

# **Management Economics**

## **Assessment 1**

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## **Introduction**

The report is about the critical evaluation of the economic data to make policy within an international nation and the context of an organisation. The report will explain the number of different types of economic concepts like demand and supply, the elasticity of price, analysis of cost and how these economic concepts help in making the managerial decision in an organisation. The report will also cover the Market and demand equilibrium and factors that influence the demand. The factors influencing the price elasticity of demand have also been discussed in the report. The chosen organisation in the report is Nike, Inc. Nike is a multinational American brand that is engaged in the manufacturing, designing and sales and marketing of apparel, accessories, footwear, services and equipment. The company headquarter is located in Beaverton, Oregon, in the Portland area of metropolitan (Susanti and Saputra, 2022). Nike is the largest apparel and athletic shoe supplier and the main manufacturer of sports gear. The company is a huge brand and the top sports brand that serves worldwide. It has over 79000 + employees working for the company.

## About the Company and Product

The company was founded in the year 1964 on 25<sup>th</sup> of January as Blue Ribbon Sports by Phil Knight and Bill Bowerman and became known as Nike, Inc. on the year 1971, 30<sup>th</sup> May. The word Nike means the Greek goddess of victory. There are various products under the brand name that are marketed by Nike like Nike Pro, Nike +, Nike Blazers, Air Force, Air Jordan, Air Max, Nike Dunk, Nike CR7 and many more. There are subsidiaries owned by the company including Converse and Jordan Brand. In addition to that the company also manufactures equipment and sportswear, the company runs retail stores under the name of Niketown. Nike uses the sponsorship of high-profile sports athletes and sports teams throughout the world (Ahmadi and Javani, 2021), with the highly known trademark of Just Do It and the logo of Swoosh. The reason for choosing this company is the company has a huge brand name worldwide and has a wide range of products and people are pretty much aware of the brand name and brand value. The company has a huge influence on sports events and athletes.

## Demand and the Market Equilibrium

**Price of Substitutes** – Adidas is considered the main substitute for Nike as these companies are rival companies offering similar product ranges including sports apparel and shoes, equipment and various such things. The increasing price of Nike shoes is directly impacting Adidas sales, the demand for a product is affected significantly by the substitute goods. In this case, the rising prices of Nike products have been raising the demand for Adidas as the company is less costly substitutes for Nike providing similar kinds of products at a comparatively cheaper rate. This is indirectly affecting the sales of Nike. The advertising price for the company also increases (Pepall and Richards, 2021).

**Price of Complements** – Complementary branding is the third form of branding. It is the marketing of two brands that are working together to inspire co-purchase and co-consumption. The company is well known for its complementary branding (Campbell and Price, 2021). Nike does this by targeting people who are into sports and mainly into running, the people also want to enjoy music and track their movements and exercise. So in order to take advantage of this situation the company developed its own brand known as Nike +. Nike+ iPod sports kit is a device made for tracking activities developed by Nike, it is used in measuring the pace and the distance of running and walking. It is a small transmitter device attached to shoes that collects the readings and communicates the fitness. This is a good

implementation of the complementary product. The increasing price of the complements is only beneficial for the company. The sale of the shoes and the Nike + are both interrelated so the company gains a major profit from the complementary product.

**Consumer Income** – the factors like the good value for the money products, easy on making purchases, shopping experiences that are convenient, low price and good quality products are reported frequently to be the most important in engendering customer loyalty (Zubarevich and Safronov, 2019). However, when the customer's household income is considered a different picture can be seen. Consumers with an income that has an income of 50,000 dollars are more likely to be included in the general population and consist more of the affluent customers to have listed as their primary reason for loyalty is the lowest price being a prime factor. The middle class customers are more likely to list their experience of shopping convenience and the benefits of VIP and overall experience being an important factor for their loyalty. The customers with a high income with the income of 125,000 dollars or above are more likely to invest into the trust and the unique kind of products and are more likely to list the retailer shopping as the status symbol being loyalty driven. This group is also more likely to receive shopping incentives than the general public to shop with VIP and retailer benefits and experiences being important drives.

**Consumer taste and preference** – the company has its main focus on their customers. The CEO Mark Parker told their investors in 2015 during an earnings call that “Everything we do starts with the customer” (Forbes.com, 2016). Also during a conversation with the president at Nike Christiana Shi said The science and art of choice are in finding out what is valued by the customers (David, et al., 2021). The customer values us the main difference between what a buyer acquires from a product and what is to be given in order to get that product (Forbes.com, 2016). Nike is pretty much aware of its customer choices and trends. The company is also the trendsetter in the sneaker community. Air Jordan, Nike Sb, and a few such are the major trendsetters in the community and people are crazy about collecting rare products for this category. People are ready to pay a hefty price for these types of products. Nike has good knowledge of the preferences and tastes of their customers.

**Consumer expectation of price** – Nike sales decreased in the year 2020 and 2021 due to the pandemic causing the shortage in manufacturing but the company witnessed the growth of direct sales by 25 % in their digital sales and stores. This was due to limited stock and higher demand and marketing (Sullivan, et al., 2021). The customers are ready to pay hefty prices

for buying Nike products. It is the marketing of the company and the brand image that influences the choices of the customers. The company invests largely in brand promotion and ads which is also a big reason the price consideration for their products is always high. The limited product-making strategy is also an important strategy acquired by the company which helps them make high profits for the company. The company produces a certain product with a limited number which creates a demand and supply gap. The demand for their shoes and apparel is high but due to fewer supplies, people readily buy their products for a high price. Some of them collect their sneakers from the brand Air Jordan for reselling and sell the shoes and apparel when they are high in demand and rare in supply.

**Demographics** - Nike has an annual average revenue of 27.7 billion dollars worldwide. This total revenue comes from their 858 retail stores only presented worldwide. The global market share of the company was around 27% in the year 2020. The company demographically targets customers as following

- Nike mainly targets customers for the age between the age group of 18 to 40 years of age.
- The company goal is to equip the teenager with apparel under the age of 20 years, mainly in popular sports like cricket and football
- Nike has targeted teens and households that have a specific desire of looking fashionable and athletic at the same time.
- All the targeted socioeconomic classes are part of Nike's segmentation of the demographics
- The revenue of the men's training section specified products are almost more than double that of the women training apparel and shoes for the brand.
- The company receives 15% of its revenue from emerging markets.

These are the few demographic and specific targeting done by the company in order to acquire a certain set of customers (Kim, et al., 2020).

### **Factors that influence the Price Elasticity of Demand.**

The change in the quantity demanded of a product when the price of a fluctuating product is called the Price elasticity of the Demand. The formula for this is as follows

**Price Elasticity of Demand = % Change in Quantity Demanded / % Change in Price**

When the result of this formula is more than 1, the demand is considered elastic. Also, it can be said that the quantity changes faster compared to the price (Anoosh, 2020). The result when it comes out to less than 1, the demand is considered inelastic. Here, the change in quantity slowly compared to the price. And if the result is 1, the elasticity is unitary of the demand. Demand and supply are interrelated with each other, and change in one aspect affects the other. There are five factors that affect the Price of Elasticity are:

- Type of Good
- Substitute's Availability
- Level of Price
- Levels of Income
- Period of Time.

The products of Nike are price elastic as the company is categorised into luxury goods. For example, the luxury Nike jersey's demand is highly sensitive to change in price as the potential customer can do without the jersey if it is reflected as being too expensive.

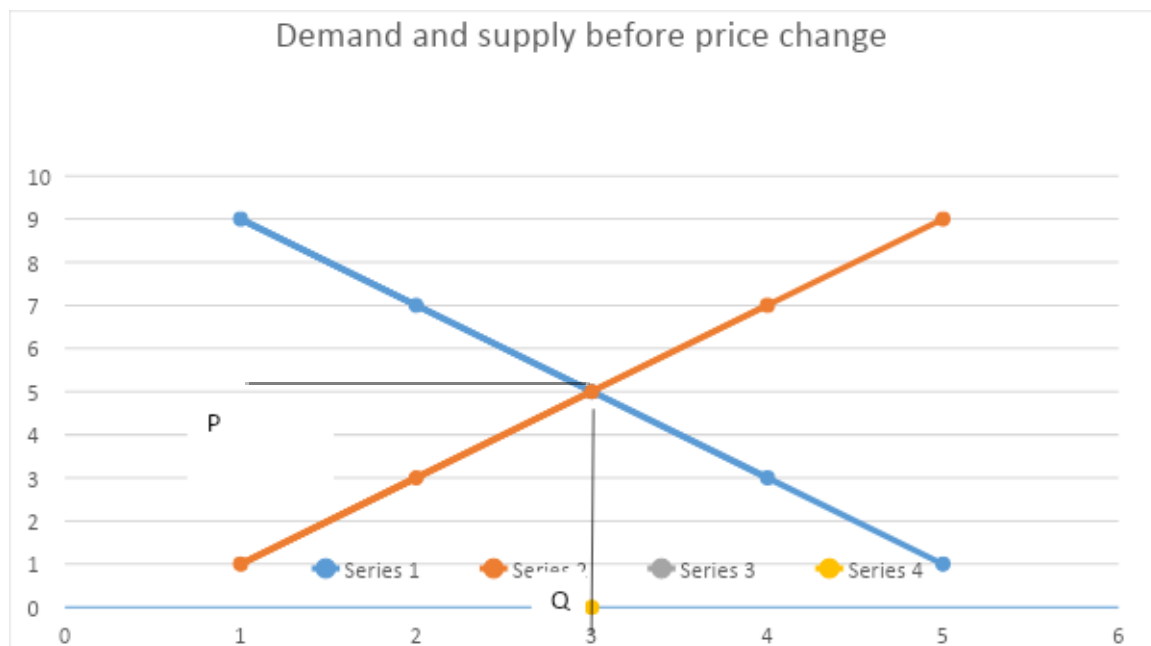


Figure 1: Supply and demand of Products of Nike before price change.

Source: Made by the learner

The above figure shows that the equilibrium initially shows the Nike products status before the price change. Blue line shows the curve of demand while the Red line shows the curve of supply. Equilibrium quantity and price are Q and P respectively.

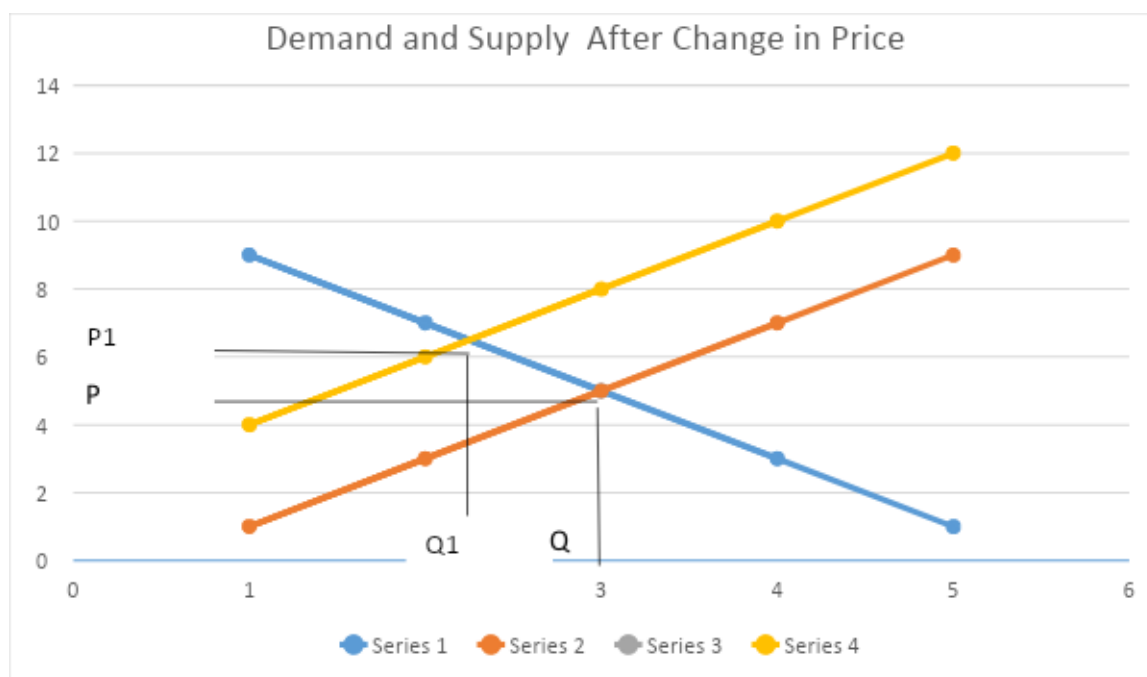


Figure 2: Supply and Demand of the products of Nike after the price change

Source: Made by the learner

Figure 2 shows an increase in the Nike jersey Price with another seamless substitute product like the Adidas jersey which causes a shift inward of the supply curve of red to Yellow colour as shown in the figure this gives a new position which is to the equilibrium. The price changed from  $P$  to  $P_1$  which shows that the demand has reduced for the customers. The effect of the price increase is that the demand has decreased from the customer end. The elasticity of the price for the Jersey of Nike is already calculated at 0.7

This shows that the goods that are made for a large proportion of people with disposable income are more likely to be elastic. This is mainly because of the awareness of the customer to the small changes made by the company in terms of expensively priced goods compared to the changes made in the inexpensively priced goods. In this case, Nike products are elastic to the price. The products have an elastic nature in supply since the price is the determining factor in the ease of buying these products in the market.

Basically, Nike is a major player in the oligopolistic market having a similar kind of income elasticity behaviour due to the luxury products that are the same and are within a similar ranging prices. Being income elastic, when the income of a house increases, the demand for products from Nike will also increase.

## **Cross Price Elasticity**

The companies like Nike and Adidas are the main players in the market that have a similar kind of behaviour in terms of income elasticity as the luxury products are similar and have the same price range. In case an increase in the price of a product from Nike by 5% will lead to rise in the demand for a product from Adidas by 10% this means that the Cross price elasticity for these two companies and their products within the same category is 2. The cross-price elasticity of demand between the Nike Adidas products and competing products is as the conditions of the market are the same for the players in the industry of sports apparel (Barman, et al., 2021). However, Adidas has a price elasticity of 0.5 and an income elasticity of 0.4 compared with Nike which has a high elasticity price of 0.7 and a similarly high income elasticity of 0.5. This means that Nike has higher income and price elasticity than Adidas.

Nike and Adidas have been a perfect substitute for each other as both operate in the similar industry with similar products. The product of Nike Adidas falls into the category of luxury goods, these products are price elastic since any small change made in the prices can result in a proportional shift in the demand. Both the companies have high potential for the growth of future due to their brand image and global dominance reason being diversification of products, mechanism of competitive pricing, overzealous marketing and positioning of the brand strategically

## **Conclusion**

Report deeply evaluated economic data in making policy within a national or international organisational context. The report covered various economic concepts like demand and supply, the elasticity of the price, and the analysis of the cost and how these factors help in making decisions for managerial purposes. The report explains the price elasticity before and after the change in the price of Nike products and how various aspects like the price of substitutes, price of complements, consumer income, buyer expectations, test preferences and democratic help a company grow. The reports explained various aspects of the economic concepts of Nike.

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