UNLOCKING VALUE: ADIDAS’ IT MULTI-SOURCING JOURNEY

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Executive Summary: The traditional approach to IT outsourcing, including IT multi-sourcing, is to “isolate and outsource”. That is, client firms select modular activities and assign them to their vendor(s) in order to minimize coordination costs and ensure vendor accountability. A key drawback of this modular approach is, however, that it can stifle vendor competition – an often-claimed key benefit of IT multi-sourcing that contributes to reduced IT costs, increased IT service quality, and decreased vendor dependency. Another important drawback associated with modularity is the resulting organizational rigidity.

In this article, we present the case of adidas Global IT, which recently introduced a novel IT multi-sourcing strategy that enabled the client to drive ongoing vendor competition and retain its organizational flexibility. The lessons extracted from the case provide a rationale for acting differently from accepted truths, and offer guidelines for implementing a multi-sourcing strategy that embraces vendor overlaps. Specifically, the case describes how adidas used vertical vendor overlaps to successfully onboard two new vendors and to shape a highly competitive and flexible vendor ecosystem. It then describes how a subsequent shift to horizontal vendor overlaps helped adidas maintain the original benefits of its IT multi-sourcing strategy, while at the same time reduce the cost involved in coordinating its multiple vendors. Overall, also the three vendors benefited from adidas’ new multi-sourcing strategy since even the incumbent vendor was able to increase its revenues as a consequence of this strategy.

Keywords: IT outsourcing and offshoring, IT multi-sourcing, vendor modularity, vendor overlaps, vertical vs. horizontal overlaps, vendor competition, lessons learned.
During the last decade the modus operandi of IT outsourcing has undergone a major transformation: While earlier outsourcing deals were primarily executed with a single vendor, more recent deals often involve multiple vendors. When a firm delegates IT projects and services to multiple vendors, this is called IT multi-sourcing. Numerous global companies, such as ABN AMRO, British Petroleum, Chevron, General Motors, and Royal Dutch Shell have introduced an IT multi-sourcing strategy to reap the potential benefits multi-sourcing has to offer. As compared to traditional single-sourcing arrangements, key benefits include vendor competition and best-of-breed services enabling lower IT costs, higher IT service quality, and lower vendor dependency. Table 1 summarizes major benefits (and risks) of IT multi-sourcing.

Table 1. IT Multi-Sourcing Benefits and Risks

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased vendor competition in terms of price, quality, reliability, innovativeness, etc.</td>
<td>Decreased incentive for vendors to make client-specific investments (relationship building, knowledge, technology, etc.)</td>
</tr>
<tr>
<td>Best-of-breed services</td>
<td>Decreased incentive for client to make vendor-specific investments (see above)</td>
</tr>
<tr>
<td>Reduced operational and strategic risk (lower vendor dependency)</td>
<td>Increased management overhead/transaction costs (vendor contracting, coordination, etc.)</td>
</tr>
<tr>
<td>Increased ability to find the best-fitting vendor (in terms of cost, quality, innovativeness, etc.)</td>
<td></td>
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</table>

The predominant approach to structuring IT multi-sourcing arrangements is based on the concept of vendor modularity. It follows the same logic as single-sourcing models: activities given

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to a vendor have to be ‘separable’ from the activities performed by the client and other vendors, respectively. As a consequence, after the initial bidding phase at the latest, client firms tend to assign exclusive work areas to their multiple vendors. For example, in 2005, Dutch bank ABN AMRO signed an IT multi-sourcing contract worth 2.2 billion USD over five years with IBM for handling the IT infrastructure, Accenture for application development, and a consortium of three Indian vendors (Infosys, Patni Computer Systems, and Tata Consultancy Services) for application support and maintenance. Similarly, in 2008, Royal Dutch Shell penned a five-year, 4-billion USD multi-sourcing deal with AT&T for network and telecommunications, T-Systems for hosting and storage, and EDS for end-user computing and infrastructure services.

By assigning dedicated work areas (“modules”) to each vendor, IT multi-sourcing clients employ a traditional way to deal with complexity in organizations, and to limit coordination costs. They break down large systems of activities into modules to make them more manageable. Each module’s internal activities can be treated as a black box and thus can be optimized without considering other activities in the firm. Also, each module produces an outcome that is basically independent of the activities of other actors. In other words, each module has few overlaps (if any) with other activities of the firm and any links that do occur are easy to identify. Furthermore, each module communicates with other modules through a limited set of well-defined interfaces.

In contrast to this modular approach, allowing overlaps in vendor work areas increases the number of interfaces and the overall level of complexity, and therefore requires considerable

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coordination to be performed adequately. Overlapping vendor activities may also increase the difficulty in clarifying responsibilities, which makes vendor monitoring more difficult as well.9

The positive relationship between modularity and outsourcing has been observed in a variety of contexts, for example in car manufacturing10, microcomputer production11, and in pharmaceutical R&D.12 Similarly in information systems, the modular nature of IT activities has been shown to facilitate outsourcing.13 Put differently, when setting up IT outsourcing arrangements, and IT multi-sourcing arrangements in particular, clients aim to maximize vendor modularity (i.e., reduce vendor overlaps) to decrease coordination efforts on their part and clarify vendor accountabilities.

However, there may be a possible downside in assuming that single-sourcing strategies can always be successfully applied to multi-sourcing scenarios. In particular, can the modularity strategy that works so well in single-sourcing arrangements be generalized to multi-sourcing? A possible problem with high modularity in IT multi-sourcing arrangements is that it can limit the level of ongoing competition among vendors – a frequently cited key benefit of IT multi-sourcing.14 In other words, with modularity, the client runs the risk of creating multiple vendor work silos with limited to no competition within each silo. Furthermore, modularity makes it very difficult to

14 Bapna et al. 2010, op. cit.
Levina and Su 2008, op. cit.
modify the overall architecture since each module has to remain compatible with the other modules, and no party has control over all the components.\textsuperscript{15} This suggests that once an IT multi-sourcing structure has been selected based on modularity reasons, the architecture created would be more rigid than an architecture emphasizing overlaps. Lastly, vendor modularity could promote vendor dependency on the part of the client firm since the vendor who is responsible for a module may come to “own” it. If the activities are really managed as a black box, it may be difficult for the client to assess them properly. Against this backdrop, one wonders how an IT multi-sourcing arrangement can be structured to tap the full potential of multi-sourcing, including intense vendor competition, greater client flexibility, and reduced vendor dependency?

In existing modular IT multi-sourcing models employed by global companies such as ABN AMRO and Royal Dutch Shell, vendor competition seems to be limited to the initial bidding phase. In contrast to these more partnership-oriented approaches, our case study of the adidas Group (see Appendix for research methodology) describes a novel and arguably more ‘aggressive’ IT multi-sourcing approach, which embraces overlaps in vendor skills and work areas. This approach enabled adidas Global IT to achieve high levels of both ongoing vendor competition and cooperation among its vendors, thereby leveraging the benefits of IT multi-sourcing while also minimizing many of the risks and challenges associated with such a sourcing strategy. The case of adidas thus provides a unique window for assessing the use of vendor overlaps in IT multi-sourcing.

THE CASE OF ADIDAS GLOBAL IT

The adidas Group is a major player in the global sporting goods industry. With more than 50,000 employees worldwide and annual revenues of about 15 billion euros, adidas is currently the

\textsuperscript{15} Langlois and Robertson 1992, op. cit.
second biggest sporting goods company behind the market leader, Nike. Its product line includes 20,000 diverse items, and is updated twice yearly to respond to the highly competitive environment.

Since the late 1990s, the strategic focus of the adidas Group has shifted tremendously from being a pure wholesaler to engaging in direct interactions with end consumers around the globe. This shift has affected adidas Global IT in two ways. First, globalized markets and increased competitive pressure in the sporting goods industry forced industry players to work within tight profit margins and to be very conscious of cost. To save on costs, adidas as well as its main competitors, such as Nike, relied heavily on outsourcing for product manufacturing. For example, since 1993, the bulk of adidas’ production has been outsourced to suppliers in Asia. Against this backdrop, it is not surprising that corporate strategists at adidas may also favor the value of IT outsourcing, including IT offshoring, as a viable cost-cutting tool.

Second, while adidas used to be a pure wholesaler in the 1990s (selling containers of sporting goods to major retailing partners, rather than selling any goods to end consumers), it entered the retail business in the late 1990s by opening its own retail stores and launching its own e-commerce platforms. In 2010, the adidas Group operated more than 1,350 retail concept stores worldwide. With this strategic shift, the demand for more flexible, more innovative, and end consumer-oriented IT solutions increased significantly. Consequently, within adidas, IT was no longer regarded only as a mere operational tool, but also as an important contributor to competitive differentiation and value creation. This change is also reflected in the new mission statement of adidas Global IT, the internal IT organization of the adidas Group: “Building a digital ecosystem for the enthusiastic consumer and the empowered employee”.

adidas Global IT employs about 1,050 IT experts worldwide. It is structured in eight vertical units, so-called “Centers of Excellence” (CoE), which largely mirror the organizational structure on the business side (e.g., sales and retail, e-commerce, operations and marketing) (see Figure 1).
As already indicated above, adidas’ IT organization has a long history of outsourcing and offshoring. As early as 1998, adidas started to outsource first IT projects and services to an Indian tier-1 vendor, referred to as India1 in the following. In 2007, adidas Global IT set up a captive offshore service center with this vendor in Hyderabad, India. Over time, however, adidas felt that India1 was becoming more and more complacent, and that the quality of IT resources and services it provided decreased. And when India1 declined re-negotiating cost rates, adidas Global IT realized how dependent it had become over the years on its single vendor (see also Figure 1). It was around that time, in 2009, that a new CIO joined the adidas Group.

**Figure 1. Single-Sourcing at adidas Global IT (Phase 0)**

**THE MULTI-SOURCING JOURNEY OF ADIDAS GLOBAL IT**

**Phase 1: Introducing IT Multi-Sourcing (2011-2013)**

To create a highly competitive vendor environment, the adidas CIO introduced a new IT multi-sourcing strategy in 2011. This strategy runs contrary to well-established industry practices because it embraces vendor overlaps (as opposed to vendor modularity). Specifically, the CIO and his senior management team decided to onboard two additional tier-2 vendors. One new vendor, India2, is a medium-sized, CMMI-level 5 Indian company that is “hungry” for work and willing to offer highly competitive pricing. The second new vendor, Belarus, is also a medium-sized, CMMI-level 4 company from Eastern Europe. Its culture is more similar to the one found at adidas’
German headquarters. The vendor selection process was orchestrated carefully to ensure that India2 and Belarus have skillsets that overlap significantly with the former single vendor, India1. In that way, each vendor was able to take on virtually any project or service along adidas’ entire IT portfolio.

Enabled by the wide overlaps in vendor skillsets, adidas Global IT assigned IT projects and services to its three vendors in a way that was also characterized by vendor overlaps. Most importantly, each vertical unit (CoE) had the clear mandate to work with at least two of the three vendors. Not uncommonly, within a vertical, two vendors had to work together to provide support services for a single software application. Here, for example, one vendor was responsible for 1st and 2nd level support, whereas another vendor was responsible for 3rd level support. And sometimes, two or all three vendors even had to work together on one project: “There are projects where we have seen all companies working in the same project” [Regional Director, India2].

The CIO highlighted that the vendor overlaps were created intentionally in adidas’ IT multi-sourcing arrangement: “…it was absolutely intentional that there is a significant overlap, and in fact we push some of [the vendors] to increase the overlap. So ideally for every single [task], in any area of my organization, I have all three of them bidding” [CIO, adidas]. By embracing significant overlaps among vendor skills and tasks, adidas Global IT ensured that every vendor was simultaneously competing and cooperating with the two other vendors.

The resulting vendor overlaps were numerous, but often small when considering the size of each work component awarded through a request for proposals (RfP). More specifically, while the infrastructure was shared among the various CoEs, the vendors’ development, testing, integration, and support teams were embedded into each vertical unit. Therefore, the overlaps were created at a very granular level (see Figure 2). This does not mean, however, that vendors performed exactly the same type of activities, which could have led to management challenges when responsibility
for the work needed to be determined. Rather, vendors were assigned to different but interfacing areas of work: For example, in one project, “[India1] was more focused on the functional aspect of the delivery, and [Belarus] was more on the technical aspect of the delivery. So, there is no mix in the same sort of a role but it’s a mixed team delivering the project. So, from that perspective, […] adidas has been successful in keeping two parties where we are not stepping on one another” [Group Project Manager, India1]. Nevertheless, ultimately, it was adidas management who was responsible for coordinating the vendors, ensuring coherence, and integrating the project results and program management levels.

Furthermore, by dividing each CoE in small work “chunks”, adidas Global IT was able to easily create “room” for the two new vendors (India2 and Belarus) without taking away significant business from India1 all at once, and without taking the risk associated with assigning major work areas (e.g., software development) to a new vendor that is not familiar with the client business context and IT landscape. Adding to this, the small chunks helped adidas to increase the dynamics in vendor bidding (i.e., the number of RfPs per month), which provided the new vendors with numerous opportunities to build up a significant business volume with adidas, while at the same time they fueled competition.

**Figure 2.** Vendor Overlaps and Interfaces (Phase 1)
Moreover, because of the vertical split between the CoEs, the vendor work packages were closely aligned with the requirements of the respective CoEs, as highlighted by adidas Global IT’s Senior Vice President: the created structure was “highly successful in terms of driving business alignment and business satisfaction”.

The significant overlaps between the vendors’ areas of work could have led to haggling and conflicts among the vendors. However, in part because the vendors had significant business with adidas, relationships among vendors seemed constructive, and vendors collaborated to find solutions to arising problems: “in the end you will have a couple of software developers from two different companies that need to find a solution for whatever problem they have, right? […] very, very few times […] I had an escalation from one of my guys, working on the account, where they felt that [they were] being treated unfair by another vendor” [Account Manager, Belarus]. Even when an RfP was won by a new vendor, taking away business from another vendor, the relationship between the two vendors remained professional: “there are some cases where we need to transition out services. […] So, in those cases we have gone far even to invite [India1] people to [India2] to take transition. So, that happens, that just recently happened. Surprisingly it was not very hostile […] It’s a very friendly environment” [Regional Director, India2].

The pursuit of vendor overlaps led to a situation especially favorable to the two new vendors, and ultimately to adidas Global IT. Because of the overlaps, India2 and Belarus were able to learn from Indial and get up to speed on the various work areas at adidas in a relatively short period of time, enabling them to compete with the former single vendor as equals, to develop new competencies (that they could also market to other clients), as well as to come up with innovative suggestions on how to improve IT operations at adidas.16

Nevertheless, the existence of a collaborative vendor environment did not mean that there was no pressure applied by the client on the vendors. Even some of the joint meetings, required to coordinate the vendor overlaps, were used to apply subtle pressure on vendors: “weekly I have so called technical architects meetings where I am sitting together with my guys and I am inviting [India1] and [Belarus]. And you can actually see if you have [them] sitting at the same table […] everyone tries to present himself or herself in the best manner, tries to present his or her company in a good light” [Senior Manager Wholesale ERP, adidas].

In summary, by introducing IT multi-sourcing and by deliberately implementing a multi-sourcing structure that accentuated vendor overlaps, adidas Global IT significantly increased vendor competition and decreased the dependency on any of its vendors. While leading to intense competition, the vendor overlaps also created an environment that fostered vendor collaboration and learning. However, the implemented structure also had some drawbacks. For example, the high level of decentralization led to a replication of required skills within each CoE. For example, each CoE had its own group of Java developers. This limited greatly the vendors’ ability to create economies of scale and scope, making the business less attractive for the vendors. The implemented structure also led to an increase in transaction costs on the part of both adidas and the vendors by creating a high number of vendor interfaces that had to be managed: First, even when the vendors had different work streams within an IT project or for an IT service (e.g., development vs. testing, 1st/2nd vs. 3rd level support), the involved vendors still had to coordinate their work stream with the work stream of the other vendor(s). Usually, this process also involved adidas managers, creating yet another interface. Second, the various projects and services also had to be coordinated with each other, to ensure coherence in the portfolio of each CoE. Finally, each CoE had to coordinate itself with the other CoEs to ensure coherence on a corporate level. Transaction costs were also increased by the frequent use of RfPs, often for very small projects. Another drawback of the
implemented structure was the fact that adidas retained the final responsibility in case of problems in a project staffed with multiple vendors: “So, who takes the responsibility if the project goes wrong? Who takes the responsibility of ensuring responsibility that the timelines are met? Who takes the responsibility of mitigating risks in a project? So, the answer is – adidas” [Regional Director, India2].

**Phase 2: Leveraging IT Multi-Sourcing (2013-2015)**

Two years after the introduction of their new IT multi-sourcing strategy, the adidas CIO and his senior management team were generally satisfied with the outcomes of this strategy: India2 and Belarus had reached a critical threshold in business volume, and were able to enter into intense competition with India1. adidas Global IT’s management thus felt that the time had come to address the drawbacks of the existing structure, which was tailored towards successfully onboarding the two new vendors. The overarching idea was to implement what the CIO labeled an “industrialization of the IT organization”. To do so, adidas Global IT built horizontal functions across all CoEs, which bundled development, testing, integration, and support activities. This structural change was not fundamentally linked with outsourcing. It was first an organizational change that shifted the view of IT activities from a CoE-centric view to a process-centric view. Figure 3 illustrates this change.

![Figure 3. Shift in the View of IT Activities (Phase 1 vs. Phase 2)](image-url)
In the new structure, vendor overlaps were still present but their pattern was different than it was in the earlier structure. The original ‘vertical’ overlaps were at a very granular level. In contrast, the new structure, which was based on four basic IT functions, emphasized ‘horizontal’ overlaps that were fewer in numbers but bigger in size than the previous ones. The goal was to bundle vendor business volumes by limiting the number of RfPs within each function to one per type of technology (e.g., Java) or business domain. Such RfPs helped regroup all the related tasks across the CoEs, which also meant that IT projects and services were no longer under the specific responsibility of the adidas CoE managers.

Interestingly, each horizontal function was organized differently. For example, the development horizontal was structured around development technologies, whereas the testing horizontal was structured by domains (which is closer to the CoEs). Adding to this, two vendors were assigned to each horizontal function, and subsequent IT functions (e.g., development and testing) always had to be carried out by two different vendors. Consequently, for example, the development group of one vendor had to interface with the testing group of another vendor, and the views from different vendors were obtained from one step in the project to the other step. Taken together, this enabled adidas to sustain high levels of vendor competition, making sure that the vendor environment did not get ‘too collaborative’: it is “not the objective to make them ‘one’. […] they should stay alert, they should stay competitors. It’s like a football match right? […] you absolutely want to win that game” [CIO, adidas].
When looking at the overlaps in the new structure, the number of interfaces was drastically reduced when compared to the first onboarding phase. Vendors within one horizontal (for example Java development) now coordinate at most with two vendors, one for upstream and one for downstream activities (also organized by horizontals). This suggests that the overlaps between vendors will be fewer in number but larger in size (see Figure 4 above).

Overall, the newly implemented structure of adidas’ IT multi-sourcing arrangement turned out to be a good thing for adidas since it continued to limit vendor modularity. No vendor could work in isolation from the other ones since they were forced to interact closely, although in more concentrated ways. This resulted in much larger blocks of work, which enabled the vendors to better leverage their economies of scale and scope in bidding and operations, and adidas to bring down coordination costs. To further reduce its coordination costs, adidas Global IT also introduced a new vendor management team. This team was primarily concerned with increasing the level of standardization in terms of contracts (in particular the development of templates for the statements of work for individual IT projects and services), vendor rate cards, and key performance indicators (KPIs) that were used for steering the three vendors.

The vendors also perceived the new structure to be a good change. They indicated that it would facilitate skills development, as is typical with such functionally oriented structures.
Moreover, the vendors indicated that the new structure, and the better-defined vendor interfaces in particular, made vendor collaboration less onerous since “their responsibilities are [now] very, very clearly demarcated” [Regional Director, India2] – a key drawback of the earlier structure. The fine granularity of the tasks in the initial structure made responsibilities for the larger body of work difficult to pinpoint. In addition, it seems that the interface used in the new structure was easier to understand and to implement for the vendors. The old separation of activities, along the verticals, was a good fit with adidas’ organizational structure. The use of the horizontals seems to be a good fit with how IT people tend to think of and separate IT activities. This could explain why it was well received by the vendors. Adding to this, the new structure also increasingly pressured vendors to improve their performance: “everybody’s measuring the efficiency of every horizontal and every vendor in that horizontal is required [to perform] on a very competitive basis. So there is competition between the horizontals and also within the horizontals” [Regional Director, India2].

**Summary**

Prior to adopting a multi-sourcing strategy (phase 0), adidas Global IT had been in a long-term relationship with India1 that could probably be considered a co-operative partnership. Adidas not only gave a major portion of its IT outsourcing budget to India1, but it also established a captive center with this long-term vendor, which would suggest the existence of complementary goals. However, as is often the case in such co-operative partnerships, especially those that are focused on creating internal efficiencies, the power balance shifted in favor of the vendor and the once-stable partnership began deteriorating. To unlock adidas from India1’s monopoly status, adidas Global IT introduced a multi-sourcing strategy in phase 1 and fine-tuned this strategy in phase 2 of

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18 Ibid.
its IT multi-sourcing journey. When summarizing the changes that adidas’ IT organization made during this ‘journey’, three categories can be highlighted (see Table 2). First, the organizational structure was modified in phase 2: While the initial move toward multi-sourcing kept the correspondence between IT structures and the CoEs intact, the later change, introducing the horizontals, meant that the portion of IT comprising the development of new systems as well as their testing, integration, and support took the same form as the infrastructure management. From this point in time, five horizontals offered the service to all facets of the business. Correspondingly, the bidding process and the boundaries of RfPs changed. These now match the horizontal layers (IT functions) instead of the vertical silos (business functions).

Table 2. Summary of Main Characteristics and Consequences of Each Phase

<table>
<thead>
<tr>
<th>Time interval</th>
<th>Phase 0: Single-Sourcing</th>
<th>Phase 1: Introducing Multi-Sourcing</th>
<th>Phase 2: Leveraging Multi-Sourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of IT vendors</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

**Organizational Structure Characteristics**

<table>
<thead>
<tr>
<th>Graphical illustration</th>
<th>Dominate IT structure</th>
<th>Control of sourcing process</th>
<th><strong>Contractual Structure Characteristics</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Business-centric</td>
<td>Individual CoE</td>
<td>RfP size</td>
</tr>
<tr>
<td></td>
<td>(verticals)</td>
<td></td>
<td>Bidding frequency</td>
</tr>
<tr>
<td></td>
<td>Business-centric</td>
<td>Individual CoE</td>
<td>Overlaps in vendor skills</td>
</tr>
<tr>
<td></td>
<td>(verticals)</td>
<td></td>
<td>Overlaps in vendor areas</td>
</tr>
<tr>
<td></td>
<td>Process-centric</td>
<td>IT organization</td>
<td>Number of interfaces between parties</td>
</tr>
<tr>
<td></td>
<td>(horizontal)</td>
<td></td>
<td>Level of standardization</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consequences</th>
<th>Vendor competition</th>
<th>Low (to none)</th>
<th>High</th>
<th>Medium to high</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Vendor cooperation</td>
<td>Low (to none)</td>
<td>High</td>
<td>Medium to high</td>
</tr>
<tr>
<td></td>
<td>Transaction costs</td>
<td>Low to medium</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>Client dependency</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Vendor economies</td>
<td>High</td>
<td>Low</td>
<td>Medium to high</td>
</tr>
</tbody>
</table>
The contractual structure evolved through each phase, shifting from one extreme to the other. In phase 0, contracts were large, awarded infrequently, and, because of the single vendor, did not overlap in terms of skills and areas. In phase 1, the nature of vendor contracts transformed drastically. Rather small contracts were awarded very frequently, facilitated by extensive skill and numerous work overlaps. This created the need for many interfaces between the vendors to coordinate interdependencies across work processes and outputs. In phase 2, the introduction of the horizontals reduced the bidding frequency to a more manageable number, while increasing the size of each RfP to a size more attractive to the vendors. This change was accompanied by an increasing focus on standardization (e.g., harmonization of vendor rate cards and introduction of contract templates), which enabled adidas to handle bidding processes and ensue contracts more consistently and smoothly. Overlaps in vendor skills and areas were kept, with two vendors participating in each group of activities, ultimately reducing the number of interfaces.

When looking at the consequences of the structural changes, the level of both vendor competition and cooperation remained high after adidas’ switch to IT multi-sourcing. Since then, the client was no longer dependent on a single vendor for any given activity. Although the initial structure of adidas’ IT multi-sourcing strategy helped unlock the incumbent vendor’s monopoly status and successfully onboard two new vendors, it still resulted in high coordination costs. It can thus be argued that phase 1 describes an interim strategy, which allowed adidas to “unfreeze” the status quo. With the adoption of the horizontals in phase 2, adidas Global IT managed to reduce the coordination costs associated with its multi-sourcing strategy. Moreover, this change led to an increase in vendor accountability and enabled the vendors to achieve economies of scale and scope.
THE REALIZED BENEFITS

Taken together, adidas clearly benefited in several ways from how it introduced (phase 1) and leveraged (phase 2) its IT multi-sourcing strategy. On average, IT service costs per activity have dropped by more than 20%, and the average number of defects per lines of code was cut in half. The latest organizational structural change, namely the introduction of the four horizontal IT functions, can be expected to maintain these cost and quality benefits: “By ‘horizontalizing’ these functions, […] they’ll be able to better leverage process tools and also […] bring in a lot of synergies, which might help them in [further] reducing the cost and increasing the quality” [Account Manager, India1]. Another efficiency that was gained by adidas (and its vendors) was in soliciting and processing RfPs. Having access to three knowledgeable and skillful vendors—all of whom were familiar with the context, infrastructure, and processes in virtually any area of adidas’ IT portfolio—significantly simplified the RfP process. In addition, by harmonizing the vendor rate cards and introducing standard templates for project and service contracts, it became far less time consuming for adidas to evaluate bids and contract vendors. The standardization helped reduce the amount of information required for processing an RfP.19 Furthermore, by having access to three competent vendors knowledgeable about its operations, adidas Global IT had constant cost and quality benchmarks contributing to a further increase in vendor competition.

Adding to this, by creating overlaps instead of seeking modularity, adidas avoided the reduction of flexibility that can be associated with outsourcing used in a modular environment. As mentioned by one respondent, the IT multi-sourcing strategy made “the whole agility and flexibility of the adidas IT better” [Senior Manager Group Procurement IT, adidas]. Here, one element that is

important to consider is that adidas was able to restructure its IT delivery processes, which in itself is a demonstration of the advantage of the low level of modularity in its IT multi-sourcing arrangement. Literature indicates that the outsourcing of modular activities leads to rigidity in the architecture. Once everything is modular, it is easy to optimize each component but it becomes very difficult to challenge the overall architecture. A modular configuration would have meant that adidas would have been limited in its ability to change its overall IT configuration without having to renegotiate relationships with its vendors (which can be costly). However, no such difficulties were observed. On the contrary, adidas was able to transition from a CoE-centric organization of activities to a process-centric organization without any contractual difficulties. The changes were introduced by adjusting gradually the allocation of tasks among the vendors and by adjusting the pattern of the tasks included in the RfPs. This ability to modify the IT group structure shows that, once outsourcing is used in a non-modular way, the organization retains flexibility and it becomes possible to introduce significant organizational changes without contractual hurdles (and while maintaining overlaps).

Also the three vendors benefited from the introduction of adidas’ IT multi-sourcing strategy. By challenging India1, the addition of India2 and Belarus helped the incumbent vendor increase staff motivation as well as further professionalize internal processes. Through this, India1 became more responsive to the client’s needs and offered higher service quality for lower prices. India2 and Belarus were also providing creative and competent service and were able to compete with India1 on the same level. Consequently, both India2 and Belarus reached business volumes of 10 million euros by 2015, which is twice the critical threshold of 5 million euros that adidas originally defined for each new vendor. At the same time, India1’s revenues from adidas grew from 19 million euros in 2010, the year before the two new vendors were onboarded, to 40 million euros in 2015. This growth in vendor business volumes was enabled by an increase in adidas’ IT budget
(which is defined as a fixed percentage of Group revenues) and a reallocation of business volumes from local IT vendors and freelancers to the three offshore vendors.

LESSONS LEARNED FROM THE ADIDAS CASE

We expect that many lessons derived from the case of adidas Global IT can be applied in other organizations as well. Below are six lessons about how to structure and manage IT multi-sourcing arrangements. The first three of these relate to the use of vendor overlaps, which were introduced in the first phase of the case. The other three stem mainly from the second phase of adidas’ IT multi-sourcing journey. In this phase, adidas was able to alleviate some disadvantages of its initial multi-sourcing approach through the adoption of a new organizational structure and a matching sourcing structure.

Lesson #1: Embracing, at least some level of, vendor overlaps (as opposed to pure modularity) enables ongoing and healthy vendor competition.

The link between vendor overlaps and competition is consistent with the competitive paradigm, which suggests that competition requires “inter-firm interdependencies”.20 Embracing vendor overlaps thus means that competition (and cooperation) is always present for any area of work that is awarded to a vendor. This was the case at adidas, which recognized that the simple fact of just having more than one vendor was not sufficient to create real competition: “in every field of services we have always minimum two [vendor] options and sometimes even three options” [Director IT CoE Corporate Marketing, adidas]. In contrast, structuring a multi-sourcing

arrangement in terms of vendor modularity by assigning exclusive work areas to each vendor (see Figure 5), client firms virtually “create a monopolist in every area” [CIO, adidas].

Figure 5. Vendor Modularity vs. Overlaps

Modular IT multi-sourcing arrangements may be classified as more partnership-oriented and cooperation-dominant approaches to multi-sourcing. Here, cooperation might be promoted by remuneration systems such as British Petroleum’s system of risk-based rewards, which were distributed among its three service partners\(^\text{22}\), or other contractual mechanisms, such as gain sharing, which are designed to incentivize service providers\(^\text{23}\). Such cooperation-dominant IT multi-sourcing may promote a longer-term view of the relationships among the vendors, as well as the client. It may also promote more stability, especially as compared to the first phase of adidas’ IT multi-sourcing journey, where frequent structural adjustments had to be made in order to balance the heavy competition with the heavy cooperation requirements. This also suggests that the initial structure used by adidas only seems legitimate as an interim strategy for implementing multi-sourcing, but is unlikely to be the recommended end game for a client.

\(^{21}\) Wiener and Saunders 2014, op. cit.
\(^{22}\) Willcocks and Choi 1995, op. cit.
In addition, embracing vendor overlaps also means that clients need to accept an increase in (internal) coordination costs, at least in the beginning. They do so in order to ensure that production costs are minimized through vendor competition. In turn, this may also imply that clients must take on the responsibility for managing the vendor overlaps rather than spreading the responsibility over the vendors.24

**Lesson #2: High granularity in vendor overlaps facilitates vendor onboarding, reduces onboarding risk, and accelerates vendor learning.**

Dividing outsourced activities into very granular ones facilitates the introduction of new vendors into the mix. For both the client and the (new) vendors, it could be considered high risk to enter into a major contract under a very different set of rules. The client might lack prior knowledge of the vendors. Similarly, the vendors might have no prior knowledge of the client, and limited knowledge of the domain in which the client operates. This, combined with the new collaboration mode, would make the new venture very risky. Here, the use of smaller RfPs enables new vendors to familiarize and gain experience and knowledge with the client as well as with the other vendors, thereby limiting the risk to the client.

For example, the fine-grained (vertical) vendor overlaps required adidas’ new vendors to work with its former single vendor, enabling them to learn from this vendor and facilitating knowledge transfer among the vendors. Adding to this, the overlapping work areas also prompted the incumbent vendor, and enabled the new vendors, to question the status quo, promoting the development of new innovative ideas on how to improve IT operations at adidas.25 This is

Lacity and Willcocks 2013, op. cit.
consistent with the results of a recent study on coopetitive relationships in the semiconductor industry, which reports that interorganizational relationships characterized by both high competition and high cooperation are the most innovative ones. But because the competitive forces are so dynamic, such relationships tend to be tenuous, as a steady state is hard to achieve and constant adjustment is needed. That could also be why we saw so much flux from the end of phase 0 to phase 2 of adidas’ IT multi-sourcing journey.

The high granularity in vendor overlaps also means that new vendors start with a small portfolio that they can grow over time. Providing growth opportunities ensures that the vendors remain actively interested in additional business and continue to bid aggressively on subsequent RfPs, which lowers the prices further. High granularity also ensures that a former single vendor does not lose a huge portion of its contracts all at once, which could have a negative impact on vendor morale. On the other hand, high granularity in vendor overlaps makes it difficult to reach economies of scale and scope on the part of the vendors, and requires more coordination on the part of the client.

**Lesson #3: Provide vendors with opportunities for growth in order to sustain vendor competition and cooperation.**

The adoption of an IT multi-sourcing strategy is challenging for both the client and the involved vendors, especially when this strategy embraces vendor overlaps. Each vendor is constantly competing with the other vendors and, at the same time, has to collaborate with them to ensure that activities are completed.

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In the case of adidas Global IT, it seemed that the three vendors found this work generally satisfying and that the collaboration climate was good. This was likely to be linked to the fact that adidas had to acquire management capabilities to carefully balance the overlaps so that the vendor efforts could prove worthwhile. The adidas CIO did so by ensuring that the business volume of each vendor was growing. Even India1, which was losing its “quasi-monopoly” status, saw its revenues from adidas double in five years. This ensured that the vendors both continued treating adidas as a preferred client and provided high-quality service. Thus, the benefits compensated the additional efforts introduced by the multi-vendor constraints. However, it would probably be difficult to provide the same level of motivation in a declining environment. One could imagine that, in the case of such an environment, transitioning activities from one vendor to the other could get acrimonious.

**Lesson #4: Vendor overlaps create both short-term and long-term benefits.**

In the case of adidas, the vendor overlaps created immediate benefits: a decrease of vendor dependency (and complacency), a reduction in IT project and service costs, and an increase in quality of IT services received. These advantages could be observed shortly after adidas had introduced its new multi-sourcing strategy, and were thus a clear outcome of the competition created by the overlaps.

What was less visible at the time (phase 1), but could be observed later on (phase 2), is the flexibility that the vendor overlaps provided to adidas. As mentioned before, most outsourcing arrangements are modular and create a rigid structure. Once modules are assigned to vendors, it becomes very difficult to reshuffle the activities among vendors because it requires a contractual adjustment with each of them.
In the case of adidas, the change in the way IT activities were organized was not linked primarily with IT multi-sourcing; rather it was a different way to structure and view the IT organization. Because of the numerous vendor overlaps created in the initial IT multi-sourcing structure, adidas was able to reshuffle the vendor activities over a relatively short time in order to implement the new structure. It was able to do so without incurring any contractual renegotiation (which can be very costly). This is a long-term benefit that proved to be significant. While adidas recognized that coordination of the overlaps can be pricy, it provided the organization with a degree of flexibility that is at least akin to the one observed in an internal organization.

Lesson #5: Less granular, ‘horizontal’ vendor overlaps (and standardization) help reduce coordination costs and accountability issues.

Horizontal vendor overlaps can be a valuable tool for managing IT multi-sourcing by ensuring vendor competition, but at the same time reducing the number of vendor interfaces. The creation of the horizontal structure in adidas’ second multi-sourcing phase increased the size of the work units included in each RfP. Activities were separated in four groups: development, testing, integration, and support. This separation of activities corresponds to a traditional view of the IT production function and is easily recognizable by the multi-sourcing client and its vendors. In turn, the use of familiar interfaces enables easier coordination for the client by limiting the number of interactions among vendors, while still allowing for the presence of more than one vendor on each stream of activities. Adding to this, separating activities along traditional IT functions facilitates the assessment of vendor accountabilities. It also enables the creation of larger units of work, which help the client to limit the administrative burden (e.g., the number of issued RfPs), and the vendors to generate economies of scale and scope.

Lesson #6: Orchestrate the work performed by the multiple vendors as an ensemble.
Outsourced activities need to be viewed as an ensemble of interdependent activities – in terms of both vendor selection and task assignment. The IT multi-sourcing strategy of adidas owes much of its success to the ensemble of vendors that adidas selected. Had adidas selected two or more tier-1 vendors, the level of competition may have been so high as to obliterate cooperation. On the other hand, had adidas selected two additional tier-3 vendors instead, they may not have been able to compete at ‘eye level’ with adidas’ long-term tier-1 partner (as India2 and Belarus were able to do successfully). Further, in creating the ensemble, the number of vendors matters. The more vendors are hired, the more difficult the control and coordination of vendor activities, as well as the integration of their deliverables, will be. adidas specifically chose to work with three vendors – a number, it deemed, would create intense vendor competition but would be manageable in terms of control and coordination efforts.

As mentioned earlier, while the competition remained strong, vendors were able to work together harmoniously. At no point did interviews with vendor representatives indicate lack of respect for the skillset of the competitors. Actually, it was adidas’ selection strategy of ensuring the relative strengths, number, and skillsets of the vendors that made it possible to realize the full benefits of IT multi-sourcing.

The ensemble also pertains to the overall structuring of task assignments. adidas managers typically selected the vendor who made the lowest bid or with whom they had worked before. Consequently, some CoEs were not distributing the work as had been mandated, and at times, the adidas CIO overrode their selection to better balance the loads of the three vendors. This suggests that there needs to be some broader oversight and management capabilities to ensure that an IT multi-sourcing strategy is implemented successfully. For example, certain activities may be co-

Aubert et al. 2012, op. cit.
dependent and keeping them together may improve scheduling and reduce production costs. adidas may have realized this when they increased the granularity of the vendor overlaps by introducing the horizontal functions (see also Lesson # 5). This suggests that grouping activities might be required to ensure that an ensemble retains coherence. In these cases, overlaps in vendor responsibilities over a larger set of activities might be more efficient than excessive granularity associated with the break-up of the activities among multiple vendors. Finally, the client needs to consider the extent to which it must integrate (or supervise the integration of) the deliverables produced by the various vendors in each ensemble in order to maintain the necessary levels of control and coordination.\textsuperscript{28}

**CONCLUSION**

The traditional view of IT outsourcing has been to “isolate and outsource”. Outsourced activities are decoupled from other activities of the firm to minimize client coordination efforts and ensure vendor accountability. When considering IT multi-sourcing, the dominant logic used to determine the structure of such arrangements is the same. However, one of the fundamental appeals of multi-sourcing is vendor competition. It is through competition that clients can reduce IT costs and increase IT service quality. Modularity, obtained through the isolation of activities, can create a quasi-monopoly that may be difficult to challenge once the contract is awarded to one vendor. Another drawback associated with modularity is the rigidity it can introduce into the IT organization’s architecture and configuration, often requiring a costly renegotiation of the various vendor contracts.

\textsuperscript{28} Kumar et al. 2009, op. cit.
The case of adidas’ IT multi-sourcing strategy shows that it is possible to avoid the downsides associated with modular outsourcing—providing that the client invests sufficient effort, shows intent, and puts adequate care in selecting vendors. By nurturing overlaps, adidas has been able to drive vendor competition and garner related multi-sourcing benefits. Competition at adidas is something that is ongoing, for every part of an IT project or service. It is not something that is used only once a contract has expired after several years. Adding to this, the case of adidas also points to the importance of organizational design for IT multi-sourcing success. Retaining its organizational flexibility, adidas was able to implement a new IT configuration within an existing outsourcing framework.

The lessons extracted from the adidas case provide a rationale for acting differently from accepted truths when necessary. They also offer guidelines and mechanisms for implementing an IT multi-sourcing strategy that embraces vendor overlaps. Many companies start from a situation in which they are dealing with only one vendor, or a situation in which internal services control the bulk of the IT activities. By first creating vendor overlaps on a fine-granular level, client firms can shape a highly competitive vendor ecosystem and generate an environment that is flexible. In current volatile environments, flexibility can be precious for organizations, especially when they have to adapt their internal structures.

It is acknowledged that the arguably ‘hard-hitting’ IT multi-sourcing approach employed by adidas can be seen as part of its entire business strategy, which relies on margin-conscious outsourcing in order to survive in the increasingly competitive global sporting goods industry. It is also acknowledged that adidas’ IT multi-sourcing approach is not a low-cost approach in terms of governance costs. However, as the case data shows, the benefits obtained from the increased vendor competition significantly offset the costs associated with vendor overlaps. We therefore hope that the case of adidas encourages and inspires IT decision makers to rethink the role of modularity in
structuring multi-sourcing arrangements, and that the presented insights will help them tap the full potential of their existing or future IT multi-sourcing strategies.
APPENDIX: RESEARCH METHODOLOGY

Data was gathered primarily from direct observations of two of the authors, a series of information meetings, two workshops with adidas managers, and three rounds of semi-structured interviews. In total, twenty-two interviews were carried out over a period of almost three years (November 2012 to June 2015). Thirteen interviews were conducted with adidas IT managers including the CIO, the Senior Vice President as well as procurement managers and members of the sourcing team, who were responsible for the implementation and administration of adidas’ IT multi-sourcing strategy on the operational level. Nine interviews were conducted with key vendor employees who held job titles such as Account Manager, Group Project Manager, and Regional Director. The interviews lasted between 45 minutes and three hours and were usually conducted by two researchers, with one researcher running the interview and the other researcher listening, taking notes, and requesting clarification when necessary. Most interviews were tape-recorded and transcribed immediately after the interview. The interview transcripts totaled 386 pages (220,144 words). Follow-up e-mails and phone calls were used to clear up any questions that arose during the interview transcription. In addition, we also reviewed vendor contracts (both all vendor master agreements and selected project/service agreements), steering board presentations, meeting minutes, and other internal documents.