

Nike and the World Shoe



JOHNSON SCHOOL
Cornell University

Stuart Hart

**S.C. Johnson Chair of Sustainable Global Enterprise
Professor of Management**

Nike World Shoe – 100 Series



**What should Tom Hartge
recommend to senior
management regarding the
World Shoe strategy?**

**Discuss in groups (15 minutes)
Highest priority recommendations**

What Happened

- **Today, the World Shoe Project is “only alive in spirit.”**
 - efforts to sell high-end product in emerging markets
 - concept never spread beyond initial large cities
 - business model never came together
- **Phil Knight still claims to be a big fan of the effort**
 - When asked what caused its demise, he responded “politics”
- **People in the company rationalize this outcome by saying that the World Shoe was “ahead of its time”**

NIKE Mission:

“To bring inspiration and innovation to every athlete in the world”

“The mission now seems hollow to me”

Tom Hartge

“Just Didn’t Do It”

Is it too late for Nike?

Potential BOP Strategy

- **Design whole new business model for the World Shoe (BOP) focused on underserved rural markets in the developing world**
 - Requires up-front investment
- **Initiate pilot(s) as far away from NIKE's existing business as possible**
 - e.g. Latin America, India
 - Begin with existing technology, transition to new products and disruptive innovation through deep listening
- **Establish as a separate business experiment with aggressive goals for growth and profitability over a 5-7 year time horizon**
 - e.g. \$1 billion in revenue, \$250 million in profit within 5 years

Potential Business Model

- **Target Market:** Rural poor athlete (BOP-A)
- **Product Focus:** Series 100; New Brand
- **Pricing:** \$8-10 (20-25% margins)
- **Production:** Dedicated local factories (Code of conduct?)
- **Distribution:** Small retail outlets
- **Promotion:** NIKE mobiles, sales force
- **Partners:** Counterfeit producers?
Bata? Coke? Li Ning?
- **TBL** Functionality, Durability
Footprint, Labor Standards

Break



It's not just about protests

It's Not Just About Standards

- **UN Global Compact**
- **Sullivan Principles**
- **Caux Principles**
- **CSR codes, Ethics codes, AA1000, SA8000**
- **ISO CSR (proposed)**
- **ISO14000 series, EMAS, Responsible Care etc**
- **Global Reporting Initiative (GRI)**

It's Not Just about CSR



The proper 'social responsibility' of business is to tame the dragon, that is to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well paid jobs, and into wealth.

Peter Drucker

It *is* about Globalization and Governance

Globalization today is not working for many of the world's poor. It is not working for much of the environment. It is not working for the stability of the global economy...

What is needed is a policy for sustainable, equitable and democratic growth.



Joseph Stiglitz, 2002
Globalization and its Discontents

Many Companies are Beginning to Experiment with the BOP



➔ Nutristar, Nutridelight (nutritional drink), Pur (water purifier)



➔ Hindustan Lever (detergent for the poor in India and Brazil), Annapurna (iodized-Salt for the poor)



➔ Making solar power affordable (India)



➔ Banco Real, microcredit in Brazil



➔ Vodacom community services in South Africa, joint venture between Vodafone and Telkom SA



➔ Solar powered digital camera in India and community information systems

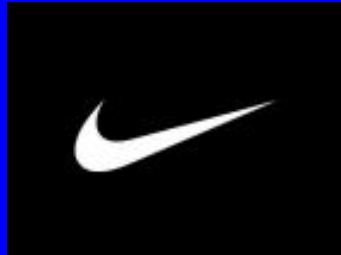


➔ Program in South Africa to help entrepreneurs enter the supply chain and profit from new business ventures.



➔ Water for all program to periurban areas in Brazil

A Tale of Two MNCs



Strategic Logic: Stagnating sales in primary markets

Target Market: Low income consumers in developing countries

Source: McDonald, London & Hart (2002); Ellison, Moller & Rodriguez (2002)

Contrasting BOP Strategies

Nike



Unilever



Product

Structure

Pricing

Problem-solving

Partners

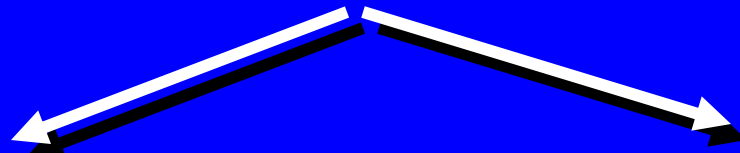
Outcome

- **Integrated**
- **30-50% gross margins**
- **Existing marketing & manufacturing**
- **Current retailers**
- **Failed to hit targets; never reached the BOP**

- **Protected**
- **Long-term growth; reduced margin**
- **6-8 weeks in villages; local sales agents**
- **Small retail outlets**
- **Path breaking growth; reached the BOP**

Two Complementary Strategies

Low Income Markets



Middle of the Pyramid (MOP)

- Incremental
- “Take cost out of current model”

- Use existing business structure
- Apply existing business metrics
- Develop internally

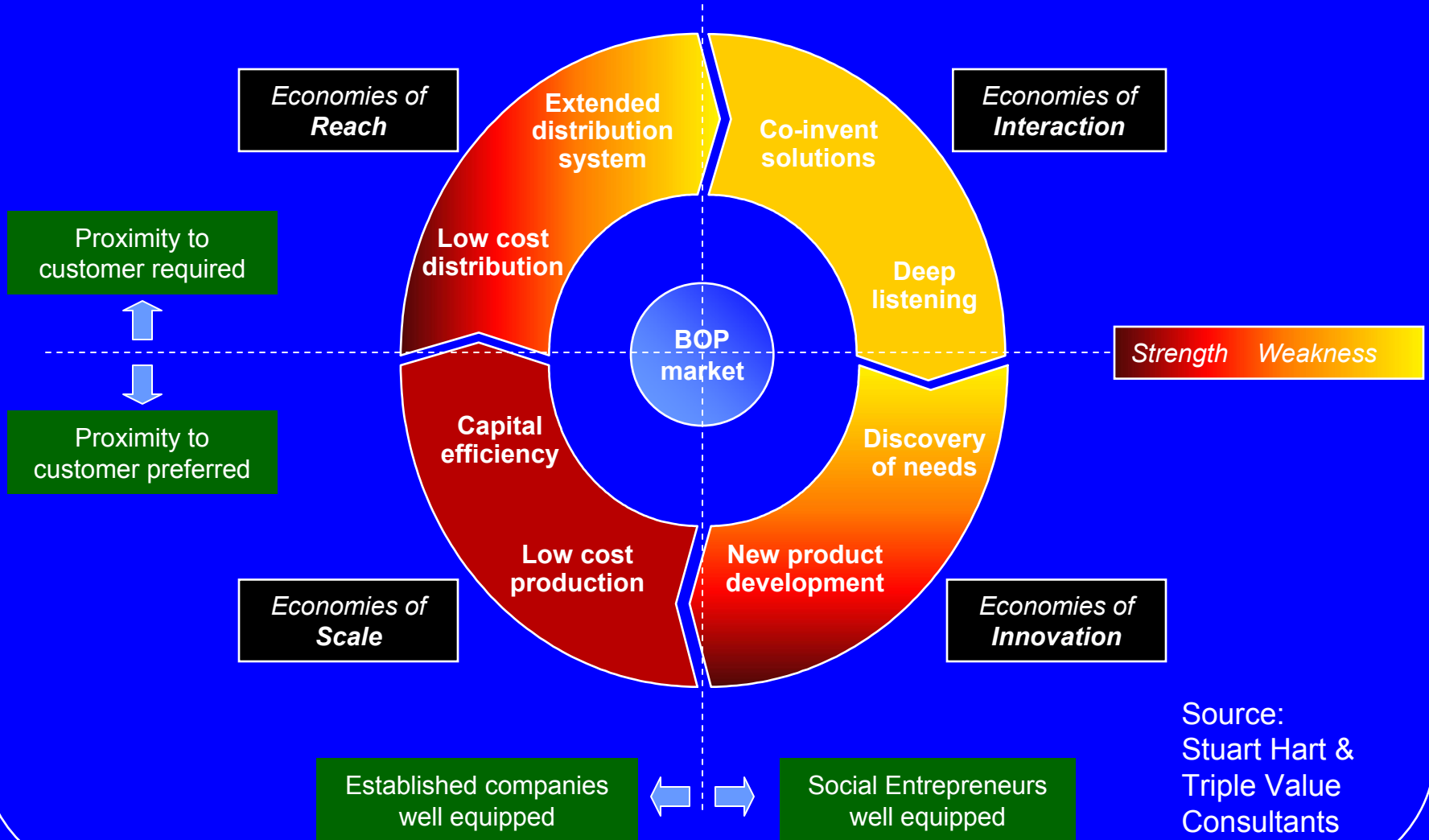
Base of the Pyramid (BOP)

- Disruptive
- “Invent new low cost system”

- Create separate structure (firewall)
- Devise new metrics
- Develop through partnerships

Ted London, “How are Capabilities Created? A Process Study of New Market Entry,” Ph.D. Dissertation, UNC, March 2005

The BOP Capability Circle

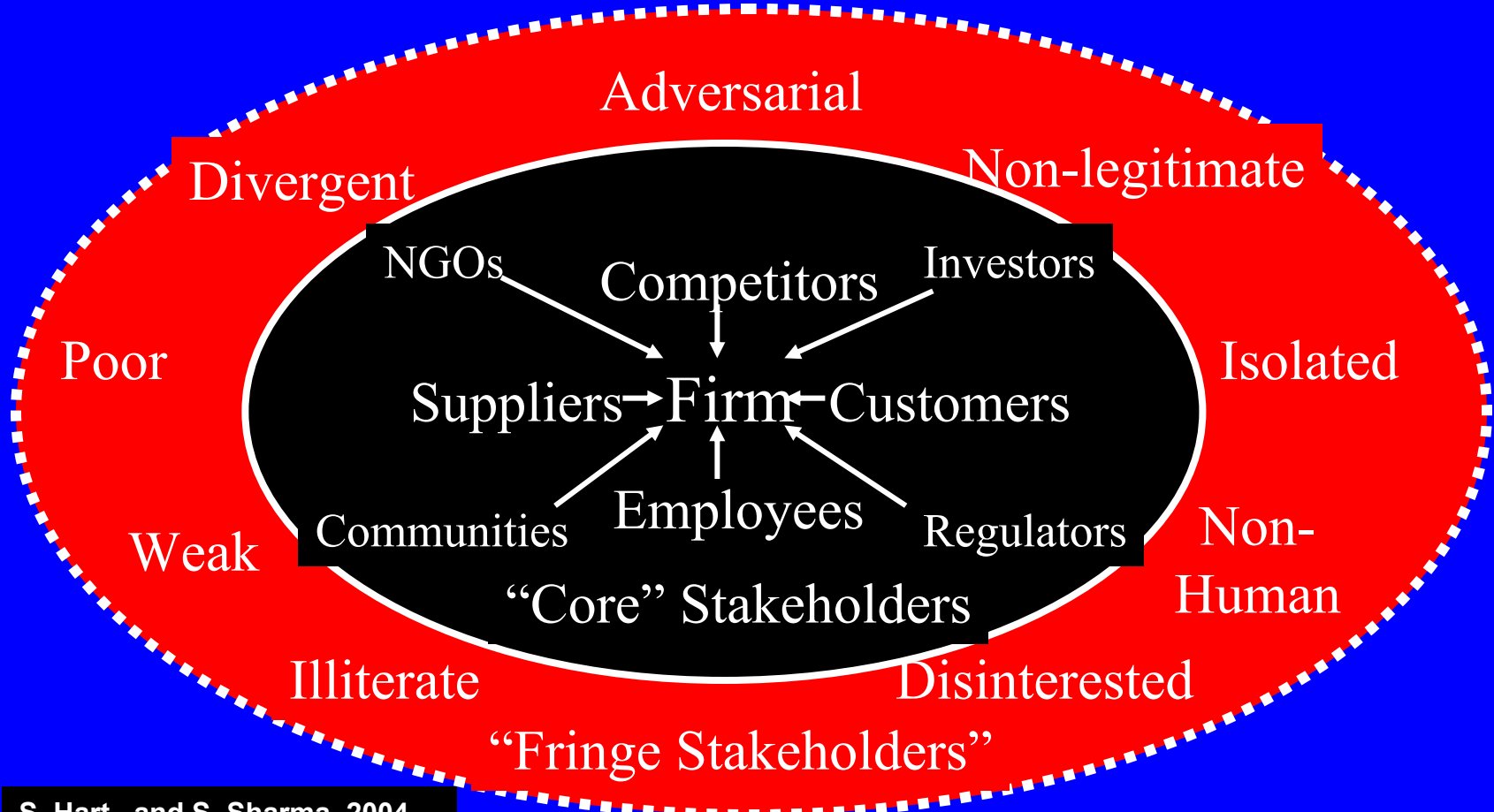


Source:
Stuart Hart &
Triple Value
Consultants

“The aspiring poor present a prodigious opportunity for the world’s wealthiest companies. But it requires a radical new approach to business strategy”

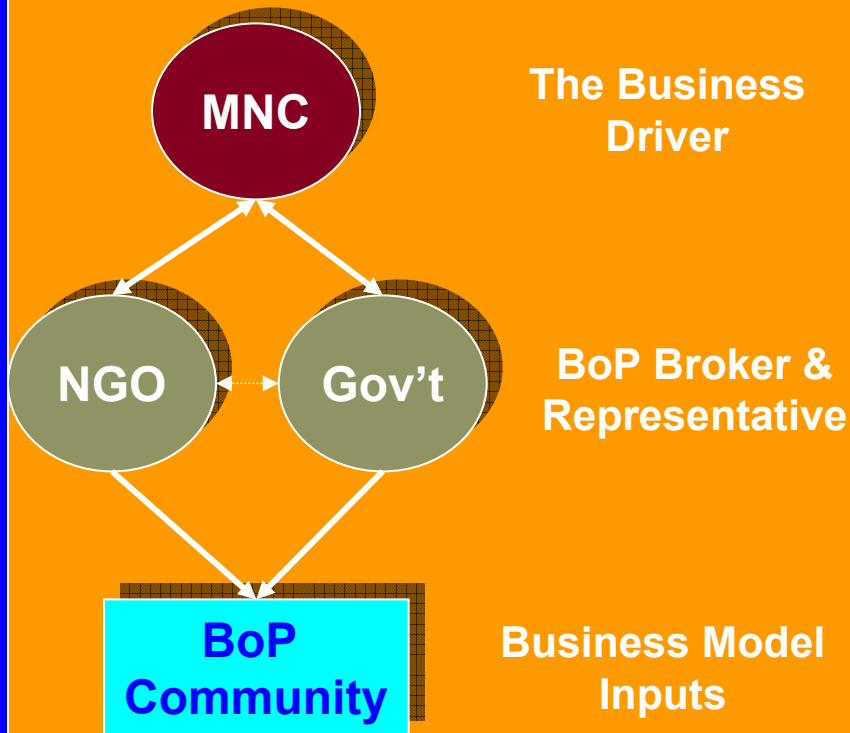
C.K. Prahalad and Stuart Hart
“The fortune at the bottom of the pyramid”
Strategy+Business, January 2002

Radical Transactiveness: Engaging Fringe Stakeholders



S. Hart, and S. Sharma, 2004,
"Engaging fringe stakeholders
for competitive imagination"

“Public-Private Partnerships”



“Co-Venturing”



- + Amenable to planning, managing & monitoring
- Low degree competitive advantage & community capability development

&

- Cannot be planned, predicted or forecasted
- + High degree competitive advantage & deep community capability development

Source: Erik Simanis, Cornell University

Stuart L. Hart

From Smaller Sachet Packages To Bigger Mindsets

Engaging the BoP differently...

Customers



Partners

Clients



Colleagues

To serve the BoP, MNCs will need to
develop a new capability...

...Native Capability

The ability to...

- **Engage with marginalized groups and communities in mutual business partnership**
- **Build long-term relationships of trust and understanding with BoP communities**
- **Creatively marry MNC capabilities and technologies with those of BoP communities through a process of co-creation**
- **Evolve the business model from the ground up**

BoP Protocol™ : A Collaborative Venture

Sponsored By:

Cornell University
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William Davidson Institute
The World Resources Institute
The Johnson Foundation

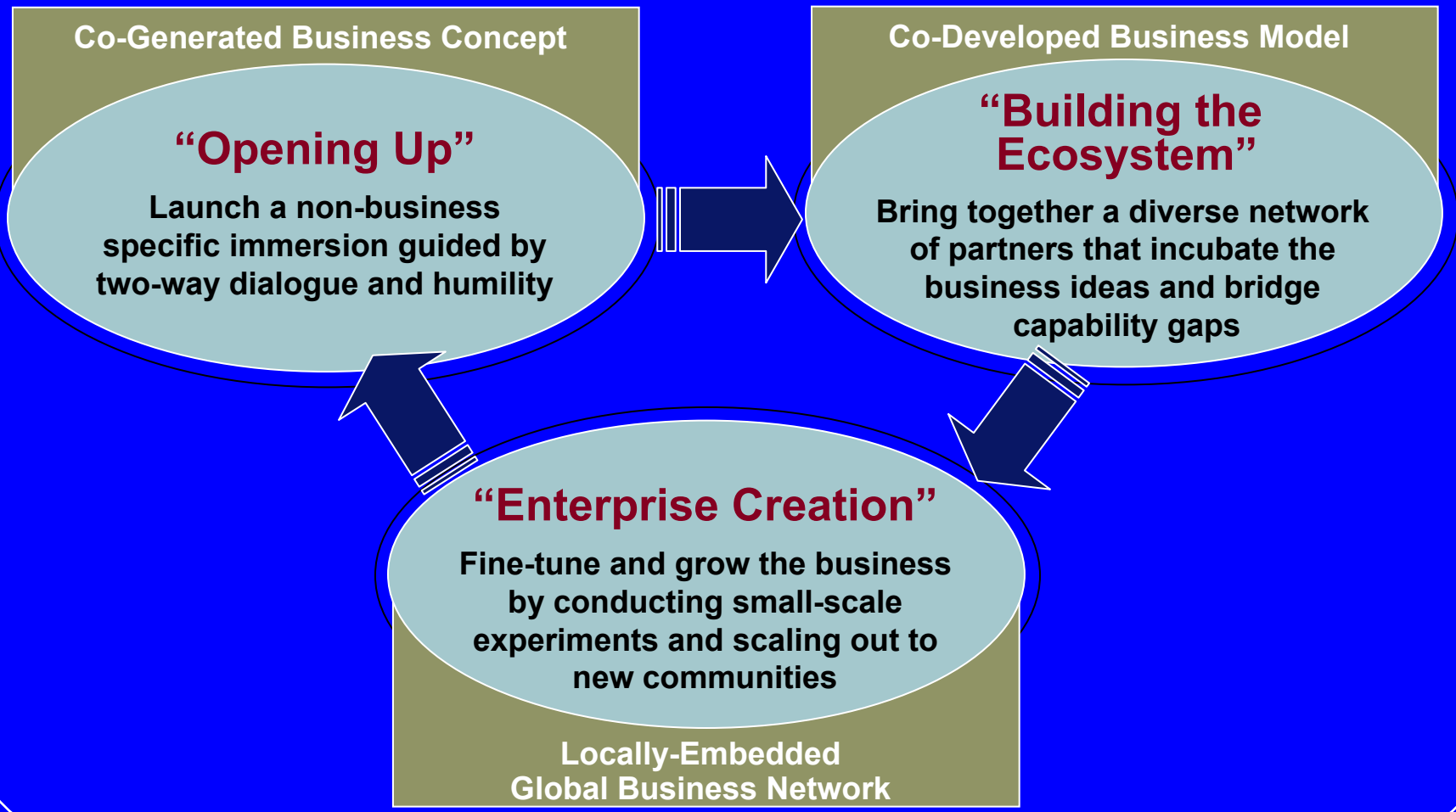
Generous Support From:

DuPont
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SC Johnson
Tetra Pak

www.johnson.cornell.edu/sge

www.bop-protocol.org

BoP Protocol™: Overview



BoP Protocol: *MNC Initiatives*



The SC Johnson Company

- *Launch Date, June 2005, Kenya*



The Solae Company (Dupont)

- *Launch Date, April 2006, India*

BoP Protocol: Discovery versus Creation

Discovery-Based BoP

- “Target” the unmet needs in the BoP
- Estimate the size of the market
- Adapt current products and technologies
- Extend current model via structural innovation
- “Scale up”

Creation-Based BoP

- Be humble; begin with an open mind
- Spark competitive imagination
- Co-develop something new
- Build new business model on trust and social capital
- “Scale out”

See: Alvarez, S. and Barney, J. (2006) “Toward a Creation Theory of Entrepreneurial Opportunity Formation” Working Paper

BOP: More than Selling to the Poor

- **Leapfrog to Sustainability (e.g. LUTW)**
 - Displace inferior imported goods
 - Move to inherently clean and sustainable technology
- **Remove Constraints (e.g. Cemex)**
 - Displace predatory local vendors
 - Facilitate entry to the “formal” economy
- **Increase Earning Power (e.g. Grameen Phone)**
 - Create consumer surplus by solving real problems
 - Expand opportunities for income generation and savings
- **Create New Potential (e.g. e-Choupal)**
 - Expand wage earning opportunities in the community
 - Build capacity for new local enterprise creation

The Next Challenge: Becoming Indigenous

