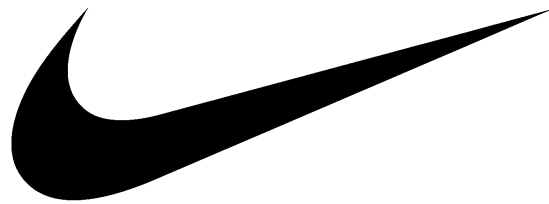


Nike Inc.



## Environmental & Strategic Analysis

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## **Introduction**

History:

Founded in 1964 as Blue Ribbon Sports by legendary Oregon track coach Bill Bowerman and runner Phil Knight, Nike has grown to become the worlds leading supplier of athletic shoes and apparel. Fast forward to 2011 and Nike's portfolio of subsidiaries consists of 156 brands and business such as Umbro, Converse, Hurley, and Cole Haan.

As of May 2011 Nike employed over 38,000 people in 46 different countries around the world and is run out of the Nike World Campus located in Beverton, Oregon. The company and it subsidiaries have over 700 shops worldwide with 254 in the United States alone. At the time this document was written (October 3rd, 11) Nike Inc. was being traded for \$85.73 on the New York Stock Exchange and the company posted revenue of 20,862 million in its last fiscal year.

Nike primarily does its business in three main strategic business units: footwear, apparel, and equipment. The strongest of these three SBU's is the footwear category where Nike has a hold of 35% of the market, the largest share by 13%. Nikes apparel holds only 7% of the industry share and is struggling to compete with other companies such as Adidas and Puma. Finally in equipment, which is a much more competitive market, Nike only holds a small percentage of the market share.

According to the first quarter results for the current fiscal year revenues are up 18%, earnings per share went up 19%, and inventories are up 41%. Nike has been, and continues to grow as an in demand brand in todays global market.

Mission:

Nike’s mission statement is “To bring inspiration and innovation to every athlete in the world. **If you have a body you are an athlete.**” This mission statement not only shows Nike’s dedication to creating quality products, but also provides insight into the core of their business model, which is that everyone is a potential customer.

As a company Nike works to push the boundaries in terms of technological advancement of athletic goods. As a company founded by, and for athletes, being the number one company in its industry is huge for Nike. However they have made it clear they want to accomplish this in the most ethical and sustainable fashion possible. In the words of the Nike Biz website “Most companies embrace diversity. Not Nike. We soak it up. We squeeze it out. We want it to drip over everything Nike does.

Key Employees:

<b>Name</b>	<b>Position</b>	<b>Responsibilities</b>	<b>Education</b>	<b>Experience</b>	<b>Salary</b>
Phillip Knight	Chairman of the Board	Listen to ideas, combine them with his own, and make decision in the best interest of the company	BA at University of Oregon, MBA at Stanford	Co-founder, CPA at Price, Waterhouse, & Coopers	\$1,270,769
Mark Parker	CEO	Growth of Nike’s global business portfolio	BS at Penn State University	30 years at Nike in executive positions	\$1,535,557
Donald Blair	CFO	Finance, investor relations, strategic planning	BS, MBA at University of Pennsylvania	15 years at Pepsi, 10 years Nike	842,308
Gary DeStefano	President, Global Operations	Driving growth in the six geographic operating regions	BS at University of New Hampshire, MBA New Hampshire College.	29 years at Nike	1,024,231

## Environment

### Introduction:

Nike is a multinational company that does business across the globe. As such the company is influenced by a wide range of environmental factors that define how the company is able to operate, and thrive, in any given area, time or legal system.

### Top Five:

1. Competition (Task): The biggest threat that faces Nike is competition from other large sporting good companies such as Adidas and Puma. The sports apparel market will retain its consistent growth, therefore, focusing on control of the market is the most important step for Nike. As the industry is made up of a few large companies with similar products it is critical that Nike is able to differentiate itself from the others with better technology, higher quality products, and a stronger sense of environmental and social responsibility.
2. Technological (General): Nike maintains its position at the top of the sporting goods industry by continuing to push the limits of sportswear technology. Nike depends on staying on the cutting edge of innovation to create better products than the competition that also do a better job of fulfilling consumer's needs. Converting resources to quality products at a low cost is one of the cornerstones of Nikes success and

will need to be an integral part of the company in the future if they hope to maintain, and extend their market share.

3. Customers (Task): There is no other way about it, a large part of Nike's success is based on the perception of the brand. As a manufacturer of goods, Nike is dependent on customers buying its products. They need people that will purchase, and continue to buy Nike products over and over again. Not only do they need to worry about establishing brand loyalty, but they also need to focus on getting customers to choose Nike over the competition. By creating the image of Nike as the premier sporting goods brand, they empower their customers to feel like they are the premier athletes; Nike is selling more than a product, they are selling an image.
  
4. Suppliers (Task): When it comes down to it Nike is in the business of creating tangible product. A lot of products. However one of the things that separates Nike from its competitors is that it outsources most of its production. What this means is that not only does Nike have to get all of its materials from various suppliers, but they also have to find additional manufactures to take the materials and construct the final products. As such Nike needs to keep a constant eye on the supply environment. Any changes in the laws, political climate,

and regions where Nike gets its materials and does its manufacturing will have a direct effect on the company.

5. Economic (General): As Nike is in the manufacturing and retailing business they are strongly affected by any changes in the economic environment. On one hand, if the economy takes a downward swing it drives up prices of all the suppliers that are such a critical part of Nikes operations. On the other, a bad economy affects the willingness of customers to spend on non-essential products such as sporting goods. It's a double-edged sword that attacks Nike from both ends. However the good news is that during a strong economic cycle Nike is going to prosper. As our general health of the global economy has began to pick up over the last year, the stock prices of Nike have been going up as well.

#### Opportunities:

Nike's success is dependent on their performance in the big three SBU's of the sporting goods industry; footwear, apparel, and equipment. By maintaining position in the categories where it leads and working to perform better in the categories where they are hurting Nike stands to gain everything in the sporting industry. The biggest opportunity Nike has to grow in these industries is in league sponsorships of sports they already cater to such as the National Football League, Major League Soccer, and Rugby Football League of England. The next logical step would be to expand production of

Nike products to include emerging sports markets such as snowboarding, skiing, motocross, and other extreme sports. Finally Nike needs to capitalize on the popular culture aspect of the sportswear by getting more involved with music, art, and culture.

Threats:

The number one threat that Nike is dealing with as a company is its competitors. Adidas has been the largest competitor with Nike for years and their recent acquisition of Reebok has only intensified this rivalry. Another large threat is that as Nike outsources most of its production it loses a certain amount of control over the production process. Finally no company can afford to ignore the state of the economy. The retail sector is very price sensitive. If money is tight, people are less willing to spend, Nike, along with everyone else, will pay the price.

How is Nike Dealing With These Factors:

As the economy starts to dig its way back out of its metaphorical sinkhole Nike is taking the opportunity to capitalize on a healthier external environment. They have taken steps to move into new sports leagues starting with a sponsorship contract with the National Football League starting in the 2012 season. Nike has also begun to expand in to the action sports market with its Nike SB brand (skateboarding shoes) and Nike Snowboarding. Finally in regards to popular culture Nike has taken small steps to move into the music industry but one must note that these steps are miniscule compared to the leaps and bounds Adidas has taken in the same market.

As far as completion goes Nike is taking its competitive nature to the next level by swooping in and taking contracts (like the NFL) from right under its competition nose. However it is important for the company to be wary of new brands such as Under Armor doing the same to Nike. As a company Nike is taking steps to promote sustainable practices in its production as well as separating itself from the child labor scandals of the past. Last but not least Nike has been able to handle the roller-coaster economy by offering multiple price levels for its products, cutting marketing costs, and catering to the needs of the customers.

## Strengths & Weaknesses

Financial Performance:

### Financial History

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In millions, except per share data and financial ratios)				
<b>Year Ended May 31,</b>					
Revenues	\$20,862	\$19,014	\$19,176	\$18,627	\$16,326
Gross margin	9,508	8,800	8,604	8,387	7,161
Gross margin %	45.6%	46.3%	44.9%	45.0%	43.9%
Restructuring charges	—	—	195	—	—
Goodwill impairment	—	—	199	—	—
Intangible and other asset impairment	—	—	202	—	—
Net income	2,133	1,907	1,487	1,883	1,492
Basic earnings per common share	4.48	3.93	3.07	3.80	2.96
Diluted earnings per common share	4.39	3.86	3.03	3.74	2.93
Weighted average common shares outstanding	475.5	485.5	484.9	495.6	503.8
Diluted weighted average common shares outstanding	485.7	493.9	490.7	504.1	509.9
Cash dividends declared per common share	1.20	1.06	0.98	0.875	0.71
Cash flow from operations	1,812	3,164	1,736	1,936	1,879
<b>Price range of common stock</b>					
High	92.30	78.55	70.28	70.60	57.12
Low	67.21	50.16	38.24	51.50	37.76
<b>At May 31,</b>					
Cash and equivalents	\$ 1,955	\$ 3,079	\$ 2,291	\$ 2,134	\$ 1,857
Short-term investments	2,583	2,067	1,164	642	990
Inventories	2,715	2,041	2,357	2,438	2,122
Working capital	7,339	7,595	6,457	5,518	5,493
Total assets	14,998	14,419	13,250	12,443	10,688
Long-term debt	276	446	437	441	410



Redeemable Preferred Stock	0.3	0.3	0.3	0.3	0.3
Shareholders' equity	9,843	9,754	8,693	7,825	7,025
Year-end stock price	84.45	72.38	57.05	68.37	56.75
Market capitalization	39,523	35,032	27,698	33,577	28,472
<b>Financial Ratios:</b>					
Return on equity	21.8%	20.7%	18.0%	25.4%	22.4%
Return on assets	14.5%	13.8%	11.6%	16.3%	14.5%
Inventory turns	4.8	4.6	4.4	4.5	4.4
Current ratio at May 31	2.9	3.3	3.0	2.7	3.1
Price/Earnings ratio at May 31	19.2	18.8	18.8	18.3	19.4

#### Operations:

By looking at the income statement of Nikes financials we can see that operating income has been steadily rising over the last three years. We believe that this has to do with the increase in revenues in all three of Nike's major SBU's. In the 2010 fiscal year Nike saw a .3% increase in footwear, and a 3.8% increase in other areas.

#### Marketing & Sales:

Nike has seen a steady increase in sales related revenues over the last year largely as a result of the marketing departments work regarding branding. In 2010 Nike was ranked 25<sup>th</sup> worldwide in brand value, which has attributed over 13,706 million year-to-year to the company. Combined with market position, this brand recognition has contributed to high sales for the company.

#### Customer Service & Quality:

The emphasis that Nike has always put on technical innovation has been a huge factor in Nikes success in the sporting goods industry. Nike takes research and development very seriously, even employing full time staff in biomechanics, chemistry, exercise physiology, engineering, industrial design, and other fields. By developing new service and technologies such as Nike + and Nike Free the company is able to keep

customers satisfied with reliable and innovative products.

### **Competitive Advantage**

Nike has a competitive advantage in the market through its superior technology and innovation. Nike holds the value that product is king and establishes this idea as a key factor throughout the organization and therefore works to ensure that their products provide superior performance and higher quality when compared to their competitors. Nike gains market share through this emphasis on product by establishing brand loyalty where consumers feel there is no better alternative after using their Nike product. Nike's new innovations and technologies also encourage first time buyers to purchase their products.

Nike also attaches its brand image to many of the world's most prominent athletes to reinforce the idea that it creates the best products for the best athletes. This provides a key competitive advantage as no other sports retailer can claim that their products are preferred by more of the worlds top athletes and can also be used by the average consumer. Nike boasts the sponsorship of Tiger Woods, the most famous name in professional golf - Lebron James, a top NBA basketball player - and Cristiano Ronaldo, a global icon in professional soccer.

### **Industry Life Cycle**

Nike is in the maturity stage of its product life cycle. As such the company has shifted from short-term goals such as establishing a brand name and building infrastructure to long terms goals such as maintaining market share and increasing the value of stock.

As a company that has been around for over 47 years Nike has firmly established itself as a mainstay in the sporting goods industry, and in many ways, set the standard for the industry. As such Nike's strategic goals are now focused on further increasing dominance in the industry while diversifying its portfolio of subsidiaries. This reinforces the goal of not allowing the competition to come in and take Nikes share of the market. Staying in the number one spot is the number one priority. However this maturity and steady footing in the market has allowed them to experiment in related diversification. For example one of the subsidiaries, Cole Haan, is bringing Nike into the luxury footwear market.

Nike needs to ensure that they stay true to their goals and values of pushing the limits of technology and innovation, otherwise they run the risk of falling into the decline stage of the industry life style. By maintain control of the market, Nike will be able to avoid decline.

### **Ethical Standards, Behavior & Social Responsibility**

Right after the turn of the century Nike found itself in hot water regarding several child labor scandals. It was a tough time for the company but Nike chose to face the problem head on and commit to improving the standard of its ethics. Almost ten years later and we find the company with a brand new approach to ethics and social responsibility. As a result of the scandal Nike has made significant improvements to not only ethical practices, but also to environmental and social responsibility throughout the company.

For example Nike is constantly working to improve conditions in its contract

factories. These factories employ about 800,000 workers that are part of the Nike supply chain. Nike has worked to create a code of conduct that improves and sets standards in these factories. This encourages that the employees are working in ethical, legal, and voluntarily setting and serves to protect the basic rights of the workers. They have a global toll free report line where workers are encouraged to report violations of this code.

Nike has established a code of conduct, code of ethics, and code of social responsibility among others, that it follows in efforts to be a business that is a conscious member of the global community. As a result of this Nike has started the “Swoosh Goes Green” campaign to make its facilities more sustainable. Nike is working to create more ecologically friendly facilities, reduce its carbon footprint, and have zero net emissions. This effort has not gone unnoticed by organizations such as the Environmental Protection Agency who recently awarded Nike with the Earth Advantage Design Certificate.

These factors have become an integral part of Nikes success over the last decade. By associating itself with ethical practices and environmental stewardship Nike has been able to further increase the reputation and value of its brand.

### **Acquisition:**

In order for a acquisition to benefit Nike we need to look for a company that is going to help Nike in the markets and areas where the company is struggling to dominate the market share. For example acquiring another athletic footwear company isn't going to do much to help Nike grow in the long run. Nike needs to focus on companies that will help it expand into new markets such as action sports and new SBU's such as athletic equipment.

By identifying the strengths and weakness of the organizations in a given market, they can determine which would be a strong, growing company, with a favorable position that would aid Nike in dominating yet another industry. For instance if Nike wanted to expand its market share of the equipment industry it could do well to try and acquire a business which is involved in skiing or snowboarding, sports with large customer bases that focused on expensive equipment.

However Nike needs to consider that by growing at to fast of a rate, or expanding to far outside of athletic supply they run the risk of becoming to large for the own capacity. Any step to expand should be carefully considered and evaluated.