Dirk Holtbrügge & Helmut Haussmann (Eds.):
The Internationalization of Firms. Case Studies from the Nürnberg Metropolitan Region

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The Nürnberg Metropolitan Region is one of the most powerful economic regions in Europe. Several large and renowned multinational corporations, as well as many impressive family-owned firms and hidden champions, have their headquarters here.

This volume contains 17 case studies of companies based in this region and their international operations. The scope reaches from the early internationalization strategies of the Tucher in the Middle Ages to the con-sequences of the Brexit on current business activities. The case studies cover an extensive range of industries, from high-tech and industrial sectors to service providers, non-profit organizations and university spin-offs.

Keywords: Market Entry Strategies, International Human Resource Management, Corporate Social Responsibility, Case Studies

International management research has a long tradition in Nürnberg. At the Nürnberg School of Commerce, the predecessor of the School of Business and Economics at the Friedrich-Alexander University Erlangen-Nürnberg, dealing with international business activities already played a strong role. Eventually, the school would become one of the first in the German-speaking countries where a Chair for International Management was founded. With 30% of all students coming from abroad, the school presents a strong degree of internationalization. Furthermore, research in the field of international management enjoys an outstanding reputation. With the Nürnberg Edition on International Management, we would like to build on this longstanding tradition and present the latest research findings to academics, students and practitioners.

Nürnberger Edition zum Internationalen Management

herausgegeben von
Dirk Holtbrügge und Helmut Haussmann

Band 7

Dirk Holtbrügge & Helmut Haussmann (Editors)

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Preface

The Nürnberg Metropolitan Region is one of the most powerful economic regions in Europe. The gross domestic product of nearly 120 bn. € is higher than that of Hungary or of the Baltic states and Bulgaria together. Around 1.35 mn. people are employed in 170,000 companies. Several large and renowned multinational corporations, like Adidas, Schaeffler and Siemens, as well as many impressive family-owned firms and hidden champions have their headquarters here. With an average export rate of 47%, their international presence is very strong.

This volume contains 17 case studies of companies based in the Nürnberg Metropolitan Region and their international operations with a particular focus on their market entry strategies, human resource management and corporate social responsibility policies. The scope of this volume reaches from the early internationalization strategies of the Tucher in the Middle Ages to the consequences of the Brexit on current business activities. The case studies cover an extensive range of industries, from high-tech and industrial sectors to service providers, non-profit organizations and university spin-offs.

This volume would not have been possible without the generous support of various people. First of all, we would like to express our gratitude to the following top-managers who have shared their first-hand and valuable experience with us over the last years: Herbert Hainer (Adidas), Prof. Dr. Christian Rödl and Matthias Weber (Roedl & Partner), Hans Overdiek (Pfleiderer), Dr. Gerd Lenga (Knauf), Eike Scholl (NürnbergMesse), Dr. Jürgen Geißinger (Schaeffler), Dr. Andreas Brand and Dr. Klaus Probst (Leoni), Matthias Hartmann and Prof. Dr. Klaus Wübbenhorst (GfK), Joe Kaeser and Prof. Dr. Heinrich von Pierer (Siemens), Katharina Le Thierry d'Ennequin (Uvex), and Dr. Ulrich Maly (Lord Mayor of the City of Nürnberg). Dr. Sue Berning, Sebastian Gaschler, Annette Henn, Dionys Jeyasegara, Laura Kirste, Sebastian Kress and Marc Oberhauser helped with the formatting of the manuscript. The help of Dr. Ritam Garg and Mark Davis with English language issues is particularly acknowledged. Finally, we would like to thank all members of the Department of International Management for their continuous support and enthusiasm.

Nürnberg, June 2017

Prof. Dr. Dirk Holtbrügge & Prof. Dr. Helmut Haussmann

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The Internationalization of Medieval Family Business. The Case of Tucher

Dirk Holtbrügge & Sue Claire Berning

"Almost all Tucher were devoted to the long-distance trade.
Education and training were entirely geared to this profession."

(Grote, 1961)

1. Nürnberg in the Middle Ages and Renaissance – The Economic Capital of Europe

Since its first documentary mention in 1050, the city of Nürnberg rose rapidly to one of the wealthiest and most important European cities in the Middle Ages and Renaissance (Table 1). Nürnberg is often referred to as having been the unofficial capital of the Holy Roman Empire, particularly because Imperial Diet and courts met at the Nürnberg Castle. The increasing demand of the royal court and the growing population attracted trade and commerce to the city. In 1219, Frederick II granted the city town rights, Imperial immediacy, the privilege to mint coins, and an independent customs policy. With this Great Letter of Freedom and its favorite location at the junction of important trade routes, Nürnberg soon became, with Augsburg, one of the two most important trade centers on the trade route from Italy to Northern Europe (Braudel, 1982).

Table 1. Important Dates in the History of Nürnberg from the Middle Ages to the End of Independence

1050	Nürnberg first mentioned in an official document (Sigena Charter)
1219	Emperor Frederick II appoints Nürnberg a Free Imperial City
1349	First pogrom and destruction of the Jewish ghetto on the site of today's Market Square (Hauptmarkt)
1356	Emperor CharIes IV issues the Golden Bull
1471-1528	Albrecht Dürer
1493	Hartmann Schedel's World Chronicle published
around 1500	With 30,000-40,000 inhabitants, Nürnberg is the second largest city in Germany after Cologne
1524	Tenets of the Reformation adopted in Nürnberg
1575	University of Altdorf founded
1649/1650	Congress for the implementation of the Peace of Westphalia (ending the Thirty Years War) held in Nürnberg
1806	Nürnberg loses its imperial privileges and becomes part of the Kingdom of Bavaria

Source: Compiled from Diefenbacher, Beyerstedt & Bauernfeind (2012)

Trade relations between Nürnberg and Venice were probably initiated in the second half of the 13th century. Later on, other cities in Italy, Southern France, Northern Spain and Bohemia followed. In the 13th and 14th century, merchants from Nürnberg had trade relations with almost the entire known world at the time. Foreign trade did not only serve to supply the domestic population with food, clothes and luxury goods (such as textiles, fish, grain, meat, salt, wine, spices, tropical fruits, furs and wax), but also local crafts with resources like metals, wood and dyes. In turn, goods made in the city, such as metal goods, textiles, and weapons were exported. Around 1500, family businesses in Nürnberg had monopolies in several areas, for example, in the trade with saffron, calamine, copper, iron ore and amber (Roth, 1800; Müller, 1908).

Charles IV's Golden Bull of 1356 named Nürnberg as the city where newly elected kings of Germany must hold their first Imperial Diet. The royal and imperial connection was strengthened when Sigismund of Luxembourg granted the Imperial regalia to be kept permanently in Nürnberg in 1423, where they remained until 1796. After the castle had been destroyed by fire in 1420, the ruins and the forest belonging to the castle were purchased by the city. Through these and other acquisitions the city accumulated considerable territory. Around 1500, Nürnberg had 30,000 to 40,000 inhabitants and was the second largest city in Germany after Cologne (Smith, 1983).

The cultural flowering of Nürnberg in the 15th and 16th centuries made it the center of the German Renaissance and home to many renowned artisans, such as painter Albrecht Dürer, wood carver Veit Stoß, bronze master Peter Vischer, and sculptor Adam Kraft. In 1493, the physician, humanist, historian and cartographer Hartmann Schedel published his World Chronicle with first ever illustrations of many cities and countries of the world.

In 1525, Nürnberg accepted the Protestant Reformation, and in 1532, the religious Peace of Nürnberg, by which the Lutherans gained important concessions, was signed here. In 1575, the city council established an institute of higher education in the neighboring city of Altdorf. The University of Altdorf received university privileges in 1622 and acted as the Free Imperial City's university until its dissolution in 1809.

After the end of the Thirty Years' War (1618 and 1648), Nürnberg gradually lost its position as a leading trade center. The costs of the war and the cessation of trade caused great damage to the city and led to a bisection of the population. Both Bavaria and Prussia claimed parts of the territory. In 1806, Nürnberg finally became part of the Kingdom of Bavaria that took over the city's enormous public debt.

2. History of the Tucher Family

Since the middle of the 13th century, the administration of Nürnberg was entrusted to a council with rights and privileges equal to that of the sovereign and territorial lords. The city council was dominated by the patricians – families which had become rich through trade. One of these patrician families were the Tucher who played an important role in Nürnberg's politics, economy and culture for nearly 700 years (Meyer, 1928).

The history of the Tucher family dates back to the beginning of the 14th century (for the following, see Grote, 1961). While the early days of the Tucher family are not known in large parts, the family name suggests an origin from the craft of cloth-weaving. The acquisition of citizenship by Bertholdus Tucher in 1309 is the first written evidence of their being in Nürnberg. Konrad Tucher, who died in 1326, is considered the actual progenitor of the family (Table 2).

Although the Tucher did not belong to the oldest families of Nürnberg, their steep rise in the city council in the first half of the 14th century is remarkable. Between 1340 and 1806, the family was present in the administration of the city in multiple occupations for more than 700 years. As common in the Nürnberg patriciate of the time, the members of the Tucher family allied with other leading families by marriage. For instance, the daughters of Berthold I. Tucher (about 1310–1379) married into the families of Groland, Vorchtel, Haller, and Tetzel. The Tucher did not only play a leading role in Nürnberg's politics and business, but were also active in other areas. One example is Sixtus Tucher (1459-1507) who acted as a provost at St. Lorenz and professor of canon law at the University of Ingolstadt (Landois, 2014).

Table 2. Famous Members of the Tucher Family

Bertholdus Tucher, 1309 first written evidence for the occurrence of Tucher in Nürnberg
Konrad Tucher (-1326), progenitor of the Tucher family
Endres Tucher (1423–1507), master-builder
Hans Tucher (1428–1491), author of a popular pilgrimage travelogue
Lorenz I. Tucher (1447–1503), provost at St. Lorenz, founder of the Dr.-Lorenz-Tucher-Foundation
Anton Tucher (1457–1524), merchant and councilor (one of three councilors who kept the keys to the Imperial Regalia), patron of the arts
Sixtus Tucher (1459–1507), provost at St. Lorenz, professor of canon law
Elsbeth Tucher (1473–1517), portrayed by Albrecht Dürer in 1499, reproduced on 20 DM note
Linhart Tucher (1487–1568), councilor and merchant, diplomate
Lazarus Tucher (1491–1563), imperial council and merchant in Antwerp
Hieronymus Tucher (1504–1540), merchant
Paulus XII. Tucher (1656–1709), field marshal
Jobst von Tucher (1762–1813), major, father of Marie von Tucher
Marie von Tucher (1791–1855), daughter of Jobst von Tucher, wife of Georg Wilhelm Friedrich Hegel
Siegmund von Tucher (1794–1871), merchant, founder of Tucher brewery
Christoph Carl *Gottlieb* Sigmund von Tucher (1798–1877), lawyer, brother of Marie von Tucher, guardian of Kaspar Hauser, collector of old sacred music
Heinrich von Tucher (1853–1925), diplomate and Bavarian Envoy in Rome (Quirinale)
Heinrich von Tucher (1875–1962), diplomate and attaché
Hans Christoph von Tucher (1904–1968), lawyer, Spokesman of the board Bayerische Vereinsbank, chairman of the board Germanisches Nationalmuseums, member of the supervisory Siemens & Halske, Allianz Versicherung, Vereinsbank Hamburg and Norddeutsche Kreditbank; confidante of Federal President Theodor Heuss
Eleonore von Tucher (1916–2007), managing director

Source: Compiled from Grote (1961); Kirchhoff (2016)

Their economic success in the 15th and 16th century in the long-distance trade enabled the Tucher to acquire extensive property and real estate in Nürnberg (Kuhn, 2000a). One of the most remarkable examples is the Tucher Mansion in today's Hirschelgasse which was built by Lorenz II. Tucher between 1533 and 1544. It was considered to have the most important Renaissance interior north of the Alps. In their heyday, the Tucher family also put great efforts into their representation and memoria. Lorenz I. Tucher established a foundation named after him in the year of his death in 1503 that aims to maintain the Tucher cultural inventory. The Great Tucher Book of 1606 is the most glorious of a great number of pedigree books of the Nürnberg patriciate that were published in the 16th and 17th century (Stadtarchiv Nürnberg, 2004).

In the 17th and the 18th century, the economic relevance of the Tucher diminished and their trading company perished. The economic decline was manifested, for example, in the over-indebtedness of Sebald XI. Tucher (1583-1649) which led to his exclusion from the city council in 1636. However, even after the end of the Imperial period, the Tucher have been present in Nürnberg politics. In 1815, they were enrolled in the Bavarian baronetcy, and representatives of the family hold many offices in the Bavarian administration in the 19th and 20th centuries.

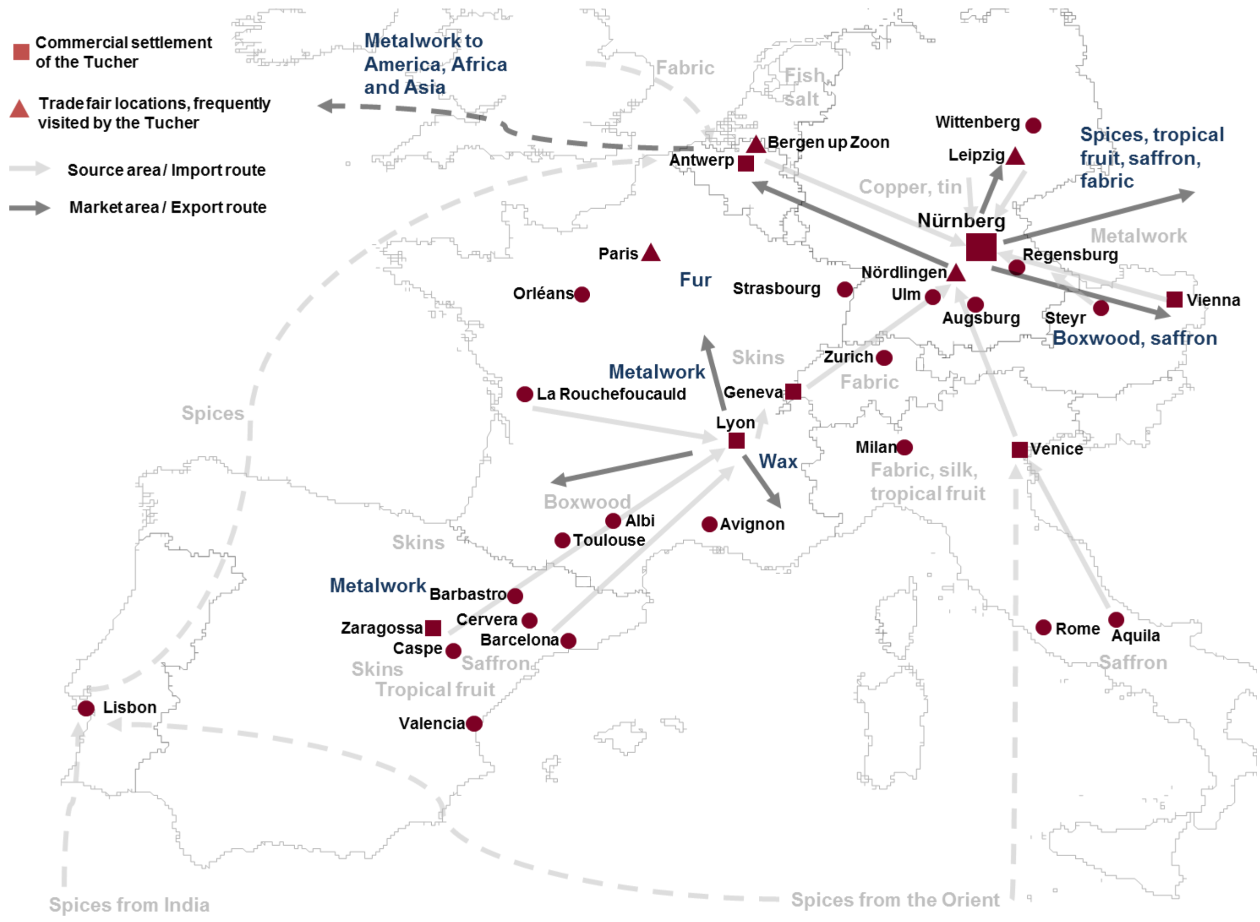
3. The Tucher Business Imperium

The Tucher'sche Handelsgesellschaft (Tucher Trading Company) was first mentioned in 1440. Even though the Tucher established their own trading company relatively late as compared to other patricians, they soon ascended to become one of the wealthiest families in Nürnberg. Their geographic focus was on Middle Germany (Leipzig) and Posen, Hungary and Austria, Upper Italy (Venice) and the area of Lake Constance. They went to trade fairs in Antwerp, Geneva and Lyon, expanded their trade relations to cities in Burgundy, Savoy, Rhone landscape and Aquitaine, and expanded till Spain (Figure 1).

Their assortment of goods originally encompassed canvas and other cloths, silk fabrics, velvet, spices, tropical fruits, metal goods, leather, furs and skins. Later, they also exported small metal hardware items, were active in spice, coal and steel trade, and had their own wire manufactories, shares of mines, refiners and remelters.

A major activity of the Tucher was the import of spices, drugs and fruit, such as pepper, saffron, ginger, raisins, almonds, pomegranates, cinnamon, dates, canella, cloves, galingale, and sugar from Venice. At the beginning of the Middle Ages, these spices grew almost exclusively on the Indian subcontinent and the Southeast Asian archipelago. The main transportation route ran across the Indian Ocean to Syria and Egypt. From there, caravans transported the goods across the Isthmus of Suez on the overland route to Alexandria where the ships of the Italian city republics anchored. Their goal was either Venice or the Western European port cities. The goods were reloaded here and brought on arduous trails over the Alps. At the end of the Middle Ages, the Tucher controlled this transalpine trade together with the Fugger and Welser from Augsburg. The sale of the coveted and expensive spices brought them not only enormous wealth, but also the dubious fame as Pfeffersäcke (moneybags, lit. pepper sacks) (Brodersen, Oster, Scharff & Schneider, 2008).

Figure 1. Trade Routes of the Tucher



Source: Diefenbacher & Kley (2008)

In the middle of the 17th century, the turmoil of the Thirty Years' War, the devaluation of the domestic currency and mercantilism made international trade unprofitable. Like many other patrician families, the Tucher therefore resolved their trading company in 1648 and diversified into other sectors (Diefenbacher, 2007).

One example is their activities in the brewery industry. In 1672, a brewery known as Städtisches Weizenbrauhaus (Municipal Wheat-beer Brewery) was founded where wheat beer was brewed for the first time in Nürnberg. When Nürnberg was annexed by the Kingdom of Bavaria in 1806, the brewery was renamed Königliches Weizenbrauhaus (Royal Wheat-beer Brewery). The Tucher family purchased the brewery in 1855, renamed it Freiherrlich von Tucher'sche Brauerei (Baron von Tucher Brewery) and incorporated the Moor's head from their family emblem into the brand logo (Figure 2).

Figure 2. Family emblem

4. Management of International Activities

The internationalization of activities required frequent business travels to foreign trading partners, trade fairs and branches. Members of the family stayed regularly in Venice where the Tucher rented chambers and storage rooms in the Fondaco dei Tedeschi from 1440 to 1575 (Grote, 1961). Another important location that was frequently visited was Lyon, the center of saffron trade, where the Tucher operated a large branch office.

Young male members of the Tucher family also spent considerable parts of their education abroad to prepare themselves for future international activities. At an early age they were sent to the overseas branches in order to learn foreign languages and local business practices. Langhans Tucher was the first family member who went for education to Geneva and Lyon in 1465 (Berninger, Stadler & Swoboda, 2012; Grote, 1961). Hans Tucher (1456–1526), being educated in commerce and trade like his father, was sent to Venice in order to learn Italian and prepare himself to take over his father's position (Herz, 2002). Linhart Tucher (1487–1568) sent his son Herdegen (1533–1614) against his will to the subsidiary in Lyon and his nephew Anton V. (1510-1569) to Orléans (Diefenbacher, 2007).

The entire education of the male descendants was oriented towards their later profession as merchants. Already at a very early age, all sons had to learn Latin, the Pan-European lingua franca of the time. At the age of around 12 to 14 years they were sent to foreign branches, preferably in Italy or France, sometimes complemented by a longer stay in Spain. Here they often completed an apprenticeship with their business partners. They had to take care of horses, help in the household and serve smaller customers. Private tutors were responsible for language training. Some of the younger Tucher stayed abroad for more than a decade (Grote, 1961).

Although the education in other countries was regarded fundamental to learn new business practices and to really master foreign languages, foreign stays also involved numerous dangers. Some of the young family members died during their stays and had to be buried abroad. Moreover, foreign apprenticeships were increasingly regarded as non-aristocratic. In later times they were therefore more and more replaced by shorter cavalier tours to famous Italian cities (Kuhn, 2010b).

5. Remains of a Global Business Imperium

The Tucher played an important role in Nürnberg's history for more than 700 years. They belong to the 13 of around 40 patrician families of the Middle Ages who exist until today, and have their residence in their old home city or feel connected with it.

Several buildings in and around Nürnberg are associated with the name of the family. The most prominent one is the Tucher Mansion in Hirschelgasse. Since its reconstruction after World War II it has been reopened as a museum, housing some furniture, carpets and original wall paneling from the time of its construction. The reconstructed Hirsvogel Hall in the adjacent garden is used for festivities and felicitations, for example, by the adjoining School of Business & Economics of the Friedrich-Alexander-University Erlangen-Nürnberg.

The Dr.-Lorenz-Tucher Foundation established in 1503 is one of the oldest family foundations in Germany still active today. It aims to maintain the cultural inventory of the Tucher and supports other social goals. And finally, the name of the family is present in the Tucher Brewery. Purchased in 1855 by the Dr.-Lorenz-Tucher Foundation, it belonged to the family until it was finally sold to the Oetker Group in 2004. The brand name Tucher Bräu and the Moor's head as part of the brand logo, however, remain until today (Tucher, 2017).

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The Internationalization Strategy of Adidas

Dirk Holtbrügge & Tassilo Schuster

"We strive to be the global leader in the sporting goods industry with brands built on a passion for sports and a sporting lifestyle!"

Herbert Hainer, ex-CEO of the adidas Group

1. The Sporting Goods Industry: Market Structure and Global Trends

In 2015, the sporting goods industry was comprised of numerous companies engaged in the manufacturing and retailing of sporting goods such as athletic footwear, apparel, and hardware. Adidas and Nike were the market leaders in worldwide revenue in 2015 with about 14.53 bn. € and 25.14 bn. € respectively. Other major companies were VF Corporation (11.12 bn. €), New Balance (2.98 bn. €), Puma (2.97 bn. €), Under Armour (2.79 bn. €), Asics (2.33 bn. €), and Columbia Sportswear (1.90 bn. €). The high number of relatively small firms is significant for the high fragmentation within the global sporting goods industry. The industry is expected to continue growing at a low-to-mid-single-digit rate. One reason for the slow industry growth rate is changing consumer habits, whereas American and European children and teenagers prefer playing video games to sports. To deal with this trend, the sporting goods industry has developed new strategies to increase the spending habits of existing customers and to attract new ones. The previously mentioned companies launched major campaigns to promote a healthy and active lifestyle, with the ultimate goal to both reactivate sports participation among adolescents and adults and to trigger a change in fashion interests. A sporty appearance has become trendy in all spheres of private life, giving way to a casual fashion style. Even though the high fragmentation triggers a fierce competition in the sporting goods industry, substantial opportunities for companies exist due to strong product demands in three market segments: apparel, footwear and hardware.

2. Company Background

2.1 The History of the Adidas Group

The history of adidas dates back to 1924 when Adolf (Adi) and his brother Rudolf founded the Gebrüder Dassler Schuhfabrik (Dassler Brothers Shoe Factory) with a simple idea in mind: to give athletes the best possible equipment for high performance (for the following, see Adidas 2016a). At the 1928 Summer Olympics in Amsterdam, they started to build up a reputation among elite athletes. By the 1936 Berlin Olympics, the Dassler Brothers had already convinced quadruple gold medal winner Jesse Owens (US) to wear their shoes. By 1937, the product range covered 30 different shoes for 11 different sports.

After World War II, the brothers were hopelessly at odds with each other. Rudolf decided to leave the company and to start Puma, a rival shoe company. Adi Dassler renamed the Dassler Brothers Shoe Factory to adidas, referring to his nickname, ADI, and his surname DASsler. The company grew steadily as its shoes gained worldwide recognition, especially because of its distinctive three-stripe logo. Despite fierce competition in the sporting goods industry during the 1950s and 1960s, both companies benefitted greatly from the rise of sports as an important economic sector. To secure further growth opportunities, both companies started to internationalize. Puma established subsidiaries in Austria in 1964 and in France in 1967. The company expanded its international scope to Hong Kong and the United States by launching foreign subsidiaries in 1978 and 1979. Contrary to Puma, adidas began its internationalization process with exports to Canada, Scandinavia and Switzerland in 1950. By 1955, it was exporting to 40 different nations. The next internationalization step came in 1958 with the first adidas foreign subsidiary in Canada. This was followed by a French subsidiary in 1959 and one in South Africa in 1972. The company continued to grow in the 1970s and maintained a leading position in sports footwear.

Up until the 1970s, adidas influenced the athletic shoe market with its product originality and was the dominant brand with a market share of around 70% (Jones, Norris & Kim, 2015). In the late 1970s, rising competitors Nike and Reebok changed the dynamics of the market by offering fashion-oriented footwear in contrast to Adidas' performance-oriented footwear. Production was left to suppliers in low-cost Asian countries such as Taiwan and South Korea. By 1980, Nike claimed a 50% market share in the US athletic shoe market. Throughout the 1980s, Nike expanded its product line to cover many other sports and regions throughout the world.

After the death of Adi Dassler in 1978, his son Horst Dassler took over the management. Horst Dassler died in 1987, ending the era of the Dassler family in the company's top management, which had lasted for almost 70 years. The company's legal form was then changed into a joint-stock company (Aktiengesellschaft) in 1989, although family members retained a controlling ownership. The new leadership made questionable strategic decisions during this period, resulting in a record loss in 1992 that almost bankrupted the company. Bernard Tapie bought the company the following year and subsequently sold it to Robert-Louis Dreyfus and Christian Torres. Dreyfus became the CEO and radically changed the company's strategy as adidas was losing more than 100 mn. US-$ a year (Figure 1). Due to the various initiatives taken by him, revenues increased from 1.7 bn. US-$ in 1992 to 2.8 bn. US-$ in 1996.

An important part of the new strategy included the shift of the geographical distribution of value activities. For many years, adidas had manufactured shoes at several factories across Europe. Under Dreyfus's leadership, adidas started to focus on product design and brand marketing, while outsourcing manufacturing to a network of independent suppliers in Asia. During the Dreyfus era, adidas also acquired the Salomon-Group in 1997 along with its brands Arc'Teryx, Bonfire, Cliché, Mavic, Salomon, and Taylor-Made, changing the group name to adidas-Salomon AG. Adidas paid approximately 1.2 bn. € for the acquisition of the Salomon-Group and became the second largest sporting-goods producer in the world.

In 2001, Herbert Hainer became Chairman of the Executive Board. Under his leadership, various efforts were made to run Salomon as profitably as adidas and to attain favorable cost and scale effects from this acquisition. As Salomon performed weaker than anticipated, the management of adidas-Salomon decided to sell the Salomon business segment, including the related subsidiaries and brands Arc'Teryx, Bonfire, Cliché, Mavic, and Salomon to Finnish Amer Sports Corporation in 2005. Only the former Salomon golf brand Taylor-Made remained in the portfolio of adidas. With the sale of Salomon, the group's name was changed back to adidas AG.

Figure 1. Changes Made by Robert-Louis Dreyfus

Selling Factories and Outsourcing Production

In order to become more competitive, Louis-Dreyfus not only needed to improve services to distributors and retailers, but he also needed to reduce the cost of goods produced. He sold the remaining adidas-owned factories but maintained a small German footwear factory unit near the adidas headquarters in Scheinfeld. The factory produced customized shoes for sponsored athletes and limited series shoes for specific sports. The Scheinfeld production unit also tested prototypes before sending them for mass production in Asia. All the textile production and 96% of the footwear production were outsourced. In 1996, 55 million pairs of athletic shoes and 65 million units of clothing were outsourced. The outsourced footwear production was divided between Asia, Europe, and North Africa:

Taking Control of Distribution

Louis-Dreyfus wanted to control the image, positioning, and quality of adidas products. This was only possible if adidas controlled wholesaler distribution. Consequently, he decided to replace licensees with joint ventures or new subsidiaries. Whenever possible, adidas developed joint ventures with former licensees and distributors. Adidas invested at least 50% with the overall objective of maintaining control. The contract was unlimited over time but had a call option. After an agreed time period, adidas had the possibility of buying the remaining shares at a fixed price. The period would vary from three to ten years, depending on the partner. At least one senior adidas manager was appointed to the managerial board of the joint venture. Adidas contributed the company's trademark and guaranteed the same purchase conditions as for the company's own subsidiaries. The partner contributed local experience and knowledge of the market, customers, and in certain cases, a percentage of the assets. From 1993 and 1997, adidas developed numerous joint ventures in Europe, the Asia Pacific, and Australia/New Zealand. New subsidiaries were set up in Lebanon, Egypt, Israel and Dubai, Panama, Chile, and Venezuela. Adidas took 100% control of the Australian and New Zealand subsidiaries. By the end of 1997, there were 36 adidas subsidiaries and 9 joint ventures worldwide. To co-ordinate the emerging Chinese market, adidas opened two exclusive adidas shops and an adidas Representative Office in China. In Japan, there was still a licensee contract with one of the major Japanese footwear and apparel manufacturers, Descente. This contract would expire in 1998, and a decision was taken to control the distribution at a regional level. Regionalized distribution management units were also established in Panama (to co-ordinate Latin America) in Hong Kong (Asia Pacific), in Oregon, USA (North America) and in Herzogenaurach, Germany (Europe).

Source: Boissonnas & Hilliard 2003, p.6

In 2005, adidas surprised the public by announcing the acquisition of Reebok International Ltd., which had meanwhile become a leading athletic footwear producer. This acquisition was the biggest transaction within the sporting goods industry of all time with a value of around 3.1 bn. € (Rygl, Dennerlein & Joyette, 2006). In a single stroke, adidas strengthened its position in footwear and bolstered its position in North America. Hainer praised this step as the beginning of "a new chapter in the history of our Group" and promised that the new adidas Group would benefit from strong strategic advantages. These advantages would include "a more competitive worldwide platform, well-defined and complementary brand identities, a wider range of products, and a stronger presence across teams, athletes, events and leagues" (adidas 2006a, pp. 21). With the acquisition of Reebok, the adidas Group reached sales of 10 bn. € for the first time. It became a large multinational company with close to 40,000 employees worldwide. In the subsequent years, adidas sales grew to 10.3 bn. € in 2007 and 10.8 bn. € in 2008. However, when the global economy slumped in 2009, revenues fell back down to 10.4 bn. € and profits dropped by half, from 1.07 bn. € in 2008 to 0.51 bn. € in 2009.

2.2 Recent Developments

As a result of its diversification and internationalization strategy, adidas has developed a multi-brand approach, which enables the company to provide distinct and relevant products to a wide range of consumers in both mass and niche markets. With the multi-brand strategy, each brand aims to keep a unique identity and focus on its core competencies, while simultaneously allowing adidas to provide a broad product range (Figure 2).

In 2015, the adidas Group delivered a stellar financial performance. Driven by strong growth at both adidas and Reebok, currency-neutral Group sales increased by 10%. In euro terms, net sales grew by 16% to 16.915 bn. € from 14.534 bn. € in 2014. Gross margin increased 0.6 percentage points to 48.3%, driven by the positive effects from a more favorable pricing, channel and category mix.

At the end of 2015, adidas employed 55,555 people, an increase of 3.4% from the previous year. This development is primarily related to the expansion of adidas' own-retail store base, particularly in emerging markets (Table 1).

Table 1. Adidas at a Glance

	2014	2015	Change
Operating Highlights (in mn. €)			
Net sales	14,534	16,915	16.4%
EBITDA	1,283	1,475	15.0%
Operating profit	961	1,094	13.8%
Key Ratios			
Gross margin	47.6%	48.3%	0.6pp
Operating expenses in % of net sales	42.7%	43.1%	0.4pp
Operating margin	6.6%	6.5%	-0.1pp
Balance Sheet and Cash Flow Data (in mn. €)			
Total assets	12.417	13,343	7.5%
Inventories	2,526	3,113	23.2%
Receivables and other current assets	2,861	3,003	4.9%
Working capital	2,970	2,133	-28.2%
Other (at year-end)			
Number of employees	53,731	55,555	3.4%

Source: Adidas 2016b, p. U3

Figure 2. Adidas Brand Portfolio

Source: Adidas 2016b, p. U4

3. Adidas as a Multinational Corporation

The adidas Group is a multinational corporation that offers a broad portfolio of products available in virtually every country in the world. The activities of the Group, with its 170 subsidiaries, are directed from the headquarters in Herzogenaurach (Germany) and additional key locations around the world, which correspond to specific business activities in these regions (Figure 3).

Figure 3. Headquarters

Europe

adidas Group headquarters, Herzogenaurach, Germany

adidas (Global Brand HQ), Herzogenaurach, Germany

adidas International Marketing B.V., Amsterdam, The Netherlands

North America

adidas North America, Portland/Oregon, USA

Reebok (Global Brand HQ), Canton/Massachusetts, USA

TaylorMade-adidas Golf (Global Brand HQ), Carlsbad/California, USA

Asia

adidas Sourcing, Hong Kong, China

Latin America

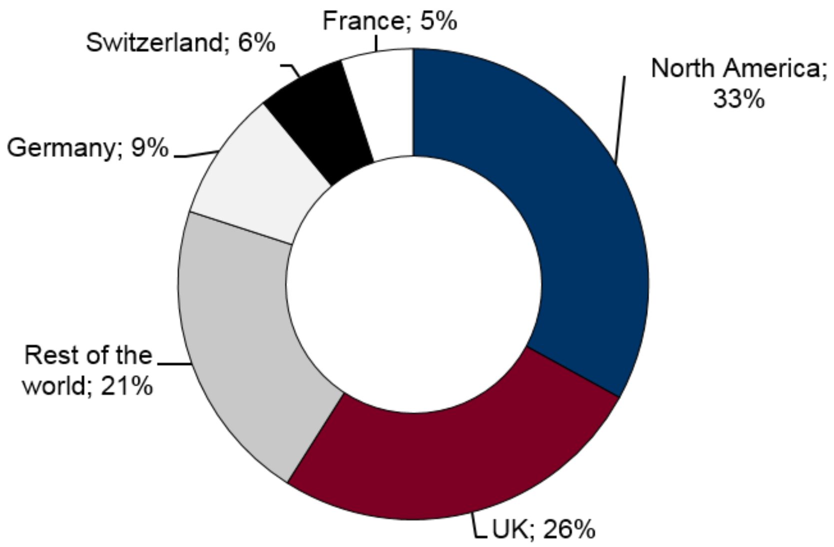
adidas Latin America, Panama City, Panama

Source: Adidas 2016c

Other than its global presence of business activities, adidas also possesses a strong international investor base (Figure 4). Institutional investors represent the largest investor group, holding 87% of the shares, whereas undisclosed holdings, which also include private investors, account for only 8%. Current members of the adidas Group Executive and Supervisory Boards hold less than 1% in total, whereas adidas holds 4% of its shares as treasury shares.

In 2015, 26.8% of adidas Group revenues were gained in Western Europe (Table 2). Revenues in Western Europe increased by 17% on a currency-neutral basis, driven by strong sales growth in the UK, Italy, France and Spain. On the contrary, sales in Russia/CIS declined 11% to 739 mn. € from 1.098 bn. € in 2014, mainly due to sales declines at adidas and negative currency translation effects.

Figure 4. Shareholder Structure by Region



Source: Adidas 2016b, p. 51

Table 2. Net Sales by Region

	2014	2015	Change	Change (currency-neutral)
Western Europe	3,793	4,539	20%	17%
North America	2,217	2,753	24%	5%
Greater China	1,786	2,469	38%	18%
Russia/CIS	1,098	739	-33%	-11%
Latin America	1,612	1,783	11%	12%
Japan	744	776	4%	0%
MENA	1,925	2,388	24%	14%
Other Businesses	1,358	1,467	8%	-3%
Total	**14,534**	**16,915**	**16%**	**10%**

Source: Adidas 2016b, p. 138

North America, the single largest market for sporting goods in the world, accounted for 16.3% of adidas Group revenues. Other than Nike, which had a 35% share of the US sports footwear market, compared to adidas (5% market share) and Puma (2% market share), most manufacturers such as Under Armor and New Balance were not very profitable. Sales in Greater China increased by 18% on a currency-neutral basis. While adidas has so far been successful in China, Nike is making strong inroads into the Chinese market and locals such as Li Ning are challenging foreign brands with products of improved quality and substantially lower prices.

4. Geographic Configuration of Value Activities

4.1 Research and Development

R&D follows a decentralized approach. In line with the strategic and long-term visions and distinctive positioning, each brand runs its own R&D activities. However, fundamental research as well as expertise and competencies in sustainable product creation are shared across the Group (Figure 5).

Table 3. Major R&D Activities and Locations

	Main activities	Major Locations	
adidas	The adidas FUTURE team is divided into groups that focus on performance footwear, apparel and hardware innovation, within which there are individual product focus categories. The teams are closely integrated with associated functions and resources to increase efficiencies and flexibility in all aspects of innovation and technology development.	Global Development Center	Herzogenaurach
		Global Development Center	Portland/Orego
	Dedicated innovation development Centers in Asia, working closely with these teams, concentrate on the realization of concepts through functional product development as part of the creation process. These Centers are important in terms of development efficiencies, as product and technology development takes place in real production environments.	Product Creation Center	Shanghai
		Product Creation Center	Tokyo
Reebok	R&D teams at Reebok create footwear, apparel and hardware with the primary emphasis being on fitness. Teams are structured along the brand's category priorities. In addition, there are certain cross-category groups such as the Reebok Advanced Concepts (RAC) team, which ensures specific concepts can be taken right through from initial idea to production.	Global Development and Testing Center	Canton/ Massachusetts
	Collaboration partners at Advanced Development Centers in China and Vietnam focus on new technology developments, cutting-edge materials and treatments as well as manufacturing solutions.	Advanced Development Center	Fuzhou
		Development and Testing Center	Ho Chi Minh
TaylorMade	TaylorMade-adidas Golf's R&D team is focused on continuously designing and developing industry-leading products. The team is structured according to the different product categories in golf.	Global Development and Testing Center	Carlsbad/ California
Reebok | CCM	The R&D team at Reebok-CCM Hockey is dedicated to continuously creating state-of-the-art ice hockey equipment designed to improve the experience for both professional and recreational players. R&D teams are category-specific, combining the design, engineering and product management functions. The goal of this structure is to create category expertise and improve speed to market.	Development and Testing Center	Montreal/Quebec Canada

Source: Adidas 2015b, p. 74

In addition to its internal R&D efforts, the adidas Group also purchases a limited amount of R&D expertise from well-established research partners. Collaborations are usually long-term and exclusive. Major adidas relationships exist with the University