Global Fashion Product Management
in a Regional Context

A comprehensive product merchandising approach for Nike Sportswear

By Marcus Berkulin
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A comprehensive approach for Nike Sportswear
Foreword

I have written this final thesis for my Bachelor degree in International Fashion & Management at the Amsterdam Fashion Institute (Hogeschool van Amsterdam). During my course I had the opportunity to study in London and Hong Kong. I looked for an international graduation project to apply this experience.

I worked as an intern at the European Headquarters of Nike in Hilversum. I was placed at the Product Merchandising team for Nike Sportswear. The merchandising processes have been reorganised last year. The team based in Hilversum develops a part of global collection. The collection is created in collaboration with a team in Hong Kong and a team in Portland. This was an excellent place to conduct qualitative research on global fashion product management.

During my research I was guided by Sara Salva and Noemi Elmaleh at Nike. I want to thank the whole Nike Sportswear team for their support, especially my coaches. My special thanks go to Marco Mossinkoff of the AMFI for his help during this research.

Amsterdam, May 2009

Marcus Berkulin
Executive Summary

Globalization is a socio-cultural and economic process that becomes visible during the 1970's. Increasing internationalization of production, marketing and distribution of products has been common in the labour intensive fashion industry. The consequence of this global shift in production is that Europe is currently dependent on clothing imports. Regions as South East Asia and Eastern Europe became fashion production hubs. Recently some of those countries as China are also becoming important consumer markets.

The drivers behind this ongoing process have been the availability of cheap labour, the abolishment of trade barriers, low costs of transportation and the revolution of the information and communication systems. The consequences are converging lifestyles and tastes. Trade barriers, high costs of transportation and poor means of communication are impediments of globalization. Persistent cultural differences and tastes are an obstacle for a global collection.

Fashion companies that operate globally can achieve economies of scale, displace competitors, protect current margins and enhance creativity. The high costs of investment in instable foreign markets are the main disadvantages. Different tastes and consumer needs are an obstacle to offer one global product line.

Global branding needs to convey a message that interest consumers all around the globe. Consistency of the brand image is a key success factor. A global brand must find a way to adapt to local consumer preferences without harming a consistent image. Cultural differences still exist and need to be considered.

Product management facilitates all facets of a product in all phases of the life cycle. Product innovation knows four approaches. In a centre-for-global process one product line is developed by one centralized department. It is also possible to develop smaller regional collections by local teams following a local-for-local approach. Some products that have been developed for one particular market can later on be introduced on a global scale. This approach is known as local-for-global approach. Another option is to create a global product line in collaboration with several teams. Those teams are normally located at different locations. This approach is known as global-for-global process. In all approaches similarities of global consumer needs must be taken into account from the beginning on. A common global core product should allow tailoring in other aspects as packaging, labelling and sizing.

Standardization of products offers cost advantages by reaching economies of scale. However some consumers require product adaptation to local needs and quality expectations. The sizing for products offered in Asia is often different from the standard western sizing system. Also language barriers or local legislation are reason to use change labels of garments.

Globalization of companies follows several stages. In those stages culture becomes increasingly important. A multinational company is in diverse key operational units that are situated in various regions. Those regional units are often structured around work
flows. Regional units are relatively autonomous from each other and from the headquarters. Control and formalization of behaviour is a common issue. An individual hybrid structure that allows aligned processes can be the solution. Developing a hybrid structure means to become a truly global company.

Nike Sportswear is a global brand. Product creation is executed at three regional product centres that work together on one global collection in a global-for-global approach. A global collection is seen as necessary for a consistent brand image. Global branding helps Nike to protect margins. Cost drivers are another reason behind the chosen approach. Cultural diversity is seen as important in developing a global line.

The role of global management is to protect the consistency of the collection. The process has been established recently. Streamlining and controlling the output are difficult due to the complex flow of information. Regional and global financial (margin and turnover per style), creative and style count targets need to be combined by product merchandising to create the collection. Validating the often imprecise and contradicting information is very time consuming for the product creation team.

The theoretical approaches to build a global fashion collection are applied to Nike Sportswear. Four scenarios have been developed. The impact of standardization versus adaptation of the product line on the product development process and branding has analyzed. In each case a demand side focussed (high quality and variety) angle and a supply side focussed angle (low costs) have been chosen.

A cost efficient supply and product creation process can be reached by following a centre-for-global approach. Product creation is done at the WHQ. The process is streamlined and controlled by global brand management. The product is totally standardized. Differences in regional demand and quality expectations are not taken into account. The consistent global branding allows to invest in own retail.

The most cost efficient way to offer an adapted product line is described in the following scenario. A centre-for-global product creation process is cost efficient. The core product allows tailoring according to regional demand. Sizing, pricing, labelling and colour ways can be altered regionally. The input from the regions costs more time. The influence of global brand management guarantees a consistent collection. The assortments are almost identical per region and enhance own retail.

In a global-for-global approach three product creation teams develop together a standardized product line. Different regional demand and needs are taken into account by the culturally diverse teams. The teams are located at the regional headquarters. Regional input is validated by global brand management. This allows the product creation team to focus on product development. All development teams work on the part of the total collection, which the region is strong at. Europe focuses on fashionable lines. The Hong Kong unit develops the fundamental basics and the American team the classic Nike styles. The process is not very cost efficient as three teams are involved. However the collection is globally consistent.
Differences in regional demand and quality expectation can also lead to three regional product lines. Each product creation team can develop its own regional line. Global brand management cannot control the relatively autonomous regional headquarters. Alignment between the teams is hardly needed, as the collections are not offered together. The regional teams are close to key accounts and to the country teams. Therefore the product meets local quality demand. The units are relatively low per style. The global total style count is very high due to duplication. The approach is not cost efficient. Furthermore global branding is not consistent. Own retail is hard to develop in this case.

Generalizing it can be concluded that every fashion company needs to find an appropriate global structure. Agility is a key success factor. The product development process must be flexible to react to different needs. A hybrid structure is cost efficient and comprehensive. Bout 70 percent of fashion items can be offered standardized. 30 percent should be regionally adapted. Fashion brand can follow a consistent global strategy without loosing customers.
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1. Introduction

1.1 Problem definition and objective

We have all heard about globalization. The world has become increasingly linked. According to the media, we live in one global community nowadays. The whole humanity lives in a global village. On a shopping spree along our global high street, we can find the same standardized products. The same Big Mac at McDonald’s, the same dress at H&M. We listen to the same music; watch the same films and the same advertisements.

This a common consumer experience. However the world is still very diverse. Many different cultures live in different societies with different needs. Australia and the UK might seem similar on the first view, but the countries have a reversed seasonality. China is the world’s biggest nation. More than a billion consumers live under quite different conditions than Northern Americans or Western Europeans. Even the cultural differences between consumers within Europe are rather large.

Still there are many advantages of having one global branding strategy. Costs can be reduced. Consumers are not confused by different messages, while they travel. On the other hand especially the product needs in different countries are different.

Traditional approaches have been to offer one standardized product line, to offer different localized regional lines or to mix both approaches.

For global fashion brands it is important to understand globalization and find an individual way to develop a global product line. Fashion product line merchandising has traditionally between located at a brand’s headquarters - mostly in Europe and the US. With emerging consumer markets on different continents, the whole organization changed with all processes involved. It is difficult for a brand to handle local consumer needs and to offer one global collection on the other hand.

This report will focus on the impact of globalization on the fashion industry, using Nike Sportswear as case. Furthermore, the changing role of fashion merchandising will be elaborated in particular. This report describes comprehensive global product management. The research question is:

**What is the best product creation set up to successfully offer a fashion collection in the context of globalization?**

Successful is defined as meeting the demand of consumers in all regions. The supply of goods must take place at low costs. The organisation of a company, the product creation process and the offered products are analyzed according to these two criteria.

After conducting desk research, the theoretical findings will be compared to the reality in one of the world’s leading apparel companies. Nike Sportswear is used as case study.
Nike Sportswear is the lifestyle fashion brand of Nike Inc. Nike has offered an apparel line since 1982. The product merchandising process is analyzed in depth. The most important criterion is the influence of operating globally. These findings will lead to a conclusion that is applicable to global fashion companies.

1.2 Aim of report

The aim of this report is to develop a theoretical generalization. This general answer to the research question can be applied to fashion companies.

1.3 Boundaries of research

Many researches have been conducted on globalisation. The same is valid for product management. However a concrete report on the changes for fashion product management due to globalisation can not be found. In order to answer the question, this report focuses especially on Nike Sportswear. The described situation is therefore unique. However general conclusion can be conducted for global fashion brands that a similarly organised. The current economic conditions and other detailed macro- and microeconomic data have not been included. This report gives not a strategic marketing advice.

1.4 Methodology

Primary research is used to gather information on globalization. Fashion specific literature gives an insight on the development within the fashion industry. From other literature theories on product innovation approaches are drawn. Qualitative research has been conducted at Nike. I had the opportunity to work for 6 months as an intern at the global product line merchandising team at the European Headquarters in Hilversum. There I experienced myself, how product management is organised. I was able to observe product developers, merchandisers, sourcing specialists and material specialists during their daily work. The findings are supported by interviews. This research has been conducted with the aim to develop a theoretical generalization.

1.5 Structure of report

This report is divided into a theory part (chapters 2 and 3) and a case study (chapters 4 to 6). The case study compares the theoretical findings with the situation at Nike.
**Theory part**

Chapter 2 describes the impact of globalization on the fashion industry. Four sub questions are used:

- What are the key drivers and impediments of globalization?
- Which impact does globalization have on the fashion industry?
- What are the advantages and disadvantages of going global for fashion companies?
- What are the success factors of global branding?

Chapter 3 analyzes the impact of globalization on organizational structures. Companies change the structure, when they follow a global strategy. Additionally global product management is explained. The chapter answers the following sub questions:

- Which global product innovation approaches can be applied in fashion?
- How does a global strategy change the structure of a fashion company?

**Case study**

Chapter 4 introduces Nike Sportswear. The impacts of globalization on the company and on the brand are described. The findings are compared to the theory of the previous theory part. This chapter answers the following sub question:

- How has Globalization changed Nike Sportswear?

Chapter 5 analyzes the product creation process of Nike Sportswear. The differences with the theoretical findings are highlighted by two sub questions:

- What is the current set up of product merchandising at Nike Sportswear?
- How is the product creation process at Nike Sportswear structured?

Chapter 6 develops four scenarios. Those cases describe future options for Nike to restructure the product development process. A new process should react on the impact of globalization. The last sub question is:

- Which product development options does Nike have?

**Theoretical generalization**

Chapter 7 combines the theory part with the case study. A theoretical generalization defines the ideal fashion product creation set up in the context of globalization. This general rule is used to give concrete recommendations for Nike.
### 1.6 Alphabetical overview of used abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>APA</td>
<td>Asia Pacific and Australia</td>
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<tr>
<td>API</td>
<td>Apparel Product and Process Integrity</td>
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<tr>
<td>BD</td>
<td>Business Director</td>
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<tr>
<td>BOM</td>
<td>Bill of Materials</td>
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<td>CD</td>
<td>Creative Director</td>
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<td>CKO</td>
<td>Category Kick Off</td>
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<tr>
<td>DP</td>
<td>Demand Planner</td>
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<tr>
<td>DSR</td>
<td>Design Style Request</td>
</tr>
<tr>
<td>EHQ</td>
<td>European Headquarters</td>
</tr>
<tr>
<td>EMEA</td>
<td>Europe, Middle East and Africa</td>
</tr>
<tr>
<td>FOB</td>
<td>Free on Board</td>
</tr>
<tr>
<td>GLPT</td>
<td>Global Line Planning Tool</td>
</tr>
<tr>
<td>GM</td>
<td>General Manager</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Indicators</td>
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<tr>
<td>MLP</td>
<td>Merchandise Line Plan</td>
</tr>
<tr>
<td>PLM</td>
<td>Product Line Manager</td>
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<tr>
<td>PD</td>
<td>Product Developer</td>
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<tr>
<td>PPS</td>
<td>Production Planning System</td>
</tr>
<tr>
<td>SAMM</td>
<td>Seasonal Alignment Merchandising Meeting</td>
</tr>
<tr>
<td>VMLP</td>
<td>Visual Merchandise Line Plan</td>
</tr>
<tr>
<td>WHQ</td>
<td>World Headquarters</td>
</tr>
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</table>
2. Globalization and the Fashion Industry

2.1 Introduction

In order to understand the impact of globalization on the fashion industry, it is necessary to define the term. The main drivers and impediments of globalization are described to identify the consequences for fashion companies. Global branding is seen as main advantage of globalization. The advantages and disadvantages of going global are important to understand the current developments of the fashion industry.

2.2 Definition

Globalization is a socio cultural and economic process that became visible during the 1970’s. Levy, a leading researcher, is quoted in Hines. He defines globalization in an economic way: „To economists globalization is seen as the increasing internationalization of the production, distribution and marketing of goods and services.”

The three key indicators for the state of globalization of a country’s economy have been researched by the economists Govindarajan and Gupta (1998):

- the extend of cross-border trade within the industry as a ration of total world production;
- the extend of cross-border investment as a ratio of total capital in the industry; and
- the proportion of industry revenue accounted for by companies that compete in all major regions.

(source: Hines, page 5)

2.3 History

Globalization started in the 15th century with Italian merchants trading in other parts of Europe. Colonialism was an increasingly important factor, especially in the 19th century. But only World War II trade agreements lead to an increased speed.

Already in 1944 the world leading politicians developed the new framework of international finance and commerce at the Bretton Woods conference in Mount Washington, USA. The World Bank and the International Monetary Fund were founded. Most importantly the General Agreement on Tariffs and Trade (GATT) was signed. This agreement is the basis for the removal of restrictions of free trade.

The most challenging GATT round took place from 1986 until 1995 in Uruguay. Property rights and a quota system for textiles were the most important outcome. This round resulted with the foundation of the World Trade Organization.
In 1993 the Maastricht Treaty created one European market in the European Union. In 1999 the European currency was introduced. Parallel the NAFTA was founded as Northern American free trade area.

2.4 Globalization of the Fashion Industry

This change in the general business environment has been especially severe in the fashion industry. Due to the labour intense production processes, wage costs are considerable. Outsourcing the production to low wage countries is common. From 1960 on, the global shift in production has taken place (Jones, 2002, page 71). Apparel production moved to low wage countries due to the labour intense character. The process started with opening on factories abroad (e.g. many Dutch producers moved to Belgium). Nowadays it is most common to control production mostly in the Far East via own buying offices or to buy a ready made product.

Data from the European Commission demonstrate that clothing imports are steadily growing and about 4 times higher than clothing exports (detailed overview, see appendix 1).

Currently new consumer markets gain importance. Brazil and Russia are now centres of clothing consumption. China and South Asian emerging economies are also becoming more important as buyer markets. This leads to a shift in global distribution of European fashion brands. The fashion industry is a truly global industry by any definitions.

(Copyright: Modint)
2.5 The drivers of globalization in the fashion industry

Sloman (Sloman, 2004, page 485) indicates the drivers of globalization. For the fashion industry cost factors have been the most important driver. This is due to the labour intensive character of this industry.

1. Cost drivers:

Cost pressure is extremely high in the labour intensive fashion industry. To make garments is technologically not very advanced. Newly industrialised countries often have a relative big clothing industry. Low costs of transportation make it attractive to have production facilities in the Far East. There the wage costs are only a fracture of the European wages. High volume production offers lower prices per unit. To reach economies of scale is a goal of fashion companies.

2. Trade drivers:

The reduction of trade barriers, especially the abolishment of the textile quotas in the GATT rounds, is another driver of production outsourcing. China’s increasing participation in the world economy is important to the fashion industry. The country accounted for almost 38% of European clothing and textiles imports in 2007 (Eurostat 2009).

3. Competitive drivers:

The strongly growing world trade leads to increased competition. Chinese brands nowadays face the competition from many Western brands as H&M in their home market. Many foreign brands operate in Europe, e.g. Muji.

4. Other drivers:

The improvement in business travels, but also the revolution of the information and communication systems enables European brands to communicate easier with producers in the Far East. Designs, measurements and other important data can easily be sent electronically. The production can be controlled, by travelling quickly by airplane. The relative distance to the European market is much smaller than only 20 years ago.

2.6 Impediments to globalization

Several factors are obstacles of globalization.

1. Cost impediments:

High costs of transportation with increasing oil prices are an obstacle of the world trade. The cost advantage of producing abroad is smaller than the disadvantage of the high fuel prices.
2. Trade impediments:

Trade barriers by governments, as the recent China Regulations work against globalization. Brands are forced to produce in local markets or to withdraw from them.

3. Competitive impediments:

Protectionism by local governments in form of subsidies is another impediment to globalisation.

4. Other impediments:

Shrinking world trade due to negative economic development (since summer 2008) limits the global expansion of fashion companies. Decreasing demand from foreign markets, leads to a re-focus on the home market.

2.7 Consequences of globalization

The described drivers have lead to increased contact between people from different regions. Improved means of communication make information very quickly available. Lifestyles and tastes are converging. This offers fashion companies the opportunity to go global. The advantages and disadvantages of operating globally are analyzed in this section.

Advantages of globalization for fashion companies

1. Achieving economies of scale

The theory behind economy of scales describes the lowest costs involved in making products. In general as more products are made, as lower the costs per unit (up to a certain point, were the costs start to increase again). Due to relatively small markets and many competitors, most fashion companies are from the point of economy of scale. Entering new markets helps in reaching this point. H&M is able to offer low prices to its customers due to high quantities. The company operates stores from Hong Kong to New York.

2. Displacing of competitors

Especially the fashion industry is highly competitive. In order to gain a competitive advantage, companies try to get access to new markets. Adidas is leading in the rapidly emerging Russian market. This helps the brand to attack the position of the world market leader Nike.
3. Protecting current margins

Entering new markets helps to position the brand higher and achieve higher margins. Also consumers have the tendency to trust global brands more and see them as leaders. Furthermore costs can be saved (see 4.). Both together result in high margins.

4. Enhancing innovation

Companies that operate global are more diverse. According to theories about diversity management, this means that the workforce has more uncommon ways of thinking. Thinking out of the box leads to more innovation, if the other conditions are in favour of innovation. In general global companies are more sensitive towards culture.

Disadvantages and risks of globalization for fashion companies

Fashion brands face several disadvantages by going global. An outline of those is given here.

1. High investment

Accessing a new market requires a high investment in time and money to create brand awareness and adoption. These factors are often underestimated.

2. Instability in foreign markets

Especially rapid emerging markets as Russia are instable. The risk of doing business is often underestimated. Fashion companies are exposed to many risks. China is known for high levels of corruption.

3. Neglecting social responsibility

Fashion companies that move their production abroad are often accused of undermining social and environmental standards. Especially the high environmental standards are seen as obstacle by producing companies. But outsourcing production to countries with lower standards causes often negative publicity. In 1999 Nike was accused of massive child labour in its supplying factories. The image of the brand was damaged.
4. Other risks

Cultural differences are still present. They form the highest risk of failure. Foreign employees may find it hard to communicate the brand values. Regional employees are often not familiar with the values of the company and brand. Therefore, a high investment in internal branding is required. Some products and communication can be culturally inappropriate for local markets. Differences in consumer behaviour are still very persistent. It is impossible to just impose a brand to a foreign market.

2.8 Global branding

Companies go global for the before elaborate reasons. In order to be successful, fashion brands that distribute globally need global branding. The idea of brands and branding was originally to identify products from different producers. Today the branding is more used to tell the consumer a certain view on the world, to deliver an emotional attachment. The factors that make a brand a successful global brand are described here. The key factors that are crucial are selected among all factors. The limitations of global branding through cultural differences that require local adaptation are also highlighted.

Kotler describes a brand as „a name, term, sign, symbol or design, or a combination of these, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.” A brand delivers attributes, benefits, values and personality. But what makes a brand successful in the global market place. When does a brand conduct a message that is interesting for Europeans, Americans and Asians?

Interbrand (Interbrand, 2009) researched global branding in 2006 to answer the question of success factors. The outcome was that global brands share not only an availability in many nations, but a common goal and identity in each market they are present. The positioning, advertising strategy, look and feel are mostly the same. Regional customization is done as far as the values delivered by the brand remain consistent in all markets.

The best global brands share the following attributes:

1. Recognition

A Louis Vuitton bag is recognizable all over the world. The bag symbolizes the sophisticated art of travel. This strong awareness among consumers, but also opinion leaders enables the brand to quickly gain credibility in new markets.

2. Consistency

A consistent customer experience worldwide is delivered by successful brands by consistent visual, verbal and auditory identity across different regions. A global marketing effort often accompanies this. A simplified global core offer that supports a shared global message can only be supported by slightly modified approaches for regional relevance.
3. Emotion

Nike appeals to the athlete, regardless of the physical condition, because of its message targeted for the mass market. Just do it. The brand symbolizes a promise that customers believe in, that can deliver and that people actually desire to be part of. This emotional dimension makes a true brand.

4. Uniqueness

A great brand represents a great idea - or in other words, a uniqueness of position. Audi is an innovative technology driven brand. This position is communicated via all channels.

5. Adaptability

A global brand has the ability to adapt to local marketplaces. Local needs, wants and tastes are respected; still the global mission is fulfilled. As rule of thumb a 70/30 ratio between standardized and localized products is given. The ability to adapt to local consumer needs in a consistent way is crucial for the global fashion industry. Cultural differences have a great impact on the attitude of consumers towards the product.

6. Management

A strong commitment of the senior management to the brand’s values and strategy gives the brand a recognizable face. This ensures that corporate culture will put the brand at the heart of everything the company does.

2.9 Cultural differences and consumer behaviour in fashion

Levitt researched globalization 1983. He argued that different „cultural preferences, national tastes and standards… are vestiges of the past“ and that „accustomed differences in national or regional tastes“ are gone forever so that the world’s „needs and desires have been irreversible homogenised.“ (quoted in Jones, 2002, page 282).

The acceptability of standard products strongly depends on the culture Jones, 2002, page 281). Fashion products are important cultural signifiers as they are used to express the belonging to a certain peer group. His strong believe that with growing global wealth people would only want the best product for the lowest price, is one of key theories on globalization. Recently this position has been widely challenged. Jones states that competition has been globalized, but markets have not. He distinguishes between culture-free and culture-bound products. Culture-bound products need alteration. (Jones, 2002, page 282).

Several studies, e.g. by Selvanathan and Zhang prove that apparel and fashion are clearly culture-bound products (Hines, 2002, page 283). Taste is clearly different by country. The same can be said over consumption patterns. Colours
have a different meaning in Asia than in European countries. The fashion product may have to be modified to suit local tastes (Jones, 2002, page 283). Acceptable pricing per product type is also different per country. Everybody experiences different prices in H&M or Zara stores even within Europe. The speed at which new ideas, trends and fashion throughout a society varies between countries. Most fashion trends are currently born in New York and reach continental Europe via London. The Netherlands and Scandinavia have a reputation that pick up fashion trends much quicker than Germany. The latest research clearly indicates that the cultural differences on taste level are even increasing with growing wealth. People have more money to express their on tastes. The reasons why people buy and consume goods differ severely.

2.10 Conclusion

The impact of globalization on the fashion industry has been enormous. Especially since 1960 production outsourcing has changed the industry. Currently some emerging countries are becoming important consumer markets. Therefore global branding determines about the success of fashion brands. The following key findings on globalization of the fashion industry have been made.

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<tr>
<th>Key drivers of globalization</th>
<th>• Cost efficiency</th>
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<td></td>
<td>• International competition</td>
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<td>Main impediments to globalization</td>
<td>• Trade barriers</td>
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<td>• Cultural differences</td>
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<td>Advantages of going global</td>
<td>• Achieving economies of scale</td>
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<td>• Displacing competition</td>
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<td>Disadvantages of going global</td>
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<td>• Issues with social responsibility in production countries</td>
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<td>Successful global branding depends on</td>
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</tr>
<tr>
<td></td>
<td>• Consistent global branding</td>
</tr>
<tr>
<td></td>
<td>• Adaptability to local marketplaces</td>
</tr>
</tbody>
</table>
3. The organizational change of global fashion companies

3.1 Introduction

Fashion companies that decide to use the advantages of going global must adapt their company structure to the change in strategy. This chapter looks into models that describe this change of the company structure. Furthermore fashion brands change the product development approach. In order to decide, if a product line should be standardized or adapted, it is necessary to understand the differences in the development process.

3.2 Models of organisational change

The opening of foreign markets leads to a change of strategy of many companies. All big companies today operate globally among them many fashion companies as Adidas, Esprit, Mexx or H&M. The impact of this change has been described in two models. The Canadian professor Nancy Adler conducted research on this topic in the 1990’s. She developed a cultural relevant model. The way from a domestic company to a global organisation usually follows 4 stages (Adler, 2002, page 7). Cultural diversity is seen as a key competitive advantage nowadays. The role of culture is a key element in her model that knows four phases.

1. Domestic Phase

Originally firms operated in their home markets and offered products and services especially aimed at this market. Later on export to foreign market starts. However management does not consider alterations for the taste or needs of the foreign market. Product design, manufacturing or marketing are not changed. International marketing or human resources are not considered important.

2. Multidomestic Phase

Especially due to ushering competition, the need to produce and to market abroad increases. Companies have to become more sensitive to cultural differences and implement those in the product development and product marketing. The shift goes from product orientation towards market orientation. Each foreign market is normally addressed separately. Cultural differences are critical in the design and marketing of goods.

3. Multinational Phase

By the late 1980’s the business environment changes and leads to a new phase. Most goods and services offered are hardly distinguishable. Therefore price becomes the most important competitive advantage – globally. Companies focus now on process engineering and sourcing. Market segmentation is done on a global scale. Cultural sensitivity is seen as less important.
4. Global Phase

In the most globally competitive industries, today, a fourth stage has arrived. Competitive advantage is gained by strategic thinking. Products are of top quality to the least-possible-cost. Mass customization or adaptation to local niche markets help to out perform one’s competitors. Markets are segmented by nationality and ethnicity – regardless of where people live. Cultural is again a critical competitive factor. Worldwide needs from customers need to be translated into products and services that are delivered in a culturally acceptable manner. Product, sales or price orientation disappears and is replaced by a focus on culturally responsive design (Adler, 2002, page 11). Global cross cultural management and global human resources are seen as highly important inside of big organizations.

Next to Adler, the British researcher Ohmae (Jones, 2004, page 74) presented a study on the change of organizations due to globalization. Those stages are similar to Adler’s. In his work published in 1994, he defined 5 stages:

1. The export stage

During this stage the company only exports to foreign markets. All decisions are taken at the headquarters.

2. The multi-local stage

In this stage, marketing and sales functions are moved out to branch offices, which limited responsibilities.

3. The relocation stage

In this stage the production is moved to major markets. This requires a major long term commitment. Staff needs to be trained in must be able to make decision independently from the head offices.

4. The complete insideration stage

Research and product development and other key activities are delegated to other countries.

5. The truly global stage

In this stage key functions are transferred back to the headquarters. This is necessary to ensure a common sense of corporate purpose and identity. The common understanding of the company philosophy must be added.

In order to get a better understanding of phases of change, those two models are first compared and to highlight their similarities.
3.3 Comparison of Adler and Ohmae

Adler focuses on culture and on its value within organizations. Due to increasingly importance of foreign markets, cultural diversity becomes increasingly important and is at the last stage seen as positive and highly valued. Ohmae is looking more on the structure of organizations. The models share the following points.

- The reasons are identical: focus on cost efficiency and increased competition
- In the multinational phase/ relocation stage key functions as product development has been outsourced to foreign countries
- This is not the last phase of development. A global company is different from a multinational company.

The main difference is the way a company is structured in this global stage.

- Adler points out that cultural awareness and diversity are necessary to develop a globally appealing product.
- Ohmae stresses that due to outsourcing of key functions, the control of the headquarters is not give. Key functions need to moved back in order to have cost efficient and streamlined processes.

3.4 The structure of multinational organizations

Companies that start in their domestic market and undergo the process of transforming into a global company in the above described models, change in their company structure. Companies often share characteristics. Those have been researched by the American Henry Mintzberg in the 1970s. He looked into common structures of organization.

Companies that outsource key functions to foreign countries, are often grouped by place. Mintzberg points out, that „in the market –based grouping, the members of a single unit have a sense of territorial integrity; they control a well-defined organizational process; most of the problems that arise in the course of their work can be solved simply, through their mutual adjustment...” (Mintzberg, 1979, page 118). In other words smaller units that are grouped around a whole work flow are relatively small in relation to the whole company. Therefore, the unit functions easier as members normally have personal interaction and are supervised by one manager.

Another important criteria for grouping is the scale interdependence. Mintzberg explains that: „groups may have to be formed to reach sizes large enough to function efficiently.” (Mintzberg, 1979, page 123). For companies that expand globally. Units that are placed away from the headquarters must be big enough to operate cost-efficient. Therefore, a market must require a national or regional
office. If the presence with own employees allows to make more profits in this particular market than the presence actually costs, the installation is economically reasonable. Therefore, markets are also grouped in regions. Regional headquarters are more common than national headquarters.

By choosing the market as criteria for grouping an organization, work-flow coordination becomes more important than process or scale specialization (Mintzberg, 1979, page 129).

Traditionally organizations choose to have American, European and Asian headquarters. Those three regional units develop often relatively different processes. Especially if products are developed regionally to be culturally relevant (Ohmae: complete insideration stage, Adler: multinational phase), regional headquarters operate relatively autonomous.

The company structure changed into a divisionalized form. The company structure is decentralized. The extent of the power is divided among different market units and managers (Mintzberg, 1979, page 181). Vertical decentralisation is "the dispersal of formal power down the chain of lone authority." (Mintzberg, 1979, page 185).

Moving to the global stage, especially Ohmae points out the re-gain of control by moving back key units to the global headquarters. The organization becomes more centralized again. "All the power for decision making rests at a single point in the organization." (Mintzberg, 1979, page 181).

Mintzberg also formulates hypotheses on the relationship between age and behaviour of organizations. "The larger the organization, the more formalized its behaviour." The need for coordination is greater. Companies need to control internal processes to stay consistent and aligned. This hypothesis is also reflected by Ohmae’s global stage. Mintzberg suggests that companies might be organized more in matrix structure at later stage (Mintzberg, 1979, page 247).

Geographic, functional and product bases for grouping are mixed to result in a more cost effective structure.

### 3.5 Global Product Management

Product Management deals with the planning, development and marketing of a product or product group during all stages of the product lifecycle. Global product management needs to develop goods that can be sold in different markets. A product manager defines new products. Hereby he focuses on the product attributes as the product quality, product features, the product design and style are defined. Kotler defines product quality as "the ability of a product to perform its functions; it includes the product’s overall durability, reliability, precision, ease of operation and repair, and other valued attributes." (Kotler, page 466). Quality is seen as customer satisfaction rather than reduced product defects. Product features are details that are used to differentiate a product against competition. Therefore, it is necessary to gather market information. Customer value is key in comparison with company costs. Style describes the appearance of a product under aesthetical criteria, design also influences its usefulness. An overview of product can be found in appendix 2.
3.6 Global product innovation

Almost all major companies do business globally. Often companies seem to develop products for their domestic market and introduce successful domestic products to foreign markets at a later stage (83 % of US companies) (Jenster 2005, page 145). Only 17% initially design products with foreign markets in their mind. A prominent example is Microsoft. The company developed the software “MS Word” without foreign markets in mind. Later on, the alterations to introduce the software to other markets were highly costly. Cooper and Kleinschmitt (cited in Jenster, 2005, pages 145-146), found out that 17% of products designed for a global market had a higher success rate.

Jenster points out three important guidelines for successful global product solutions:

1. Similarities as well as differences in customer needs around the worlds, should be examined by marketers.
2. Global Product Creation teams should try to maximize the global common core product, but still allow local tailoring around the core product.
3. Still the best products are designed for the global market from the start on. Adapting national products later on is less successful.

Nohria and Goshal (Albaum, 2004, pages 383 – 384) describe 4 processes to develop a product with global market in mind for global and multinational companies. Consequently from the beginning of the development process on, a company needs to choose a strategy for the diffusion of the product. They describe the innovation process as a „process consisting of sequential but also interaction sub processes of sensing, response, and implementation.” (Albaum, 2004, page 383).

1. The centre-for-global innovation process

The centre for global innovation is located, where the headquarters or the global R&D department is. Most of the developed innovations are technological. The national subsidiaries are only involved in offering marketing support at the implementation stage.

2. The local-for-local innovation process

Local-for-local innovations are entirely developed for a national market by a national subsidiary. All sensing, response and implementation tasks are all carried out within the subsidiary. Most of the developed innovations tend to be market driven and not technology driven.
3. The local-for-global innovation process

Local-for-global innovations that are considered to be applicable in several markets can be diffused. Other organizational units within the multinational corporation later on implement the developed product in their markets as well.

4. The global-for-global innovation process

Instead of developing one global product by one central location or of finding individual local solution, global-for-global innovation are created joining the resources of several organizational units to get a jointly developed general solution to an emerging global opportunity.

Procter & Gamble developed a global liquid detergent using this approach. Liquid detergent used to be successful in the US. However Europeans used washing powder that contained enzymes at levels that were illegal in the US. Liquid detergent had failed so far in Europe. European scientists enhanced the quality of liquid detergent to match the performance standard of local washing powders. In the mean time US scientist improved the performance by taking the high clay soil content of laundry in the US into account. Japanese scientists improved the performance in cold water washes common in Japan. The successful result is Liquid Cheer (US), Liquid Ariel (Europe) and Liquid Tide (Japan). Each product incorporates the best global standard to meet consumer requirements in the US, in Europe and in Japan.

3.7 Product standardization versus adaptation

Closely related to the product innovation process, is the issue of standardization or adaptation of individual products or product lines. Standardization and adaptation can happen for the core product, package, and auxiliary services. In extreme cases a company follows a global product strategy. A global product is offered to the consumers in the domestic market as well as to the consumers in foreign markets. The product can be developed to meet the preferences of the consumers in the domestic market or to meet the lowest common denominator of export markets. Adaptation on the other hand can be carried out to meet unique needs of foreign markets. Adaptation can be voluntary or mandatory. Mandatory adaptation is often a result of local legislation that requires certain product attributes. Voluntary adaptation happens, when companies consider minor or major changes as beneficial.

Albaum gives the following examples of adaptation (Albaum, 2004, page 401). Those examples of other industries are interesting to compare with the situation at the fashion industry.
<table>
<thead>
<tr>
<th>Product</th>
<th>Adaptation</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sony TV</td>
<td>Voltage, broadcast standard</td>
<td>Different standards per country</td>
</tr>
<tr>
<td>McDonald’s</td>
<td>Menu, décor of restaurant</td>
<td>Different consumer tastes</td>
</tr>
<tr>
<td>Levi jeans</td>
<td>Size mix, fabric cut</td>
<td>Different physical features of consumer</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>Brand name (China), package</td>
<td>Different culture; different language</td>
</tr>
<tr>
<td>Kentucky Fried Chicken</td>
<td>Menu</td>
<td>Different language</td>
</tr>
</tbody>
</table>

Standardization is done to reach economies of scale. Larger production quantities offer cost advantages. The development costs for one global style are also lower than for several regional or local individualized products. Wind and Douglas (cited in Albaum, 2004, page 401) furthermore see an increasing trend to standardize products for the following reasons.

1. The world wants and needs are increasingly homogeneous. Therefore the number of global market segments instead of local segments increases.
2. Lower prices at a higher quality are increasingly important for consumers. Therefore people are willing to accept a certain degree of standardization.

The competitive position of a company, the market factors, the product factors and the scope of international involvement play are important elements in making the decision, to standardize or localize a product. The financial resources are also a key factor.

### 3.8 Conclusion

Going global changes the structure of companies. This process follows several stages. Multinationals have outsourced key functions as product development to regional headquarters. Regional company units are structured by geography. Those units are often grouped around work flows. Regional subsidiaries operate relatively autonomously from global headquarters. In order to introduce a successful global product, global product management needs to keep the global market from the beginning of development on in mind. Similarities among consumers in different regions need to be discovered and addressed by a standardized core product. The other aspects as the augmented product should allow tailoring. Four approaches have identified to develop a global product. The table on the following page gives an overview on all key findings.
<table>
<thead>
<tr>
<th>Topic</th>
<th>Description</th>
</tr>
</thead>
</table>
| Product adaptation vs. standardization        | • Global core product  
• Actual and augmented product allow tailoring for local needs                                                                                                                                                                                                                                                            |
| Global vs. multinational company structure    | • Multinational stage: major functions are moved abroad  
• Global stage: culture is more important in product development, main functions may be moved back to the headquarters                                                                                                                                                                    |
| Global product development process            | • Global market from the beginning on in mind during product development  
• Global-for-global, centre-for-global or local-for-local innovation approach                                                                                                                                                                                                                                         |
| Process organization                          | • Regional units are structured around workflows  
• The processes in regional units can be relatively different                                                                                                                                                                                                                                                                       |
| Influence of the headquarters                 | • Regional units normally are relatively autonomous from the global headquarters                                                                                                                                                                                                                                                      |
| Company structure                             | • After a divisional set up companies tend to develop a unique hybrid structure                                                                                                                                                                                                                                                     |
| Adapted product                               | • Product adaptation can be required by legislation: care labels at garments  
• Product adaptation is needed to meet regional demand; often the core product allows tailored augmented product attributes                                                                                                                                                                                           |
| Standardized product                          | • High quantities offer cost advantages and are close to economies of scale                                                                                                                                                                                                                                                                                                      |
4. Case study Nike Sportswear

After analyzing the influence of globalization on fashion companies in theory, this case study reflects the theoretical findings to Nike Sportswear. The key theoretical findings are compared to the current state at Nike.

Nike Inc is an American sports company that is situated in Beaverton, Oregon. The company is the world’s leading designer, marketer and distributor of athletic footwear, apparel and equipment for a wide variety of sports and fitness activities. The company holds several brands: Nike, Converse, Cole Haan, Hurley and Umbro. The Nike brand has several sub-brands: All performance wear made for various fitness activities is branded with the famous Nike Swoosh. Casual wear that is inspired by sports, but not meant for active sporting is branded as Nike Sportswear (using the corporate logo). Sportswear is offering apparel and footwear. This report presents only Nike Sportswear apparel.

4.1 History

The history of Nike is well known. A detailed overview can be found in appendix 3.

Nike was founded in the frame of globalisation. The company started as an importer of cheap Japanese shoes. Cost drivers as the low costs of transportation and of production in Japan were the main motivation to found the company. The taste of the American and Japanese consumer was also almost identical, as the shoes were made originally for Japanese and not altered for the US market. It can be concluded that impediments in the form of trade barriers and protectionism were relatively small.

The brand enjoyed the advantages of outsourcing the production to Japan by clearly displacing its biggest competitor: Adidas. Innovation was also enhanced as Bill Bowerman used the cost advantages to develop famous Nike models.

4.2 Vision and Mission

The global Nike vision is:

*To bring inspiration and innovation to every athlete* in the world.

*Everybody who has a body is an athlete.*

*Bill Bowerman*
Nike Sportswear has its own vision:
**Energize the street with products and collections grounded in Nike’s DNA.**

Nike vision is valid for all consumers globally. The message conveyed that everybody is an athlete is definitely appealing to a global consumer.

The global Nike mission is:
**Be the leading sport style based brand for style-savvy youth worldwide.**

Next to this, Nike has 11 global mission maxims. Those have been developed to outline the nature and future of Nike. Every employee is familiar with these maxims. They are presented at introductive workshops for new Nike employees. The global strategy statement of Nike Sportswear and the mission maxims can be found in appendix 4.

### 4.3 Organisation

From its foundation until 1980 Nike was a domestic company (1. stage of Adler and Ohmae). Then the company entered the multi domestic phase by moving marketing and sales departments to Europe and Asia. From 1990 on, Nike has regional headquarters in Hong Kong and Frankfurt (Germany). In 1999 the European Headquarters are moved to Hilversum (Netherlands). The new campus was designed to be home to several key functions including product management and development for the EMEA regions. Parallel the Hong Kong office had similar key functions for the Asian market. The company entered the multinational stage.

Mintzberg points out in his models about company structuring, that markets are used as a criteria to structure global companies (chapter 4). The three main regions of Nike all have regional headquarters. Furthermore, those regional headquarters should operate relatively autonomously from the headquarters. This is also the case at Nike (see organization chart). The regional headquarters are tailored around the work flow processes needed to serve the regional market. A hybrid structure that normally follows with growing age of a company cannot (yet) be found at Nike.

The regional headquarters manage the countries belonging to a region. Additionally almost all other functions are located here as described in the following chart.

![Organization Chart](chart.png)
The regional subsidiaries operate relatively autonomously from the global headquarters. The units are grouped around work processes. This matches Mintzberg’s model of divisional organization.

4.4 Financial Performance

Net Revenue by Global Region (millions US$)

<table>
<thead>
<tr>
<th>Region</th>
<th>FY04</th>
<th>FY03</th>
<th>FY02</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>4,793.7</td>
<td>4,658.4</td>
<td>4,669.6</td>
</tr>
<tr>
<td>EMEA</td>
<td>3,834.4</td>
<td>3,241.7</td>
<td>2,696.5</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>1,613.4</td>
<td>1,349.2</td>
<td>1,134.9</td>
</tr>
<tr>
<td>Americas</td>
<td>624.8</td>
<td>527.0</td>
<td>568.1</td>
</tr>
<tr>
<td>Other</td>
<td>1,386.8</td>
<td>920.7</td>
<td>823.9</td>
</tr>
<tr>
<td>Total</td>
<td>12,253.8</td>
<td>10,697.0</td>
<td>9,893.0</td>
</tr>
</tbody>
</table>

Net Income (millions US$)

<table>
<thead>
<tr>
<th></th>
<th>FY04</th>
<th>FY03</th>
<th>FY02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>945.6</td>
<td>474.0</td>
<td>663.3</td>
</tr>
</tbody>
</table>

Net Revenues by Product Line (millions US$)

<table>
<thead>
<tr>
<th>Product Line</th>
<th>FY04</th>
<th>FY03</th>
<th>FY02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Footwear</td>
<td>6,569.9</td>
<td>5,983.4</td>
<td>5,676.6</td>
</tr>
<tr>
<td>Apparel</td>
<td>3,545.4</td>
<td>3,130.0</td>
<td>2,801.3</td>
</tr>
<tr>
<td>Equipment</td>
<td>751.0</td>
<td>662.9</td>
<td>591.2</td>
</tr>
<tr>
<td>Other</td>
<td>1,386.8</td>
<td>920.7</td>
<td>823.9</td>
</tr>
<tr>
<td>Total</td>
<td>12,253.8</td>
<td>10,697.0</td>
<td>9,893.0</td>
</tr>
</tbody>
</table>
Global Sales Balance (percentage of sales)

<table>
<thead>
<tr>
<th></th>
<th>FY04</th>
<th>FY03</th>
<th>FY02</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Sales</td>
<td>47%</td>
<td>49%</td>
<td>53%</td>
</tr>
<tr>
<td>International</td>
<td>53%</td>
<td>51%</td>
<td>47%</td>
</tr>
</tbody>
</table>

The financial performance indicates the steadily increasing importance of international sales. Especially the Asian market grows quickly. This indicates the transformation of China into a consumer market for foreign fashion brands.

4.5 Personnel

On May 31, 2004 Nike Inc. had almost 24,000 employees. This amount increased to about 30,000 in 2008.

<table>
<thead>
<tr>
<th>Employees</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>11,970</td>
</tr>
<tr>
<td>Americas</td>
<td>1,076</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>3,282</td>
</tr>
<tr>
<td>EMEA</td>
<td>6,075</td>
</tr>
<tr>
<td>Subsidiaries</td>
<td>1,888</td>
</tr>
<tr>
<td>Total</td>
<td>24,291</td>
</tr>
</tbody>
</table>

Nike employs more than 50% of its staff outside of the United States. The global workforce is culturally diverse. This indicates that major functions are located away from the headquarters. This also indicates the relative autonomy of the regional headquarters.

4.6 Production

All Nike brand products are made by independent contractors. More than 800 contract factories manufacture all merchandise. All Nike factories need to be approved by audits according to the Fair Labor Association.

In the late 1990's Nike faced harsh criticism for outsourcing its production using suppliers that were accused of employing children. This disadvantage is tackled by joining the Fair Labor Association that conducts audits according to defined standards.
4.7 Marketing Mix

1. Product

Nike Sportswear Apparel offers about 1100 styles in Fa09. The product is inspired by various sports like football or basketball, but made for everyday life. Sportswear has been launched in the late 90’s as additional apparel line next to the existing performance wear. The product uses classic sport silhouettes. Next to cotton t-shirts, polo’s, fleece hoodies, pants, shorts and woven pants, warm ups, jackets and track tops are offered. Four different product lines are offered for different distribution channels. Entry, Good, Better and Best level product lines. The collections are differentiated by detail, materials and colours. On all levels except for Entry, four classic styles are called icons. They are connected to the Nike story. Around them, the collections are built.

Eugene track jacket

Eugene, Oregon is a famous tracking town in the USA. Furthermore, Eugene is the home of Bill Bowerman and Phil Knight, and therefore the source to many of Nike’s inspirations. The track jacket that evolved there is meant for running. At the tracking field, in a place like Eugene, a track jacket has to perform in cold and wet conditions, literally through thick and thin.
Windrunner

In the late seventies, Nylon running jackets and pants were “sportswear”. Those garments were literally worn for sport. To make the Windrunner a true Nike core style, innovation was applied by moving the seams away from the shoulders to eliminate chafing and improve foul weather protection.

AW77 Hoodie

In 1977, the Nike employee Geoff Hollister founded the running dynasty Athletics West. To improve the training conditions for runners, he created the first hoodie especially for runners. The construction is inspired by the half-zip nylon jackets of that time. His 1977 Athletics West Hoodie combines functionality with comfort.
The Nike Sportswear Tee

The Nike T-shirt was a success - and failure. Distributed at the 1972 track and fields trials, everyone – runners, fans, even the officials – wore it. Even though, logos and labels were prohibited. This could have been great exposure; unfortunately nobody could read the italicised Nike logo. Therefore people asked: Who is Mike? Therefore, the logo is nowadays designed in bold, capital letter.

The core product is offered globally. Locally adapted are the labelling, e.g. China is supplied with garments with Chinese labels. The sizing of the product is also different in Asia. Global styles are produced in a size range for Western markets and in another size range for Asian markets. The product line offered in the different regions is also varying. The 4 regions tack on to global styles. They do not need to adopt all garments.

2. Price

Nike Sportswear is offered at different distribution levels with different price points. The global retail pricing points are as follows. The pricing differs per region as in the following table.

<table>
<thead>
<tr>
<th></th>
<th>Global Price</th>
<th>Americas</th>
<th>Asia Pacific</th>
<th>EMEA</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price point</td>
<td>100</td>
<td>95</td>
<td>110</td>
<td>140</td>
<td>85</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Entry</th>
<th>Good</th>
<th>Better</th>
<th>Best</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tee</td>
<td>20 $</td>
<td>25 – 35 $</td>
<td>30 – 40 $</td>
<td>40 – 60 $</td>
</tr>
<tr>
<td>Polo</td>
<td>-</td>
<td>30 – 45 $</td>
<td>35 – 50 $</td>
<td>45 – 60 $</td>
</tr>
<tr>
<td>Track Jacket</td>
<td>50 $</td>
<td>65 – 85 $</td>
<td>75 – 100 $</td>
<td>80 – 120 $</td>
</tr>
<tr>
<td>Fleece Hoodie</td>
<td>45 – 65 $</td>
<td>50 – 85 $</td>
<td>60 – 95 $</td>
<td>80 – 150 $</td>
</tr>
<tr>
<td>Pant</td>
<td>40 $</td>
<td>45 – 70 $</td>
<td>55 – 85 $</td>
<td>80 – 110 $</td>
</tr>
<tr>
<td>Short</td>
<td>35 $</td>
<td>25 – 50 $</td>
<td>40 – 60 $</td>
<td>55 – 70 $</td>
</tr>
<tr>
<td>Warm Up</td>
<td>80 – 90 $</td>
<td>95 – 130 $</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
The prices per region are also adapted. This reflects the different purchasing power in different regions. The high margins of Nike are protected by high European prices.

3. Place

Nike Sportswear is sold at different distribution channels. The company owns one freestanding Sportswear flagship store in Soho, New York City. The store enables consumer to experience the Sportswear brand and all her products together with footwear. Furthermore, 13 Nike Town stores stock Sportswear goods together with all different performance products of the Nike brand. Additionally Nike product is sold via the Nike website. 1600 branded retail locations offer Nike Sportswear in more than 160 countries globally.

![Nike Store Image]

<table>
<thead>
<tr>
<th>Product Level</th>
<th>Own Retail</th>
<th>Sports Doors</th>
<th>Independent Retailers</th>
<th>Department Stores</th>
<th>Luxury Department Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry</td>
<td></td>
<td>x</td>
<td></td>
<td>(x)</td>
<td></td>
</tr>
<tr>
<td>Good</td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Better</td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Best</td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
<td>x</td>
</tr>
</tbody>
</table>

Note: Entry product is sold in US department store chains Kohl’s and JC Penny’s. In all regions Entry product is only available at Sports Doors.
4. Promotion

Nike is famous for its promotion. Sport stars are sponsored and wear Nike products. Already in the first years Steve Profontaine was running in Nike shoes. Today Nike Sportswear is worn by Rafa Nadal. He is featured wearing the Eugene track jacket in the V is for victory campaign. The Beijing Olympics were used for the launch of the new Sportswear campaign. Selected athletes were wearing Sportswear icons. The launch was accompanied by PR, Visual Merchandising support in stores, advertisement and websites. Furthermore, the Sportswear catalogue is used to promote the brand and present the emotions linked to Sportswear. City Events as the Human race in 2008 are also used to promote the brand. The promotional tools that Sportswear uses are globally. This strengthens the consistent global brand image.

5. Positioning

Nike Sportswear is positioned as a sport lifestyle brand for young people. The consumer is inspired by sports. In this segment Nike covers a premium position, especially the better and best level products. More value oriented consumers are reached via good and entry level products. Nike Sportswear defines the positioning as: „Designed for sport. Remixed for life.”
4.8 Conclusion

Nike was founded in the context of globalization. Cost efficient production outsourcing was used to beat the competition of Adidas and Puma in the US. The company almost shows all theoretic advantages and disadvantages of a globally operating fashion company. The global branding strategy of Nike is very successful. The brand sign is globally consistent. Communication is only adapted by using local languages. The global core product allows tailoring in the actual and in the augmented product. Local differences are taken into account. The distribution channels and the pricing per region are different. The company structure reflects the growing importance of a global strategy. Main functions as product development are located at regional subsidiaries. Still global brand management is re-gaining influence. Nike is changing from a multinational to a truly global company structure. A detailed overview of the comparison between the theoretical findings and the reality at Nike can be found in the following table (continued on page 37).

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Theory</th>
<th>Nike</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key drivers of going global</td>
<td>• Cost efficiency</td>
<td>• Cost efficiency (production outsourcing)</td>
</tr>
<tr>
<td></td>
<td>• International competition</td>
<td>• International competition (Adidas and Puma)</td>
</tr>
<tr>
<td>Main impediments of going global</td>
<td>• Trade barriers</td>
<td>• Cultural differences</td>
</tr>
<tr>
<td></td>
<td>• Cultural differences</td>
<td></td>
</tr>
<tr>
<td>Advantages of going global</td>
<td>• Achieving economies of scale</td>
<td>• Better prices due to high quantities (economies of scale)</td>
</tr>
<tr>
<td></td>
<td>• Displacing competition</td>
<td>• Global number 1 before Adidas (Nike is the number 1 company in key markets as Asia and North America)</td>
</tr>
<tr>
<td></td>
<td>• Protecting current margins</td>
<td>• The US is the region with the lowest retail prices, margins are therefore respectively higher abroad</td>
</tr>
</tbody>
</table>
| Disadvantages of going global | • Dependency on instable markets  
  • Issues with social responsibility | • Since 2003 more than 50% of the revenues are achieved outside of the US; China is the second largest Asia market  
  • In 2001 Nike was facing severe criticism for the working condition of suppliers |
|---|---|---|
| Successful global branding | • Global recognition  
  • Consistent global branding  
  • Adaptable to local marketplaces | • Globally recognized brand name and sign (swoosh)  
  • Consistent, investing in own retail  
  • The distribution channels are different per region |
| Product adaptation vs. standardization | • Global core product  
  • Actual and augmented product allow tailoring for local needs | • Prices, labels and sizes are adapted to regional needs  
  • Core product is globally identical |
| Global vs. multinational company structure | • Multinational stage: major functions are moved abroad  
  • Global stage: culture is more important in product development, main functions may be moved back to the headquarters | • Nike is in the multinational stage, product development is done outside of the US at three regional headquarters  
  • Cultural diversity is seen as very important, the influence of the headquarters (brand management) is growing, the company is about to enter the global stage |
5. Product creation process of Nike Sportswear

5.1 Introduction

The previous chapter gave detailed information of Nike Sportswear. The company is going to several changes at the moment concerning the set up of the Product Management process. These changes and the reasons behind are described here.

“We are taking our focus on the consumer and using it to change Nike – organizing the brand into categories as defined by consumers and their passions.”

Mark Parker, October 2006 (CEO Nike Inc.)

1. Reason: Global branding

Nike Sportswear is a global brand. The previous overview made this clear. For the success of Nike Sportswear branding is a key factor. The consistent global brand image is reflected by a global product line. This makes the brand appeal more premium.

<table>
<thead>
<tr>
<th>From Regional</th>
<th>To Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three regional visions</td>
<td>One global vision</td>
</tr>
<tr>
<td>Three regional lines</td>
<td>One global line</td>
</tr>
<tr>
<td>Three regional retail assortments</td>
<td>One global retail assortment</td>
</tr>
<tr>
<td>Three regional brand images</td>
<td>One global brand image</td>
</tr>
</tbody>
</table>

2. Reason: Cost efficient model

The new set up to create a global line means that the total style count is reduced. The focus lies on the best product. Economies of scale can easier be reached as one product is now marketed globally. Cost drivers were enhancing the decision to go global.

3. Reason: Protect margins

By producing more cost efficient and achieving higher sales of premium products, the average selling price is expected to increase. Margins are going to be higher.

4. Reason: Cultural relevant hybrid model

In the past the product ranges Nike offered were developed in a local-for-local approach at three regional product creation hubs (Hong Kong, Hilversum, and Portland). The company was also structured in 3 business units: apparel, equipment and footwear. To build a strong brand image, Nike wants to move away from a great brand that makes a lot of apparel to a great apparel company that elevates the brand.
5.2 Organisation

This focus on branding is reflected in the company structure. The product creation process is defined by input from the global management team located in Portland. The Product Merchandising team in the regional headquarters develops in co-operation with other global creation teams a part of the total global collection. The company follows a global-for-global approach. Every category is structured as followed:

The organisational structure is built around the work of the product creation process. In the theory part (chapter 3), research shows that it is often used to group and structure bigger organizations. A hybrid structure is often developed in a later phase.
of companies. Nike has just entered this stage with re-organising the product creation process. The hybrid function of global product merchandising is explained in the following process description. The "gang of 4" creates the product together. Merchandising coordinates all processes and has the end-to-end responsibility. This role can be described as the glue that sticks the process together.

1. **Role of Product Merchandising**
   - Gather market input and trends and analyze market and business opportunities trends from Regional Merchandising
   - Lead in defining seasonal strategy and line structure, implementing KPI’S, Prices, Volumes, Positioning
   - Review Sketches and ensure all components (colours, fabrics, trims) are meeting the seasonal brief and KPIs
   - Present and “sell” the line to regions for a successful implementation

2. **Role of Design**
   - Gather seasonal design inspiration, product trends and colour information through travel, magazines and trade shows from global Creative Brand Management
   - Create colour stories, pick seasonal trims, graphic applications and fabrics for each gender based on global and regional information
   - Design product styles and graphics and ensure all components (colours, fabrics, trims) are meeting the seasonal brief and KPI's
   - Present and “sell” the line to regions during design review for a successful implementation

3. **Role of Commercialisation**
   - Manage all functions related to commercialisation and manufacturing process for the business unit (development, materials, sourcing, api, product safety)
   - Work with Design and Merchandising to establish a product line that fits all KPI’s (margin, innovation, quality, aesthetic and fit)
   - Work with global supply chain and manufacturing to source, develop and deliver superior sportswear product

4. **Role of Regional Operations**
   - Execute seasonal and monthly forecast and demand planning, to ensure coverage and inventory targets are met per region
   - Execute monthly buy process in such way that inventory related KPI’s (coverage, blind buy %, air freight, close outs) are met
   - Facilitate support/support strategic planning process for the business unit (2-5 years)
   - Facilitate support/support seasonal planning process for the business unit (seasonal teardown and game plan)
The different roles between global Product Merchandising and Regional Merchandising are explained in below illustration. Product Merchandising facilitates the product creation process. Regional Category Merchandising is responsible for the growth of the category in a region. Marketplace Merchandising is responsible for the performance of all categories in a region.
5.3 Product Process Overview

The Product Process consists of all stages from strategic planning, product creation until product delivery. For this paper the product creation process is analyzed. The other stages are out of scope. This overview however indicates the impact of the role of merchandising in the whole process. The Product Merchandising team leads the process. Input in the beginning is coming from global management located at the World Headquarters.

5.4 The Global Merchandising Process

An overview with time chart and involved persons can be found at appendix 5.

1. Line Planning Stage

In order to prepare a successful line plan, the global merchandisers analyze general consumer and fashion trends. The used tools are websites as WGSN or fashion magazines (e.g. Vogue). Very important is the sales history of the season one year ago on style and colour level. Those data are given by Demand Planners for EMEA. The other regions mostly provide their bookings of previous seasons in this stage. Furthermore the Category Consumer Marketplace briefs are returned by Regional
Merchandising to Product Merchandising. The regional merchandising teams provide a marketplace brief. This brief contains key silhouettes, colours and price points for this season. Competitor analysis, general market information and retail information are also included. A detailed section on style level at the end provides written documentation of style requirements at individual style level, incorporating both design attributes and business requirements.

The General Manager and Global Operations Director (both based at the WHQ, US), publish the style count targets via the Merchandising Director to the Global Product Merchandisers.

After the analysis of the regional briefs and the style count targets, the Product Merchandisers builds the following documents:

1. Merchandise Line Plan (MLP) containing the following information:
   - Segment/Collection
   - Gender
   - Name/Description
   - Style number
   - Number of colour ways
   - Retail price
   - Global target FOB
   - Forecast (added later on)
   - Regional adoption (added later on)

2. Visual Merchandise Line Plan (VMLP)
   - styles grouped per silhouette and distribution level
   - price points, style number and fabric information.

This draft of the MLP is shared with the regions. The FOB targets from the regions are validated by Product Merchandising and Sourcing. Additionally, the Global Line Planning Tool is used for regions to put their forecasts against styles. This tool is needed as the styles are only put into the software PPS after the MLP has been finalized. Regional adoption and forecast are a main criterion to finalize the MLP.

At the Category Kick Off (week 5, see appendix 5) the creative direction, revenue and margin targets and innovation ideas are presented under the lead of the Product Merchants to the whole category. In the meantime Regional Merchants validate the draft of the MLP with key countries.

Parallel a Visual Merchandise Line Plan is built. VMLP is compared with those of the other global teams. Also the regional forecast in the GLPT is reviewed. According to this information, a final decision is made which styles sit in the range and which team (EMEA, WHQ, and APA) is creating the style. Conference calls between the global team and a combined VMLP are used. After Global Management reviewed the MLP, Line Plan Finalization (week 7, see appendix 5) has been reached.
3. Design Stage

This line plan is communicated to the Commercialisation team via PPS. All styles are put into the system by the global Product Merchants. Furthermore, **Product Brief to Design and Commercialisation** (week 9, see appendix 3) takes place. The line plan is presented to the product creation team and to design. Normally this meeting takes place after the Category Kick Off (CKO) meeting. At the CKO the global strategy and direction for a season are presented. Colours, creative directions, key initiatives are presented to the whole category by the Merchandising Director. The commercialisation team is walked through the VMLP. This meeting ensures a formalized handover. The product team should receive clear and documented information. The created product must feature the required attributes and financial targets. Next to Design, the Creative Director, Merchandising, all Product Developers, Materials and Sourcing are present. The MLP is used as base for the initial source plan.

Presented information:

- Targets per line: margin, wholesale price, total style count
- All line plan information: including fit, graphics, distribution, technologies and reference styles

Following the meeting the product creation team starts to work on the collection.

- Materials, Product Merchandising and Design select fabrics
- Design starts to make sketches in Illustrator using the conceptual designs
- Weekly design gut checks by Product Merchandisers check on the progress. Merchants can directly influence the designs and are responsible to ensure that regional briefs are fulfilled
- The finished design are technically realized by Product Development

As a next step the proto sample is order. The order is prepared in a collaboration meetings:

- Design, Product Development, Materials, Sourcing and Technical Design (fitting engineer) under the lead of Product Merchandising
- Ensuring that each style meets the briefed requirements
- Need for validation is big as regional adaptation and input are still changing (see appendix 5)
- Sourcing can give an estimation costs, fabric availability, lead time and fabric minimums

After the meeting Product Development orders the prototype sample. The result of pre-costs of FOBs, wholesale and retail prices are entered into PPS.

At the **Category Design/ Colour Review** (week 17, see appendix 5) Design, Merchandising and Product Development review the colours and design together. This is done to confirm that seasonal objectives are met. Financial targets, material strategy and the seasonal colour story are most important. Regional input and again pre costing of styles are necessary.
The coloured line is presented to the regions. The Art Departments updates the line art according to the changes Product Merchandising and Design agree on after regional feedback. The regional MLP is updated in PPS.

After the arrival of the first prototype, merchants and Product Developers check the sample on fit, construction and appearance. The Bill of Materials (BOM) of one colour way is completed in PPS by Product Development. The colour way codes of all colour ways are put into PPS and onto line art.

The global management gives out the visual assortment strategy and the sales man sample strategy. The Product Merchandisers define the visual assortment according to the strategy, as well as the salesmen samples. Sourcing runs another margin report. Styles with margin issues are addressed. All changes are reflected on updated line art.

At the **Seasonal Alignment Merchandising Meeting** (SAMM) (week 26, see appendix 3), all global Product Merchandising teams and Regional Merchandising teams come together with global management at WHQ in Portland. The regional teams receive the product. At this handover meeting, all global lines are presented together on models. The global management can comment on style execution, features and on the alignment of the Product Merchandising teams. The regional teams analyze the line and identify gaps. Actions plan are agreed on.

### 4. Go-to-Market Phase

In the following three weeks these plans are executed. The s/s BOMs are updated accordingly as well as the line art. The category updates the s/s strategy and changes minor features of styles accordingly to the outcome of the SAMM meeting. With the order of the s/s and the final adoption of styles in PPS by the regions the season is commercially “put to bed”.

Regional Merchandisers coordinate the distribution per level together with sales. The collection is going to market.

### 5.4 Disadvantages of the global merchandising process

The global process has been established 8 months ago. Season per season the process has been evolving.

1. The availability of information for the product creation team is not always given.
   - The Regional Category Marketplace Brief is incomplete (missing regional input on style attributes and on financial targets)
   - At the Proto Request Collaboration Meeting not all information is available due to a lack of process.

2. The communication between the three global teams is not working well.
   - No clear rules on who is developing which style from the regional briefs.
   - Insufficient exchange of information on changes (BOMs, trims, labels)
3. The process is not streamlined.
   - The product creation flow chart (appendix 3) shows that targets are set by global management.
   - Information on styles is coming from regional merchandising.
   - Product Merchandising uses this input to facilitate the product creation process; all decisions by Product Merchandising are based on this information.
   - The outcome is accepted or rejected by global management.
   - Regional merchandising can influence the outcome by rejecting styles, but is depending on the final decision of global management.
   - Regional management uses information input from countries.

4. The product creation team lacks information and is often occupied gathering missing input at a later stage instead of working on product development.

5. It takes 15 months (29 weeks of creating the line, see appendix 3) from the original line plan to the delivery of the collection.

5.5 Advantages of the global merchandising process

The global process follows a global-for-global approach. Therefore culturally different teams have an input in the final result.

1. The Hong Kong team is close to the Asian market, which is the fastest growing region. Also most production takes place in China. The team is close to the factories and can easily communicate with them.
2. The European team is graphic driven and closer to fashion trends. This is a valuable input for the whole collection.
3. The American team is close to headquarters and can implement the Nike DNA. The brand heritage and style that makes Nike product unique.

5.6 Conclusion

The product creation of Nike Sportswear is organised in a hybrid form. Three teams build the product line together. This allows geographical teams to focus on the specific product area they are best in. The product creation follows a global-for-global approach. The actual goal of the re-structuring was to build one global line that is culturally relevant to all regions. The processes are not formalised enough to guarantee this. Regional input is not standardized. The information is often contradicting to targets from Global Brand Management. The product creation team spends about 40% time gathering information.

The alignment between all functions needs to be streamlined. The biggest obstacle of this set up is difficulty to streamline and control the processes and units working on the line. The influence of the headquarters is increasing, but still not sufficient to control and own all processes. The regional subsidiaries show own work flows and are relatively autonomous. These findings meet the theories of Mintzberg and Ohmae. The chosen hybrid model shows the change from a multinational to a global company. The following table (page 49) compares the theoretic findings with the current state at Nike.
<table>
<thead>
<tr>
<th>Parameter</th>
<th>Theory</th>
<th>Nike</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global product development process</td>
<td>• Product development done following a global for global approach or a centre for global approach</td>
<td>• Global for global innovation process</td>
</tr>
<tr>
<td>Process organisation</td>
<td>• Global for global approach requires several regional units</td>
<td>• Nike has three regional headquarters that develop product lines together</td>
</tr>
<tr>
<td></td>
<td>• The regional units are structured around work flow processes</td>
<td></td>
</tr>
<tr>
<td>Influence of the headquarters</td>
<td>• Regional units normally are relatively autonomous from the headquarters</td>
<td>• Brand management is located at the WHQ and has more influence on the global collection than before</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Still the processes per region are different and often unaligned</td>
</tr>
<tr>
<td>Company structure</td>
<td>• Multinational companies are structured by regional units</td>
<td>• Nike is still organised in a multinational way with strong regional headquarters</td>
</tr>
<tr>
<td></td>
<td>• A global structure is often a hybrid structure that allows streamlining and alignment</td>
<td>• Nike is currently developing a hybrid structure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Processes are being aligned and the influence of the global headquarters is growing</td>
</tr>
</tbody>
</table>
6. Possible future product creation scenarios

6.1 Introduction

The previous chapters show that the product creation process of Nike is not working efficiently. It is necessary to reorganize the process. There are two mayor decision to take.

- Offering a standardized or an adapted product line
- To focus on the supply side (cost efficiency) or on the demand side (quality)

The following scenarios show possible set ups after this choice.

The scenarios have been developed following the below model.

<table>
<thead>
<tr>
<th>Supply side focussed</th>
<th>Standardized Product</th>
<th>Adapted Product</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Scenario 1</strong></td>
<td><strong>Scenario 2</strong></td>
</tr>
<tr>
<td>Demand side focussed</td>
<td><strong>Scenario 3</strong></td>
<td><strong>Scenario 4</strong></td>
</tr>
</tbody>
</table>

The parameters are the same for all scenarios:

- Product development approach
- Product creation process
- Product
- Cost efficiency
- Quality meeting local demand
- Global branding

6.2 Scenario 1: Centre-for-global approach – with standardized product

Scenario 1 highlights the consequences of a focus on the supply side. Cost efficiency is the most important goal to standardize the collection. The product creation follows a centre-for-global approach. Therefore the regional headquarters don’t need employees for the product creation. The total amount of employees is relatively low. The development process is also very efficient. Global brand management can control and own the whole process. All key functions as commercialisation, merchandising, design and operations are located at the WHQ.
The product creation process follows the outline of appendix 3. In order to work more cost efficient, the input from regional merchandising will be limited. All input will be validated by global brand management first. The product creation team can therefore work on more styles in a shorter time (SAMM already in week 16, total time to market reduced to 12 months).

The core product will be globally standardized. Only labelling will adopted to local legislation. Special sizing for Asian styles will not follow an additional block. Instead the size labelling will be different. All styles are sourced in preferable one factory offering the lowest FOB.

Global branding is very consistent. In order to control the distribution globally, own retail will be expanding. The Nike stores ensure high margins. They also support the brand image and communicate with consumers in emerging markets.

The advantages of this case are cost efficiency due to streamlined processes and a relatively small work force. The production of the goods can be outsourced with low costs. The quantities are very high. Global branding ensures a consistent and strong brand image. Successful branding helps to have high margins.
The quality of the products does not take all local consumer needs into account. Special versions, different tastes and different regional prices are not considered. Nike risks loosing quality conscience consumers. The workforce at the headquarters is also not culturally diverse.

6.3 Scenario 2: Centre-for-global approach - with adapted product

In this case the focus is still on the supply side. To develop a cost efficient collection is the main goal. However this collection is regionally adapted. In order to be as efficient as possible, all main product creation functions are centralised at WHQ. Product creation follows a centre-for-global approach.

Brand management can control all processes. This ensures streamlined work flows. In order to be as efficient as possible, only the actual and the augmented product are adapted to regional tastes and needs. A special Asian block ensures Asian sizing. Labelling is done according to regional legislation. Global brand management defines 70% of the collection as key styles. Those styles have to been offered in all regions. Regional merchandising can adopt other styles freely. A minimum of 8000 units per season must be met per style. Otherwise the style will not be developed. Regional merchandising is reporting into global management to filter information. This helps the product creation team to focus on the actual development of the collection. Regions are also allowed to add 1 regional colour way per global style (the colours must be chosen from lab dip approved colours and must not replace global colour ways). The process prior to SAMM will take 20 weeks. The time to markets can be reduced to 13 months.
The 70/30 split of global key styles and optional regional styles in combination with adaptation of product attributes (labelling, sizing, colour ways, pricing) allow meeting regional tastes and consumer needs. Still global branding is perceived as consistent. Global key styles enable Nike to invest in own retail Own retail is important to communicate brand values in new markets. Own stores also help to ensure margins. The key advantage of this model is the cost efficient way of product development. Global branding is also enhanced. Disadvantages are that the total style count is slightly higher as in the previous scenario. Regional adaptation always goes hand in hand with higher costs - even though they are limited in this case.

6.4 Scenario 3: Global-for-global approach

This case focuses on the demand side. Different quality and product expectations are considered as important. But the collection is standardized. A global-for-global approach is the best way to develop a standardized collection without neglecting different regional needs. The global collection will be developed by three product creation teams that are located in the regional headquarters.
The teams collaborate by using clearly standardized and streamlined processes. Regional merchandising will report directly into global brand management in order to allow the product teams to focus on product development. Software solutions ensure that BOMs updates will automatically reported to all teams via email. All regional headquarters will become centre of excellence for a certain product category: EHQ can focus on graphisized product, USHQ on value Entry product and APAHQ on basic fundamentals. The icons are developed in the USHQ to be easily supervised by brand management. The clearly divided work between the region allows more time to actually create the product. SAMM can place in week 20. The total time to market will be 13 months.
The product is adapted to meet regional legislation. Labels and the language are different per region. Different sizing systems on the labels are used. Prices per region differ. For the rest the whole product is standardized. Global branding can continue investing in own retail. Nike stores have the same assortments globally. The advantage of this case is that standardization offers the opportunity to offer the same product globally. Consistent global branding allows investment in own retail. But to meet all regional needs relatively many styles are needed. Therefore the units behind every single style are relatively low. The way the collection is developed requires more employees than a centre-for-global approach. Software systems and communication that is required to streamline the development process, is also expensive. This approach is not cost efficient.

6.5 Scenario 4: Local-for-local approach

This scenario explains the consequences of a focus on the demand side and of offering a regionally adapted collection. In order to meet regional needs, the product development takes place regionally. The product innovation approach is local-for-local. Regional product creation teams are operating at all regional headquarters. They work independently from each other.

The processes in every region are relatively efficient as the teams are small. Regional merchandising is not needed. Feedback from key accounts and countries are directly validated and implemented by the merchandising teams. Product merchandising also fulfils the role of regional merchandising. Global brand management gives a global creative direction. The collections contain Nike icons and key styles, but the execution is rather different. The product is only offered regionally. Therefore an adaptation to the needs of other regions is not necessary. Sizing, prices and labels are identical per region. The units per region are relatively small, the production is not cost efficient. SAMM is not needed as the collections do not need to be aligned. The total time to market can be reduced to 11 months.
The influence of global brand management is relatively weak. The regional teams operate autonomously. Global branding is not consistent. The retail assortments for the own stores are different per region.

The advantage of this approach is that regional demand is satisfied. The product is optimally adapted to regional consumer needs. The disadvantages are the high costs. Three regional teams are developing almost the same styles. The cost of product development is high. The production is not reaching economies of scale, as the units per regions are relatively low. Global branding is also not consistent. This makes the investment in own retail hard.

6.6 Conclusion

The scenarios show that focussing on only the demand or the supply side does bring more disadvantages than advantages. Scenario 1 is more cost efficient but neglects regional consumer needs. On the long term the brand will be harmed. Scenario 4 on the other hand is much in favour of regional consumer needs. The regional collections are tailor made for each region. The consequence is duplication at high costs by three teams. A consistent global image at retail is also impossible.

Scenario 2 tries to combine cost efficiency with adaptation to local needs. Scenario 3 combines standardized global products with a focus on quality and regional needs. Those scenarios try to combine what seem to be opposed ideas. But they actually prove that standardization can take regional needs into account. The same can be said about cost efficiency. It is possible to offer adapted products at relatively costs. An overview of advantages and disadvantages can be found in the below table.

In the table advantages have been highlighted in green and disadvantages in red. The hybrid structure of scenario 2 offers most advantages.
<table>
<thead>
<tr>
<th></th>
<th><strong>Standardized Product</strong></th>
<th><strong>Adapted Product</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supply side focussed</strong></td>
<td>• <strong>Scenario 1</strong></td>
<td>• <strong>Scenario 2</strong></td>
</tr>
<tr>
<td></td>
<td>• Product development approach: centre-for-global</td>
<td>• Product development approach: centre-for-global</td>
</tr>
<tr>
<td></td>
<td>• Product: standardized, only augmented product adapted if required by regional</td>
<td>• Product: augmented product regionally adapted (colour, sizing, labelling, prices),</td>
</tr>
<tr>
<td></td>
<td>legislation (labelling) and pricing regionally adapted</td>
<td>70% global key styles, 30% regional styles</td>
</tr>
<tr>
<td></td>
<td>• Product creation process: aligned, efficient</td>
<td>• Product creation process: aligned, efficient</td>
</tr>
<tr>
<td></td>
<td>• Cost efficiency (small workforce, high quantities per style, reduced total style</td>
<td>• Cost efficiency (small workforce, high quantities per global style, lower</td>
</tr>
<tr>
<td></td>
<td>count): high</td>
<td>quantities for the other styles): relatively high</td>
</tr>
<tr>
<td></td>
<td>• Quality meeting local demand: highly standardized product, not always meeting</td>
<td>• Quality meeting local demand: adapted product and additional regional styles</td>
</tr>
<tr>
<td></td>
<td>local demand</td>
<td>meet regional demand</td>
</tr>
<tr>
<td></td>
<td>• Global branding: consistent, brand management controls product creation</td>
<td>• Global branding: relatively consistent, brand management has mayor</td>
</tr>
<tr>
<td></td>
<td></td>
<td>influence on product creation</td>
</tr>
<tr>
<td><strong>Demand side focussed</strong></td>
<td>• <strong>Scenario 3</strong></td>
<td>• <strong>Scenario 4</strong></td>
</tr>
<tr>
<td></td>
<td>• Product development approach: global-for-global</td>
<td>• Product development approach: local-for-local</td>
</tr>
<tr>
<td></td>
<td>• Product: standardized, only adapted to meet regional legislation and pricing</td>
<td>• Product: created according to local needs (sizing, labelling, pricing), global</td>
</tr>
<tr>
<td></td>
<td>• Product creation process: streamlined by using software and communication tools, but</td>
<td>directive executed differently per region</td>
</tr>
<tr>
<td></td>
<td>still difficult to align and to control by brand management</td>
<td>• Product creation process: efficient regional processes, unaligned between the</td>
</tr>
<tr>
<td></td>
<td>• Cost efficiency (relatively big workforce, high units per styles, total style count</td>
<td>regions</td>
</tr>
<tr>
<td></td>
<td>relatively high): relatively low</td>
<td>• Cost efficiency (relatively big workforce, small units behind regional styles,</td>
</tr>
<tr>
<td></td>
<td>• Quality meeting local demand: relatively many styles and diverse teams reflect</td>
<td>total global style count very high, duplication): low</td>
</tr>
<tr>
<td></td>
<td>regional needs</td>
<td>• Quality meeting local demand: product created with local needs in mind</td>
</tr>
<tr>
<td></td>
<td>• Global branding: consistent</td>
<td>• Global branding: inconsistent, brand management not in control</td>
</tr>
</tbody>
</table>
7. Conclusion and recommendations

7.1 Conclusion

This report has been written in an attempt to determine the best product creation set up for a fashion brand in the context of globalization. This research shows companies are moving from a divisional multinational structure towards a new global structure. Consistent global branding is gaining importance in order to outperform competitors. Traditional approaches are to either standardize a whole product line or to adapt every product to regional needs. Those approaches are not meeting the new global requirements. The best product creation set up combines the following points:

1. Product standardization to save cost
2. Product adaptation to meet regional demand
3. Focus on cost efficient supply
4. Focus on different regional demands for quality

Those four points seem to be contradicting. Traditional set ups tend to combine point 1 and 3 or point 2 and 4. Combining all points result in agility. Agility is needed, because the global market place is constantly changing. Some products can be offered standardized. Consumer lifestyles and tastes are converging. Other garments are so culture-bound that they need alteration.

A combination of standardized and adapted product by keeping cost efficient supply and different demand in mind, leads to a hybrid structure. Currently about 70% of fashion goods can be standardized. 30% need alteration due to different quality expectations and tastes. An agile global product development process should follow the below outline.

| Product:            | • 70% standardized: basic styles, key styles of a brand  
                     |  • 30% adapted: culture bound product, product featuring national emblems or product altered due to different climatic conditions  
                     |  • all styles need different labelling and fit per region |
| Development process:| • Centre-for-global approach is most cost efficient  
                     |  • The team needs to be cultural diverse to create relevant regional adapted styles |
| Organizational structure: |  • Hybrid structure that is built around optimal work flows  
                                     |  • The influence of global management guarantees alignment and formalized processes |

This situation is best met with a centre-for-global product creation process. One product creation team is located at the world headquarters of a brand. The processes are therefore efficient. The team is close to brand management. The global branding strategy can be supported. Global branding allows to invest in own retail. Own synchronized stores contribute to increased brand awareness.

The total style count is relatively low. The global styles have high units behind them and are close to economies of scale. The regional styles make the line attractive for
important global markets. Fast growing consumer markets as China and Russia cannot be neglected by a successful global brand. International sales are increasingly important. Generally all garments must meet different legal requirements concerning care labels. The size system and fit must also be adapted to different regions. The optimal hybrid structure is individual for every fashion company. The mix between product standardization, product adaptation, supply and demand side focus depends on the business model.

7.2 Recommendations

This research reveals that an individual hybrid structure is the best solution for fashion companies. In order to develop an effective structure, companies must determine their individual goals.

1. How important is cost efficiency?
2. How different are the consumer expectations in the main regions?
3. Which products can be standardized?
4. Which products should be regionally adopted?

Nike needs to answer those questions in order to decide which product creation scenario is the most suitable. This report clearly advices to follow the set up and process described in scenario 2. This scenario offers most advantages (see chapter 6).

The current structure of Nike resembles scenario 3. Three product creation teams are expensive. The analysis of the process clearly shows a lack of formalization. The following recommendations help to improve the process.

1. The product creation process requires formalization. Standardized documents used by global management and regional merchandising need to ensure:

   - Detailed information on style attributes in the line planning stage in order to find the common core product attributes that interest all consumers
   - Clear defined realistic financial targets from the regions
   - The Category Marketplace Brief should contain:
     a) Margin, FOB, retail price, revenue, units
     b) Concrete style attributes
   - The Proto Request Form should contain:
     a) Clear style illustration front and back and supporting style detail drawings
     b) Specific designation of fabrics and trims
     c) Requested construction
     d) Fit/block and style references
     e) Desired logo type and placements
     f) Graphic designations
     g) Supporting fabric/trim/graphic schematics
2. The main task of the product creation team is to develop a collection. This is a time consuming process.
   - The amount of provided information should be limited.
   - All provided information should be validated before by global management.

3. The alignment between the three product creation teams needs to be improved.
   - Software that communicates when BOMs of base styles are changed to defined users (Product Developers)

4. SAMM is a cost-intensive meeting. The handover of the collection could take place at the regional headquarters to save travel costs.
   - Ordering SAMM samples regionally to present the line to the regions at the regional headquarters
Bibliography


Interbrand (2009), Homepage <www.interbrand.com>, viewed 9 March 2009

Nike (2009), Homepage www.nikebiz.com, viewed 10 February 2009

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Appendix

1. EU 27 structural data (2007):

<table>
<thead>
<tr>
<th>EU 27 data</th>
<th>2007</th>
<th>% change (2006/2007)</th>
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<td>Total employment</td>
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<td>Total number of firms</td>
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<tr>
<td>Turnover billions of euros</td>
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<td>Investment billions of euros</td>
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<table>
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<td>49.305</td>
<td>55.491</td>
<td>58.079</td>
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<td>14.112</td>
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### EU27 suppliers of clothing

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<td>11.534</td>
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<td>3 Bangladesh</td>
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<td>6 Morocco</td>
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<td>969</td>
<td>1.041</td>
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</table>

2. Marketing definition of product

Product management is concerned is with all aspects of the product. Marketers developed a complex concept of products. Kotler describes it on three levels: the core product, the actual product and the augmented product.

1. Core product

As a basis, a product developer must think, of what the consumer is really buying. The problem solving *benefits* must be defined as a starting point. People don’t buy an umbrella, but dry clothes while scrawling in the rain.

2. Actual Product

As a next step the product planner needs to build the actual product around the core idea. In this case: an umbrella. Five criteria matter: quality level, packaging, features, brand name and styling. Burberry combines all those to deliver a classy yet stylish protection against rain.
3. Augmented product

The augmented product is the next step after the core product. A whole solution offering additional benefits and services. For fashion items in general, those services are warranty, the right to return, but also the corporate image of the store and the reputation of the brand.

Most competition takes place on the level of the augmented product. Companies try to add benefits to their products, which not only satisfy but delight their customers (Kotler, page 461). Delightment is reached when expectations have not only been met but also been surpassed. Consumers get used relatively quickly to augmented benefits. Therefore, they expect those and marketers must look for new additional benefits to differentiate their products.
3. History of Nike

The history of Nike starts with two men: Bill Bowerman and Phil Knight. They both meet in 1957 at the University of Oregon. Knight is running in the team of coach Bowerman. He always aims at improving the performance of his students by improving their running gear. He creatively develops shoes at his home.

In 1962 Phil Knight graduates from Stanford University researching opportunities for low-priced Japanese sporting goods at the US market. After his studies he travels to Japan and becomes importer for Onitsuka Tiger running shoes. He calls his company “Blue Ribbon Sports” – after his favourite beer. In 1964 Bowerman joins the company – both invest 500 $ in the new firm.

In 1965 they hire Jeff Johnson as their first employee, after they generated more than 8000 $ of revenue. The first store is opened in California: “The Athletic Department”. In 1969 sales reached already 400,000 $. In 1971 the company stops importing shoes from Onitsuka Tiger as the Japanese are not able to ship the big orders on time. The company uses the name Nike (officially changed in 1977). Instead they start to develop their own shoe lines: The famous Nike Cortez shoe line has been introduced.

In the same year the Swoosh was created as trademark – for 35 $ by a graphic design student of the University of Oregon. After a law suit with Onitsuka, the company starts calling themselves officially as their successful brand: Nike. Nike becomes the favourite choice of famous athletes as Steve Prefontaine. This gives the brand an enormous boost. Since 1978 Nike merchandise has been available internationally. Soon Adidas is overtaken as number one in the US and in the global sports shoe market (1980). In the same year Nike offers apparel for the first time. From the 1980’s Nike is also are public company.

In 1986 the company takes the 1 billion $ turnover milestone. Two years later the “Just do it!” slogan is used for the first time. In 1990 the World Headquarters at Beaverton are opened. They consist out of office space, sporting and meeting facilities for more than 6,000 employees. In 1999, the European Headquarters in Hilversum are opened, offering facilities for 2,000 employees. In 2008, 18.6 billion $ revenues are achieved. This clearly makes Nike the global number one of the world’s athletic goods market.

4. Global mission maxims and strategy of Nike Sportswear
Mission maxims:

1. It is our nature to innovate
2. Nike is a company
3. Nike is a brand
4. Simplify and go
5. The consumer decides
6. Be a sponge
7. Evolve immediately
8. Do the right thing
9. Master the fundamentals
10. We are on the offence. Always
11. Remember the man

Those 11 maxims are meant for employees. Nike focuses on motivating all employees worldwide by explaining the company values.

Strategy:

Nike Sportswear inspires youth by product concepts and stories grounded in the culture of sport.

This should be reached by the following global goals.

1. Be recognized as the company that redefined lifestyle apparel.
2. Be the #1 sport lifestyle brand worldwide
3. Achieve & sustain coolest brand status.
4. Create a premium product position.
5. Lead in lifestyle innovation.
6. Set the benchmark in sport style communication.
7. Establish a distribution model that delivers revenue and brand objectives.
   a. Be where the consumer shops
   b. Benchmark story telling.
8. Become employer of choice for lifestyle talent.
5. Product Creation Flow of Nike

### Global Management
- Category Kick-off
  - Define global revenue and margin targets and style count targets
  - Global management should collect data and should already align and send to product merchandising.

### Category Creation
- Define global revenue and margin targets and style count targets
  - Global management should prepare data and communicate with sourcing, design, and marketing teams.

#### Line Plan Finalization
- Confirmed style count, target POE, wholesale, retail, directed assortment plan
  - All designers, regional merchandising, and country merchandising.

#### Product Brief to Design/Production Operations
- Category design direction set; convey complete, written information during an event to enable product creation start

### Category Design: Colour Review
- Confirm design direction set with seasonal objectives, materials strategies and application of colour/material and that financial metrics align with category targets
  - All category.

#### Seasonal Alignment Merchandising Meeting (SAMM)
- Review regional feedback, agree on changes
  - Review design and colour trends with Product Merchandising, action plans.

#### Regional Line Plan Outline
- Build product styles
  - Conceptual Design.

### Product Creation Flow of Nike

Information input highlighted in pink; decision moments highlighted in yellow.