

# Case study – nike: spreading out to stay together

Education



Case Study: Amazon: Nike: Spreading Out to Stay Together Nike, Inc. is an American multinational corporation that is engaged in the design, development and worldwide marketing and selling of footwear, apparel, equipment, accessories and services. The company is headquartered near Beaverton, Oregon, in the Portland metropolitan area. It is the world's leading supplier of athletic shoes and apparel and a major manufacturer of sports equipment, with revenue in excess of US\$24. 1 billion in its fiscal year 2012 (ending May 31, 2012). As of 2012, it employed more than 44, 000 people worldwide. The brand alone is valued at \$10. Billion making it the most valuable brand among sports businesses. Nike and Precision Castparts are the only Fortune 500 companies headquartered in the state of Oregon, according to The Oregonian. The company was founded on January 25, 1964 as Blue Ribbon Sports by Bill Bowerman and Phil Knight, and officially became Nike, Inc. on May 30, 1978. The company takes its name from Nike the Greek goddess of victory. Nike markets its products under its own brand, as well as Nike Golf, Nike Pro, Nike+, Air Jordan, Nike Skateboarding, and subsidiaries including Cole Haan, Hurley International, Umbro and Converse.

Nike also owned Bauer Hockey (later renamed Nike Bauer) between 1995 and 2008. In addition to manufacturing sportswear and equipment, the company operates retail stores under the Niketown name. Nike sponsors many high-profile athletes and sports teams around the world, with the highly recognized trademarks of " Just Do It" and the Swoosh logo. Discussion Questions: 1. When Nike CEO Phil Knight stepped down and handed his job to Bill Perez, he stayed on as chairman of the board. In what ways could

Knight's continued presence on the board have created an informal structure that prevented Perez from achieving full and complete leadership of Nike?

Answer: Informal structures are the shadow organization that represents the actual working and communication relationships that may not resemble the formal organizational chart. When knight remained on the board, old communication relationships may have survived his departure from the CEO position, cutting Perez off from valuable information. Knight's access to the informal communication network may have worked to spread rumors to Knight and back down the communication chain. These rumors may have contained inaccurate information, caused resistance to change and distracted members from their work.

This may have reinforced Perez's position as an outsider. 2. How can Nike utilize both traditional and newer organization structures to support the firm's heavy strategic commitment to outsourcing? Answer: Network structures use information technology (IT) to link with networks of outside suppliers and service contractors. This outlines Nike's efforts to outsource many nonexecutive responsibilities to reduce overhead. In addition to outsourcing production, the research and marketing business centers listed in the case could be part of a network structure.

Other functions may include design, advertising, licensing, compliance sports and entertainment marketing. 3. Given the problems Nike has had with sweatshop labour being used in some of its foreign contractors, are there subsystems of the firm that need to be run with a mechanistic rather than organic design? Give examples to support your answer. Answers: Mechanistic designs are highly centralized and bureaucratic with an

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emphasis on command and control. This might suggest that mechanistic designs are appropriate for manufacturing in foreign countries.

Organic designs are adaptive, decentralized and tend to respond to change more quickly. This would probably be a good fit for an organization that has far flung operations in different countries with different cultures that try to respond to rapidly changing technology, fashion, customer demands and economic conditions. Nike's manufacturing subsystem should be run with mechanistic rather than organic so as to protect the image brand and its original designs. The design should be utmost unique and further differentiated, not conforming to culture.

Design is could be one competitive advantage so it is important that the manufacturing of the products are conformed to the original ideas of the maker, uninfluenced by any other factors involved in its manufacturing process. Example of this idea is the use of differentiation strategy of companies to gain competitive advantage. 4. Further Research—Gather information on Nike's recent moves and accomplishments, and those of its rival Adidas. Are both firms following the same strategies and using the same structures to support them? Or, is one doing something quite different from the other?

Based on what you learn, what do you predict for the future? Will Nike stay on top, or is Adidas the next industry leader? The advertising strategy differs from company to company. Generally, Nike believes in spending 5-7% of its revenues in advertising and endorsement. Nike has planned to spend \$4. 2 Billion until 2014 for endorsements alone. With the huge size of Nike, it is tough for other companies to allocate a big amount for their marketing

expenses. Moreover, Nike has always an edge when it comes to advertising and marketing. The table below shows the advertising strategy for the major players in the industry.

|                 |   |
|-----------------|---|
| Company         | Strategy  |
| Nike            | * Endorsing Athletes * Sponsoring Sports events * City based advertisements * Banners ; Billboards * Themes on bringing inspiration and innovation to every athlete in world              |
| Adidas, Reebok  | * Sponsoring Sports events * Endorsing Athletes * Themes on improving performance of every athlete in the world   |
| Puma            | * Mixing influence of sports, lifestyle ; fashion * Puma concept retail stores * Puma fashion shows * New stuff advertising campaigns * Building seasonal momentum during holiday seasons |
| Other companies | * Minimal or less advertising based on stores   |

Nike has invested a lot so far in developing a premium brand that implies high quality and care for the customer. Nike has a wide range of products ranging from athletics to life style and also in different price ranges. Therefore, it is always a challenge to fight against brand dilution within Nike. The following gives an idea of the customer's perception of the brands.

|         |  |
|---------|--|
| Company | Branding message and strategy  |
| Nike    | Athletic, Influential, Outgoing, Aggressive, hi tech, futuristic, retro cool American way of living Associated with Athletes at top of their sport |

|                |   |
|----------------|---|
| Company        | Branding message and strategy   |
| Adidas, Reebok | To bring inspiration and innovation to every athlete in world   |
| Adidas, Reebok | Clear, orderly, Practical, hi tech, Sophisticated, Sincere Conservative European style To improve performance of every athlete in the world |
| Adidas, Reebok | Associated with elitesoccerplayers/teams, NBA stars, Hip hop artists  |
| Puma           | Elegant, colorful, fresh, spontaneous, individual, metropolitan, international  |

Mixing influence of sports, lifestyle ; fashion Fashion brand, performance ; casual footwear, fringe, extreme sports| Other companies| Based on their product lines. Generally not a strong brand message|

In general, Nike's shoes are associated to be of high quality and stylish. Reebok's are comfortable and casual, and the Adidas brand boasts superior performance and is " perceived as a professional, technically orientated brand with strong European roots. Nike fields some of the best in class technological practices and has a few patents to its credit. Nike emphasizes on these and has developed a lot of new products with use of high technology and sophistication. An example of that is the microprocessor shoe to give great experience and comfort to the customer.

However, Adidas is also working on high tech innovations to provide high quality shoes. Lately, Adidas and Nike have been doing entertainment based marketing campaign by forming alliances with technology/entertainment companies. Nike had an alliance with Apple to sell Nike shoes with Apple iPods while Adidas tied up with Microsoft to sell Adidas goods with Microsoft Xbox gaming systems. So far the success of these alliances is yet to be quantified. Nike follows a 100% outsourcing strategy. Most competitors follow the outsourcing strategy.

Exceptions to this are New Balance and other smaller players. New Balance claims that 75% of its production is from the US and other small companies produce in the US as well. In general, Nike might still be the industry leader if it compensates its weaknesses in organizational structures with different strategies such as focusing on innovation and development, following differentiation and pricing-based strategies, and investing on sustainability

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research. References: <http://www.nike.com/ph> [http://en.wikipedia.org/wiki/Nike,\\_Inc](http://en.wikipedia.org/wiki/Nike,_Inc). <http://www.scribd.com/doc/91701683/Case-Study>