

Strategic and Financial Analysis of Nike Based on the Harvard Analysis Framework

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Abstract. With the popularization of fitness and sports culture, there is an increasing demand for sports equipment. It brings opportunities for various industries. Consumer demand for sports equipment is diverse and personalized, meaning that companies must carefully manage their financial position and strategic positioning to adapt to market demands. This article utilizes the Harvard analysis framework to analyze Nike and also selects Puma and Adidas as comparative groups to provide a clearer conclusion. The article primarily analyzes Nike's overall financial condition from the strategic, financial, and accounting perspectives. From the analysis, it is evident that Nike possesses strong innovation capabilities and market expansion abilities, and its profitability is also far ahead of its peers. However, Nike also faces some issues such as high production costs, excessive inventory accumulation and poor ability to convert assets into revenue. Based on this information, the article also provides some recommendations for Nike to address the identified issues. This not only provides a direction for Nike's future development but also serves as a reference for other companies in the same industry.

Keywords: Harvard Analytical Framework, Financial analysis, Sports goods industry, Nike.

1. Introduction

Nike is one of the world's best-known sports brands. It not only achieved great success in the field of sports but also played an important role in popular culture. Compared with a decade ago, group revenue nearly tripled from US \$19.014 billion in 2010 to US \$37.403 billion in 2020. And Nike shares are up more than 800%. Although Nike is currently one of the leaders in the sports products market, it also faces some problems and challenges. The market for sports products is highly competitive and market requirements for sustainable development continue to increase. Nike needs to analyze strategic position and financial data to provide information basis for innovation and product quality improvement.

Financial analysis plays a crucial role in corporate management and decision-making. From the perspective of business decision-making, financial analysis provides detailed information on a company's financial condition and performance. From the perspective of risk assessment, financial analysis helps management assess a company's risk profile. From the perspective of investment decision-making, investors can utilize financial analysis to evaluate a company's value and potential before deciding whether to invest. It runs throughout the entire process of corporate operations, providing analysis along with support to managers in making various decisions [1]. However, the financial status of listed company analysis usually is the traditional financial analysis method which has certain limitations. The Harvard analysis framework analyzes the company's operating conditions and financial level from the perspective of strategy, making the analysis more comprehensive. Therefore, in order to systematically consider the different dimensions of the problem, this article uses the Harvard analysis framework to analyze various aspects of Nike.

The writing content of this paper can be roughly divided into the following parts: First is the introduction which mainly introduces the background and significance of the research. Then the article lays the theoretical foundation and introduces the basic concept of financial analysis along with the Harvard analysis framework. Besides, the article introduces the Harvard analysis framework from Nike and illustrates the necessity of using this framework. After that is the application of the

Harvard framework for Nike company. Finally, the article includes some suggestions for Nike based on analysis in the article.

2. Overview of Relevant Theories

2.1. Traditional Financial Analysis Content

In the early 20th century, Alexander W. Wall created the original single ratio analysis method. In 1928, Wall combined several financial ratios using linear relationships on the basis of the original ratio analysis and put forward the evaluation method of Cornwall [2]. In the 1970s, Harvard Business School proposed a more comprehensive and comprehensive framework of financial metrics to help managers assess the financial performance of their businesses. The framework includes four indicators: profitability, asset efficiency, financial stability and market performance. In the field of applied research, Lan Honghua applied the Harvard analytical framework to analyze the new energy vehicle industry [3]. In addition, Zhang Xianzhi argued that apart from emphasizing applied research, financial research in our country should also actively develop fundamental theoretical research to lay a solid foundation for financial research in China [4].

2.2. Classification of Traditional Financial Analysis Methods

Comparative analysis is a commonly used method in financial analysis. This approach involves comparing financial indicators between different time periods or different companies to identify variations. Decision-makers can gain a comprehensive understanding of strengths and weaknesses and evaluate the performance of a company.

Ratio analysis is a widely used method in financial analysis that involves comparing and analyzing financial indicators of the same company during the same period to evaluate its financial condition and performance [5]. Ratio analysis helps identify and assess a company's profitability, solvency, operational efficiency, and market value.

Trend analysis involves comparing a company's financial data over a period of time and observing the direction and magnitude of the changes to understand the company's development trends and the changes in its financial indicators.

2.3. The Basic Content of the Harvard Analysis Framework

The Harvard Analysis Framework takes into account both financial and non-financial information to conduct a comprehensive analysis of the company.

At the strategic level, the Harvard analysis framework starts from the macro environment and internal resources, utilizing tools to assess the fundamental situation of the company. At the accounting level, the framework focuses on important accounting subjects and calculates corresponding ratios, enabling companies to have a comprehensive understanding of themselves. At the financial level, the framework analyzes financial statements, assessing companies from the perspectives of profitability, solvency, and operational capabilities. At the prospective level, the Harvard analysis framework helps organizations evaluate future opportunities and challenges, develop strategic plans and forecast potential future outcomes.

In summary, the Harvard analysis framework provides various tools to help companies gain a holistic understanding of their market environment, financial condition and future prospects. Taking into account its advantages, this article employs this approach for analysis.

3. Nike's Harvard Framework Application

3.1. Strategic Analysis based on SWOT

The SWOT model is a commonly used strategic analysis tool that can help organizations or individuals identify and evaluate the strengths, weaknesses, opportunities, and threats of their

objectives. This analysis model can be applied in the preliminary stages of the decision-making process to evaluate the strategic position of various organizations [6].

3.1.1. Strengths

Nike's strengths primarily lie in its strong brand value, robust supply chain and rich in-house expertise.

Nike is one of the most famous sports brands all over the world. According to Interbrand's global brand value ranking, Nike entered the top ten for the first time in 2022, with a brand value of \$50.289 billion. The strong brand value of Nike has earned it broad market recognition and consumer loyalty. It also allows Nike to implement higher pricing strategies in the market, significantly increasing profits and market share.

The strong supply chain management system of Nike is one of the key factors for its success. Nike has established a vast global supply network, which enables it to obtain high-quality and cost-effective raw materials and low manufacturing costs. Additionally, the high level of collaborative cooperation enhances Nike's production efficiency, allowing it to respond promptly to market demands. Lastly, Nike places a great emphasis on risk management within the supply chain, which improves the company's production flexibility and ensures the reliability and resilience of the supply chain in the face of risks.

Nike has a team of experts in various fields such as chemistry, biomechanics, engineering, digital technology, and so on. They also have a consulting board comprised of coaches, athletes, orthopedic doctors, and other professionals. Additionally, Nike hires professional athletes to wear and test their products, gathering feedback and suggestions. This strong internal expertise allows Nike to continuously introduce forward-thinking and innovative products while ensuring quality and reliability. It is a key factor for Nike to maintain their leading position in the competitive market.

3.1.2. Weakness

Nike's internal weaknesses include production costs, labor issues, and over-reliance on the North American market.

In terms of production costs, Nike's products strive for high-quality raw materials and intricate manufacturing processes, which can result in significantly higher production costs. Especially during the 2022 fiscal year, the COVID-19 pandemic led to a sharp increase in the costs of both raw materials and labor, further pressuring Nike's profitability.

Over the past 20 years, Nike has indeed faced accusations regarding labor issues, including poor labor conditions abroad, employing child labor, and low wages for workers. These accusations have caused significant damage to Nike's reputation, and even though the company has taken steps to address these problems, it remains a long-term and complex process that the company should continue to prioritize these issues and work towards improvements.

In fiscal year 2022, Nike will derive about 41% of its sales from North America and the remaining 59% from global sources. It indicates that Nike is overly reliant on the North American market. Over-reliance on a single market is highly risky, as Nike would face significant consequences if there is a decline in demand or sales issues in the North American market. Furthermore, this would limit Nike's opportunities to explore new markets and discover emerging demands.

3.1.3. Opportunities

Nike has many external advantages, such as untapped markets and demand for innovative products. These advantages help the company maintain a competitive edge in the market.

For Nike, there are still many market areas that remain untapped and unexplored. These markets include developing regions such as China, and India, untapped market segments, and emerging economies. Nike's global market penetration provides ample opportunities for the company to seize these markets early and establish market share. Additionally, these untapped markets may have new demands, presenting Nike with the opportunity to discover innovative products that cater to these needs and establish a strong competitive advantage.

Nike relies heavily on its strong research and development capabilities and technological leadership to continuously launch new products and establish a competitive advantage. In today's market, the demand for innovative products continues to increase, providing Nike with abundant external opportunities. Furthermore, there is a growing consumer interest in environmental sustainability and eco-friendly themes. Nike can pay attention to this area, too.

3.1.4. Threat

Nike faces external threats such as counterfeit products, intense market competition, and market contraction.

The continued existence of counterfeit products poses a threat to Nike's reputation and sales, undermining customers' willingness to purchase Nike products. In addition, Nike is required to invest significant financial resources and time to combat the production of counterfeit goods and protect consumer rights, placing a substantial burden on the company.

The sports goods market is a highly competitive industry, and despite Nike being a leading brand in the market, the threats from other brands cannot be ignored. Due to intense market competition, Nike has to allocate a significant amount of money towards advertising and marketing efforts. In addition, due to Nike's higher pricing, intense competition may lead competitors to engage in price wars, putting pressure on Nike's product pricing and sales.

In the fiscal year 2022, the market experienced significant contraction due to the impact of the COVID-19 pandemic. In the coming years, market contraction may continue due to factors such as economic recession and political instability. This will result in reduced consumer demand and subsequently lead to a decrease in Nike's sales. Additionally, consumer loyalty towards the Nike brand may also decline.

3.2. Accounting Analysis

3.2.1. Analysis of major accounting categories

(1) Inventory

Table 1. Nike's Inventory and Sales Revenue Situation from 2018 to 2022

Unit: in millions of dollars

	2018	2019	2020	2021	2022
Inventory	5,261	5,622	7,367	6,854	8,420
Inventory growth rate	4.08%	6.86%	31.04%	-6.96%	22.85%
Sales revenue	36,397	39,117	37,403	44,538	46,710
Sales revenue growth rate	5.96%	7.47%	-4.38%	19.08%	4.88%

The value of inventory is measured by selecting the lower of cost and net realizable value, based on average or specific identification cost. This accounting policy indicates that Nike's inventory handling aligns with the principle of conservatism [7]. Inventory can reflect issues related to a company's sales performance, profit management, and inventory management. It is worth noting that in Nike's balance sheet over the past five years, the term "inventory" refers specifically to finished goods.

As shown in Table 1, from 2018 to 2020, Nike's finished goods increased from \$5,261 million to \$7,367 million. However, there was even a decrease in sales revenue in 2020, indicating an issue with inventory accumulation. However, this situation improved in 2021, indicating that the company implemented measures such as optimizing the supply chain and changing inventory management strategies to reduce accumulation. In 2018 and 2019, the sales growth rate was similar to the inventory growth rate. However, in 2020 the inventory growth increased sharply from 6.86% to 31.04% while the sales growth rate decreased from 7.47% to -4.38%, suggesting inefficient inventory management. However, this situation improved in the following two years.

(2) Non-current asset

Financial resources form the foundation for all business operations and fixed assets are particularly crucial within these resources [8]. Therefore, it is necessary to analyze Nike's fixed asset situation. Nike's fixed assets mainly consist of real estate, machinery and equipment, and vehicles, which are measured using the fair value method.

According to Table 2, it can be observed that over the past five years, the fixed assets of the company have shown a general upward trend, with a significant increase from 2019 to 2020. However, in relation to the growth of fixed assets, depreciation has been on a declining trend. This indicates an extension in the useful life of Nike's fixed assets or a reduction in depreciation. It suggests that these fixed assets are being used more efficiently or are being properly maintained in a timely manner.

Table 2. Nike's Fixed Assets and Depreciation Situation from 2018 to 2022

Unit: in millions of dollars

	2018	2019	2020	2021	2022
Non-current asset	7,402	7,192	10,786	11,449	12,108
Depreciation	747	705	721	744	717
Depreciation as a percentage of fixed assets	10.09%	9.80%	6.68%	6.50%	5.92%

(3) Trade receivables

Table 3. Nike's Accounts Receivable and Sales Revenue Changes from 2018 to 2022

Unit: in millions of dollars

	2018	2019	2020	2021	2022
Trade receivables	3,498	4,272	2,749	4,463	4,667
Sales revenue	36,397	39,117	37,403	44,538	46,710
Accounts receivable growth rate	-4.87%	22.13%	-35.65%	62.35%	4.57%
Sales revenue growth rate	5.96%	7.47%	-4.38%	19.08%	4.88%

Accounts receivable represent the amount customers owe to a company during the course of business. Analyzing accounts receivable can provide insights into inventory risk and, to some extent, the debt risk of the enterprise [9].

As shown in Table 3, from 2019 to 2020, both accounts receivable and sales revenue experienced a significant decrease, indicating that the company successfully recovered a portion of its accounts receivable. However, in other years, the growth rate of accounts receivable has consistently been higher than the growth rate of sales revenue. This suggests that Nike should consider implementing additional policies to expedite the collection of accounts receivable. This greatly reduces the risk of cash flow turnover in the company.

3.2.2. Main accounting policies and accounting estimates

Accounting policies and accounting estimates are two important aspects of the process of financial statement preparation. Analyzing and understanding them is crucial for evaluating a company's financial condition and operating performance. Analyzing a company's accounting policies related to key accounting items enables better prediction of financial risks and decision-making.

In terms of inventory, Nike measures inventory at the lower of cost and net realizable value. This measurement method aligns with the conservative accounting principle, indicating that Nike has a strong risk prevention awareness. Furthermore, considering the net realizable value helps to reflect the changes in inventory value due to market fluctuations, and incorporating net realizable value into consideration allows Nike to measure the actual value of inventory more promptly. However, this method may not promptly reflect the appreciation of inventory, and the financial statements may not capture the impact of market price increases on inventory.

In terms of fixed assets, Nike uses fair value measurement and straight-line depreciation for depreciation purposes. Using fair value measurement can promptly reflect the market prices of assets. It is relatively objective and enhances the transparency and reliability of financial information.

However, in situations where certain assets are in an inactive market, it becomes challenging to determine the fair value in such cases.

In terms of trade receivables, during credit sales, Nike conducts credit assessments for important customers, considering historical levels of credit losses and analyzing industry conditions and economic situations. This is a comprehensive and cautious practice. Receivables that are outstanding for more than twelve months after the balance sheet date are treated as non-current and recorded in Deferred income taxes and other assets.

3.3. Financial Analysis

This section conducts a comprehensive analysis of Nike's profitability, solvency, and operational efficiency to provide a more holistic view of Nike's financial situation. In addition, to present a more objective and clear view of Nike's financial competitiveness, this article selected data from Adidas and Puma for comparison.

3.3.1. Profitability Analysis

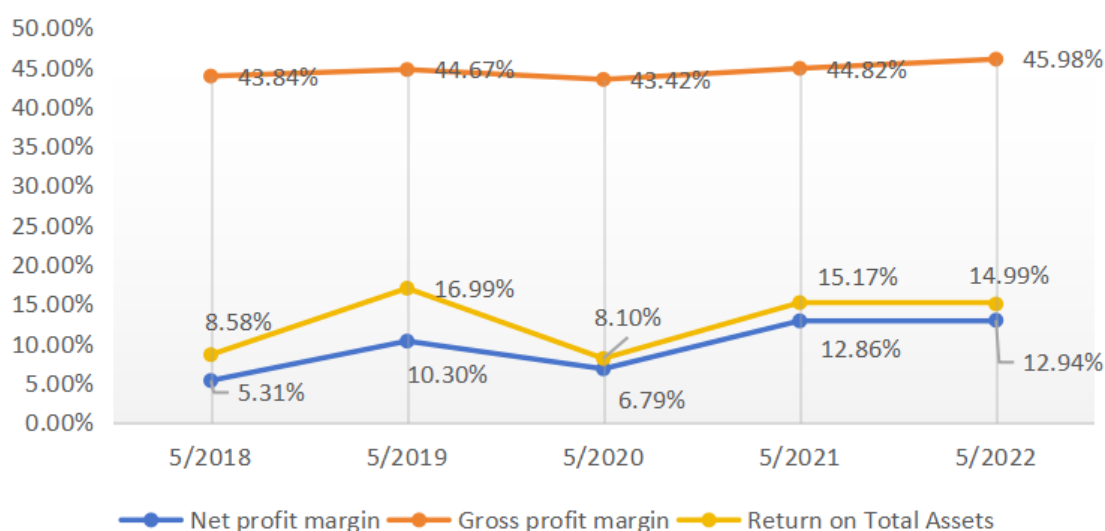


Figure 1. Nike's Profitability Trend from 2018 to 2022(Photo credit: Original)

Profitability is the ability of a company to obtain economic profits during its operation which is highly valued by all stakeholders [10]. Analyzing the profitability can help the company accurately assess its ability to generate sustainable profits and identify any issues in the profitability aspect.

From Fig. 1, it can be observed that these three indicators generally show an upward trend, with a slight decrease in 2020. The decline may be attributed to the global outbreak of the COVID-19 pandemic in 2020, which impacted the profitability of Nike's physical stores. But considering the overall picture, Nike's overall profitability has exhibited a positive growth trend while the gross profit margin has remained stable throughout. This highlights the financial stability of Nike as a company.

Table 4. Profitability Indicators of Nike and its Major Competitors in 2022

Indicator Items	Nike	Adidas	Puma
Net profit margin	12.94%	2.83%	5.01%
Gross profit margin	45.98%	47.30%	46.10%
Return on Total Assets	14.99%	3.14%	6.27%

As shown in Table 4, Nike's net profit margin is 4.57 times that of Adidas and 2.58 times that of Puma and its total asset turnover ratio is 4.78 times that of Adidas and 2.39 times that of Puma in 2022. This indicates that Nike has efficient cost management and a good pricing strategy. Additionally, Nike is able to effectively utilize its assets to create value and profit. Overall, Nike has a stronger competitive advantage in the market.

3.3.2. Debt Paying Ability Analysis

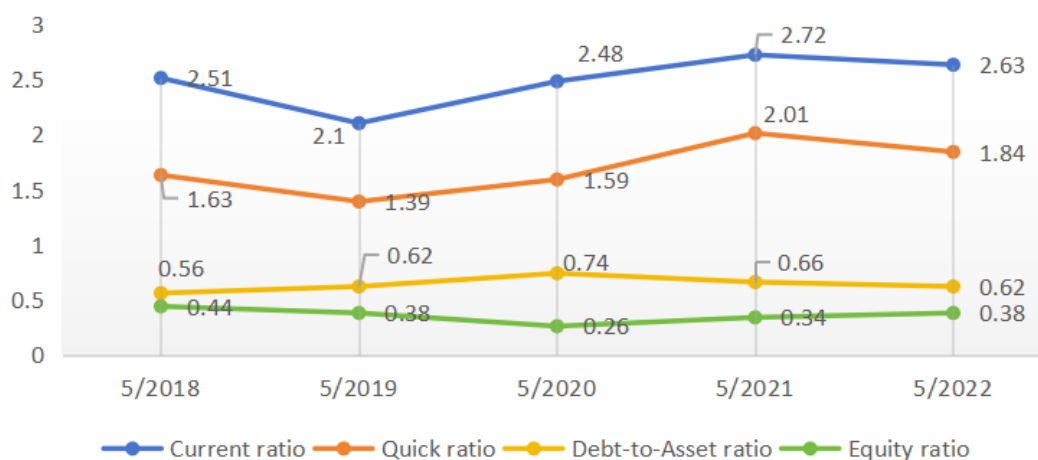


Figure 2. Nike’s Debt Paying Ability Trend from 2018 to 2022(Photo credit: Original)

Debt-paying ability refers to the ability of a company to repay its debts. It includes the analysis of both short-term solvency and long-term solvency [11]. The solvency of a company represents its financial stability and sustainability.

From Fig. 2, it can be observed that Nike has maintained relatively high levels of current ratio and quick ratio over the five years, indicating that the company has sufficient liquid assets to repay its debts. The debt-to-asset ratio has fluctuated but has not been excessively high, suggesting that the company’s debt risk is reasonable. The equity ratio has remained relatively stable, with the exception of a lower ratio in 2020, indicating that the company’s financial condition is generally sound.

Table 5. Debt Paying Ability Indicators of Nike and its Major Competitors in 2022

	Nike	Adidas	Puma
Current ratio	2.63	1.27	1.48
Quick ratio	1.84	0.62	0.69
Debt-to-Asset ratio	0.62	0.74	0.63
Equity ratio	0.38	3.79	0.37

According to Table 5, In 2022, Nike’s current ratio was 2.63 and quick ratio was 1.84, both significantly higher than the other two companies. This indicates that Nike has a strong short-term debt-paying ability and is more likely to obtain financing. Nike’s debt-to-asset ratio is slightly lower than Adidas and Puma, suggesting that Nike has more assets and carries relatively less debt. In terms of equity ratio, Nike has a ratio of 0.38, significantly lower than Adidas and on par with Puma. This indicates that Nike primarily finances its assets through debt.

3.3.3. Operational Capability Analysis

The working capital includes three categories: current assets, current liabilities, and net working capital [12]. Analyzing this capability can provide insights into the company’s ability to manage operational resources.

From Fig. 3, Nike's inventory turnover ratio has shown fluctuation over the past five years, with an overall downward trend. This further confirms the issue of inventory backlog that Nike is facing. On the other hand, the accounts receivable turnover ratio has remained relatively high and stable, indicating an improvement in the speed of collecting accounts receivable for the company. Nike’s current asset turnover ratio and total asset turnover ratio have shown an overall downward trend, indicating that the company has not effectively utilized its assets to create sales value. This suggests that the company is facing some difficulties in adapting to market changes.

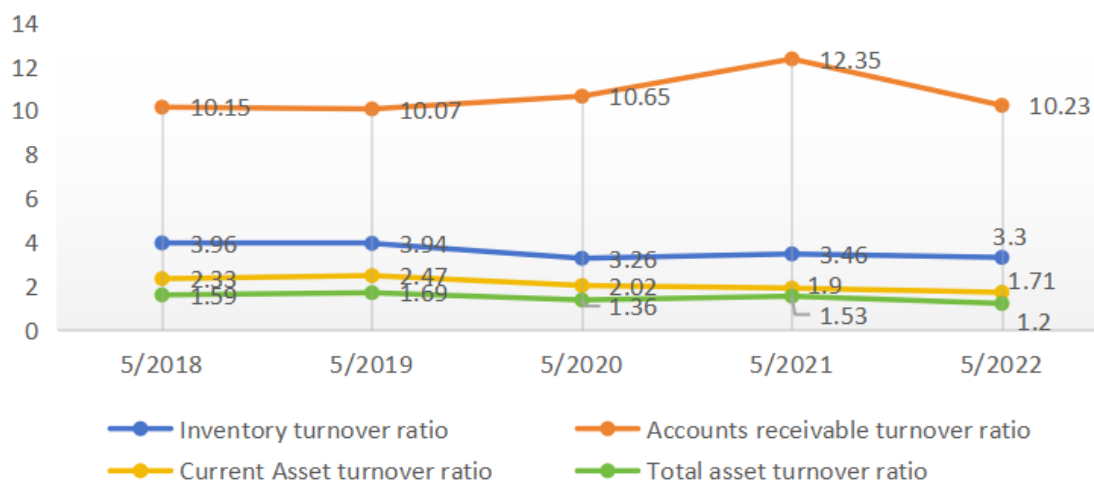


Figure 3. Nike’s Operating Performance Trend from 2018 to 2022(Photo credit: Original)

Table 6. Key Operational Performance Indicators of Nike and its Major Competitors in 2022

	Nike	Adidas	Puma
Inventory turnover ratio	3.30	2.44	2.38
Accounts receivable turnover ratio	10.23	8.85	9.57
Current Asset turnover ratio	1.71	2.20	1.75
Total asset turnover ratio	1.20	1.35	1.06

As shown in Table 6, Nike’s inventory turnover ratio of 3.30 is significantly higher than that of Adidas and Puma, indicating that Nike can effectively manage its inventory. Even though the turnover ratio has decreased for Nike itself, it still remains ahead of its competitors. In the current year, Nike also has a higher accounts receivable turnover ratio compared to the other two, demonstrating Nike’s excellent management of accounts receivable. However, Nike has the lowest current asset turnover ratio and fixed asset turnover ratio among the three, indicating that Nike’s asset utilization is not as efficient as its competitors, and there is a need to consider optimizing asset allocation and utilization.

4. Conclusion

Through strategic analysis, it is evident that Nike ranks among the industry leaders with a strong brand value, supported by a robust supply chain and formidable innovation capabilities. However, Nike's high production costs have led to fluctuations in its sales performance. Nevertheless, the market's demand for innovative products presents new opportunities for Nike. Nike can leverage this demand to launch new products and explore new markets to make consumers accept Nike’s high pricing strategy. Additionally, as a renowned sports brand, Nike also faces the challenge of counterfeit goods, further complicating the already fierce market competition.

Through accounting analysis, it is evident that Nike faces challenges such as slow sales and inventory buildup, which can result in inventory impairment and increased management expenses, further exacerbating cost issues. However, in terms of assets, Nike has been more efficient in utilizing fixed assets in recent years, and the speed of accounts receivable collection has also significantly improved.

Through financial analysis, it is evident that Nike's profitability has continued to improve and is also excellent compared to its peers. Nike also demonstrates good liquidity and meets debt repayment obligations. However, despite the indication from accounting analysis that Nike's utilization of fixed assets has become more efficient year by year, Nike's ability to generate sales value from its assets is not strong. Therefore, Nike needs to develop appropriate strategies to address this and improve asset utilization.

This article is based on the Harvard Analytical Framework and provides analysis of Nike's business performance over the past five years from the perspectives of strategic analysis, accounting analysis and financial analysis, hoping to offer Nike and other companies in the industry some insights and lessons. The data and information in this article primarily come from the annual reports of various companies in the past five years, which has limitations in terms of time and scope. Therefore, there are certain shortcomings in the analysis of Nike in this article, and it is hoped that future research can utilize more comprehensive information and employ more advanced research methods to provide more valuable recommendations for the sports goods industry.

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