



ARTICLE INTERNET, IT, PLATFORMS

## Nike+ and its competitors: a running battle?

By [Paul Belleflamme](#) 6 March 2013 43



For a few years now, Nike has been operating, in collaboration with Tomtom and Apple, a series of devices that allow walkers and runners to record and follow various parameters related to their walk or run history (like distance, speed, burned calories, ...). The concept is the following: the runner trains with a GPS sportwatch or with a smartphone equipped with the Nike+ app and once the training session is over, the data recorded on the device can be uploaded on the website [www.nikeplus.com](http://www.nikeplus.com). This site allows the runner to follow his/her training stats, share them with "friends", join groups (e.g., "LLN joggers"), or challenge friends (e.g., "who's going to be the fastest on 10km in 2013?"). For more thorough descriptions, see the [wikipedia entry](#) or this [2009 Wired article](#).

Similar competing devices exist on the market. Take, for example, the [Garmin Forerunner](#) series. Yet, so far, the Nike+ system is incompatible with such competing devices. This means, for instance, that it is not possible for a jogger using a Garmin watch to upload his/her data on the Nike+ website.

One may wonder why Nike has opted for this strategy of incompatibility. Isn't it fair to say that Nike's objective with its Nike+ service is to increase both the traffic on its online shop and the visibility of its brand? If so, attracting runners who use competing devices would prove profitable. But there may be other reasons as to why an open strategy is not such a good idea for Nike.

This is what I ask you to reflect upon: *What are the pros and cons of an open vs. closed strategy for Nike with its Nike+ service?*

(This post has been written in collaboration with [Benoît Hanzen](#), Senior Consultant at Weave Consulting.)



### About Paul Belleflamme

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## 43 Responses to Nike+ and its competitors: a running battle?



**Daniel Scurtu** 21 March 2013 at 12:12 #

I think I might be biased since I have place a lot of weight on image and marketing, but I think Nike isn't doing what's best in the long run to create goodwill. Whether that's more important is a matter of discussion and a judgement call.

First, open strategy. It's easier to steal customers away from Garmin and other competition, and it definitely increases network effects, since people with different products can all connect on the same network. And if Nike manages to become that network, they've won not a battle, but a war, since reaching critical mass will ensure Nike+ network dominates for a long time. On the downside, it's also easier for the competition to take customers away from Nike. Unless there is a serious product differentiation, which in this case won't outweigh the network effect strength, the main grounds for competing will be price, and I'm guessing that a big company with a big brand like Nike won't find that concept too appealing. So I wouldn't say Nike has many incentives for an open strategy here.

Why a closed strategy? A closed strategy might diminish the network effects, but does Nike need to worry about that much? They're already a leading brand, so provided they don't run into some kind of trouble, it shouldn't be too hard for them to reach critical mass and have their network become the primary one.

They have market power, so in theory the closed strategy is the preferable one.

Now if we move on to the marketing standpoint... the story is different. If I'm not mistaken, the point of the whole idea is to increase awareness of the Nike brand and especially strengthen the connection between running and Nike. All this to sell running shoes and other sportswear, since Nike isn't an electronics or watch company, at least not traditionally (as opposed to Garmin, who specializes in navigational equipment). Now, a Nike+ user will have the brand in mind at all times while running, but a Garmin user who isn't allowed to use the Nike+ website won't ever be put in contact with the brand, and will be less likely to buy Nike sportswear. On the other side, of course, someone who uses Nike+ is already a customer of the company, and is already likely to own Nike sportswear. So a closed strategy consolidates Nike's market, but does not necessarily expand it as much.

But with an open strategy, Nike+ website could attract other users, and might open their brand up to totally new consumers that haven't even interacted with Nike before. Since sportswear consumers are generally loyal to a brand once they've started using it (or at least in the US, if not so much in Europe), the market is slightly more rigid than other types of goods, so in my opinion Nike+ could be an excellent gateway to attract the attention of new consumers (but then again, wasn't this the point in the first place?).

One more thing to consider: the nature of the goods. A Nike+ sportswatch on Amazon is 170 bucks. That's quite an investment (the iPod add-on is around 20+ dollars, a much more reasonable price). But it is a durable good, which means that besides the fact that you'll only be using one at a time, you're unlikely to buy a new one every few months to a year. Whereas a pair of Nike shoes are not exactly durable if you're running 5 days a week. You'll be buying 1,2, maybe 3 or more pairs of running shoes a year. From a revenue standpoint, I don't see Nike+ equipment generating revenue comparable to the running shoes market. So if it comes down to choosing between selling more Nike+ equipment and more running shoes, the shoes should take precedence.

And there is one more aspect: the PR side of things. Nike's image has in the past suffered from scandals with the Asian manufacturing facilities, even if technically the company worked through subsidiaries and had little to nothing to do with the actual facts. There were several other cases, such as the Nike Skechers campaign that sent the wrong message and found a lot more criticism than expected. But if the company decides to make the Nike+ website exclusive to Nike+ equipment users, they could reinforce the image that Nike cares too much about profits (which is even worse considering their stated dedication to helping people get fit and stay healthy). Besides, opening their network up to other consumers is the best way to send an invitation.

So in my opinion, the best strategy is to make every effort necessary in the short run to make the Nike+ network primary and ensure long-term dominance, then open it up for everyone in order to bring as many new people to the Nike website as possible. I think the benefits to the company as a promotional tool are much greater and longer term than the ones brought by a simple product. If they choose to make Nike+ just a product, they risk wasting the network effect potential and waste a good opportunity to grab new consumers.

Also, think of the technological growth potential in the future. Sure, people without Nike products can use the Nike+ website... but Nike could sell shoes with pressure sensors in the sole that can tell you if your form needs improvement, or analyze impact so you can reduce cartilage damage and protect your joints so they don't give out when you're older, or tell you if you're relying on one foot more than the other when running. Extra options like this would both differentiate Nike+ from competing equipment, and the actual running shoes and other gear (in many sports amateurs could benefit from form improvement, and much of that form improvement can come from mechanical analysis).

My opinion: open the market as soon as critical mass occurs and Nike has the lead.

Like:  0

REPLY



[Paul Belleflamme](#) 21 March 2013 at 13:05 #

Thanks for these additional considerations.

REPLY



[Andres Chamba](#) 21 March 2013 at 09:48 #

The strategy implemented by Nike is clearly looking to increase online traffic on its shop and thus a substantial increase in its sales of products. Also, building a robust visibility of its brand is part of this strategy. But there are many other stronger benefits of having a closed strategy.

Some of the pros of having a closed strategy are outstanding. The fact that the shoe industry of Nike is incorporating as complementary products like produced by Apple and Tomtom puts in evidence the inventiveness of Nike's executives. The main advantage for Nike would be to be able to keep very valuable information of the customer. This information affects both Nike and the users of the web page in very powerful way. While Nike is being able to keep information of client's tastes and valuable data, Nike will be able to produce products fitted to clients needs. Nike will know exactly how many kilometers a client running, how often and they will be match new products accordingly. This information could be used for other marketing strategies tailored to the behavior of customers. Also joggers will be locked in with the system since they have transferred valuable information to Nike and will possibly present switching costs. Customers on the other hand, will have more choice and will benefit from new products designed according to their tastes.

Indeed, the closed strategy seems to have robust benefits. Moreover, for an open strategy there are additional costs that come with coordination, standardization, inter alia. Creating software and hardware that makes the collection of information accessible from other sources is costly. In the end Nike should not bother incurring in these extra costs and should benefit from the inventiveness of its system although by losing some market to Garmin.

REFERENCE:

Gandal, N. Compatibility, standardization, and network effects: some policy implications. 2002. Oxford Review of Economic Policy.

Like:  0

REPLY



**Paul Belleflamme** 21 March 2013 at 10:02 <#>

You're right to point at the value of information for Nike. That makes a link with our class on behavior-based price discrimination.

REPLY



**Marie-Laure Le Déodic** 21 March 2013 at 08:38 <#>

"What are the pros and cons of an open vs. closed strategy for Nike with its Nike+ service?"

An advantage of open strategy for Nike is the visibility the system offers. I think that Nike doesn't need this one because it is already a famous brand of sport materials and sportswear.

My point of view is that this brand chose the closed network to enhance the quality of their products and services. To do that, they chose to work with highly qualified companies in specific sectors such as Apple and TomTom who are famous and have a large market share in their markets. I think Nike wants also to give quality and network to their consumers. After that, another thing to keep in mind is that when you buy an Apple product, you become a member of the Apple community; I think it is the same goal Nike wants to reach: when you buy a Nike product, you become a member of the Nike community.

Another reason I think Nike didn't want to make an open strategy is the possibility to be compared. First, you can be compared by your competitors and after that copied by them. Second, Nike consumers can compare their results with other consumers. It could be a problem if consumers from other brands have better results than Nike consumers. People could be interested to buy the brand of the winners. With this system (the closed strategy), Nike keeps control and avoids this problem.

The next advantage to keep a closed strategy is you only have one partner. In this way, you can make good and specialized products. It is also easier to work with only one partner by sector because you only have to follow the specifications of this brand.

Like:  0

REPLY



**Adrien Bonomini** 21 March 2013 at 08:20 <#>

Firstly, let's focus on the open strategy. We can distinguish it from the closed one saying that it allows to attract more consumers since there is no barrier of incompatibility with other brand products. It seems at first sight to be the best strategy to get a better market share and a better visibility thanks to a good accessibility of the product or service.

However, in our case, we know that Nike is one of the most popular sportswear brands in the world for many years and is known as being of good quality. Its revenue is huge and this allows the brand to make big investments in marketing. That's why I think that Nike has another way to manage its visibility. It will either focus on reinforcing its quality image.

That's why I think that the closed strategy is the best option for them. In that sense, the Nike + service is relevant for two reasons. Firstly, the collaborations with TomTom and overall Apple reinforce the good fame of the brand thanks to this similar firms' profile on different sectors. It allows the brand to expand and to catch consumers from those other sectors too. Secondly, this strategy is maybe not profitable at the beginning but for the long term it helps those three firms to have a better position compared with their big competitors. The network effects triggered with the online sharing of data is a good element in that sense. Of course, there is a risk that these effects may be inverted due to some possible unpleasant history within one of these three brands. But if each of them succeeds in managing well its image like they always did, the Nike + service is a very interesting way to create switching costs with its respective competitors.

Like:  0

REPLY



**Paul Belleflamme** 21 March 2013 at 08:47 <#>

As we will discuss in class, when it comes to choose between compatibility (open strategy) and incompatibility (closed strategy), large firms (like Nike) tend to be more in favor of the closed strategy than small firms. So, I agree with your analysis.

REPLY

**Pauline de Grady** 21 March 2013 at 00:16 #

Even if incompatibility often disturb the consumer and would make it choose for an other brand I think it can be used as a tool of differentiation toward other brands. Nike would then position itself as "better" than others. It would be like a private network just for the Nikes' society. I think this is the strategy used by Apple. They aren't compatible with other computers but the users want it because they want to be different. Nike has enough notoriety to permit itself to act this way.

If Nike chooses for the differentiation, it has to be aware for certain points. It has to exploit the conceptual distinctions for product differentiation. In this case, their website has to offer more than the others. Then, they have to protect their innovation to avoid that other websites offer the same services. If Nike+ is very different from competitors, that will protect it from substitutes and give it a competitive advantage.

So I think that the closed strategy of Nike is a good choice.

Like: 0

REPLY

**Paul Belleflamme** 21 March 2013 at 08:44 #

"(Incompatibility) can be used as a tool of differentiation toward other brands." You're perfectly right. It allows thus to relax price competition. yet, incompatibility may also mean reducing the size of the market as network effects are not fully exploited.

REPLY

**ZHANG HONG** 20 March 2013 at 23:37 #

One advantage of adopting close strategy for Nike is to expand and maintain its customers. As customers consider Apple, Nike, Tomtom as top companies in the field, they will develop a sense of trust and reliance when they choose products from these company's exclusive partners. For instance, Apple's customers have a high chance to choose Nike's products when they want to consume stuff related to sports. The combination of the "strong" and the complement of the advantages has been realized in Nike's case.

On the other hand, Nike may also lose customers by adopting close strategy. If a customer doesn't consume Apple or Tomtom product, he/she will lose chance to experience the convenience that Nike+ service can bring. And since Nike has been closely linked with the two companies, any fluctuation in these companies may have impact on Nike.

Besides, Nike value Nike+ as something more important. Study can show that Nike involves customers in the value creation process by offering website(Nike+) where they can share their interactions and experiences. For Nike, the learning from these interactions creates new strategic capital. Nike build relationships and trust with Nike+ community while enhancing its brand. So the value that Nike+ can bring to Nike seems beyond the scope of closed strategy.

Finally, I'm unsure of the number of customers for Nike will increase or decrease due to pros and cons of closed strategy, since it's hard to calculate the number and there are many other factors influence customers' behavior. However, we can see that many companies develop their applications both for iphone/ipad/ mac system as well as Android system to attract as many users as possible.

<http://www.slideshare.net/PareshAshara/nike-12906460>

Like: 0

REPLY

**An Vu Pham** 20 March 2013 at 19:51 #

First of all, Nike+ is an opportunity to extend its sportswear brand. Even though their core business remains sports equipment, extending their brand to training applications can be related because it's still linked to sport. For that purpose, the collaboration with Apple and Tomtom is interesting for them because because those two are established firms in two different sectors which will allow them to diversify.

On a customer point of view, it's regrettable for those who are using a device that is not compatible with Nike+ but for Nike, there are enough people using an Apple or Tomtom device to make Nike+ profitable.

I think the reason why Nike didn't go with an open strategy is that they have an exclusivity agreement with Apple and Tomtom. In order to benefit from the knowledge of Tomtom about GPS devices, Nike might have guaranteed them the exclusivity of its application since Garmin is the main concurrent of Tomtom. It is also perhaps no coincidence if Nike chose Apple as a partner because they also favor a closer strategy regarding all their software's and applications (comparing to Google or Microsoft which are more open as said in some previous comments).

Some devices, like captors, are exclusive for Apple devices (1). However, in order to reach more customers, Nike made their application available for both the iOS and Android. We can also see that in order to respond to Nike, its main concurrent Adidas has also developed a

brand of training products named Micoach(2). However, there are only some devices and no (yet) specific products (like the GPS watch from Tomtom and Nike) developed in partnership with some specialized firm.

(1) <http://store.apple.com/fr/product/MA368ZM/E/capteur-nike-%2B-ipod#>

(2) [http://www.adidas.com/fr/micoach/ui/Product/#!/speed\\_cell](http://www.adidas.com/fr/micoach/ui/Product/#!/speed_cell)

Like:  0

REPLY



**Paul Belleflamme** 20 March 2013 at 20:07 #

You write: "On a customer point of view, it's regrettable for those who are using a device that is not compatible with Nike+ but for Nike, there are enough people using an Apple or Tomtom device to make Nike+ profitable." You are perfectly right to point that when it comes to compatibility, consumers' and firms' views are often at odds with each other.

REPLY



**Shoira Mukhsinova** 20 March 2013 at 19:21 #

Nike has entered the market of GPS enabled watches through its partnership with TomTom. The incumbent firm, Garmin, offers Garmin Forerunner devices which enable users to analyze his/her running/swimming/biking data on the platform called Garmin Connect. Not surprisingly, Garmin Connect has the same characteristics as Nike +, it enables to upload/visualize data, share the results, etc.[1]. Moreover, it is also a closed system, thus not compatible with Nike watches.

By opting for incompatibility, Nike wants to compete for the market. The brand image of Nike in the sports clothing industry is strong. Since it targets the same customer segment by Nike +, it can leverage from its reputation when shaping customer expectations. Since, the positive expectations about network size will influence the size of the network, it will speed up reaching the critical mass of consumer in the network. From there on the network effects will yield a bigger network size. Since the two platforms are incompatible, one of them will dominate in the long run. On the other hand, partnership with Nike to develop the Nike Watch, enables TomTom to compete with Garmin in multiple markets (GPS devices and GPS enabled watches), thus, mutual forbearance becomes possible, reducing the competitive intensity between them.

To summarize, leveraging from its brand image to create positive expectations and mutual forbearance between TomTom and Garmin could be the reasons why Nike opted for incompatibility.

1. Garmin Connect Features. <http://connect.garmin.com/features/progress>

Like:  0

REPLY



**Laurent Cochaux** 20 March 2013 at 17:22 #

If I was the CEO of the Nike company, I would do the same (choose a closed strategy (at first)). If i had to create this device, i would ask me questions as what kind of partner do I need? Here, they needed a GPS company and a "technology company". I see different opportunities but i choose those one who offers me the "best return". Tomtom is one of the leader in the GPS company and offers "easy-to-use" devices. Apple offers design good and brings the "smartphone" partnership nike needs. (These choices of apple and tomtom are logical I think because of the brand image nike will show (young and well-established in the market)).This choice of only two partners is explained by different reasons : exclusivity, reduction of costs (through the building of "friendship"/trust), they have common goals (make money) and they can make some scale's economy concerning people, advertising,... Indeed, if i had various partners, it implies various contracts, hiring more people to manage all those relationships,... A closed strategy is easier to manage when you start something really innovating. Furthermore, this closed strategy allows the company to start the device with only few people who can give easily and faster a feedback about the device (they act like a small "testing" community).

The open strategy involves an access to a broader network but involve as well a easier way to be copy by competitors.

Like:  0

REPLY



**Paul Belleflamme** 20 March 2013 at 18:23 #

Fair points.

REPLY



**Gonzalez Diego** 20 March 2013 at 17:17 #

Nike is above all else a shoe seller. They want to sell shoes. The Nike+ system is another tool to lock-in customers. I guess that the goal of the company is to create switching cost that their customers will have to overcome if they want to move to an alternative product. Indeed, if the customer wants to buy some Adidas shoes, they would have to replace the complementary technology (The Nike+ system). So, in order to avoid these switching costs the customer will continue to buy Nike shoes.

In my view, I don't think we can discuss about open vs closed strategy for Nike with its Nike+ service. Why would they want to set up an open strategy and let their competitors use their Nike+ service since it isn't their core business. They are not selling application but shoes. If they decide to add a string to their bow and launch themselves in an app's business then it would be interesting for them to use an open strategy.

The same lock-in strategy is used by mobile sellers. Each brand has its own power adapter, car's support and so on. I remember that my parents didn't want to buy another brand of mobile because they got all the equipment for Ericson. The problem with these lock-in strategies is that they limit the consumer choice.

A good example of open vs closed strategy is the battle struggling between Apple with IOS and Google with Android. While Apple keeps its systems more closed and exercise a complete control over them, Google has opened his operating system to a lot of different platforms.

Like: 0

REPLY



**Paul Belleflamme** 20 March 2013 at 18:22 #

I fully agree with you that Nike has not much to gain by opening its system to competitors such as Adidas. But the question was more about opening it to users of Garmin devices (which do not compete with Nike's core business).

Regarding mobile phone power adapter, your analysis is in line with Quentin Malgaud's comment (which was posted at the same time as yours).

REPLY



**Malgaud Quentin** 20 March 2013 at 15:45 #

Open or close strategy for big manufacturer, especially in the electronic sector is an old debate. Two parallels could be drawn : a first one with the attempt of the european commission to establish a unique charger for data-enabled mobile phones. The second one is Sony, owner of multiple proprietary standards.

The unique charger project of the EU aims at reducing the enormous amount of electronic waste -51.000 tons every year in EU(1)- generated by the incompatibility of the mobile phone sector. Here the government tries to impose a standard, or in other words, compatibility, by law. On the economic point of view the con's are that such a law would reduce the competitive advantage earned by a good and efficient proprietary standards and also that it would reduce the incentive to innovate i.e. the research to improve chargers. The pro's are that freedom is given back to the consumers that were prisoners to the brand of their phone. Each mobile phone company had a monopoly on their chargers. This clearly reduces competition. A monopoly on a side business leading to a monopoly on the core business could be called a side-monopoly.

Competition has more weigh here compared to incentive to innovate because the subject is a side business. The hypothesis is that companies will continue R&D about their phones, the improvement of charger has little consequence compared to the chains chargers represent.

In the case of Nike+ the incompatibility is a clear competitive advantage and concerns the core business. The pro's and con's are the same but the con's weight more because forcing compatibility would completely cancel any incentive to innovate in the future.

Secondly, such a proprietary standard based strategy reminds the one from Sony. The japanese brand owns multiple formats like memory sticks, minidiscs, blue ray, walkman, floppy discs and compact discs (2). Proprietary formats amplify the effects of strategical choices: As the format is a success (blue ray), revenues are higher. But if it is a failure, the company misses a step in the evolution. Take for example the minidisc story: Sony believed that Mp3 would not work because the sound quality was not good enough. Apple disagreed. The consequences are that Sony, that used to be the leader on the portable music market 10 years ago has now barely disappeared.

As a conclusion, proprietary format strategy is much more risky: it amplifies successes and failures. And on the social welfare point of view, formats enhance innovation, i.e. future social welfare; as long as it concerns the core business. I would leave a question open: Are side-monopolies always negatives for the total welfare?

notes:

1: [http://ec.europa.eu/enterprise/sectors/rtte/chargers/story/index\\_en.htm](http://ec.europa.eu/enterprise/sectors/rtte/chargers/story/index_en.htm)

2: [http://www.11points.com/Web-Tech/11\\_Famous\\_Sony\\_Products\\_Ranked\\_From\\_Worst\\_Failure\\_to\\_Biggest\\_Success](http://www.11points.com/Web-Tech/11_Famous_Sony_Products_Ranked_From_Worst_Failure_to_Biggest_Success)

Like: 0

REPLY



**Paul Belleflamme** 20 March 2013 at 18:18 #

Very good analysis. We'll devote a lecture to public policy issues in network markets. Standardization will be on the agenda.

REPLY



**Thibaut Debruxelles** 20 March 2013 at 13:51 #

I think there are many pros and cons of both strategies for Nike with its Nike+ service. Let's have a look at the open strategy. This strategy makes Nike+ (and Nike products) more attractive due to the extended and growing network. Indeed, everyone is able to post its walk history with any device and so more and more people use it. It's a big advantage because it makes more views on the Nike website (and so more traffic on the online shop as it is said in the text). On the opposite it allows the competitors to enter easily on the market, using the Nike+ app to promote their products. In short, the cake is bigger but more divided.

Now, why a closed strategy? The biggest negative effect, for me, is the loss of a lot of users (and so potential clients). The network effects are not very attractive anymore and you're obliged to buy only Apple or Tomtom devices (which are often expensive) to use the app. It can be a big brake for people. But a big pro for Nike to set a closed strategy is the high entry barriers of the market. Indeed, by excluding all the other devices, the penetration of the market is more difficult for competitors and the concurrence intensifies. Their exclusivity with Apple and Tomtom can also bring to Nike a lot of money thanks to juicy contracts with those firms. To illustrate with the same example than in the previous section, the cake is smaller but Nike's part is bigger, the cake is less divided.

In conclusion I would say that it's difficult to choose between those strategies. Both have their pros and cons, so I think the choice depends on the mentality and on the policy (marketing, targets, ...) of the company. I'll end my comment by saying that it is unsafe for Nike to set this closed strategy because of the risk that other apps like this one become famous and take all the consumers Nike could have attracted by setting an open strategy.

Like: 0

REPLY



**Paul Belleflamme** 20 March 2013 at 18:15 #

Your metaphor of the cake summarizes well the trade-off.

REPLY



**Paul Belleflamme** 19 March 2013 at 15:16 #

Food for thought. Here is where the use of Nike+ (and similar apps) could lead to: <http://bigthink.com/endless-innovation/meet-the-urban-datasexual>

REPLY



**Marielle Uylenbroeck** 18 March 2013 at 21:09 #

One strategy is not better than another. The main advantages of those kinds of strategies are certainly reduction of costs and of human resources (see references). Indeed, each part of the cooperative association benefits from the knowledge of the other. Everyone provides the other its best assets.

In addition, each of strategies has different advantages.

The Open Strategy can reach all the market because the technology is compatible with all devices. But I think that this strategy has one big disadvantage: the risk of competition. Indeed, in this case, some competitors could enter the market given the high potential profitability.

If the Close Strategy is preferred, then all the market is not covered because of the incompatibility with all devices. But the main benefit is that the companies can ask a higher price because of product specificities, and thanks to those specificities, the risk of competition is lower. In this case, mainly in this example of Nike+, that associates itself with Apple and TomTom, we could attend brand effects: people who like Apple or TomTom could prefer to use this Nike+ App instead of another.

To conclude this reasoning, I would like to say that the collaborator's choice is the key point because the success of the product would be highly influenced by the knowledge, the reputation but also the network of the companies that can be added to each other, either in the open strategy to be the leader on the market, or in the close strategy to have profit.

References:

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<http://www.openinnovation.eu/02-02-2012/6-leading-pharma-players-join-forces-to-beat-costs/>

Like:  0

REPLY

**Paul Belleflamme** 19 March 2013 at 07:59 <#>

You are right to consider Nike's initiative as an example of collaborative innovation.

REPLY

**Benoit Hanzen** 18 March 2013 at 19:34 <#>

The arguments given so far are quite interesting! In this post, I try to comment / challenge four of the points given, sometimes playing the "devil's advocate" to push the debate further.

1. "Nike decided to set up a close collaboration with strong partners which do not compete with each other (TomTom & Apple) to ensure high quality products, secure its brand image, etc."

Knowing that Nike launched its Nike + app on Android phones some months ago (as pointed out by Sophie), it seems that they are not against the idea of collaborating with competing partners...at least on the smartphone market. I would not be surprised to see them launch their app on all possible phones/devices, as long as their criteria are met in terms of profitability, brand image, technical capabilities, etc.

On the GPS market, the story is probably different:

- I would rule out the possibility of Nike launching another sportwatch which would be powered by a competitor of Tomtom, maybe because they indeed have exclusivity deals, but mostly because I believe it would be another big investment to make to get the same product in the end.

- I still believe however that Nike would benefit from having its Nikeplus online platform compatible with devices such as the ones from Garmin. I would argue that the reason this has not happened yet (and I would guess it won't happen) is that there would not be much to gain for Garmin with such a deal. Nike could potentially "buy" the rights of interfacing their platform with Garmin devices, but in the end, Garmin will just see parts of their customers using the Nike platform instead of their own, and companies want to keep their customers close.

2. "Nike made an exclusivity deal with TomTom to take the most of the partnership from a financial perspective"

I don't believe Nike earns that much on the sales of the watches, but they rather use it as an enabler to boost sales of their clothes, shoes, etc. which is closer to their core business and on which they make a decent margin. I would therefore tend to disagree with the argument that says that they deliberately closed their platform to TomTom devices to maximize profits on their watches.

A fortiori, I don't believe that Nike wants to lock customers on their hardware devices, as I am simply not sure it is the case (is the business case of the watches profitable on its own?)

I have unfortunately no data to back this up. If anyone has insights or data to invalidate or validate this, it would be interesting: margins on the watches (vs. volumes and margins on the clothes), split between users of the watch/ of the shoe pod/ of the smartphone apps/ etc.

3. "The "closed strategy" has been chosen by the different parties"

Questions that come to my mind here are:

- What arguments tend to prove that it is a deliberate choice of Nike to have a close strategy? Don't they have a close-like strategy (on the gps market) because they simply cannot implement an open one (>> they would need collaboration of competitors of TomTom which looks tricky, cf arguments above)?

- Many of you argue with the "exclusivity contract" point. Facts (e.g. Nike+ app on android phones) prove it is not the case on the smartphone market, but do we have any insights on the gps market? And is it both ways? Is TomTom not allowed to partner with Puma or Adidas?

4. A closed strategy secures the revenues of Nike

- I understand the point that once locked in the platform, the more a runner uses the "Nike experience", the more it wants to stick to it as it can access his history, feed his challenges with his friends, etc. However, I am wondering what advantages Nike can get to lock in a runner on its platform if that user does not spend any money in the online shop? Once the watch or the smartphone app is bought, there would be no further revenues for Nike? Do you consider that the online platform is just "part of the product"?

Any comments/ideas/counter arguments are very much welcome!

Like:  0

REPLY

**Naert Sophie** 18 March 2013 at 18:51 <#>

Yes, I think there are some other reasons for Nike to choose a closed strategy. Indeed, Nike's objectives with its Nike+ app are to increase the traffic on its website and the visibility of its brand. So working with many firms (e.g: TomTom, Garmin etc) would be a good idea to increase the number of users of the Nike+ app. There are thus other reasons which push Nike to adopt a closed strategy.

According to me, that would be, as mentioned in the previous posts, the exclusivity contracts. We know that Garmin and TomTom are two

big competitors on the GPS devices. In my opinion, TomTom has offered a contract more advantageous for Nike. As Maxime said, the financial arrangement between Nike and TomTom for the product worth it!

Moreover, Apple and TomTom are for the moment at the top! By working only with this firm, Nike increases his popularity/quality (consumers matches these companies), ensures to work with the two big firms and benefits from networks effects.

To conclude, I think Nike is a brilliant agent and has considered for a long time his strategy in order to make it as profitable as possible! A closed strategy seems to be a better option for him than the open strategy.

Like:  0

REPLY



**Lucia Caballero** 18 March 2013 at 17:21 <#>

The pros of Nike's incompatibility have closely affected me recently. I would like to mention the Nike+ application for iPod nano ([http://nikeplus.nike.com/plus/products/ipod\\_nano/](http://nikeplus.nike.com/plus/products/ipod_nano/)) With the acquisition of an iPod nano, iPhone, iTouch or any posterior apple device you are able to experience a new way of listening to music while you get fit. In my case, I chose Apple when buying a music device because of the good experience I have had before. I already have trainers before buying my iPod but now I had bought a new pair although I did not needed them. The only thing I needed actually was that they were Nike+ trainers in order to enjoy this service. These trainers have a pocket under the insole for a sensor which can be bought for 20€ and links your movements with the music in your iPod. (<http://www.apple.com/ipod/nike/run.html>)

From my own experience Nike's closed strategy in collaboration with Tomtom and mainly Apple has been able to attract an Apple customer into their market. Apple users who, like me, want to fully enjoy these high quality applications will have to enter the Nike market.

In my opinion Nike has took advantage of Apple's power in the music devices market by linking it's products, applications and website to Apple in a way to share customers between the two brands. I also think that Nike has always run important marketing campaigns to increase the visibility and popularity of the brand, spending huge amounts of money signing up elite athletes (<http://www.youtube.com/watch?v=rSdwgZdPT6E>) this is the reason why in marketing terms an open strategy that increase traffic on the online shop or visibility of the brand will not increase Nike sells while in the other hand benefits of it's exclusivity conditions with Apple and Tomtom will descend.

Like:  0

REPLY



**Pablo Illán Tejedor** 18 March 2013 at 17:00 <#>

Nike's power is limitless as it is able to join to other important brands to open its market. They haven't been innovative as Nike+ is an application that develops the same procedure as well as Garmin Forerunner, as you mentioned in the article, which consists on recording the data of running lovers who are aiming to see their scores, calories or distances.

The point is that Nike goes further than competitors with Nike+, thanks to their collaborators (Apple or TomTom), as it increases the market of people who would have never bought something similar to a Garmin Forerunner; however if it is related with its iPod or Smartphone they probably would be interested in joining to the Nike+ community.

As in my case, while in the past I used to run just with music without caring about my scores or distance, few months ago when I purchased my last iPod I found out that I had the Nike+ application without expecting it, and I decided to prove it just for curiosity. As me, I guess there are a lot of people who had the same experience; people who are not passionate enough about running to buy a single watch to measure distance or calories but once it comes with your iPod they are willing to use it.

I think that Nike's application incompatibility with other systems is fair enough as they had a powerful innovative idea of attracting new clients through the introduction in other brands' services.

I guess that they are not looking for improving its visibility of brand in general terms as it is sufficiently worldwide known, but what I think is that their aim might be putting in clients' mind that Nike is a huge running brand, not only football, basketball or other sports probably more demanded in their store. They are looking for be considered in the top of running articles brands as Brooks, Asics or New Balance; and consequently increasing their traffic on its online shop as well as on its stores.

In my opinion, everything that I've said previously are Nike's pros with its Nike+ service as all of them would be profitable in terms of the brand position as well as potential clients and benefits. And it might have some cons as closing the market to those consumers of other devices similar to Nike+, however I personally think that in some years Nike+ will own a larger market share due to the help of Apple and TomTom as they are evolving continuously their devices and Nike+ will be part of it, increasing the number of clients while Garmin Forerunner would remain obsolete if they don't follow some new strategy to compete against them.

Source: <http://www.livestrong.com/article/211382-the-best-shoe-brands-for-running/>

Like:  0

REPLY

**Renard Pascaline** 18 March 2013 at 15:59 #

According to me, the major reason to adopt a closed strategy is probably due to agreements between the parts for exclusivity. The alliance is a major asset for the synergy between the three brands that creates a profitable interdependence and is probably preferred by Nike + than to widen its visibility with Garmin devices.

Also, this alliance is strategic and allows capturing consumers that the different brands could not have been able to touch. Moreover, Garmin is a direct competitor for Tomtom. According to what I have learnt on Garmin website (<http://www.garmin.com/fr-BE>), their product range is quite wide. The best thing for Nike + (and also Apple) would be to collaborate also with Garmin (and thus increasing its visibility which will lead to an open strategy for Nike), but in real business Tomtom would never allow that kind of alliance. Tomtom's clients (and using Nike+ device) could inform themselves about Garmin brand and switch and vice versa. This could not lead to a long-term relationship.

As I recall from last year from my marketing lectures, there are risks with such association. If one of the brand images is tainted, all the others brands can be affected.

Like: 0

REPLY

**Goudeseune Claire** 18 March 2013 at 08:55 #

Nike has decided to work in a closed strategy with Apple and Tomtom. This decision allows Nike to have consumers who already used the products of Apple and Tomtom. With installation of the application Nike+, these consumers enter in the network of this application (network effect).

A closed strategy creates also some switching cost for the consumers. Indeed, if they want to use the Garmin application, they have to purchase new materials. With open strategy, the application Nike+ will be maybe touch more consumers but there is also the risk that the consumers can change too easily. This closed strategy permit to Nike to have a certain amount of consumers that will not change because of this switching cost.

Moreover, have a closed strategy permits to Nike to propose to applicants new products of the mark Nike. By instance, it exist now some shoes with integrated GPS that are automatically relied to the application Nike+. This strategy permit to make more sales directly or indirectly thanks to the application.

Like: 0

REPLY

**Xavier (3926-11-00)** 17 March 2013 at 23:23 #

Let's assume that Nike has conscientiously benchmarked the market before making any partnerships, and that it has led to this deal. Making a partnership with Tomtom and Apple seems making sense for Nike+ while Nike is trying to take advantage of the increasing trend of smartphone and Apps by revolutionning the way people do practice their sports. They are co-creating value. This partnership is a win-win deal: it increase both the brand image of Tomtom, Apple and Nike+ while creating a network effect. And people who want to enter the network are confronted to some barriers to entry, such as compatibility (> have to buy Nike shoes & Apple devices).

Once they are in the network, consumers are locked-in because of switching costs. Consumers could unilaterally decide to leave the network but that would mean losing all their personal data's and performances recorded during years (because of incompatibility). After having tracked and recorded your performances during years, no one would love to lose all the data's collected about its own efforts.

> Let's continue to buy Nike's shoes and Apple devices in order to be still able to benefit from the Nike+ system.

On the oppositive, an open strategy for Nike with its Nike+ service would allow everyone to freely use their system. That would propably generate more traffic on their website, but that would decrease the network effect and the switching costs associated with a closed strategy (let's change my devices, it won't change anything from my runner's point of view).

An open strategy would turn the Nike+ service as a free tool for everyone. What is the business model associated with such a free tool? Which incentives would people have to buy Nike in place of Puma, for example?

After a search on the web, It actually seems that the data's collected via the Garmin Forerunner are actually compatible with the Nike+ system if runners do convert them. (\* <http://www.courirpourtous.com/vos-entrainements-garmin-sur-votre-compte-nike/> and \* <http://www.awsmithson.com/cx2nikeplus/> )

And most of the runners using the Garmin Forerunne seems being willing to do so because of the much more user-friendly platform Nike+ has developped. In that sense, I think not being mistaken by saying that this compatibility actually increase both the traffic on its online shop and the visibility of its brand. On the opposite, data's collected via the Nike+ system are not compatible with e.a. Garmin Forerunner (> they are keeping switching costs & network effect).

Like: 0

REPLY



**Sophie Simonis** 17 March 2013 at 17:09 <#>

First of all, Nike has chosen to partner with Apple and TomTom which are major players in their respective sectors with a loyal clientele. So, these partnerships can be seen by users of Nike+ services as a guarantee of quality. Moreover, the strategy of incompatibility chosen by Nike provides some exclusivity by belonging to Nike+ community for devices' consumers. In the case of Nike+, network effects are very important because the fact of belonging to a large network is highly valued by consumers. A closed strategy would be good for the purpose of consumers' loyalty. Furthermore, with the strategy of incompatibility, customers are forced to buy Nike products to profit to the Nike+ software and to be part of the community.

By cons, to increase brand awareness and raise market share of Nike, an open strategy would probably be more appropriate. Because, even if the partnership with Apple and TomTom can attract a significant number of new users, many people using competing products could be interested in Nike+ services. Moreover, since the writing of this article, Nike has apparently decided to change its strategy by opening the market to Android's users and not only to Apple's users. This is undoubtedly an interesting strategy because that represents a very large number of consumers. Finally, a closed strategy leads to link more strongly branding and reputations of partners (Nike, Apple, and TomTom).

Like: 0

REPLY



**Turneer Benjamin** 17 March 2013 at 16:52 <#>

Choosing between open and closed strategy depends on the features and the purpose of the firms.

"Why are there some businesses which benefit more than others from openness? A firm's business strategy including market and innovation orientation, internal structures and the corporate culture might furnish proof regarding an adequate degree of firm openness"

([http://www.ispim.org/abstracts/The%20Proceedings%20of%20The%20XXIII%20ISPIM%20Conference%202012%20Barcelona,%20Spain%20-%2017-20%20June%202012/enkel\\_ellen.html](http://www.ispim.org/abstracts/The%20Proceedings%20of%20The%20XXIII%20ISPIM%20Conference%202012%20Barcelona,%20Spain%20-%2017-20%20June%202012/enkel_ellen.html))

"Following a more open strategy further implies that one can basically learn from others. A more open strategy means that firms seek cooperation and flexibility by utilizing knowledge they can make available from external source instead of resorting solely to their own resource". (<http://www.mendeley.com/catalog/open-closed-strategy-developing-new-products-case-study-industrial-npd-smes/#>)

"Open system would seem a good way to go since it maximizes the potentially useful ideas and resources available to advance a business". (<http://www.thinkipstrategy.com/ipthinktank/10300/open-or-closed-case/>)

In this case, Nike is using only their own resource to develop their new product. By doing this, they try to enforce their consumer to buy especially their product. But the consequence is that they lose some of their customers who are not in possession of the product and who want to use their website.

In my opinion, Nike doesn't need to open its strategy. Because they are already a lot of customers using TomTom and Apple. Make the service compatible with other device like Garmin Forerunner will bring a lot of consumer to use the website but they will not buy anymore expensive GPS like those of TomTom and Apple. So the collaboration with Nike for them will be less interesting. So it's true that they lose knowledge and resource by using a closed strategy but nevertheless they keep their partnership

Like: 0

REPLY



**Loïc Esselen** 16 March 2013 at 18:28 <#>

In my opinion, Nike works with Apple and TomTom because these 2 companies are very important and really appreciated in their market.

In Nike's strategy communication, it's certainly an advantage to say they are only working with the best companies like Apple and TomTom. Indeed, that can be perceived as a proof of quality to work with these companies and not the others.

I also think that Nike thought that one of his competitor (Adidas, Puma, ...) would have launched the same principle. That why, as they signed a contract of exclusivity with Apple and TomTom, its competitors will not be allowed to deal with them, so Nike ensures to be alone to work with these 2 giants companies.

Furthermore, I think that clients of Apple and TomTom who are using Nike+ will buy others Nike's products (shoes, T-shirt,...) consciously or unconsciously. It's a good marketing deal for Nike

These are the advantages of that closed strategy.

Nevertheless, we can not deny that Nike loses some customers if they are not open to other companies, like Garmin or Microsoft. But in my opinion, they prefer to lock-in some clients than to touch all the customers they could get.

Like: 0

REPLY



**Goergen Stephanie** 16 March 2013 at 11:58 #

Like others mentioned in previous posts, the alliance with two well-known brands (Apple and TomTom) will certainly have helped Nike to reach critical mass during the Nike+ product placement. Nowadays, Nike+ clearly benefits from network effects – there are by now many more than 1.2 million runners hooked up with it.

Thanks to the many subscribers, Nike got insight in its customers' behaviour and it had reconfigured how runners approach their sport. However, allowing users from Garmin Forerunner subscribing to the page will indeed strengthen and broaden the community but not necessary attract new customers. It may be true that brand visibility increases, but I don't think that sales of Nike+ gear will necessary go up. Since competing devices offer almost the same services, users won't be bound to switch to Nike+ devices in order to join the community. Moreover, if compatibility is provided, people won't be restricted to a single brand but they will be free to choose their tool of running device. In a certain way, by choosing a closed strategy, Nike obliged the users to be in possession of Nike+ devices in order to benefit from the services provided by the Nike+ connect software.

Furthermore, in this context, one can say that the strategy of incompatibility offers some exclusivity to the Nike+ software because not everyone owning this sort of device can use it. As pointed out in a previous post, this may also raise the risk of some users trying to bypass this obstacle (ways to do it are easily available via Google).

Another interesting fact is that, since the data is exported from the iPod in a standardized format, it's relatively easy for other services to manipulate it. So the compatibility issue is only restrained to competing devices. There already exist some open source projects like Neki+ and Running Tracker which offer nearly the same services as the Nike+ community, without having to go through Nike's site or to subscribe to it.

Like: 0

REPLY



**Paul Belleflamme** 17 March 2013 at 07:04 #

Thanks for the information and the analysis.

REPLY



**Marie-Clothilde Quarles** 13 March 2013 at 14:46 #

One advantage of the closed strategy chosen by these partners is that people already using Apple or Tomtom to do sport will automatically enter the Nike+ community and idem for Nike customers. So, by applying this exclusivity strategy, the three companies hope to attract new consumers (Nike tries to attract Apple and Tomtom consumers and vice versa).

On the other hand, the disadvantage is that if Apple or Tomtom products become less good than for example the Garmin products, it also has an impact on the Nike+ site which will see its number of members and its reputation affected. Indeed, with this type of strategy, the reputations of the different brands become more linked and a good or bad event affecting one have necessarily impacts on the others.

However, after having done some research, it appeared to me that the Nike+ website isn't as incompatible with Garmin as we think. Indeed, some sites help the owners of a cardio Garmin Forerunner watch to be part of the Nike+ community (source:

<http://www.jiwok.com/blog/utiliser-son-cardio-garmin-avec-son-compte-nike/>).

Nevertheless, I think that it was not the intention of Nike to allow this because, as mentioned in the previous posts, the 3 brands probably have exclusivity contracts. Unfortunately for them, people become more and more internet experts to bypass obstacles like that. Yet, one advantage remaining from having a Tomtom instead of a Garmin watch can be that even if users can enter the Nike+ community with a Garmin, it is maybe easier to do it with a Tomtom because you don't have to transform your data.

Like: 0

REPLY



**Paul Belleflamme** 15 March 2013 at 01:43 #

This is interesting! You're right to point that even if firms opt for incompatibility, third parties may provide devices or software that restore compatibility (at least to a certain degree). Firms may then use their intellectual property rights to try and block these third party efforts.

REPLY



**Avaux Fanny** 13 March 2013 at 12:03 #

If Nike adopts an open strategy, in addition to increase the traffic on its online shop and the visibility of its brand, it could have a

positive effect to its brand image. Indeed, Nike created its network (Nike+ website) with only the community of runners who use its device but if all runners could be on this network, some of them who value the network size a lot would be more satisfied.

But there are some explanations why Nike has chosen a closed strategy:

- Keep the customer captive with hardware that works with the website. Nike already has a good customer base which is a part of interest groups and accustomed to use the website.
- Be compatible would mean that customers may be interested in competing hardware. These competing hardware, cheaper or more valued by customers, will decrease Nike sales.
- Nike relies on customer inertia. In case of incompatibility, customers will prefer to stay in a safe and known system (hardware + website) that to change both hardware and website.

Consequently, adopt a closed strategy have a positive effect (at least in the short term) on profits.

Like:  0

REPLY



**Georgin Maxime** 10 March 2013 at 18:46 <#>

I think the only reason for Nike to limit the compatibility of its product is the contract with Tomtom. Of course, I can't be sure of what I say but I guess the financial arrangement between Nike and Tomtom for the product worth it. If Nike is a rational agent, and I guess it is, it probably has compared the benefits of high compatibility for customer and the drawbacks of low income from partners with the benefit of large income from Tomtom through exclusivity and the drawbacks of a less good penetration of the market due to bad compatibility/visibility.

As Alice said in the first comment, the development of the application for Apple's devices is probably far enough from the competition with Tomtom to not be an infringement to the contract or they may have negotiated it with Tomtom in the beginning because they think Apple's market worth it.

Like:  0

REPLY



**Paul Belleflamme** 11 March 2013 at 03:21 <#>

OK, you've got a point. There may exist information about such exclusive deal between Nike and Tomtom. Future comments may want to investigate this further (or to explore other potential explanations).

REPLY



**Comblin Alice** 7 March 2013 at 10:06 <#>

Garmin is a direct competitor of TomTom, both competing on the top class GPS devices. Exclusivity of collaboration could be understood from a competition point of view whereas it could be more profitable for Nike to work with the both companies in order to increase the number of users of the Nike application (and therefore people's welfare by using the Nike application). But Nike chose to extend the range of devices needed for its application by collaborating with Apple, competing in a different market from TomTom. By doing this, Nike has attracted more participants to its application without creating conflict between its collaborators. In addition to catch the actual consumers of Apple's products, Nike will beneficiate of its high technological image brand. I think thus that the reason is more from a competition point of view with Nike's collaborators.

Like:  0

REPLY



**Paul Belleflamme** 8 March 2013 at 09:43 <#>

Very good start for the discussion. Thank you!

REPLY

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