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Expanding the Playing Field: Nike's World Shoe Project (B)

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

—Company Mission Statement

"The mission seems hollow to me." As Tom Hartge reflected back over the past year's efforts in developing the World Shoe concept, he could not help but express his disappointment in the lack of progress on the project. In fact, while CEO Phil Knight remained a supporter of the concept, the World Shoe Project was now "only alive in spirit."

By March 2002, Nike had ended its support for the World Shoe in China as well as the other markets where it had been introduced. Across Nike, the feeling was that the project was "ahead of its time." Yet this seemed paradoxical to Hartge, as Nike still faced sluggish growth prospects and was actively searching for new market opportunities. Even so, the company was no longer willing to commit the resources needed to explore the huge untapped potential of the Tier Three markets like China and other emerging economies. To Hartge, this failure was more a reflection of internal constraints than the result of external challenges, and he could highlight three reasons why the project had been shelved.

Internal Politics

While Knight remained a big fan of the World Shoe, other senior-level managers were not as convinced. While no one explicitly opposed the project, Hartge felt that there was considerable passive resistance to it.
In particular, senior managers were concerned about using the Nike Swoosh and brand name on lower-priced shoes. They were worried that selling low-cost shoes would damage the company's carefully built reputatation.

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Additionally, while Nike's stated goal was to measure performance by the number of shoes sold, Wall Street's emphasis on gross margins had permeated throughout the company. While managers explicitly emphasized the importance of increasing the number of pairs sold, the internal measurement systems heavily favored high margins.

For managerial mindsets geared toward continual incremental product performance improvements, high quality, status, and an emphasis on high margins, the concept of a low-priced, a low-margin shoe developed for less technology-savvy customers was hard to accept. Thus, while there continued to be pockets of support within the company, fear of brand equity dissolution and comfort with existing performance metrics limited the level of widespread support beyond the CEO's office.

Leading with the Product

Responding to Phil Knight's call for a prototype, Hartge and his team had initially focused their energies on designing a World Shoe that offered moderate functionality at a significantly reduced cost as compared to Nike's high-end products. However, corporate teams from other departments, such as marketing and distribution, were not actively involved in the project. Thus, although the World Shoe Project benefited from linking the firm's core competency in shoe design with local factory capabilities in China, little attention was paid to other key aspects of the business strategy. Instead, once the shoes were developed, the World Shoe team relied on the company's existing networks and marketing strategies. As a result, Nike's Chinese subsidiary primarily distributed the shoes in the three major cities of Shanghai, Beijing, and Guangzhou at about 100 retail outlets and did not develop a new marketing campaign. The shoes were placed next to Nike's existing products, leading to confusion among both retailers and customers. Lacking support or incentive, little effort was made to promote the World Shoe in either secondary cities or rural areas.

Getting the Business Model Right

While developing the product had been relatively easy, getting the business model right had proved to be the undoing of the World Shoe Project. Working with the local factories, Nike clearly had the core competency to develop the product. What was lacking, according to Hartge, was the co-development of the complementary components of the business model. With its limited resources and lack of independence, the World Shoe Project was forced to rely on existing internal systems and metrics. The development of new partnerships and dedicated factories was not considered. Measuring success by the number of shoes sold was not an internally accepted performance metric. In addition, local managers in China had little incentive to sell the product through new distribution channels. Yet the success of Nike's local competitors in China suggested that with the appropriate business model, there was money to be made in these markets. Li Ning was generating substantial revenues by targeting customers outside the major cities. Similarly, counterfeit producers were doing a thriving business supplying imitation shoes to a broad market in China.

Closing

Tom Hartge still believed in the World Shoe concept. While he realized that there is not always going to be a happy ending, he also questioned whether the project was, in fact, ahead of its time. He knew that Nike needed to find new growth opportunities and felt that the World Shoe could provide a platform to an immense and underserved market. Hartge wondered if the project could be resurrected. If so, what could be done to generate enough support among senior-level managers to supply the project with the necessary resources? If it were resurrected, how should Nike adjust the blueprint it had used so far? Alternatively, should the company develop an entirely different business model for this venture?

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