

MARKETING FUNDAMENTALS ANALYSIS AND EVALUATION OF NIKE

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Table of Contents

Introduction.....	3
External business environment	3
PESTEL analysis.....	3
Porter's five forces analysis	12
Internal business environment analysis	15
Conclusion	17
References.....	19

Introduction

COVID-19 pandemic has affected the majority of businesses worldwide in various ways. Lockdowns and concerns of people resulted in store closures, changing customer needs, evolution of shopping trends, as well as severe disruptions in operations. These changes have triggered need for adjustment of marketing strategies and overall corporate decision-making process. Retail industry of non-essential products has been one of the markets which have experienced considerable adverse consequences by the pandemic. Companies in this segment still face sufficient challenges and put tremendous efforts to recover. Nike – world's largest sportswear manufacturer, reports current growth of sales but its year-on-year physical retail traffic has continuously declined (Badkar, 2022). These challenges resulted in some financial struggles for the company in particular markets. For example, Nike reports a slight decrease of 1% in revenues for 2021; while net income increased by 11% in the core US market (Badkar, 2022). Both of these figures exceeded investors' expectations but challenges are still present and the company is struggling with recovering from the pandemic.

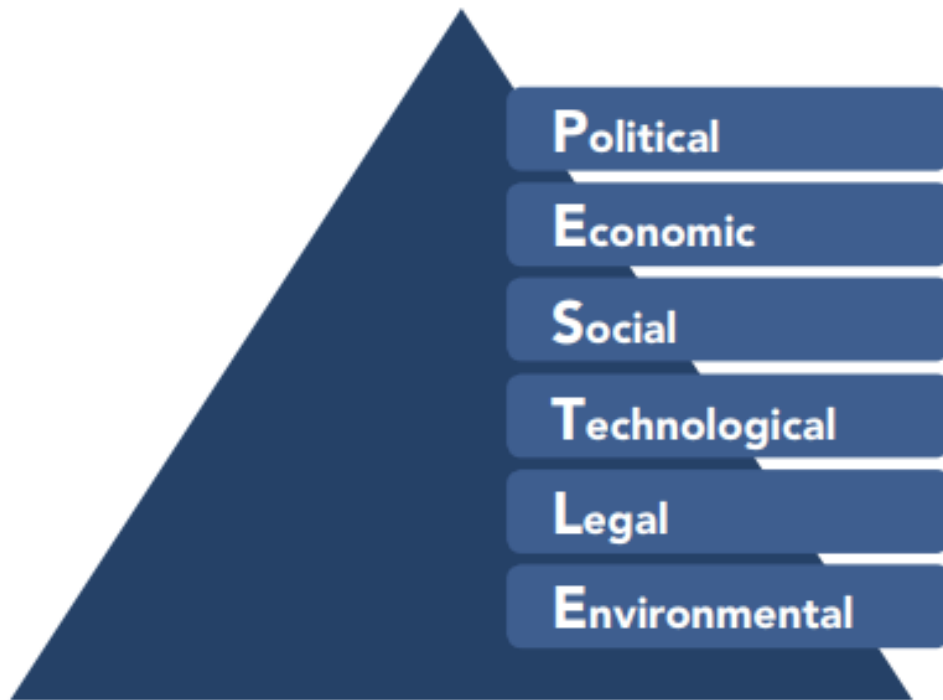
The pandemic-related trends create a need for Nike and all other business organisations to continuously investigate their external and internal business environments and base corporate decision-making on emerging evidence. This report has the primary objective of using three of the most common theoretical models for examining external and internal business environments – PESTEL, Porter's five forces and SWOT – in order to conduct this assessment for Nike by reflecting the impact of the pandemic on the brand.

External business environment

PESTEL analysis

PESTEL framework is one of the most widely applied theories to assess external environment of a company due to its simplicity and thoroughness at the same time. As discussed by Rastogi and Trivedi (2016), it is one of the most informative strategic management tools, supporting crucial decision making. It analyses the political, economic, social, technological and legal factors of influence which can affect business activities and operations.

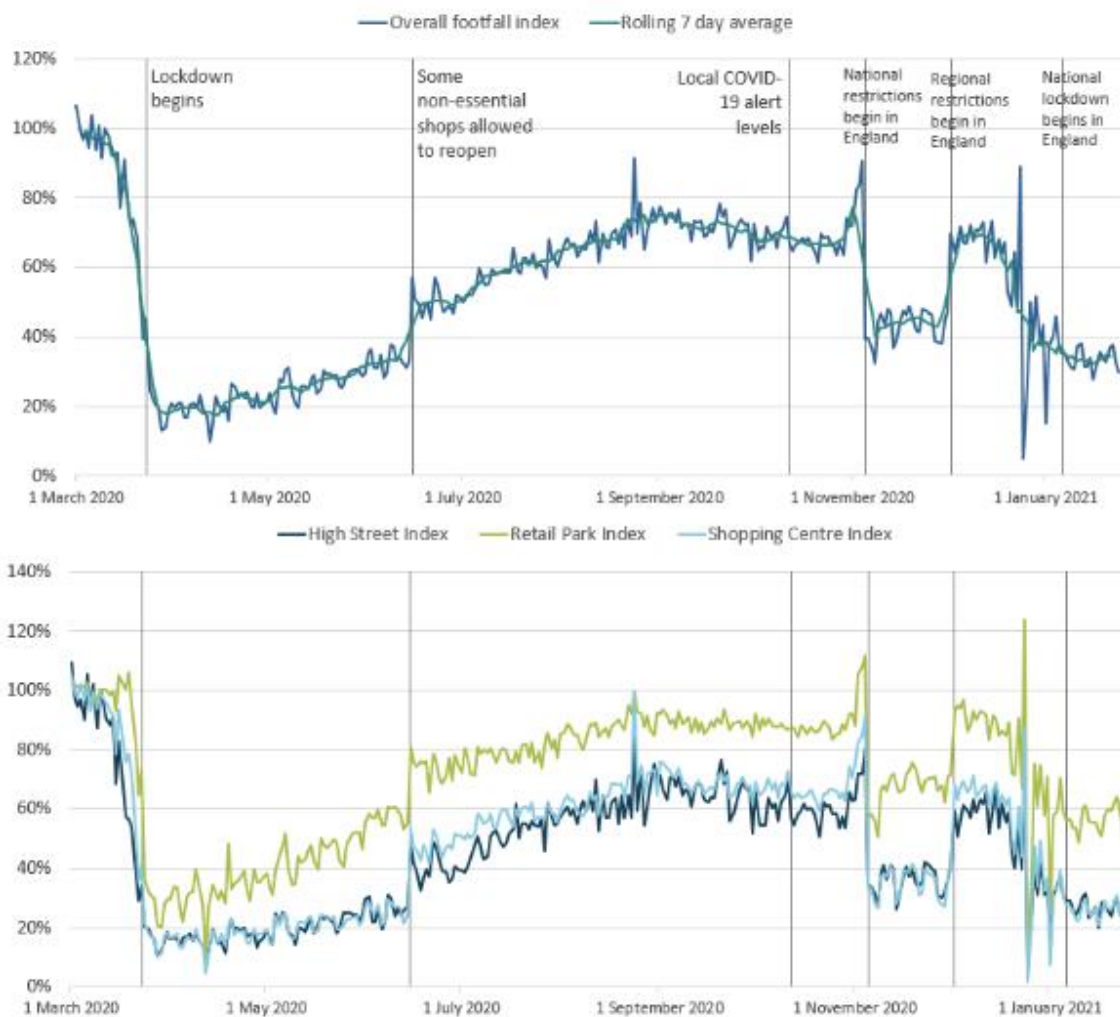
Figure 1 – PESTEL model



Source: FME (2020)

Political factors analyse the extent to which a government may influence an industry and a specific brand (Rastogi and Trivedi, 2016). These are focused on various government regulations, such as the imposed lockdowns, leading to temporary store closures in non-essential retail segment. Political factors generally include areas like government leadership, corruption levels, government stability, trade restrictions, bureaucracy levels, stability of neighbours and many more (FME, 2020). In UK, the government imposed several lockdowns during the pandemic and this has led to massive temporary store closures for non-essential retailers, including Nike (Alvarez & Marsal, 2021). The lockdowns in UK significantly decreased the footfall in non-essential retail stores and this has had a significant impact on both sales and costs (ONS, 2021).

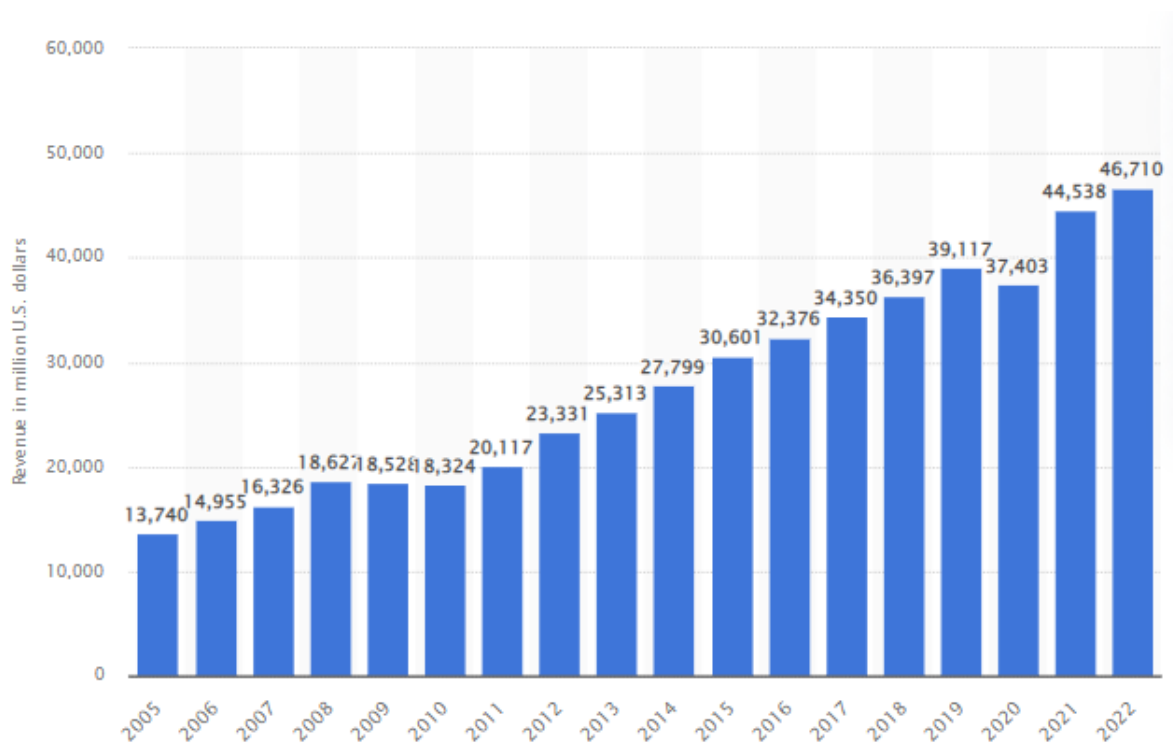
Figure 2 – Impact of restrictions on non-essential retail footfall



Source: ONS (2021)

As discussed by Jahshan (2020), lockdown store closures are the main reason for the significant drop in sales in 2020. Strong online demand partially offset this decline but the impact has still been quite considerable. This is also supported by data regarding Nike's sales revenue during the last years. The following figure represents the brand's revenue on a global scale for the fiscal years 2005 to 2022. As evident, the sales revenue in 2020 has dropped sufficiently as when compared to data from the same period in 2019 (Tighe, 2022a). It should be noted, though, that the brand has succeeded to recover, as sales have continuously increased in the period after year 2021 (Tighe, 2022a).

Figure 3 – Nike's global revenue 2005-2022 (\$, million)



Source: Tighe (2022a)

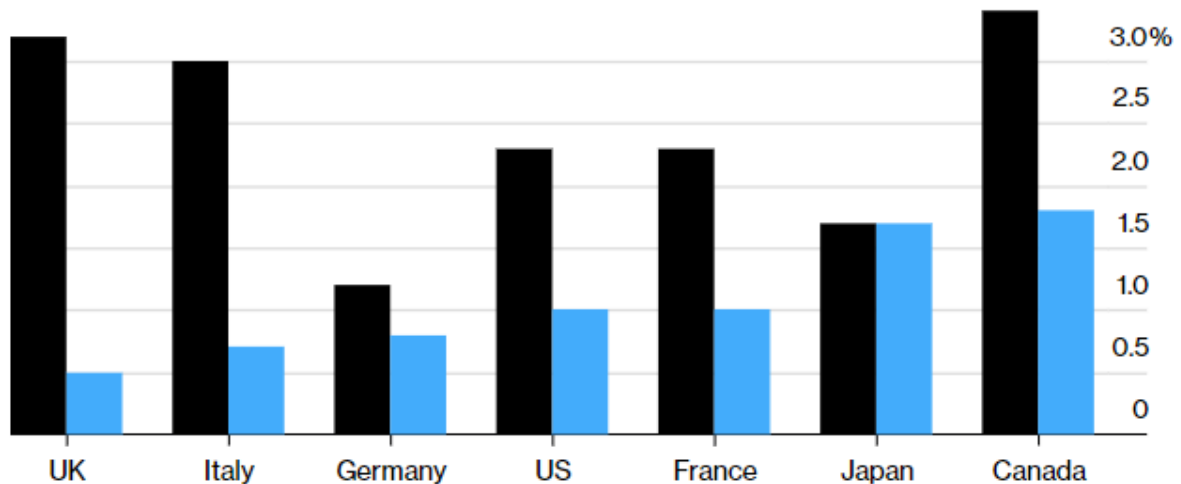
Economic factors emphasise on investigating indicators of economic performance and the potential impact of identified trends on business operations (Rastogi and Trivedi, 2016). As a direct result of the pandemic, the UK economy is forecasted to have the slowest growth in G-7 during next year. This is mainly contributed by the currently high levels of inflation and continuously rising interest rates which have a negative impact on households' spending and business investment activity (Aldrick, 2022). According to the latest forecast, the UK will have a GDP growth of approximately 0.5% in 2023 (Aldrick, 2022). Moreover, the world economy is currently remains quite fragile due to events, such as the pandemic and the war in Ukraine, which erode consumer confidence and create uncertainty in the market (Aldrick, 2022).

Figure 4 – UK growth forecast 2023

G-7 Economy Watch

Gross domestic product change (YoY)

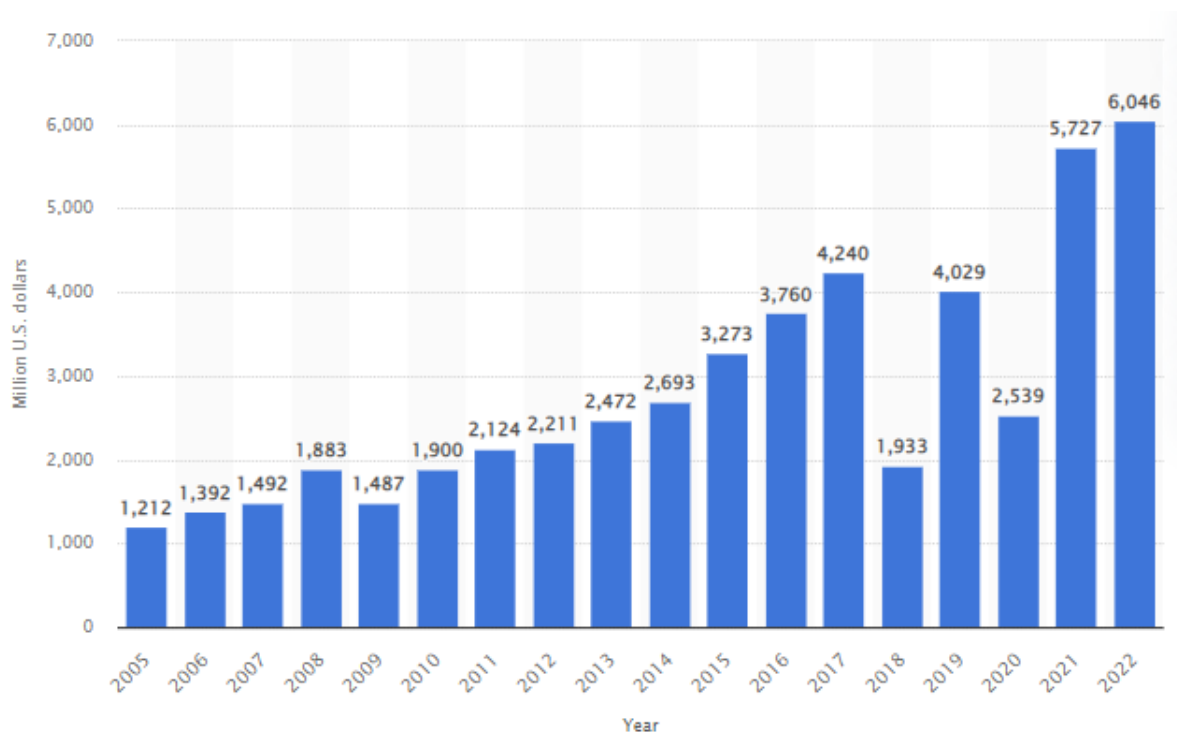
■ 2022 ■ 2023



Source: Aldrick (2022)

UK downgraded sharply for both 2022 and 2023, which is considered to be a direct result of peak inflation forecasts, suggesting that it will be rising from 7.8% to 10.5% until the end of 2022 (Aldrick, 2022). In 2022, the UK GDP is expected to grow at an approximate rate of 3.2% but this is not expected to be maintained during 2023. Inflation rate is currently at its 40-years peak at 9.4% (Aldrick, 2022). This, combined with the consequences of the pandemic, leads to a significant re-prioritisation of the items in the consumer basket by negatively impacting the demand for non-essential retail will decrease in consumption (Aldrick, 2022). This is of crucial importance for Nike, as demand for its products is expected to fall and this would directly affect its sales and profit margins. In 2020, as a result of temporary store closures and individuals' concerns, Nike experienced not only a fall in revenue, but also an even more drastic decline in profits. The next figure shows the sufficient drops of net income of the brand in 2020. Still, the company succeeded to successfully recover from this crisis.

Figure 5 – Nike's net income 2005-2022 (\$, million)

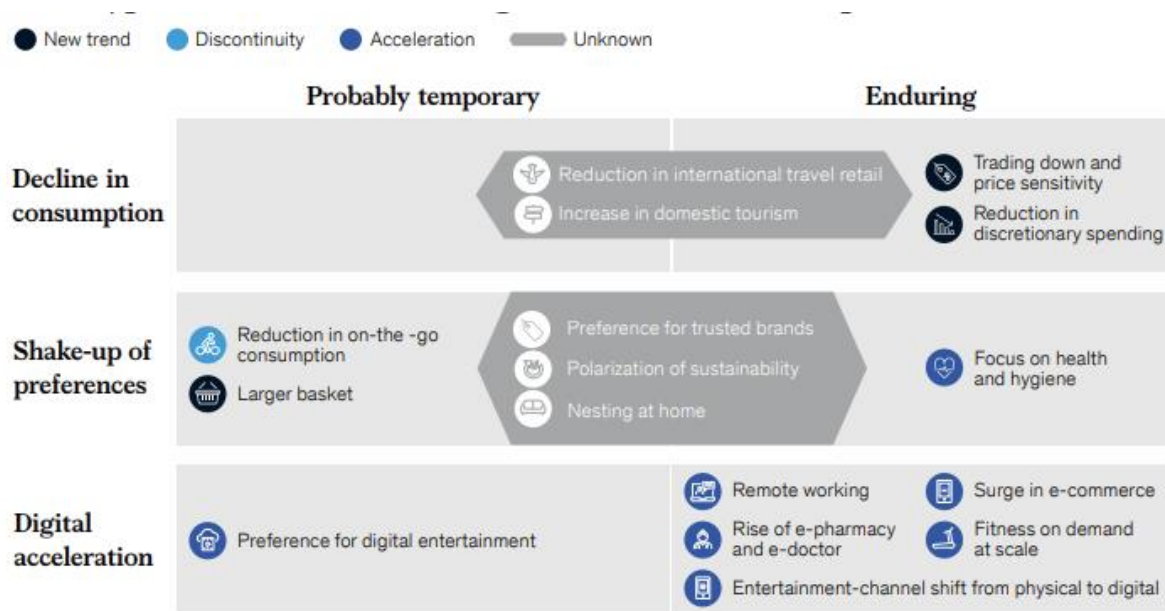


Source: Smith (2022)

Social factors of influence take into consideration all events that affect the market arising from society trends, cultural shifts, behavioural changes and other similar events (Rastogi and Trivedi, 2016). The pandemic has significantly changed customer trends with implications on demand in the long-run. Recent research of Kohli et al. (2020) also suggests that the majority of changes in social trends, which were provoked and encouraged by the pandemic, would remain valid during the next decade by impacting managerial decision-makers in companies, including Nike. One of the main social trends, which is expected to be quite enduring, refers to the increased price sensitivity of consumers (Kohli et al., 2020). This is mainly provoked by the uncertainty created by the pandemic and the concerns of buyers in regard to their future purchasing power, employment stability, health and others. All this leads to changing priorities for essential products; thereby, causing a lower demand for non-essential retail like Nike's products. This may force Nike to reconsider its pricing and promotional policies in order to make its products more appealing and affordable; thereby, stimulating consumer demand. In addition to that, due to higher perceived risks, customers now prefer to buy products from trusted brands, which is a good trend for Nike, as it is a company with decades of strong brand image and reputation (Kohli et al., 2020).

Customers are now also more focused and concerned about sustainability practices of brands. This is essential for retail companies like Nike, as it can be a strong source of differentiation which can make company's products more preferred and trigger a purchase. This is a very favourable trend for Nike, as the company has a very strong sustainability strategy and program, based on 29 enterprise targets and additional commitments aiming to address this area. For example, Nike is engaged in achieving a zero carbon emissions production until 2050 by organising different initiatives encouraging customers and other stakeholders to join, such as recycling clothes, reusing shoes and others (Nike, 2022). Developing this strategy and producing more sustainable clothing and apparel would further contribute to maintaining brand's leadership position in the market; thereby, contributing to a stronger differentiation against rivals.

Figure 6 – Trends endurance

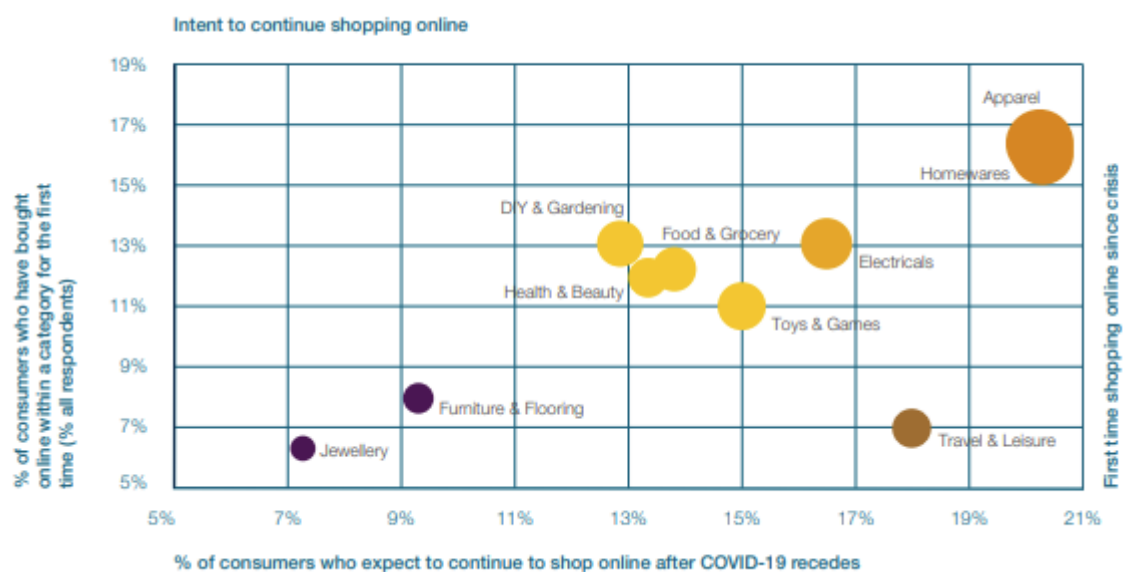


Source: Kohli et al. (2020)

Technological factors of influence are related to various technological solutions which can directly affect the operations of the businesses (Rastogi and Trivedi, 2016). As also presented on the figure above, digital acceleration is one of the main trends worth being considered. The strong preference for e-commerce and digital channels of communications with brands are expected to remain quite strong in foreseeable future (Kohli et al., 2020; Retail Economics, 2022). This would mean that companies with strong online and digital capabilities and presence would have better chances for growth and development in the

market. Nike is definitely one of them, as the company reported an increase of digital sales of 82% in 2020 as a result of the pandemic which partially offset the fall in footfall and sales in physical outlets (BBC, 2020). Nike's representatives also suggest that they expect a permanent shift to online sales in this industry segment, which requires a focused investment in digital capabilities and resources to attract and retain consumers. The company has shifted towards investing in its e-commerce and mobile apps with the aim of further developing this channel of sales and communications and address newly arising customer needs (BBC, 2020). The suggestion that online sales would become one of the most preferred methods of trading is also supported by another industry report developed by Alvarez & Marsal (2021). The evidence shows that clothing and apparel could be the retail segments with the fastest online retail growth triggered by the highest percentage of people engaged in Internet-based shopping activities (Alvarez & Marsal, 2021).

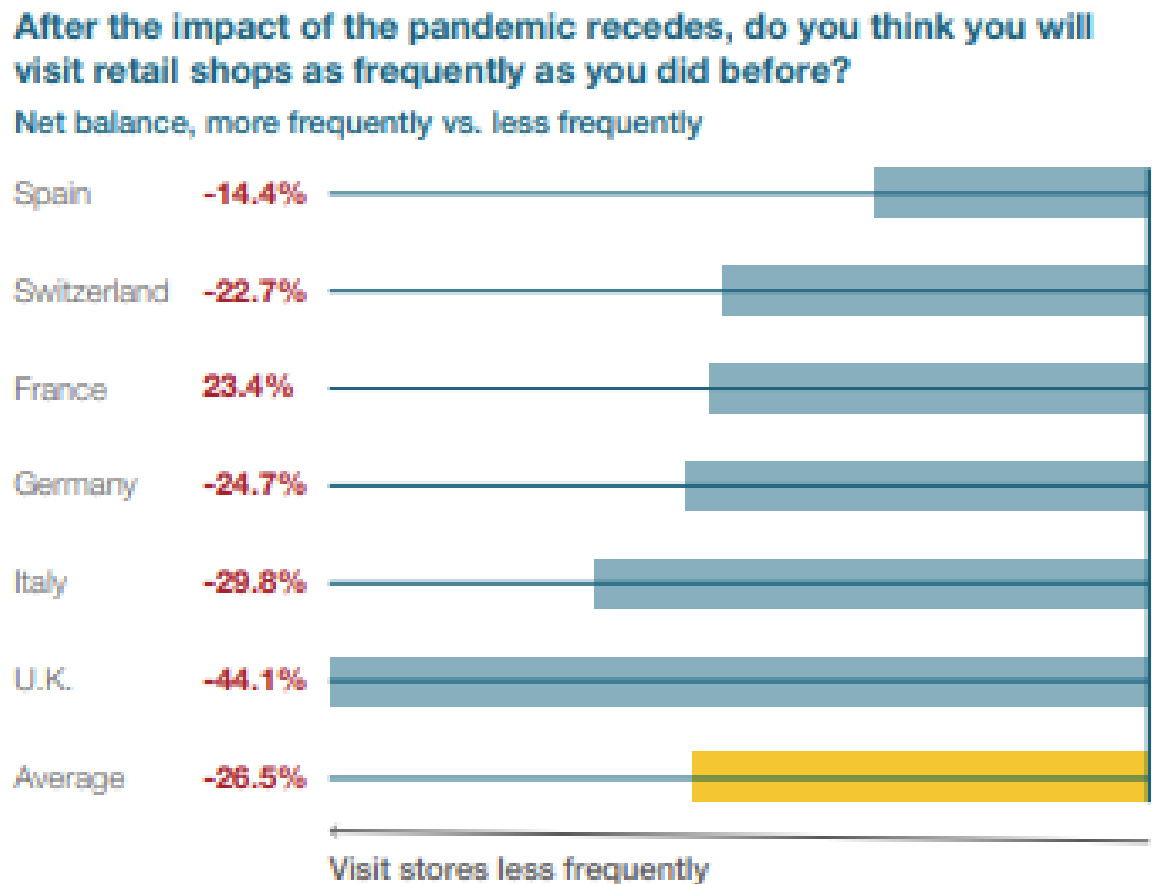
Figure 7 – Retail segments online trading



Source: Alvarez & Marsal (2021)

This is also evident when the pattern of visiting physical outlets is investigated. In the UK alone, approximately 44.1% of buyers would not visit brick-and-mortar retail stores as often as before the pandemic (Alvarez & Marsal, 2021). This is a major shift in consumer behaviour motivating a transformation in the place element of the marketing mix; thereby, fostering the development of broader online-based sales and communication channels.

Figure 8 – Trends for brick-and-mortar stores



Source: Alvarez & Marsal (2021)

Another social trend, which has been triggered by the pandemic, is associated with shopping behaviour. According to Kohli et al. (2020), consumers of non-essential retail are going to continue being featured with reduced shopping frequency and density of shoppers. Furthermore, customers would prioritise more value for money and appreciate innovation new product development (PwC, 2022).

Environmental factors of influence are related to the trends in regard to surrounding environment (Rastogi and Trivedi, 2016). These can include customer attitudes towards sustainability, options for responsible sourcing, data regarding industry contribution to climate issue and many more. Fashion and apparel industry is generally considered as one of the main sources of landfill pollution. As discussed, Nike has a solid sustainability program, which also includes achieving a zero emissions production until 2050. This is one of the examples of corporate policies which address newly emerging customer needs. As a result of

the pandemic, buyers place a greater importance and priority on sustainability; thereby, expecting brands to implement practices which are eco-friendly and contributing to the solution of various environmentally-related issues (Hancock and Schaninger, 2022; McKinsey, 2021). Respectively, Nike is required to adapt many of the characteristics of its product element of the marketing mix, so that more sustainable products are offered in the marketplace.

Legal factors of influence are the ones which are related to changes in laws and regulations relevant to the industry sector of operation of the brand (Rastogi and Trivedi, 2016). Examples include changes in legislation in fields, such as employment, taxation, consumer, health and safety, compliance, advertising, import and export and other (FME, 2020). As Nike is a global leader in the clothing and apparel industry, it needs to comply with all legal norms and regulations, so that it maintains effective performance. For example, after Brexit, the UK government replaced EU exemptions from competition law for agreements between producers, distributors and retailers with bespoke rules better suited to the UK environment (Gov UK, 2022). As Nike is a multinational company, it has to regularly check the updates and changes in regulations and legislations, so that it ensures that the company operates in full legal compliance.

Porter's five forces analysis

Porter's five forces model focuses on other aspects of the external business environment of a company by emphasising the trends within a given industry. It assesses five traits of an industry, being the threat of new entrants, the threat of substitutes, the bargaining power of suppliers, bargaining power of buyers and competitive rivalry (Isabelle et al., 2020). Thus, it is possible to evaluate the overall attractiveness of the marketplace.

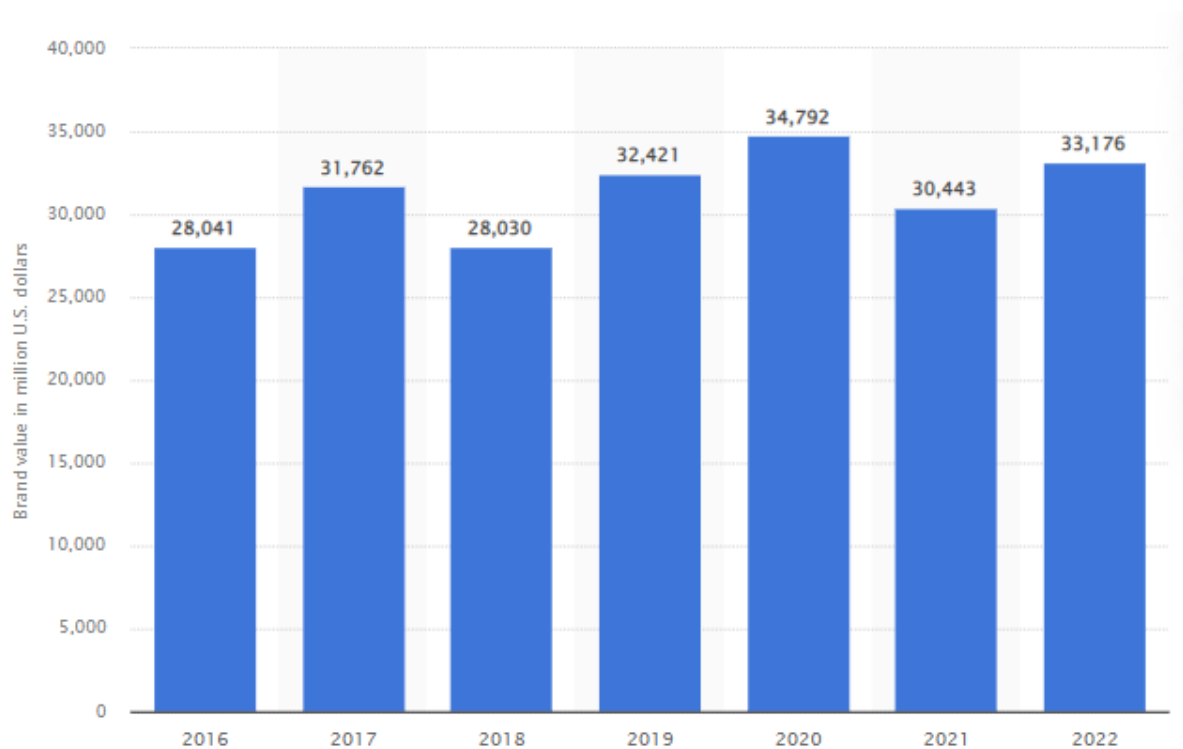
Figure 9 – Porter's five forces



Source: Isabelle (2020)

Threat of new entrants is relatively low for Nike. Nike is a global leader in the sport wear and has a market share of 38.23% worldwide (Radonic, 2022). The brand value of the company has been estimated at \$33,176 million as of 2022 (Tighe, 2022b). The company is also enjoying a high level of customer loyalty. In addition to that, it is dedicated to continuous innovation and differentiation of products. Nike is a company, which is very well-established in the market, with significant experience and high expertise unmatched by potential new entrants. It also has a large pool of resources and more than 80,000 employees on a global scale which also serve as a source of differentiation supporting the leadership position of the brand (Radonic, 2022). All this decreases the threat of new entrants in the market for a brand like Nike.

Figure 10 – Nike brand value 2016-2022 (\$, million)



Source: Tighe (2022b)

The bargaining power of suppliers is also relatively low when the case of Nike is taken into consideration. Due to its leadership position in the global market, the company has a significantly high bargaining power over suppliers. Moreover, the business organisation has decreased its reliance on main suppliers due to the recently initiated sustainability and recycling programs. Nevertheless, the company should use premium materials in order to maintain the quality of products which are not so easily substitutable; thereby, increasing the bargaining power of suppliers.

When bargaining power of buyers is discussed, it should be stated that in the case of Nike it is very high. Despite the small size and high number of customers, the changes in customer needs, expectations and demand patterns have been major industry trends. In addition to that, Nike operates in very rival environment with many other companies in the market. Customers can easily switch between brands which further increases their bargaining power. Moreover, buyers' price elasticity of demand is relatively high which further supports this claim. In order to address this, Nike needs to ensure that its marketing decisions accurately address and fulfil the changes in customer needs and expectations. This also requires a very good

understanding of the customer base. According to recent statistics, Nike's main customer profile is focused on people between 18 and 40 years old (Radonic, 2022). Menswear comprises the biggest proportion of Nike's revenue of approximately £14.2 billion per year (Radonic, 2022). Women's clothing and footwear is amounted at approximately £6.4 billion in revenue in 2021 (Radonic, 2022). It is reported that 61% of men in the UK prefer Nike and have made at least one purchase from the brand (Radonic, 2022). In 2020, almost 5.3 million people have been customers of Nike in the UK (Radonic, 2022). All this suggests that the customers of Nike have a relatively high bargaining power but the brand also enjoys a significant awareness and loyalty in the UK which would increase buyers' switching costs to rivals.

Threat of substitutes is moderate. There is an extremely large pool of optional substitutes in the market – both from the direct and indirect competitors of the company. Substitutes range in type, price, performance, quality and other features; however, the risk is partially subdued due to the good and solid position of Nike in the market.

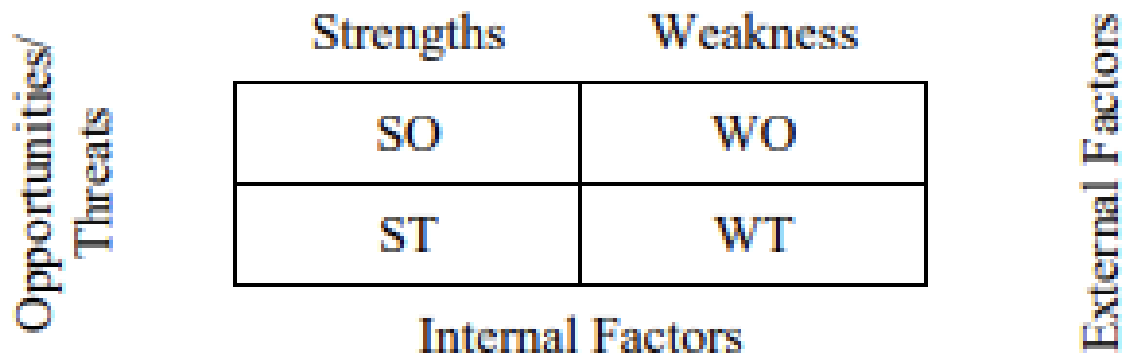
In terms of rivalry, it can be suggested that the company operates in an extremely competitive market. There are a large number of players in the industry, offering various quality, diversity of products and customer service. Nike is holding a leadership position on the market, but this should be continuously supported and maintained by strategic decisions and marketing mix tactics.

The industry analysis shows a mixed picture. Hence, Nike has to adapt its marketing decisions accordingly to cope with the contemporary trends and changes.

Internal business environment analysis

The SWOT analysis links organisational strengths and weaknesses with external factors of influence leading to opportunities and threats for business organisations (Benzaghta et al., 2021). Taken together, SWOT analysis focuses on examining the strengths, weaknesses, opportunities and threats of a brand.

Figure 11 – SWOT model



Source: Benzaghta et al. (2021)

Strengths represent all of the sources of competitive advantage of a company which make it better than competitors and serve as a source of growth, customer retention, increased sales revenue and other benefits for the organisation (Benzaghta et al., 2021). The company should develop these in order to obtain the full scale of potential advantages available in the external environment. In the case of Nike, the main strengths of the company include several key items identified during the discussion in the report so far:

- ✚ Reviving and increasing sales
- ✚ Trusted brand
- ✚ Strong online and digital presence
- ✚ Wide product variety
- ✚ Good understanding of customer segments and needs
- ✚ Continuous innovation
- ✚ Strong sustainability program and initiatives
- ✚ High brand awareness
- ✚ High number of employees and store presence around the world

Weaknesses are generally focused on all internal areas of business operations and decisions which need to be awarded more attention and be improved in order for the company to maintain its competitiveness and performance (Benzaghta et al., 2021). In the case of Nike, the main weaknesses include:

- ✚ High and often unaffordable prices
- ✚ Deviations in sales and profit due to pandemic impacts

Unequal performance in different markets

Opportunities are external factors of influence which can be considered and grasped by the organisation to fuel its development and growth (Benzaghta et al., 2021). The PESTEL findings suggest several key external opportunities, such as:

-  Online and digital growth
-  Tapping into new markets
-  Sustainable products niche
-  Higher cost efficiency through sustainability initiatives

Threats are generally external sources of risk which are beyond the control of the company (Benzaghta et al., 2021). However, these have to be identified and planned in advance, along with different courses of action in case of their occurrence. The external and industry analyses show that the main threats are as follows:

-  Enduring customer behaviour trends
-  Global recession
-  Competition
-  Changing customer needs
-  Supply chain disruptions due to military conflicts and COVID-19 restrictions (in case of new pandemic waves)

As evident by the SWOT analysis, Nike has the organisational internal capabilities and resources to address alternative external risks and utilise market opportunities. It needs to use these to the full extent, especially now when the brand operates in such a dynamic and turbulent business environment.

Conclusion

To sum up, the situational analysis of external factors of influence and internal capabilities is essential for ensuring that companies address all areas of business performance and the optional risks and opportunities affecting performance. The three models used to examine the current business environment of Nike – PESTEL, Porter’s five forces and SWOT – constitute considerable strategic tools used by corporate managers. In the light of the decision-making process at strategic level, the use of these tools remains important in order to navigate

companies in times of crises. Nike should continuously assess these factors and adjust decisions accordingly in order to ensure the stability and perseverance of its leadership competitive position. The results from the report once again show the importance of marketing mix adjustment, so that consumer and external trends are better reflected. Performance improvement in the future thus depends on Nike's ability to forecast and react to emerging trends in a dynamic external and industry environments.

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