

Company needs to
analyze the general
environment



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A large company needs to analyze the general environment when making global strategy and doing international business. Included by the general environment, the terms of demographic, economic, political/legal, sociocultural, technological and global have different impacts on the strategy of a company.

Demographic

In the term of demographic, it can be divided into two factors, gender and age, which are important to the market of Nike, because Nike, a large multinational company, has stores in almost all regions over the world, and the strategy making can be focused on these two factors.

Focused on the gender, the market of female is great and the need of sportswear for women is high. Firstly, the women sports players are getting more and more professional and begin to stand on the stage of the world high level games such as Olympic Games and grand slam in tennis, which makes female sports players and their fans have a need of sportswear. Secondly, with the development of the society of most countries, women are getting aware the importance of their rights (Foster, 2001), which helps them have a thought of taking sports like males.

Also, in the term of age, Nike has a market of middle aged people in some countries especially in China, and it can provide casual sportswear to meet the target customers' needs. First of all, though Nike used Jordan to make advertisement several years ago and changed the person who cooperates with the company, the fans of the heroes will not change and still have a need of Nike sportswear (Jung, 2005). Also, after entering the Chinese

market in 1995, the revenue of Nike is stably growing and gains a group of people who have high loyalty of the Nike brand (Jung, 2005), and the age of these loyal customers is getting higher, which may become a huge needs of sportswear suitable for middle aged people.

Through demographic, the females and middle aged people may have a huge need of Nike sportswear and will become a large market. And, when Nike is meeting the youngsters' needs of profession, the middle aged customers may have more needs of fitness rather than competition. So Nike can design some new series of sportswear to meet their needs.

Political/legal

To save the cost is essential for a large company like Nike; Asian sourcing has allowed low manufacturing costs relative to the quality of the products. Thus, Asian sourcing has always been nearly as central to Nike strategy as using famous athletes to attest to the virtues of Nike equipment in athletic performances (Kahle, Boush and Phelps, 2000, p43). However, Nike is blamed for using low labor in low cost lacking of humanity. Nike seems to pay salaries lower than the standard given by the Indian government (Jung, 2005). This problem will leave really negative influences on Nike. Also, outsourcing production to factories in Vietnam and labors are used without human rights, such as working overtime and being neglected the health situation, brings out conflicts between the company and the society. Nike may lose its reputation among customers, and the brand of “ Nike” may become not as cool as it should be. When the challenge started coming about labor conditions in Vietnam and Southeast Asia and other parts of the world, everyone heard about “ Nike workers” without, of course, making the <https://assignbuster.com/company-needs-to-analyze-the-general-environment/>

distinction that they were contract workers. " When all of this was going on, about a third of the senior managers were in tears during the meeting. They were embarrassed- with their neighbors, their families, and their friends- by being Nike employees." Said Schwartz (2000, p8)

The legality of labor using should be concerned by Nike even it just outsource the production to other factories, because the legality may affect Nike's reputation a lot. And both the revenue and the royalty of customers will be affected by the changes of reputation. So, the legality is what manufacturing companies like Nike has to concern about, because " society confirms a business's legitimacy, and failure to consider societal impact can destroy a reputation." (Schwartz, 2000, p7)

Economic

The economic situation for a country should be concerned by companies doing international business like Nike, because people's budget that affects the marketing potential is influenced by the economy and financial policy of the country.

Since the needs of the market will depend on the budget and economic behavior of people (Boje, 2001), companies should think about the economic term. With the broken out of subprime crisis, the economy of US is going worse, and a large number of countries, such as Iceland, have been negatively influenced, which will lead to a retrench of budget and the market. Also, in countries who are sensitive to finance such as US, UK and Swiss, people are going with the budget strictly (Francesco and Gold, 2001, p27), and with the downward economic situation, the market may get

smaller. However, the markets in the regions not affected greatly such as Asia and Middle Eastern is more stable relatively.

Under this kind of situation, the needs of products and the market should become lower and smaller. Also, with the growth of the cost, it may lead to a reduction of revenue in the whole and restrict the development of Nike in the worldwide market though Nike may have the capability to keep the market share and still win the competition among Adidas, Puma and Nike.

Sociocultural

As a sportswear company, Nike needs to know what the socioculture, a person's understanding of sports, should be in a region or a field of sports events. First of all, it is found that people are always showing the respect to heroes, especially the sports heroes in real life (Jung, 2005), so companies including Nike uses excellent sports players like Jordan to make film and advertisements for it in order to develop people's adoration to the heroes so that the needs will be created. Also, because of the culture of success adoration, the needs may get enhanced if fans of the heroes feel that Nike can make positive effects on them. And Nike got additional market value when Tiger is in contention to win and a positive impact on his performance because of Nike's products is believed by the society (Farrell, Karels and McClatchey, 2000, p3). However, people in different areas have different sociocultures on sport events, such as soccer for Europe and basketball for US, so when making strategies, Nike can try to identify the different needs in the target markets.

So, to understand the socioculture of a region can help companies like Nike define its target market and find an appropriate way to make marketing and promotion. Also, according to the sports culture of an area and the needs of target market, to communicate with local players and design a product with them might be helpful in terms of both market and technology.

Technological

Customers nowadays have higher requirements on the technology of the products. Firstly, people are more captious than before. The technology of Nike Air gets blamed because people find that the air cannot support feet enough and may lead to injury(CBC News, 2006). Also, people need Nike's products be made with the technology of not only fitness and safety but also fashionable and cool one such as IT technology. Nike is working with Apple and produce Nike+ with a sensor connecting iPod in order to meet people's needs.

The needs of hi-tech make companies like Nike and IT companies like Apple come together, working out a strategy and making innovation in order to enhance the strength of them and achieve the market's needs.

Global

With the pace of globalization, areas in different parts of the world get connection and MNCs are setting more and more stores in different regions. Though Nike has great quantity of store all over the world, it can control all the stores at the same time (Hansen and Nohria, 2006, p12). However, though countries go closer because of the globalization, special needs in different cultures are still exist, which makes Nike's products have some

differences when selling in different regions. This situation leaves Nike's products a diversification even in one series. But too diversified products will lead to a mass in the market and make customers feel confusing (Hemp, 2006, p50).

Nike should make some differences in its products in order to meet different needs, but the standardization of products should also be focused. So, to make the balance between centralization and diversification of the products is what Nike should concern about in the global market.

Industrial Environment

In the term of industrial environment, the five forces model created by Michael Porter will be used to analyze Nike.

Rivalry among competing firms

Since Nike is an international company that has their product selling worldwide, it has countless of competitors, including many domestic local firms. However, only a few international companies are Nike's major competitors, such as Adidas, Reebok and Puma. Also, merger makes the athletics industry more concentrated. Nike bought Converse in 2003 and Adidas bought Reebok in August 2005, and " half of the worldwide market is shared by these two top players" (Jung, 2005). And, the notable companies such as Adidas, New Balance have different values and markets. Nike has a main market for US basketball while Adidas's is European soccer and fashion and casual sports for New Balance, which makes them have different markets and target customers. However, to enter a new market like soccer is not easy for Nike even it made great efforts. Nike worked with Google to

create joga. com, an Orkut-like site for soccer fans (Christopher, 2008, p6) in order to develop the soccer market which is defined as “ one of the most important in terms of growth rate” (Pagliano, 2004).

So the rivalry among competing firms is low because there are few companies with strong competing power, but the competition among large companies is great. And, if Nike wants to develop the soccer market in Europe, the great investment on advertising and a method of changing the classic and traditional culture of Europeans should be concerned.

Threat of new entrants

Top players, such as Nike, Adidas and Puma, in the footwear industry made a high entry barrier to reduce the threat of new comers. First of all, these companies put a great investment on advertisement and marketing. Nike had 50 sponsored Athletes win a gold medal in Athens 2004. Adidas spent \$80 million for the Official Sportswear partner title in Beijing 2008. And the high investment makes new firms hard to compete with them, even enter the market because sales for companies in this industry mainly depend on the marketing performance (Christopher, 2008, p6). Innovation is another way to keep a lead on would be competitors. Companies are making efforts to develop their technology and create new functions such as Nike+, the sensor connecting with iPod, which can not only gain more customers but also keep new firms with low technology out of the worldwide market.

However, though Nike and Adidas are leading the market, a local company, Li-Ning, came to the worldwide market. Li-Ning sponsors 4 Chinese teams for the Olympics, and its products are about half as expensive as those of its

foreign rivals, and its network of stores dwarfs that of any other player (Terjesen, 2007), which might be the advantage for Li-Ning.

So, local companies may succeed to enter the local market and use its low price as advantage to compete with leaders though the entering barrier is high. Nike should focus on the new comers with both the development of technology and lower price who might become a strong threat to top players in the future when making strategies, even though these local companies cannot compete with Nike today.

Threats of substitutes

Since athletic shoes and sportswear are designed to improve comfort and personal safety during sports, the substitutes for athletic footwear products are low because there are little alternatives to switch. Though people except athletes are still likely to use boots or sandals to substitute sportswear, doing sports is an essential and basic factor in people's life and the need of sportswear is exist for everyone. Therefore, there are no real substitutes for athletic footwear and sportswear.

Bargaining power of supplier

In order to reduce the cost, Nike make outsourcing of their process of production to low labor cost countries, mainly China and Vietnam. Nike's products are manufactured in more than 700 factories and more than 500,000 workers in 51 countries, but only over 20000 direct employees for Nike working in US (Locke, 2006, p6). Suppliers have very low power since they are competing worldwide with thousands of other suppliers. Also, firms like Nike are able to switch between suppliers quickly and cheaply, so these

suppliers become dependent on these firms for survival. And, the competition among factories is really high even problems such as low wages in Indonesia, child labor in Pakistan and health and safety problems in Vietnam occurred (Locke, 2006, pp. 13-16) because of the low bargaining power of supplier.

Bargaining power of buyer

The threat of bargaining power of buyer is low because customers do not have a lot of choices when they are choosing athletic wears. First of all, unlike other products, footwear has its own function such as an improvement of safety. Customers, especially athletes, have a need of the technology of the shoes which is the strength of large companies such as Adidas, Nike even Li-Ning. Also, the fans of sports players will use what the players use, which helps companies like Nike and Adidas build a loyalty of customers. The sales of Nike Golf products grew a lot when Tiger Woods showed an improvement in his performance (Farrell, Karels and McClatchey, 2000, p3) because customers also want to improve their performance by using Nike's products.

However, though the bargaining power of buyer is low in the industry, some people are buying products of Nike because of the apotheosis of their sports heroes, which shows that a lot of customers may have a loyalty to other brand like Adidas and Li-Ning. So to attract people without brand loyalty is much easier and more important than concentrating on those with a high loyalty to their heroes.

Conclusion

The analysis of general environment and industrial environment can be concluded that Nike nowadays is under low threats in the industry with some problems still existing. Also, as a leading company of sportswear industry, Nike should not only focus on the development of technology and working with companies in other industries, but also keep the high quality of marketing and promotion. And, the factories Nike does outsourcing business with should be executed by direct employees from Nike because the neglecting of the problems happened in these factories will result in a loss of reputation.

With the pace of globalization, there are both threats and opportunities for Nike. And to concern the environment of the industry and the world market will help Nike make strategies and develop more easily and scientifically.