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NIKE, Inc.

Building a diverse business

Reference Code: ML00012-038

Publication Date: October 2013
OVERVIEW

Catalyst

NIKE, Inc. (Nike) designs, markets and distributes athletic footwear, apparel, equipment and accessories for a range of sports and fitness activities. The company’s operations span the Americas, Europe, the Middle East, Africa and Asia-Pacific. In recent years, Nike has moved away from a specialist sportswear and equipment business and has grown into a major fashion and leisurewear label. It does however, remain a major player in the field of sportswear and equipment and is now using dedicated sub-brands to grow its interest in sports such as basketball, golf, soccer, and tennis. The company has also made efforts to become more geographically diverse and has thus reduced its reliance on North America.

Summary

- Mention the brand name Nike and many consumers may think sportswear and sporting goods but while this is true, Nike has moved away from focusing predominantly on such products and has successfully established itself as a fashion brand. The company now manufactures menswear, womenswear, and childrenswear that range from tracksuits to knitwear. It also produces and sells footwear, and accessories such as gloves, hats, and wallets. This focus on fashion, coupled with the use of specialist brands such as Converse and Hurley has seen the company broaden its appeal beyond sports enthusiasts.

- Nike is one of the world’s most famous and used sports brands. It produces a range of footwear, apparel, and equipment for various sports. The company places particular focus on basketball, golf, NFL, running, soccer, and tennis and pays top sports stars to wear and use its goods. To target these sports specifically and leverage the superstar image of its sponsored athletes, Nike has launched a number of sub-brands and branded its products accordingly. The most famous of these is the Jordan brand which was built around NBA legend Michael Jordan and which targets the basketball and urban fashion markets. Similar brands have been rolled out for golf, soccer, and tennis and competitors such as adidas have followed suit. In recent years, Nike has shown a willingness to divest interests that it does not feel fit its strategic aims.

- The Jordan and TW brands have been built around two of the world’s most famous sportsmen (Michael Jordan and Tiger Woods) and have, to a certain extent, been used to enter markets in which Nike previously had little or no involvement. In the case of the Jordan brand, the confines of the sport have now been transcended and a clothing brand has been created. Both brands have been highly successful and remain key to Nike’s strategy.

- Nike is headquartered in Beaverton, Oregon and its North American origins are to be seen in its focus on sports such as basketball and the NFL. The company still derives much of its revenue from North America, but by focusing on a wide range of sports with global appeal and becoming a fashion brand, it has been able to build a global empire.
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NIKE IS A FASHION LABEL

Mention the brand name Nike and many consumers may think sportswear and sporting goods but while this is true, Nike has moved away from focusing predominantly on such products and has successfully established itself as a fashion brand. The company now manufactures menswear, womenswear, and childrenswear that range from tracksuits to knitwear. It also produces and sells footwear, and accessories such as gloves, hats, and wallets. This focus on fashion, coupled with the use of specialist brands such as Converse and Hurley has seen the company broaden its appeal beyond sports enthusiasts.

Apparel constitutes a sizeable portion of Nike’s revenues

Nike’s manufacture and marketing of clothing makes up a significant portion of its revenues and has helped the company reduce its reliance on sporting goods such as soccer boots, basketball trainers, and golf clubs. There is some overlap between the two as the apparel segment also includes sports clothes. This overlap is perhaps most evident in golf and tennis, where the polo shirts and baseball caps worn can also be worn as fashion items, but the company’s move into the world of mainstream fashion has helped it become more diverse.

There are, however, signs that apparel is falling as a percentage of total revenue as fiscal 2011 and 2012 saw apparel account for over 30% as opposed to almost 27% in 2013 and Nike must guard against an over-reliance on sports and footwear. Overall, since 2003, the percentage of revenue accounted for by the apparel segment has hovered between 26% and 31%, showing that it is relatively stable. Note, the apparel segment does not include revenue from the company’s Converse and Hurley brands.

Figure 1: Apparel as a percentage of NIKE, Inc. revenue FY2013

![Pie chart showing apparel and other segments of revenue](chart.png)

SOURCE: NIKE, Inc. 2013 Annual Report
Nike has a broad fashion offering

Apparel is not the only fashion category offered by Nike. Footwear and accessories also form key parts of its offering. The goods Nike manufactures and sells here include trainers (sneakers), formal shoes, sandals, wallets, baseball caps, and bags. Some of these products are linked directly to sports or sports clubs, such as football scarves and some footwear, but many are simply fashion items designed to compete with high street fashion retailer products.

This broad offering has permitted Nike to enter several different fashion sectors and compete, to a certain extent, with well-known fashion labels such as Ralph Lauren and to build a reputation as more than a sportswear company.

The company operates specialist fashion brands

Despite the company’s best efforts to establish itself as a lifestyle fashion brand, it remains a sporting goods brand in the mind of many. These consumers are unlikely to purchase Nike-branded clothing as they do not feel it matches the image they wish to portray. To combat this, Nike operates two brands that are predominantly aimed at penetrating the fashion market. These are Converse, a youth fashion brand, and Hurley a brand which focuses its offering on so-called alternative sports and youth fashions such as skateboarding and surfing.

Converse

In 2003, Nike paid $305m to acquire Converse, Inc., maker of the famous Chuck Taylor All-Stars line of sneakers. With this acquisition, Nike gained access to a new market; mass-market fashion and it is a move that has paid off. Converse is one the world’s oldest athletic footwear brands and had dominated the US market until the likes of Adidas, Nike, and Reebok entered, and eventually, cornered the market in the 1970s and 1980s. In 2001, the company filed for bankruptcy and after being rescued, was acquired by Nike. The turnaround in the brand’s fortunes since the Oregon-based sportswear giant took over has been remarkable. In fiscal 2013, the Converse brand generated revenues of $1,149m, an increase of 9% on the previous year. This came on the back of a 17% year-on-year increase in fiscal 2012 and has seen the brand become an important income stream for Nike.

Converse’s product range includes its signature Chuck Taylor All-Stars line of sneakers, Jack Purcell sneakers, casual clothing, skateboarding sneakers, and bags. With the exception of bags, none of the other lines are catered for by Nike-branded product ranges and so the Converse brand allows the company to tap consumers who are interested in a laid-back fashionable look disassociated from a sports brand.

The Converse brand has proved to be a global success with recent growth being driven predominantly by very strong sales in China and the UK. During 2012, the company moved to a direct distribution model in China, which should improve the segment’s profit margins as it reduces the need for wholesalers. There is great scope for such expansion on a global sale as a look at the number of Converse retail stores shows. There are 72 such retail units in the US, but only three outside which suggests that a move to a direct distribution model is a realistic possibility.

Hurley

Hurley International is a clothing company headquartered in Costa Mesa, California. It focuses its offering on so-called alternative sports and youth fashions such as skateboarding and surfing, using well-known figures from these disciplines to wear and promote its goods. Its endorsers include Brazilian skateboarders Bob Burnquist and Og de Souza. This relaxed style of casual clothing focusing on such sports is a niche that Nike-branded apparel does not exploit, but represented a market that Nike had been eager to enter for some time. Consequently, in 2002, Nike bought Hurley for an undisclosed sum.

When Nike acquired the company, it generated annual revenues of approximately $70m, but with Nike’s financial input and marketing expertise, it has grown into a business that in fiscal 2013 turned over $260m, an increase of 5% compared to 2012. While this is nowhere near as significant as the revenues contributed by Converse, it does show that Nike has enjoyed success in building a brand that allows it to profit from a niche market.

Much like the Converse brand, there is great scope for expansion globally, as much of the company’s business is currently in the US.
As of May 2013, Hurley had 27 retail outlets in the US, but none outside, which again suggests that a move to a direct distribution in other countries could provide a route to substantial growth.

Figure 2: Assorted Converse and Hurley products

SOURCE: Converse and Hurley Company Websites
NIKE AS A SPORTS BRAND

Nike is one of the world’s most famous and used sports brands. It produces a range of footwear, apparel, and equipment for various sports. The company places particular focus on basketball, golf, NFL, running, soccer, and tennis and pays top sports stars to wear and use its goods. To target these sports specifically and leverage the superstar image of its sponsored athletes, Nike has launched a number of sub-brands and branded its products accordingly. The most famous of these is the Jordan brand which was built around NBA legend Michael Jordan and which targets the basketball and urban fashion markets. Similar brands have been rolled out for golf, soccer, and tennis and competitors such as adidas have followed suit. These brands and collections have enjoyed varying degrees of success, with Jordan in particular becoming a runaway success. Conversely, the R9 collection of soccer products launched in the late 1990s flopped. In recent years, Nike has shown a willingness to divest interests that it does not feel fit its strategic aims.

Nike’s sports interests are wide-ranging

Nike’s sporting goods offering is not centered around any one sport, the company instead deciding that a diverse approach is beneficial. The company does however, have significant interests in sports such as basketball, golf, NFL, running, soccer, and tennis. It manufactures and markets a full range of relevant products for these sports that encompasses apparel, specific equipment such as golf balls and soccer balls, and footwear.

Nike also ensures that it operates across the price spectrum by offering everything from entry level products right through to professional grade equipment. So for those consumers who do not wish to, or simply cannot afford to purchase a pair of £170 ($269) CR7 Mercurial Vapor IX FG soccer boots, cheaper pairs are available, such as the Nike Mercurial Victory IV CR7 priced at £60 ($95). As figure 3 shows, aesthetically there is very little difference between the two models and the cheaper version still carries the CR7 brand linked to Real Madrid star Cristiano Ronaldo meaning that it is still a product associated with footballing excellence. The company adopts this pricing strategy across all sports and all product categories.

Figure 3: CR7 Mercurial Vapor IX FG (top left) & Mercurial Victory IV CR7 (bottom right)

SOURCE: www.store.nike.com
Furthermore, Nike markets these products to men, women, and children and combined, these two elements guarantee Nike the largest potential market possible.

**Basketball**

One of Nike’s core sports is basketball and in fiscal 2013, products related to the sport generated revenues of $2,627m, a 16% increase on the previous year. The company offers basketballs, apparel, bags, and footwear that range in price. The company uses a number of NBA superstars to endorse its products and pays handsomely for the right to do so. The three most high profile players Nike currently has under contract are Kevin Durant, Kobe Bryant, and Lebron James and while it has stopped short of creating a complete brand based around any of these players, it has launched collections named after all three.

These product lines consist of between approximately 25 and 40 products and include footwear, apparel and accessories. The players themselves endorse and wear the Nike goods both on and off the court and this association with star players lends the collections greater legitimacy as high-end sports products as elite players only use elite equipment. Each collection has its own logo and branding which helps distinguish it from ordinary Nike products and allows it to thrive almost as a brand in its own right. The use of non-Nike logos means that while some of the products, most notably the footwear and equipment, are aimed at the active sports market, the apparel also crosses into the realm of fashion, thus maximizing the potential customer base.

For example, the Lebron line, named after four-time NBA Most Valuable Player Lebron James, uses a logo that does not include a Nike swoosh. It instead uses the letters LJ topped by a crown, in recognition of the player’s nickname ‘King James’, although some of the products. Clothes carrying this logo are therefore clearly distinguished from normal Nike products which may attract non-basketball fans who are more interested in the product quality and look than the fact that it is associated with the world’s most famous basketball player.

![Lebron collection T-Shirt](www.store.nike.com)
Soccer

Soccer is also central to Nike’s offering and related products brought in revenue totaling $1,931m during FY2013. The company has adopted an almost identical strategy with its soccer offering. Nike has several top players under contract, such as Mario Götze (Bayern Munich and Germany), Wayne Rooney (Manchester United and England), and Zlatan Ibrahimovic (Paris Saint Germain and Sweden). However, the company’s star contractee is Real Madrid and Portugal star Cristiano Ronaldo. Much like Lebron James in basketball, the Portuguese is arguably the most famous face within his sport and consequently, Nike has again chosen to build of collection of products built around a player. The collection uses the name CR7, the player’s initials and squad number and includes apparel, equipment and footwear. By having one of the world’s greatest players wearing the soccer boots, they become desirable to aspiring young players and are perceived to aid performance. However, the company has also launched lifestyle products as part of the CR7 collection and some of these are again distinguished from Nike-branded products by the absence of the well-known swoosh logo. Much like the Lebron basketball line, this allows them to attract non-soccer fans.

Figure 5: Cristiano Ronaldo modeling Nike CR7 slim collar pique

The company’s soccer product range is not however, limited to CR7. It is in fact extensive and its main focus is on equipment.

The company manufactures and markets balls, shin guards, bags, gloves, protective equipment, and hats, but it places a particular emphasis on soccer boots.
Nike’s current range consists of five lines; each aimed at boosting performance in different ways and consequently aimed at different demographics.

Each line includes boots to suit all budgets. The Hypervenom line is aimed at attacking players, while Mercurial Vapor boots are lightweight and aimed at increasing speed and range of movement. Nike Tiempo include dampeners to improve players’ first touch, while the CTR360 boots are designed for control and precision passing. The final line of soccer footwear is the FC247 and this range consists of football trainers for use on artificial grass and indoor arenas.

This is a very deliberate marketing ploy by Nike, attempting to get players to match their boots to their style of play. To add credence to these claims, Nike uses professional players whose style it feels fits the purpose of each line to wear and advertise them. For example, Cristiano Ronaldo, a player renowned for speed and acceleration is the face of the Mercurial Vapor line, while Barcelona and Spain midfielder Andres Iniesta is used to advertise CTR360 boots, which are aimed at technical midfield players. Nike has taken the step of rating each boot on a number of attributes to help consumers make a decision about which boot best suits their needs, although the ratings do not appear to be backed up by any firm evidence, showing that it is a marketing device aimed at diversifying its product offering by both look and functionality.

It is, however, a marketing device that has proved successful with FY2013 and FY2012 seeing soccer product revenues increase by 4% and 12% respectively.
Running

In terms of revenue, running is the single biggest category for Nike. In fiscal 2013, the company’s running division generated revenue of $4,274m (20.5% of total revenues) and its year-on-year growth of 16% meant that it was second only to basketball in terms of the fastest-growing categories.

Recent health drives and information surrounding the importance of physical exercise have led to an increased interest in running and this has presented opportunities for Nike to market running apparel, footwear, and accessories. The company has taken full advantage. Its strategy within the running category differs however, from those employed for its soccer and basketball offerings.

The company does contract star athletes to wear and promote its goods, most notably Olympic 200m sprint gold medalist Allyson Felix, but the promotion is much less visible and Nike has not built a collection around any single athlete. It has instead focused on a strategy centered around performance and products aimed at boosting it.

At the time of writing, its most recent footwear development is the Nike Free Flyknit running shoe. The shoe combines two separate Nike technologies and adds them both to create one single product. Special zones on the top of the foot have engineered stretch to improve the shoe’s flexibility, while a tighter weave at the perimeter stabilizes the forefoot and heel. Additionally, elasticized construction fits securely around the ankle for what Nike describes as “a comfortable, secure fit.” The new upper on this shoe is also cost-effective for Nike as by knitting a one-piece upper, Nike Flyknit construction reduces Nike’s typical upper waste by an average of 88%. The Nike Free sole is flexible and moves naturally with the foot. Diagonal hot-knifed sipes (flex grooves) through the arch are said to help ensure natural movement in the mid-foot as a runner transitions stride. Unlike the marketing of its football boots, this information is backed-up by scientific evidence as Nike has invested heavily in bio-mechanical research. The company’s running apparel products also focus on improving performance through design and the company markets specialized equipment such as lightweight running gear, wet weather running gear, and compression clothing.

This focus on performance as opposed to personality has paid dividends as the category’s revenue growth shows.

Other sports

Basketball, soccer and running make up the bulk of Nike’s sports offering (42.3%) but that is not to say that they are the company’s only area of interest. The NFL (American football) provides a valuable income stream as Nike has been the official apparel licensee since 2010. Although the terms of the deal were not disclosed, the previous license holder, Reebok, estimated that the loss of the NFL license would cause it to lose approximately $250m a year in revenue. This gives some indication of how much money the contract brings Nike. NFL apparel has also provided growth for Nike and the company states in its 2013 Annual Report that it was a key factor in the growth of its apparel division.

Nike also offers a significant amount of apparel, footwear, and equipment for tennis. The company’s sponsored tennis players include several top stars such as Roger Federer, Rafael Nadal, Serena Williams, and Maria Sharapova. Much like the basketball and soccer products, these athletes use the company’s top-end equipment and footwear to add legitimacy to improved performance claims, but only Roger Federer has had a dedicated collection named after him, RF. The other players wear simple Nike-branded clothing and promote it for marketing material.

In the case of Maria Sharapova, the athlete has actually collaborated with Nike on the design of the apparel she wears both on and off the court. The latter is again aimed at broadening the appeal of the clothing line beyond people who play tennis. By obliging self-confessed fashion addict Sharapova to wear different clothes and footwear on and off the tennis court, Nike is able to do this.
This involvement and investment in a wide range of sports have helped Nike to build a diverse business that is not overly dependent on any single sport for the majority of its revenue, as evidenced in figure 8.

**Figure 8: Nike revenue by sporting category FY2013 ($m)**

- Running: 57.7%
- Basketball: 20.5%
- Soccer: 12.6%
- Other sports: 9.2%

SOURCE: NIKE, Inc. 2013 Annual Report
Nike has rolled out successful sub-brands

Nike has been successful with collections such as ‘Lebron’ and ‘CR7’, but in two key cases has taken this a step further and created a standalone sub-brand. The Jordan and TW brands have been built around two of the world’s most famous sportsmen (Michael Jordan and Tiger Woods) and have, to a certain extent, been used to enter markets in which Nike previously had little or no involvement. In the case of the Jordan brand, the confines of the sport have now been transcended and a clothing brand has been created. Both brands have been highly successful and remain key to Nike’s strategy.

Jordan

The Jordan brand was born out of what was originally a collection called Air Jordan, which first appeared when Michael Jordan wore them as a rookie in 1984. Various incarnations were released throughout the years and Nike started to market Air Jordan apparel and accessories. In 1997, the company decided to launch Jordan as a brand in its own right. Nike describes the Jordan Brand as “a premium brand of footwear, apparel and accessories inspired by the dynamic legacy, vision and direct involvement of Michael Jordan.” Since its launch in 1997, the brand has grown into a collection of performance and lifestyle products and has been promoted by sports personalities such as Roy Jones Jr. (boxing), Michael Jordan (basketball), Terrell Owens (American football), and Derek Jeter (baseball). The range of sports these athletes come from, coupled with the fact that entertainers such as Nelly and Damon Wayans have also been Jordan sponsored, demonstrates the fact that the brand has become much more than a basketball brand.

The brand is distinguished from Nike by its logo. There is a complete absence of Nike’s well-known swoosh as the Jordan brand uses its own distinctive ‘Jumpman’ which is the silhouette of Michael Jordan performing a layup. While the brand retains a close connection to the sport of basketball and continues to manufacture shoes used by professional players, much of its offering is aimed at the urban youth fashion market.

![Figure 9: Jordan brand ‘Jumpman’ logo](source: www.jumpman23.com)

Official Nike company filings do not reveal Jordan brand revenues, but analysts believe the brand is fast-growing. According to Susquehanna Financial analyst Christopher Svezia, the brand grew by 25-30% in 2012 and now generates more than $1.75bn globally, when Jordan-branded footwear and apparel are considered.
The US Jordan footwear business alone brought in $1.25bn in wholesale revenue in 2012, according to Matt Powell, an analyst at SportsOneSource and Jordan branded basketball footwear outsold Nike’s Lebron signature collection 6 to 1 in the US during 2012 according to Forbes. According to research firm SportsOneSource, Jordan controlled 58% of the US basketball shoe market in 2012. When one considers that the same source assigns Nike a share of 34%, it is fair to say that NIKE, Inc. is the dominant player. Revenue figures that exceed $1bn are testament to the success of the brand and vindicate Nike’s foresight in establishing a sub-brand to target the lucrative basketball market.

**TW**

Until Rory McIlroy was signed to a 10 year, $250m contract in January 2013, Nike’s golf range had been built almost exclusively around Tiger Woods. Nike consequently released golf apparel and accessories under the TW brand, although in truth, TW sits somewhere between a standalone brand and a collection. Unlike Jordan products, TW items tend to retain the presence of Nike’s swoosh logo and only on some products is the TW logo more prominent. The brand has been highly successful and Nike’s golf category has grown at an impressive rate in recent years. In FY2013, Nike Golf, including the TW brand, generated revenues of $791m, an increase of 9% on FY2012.

Prior to 1996, Nike had minimal involvement in the sport of golf. According to the National Golf Foundation, around 3 million Americans were members of private golf clubs in the mid-1990s and so the sport presented a potential goldmine for Nike. The company was therefore eager to enter but needed to find a route in to rival established players such as Callaway, Ping, and Titleist. Nike decided to adopt a similar strategy to the one that had worked in basketball, namely building the offering around one highly-talented rookie player and so once Tiger Woods officially turned professional in 1996, Nike signed him to a sponsorship contract rumored to be worth $40m over five years.

The move was a masterstroke as the young Californian proved to be a revelation. His age (Woods turned 21 in December 1996) and his youthful exuberance went against the grain in a sport long associated with conservative middle aged men and this helped attract a whole new demographic to the sport. Woods did not disappoint on the course, winning The Masters at the age of 21 while setting records for the largest winning margin in any major and the lowest ever four day score at Augusta National Golf Club (270/18 under par). Initially, Woods’ contract only involved apparel and footwear as the company did not manufacture any equipment and the sight of the young man striding down the fairway wearing his now customary final day Nike red polo shirt must have delighted the marketing men looking to ensure Nike’s success in golf. In 2000, that changed when the company launched the Tour Accuracy TW golf ball, which was then followed by the first Nike golf clubs in 2002. This coincided with a period of Woods dominance as record after record tumbled and trophy after trophy found its way into Woods’ hands. The success of a man wearing Nike clothes, using Nike balls and clubs afforded the company’s products a certain cachet and made them desirable to consumers, particularly younger ones with whom Woods connected.

**Not all collections have been a success**

When Nike was looking to launch what it advertised as a revolutionary new line of football boots in the late 1990s, known as Mercurial Vapor, the company decided to use then World Player of the Year and footballing megastar Ronaldo as the face of the range.

Ronaldo was, at the time, the hottest property in the sport and Nike had not long since signed an agreement with the Brazilian football association (CBF) to be the national team sponsor so it seemed a natural choice. The decision was made to launch a boot with the R9 logo (the player’s name and shirt number) and the boots were given a futuristic blue and silver look.

The boots were marketed with the slogan: “Ultralight, so your legs can be as fast as your imagination.” Nike placed a great deal of faith in Ronaldo and this reliance on one man to single-handedly promote a new product ultimately proved to be the strategy’s undoing.

Nike had pinpointed the 1998 FIFA World Cup as the launch pad for the boots and Brazil reached the final. Ronaldo, who was clearly not fully fit, did not play well as Brazil lost 3-0 to the hosts France and the next four years of his career were blighted by a series of serious knee injuries. This meant that the man who was supposed to lead the brand was not on the field to advertise it.
Nike eventually cut its losses and abandoned the R9 collection, although Ronaldo remained a Mercurial Vapor ambassador.

**Competitor response**

The success of Nike’s brands and collections linked to specific sports stars has led its competitors to adopt similar strategies. The most notable example is adidas’ Messi collection, which was launched in late 2011 and is named after Argentina and Barcelona soccer star Lionel Messi. While many of the products in the Messi collection still carry the distinctive adidas three stripe logo, it is minimized and the Messi collection logo is much more prominent. The Messi brand has helped adidas increase sales of its football-related products (according to the company’s 2012 annual report, the segment experienced ‘double-digit growth’) and the endorsement of the four-time World Player of the Year adds weight to the performance-enhancing claims adidas makes. This mirrors Nike’s strategy, but while adidas has enjoyed success, it does not rival the impact of Nike’s Jordan brand.

**Non-core operations have been divested**

Nike’s business model has become increasingly diverse as time has progressed, but Nike has shown that it is not afraid to divest of businesses that it does not see as central to its strategy.

In 1988, Nike acquired high-end shoe retailer Cole Haan as it sought to establish a presence in the formal footwear market. With 190 stores globally and annual revenue of $518m in 2011, Cole Haan was a successful business and sizeable player in the US footwear market.

However, after conducting a review of its business and objectives, in 2011, Nike deemed Cole Haan to be a non-core operation and began to begin the sale process. During the third quarter of the company’s financial year 2013 (quarter ended February 28, 2013) the sale to private equity firm Apax Partners for $570 million was completed.

Nike took similar steps with British sportswear company Umbro, which it had acquired in 2008 for $580m. In FY2011, Umbro generated revenues of $224m, which was flat compared to a year earlier. This uninspiring performance, coupled with the fact that Nike assessed Umbro as non-core, led the former to put Umbro up for sale. On November 30, 2012, the Nike completed the sale of certain assets of Umbro to Iconix Brand Group for $225m.

Nike’s rationale for the divestments was to allow it to “focus its resources on driving growth in the NIKE, Jordan, Converse and Hurley brands.”
NIKE IS GEOGRAPHICALLY DIVERSE

Nike is headquartered in Beaverton, Oregon and its North American origins are to be seen in its focus on sports such as basketball and the NFL. The company still derives much of its revenue from North America, but by focusing on a wide range of sports with global appeal and becoming a fashion brand, it has been able to build a global empire.

Nike’s reliance on the US has diminished

The company’s dominance of the basketball shoe market and the fact that it is the license holder for NFL jerseys ensure that Nike generates a great amount of revenue in the US. During FY 2013, North America accounted for 41% of the company’s total revenue, which equated to $10,387m. This is still a significant amount and it remains something the company’s management is looking to reduce. It does, however, represent progress compared to previous years. A look at Nike’s 2003 annual report for example shows that the United States alone (North America is not reported) accounted for 44% of the company’s revenue. Nike has been able to achieve this while more than doubling revenue.

![Figure 10: Nike revenue by region FY2013 ($m)](image)

Fastest growing regions

Nike’s performance varies from region. During FY2013, key markets such as Western Europe, China and Japan all suffered declines in revenue. This was more than compensated for however, by strong growth in North America, Central and Eastern Europe, and Emerging Markets, which have grown considerably in recent years.

China’s performance stumbled in FY2013 following a period of growth and this was also the case in Western Europe and Japan. No single region has been subject to a prolonged period of decline, but some regions continue to drive growth more than others. Table 1 shows the three fastest growing regions.

The North America segment has grown significantly, primarily as a result of increased basketball revenues, including Jordan. In FY2013, the company’s basketball segment grew by 21%. The licensing agreement with the NFL has also helped revenues from the region grow significantly as it is estimated to be a $250m a year business.
Growth in Central & Eastern Europe is being driven by increased economic prosperity which is translating into increased demand. Nike’s increased focus on soccer, which is the most popular sport in the region, has also played a role and has allowed the US giant to make inroads into adidas’ historical dominance. Reported future orders (footwear and apparel scheduled for delivery from June through November 2013) growth for the region stands at 14%, showing that this is more than a short-lived phenomenon.

The increased focus on soccer combined with concerted marketing drives and increasing disposable incomes has helped improve brand recognition in countries like Argentina and Mexico, and this has created the growth seen in the Emerging Markets segment. Again, reported future orders growth is high at 12%.

Table 1: Nike’s fastest growing regions in terms of revenue, 2011-2013

<table>
<thead>
<tr>
<th>Region</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America ($m)</td>
<td>7,579</td>
<td>8,839</td>
<td>10,387</td>
</tr>
<tr>
<td>Growth (%)</td>
<td></td>
<td>16.6%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Central &amp; Eastern Europe ($m)</td>
<td>1,040</td>
<td>1,200</td>
<td>1,287</td>
</tr>
<tr>
<td>Growth (%)</td>
<td></td>
<td>15.4%</td>
<td>7.3%</td>
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<tr>
<td>Emerging Markets ($m)</td>
<td>2,737</td>
<td>3,411</td>
<td>3,718</td>
</tr>
<tr>
<td>Growth (%)</td>
<td></td>
<td>24.6%</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

SOURCE: NIKE, Inc. 2013 Annual Report
CONCLUSIONS

Nike has successfully built a diverse business

Nike is undoubtedly one of the world’s leading sports brands. By investing in research, manufacturing performance enhancing equipment and apparel, and using elite sports stars to endorse its goods, the company has successfully established itself as a major player in sports such as basketball, golf, running, soccer, and tennis. In some cases, it has leveraged the stardom of its contracted athletes to launch collections carrying their names and in the case of Michael Jordan, built a standalone brand around them. This has allowed the company to transcend sport and establish itself as a fashion brand, thus maximizing its market and reducing its reliance on sporting products.

Nike is headquartered in Oregon and its North American origins are to be seen in its focus on sports such as basketball and the NFL. The company still derives much of its revenue from North America, but by focusing on a wide range of sports with global appeal and becoming a fashion brand, it has been able to build a global empire and focus greater attention on strong growth markets such as Argentina, Brazil, Mexico and South Korea. This has helped Nike grow into a $25bn business and one that continues to grow.

The company must continue to pursue such marketing strategies while constantly innovating and researching. This represents a significant cost and Nike must balance this with making its products affordable to the average consumer. This represents a potential threat to the business.

The likes of adidas and Puma are now using similar strategies based around superstars such as Lionel Messi (soccer) and Usain Bolt (athletics) in a bid to grow their shares of sports markets and this increases the threat of rivals eroding Nike’s revenues.

While Nike has enjoyed great success with brands and collections that leverage the star power of top sportspeople, the failure of the R9 brand in the 1990s and the furor that surrounded Tiger Woods following his admission of adultery serve as a reminder of how sensitive this strategy can be to the fortunes of one person. Nike has addressed this to some degree by using more than one player to promote many of its product lines, but the company must still be mindful of similar problems in the future.

These threats mean that Nike is unable to rest on its laurels, but the strategies the company has employed in recent years have stood it in good stead and the future looks bright for the Oregon based company.
APPENDIX

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Further Reading
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Global Childrenswear – MarketLine Industry Profile
Global Menswear – MarketLine Industry Profile
Global Womenswear – MarketLine Industry Profile
Sponsorship and sport: A marriage of convenience – MarketLine Case Study
Ask the analyst

We hope that the data and analysis in this brief will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

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