



**Adidas Group- IT Multi-sourcing case report  
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**MANAGEMENT OF INFORMATION TECHNOLOGY [INSY 5375-003]  
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**Paper : Adidas Group IT Multi-Sourcing**



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**Summary table**

<b>SECTOR</b>	<ul style="list-style-type: none"><li>• Adidas Group: Tertiary or consumer industrial sector</li><li>• Adidas: Global footwear industry</li></ul>
<b>Geographical</b>	<ul style="list-style-type: none"><li>• Headquarters is in Herzogenaurach, Germany</li><li>• Adidas operates globally</li></ul>
<b>Founder</b>	<ul style="list-style-type: none"><li>• Created by Adolf Dassler in 1918, Adidas Group is an apparel, shoes, and sporting goods manufacturer who also owns other companies such as Reebok and Taylor Ma</li></ul>
<b>Main Actor</b>	<ul style="list-style-type: none"><li>• CIO Jan Brecht and his senior management team</li><li>• Original IT provider: Alpha</li><li>• 2 new IT providers: Beta and Gamma</li></ul>
<b>Main themes</b>	Jan Brecht and his team must overcome many challenges to use the benefits of IT multisource by adding two new vendors and manning each vendor portfolio



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**Summary**

The Adidas IT multi-sourcing” centers on Adidas Group (Germany), which at the time the case was written was the biggest sportswear producer in Europe and the moment biggest around the world after Nike (USA) Adidas Group is a holding company that owns many other companies such as Solomon Gather- France (1997) Taylor made – France (1997) And Reebok (2006) and they are moreover one of three companies Audi, Allianz and Adidas that claim 8.33 each within the German football club Bayern Munich. Adidas was established in Germany shortly after World War II by Adolf “Adi” Dassler. In 1918, Adolf started creating sports shoes in his mother’s clothing room and was joined by his older brother in 1924. Adi’s and Rudolf’s to begin with enormous breakthrough happened in 1936 when US sprinter Jesse Owens won 4 gold decorations at the Summer Olympics in Berlin whereas wearing the brothers’ shoes. After working together for over in 20 a long time the brothers chosen to part up and Adi enlisted the Adi Dassler Adidas Schuhfabrik. After that occurred the company continued to grow and reach new milestones such as going public in 1995 and acquiring Reebok, one of its competitors, in 2006. The sporting goods industry was comprised of many companies big and small; Nike and Adidas were the two largest players in the game with revenues of \$24 and \$20 billion respectively. Although the global sporting industry was growing, it was growing at a slow pace. For Adidas to continue to obtain a large market share they needed to develop new strategies to further strengthen their market position. One of the strategies to improve business operations was developed by Adidas Group CIO Jan Brecht and his senior management team. The strategy was introduced in 2010 as “Route 2015” and it would take five years to fully implement. One of the focuses of the strategy was to shift their IT resources from enterprise technologies to consumer technologies. Their mission statement then became “Building a digital ecosystem for the enthusiastic consumer and the empowered employee”. A major activity that had to be done to successfully obtain their new strategy was to switch from a single IT provider (Alpha) to multiple IT providers. Adidas faced many challenges when trying to introduce the two new vendors, such as resistance to accepting the new vendors internally. Almost three years after Route 2015 was introduced, the company managed to successfully onboard the two new IT vendors, Beta and Gamma, and began reaping the benefits of a multi-sourcing strategy. This multi-sourcing positively impacted the



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performance of the Adidas group IT Organization by decreasing the cost by 20%. It also decreased the average defects per line by half.

The **business model** of Adidas in the early days was focused more on whole selling their sports goods to companies and teams. In early 1990, Adidas changed its business model from a wholesaler company to engaging directly with customers. They started focusing more on branding and marketing to increase their business and reach to pull more profit. They had outsourced the production which was initially produced in Germany by other companies situated in different countries that have lower hourly pay and cheap labor to optimize profit Adidas sells apparel like clothing, footwear, and sports equipment. Footwear is the most profitable and the most sold product followed by sports equipment. To increase the company's reach, Adidas collaborates with many sports teams from different leagues and sports and started opening retail stores throughout the world to increase its reach to the end customers. According to reports they own 1350 stores around the globe. Since then, the company has continued to grow, reaching new landmark including going public in 1995 and acquiring one of its competition, Reebok, in 2006. Nike and Adidas were his two biggest players in the game, with revenues of \$24 billion and his \$20 billion respectively. The global sports industry has grown, but it has grown slowly. In order to continue to capture a large market share, Adidas had to develop a new strategy to further strengthen its market position. One of his strategies to improve business operations was developed by Adidas Group CIO Jan Brecht and his leadership team. The strategy was launched in 2010 as 'Route 2015' and was expected to take five years to be fully implemented. One of the key areas of strategy was the shift of IT resources from enterprise technologies to consumer technologies. Their mission statement at the time was to "build digital environs for passionate consumers and empowered employees." A key activity that had to be performed for the success of the new strategy was moving from a single IT vendor (Alpha) to multiple IT vendors. Adidas faced many challenges in trying to recruit two newcomers, including a reluctance to accept newcomers internally. Nearly three years after Route 2015 launched, the company successfully onboarded two new IT vendors, Beta and Gamma, and began to reap the benefits of its multi-sourcing strategy. this Multisource has positively impacted the performance of Adidas Group's IT organization by reducing costs by 20%. It also halved the average errors per row, benefiting the organization. Maintaining long-term relationships with all three vendors was also a challenge for the CIO.



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**Does it make sense for Adidas to establish a captive IT service center?**

The first offshore captive centers made their debut in emerging countries in the 1980s. The main factor causing this shift was the disparity in the rate-per-hour of professional resources between high-value regions like India and high-cost hubs like New York and Tokyo. Let's look at the history of captive IT center

**Embryonic Stage:** Captive centers started outsourcing non-core tasks in the 1980s, primarily to "variable" cost structures. Although protecting sensitive information and retaining critical personnel were two of the stages main goals, cutting expenses was the main goal. Even though the captive formation embryonic phase has produced some success stories, the lengthy number of failures cannot be ignored. The most important insight from a captive's early stages was a lesson for the entire industry. The expenses of training and attrition were not factored into the initial calculations, but labor arbitrage benefits were.

**Growth Stage:** By the 2000s, emerging market captive IT companies had shown signs of progress. The major focus was required on infrastructure support for companies and consumer banking. Strong demands for IT and were generated by low mortgage rates. In addition to cost reduction, the industry has begun to explore in growing business by employing more staff

**Maturity Stage:** The time demonstrated that the Indian captive facility was under jeopardy. Talented individuals from various fields travel to India to work in markets that are unrelated to their primary occupations. There is a clear livewire between US companies and emerging markets. Graduates in engineering and management increased throughout this phase of the expansion of the educational system. Our company's expansion resulted in the creation of fresh core business profiles that can be targeted using captives. Now, there is a definite distinction between people who have technology entirely under control and those who do not.

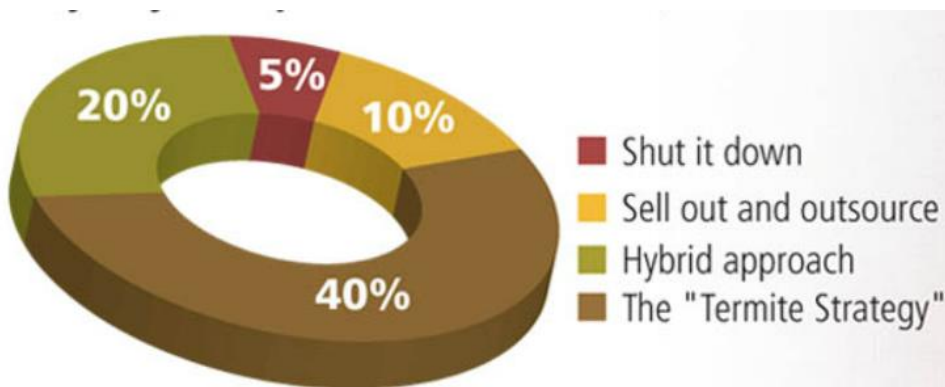
The two main long-term benefits of a captive center would be to reduce the vendor profit margin and get access to fresh talent pools. Although hiring internal IT personnel for the captive center would limit Adidas Global IT's flexibility. Additionally, because low economic zones offer few prospects for professional advancement and low hourly wages, it would need to pay employees' higher salaries than pure IT offshore service providers. Given that its primary source of revenue is the manufacture of sporting goods, running captive IT services was not a fundamental expertise of the Adidas group. Opening a new captive IT center would require them



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to invest in new tools and infrastructure, which would raise overhead costs and reduce the edge on vendor margins. As they are not an information system organization the number of projects that will be initiated throughout the year will be way less than a traditional Information technology company so it would be logical to outsource projects as they will have to pay as they go by that I mean they only have to pay for the hour's work was done on these projects rather than employing professional and annually paying salaries and providing other benefits to them like insurance, paid leave. Due to spiraling costs, skyrocketing attrition, and the lack of integration and management support there is a high chance that a captive center would fail if Adidas tried to set one up.

Research published in 2007 by global technology research firm Forrester Research "Titled "Shattering the Offshore Captive Centre Myth" effortlessly explains why companies should think twice before launching a captive center abroad. In their research, In India, it was stated that 60 percent of companies, including many 500 fortune companies Dell and Apple, have either shut down or sold their captive center to offshoring companies like Wipro and TSC. Local vendors are generally cheaper than a captive center because their people model is leaner and overhead lower, according to a study from Everest Research Institute, independent research, and analysis organization in Dallas



Source: "Shattering the Offshore Captive Center Myth",  
April 2007, Forrester Research

Reference: <https://www.forbesindia.com/article/numerix/the-captive-bpo-blowout-that-never-happened/14542/1>



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If Adidas chooses to go ahead with opting to build a new captive IT center, they should look at these four captive offshore strategies *By Ilana Oshri Julia Kotlarsky* from wall street journal

1. **THE HYBRID CAPTIVE:** The hybrid captive continues to perform core business processes for the parent company but outsources non-core work e.g. manufacturing shoes
2. **THE SHARED CAPTIVE:** This type of captive center performs work for both its parent company and external customers. It is used by companies seeking to expand their business from an offshore location.
3. **THE DIVESTED CAPTIVE:** This is an opportunity to exit an investment made in a captive center, usually to strengthen a firm's balance sheet or raise capital to invest in the business.
4. **THE TERMINATED CAPTIVE:** terminated their captive operations, typically because subpar service was hurting the parent company's reputation. A company can minimize losses incurred when it shuts down a captive center by outsourcing less-critical parts of the business to vendors in the offshore location and moving critical components back onshore, where they can be managed and fixed more easily.

If Adidas would choose to open a captive IT center my suggestion would be to go with a mid to long-term vision of establishing a three-tier captive organization: the first tier of such a captive organization with a strong footprint in headquarters, to be close to the business, agile, and fast. A second captive center will be near shore and the third captive tier would be commodity work in a very low-cost geography, probably less expensive than India: Philippines, Indonesia, and China which could potentially compete with the external vendors

To summarize this question, I would not recommend Adidas to open a new captive center save cost on vendor margin as it will just increase overhead cost also Adidas is Not an information technology company but a product-based company so it should focus more on marketing its products to increase profit and brand value. Also, after reading multiple sources mentioned about even if Adidas opens a captive IT center, in the long run, there is a high chance of it failing and it will be an ugly transition back to an IT multi-sourcing strategy



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**what are the pros and cons of nearshoring (e.g., Spain) vs. farshoring (e.g., India)**

Outsourcing involves the transfer of functional activities to value- based suppliers. Outsourcing is only done to achieve lower prices. Especially development, product, and fixed costs can be reduced significantly. A business removing a manufacturing department could move its plant away or use another company rather. This system is also frequently applied in the service sector for illustration all major computer/ laptops chip companies like AMD, intel outsources their chip manufacturing to Taiwan's TSMC makes utmost of the advanced chips in the world

Offshoring, the operating conditioning are moved to another country and the

The geological area is insignificant. Offshoring can be separated into two services, videlicet Nearshoring (bordering nations with or without a participated border) and Farshoring(far-off nations., nations in East Asia). Offshoring is regularly employed to drop the staff costs of a company. In any case, its palm is subject to many musts – one of which felicitations communication. Solid internet associations are also especially vital for all borderline bias to allow for effective communication.

**Nearshoring**

Nearshoring is the outsourcing of business processes, particularly information technology processes, to companies in a bordering nation, regularly sharing a border with the target nation. latterly, it's the contrary of farshoring an uncommon shape of Offshoring. For a company grounded in Germany, typical Nearshoring areas incorporate the following Poland Serbia, etc. Nearshoring offers ideal arrangements for companies to outsource processes to maximize trade productivity but also drop the clog of conventional offshoring

**Pros of Nearshoring**

- **Competitive skills** – Countries such as Poland have a phenomenal talent base of software development staff. Nearshoring opens access to experts in their fields who aren't new to modern technologies and most probably gained a lot of experience by dealing with projects like yours





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- **Cost-effectiveness** – You can gain great specialists at a reasonable price. Labor costs in Poland are still significantly lower compared to Germany and Sweden. Although they are still higher than in Asia, the quality of service/price ratio is strongly speaking in favor of nearshoring
- **Smooth communication** – As many companies prefer English and their native language it is a benefit for Adidas to near shore in Poland that speak almost the same language
- **Similar culture** – A nation that is in the same region generally has few cultural differences also they are more aware of each other culture and languages which makes communication simple and easy to understand and more efficient cooperation
- **Data security** – Regions that are members of the European Union are covered by the same data protection regulations, so the risk of data security is significantly reduced. Asian countries have not imposed such stringent standards on the security of information provided by foreign investors
- **Proximity**- Due to the distance between these countries being comparatively less it is possible and cheaper for Onshore managers to visit the nearshore site

#### **Cons of Nearshoring**

- **Higher cost** – When we talk about how successful a project is we always talk about this topic in aspects of profit in the case of the Adidas group which is situated in Germany the cost of nearshoring will be much higher than in east Asia like China, India due to high labor rates, for example, Spain over India
- **Higher competition** – there will be higher competition for talent in countries like Spain and Poland compared to India or China because of their massive population

#### **Farshoring**

One of the most popular types of outsourcing – and the one that you're probably familiar with – is farshoring, also known as *offshoring*, or offshore outsourcing. The point is, in the search for the best price for the service, companies often decide to source their software development requirements to the far-flung location, hiring remote employees from the Middle East, India or China. Thus, expensive services provided by local contractors are being gradually replaced by working with specialists from locations with lower operating costs.



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**Pros of Farshoring**

- **Cost benefits**- Most western companies offshore some part of the development or even complete process to farshoring companies in India or China so they can have a cost advantage and increase profit margin as the cost of labor is cheaper
- **Entering emerging markets**-by having a fixed, long-time period presence in the overseas market, your company can study and acquire nearby experience, permitting it to keep away from the related charges of political, cultural, and administrative differences. And secondly, a long-time period presence is possible to assist construct better relations with third parties withinside the nearby market, leading to an extra understanding of the nearby consumer.
- **Larger talent pool**- one advantage of farshoring is having access to the larger talent pool and very cheap hourly rate due to the vast qualified population in countries like India and China

**Cons of farshoring**

- **Language barriers** – Offshoring often involves dealing with developers whose native language is not the same as yours. Cultural context (e.g., additional holidays) and distance from the location can also affect the quality and frequency of important updates.
- **Time zone issues** - farshoring means your developer is sleeping while you're in the office checking for an update at 9 am. Many companies that choose to go overseas often have atypical schedules just to be able to keep in touch with their development team.
- **Custom and regulation Issues**: companies will almost certainly have a list of frustrations including customs issues, country tax issues, and more. When doing business with another country, there are likely to be many rules and regulations that you are unaware of, which can lead to delays and extra costs.
- **Increased resources available**-Another one of the benefits of offshoring is increased resource and price availability. As well as your increased knowledge of this market gives your business a greater chance of accessing resources for lower prices



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You should do your research before deciding on a software development project to make sure you are aware of the benefits and drawbacks of each option. For instance, onshoring or nearshoring is the best option for you if you value having a tight working relationship with your software developer. Outsourcing, however, might be a wise choice if cost is your only consideration. In the case of Adidas, implementing both farshoring and nearshoring would be advantageous for the business as they would be able to combine their advantages to create a rigid and effective IT multisource system, lowering costs overall, boosting performance, and reducing errors in code while enhancing product quality.

**Comparison between Nearshoring and Farshoring**

<u>NEARSHORING (Europe)</u>	<u>FARSHORING (India)</u>
The cost will be higher due to the high hourly rate	The cost will be lower due to the low hourly rate
There won't be a cultural barrier	There will be a cultural barrier
Same or almost the same time zone	Different time zone
Experienced personnel	Staff mostly consists of people in mid-20
More control over development	Less control over development
No language barrier, Productivity will be higher with easier communication	The language barrier, Productivity will be lower because of the gap in communication
Same business practice and regulation	Different business practices and regulation
Lower risk of data leak and hack	Higher risk of data leak and hack



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**Conclusion**

Adidas's new multi-sourcing strategy was useful to Adidas in several ways. Introducing new vendor competition to Alpha caused them to boost performance, which was commencing to lag years prior. Having sturdy competition among 3 vendors caused each vendor to supply inventive and competent service which allowed Adidas to improve service quality. The new strategy additionally benefited Alpha, when the new vendors have introduced Alpha's revenues from the Adidas cluster grew from €18.8 million to €32.5 million in concerning three years. Adidas cluster was with success able to board the 2 new vendors and quickly began to improve their international IT, however, they had many challenges however to face. Key challenges would be keeping vendors actuated additionally as further rising the maturity of internal management structures and processes and maintaining aggressiveness among the vendors to still see the benefits of a multi-sourcing strategy.

Also, in the case of should adidas group set up its own captive It center after my research I would suggest adidas to not go ahead to build a new captive center but enjoy the success of IT multi sourcing strategy even if it means to not leverage over vendor margin because most of the captive It center collapses in the long run due to miss management, staffing challenges, increased price of infrastructure it would just become a lability and would cost adidas way more then it did to transit back to IT multi sourcing than it was in building a new captive IT center. Also, adidas should create captive marketing and production center that would decrease the cost of production even further and increase brand value and recognition through its captive marketing/ advertising center

In the debate over farshoring vs nearshoring one cannot choose side depending on pros and cons as many other factors come into play when a companies try to outsource process such as location for example case of Adidas group it will be more profitable to foreshore than nearshore as Germany is in Europe and the price of labor is way higher also there is a limit to talent pool when comparing to farshoring in India but in the case of Dubai it will be better to nearshore as all low economic countries are its neighbors like India Pakistan etc. .Some other factor can be political and also environmental issue