

A Company Analysis and Risk Assessment of Nike

Yali Xiong^{1,a,*}

¹*Alathena International Academy, Toronto, M1W 3W6, Canada*

a. DDONN27698@my.sunywcc.edu

**corresponding author*

Abstract: This paper offers a detailed examination of Nike's current strategic initiatives, both internal and external, aimed at addressing potential challenges and ensuring sustained market leadership in the dynamic sportswear industry. Internally, the company's commitment to innovation, effective marketing, and product differentiation reflects a proactive approach to maintaining competitiveness. Collaborative efforts with athletes and influencers contribute to increased brand awareness and market share. Additionally, Nike's research and development data guide the brand in understanding consumer preferences, reinforcing its market leadership. Externally, Nike adeptly navigates economic fluctuations, global competition, and technological changes through a diversified supply chain, strategic financial instruments, and an openness to technological advancements. The company's social responsibility objectives further bolster its brand reputation, mitigating potential threats from labor and environmental concerns. This paper suggests that Nike can enhance its risk management by prioritizing sustainable practices and ethical sourcing, aligning with the rising demand for environmentally conscious products. Strengthening collaborations with regulatory bodies, embracing emerging technologies, and closely monitoring consumer trends will be crucial for maintaining agility in adapting to market shifts and securing continued success and growth.

Keywords: Nike, Internal and External Environment, Risk Assessment

1. Introduction

Nike is a globally recognized company that is known in the athletic apparel and footwear industry. Nike has established itself as a market leader in the sports and lifestyle market through its well-accomplished renowned iconic swoosh logo and innovative products. Nike's operations are recognized as a vertically integrated supply chain that gives the company full control over every stage of production the process, from design to distribution. By having full control of its manufacturing facilities and the ability to work closely with suppliers, Nike can guarantee that all produced products meet the highest quality standards while achieving cost efficiency. This business operational model has created a comparative advantage for the brand which allowed Nike to stay ahead of its competitors and can quickly react and respond to spontaneous market trends and consumer demands. In recent years, Nike's stock price has also experienced significant appreciation. Marques in 2022 has stated that from 2016 to 2021, Nike's stock price has more than doubled, demonstrating a solid upward trend [1]. The company's ability to consistently deliver strong financial results, its global market dominance, and its focus on innovation and product differentiation are just a few main factors that contributed to this stock price growth.

From the marketing perspective, Nike has captured a significant market share by having strong brand recognition, delivering an extensive product range, and establishing creative yet strategic marketing. To elaborate more, Nike has connected with its consumers emotionally by creating stories and building connections with famous athletes that can resonate with its customers on a deeper level. The brand also promotes the concepts of empowerment and performance through its innovative products which have been critical drivers of its market dominance and establishing a premium pricing strategy. These factors highly trigger purchase intention positively which helped the brand in delivering impressive revenue growth, profit margins and positive earnings per share. This research paper aims to analyze both Nike's external and internal environments to have a better understanding of the specific factors that shaped Nike's success and identify potential areas for improvement if any. By utilizing Porter's Five Forces framework to analyze Nike, the brand can better understand the competitive dynamics of the sportswear industry which can help the company in making more strategic decisions. In addition, evaluating the internal and external environment of Nike can provide valuable insights for the brand to sustain its market leadership in the industry and continue to produce more innovative high-quality products for its global customer base.

2. Evaluating the External Environment of Nike

2.1. Threat of New Entrants

There is a relatively low barrier to entry for Nike into the sportswear industry due to the brand's successful brand loyalty, economies of scale, and impressive high marketing costs that the brand allocated to build and gain more marketing awareness. The powerful and global brand presence that Nike has built is not something new entrants can easily mimic. Nike's iconic logo, strong brand reputation, extensive distribution network, and significant financial resources pose significant barriers to new entrants.

Additionally, the sportswear industry requires a high allocation of financial resources in research and development to create innovative and stylish products, which is also a significant threat to new entrants. The brand has also established sustainable and stable relationships with suppliers, making it challenging for new competitors to secure reliable sources of raw materials at a favourable cost.

2.2. Bargaining Power of Suppliers

The bargaining power of suppliers for Nike in the sportswear industry is moderate to low. Suppliers are the parties that provide the brand with the raw materials, components, and manufacturing services necessary to manufacture Nike products. One factor impacting the bargaining power of suppliers is the availability of substitution of alternative suppliers. Nike's globalization has allowed the brand to acquire numerous networks of suppliers all over the world, so the substitution cost for Nike switching to another supplier is relatively low. This reduces the ability of suppliers to negotiate with the brand. Another factor is the importance of Nike's business to its suppliers. Nguyen mentioned in 2023 that as one of the largest sportswear companies globally, Nike represents a significant portion of business for many of its suppliers. This can leverage Nike in negotiations, as suppliers may be reluctant to lose such a valuable customer. However, if a supplier has a unique capability or provides a critical component, their bargaining power may be higher.

2.3. Bargaining Power of Buyers

Nike's customers, including retailers and individual consumers, have a relatively high bargaining power. The current sportswear industry is highly competitive since have consumers multiple buying options to choose from. Although Nike is one of the dominant players in the market, buyers still have

the power to negotiate with the brand due to the competition in the market, and the availability of alternative brands [2]. Retailers can also negotiate with the brand for better prices or favourable terms by using the availability of alternative brands as bargaining chips. Neiderhauser stated in 2013 that if retailers or distributors hold a significant value and contribute to the success of Nike's business, the buyer may have more negotiating power [3]. Large retailers or distributors that can sell Nike's products may have more power in negotiations due to their purchasing volume and market presence.

2.4. Threat of Substitute Products

The threat of substitute products for Nike in the sportswear industry is low. Substitute products are products from other brands that can fulfill the same needs as Nike's offerings. Nike's strong brand image and customer loyalty have helped the brand reduce the availability of substitute products. Nike has branded itself as a leading sportswear brand in the global market and many consumers trust Nike products knowing that the products deliver quality, performance, and style. The established brand loyalty makes substitute products highly difficult to pose a threat to Nike. Furthermore, the sportswear industry has specific requirements and standards that not all substitute products may meet. Nike's products are designed for athletic performance, durability, and comfort, which may not be replicated by other brands that are not tailored exclusively for sports or active lifestyles. This specialization gives Nike a competitive advantage and reduces the attractiveness of substitute products. Abushoke and others in 2020 mentioned that Nike's focus on innovation and product differentiation is one factor that reduces the threat of substitute products. Nike continuously invests in research and development to create unique designs, technologies, and features that set its products apart from competitors and substitutes [4]. This differentiation helps to create a perceived value and quality that substitute products may struggle to match.

2.5. Intensity of Competitive Rivalry

The intensity of competitive rivalry for Nike in the sportswear industry is relatively high due to several key factors. Competitive rivalry refers to the level of competition and the aggressiveness of other companies operating in the same market. Nike faces intense competition from globally established brands as well as emerging brands. One factor contributing to the intensity of competitive rivalry is the large number of competitors in the sportswear industry. Jun in 2019 stated that competition is not limited to a specific region but extends across different countries and continents. Companies must adapt to local preferences, cultural differences, and market conditions to effectively compete globally [5]. Nike competes not just with local brands but also with well-known international brands such as Adidas, Under Armour, Puma, and Reebok. These companies also have strong brand recognition, loyal customer bases, and significant market presence, which creates fierce competition for Nike. Another factor is the constant innovation and product development within the industry. Sportswear companies continuously introduce new designs, technologies, and features to attract customers. This results in a fast-paced and dynamic environment where companies have to constantly strive to create a compatible advantage through different ways to outstand other brands.

3. Evaluating the Internal Environment of the Company

To assess the effectiveness of Nike's current operational strategies, two aspects can be used to evaluate the internal environment of the company which are the brand's current financial gains and the company's current marketing standing.

- a) Whether the company is recording gains in financial strengths and profitability

3.1. P/E Ratio

Price-to-Earnings (P/E) ratio can be used to evaluate Nike's financial strength. P/E ratio compares a company's current stock price to its earnings per share (EPS), providing insights into investor expectations and market sentiment. A higher P/E ratio often suggests positive prospects. The latest financial reports show that Nike's P/E ratio has exhibited a steady and favourable trend. Balsinhas, in 2023, mentioned that at the end of 2022, the company had a P/E ratio of 32.7 [6]. This signals a positive perception among investors regarding Nike's growth potential and earnings outlook. A high P/E ratio can indicate confidence in the company's ability to sustain and accelerate its earnings growth.

3.2. Profit Margin

Analyzing Nike's profit margins can also use to evaluate Nike's financial strengths. Profit margin is calculated as the ratio of net income to revenue which can provide insights into how efficiently the company can convert sales into profits. A consistent or improving profit margin usually suggests that the brand is achieving effective cost management and pricing strategies. Nike has consistently maintained healthy profit margins, reflecting its ability to balance costs and pricing. Tighe 2023 mentioned that in 2021, 2022, and 2023, Nike's profit margins were 44.8%, 46%, and 43.5%, respectively [7]. Many factors have contributed to this success such as the company's commitment to innovation and premium product pricing as well as economies of scale and efficient supply chain management have further enhanced Nike's profit margins.

By consistently achieving profit margins above 40%, Nike demonstrates a high financial position and effective operational management. The company's ability to uphold and, in some instances, improve its profit margins over the years underscores its resilience and competitiveness in the market.

3.3. Internal Operational Advantages

Examining internal operational advantages is essential for understanding the sustainable aspects of Nike's financial strength. Nike's direct-to-consumer (DTC) strategy, which emphasizes online sales and company-owned stores, has proven to be a significant operational advantage. By reducing dependence on third-party retailers, Nike has gained more control over its distribution channels, leading to higher profit margins and improved brand visibility. Moreover, Misra in 2014 stated that Nike's focus on sustainability and supply chain efficiency aligns with contemporary consumer preferences and helps manage costs. Initiatives like the Move to Zero campaign, which aims for zero carbon and zero waste, contribute to environmental goals and enhance operational efficiency, positively impacting the bottom line [8].

Nike's competitive strength and market standing have showcased a consistent trend of improvement, as evidenced by insights gleaned from the company's annual reports. These reports provide a comprehensive overview of Nike's strategic initiatives, market performance, and the competitive landscape. Nike's commitment to digital transformation is critical to enhancing its competitive strength. The annual reports highlight substantial investments in digital platforms, emphasizing personalized consumer experiences and data analytics. The company's proactive approach to embracing technological advancements aligns with evolving consumer behaviours and positions Nike as an industry leader in the digital aspect. Strategically, Nike has continued innovating its product offerings. The annual reports detail these initiatives, showcasing the company's dedication to staying ahead of market trends and solidifying its position as a trendsetter in the sportswear industry. Such innovations contribute not only to product differentiation but also to strengthening Nike's emotional connection with consumers.

Furthermore, Nike's strategic alliances and partnerships with professional sports leagues, teams, and athletes are crucial in enhancing its market standing. By aligning the brand with the values of

athleticism and excellence, Nike establishes a strong connection with its target audience and reinforces its position in the market. The annual reports also emphasize Nike's efforts to enhance direct consumer engagement. Initiatives like the Nike Training Club app and Nike Run Club app foster a direct line of communication with consumers, providing valuable insights for personalized marketing strategies. This approach strengthens brand loyalty and contributes to market standing by creating a more direct and interactive relationship with customers.

4. Risk Management

Corporate governance standards compel Nike, Inc. to diligently identify, evaluate, and address various risks across business, finance, and reputation. This examination seeks to analyze Nike's risks and the strategies employed to address them. As Nike contends with market saturation and stiff competition from major brands, the imperative for innovation and effective marketing becomes evident. These efforts not only help sustain market share but also foster business growth. According to Freixo's 2022 insights, product differentiation, technology, and brand marketing play pivotal roles in maintaining Nike's market dominance. Consumer preferences wield considerable influence within the sportswear sector, affecting Nike's sales based on design, fashion trends, and customer behaviour [9]. Recognizing this, Nike heavily invests in market branding and research to discern customer preferences, enabling more informed decision-making and risk reduction. Nike often collaborates with athletes, celebrities and social media influencers to further strengthen its marketing strategies.

In terms of operational risks, counterfeit products can pose a high threat to Nike, affecting its revenue and reputation. According to Gupta in 2024, the risk of counterfeit products has become higher, and there is an increasing number of merchandisers offering counterfeit Nike products at lower prices [10]. These counterfeit products are made out of low-quality materials but are printed with the Nike label on them. This may highly affect the reputation and revenue of Nike. If customers mistake the authenticity and quality of real Nike products for counterfeit products, this may affect the image of the brand, increasing the operating risk of Nike.

As for financial risks, currency conversions and fluctuations may present challenges for Nike due to its global footprint. Since Nike reports all its financial reports in US Dollars, this may affect Nike's total reported revenue. The fluctuation of currencies may also impact the cost of production and transportation fees. This may affect Nike's current pricing strategies and may result in price differences of the same product in different countries.

Reputational risks stemming from labour, environmental, and social challenges highlight Nike's commitment to social responsibility, sustainability, and ethical sourcing as essential risk mitigation strategies. Risks associated with celebrity and athletic endorsements are systematically managed through careful selection, monitoring, and periodic assessment of endorsement partners for alignment of values.

Legal and regulatory risks, particularly intellectual property and patent issues are addressed through robust defence mechanisms such as trademarks, patents, and legal actions against infringement. Trade restrictions and tariffs, as noted by Nica in 2021, may impact Nike's costs and profitability, especially in critical industrial and consumer areas [11]. The company proactively navigates these challenges through informed advertising and analysis of global events to ensure compliance with regulations.

Despite of potential technological disruptions, Nike faces both risks and opportunities from rapid advancements like augmented reality, innovative fabrics, and 3D printing. Adaptability to these changes is ensured through consistent investments in research and development. Nike's global online presence, while vulnerable to cyber threats, is fortified through robust security measures, including encryption, frequent audits, and comprehensive employee training. In summary, Nike takes a proactive approach to managing risks by identifying and addressing organizational challenges. This

helps them stay strong in the face of market changes, follow sustainable business practices, and adapt to the evolving global economy. To stay a top global sportswear brand, Nike needs to stay alert and adaptable to these various challenges.

5. Conclusion

In summary, Nike is currently implementing feasible plans to resolve potential problems. Internally, the company's commitment to innovation, effective marketing, and product differentiation proposes a proactive approach to staying highly competitive in the sportswear industry. The brand's current marketing strategies with collaboration with athletes and influencers increase brand awareness and capture more market share. Its research and development data also help the brand understand the spontaneous consumer preferences which can lead the brand to sustained market leadership.

Externally, Nike navigates challenges such as economic fluctuations, global competition, and technological changes with corresponding solutions. The company's diversified supply chain, financial instruments to manage currency risks, and embrace of technological advancements show strategic risk management. In addition, its social responsibility objectives can strengthen its brand reputation, addressing potential threats from labor and environmental concerns.

Nike can further enhance its risk management by prioritizing sustainable practices and ethical sourcing, aligning with the growing demand for environmentally conscious products. Strengthening collaborations with regulatory bodies and embracing emerging technologies will also strengthen its position against legal and technological risks. Continuous monitoring of consumer trends and maintaining agility in adapting to market shifts will also be important for sustained market dominance. By focusing on environmental responsibility, regulatory compliance, and staying attuned to consumer preferences, Nike can position itself for continued success and growth in the future.

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