

Team 13 (ESSCKK), Nike Inc (NKE) Qualitative Analysis

Company Description:

Nike Inc., established over five decades ago in 1964 as Blue Ribbon Sports and rebranded as Nike in 1971, is a global athletic apparel and footwear company renowned for its innovation and iconic branding. The company generates revenue by selling sports products, licensing, and sponsorships. Nike's diverse product line includes footwear, apparel, equipment, and accessories, focusing on both performance and style. It caters to athletes and consumers of all ages, operating through a widespread retail network encompassing its stores, partnerships with various retailers, and a robust e-commerce platform across the U.S., Canada, Europe, Asia, and South America. The company faces competition from prominent industry rivals such as Adidas, Puma, and Lululemon but remains a leading player in the athletic and lifestyle industry due to its global recognition and commitment to innovation.

Industry Analysis:

Nike primarily operates in the athletic footwear and apparel industries, and has smaller business segments in sports equipment and leisure footwear/apparel. All of these industries are extremely competitive globally, and Nike competes with companies that operate in one, or multiple of these industries. Despite this, Nike remains not only the most valuable apparel brand in the sportswear industry, but it is actually the most valuable apparel brand in the world in general, with its brand value being over 30 billion dollars. Nike's primary industry, athletic footwear, generated roughly 50.96 billion USD in revenue in 2022, and grew to around 52.98 billion in 2023, with a growth rate of around 4.1%. Its second main industry, athletic apparel, grew at a similar rate, generating roughly 204.33 billion in 2022, and 213 billion in 2023. The other two industries it operates in accounted for less than 9% of their total revenue (62.42% in athletic footwear, 29.05% in athletic apparel, 5.05% in sports equipment, 3.48% from casual apparel/footwear in 2022). Inside these industries, Nike's biggest competitors include newer and older companies such as Adidas, Anta, ASICS, Li Ning, Lululemon Athletica, Puma, Under Armor, V.F Corp, just to name a few that operate in one or both of the primary industries listed above. In terms of broader industry trends, Nike's success typically correlates with the success of the professional sports leagues in which it has partnerships with, and with the athletes in those leagues that it has endorsements with. As the popularity and overall industry of professional sports continues to grow globally, which it has consistently over the last few years, Nike will as well. The increasing popularity and trend of E-Commerce will also cause Nike to shift and adjust their business strategies to take advantage of it, as it will allow them to expand their reach to a much broader global audience, and allow them to optimize their online presence as needed in order to be as responsive as possible to consumer behavior changes.

SWOT:

Strengths:

R&D:

- Strong Side brand businesses have grown through innovation (converse + hurley)
- Strong R&D Department that's introduced many developments in competitive sportswear

Marketing:

- Strong relationships with known public figures and celebrities
- Because of Nike's marketing strategies and creating awareness of the 'swoosh' logo, their strong marketing has created brand awareness
- By identifying its target audience and marketing towards this audience through reaching target demographics, psychographics, behavior, and location, Nike has created Brand Loyalty through its target audience

Manufacturing & Distribution:

- Strong control on a global product distribution network
- Low manufacturing costs

Weaknesses:

Management:

- Poor working conditions for employees in foreign countries
- Contradicting strategies: "Nike pledged to shift all its facilities to 100% renewable energy with net-zero carbon emissions under the 'Move to Zero' scheme. While the strategy is great and welcomed, it contradicts Nike's strategy that favors innovation over sustainability. This creates the perception that Nike is not committed to addressing climate change and its pledge is just a marketing stunt."

Legal/Regulatory:

- Sexual Harassment allegations in the workplace: "The New York Times conducted interviews with 50 former and present Nike employees to investigate the company culture. Through the interviews, it was established that Nike did have a toxic working environment, where sexual misconduct was rampant."
- Facing lawsuits for alleged discrimination and toxic sexual harassment culture in the workplace

Financials:

- Facing supply chain issues
- Decreasing sales in China
- Share price is falling: "Nike's shares fell more than 10% Friday after the company described problems with overstocked inventory levels and the aggressive steps it's taking to lower them"

Opportunities:

Economy:

- Opportunity to expand to emerging markets like India and Brazil.
- Expansion into other fashion lines like sports sunglasses

Technology:

- Acquired Artificial Intelligence Start-up: "With its vast financial resources, Nike can acquire small or medium companies or startups. It recently acquired predictive analytics platform – Celect to expand its online sales capabilities and predict customer's shopping behavior."

- Furthering Consumer Direct Strategy: “Nike has accelerated the consumer-direct strategy, which means shifting its focus to digital business and subsequently closing physical stores. In fiscal year 2022, 42% of its Nike revenue comes from online sales.”

Sustainability:

- Opportunity to create products from recycled materials → “10X the amount of finished product waste refurbished, recycled or donated” is the 2025 target
- waste reduction in their production → “10% waste reduction per unit in manufacturing, distribution, headquarters and packaging through improved design and operational efficiency” is the 2025 target
- “Adopt clean chemistry alternatives for our 10 priority chemistries across our supply chain”

Threats:

Competition:

- Increasing pressure from competition
- Competitors are spending more on advertising
- Counterfeit Nike products

Legal/Regulatory:

- Nike Faces A Wave Of Retail And Warehouse Thefts
- Animal abuse scandal in the past
- Currently filed patent infringement and conflicts with Lululemon and Adidas

Economy:

- International Trade Tensions: “As an international brand, Nike is exposed to the nuances of trade agreements, embargoes, protectionism, as well as trade tensions. This is especially important now due to the heightened tensions between the United States and China, with the latter being the largest buyer of Nike products in Asia and one of the most significant markets outside the U.S”
- Potential of currency value fluctuations because of international operations

Porter's Five Forces:

Threat of New Entrants - Low

Given Nike's well-established brand presence, the barriers to entry for new brands in the industry are notably high. While sourcing materials and initiating operations may not pose significant challenges, overcoming Nike's extensive history of research and development, substantial financing, and unparalleled industry expertise proves to be a formidable task. Nike's extensive experience has enabled the company to achieve substantial economies of scale, further solidifying its competitive edge. Moreover, Nike often provides customers with discounts and additional perks, solidifying its dominance and making it a challenging prospect for aspiring newcomers in the market.

Bargaining Power of Suppliers - Low

Suppliers have weak bargaining power. Nike sources its materials and manufacturing services from a wide range of suppliers across the globe. This low concentration means that no single supplier holds significant power over Nike's operations, reducing the risk of supply chain disruptions. While they rely on these suppliers, their size, brand strength, and the volume of orders they place provide them with leverage in negotiations, enabling them to maintain favorable terms and prices.

Bargaining Power of Buyers - Moderate

The bargaining power of buyers is moderate. Nike's customers include both individual consumers and retailers. Retailers, especially large ones, have some bargaining power due to their size and ability to negotiate pricing and terms. However, Nike's strong brand and product differentiation give them a degree of power in influencing customer preferences and loyalty.

Threat of Substitutes - Moderate

The threat of substitutes in the sportswear industry is moderate. While there are alternative brands and products, Nike's strong brand identity and innovative product development help reduce the appeal of substitutes. However, changes in consumer preferences, emerging competitors, or new fashion trends can influence the extent of this threat.

Degree of Rivalry - High

While Nike stands as a renowned and established brand, it faces formidable competition from industry giants such as Adidas, Puma, and Under Armour, all offering similar product lines. Intense price competition prevails due to the product homogeneity in this competitive landscape. The industry is experiencing reasonable growth, influenced by prevailing economic conditions, which, despite inflation, are gradually improving. Additionally, consistent sports trends contribute to this growth. Nike's unique selling proposition lies in its incorporation of cutting-edge technology into its products, providing consumers with novel experiences and aligning with the lifestyle that Nike embodies. While consumers do have the freedom to switch brands easily, Nike's strong reputation for quality and continuous innovation serves as a powerful incentive for retaining customer loyalty.

Risks & Mitigations:

1. Concerning economic and industry risks, the uncertainty of the global economy, including rising levels of inflation and interest rates, leads to an increased risk of recession, overall impacting businesses around the world. Specific to Nike, it would affect the operating results and financial condition of the business. Examples could include the possibility of reduced spending and customer demand, an increase in inventories, and lower profitability.
 - To mitigate this risk, Nike engages in diversification of markets, continuous market research, supply chain efficiency to avoid inventory buildup, pricing strategies, and committing to sustainability and ethical practices to maintain brand loyalty and customer trust.

2. Additionally, many Nike products are manufactured outside of the United States, so revenues are generated, and expenses are incurred in various foreign currencies. This leads to increased susceptibility for inflation and fluctuations in foreign currency exchange rates which can influence the company's financial performance. Specifically, it affects the value of the U.S. dollar, reduces revenues, and makes it more expensive as well as difficult to purchase raw materials and finance their operations.
 - Usually, to mitigate this sort of risk, Nike engages in hedging activities that aim to reduce the impact of any market fluctuations or unfavorable price movements. Various financial instruments are used for hedging, including options, forward contracts, swaps, futures contracts, and financial derivatives. Some types of hedging that Nike currently are currency hedging, commodity hedging, interest rate hedging, and stock market hedging. However, even though such actions mitigate the risk, they do not completely eliminate the risk. To sum up, the mitigation strategy of hedging is used to enhance financial stability.
3. One of the other bigger risks of Nike is that it operates in a highly competitive industry. Nike specializes in consumer products for athletic footwear, apparel, and equipment which are offered in many other diverse athletic leisure/footwear/equipment companies not only in the United States but also worldwide. Nike, also being a retail industry, poses a level of risk because the way customers shop is changing, especially due to a growing emphasis on digital commerce (online shopping). This can affect the wholesale operations of Nike and Nike's sales from their stores and website.
 - Nike mitigates this risk by offering a wide range of athletic footwear, accessories, and apparel, covering the various preferences of their consumers. Because of the diversification of Nike products, it helps to reduce the company's reliance on a single product or market segment. Nike places a strong emphasis on product innovation to create cutting-edge products, allowing Nike to stay ahead of competitors. Nike also has a digital online presence through their company website and mobile apps to engage with customers directly. Additionally, the company uses innovative materials such as cushioning, breathable fabrics, lightweight materials, etc., to accommodate customer preferences and comfort.