A report on nike company sport essay

Executive Summary

Nike is an incorporated company that operates primarily in the footwear industry. The Company designs, develops and markets athletic footwear, apparel, equipment and accessory products. CEO and President Philip Knight runs Nike, Inc. Mr. Knight co-founded Blue Ribbon Sports in 1962, which officially became Nike in 1978.

A strategic audit of Nike Inc. and its wholly owned subsidiaries was conducted by gathering the company's financial data, press releases, industry information, company history and current projects. After the data was collected, it was analyzed and a SWOT analysis was conducted for Nike to reveal strengths, weaknesses, opportunities and threats Nike has as a company. The footwear industry was analyzed using Porter's Five Forces model.

Based on findings, the following recommendations are being made for Nike Inc.: Improve quality and brand name image of ACG, Nike's All Condition's Gear line for extreme sports; use money more efficiently by expanding promotions into entertainment; expand marketing efforts in the casual footwear lines; continue to be on the cutting edge of the design and development of athletic footwear; enhance website to be more appealing to customers shopping online; increase international marketing efforts; and continue to be the technological and performance leader in athletic shoes.

Nike's Mission Statement

According to Nikebiz. com, Nike's mission statement is, " Through the adoption of business practices Nike is committed to securing intergenerational quality of life, restoring the environment, and increasing value for our customers, shareholders, and business partners.”(1) However, according to Acaria. com, it is, “ To maximize profits to shareholders through products and services that enrich people’s lives. (2)

Current Company Overview

Nike, Inc.’s principal business activity is “ the design, development and worldwide marketing of high quality footwear, apparel, equipment and accessory products”(3). Nike sells its products to about 20, 000 retail accounts in the US and in approximately 110 countries around the world. Independent contractors manufacture almost all of Nike’s products. Most footwear products are produced outside the United States, while apparel products are produced both in the United States and abroad. Revenues for the fiscal year ending May 31, 1999 were $8. 8 billion, compared with $9. 6 billion in the previous fiscal year (3).

Nike footwear is specifically designed for athletic use, placing considerable emphasis on high quality construction and innovative design. However, a large percentage of the products are worn for casual or leisure purposes. Nike markets and sells a wide variety of products, including shoes for running, basketball, cross training, women and children. All of which are currently its top-selling product categories.

Nike also markets shoes designed for outdoor activities such as tennis, golf, soccer, baseball, football, bicycling, volleyball, wrestling, cheerleading, aquatic activities, auto racing and other athletic and recreational uses (3).

Nike began selling active sports apparel in 1979 and apparel is now offered in each of the above categories, as well as athletic bags and accessory items. Nike apparel and accessories are designed to complement its athletic footwear products, feature the same trademarks and are sold through the same marketing and distribution channels. The company often markets footwear, apparel and accessories in “ collections” of similar design or for specific purposes (3).

The company sells a line of performance equipment under the Nike brand name, including sport balls, timepieces, eyewear, skates, bats and other equipment designed for sports activities. They also sell a line of dress and casual footwear and accessories for men, women and children under the brand name Cole Haan through its wholly owned subsidiary, Cole Haan Holdings Incorporated. The company markets a line of headwear with licensed team logos under the brand name Sports Specialties, through its wholly owned subsidiary, Nike Team Sports, Inc., formerly Sports Specialties Corporation. They also sell small amounts of various plastic products to other manufacturers through its wholly owned subsidiary, Nike IHM, Inc. (3).

The company’s wholly owned subsidiary, Bauer Nike Hockey Inc., manufactures and distributes ice skates, skate blades, in-line roller skates, protective gear, hockey sticks and hockey jerseys and accessories under the Bauer and Nike brand names. Bauer also offers a full selection of products for street, roller and field hockey (3).

Nike competes internationally with an increasing number of athletic and leisure shoe companies, athletic and leisure apparel companies, sports equipment companies, and large companies having diversified lines of athletic and leisure shoes, apparel and equipment, including Reebok, Adidas and others (3).

Chief Officers

Philip H. Knight is the 62-year-old Chairman of the Board, President, Chief Executive Officer and co-founder of Nike. He graduated from the University of Oregon in 1959 with a Bachelor of Science degree in Business Administration. He then went on to Stanford University to obtain his MBA in 1962.

Two years later, in 1964, he began Blue Ribbon Sports (a Nike Progenitor) with his former track coach Bill Bowerman. With his company off to an uncertain start, he sold his shoes out of the back of a station wagon. To make ends meet, Mr. Knight held a position of Assistant Professor at Portland State University, and continued to practice as a Certified Public Accountant (CPA) with Price Waterhouse and Coopers & Lybrand.

Mr. Knight has been a director at Nike since 1968 and has been its President from 1968 to 1990, and from June 2000 to present.

In 1998, Philip Knight was in the top 100 most generous Americans. His donations exceed $30 million, with the bulk of it focused on education. Mr. Knight is also listed as one of only 57 individuals from the Forbes 400 to appear in the American Benefactor’s list (6).

His annual earnings consist of a total annual compensation worth $2. 5 million, long-term incentive plans of $300, 000, and other means worth about $700, 000, making his 1999 fiscal year total to be $3. 5 million. However, Knight does not own stock options in the company.

Richard K. Donahue, 73, is Nike's current Vice Chairman of the Board, and has served in that capacity since 1977. He served as President and Chief Operating Officer of the Company from 1990 until 1994. He has been a partner in the law firm of Donahue & Donahue, Lowell, Massachusetts, since 1951. From 1961 to 1963, Mr. Donahue was an assistant to President John F. Kennedy. Mr. Donahue is a former President of the Massachusetts Bar Association and the New England Bar Association. He is a member of the John F. Kennedy Library Foundation, a trustee of the Joyce Foundation and a director of Courier Corp. (5)

History

The following is an edited timeline of Nike, Inc. from the beginning when it was known as Blue Ribbon Sports. The timeline can be found athttp://www. acaria. com/jsp/nikehist. html.

1957	Phil Knight and Bill Bowerman meet
1960	Bowerman continues tinkering with new designs for athletic shoes
1962	Knight receives a Master of Business Administration from Stanford University and makes up a company named “ Blue Ribbon Sports”

(BRS)

1964	Knight and Bowerman each contribute $500 to start BRS and the company sells 1, 300 pairs of Tiger running shoes; revenues are $8, 000
1965	Jeff Johnson becomes BRS' first full-time employee (he switched over from selling Adidas

football

shoes).

BRS

revenues

are $20,

000

	BRS' first retail outlet is formed in Santa Monica, Ca.
1966	A sales office is opened in Wellesley, Mass. to handle East Coast distribution
1969	Knight devotes himself full-time to BRS (he was an Assistant Professor of Business Administration at Portland State

University).

Knight

becomes

Chairman

of the

Board and

Chief

Executive

Officer of

BRS and

later Nike,

Inc.

1971	Swoosh Design trademark is created by Carolyn Davidson for a fee of $35. Johnson dreams up the company's new brand name, NIKE, the Greek Goddess of victory. A soccer/football shoe is the first NIKE model to hit the retail

market.

A Nike T-shirt to promote the shoe becomes the first apparel item

1972	BRS launches the Nike brand at the U. S. Olympic Trials.
	Canada becomes BRS' first foreign market
1977	BRS starts Athletics West.
	Manufacturing factories are set up in Taiwan and Korea.
	Nike shoes are sold in Asia for the

first time.

BRS changes its corporate name to NIKE, Inc.

1978 The first children's shoes are introduced.

Revenues = $71 million.

1979 Nike introduces the Tailwind, the first running shoe with the patented AIR-SOLE cushioning system.

The NIKE Apparel line begins.

Nike is the No. 1 running shoe with nearly 50 percent of the U. S. market revenues. World Headquarters are opened at 3900 S. W. Murray Blvd. in Beaverton, Oregon.

	Nike goes public with 2 million shares of common stock.
1980	The NIKE Sport R&D Lab opens in Exeter, New Hampshire.
	NIKE shoes become the number-one seller in Canada
1981	Nike International Ltd. Is formed
1984	International sales take off,

reaching

$158

million

1985	AIR JORDAN court shoes are introduced along with apparel
1986	Nike charges into the sport of golf
1987	The Air Pegasus, a NIKE classic in its 4th generation, sells its 5, 000, 000th pair
1988	The “ Just Do It” campaign is introduced.

Revenues

break $1

billion for

the first

time.

1989	“ Bo Knows” commercials featuring Bo Jackson are tied to the Just Do It theme
	Doors open to the NIKE World Campus.
1990	The first NikeTown opens in Portland, Oregon
1991	NIKE F. I. T. apparel is introduced
1992	International revenues top $1

billion

	NIKE launches P. L. A. Y., Participate in the Lives of America's Youth.
1994	P. L. A. Y. includes Reuse-a-Shoe, a program that diverts more than 1 million shoes from landfills to new court surfaces.
1995	Nike enters the sport ball and eyewear

	markets
1997	Nike sponsors WNBA and selected athletes in the American Basketball League.
	Revenues break $9, 186, 539, 000

Financial Summary

By analyzing company ratios we will be able to determine how well the company is performing financially and to see how much value they are adding for their shareholders. Keeping your shareholders happy is very important and it should be among a company's main goals.

Profitability Ratios

Return on Equity is a measure of how the stockholders fared during the year. Because benefiting shareholders is so important to the company, it is a true measure of performance. ROE is measured as: Net Income / Total Equity.(6) For every dollar in equity, Nike Inc. generated $0. 18 in profit. This number is lower then the industry standard of $0. 23 of equity for every dollar.(7) In order to catch up to the average standards, Nike Inc, would have to improve how efficiently they manage their equity.

Return on Assets is a measure of profit per dollar of assets. ROA is measured as: Net Income / Assets. For every dollar of assets, Nike Inc, generates $0. 10 in profits. This is in accordance to industry standards. In order to improve this ratio, Nike would have to find a more efficient way of using its assets to generate profits.

Profit Margin is a ratio that the firm and investors pay a great deal of attention to because it indicates how many dollars of profit the firm brings in for every dollar of sales. All other things being equal, a relatively higher profit margin is more desirable. Nike Inc.'s profit margin is 6. 45. This means that that they roughly make . 7 cents in profit for every dollar generated in sales. In order to improve this ratio, Nike Inc. would have to decrease expense ratios relative to sales ratios.

Financial Strengths

The current ratio is a measure of short-term liquidity. This is one of the most important ratios to creditors, especially short-term creditors. The higher the current ratio, the happier they are. To the firm, a high current ratio will hopefully indicate liquidity, but it can also mean that the firm is inefficient in using its cash and short-term assets. Nike Inc.'s current ratio is 1. 7, which is quite lower then the average industry standard of 2. 2. It is important for Nike to try and increase their current ratio so that they can become more efficient in using their short-term assets.

Inventory is often the least liquid current assets of the firm so the quick ratio will tell us how efficiently the firm is liquidating their inventory. Nike Inc.'s quick ratio is . 91. This is right on target of the industry standards of . 9. Although they seem to be doing a good job of liquidating their inventory assets, they still have room for improvement. They should work on trying to improve this ratio to meet the upper industry standards of 2. 9. Because inventory is relatively non liquid, it is important to continuously strive to keep this ratio as high as possible.

Dividend Information

Dividend yield is a convenient way of assessing the rate of current income earned on the investment dollar, so it is a measure of common stock dividends on a relative basis. Dividend Yield is computed as follows: Annual dividends received per share / current market price of the stock. Nike Inc.'s dividendyield is 1. 16. It is usually one of the ratios that professional traders check up on to track prices because it gives a good idea of how the firm is performing. To put dividend yield into perspective, it is helpful to look at the dividend payout ratio. This ratio describes the portion of earnings per share that is paid out as dividends. It is computed as follows: Dividends per share / earnings per share. Nike Inc.'s payout ratio is 22. 22%. This is a fairly good ratio, because although stockholders like to receive dividends, they don't like to see the firm's payout ratio over 60-70%. Payout ratios that are too high are difficult to maintain and may lead the firm into trouble.

Nike Inc.'s most recent stock price was valued at $41. 38, and their latest annual dividends were valued at $0. 48 for every share owned. It is safe to say that they are being relatively efficient in their dividend payout every year.

Considering Nike Inc. is a leading design, developer, and marketer of high quality footwear, one would expect their company profile to be quite healthy. The previous financial analysis proves that Nike is operating a healthy company in the industry even though their ratios may not always be above industry standards. It is always very important to keep your shareholders happy, and Nike has done this by continuously adding value to the company. Regardless of some low ratios, Nike deserves credit for being a market leader and for always being on the search for new markets to lead.

Nike's future is extremely promising as the company expects to continue penetrating new markets, increasing sales and mitigating product costs. The company can also be expected to continue paying dividends, which ensures shareholders a positive return. In conclusion, we would recommend investing in Nike Inc. stock as this report proves it would be a prudent venture and will provide promising opportunities for any investor.

Corporate Strategy

Over the past two decades, there has been a movement from a " standardized" to a " flexible" economy. Whereas, mass consumption for a standardized good was once preferred, there is now a greater demand for niche products. Having a rigid corporate organization used to be the norm, where now it is common to have a flexible organization, that incorporates subcontracting.

The athletic footwear industry has benefited greatly from this economic shift. It is an example of a new, highly volatile, competitive market. The changes that occurred in the footwear industry are:

¨ Footwear production has grown rapidly

¨ The many different styles of shoes have created an explosion in intense competition and market volatility among brands.

¨ In order to be successful, a company must be innovative and have rapid turn-around of design and production.

¨ Producers must have output and design flexibility

¨ Producers must protect proprietary information and technology, and still remain to be organizationally flexible.

The main reason why Nike has succeeded in competing in the footwear industry for as long as they have is because they remain flexible in a volatile market by using subcontracting relationships overseas in low labor-cost countries. (8)

Another reason why Nike has continued to be a strong competitor is based on their product differentiation. Although they started out by only producing and selling athletic shoes, their product line now consists of a wide range of clothing, equipment and accessories. They also design products for a variety of sports, ranging from running to golf to aquatic activities.

Successful differentiation allows a firm to: (10)

¨ Command a premium price for its product, and/or

¨ Increase unit sales, and/or

¨ Gain buyer loyalty to its brand.

SWOT Analysis

Part of doing a strategic analysis of Nike is doing a SWOT analysis. SWOT analysis sizes up a firm's resource strengths and weaknesses and its external opportunities and threats to provide a good overview of whether a firm's business position is fundamentally healthy or unhealthy. This will provide a clear view of Nike's resource capabilities and deficiencies, its market opportunities, and the external threats to the company's future well being and provide a starting point for our recommendations to Nike's strategic market strategy.

Resource Strengths and Competitive Capabilities

Nike is an industry leader in developing innovative new products. It first started with the air product line called Nike Air. It has now moved to the latest release, the Nike Shox line. The new shoe is designed to enhance an athlete's ability to jump, run and get an edge on the competition. Nike's research team has spent more than 16 years dreaming, researching, developing and testing the possibility of attaching springs to the bottom of an athlete's foot. Nike Shox, the most acclaimed technological development makes the dream a reality. This is another example of how Nike uses performance and technology to create its shoes. They also keep the designs simple which is currently fashionable for Nike. Nike also has excellent mass-merchandising, unique advertisements, and is known for its promotions as much as their shoes.

Nike also has valuable physical assets. The have worldwide distribution facilities because they sell shoes in over 100 countries. Nike is also teaming with Hewlett-Packard to supply hardware, software and consulting services to host the worldwide Nike Supply Chain (NSC) project. The mission of the project is to create a consumer-driven supply chain and a framework for decision-making that provides sustainable competitive advantage and enhances Nike's global brand leadership. The goals of the project are to enhance Nike's ability to respond to changing conditions, reducing inventory and capital investment risk, improving service to meet customer/consumer needs, improving processes, information and product quality, and providing an efficient global supply chain with local implementation.

Nike also has valuable human assets because their employees are motivated with athletic backgrounds, which makes them a highly competitive company that does not like to lose.

Nike also has valuable organizational assets from the standpoint of loyal customers, a strong balance sheet and stable financial standing.

One of Nike's most important sustainable competitive advantages is their intangible assets, such as brand-image and organizational culture. Everybody knows Nike from its past advertising, promotional endorsements, and events while their culture is one of competition, athletics, and a Just Do It attitude.

Another strength is the company's research and development organization, which has the ability to keep the company's pipeline full of innovative new products. They also have manufacturing contracts with manufacturers in countries that do not have as many requirements for conditions of work environment and others that increase costs. Also because the process is labor intensive, the manufacturing takes place where labor is cheap.

Because of Nike's growth over the last ten years they are in an advantageous position in the market. This can also be attributed to their market share leadership, wide product selection, and stronger name recognition.

Weaknesses

There are weaknesses that Nike has gained for a couple of different reasons. The first being that they are no longer a small rebel company, but a large corporate pillar that as Phil Knight CEO says " There are some things you can do as a $100 million company that you can't get away with as a $9 billion company.

Nike has also gotten bad press, especially in the 18 to 24 year old demographic groups with relation to the supposed " sweatshops" where products are manufactured. This has created a backlash that has affected sales in a very important demographic of customers. It is also part of the continued decrease of Nike's brand image and the idea that to be cool and fashionable you should buy Nike products. Another related issue is the over marketization of the swoosh. At one point a shoe had 13 swooshes on it.

Another reason is the increasing costs of sports endorsements with the decreasing marginal returns that those endorsements produce. This is also due to the fact that the line between sports and entertainment has blurred.

Finally, and the biggest weakness that Nike has is the lack of knowledge in the Internet age. They do not have the technical resources or experience curves that other companies have and Nike is behind in its marketing strategy and ability to use the Internet as another channel for sales and promotion.

Opportunities

Nike has new opportunities and markets that they must penetrate and take advantage of to continue to be a world leader and sustain profits and growths. The biggest is the " All Conditions Gear" (ACG) product line that is targeted toward generation Y and the extreme sports that they enjoy. Continued expansion into mainstream sports such as golf, hockey, tennis, volleyball, football, soccer, etc. through more products and accessories is also a necessity. Nike also must continue to expand into current international markets while penetrating into new ones. They must continue to create new technologies and the latest fads such as Nike Shox. Another opportunity is expanding promotions to include entertainment and other non-sports venues, since the line between entertainment and sports has become blurred. Nike should also try to grow into the world of corporate merchandise because that is a $3 to $4 billion dollar market. And lastly, continued growth and expansion into women's sports and entertainment shows to be very promising.

Potential External Threats

The biggest threat is if the economy goes into a recession then the ability for Nike to continue to grow from sales, marketing, and a promotional standpoint will be significantly inhibited. Another is the maturing market in athletic shoes. There is also a growing adverse demographic change in the marketplace relating to brand image and promotions that Nike is unable to overcome. The continued weak Euro and Asian recession that has hurt international sales and growth is also a threat. Nike’s extreme sports product line is viewed as lower quality in comparison to competing firms and is hurting sales and brand image.

Five Forces Of Athletic Footwear/Apparel Industry

Rivalry Among Competing Sellers in the Industry

The rivalry is very fierce with many companies competing for sales. Lots of money is spent on marketing and promotions through different channels in order to communicate to the young demographic group of consumers who spend the most money on their products. Growth has also slowed in the athletic footwear industry, however new markets are emerging with high growth rates. Examples of these markets are the extreme sports market and the corporate merchandise market. Product demand also has a seasonal component, which affects rivalry.

Market Attempts of Companies in Other Industries to Win Customers Over to Their Own Substitute Products

Because of growth in non-traditional sports and casual wear, competition and marketing is fierce to get customers to switch. Switching costs for the consumer is also very low. Substitute products are readily available, attractively priced, comparable on quality, and have only some feature differentiation.

Potential New Entrant

There is a deterrent to enter the athletic footwear industry because of the research and development that goes into the athletic footwear market. However, casual footwear is not as costly. There is specialized technological " know-how" in athletic footwear that is not readily available (ex. Nike Air, Nike Shox, Reebok DMX, etc.). Buyers are also very attracted to brand preference and loyalty. In order to obtain this, they must establish brand image, promotions, endorsements etc., all of which can be very expensive to implement.

Another difficulty that new entrants face is low capital investments, which are needed for manufacturing. However, one of the most important entry deterrents is limited access to retail space. As of now, there are no regulatory policies, tariffs, or trade restrictions to prevent entry.

Bargaining Power and Leverage Suppliers of Inputs Can Exercise

Suppliers have no power or leverage to affect prices or availability. There is also no shortage of raw materials or manufacturing capacity. Quality and performance in raw materials and manufacturing is not a factor because the process is labor intensive. Quality and performance depends on the type of shoe and how it is manufactured, not the raw materials that go into it.

Bargaining Power and Leverage Exercisable by Buyers of the Product

Buyers have some power in the fact that switching costs are low. There is a very large group of potential customers, however, who buy individually and not as a group. Therefore, there is no negotiation on price or special group discounts. Buyers have no threat to backward integrate into the business of sellers. However, buyers do have a wide variety of choices in deciding whether they purchase a certain brand of a product.

Recommendations

After thoroughly analyzing Nike's organization, business practices, and position in the market, we have come up with the following recommendations.

Since the ACG product line has been experiencing a diminishing quality and brand image, we suggest that they spend more money, resources and advertising in order to try and increase it. They can also accomplish this by using a better product design, materials and manufacturing processes.

The organization should make more efficient uses of its money. This could be accomplished by expanding their promotions to include entertainment and other non-sports venues, since the line between entertainment sports has become blurred.

Currently, Nike is focusing most of their marketing efforts towards the sports footwear lines. In order to increase sales, they should expand this to include their casual footwear line as well.

Since Nike's strategy is differentiation, they need to continue to be on the cutting edge of the athletic footwear technology. Doing this will help them design new types of shoes and other products, giving them a diverse product line.

One of the most important aspects of Nike's business is becoming the use of the Internet to communicate with consumers. They are developing a new technology that will allow their customers to design their own shoes online. In order to accomplish this, they must enhance their website in order to make it more user-friendly. Currently, the site takes too long to download and the basic design does nothing to comment their products.

We also recommend that Nike increase their international efforts in order to maximize their product sales.

And our final recommendation is that Nike continues to be the technology and performance leader in athletic shoes. They must keep their strong competitive edge in order to prevent