

## Inside the NIKE matrix\*

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Case Series

“To bring inspiration and innovation to every athlete in the world, if you have a body, you are an athlete”. Nike’s mission statement

## **Introduction**

“We are on the offense, always”, is boldly printed on the front page of Nike’s Annual Report 2008<sup>i</sup>. According to Phil Knight, Nike’s founder, “Business is war without bullets”. And indeed, Nike is very much a growth company with an ever expanding portfolio and a tremendous brand value. And it’s been doing well, hence, Mark Parker, CEO and president of Nike, proudly commented on the company’s 2008 performance: “I’m very pleased with how we have enhanced the position, performance, and potential of all the brands and categories in the NIKE, Inc. family.”<sup>iii</sup>

Growth, however, creates structural challenges. This is all the more true for global players such as Nike Inc. who need to juggle tradeoffs of local responsiveness and global integration on a daily basis. Hence, this case takes a look behind the scenes and focuses on how Nike manages and structures its worldwide operations. In particular, aspects of regional management and the splitting of functions and responsibilities between global headquarters and regional headquarters in Europe are highlighted.

## **Key Facts & Figures**

Headquartered in Beaverton, Oregon, Nike Inc. is the largest seller of athletic footwear and athletic apparel in the world and is traded on the New York Stock Exchange.<sup>iii</sup> For the fiscal year ending May 31<sup>st</sup> 2008, Nike reported record revenues of USD 18.6 billion, a USD 2.3 billion increase over last year’s earnings, that’s up 14 percent with growth in every region and every business unit<sup>iv</sup>. Gross margins improved by more than a percentage point to a record high of 45 per cent, and earnings per share grew by 28 per cent.

Nike operates on six continents, employs over 30,000 people worldwide and has a workforce of over 800,000 workers in contract factories.<sup>v</sup> The leading designer, marketer and distributor of athletic footwear, apparel, equipment, and accessories is represented by 14 Niketowns, over 200 Nike Factory Stores, 12 Nike Women stores and over 100 sales and administrative offices around the world. Nike products are distributed under the Nike brand and Nike Inc. affiliate brands such as Bragano, Bauer Nike Hockey, Cole Haan, g Series, Hurley, Converse, Chuck Taylor, All Star, One Star, Jack Purcell, Starter, Team Starter, Asphalt, Shaq and Dunkman.<sup>vi</sup>

In 2008, the footwear segment generated revenues of USD 9,732 million, apparel sales amounted to USD 5,234 and equipment sales reached USD 1,069 million in all three major regions. Total pre-tax income increased by 14 per cent to USD 2, 509, 9 million in fiscal 2008.

The Nike brand includes footwear, apparel and equipment in six core categories: running, basketball, football (soccer), women’s fitness, golf, and tennis, men’s training and sport culture.<sup>vii</sup> Nike products are sold through Nike owned stores and independent distributors in over 160 countries<sup>viii</sup>. Footwear and Apparel production is outsourced to independent manufacturers outside the U.S. while equipment is produced both in and outside the U.S.<sup>ix</sup>.

Nike works with 137 contract factories in the Americas, 104 in EMEA, 252 in North Asia, and 238 in South Asia<sup>x</sup>.

## **History snapshot**

Bill Bowerman and Phil Knight founded the company "Blue Ribbon Sports" in 1964. Both contributed USD 500 to the partnership and managed to sell 300 pairs of Tiger running shoes within three weeks. Some eight years later, they introduced a novel brand of athletic footwear called "Nike", named after the Greek goddess of victory.

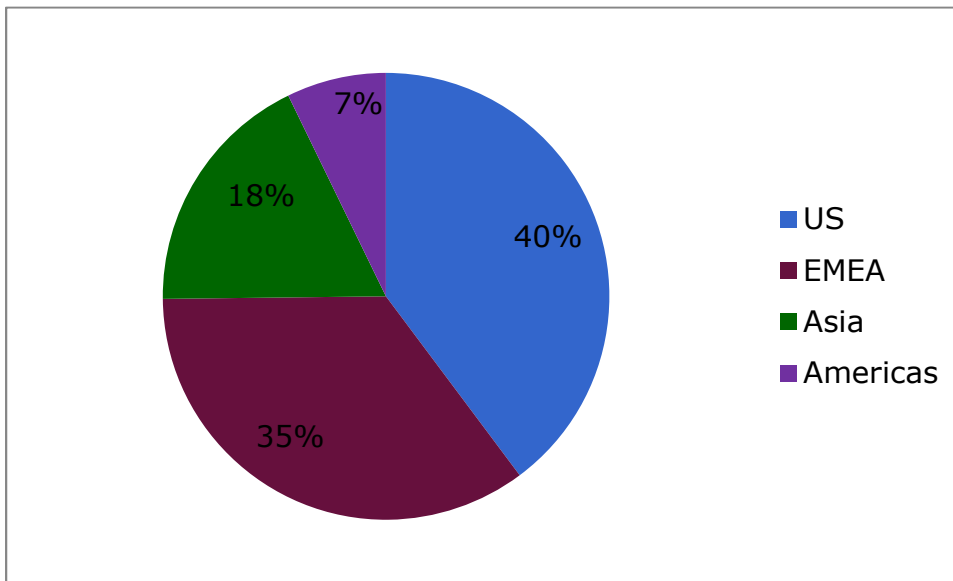
Eight years later, they introduced a new brand of athletic footwear called Nike, named after the Greek goddess of victory. In 1972, Blue Ribbon Sports launched the Nike line of footwear. In 1980 the company went public and within the following year Nike became the predominant brand of the company. In 1986, corporate revenues surpassed USD 1 billion for the first time. With the "Swoosh" trademark logo and its slogan "Just do it" Nike crafted a unique brand image in the 1980s<sup>xi</sup>. Nike underwent a period of substantial expansion in the 1990 starting with the acquisition of Cole Haan, an American luxury brand, followed by other major strategic acquisitions such as the ice hockey equipment brand Bauer (1994) and Converse (2003).<sup>xii</sup>

## **Key regions**

A geographical breakdown of Nike's revenues shows that the majority of revenues are made outside the U.S. market. In fiscal 2008, non-U.S. sales (including non-U.S. sales of Cole Haan, Converse, Exeter Brands Group, Hurley, NIKE Bauer Hockey, Umbro, and NIKE Golf) accounted for 57 per cent of total revenues, compared to 53 per cent in fiscal 2007.

In 2008, with USD 6,378 million accounting for 40 per cent of Nike's total sales, the U.S. was Nike's single most important market. USD 5,620.4 million or 35 per cent of its global revenues were achieved in the EMEA region. The Asia-Pacific region recorded sales of USD 2,881.7 million or 18 per cent of Nike's global sales (Nike Annual Report 2008). Lastly, with USD 1,154.1 million the Americas region made the smallest share. Thus, together with other smaller markets, Nike's global sales were approximately USD 18 billion in fiscal 2008, up by 14 per cent compared to the previous year.

Figure 1: Breakdown of revenues per region 2008.



Source: Nike Annual Report 2008

Nike sells athletic footwear and apparel in over 160 countries worldwide via Nike-owned retail stores, independent distributors and licensees. The Nike brand accounts for more than 90 per cent of Nike's total revenues<sup>xiii</sup>. In 2006, USD 13 billion out of USD 14.9 billion was generated by the Nike brand (Nike 2006a: 27). Nike's most significant worldwide customer is the retail chain Footlocker which accounted for around 10 per cent of Nike's global brand sales in fiscal 2006.

## United States

All roads at Nike lead to Beaverton (Oregon), where Nike's world HQ is located. Distribution facilities and customer service centers are based in Memphis (Tennessee) and Wilsonville (Oregon) and all over the U.S. Nike's U.S.-based subsidiaries include Cole Haan Holdings Inc. (Maine), Bauer Nike Hockey Inc. (New Hampshire), Hurley International LLC (California), Nike IHM Inc. (Oregon), Converse Inc. (Massachusetts) and Exeter Brands Group LLC (New York).<sup>xiv</sup>

Table 1: US Retail stores in 2008

U.S. Retail Stores	Number
Nike Factory Stores	121
Nike Stores (incl. Nike Women Stores)	14
Niketowns	12
Nike Employee-Only Stores	3
Cole Haan Stores (factory stores etc.)	102
Converse Stores (factory stores etc.)	35
Hurley Stores	9
<i>Total</i>	296

Source: Nike Annual Report 2008:4

In addition to Nike’s principal properties, the company leases other properties outside the U.S., including 22 production offices, 93 sales offices and showrooms, 76 administrative offices and 418 retail stores and factory outlet stores<sup>xv</sup>. Moreover, the company runs some 296 retail stores in international markets (see Table 2).

Table 2: Non-U.S. Retail Stores

<b>Non-U.S. Retail Stores</b>	<b>Number</b>
Nike Factory Stores	141
Nike Stores & Employee-Only Stores	46
Niketowns	3
Nike employee-only stores	12
Cole Haan Stores (Factory Stores)	57
Hurley Stores	1
<b>Total</b>	<b>260</b>

Source: Nike Annual Report 2008:4

Nike’s U.S. home base represents the company’s most important single market (see appendix). However, with only 4 per cent growth from 2007 to 2008, this region was outperformed by other regions with distinctively higher growth rates, such as the EMEA region (19 per cent growth) or Asia-Pacific (26 per cent growth). Nevertheless, with USD 6,378 million representing 40 per cent of Nike’s total sales, the U.S. remained Nike’s single most important market<sup>xvi</sup>. With a 20 per cent market share in the athletic shoe market, Nike is currently the dominant leader in this segment in the U.S.<sup>xvii</sup> Nike’s major competitors in the U.S. footwear market include Adidas Reebok, Brown Shoe, the Jones Apparel Group, Timberland and Wolverine World Wide. Footwear revenues increased by 6 per cent in 2008, compared to 2007 up to USD 4,326.8 million, apparel revenues grew by 2 per cent to USD 1,745.1 million; and equipment revenues fell by 5 per cent to USD 306.1 million<sup>xviii</sup>.

## **EMEA**

Nike first started selling their products in Europe in 1978 and established its first European headquarters two years later.<sup>xix</sup> Prior to setting up their European headquarters for the EMEA region in the Netherlands in 1999, Nike coordinated its European activities from the UK and Germany company (Nike 2006a: 17). Mainly financial, tax and other economic incentives paired with excellent language skills and the favourable central location found in Hilversum<sup>xx</sup> induced Nike to relocate their regional headquarters from Frankfurt to the Netherlands.<sup>xxi</sup> Figure 2 provides an overview over the 27 countries within the EMEA region.

Figure 2: EMEA Region



Source: <http://www.nike.com/nikebiz/nikebiz.jhtml?page=32>.

The following countries are included in the EMEA region: Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Lebanon, the Netherlands, Norway, Poland, Portugal, the Russian Federation, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Turkey and the United Kingdom. As a result of restructuring processes, Israel, the Middle East is also part of the EMEA region. Similarly, also Africa reports to the regional headquarters in Hilversum since 2000.<sup>xxii</sup>

Although EMEA represents Nike's largest region in terms of territory it is only Nike's second largest region in terms of revenues.<sup>xxiii</sup> In fiscal 2008, EMEA accounted for 35 per cent of Nike's global sales or USD 5.620,4 million which is an increase of 19 per cent compared to the previous year. Overall growth in the region was driven by the emerging markets including Russia, Turkey and South Africa. Nike and Adidas-Reebok are the leading companies in the athletic footwear sector in the European footwear market. In 2008, some 55 per cent of Nike's European sales were in the footwear segment, with running being the most dominant category, followed by soccer. The category running shoes accounts for 30 percent of total sales of athletic footwear in Europe. In the running segment Nike faces strong competition by Asics and New Balance while Adidas-Reebok and Umbro are major rivals in the soccer segment<sup>xxiv</sup>.

## Asia-Pacific

The Asia Pacific region is Nike's number one region in terms of manufacturing and represents Nike's third largest region in terms of revenues.<sup>xxv</sup> Currently, the Asia-Pacific region comprises Australia, China, Hong Kong, India, Indonesia, Japan, Korea, New Zealand, Singapore, Malaysia, Philippines, Thailand, Sri Lanka, Taiwan and Vietnam.

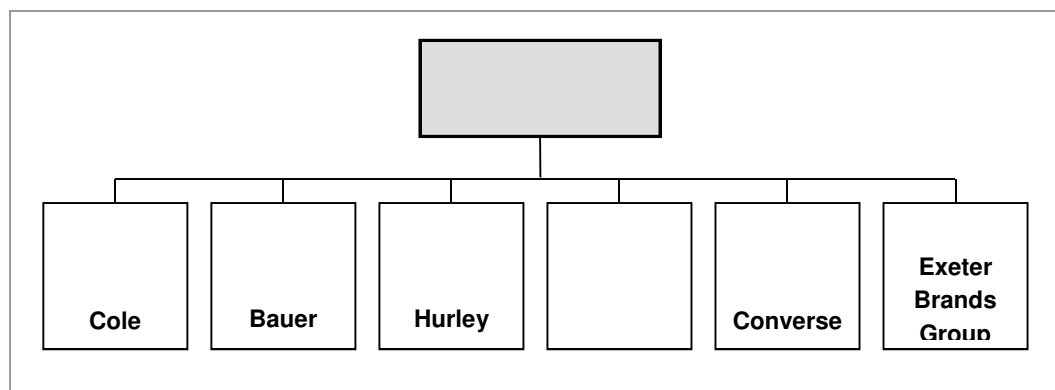
## The Americas

Canada, Mexico and South America make the Americas region. Nike has subsidiaries in five countries within the region: Argentina, Brazil, Chile, Mexico and Canada.<sup>xxvi</sup> The Americas region is Nike's smallest region in terms of sales.

## Inside the Nike matrix

Nike Inc. comprises 44 wholly-owned subsidiaries of which seven are U.S.-based. All subsidiaries, except for Nike IHM Inc., Triax Insurance Inc., and Nike (Suzhou) Sports Company Ltd., deal with the design, marketing, distribution and sale of athletic and leisure footwear, apparel, accessories, and equipment<sup>xxvii</sup>. The U.S. based Nike IHM Inc. manufactures plastics and Air-Sole shoe cushioning components, the Hawaii based corporation Triax Insurance Inc. is an insurance company, and the Chinese based Nike (Suzhou) Sports Company Ltd. manufactures footwear and Air-Sole shoe cushioning components. Nike's U.S. subsidiaries comprise Nike Golf, Cole Haan Holdings Inc., Bauer Nike Hockey Inc., Hurley International LC, Converse Inc. and Exeter Brands Group LLC<sup>xxviii</sup>.

Figure 3: Subsidiaries of Nike Inc.



Source: <http://www.nike.com/nikebiz/nikebiz.jhtml?page=3&item=facts#emea>

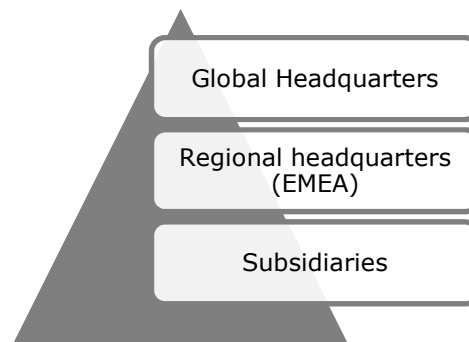
Nike has a five-year strategy to ensure global growth and sustain or build market leadership of the Nike brand and affiliated brands for the period 2006 to 2011. Top-line revenue is planned to grow from USD 15 billion to USD 23 billion by 2011.<sup>xxix</sup> Ongoing product innovation, brand leadership and retail experience as well as further regional expansion will be part of the strategy. Geographically spoken, Nike expects further growth in its U.S. home turf, the U.K., Japan and China but also in Russia, India and Brazil.

Nike is organized by a matrix structure, which entails multiple responsibilities and reporting lines for each unit which might be problematic<sup>xxx</sup>. However, Nike's performance figures (see appendix) seem to tell a different story. Nike executives point to the importance of leadership in a matrix structure:

The other sort of interesting thing is, there is always a **lot of discussion on organizational structure within Nike** and when you first enter this company, **you just wonder how it can actually work, this matrix structure.** Seems like there is no clear line accountability, it must be very hard to get a decision made here... that's kind of your initial reaction when you are coming from the outside and you hear people describe how it works. But then after you are here for a while you notice that ...**here leaders are able to get decisions made very quickly** and are able to get people aligned behind decisions and actually get a lot of support when you move things through. And the organization **moves quite fast and is quite innovative** and so while it looks like it should be slow and bureaucratic and not moving, it isn't. (Mr. Alebeek, Vice President for Operations, Nike Head Office)

However, Nike decided to introduce an additional layer of hierarchy by establishing a regional headquarters for EMEA where the matrix structure is also replicated at a regional level. In the following, the functions and responsibilities of the management on different hierarchical levels are introduced. We start on top by scrutinizing the functions of the global headquarters.

Figure 4: Nike Hierarchy.



## Global Headquarters

The global headquarters is not only on the top of the hierarchical decision-making pyramid of the group, but is also in charge of three of Nike's four major markets and manages regional operations in the U.S., the Americas and Asia Pacific.<sup>xxxii</sup> Instead of having individual RHQs in these regions, the infrastructure that runs these markets is located at the global headquarters<sup>xxxii</sup> The EMEA region, on the other hand, is managed by the European RHQ.<sup>xxxiii</sup> Structure is of utmost importance to Nike's global headquarters:

Structure prioritizes where you spend your time and because [you are] getting completely inundated with information if you don't have a sort of structure. And so the fact that you need a Nordic walking shoe to be successful in Norway is irrele-



vant to our business. [...] I am using this just as an example, but we don't [want our] people here to give the same level of attention to a Nordic walking shoe from Norway as they would give to a basketball shoe that could be used **in many markets** across the globe. So I think that's part of what you do with the structure, you filter out some of the information that maybe frontline information, [...] We need to be **prioritized** [...] and to create a structure in a right way, then the right information flows very quickly. (Mr. Alebeek, Vice President for Operations, Nike Head Office)

Structure needs to be supported by a strong organizational culture and corporate identity. The headquarters needs to create a common identity and culture, where everybody feels and identifies with a company culture that embraces closeness to the end consumers needs. If that common understanding is present, streamlined and centralized structures are not a barrier to stay in touch with the local consumer end, but essentially enable the company to pick up important trends:.

I think part of how you make sure you stay very close to the consumer is not through a structure but that's part of a cultural thing where everybody feels that it's their job to really understand what happens at the consumer end and I think that the structure does not necessarily include that or facilitate that from happening, that's more. That is something that's driven by the culture where everybody in the end knows that our job is to identify and solve consumer needs and translate them into product needs, [...] a general, cultural mindset that everybody has in this company to be innovation and consumer focused all the time. (Mr. Alebeek, Vice President for Operations, Nike Head Office)

On average it takes Nike eighteen months to design and manufacture a product<sup>xxxiv</sup>. Research, product development and design are largely in the responsibility of the global headquarters in Oregon. Given the sheer numbers of product developments - 30,000 to 40,000 per year - Nike needs to constantly scout for new trends on the markets. While apparel is designed on a regional level, footwear design remains the responsibility of the global headquarters. Although some footwear designers are located at Hilversum, R&D facilities are largely centralized at one place.<sup>xxxv</sup>

Producing consumer goods, Nike needs to react quickly to ever changing consumer preferences and to adjust its product mix accordingly. Therefore, product features and colors are changed and updated on an ongoing basis.<sup>xxxvi</sup> Doing so allows Nike to stay innovative while at the same time achieving certain continuity which is sought after by consumers.<sup>xxxvii</sup>

Nike uses information technology systems, such as SAP, across the supply chain to ensure an efficient inventory management and timely shipping to customers Most product sourcing is managed globally and is organized by product type (footwear, apparel, equipment).

Most of the sourcing of products is managed globally. Again the reason for that is that we are trying to rationalize globally how we set up our resource base most of our products are made in Asia. It wouldn't be efficient for everyone in the regions to work with the same factories, almost compete with each other for volume commonality structures. We basically plan, forecast the demand regionally, place purchase orders regionally and then manage purchase orders with the factories globally. (Mr. Ruppe, Vice President for Global Equipments, Nike Head Office)

Planning and forecasting of the demand and placing orders is affected on a regional level, while purchase orders with the factories are managed globally. Since most of Nike's products are manufactured in Asia and sold worldwide, effective operations are seminal. In 2006, contract suppliers located in China, Vietnam, Indonesia and Thailand manufactured some 30 per cent of total Nike brand footwear<sup>xxxviii</sup>. Nike's brand apparel is mostly produced by contract manufacturers located in some 40 countries including Bangladesh, China, Honduras, India, Indonesia, Malaysia, Mexico, Pakistan, Sri Lanka, Taiwan, Thailand, Turkey and Vietnam. Manufacturing is rather scattered: For example, Nike's largest footwear factory has a share of around 6 per cent of total footwear production in 2006. Also, raw materials are largely obtained locally<sup>xxxix</sup>.

Outsourcing production to such a large degree requires sophisticated logistics: 21 distribution centres in Europe, Asia, Australia, Africa and Canada are needed to get the goods from the factories to the customers<sup>xl</sup>. Efficient operations are therefore the key to Nike's success.

Counterfeiting is a big issue for Nike, since their greatest competitive edge is essentially their brand. However, it is quite common in the sports good industry that competing companies share the same production halls. Consequently, also Nike shares some facilities with its major business rivals such as Adidas. In order to prevent unique knowledge from evading, Nike tries to establish trusted and long-standing relations with manufacturers and Nike buildings are subject to tight security measures. Moreover, Nike makes sure that R&D facilities are kept separately from competitors. As one manager said:

We have a separate development centre, separate stuff for that and things staying there. So we try everything we can to create as much competitive separation as possible. [...] . At the same time we **build a great loyalty**, we have factory groups that have been working with us for thirty years. You know they are not owned by Nike but they have grown to become very wealthy managers and owners by being our partners and trusting us and...

Marketing campaigns are created at the global headquarters, and later adapted to local needs. Typically, local athletes are hired for local marketing campaigns.<sup>xli</sup> However, global campaigns integrate testimonials who are often famous soccer players like Ronaldo.<sup>xlii</sup>

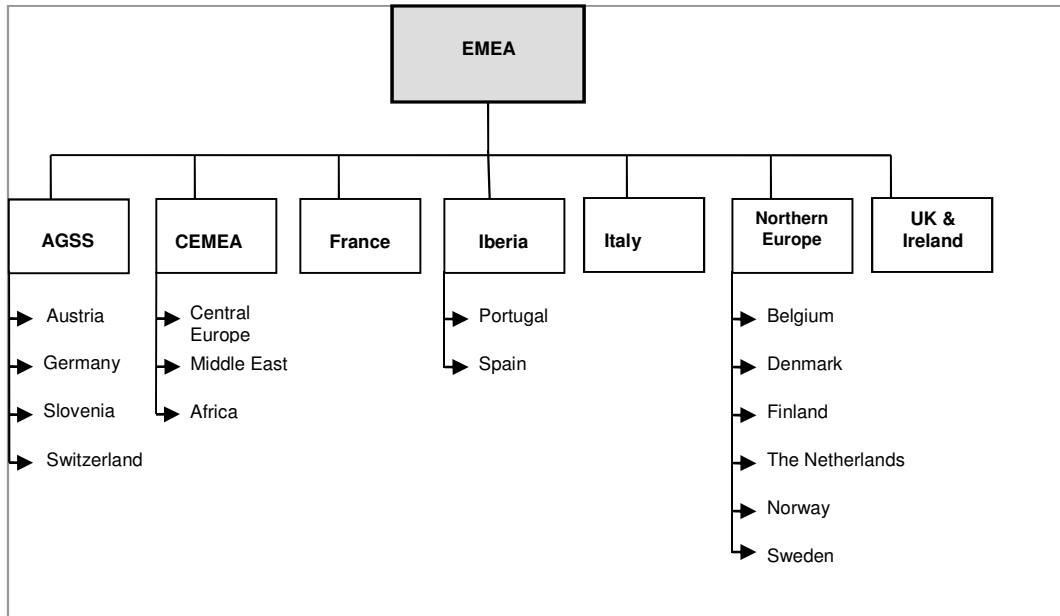
We were very US centric, some argue that we are still are. We are a US brand up in the North West of Oregon, high passion about very specific sports and early in our development those sports were uniquely American in their heritage. We didn't care about soccer until the early 1980ies. (Mr. Ruppe, Vice President for Global Equipments, Nike Head Office)

## Regional headquarters

Nike's European regional headquarters is located in the Netherlands and is responsible for 27 countries in the EMEA region. The latter is further divided into three countries and four sub-regions. While larger country markets such as Italy and France do report individually to the headquarters, smaller country markets are grouped into sub-regions (see Figure 4).<sup>xliii</sup> AGSS is constituted by Austria, Germany, Switzerland and Slovenia. The CEMEA (Central Europe, the Middle East and Africa) region – split into CEMEA North and CEMEA South – encompasses Bulgaria, Croatia, the Czech Republic, Greece, Hungary, Israel, Lebanon, Poland, Russia, Slovakia, South Africa and Turkey. The Iberia sub-region in-

cludes Portugal and Spain. Northern Europe comprises Belgium, Denmark, Finland, Norway, the Netherlands and Sweden.

Figure 5: EMEA Region



Source: Lorenz, K. and Hennrich, A., (2007): "Regional Headquarters of MNCs in the sports industry" unpublished Master thesis WU-Wien

The main reason for introducing an additional layer of hierarchy on a regional level is to reduce complexity and enhance transparency throughout the group. In the words of a senior manager:

And part of what happened when I was in Europe was that the GM at that time that came in said, how do we reduce the number of direct reports that I have. And he basically created at that time seven geographic direct reports, consisting of the big five countries, which were U.K. France, Germany, Italy, Spain (Iberia), and then he created Northern Europe, which was the Benelux and the Nordic countries together and then Central Europe, Middle East he put under one. Later that was modified a little bit, Austria and Switzerland was put to Germany so that became a sub-region. And the thing what you are really trying to do is to manage the number of direct reports you have.

In some Eastern European countries, Nike still cooperates with distributors which will successively be taken over in the future to get more control over the brand management. Consequently, subsidiaries will be set up in these markets in order to pursue a differentiation strategy pursued that ensures consistent brand positioning.<sup>xliv</sup>

Over time we started to bring distributors in-house or buying them out or terms eclipsed we started to build a structure on a country level. So we never had stressed having the idea of having a regional structure from a very early stage and

literally up to this point we have really never gone back to fundamental questions.<sup>xlv</sup>

Where we have been structured I would say in the last five years, has been very much looking at the intersection between geographies, so countries' roles up into to product structures, regions and product-based business units focused on creation of product for [...] geographies and that's aligned by footwear, apparel or is within equipment. And that's been the main way that we have structured. [...] on the product based side is a lot of the discipline around [...] operations, sourcing, supply chain, setting up the ability to deliver product into market. [...] At the geography level, certainly there is a need to then take the backing work and make sure that we are delivering for customers, the wholesale business we deal with. Most of our business goes through retailers that are not Nike owned. So we are transacting at that level. So you know regionally there is a heavy discipline towards managing the account base and how we interact with those accounts, making sure we make delivery for them, so a lot of supply chain activity based upon doing that. And then in addition to that, the marketing aspects how we are going to communicate what our offering is or how we going to build the brand through the communication that we have. And then in addition, there is feedback that comes back to the product creation process to make sure that from a regional basis that we are understanding the markets and delivering what is being required. So that's very fundamentally the way it's structured. Underneath that is an operations unit [...] and somewhat in better than somewhat be coupled the product in region structure that we have. (Mr.Ruppe, Vice President for Global Equipments, Nike Head Office)

The reasons for building sub-regions are manifold: First, synergies can be derived by grouping countries:<sup>xlvi</sup> AGSS was created to streamline operations (for example marketing, logistics, and finance) across the group.

Second, reducing the number of reporting lines facilitates coordination and speeds up decision making. Grouping single markets into regions helps to filter and funnel local demands. The more countries are integrated into a sub region, the lower is the total number of direct reports to the European regional headquarters<sup>xlvii</sup>.

Third, sub regional structures provide support for individual markets. Smaller, less important markets are given a voice within the group of countries:

*Part of the idea here is that when you do the sub-grouping you are trying to allow a group to have a better voice but at the same time a lot of the goals are at the other side of it. (Mr.Ruppe, Vice President for Global Equipments, Nike Head Office)*

A sub-region manager reports these local requirements to the European regional headquarters. By doing so, issues raised by a seemingly unimportant market can be amplified by regional structures and are granted more attention within the MNC than without regional structures.<sup>xlviii</sup> Hence, the regional headquarters not only bundles information flows and enables synergies, but also needs to manage surfacing tensions which come with aggregation. The more aggregated single subsidiaries are into groups, the more they grave for attention. Nike's grouping criteria are manifold:

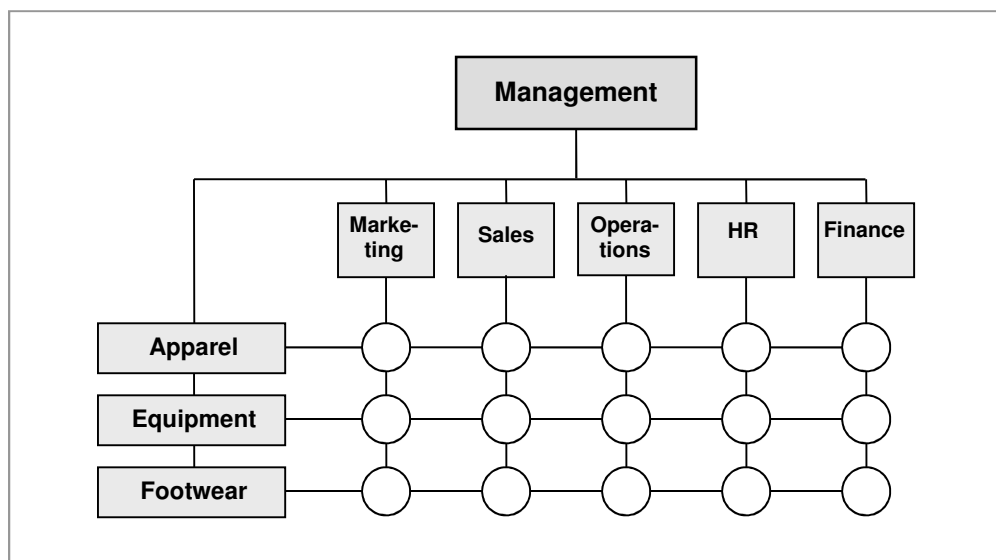
So it is a matter of effectively trying to cluster, and say this makes sense. Generally for Central and Eastern Europe, and this EMEA region, generally there is a relatively fast growing region for us, so the mindset has been a lot different than in some of the other parts of the geography. Only the bigger five countries outside of Germany are independently run. It's really just that Europe, that Central European HESS, it's the only one that is otherwise a sub cluster within that region and we felt, hey, we can get better leverage where we can [...] that. (Mr. Hubertus Hoyt, General Manager for AGSS, Nike Regional Headquarters)

Countries are clustered according to consumers' similarities, for example French or British consumers are different from consumers in Austria, Germany, Switzerland and Slovenia which are countries that have been aggregated in the AGSS sub-region. Similarly, regions are based on the alikeness of retail structures across countries.<sup>xlix</sup>

Geographic location per se is also a clustering reason. While there are surely differences among geographically proximate countries (for example Nordic countries), there are also similarities. Undoubtedly, trade-offs need to be made when grouping countries. Other reasons for building sub-regions are market size and market development stage of single country markets.<sup>l</sup>

Nike's underlying structural logic, the matrix, is replicated at the regional level: Mmanagerial responsibility is broken down by business unit (apparel, equipment and footwear) and function (human resources, operations, finance, marketing, sales including retail).

Figure 6: Regional Matrix Structure<sup>li</sup>



Source: Lorenz, K. and Hennrich, A., (2007): "Regional Headquarters of MNCs in the sports industry" unpublished Master thesis WU-Wien

In short, Nike's European regional headquarters has a strong integrative role within the region. It seeks to coordinate country and regional strategies and pools resources to in-

crease the efficiency of regional operations. Also, Nike realizes synergies by strongly co-operating horizontally across business units.<sup>lii</sup>

The main driver for establishing a regional headquarters was the necessity to aggregate market knowledge at the regional level. Moreover, the regional headquarters enables Nike to achieve leverage effects in financial and management operations as well as in supply chain management.<sup>liii</sup> A regional headquarters executive explains:

So we value, we are bringing in the idea that there is a value aggregating knowledge about a market up to a regional structure and then feeding it in and aggregate it as opposed to having everything come unfiltered from thirty or forty different gather points out of Europe into the head office. (Mr. Ruppe, Vice President for Global Equipments, Nike Head Office)

New product development for Nike products, in particular for shoes, is largely done at the global "product engine" in three global R & D centres.<sup>liv</sup> Hence, the accountability for products is at the headquarters where the main decisions are made.<sup>lv</sup> At the same time, the regional headquarters needs to make sure that they scout around for local stimuli, pick up important local trends, and quickly feed those back to the global headquarters. Essentially, R & D and design issues are handled centrally at the global headquarters in Oregon. Therefore, effective communication is calls for rather flat hierarchies and collaboration. A senior manager explains:

We try to be as flat as we can. The ideal behaviour at the end of the day is that Japan is a unique market, Tokio is an epicenter for trends, we got a group of people in Beaverton, Oregon, responsible for trend and creating product is really fresh and brand based. It'd be better to listen to Tokio, right? That's what we ultimately try to accomplish. If we make the world's best football boots, right, well the world's best football players on a normal basis aggregate in Europe every year. So if we sit in Kansas and say, we are going to engineer the best football boots and listen to the University of Kansas football team..No! We are going to be in Western Europe. So they way what we actually do is all in partnership.

Thus, global Nike collections are often a joint effort: Global and regional designers go into the field to carry out consumer research and consumer analyses because of varying consumer preferences within Europe. Fashion-oriented Italian consumers, for example, are found to prefer product features different from more performance-oriented German consumers.<sup>lvi</sup> The soccer line, for instance, was jointly designed by the designer teams of the headquarters and the regional headquarters. They went to local clubs (for example Arsenal) to work out products and make product adjustments with players.<sup>lvii</sup>

In Europe, global products are adjusted to regional demands.<sup>lviii</sup> Also, regional apparel, equipment and shoe collections are especially developed for Europe. All European products originate from the regional product engine. Some 700 new models per season are coming out in Europe. Countries do not develop any products but their input is incorporated in the European shoe collection. The countries are in charge of filtering consumer insights in regard to products and sports categories and reporting local product requirements to the regional headquarters which are afterwards forwarded to the global product engine.<sup>lix</sup> Each country has employees who are responsible for individual product categories<sup>lx</sup>. They meet regularly to discuss specific product features, for example functionality of a running shoe, colors, price points and so on Based on these briefings, new collections are created.<sup>lxi</sup> This way Nike ensures that all regional and local product requirements are covered. However, not the entire product range is available in all country markets. Nike also develops prod-

ucts with regional customers (such as Hervis Sports and Intersport) individually in order to supply them with exclusive models<sup>lxii</sup>.

Strategic Marketing, including investment decisions and product concepts, for EMEA is done by the regional headquarters.<sup>lxiii</sup> As one senior regional headquarters manager explains:

At the regional level, what we mainly try to do is look at how you disseminate your marketing messages and how you communicate [...] you have to make sure that you are on track in terms of the imaging and storytelling. So marketing becomes a key function there.

Five big marketing campaigns per annum are drafted either regionally or globally.<sup>lxiv</sup> In order to adjust for cultural differences some campaigns are tailored to the European market.<sup>lxv</sup> For instance, given the popularity of soccer in Europe, Nike sponsors some of the best soccer teams (for example FC Barcelona) and players (for example Ronaldinho).<sup>lxvi</sup> Also, celebrity endorsements varies by region based on local popularity differences.

Although Nike produces many regional campaigns not all are necessarily implemented on a country level.<sup>lxvii</sup> Also, uniformism has its limits; hence, generic advertising campaigns are developed for the region as a whole and are adapted locally. Basically, countries do have an advertising budget assigned for local activities, but need to seek approval by the regional headquarters to ensure that their activities are in line with Nike's corporate identity.<sup>lxviii</sup>

Foot Locker is Nike's major pan-European key account, representing some 10 per cent of Nike's global net sales in 2006<sup>lxix</sup>. In order to effectively manage key accounts, Nike has joint teams consisting of members from the single countries and the regional headquarters.<sup>lxx</sup>

Pricing strategies are also centrally decided on at the regional headquarters. Consequently there is a uniform discount system for all European sales. All sales agreements deviating from that rule need to be approved by the regional headquarters.<sup>lxxi</sup>

Operations, that is supply chain management which comprises all activities from manufacturing to delivery, are another important function of the regional headquarters. While the supply chain is managed by product type (footwear, apparel and equipment), the logistics and customer delivery side of the supply chain is organized by the regional headquarters within the region. Customers are supplied directly by factories and distribution centers (Nike 2006a: 16).

In an effort to gain more control over their distributors, Nike took over most distributors during the 1980s and the 1990s. Ongoing optimization processes lead to the formation of a single European distribution centre in Laakdal Belgium.<sup>lxxii</sup>

## **Subsidiaries**

Nike's subsidiaries enjoy some autonomy within clearly set boundaries. Projects exceeding the limits set by the regional headquarters or global headquarters do need the approval of the region.<sup>lxxiii</sup> Basically, operational country level decisions can be taken by the subsidiaries themselves.<sup>lxxiv</sup> While subsidiaries largely implement plans, there is some room for local initiatives and adaptation as well.



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## APPENDICES

Table 1: Selected financial data

	Financial History				
	2008	2007	2006	2005	2004
	(In millions, except per share data and financial ratios) <sup>(1)</sup>				
<b>Year Ended May 31,</b>					
Revenues	\$18,627.0	\$16,325.9	\$14,954.9	\$13,739.7	\$12,253.1
Gross margin	8,387.4	7,160.5	6,587.0	6,115.4	5,251.7
Gross margin %	45.0%	43.9%	44.0%	44.5%	42.9%
Net income	1,883.4	1,491.5	1,392.0	1,211.6	945.6
Basic earnings per common share	3.80	2.96	2.69	2.31	1.80
Diluted earnings per common share	3.74	2.93	2.64	2.24	1.75
Weighted average common shares outstanding	495.6	503.8	518.0	525.2	526.4
Diluted weighted average common shares outstanding	504.1	509.9	527.6	540.6	539.4
Cash dividends declared per common share	0.875	0.71	0.59	0.475	0.37
Cash flow from operations	1,936.3	1,878.7	1,667.9	1,570.7	1,518.5
<b>Price range of common stock</b>					
High	70.60	57.12	45.77	46.22	39.28
Low	51.50	37.76	38.27	34.31	24.80
<b>At May 31,</b>					
Cash and equivalents	\$ 2,133.9	\$ 1,856.7	\$ 954.2	\$ 1,388.1	\$ 828.0
Short-term investments	642.2	990.3	1,348.8	436.6	400.8
Inventories	2,438.4	2,121.9	2,076.7	1,811.1	1,650.2
Working capital	5,517.8	5,492.5	4,733.6	4,339.7	3,498.1
Total assets	12,442.7	10,688.3	9,869.6	8,793.6	7,908.7
Long-term debt	441.1	409.9	410.7	687.3	682.4
Redeemable Preferred Stock	0.3	0.3	0.3	0.3	0.3
Shareholders' equity	7,825.3	7,025.4	6,285.2	5,644.2	4,781.7
Year-end stock price	68.37	56.75	40.16	41.10	35.58
Market capitalization	33,576.5	28,472.3	20,564.5	21,462.3	18,724.2
<b>Financial Ratios:</b>					
Return on equity	25.4%	22.4%	23.3%	23.2%	21.6%
Return on assets	16.3%	14.5%	14.9%	14.5%	12.8%
Inventory turns	4.5	4.4	4.3	4.4	4.4
Current ratio at May 31	2.7	3.1	2.8	3.2	2.7
Price/Earnings ratio at May 31	18.3	19.4	15.2	18.3	20.3

<sup>(1)</sup> All share and per share information has been restated to reflect the two-for-one stock split effected in the form of a 100% common stock dividend distributed on April 2, 2007.

Source: Nike Annual Report 2008

Table 2: Breakdown of revenues per region 2007-2008

	<u>Fiscal 2008</u>	<u>Fiscal 2007</u>	<u>FY08 vs. FY07 % Change</u> (In millions)	<u>Fiscal 2006</u>	<u>FY07 vs. FY06 % Change</u>
<b>U.S. Region</b>					
Footwear .....	\$ 4,326.8	\$ 4,067.2	6%	\$ 3,832.2	6%
Apparel .....	1,745.1	1,716.1	2%	1,591.6	8%
Equipment .....	306.1	323.8	(5)%	298.7	8%
<b>Total U.S</b> .....	<u>6,378.0</u>	<u>6,107.1</u>	4%	<u>5,722.5</u>	7%
<b>EMEA Region</b>					
Footwear .....	3,112.6	2,608.0	19%	2,454.3	6%
Apparel .....	2,083.5	1,757.2	19%	1,559.0	13%
Equipment .....	424.3	358.1	18%	313.3	14%
<b>Total EMEA</b> .....	<u>5,620.4</u>	<u>4,723.3</u>	19%	<u>4,326.6</u>	9%
<b>Asia Pacific Region</b>					
Footwear .....	1,499.5	1,159.2	29%	1,044.1	11%
Apparel .....	1,140.0	909.3	25%	815.6	11%
Equipment .....	242.2	214.9	13%	194.1	11%
<b>Total Asia Pacific</b> .....	<u>2,881.7</u>	<u>2,283.4</u>	26%	<u>2,053.8</u>	11%
<b>Americas Region</b>					
Footwear .....	792.7	679.6	17%	635.3	7%
Apparel .....	265.4	193.9	37%	201.8	(4)%
Equipment .....	96.0	79.0	22%	67.8	17%
<b>Total Americas</b> .....	<u>1,154.1</u>	<u>952.5</u>	21%	<u>904.9</u>	5%
	<u>16,034.2</u>	<u>14,066.3</u>	14%	<u>13,007.8</u>	8%
Other .....	2,592.8	2,259.6	15%	1,947.1	16%
<b>Total Revenues</b> .....	<u>\$18,627.0</u>	<u>\$16,325.9</u>	14%	<u>\$14,954.9</u>	9%

Source: Annual Report 2008