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adidas Group: IT Multi-Sourcing at adidas

It was a sunny day in summer 2013. Jan Brecht, the CIO of the adidas Group, was sitting at his desk in his plexiglass cube office at adidas Global IT's headquarters in Herzogenaurach, a small town in Germany about 100 miles north of Munich. As he finished reading the report of the adidas Group's new IT multi-sourcing strategy, he was pleased with the strategy but knew that executing the strategy over time would bring new challenges.

In 2010, Brecht and his senior management team decided to switch from a long-term single-sourcing strategy with Alpha[1] (see **Exhibit 1**), a global IT service provider from India, to a multi-sourcing strategy by adding two additional IT vendors to the organization's portfolio of strategic sourcing partners. Almost three years later, adidas Global IT had managed to successfully onboard the two new IT vendors: Beta and Gamma. Both vendors had reached a critical mass in business volume with the adidas Group in 2013, and were now positioned to compete with the original vendor, Alpha. At the same time, the adidas Group had managed to maintain an intact relationship with the original vendor—still responsible for a significant share of the Group's IT portfolio. Both the adidas Group and Alpha had benefitted from the arrangement: By switching to a multi-sourcing strategy, the client had caught the attention of the vendor's top management team; attention that had been starting to lag in the years leading up to the new arrangement. Somewhat counter-intuitively, the introduction of the multi-sourcing strategy had also allowed Alpha to further expand its business volume as well as to improve its internal processes. Jan Brecht recalled:

> In 2012, we did a very open and critical review with Alpha, who had a kind of monopoly in our environment. And initially we thought they would not be overly happy because we have introduced competition. But the opposite was true. The feedback we got from Alpha was that we were professionalizing our way of dealing with offshoring. Second, they were open enough to say, 'Thanks for challenging us, we are getting better.' And indeed, they came down in pricing, and went up in quality. And

[1] The names of the IT sourcing strategy partners have been disguised.

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> while that obviously has not always been an easy process for them, in essence they were open enough to admit that this learning curve did them well, too.

The multi-vendor arrangement had positively impacted the performance of the adidas Group's global IT organization. On average, IT service costs had come down more than 20%. At the same time, as a result of increasing the number of vendors that adidas Group IT used for software development and service sourcing, the average number of defects per lines of code was cut in half—a massive quality improvement.

Brecht was aware, however, that it was one thing to successfully launch a multi-sourcing strategy, but still another thing to successfully execute the strategy over time. He considered the challenge of maintaining high levels of vendor competition, while at the same time keeping all three strategic partners committed to the relationship in the long run. Furthermore, he knew that the long-term success of the newly adopted IT multi-sourcing strategy would not only depend on managing the external relationships with the vendors, but also on further developing the internal management skills within the global IT organization.

Multi-sourcing growth, benefits and risks

While multi-sourcing was a common practice in some industries—especially in manufacturing industries such as the airplane and automotive industries—it represented a rapidly-growing direction in the IT industry. Increasing globalization, as well as the desire to take advantage of skilled labor in countries with cheaper labor markets had led many companies to consider IT multi-sourcing—defined as the managed delegation of IT projects and services to multiple (offshore) vendors. These vendors must work collaboratively with each other and their client's internal IT staff and business partners to achieve the client's business objectives. The striking growth of IT multi-sourcing in terms of number of multi-sourcing deals and contract values within the last fifteen years, highlighted in **Exhibit 2** and **Exhibit 3**, was driven by the many different benefits it offered. By adopting a multi-sourcing strategy, companies sought to lower their IT costs, obtain best-of-breed services, improve service quality, and reduce operational and strategic risks, especially those associated with outsourcing to a single vendor. However, despite the potential benefits of IT multi-sourcing, the management of respective initiatives also brought numerous unique risks and challenges not encountered in traditional single-sourcing contexts (see **Exhibit 4**).

Sporting goods industry

In 2012, the sporting goods industry was comprised of numerous companies engaged in the manufacturing and retailing of sporting goods, such as athletic footwear and apparel, exercise and fitness equipment, and accessories. The adidas Group and Nike were the market leaders amongst sporting goods manufacturers with about $20 and $24 billion, respectively, in worldwide revenue in 2012. Other major market players included Asics, Columbia Sportswear, Mizuno, New Balance, and Puma. The high number of relatively small players was indicative of the high fragmentation within the industry.

The global sporting goods industry was growing, albeit at a slow pace. The slow industry growth could be attributed to a decline in sports participation within the main customer target group. Increasingly, children and teenagers in the US and Europe preferred to play video games instead of engaging in sports activities. Against this backdrop, sporting goods makers and retailers were looking for new strategies to increase spending from existing customers as well as to attract new customers. To ramp up their customer base, industry players launched major campaigns to promote a healthy, active lifestyle and ultimately to increase sports participation among both adolescents and adults. Corresponding marketing campaigns also contributed to a change in fashion interests. The sports-logoed look became trendy in all occasions of private life, giving way to a more casual fashion style. The latter provided an inroad for new competitors from the apparel industry, such as Abercrombie & Fitch and The Gap.

Despite fierce competition, the sporting goods market held substantial opportunities for companies due to strong product demand in the three market segments: athletic apparel, athletic footwear, and equipment. The Asian market was expected to grow rapidly. According to a forecast by Reuters, the volume of the global market for sporting goods was estimated to reach $266 billion in 2017 with a compound annual growth rate of 4%.

The adidas Group

adidas AG was the holding company for the adidas Group (www.adidas-group.com), the largest sportswear manufacturer in Europe and the second largest in the world. The company was established just after World War II when Adolf 'Adi' Dassler (hence the name) parted ways with his brother Rudolf (who went on to establish Puma, a competing brand, in the same town). The origins of the adidas Group are described in **Exhibit 5**.

In the 1990s, adidas increasingly outsourced production to third-party suppliers to enable a stronger focus on marketing. As adidas continued to increase global sales of its performance footwear as well as to secure its position as the leading supplier of soccer footwear worldwide, it became a public company in 1995. In 1997, adidas acquired the Salomon Group, headquartered in Annecy, France, including brands such as TaylorMade. From this time, the adidas Group also began to pay increasing attention to the US market, which previously had been dominated by Nike and Reebok. It also started to sponsor famous sports stars, such as basketball icon Kobe Bryant. Within a year, the adidas Group more than doubled its US market share. To further strengthen its position in the US market, the adidas Group acquired Reebok in 2006. In this year, the Group also announced an 11-year deal worth over $400 million to become the official NBA clothing provider. This deal replaced the previous 10-year Reebok deal that had been put in place in 2001.

From the late 1990s, the business model of the adidas Group shifted dramatically from being a pure wholesaler to engaging in direct interaction with end consumers. Consequently, the adidas Group began to open its own retail stores and run its own e-commerce platforms. In 2010, the Group operated more than 1,350 retail concept stores around the globe. With this strategic shift, the demand for more flexible and innovative IT solutions increased significantly. Consequently, IT was no longer regarded primarily as a tool for driving operational efficiency, but also as an important contributor to competitive differentiation and value creation.

From its headquarters in Germany, in 2012, the adidas Group operated a worldwide network of almost 200 subsidiaries and employed more than 46,000 people around the world (see **Exhibit 6**). In that year, the Group generated sales of 14.9 billion euros, a number that had more than doubled over the past decade (see **Exhibit 7**). In 2012, the North American region of the adidas Group generated 18% of the company's net retail sales.

At the time of the case, the adidas Group offered a broad portfolio of footwear, apparel and hardware for sport and lifestyle around its 5 core brands: adidas, Reebok, TaylorMade, Rockport and Reebok-CCM Hockey. Footwear and apparel represented adidas Group's biggest segments, but hardware was increasingly gaining in importance. In 2012, the adidas Group produced 244 million pairs of shoes worldwide and 314 million units of sports apparel. The adidas AG also owned an 8.33% equity stake in Germany's FC Bayern Munich soccer club.

In 2010, the adidas Group introduced a five-year strategic business plan called "Route 2015" to further strengthen its market position and in particular to exploit market growth opportunities from its brand portfolio. Specifically, Route 2015 consisted of three main goals:

- Achieve 17 billion euros in net sales in 2015;
- Grow the bottom line faster than the top line with a compounded annual earnings growth rate of 15% per year; and
- Reach a sustainable operating margin of 11% by 2015 at the latest.

Route 2015 was developed in close alignment across all business segments and represented by far the most comprehensive business plan the adidas Group had ever created.

adidas Global IT

Route 2015 – Run with IT

The IT organization of the adidas Group was a globally operating corporate function located at Herzogenaurach under the leadership of CIO, Jan Brecht. The overarching goal of the organization was to provide consumers and employees with a 'digital ecosystem' that would facilitate constant dialogue among employees and consumers as well as enable sustainable growth of the adidas Group.

Over the last years, adidas Global IT's direct impact on the end consumer had significantly increased through the emergence of digital business models (e-commerce) and technologies such as social media. While the employee had always been in the focus of adidas Global IT, there had been a shift in technical innovation from enterprise technologies to consumer technologies including new solutions, devices, and user interfaces. To emphasize Global IT's new role within the adidas Group, Brecht and his senior management team formulated the following mission statement: "*Building a digital ecosystem for the enthusiastic consumer and the empowered employee*" (see **Exhibit 8**). The statement consisted of three main elements: the employee, the consumer, and the ecosystem. Brecht described:

> Corporate IT always took care of the employees, trying to make them more productive. The new element in the equation is the consumer because with the consumerization of IT, you have more direct access to your consumer. And the ecosystem is just reflecting the fact that we are one of the few functions in the company that sees the company end-to-end, and we need to leverage that knowledge better than just providing good service to sales, to marketing, or to operations.

In an effort to make a significant contribution to achieving the ambitious Route 2015 goals as well as to make IT more tangible, Brecht and his team broke down the activities of adidas Global IT into measurable key performance indicators along the so-called 'five tracks': business partner satisfaction, innovation, success of project delivery, day to day service, and employee engagement.

Organization structure

Worldwide, a total of approximately 1,050 IT experts worked in the global IT organization of the adidas Group and cooperated closely with all brands and functions of the Group. The IT organization was structured in eight sub-divisions, which largely mirrored the organizational structure of the business. For example, dedicated IT Centers of Excellence (CoE) provided IT services to business functions such as sales and retail, e-commerce, operations and corporate marketing (see **Exhibit 9**). This way, each IT division, or vertical, could more easily connect with its internal customers on the business side. One exception was the horizontally-structured IT Infrastructure & Operations division with its focus on technical specialization. The rationale behind this was to consolidate commodity IT services, such as data centers, across the various business functions.

In general, the vertical organization structure of adidas Global IT was perceived to be highly successful in terms of striving business alignment and satisfaction. Within each vertical sub-division were IT project/service teams reporting up through the chain of command to the head of the vertical. The problem with this structure was that it led to redundancies across the verticals. For instance, each vertical had its own group of Java developers and software testing teams.

Multi-vendor offshoring at adidas Global IT

The multi-sourcing decision

When Jan Brecht joined the adidas Group as the new CIO in 2009 he found a mature offshoring relationship with an Indian tier-1 vendor and over a decade of experience (see **Exhibit 1**). While the original perspective behind outsourcing had focused on: 'What functions or tasks should I outsource,' Brecht felt that sourcing should be defined by asking the question: 'What do I want to do internally?' In addition, the mature relationship adidas Global IT had established with Alpha had given the vendor effective monopoly status. Brecht commented:

> Alpha is one of the typical big Indian suppliers. And by the way, we were happy with them, there was nothing wrong, but competition always helps the client, that's why I wanted competition.

Throughout the second half of 2009 into 2010, Brecht and his team did two things to address the identified improvement areas: First, they developed a 10-point future action plan for skill and knowledge (see **Exhibit 10**). This plan clearly described what knowledge and skills adidas Global IT should hold internally and thus implicitly what knowledge and skills the IT organization should acquire from the market. The second area Brecht addressed was reducing the monopoly status of Alpha.

Other senior managers shared Brecht's impression that the IT organization of the adidas Group was locked in with its single vendor and that this vendor was feeling too comfortable. Barath Indrakumar, Senior Manager Offshore Service Center Operations, adidas Global IT explained:

> Alpha was becoming very complacent. They were getting very comfortable and they were not really going the extra mile. They were doing minimum things they were required to do because they were not really competing for their business – they automatically got everything. For example, we wanted to increase the quality of services and projects but at the same time reduce cost; we didn't have any leverage at all. They simply refused to negotiate with us on cost.

Thomas Eichhorn, SVP IT Infrastructure and Operations, adidas Global IT continued:

> The quality of what Alpha was doing behind the scenes was actually not as good as it used to be, and its flexibility to negotiate rates was not very high at that point in time. So commercially, we were in a fairly weak position because we couldn't transition services easily. The quality of people we were getting was going down, you could see it in many cases. Also we didn't have the internal resources at a sufficient level that could, with a technical understanding control, observe what Alpha is doing.

Brecht's eagerness to avoid over-reliance on a single offshore vendor was informed by his considerable experience in the automotive industry, where multi-sourcing represented a well-established business practice. For him, involving multiple strategic IT vendors was a natural next step towards further improving the competitiveness and maturity of the Group's global IT organization.

The vendor selection

In considering multi-sourcing alternatives, adidas Global IT carried out a systematic and diligent selection process, looking at many different types of offshore vendors. Not only did the company look at potential competition from the Indian pool of IT vendors, but it also deliberately investigated other geographic areas, especially Eastern Europe and the former Soviet Union states—areas that offered a very strong talent pool with regard to technical subjects, natural sciences, and mathematics.

The initial plan was to select only one additional offshore vendor to create competition. Ultimately, however, Jan Brecht and his senior management team decided that by selecting two vendors they would be able to create an even more competitive environment. Brecht commented:

> We want three of them. We want A, B, and C. Now why is that? You want to manage as few as possible, but you need enough of them to create severe competition. If you have three, there are always two who are hungry. If you have two, it's a little more difficult. So three seemed the minimum number to get the competition we wanted without managing too many of them separately.

For the arrangement to succeed, the three vendors needed to have significant overlap in terms of skill sets. Ideally, all three of them could potentially compete for business in any area of the organization. Another aspect of the selection process was the size of the potential offshore partners. Brecht elaborated:

> If you are on the top ten list of clients, you are obviously getting better support compared to being number 259 in terms of revenue for that service company. So, deliberately, we chose a company size that was significant enough to have the stability, quality and internal educational training processes that we need as a multinational company. Still we made sure that within just a couple years of the relationship—and with both new vendors, we have achieved that by now—we are in the top ten list of their clients. And with that again, naturally, you get excellent support.

Based on a thorough selection process, Beta and Gamma were chosen as additional offshore vendors. Gamma was a tier-2 outsourcing vendor from India with CMMI level 5 capabilities[2]. The

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[2] The Capability Maturity Model Integration (CMMI) is a model for judging the maturity of the product and service development processes of an organization. A CMMI level 5 company is an organization that strives for continuous process improvement in order to optimize its processes. Level 5 is the highest CMMI level.

other new vendor, Beta, was a CMMI level 4, tier-2 firm from Eastern Europe. Brecht described the rationale behind selecting a near shore vendor as follows:

> It's always dangerous to generalize what you find in the near shore context. Usually, it's slightly higher rates, but you do find a higher productivity from two angles. Number one, you have more senior work force with less fluctuation. Usually with the Indian context you have a more junior workforce with higher fluctuation. Second, for certain areas of development, where you don't want to be 100% explicit in your specifications because you want to learn with your development partner as you go, you need the people who will challenge you and ask questions. That tends to work better in Eastern Europe and former Soviet Union countries.

Because of its record for innovation, Beta was perceived as a particularly good fit with project-related business, whereas Gamma was rated very competitive in terms of pricing and was considered to be in a particularly strong position to compete with Alpha to keep IT systems running. In general, the skill sets of the two new vendors overlapped that of Alpha. Finally adidas Group Global IT also refrained from assigning dedicated activities to any of its three vendors. Tobias Wolfermann, Manager Group Procurement, adidas Group Finance, described the situation as…

> …a unique setup because Alpha, Beta and Gamma compete with each other along adidas' entire IT portfolio. Through this, we experienced new quality in bidding processes since all three vendors are eager to win the deal, to expand or defend their business volume, ultimately resulting in a better quality-price ratio for adidas.

Given the overlap in vendor skills and areas, adidas Group procurement knew that whenever they issued an RfP (request for proposal), at least two vendors, and often all three vendors, could respond to the request. Specifically, Alpha had the size and skills to respond to virtually all RfPs issued. However, it was not as 'lean' as Gamma, and thus not always as competitive in terms of price. Also, Alpha was challenged to be as innovative as Beta. Against this backdrop, adidas Global IT created a highly competitive vendor environment, in which all three vendors were knowledgeable about the client operations and used this knowledge to compete regularly in bidding against one another.

At the same time, some cooperation among the vendors was needed. In particular, such cooperation became necessary when a vendor won a contract for a project or service that previously had been handled by another vendor or when a vendor might be called upon to replace another vendor that performed poorly on a given project or service.

The vendor onboarding

Initially, the onboarding of Beta and Gamma was not as fast as adidas Global IT hoped it would be. After careful analysis, they found three reasons. Number one was a natural reluctance to change. Number two was transition cost. Brecht explained:

> If you transition a service you need a one-time investment. And if you had Alpha for so long, they know your organization very well and there's just less of transition cost. That doesn't mean that they're better, in their steady state, it just means they're quicker to wrap up. And there's no easy answer how you fund that transition cost, either on your side or the vendor's side.

The third reason was that each vendor needed to acquire a critical mass in business volume in order to make the relationship beneficial for both parties, i.e., the client and the vendor. Against this backdrop, adidas Global IT had to deal with several challenges related to the setup of its new sourcing strategy. In particular, it needed to gain internal acceptance of the newly added vendors, ensure the required change in sourcing 'culture', and foster good working relationships with both the former single vendor and the two new vendors.

Getting internal acceptance for new vendors

Overcoming resistance from middle management towards working with Beta and Gamma proved to be a significant challenge. As a result of the existing long-term relationship with Alpha, adidas Global IT's senior management struggled to get internal acceptance for the new vendors from lower management levels. The vendors also recognized this struggle. A Beta account manager explained:

> The question is on which level the sourcing decision is taken, right? Because it might be, that the CIO, for instance, wants to have this vendor here. But people on some levels below, who really do the work and are responsible day-to-day for it, they have some different opinions. They don't want to take the risk or it's just more convenient for them.

As in any other company, IT managers at the adidas Group were judged on their bottom line, and were made responsible if something went wrong in their area of responsibility. So, after years of interaction with Alpha and its employees, client managers often had a close working relationship with the long-term vendor, as well as a favorable (or at least realistic) assessment of this vendor's capabilities. Thus, managers were hesitant to take the risk of onboarding new vendors who may not deliver as promised in the end. Indrakumar explained:

> I think it's just a natural human tendency. If I'm a manager working with vendor A and I've been working with them for ten years it's a natural comfort factor to keep working with them because I know what I am getting and don't want to change.

A Gamma account manager continued:

> There are many adidas managers who are comfortable working with the incumbent vendor from the last ten years. They see increased dependency on them, increased project risk to onboard new teams with a new vendor and consequently, see little value in change. Even though they see a better or comparable proposition in an RfP response, they are more comfortable with the known devil than the unknown, even at slightly higher prices at times.

Furthermore, Beta and Gamma needed to go through a learning curve in order to understand the client's business domain before really being in a position to compete with Alpha. None of the client managers were eager to be the one who accompanied the new vendors through this learning curve. Indrakumar stated:

> What was happening was that a lot of people were reluctant and said: 'OK, not me, not now. Let me first wait for my colleague to experience how good they are.'

Reinhard Denk, Senior Manager Wholesale ERP, adidas Global IT continued:

> At adidas, you often find highly customized software code. Although we use standard software applications such as SAP ERP, we typically tailor these applications to our specific needs. And therefore, there has always been the rationale: 'You can't

> easily change vendors because we have done some specific things and only Alpha really knows these specifics.'

To break the client's internal resistance in working with the new vendors, the IT sourcing team, led by Bert Schurink, Director of the IT CoE Corporate Marketing, and Barath Indrakumar, focused on creating internal credibility by collecting hard facts and reporting these facts back to the CIO and his senior management team. Specifically, they aimed at creating early success stories with Beta and Gamma. For instance, in the Business Intelligence area, client managers learned about one of the new vendors in the selection process and were quite impressed with its skills. Therefore, the sourcing team helped this area to put the 'dream contract' in place, and then used this success story to convince others of the benefits of working with the new vendors. In addition, the sourcing team together with the CIO set clear targets regarding the onboarding of the new vendors for all areas within the Group's global IT organization. According to Indrakumar:

> One of the very strong things that we did was also have clear targets for the senior management team through our CIO to say 'OK, you will have at least in one of the areas in your portfolio a second vendor.'

Establishing a multi-sourcing mindset

Many middle and project managers at adidas Global IT seemed to view the offshore vendors primarily as a human resource pool. This view can be traced back to the long-term relationship with Alpha, where vendor staff often worked for an extended time period at the client site in Germany. Whenever client managers lacked onsite personnel, they simply asked the vendor to provide the required resources. This resource-driven approach to IT offshoring was still deeply anchored in people's minds, as highlighted by the account managers of the two newly added vendors:

> While top management understands the multi-vendor strategy and how it should be leveraged to get benefits, middle management probably does not comprehend completely how it should be executed. So, what some feel is that multi-vendor strategy is always about having two vendors in the same project. That is a myth we are trying to debunk. (Gamma account manager)

> At the beginning we were kind of a black horse for adidas. I think we are the only vendor that has less than 10% onsite. And this was a bit of challenge in the beginning because adidas was insisting on bringing people onsite. (Beta account manager)

Beta and Gamma recognized problems in how multi-sourcing—as well as their companies' role in the process—was initially perceived at the client's operational level. As a result of the resource-driven approach to offshoring, adidas Global IT partly ran into accountability issues. The Gamma account manager offered an example:

> When adidas structures a project with multiple vendors, in most cases, adidas ends up becoming the single point of accountability for project delivery, risk, and success.

To counter this, adidas Global IT has been changing its general sourcing approach within its IT multi-sourcing strategy. Instead of serving as coordinating agency and taking over project or service accountability, client managers started to shift the overall accountability to a single vendor. The Beta account manager explained:

> Normally, adidas project managers were responsible completely for their project outcomes. Nowadays they want to change it and outsource the project itself to a vendor. So, if this will happen then the vendor will take the complete responsibility as well.

Managing multiple vendor relationships

One of the greatest challenges for adidas Global IT in managing the relationships with its multiple vendors was creating a level playing field, but at the same time fair competition among the vendors. A Beta account manager explained:

> The environment we have now is a bit problematic for new vendors to compete with Alpha because Alpha has a long history working with adidas and of course they have a lot of experience already gained through these years. We try to bring on our new vendors but still we see the lack of experience in some areas. But we are attempting to speed up the on-boarding process and, if not this year, then next year we will be able to compete on the same level.

The Alpha account manager explained that there was some initial frustration on the part of the two newly added vendors:

> If the new vendors don't win the first three bids, they also will be questioning themselves, are we here just to keep the price competitive or is there really a growth opportunity for us?

Indrakumar continued:

> For nearly four months Beta did not win any projects in adidas. We had added them as a vendor but they did not get really anything from us. So, they were very upset that they partnered with us and they were not getting any commercial contracts.

Over time, however, adidas Global IT managed to create a highly competitive vendor environment, while at the same time to establish good working relationships with all three vendors, including the original single vendor, Alpha. This success was enabled by four critical factors:

First, adidas Global IT carefully selected and orchestrated a balance between tier-1 and tier-2 vendors. The two tier-2 vendors were 'hungry' but also willing to acknowledge Alpha's tier-1 status and history with the client firm. Further, adidas Global IT ensured that skills overlapped with at least two and often three vendors, and carefully analyzed future requirements to guarantee an appropriate mix of available vendor skills.

Second, the adidas Group offered business growth opportunities for all vendors. The overall IT budget, which was defined as a fixed percentage of the Group's total revenues, was growing when it adopted multi-sourcing. For this reason, the offshoring pie increased and each vendor could thrive. Moreover, adidas Global IT was able to increase the pie by reducing the number of outsourcing contracts with (domestic) vendors other than the three strategic offshore vendors, as well as by steadily decreasing the onshore-offshore ratio. In the initial phase of its multi-sourcing strategy, adidas Global IT made sure that each of the newly added vendors won enough RfPs to achieve a critical mass in business volume. This strategy not only kept Beta and Gamma interested, but also convinced them that a profitable, long-term relationship could be established with the adidas Group. Consequently, both new vendors were willing to invest in the relationship with the client. Brecht remarked:

> When you start from zero, it's only fun if you are above a certain threshold. So what we did in the first 18 months is that, we had an obligation to go with the least cost vendor if they came in at a comparable quality. However, if we had a comparable cost at the same level of quality, we chose either Beta or Gamma over Alpha.

The sourcing team carefully monitored the progress in onboarding the two new vendors and gave regular status updates to the CIO and his senior management team (see **Exhibit 11**). In this process, adidas Global IT realized that the critical threshold in annual business volume for each vendor was probably around five million euros. In 2013, for the first time, both Beta and Gamma clearly exceeded this threshold and a lot of other problems went away. The new vendors were better known within the IT organization and people became less skeptical.

Third, on several occasions, adidas Global IT subsidized the learning of its two new tier-2 vendors by, in essence, paying for their learning on the job. Doing so allowed Beta and Gamma to gain a deep understanding of the client's business domain and IT landscape. Ultimately, this provided a level playing field so that all three vendors could compete with each other at a higher level of intensity. Further, learning was undertaken across the involved parties: the client learned from each vendor and the vendors, in turn, learned about the client's operations and best practices. In addition, the vendors learned from one another as they cooperated in project/service delivery and transition. They also learned informally from each other in so called "BMW sessions"[3], where the three (onsite) vendor account managers periodically talked with one another about lost deals or common problems, without any adidas employees present.

Finally, adidas Global IT established a system of formal structures and processes to manage the relationships with its multiple vendors (see **Exhibit 12**). As part of this vendor management system, it was a key responsibility of the adidas IT sourcing team to carefully manage vendor expectations, especially those of the two new vendors. Schurink explained:

> People need to trust that you have a certain interest in them and it's by setting the right expectations. So, when we introduced the new vendors, we gave them an outlook what they could expect. And then during the road, again on this informal level, we constantly tried to coach them, tried to keep close to them, tried to sometimes manage the frustrations if there were any about losing a certain deal.

The Gamma account manager explained that the vendors also stressed the importance of the relationship between the vendor account managers and the adidas sourcing team:

> On many occasions, we think we have done a very good job in an RfP, scored a home-run and finally end up losing it. It is natural to feel demotivated. The adidas sourcing team then becomes our punching bag and our sounding board. There have been days when they had to patiently listen to us sobbing over a sour deal and say: 'Hey, don't worry, there is a good one lined up in the next quarter, I think we may have something in it for you.' So, this motivation and guidance is really important to keep the relationship in good health.

The realized benefits

The successful onboarding of Beta and Gamma together with the overlap in vendor skills and project experience areas led to a significant increase in competition among the vendors and also

[3] "Bitching, Moaning, and Whining"– a term coined by one of the vendor account managers.

reduced the client's dependency on Alpha. Consequently, Alpha became more responsive to the client's needs and offered higher service quality for lower prices. However, the benefits were not all one-sided since, at the same time, Alpha's revenues from the adidas Group grew from 18.8 million euros in the fiscal year 2009/2010, the year before the two additional vendors were onboarded, to 32.5 million euros in the fiscal year 2012/2013.

In addition, adidas Global IT also benefitted greatly from the introduction of Beta and Gamma. Both vendors were providing creative and competent service. Their close partnership with the client allowed them to understand how the client's culture and operations functioned. Because of their ability to quickly develop in-depth client understanding, as well as their overlapping skill sets and areas of expertise, Beta and Gamma competed with Alpha on the same level. Consequently, adidas Global IT had constant cost and quality benchmarks contributing to a further increase in vendor competition. The co-existence of three knowledgeable IT vendors also helped the client strengthen its internal management skills as highlighted by Denk:

> Having access to multiple vendors with similar skill sets makes it very easy to get a second or third opinion. For instance, if the business side requests a change in an existing system, one can easily approach the three vendors and discuss the implications of this change request as well as the feasibility and the resources needed to implement the request with each vendor. This way, one can draw a more realistic picture.

Moreover, adidas Global IT found that closely interacting with three IT vendors that operate and compete along its entire IT portfolio enabled them to develop a deep understanding of the individual strengths and weaknesses of each vendor. This understanding increased the client's ability to find the vendor best suited for a specific project or service under given circumstances. The client management also found that its access to three knowledgeable and skillful vendors—all of whom were familiar with the context, infrastructure, and processes in any area of its IT portfolio—significantly simplified the RfP process and made it far less time consuming. More specifically, although the IT organization of the adidas Group published a considerable number of proposals each month, there was actually relatively little overhead involved because it was very easy for the client to reach out to its three strategic vendors to bid on new RfPs, as highlighted by Roger Aumüller, Head of Group Procurement IT, adidas Group Finance:

> When you want to compare the offers and you have only one offshore company working with you then you have to ask other vendors and they compete with much higher daily rates. They might be much better but they will still lose every RfP. And having lost the third one against the same company, they will lose interest in investing their energy working on those RfPs. And therefore a multi-vendor strategy for offshoring is helpful in that sense.

Future challenges

While the adidas Group successfully dealt with the challenges involved in setting up its IT multi-sourcing strategy and the onboarding of Beta and Gamma in particular, significant challenges with regard to the implementation of its new sourcing strategy still lay ahead. At the heart of these challenges was sustaining intense vendor competition, while at the same time keeping all three vendors sufficiently motivated to invest in the client relationship in the long run.

Maintaining competitiveness and collaboration

Creating a level playing field competition among the vendors was a key challenge in setting up the IT multi-sourcing strategy. In the future a key challenge for adidas Global IT's management would be to sustain vendor competition. The vendors could retreat to a comfortable niche in the client's IT portfolio, and view each other as collaborators rather than competitors, thereby undermining the key objective of the newly adopted multi-sourcing strategy. Wolfermann explained:

> The key challenge is in the end to really keep competition alive. To find out if and also to monitor if the three vendors still have that eagerness or find a way to arrange each other. And that's always something we have to be careful about.

In this context, adidas Global IT was also concerned that it had created an ecosystem that was decoupled from the marketplace of other IT services vendors. To mitigate this strategic risk, Global IT significantly reduced the average duration of vendor contracts with contract durations ranging from a couple of weeks for consulting engagements to three years for application support, and included a 'performance improvement' clause in the framework agreements with its three vendors. This clause required the vendors to achieve productivity gains (cost savings) of 3-8% per year depending on the duration of the specific service contract. Adding to this, adidas Global IT periodically brought in other vendors for benchmarking purposes, thereby ensuring that its vendor ecosystem remained connected to the marketplace.

Given that ensuring sustained vendor competition was critical for the long-term success of the IT multi-sourcing strategy, adidas Global IT also worried how they would foster collaboration among vendors, while also incentivizing each vendor to continue investing in the client relationship.

Key to addressing this challenge was ensuring that the vendors each had sufficient scale of work to keep them motivated. However, after the introduction of the multi-sourcing strategy, some of the vertical units started to cut IT tasks in smaller and smaller chunks and ran RfPs with the three vendors on this basis. For instance, the business volume of individual RfPs was often as low as 10,000 euros. The limited size of individual RfPs was also reflected in the high RfP number that adidas Global IT sent out to the vendors each month. On average, the IT organization announced approximately 20 to 25 RfPs per month, with most of them being relatively small contracts in terms of business volume. Consequently, it became more and more difficult for the vendors to leverage economies of scale. At least partly, this problem was also related to the vertical organization structure of adidas Global IT as highlighted by Eichhorn:

> By running RfPs the way we do it, actually the amount of business we are giving to a vendor in one vertical is becoming smaller and smaller. And that is problematic because it makes us unattractive for vendors to work with. They don't have the synergies that are required for the deal. They can't operate the way they want to. So it's getting more and more granular, and we have to stop doing that. So it's not about giving all our business to one of the three, not at all, but it's about stopping the division into smaller and smaller chunks.

Moving Forward

In 2013, two years after the addition of Beta and Gamma, Jan Brecht considered the introduction of the IT multi-sourcing strategy to be a great success for his organization. The new sourcing strategy had led to an increase in IT service quality and consumer technology innovations, which played a critical role in building a digital ecosystem for end consumers and empowering employees. The IT multi-sourcing sourcing had also resulted in significant cost savings, which allowed adidas Global IT to reduce ongoing costs of keeping systems running and to spend a greater share of its fixed IT budget on innovative projects. Against this backdrop, the switch to multi-sourcing facilitated adidas Global IT's efforts to make an important contribution towards increasing the Group's profitability.

Furthermore, by adding Beta and Gamma, adidas Global IT became less dependent on Alpha, and also regained the top management attention of its former sole vendor. For instance, as a first reaction to the multi-sourcing strategy, Alpha increased the number of key account managers from two to six. The IT management team of the adidas Group interpreted the increased number of key accounts as a sign of increasing commitment and interest by Alpha.

Although Brecht and his senior management team were satisfied with how the IT multi-sourcing strategy worked out so far, they were also aware of the challenges lying ahead. How could they ensure that the introduced multi-sourcing strategy not only proved beneficial in the short run, but will also do so in the long run? Eichhorn commented, "Quality has gone up, prices have gone down, great! Now, we need to make sure that the IT multi-sourcing strategy remains sustainable."

Brecht knew that keeping vendors motivated, as well as further improving the maturity of internal management structures and processes, was key to achieving long-term success. He and his senior management team therefore discussed options for restructuring the internal IT organization. The idea was to insert a horizontal structure into the current, vertical organization, thereby creating sort of a matrix organization. Under the new structure, the vertical units would still mirror the organizational structure on the business side. At the same time, horizontal functions, such as application development, testing and support, would help pool resources across verticals. This new structure would not only enable the client to strengthen internal control over the vendors by pooling key staff in each horizontal function, but also enable the vendors to more easily obtain economies of scale as highlighted by Jan Brecht, CIO, adidas Group:

> How can we restructure from business-oriented verticals to more scale, and that is obviously by kind of reversing our structure a little bit and build more horizontal elements across all functions, e.g., for development and testing. I call this industrialization of the IT organization. This is only possible because we have already ticked off the business relationship piece and have now made a deliberate move into industrialization. Tying it back to the sourcing context, that obviously also gives us advantages in sourcing because all of a sudden I have a lot more scale when sourcing, for example, for development and testing.

Another key challenge involved maintaining high levels of competition among the IT vendors. Towards this end, Brecht considered the option of adding a fourth strategic IT partner to the vendor portfolio in the future:

> If we sense from external benchmark data or just get the impression that the vendors are not alert enough in a year or two or three, we could definitely add number four to the mix and then say, well within a few years we'll be down to three again, so one of you will lose. That's a level of aggressiveness which at this stage I would not choose to entertain but that could be a counter measure if it's getting a little too cozy in this ecosystem.

In addition, in an effort to build up internal capabilities as well as to potentially increase competition among Alpha, Beta and Gamma, Brecht and his management team discussed the option of setting up a wholly owned captive center in a near- or offshore region:

> The question that I guess many IT organizations are asking themselves is: We've come to a high degree of maturity with our offshoring partners that worked well. And they are very profitable companies, all of them. So the question you start asking yourself is could we do it for less money? Which then leads me to the question: do you want captive offshoring in your own company? And where could we do that? It's not only a question of cost, it's also a question of available talent.

While saving the vendor profit margin and getting access to new talent pools would be key advantages of setting up a captive center, obviously, there would also be an accompanying downside to this: adidas Global IT would lose flexibility by hiring internal IT staff for the captive. Adding to this, they would probably have to pay staff higher salaries compared to pure IT offshore service providers because of a lack of career development opportunities:

> If you work for a 150,000-employee Indian IT service company, there's ample training and career opportunities. If you work for a much smaller captive branch of a DAX 30[4] company as an IT person it's obviously less compelling.

Another issue was that running captive IT services was not a core competency of the adidas Group. Ultimately, however, a captive center could also enter into competition with the other three external players involved in the IT multi-sourcing strategy, thereby contributing to keeping these vendors on their toes. As a mid- to long-term vision, Brecht could imagine establishing a three-tier captive organization:

> The first tier of such a captive organization is more or less what we have today, which is a strong footprint in headquarters, to really be close to business, agile, and fast. I could see a second tier of captive, which probably will be nearshore. If you look at it from a European perspective I think for the foreseeable future, for example, Spain will have a highly educated young workforce and very little opportunities in the job market. And then the third captive tier probably would be really commodity work in a very low cost geography, probably even less expensive than India; Philippines, Indonesia, China. Those tiers could potentially compete with the external vendors. But again, that's more a longer term architecture that I'm starting to consider.

When leaving his office, Brecht was still undecided whether it was actually realistic to establish a captive center within adidas Global IT. And if so, where and how should they setup such a center? What functions should the captive take over? How would the captive center interact and compete with the three strategic IT offshore vendors in place?

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[4] The DAX (*Deutscher Aktien Index*) is a blue chip stock market index consisting of the 30 major German companies that are traded on the Frankfurt Stock Exchange.

Exhibit 1 adidas Global IT – Early phases of offshore sourcing history (1998-2010)

Phase (Years)	Events	Triggers
Phase 1: Bringing offshore resources onsite *(1998-2003)*	adidas Global IT implemented first projects with a major Indian tier-1 vendor, Alpha, using a pure onsite approach.	This move was motivated by significant cost saving potentials in terms of per diem rates and the greater flexibility of Alpha to ramp-up and ramp-down resources as compared to local freelancer agencies and consulting firms. Further, adidas Global IT did not pay for daily allowance for the Indian onsite resources, and paid for only one round trip to India per person in an extended time period.
Phase 2: Leveraging offshore resources (2003-2008)	The top management of adidas Global IT asked Alpha to at least partly offshore its onsite resources involved in an ongoing product lifecycle management project, leading to a dual sourcing approach (i.e., the simultaneous use of onsite and offshore vendor resources). The introduction of the dual sourcing approach brought up the question of how to effectively control the distant offshore resources. The client management decided not to involve intermediaries as 'offshore bridge' or to build its own captive center. It would take too much effort to hire Indian staff and rent office buildings in India.	The decision to increase the onsite-offshore ratio was again driven by financial motivations. Compared to the onsite resources, this decision enabled the IT organization of the adidas Group to cut per diem rates by another 50%. It also benefitted Alpha by decreasing its asset specificity.
Phase 3: Setting up an offshore service center *(2008-2010)*	Around 2007, adidas Global IT decided to set up an offshore service center (OSC) together with Alpha. The client selected Enterprise Application Integration (EAI) as an IT task that could be shifted to the OSC. Key reasons for selecting EAI were the adequate business volume and the good match with the capabilities of Alpha, which was certified with CMMI level 5. In 2008, adidas Global IT started to ramp-up the OSC as a profit center together with Alpha.	This decision was primarily driven by the expected future growth in the IT organization's offshore activities and the related need to create additional synergies, improve transparency, and facilitate vendor management. By consolidating different offshore teams, it was relatively easy for client managers to figure out which vendor employees had free capacity and to shift these employees to another project for support purposes. The contract with Alpha had highly competitive per diem rates and discount thresholds for new business. Once per year, Alpha paid out the corresponding discount, thereby generating 'hard' cash for the adidas Group.

Source: Casewriter.

Exhibit 2 Major IT multi-sourcing deals (1980-2010)

Year	Backdrop and major IT multi-sourcing deals
1980s	Companies worldwide increasingly sought to outsource IT tasks to specialized vendors in an effort to cut costs and focus on their core competences. Early arrangements were typically characterized by long-term contracts with a single (domestic) vendor.
1989	**Eastman Kodak** made its landmark decision to outsource all of its IT operations to three vendors: Businessland provided support for personal computers; Digital Equipment Corporation provided telecommunications support; and IBM took over Kodak's data centers (Applegate et al., 1990).
1990s	To leverage significant labor cost differences and the large pool of highly qualified workers in countries such as India, companies started outsourcing IT tasks to vendors in low-cost countries (IT offshoring). This trend was accelerated by a shortage of IT professionals in the late 1990s, a dramatic expansion of the Internet, and concerns about a looming Y2K problem (expected to arise when the two-digit year used to store dates in legacy IT systems changed from 99 to 00).
1994	**British Petroleum (BP)** entered into a multi-sourcing arrangement with three IT vendors to provide application development, data center, network, and other support services (Cross, 1995).
1998	The IT division of **Chevron** signed a deal valued at about $450 million with EDS, GTE, and Sprint to capitalize on each vendor's specialty (Gallivan and Oh, 1999).
2000s	Outsourcing deals became more complex and often involved multiple, geographically dispersed vendors. Deals ran over a shorter time span.
2005	**Renault** awarded contracts totaling $789 million to Atos, CSC, and HP (McDougall, 2005). **ABN AMRO** signed a five-year, $2.2 billion IT multi-sourcing deal with IBM (IT infrastructure and overall coordination), Accenture (application development), and Indian vendors Infosys, Patni Computer Systems, and Tata Consultancy Services (application support and maintenance) (ValueNotes, 2008). The deal was expected to result in cost savings of $700 million by 2007.
2006	**General Motors** moved from a single-sourcing (EDS) to a multi-sourcing strategy with Capgemini ("guardian vendor"), Compuware Covisint, EDS, HP, IBM, and Wipro (Schaffhauser, 2006).
2008	**Shell** signed a five-year, $4 billion multi-sourcing deal with three global IT vendors: AT&T for network and telecommunications, T-Systems for hosting and storage, and EDS for end-user computing services and the integration of infrastructure services (Chapman, 2008).
2010	**ABN AMRO** renewed contracts with IBM, Infosys, and TCS (Mishra and Shivapriya, 2010).

Sources: Prepared by casewriter based on:

Applegate L.M., Ibarra H., and Ostrofsky K. (1990) "Digital Equipment Corp.: The Kodak Outsourcing Agreement," HBS Case 191-039.

Chapman S. (2008) "Shell Signs $4b Multi-Supplier Outsourcing Deal," Computer World (Mar 31, 2008).

Cross J. (1995) "IT Outsourcing: British Petroleum's Competitive Approach," Harvard Business Review 73(3), 94-102.

Gallivan M. and Oh W. (1999) "Analyzing IT Outsourcing Relationships as Alliances among Multiple Clients and Vendors," in: Proceedings of the 32nd Hawaii International Conference on System Sciences (HICSS), Maui.

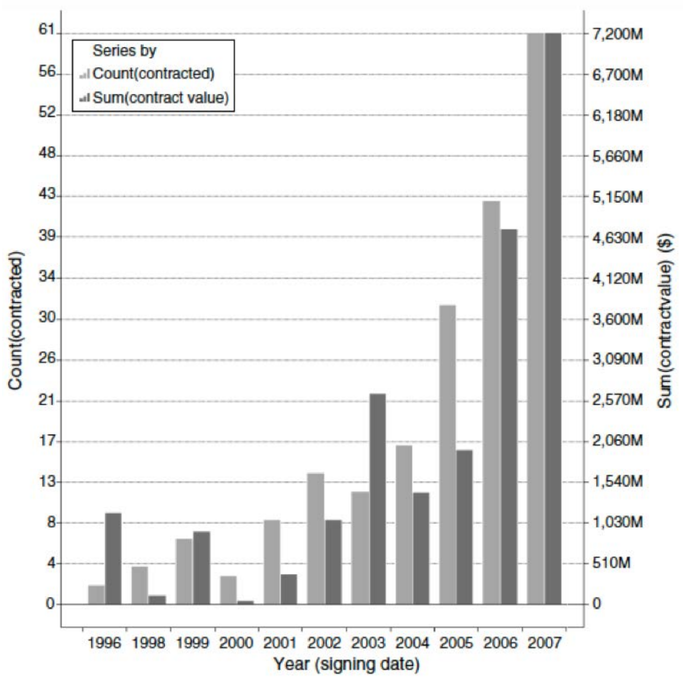
McDougall P. (2005) "Automaker Renault Awards Outsourcing Contracts Worth $789 Million," Information Week (Mar 11, 2005).

Mishra P. and Shivapriya N. (2010) "ABN to Renew $1 Bn IT Outsourcing Deals," Economic Times (Sep 7, 2010).

Schaffhauser D. (2006) "Capgemini Explains Its Role in GM's Outsourcing Plans," sourcingmag.com (Feb 15, 2006).

ValueNotes (2008) "Multisourcing, the Way Ahead?" sourcingnotes.com (Feb 25, 2008).

Exhibit 3 Development of IT multi-sourcing deals (1996-2007)



Source: Bapna R., Barua A., Mani D., Mehra A. (2010) "Cooperation, Coordination, and Governance in Multi-Sourcing: An Agenda for Analytical and Empirical Research," Information Systems Research 21(4), 785-795.

Exhibit 4 Benefits and risks of IT multi-sourcing (client perspective)

Benefits	Risks
1) Lower IT costs due to competition among vendors 2) Best of breed services 3) Access to a diverse set of unique vendor resources and skills 4) Improvements in service quality and time to market 5) Improvements in agility and innovativeness 6) Reduction in operational and strategic risks: • Inappropriate vendor selection • Vendor lock-in • Opportunistic vendor behavior • Limited domains of vendor competence	1) Increased management overhead and transaction costs due to need to manage… • Relationships among multiple vendors • Multiple (offshore) vendors over distances 2) Increased need to monitor and verify the quality of interdependent tasks that often are subject to issues of limited transparency and accountability 3) Dysfunctional vendor competition leading to: • Less vendor commitment to client firm • Reduced vendor willingness to invest in the relationship with the client • Less trust between client and vendor

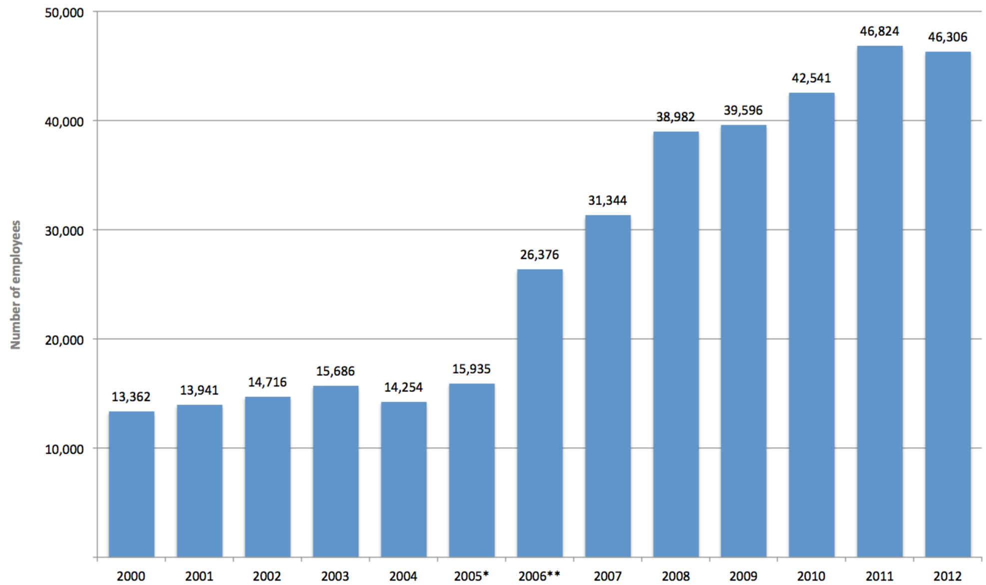
Source: Copyright © 2010, INFORMS. Prepared by casewriter based on: Levina N., Su N. (2008) "Global Multisourcing Strategy: The Emergence of a Supplier Portfolio in Services Offshoring," Decision Sciences 39(3), 541-570.

Exhibit 5 History of the adidas Group

Year	Event
1918-	After his return from World War I, Adolf, called Adi, Dassler started to produce sports shoes in his mother's wash kitchen in the Bavarian town of Herzogenaurach, 20 km from the city of Nuremberg.
1924	Adi's brother, Rudolf Dassler, returned to Herzogenaurach to join his younger brother's business, which became *Gebrüder Dassler Schuhfabrik* (Dassler Brothers Shoe Factory).
1936	Adi Dassler met US sprinter Jesse Owens at the Summer Olympics in Berlin and persuaded him to use Dassler shoes with spikes. Owens won four gold medals. Athletes from all around the world became interested in Dassler shoes.
1939	The Dassler brothers' business boomed and they were selling 200,000 pairs of shoes each year before World War II.
1947	Adi and Rudolf Dassler split up the *Gebrüder Dassler Schuhfabrik*.
1949	On August 18, Adi Dassler registered the *Adi Dassler adidas Schuhfabrik* and set to work with 47 employees. Rudolf Dassler later established a firm called Ruda (now Puma).
1949-	adidas became an important supplier of German soccer teams. Later, the company expanded its footwear line to also include other sports, such as high jumping, weight lifting, and bobsledding.
1972-	adidas kept expanding to more and more sports (including rock climbing, gymnastics, etc.) and became a 'true multi-sports specialist'.
1974	The adidas brand achieved international prominence when the adidas-sponsored German national team won the World Cup soccer championship in Munich.
1978	Adi Dassler died on September 6, shortly after his 78th birthday.
1995	Six years after becoming a corporation, adidas went public.
1997	adidas acquired the Salomon Group and its brands Salomon, TaylorMade, Mavic and Bonfire. The company changed its name to adidas-Salomon AG.
2001	Herbert Hainer became the new CEO of adidas-Salomon AG.
2002	adidas-Salomon paid 77 million euros for a 10% equity stake in FC Bayern Munich soccer club. (Due to subsequent increases of capital stock, the equity stake had been 8.33% from 2014.)
2005	adidas sold Salomon and its brands (excluding TaylorMade) to Amer Sports.
2006	adidas acquired Reebok including the brands Rockport and Reebok-CCM Hockey. The company was renamed adidas AG.
2010	The adidas Group presented its strategic business plan "Route 2015".

Source: Prepared by casewriter based on: adidas Group website.

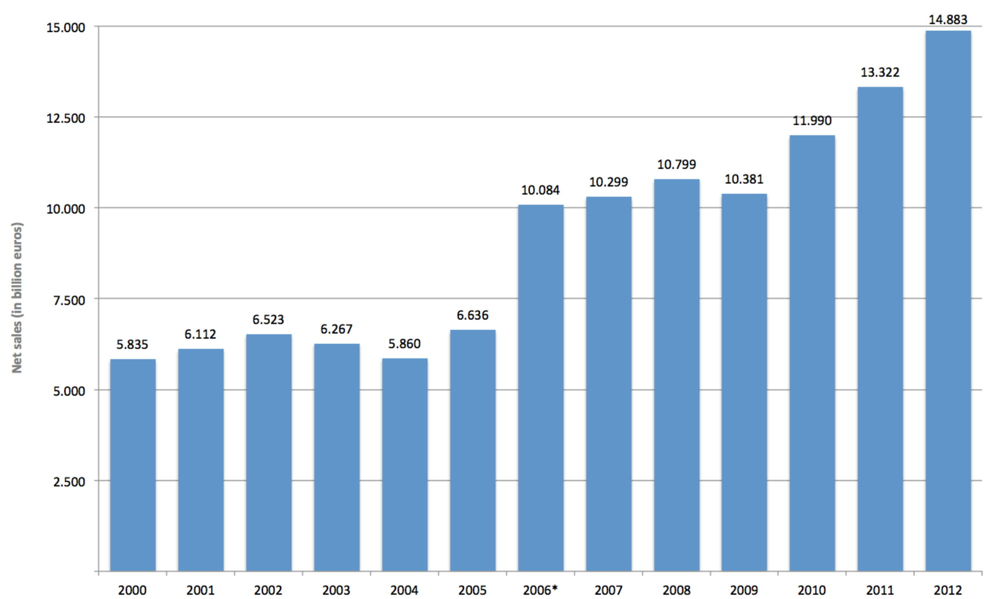
Exhibit 6 adidas Group – Number of employees worldwide (2000-2012)



Source: Retrieved November 16, 2013, from http://www.statista.com/topics/1257/adidas.

Notes: Divestiture of Salomon in 2005 (*); acquisition of Reebok in 2006 (**).

Exhibit 7 adidas Group – Net sales worldwide (2000-2012)



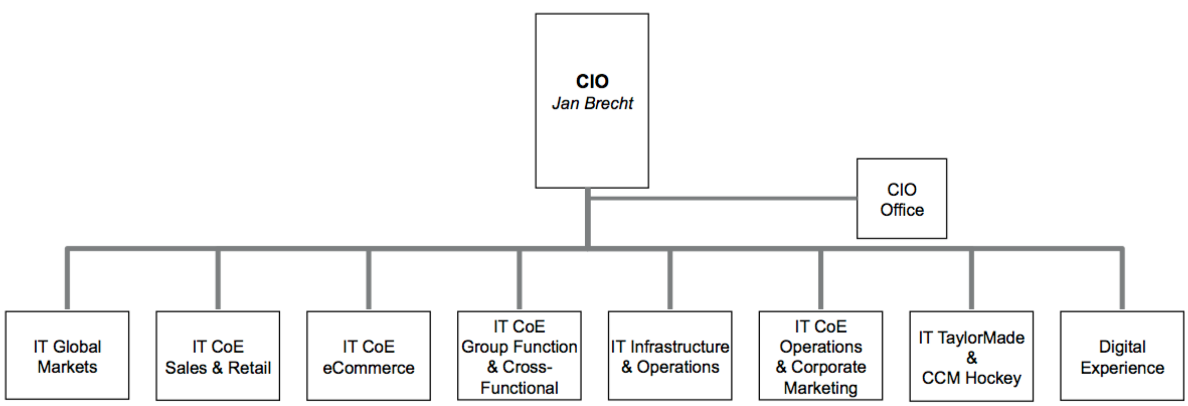
Source: Retrieved November 16, 2013, from http://www.statista.com/topics/1257/adidas.

Note: Including Reebok from 2006 onwards (*).

Exhibit 8 adidas Global IT – Mission statement

Source: Company documents (adidas Global IT).

Exhibit 9 adidas Global IT – Organizational chart (2013)



Source: Company documents (adidas Global IT).

Notes: CoE = Center of Excellence. IT procurement was part of the corporate Group Procurement function. The heads of the subdivisions formed the Senior Management Team (SMT).

Exhibit 10 adidas Global IT – 10-point action plan

Source: Company documents (adidas Global IT).

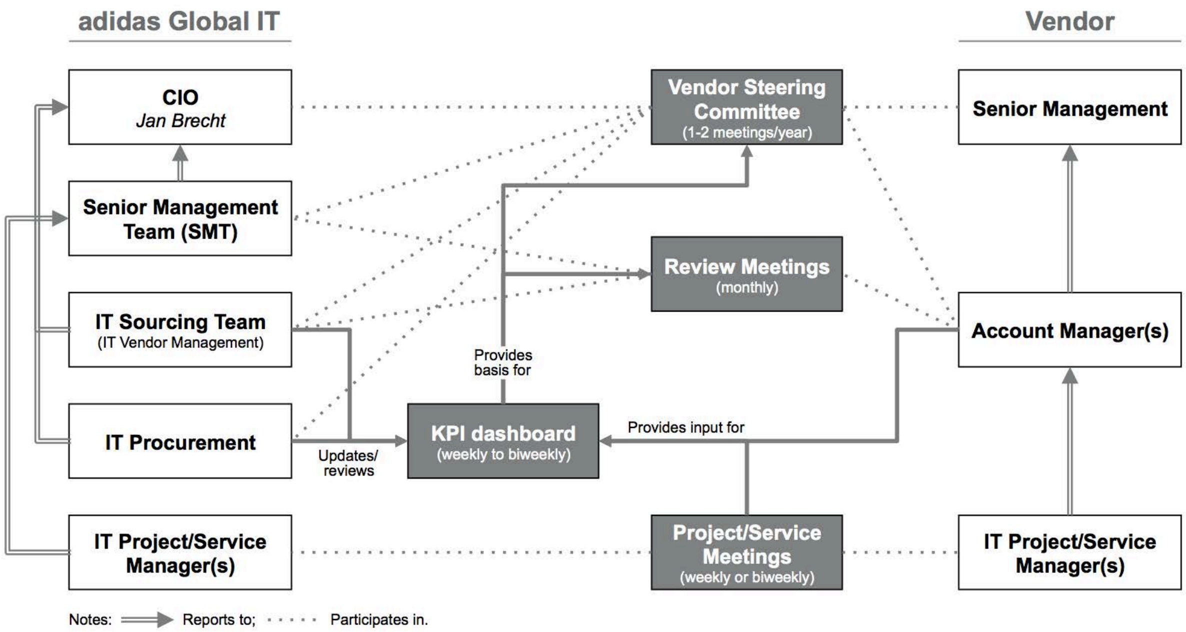
Exhibit 11 Status update on progress in new vendor onboarding (example)

CoE	Area	Vendor	FTE	Start date	Impression so far
Cross-functional	SharePoint Dev	*Gamma*	7	June 2011	Very Good
Cross-functional	Wholesale BI KSR	*Gamma*	11	July 2011	Very Good
Marketing	Athletes Profile Dev	*Gamma*	12	July 2011	Good / Mixed
eCommerce	Employee Voucher I	*Gamma*	2	July 2011	Very Good
Sales	AFS CIS Rollout	*Beta*	5	July/Aug 2011	Good
Infrastructure	ETL Development	*Gamma*	2	August 2011	Mixed
Marketing	miCoach Dev	*Beta*	2	Sep/Oct 2011	Good

Source: Company documents (adidas Global IT).

Note: CoE = Center of Excellence; FTE = Full-time equivalent.

Exhibit 12 Overview of formal vendor management system



Source: Casewriter.