CHAPTER NINETEEN

Nike: A Powerhouse

By the late 1970s and early 1980s, Nike had wrested first place in the athletic shoe industry from Adidas, the firm that had been supreme since the 1936 Olympics when Jesse Owens wearing Adidas shoes won his medals in front of Hitler, Germany, and the world.

In the early 1980s, Reebok emerged as Nike's major competitor, becoming No.1 in this industry by 1987. But Nike fought back, and three years later had regained the top-dog position. By the latter 1990s and into the new millennium, Nike decisively pulled away in revenues and profitability. By 2008, its revenues reached $16 billion a year, and no else could touch this largest sports footwear and apparel company in the world.

But let us start 20 years ago when Nike had some tough competition, and see if we can determine how it so outdistanced its nearest rival, Reebok.

REEBOK

History

The ancestor to Reebok goes back to the 1890s when Joseph William Foster made himself the first known running shoes with spikes. By 1895, he was hand-making shoes for top runners. Soon, the fledgling company, J. W. Foster & Sons, was furnishing shoes for distinguished athletes around the world.

In 1958 two of the founder's grandsons started a companion company, which they named—fittingly they thought—after an African gazelle: Reebok. This company eventually absorbed J. W. Foster and Sons.

In 1979 Paul Fireman, a partner in an outdoor sporting goods distributorship, saw Reebok shoes at an international trade show. He negotiated for the North American distribution license and introduced three running shoes in the United States that year. It was the height of the running boom. These Reeboks were the most expensive running shoes on the market at the time, retailing for $60. But no matter, demand burgeoned, outpacing the plant's capacity, and production facilities were established in Korea.

In 1981 sales were $1.5 million. But a breakthrough came the next year. Reebok introduced the first athletic shoe designed especially for women. It was a shoe for aerobic dance exercise and was called the Freestyle. Whether accidentally or with brilliant foresight, Reebok anticipated three major trends that were to transform the athletic footwear industry: (1) the aerobic exercise movement, (2) the great embracing of women with sports and exercise, and (3) the transference of athletic footwear to street and casual wear. Sales exploded from $13 million in 1983 to $307 million in 1985.

Shifting Competitive Picture for Reebok

In 1987 Reebok's share of the U.S. athletic footwear market surpassed archrival Nike's as it racked up sales of $1.4 billion against Nike's plateauing sales of $900 million. Somehow, Reebok's sales growth then slowed, and in 1990 Nike overtook it, with $2.25 billion in sales to Reebok's $2.16 billion. The margin widened as Reebok began to lose ground, not sporadically but steadily. Its meteoric sales increases of a few years before were no more, and stock market valuations and investor enthusiasm reflected this decline in fortunes.

Part of the shift in competitive position could be attributed to Nike's savvy advertising and to its two well-paid athlete endorsers: Michael Jordan and Pete Sampras. But perhaps Reebok could blame itself more for the change in its fortunes. Certainly as the 1990s moved toward mid-decade, the flaws of Reebok were becoming more obvious and self-destructing.

Paul Fireman had purchased Reebok in 1984 and led it to more than a tenfold increase in sales in only five years. But with such growth, directors felt they needed an executive with experience running a big operation. Fireman, who owned 20 percent of the company's stock, didn't object. He maintained that he was glad to give up day-to-day responsibilities. While retaining the titles of chairman and CEO, he turned his attentions to private pursuits, including building a golf course on Cape Cod.

The new management proved inept. Amid mediocre performance, Reebok went through three different top executives in the next five years. Nothing seemed to stem the tide, and Reebok continued losing ground to Nike. Finally, in August 1992, Fireman again took active charge and he wasted little time bringing in a new management team. At the same time, he introduced aggressive plans for the company to regain its competitive position.

Aggressive Thrusts of Reebok

Fireman first attacked Nike in the basketball arena. Nike's share of basketball shoes was almost 50 percent, against Reebok's 15 percent. But about this time, Michael Jordan retired from basketball to try baseball. "Nike's success has become their albatross," Fireman exulted. "Jordan is no longer on the radar screen."[1] He signed up Shaquille O'Neal, "the next enduring superstar," and planned to destroy the market dominance of Nike.

[1] Geoffrey Smith, "Can Reebok Regain Its Balance?" *Business Week*, December 20, 1993, p. 109.

The pressure was stepped up on Nike at the NBA All-Star game in February 1994, when Reebok launched a national ad campaign for its Instapump. This was a sneaker that had no laces, but instead was inflated with CO_2 to fit the foot. It was pricey, retailing for $130, but seemed on the cutting edge. Fireman expected this innovation to account for 10 percent of all Reebok's sales in three years.

Reebok also attacked another Nike stronghold—the $250 million market for cleated shoes, of which Nike had 80 percent. In January 1993 Reebok introduced a new line of cleated shoes aimed at high-school athletes. Fireman predicted that these sales should triple by 1994 to $45 million. In 1994 he also aimed an offensive into the outdoor hiking and mountaineering market, with 12 new shoes that he predicted would produce $100 million in new sales.

During the years Fireman was not at the helm, Reebok had tried a number of advertising slogans, such as "UBU" and "Physics Behind Physique." None of them were notably effective compared to the Nike "Just Do It" theme. Fireman now approved a new unifying theme for all ads, "Planet Reebok."

Fireman also did an about-face with his endorsement promotions. Despite Nike's heavy use of endorsements in its advertising, Reebok always had been reluctant to do much, thinking the huge sums celebrity athletes demanded were unreasonable. Suddenly Fireman signed O'Neal in 1992 for $3 million, and then went on to sign endorsement deals with some 400 football, baseball, and soccer stars. The brand logo was also changed to an inverted "V" with a slash through it that he hoped consumers would identify with high performance. "We'll be the market leader by the end of 1995," Fireman predicted.[2]

Consequences

Unfortunately, the aggressive efforts of Fireman to rejuvenate the company and win back market leadership continued to sputter. Some flaws were coming to light. For example, with Shaquille O'Neal, the Shaq Attaq shoe seemed a sure thing for teens. But it bombed. The problems: the shoes were white with light blue trim, and they cost $130. But now black shoes were the hot look, and how many teens could afford $130? In the first six months of 1993, sales of Reebok basketball shoes fell 20 percent, despite Shaq's influence.

By 1995, operating costs were surging, up to 32.7 percent of sales compared with 24.4 percent in 1991. They also exceeded the industry average of 27 percent. Reebok admitted that the increased costs were partly due to its aggressive pursuit of endorsement contracts with athletes as well as sporting-event sponsorships. For example, the company had signed up 3,000 athletes to wear Reebok shoes and apparel at the 1996 Olympics in Atlanta, up from 400 four years before. It had also bought endorsements from the San Francisco 49ers and other NFL teams, as well as basketball star Rebecca Lobo, to wear its products.

Some of the prior endorsements had not worked out well: Tennis pro Michael Chang had a $15 million endorsement contract, but Sampras and Agassi, both Nike

[2] *Ibid.*, p. 108.

endorsers, had eclipsed Chang. Shaquille O'Neal became unhappy with his $3 million Reebok contract and began looking around for bigger money.

Reebok's costs also were increased by expenditures to fix distribution snags and to open a new facility in Memphis.

Other Reebok problems stemmed from management turmoil, including the departures and resignations of top executives. Some shareholders questioned whether Fireman was too difficult a boss: "How do you attract first-rate talent when there's been a history of turnover at the top?"[3]

Adding to Reebok's difficulties were price-fixing charges brought by the Federal Trade Commission. The government contended that Reebok had told retailers their supplies would be cut off if they discounted Reebok shoes too much. In May 1995, Reebok agreed to pay $9.5 million to settle the price-fixing charges, saying that while no evidence of wrongdoing was established, still it settled to avoid costly litigation.

But the more serious Reebok problem was in its relations with the major retailer player in the athletic footwear industry—Foot Locker.

The Struggle to Win Foot Locker

By 1995, Woolworth's Foot Locker, a chain of some 2,800 stores, had become the biggest seller of athletic footwear. It and related Woolworth units accounted for $1.5 billion of the $6.5 billion U.S. sales, this being some 23 percent. Nike had a winning relationship with this behemoth customer. In 1993 Nike's sales in Foot Lockers were $300 million, while Reebok was slightly behind, with $228 million. Two years later, Nike's Foot Locker sales had risen to $750 million, while Reebok's dropped to $122 million.[4]

The decline of Reebok's fortunes with Foot Locker can be attributed to poor handling by top management of this important relationship. Fireman seemed to resent the demands of Foot Locker almost from the beginning. For example, in the 1980s when Reebok's aerobics shoes were facing robust demand, Foot Locker wanted exclusivity, that is, special styles only for itself. The retailer saw exclusivity as one of its major weapons against discounters and was getting such protection from other manufacturers—but not from Reebok, which persisted in selling its shoes to anybody, including discounters, near Foot Locker stores.

In contrast, Nike had been working with Foot Locker for some years and by 1995 had a dozen items sold only by the chain, including Flights 65 and 67, high-priced basketball shoes. While Fireman began belatedly trying to fix the relationship, little had apparently been accomplished by the end of 1995.[5]

Adding to Reebok's troubles in cracking this major chain, Foot Locker's customers were mainly teens and Generation-X customers willing to pay $80 to $90 for

[3] Joseph Pereira, "In Reebok-Nike War, Big Woolworth Chain Is a Major Battlefield," *Wall Street Journal,* September 22, 1995, p. A6.

[4] *Ibid.,* p. A1.

[5] *Ibid.,* p. 6A.

INFORMATION BOX

IMPORTANCE OF MAJOR ACCOUNT MANAGEMENT

Recognizing the importance of major customers has come belatedly to some sellers, probably none more belatedly than Reebok. These very large customers often represent a major part of a firm's total sales volume, and satisfying them in an increasingly competitive environment requires special treatment. Major account management should be geared to developing long-term relationships. Service becomes increasingly important in cementing such relations (as we saw in Chapter 14, the Newell Rubbermaid case). To this end, understanding and catering to customer needs and wants is a must. If this means giving such important customers exclusivity, and making them the absolute first to see new goods and samples, this ought to be done unhesitatingly.

Such account management has resulted in changes in many organizations. Separate sales forces are often developed, such as "account managers" who devote all their time to one or a few major customers, while the rest of the sales force calls on smaller customers in the normal fashion. For a customer the size of Foot Locker, senior executives, even company presidents, need to become part of the relationship.

Given that you think the demands of a major retailer are completely unreasonable, what would you do if you were Mr. Fireman: give in completely, hold to your principles, negotiate, or what?

shoes. But Reebok had given up that high-end niche with most of its products. Reebok's primary customer base had become older people and pre-teens unwilling or unable to pay the high prices.

Aggravating the poor relationship with Foot Locker was Reebok's carelessness in providing samples on time to Foot Locker buyers. Because of the chain's size, buying decisions had to be made early in the season. Late-arriving samples, or no samples, virtually guaranteed that such new items would not be purchased in any appreciable quantity. See the preceding Information Box for a discussion of the importance of major customers.

NIKE

History

Phil Knight was a miler of modest accomplishments. His best time was a 4:13, hardly in the same class as the below-4:00 world-class runners. But he had trained under the renowned coach Bill Bowerman at the University of Oregon in the late 1950s. Bowerman had put Eugene, Oregon on the map when year after year he turned out world-record-setting long-distance runners. Bowerman was constantly experimenting with shoes: He had a theory that an ounce off a running shoe might make enough difference to win a race.

In the process of completing his MBA at Stanford University, Knight wrote a research paper based on the theory that the Japanese could do for athletic shoes what they were doing for cameras. After receiving his degree in 1960, Knight went to Japan to seek an American distributorship from the Onitsuka Company for Tiger shoes. Returning home, he took samples of the shoes to Bowerman.

In 1964 Knight and Bowerman started their own business. They each put up $500 and formed the Blue Ribbon Shoe Company, sole distributor in the United States for Tiger running shoes. They put the inventory in Knight's father-in-law's basement, and they sold $8,000 worth of these imported shoes that first year. Knight worked by days as a Cooper & Lybrand accountant, while at night and on weekends he peddled these shoes mostly to high-school athletic teams.

Knight and Bowerman finally developed their own shoe in 1972 and decided to manufacture it themselves. They contracted the work out to Asian factories where labor was cheap. They named the shoe Nike after the Greek goddess of victory. At that time they also introduced the "swoosh" logo, which was highly distinctive and subsequently was placed on every Nike product. The Nike shoe's first appearance in competition came during the 1972 Olympic trials in Eugene, Oregon. Marathon runners persuaded to wear the new shoes placed fourth through seventh, whereas Adidas wearers finished first, second, and third in the trials.

On a Sunday morning in 1975, Bowerman began tinkering with a waffle iron and some urethane rubber, and he fashioned a new type of sole, a "waffle" sole whose tiny rubber studs made it springier than those of other shoes currently on the market. This product improvement—seemingly so simple—gave Knight and Bowerman an initial impetus, helping to bring 1976 sales to $14 million, up from $8.3 million the year before, and from only $2 million in 1972.

Now Nike was off and running. It was to stay in the forefront of the industry with its careful research and development of new models. By the end of the decade Nike was employing almost one hundred people in the research and development section of the company. Over 140 different shoe models were offered, many of these the most innovative and technologically advanced on the market. Such diversity came from models designed for different foot types, body weights, sexes, running speeds, training schedules, and skill levels. By 1981, Nike led all athletic shoemakers with approximately 50 percent of the total market. Adidas, the decades-long market leader, saw its share of the market fall well below that of Nike.

Nike Goes Public

In 1980 Nike went public, and Knight became an instant multimillionaire, reaching the coveted Forbes Richest Four Hundred Americans with a net worth estimated at just under $300 million.[6] Bowerman, at age 70, had sold most of his stock earlier and owned only 2 percent of the company, worth a mere $9.5 million.

[6] "The Richest People in America—The Forbes Four Hundred," *Forbes,* Fall 1983, p. 104.

In the January 4, 1982 edition of *Forbes* in the "Annual Report on American Industry," Nike was rated number one in profitability over the previous 5 years, ahead of all other firms in all other industries.[7]

But by the latter 1980s, Reebok had emerged as Nike's greatest competitor, and threatened its dynasty. A good part of the reason for this was Nike's underestimation of an opportunity. Consequently, it was late into the fast-growing market for shoes worn for the aerobic classes that were sweeping the country, fueled by best-selling books by Jane Fonda and others. Reebok was there with the first athletic shoe designed especially for women: a shoe for aerobic dance exercise.

Figure 19.1 shows the sales growth of Reebok and Nike from their beginnings to 1995. Of particular note is the great growth of Reebok in the mid-80s; in only a few years it had surpassed Nike, which was at a plateau as it missed the new fitness opportunity. Then as can graphically be seen, Reebok began slowing down—a slowdown it was unable to turn around through the mid-1990s, while Nike again surged. Table 19.1 shows net income comparisons. Both firms had somewhat erratic incomes, but the early income growth promise of Reebok relative to Nike, as with sales, could not be sustained. This is confirmed with later revenue and income figures from 1995 to 1998, shown in Table 19.2.

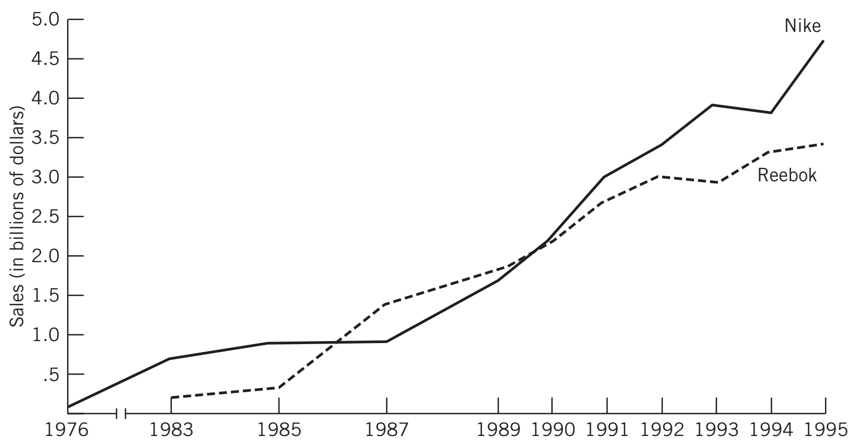

Figure 19.1 Sneaker Wars: Sales. Nike and Reebok 1976–1995 (billions of dollars).

Source: Company annual reports.

Commentary: Here we can graphically see the charge of Reebok in the later 1980s that for a few years surpassed Nike but then faltered by 1990 as Nike surged even farther ahead.

[7] *Forbes,* January 4, 1982, p. 246.

TABLE 19.1 Sneaker Wars: Net Income Comparisons, Nike and Reebok 1985–1994 (billions of dollars)

	Nike	Reebok
1985	$ 10.3	$ 39.0
1986	59.2	132.1
1987	35.9	165.2
1988	101.7	137.0
1989	167.0	175.0
1990	243.0	176.6
1991	287.0	234.7
1992	329.2	114.8
1993	365.0	223.4
1994	298.8	254.5

Source: Company annual reports.

Commentary: Note how much more profitable Reebok was than Nike in the late 1980s. In one year, 1987, it was almost five times more profitable. But then in 1990 the tide swung strongly in Nike's favor. Note also that Nike's profitability was far steadier than Reebok's during this period.

TABLE 19.2 Nike versus Reebok Comparative Operating Statistics, 1995–1998

	Nike	Reebok	Nike % of Total
Revenues (million $):			
1995	$4,761	$3,481	57.8%
1996	6,471	3,478	65.0
1997	9,187	3,644	71.6
1998	9,553	3,225	74.8
Net Income (million $)			
1995	400	165	70.8
1996	553	139	79.9
1997	796	135	85.5
1998	400	24	82.2

Source: Calculated from company reports.

Commentary: In this comparative analysis, the further widening of the gap between Nike and Reebok is clearly evident. In revenues, Nike's market share against Reebok has grown from 57.8 percent to 74.8 percent in these four years—a truly awesome increase in market dominance. In net income, Nike's comparative performance is even more impressive, despite the poor 1998 profit performance partly due to poor economic conditions in the Asian markets. Nike's profits were down, but not nearly as much as Reebok's.

Nike's Rejuvenation

The recharge of Nike, after letting its guard down to the wildly charging Reebok, is a significant success story. Usually, when a front runner loses momentum, the trend is difficult to reverse. But Phil Knight and Nike were not to be denied.

Still, in 1993, Nike did not look like a winner, even though it had wrested market dominance from Reebok. From the high 80s in February of that year, share prices plummeted to the mid-50s. The reason? Nike's sales were up only 15 percent and earnings just 11 percent, nothing outstanding for a once-hot stock. So Wall Street began questioning: How many pairs of sneakers does the world need? (Critics had assailed McDonald's under the same rationale: How many hamburgers can the world eat?) Knight's response was that the Nike mystique could sell other kinds of goods: outdoor footwear, from sandals to hiking boots; apparel lines, such as uniforms, for top-ranked college football and basketball teams—from pants and jerseys to warm-up jackets and practice gear; even golf clothing and equipment. And these same products would be eagerly sought by the general public.

The greatest boost to the image of Nike in the years around the millennium was Tiger Woods. Phil Knight had given him a $40 million contract in 1996, just after he won his third straight U.S. Amateur championship, and was about to turn pro. The next year Tiger won the prestigious Masters Golf Tournament by the biggest margin ever achieved, in the most watched golf finale in the history of television. In the golf tournaments, while wearing the conspicuous swoosh, Tiger focused attention on Nike as not even Michael Jordan had been able to do.

Could it be that an athletic shoe company could still face a growth industry? Apparently so, through wise diversifications within the larger athletic goods industry. See the following Issue Box for a discussion of how a business should define itself.

In his quest to remain the dominant player, Knight recalled what he learned from his old coach and Nike cofounder, Bill Bowerman: "Play by the rules, but be ferocious."[8]

But Knight and Nike were not ferocious to their customers. They pampered them, as we have seen in the relations with Foot Locker. And by the end of 1995, Nike's sales lead over Reebok was 38 percent. By 1999 it was 213 percent.

Handling Adversity

In the summer of 1996, Nike as well as many other U.S. manufacturers came under fire for farming production out to "sweatshops" in poor countries of the world in order to reduce manufacturing costs. Nike became the major target for critics of these "abuses."

Then in April 1997 came another blow to Nike's image. Thirty-nine members of the Heaven's Gate cult committed suicide, all wearing Nikes with the swoosh logo readily visible. The "Just Do It" slogan of Nike was trumpeted as being entirely apt, and some even spoofed that Nike's slogan should be changed to "Just Did It."

Environmental factors, by no means unique to Nike, also tormented the firm. Demand in Asia was drastically reduced due to deep recession there. Another

[8] Fleming Meeks, "Be Ferocious," *Forbes*, August 2, 1993, p. 41.

ISSUE BOX

HOW SHOULD WE DEFINE OUR BUSINESS?

Nike had developed its business horizons through the following sequence:

running shoes → athletic shoes → athletic clothing → athletic goods

In so doing, it greatly expanded its growth potential. This idea of expanding the perception of one's business was first put down on paper by Theodore Levitt in a seminal article, "Marketing Myopia" in the *Harvard Business Review* in July–August 1960. Levitt suggested that it was shortsighted for railroads to consider themselves only in the railroad business, and not in the much larger transportation business. Similarly, petroleum companies should consider themselves in the energy business, and plan their strategies accordingly.

Can such expansion of a firm's business definition go too far? Even in Levitt's day, could a railroad really have the expertise to run an airline? Looking to Nike today, and its expanding views of tapping into the athletic goods market, do you think football equipment is a viable expansion opportunity? Fishing tackle?

troubling portent was the public's growing disenchantment with athletes. Fan interest seemed to be dropping, perhaps reflecting a growing tide of resentment at overpriced athletes proving to be selfish, arrogant, and decadent—the very role-models that Nike, Reebok, and other firms spent millions to enlist.

Knight had to wonder at another disturbing possibility: Had Nike grown too big? Was its logo, the swoosh, too pervasive, to the point that it turned some people off? Was even the tag line, "Just Do It," becoming counterproductive?

Concerned about such questions, Nike began reassessing. A new advertising campaign had the softer tag line, "I can." Nike began toning down its use of the swoosh, removing it from corporate letterheads and most advertising, and replacing it with a lowercase "nike."

Later Developments

At the beginning of the new millennium, Nike's dominant position continued to strengthen. Changing fashion trends, new products, cost cutting, and an Asian revival aided Nike. It found that with the public's growing disenchantment with many athlete endorsers it could shave its marketing budget by $100 million. Furthermore, prospects for 2000 were optimistic. Sales of athletic gear peak in Olympic years, and the expectations were reasonable that the summer games in Sydney, Australia would stimulate a big buying spree in merchandise where Nike had a 35 percent market share.[9]

[9] Leigh Gallagher, "Rebound," *Forbes,* May 3, 1999, p. 60.

Reebok turned out to benefit most from the Olympics; its shoes were seen on 2,500 pairs of feet. It had also scored a coup in sponsoring the CBS hit, *Survivor*. But after years of missteps, its market share was just 12 percent, although Paul Fireman was predicting this would rise to 25 percent within the next six years. The company was pursuing a smarter distribution strategy with less emphasis on discount chains and more on courting mall retailers, such as Foot Locker, for whom Fireman was now giving some exclusive rights. Reebok also was trying to win back teenage boys—who were spurning its conservative, even frumpy shoes—with new colorful designs endorsed by professional basketball player Allen Iverson, its latest endorser.

Nike continued to push its apparel lines that in 2001 accounted for about a third of the total $9 billion of sales, with particular attention given to women's wear. It opened NikeTown stores where shoppers could see the full range of products displayed in a hands-on environment. But it was also trying to boost its exposure in department stores, which were notorious for driving hard bargains.

See Table 19.3 for operating results of Nike and Reebok at the turn of the century. You can see from these statistics that Nike's dominance was increasing. Despite Reebok's improved showing in 2001, it still lagged far behind.

On November 19, 2004, Philip Knight, 69, retired from day-to-day management of his company, although he would remain chairman of the board. The announcement was not unexpected as he had two co-presidents who were seen as possible successors. But he went outside the company to choose William Perez, the chief executive of family-controlled S.C. Johnson & Son, a consumer-products company, with such brands as Drano, Windex, and Glade air fresheners—rather tame these compared to the big athlete endorsers. But Mr. Perez was a marathoner and a buyer of Nike shoes for 27 years, and had "vast international experience that will help Nike expand further into markets abroad." Knight explained this choice

TABLE 19.3 Nike versus Reebok Comparative Operating Statistics, 1999–2001

	Nike	Reebok	Nike % of Total
Revenues (million $):			
1999	$8,995	$2,872	75.8%
2000	9,449	2,865	76.7
2001	9,893	2,993	76.8
Net Income (million $)			
1999	579	11	98.1
2000	590	81	87.9
2001	663	103	86.6

Source: Calculated from company reports.

Commentary: In this latest comparative analysis, Nike dominance has grown well beyond that during 1995–1998 (see Table 19.2). In revenues, Nike's market share against Reebok averaged 76.4 percent in those three years, while Nike has over 90 percent of the combined profitability of the two firms.

of an outsider as preserving the leadership balance at the company rather than upsetting it by elevating one of the company's executives.

Phil Knight had tried to step back from active participation in daily operations in the late 1990s, but sales slipped and he eventually took back the helm. The management transition now came at a time when performance was stronger than ever. Total sales in the previous year had climbed to $12 billion and orders for the current year were up 9.9 percent.[10]

Nike now was closely monitoring its outsourcing after bad publicity of worker abuses had subjected it to strong criticisms. In November 2006 it cut ties with one of its biggest suppliers of soccer goods after finding multiple labor, environmental, and health violations by a Pakistan-based manufacturer. Nike warned its retailers that they could expect a shortage of hand-stitched soccer balls until new suppliers could be found.[11]

Update, 2007–2008

A year after bringing Perez on board, Knight axed him. Somehow he didn't fit in with the company culture. The cost of this exercise was at least $15 million in pay and severance benefits. Mark Parker, 52, a loyal 29-year veteran, became the new CEO, and he made some significant changes once he was in the leadership position. The biggest change was reorganizing the company. It had been divided by categories of products, such as shoes, apparel, golf clubs. Parker now divided it by sport, with a division for soccer (shoes and apparel combined), a division for running, one for basketball, one for men's fitness, another for women's fitness, and the like. Dreamer athletes, those people who want to dress as if they were athletes, were given their own division, called Sports Culture.

The term *micromarketing* was used to describe Nike's new emphasis. This would be a world away from *mass marketing* where a sneaker was just a sneaker, with little differentiation from other sneakers. In a micromarket a sneaker was something with a special feature such as a seemingly unique air cushion, or even a microchip inside the shoe that communicated with an iPod to track mileage. The mass market sneaker might sell for $30, while the latter sneakers might be closer to $200. The result of this micromarket approach and the various divisions by sports brought an unbelievably diverse product line, some 13,000 different sneaker and apparel styles. For example, "there is one shoe aimed only at Native American athletes, another for cricket players in India, yet another for folks who play lacrosse." With such a huge selection, one would think that marketing and manufacturing efficiency would be compromised. Yet for the fiscal year ending May 2008, Nike would be a $16 billion company in revenues, with $1.6 billion net income.[12]

[10] Stephanie Kang and Joann S. Lublin, "Nike Taps Perez of S.C. Johnson to Follow Knight," *Wall Street Journal,* November 19, 2004, pp. A3 and A6.

[11] Stephanie Kang, "Nike Cuts Ties with Pakistani Firm," *Wall Street Journal,* November 21, 2006, p. B5.

[12] Monte Burke, "On the Run," *Forbes,* February 11, 2008, pp. 82–87.

ANALYSIS

The case shows the whipsawing of the two major competitors in what was once merely the athletic shoe industry, an industry now expanded far beyond its original focus. In its youth, Nike had outgunned the old entrenched Adidas, only to find Reebok surpassing it in the mid-1980s as it failed to recognize quickly enough a new opportunity. But Nike came back stronger than ever after a brief hiccup, capitalizing on the mistakes of Reebok with its own aggressiveness.

The most controllable factor in the divergent success patterns of these competitors had to be customer relations. Nike catered to its customers, especially the large dealers such as Foot Locker, while Reebok was surprisingly nonchalant and even arrogant in such relationships. A maker of even high-demand goods is myopic if it is arbitrary and dictatorial toward dealers. This relationship should be *symbiotic,* with both parties benefiting from it and spurning any temptation to capitalize on a perceived king-of-the-hill position. The caprice of fashions and fads should quickly destroy any smugness, as was the case with the Shaq Attaq shoes and the expensive endorsements of Shaquille and others.

In other aspects of its comeback, Nike may have lucked out. It choice of athletes to endorse were some who became dominant figures in their sport, ones lionized by fans. The advertising theme of Nike also caught on: "Just do it," had great appeal to youth. But such home runs can never be guaranteed.

The success and visibility of Nike and its products brought with it critical public scrutiny. Was Nike—and other U.S. manufacturers as well—guilty of violations of accepted moral and ethical standards in farming out production to foreign subcontractors in Third World countries using child labor at low wages? Critics condemned this as exploitation to maximize profits. But others pointed out that while long hours in a smelly shoe or garment factory may be less than idyllic, it was superior to subsistence farming or laboring in even harsher workplaces.

Could Reebok or some other firm arise to challenge Nike? That seems less likely today, with Nike's revenues four times greater than Reebok's, and net income six times greater. Still, the gap could be closed with a striking new product innovation—or if Nike becomes complacent. Remember the 3 C's of Boeing in Chapter 7, when it opened the gates for AirBus. And, dare we forget, Nike vanquished the dominant Adidas in its early days.

Invitation to Make Your Own Analysis and Critique

Your analysis, please, of CEO Parker's count of different sneaker and apparel styles at 13,000.

WHAT WE CAN LEARN

No One Is Immune from Mistakes; Success Does Not Guarantee Continued Success

Some executives delude themselves into thinking success begets continued success. It is not so! No firm, market leader or otherwise, can afford to rest on its laurels, to disregard a changing environment and aggressive but smaller competitors. Adidas had as commanding a lead in its industry as IBM once had in computers. But it was overtaken and surpassed by Nike, a rank newcomer, and a domestic firm with few resources in an era when foreign brands (of beer, watches, cars) had a mystique and attraction for affluent Americans that few domestic brands could achieve. But Adidas let down its guard at a critical point. Similarly, but to much lesser degree, Nike then lagged against Reebok as it underestimated or was unaware of the growing interest among women in aerobic dancing and other physical activities.

Don't Underestimate the Importance of Catering to Major Customers

A firm should seek to satisfy all its customers, but for the larger ones, the major accounts, the need to satisfy their needs and wants is absolutely vital. In few cases is the stark contrast between effective and ineffective dealings with larger customers more obvious than between Nike and Reebok in their relations with the huge Foot Locker retail chain. Even though a manufacturer may resent the demands of a powerful retailer, the alternative is either meeting them or losing part or all of the business to someone else. However, a better course of action is to work closely with the large customer in a spirit of cooperation and mutual interest, not in an adversarial power struggle. The idea of a *symbiotic* relationship should permeate the dealings, making a good relationship a plus for both parties.

Consider the Power of Public Image

Granted that technological differences in running shoes have narrowed so that any tangible advantage of a brand is practically imperceptible, what makes Nike stand out? Isn't it the image and the Nike swoosh that identifies the brand? See the following Information Box for a discussion of the "swoosh."

Items like running shoes, athletic equipment, and apparel have high visibility. For many youth, the sight of famous and admired athletes actively using the brand is an irresistible lure, feeding the desire to emulate them even if only through wearing the same brand . . . and maybe dreaming a little. The popularity of a brand becomes a further attraction: being cool, belonging to the in-group.

Is Nike's success in building its image transferable to other firms whose products cannot be identified with use by the famous? Do such firms have any possibilities for developing image-enhancing qualities for their brands? They certainly do.

INFORMATION BOX

THE NIKE "SWOOSH" LOGO

The Nike "swoosh" is one of the world's best-recognized logos. In the very early days of Nike, a local design student at Portland State University was paid $35 for creating it. The curvy, speedy-looking blur turned out to be highly distinctive and has from then on been placed on all Nike products. Phil Knight even has the swoosh logo tattooed on his left calf. Because it has become so familiar, Nike no longer adds the name Nike to the logo. (Tiger Woods wears a cap and other clothing with the swoosh well visible.)

The power of such a well-known logo makes Nike's sponsorship of famous athletes unusually effective as they wear shoes and apparel displaying it in their sports exploits.

In your judgment, do you think Nike could have achieved its present success without this unique but simple logo? What do you think of the Reebok logo?

Consider the long-advertised lonesome Maytag repairman. Maytag had been highly successful in building a reputation, an image, for dependability and assured quality. In so doing it was able to sustain a higher price advantage over its competitors. A carefully nurtured image of good quality, dependability, reliable service, and being in the forefront of technology or fashion can bring a firm great success in its particular industry.

Is There a Point of Diminishing Returns with Celebrity Endorsements?

One would think there would be, eventually. Athlete celebrities demand big bucks. Are their endorsements worth the price? Perhaps only in moderation, and only with the best of the best. But one cannot always predict with certainty the future exploits of any athlete, even a Michael Jordan or Tiger Woods. Yet contracts are binding. While some would criticize Nike for too much emphasis on celebrity advertising, the right role models can pay dividends. But the overkill of Reebok in seeking celebrity endorsements led to burgeoning costs and a mediocre payoff in sales. The message seems clear: Overuse of celebrity endorsements can be a financial drain. Added to this is the always-present risk that the athlete celebrity in contact sports may have a career-ending injury, or be guilty of some nefarious activity that destroys his or her image.

Is a Great Executive the Key?

Was the rejuvenation of Nike and the decline of Reebok due mostly to the talents of a Phil Knight versus a Paul Fireman? Does the success of an enterprise depend almost entirely on the ability of its leader? Such questions have long baffled experts.

Several aspects of this issue are worth noting. The incompetent is usually clearly evident and identifiable. The great business leader may also be, but perhaps he or she simply lucked out. In most situations, competing executives are reasonably similar in competence. They have vision, the support of their organizations, and reasonable judgment and prudence. What then makes the difference? A good assessment of opportunities, an advertising slogan that really hits, a hunch of competitor vulnerability? Yes. But how much is due just to a fortuitous call, a gamble that paid off?

We know that Phil Knight had a history of great successes. After all, he beat Adidas, and brought Nike from nowhere to the premier athletic apparel firm in the world. Add to this his handling of a great challenge by moving Nike, for a second time, into the heady air of market leader. Was his ability as a top executive so much greater than that of Fireman? Would his absence have destroyed the promise of Nike?

Perhaps the basic question is: Can one person make a difference? Does that person have to be infallible? But Phil Knight was not infallible. He had a major perceptual lapse in the mid-1980s. But Fireman's lapses were more serious.

In the final analysis, Knight made a great difference for Nike. Certainly we can identify other leaders who made great differences: Sam Walton of Wal-Mart, Herb Kelleher of Southwest Airlines, Lee Iacocca of Chrysler, Ray Kroc of McDonald's come readily to mind. Sometimes, one person can make a major difference, but they can still make bad decisions, misjudgments. Perhaps their success was in having a higher percentage of good decisions and, yes, having a little luck on their side. Since Knight stepped down in 2004, Nike has had two new CEOs, one from outside the firm and the other a 29-year Nike veteran. The outside CEO lasted a year, but maybe Knight became prejudiced against him. The insider, Parker, seems to be doing very well. Now we have a chance to see whether Knight left an enduring legacy, chose his successor wisely, or is himself irreplaceable.

CONSIDER

Can you think of additional learning insights?

QUESTIONS

1. "The success of Nike was strictly fortuitous and had little to do with great decision making." Evaluate this statement.
2. In recent years Nike has moved strongly to develop markets for running shoes in the Far East, particularly in China. Discuss how Nike might go about stimulating such underdeveloped markets.
3. How could anyone criticize Fireman for signing up Shaquille O'Neal to a lucrative endorsement contract? Discuss.
4. Do you think the swoosh logo has become too widespread, that it is turning off many people?
5. Given that all decision makers will sometimes make bad calls, how might the batting averages of correct decisions be improved? Can they really be improved?

6. Do you think the athletic goods industry has limited potential? Or is it still a growth industry? Your opinions, and rationale, please.
7. Is there a danger in catering too much to major customers? Discuss.
8. What do you think of the inverted V slash logo of Reebok? How would you evaluate it against Nike's swoosh?
9. Critics have condemned Nike's targeting ghetto youth with its expensive celebrity shoes. What is your opinion about this? Unethical? Shrewd marketing? A tempest in a teapot?

HANDS-ON EXERCISES

1. Philip Knight is concerned about the criticisms of labor abuses in some of his Asian contractors. He fears that Congress will enact punitive and restrictive legislation. He charges you with getting to the heart of the problem, and proposing remedies. This will have to be done quickly since Knight has been ordered to appear before a Congressional committee in another month. Describe how you would proceed. At stake may be a promotion to vice president.
2. It is 1985, and you are a staff assistant to CEO Fireman of Reebok. Reebok's production of shoes can hardly meet the burgeoning demand. The future seems unlimited. However, you sense a danger on the horizon, and that is not paying sufficient attention to your major customers, particularly Foot Locker. Design a program for Reebok to build stronger relations with its major customers. Develop a persuasive presentation to sell this to Fireman, and be prepared to answer his objections.
3. Be a Devil's Advocate (one who argues an opposing viewpoint to test the decision). Array all the rationale you can for *not* deemphasizing the swoosh. Be persuasive.

TEAM DEBATE EXERCISE

Debate the issue of endorsements for athletes. How much is too much? Where do we draw the line? Should we go only for the few famous? Or should we gamble on lesser-knowns eventually making it big and offer them long-term contracts? Argue the two sides of the issue: aggressive and conservative.

INVITATION TO RESEARCH

Is Nike still in a vigorous growth mode? Have any weaknesses become apparent? Is Nike still committed to an extravagantly diverse product line? Is Mark Parker still the CEO? What is Philip Knight doing? Are any "sleeper" competitors emerging, such as a newly energized Adidas? What new big names have signed endorsement contracts with Nike? Have there been any new problems with Nike's outsourcing? How are the NikeTown retail stores doing?