

Nike's Investment Value and Development Trend

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Abstract. The outbreak of the COVID-19 epidemic has brought a serious impact on global economic and social development, especially, on enterprises that suffered a lot of negative influence and faced difficulties in survival and operation. Even though the epidemic situation getting a little better, these problems for enterprises still exist. This study mainly takes Nike Inc. as the research object, based on the SWOT method and some financial ratios to analyze Nike's Profitability, Operation, Solvency and Development. Meanwhile, comparing Adidas and Anta these two powerful competitors shows Nike's pros and cons. Besides, this paper reveals that Nike Inc. may have revenue pressure not only because of global economic issues, but also political issues. In order to make further growth, Nike could optimize the capital structure and improve the quality of operation, etc.

Keywords: Economic globalization; Market analysis; Profitability; Strategies.

1. Introduction

1.1 Background

For the past few years, in the context of the COVID-19 epidemic and other factors under the influence of Nike's earnings appear more obvious fluctuations. However, to improve its current situation, Nike has made some changes to cope with the new market situation. It continues to address retail issues by advancing digital and sustainability while launching eco-friendly new technologies and NFT products to meet the global trend of co-protecting the environment. In addition to the above aspects, Nike's supply chain problems need to be further improved. At the same time, its market share in China is shrinking, while many brands in China are on the rise. Therefore, its investment value and its development trend remain to be explored.

This paper starts from the strategic level of the company, takes Nike as the research object, and aims to interpret the sports brand management strategy and changes in the business environment under the epidemic environment. In the first part, SWOT, Porter's five forces and other analytical methods are used to summarize the company's operating status from multiple perspectives. The second part combs the existing research, summarizes the relevant literature on the company's financial analysis, and combs other literature on the track in combination with the industry characteristics of fast-selling sports brands. Finally, we compared the financial indicators of Nike and its competitors Adidas and Anta, analyzed their profitability, solvency, operating capacity and other aspects, and gave corresponding governance strategies.

1.2 Related research

Hu and Zhang first introduce the concept of the value chain, from the development history of Nike, analyzes the application of value chain management in Nike, and mainly from the two dimensions of resource consumption and value output to measure the efficiency of R & D, production, marketing and other links [1]. In addition, from the strategic level, the marketing strategy and production process are analyzed respectively. At the end of the paper, the author summarizes applicable strategies of Nike, emphasizing building brand value, strengthening the construction of core business, stabilizing

the application of financial information in enterprise management, and cultivating customer-centered value orientation, combined with China's national conditions, and summarizes the enlightenment for Chinese enterprises [1].

Zhang analyzed the innovation of Nike's product application and enterprise strategy, first emphasizing the importance of the non-competitive alliance in seizing the blue ocean market, enhancing brand competitiveness and optimizing customer experience, then introduced its specific connotation and different understanding in terms of members, resources and organizational structure, and finally combined with the actual case of Nike and Apple jointly creating product advantages. The advantages of a non-competitive strategic alliance are demonstrated in theory, and its practical value is summarized [2]. Li compared the export strategies of Nike and domestic brands, he holds the opinion that Nike has advantages in technological innovation, advertising marketing, outsourcing of production links to concentrate on the links with high returns, and puts forward some deficiencies in the current domestic manufacturers, such as the lack of marketing, market share and brand promotion. It is intended to inspire domestic sports brands to learn from each other and learn from each other [3]. Hu's article focuses on the analysis of the marketing strategy of fast-selling brands, States and analyzes the traditional marketing concept in today's market misunderstandings, the argument process is mainly following the analysis of the current situation, the statement of the problem, the idea of proposing solutions, and suggests that enterprises should strengthen market research and scientific marketing from the perspective of the needs of modern consumers [4].

Greg et al. study the process of Nike's becoming the leader in the industry and its significant development process and highlights the superiority of Nike's business strategy by comparing similar business models of other companies. Starting from the development history of Nike, the article makes a concrete analysis of the major business strategies during the operation period and compares the current situation of the industry with other enterprises, showing Nike's operation strategy at that time in detail, and stating its economic significance at the marketing level [6].

Edwin McConkey's study analyzes the advantages and disadvantages of the companies in the sports product sales industry from the perspective of market entry barriers. Then it summarizes the basic characteristics of the industry and establishes a mechanism for Nike to expand the international market. By comparing the data in different countries, it is concluded that Nike should expand its market territory in the form of a sole proprietorship, and several factors affecting the market expansion of enterprises are summarized, the first is political and cultural factors, followed by policy factors [7]. Michael compares Nike with previous studies, the study weakens the proportion of macro-strategy at the enterprise analysis level and focuses more on the significance of lean production and product quality control. At the same time, it is proposed that improving employee relations, improving employee motivation and work enthusiasm are conducive to lean production of enterprises, and suggestions to improve product quality are put forward at the organizational level, and its practical significance is analyzed in combination with the supply chain [8].

Flynn's article emphasizes the impact of the market environment on enterprise operation and makes relevant analyses of the financial data. It measures Nike's operation by comparing the financial data of different enterprises and gives the evaluation of Nike from the perspective of enterprise operation and effective improvement suggestions in the long term [9]. Wu's article holds that the success of Nike comes from its unique brand culture and brand marketing strategy. Based on an in-depth understanding of Nike's development, this paper discusses Nike's marketing strategy, analyzes Nike's brand marketing strategy, and uses the SWOT model to analyze Nike's strengths, weaknesses, opportunities and threats, as well as Nike's marketing strategy in each potential market. Finally, Nike's STP marketing strategy is analyzed based on SWOT analysis [10].

1.3 Objective

Starting from the company's strategic level, this paper takes Nike as the research object, aiming at interpreting the sports brand management strategy and business environment changes under the epidemic environment. First, combined with the market environment after the epidemic to do

preliminary industry analysis, both enterprise advantages and disadvantages, in the first part, we use SWOT and Porter Five Forces analysis for the company's operating status of multi-angle summary. The second part combs the existing research, summarizes the relevant literature on the company's financial analysis, and combs the other literature on the same track combined with the industry characteristics of fast-selling sports brands. Finally, we compared the financial indicators of Nike and its competitors Adidas and Anta, analyzed their profitability, solvency, operational capacity and other aspects, and gave the corresponding governance suggestions.

2. SWOT

2.1 Strength

Global reach: Nike is a world-famous and first-line sports brand with a very high position in the sports industry. There are many Nikes flagship stores across the globe, covering more than 190 countries. Therefore, it has a large footprint everywhere which makes it more known to the public. And the high economies of scale provide Nike Inc. with an advantage in the competition against the new entrants.

Financial condition: Nike has a strong financial base. For the fiscal year 2021, Nike reported revenue of US\$44,538 billion, an increase of 19.08% over the previous fiscal cycle. As a star enterprise, it has won the public trust and loyal customers which makes its market value and brand name advance by leaps and bounds.

Digitalization: Such outstanding achievements are inseparable from its advanced digital strategic vision and increasingly perfect digital ecology. Nike's investment and achievements in digitalization over the years are more outstanding among sports brands and even big consumer goods.

2.2 Weakness

Wide range of sports products, the main profit is in footwear: Nike's products cover a wide range and variety. However, the source of income is still largely dependent on footwear products. Adidas and Anta are Nike's two main competitors. In the sports industry, the market share of footwear is an important factor affecting enterprises.

Xinjiang cotton incident: With the reshaping of public opinion after the Xinjiang cotton incident, a new generation of consumers has been strengthened. Especially the latter, the impact of the national trend is continuing, and may even reshape the industry in the future.

2.3 Opportunities

Online platform: After the vigorous development of online fitness and other industries, Nike is also building on its online platform actively, including Nike App, Nike.Com, SNKRS App, Nike WeChat applet, NTC WeChat applet, etc. This makes Nike's loyal customers more viscous and greatly reduces the access threshold for expanding new customer resources.

Regarded as a fashionable brand: Such the AJ series, as a fashion brand, many young people and shoe lovers are keen to buy or collect AJ which can bring lots of revenue.

2.4 Threat

Increasing competition: Due to the fierce competition in the global clothing and footwear market, Nike's situation is not optimistic. Its main competitors, such as Adidas and Anta hold quite a strong market presence, but still, Nike is the leader in the sports industry and holds the highest market share.

Impact of a pandemic: Repeated epidemic, supply chain interruption and the offline retail slowdown have made a significant influence on the manufacturing, distribution, and purchasing of Nike products. These problems lead to the extension of delivery time and the increase of in-transit inventory, therefore there is an inventory backlog which makes a negative impact on revenue,

Then we can also use the SO and ST strategies. Nike has excellent technology for products and advertising, so we consider that Nike should take good use of its advantages and seize opportunities to innovate. For example, the changes in consumer demand to upgrade past products, which can help it to avoid the risk of being eliminated by the changing market and overtaken by other competitors. Then I use WO and WT strategies to analyze. It is in urgent need of improving its after-class service, and now that the development of e-commerce is better. It can seize this opportunity to change so that customers' impressions of it gradually changed.

Table 1. SWOT of Nike.

<p>Strengths: Global reach Financial position Strong competitiveness Many loyal customers</p>	<p>Weaknesses: A wide range of sports products, the main profit is in footwear The poor labor conditions</p>
<p>Opportunities: Business Diversification: use the popularity to develop other products Regarded as a fashionable brand, bringing more profits</p>	<p>Threats: Increasing competition Large advertising investment: pop stars effect (the negative information of stars) Impact of a pandemic: COVID-19</p>

3. Fundamental Analysis

3.1 Profitability

As shown in Table 1, the profit trend of these three companies in the recent three years can be obtained. Among them, only ANTA's gross margin has maintained a trend of growth. It is relevant to some good decisions it has made in recent years, and its market share in China is already higher than that of Adidas. NIKE and ADIDAS were influenced by COVID-19, which was an important reason for the decline in 2020. In terms of NIKE and ADIDAS, they have many Overseas production plants. Originally, the solution could help them to reduce costs. But as labor prices rise in some countries, they have to move to cheaper ones which can help them maintain a lower cost of production. In the process of adjustment, it is hard to avoid a certain impact on production. Despite ADIDAS having a higher gross profit margin than NIKE, the Net profit margin of ADIDAS was gradually surpassed by Nike. Overall, ANTA's profit trend is rising, and Adidas and Nike are slightly down. If Nike makes the right decisions in some markets in the future, its profitability will increase to some extent.

Table 1. The results of Profitability.

	NIKE			ADIDAS			ANTA		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Gross profit margin	44.7%	43.4%	44.8%	52.0%	50.0%	50.7%	55.0%	58.2%	61.6%
Net profit margin	10.3%	6.7%	12.9%	11.3%	4.0%	9.4%	16.6%	15.7%	16.7%

3.2 Operation

From the inventory turnover rate and accounts receivable turnover rate, relatively speaking, Nike's accounts are realized quickly, indicating that the accounting relationship is reliable, the capital chain is stable and the repayment ability is strong. However, compared with Adidas and Anta, Nike's inventory liquidity is poor, indicating that Nike's inventory backlog risk is higher, not excluding the impact of supply chain pressure on it in today's market fluctuations. In addition, Nike's total asset

turnover rate is lower than the other two companies, indicating that Nike should pay more attention to the use of total assets in the industry to enhance its liquidity.

From an operational point of view, Nike has recently laid off employees, but the overall staff salary is relatively stable, personnel changes are not large, and there are innovations in the employment of designers and the production of goods. It can be seen from the increase in innovation expenses that the company has made design innovations and further developed the market potential; the market has a good response to Nike products. The company shall improve the turnover rate of inventory using price reduction, discounts, and other promotional methods, and strengthen the transformation of current assets to ensure the liquidity of the capital chain.

Table 2. The results of Operation.

	NIKE	ADIDAS	ANTA
Turnover of accounts receivable	10.23	8.15	16.73
Inventory turnover ratio	3.30	2.50	3.00
Turnover of total assets	1.20	0.99	0.89

3.3 Liquidity ratio

The liquidity ratio measures the short-term solvency of an enterprise, mainly including the current ratio and quick ratio. Generally, it is considered that the ratios are the higher the better. The table shows the current ratio and quick ratio of Nike have a trend of increasing from the fiscal year 2019 to the fiscal year 2021. It is a good signal as Nike has a strong ability to repay short-term debt. However, the quick ratio of Nike is lower than Anta, it might be because Nike Inc. performs weaker on some strategies on operational and structure on management. Besides, the liquidity ratios of Anta are higher than Adidas while Adidas's increased slightly and the quick ratio is even lower than 1 in these three years, which means the short-term solvency of Nike and Anta is better than Adidas.

Table 3. The results of the Liquidity ratio.

	NIKE			ADIDAS			ANTA		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Current Ratio	2.10	2.48	2.72	1.25	1.38	1.56	1.88	2.79	2.50
Quick Ratio	1.14	1.39	1.85	0.63	0.73	0.72	1.52	2.32	2.02
Cash Ratio	0.85	0.31	1.02	0.25	0.45	0.43	1.02	1.74	1.54

3.4 Solvency ratio

The solvency ratio measures long-term solvency. The liabilities to assets ratio and the liabilities to shareholders' equity ratio of Nike increased from fiscal 2019 to fiscal 2020, mainly due to COVID-19 and the economic recession, and the company had an increasing long-term debt. But these two ratios decreased from fiscal 2020 to fiscal 2021 as the epidemic turns well. Generally, it is considered that the ratios are the lower the better because these reflect the long-term solvency of an enterprise. Conversely, the interest coverage ratio is the higher the better. The table shows that Nike had a positive performance in fiscal 2019, but it decreased year by year. However, compared with Adidas and Anta, it still has better long-term solvency.

Table 4. The results of the solvency ratio.

	NIKE			ADIDAS			ANTA		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Liabilities to Assets Ratio	61.88 %	74.30 %	66.17 %	65.88 %	68.22 %	64.60 %	48.90 %	50.21 %	49.47 %
Liabilities to Shareholders' Equity Ratio	162.36 %	289.10 %	195.61 %	200.45 %	222.53 %	190.17 %	95.71 %	100.85 %	97.92 %
Interest Coverage Ratio	98.98	33.44	26.48	19.70	5.40	24.30	31.09	22.23	24.58

4. Development

Nike's shares rose 13% after the bell on the day the results were released. In the fourth quarter, North American sales hit an all-time high, growing 141% year over year to \$5.38 billion. Sales in China came in at \$1.93 billion, below analysts' forecasts of \$2.22 billion; Sales in the EMEA (Europe, Middle East and Africa) market grew 124% year over year. For the full year of fiscal 2021, Nike grew in all regions, with the Greater China region recording seven consecutive years of double-digit growth.

Nike reported revenue of \$12.2 billion in the three months ended May 31, 2022, beating analysts' expectations and rising 3 percent on a constant currency basis. Nike's inventory rose 23 percent to \$8.4bn at the end of the quarter because of supply chain disruptions and other problems.

For the full fiscal year 2022, Nike reported revenue of \$46.7 billion, up 6% year-over-year on a constant currency basis. Full-year net profit rose 6 percent from a year earlier to \$6bn, both beating analysts' expectations. The gross margin for the year rose 120 basis points to 46%.

The horizontal product strategy should try to avoid the shortcomings of product quality in the production link and whether the product is comfortable. It should generally improve the product quality, use new technology, reform the production mode, and strengthen its competitiveness. Only in this way can we try to avoid the threats and challenges brought by the rise of other brands and changes in market share, and maintain our market share and competitive advantage.

The tight product strategy is stricter with the company's product production requirements. More capital and time should be invested in product quality. There are higher requirements for developing new products. Both cost control and quality improvement should be carried out to maintain customers' sense of freshness and desire for the brand. At the same time, it is also necessary to stand on the perspective of consumers and provide products with better cost performance.

5. Conclusion

It is known that Nike Inc. is the leader in the sports industry, its business scale and annual income are the primary in this industry. However, as the ratios detail shown above, Nike had an unstable performance. Comparing Adidas and Anta, Nike had an obvious fluctuation especially in solvency ratios through these three fiscal years. Maybe the main factors are the COVID-19 pandemic and the financial secession. Besides, because of the Xinjiang cotton incident breaking out in 2021, many Chinese boycotted buying Nike products, at the same time, domestic products have risen and grown rapidly. Such as Anta has become the third in this industry which brings great competitiveness to Nike, as Nike's revenue from Great China has sharply reduced. In addition, Nike has withdrawn from the Russian market in 2022 which will make influence the revenue to a degree.

Facing these problems, Nike should optimize the capital structure and improve the quality of operation to achieve better development. Besides, Nike shall establish a sales mechanism under special circumstances, strengthen risk control, timely adjust the production scale according to the market situation, promote the integration of online and offline business, and ensure healthy inventory.

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