

Nike's entry into china



China is one of the major fastest growing markets in the world and the most popular markets for foreign entrants. One of today's major business challenges requiring logistics insight is the dramatic growth in international sourcing, mainly to low cost countries such as China and Malaysia (David J. Closs, 2005).

IBM Global Business Services reported that low cost country helps raise revenue. Most of the company's CEOs are looking for revenue growth by reduce costs to maintain or expand profit margins. Obviously, cost is one of the factors that all companies that desire to reduce. After a company study of future sourcing, Nike had chosen China as one of the long-term most low-cost suppliers. By quoting Nike Inc. Cain. com said that labour costs accounted for a huge share of the prices of the company's shoes and had to be kept below 24 per cent of prices to stay competitive.

Since, Nike is the leading sports brand in China. In 1981, Nike started production in China. However, for a company like Nike that has a reputation of making the best products for their customers, they have to take in other factors such as quality. It's one reason why they did not choose countries such as Africa to be their supplier. In addition, one factor that China has to offer is labor capability to make quality goods for Nike.

Furthermore, China was also chosen because the domestic market size. Mark Parker, who is the President and CEO of Nike stated that Nike is a growth company and China is being one of their most important sourcing markets and also swiftly becoming their second biggest consumer market in the world. About one of every three pairs of Nike shoes they sell in the world is

made in China. Similarly, Nike was taken these advantages to tap into the large market it offers. In others word, China was also taking the opportunities to capturing the market in China which will help stiffen the company's foundation in its industry.

The fact of lowering cost is to achieve profit maximization. Production in a first world country would increase cost and lead to reduce profit. China as a second world country for the foreseeable future is also the reason why Nike chose to enter into China.

2. 0 Analysis

2. 1 Advantage gained by Nike for entering China

When Nike first entered the international market through China, they gained many benefits. This is because China is a low-cost country, so NIKE has no involvement in the manufacturing of its products and all of its production has been outsourced mainly to manufacturers. For example, Goodbaby Group, China's top manufacturer and retailer of baby care products, has announced an online retail partnership with the Nike Inc as part of its efforts so that they able to win more brand recognition (" China Daily", 2012).

Nike has been working with manufacturers in China for about 20 years. The employees and factories produce a lot of Nike's most highest-performance athletic products. One of the most fundamental impacts Nike have is to create positive, systemic change in their global supply chain, and for the industry as a whole. The deep brand and supply chain footprints in China create distinctive opportunities for Nike while it continues to help influence and gain from China's success. The achievement in China is built regarding

the deep connections with China's Nike-branded footwear and athletes.

According to Barney Jopson (2012), the apparel and equipment product are produced by nearly 700 contract manufacturers worldwide, and employing almost 800, 000 employees.

China represents the largest sourcing country for Nike, with roughly 180 contract manufacturers employing more than 210, 000 workers (Barney Jopson, 2012). China is the major sourcing market for Nike, which producing around 35 percent of footwear and also an important sourcing market for Nike apparel and equipment. Besides this, the company engages in public discourse and policy formation in China by sharing their experiences. First is the legal protection of employees that went into effect in January 2008, for the aim of strengthening legal protection for China's employees. Nike supports the regulatory environment that strengthens legal protections for employees and promotes well-mannered working conditions throughout the supply chain and this helps to prevent discrimination. Second is the international trade. Since China's World Trade Organization (WTO) entry in year 2001, Nike has worked to ensure that trade disputes between China and its trading partners are settled and negotiated in a manner consistent with international norms. For example, trade disputes over apparel and footwear and equipment with China's main trading partners in United States.

According to a survey by the American Chamber of Commerce, three United States companies say their China operations are profitable while most say their margins are higher in China than other places in the world. Nike not only supported the development of Chinese football, it also concerned about

the development of youngsters by launching a series of activity called ' I have a dream' in August 2002, a large scale of youth sports.

Since Nike established in China in the early of 1980, it gained several early entry timing of foreign direct investment, which includes new markets, distribution channels, segmentations, and lack of strong competition. Nike first launched their products in China and this gave the company to monopoly in market through different distribution channels. At that period, not much company are providing the same areas of business, therefore Nike did not faced much competitors. Other than this, the company also gained advantage related in products, such as new product, material supply, new product positioning, and brand loyalty. China continues to be a very viable resource when dealing with overall trade and labour markets around the world. Nike now has more than 7, 000 retail stores in China and the company plans to expand their distribution to second and third-tier cities.

2. 2 Shortcomings of entering China

It is very difficult for Nike to control all the quality products around the world. Nike has involved in a serious of quality scandals in China. Many products had been recall due to low quality and some products have been caused injury to consumers in China. According to Ni and Hu (2012) say that Shanghai quality authorities have been found out three sample pairs of Nike shoes do not meet the standards and in 2011, women sports shoes had thinner soles than required. According to Ni and Hu (2012), Bureau prohibited Nike continues produces the shoes and later asks for recall all the shoes which do not meet the quality standard, but the shoe still available at

Zhabei outlet of RT-Mart on October 10. However, the shoes were then pulled off the shelves.

In 2011 September, Beijing had fine Nike Zoom Hyperdunk due to deceptive advertising and low quality, (Ni and Hu, 2012). Nike has been fined US \$779, 416 for selling sneakers had only one air cushion in each shoe at a higher price and low standard in China compared those selling in other countries which has two air cushions and has much lower prices, (Zheng, 2012). The Nike Zoom Hyperdunk does not meet the quality set by the government and thus they need recall all the sneakers and offered refund. Besides that, Consumer Products Safety Commission (CPSC) warning consumers stop using Nike football helmet and returned to Nike. The Helmet Chin Straps plastic cups can breaks and caused exposing the player to facial or head injuries (Villanueva, 2007).

It is a big concern that Nike shares is declined 1. 1% in China and in future the company expect the orders will down to 6%, (Chang, 2009).

Furthermore, revenue earn by Nike in China is dropping due to excess inventory, high discounting and slowing in demand. Manager in China does not keep sufficient inventory record because they unable to relay the information to order materials from other country. They do not know what materials need to be imported and when in advanced and cause the production cannot run in schedule. As a result, there have excess inventory in Long March Factory in Guangzhou. The employees who are responsible for checking materials does not know what are the materials needed to be order in following month production schedule and they did not frequently coordinate the records with the planners, (Nike in China, n. d). The planners

order the materials does not base on the consumer demand but instead base on guessing method, and they seldom check what the materials left are in storage. As a result, Nike needs to discount the prices in order to reduce the excess inventory, (Marcial, 2013). Sale of excess inventory at discounted prices could significantly impair the Nike brand image. Fail to examine accuracy demand of products could affect the revenues and net income earn by Nike.

There is intense competition faced by Nike, either local brands such as Li Ning, Anta Sports, China Dongxiang and Peak Sports or international brand such as Adidas from U. S., Reebok, Asics, and New Balance. Even now, Nike is well positioned at the top in China; however there have multi brands still compete fiercely with Nike. Based on the report, Nike is known in the first place, with a 2009 market share of 10. 2%; Li Ning at the following slot which is second place for the first time, with 10. 0%; thus Adidas, in third place, with a 9. 6% share (as cited in Smith, 2010). The sales lead that Nike and Adidas held over domestic competitors has vanished. From this report is showing that the results of these top three sportswear brand are close proximity with each other, therefore this showing that Nike still in dangerous condition although it is remain in the first position. Furthermore, in the end of 2011, Li Ning had 8, 255 stores while Nike had 7, 500 outlets in China (as cited in Ranasinghe, 2012). As a result, Nike not only needs to face this “strong” local competitor, Li Ning, but also need to do the preparation for facing other competitors in China.

3. 0 Recommendation

Nike is popular for its high-quality sport shoes and other apparels. It has gained the acceptance in consumer's mind that Nike-made products are of high-quality. In order to maintain and gain its competitive advantage over its main competitors such as Adidas, Reebok and others, Nike has adopted the expansion strategy by outsourcing the production line to low-cost countries. China, Indonesia and Vietnam have become the primary manufacturing destination for Nike. The purpose for outsourcing the production line to China is to reduce the waste in terms of cost of hiring the labor, cost of shipment and many more. Cheaper labor and facility cost in China compared to the United States enabled Nike Corporation to enjoy the economies of scale. It eventually lowers the total production cost and Nike will be able to make more profit. It is recommended that Nike should continue to fully adopt the expansion strategy to other low-cost countries like China by outsourcing the manufacturing line. It could strengthen the leadership position of Nike Corporation in financial performance as Nike make more revenue and profit with low production cost.

First, it is recommended for Nike Corporation to adopt innovation strategy to strengthen company's competitive advantage over the competitors. New design and innovation are very significant for Nike Corporation. One of the visions for Nike is designing for the future by unleashing the innovation. President and CEO of Nike, Mark Parker, said that Nike has set the target at improving the products through design. In the past, Nike has spent multi-million dollars on Research & Development to design the athletic shoes which differentiate itself from other shoemaker companies. Nike has gained

the recognition from the consumers for its uniqueness and sophisticated design. Nike China has contributed much to the innovation strategy as many advanced shoes design are made in China from the talented Chinese designers. Out of every three pairs of shoes, there is one of them is made in China. One of the innovative products came out from Nike was the Nike-Ipod sport kit with the collaboration with Apple Inc. It enhanced the runner's experience by combining the sport and the music. It was viewed as a breakthrough for both sport and music industries.

Second, Nike has excess inventory, high discounting and slowing in demand. To overcome this, China has several competitive advantages.

There are few strategies which can enable exploiting competitive advantage through different goal-means combinations (Bartlett et al., 2008):

Multinational strategy achieves most strategic goals by emphasizing national differences. The firms which have adopted this strategy tend to operate business based on local environment. They are flexible and responsive to local environment, but there is a lack of capability to learn globally within these firms owing to the fact that almost all national units operate independently.

By using multinational strategy, Nike can achieve most strategic goals by emphasizing national differences. This is because Nike can adopt their strategy to operate business based on local environment. They can morph their strategy according to the local market, which is China.

International companies like Nike apply all the approaches to create and exploit innovations. This can be their competitive advantages for the China as Asian's culture tends to be more shy and conservative in innovative.

The strategies discussed above respectively possess unique assumptions about how to build up global competitive advantage. Nike used the Price Leadership Strategy and Value based pricing. This is when a company sets its price based on the value the consumer places on the product. This is why customer willing to pay high prices regardless of the product's actual value. Nike already had the strong brand recognition among the people in China. For example Liu Xiang, Liu is an Olympic Gold medalist and World Champion. His 2004 Olympic gold medal was the first in a men's track and field event for China. His athletic gear is sponsored by Nike. No doubt all China people will get to know about Nike.

As the excess inventory of Nike in China, I would suggest that they can cooperate with other parties such as their suppliers, distributor and competitors. This can enhance the global competitive advantages in the increasingly complex global environment (Bartlett et al. 2008)

This is called strategic alliances. This also can solves high discounting rate for Nike as their inventory level is stable, do not need to discount to reduce inventory.

Based on appendix 1 (Regional & Product Distribution of Suppliers), China has most worker which is 175, 960. This can be their competitive advantage because the production rate of China is very high compare to other country.

Third, facing immense competition and failing to rise above others is always going to be one of the greatest shortcomings that a company would face. Which in this case, Nike has to start standing out from its biggest competitors Li Ning and Adidas. At the current state, Nike only has a marginal lead over the two companies. We recommend Nike to be a standout in its industry. They are already making great products, but their competitors are also making great products. In order to rise up and above them, Nike should change the way they serve their customers, create a unique sales style, such as giving expert advice for customers in helping them to make their purchase decisions. They could also create an environment where they feel welcomed and at ease when they are in a Nike shop. A totally new feel towards selling sports ware and clothing. This can help differentiate Nike from its competitors and increase brand awareness.

4. 0 Conclusion

Nowadays, Nike has more than 7, 000 retail stores in China and they plans to develop their distribution to second and third-tier cities. When Nike first entered the low cost country such as China, they gained many benefits. As we know that, China represents the largest sourcing country for Nike and also the most important sourcing market for Nike apparel and equipment. But, Nike has facing the problem of quality controls in China. For example, many low quality products had been recall and some products have been caused injury to consumers in China.

Furthermore, revenue earn by Nike in China is dropping due to excess inventory, high discounting and slowing in demand. Thus, we recommend to this industry to adopt the multinational strategy which emphasizing national

differences and being able to operate the business based on local environment.

Besides that, Nike also faced with intense competition like Reebok and international brand such as Adidas. We recommend Nike to adopt the innovation strategy to strengthen company's competitive advantage over the competitors. New design and innovation are very significant for Nike Corporation to enhance their leadership position. For example, change the way they serve their customers, such as giving the potential customers expert advice and suggestion, so that customers will feel respect and make better purchase decision.

In conclusion, we learned that the company should implement expansion strategy by outsourcing the production line to low-cost countries such as China, Indonesia and Vietnam which are the primary manufacturing targeted destination for others company. For Nike, the purpose for outsourcing the production line to China is to reduce the cost such as cost of hiring the labour, cost of shipment and so on. It helped strengthen the leadership position of Nike in term of financial performance as Nike can make more revenue and profit with low production cost and also built up a strong reputation.

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