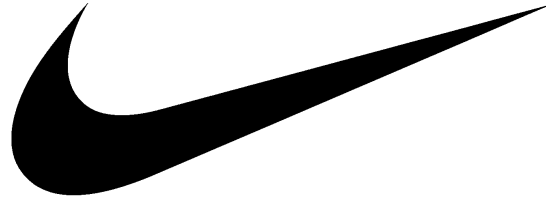


**Nike Inc. Strategic Recommendation Report
Fall 2011**



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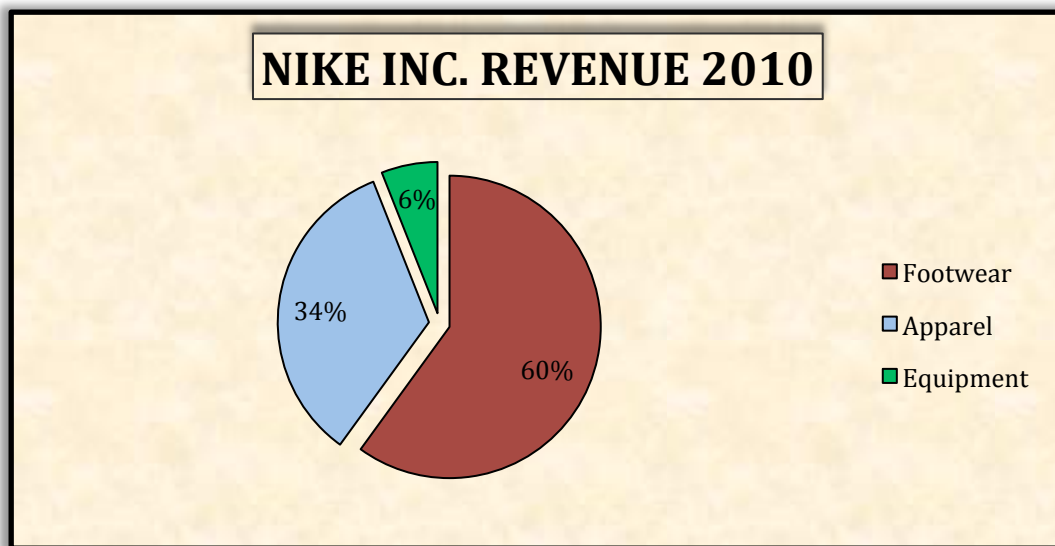
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Introduction

Nike Inc. is the world's largest sportswear manufacturer. The company is currently operating in three main strategic business units; footwear, apparel and equipment.

Nike's success over the past decade has been a result of its strength in the footwear SBU. With a firm grasp of over 35% of the footwear market, Nike has built its brand value, culture, and consumer following through the power of its shoes. Nike's apparel line has also enjoyed a significant 7% hold of the worldwide apparel industry. This has left the equipment SBU as the least successful of the three. Equipment not only generates the smallest amount of total revenue (6%), but it is also the area in which Nike is holding the smallest relative market share.

This report details the best strategic alternative that Nike can pursue in order to enhance their dominance of the entire sportswear industry. By focusing on building up the weaker parts of the Nike's SBUs the company will be able to create a more balanced and successful business.



Recommendation

As Nike already enjoys a strong market position in both footwear and apparel, the company stands to gain the most by engaging in a radical renovation and expansion of its equipment SBU. The recommendation is simple, by expanding the operational capacity of the equipment sector, Nike will be able to dramatically increase their market share in, and build the foundation for several new product lines that will have the potential to turn profits for decades to come.

The athletic equipment industry is one that is always evolving in the face of today's athletes who are constantly pushing the boundaries of what's possible. We live in a world where sports are no longer defined in the classical sense of two teams going head-to-head to see who can tally the most points. Although the highlight reels on SportsCenter are still full of touchdowns, goals, and slam-dunks they are now shown side by side with the latest from skateboarding, climbing, snowboarding and skiing.

As the landscape of sports is changing, so do the needs of the modern athlete. Consumers are making a shift towards emerging sports markets where equipment plays a much larger role than in traditional sports. For example according to Snowsports Industries of America, skiing and snowboarding is a market with over 24,230,000 American participants alone. Lacrosse was cited by a Consumer News and Business Channel (CNBC) report in 2009 as the fastest growing sport in America. The three most popular extreme sports in the nation, inline skating, paintball, and skateboarding combine for over 40 million participants according to the Sporting Goods Manufacturer's Association International's 2010 report.

Sports equipment is a category that has been steadily growing over the past decade and will continue to grow in the future. Sports that rely on equipment require

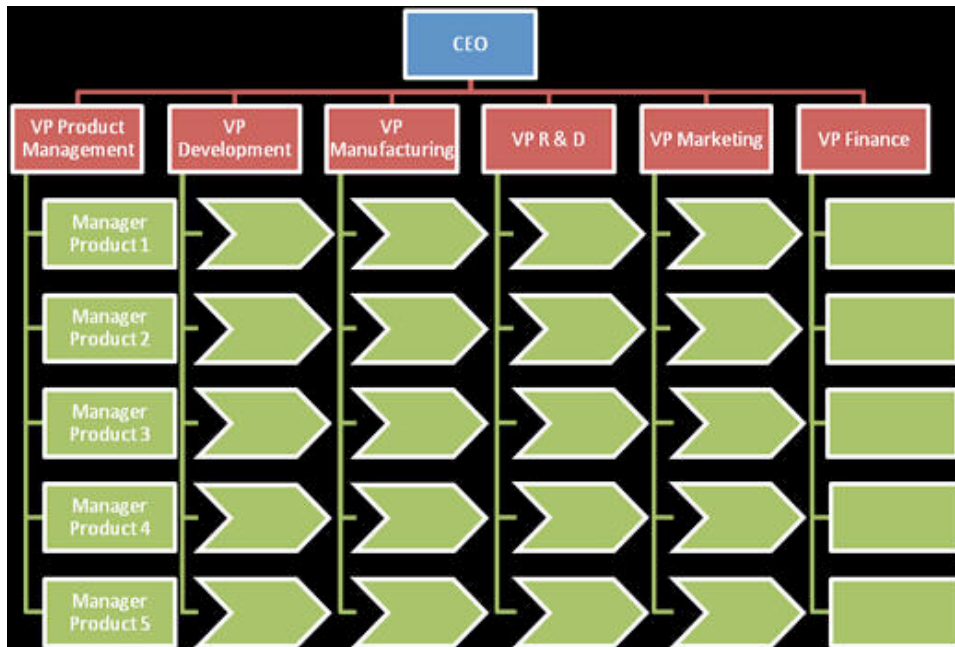
more expensive gear that has the potential to bring in large untapped profits for Nike. For example where a consumer might pay \$400 for top of the line soccer cleats (Nike Mercurial Vapor Superfly III), the same consumer will pay over \$1,500 for a top of the line snowboard (Burton Method).

By expanding the range of sports in Nike's equipment department and targeting athletes in emerging sports markets Nike will be able to increase its profitability by selling more products, to consumers who are more willing to spend on higher priced goods. These sports are growing in popularity and have gone from what many have believed to be passing fads, to Olympic events.

Nike Today

Organizational Structure: Nike is an organization that is structured as a matrix.

Employees work under both product managers and department managers. For example an employee might work in the marketing department, but they maybe be assigned to a golf specific project.



Employee Practices: Nike looks for employees that excel in their fields, are passionate about sports, and will rise to any challenges they encounter. The company fosters the individual innovation that comes from employees who are knowledgeable about the sports they are creating products for. Risk taking is encouraged, and as it says on the company website “we celebrate original thinking”.

Culture: The culture at Nike reflects the products they create. The organization is set up like any sports team; they value honesty, competitiveness and teamwork. By working together and functioning as a team, Nike is able to outperform the competition.

Leadership and Motivational Structure: At Nike people are rewarded for loyalty to the company. Leaders are promoted from the inside of the organization, and the company is well known for being a tightknit group. Leadership is often carried out in the team

management approach where Nike assembles teams to work on solving problems, creating products, and providing services. This leadership style builds trust and respect as well as emphasizing the value of an individual's contribution to the team.

The process of expanding the equipment sector of Nike's operations will be a relatively easy transformation for the company because they will be expanding an already existing SBU without acquiring additional companies. The key in ensuring a smooth transformation will be to preserve the groundwork of the business structure that Nike has laid down for its business units.

In fact, in this plan, the organizational structure of the equipment sector will only change to accommodate additional projects. The plan will preserve the matrix structure that has worked so well in Nike's other SBUs. By using the already existing structure of teams made up of members from different departments, the company will be able to quickly and efficiently expand the number of sports Nike makes equipment for.

The benefit of this plan is that it is built around Nike's existing organizational structure, employee practices, culture, and leadership structure. This will go further than make the transformation easy, it is what makes this plan stronger than any of the alternatives.

Resistance to Change

Based on the data that was reviewed this report anticipated that resistance to change will come in two main forms.

Resistance	Uncertainty
Internal	<p>Nike was founded as a footwear company and over the course of its 50-year history the brand has enjoyed the majority of its success because of the strength of its footwear SBU. Employees and executives, many who have been with the company for years, might not see the value in strengthening the equipment sector</p>
External	<p>Consumers in the emerging sports market are very brand loyal and have trouble embracing companies that do not have an existing reputation. Although the value of Nike is through the roof in traditional sports, they are relatively unknown in many action sports.</p>
Solution	<p>Education & Communication.</p> <p>By educating employees first and foremost about the need for the change, and then the expected results of the process Nike can get all of its employees on the same page. Keeping employees up to date and involved in the transformation will serve to unite the company in the face of change.</p> <p>Multiple sport-specific marketing campaigns will need to be carried out to inform consumers about the benefits of the new Nike products. By incorporating participation of professional athletes in these campaigns, Nike should be able to break down many of the barriers that consumers have.</p>

Resistance	Different Perceptions
Internal	The outside knowledge that will have to be recruited in order to build strong products could very possibly lead to a conflict of perception with current employees. The employees that have worked with traditional sports such as football and baseball might bump heads with the people in emerging action sports such as skateboarding and rock climbing
Solution	<p>Facilitation & Participation</p> <p>By letting employees know where the outside knowledge is being brought in from, what backgrounds the new talent will have and discussing why this is important to the overarching goals of the company will be key. In order for this change to be as effective as possible Nike should strive to have employees be as involved as possible in the process. By letting existing employees discuss the change, help in the selection process and work together with the new team members from the start, Nike will be able to break down many of the barriers that can cause problems to arise from different perceptions.</p>

The Executive Team

The selection process for the executives will be an external recruiting process that will search for the most qualified candidate to create a team of product managers

responsible for creating and launching several new lines of Nike products. Existing Nike employees will continue to head the different departments such as marketing, finance, and design while new talent will be used to head the different product teams such as snowboarding, skateboarding and kayaking. This will allow the company to utilize its already existing matrix structure to find the perfect balance of existing Nike experience and outside ideas, expertise, and creativity.

Selection:

- Where will talent be located: Project Managers should have ample experience at successful companies that have a proven history producing equipment in emerging sports markets. For example: Burton, Armada, Black Diamond & Jackson Kayak.
- Knowledge: The ideal candidate will have previously worked with the product they are selected to manage. They must have an intimate working knowledge of the manufacturing, technologies, trends, and market of the product, as well as an eye for innovation and creativity.
- Abilities: The most important ability we will be looking for is the skill of facilitating communication within the team. As most teams will have a combination of existing Nike employees and outsiders recruited to work on the new projects it is essential that project managers are able to bring the team together in order to create the best products possible. Communication within the groups will ensure that the very best innovations and ideas from outside the company are combined with the quality and design standards of Nike.

Personality Traits:

- High agreeableness: In order to effectively control and lead a team.
- Low conscientiousness: They will need to focus on a small set of goals at a time and as such will need to be organized and systematic.
- Low negative emotionality: So they will be more calm, resilient, and secure.
- High extroversion: Managing relationships is going to be key in this position and they will need to be sociable, talkative, and assertive.
- High openness: As they will be working with a diverse group they ideal candidate will be willing to listen to ideas in order to encourage creativity and innovation.

Compensation:

Nike will pay the new executives coming in based on a wage-level comparable to the industry that they are coming from. Nike will pay above the industry average in order to attract the best possible talent. For example, a senior project manager from Burton Snowboards earns about \$81,000 a year. Nike will offer a similar salary to new team leaders. The average salary for a Nike senior project manager is about \$95,000, which is good goal to set for recruits. Along with a competitive salary, new talent will also receive a broad array of benefits consistent with Nike's guidelines, including:

- Health insurance
- Life and accident insurance
- Disability insurance
- Retirement savings plan

- Employee stock purchase plan
- Paid vacations and holidays
- Paid sabbaticals
- Product discounts.

Training & Development

As this plan calls for the hiring of outside project managers that already have experience in leading a team and knowledge of the products they will be working on, training will instead focus on how to best use their already existing skill within Nike as a organization.

By having current Nike project managers instruct the new talent about the culture and core values of Nike, the new employees will be better prepared to use their skills to fulfill the role of a project manager within Nike's matrix structure. Such activities that can be used to engage the trainee include role-playing and case discussion with a Nike mentor.

The new project managers will be monitored for the first six months not only by senior Nike executives, but also by their team members to ensure that they are taking the new product lines in direction consistent with Nike's vision and mission statement.

Leadership

Strong leadership is going to be one of the key skills that Nike should look for in the new executives. As they will be leading a team with a mixed group of employees coming from all sorts of different backgrounds strong leadership is going be essential in

order to produce the best products possible. Leaders are going to need to be well versed in the areas they are going into, and expert power will play a huge role in building their authority over the team. In order to develop cohesive work groups they will need to exhibit employee-centered leader behavior by making the welfare of their subordinates a priority.

Employee Performance:

By looking at The Leadership Grid, the ideal style of leadership for the new product teams can be identified as a “Team Management” type leader. This type of leaders will place a high value on both the well being of their employees and the quality of production. By creating a work environment where everyone is working together to accomplish a common goal, the leader will not only promote innovation, but also fulfill Nike’s over arching goal of building trust throughout the organization.

An achievement oriented leader will be able to not only direct the team, but also provide the support they need while encouraging participation from all of the employees. If the leader can effectively share the vision of the brand in an inspirational way that motivates the employees to work as a team, the potential of these new teams will be limitless.

Motivation:

The strength of the products that Nike’s new divisions will be able to produce is only going to be as strong as the contributions of the team members. According to expectancy theory motivation depends on two main items; how much the employee wants

something and how likely they think they are to get it. A leadership style that caters to these two main points in order to create a balance will be essential if Nike wants these new divisions to be a success.

Employees will need to be constantly reminded that they are making important contributions and the work they are doing means something more than just a paycheck. For example Nike can improve the valance by offering positive reinforcement such as bonuses, recognition, and other incentives to employees. Leaders will have to carefully pay attention to the mood and needs of their employees to make sure they are working towards rewards that matter to them.

However the employees will also need to be provided will all the resources necessary to produce maximum output. Team leaders will need to listen to their employees and recognize when they are not being provided with the inputs they need. So much of the valance of the employees depends on their perceived support from the company. This means Nike needs to ensure that they are supportive of the teams and creating an environment where employees value the outcome of their hard work.

Managing Organizational Outcomes:

The newly expanded equipment SBU will contribute to Nike's organizational outcomes by increasing the company's market share of equipment and and contributing to a higher percentage of Nike's overall revenue. This will make the company more competitive, more diverse, and over all more profitable.

Conclusion:

We hope that this report has been helpful in illustrating a new direction for the Nike brand that will benefit the company for years to come. The equipment SBU is a figurative oil well waiting to be mined. With the structure and resources already in place, Nike simply needs to begin taking steps in this new direction to begin a new dawn of dominance in the sporting goods industry. Please feel free to contact us with any further questions or comments.

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