

Leading sportswear and equipment supplier



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Nike, Inc. is a leading sportswear and equipment supplier based in the United States. The company is headquartered in Beaverton, Oregon. It is the leading global provider of athletic footwear and apparel (Sage, 2008) and a leading manufacturer of sports equipment with revenue in excess of U. S. \$ 18. 6 billion U. S. dollars in its fiscal 2008 (ending May 31, 2008). As of 2008, it employed over 30, 000 people worldwide. The company was founded on 25 January 1964 as Blue Ribbon Sports by Bill Bowerman and Philip Knight, and officially became Nike, Inc. in 1978. In addition to manufacturing sportswear and equipment, the company operates stores under the Niketown name. Nike sponsors many high profile athletes and sports teams around the world with its highly recognized trademark “ Just do it” and the “ Swoosh” logo. The company initially operated as a distributor for Japanese shoe maker Onitsuka Tiger (Nikebiz, 2010). In 1980, Nike had reached a 50% market share in U. S. athletic shoe market and the company went public in December of that year (Nikebiz, 2010). Throughout the 1980s, Nike expanded its product line to include many other sports and regions throughout the world. This article aims to analyze the athletic footwear industry in India and Nike in particular. The literature review includes an overview of strategies and models to help better understand Nike’s move into the Indian market. The case analysis section will focus on Nike, in particular, and the challenges and competition facing the corporation in the foreign market. Finally, the report concludes with recommendations on how and what Nike can do to improve their performance in India.

Literature Review

Globalization describes a continuous process by which the regional economies, societies and cultures are integrated through a global network that includes communication and commerce. Globalization is the integration of national economies into the global economy through trade, foreign direct investment, capital flows, migration and technology diffusion (Bhagwati, 2004). However, globalization is generally recognized as due to the combination of economic, technological, socio - cultural, political and biological factors (Croucher, 2004). The term may also refer to the transnational movement of ideas, language and popular culture, through adaptation. The last two decades have witnessed the globalization of markets and production. The globalization of markets means that national markets are merging into a huge market. The two factors behind the trend towards globalization are: the reduction of trade barriers and changes in communication, information technology and transport (Hill, 2009). Following the globalization of production and markets over the past ten years, world trade has grown faster than world output, foreign direct investment has increased, imports have penetrated deeper into the industrialized world and increased competitive pressures in the industry.

Entry Mode Strategy

When companies decide to enter into foreign markets, there are several ways to do so. The risks operating in foreign markets are often dependent on the level of control a company has, together with the level of capital expenditures invested. The main modes of entry are exporting, licensing, franchise, joint ventures and FDI (Foreign Direct Investment).

Direct Export relates to delivery methods directly to external markets.

Manufacturer's employing indirect exports use channels or mediums which in turn distribute products to external markets.

A license agreement is an arrangement whereby a licensor grants the right to intangible property to another entity for a specified period and in return gets royalty (Contractor, 1892). Intangible properties includes patents, inventions, formulas, processes, industrial samples, copyrights and trademarks.

Franchising is similar to licensing, although it attracts longer term commitments than licensing. Franchising is mainly a specialized form of licensing, where the franchiser insists that the franchisee follows the strict rules as to how it leads its business. Like licensing, franchiser usually receives royalties, which amounts to a percentage from the franchisee's revenues. While licensing is pursued mainly by industrial enterprises, franchising is used mainly by service companies (Danning and Maccuin, 1981).

Joint ventures is a joint efforts between two or more businesses with a purposes which is mutually beneficial from the given economic activity. Some countries (such as China) requires all foreign investments to be joint ventures. Compared to exporting, it carries greater control. However, the level of risk is also increased. Some companies have sought joint ventures in which they hold a majority stake and therefore a tighter control (Kogut, 1988).

In direct investment, a company directly invests in the construction of fixed / non-current assets in a foreign country, in order to manufacture a product in the overseas market (Hennart and Park, 1993). It refers to the actual manufacturing of the product from scratch. Direct investments have increased Control and more risks involved.

IR framework

Companies operating internationally are facing two forces: pressures for global integration and pressures for local responsiveness (Daniels et Al, 2009). In their research, Doz and Prahalad (1984) explain that the economic, technological and competitive drive global integration, while the diversity of customer needs, distribution channels, media and trade barriers between countries boost the response capacity.

Research shows that the greater the pressure for global integration, the greater the need to maximize efficiency through standardization (Daniels, et. Al 2009). Customers accept standardized products and this reduces costs for the firm (Daniels, et. Al 2009). However, international companies are under pressure to adapt their operations to local market conditions and demands of local customers and comply with policies mandated by the governments of host countries, which varies throughout the world (Daniels et Al, 2009).

Integrating response model, shown in Figure 1, was initially developed by Prahalad and Doz in 1987 and subsequently developed by Bartlett and Ghoshal, 1989. It shows the interaction between global integration and local responsiveness (Daniels et Al, 2009). The IR model has four strategies to guide international corporations to compete in foreign markets: the Global

strategy, the International strategy, the multidomestic strategy and the transnational strategy.

The international strategy is adopted by companies when they want to enter into foreign markets. Secondly, a multidomestic company is “locally responsive” (Daniels, et. H 2009, p. 475), allowing each of its operations in foreign countries to act independently. The subsidiaries are free to respond to the preferences of local customers in the design, manufacture and marketing of products (Daniels, et. Al. 2009). A global strategy maximizes integration and pushes a company to make a standardized product for a global market. Finally, the transnational strategy differentiates the capabilities and contributions from country to country and allows companies to learn from them, adopting an integrated framework of technology, financial resources, creative ideas, and people (Daniels et Al, 2009).

Case Analysis

Nike has hired more than 700 stores worldwide and has offices in 45 countries located outside the United States. Most factories are in Asia, including Indonesia, China, Taiwan, India, Thailand, Vietnam, Pakistan, Philippines and Malaysia (nikebiz, 2010). Nike entered India through seven-year licensing agreement with Sierra Industrial companies for their sales, unlike Reebok, for example, which is a wholly owned subsidiary of U. S. parent. In 2004, instead of renewing the franchise, Nike India became a subsidiary. “The Indian market is growing in terms of sales, customer spends and awareness. It only made sense for us to capitalize on these opportunities as soon as possible,” says Gangopadhyay.

Nike India Ltd (BIL) is the largest footwear company in India. Nike first established itself in India in 1931 for manufacturing its products. The company is headquartered in Calcutta, and manufactures over 33 million pairs per year. It has a distribution network of more than 1, 500 stores and 27 stores, which provide excellent access to consumers and wholesale customers throughout India.

At 31 December 2006, the Canadian parent had a 51 percent share, while institutional share was about 13 percent. While retail sales have increased in value and volume, wholesale sales have decreased due to the restriction of supplies as a means of recovering outstanding customers. The recession and slow market conditions in the industry have also had a direct impact on retail sales and profitability.

For the third quarter ended 30 September 2007, Nike India reduced its losses to Rs 5. 68 million rupees with a 9. 2% increase in net profit to 154. 27 million rupees. The company is struggling to maintain its market share in the price sensitive market in India, despite strong brand reputation. 97% of company revenues are on the domestic market, while the remaining are exports. Nike's major problems in India are the high cost of production and little emphasis on marketing. The company may be able to address the first problem by outsourcing production.

Nike India has also been trying to focus on the aggressive marketing of their products. Nike India has plans to invest in sophisticated machinery to keep its niche place in manufacturing. The company has made a new approach to its retail business. The management of Nike India is making considerable

progress in terms of improving market penetration (based on the Ansoff matrix), focused on setting stores, distribution logistics, and improve labor relations and the rationalization of general expenditure. Launching new products always stood at the center of the operations of the company. At the same time, with the opening of the economy, more and more products are imported from China. Alternatively, like other manufacturers in India, Nike may also consider relocating their production bases to China. However, it is no easy task.

Nike India, 51% subsidiary of Toronto-based Nike Shoe Organization, remains a major player in the Indian footwear market, although its share in the footsteps has been declining over the years. Now, in an attempt to determine the appearance of all the products and prices, Nike India has decided to restructure its 1, 300-outlet strong business division retail along specific segments of customers in the bazaar, the family, the city and shops.

Until recently, Nike's marketing strategy was never really understood.

Realising that India is a cricket crazy nation, Nike in December 2005 bound in training schools, such as the National Academy of the BCCI cricket. Nike has become the official sponsor of the team's cricket team in India. They have paid Rs 196 million rupees to the Board of Cricket Control in India for the privilege. Nike is targeting the youth in India. It's also paying attention to other popular games in India. It came into partnership with the " All India football federation" since March 2006.

Nike has high levels of Global integration but lower levels of Local Responsiveness. Nike has identified the importance of multinational

customers (higher sales), presence of multinational competitors (developing countries like China and India), need for investment intensity within the industry (marketing strategies), degree of technology intensity within the industry, existence of international competitive pressures for cost reduction, and the universality of needs in the customer base. Nike lacks local responsiveness in terms of differences in specific local customer needs, the necessity to adapt the global product for local needs and the buying nature of the local Indian market structure. This places Nike in the “ Global” segment of the IR framework.

At headquarters, the MNC may choose to emphasise one or other of these dimensions, or it may attempt to contend with competitors along both. The strategy choices are: The “ integrated product” strategy calls for very high levels of integration of activities at the expense of local responsiveness at subsidiary level. This requires excellent communication between network members and a worldwide approach to business management; which is aided by a relatively homogeneous and supportive corporate culture.

The “ locally responsive” strategy requires highly autonomous national subsidiaries with substantial control over local resources. Clearly, extreme versions of this option are only possible where the parent requires, or the global industry demands, low levels of integration. In such cases, the culture is likely to be polycentric (Perlmutter, 1984).

The intermediate variant is the “ Transnational” strategy where elements of both integration and local responsiveness are significant. Somewhat more integration leads to “ product emphasis” and additional local responsiveness

to “ area emphasis”. It is important, however, that the mix reflects the requirements of markets at any particular point in time.

Nike has also been criticized for contracting with factories in countries like China, Vietnam, Indonesia and Mexico. Vietnam Labour Watch, an advocacy group, has documented that factories contracted by Nike have violated minimum wage laws and overtime in Vietnam until 1996, but Nike claims that this practice has stopped (Greenhouse, 1997). Nike has been criticized about ads which referred to empowering women in the U. S., while participation in the practices of the factories in East Asia, which some felt disempowered women (cbae, 2010). Despite these critics, Nike’s annual revenues have increased from \$ 6. 4 billion in 1996 to nearly \$ 17 million in 2007, according to the company’s annual reports (Nike, 2007).

The textile industry is constantly growing and often negatively impacts on the environment. Because Nike is a major participant in this production, many of its processes contribute negatively to the environment. One way of expansion of the textile industry affects the environment is increasing its water deficit, climate change, pollution and consumption of fossil fuels and raw materials. Besides, electronic textile plants today spend significant amounts of energy while producing a throwaway mentality because of trends based on the quick and cheap clothes (Textiles Intelligence, 2008). Although these combined effects may adversely affect the environment, Nike tries to counter influence them with its different projects. According to a New England-based environmental organization Clean Air-Cool Planet, Nike is among the 3 companies (of 56) in a survey of climate-friendly companies (Zabarenko, 2010).

SWOT Analysis

Strengths

Nike is a very competitive organization. Nike has a healthy dislike of its competitors. Nike has no factories. It has no capital investment in buildings and industry workers. This makes it a very lean organization. Nike is strong in research and development, as evidenced by the evolution and range of innovative products. It produces high quality products at the lowest possible price. If prices go up and products become cheaper then Nike transfers its production facilities. Nike is a global brand. It is the number one sports brand in the world. Its famous “ swoosh” logo is instantly recognizable.

Weaknesses

The organization has a diversified range of sports products. However, the corporate income remains highly dependent on their participation in the footwear market. The retail sector is very price sensitive. Nike has its own store of Nike Town. However, most of its revenue comes from retail sales. Retailers tend to offer a very similar experience to the consumer. So the margins tend to be squeezed as retailers try to push price pressures of competition onto Nike.

Opportunities

Product development offers many opportunities for Nike. Some argue that in youth culture especially, Nike is a fashion brand. This creates its own opportunities, since product could become fashionable before it is wears out. The company can also be developed internationally, based on the recognition of the strong global brand. There are many markets that have the disposable income to spend on high value sports goods. For example,

emerging markets like China and India have a generation of rich consumers. There are also global marketing events that can be used to support the brand, such as the World Cup (football) and the Olympic Games.

Threats

Nike is exposed to the international nature of trade. As it buys and sells in different currencies, costs and margins are not stable for long periods of time. This exposure can mean that Nike may be manufacturing and / or selling at a loss. This is an issue that faces all global brands. The market for athletic footwear and apparel is highly competitive. Competitors are developing alternative brands to take away market share from Nike. As discussed in the weaknesses, the retail sector is becoming price competitive. Ultimately, it means that consumers are looking for a better deal. The price sensitivity of consumers is a potential external threat to Nike.

Competition

The footwear industry in India is highly fragmented and dominated by the informal sector. The size of the industry is around Rs 75 billion and is growing at around 10% annually. Nike competes with local players such as Liberty Shoes, Phoenix International, Mirza Tanners, Tata, Action, Lakhani Shoes and global players like Adidas, Reebok and Nike. Footwear sales contribute over 96% of sales, whereas Accessories and clothing represent the rest.

Nike's biggest competitor is Adidas. The financial statements for 2008 indicate a difference of 3.4 billion U. S. dollars of income between the two companies. Adidas started in the 1920s and Nike began in the 1960s. Both companies offer similar product lines and their marketing strategies are

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similar. Nike has the advantage in sales and sponsorships; while Adidas is growing rapidly as well. Adidas owns Reebok, Taylor Made Golf Company and Rockport. Nike owns Umbro, Hurley, Converse and Cole Haan. Adidas was originally intended to be a line of sportswear products for football. However, Adidas has now targets all sports. Nike began focusing on the track shoes, but since 1972 has expanded enormously. While Adidas products are generally cheaper than Nike products, most pricing may be directly proportional to the costs and technology incorporated in the shoe. One conclusion to be drawn is that the more expensive products are, the more advanced the technology used. With the introduction of Nike iD where one gets to custom design their shoes, Nike has emerged as an innovative leader in the athletic shoe market. (Nike. com, 2010)

The U. S. athletic footwear and apparel giant had a presence in India for almost a decade and has an “ international” image (Bilwalkar, 2006).” We see what drives the passion for cricket in India. Our goal is to connect emotionally with our customers,” said Sanjay Gangopadhyay, marketing director of Nike India.” This is a good move by Nike to promote products at a serious level and build their brand awareness through its commitment to develop sport in India,” says Harminder Sahni, COO, Technopak consultants.

Competitors like Reebok and Puma are looking to expand its range of sport as a lifestyle brand for 17-35 years. While Reebok is looking to increase women’s exclusive, 70 percent of goods in Puma shops is lifestyle related and not to sports.” We want young people to be serious sports that interest them,” says Gangopadhyay. For example, the cricket sponsoring, is clearly aimed at this group.

All these years, market leadership has eluded Nike in India. This is the only market where Reebok has a (40 percent market share), followed by Adidas (20 percent). Nike, 15 per cent share is a distant third (Technopak Advisors, 2010).

Recommendations

Department stores are the first channel for sales and marketing of consumer goods made of leather. Shops and sample products should be designed to create a strong first impression. Seasonal campaigns such as special discounts and announcements can be implemented. The new line of collections can be made for festivals. In addition to promotional activities at malls and department stores, discounts and TV ads are effective channels for promotion. Nike should pay attention to the affordability of customers in different cities, while fixing the price points for different product categories.

Due to the increasing purchasing power, rising middle class should be the goal of sellers of consumer goods made of leather. It is also useful to introduce the appropriate plans that care for the taste of the middle class. Nike needs to move its strategy to “transnational” section of the IR framework by increasing its Local Responsiveness.

Conclusion

The first objective of the Nike brand in India would be to build its brand reputation and the prestige. Nike has to ensure that the name does not get tarnished because of concerns about human right and other environmental issues. The secondary objective of the Nike brand in India will ensure that it matches the market share and sales volume of its competitors. Nike although is one of the most popular brands in the world, it really has to catch

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up in India. We also note that Nike is on par with the Reebok. This again does not reflect very well with the brand, as Nike outsells Reebok in the rest of the world.

Nike's key competencies are in the marketing, consumer awareness of the brand and brand power. Globally, the key to the distinctive competencies rises over competition. As a result, Nike's market share is number one in the sports footwear industry in most parts of the world. Phrases like "Just Do It" and symbols such as the Nike "Swoosh", along with the sports icons it sponsors serves as a direct reminder of the Nike empire. It is time that the competition is leveraged in India.

Nike's vision is to remain the industry leader. The company plans to continue producing high quality products as made in the past. Most importantly, Nike must meet its ever changing customer needs through product innovation. In the past, the company has used its product differentiation as a competitive strategy. Nike has developed its activities in providing products that create more than all the others and this has led to its worldwide success today.

Nike is known for its technological advancement and is a leader in this field. Nike is also focused on making significant efforts in price leadership. Nike products in the past have focused on the upper end of the price category. Nike is now focusing on lower prices with quality products. This will enable Nike to capture an even greater percentage of market shares in India.

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