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Anything is possible: Just do it

-a comparison of the evolutionary process
of Chinese and Western newcomers

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Abstract

Chinese multinationals are currently progressing at an impressive speed towards high-end industries, and China is now seen as a country with strong competitors utilizing a unique set of advantages such as cost innovation. This simultaneously triggers insecure behavior by Western companies towards Chinese firms. Are the Chinese multinationals changing the rules of the game and are the concerns of Western companies' legitimate? By exploring the different competitive approaches used by Western and Chinese newcomers, we examine if the existing theories within competitive behavior can explain the new emerging competition. By conducting two case studies within the sports industry; Nike and Li Ning, two different approaches towards global interplay are compared. The purpose is to examine the explanatory power of existing theories and to provide Western managers with a more comprehensive understanding and new competitive mindset towards the emerging competitors. Although higher profit margins and cost innovation are evident, Li Ning is still imitating the strategic behavior of its Western counterparts, and take advantage of the same strategic logic. Hence, Western companies should accept the challenge and seize opportunities in China, rather than running away in fear.

Keywords: Evolutionary process, Strategic behavior, Cost innovation. Strategic Intent, Sporting goods industry, Western and Chinese MNCs, Nike Inc., Li Ning Co., Ltd.

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List of Abbreviations

R&D	Research & Development
Ltd.	Limited
Co.	Company
Inc.	Incorporated
RBV	Resource Based View
KBV	Knowledge Based View
MNC	Multi National Company
MNCs	Multi National Companies
BRS	Blue Ribbon Sports
LA	Los Angeles
CEO	Chief Executive Officer
ERP	Enterprise Resource Planning System
ATP	Association of Tennis Professionals
NBA	National Basketball Association
RCD	Real Club Deportivo

1. Introduction

“If you know the enemy and know yourself, you need not fear the results of a hundred battles.”

Sun Tzu

1.1 Background

The structure of today’s global economy has created new gateways through which companies from emerging markets can access the global market, long before they possess the full range of capabilities that already established multinationals enjoy. Companies that above all have been able to take advantage of these gateways are Chinese companies. Chinese multinationals are currently progressing in an impressive speed towards high-end products and industries, and are now competing for high-value activities such as R&D, engineering and design. Consequently, China is no longer just seen as a favorable place for basic manufacturing outsourcing, but as a country with strong and diverse competitors. According to Zeng and Williamson (2007) the reason for their success lies in their unique set of advantages compared to traditional Western competitors. This uniqueness simultaneously triggers an insecure behavior for Western companies towards the Chinese firms. Companies and managers from the Western world have not seen such a great threat to their domestic markets since the entrance of Japanese cars and consumer electronics into the global market. The set of advantages that Chinese companies possess include inter alia low-cost talent as well as the ability to use state assets and intellectual property below their market value. By exploiting these advantages, the Chinese companies are now creating new pressure on margins across a wide range of industries and are currently positioning themselves to compete on not only mass markets, but also in highly profitable niche businesses and high-end brands, which so far has been protected by high entry barriers. Based on these findings, Zeng and Williamson (2007) further argue that Chinese companies are actually changing the rules of the game and disrupting global competition by using cost innovation.

1.2 Problem Discussion

As discussed in the background, head to head competition between Western and Chinese multinationals is becoming more and more frequent. Our main interest is to explore what these types of multinationals are doing differently and hence, if there is a reason for Western

companies to feel unarmed in the upcoming battles. Even though many Chinese newcomers have access to a set of unique assets, they are still lacking the resources and strong brand names that the market leaders enjoy. Most new Chinese companies are even imitating the Western market leaders by acting as followers. Furthermore, pressure on margins and new competitive behavior is not really a new phenomenon as it has been happening continually in most industries for decades. So, if the Chinese are actually imitating Western companies; why do they cause such insecure behavior? Can it be that Western companies know too little about the Chinese way of competing? The result, according to Zeng and Williamson (2007), is that Western companies tend to ignore their Chinese followers until the point where it is too late. The authors further identified four different mindsets Western companies go through when dealing with new and emerging competitors from China:

1. It is not happening in our industry
2. It is happening, but it does not matter
3. It is happening, it does matter, but we do not need to do anything now; let us wait and see how it evolves
4. It is too late

Why are western companies both so scared and passive towards the new arrivals from China? From an historical point of view it is not new that a new competitor arises and participates with its own set of advantages in the global market. The question arises whether the rules have changed or if the situation is just perceived differently? Are the Chinese using a new set of tools that Western managers have never seen before, and more importantly; are their concerns really legitimate? One might argue that there is a need for Western companies to be able to see past their fear and actually recognize what strategies their Chinese counterparts are using. This will enable them to come up with counteract strategies and compete against them as any other global competitor.

Studies on strategic competitive behavior dealing with the development of the global economy are widespread in both academia and in the corporate world. Yet, are the similarities and differences between Western and Chinese companies in the global environment actually neglected? Also, can the evolutionary process of companies explain the competitive environment? By learning more about how both Chinese and Western companies compete, it might be easier for market leaders to know how they can be able to mitigate the impacts of the

new competition from emerging markets, in order to preserve their competitive advantage and sustain their positions as market leaders.

To investigate this phenomenon, we have decided to examine the sporting goods industry, which can be characterized as highly dynamic industry and a frequently changing business environment. In addition, the industry is extremely competitive and has up until now been dominated by Western players. The two companies chosen are Nike, Inc. and Li Ning Co., Ltd. Nike's ability to transform itself from an unknown newcomer and underdog to a market leader in the 80s has received a great amount of attention. Will the same tendencies be apparent with Chinese newcomers' evolutionary development, or do they use a completely new approach? Even though the external environment and the industry have changed, we would like to compare Nike and Li Ning's first strategies as newcomers and market challengers, and investigate if there really is a difference between "Just do it" and "Anything is possible". Therefore, we ask:

How does a Chinese company progress from a newcomer towards a global player compared to a Western company?

- **To what extent are the differences changing the competitive environment?**

1.3 Research Purpose and Objective

As the competition between Western and Chinese multinationals is heating up, a more comprehensive understanding of competitive behavior and the different companies' evolutionary process is needed to fully understand today's competitive environment. Research on how Chinese companies compete has already been conducted to some extent in hi-tech industries, such as the work of Zeng and Williamson (2007). However, our aim is to explore and illuminate the differences between Chinese and Western companies' competitive behavior, in an industry with a different character. Thereby, contribute to filling the research gap that exists with regards to the differences and similarities in strategic behavior of firms from different markets. The journey from transforming a company from being a newcomer to a market leader might reveal some interesting findings that competing firms will be able to use to their advantage. In our case, this involves an exploration of the characteristics of and comparison of both Western and Chinese multinationals' development process and thereby, also contribute to the research field regarding the evolutionary process of firms. By

enlightening the challenges and opportunities Western firms will experience, as new and unfamiliar competitors emerge, the practical implication of our study will provide Western managers with a more comprehensive understanding and new competitive mindset to the emerging competitors.

1.4 Thesis Disposition

The thesis structure follows a traditional academic approach and is divided into four core parts. The first part includes the introduction of the research field, the chosen research approach and design, which in turn defines the principles and methods that were applied in the development of this thesis.

The second part, which represents the third chapter, provides the reader with the theoretical framework for the upcoming analysis. The chapter reflects on literature on competitive strategies, learning and entrepreneurship, strategic intent, cost innovation and branding strategies, as well as on options for competitive positioning in the industry.

The third part outlines the empirical evidence of the study as the core of the project. First, the industry, its characteristics and the changes over time are presented. Subsequently, the two cases of Nike and Li Ning are described to provide the reader with a clear picture of the companies' path and inherent strategies to become a market leader. The two cases are then analyzed and explained by confronting the existing theories provided in chapter three with the empirical data.

The fourth and final part of the thesis illustrates conclusions regarding academic and managerial implications and the thesis's contribution to academia and its limitations are critically reviewed. This simultaneously sheds light on potential future research fields. Figure 8 in the appendix illustrates the thesis disposition.

2. Methodology

This chapter's aim is to illustrate the methodological choices as well as shed light on the reasoning behind the applied methods and techniques. Initially, the choice of research approach is discussed which is followed by a description of the pursued research design. Subsequently, the chapter demonstrates how the analyzed data is collected and simultaneously describes the process of data analysis. The chapter concludes with a discussion of the scope and limitations of the applied methodology.

2.1 *Research Approach*

In order to gain a holistic understanding of the complex situation of global strategic behavior, an initial literature review was conducted. It early became evident that there was little research regarding our topic of interest, as no theories completely explained and compared how companies from developing and developed countries emerge and evolve in order to become a global market leader. Based on the described research problem, it was decided to conduct a qualitative study in an exploratory manner. As suggested by Blumberg et al. (2008) this was the right decision as we from the beginning did not possess a finalized idea of the issues which needed to be explored during the forthcoming research process. Through our exploration of the sports industry and of the chosen companies, we started by refining the research approach by building up operational definitions, setting priorities and hence, developing the final research question: How does a Chinese company progress from a newcomer towards a global player compared to a Western company? And to what extent are the differences changing the competitive environment? Our approach was inspired by the abductive research approach which consists of a constant interplay between theory and empirical findings as proposed by Denzin (1978). Both empirical data and different theories were collected and evaluated throughout the research process. After gaining a holistic overview of the empirical data, the empirics were analyzed and thereby confronted with the different theories. As the interaction between theory and empiric data has been a continuous process, it enabled us to develop more precise concepts and to analyze and explore the research question in depth. These findings subsequently enabled us to develop our final conclusions.

2.2 *Research Design*

The evolutionary process of Western and Chinese multinationals within the sporting goods industry is a contemporary phenomenon, which has not yet received much attention from aca-

demia. Hence, a comparative case study design was chosen to approach this complex topic that is intrinsically bounded and highly embedded in the surrounding context. According to Merriam (1998:34), a case study is “an intensive, holistic description and analysis of a single entity, phenomenon or social unit”. Yin (2003) further argues that a case is an empirical analysis of a real life phenomenon, while using various sources of evidence, which provides the researcher with a good method of performing a qualitative study. To answer our research question, it is necessary to examine and analyze the content of a first case and compare those findings with a second case as typical procedure for a multiple case design. This multiple case design will use a literal and theoretical replication strategy to identify consistent patterns of behavior and to discover new and divergent themes (Blumberg et al. 2008).

Furthermore, when using an exploratory case study, the framework is created in advance; however, the fieldwork and data collection is performed prior to the actual definition of research questions and hypotheses (Tellis 1997). For our research, this implies that we focus on revealing interesting aspects related to the evolutionary process of Western and Chinese companies in the sports industry before coming up with the final research question and hypotheses. The reason to choose the sports industry for our study is related to the competitive situation in the sports industry between traditional MNCs and new competitors from emerging economies, which clearly contains several important aspects to answer our research question. Furthermore, the industry can be characterized as highly dynamic which implies a frequently changing business environment. The sports industry has also not yet been evaluated from this perspective, which leads us to the decision to analyze the contemporary phenomenon and increase the attention on the industry from the academic point of view.

To depict the industry as a whole and to gather a thorough understanding of its dynamics, it is necessary to select representative and challenging cases. Selecting suitable case studies is not an easy process, and Stake (1995) suggests that the selected cases should offer the possibility to maximize the possible learning outcome, given a limited time frame. To create a comparative case study that highlights the differences between Western and Chinese multinationals, the two market leaders from each region are selected, namely; Nike, Inc. and Li Ning Co., Ltd. In order to compare and evaluate the companies’ development and their applied strategies, a twenty year time frame is selected to create a measurement frame to achieve a reliable and consistent comparison. Nike, as our Western case study, started its evolutionary process as a newcomer in 1971, whilst Li Ning started its development in 1990.

Over these 40 years the external business environment has changed dramatically and both the difference in time and context will evidently be taken into consideration. Furthermore, based on the companies' size and their important role within the industry, we believe that these two cases will provide us with sufficient information to perform an accurate investigation to prove or disprove the validity of the phenomenon.

2.3 Data Collection

As both Nike and Li Ning are two big important players receiving a lot of attention from researchers, the media and the public in general, it was decided to choose the collection of information exclusively through secondary data in order to get a comprehensive understanding of the topic within the limited time frame. As suggested by Drea (2009), in a study of exploratory nature, secondary data plays a decisive role to define the research problem and generate the final hypotheses. Several cases based on secondary data actually provide a higher quality, as well as a larger set of information than any individual researcher could gather in a limited period of time on his/her own. Furthermore, Saunders et al. (2003) argue that the information gathered through secondary data has already been collected for previous studies and is reanalyzed for a different purpose. In our case, several researchers and authors have already conducted a variety of studies about the sporting goods industry and the involved companies. Many of these studies have collected information over several years as well as from different perspectives and purposes. These results are far more accurate than it would be possible to collect in the given timeframe through a small numbers of interviews or surveys. In addition, it is impossible to conduct a survey that can sufficiently capture past changes and differences, which is the main goal of this thesis. Moreover, the fact that we are performing our research on a company level, made us believe that secondary data would be the most appropriate.

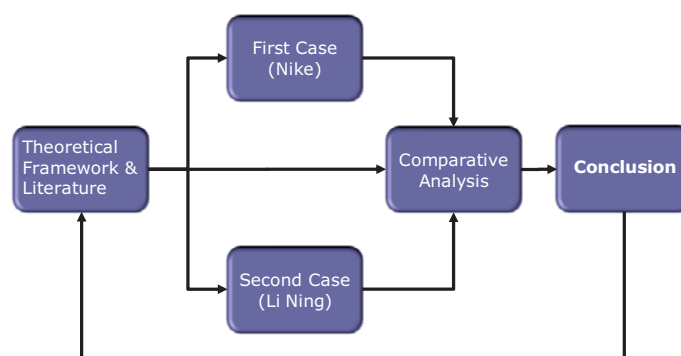
The secondary data was obtained through a variety of reliable sources. Books written by insiders in the industry and external authors, served as our "interviewees". These books provided us with the most detailed information regarding strategic behavior and the reasoning behind each company's decision. Furthermore, academic studies and journals available at the University of Gothenburg were used as high-quality sources for theories and analysis of the involved companies. Newspaper articles, company web pages, reports and annual reports served as a support complementary to the books and academic information. In the following, it is briefly illustrated how information was used and confirmed by the example of a text passage, which can be found on page 38 of this thesis: "Li Ning Ltd. was founded in 1990 by

the former professional gymnast Li Ning in the Guangdong province.” The underlying information for this statement has been taken from one of our main sources, i.e. the research paper “Li Ning - Anything is possible” written by Wathieu, Wang and Samant and published by the Harvard Business School 2007. After having gained this information, it was then confirmed by consulting Li Ning’s company homepage (2010) as well as by an online newspaper article, namely CRI (2008).

2.4 Evaluation and Data Presentation

To get a profound understanding of the complexity of the sports industry and of the case companies, the authors took several steps towards building the theoretical framework for describing and explaining the differences within the development process of Chinese and Western companies from being a newcomer towards becoming a market leader. In the first step, the developments of the two companies are presented in a descriptive manner while focusing on the most decisive internal and external events as well as strategic decisions that have affected the company’s metamorphosis towards a global player. Afterwards, the cases are analyzed in a comparative approach (Walk 1998). Further, the companies’ behavior and their strategic decisions are derived and analyzed by the support of the theoretical framework. By using a comparative case study approach, a thorough understanding of similarities and differences within the evolutionary process of each company was developed. This allowed the authors to answer the research question and contribute to academia. The following figure 1 illustrates the process and steps applied to present and analyze the data.

Figure 1: Analyzing the Data



2.5 Methodological Delimitation

When using secondary data, several aspects have to be considered. Firstly, the pre-existing data was collected for a different purpose; this implies that information is not always exactly

transferable or interpretable to answer the researcher's questions. Furthermore, the data quality is always a concern of the researcher since sources might not always be trustworthy. This can also be the case for official records such as governmental databases because the collected data is only as good as their records in terms of methodological validity and reliability (Mochmann 2005). Moreover, researchers are often reluctant to publish or share their "*less-than-polished early and intermediary materials, not wanting to expose false starts, mistakes, etc. particular in terms of qualitative information*" (Bishop 2007:2). These limitations can affect the researcher's ability to focus on his/her original research purpose as well as on the validity of the findings. Once we were aware of these delimitations, it was much easier to be critical towards the provided information and to select accurate data and reliable sources. In addition, we decided to follow the recommendation to look at a problem from multiple angles and search for legitimate support from additional sources (Blumberg et al. 2008).

As outlined, researchers that choose a case study approach are always challenged by the question of how valid and transferable the obtainable information is if examining only one or a small number of cases. According to Yin (2003), a generalization of collected data through case studies has only limited informative value. By drawing conclusions from a single case study, it must be pointed out that the results cannot be claimed as adaptive to every other case in the research field. However, the same author also states that an analytic generalization of a certain phenomenon is possible if the empirical findings are related to a theoretical conceptualization. Hence, empirical findings that are collected from a case study can be used in order to prove a specific theory. This technique is called analytic generalization. This does not imply that the empirical findings are representative for a whole population which would be a statistical generalization.

Therefore, the two case companies Nike and Li Ning and their analyzed evolutionary process and competitive behavior are not directly representative for any other company within the sports industry. However, with the empirical findings of this case study it is possible to gain a better understanding of the phenomenon of how Western and Chinese companies differ in their development. The reader of this academic study should consider this intention when reviewing and evaluating the study's contribution to academia. In order to gain a holistic understanding of our academic starting point we will now proceed with the theoretical framework.

3. Theoretical Framework

The purpose of this chapter is to present and discuss relevant theories and concepts that are applied in the analysis of this thesis. The theoretical framework helps deepening the understanding of the evolutionary process and the strategic behavior of our two case companies. The chapter will start with a broad theoretical description of competitive strategies and behavior, and evolve into a discussion of learning and entrepreneurship. Next, complementary theories concerning strategic intent, cost innovation and branding strategies are presented. Finally, as the basis for the evolutionary process and framework for the analysis, Competitive Positioning is explained.

3.1 *Competitive Strategies and Behavior*

The concept of competitive behavior has been a popular topic among researchers around the World for several decades, and is a field of study that is continuously evolving as the global competitive environment is becoming more and more complex. Given the importance of the competitive environment, several researchers have focused on the identification of the various competitive strategies that companies pursue in order to succeed. A recognized framework within this field of research is Porter's five forces and Porter's model of generic competitive strategies (1980, 1998, and 2004). Porter argues that from a company's point of view, the most important aspect of its competitive environment is the industry in which the company competes. As Porter quoted; the industry is the "arena" where the competition takes place. Different industries are comprised of companies that produce similar substitutes; however, the competitive environment has a common structure which includes the following five competitive forces:

1. Threat of new entry
2. Intensity of rivalry among existing firms
3. Pressure from substitute products
4. Bargaining power of buyers
5. Bargaining power of suppliers

Porter's five forces determine the industry's overall intensity of competition and profitability; the greater the strength of the five forces that affect firms, the lower the expected profitability in the industry. Hence, the "arena" is given, and it is up to the players how they will

strategically position themselves within the industry. If the company knows the strengths and weaknesses of each competitive force, it can implement offensive or defensive actions in order to place itself in a proper position against the pressure exerted by the different forces. Porter further argues that if a company pursues any of his three recommended strategies presented in his model of generic competitive strategies it will be able to outperform other competitors that do not follow these strategies (Porter 1980). The recommended generic strategies are “lower cost” or “cost leadership”, “differentiation”, and “focus”. “Focus” can further be divided in three variants; “cost focus”, “differentiation focus”, or “cost and differentiation focus”. In order to achieve above-average performance, Porter’s prescription is that the choices among the generic strategies are mutually exclusive. Hence, he advises companies to only pursue one of the three suggested strategies in order not to be “stuck in the middle”.

In the late 80s, game theory emerged as the predominant methodology for analyzing company strategy. Most of the research within the new industrial organization involves specifying a game among competing companies and solving that game in extensive form using the non-cooperative solution concept of Nash equilibrium or one of its modifications (Tirole 1988; Shapiro 1989). According to Shapiro (1989) using game theory to model strategic relations has the advantage of forcing the analyst to carefully evaluate his/her options and to be quite precise about the specific nature of competition. He further argues that game theory provides the only rational way of logically analyzing strategic behavior. This type of reasoning suggests that what a company does is strongly dependent on what its competitors do.

Researchers such as Wernerfelt, (1984) and Rumelt, (1984), on the other hand, argued that a company’s competitive strategy will not only depend on the industry and competitors positioning, but highly depend on the company’s available resources. The fundamental principle of the resource based view (RBV) is that the foundation for a competitive advantage of a company lies first and foremost in the application of the set of valuable resources at the company’s disposal. In order to gain a sustained competitive advantage these resources must be heterogeneous and not perfectly mobile (Barney 1991; Peteraf 1993). In effect, these resources turn into valuable resources that are neither perfectly imitable nor substitutable without great effort (Barney 1991). If these conditions hold, the firm’s bundle of resources can assist the firm sustaining above average returns. However, one can argue that very few, if any, situations fulfill these conditions.

3.2 *Learning and Entrepreneurship*

Through a series of studies, Kirzner (e.g. 1973, 1992) questions if the different strategic choices companies face can be viewed as given, or if they are best understood as being constructed through the entrepreneurial alertness of strategies. Foss and Mahnke (1998) further criticize Porter's generic model, game theories and the resource-based view on similar grounds. One of their critical points is that these three frameworks only explain companies' differences by relying on a given context or availability of resources. The studies do not consider other types of companies' differences, such as learning and entrepreneurship, which can include managerial change and innovation, which always are explained endogenously to the models. Based on these findings, the researchers highlight that the assumptions of "perfect competition" actually means the absence of all competitive activities such as advertising, undercutting and improving goods and services. Their conclusion is that even though these views provide managers with insight to competitive strategies, the models are all lacking disequilibrium explanations. Based on these findings, the models all suffer from what Foss and Mahnke call a "Market Theory Problem"; whilst the theories discussed are all formulated as equilibrium theories, the phenomena that they examine, that is the creation and sustainability of competitive advantage, can only be completely understood by a market process approach that emphasizes on the disequilibrium market process, and the importance of differential entrepreneurial cognition and insight into that process.

The KBV is a related extension of the RBV which highlights that companies differ in terms of their current knowledge and their potential in absorbing new knowledge (Hoskisson et al. 1999; Kogut & Zander 1992). In contrast to the RBV, learning and imitation is not only possible, but really a necessity for a company to gain a competitive advantage. Furthermore, referring to Cohen and Levinthal (1990), learning and innovation are explained by the firm's potential to acquire knowledge and use it for economically profitable ends. This potential is called "absorptive capacity", which is the ability of a company to identify the value of new, external information and knowledge, assimilate it, and then apply it to commercial ends in order to achieve a competitive advantage over its competitors. The absorptive capacity is very dependent on the company's sum of prior related knowledge (Hoskisson et al. 1999).

Based on these findings, we can relate the knowledge based view to innovation and entrepreneurship within a company. A company's absorptive ability can be the explanation for the degree of learning and entrepreneurship if three conditions are met.

1. Innovation occurs as a result of cumulative knowledge and learning.
2. As long as learning helps to build knowledge-based capacity, learning and knowledge-based capacity are important elements that lead to innovation.
3. There is a strong correlation between innovation and entrepreneurship, and such explanations of innovation could similarly extend to entrepreneurship.

When it comes to entrepreneurship, Cullum, Padmore and Purdy (2002) state that the entrepreneurial behavior is often influenced by a person's character as well as at least derived from the cultural background of the respective person. The authors highlight three different entrepreneurial models that illustrate the range of ways countries or regions can create conditions that support entrepreneurship. The "Free Market Model" implies that the external environment influences the entrepreneur by providing basic conditions, e.g. in terms of infrastructure, which are necessary for an entrepreneurial culture to flourish. Further, the role of the government is quite limited in a free market, which results in a relatively huge freedom of action for entrepreneurs. This model normally thrives in a culture which highly rewards the success of entrepreneurship (Cullum et al. 2002), i.e. the reward for success is significantly higher than the potential blame somebody would experience for a failure when taking an entrepreneurial risk. The second model is the so called "Guided Individualism Model". This model is built on the encouragement of individual enterprise. The main distinction from the first model is the significance of public policies. The government and established policies focus on industrial sectors with a high growth potential, and provide them with strong support. Examples for typical countries, in which this model can be applied, are Singapore and Taiwan. Finally, the "Social Democrat Model", is most common in countries such as Germany and Sweden and can be best described as a combination of the first and second model (Cullum et al. 2002).

3.3 Strategic Intent

In addition to Foss and Mahnke (1998), other researchers had already started to criticize the use of equilibrium models. Hamel and Prahalad (1989) for instance, expressed that Western equilibrium models actually limit the strategic options managers are willing to consider. This means that they often yield predictable strategies that rivals easily decode; hence, strategic recipes limit the opportunities for competitive innovation. As we have seen, most competitor analysis focuses on the existing resources, i.e. human, technical, and financial, of present competitors. The only companies interpreted as real threats are those with the resources to

reduce profit margins and market share in the future. However, the pace at which new competitive advantages are being created and how is rarely examined. Hamel and Prahalad (1989, 1994) further recognized that the companies that had risen to global leadership in the 70s and 80s began with high ambitions that were out of all proportion to their actual resources and capabilities. However, they created an obsession with winning at all levels of the organization and then sustained this obsession over the 10- to 20-year pursuit for global leadership. Hamel and Prahalad (1989, 1994) term this obsession “Strategic Intent”. Strategic intent envisions a desired leadership position and the establishment of the criterion the company will use to chart its progress. However, this intent is more than just a theoretical ambition. The notion also includes an active management process that embraces: focusing the organization’s attention on the spirit of winning, motivating employees by communicating the value of the goal; allowing individual and team contributions; keeping enthusiasm high by providing new operational definitions as conditions change; and utilizing intent consistently to guide resource allocations. As one can imagine, strategic intent involves a considerable stretch for an organization. The available capabilities and resources will not be enough compared to the existing global leaders. This forces the company to be more inventive, flexible and creative, with the intention of making the most out of its insufficient resources. Whilst the traditional view of strategy focuses on the fit between the existing resources and opportunities, strategic intent forms a severe misfit between resources and ambitions. Hence, the top management will need to challenge the organization to reduce the gap between resources and ambition by systematically building a new set of advantages. A company’s challenges are to analyze competitors as well as the anticipated pattern of industry evolution. The combination of the two has the potential to reveal possible competitive openings and also identify new skills that the organization will need in order to take the initiative away from better positioned competitors. A company’s ability to improve existing skills and obtain new ones is according to the researchers the most defensible competitive advantage of all.

With the purpose of achieving a successful strategic intent, a company must generally take on larger, better financed and well-positioned competitors. That includes cautiously managing competitive actions so that limited resources are conserved. However, imitation can only take you so far. It is not desired, and most often not possible, for managers to play the same game better, by only making minor improvements to competitors’ technology and business practices. Instead, companies must fundamentally change the game in ways that will disadvantage the current leaders; creating new approaches to market entry, advantage

building, and competitive rivalry. For smart competitors, the aim is not competitive imitation but competitive innovation, which can be viewed as the art of containing competitive risks within manageable proportions. Companies that are afraid to commit to goals that lie outside the range of planning are unlikely to become global leaders. Hamel and Prahalad (1989, 1994) noticed that several Asian companies had been more successful than Western companies when it comes to creating new resources in a quick manner. Whilst Western managers were more concerned with today's problems than tomorrow's opportunities, Asian companies were observed switching arenas and changing the rules of the game in the industry they were a part of. Some companies even combined cost focus with differentiation focus, which according to Porter should have been a corporate suicide. Hamel and Prahalad (1989, 1994) especially emphasize on the Japanese companies' ability to think outside the box and approach global leaders in a completely new way. Four different approaches to competitive innovation that were apparent in the global expansion of Japanese companies were highlighted. Namely; building layers of advantage, searching for loose bricks, changing terms of engagement, and competing through collaboration.

3.4 Cost Innovation

Cost innovation is the Chinese multinationals' secret weapon, according to Zeng and Williamson (2007). Whilst Western companies most often outsource low-value activities and keep core competencies in their home country, Chinese multinationals, or Chinese dragons as Zeng and Williamson label them, use cost innovation to utilize the low cost labor advantage across the complete range of activities, including design, R&D, engineering, and administration. This provides the MNCs with lower over-all costs, and higher profit margins. Furthermore, the Chinese dragons search for peripheral market segments that the global leaders often ignore because of low potential volumes and profit margins. The Chinese companies exploit their cost cutting experience to meet the demands of cost-conscious Chinese customers to develop products and markets to fit these new segments. The low overall costs enable the Chinese to create profits in markets and segments where their Western rivals are unable to. Zeng and Williamson (2007) state that the dragons search for loose bricks in their competitors defenses. Once a few bricks are gone, the entire wall starts to look unstable. In addition, these Chinese dragons are good at imitating their Western competitors' behavior, and their goal is to further improve upon the basic formula and eventually disrupt the competition for the Western players. In order to imitate and improve

the given formula of competitors, the dragons often acquire the technologies and strategies needed and then develop those several steps further. At the same time, these acquisitions also enable the Chinese to grow and achieve big economies of scale in an early stage and even as a domestic company. Furthermore, as most Chinese dragons start by establishing a strong position in the Chinese market, the ones who survive the domestic competition are often superior and have well-honed skills in trimming down costs and squeezing the maximum benefit from limited resources. This leaves the dragons well-positioned to attack Western competitors and global markets. A Western competitor that avoids battling the new emerging competitors on their own territory in China are left in front of a totally unfamiliar competitor and will eventually be their downfall.

By taking advantage of these combined benefits, the Chinese companies have the potential to leverage low-cost R&D into the mass market and provide both new and existing customers with the variety of products as their competitors, but at a lower cost. Western global leaders often try to shift up to high-end and niche segments to differentiate themselves from the emerging competitors. However, in most industries this is not a smart move as the firm will lose volumes that are needed to maintain economies of scale and high R&D expenditures. Hence, the dragons are currently disrupting global competition with their cost innovation. This has above all been noticeable in high-tech industries and it is just a matter of time before it will happen in every industry. *“The cost innovation science; it’s clear that cost innovation is not rocket science, but still a powerful competitive weapon with the ability to disrupt global markets.”* (Zeng and Willisamson 2007:87)

3.5 Marketing Mix and Branding Strategies

Once a company has decided how and where to establish its competitive position in the industry, it has to plan and implement details of its marketing mix. One of the most acknowledged conceptual frameworks is the so called “Marketing Mix” (McCarthy 1960; Waterschoot & Van den Bulte 1992; Harvey et al. 1996). It contains a set of controllable and tactical marketing tools that can be used to influence customer behavior and demand. Further, the marketing mix is useful to distinguish products from competitor products and to emphasize on the respective product’s benefits. The firm’s options can be classified in the four categories known as the “four Ps”: product, price, place and promotion (Blattberg et al. 2001). Figure 3 displays possible marketing instruments grouped under each of the four categories.

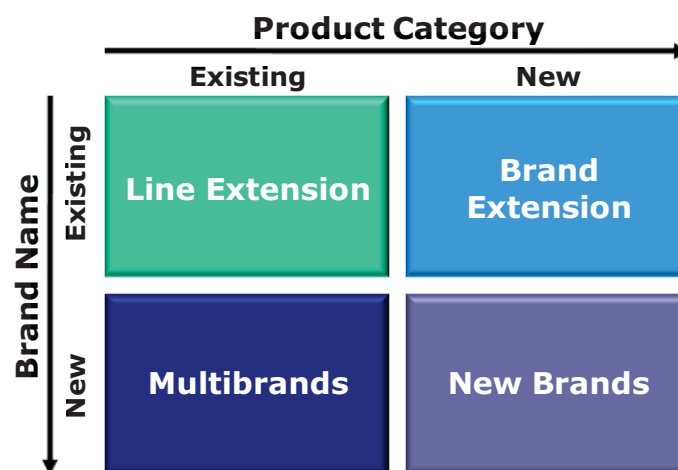
Figure 2: The “four Ps” of the Marketing Mix (Authors’ own based on Kotler & Armstrong 2001)



The products and services offered by a company represent the core of any business activity and the basis for business success. The product category includes every consideration and decision as well as action which is directly related to the combination and variety of attributes regarding products. This includes the offered range of products as well as its quality, packing and design (Esch et al. 2008; Kotler & Armstrong 2001). When it comes to product innovations, two aspects are eminently important: the range or variety of products and the depths of products. Companies that act as full-line providers focus on variety, whilst companies that focus on product depth are so called specialist providers (Esch et al. 2008). The price category includes all aspects regarding a product’s contractual terms and conditions. In addition, terms and conditions of payment and delivery as well as discounts and general pricing policies are parts of the price category, which again highly depend on supply and demand. In terms of pricing policies, two main options can be chosen; cost leadership and differentiation (Homburg & Krohmer 2006). The third “P” is promotion and includes mainly marketing tools and instruments a firm applies to communicate and present its products. Such marketing tools are advertisement, branding, participation in fairs, public relations, corporate identity and everything that has the potential to influence a product’s sale and distribution (Esch et al. 2008; Kotler & Armstrong 2001). The last P is place, which includes any decision affecting the distribution strategy of a product. Most important in this category are the distribution channels, locations and the availability of the product (Homburg & Krohmer 2006).

For the upcoming analysis, it is necessary to emphasize the importance of branding and building a worthwhile brand reputation. One of the most effective instruments to distinguish a company or a specific product from the competitors is the creation of a unique brand image. A brand can be a name, logo, term, or design or a combination of these, that relates or identifies the producer or distributor of the good or service. A good brand can add value to a product since customers associate the brand as a part of the product. Consumers associate these brands not only with a regular product; rather it is further related to a lifestyle and to something regarded as special. This brand reputation has to be built over several years and is often the main reason why customers are willing to pay a premium price (Kotler & Armstrong 2001; Keller 1998). Regarding branding strategies; companies have mainly four different choices; line extensions, brand extensions, multi brands and new brands. Figure 4 illustrates these strategic choices.

Figure 3: Four Brand Strategies (Authors' own based on Kotler & Armstrong 2001)



A line extension is to introduce new items in various sizes, forms or flavors to an already well established product category. A typical reason for companies to use line extensions is to reduce costs and risks of new product introduction (Tauber 1981). Newly introduced products are used to meet the customer's desired demand for variety, to exploit production capacity or to engross the shelf space in retailer stores. However, the line extension strategy might also have some negative effects, as a brand that is used for a huge number and variety of products runs the risk of losing its unique image and reputation.

The strategy of brand extensions, by contrast, implies that existing brand names are used for new products in additional market segments, which require strong distinct brands to

successfully launch new products in a new market segment. The brand extension strategy has several advantages such as instant recognition and acceptance of an already familiar brand. Furthermore, due to the already existing brand awareness, cost intensive advertising campaigns to build up a new brand are not required (Keller 1998; Tauber 1981; Kotler & Armstrong 2001).

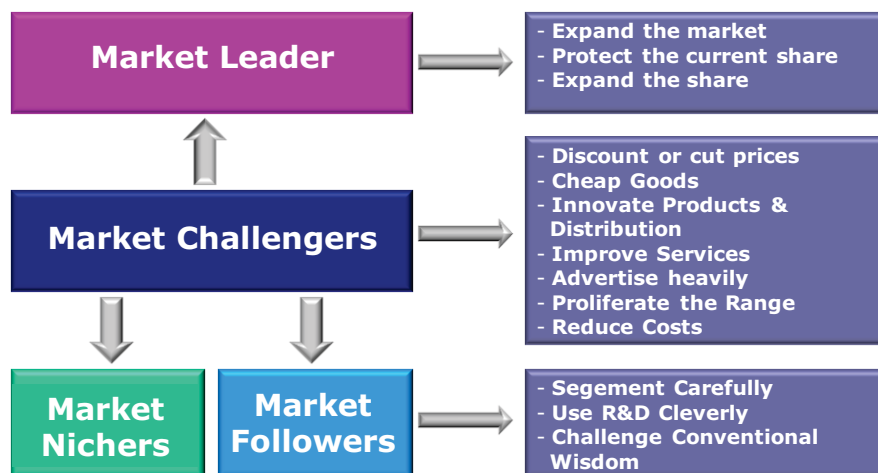
The introduction of new brands in the same product category is classified as a multibrand strategy. This strategy provides the firm with the opportunity to establish different features or incentives applicable for various consumer buying motives. The strategy is also often used to demand more shelf space from retailers and to establish so called “flanker” or “fighter” brands to protect the major brand of the company. As an example, companies often establish a low cost brand or high end brand in addition to their mainstream brand in order to avoid the competition with other firms and to protect their own market segments. A potential danger is that the respective company might spread its resources over several brands instead of concentrating the resources on building one or a few strong as well as highly profitable brands (Kreutzer 2009; Kotler & Armstrong 2001).

The strategy of creating new brands is often used by companies that enter a completely new product category for which none of the current brand names seem to be appropriate. Another reason for integrating a new brand can be that the company obtains the existing brand name of a newly acquired competitor. The problems arising with this strategy are similar to the ones with the multibrand strategy as the company’s brand portfolio increases and the allocation of resources tends to become uneconomic (Keller 1998; Kotler & Armstrong 2001).

3.6 Competitive Positioning

The field of “Market Competitive Positioning” has been thoroughly investigated by Wilson and Gilligan (2005), who developed a conceptual model including four different types of market competitive positioning. These are namely market nichers, followers, challengers, and leaders. Each type of competitive positioning is defined through various key strategies and options. These are related to a range of factors such as an organization’s objectives and resources, managerial attitudes to risk, market structures, the organization’s market position as well as the competitor’s strategies (Wilson and Gilligan 2005). Figure 2 displays these four market competitive positions, which are further discussed in the following sub sections.

Figure 4: Market Competitive Positions (Authors' own based on Wilson and Gilligan 2005)



3.6.1 Market Nichers

Every industry has a number of firms that are specialized in specific segments of the market, that are too limited in terms of size and potential to be interesting for the big MNCs. By focusing their efforts on such niches, the companies are able to build up expert knowledge and avoid costly and hard competition with larger firms. These niches are often related to luxury goods, high end or highly specialized products which are targeting a small customer group. These market segments are often totally ignored by major MNCs until smaller firms discover and explore them. Furthermore, these niches and the connected new target groups are mainly located in certain geographical areas and demand for specialized products in terms of quality, features and price. During the first stage of niche markets, the exploring companies have the chance to build up a strong brand reputation, which leads to a strong customer relation and loyalty. This significant customer relation can be crucial for comparably small companies in their competition with MNC giants since it helps defending attacks and supports successfully conducting business in their niche (Wilson & Gilligan 2005; Kotler & Armstrong 2001).

3.6.2 Market Followers

Market followers often represent the majority of the market and their collective market share normally accounts for approximately 20-30 percent of the total sales. Typically market followers are unlikely to engage in a head to head competition with the market leader or its immediate rival. Market followers have a more passive stance and put the focus on protecting and maintaining their market share (Baker 1998; Wilson and Gilligan 2005). They are usually

less proactive than other market participants and most often adopt or imitate operations, products and trends of leading firms. However, that does not imply that followers are avoiding competition. Rather they concentrate on competing with firms similar in size and resources. Since economies of scale often is an advantage primarily accessible for major companies, followers have to be especially efficient and careful in their marketing and service policies. Moreover, it can be distinguished between three different ways of following the market leader. The follower may follow at a very close range, at a distance or may follow selectively. All three ways of following vary in the level of imitating the market leader. This begins with using a similar marketing mix and offering a comparable product portfolio and varies up to the extreme in which business operation become virtually identical. Today, especially companies from emerging markets can be identified as followers in many industries. In these cases, several business operations including advertisement, branding and products can be identified as very similar or almost identical to business operation of market leaders (Zeng and Williamson 2007). A decisive advantage of the market follower is the avoidance of cost intensive operation in R&D because they simply copy the best products. According to Levitt (2008), a strategy of imitating the bestseller products can often be as profitable as a strategy of innovation.

3.6.3 Market Challengers

Market challengers are usually companies that have slightly smaller market shares than the market leader and are able to adopt several strategies simultaneously. The market challenger's interest is always to aggressively attack other firms or the market leader in order to increase its market share and to achieve a more dominant market role (Kotler & Armstrong 2001). According to Dolan (1981), strategies used by the market challenger to directly attack the market leader are financially intensive and contain a high risk of failure. In business, an often used practice to attack the market leader is the deployment of a so called frontal attack by comparing products and pointing out strengths and weaknesses. The communicated message in a frontal attack is very obvious and clearly highlights the benefits of its own products. However, such frontal attacks lead in almost every case to a counterattack by the tackled firm. Furthermore, the market leader usually possesses a larger financial resource. Consequently, this repelling company can often parry and in many cases even encircle the attacking market challenger. Another strategic option for the market challenger to attack the leader is the so called flank attack. This implies that the challenging company is attacking the leading firm in

a geographically or otherwise specified market segment where the market leader has no or only little presence. A further option to attack the market leader less aggressively is the bypass attack. This strategy is often long term and future oriented (Kotler & Armstrong 2001; Sun Tzu 1971).

3.6.4 Market Leader

The market leader of an industry has a dominant competitive position and the highest annual revenue. Typical characteristics are inter alia the largest market share, intensive advertisement, high density of distribution coverage and technological advancement. The leader's activities in terms of pricing and advertising intensity often create a benchmark and influence operations of other competitors. A market leader differs to other market participants in its ability to launch frequently cost intensive marketing campaigns to promote new products as well as to explore and set up trends.

Three key strategies for a market leader are identified by Wilson and Gilligan (2005). The first strategy is the expansion strategy, which can be applied in several ways. As a first possibility, the market leader is looking for opportunities to respond to a larger group of potential buyers. Another way is to identify new application areas for existing products. As an example, companies expand into flanking market segments which can be supplied with similar or minor modified products. Finally, the strategy can be used to enhance the usage rate of products by developing new and advanced applications or features for existing products. The second key strategy identified by the authors is to focus on maintaining its own market share, by concentrating its efforts on enhancing its own competitive advantage. In this strategy, advertisement, brand reputation as well as strong distributor and customer relations are essential. The third strategy in order to remain the market leading position is connected with activities to increase a company's own market share by improving distribution channels, as well as offering price incentives and new innovative products. In addition, over the last two decades, mergers and acquisitions have been a frequently used strategy to increase market shares and eliminate competition (Wilson and Gilligan 2005).

4. Empirical Data Collection

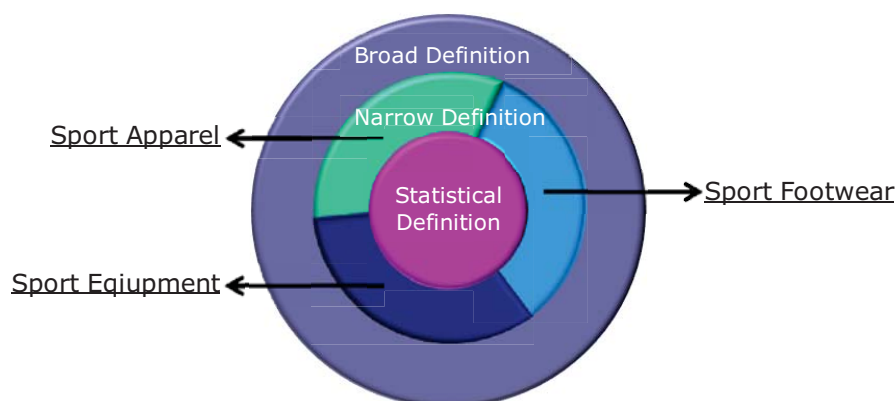
After having presented the theoretical framework, the empirical data is to be introduced. First, the industry profile will provide the reader with a definition of the global sports industry as well as the industry's development and characteristics. Second, as the basis of the comparative case study, the two cases of Nike, Inc. and Li Ning Co., Ltd. will be presented. The evolutionary process of the two newcomers progressing towards market leadership will be thoroughly explained. The fact that the two cases appear in two different time periods and with different external environments, are taken into consideration in our comparison.

4.1 Industry Profile

4.1.1 Definition of the Global Sports Industry

It is rather difficult to clearly define the sports industry, and the main question is where to define the border and on which part of the whole sports industry the thesis will focus (Gratton and Taylor 2000). In collaboration with the research institute "Sports Econ Austria", the "European Working Group on Sports and Economics" compiled a standardized definition of the sports industry in order to determine the economic impact of sports. The result was the "Vilnius Definition of Sport", which is divided in three categories and serves as a basis for stakeholders to derive statistical information on a standardized European classification, as illustrated in Figure 5.

Figure 5: Vilnius Definition of Sport (Authors' own based on FESI 2010)



The narrowest view is the so called statistical definition of sport which only includes sports facilities such as swimming pools and professional sport organizations. The second definition of the economic sports sector includes all industries which are producing goods that are

necessary to perform any sort of sports activity. This is called the narrow definition and includes everything from a tennis racket or sport shoes to a sweatband. Within the narrow definition, the industry is split into three main segments; i.e. sports equipment market, sports footwear market and sports apparel market (SportsEcon Austria 2007). Finally, the broad definition of sport includes every industry for which sports are important as an input, such as television broadcasting (SportsEcon Austria 2007; FESI 2010). The case companies Nike and Li Ning are both active in all three segments within the narrow definition. Consequently, the narrow definition within the Vilnius framework is the most appropriate to use for this study.

4.1.2 Development of the Sports Industry

Over time, the sports industry has generated a highly dynamic character and has simultaneously developed some significant characteristics. From its early beginnings until the beginning of the 70s, the sports industry was primarily defined by sporting goods equipment and shoes, while apparel was largely limited to uniforms and some casual wear for athletes and coaches. Besides, the fitness market was still very small and existed mostly in a limited number of retail fitness clubs; and the home market was almost non-existent. At this time adidas and Puma were dominating the footwear and limited apparel market, while companies such as Wilson, Spalding, Rawlings, and Dunlop were the leading equipment companies (Lipsey 2006). The secret behind Puma and adidas' success in the global market in the 70s was their network of relationships, widespread distribution, commitment to great athletes and engagement in sports politics. Furthermore, in the 70s, licensing sales were still limited; professional and collegiate league offices, which now dominate licensing programs, were negligibly involved in licensing, which at that time was managed locally by each team. However, this setting started to change once the Olympics changed from being a competition for amateurs into becoming an arena for professionals in 1980, and the processes of attaining the right endorsement contracts and sponsorships changed dramatically. The growing importance of the mass media created the issue of corporate sponsorship and commercialization of the Games (Lipsey 2006; Andreff & Szymanski 2006).

Since the mid 70s; it became more and more common for nearly all production of athletic apparel and footwear, to be manufactured in foreign countries, primarily in the Far East. Since the beginning of the 80s companies have been continuously searching for new locations for production that provided them with a long term low cost advantage. Consequently, an increasing number of firms applied the so called light asset based model to survive the fierce

competition. The light asset based model involves outsourcing product manufacturing, retail and distribution businesses, and enabled the companies to concentrate their efforts on design, research and development, as well as on sales and marketing strategies. This generated higher rates of return with lowered investment input (Cheung 2007).

In the 80s and early 90s, the importance of the sports industry experienced an even bigger growth than in the 70s, much due to the foundation laid by the companies in the previous decade. Whilst the equipment market continued to grow, athletic apparel and footwear sales continually became a bigger part of the industry and product lines continued to increase. This was mainly connected to a rising awareness of the industry's huge economic potential and was highly triggered by scientific European studies, estimating the economic importance of sport for the first time (Gratton and Taylor 2000). In addition, major drivers for the expansion of the industry were the broad and ever increasing customer base and its changing behavior. The demand for sporting goods started to reach new and extraordinary levels as an increasing number of people got involved in both sports and fitness activities, and the fact that sporting brands increased their product range by attracting new customers and creating new segments. Furthermore, the growing interest for live events and broadcasting of sporting events contributed to the expansion of the industry at the same time as it had a positive spillover effect on the demand for sport equipment, footwear and apparel (Andreff and Szymanski 2006). In addition, promotional efforts became a crucial part of a company's growth and marketing companies continuously developed new ways of commercializing and distributing activities and goods related to sport. These promotions have been accelerating for the entire industry ever since.

The companies involved in the sports industry have more or less constructed the industry over time, which was especially true during the 90s and over the last decade. Firstly, the industry was constantly embossed by frequently changing trends in terms of design and technology. Thus, to stay on top of the market it was required to prevalently develop innovatively designed products. Secondly, the innovation of new products with the purpose of achieving increased quality as well as the ability to improve the user's sport performance became even more essential. An example is adidas' current partnership with Samsung in producing shoes with an integrated micro chip, which transfers wireless biometrics to a phone scheme on an adidas branded mobile device and displays facts and statistics. Nike is undertaking a similar venture in collaboration with Apple (adidas Group 2010; Nike 2010) Thirdly, market

participants in the industry were not only relying on innovations in design and technologies, but also continued to constantly search for new business segments that were related to their core business. Fourthly, big and noteworthy mergers and acquisitions were very apparent in the late 90s and during the first decade of this Century. Nike for instance acquired Hurley International and Converse, while adidas acquired Reebok. These types of acquisitions, made the already well established players even bigger. Furthermore, with the new information technology available, it became more and more popular to create company websites and online shops, where the customers could buy products directly. Last but not least, marketing budgets continued to rise to extraordinary levels as brand reputation and image had an increasing impact on the company's sale. Nike, for instance, has over the recent years spent 11-13 percent of its revenue on marketing (Nike Annual Report 2008), which means that they spent at least USD 2.1 billion in 2009.

4.1.3 Industry Characteristics

The sporting industry is characterized by a wide range of consumer products, and the popularity of the different sports and fitness activities in combination with changing design trends affect the demand for various products. The athletic footwear, apparel and equipment industry is extremely competitive on both, country and worldwide basis. Most competitors compete internationally, which creates a significant number of large sports related companies having diversified lines of athletic shoes, apparel and equipment. Not only do companies within this industry compete with each other, rather they also compete with other companies for the production capacity of independent manufacturers that produce their products and for import quota capacity. Product offerings, technologies, marketing expenditures, pricing, costs of production, and customer service are all areas of intense competition for the companies within the industry. In addition, rapid changes in technology and consumer preferences constitute significant risk factors in each competitor's operations. If a competitor is not able to anticipate and respond to their competitors in a timely manner, the company's costs may increase or the consumer demand for its products may decline considerably (Nike Annual Report 2009; Lipsey, 2006; Robinson et al. 2001; Andreff & Szymanski 2006).

As already mentioned, the sports industry has grown to become a very competitive and established market, it has also become a capital intensive industry. The current leaders of the industry have controlled and developed the industry over the last decades, and are very well established in the market. Hence, smaller brands and new competitors have not been able to

steal large market shares from the leaders and the competitive environment has hindered the entry of new entrants. Another major reason for the lack of newcomers within this industry is connected to advantages of economies of scale. In order to be in the forefront of competition, a company needs to be able to compete at all levels, including efficient production, reasonable pricing, and high product quality. The combination of these three characteristics is so to say impossible to achieve without having the resources of an already established manufacturer. This means that in order to succeed in the global market today, a company would need time to develop such resources that will allow such economies of scale. Another main obstacle to entry for new competitors is the access to traditional distribution channels. Retailers would prefer to have the leader dominate their shelves, rather than new and risky brands that are not yet established on the market. On the other hand, these barriers are currently losing their importance due to the increased use of e-commerce. The starting costs that earlier was related to traditional retail distributors are currently being significantly diminished. Newcomers are today able to slide into new markets without high startup costs concerning sales and distribution. The sports industry has seen a huge inflation with regards to sponsoring contracts for television broadcasting, Olympics and endorsement contracts. The bargaining power of clubs, athletes and events is increasing. Due to the high competition, the athlete/event can choose among several strong competitors and hence, easily threaten to pick the brand with the best offer. For one thing newcomers most often cannot afford these types of contracts, but for the other, it is almost impossible to penetrate these contracts as the established leaders already have signed expensive and exclusive contracts that hinder other companies to take part (Dogiamis and Vijayashanker 2009; Robinson et al. 2001).

The sports industry is highly embossed by a large variety of substitutes, which is especially significant in the apparel segment. The price differentiation of products in the sports industry is low, which facilitates the possibility for consumers to change from one brand to another. Moreover, athletic footwear is often seen as a premium price product, which reflects that customers are willing to spend a higher amount of money as the shoe is of a higher quality. This indicates that consumers of the sports industry want to buy high quality and high valuable products. The high number of potential substitutes and the marginally low switching costs demonstrate a strong bargaining power of the consumers (Dogiamis and Vijayashanker 2009; Andreff and Szymanski 2006).

In addition to being highly affected by the companies involved, the sports industry is also a subject to several external factors that influence the success of the company. Over the last decades, companies have had to adjust to new methods, demands and ways of doing business. Five factors have had the biggest impact on the industry: changing fashion trends, changing cultural trends; political, social and pricing pressures of overseas production; seasonal and weather factors; and the behavior of athletes (Lipsey 2006). First and foremost, the sportswear industry is a fashion market in which consumer behavior and preferences can change drastically and quickly. Both contracts and popularity can be very unstable, which has the potential to generate fluctuations in revenue and profitability (Cheung 2007). Furthermore, the fact that almost all of the companies involved in the sports industry use the light-asset based model and outsource most of its activities, has created an industry that is very vulnerable to political, cultural and economic developments in these host countries. One aspect of this issue is the social and labor pressures concerning wage levels, child labor and gender. In addition, corporate social responsibility and code of conduct have over the years become an important part of a company's promotional efforts in order to avoid bad reputation. Seasonal and weather factors have annually affected companies within the sports industry. However, this aspect most likely affects every company to the same extent, and does not create big changes in the competitive environment. Athlete endorsement is the primary promotional medium used to sell nearly all sport products, whether it is in advertising, through personal appearances, or by the athlete using a sponsor's product while competing. Despite the fact that endorsement contracts are seen as the most efficient way of promotion, athlete behavior has always been a two-edged sword. No company will ever be guaranteed that its athletes will only provide them with positive spillovers. Problems occur when athletes violate laws, lack emotional appeal, do not perform as expected or suffer from long-term or permanent injuries. A perfect and recent example of this is Tiger Woods scandal in 2010. Whilst companies like Accenture fired Woods from his endorsement contract, Nike decided to stick by his side, and even use Tiger's regret in a new commercial (O'Neill 2010). It is yet to be seen if this will hurt or benefit Nike in any way. Sporting goods companies are constantly seeking ways to adapt new technologies and new materials from other sources to produce more effective and higher quality sporting goods products. Successful sporting goods companies are able to combine finely tuned awareness of athlete needs with awareness of the latest developments in technology that might have applications to their sporting goods (Lipsey 2006). Now that the industry profile is presented, the sequential step is to present the two cases of Nike and Li Ning's evolutionary process within their given 20 year time frame.

4.2 *Nike's Evolutionary Process (1971-1991)*

The following case of Nike, Inc. is based on the information provided by a large set of sources. Most of the information is derived from the wide-ranging books written by Hollister (2008), Smith (2006) and Strasser and Becklund (1993). Information collected from these three sources is then confirmed in books (Lipsey 2006), annual reports (Nike 1983-1991), research publications (Spence 2008; CFAR 1998), newspaper articles (Balfour 2008), competitors websites (asics 2010, adidas 2010, Reebok 2010, Puma 2010) and Nike's official websites (Nike.com; Nikebiz.com 2010). Quotes are noted with both author and page number in the text.

4.2.1 *The Early Years*

Phil Knight was an American student at Stanford and a promising athlete on the school's track and field team. In 1962, he wrote a business paper that asserted that high performance, low-priced and well merchandised exports from Japan could eliminate the German domination of the U.S. athletic shoe industry. In 1964, together with his track and field coach Bill Bowerman, he started to import running shoes from Japan through the company Onitsuka (now ASICS), under the name Blue Ribbon Sports (BRS) based in Beaverton, Oregon. Whilst Knight sold the shoes wherever and whenever he could, talk to athletes and demonstrating their high-quality craftsmanship, Bowerman was busy making adjustments and improvements to the original Onitsuka Tiger shoe. A Bowerman-redesigned Tiger shoe, called the Cortez, became a best-seller with enthusiasts and soon caught on across the United States and made the six-year-old company a success. Based on Cortez sales, Bowerman and Knight decided they were ready to design and manufacture their own brand of sport shoes. The analysis of Nike's path in becoming a market leader starts here. We will now explore how Nike was able to develop and market themselves from an unknown underdog to the global market leader from 1971-1991.

In 1971, BRS started to manufacture its own products overseas through different sub-contractors and the Nike brand and the Swoosh logo were introduced as a special line within Blue Ribbon Sports. The company took its name from Nike, the Greek goddess of victory. The famous Swoosh that eventually has come to signify Nike was created by a graphic-design student from Portland State University (see appendix figure 9). The first shoe to carry this design that was sold to the public was a soccer shoe named "Nike", which was released in the

summer of 1971. Nike repeatedly stated that they had entered the business for one single purpose: to beat adidas. adidas on the other hand did not consider Nike a threat, despite warnings from its American distributors.

“Blinkered by their competition with Puma, the adidas technicians were not prepared to regard any company as a serious contender” (Smith 2008:190).

4.2.2 Make the Jump

In the early 70s, as BRS started to develop its own Nike shoes, the relationship with Onitsuka was starting to fall apart. Bowerman and Knight were now ready to make the jump from being just a footwear distributor to actually designing and manufacturing their own brand of athletic shoes. In February 1972, BRS introduced its first full line of Nike shoes and during that same year the Nike brand was promoted for the first time during the U.S. Olympic Trials. In addition to providing athletes with running shoes, Nike also made t-shirts with a big Nike logo on the back. Beginning with Ilie Nastase, the first professional athlete to sign with BRS/Nike, the sponsorship of athletes became a key marketing tool for the rapidly growing company. In the beginning, it was all about relationships within the sports of running. Nike knew they could not compete with adidas' high budget to attain endorsement contracts, so they would have to rely on contacts and relationships within the industry. Nike was able to win over promising athletes by being “one of them” and using its goodwill in the track and field community. In addition, by involving its athletes in developing the perfect shoe for each athlete, Nike was also able to please difficult customers, which eventually became an important part of its innovation and progress. Nike was especially interested in athletes that were unhappy with their collaboration with adidas. According to the Nike employees involved in the process, the athletes had more in common and could identify themselves with Nike employees.

4.2.3 Creativity

“Bowerman’s ceaseless creative urge-whenver he observed a problem; he had to come up with a way to address it” (Hollister 2008:45).

After the University of Oregon resurfaced the track at Hayward Field, Bowerman began experimenting with different potential outsoles that would grip the new urethane track more effectively. His efforts were rewarded when he poured liquid urethane into his wife’s waffle

iron. Bowerman developed and refined the so-called ‘waffle’ sole which would evolve into the now-iconic Waffle Trainer in 1974.

Another example of a creative effort with great results appeared when Phil Knight was extremely frustrated with American banks which would not secure him with a business loan. He looked for alternative options and through the bank of Tokyo, a trading company called Nissho Iway introduced BRS to import letter of credit. This way of financing laid the early foundation for the company’s future rapid growth. Another financial creative effort that was introduced later was the use of futures. These allowed retailers to order five to six months in advance of delivery with the commitment that their orders would be delivered within a set period at a fixed price. The futures ordering program allowed Nike to minimize the amount of products held in inventory, purchasing costs, time necessary to fulfill customer orders, and the risk of non-delivery. adidas had at this time big troubles with both non-delivery and inventory problems.

4.2.4 Internationalization

Nike took advantage of foreign markets right from the beginning, by not only producing shoes in foreign markets but also taking advantage of international banking systems and relationships. Nike’s international sales process started to develop in 1972 with products being sold to Canada. However, the real international distributor process started when Nike expanded its sales operations to Australia, South America and Europe.

The various distributorships were lined up already in the mid 70s by using close friends and contacts within the sports industry as distributors. According to Hollister (2008), this was the point when Nike really started to develop an aggressive strategy that would enable them to beat adidas. These drastic expansions made BRS revenues triple in two years to USD 14 million in 1976, and then doubled in just one year to USD 28 million in 1977. When markets in Asia started to open in the late 70s, Nike seized the opportunity and expanded with both production and sales. During this period Nike experienced a tremendous growth and was able to expand its production to keep up with the ever increasing demand. The company opened additional factories, adding a stitching plant in Maine and additional overseas production facilities in Taiwan and Korea that eventually would take over more and more of the Japanese production which was getting more expensive.

4.2.5 *Taking Advantage of Competitor's weaknesses*

Nike was not afraid to pick up good ideas from its counterpart adidas, but they soon realized that they could rather take advantage of adidas' weaknesses and come up with new and better methods. One of its first smart moves was to not only focus on track and field shoes for "professional" athletes, but actually make jogging shoes for everyday athletes. adidas did not want to make jogging shoes, and repeatedly said that jogging was not a sport and hence, not interesting. However, more importantly adidas did not see the need to improve its business, as the company already had problems with meeting demand. Adidas actually thought that the high demand was a good sign and did not see the need to invest enough to expand. What this high demand actually caused was unsatisfied customers, low turnover and big inventory problems. The high demand also created the illusion that there was no need to invest in marketing and promotions beside the endorsement contracts, and adidas marketing budget was almost nonexistent. Furthermore, this was not adidas' only problems, as the company was struggling internally with a very unstable management, which might be why the company lost its focus and allowed Nike to grow freely for so long, taking advantage of every mistake adidas made. The American distributors saw it coming, however, the management in Germany did not take them seriously.

From its humble beginnings, Nike had experienced a striking progress, but it was not until its marketing department had a revolutionary idea that the company really excelled. Nike saw the increasing demand as a reason to invest more money into the company, and especially in advertising. As a result Nike's first print ad with the slogan "*There is no finish line*" was presented in 1977. The foreign distributors also contributed to the promotional efforts and created a wish-list that actually works as a blueprint for Nike's sports marketing today. adidas later realized the importance of promotion, but several of its efforts failed, and this enabled Nike and other competitors to grow even further.

On May 30th 1978, Blue Ribbon Sports officially changed its name to Nike, Inc. The following year, the Nike's Air technology was patented and introduced in the Tailwind running shoe. This involved gas-filled plastic membranes which were inserted into the sole of the running shoes to provide cushioning for the runner. adidas has actually offered the concept first, but decided to turn it down. Furthermore, in 1979, the first clothing line was launched. Nike hired people with experience within apparel to match the rapid growth they were experiencing. Despite the high demand for apparel, the clothes were too expensive to

make and Nike was not able to make profits from the apparel line. Despite its losses, the company undertook the necessary investments and asked for external help. The company was very strict about not giving up its core values and spent a lot of time creating an identification of the Nike brand, answering questions like: What is Nike? Why do people want to buy Nike products? These efforts paid off and in the end of the 70s, Nike was no longer just an athletic company, but had evolved into a fashion company recognized by actors, musicians and other celebrities. At this point, adidas was still the industry leader, but it was no longer a David vs. Goliath battle; and for the first time, adidas' management team recognized Nike as a real threat.

Thanks to the successful launch of the Nike Air technology, the company entered the 80s on a roll. By 1980, the combination of fashionable design and aggressive marketing strategies had enabled Nike to surpass adidas in the U.S. athletic shoe market with a 50 percent market share. In addition, Nike's innovative business model allowed them to meet the increasing demand provided by the aggressive advertising. By the end of 1980, Nike completed its Initial Public Offering and became a publicly traded company. By this time the company had more than 20,000 employees. Some of Nike's key employees were highly financially rewarded and most of them actually decided to leave the company and move on to other pursuits.

4.2.6 Further Internationalization

As a part of Nike's increasing investments to meet demand, negotiations regarding production in China started in 1980. Nike had always been superior in determining ongoing economic sources of supply as the company had shifted from Japan to South Korea and Taiwan when rising wages and the value of the Yen pushed costs up. As costs in South Korea and Taiwan rose, Nike signed small production contracts in 1980 and 1981 with suppliers in the Philippines, Thailand, Malaysia and Hong Kong. However, Knight had now realized that China was the last major untapped source for a relatively labor-intensive product, as it had the potential to become a long-term-lowest cost supplier. Hence, Knight saw sourcing from China as the next logical step in Nike's global production strategy.

“We had to go. It was not a market; it was a production source. But we couldn't help but notice the two billion feet” (Phil Knight in New Oriental School Beijing 2008).

As with other companies, Nike found the Chinese bureaucracy challenging. To gain access, the management hired a local consultant with experience and insight from both cultures. Phil

Knight then submitted a business proposal to the People's Republic of China, where he laid out the project's objectives and rationale. This strategy turned out to be successful and five months later the first production supply contract was signed. By October 1981, the shoe production in China had already started. The rapidity with which Nike had maneuvered through the Chinese bureaucracy received a lot of attention from impressed spectators. Nike continued to work on its relationship with the Chinese government and eventually became a big part of the growing middle class in China (New Oriental School Beijing 2008).

In addition to its increased efforts in China, Nike International, Ltd. was created in 1981 to lead a comprehensive overseas push. The company also increased its efforts in the European market, inter alia by opening up a European headquarters in Amsterdam to attack adidas in its own backyard. However, Nike was not the only company increasing its efforts. Reebok also emerged, but received the same ignorance from the leading companies as Nike did in the 70s. adidas was now in fourth place in the U.S. market after Nike, Reebok and Converse, and its financial situation became critical. adidas could not compete against its competitors' high margins and had to close down several of its factories in Europe. Although adidas also had plants in the Far East, those were always fully or partly owned by the company itself, which reduced the benefits of lower wages. Because of Nike's light asset based business model, they sustained profit margins of almost 40 percent, while adidas only had 25 percent.

The early adoption of the light-asset based operational model already in the 80s has been one of Nike's success factors. Nike buys footwear and apparel from contract suppliers located in several different low cost countries in Asia and South America. In addition, Nike is engaged in manufacturing agreements with independent factories in Argentina, Brazil, India, Italy and South Africa. The structure ensures that the operational costs reduces, which again can create bigger margins for the company. Nike's marketing and promotional efforts also expanded on an international base, especially in China, where Nike started to sponsor Chinese teams with both footwear and apparel. Furthermore, Nike's first national television commercials ran in October 1982 during the broadcast of the New York Marathon.

4.2.7 The Olympic Ambush I

When Nike decided to use the Los Angeles Olympics as a major promotion scene, Converse had already become the official sponsor. So, what might have been Nike's best option was no longer possible. The marketing department had to come up with a new approach. How could

Nike own the games and the city of LA without being a major sponsor? The result turned out to be marketing efforts where the objective was to create a unique, engaging and thought-provoking concept to generate attention, and consequently, turn viral. The most visible part of this aggressive marketing was Nike's City Campaign, consisting of huge billboards of Nike athletes painted on skyscrapers all over Los Angeles. The efforts paid off and people from all over the World assumed that Nike sponsored the LA Olympics and the Olympics finally marked a moment of domination by Nike track and field athletes. The City campaign was so successful that it later went national.

In 1985, Nike signed Michael Jordan to endorse a version of its Air shoe, the "Air Jordan". All though, he was originally involved in a contract with adidas, but after some convincing from his mother, he could not say no to the Air Jordan concept. In general Nike focused more on advertising and endorsement contracts with only a few athletes which they could use to build the Nike brand. Jordan's high flying style on the court and his work ethic began to drive a market that would combine shoes, apparel and accessories in one look. Early sales were good largely due to the television commercials that featured Jordan flying through the air. In 1986, Nike's revenues topped the billion-dollar mark.

"Nike knew who they were and what they stood for. Strasser believed that Nike should be involved in real sports, and we had to quit chasing competitors' businesses"

(Hollister 2008:245).

4.2.8 Nike's Two Major Mistakes

Despite Nike's rapid growth and successful efforts, the company was sometimes slow to respond to new trends and the company made two major mistakes in the mid 80s, First, the company assumed that most of its customers were loyal athletes who were not very sensitive to price. Second, the company had badly miscalculated the aerobics boom and the importance of female customers, giving upstart competitors an almost completely open field to develop the business. The challenger, Reebok, did seize the opportunity, and was able to win over the main share of female customers. Whilst Nike continued to overlook women and mostly looked to boys and men for its sales, Reebok had several styles and colors for females. This mistake lost Nike the leading position and Reebok took over as the global market leader in 1987. However, this was not the only concern the management team had to deal with. Nike also experienced a big revenue drop, and decided to sell 51 percent of its stake in Nike-Japan

to its Japanese partner. After the sale, Nike then decided to lay off 10 percent of its U.S. employees in what it referred to as a major cost-cutting strategy. Some of these employees were later picked up by adidas, which turned out to be a good thing for the former dominating German company.

4.2.9 “They Were Built to Grow! And so They Did” (Hollister 2008:126)

Despite the cost cutting strategies, Nike did not decrease its promotional efforts or the focus on product development. The Nike Air Max shoe, which used a much larger Air cushioning unit, was introduced in 1987 and was the first of many generations of Air Max-branded technologies. Nike also acquired Cole Haan, which was a maker of casual dress shoes.

In 1988, the “Just Do It” slogan debuts and the campaign transformed Nike overnight into the leader in athletic apparel. Its efforts and investments in creating apparel finally paid off on a big scale. Furthermore, Nike finally realized the importance of the female segment and increased its efforts towards women. In addition, Nike’s cross-training business exploded, as the “Bo Knows” ad campaign became very popular. By the end of the decade, Nike had once again regained its position as the industry leader, the first and only time a company in the athletic footwear/apparel industry has accomplished such a feat. Nike has never relinquished that position again.

Nike continued to grow and in 1990 surpassed the USD 2 billion mark in combined revenue. However, for Knight and the management team, this was not enough; they wished to make Nike the world’s leading athletic apparel and equipment company, so efforts were increased within the areas of sporting equipment. The Nike World Campus in Beaverton and the first NikeTown retail outlet was in Portland was opened in 1990. In 1991, Nike pushed revenues up to USD 3 billion, which was an increase of 50 percent compared to the previous year.

4.3 Li Ning's Evolutionary Process (1990-2010)

The case study of Li Ning Ltd. is based on information provided by a large set of sources. Most of the information is derived firstly, from the research paper “Li Ning - Anything is possible” written by Wathieu, Wang, and Samant and published by the Harvard Business School 2007, and printed interviews with the company’s CEO Jason Guo Jianxin. Information derived from these sources have been subsequently confirmed through researching in annual reports (Li Ning 2004-2009), company profiles (Hong Kong Exchange and Clearing Ltd. 2009; Lai et al. 2009), newspaper articles (Balfour 2008; Cheung 2007; Egan et al. 2005; Fielding 2005; Gilbert 2010; Lo 2006; Wang and Padmore 2005; Yunyun and Young 2006) as well as competitors websites (Nike 2010; adidas 2010). Due to the support by a Chinese student from our seminar group, we had not only the opportunity to confirm information from English, German and Norwegian web pages, but also to obtain information from Chinese web pages, published in Mandarin and English, which would be almost impossible to find and understand without his help.

4.3.1 The Early Years

Li Ning Ltd. was founded in 1990 by the former professional gymnast Li Ning in the Guangdong province. As a longtime and successful athlete (e.g. 106 gold medals in his 19 year career, six out of seven gold medals in artistic gymnastic at the 1982 World Cup as well as various medals at the Olympic Games), Ning has been voted as one of the World’s top 25 athletes of the 20th century. He accepted a job offer from the Jianlibao Group Co. Ltd., a sport drinks manufacturer in the Guangdong Province, after he retired as an athlete. An executive offered him to work as an assistant for the company’s CEO, and he was rapidly promoted to a manager of Jianlibao Group. After only one year of employment, Ning decided to start his own sporting goods business named after himself. On the one hand, this gave the company instant recognition due to the fact that Ning was a famous athlete. However, to put someone’s name as a trademark might also mean putting his/her reputation on the line. If the business had flopped, Ning would have ruined his reputation which would equal a disgrace in China (CRI 2008).

Ning’s intention and vision was to establish the first national sports brand in the People’s Republic of China. The firm’s strategy was based on the cornerstones of brand awareness and extensive retailing throughout the whole country. The company and Li Ning as a person

started to sponsor sports events such as the Asian Games in 1990 and sport teams such as the Chinese Olympic Team since 1992. Li Ning sponsored the Asian Games with USD 365,000 of his own money. In return, he could introduce his brand to an audience of around 2.5 billion local and foreign spectators. With regards to the product portfolio, Li Ning initially started with offering sport-, leisure- and footwear that were quite multifunctional to fit various sporting activities. Since the mid 90s, the range of products has grown in an extraordinary pace and today also includes specialized products in each sport.

4.3.2 The Rise and the First Challenges in the Home Market

In its first years, the company grew at a significantly high pace. The company's distribution network has been continually expanded throughout the country mainly by means of franchised outlets and sponsorship of sport events. The latter simultaneously remained the main tool for building up the brand awareness in China. Between 1993 and 1995, the company increased sales at the rate of at least 100 percent per year. In 1996, the company hit a record high of approximately USD 98 million in revenues. Between 1995 and 1997, Li Ning became the dominant domestic sport brand in the Chinese market. In that period, the headquarters was moved from Guangdong to Beijing (ZTE 2008).

The first downturn for Li Ning started with the beginning of the Asian financial crisis in 1997. During this time, the company was forced to make several redundancies. To minimize the negative impact of the crisis, the firm decided to increase the focus on marketing activities. An additional goal was to reorganize Li Ning's business operations and human resources to operate more efficiently and effectively in the future. In 1998, the firm was renamed Beijing Li-Ning Sports Goods Company. Between 1999 and 2004, Li Ning's focus on improving its own performance contributed to an accelerated growth. As an example, the company introduced an enterprise resource planning system (ERP) as well as brand tracking indexes to attain a better overview of the company's performance and to be able to avert the next crisis. In general, many business operations and strategic choices can be noticed as very similar to what Nike did during the same decade. In the beginning of the new millennium, the firm further decided to become more customer oriented and consequently, enlarged its budgets for consumer oriented research and marketing. This was a common strategic choice for most of the companies within the industry.

4.3.2 *Competing With Global Giants*

In the beginning of the 21st century, Li Ning's sales force accounted for less than 300 employees while over 4,000 people were employed in direct channel operations. The indirect channel was organized in eight domestic regions and within these regions provincial distributors were responsible for franchisees orders. Between 2004 and 2005, Li Ning was able to reduce its inventory time from 112 days to the industry average of 86 days due to improved planning systems and enhancement of seasonal promotions. This was another step towards closing the gap in business performance compared to major western companies such as Nike and adidas. To continuously improve and support its distribution network, Li Ning provided various incentives for franchisees' in form of hardware such as store elements and information technology as well as schooling in several related topics, e.g. management and merchandising. At the beginning of 2006, Li Ning's large distribution network already included around 3,000 franchised retail stores, over 100 directly managed retail stores, and about 250 concession counters in department stores.

However, after having been the dominant sports brand in the Chinese market in the end of the 90s, Li Ning was losing market share due to Nike and adidas's increasing efforts in advertising their brands and penetrating the Chinese market. Instead of competing head to head with the global giants in first tire cities, Li Ning decided to adjust its strategy. The strategic outline was changed to maintain the status quo in the first tire cities and allocate resources to become the dominant player in second and third tire cities where MNCs such as Nike and adidas were still barely present. First tire cities have by far the highest average income and can generate the highest amount of sales. However, second and third tire cities are constantly growing and account for more than the double amount of consumers compared to first tire cities. At this point, Li Ning already had a 20 percent market share in second and third tire cities. The company provided 30 to 40 percent lower prices in comparison to MNCs, but approximately 50 percent higher than domestic competitors such as Anta and Doublestar. Li Ning's ability to offer lower prices compared to Western companies, is based on higher margins. These margins are especially due to exclusive locations of production facilities in China which provides the company with lower overall costs. The labor cost advantage thereby applies to the whole range of employees from low-skilled to the R&D engineer.

4.3.3 *Building a Global Brand Image*

To regain its position as the domestic leader in China and to fully exploit the competitive advantage of its extensive distribution network and its price strategy, Li Ning had to build up a brand image that was perceived not only as a domestic brand but also a global brand. For this reason, Li Ning undertook several endeavors to support a global, and hence, more westernized brand image. The first step was to connect its brand image not only to a well recognizable logo but also to develop a company slogan which reflected a concrete image and philosophy. This resulted in the introduction of the slogan “Anything is possible” in April 2004 (Danwei 2008). The precarious fact was that adidas introduced its own slogan “Impossible is Nothing” only two months earlier, and it is hard to ignore their similarity. However, other sources such as Li (2009), state that Li Ning actually came up with the slogan before adidas and that adidas were the ones replicating Li Ning’s slogan.

The second step was to collaborate with well established international brands through alliances. One of these alliances was a long-term partnership, namely a joint venture, with exclusive rights to manufacture, market, distribute and sell AIGLE products in China for the upcoming 50 years. A similar deal has been made with the Italian brand Lotto for the next 20 years. Another well known partnership in the form of a co-branding agreement was signed with the “Association of Tennis Professionals” (ATP). Moreover, Li Ning intensified the sponsoring of famous athletes to increase its brand awareness not only in China but worldwide. Since 2004, Li Ning has been the official partner of the Argentinean and Spanish basketball national teams, whereof the latter is the current European champion, and the Sudan National Track and Field Team. In 2009, Li Ning had major breakthroughs to increase worldwide brand awareness by closing endorsement contracts with international athletes such as the world best pole-vaulter Elena Isinbayeva, as well as Ivan Ljubicic as one of the upcoming tennis stars. Moreover, basketball as the most popular sport in China with approximately 600 million fans was identified as a suitable vehicle to build brand awareness since the connected apparel is also commonly worn outside the basketball arena. Due to these prospects, Li Ning increased its efforts in the Basketball segment by signing a contract with the NBA in 2004 to promote the brand in China. Intense efforts were taken to attract and sign NBA stars such as Shaquille O’Neal and Baron Davis. Insiders speculated that the deal with Shaquille O’Neal in 2006 was worth more than USD 1.5 million. This was the first time Li Ning signed an endorsement contract in the same size and dimension as adidas and Nike. It

was also the biggest deal an NBA athlete ever signed (China Daily 2006; Beijing Review 2006).

Li Ning's efforts in the soccer segment were limited on a global scale even though soccer is very popular in China. Hence, the company's efforts were restricted to a product line including shoes and apparel as well as sponsoring a few local soccer players such as Li Tie and Zhao Junzhe. This position changed at the beginning of 2010, when Li Ning signed "RCD Espanyol Barcelona" as the first European soccer club, which plays in the Spanish Primera Division. By this movement and a simultaneous increase of its product portfolio, Li Ning entered the soccer category which is strongly dominated by adidas.

4.3.4 Differentiation from other Global Sports Companies

To further strengthen the firm's brand image and to be silhouetted against its international competitors, Li Ning started to leverage the "Made in China" aspect. The company's aim was to gradually integrate oriental elements in all communication channels in order to establish an oriental theme as a unique key brand characteristic. Hence, Li Ning started to develop TV commercials and special products that mirrored this oriental theme. Figure 10 in the appendix, shows an example of a commercial for a running shoe. For this, the traditional Chinese painting art form of water and ink was used, so that the runner's movement would appear almost as "flying" movement/animation, which in turn, is typical for physical performances in Chinese martial arts movies. Li Ning is the first Chinese company in the sports industry that includes oriental elements in its products and commercials in order to differentiate its brand image from its competitors. Li Ning's executives state the oriental theme alone does not guarantee success but in combination with international design it will become a success story. Another example is shown in figure 11 in the appendix, which illustrates basketball shoes designed with certain oriental characteristics. With these aspects Li Ning wants to differentiate the brand from its international competitors.

In 2002, the company decided to set its focal point on five key sports activities, namely running, basketball, tennis, soccer and fitness. Thereby, running was identified as a high potential opportunity and a large part of its resources was allocated to campaigns that directly promoted the running sport. The main reason for this decision was the outcome of research studies that had proven that Chinese people usually start their sports activities with running as the encounter stage in the sports world. Further, Nike and adidas as the two main competitors

in the Chinese market were more associated with basketball respectively soccer, whereas brands that focus on the running segment, such as Reebok, Asics or New Balance, had just hardly or no presence in the Chinese market. In the running segment, Li Ning acknowledged the opportunity to grab major shares and to ensure that the company would dominate this category in China. This resulted in huge investments in R&D within the running sector to develop core technology being capable to adapt unique and exclusive features for cushioning, control and weight. This included inter alia cooperation with Michelin for the development of sports footwear. The idea was to apply Michelin's tire related technology to the soles of Li Ning sport shoes for better traction and durability. Another partnership was established with the University of Hong Kong in order to initiate a database of foot measurements of particular Chinese athletes to develop an inner sole that is proven to be the best fit to Chinese feet.

4.3.5 The Olympic Ambush II

The by far biggest milestone in Li Ning's young history was the Olympic Games in Beijing in 2008. Notwithstanding that adidas won the intense price war between the sports companies bidding for the official sponsoring partnership, Li Ning was able to suggest itself as the main sponsor by the help of a few sophisticated business tricks. Li Ning advertised its company at key locations during the Olympic Games to receive the most possible attention. This strategy was already initiated during the opening ceremony when the founder Li Ning himself had the honor to inflame the Olympic Fire in a spectacular show (Davis 2009; figure 12 in the appendix). Further, Li Ning sponsored 27 out of 51 Chinese gold medal winners and several other national medal winning teams such as the Spanish and Argentine basketball team and the American table tennis team. Also through Li Ning's long cooperation with the China Central Television (CCTV), all Beijing Olympic Games reporters were dressed in Li Ning apparels. These were several good strategic maneuvers which boosted the companies brand awareness around the world and led Li Ning to appear as the dominant sponsor at the Olympic Games.

4.3.6 Internationalization

As part of building a global brand image Li Ning started to expand towards new markets, and the first retail store was established in Spain in 2001. This store in Europe was a so called test store, which was established with the purpose of getting in touch with, and attaining a first impression of foreign markets. Since the middle of 2004, the company has been listed on the

Hong Kong Stock Exchange. At this point, brand internationalization was initially integrated as part of the company's business strategy. However, the real start of internationalization can be connected to the Olympic Games in Beijing 2008. Shortly afterwards, the company established a multiplicity of stores outside China, located in Singapore, Indonesia, Brunei and Malaysia (Li 2009). In 2010, Li Ning established a large design center in Nike's hometown Portland (The Associated Press 2009). This decision received a lot of attention as Li Ning could take advantage of the highly qualified labor pool including former Nike employees which were specialized in design and R&D operation in the sports industry. To further highlight this aspect it can be mentioned that Li Ning was not the first company that took this choice of locating a subsidiary to learn from the industry leader. After adidas struggled and lost its market leading position in the end of the 80s and the beginning of the 90s, adidas decided to move its American headquarter from New Jersey also to Nike's backyard in Portland which was very helpful to get its problems in the American market under control and win some of the market share back. Furthermore, Li Ning opened up several brand stores in Europe, the first in the Netherlands. The company was able to establish its first contracts with retailers and distributors in more than nine European countries, such as Denmark and Germany. However, in terms of production Li Ning is still very limited to its domestic market. The company furthermore launched the Li-Ning-Europe and Li-Ning-USA web page including online shops to sell its products around the world. Over the last years, Li Ning has gradually increased its efforts to internationalize and to become present on a global scale. However, regarding revenues Li Ning is internationally still very limited as only one percent is generated outside of China.

4.3.7 Ready, Set, Go?

In 2008 Li Ning formulated a new goal of becoming one of the world's top five sport brands by 2018. To fulfill this ambitious goal, the company is not only relying on the overall development of China's economy as growth driver but is rather increasing its efforts in form of new investments in R&D, significant improvements in design and new product launches. In March 2008, Li Ning was introduced as the official clothing supplier for the Swedish delegation in the Beijing Olympic Games and Vancouver Winter Olympic Games. This was the first time that foreigners wore a Chinese sport brand at the opening celebration and medal ceremonies at the Olympic Games. The company's CEO Zhang Zhiyong stated:

“We have gone global and will now participate in world sports more often”

(Made in China 2008).

In recent years, Li Ning received many domestic and international awards for its shoes especially in various design categories, such as the “China Innovative Design Red Star Award” and “Most Successful Product Design” by Fortune Magazine. In the apparel segment, Li Ning developed the “AT DRY SMART” technology which is characterized by an intelligent moisture absorbing and quick dry capability. This technology is now broadly applied in a variety of products which equates similar technology features of any other international sports company. These aspects offered Li Ning with the possibility to enter the premium price segment in the sports market in which the industry leaders generate the majority of their profits. Furthermore, the cost advantage on all levels in the supply chain provides Li Ning with higher margins compared to its competitors and global leaders. This opportunity could be used to not only enter the premium segment but also to reduce the prices in this segment.

An additional wise decision in Li Ning’s development was the acquisition of the Chinese company Kason Sports in 2009. This acquisition provided Li Ning with the opportunity to further diversify into the non-sportswear segment. The Kason brand was founded in 1991 and was one of the top three providers in the Chinese badminton segment. It has strong operations in R&D as well as in the manufacturing and sale of professional badminton equipment such as rackets, strings, apparel, sport shoes and accessories. The main differences between the two companies were their different price strategies. Compared to Li Ning the Kason brand targets mass consumers by providing affordable prices. Hence, the acquisition has widened Li Ning’s potential customer base. Just a few months before the decision to acquire Kason was made, Li Ning became the official sponsor of the Chinese national badminton team that has previously been sponsored for almost 27 years by Yonex, another Chinese sport brand. But the most decisive aspect of this acquisition was to gain market share in a market segment, which is based on an estimated 300 million customers within mainland China, where adidas, Nike and ANTA have no presence at all. Due to the partnerships with AIGLE and Lotto as well as an outcome of the acquisitions of Z-DO, Double Happiness and Kason Sports, Li Ning’s brand portfolio is gradually growing. This is necessary to respond to a larger group of potential customers and to achieve sufficient economies of scale.

By the end of 2009, Li Ning sold its brand in more than 8,000 different stores and has 4,000 Li Ning employees to sell its products. In the business year of 2009, Li Ning Ltd. reached the USD 1 billion mark as revenues accounted for USD 1.228 billion, which is an increase of

almost USD 250 million compared to the previous year. During the last 6 years, revenues have been growing on an average of approximately 39 percent each year. The net profit accounted for around USD 196 million in 2009.

Figure 6 and 7 illustrate the evolutionary process of each of the two case companies within their 20 year timeframe, to provide the reader with an overview that will ease the comparison.

Figure 6: Timeline: Nike 1971-1981 vs. Li Ning 1990-2000

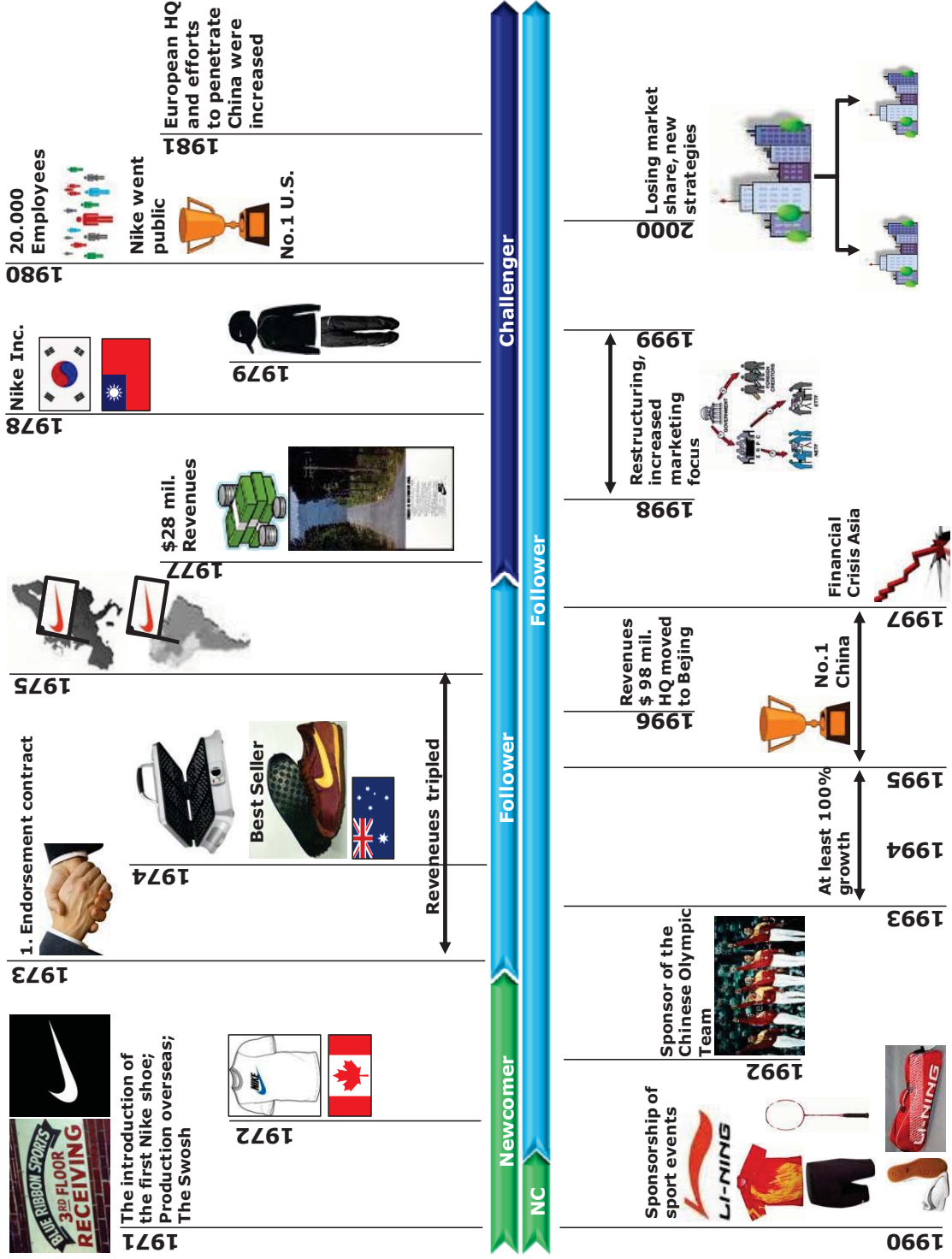
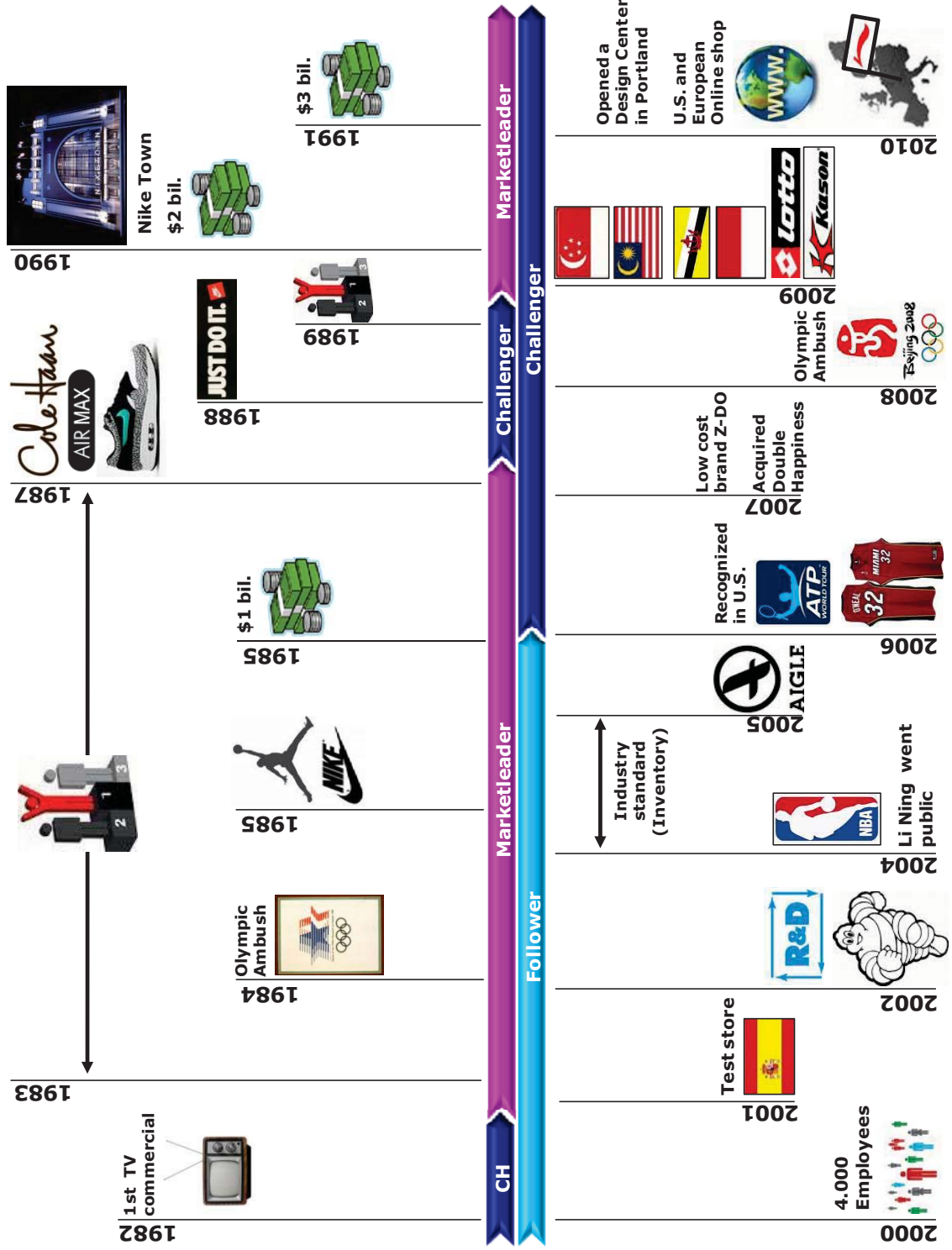


Figure 7: Timeline: Nike 1981-1991 vs. Li Ning 2000-2010



5. Analysis

This chapter provides the reader with a detailed analysis of the comparison between the representative Western and a Chinese multinational's evolutionary process, from a newcomer towards a market leader. After having evaluated and comparing the two case studies, the four following stages of advancement were identified; newcomer, follower, challenger and market leader. The definitions of each stage are based on Gilligan's conceptual model, and used as the starting point of our framework for the evolutionary process and the analytical discussion. Each type of evolutionary stage is defined through various key strategies and events related to each of our two case studies. Furthermore, these are again related to a range of factors that are further discussed and analyzed in accordance with our theoretical framework. In the confrontation of the two cases, the dissimilarities in both time and context between the two timeframes are taken into consideration.

5.1 *Newcomer*

As arrivals, both Li Ning and Nike, entered the industry as underdogs, and from the beginning their respective founders determined their companies' fortune. The founders show similarities; however, their ambitions as well as their goals also have some essential distinctions. Phil Knight was a promising athlete at his college but even more; he was an ambitious entrepreneur. This is highlighted by the fact that when Phil Knight started his business, he had one main goal; namely to bring an end to adidas' domination in the sports industry. With Bill Bowerman, Knight could rely on a person with brilliant focus on detailed work as well as on constant improvements to their products. The combination of their diverse professional abilities turned out to be the perfect recipe for a successful entrance. As discussed by Cullum et al. (2002), entrepreneurial behavior is often deeply rooted in a person's character and can be at least partially explained by the society's culture. This opinion is also supported by Hofstede (2010) who identified the U.S. as the most individualistic country in the world. It is easy to draw parallels between Phil Knight and Bill Bowerman's visionary entrepreneurship and the "American Dream", which is the belief that every person regardless of his or her status can accomplish something off the beaten track (Cullum et al. 2002). In comparison, Li Ning was a former world class athlete working for a sports related company until he decided to start his own business. Li Ning did not have the same strong ambition and vision as his counterpart Phil Knight to become the global leader in the sports

industry. However, Li Ning wanted to become the first national sport brand in the PRC. Nevertheless, Li Ning later announced the company's new goal to become one of the top sports brands in the world. Consequently, Li Ning followed a more careful strategy of small steps and avoided flamboyant targets. The company's development reflects typical Chinese societies' culture. One aspect is that Chinese are by tendency not afraid to change goals and adapt them to their company's development (Zeng and Williamson 2007). However, Li Ning took a high risk in founding the company under his own name and to invest all of his private savings to enter the sports industry. As explained by Weber et al. (1998), people from societies with a strong collectivistic dimension, such as China, are more likely to help each other when needed. This is also reflected in the Chinese government's encouragement towards Chinese entrepreneurs as the government provides promising Chinese companies with unique benefits. Even though Li Ning is not a state owned company, the potential support and encouragement from the government has served as a positive "cushioning" in case of failure. This phenomenon has also been highlighted by Cullum et al. (2002) in the presented "Guided Individualism Model". In addition, the potential return and upside from starting an own business is often higher than the potential downside. Hence, there is more to gain than to lose in developing countries. This does not imply that Li Ning is taking higher risks; it just perceives the risk of its decisions to be smaller (Zeng and Williamson 2007; Weber et al. 1998).

From this point of view we can clearly state that the characters of both founders have driven their businesses over time. Both have an affinity to sports and know how the industry works. Knight and Bowerman were very target oriented, and Nike utilized every possibility to aggressively attack adidas and to get closer to its vision of defeating its main competitor. The phrase that pin points Nike's attitude is; "*You don't win silver; you lose gold*" (Hollister 2008). This highlights Nike's ability to always look forward and never be satisfied, which again clearly indicates the founders' entrepreneurial spirit that winning is paramount. Li Ning on the other hand preferred a less aggressive strategy to do business and to follow up its goals.

Despite different times and context, Nike and Li Ning entered the newcomer stage with similar competitive patterns. At this juncture, we refer to the density of equally strong competitors in the industry or, as explained by Porter (1998), to the state of the "Intensity of rivalry" among existing firms. In 1971, the competitive situation can be described as being dominated by adidas and Puma. When Li Ning started its business in 1990, the industry was

dominated by Nike, adidas and Reebok. This decisive fact led us to the conclusion that both companies started as “David versus Goliath” and besides differences in the external environment it supports the comparability of the two cases. This also corresponds to Porter’s five forces and to the author’s model of generic competitive strategies (1980, 1998 and 2004). There, he stated that from a company perspective, the most influential aspect on the company’s behavior and decisions is the external environment in the industry/arena in which the competition takes place. Another essential similarity is the fact that neither Nike nor Li Ning was seen as serious threats or prospective competitors.

Nevertheless, the different context and the industry structure within the two different 20 year time frames have definitely influenced each company’s strategic moves and business decisions. Nike entered the sports industry in a phase where the domination of adidas was at its peak. However, adidas missed to adapt to certain changes in the external environment. For a certain time, the still strong demand for adidas products had obscured the weaknesses and issues the company had to face within the upcoming years. This can be seen as preferential for Nike’s entrance as it was able to see these problems before adidas actually did. Furthermore, Nike started as what Wilson and Gilligan (2005) call a niche marketer, offering a limited numbers of highly specialized shoes for professional athletes. It is also necessary to emphasize that the industry’s characteristics of that time are not comparable to the industry today. In the end of the 60s and the beginning 70s, the industry was still in its infancy. In terms of size, the industry has grown immensely in the 70s and 80s and Nike decisively influenced the development of the sports industry and simultaneously increased its importance as a major player. When Li Ning emerged as a newcomer, it already had a wider range of opportunities available to conduct business. Due to the development of the industry in the 80s and 90s, Li Ning was able to almost leapfrog the newcomer stage. Consequently, Li Ning started with a full range of products and applied the most important marketing tools from its inception. Nike, by contrast, had to go through a longer newcomer phase as a market nicher, in which the company built up expertise knowledge, brand reputation and customer loyalty. This was then used as the basis to transfer its business from its niche to other segments and to finally offer the full range of products.

Another difference between the two companies is the variety of available options to sell its products in terms of distribution channels and marketing. From the beginning, influential events such as the changing status of the Olympic Games offered Li Ning marketing

opportunities in terms of sponsoring and endorsement contracts that Nike never possessed in its early years. Furthermore, the importance and variety of advertising tools such as TV commercials and paper ads were marketing instruments that Nike coined and developed over time. To illustrate the difference in a more simplistic way, Nike entered a war without having a wide range of weapons to fight the enemy, whilst Li Ning could choose between several marketing instruments and distribution channels. However, the battlefield was more complex and bigger when Li Ning entered the scene. A similarity, though, is that both companies continuously utilized public sports events as a jump start for new products or marketing campaigns. This supports scientific papers regarding the importance of sports events in this industry, as highlighted by Thibault (2009), Smith (2008) and Hollister (2008).

Although having a multiplicity of marketing tools available, Li Ning had to overcome higher entry barriers, as it was described in the industry profile. These entry barriers were established over time by the leading companies, which is a classical first mover advantage (Porter 2004). The industry had already established a set of standards in terms of production efficiency, pricing as well as product quality that Li Ning had to deal with from the beginning. This indicates that the company had to be immediately price competitive at all ranges of competition to successfully enter the industry. Nike, by contrast, started its business in a niche and thereby avoided costly and hard price competition as outlined by Wilson and Gilligan (2005). An entry barrier that was evident to both Nike and Li Ning was the access to traditional distribution channels, as retail stores preferred to offer the shelf space to well known global brands rather than to a new company without a well recognized brand image. When it comes to promotion via endorsement contracts, neither Nike nor Li Ning had the financial resources needed to compete from the beginning for the elite sport athletes. However, endorsement contracts did not require the same astronomic financial resources in the 70s as compared with today.

Even though the industry arena has changed and its scope has grown tremendously over the years, it is hardly possible to draw a conclusion if the circumstances at the point of entry were more preferential for one company than for the other. Porter (1980; 1998) argues that an increasing arena implies benefits as well as drawbacks. The benefits can be divided into first and late mover advantages. In the case of Nike, the most decisive first mover advantage was clearly the possibility to establish entry barriers such as industry standards and close relationships as well as connections with key stakeholders and customers through a brand

reputation which was built over time. In comparison, Li Ning had to face exactly these entry barriers but could on the other hand use late mover advantages. Example is the opportunity of “free ride” on first mover investments, such as established technologies and business models (Porter 2004). As a result, both companies could explore advantages and had to face disadvantages. Thus, in this newcomer phase it was not decisive which company could benefit from the most preferential external environment in the arena. Rather, it was essential for the future development how the companies coped with the different situations particular to the newcomer stage.

5.2 *Follower*

After a few years as a newcomer, Nike had built enough capabilities and knowledge to enter the next development stage; the follower stage. According to Wilson and Gilligan (2005), market followers act less proactively than other market participants and focus on adopting or imitating operations, products or trends of the leading firms. Due to the fact that Nike could realize cost efficient productions overseas from the beginning, they possessed strong financial capabilities at an early stage, which enabled the company to only follow adidas and other competitors selectively. Hence, a few of adidas’ business operations and product characteristics were adapted by Nike, but Nike’s own initiatives were simultaneously implemented. This rapid development and the speed of both innovation and internationalization were the main reasons for Nike’s relatively short follower stage.

In contrast, Li Ning went through quite long follower stage from approximately 1991 until 2006. The company was determined to follow the market leader, Nike, at a very close range, by implementing business operations including advertisement, branding and products that were very similar to Nike’s. This implied that business operations and product portfolios as well as design became virtually identical. Besides the logo, various designs of products and marketing tools were used by Li Ning to imitate the whole spectrum of Nike’s business operations including the light asset based model. One can hardly neglect the similarities illustrated in figure 13 in the appendix. Levitt (2008) recommend such a strategy for emerging companies as the imitation of the market leader can often be as profitable as a strategy of innovation. This assessment is supported by Li Ning’s impressive growth of at least 100 percent per annum during its early years. After five years in business, Li Ning was already the dominant sport brand in the Chinese market and one year later, the company accounted sales

for almost USD 100 million. This represents a very rapid growth; however, it is not noteworthy compared to Nike.

Nike's decision to attack adidas from the beginning can be explained by game theory as discussed by Shapiro (1989), as a company's decision is always strongly connected to the strategic moves of its competitors. This could be a further explanation for Nike's decision to attack the market leader adidas from the beginning, whilst Li Ning decided to act as a close range follower. Nike recognized that even though adidas was the market leader, the latter went through a difficult time due to inventory problems and increasing production costs in the beginning of the 70s. On this basis, Nike explored its opportunities and took advantages of the weak spots. In the case of Li Ning, it is recognizable that Nike just recovered its market leading positions and was doing well on all fronts when Li Ning entered the scene. Consequently, there was actually no obvious weakness for Li Ning to attack which ultimately led to the decision to imitate its business model for the time being.

The companies' available resources have also had a decisive effect on Nike and Li Ning's development and status as followers. Wernerfelt (1984) and Rumelt (1984) argued that a company's competitive strategy will not only depend on the industry and competitors' positioning, but highly depend on the company's available resources. Nike's original resources and capabilities were its well educated employees and its knowledge about track and field. However, manufacturing resources and low-skilled labor had to be attained elsewhere. Hence, Nike did not possess very unique or valuable resources that enabled the company to achieve above average returns from the beginning. Nike decided to develop its resources and capabilities over time and obtain the rest from regions who had vital resources, such as low-skilled labor from developing countries. The result was a company that did not imitate industry standards, but created new ones. Nike's constant search for new resources and capabilities worldwide enhanced the company's comparative advantage over time as the complex bundle of resources could assist the company, sustaining its strong position. In comparison, Li Ning had immediate access to low-skilled labor, but did not possess the knowledge about the industry as Nike now did, 20 years later. However, as Hoskisson, et al., (1999) and Kogut & Zander (1992) highlight, companies can also be distinguished in terms of their potential in absorbing new knowledge. The knowledge based view describes imitation as a necessity in a company's process to gain a competitive advantage. This implies that Li Ning's strategic decision for imitation is its way of gathering knowledge and developing its so

called absorptive capacity. This would later enable the company to identify the value of new, external information, assimilate it, and further apply it to commercial ends in order to achieve a competitive advantage over its competitors (Cohen and Levinthal 1990). Hence, the resources and capabilities that Nike developed over time, was now more or less available for Li Ning to take advantage of as a follower. In addition, resources and knowledge was further assimilated by acquiring and signing agreements with already well established players in the industry, such as Aigle and Lotto. Even though Li Ning was searching to gain knowledge and resources in a rapid manner, its focus had always been noticeably long term oriented, as the partnership deals with Aigle and Lotto were signed for respectively 50 and 20 years.

A decisive event that probably hindered Li Ning from becoming a challenger earlier was the Asian financial crisis in 1997. Following the crisis, Li Ning went through an organizational restructuring process and decided to increase its marketing intensity and efforts. Also this strategic alignment can be acknowledged as characteristics of a follower since Li Ning used Nike as guidance for this re-orientation. Between 1997 and 2001, Li Ning was focusing on protecting its market rather than on efforts to gain new share or attacking competitors. In 2001, however, the first signs of Li Ning's preparation to become a market challenger were recognized. One explicit sign was the establishment of the first store outside China and the initiation of R&D activities in cooperation with Michelin. From this point on, Li Ning tried to increase the pace of its own development. International efforts were increased, the company went public and partnerships with the NBA (2004) and Aigle (2005) were signed. This in addition to Li Ning's ability to now meet global industry standards in terms of inventory time and quality, were major steps on the way to becoming a challenger. The international breakthrough for Li Ning finally came in 2006 by signing a partnership with the ATP and by announcing an endorsement contract with Shaquille O'Neal. These events, made competitors, among them especially Nike and adidas, realize for the first time that there was a new potential challenger in the industry.

5.3 Challenger

As market challengers, the two case companies have reached a new level of competitive strength and their interest as a challenger is to attack competing firms and the market leader in order to increase their own market share and to achieve a more dominant market role. Nike became a challenger at a very early stage when they started to use promotions and compete

head to head with the current market leader adidas. The foundation to become a market challenger was laid very early as the company started to develop a strategic plan, with the aim to beat adidas, almost from its inception. In addition to aggressive frontal attacks in forms of promotions, the strategic plan also included less aggressive strategies and bypass attacks, which were a part of the company's long-term strategy to secure enduring growth. Nike's early internationalization process had also enabled the company to spread its efforts and to attack its competitors in more than one market. These strategies were financially intensive and contained a high risk of failure. However, Nike evolved as a challenger very quick and already in 1980; it surpassed adidas and became the market leader in the U.S. This was also a result of Nike's ability to take advantage of adidas' "loose bricks" as discussed by Zeng and Williamson (2007) when explaining Chinese companies' competitive behavior. Nike early realized which weak spots adidas were struggling with, such as inventory problems and low marketing budgets. By breaking bricks down, one by one, in adidas' defense wall, the entire company started to lose balance. adidas's own attempts to fix the cracks created even more instability which Nike could take advantage of. In addition, increased efforts to penetrate both European and Asian markets enabled Nike to grow at a remarkable speed towards market leadership.

In comparison to Nike, Li Ning remained as a domestic company and hence, as a follower for a much longer period of time. The company did not reach the stage of a challenger until around 2005, after 15 years of existence, and even then it was debatable how much of a challenger it really was. Nevertheless, we decided to label Li Ning as a challenger as it for the first time, was recognized outside China and experienced an upswing in the Chinese market that enabled the company to increase its efforts in international markets. Li Ning is still holding a position as a challenger, and whilst Nike used so called frontal and bypass attacks, Li Ning is currently using flank attacks. As discussed by Kotler & Armstrong (2001), this implies that Li Ning is attacking Nike and other challengers in the industry in a geographically and specified market segment where the market leader has no or only little presence. For the time being, this is evident as Li Ning is focusing on second and third tier cities in China, where its Western counterparts are not truly present. Also, the company is increasing its efforts in sporting segments that are not Nike and adidas' main focus, such as badminton. Li Ning has also been able to grow as a challenger by acquiring other Chinese companies, such as Double Happiness.

As already mentioned, Nike has been able to change the entire sporting industry with its promotional efforts and aggressive marketing campaigns, such as; “There is no finish line” and “Just do it”. The company’s promotional tools included advertisements, branding, high visibility in sporting events and a constant development of its corporate identity. However, promotions are one thing, but it was the well balanced marketing mix that enabled Nike to secure a strong foothold within the industry and attain world-class brand awareness. As discussed in the theoretical framework, a well balanced combination of the four Ps; product, price, place and promotion, is a crucial factor to a brand’s success. The products and services offered by Nike have represented the core of its business activities and the product range has constantly been expanding to meet new customers’ needs. With regards to product innovation, Nike was able to focus on both, the variety and depth of its products. By using both types of innovations Nike succeeded to act as a specialist provider with a wide range of variety. Furthermore, the combination of high quality, wide product range, design and constant innovation, enabled Nike to obtain a much higher price than its competitors. The high premium price in combination with lower costs further provided Nike with higher profit margins compared to its competitors, and especially the market leader adidas. Last but not least, Nike’s wide distribution facilitated the rapid international growth and high sales volumes. Even in a time where e-commerce was non-existent, Nike was capable of reaching customers all over the world at a very early stage of its development by taking advantage of its network of relationships within the sports industry.

As Li Ning sought to become China’s top-selling sportswear brand in the 90s, it is obvious that the company looked to Nike for inspiration. As already mentioned, this is evident with both sales and operational strategies. However it is even more apparent is it that the company implemented Nike’s successful marketing strategy. Both product ranges and designs are very similar to what Nike has been offering during the last two decades. Li Ning also adopted promotional efforts such as enlisting celebrity spokespersons, strategic alliances with sports events and not at least; an Olympic ambush, very similar to the Olympic ambush in 1984. The implementation of Nike’s marketing mix and operational strategies has turned out to be a good strategic move for Li Ning that has provided the company with both high domestic sales and an impressive net profitability. Further, the high assets of return rate enabled expansion and contributed to Li Ning’s ability to maintain its status as the domestic sport brand with the most wide-ranging distribution network in China. Despite Li Ning’s ability to imitate the

market leader, one of the most effective instruments to distinguish a company from its competitors is the creation of a unique brand image. Nike's brand image has over the years been a combination of its name, the Swoosh and its slogans. Consumers all over the World associated Nike, not only with a brand, but rather with a lifestyle. As such a brand reputation has to be built over several years, it is more or less impossible to imitate. Hence, even though Li Ning is imitating Nike's marketing strategies, its brand awareness cannot be adopted in the same way, and might work as a barrier for the company's development.

Whilst Nike started within a niche of athletic footwear and steadily used both line and brand extensions to constantly introduce new items and products to an increasing number of customers, Li Ning started with a very broad and general product range from the beginning. As suggested by Kotler & Armstrong (2001), Nike's line and brand extension strategies were used to meet the customer's desired demand for variety, but also to exploit its overseas production capacity. This constant expansion facilitated Nike's long term and steady growth. The difference between the two cases is also evident in the challenger phase, as Nike used line and brand extensions to increase volumes, whilst Li Ning started to acquire other sport brand companies and sign strategic alliances to create multibrand extensions. Existing brand names such as Kason and Lotto were introduced to complement Li Ning's existing product range within the same product category. It is also very apparent that this was part of Li Ning's long-term growth strategy as the agreement with Lotto was signed to last for the next 20 years. This multibrand extension strategy created instant recognition as the Chinese consumers were already familiar with the complementary brands. In addition, a new low-cost brand; Z-DO, was created by Li Ning to attract more price sensitive Chinese consumers. This provided Li Ning with the opportunity to establish different features or incentives applicable for various consumers buying motives. Another motive for using the multibrand strategy was to establish "flanker" and "fighter" brands to protect the Li Ning brand, and to ensure that these former competitors will not hurt the main brand. Nike did not use a multibrand strategy during its first stage as a challenger. However, as a second time challenger the company acquired Cole Haan to also include casual wear in its product portfolio. In conclusion, Li Ning started with this strategy on a much earlier stage in its development than Nike did.

Nike's ability to reduce production costs and to obtain higher profit margins, allowed the company to facilitate further growth by investing in expensive marketing campaigns, better services, product lines and innovations during its challenger phase. However, Nike never used

its cost advantage to reduce prices. Li Ning on the other hand, is using a different strategy. Even though the company is a premium priced brand in China, with 50 percent higher prices than its domestic competitors, Li Ning is still offering its products at a price that is 30-40 percent cheaper than Nike is charging for similar products. Even though consumers are very brand conscious, they are also price sensitive, which might enable Li Ning to take big market shares from its Western competitors in the future. Despite the lower prices, Li Ning is able to enjoy a much higher profit margin than Nike is currently achieving. Hence, Li Ning's potential to disrupt the global pricing strategies is what really makes the company a challenger. It is too early to say whether Li Ning will actually disrupt the global competition. However, it is very evident that the company is taking advantage of its cost innovation to grow in peripheral market segments and geographical areas where its competitors are not present, due to low potential volumes and profits. Thereby growing in markets and segments where Nike and other competitors are currently not present, Li Ning might be able to achieve even higher economies of scale and obtain a strong domestic position that leaves them well-positioned to attack the global market in the upcoming years.

5.4 Market Leader

With the highest annual revenue and with a dominant competitive position in the mid 80s, Nike became the global leader, less than 15 years after the first Nike shoe was launched. The large market share was a result of its well executed long term strategy. As a market leader, Nike continued to invest in intensive advertisements, high density of distribution coverage and technological advancement in order to sustain its position. As the market leader, Nike was able to set the pace of development, create trends and actually build up the industry over time. Even though Nike gained a market leading position at an early stage, it was not able to sustain it due to its ignorance towards Reebok and the importance of the female customer segment. In addition, Nike assumed that most of its customers were brand loyal athletes not sensible to price, but as it turned out, most of Nike's customers were everyday consumers that actually were very sensitive to price changes. This resulted in too high prices that Nike's everyday consumers were not willing to spend. Nike realized that even though the customers in the sports industry care about brand reputation, they also care about the price. However, the company's determination to once again achieve the highest market share became a healthy motivation that enabled the company to increase its efforts and work harder for the position as a global leader. As a challenger for the second time, Nike started to imitate Reebok by

attracting female customers and also took promotions to a new level by launching the famous “Just do it” campaign. After two years as a second time challenger, Nike yet again seized the position as the market leader, which it has sustained ever since. From its setback Nike had learned that a market leadership does not automatically guarantee further growth and that great efforts are very much needed to defend such a powerful position. In order to carry on this position in the global market, Nike used an expansion strategy to respond to a larger group of customers. Efforts were also increased within the areas of sporting equipment, which also included acquisitions of complementary businesses, such as Cole Haan. Furthermore, in order to protect its existing market share and sustain the market leading position, Nike concentrated its efforts on leveraging its main competitive advantages; its promotional efforts, brand awareness and customer relations.

“When Phil Knight started this company... it was not his ambition to have a company that was going to be a player in the sport shoe business. It was Knight’s ambition... to be where he is today, to be dominant, to be the best in the World. Not to be a competitor, not to be an also-ran, not to make the final, but to be on the victory stand”

(Jeff Johnson in Hollister 2008:294).

Even though Hamel and Prahalad (1989, 1994) highlighted that Asian companies were the ones using strategic intent, Nike is a perfect example of a company that started with extremely high ambitions that were out of all proportion compared to its actual resources and capabilities. Nike had from the start created an obsession with winning at all levels of the organization and has been able to sustain this ambition ever since. The company’s strategic intent allowed its employees to dream big, and its managers challenged the organization to reduce the gap between resources and ambition and thereby allowing a considerable stretch for the organization. This stretch forced Nike to be more inventive, flexible and creative, than its competitors and hereby utilizing competitive innovation. From the start Nike was able to analyze its competitors in combination with the anticipated pattern of industry evolution and hereby, revealing competitive openings and identify the required skills needed in order to take the initiative away from better positioned competitors. Nike early recognized that imitation could only take the company so far, and realized that it had to fundamentally change the game in ways that would disadvantage the current leaders. As Hamel and Prahalad (1994) further argued, companies that are afraid to commit to goals that lie outside the range of planning are not likely to become global leaders.

There is nothing to say about Li Ning's ambitions to commit to big goals. However, its goal as a newcomer was not to become the global leader, but to become the market leader in China. A goal the company was actually able to achieve after only 5 years of existence. From its inception, Li Ning did not have global ambitions at all; however, once the company lost its leadership in its domestic market, the management realized that in order to once again become the domestic leader, Li Ning would have to increase its focus in global markets. In 2008, a new growth strategy was formulated when Li Ning announced to become one of the world's top five sports brands by 2018, this is where its strategic intent enters. As already discussed, different approaches to competitive innovation has already been evident; first, Li Ning is currently building layers of advantage such by exploiting cost innovation and lower prices. Second, the company is constantly searching for loose bricks in Nike, adidas and other competitors' defenses, and establishing themselves in peripheral markets and segments. Third, the Chinese Dragon is changing terms of engagement by exploring the areas of international web pages and e-commerce, and last but not least; Li Ning is competing through collaborations with other sport brands. It would not be surprising if the company will acquire more Western brands during the upcoming years. The recent efforts by the company support its high ambitions, but more importantly, it is all described by Hamel and Prahalad (1989, 1994) in the strategic intent framework. Hence, the game is not new and the rules have not changed; it is just a new player now aiming for global leadership.



6. Conclusion

In order to conclude this research and the comparison of Western and Chinese multinationals' evolutionary process, the final results will be discussed.

6.1 *Results and Findings*

After having analyzed the evolutionary process of a representative Chinese- and Western multinational, it became evident that there were major differences between the two, especially with regards to the pace and structure of their development. It was most surprising that it actually was the Western company that had the most rapid development from newcomer to market leader. Nevertheless, given the different contexts, it might not have been possible for a company to achieve such a rapid transition 20 years later. On the other hand, based on the fact that the Chinese multinational started its development at a later point of time, its options for strategic planning were more comprehensive; which has resulted in a slightly different strategic approach. Whilst the Western multinational is recognized for being path dependent and initiate its operations within niche markets in order to grow and develop knowledge and expertise, the Chinese multinational more or less leapfrog the newcomer stage and quickly adapt the role as a follower, imitating well established players. In line with this reasoning the Chinese firm start with a much wider product range right from the beginning, which implies that the company will need to continuously adjust its organizational structure, operations, goals and strategies in order to be able to grow.

One of the most obvious differences is the starting point of the internationalization process. The large workforce and great amount of potential consumers ensure a tremendous domestic growth that no Western company would ever achieve in its domestic market. Furthermore, the dragons are often perceived as very aggressive, however our result show that Chinese companies often avoid direct head to head competition with strong multinationals before they consider themselves ready to compete on equal terms. The companies enjoy working under the radar and develop strategies and capabilities outside their competitors' reach. Here, they can build up a set of advantages that will allow them to catch up to all industry standards and prepare for the upcoming battles.

It is now evident why Western managers often go through the following four stages:

1. It is not happening in our industry
2. It is happening, but it does not matter
3. It is happening, it does matter, but we do not need to do anything now; let us wait and see how it evolves
4. It is too late

Because of the Chinese companies' lack of path dependency, and disordered development, Western managers might be deceived to believe that the Chinese competitors are less important, and at an earlier stage of development than they really are. Hence, stages one and two are apparent. When the Chinese first start to attack, often during stage three, the Western managers realize that it does matter, but they have no prior knowledge to know how to deal with the new competitors, and it becomes hard to keep track of the Chinese's companies' development and the direction they would like to pursue. This is where the passive and insecure behavior appears. In addition, as the Chinese implement several efforts at the same time to meet industry standards, some of these efforts are not "all-in" right away, which might mislead the Western competitors to believe that they are at an earlier point of development than they really are. However, the dragons often have the basis, and just have to make minor improvements to industry standards, to close the gap and catch up with market leaders in a short amount of time. While Western managers have been ignoring the emerging dragons, the Chinese companies have been preparing for a global attack, by growing under the radar and establishing a strong foundation with the purpose of attacking competitors once they are off guard. The Chinese might be perceived as aggressive competitors with a rapid development, because once they attack the global market, it usually comes as a surprise for the Western companies and it is often too late to do something about it.

So, to what extent are these differences changing the competitive environment? The cost innovation that Chinese multinationals are currently taking advantage of to reduce prices in high-end markets is a relatively new phenomenon that has the potential to change the perception of prices and pricing strategy in the future. Western companies might need to decrease their prices and increase margins in order to stay competitive in the long run. In addition, peripheral markets in China and segments will in the future become an important arena, not only for Chinese companies, but also Western competitors need to increase their appearance in these regions in order to stay competitive in China. However, cost innovation

alone, is not enough to disrupt the global competition, but in combination with competitive innovation, a company will be able to change the competitive environment in the future.

Most importantly, even though Chinese and Western multinationals appear very different, they still take advantage of the same strategic logic, and the strategic tools utilized can all be explained by a combination of existing theories. Hence, the rules have not changed, and there is no need for Western managers to feel unarmed in the upcoming battles, but rather start to recognize how their Chinese competitors are developing and evolving towards the global market to prepare for the upcoming battles.

6.2 Contribution to Academia and Suggestions for Future Research

When examining the results of this study, contributions to academia and practical implications are evident. As elaborated, this academic research project contributes to filling the research gap that exists with regards to the differences and similarities in strategic behavior of firms from different markets. Simultaneously, the study contributes to the research field of the evolutionary process of companies, by explaining how companies evolve from being a newcomer and underdog to becoming a global player and eventually a market leader. The authors also shed light on to what extent differences between Western and Chinese MNCs can be explained by existing theoretical frameworks and if these differences have the potential to change the market in the future.

The main aim is to encourage further research, which will support, as well as critically discuss our findings. As our empirical findings only were collected from the sporting goods industry, we would encourage future research within this dynamic field of study in additional industries as well as on a bigger scale to increase the validity of our study.



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8. Appendix

Figure 8: Thesis Structure

Part	Chapter	Purpose
Introduction & Research Background	1. Introduction Background, Problem Discussion, Purpose & Objective, Delimitations, Disposition	Provide ... Introduction in the Topic ... State of Art in Research ... Chosen Research Design
	2. Methodology Research Approach & Design, Data Collection, Evaluation & Data Presentation, Delimitations	
Theoretical Framework	3. Theories for the Analysis Competitive Strategies, Strategic Intent, Options for Competitive Positioning in Industries, Marketing Mix, Brand Strategies	Form ... Background and Knowledge for Analysis and Evaluation
	4. Industry Profile Def. Sport Industry, Development of the Industry, Industry Characteristics, Factors affecting the Industry	
Analysis & Discussion	5. Empirical Data (Nike vs. Li Ning)	Introduction of the Industry and the Case Companies Display the Differences in both Cases and applying the Theory
	6. Analysis & Discussion - Newcomer - Follower - Challenger - Market Leader	
Conclusion	7. Conclusion Concluding Remarks, Contribution to Research, Limitations & Future Research	Conclusion in terms of Research Contribution, Limitation and Outlook

Figure 9: Nike Company Logos from 1971 to 2010 (Ziegler 2010)



Figure 10: Oriental Theme in Brand Imagery (Li Ning - Anything is possible)







Figure 11: Shaquille O'Neal Theme Shoe (Li Ning 2008)



Figure 12: Li Ning - Opening Ceremony Olympic Games in Beijing (Li Ning 2010)



Figure 13: Similarities between Nike and Li Ning

	Nike	Li Ning
Logo		
Design		
Endoresment Contracts	