

Nike supply chain



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The supply chain plays a critical role in the transformation and global growth of a company especially in the current economic situation. The global supply chain is the transformation flow linking the raw materials, parts suppliers, manufacturers, and service support operations into products and services and distributing these products locally for consumers (Chase, 2005).

According to Sridharan, Caines, and Patterson (2005), difficulties encountered in the implementation of supply chain management software designed to maximize the value of a company can result in a disruption of its supply chain, causing losses and a decline in its value thus resulting in the shareholders' disappointment.

Nike's concept for its supply chain management are process innovation (do it different), continuous improvement (do it better), and execution discipline (do it right) (IBM and Stanford University, 2006). Nike, created in 1971 began outsourcing in mid 1970s. Currently, Nike is largest athletic shoe company in the world, controlling more than 36% of the US athletic shoe market and has more than 33% of the global athletic footwear market. Nike's products include apparel and sports equipment (Nike, Inc, 2009). Out of Nike's 830 suppliers, 70 of it produce shoes. Nike employs more than 600, 000 workers in 51 countries in 2004, manufacturing Nike products. Nike has direct employees of 24, 291 with vast majority in the US and had about \$12. 2 billion in revenues of which \$6. 5 billion came from footwear sales and \$3. 5 billion from apparel in 2004 (Locke and Romis, 2007). Nike's supply chain started in the1990's when Nike was a criticized involving underpaid worker in Indonesia, child labor in Cambodia and Pakistan, and poor working conditions in China and Vietnam. Further allegations of wage law violations,

excessive overtime, physical abuse, and unsafe working conditions surfaced from its suppliers and in 1992, Nike responded to its sweatshop labor image by developing its Code of Conduct and labor practices in the company's Safety, Health, Attitudes of Management, People Investment and Environment program.

Nike's suppliers were obligated to comply with the basic labor, environmental and health and safety standards. Nike's suppliers were required to observe, sign and post within their factories this Code of Conduct. Nike conducted trainings with suppliers and assembled a team of 90 compliance staff based in 21 countries to monitor suppliers and about 1,000 production managers were working with suppliers ((Locke, Kochan, Romis and Qin, 2007). Nike's restructuring in global supply chain led to significant improvements in working conditions. In 1996, Nike faced stockholder criticism for labor conditions of its contractors and its subcontractors' treatment of women workers, high-paid celebrity endorsers and low-paid laborers. Nike's Vietnamese factories reported that in 1997, its workers were subjected to unsafe heat, exhaustion, poor nutrition and beatings. Anti-Nike rallies and protests were reported in 50 cities and 11 other countries. In 1998, Nike introduced a revised Code of Conduct and instituted the "Future Vision" and embedded Corporate Social Responsibility (CSR) values to address the issues on working and environmental conditions at subcontractors' factories, then restructured again to Global Production Network. To improve CSR compliance, Nike stirred from a market relationship to a collaborative partnership where suppliers have a deeper and securer relationship with the buyer (Lim and Phillips, 2008). Nike's

supply chain management focused on its process innovation to do their products different from other shoe producers, continuous improvement by maintaining its relationship with its suppliers to be able to do its production process better, and execution discipline by doing things right, adhering to the corporate and governmental laws and policies (IBM and Stanford University, 2006).

Nike's supply chain consist of all the activities, functions and facilities directly and indirectly involved in the flow and transformation of goods and services from the raw material stage, manufacturers, parts suppliers, assembly, warehouse and distribution to the end-user whose primary goal is to maximize the value and shareholder wealth of the company (Sridharan, Caines and Patterson, 2005). Nike's supply chain had certain benefits. Costs from outsourcing allowed Nike to focus on its core competencies such as product design, marketing, and Air Sole technology. Nike's relationship with its suppliers made it possible for them to have quality product with low costs due to reduced administrative and payroll costs. The flow of their products reduced time in initial design, production and distribution from sending new designs to suppliers who produces the shoe parts, to forwarding the shoe parts from suppliers to companies assembly and finally in shipping the finished products for worldwide distribution. Nike's diversity of 860 suppliers allowed them flexibility, faster service in cases of emergencies and quality assurance. Nike's technologies in transferring of data, orders, communication through internet and databases allowed them to perform and meet the needs of its customers in a timely manner and have a good inventory and monitoring control. Nike's supply chain had some

disadvantages such as an expensive implementation of technical components; having too many suppliers can lead to losing control of inventory and operations management; a breakdown of some shoe parts suppliers can cause delay in its supply chain process; suppliers non implementation of Nike's Code of Conduct can once again destroy the public perception of Nike; and trend forecasts and unstable economy can affect consumers demand. According to Lim and Phillips (2008), the governance of global value chains (GVCs) dominates the political economy and management revealing that major retailers do not own manufacturing facilities and instead has contracts with multiple suppliers in less developed countries (LDCs).

These retailers regularly play them against each other to attain the best price, highest quality, and quickest delivery. Although this benefits the buyer and consumers, the competitive, market-oriented GVC pushes suppliers toward lower wages and sweatshop-like labor/environmental standards. Nike's Future Vision restructured the supply chain by consolidating contractors into five Manufacturing Leadership Partnerships (MLPs). In contrast to competitive market-oriented contracting, MLP is similar to a collaborative partnership distinguished by a high level of interdependence underpinned by goodwill and trust. The MLP facilitated the information sharing between suppliers within the GVC. Nike's Future Vision partnership also addressed CSR monitoring at the contractor and component supplier levels. Nike send manufacturing expatriate technicians and a CSR team to evaluate environmental and labor conditions and rectify problems to the MLP factories. The MLPs then sent CSR officers to keep an eye on their vendors'

operations. The suppliers had to be on Nike's Approved Vendors List requiring them to observe the Code of Conduct aside from being technically qualified.

Nike gave each MLP an exclusive production relationship by guaranteeing a minimum orders monthly assuring a good relationship through good and bad times and the bond is expected to last as long as Nike exists. Nike's supply chain technology consists of Electronic Data Interchange (EDI) which transmits the data between different companies using networks, such as VAN or the Internet; Value Added Network (VAN) is a private network provider that leases communication lines to its subscribers and the internet as the backbone for supply chain links companies to their suppliers and vice versa (Web portals) and is also used to connect with customers (Nike's home page); and the Enterprise Resource Planning (ERP) which is a business management system that incorporates all component of the business as well as planning, manufacturing, sales, and marketing. Internet and the web technologies can enhance effective communication. To run their supply chain, Nike's uses HP servers, software, and consulting services as HP's single platform is capable of running both UNIX and Microsoft Windows NT systems (Sridharan, Caines and Patterson, 2005). HP is able to provide Nike with the right technology needed to operate successfully its global supply chain. This technology helps Nike review its supply chain past performance, monitor current performance and predict when and how much of certain products need to be produced. The innovative opportunities of electronic commerce (e-commerce) through the internet increases information technology (IT) whose primary goal is to link the point of production

effortlessly with the point of delivery or purchase. The information trail from IT allows planning, tracking and estimating lead times based on real data which is accessible in the system where managers analyze, plan activities and make decisions based on information from the entire supply chain.

According to Sridharan, Caines and Patterson (2005), the key elements of a successful supply chain management are clear communications and quick responses to those communications. To be effective in its operations, the information is shared among vendors, customers and internal departments.

Conclusion Nike's efficient global supply chain enhanced its ability to successfully respond to labor issues and other changing conditions and reduced risk in its inventory and capital investment. Nike's efforts on corporate social responsibility allowed them to improve its operations, information and product quality thereby allowing them to meet consumers' needs. Nike can now provide customized shoes for customers, allowing them to order online through Nike website. Nike was able to create an instant ordering system by combining technology with customized service thereby adding more services for their consumers. Nike's changes in the governance of its supply chain afforded insight into Global Value Change (GVC) evolution towards heightened Corporate Social Responsibility (CSR) by conducting compliance audits to all their suppliers worldwide to ensure accurate assessment of factory condition and honest reporting of their findings especially concerning labor laws and Nike's Code of Conduct. Nike expanded its supplier concerns to working conditions, environmental protection, and community welfare. Nike moved from arm's-length contracting to collaborative partnership with its suppliers holding Manufacturing Leadership

Partnership (MLP) status thus attracting quality workers through implementation of Codes of Conduct policies. Consequently, Nike's supply chain management focused on its process innovation, continuous improvement, and execution discipline.