

Nike's Investment Value and Development Trend

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Abstract. With the improvement of people's living standards and the popularity of sports, more and more people associate healthy life with sports, which significantly increases the consumption of sports goods. The United States is the production of sports goods market leader. Nike is a very representative sports goods company, with 110 years of production history. After decades of development, Nike has occupied nearly half of the market share in the high-end sports market in more than 120 countries. This paper selects American Nike company as the research object to analyze its industry environment and competitive strategy. Then, we'll conduct profitability analysis, efficiency ratio analysis, and solvency analysis on Nike and analyze Nike's investment value and development trend in the past three years based on financial indicators. In the research, it is found that Nike has some problems such as weak solvency, high total operating cost and slow turnover of receivables. This paper proposes a solution to the problems in the report.

Keywords: Competitive strategy; investment value; development trend.

1. Introduction

1.1 Background

Sports consumption has become a new hot topic as people's living conditions and quality have improved. At the same time, the market for sports consumption grew significantly, which was advantageous for boosting sales of associated sporting goods. However, as global production levels rise, there are more sports brands available, and business rivalry is getting more fierce. Because of this, an enterprise must start with its financial accounts in order to utilize certain methodologies to analyze the data and create an accurate assessment of the enterprise's development if it hopes to keep its own pace and continue to operate.

The United States is the production of sports goods market leader, Nike company as a very representative sports goods company, with 110 years of production history. After decades of development, it has occupied nearly half of the market share in the high-end sports market in more than 120 countries. In addition, this paper adopts the method of financial analysis, because the financial analysis can reflect the current situation of enterprises more intuitively and truthfully through various data. The financial statements of Nike Company in recent three years are selected for study, which can better reflect the solvency, Efficiency ratio, and profitability of the enterprise, to find out the financial problems of Nike company and propose solutions, and provide some reference for investors.

1.2 Related research

In recent years, the financial analysis of Nike has attracted the attention of many scholars. In order to assess Nike's financial performance, Ranjan thoroughly analyzed and studied Nike's 2015 balance sheet, income statement, and cash flow statement. He used horizontal analysis, longitudinal analysis, trend analysis, and the identification of key improvement ratios. The authors found that Nike's revenue and profits grew in 2015 and are expected to grow further next year. Adding debt, however, could put future profits at risk. In percentage terms, Nike managed their operating earnings, but current liabilities and inventory increased relative to the previous year [1]. Nike's income statement, balance sheet, and cash flow statement were examined by Xia. The authors found that Nike is still No. 1 regarding the market value, revenue, etc. In recent years, Nike has also implemented extensive reforms in four areas: product, supply chain, channel, and operation. This was done in response to the

escalating competition in the North American market. Nike's sales in Greater China increased despite the pandemic, reflecting the continued strength of the Nike brand in China [2].

On the other hand, many scholars also pay great attention to studying Nike's marketing strategy. Ahmed et al. studied marketing plans for Nike products. From the viewpoint of 4PS, the author outlines Nike's goals and marketing tactics. In other words, Nike can provide and expand its product range, as well as other related products, and build value-based pricing strategies in line with that. For new products, other media can be added in addition to advertising. In other words, it could focus more on social media to promote its latest products and potentially expand to other countries such as China and the Middle East [3]. Panagiotopoulou studied Nike's marketing choices. Nike, the authors argue, is remarkable because it was the first company to bring innovation to sneakers through its research and development department. Nike has created consumer demand for its products by associating them with winning and continually attracting the best athletes in every sport to sign up. The author believes that Nike correctly uses the STP strategy and understands the needs that affect consumers' purchasing decisions [4]. According to Piskorski, in 2004, Nike began experimenting with social media and networking, while also reducing its reliance on conventional advertising. Nike, on the other hand, has opted to concentrate on "non-traditional" advertising via new media rather than reducing its entire marketing budget. The team wants to do this in order to develop stronger relationships with customers and online communities. Nike committed to a social strategy in 2012 that connected experiences and products [5]. Aloulou and Riahi's goal was to showcase Nike's marketing plan. The authors argue that Nike is targeting different markets at the same time. It is targeting a niche market. Nike provides professional products and personalized service for athletes. High-quality products, multiple distribution centers, advertising-focused promotions, and relatively high prices in the worldwide market are all components of Nike's exciting marketing mix, which all contribute to the company's global expansion [6]. To help Nike expand its international women's fitness market, Burgelman implemented complex strategic integration (CSI). This endeavor stretches the business plan and necessitates collaboration amongst numerous business groups. In order to capture the growth of Nike's global women's business and follow its future development, the study comprised longitudinal field studies. Combine strategic process tools and strategic practice tools from a theoretical perspective [7]. Ros introduced strategic management into the Nike strategy. According to the writers, Nike employs a functional approach in the development of its products, marketing campaigns, and customer service procedures. Therefore, Nike aspires to reflect the finest service standards in its business and seeks to forge enduring relationships with customers all over the world in order to improve its customer service [8]. Elsbernd analyzed Nike's marketing strategy in China. Since entering China, Nike has been one of the leading sportswear brands in the country. But Nike's profits in emerging China have fallen in recent years. In order to determine how Nike's marketing strategy has changed in response to the expanding female consumer class in China, the development of online marketing, and the rising demand for goods and brands that reflect consumers' preferences and values, the author examines three distinct consumption and media trends in China [9]. Miao gives a critical analysis of Nike's marketing strategy. Cultural variations are one of several variables that are driving Nike's growth outside of the United States. In order to comprehend how Nike adapts their marketing strategy based on the cultural distinctions between China and the United States, the authors conducted a study. Understand Nike's marketing strategy in the Chinese market through interviews and field investigations [10].

1.3 Objective

This paper takes the American Nike company as an example to analyze its financial statements in recent three years, find out its shortcomings and put forward solutions. This article is mainly divided into six chapters: Chapter one, and the introduction part. This paper mainly describes the Background, Related Research, and Objective. The second chapter carries on the SWOT analysis of the Nike company. Chapter three will conduct profitability analysis, efficiency ratio analysis and solvency analysis based on Nike's three-year financial statements. The fourth chapter, according to the above

analysis, elaborated on Nike company's existing problems and related suggestions. Finally, summarize the whole paper and draw the main conclusions of this paper.

2. SWOT

2.1 Strengths

Nike's philosophy: The Nike brand is associated with sport and the proverbial "just do it" mentality. The secret to Nike's success is that it sells a lifestyle rather than just sneakers. It has successfully infused a philosophy of life into the products it offers through the clever use of a very basic advertising tagline. This idea has received a widespread commendation from society and is progressively gaining popularity.

Nike products place a strong emphasis on the customer experience. Nike designers take potential customers into careful consideration when creating sports equipment. They have a thorough understanding of consumer wants and can produce chic sports apparel with both high-tech features and feminine shapes.

Nike's production lines are now located all over the world. Because factories and employees are not tying it down, it is a leaner company. Nike's product line is always changing and inventive, demonstrating the company's competence in research and development. In order to produce high-quality goods at the lowest possible cost, Nike will then outsource production wherever possible.

2.2 Weaknesses

The Nike Company faces a fair amount of risk. The sports product selection from the Nike brand is extensive and varied. The company's revenue is still largely based on its market share in the footwear industry, though. Adidas, Nike's major rival in the footwear sector, is extremely competitive, so any reduction in its market share will have a big impact on it.

Price sensitivity is high in the retail industry. Nike Town is home to the Nike store. But the majority of Nike's earnings come from selling its goods to other stores. Customers frequently receive quite similar experiences from retailers. Nike's revenues are being pressured as merchants attempt to pass on some low-price competition to the brand.

2.3 Opportunities

Nike has benefited greatly from the ongoing product development. Many ardent Nike brand fans contend that the company is not well-known and that people who use its products don't necessarily purchase them for sporting purposes, necessitating the replacement of shoes with new ones depending on fashion trends.

Additionally, Nike has a chance to create brand-new items like sportswear, eyewear, and jewelry. Prices this high are a direct result of more profitability. Nike's business has grown abroad as a result of its brand's rising international recognition. There is an opportunity for a market where wealthy individuals can buy expensive sporting gear. For instance, there are now demands from a new generation of affluent customers in nations like China and India.

2.4 Threats

The sports product market has steadily attained mature saturation, and sports shoes and athletic apparel now come in a fixed kind and technological configuration. Similar sporting goods are still sold internationally. The competition is becoming more intense.

The shoe sector has significant obstacles, has a little supplier and buyer bargaining power, and lacks focus product alternatives. Consequently, it is challenging to squeeze out profits.

The growth of regional brands in the Asia-Pacific area gives Nike a lot of rivals.

3. Fundamental Analysis

To explore the operating conditions of Nike, this chapter will analyze its profitability, efficiency ratio, and solvency of Nike.

3.1 Profitability analysis

3.1.1 Gross margin

Nike's consolidated gross profit increased 23% to \$199.662 million in 2021 from \$162.41 million in 2020 due to the significant impact of the previous year. Due to COVID-19 and shop closings in Nike's direct business, shipments of Nike products to wholesale clients decreased. Gross margin increased 140 basis points to 44.8% in fiscal 2021 from 43.4% in fiscal 2020, due to good margins on Nike brand total price products in Nike's wholesale and NIKE direct business mainly reflected in high complete price ASP, net discounts. In addition, the positive impact of NIKE Direct business growth, led by Nike's digital division, was offset by higher promotional activity at Nike's factory stores to reduce excess inventory caused by COVID-19. Other costs were lower as a result of COVID-19's particular consequences, which will start to take effect in 2020. These benefits include lower plant cancellation fees, lower inventory rejection rates, and a more positive proportional result of fixed supply chain costs having a greater impact on volumes.

3.1.2 Net profit margin

Net profit margin increased for the full year 2019-2021, with net revenue doubling in 2021 compared to 2020, but net profit margin decreased to 6.79% in 2020. Due to lower marketing and advertising costs for Nike-branded events and retail operations, as well as lower sports activity costs, demand creation costs fell by 13% in 2021. The newly discovered COVID-19 virus has caused a delay in the marketing costs for sporting events. Higher investments in digital marketing helped counteract some of this activity.

Table 1. Nike's profitability analysis project from 2019 to 2021.

	2019	2020	2021
Gross profit margin	44.67%	43.42%	44.82%
Net profit margin	12.86%	6.79%	12.86%

3.2 Efficiency ratio

3.2.1 Receivable Collection Period

It can be seen from the table that Nike's receivables collection period decreased from 2019 to 2021. This is a good phenomenon, indicating that the loss of bad debts is less and the liquidity of assets is good.

3.2.2 Inventory holding period

As a result of the ban, businesses and wholesalers temporarily closed their shops, reducing their opening hours. In addition, the flow of inventory has been reduced by the collapse of global supply chains due to container shortages, shipping delays, and congestion at American ports. As a result, Nike was leveraging Digital Business over Direct Business in 2021, and it's also rolling out more promotions to reduce excess inventory. Nike will be able to make better use of the e-commerce platform in the future and reduce inventory holding time. Compared with 2019, Nike's inventory holding time increased by 14 days.

3.2.3 Payment period payable

Nike in 2019-2021 due period is increasingly short, so Nike enjoys a good reputation in the industry, and its solvency is strong. But Nike needs to pay attention to cash flow to ensure better business operations.

3.2.4 Working capital circulation

Nike's working capital cycle in 2021 is shorter than that in 2020 and 2019, which indicates that Nike's resource utilization efficiency is higher.

Table 2. Efficiency Ratio of Nike from 2019 to 2021.

	2019	2020	2021
Receivable collection period	36.25	34.27	29.55
Inventory holding period	91.71	111.96	105.49
Payable payment period	41.24	41.91	37.75
Working capital cycle	86.72	104.32	97.29

3.3 Solvency analysis

3.3.1 Short-term solvency analysis

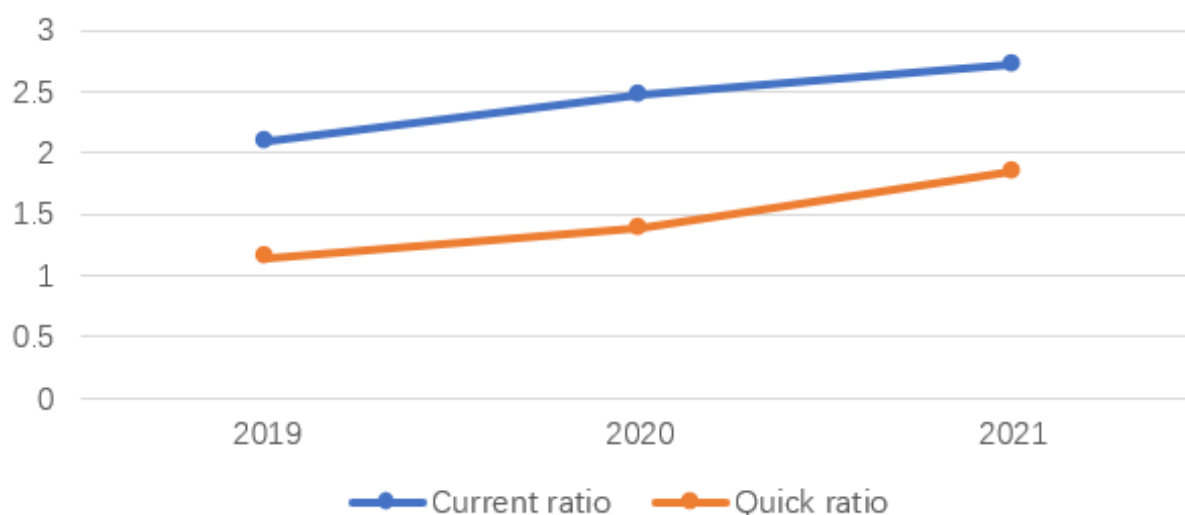


Fig 1. Short-term solvency changes of Nike from 2019 to 2021.

As shown in Fig 1, Nike's current and quick ratios showed similar trends from 2019 to 2020, both of which showed sharp growth. In 2021, both had their highest ratios of 2.72 and 1.85, respectively. Because the amount of short-term investment increased nearly 18-fold, from 197 million in 2019 to 398.7 million in 2021. In addition, the proportion of cash and equivalents reached 988 million in 2021, up 121% from 2019. This shows that the company has sufficient capital holdings, and Nike has strong liquidity and good short-term solvency. It is generally believed that the higher the ratio, the better because it reflects the short-term solvency of the enterprise. However, it was slightly higher in 2021, indicating inventory overhang and holding too much cash, affecting corporate earnings. Although Nike is such a large enterprise that we don't need to worry too much about its short-term solvency, it still needs to improve its debt structure and strengthen supervision over funds and inventory liquidity.

3.3.2 Analysis of long-term solvency

Measuring the long-term debt capacity of an enterprise can refer to its asset-liability and equity ratios. As seen in the table3, Nike's asset-liability ratio showed a downward trend and remained between 60% and 80%. The asset-liability ratio shows what proportion of total capital was contributed by creditors. For creditors, the lower the asset-liability ratio, the better, indicating the stronger the solvency of the enterprise. The balance showed a downward trend in the past two years, indicating that the long-term solvency of enterprises improved slightly. Generally speaking, the standard value of the property right ratio is 120%. If the property appropriate ratio is high, the financial structure is high risk and high return; if not, it is low risk and low reward. Even though the enterprise's risk goes down, so does its reward.

Table 3. Long-term solvency analysis of Nike from 2019 to 2021.

	2019	2020	2021
asset-liability ratio	74.30%	74.30%	66.17%
equity ratio	289.10%	289.05%	289.05%

4. Solution

4.1 Existing problems of Nike

The capacities of Nike's financial statements were examined as previously mentioned, and the results show that while Nike has a robust overall strength, there are still some issues.

4.1.1 Nike's solvency is weak

Nike's inventory is a more significant portion of its current assets and a smaller portion of its capital. All of the working capital for operations and production is derived from short-term debt, and there is significant financial leverage. Therefore, it may not be possible to repay the old money by borrowing new money. Thus, the company faces tremendous repayment pressure and weak debt repayment ability.

4.1.2 Nike's inventory increased

Due to factors such as the global financial crisis and the COVID-19 pandemic, the company has a large list, and sales revenue growth is slow. Therefore, due to the increase in the company's stock and the decrease in sales revenue, the company's inventory turnover rate decreased.

4.1.3 Nike's accounts receivable turnover is slow

Nike's receivables turnover speed is not ideal, indicating that its cash realization ability of receivables is weak and its fund use efficiency is low. The enterprise's short-term solvency is particularly affected by the lengthy average collection duration and increased likelihood of bad debts that the company experiences. Therefore, Nike has to improve the effectiveness of its accounts receivable administration.

4.2 Solutions to Nike's current issues

It can be seen from the aforementioned financial analysis of Nike Company that there is still room for development, and improvement ideas can be made.

4.2.1 Nike should improve its solvency

To align production and marketing, eliminate inventory, and lower management costs, Nike needs to improve inventory management and make sensible strategic decisions. Secondly, Nike should distinguish the collection system of accounts receivable, formulate different strategies for different sellers, and scientifically manage accounts receivable. Finally, the company should conduct financing and borrowing following its asset structure and financial structure, thoroughly analyze the risks beforehand using a range of statistical techniques, and then carefully select the approach best suited for the long-term development of the enterprise.

4.2.2 Nike should strengthen management and reduce inventory

Nike's growth has resulted in a steady expansion of the company's boundaries and an increasingly challenging corporate strategy. As a result, Nike needs to improve its capital, profit margins, and scale, and align the costs of its product marketing and corporate strategy. Online ordering and sales can also help save costs, save money, and enhance inventory management through the efficient use of the Internet. Finally, the company should step up its sales efforts, promptly deal with degraded and damaged goods, pinpoint unsaleable products, reduce inventory, and optimize asset structure in light of the high share of inventory in total assets.

4.2.3 Nike should strengthen the collection of accounts receivable

Whether receivables can be fully recovered after maturity is significant to the ordinary operation and income of enterprises. If receivables are not collected back, it will form bad debts, and even lead to the closure of enterprises. As a result, Nike needs to provide accounts receivable appropriate attention, manage them promptly, and lower the concerning debt rate. Nike can reduce the formation of accounts receivable from the source, by expanding the balance of sales revenue and reducing the relationship between the basis of bad debts, as far as possible to reduce the formation of accounts receivable; Nike should be proficient at playing up the leadership role of marketing, establish a new concept to improve marketing and strengthen the construction of the marketing team. Nike should also strengthen the system construction, continuously improve the collection system, and have clear and workable collection methods.

5. Conclusion

This paper will conduct a SWOT analysis on Nike, and carry out profitability analysis, efficiency ratio analysis, and solvency analysis according to its financial statements of Nike company in recent three years. This paper analyzes three problems existing in Nike Company and puts forward corresponding suggestions. On the one hand, strengthening inventory management and receivables collection systems and scientifically choosing borrowing methods can improve the company's solvency and financial security. On the other hand, through improving business finances, making effective use of the Internet, stepping up sales efforts, and lowering inventory. Last but not least, Nike should be concerned with accounts receivable. By collecting accounts receivable, strengthening system construction, continuously improving the collection system, playing a marketing role, and promoting the stable and sustainable development of the firm.

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