

## **IB Business and Management SL IA**

Commentary on:

**Could cultural barriers and economic conditions in Greater China impact Nike's long-term profitability in that region?**

Word Count: 1,446

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## **Could cultural barriers and economic conditions in Greater China impact**

### **Nike's long-term profitability in that region?**

#### **Introduction**

Nike, Inc. is one of the world's leaders in athletic footwear, apparel, and equipment. Although most of their products are specifically designed for athletic use, many consumers wear Nike's apparel and footwear for fashion purposes. Nike entered the Chinese market in 1982 and since has become the nation's best-selling sportswear brand (SD #3 C). However, changing consumer preferences and cultural barriers have posed a real threat to the company's long term profits.

Even though Nike has an estimated athletic wear market share of 12% in China, poor choices in marketing strategies, a sluggish economy and cultural barriers, have led to accumulated inventory. Additionally, competitors such as Adidas have gained ground in terms of market position (SD #2 F). Cultural barriers specifically refer to the fact that Chinese consumers view athletics as an activity reserved for the rich. Athletics are the driving force of Nike's product portfolio and marketing strategies, and this is the very problem that they face in China. By analyzing Nike's current situation through their marketing mix, Ansoff's Matrix and a STEEPLE analysis, I will determine whether or not cultural barriers could impact Nike's long-term profitability in Greater China.

#### **Findings and Analysis**

Nike's expansion into Europe was based on the strategy of using professional athlete endorsements and relationships with commercially organized leagues, and it proved to be successful (SD #4 D). However, a strategy that may work for Nike in North America or Europe

may not work in a market such as China. This is due to the fact that there are no opportunities similar in scale to those in Europe, and athletics have limited appeal in urban areas (SD #4 D). Because of these challenges, Nike is looking to reposition itself in the Chinese market, and the company's objective is to build a more segmented market with the ultimate goal of increased profitability (SD #1 A, B). These marketing strategies are relatively new in terms of approach, because for decades, Nike has utilized the same model for growth as it has in other markets. As a result of most Chinese consumers being less inclined to purchase from athletic apparel companies, Nike has an influx of accumulated inventory. In terms of "price" in Nike's marketing mix, this extra inventory has resulted in massive mark downs, providing potential customers with a poor brand image of the company (SD #5 D). In addition, it is important to consider Nike's market growth strategies in light of the evidence against current marketing approach. Below is Ansoff's Matrix applied to Nike's current market growth strategies in Greater China.

**Figure 1: Ansoff's Matrix applied to Nike, Inc.**

<p>Market Penetration:</p> <ul style="list-style-type: none"> <li>• Sales promotions through specialized stores (SD #5 H)</li> </ul>	<p>Product Development:</p> <ul style="list-style-type: none"> <li>• Skateboarding and snowboarding equipment (SD #4 F)</li> </ul>
<p>Market development:</p> <ul style="list-style-type: none"> <li>• Fashionable apparel for younger consumers (SD #3 E)</li> <li>• 326 million Chinese citizens will rise to the middle class between 2014 and 2030 (SD #2 E)</li> </ul>	<p>Diversification:</p> <ul style="list-style-type: none"> <li>• Products for cardio and strength training to everyday fashion wear (SD #5 D)</li> </ul>

One way that Nike looks to reposition itself in the Chinese market is by segmenting its operations. Their promotional strategy is to launch stores such as the one that they recently launched in Shanghai made of 100% recyclable material (SD #5 H). They are also expanding

into specific outlets by offering skateboarding and snowboarding equipment at that store (SD #4 F). Both of these strategies are a result of Nike's adapting marketing mix in China. Due to the Chinese cultural barriers, Nike's marketing mix is primarily being affected in terms of product and promotion, and these actions are in response to those challenges. Adidas, Nike's main competitor in Greater China, is gaining popularity with their youth oriented sub-brand NEO. Terry Rhoads, the managing director at a sports consulting firm in Shanghai stated that, "Adidas has done the best job of staying ahead of the pack with their understanding of the Chinese consumer" (SD #3 E). The Chinese youth is a currently under-served market segment for Nike, but as competitors such as Adidas begin to have success in this segment, it is clear that it is a potential opportunity for growth. However, Nike continues to use athletes to convey the message that anyone can aspire to greatness - a harder sell these days in a nation where Chinese parents put an emphasis on academic achievement rather than sports (SD #3 F). Moreover, the majority of Nike's revenue comes from athletic footwear, a product that is not considered to be a consumer durable, meaning that most consumers don't keep the product for more than three years. This is why diversifying the use of Nike's products, such as turning their apparel into everyday fashion wear, is vital to attracting both younger customers and the growing middle class. If Nike is to maintain its current position as the athletic market leader in Greater China, product diversification is necessary to build a more segmented market.

Additional opportunities in the Chinese market include increased discretionary spending and a rapidly growing middle class. The Chinese market should benefit from the Chinese government's efforts to increase consumer spending, possibly being a crucial growth driver for Nike in the future (SD #1 D). As stated before, many Chinese consumers view athletics as

activities for the rich, however China’s rapidly growing middle class provides a new market for Nike’s future sales growth. According to research by ANZ economists, 326 million Chinese citizens will rise to the middle class between 2014 and 2030 (SD #2 E). This growing segment should be one of Nike’s new target demographics as they will have the discretionary spending power in order to drive future sales.

The following STEEPLE analysis details some of the opportunities and threats facing Nike in Greater China.

**Figure 2: STEEPLE analysis of the external environment in China in relation to Nike**

Social	<ul style="list-style-type: none"> <li>326 million Chinese citizens will rise to the middle class between 2014 and 2030 (SD #2 E)</li> </ul>
Technological	<ul style="list-style-type: none"> <li>In quarter one of 2015, Nike’s direct-to-consumer sales were up 46% as the company focuses on online growth (SD #2 B)</li> </ul>
Economic	<ul style="list-style-type: none"> <li>Total economic growth in China had slowed to 7% in 2015 (SD #2 C)</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>Nike reduced footwear production waste by 35% from FY01 to FY11 (Ref #2)</li> </ul>
Political	<ul style="list-style-type: none"> <li>Driven by fears that an aging population could jeopardize China’s economic ascent, the Communist Party leadership ended its decades-old “one child” policy (Ref #1)</li> </ul>
Ethical	<ul style="list-style-type: none"> <li>Nike store in Shanghai made of 100% recyclable material (SD #5 H)</li> </ul>

Of the listed opportunities and threats, the ones that will primarily affect Nike’s future growth in China will be the social, economic, and political factors. As perviously mentioned, the Chinese middle class is expected to grow by over 300 million between 2014 and 2030, potentially providing a wider customer base for Nike in future years. These customers will have the discretionary spending power in order to buy Nike’s products. A potential threat in the

external business environment facing Nike is the fact that the Chinese economy is experiencing an economic slowdown compared to previous years. When there is an economic slowdown, fewer consumers will spend money on non-essential items, which could possibly affect Nike's future profits. However, Nike's CFO Andy Champion said " While we're very mindful of the macroeconomic volatility in China, our brand has never been stronger and our marketplace has never been stronger" (SD #2 D). Another potential opportunity for growth in Nike's Chinese market comes after the Chinese government announced the end to its "one-child policy" that has been in effect for decades. This political event should help create a larger future customer base for Nike as the Chinese population is expected to grow as a result. This could also increase profitability as that new population of Chinese consumers ages. While these opportunities and threats are the main factors that will affect Nike's future profitability, other factors may also have an impact on profits.

Despite Nike's economic woes, there has been a boom in sports and sports marketing in China in recent years (SD #1 D). Considering that in quarter one of 2015, Nike's sales were up 30% year over year, and that direct-to-consumer sales were up 46% as the company focuses on online and Nike Brand Store growth (SD #2 B), it seems that Nike has found a strategy that will work around the cultural barriers in that region to increase profits. As an illustration of Nike's highly adaptive marketing mix, specialized stores and an influx of online marketing have driven sales and will most likely continue to drive sales in the coming quarters.

## Conclusion

In conclusion, although there is a presence of limiting economic and cultural factors in the Chinese market, I believe that Nike's current foothold in the marketplace and their adaptive marketing strategies will allow them to grow sales and profits for years to come. I base my findings on an evaluation of Nike through Ansoff's matrix and a STEEPLE analysis, as well looking at Nike's marketing mix in China. Even though there are threats in the external environment that could negatively affect Nike's profits, recent online and direct-to-consumer sales growth and an expanding Chinese middle class will eventually be the factors that will increase Nike's long-term profitability. Additionally, the Chinese government's decision to end the "one-child policy" will also increase profits over the long-term as it will provide a larger potential customer base for Nike. My resources for my findings were limited to the sole opinions and findings expressed by various analysts of Nike. The findings from these sources were used to reach my conclusion.



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## Appendix:

### Source Document #1

Future High-Performance Markets For NIKE  
By Phalguni Soni

#### Greater China: High-return, high-performance markets for NIKE

Greater China made up ~8.5% of NIKE Inc.'s revenues in 1Q15. The segment's revenues grew at a CAGR (compounded average growth rate) of 10.6% over the fiscal year period between 2010 and 2014, to ~\$2.6 billion in fiscal year 2014. At an operating profit margin of 31.4% in 2014, Greater China has the highest return on sales among NIKE's segments.

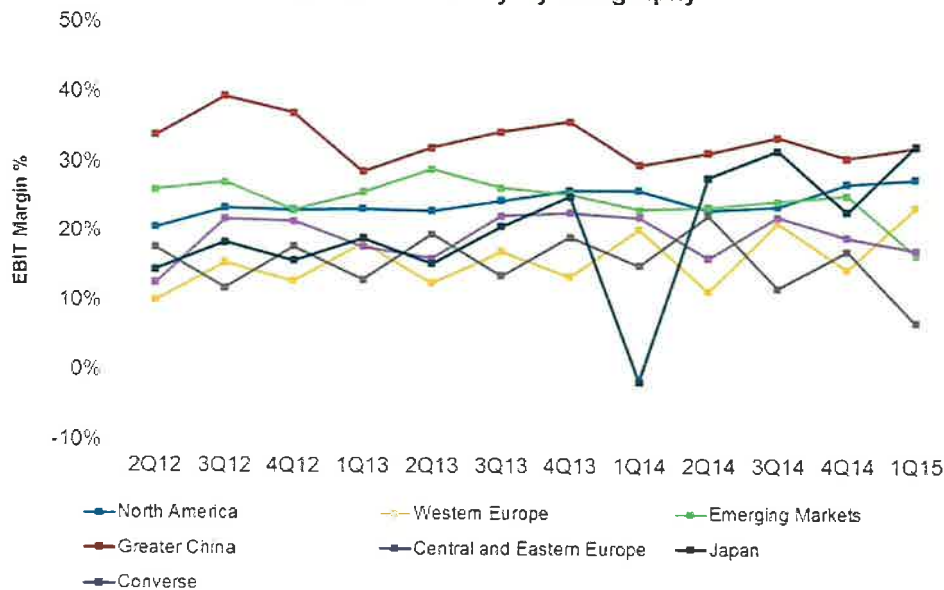
Although margins are high, they've taken a dip recently. NIKE, Inc. (NKE) is now re-positioning itself in the Chinese market. It's trying to create a more differentiated product portfolio.

Comment [1]:  
A

Overhead has increased with the company's strategic investments in direct-to-consumer and new headquarters in Shanghai. Higher discounts and closeout sales have also been factors. The company's objective is to increase retail profitability and build a more segmented market. Key growth categories include Running, Basketball, and Women's Training.

Comment [2]:  
B

NIKE: Profitability By Geography



## Macro tailwinds in China

The Chinese segment should benefit from the Chinese government's efforts to increase consumer spending. Consumer spending makes up just ~34% of Chinese GDP (gross domestic product). This is low when you compare it to India's ratio of 62% or South Korea's 52% ratio. Faced with a slowing economy, the Chinese government is looking to raise the level of consumption.

Comment [3]:  
C

Consumer spending is likely to be a crucial growth driver in China going forward. This would benefit consumer discretionary (XLY) companies like NIKE, especially considering the boom in sports and sports marketing in China. Some of NIKE's major initiatives in China include the endorsement of athlete Li Na and the opening of its second women's-only store in Shanghai, on November 29.

Comment [4]:  
D

The iShares MSCI Emerging Markets ETF (EEM), the Vanguard Emerging Markets ETF (VWO), and the iShares China Large-Cap ETF (FXI) provide exposure to Chinese equities.

### Converse: An iconic brand presenting unique opportunities

NIKE acquired Converse in 2003. The Converse brand made up ~7.2% of NIKE's revenues in 1Q15, down from ~8.8% in 2Q12. The company expects to achieve \$3 billion in revenues for the segment through fiscal year 2017. It's in the process of converting licensees to a direct distribution model. This should provide opportunities for growing revenues. Licensees make up about 50% of the global market. NIKE also plans to leverage Converse brands such as CONS or Jack Purcell, and increase new apparel offerings to fuel growth.

These initiatives appear to be paying off for Converse. The segment's operating income margin spiked sharply to 32.3% in 1Q15, overtaking China's 32.1% margin.

## Source Document #2

### China Is Still Nike Inc.'s Greatest Opportunity for Growth

Worried about economic turmoil in China? Nike crushes its first quarter, led by massive growth in China, and here's why that growth is likely to continue.

Nike ([NYSE:NKE](#)) is growing sales in every region of the world, but China is by far Nike's most important growth opportunity. "China" was mentioned 49 times in Nike's 2015 10-K for the fiscal year ended May 31. It's no surprise, since the country was its highest-growth region during the year, with sales up nearly 20% over FY 2014. It was clear in the Q1 earnings released on Sept. 24, China is becoming an even more important part of Nike's global profile.

Comment [1]:  
A

#### Nike crushes Q1 earnings

Following a very impressive FY 2015, Nike's first quarter showed that the company isn't slowing down. Though sales grew only 5% during Q1 year over year, net income jumped 23%. World-wide future orders were up 9% year over year, 18% if adjusted for currency fluctuations during that time.

Nike performed well in nearly every region of the world, but the big story is Nike's surge in China. Some of the impressive results from Nike's Chinese operations during the quarter include:

Sales up 30% year over year.

Footwear segment sales up 36% year over year, compared with 20% YoY footwear sales growth in FY 2015.

Direct-to-consumer sales up 46%, as the company focuses on online and Nike Brand Store growth.

Comment [2]:  
B

EBIT up more than 50% because of higher margins on higher-priced goods and improved expense management.

#### Why Nike isn't worried about China's economic woes

Analysts have been harping on China's slowing economic growth for a few years now. It was only five years ago that China's GDP was still growing in the double digits each year, but now that total economic growth has slowed to an expected 7% this year, there are more concerns about what the slowing economy, volatile stock market, and changing business landscape will mean to U.S. companies doing business in China.

Comment [3]:  
C

But Nike's executives are unfazed. During the company's recent post-earnings conference call, Nike's CFO, Andy Campion said "While we're very mindful of the macroeconomic volatility in China, our brand has never been stronger and our marketplace has never been more healthy."

Comment [4]:  
D

That's because Nike's incredible opportunity in China comes from the country's rapidly growing middle class. According to research by ANZ economists, 326 million Chinese citizens will rise into the middle class between 2014 and 2030. That's roughly the population of the United States

Comment [5]:  
E

that's entering the middle class in less than two decades, and that's now the target demographic for Nike.

Nike has an estimated 12% share of the total athletic wear market in China, up from an estimated 11% last year. Expect that percentage to continue increasing as Nike takes advantage of the rising popularity of basketball in China. With a rapidly growing total market size, coupled with a growing share of that market, Nike's strong sales growth in China is likely to continue well beyond 2015.

Comment [6]:  
F

## Source Document #3

### **Nike Just Doesn't Do It With Lost Sales Year in China**

Bloomberg News

July 17, 2014 — 1:14 PM PDT



Not long ago, Nike Inc. could simply open stores in China and wait for newly minted middle-class shoppers to show up.

No longer. Though it has been in China for 30 years, the world's largest sporting-goods maker is losing customers to Adidas AG's more fashionable street wear and Hennes & Mauritz AB's cheap, hip clothing. Making matters worse, Nike is knee-deep in unsold merchandise after a projected post-Olympics sales bump didn't materialize.

Eighteen months ago, Nike was so bullish on China it predicted sales there would double to \$4 billion in four years. Now it says China sales will probably fall for the next two quarters, which would make it five in a row.

Comment [1]:  
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"You have to be a smarter retailer now," said Camilo Lyon, an analyst for Canaccord Financial Inc. in New York who recommends holding the shares. "Now the consumer has become more educated and global and sold to a lot more. Everybody is forced to become sharper."

So far, Nike's challenges in China haven't spooked investors because sales growth in North America remains robust. In the past year, revenue in company's largest market surged 18 percent. Beaverton, Oregon-based Nike has advanced 23 percent this year to \$62.70, compared with an 18 percent gain for the Standard & Poor's 500 Index. The stock gained 1 percent to \$63.33 at the close in New York. Analysts expect the shares to rise to \$66.03 in the next 12 months, according to the average of 29 estimates compiled by Bloomberg.

### Sluggish Economy

Nike executives have blamed the reversal in China on a sluggish economy and changing consumer tastes. The company continues to believe it has the right strategy to capitalize on the country's tremendous growth potential, Mary Remuzzi, a spokeswoman for Nike, said in an e-mail. Nike declined to make an executive available for this story.

Comment [2]:  
B

Nike entered China in 1982. It became the nation's best-selling sportswear brand by building basketball courts, organizing grassroots competitions and provided funding to sporting leagues such as the Chinese Basketball Association and the Chinese Super League soccer.

Comment [3]:  
C

It sponsored Chinese athletes ranging from national 110-meter hurdler Liu Xiang to former French Open winner Li Na. The 2008 Olympics in Beijing helped goose sales, which doubled to \$2 billion by 2011. While China made up 9.6 percent of Nike's revenue last fiscal year, the company generated 25 percent of its profits there before interest and taxes.

### Inventory Pileup

Then the momentum stopped and inventories started piling up. The same thing happened to Adidas yet it started discounting earlier than Nike to clean out unsold merchandise. Last summer, it became clear that Nike inventories were growing faster than sales. Revenue from China, excluding the effect of currency exchange-rate fluctuations, declined 5 percent to \$2.45 billion in the fiscal year ended May 31. These results came as China's retail sales grew more than 10 percent.

Comment [4]:  
D

Nike has said the sizing of its apparel hasn't kept up with changing consumer demands for a tighter fit. Not having a precise fit mattered less when the power of the Nike brand was enough to move products, says Faye Landes, an analyst for Cowen & Co. in New York, who recommends buying the shares.

"The demand was so strong and the business was going so well" that fit didn't matter, she said in an interview. "Now they've realized there's room for improvement."

### Middle Ground

Adidas, based in Herzogenaurach, Germany, has sought a middle ground between sportswear and fast fashion with NEO, a youth-oriented brand it is pushing aggressively in China, which has become NEO's biggest market.



“Adidas has done the best job of staying ahead of the pack with their understanding of the Chinese consumer,” said Terry Rhoads, managing director a Zou Marketing, a sports consulting firm in Shanghai. “Understanding how they wanted to have fashion and sport together.” Eric Yang, a 20-year-old student at Shanghai’s Industrial and Commercial Foreign language school, was recently sporting a pair of retro black Adidas Originals sneakers with green and orange stripes. Yang prefers Adidas to Nike because he says the German brand provides better value for money. “There are Nike and Adidas discount outlets just next to each other outside our school,” he said. “The Adidas outlet is always packed, and the Nike one is never crowded.”

Comment [5]:  
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### Fast Fashion

Many Chinese youths are gravitating to less pricey fast fashion. Sally Wang, an 18-year-old from Zhejiang province, used to wear Nike and Adidas when she was younger and hardly ever dons sportswear anymore.

“When you are younger, you don’t really care and wear whatever your parents buy you,” she said. “But when you’re older and can chose, Nike and Adidas are rather pricey to me.”

Nike’s marketing also faces hurdles in a changing society. [The company continues to use athletes to convey the message that anyone can aspire to greatness -- a harder sell these days in a nation where Chinese parents, long focused on academic achievement, are putting ever more emphasis on hitting the books than the basketball or tennis court. Adidas, by contrast, has shifted from a hard-core sports message to one focused on fashion and lifestyle, said Jimmy Qin, a vice president at sports consulting firm Octagon.

Comment [6]:  
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“The boys complain,” Wang said. “They say: ‘My parents are making me stay home and now I can’t play basketball.’”

As it struggles to recover lost ground in China, Nike is culling inventory, introducing revamped products and upgrading merchandising. In May, it replaced the top China executive. In an encouraging sign, sales are growing at Nike’s largest retail partners there, Chief Financial Officer Donald Blair said on a conference call with analysts on June 27.

“Nevertheless, we still have a lot of work to do,” Blair said.

## Source Document #4

### **Nike's China Problem**

March 20th, 2014 by Trefis Team



**NKE**

NIKE

The share price of [Nike](#) (NYSE:NKE) was up 1.5% following the announcement of quarterly results by American sportswear and footwear retailer, Foot Locker. A strong performance by Foot Locker over the quarter demonstrates Nike's strength, as nearly two-thirds of the shoes sold at the retailer are Nike's. The latter's stock price has gone up by nearly 10% over the past month, as it continues to record strong growth despite problems in emerging markets. However, the sportswear giant is still struggling in one of the world's most important apparel markets – China. <sup>[1]</sup>

Sportswear has been increasingly popular in China, driven by a booming economy and rising disposable incomes. Over the last seven years, the market has grown at a compounded annual rate of nearly 30%. <sup>[2]</sup> Yet Nike's sales in "Greater China" (i.e., including Hong Kong, Macau and Taiwan) fell for five consecutive quarters, before recording a paltry growth of 4% in the second quarter of Fiscal 2014. Over this period, revenues for Nike brand products rose everywhere except China and Japan.

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Comment [2]:  
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Poor performance in Japan, an economy riddled with an aging population, slumping economy and weak currency-is not surprising, but failure to capture the growth in the Chinese athletic apparel and footwear market is a sign of worry for the company. In this article, we discuss the reasons behind Nike's poor performance in China. <sup>[1]</sup>

In 2012, Nike was so confident about China that it predicted sales would double to \$4 billion in four years. The company's expectations of a compounded revenue growth of 18% in China have proven to be wildly over-optimistic. Sales in China fell for five

straight quarters before this slump was arrested in the Q2 FY'14, in which Nike posted a 4% growth. The company's inventory levels at stores were well beyond the demand for its products. This necessitated heavy discounts in order to clear the inventory, which affected the company's top line. Even post-discounting, the clear out process was slow. The company's management blamed the poor performance on sluggish GDP growth and changing customer preferences.

Comment [3]:  
C

We believe that Nike's strategy for the region was wrong for the reasons listed below:

Nike is a running and basketball shoe company from the U.S.. Its expansion into Europe was based on the strategy of targeting key players for sponsorships and leveraging those sponsorships to forge relationships with large-scale commercially organized leagues like the Barclays Premier League in England and La Liga in Spain. A similar strategy isn't possible in China for two reasons: no opportunities similar in scale to those in Europe exist and the more popular sports in China, i.e. Football and baseball, have limited appeal in urban areas.

Comment [4]:  
D

Nike's training and running categories haven't received much traction in China because health clubs are traditionally seen as activities for rich people in the region. On the other hand, a culture of biking to work exists in China but people do so mostly in street clothes, instead of spandex.

Comment [5]:  
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Nike's branding is based on encouraging strong identification with iconic sports-stars it uses to endorse its products. In a culture where parents are excessively focused on academic achievement, such a strategy has limited appeal. <sup>[3]</sup>

Nike has tried other means of increasing its visibility in China. It opened a store in Shanghai to sell skateboarding and snowboarding equipment. The company also organized events to popularize the store. Nike also has plans to increase partnerships with government to develop school athletic programs and expand rubbing clubs at universities beyond the running clubs it helped open at 11 universities in 6 cities in 2009. To attract women, Nike holds special training classes targeting female consumers in gyms in seven cities. <sup>[4]</sup> However, these strategies haven't been entirely successful. Nike's expansion into second and third tier cities in China will help boost its sales in the long run, but the company still remains short of arriving at a strategy that can springboard it into a position similar to the one it has in the U.S. and Europe.

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Comment [7]:  
H

Strong

Competition

Historically, Nike has led the Chinese sportswear market with a 12.1% market share, according to the research firm Euromonitor International, with Adidas a close second at 11.2%. But Adidas appears to be gaining on Nike by positioning itself as a more youthful and fashionable brand. In recent years, Adidas' message has shifted from a hard core sports image to one focused on fashion and lifestyle. Adidas has used its sub-brands like NEO to sell skinny fit jeans while also stocking its stores with fashion ponchos and gingham button down shirts. <sup>[5]</sup> The company grew its women's business by 40% following its "All in for My Girls" campaign launched in March 2013. This mix of a fashion and sports image is a good fit for a market where working out is seen as a fun activity rather than as a lifestyle choice. <sup>[6]</sup>

Comment [8]:

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Comment [9]:

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Recently, Adidas announced its plans for a high concept, interactive retail store in China. The store resembles an arena that customers can walk up to in a tunnel cheered on by spectators, much like athletes do before a sporting occasion. <sup>[7]</sup> In 2013, [Under Armour \(UA\)](#) debuted its own high concept store in China. The "experience store", as it is called by the company, opened in Shanghai, and offers a striking simulation of the experience of training for an athletic team. Both these stores are likely to excite customers and boost sales for each company.

## Source Document #5

How is Nike Conquering the Challenging China Market?

Overview of the Chinese market

China: A market considered to be a giant in fashion and luxury. As lucrative and attractive for many brands as it may seem, it is equally delicate and peculiar to operate in and grasp its opportunities and benefits. Therefore, as high of a return that this market can bring to a brand venturing into it, as high of a risk and challenge it is to successfully operate in it.

Comment [1]:  
A

By risk, it is meant that China, by western standards, demands strategies, which are different than any part of the world. Hence, what can work in Europe as marketing and targeting strategies do not necessarily apply to the Chinese market. This is what many brands such as Nike (Score: 35.63) have learned the hard way. As globally successful as a sportswear brand can be, Nike has slipped in the Chinese market not performing as well as it is actually doing in the rest of its global markets.

Comment [2]:  
B

How is Nike doing globally?

Nike's financial results were globally very promising in 2013. It has witnessed growth in all the markets it actually operates in except for the China. Its revenues in Central and Eastern Europe have even increased by 10% [ref: qz.com], which is a figure that draws great optimism to the American sportswear brand. This is in big part due to the trends in the last couple of seasons, which have included in their collections the sneakers as a key element in their collections.

From luxury fashion brands such as Valentino (Score: 32.71) and Bottega Veneta (Score: 9.36), influencers from all over the world are sporting sneakers in their everyday outfits. This is very well mirrored in Nike's performance as it is capitalising on this trend through its new collections: Nike's designs are developing to be more sophisticated and high-end. Flyknit, for instance, is a model developed in 2012 and is being revamped every year. This particular sports shoe, has witnessed increased popularity with diversified use from cardio and strength training to everyday fashion wear.

Comment [3]:  
C

Then, why is Nike's worldwide success not being witnessed in the Chinese market?  
In 2013 unlike the growth in the European market Nike's revenues have slipped in China by 3%. Why?

a) Accumulated inventory

This is the number one short-term problem that Nike is actually facing in the Chinese market. Aside from the concern of its long-term strategy to win over in its sales and revenues, the American sportswear brand has first to deal with its excess inventory. This crisis is being faced by higher than usual markdowns on prices in retail stores as well as outlets. This strategy comes in quick response to this overloading stock and could jeopardise the brand's image in the long run.

Comment [4]:  
D

b) Counterfeits

Another challenge, which faces the sportswear brand in the Chinese market, is the easy access to counterfeits which are present in large quantities and at very cheap prices. Instead of buying a pair of Nike shoes

at a regular price, a portion of the market is opting for less expensive prices by buying counterfeits. Keeping in mind that most of sportswear brands in China are targeted at the younger generation, which at this age would rather go for cheaper prices rather than higher perceived brand value.

Comment [5]:  
E

#### c) Strong Competition

Nike is facing big names in the sportswear industry, which are well established and have integrated in the Chinese business sector. Adidas (Score: 107.5), which is an international main competitor for Nike, is pushing a different strategy in this particular market. It has opted for a middle ground between being a purely sportswear brand to mixing between fashion and affordable sportswear. Lululemon Athletica Canada Inc and Under Armour (Score: 8.36) have also positioned themselves in niche segments such as yoga sportswear and performance wear. This creates a clear differentiation in the market and positions the brand appropriately vis-à-vis its market and competitors. The thing that Nike hasn't clearly yet succeeded to do.

Comment [6]:  
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#### d) Marketing Campaigns

Nike is a US based brand and its marketing efforts are mainly oriented towards celebrity endorsements and sports sponsorships. Many times those sponsored sports have less appeal in the Chinese market and the celebrity endorsements are not relevant to the masses especially outside urban areas. In this particular culture also, more value is given to academic performance, therefore athletes do not have the same degree of influence and glamour.

Comment [7]:  
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Nike has already planned to press the "reset" button in the China. It is aiming to open specialized stores in response, to segment its operations such as the one it has recently launched in Shanghai made of 100% recyclable material. It is restructuring its presence into a more focused one with a clearer vision in mind. Therefore, it is expanding into more specific outlets such as stores dedicated to skiing and snowboarding. It is also sponsoring more relevant events and organizations mainly related to education.

Comment [8]:  
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Some strategies also adopted by main players in the market can be a reference to better understand the winning strategies that could work in China. Adidas, for instance, is capitalizing on the younger segment, which is in need of fashionable sportswear at reasonable prices. NEO is a sub-brand by Adidas, which joins both of those two worlds in a youth oriented branding and marketing. It offers more of lifestyle and everyday picks such as fitted jeans.

It is also important to keep in mind that the Chinese consumer views fitness centres as an activity reserved for the rich and by that less oriented towards the younger generation. Hence, purely athletic wear has a limited market compared to the larger mass of the young generation, mainly students with limited incomes. Adidas also gets the Chinese market for their love of entertainment. This is why it is innovating its retail spaces by making them interactive to the public. Its latest store features a HomeCourt: a concept offering the store's visitor the experience of an athlete. As one enters the space, a tunnel like structure guides them to the store. In this area cheers just as the ones heard in an actual playing field offers the first interactive experiences that Adidas clients are immersed in. A shoe bar is also present in-store, enabling visitors to find all the information they may need as well as their perfect shoe fit.

Comment [9]:  
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Think global and act local is one of the very important lessons to be learned in the Chinese context. Nike as globally successful as a sportswear brand cannot only capitalize on its iconic name in the Chinese mar-

ket. It has already acknowledged this fact and it is modelling its strategies according to the specific needs of the Chinese culture. This specialized approach, which will require a substantial allocation of resources, will be definitely worth it considering the long-term financial benefits it can swindle.