

To: CEO/Senior Executive at Nike
From: Saier (Sam) Hu
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Subject: Memo - Nike's Potential Transition into an Integrated Digital Platform

Context & Overview

Known for its athleisure footwear and apparel, Nike is a global leader in the retail industry that has consistently pushed boundaries and set trends. However, being a company at its maturity phase seeking innovation and facing more fierce competition from new platforms, Nike might want to pivot towards an integrated digital platform to solidify its dominant position. By embracing the digital platform ecosystem, Nike can leverage its extensive customer base to build positive network effects, offer personalized product recommendations through analytics of user data, and enhance its direct-to-consumer relationships via reconfiguration of value creation and consumption.

Ideally, Nike will pivot towards a platform that fosters a close-knit community of customers, as well as integrates features from sneakers and apparel resale platforms such as StockX and GOAT. Nike can link the customers through creating social groups and enabling discussion on user experience. Unlike the latter 2 resale platforms, Nike can serve not only as an intermediary, but also as a direct supplier that provides goods and services directly to consumers.

With cautionary warnings, this memo may serve as a manual for Nike's Nike.com website and SNKRS app to merge and transition into the *integrated digital platform* described above by underlining the 5 most critical properties of a digital platform ecosystem and how Nike can cultivate these properties.

Property No. 1: Positive Network Effects

- **Definition:** Positive Network Effects refers to the ability of a large, well-managed platform community to produce significant value for each user of the platform.
- **Significance:** Positive network effects are critical to a digital platform because of their ability to create a positive feedback loop that drives growth and value creation. As the user base grows, the platform becomes more valuable to users by offering increased opportunities for interaction and collaboration; this leads to an enhanced user experience. Also, Positive Network Effects can offer Nike valuable data that can be used for analytics of user behaviors and patterns, which enables customized user experience. In return, such enhanced experiences will entice more users to join the platform. Ultimately, this will bring increased financial gains to Nike.
- **Implementation:** With more than 100 million members (not “users”) worldwide on Nike.com and more than 150 million active members on SNKRS app, Nike is already at a vantage point to utilize Positive Network Effects. The remaining challenges for Nike are building the network, connecting its existing users, and enabling them to interact with each other on the new platform. In order to connect its existing users, Nike may build build communication tools / mini social media integrated into the platform, thus enabling users to interact with each other on the platform: through these tools, users can share their own experience, add comments to others’ posts, communicate and engage directly with each other (in terms of chatting or transactions), as well as form social groups. These functionalities are similar to Pinterest or Instagram but much more than them; they also obviously require more openness (covered in Property No. 2) and reconfiguration of value consumption (covered in Property No. 4) given Nike’s current website and app.
- **Challenges:** Nike must curate the content and interactions on the platform carefully, as poor content on and bad interactions with the platform discourage users from staying.

Property No. 2: High Degree of Openness

- **Definition:** The openness here refers to the level of restrictions a platform places on participation in its development. More specifically, the high degree of openness here refers to the welcoming nature of platforms to third-party developers.
- **Significance:** High degree of openness of a platform is critical because it can drive enormous growth. First, it will foster innovation and collaboration on Nike's platform by allowing developers and users to contribute directly to the platforms, which will create more engagement with and attention on the platform. Additionally, it will empower users to customize their experience and allow developers to serve specific needs of Nike customers, therefore increasing adoption of the platform.
- **Implementation:** The new Nike platform should publish APIs as well as software development kit (SDK) that enable third-party developers to interact and contribute to the platform free of charge. The APIs will allow third-party developers to better understand Nike customers, while the SDK might enable third-party developers to create numerous applications that better cater to specific needs to Nike customers, such as the communication tools / mini social media mentioned earlier. These applications can be integrated with the Nike platform seamlessly to provide better user experience and cater to various needs of customers. There are a lot of successful examples where traditional pipeline companies transition into platforms by increasing its openness to third-party developers. One example that Nike can learn from is Intuit's success in embedding third-party "White Label" apps seamlessly in its QuickBooks Online (QBO) platform.
- **Challenges:** With more openness comes greater security and privacy risks, as well as legal and compliance issues associated with copyright infringement. How open the new platform should be, and how Nike should navigate through these risks and legal issues, remain important problems for Nike's senior leadership to consider.

Property No. 3: Reconfiguration of Value Creation

- **Definition:** Reconfiguration of value creation refers to the platform's ability to tap new sources of supply.
- **Significance:** Cultivating the new platform's ability to tap new sources of supply is critical to Nike, as it allows the platform to capture new opportunities. This is relevant to Nike because its inventory is constantly understocked, and what's worse is that Nike also fails to capture the opportunity resulting from the supply shortage. A lot of popular Nike products (especially sneakers) always sell out due to Nike's pipeline business' failure to gauge customer demand, which forces customers to turn to the secondary market for resale of sold-out products. Additionally, Nike is currently absent in the secondary market, and users can only rely on StockX or GOAT to purchase Nike products with much higher prices than retail prices. If Nike can take advantage of these opportunities, it can receive enormous financial gain.
- **Implementation:** The new integrated platform should incorporate the following features to capture the opportunities it is currently missing on. First, Nike should introduce an "interested" metric (similar to "Likes") through integrated social media on its platform, which predicts customer demand prior to release of major products. Also, the platform should feature a trading mechanism (like bid & ask and direct transaction between users) that facilitates resale of Nike products, while charging transaction fees and provide authentication services; with its exceptional supply chain management and excellency in verifying its own products, Nike must serve as a better intermediary than StockX or GOAT. Nike might test this idea on its SNKRS app before rolling it out with a platform.
- **Challenges:** The first challenge is whether the platform can compete against mature companies like StockX or GOAT in the secondary market. The second challenge is whether the new platform can add a new line of business on top of its current operations.

Property No. 4: Reconfiguration of Value Consumption

- **Definition:** Reconfiguration of value consumption refers to the platform's ability to enable new forms of consumer behavior.
- **Significance:** Cultivating the new platform's ability to enable new forms of consumer behavior is critical to Nike, because it empowers platforms to adapt to evolving customer demand and promotes engagement with the platform. Currently, when Nike customers make purchases, they decide based on a solid price. However, if the new platform can reward users who are willing to spend time pitching the product / platform to their network with a much lower price, new demand can be "created" and captured.
- **Implementation:** There are plenty of ways to reconfigure value consumption, but the one worth implementing is an ultra-low-price social commerce model empowered by social groups. Essentially, customers utilize their network to form social groups and negotiate low prices with suppliers through group buying - a model proved successful by the Chinese social commerce platform Pinduoduo. The prerequisite to implementing this is the new Nike platform's integration of communication tools / mini social media mentioned earlier, because users cannot connect with each other without the existence of such a network; or Nike can partner with other social media platforms at the risk of losing positive network effects on its own platform. Then, the platform can offer significant discounts on certain products to users who can form social groups and purchase the products via bulk buying.
- **Challenges:** The challenge lies in the risk-to-reward ratio and the efficacy of such a new model. Will the Nike platform change completely and operate solely based on this new model? Or will the platform introduce it as a feature when selling certain specific products to target price-sensitive customers? How effective is this in driving customer engagement? These are key problems for the Nike senior leadership to examine.

Property No. 5: Emphasis on User Generated Content (UGC)

- **Definition:** Like the name suggests, this property refers to a platform's focus on content generated by users.
- **Significance:** Placing an emphasis on UGC will foster user engagement on the new integrated Nike platform: users will actively contribute their own content, thus creating a sense of ownership and community. More importantly, the diverse and authentic nature of UGC may appeal to a wider user base and establish trust. All of these will cultivate network effects on the new Nike platform.
- **Implementation:** As demonstrated above, the new Nike platform will enable interaction between users by integrating communication tools & mini social media. These tools will allow users to post original content (UGC) and interact directly with each other (to exchange information, goods, and services). Moreover, the platform should employ moderators and algorithms that facilitate positive discussions, manage reports of rule infringement, and remove content that violates community guidelines. This can ensure users' positive engagement with the platform and generate positive network effects.
- **Challenges:** In order to maintain positive user engagement on the platform, the new Nike platform must minimize content abuse. The challenge is balancing regulation and user autonomy; i.e. it should determine how much power the platform moderators have over managing UGC, and how much freedom users have in terms of posting content on the platform. If the moderators have too much control of UGC, the users might feel restrained from speaking freely; on the other hand, users' having too much freedom can lead to content abuse. A bad example of curating UGC is Reddit, whose failure to contain inflammatory and illegal content brings damage to their reputation, creates safety concerns for users, and incurs regulatory and legal concerns. The new Nike platform must tread carefully so as to prevent negative network effects stemming from bad UGC.

Conclusion

As illustrated above, Nike has the potential to transition into the world's largest integrated platform of the sale, resale, and exchange of athleisure footwear and apparel. This can help Nike maintain its market dominance and claim its share in the secondary (resale) market where it is currently absent. Nonetheless, whether Nike should, and how it might transition into such an integrated digital platform, is completely up to Nike's senior leadership.