

Headquartered in Beaverton, Oregon, Nike is a large sports apparel company providing apparel to athletic clubs, universities, fitness-minded people, and many others. Most products are designed for specific athletic activities, but many people wear the products for casual purposes. In addition to apparel and shoes, Nike sells sports bags, eyewear, watches, bats, gloves, and many other types of equipment. The firm also owns the Hurley and Converse brands. Nike has always been famous for hiring star athletes to market their brands; the company has three athletes, Michael Jordan, LeBron James, and Cristiano Ronaldo, signed to life-time endorsement deals. Jordan, from 1993 through 2016, was paid over \$475 million from Nike even though Jordan retired from professional sports in 2003.

Nike has over 70,000 full-time employees, operates 384 U.S.-based stores and 758 international stores. Nike reported 2017 revenues and net income of about \$34 billion and \$4 billion, respectively, both figures increasing nicely from the prior year. However, for Nike's second quarter (Q2) of fiscal 2018, revenues for the Converse division of Nike were \$408 million, down 4 percent, due to faltering sales in North America. Nike's net income for Q2 2018 decreased 9 percent to \$767 million. For both Q1 and Q2 of fiscal 2018, the company's footwear sales declined 5 percent and the company's equipment sales dropped 8 percent in North America. Thus, rival companies are eating into Nike's financial performance in the United States. However, outside North America, Nike is doing really well, growing both revenues and net income in double digits.

For fiscal 2018, Nike's revenues rose 6 percent to \$36.4 billion, up 4 percent. For fiscal 2018, NIKE Brand sales to wholesale customers increased 2 percent while NIKE Direct revenues grew 12 percent to \$10.4 billion, due primarily to a 25 percent increase in digital commerce sales, the addition of new stores, and 4 percent growth in comparable store sales. For fiscal 2018, Nike's revenues for Converse were \$1.9 billion, down 11 percent, as growth in Asia was more than offset by declines primarily in North America. For fiscal 2018, the company's net income decreased 54 percent to \$1.9 billion.

Nike needs a clear strategic plan going forward, especially to revitalize its businesses in North America.

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## History

Bill Bowerman and Phil Knight founded Nike in 1964 as Blue Ribbon Sports and changed the name to Nike in 1971. The name comes from the Greek goddess of victory who was named Nike. Phil Knight was a University of Oregon track athlete and his coach was Bill Bowerman. Nike went public in 1981. Nike originally manufactured shoes in the United States but exited the U.S. manufacturing market in 1984. Nike's trademarks such as "Just Do It" and the Swoosh logo are well known worldwide. Phil Knight stepped down as chairman of Nike in 2016.

Over the years, Nike has acquired many companies, including Cole Haan in 1988, Bauer Hockey in 1994, Hurley International in 2002, Converse in 2003, Umbro in 2008—but then began divesting companies, including Bauer Hockey in 2008, Umbro in 2012, and Cole Haan in 2013.

Nike still today pays top athletes top dollar in many sports to use, promote, and advertise their technology, design, trademarks, logo, and products. Nike's first professional athlete endorser was Romanian tennis player Ilie Nastase, soon followed by track star Steve Prefontaine. Michael Jordan signed on with Nike in 1984, followed by numerous others such as Spike Lee and Mars Blackmon.

### Vision/Mission

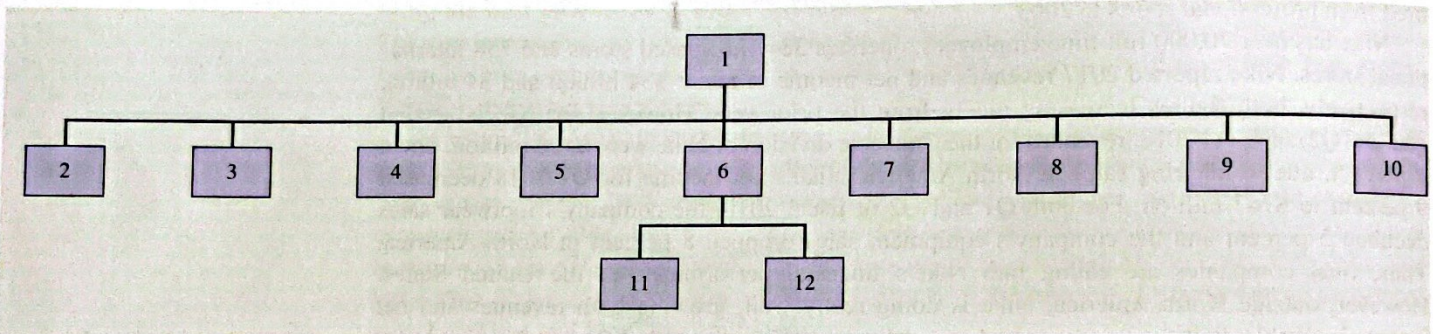
Nike does not appear to have a formal vision statement. Nike's mission (paraphrased) is "to inspire and facilitate every athlete in the world to achieve greatness."

### Internal Issues

#### Organizational Structure

Nike does not make its organizational chart public but likely a division-by-product or division-by-region type structure would work well since the company reports revenues and operating profits both by product (footwear, apparel, and equipment) and by region (North America, Western Europe, China, and Japan). However, the existing executive titles do not match well with either of these reportable segment scenarios.

**EXHIBIT 1 Nike's Top Executives and Organizational Chart**



- |   |   |
|---|---|
| 1. Mark Parker, Chairman, President, and CEO of Nike, Inc.              | 7. Ann Miller, VP and Corporate Secretary                 |
| 2. Andy Campion, EVP, CFO   | 8. Nitesh Sharan, VP Investor Relations and Treasurer     |
| 3. Hilary Krane, EVP, Chief Administrative Officer, and General Counsel | 9. Chris Abston, VP Corporate Controller                  |
| 4. Monique Matheson, EVP Global HR                                      | 10. Jim Scholefield, Chief Information Officer            |
| 5. John Slusher, EVP Global Sports Marketing                            | 11. Michael Spillane, President of Categories and Product |
| 6. Eric Sprunk, Chief Operating Officer                                 | 12. Trevor Edwards, President, Nike Brand                 |

Source: Based on company documents.

### Current Strategies

Nike has built an empire based on product development followed by heavy marketing. Nike offers products in most major sports played worldwide and hires professional athletes to market their products, even signing Michael Jordan, LeBron James, and Cristiano Ronaldo to lifetime endorsement contracts. Nike has paid Jordan over \$475 million in endorsements and the deals with James and Ronaldo are valued as much as \$1 billion. The \$1 billion number may seem high, but estimates are Ronaldo's social media presence alone generated \$475 million in value for Nike in 2016. Another study concluded that Ronaldo generates around \$175 million for his sponsors annually, which is seven times what Stephen Curry, the second top-revenue generating athlete for sponsors. Based on data in 2016, of the 15 top athlete endorsement deals, Nike owns 11, with rival Adidas responsible for 3, and Li Nian accounting for one with their relationship with Dwayne Wade. Nike also has deals with many professional teams around the world to be the sole supplier of their uniforms.

Nike uses social media heavily, especially with the NikePlus membership, which is free. Nike offers two applications that include Nike Run Club and Nike Training Club used on mobile devices and Apple Watch, whereby users can track their progress through running or cross training programs. Nike has a partnership with Apple where the Nike logo appears on select Apple watches. Nike benefits by tracking tons of data on workouts from users across the world. In addition to using the apps for free, customers earn Nike Fuel points whereby they can purchase items at discounts on Nike's website and even purchase products not yet available to the public in stores.

Nike recently introduced the Air Tech Challenge, a strategy whereby the company offers tennis shoes with synthetic leather, stabilizers, and better heel cushioning, all in a lighter shoe. Two

new running shoes developed by Nike are Free Flyknit and Free Hyperfeel. The firm also has a new pair of self-lacing shoes called the HyperAdapt 1.0.

### Manufacturing

Nike produces 97 percent of its products through contractors in overseas markets, with Vietnam, China, and Indonesia accounting for 44, 29, and 21 percent, respectively. In total, 127 footwear factories in 15 different nations supply Nike, with no single factory responsible for more than 8 percent of total footwear sales. Nike is supplied by over 369 apparel factories in 37 different countries, with the largest supplier accounting for 13 percent of revenues. Like shoe production, virtually all Nike apparel is manufactured outside the United States with China, Vietnam, and Thailand as the three largest suppliers of apparel.

With the Trump administration's incentives to reshore manufacturing back to the United States, Nike has announced plans to build additional manufacturing plants in America. Presently, the company has 8 manufacturing facilities in the United States, accounting for about 8 percent of the company's total manufacturing output. Nike is very transparent about its manufacturing of footwear, apparel, and equipment. Simply click on the website <http://manufacturingmap.nikeinc.com/#> to see the company's manufacturing facilities worldwide by country.

### Finance

Nike's fiscal year ends on June 30. Nike had an excellent fiscal 2017 with revenues up 6 percent and net income up nearly 13 percent as indicated in Exhibit 2. However, Nike received a tax benefit in 2017 or either reduced a tax burden from 2016, helping to partially explain the larger jump in net income than in revenues. Nike's overseas revenues and profits are increasing nicely, but its North American financial results revealed in the company's segment data are problematic.

Exhibit 3 reveals a strong balance sheet for Nike with relatively little goodwill or intangibles and a current ratio around 3.0. Despite increasing net income by \$500 million in fiscal 2017 to \$4.2 billion, notice on Exhibit 3 that Nike's retained earnings dropped 4 percent in 2017, explained partly through \$1.1 billion in dividend payments, but also by an anomaly called "deferred compensation" revealed on the company's cash flow statement. It is very unusual for any company to have some amount of net income, pay less in dividends than that net income, and then have its retained earnings to decrease on the balance sheet.

### Segment Data

Being very transparent, Nike reports revenues in several different categories. The two principle brands owned by Nike are Nike and Converse; Converse accounts for only 6 percent of revenues. Men account for about 57 percent of Nike revenues, followed by women with 26 percent, and kids account for 17 percent of revenues. Revenues from all three groups are growing around 5

**EXHIBIT 2 Nike's Income Statements (in millions USD)**

Income Statement	5/31/16	5/31/17		Percent Change
Revenues	\$32,376	\$34,350	↑	6.10%
Cost of Goods Sold	17,405	19,038	↑	9.38%
Gross Profit	14,971	15,312	↑	2.28%
Operating Expenses	10,469	10,563	↑	0.90%
EBIT	4,502	4,749	↑	5.49%
Interest Expense	19	59	↑	210.53%
EBT	4,483	4,690	↑	4.62%
Tax	863	646	↓	-25.14%
Non-Recurring Events	140	196	↑	40.00%
Net Income	3,760	4,240	↑	12.77%

Source: Based on 2017 Annual Report and other company data.

**EXHIBIT 3 Nike's Balance Sheets (in millions USD)**

Balance Sheet	5/31/16	5/31/17		Percent Change
<b>Assets</b>				
Cash and Short Term Investments	\$5,457	\$6,179	↑	13%
Accounts Receivable	3,241	3,677	↑	13%
Inventory	4,838	5,055	↑	4%
Other Current Assets	1,489	1,150	↓	-23%
Total Current Assets	15,025	16,061	↑	7%
Property Plant & Equipment	3,520	3,989	↑	13%
Goodwill	131	139	↑	6%
Intangibles	281	283	↑	1%
Other Long-Term Assets	2,422	2,787	↑	15%
<b>Total Assets</b>	<b>21,379</b>	<b>23,259</b>	<b>↑</b>	<b>9%</b>
<b>Liabilities</b>				
Accounts Payable	2,191	2,048	↓	-7%
Other Current Liabilities	3,167	3,426	↑	8%
Total Current Liabilities	5,358	5,474	↑	2%
Long-Term Debt	1,993	3,471	↑	74%
Other Long-Term Liabilities	1,770	1,907	↑	8%
Total Liabilities	9,121	10,852	↑	19%
<b>Equity</b>				
Common Stock	3	3	→	0%
Retained Earnings	4,151	3,979	↓	-4%
Treasury Stock	0	0	NA	NA
Paid in Capital & Other	8,104	8,425	↑	4%
Total Equity	12,258	12,407	↑	1%
<b>Total Liabilities and Equity</b>	<b>21,379</b>	<b>23,259</b>	<b>↑</b>	<b>9%</b>

Source: Based on 2017 Annual Report and company data.

percent annually. Three of Nike's top-revenue generating brands including sportswear, running, and the Jordan brand account for 30, 19, and 11 percent of revenue, respectively. Sportswear enjoyed a 14 percent revenue gain in 2017 and the Jordan brand enjoyed a 13 percent increase in revenues from 2016, both coming off double-digit revenue growth the prior year as well. The lowest revenue generating brands include Nike Basketball and Women's Training, each representing 4 percent of revenues, followed by Action Sports and Golf, each representing 2 percent of revenues. The three lowest revenue-generating brands discussed above all experienced declining revenue in 2017, with golf's revenues falling 18 percent, and the other three brands mentioned revenues falling between 6 and 9 percent. Each of the four worse performing areas suffered revenue drops from 2015 to 2016 as well, with golf reporting another 18 percent revenue drop during this time period. Moving forward, it will be important for Nike to decide how to allocate resources across these product lines.

Nike is in the retail business, having forward integrated over the years. Nike operates 384 factory stores in the United States and 758 factory stores outside the U.S. Exhibit 4 reveals revenues and EBIT for Nike (not including Converse) in 2017. Canada accounted for 54 percent of all revenue in 2017. China generated the most EBIT per dollar of revenue received, followed by North America. Central & Eastern Europe, followed by Western Europe, generate significantly lower EBIT for every dollar of revenue, compared to other parts of the world. Both regions in Europe also suffered from a 16 percent drop in their respective EBIT contribution for 2017. Exhibit 4 reveals that Nike revenues in all markets in fiscal 2017 experienced a net positive revenue change in 2017 with Japan and China experiencing 17 and 12 percent revenue growths and North America only growing revenue by 3 percent.

**EXHIBIT 4 Nike's Worldwide Revenues and EBIT**  
(in millions USD)

Geographic Region	Revenues	EBIT
North America	\$15,216	\$3,875
Western Europe	\$6,211	\$1,203
China	\$4,237	\$1,507
Emerging Markets	\$3,995	\$816
Central & Eastern Europe	\$1,487	\$244
Japan	\$1,014	\$224
<b>Totals</b>	<b>\$32,160</b>	<b>\$7,869</b>

Source: Based on Nike's 2017 Form 10K.

Exhibit 5 reveals Nike's revenues by product type. Footwear is far and away the largest revenue-generating segment of Nike, representing 66 percent of 2017 sales. Both footwear and apparel sales were up 6 percent in 2017, but equipment sales were down 5 percent. Notable 2017 changes in revenue by region and product type are as follows: apparel sales up 15 percent in Western Europe; footwear and apparel sales each up 13 percent in China and 17 and 21 percent respectively in Japan; footwear sales up 11 percent in emerging markets. The largest loser on a percentage basis was equipment sales in North America, that were down 10 percent in 2017 as this division across all nations continues to struggle for Nike.

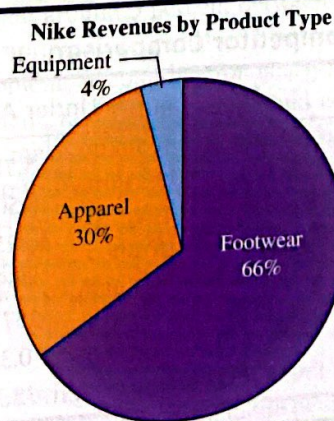
Exhibit 6 reveals Nike (not including Converse) revenues by customer type; wholesale customers account for 72 percent of 2017 revenues. Wholesale customers include Foot Locker, Dick Sporting Goods, and other merchants that purchase and sell Nike products, while direct-to-consumer includes Nike stores and online sales.

**Competitors**

Nike is the largest seller of athletic footwear, apparel, and equipment in the world, but there are aggressive rival firms, including Adidas, Under Armour, New Balance, and Puma, along with a few others in the production of athletic gear. In addition, as a forward integrated company, Nike competes with retail stores such as Foot Locker and other shoe retailers who ironically also sell Nike products. Nike represents nearly 50 percent of the whole athletic sportswear industry based on market capitalization on U.S. stock markets, followed by V.F. Corp at 14 percent. U.S. based Under Armour only represents 2.5 of the industry.

Exhibit 7 gives a quick glimpse at Nike compared to two rival firms. Note that Nike is far larger than Under Armour and Adidas combined.

**EXHIBIT 5 Nike's Revenues by Product Type**



Source: Based on Nike's 2017 Form 10K.

with t-shirts made of conductive yards that can even transmit heart rate and other data directly to the user's doctor. A spinoff of Samsung, IOFIT is a sports-smart shoe where golfers have their swings and balance analyzed. In 2017, Chinese-based Xiaomi released a smart running shoe with a chip powered by Intel. Google and Levi have partnered to produce a smart jacket worn by cyclists. The athletic sportswear industry is getting more technical every day.

### **Inventory Turnover Problems**

Inventory turnover ratios have been declining for the past 10 years in the athletic sportswear industry. In 2006, for example, the inventory turnover ratio for the industry was 4.0, but in 2017 the ratio has steadily dropped to 3.0. Nike is doing better than its peers on this ratio, reporting an inventory turnover ratio of 3.8 in 2017. Many analysts suggest the drop is simply from firms overestimating their inventory needs and by weaker customer traffic. Footwear accounts for less of the drop in inventory turnover than apparel. Retailers are inclined to have enough products to meet demand as hot ticket items attract people into stores. Thus, a question arises regarding whether having a high inventory turnover ratio is worth possibly running out of hot ticket items that firms certainly lose sales on, but also risk losing sales on impulse purchases by customers coming into the store. Having excess inventory, however, trains customers to wait for the clearance sales, ultimately hurting revenues and profits. Inventory management is a strategic issue facing all retail firms including Nike.

### **Brand Polygamist**

Some experts in the apparel field are dubbing customers today as being "brand polygamist" referring to customer decrease in brand loyalty over the last decade. Customers are now purchasing increasingly based on price or extra product features rather than simply buying for the status of a logo or brand name. The trend has cut into gross margins and increased rivalry within the athletic sportswear industry. It also allows newer start up firms a larger chance as customers are increasingly willing to look at all options closer. Nike, for example, now has a NikeID program where they allow shoppers to design their own shoes, apparel, bags, and other items online in an attempt to attract more customers through personalization. However, schemes such as this are expensive, and firms like Nike are often not able to charge significantly more to offset the extra costs of say, producing 100,000 of the same blue shirts. Do not mistake the value of brands such as Nike, Adidas, Under Armour and others; they remain a powerful force in the industry, but simply having customers to purchase based on a logo alone is becoming extinct as customers become more Internet savvy.

### **Direct-to-Consumer Sales**

There is increased momentum in the athletic sportswear industry for direct-to-consumer sales through factory shops, thus using the Internet to bypass traditional retailing merchants. An advantage to Internet sales other than cutting out a middleman is that firms can design customer products as Nike does with NikeID. In total, e-commerce sales as a whole, including all industries, grew 15 percent in 2016 versus the less than 3 percent growth for retail sales over the same time period.

Using the direct-to-consumer business model, firms are also able to collect accurate data on customer's habits who purchase versus don't purchase and tailor advertising and marketing strategies to customers based on their likelihood to purchase or not purchase. For example, profiles are developed for customers who are not likely to purchase without a coupon versus customers who will likely purchase either way; in addition, profiles may be developed to determine what length of time after a purchase do you need to offer an incentive to attract the customer to purchasing again. The information garnered from having a robust direct-to-consumer sales medium is arguably priceless.

### **Future**

According to Global Industry Analysts, Inc., the global market for Sports and Fitness Clothing is projected to reach \$231.7 billion by 2024. More and more people are living healthier life styles and participation in sports and fitness activities is growing. This is great news for Nike. The research reveals that sportswear is turning into a highly popular style statement and fashion

trend. Additionally, the report points out that the Asia-Pacific region is expected to be the fastest growing region.

Market research firm Euromonitor International reports that sales of sportswear, which includes items such as yoga pants and activewear, is growing faster than any other apparel or footwear category. Specifically, both sports-inspired footwear and apparel is growing at about 10 percent and 6 percent annually. Regarding the growth of sportswear apparel and footwear across regions, emerging markets such as India and Thailand are growing fastest, but even core markets such as the United States are also producing significant sports-inspired growth.

A few new firms that Nike is monitoring in the sportswear industry include RYU Apparel, Inc. (TSX: RYU.V) that produces urban athletic apparel. Founded in 2005, RYU's financial results for the 6 months ended June 30, 2017 included revenues in the second quarter of 2017 of \$641,231, 113 percent higher than revenue of \$300,773 during the same period in 2016. RYU continues to show a balanced ratio of apparel sales between men and women at 46 percent and 54 percent, respectively. By reaching an underserved gap in the industry for men, and developing the Beautiful Tough brand positioning that's resonating with women, RYU currently derives 17 percent of revenue from e-commerce with a target of reaching 30 percent by the end of 2018.

Nike is also monitoring Lululemon Athletica, Inc. (NASDAQ: LULU), an athletic apparel company for yoga, running, and training. Lulu creates transformational experiences for people to live happy, healthy, fun lives. Seemingly new companies arise all across the globe each month, desiring a piece of Nike's market share, so Nike needs a clear strategic plan moving forward.