

Case study on foreign direct investment of adidas

[Business](#), [Company](#)



Foreign Direct Investment of Adidas

Undeniably, Adidas is one of the largest and leading companies in the delivery of sporting goods and apparel. The company supplies its products through three different brands Reebok, Adidas, and TaylorMade-adidas Golf (Datamonitor, 2010). The company is headquartered in Herzogenaurach, Germany and primarily the company undertakes its operations through more than 170 subsidiaries located in the US, Asia, Australia, and Europe. However, several regional headquarters assist in the management of business operations of particular regions of operations (Datamonitor, 2010). The strong brands manufactured by the company are responsible for enhancing the company's market position. Foreign Direct Investment (FDI) is an essential economic catalyst to Adidas given the rate of technology, capital, skilled management, jobs, and enabling access to new markets. Other than benefitting Adidas itself, Germany has benefitted immensely from the foreign exchange remitted through FDI. Examples of ways in which Germany has benefitted include the creation of increased job opportunities through expatriates, improvement of international relations, and enhancement of bilateral trade among other benefits. The growing geographical market will most likely enable the company to expand its operational activities to high power economies characterized by increased growth thereby enabling the company to derive the highest synergies associated with expanded operational activities in addition to minimizing other business related risks.

Foreign Direct Investment for Adidas is primarily undertaken based on the operating marketing segment. Even though Adidas sells its products to virtually any country around the world, its operations, and activities are divided according to three business segments. This includes the wholesale segment, the retail segment, and finally, other business segments. New product development has formed a major part for Adidas and this can be evidenced from the increased focus on research and development in order to satisfy the needs and requirements of foreign markets. To this purpose, Adidas has devoted a significant portion of its resources and attention towards the development of new products, improve process technology, and as well in the enhancement of consumer insight research aimed at the development of distinctive and innovative products. From its international presence and operations, Adidas has been able to secure a strong foothold in various professional sports in addition to entering into strategic partnerships with sports associations. For instance, partnership agreements with various associations have enabled Adidas to obtain international sponsorship rights for major sporting activities such as the UEFA Euro 2008 and the previous FIFA World Cup in South Africa. Increased FDI activities have enabled Adidas to extend its sponsorship agreements with sports federations and clubs (Datamonitor, 2010).

Speaking of Horizontal versus vertical Foreign Direct Investment (FDI) to Adidas, the international presence of Adidas and its subsidiaries influences the profitability level for the company. For instance, vertical FDI occurs when the stages of producing products are shared within different international fragments. This ensures that costs are minimized by producing products in

low-cost regions (De Chernatony, 2006). Equally, Horizontal FDI happens when one subsidiary of Adidas duplicates its operational activities in different countries. For instance, Adidas has ensured that it leverages its household brands not only to increase its profit margins but also to establish a strong retail presence. This has led to the establishment of worldwide 2, 270 stores to distribute Reebok and Adidas brands. Other ways that have enabled the company to attain strengthened control of its brand include entering into joint ventures with other retailers, running shop-in-shops, mono-branded, co-branded, and e-commerce platform (De Chernatony, 2006). Adidas undertakes both Horizontal and Vertical Foreign Direct investment in order to obtain a risk neutral situation to cushion the company over unnecessary or unforeseen shocks. Additionally, in many instances, predatory activities by certain host countries tend to be more costly to the multinational company thereby calling for the need to alter the production structure. Other than predatory activities, market uncertainty often affects the outcome FDI inflows thereby creating the need to alter the FDI structure to cater for any changes accruing from market volatility.

Benefits of FDI do not accrue automatically and evenly across host countries, demographic set up. Increased role of Foreign Direct Investment by Adidas in Germany has improved expectations concerning the potential contribution of the company to its economic development. Adidas has brought significant benefits by creating high quality jobs and introducing advanced production and management practices. Germany has subsequently developed policies to further develop inward FDI (Timothy, 2011). Germany have benefited from FDI by Adidas in their country. It has created high wage paying jobs

associated with increased payments and good working conditions translating to improved labor standards. The most probable reason the company does this is for their best interest to share their productivity advantage with the host country i. e. Germany. Furthermore, due to the high costs of monitoring production activities from abroad, relying on more pay incentives for German employees is to ensure quality and productivity. This ends up being the end benefit of Adidas company. Above market wages also reduces worker turnover thereby minimizing chances of their employees moving to high wage paying competing firms such as Nike and Puma.

FDI by Adidas in Germany has also been beneficial as domestic firms based in Germany learn from Adidas e. g. by collaborating with them in the supply chain. Knowledge transfer from Adidas to domestic firms based in Germany also increases the likelihood of worker mobility as workers with experience from foreign firms are recruited in domestic firms. Qualities of jobs in domestic firms have improved due to knowledge spillovers from Adidas to the domestic firms.

Finally, increased product-market competition because of FDI of Adidas in Germany has strengthened incentives among domestic firms to improve their efficiency.

Finally yet important, Foreign Direct Investment activities of Adidas will continue to play a significant role in enabling the company to enhance its stronghold position as one of the leading companies in the sporting field. The mixture of horizontal and vertical FDI will enable it to cushion its business activities against predatory activities, market volatilities, and uncertainties. To the home country, Adidas will continue to bring benefits such the creation

of increased job opportunities through expatriates, improvement of international relations, and enhancement of bilateral trade among other benefits. FDI plays a significant role in the growth and development of Adidas at large. Sharing of information, ideas, and market access with other existing firms in host countries is extremely valuable as it allows for integration of desirable managerial skills and technology from domestic firms. FDI has also led to crop up of policies favoring foreign investments thereby enabling FDI cooperates such as Adidas carry on with their production with little or no interruption. Moreover, FDI is beneficial as it allows variety of companies to form bases in host countries thus allowing for referral services in case of shortfall in productivity of one or more FDI based forms.

Undeniably, Foreign Direct Investment (FDI) is an essential economic catalyst to Adidas judging from the rate of technology, capital, skilled management, jobs, and enabling access to new markets.

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