UNIVERSITY OF RUHUNA

FACULTY OF GRADUATE STUDIES

Master of Business Administration Degree Program –Semester III Examination

February 2021

MBA 202 – Strategic Management and Corporate Policy **Duration: Three hours**

The question paper contains Six (06) questions.

Answer <u>four questions</u> including <u>question number one</u>

- **Non-programmable calculators are permitted.**

<u>Question 01</u>

Read the case titled "NIKE Company; Fosters a Culture of Invention" and answer the questions given below.

<u>NIKE Company; Fosters a Culture of Invention</u>

Based in Beaverton, Oregon, Nike is the world's largest designer, marketer, and distributor of athletic footwear and athletic apparel. The company also designs, markets, and distributes sports-related apparel, equipment, and accessories. Led by the company's flagship Nike brand footwear, as well as Nike Golf, the company also owns a number of subsidiaries, such as Cole Haan, Converse, Hurley International, and Umbro Ltd.

Nike was founded in 1964 as Blue Ribbon Sports by Bill Bowerman, a University of Oregon track and field coach, and Phil Knight, a talented middle-distance runner. Knight, who had completed an MBA at Stanford University, had written a paper where he proposed that quality running shoes could be manufactured in Japan that would compete with the more established German brands. Knight originally sold their shoes out of the trunk of his green Plymouth Valiant at track meets, and the company opened its first store in Santa Monica, California, in 1966.

The company introduced its Nike brand of shoes in 1972, just in time for the U.S. Track & Field trials, which were held in Eugene, Oregon, that year. The Nike name, which took its name from the Greek goddess of victory, had its famous "swoosh" logo designed by Carolyn Davidson, a graphic design student at Portland State University. The company officially renamed itself Nike in 1978. By 1980, the company had reached a 50 percent market share in the U.S. athletic shoe market and had become a publicly traded company. Today Nike is the world's leading innovator in athletic footwear, apparel, equipment and accessories. Along the way, Nike helped the world's best athletes win races, games and championships. And the athletes helped Nike to design and market the products and brand that changed the face of sports. Behind every corner of the Nike business is a singular focus – innovation. It is the fuel that powers Nike's performance.

The vision of Nike is to "*bring inspiration and innovation to every athlete in the world.*" Bill Bowerman, the co-founder, defined an athlete by saying, "If you have a body, you are an athlete." Nike's mission is to "*what drives us to do everything possible to expand human potential. We do that by creating groundbreaking sport innovations, by making our products more sustainably, by building a creative and diverse global team and by making a positive impact in communities where we live and work*".

This is how Nike sees the world – it defines the endless possibilities for human potential, sets the tone and direction for the numerous long-term growth opportunities, and continues to inspire new generations of athletes and consumers. The company has set a strategic goal of $50 billion in revenues by the end of fiscal 2025. Commenting on this ambitious target, Parker states, "When I stepped into the CEO role... the leadership team reaffirmed a simple concept that I knew was true from my nearly 30 years of experience here—Nike is a growth company." Parker saw the company's strategy as based on three principles: pursuing the greatest growth opportunities, leveraging Nike resources and capabilities, and serving customers with premium products and experiences.

Nike's Beaverton, Oregon, world headquarters is a 176-acre facility that encompasses 17 buildings, and houses almost 6,000 employees. Nike has a smaller facility in Hilversum, the Netherlands that serves as the headquarters for the company's Europe, Middle East, and Africa (EMEA) region. From a sleepy little town in Oregon, Nike has grown into the world's largest athletic footwear and apparel Company. Today it is a diversified and complex global organization:

- Nike sell products in 170 countries.
- Nike has more than 30,000 worldwide well trained employees.
- Nike has a dozen brands that serve more than 30 major sports and consumer lifestyles.
- Nike works with 600+ factory partners.
- Nike serves millions of consumers with thousands of products

From the beginning, Nike's business model was built on partnerships – athletes, teams, retailers, manufacturers, and supply chain providers. It works with the best of the best all over the world. And Nike does it all with a singular purpose – to serve the needs of our global consumers.

Inside the United States, Nike has three significant distribution and customer service facilities. Two are located in Memphis, Tennessee, one of which is leased, and one facility located in Wilsonville, Oregon, which is also leased. Nike subsidiary Cole Haan also operates a distribution facility in Greenland, New Hampshire. Outside the United States, Nike owns and operates two main distribution facilities, one located in Tomisatomachi, Japan, and the other in Laakdal, Belgium. Almost all of Nike's footwear is manufactured outside the United States by independent contractors. In fiscal 2018, contract manufacturers in China, Vietnam, Indonesia, and Thailand manufactured 99 percent of Nike's footwear worldwide. No individual manufacturer accounted for more than 6 percent of total Nike footwear production. Nike brand apparel is produced in a similar manner, through independent contractors located outside the United States, in countries such as China, Thailand, Indonesia, and Malaysia, among others. The largest apparel factory accounted for approximately 8 percent of total Nike apparel production. Raw materials for Nike products are typically sourced in the countries where production takes place, purchased in bulk, and are typically not difficult to obtain.

Nike estimates that they sell products to more than 25,000 retail accounts in the United States. Nike products are found in a wide variety of retail locations, including footwear stores, sporting goods stores, athletic specialty stores, department stores, and skate, tennis, and golf shops. The company also uses independent sales representatives to sell specialty products for golf, skating, and outdoors. The company's Internet Web site, www.nikebiz.com, allows customers to design and purchase Nike products directly from the company. The company also operates 338 retail outlets in the United States, including 140 Nike factory stores that sell overstock and closeout merchandise. Nike's U.S. sales accounted for 43 percent of total company revenues in fiscal 2018.

Outside the United States, Nike sells to more than 27,000 retail accounts, including Nike-owned stores and a mix of independent distributors and licensees around the world. The company has international branch offices and subsidiaries in 52 countries around the world and operates 336 retail outlets outside the United States. Nike's non-U.S. sales accounted for 66 percent of total company revenues in fiscal 2018, up from 62 percent in 2017.

When most people think of Nike, they think of the Swoosh. It's one of the most recognized symbols in the world. The brand it represents is Nike's strongest asset. It has been very strategic in adding dimension to the Nike Brand, making it a powerful and flexible engine for growth. Using the same kind of thoughtful and deliberate strategy, Nike has created a portfolio of brands capable of reaching across multiple sports, lifestyle categories, and price points. In addition to the Nike and Jordan brands, Nike's wholly-owned subsidiaries include *Cole Haan* (luxury shoes, handbags, accessories and coats); *Converse* (athletic and lifestyle footwear, apparel and accessories); *Hurley* (action sports and youth lifestyle footwear, apparel and accessories); *Nike Golf,* and *Umbro* (a leading U.K. based football/soccer brand). Each brand speaks to a different, clearly defined consumer, which diversifies opportunities for long-term growth. Nike is also leveraging its resources and core competencies in product, marketing, and operations to drive consistent growth and profitability.

Nike's sports-related apparel is designed to complement the company's athletic footwear products, and it is often sold through the same location and/or distribution channel. Typical apparel products include shirts with licensed college or professional team logos, athletic bags and accessories, running shorts, and baseball caps, all emblazoned with the ubiquitous Nike "swoosh." Apparel accounted for 25.4 percent of Nike U.S. sales in fiscal 2019. Sports equipment rounds out the Nike portfolio at 24.5 percent of U.S. sales. Sports equipment, typically sold under the Nike brand name, includes items such as bags, socks, sports balls, eyewear, golf clubs, and bats and gloves.

Connecting with consumers is the single most important competitive advantage in business today. Deep meaningful relationships with consumers are at the center of everything Nike's does. The days of one size fits all are long over for both products and brands. Consumers today are smart, sophisticated and demanding. They have more choices and more access to those choices than ever before. Nike's category teams are completely focused on their target consumers. They speak their language, they see the world through their eyes, and they're completely at home in their culture. Being inside the world of Nike's consumers gives the ability to create compelling product, to tell their stories in an exciting way, and deliver experiences at every level, from a one-on-one relationship to a global experience like World Cup or the Olympics.

Nike competes primarily in athletic footwear, apparel, and related sporting equipment, its sales are heavily concentrated in the youth and young adult market. In particular, Nike sales are heavily skewed toward the 12- to 24-year-old age bracket. Younger consumers are also less price sensitive in this age bracket and generally spend more on casual and athletic footwear than older consumers. After the age of 40, the typical consumer is not willing to pay more than $35 to $40 per pair for athletic footwear. Nike is the dominant competitor for athletic footwear priced above $60 per pair, holding better than a 50 percent market share for athletic footwear priced $85 per pair or higher.

Competition in the athletic footwear and apparel industry is extremely fierce. Numerous brands compete worldwide for athlete endorsements, customer loyalty, and sales. Worldwide, Nike is the leader in athletic footwear, with an estimated 37 percent of worldwide sales. The number-two competitor in athletic footwear is Adidas, with an estimated 22 percent of worldwide sales. Today, the Adidas group is a world-class provider of athletic footwear, apparel, and sporting equipment. Puma is the distant number-three competitor in the global market for athletic footwear. Puma develops and markets a broad range of athletic and lifestyle articles, including footwear, apparel, and accessories. The athletic footwear industry contains numerous smaller competitors worldwide, such as K-Swiss, Inc. in the United States and Li Ling Shoes in China. Athletic footwear companies also compete with other footwear companies for sales because consumers often wear athletic footwear for leisure and fashion. Companies that competed in leisure and fashion footwear included Crocs, Inc., Deckers Outdoor Group, Skechers USA Inc., and Timberland Company.

True innovation isn't just new and different. It's new and better. It's surprising. Sometimes it's shocking. That's why Nike spends so much time with athletes and consumers –listening, observing, studying and then creating products that enhance athletic performance and overall consumer experiences. It's connection to athletes and consumers that allows to create game-changing technologies and products. Innovations like the Nike Flywire support system, Lunarlite foam cushioning, Hyperdunk basketball shoe, new generations of free footwear, and the new Trainer 1 shoe continue to set the standard for the industry. Much of this insight into performance happens at the Nike Sport Research Lab. Nike also relies on research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other experts who consult with us and review designs, materials and concepts for product improvement.

Innovative mechanism are being generated to handle sustainability. The products formation team practice the Nike ingredients index to choose eco-friendly ingredients by the innovation project placement tracking 04 steps such as exploration, development, piloting and scaling, the level of receptiveness of a project to these key pillars must be a pointer of its sustainability potentials. Each material's effects are evaluated in the zones of water, energy and others to follow each step autonomously and how it collaborates with the ecosystem displaying the value chain of Nike. Involving the complete corporate from the contractors, factories to farmers augmenting the organic cotton, the prime is to offer products and services that conglomerate a higher level of performance, apparel and footwear. The sustainability trip for Nike and its triumph is powerfully reliant on the innovation dynamic that Nike feels powerfully about creating its culture and prime driver of its corporate by forming Nike apart from its rivals.

U.S. footwear imports totaled 2.36 billion pairs in 2017, or roughly 7.9 pairs per capita. This number was up 0.4 percent from 2016. Domestic shoe production now accounts for less than 5 percent of all shoe purchases in the United States. The remaining U.S. production of footwear is primarily focused on protective or safety footwear, typically steel-toed boots. The drive for domestic manufacturers of footwear to offshore their production has been part of an ongoing industry effort to cut expenses. This trend had been aided by the implementation of the North American Free Trade Agreement (NAFTA) in 1995 and the entry of China into the World Trade Organization (WTO) in 2001, both of which helped eliminate quotas and tariff barriers for foreign footwear manufacturers to ship their goods into the United States. China alone accounts for 86.4 percent (by volume) of all U.S. imports of footwear into the United States. Almost all of Nike brand apparel is manufactured outside of the United States by independent contract manufacturers located in 34 countries. Most of this apparel production occurred in China, Thailand, Indonesia, Malaysia, Vietnam, Turkey, Sri Lanka, Cambodia, Taiwan, El Salvador, Mexico, India, and Israel. Nike's largest single apparel factory accounted for approximately 5 percent of total fiscal 2019 apparel production.

The Internet allows footwear companies to pursue a direct to consumer sales channel. Sales of apparel, accessories, and footwear on the Internet has been growing at a double- digit pace, considerably faster than more traditional sales models such as retail stores. Companies that added a Web-based sales strategy are able to customize footwear and other merchandise directly to the customer's needs and taste, which enables companies to achieve considerably better pricing as well as "deepening" the emotional bond consumers have with the brand.

You are required to answer the following questions,

a) Evaluate the mission statement of Nike Company and explain what it means for a mission statement to have a customer orientation.

(05 Marks)

b) Identify Nike's major competitors and their critical success factors.

(05 Marks)

c) Describe the criteria that can be used to judge organizational resources and capabilities as either strengths or weaknesses?

(8 Marks)

d) Analyze the business level strategies of Nike and explain your answer using the relevant theoretical model.

(10 Marks)

[Total 28 Marks]

Question 02

"An external analysis is the process of scanning and evaluating an organization's external environment to determine the opportunities and threats facing by the organization".

a). What role does the environmental uncertainty play in external analysis?

(04 Marks)

b). Discuss the benefits and challenges of doing an external analysis with recent examples.

(08 Marks)

c). Explain how to do an external analysis of an organization's specific and general environments.

(12 Marks)

[Total 24 Marks]

Question 03

"Corporate strategy concerns with the choices of what business and the organization is in or wants to be in, and what it wants to do with those businesses".

a). Describe the causes of corporate decline.

(06 Marks)

b). Discuss how corporate strategy is evaluated and changed.

(06 Marks)

c). By selecting a multinational company, explain its various corporate growth strategies and how the corporate growth strategies have been implemented.

(12 Marks)

[Total 24 Marks]

Question 04

ABC is a company specializing in manufacturing a range of kitchen utensils, garden and household equipment. Table 1 illustrates the strategic position of the ABC Company and table 2 presents the details of relative market share and market growth rate.

Table 1: Strategic position of the company

Internal Strategic Position	**External Strategic Position**
Competitive Position (CP)	**Industry Position (IP)**
-1 Product quality	+6 Barriers to entry
-1 Market share	+4 Growth potential
-3 Brand & image	+4 Access to financing
-2 Product life cycle	+5 Consolidation
Financial Position (FP)	**Stability Position (SP)**
+5 ROA	-2 Inflation
+4 Leverage	-1 Technology
+6 Liquidity	-2 Demand elasticity
+5 Cash flow	-4 Taxation

Table 2: Relative Market Share and Market Growth Rate of ABC Company

Brand	Revenues	% of Corporate Revenues	Profits	% of Profits	Relative market share	Industry Growth rate
Brand A	Rs. 120,000		Rs.20,000		0.8	+15
Brand B	Rs. 80,000		Rs.10,000		0.4	+10
Brand C	Rs. 80,000		Rs. 4,000		0.1	+1
Brand D	Rs. 40,000		Rs. 16,000		0.6	-10
Brand E	Rs. 10,000		Rs. 1,000		0.05	-20

a) Construct and apply the Strategic Position and Action Evaluation (SPACE) Matrix for ABC Company and select the appropriate strategies based on the position at SPACE matrix. (12 Marks)

b) Draw the BCG Matrix for ABC Company by completing Table 02 and making appropriate recommendations for the company based on its position of BCG Matrix.

(12 Marks)

[Total 24 Marks]

Question 05

"Strategy implementation and evaluation represent the deployment of chosen strategy with a view to achieving strategic objectives".

a). Discuss reasons why annual objectives are essential for effective strategy implementation.

(06 Marks)

b). What is contingency planning?. Explain the benefits of contingency planning.

(08Marks)

c). Discuss the benefits of having a diverse workforce for the organization.

(10 Marks)

[Total 24 Marks]

Question 06

Compare and contrast the following concepts

a). External Audit vs. Internal Audit

b). Threshold Capabilities vs, Distinctive Capabilities

c). Corporate Level Strategy vs, Business Level Strategy

d). Horizontal Merger vs. Vertical Merger

(06 Marks per each)

[Total 24 Marks]

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