World Resources Institute

KENAN-FLAGLER BUSINESS SCHOOL UNC-CHAPEL HILL

Sustainable Enterprise Program
A program of the World Resources Institute

Expanding the Playing Field: Nike's World Shoe Project

Teaching Note

For more than a decade, WRI's Sustainable Enterprise Program (SEP) has harnessed the power of business to create profitable solutions to environment and development challenges. BELL, a project of SEP, is focused on working with managers and academics to make companies more competitive by approaching social and environmental challenges as unmet market needs that provide business growth opportunities through entrepreneurship, innovation, and organizational change.

Case Overview

Tom Harge's challenge was to "expand the playing field" in emerging markets with a range of affordable, durable, and easy-to-produce sports shoes that could effectively reach the huge untapped segment in "Tier Three" countries. Tom Harge, a 17-year Nike veteran who had spent years in the Footwear Department in the United States, as well as in Latin America, was chosen as the Director of Emerging Market Footwear. His task was to direct and develop the World Shoe Project, Nike's foray into the bottom of the pyramid.

Two-and-a-half years later, Nike had done just that: developed and produced the World Shoe Series 100 and Series 400, footwear lines manufactured under specific guidelines for emerging economies. By late 2000, Nike had sold roughly 2 million pairs of World Shoes in China, Thailand, Indonesia, Malaysia, the Philippines, and other Asian and Latin American markets. (This case focuses on the World Shoe in China.) With this project came not only a viable pathway to increased economic growth and sales potential for the company, but also potential for additional jobs in emerging markets and a more environmentally friendly footwear product.

Prior to Tom Hartge's appointment as director of development, an Emerging Market Task Force had developed a new business plan for the World Shoe Project. The plan first outlined the special tenets for the concept of "local-for-local" manufacturing. In other words, the shoes were manufactured in China using local materials, local labor, local currency, and Nike's existing manufacturing network. Second, in contrast to the traditional Nike product development cycle, a design-for-manufacture approach was implemented for the series. Hartge and Alex Gajowskyj, the product line designer, co-designed the shoes in conjunction with the factory. Finally, the Task Force had also established a specific target market classification

This teaching note was prepared by Stuart Hart, Ted London and Heather McDonald of the Center for Sustainable Enterprise, Kenan-Flagler Business School, as a basis for class discussion rather than to illustrate the effective or ineffective handling of an administrative situation.

system. Exhibit 5 of the case defines this categorization. Nike had chosen to focus on Tier Three markets—developing markets with high potential characterized by a population of 1 billion and an average of $2,000 purchasing power parity.

Since Nike had never competed in such markets (nor had any of its “usual” competitors, like Adidas or Reebok), forecasting market size, revenue and sales potential, and gross margins was a difficult task. While numbers were laid out (outlined in Table 1 of the case), Hartge readily admits that neither he nor the company was very focused on meeting the forecasts. The numbers were not truly important. Internally, pairs of shoes sold were the way company managers measured “success.”

Key Challenges: Cases A and B

Case A—By January 2001, Hartge and his team had sold only 404,520 pairs of World Shoes in China. In the context of China’s booming population of 1.2 billion, this number was a disappointment. Three key issues contributed to the disappointing sales. First, internal organizational challenges prohibited the growth of the line. Rigid profit margin expectations handed down by corporate headquarters created an environment that encouraged the sale of Nike’s high-margin products to high-end customers. Regardless of the low cost of the World Shoes, they were still slapped with a high profit margin, resulting in overpriced products compared to local Chinese products. Second, because of the current distribution network and infrastructure that Nike had in place for its high-end footwear, the World Shoes, distributed through the same channels, didn’t reach the proper target market. The Series 100 and Series 400 were simply placed on a shelf next to the expensive Air Max in an urban retail store. The consumers in the intended market segment, who lived primarily in rural areas, didn’t necessarily shop at these places. However, Nike had no system to distribute the shoes outside of its three major metropolitan areas. Finally, no marketing plan for the World Shoes existed in China. (Marketing was left up to the local country managers.) Neither the Chinese retailers nor the consumers had any understanding of the value of the World Shoe line.

Case A ends without any indication of what will become of the World Shoe project. In two days, Tom Hartge will meet with CEO Phil Knight and the fate of the project will be determined. What should Hartge do to persuade senior management to support and continue the project?

Case B—It is now one year later. The World Shoe Project is “alive in spirit only.” Nike management feels that the World Shoe is “ahead of its time.” Yet with the continuing need to find new growth opportunities, this conclusion by Nike is paradoxical to Hartge. Rather than having the right business model at the wrong time, the World Shoe may have been the wrong model for the right time. The revenues generated by Li Ning and the counterfeiter shoe manufacturers indicate that there is a market for high-volume, low-margin shoes and that companies apparently can make money in this space.

Most of Nike’s problems will likely remain after the elimination of the World Shoe. Growth will still be flat, counterfeit Nike’s will remain endemic, and an inability or unwillingness to experiment with new business models will continue to prevail. While the chances of resurrecting the World Shoe Project appear to be slim, CEO Knight remains a supporter. This suggests that there may be an opportunity to reframe the World Shoe concept. Clearly, given the results to date, Hartge or another visionary at Nike would need to create a compelling business case for continuing to pursue bottom-of-the-pyramid business ventures. In addition, a new business model will need to be developed and effectively implemented if Nike is truly going to capitalize on this opportunity.

Learning Objectives

The case objectives are threefold:

(1) Identify the differences in business strategies for developed versus developing world markets, and explore the disruptive challenges that can face a company attempting to tap emerging markets.

(2) Offer the students a better understanding of the potential internal constraints and need for new business models when exploring emerging markets in developing countries.

(3) Investigate the sustainability issues surrounding market entry into the bottom of the pyramid.

Supplementary Video

A two-part interview with Tom Hartge, is available for dowload at http://multimedia.wri.org/ or for purchase on CD-Rom from WRI (***see front page***). In the first segment, roughly 5 minutes in length, Hartge explains the internal challenges faced by the World Shoe Project. In the second segment, roughly two minutes in length, Hartge reflects on challenges faced by multinational corporations in general when entering bottom-of-the-pyramid markets.

Suggested Readings

The following articles are suggested to serve as lenses through which to view case issues:

- Dawar, Niraj, and Amitava Chattopadhyay, "Rethinking Marketing Programs for Emerging Markets," Working Paper Number 320, University of Michigan, June 2000.
- Prahalad, C.K., and Stuart L. Hart, "The Fortune at the Bottom of the Pyramid," *Strategy+Business*, 26: 54-67, 2002.

Teaching Overview

Cases A and B can be used either in a core strategy course, an international business class, or a specialized elective on sustainable enterprise. The case is ideally suited for the M.B.A. and executive levels and requires a grasp of fundamental strategic principles. However, advanced B.B.A. students with solid fundamentals in strategic analysis would also benefit.

The material may be covered in either one or two class sessions, depending on the desired depth of analysis. In a one-class session, two formats are suggested:

1) The students prepare Case A and Case B is handed out and summarized during the session, or

2) The students prepare both cases, and student teams present strategy alternatives in class.

In a two-class sequence, the Case A discussion is extended, with Case B distributed at the end of the session to set up the next class.

Teaching Plan: One Session

In the one-class format, Case A can be distributed 2 to 7 days prior to class. The case can be set up nicely with a discussion of the two readings. Students could be stimulated in advance with the following discussion questions:

- What should Tom Hartge recommend to senior management regarding the World Shoe?
- What are the appropriate sales and profit goals for this line?
- What business model would be most appropriate and effective?
- Can the “triple bottom line” be used to Nike’s advantage?

The class can begin with a brief discussion of the readings by asking how “developed” market business strategies need to be fundamentally reconsidered when moving into an “emerging” market context with a focus on the “bottom of the pyramid.” The table in Attachment 1 provides a summary of some of the differences.

Next, the first video clip can be presented up to the brief gap at about 5 min., 20 seconds. This piece features Hartge discussing some of the challenges that the World Shoe Project faced internally. After the video, divide the students into teams and present the following question for discussion: *What should Tom Hartge recommend to senior management regarding the World Shoe?*

Teams should huddle for 5 minutes and be asked to prepare a 3-minute response to the question. This portion of the class should lead into a discussion of the World Shoe’s choice of organizational form, price, distribution strategies, production options, potential partners, branding decisions, performance metrics, and investment possibilities. Attachment 2 provides a plan for how to collect student ideas into relevant categories during this discussion. Toward the end of this discussion, it is useful to move to the question of whether Nike’s social and environmental performance is an advantage. Why, for example, would we want Nike to win out over local competitors such as Li Ning? Attachment 4 provides a plan for capturing this discussion with the students.

Once the key issues have been acknowledged and discussed, Case B can be handed out or summarized verbally. The students can read it and then view the second video segment (about 2 minutes). In this clip, Hartge reflects on challenges faced by MNCs in general when entering bottom-of-the-pyramid markets. With this additional information, the students can be asked to reflect back on their earlier recommendations for Hartge. With 20:20 hindsight, how could they frame a compelling business case to top management? Would their earlier recommendations to Hartge stand now? What strategies might they change to develop a more effective business model?

The class can be concluded with a discussion of what a potentially successful strategy for World Shoe might look like (Attachment 3).

Timing for an 80-minute class:

1.	Distribution of Case A	2 to 7 days prior to class
2.	Administration	5 minutes
3.	Assigned Reading Discussion	15 minutes
4.	First Video Clip	5 minutes
5.	Case Question/Discussion	30 minutes
6.	Case B Summary/Second Video Clip	10 minutes
7.	Discussion of Updated Recommendations	10 minutes
8.	Wrap-up	5 minutes

Teaching Plan: One Session, Alternative Format

As suggested earlier, an alternative teaching strategy for a one-session format is to divide the students into teams and distribute both cases several days ahead of class. The teams would be asked to prepare a 5- to 8-minute presentation in response to the following questions:

- What are the differences between a "developed" market business model and an "emerging" market business model focused on the "bottom of the pyramid?"
- Why did the World Shoe Project fail?
- What should Hartge have recommended to senior management regarding the World Shoe Project?
- From society's point of view (i.e., "triple bottom line"), why would we want Nike to win over local competitors such as Li Ning?

Alternative Method Timing for an 80-minute class:

1.	Distribution on Both Cases	2 to 7 days prior to class
2.	Administration	5 minutes
3.	Assigned Reading Discussion	15 minutes
4.	Video Clip	5 minutes
5.	Case Question/Discussion/Presentations	45 minutes
6.	Second Video Clip/Wrap-up	10 minutes

Teaching Plan: Two Sessions

A teaching strategy for the two-session class would include components of the two one-day teaching strategies. As noted above, for the two-class sequence, the Case A discussion is extended, with a focus on the Dawar and Chattopadhyay reading. Case B can then be distributed at the end of the first session. This sets up the second class, which can include the Prahalad and Hart reading and extensive consideration of developing a compelling business case and designing and implementing an effective business model.

Case Analysis

As Prahalad and Hart point out, the economies of vastly populated countries such as China, India, and the former Soviet Union present a profusion of consumers and immense growth potential for multinational corporations. The trick is for senior management to fully understand that this market possibility exists and that tapping into it may require a radical departure from the traditional, developed-economy mindset.

As Nike's financial record indicates, market saturation and intense competition in Tier One economies has squelched Nike's growth trajectory. While the Swoosh continues to penetrate typical Western markets, tapping into the increasing numbers of "middle and lower class" consumers in emerging markets could offer a phenomenal expansion opportunity if the firm can create the right business model. In addition, beyond the potential economic benefits from this venture, Nike's World Shoe Project also offers a credible response to the labor issues that have buffeted the company, and leverages their efforts to minimize the environmental impact of their production activities.

1. Identify the differences in business plans for developed versus emerging markets and explore the challenges that can face a company attempting to tap emerging markets with a focus on the bottom of the pyramid.

Teaching Strategy

It is useful to begin the class with a discussion of the suggested accompanying articles. A useful kick-off question to ask is *How much of a firm's developed market business strategy can be directly transferred into an emerging market context?* This can generate an interesting discussion about the differences in business strategies for these two markets, with a primary focus on the Dewar and Chattopadhyay article. Students will likely note that many, if not all, of the pieces of the business model must be adjusted to fit into an emerging market concept. An interesting follow-on question is *Which, if any, MNC firm capabilities can be beneficially transferred to an emerging market context?* This changes the discussion to analysis of what competitive advantages a firm might leverage when exploring bottom-of–the-pyramid business opportunities. These are well summarized in the Prahalad and Hart reading.

Attachment 1 provides a useful summary of the differences between the two divergent business models and can be used to conclude this discussion. Depending on the timing, a second discussion could revolve around Nike's attempts to establish a new business plan for Third World markets. The following question may be helpful in starting that discussion: *What did Nike do right and what did they do wrong in their early attempts to establish a business plan for the World Shoe?* The class should discuss both the pros and cons; ideas could be written on an overhead or blackboard.

Analysis

It should be pointed out that assumptions made in the developed world do not translate to the bottom of the pyramid. While transferring key business processes and marketing strategies from a developed market to an emerging market may be hard to prevent, these strategies are unlikely to be effective. In an effort to expand into unfamiliar markets, managers run the danger of trying to apply their current business strategies to a market or culture without proper research or analysis of the options or ramifications of their efforts. Managers must fully understand local issues such as consumption patterns, saving mentalities, and consumer preferences and perceptions. Further, a manager must consider various economic, political, and social conditions in emerging country markets that may not be issues in developed markets. On a tactical level, companies should emphasize volumes sold, not high profit margins. Additionally, companies must think about new manufacturing, distribution, and marketing policies.

On the optimistic side, it appeared that Nike management supported the foray into emerging markets. For one, a task force was created to analyze the new market opportunities. Second, the task force at least recognized that a new business model needed to be created for these new markets. They understood that the products must be locally available and affordable and understood that following a "local-for-local" sourcing and manufacturing principle would help accomplish these goals. Additionally, the design-for-manufacture concept allowed Hartge and Gajowskyj to produce a shoe that was low cost and locally relevant, as they had buy-in from local factory workers and also some athletes. Additionally, the shoes were meant to last through several "seasons," and consumers presumably would feel they were purchasing a durable product that would not need to be replaced as frequently. (Nike usually produces products for three seasons a year, encouraging frequent purchases by consumers in developed markets.)

Nonetheless, there are several holes in this plan. First, the Emerging Market Task Force's existence ended when Hartge came on board in 1998 as the first Director of Emerging Market Footwear. There was no continuity between the plans drawn up by the task force and Hartge's tenure. Second, the task force only made changes to its existing manufacturing operations. Limited thought was put into new channel partners or distribution systems. Additionally, local competition was more intense than expected, and Nike had no special marketing or advertising plan to compete against Li Ning or counterfeiters. Finally, the new business plan overlooked some crucial factors. First, corporate profit margin expectations were held constant, forcing the low-cost products into a higher retail price bracket. Given the high margin expectations, the World Shoes were overpriced relative to local products. Lastly, Nike did not seem to recognize that in successfully crafting this business plan, the resulting expansion of the World Shoe Project offered a way to proactively counter some of the arguments of the labor protestors.

2. Offer the students a better understanding of the potential internal constraints and need for a new business model when exploring emerging markets in developing countries.

Teaching Strategy

After the students gain an understanding of the differences between a developed versus an emerging market business plan and fully explore Nike's strengths and weaknesses, the discussion should turn to how Nike should proceed. This discussion can follow the 5-minute huddle in which the teams are considering the question: *What should Tom Hartge recommend to senior management regarding the World Shoe?* Key areas that should be explored in this discussion include the following:

- Creating an effective organizational form
- Creating a new business model
- Distribution and retail networks
- Production capability
- Customers/marketing
- Pilot programs

Potential recommendations that can be discussed include placing the World Shoe Project into a separate business unit, developing a new business model through changes in distribution, pursuing new production and marketing strategies, and running pilot programs in markets yet to be penetrated by Nike. Student analyses should be tracked on the blackboard or overhead, using Attachment 2 as a structure and template for recording their suggestions. Attachment 3 can be used at the end to present a possible alternative strategy for pursuing the World Shoe Project.

Analysis

Creating an Effective Organizational Form

Questions to further this portion of the discussion include:

1) Should this be a separate business?

2) Who should manage this venture?

3) What should the relationship be between the World Shoe Project and Nike headquarters in the United States?

4) Should the World Shoe be managed by local Nike subsidiaries?

A disruptive project such as this must have autonomy and the necessary resources to be successful. Although a $9 billion company, Nike has yet to devote full attention or resources to the project beyond two full-time staff. Greater support and independence is needed in order to allow this project to blossom into a profitable business venture. By providing greater autonomy to this business (yet keeping it under Nike's name), the World Shoe would reap the benefits of Nike's global brand image and high quality, but would have the flexibility to specifically respond to its emerging market needs. However, de-coupling the business would likely raise concerns about "maintaining the brand." Even if a separate business unit is not created, the venture needs to have the authority to develop manufacturing, distribution, and marketing campaigns that are all geared towards the World Shoe business—not simply incrementally changed from Nike's typical developed world model.

Creating a New Business Plan

The concept of the World Shoe goes against the developed world model that Nike has successfully used for three decades. But if Nike truly wants to tap into the emerging markets in developing countries, incremental changes to a current business model will not suffice. Doing business in emerging markets demands a completely new way of thinking, and requires adapting to competition and local conditions. Nike must create a completely new model. The following questions and analyses may be useful in guiding the discussion about the new business plan:

- What should the metrics be for success?
- What are appropriate sales and profits goals, and what sort of a timeframe should be used to evaluate the project?
- From where should project managers be recruited?
- How should these managers be compensated?
- What type of partnership should the venture pursue?

One of the most competitive and critical pathways to high market share in China is price. As a "project" of Nike corporation, World Shoe cannot price its products competitively. Instead, prices need to be established from the perspective of local consumers' purchasing power. One study found that the number of consumers in the $10,000 to $40,000 annual income range in China is less than 3 million using market exchange rates, but over 80 million at PPP rates.[1] Thus, for Nike to capture the bottom-of–the-pyramid consumer, they must price the World Shoe in the context of PPP—not simply based on cost plus margin. This same pricing logic needs to dominate marketing programs and drive product, packaging, and distribution decisions. As a separate or highly decentralized business, the World Shoe should have more control over its prices than it does under Nike's pricing formula.

We suggest that success be based on volumes sold (obviously with some regard to costs), and that this yardstick be used to determine compensation of managers (a mix drawn from both the local and international level). World

[1] Dawar, Niraj, and Amitav Chattopadhyay, "Rethinking Marketing Programs for Emerging Markets," Working Paper 320, June 2000.

Shoe managers should be focused on Nike's stated goal of maximizing the number of shoes sold instead of margins. While Nike is currently producing and selling just a small number of shoes per year, as an independent business, the volume goals could be pushed upward, stimulating growth of higher volumes. In fact, the World Shoe Project in its current form may "under challenge" the organization. The enterprise may benefit from having "stretch" goals, such as 50 million pairs sold annually in China by the year five. A business goal of this size can attract both management attention and corporate resources, and would clearly require a new business model, since production targets could not be reached through incremental production from existing contract factories. This could be an important leverage point for moving the venture forward since it would also be an important contribution to solving Nike's corporate growth problems.

To achieve these goals, Nike will want to think closely about both its management team and potential partners. As the local-for-local manufacturing strategy demonstrated, having a multinational team can capture both firm-specific and local knowledge. This concept should be transferred to the business model development and implementation. To fully take advantage of local knowledge, Nike may want to consider partnering with (or purchasing) one or more local organizations. These could include local competitors such as Li Ning, international shoe manufacturers such as Bata, or even some of the local counterfeiters, who clearly have an efficient manufacturing and distribution network. In all cases, however, Nike must be careful to ensure that its labor code of conduct is not violated. Otherwise, the firm will face significant pressure from the international non-governmental organization (NGO) communities. In fact, Nike may also want to consider developing partnerships with NGOs.

Distribution and Retail Network

Effective distribution through a broad retail network is critical to the World Shoe's success. Questions to prompt a more in-depth discussion of this subject could include *How can Nike best access existing in-country distribution channels?* and *What creative new marketing methods could Nike use to enhance the distribution and purchase of their World Shoes?*

The discussion around these questions could include researching local distribution channels and developing a better understanding of what Li Ning and other local competitors use to distribute product (especially in rural areas). Further discussion of the exploration of joint ventures and partnerships with local distributors or large multinationals could ensue. For example, could Nike partner with The Coca Cola Company to distribute footwear and soda simultaneously? Additionally, the idea of "Nike Mobiles" could be discussed. In reality, managers in Thailand actually adopted this idea and used a large bus to distribute and advertise the World Shoe throughout Thailand. Although this may seem an odd marketing or distribution channel in a developed market, it met with success in Thailand. Another potentially creative distribution concept is the implementation of traveling sales people, similar to Avon's use of "Avon Ladies." Representatives could travel throughout the rural areas carrying World Shoes and a specific marketing message to bring to retailers and customers. Currently, Nike has a technical sales training program, dubbed Ekin. (Nike spelled backwards.) This program could be expanded to include developing market field offices.

Production Capacity

Questions to provoke discussion could include the following *Should Nike use existing factories to manufacture the World Shoe? What are the incentives for existing manufacturers to produce this shoe? Should Nike develop dedicated facilities that are local and scalable?* Discussions could include using smaller rural plants that are scalable and continued local sourcing. By using plants in rural regions throughout China, where possible, the World Shoe would be in closer proximity to the rural consumer and the distribution problem would be eased. In addition, Nike would also be able to increase the job opportunities in these regions, creating pockets of income in rural areas and increasing local PPP. (See below for further explanation.)

Customers/Marketing

Specific marketing plans for emerging markets must be developed at the local level. Nike must focus on where their target consumer actually shops and what their buying habits are. Sales processes and marketing practices in emerging markets cannot simply be transferred from developed to emerging markets. Emerging market environments are characterized by (1) low per capita income and the subsequent impact on consumer behavior, (2) immense variability in consumers and infrastructure, and (3) relative cheapness of labor.[2] These factors must be considered in identifying the target customer, determining what prices to charge, and evaluating how to best reach that segment.

One core challenge Nike must face is identifying who its target customers are for the World Shoe line. There may be confusion in the minds of consumers (and retailers) regarding what Nike "stands for" in China: making high-quality athletic footwear sold at a premium to world-class athletes, or making a "world shoe" affordable for any athlete. Can both of these visions coexist? To truly expand its playing field, Nike must find a way to provide a quality shoe to all athletes. Volume is the key to profitability for the World Shoe, so the company must find a way to get into a large number of semi-urban and rural retail outlets.

Pilot Programs

To avoid the influence of existing corporate business models, Nike should consider World Shoe-type experiments in virgin markets. The company could initiate pilot programs, for example, in Latin American, the Indian subcontinent, or Africa. By selecting geographic locations where Nike does not yet have a presence, these ventures are much less likely to be influenced by existing practices. In these markets, they could approach local manufacturers (and counterfeiters) as potential partners. Additionally, Nike could team with an international manufacturer such as Bata, which has operations in multiple countries. Knowledge and experiences could be transferred among all the World Shoe ventures, an opportunity not available to local competitors. Corporate responsibility issues may emerge in these new markets, but with a minimal investment Nike could help bring local factories up to speed. By doing this, Nike not only increases their manufacturing base, but also enhances the spread of improved labor standards to areas that might otherwise go unnoticed.

3. Investigate the sustainability issues surrounding market entry into the bottom of the pyramid.

Teaching Strategy

Students should understand that this is not simply a business strategy case, but also a case of furthering sustainable enterprise business strategies, defined as simultaneous consideration of economic, social, and environmental performance. The major question to deliberate is *From society's point of view, why would we want Nike to win over its competition?* In other words, what is it about Nike, from a societal perspective, that makes it a better company than Li Ning or the counterfeiters? Student suggestions can be recorded using the model in Attachment 4.

[2] Ibid. p. 4.

Analysis

As suggested above, the World Shoe Project can provide a growth platform for Nike. In addition, local economic benefits can be realized. For example, by operating manufacturing facilities in rural areas, Nike will create jobs in local communities. This influx of jobs and money can help stimulate economic development in these regions and increase the local standard of living. Additionally, Nike is producing a more durable and better quality product than its competitors. The cost to the consumer, when considering the lifespan of the shoes, is lower for Nike's products than for its competitors.

Socially, Nike's success over its competition would lead to broader application of the company's stringent labor code of conduct. After realizing that poor labor practices can damage its image, Nike is adamant about striving towards socially responsible labor practices. Furthermore, developing local partnerships with NGOs and external auditors can help the spread of these practices throughout China. Thus, the more factories that come under Nike's standards, the better. When Nike has looked into acquiring other shoe companies or facilities, they have found that there are still many that operate what critics would call "sweatshops." Nike will not (and cannot afford) to tolerate this.

Nike has demonstrated a conscientious approach to minimizing the environmental impacts of its operations. The company has made strides to reduce the toxins and solvents in its products through the use of "friendlier" products such as water-based adhesives. The company also is trying to reduce the waste it produces. A number of sustainability projects are underway and continuation of the World Shoe Project would further promote some of these initiatives (for example, design for manufacture and tessellation). In addition, Nike can help manage its impact on waste by producing a more durable shoe that has to be purchased less frequently, meaning fewer shoes are thrown away.

Attachment 1 [3]

"Developed" Market versus "Emerging" Market Business Models

"Developed" Market Business Model	"Emerging" Market Business Model
–Rapid innovation	–Durability
–Obsolescence	–Consistency
–Fine segmentation	–Coarse segmentation
–High margins	–High volume
–Labor efficiency	–Capital efficiency
–Mass media	–Direct selling
–Top down	–Bottom up

[3] Source: company document.

Attachment 2 [4]

Board plan: Categories for Discussion on Strategy

Target Market
-Tier Three? BOP? Urban/Rural

Product Focus
-Series 100? Series 400?

Production	**Price**	**Place**
-In-line factories?	-Corporate pricing formula?	-Existing distribution?
-Local factories?	-Lower margins?	-How reach BOP?
Partners	**Promotion**	**Goals/Metrics**
-Li Ning? Counterfeiters?	-Second-tier brand?	-Aggressive goals?
-Bata? Coke?	-Nike mobile?	-50 million pairs?
	-Local sales force?	-$1 billion sales?

Triple Bottom Line
-Why would we want Nike to win?
-See Attachment 4

Need: Set up as separate venture with business model focused on the BOP

[4] Source: company document.

Attachment 3 [5]

Potential New Business Model Strategy and Design

<u>Strategy:</u>

- Design whole new business model for the World Shoe focused on underserved rural markets in the developing world
  - ♦ Requires up-front investment

- Initiate pilot(s) as far away from Nike's existing business as possible
  - ♦ For example, Latin America, India, Africa
  - ♦ Begin with existing technology, transition to disruptive innovation

- Establish as a separate business experiment with aggressive goals for growth and profitability over a 5- to 7-year time horizon
  - ♦ For example, $1 billion in revenue, $250 million in profit within 5 years

<u>Design:</u>

- Target market: Rural poor athlete
- Product focus: Series 100 or new brand
- Pricing: $8 to $10 (20% to 25% gross margins)
- Production: Dedicated local factories (code of conduct)
- Distribution: Rural retail outlets
- Promotion: Nike Mobiles, sales force
- Potential Partners: Li Ning, Bata, counterfeit producers, Coke
- Triple Bottom Line: Functionality and durability, environmental footprint, labor standards

[5] Source: company document.

Attachment 4 [6]

Sustainability Triangle

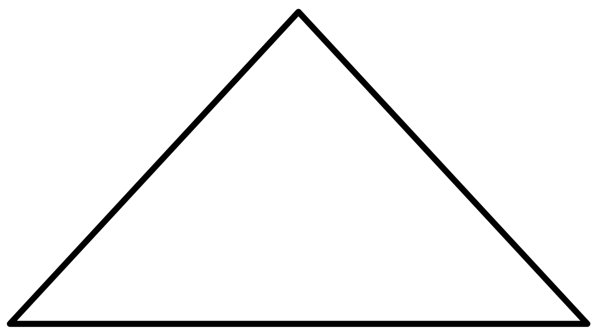
Economy

-Jobs/Economic development

-Functionality

-Durability

-Lower life-cycle cost



Environment

-Design for environment

-Elimination of solvents

-Durable

-Tessellation (waste reduction)

-Bag versus Box

Social

-Rural development

-Labor standards

-Social audit

-Code of conduct

-Local sourcing

[6] Source: company document.

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