

Executive Summary - Team 3B

Nike Inc. - Collegiate Apparel

Nike Inc. has evolved into being a leader of sustainability in the apparel and footwear industry. In its Ocollegiate-licensed apparel segment, the company's goals are to achieve cost-effective production, implement traceability of its supply chain and build consumer awareness of its sustainability and improved labour practices. This will be accomplished by a:

- Strategic shift of production from China to **Vietnam, Sri Lanka** and **Mauritius** through a partnership with **Esquel Group**, who will allow Nike to implement an **online platform traceability** initiative.
- "School Pride Fueling Better Lives" marketing campaign

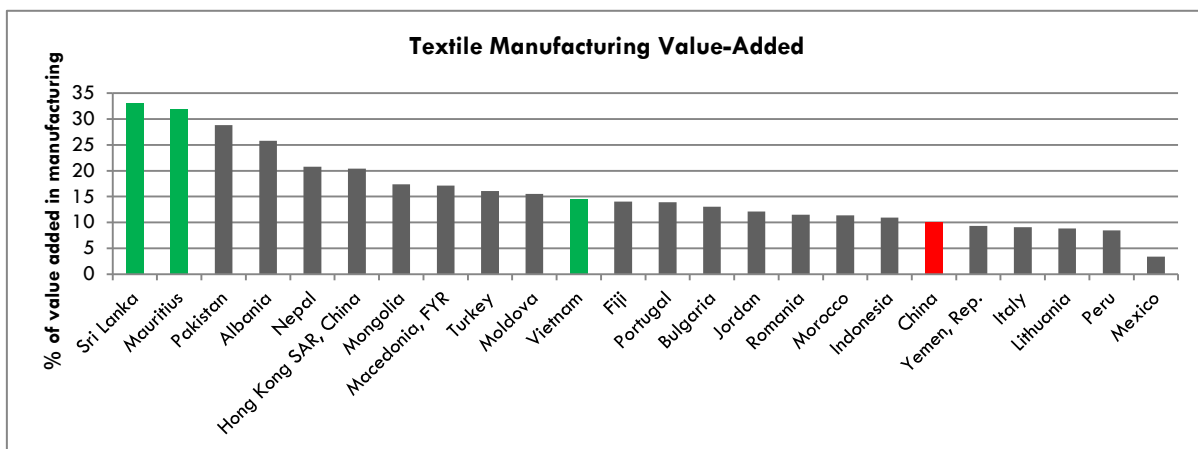
This will result in **sustaining future margins**, as well as a **10.4% increase in net income** over the next 5 years, and a **117 basis-point increase** to gross margin.

Analysis

The collegiate apparel industry is a lucrative market, representing US\$4.6 billion. In the U.S., Nike has consistently ranked in the top two selling manufacturers for collegiate wear. The majority of Nike's production originates from China, which is experiencing a diminishing cost advantage due to an increase in labour wages and transportation costs, and currency appreciation. The industry's labour practices and environmental footprint have also been under a microscope. Transparency and traceability remain an important concern for all stakeholders, including the consumer. In response to the state of the industry and its commitment to sustainability, Nike has implemented several programs and policies encompassing each stage the supply chain.

Country Selection

As the forecast for China's continued increased production costs remains certain, Nike Inc. should shift production to locations that are more cost effective. A country's textile manufacturing value-added and its minimum wage indicate whether cost effectiveness will be achieved compared to China.





Moreover, they should also carry relatively low risk. Risk was identified through Nike's Country Risk Index and included political, economic, social/compliance and infrastructure/climate risks. Nike should shift its collegiate apparel production out of China, expand its production in Vietnam and Sri Lanka, and utilize Mauritius as a new manufacturing source. Sri Lanka and Mauritius have a favorable business environment, high quality of infrastructure and relatively low corruption level. Vietnam already manufactures collegiate apparel for Nike through 14 factories.

Production Shift out of China

Exiting Nike's collegiate apparel production from China will occur through Nike's 5-step divesture process, beginning with the lowest performing factories based on the Manufacturing Index. The complete divesture will be accomplished by the end of 2015.

Production Shift to Vietnam, Sri Lanka & Mauritius

Vietnam's production base will increase at Esquel Group's Esquel Garment Manufacturing Ltd. factory, which is currently Nike's second largest producer of collegiate apparel in Vietnam. Since staying with the same manufacture has many benefits, including greater negotiating power, Nike will expand its production in Sri Lanka and Mauritius in Esquel Group's operated factories.

The production shift to Sri Lanka and Mauritius will require Nike to undergo a New Source Selection Process. In the case of Mauritius, a New Country Approval Process will be required. Currently utilized, these processes will ensure that the new manufacturing sources are fully aligned with Nike's standards.

Online Platform Traceability Initiative

Nike is already committed to transparency and traceability of its supply chain, however there is an opportunity to share this with consumers and potentially gain greater sales. Using an online platform, the traceability initiative will involve a unique tracking ID located on the garment's label. Consumers will be able to track the location, labour conditions and material sourcing methods from farmers, mills and manufacturing plants. This will be achieved through Nike's partnership with Esquel Group.

Building Consumer Awareness

Nike will promote its commitment to sustainability and improved labor practices to collegiate apparel consumers through the "School Pride Fueling Better Lives" campaign. This will include a website section, public relations, point-of-sale advertising and displays, social media, and sales promotion.