and management changes and was quickly outrun by changes in the industry. Its street popularity faded as newer, more aggressive companies like Nike and Reebok stepped up the pace of competition.

In 1989 the Dassler family withdrew from the company, and the enterprise was transformed into a corporation. Bernard Tapie, a French business tycoon, took over but was soon jailed following his involvement in a soccer-fixing scandal. Subsequently, adidas was declared bankrupt and left to a number of French banks. In 1993 French-born Robert Louis-Dreyfus was appointed chairman of the executive board of adidas. Having purchased 15% of the company, Louis-Dreyfus was a majority shareholder and led a stunning turnaround for the company and initiated adidas' flotation on the stock market in November 1995.

In 1997 adidas acquired Salomon Group, and the company's name changed to adidas-Salomon AG. With the brands adidas (athletic footwear, apparel and accessories), Salomon (skis, bindings, inline skates, adventure shoes and accessories), Taylor Made (golf clubs, balls and accessories), Mavic (cycling components) and Bonfire (snowboard apparel), adidas-Salomon AG substantially broadened its portfolio of sports brands, offering products for both summer and winter sports.

In 2001 Herbert Hainer took over as chairman and CEO. adidas-Salomon AG's total net sales grew to €6.1 billion with net income of €208 million. It employed 14,000 people and commanded an estimated 15% world market share.

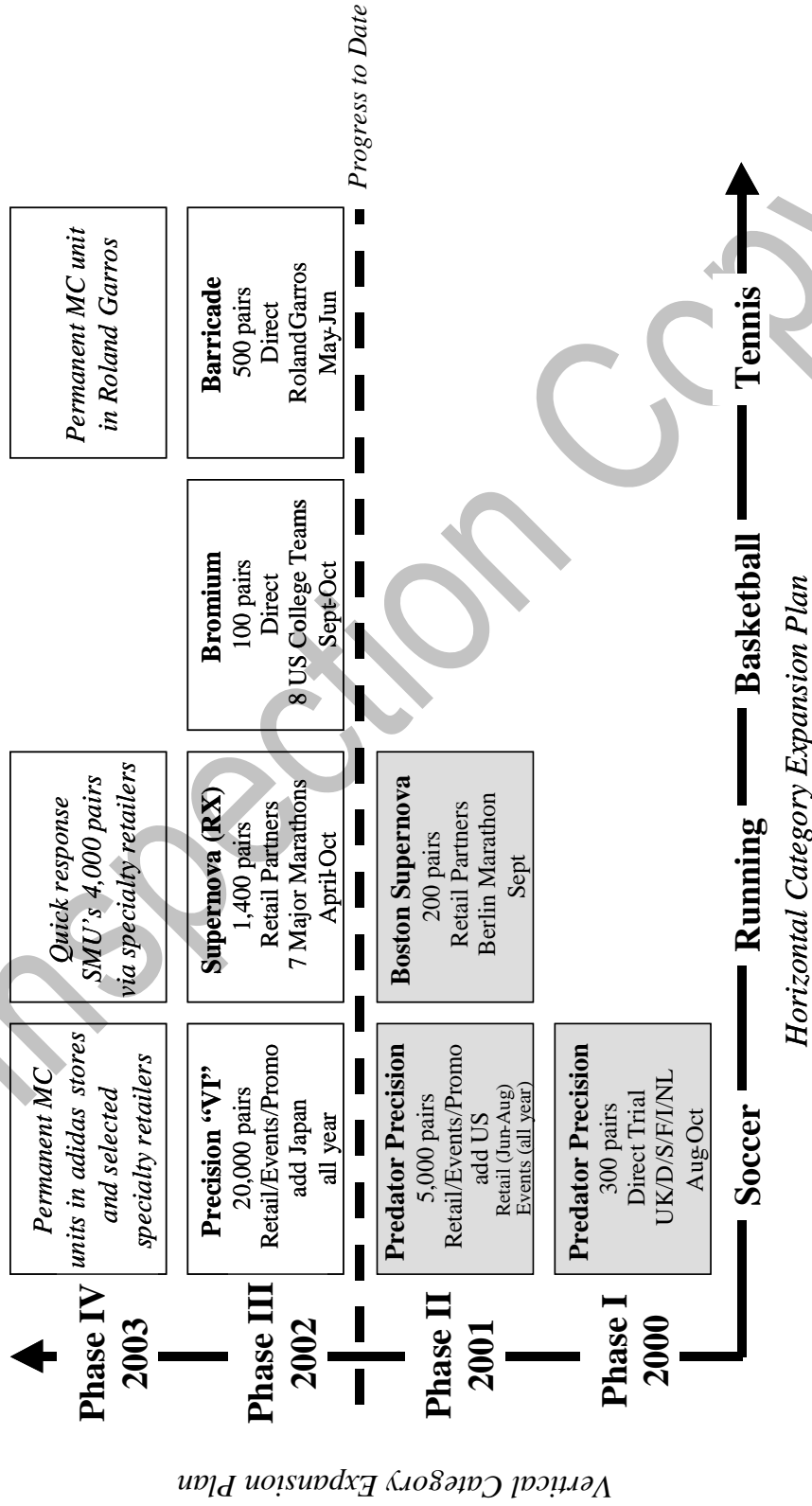
Source: <http://www.adidas.com> and IMD adidas case IMD-3-0743 (GM 743), January 26, 1999

Exhibit 3 Working Breakdown Structure Plan

Project Management	Product Development	Product Configurator / Design tool	Marketing → Event → Communication	Information Management	Production	Logistics / Shipment	Service/ Fulfillment	Payment Tracking
<ul style="list-style-type: none"> project organization tracking budgeting / payment project kick-off project evaluation meetings & presentations handle critical situations 	<ul style="list-style-type: none"> product development pattern engineering foot bed fit test sample production budget 	<ul style="list-style-type: none"> layout image to transport configuration principle handling general architecture potential for future other categories eCommerce intelligence data flow interfaces budget 	<p>Product Configuration</p> <ul style="list-style-type: none"> color variations positioning/ layout of all decorations clarify: stitching or printing of deco's cosmetics <p>Event</p> <ul style="list-style-type: none"> concept message we want to bring across PR-image we want to create communication strategy (name of program/ product!) pre-event event organization post-event cooperation with regions conceptualization of product Configurator budget 	<ul style="list-style-type: none"> general IT structure data tracking handling storage research speed intelligence future plans budget 	<ul style="list-style-type: none"> data reception creation of bills of material planning operation production on demand QC on demand preparation for shipment packaging interfaces to systems and projects (e.g. scanner, payment, eCommerce, content management) production site selection budget 	<ul style="list-style-type: none"> customized packaging and shipment define partner for shipment speed costs quality budget 	<ul style="list-style-type: none"> hotline satisfaction panel returns/ replacement next steps new offers ensure enduring customer-brand-relationship 	<ul style="list-style-type: none"> clarify types of payment: → online (credit card) → credit card at event location → invoice → currencies → accounting and billing

Source: Company information

Exhibit 4
Mass Customization Rollout Plan



- Legend -

Product
Target Quantity
Distribution Channel
Location
Date

Source: Berger, C. "The Customized Revolution at adidas." *Kundenindividuelle Massenproduktion: Von Businessmodellen zu erfolgreichen Anwendungen*. Eds. M. Schenk, R. Seelmann-Eggebert, F.T. Piller. Die dritte deutsche Tagung zur Mass Customization, Frankfurt, November 8, 2001

Exhibit 5
One-to-One Communication with the Event Participants / Recruits

- 15 days		Local market research agency contacts potential participants. Questionnaire-guided telephone interview.
- 10 days		Selection of recruits based on questionnaire answers. Telephone availability-check of the recruits. Set-up of substitute list.
- 7 days		Official written invitation accompanied by pre-event questionnaire.
- 2 days		Ultimate check if recruits will take part in the event. Telephone invitation of substitutes as required.
Event		adidas customization experience and on-site interview
+ 2 weeks		Delivery of customized soccer shoes.
+ 6 weeks		Telephone follow-up interview.

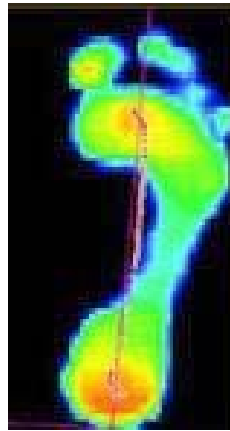
Not only should the product and services be individualized and unique, but also the personal relationship and interaction with the consumer as being part of the customization experience. Are we prepared?

Christoph Berger, Director MC

Source: Company information

Inspection Copy

**Exhibit 6
The Customization Process**



<u>Step 1</u> check in >	<u>Step 2</u> scanning >	<u>Step 3</u> fitting >	<u>Step 4</u> testing >	<u>Step 5</u> design >
Get ready for “mi adidas”! Get registered now for the chance to create your unique pair of customized shoes.	First your feet will be scanned by means of the adidas Footscan system to determine the exact length, width and pressure distribution of each foot. This will enable you to determine which technologies your shoe will need for optimal performance.	Here you consult with an adidas fitting expert to review the results of your footscan. Then this information, combined with your personal fit preferences, is entered into a computer to determine the best-fitting shoe.	Once you have determined your personalized function and fit, you will have the opportunity to test your shoes before heading into the final design phase.	Now you can put the finishing touches on your one-of-a-kind shoes. You will be able to choose different colors, materials and even personalized embroidery--all of which can be viewed on the computer screen as you make your selections.

All that is left now is to confirm and order your customized shoe.²⁷ Within two weeks your personalized footwear will be with you ready for a new level of performance.

Source: <http://www.miadidas.com>

²⁷ Customers were not pushed to accept a customized shoe--returns upon delivery were minimal.

Exhibit 7
Press Release: “adidas to Launch Customization Experience”

Custom-built footwear for consumers - Retail launch mid 2001 - Pilot project unit on display at ISPO

Herzogenaurach, 02/04/2001 – adidas, as the first brand in the sporting goods industry, is set to launch a pioneering “Customization Experience” project in footwear. The project starts in the Soccer category, but will be expanded into other major sports categories. With the “Customization Experience” project, adidas will give consumers the opportunity to create their own unique footwear to their exact personal specifications in terms of function, fit and looks, thus providing services that were so far only available to soccer stars like David Beckham and Zinedine Zidane.

The decision to proceed with the “Customization Experience” project was made after the successful completion and stringent evaluation of a pilot project conducted in the second half of 2000 in six European countries. During the test project some 400 pairs of the revolutionary adidas Predator® Precision soccer boots were custom built and delivered to a select group of consumers in Germany, France, England, Spain, Italy and the Netherlands. Delivery time took two weeks on average. Consumer satisfaction was overwhelmingly positive.

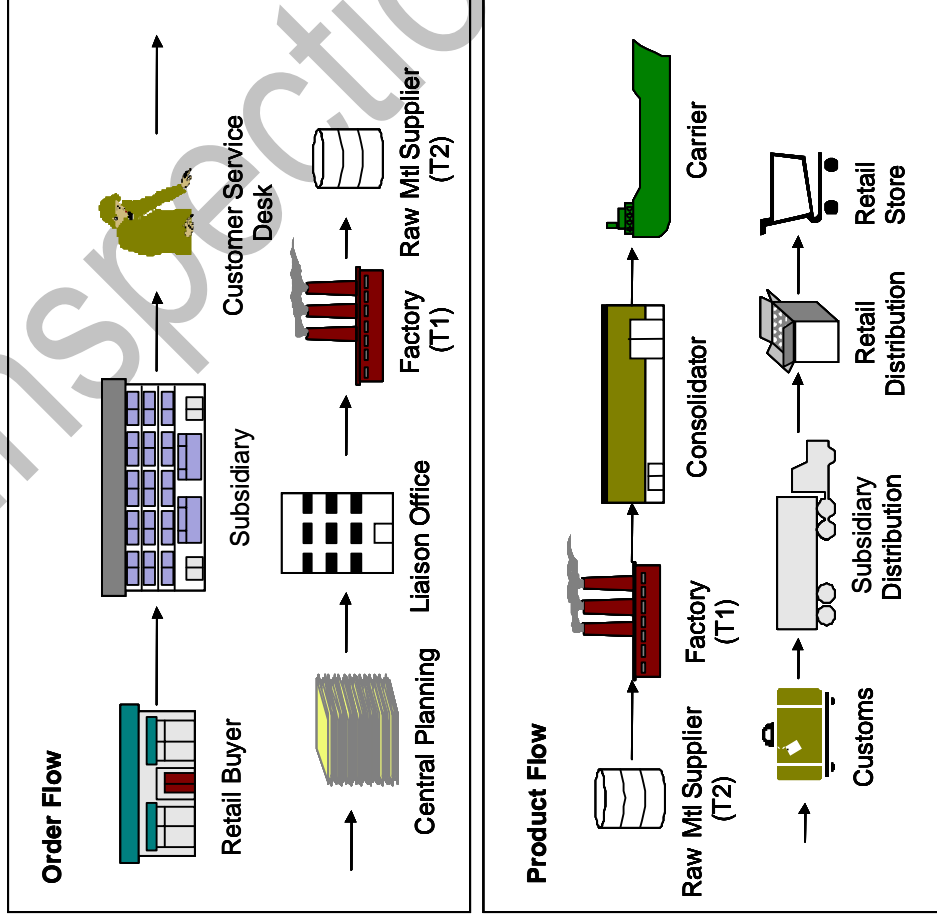
With the start of the “Customization Experience” project, adidas is entering the new age of the “experience economy.” adidas introduces a new business model in the industry, influencing and changing the whole value chain and potentially the sporting goods marketplace, creating a new level of relationship between the consumer and the brand.

The adidas “Customization Experience” unit used during the pilot project will be on display at ISPO in Munich, February 4–6, 2001. Launch in the retail marketplace is scheduled for mid 2001.

Source: adidas-Salomon AG

Exhibit 8

Traditional Order and Product Process Flow



Three mi adidas Production Sites



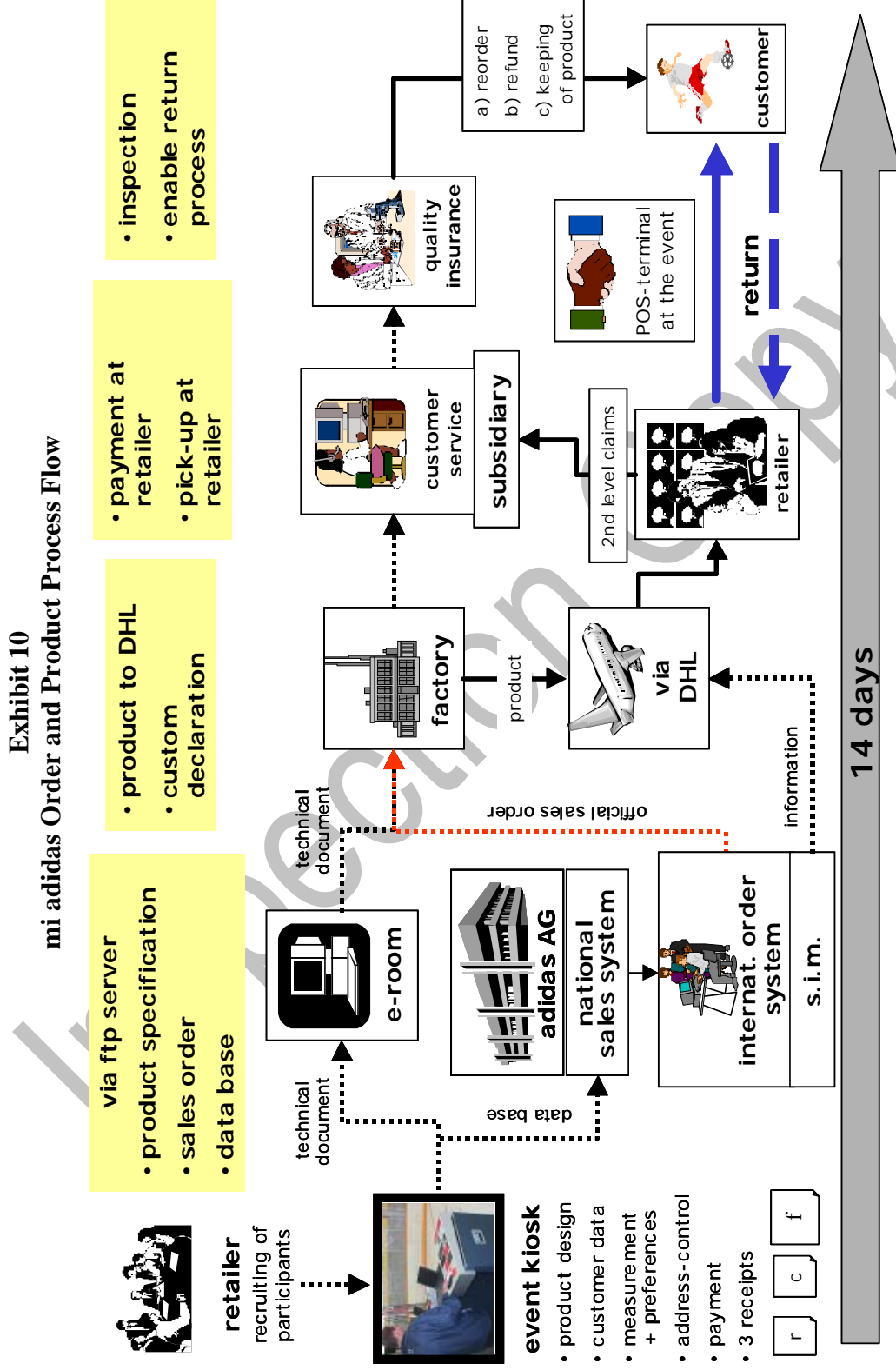
Source: Company information

Source: www.maps.com, company information

Exhibit 9
Comparison: Classical Production versus Mass Customization of adidas Footwear

cp (classical production)	mc (mass customization)
production	
<ul style="list-style-type: none"> • third party production • mass/bulk production • weekly production planning 	<ul style="list-style-type: none"> • third party production • Fast-moving lines • "on demand"
delivery -logistics	
<ul style="list-style-type: none"> • transportation outsourced • distribution centers (adidas owned) 	<ul style="list-style-type: none"> • complete outsourcing • (from factory to retailer)
lead time and production time	
70-110 days lead time orders - delivery in dc (distribution center)	14 days lead time order - delivery to customer (with material in stock) = critical. component 3-4 days in production process
delivery -logistics	
0,70 \$ seafreight (landed DC) 4,50 \$ airfreight (landed DC) + customs and distribution freight	~ 6 \$ courier service (landed retailer) per pair

Source: Berger, C. "The Customized Revolution at adidas." *Kundenindividuelle Massenproduktion: Von Businessmodellen zu erfolgreichen Anwendungen*. Eds. M. Schenk, R. Seelmann-Eggebert, F.T. Piller. Die dritte deutsche Tagung zur Mass Customization, Frankfurt, November 8, 2001



Source: Berger, C. "The Customized Revolution at adidas." *Kundenindividuelle Massenproduktion: Von Businessmodellen zu erfolgreichen Anwendungen*. Eds. M. Schenk, R. Seelmann-Eggebert, F.T. Piller. Die dritte deutsche Tagung zur Mass Customization, Frankfurt, November 8, 2001