Executive Summary

In traditional IT outsourcing and multisourcing arrangements, clients isolate vendor tasks, resulting in modular sourcing structures. But this approach can stifle vendor competition, result in vendor lock-in and hinder organizational flexibility. The full article describes how adidas adopted a new type of multisourcing strategy, which embraces vendor overlaps to overcome these constraints, and delivers a range of benefits.

adidas’ strategy shows that it is possible to avoid the downsides associated with modular multisourcing—providing that the client invests sufficient effort, shows intent and puts adequate care into selecting vendors. By nurturing vendor overlaps, adidas has been able to promote vendor competition.

Multisourcing Modular Arrangements vs. Vendor Overlaps

Prior to multisourcing, adidas had been in a long-term relationship with an Indian Tier 1 vendor. However, the power balance shifted in favor of the vendor and the once-stable partnership began to deteriorate. To redress the balance, adidas adopted a multisourcing strategy, and introduced two additional vendors—one from India and the other from Eastern Europe.

adidas’ multisourcing journey had two phases. In Phase 1, work was outsourced on the basis of the IT department’s “vertical” units, with each unit having to use at least two vendors for a project. This led to many vendor overlaps and interfaces. Following a restructure into “horizontal” process-centric IT functions, there were fewer but larger vendor overlaps in Phase 2 of the journey.

1 The full article is published in the September 2016 issue of MIS Quarterly Executive, available online at www.misqe.org.
Benefits Realized from adidas’ Multisourcing Journey

adidas benefited in several ways from how it introduced (Phase 1) and leveraged (Phase 2) its IT multisourcing strategy. On average, IT service costs per activity have dropped by more than 20%, and the average number of defects per lines of code has halved. Another efficiency gain was that the issuing and processing of RfPs was significantly simplified. By having three competent vendors knowledgeable about its operations, adidas had constant cost and quality benchmarks, which contributed to a further increase in vendor competition. Because its multisourcing strategy was built around vendor overlaps, adidas was able to transition to a process-centric IT organization without any contractual difficulties. It had the flexibility to modify the IT structure and was thus able to introduce significant organizational changes without contractual hurdles (while also maintaining the vendor overlaps).

There were also benefits for the three vendors. Within five years, the two new vendors had both reached business volumes of twice the original critical threshold set by adidas, and the original vendor’s revenue from adidas had almost doubled.

Lessons from the adidas Case

1. Embracing Vendor Overlaps Promotes Ongoing and Healthy Vendor Competition. Embracing vendor overlaps in multisourcing arrangements means that competition (and cooperation) is always present in any area of work that is awarded to a vendor. adidas always has a minimum of two vendor options and sometimes three.

2. High Granularity in Vendor Overlaps Reduces Vendor Onboarding Risk and Accelerates Vendor Learning. Dividing outsourced activities in the early stages of multisourcing into very granular ones facilitates the introduction of new vendors, and enables them to start small and grow over time.

3. Provide Vendors with Opportunities for Growth to Sustain Competition and Cooperation. adidas ensured that the business volume of each vendor was growing. Even the original vendor, which lost its “quasi-monopoly” status, doubled its revenues from adidas in five years. The growth in business ensured that the vendors continued both to treat adidas as a preferred client and to provide high-quality services.

4. Vendor Overlaps Create Both Short-Term and Long-Term Benefits. Immediate benefits of adidas’ multisourcing strategy included a decrease on vendor dependency (and complacency), a reduction in IT project and service costs, and an increase in the quality of IT services received. In Phase 2, adidas benefited from the flexibility that vendor overlaps provided. The ability to quickly and easily reassign work among the vendors provided a significant long-term benefit.

5. Less Granular, Horizontal Vendor Overlaps Help Reduce Coordination Costs and Improve Accountability. Horizontal vendor overlaps can be a valuable tool for managing IT multisourcing by ensuring vendor competition, while at the same time reducing the number of vendor interfaces. Separating activities along traditional IT functions increased vendor accountability and enabled the creation of larger units of work for the vendors.

6. Orchestrate the Work Performed by Multiple Vendors as an Ensemble. Multisourced activities should be viewed as an ensemble of interdependent activities—in terms of both vendor selection and task assignment. Furthermore, the number of vendors in the ensemble is a crucial factor. The more vendors that are hired, the more difficult it is to control and coordinate vendor activities, as well as to integrate their deliverables. adidas specifically chose to work with just three vendors—a number it deemed would create intense vendor competition but would be manageable in terms of control and coordination efforts.

In conclusion, adidas’ IT multisourcing strategy shows that it is possible to avoid the downsides associated with modular multisourcing—providing that the client invests sufficient effort and puts adequate care into selecting vendors. By nurturing vendor overlaps, adidas has been able to promote vendor competition and realize a range of benefits. Competition among adidas’ vendors is ongoing in every part of an IT project or service. It is not restricted to one-off exercises every few years once a contract has expired.

The lessons from the adidas case show the benefits of adopting a contrary strategy for IT multisourcing—one that embraces vendor overlaps rather than a modular structure. The guidelines derived from the lessons will help other organizations to do the same.