



NIKE: SUSTAINABILITY – PAST, PRESENT AND FUTURE

12 April 2014

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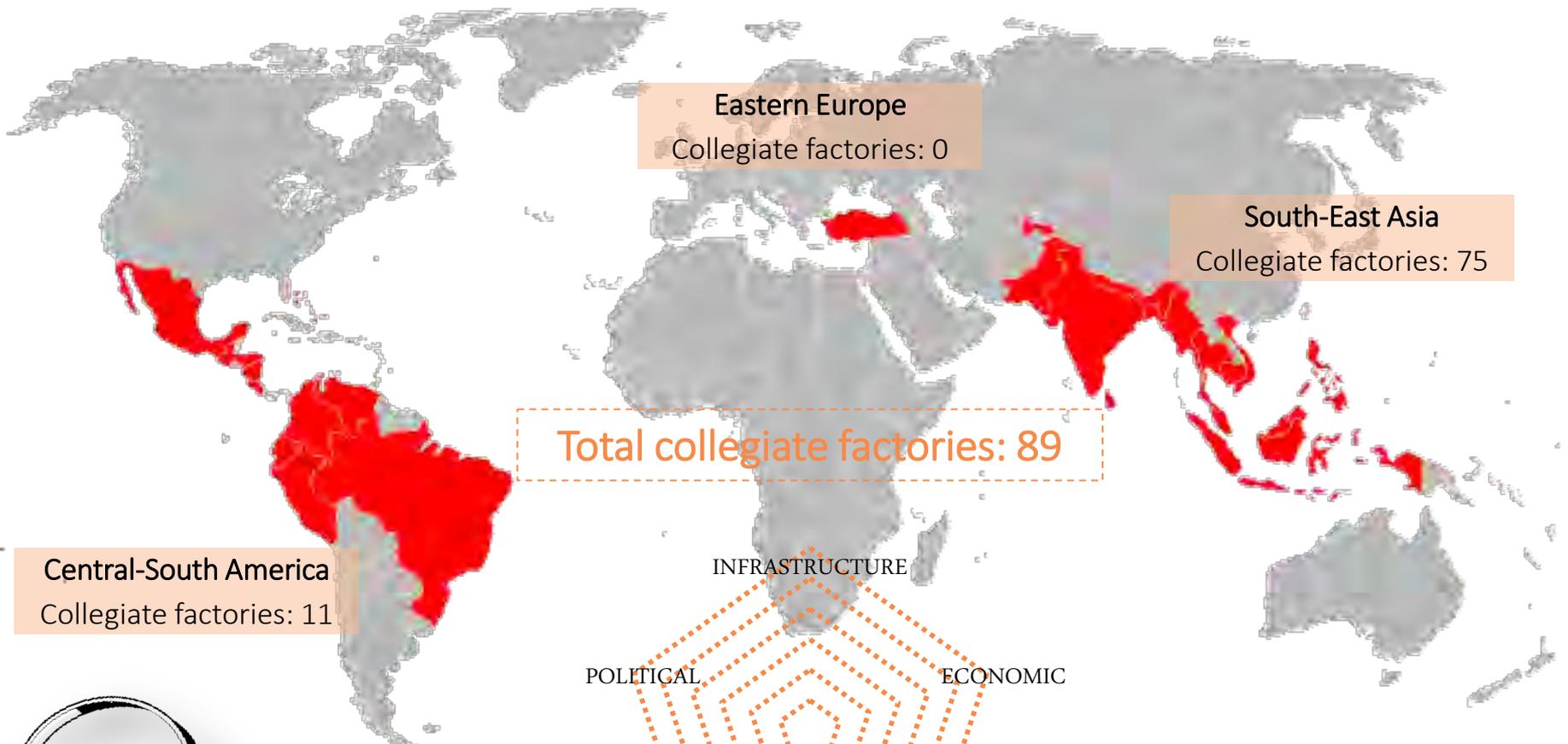


01	<u>Introduction</u>	
02	Country Analysis	ISSUE 1
03	NIKE.U	
04	Marketing Strategy	ISSUE 2 + ISSUE 3
05	Financials	
06	Action Plan	
07	Conclusion	IMPLEMENTATION



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COUNTRY ANALYSIS

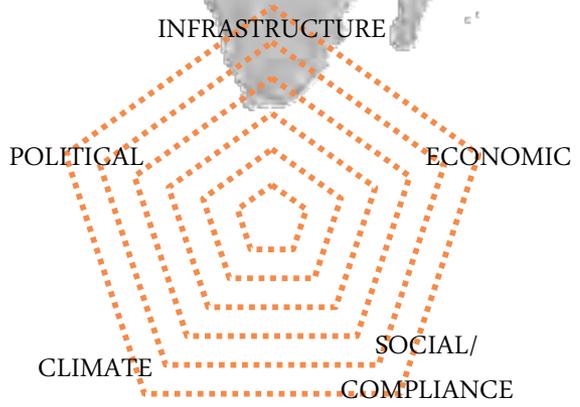


Total collegiate factories: 89

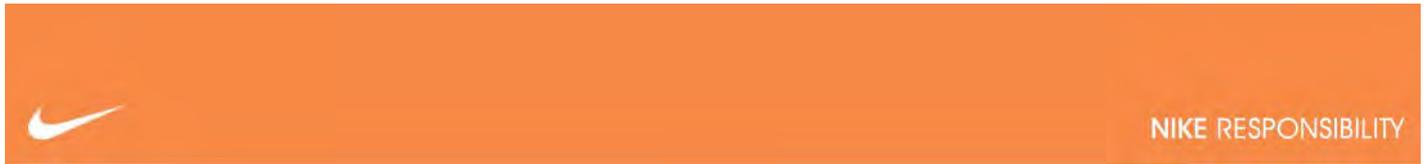
Central-South America
Collegiate factories: 11

Eastern Europe
Collegiate factories: 0

South-East Asia
Collegiate factories: 75



COUNTRY ANALYSIS



Poverty Level
(Average GNI per capita)

11.3%
(\$1,550/capita)

31.5%
(\$840/capita)

Export Laws

0% tariff on US exports (2015)

Regular tariffs apply

Corruption Ranking

116/177 (high)

156/177 (high)

Availability of Resources

High

High

Infrastructure

8th largest garment exporter

4th largest exporter

Cost and Time to Export

\$610/container, 21 days

\$1,075/container, 27 days

Living Wage

\$268/month

\$170/month

Working Limits

48 hours/week

60 hours/week

Labor Statistics

49.18m, 21% industrial

77m, 32% industrial



COUNTRY ANALYSIS



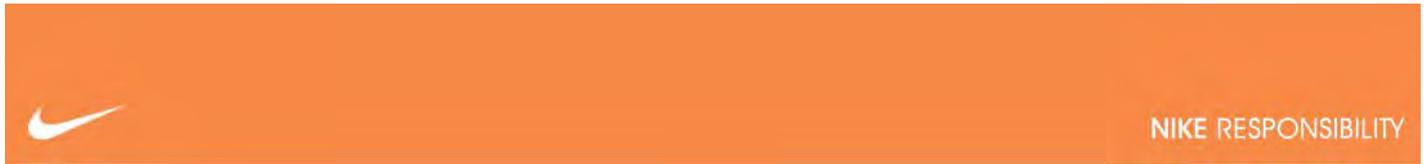
VIETNAM



Pros		Cons	
Low wages (Minimum wage \$0.5/hour, living wages \$268/month)	★ ★ ★	High corruption (116/177)	✘ ✘
No import tariff to US from 2015	★ ★ ★ ★	Poor export infrastructure (<20 ports)	✘ ✘ ✘
8 th largest exporter of clothing	★ ★	Unskilled labor with quality issues	✘ ✘
Good supply of labor (49.18m labor force)	★ ★ ★	Economic uncertainties	✘
Good labor law	★ ★ ★		

Enormous potentials make Vietnam a good substitute in South-East Asia

COUNTRY ANALYSIS



Poverty Level
(Average GNI per capita)

21.4%
(\$11,630/capita)

51.3%
(\$9,640/capita)

54%
(\$3,120/capita)

Export Laws

Bad export law
Difficult government

Free trade and no tax

Regular tariffs apply

Corruption Ranking

72/177 (average)

106/177 (high)

123/177 (high)

Availability of Resources

High

High

Medium

Infrastructure

Large apparel industry

16th garment exporter

Developing stage

Cost and Time to Export

\$2,215/container, 13 days

\$1,450/container, 11 days

\$1,435/container, 8 days

Living Wage

\$435/month

\$331/month

\$413/month

Working Limits

48 hours/week

48 hours/week

48 hours/week

Labor Statistics

106.3m, 13.3% industrial

50.64m, 23.4% industrial

4.35m, 14% industrial

COUNTRY ANALYSIS



MEXICO



Pros		Cons	
Low wages (Minimum wage \$0.6/hour, living wages \$331/month)	★ ★ ★	High corruption (106/177)	✘ ✘
Have laws (discrimination, safety and right to strike)	★ ★ ★ ★	Higher cost than China	✘
16 th largest exporter of clothing	★ ★	Unable to lay off employees	✘ ✘
Good supply of labor (52.8m labor force)	★ ★ ★	Limited amount of raw materials	✘ ✘
No tariffs to U.S. (NAFTA)	★ ★ ★ ★		
Have unions, collective bargaining agreements	★ ★ ★ ★		

▶▶▶ Economic, legal and technological advantages encourage Mexican investment

COUNTRY ANALYSIS



TURkeY



Pros		Cons	
Low wages (Minimum wage \$3.05/hour, living wages \$370/month)	★★	Political unrest	×××
Low corruption (53/177)	★★	Long distance to U.S.	××
7 th largest exporter of clothing	★★★	Presence of export taxes	××
Good supply of labor (52.8mil labor force)	★★★		
Protection from discrimination, child labor	★★★ ★		
Adequate supply of domestic materials	★★★ ★		

▶▶▶▶ All-rounded performance guarantees Turkish presence in development plans

AGENDA



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Three Phase Approach

Goal: Increase the Triple Bottom Line



Phase I:
Company



Phase II:
Consumer



Phase III:
Marketing
and beyond



Phase I:
Company

VERIFICATION PROCESS

RELIANCE ON INDEX GRADING

Execution based on sustainability indexes

INCREASE MANAGER TRAINING

Better environment, enhanced efficiency
Maintain Sustainable Labor Practices

THOUROUGH SOUCRING TRACK

Apply to all raw materials and production
Introduce and utilize RFID technology

FROM SEED TO SHIRT



Phase I:
Company



Raw Material
Wholesalers

Material
Sustainability
Index Vetting



Textile
Factories

Manufacturing
Index Vetting
Material
Sustainability
Index



Apparel
Manufacturers

Considered
Index Vetting



Phase I:
Company

Verify Sustainability of
Raw Materials

Cotton
Polyester

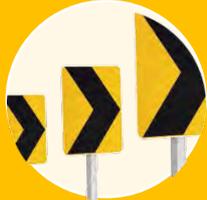


Certified Wholesalers mark
with RFID Chip

Track materials through
production process



FROM SEED TO SHIRT



Phase I:
Company



Raw Material
Wholesalers

Material
Sustainability
Index Vetting



Textile
Factories

Manufacturing
Index Vetting
Material
Sustainability
Index



Apparel
Manufacturers

Considered
Index Vetting



Phase II:
Consumer

Mark apparel with QR Code
at production facilities

Allow customer to know
where products come from:
Which Factory Produced it
Index Scores of Factory
Materials Sustainability Index
Manufacturing Index
Apparel Sustainability Index
Sourcing and Manufacturing Index



Company and Customer Initiative Goals



Phase II:
Consumer

Demonstrate Nike's
dedication to
sustainability

Allow customers to
trace production
from seed to shirt

Allow Nike to keep
electronic verification of
sustainability practices



Phase II:
Consumer

Collegiate Licensed Apparel Market

\$4.6b market

U.S. is main market

Brand loyalty is low

All products very similar

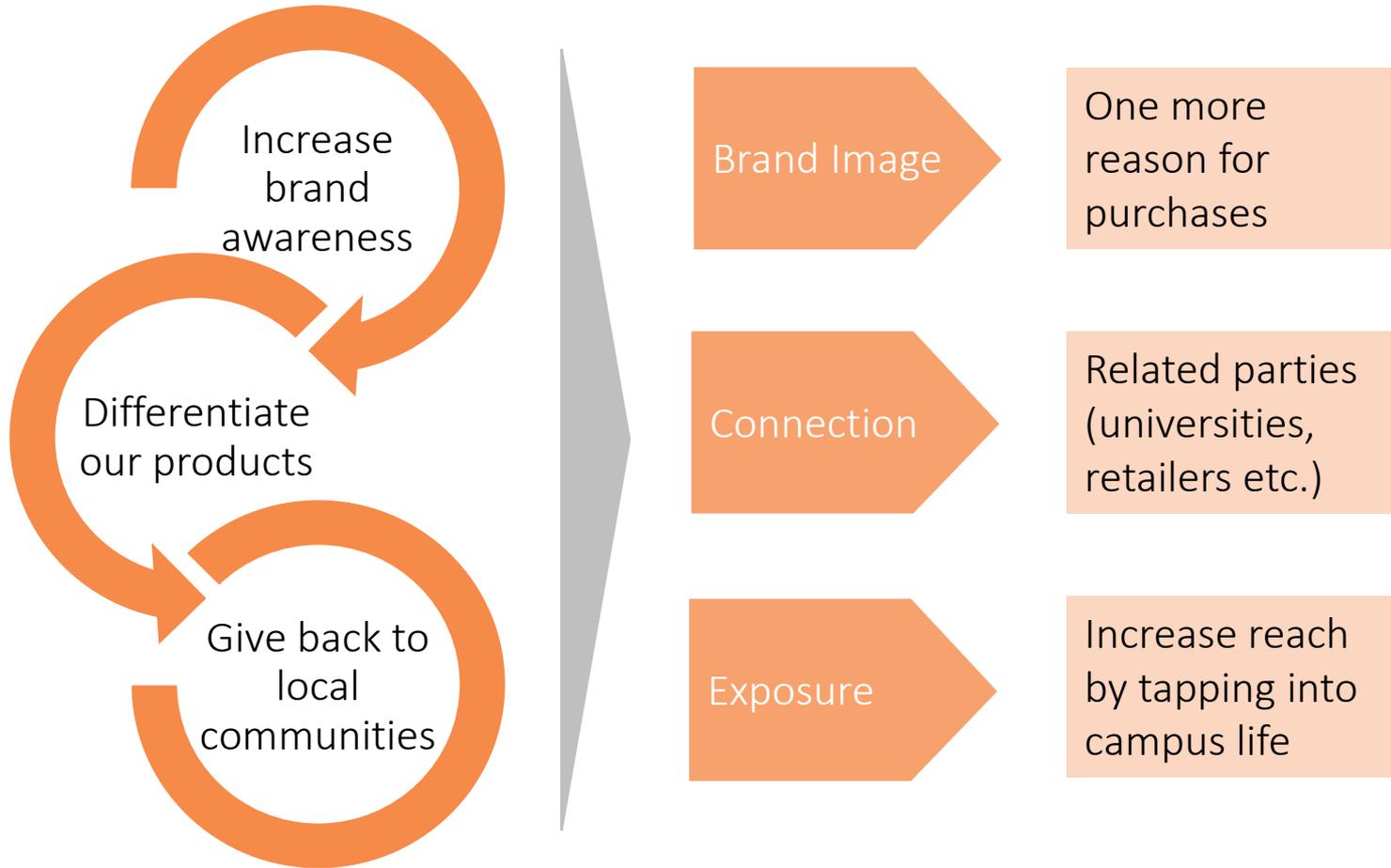


University scholarship program

Donate 1% of sales revenue to college scholarship fund

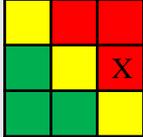
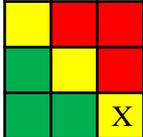
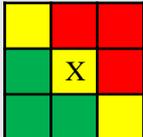
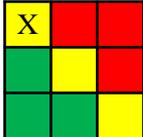


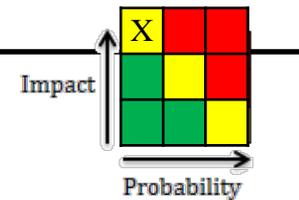
Phase II:
Consumer





Phase II:
Consumer

Risk	Rating	Mitigation
Competitor Imitation		<ul style="list-style-type: none"> • Biggest competitor is privately held and has limited resources, cannot match 1% scholarship • Consider dropping if demand does not grow
RFID chips cannot be permanently disabled		<ul style="list-style-type: none"> • Only use RFID tags on batches of units
Competitors utilizing QR information		<ul style="list-style-type: none"> • Extra training for managers at manufacturing facilities • Integrate with existing NikeID platform requiring personal information
Feasibility of getting 16 million pounds of cotton per year		<ul style="list-style-type: none"> • Source raw materials from wholesalers who have been certified and guarantee raw materials are sustainably farmed and produced





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Phase III:
Marketing
and beyond



New Campaign Theme to Increase Awareness

1. Tie individuals with corporate social responsibility
2. Visualize Nike CSR effort for awareness
3. Establish a new symbol representing improved labor practices and sustainable materials use





Phase III:
Marketing
and beyond



Key Question

How can Nike be a globally recognized ethical brand?

Hypothesis

It's not Nike hasn't done enough;
It just failed to convey the message

Approach

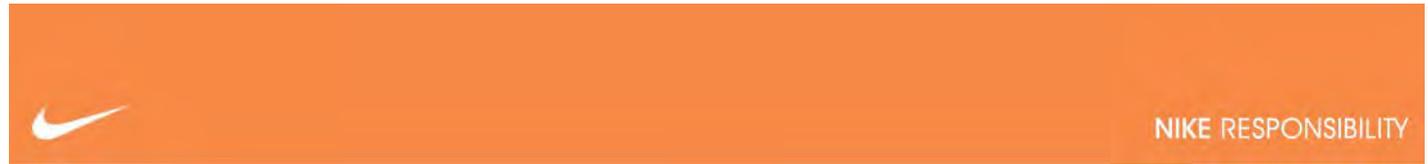
Enhance customer
engagement towards
Nike as a brand



Highlight specific issues
towards labor situation and
CSR practice of Nike



Phase III:
Marketing
and beyond



Integrated marketing communication

INTERACTIVE MARKETING

Nike.U QR Code
App with information on Nike's production

ADVERTISING

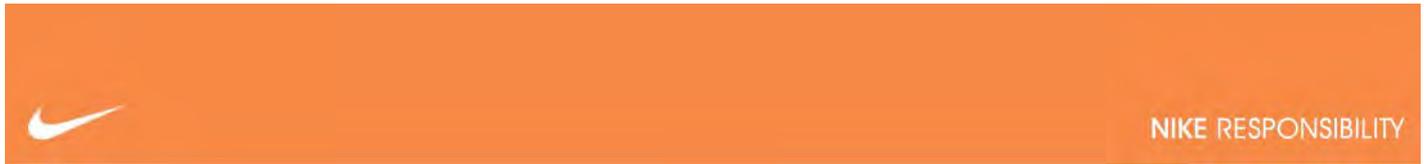
Billboards, magazines and commercials
Ads featuring individual empowerment

EVENT MARKETING

Co-organize events with minority groups (women, child)
Sponsorship for charity and college event beside scholarship



Phase III:
Marketing
and beyond



Overall Effect on Collegiate-Licensed Products

Customer Engagement

- QR Code and App connect customers and products
- College and charity events act as efficient channel
- Scholarship incentivizes school to allow promotion
- Minority groups are good audience and powerful opinion leaders

College students take part in various activities

More aware of Nike as a whole

Nike more connected with social responsibility

Increased Awareness

Association with Relevant Issues

- Active lobbying to increase media exposure
- QR Code provides full account of production
- Emotional advertisement to highlight differences
- NIKE.U logo directly and naturally linked to labor and sustainability issues

College students are sensitive to news



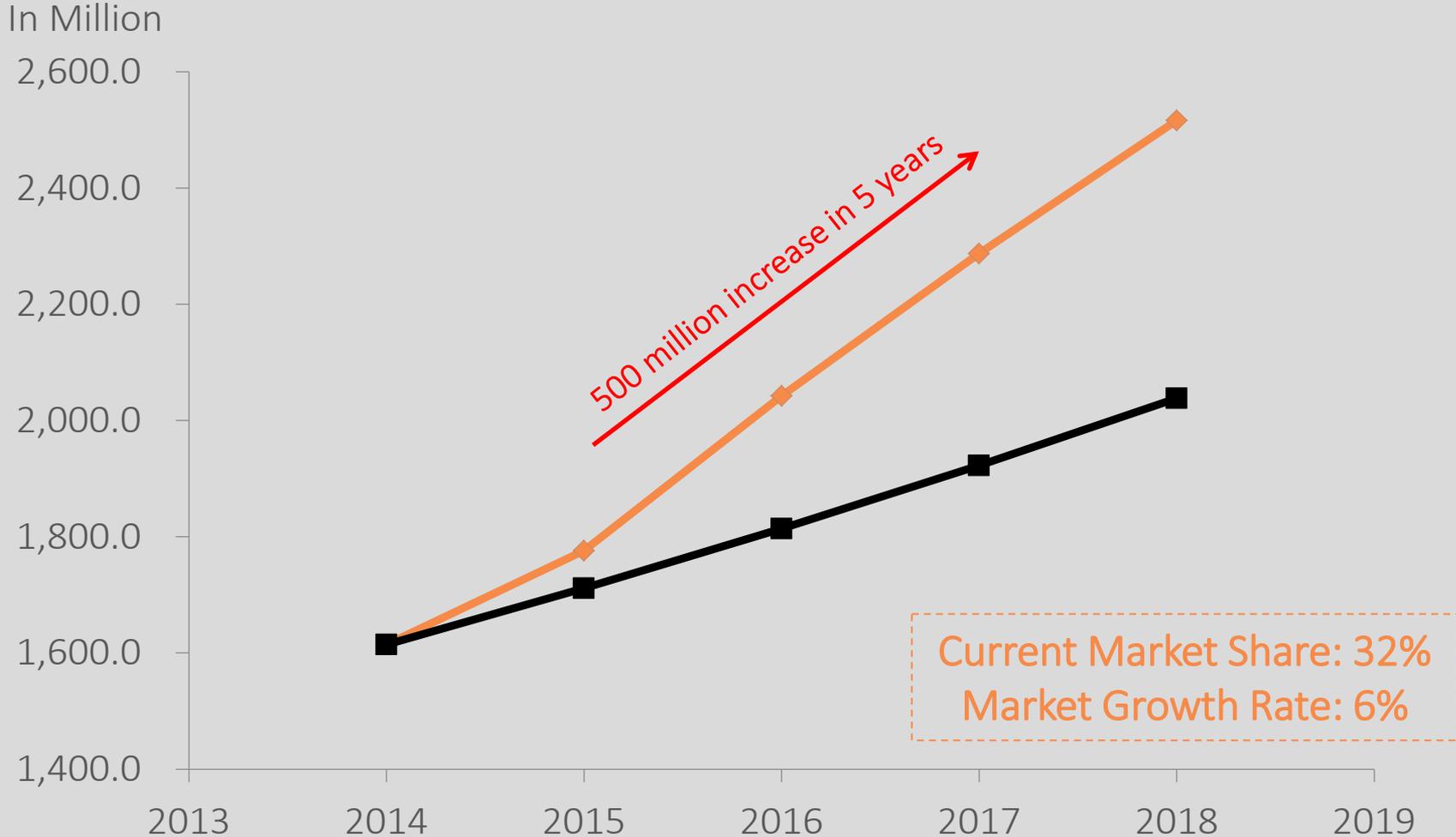
College is a good cut-in point with effective marketing



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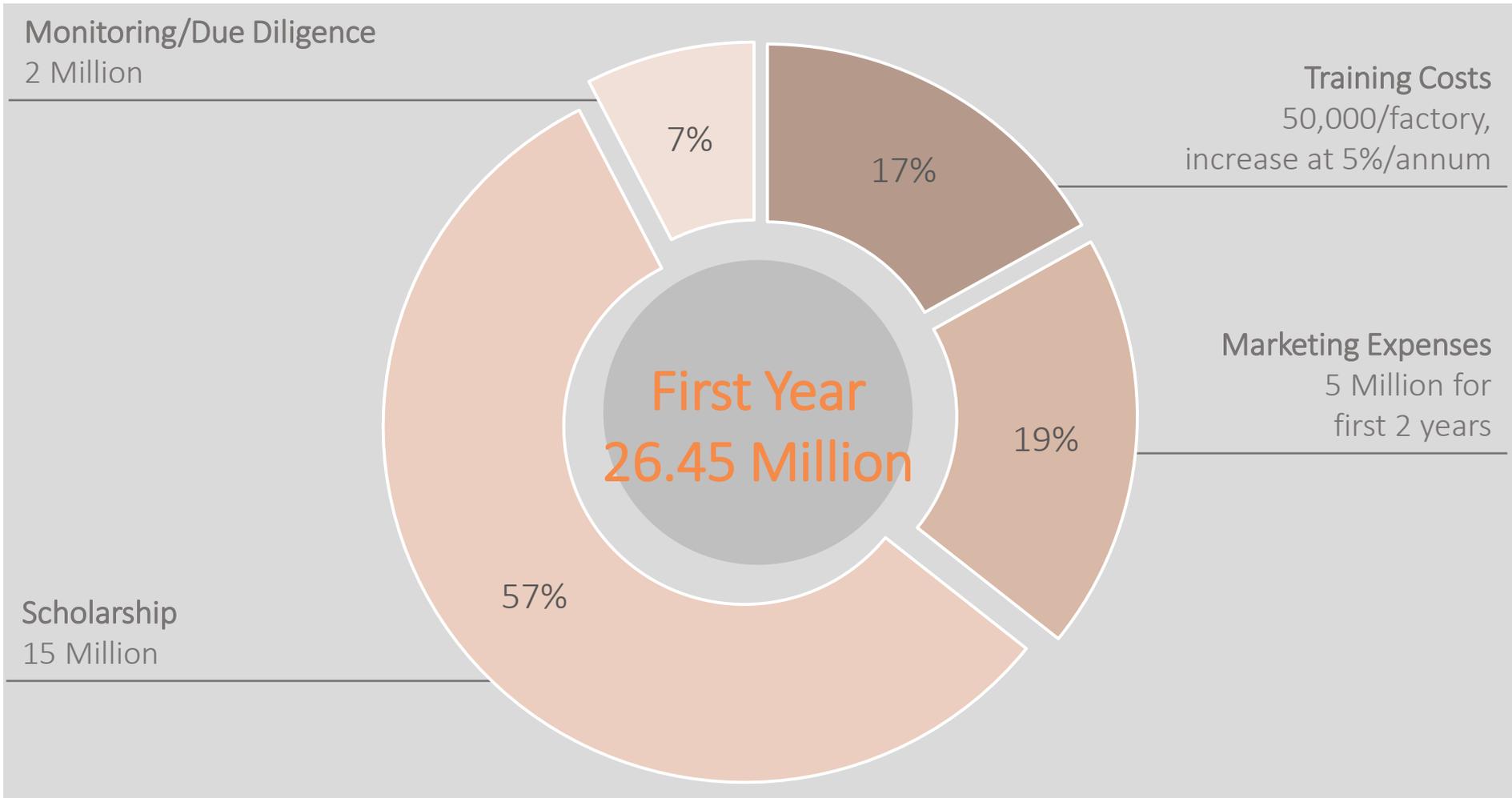


Collegiate Apparel Sales Growth





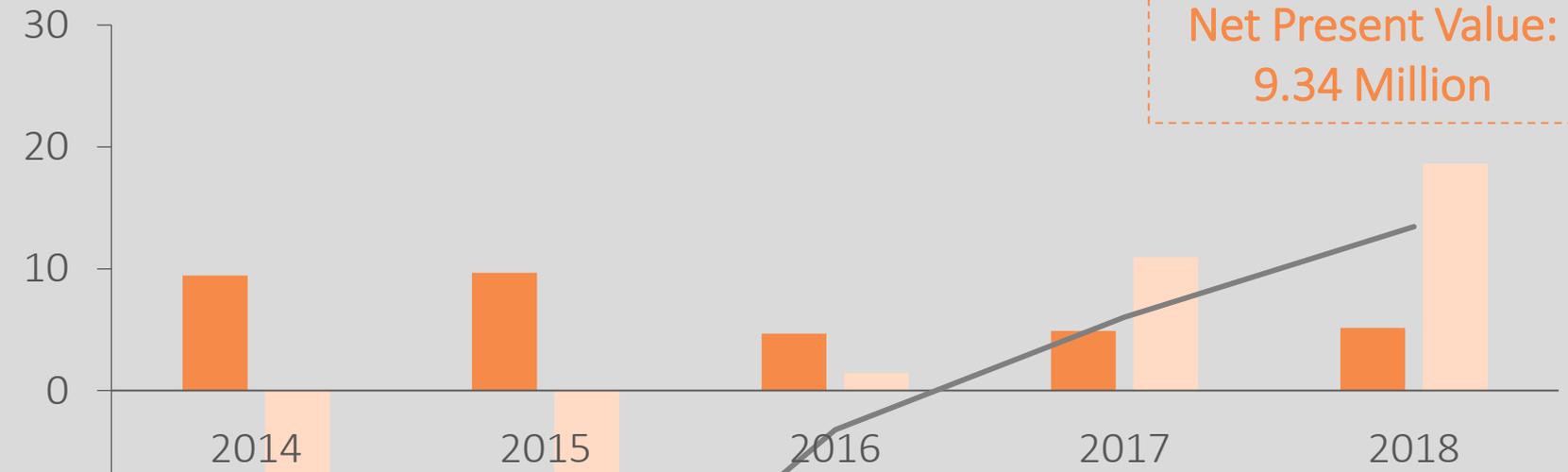
Annual cost breakdown





Collegiate Apparel Sales Growth

In Million



Net Present Value:
9.34 Million

Pre Tax Cash Outflow After Tax Cash Inflow Net Cash Flow

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IMPLEMENTATION SCHEDULE

	2014 3Q	2014 4Q	2015 1Q	2015 2Q	2015 3Q	2015 4Q	2016 1H	2016 2H	2017 1H	2017 2H
New Facility Search	█	█	█	█	█	█	█	█	█	█
Transit Into New Facilities	█	█	█	█	█	█	█	█	█	█
Management Training	█	█	█	█	█	█	█	█	█	█
Customer Relations Marketing Push	█	█	█	█	█	█	█	█	█	█
Collegiate RFID and QR Codes	█	█	█	█	█	█	█	█	█	█
Nike Brand Wide RFID and QR Codes	█	█	█	█	█	█	█	█	█	█
Review KPI Metrics	█	█	█	█	█	█	█	█	█	█
Evaluation of New Tracking System	█	█	█	█	█	█	█	█	█	█

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Just do it.

Thank you.



Financial Projections

[Growth Rate Projection](#)

[Financial Projection With Nike.U](#)

[Financial Projection Without Nike.U](#)

Collegiate Production Statistics

[Nike Revenue Breakdown](#)

[Production Material](#)

[Nike Collegiate Apparel Figures \(America\)](#)

[Nike Collegiate Apparel Figures \(Asia\)](#)

[Sustainable Materials](#)

[Polyester vs Cotton](#)

[Progress of Nike Apparel](#)

[U.S. College Store Sales and Enrollment Trend](#)

[MSI Scoring Framework](#)

Problems with China

[Automation Cannot Cut Cost in China](#)

[China's Decreasing Productivity Gain](#)

[Possible Reinvestment in U.S.](#)

[Increase of Chinese Wage](#)

Country Comparison

[Labor Market Risk Score by Country](#)

[Cost to Export](#)

[Clothing Exports by Country](#)

[Corruption Perception Index](#)

[Global Competitiveness Index Infrastructure Score](#)

Labor Standards and Laws

[Fair Labor Association](#)

[Labor Standards](#)

[Turkish Labor Law](#)

[Vietnamese Labor Law](#)

[Mexican Labor Law](#)

[Fair Compensation and Worker Safety in Mexico](#)

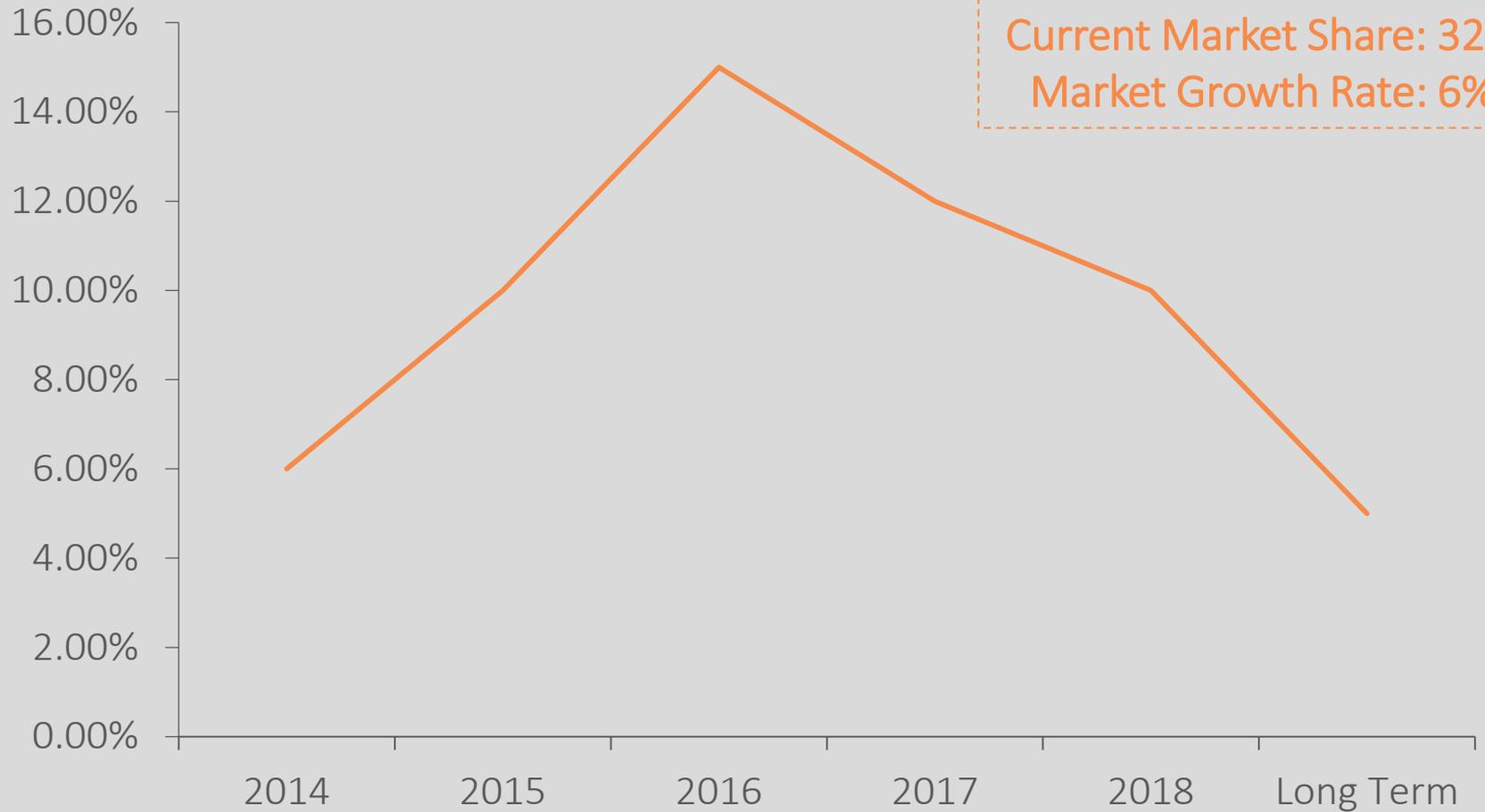
[Protection of Foreign Workers in Vietnam](#)

CSR Issues

[6 Key Reasons for Embracing CSR](#)

[10 Companies with Best CSR Practices](#)

GROWTH rate projection





Financial projection with nike.u

	2013	2014	2015	2016	2017	2018
Revenues	1,523.0	1,614.4	1,775.8	2,042.2	2,287.3	2,516.0
Cost of Sales	859.0	928.3	1,021.1	1,174.3	1,315.2	1,446.7
Gross Profit	663.0	686.1	754.7	867.9	72.1	1,069.3
Gross Margin %	43.6%	42.5%	42.5%	42.5%	42.5%	42.5%
SG&A Expense	468.1	496.2	545.8	627.7	703.0	773.3
Income Before Tax	194.9	189.9	208.9	240.3	269.1	296.0
After Tax Cash Flow	126.70	123.45	135.80	156.17	174.91	192.40





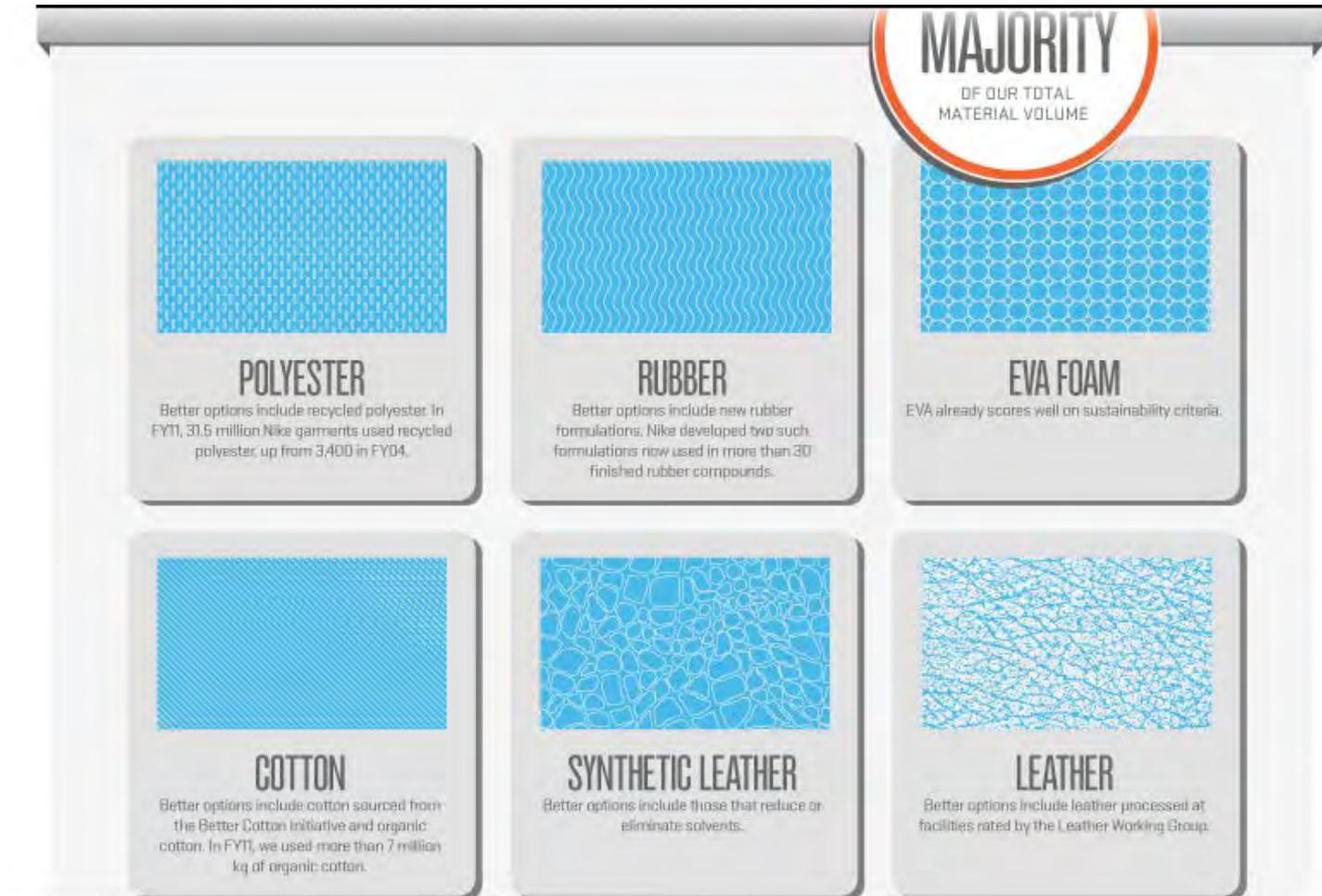
Financial projection without nike.u

	2013	2014	2015	2016	2017	2018
Revenues	1,523.0	1,614.4	1,711.2	1,813.9	1,922.8	2,038.1
Cost of Sales	859.0	910.5	965.1	1,023.0	1,084.4	1,149.5
Gross Profit	663.0	703.9	746.1	790.9	838.3	888.6
Gross Margin %	43.6%	43.6%	43.6%	43.6%	43.6%	43.6%
SG&A Expense	468.1	496.2	526.0	557.5	591.0	626.4
Income Before Tax	194.9	207.7	220.1	233.4	247.4	262.2
After Tax Cash Flow	126.70	135.00	143.10	151.68	160.78	170.43





Production material





Clothing exporters by country

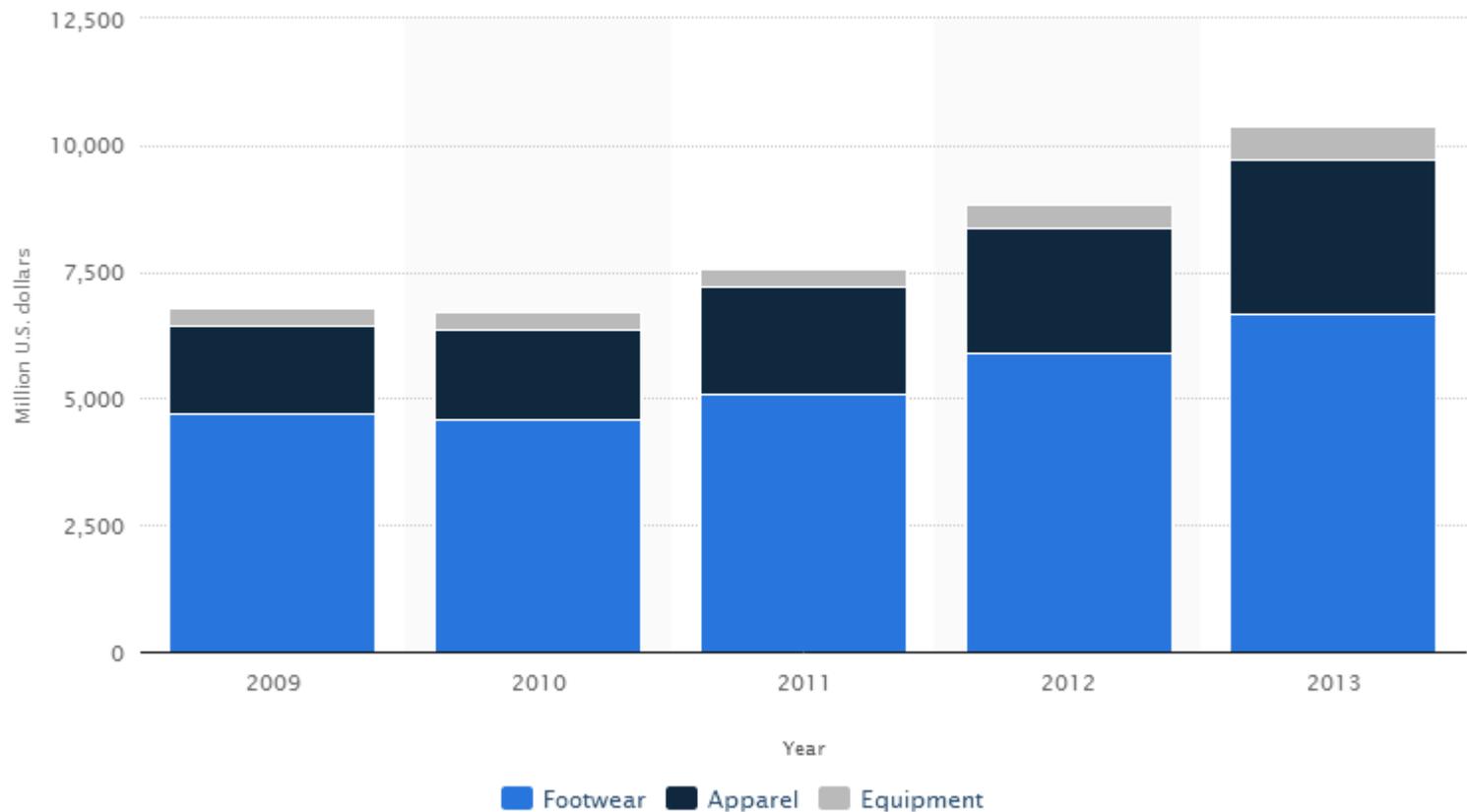


Sources: World Trade Organization, IMF
 Interactive: Steven Bernard and Emily Cadman.



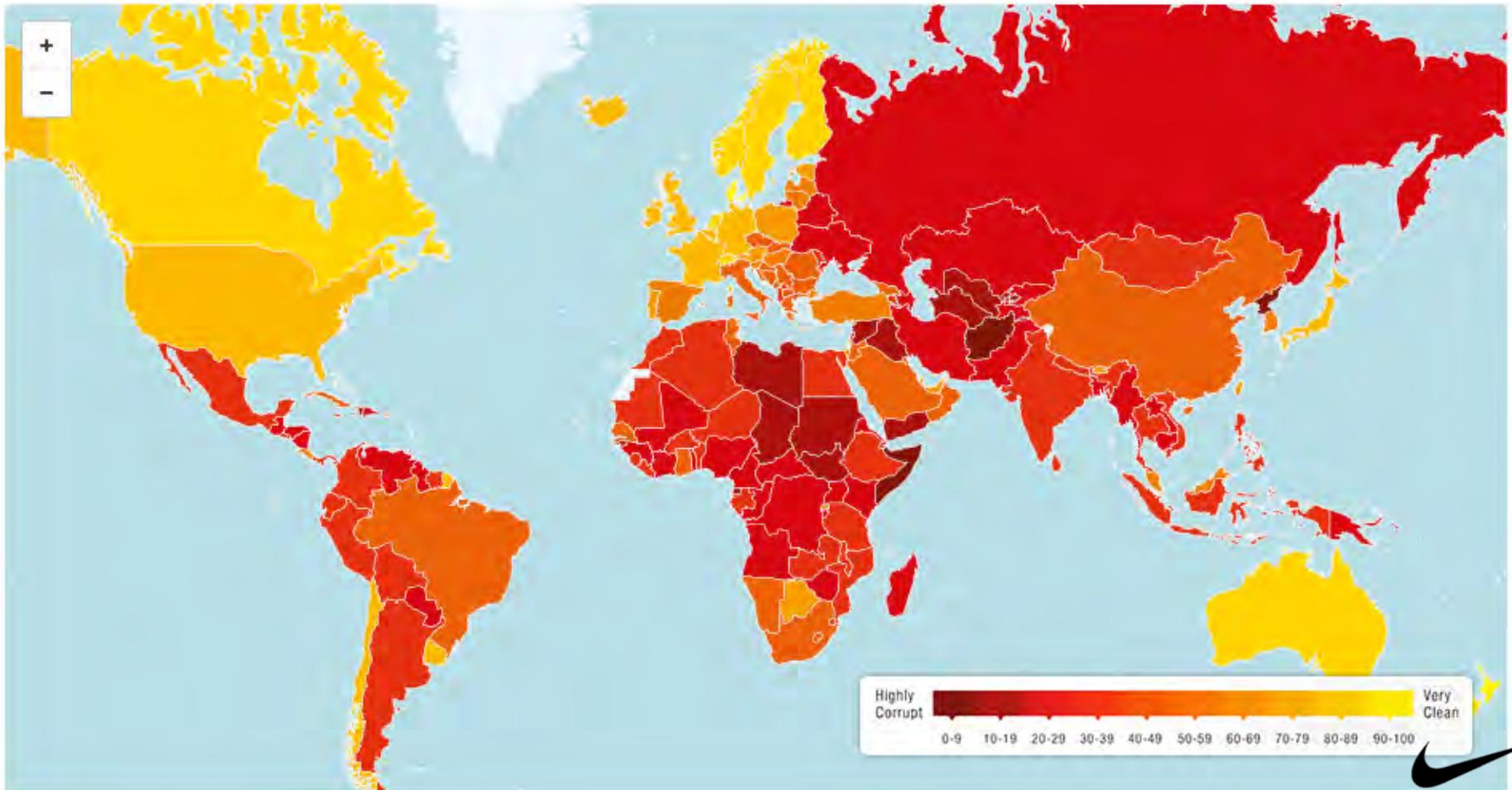
Nike revenue breakdown

Nike's North American revenue from 2009 to 2013, by segment (in million U.S. dollars)



CORRUPTION PERCEPTIONS INDEX 2013

[VIEW BROCHURE](#) [VIEW RESULTS TABLE](#)



Nike collegiate apparel figures (America)



Nike collegiate apparel figures (Asia)





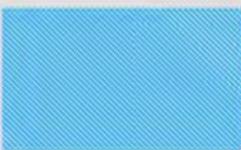
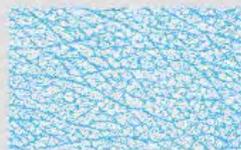
Sustainable materials

- Materials Sustainability Index

NIKE, INC. OUR JOURNEY HOW WE WORK

CHAPTERS Product Design & Materials Manufacturing

II. HOW WE WORK BUSINESS

 <p>POLYESTER</p> <p>Better options include recycled polyester. In FY11, 31.5 million Nike garments used recycled polyester, up from 3,400 in FY04.</p>	 <p>RUBBER</p> <p>Better options include new rubber formulations. Nike developed two such formulations now used in more than 30 finished rubber compounds.</p>	 <p>EVA FOAM</p> <p>EVA already scores well on sustainability criteria.</p>
 <p>COTTON</p> <p>Better options include cotton sourced from The Better Cotton Initiative and organic cotton. In FY11, we used more than 7 million kg of organic cotton.</p>	 <p>SYNTHETIC LEATHER</p> <p>Better options include those that reduce or eliminate solvents.</p>	 <p>LEATHER</p> <p>Better options include leather processed at facilities rated by The Leather Working Group.</p>



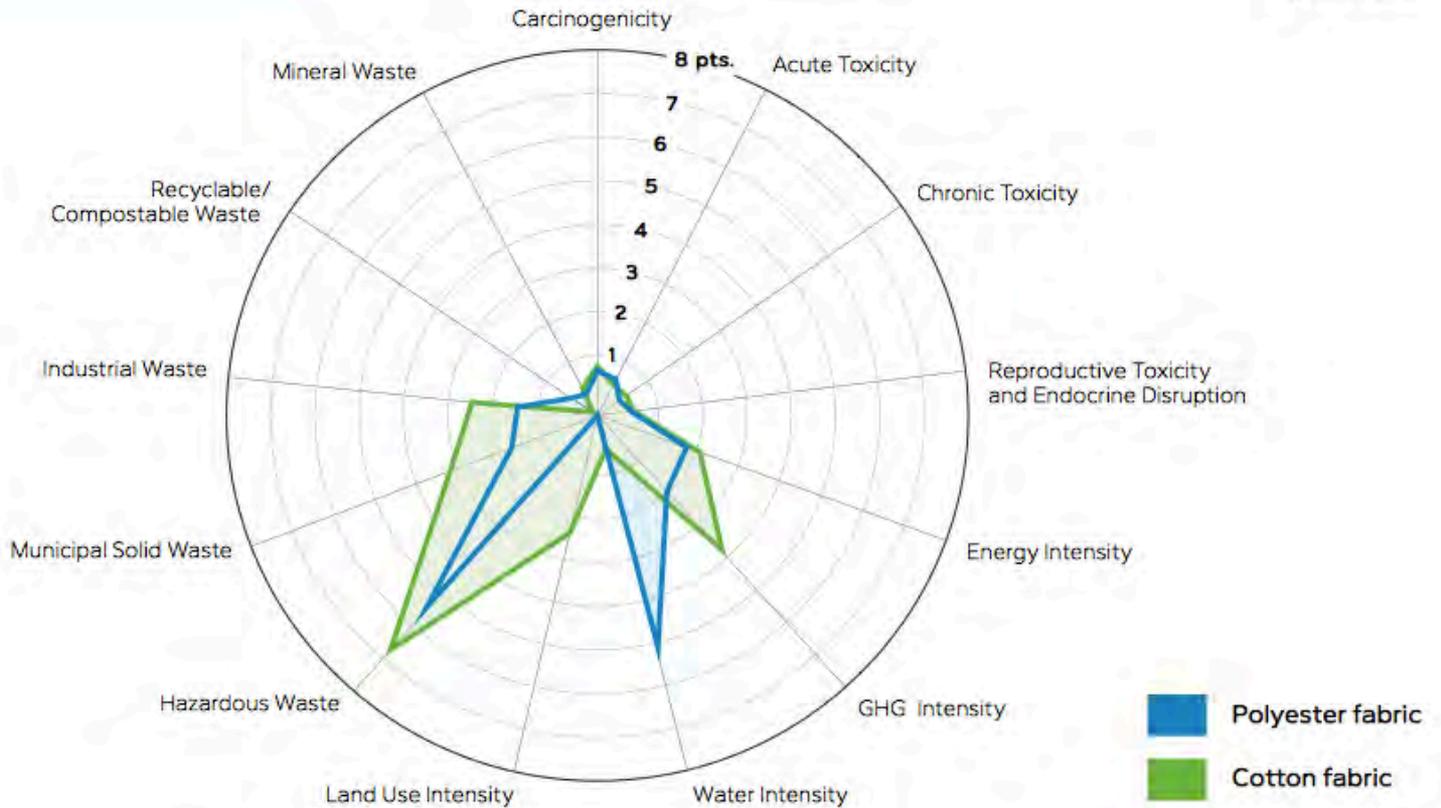


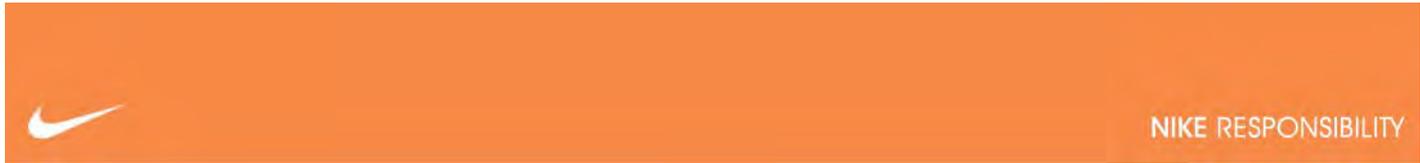
Polyester vs cotton

- Reports & Assessments
- Environmental Consultants

Figure 6. Comparison of Environmental Trade-offs between Cotton and Polyester.

Higher Is Better





Msi scoring framework

Table 2. Nike Materials Sustainability Index Scoring Structure & Environmental Impact Weighting

	BASE MATERIAL SCORE	+	MATERIAL ENVIRONMENTAL ATTRIBUTES			+	SUPPLIER PRACTICES				=	NIKE MSI SCORE
			Green Chemistry	Recycled Content	Organic Content		RSL	Water Quality & Conservation	Energy and Carbon	Sustainability Certifications & Programs		
 Chemistry	9	+	7		2.5	+	5			1.5	=	25
 Energy and Greenhouse Gas (GHG) Intensity	11	+		6	2.5	+			4	1.5	=	25
 Water and Land Use Intensity	13	+				+		10		2	=	25
 Physical Waste	17	+		6		+				2	=	25
TOTAL	50		7	12	5		5	10	4	7		100





Progress of nike apparel

Use of Environmentally Preferred Materials in Nike Apparel

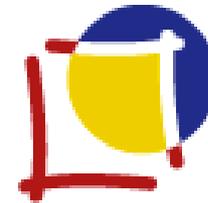
TARGET	PERFORMANCE	PROGRESS
<p>Apparel Increase use of EPMs to 20 percent by FY15.</p>	<p>Making progress. Preparing a new Materials Analysis Tool to be completed and tested in FY10. Tool will be released with version two of our Considered Design Index.</p>	 <p>On track</p>





Fair Labor Association (FLA)

- Increasing labor standards around the world
- Code of Conduct: 9 aspects
- Today several big companies are on board



FAIR LABOR
ASSOCIATION®





Labor standards, fla

- Employment Relationship
- Nondiscrimination
- Harassment and Abuse
- Forced Labor
- Child Labor
- Freedom of Association and Collective Bargaining
- Health, Safety and Environment
- Hours of Work
- Compensation

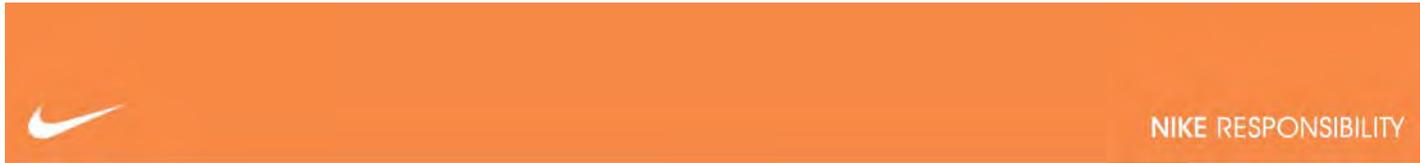




Turkish labor law

- Protection from discrimination and Harassment
- Minimum wage/compensation
- Working hours regulation
- Health and Safety Obligation
- Age restrictions





Vietnamese labor law

- Minimum wage/compensation
- Collective bargaining
- Minimum wages/compensation
- Working hours/break hours
- Occupational safety and health
- Labor inspections





Mexican labor law

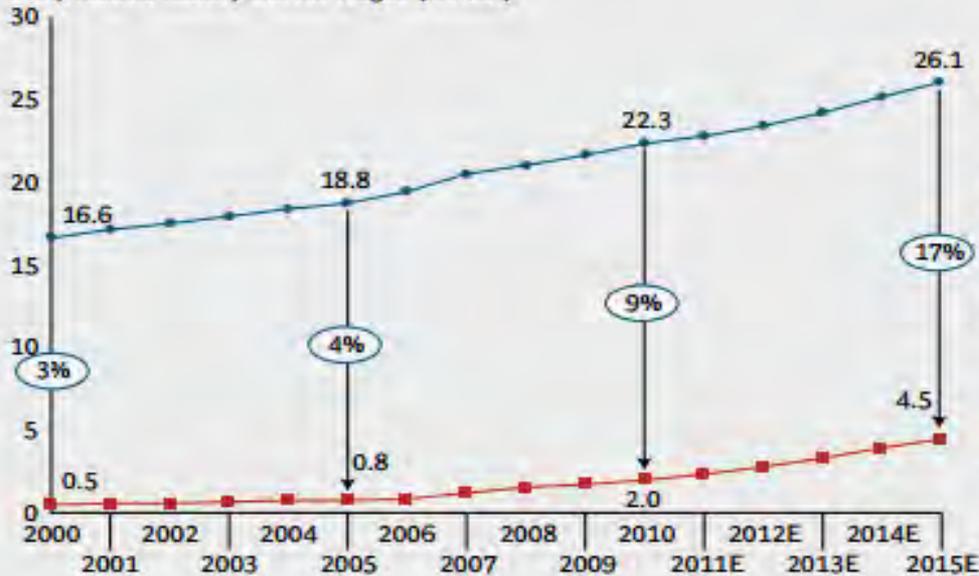
- Laws against discrimination and harassment
- Protecting women
- Labor Unions and right to strike
- Occupational health and safety regulations
- Collective bargaining agreements



EXHIBIT 1 | China's Wage Rates Are Growing Rapidly

Average wages could approach 17 percent of those in the U.S. by 2015, up from 3 percent in 2000

Fully loaded factory-worker wages (\$/hour)



	CAGR		
	2000-2005 (%)	2005-2010 (%)	2010-2015 (%)
U.S.	2	4	3
China	10	19	17

U.S.

China

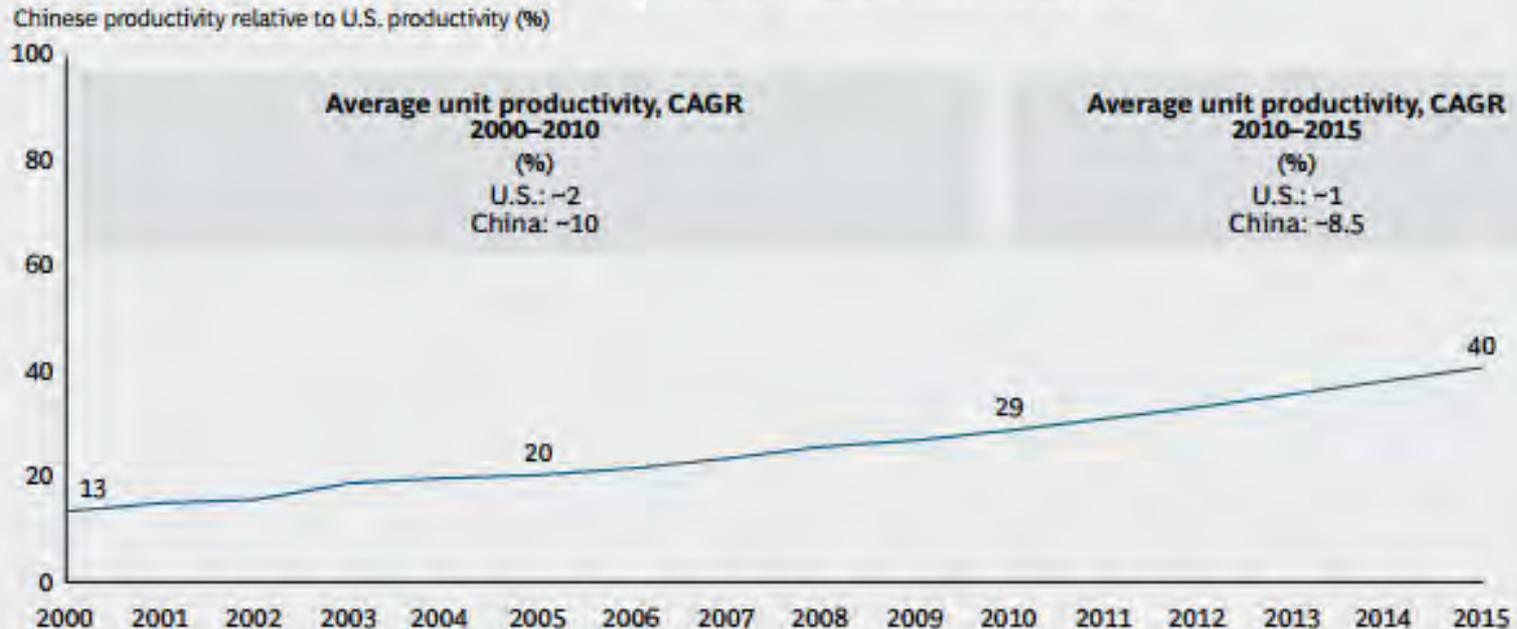
Ratio of average Chinese to average U.S. wage rates

Sources: Economist Intelligence Unit; U.S. Bureau of Labor Statistics; selected company data; BCG analysis.



EXHIBIT 2 | China's Productivity Gains Will Lag Behind Wage Increases

Growing at nearly 10 percent per year, China's productivity could reach 40 percent of U.S. productivity by 2015



Sources: Economist Intelligence Unit; U.S. Bureau of Labor Statistics; BCG analysis.
 Note: All figures are based on real units.



EXHIBIT 3 | Economics Will Drive Reinvestment in the U.S.

Imagine a company...	...with the following choices of location		2000	2015E
<ul style="list-style-type: none"> U.S.-based auto parts supplier Most customers are U.S. OEMs that manufacture in the U.S. 	U.S., selected southern states <ul style="list-style-type: none"> Flexible unions/workforce Minimal wage growth High worker productivity 	Wage rate (\$/hour)	15.81	24.81
		Productivity (%)	100	100
		Labor cost/part (\$)	2.11	3.31
<ul style="list-style-type: none"> Parts require eight minutes of labor, on average, in the U.S. Labor represents one-quarter of the total cost of the part 	China, Yangtze River Delta <ul style="list-style-type: none"> Scarce labor Rapidly rising wages Low productivity relative to the U.S. 	Wage rate (\$/hour)	0.72	6.31
		Productivity (%) ¹	13	42
		Labor cost/part (\$)	0.74	2.00
		Labor cost savings (%)	65	39
		Total cost savings before transportation, duties, and other costs (%)	16	10

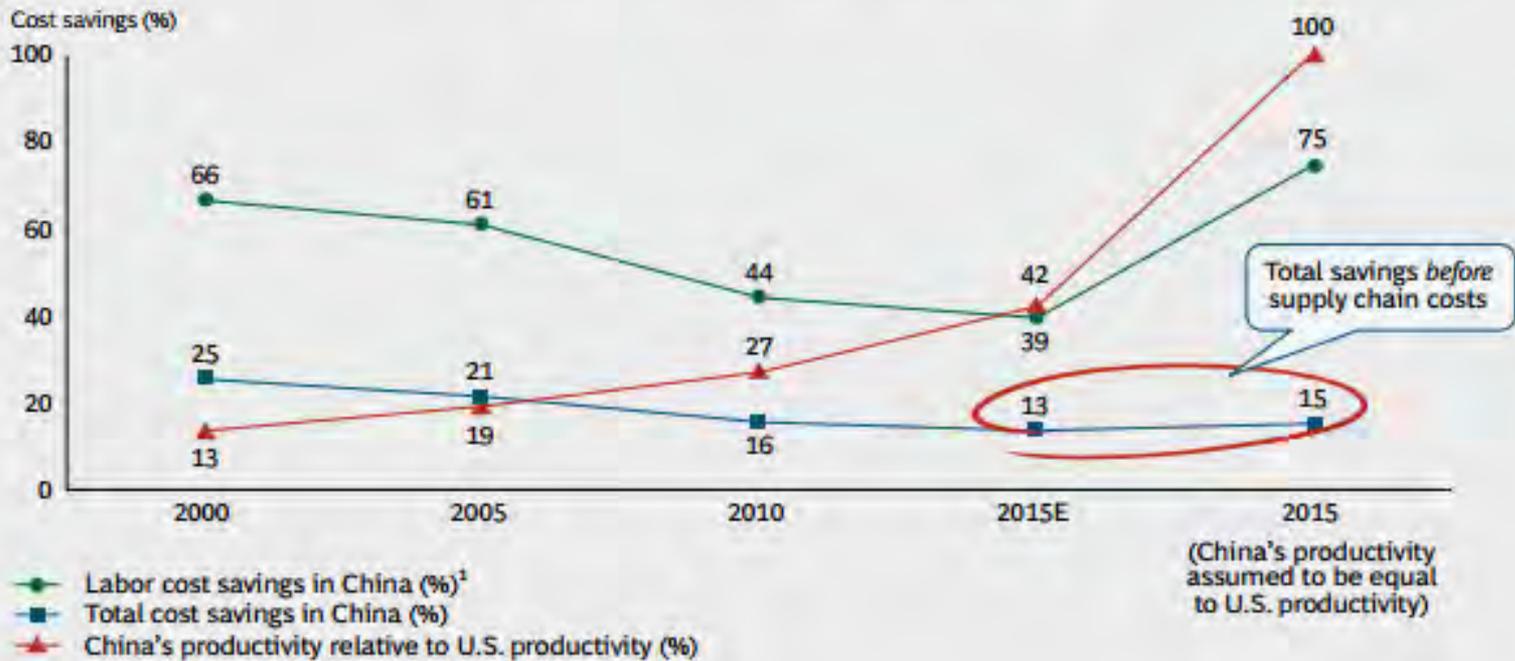
Sources: Economist Intelligence Unit; U.S. Bureau of Labor Statistics; BCG analysis.

¹Average productivity difference between the U.S. and China's Yangtze River Delta. Productivity in the Yangtze River Delta region is assumed to grow at a CAGR of ~7 percent over a 2009 baseline, slightly slower than overall Chinese manufacturing productivity (~8.5%) as other regions adopt more advanced manufacturing practices.



EXHIBIT 4 | Increased Automation in China Is Unlikely to Change the Cost Equation

Product with 20 percent labor content

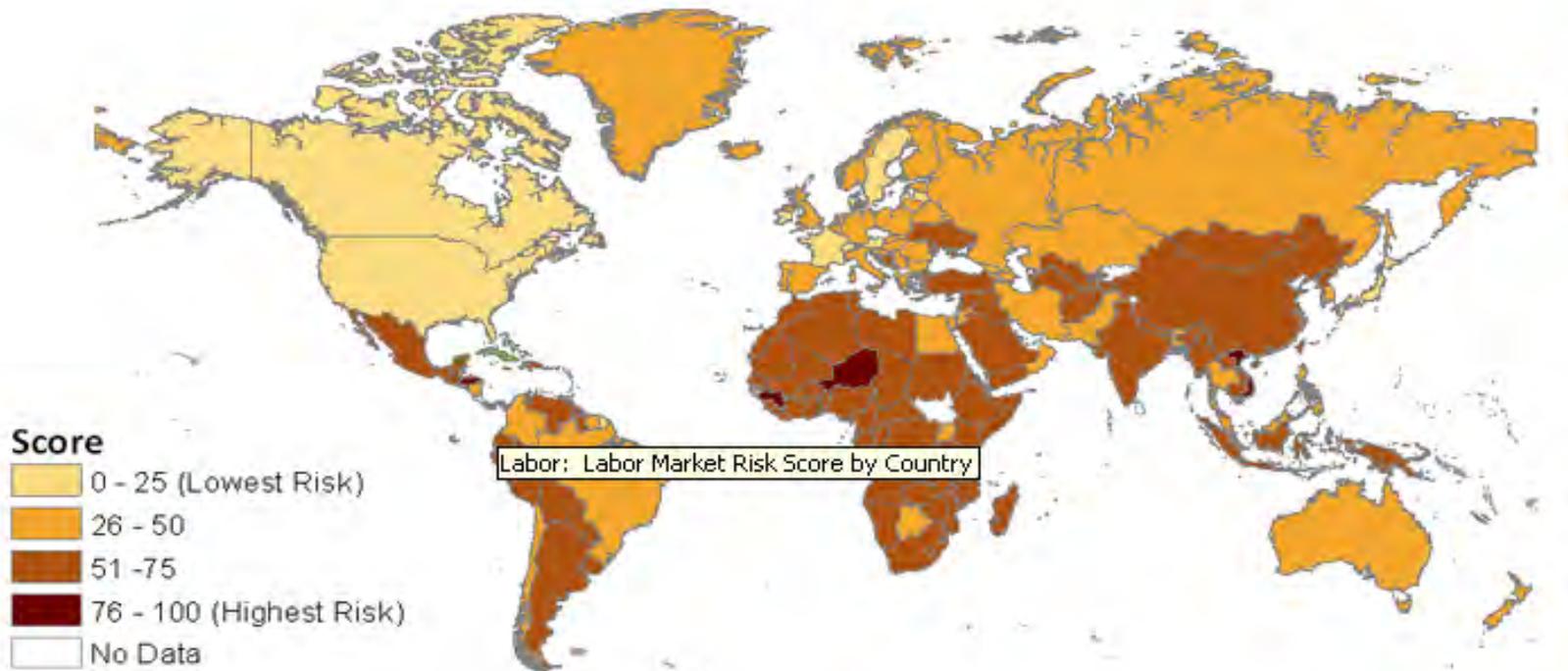


Source: BCG analysis.

¹Total labor cost in China divided by total labor cost in the U.S.



Labor Market Risk Score by Country





Cost to export

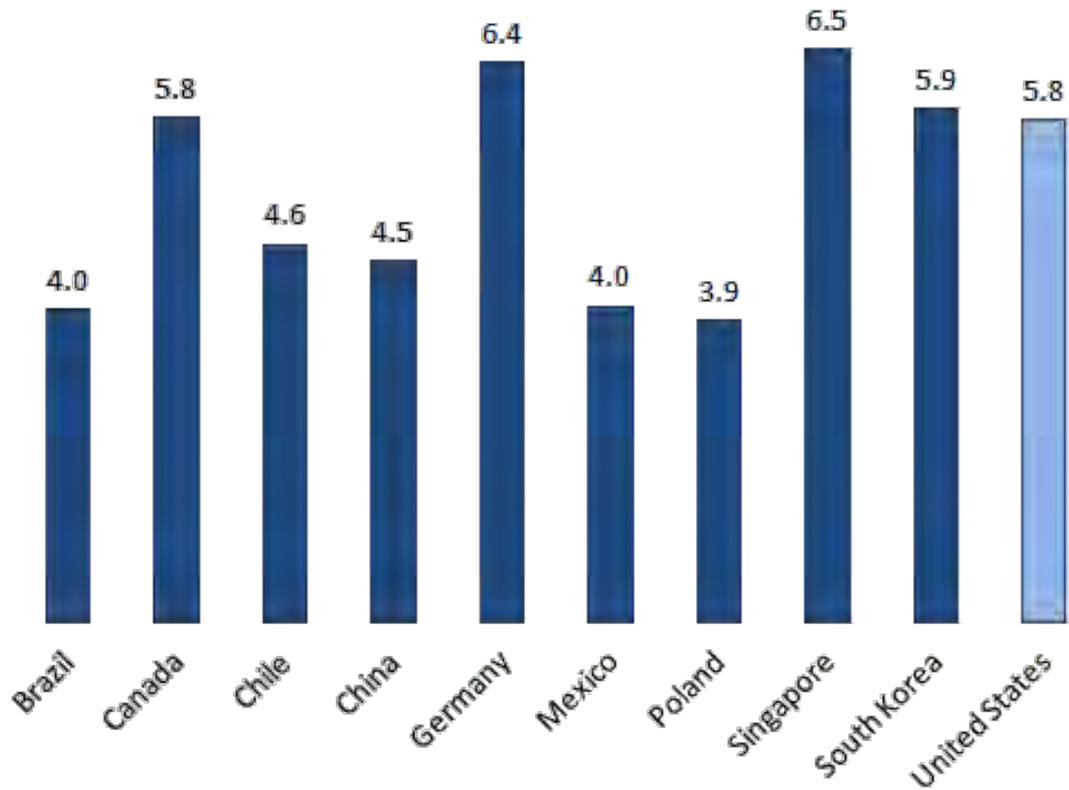
	Documents to export (number)	Time to export (days)	Cost to export (US\$ per container)
United States	4	6	\$1,090
East Asia & Pacific	6	21	\$923
Eastern Europe & Central Asia	7	26	\$2,134
Latin America & Caribbean	6	17	\$1,268
Middle East & North Africa	6	19	\$1,083
OECD High Income Countries	4	10	\$1,028
South Asia	8	32	\$1,603
Sub-Saharan Africa	8	31	\$1,990

Source: Economics and Statistics Administration analysis using data from the World Bank, Doing Business project.





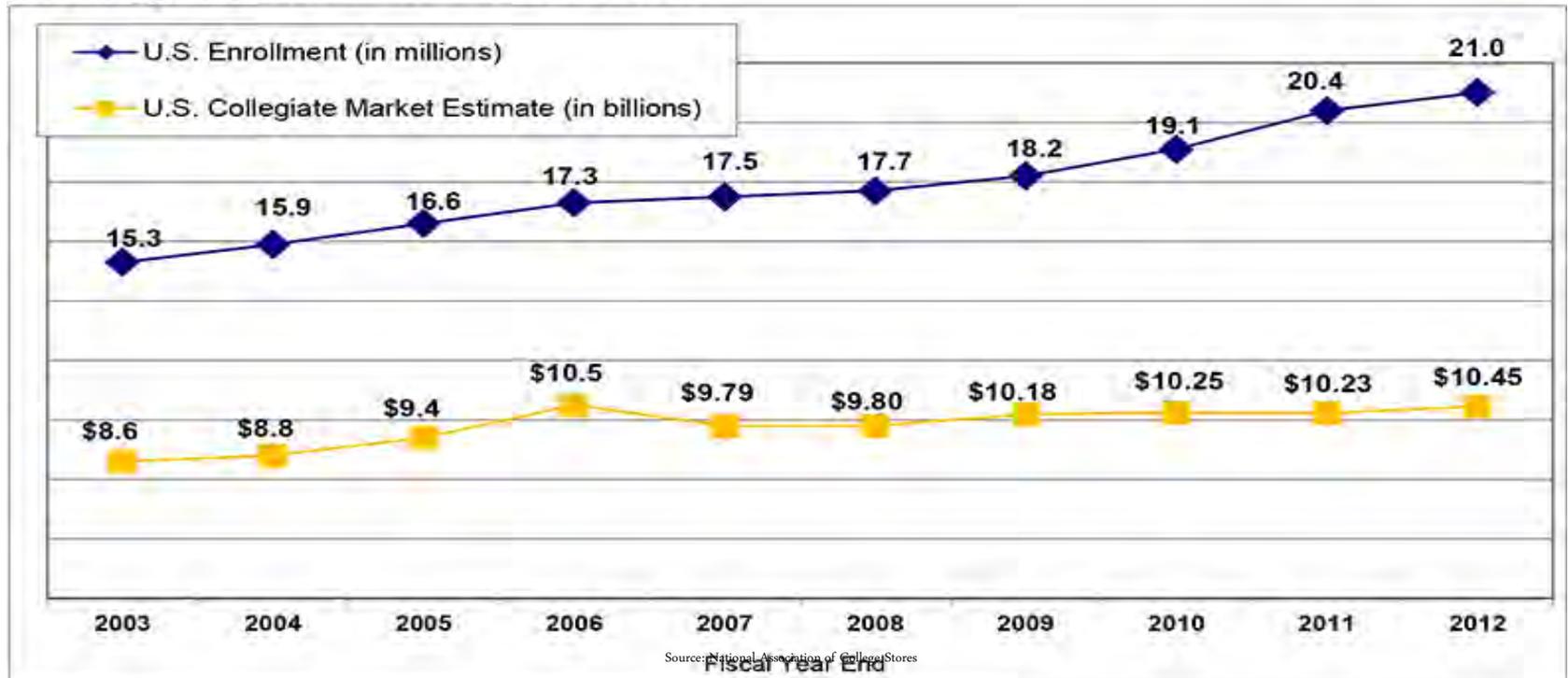
Global Competitiveness Index Infrastructure Score, 2012-2013
 (1 to 7, with 7 being most desirable)



Source: Economics and Statistics Administration analysis using data from the World Economic Forum, Global Competitiveness Report 2012-2013.



U.S. College Store Sales and Enrollment Trends





Mexico – FAIR COMPENSATION AND WORKER SAFETY

- *The Issues:* In 2009 some of the more than 400 workers at a factory for Electronic Arts, Inc. were not using earplugs and eye protection in work areas where they were mandatory. In addition, deductions from pay for workers' savings plans exceeded the legal 30 percent limit.
- *Solutions:* They modified their payroll software to detect and prevent deductions greater than 30 percent. This was confirmed by th FLA through Worker interviews and a review of documentation. Additional verification confirmed that a training course for workers on proper protective equipment was implemented by the medical department.





vietnam – protection of foreign workers

- *Issues:* During a 2009 factory visit, FLA assessors found that foreign staff at a factory producing apparel for adidas Group and Nike, Inc. lacked required legal work permits. In addition, some printing department workers, who neither asked to leave nor signed a withdrawal notice, were compelled to leave the union without their consent. dues. Further, proper personal protective equipment was not provided for workers in certain departments, and the noise meter for measuring noise levels was not set correctly (instruction manual was in English only).
- *Solutions:* Following the assessment, four foreign employees received work permits from the Department of Labor - Invalids and Social Affairs, from the local province. The factory established policies and procedures to guide foreign workers in obtaining work permits. In addition, the factory created a transparent procedure for employees to join or withdraw from the trade union. Further, the factory conducted training for workers, including a specific training for printing workers, on freedom of association. Finally, a new policy was created regarding personal protective equipment. The noise meter has been set correctly and its instructions have been translated into Vietnamese.





6 key reasons for embracing csr

1. Innovation
2. Cost savings
3. Brand differentiation
4. Long-term thinking
5. Customer engagement
6. Employee engagement





10 companies with best csr practices

- Microsoft
- Disney
- Google
- BMW
- Daimler
- Sony
- Intel
- Volkswagen
- Apple
- Nestlé

