

# Supply chain management of nike marketing essay



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## **Supply chain management**

Supply chain can be defined as movement of goods through the process of procurement, manufacturing, storage, distribution and disposal. (Rushton & Walker, 2007)

The management of movement of goods or products from the suppliers through the manufacturing and distribution lines to reach the end user (the customer)

Manufacturer

Customer

Retailer

Distributor

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## Supplier

(Source: students.iitk.ac.in/bclub/lectures/SCM.ppt)

each of the parties involved have a customer of their own for instance as seen in the figure distributor is the customer of the manufacturer, but together collectively they need to understand how they can develop efficiency, flexibility and add value so as to make sure the end user or the customers need is met.(Slack, Chambers & Johnston, 2001).

Being proactive to change, satisfying or meeting customers' needs and doing this effectively are some of the aims of supply chain management (Williams & Carroll, 2006).

## **The European supply chain model Problems**

Customer related issues: Customer service could be described as matching the supply to the demand (Fawcett, McLeish & Ogden, 1992).

there were major customer service related issues as understood from the case study, the customers had no information about when they would receive their orders as the local management itself had no information as to when the stock would arrive, to get the apparel to the retailer it took a long time due to long order lead times and unreliable suppliers. There were difficulties in putting up the collections and holding them together, there were no measures taken for lateness of goods which arrived once again harming the customer service.

Poor coordination: Coordination is very critical as the supply chain becomes global (Lee & Billington, 1992). Nike had difficulty in handling of collections, for instance if the customers wanted to buy a particular type of shoes and coordinating socks and pants and sweatshirts since these were sourced from different places, it was very difficult to ensure that these items arrived at the same time which resulted in supply of these products at different times to retailers hence making up for poor customer service, a fixed date couldn't be figured out, poor coordination meant poor service. Even though the customers had placed their orders month in advance what they wanted did not arrive by the agreed shipment date.

Logistics issues: there were almost around 20 warehouses and several more which were used on seasonal and ad hoc basis, footwear and apparel were stocked in separate warehouses, mostly the products were sourced from the east, around 30% of apparel was sourced from in and around Europe, there were multiple sources which would again add to delivery time.

Warehouses found it very difficult to ensure that all items in a collection were shipped to retailers at the same time.

Whilst in UK the warehouse was part owned and part of it was leased which was unusual, France had serious issues with its warehouse, the size of the warehouse was too small on the day it opened, there were two other outside warehouses where stock was being held. Main objective of a warehouse is to make maximum use of the space (Fawcett, McLeish & Ogden, 1992).

value added services were leased to a sub contractor and was not performed at the site.

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In Germany the size of the market was expanding and it was struggling to cope with the volume, there were three warehouses and the lease of one of them was close to expiry

Nikes total catalogue for footwear and apparel were around 10, 000 stock keeping units, however no country was offering to sell that many.

Goods moving to and from the European Union or between the Scandinavian countries still required customs clearance.

Retailer issues: Nike had a unique futures programme where the retailer was expected to place his orders months in advance of the selling season, retailers were not happy with this, Nike used the leverage kind of tactic in that it maximised value for money, this reduced the inventory risk for nike, retailers had to agree to this in order to earn the right to order replenishments during the course of the season.

International retailers expected same prices and service in every country Nike's organisation was not in a position to service these retailers, there were issues in getting the apparel to the retailer on the time promised because of long order lead times and unreliable suppliers.

Supplier base issues: no information was shared with the local management as to when the stock was going to arrive, there were long delays as there were multiple sources and deadlines were not met, there were lot of goods stored at the warehouses which were not sold this was termed as the close outs, to resell these products by either discounting them or waiting till the end of the season which cluttered the warehouses and ran the risks of new

goods not being sold, these close ours were very difficult to handle for Nike. Stock had to be built up in advance as products were brought in from the Far East on long lead times. Goods were not available in stock on agreed date this lead to split shipments and back wave of orders when those goods finally arrived. There were several patterns of small orders due to internal company failures. As stock was sourced in far east it ran into a supply risk and lead into a longer lead times and a lead time uncertainty as this is a critical issue with Nike.

Faulty information systems: computer systems were built differently and were independent for each country there was no centralized automated information systems available, an online inventory to record customer order wasn't available in some cases, there was no proper method of batching up orders before they were sent off to be picked, if a customer's order was out of stock there was no method to record the 'lost sale'.

These were the major issues Nike was facing due to its existing design of its European supply chain.

## **Impact the existing supply chain design has on relationships within the supply chain**

### **Nike and its suppliers**

All the footwear was imported from the Far East, apparel was more varied of this around 30% was sourced in or near Europe from low cost countries like Ireland, Portugal and Turkey, the source varied from year to year as it followed lowest costs

Having source the footwear to the Far East it would be logical for Nike to have a backup source in case there is a lot of delay in goods arriving from the Far East.

There should be information exchange this is critical in establishing proper relationships and helps build confidence between either parties (Slack, Chambers & Johnston, 2001).

There were multiple sources for Nike, and also going after the source that offered the lowest cost and changing them the next season did not do good to build the relationship and trust amongst suppliers and Nike. An adversarial Nike-supplier relationship where orders were on a short term basis and the supplier with the lowest cost was chosen. (Goffin, Szejczewski and New, 1997).

Nike can have a stronger and durable relationships with a single sourcing strategy this could help the suppliers in delivering better quality and higher degree of confidentiality can be shared (Slack, Chambers & Johnston, 2001).

Reducing the supplier base would help Nike in developing closer and a better relationship between its suppliers there should be communication with the suppliers. Relationship can grow stronger when there is a strong mutual dependence. (Goffin, Szejczewski and New, 1997)

A supplier needs to show commitment capability and consistency according to Carter's ten C's, since Nike has multiple sources deciding on a supplier needs to be done by understanding that they should measure the reliability



and capacity of the supplier, these suppliers should be provided with information and transparency should exist.( s).

When deciding on a supplier, delivery and customer satisfaction along with quality and price should be the primary criteria.

### **Nike's relationship with its customers:**

The customers were not informed of when they would be receiving the orders, as the local management itself had no information about the expected date of arrival of the shipment.

This did not help in building trust amongst the customers as they had little information from Nike, this was not good to build a good relationship with the customer. Trust is a key element in building a successful partnership and maintains a smooth relationship.

It is thought that the customer satisfaction is a comparison of customers expectations versus the service that they get, in order to build long term relationships, Nike should look at improving the customer service drastically. (Rhodes, Warren and Carter, 2006).

Information needs to be exchanged, information sharing helps in building confidence of the customers (Slack, Chambers & Johnston, 2001).

Providing the most correct information to the customer and on time is vital. ( Technology & Supply Chain Relationships with Customers & Suppliers, n. d ).

If information regarding supply problems or delays is shared along the supply chain this will help in improving relationships with not only the customer but also everyone in the supply chain (Slack, Chambers & Johnston, 2001).

Nike should think of investing in what the customer wants, it needs to understand that it needs to add value which the customer wants to the goods that it is selling (Jones & Clarke, 2002).

When the customer tried to order a product which was out of stock, this wasn't recorded, this is a lost sale, there was no online inventory record to refer whilst taking the customer order, there was no scope for batching or making a priority for the orders before sending them off to be picked.

Nike should work on improving its information systems and centralising them this would help in building customer relationships with Nike and also increase customer profitability, by recording what the customer was looking for and tracking the order down and contacting the customer once the stock is available should help in improving the relationship of the customer. Nike should look at building a customer centric data delivery system, Nike should look at using a centralised decision support technology which helps in strategic supply chain planning and a tactical order management system where the orders are recorded, and the orders could be prioritised. ( s).

Use of new technology which follows up on the lost customer and also tracks the information needed with software which specialises in customer management is needed.

All these indicates that the relationship with the customers were not good.

Nike should understand that its ultimate goal is to satisfy its customer.

### **Nike's relationships with the retailers**

Retailer had to place bulk order several months in advance, say 6 months in advance of the selling season, “ futures programme”. Success should be shared where both parties work together to increase the total joint benefit, Nike was using manoeuvring tactics to maximise its own gains( Slack, Chambers & Johnston, 2001).

Nike should not look at this as a leverage tactic this would not help in building a cordial relationship with the retailers, rather use persuasion to sort out this matter.

This sort of relationship looks like an adversarial relationship as Nike tried to capture maximum value for itself thereby reducing its inventory risk; retailers appeared to be lost in competitive struggle as they had to agree to the futures programme in order to earn the right to order replenishments

Nike and its retailers have to come up with joint creative solutions where it turns out to be a win- win situation for both the parties, collaborative relationship has to exist.

International retailers who expected the same prices and service in each country were poorly serviced due to Nikes nationally based organisation which was poorly positioned, this did not do any good for the relationship. Nike should work with its retailers in having a similar sort of price in all

countries this happens with joint efforts of both Nike and the retailers (Slack, Chambers & Johnston, 2001).

Nike should look at servicing these international retailers and building a Relationship with improved integration of business processes having a centralised price and service in every country.(CIPS, n. d).

If a retailer wished to specify some special collection of their own, ensuring that this was sent out in a single delivery was next to impossible. This sounded like a problem with nike and it had to jointly work with the retailers, jointly approaching the problem would help in building a close relationship. (Slack, Chambers & Johnston, 2001).

Multiple items were sourced from different manufactures and Nike found it very difficult to ensure that all the goods were shipped to retailers at the same time, Single source would help in better communication and the retailers would know when the goods would arrive (Slack, Chambers & Johnston, 2001).

Nike needs to have a better coordination of flow of materials to the retailers. (Slack, Chambers & Johnston, 2001). Improving the relationship with its suppliers in turn would help in improving relationships with the retailers and the customers.

### **Risks and benefits to Nike if a centralised European distribution centre is adopted.**

US-based managers suggested that the European logistics needs to be centralised, they were not satisfied with the number of warehouses, the

European managers suggested that they badly needed to improve the infrastructure, Germany and Italy both badly needed new distribution facilities.

## **Logistic Benefits**

The warehouse size in France was too small on the day it opened; it also had to lease two outside warehouses as stock was not being held in the warehouse.

Weighing the option of having two if not one distribution centre would solve this problem

Bonded storage was available only at forwarders warehouse at the port, centralising the distribution in Europe would solve this problem

Value added services were not available on site and it was sent out to a sub contractor. Having a central distribution centre would ensure value added services be available on site this would ensure smoother progress of work.

Germany was also struggling to cope with the volume and lack of space; the lease of one of them was close to expiry, centralising of logistics would resolve this.

Nike should chose a single distribution centre as this would ensure achieving high customer satisfaction level, this would ensure availability of stock when demanded for and there would be a reliable delivery , as against having multiple distribution centres with no coordination .( Fawcett, McLeish & Ogden, 1992).

The main purpose of a warehouse is to maximise the use of space and effectively control and manage operations, centralising logistics would ensure this. (Fawcett, McLeish & Ogden, 1992).

With centralised distribution centre, the supplier can then deliver to a central warehouse rather than making multiple trips to different warehouses. (Musgrave Group, n. d).

Having a centralised distribution centre would also help the suppliers and retailers, as the smallest retailer would be able to place his order.

Transportation costs would be less, direct distribution from 1 centre would mean lower transition times reduced lead times. (Froderberg, 2005).

Having a centralised distribution centre can help them store all the skus that Nike makes.

Using a centralised distribution centre Nike can reduce the pattern of many small orders that take place.

Using a centralised distribution centre would make it easy for having a centralised computer system which would record the online inventory record and also make use of various other functions.

## **Financial benefits**

After doing an analysis of the options that is considering the options from having a single distribution centre to service all countries the figures indicated in the table 5. 1 in the case study indicates that having a degree of

centralization was a better option financially in terms of operating costs more so in the case of apparel.

One distribution centre for entire Europe for footwear would in total cost around \$ 53. 7 million per annum which was cheaper compared to the operating costs of the existing model.

Likewise the operational costs in having one distribution centre for entire Europe would come around \$ 20. 2 million per annum, which was cheaper compared to the available option.

## **Risks**

Nike had to invest around \$ 100 million for its new distribution centre in Europe, this would be financial risk, investing such a huge amount and blocking the capital.

Other risks might be in case there is a single distribution centre in Europe without a backup, and then it might end up having environmental risks, and unknown risks.

There are vulnerability issues, like in case of a natural disaster or a protest or a IT systems failure or power cuts, transportation risks, risks to vehicles etc.

( s )

Nike had to keep in mind the pros and cons of opening up a centralised European distribution centre.