Nike

Strategic Analysis

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I. Who We Are

For the past fifty years Nike corporate has been located when it all started, Beaverton, Oregon, which is a suburb outside of Portland, Oregon. The idea of an athletic shoe was taken by Bill Bowerman whom was a respected track and field coach at the University of Oregon in the nineteen fifties. The founder and CEO of Nike corporation is Phil Knight, a track athlete who ran for Mr. Bowerman in the in the middle 1950's. After graduating from The University of Oregon, Phil Knight earned his MBA at the prestigious Stanford University in California. While studying at the university, Knight had written a report prosing quality running shoes in which he had sent it to numerous shoe factories in countries like Japan and Asia that would make these shoes compete with the manufactures in Europe. After hearing no response back, Phil decided to take a chance.

After have making a call to Kobe, Japan, Knight soon became a distributor of Tiger running Shoes in America. After receiving his first shipment of shoes, Phil Knight had sent them to Bowerman, hoping he would purchase them for his track team. Instead, Bowerman shocked Knight by presenting to become his colleague, and to supply his footwear design ideas to Tiger. After shaking hand and investing five hundred dollars each, they had opened up Blue Ribbon Sports and had order three hundred more pairs to be shipped to America. While Knight began selling out of his own vehicle, Bowerman would take apart the shoe and examine ways of how to improve the shoe for better durability and more lightweight. Alas, the company of Nike had been born. While both had their own full time Knight decided to bring abroad Jeff Johnson to the Blue Ribbon Sports team in 1965 and became the first full time employee for the company. He was also a runner and had met Knight while also studying at Stanford University.

Johnson was a work horse for the company creating the company's first brochures, ads, and marketing schemes as an employee. He also was the photographer for the company's first catalogues. He managed the first brick and mortar and established the mail order system as, well. He also designed several early Nike shoes, and even came up with the name Nike in 1971. During this time the relationship with Blue Ribbon Sports and the Japanese manufacture which produced the running shoes was wearing thin. This was when Knight finally started to jump from footwear distributor to footwear manufacturer.

In 1972 the first line of Nike footwear appeared at the United States track and field trials in Eugene, Oregon. The famous Nike “swoosh” was created by a student at Portland State University. Nike had made a very good first impression with the runners simply because of the outer sole on its shoe. It had wedges instead of it being flat which made for better traction when running.

Steve Prefontaine was Nike’s very first athlete to be endorsed. Nike wanted to find an athlete in which the company was founded on. Steve was a fellow Oregonian and also ran track for the University of Oregon. He was from the small town of Coos Bay, Oregon. Prefontaine was an electrifying athlete during his time at U of O making it clear that when he raced at Oregon’s Hayward Field he was unbeatable. He never had lost a race at his home track over the one-mile distance, and quickly gained national publicity in famous magazines such as Sports Illustrated for the performance he had in the Munich Olympic Games.

Not only was Prefontaine was a great runner but also stretched the minds of Knight, Bowman, and Johnson in innovation at Nike. After graduating, he quickly became Nike’s ambassador by sending a pair of Nike shoes to prospected runners with a personalized note signed by him. In 1975 his life was cut short at the young age of 24 however Knight has been quoted that the spirit of Prefontaine has lived on.

The 1980s were a focal point in Nikes technology. With the success of the Nike Air technology incorporated in the running shoe and with the completion of the IPO some of Nike's major businessmen had decided to step away from the company. Phil Knight even decided to take a break in the 83-84 year, although he was still chairman and CEO.

The mid1980s Nike had fallen off the pole position of being the industry leader. After being quiet in the aerobics boom, Nike had found itself in the hole against upstart businesses in which the workout category was open. However with the need of signing an athlete with the new line coming out for the business, Nike quickly found someone reliable in Michael Jordan. As well as in 1987 Nike technology came out with the Air Max in which created a buzz because of the commercial that was used that included a song from the Beatles soundtrack called "Revolution". A year after that it was safe to say that Nike quickly became the king of commercials in the sports industry with its newest commercial tagline "Just do it" that included the great two sport athlete at the time, Bo Jackson. The line "Just Do It" is still used to this day in our shorts and ads in magazines.

By the end of 1989 the cross training era had begun. With the recent launch of the "Bo Knows" commercials this could be credited with the cross training boom. Nike had regained control of the market in both the footwear and apparel industry. This was a first for the sports apparel industry to tap into another industry and become the leader and has yet to give the spot up, yet.

1990 was a big year for us. We had permanently moved our corporate offices to Portland, Oregon and had created a store in which won many awards for architecture and design called Niketown. The success of this store gave new opportunities to us and grew from one location to many not just in the United States, but internationally as well. We had designed a few products for golf and soccer teams; however 1994 was the year we decided to dive in deeper with those sports. We acquired the whole Brazilian soccer team and as well signed many golfers. The most notable and controversial golfer at the time in which we signed had to have been Eldrick "Tiger" Woods for a reported $5 million per year. A lot of people questioned us signing a young golfer for this much money, however it quickly paid off right after he had won the Masters in 1997 for a record of 12 shots ahead of the competition.

With the new millennium approaching we had created a new footwear cushioning system called Nike Shox. The technology debuted during Sydney in the summer of 2000 at the Olympic Games. The development of Nike Shox took more than 15 years of determination and devotion, as our designers stuck with their idea until technology could catch up. The result was a cushioning and stability system worthy of joining Nike Air as the industry's top product to vie for. Just as the millennium and technology was changing, our marketing approach had to as well. We targeted more people in the world rather than just here, in the USA with us supporting the world cup with the "big athlete, big, ad, big product" advertisement.

i. Mission Statement

Ask any anybody. When they think of athletic apparel the first thing that comes to mind is Nike. We are the world's leader in innovator in athletic apparel, footwear and equipment. Our mission states: "To bring inspiration and innovation to every athlete* in the world." Side note: If you have a body, you are an athlete. Nobody can say that they can never be an athlete. By your actions, you choose if you want to be one.

ii. Vision Statement

While that is our mission, our vision indicates "to carry on his legacy of innovative thinking, whether to develop products that help athletes of every level of ability reach their potential or to create business opportunities that set Nike apart from the competition and provide value for our shareholders." The person that the vision is talking about in the vision statement is Bowerman.

iii. Culture

At Nike, we believe that a brilliant, diverse and comprehensive employee base helps drive the creativity that is essential to our brands. Our employee base includes a broad range of functions and roles globally, from retail workers to footwear designers and from brand and category experts. It doesn't stop there. We have a full logistics team as well as distributors to go along with it and many more opportunities within the business. The employees we hire not only want to work for us, but our driven in changing the world with innovations in footwear and athletic apparel technology. In 2005 we wanted to see what our employees thought about the future of technology and what their jobs will look like in the future with our company. We led a process to create shared ownership of a set of scenarios that all pointed to one conclusion – that the way we did business at that time would not serve us in a future world.

iv. Objectives

The objectives we wish to achieve in the future will include opportunities on a rise in revenue. With many globally sporting events coming up, it is an opportunity we wish to gain. The Olympics will be a main attraction next year in the capital of Beijing, China. We can see a rise in profit because of the products we will produce a collection like the Olympic collection has always been something we could rely on consumers buying. As well as the 2008 FIFA World Cup is also around the corner. With soccer being the world's most popular sport and ADIDAS being the front runner in anything FIFA it is an opportunity we wish to surpass them in the next few years. It will be in South Africa in four years with the home team is actually sponsored by Nike so we are hoping since it is in South Africa and they do wear Nike, we would see an increase in sales from this region of the globe.

II. Current Strategies

i. Business Strategy

We use customer loyalty to distinguish ourselves from our competition. Our consumer knows what they want and are willing to pay whatever they need to get it. We offer high quality goods at an acceptable price. We are perceived as "fancy" to most manufacturers in the industry. We segment our product in different ways. Not only do we make apparel but also equipment. We have divided our business into three different demographics: Men, Women, and Children. Each segment is carefully examined in terms of physical capabilities, sociological needs, and design preference.

ii. Corporate Level

We use strong diversification in what we sale to the differentiation of our consumers. The products we sale create value and increase customer satisfaction. Our products include: Apparel, accessories, such as Nike watches or gym bags, as well as performance equipment, including sport balls, timepieces, eyewear, skates, bats, gloves etc. We produce goods for every major sport as well like running, basketball, tennis, golf, soccer, baseball, football, bicycling, volleyball, wrestling, aquatic activities, hiking, fencing etc. We are constantly looking for that new product or technology that could set apart us from our competitors in each and every sport.

iii. Cooperative Level

It is important to reach new consumers through our partnerships. In 2006 we had team up with Apple creating the Nike+ app. The result we have is to change the way people run. In an article put together on Apple's website Steve Jobs was quoted "We're working with Nike to take music and sport to a new level," said Steve Jobs, Apple's CEO. "The result is like having a personal coach or training partner motivating you every step of your workout." ("Apple press info," 2006) Along with our partnership with apple, you can also say that our endorsements with athletes are a strong focal point in our business. Ever since Nike was a name we have had an athlete repping our "swoosh" on shoes and apparel. Some big endorsers would have to include Michael Jordan, Tiger Woods, Bo Jackson, Andre Agassi, Ronaldinho, and Lance Armstrong etc. If you can think of a sport, we can name an athlete that is being endorsed by us.

III. Problem/Identification Statement

The problem stated with Nike and what we want to achieve is that what new challenges, barriers, trade-offs would be uncovered for global women's fitness as well as the other businesses as the company abandoned its product driven mentality in favor of a more consumer oriented approach. We want to reach the consumer personally. Not just the category.

IV. Internal

i. Financials (Ratios)

The financial ratios are a measure of the financial condition of a company, to analyze this situation we rely on the financial statements. Financial ratios are derived from the financial statements and make the analysis of the company possible. These ratios become more important when we have to compare different companies. There are some important categories of financial ratios they measure different abilities that the company has.

1. Liquidity: The ratios that fall into this category are able to measure how the company can meet the short-term obligations, and how well the company can manage debt. There are two important ratios that we have to look up in this category and are the current ratio and the quick ratio. Current ratio we can find it dividing the current assets over the current liabilities. While quick ratio we can find it adding cash plus account receivable and then divide the result by current liabilities.
2. Assets Turnover: The ratios that fall into this category are able to measure how efficient does the company uses and allocate their assets. This is an important one because companies need to be able to get a lot out of their assets. The more important ratios to find the total assets turnover is the receivables turnover and the inventory turnover. Inventory turnover can be easily calculated by dividing cost of goods sold over the total inventory. And receivables turnover can be calculated dividing total revenue by the accounts receivable.
3. Leverage: The ratios that fall into this category are able to measure what the company's debt looks compare to its net worth. These ratios also provide information on the degree of a company's ability to satisfy financing obligations. Those ratios are also known as debt ratios. The

important ratios grouped in this category are debt ratio and debt to equity ratio. To calculate both ratios we have to know the total current liabilities of the company. Debt ratio is calculated by dividing the total current liabilities by the total assets, while the debt to equity ratio we take the total liabilities and divided by the shareholder's equity.

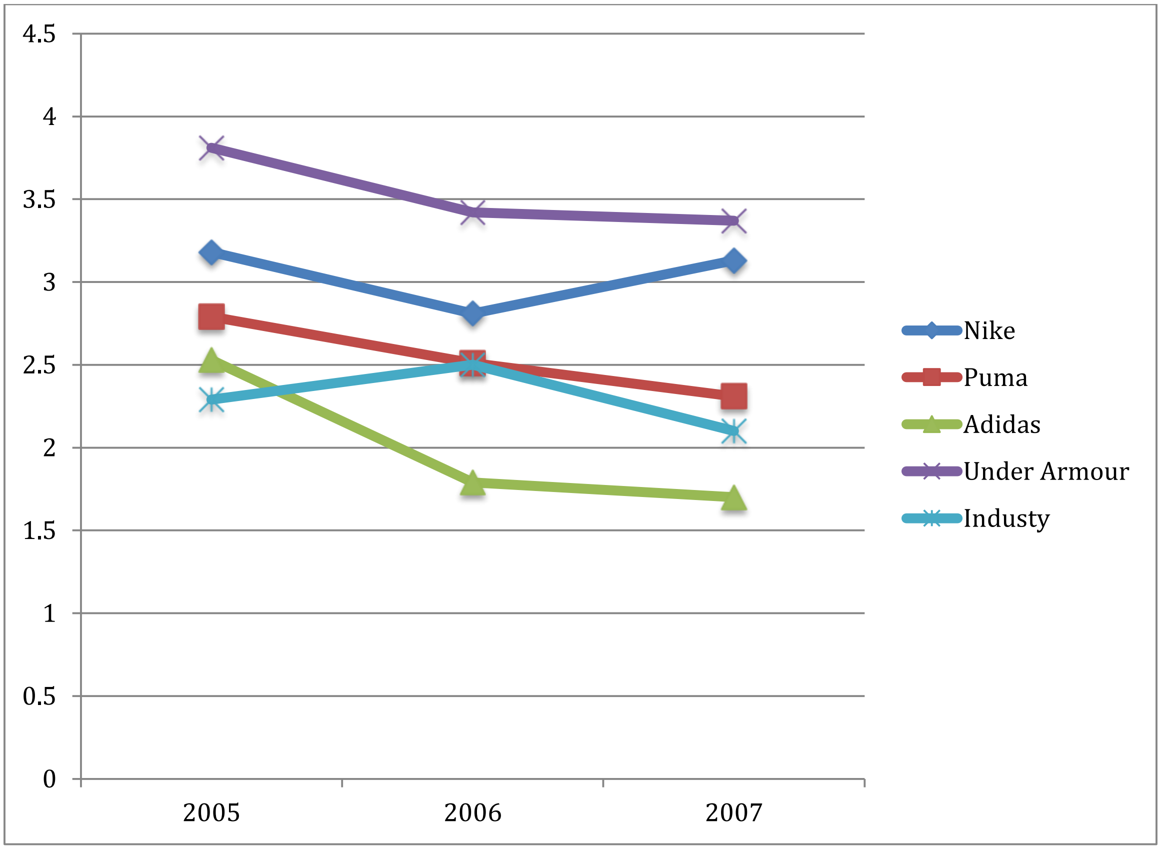
4. Operating Performance and Profitability Ratios: these ratios show how well the company utilizes the resources to make profit and create value for the shareholders. Some of those ratios are gross margin, operating margin, net margin, return on assets (ROA) and return on equity (ROE). Gross margin is found dividing the gross income by the sales multiplied by 100. Operating margin equals to operating income over sales multiplied by 100, net margin is calculated by divided net income by the sales multiplied by 100. And the more important ones for the investors ROE is calculated by taking the net income and divided by the total equity and multiply per 100.
5. Valuation ratios: this ratios very much respond to the stock and to the question is the stock price of the company trading at an attractive price. There are price to sales ratio, price to book ratio and price to earning ratio.

After looking all the financial statements about our company Nike and the other important information such as mission, vision, culture and other previously explained through this paper. We now go into comparing our financial ratios with some of the main competitors that we have in de industry such puma, adidas, under armor and finally with the industry average. Is important to know that when the financial ratios are used properly they tell an important story about the underlying business. However, is important to understand that the ratios not always show the true situation of the company.

Current Ratio:

Investopedia defines the current ratio as: “The ratio is mainly used to give an idea of the company's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables)”.

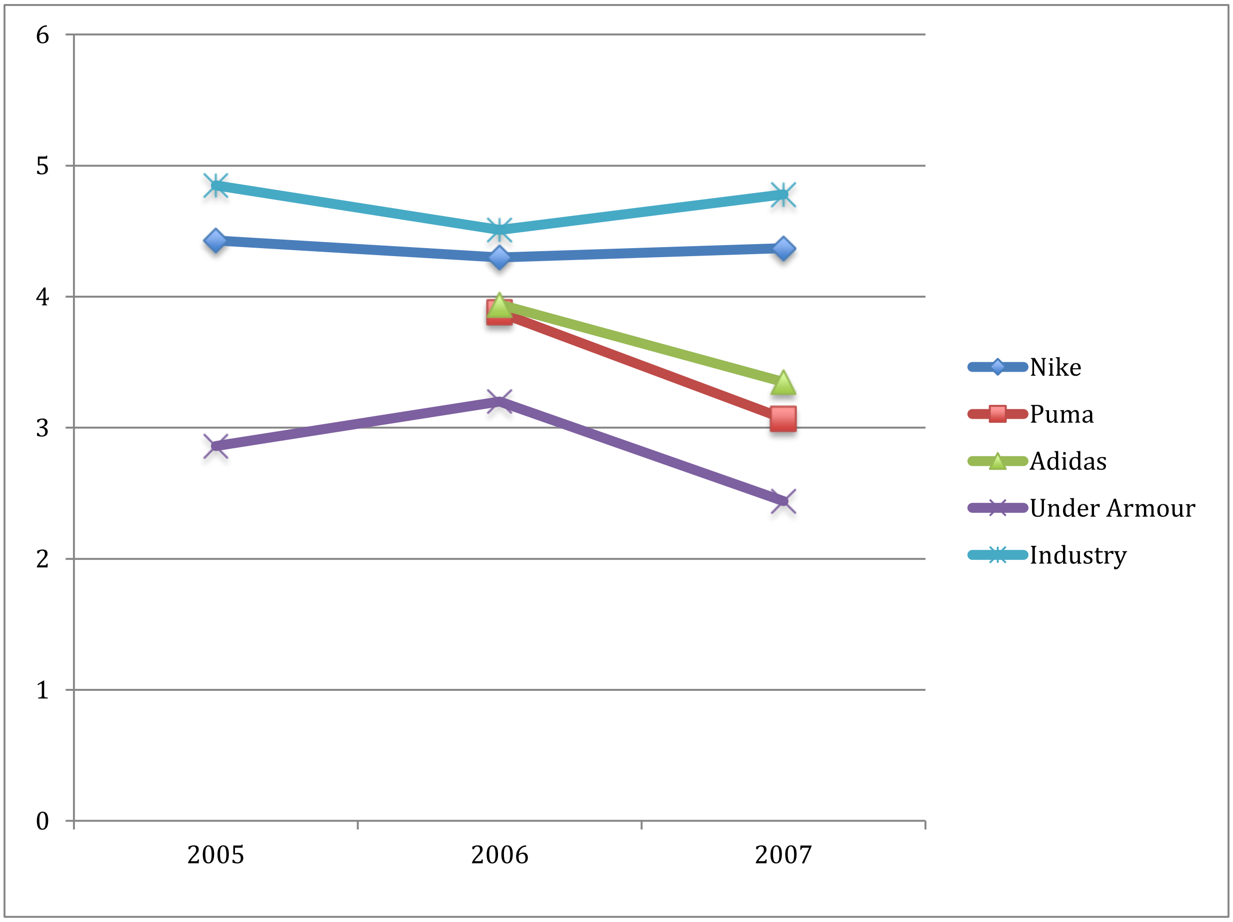
The higher the current ratio the better it basically means that our company as we can see in the following graphic has the ability to meet short term obligations and is able to turn the product into cash and meet the liabilities with the current assets. Is also noticeable that in general lines the industry and our competitor are doing well at this ratio because their ratio is above one. However, our ratio is a little higher than some of ours competitors, which means again that we have better solvency at this point and we are more stable. And is important to notice that from 2006 all the way to 2007 our current ratio grow up a little which means that we are doing better use of our finances and we are able to meet our debt.



Inventory Turnover ratio:

Investopedia defines the inventory turnover ratio as: “A ratio showing how many times a company's inventory is sold and replaced over a period”.

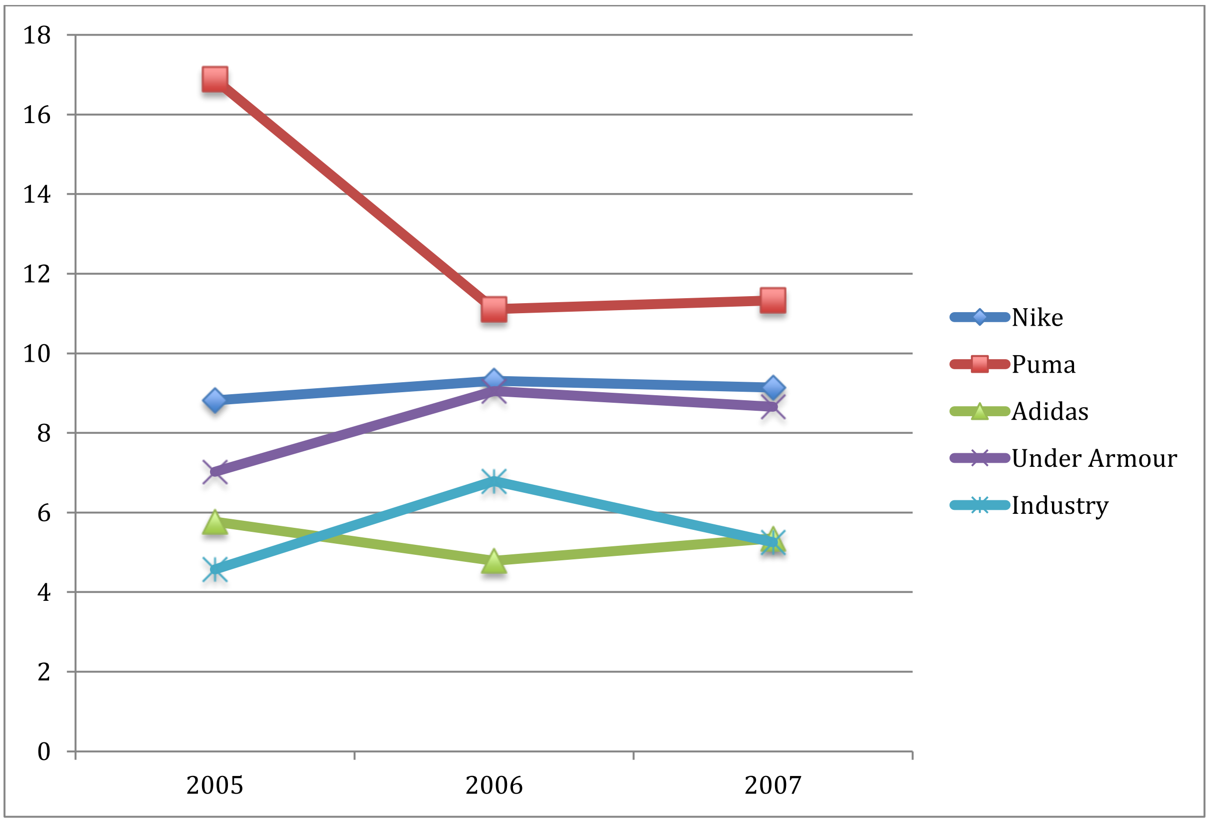
This ratio is usually compared to the industry average a low turnover implies low sales and excess inventory, a high ratio can imply either strong sales or that our products are not being bought. As we can see in the following graph our inventory turnover is high through the last three years, and if we compare them with the main competitors we can see that our ratio is a little higher than theirs. Which means that we have been good at selling our products and the good manage of our inventories. But we can see that the industry ratio is a little above ours which is not a bad thing is just that we are getting good sales as well as our competitors.



Net Profit Margin:

Net profit margin is defined in Investopedia as: “A ratio of profitability calculated as net income divided by revenues, or net profits divided by sales. It measures how much out of every dollar of sales a company actually keeps in earnings”.

This ratio is a profitability ratio that help to understand how profitable is the company the higher the ratio the better it is. As we observe in the following graphic we can conclude that our ratio is good but there are other competitors who are doing better as right now. However, this ratio does not tell everything and our ratio is lower than puma’s because we have more affordable prices for our products puma has more expensive products than us pricing strategy, comparing with the industry we see that our ratio is over the average and of course this is good because it means that we are more profitable that many of the other competitors.

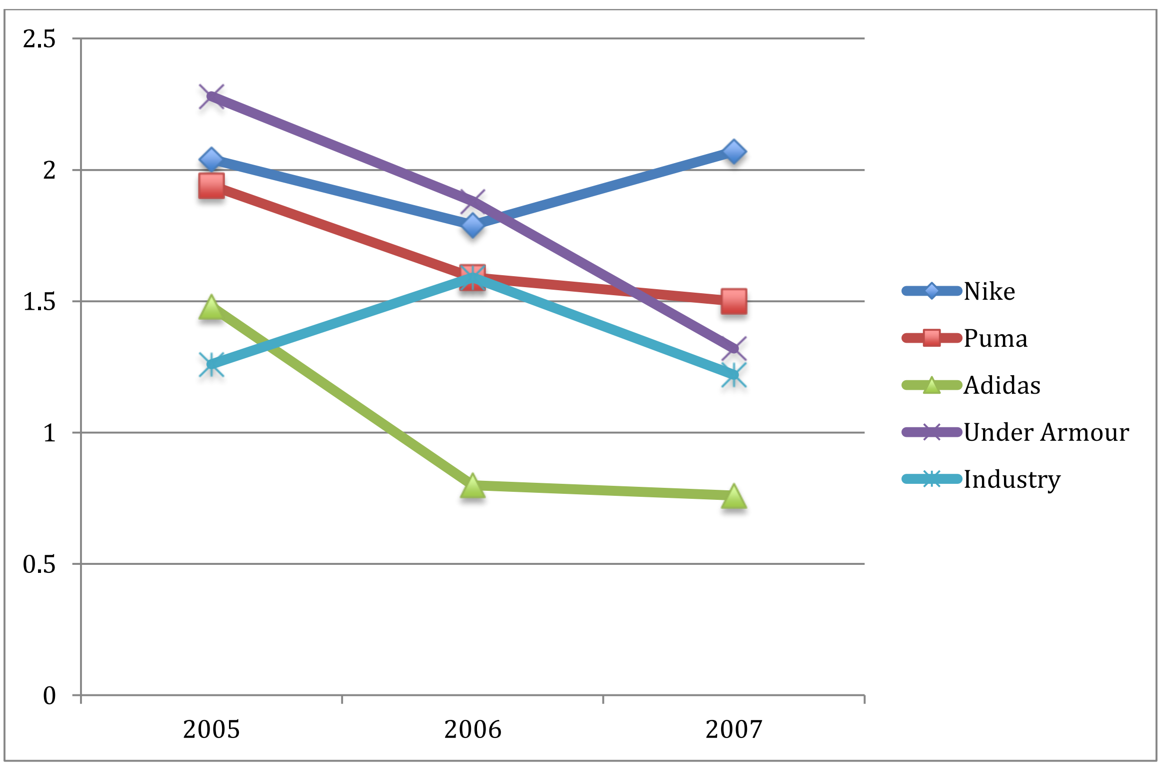


Quick Ratio:

The quick ratio is defined in Investopedia as: “An indicator of a company's short-term liquidity. The quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets.”

This ratio is more conservative than current ratio and a better-known liquidity measure. This ratio is important because as the current ratio shows the liquidity and the solvency that our company has to meet short term debts and as we can see in the following graphic our ratio is higher compare with the industry average. Analyzing the graphic we can notice that our quick ratio is a little above our strongest competitor, which is adidas, we can also notice that from 2005 to 2007 our ratio grew while the industry average came down.

Our strategies have been very accurate and what we are spending we are recovering very fast we can notice later on when we see the graphic of the debt ratio. We have been erasing debt during these last years.

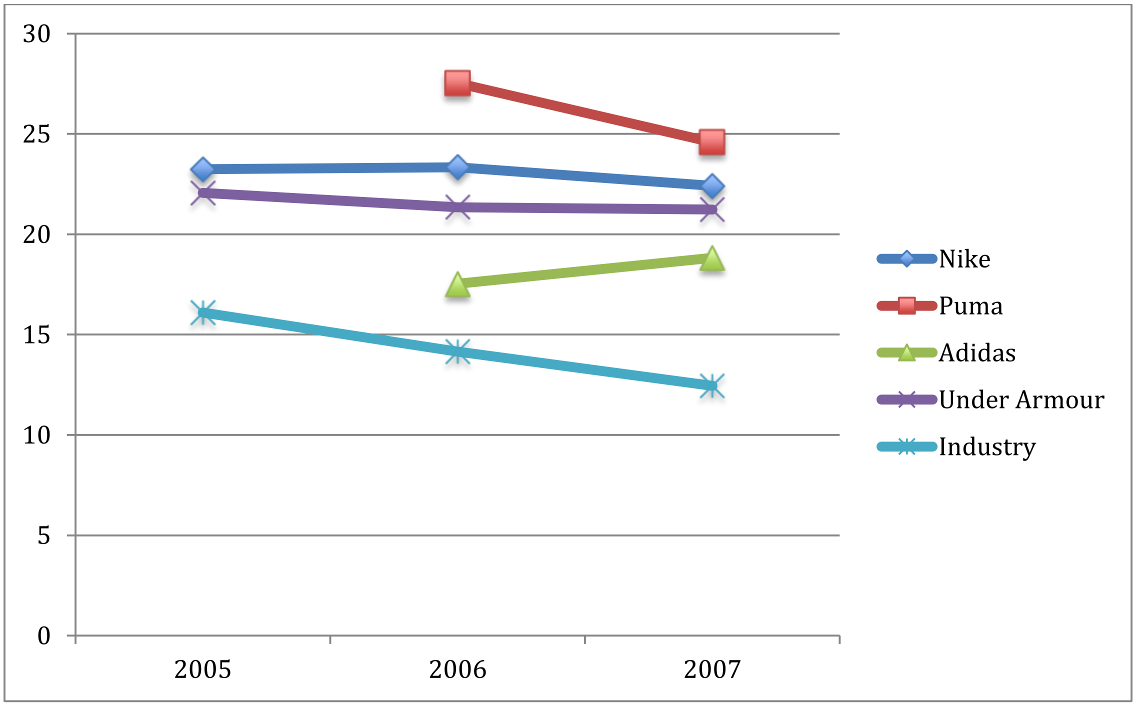


Return on Equity:

Investopedia defines Return on equity as: “The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested”.

This is an important ratio; the investors play close attention to this ratio because they care about the return that they get from their investments, and of course the higher the return the more attractive the company is for investors.

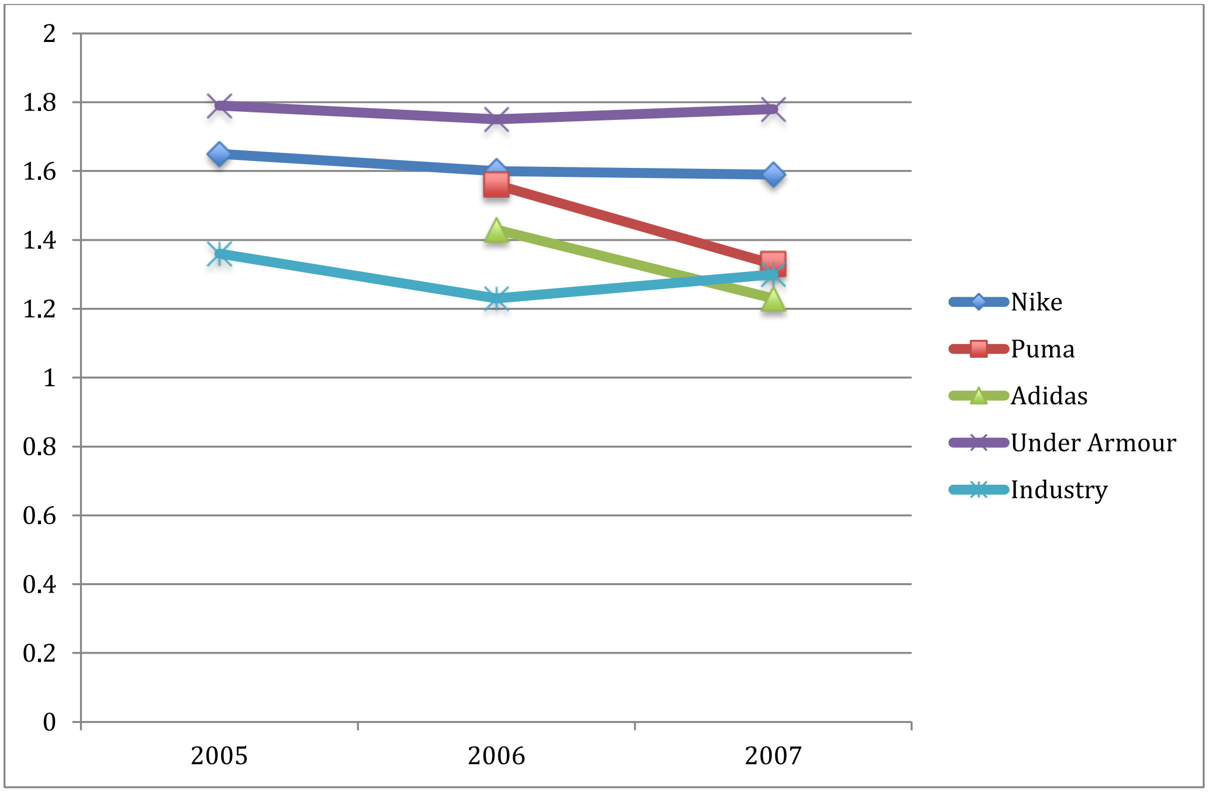
The following graphic show the return on investment for our company and the main competitors and the industry return average. As we can see on this graphic our company Nike is above the industry average and above some of our major competitors, the only company that is above us is Puma but anyways this means that we care about our investors and we want to give them something in return for their trust of investing in our company.



Total Assets Turnover:

Investopedia as defines the total assets turnover ratio: "The amount of sales generated for every dollar's worth of assets. It is calculated by dividing sales in dollars by assets in dollars".

This ratio is important because it measures our efficiency using assets in order to generate sales and of course revenues. However, at the same time this ratio can indicate a pricing strategy. As we can see in the graph we have a good total asset turnover ratio is above the industry average and above puma's and adidas ratio. Which means that we have doing a good use of our assets and we are generating a good money and revenue out of our sales.

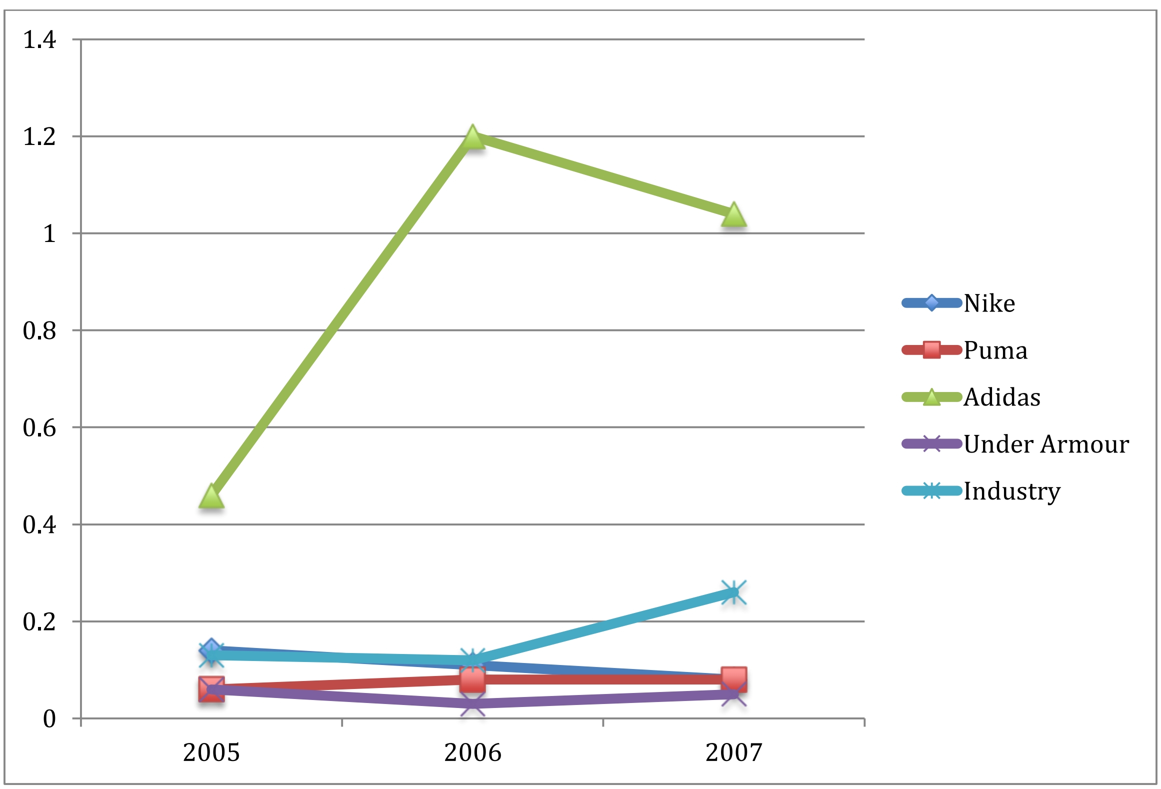


Total Debt Equity:

Investopedia defines total debt equity as: "A measurement of a company's financial leverage, calculated as the company's debt divided by its total capital. Debt includes all short-term and long-term obligations. Total capital includes the company's debt and shareholders' equity, which includes common stock, preferred stock, minority interest and net debt".

This ratio as I said before measures the financial strength of a company also I have to say that some companies have a high debt ratio because of the strategy that they use financing their operations. Usually the higher the debt ratio is means that the company has more debt compare to the equity. This is an important ratio for the investors because they look of how the company finances the operations. A company with high debt-to-capital ratios, compared to a general or industry average may show weak financial strength because the cost of these debts may weigh on the company and increase its default risk. There are other variations to this ratio.

Now on the following graphic we compare our company Nike with our main competitors and the industry average. As we can see our debt during 2005 was 0.14 and by 2007 is 0.08, which means that we have been able to erase some debt from our company and our operations. While adidas the other competitor have been struggling or using a different strategy and financing this strategies with debt.



All these ratios tell us how strong our company is and if we compare our ratios to some of out main competitors and the industry average as we did we can notice that our company is one of the strongest one in the industry and has a good manage of the finances which is important in order to get more investors interested in putting their money into our company.

ii. Strengths

Since 1978 Nike has made much strength within their industry against their competitors. Nike has wide range of products. Nike base products are shoes, clothing, and gear. From those three it breaks off into more technical sections like running, basketball, football, soccer, men's and women's fitness, baseball, golf, snowboarding, skateboarding, and tennis. There are a lot of our competitors that are only in some of these categories, not all and Nike does a good job in diversifying the products they offer.

Another one within the company would be our sponsorships and the promotions we get from athletes right now and a lot of them are top players within their game, like Tiger Woods, Roger Federer and Kobe Bryant. Also we get free advertisement in many tabloids, like Michael Jordan or Jay-Z.

In order for a company to be successful in this industry to must have strong financials in order to support new technology, compensation of workers and share holders. In order to achieve this, a company must have a statement of cash flow, reasonable debt (to be able to repay interest) and strong ability to raise capital (which can be evaluated by a firm's return measures: return on investment and return to equity).

The consumer relevancy model allows us to take a look at how we see ourselves as a company and also, more importantly, how we see our customers see us. In this model, you strive for a fair and perfect score of 5, 4,3,3,3. We projected that our customs would say that our product is a 5 and we project this on how year after year we out sell our competition. We project that the customer would rate our experience a 4. The Nike swoosh is so iconic people will recognize someone who wears it right away, and this gives them the experience they were hoping for before they bought the product. On the company stand point, we said that our product was a 5. Agreeing with the customer our product is our backbone and this is just what we are best at. We agreed that our conveience would be a 4. We are in every sports store and have our own web site and women's store. We are also sold in every online sports store. So our product is very easy to get a hold of.

"**Consumer Relevancy Model**"

Company		**Consumer**
5	Product	**5**
3	Experience	**4**
4	Convenience	**3**
3	Service	**3**
3	Price	**3**

iii VRIO

Now I will use the VRIO model to evaluate our competitive advantages. With this chart, we will determine whether or not if the competitive advantage is sustainable and it also tells us where we should invest our money. The first advantage we'll lay out is our marketing and product innovation. This is something we have done well in the past 10 years whether it is the witty television commercials or the way the classic Jordan's and the evolution of the "Nike Frees" have been flying of shelves. We said that it was a "yes" under valuable because it is what we do best. We said "no" to it being rare because companies like Adidas also have many commercials out and are pretty innovative with their products as well. We said "yes" too it being costly to imitate because it costs us 1.74 billion in marketing expense in 2006.("Nike (NKE”)) We said "yes" to it being organized because it is something we have been focusing on for a long time.

Next we will take a look at our FIT technology. This is something fairly new to us but it is a new technology we use in our athletic clothing. This technology has the ability to keep an athlete dry or warm depending on the style of the shirt they wear. We said "yes" to it being valuable since it is pretty much our product. We said "no" to it being rare because many of our competitors have technology like this. It is not costly to imitate, all the fabric is, is pretty much just polyester. We said "no" organized, although we have been making clothing for awhile we haven't been producing and selling this type of clothing for awhile.

Our next competitive advantage would be our supply chain management. We've been in places like china and Southeast Asia for roughly 25 years. Producing products in places like these allows us make them inexpensively. It is very valuable to us because if we did it elsewhere we would have to spend more money. It's not rare because a lot of clothing companies and even our competitors to business in Southeast Asia. It is not costly to imitate because all you need is some buildings, sewing machines, fabric, and workers will to work for $3 a day. It is organized, like I said earlier we have been doing this for the past 25 years.

"V.R.I.O. Model"

	Valuable	**R**are	Costly to **I**mitate	**O**rganized	Sustainable/ Temporary
Marketing & Product innovation	Yes	Yes	Yes	Yes	Sustainable
Fit technology	Yes	No	No	Yes	Sustainable
Supply Chain management	Yes	No	No	Yes	Sustainable

V. External

i. General Environmental Analysis

The general environment is composed of several different segments that are external to the firm being discussed. The degree of impact varies with every segment, but every industry can benefit from this analysis to help create a competitive advantage for their organization. Effective scanning, monitoring, forecasting, and assessing are vital to a firm's to identify and evaluate opportunities and threats. The most important segments that an organization needs to discuss and cover include demographics, economic, political, sociocultural, technological, and the physical environment segment.

The first segment to be investigated is the demographic segment. The demographic segment is concerned with a population's size, age structure, geographic distribution, ethnic mix, and income distribution. The environmental analysis is used in general terms not necessarily impacting a firm directly but can have some implications in the future. Demographically the world has continued to change at a rapid pace. Population distribution is important to consider not only in the United States but globally. The U.S. population from the 2000 census showed that of the 281 million people roughly 51 percent are female which could open up new doors for marketing products to females. The Asian population makes up roughly 57 percent of the world population. There has been an increased emphasis on the spending power of Generations X and Y. Generation babies have been known to have a wide range of purchasing power as they approach their late twenties and middle forties. Income distribution remains important to organizations in hopes that the discretionary spending will increase. In 2005 roughly 55 percent of the world's population can be found in the "Middle Class". The middle class is defined as having the best opportunity to spend discretionary income.

The economic segment of the environmental analysis refers to the nature and direction of the economy in which a firm competes or may compete. Economically it is important for a firm to understand and create a strategic plan for entering a foreign market. Organizations need to understand the state of the potential country's economy.

Economic crisis can affect the costs associated with producing and selling a product. Some of the costs affected by the global economy can include an increase in labor costs as well as shipping costs for an organization. As the economy continues to change it is important for the host organization to understand what the situation does to the spending power of potential consumers. If an economic crisis is growing like the situation we are about to face in the United States we need to understand what it will do to the profitability of our products. As the people in the world are hurting for cash we see that their disposable income starts to decrease, having a negative impact on the demand for the products that we sell. As an organization starts to grow and expand globally we can see a positive impact through interaction with emerging economies. The emerging economies of the world have been tagged as having more disposable income and are generally more ready for a new form of innovation in their country. The emerging markets of the world are willing to create positive relationships with new organizations that help stimulate their growing economy.

The political and legal segment of the environmental analysis is the arena in which organizations and interest groups compete for attention, resources, and a voice in overseeing the body of laws and regulations guiding interactions among nations as well as between firms and various local governmental agencies. With any organization trying to expand out into the world it is important to understand what impact the taxation and antitrust laws surround the trade either between countries or within the United States. The laws that govern trade for a company can have a tremendous impact on the way we do business with others. Companies can seek to have a strong political strategy for how they plan to handle the legislation surrounding the commerce between nations or between companies.

The socio-cultural segment of the analysis is concerned with a society's attitudes and cultural values. As the workforce of the world continues to change such as in 2005 when the workforce totals approached roughly 148 million, we see that women have also been allowed to have influential roles in business forcing important changes in innovation and leadership. As a growing business progresses there is an added importance in understanding various culture changes in different countries as well as our own. When dealing with some of the cultural values around society we see that there is a huge increase on the importance that sports have on the modern family. We as a society love to surround ourselves with all different kinds of sports and athletes who we view as role models and important figures. There has been a huge push in recent years to influence major organizations to become economically friendly. The push to go green has had a profound impact on how many organizations are running their businesses and reducing expenditures by creating an eco-friendly work environment that is good for the entire world.

As we turn to the technological segment it is important to understand what it is companies consider when making business decisions. The technological segment is set up to include the institutions and activities involved with creating new knowledge and translating that knowledge into new outputs, products, processes, and materials. As technology continues to change it is important for firm's such as ours to constantly evaluate the technological environment to seek out substitutes for our aging technology. One topic to consider is the rise of the "Mobile Commerce" boom that has recently caught on. The mobile commerce has become one of the simplest ways for customers to order from their handheld devices. The increased usage of smart-phones in recent years has made shopping on the go even easier. E-Commerce in general is a situation that has had a profound impact on organizations and retailers around the world. We are in the key part of the dot-com age where many things are handled through an online service of some sort. Firms need to consistently prepare an online connection with the consumer to develop a stronger brand loyalty with repeat customers. As technology continues to change, we too must keep up or fall behind the curve. Consumers are using technology to find the next best thing in the market and organizations find a way to make them see us or we risk losing them to competitors. Changes in technology do not only affect the consumer but can affect how an organization operates as well. Searching out new means of technology can help to reduce overhead costs associated with the production or shipping process. Less overhead allows for greater revenue, allowing a firm to produce more to maintain a competitive advantage.

Lastly, the physical environment segment of the analysis refers to potential and actual changes in the environment and business practices that are intended to positively respond to and deal with those changes. The changes associated with the physical environmental segment can include decisions that help to sustain the current environment through economic and social responsibility to the world we live in. As a firm grows in size the goal becomes to produce more and more of a certain product. Many firms have developed a strategy designed to take a “Green” approach to running a business. Energy consumption and production costs can help to give back to the environment and help increase the brand image. There are a number of resources in the world that are designed to help organizations create a plan to monitor their impact that they have on the environment.

ii. Specific Industry Environmental Analysis

Demographically the sports equipment and apparel industry has been on an important role when considering the growing list of employees. In the global athletic equipment and apparel industry the decisions that an organization makes are influenced by the distribution of the population. The 2000 census showed that of the 281 million people within the U.S. about 51 percent were female. This opens up many new doors for implementing women into the mix of target consumers. Ethnic distribution of the world can affect how the industry diversifies globally. The Asian community makes up about 57 percent of the world population, which can effect global hiring and various cultural ideas for any organization. The influence of the Generation X and Y boom has helped to increase the amount of disposable income for the mid-20s to late 40 year old individuals. The impact the middle class which made up roughly 55 percent of the world population in 2005 have a substantial amount of disposable income to spend should the right opportunity show up. A recent study from Sporting Goods Manufacturers Association shows that in the U.S. alone there has been a huge increase in the number of varsity women's sports in high school to about 3000 varsity teams, which can greatly influence the athletic apparel industry.

From an economic standpoint the athletic industry needs to be aware of global issues. In the world that we operate in industries understand the profound impact that operating countries have on producing their products. When an industry has the ability to offshore most of manufacturing operations primarily to locations where there are independent contractors to make products for a better price some issues can arise. Off-shoring certain operations mean that the industry leaders develop a dependency on the state of the economy which can be costly to maintain. Industries that offshore production need to consider the labor costs and quality for the organization. Doing business in emerging economies of the world can provide an increased rate of disposable income which is directly affected by the state of their local economy, so everyone is impacted by economic crisis.

Political and legal components have had a profound impact on the athletic apparel industry. There is a risk of the competitive tax system internationally that can have a big impact on how the industry handles business needs. The attractiveness of a foreign market on the industry depends on the different tax rates around the globe, ultimately amounting to huge profitability or loss. There lies a currency exposure risk to the athletic industry when dealing around the world. Organizations may see that the amount of money invested overseas could lose some value over time and end up being more costly than beneficial to maintain. The various trade laws have an impact on a firm due to the changing of the world economy, which can affect how organizations do business in other countries.

When dealing with the socio-cultural segment we can see that the big emphasis comes from an organization understanding the current state of their culture. Cultural values change as well as the impact that they can provide to an industry. One situation hitting the athletic industry today is the rising obesity rates worldwide. A recent study from the Center for Disease Control in April of 2005 shows that obesity has been linked to roughly 112,000 deaths annually. The rise in obesity rates in our own back yard has caused positive and negative feedback about exercise. A 2001 NHANES survey showed that roughly 64.5 million women in the U.S. over the age of 20 years old are classified overweight. On the plus side there are people willing to help change the obesity epidemic by working out and getting fit which helps the demand for athletic equipment and apparel. As I have previously touched on sports are close to our hearts and have been on the rise worldwide for some time, which make it a growing part of our culture and very beneficial to the industry.

The technological segment of the analysis is one of the most essential sections at our industry's disposal. Technologically the value that is placed on E-commerce in today's society is drastically increasing. The use of websites within the athletic apparel and equipment industry can be used to offer consumers the ability to purchase products online, provide a description of the product lines, store locations, as well as a contact segment to make sure the customers are happy with their purchases. The use of technology is essential to keeping a growing relationship with customers to create brand loyalty to a firm within the industry. The mobile commerce boom has helped make product purchases even easier with on the go purchases. The use of social media in the retail business can help many organizations market to women and men in different ways, allowing for stronger company image out in the main stream to sell more effectively. The use of technology in the athletic industry is crucial to innovating and maintaining a competitive advantage in the market.

The global segment of the specific industry analysis shows that an industry seeks to understand and work with various cultures and customs. As many firms in the athletic industry hope to expand out on a global scale they must consider various customs and rules that are happening. When companies want to operate in several different areas of the globe such as Europe, Middle East, or Asia political and cultural factors often have an impact. It is important for an organization to take the working conditions and cultures of production in other countries to heart, providing countries with benefits for their employees as they help drive productivity forward. The athletic industry as a whole needs to be conscious of situations that are occurring to help benefit their business in the most successful way possible.

The physical environmental segment has helped us to realize the importance the environment is on our profitability. The environment is an important aspect to consider in any form of business, and the athletic apparel and equipment industry needs to continue doing their part. Companies need to develop strategies and plans to impact the environment in a positive way. Organizations that successfully label themselves with an "Economically Friendly" label can drastically increase profitability and brand loyalty. Effective investing into a "Green" image can help to lower production and overhead costs while increasing shareholder value. Organizations need to continually invest into the environment to remain profitable.

iii. Porter's Five Forces

Porter's Five Forces were established to show an effective industry analysis for an organization. The five forces include the threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products, and the rivalry among competing firms. An industry needs to consistently analyze how the market is changing and try to better understand where to place an organization in the future.

The threat of new entrants is relatively low in the athletic industry. High barriers of entry help to solidify key organizations spots as top producers in our particular market. The barriers to entry can include financial benefits for existing firms, and costs for new incoming firms. The economies of scale help an existing organization stay on top of the local competitors for the footwear, apparel, and equipment industry. There are high capital requirements for upcoming competition as well as a strong brand identity that some of the top producers possess in the global market. The connection of the entry variables make it an easy industry to enter, but difficult to compete with organizations with strong brand identity.

The bargaining power of buyers is relatively low. The industry allows the larger organizations to establish price points for the products sold. The athletic apparel and equipment industry is generally commanded by strong brand loyalty to the larger firms that help to retain customers for longer periods of time, limiting their ability or impact on switching to a competitor's products. The low switching cost means that their ability to affect the price rates decreases. The individual consumer possesses less bargaining power than that of a large scale retailer due to the fact that the larger department stores must approve products to be sold within their stores; however this is does not pose a strong threat to harm the industry.

The bargaining power of suppliers is low. Due to the market domination and abundance of suppliers of some of the larger organizations within the industry means that many companies can produce the same materials needed in production of key products. There is low switching cost within the industry due to the fact that as long as a factory meets quality standards for cotton, rubber, foam, and other products others can switch relatively easily as needed. The economies of scale for the larger firms in the industry make it possible to easily switch between contracted producers with little cost.

The threat of substitute products for our industry can be labeled as “Low to Moderate”. Depending on the particular industry that we are taking into account either shoes, apparel, or sports equipment each can have a varying impact on business. All industry threats are based on the consumer’s willingness to sacrifice quality, service after sale, or convenience when determining switching products. The athletic shoe industry has a low threat due to the incapability for smaller vendors to produce the quality of athletic shoes that larger organizations such as Nike can on such a grand scale. A few examples of substitutes for athletic shoe industry could be a running specific Asics line vs. a Starter brand athletic shoe. Substitutes for the industry can range from boots, flip-flops, or other non-athletic shoe types not perfectly replacing the shoe making the substitutes a low threat. Apparel and equipment are designated as low to moderate threats. The substitutes within the apparel industry can range from a simple polo shirt to an athletic compression shirt. When considering the apparel and equipment side of the industry organizations need to understand that the product could be matched with other brands that do not directly affect athletics as much as the footwear segment.

Lastly, the threat of rivalry among competitors is high. There is a constant struggle to remain at the top of the industry. Organizations strive to innovate and focus more on differentiation of products as opposed to adjusting the pricing for products. Company image and brand loyalty play a pivotal role in marketing to the consumers within the industry. Organizations need to focus on how to advertise to the loyal brand consumers to increase product sales and remain ahead of the competitors of the athletic apparel and equipment industry.

iv. Analysis of Competitors

Next we will look at our competitor’s weaknesses, so we can capitalize on them. Adidas is our toughest competitor. They recently acquired Reebok who has a contract with the NFL so that us a big asset for them only until 2011 when their contract is up. Another thing that hurts Adidas is their unoriginal ideas or products. For example, Nike came out with a show called "Shox" in 2001, the shoe was made for running and gives cushion to the runners heel. In 2005 Adidas came out with the "Bounce" this shoe had the same technology as the Shox and both had similar features. Also in 1991 Nike released "Dri-Fit" technology, which as I stated earlier, absorbs sweat and keeps the shirt dry, later on in the 90's Adidas came out with "Climalite" which is pretty much the equivalent to our dry-fit technology.

Another competitor that is growing fast is Under Armor. Since 2003 they have seen some increase in their sells. This is great for them, except they can’t compete with us as much because of the lack of products they sell. Right now their item that sells the most is their base wear, and it stops there. They are not in the shoe industry and that hurts them when they try to compete with us. Another down fall to them is their brand image. Although they have seen an increase, they still dot have that every day name factor like Nike. All of their buyers are athletes and they offer not very much in the casual wear section and that hurts them drastically.

There are some potential threats that loom over us, a short term one being the threat of more sanctions punishing us. We had a huge lawsuit in 2003 with child labor laws, us as an organization weren't supply our over-seas coworkers with the best of conditions and this was big for our company because we made a huge mistake and we learned from it and now we have made huge renovations to our working environment. We still fill like we are under a magnifying glass and it will only take one person to think we are doing something "unfair" before we're back in court again. Another treat is the intense competition. The market for sports shoes and apparel is very competitive. Everyone has started to realize the success of the "high value branded product manufactured at a low cost" model. It is now commonly used and to an extent is no longer a basis for sustainable competitive advantage. The industry has an inexpensive entry rate so this leaves many competitors are developing alternative brands to take away Nike's market share. The retail sector is becoming price competitive. This ultimately means that consumers are shopping around for a better deal. Especially if a lot of companies are using the same technology some people wouldn't mind going with the less expensive option.

VI. <u>Solutions</u>

i. <u>Short Term</u>

Now to tackle on the problem, stated earlier. Our short term solutions will give us some ideas on how we can market out women's line better and our long term solutions offer us help on how we can achieve a 30 percent increase in gross income. Our first short term solution would be to focus more on running and gym wear. A report the women's health council did in 2005 stated that 53% of women in the United States and Canada exercises in a gym.(*Women and Cancer)* We think that if we focus more on this category the Women's line would be more profitable compared to if we keep focusing on dancing. Dancing is one of those activities that a lot of younger aged girls do it up until college and then stops and this really isn't our target market (disposable income from 18-50 year olds.)

A second short term solution would be to add cheerleading as a category. Competitive cheerleading is becoming more and more popular as time goes on. The sport hasn't developed as much overseas. Because of how far away they are to the United States, Canada and Mexico have been producing championship teams for years. In countries, like Australia, the sport has grown largely because of the efforts of a few relentless boosters. In France, cheer is getting started. They sent a team, to the Worlds competition for the first time this year. ("A World of Cheer!") China, as usual, is the most aggressive of the up-and-comers this is due to their rich history in gymnastics.

Our third and final short term solution is to start creating more collections for the women's line. We feel that when ladies go to shop, they feel the need to buy the shirt that matches the shorts. As you can see from the TRIO model, this is the solution we chose but I will expand on why when we get done with the long term solutions.

"Short Term T.R.I.O. Model"

	Trends	**T/W**	**R**are	Costly to	**O**rganized	**O/S**	

				Imitate			
Focus on running and Gym wear	.6	-.1	0	.1	.6	.1	1.3
Add Cheerleading	0	-.7	.7	.6	.0	.6	1.2
Create more women's Collection	.4	-.2	.3	.3	.4	.3	1.5

ii. <u>Long Term</u>

Now we have three long term solutions that will try to generate the 30 percent increase in gross revenue we are trying to receive. Our first solution is to team up with Nintendo and work on an exercise video game for the Nintendo wii. In 2006 IGN reported that Nintendo has sold 600,000 Wii units around the world since the console's launch.("Wii Sells Through 600k.") This video game will be able to track the calories burnt and how much weight the user has lost through their own profile.

Our second long term solution would be to improve our Nike+ technology. Ever since the second generation of the iPod has come out, users have an option for their iPod track their workout through a computer chip (sold separately). With 88 million iPod sales up till 2006 we feel that this technology is very unique and should have more time spent on innovating this because it can ultimately change the way everybody works out.("Apple Press Info.")

Our final long term solution is to acquire the NFL merchandise tag. Right now, Reebok has ownership of this right but the bid for the NFL license is in 2010. This would be big for us because looking at Reebok's financials; in 2006 NFL merchandise makes up

60% of their

1.832 billion in gross revenue. (Adidas Group Annual…) (Admin)

“Long Term T.R.I.O. Model”

	Trends	**T/W**	**R**are	Costly to **I**mitate	**O**rganized	**O/S**	
Video Game	0	-.7	.6	.2	0	.3	.4
Improve Nike+	.1	-.2	.4	.6	.6	.4	1.9
Acquire NFL license	.9	-.1	0	.2	.4	.3	1.7

We believe that creating more women's collections will be beneficial because ladies will buy more of our products as they would try to match what they are wearing. We won't have to hire a "face" to market these items, like Adidas has done because women aren't persuaded that way. They just want something that will make them look cute while they work out. We need our designers to create pieces based on what is "cool" at the moment and what the seasonal colors are. We also would like to push the innovation of our Nike+ technology. Right now, we are the only company in our industry that offers something like this. In order to achieve a 30 percent increase we should release this technology in a new way every year and a half with us giving athletes an option to put the Nike+ running chip in soccer cleats, tennis shoes, and basketball shoes. The next year and a half come out with a "GPS watch". The watch will be able to track; steps taken, calories burnt, stopwatch, heart rate. All of this data will be sent to your computer through USB and also, this is how the watch will charge itself, eliminating the need for a battery. The next year and a half we should see how the video game will work out through Nike+. At this point there might be a better console that will be able to support what we want in a video game.

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