



GlobalSports IT Sourcing Strategy

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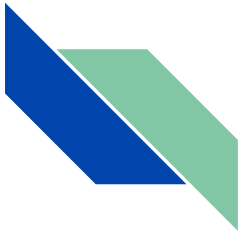
Agenda

1. Company introduction
2. Does GlobalSports achieve economic and/or strategic benefit?
3. Is GlobalSports IT sourcing configuration reflected in the archetypes?
4. Are there levels of client extra costs present?
5. What is the value of the configurational approach of successful IT-Sourcing archetypes?
6. Questions & Discussion



GlobalSports

- Large-scale multinational corporation in the athletic footwear and apparel industry
- Annual revenue: 15bn EUR (2013)
- Employees worldwide: 48,000 (2013)
- Shift from wholesaler to direct interaction with end consumers
- > need for more flexible and innovative IT solutions
- > Introduction of a novel IT sourcing model
- Goal: Foster and balance competition and cooperation among multiple vendors



Does GlobalSports achieve economic and/or strategic benefit?

What are economic and strategic benefits?

According to Lee (2019) a company has two specific goals from outsourcing...

...strategic benefits

- access to **emerging technologies**
- access to **key IT skills** from external vendors

...economic benefits

- **lower costs** through **economies of scale** for IT operations and management



Does GlobalSports achieve economic and/or strategic benefit?

There are 3 types of outsourcing relationships according to Lee (2019)

1. Fee-for-service-contract

Payment of a **service fee** to get **management and delivery of specified IT products or services**

2. Partnership

Collaborative relationship - resources from both sides (client firm and its vendors) to **increase mutual benefits**

3. Buy-in-contract

Minimize resource dependency - buy vendor resources and manage them internally



Does GlobalSports achieve economic and/or strategic benefit?

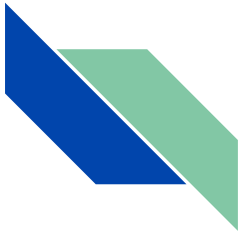
What does GlobalSports do?



GlobalSports:

- Balance intense competition among vendors
- Simultaneously create environment with the necessity of vendor cooperation

(In IT multisourcing the vendors need to work, at least, partly together)



Does GlobalSports achieve economic and/or strategic benefit?

How did GlobalSports do it?

- Created a balanced mix in strategic IT vendor set (vendors from different countries)
 - create and leverage a refined mix of available vendor skills
- Balanced mix created competition
- Competition led to alliance of two vendors (→ Cooperation)

GlobalSports achieved a **strategic benefit** because the chosen vendors built the perfect equilibrium btw competition and cooperation

GlobalSports achieved an **economic benefit** because of the strategic contribution.



Archetypes of IT Outsourcing Strategy

01	Social Archetype	<ul style="list-style-type: none">• Total outsourcing of IT• Long-term partnership relations• Single or multiple vendors• All types of IT outsourcing projects
02	Economic Archetype	<ul style="list-style-type: none">• Selective outsourcing• Fee-for-service contract• Single vendor• Large firms: shorter-term contract
03	Hybrid Economic and Social Archetype	<ul style="list-style-type: none">• Total outsourcing• Long-term relationships• Multiple outsourcing vendors• Fee-for-service contract• Large firms: only for IT infrastructure



GlobalSport's IT Outsourcing Strategy

1998

Single vendor strategy

- India 1
- Total outsourcing of IT
- Long-term partnership relations

- > locked into working with a single vendor
- > difficulty in cost negotiation

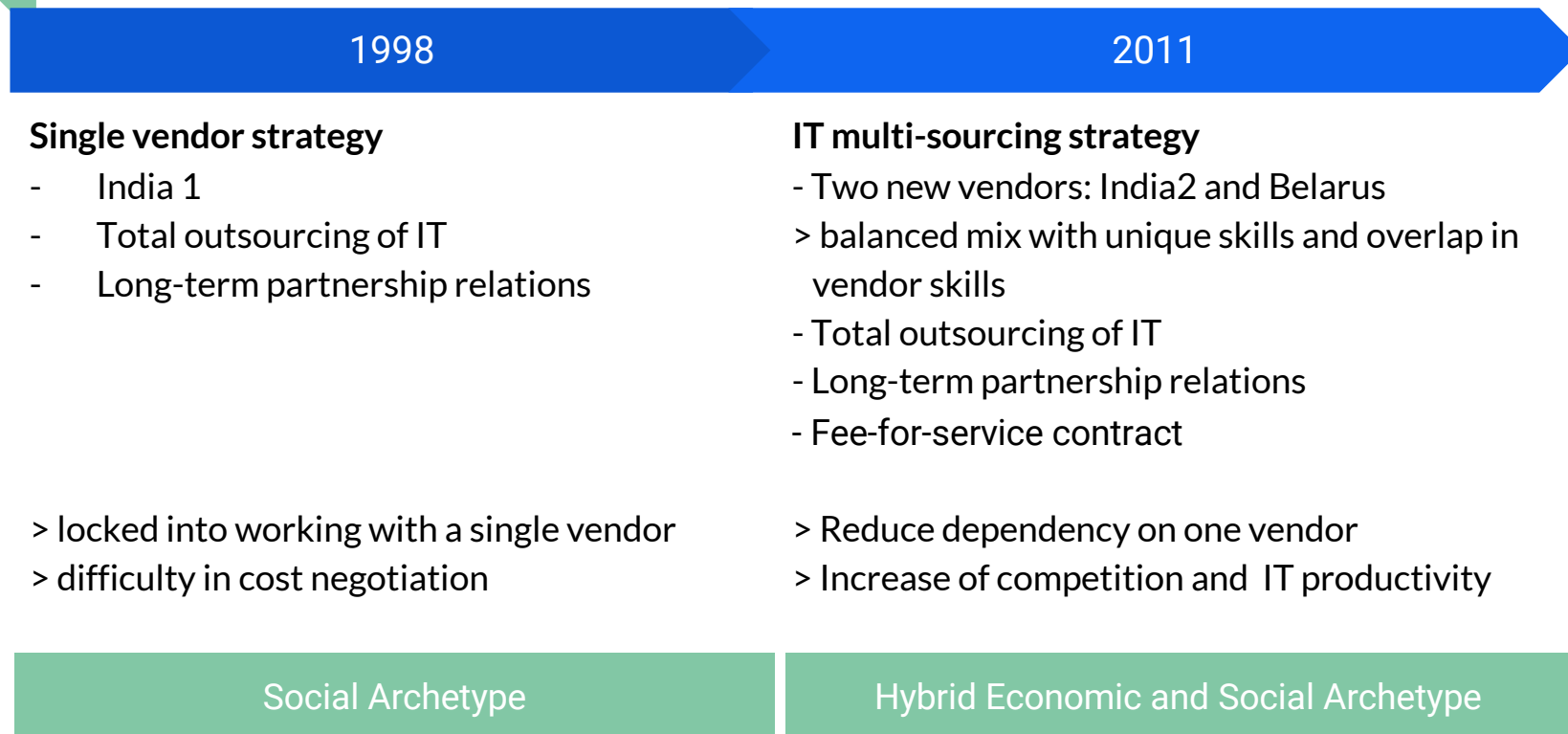
2011

IT multi-sourcing strategy

- Two new vendors: India2 and Belarus
- > balanced mix with unique skills and overlap in vendor skills
- Total outsourcing of IT
- Long-term partnership relations
- Fee-for-service contract

- > Reduce dependency on one vendor
- > Increase of competition and IT productivity

GlobalSport's IT Outsourcing Strategy





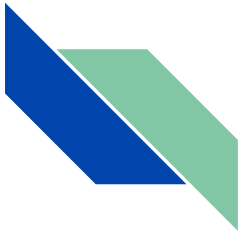
Levels of Client Extra Costs

But first, what are client extra costs?

According to Dibbern et al. (2008), client extra costs are...

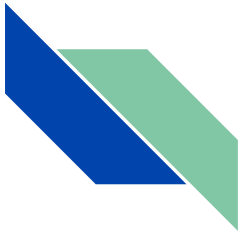


...all costs in terms of time, effort, and resources spent by the client organization that go beyond the actual payments to the vendor, that is, beyond compensating the vendor's costs plus paying the vendor's profit margin.



Levels of Client Extra Costs

Cost category	Costs for GlobalSports
Knowledge transfer costs	<ul style="list-style-type: none">- Helping new vendors overcome “their newcomer disadvantage” by delegating sufficient scale of work, coaching them, and keeping close to them- Subsidizing the learning of its vendors, thereby enabling them to quickly gain a deep understanding of GlobalSports’ business domain and IT landscape
Coordination costs	<ul style="list-style-type: none">- Coordinating the interface points between interdependent vendor tasks and possibly resolving accountability issues- Involving a second vendor in the project to assist the primary vendor in case a skill or resource gap needed to be filled
Control costs	<ul style="list-style-type: none">- Monitoring performance of each individual vendor and providing feedback- Communicating expectations and investing in long-term vendor partnerships- Having constant cost and quality benchmarks in place, e.g. bringing in other IT vendors for benchmarking

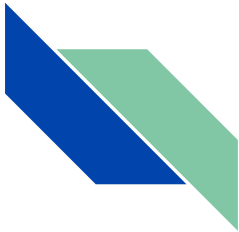


Levels of Client Extra Costs

Degree of client-specific knowledge? → Medium?

Level of absorptive capacity of vendors? → Medium to high?

		Degree of Client-Specific Knowledge		
		High	Medium	Low
Level of Absorptive Capacity of Vendor	High	<i>Medium level of extra costs</i>	<i>Low to medium level of extra costs</i>	<i>Low level of extra costs</i>
	Medium	<i>Medium to high level of extra costs</i>	<i>Medium level of extra costs</i>	<i>Low-medium level of extra costs</i>
	Low	<i>High level of extra costs</i>	<i>Medium to high level of extra costs</i>	<i>Medium level of extra costs</i>



The Value Of IT-Sourcing

There are seven configurations based on the archetypes developed by Lee et al. (2019) that are highly beneficial for clients in economic and strategic ways.

Outsourcing Elements	Configurations for High Economic Benefit							Configurations for High Strategic Benefit			
	A1	A2	A3	A4	A5	A6	A7	B1	B2	B3	B4
Degree of outsourcing											
Total outsourcing	●	●	●	⊗	⊗	⊗	⊗	●	●	●	⊗
Relationship types											
Fee-for-service	⊗	●	●	●	●	●	●	⊗	●	●	●
Partnership	●	⊗	⊗	⊗	⊗	⊗	⊗	●	⊗	⊗	⊗
Buy-in	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗
Period of outsourcing											
Long-term	●	●	●		⊗		⊗	●	●	●	
Number of vendors											
Multi-vendors		●	●	⊗	⊗	⊗	⊗		●	●	⊗
Outsourced IT Types											
Application		⊗		⊗	⊗	●			⊗		⊗
Firm Size											
Large			⊗	⊗		●	●			⊗	⊗
Consistency	0.84	0.98	1.00	0.96	0.91	0.84	0.92	0.86	0.98	1.00	0.92
Raw Coverage	0.32	0.06	0.08	0.07	0.08	0.05	0.09	0.34	0.06	0.08	0.07
Unique Coverage	0.32	0.02	0.04	0.01	0.00	0.01	0.00	0.34	0.02	0.04	0.07
Overall Solution Consistency	0.87							0.89			
Overall Solution Coverage	0.56							0.51			



The Value Of IT-Sourcing Economic Values

- Lower cost through economies of scale
 - Dutch bank ABN AMRO save more than 700 million USD
 - Due to high competition, the contracts billings are lower
 - India2 was highly competitive in terms of price
- Saving stuff cost
 - Less salary costs due to total outsourcing
- No further education for stuff
 - No need for education for new technologies and techniques
- Better products
 - Better products increases the interests of potential consumers and thereby incomes



The Value Of IT-Sourcing Strategic Values

- Innovation
 - GlobalSports benefit from the innovative skills of the vendors
 - Belarus highly innovative (which also fostered vendor competition)
- Key IT skill with also some unique set of skills
 - Wide overlap in vendor skills foster competition
 - Also client benefits from unique skills of different vendors
- Emerging Technologies
 - GlobalSports has access to emerging technologies
- Forced cooperation between vendors
 - It makes easier to make some transition between vendors and task
 - Decreases transition costs (time and money)
 - Right amount of vendors create severe competition and decreases GlobalSports dependency



The Value Of IT-Sourcing Risks of Configurational Approach

- Risk of significantly increasing the client management overhead in terms of other transaction costs
- Entailing the strategic risk of decreasing vendor commitments to invest in the client relationship
- Risk for too much cooperation



Questions & Discussion

1. As you may have noted, a buy-in contract does not appear in any archetype. Why? Is a buy-in contract inferior to the archetypes of partnerships and fee-for-service contracts?
2. GlobalSports deliberately brought in a nearshore vendor (Belarus), suggesting potentially smaller cultural differences in this arrangement. Would this lead to lower extra costs on the client side?
3. GlobalSports decided to choose vendors with different cultural backgrounds to their vendor set to maximise the competitive environment. Would they still create the same value of IT-Sourcing if they had decided differently in the beginning, e.g. get vendors with similar backgrounds?
4. Do you think the force of coopetition will be a sustainable way to