

Nike

## Report - Strategy & Value Creation

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# 1 Executive Summary

Nike is amongst the world's most recognizable brands and devises some of the most entertaining marketing's campaigns, further driving awareness of a truly global organization.

Since its inception in 1964 the company grew its operations, from importing and re-selling to product development and production. Nike's geographical footprint is also staggering with the brand being available worldwide and usually as either leader or amongst the market leaders in different segments.

We started by analysing the environment surrounding both the sportswear / sports apparel / footwear markets and proceeded to consider the elements that interact with the company – such analysis aided us in identifying both opportunities / threats which are expanded on throughout the report.

We could not ignore the COVID pandemic and how it may not only impact the company's bottom line in 2020 (and beyond) but more importantly how it may impact future business decisions.

Whilst preparing this report we found a company that seems to go from strength to strength whilst reinventing itself – nowadays via a customer focused strategy which entails digital transformation as its main driver and by finding new segments to focus on. Nike is becoming a digital company and finds ways in which its products can be both marketed and augmented via transformative developments.

Upon analysing the company, we moved to strategy formulation and found that the company's mission and purpose is embedded into decision making at its core.

Nike's continuous growth in the past ten years has been driven by several factors, including external factors - social / societal – and internal factors which are related to the company's business model.

The company's main growth strategy is through Product Development, leveraged on the launch of new and ever more performant products every year. This is supported by an unmatched internal capability for R&D and Innovation which is worth \$1 billion a year. Ever since the beginning, Nike has revolutionized the industry, positioning itself as an ultimate innovation machine. To that end, the company uses cutting-edge technology to enhance the performance of its products; green materials for a low-environmental impact; and co-creation with its customers, through innovative engagement initiatives, as main sources of sustainable growth and value.

Internationalization and vertical integration (including strategic outsourcing) are also part of Nike's strategy to improve the company's ability to create sustainable value – the company is however highly focused on the sportswear segment and we can't say it is diversified.

Nike makes full use of its matrix structure and flexible top-down / bottom-up simultaneous approach to manage change effectively. It is clear to us that CSR became increasingly more important to the organization over the years and is now something Nike includes in its regular performance summaries.

We expect to see Nike expanding product offerings to include augmented innovative products sustainably sourced, expertly marketed and delivered directly to clients.

## 2 Company overview



Nike's mission (to bring inspiration to every athlete\* in the world. \* if you have a body – you are an athlete) is a testament to how broad yet targeted (to athletes and enthusiasts) Nike became over the years. Through innovative product development and ingenious marketing campaigns (see above) the company grew to the powerhouse it is today.

Nike, Inc is an American multinational sportswear, footwear, apparel and lifestyle company which was founded (as Blue Ribbon Sports at the time) in 1964 by a track athlete (Phil Knight – who would eventually be the company's CEO up to 2003) and his coach (Bill Bowerman).



When founder Phil Knight met Kiachiro Onitsuka – the Japanese shoemaker who produced Onitsuka Tiger<sup>1</sup> - as preparation for a paper he prepared for his MBA<sup>2</sup> he became inspired to start the company. Originally Blue Ribbon Sports distributed Japanese shoes but eventually grew to producing their own footwear as well as a broad line of apparel and athletic equipment. Named after the



<sup>1</sup> <https://www.onitsukatiger.com/us/en-us/tiger-tales/>

<sup>2</sup> <https://stanfordmag.org/contents/the-force-behind-the-nike-empire>

Greek god of victory, Nike is now one of the world’s most valuable brands<sup>1</sup> and its swoosh one of the most recognizable logos, albeit it only cost the company 35\$ back in 1971.

The company is listed in the NYSE since 1980 and has seen remarkable growth<sup>2</sup> in its stock value since now has revenues of \$39.1B. Its principal shareholders include founder Phil Knight (as well as family and associated interests), previous CEO Mark Parker and investment juggernauts such as Blackrock and the Vanguard Group.

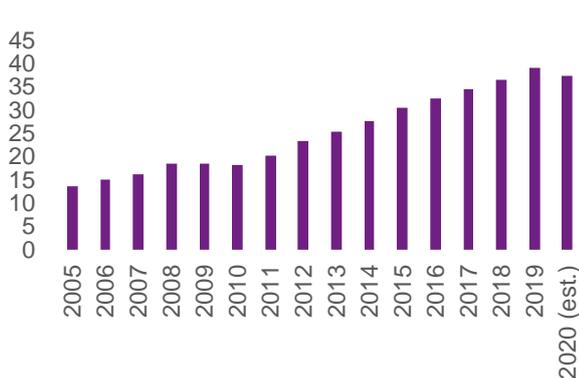


Figure 1 - Nike's revenues (\$B)

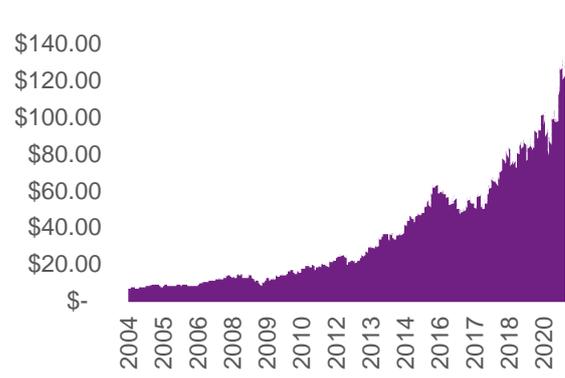


Figure 2 - Closing share value (NYSE)

Nike is market leader in sportswear – its strategy has been a mixture of organic growth by developing their brand and signing significant endorsement deals (with sports leagues/teams and specific athletes for example) and acquisitions (eg Umbro, Hurley, Bauer, Converse) albeit some have since been sold. As of 2017 Nike spent \$1.7B in sponsorship deals<sup>3</sup> – recently the company innovated with a results driven deal with Liverpool that may drive a market trend (the deal includes bonuses should the club win either the champions league or the premier league in each of the next 3 years<sup>4</sup>).

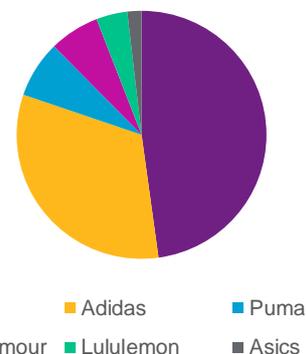


Figure 3 - Sportswear market (main brands) - Revenues

Digital became the focal point of the company’s strategy of late<sup>5</sup> – this was accelerated by the Coronavirus pandemic<sup>1</sup>. The growth in online sales was already there when the company

<sup>1</sup> <https://www.forbes.com/the-worlds-most-valuable-brands/#9341cf5119c0>  
<sup>2</sup> <https://finance.yahoo.com/quote/NKE/financials?p=NKE>  
<sup>3</sup> <https://www.sportcal.com/Insight/Features/132249>  
<sup>4</sup> <https://www.90min.com/posts/6532633-details-of-liverpool-s-new-nike-kit-deal-revealed>  
<sup>5</sup> <https://www.spglobal.com/marketintelligence/en/news-insights/blog/amazon-ecommerce-sales-soar-amid-covid19>

decided to reduce the number of retail partners<sup>2</sup> (at one point 30,000) to focus their efforts on less than 50 – if there were doubts on what direction Nike will move toward perhaps the new CEO's background in being Ebay's CEO for 7 years sheds some light on the path to come<sup>3</sup>. Digital transformation will be “front and Center” of Nike's strategy going forward, both in sales channels and product development. From self-lacing shoes, to apps to sensors embedded directly in sports apparel – Nike is finding new ways of serving customers.

The company isn't immune to controversy such as the one surrounding reported sweatshops producing sneakers back in the 90s and more recently on materials used<sup>4</sup>. The company has recently championed sustainability goals<sup>5</sup> and on top of moving to produce shoes using recycled material the company developed new dying processes and reduced waste up to 60%<sup>6</sup>. Inclusion & Diversity is a matter Nike puts at the forefront of its operations – something that is clear from their annual reports<sup>7</sup> which not only includes companywide metrics but is transparent with background, skills, gender, ethnicity of all board members in an effort to build an inclusive environment and foster innovation through diversity as well as a clear steer toward technology.

Nike outsources most of its production, although the company maintains a workforce of around 45 thousand – manufacturing spans across 41 countries and around 500 factories<sup>8</sup> although most of its production is concentrated in Asia.

<i>(Dollars in millions)</i>	<b>FISCAL 2020</b>
North America	\$ 14,484
Europe, Middle East & Africa	9,347
Greater China	6,679
Asia Pacific & Latin America	5,028
Global Brand Divisions <sup>(2)</sup>	30
<b>TOTAL NIKE BRAND</b>	<b>35,568</b>
Converse	1,846
Corporate <sup>(3)</sup>	(11)
<b>TOTAL NIKE, INC. REVENUES</b>	<b>\$ 37,403</b>

“Global” is a word that truly defines Nike, not only in production as detailed above. Its operation spans across 170 countries and divides operations in four regions (see figure 4).

**Figure 4 - Nike's revenue breakdown**

<sup>1</sup> <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/nike-levels-up-digital-game-in-wake-of-coronavirus-hit-59265634>

<sup>2</sup> <https://www.forbes.com/sites/pamdanziger/2018/12/01/nikes-new-consumer-experience-distribution-strategy-hits-the-ground-running/?sh=20139600f1d0>

<sup>3</sup> <https://www.businessinsider.com/nike-new-ceo-choice-digital-strategy-warning-retailers-2019-10?r=US&IR=T>

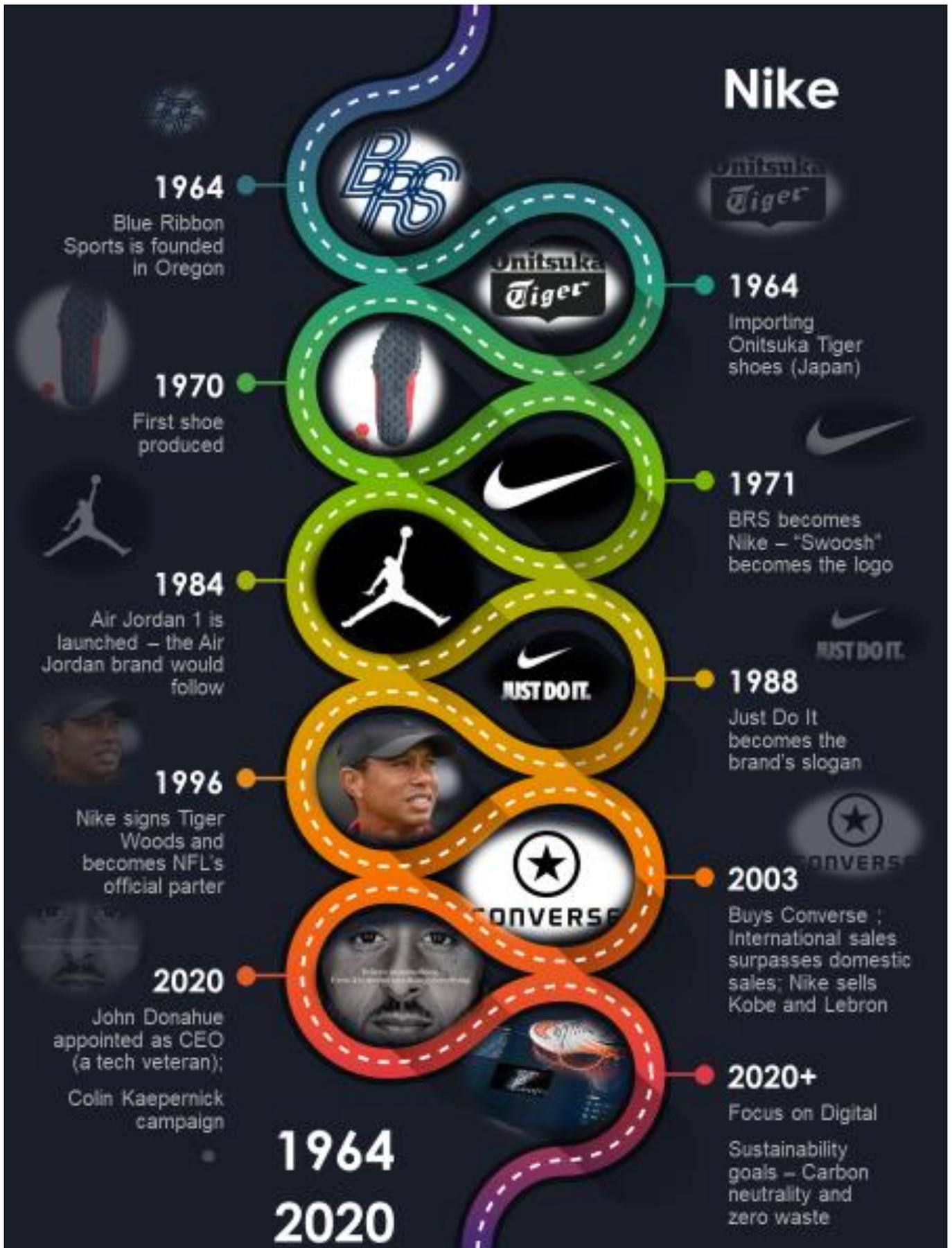
<sup>4</sup> <https://www.sneakerfreaker.com/news/nikes-carbon-infused-vaporfly-wont-be-banned-by-world-athletics>

<sup>5</sup> <https://www.nike.com/sustainability>

<sup>6</sup> <https://news.nike.com/news/sustainable-innovation>

<sup>7</sup> [https://s1.q4cdn.com/806093406/files/doc\\_financials/2020/ar/NKE-FY20-Proxy.pdf](https://s1.q4cdn.com/806093406/files/doc_financials/2020/ar/NKE-FY20-Proxy.pdf)

<sup>8</sup> <http://manufacturingmap.nikeinc.com/>



# 3 Strategic Analysis



In analysing what may impact the company's business we need to understand how Nike can withstand pressure from various sources – both those impacting the economy in a broader sense (Macro) and those relevant to the business Nike operates in (Micro). In this section we comment on how the context the company operates under is likely to impact its performance – identifying threats and opportunities pertaining to such context and thus informing what strategic decision may be most relevant for the company's growth going forward (these strategic aspects are explored further along this document).

## 3.1 Macro Environment Analysis

Below we analyse political, economic, social, technological, environmental and legal factors which impact the market– we first highlight those we summarised those factors within the tables below and subsequently you'll find a brief description of the most impactful aspects out of each of the PESTEL components. Additional detail can be found on appendix #8.

### 3.1.1 Political

Political		
Trends	Demand	Supply
US-China trade	— Possible impact on price	— Tariffs on goods
Ad campaigns	+ / — Passionate reaction from public, driving more (or less) demand	
Lobbying	+ Impact decision makers (eg trade policies)	
Tax rates		— Likely increase in corporate taxation + variation across regions

Growing **political tension** between Eastern Asian countries and the US may prove a challenge not only to this industry – the nuance here may be how heavily the industry relies on said countries which provide the bulk of the supply for the company’s main markets. Tariffs and additional scrutiny no doubt put the company’s position (and margins!) in jeopardy and increase uncertainty on results in the medium term.

The main markets for Sports apparel enjoy a significant level of political stability, including China with the political stability index steadily increasing since 2010<sup>1</sup>. Some of these markets have undertaken efforts in relation to physical activity which may have positive effect on business, these includes tax related incentives for physical activity / Gym memberships<sup>2 3 4</sup>.

### 3.1.2 Economic

Economic		
Trends	Demand	Supply
CoronaVirus	Less purchase power	Impact on margins and cost
Potential stimulus packages	May ease the impact of Covid	Access to “cheaper” capital if needed
Emerging markets	Growth opportunity	
Dependency on cheaper labour (eg Asia) <sup>5</sup>		Potentially stricter labor laws
Counterfeit products	Cheaper alternatives	Additional Cost in protecting intellectual property

<sup>1</sup> [https://www.researchgate.net/profile/Hussain\\_Alsaffar/publication/343689499\\_Marketing\\_and\\_Services\\_Management\\_Nike's\\_Marketing\\_Mix\\_and\\_PESTEL\\_analysis\\_in\\_China/links/5f39f5c7299bf13404cb1e5e/Marketing-and-Services-Management-Nikes-Marketing-Mix-and-PESTEL-analysis-in-China.pdf](https://www.researchgate.net/profile/Hussain_Alsaffar/publication/343689499_Marketing_and_Services_Management_Nike's_Marketing_Mix_and_PESTEL_analysis_in_China/links/5f39f5c7299bf13404cb1e5e/Marketing-and-Services-Management-Nikes-Marketing-Mix-and-PESTEL-analysis-in-China.pdf)  
<sup>2</sup> <https://www.gov.uk/guidance/fitness-at-work>  
<sup>3</sup> <https://www.sabado.pt/dinheiro/detalhe/empresas-podem-deduzir-gastos-com-ginasio-dos-trabalhadores>  
<sup>4</sup> <https://www.civilized.life/articles/government-give-money-go-to-gym/>  
<sup>5</sup> <http://manufacturingmap.nikeinc.com/#>

The **pandemic** we are living through in 2020 will no doubt have lasting impact on economic growth – various studies predict a lasting effect<sup>1</sup> on GDP growth and unemployment alike. McKinsey & CO’s scenarios<sup>2</sup> predict the most likely outcome is a sharp downturn followed by a slow recovery, fueled by stimulus packages to control the reduction in consumption as well as the number of businesses failing.

Most likely scenario for COVID-19's impact on domestic GDP, % of respondents

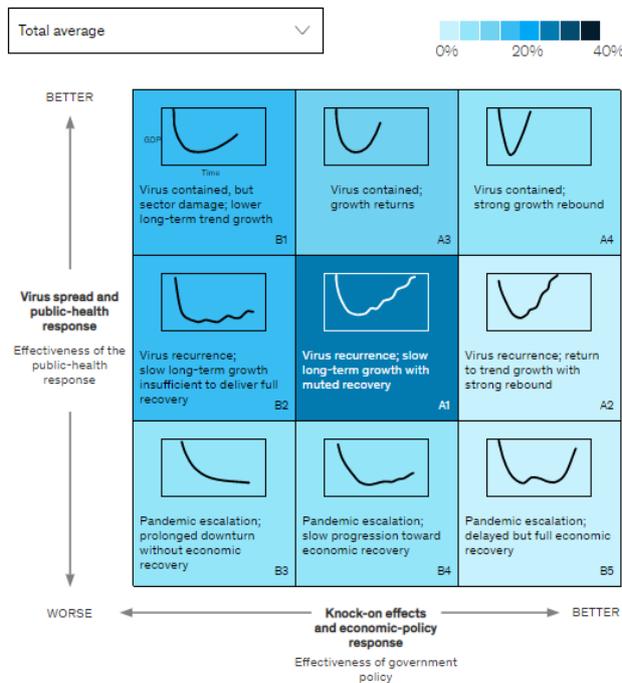


Figure 5 - Mckinsey & CO average scenarios for Covid recovery

Governments started to prepare measures to counteract the economic downturn, these come in various forms, from liquidity injections to tax breaks and credit lines across a myriad of countries<sup>3</sup> - such **stimulus** will provide opportunity for investment which may be harnessed to strengthen grip on specific markets. Emerging markets in both Europe and Asia/Pacific remain the main growth opportunities<sup>4</sup> whereas elsewhere (eg US / other EU countries) growth has been <5% in the last few years. Competition in these markets is fierce with some brands (eg Asics) representing a larger market share in Asia and others (eg Puma) showing promise, thus putting pressure on leading brands’ operations and margins and enticing investments in marketing and sponsorship initiatives.

A significant proportion of the apparel industry (eg 60% of Under Armour’s and Adidas’ production comes from China) is produced in Asia/Pacific countries (with another significant proportion produced in South America and Africa). This trend began as a measure to control costs and increase margins, but such dependency puts companies at risk of changes in labor terms via legislation or increasing purchasing power which will stem expectation for higher wages. Brands (particularly strongly recognized brands) are often the target of **counterfeits** – a trend that is rising and mostly originating from Asia<sup>5</sup>.

<sup>1</sup> <https://www.ft.com/content/3c2e524f-d1ea-4b02-9e71-e1634b316f99>

<sup>2</sup> <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/nine-scenarios-for-the-covid-19-economy>

<sup>3</sup> [https://www.ey.com/en\\_gl/tax/how-covid-19-is-causing-governments-to-adopt-economic-stimulus--](https://www.ey.com/en_gl/tax/how-covid-19-is-causing-governments-to-adopt-economic-stimulus--)

<sup>4</sup> <https://www.mckinsey.com/~/media/mckinsey/industries/retail/our%20insights/the%20state%20of%20fashion%202020%20navigating%20uncertainty/the-state-of-fashion-2020-final.ashx>

<sup>5</sup> <https://www.ft.com/content/b3b59512-497e-11e9-8b7f-d49067e0f50d>

### 3.1.3 Social

Social		
Trends	Demand	Supply
Health awareness	+ Concern with fitness	
Athleisure <sup>1</sup>	+ Sportswear + casual wear	
Demographics (ageing population)	- Sportswear's target is younger	- Potential impact on margins
Labor practices	+/- Highly dependent on both practices and perception	+/- Impact on margin (less / additional cost)
Purchasing power in developing countries	+ Increased customer base	- Possible impact on wages
Celebrity culture	+ Potential to leverage this by securing endorsement / sponsorships	
Woman & Kids segment	+ Emerging trend	

**Health and fitness are emerging trends** in the last decade, with the fitness industry still showing healthy growth<sup>2</sup>. Sportswear brands stand to gain by aligning interests with fitness clubs as well as expanding online offerings – to this point and as seen in appendix 8 the market for tech-based offerings in the fitness space (eg apps) is growing.

Sportswear brands tend to target young adults, **a population that is dwindling in Western countries.**

<sup>1</sup> [https://link.springer.com/chapter/10.1057/978-1-137-52349-5\\_4](https://link.springer.com/chapter/10.1057/978-1-137-52349-5_4)

<sup>2</sup> <https://www2.deloitte.com/content/dam/Deloitte/es/Documents/acerca-de-deloitte/Deloitte-ES-TMT-European-Health-Fitness-Market-2019.pdf>

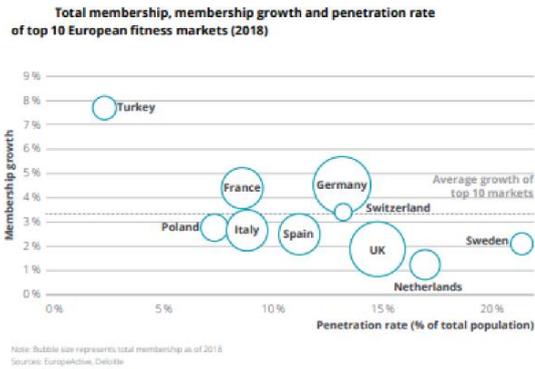


Figure 6 - Growth rate of Europe's largest fitness markets

Different trends are emerging which may prove fruitful for companies willing to target different segments – one we will expand on later in this report is Women&Kids., a segment once overlooked but no longer given it is now amongst those returning larger growth rates <sup>1</sup>. Investments on these segments include not only different marketing practices but also targeting alternate endorsement deals including for top female athletes. Brands (such as Lululemon) already position themselves as preferential providers for these segments.

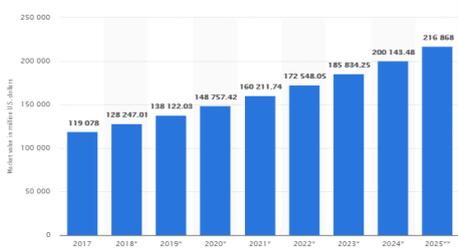
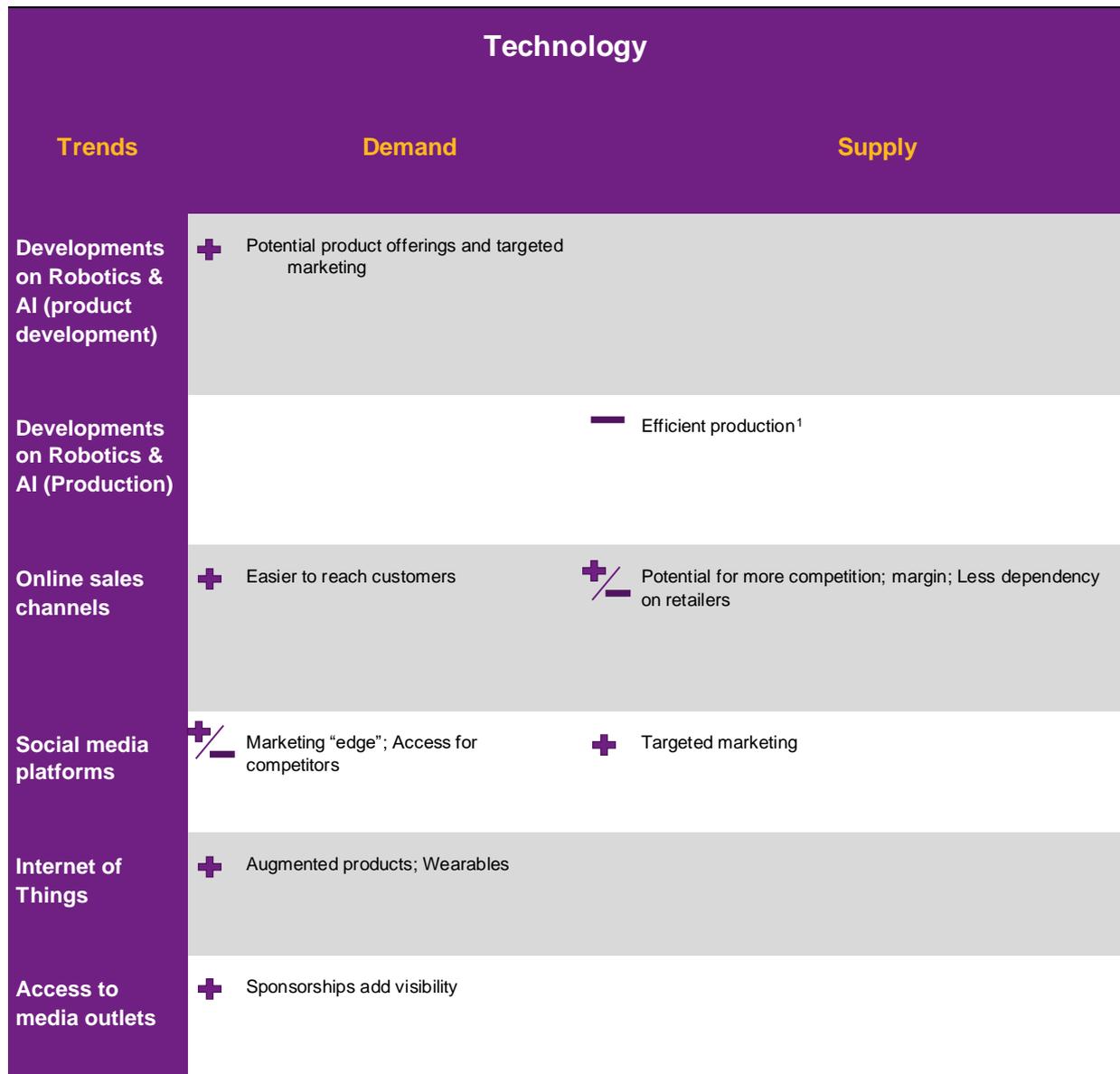


Figure 7 - Growth in women's sportswear

<sup>1</sup> <https://www.drapersonline.com/insight/analysis/where-kidswear-is-showing-growth-spurts>

### 3.1.4 Technology



<sup>1</sup> <https://www.ft.com/content/585866fc-a841-11e7-ab55-27219df83c97>

The move to **online sales** as one of the main channels is a reality and one that was likely accelerated by the Covid pandemic<sup>1</sup>. Reaching clients directly online not only provides an easier channel but also has a positive impact on margin by removing the middleman – one may also say that this trend comes with potential costs to build IT infrastructures that are both robust and reliable. Competitors

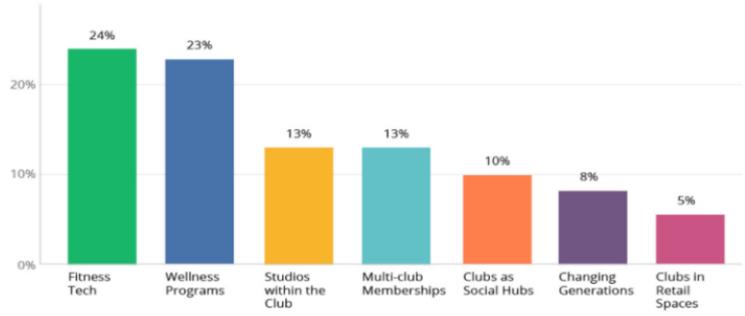


Figure 8 - Top trends in fitness industry

also have access to that ease in accessing a customer base that does not need to be generated by foot traffic. Such a move to the online channel also improves the sportswear company’s **bargaining position with retailers** who were historically their premier distribution channel – this may prove to have a beneficial impact on margins.

Estimates correspond to monthly active users (MAUs). Facebook, for example, measures MAUs as users that have logged in during the past 30 days. See source for more details.

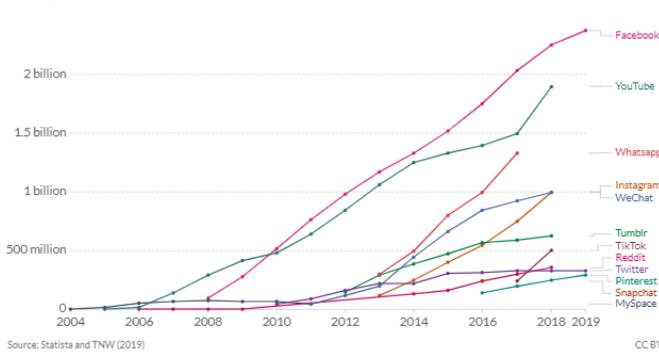


Figure 9 - Number of Social Media users

Over the past decade the number of **social media** users skyrocketed which resulted in a growing interest in those platforms as marketing tools – instant access to information becomes a powerful and dynamic instrument to influence buying behavior. Astute organizations will leverage their marketing prowess to create viral campaigns – a tool that is available to global and small organizations alike. Companies may also use targeted marketing to pinpoint their efforts directly to the public they are interested in, thus driving additional demand.

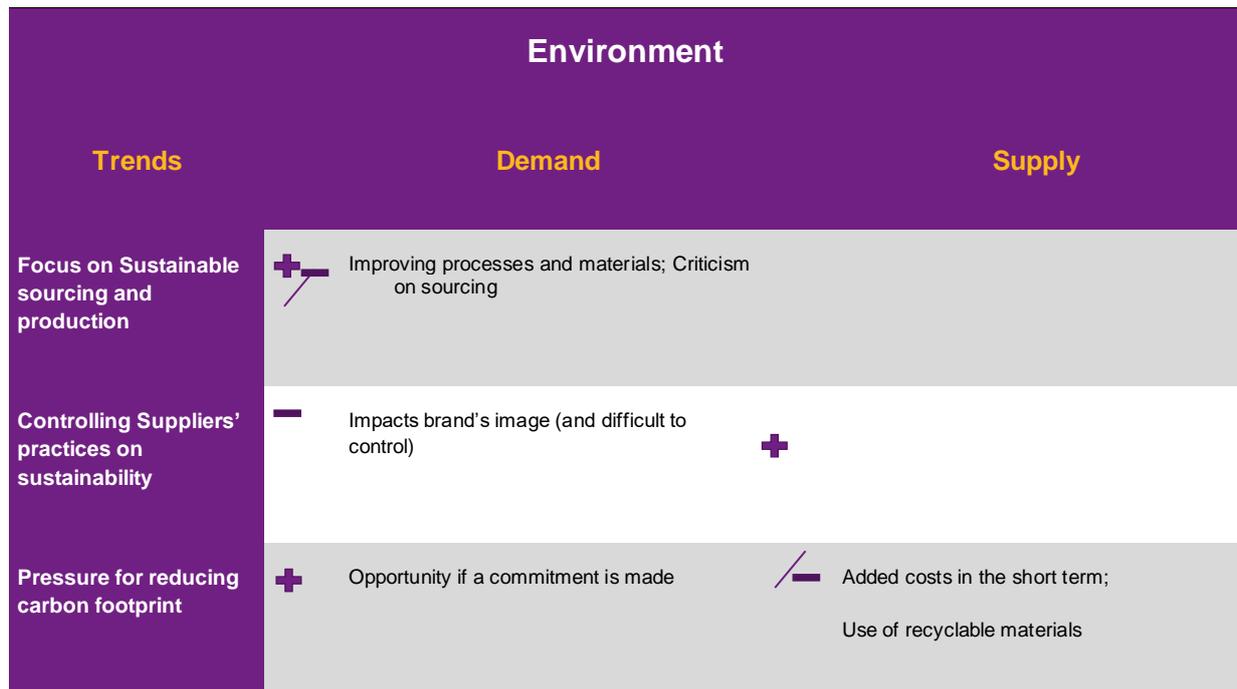
**Sensors, integration with apps and augmented reality** are all trends that present interesting opportunity when related with sports performance and sports apparel – companies are spending to the tune of hundreds of millions of dollars on R&D<sup>2</sup>, racing to find what sort of augmented product may lead to a surge in sales.

<sup>1</sup> <https://www.bbc.co.uk/news/business-54244967>

<sup>2</sup> <https://www.statista.com/statistics/417949/global-randd-spending-of-the-adidas-group/>

<sup>3</sup> <https://digital.hbs.edu/platform-rctom/submission/nike-lapping-the-competition/>

### 3.1.5 Environment



Companies in this space own and outsource to massive production facilities and rely on a vast network of suppliers and sell to an age band that is increasingly more alert to materials, processes and sourcing – activities undertaken by sportswear companies which harm the environment are amongst those to avoid most vehemently. Consumers and investors<sup>1</sup> alike are pressing companies to make strides toward carbon neutrality and implementing sustainable development goals – these may include analyzing **processes**<sup>2</sup>, **materials** and **sourcing**.

Companies openly share their **sustainability goals**<sup>3</sup>, publicizing commitment to these sometimes-challenging goals. Given this common practice, not doing so may prove costly.

The commitment to SDGs comes with added cost at least in the short term as production may need to see changes implemented and additional controls considered.

<sup>1</sup> <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

<sup>2</sup> [https://www.adidas-group.com/media/filer\\_public/4c/b0/4cb0904a-ce94-48dd-bd49-6b3676598a0e/adidas\\_group\\_sustainability\\_strategy\\_2020\\_goals\\_and\\_ambitions\\_eng.pdf](https://www.adidas-group.com/media/filer_public/4c/b0/4cb0904a-ce94-48dd-bd49-6b3676598a0e/adidas_group_sustainability_strategy_2020_goals_and_ambitions_eng.pdf)

<sup>3</sup> <https://report.adidas-group.com/2019/en/group-management-report-our-company/sustainability/our-approach.html>

### 3.1.6 Legal



Companies as large as some of those which comprise the sportswear market are prone to scrutiny from anti-trust legislation – regardless it is tax, trade and labor law that pose the most relevant risks. **Tax regulation** and taking steps to navigate tax law in a way that minimizes tax payments may be problematic both in terms of the public’s perception and the hefty fines that come with being caught<sup>3</sup>.

The cost of lawsuits in addition to the public perception of having claims of **discriminatory practices** are two items no company wants to be linked with – notwithstanding these are factors to take into account and risks to mitigate with good practice, robust processes and a comprehensive and broadly adopted code of conduct. There have been news of such practices creeping in a few of these companies<sup>4 5 6</sup>.

<sup>1</sup> <https://www.icij.org/investigations/paradise-papers/nike-could-owe-billions-in-back-tax-if-new-eu-probe-finds-against-it/>

<sup>2</sup> <https://www.business-humanrights.org/en/latest-news/nike-hit-with-lawsuit-from-four-women-who-allege-gender-discrimination/>

<sup>3</sup> <https://www.icij.org/investigations/paradise-papers/nike-could-owe-billions-in-back-tax-if-new-eu-probe-finds-against-it/>

<sup>4</sup> <https://www.business-humanrights.org/en/latest-news/nike-hit-with-lawsuit-from-four-women-who-allege-gender-discrimination/>

<sup>5</sup> <https://www.businessinsider.com/adidas-employees-call-out-lack-of-diversity-discrimination-portland-hq-2019-6?r=US&IR=T>

<sup>6</sup> <https://qz.com/1875546/adidas-hr-head-is-out-as-internal-uproar-on-discrimination-continues/>

## 3.2 Micro Environment Analysis

### 3.2.1 Industry

The sports industry is segmented into three main business segments, such as sports Footwear, Apparel and Equipment.

- **Sports Footwear:** The global sports footwear market in 2019 generated around 52 billion U.S. dollars in revenue in 2019, an increase of more than 2,5 billion U.S. dollars on the previous year. Rising revenues are forecast to continue and estimated to reach around 69 billion U.S. dollars in 2025.

(<https://www-statista-com.eu1.proxy.openathens.net/statistics/412671/global-sports-footwear-market-projected-development/>).

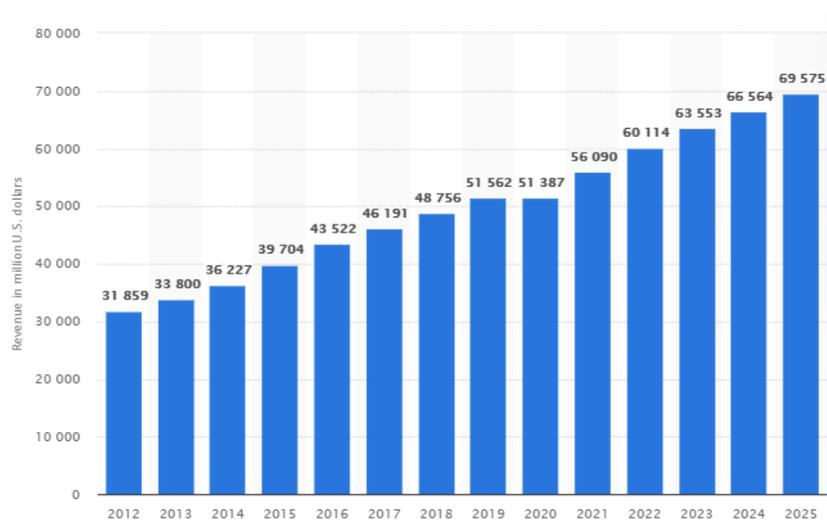


Figure 10 - growth of sports footwear market

- **Sports Apparel:** The global sports apparel market generated around 181 billion U.S. dollars in revenue in 2019, an increase of more than 7 billion U.S. dollars on the previous year. Rising revenues are forecast to continue and estimated to reach around 208 billion U.S. dollars in 2025.

(<https://www-statista-com.eu1.proxy.openathens.net/statistics/254489/total-revenue-of-the-global-sports-apparel-market/>)

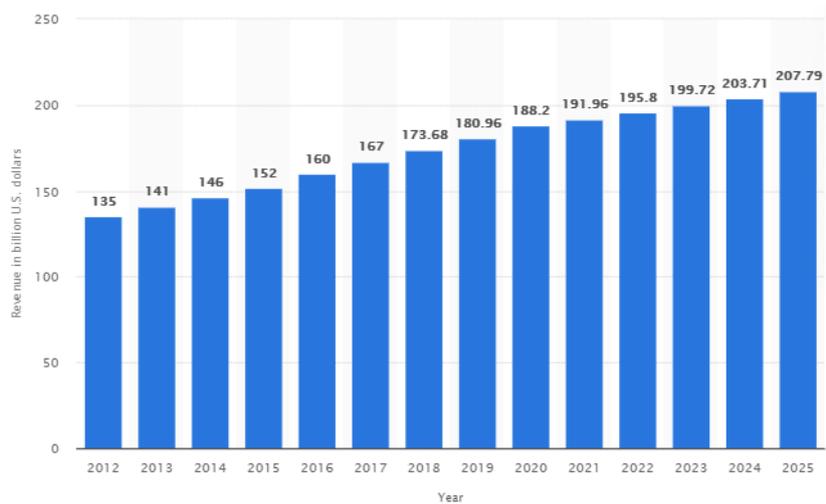


Figure 11 - Growth of sports apparel market

- Sports Equipment:** The global sports equipment market generated around 126 billion U.S. dollars in revenue in 2019, an increase of more than 6 billion U.S. dollars on the previous year. Rising revenues are forecast to continue and estimated to reach around 148 billion U.S. dollars in 2023.

(<https://www-statista-com.eu1.proxy.openathens.net/statistics/1000592/sports-equipment-market-size-worldwide/>).

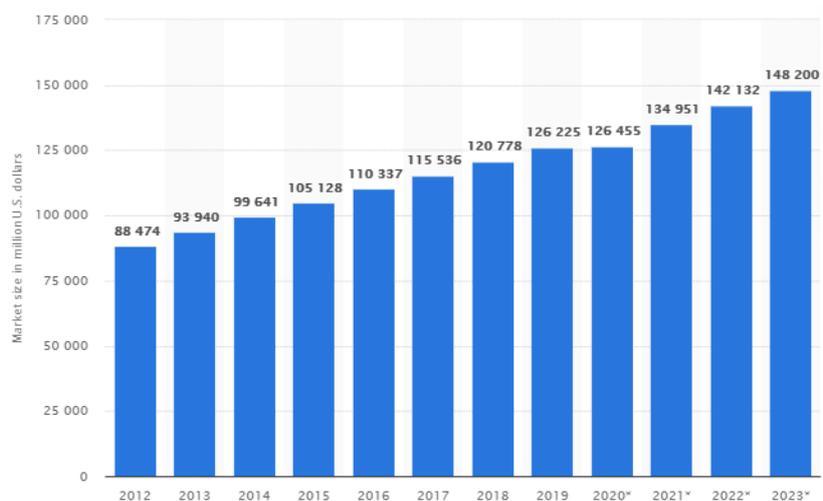


Figure 12 - Growth of sports equipment market

### 3.2.1.1 Industry Lifecycle

Sports footwear, apparel and equipment is growing and is expected to continue growing in the coming years. Even in some countries (United States) the growth may decelerate in the

mid / long-term as the industry enters the mature phase of the life cycle, it is also true that same regions and market segments are expected to grow (Regions: Asia-Pacific and Africa | Market Segments: Women and Kids).

Footwear, apparel and equipment achieved a global revenue of \$358.7 billion in 2019, which represents a compound annual growth rate of 5% between 2012 and 2019. The overall sector's growth rate is expected to slow down to 3.5% annually between 2019 and 2023, which would bring the revenues to \$411.5 billion by the end of 2023. Is important to have in mind that this analysis and forecast was assessed before Covid-19, which can lead to a considerable impact in 2020 and 2021.

A regional analysis provides a clearer picture of the industry's life cycle. Indeed, sports footwear, apparel and equipment have historically been stronger in the United States essentially because of the number of costumers and higher disposable incomes. In US, it can be argued that the industry is maturing, as the growth comes from the frequency of transactions rather than penetration, but on the other hand, the Asia-Pacific region and China in particular is growing. Asia-Pacific and China still have space to grow, both in transaction frequency and market penetration.

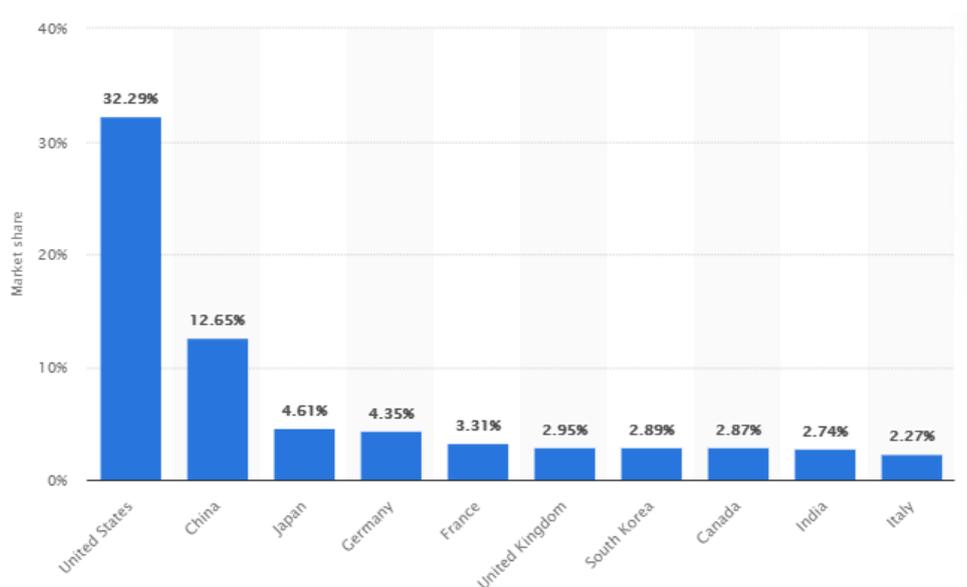


Figure 13 - Sports footwear, apparel and equipment market share worldwide in 2018

### 3.1.1 Porter's 5 Forces Model

In order to assess industry margins return we used the fiver forces modes, a qualitative assessment following Porter's 5 Forces framework has been performed with the application of a scoring model.

The results of the qualitative assessment are presented below but it is important to have in consideration that **Apparel** segment embraces more challenges than **Footwear** and **Equipment**, which is very clear through Port's 5 forces analysis.

■ **Threat of New Entrants:**

Top three external factors that contribute to the weak threat of new entrants in this industry:

- High industry capital requirement (cost of brand development / endorsement deals)
- High economies of scale
- High switching costs in the industry

The high cost of brand development makes it difficult for new entrants to succeed in competing against large firms, competing in an industry with some of the strongest brand names in the world (strong brand loyalty). The high economies of scale provide existing companies with a competitive edge against new entrants, considering the company’s global production and distribution network for its athletic shoes, apparel and equipment. The high switching costs in the industry of doing business further limits new entrants’ ability to disrupt the industry environment. Based on this element of the Five Forces Analysis, the threat of new entry is a minor concern in this industry.

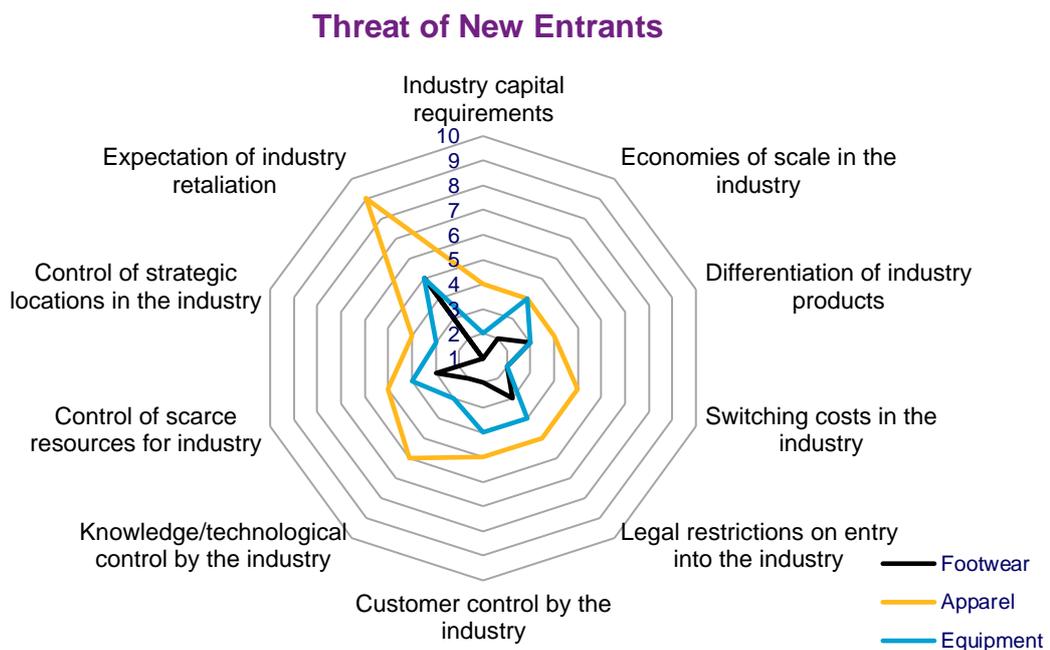


Figure 14 - Threat of Substitute Products

■ **Threat of Substitute Products**

Top three external factors that contribute to the moderate threat of products substitution (for the apparel segment a high threat of substitute products should be considered):

- Moderate number of substitutes in the industry
- Moderate performance per price of substitutes
- Low switching costs

The moderate availability of substitutes imposes a moderate force as customers have considerable alternatives to existing products. In relation, customers have a moderate likelihood of considering substitutes because of the moderate performance of substitutes compared to top brands on sports shoes, apparel and equipment. The low switching costs further add to that likelihood. Nonetheless, this element of the Five Forces Analysis shows that substitutes exert only a moderate force in this industry.

### Threat of Substitute Products

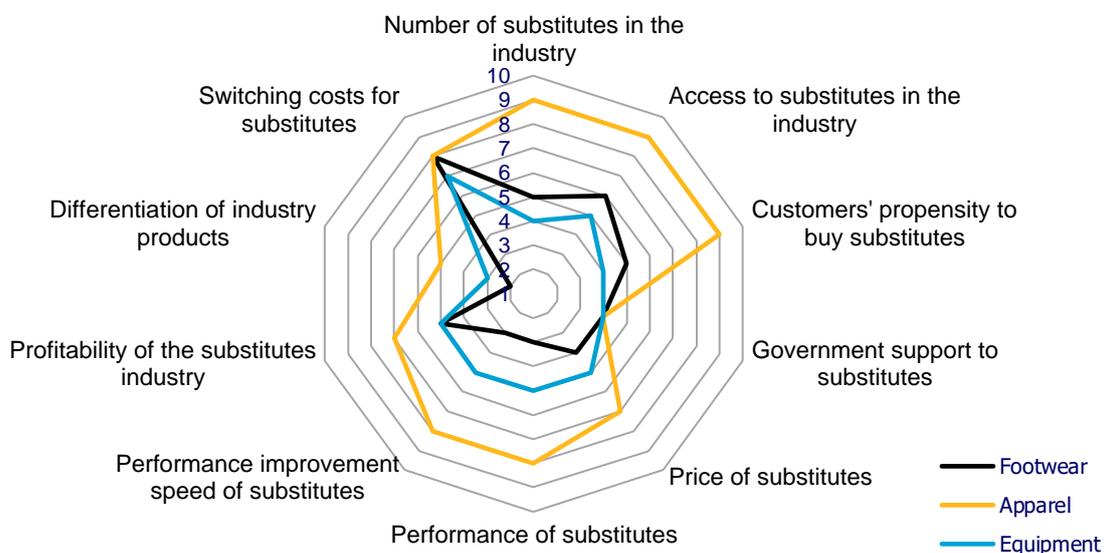


Figure 15 - Threat of Substitute Products

### ■ Bargaining Power of Suppliers

Top three external factors that contribute to the weak bargaining power of suppliers:

- High number of suppliers
- Moderate size of individual suppliers
- High industry weight in suppliers sales

The high large population of suppliers reduces the impact of individual suppliers' demands on large companies. The moderate size of individual suppliers supports a moderate degree of suppliers' influence. Nonetheless, this element of the Five Forces Analysis shows the industry experiences only a weak force representing the bargaining

power of suppliers. As such, suppliers are among the least significant concerns in the sports shoes, equipment and apparel industry environment.

### Bargaining Power of Suppliers

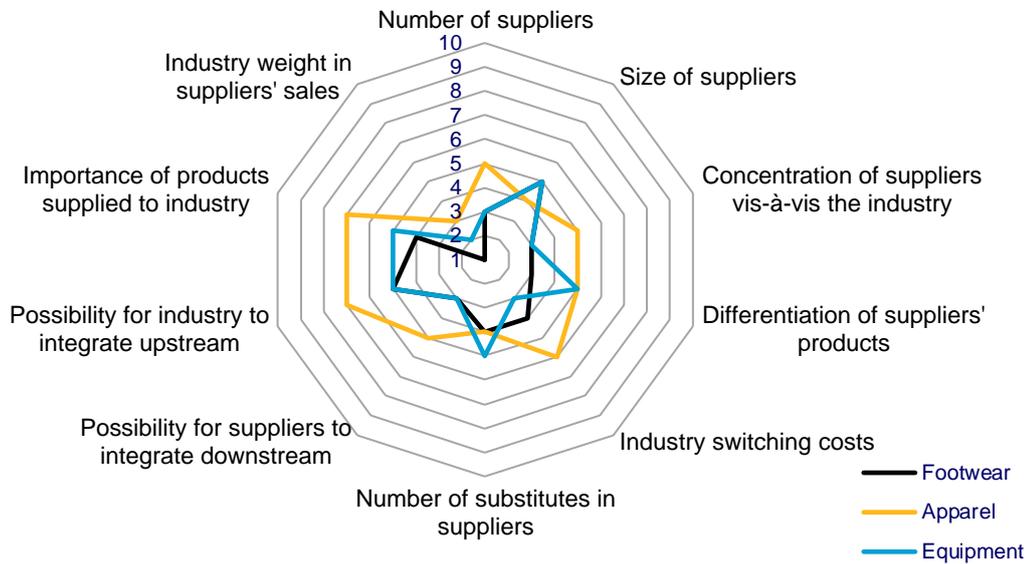


Figure 16 - Bargaining Power of Suppliers

### ■ Bargaining Power of Buyers

Top three external factors that contribute to the weak bargaining power of buyers:

- Low buyers switching costs
- Moderate number of substitutes in the industry
- Small size of individual buyers (each buyer usually represents a purchase of one unit – retail clients)

The low switching costs make it easy for customers to buy sports shoes other than those from a specific brand as well as the moderate availability of substitutes also enables customers to buy other products instead of always buying from the same brand. However, the small size of individual customers minimizes their individual forces being important to mention the important role of retailers for this industry. The moderate bargaining power of buyers shows that customers is a major consideration for any company present on the athletic footwear, apparel and equipment market.

### Bargaining Power of Buyers

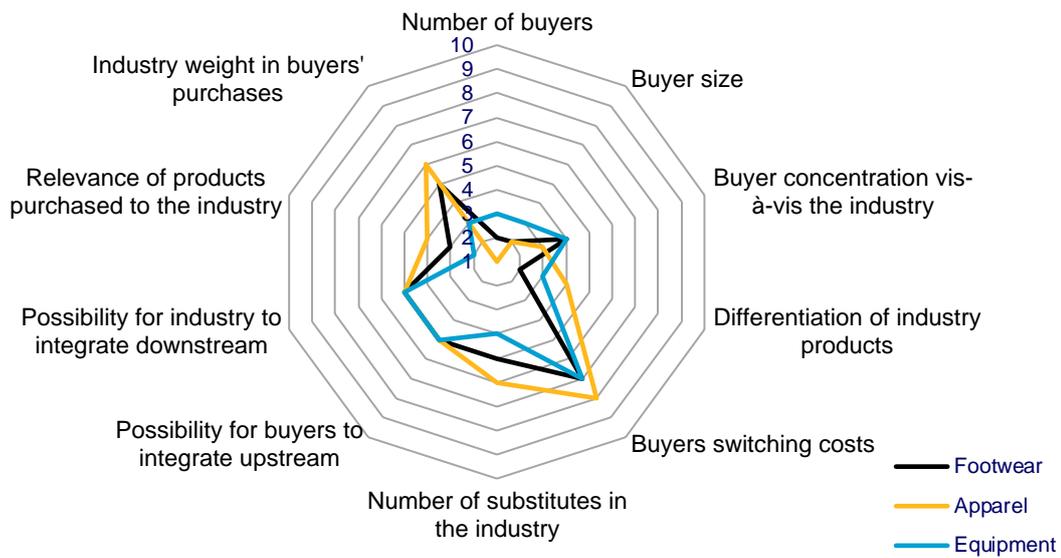


Figure 17 - Bargaining Power of Buyers

#### Rivalry Among Existing Competitors

Top three external factors that contribute to the average rivalry among existing competitors (for the apparel segment a high threat of rivalry among existing competitors should be considered):

- Moderate number of competitors in the industry
- Low industry sales growth
- Small benefits of cooperation between competitors

The number of competitors in the industry represents a higher level but is important to have in consideration that between 6 and 8 competitors represents the major market share. This factor aligned with the need to improve products in terms of technology and quality will imply in an high rivalry among comparable competitors.

### Rivalry among Existing Competitors

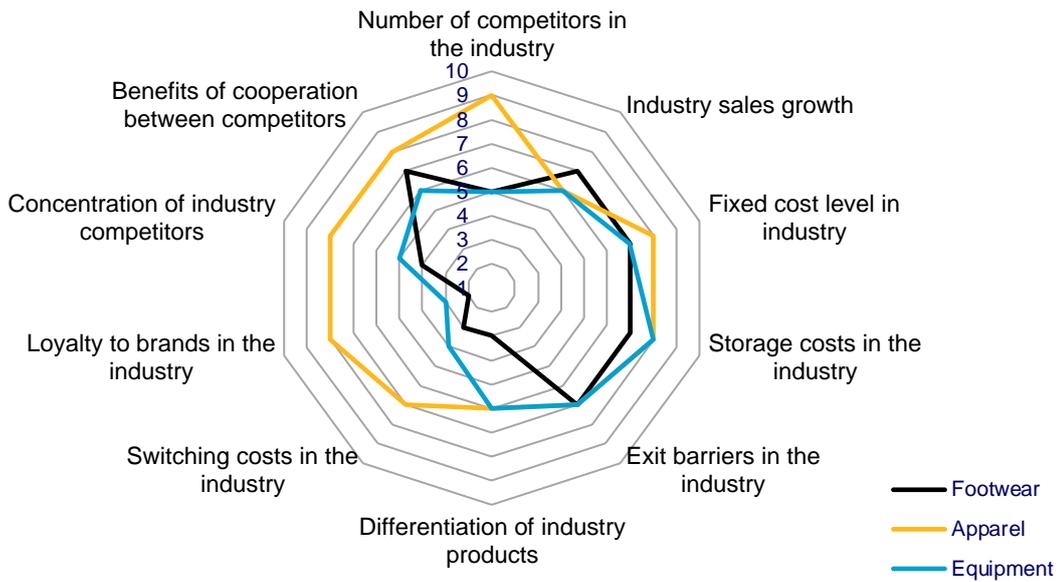


Figure 18 - Rivalry among Existing Competitors

### 3.2.2 Margin Analysis

From the results obtained on the Porter's 5 Forces it is possible to conclude that industry net margins are highest for footwear than apparel and equipment, but it is also true that the apparel segment reveals the tough industry competition and its fragmentation while footwear and equipment do not embrace the same challenges being pretty much aligned in terms of margins.

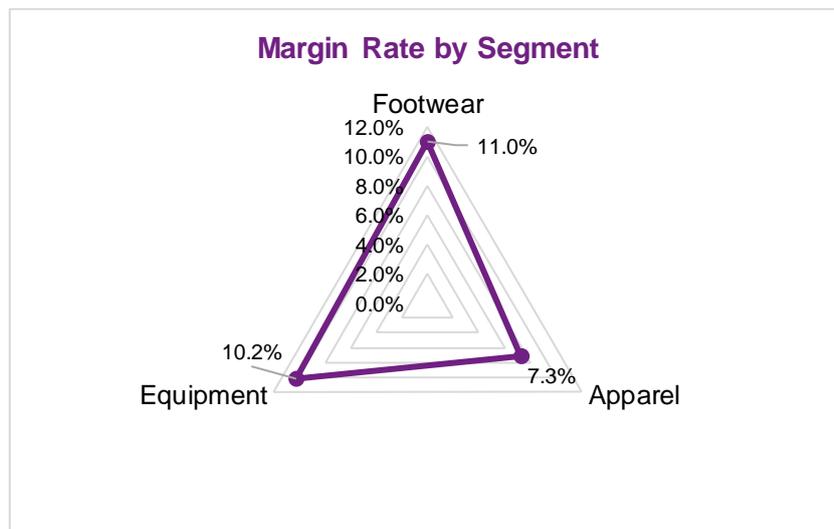


Figure 19 - Margin Rate by Segment

### Risk Evaluation

Sports Industry	Margin Rate by Segment	Net Income by Segment							Risk by Segment
		2019	2020	2021	2022	2023	2024	2025	
Footwear	10,93%	6	6	6	7	7	7	8	0,125
Apparel	7,37%	13	14	14	14	15	15	15	0,048
Equipment	10,21%	13	13	14	14	15	16	16	0,093

After the net income analysis we can easily calculate the risk per segment of the industry segments.

We can conclude that footwear is the segment with the higher risk, even though it is the one with higher margins, but with the lowest revenue stream. Still, the risk is very low in every segment,

### Sustainable Evaluation

Sports Industry	Environmental Sustainability		Social Sustainability		Governance Sustainability		Sustainability by Segment	Sustainability Index by Segment
	Ene.	Rec.	Qu.L.	Com.	Brib.	Div.		
Footwear	8	7	3	5	3	4	5,0	0,98
Apparel	8	8	3	5	3	4	5,2	1,01
Equipment	6	5	5	5	4	6	5,2	1,01

We assessed the sustainability index by segment on the industry, as one of the basis for the sustainable value calculations.

	Footwear	Apparel	Equipment
SL	51	188	126
G	5,54%	2,58%	3,98%
M	10,9%	7,4%	10,2%
R	8,77%	3,16%	6,44%
t	5	5	5
SU	0,98	1,01	1,01
SL Value =	81,41	502,97	245,43
Customers Value =	66,77	213,56	153,14
Shareholders Value =	1,25	2,33	1,59

By analyzing the results we conclude the apparel segment is the most attractive, even though it is the one with the lowest margins. Since it has the highest revenues, a positive growth and low risk, it is indeed the segment with more value for customers and shareholders. So, the conclusion is that this sustainability evaluation is a good complement for the 5 Forces analysis, because we explore other angles of the business, thus taking a more informed and assertive decision, and not looking only at net margins.

### 3.2.3 Industry Value Chain

The industry value chain analysis serves to understand the sequence of the various stages in an industry, from the production of a product to final consumption. The following depicts the value chain for the sports footwear, apparel and equipment industry.



### 3.2.4 Key Success Factors

The key success factors are elements that are defined by the market and critical for success in the market segment. To identify the key success factors an assessment of the key purchasing and competition factors needs to be done. Therefore, it is important to identify the critical factors that creates value for consumers (why consumers would purchase a certain product / service instead of others) and as well as the critical factors required to compete in the market (what differentiates each competitors and how do they compete between themselves). The following table presents the key success factors analysis by segments (footwear, apparel and equipment).

■ FOOTWEAR

Key Purchasing Factors	Key Competition Factors	Key Success Factors
Brand Image	Research & Development	Research & Development
Distribution and Stores	Property, Plant & Equipment	Brand Image
Fashion Design	Cost Efficiency	Fashion Design
Sustainability	-	Distribution and Stores

■ APPAREL

Key Purchasing Factors	Key Competition Factors	Key Success Factors
Distribution and Stores	Operations	Cost Efficiency
Community Based Marketing	Cost Efficiency	Community Based Marketing
Sustainability	Customer Service	Customer Service

■ EQUIPMENT

Key Purchasing Factors	Key Competition Factors	Key Success Factors
Distribution and Stores	Research & Development	Research & Development
Products Differentiation	Customer Service	Distribution and Stores
Sustainability	-	Customer Service

- **Brand Image:** In the sports footwear, apparel and equipment brand image is one of the most relevant success factors and this can only be achieved with product quality aligned with effective marketing campaigns. Investing in marketing activities will lead companies to increase their brand awareness that will also increase customer’s loyalty.
- **Community Based Marketing:** In the sports apparel segment it is relevant to have a strong digital ambassadors’ “network” in order to promote new products once for this

segment brand image is not so relevant for consumers in the moment to acquire a product.

- **Cost Efficiency:** Through Porter's 5 Forces analysis it was possible to detect an strong factor on the apparel segment with is the competition in this industry segment. This reflects in the net margins once apparel segment faces a much lower net margin than footwear and equipment, so in order to a company succeed it is crucial to have a great cost efficiency.
- **Fashion Design:** In an industry full of competitors, it implies that there is a varied offer of products where most of them do not present substantial differences between them. This is why for a company to be able to distinguish itself from the rest and therefore captivate the interest of customers, it needs to design unique products where fashion needs to empire.
- **Research & Development:** As the same way that fashion products need to be created, customers demands quality and innovation. Innovation applied through new designs for products is necessary. New technologies enhance the products and set them apart from the competition. In product development, these products remain attractive despite changing consumer preferences.
- **Distribution & Stores:** In order to achieve a strong market penetration and market share, companies need to invest in own stores for one side and is also important to established partnerships with distribution companies as well as retailers for the other side.

### 3.2.5 Customer Segmentation

Industry being analyzed includes three main segments:

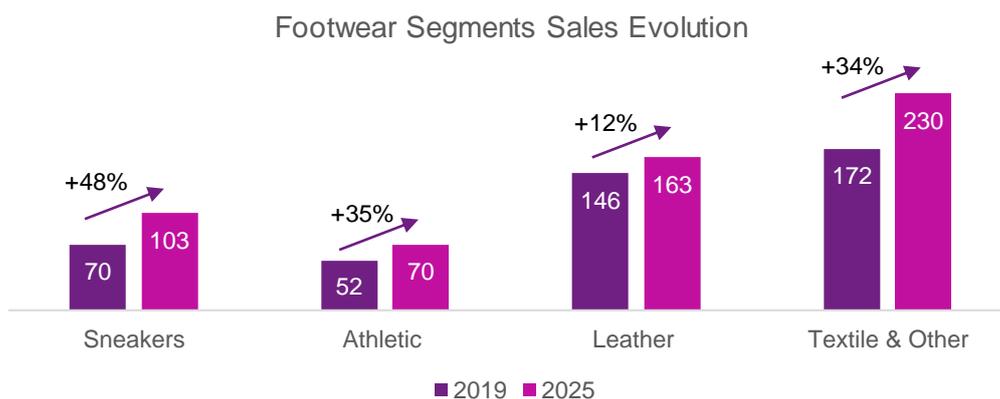
- Sports Footwear
- Sports Apparel
- Sports Equipment

#### 3.2.5.1 Sports footwear

Footwear can be characterized in four sub-segments:

Sneaker	Athletic Footwear	Leather Footwear	Textile & Other Footwear
			
Segment refer to "athleisure" footwear, currently used in everyday footwear, with athletic appearance. Segment favors fashion in detriment of functional features.	Segment refers to shoes designed for specific sports – football, golf, tennis, skateboard.	Segment includes urban footwear, boots, sandals and clogs with leather uppers for women, men and children. *Excludes work/safety shoes.	Segment includes everything else not fitting in the previous segments, from flip flops, rubber boots or wooden clogs.

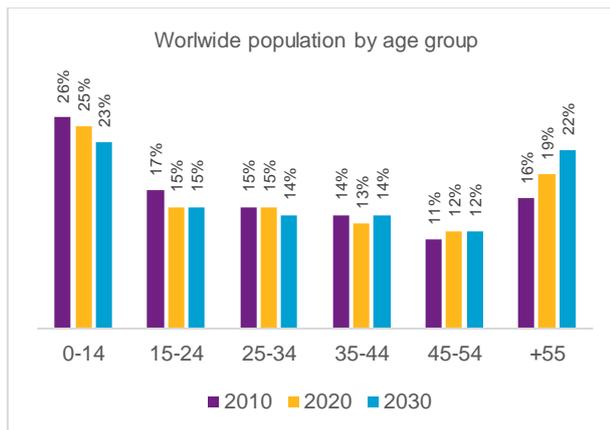
In 2019 global sales of Footwear totalized \$439 billion which are expected to grow to \$565 billion in 2025 despite a market reduction of 6% in 2020 due to Covid. In terms of sub-segment evolution, while only the third biggest one, Sneakers are to have the biggest growth.<sup>1</sup>



<sup>1</sup> Source: Statista Consumer Market Outlook 2020

Increased interest in Sneakers is mostly coming from the global trend of casualization – the usage of footwear traditionally associated with sports in day-to-day life.

In addition, the anticipated aging of the population over 55 years old in coming years associated with a desire to feel comfortable over fashionable leads also to look for casual footwear. Increase on the number of 55+ consumers and reduction of younger population may lead to a stabilization of the size of the market as elders consider footwear more a commodity than an image signal.



In opposition to the above, brand awareness is as stronger in footwear as in apparel (only surpassed by smartphones), a factor that drives the importance of marketing in this industry. Customers in the largest markets as China and USA are very sensible to social media, reason why influencers like bloggers, Youtubers, famous sports players or other celebrities play an important role in advertising a brand.

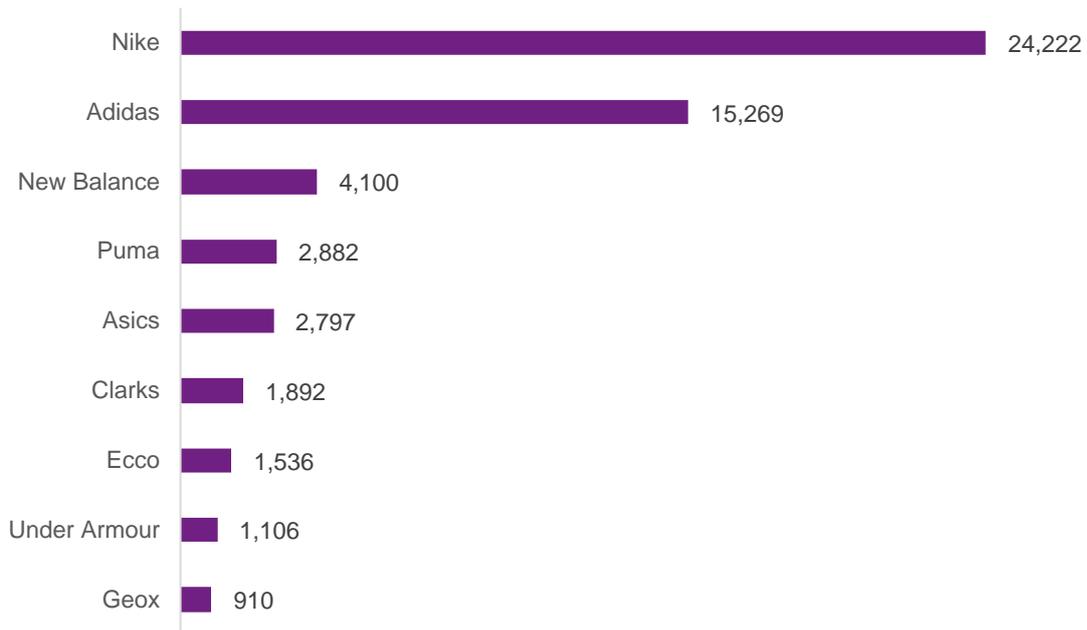
Consumers seek simultaneously low prices and premium luxury products. These two elements enable distinctive players with totally different positioning to co-exist in the market without overlapping each other. Mid-range players are the ones with difficulty to fit into one end of the other, being frequently squeezed.

Key Players

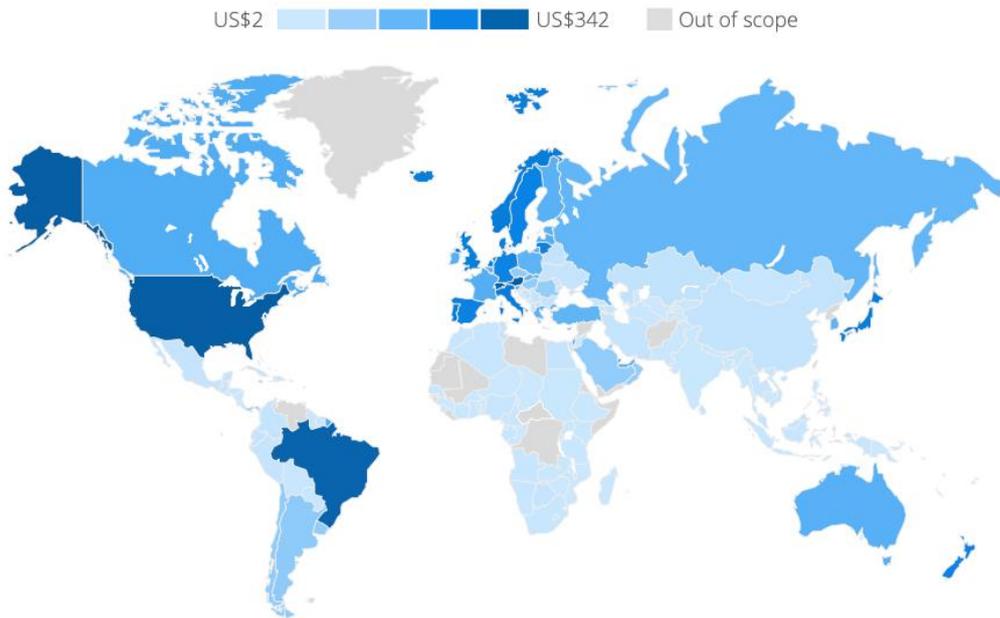
Company	NIKE	adidas	PUMA	asics
Sales' 2019	US\$24.2bn	US\$15.3bn	US\$2.9bn	US\$2.8bn
Key brands	 CONVERSE Hurley  NIKE Air Max	Reebok  adidas  Y-3		 HAGLÖFS  Onitsuka Tiger

While the sub-segments with higher revenues are quite fragmented, in the Athletic Footwear sub-segment the market is dominated by very strong players as shown below.

Footwear Revenue 2019 (or latest available fiscal year)  
USD million



Footwear Spending per Capita in 2019

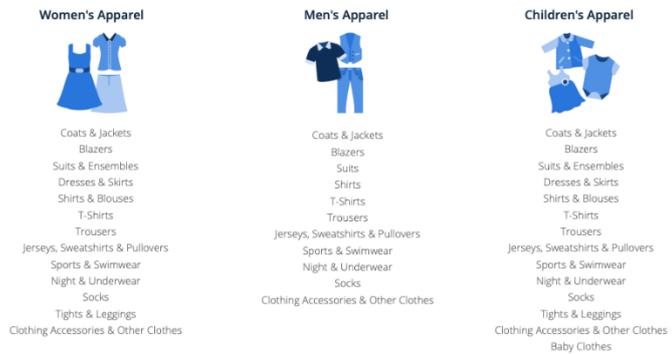


### 3.2.5.2 Sports Apparel

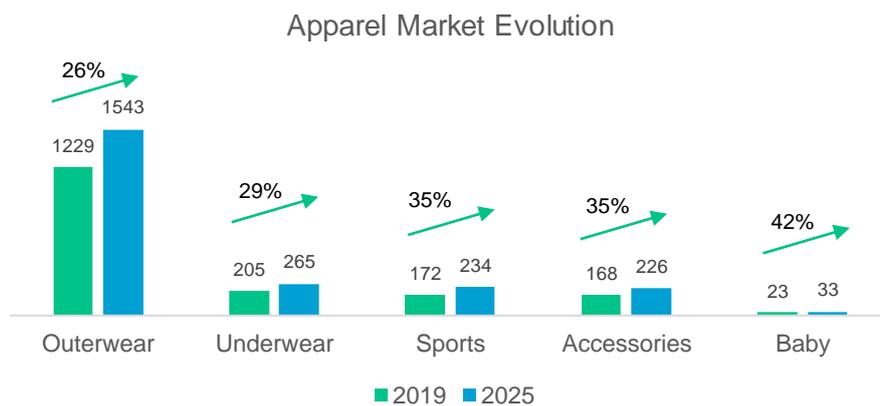
Sports Apparel is part of a larger market – Apparel. Apparel has three segments – Women’s, Men’s and Children, and sub-segments as shown below where Sports is included.<sup>1</sup>

The Apparel market is divided into three segments and 38 sub-segments

Overview: segments

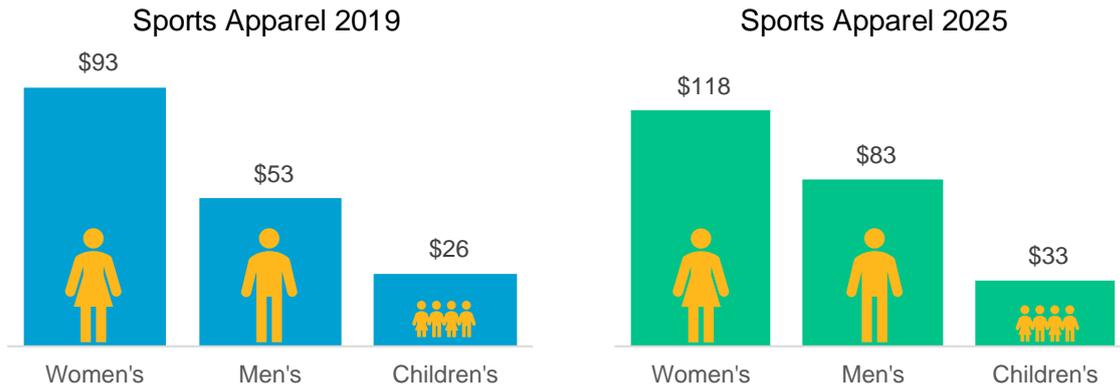


Apparel generated sales of \$1,800 billion in 2019 worldwide, and by 2025, market is expected to be \$2,300 billion, with a CAGR of 4.2%, which can be grouped as described below:



When analyzing the Sports only, it has been growing steadily since 2012, and market predicts a CAGR of 5.3%, the second highest, immediately after baby clothes.

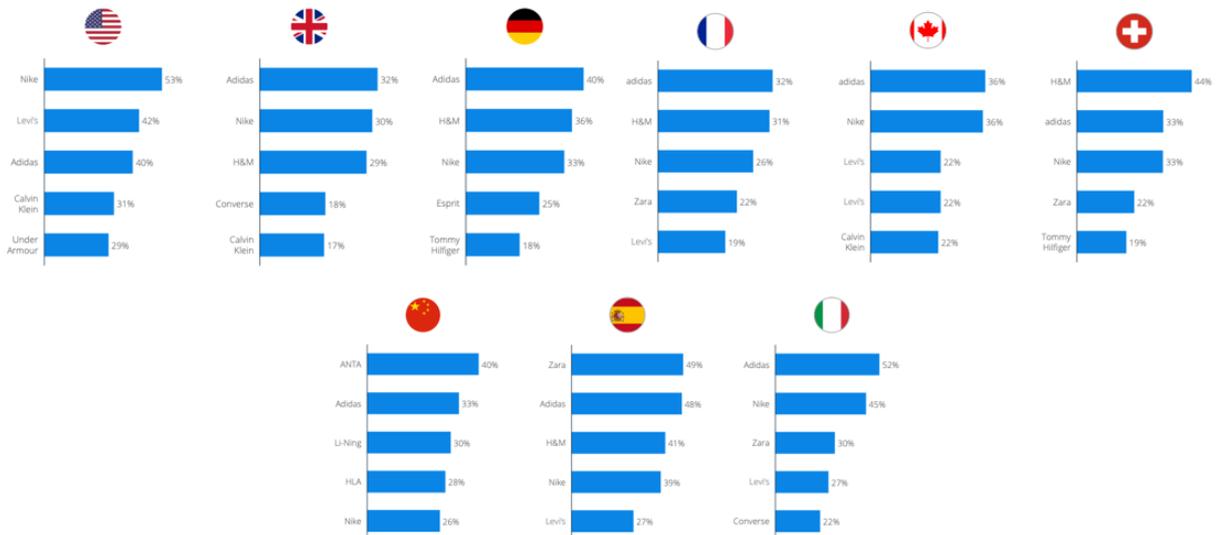
<sup>1</sup> Source: Statista Consumer Market Outlook 2020



**Brand Awareness**

Similar to Footwear apparel consumers' behavior is very much influenced by brand. Having understood the power of social media, many brands use influencers like Bloggers or Youtubers to increase awareness from customers, particularly with younger ones. In addition, surveys conducted in ten countries with largest consumption indicate that approximately 50% consumers are sensitive to low price, while about 35% were looking for luxury and premium goods.

The combination of demand for low price and luxury and premium products explains why brands such as Zara, H&M, Nike and adidas dispute the top preferences in several countries as shown in figure 20.



**Figure 20 - Top 5 brand per country for clothing, shoes and accessories**

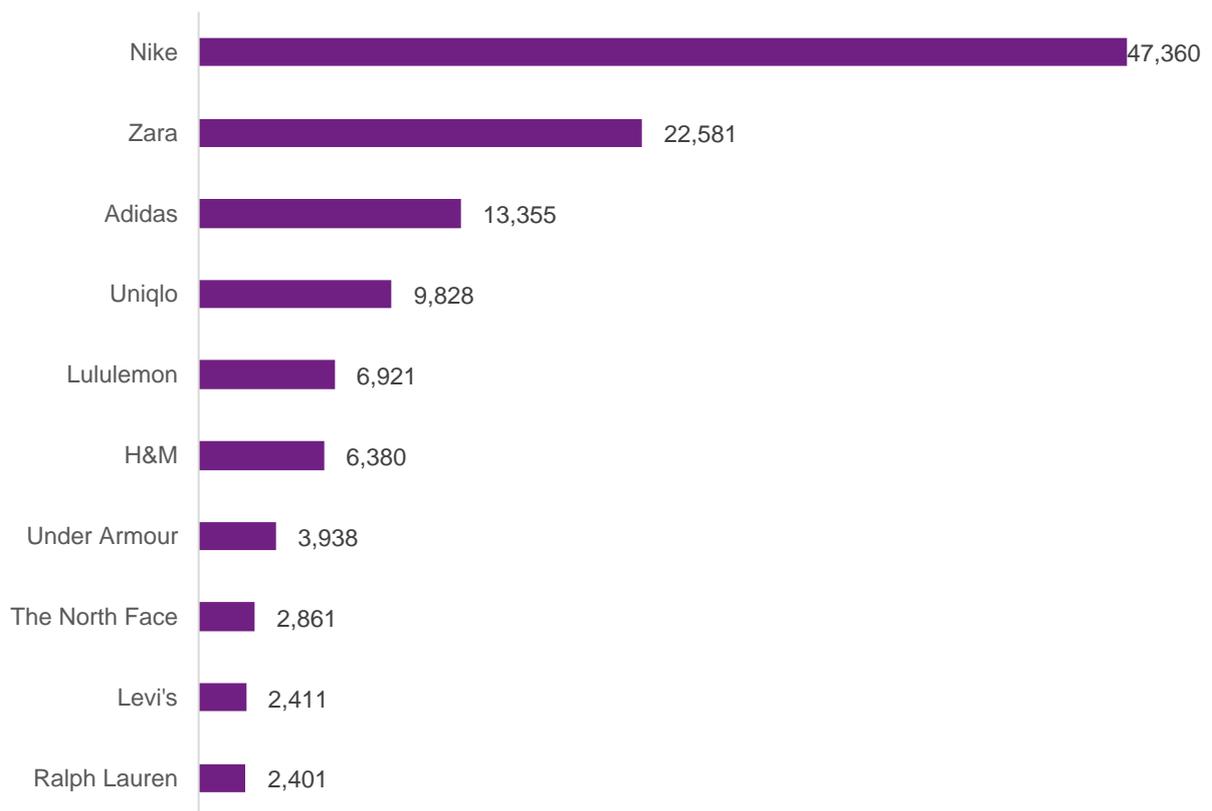
Key Players

Inditex is the leading fashion retailer worldwide with over than \$31.9 million sales in 2019, with 69% of its with Zara brand.

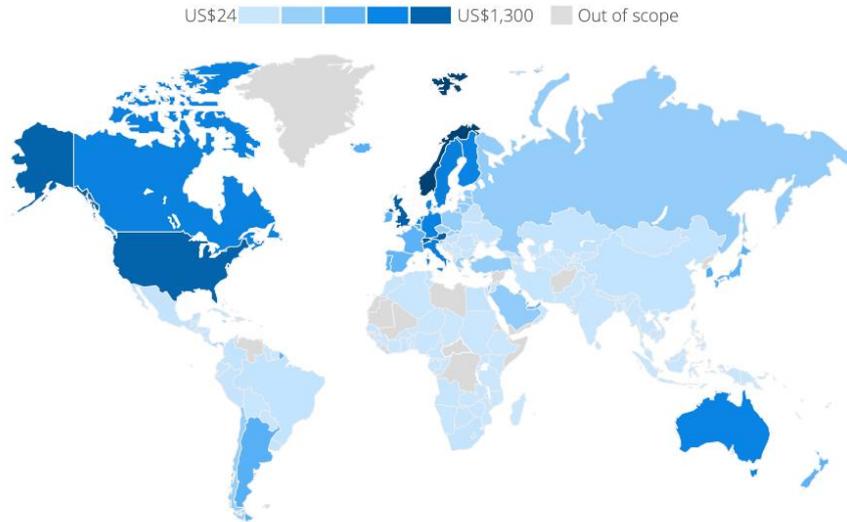
Company	INDITEX	H&M	FAST RETAILING	TJX
Sales <sup>1</sup> 2019	US\$31.9bn	US\$24.3bn	US\$20.0bn	US\$20.3bn <sup>2</sup>
Key brands	ZARA PULL&BEAR Massimo Dutti Bershka	WEEKDAY COS & OTHER STORIES MONKLE	UNIQLO theory GU COMPTOIR DES COTONNIERS	TJ-MAXX TK-MAXX Marshalls



In what concerns brand value in 2019 in million USD:

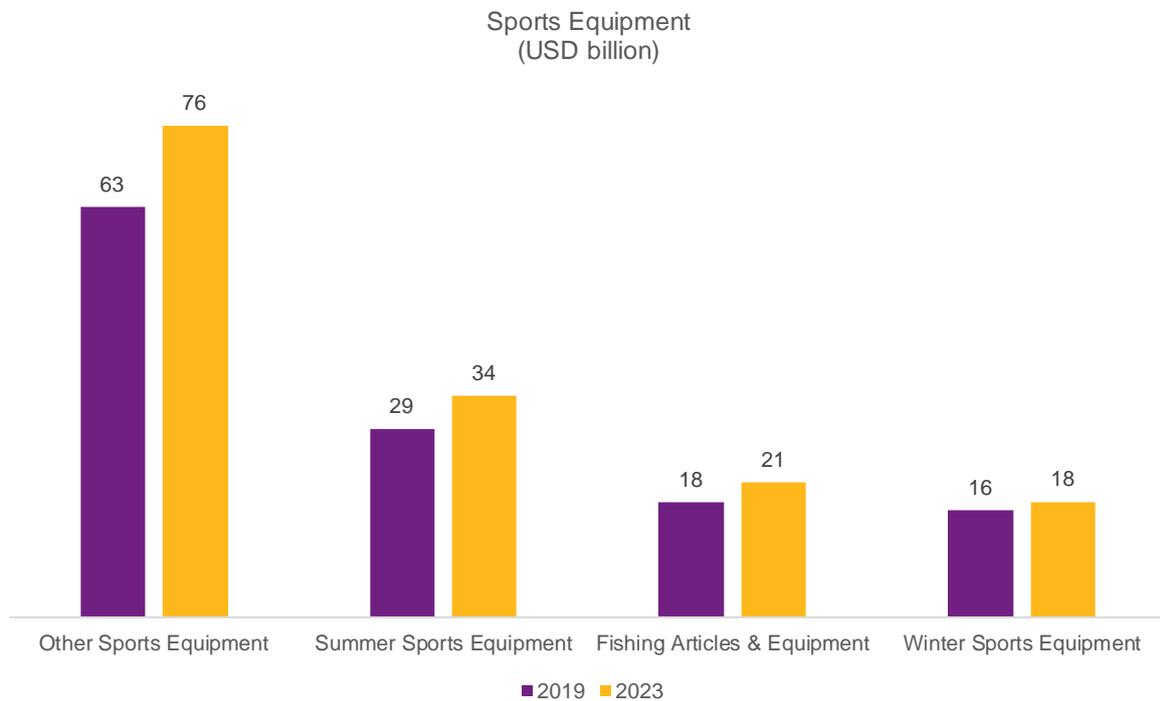


### Apparel Spending per Capita in 2019



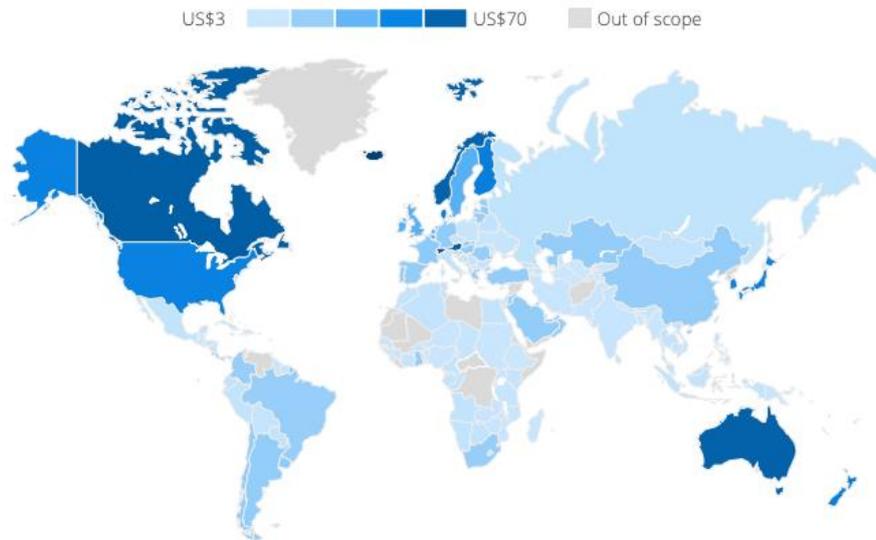
#### 3.2.5.3 Sports equipment

Sports equipment global spending accounted for \$126 billion in 2019 and are expected to achieve \$148 billion in 2023, maintaining a steady growth pattern since 2012, despite a slow-down in 2020 drive by Covid pandemic market retraction.<sup>1</sup>



<sup>1</sup> Source: Statista Consumer Market Outlook 2020

### Sales per Capital in 2019



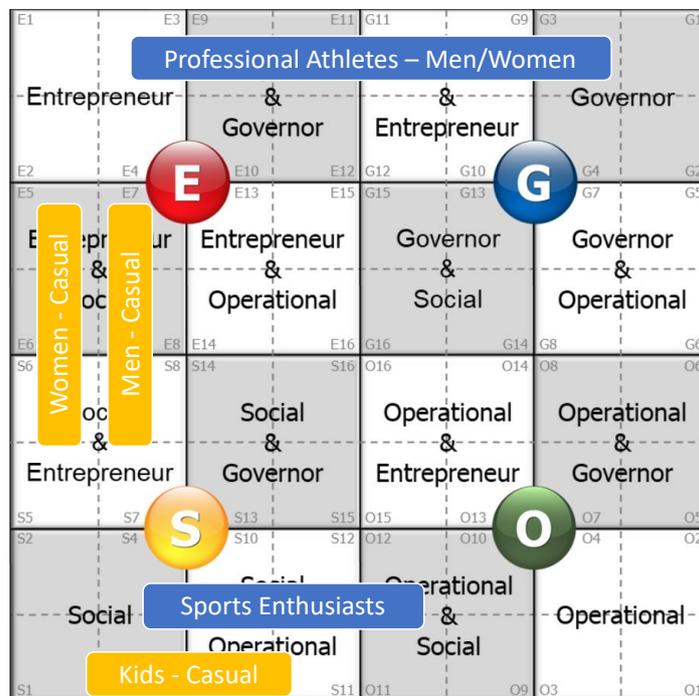
### 3.2.6 EGOS Model in Customer Segmentation

Customers can be characterized according to the EGOS model as follows:

Entrepreneur	Governor
<ul style="list-style-type: none"> <li>• Collects information about the product prior to take decision</li> <li>• Even knowing what he/she wants, listen to seller</li> <li>• Test the seller’s knowledge</li> <li>• Expects seller to recognize his/her experience</li> <li>• Demands alternatives to be presented to support his/her decision</li> <li>• Prefers exclusive products with immediate benefits</li> <li>• Values product adapting to his/her needs</li> <li>• Enjoys negotiating, even not choosing the cheapest solution</li> <li>• Makes decisions quickly not to waste time / wait for information</li> <li>• Sensitive to timed promotions – enjoys linking savings to speed</li> </ul>	<ul style="list-style-type: none"> <li>• Before buying the product, perform rigorous research of the possible options</li> <li>• Appreciates a seller calm and straight to the facts, which explains details of the product</li> <li>• Does not speak much and listens without commenting</li> <li>• Ask for additional information for analysis</li> <li>• Analyze characteristics of different products to evaluate best option</li> <li>• Choosing in-between similar offers, prefers a reliable and proven product</li> <li>• If possible, buys from sellers with whom has a trust relationship</li> <li>• Takes significant time to make decisions as compares all alternatives</li> <li>• Sensitive to seller’s ethics and responsibility as aims as a stable relationship</li> </ul>

Social	Operational
<ul style="list-style-type: none"> <li>• Before buying, pays attention to advertisement and asks opinion to friends</li> <li>• Enjoys creating a friendly and personal relationship with the seller</li> <li>• Values emotional benefits of the product and ask few technical questions</li> <li>• Appreciates product potential features, even if not using them</li> <li>• Sees the product as important in his/her relationship with other people</li> <li>• Prefers new or customized products to his/her interests</li> <li>• Buys from different companies to have a good relationship with the sellers</li> <li>• Makes decision by impulse, following his/her instinct and feelings</li> <li>• Sensitive to offers and attention provided by the seller</li> </ul>	<ul style="list-style-type: none"> <li>• Before buying the product, obtain information from friends and family</li> <li>• Appreciates informal approach from seller, does not enjoy commercial pressure</li> <li>• Only buys product after feeling comfortable with the seller and the company</li> <li>• Prefers products already tested and well accepted in the markets even if old</li> <li>• Appreciates testing without obligation to become familiar with the product</li> <li>• When disliking the product, keeps it to himself, and refers will think about it</li> <li>• Once the first purchase is done, is faithful to the seller and to the company</li> <li>• Ask for opinions to family and friends as enjoys sharing the responsibility about the decision</li> <li>• Needs time to take the decision due to his/her hesitation</li> <li>• Sensitive to technical assistance and warranty as this reliefs pressure</li> </ul>

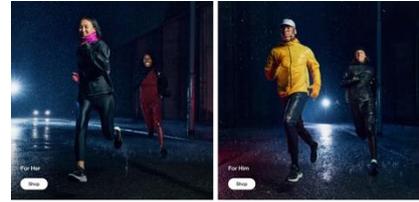
Applying the Egos model taking into account the above characterization and the profile per gender/age:





**Professional Athletes** – look for innovative and customized products, typical of an Entrepreneur, combined with a rigorous research on the best options, with high quality, and good technical references, more related with a Governor profile.

**Sports Enthusiasts** – value opinions of friends, appreciate features, appreciate the social impact of the product, typical of a Social, while in parallel, appreciate the informal purchase process



**Kids Casual** – use their apparel or footwear driven by its looks from a social standpoint but also operational one.



**Women Casual** – is a demanding customer, looking for innovative and customized products, characteristic of an entrepreneur, combining it with the social ones. She likes to look well but above all, wants to feel empowered and have control on the choice of how to purchase.

**Men Casual** – while sensitive to the same characteristics as women, there is a strong equilibrium between the entrepreneur and social characteristics.



### 3.2.7 Competitors

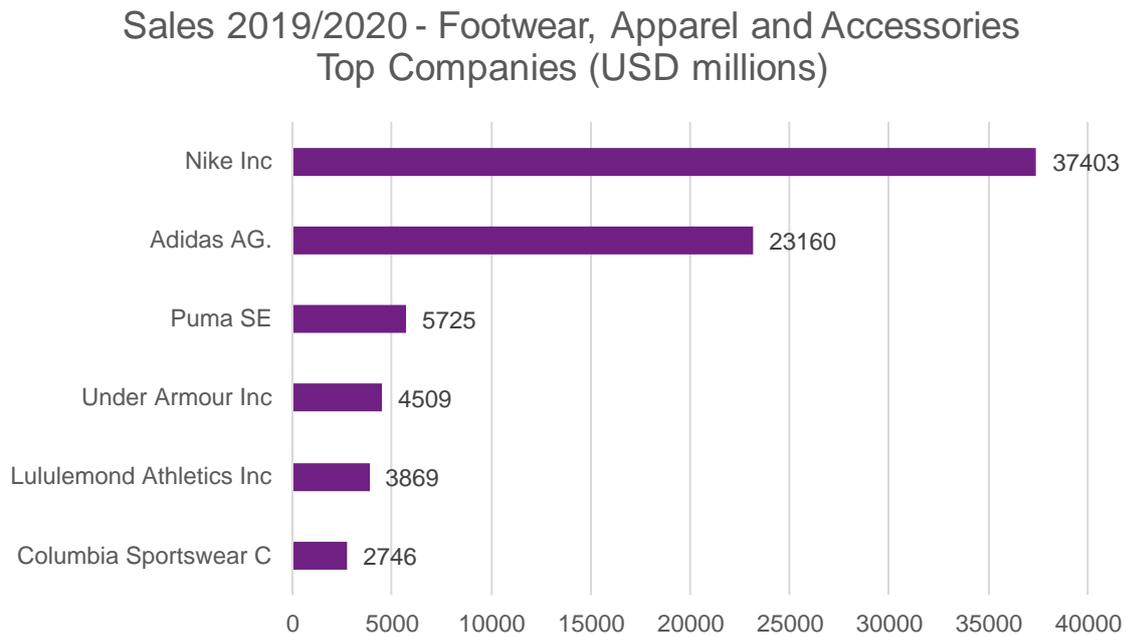


Figure 21 - Sales 2019 / 2020 Top Companies

While Nike has a predominant position in the market for both Footwear and Apparel, its closest competitor Adidas has been gaining market globally with higher growth rates than the ones of Nike in recent years.

Remaining players in

Adidas follows a similar strategy to Nike in terms of sub-brands, (Collections in Nike's language), playing in the same categories of products as Nike, typically with lower market shares in most of them. Outerwear in Japan and footwear in Brazil are two exceptions where Nike is not leading.

Both companies have experienced sales growth in recent years as a result of their investment in launching innovative products and the global trends of casualization and focus on health and wellness.

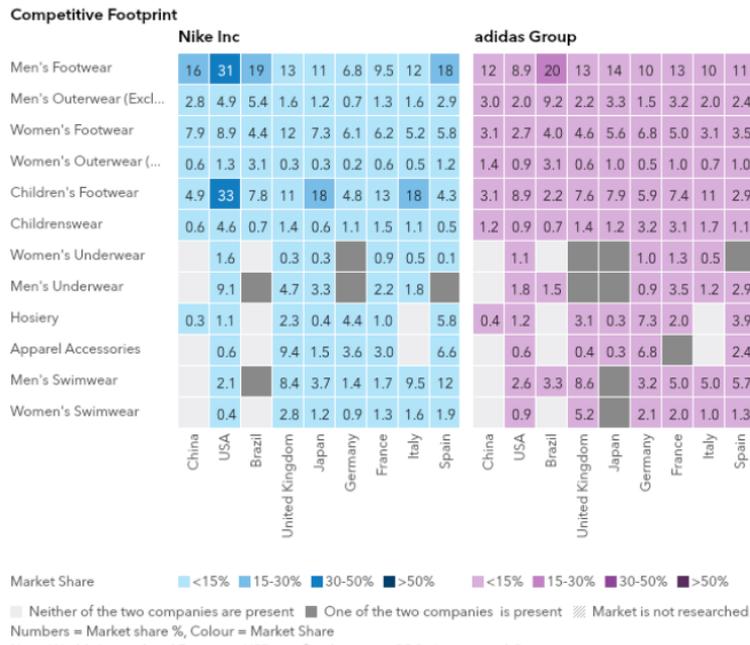
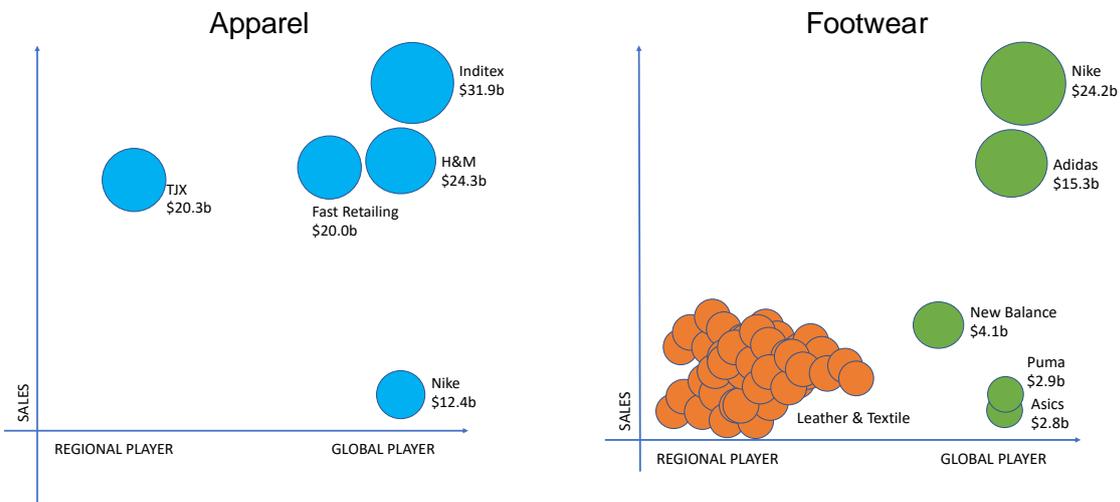


Figure 22 - Competitive Footprint Nike / Adidas

Competitor Strategic Groups



3.3 Organisational Analysis

This chapter outlines the core competencies and potential strategies to exploit Nike's opportunities and threats. To do this, it is required to extract what are Nike's resources and capabilities and understand if these capabilities are fundamental for Nike's sustainable value creation. Similarly, these core competencies will be used in the VRIO framework to identify what are Nike's main competitive advantages.

Sequentially, this chapter will talk about strategic fit and intent analysis to understand Nike’s strategic evolution over the years. Additionally, a new SWOT analysis will be done to Nike taking into consideration its competitors. The chapter will conclude with an EGOS and organisational culture analysis.

### 3.3.1 Resources and Capabilities

Even though companies in a certain industry face the same environmental business challenges and conditions, some companies perform better than others. Differences in sales, operational profit and growth result from distinct management strategy which comes from different core resources and capabilities.

Company	Sales (m\$)	Stores	Employees	Share price (\$)	Net income (m\$)
Nike	40,781	1,096	67,838	120.08	2,500
Adidas	25,117	2,533	59,533	255.00	2,000
PUMA	5,724	703	12,676	75.04	168
Under Armour	5,216	427	7,000	13.84	92.1

As we can see in the below table, Nike is the company with the highest sales and net income, but it does not have the highest number of stores for example. These differences are, in part, the result of its resources and capabilities.

#### 3.3.1.1 Human resources

- In 2019, 67,838 employees worked for Nike, globally
- 39% Female, 31% Male at Board of Directors
- 12,000+ people completed Manager Expectations Training
- 75% of full-time employees

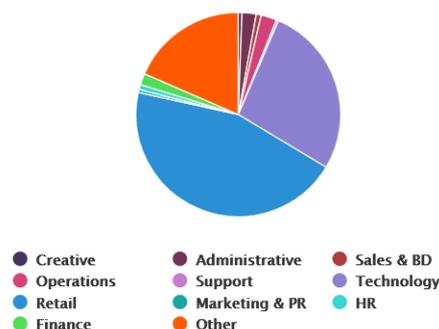


Figure 23: Nike Hiring Categories - Data from Craft.co/Nike

It is important to note that NIKE heavily invests on employee training, equal pay for equal work, diversion and inclusion and general employee development. Around 83.16% of Nike’s employee received a performance review.

### 3.3.1.2 Financial Resources

According to the below chart, Nike had a steady increase in revenues worldwide from 2005 to 2020. In these 15 years, only 3 times Nike could not grow from one year to the other which demonstrates an impressive performance. The 3 years that Nike could not outperform the previous year were years of deep crises.

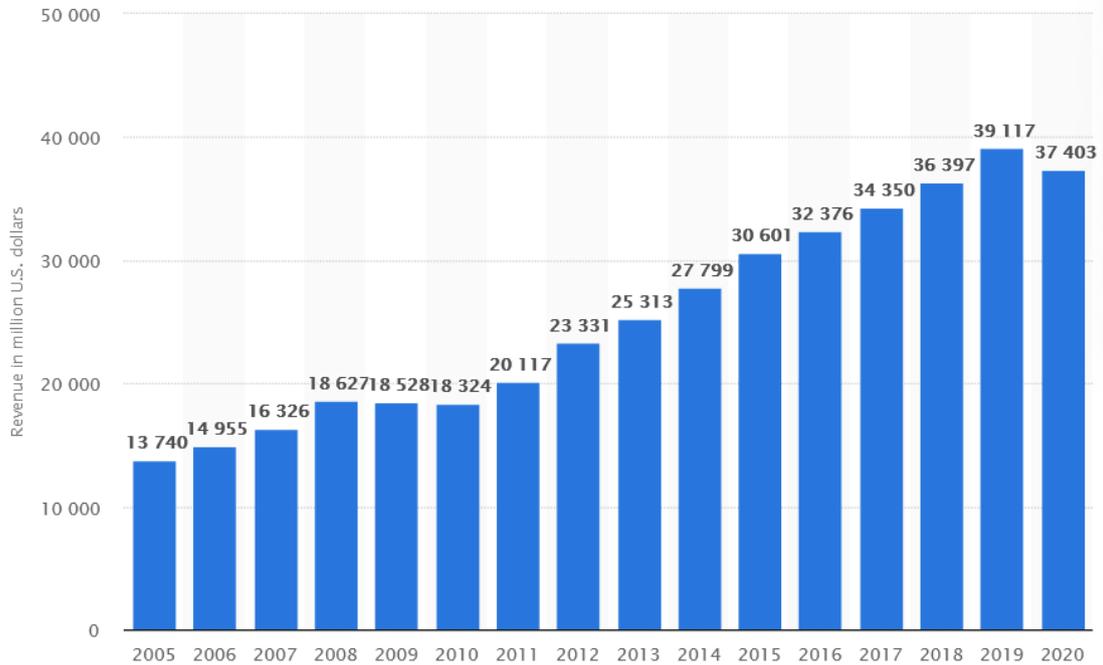


Figure 24: Nike's revenue worldwide from 2005 to 2020 (in million U.S. dollars)

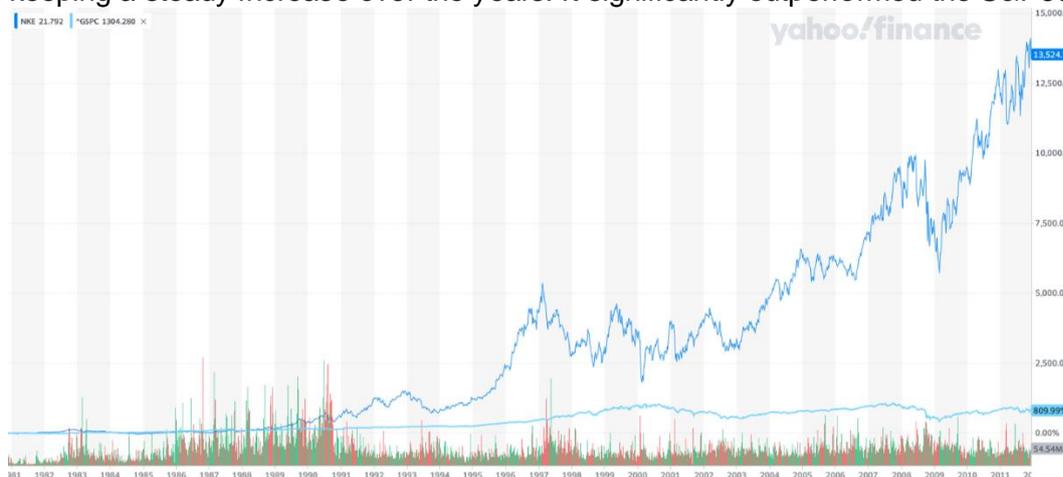
Nike's Income statement shows us that, although the results from 2020 are worse than the previous year, it is still better than in 2018. It should be taken into consideration that this industry performed worse in general due to the pandemic. Nevertheless, we can acknowledge that Nike is still quite safe in financial terms.

SD	FY, 2018	FY, 2019	FY, 2020
Revenue	36.4b	39.1b	37.4b
Revenue growth, %	0,06	0,07	-0,04
Cost of goods sold	20.4b	21.6b	21.2b
Gross profit	16.0b	17.5b	16.2b
Gross profit Margin, %	0,44	0,45	0,43

Sales and marketing expense	3.6b	3.8b	3.6b
General and administrative expense	7.9b	8.9b	9.5b
Operating expense total	11.5b	12.7b	13.1b
Interest expense	54.0m	49.0m	89.0m
Pre tax profit	4.3b	4.8b	2.9b
Income tax expense	2.4b	772.0m	348.0m
Net Income	1.9b	4.0b	2.5b
EPS	1.2	2.5	1.6

**Table 1: Nike's Income Statement**

Still, on the financial resources, Nike's future looks promising, their stock price has been keeping a steady increase over the years. It significantly outperformed the S&P500 index.



**Table 2: Nike's stock price vs S&P500 Index**

**3.3.1.3 Physical Resources**

Nike's main 2020 physical resources:

- 1,100 stores worldwide
- 4,866\$ Million on property, plant and equipment, net (net values, meaning amount after accumulated depreciation, depletion and amortization of physical assets used in

the normal conduct of business to produce goods and services and not intended for resale)

- Average age ratio: 51.47% (ratio between estimated age, the time elapsed since purchase (years) and estimated total useful life (years))
- In regard to the sustainability topics, Nike created Nike Materials Sustainability Index (Nike MSI) is a material evaluation tool implemented in early 2011. Nike MSI examines materials from the beginning, the origin of raw materials, to the finished textile or part. Nike MSI looks at both naturally sourced (plant, animal or mineral-based) and synthetic (fossil fuel-based) materials. The MSI for Nike assesses materials with a maximum of 100 points. The higher scores indicate more sustainable materials.

#### **3.3.1.4 Organizational Resources**

Although Organizational Resources, most of the times, cannot be financially measured they might hold a significant value in the company. Below it can be found the key organizational resources including companies' reputation, acquisitions:

- 85<sup>th</sup> Position in the Top 100 Fortune 500 companies
- Most valuable sports brand as of 2019
- 13<sup>th</sup> place in the World's Most Admired Companies by Fortune
- 16<sup>th</sup> in The 50 Most Innovative Companies by BCG (Boston Consulting Group)
- 34,792\$ Million in Brand value
- Nike acquired very reputable companies over the years like Converse, Hurley and Umbro. It also owns well-known brands like Air Jordan and Nike CR7.
- Nike sponsors top athletes in many sports to use and promote their products. Examples: Eric Cantona, Ronaldo, Ronaldinho, Neymar, Kylian Mbappé, Cristiano Ronaldo, Michael Jordan, Roger Federer, Rafael Nadal, Serena Williams, Tiger Woods, LeBron James, Kevin Durant, and Kobe Bryant.
- Processes and recycles old athletics shoes through its Nike's Reuse-A-Shoe program launched in 1993

#### **3.3.1.5 Capabilities**

Nike's sustainable value creation is a result of the integration of the different resources to establish necessary capabilities which are crucial for the company's activities. The table below list Nike's key capabilities crosses different company areas.

Company Area	Capability
Distribution	<p>Top-notch distribution centres including a zero carbon and zero waste facility</p> <p>Nike Direct is the company's fastest-growing distribution channel</p>
Human Resources	Significant employee training and career opportunities
Information systems	Huge bets on digital to differentiate itself from the competitors with customized products and experiences.
Marketing	Excellent product promotion through sponsorship agreements with top athletes and professional teams
Customer Service	81% customer satisfaction index score for athletic shoe companies in the US. (Adidas scored 83%)
Production	High-quality product quality using sustainable materials
Research	Significant investment, since the early days (1993), in the sustainability topic.
Development	<p>Fast online business growth.</p> <p>Investment on digital platforms with great adoption rate and usage</p>
Transversal	High brand awareness and reputation with considerable cashflow to perform future investments

**Table 3: Nike's capabilities**

### 3.3.2 Efficiency and Economies

Over the years Nike's activities have been showing great efficacy by taking advantage of the several types of economies.

- **Economies of scale:** Nike ensures this due to its grand scale of suppliers. Nike helps its suppliers perform at the most competitive levels by helping them implementing the Manufacturing Index. At the same time, the suppliers need to remain at the bronze level.

- **Economies of experience:** like the economies of scale, Nike has been pushing the boundaries in this process, and it is always challenging suppliers. Nike is always looking for better materials and more cost-effective production systems.
- **Economies of scope:** Nike is the world largest footwear and apparels. This allows Nike to easily expand its scope in the sports industry, which they have been doing quite effectively.

### 3.3.3 Benchmarking

It is important to look inside the company. Understand how it is performing in the market, its profitability, costs, and other factors. But it is crucial to understand how competitors are performing.

Benchmarking plays a strategic role when used in competencies that impact the development of key success factors.

Key Success Factors	Benchmarking Indicators	Nike	Adidas	Puma
Distribution & Stores	Stores	1,096	2,533	703
	Distribution centres	Top-notch facilities	Top-notch facilities	High standard
Brand Image	Advertising and Promotion costs	3.59\$ billion	8.0\$ billion	1.112\$ billion
	Twitter followers	8.3 million	3.8 million	1.6 million
	Facebook followers	35 million	38 million	20 million
	Instagram followers	122 millions	25.9 millions	11.5 millions
Fashion Design	Top 10 America's favorite apparel	1 <sup>st</sup> (Nike) and 5 <sup>th</sup> (Converse)	3 <sup>rd</sup> place	Not in top 10
	American teens favorite clothing firm	1 <sup>st</sup> place	3 <sup>rd</sup> place	Not in top 5

<b>Cost efficiency</b>	<b>American teens favorite footwear firm</b>	1 <sup>st</sup> place (Nike) and 4 <sup>th</sup> place (Converse)	3 <sup>rd</sup> place	Not in top 5
	<b>Gross profit margin</b>	43%	52%	47%
	<b>PP&amp;E</b>	4.9\$ billion	2.4\$ billion	260\$ million
<b>Community Based Marketing</b>	<b>Communities</b>	Considerable number of big communities	Considerable number of big communities	Very niche communities
<b>Research and Development</b>	<b>Technology innovation</b>	Highly innovative. Industry driver	Very good innovative products	Not major innovative products. Follower
<b>Customer service</b>	<b>Consumer connection</b>	Very high consumer connection	Very high consumer connection	Low consumer connection
	<b>Customer service</b>	Average customer service	Average customer service	Average customer service

Table 4: Nike's benchmarking with Adidas and Puma

### 3.3.4 Core Competencies

Core competencies provide sustainable value. Nike's core competencies will be identified and analysed using the VRIO Framework. Below it can be found a brief explanation about each VRIO component:

- **V - Valuable:** does the company offer a resource that adds value for the customers?
- **R – Rare:** does the company control scarce resources or capabilities? Does it own something hard to find yet in demand?
- **I – Imitability:** is it difficult or too expensive to replicate such resource or capability?
- **O – Organization:** Is the company able to capitalize on such resource or capability?

Resource / Capability	V	R	I	O	Core Competency	Competitive Advantage
Brand value & recognition	✓	✓	✓	✓	✓	Sustainable advantage
Product innovation	✓	✓	✓	✓	✓	Sustainable advantage
Supply chain management	✓			✓		Parity
Cost Efficiency	✓					Parity
Endorsements	✓	✓	✓	✓	✓	Sustainable advantage
Digital presence (APPs + Ecommerce)	✓			✓		Parity
Product quality	✓					Parity
Sustainability	✓			✓		Parity
Design & fashion leading	✓	✓	✓	✓	✓	Sustainable advantage
Global Presence	✓	✓		✓		Temporary advantage

Table 5: VRIO Analysis

**Brand value & recognition**

This is key for the consumer. In general, people appreciate feeling included. Nike, over the years, has established a successful brand value and recognition, which leads to “high status” brand. Looking into the benchmarking chapter, Nike is the most favourite brands. This is something extremely hard to create and maintain and Nike has been doing it for many years in a row.

**Product innovation**

Over the years Nike has been a major player in product innovation. Either on using recycled materials or providing the most innovative shoes and apparel which helps top athletes to enhance their performance.

**Endorsements**

Nike was the first sports brand to perform big and well-known athlete celebrity endorsements. Michael Jordan was the first the big and still one of the biggest of the all-time. Today the list of endorsed top athletes is still much bigger than any other competitor.

**Design & fashion leading**

In short, it can be said that Nike is a trend maker. Nike has been successfully capable of putting their shoes and apparel in the most desired items in the clothing industry. In America, it performs better than other well-known fashion brands like Levi’s, Zara, etc.

**3.3.5 Strategic fit**

Based on Nike’s success factors and its core competencies described in the above chapters, a strategic fit analysis can now be performed.

To perform a more truthful strategic analysis, the strategic fit will be assessed for two segments: footwear and apparel which corresponds to 65.5% and 30.8% respectively.

**Footwear**

CORE COMPETENCIES	KEY SUCCESS FACTORS			
	Distribution & Stores	Brand Image	Fashion design	Research and Development
Brand value & recognition	4	5	5	-
Product innovation	3	4	4	5
Endorsements	-	5	5	-
Design & fashion leading	4	5	5	4
<b>Strategic fit (average: 4.41)</b>	<b>3,67</b>	<b>4,75</b>	<b>4,75</b>	<b>4,5</b>

**Apparel**

CORE COMPETENCIES	KEY SUCCESS FACTORS		
	Customer service	Community based marketing	Cost efficiency
Brand value & recognition	5	5	-
Product innovation	3	4	5
Endorsements	-	5	-
Design & fashion leading	4	5	3
<b>Strategic fit (average: 4.25)</b>	<b>4</b>	<b>4,75</b>	<b>4</b>

**Equipment**

CORE COMPETENCIES	KEY SUCCESS FACTORS		
	Research & Development	Distribution and Stores	Customer Service
Brand value & recognition	-	4	4
Product innovation	4	4	4
Endorsements	-	5	-
Design & fashion leading	4	4	-
<b>Strategic fit (average: 4.08)</b>	<b>4</b>	<b>4,75</b>	<b>4</b>

From the above results, we can clearly understand how Nike can differentiate from its competitors. It is important to keep in mind that this is a highly competitive market where products and its innovation can easily be replicated. Nike understood this since the early days and heavily investing in creating a successful marketing strategy together with an unquestionable brand value and recognition.

**3.3.5.1 Strategic intent**

The above analysis is a snapshot of Nike’s current core competencies: it fails to demonstrate how the competencies developed over the years. Therefore, to complete the strategic view of the company on the key success factors, it is necessary to perform a strategic intent analysis.

Key Success Factors	Nike’s initial core competencies	Nike’s core competencies developed over time
Distribution & Stores	Focus on American. No online strategy.	Global brand. Biggest sports online store.
	Poor distribution centre	Top-notch distribution centre
Brand image	American focus, no big advertisement outside of US	Well known and highly reputable brand worldwide. Major endorsements of major athletes across the globe
Fashion design	Focus on whitening the scope rather than focus on fashion design.	A true trend maker. Nike can compete with other non-sport brands apparel.
Cost Efficiency	Nike always invested quite significantly on PP&E and made sure to keep high operating margins	Considerable but very well-balanced PP&E.
Research and development	Highly innovative, but no digital appliances	Very innovative leveraging ubiquitous technology concept
Customer service	Very customer centric and maintain close relation with consumers	The most engaging sports company with their own customers
Community based marketing	Nike did not care about communities, only mass market	Nike “controls” several communities today

Table 6: Nike's Strategic Intent

### 3.3.6 SWOT

A companies' SWOT analysis is an effective way to understand its strengths and weaknesses together with business opportunities and threats. The main goal is to help identify measures for a company to include in its strategy.

Simple and easy to apply, though it fails to consider two especially important strategic variables:

- **Time:** it is important to specify a time window for that analysis. A snapshot analysis may not be true anymore by the time the reader analysis the matrix.
- **Threats:** it is key to understand how these can be used for the firm's benefit. They should be potential opportunities for growth and position strength.

The new SWOT Analysis comes to mitigate its "brother" limitations. Companies should recognize opportunities associated with their businesses within a specific period and fitting them in companies' core competencies.

Opportunities and Time		
	Short-Term Opportunities	Long-Term Opportunities
	<ul style="list-style-type: none"> <li>• Consumer direct strategy</li> <li>• Innovative products</li> <li>• Counterfeiting</li> <li>• Online and digital boom</li> </ul>	<ul style="list-style-type: none"> <li>• Emerging markets</li> <li>• Labour conditions</li> <li>• Online leadership</li> <li>• Luxury "sportswear"</li> </ul>
Strengths	Suggestions	Suggestions
<ul style="list-style-type: none"> <li>• Marketing</li> <li>• Endorsements</li> <li>• Brand Awareness</li> <li>• Product Design</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on own stores marketing and online</li> <li>• Use endorsements to leverage product innovation</li> <li>• Use brand awareness to fight counterfeiting</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on the emerging market to create more brand awareness</li> <li>• Establish Nike as online sportswear.</li> <li>• Responsible manufacturer</li> <li>• Invest in luxury "sportswear" leveraging endorsements</li> </ul>
Weaknesses	Suggestions	Suggestions
<ul style="list-style-type: none"> <li>• Big dependency on the footwear market</li> <li>• Margins squeezed by retailers</li> <li>• Contradictory sustainable practices</li> <li>• Big dependency on</li> </ul>	<ul style="list-style-type: none"> <li>• Leverage online boom to reduce U.S. market dependency</li> <li>• Create a global program about new sustainable materials to be used in the footwear industry</li> </ul>	<ul style="list-style-type: none"> <li>• Use emerging markets to whiten the scope (adapt to the culture and new products)</li> <li>• Establish online leadership in Asian countries to mitigate retailers' margins</li> <li>• Create sustainability practices</li> </ul>

U.S. market	<ul style="list-style-type: none"> <li>Wearables markets are still in its infancy, be the first big player</li> </ul>	consortium in the footwear industry
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**Table 7: Nike's new SWOT analysis**

### 3.3.7 Organisational culture

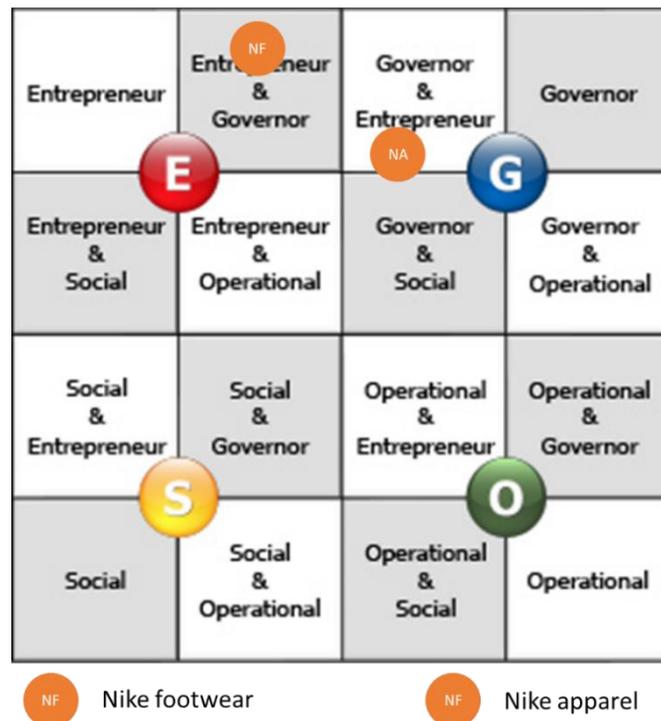
Organizational culture is the combination of a set of values, believes, expectations and practices that most employees of a certain company adopt. Although the sector might push or influence companies into a certain culture principle, every company comprises a unique culture.

Looking into the picture below, it can be said that Nike is between the Governor and Entrepreneur culture.



**Table 8: Organizational Culture of Traditional and Digital Businesses**

Furthermore, it is now possible to place Nike in the EGOS map. It is also possible to divide Nike between footwear and apparel as the organizational culture is a little bit different.



Although Nike is the same company, different divisions/business units can have different organizational cultures. Overall, it can be said that Nike is an “Entrepreneur & Governor” company. But if we divide Nike into apparel and footwear than we can conclude there is some cultural difference between in the divisions.

Nike footwear evidences more its entrepreneurial spirit due to the considerable product innovation as the apparel is more focused on the operations. Employees on footwear focus more on new concepts, products, materials, and specific and targeted communication (through endorsements for example), while apparel division is more focused on the “fast fashion” concept and its readiness to the market.

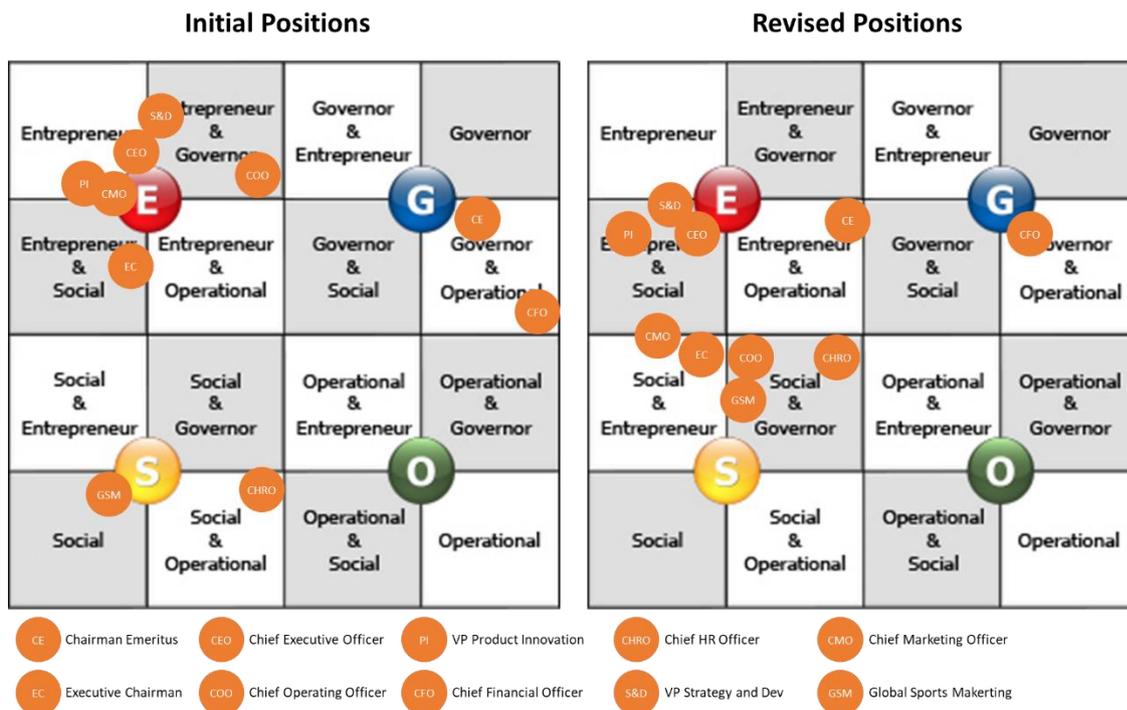
**Culture and Leadership**

A company culture aligns itself on a specific position on the EGOS Map. But it is also crucial that leadership is in line with the company culture.

The below EGOS Map shows us the positioning of most of Nike’s leadership.

From first glance, it can be said that Nike’s leadership is somehow in line with the company’s culture. Moreover, we can see that Nike can move towards a more “social” minded company which might have a positive effect and its performance.

Focusing on points of concern, the current Chairman Emeritus, which was the former President for many years was not the right fit for the role, at the least for the last decades. Nike understood that in time and found a more social CEO (Chief Executive Officer).



**Table 9: Nike's Leadership EGOS Map**

As a conclusion, organizational culture is a key component in any company. It can drive a company positively or negatively depending on its alignment.

It is believed that Nike's organizational culture and leadership alignment allows Nike to continue to grow in the future. Nike needs to focus more on "social" aspects so it can step up to the next level and built a true and consolidated hegemony in the industry.

## 4 Strategy Formulation

### 4.1 Vision, Mission and Values



*"Our mission is what drives us to do everything possible to **expand human potential**. We do that by creating groundbreaking sport innovations, by making our products more sustainably, by building a creative and diverse global team and by making a positive impact in communities where we live and work."*

Nike has a broad **mission** definition, that comprises a set of inspirational guidelines that drive the company to be one of the most valued brands in the world and a clear leader in sports apparel.

- It wants to inspire people to do sports, be healthy, active, and achieve more;
- It has innovation at its core engine to fulfil its mission;
- It aims to every person in the world independently of gender, age, race or even physical condition, In the mission video, where the image above was taken, we can see women, men, kids, teenagers, seniors, even high-performance handicap athletes, of all races;

- It has ESG as base component of its mission aiming to act on sustainability, diversity and value to related communities;

Although the mission is focused on sports, by targeting directly athletes (anyone with a body), it's doesn't narrow on specific products or services, allowing Nike to be broad minded on how to deliver on its promise of bringing inspiration and innovation to all athletes: shoes, apparel, lifestyle, but also connectable devices, digital experiences for sports performance or other innovative offers that they can create.

Nike's **vision**, although not stated as such in any official document or website page, can be derived by its mission (bold text above in the image caption) and such statements like in the CEO Letter to shareholders: e.g. "To us, innovation is about elevating human potential."

We could say that Nike's vision is to expand the human potential, through the power of sports.

Is through this derived vision that we can relate to Nike as a vehicle to empower people to improve their health and wellness, to connect people of all creeds and races in a "level playing field with a fair set of rules" and allow the fulfilment of human potential.

According to Nike's CEO in his letter on their Impact Report, Nike's **values** (or qualities) are boldness, creativity and ambition. These clearly can be tracked to Nike's innovation, marketing power and brand reach. But today, these feel a little short.

By analysing all initiatives of the impact report, detailed in the purpose section below, we could highlight more values, aligned with ESG goals, like equality, respect for the planet.

From initiatives to promote equality in their workforce, and top management, through initiatives to give back to communities and to product and manufacture innovations that decrease drastically their carbon footprint, Nike is doing a lot.

## 4.2 Purpose



Nike has a clear purpose and ESG goals, and they report and communicate heavily about them. Starting with a dedicated website, <https://purpose.nike.com>, where purpose definition, programs and an Impact Report can be found.

Nike ESG actions are made on 5 main vectors: equality, community, manufacturing, environment and product.

<p><b>EQ</b> EQUALITY</p>	<p><b>Leading with our employees:</b> culture and environment of inclusion, empowerment and respect.  <b>Equal playing fields for all:</b> partnerships to promote and expand opportunities for young people.  <b>Breaking down barriers for all athletes:</b> addressing barriers to everyone, like the the Pro Hijab for Muslims.</p>
<p><b>CO</b> COMMUNITY</p>	<p><b>Getting kids moving:</b> partnerships to provide locally relevant programs in Nike key cities.  <b>Girls are made to play:</b> promotion on gender-inclusive training to avoid girls dropping out of sports.  <b>Training more coaches:</b> increase the quantity and quality youth volunteer coaches, including employees.</p>
<p><b>MA</b> MANUFACTURING</p>	<p><b>Enabling compliance:</b> implementation of standards that respect environment, workers and safety.  <b>Advancing worker wellbeing:</b> enhance worker engagement, increase compensation and improve social dialog.  <b>Progressive environmental protections:</b> focus on reducing impact, inclusive of suppliers, on the environment.  <b>Accelerating industry change:</b> collaboration with a wide array of stakeholders to monitor and improve standards.</p>
<p><b>EN</b> ENVIRONMENT</p>	<p><b>Carbon and energy:</b> ambitious targets to reduce carbon footprint, like achieving 100% renewable energy.  <b>Waste:</b> move to achieve zero waste, driving the circular economy.  <b>Water:</b> using water more efficiently, reducing consumption and returning water used cleaner than found.  <b>Chemistry:</b> development of better more sustainable chemistries that are better for the environment.</p>
<p><b>PR</b> PRODUCT</p>	<p><b>Materials innovation:</b> constant innovation on new materials, reuse and recycling.  <b>Sustainable products:</b> focus on how each material is grown, harvested and processed.  <b>Product creation tools:</b> systematic approach and tools to give designers better decision capability about materials.</p>

On its FY19 Impact Report, Nike reinstates its purpose goals and details the achievements of its efforts in all areas through a 3-layer structure of achievements:

- **Unleash human potential:**

- **Representation:** increase of VP-level representation of women (39%) and U.S. URG (21%), and unconscious bias awareness training;
- **Recruitment:** 52% women and 40% U.S. URG participated in Nike's U.S. internship program;
- **Pay and benefits:** 1:1 pay equity for women and U.S. URG, increased benefits for families and sports centers available at headquarters at no cost;
- **Development:** mentoring program to advance career piloted with 1,000 employees;
- **Employee engagement:** 147 hours volunteered by employees, 2,700 organizations supported, and 5,700 retail employees served as youth coaches;
- **Trained coaches:** 100,000 community coaches trained with the help of partners;
- **Community investment:** almost half a billion dollars invested in communities or donated through Employee Matching Gifts, Volunteer Rewards and NIKE Foundation match;
- **Active Kids:** more than 17 million kids got active with the help of Nike and more than 90 community partners around the world;
- **Transform manufacturing:**
  - **Sustainable sourcing:** 93% of contract factories were rated Bronze or better, Nike's definition of sustainable, and FLA Reaccreditation, the gold standard for human rights compliance and social responsibility;
  - **Engaged workforce:** 270,000 employees participated in Nike's engagement and wellbeing survey;
  - **Partnerships to accelerate industry change:** 437 million dollars invested through a trade finance program between NIKE and the International Finance Corporation (IFC), which incentivizes supplier performance by offering lower trade finance terms for facilities rated Bronze or better;
- **Minimize environmental footprint:**

- **Materials:** more than 7.5B plastic bottles transformed into recycled polyester since 2010, 53.5B litres of water saved by shifting to sustainable cotton, and 76% of Nike products already using some recycled material;
- **Product:** recycled plastic equivalent to 31M bottles used in Flynit shoe line, 50% recycled manufacturing waste in every Nike Air sole and 75% or recycled materials in VaporMax sole;
- **Water:** 23B liters of freshwater consumption avoided through efficiency programs;
- **Energy/Carbon:** 75% of global electricity consumption from renewable sources;
- **Circularity:** Circular Design Guide created in partnership with University of Arts of London and their students;
- **Waste:** 99,9% of footwear manufacturing waste recycled or converted to energy, elimination of single use plastic bottles at all headquarters and new packaging design for Converse brand;

Nike is still driving hard on these ESG initiatives and has ambitious goals to keep being ahead on its sustainability game. In the strategic objectives below, among others, these are detailed.

### 4.3 Strategic Objectives

$$SL \times (1 + G)^t \times \frac{M}{R} \times SU$$

Having the sustainable value creation formula in mind, we can better understand Nike's strategic objectives, which are mostly comprised around their Triple Double strategy plus the purpose ESG goals.

The Triple Double strategy gets its name from a sports related expression that in basketball refers to a player that in a single game reaches double digits on 3 metrics: points, assists and rebounds. In the case of Nike's strategic objectives, the Triple Double means actually doubling down on speed, innovations and direct connection to consumers.

As we will see, most objectives refer to these three areas of the Triple Double strategy or to ESG goals from their purpose initiatives. And, although each of these groups can address various elements of the formula, we can map each of them to a particular more element:

- **Speed = Risk:** speed makes demand fulfilment more efficient and product creation from innovation quicker, sustaining Nike’s competitive lead and thus controlling risk of competitors getting ahead.
- **Innovations = Growth:** constant innovation creates not only better products than makes Nike relevant, but also creates new categories that sustains its growth to new segments or markets.
- **Direct connection to consumers = Margin:** direct connection to consumers not only improves customer experience and purchase repetition, but by vertically integrating downstream it increases margins by avoiding wholesalers and retailers, and also by leveraging on the increase shift to online shopping.
- **ESG/Purpose goals = Sustainability:** All goals of this programs are aimed at sustainability, social and environmental.

Strategic objectives, aligned with key success factors, are represente in **bold** in the table below.

<b>SPEED [R]</b>
<ul style="list-style-type: none"> <li>• <b>Double speed to market, reducing average product creation timelines by 50%.</b></li> <li>• <b>Express lane initiative:</b> <ul style="list-style-type: none"> <li>○ <b>create products in less than 6 months, from design to delivery to the consumer</b></li> <li>○ <b>update products in less than 3 months, from demand signal to delivery to the consumer</b></li> </ul> </li> </ul>
<b>• INNOVATION [G]</b>
<ul style="list-style-type: none"> <li>• <b>Double the cadence and impact of innovation with new innovation platforms comprising over 50% of incremental revenue growth over the next 5 years.</b></li> <li>• <b>#1 favourite brand as rated by consumers in each of the 12 key cities and 10 key countries.</b></li> </ul>
<b>DIRECT CONNECTION TO CONSUMERS [M]</b>
<ul style="list-style-type: none"> <li>• <b>Grow digital commerce business, both owned and partnered, to over 50% over the next 5 years.</b></li> <li>• <b>More consistent full price sell-through in season: 65% full price sell- through in season with 25% surgical markdowns in season.</b></li> <li>• <b>Triple Nike+ memberships in 5 years.</b></li> </ul>
<b>ESG/PURPOSE [SU]</b>

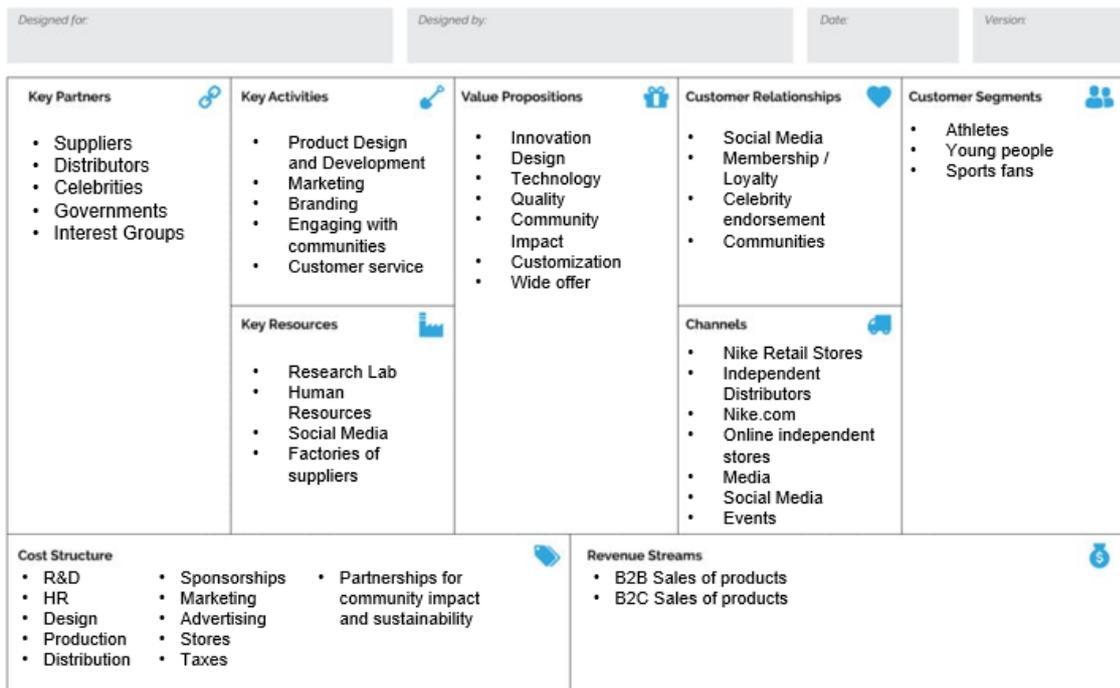
<ul style="list-style-type: none"> <li>• Annual investment on community impact as a % of pre-tax income: 1.5%.</li> <li>• Factories rated bronze or better: 100%; with excessive overtime: 0%.</li> <li>• Average product carbon footprint: decrease 10%.</li> <li>• Increase sustainable materials, 100% sustainable sourced cotton.</li> <li>• Renewable energy: 100%.</li> <li>• Energy consumption and carbon emissions per unit on key operations: decrease 25%.</li> <li>• Energy consumption and carbon emissions per Kg of dyeing and finishing: decrease 35%.</li> </ul>
<b>FINANCIAL</b>
<ul style="list-style-type: none"> <li>• High single-digit revenue growth, per year in the next 5 years. <span style="color: orange;">[G]</span></li> <li>• Gross margin expansion of as much as 50 basis points, per year in the next 5 years. <span style="color: blue;">[M]</span></li> <li>• Slight selling and administrative expense leverage. <span style="color: magenta;">[R]</span></li> <li>• Mid-teens earnings per share growth, per year in the next 5 years. <span style="color: orange;">[G]</span> <span style="color: blue;">[M]</span></li> </ul>

It is safe to say that Nike’s objectives are SMART (specific, measurable, achievable, relevant and measurable). Most of them specify not only the objective but by how much and when, and they are reported both on the traditional quarterly and annual financial report, but also on their new Impact Report that detail objectives and results from their ESG initiatives.

### 4.4 Business Model Canvas

We can sum-up the business of Nike, that is detailed in the following chapters, with this business model canvas.

#### Business Model Canvas

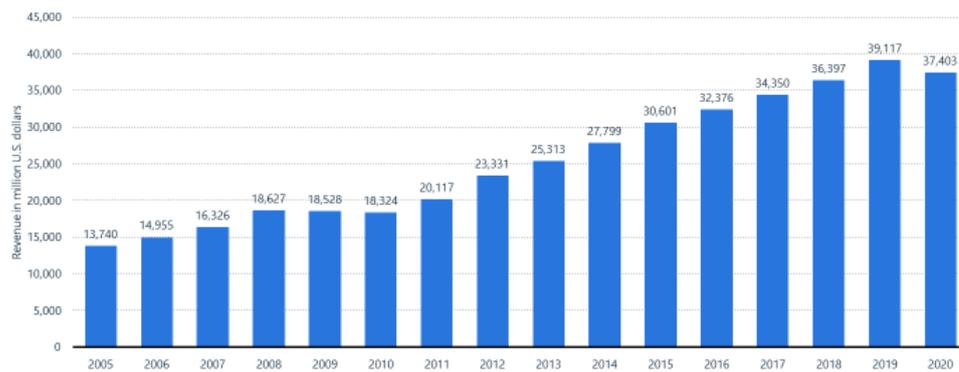


### 4.5 Products – Markets

NIKE is the global leader of athletic footwear and apparel in the world. Its revenues more than doubled between 2009 and 2019, the year when the company hit its record high of almost \$40 billion. This was followed by a decline of some 6.5% in FY 2020 (which ended in May 2020), due to the COVID-19 pandemic which has generated a global economic crisis (see Graph 1 below).

Nike's revenue worldwide from 2005 to 2020 (in million U.S. dollars)

Nike's revenue worldwide 2005-2020



Note: Worldwide: 2005 to 2020  
 Further information regarding this statistic can be found on page 31.  
 Source(s): Nike: ID\_241683

Financial performance **statista**

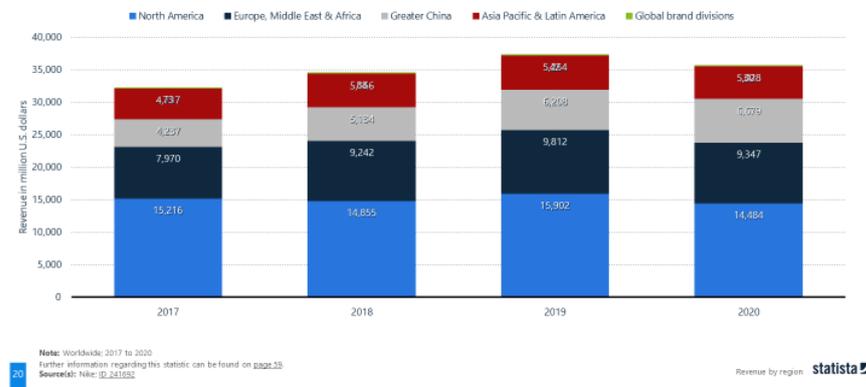
Graph 1: Evolution of NIKE’s revenue worldwide

Some 60% of NIKE’s revenue was generated by international (non-US) markets, of which the largest one was Europe, Middle East & Africa (EMEA), followed by Greater China (see Chapter on Internationalization).

As shown in the graph 2, all these markets have seen declining sales, except for Greater China which, despite the COVID-19 related crisis, has continued to grow.

Nike's revenue worldwide from 2017 to 2020, by region (in million U.S. dollars)

Nike's revenue worldwide 2017-2020, by region



Graph 2: Evolution of NIKE's revenues, by region

4.5.1 NIKE's Products

Since its creation as a small sports shoe importer in 1964, NIKE's product mix has significantly expanded and it now includes sports footwear, apparel and equipment.

Two thirds of sales are generated by Footwear, NIKE's leading category, followed by Apparel with the remaining one third. A very small proportion of revenues (3%) is generated by Equipment.

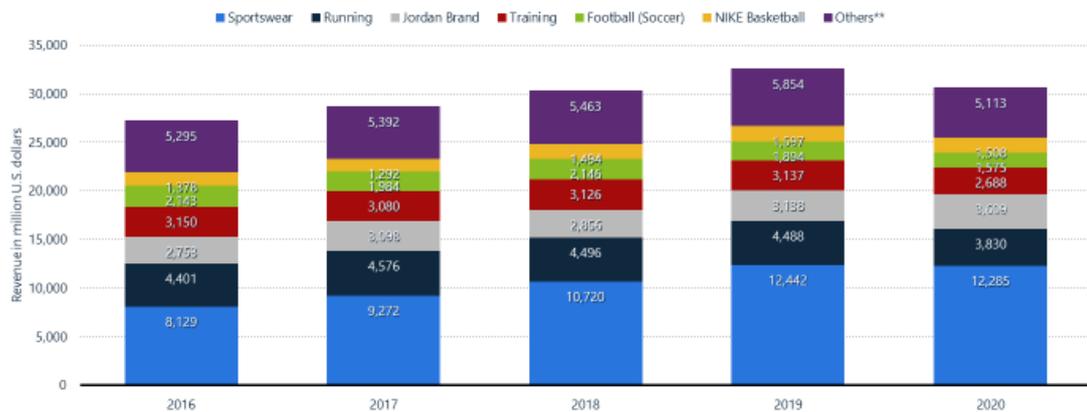
These three broad types of products are then distributed into six key categories, as follows: Running; Basketball; The Jordan Brand; Football (Soccer); Training; and Sportswear (sports-inspired lifestyle products).

As it can be noted in the Graph 3 below<sup>1</sup>, between 2016 and 2019 NIKE recorded steady increases in the sales of all these categories. Sportswear holds the highest weight in terms of worldwide sales, followed by Running and Training. The least represented are the "niche" categories Basketball and Football respectively.

The COVID-19 pandemic brought a decline in FY 2020 in all categories but The Jordan Brand.

<sup>1</sup> The category 'Others' in this graph refers to 'all other categories and certain adjustments that are not allocated at the category level.' (source: NIKE's FY 2020 AR).

Nike's revenue worldwide from 2016 to 2020, by product category (in million U.S. dollars)\*  
Global revenue of Nike from 2016 to 2020, by product category



Note: Worldwide; 2016 to 2020  
Further information regarding this statistic can be found on page 37.  
Source(s): Nike; ID: 888793

Financial performance **statista**

Graph 3: Evolution of NIKE's revenue, worldwide, by product category

In addition, in recent years, NIKE has diversified towards more fashion-forward apparel pieces. These are part of distinct collections such as All Conditions Gear (ACG), NikeLab, Nike Sportswear and Nike Skateboarding, which target some specific, niche market segments. These collections feature bolder patterns than the regular, mainstream products.

The picture below offers a glimpse of NIKE's rich product range.

### THE WORLD OF NIKE

Light up the **DAY AND NIGHT**

**Nike Basketball**

- NBA special
- Shoes, Clothing, Equipment
- Men, Women
- Membership: Nike training plan, Nike Run, Nike App

New Football

Boots, Clubs, National Teams, Clothing, Training, Jersey By You

with **PREMIER LEAGUE HI-VIS BALL**

**Nike Football (Soccer)**

- Clubs & National Teams special
- Shoes, Clothing, Training
- Men, Women, Kids
- Membership: Nike training plan, Nike Run, Nike App

Shoes, Sports Wear, Performance, Top & T-Shirts, Hoodies & Sweatshirts, Jackets & Coats, Trousers & Tights, Shorts, Compression & Underwear, Trackuits, Jumpuits & Trainers, Socks & Socksies, Surf & Swimwear, Bags, Accessories & Personal Care

**Just Do It**

80000

Men's Basketball Jacket

1 Colour

**Just Do It**

80000

Men's Nike Air (2020) Friends Terry Pullover Hoodie

2 Colours

**Just Do It**

80000

Nike Air Max (2020) Women's Sneaker

1 Colour

**Nike Lifestyle**

- Shoes, Clothing, Gear
- Men, Women, Kids

New Basketball, Men, Women, Kids, Jordan Sport, Special and Community Inspired

**The Jordan Brand**

- Community special
- Shoes, Clothing, Gear
- Men, Women, Kids
- Membership: Nike App

Shoes, Clothing, Equipment, New Arrivals, Nike Training Club App

**Nike Training**

- Shoes, Clothing, Equipment
- Men, Women
- Membership: Nike Training Club App



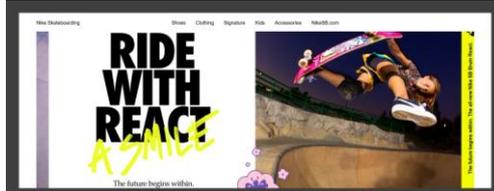
**Nike Running**

- Road, Trail, Track
- Shoes, Clothing, Gear
- Men, Women, Kids
- Membership: Running training plan, Nike Running App



**Nike All Conditions Gear (ACG)**

- Outdoors Shoes, Clothing, Gear
- Men, Women



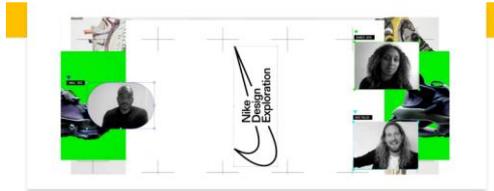
**Nike Skateboarding (NikeSB)**

- Shoes, Clothing, Accessories
- Kids



**Nike Sportswear**

- Shoes, Clothing
- Men, Women



**NikeLab**

- Fashion segment
- Men, Women

#### 4.5.2 Value Creation in Products – Markets

The Sales of products and services impact on all the factors which contribute to the sustainable value creation of a company<sup>1</sup>. These factors are: Growth, Margin, Risk, and Sustainability.

A description (non-exhaustive) of these factors for NIKE is presented in the table A below.

Table A: Value creation in Products – Markets adapted for NIKE

Component	Impact
<p><b>G</b> <b>Growth</b></p>	<p>NIKE's steady growth in the past ten years has been driven by several factors, including external factors - social and societal – and internal factors which are related to the company's business model.</p> <p>In the first category, the past years' social and societal trends have made a significant impact on the sportswear markets worldwide. These trends (e.g. increasing use of sports shoes for all occasions, a phenomenon which is amplified by <i>influencers</i> and boosted by social media) have materialised in increase in sales and have opened the path of NIKE (and its competitors) towards new segments (see the Ansoff Matrix later in this Chapter).</p> <p>Furthermore, by positioning itself as a life-style brand for the cool, young people, which sets the trends and anticipates market demand (as opposed to a simple sportswear producer), NIKE has managed to fully capitalise on these social trends.</p> <p>At the same time, the company relies heavily on advertising, as a core tool to attract new customers and retain the existing ones. This strategy is supported by the involvement of high-profile celebrities which the company endorses, such as professional athletes and sports teams (e.g. NBA or FBA). NIKE Basketball is one of the categories whose growth has particularly been driven by the association with top NBA players.</p> <p>Internally, the growth has been driven by several key factors.</p> <p>Firstly, NIKE's formidable focus on innovation, supported by a strong internal capability (Innovation Leader – see later section on Innovation); this has allowed the company to launch increasingly performant products, in parallel with the improvement of the existing models (driving brand loyalty).</p> <p>Another key internal factor was the launch in 2018 of the Consumer Direct Offense and the Triple Double strategy, which aimed, among others, to prioritise the company's direct channels with consumers. This now includes the established loyalty programs, such as NikePlus (free membership program), as well as the brand-new Nike Consumer Experience (NCX) initiative. Through NCX, Nike has opened new retail concepts in China and the US, in addition to increasing the functionality</p>

<sup>1</sup> : Freire, Adriano (2020). Estratégias Criação de Valor Sustentável em Negócios Tradicionais e Digitais , Bertrand Editora

Component	Impact
	<p>and reach of Nike's mobile apps with the support of NikePlus.</p> <p>Furthermore, in June 2020, the company announced a new digitally empowered phase of the Consumer Direct Offense strategy, called Consumer Direct Acceleration. One of the specific areas of this strategic acceleration is 'the creation of the marketplace of the future through more premium, consistent and seamless consumer experiences that more closely align with what consumers want and need. This strategy will lead with NIKE Digital and company's own stores, as well as through select strategic partners who share NIKE's marketplace vision.' (NIKE-FY20-10K).</p> <p>As mentioned, a key success factor to NIKE's growth has been China. The company has heavily invested in the specific and highly demanding China market; as a result, Greater China was the only market on which NIKE continued to grow in the FY 2020, despite the COVID-19 pandemic. This is planned to compensate the decline of the domestic market (US) which appears to be saturated and at risk to be taken over by rivals (such as Under Armour or Lululemon Athletica) and the fierce competition in Europe, from NIKE's number one global rival, Adidas.</p> <p>Other strategies employed by NIKE include the use by the company of its CSR programs to further penetrate the market. To that end, NIKE sponsors community-based networks, to promote its products.</p> <p>In terms of pricing, NIKE is positioned as a premium brand. Consequently, it applies the following pricing strategies: Value-based pricing strategy; and Premium pricing strategy. It enjoys high prices for its products, with consequent (above the average industry standards) margins (see below).</p>
<b>M Margin</b>	<p>Although due to COVID-19 pandemic in FY 2020 its gross margin reached its lowest level from the past five years (43.4%), NIKE continues to be one of the most profitable company in the industry.</p> <p>Furthermore, Greater China is a high-margin market for Nike. For instance, if Greater China market represented close to 19% of NIKE's total revenues in FY 2020, its contribution to NIKE's EBIT for the same FY was almost three times higher, namely 53,5%.</p> <p>NIKE has a strategy of growth through internal development, rather than through mergers and acquisitions. The company's very strong innovating capability which contributes significantly to its competitive advantage, allows it to reduce the production costs while launching the most performant products on the market. At the same time, NIKE has a history of selling its subsidiaries when these do not longer bring the estimated growth. The most recent case concerns Hurley, the surf-apparel brand which NIKE brought in 2002 and which it has in the meantime been sold.</p> <p>Finally, NIKE has been heavily investing in reducing its dependence on wholesale retailers and shift the weight towards own stores and e-commerce capability (see the Consumer Direct Offense and the Triple Double strategy presented before). As a result, the percentage of direct-to-consumer sales in total Nike brand sales more than doubled over the past</p>

Component	Impact
	<p>decade, soaring from 15% in 2010 to 35% in FY 2020 (source: Statista). Financially, the latest results confirm the effectiveness of this strategy, as, according to the same source, the direct-to-consumer sales grew nearly five-fold in absolute terms, from \$2.5 billion in 2010 to \$12.4 billion in 2020.</p>
<p><b>R Risk</b></p>	<p>As mentioned above, a major risk for NIKE is its dependence on other retailers, to sell its products. While thanks to the Consumer Direct Offense and the Triple Double strategy, this dependence has been decreasing, retailers still represent the largest share of NIKE’s distribution channels, over which the company has very limited control. The continuation of the above mentioned distribution strategy will help diminish this risk.</p> <p>In addition, risk mitigation is performed through various strategies of product development, market penetration and market development, as presented in the Ansoff Matrix below.</p> <p>Due to its specific business model, NIKE’s success also depends on the image of the high-profile athletes which the company endorses. This however may entail reputational risks if the chosen athletes engage in unethical practices (e.g. Lance Armstrong or Marion Jones cases).</p> <p>Importantly, as mentioned before, half of NIKE’s revenues come from products which are sold outside the US. In that respect, the company incurs risks related to local laws and regulations, as well as cultural differences, with an impact on consumers preferences and shopping style.</p>
<p><b>SU Sustainability</b></p>	<p>Nike scores high at Sustainability. The company has defined as its Purpose to “unite the world through sport to help create a healthy planet, active communities and an equal playing field for all. We do that by building creative and diverse global teams, making a positive impact in the communities where we live and work, and by making products responsibly and more sustainably.” (<a href="https://purpose.nike.com/sustainable-product-approach">https://purpose.nike.com/sustainable-product-approach</a>)</p> <p>In order to achieve that, Nike has put in place an ambitious plan for action. Under the umbrella of a “Sustainability is Everything” overarching statement of intent, the company acts upon several key priorities: Unleash Human Potential; Transform Manufacturing; and Minimize Environmental Footprint. Progress on these priorities is measured through a set of indicators (e.g. Material Sustainability Index, Apparel Sustainability Index and Footwear Sustainability Index) and annual targets whose accomplishment is reported publicly (see FY19 NIKE, Inc. Impact Report). This drives business ethics and ensures corporate accountability.</p> <p>One of these targets is to <i>Provide comprehensive, competitive, and equitable pay and benefits</i> which aims to respond to the problems faced by the company in the past, when unethical labour practices in factories which were manufacturing Nike products in emerging countries were disclosed.</p> <p>Furthermore, Nike promotes “Innovation for Good” – i.e. <i>developing a new generation of products that achieve maximum athletic performance with minimal environmental impact</i>. In this respect, the company has set the very ambitious target to source 100% renewable energy globally by 2025.</p>

Component	Impact
	Last but not least, Nike understands that no action can last without involving the community. To that end, the company has established grassroots partnerships and put in place initiatives such as Made to Play community program which has reached over 17 million kids worldwide. The 2020 target was to <i>Invest a minimum of 1.5% of pre-tax income to drive positive impact in communities</i> , which was over-achieved in FY 2019 when Nike actually invested 1.9% of its pre-tax income into communities impact initiatives (according to the above mentioned FY19 NIKE, Inc. Impact Report).

**4.5.2.1 PRODUCTS – MARKETS MATRIX**

As mentioned in the earlier section of this Chapter, NIKE sells footwear, apparel and equipment under six key products categories. While these categories generally target men and women between 15-45 years of age (see chapter on Market Segmentation), as well as children, there are also differences between the focus of each category (see Table B below). More than 60% of all NIKE’s products are bought by men.

Furthermore, whereas NIKE's products are designed primarily for specific athletic use, the brand has also become known for its offer of products which are suitable for casual or leisure purposes.

Below we have compiled a products-markets matrix which takes into account market demographics and the type of use of NIKE products, for professional/athletic or for casual/leisure purposes. It is worthwhile noting that in the absence of data concerning the studied characteristics (attractiveness and intensity of market presence) this matrix has been built based on secondary information collected from NIKE’s web pages, social media, as well as on several consumer behavioural studies that were available on internet (as listed in the References). Consequently, the matrix uses assumptions rather than a purely professional market analysis.

Categories	Men	Women	Kids	Professional/Athletic	Casual/Leisure
Running	...	..	.	...	
NIKE Basketball	..	.		...	
The Jordan Brand	...	.	.	..	
Football (Soccer)	..	.	.	...	.
Training	...	..		...	.
Sportswear	...	..		..	..

High attractiv.	Medium attractiv.	Low attractiv.	No attractiv.	... Strong presence	.. Medium presence	. Weak presence
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Table B: Products-Markets matrix per demographic segmentation (Men, Women, Kids) and scope of use

The matrix above shows that, while NIKE is a highly attractive brand for the large majority of its target consumers<sup>1</sup>, its reach is still below optimal for Women and Kids (which form now less than 40% of NIKE’s consumers). In this regard, in June 2020, NIKE announced a new digitally empowered phase of the Consumer Direct Offense strategy, called Consumer Direct Acceleration. One of the three specific areas of focus within this strategy concerns the investment in NIKE Women’s and Kids’ businesses which are recognized as some of the company’s largest growth opportunities (NIKE-FY20-10K).

Furthermore, if we look at market demographics, we also note that a large category of consumers are not reached by the company’s products. These are the market segments which belong to two distinct generations, namely Generation X (people born between 1965 and 1979) and the Baby Boomers (born between 1944 and 1964) (see Table C below). This is in line with NIKE’s positioning which targets predominantly the younger consumers, namely Millennials (born between 1980 and 1994), and most particularly the newest generation – Generation Z – formed of people born after 1995. However, this leaves out a large category of consumers, with a high purchase power, who could afford to buy NIKE, but likely do not associate themselves with the brand.

Categories	Generation Z	Millennials	Generation X	Baby Boomers
Running	•••	••••	•	•
NIKE Basketball	••	•		
The Jordan Brand	••	•		
Football (Soccer)	••	•		
Training	••••	••••	•	
Sportswear	••••	••••	•	

Table C: Products-Markets matrix per demographic / Generational segmentation

In addition to NIKE’s products, the company sells the products of its subsidiary brand Converse. The brand, which was acquired by NIKE in 2004 for \$309 million, currently represents the only subsidiary of NIKE, after the recent selling by the latter of the Hurley brand.

Converse designs, distributes, licenses and sells casual sneakers, apparel and accessories under the Converse, Chuck Taylor, All Star, One Star, Star Chevron and Jack Purcell trademarks.

The revenues generated by the sales of Converse’s products reached a total of 1,846 billion USD in FY 2020, down by 3% from FY 2019. Almost 90% of these revenues were generated by the footwear category.

<sup>1</sup> One of the sources used to build this assumption was the study published by Deloitte in 2018 which found that NIKE ‘came first on YPulse’s list of most trusted brands by Millennials, and second on the list of most trusted brands by Generation Z consumers.’ (<https://fashionunited.com/education/news/nike-most-trusted-apparel-brand-among-millennials-and-generation-z/2018071022252>)

The target market segments of Converse mirror the ones of NIKE, namely young (Generation Z and Millennials), up-scale, urban consumers.

**4.5.2.2 PRODUCTS – MARKETS STRATEGY: THE ANSOFF MATRIX**

The Products – Matrix strategy of a company can evolve along several options, depending on whether it chooses to focus on its current products or to develop new products, as well as on the market dimension (existing or new) for selling these products. The Ansoff matrix is a tool which allows to present these options, as shown in the table D below.

*Table D: the Ansoff matrix adapted for NIKE*

	Existing Products and Services	New Products and Services
Existing Markets	<p><b>Market Penetration (Secondary Intensive strategy)</b></p> <p>While this is not the primary growth strategy of NIKE, the industry giant continues to grow in its existing markets. This is a result of the company’s strong innovation capability which allows it not only to put on the market new products all the time (see Product Development) but also to improve its existing product lines and keep its leading position on its current markets.</p> <p>This premium brand position is enhanced by the ever more sophisticated advertisement campaigns – NIKE is legendary for its endorsements of high-profile sports events, top athletes and leading world sports teams, and for its innovative campaigns, some of them controversial (for instance, the 2018 Colin Kaepernick Ad campaign), yet generating a lot of traffic.</p> <p>Furthermore, while the sportswear market is one of the most competitive ones, where further penetration becomes increasingly difficult after a certain point, NIKE employs several other strategies to acquire new customers. For instance, the company uses its CSR initiatives to expand its business. To that end, NIKE invests in sponsoring community-based networks which allows it to promote its products, and gain new customers which then develop brand loyalty and keep buying NIKE.</p>	<p><b>Product Development (Primary Intensive strategy)</b></p> <p>This is unarguably the main growth strategy of NIKE. Building on its exceptional R&amp;D and Innovation capability, NIKE is a world leader in Product development and an Innovation Leader (see last section on Innovation under this Chapter).</p> <p>Examples include NIKE’s most recent innovations in womenswear (as mentioned earlier, growing its sales in the womenswear segment is a strategic priority for the company), including the release in 2019 of its first sports bra utilising Flyknit technology. Other examples include the launch of NIKE’s Vaporfly shoes in 2016, which are so revolutionary that became controversial after having been proved to improve the performance of athletes wearing them in official competitions (which made NIKE being accused of “technological doping”).</p> <p>NIKE is also using its technological advantage to create applications which generate complementarity (see later section on Products-Markets Modes) and enhance the use of its products by the tech savvy market segments of the company, made predominantly of Generation Z and Millennials customers.</p> <p>By using cutting-edge technology, NIKE is a game changer which keeps launching new, ever more performant products. This enhances its competitive</p>

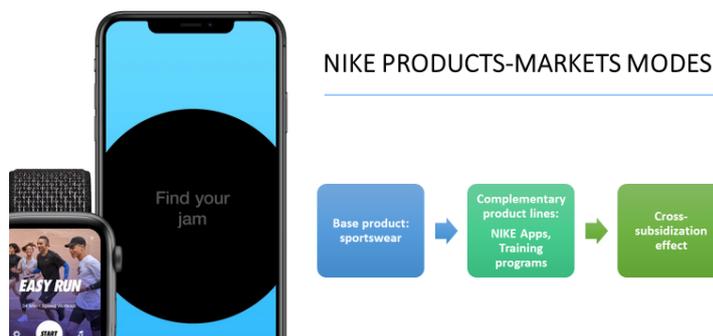
	<b>Existing Products and Services</b>	<b>New Products and Services</b>
	<p>Finally, NIKE keeps optimising its distribution strategies (see the Consumer Direct Offense and the Triple Double strategy presented earlier in this Chapter) and costs (see the later section on Competitive Advantage in this Chapter) which enhance its capacity to reach new customers, in addition to ensuring repetitive purchase by the existing ones.</p>	<p>advantage over its rivals and drives its market growth in one of the most competitive global industries.</p>
<b>New Markets</b>	<p><b>Market Development (Supportive strategy)</b></p> <p>An important aspect of this growth strategy is the expansion to international markets - for details on this, see the Chapter on Internationalization.</p> <p>In addition to its geographical growth, NIKE has also increased its presence on new markets by means of developing new business lines dedicated to specific segments, which we can associate to 'new markets'.</p> <p>In that regard, Nike has taken steps to grow its apparel business by expanding its product offer across various fashions, sports, and sizes, in order to attract new customers.</p> <p>For instance, in parallel with its established products categories, NIKE offers four separate collections (ACG, NikeLab, Nike Sportswear and Skateboarding – see the earlier section on Products) which target a specific market segment, namely Generation Z fashion-forward customers who want to wear trendy clothes while pursuing their hobbies (e.g. outdoors activities). These collections are constantly renewed to keep pace with the dynamic fashion industry and are sold exclusively via NIKE's own channels, either online or through the brand flagship stores, such as the House of Innovation concepts.</p> <p>Furthermore, NIKE has expanded its offering of sports-specific collections. Examples include Nike Yoga Collection</p>	<p><b>Range Diversification</b></p> <p>This is the least important growth strategy for NIKE. For the past years, the company has increasingly expanded its offering, by improving existing products and/or developing new products or collections, to increase its presence on current or new markets; however, these developments have taken place within NIKE's business of producing and selling sportswear: footwear, apparel and equipment.</p> <p>In an attempt to diversify its offering and expand to new markets (e.g. casual footwear), along the years NIKE has acquired several brands such as Bauer Hockey, Haan, Umbro, and Hurley International. The company has eventually chosen to divest and sell all these brands, pursuing a strategy to exclusively focus on its sportswear primary business. Currently, NIKE operates three brands: Nike, Jordan, and Converse.</p>

	Existing Products and Services	New Products and Services
	<p>from Nike Training, the first line dedicated to the yoga practice, which was launched in 2019, together with a set of new yoga workouts on the Nike Training Club app.</p> <p>Other examples include the recent collections of women's plus-size range which target a market niche and promote NIKE's approach to a more inclusive trade practice.</p>	

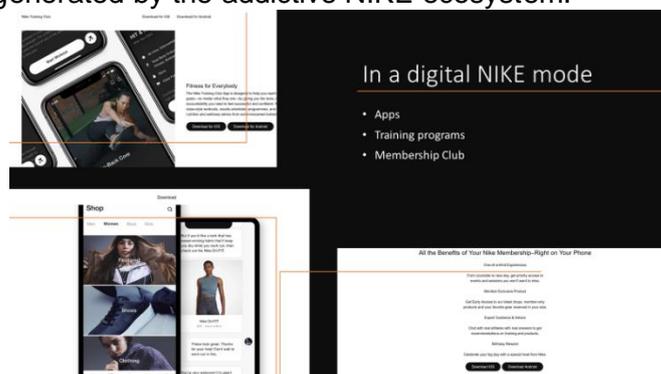
### 4.5.3 Products-Markets modes

This describes how an organisation can expand its offering by creating complementary product lines.

In the case of NIKE, this applies to some of the additional products and services that the company offers to its customers. This includes the applications (Apps) developed by NIKE for the users of its products and the special programs created by the company to enhance the experience of its customers.



The idea behind is simple: customers enter the shop (in-store or digital) to buy the base products; while there, they are introduced to complementary product lines, such as the apps, the tailored training programs, or the membership club; in the end, the customer leaves the shop with much more than they came for; and they will return, thanks to the cross-subsidization effect generated by the addictive NIKE ecosystem.



### 4.5.4 Competitive Advantage

As noted, NIKE scores high at all the components of the sustainable value creation, maintaining a strong competitive advantage in front of its rivals.

The company reached its highest growth in FY 2019, both as revenues and as gross margin (followed by a decline in FY 2020, due to COVID-19 which affected all the players in the market), recently put in place a new strategy to decrease its dependence on retailers, and increase its direct engagement with its customers and enhance their shopping experience with the company.

To analyse NIKE’s competitive advantage, we used the Adapted Generic Strategies model presented below. One of the advantages of this model, as compared to the Generic Strategies model, is that it avoids the limitation of placing the company in one category without taking into account the presence of the elements which belong to the other category.

In the concrete case of NIKE, the company is a clear example of competitive advantage through differentiation. This is the result of the combination of several factors, already mentioned before, namely:

- The unparalleled R&D and Innovation capability, which makes NIKE’s products more performant than those of its competitors
- The trendspotting ability, which allows it to anticipate, or even drive, the market demand
- The unmatched brand association with elite world athletes, which supports NIKE’s unique market positioning

However, while differentiation is a key strategy for NIKE to grow its market share, the company also wins by its capacity to control its costs (Cost Leadership). In that respect, NIKE uses advanced technologies not only to boost the performance of its products, but also to cut on its production and distribution costs (see also the earlier sections in this Chapter).

Therefore, we can conclude that NIKE uses a combined strategy, of Differentiation with Cost Leadership.

#### COMPETITIVE ADVANTAGE



		Cost Leadership	
		Low	High
Differentiation	High	Pure Differentiation	<b>Differentiation with Cost Leadership</b>
	Low	Indistinction	Pure Cost Leadership

### 4.5.5 Innovation

Innovation is in the very DNA of NIKE. The company's mission statement is to bring inspiration and innovation to everyone who is an athlete. And for NIKE, *everyone who has a body is an athlete*. This is essentially why the company's message is so powerful – as it speaks to anyone, no matter if they are true athletes or common people.

Everyone can find something which matches their lifestyle. As NIKE is not a sportswear producer, but a creator of a better way of living. This highly motivational and inclusive message has not only the merit of attracting potentially any market segment, but also of promoting the idea that we can all aspire to be more. If we are wearing NIKE.

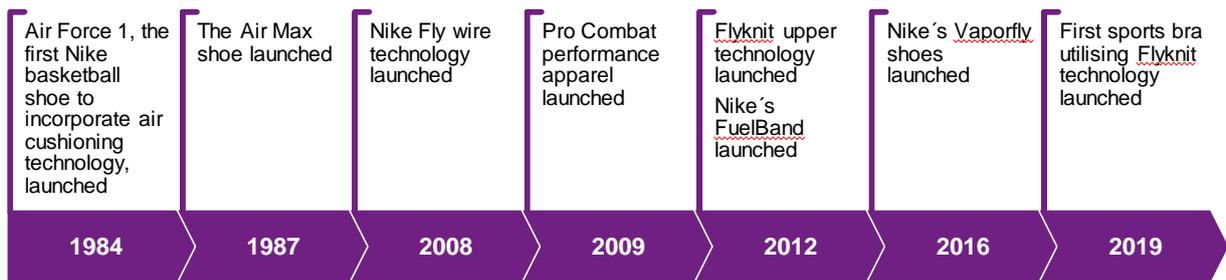


For Nike, innovation has multiple dimensions.

It starts with the use of **cutting-edge technology to manufacture its products**. As a result, the users experience higher performance while practising their favourite sports or enjoying their indoors or outdoors hobbies. Importantly, this technology now also has sustainability at its core, which is naturally embedded in the company's culture and speaks greatly to NIKE's environmental mindful market segments.

Ever since the beginning, when NIKE invented the Waffle trainer back in 1974, the company has revolutionized the industry, positioning itself as an **ultimate innovation machine**. Along the years, NIKE marked the way sports were performed. Among others, the company introduced Nike's Air cushioning system (the first Air-sole units created) in 1978, while four years later Air Force 1, the first Nike basketball shoe to incorporate air cushioning was launched. It was followed by the Air Max shoe in 1987. Later in 2000, NIKE introduced the Shox technology, followed by the Nike Fly wire technology in 2008, the Flyknit upper technology in 2012, the Vaporfly technology in 2016, or the Joyride in 2019. While NIKE's main product category is footwear, apparel has not been forgotten either, and in 2009 the Pro Combat performance apparel was launched.

A selection of key technological launches is presented in the timeline below.



The speed at which NIKE has been launching its innovations has increased at incomparable pace, making it very difficult to match by any of its rivals.

In 2019 alone, the company introduced four novelties (see presented in the figure below), which further enhance NIKE's product range.



Products are however not the ultimate goal of the NIKE shopping experience, but only the beginning of a truly unique customer journey. In that regard, the company invented The NIKE House of Innovation – a revolutionary concept which brings together a set of services which are ultimately part of the Nike Consumer Experience (NCX).

## WELCOME TO THE HOUSE OF INNOVATION

At Nike, our mission is simple: to bring inspiration and innovation to every athlete\* in the world.



New Releases Men Women Kids Customize Sale

Search  

legacies. It's our privilege and our responsibility. It's why we question everything and assume nothing, except the infinite human potential for greatness. It's why we take big risks, even when it means risking it all. It's why we create and craft the future of sport—one day, one idea, one innovation at a time.



The concept, which brought NIKE the award of the Fast Company's 2019 Design Company of the Year, is being delivered through innovative physical spaces – City Shops – which are located in big cities serving strategic markets: New York, Shanghai and Paris, as well as online.

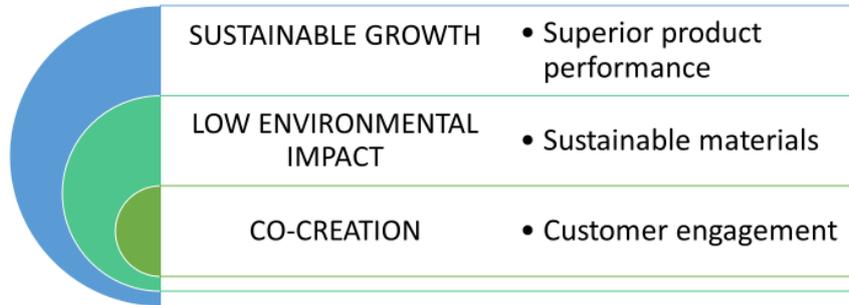
For instance, at Nike's House of Innovation store in New York, mannequins are fitted with QR codes so phones can identify each item on display, and reservable lockers are stocked with new shoes in customer's size if they have been ordered in advance.

These services are designed to augment the customer experience. For instance, the company created Nike By You (which has evolved from the initial concept Nike iD): a service which allows buyers to customise their NIKE shoes based on their own design preferences. This responds to the need to feel unique and different and have access to exclusive products, specially made for you, yet at mainstream prices. At the same time, this co-creation service allows the company to collect valuable data on the preferences of its customers, which it then uses to further scale up its offer.

Furthermore, NIKE's customers also benefit from the free membership program Nike Plus. Created in 2006, this digital loyalty program which is backbone of NIKE's retail and fitness apps, has now around 170 million members.

Other examples from the huge NCX platform are the innovative NIKE training programs. Supported by the use of NIKE's mobile apps (such as Nike Fit, an app that scans the foot to size the buyer's shoe) these plans generate cross-subsidization effects (see earlier section on Products-Markets Modes in this Chapter) and organically boost the sales.

# NIKE: THE ULTIMATE INNOVATION MACHINE



The company which ‘dares to design the future of sports’ is unarguably a pioneer (first mover) and an **Innovation Leader**. This is supported by a tremendous internal R&D and innovation capability. In this regard, NIKE acknowledges ‘research, design and development efforts are key factors in our success’ (NKE-FY20-10K).

As part of this core competency, the company employs specialists in various fields, such as biomechanics, chemistry, exercise physiology, engineering, digital technologies, industrial design, sustainability and others. Additionally, in order to develop and test its products, NIKE collaborates with research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other experts.

This guarantees the top quality and credibility which are critical components of NIKE’s competitive advantage.

The cost of being an innovation leader is however massive. In FY 2019 alone, NIKE invested more than \$1 billion in new capabilities and consumer concepts. As a result, during the same year the company grew its digital business by some 35%.

Sports created NIKE,  
but design and innovation  
made it grow

Mark Parker  
NIKE CEO (2006-2020)

		Technological competencies	
		Reduced	Elevated
Innovation approach	Pioneer	Innovation specialist	<b>Innovation leader</b>
	Follower	Innovation streamliner	Innovation follower

## 4.6 Vertical Integration

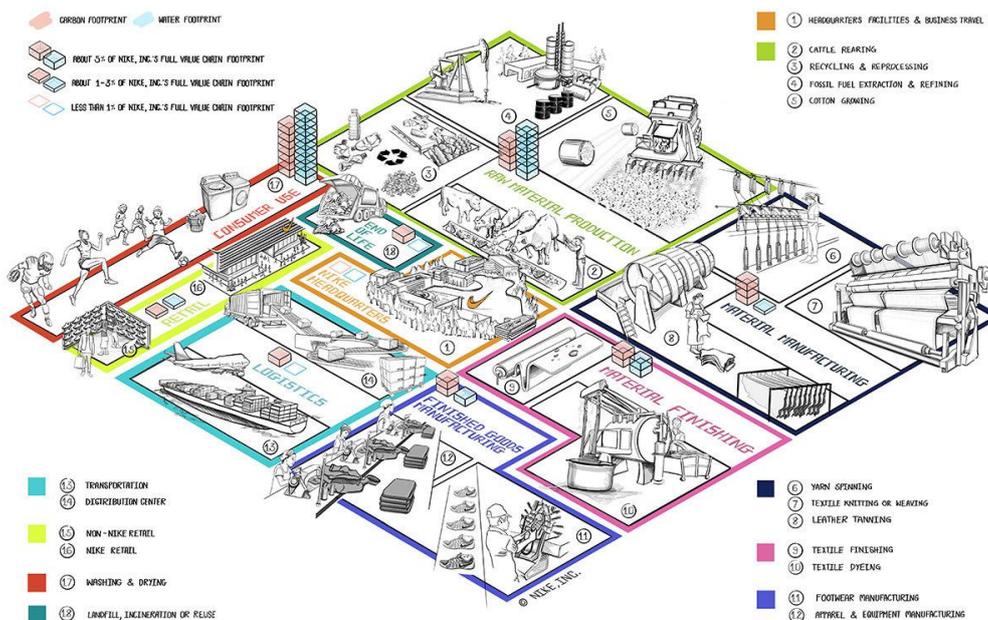
During the analysis of the subject vertical integration we aim to understand how Nike is organizing its company value chain, which are the activities that it performs internally and which are performed by outside entities, either suppliers, retailers among others. It is expectable that the company favors the execution of activities that are fundamental to generate strategic advantage and outsource those that entail smaller weight in the creation of sustainable value, although the relationships that the company builds with these external entities can also vary in scope and depth. From the core activities, defined by the company type, one can integrate activities upstream, moving towards the beginning of the value chain, or move down the value chain to downstream vertical integration.

### 4.6.1 Nike Value Chain

From what was already analysed in previous chapters we can conclude that Nike is a design company, whose core activities revolve around research and development, being this activity the one that generates the biggest share of sustainable value creation. The research and development of Nike can be divided in two main concurrent activities, on one side we have the design and on the other we find technological development.

Nike draws its deep and complex value chain as being composed by 9 tiers, represented in the infographic below<sup>1</sup>.

Figure 25 - Nike Value Chain - original



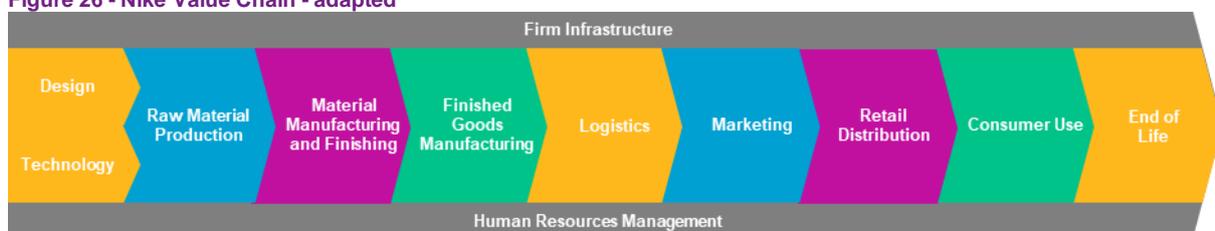
<sup>1</sup> <https://purpose.nike.com/value-chain-stages>

The first tier is Nike Headquarters, where we expect to find all intellectual work such as marketing, design and technological research and development, but also firm infrastructure and human resources management. On the second tier we have raw materials production which includes cattle rearing, for leather based products, cotton growing, fossil fuel extraction and refining, used in production process and in the creation of specific fabrics and materials used in final product confection, and finally recycling and reprocessing, a sub-activity that has special interest and will be address later. On the third and fourth tiers we have material manufacturing and finishing respectively, consisting on yarn spinning, textile knitting or weaving and leather tanning, in the first, as well as textile finishing and textile dyeing on the last. These two tiers are closely linked together and can be considered as one activity in the value chain. Tier five is finished goods manufacturing booth of footwear and apparel and equipment, followed by tier six which is logistics, with transportations and distribution center operation, and tier seven which is retail, both Nike and non-Nike stores.

The value chain continues, uncharacteristically, further down, as Nike envisions a circular economy approach to its business<sup>1</sup> and thus includes a tier eight consumer use, consisting of washing and drying, and also a tier nine titled end of use (landfill, incineration or reuse). This last tier makes contact with both research and development and raw material production's item of recycling and reprocessing. Nike pushes the boundaries of the circular economy potential and urges designers, engineers and scientists to transforms waste from used products into valuable additions to the value chain, either by designing with grind material or developing technologies that can advance material recovery techniques to make them broader and offer higher quality<sup>2</sup>. These innovations are then put into practice on the value chain and deliver superior sustainability indicators to the brand.

By organizing the value chain in the classical way we get the 9 stage model that is below:

Figure 26 - Nike Value Chain - adapted



<sup>2</sup> <https://purpose.nike.com/circular-innovation-challenge>

<sup>2</sup> <https://purpose.nike.com/nike-grind>

Addressing Nike's value chain we can identify three main strategic activities: design, technology and marketing. These are the major sources of competitive advantages against competitors and are activities that work closely interconnected in strategic deployment phases. As Nike stated: "We believe our research, design and development efforts are key factors in our success. Technical innovation in the design and manufacturing process of footwear, apparel and athletic equipment receives continued emphasis as we strive to produce products that help to enhance athletic performance, reduce injury and maximize comfort, while reducing waste."<sup>1</sup> Building over this focused approach towards value creation is the marketing strategy, whose core initiative, of employing some athletes directly and engage others under sports marketing agreements, provides a significant input to the research and development process by wear testing and evaluating new products during the process. Marketing is also responsible to deploy new technologies into innovative products of existing categories. Combining both market research and market intelligence, they identify opportunities to leverage the value of new technologies in existing product categories that correspond to consumers' preferences.

The activities that are complementary are the ones related to procurement and manufacturing (raw material production, material manufacturing and finishing, finished goods manufacturing), logistics, retail distribution, consumer use and end of life. These activities are necessary to facilitate the fulfilment of the strategic activities and the pursuit of strategic objectives, such as sustainability and fair trade objectives.

#### **4.6.2 Modes of Vertical Integration**

The strategy of vertical integration of Nike is quite diverse and complex, as is its value chain. Against the norm, Nike not only integrates some complementary activities, it also permits a degree of disintegration on its core activities that are usually carried out exclusively at the internal level.

Having core activities associated with research and development, Nike pursues downstream vertical integration of several phases of the value chain.

**Manufacturing:** on this activity Nike operates in quasi-vertical integration. Despite having a very large supply base of over 518 contract manufacturers distributed by 41 countries<sup>2</sup> around the world, that are responsible for 100% of manufacturing of their +900 million units. The key principle behind Nike's manufacturing is diversification and outsourcing but they do so in a supportive and embracing way to their suppliers, elevating them from mere transactional relationships, as is manifest in this quote:

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<sup>1</sup> Nike, Inc. Annual Report on Form 10-K, 2019

<sup>2</sup> <http://manufacturingmap.nikeinc.com/#>

“In some instances, these relationships run really deep, 30 and 40 years deep, and that's unique. This approach helps elevate capabilities across environment, health, safety, and labor.”

Jaycee Pribulsky, Nike's VP Sustainable Manufacturing & Sourcing

Figure 27 - Contract Manufacturing Map

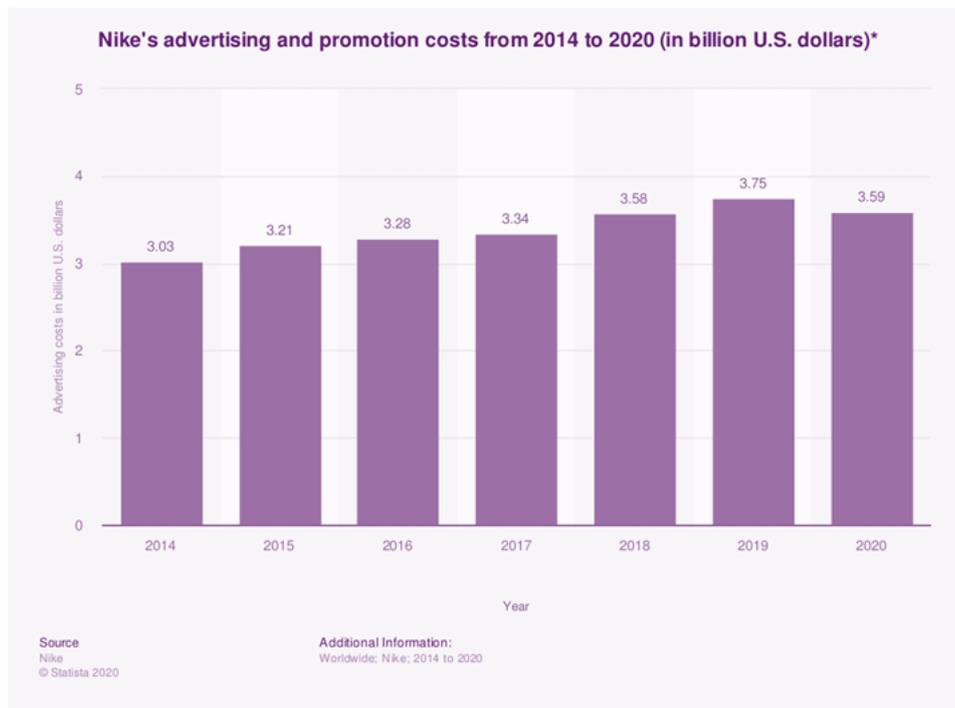


Nike was one of the first companies in the world to manufacture all its production and quickly learned to manage the increased logistic complexity that it entails, ripping significant cost reductions that they sustain to this day, allowing them to compete as a differentiator with cost advantage. But this strategy doesn't come without associated risk and Nike understands it well. During the 90's Nike faced accusations of producing in so called sweatshops (production facilities with child labour, unfair wages, unhealthy working conditions among other problems) which severely affected Nike's brand and put the company under intense scrutiny. Today Nike requires compliance on environment, health, safety and labor metrics to all contract manufacturers. They also share expertise and knowledge to help them strengthening human resources management, implement a safe and healthy workplace and build capabilities in environmental management.

**Logistics:** Nike's approach to logistics is made through partial vertical integration. The company owns and operates 21 distribution centers worldwide and rely on logistics service providers for all of their transportation, be it inbound air freight and ocean freight or outbound providers of road freight and small parcel.<sup>1</sup>

**Marketing:** this activity of Nike's value chain is vertically integrated as is a strategic activity for the company. This activity accounts for \$3,59 billion USD spent in demand creation expense consisting of advertising and promotion costs, including costs of endorsement contracts, complimentary product, television, digital and print advertising and media costs, brand events and retail brand presentation.

<sup>1</sup> <https://purpose.nike.com/supply-chain-sustainability-index>

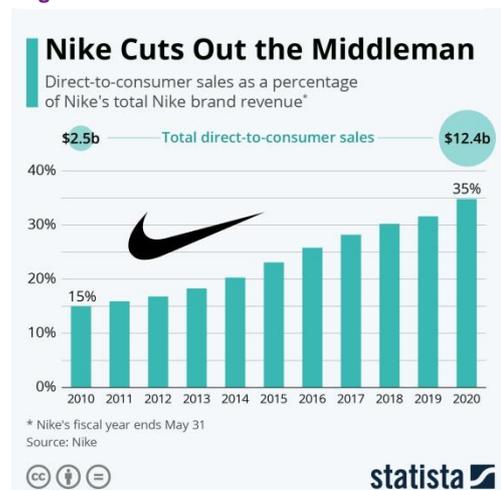


The value created by this activity is especially significant due to the close interconnection it has with other strategic activities such as design and technology. On one side we have the sponsored athletes that help develop the best technically innovative products, by testing and providing valuable feedback to product development teams. On the other side we have the partnerships with influential designers, musicians and personalities that develop exclusive and limited editions of Nike's products that more than impacting demand introduce or revive Nike products among specific target groups with an effective recommendation factor. Limited edition collaborations with brands and influencers such as Fear of God, Tom Sachs, Supreme or Off White, have proven greatly successful and influential in Nike's continued success.

**Retail Distribution:** being a consumer product with so much appeal and dealing with a worldwide distribution of its products it would probably be impossible for Nike to vertically integrate totally this tier of the value chain, despite the recent growth of its direct-to-consumer sales. With more than 1000 retail stores in the world, consisting mainly of in-line and factory stores, and a powerful online store, this is a partially vertical integrated activity.

The stores offer important brand value as they are controlled touchpoints with consumers that offer extensive amounts of data, more significant in the online store. They are also pivotal in the most important strategic initiative, Consumers Direct

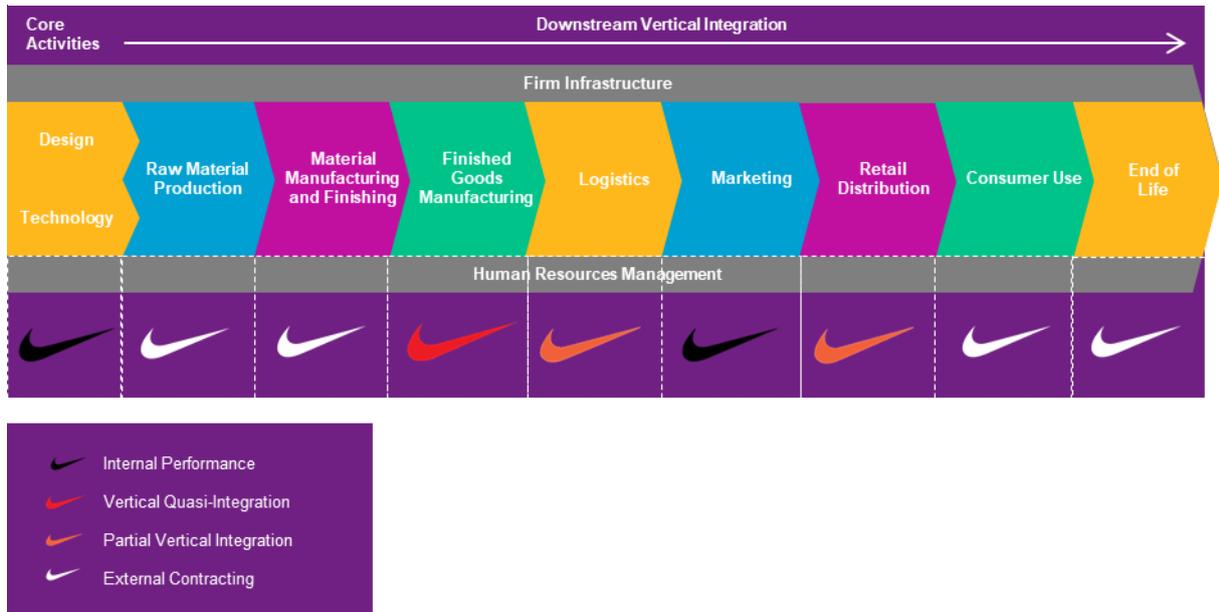
Figure 28 - Nike Direct-to-consumer Sales



Offense under the Triple Double strategy, with the creation of the recent Nike Direct organization.

Based on the analysis above, we can update Nike’s value chain with a comprehensive scheme for vertical integration.

Figure 29 - Vertical Integration Scheme



### 4.6.3 Strategic Outsourcing

Nike does not rely on individual collaborations at any stage of the value chain. It is known that in the beginning of their activity they did so in manufacturing with negative results. Blue Ribbon Sports, the name of the company that was the precursor of Nike, established in its early years a partnership with Onitsuka, a Japanese company of running shoes, consisting of distribution rights to the United States and the manufacturing of RBS products. A disagreement over the original birth of the Cortez/Corsair design put an end to the relationship and left Nike without a manufacturing partner and a design they claimed originality.<sup>1</sup>

The table below shows the absence of strategic outsourcing activities and its substitution by market purchase. This is aligned with the diversification and outsourcing moto for Nike’s manufacturing. They indeed outsource but to many alternative suppliers with emphasis on quality of supply, low prices and sustainable process.

		Strategic Vulnerability to Outsourcing		
		Low	Medium	High
Potential Competitive Advantage	High			
	Medium			
	Low			

Internal Performance  
Market Purchase

#### 4.6.4 Value Creation in Vertical Integration

The decision undertaken by Nike of which commercial and operational activities to pursue internally and which to externalize have a direct impact in all the components of the creation of sustainable value<sup>1</sup>. A brief analysis of all four sustainable value creation components can be seen below:

*Table 1: Value creation in Vertical Integration adapted for NIKE*

Component	Impact
G Growth	<p>By incorporating design and technology development internally, Nike can enhance the synergies between the different areas of the company, using consumer and sales data to fast track the deployment of new successful innovations across a diverse range of products, with a responsiveness second to none.</p> <p>The distribution centers operated by Nike ease the access of retailers and distributors to Nike's newest products reducing substantially the time to market delay. They do so by dealing with a significant part of the bureaucratic heavy import process.</p> <p>The significant growth of the online retail as proved to be quintessential to the growth of sales of Nike. Its ability to supply the whole world with a single store disruptive to the industry landscape.</p>
M Margin	<p>The disintegration of manufacturing as proven to be a major source of margin, due to the bargaining power Nike was able to exercise. The favourable economic conditions that have been negotiated along the years as well as the ability to maintain a large and diverse network of suppliers as allowed Nike to be highly competitive and generate margin value like few companies in its industry and the world.</p> <p>Marketing activities increase margins as it dilutes consumers' price sensitiveness, through the endorsement of real life heroes, starting with sportsmen and in more recent years progressing to musicians, artists</p>

<sup>1</sup> Freire, Adriano (2020). *Estratégia Criação de Valor Sustentável em Negócios Tradicionais e Digitais*, Bertrand Editora

Component	Impact
	among other influential personalities.
	The direct to consumer strategy and initiatives generate margin value because they cut the middleman.
R Risk	<p>The quasi-integration reduces risk because it creates redundancy in Nike's supply chain at the same time it maintains some control over labour and environmental practices that have the potential to undermine significantly the value of the brand.</p> <p>By partially integrating a significant slice of retail Nike guarantees direct market access and reduces the risk of being dependent solely on external retailers to deliver their products to the final consumer. It also allows Nike to actively manage its relation with customers, building long lasting and profitable relationships.</p>
SU Sustainability	<p>On the totality of Nike's value chain there is a major concern with sustainability and that is independent from the degree of integration of each tier. Nevertheless there is a perception that more efforts are put in those activities that can generate bigger impact (such as manufacturing and raw material production) or in those that can be actioned in a more significant manner (such as retail and logistics).</p> <p>On the design phase, the creation of more sustainable products is a fundamental part of Nike's purpose. By incorporating this activity within the circular value chain Nike is ensuring that ever more sustainable products are being launched as well as strengthening the circular dimension in itself.</p>

## 4.7 Internationalisation

### 4.7.1 Reasoning behind the Internationalisation

Component	Impact
Growth	<ul style="list-style-type: none"> <li>• Entry into new markets to cover more customers with current products</li> <li>• Entry and acquiring leadership in the fast-growing markets, like China</li> </ul>
Margin	<ul style="list-style-type: none"> <li>• Production facilities in the countries with cheaper resources</li> <li>• Exploitation of industrial and commercial economies of scale and scope</li> <li>• Increased barriers to entry for new competitors</li> <li>• Monetization of the worldwide brand recognition and brand campaigns</li> <li>• Increased bargaining power with the suppliers, distributors</li> </ul>
Risk	<ul style="list-style-type: none"> <li>• Diversification of sales in foreign markets</li> <li>• Diversification of the production facilities in foreign markets</li> <li>• Spreading best practices from one country to another</li> </ul>

Sustainability	<ul style="list-style-type: none"> <li>• More sustainable production technologies</li> <li>• After several scandals – production facilities with more care about the employees</li> </ul>
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### 4.7.2 History of Nike’s International Strategy

Nike is transnational company. From the beginning it never was a local company in the terms of production – being based in the United States it manufactured its products in Japan, after previously being the distributors of the Japanese brand Onitsuka. Nike has always used manufacturing plants in other countries outside the United States, because of the lower labour costs there and because of the very labour-intensive production process. After Japan it moved its production to the South Korea and Taiwan and later, the manufacturing plants were moved to Indonesia and China. From this perspective, Nike was never a purely local company.

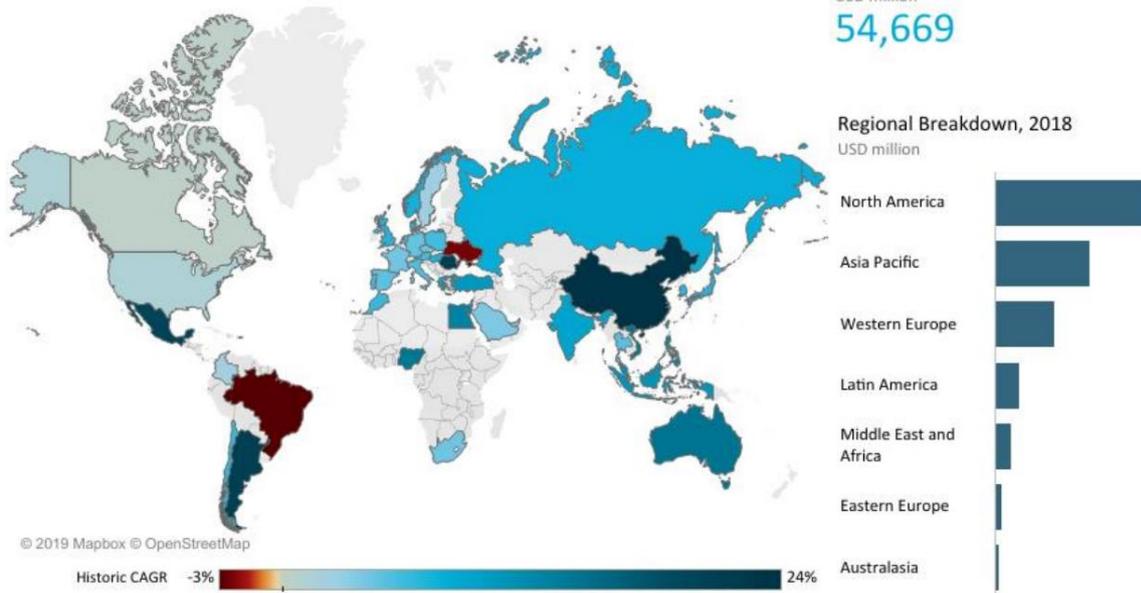
Today, Nike has production facilities in 41 countries and its products are sold in 170 countries.

### Nike’s international presence<sup>1</sup>

Apparel and Footwear, 2018

Nike Inc

Company Retail Sales RSP - USD million - Current - Fixed 2018 Exchange Rates



### 4.7.3 Evaluation of the External Markets

To analyse Nike’s different internationalisation strategies in the different markets, a number of emerging markets were analysed: India, Indonesia, China, Brazil. We have performed the country analysis not from a historical perspective, when Nike was entering those countries, but from the current perspective.

<sup>1</sup> Source: Euromonitor, Nike apparel and retail world report 2019

Factor	Weight	China	Brazil	India	Indonesia
<b>Sales</b>					
Market Size in Volume	10%	10	3	4	1
Average Price Level	9%	9	6	5	7
Access to the Distribution Network	3%	5	4	3	3
Cultural Proximity to Sports	5%	8	6	4	7
<b>Sales Assessment</b>	<b>27%</b>	<b>2.36</b>	<b>1.26</b>	<b>1.14</b>	<b>1.17</b>
<b>Growth</b>		<b>China</b>	<b>Brazil</b>	<b>India</b>	<b>Indonesia</b>
GDP Growth Rate	7%	6	1	5	5
Population Growth Rate	4%	4	8	9	10
Market Growth Rate	5%	8	0	10	5
GDP per capita	9%	8	7	3	6
Openness to International Trends	4%	5	2	4	3
<b>Growth Assessment</b>	<b>29%</b>	<b>1.18</b>	<b>0.47</b>	<b>1.37</b>	<b>1.12</b>
<b>Margin</b>		<b>China</b>	<b>Brazil</b>	<b>India</b>	<b>Indonesia</b>
Access and Cost of Labor	10%	5	4	5	7
Distribution Margin	3%	2	3	2	4
Online channel development	7%	9	2	4	3
Legal Regulation	2%	7	1	4	3
<b>Margin Assessment</b>	<b>22%</b>	<b>1.43</b>	<b>0.45</b>	<b>1.12</b>	<b>1.19</b>
<b>Risk</b>		<b>China</b>	<b>Brazil</b>	<b>India</b>	<b>Indonesia</b>
Foreign Exchange Risk	4%	8	5	7	7
Political Risk	4%	6	6	7	7
Competitive Risk	3%	9	9	1	2
<b>Risk Assessment</b>	<b>11%</b>	<b>0.83</b>	<b>0.71</b>	<b>0.59</b>	<b>0.62</b>
<b>Sustainability</b>		<b>China</b>	<b>Brazil</b>	<b>India</b>	<b>Indonesia</b>
Environmental Sustainability	5%	4	6	2	4
Social Sustainability	4%	3	2	3	4

<b>Governing Sustainability</b>	2%	8	6	8	8
<b>Sustainability Assessment</b>	11%	0.48	0.5	0.38	0.52
<b>Global Assessment</b>	100%	6.28	3.39	4.60	4.62

From the country evaluation, we can see that China is the most attractive country and Brazil is the least attractive from the considered countries. The explanation of the variables used for the country assessment is in Appendix 1. We will see below, how Nike’s strategy differs in those countries and how it can be explained by the performed country analysis.

**Nike in China – strategic market, focus on online**

From our evaluation of the countries attractiveness we see that China has highest scores in sales assessment, risk assessment and sustainability assessment. It also had the highest overall score, making it the most attractive market for Nike from the list of countries analysed above. China is attractive both from the sales and the production aspects.

Nike has operated in China for more than 35 years. In the beginning of this period, China for Nike was mostly the manufacturing location, however, over the years and due to the tremendous growth of Chinese economy, China became one of the main sales markets for Nike. Today, Chinese market is booming, and it became one of the main growth factors of Nike’s international sales.

The main aspect of the Nike’s strategy in China is very sophisticated and localized digital strategy.

**Digital approach in China**

“China’s fast growing 5G technology infrastructure, artificial intelligence, machine learning and digital related-business environment, as well as people’s willingness to connect with various products via digital applications, are creating many opportunities”.



“Nike 001” store in Shanghai

*Michael Martin, vice-president of Nike China*

In China 35% of the retail purchases are made online. Since 2012 Nike is continuously developing its presence in the Chinese e-commerce shopping platforms: Tmall, WeChat. It also developed its Nike App for China and developing further digital platforms. Since launch, the Nike China App is widely acclaimed due to its multifunction and convenience. At the same time, Nike gradually transfers its sales to brand-owned channels, especially the Nike App, since self-own channels mean higher profits and more loyal members than e-commerce platforms and more customers data.

**Nike’s Digital direct retail framework in China**



China is one of the markets for Nike to launch its digital driven retail innovation. Its first global flagship store (Nike 001) was opened in Shanghai in October 2018.

Digitalization, personalization, online-and-offline integration, the key elements of “new retail” can be found at each corner of Nike 001. The store is equipped with a mobile checkout, so the customers do not have to wait in line. Through advanced or in-store booking, the Nike Expert Studio of the Nike 001 gives Nike Plus members unrivalled access to try on exclusive and personalized products in one-on-one sports expert sessions. As for online and offline experiences, Nike members have access to their customized products and private services in the store through online reservation.

Starting from Shanghai 001, Nike is leading the transformation of sport retail in China.

Nike has large production operations in China with 108 factories and 13% of the global headcount (Appendix 2).

### ***Nike in India - retrenchment***

In the country evaluation table, India had second to lowest total score. It is an attractive market in terms of growth, though it is less attractive in terms of sales and margins, because of the low purchasing power of the population and the high competition from the local players like HRX, Zeven and YWC. It also had low sustainability aspect assessment, due to the low social and environmental sustainability.

Nike was one of the early entrants in the Indian market in 2005 but has not managed to reap the benefits, incurring losses for the past few years in India. The company is now on a damage control mode and trying to minimise losses by trimming down its operational costs and cutting down on its sponsorship deals. Since 2016 Nike is consolidating its operations in India and has been closing its stores in India – from 350 stores few years ago to 100 stores.

Nike has very few production operations- 6 factories and only 2% of total world headcount located in India (Appendix 3).

### ***Nike in Indonesia – from manufacturing to sales***

In the country evaluation table, Indonesia has one of the highest rankings on the margin assessment, mostly due to the low costs of labour. It explains why Indonesia is one of the major Nike’s production operations globally and one of the top ten footwear suppliers in the world. Nike works with 39 factories in Indonesia and around 20% of its global headcount (Appendix 4).

Indonesia has strong evaluation in terms of growth and sales assessment, the GDP is growing, and it is undergoing the transition from the purely manufacturing facility for Nike to a more attractive sales market with growth potential.

### ***Nike in Brazil – selling distribution business***

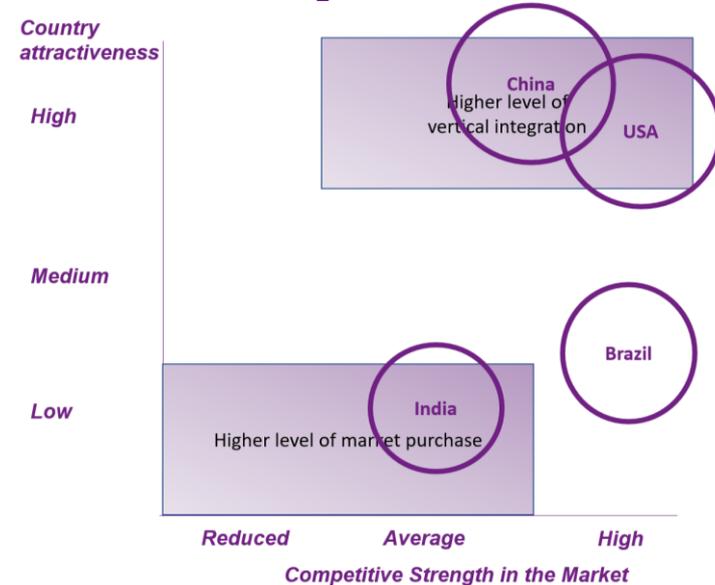
In the country evaluation table, Brazil is an attractive market in terms of sales assessment and risk assessment. However, from the growth and margin assessment it is the least attractive market from the analysed countries.

Low growth assessment in 2019 is aligned with the struggles to overcome the recent economic crisis. High score of the risk assessment is motivated by Nike’s leadership position in sportswear market with 22% of the market.

It is aligned with the Nike’s strategy in Brazil - in the beginning of 2020 it announced that it will sell its local branch to local distributors. This move demonstrates Nike’s ongoing approach to optimize country operating models across its global portfolio, with sharpened focus and investment against its biggest growth opportunities, and Brazil is not one of them.

As we see from the low margin assessment index Brazil is not very attractive in terms of allocation of the production facilities there. It is confirmed by the fact that Nike works with very few production facilities in Brazil – only 15 factories and 1% of the global headcount (Appendix 5).

**Performance in Strategic Markets**



China and USA are the most attractive markets for Nike, and Nike invests its resources to gain higher market share on these markets. These markets are the main growth drivers for Nike globally. USA is still a core market for Nike, but China is growing fast. See Appendix 6 for the top 10 growth areas and Appendix 7 for Nike Sales in top countries. In its strategic markets, Nike is #1 or #2 player in the footwear market.

### Nike Leadership Across Top Countries and Categories, 2018<sup>1</sup>

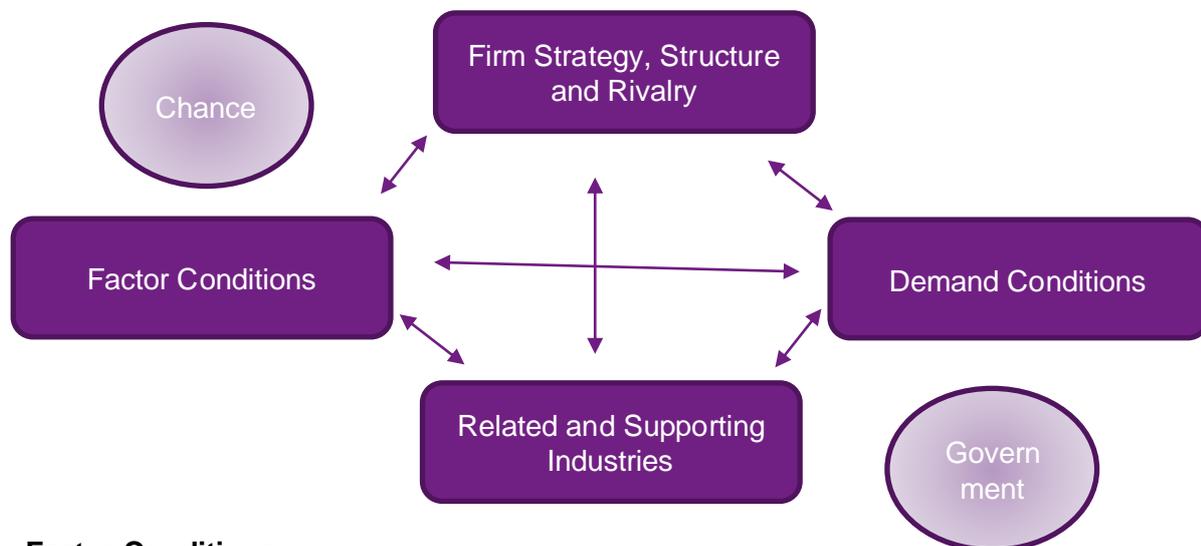
	US	China	UK	Japan	Brazil	Germany	France	Spain	Italy	South Korea
Men's Footwear	1	1	1	2	2	3	2	1	1	2
Apparel by Category	2	6	13	29	7	34	19	8	22	10
Women's Footwear	1	1	1	1	4	3	3	2	1	2
Children's Footwear	1	1	1	1	2	3	1	2	1	1
Childrenswear	3	10	7	13	13	17	12	16	13	9
Apparel Accessories	13		2	9		8	5	2		9
Hosiery	5	6	7	18		5	15	3		3

Note: Colour indicates company share in 2018. Range displayed: 0% to 33% in Retail Value RSP terms. Number indicates company rank in 2018. Range displayed: 1 to 34.

Company Share    ≤15%    15-30%    30-50%

Nike occupies the leading positions in Men's, Women's and Children Footwear categories across the 10 most relevant countries in terms of sales.

#### 4.7.4 Competitive Advantage of US



#### Factor Conditions

- Qualified human resources in the design, technology and material technology spheres.
- Easier access to the capital markets resources.

#### Demand Conditions

<sup>1</sup> Source: Euromonitor, Nike apparel and retail world report 2019

- US has big and growing economy. It is a good country to start the further global expansion.
- US customers buy a lot of technologically advanced and sophisticated products. They are more demanding than customers in another countries.
- US market is characterised by the high consumption. It is #2 in the world in terms of per capita yearly purchases of footwear – with 7.4 pairs of shoes purchased every year<sup>1</sup>.
- Us is a “Sneakers culture” country. It is #1 in terms of revenues of the athletic footwear market - 14,717 m USD<sup>2</sup>.
- Sports are popular and sportsmen are celebrities.

### **Firm strategy, structure, and rivalry**

- Moderate competition from the local companies in the beginning of Nike’s operations, unlike in the German market.
- High diversification and technological advantage strategies among competitors, with high marketing expenses. High margin market – with the #3 of the world’s rating of the quantity of the footwear sold, it is #1 in the revenues of the footwear<sup>3</sup>.

### **Related and Supporting industries**

- R&D - US is one of the leading markets in terms of the development and innovation
- Sports-related industries like sports broadcasting industry are very developed in US.

### **Chance**

- Nike started its operation before the tremendous growth of the interest to running in US.
- Nike spotter promising sportsmen Michael Jordan. Nike tried to swoop in for an endorsement from Jordan before the start of his first season with the pros in 1984. The deal proved a smash hit for Nike, with Jordan quickly rising to super stardom and his shoe line, Air Jordans, hitting the market to make over \$100 million in revenue by the end of 1985.

### **Government**

- Entrepreneurial-spirit country with the low pressure on business from the government.

### **Conclusion**

US market is a good market to start the global firm, especially in the sportswear industry. Nike have benefited from many of the country-specific features of the USA. It is a big market, with high consumption. Nike and its competitors played a big role into the popularisation of

<sup>1</sup> Source: Statista, Country ranking by per capita shoes consumption, 2020. <https://www.statista.com/statistics/1077289/country-ranking-by-per-capita-shoe-consumption/>

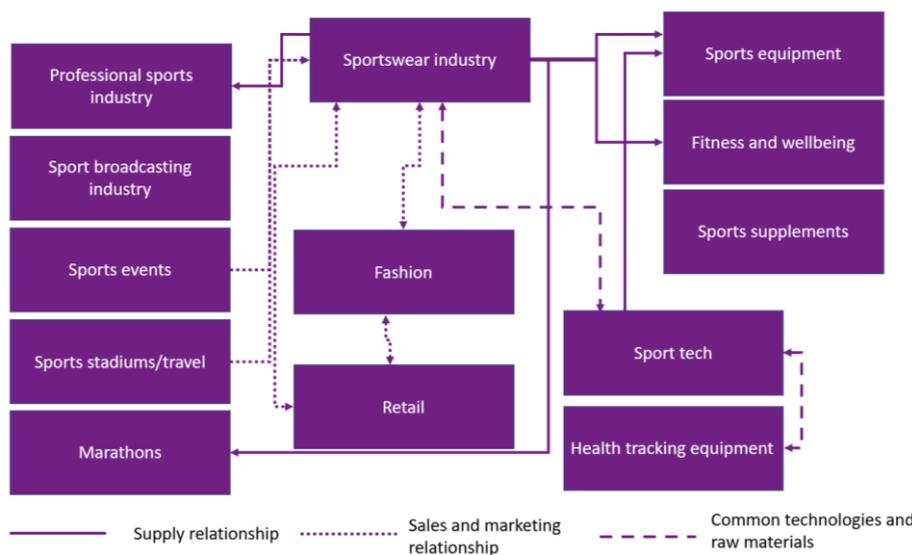
<sup>2</sup> Source: Statista Consumer Market Outlook

<sup>3</sup> Source: Statista

the sportswear and sports shoes in USA, adding up to ‘sneakers culture’, where is appropriate to wear sneakers for almost any occasion.

**Sportswear-related cluster in US**

- Sports-related industries are well-developed in US. It has provided the variety of marketing opportunities for Nike, since the initiation of the company. Collaborations with the celebrity sportsmen, country-wide sports translations, many adepts of the running culture – those are the most obvious aspect of the Nike collaboration with the industry.
- US market has very strong “sport tech” industry, new materials and sport technologies are developed in States every year.
- Another aspect is the sophisticated retail and e-commerce market in US.



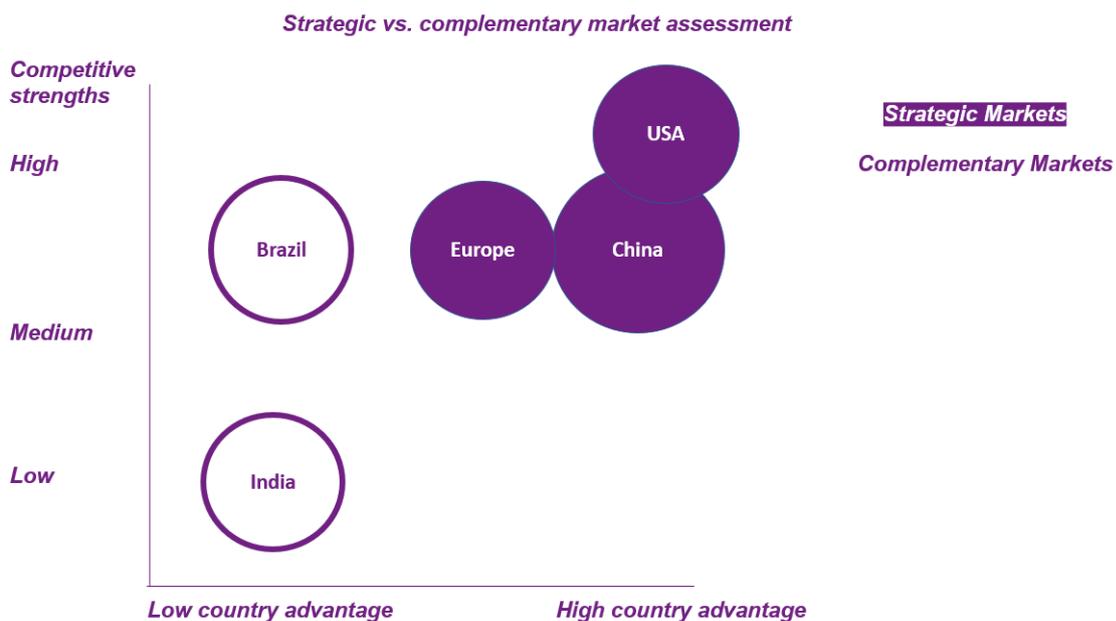
**Internationalization Modes of Nike**

When Nike enters a new country, they have different options: build out their own distribution channels, form a joint venture with a partner, work with a distributor. In different markets Nike choose different strategies. Moreover, they regularly revise their international strategies. In the strategic markets Nike tends to make direct investments and in the complementary markets it can work through the distributors.

Transactions	Investment
Export via agents or distributors	Distribution and marketing joint venture
Franchising, but close to the official distributors (Germany, Denmark, Sweden, Norway, Finland)	Intergrated joint venture
	Distribution and marketing subsidiary

#### 4.7.5 Country and Firm Advantage

In the strategic markets, like in US or China, Nike operates through the direct investment model. In the complementary markets like Brazil and India, Nike is aiming to work through the partners, to limit its investments there and to focus the resources on the strategic markets.



#### International integration and responsiveness

1. **First stage** (1964-1974). Nike was a local company, operating in the US market and manufacturing abroad, in Japan.
2. **Second stage** (1974-1988). Internationalisation to Canada and several other countries. Nike was global company, but with low local responsiveness. It was mostly perceived as US company and US brand.
3. **Third stage** (1988-today). Starting from the launch of “Just do it campaign”, Nike became the transnational company with the local products and local marketing campaigns across the different countries.

		Local responsiveness	
		Low	High
Global Integration	High	 Global Company	 Transnational company
	Low	 Local company	Multinational company

**International Adaptation and Standardization**

International Adaptation	Usage/kinds of sport	Culture/Habits	Design	Price	Language	Size/Packaging
Concept						
Marketing						
Technology						
Product						

 Requires local adaptation  
 Can be standardised

Sportswear is an industry that need to be regionally adapted in some of the aspects.

For example, Nike is well known with its international slogan “Just do It”, however for core markets, Nike develops country-specific marketing campaigns with the local sportsmen.



**Local marketing campaign of Nike in re girls made of?” with more than 12 m be, based on the famous Russian song.**

Another aspect of the local adaptation could be the product mix that is sold in different countries, it depends on the most popular sports, played in this country. With most products that are standardized, there are some regional products that are adapted or developed for some markets.



Example of local Product adaptation – Nike hijab in Arabic countries.

### 4.8 Diversification

Nike is not a diversified company – their business is sportswear and they do not diversify it to other businesses.

While Nike has acquired a number of apparel and footwear companies throughout its history including Cole Haan, Bauer Hockey and Umbro, it divested many of its subsidiaries throughout the early 2000s in order to focus on its core business lines. As a result, footwear brand Converse and surf brand Hurley are now the company’s only owned brands outside the core Nike brand. However, those brands cannot be considered as a diversification, as they are in the same business as the core Nike business.

### 4.9 Corporate Development

Although Nike made several acquisitions from the late 1980’s to the late 2000’s, after a heavy refocus and optimization of its business lines which led to a large divestment in this decade, we can say that Nike Corporate Development is mostly based on internal development and strategic partnerships.

	Higher ↖	Development’s Level of Internalization		↘ Lower
	Internal Development	Mergers and Acquisitions	Strategic Alliances	Market Transactions
<b>Strategic Control</b>		High	Intermediate	Low
<b>Strategic Integration</b>	High		Intermediate	Low
<b>Corporate Development</b>	Product R&D	Cole Haan	Athletes	
	Air Manufacturing	Bauer Hockey	Teams	
	Distribution Centers	Hurley	Sport Associations	
	Nike Retail Stores	Converse	Manufacturers	
	Nike Digital Platforms	Umbro	Other brands	
			Designers	

### 4.9.1 Internal development

Nike has developed internally several parts of its value chain, from research to retail, even going through manufacturing of some key components.

- Product research, design and development: The Nike Explore Team Sport Research Lab began as a small lab in Exeter, N.H. more than 30 years ago, and has grown into a world-class research facility, who continues to deliver proven scientific insights that help drive performance innovations across the Nike brand.
- Air Manufacturing Innovation: a wholly-owned subsidiary, supplies materials and cushioning components used in Nike's footwear;
- Distribution centers: Nike has 7 distribution centers in the U.S. and 10 times more around the world to fulfil retail accounts orders and own stores, physical and online;
- Nike retail stores: Nike has more than a thousand stores in the World, from Factory Stores, Brand Stores and Converse Brand Stores;
- Nike digital platforms: Nike digital initiatives include online shop, personalization tools for customized footwear and fitness smartphone applications under the Nike+ brand;

### 4.9.2 External development

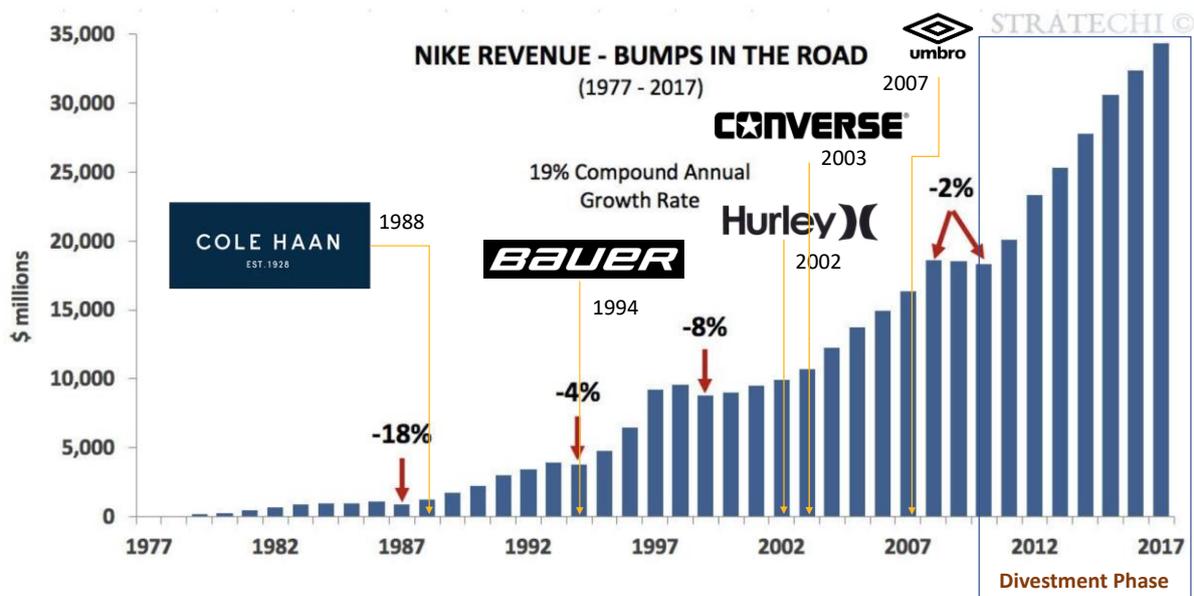
Nike made along the years several **acquisitions** of other sport manufacturing related to complement and increase its offer but it has divested of all since, with the exception of Converse:

- Cole Haan (1988-2013): an American brand of footwear and accessories, with a larger focus outside of sports;
- Bauer Hockey (1994-2008): manufacturer of ice hockey equipment;
- Hurley (2002-2019): an American multinational who manufactures and markets surfing and swimming apparel and equipment;
- Converse (2003): still a subsidiary of Nike, manufactures and sells lifestyle brand footwear, apparel and accessories;
- Umbro (2007-2012): an English sportswear and football equipment manufacturer;

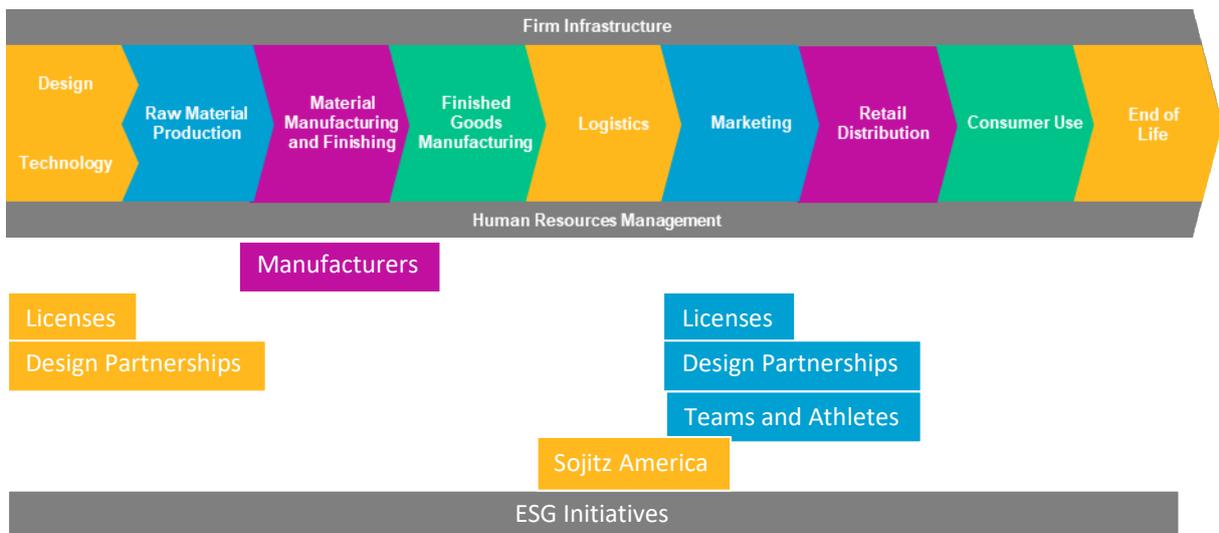
We can see that Nike acquired other brands to complement its offer mainly in moments of revenue stagnation or drop, like in the end of the 80's, mid 90's and early 00's.

In the current decade and after another multi-year stagnation, Nike started a divestment phase where it sold all these brands except for Converse while being able to grow its revenues significantly once again.

On the following graph by Stratechi with Nike revenues along the years we mapped the acquisitions mentioned and the divestment phase as well to support our conclusions.



Nike has also leveraged its business through **strategic partnerships** that range from manufacturing to advertising and marketing, as seen in the following map:



- **Manufacturers:** 122 footwear factories located in 12 countries by over 15 independent contract manufacturers, which often operate multiple factories and 329 apparel factories located in 38 countries.
- **Licenses:** licensing content, brands and logos from the most powerful brands in sports like the New York Yankees, Team USA, the NFL, MLB, NBA, U.S. Olympic Committee, NCAA, College Football Playoff, to have the rights to use these logos on retail product.
- **Design partnerships:** Nike, through its brand or Converse brand, usually partners with prominent designers or with other strong brands to launch limited edition sportswear. As an example Nike partners with 5 Japanese designers in the ramp-up of the Summer Olympics in Tokyo.
- **Teams:** Nike sponsors literally hundreds of sport clubs and national teams, having a broad and relevant presences in all sports.
- **Athletes:** Nike spends more than any company on sponsorships, above \$6 billion, and not only has hundreds of high profile athletes it can attract the very best, from the legend Michal Jordan, to Cristiano Ronaldo which first signed with Nike in 2003 and renewed in 2016 to a lifetime contract valued at \$1 billion.
- **Sojitz America:** a large Japanese trading company and the sole owner of Nike redeemable preferred stock, performs import- export financing services”
- **ESG initiatives:** Many partnerships, detailed in the Purpose section of this report.

# 5 Planning, Implementation and Control

After going through the formulation of the strategy, this chapter will focus on briefly analyzing its implementation.

## 5.1 Planning

### 5.1.1 Organizational Structure

After defining the strategy, it is time to define the structure. A company’s organizational structure is the configuration and system design applied to the relationships between employees, departments and divisions of the business. Or, in other words, it is the pattern of relationships that unite all activities of the company, integrating the different departments and divisions, allowing the organization to implement successfully its defined strategy.

Nike’s organizational structure is a particularly interesting topic to explore as many consider it one of the best organizational structure examples in the world. If one thinks through the three types of advanced macro-structures (by strategic business units, matrix, and network), it becomes clear that Nike’s organizational structure is an example of a matrix structure, where team members often report into two areas, such as a geography and a global function.



Nike’s organizational structure<sup>1</sup> follows a geographical divisional structure, divided in four geographies: North America; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA). This structure is based on the company’s needs associated with their growth and international presence, and the need to address differences among regional markets. These differences, such as sports popularity or climate, influence customers’ preferences for apparel, and as such, Nike

Figure 30 - Nike's organizational structure

<sup>1</sup> <https://creately.com/diagram/example/jgoo6hjp2/Nike%20Organizational%20Structure>

has developed its organizational structure to allow adjustments in dealing with these market differences across geographical regions. In fact, there is no standard products for the entire world's population; product design is made specifically to the customer needs. This is why one can find different Nike products depending on the geographical region.

On the other hand, Nike also follows a divisional structure based on product. This is to ensure that development and innovation keep happening in all products that Nike creates, following Nike's strategic priority on innovation. Teams work across three broad types of products (footwear, apparel and equipment) and across the core consumer categories - action sports, basketball, football (soccer), men's training, running, sportswear, and women's training. Other brands that Nike owns/owned such as Converse or Hurley (sold in 2019), also follow the same structural characteristics, and work in a similar way.

Nike's organizational structure has also global corporate leadership, which involves corporate managers. The global corporate leadership is responsible for implementing policies throughout the company, in all divisions. For example, the Global Sports Marketing group releases new footwear marketing campaigns for worldwide marketing. This feature of Nike's organizational structure allows decisions to be easily and rapidly implemented across the company. Under this leadership, comes a functional structure that includes Finance, Global Human Resources, Product & Merchandising, Administration&Legal, Global Sports Marketing and Operations.

The big advantage of Nike's matrix organizational structure is the possibility of creating synergies between different functions and divisions, using human resources in a very efficient way by employing a single person to more than one restricted function/department. It is also a type of organizational structure that is oriented to the mid/long-term, which is essential for a company such as Nike. Besides these important advantages, it also includes the advantages of all different types of organizational structures that are part of it. Namely, as mentioned above, the regional divisional structure allows Nike to provide different goods in different regions in relation to the preferences of people in those regions. This does not only increase sales, but also helps to reinforce customer engagement and preference, building on the brand's image. The divisional organization according to products helps the company in developing its products as the employees in each division focus on their product only. The functional structure allows specialization and increased ability to perform specific tasks in each functional group with better efficiency and with a lower risk of error.

Of course, every organizational structure type has also disadvantages. The matrix environment is more prone to communication issues and confusion around priorities as usually a single person is answering to more than one manager (for example, functional reporting plus divisional reporting). It is crucial to have clarity on goals and alignment on priorities. Secondly, the divisional structure can lead to a duplication of efforts within the firm as different divisions usually have different departments for the same function. This can lead to misuse of resources and money of the firm. Another disadvantage of the matrix structure is lack of coordination between the different divisions and functions. Coupled with autonomy

given to Nike's many divisions, there also needs to be a control check to ensure Nike's brand consistency and to prevent different divisions to do anything unethical or not aligned with the company standards.

Above all, we can see a clear alignment between the organizational structure and the strategic evolution of the company, and this has been critical for Nike's success.

### 5.1.2 Strategic and Operation Plans

Once the structure of the organization is defined, it is necessary to plan the activities of its different divisions and departments in an integrated manner.

The strategic plan sets the corporate strategy and business strategies, focusing on the consolidation of the strategic guidelines for the entire organization and focusing on the medium and long-term. Nike's top management and executive team is responsible for the strategic plan. Furthermore, the Corporate Responsibility, Sustainability and Governance (CRS&G) Committee of Nike's Board of Directors focus specifically in all aspects related to sustainability within NIKE's corporate strategy.

The operational plan sets the objectives and business strategy for each area of the organization, focusing on the optimization of resources and activities in each area of the organization, and it is usually short-term (1-2 years). Leaders in the organization responsible for the different functions and divisions are responsible for the operational plan, with frequent reviews taking place.

Planning in Nike follows a combination of top-down and bottom-up simultaneous approach, as expected given the type of industry (increasingly more digital) and uncertainty that Nike needs to account for. To have a strong bottom-up approach, in recent years Nike surveyed employees, non-governmental organizations, suppliers and corporate peers to determine the most relevant issues at each stage of the value chain and the impacts most directly associated to these issues. In 2019, in addition to the survey mentioned above, Nike used real-time data and artificial intelligence to track issue relevance over time and integrate it into strategic discussion. This allows Nike to incorporate insights quicker into their discussions and adapt their planning to this, having therefore a competitive advantage in a VUCA world.

In order to check how the value creation is distributed among different parts of Nike's strategy, we built the table below, where it can be seen that:

- two areas account for more than 50% of the expected value creation. This means that Nike needs to pay special attention to these areas (products-markets through internal development and internationalization through internal development)

- Nike's internal development initiatives have the heaviest weighting in the Product-markets and Internationalization strategic dimensions
- The strategic dimension of Diversification has the lowest weight, associated with Nike's disinvestment in this strategic

	Products-markets	Vertical Integration	Internationalization	Diversification	Totals
Internal Development	35%	0%	20%	5%	<b>60%</b>
Ext Dev - Mergers and Acquisitions	5%	0%	0%	5%	<b>10%</b>
Ext Dev - Strategic Alliances	0%	15%	10%	0%	<b>25%</b>
Ext Dev - Market Transactions	0%	0%	5%	0%	<b>5%</b>
<b>Totals</b>	<b>40%</b>	<b>15%</b>	<b>35%</b>	<b>10%</b>	<b>100%</b>

### 5.1.3 Planning under Uncertainty

2020 has been a living example of what planning under uncertainty means. While the world is trying to understand the virus and its related disease, support victims and their families, and search for effective treatments and vaccines, companies are trying to understand how the COVID-19 situation may unfold, and act to protect their employees, customers, supply chains and financial results. Currently there is still high uncertainty on how the pandemic will evolve, when it will end, and how will the new normal be different from the old normal. What we already know is that COVID-19 pandemic has led to significant worldwide macro- and micro-economical environment negative changes (as detailed in section 3), with one of the largest GDP drawdowns in history.

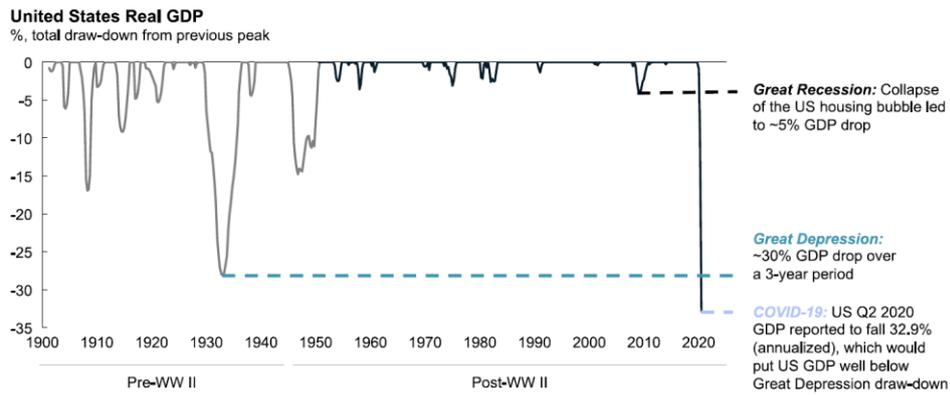


Figure 31 – US GDP<sup>1</sup>

Nike has not been immune to the negative finance impact of COVID-19 pandemic, reporting a \$790 net loss in Q4 of Nike’s 2020 fiscal year<sup>2</sup> because of forced physical retail closures. Another example of the negative impact of COVID-19 pandemic on Nike is the postponement of Euro 2020. Nike has been the most affected kit supplier by this postponement, supplying kits for 8 teams in the tournament, including France, England, Portugal and the Netherlands, the most of any kit supplier.

Nation	Annual value	Contract finish
France	\$49.9 million	2026
England	\$42.4 million	2030
Turkey	\$5.5 million*	2020+
Portugal	\$5 million*	2024
Netherlands	\$4 million*	2026
Poland	\$2 million*	2020
Croatia	\$1 million*	2020+
Finland	\$0.2 million	2020+

Figure 32 - Nike Euro 2020 Kit Supplier Deals

<sup>1</sup> Mckinsey COVID:19 Global health and crisis response report  
<sup>2</sup> <https://www.cnn.com/2020/06/25/nike-nke-reports-q4-2020-earnings.html>

Nike would have been well advanced in the manufacturing process, which means that they have now stock that might not even be possible to deliver to the client as some of the contracts might expire before the new Euro 2020 reschedule.

Despite the negative effects of COVID-19 pandemic, Nike has been able to adapt its plans to the current situation. An example is the higher-than-expected demand on Nike's digital channel, with a 75% increase in online sales<sup>1</sup>, fitting Nike's strategic shift to the direct-to-consumer channel already started in 2017 (as detailed in section 3), including digital storefronts like its app and website. Nike's efforts in increasing brand awareness and digital presence, by for example targeting kit supply deals with some of the world's leading clubs in strategically relevant markets, has proven crucial during the COVID-19 pandemic. Another example of Nike's ability to drive digital consumer engagement during COVID-19 was through their campaign called #PlayForTheWorld. Nike attempted to unite athletes and the general public through this campaign, encouraging people to exercise from home in order to stop COVID-19 spread. Athlete endorsements were vital for Nike in terms of amplifying the message and driving consumer engagement, but this time Nike positioned them together with unknown fitness fans to portray the message that we were all in this together. With this authentic and carefully constructed message, and building on the opportunity of the trend in "athleisure" intensified during COVID-19 pandemic (as detailed in section 3.1) Nike was able to drive digital consumer engagement and build on brand's value and recognition.

When analysing the pattern of uncertainty associated with COVID-19 pandemic and the potential control of Nike over the sources of uncertainty, one can see different patterns appearing at different time-points of this pandemic. When the pandemic started in the beginning of 2020, the pattern of uncertainty Nike was operating in was the Unpredictable pattern – there was a high uncertainty of the environment and organization, and a low potential control of Nike over the sources of uncertainty. As the pandemic evolved, a Comprehensive Standard pattern appeared - there continued to be high uncertainty of the environment and although Nike had no control over the pandemic, it started to have control regarding some sources of uncertainty, for example technology to respond to a higher digital consumer demand or by implementing campaigns to increase exercise from home. Currently as we speak, probably we are shifting again the uncertainty pattern to a restricted pattern, with a set of restricted alternative directions namely the availability of a vaccine in Q1 2021 or no vaccine available. Nike was able to adapt its strategic plans to COVID-19 pandemic environment by reviewing its plans frequently and adapting to the new reality and uncertainty patterns, which may have resulted in increased competitiveness of the company making Nike future-proof. As detailed in the organizational analysis chapter, in the EGOS map, we can understand that the fact that Nike's leadership is more on the entrepreneurial and social quadrants might have been helpful in allowing the company to respond better when faced with uncertainty patterns such as the Unpredictable pattern and the Comprehensive Standard.

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<sup>1</sup> <https://news.nike.com/news/nike-inc-reports-fiscal-2020-fourth-quarter-and-full-year-results>

Nike has been able to position itself well to get through the COVID-19 pandemic when compared to competitors such as Adidas and Under Armour, As Nike’s competitors struggle, this may give Nike increased bargaining power when negotiating new sponsorship deals allowing it to drive down the cost of sponsorships, reinforcing Nike’s position of power in the market.

### 5.1.4 Planning with Scenarios

Taking into account the uncertainty that COVID 19 brings to the society as whole, influencing purchasing habits, purchasing power, health conditions, people motivation, etc, we considered the Government imposed restriction measures as the market significant variables. Regarding the key strategic issues, since Nike has been investing on its digital technology, we considered it to be a crucial strategic aspect because of the increased relevance it has gained over the past months. So, on one hand we consider a more important option where Nike is differentiating by being the only company investing heavily on digital platforms and technology, and on the other hand, an option where we are closer to a perfect competition scenario. The most beneficial scenario for Nike would be the **Digital Future**, where Nike would have a chance on differentiating its approach to the consumers, under a less restrictive scenario.

	Less Restrictive Measures	More Restrictives Measures
Only Nike invests in advanced digital technology and platforms	<p><b>DIGITAL FUTURE</b></p> <ul style="list-style-type: none"> <li>. Less uncertainty and more control over the circumstances, with people returning to the offices, and unemployment rates starting to decrease</li> <li>. The fact that Nike has a competitive advantage regarding the way it reaches the consumers will lead to an increase of sales in the online channel</li> <li>. Being one step ahead of its competitors will make Nike have better chances of mitigating the devastating effects of COVID19, through innovative ways of interacting with the consumers</li> <li>. The behaviour of the consumers will be affected and some habits will keep even after the lockdowns, so Nike will be better prepared for the near future and to keep up with these habits, enabling its tech solutions.</li> </ul>	<p><b>DIGITAL TRANSFORMATION</b></p> <ul style="list-style-type: none"> <li>. More uncertainty and less control over the circumstances, with people will start remote working or some even losing their jobs</li> <li>. With more restrictions, in store consumption will decrease, as well as people will use less their footwear and apparel because of lockdowns, less ability to go to gyms or outdoor sports etc.</li> <li>. Online engagement will be even more relevant, with a huge opportunity for Nike to leverage on its digital capabilities, and be one step ahead of its competitors.</li> <li>. Online sales will represent a higher share of the markets sales</li> </ul>
All players invest in advanced digital technology and platforms	<p><b>BACK TO BASICS</b></p> <ul style="list-style-type: none"> <li>. With less restrictions, people will start going back to gyms, playing outdoor and groups sports</li> <li>. Physical stores will start to re-open and there is an expected increase in consumption</li> <li>. Even though digital is a trend, since there is no differentiaion in this channel, Nike should engage with its consumers in diferente ways and leveraging on its professional athletes endorsements for example.</li> <li>. Resuming some of the biggest sports events in the world will also be a great opportunity to have crucial sponsorship contracts</li> </ul>	<p><b>STRONG COMPETITION</b></p> <ul style="list-style-type: none"> <li>. Restrictions lead to increased difficulty in managing sales on its physical stores</li> <li>. With no competitive advantages among the main players, Nike will have to leverage on its notoriety, professional athlete endorsement and high level sponsorships</li> <li>. Digital interaction with the consumers is even more relevant, but every player will be approaching them with similar dynamics and platforms, so on one hand there is more offer for home training and online shopping but there is little diferentiation in the "last mile".</li> <li>. Focus on cost reduction to protect the companies' P&amp;L</li> </ul>

## 5.2 Implementation

### 5.2.1 Functional and process management

As mentioned before, Nike has different functional departments to implement its strategic and operational plans. As expected, the main activities of Nike are divided into six functions: Human Resources, Product & Merchandising, Operations, Marketing, Finance and Administration & Legal.

As detailed in section three, employees are of the utmost importance for Nike. When analysing the FY19 Nike Inc. Impact Report, it is clear the importance of Human Resources in advancing Nike’s priorities.

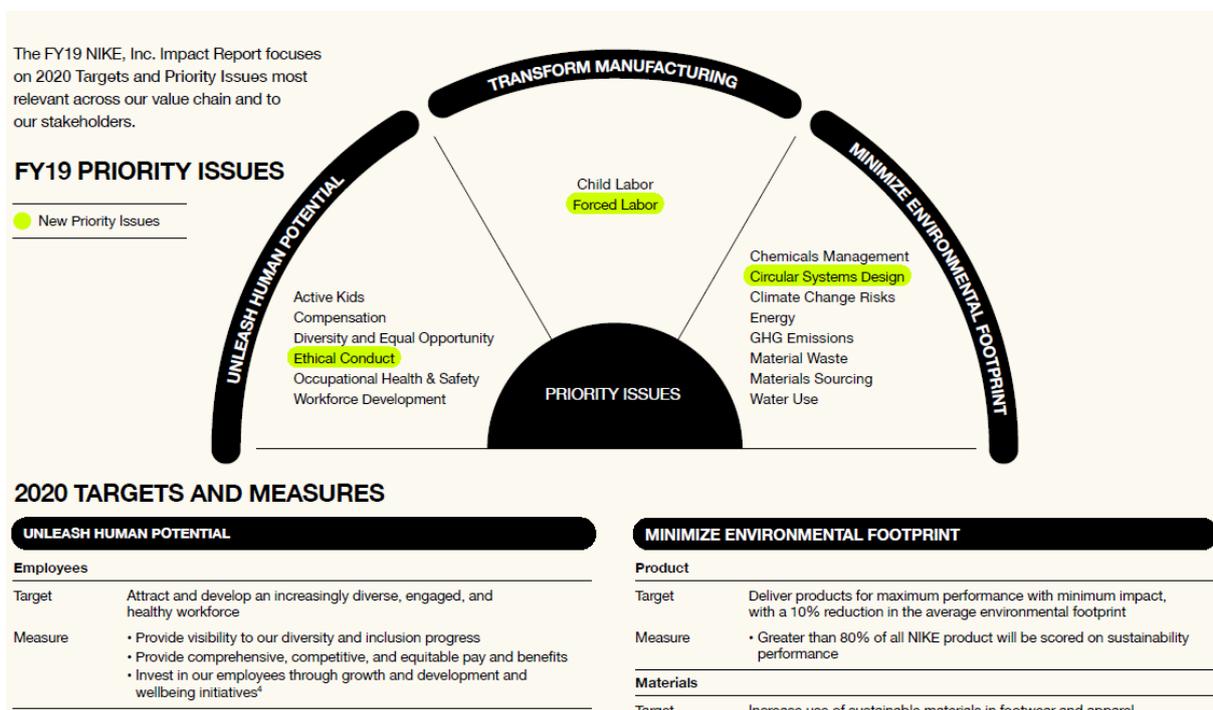


Figure 33 - Nike's priority issues<sup>1</sup>

One of the defined targets – “Attract and develop an increasingly diverse, engaged and healthy workforce” – is greatly dependent of the ability of Human Resources to implement its strategic and operational plans. Not only Nike is committed to foster an inclusive environment and attract a more diverse workforce – as a driver of innovation, but also to prioritize recruitment of the best and brightest talent. They have scaled up their efforts across traditional channels like campus recruiting, sourcing and partnerships, complemented by additional channels, including one team to source external talent, another focused on internal talent and an apprenticeship program. People are always a company’s most important asset, and with all the transformation COVID-19 pandemic brought, namely in terms of talent

<sup>1</sup> FY19 Nike Inc. Impact Report

management, it is crucial for a leading company such as Nike to have a strong Human Resources department that is able to implement a robust plan to address one of main company's priorities: unleash human potential.

A second priority issue for Nike as seen in the above picture is to "*Transform Manufacturing*". Indeed, Nike's manufacturing transformation is a good example of continuous improvement as part of the process management.

In the 90s, Nike was associated with lack of corporate responsibility: it was the world's best-selling brand and denied responsibility for any malpractice or poor workplace conditions taking place in its contract factories. In this context, the company was facing weak demand and merciless criticism. From a defensive posture, Nike moved into a proactive posture, deciding to visit the contract factories in Asia to understand the issues. This led to a partnership with the International Youth Foundation, so they could survey the 67000 female workers in Nike contract factories. The pain points identified were delivery time, product quality, working conditions and manager-worker relationships. Nike decided then to implement a Lean innovation-based transformation, with the main goal of affecting positively the company's reputation. Based on the lean model, Nike implemented a culture of empowerment that employs continuous improvement to deliver high-quality products, on time, at a low cost. With this model, contract factories were incentivized to improve the working conditions, while reducing inefficiencies. At Nike, lean manufacturing is viewed as both a business system and a continuous improvement opportunity aimed at producing the highest quality products while eliminating waste.

To ensure everyone is performing at Nike's standards, the company developed a scoring system for their contract factories ranking them from gold to silver, bronze, yellow or red levels

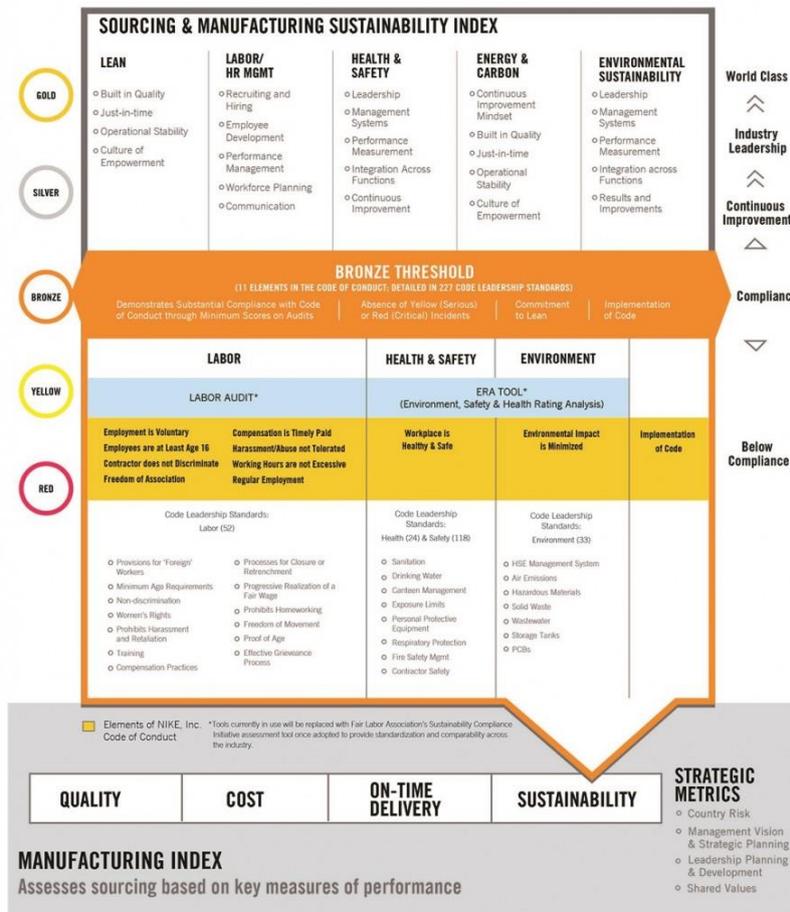


Figure 34 - Nike's Manufacturing index<sup>1</sup>

Through being creative and strategic in developing Lean innovation and transformation models, Nike was able to improve its corporate responsibility, going from being the primary target of an anti-sweatshop campaign to becoming an industry leader in sustainability and corporate social responsibility. As per the 2020 priority issues, Nike is committed to continue its pathway of continuous process improvement, specifically in the optimization of the manufacturing process, now focusing on sustainability and partnerships to accelerate industry change (maybe looking for disruptive improvement?).

In terms of project management, the preferred methodology used nowadays in Nike is the Agile methodology, given the unstable environment and the preferred dynamic and interactive approach, linked with higher creativity and faster results. In fact, in recruitment ads for project management positions in Nike, Agile methodology experience or knowledge is a requested skill.

<sup>1</sup> www.shmula.com

### 5.3 Control

#### 5.3.1 Strategic management control system

Nike can ensure its correct plan implementation through controlling procedures of top management and with proper guidance to all departments of organization, through clear setting of objectives, timelines, deliverables, and budget.

To ensure control of performance of top leaders, Nike has created a Board of Directors to monitor the evolution of the company and define its leadership structure. The Corporate Responsibility, Sustainability & Governance committee of the board of directors (CRS&G) is tasked with reviewing the company’s strategy and monitoring a myriad of initiatives, policies and targets<sup>1</sup>.

Although anchored in an Anglo-American governance system as one may expect, Nike is keen on engaging and ascertaining different stakeholder’s perspectives and satisfaction levels, leveraging potential opportunities and harnessing feedback on risk to the company’s operations. The company sets targets on various levels which are tracked periodically using a balanced scorecard model<sup>2</sup>.

Areas Concern	Area Of Objectives	Measure or Target	Time expectation	Primary Responsibility
CUSTOMER	Customer satisfaction	Customer satisfaction survey	Quarterly	Management
	Customer loyalty	Applied applicants with membership form	Quarterly	Marketing division
	Brand Identity	Industry reports	Annually	Marketing division
MANAGERS/ EMPLOYEES	Employee Morale	Survey	Annually	Human Resource Division
	Manager and employee relationship	Evaluation of performance between the management and employee relationship	Half-year	Managers & Employees
OPERATIONS/ PROCESSES	Quality Assurance of Nike's Product	Durability, comfortability and usability test of Nike's Product	Quarterly	Research and Development Division
	Product innovation and patented new developed products	Patented innovated products are offer to the market	Annually	Research and Development Division
COMMUNITY/ SOCIAL RESPONSIBILITY	Concern for environment	Hosting and participation in sustainable development programs	Quarterly	Human Resource Division
	Community involvement	Hosting and participation in community involvement programs	Quarterly	Human Resource Division
BUSINESS ETHICS/ NATURAL ENVIRONMENT	Sustainable development of Nike's Product	Product development that are eco-friendly to the environment	Annually	Research and Development Division
	Good reputation and public image	Adding commercial ad about the company's public image	Quarterly	Human Resource Division
		Giving a helping hand in times of recent and upcoming natural calamity (e.g Earthquakes, Storm, Typhoon, etc.)	Quarterly	Human Resource Division
FINANCIAL	Minimize cost of goods sold	Developed an alternative raw materials that has quality which minimizes cost of goods sold	Annually	Finance Division
	Increase revenue and profit	Increase revenue and the same time with profit	Annually	Finance Division

Figure 35 - Nike's Balanced Scorecard

Metric	Unit of Measurement	FY15 Baseline	FY16	FY17	FY18	FY19	FY19 Change vs. Baseline	Target
Key ▲ Increase (▲ Unfavorable ▲ Favorable) ▼ Decrease (▼ Unfavorable ▼ Favorable)								

Figure 36 - Nike's target performance tracking<sup>3</sup>

Building on Nike’s target performance tracking system and Balanced scorecard presented, and in order to regularly monitor Nike’s performance in the important areas of value creation and the objectives associated with the firm’s key success factors mentioned in previous sections, we would propose the use of a strategic dashboard system as the one below:

Indicator	Current period – Current	Current	Previous	Previous	Comments
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<sup>1</sup> <https://purpose.nike.com/sustainability-governance>  
<sup>2</sup> [https://www.academia.edu/40648358/NIKE\\_INC\\_Case\\_Study\\_Strategic\\_Management\\_](https://www.academia.edu/40648358/NIKE_INC_Case_Study_Strategic_Management_)  
<sup>3</sup> <https://purpose.nike.com/2020-targets-performance>

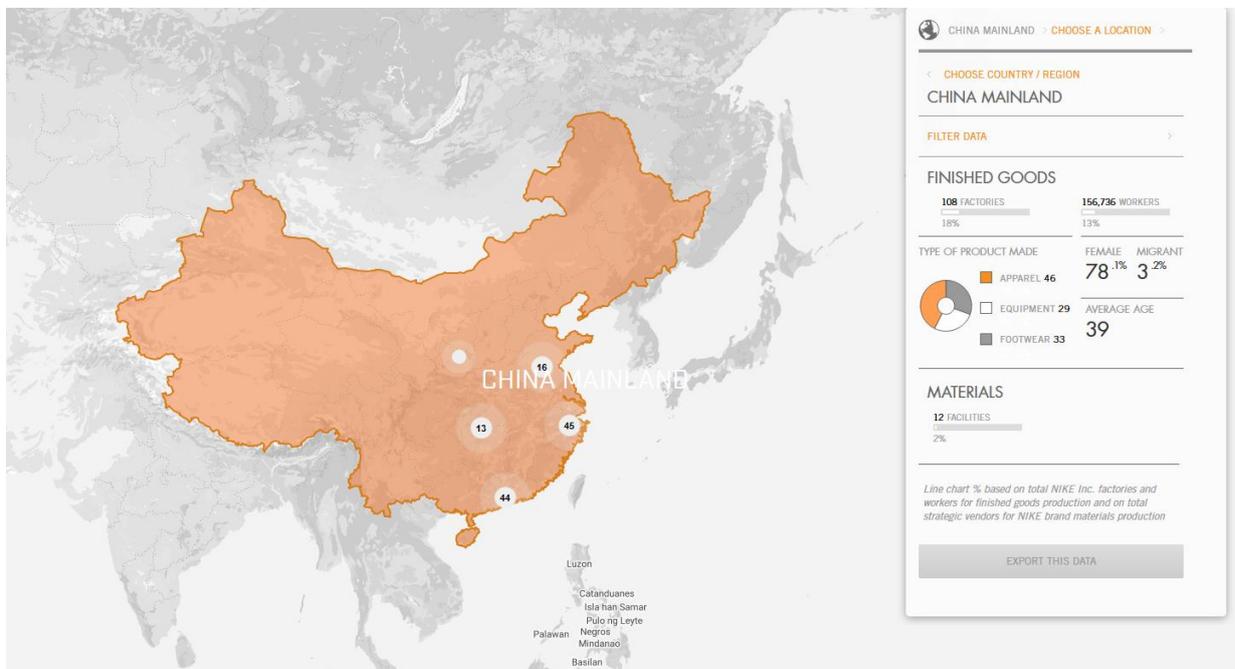
	Example	Objective	period - real	period - deviation	period - real	period - variation	
<b>Value Creation Objectives</b>							
<b>Growth</b>	Sales	+10%					
<b>Margin</b>	Operating margin	Gross margin expansion of as much as 50 basis points					
<b>Risk</b>	Contracting factories	100% Factories rated bronze or better					
<b>Sustainability</b>	CO2 emissions	-25%					
	Renewable Energy	100%					
<b>Strategic Objectives (by Key Success Factor)</b>							
<b>Brand Image</b>	Brand loyalty	#1 favourite brand as rated by consumers in each of the 12 key cities and 10 key countries					
	Nike+ membership	+75%					
<b>Innovation</b>	New products	New innovation platforms comprising over 50% of incremental growth over the next 5 years					
	Speed to market	Double speed to market, reducing average product creation timelines by 50%.					
<b>Fashion Design</b>	Luxury sportswear	+20%					
<b>Distribution and store</b>	Digital commerce business	+50%					
	Complaints rate	-20%					

## Appendix 1. Sources of data for the country analysis

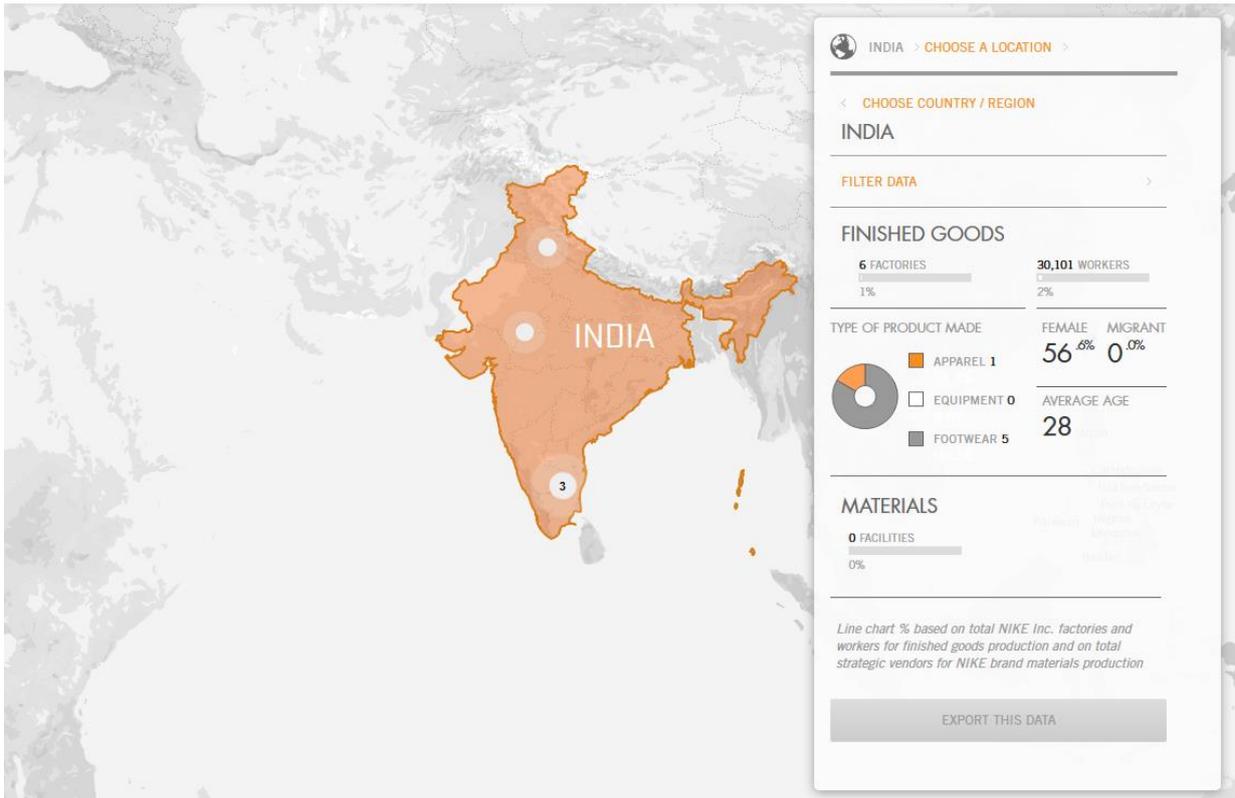
Factor	Estimation parameter/Source
<b>Sales</b>	
Market Size in Volume	m USD, 2019, Euromonitor
Average Price Level	Price Rankings by Country of 1 Pair of Nike Running Shoes, USD, Numbeo
Access to the Distribution Network	Estimations
Cultural Proximity	Estimated based on frequency of working out per week, Euromonitor
<b>Sales Assessment</b>	
<b>Growth</b>	
GDP Growth Rate	World Bank
Population Growth Rate	World Bank
Market Growth Rate	Sportswear market country reports, Euromonitor
GDP per capita	USD, World Bank
Openness to International Trends	Global index of economic openness, 2019
<b>Growth Assessment</b>	
<b>Margin</b>	
Access and Cost of Labor	Consists of two parameters below
Hourly rate in US \$ in manufacturing	World Bank
Unemployment rate	World Bank
Distribution Margin	Estimations
Online channel development	% of sportswear sold by internet, Euromonitor
Legal Regulation	Doing business rating, 2020
<b>Margin Assessment</b>	
<b>Risk</b>	
Foreign Exchange Risk	Currency inconvertibility and transfer risk, Credendo Group
Political Risk	Regional political risk index, The PRS Group

<b>Competitive Risk</b>	Estimated by Nike's share in the market
<b>Risk Assessment</b>	
<b>Sustainability</b>	
<b>Environmental Sustainability</b>	Environmental performance index
<b>Social Sustainability</b>	Human wellbeing, Sustainable Society Index
<b>Governing Sustainability</b>	Measured by the shadow economy size, Medina and Schneider
<b>Sustainability Assessment</b>	
<b>Global Assessment</b>	

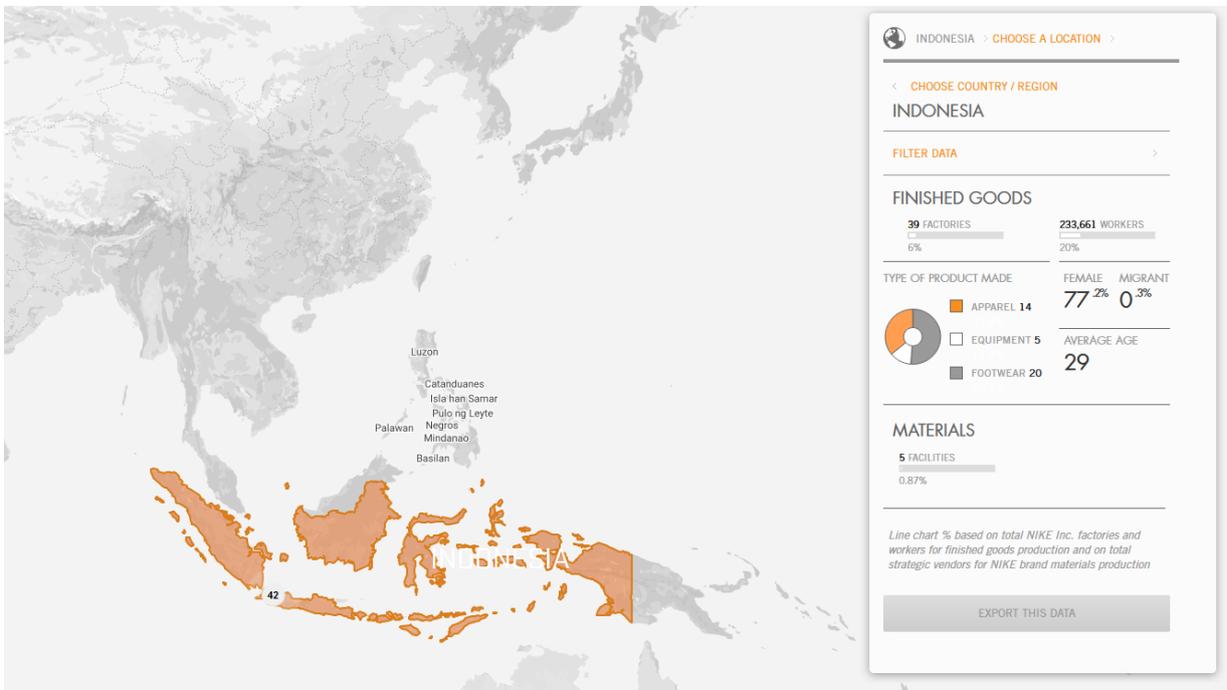
**Appendix 2. Nike's production facilities in China**



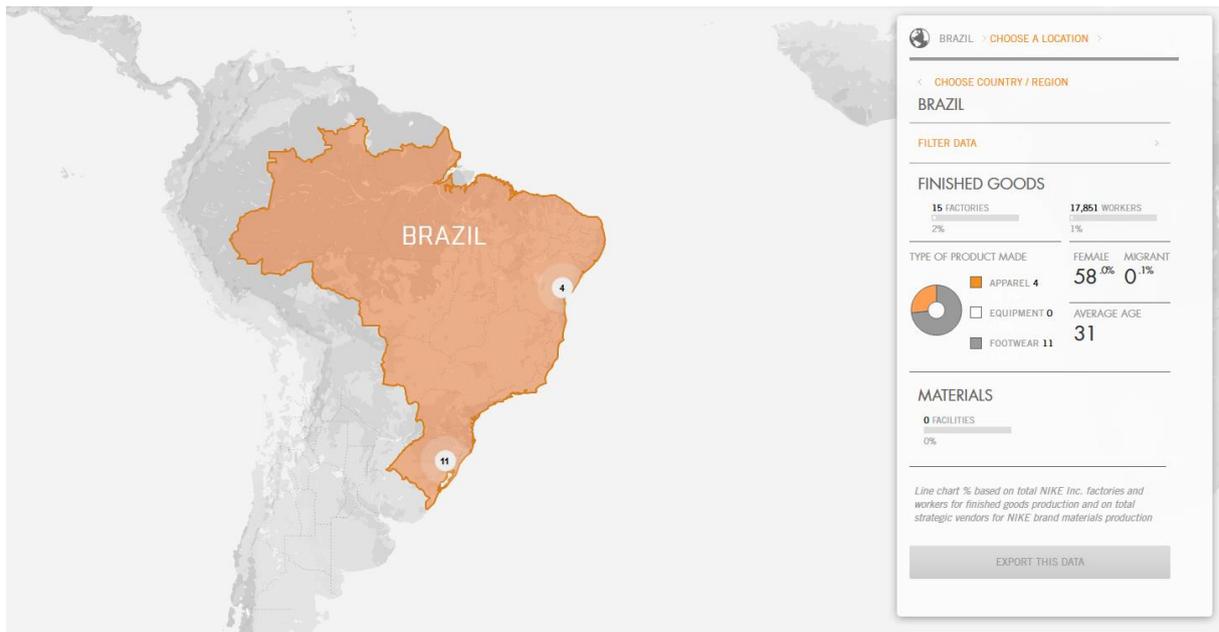
Appendix 3. Nike's production facilities in India



Appendix 4. Nike's production facilities in Indonesia



Appendix 5. Nike's production facilities in Brazil



Appendix 6. Top 10 Growth Areas for Nike<sup>1</sup>

Nike Inc: Top 10 Growth Areas, 2018-2021

Company Retail Sales RSP - USD million - Current - Fixed 2018 Exchange Rates



<sup>1</sup> Source: Euromonitor

## Appendix 7. Further comments on PESTEL analysis.

With a growing focus on digital and Nike being a global brand the analysis of the “macro” aspects that may influence demand and supply needs to be broad in scope. North America remains Nike’s main market, with Asia+Pacific and Western Europe as the second and third markets.

The last 10 years (2010-2019) showed us a growing trend for Nike but the apparel and footwear global market seems to be somewhat stagnant with growth rates <5% (in the US) – Nike is thus increasing presence in growing markets (such as Asia). These industries are fragmented and highly competitive – Nike offering is medium/high end depending on the product line and the company is keen to harness opportunities to cement their status as market leader whilst possibly expanding via their new customer centric strategy.

### 5.3.1.1 Political

Growing **political tension** between Eastern Asian countries and the US may prove a challenge not only to this industry – the nuance here may be how heavily the industry relies on said countries which provide the bulk of the supply for the company’s main markets. Tariffs and additional scrutiny no doubt put the company’s position (and margins!) in jeopardy and increase uncertainty on results in the medium term.

One may say that with a new administration tensions may be managed differently which would have a positive impact, conversely increasing **corporate taxation**<sup>1</sup> may have a negative impact company’s bottom line – something that may entice a different set of strategic investments.

As companies aim to leverage on media massification and resonate with audiences a trend of controversial **marketing** emerged with mixed response, at times an increase in demand and others genuine backlash– Under Armour<sup>2</sup> and Nike<sup>3</sup> are some of the most recent examples. Such campaigns may have lasting impact on a brand’s public perception – those may always present opportunities given other brands may leverage a competitors poor decision to gain market share.

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<sup>1</sup> <https://www.businessinsider.com/what-joe-bidens-tax-plan-could-mean-for-big-businesses-2020-11?r=US&IR=T>

<sup>2</sup> <https://www.youtube.com/watch?v=H-V7cOestUs>

<sup>3</sup> <https://www.bbc.com/news/business-45472399>

**Lobbying** is not at this point a considerable investment<sup>1</sup> for players on the sportswear market. Notwithstanding it presents an opportunity to affect decision making in various aspects, such as trade and pertaining to physical education decisions.

The main markets for Sports apparel enjoy a significant level of political stability, including China with the political stability index steadily increasing since 2010<sup>2</sup>. Some of these markets have undertaken efforts in relation to physical activity which may have positive effect on Nike's business, these includes tax related incentives for physical activity / Gym memberships<sup>3 4 5</sup>.

### 5.3.1.2 Economic

The **pandemic** we are living through in 2020 will no doubt have lasting impact on economic growth – various studies predict a lasting effect<sup>6</sup> on GDP growth and unemployment alike. McKinsey & CO's scenarios<sup>7</sup> predict the most likely outcome is a sharp downturn followed by a slow recovery, fueled by stimulus packages to control the reduction in consumption as well as the number of businesses failing. Some of the main markets for Sportswear (US / WE) will be amongst the most impacted<sup>8</sup> whereas emerging countries / markets may see the expected increase in standard of living and purchasing power slow down vs what was planned back in 2019, thus materially impacting demand in countries offering the most material growth opportunities<sup>9</sup>. Cost in keeping the production facilities open may increase in light of the

Most likely scenario for COVID-19's impact on domestic GDP, % of respondents

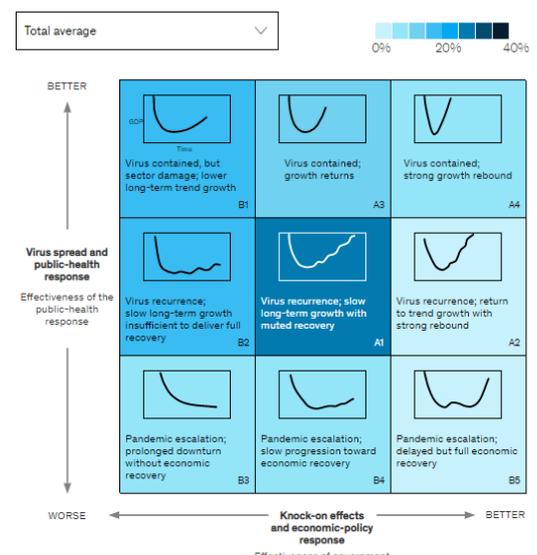


Figure 37 - McKinsey & CO average scenarios for Covid recovery

<sup>1</sup> <https://www.opensecrets.org/federal-lobbying/clients/summary?cycle=2019&id=D000027998>

<sup>2</sup> [https://www.researchgate.net/profile/Hussain\\_Alsaffar/publication/343689499\\_Marketing\\_and\\_Services\\_Management\\_Nike's\\_Marketing\\_Mix\\_and\\_PESTEL\\_analysis\\_in\\_China/links/5f39f5c7299bf13404cb1e5e/Marketing-and-Services-Management-Nikes-Marketing-Mix-and-PESTEL-analysis-in-China.pdf](https://www.researchgate.net/profile/Hussain_Alsaffar/publication/343689499_Marketing_and_Services_Management_Nike's_Marketing_Mix_and_PESTEL_analysis_in_China/links/5f39f5c7299bf13404cb1e5e/Marketing-and-Services-Management-Nikes-Marketing-Mix-and-PESTEL-analysis-in-China.pdf)

<sup>3</sup> <https://www.gov.uk/guidance/fitness-at-work>

<sup>4</sup> <https://www.sabado.pt/dinheiro/detalhe/empresas-podem-deduzir-gastos-com-ginasio-dos-trabalhadores>

<sup>5</sup> <https://www.civilized.life/articles/government-give-money-go-to-gym/>

<sup>6</sup> <https://www.ft.com/content/3c2e524f-d1ea-4b02-9e71-e1634b316f99>

<sup>7</sup> <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/nine-scenarios-for-the-covid-19-economy>

<sup>8</sup> <https://londonlovesbusiness.com/nike-adidas-and-puma-lost-e7-3bn-in-revenue-amid-covid-19-outbreak/>

<sup>9</sup> <https://www.mckinsey.com/-/media/mckinsey/industries/retail/our%20insights/the%20state%20of%20fashion%202020%20navigating%20uncertainty/the-state-of-fashion-2020-final.ashx>

necessity to keep PPE on site as well as limiting physical contact (for companies outsourcing manufacturing that means a likely direct increase in cost of product).

Governments started to prepare measures to counteract the economic downturn, these come in various forms, from liquidity injections to tax breaks and credit lines across a myriad of countries <sup>1</sup> - such **stimulus** will provide opportunity for investment which may be harnessed to strengthen grip on specific markets. Emerging markets in both Europe and Asia/Pacific remain the main growth opportunities <sup>2</sup>



Figure 38 - Growth in apparel markets (Geographic split)

whereas elsewhere (eg US / other EU countries) growth has been <5% in the last few years. Competition in these markets is fierce with some brands (eg Asics) representing a larger market share in Asia and others (eg Puma) showing promise, thus putting pressure on leading brands' operations and margins and enticing investments in marketing and sponsorship initiatives.



Figure 39 - Real salary growth - Asia/Pacific

A significant proportion of the apparel industry (eg 60% of Under Armour's and Adidas' production comes from China) is produced in Asia/Pacific countries (with another significant proportion produced in South America and Africa). This trend began as a measure to control costs and increase

margins, but such dependency puts companies at risk of changes in labor terms via legislation or increasing purchasing power which will stem expectation for higher wages – see figure 32. The risk of a significant impact on cost or margin and/or the need to find suitable alternatives are both real scenarios companies will be facing in years to come.

Brands (particularly strongly recognized brands) are often the target of **counterfeits** – a trend that is rising and mostly originating from Asia<sup>3</sup>, coincidentally where most brands concentrate their production facilities (even if outsourced). Such trend has a negative impact on demand, given these are lower quality and cheaper knock offs. Supply is also impacted given this threat will have companies invest in protecting their intellectual property.

Counterfeits offer a real challenge to the industry – this may entice the industry to invest in marketing efforts in order to ensure consumers are aware of how to differentiate the real thing vs counterfeits. Similarly, an effort on quality is likely so that there is no confusion between use of a counterfeit and real products.

<sup>1</sup> [https://www.ey.com/en\\_gl/tax/how-covid-19-is-causing-governments-to-adopt-economic-stimulus--](https://www.ey.com/en_gl/tax/how-covid-19-is-causing-governments-to-adopt-economic-stimulus--)  
<sup>2</sup> <https://www.mckinsey.com/~/media/mckinsey/industries/retail/our%20insights/the%20state%20of%20fashion%202020%20navigating%20uncertainty/the-state-of-fashion-2020-final.ashx>  
<sup>3</sup> <https://www.ft.com/content/b3b59512-497e-11e9-8b7f-d49067e0f50d>

### 5.3.1.3 Social

**Health and fitness are emerging trends** in the last decade, with the fitness industry still showing healthy growth<sup>1</sup>. Sportswear brands stand to gain by aligning interests with fitness clubs as well as expanding online offerings – to this point and as seen in figure 33 the market for tech-based offerings in the fitness space (eg apps) is growing.

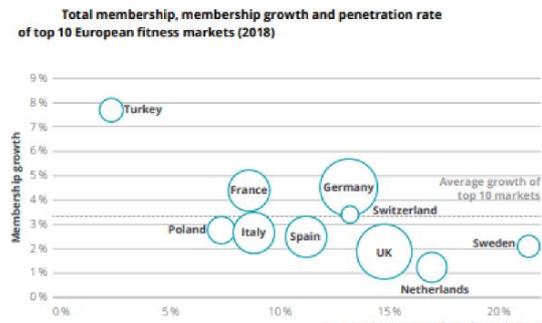


Figure 40 - Growth rate of Europe's largest fitness markets

**Athleisure** (the use of sportswear as multifunctional pieces of wardrobe) was not only a trend<sup>2</sup> before the pandemic it is now described as one of the silver linings to come out of the current state of affairs<sup>3</sup> - this opens the door for companies operating in the sportswear space to expand their product offering and monetize this trend.

Sportswear brands tend to target young adults, **a population that is dwindling in Western countries** as seen in figure 34 (in fact the 3 regions with the lowest increase rate are sportswear's main markets). Companies will need to either change their offering to target different age bands or invest in different geographies where their target age bands are a growing portion of the population. This shift will come with additional cost both in product development and market research to understand how to target a completely different target group.



Figure 41 - Increase rate for working age population 2010-2020

Sustainability comes in different kinds and one that consumers grew more interested in over the years is how concerned a company is with how its products are produced, how sustainable their suppliers are and (perhaps most of all) how a company treats its employees. The fashion industry (and sports apparel in particular) is often linked with **unethical practices**<sup>4</sup>. Information culture would help spread news of any such problem with immediate damage to the brand's image. Mitigating any such risk will require additional

<sup>1</sup> <https://www2.deloitte.com/content/dam/Deloitte/es/Documents/acerca-de-deloitte/Deloitte-ES-TMT-European-Health-Fitness-Market-2019.pdf>

<sup>2</sup> <https://insideretail.asia/2019/08/20/global-athleisure-wear-market-expected-to-post-strong-growth-this-year/>

<sup>3</sup> <https://sourcingjournal.com/topics/lifestyle-monitor/coronavirus-athleisure-bcg-klaviyo-american-eagle-offline-aerie-npd-226232/>

<sup>4</sup> <https://labs.theguardian.com/unicef-child-labour/>

scrutiny on suppliers and outsource facilities as well as potentially ensuring own employees have suitable benefits – all will add to cost and reduce margins.

**Purchasing power in developing countries** (see figure 32) represent both a positive trend for demand (with an expanding customer base) as well as potentially added cost on the supply side with increasing standards of living leading to higher wage demands.

**Endorsement deals and sponsorships** are a key tool for companies to raise awareness to their brand and products – numbers for these are reaching staggering levels with the most valuable yearly fee handed over to an athlete \$42M (noting some athletes now enjoy lifetime deals which are expected to be worth up to \$1B!)<sup>1</sup>. Netting a premier endorsement deal ensures millions of eyes are set on a brand’s logo during events such as the Superbowl or the Champions league finals – something invaluable (or almost, these endorsement deals suggest hefty valuations regardless). The trend is further fomented by celebrity culture and the proliferation of access to celebrities and sports stars via social media.

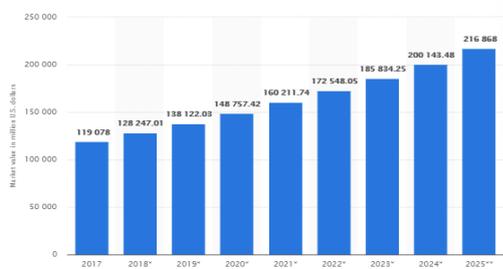


Figure 42 - Growth in women's sportswear

Different trends are emerging which may prove fruitful for companies willing to target different segments – one we will expand on later in this report is Women&Kids., a segment once overlooked but no longer given it is now amongst those returning larger growth rates<sup>2</sup>. Investments on these segments include not only different marketing practices but

also targeting alternate endorsement deals including for top female athletes. Brands (such as Lululemon) already position themselves as preferential providers for these segments.

### 5.3.1.4 Technology

Most global companies rely on technological development nowadays in various aspects along the value chain – the disruption caused by technological development and evolution comes with both opportunity and threat, the sportswear

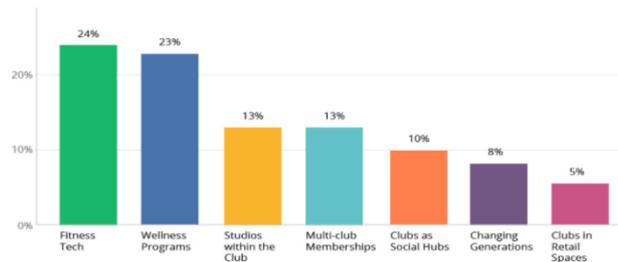


Figure 43 - Top trends in fitness industry

<sup>1</sup> <https://manofmany.com/entertainment/sport/athlete-endorsement-deals>

<sup>2</sup> <https://www.drapersonline.com/insight/analysis/where-kidswear-is-showing-growth-spurts>

/ sports apparel industry is no different.

**Robotics** present an interest opportunity as does **AI** in both supply with added efficiency in production<sup>1</sup> (and potentially less dependency on offshoring production) and additional product offerings, leveraging state of the art machine learning technology to both attract customers via targeted marketing and develop products which use technology in a seamless way.

The move to **online sales** as one of the main channels is a reality and one that was likely accelerated by the Covid pandemic<sup>2</sup>. Reaching clients directly online not only provides an easier channel but also has a positive impact on margin by removing the middleman – one may also say that this trend comes with potential costs to build IT infrastructures that are both robust and reliable. Competitors also have access to that ease in accessing a customer base that does not need to be generated by foot traffic. Such a move to the online channel also improves the sportswear company's **bargaining position with retailers** who were historically their premier distribution channel – this may prove to have a beneficial impact on margins.

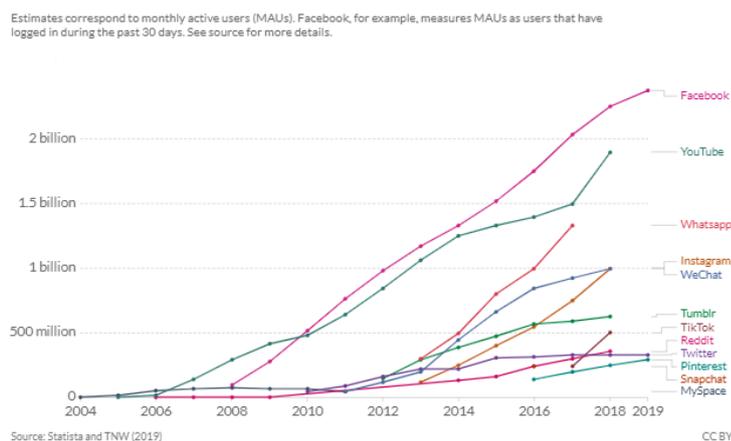


Figure 44 - Number of Social Media users

thus driving additional demand.

**Sensors, integration with apps and augmented reality** are all trends that present interesting opportunity when related with sports performance and sports apparel – companies are spending to the tune of hundreds of millions of dollars on R&D<sup>34</sup>, racing to find what sort of augmented product may lead to a surge in sales. Internet of things entails integration across various platforms and objects in a seamless way – with sportswear this

<sup>1</sup> <https://www.ft.com/content/585866fc-a841-11e7-ab55-27219df83c97>

<sup>2</sup> <https://www.bbc.co.uk/news/business-54244967>

<sup>3</sup> <https://www.statista.com/statistics/417949/global-randd-spending-of-the-adidas-group/>

<sup>4</sup> <https://digital.hbs.edu/platform-rctom/submission/nike-lapping-the-competition/>

may mean a sneaker with embedded sensors which link onto an app and monitor your performance<sup>1</sup> or a T-shirt which monitor your vitals<sup>2</sup>.

A few years ago, having access to footage of a sports star or a specific competition was much more difficult to find than it is today. For companies spending billions on sponsorship deals this is a particularly interesting trend as it increases the number of consumers who they can access via **media outlets**.

### 5.3.1.5 Environment

Companies in this space own and outsource to massive production facilities and rely on a vast network of suppliers and sell to an age band that is increasingly more alert to materials, processes and sourcing – activities undertaken by sportswear companies which harm the environment are amongst those to avoid most vehemently. Consumers and investors<sup>3</sup> alike are pressing companies to make strides toward carbon neutrality and implementing sustainable development goals – these may include analyzing **processes**<sup>4</sup>, **materials** and **sourcing**. Controlling suppliers or outsourcing facilities practices for larger organizations mitigates risk of negative publicity and alienating consumers. Recently there were some examples of unwanted attention coming from suppliers' practices<sup>5</sup> which were linked with some of these global brands.

Companies openly share their **sustainability goals**<sup>6</sup>, publicizing commitment to these sometimes-challenging goals. Given this common practice, not doing so may prove costly.

The commitment to SDGs comes with added cost at least in the short term as production may need to see changes implemented and additional controls considered – may however be that using recyclable materials proves to be a positive with cost reductions or potentially an attractive new product for environmental conscious consumers.

### 5.3.1.6 Legal

Companies as large as some of those which comprise the sportswear market are prone to scrutiny from anti-trust legislation – regardless it is tax, trade and labor law that pose the most relevant risks. These are global companies hence in entering new markets and/or deciding where to set up (or outsource) production facilities legal aspects are paramount.

**Sports regulations** impact on product development and are to be considered. Recently something as innocuous as a new sneaker proved potentially problematic when its use was

<sup>1</sup> <https://www.theverge.com/2020/3/10/21168731/google-adidas-ea-smart-in-sole-jacquard-wearable-fifa-mobile-gmr-soccer>

<sup>2</sup> <https://qz.com/315924/the-patented-nike-shirt-that-could-track-your-heart-rate-and-blood-pressure-while-you-exercise/>

<sup>3</sup> <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

<sup>4</sup> [https://www.adidas-group.com/media/filer\\_public/4c/b0/4cb0904a-ce94-48dd-bd49-6b3676598a0e/adidas\\_group\\_sustainability\\_strategy\\_2020\\_goals\\_and\\_ambitions\\_eng.pdf](https://www.adidas-group.com/media/filer_public/4c/b0/4cb0904a-ce94-48dd-bd49-6b3676598a0e/adidas_group_sustainability_strategy_2020_goals_and_ambitions_eng.pdf)

<sup>5</sup> <https://phys.org/news/2011-07-nike-adidas-suppliers-polluting-china.html>

<sup>6</sup> <https://report.adidas-group.com/2019/en/group-management-report-our-company/sustainability/our-approach.html>

banned <sup>1</sup>, something that may be perceived as a positive given it was deemed to enhance performance unfairly.

**Tax regulation** and in particular taking steps to navigate tax law in a way that minimizes tax payments may be problematic both in terms of the public's perception of these actions and most importantly due to hefty fines that come with being caught<sup>2</sup>.

Labor for these companies is scattered across several continents but somewhat concentrated in Asia – there the possibility of stricter **labor laws** and additional protection for workers may prove a considerable challenge and require quick action.

The cost of lawsuits in addition to the public perception of having claims of **discriminatory practices** are two items no company wants to be linked with – notwithstanding these are factors to take into account and risks to mitigate with good practice, robust processes and a comprehensive and broadly adopted code of conduct. There have been news of such practices creeping in a few of these companies<sup>3 4 5</sup>.

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<sup>1</sup><https://www.businessoffashion.com/articles/technology/why-a-ban-on-vaporfly-shoe-could-boost-nikes-bottom-line>

<sup>2</sup><https://www.icij.org/investigations/paradise-papers/nike-could-owe-billions-in-back-tax-if-new-eu-probe-finds-against-it/>

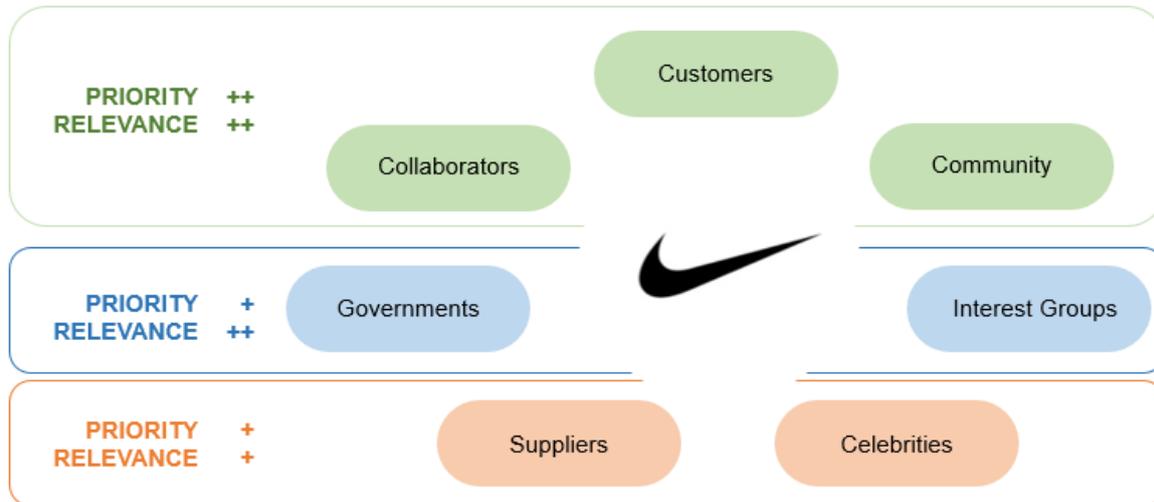
<sup>3</sup><https://www.business-humanrights.org/en/latest-news/nike-hit-with-lawsuit-from-four-women-who-allege-gender-discrimination/>

<sup>4</sup><https://www.businessinsider.com/adidas-employees-call-out-lack-of-diversity-discrimination-portland-hq-2019-6?r=US&IR=T>

<sup>5</sup><https://qz.com/1875546/adidas-hr-head-is-out-as-internal-uproar-on-discrimination-continues/>

## Appendix 9. Corporate Social Responsibility

### 5.3.1.7 Stakeholder Groups & CSR Initiatives



As a global business, Nike has a wide variety of stakeholders with significant influence on their sales and strategy. As for the company's corporate social responsibility programs, they target only a number of major stakeholder groups. Nike has the following stakeholders, arranged according to the firm's prioritization:

1. Customers (top priority)
2. Communities
3. Collaborators
4. Governments
5. Interest Groups

*"Our Purpose is to unite the world through sport to create a healthy planet, active communities and an equal playing field for all."*

Corporate social responsibility (CSR) and engagement with stakeholders has gained more and more relevance on Nike's strategy. Since the brand image and sales performance of Nike sports shoes, apparel, and equipment are significantly subject to the effects of stakeholders' interests and corresponding actions, they maintain CSR programs to address the interests of its major stakeholder groups, being the **Nike Foundation** the main arm of the company's corporate social responsibility strategy<sup>1234</sup>.

### 5.3.1.8 Corporate Social Responsibility

<sup>1</sup> <http://panmore.com/nike-inc-stakeholders-csr-analysis>

<sup>2</sup> <https://purpose.nike.com/stakeholder-engagement>

<sup>3</sup> <https://www.investopedia.com/articles/insights/052516/top-4-nike-shareholders-nke.asp>

<sup>4</sup> FY19-Nike-Inc.-Impact-Report

## Customers

Nike's corporate social responsibility strategy gives top priority to customers as a stakeholder group. Customers are significant because they affect the company's revenues from the sports shoes, apparel and equipment market. These stakeholders' interests include high quality products and reasonable prices. The company addresses these interests through significant R&D investments. For example, Nike continues to provide products with high quality and advanced technology. Considering high profitability and growing sales revenues, Nike's corporate social responsibility effectively satisfies the interests of customers as a top-priority stakeholder group.

## Community

*"From the start, community has been at the core of who we are and what we do. Harnessing the power of sport as a unifying force, we're committed to helping kids reach their greatest potential and creating more equal playing fields for all."*

This is Nike's statement on how they see their community impact. The stakeholder group of communities has a significant influence on Nike's corporate social responsibility standing. Consumers tend to buy more of a product that has a positive impact on communities. The interests of these stakeholders include support for the development of communities. Nike Inc. addresses these interests through the Nike Foundation, which serves as the company's primary means of supporting community development initiatives. For example, in 2005, the Nike Foundation started its community development programs in developing countries, with focus on supporting the empowerment of girls. The company also has a variety of "Community Impact" corporate social responsibility programs, mainly grouped into two macro initiatives:

**Made to Play** that focuses on getting 16 million kids active around the globe, with several signature programs and over \$12M in community grants.

**Fuelling Communities** that focuses on working with several partners to promote equality in communities<sup>12</sup>.

## Collaborators

Nike is a company of purpose, growth and innovation. As they "seek to move the world forward through sport", they believe the success of their employees drives the success of their business.

Nike recognizes the significance of employees as a stakeholder group that influences organizational effectiveness. For instance, employees' performance directly translates to business performance. The interests of these stakeholders include fair compensation, career development opportunities, and a sense of purpose. Nike addresses these interests through corporate social responsibility policies and programs that focus on internal leadership development, talent management through coaching and mentoring, and team building. These CSR efforts are expected to maximize Nike's ability to produce more popular and advanced athletic footwear, apparel and equipment.

Nike's approach to employee and business growth is fuelled by the belief that diversity – in all its forms – unlocks innovation. With a total of over 67.800 workers in 2019 (excluding temporary workers and seasonal retail workers) their focus is to have its employee base reflect our global community, by attracting and developing an increasingly diverse, engaged, and healthy workforce.

<sup>1</sup> <https://communityimpact.nike.com/>

<sup>2</sup> <https://purpose.nike.com/>

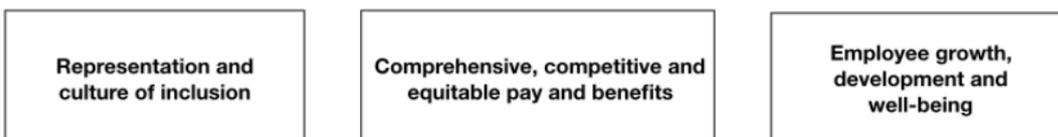
As stated in its Impact report FY19, one of Nike’s main strategic focus is to unleash the potential of its employees through growth, development and wellbeing initiatives, while providing comprehensive, competitive, and equitable pay and benefits.

Below are the main drivers of their approach, key measures and some of their main goals

### OUR APPROACH



### KEY MEASURES



In order to advance the development of their members, promote Nike cultural awareness and demonstrate their commitment to diversity and inclusion in the communities where they live and work, Nike has eight Employee Networks, collectively known as **NikeUNITED**. These employee-formed and -managed communities offer resources to a diverse spectrum of individuals across Nike. All employees are welcome and encouraged to join, participate or become leaders within the Networks.

The NikeUNITED Employee Networks are:

- Ability Network
- Ascend Network & Friends
- Black Employee Network & Friends
- Latino & Friends Network
- Nike Military Veterans & Friends
- Native American Network & Friends
- PRIDE Network
- Women of Nike & Friends<sup>12</sup>

## Governments

As part of its corporate social responsibility strategy, Nike Inc. identifies governments as a stakeholder group. These stakeholders are important because they affect how Nike operates in terms of its permits, limits and legal actions in certain markets for its sports shoes, equipment and apparel. Governments are interested in legal and regulatory compliance, as well as business contributions to tax revenues and community development. Understandably, the community development interest is addressed through Nike's corporate social responsibility programs for community development. In addressing the other interests of this stakeholder group, Nike Inc. maintains a number of policies and standards to ensure compliance in all of its business areas. Thus, the firm's corporate social responsibility strategy satisfies the interests of governments as stakeholders<sup>3</sup>.

## Interest Groups

These stakeholders have significant effect on Nike in terms of potential government intervention and in terms of consumer perception regarding the company and its sports shoes, apparel and equipment. The interests of these stakeholders are varied, including fair labor practices, business sustainability, and environmental conservation. Nike addresses these interests through the Nike Foundation's initiatives, as well as sponsorships of a variety of related programs. The company also has corporate social responsibility policies for improving labor management and environmental impact. These considerations indicate that Nike Inc. satisfies the concerns of interest groups as stakeholders.

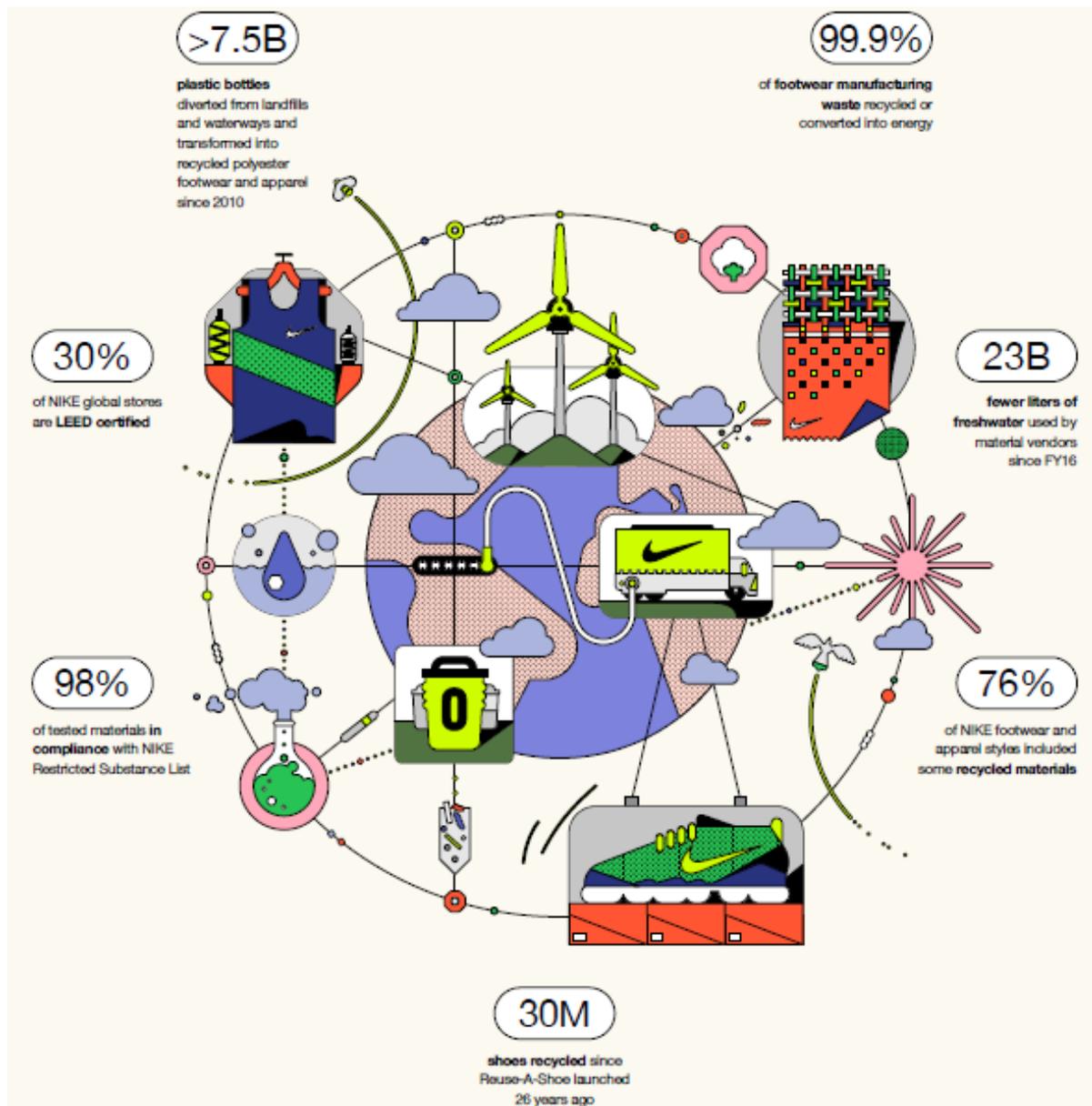
One of Nike's main goals is to reduce their products' impact by using more sustainable materials, leveraging durability, reuse, recycling, circularity, and reducing waste along all of the supply chain.

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<sup>1</sup> <https://purpose.nike.com/>

<sup>2</sup> FY19-Nike-Inc.-Impact-Report

<sup>3</sup> <https://www.investopedia.com/articles/insights/052516/top-4-nike-shareholders-nke.asp>



Nike partners with more than 60 organizations to create a positive impact in communities around the world, addressing issues such as equality and access to education<sup>123</sup>.

<sup>1</sup> <https://www.investopedia.com/articles/insights/052516/top-4-nike-shareholders-nke.asp>

<sup>2</sup> FY19-Nike-Inc.-Impact-Report

<sup>3</sup> <https://communityimpact.nike.com/>



DATION

PROGAMA DAS NAÇÕES UNIDAS PARA O DESENVOLVIMENTO

PEACEPLAYERS INTERNATIONAL

CHINA FOUNDATION FOR POVERTY ALLEVIATION

PORTLAND BUREAU OF

### 5.3.1.9 Nike's CSR Performance in Addressing Stakeholders' Interests

Nike's prioritization of customers reflects the importance of this stakeholder group. The satisfaction of customers directly affects revenues. The company's corporate social responsibility strategy is also satisfactory in terms of giving second priority to communities, considering the variety of policies and programs to support these stakeholders. While it is understandable that employees determine organizational performance, Nike's corporate social responsibility support for communities is congruent to its support for customers as a top-priority stakeholder group. Communities also determine consumers' buying behaviours. Overall, Nike is effective in ensuring that its corporate social responsibility programs support the business aim of optimizing revenues from the sale of sports shoes, apparel and equipment worldwide<sup>12</sup>.

Although not as critical as the previous mentioned stakeholders, **Suppliers** and **Celebrity Endorsers** also play an important role in Nike's strategy.

## Suppliers

As one of the pioneers of the manufacturing outsourcing strategy, looking to optimize the manufacturing and production processes, Nike relies 100% on its suppliers for having its finished goods, since they own no factories for manufacturing its footwear and apparel.

Nike is supplied by **112 footwear factories** located in 12 countries. Vietnam accounts for 49% of contracted footwear production, China 23% and Indonesia 21%. The largest single footwear factory accounted for approximately **9%**, which is Pou Chen Corporation. They are the largest manufacturer of branded athletic and casual footwear in the world, with customers including Nike, Adidas, Asics, New Balance and Timberland. They produce more than 300 million pairs of shoes annually, and account for roughly 20% of the global wholesale value of branded athletic and casual footwear.

The company contracts **apparel manufacturing to 334 factories** operating in 36 countries. China is its largest source of apparel at 27%, followed by Vietnam with 22% and Thailand at 10%. The largest single apparel factory accounted for approximately **10%**, which is Shenzhou, the largest integrated knitwear maker in the world. It was on Forbes Asia's Fab 50 companies in 2016 and the company has notched significant percentages of big brands' apparel procurement, with clients such as Nike, Adidas, Uniqlo and Puma.

We can assume that the risk is quite high since, in spite of the large number of different suppliers, most of Nike's production is concentrated on only a few companies. Regarding geography, the vast majority of Nike's production is based on East Asian companies, who typically have lower costs of production<sup>341</sup>.

<sup>1</sup> <https://purpose.nike.com/stakeholder-engagement>

<sup>2</sup> <https://www.investopedia.com/articles/insights/052516/top-4-nike-shareholders-nke.asp>

<sup>3</sup> <http://manufacturingmap.nikeinc.com/>

<sup>4</sup> <https://www.forbes.com/sites/russellfannery/2016/10/26/the-billionaire-supplier-to-nike-uniqlo-adidas-and-puma/?sh=29dee44c5499>

## Celebrities

Nike widely communicates and connects with its consumers around the globe, and celebrity endorsements assume a major role in this. These partnerships with famous personalities are crucial in today's world, as there are many athletes and celebrities that are influential in people's buying choices. Michael Jordan, Serena Williams, Cristiano Ronaldo, Roger Federer, etc.



<sup>1</sup> <https://www.investopedia.com/articles/markets/051416/nike-stock-analyzing-5-key-suppliers-nke.asp>



These types of marketing stunts are one of the main common tools used by Nike to get people's attention and interest in order to maximise their profits, as well as attract new customers and retain the loyal ones. Nowadays Nike is mainly assuring this dynamic by using a very strong online strategy, leveraging the millions of followers they have on Instagram (83M), facebook (33M) and twitter (440k). Nike uses social media to create a lifestyle and sense of community among fans. Its tweets are short, punchy and compelling, and nearly always included the hashtag #justdoit or other community-building hashtags like #nikewomen<sup>12</sup>.

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<sup>1</sup> <https://www.reviewthis.com/nikes-best-celebrity-endorsement-campaigns/>

<sup>2</sup> <https://medium.com/digital-society/nike-online-presence-2dd58bce5d3f>

## Appendix 10. Digital Strategy / Online presence

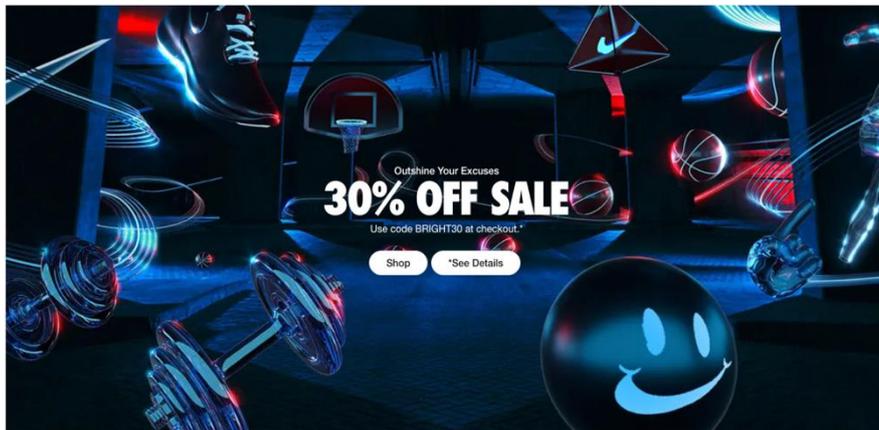
### Strategy

In 2017 Nike launched a company re-organization aimed to drive growth through leverage the power of digital technologies, called Consumer Direct Offense, to which Nike Consumer Experience (NCX) is part. NCX included a new retail strategy focusing on direct sales channels to customers (both online as well as offline) and key strategic partners (also online and offline), seeking to assure a greater control on brand image and customer relationships. NCX includes also a brand free membership programme – NikePlus<sup>1</sup> – within the NikeApp. Members are entitled to free shipping, extended store hours, access to exclusive products, awards of NikePlus Unlocks – given based on spending and fitness app usage. Using both personal information from customers when registering in the programme and sales data, Nike offers customized products and experience recommendations through its online channels and, in parallel, assure selected products are available in specific stores, based on local market preferences.

### Online Presence / Connecting with Customers

Online presence of Nike is very strong, by posting new content on a daily basis, which is commented or shared by its followers. Search engine is easy to use, enabling customers to find quickly what they are looking. When accessing [www.nike.com](http://www.nike.com) customers are offered access to new releases, collections, promotions with a very attractive design.

Current one shows references to several sports, in a space movie alike scenario, creating a sense of movement and instilling customers to find more about the products. “Outshine Your Excuses”.



Nike allows customers to personalize their own shoes and clothing through Nike by You<sup>2</sup>, available both online and in stores at NikeSudios.

[https://www.nike.com/pt-br/bscricao?cp=40087677112\\_search\\_inike%20plus|10575251232|101246403101|elc|EN|membership|465896009647&qclsrc=aw\\_ds&qclid=EA|alQobChMI09TH5umU7QIVRoXVCh24ugEjEAAYASAAEgKLuvD\\_BwE&qclsrc=aw.d](https://www.nike.com/pt-br/bscricao?cp=40087677112_search_inike%20plus|10575251232|101246403101|elc|EN|membership|465896009647&qclsrc=aw_ds&qclid=EA|alQobChMI09TH5umU7QIVRoXVCh24ugEjEAAYASAAEgKLuvD_BwE&qclsrc=aw.d)

<sup>2</sup> <https://medium.com/digital-society/nike-online-presence-2dd58bce5d3f>

Nike has been investing on online platforms for several years – Instagram, Twitter, Facebook, boosting its brand image through publishing photos of famous athletes and answering questions from followers.

Followers are encouraged to further connect with Nike by sharing photos wearing a favourite Nike trainer, which may be feature on Nike's feed or wall.



Another field of interaction of Nike with Customers is, for example the one targeting runners, through partnership with Apple, offering Apple Watch Nike+ in 2016, with Apple Watch series 2.

The relation between the two companies has been maintained and more recently, Apple Watch series 6 also included a Nike version.

NCX implementation also came with the launch of Nike House of Innovation concept stores, focusing on localization, personalization, and digital-connected shopping experiences using NikePlus. These types of stores include also sections such as Nike Arena for the launch of new products, installations, Center Court to host speaker sessions, workshops and digitally led trials. Currently Nike has already opened the following concept stores:

- Shanghai – October 2018<sup>1</sup>
- New York – November 2018<sup>2</sup>
- Paris – July 2020<sup>3</sup>

With these stores, Nike aimed to re-shape brick-and-mortar stores, showing they still represented a strong place in retail.

Covid 19 pandemic brought in a different reality and forced stores across the world to be closed for a period and later when opening, face a much reduced revenue as customers refrain from go into traditional shopping.

Nike suffered from this situation, revenues in Q4 of FY2020 are already reflecting this drop. Losses were somehow minimized as due to its effort from strong online presence and direct online channels with customers, Nike experienced a growth of 49% in its digital commerce when comparing FY2020 with FY 2019.

## Pricing

Nike sets the prices of its products depending on the type of product and country, assuring these are competitive to other companies competing in the same markets, namely Adidas, Puma or Under Armour, but simultaneously, being able to charge higher prices in line with higher quality and value than the ones of its competitors.

Nike customers value the product differentiation and high quality as premium features, being willing to pay for it.

<sup>1</sup> <https://www.youtube.com/watch?v=lsATH12nMjM>

<sup>2</sup> [https://www.youtube.com/watch?v=o\\_5C0DP4AcI](https://www.youtube.com/watch?v=o_5C0DP4AcI)

<sup>3</sup> <https://www.youtube.com/watch?v=KX2w6TnXPQ8>

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