

Effectiveness Comparison of Differentiation Strategies in Sports Footwear Industries Companies: A Case Study

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Abstract

The sports footwear industry has a fierce competition within because of the consumers are price-sensitive. Footwear products is one of the most profitable sections in the sports industry company compared to the other section. Nowadays, as consumers have access to the information needed, they become more selective in selecting products. Companies have to develop a strategy to make their products stand out compared to their competitors. This paper chose Nike and Adidas as the object of study as they are two of the biggest companies in the sports footwear industry. The findings of this study showed that both Nike and Adidas implemented strategies constantly improve their financial performance and increased their revenue from footwear products.

Keywords

Differentiation strategies, financial performance, manufacturing, sports footwear industry

1. Introduction

In sports, the equipment used by athletes often significantly affects their performance for example a racket that has better grip, or a suit that provides better aerodynamics. In addition, equipment is also an important factor in terms of injury, because incorrectly installed equipment can easily lead to accidents. In the fast-moving sports market, companies are constantly being challenged to come up with new products that outperform competitors' products and deliver good fit and performance. However, many products in the sports goods industry have reached maturity, and can hardly be upgraded by conventional methods (Meier et al. 2018). Then, the most important factor for consumers to buy sports shoes is the comfort, quality and brand of the sports shoes (Che et al. 2020). In addition, based on the results of the study, it was found that the relationship between consumer love for sports stars affects the sales of sports shoe brands, this is proven by a survey conducted on the Nike and adidas brands from 300 respondents, where both brands are worn by sports stars (Zhou et al. 2020). Brand strength also greatly affects sales of sports shoes, where the strength of the brand is a characteristic of consumer preference, quantity, uniqueness, and consumer familiarity with the brand (Mühlbacher et al. 2016).

The outbreak of the Covid-19 pandemic in early 2020 is accelerating with unprecedented global restrictions on daily life. These global restrictions, in some countries experiencing "lockdown", and of course have an impact on economic aspects in all sectors. In the UK, the lockdown has resulted in the suspension of professional sporting events which have an impact on consumer behaviour (Wardle et al. 2021). The COVID-19 crisis has affected the sports industry, so a strategy that focuses on marketing activities, joint product development and internationalization is needed (Ratten et al. 2021).

Business strategy is indispensable to a company which can become more active and sensitive to future threats. For external factor, environmental uncertainty needs to be considered for improving their strategy. (Kurnia and Nurcahyo

2018). There are several types of strategies that are usually applied in a company, such as: Forward integration, Backward integration, Horizontal integration, Market Penetration, Market Development, Product Development, related Diversification, Unrelated Diversification, retrenchment, Divestiture, and Liquidation (David and David 2015). Meanwhile, according to Porter, strategy allows organizations to gain competitive advantage on three different bases: cost leadership, differentiation, and focus (David and David 2015).

The potential of Thai industrial product design is still inferior to that of the leading competitors in the world market (Adulyanukosol and Silpcharu 2020). Meanwhile, the sports shoe industry in Italy also uses a new product development strategy that is influenced by Three macro factors: extended team approach (also cross-company); customer orientation; and the use of advanced ICTs for new product development (Ciappei and Simoni 2005). Based on statista.com, Nike and Adidas are the top two leading footwear brands in 2020 which show in Figure 1 as follows:

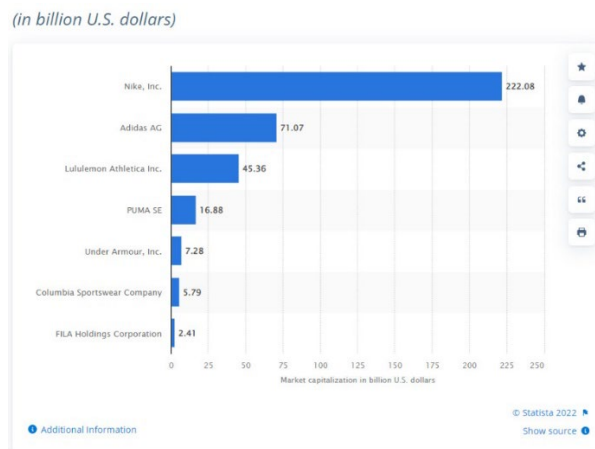


Figure 1. Market Capital Leading Athletic Apparel, Accessories, Footwear Companies Worldwide in 2020 (source: statista.com)

Nike, Inc. is an American multinational corporation that is engaged in the design, development, manufacturing and worldwide marketing and selling of footwear, apparel, equipment, accessories and services. The company is headquartered near Beaverton, Oregon, in the Portland metropolitan area (USA). It is one of the world's largest suppliers of athletic shoes and apparel and a major manufacturer of sports equipment, with revenue in excess of US\$24.1 billion in its fiscal year 2012 (ending May 31, 2012). As of 2012, it employed more than 44,000 people worldwide. In 2014 the brand alone was valued at \$19 billion, making it the most valuable brand among sports businesses. Nike produces a wide range of sports equipment. Their first products were track running shoes. They currently also make shoes, jerseys, shorts, cleats, base layers, etc. for a wide range of sports, including track and field, baseball, ice hockey, tennis, association football (soccer), lacrosse, basketball, and cricket. Nike Air Max is a line of shoes first released by Nike, Inc. in 1987. Additional product lines were introduced later, such as Air Huarache, which debuted in 1992. The most recent additions to their line are the Nike 6.0, Nike NYX, and Nike SB shoes, designed for skateboarding. Nike has recently introduced cricket shoes called Air Zoom Yorker, designed to be 30% lighter than their competitors'. In 2008, Nike introduced the Air Jordan XX3, a high-performance basketball shoe designed with the environment in mind.

Adidas Group, was founded in a small town in Bavaria, Germany after first steps in his mother's wash kitchen, Adi Dassler registered the "Gebrüder Dassler Schuhfabrik" in 1924 and embarked on his mission to provide athletes with the best possible equipment. Gold medals in Amsterdam (1928, Lina Radke) and Berlin (1936, Jesse Owens) were first rewards and milestones. On August 18, 1949, Adi Dassler started over again at the age of 49, registered the "Adi Dassler Adidas Sports chuhfabrik" and set to work with 47 employees in the small town of Herzogenaurach. Today,

Adidas is a global public company and is one of the largest sports brands in the world. It is a household brand name with its three stripes logo recognized in markets across the world. The company's product portfolio is vast, ranging from state-of-the-art sports footwear and clothing to accessories such as bags, watches, eyewear and other sports-related goods and equipment. Employing over 46,000 people worldwide, the Adidas Group consists of around 170 subsidiaries including Reebok, Taylor Made Adidas Golf, Rockport and CCM-Hockey. The Group's headquarters are in Herzogenaurach, Germany. In the third quarter of 2014 the Group's revenue was €4.118 billion.

1.1 Objectives

The objectives of this paper are:

1. Identify the implementation of differentiation strategy between Nike and Adidas footwear industry
2. Analyze the success rate of implementing differentiation strategy in Nike and Adidas footwear industry
3. Determine which company has a better result after the implementation of differentiation strategy

2. Literature Review

2.1. Operational Effectiveness

A company can outperform rivals only if it can establish a difference that it can preserve. It must deliver greater value to customers or create comparable value at a lower cost, or do both. Operational effectiveness means performing similar activities better than rivals perform them. Differences in operational effectiveness among companies happened because some companies are able to get more out of their inputs than others because they eliminate wasted effort, employ more advanced technology, motivate employees better, or have greater insight into managing particular activities. (Porter 1996).

2.2. Porter's Generic Strategies

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. Two alternative types of cost leadership strategies are low-cost strategy and best-value strategy. Both strategies target a large market. The next Porter's generic strategy is differentiation, a strategy aimed at producing products and services considered unique industrywide and directed at consumers who are relatively price-insensitive. Then, Focus strategy. It means producing products and services that fulfil the needs of small groups of consumers. Two alternative types of focus strategies are low-cost focus strategy and best-value focus strategy. (David 2015).

The business model in this study using the differentiation strategy. A differentiation strategy business model can help the organizations to achieve sustainable competitive advantage and to improve organizational performance. This model fit for every kind of organization and helps to become sustainable with opportunity to create a unique way of doing business. There is direct positive relationship between differentiation strategy and competitive advantage to organizational performance. (Islami et al. 2020).

2.3. Strategy in Manufacturing

The company's operational performance and business performance are of paramount importance in increasing the global competitive advantage of the manufacturing industry. To maintain competitive advantage, companies must focus on the quality of products and services provided to customers. It is important for companies to foster a sense of innovation, and to focus on the quality of the products or services provided. One of the factors that can affect operational and business performance is the implementation of the ISO 9001 quality management system. The ISO 9001 variables are organizational leadership, customer requirement, defect prevention, continuous improvement and supplier quality management. (Nurcahyo et al. 2020). Quality strategy exerts a statistically significant effect on the performance of industries. The higher the value of manufacturing complexity, the quality strategy needs to be prioritized to improve the performance in addressing the increase of manufacturing complexity. (Budiono et al. 2021).

2.4. Strategies in Sportswear Company

The strategy used by Nike and adidas is differentiation. Nike's strategy is continuous focus on innovation and emphasis on its research and development, and do their best to produce footwear that reduce injury, help in athletic performance and maximize comfort and enjoyment. According to Nike, Innovation is at the heart of Nike's business

growth strategy and it uses this innovation in order to become more sustainable company and to keep up with the competition and customer demands. Nike's premium pricing strategy targets the customers who develop a special kind of intimacy with the product that ultimately leads to the development of loyalty. Since the loyalty has been established between the company and consumers; Nike takes the advantage to associate their consumers with their price. Based on that strategy, Nike produces its products for athletics in three ways. Firstly, it manufactures for three different segments of people: men, women and children. Secondly, differentiates its products by offering a variety of accessories and apparels like shoes, gym bags, gloves and skates. Thirdly, Nike has the licensees to manufacture and sell Nike brand products aside from athletic products like school supplies, electronic media devices and timepieces. (Mahdi et al. 2015).

Adidas also focuses on differentiation strategy. The strategy of Adidas focuses on innovation, trying to produce new products, services and processes in order to cope up with the competition. In 2014, Adidas centralised their Sales Strategy & Excellency team to support all market across the globe and managed by the Global Sales function. The group's multi-brand portfolio gives them an important competitive advantage. They implemented a multi-brand strategy by having a diverse brand portfolio which allowed them to cater all segments of the market from players to almost everyone. Adidas focused their investments in the best marketing and distribution channels in different countries by critically evaluating the consumer buying behaviours and their constant struggle to secure prime shelf space. Adidas use technologies to produce products which enhances performances of players and they focus on sports such as football, tennis, basketball and even training shoes which are used by anyone with the ability to run. They updated the running shoes with ClimaCool, a system designed to ventilate, and a3, an energy management technology for footwear that guides and drives an athlete's foot through each stride. (Mahdi et al. 2015). Furthermore, Nike Inc and Adidas needs to build the concept of competitiveness so it can be used as a policy strategy in building the strength of the national economy through the integration of macroeconomic policies that are very instrumental in strengthening national competitiveness (Wibowo and Nurcahyo 2020).

2.5. Qualitative Research

Qualitative research is a process of inquiry that draws data from the context in which events occur in an attempt to describe these occurrences, as a means of determining the process in which events are embedded and the perspectives of those participating in the events, using induction to derive possible explanations based on observed phenomena. The study of qualitative method frequently starts with the collection of specific data, and leads to more general understanding of the topic. The questions asked in this type of research usually begin with words like how, why, or what. (Basri 2014).

The importance conducting and interpreting qualitative sales research methods are more suitable for investigating cultural differences and developing effective international sales strategies and tactics. Organizational issues that lend themselves to qualitative sales research methods include: Why do our customers buy from us? What is the context of our business and competitive environment? How do our customers acquire, use, and discard our products and services? What can be learned by observing how our customers interact with our sales force, products, and services? Do our products and services hold a deeper meaning to our customers? And, if so, do we fully understand it? Organizations need an in-depth understanding of customers and their beliefs and value systems in order to answer these types of questions. (Javalgi et al. 2011).

To perform the analysis, the steps taken are usually describing, emergence of findings, and comparing (Schoch 2019). In describing, the emphasis is on understanding the "who, what, when, where" of the situation being studied. In the emergence of findings, by understanding the data, researchers will find patterns, themes, or categories that arise so that an inductive process occurs in qualitative analysis. In comparing, the comparison of many emerging themes can be done if it is a multiple-case study design.

3. Method

The methods used in this research is qualitative research and regarding the strategy implementation/ products/ policy versus revenues from 2017 until 2020 applied in Nike Inc. and Adidas respectively. The data used in this research are quoted from the information in annual reports. From the data we could conclude which company aligned their differentiation strategic formulation in their revenues.

4. Data Collection

4.1. Companies Differentiation Strategies

4.1.1. Nike Inc.

Nike claimed themselves as the largest seller of athletic footwear and apparel in the world. Nike's athletic footwear products are designed primarily for specific athletic use, although a large percentage of the products are worn for casual or leisure purposes. Nike place considerable emphasis on innovation and high-quality construction in the development and manufacturing of their products. Important aspects of the athletic footwear and apparel industry according to Nike are:

- Product attributes such as quality; performance and reliability; new product style, design, innovation and development; as well as consumer price/value;
- Consumer connection, engagement and affinity for brands and products, developed through marketing, promotion and digital experiences; social media interaction; customer support and service; identification with prominent and influential athletes, influencers, public figures, coaches, teams, colleges and sports leagues who endorse our brands and use our products and active engagement through sponsored sporting events and clinics;
- Effective sourcing and distribution of products, with attractive merchandising and presentation at retail, both in-store and on digital platforms

The top selling footwear categories from Nike are Sportswear, Running, and the Jordan Brand. Table 1 showed total Nike brand wholesale equivalent revenues from 2017 to 2021. As showed on the table, from 2017 to 2021 the Jordan Brand contributed as one of the highest revenue earners from wholesale equivalent with only behind Running until 2020. In 2021 the Jordan Brand took over the first position from Running and became the highest earners from Nike wholesale equivalent.

Table 1. Total Nike Brand Wholesale Equivalent Revenues

Total Nike Brand Wholesale Equivalent Revenues (USD in Millions)	2017	2018	2019	2020	2021
Running	4,860	5,198	4,488	3,830	3,987
NIKE Basketball	1,292	1,494	1,597	1,508	1,692
Jordan Brand	3,098	2,856	3,138	3,609	4,711
Football (Soccer)	1,984	2,146	1,894	1,575	1,682

Nike strategy is to achieve long-term revenue growth by creating innovative, “must have” products, building deep personal consumer connections with their brands and delivering compelling consumer experiences at retail, online and through mobile application. In June 2017 Nike established the Consumer Direct Offense, a new company alignment designed to allow Nike to better serve the consumer personally, at scale. Leveraging the power of digital, NIKE plans to drive growth by accelerating innovation and product creation, moving themselves closer to the consumer through key cities, and deepening one-to-one connections. Through the Consumer Direct Offense, Nike focusing on their Triple Double strategy, with the objective of doubling the impact of innovation, increasing their speed to market and growing their direct connections with consumers. As a result of the execution of this strategy, their long-term financial goals through fiscal 2023, on average, per year, are as follows:

- High single-digit revenue growth;
- Gross margin expansion of as much as 50 basis points;
- Slight selling and administrative expense leverage;
- Mid-teens earnings per share growth; and
- Low-thirties percentage rate of return on invested capital

Nike believe their research, design and development efforts are key factors in their success. Technical innovation in the design and manufacturing process of footwear, apparel and athletic equipment receives continued emphasis as we strive to produce products that help to enhance athletic performance, reduce injury and maximize comfort, while reducing waste. As they developed new technologies, they simultaneously focused on the design of innovative products incorporating such technologies throughout their product categories. Using market intelligence and research, Nike's various design teams identify opportunities to leverage new technologies in existing categories responding to consumer preferences. The proliferation of NIKE Air, Lunar, Zoom, Free, Flywire, Dri-Fit, Flyknit, Flyweave,

ZoomX, React and NIKE+ technologies throughout our Running, NIKE Basketball, Jordan Brand, Football (Soccer), Training and Sportswear categories, among others, typifies our dedication to designing innovative products.

4.1.2. Adidas

Adidas used their brands to push the boundaries of products, experiences, and service to drive brand desire and capitalize on the growth opportunities in sport-inspired casual wear. They do so according to their strategy, which allows them to fully capitalize on the acceleration of favourable long-term structural trends. Adidas believe through sport we have the power to change lives, and so they work every day to inspire and enable people to harness the power of sport in their lives.

Adidas strategic business plan until 2020 was ‘Creating the New’. Their ambition to further drive top- and bottom-line growth by significantly increasing brand desirability builds the core of ‘Creating the New’. The strategic business plan therefore focuses on their brands as it connects and engages with their consumers. This consumer-centric approach was driving significant improvements in the desirability of their brands and has increased their relevance with consumers around the globe. As a result, they have gained market share in those categories, markets and cities that they have identified as future growth drivers for our company. In 2021, Adidas changes their strategic business plan into ‘Own the Game’, a strategy that planned to guides Adidas through to 2025. ‘Own the Game’ puts the consumer at the heart of everything they do and is brought to life by their people. Their strategic focus is on increasing brand credibility, elevating the experience for their consumers and pushing the boundaries in sustainability. The execution of their strategy is enabled by a mindset of innovation across all dimensions of their business as well as their digital transformation.

Adidas convinced that footwear has the highest influence on brand perception among product categories and is a powerful driver of consumer desire, a proven lever for growing market share. Access to athlete data, cutting-edge technological innovations and an archive that is unrivalled in the industry provide deep insights and ample opportunity to create newness and innovation in footwear, adding new chapters to their brand’s rich heritage. At the same time, Adidas have a clear strategy to reduce the number of footwear models, putting a stronger focus on key franchises. Franchises are their most iconic symbols of sport and culture acting as lighthouses for Adidas. Franchises not only shape sport, but also influence culture. They offer the best of adidas to the consumer while creating new trends and building brand equity. They are directly targeted at the consumer through iconic designs, functionality and unique stories, and have the potential to be iterated and expanded over time. Their life cycles are tightly managed to ensure longevity and relevance with the consumer. Key footwear franchises for the adidas brand include, among others, Ultraboost, NMD, Superstar, Predator, Continental 80, Nite Jogger, Pureboost, and Nemeziz as well as a blend of past icons such as the Superstar, Stan Smith, and Gazelle. The strategi partnership with Kanye West is likely to be the most significant one ever created between an athletic brand and a non-athlete, with the collaboration between Adidas Originals and Pharrel Williams remains highly influential.

4.2. Companies Financial Performance

4.2.1. Nike Inc.

Table 2. Nike footwear revenues

Revenues (USD in millions)				
2017	2018	2019	2020	2021
21,081	22,268	24,222	23,305	28,021

Table 2 shows Nike have a higher footwear’s revenue than Adidas over the last 5 years. In 2017 Nike’s revenue was USD 21,081 million from footwear product alone, then the revenue increased slightly in 2018 to USD 22,268 million (about 6%). In 2019, Nike’s footwear products obtained a higher revenue with USD 23,305 million increasing 9% than the previous year. When the Covid-19 pandemic outbreak in 2020, Nike’s footwear revenue got a slight decrease in revenue with -4% to USD 23,305 million. In 2021, a year following the covid-19 outbreak, Nike’s strategy successfully increased their revenue by 20% to USD 28,021 million.

4.2.2. Adidas

Table 3. Adidas footwear revenues

Revenues (€ in millions)				
2017	2018	2019	2020	2021
12,427	12,783	13,521	10,129	11,336

Table 3 showed that Adidas ended 2017 with € 12,427 million revenue with a slight increase (about 3%) in 2018 to € 12,783 million. In 2019, Adidas doubled their increased percentage of revenue to 6% with total revenue from footwear is € 13,521 million. The Covid-19 pandemic outbreak in 2020 impacted every industry including Adidas, their revenue dropped drastically by 18% to € 10,129 million. Adidas strategy to regain their revenue in 2021 was a success, with 12% increased revenue from the previous year, it was the biggest increased percentage for Adidas in the last 5 years with € 28,021 million.

4.3. Comparison of Revenue Percentage Changes

The revenues percentage changes on Table 4 obtained from the revenue of Nike on Table 2 and Adidas on Table 3 using the difference of revenue from two consecutive years. From 2017 to 2018 Nike experienced an increased revenue percentage by 6% and Adidas also with an increased revenue but half the Nike's number with 3%. In 2019, Nike's revenue increased further with 9% when Adidas able to double their increased revenue percentage to 6%. In 2020 when the Covid-19 pandemic outbreak to the world, Nike have a slight decrease of revenue percentage with only -4% while Adidas impacted strongly and got sharps decrease in revenue percentage with -18%. Both Nike and Adidas have bounced back in 2021 with a significant increased revenue percentage. Nike successfully acquired 20% increased revenue percentage from 2020 while Adidas have 12% increased revenue percentage.

Table 4. Adidas and Nike footwear revenues percentage performance

Year	Percentage Changes	
	Adidas	Nike
2017 - 2018	3%	6%
2018 - 2019	6%	9%
2019 - 2020	-18%	-4%
2020 - 2021	12%	20%

5. Result and Discussion

From the Table 4, we can conclude Nike.inc performs better than Adidas in sales. This probably because of the strategy in Consumer Direct Offense and Direct-to-Consumer. If we focus in the year 2019 – 2020, when unprecedented Covid-19 outbreak broke, when lockdowns were applied around the globe and also sports activity were very restricted, both Nike and Adidas also decrease their revenue performance with Adidas suffered more than Nike. The decline revenue of Adidas was around 24% was worse than Nike which was about 13%. Again, during this Covid-19, Nike. Inc were better in Adidas.



Figure 2. Revenues Performance Adidas vs Nike.Inc

Now, let us focus on performance of Nike. Inc in their footwear sales, as it is mentioned above, the top selling footwear categories from Nike are Sportswear, Running, and the Jordan Brand and it shows in Figure 2, in 2019 – 2020 when Covid-19 happened the Jordan Brand was really stands out among 3 other footwear products, gained revenues of 3,609 million Dollars and others decreased their sales. We found that, in April 2020, Netflix released a TV documentary min series of “Last Dance” *Charting the rise of the 1990's Chicago Bulls, led by Michael Jordan, one of the most notable dynasties in sports history (imdb.com,* and Michael Jordan is where the Jordan Brand of Nike Inc. comes from. CNBC.com stated, after the airing of the ESPN and Netflix documentary “The Last Dance,” sales of nearly every product associated with the six-time NBA champion are soaring to new heights (cnbc.com, 2020). The sales of nearly every product include the famous Jordan Brand. In an online auction at Sotheby’s, an autographed pair Air Jordan 1s sold for a record \$560,000 on Sunday, setting the new world auction record for any pair of sneakers and attracting bidders as young as 19 years old. Sports.yahoo.com stated, he company’s Jordan brand headlined double-digit growth of Nike-brand sales, which rose 17% to \$42.3 billion. The Converse brand was up 16%, and Nike Direct, its direct-to-consumer strategy, posted a 60% rise in sales. Figure 3 shows the increases of revenue from Jordan brand after the airing of “The Last Dance” in 2020 compared with the other categories and also Covid-19 did not have a significant impact on the Jordan brand sale.

From result above, this concludes in term of performances regarding the revenue Nike Inc. are better than its competitor, Adidas. Nike Inc strategy in establishing consumer direct offense with direct to consume through Nike-owned retail stores, internet websites and mobile application may help the performance. For future research, with better data and field research, it would be interesting to determine the significant of consumer direct offense strategy, since this strategy established in June 2017.

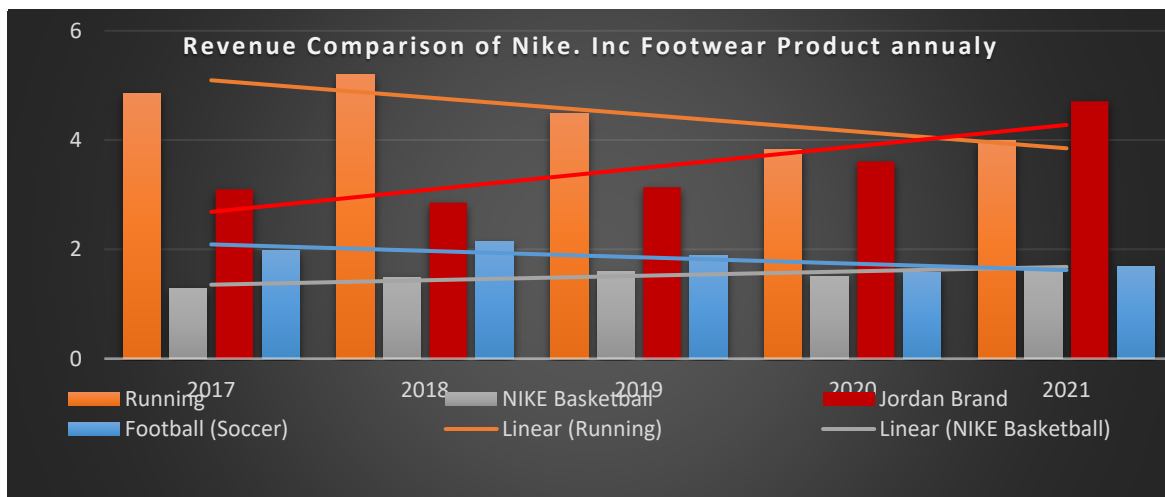


Figure 3. Revenue Comparison of Nike Inc. Footwear Product

6. Conclusion

This study investigates the effectiveness of differentiation strategy in sports footwear industry. Nike and Adidas were selected as the object of this study since both of them were the two biggest companies in this industry. This study compared the differentiation strategies of Nike and Adidas implemented in their footwear product towards the market. The findings of this study showed that both Nike and Adidas implemented strategies constantly improve their financial performance and increased their revenue from footwear products. In the span of 5 years from 2017 to 2021, Nike revenues percentage changes were 6%, 9%, -4%, and 20% while Adidas revenues percentage changes were 3%, 6%, -18%, and 12% consecutively.

From this study we found that Nike has a better performance in terms of revenue percentage changes than Adidas. Nike's strategies such as Consumer Direct Offence strategy, building deep personal consumer connections with their brands and delivering compelling consumer experiences at retail, online and through mobile application supported Nike to stand out and becomes a top leader in sports footwear industry. The miniseries called 'The Last Dance' that aired in April 2020, helped Nike to regain their business after the Covid-19 outbreak because of the massive improvement of Jordan Brand sales in the market. Since then, Jordan Brand take over running as the most profitable products from Nike footwear.

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