Nike

Sourcing and Strategy in Athletic Footwear

Nike Inc. is the world market share leader in athletic footwear, with 44 percent of the world market, compared to only 30 percent for Adidas/Reebok (see **Exhibit 1**). The Nike brand alone is valued at $10.7 billion—the most valuable brand among sports businesses. Many high-profile athletes and sports teams around the world are sponsored by Nike, with endorsers donning the highly recognized "swoosh" logo and the trademark "Just Do It." But Nike wasn't always the world leader. In fact, when Nike launched its first product in 1972, Adidas was the worldwide leader in athletic footwear sales, and Converse was the most recognized US athletic footwear brand. Adidas, the German shoe and sports apparel giant, was known for making high-performance shoes and held the dominant market share position. Adidas could not have imagined that, by 1992, Oregon-based upstart Nike would overtake it as the world's leading athletic footwear company. Moreover, Nike didn't just surpass Adidas in market share. It also consistently generated profitability ratios that were 50-100 percent higher than Adidas (see **Exhibit 2** and **Exhibit 3** for selected financial data). For example, in 2010, Nike's operating profits-to-sales ratio was 10.1 percent compared to 6.7 percent for Adidas.

How did Nike, a small startup, leap past Adidas and Converse to emerge as the world leader in athletic footwear in just 20 years? What was unique about the company's strategy and what lessons does the Nike story hold for other companies hoping to be the leaders in their industries? Finally, now that competitors, especially new ones such as UnderArmour, understand Nike's path to leadership, how can Nike stay on top?

EXHIBIT 1 **Global Athletic Footwear Sales and Market Share by Major brand (Estimated in millions of dollars at wholesale)**

Company	2016	2013	% in 2013	2010 sales	% in 2010	2005 sales	2000 sales
Nike	19,871	14,539	44%	10,332	41%	7,300	5,562
Adidas	10,135	9,379	29%	7,354	29%	4,064	3,424
Asics		2,314	7%	1,631	7%	877	628
Skechers	3,563	1,846	6%	2,007	8%	1,006	675
New Balance		2,390	7%	1,780	7%	1,550	1,100
K-Swiss			—	217	1%	509	223
Under Armour	1,011	299	1%	127	1%	na	na
Reebok*	1,766	1,913	6%	1,599	6%	2,718	2,102
Converse**	—	—	—	—	—	—	209

*Reebok was purchased by Adidas in February 2006

**Converse was purchased by Nike in July 2003

Source: Company annual reports; Privco

EXHIBIT 2 Nike, Inc., Financial Performance, 2000-2016 (Year ended May 31; millions of dollars)

	2016	2013	2010	2005	2000	1995
Revenues						
Footwear	$19,871	$14,539	$10,332	$7,300	$5,562	$3,554
Apparel	9,067	6,820	5,037	3,879	2,699	897
Equipment	1,496	1,405	1,035	825	328	-
Total Rev	30,507	25,313	19,014	13,740	8,995	4,761
SG&A	10,469	7,780	6,326	4,222	2,606	1,210
Demand Creation	3,278	2,745	2,356	1,601		
Operating Overhead	7,191	5,035	3,970	2,621		
Interest	19	(3)	6	5	45	24
Income Tax	863	808	610	648	340	250
Net Income	3,760	$2,485	$1,907	$1,212	$579	$400
Geo. Segment Rev						
Europe	7,315	5,415	5,042	4,282	2,351	980
Asia Pacific	4,654	3,244	2,624	1,897	955	516
North America	14,764	10,387	6,696	5,129	5,017	2,998

*2005 Europe data also includes Middle Eastern and African sales

*Total geo revenues will not add up to total revenues due to other sources of revenue that Nike has

Source: Nike Annual Reports

EXHIBIT 3 Adidas Group Financial Performance, 1995-2016 (millions of euros)

	2016	2013	2010	2005	2000	1995
Sales						
Footwear	10,135	6,873	5,389	2,978	2,509	1,790
Apparel	7,476	5,813	5,380	2,798	2,159	1,528
Hardware	1,681	1,806	1,221	860	1,167	131
Net Sales	19,291	14,492	11,990	6,636	5,835	3,500
Operating Expenses	8,263	6,133	5,046	2,573	2,012	1,095
Interest Expense	70	68	88	158	94	47
Income Tax	439	344	238	2,221	140	43
Net Income	1,019	839	567	383	182	245
Net sales by region		(millions of euros)				
North America	4,051	3,362	2,805	1,327	1,906	767
Latin America	1,736	1,575	1,285	398	171	91
Asia/Pacific	4,244	3,861	2,972	1,460	875	307
Europe	5,787	5,694	4,928	3,451	2,860	2,335

*In Euros, millions

*1995 results given in millions of Deutsche Marks

Source: Adidas Annual Reports

Nike's Origins

Nike was founded in 1962 as Blue Ribbon Sports by University of Oregon track athlete Phil Knight and his coach Bill Bowerman. The company initially operated as a distributor for Japanese shoe maker Onitsuka Tiger (now ASICS), making most of its sales at track meets, out of Knight's automobile. But the relationship between the two companies started to deteriorate in 1970, and Knight and Bowerman were ready to make the jump from being a footwear distributor to designing and manufacturing their own brand of athletic shoes. So, Bowerman and Knight designed their own track shoes and had them manufactured in low-cost Asian plants. Bowerman created a "waffle iron" design that improved traction while keeping the shoes extremely light. Bowerman and Knight selected a logo to put on the shoe, known internationally as the swoosh, which was created by a graphic design student, Carolyn Davidson, from Portland State University. Davidson was originally paid $35 for the logo design. (Knight later gave Davidson an undisclosed amount of Nike stock and a diamond ring with the swoosh engraved.) Then, in May 1971, Blue Ribbon changed its name to Nike after the Greek goddess of victory. The new Nike line of footwear debuted in 1972, just in time for the US Track and Field Trials in Eugene, Oregon.

Early models of Nike's track shoes were primarily used by track athletes at the University of Oregon. Fortunately for Nike, one of those Oregon athletes was Steve Prefontaine, a middle- and long-distance runner who became a prominent track star. Prefontaine competed in the 1972 Olympics and once held the American record in seven different distance track events from the 2,000 meters to the 10,000 meters. Prefontaine's success catapulted Nike into the spotlight and jump-started the company's sales. Building on this momentum, Nike started to design shoes for other track stars and prominent athletes in other sports. The late 1970s and early 1980s saw sprinter Carl Lewis, marathon runner Joan Benoit, and tennis star John McEnroe sporting Nike shoes. The company hit the jackpot in the late 1980s when it signed basketball superstar Michael Jordan to an endorsement contract. Nike's Air Jordan sneakers, promoted by the player himself, were a huge winner in the basketball shoe segment of athletic footwear. The success of Air Jordan, and the entire Nike line, was helped by the "Just Do It" advertising campaign developed and launched by ad agency Wieden-Kennedy in 1988. The company hit the jackpot again in the late 1990s after signing golfing phenom Tiger Woods to an endorsement contract. Leveraging Woods's popularity, Nike not only entered the golf shoe market but also golf equipment and apparel. Even before Nike signed Woods, it was firmly ensconced as the leading athletic footwear company in the world.

Nike's dramatic success in overtaking Adidas in such a short period of time was typically attributed to its successful and memorable marketing campaigns featuring well-known athletes. Although marketing has undoubtedly been critical to Nike's success, the company's ability to produce cutting-edge shoe designs that have attracted endorsers is sometimes overlooked. Nike made significant investments in shoe design, starting with running shoes and then branching out to tennis, basketball, soccer, golf, and other shoes for specific uses. Each year, Nike launched more than 100 new designs of different types of shoes. This practice stimulated new customer purchases by creating the desire to have the very best shoe possible to maximize performance. It also increased the overall size of the market as customers bought shoes for specific sports, often having as many as 5-10 different types of athletic footwear in their closets.

Nike's decision to keep its focus on product design and marketing, and not manufacturing, is another little-understood factor that has influenced its success. The company chose not to produce any of its own shoes, preferring instead to hire independent suppliers in Asian countries such as South Korea, Taiwan, China, and Indonesia. These suppliers built high-quality shoes to exact specifications and delivered them according to precise delivery schedules. They helped Nike keep costs down because Asian labor was cheap and plentiful. This was in sharp contrast to the labor costs at many of the Adidas shoe-manufacturing facilities in Europe (mostly Germany) where labor costs were significantly higher. By outsourcing the production of its shoes to foreign suppliers, Nike was able to focus all of its attention and resources on shoe design and marketing. Nike's choices regarding which activities to conduct internally, and, thus, which activities to outsource to suppliers, played a critical role in propelling it to the top of its industry.