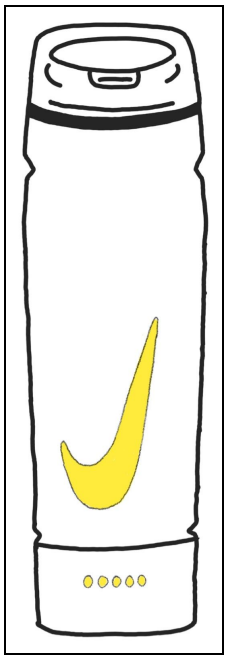
Entrepreneurial Marketing and Finance Group Project

Submission 1 Group 5

Nike HyperHydrate

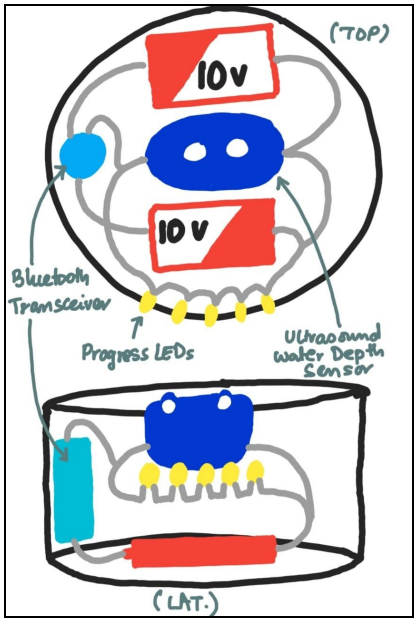
Introduction



Do you think you drink enough water? Despite access to clean drinking water, 77% of all working Americans surprisingly report that they don't drink the recommended volumes. A central element of the human body that dictates the well-functioning of all metabolic processes, water is invaluable to human health. Interestingly however, while many applications and devices attempt to track exercise, sleep and movement activities to record health, very few devices (and those too with low reach) track one of the most essential determinants of health - daily water consumption. Consequently, dehydration is a disease that plagues millions - and some don't even know about it. In the US alone, dehydration resulted in medical bills worth $3.8B, and loss of productivity worth $44.8B in 2014 .

As the world paces towards a 'health conscious' landscape, addressing this gap in the market is imperative, and we present an exciting product to lead the way forward.

The Product



Our product is HyperHydrate, a smart water bottle to be sold under the Nike brand. It precisely tracks changes in the daily amount of water consumed by its users, and transmits that data to the user's phone, allowing them to achieve the ideal daily water intake. The same is altered according to their biological needs, based on weight, movement and age.

Why use a smart bottle instead of a regular one? It's simple - athletes, people with health conditions caused due to underhydration and those who want a healthier lifestyle - absolutely need to consume around 28.35ml of water per pound of body weight. This bottle allows a person to achieve their hydration goals in a more convenient and motivating manner than someone without a smart bottle.

At the bottom of the device is an Ultrasonic water depth sensor which transmits data regarding the amount of water consumed and filled. The Progress LEDs, connected bilaterally with the sensor, relay the user's progress in an easy-to-follow system of five dots—each dot symbolising 20% of the goal reached. The Bluetooth trans-receiver acts as an intermediary to channel the information flow, ensuring a seamless linkage of tracking to a wide selection of apps on the user's mobile phone. A pair of readily-removable batteries also ensures that the bottle is up and running at one's convenience.

Why Nike?

Nike has been a leader in adopting advanced technology into its products and services. In association with Apple, Nike launched an activity tracking device in 2006, which was to be embedded into users' shoes, and the data provided by the sensor could be viewed on an iPod. In 2016, Nike again partnered with Apple to create a Nike branded Apple Watch, which came with additional Nike integrations and apps installed. Nike also launched Nike Adapt, a shoe that can be controlled using a smartphone application.

Evidently, Nike is trying to rebrand itself from being just a sportswear company, to becoming a multi-dimensional company with health, fitness and technology-related interests. They have all the base systems and processes to manufacture other smart devices such as our smart bottle in place. Nike has also been making bottles and sippers for quite some time. Combining these would not be too hard for a giant like Nike. Additionally, we could use existing health mobile applications, to further reduce cost and development time. Lastly, Nike's worldwide supply chain systems ensure unparalleled distribution and reach for the smart bottle, giving us a huge pre-existing customer base. Thus, Nike would be the ideal company which could develop and sell our smart bottle idea.

Target Market and Personas

The target market for Nike's new smart bottle consists of three customer groups - or 'personas' - as the product caters to fitness, convenience and health.

1. Anisha is an athlete and fitness influencer. She is well versed with diets and fitness programmes and encourages people to drink at least eight glasses of water every day. Fitness trends are growing on the internet and using a smart bottle like this, she is not only able to track her water consumption, but also promote Nike and the bottle as a convenient way to stay fit.

2. Vinod is a consultant with BCG and has had little to no time for himself during the day, ever since he enrolled in university. This adversely affects his health, as he not only lacks rest but is also unable to drink enough water during the day. Using Nike's new bottle, Vinod can see his water-drinking progress during the day, and see records and graphics of his water consumption on the Nike Run Club app on his phone, which is a natural extension of him.

3. Ria recently had a kidney transplant after one of her kidneys failed due to less consumption of water. Like her, a lot of people face kidney and other health problems owing to the low consumption of water. The smart bottle is an effortless solution to the same, which allows for simple tracking, and can save lakhs of rupees in treatment costs.

Financials

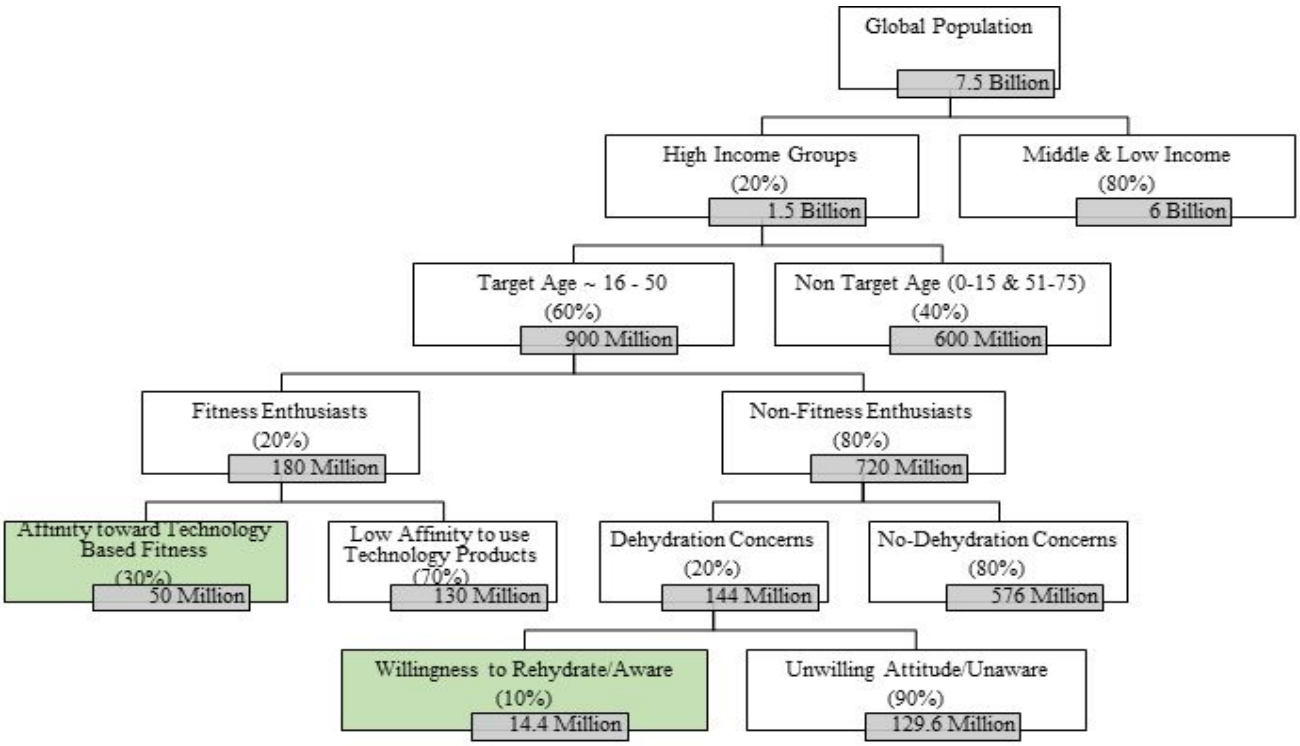
To gauge the financial feasibility of our proposed project, we attempt to calculate its profitability in its 5th year since its inception, after it has crossed initial hurdles. In particular, we use the following formula to estimate the potential profits that can be extracted from the venture:

Profits = [(Price of Product - Variable Cost per Unit)*(Market Size * Market Share)] - Initial Investments

or in other words,

Profit = (Profit Margin per Unit * Number of Units Sold) - Initial Investment

Market Size



We use a demand-side approach to understand the size of the market that will potentially be interested in our product. We assume that Nike will launch this product worldwide through both online and offline distribution channels. Starting from the global population, we insert 3 filters to finally establish our target market size - income, age and fitness quotient.

Therefore, assuming 1 bottle per individual, the **total market size** of the product stands at approximately 50+14.4 million ~ **65 Million.**

It is interesting to note that the global fitness industry has a market value of 96 billion dollars. Assuming that a rich fitness enthusiast would spend an average of 1000 dollars on fitness-related activities per annum (Gym, equipment, accessories, clothes, memberships, etc), the total number of consumers of such products will be 96 million. Thus, our estimate of 65 million consumers as a potential market size seems plausible.

Details about assumptions made in the market sizing are in the Appendix.

Market Share

The current market for smart bottles is highly fragmented consisting of small regional players, with a total market annual revenue of $95 million per annum and a 16.6% CAGR. Assuming $40 as the average price per bottle (looking at current prices of existing products), the total number of units sold in a year equals approximately 2.4 million. Considering that there is a potential 60 million market, there is a significant demand-supply gap that Nike can bridge.

Currently, Nike has a market share of ~ 25% in the fitness market. However, since no other primary competitor of Nike currently has launched this product, Nike can achieve a first-mover advantage. Moreover, the ease of use of the widely popular Nike App for storing the data from the smart bottle would imply that if any of the

competitors do choose to launch a similar product, there will be switching costs associated for users to try their product vis a vis ours. Additionally, since Nike's intangible brand value is high, with thousands of its loyal customers waiting in lines to try new products, it will be easier for Nike to tap into the market with ease. Considering these factors, we feel like, within 5 years of launch, Nike will be able to capture ~ 60% of the market size.

Therefore, **total volume** = 65 million * 60% **= 39 million bottles**

Nike can also choose to club this smart bottle, as a complementary product, with its other fitness product mix. As of now, there are already 30 million downloads for the Nike fitness app. Consequently, within the next 5 years, with a general rise in fitness quotient of the people, it is plausible to achieve the above-mentioned target.

Moreover, current water tracking apps on Android and iOS approximately have 15 million users. The Nike product will offer a premium service than these apps, alongside providing a 'Nike' benefit. Therefore, it seems fair to assume a 2-3 fold rise in interested consumers for this bottle.

Costs Involved

Total costs incurred by Nike for the smart bottle would be a function of the manufacturing cost for the bottle, cost of technological devices, installation and overhead expenses (for labour, any additional machinery, etc.).

Since Nike already has a sports bottle variant available in the market, it is plausible to assume that the cost to manufacture the bottle will be similar. The current market price of the existing product is Rs. 1200 ($17). Charging an overall 40% margin on their products, the cost for manufacturing and delivering the bottle to various retailers and distributors come to Rs. 720. Following is the estimated cost break up for the product:

Cost Head	**Cost/Unit**
Manufacturing and Delivery of Bottle	Rs. 720 ($10)
Ultrasonic Water Depth Sensor	Rs. 220 ($3)
Bluetooth Installation	Rs. 80 ($1)
Plastic Case and Switch Button	Rs. 30 ($0.5)
LED Lights and Wiring	Rs. 13*5 = 65 ($1)
Overhead cost to obtain technology components, excess labour, manufacturing unit, etc	Rs. 500 ($7)
TOTAL COST	**Rs. 1615 ($23)**

Price Point

- Cost-Based Pricing: Based on estimated costs, the lower price bound has to be at least $23. Since Nike's current profit margin on its existing products is 40-45%, we would ideally price our product at $35.
- Competitor Based Pricing: Current competitors in the market have priced similar products priced at an average of $40. Maintaining a profit margin of 40% Nike is still able to charge a price lower than the industry average ($35) and hence will be able to gain majority market share.

Therefore, the estimated **price point** for the product = **$35**.

Overall Profits

Inputting the estimated components, Nike can expect to achieve the following profit figures:

Profit Margin per product = $35 -$23 = **$12**
Volume of Bottles Sold = 39 million
Overall profit = 39 million * $12 = $468 million ~ **$500 million**

Nike Global Profits = 16 billion (2020)
Assuming 2025 profits = 20 billion
Profits from smart bottles in 2025 = 2.5% of total profits

Currently, the profit share of accessories in the Nike model is <4%. This will increase Nike's presence in the complimentary product space.

Appendix

Details about assumptions made in the market sizing:

1. Global population: 7.5 Billion (Our World in Data, University of Oxford)
2. Global population split by income (Our World in Data, University of Oxford)

Through income segmentation, we eliminate the groups that may not have access to drinking water itself as well as those groups who may not be living in countries where Nike operates. Moreover, only high income segments (annual income more than 12,000$) would afford a technology based fitness product.

3. Fitness Enthusiasts: (Statista)