

Financial Analysis, SWOT Analysis and Porter Five Forces Analysis for Nike

Jiaqi Li *

Department of Manchester University, Manchester, M13 9PL, United Kingdom

* Corresponding author: jia.li-18@student.manchester.ac.uk

Abstract. This essay provides a comprehensive analysis of Nike, Inc., a participant in the athletic footwear and apparel industry, to evaluate its financial performance, competitive positioning, and strategic outlook. The analysis begins with a detailed financial assessment using ratio analysis, focusing on profitability, liquidity, investment, and efficiency ratios over a three-year period. This quantitative evaluation reveals insights into Nike's financial health, operational efficiency, and resource utilization, offering a basis for informed decision-making for investors and stakeholders. Following the financial assessment, the essay explores the competitive landscape through Porter's Five Forces Analysis, examining the industry dynamics, market trends, and competitive pressures that shape Nike's strategic approach. This analysis provides a thorough understanding of the external factors influencing Nike's business operations and market position, including competition, potential new entrants, and the influence of buyers and suppliers. A SWOT analysis is done to give an overview of Nike's internal strengths and weaknesses, along with external opportunities and threats. This holistic evaluation identifies areas of excellence and potential challenges, enabling the formulation of aligned and effective strategies to leverage strengths and mitigate weaknesses.

Keywords: Ratio analysis, SWOT analysis, Porter Five Force Analysis.

1. Introduction

Nike is an American international company that is focused on athletic sportswear organization and it started in quartered in Beaverton, Oregon. Nike was founded in the year (1964) which they used to call Blue Ribbon Sports by Bill Bowerman, and the founder also you can say the tracker of Nike organization is the College of Oregon. the student was called Phil Knight. Nike opened its first shop of retail outlet in the year (1966) and it launched its brand shoe of Nike in the year (1972). the organization or company they renamed Nike Inc in the year (1978) and then it had its brand internationally 2 years after its launching [1].

However, while Nike's current state paints a picture of success, it's essential to delve deeper into the factors that drive this success. In an era where market dynamics are rapidly shifting due to technological advancements, changing consumer preferences, and global events, understanding the underlying forces that shape industry competition becomes paramount. This is where Porter's Five Forces model comes into play. This analytical tool, developed by Michael E. Porter, offers a basic structure to grasp the competitive elements in an industry and their effect on company profitability.

The financial analysis segment of this essay employs ratio analysis, a critical tool that facilitates the evaluation of a company's financial condition and performance over time. It provides a quantitative basis for gauging Nike's profitability, liquidity, and operational efficiency, offering insights into how well the company utilizes its resources to generate income and growth. This analysis is pivotal for investors and stakeholders to understand the financial trajectory of the company, make informed decisions, and predict future performance.

The significance of this paper lies in its attempt to apply Porter's Five Forces model to Nike, offering insights into the competitive landscape the company operates. This research serves not just as an academic exercise but as a crucial tool for stakeholders, investors, and even competitors to gauge Nike's strengths, vulnerabilities, and potential future strategies.

Beyond numbers, understanding the competitive landscape is crucial for any business, and this essay utilizes Porter's Five Forces Analysis to dissect the industry dynamics that Nike operates within.

This review highlights competition, potential new entrants, the influence of buyers and suppliers, and the possibility of alternative products, providing a comprehensive view of the external pressures that could impact Nike's market position and profitability.

Additionally, a SWOT analysis is conducted to present a balanced view of Nike's internal pros and cons, as well as outside chances and challenges. This analysis is instrumental in identifying areas where Nike excels and areas that require strategic intervention, enabling the formulation of strategies that align with organizational objectives and market realities.

Lastly, the essay concludes with strategic advice and actionable recommendations, focusing on diverse aspects such as product diversification, digital transformation, market penetration, and operational optimization. These recommendations are intended to guide Nike in reinforcing its brand ethos, navigating market complexities, and sustaining its growth momentum in the ever-evolving global market.

2. Financial Analysis

Table 1. The Ratios of NIKE

Ratios Of NIKE Inc	12 months May-31-2021	12 months May-31-2022	12 months May-31-2023
Profitability			
Return on Assets %	13.1%	10.7%	9.5%
Return on Equity %	55.0%	43.1%	34.6%
Return on Common Equity %	55.0%	43.1%	34.6%
Gross profit Margin %	44.9%	46.0%	43.5%
Net profit Margin %	12.9%	12.9%	9.9%
Liquidity			
Current Ratio	2.7	2.6	2.7
Quick Ratio	1.9	1.6	1.6
Investment Ratio			
EPS	\$3.56	\$3.75	\$3.23
P/E ratio	37.57	31.24	32.49
Gearing ratio	27.5%	25.0%	24.5%
Efficiency Ratio			
Inventory holding period	365	370	358
Payables payment period	365	365	365

Ratio analysis is a tool that helps companies and investors to analyze and also helps them to compare the relationships between different parts of financial information over an individual company's past or history, industry, or it could be the whole business sector [2].

2.1. Profitability Ratios

Nike's return on assets has seen fluctuations over the past three years. According to Table 1, from 7.1% in 2020, it surged to 13.1% in 2021 but slightly decreased to 10.7% in 2022. One of the most significant ratios is the Return on Assets (ROA), which measures a company's ability to generate net income from its assets. A high ROA indicates better asset utilization and profitability. Empirical evidence suggests that ROA has a positive impact on stock returns [3].

The return on equity has shown a significant increase from 29.7% in 2020 to a peak of 55.0% in 2021, before settling at 43.1% in 2022. This indicates that the company's management is earning some income from its equity financing, especially in 2021.

Nike's gross profit margin has been on a steady rise. As shown in Table 1, moving from 43.4% in 2020 to 46.0% in 2022. This indicates an improvement in production efficiency or pricing strategy. The net income margin doubled from 6.8% in 2020 to 12.9% in both 2021 and 2022, reflecting better operational efficiency and cost management.

2.2. Liquidity Ratios

Nike's current ratio has remained fairly stable. According to Table 1, hovering around the 2.5 to 2.7 range, almost twice as much as Adidas. This shows that the company has a higher current ratio than others in its group, suggesting that assets might not be used as effectively.

Nike's quick ratio of 1.9 in 2020 suggests a strong liquidity position, with \$1.90 of liquid assets available to cover each \$1 of its current liabilities. However, there is a decrease in the quick ratio to 1.6 in the subsequent years, 2021 and 2022, showing a decrease in the company's capacity to handle its current debts with readily available assets. Despite the decrease, the ratios are still above 1, suggesting that Nike is capable of meeting its short-term obligations without relying on the sale of inventory.

2.3. Investment Ratios

Earnings per Share (EPS) is generally considered the most important factor in determining share price and firm value [4]. The EPS saw a rise from \$3.56 in 2021 to \$3.75 in 2022 but experienced a drop to \$3.23 in 2023. This suggests varying profitability over the years.

In 2021, Nike had a P/E ratio of 37.57, which is relatively high, suggesting that investors were willing to pay a premium for the stock, possibly due to high growth expectations. However, the P/E ratio decreased to 31.24 in 2022, indicating a potential adjustment in the stock's valuation relative to its earnings. In 2023, the P/E ratio slightly increased to 32.49, reflecting minor fluctuations in stock valuation. In conclusion, Nike's P/E ratios over the three years suggest that the stock has been trading at high valuations, possibly due to investor expectations of high future earnings growth.

Nike's gearing ratio has been decreasing over the years, moving from 27.5% in 2021 to 24.5% in 2023. This decreasing trend is a positive indicator, suggesting that Nike is progressively reducing its reliance on debt, thereby reducing its financial risk. The gearing ratios for all three years are between 25% and 50%, which is often seen as usual for established companies. This implies that Nike has maintained a balanced approach to financing, utilizing an optimal mix of debt and equity.

2.4. Efficiency Ratios

The inventory holding period increased from 365 days in 2021 to 370 days in 2022 but decreased to 358 days in 2023. This indicates that Nike held onto its inventory slightly longer in 2022 but improved its inventory turnover in 2023. Payables Payment Period has remained constant at 365 days over the three years, suggesting that Nike's payment habits to its suppliers have remained consistent.

2.5. Discussion

Nike has shown strong financial performance over the past three years, with improvements in profitability and a steady liquidity position. The company's declining gearing ratio indicates a reduced reliance on debt, which is a positive sign for investors. However, the slight increase in the inventory holding period in 2022 suggests a need for better inventory management. Overall, Nike appears to be in a robust financial position, making it an attractive option for potential investors.

3. Porter Five Forces Analysis

Porter's five forces framework is based on the perception that an organizational strategy should encounter the opportunities and threats in the organization's external setting. A competitive strategy should rest on an understanding of industry structures and the way they change. Porter argues that the strategist aims to recognize and handle a competitive environment by directly looking at competitors, or to contemplate a broader perspective that competes against the organization [5].

3.1. Competitive Rivalry

The athletic footwear and apparel industry is characterized by intense competition. Nike faces formidable rivals such as Adidas, Puma, Under Armour, Lululemon, and numerous smaller niche

brands. This industry has reached maturity, resulting in slow growth rates, which further intensify rivalry as companies fiercely compete for market share. Nike and Adidas, as market leaders, command the largest share. In 2020, Nike held a 21.1% portion of the global athletic footwear market, with Adidas at 15.1%, indicating some competition. The constant need for innovation and differentiation in product offerings and marketing strategies is crucial for maintaining a competitive edge.

3.2. Threat of New Entrants

The threat of new entrants in this industry is relatively low, primarily due to high barriers to entry. Nike has invested substantially in building its brand equity over decades, making it challenging for newcomers to establish brand recognition. Entering this market requires substantial capital investments in product design, manufacturing, marketing, and distribution channels. Incumbents like Nike benefit from economies of scale in manufacturing and purchasing, making it hard for new entrants to compete on cost. Additionally, stringent government regulations concerning trademarks and intellectual property create additional entry barriers.

3.3. Threat of Substitutes

The threat of substitutes in the athletic footwear and apparel industry is moderate. Athletic gear faces competition from fashion-oriented apparel and footwear brands, giving consumers alternative options. Moreover, technological advancements have introduced substitutes like fitness apps and smartwatches that consumers may prefer for exercise and activity tracking. However, Nike's strategic adaptations, innovative product offerings, strong brand positioning, diverse product range, enhanced consumer engagement, and commitment to sustainability have effectively diffused the potential impact of substitute products, ensuring that Nike remains a preferred choice for consumers in the athletic and lifestyle market segments.

3.4. Bargaining Power of Suppliers

Suppliers within the athletic wear industry possess low bargaining power. Nike maintains a vast global supply chain, with numerous vendors supplying similar raw materials, such as cotton, leather, rubber, and labor. This diversification in its supplier base reduces the risk of over-reliance on a few suppliers. Furthermore, Nike's substantial scale provides it with significant negotiating leverage, enabling the company to secure favorable rates and terms. Manufacturers often strive to secure contracts with Nike due to the promise of large volumes, further diminishing the supplier's bargaining power. Overall, the threat posed by suppliers is low.

3.5. Bargaining Power of Buyers

While individual buyers have limited influence, large wholesale buyers, such as footwear retailers, hold moderate bargaining power in the industry. Nike distributes its products through thousands of retail outlets, including department stores, sporting goods chains, specialty stores, and independent retailers. Nevertheless, a few major companies like Dick's Sporting Goods and Foot Locker account for a substantial portion of Nike's sales. Losing a significant wholesale buyer could potentially impact Nike's revenues. However, Nike's robust brand equity and global recognition help mitigate this threat. Overall, the bargaining power of buyers can be considered moderate.

3.6. Discussion

In conclusion, based on this comprehensive analysis, competitive rivalry and the threat of substitutes emerge as the most significant forces influencing the athletic footwear and apparel industry. To maintain its dominance, Nike must continue to prioritize product innovation and brand-building efforts, ensuring its products remain attractive and relevant in an evolving market. Additionally, exploring strategic alliances and partnerships could further strengthen its position in this competitive landscape.

4. SWOT Analysis

SWOT Analysis (short for strengths, weaknesses, opportunities, threats) is a business strategy tool to assess how an organization compares to its competition [6].

4.1. Strength

Nike's global brand recognition, cultivated through years of strategic marketing and collaborations with renowned athletes, allows it to command premium pricing, thereby enhancing profitability in the sports apparel and footwear sector. Its integrated business model, spanning from production to sales, ensures cost-efficiency. Furthermore, Nike's proactive investment in digital platforms facilitates direct-to-consumer sales, capitalizing on the e-commerce trend.

4.2. Weakness

Despite its strengths, Nike faces challenges. Outsourcing production can sometimes compromise quality and ethical labor practices, potentially tarnishing its brand image. Its growth in the saturated North American market has plateaued. Moreover, Nike's penetration in pivotal emerging markets like China lags behind some competitors.

4.3. Opportunity

Opportunities abound for Nike. Expanding its footprint in untapped markets like Asia, South America, and Africa offers significant growth potential. The rising trend in women's sportswear and athleisure presents another lucrative avenue. Leveraging consumer data, Nike can provide personalized shopping experiences, while its focus on developing innovative casual wear can further boost its market share.

4.4. Threat

However, challenges persist. Competitors are rapidly innovating and enhancing their online sales strategies. External factors, such as trade disputes or manufacturing issues, could inflate Nike's operational costs. Economic downturns might lead to reduced consumer spending on premium brands like Nike. Additionally, shifting consumer preferences towards more affordable sportswear brands poses a threat.

5. Advice and Strategy

Strategic management can be understood as the collection of decisions and actions taken by business management, in consultation with all levels within the organization, to determine the long-term activities of the organization. The purpose of strategy is "essential to superior performance, which, after all, is the primary goal of any enterprise" [7]. Before delving into the strategic recommendations, it's crucial to summarize the challenges and issues Nike currently faces. The financial analysis highlighted certain areas of concern, such as the slight increase in the inventory holding period in 2022, suggesting a need for better inventory management. Additionally, while Nike's profitability and liquidity positions are commendable, there's always room for improvement, especially in a competitive market. Strategic planning is a fundamental element for companies of all sizes, enabling them to address challenges in their external and internal environment [8].

Given these challenges, the following strategic recommendations are proposed:

5.1. Product Innovation and Sustainability

Firstly, Organizations should consider competitive intelligence to address challenges in the global economy, including economic contraction, technological advancements, and international tensions [9]. Nike can cater to growing trends in athleisure and casual wear by expanding the product line to tap into new customer bases and drive revenue. Secondly, adopt eco-friendly materials, promote

recycling, and ensure ethical labor practices to enhance brand image and appeal to modern, conscious consumers. Thirdly, allocate resources to research and development to innovate products that offer better athletic performance and integrate with fitness tracking technologies, distinguishing Nike from competitors.

5.2. Digital and Customer Engagement

Nike can invest in enhancing digital platforms, integrate AI for personalized shopping experiences, and optimize mobile apps to drive sales and improve customer engagement. And develop loyalty programs, offer exclusive member benefits, and organize community-building events to enhance brand loyalty and position Nike as a lifestyle choice.

5.3. Market Expansion and Brand Collaboration

Environmental analysis is beneficial in strategic planning as it identifies factors influencing an organization's performance [10]. In a situation where major markets are saturated, expanding in emerging markets is a good choice. Tailor products to local tastes and set up localized marketing campaigns in regions like Asia, South America, and Africa to establish a stronger foothold. Collaborating with celebrities, influencers, and brands to create buzz through limited edition releases, exclusive online drops, and co-branded merchandise. Helping companies open up new markets

5.4. Operational Efficiency

Invest in technologies like blockchain for transparent and efficient supply chain management to ensure timely deliveries, reduce counterfeits, and enhance operational efficiency.

6. Conclusion

This comprehensive analysis of Nike has provided profound insights into its financial performance, competitive environment, internal capabilities, and potential growth areas. The financial analysis revealed a robust profitability and liquidity position, with areas for improvement in inventory management. Porter's Five Forces and SWOT analysis highlighted the intense competitive rivalry and the need for continuous innovation and brand enhancement to maintain market leadership. The strategic recommendations, grouped into broader themes of product innovation, digital engagement, market expansion, and operational efficiency, offer a structured approach for Nike to navigate the evolving market landscape, optimize its strategies, and achieve synergistic growth. By embracing these strategies, Nike can continue to inspire, innovate, and elevate its brand, ensuring its enduring success in the global athletic footwear and apparel industry.

However, it's essential to acknowledge the limitations of this research. While the analysis is thorough, it's based on available data, and there might be internal factors or future market shifts not accounted for in this paper. Additionally, the rapidly changing global economic landscape, influenced by factors like technological advancements and geopolitical events, can introduce variables that might not have been considered.

Looking forward, potential research could delve deeper into Nike's digital transformation journey, exploring how emerging technologies like AI and AR are shaping its customer experiences. Another avenue could be a more granular analysis of Nike's sustainability initiatives, assessing their impact on both the brand image and the bottom line.

References

- [1] Almani M, Nobanee H. Financial Statement Analysis of NIKE. Available at SSRN 3675026, 2020.
- [2] Bloomenthal A, Drury A. Financial Ratio Analysis: Definition, Types, Examples, and How to Use. 2022.
- [3] Nalurita F. The effect of profitability ratio, solvability ratio, market ratio on stock return. *Business and Entrepreneurial Review*, 2015, 15 (1): 73 - 94.

- [4] Islam M R, Khan T R, Choudhury T T, Adnan A M. How Earning Per Share (EPS) Effects on Share Price and Firm Value. *European Journal of Business and Management*, 2014. Available at: <http://www.iiste.org/Journals/index.php/EJBM/article/viewFile/13572/13841>.
- [5] Bruijl D G H T. The relevance of Porter's five forces in today's innovative and changing business environment. Available at SSRN 3192207, 2018.
- [6] Teoli D, Sanvictores T, An J. SWOT analysis. In: *StatPearls*. StatPearls Publishing, Treasure Island (FL); 2022. PMID: 30725987.
- [7] Wu K J, Tseng M L, Chiu A S F. Using the Analytical Network Process in Porter's Five Forces Analysis – Case Study in Philippines. *Procedia - Social and Behavioral Sciences*, 2012, 57: 1 - 9.
- [8] Gavilanez W E P, Jacome V A M, Moreira D E Z. Strategic planning process as a management tool in a changing financial and business environment. *Universidad Ciencia y Tecnología*, 2021, 25 (111): 5 - 13.
- [9] Stenin A A, Batishchev A V, Zaytsev A, Dorofeev O, Trubin A E. Competitive Intelligence as a Tool for Achieving Economic Security of an Organization. *Scientific notes of the Russian academy of entrepreneurship, Competitive Intelligence in The System of Economic Security of An Enterprise*, 2020, September. 19 (3): 8 - 18.
- [10] Kimani J. Influence of Environmental Analysis on Financial Sustainability of NGOs in Kenya [J]. *Journal of Business and Strategic Management*, 2022, 7 (4): 68 - 77.