NIKE, Inc. (NIKE), incorporated in 1968, is engaged in the design, development and worldwide marketing of footwear, apparel, equipment, and accessory products. NIKE sells athletic footwear and athletic apparel. It sells its products to retail accounts, through NIKE-owned retail, including stores and Internet sales, and through a mix of independent distributors and licensees, in over 180 countries around the world. Its products include running, training, basketball, soccer, sport-inspired urban shoes, and children’s shoes. It also markets shoes designed for aquatic activities, baseball, bicycling, cheerleading, football, golf, lacrosse, outdoor activities, skateboarding, tennis, volleyball, walking, wrestling, and other athletic and recreational uses. On March 3, 2008, the company acquired Umbro Ltd., which designs, distributes, and licenses athletic and casual footwear, apparel and equipment, primarily for the sport of soccer, under the Umbro trademarks. On April 17, 2008, it completed the sale of its Bauer Hockey subsidiary.

NIKE’s athletic footwear products are designed primarily for specific athletic use, although a large percentage of the products are worn for casual or leisure purposes. The company sells sports apparel and accessories covering most of its product categories, which includes sports-inspired lifestyle apparel, as well as athletic bags and accessory items. It markets footwear, apparel and accessories in collections of similar design or for specific purposes. It also markets apparel with licensed college and professional team, and league logos.

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Virtually all of NIKE’s products are manufactured by independent contractors. Virtually all footwear and apparel products are produced outside the United States, while equipment products are produced both in the United States and abroad.
NIKE’S ERP IMPLEMENTATION SAGA

SUPPLY CHAIN MANAGEMENT PROBLEMS AT NIKE

• In February 2001, Nike, the athletic shoe and clothing giant had warned that its third-quarter footwear sales were not up to the mark and as a result, its year-over-year sales for the third quarter would be flat. Nike’s stock price fell almost 20% the day this announcement came while i2’s stock plunged nearly 22% (Nike’s footwear division was powered by i2 Technologies.)

• The problem – Nike’s new supply-and-demand software planning systems from i2 Technologies had hiccups in June 2000. The software incorrectly output orders for thousands more Air Garnett sneakers than the market had appetite for and called for thousands fewer Air Jordan’s than were needed. As a result, there were huge inventory problems and overdue deliveries.
NEED FOR SUPPLY CHAIN MANAGEMENT

Distribution network configuration

Distribution strategy

Information

Inventory management

NIKE’S SUPPLY CHAIN

- In 1975, Nike introduced Future Program.
- Supply Chain Management was inadequate.
- 1998, Nike’s global operations were broadly divided into 5 geographic regions.
- Nike’s profit dropped by 50% from US$ 798 million to US$ 399 million.
- Launched NSC Project.
- Initiative of “Shelley Dewey”, Vice President of Supply Chain and Steele.
- Implement its ERP, Supply Chain, & CRM Software onto a single SAP Platform.
NIKE’S SUPPLY CHAIN MANAGEMENT PROGRAMME

Aims & objectives
• Greater flexibility
• Real time of constraints
• Other expectations

Goals
• Enhancing company’s ability
• Reducing inventory and capital investment risk
• Improving services
• Efficient global supply chain

IMPLEMENTATION STRATEGY AT NIKE

Discovery
Design
Direction
Delivery
I2’S SOFTWARE IMPLEMENTATION

- First part of supply chain strategy.
- Cost of this project was US $40 million.
- To match supply with demand.
- To reduce the amount of raw material.
- Used it as a legacy system rather than as a part of SAP ERP project.

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<th>Solution</th>
<th>Objective</th>
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<td>Strategic Planning</td>
<td>Maximize profitability by optimally allocating resources</td>
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<td>Demand management</td>
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<td>Supply planning</td>
<td>Determine what to make and when and how to profitably distribute supply</td>
<td>Size and complexity of problem</td>
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<tr>
<td>Production</td>
<td>Determine what to produce and when</td>
<td>Managing material &amp; capacity tradeoffs is complex</td>
<td>Fast finite material &amp; capacity planning &amp; scheduling</td>
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REASONS FOR i2’S SOFTWARE FAILURE

• Third party integrator.
• Inexperience of i2.
• Customization.
• Trying to forecast too far out ahead.
• Pilot test.
• Problems in smooth integration.
• Inadequate information.
• Changing market conditions.
• Complication of NSC project.
• Review meetings.

I2 SCM Disaster

Roland Wolfram, NIKE’s VP of global operations and technology, called the i2 problem — a software glitch that cost NIKE more than $100 million in lost sales, depressed its stock price by 20 percent, triggered a flurry of class-action lawsuits, and caused its chairman, president and CEO, Phil Knight, to lament famously: “This is what you get for $400 million, huh?” — a speed bump.” In the athletic footwear business, only NIKE, with a 32 percent worldwide market share (almost double Adidas, its nearest rival) and a $20 billion market cap that’s more than the rest of the manufacturers and retailers in the industry combined, could afford to talk about $100 million like that.

By 1998, NIKE had 27 order management systems around the globe, all highly customized and poorly linked to Beaverton. To gain control over its nine-month manufacturing cycle, NIKE decided that it needed systems as centralized as its planning processes. ERP software, specifically SAP’s R/3 software, would be the bedrock of NIKE’s strategy, with i2 supply, demand and collaboration planner software applications and Siebel’s CRM software also knitted into the overall system using middleware from STC. So what has $500 million done for NIKE’s business? Wolfram claims that better collaboration with Far East factories has reduced the amount of “pre-building” of shoes from 30 percent of NIKE’s total manufacturing units to around 3 percent. The lead-time for shoes, he asserts, has gone from nine months to six (in some periods of high demand, seven).
Nike Inc. and supply-chain-software supplier i2 Technologies are pointing fingers at each other for a flawed i2 implementation that upset Nike's inventory and ultimately forced the footwear maker to slash earnings estimates. Nike officials said an i2 supply-and-demand-planning application didn't perform as expected, resulting in shortages of some footwear models and excess stock of others. Executives at i2 (stock: ITWO), however, maintain that the problem was caused not by the software itself, but by Nike's customized implementation.

Regardless of who's to blame, the resulting inventory shortages will reduce Nike's fiscal third-quarter sales by as much as $100 million. Earnings estimates for the quarter, which ended this week, have been cut to 34 to 38 cents per share from 50 to 55 cents.

Nike has been working on its i2 software implementation since June as part of a $400 million overhaul designed to streamline communications with buyers and suppliers and lower operating costs. The i2 software failed to meet expectations "both in performance and functionality," a Nike spokeswoman said.

"This is what we get for our $400 million?" Nike chairman Philip Knight asked financial analysts when the company issued its earnings warning earlier this week. Nike and i2 have "created some technical and operational workarounds" and the implementation is now stable, the spokeswoman said, but the financial impact of the problem will be felt for six to nine months, until Nike can unload the excess inventory.

But i2 last week was quick to place the onus on Nike. "We recommend that customers follow our guidelines for implementation—we have a specific methodology and templates for customers to use—but Nike chose not to use our implementation methodology," said Katrina Roche, i2's chief marketing officer.

Roche said the Nike problem is "an isolated incident" and that the other 1,000 companies that use i2 software aren't at risk.

Dain Rauscher lowered its estimate on Nike's 2001 earnings to $2.09 per share from $2.35 following disclosure of the software problem. Its 2002 estimates were lowered to $2.51 from $2.70. Nike's stock dropped nearly 20 percent on Tuesday, and i2's share price fell 22 percent that same day.

Although Nike sometimes uses third-party integrators for large-scale application deployments, it chose i2 to integrate the demand-and-supply-planning tool. "We knew going in that it was going to be a tough implementation," said i2's Roche, "because the apparel industry tends to be very complex and because Nike had tried other [supply chain tool] vendors and they didn't work out."

According to Roche, the cutover to the i2 app wasn't complete when Nike began to input data for its forthcoming spring 2001 line. "The solution wasn't stable at the time they started using it," Roche said. Nike also found i2's recommended methodolgy and templates too rigid and chose not to use them, she said.
NIKE has been an SAP customer since 1999. “We want our customers to have a personal shopping experience that binds them closer to us,” says Bill Mullen, senior director of Process Excellence at NIKE. “Customers today call for innovative, functional, stylish products in ever shorter cycles. SAP solutions help us understand our customers better – and rapidly respond to new trends and market signals.” With NIKE’s SAP landscape, it is able to orchestrate a highly decentralized supply chain – linking the company’s disparate groups of designers, suppliers, manufacturers, logistics providers, retailers and customers into a powerful global business network.

“Our SAP solutions were crucial to our success in establishing global processes,” says Roland Paanakker, CIO of NIKE. “They were essential to our phenomenal revenue growth between 2000 and 2007 from $8 billion (US) to $16 billion. And they improved our key performance numbers for greater cash flow, inventory management and profitability. The integrated functionality of NIKE’s SAP solutions also make it possible to consolidate large amounts of business data in real time and to achieve tight integration with manufacturing partners across a shared logistics chain. SAP solutions allow NIKE to maintain a clear overview of our entire business network – they are crucial to our success.”