

# Adidas as a multinational business organization

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



What is a multinational company? A multinational company is one where regional headquarters are set up in different countries. In this example, Adidas is a multinational company because aside from its main parent headquarters in the United States of America, it has set up regional headquarters in other countries, such as China, Indonesia, Great Britain, and so on. Such a globalised company has profound effects on the company itself and the host countries. Benefits to the Host Country Investment.

Multinational companies from abroad have to invest into the host country's economy in order to business there. They have to pay taxes to the local government, create jobs for the local workforce, provide training, and so on. In some countries, such as China, foreign companies are legally obliged to create a corporate alliance with a local company in order to business in the vicinity. This benefits the lost country as the local businesses will then learn from the foreign, larger and more successful firms, from different manufacturing systems to more advanced business models. This know-how is important for the local firm's future expansion and growth, and can aide these small firms to one day expand into a major international player. All in all, money will flow into the host country if a multinational company chooses to enter. Disadvantages to the Host Country One of the biggest disadvantages for multinational companies operating in a host country is the dominance it can have on the local market. Adidas is a very large firm; it can take advantages to many economies of scale, from research and development to marketing and advertising, and can enjoy much larger margins of profit as a result. With the influx of Adidas products, which are superior to local brands because of the fore mentioned reasons, local

companies in the same market may face lowering numbers of customers. Large firms as such can throttle smaller firms, and generate as a result more unemployment than the employment opportunities they create. Benefits to Adidas Adidas are able to increase their sales turnover by expanding internationally to widen its customer base. By catering for a larger customer base, production levels must increase, hence Adidas have been able to benefit from economies of scale. Economies of scale are experienced when average costs are lower in large-scale operations than in small-scale ones. One particular reason for Adidas' decision to produce within China is so that it can avoid protectionist policies back in the USA, such as high tariffs imposed by the US government (tax on imported products). The success of Adidas' globalization is highlighted by the increase of sales from 6523 million Euros in 2002, to 10084 million euros in 2006. Potential problems of expansion overseas Despite the benefits of expanding overseas, there are certain problems that MNCs may encounter. One significant problem that Adidas has encountered in China is the underdeveloped Infrastructure — roads and communications networks, in particular, are less developed thereby limiting the efficiency of Adidas' operations in China. Additionally, storage, transportation and distribution costs will increase and this may create problems for firms that are unable to control their costs. However this has little effect on Adidas due to its size and global establishment.

Bibliography: 'IB Business and Management' by Paul Hoang. <http://en.wikipedia.org/wiki/Adidas>