

# Case study: of nike company ltd: question 1

[Business](#), [Company](#)



Question 1 a) In the late 1990s Nike found itself in a serious situation with its manufacturing approach in Asia. -Select and apply one of Porter's models of strategy to explain why Nike were manufacturing in Asia? Michael Porter, leading author on company strategy and competitive advantage, has developed several generic strategies which, according to Porter, are the driving force behind any given company's success. These strategies comprise of CostLeadership, Differentiation and Focus.

It is Porter's view that any company that positions itself in at least one of these categories or striving to achieve one of these strategies should be able to attain and maintain competitive advantage, ceteris paribus. Nike Inc. has enjoyed a great deal of success in the Global Sports and Clothing Industry. One may even go as far to say it is the "cream of the crop" or "a cut above the rest". One may also wonder if any of Porter's strategies can be applied to explain or justify Nike's competitive advantage.

The Strategy of Cost Leadership is most applicable to Nike. It is also safe to say that this strategy was the deciding factor behind its' manufacturing operations in Asia. Nike has no factories. It does not tie up cash in buildings and machinery. The evolving design and style of its products does not warrant this type of investment. Instead, it outsources labour. Nike has manufactured wherever it can produce high quality products at the lowest possible price.

This makes a very lean organization and paves the way for the achievement of ultimate cost effectiveness. If prices rise, and products can be made elsewhere at a cheaper rate, to the same or better specification, Nike will

move production. Porter's cost leadership strategy concentrates on aiming to become the lowest cost producer in the industry through economies of scale. The cost leader aims to drive costs down while it targets a broad market, so sufficient sales can cover costs. Figure 1. is a representation of Porter's matrix which has been applied to the Nike Inc. By manufacturing in Asia, Nike was able to capitalize, not only on the availability of cheap labor, but also the availability of a wide range of materials required for production. The abundance of raw materials would mean large quantities of high quality purchased at wholesale prices. This enabled Nike to have tremendous purchasing power in Asia due to the high value of the US dollar. Nike also benefited from the relatively low tariffs associated with leather olded footwear. Nike would have never enjoyed these luxuries if its manufacturing was conducted in its homeland Another factor to consider is the size of the labor force. Nike, through contracts, indirectly employed thousands around the world. This would ultimately result in the manufacturing of massive quantities in quick time. The higher the product turnover, the higher the returns. All these ingredients are paramount and will inevitably yield a cost leader, a. k. a. , Nike Inc.