

# [Effect of inflation on market](https://assignbuster.com/effect-of-inflation-on-market/)

Nike, Inc. is an American multinational corporation that is engaged in the design, development and worldwide marketing and selling of footwear, apparel, equipment, accessories and services. The company was founded on January 25, 1964 as Blue Ribbon Sports and officially became Nike, Inc. on May 30, 1978. Nike sponsors many high-profile athletes and sports teams around the world, with the highly recognized trademarks of “ Just Do It”.

## Effect of Inflation on Market

Inflation defined as “ a persistent increase in the level of consumer prices or a persistent decline in the purchasing power of money”. In other words, the common usage of the word inflation is the effect that people see. When they see prices in their local stores going up they call it inflation. Price inflation is a result of monetary inflation. Monetary inflation is the cause of price inflation.

Due to inflation, there are fewer sales of products and therefore there is low output. Nike has suffered a lot due to that. The inflation had raised the Cost of raw materials and Transportation of Nike. To overcome inflation, Nike has increased the Product Price and reduced its marketing Budget.

Microeconomic law states that all other factors being equal, as the price of a good or service increases, the quantity of goods or services offered by supplier’s increases and vice versa.

As per the data collected from Indonesian Plant, the Nike shoes Cost $20. 00 to the company, $35. 00 to retailer and $70. 00 to the consumer. The breakdown can be found in the table below.

Production labor

Materials

Rent, equipment

Supplier’s operating profit

Duties

Shipping

## Cost to Nike

$2. 75

$9. 00

$3. 00

$1. 75

$3. 00

$0. 50

## $20. 00

Research and development

Promotion and advertising

Sales, distribution, admin.

Nike’s operating profit

## Cost to retailer

$0. 25

$4. 00

$5. 00

$6. 23

## $35. 00

Retailer’s rent

Personnel

Other

Retailer’s operating profit

## Cost to consumer

$9. 00

$9. 50

$7. 00

$9. 00

## $70. 00

Table 1: Breakdown of costs for a pair of Nike shoes.

Below shows the revenue of the Company in last four years.

All numbers in thousands

## PERIOD ENDING

## 05/2012

## 05/2011

## 05/2010

## 05/2009

## Income Statement

Operating Revenue (Revenue/Sales)

24, 128, 000

20, 862, 000

19, 014, 000

19, 176, 100

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## Total Revenues

## 24, 128, 000

## 20, 862, 000

## 19, 014, 000

## 19, 176, 100

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Cost of Sales

13, 252, 000

10, 996, 000

9, 818, 100

10, 188, 400

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Cost of Sales with Depreciation

13, 657, 000

11, 354, 000

10, 213, 600

10, 571, 700

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Gross Margin

10, 876, 000

9, 866, 000

9, 195, 900

8, 987, 700

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Gross Operating Profit

10, 876, 000

9, 866, 000

9, 195, 900

8, 987, 700

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Selling, Gen. & Administrative Expense

7, 431, 000

6, 693, 000

6, 326, 400

6, 149, 600

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## Operating Income

## 3, 040, 000

## 2, 815, 000

## 2, 474, 000

## 1, 858, 500

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Operating Income b/f Depreciation (EBITDA)

3, 445, 000

3, 173, 000

2, 869, 500

2, 838, 100

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Depreciation

405, 000

358, 000

395, 500

383, 300

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Operating Income After Depreciation

3, 040, 000

2, 815, 000

2, 474, 000

2, 454, 800

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Interest Income

30, 000

## \*

## \*

9, 500

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Other Income, Net

(54, 000)

33, 000

49, 200

88, 500

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Income, Restructuring and M&A

## \*

## \*

## \*

(195, 000)

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Other Special Charges

## \*

## \*

## \*

(401, 300)

http://images. forbes. com/media/tearsheets/spacer\_grey. gif

Special Income/Charges

## \*

## \*

## \*

(596, 300)

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Total Income Avail for Interest Expense (EBIT)

3, 016, 000

2, 848, 000

2, 523, 200

1, 956, 500

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Interest Expense

33, 000

4, 000

6, 300

## \*

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Pre-tax Income (EBT)

2, 983, 000

2, 844, 000

2, 516, 900

1, 956, 500

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Income Taxes

760, 000

711, 000

610, 200

469, 800

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Income before Income Taxes

2, 983, 000

2, 844, 000

2, 516, 900

1, 956, 500

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## Net Income from Continuing Operations

## 2, 223, 000

## 2, 133, 000

## 1, 906, 700

## 1, 486, 700

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## Net Income from Total Operations

## 2, 223, 000

## 2, 133, 000

## 1, 906, 700

## 1, 486, 700

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## Total Net Income

## 2, 223, 000

## 2, 133, 000

## 1, 906, 700

## 1, 486, 700

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Normalized Income

2, 223, 000

2, 133, 000

1, 906, 700

2, 083, 000

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Net Income Available for Common

2, 223, 000

2, 133, 000

1, 906, 700

1, 486, 700

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## Income Statement – Year-to-Date

Revenues Year-to-Date

24, 128, 000

20, 862, 000

19, 014, 000

19, 176, 100

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Income Year-to-Date fr. Total Ops.

2, 223, 000

2, 133, 000

1, 906, 700

1, 486, 70

Table 2: Revenue of Nike (2009-2012).

Nike spend approx 12% of revenue on marketing every year that includes advertisement, endorsement fee that it pays to sports league and Team.

## Q. What are the alternative scenarios with regards to the cost of Production (marginal costs like labor costs, raw materials, energy)? Consider the macroeconomic expectations for the second half of 2011 and different scenarios about the macroeconomic development and the course of the recession.

Due to inflation there is less demand of the Product

## Q. What type of a good or service is X? What is the price and income elasticity of your product? What is the cross price elasticity with respect to complementary and substitute products?

Nike is a globally recognized brand which produces accessories, apparels and shoes for majorly sports and fashion. Nike introduced customization of shoes and focused on each and every group age. The brand already attached to many renowned sports personality like Michael Jordan, Lance Armstrong, Roger Federer and Tiger Woods. The brand had focused on every sport around the world.

The price elasticity of demand (PED) measures the ‘ responsiveness of quantity demanded to changes in the price of the good or service’.

The PED

Income elasticity of demand (IED) examines ‘ how the quantity demanded responds to a change in consumer incomes’.

Nike and Adidas are horizontally integrated companies and Nike decided to increase the price of Adidas shoes. If the price of Adidas shoes increases, then the quantity demanded of Adidas will decrease and Nike’s might increase as it will be cheaper than Adidas.

## Q. What is the market structure? What are the possible strategies of your competitors? What will be your strategy with respect to your competitors?

Market structure is to target specific group of people. It will aim to meet the requirements of people of all age groups belonging to varying categories. Maintain the leading position in the market by supplying quality products and innovative designs. The company guarantees the availability of all kind of products at all leading stores. It will fulfill all changing demand of the customers. The company will focus on providing quality products on lower prices to have greater share in the market.

The main competitors of Nike are Reebok, Adidas and Puma.

Reebok: The brand is designed to “ change the way people perceive, define and experience fitness” and “ to bring fitness to the world and be seen as the world’s fittest company”. They have created and implemented their own code of conduct for manufactures. They follow less infrastructure expense as compared to Nike.

Adidas: Adidas believes that marketing is much more important because shoes are in the “ shopping goods” category. They outsources there production and focuses on Marketing. They hire famous designer for the designing of shoes.

Puma: Puma main target markets are predominantly female. The products fulfill wants and desires based on image, not needs. They aim their advertising at a predominantly middle-upper class consumer group and this reflects in their marketing campaigns.