Should we outsource it, or should we mess it up ourselves?

Factors affecting the make-or-buy decision in the sports retail industry: The case of Adidas Sailing

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Abstract

Combining concepts regarding the make-or-buy decision, such as Williamson’s (1981) ideas on transaction costs in conjunction with theories of supply chain management, the thesis outlines what factors should be of importance to firms when deciding to make or buy certain processes within the supply chain. Using Porter’s (1985) division of the supply chain into 5 sections we analyze the make-or-buy decisions of Catamaran Sports/Adidas sailing, finding that while many decisions taken match the theory-based predictions, a lot of processes are handled the way they are because of external constraints faced by the firm. In the case of Adidas their main reason for taking certain strategic decisions are to maintain their competitive advantage in the market, which they build on a benefit leadership strategy. This has resulted in them often choosing a production method that has a relatively high accounting cost, compared to what could have been achieved, in order to maintain flexibility, reduce lead times and provide a higher level of service.

Key-words: supply chain management, make-or-buy decision, strategy, entrepreneurial firms, sports retail industry, strategy

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Hi
Should we outsource it or should we mess it up ourselves?

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Dedication
To Mom and Dad, who, while they do not always approve of my method, always support me in my madness. And for my sister Ebba, who always keeps me on my toes, and never lets me get away with any bullshit.

Without you, everything would have been a lot more difficult.

Jag älskar er.
Preface
In February 2016 I had the privilege to visit Catamaran Sports, who own the brand Adidas Sailing’ (AS), at their headquarters in Riga, Latvia.

During my two days there I partook in half a dozen meetings, both internal meetings among and across the different business areas, and external meetings with clients and suppliers. One of these meetings was with the representatives of a factory in Latvia, in other words, a new potential supplier. During the meeting, discussions were focused around how a potential collaboration/partnership would work. However, later on I learnt that Catamaran Sports were actually in the process of acquiring their own factory, or perhaps initially obtaining a line in a factory, and that the factory the suppliers represented was one that they were considering obtaining.

Those two days, and the strategic discussions I witnessed is what inspired me to write this thesis.

Throughout this thesis, references to Baker, Mathusjenko and Benfelds, and the year 2016, refer to interviews conducted with said employees at Catamaran Sports during the spring of 2016.
1 Introduction

Buying a factory is great strategic and financial decision for a small and expanding company, in fact it would be for any firm, regardless of size or industry. The factory situation is merely one example of the kind of strategic decisions a firm would have to take when setting up their supply chain, in reality companies face a multitude of make - handling an activity internally, or buy – outsourcing to the open market, choices. But on what grounds do firms base their decisions to do one or the other?

In this thesis we will delve further into why firms take which strategic decisions when deciding to make or buy, and what factors played a role in swaying the decision either way. We will also see what happens in small entrepreneurial firms where the choice to in- or outsource does not reflect what a firm wants to do, but rather, is dictated by the constraints and externalities they face.

1.1 Problem Discussion

The make-or-buy decision fundamentally concerns the decision a company takes to either perform a process itself or purchase it from an outside source (Besanko et al., 2013; Balakrishnan & Cheng, 2005). In practice this can take many forms, and decisions can vary in magnitude, from the decision to manufacture or purchase a small component of a larger product to hiring the services of an external advertising firms juxtaposed against doing all advertising related activities in-house (Besanko et al., 2013). However, according to Probert (1996), the importance of the topic lies not in the individual choices, but the long-term implications; the consequences of all the decisions determine the size and nature of the company. This places the boundary of the business in the heart of the make-or-buy decision, as the level of vertical integration and scope of a business will be a direct result of it.

The make or buy questions encompasses a wide array of business efforts regarding the effectiveness or improvement of the supply chain, for example choice in number and quality of supplier. Naturally individual companies successfully tackle the problem very differently, depending on which industry they operate in and what is the current or emerging prosperous enterprise form (Bartel et. al, 2014). There is also a historical element to the question about what choice is most advantageous, as procedures and practices evolve and change over time (Probert, 1996).

What strategy a company may choose to adopt can also be determined by the overall state of the economy. In a recession it might be necessary for a company to try to reduce fixed costs while avoiding to impede the long-term
viability or essential capabilities of the company. In a phase of economic expansion, on the other hand, companies might prioritize the ability to increase capacity rapidly, without taking on long term commitments (Probert, 1996).

Firms will, understandably, chose whatever strategy is most profitable. Increasing profitability, simplified, can be achieved through either reducing costs or increasing prices (Jehle & Reny, 2011). If we assume that prices are difficult to change for a firm operating in a monopolistically competitive industry (Policonomics, 2016), then firms can only increase profitability through the reduction of costs.

At first glance, the logical option for any firm would be to choose the cheapest production, i.e. the option with the lowest direct costs. Traditionally, in the manufacturing industry, this would mean that one would outsource shipping, put production in China, use fabrics produced in Bangladesh and produce large quantities (Baker, 2016).

But how do we define costs? Besanko et al. (2013) distinguishes between economic and accounting costs. Accounting costs tend to emphasize historical costs, and are designed to serve an external audience; they must be objective, and above all verifiable. However, according to Besanko et al. (2013), using the accounting definition of cost is not necessarily appropriate grounds for the firm to base their decisions on – strategic business decision needs to be made with regard to real Economic costs, based on the concept of opportunity costs (see 2.1.1 Terms and Definitions), which may not correspond to the historical costs represented in, for example, economic statements.

While looking at accounting statements can be very useful when assessing past performance of a firm, or comparing it to one of its competitors, when a firm must make strategic decisions between alternatives, for example whether to make or buy, the concept of economic costs, including opportunity costs, provides a more appropriate grounds for evaluation.

This thesis will focus on what factors small, entrepreneurial firms consider when facing make-or-buy decisions, and how they act to maximize profitability. This is particularly interesting as new firms often find themselves in a position where they have the resources required to grow their business in the way they would like, or in the strategically optimal way, resulting in temporary ad hoc solutions.
rather than carefully considered processes (Gartner & Bellamy, 2008; Murphy et al. 2015).

Mintzberg & Waters (1985) develop this reasoning further introducing the concept emergent strategy that they juxtapose against deliberate strategy. While a strategy rarely is purely one or the other, a deliberate strategy is one where all actions are intentional, following previously stated intentions, and executed in the envisioned manner – something which is virtually only possible in a completely stable or benign environment. At the opposite end of the spectrum, we find emergent strategy, where there is a consistency over time, but a complete lack of intention. Every single action completely lacking intention seems rather unlikely, but in a situation where one is reacting to new situations constantly, having a pre set plan is difficult, although there might be structure in how one tackles things.

Because of the unstable environment they operate in, there is haphazardness in the decision-making by small entrepreneurial firms, complicating the understanding of how strategic decisions are made, as there are no real patterns (Murphy et al., 2015).

1.2 Purpose of the Paper

There are several examples, across industries, of new companies, trying to grow and establish themselves on the global scene. Companies in this position are often very agile, flexible, innovative and do not carry the burden that comes with heritage. However they often lack the financial means to compete with the market leaders and also do not have the bargaining power that often comes with size and brand recognition.

Hoping to defend their position in the market we also find the market leaders, and established brands. While these large behemoths often have a well-recognized brand, and benefits of experience and scale, they are usually slower and processes take longer. Having a past precedent also means that reinvention and change are difficult, if not nearly impossible.

The purpose of this paper is to try to identify what factors that influence the make or buy decisions within small entrepreneurial firms. Methodologically, the paper draws on a study of their strategic out/insourcing decisions in one such entrepreneurial firm (Adidas Sailing’s/Catamaran Sports’), and how this affects the firm’s supply chain configuration.

Catamaran Sports (CS) holds the license agreement to produce sportswear intended for sailing using the Adidas brand and the name Adidas Sailing, but
is in all other respects in independent company. Thereby, Catamaran Sports, and the brand Adidas Sailing, has an interesting strategic position in that while it is a “start-up” it already has a well-established brand and heritage, something that has proven to be both a luxury and a burden.

The paper, while being case-based, will develop a general theoretical framework that can be used both by Catamaran Sports and other firms in similar positions guiding their make-or-buy decisions, and hopefully provide considerations points for firms designing their supply chains.

It is also the author’s hope that it will contribute to the scientific community by providing further insight into what drives the strategic decisions taken by small entrepreneurial firms, and how external factors may affect a firm’s supply chain.

1.3 Research Questions
Building on the discussion in the previous sections, the research questions this thesis will investigate and aim to answer are:

What factors do small entrepreneurial firms facing resource constraints take into consideration for make or buy-decisions when designing their supply chain?

What are the potential external factors or challenges that may hinder firms achieving their, in their mind, ideal supply chain?

1.4 Delimitations
The make-or-buy decision is an integral strategic consideration for any firm in any industry, and while this paper focuses sportswear industry, and more specifically focus on one company – the case of Adidas Sailing, we have gathered insights from multiple industries, in order to get as broad of an understanding as possible. Similarly, regarding the theoretical framework, we have chosen a holistic and general approach so that the insights gained in the essay can be used in other disciplines.

1.5 Sustainability Aspects
This thesis qualitatively investigates supply chain decisions in a sports retail firm through research and interviews. It can be expected of firms to take environmental, social and economic sustainable development into consideration in such decisions. Such behavior is partly observed. In particular, the notion that sustainable production processes are becoming increasingly important to consumers, forcing firms to become more transparent, and
increasing their CSR\(^1\) efforts (Adams, 2012; Hotten, 2015) is found to have significant bearing on the analyzed case.

### 1.6 Outline of the Thesis

Having previously introduced the topic, discussed the problem, defined the research question and stated the limitations of this thesis, in the next section we will discuss the theoretical framework, on which the thesis will be based.

Starting section 2 by presenting relevant theories, the section will proceed to summarize the findings of previous research on the topic and in section 3 list the factors believed to be of importance to firms taking make-or-buy decisions.

In section 4 Adidas Sailing described in detail and is given some background through a description of its ecosystem. Section 5 and 6 proceeds to investigate Adidas Sailing’s supply chain, and contextualizing the processes within it by placing them into Porter’s (1985) framework, and analyzing the determining factors for the respective decisions to either make or buy.

In sections 7 and 8 the analysis and conclusion are presented respectively.

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\(^1\) CSR in conjunction to the case is further discussed in the literature review, and as a strategic
2 THEORY

2.1 Theoretical Framework

2.1.1 The make-or-buy decision

2.1.1.1 General theoretical framework

The production of any good or service typically requires many different activities; in this paper we will define this production process as the vertical chain. For any firm, how to organize the vertical chain is a key strategic decision – should one perform all activities within a single firm, make, or should one rely on independent firms in the market, buy? The vertical boundaries of the firm are consequently defined by the activities that the firm itself performs contrasted against the goods or services it purchases from independent firms in the market (Besanko et al., 2013; Probert, 1996).

Make or buy are the two extremes along the spectrum of vertical integration (see fig. 2.1) – the concept of a company expanding its business into areas that lie at different points on the same production path, for example when a manufacturer owns its supplier and/or distributor (Zentes et al., 2012).

Typically, in a production process, goods flow along a vertical chain – from raw materials, through manufacturing to distribution and retailing (Yazidan & Shahanaghi, 2011). Processes that lie early in this chain are upstream, and later steps are said to be downstream. The number of steps or processes required in the production of a good or service generally does not depend on the level of vertical integration in chain. For example: two identical products will pass through the same production steps, but the organization of the firms involved in the supply chain can differ greatly – one product may be produced in a fully integrated firm (a “make” situation), whereas the other

Fig. 2.1

Make-or-Buy Continuum

<table>
<thead>
<tr>
<th>Arms’s-length market transactions</th>
<th>Long-term contracts</th>
<th>Strategic alliances and joint ventures</th>
<th>Parent/Subsidiary relationships</th>
<th>Performing activity internally</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less integrated</td>
<td>➜</td>
<td>➜</td>
<td>➜</td>
<td>More integrated</td>
</tr>
</tbody>
</table>

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may be produced by a series of independent firms (a “buy” situation). Consumers will generally choose the final good produce by the most efficient vertical chain, hence it follows that it is important to make the right make-or-buy decisions, comparing the costs and benefits of using the market versus performing the activity in house (Besanko et al., 2013).

In their book Economics of Strategy (2013), Besanko et al. identifies some of the benefits and costs of using the market:

**Benefits:**

- Market firms can achieve economies of scale that in-house departments cannot
- Market firms are subject to the discipline of the market and must be efficient and innovative to survive, overall corporate success may mask inefficiencies and lack of innovation in in-house departments.

**Costs:**

- Coordination of production flows through the vertical chain can be complicated when an activity is outsourced to an independent market firm rather than in-house
- There is a risk of private information being leaked when you decide to outsource part of the production process
- A company may occur transaction costs when engaging with independent market firms (this will be elaborated further on in the next section)

### 2.1.1.2 Transaction costs

The term and concept transaction cost, was first coined and described by Ronald Coase in his paper The Nature of the Firm (Kissell & Glantz, 2003, Besanko et al., 2013). Building on the works of Coase, Oliver E. Williamson proceeded to publish The Economics of Organization: The Transaction cost approach. In his paper Williamson (1981) states that “A transaction occurs when a good or service is transferred across a technologically separable interface. One stage of activity terminates and another begins”, comparing economical transaction costs to the energy loss due to friction in mechanical systems, he reasons that there are easy, efficient, transactions, and difficult, inefficient, transactions. He proceeds to pose the question on whether it is possible to distinguish the factors that permit transactions to fall into either category.
Williamson (1979 & 1981) argues that the critical dimensions for describing a transaction are: 1. Uncertainty, 2. The frequency with which transactions recur, and 3. The degree to which durable, transaction specific investments are required to realize least cost supply.

Besanko et al. (2013) introduce three theoretical concepts that help explain transaction costs – Relationship Specific Assets, Rents and Quasi-Rents, and The Holdup Problem.

**Relationship-Specific Assets**: an asset that is relationship specific supports a specific transaction, and cannot be reused in another situation without sacrificing either productivity or incurring some other form of direct/indirect cost. Firms that make these investments cannot switch trading partners without seeing a decline in the value of their assets, implying that relation specific assets tie the parties involved to each other to some degree (the extent depends on the specificity of the investment)(Besanko et al., 2013; Williamson, 1979 &1981; Hwang, 2006).

There are, according to Besanko (2013), at least four kinds of asset specificity:

1. **Site specificity**: refers to assets that are located side-by-side to take advantage of lower transportation costs, or processing efficiencies
2. **Physical asset specificity**: assets whose physical or engineering properties are specifically fitted to a certain process
3. **Dedicated Assets**: an investment in a plant or equipment made to satisfy a particular buyer – without the commitment from the particular buyer the investment would not be profitable.
4. **Human asset specificity**: the case in which a worker, or a group of workers hold specific skills, know-how or information that is more valuable within a specific relationship than outside it.

**Rents and Quasi-rents**: relationship-specific assets reduce the number of suitable trading partners for a firm, and the relationship changes from a “large numbers” to a “small numbers” bargaining situation – a change that Williamson refers to as the fundamental transformation. The fundamental transformation bears significant consequences for the bargaining relationship between buyer and seller, which, in turn, affects the costs of arm’s length transactions. In order to assess these costs, the concepts of rent and quasi-rent are often discussed (Besanko et al., 2013).

*Rent or Economic Rent* is any payment or benefit to a factor of production exceeding the cost needed to bring that factor into production, it is any
payment made (including imputed value) or benefit received for non-produced inputs such as location/land and for assets formed by creating official privilege over natural opportunities, for example patents (Besanko et al. 2013; Wessels, 2000).

*Quasi-rent* can be defined as the difference between the income earned as a result of the currently used factor and the minimum cost which is required to draw the quasi factor for a particular use, or the extra profit that a firm gets when it the relationship specific asset is utilized in its original intended use versus the profit one would receive taking to the second best option (Besanko et al. 2013; Dooley, 1991).

The concept of quasi-rents was first introduced by Alfred Marshall (1961) who defined it as earnings generated by the factors of production (except land), or income produced when there are sudden changes in demand for a product. Williamson (1979) describes quasi-rents as “the joining of opportunism with transaction-specific investments, is a leading factor in explaining decisions to vertically integrate”.

A firm expects positive rents if it decides to make invest in an asset, quasi-rents play into investments decisions as it hints to the possible magnitude of the *Hold-up* problem.

**Holdup problem:** If an asset is not relationship-specific, the profit received from an asset used in its best and second best alternative would be the same, and associated quasi-rents would be zero. However, if a firm invests in a relationship specific asset, the quasi-rent must be positive, as the best alternative will be more profitable than the second best alternative, this can easily be exploited by the trading partners of the investing firm (Hwang, 2006; Goldberg, 1976). For example, in a situation where two parties would work most efficiently by cooperating (due to relation specific asset investments) but refrain from doing so because of concerns that they may give the other party increased bargaining power, and thereby reduce their own profits, because when a party has made a prior commitment to a relationship with another party, the latter can 'hold up' the former for the value of that commitment (Rogerson, 1992)

The holdup problem increases the cost of arm’s-length market transactions (the buyers and sellers of a product act independently and have no relationship to each other, (Investopedia, 2016) in four ways, as it:
- Makes it more complicated to negotiate contracts, and requires renegotiations to be held more frequently
- Can require investments to improve ex post bargaining positions
- Could create distrust
- May reduce ex ante investment in relationship-specific investments and/or reduced ex post competition
  (Besanko et al. 2013)

2.1.1.3 Transaction costs and the make-or-buy

Simplifying the issue to the binary make or buy choice (ignoring all mixed modes, such as joint venture), Williamson (1981) proposes a simple model where he juxtaposes production cost economies (where the market is presumed to have an advantage) against governance cost economies (where we expect the advantage to shift to internal organization). Identifying that if assets are non-specific, markets will be more efficient, transaction costs are minimized, making “buying” the strategically optimal choice. At the other end of the spectrum, for more specific assets, the aggregated benefits of the market decrease, partly because the probability of opportunism to appropriate quasi-rents increases with assets/investments that are highly relationship specific, transaction costs will be high, in which case “making” becomes more beneficial.

Williamson argues that the optimal vertical organization minimizes the sum of technical and agency inefficiencies (Besanko et al., 2013).

Together with Elinor Ostrom, Williamson won the Nobel Prize in economics in 2009 for his work in transaction cost economics (Sveriges Riksbank, 2015).

2.1.2 Supply Chain Management

Nagurney (2006) defines the term Supply Chain as “a system of organizations, people, activities, information, and resources involved in moving a good or service from supplier to customer or consumer”. Blanchard (2010) describes it as “the sequence of events that cover a product’s entire life cycle, from creation to consumption” adding that exactly what this constitutes this “sequence” depends on the individual firm and varies greatly across industries, making it problematic to find a consensus on a specific definition for a term or theory. The Supply Chain Council (SCC) summarizes the concept in five words: plan, source, make, deliver and return. A definition that has been generally accepted as a basic definition of what a supply chain consists of and looks like (Blanchard, 2010).
According to Blanchard (2010) the term Supply Chain Management (SCM), which he describes as “the process that integrates supply and demand management within and across companies”, was first coined by Keith Oliver and David Weber in 1982 (Blanchard, 2003).

In his book Competitive Advantage Michael Porter (1985) discussed how a company could become more profitable through the analysis of five supply chain processes:

1. Inbound Logistics – activities associated with receiving, storing and disseminating inputs to the product (e.g. warehousing, inventory control, etc.)
2. Operations – activities associated with transforming inputs into the final product form (e.g. machining, assembly, testing, etc.)
3. Outbound Logistics – activities associated with collecting, storing, and physically distributing the product to buyers (e.g. finished goods, delivery, order processing, etc.)
4. Sales and Marketing – Activities that induce buyers to purchase a product and enable them to buy it (e.g. PR, sales force, channel selection, pricing, etc.)
5. Service – activities associated with providing service to enhance or maintain the value of a product or service (e.g. installation, repairs, training, etc.)

His key findings were that firms could significantly improve operations by focusing on interrelationships – tangible opportunities to reduce costs or enhance differentiation at almost any stage in the value chain - among business units. Porter concluded that firms should focus on a horizontal strategy: a coordinated set of goals and policies across distinct, but related business units.

With this in mind Blanchard (2010) concludes that the underlying goals of SCM are to

- Articulate and define the supply chain of a firm, including its vertical and horizontal boundaries
- Identify certain bottlenecks that hold up the movement of information, goods and services
- Implement the right processes to deliver the right products to the right place on time
• Empower the right people in order to achieve the points articulated above

Yazidan & Shahanagani (2011) provides an even more concise definition, stating that the “primary aim of almost all supply chain management is to control goods or services”.

2.1.3 Strategic Positioning

In the previous theory sections we have discussed various theories, concepts and strategies that relates to a firm’s make-or-buy decision and how they should optimally design their supply chains. However, having the optimal supply chain is not necessarily the ultimate goal for a firm, it is merely a means to ensure that one remains competitive against one’s competitors, and naturally what will be the optimal strategy depends on how one wishes to position oneself in the market.

In his book Competitive Strategy (1980), Porter outlines three generic strategies, two broad scope, and one narrow scope that firms can employ to achieve a competitive advantage:

**Broad**

• **Cost Leadership** – creating more value than rivals through providing the same benefits at a lower cost (e.g. commodity markets)
  
  **Strategy:**
  
  o Undercut rival’s prices and sell more than they do
  
  o Match rival’s prices and attain higher margins

• **Benefit Leadership** – creating more value than competitors by offering products that have higher perceived benefits than its rivals
  
  **Strategy:**
  
  o Match rival’s prices and sell more than competitors
  
  o Charge a price premium and attain a higher margin than rivals

**Narrow**

• **Focus** - The firm will configure its value chain in a way that it creates superior economic value within a narrow industry segment.

2.2 Literature Review

2.2.1 Retail Industry

In their master’s thesis Biörck and Thomasson (2014) identify 10 factors that affect a company’s choice of sales channels, according to the Diffusion of Innovation Theory and Technology Acceptance model, and develop a two dimensional framework for explaining the relationship between company
(direct impact on the business) and consumer (factors that can be impacted by external stakeholders) focus. While their analysis stems from the perspective of how to optimally choose sales channels, the paper provides useful insights on the make or buy dilemma. Particularly Biörck and Thomasson discuss out- and insourcing, determining that the two major sub-factors guiding these “make or buy” decisions are the reduced costs and increased risk associated with outsourcing/buying versus the higher costs but reduced risk associated with insourcing/making. In their paper they categorize outsourcing/insourcing as only focusing on the company, as customers remain relatively unaffected by the sourcing decision of a company.

Hakenes and Peitz (2008) establishes that a firm can employ umbrella branding as “a strategy to convince consumers of the high quality of their products”, or alternatively rely on external certifications of quality. Choi (1998) confirms this concluding that brand extension can help a multi-product monopolist to introduce a new experience good with less price distortion, and that by extension of this theory, any marketing arrangement that purposefully associates one product with another may serve the same purpose. Worth mentioning is that while this provides an opportunity for firms, both authors find that the informal information leverage presents an array of potential moral hazards.

2.2.2 The make-or-buy decision
Bartel et al. (2014), in their research, confirm that making or buying intermediate components is a central strategic decision for firms. They investigate the role of technological change in the production process in a company’s decision to outsource or produce in house, and find that when new and innovative production technologies are likely to appear in the future, firms will be more reluctant to “make” for a fear of in house technologies to become obsolete.

Perrons & Platt (2005) provide further insight into the relationship between innovation and the make-or-buy decision, but instead they investigate the make-or-buy decision in relation to the rate of change, or “clock speed” in the industry, arguing that companies operating in industries where evolution occurs at a “medium” pace should buy, whereas companies in either very “slow” or very “fast” industries should make. They argue that in order for it to be the best strategy to buy, the parties involved must establish a good relationship, something that takes time. In industries where the pace is extremely high, these relationships may not have time to form, and conversely, in industries where the pace is extremely slow, the development

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time of technology surpasses the employment time of the managers/workers, making them difficult to maintain. In industries where the rate of technological change is moderate however, intrapersonal relationships have time to form, and hence buying will be the best strategy for the firm.

Shy and Stenbacka’s (2003) research commences by highlighting that outsourcing has become an increasingly popular method for firms to achieve competitiveness, and that much of the past research supports this. Using games and theories on strategic interaction their paper present a detailed analysis and a mathematical explanation of the strategic incentives of differentiated oligopoly firms to outsource production inputs. They determine that increased competition amongst subcontractors increases efficiencies achieving the double goal of making intermediate inputs of production available at a lower average cost without sacrificing the possibility to exploit economies of scale, thus concluding that outsourcing generally will reduce production costs.

Arya et al. (2008) discuss that while we intuitively expect firms to base their “make or buy” decisions by comparing internal production costs with the prices charged by external suppliers, in practice the decision may be more complex. They suggest for example that fear of supplier hold-up, concerns about leakage of proprietary information and timing factors are strongly influencing the decision.

Steven et al. (2014) investigate how different supply chain strategies, particularly focusing on make-or-buy decisions, the use of foreign suppliers, and offshoring, are associated with quality recalls. They find that product recalls are often linked to the globalization of supply chains, as it has, sometimes, promoted inconsistency in quality control and standards, leading to sub-par products and standards. Their study indicates that offshore outsourcing has a greater impact on recalls than domestic outsourcing.

2.2.3 Transaction Costs
As noted above, Williamson heavily emphasizes the importance of asset specificity in his discussion on transaction costs. Peter Hwang (2006) sheds further light on the willingness by a firm to invest in relationship specific assets as he questions why one would invest in specific asset when it leaves the investor vulnerable to exploitation ex post. Admitting that specific investments may generate both positive, and negative cooperative incentives, their results show that while the fear of exploitation increases proportionally to the magnitude of specific investments and the associated quasi-rents, it increases
exponentially with the deterioration of inter-personal trust and/or inter-temporal contexts. Acknowledging that hierarchical relationships are often considered the most efficient governance structure in relation to making specific investments, in their research they find that hybrid structures, such as strategic alliances, may be the better choice.

William Rogerson (1992) investigates if there are contractual solutions that can ameliorate the hold-up problem and prevent exploitation. He finds there exist first-best contractual solutions to the hold-up problem, given that certain environmental properties are satisfied, namely: 1. Risk Neutrality, 2. No externalities – each agent’s investment directly affects only his own type. Only one investor under Partially Private Information - each agent's investment choice is public information (the two extreme scenarios where information is either completely public, or completely private yield first best solutions). Hence, Rogerson finds that the hold-up problem does not necessarily cause inefficiencies.

In line with what I have observed making this literature review, Wilson (2015) notes that there is an extensive body of research regarding the relationship between agency theory, transaction costs (Williamson, 1981), property rights and the vertical boundaries of the firm, but that there is little research conducted on how market structure and competition affects the level of vertical integration. He addresses these knowledge gaps in his study of the gasoline retail industry - an industry that is organized as follows: a gasoline refiner may be affiliated to multiple stations in a given geographic market. In turn, each affiliated station, may be vertically integrated, operated by refinery employees, or vertically separated, where the local manager is a residual claimant with extensive control rights – where he observes if there is a difference in station behavior depending on the contract type and the local market structure. His key findings can be summarized in three points:

1. Gasoline refiners are more likely to employ vertically separated contracts in markets where they have fewer affiliated stations, i.e. geographical areas where their market share is low, behavior consistent with a desire to avoid competition driven moral hazards
2. The presence of affiliates induces different behavior in firms that are vertically integrated versus firms that are not, more specifically, firms that are “independent” are more likely to reduce prices as the affiliate concentration increases, likely because these firms are not concerned with cannibalization effects
3. Vertically separated affiliate stations have lower quality scores when there are many other affiliate stations in their close proximity. This behavior can most likely be attributed to the vertically separated firms hope to be able to “freeride” on the quality building efforts of other stations.

Wilson (2015) finally concludes that market structures influences the strategic choices of outlets differently, depending on which kind of contract they operate under. Hence, he suggests that the market structure should also guide what kind of contracts or what level of vertical integration is chosen by the main firm, in this case, the refinery. His findings also support the idea that vertical separation, or the choice to “buy”, can lead to incentive conflicts between principal and agent.

2.2.4 Supply Chain Management

Examining outsourcing from a transaction cost economics perspective (see 2.1.2.2 Transaction Costs), Williamson (2008) notes that supply chain management (SCM) generally focuses on procurement, whereas transaction cost economics generally focuses on individual transaction. He recognizes that SCM literature often fails to remain pragmatic, and that it allows for too many degrees of freedom – permitting any potential outcome to be explained by SCM – he also criticizes the lack of control for human nature, and bounded rationality, questioning what SCM researchers do to ameliorate these issues.

Seyedhosseini et al. (2012) in their research provides cross disciplinary insight, when they investigate which strategy with regards to make and buy should be chosen in order to minimize the total cost of the supply chain. Using insights from Williamson (2008) they identify the factors that would favor a decision to make as: integration of plant and supplier operations, controlling supplier quality, decreasing lead times, reduced transportation and warehousing costs, and conversely they find that the factors that would promote a buy strategy are: outsourcing promoting dexterity, a single firm’s limited in production facilities, and that capacity is often inadequate.

Since the mid 1990’s multi channel retailing has increased as a result of traditional, brick and mortar retailers, also selling their products over the Internet (Robinson 2002). E-commerce and traditional retail typically have very different demand drivers, product variety issues, optimal stock handling, delivery mechanisms and supply chain structures. As a consequence, the optimal supply chain for e-commerce probably will not be the same as that of a traditional retailer, and designing a system that serves both channels may
be complicated. Metters & Walton (2007) investigate the set of strategic choices and trade-offs that firms are facing, aiming to provide some strategic alternatives. They theorize that moving to a multi-channel operation, adding an e-commerce service, when one already has an existing network of physical stores, can create diseconomies of scope. They acknowledge that retailers must consider multiple dimensions when trying to attain a competitive advantage, including: product mix, reliability or availability, cost and response time. Admitting that firms need to make tradeoffs when trying to meet those dimensions and that the objectives very greatly depending on one’s sales channels, and hence conclude that multi-channel retailers must consider their strategic objectives, and how they want to position themselves in the market, when determining how to configure their supply chain as it is not possible to determine one “best practice” strategy.

Gang et al. (2014) considers the supply chain where a manufacturer supplies a product to the retailer, while the retailer sells the product bundled with after-sales service to consumers in a competitive market. They find that sales volumes are somewhat dependent on the retailer’s service-level commitment; a retailer can build service capacity in-house, at a price before service demand is realized, or buy the service from an outsourcing market at an uncertain price after service demand realization. Concluding that the outsourcing market encourages the retailer to commit to a higher level of service, and prompting the manufacturer to reduce the wholesale price, resulting in more demand realization, they analyze how the expected cost of the service in the outsourcing market and the retailer’s risk attitude affect the decisions of both parties. They find that the conditions under which the retailer is willing to:

- Build service capacity in-house:
  - Higher expected service cost of the outsourcing market, decreasing the profits of the retailer
  - Lower wholesale price
- Buy the service from the outsourcing market:
  - Decentralization of the supply chain and demand uncertainty of the product

2.2.5 Corporate Social Responsibility

Engaging in Corporate Social Responsibility (CSR) activities is a way to attract stakeholders and strengthen existing stakeholder-firm relationships (Turban & Greening, 1996; Bridoux et al., 2015).
Mzembe et al. (2015) investigate what factors influence companies with global supply chains to increase their Corporate Social Responsibility (CSR) efforts. According to Van Tulder et al. (2009) the primary CSR initiatives we see are codes of conduct, and “Western” companies adopt them for a multitude of reasons, including increased pressure from external stakeholders (Kolk, 2005), but what about upstream suppliers in developing countries? Mzembe et al. (2015) comment that while there had not been that much research on the topic at the time of publication, the general consensus is that the main driver seems to be pressure from western buyers, however the effectiveness is questioned by some researchers. In their study on the global supply chain they find 9 factors, which they place within 4 broader categories:

- **Organizational Contingencies**
  - Top Management Commitment: a manager’s commitment, which is generally dependent on the person’s background, experience, and personal values, to ethical issues significantly influences a company’s ethical orientation.
  - Pressure from the Parent Company: The CSR agenda of a subsidiary/daughter company is significantly influenced by its parent company.
  - Shareholder Activism: A company may be influenced to adopt stricter CSR practices, should its shareholders lobby for it.

- **Risk Reduction and Management**
  If a company does not operate in an, as deemed by society, ethically responsible way it exposes itself to both external and operational risks that can threaten long-term profitability and external legitimacy.

- **Reputation & Legitimacy**
  - Community Expectation: in developing countries, local communities tend to face significant socio-economic challenges. If the state/government fail to provide rights, this increases community expectations of the level of CSR governance by private companies.
  - Pressure from the Industry: organizations representing interests of the industry on an aggregate level influence individual companies by establishing CSR standards and benchmarks.
  - Regulatory and Policy Pressures
  - Pressures from International Organization

- **Competitive Advantage**
  Supplying a product that is produced using ethical and sustainable practices has provided companies with a competitive advantage, especially in Western markets.
Having thus delved into the factors that drive companies to engage in CSR activities, it is clear that firms have ample incentives to do so, however it is often difficult to take decisions or form strategies to appease all stakeholders. Bridoux et al. (2015) find that as firms strive to find “new and innovative ways to do good for all stakeholders” they often have to prioritize to please one over another. Hence they investigate how strategies directed towards different stakeholder groups affects primary stakeholders’ intentions to associate with a firm – e.g. the intention to join, as a prospective employee, or to buy from, as a prospective customer. They find that stakeholders are not systematically more attracted to firms tha “favor” their own group over other stakeholder groups. Certain stakeholder groups were even willing to forgo material benefits to associate with a firm that treated suppliers in developing countries significantly better than competing firms.

2.2.6 Consumer Perception
Johansson & Nebenzahl (1986) note that the firm specific advantage many companies, like Adidas, hold because of their brand name is often tied to where the company is located. Multinational expansion can therefor pose a challenge to companies, as they face a tradeoff between the economic necessities to manufacture abroad, against the potential loss in brand name value. Consumers prefer brands that, as far as they perceive, produce their products in places with a favorable image.

Small and Entrepreneurial Firms
As touched upon in section 1.1 Murphy et al. (2015) finds that there is a relatively low understanding of how small entrepreneurial firms do actually make their strategic decisions because most solutions are often ad hoc and creative beyond traditional solutions. They discuss why outsourcing may not be an option to smaller ventures – small firms usually do not have the resources to transact formal contracts, and evaluate different forms of outsourcing (full, partial, inter-outsourcing, and spinoff) based on a firm’s strategic position.
3 Methodology

3.1 Finding the parameters
In order to establish the evaluation parameters, a qualitative analysis of the existing literature was combined with insights gained during the interviews. The reasoning is developed further in section 4.

3.2 Interviews
In order to understand the supply chain of Adidas Sailing/Catamaran Sports and the factors that drove the decisions behind it I conducted interviews with 3 different employees at Catamaran Sports:

Peter Baker: CEO

Evelina Mathusjenko: Head designer

Janis Benfelds: Sales northern and central Europe

Interview format
Interviews were informal in nature, conducted:

- In person, during my visit to Riga
- Over the phone
- Via email

Questions
The interviewees have very different roles within the company, and the person best suited would reply to a specific question. Early on in the process, during the visit to Riga, interviews were focused on attaining an overview of the company.

- Evelina Mathusjenko was interviewed regarding the production process, design related matters and the sportswear collection
- Janis Benfelds was interviewed regarding the sales and marketing aspects of the company, and B2B and B2C aspects.
- The interviews with Peter Baker were mainly focused regarding business strategy, key challenges and later regarding supply chain choices.

As the thesis developed, questions became more specific and detailed, and were posed continuously to the person most suitable to answer them.
3.3 Validity/ Reliability

Validity refers to the integrity and application of the methods undertaken and the precision in which the findings accurately reflect the data. Reliability describes the consistency within the employed analytical procedures (Long & Johnson, 2000).

Smith & Noble (2014) point out that in general there are some concerns regarding Validity and Reliability in regards to qualitative research, particularly

- The difficulty in accounting for personal biases which may have influenced the findings
- Potential biases in the sampling process
- Demonstrating a clear decision trail and ensuring interpretations of data are consistent and transparent
- Establishing a comparison case/seeking out similarities and differences across accounts to ensure different perspectives are represented;
- Achieving clarity in terms of thought processes during data analysis and subsequent interpretations

They conclude it is imperative that all qualitative researchers incorporate strategies to enhance the credibility of a study during research design and implementation.

3.3.1 Validity, Reliability & the Case of Adidas Sailing

Performing a case study, the issues stated above are a real concern especially with regards to the method employed (informal interviews, with ad hoc questions). It is my belief that the method used is particularly vulnerable to personal biases of both researcher and interviewees.

Assuming that the literature review and theoretical framework are appropriately designed, and that the accounts provided in the interviews are accurate an aptly reflect reality, the above-mentioned concerns should not pose an issue. Subject to that the researcher distinguishes between facts and personal opinions of the person interviewed.

Naturally assessing only one case makes it difficult to establish any statistical significance, which is also refrained from in the conclusion.

Should someone wish to replicate the case study, or conduct similar research on a different case, employing to similar method, the results should mirror many of the key findings of this case, establishing validity and reliability.
4 Factors influencing the “make or buy” decision

As discussed in section 2.1.1.1, the make-or-buy decision is not about trying to eliminate steps from the vertical chain, but rather deciding which firms produce which steps. With profit-maximizing firms on competitive markets in all stages, continuous re-consideration of such decisions assures that the vertical chain is made as efficient as possible.

As such, firms will base their decision to make or buy based on the cost effectiveness of the different alternatives. For example if a firm could acquire the same component at a lower price through buying it from a market firm, rather than producing it themselves, they should do so as this would improve their production chain.

However considering only the accounting cost of making or buying seldom captures the full “cost”, hence there are other factors, both qualitative and quantitative, that are important to consider in determining the true cost of making or buying a component. For example, in his discussion on transaction costs, Williamson (1981) present the idea of asset specificity (defining four types), as a crucial deciding factor for when to make and when to purchase from the market.

Based on the reviewed theoretical frameworks, the literary review and conducted interviews, one can identify numerous factors and aspects that firms should and would consider when deciding whether to outsource (buy) or to vertically integrate (make) - many of them should also be of interest to Catamaran Sports, both guiding the strategic decision and influencing how the choice is then implemented and executed.

Different articles use different terminology and definitions, and while titled distinctively, many of the identified strategic aspects are extremely similar. In order to enable an analysis, and to avoid confusion it is necessary to reduce the number of factors and to redefine them. This process also meant merging aspects of previously identified factors to create “new” factors that better fit the case.

Ultimately I have chosen to focus on eight distinct “new” evaluation factors, some aspects discussed in the literature, such as the effect of industry clock speed, are practically not possible to examine in this specific case, and have therefore been excluded.

Also stepping away from the binary model (either pure “make” or pure “buy” strategies) proposed by Williamson (1981), this analysis will look at how these
different aspects may induce hybrid strategies (see fig. 2.1 *The make or buy continuum*).

### 4.1 The eight Evaluation Factors

**Asset Specificity:** Williamson’s (1981) entire paper on transaction costs boils down to asset specificity, which is a very overarching concept, meaning that concept can be applied to many of the other factors.

Williamson concludes that if assets are non-specific, i.e. not uniquely usable in a given setting, it is often better to source the asset from the market. On the other hand, the more specific an asset is, the likelier it becomes that it will be more efficient to make it.

Applying this to a firm’s make-or-buy decision, a company should consider outsourcing, or buying, a process if it is standardized and non-unique. For example shipping; the process of sending and shipping products is almost identical for any product, bar that difference in size may require different methods.

However if a process is highly specific or require specialist skills, such as design, a firm would do best to perform the process themselves.

**Complexity of a Product or Process:** different products/processes require different production proficiencies. A product that is relatively simple often have a less complicated production process and require less specialist skills, while a product that is more specific or complex often involves a more complicated and lengthy production process often require both very specific skills (human asset specificity) and specific machinery (physical asset specificity), and it is the same for processes (Williamson, 1981; Matjushenko, 2016).

Hence, more complex and unique products/processes adds another dimension to the make-or-buy decision:

- If products or processes are unique to a firm, without necessarily having to be that complex, the adjustments that have to be implemented, and/or the extra skill or investment required to adapt an existing market solution may induce to large transaction costs – e.g. product design or sales material
- If a product or process is complex, but not necessarily unique, it might be more efficient to turn to open market firms, that have specialized in that product or process – e.g. fabrics or inventory management tools
Quality: Maintaining a certain quality or standard of a product or process is crucial to a firm (Metters & Walton, 2007). Steven et al. (2014) research the link between different supply chain strategies and product quality recalls and find that outsourcing, and particularly offshoring impacts product quality. This notion is not necessarily limited to the physical product or service a company is selling/providing, but could also refer to process implementation (Besanko et al. 2013).

There is also evidence among the literature (Gang et al., 2014) that suggest sales volumes are somewhat dependent on the firms’s service-level commitment. However, the type of service required or desired depends on the end consumer – are you selling directly to the end consumer (B2C) or to an intermediate retailer (B2B) – thus, who you are trying to reach, and what quality level you are trying to maintain could affect your decision to make or buy.

Proximity: It may be less expensive to produce a product or component in a certain location. In 2013, Asia accounted for 46.5% of global manufacturing output in 2013, and half of that output was produced in China. These numbers stem from the historically low labor costs in the region (compared to Europe and North America), often making it significantly cheaper to produce goods there, however, hourly manufacturing wages in China has risen by an average of 12% per year, and the Yuan is at an all time high (Jiaxing & Yangon, 2015).

Distance often also poses another kind of obstacle; a barrier to unhindered trade, directly in the form of import quotas, toll duty and increased transportation costs, and indirectly through cultural and social differences (Lankhuizen et al., 2011).

Hence, increasing production proximity could be of value, and could also affect both the time and quality control factors previously discussed.

Time: (Arya et al. 2008; Metters & Walton 2007) Time is a crucial factor for all firms, as it greatly affects how a company can conduct its business. If lead times are long firms face a number of difficulties, most prominently it increases risk and cost, as firms need to make larger commitments with regards to stock and styles in order to ensure that they have inventory. On the contrary, if lead times can be reduced, and firms can increase the speed to market, they are better prepared to respond to shifts in demand, shift in consumer preferences.
Johansson & Nebenzahl (1986) also provided evidence that consumers tend to view certain production locations and practices more favorably than others, and were more likely to buy products if they liked the “origin” of it, providing yet another reason for firms to consider whether to make or buy, or more specifically where to make or buy. This also links to the CSR parameter discussed below.

**Corporate Social Responsibility:** is a form of self-regulation within a company’s business model, where the CSR initiatives serves as a mechanism to ensure company compliance with the law, ethical standards and industry norms, amongst other things. The aim of CSR incentives are often to increase long term profits, increase stakeholder trust through positive PR and high ethical standards, and to reduce business and legal risk through taking a proactive approach towards corporate practices (McWilliams & Siegel, 2001).

Consumers value corporate CSR efforts, so much so, that they are to some extent willing to forgo some material benefits, e.g. pay a higher prices for a product, if they can ensure that it has been produced in an ethical way (Bridoux et al., 2015).

With the world becoming more and more transparent, a lack of CSR activities and ethical practices also becomes painfully more evident. For example Apple got heavily criticized when it was discovered that worker conditions in one of their supplier’s (Foxconn) was so poor that factory workers were driven to suicide (Adams, 2012), and recently Volkswagen’s share price plummeted overnight as it was discovered that emission figures were wrongly reported (Hotten, 2015).

Acting in a socially responsible manner, having what is perceived as an ethical business practice, influences consumers positively and can affect corporate performance. Hence, when companies deliberate whether to make or buy, it is important that they also consider the ethical implications of the decision, especially if one decides to outsource a process, one needs to ensure that the partner’s CSR values align with one’s own.

**Technological Change in Industry and R&D:** The rate of technological change within an industry is crucial to the make-or-buy decision as it affects the ability of intrapersonal relationships having time to form or not, or for them to become obsolete over too log of a time horizon. Hence the evidence suggests that in an industry where the rate of change is moderate, making is often the best strategy. In industries where the pace is either very slow, or very
quick, for a multitude of reasons it is better to buy (Bartel et al. 2014; Perrons & Platt, 2005; Smock, 2003).

The manufacturing industry is old - mass producing clothes in factories stems back to the industrial revolution - yet it is an industry in transition driven by rapid changes in technology. Technology, and particularly the Internet, is transforming the way we shop. As consumers gain more awareness, they increase their demands, putting increased pressure on retailers and producers to become more efficient and more dynamic (Benady, 2014).

**Industry Competitiveness & the Nature of Competitive Advantage:** As can be expected, Gang et al. (2014) finds that sales volumes depend highly on the level of service a retailer provides. They find that it becomes particularly important the more competitive the market, as the service level can become the one thing that provides a firm with a competitive advantage in the wide array of situations where it might not be possible or the best strategy to compete on price.

The retail industry is competitive, and as consumers become more educated, they will demand a higher level of service, quicker deliveries, a well-functioning after sales service, and firms need to recognize this, and take it into account when deciding to make or buy.

As discussed in section 2.1.3, the ultimate goal of any strategic decision-making process is to maintain one’s competitive advantage in the market (Porter, 1980). Increased competition in the market further increases the significance of this notion – the more intense the competition, the more important it becomes to “stand out”. What strategy a firm adopts to do this depends on what strategic approach they have chosen.
5 Adidas Sailing and its Ecosystem
As mentioned in the preface of the thesis, my visit to Catamaran Sports and Adidas Sailing’s head quarters in Riga was the catalyst to forming the research question that is the basis for this thesis. In this chapter we give Catamaran Sports and the brand Adidas sailing some context by describing its ecosystem. Starting with a macro perspective we will first provide a brief overview of the aggregated sports retail industry, to then look at the sports retail giant Adidas Group, and finally present Catamaran Sports and its competitors.

5.1 Industry overview
According to a report published by Allied Market Research, AMR, (2015) the global sports apparel market is expected to grow at a compounded annual growth rate of 4.3% during the forecast period 2015-2020, to generate over 180Bn USD in revenue by 2020. They cite growing health awareness, increasing disposable income and an increase in female participation in sports as key drivers of growth.

Fig. 5.1

![Total Global Sports Industry Retail Revenue 2005-2012](image)

5.2 Adidas AG
In 1924 Adolf “Adi” Dassler and brother Rudolf “Rudi” Dassler founded Gebrüder Dassler Schuhfabrik (Dassler Brothers Shoe Factory) in their mothers basement in Herzogenaurach, Bavaria, Germany (Smit, 2009). The company became the first to ever endorse an African American athlete when sprinter Jesse Owens used their shoes to take home 4 gold medals in the 1936 Summer Olympics (Kirschbaum, 2005).
The brothers split up in 1947, and Rudolf moved on to start the firm Ruda, today known as Puma and Adolf went on to register the company Adidas AG in 1949 (Adidas Group, History, 2016).

Today Adidas AG is a multinational corporation, with headquarters remaining in Herzogenaurach. It is the holding company for the Adidas Group, consisting of Adidas, Reebok, Taylor Made and CCM (Adidas Group, Profile, 2016). The company is the largest manufacturer of sportswear in Europe, and the second largest in the world after Nike (Statista, 2016). In 2014 the company employed over 53,000 people worldwide, produced more than 660mn product units (Adidas Group, Profile, 2016). The company’s global net sales from 2005 to 2014 are presented in fig 1.1.2.1 (Adidas Group, 2015).

**Fig. 5.2**

**Adidas Group Global Net Sales 2005-2014**

![Adidas Group Global Net Sales 2005-2014](image)
The Adidas brand portfolio:

<table>
<thead>
<tr>
<th>sport</th>
<th>sportswear</th>
<th>streetwear</th>
<th>collab</th>
</tr>
</thead>
<tbody>
<tr>
<td>[adidas logo]</td>
<td>[Y-3 logo]</td>
<td>[Stella McCartney logo]</td>
<td>[adidas neo logo]</td>
</tr>
</tbody>
</table>

(image source: Adidas Group, 2016)
5.3 Adidas Sailing and Catamaran Sports

Catamaran Sports (CS), a sports retail company based in Riga, holds the license agreement to produce sportswear intended for sailing using the Adidas brand and the name Adidas Sailing.

The concept of Adidas Sailing was born in October 2012 when another company first attained the licensing rights. The license was taken over by CEO Peter Baker and Catamaran Sports in January 2015. Currently the company has 19 employees, 16 at the headquarters in Riga and 4 globally, mainly working with sales (the company structure is discussed further in section 6.1.2).

To consumers, Adidas Sailing very much appears to be a sub-brand of the sportswear behemoth, much like Stella McCartney for Adidas or the Y-3 Yohji Yamamoto collaboration (Adidas Group, 2016), but it is not, and that is one of the key challenges for the brand (Baker, 2016).

Currently their best selling products are Sailing Footwear and their dinghy range – those two categories are, according to Baker (2016), where they are best at matching or surpassing their competition. The Adidas brand is world renowned for their shoes, and is second only to Nike in terms of market share within the footwear segment (Leach, 2015). And while he recognizes that it might not be the case for any other product segment, Peter Baker thinks that footwear are Adidas Sailing’s chance at becoming a segment market leader in the sailing wear retail industry.

Present partner athletes: USOne, ChinaOne, Tim Kroeger, Ben Ainslie Racing, SAP Extreme Sailing Team, Albert Riele Swiss Match Race team

Throughout this essay Catamaran Sports (CS) and Adidas Sailing (AS) will be used intermittently, and both refer to the Riga based company. The German, “original” Adidas company will be referred to as Adidas AG or just Adidas.

5.3.1 The Licensing Agreement

Catamaran Sports has the right to produce sailing apparel under the brand Adidas Sailing, and use the Adidas three-stripe logo, until 2020 when the contract must be renegotiated (Benfelds, 2016).

Under the current agreement Catamaran Sports is allowed to:

- Use the Adidas Brand
- Produce their own designs, sales & marketing materials, and advertisements
- Have autonomous control of all media channels
• Set an independent business strategy

Also stipulated in the contract are a few limitations:

• All designs, Factories and fabrics must be approved by Adidas
• CS is required to use the “same” graphic design format as Adidas in their catalogues etc.
• CS are not allowed to produce or sell any “non-sailing related” products, this is stipulated by Adidas in order to avoid that CS cannibalize on Adidas AG’s sales (this limitation of course has some exceptions)

As a brand, Adidas AG has one of the strictest codes of conduct in the industry with regards to CSR (see 2.1.1 Terms and Definitions) and fair working conditions throughout their supply chain (Baker, 2016). The strict regulations do pose some challenges, for example: many factories that would be convenient for CS to work with are not up to Adidas standard. It also complicates the production process, for example: all designs, samples and products have to be approved by the Adidas design team in Herzogenaurach.

Peter Baker (CEO) admits that while the “Adidas Standard” is sometimes frustrating, he sees it as a good challenge, and it pushes the company (Catamaran Sports) to do better and “up their game”. He mentions one example of one of their Cambodian suppliers: In order for the factory to attain approval from Adidas AG, the factory had to implement a list of changes/improvement for their workers, amongst other things time for mothers to breast feed infants, set a maximum number of work hours and raise the minimum wage – and while the approval process is complicated, it does positively impact the company, and wellbeing in the long run.

5.3.2 Umbrella branding

Because it uses the Adidas name and logo, Adidas Sailing benefits from the marketing efforts, aimed at promoting the “Adidas” name or logo, by the Adidas Group.

Umbrella branding allows consumers to correlate beliefs; when available, information regarding the quality and features of one product, for example about Adidas sneakers, are used to update beliefs about the quality of other existing or future products for which this information is lacking, for example Adidas Sailing deck shoes (Choi, 1998; Aaker, 1990).
5.4 Industry Competition

In section 4.1 Industry Overview a summary of the sports industry as a whole is provided. However, as stipulated by the licensing agreement, Catamaran Sports are only allowed to produce sportswear specific to the sport of sailing. Hence, while the aggregated sportswear industry is much greater, Catamaran Sports are mainly competing against other firms producing sailing specific products (Baker, 2016) (a description of Adidas Sailing’s main competitors are presented in appendix B).

The Adidas brand is generally known as a mainstream sports brand, many consumers outside of the “sailing world” would not even know that the firm produced sailing gear, and it is most definitely not recognized as a niche sailing brand. The pure sailing/boating brands (e.g. Sail Racing or Muston) are generally more expensive, than mainstream sporting brands (e.g. Nike or Under Armour) according to Benfelds (2016). This poses a challenge, but it also provides a sweet spot for certain products – generally rash guards, neoprene products, and polo shirts (Baker, 2016).

Shoes have traditionally Adidas trump card. Benefiting from umbrella branding and the fact that there is no clear market leader of the shoe segment in the sailing industry, Baker (2016) identifies footwear to be the best opportunity for Adidas Sailing to become market leader within a segment.
6 The Case of Adidas Sailing

A company still in its infancy, Adidas Sailing, which is an independent brand from the Adidas Group, have both the luxury and the burden of having “no” heritage, or past precedent, unlike many of its competitors (see 3.1 Competitors). Catamaran Sports are in essence free to create their own version of the supply chain, making all “make” or “buy” decisions for the first time.

However, Adidas Sailing has something most other new brands do not, and they have it in spades – they have a world recognized name and brand. While they are technically not part of it, they benefit from the umbrella branding of the Adidas Group.

Hence while Adidas Sailing is independent from Adidas AG and Adidas Group, the licensing agreement still requires AS to follow a rigorous protocol set up by Adidas AG, see 5.3.1 Licensing Agreement, this adds an additional dimension of compliance (to the “Adidas Standard”) both to the production process and the entire supply chain.

For any product design is important, but for sports apparel, where function and technical features are often the key deciding factor in the purchase decision, it is crucial. Many of Adidas Sailing’s products include very technical design elements that require specialist knowledge and equipment, also making the production process more complex.
6.1 Adidas Sailing’s Supply Chain

In order to understand Adidas Sailing’s supply chain interviews and discussions with head designer Evelina Matjushenko and head of European marketing Janis Benfelds were conducted.

6.1.1 The Production Process

1) Design

The in-house design team at headquarters in Riga designs Adidas Sailing’s products. For every season the design team creates a presentation of the collection, complete with sketches, inspiration sources, technical descriptions, color variations for each product, etc. They are also required to provide an explanation for the chosen direction, overall strategy, and justifications for why each item should be included in the collection. However patterns (a pattern is the template from which the parts of a garment are traced onto fabric before being cut out and assembled) are typically produced by the factory, or supplied by Adidas AG.

This material is then presented to Adidas AG’s senior design team in Herzogenaurach, who reverts back with comments and approvals for each style.

2) Sample Production

After Adidas AG approves a style, the design team in Riga puts together a technical pack, “like a master document for the garment” Matjushenko (2106) explains. With this an initial cost estimation is made and an external factory uses this information to produce a first sample. This sample is then examined and tested by the design team, AS team athletes and sales personnel are consulted for feedback. The revisions, alterations and amendments are added to the technical pack, and presented to the factory.

After receiving this feedback the factory produces a second sample that again is sent to the design team for inspection. The same process continues until the team is happy with the sample. The final sample is also known as the pre-production, or PP, sample.
Which factory is used for production depends on the specific style because more complicated products require special sewing machines, and labor with specialist skills, only Adidas approved factories can be utilized, and if it is a Gore-Tex garment the factory also needs to have a Gore-Tex license (further details on production location choices will be discussed below in Production Location).

Typically it takes 1 month from the time that the factory receives the design and technical pack until AS receives the 1st Sample, and circa 3 weeks for the subsequent samples.

3) Sample Approval
The PP sample needs to be approved by Adidas AG before production can start. In a similar fashion, if the product uses Gore Tex fabrics, AS must send the PP sample to Gore2, so that they can make sure that the fabric maintains its' specific properties and that it meets Gore’s own standards for the given classification.

If either Adidas or Gore does not approve the sample, a new and revised sample has to be made and again be subjected to the process described above.

4) Determining whether to start production or not
Before real production starts, product cost needs to be determined. Included in the product cost are of course the actual costs of production (material, cutting, assembly, specialist training for the factory workers etc.), but also freight and duty costs from the factory to the warehouse. This cost also holds another dimension, as the production cost also depends on the quantity AS wishes to produce.

Finally, if the style can be produced at a “reasonable” cost – i.e., if it is possible to gain a reasonable margin on the product, based on the price that AS will charge (pricing is discussed in greater detail below) for

2 The American brand Gore uses membrane technology to create high performance fabrics for outdoor technologies (Gore, 2016). Any garment using Gore-Tex fabric has to undergo rigorous testing in for example a wind tunnel in order to simulate or mimic certain weather or elemental conditions (Gore-Tex 2016).
the quantity wanted, and the design team deems the quality to be on par with their standards, the product/style will be put into production.

However, bulk production can only start after a Sales Sample and a size set (a range of samples in all sizes) sample is produced to satisfaction. The entire process from 1st sample to bulk production can take anywhere from 5-9 months, depending on where production is located.

5) **Storing/Warehousing**

Typically AS receives the stock in to separate shipments, but Matjushenko (2016) explains that this varies with season and due to unforeseen external factors. The products are stored in a warehouse connected to the headquarters in Riga, where they have a team that manages the inventory, and handle packaging, shipping and returns. Currently AS also keep some stock in the UK and US, with a plan to potentially hold more products in Sweden.

With regards to inventory, Matjushenko explains:

“Generally, it is not possible to produce more products, should one realize that demand was underestimated during the season – the lead times are too long. Adjustments need to be made between seasons.”

6) **Delivery and Sales**

The previous licensee (see 5.3.1 The licensing agreement) held a number of contracts with a range of physical, brick and mortar, stores, and some of them still sell AS products. However, Catamaran Sports have no contractual obligations to them, and it is their aim to build up a new sales channel structure (Baker, 2016) during 2016.

Currently, until the new business plan is launched, focus remains on e-commerce sales and B2B. Adidas has an online web-shop and ship worldwide – the sales organization is discussed further in section 3.1.2 Sales Organization.

**Production Location**

Currently Catamaran Sports produce their products in factories in Cambodia, China, Indonesia, Latvia, Lithuania, Poland, Portugal and Vietnam.
Generally, the more complex and expensive products, e.g. jackets, smocks, high performance garments, where specialist knowledge and equipment are required, are produced in Europe. Standardized products, e.g. t-shirts and Polos, high volume styles, and neoprene products (wetsuits) are most often produced in Asia.

The location of production also depends on the production volumes. Factories in Europe tend to have a lower minimum production level (300-500 pieces per style) than Chinese factories (minimum of 2000 pieces per style).

**Sourcing Production Materials**

Which fabrics that are used depends on a number of factors:

- **Cost** – Chinese fabrics are generally cheap, however, importing it requires the importee to pay duty, increasing the total cost of procuring the material
- **Time** – Not surprisingly, European fabrics generally have shorter lead times than Asian fabrics
- **Complexity** – some garments require sophisticated fabrics with special qualities (e.g. breathability, moisture transfer, etc.), this typically disqualifies sourcing the material from China, but rather one has to buy fabrics from Korea, Taiwan or Italy.
- **Volume** – Similar to factory minimum volumes, Asian textile manufacturers often require you to buy larger quantities than European manufacturers.

**Pricing**

When deciding on how to price a product, Catamaran sports benchmark against its competitors. Most often they find that this forces their margins down, but it could in some cases allow for higher margins.

As a general guideline the retail price of a product should be around five times that of the total production cost of the garment:

- Catamaran Sports want a 50% margin, i.e. the wholesale price will be approximately two times the production cost
- The retailers also want minimum 50% margin, more than doubling the wholesale price
For various reasons, the margins will vary between styles, but the company aims for an average 400% markup from production cost across all styles.

An opportunity for Catamaran Sports to increase their profits on a product is to reach consumers directly, without any “middle men”. Retailers require high margins, but consumers will not pay more for a product that they buy from an external party, hence it is better for CS to sell directly to consumers through their own channels (even if this means providing a discount).

6.1.2 Sales Organization
The CEO of Catamaran Sports, Peter Baker, has the over-arching responsibility for the company’s performance, as is generally the case for most firms.

The sales organization has a type of matrix structure, where there are both global business function, and traditional country managers who all report back to the CEO (represented visually in fig. 6.1).
6.1.3 Surrounding services and support
At the head office in Riga, Catamaran Sports have 4 employees devoted to customer service. Between them they speak English, Russian, Latvian, German, French, Mandarin, Spanish and Uzbek.

Catamaran Sports currently collaborate/outsource garment repairs, maintenance and post purchase customizations to several of their local and regional factories, but are establishing in-house repairs/service operations within the month (interview conducted mid May, meaning that in-house repairs should be up and running by the end of June 2016).

Products using Gore-Tex fabrics are sent to licensed Gore repair centers in either Poland or the Netherlands – a requirement for the warranties provided by Gore to hold.

6.2 The 5 Stages of the Supply Chain and Adidas Sailing
As discussed in section 2.1.2, Porter (1985) identifies 5 distinct stages of the supply chain, and in his book Competitive Advantage he illustrates how a company can become more profitable through strategically analyzing them.

In section 6.1.1 and 6.1.2 we described the production and delivery process, respectively, or the supply chain, of Adidas Sailing. In figure 6.2 we have identified what processes fall into each of Porter’s 5 categories.

Fig 6.2  Porter’s 5 stages & Adidas Sailing
7 Strategic Choices

In what follows, I discuss the strategic choices of Adidas Sailing. In particular, I seek to evaluate if, and how, each of the above-identified factors played a role in the creation of Adidas Sailing’s supply chain.

7.1 The make-or-buy decision throughout the supply chain

In table 5.1 Catamaran Sports' current supply chain strategic choices have been plotted. The different processes (see process column) of CS’s supply chain have been divided into the five different operational categories (see stage column) as defined by Porter (see section 2.1.2).

In Strategic Choice, under the Make/Buy/Other column, is identified whether a process is:

- Make – carried out by Catamaran Sports themselves, i.e. vertically integrated
- Buy – carried out by an external source in the market, i.e. outsources
- Both – in some cases the same process is conducted by both Catamaran Sports and an external supplier, for example testing, Catamaran Sports carry out a lot of their own testing, but Gore requires that any products using their fabrics are subjected to testing by them, in their facilities
- Hybrid/Other Solution – this indicates that none of the above categorizations are applicable; for example Catamaran sports design their own marketing campaigns, and have an in house art director, however they are required to use Adidas AG graphical profiles

Under the Status column is identified whether the decision to make or buy a certain process is:

- Not Changing – Catamaran Sports has no plan or intention to change the way they handle the process
- Intention to change – indicates that CS wants to change the way a process is currently handled, moving in either direction of the make or buy continuum.
- Currently changing – the process is in a state of transition, moving either towards making or buying

In the Remarks column is described in more detail the implication of the Make/Buy/Other and Status columns, for example; if it is noted that a process in in a state of transition, are Catamaran Sports moving towards buying or making, or what kind of hybrid solution is used.
From table 7.1 we can note a few interesting features:

- It is Catamaran sports intention to not change the way they handle either outbound logistics or their sales & marketing processes, and interestingly outbound logistics is predominantly outsourced/bought, whereas sales & marketing is mainly kept in-house.
- The way they handle their operations are in a stage of transition as they are going through a process of re-shoring, and purchasing their own factory.
- With regards to inbound logistics and service activities we note that Catamaran Sports are intending to vertically integrate the processes that are currently bought/outsourced (with the exception of Shipping).

7.2 Why we make or buy this and that

Adidas Sailing’s key deliberation when approaching the make or buy, is that above all, their main source of competitive advantage is that they are competing on agility, flexibility and customization, as an example they
produced customized gear for the ChinaOne Sailing team and shipped it within four days of having received the graphic design.

Another factor that affects the decision process is that AS is relatively small, but carries a big brand, and has to follow Adidas’ constraints. It operates with Adidas brand reputation, but without having Adidas resources, and this permeates pretty much every single strategic decision.

7.2.1 Strategic decisions within the five stages of the supply chain

7.2.1.1 Inbound Logistics

In table 7.1 we note that it is Catamaran Sport’s intention to change two out of three processes within the inbound logistics stage of its supply chain.

Currently they do have their own storage facility in Riga (a make solution), but in other countries where they have satellite bases, currently England, Sweden, and USA, they use third party logistics (3PL) solutions to handle stock, inventory and shipping.

According to Baker they are hoping to open up their own warehouse outside of Riga if and when volumes go up sufficiently, claiming that the same quality and service levels are not reached using external suppliers as using their own staff.

Because the organization level is relatively new, particularly with the current management, and training, thus far, has been very “touch-and-go” says Mathusjenko. As the organization grows, Catamaran Sports are going to need to create formalized training routines. Particularly with regards to their sales and service staff, as some of their products are quite technical, and require special care (Mathusjenko, 2016). This also links to the ability to deliver at the service stages of the supply chain.

Currently all processes that can be considered sourcing (finding fabrics, recruiting new employees, etc.) are handled by CS themselves – a pure make strategy. It should be noted however, that they use the “Adidas name” to leverage better deals with fabric suppliers.

7.2.1.2 Operations

All the Adidas Sailing products are designed at Catamaran Sports headquarters in Riga, but are produced in different factories, in a multitude of countries, both in Europe and Asia. And while labor is still slightly more expensive in Europe than in, for example, China, the company is going
through a process of reshoring, according to Peter Baker they have multiple reasons for doing so.

**Product Quality:** is crucial to Adidas Sailing/Catamaran Sports for two reasons: firstly, in order to maintain a competitive advantage preventing consumers to choose other brands, AS’s products must hold a certain quality. Secondly, as discussed in section 5.3.1, as stipulated in the licensing agreement, AS must also adhere to the standards set by Adidas Group (Matjushenko, 2016).

In line with the research conducted by Steven et al. (2014) who state that outsourcing and particularly offshoring impacts on product quality, Baker (2016) confirms that the quality between products produced in China and in Latvia differs greatly.

**Lead Times:** according to Baker (2016) it takes around 3 months to get a restock of a currently existing style that is produced in Latvia, but it can take as long as 6-9 months if production occurs in China, meaning that the season will already be over.

**Proximity reducing cost:** the increasing wage level in Asia combined with duty payments induced when bringing products into the European Union, is bringing the total production cost of producing in the far east closer to parity with producing in relatively low wage countries (e.g. Latvia and Lithuania) within the European Union closer to parity (Baker, 2016).

**Production Volumes:** Baker (2016) stresses that a key issue for Catamaran Sports are their relatively low production volumes 300-500 pieces per style – most factories in the Asia will require at least 2000 pieces per style (Mathusjenko, 2016; see also section 6.1.1). As mentioned in section 5.3.1, the licensing agreement stipulates that they can only produce in Adidas approved factories, reducing the number of factories available to Catamaran Sports even further.

Because of the reasons listed above, Catamaran sports are planning to set up their own production, mainly to reduce lead times, and to be able to give consumers the option to customize.

**7.2.1.3 Outbound Logistics**
Contrary to the processes within Operations, Catamaran Sports outsources shipping, distribution and returns – and are planning to maintain that strategy.

This is in line with Williamson’s (1981) theories regarding asset specificity - a company should outsource/buy processes that are standardized and non-
unique, and shipping is the perfect example of such a process; shipping products is almost identical for any product, bar that difference in size may require different methods.

For their inventory management Catamaran Sports are using a tool produced by SAP, which they feed with their data, as such this would be a form of hybrid solution. Inventory management is an important to many firms, but while each company has unique procedures with regards to stock keeping and inventory levels, the monitoring process tools required remains fairly typical, meaning that it can be supplied to a higher quality, and at a lower cost by specialist firms in the market.

7.2.1.4 Sales & Marketing

With the one exception that they are required to use the same graphical program as Adidas AG (this is to ensure cohesiveness across the Adidas brand), Catamaran sports are autonomous in their sales and marketing decision-making process.

As can be discerned from table 7.1 Catamaran Sports has adopted a pure make strategy for all processes within this stage of the supply chain, bar the exception stated above.

Traditionally many brands, e.g. one of Adidas Sailing’s main competitors Musto (Benfelds, 2016), work with independent agents in different geographical markets. In such cases the agent is typically in charge of all sales and marketing efforts in their respective area.

The previous licensee worked with various agents in different agents, and while they do still collaborate with some of them, Catamaran Sports are no longer bound by contract to any agents.

According to Baker (2016) it has been a deliberate shift away from all outsourced and “traditional” (compared to their direct competitors) ways of handling sales and marketing, stating the key reasons as:

Market Competition and quality control: as briefly touched upon, many of Adidas Sailing’s direct competitors outsource all or part of their sales and marketing efforts. Baker (2016) states that, while the Adidas brand is more recognized than any of the leading sailing brands, they are very much “the new kids on the block in the tradition laden sailing world” and that Catamaran Sports will not beat the competition “at their own game”, hence they are attempting to approach it differently. Hence rather than exploring
traditional sales channels (within the retail industry), they are shifting their focus away from using agents and wholesalers, both to maintain higher margins and ensure that they can maintain a certain level of quality and service throughout the entire sales chain.

Although it is not impossible to outsource, for example sales to an agent, and achieve the same results as with in-house staff, (after all - the agent is compensated based on their sales performance) Baker states that it remains a gamble to see how dedicated the agent is. Also, to be able to provide the best level of service, the staff need specialist skills and knowledge, something which is likelier to be found within the firm.

7.2.1.5 Service
Drawing from similar arguments as presented above, Baker states that the reason why CS want to vertically integrate their service processes to such a large extent is the quality level. This is in line with extant literature establishing that sale volumes are highly dependent on the service level of suppliers (Gang et al., 2014). However, it must be noted that the reviewed literature does not state which strategy accomplishes the best level of service in every situation.

7.2.2 Constraints to the make-or-buy decisions
In section 7.2.1 we reviewed what arguments Catamaran Sports themselves stated as having played a role in whether or not to make or buy the different processes of their supply chain.

Both in the review of the strategic choices (as summarized in table 7.1) and interviews it can be discerned that Catamaran Sport’s supply chain is not “finished”, some processes are currently in a state of transition, and some are intended to be changed in the future. There are also processes (e.g. the choice of certain factories, limitations to product assortment – see 5.3.1) that are not the result of direct choices of Catamaran Sports.

**Licensing agreement and the Adidas brand:** as have been mentioned previously in the essay, the licensing agreement dictates some of C
Catamaran Sports behavior, for example it prevents them from producing non-sailing sportswear. And limits what factories they can use for production.

Another indirect constraint to Adidas Sailing is the positioning of the Adidas brand. Adidas is well recognized as a mainstream sports brand (Benfelds, 2016), which may make customers reluctant to buy some of their more expensive products. So while the Adidas brand is perceived by many consumers as a something positive when buying a €150 pair of shoes, when considering different Gore-Tex jackets with €600 price tags, they tend to favor, established, niche sailing brands like Sail Racing or Musto (see 4.4.1 Main Competitors).

**Budget and bargaining:** a tight budget, and limited financial resources, has in many cases dictated the choices of Catamaran Sports. While it has the brand, it certainly does not have Adidas money.

Indeed were there never any financial constraints, many firms would have probably acted differently, but according to Murphy et al. (2015) new and small firms are particularly vulnerable as they have far fewer resources and absorptive capacities than do larger firms. This stems in particular from their relatively small scale of demand, leaving them with little leverage to negotiate with vendors (Timmons & Spinelli, 2007).
8 Analysis

The factors identified in section 4.1 are what we believe should dictate Adidas Sailing’s behavior when faced with a make-or-buy decision. However, as noted in section 7.2, Catamaran Sport’s behavior sometimes diverges from what we expect, or the decisive factors are not the ones we assumed.

What is not often discussed in the literature is how firms should act with regards to the make-or-buy strategy when they are facing certain constraints, external or internal (Murphy et al. 2015).

In the case of Adidas Sailing this means that processes are often handled in a non-ideal manner (i.e. not in line with the strategic goals of the firms), they are handled in a certain way because of the licensing agreement, their limited budget, and time/compliance factors. Though Catamaran sports cannot act differently regarding these things at the moment, i.e. their realized approach is an emergent strategy – in the future they should.

This becomes very apparent when looking at operations; it is the stage within Adidas Sailings production process, which is largest in scope, and where the most strategic choices are to be made. It is also the most costly process and the most complicated from an adherence point of view. Most of their reasoning with regards to this phase aligns with the reviewed theory. Even though they currently do not act it, for various reasons, they have a vision to do so, similar an unrealized intended strategy.

Catamaran Sports are very often opting to go for a make strategy, where theory and perhaps also true costs would dictate a buy or hybrid solution. They do so because they are determined to maintain flexibility and the ability to adapt within the organization, and are willing to bear the costs, as they believe that opting for make strategies will benefit them in the future. This aligns reasonably well with the Benefit Leadership strategy outlined by Porter (1980) (see 2.1.5 Strategic positioning), where a firm aims to create more value for its customers than its competitors by offering products that have higher perceived benefits, in that most of the strategic choices taken are aimed at providing a higher quality product or experience for the customers (service, customization, flexibility, etc.). This seems to stem from Catamaran Sport’s desire for Adidas Sailing to be perceived as a premium brand within the sailing industry, but because of the Brands mainstream reputation; they have to provide a higher level of benefits than their direct competitors if they want to be able to charge the same prices for similar products.
Interestingly, the concept of corporate social responsibility never comes up as a factor that would influence Catamaran Sports’s decision to make or buy, when one would think that it should affect most such decisions. It circles back to Catamaran Sports’ relationship with Adidas AG and the licensing agreement – because the contract stipulates that CS must follow Adidas code of conduct, it automatically incorporates Adidas AG’s CSR initiatives.

According to Baker (2016) Adidas AG live and breathe ethics, hence Catamaran Sports are forced to do good. Hence it is hard to evaluate how the firm would have taken CSR aspects into account when making their make-or-buy decisions. As such this situation is relatively unique, so for other similar firms CSR considerations should permeate every strategic decision.

The case of Adidas Sailing is unique, because of the relationship between Catamaran Sports and Adidas AG, and that is what makes it interesting. While this makes some insights non-transferable, many others are, for example any intuitions regarding financial constraints would hold for most small and entrepreneurial firms.
9 Conclusion

Starting the concluding section in the two research questions posed in section 1:

What factors do small entrepreneurial firms; facing resource constraints, take into consideration for make or buy-decisions when designing their supply chain?

Throughout the analysis in section 7.2.1 we find that most of the factors we outlined in section 4.1 appear at some point, but it is clear that some factors play a more decisive role than others.

What factors prevail as predominant most likely reflects the firms overall strategy. Adidas Sailing/Catamaran Sports are pursuing something similar to a benefit strategy, hence the factors, or the partial aspects of factors that influence service and quality weigh heavily in their make or buy decision.

What are the potential external factors or challenges that may hinder firms achieving the, in their mind, ideal supply chain?

On a more general level, the challenges facing small entrepreneurial firms are financial constraints, limited leverage, and lack of options due to low volumes. In the case of Adidas Sailing, the single most influential external factor is the licensing agreement, and their relationship with Adidas AG.

In writing this thesis we gained insight into the current situation of a small entrepreneurial firm, Catamaran Sports, with a strong brand, Adidas, trying to break into a certain niche of the sports retail industry. We discovered what reasoning lay behind their strategic decisions, and found that while it sometimes coincided with our predictions based on theory and previous research, some of the reasoning diverged, most often because of external/internal constraints. As such, there was a discrepancy by what one would or should do, an intended strategy, given no constraints, and what one has the possibility to do currently, the emergent strategy.

As Catamaran Sports prospers, and continues to grow, it is hopefully able to make decisions based on its strategic goals, rather than what is available.

This thesis mainly delved into the make-or-buy decisions for small entrepreneurial firms within the retail industry, but the implications of the empirical study and analysis can hopefully be useful on a more general level.
Suggestions for future research: it would be interesting to see how small entrepreneurial firms in either other industries, or pursuing a different competitive advantage strategy, tackle the make-or-buy decision. Because as Murphy et al. (2015) pointed out – these kinds of firms are often limited in their ability to outsource, hence it would be of interest to see how firms that are prevented to pursue their optimal strategy to buy set up their supply chain.
10 References

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10.2 Graphics
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10.3 Literature


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Hanna Ericksson
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The man has never met a cliché he hasn’t had a head on collision with...

Appendix A - Terms and Definitions

Case Specific Terms and Definitions
Sailing Apparel: products intended to be worn when sailing, or engaging in any activities surrounding sailing.

Sports Retail Industry: For the purpose of this master’s thesis we will define the sports retail industry as the marketing, advertising and selling of all (or at least a substantial amount of) things related to sports, equipment, accessories, clothing etc., we may sometimes refer to the sports apparel market/industry and are then referring solely to clothing and accessories (Kell, 2014).

Sports Apparel: apparel worn, or intended to be worn, when doing a sport or any form of exercise (Baker, 2016).

General Terms and Definitions
Market Structure: characteristics of a market that influence the behavior and results of the firms working in that market (Policonomics, 2016)

Monopolistic Competition: a form of imperfect competition where many producers sell products or services which are differentiated, through for example branding or quality, and hence are not perfect substitutes (a good with a positive cross elasticity of demand) (Nicholson, 1998). In monopolistic competition, a firm takes the prices charged by its rivals as given and ignores the impact of its own prices on the prices of other firms; as such prices are above marginal cost. Each producer could be considered as a monopoly player due to differentiation, but the market as a whole is considered competitive because the degree of differentiation is not enough to undermine the possibility of substitution effects (Gottfries, 2013; Jehle & Reny, 2011; Policonomics, 2016).

Opportunity Cost: the economic cost of using a resource in a particular process, is the value that one forgoes, had one used those resources in their second best alternative (Besanko et al. 2013)

Transaction Cost (TC): a cost incurred in making an economic exchange. TC’s are generally divided into three broad categories (Dahlman, 1979):

1. Search and information – cost of acquiring information and finding a product or service at the best available price
2. Bargaining - costs required to come to an acceptable agreement between two parties
3. Policing and enforcement – costs of ensuring the other party holds their end of the agreement

Umbrella branding (also known as family branding): is a marketing practice involving the use of a single brand name for the sale of two or more related products (Fry, 1967)

Appendix B - Main Competitors
Presented below, are of some of the firms identified by Peter Baker (CEO, Catamaran Sports) as their main competitors.

Sail Racing AB: registered in 1977, and re-launched two decades later, the Swedish brand is based outside of Gothenburg. The brand itself claims to subject its products through extensive testing, both “live”, by their test team, in various sailing competitions and in testing labs (Sail Racing, 2016).

- 11-50 employees (Sail Racing Linkedin, 2016)
- Sponsor the SAP Extreme Sailing Series team with clothing, the team is sponsored by Adidas Sailing for footwear
- Use Gore-Tex fabrics in their garments
- Have 6 brand stores in Sweden

Musto Limited: a sailing and equestrian brand, based in England. Established in 1965, the brand developed the first 3-layer clothing system for sailors (Hall, 2005; Musto, 2016; Bloomberg, 2016).

- Use Gore-Tex fabrics in their garments
- Ship to 40 different countries from musto.com
- Available in physical stores in over 40 countries

Gill Marine Limited: founded in 1975 by Nick Gill, who started making sailing gear in his father’s lace factory in Nottingham, where the company is still based (Clearwater International, 2013). In 2002 the company decided to move away to from high profile branded fabrics to reduce costs, and gain access to a larger range of fabrics (Gill Marine, 2016).

- Won the Queen’s Award for Enterprise in 2013, for International Trade with exports reaching over 70% of turnover.
- Employed 44 people 2013
- Annual revenue of 12M BP in 2013
**Helly Hansen ASA:** today a producer of textiles and gear for sports and work on the ocean and in the mountains based in Oslo, Norway. The brand began its journey in 1877 when Norwegian captain Helly Juell Hansen and his wife Maren Margarethe began producing oilskin jackets, trousers, southesters and tarpaulins, made from coarse linen soaked in linseed oil. The company is famous for having completed the layering principle known as the 3-layer system, and for having created the original fleece – the fiberpile – in 1961 (Helly Hansen, 2016; Reference for business, 2016).

- Has a network of 10 000 third party retailers around the world
- The U.S. and Canadian markets represents more than 1/3 of company sales
- Has over 400 employees

Most of Adidas Sailing’s main competitors, i.e. firms working within the sailing segment of the sports retail industry, are privately held. This means that publicly available financial information is limited, explaining the somewhat inconsistent presentation of the firms.