

FOCUS ON FIVE INITIATIVES Global Operations is focusing on five key initiatives to optimize processes in our supply chain:

⇒ *Replenishment*: Providing high availability of product to our customers while minimizing our inventory of finished goods.

⇒ *End-to-End Profitability*: Identifying our key cost and profitability drivers and their interrelationships to optimize decision-making.

⇒ *Adaptive Supply Network*: Enhancing the flexibility of both our sourcing and logistics functions to address quick-changing market needs.

⇒ *End-to-End Planning*: Fundamentally challenging and optimizing our Group-wide demand and supply planning processes to create more efficient, transparent and cross-functionally interlinked processes.

⇒ *Accelerated Creation-to-Shelf*: Building capabilities and technology that drive faster and more efficient product creation to enhance the Group's top- and bottom-line growth.

ADVANCEMENTS WITH ALL INITIATIVES In 2007, we made first steps in all five areas. We started utilizing real-time sell-through data on a Stock Keeping Unit (SKU) level to determine replenishment needs at adidas own-retail stores in Europe. This helped us identify additional sales potential and reduce overall markdowns. As part of our End-to-End Profitability initiative, we developed a profitability simulation model that incorporates product creation and delivery costs (i. e. total cost perspective) to support decision-making in sourcing and transportation. With respect to the Adaptive Supply Network initiative, we made significant progress in warehousing and launched several IT projects to improve speed and flexibility in our supply chain. During the year, we also started our End-to-End Planning initiative with new demand and supply planning concepts.

Within the scope of the Accelerated Creation-to-Shelf initiative, we implemented 6- and 13-month concept-to-shelf processes (i. e. all activities from the first product sketch to the final delivery to retailers) to support newly introduced business models at brand adidas. 30% of the fall/winter 2008 product range was placed on those quicker timelines. In addition, for the first time we used virtual product prototypes to accelerate our product review process and reducing sampling costs.

SUCCESSFUL COMPLETION OF "WORLD CLASS BUYER" PROGRAM In 2007, we were able to realize significant benefits as a result of our "World Class Buyer" program. The objective of this program was to maximize purchasing leverage across the adidas and Reebok brands. During the year, we finalized the implementation of a standardized costing framework for both brands in footwear and made significant progress with the roll-out of a similar framework in apparel. As a result, we generated cost synergies at both brands. [▷ see Income Statement, p. 080](#)

FURTHER INTEGRATION BENEFITS IN LOGISTICS In 2007, we achieved significant synergies in freight and transportation costs as a result of the harmonization of our global service provider network. We also made major headway in warehouse integration. In the UK, construction of our new central distribution center for the adidas and Reebok brands in Manchester was completed in December. Operations are planned to commence in the first half of 2008, so we expect to see the first cost savings materialize in 2008. Also, construction work for our two new central US distribution centers in Spartanburg, South Carolina, began in 2007. We expect to start operating our US apparel distribution center in the fourth quarter of 2008 and our US footwear warehouse a year later. These two new facilities will replace five existing adidas and Reebok warehouses.

FIRST SUCCESS IN REEBOK APPAREL BUILD-UP In 2007, we stepped up our efforts to establish an in-house apparel organization for the Reebok brand. On the sourcing side, we phased out Reebok's former sourcing agents. This means that we will source Reebok apparel solely through our own supply base utilizing the established network of the adidas brand. Reebok also developed its first full apparel collection (spring/summer 2008) in the new organizational set-up following adidas best practice processes. In the coming years, we will focus on further improving Reebok's apparel processes to achieve performance levels in line with the adidas brand.

PROGRESSIVE RAMP-UP OF "WORLD CLASS SUPPLY CHAIN" AT BRAND ADIDAS In 2005, we started our "World Class Supply Chain" initiative to optimize adidas' product offering, to best attack market opportunities and to improve profitability. In 2007, we further extended its global footprint by implementing the *brand model* to all markets globally. The *brand model* delivers adidas brand concepts (e. g. adiSTAR, TECHFIT™, Predator®) to all markets globally with first priority in our supply chain, communications support and retail execution. The *evergreen model* provides short lead time and never-out-of-stock capabilities for our most commercial long-lifecycle products (e. g. basic apparel lines) through continuous replenishment.

In 2007, we also launched the *quick response* and *global/regional models*. The *quick response model* allows us to seize additional market opportunities with six-month concept-to-shelf processes. We also put in place a customization business model for "mi adidas", which is being extended to customized football team wear. Under our *global/regional model*, we have established four product creation centers around the globe to ensure that we have the right mix between global consistency and regional specifics to best address consumer needs in the respective markets. Together, these four business models give the adidas brand a competitive advantage to service a diverse set of market needs in a more relevant and specific way.