Nike, Inc.*

Nike, Inc. was considered by many to be the most powerful and influential force in sports. So popular was its Air Jordan brand, for example, that the company refrained from introducing new products on school days in an effort to combat truancy. One journalist concluded that it was "difficult to locate a three-year-old — or, for that matter, a Trobriand Islander or an Inuit hunter — who can't tell you that Jordan is a Nike man."[1]

As 1998 drew to a close, however, the company's vulnerability was exposed. Nike stock had fallen 20% in the previous year. Phil Knight, the firm's founder and largest shareholder had experienced an estimated decline in value of $700 million of his Nike stock. Nike faced multiple challenges in 1998. The Asian economic collapse had led to plummeting sales growth in a region Nike had counted on for high growth. Changes in fashion also threatened the firm's core athletic footwear business as many so-called Generation X consumers were choosing "brown shoes" such as hiking boots over sports shoes. Public relations had also become a problem for Nike as its image had been attacked on several fronts. In some circles Nike had become, in Knight's words, the "great satan [of American Capitalism] … synonymous with slave wages, forced overtime and arbitrary abuse."[2] Garry Troudeau had used his Doonesbury cartoon column to criticize Nike for its overseas labor practices.

Faced with these challenges, Nike's managers faced important decisions about how to turn the company's performance around. Did Nike need to reinvent itself again as it had in the 1980s? Clearly, one of Knight's favorite mottos, "There is no finish line" was applicable to Nike's circumstances in 1998.

Nike's History

The Nike story began when Phil Knight and Bill Bowerman met at the University of Oregon in 1957. Knight was a member of the track team of which Bowerman was the coach. Both Knight and Bowerman shared a dissatisfaction with the mostly German running shoes that were available at the time. After leaving Oregon, Knight went on to receive an MBA at Stanford. While at Stanford, Knight developed, for a class assignment, a business plan for how low-priced, well-merchandised shoes from Japan could end German domination of running shoes in the U.S. After receiving his MBA, Knight traveled to Japan to explore the possibility of importing running shoes. Onitsuka Tiger, a Japanese manufacturer of athletic shoes, agreed to supply Knight. When asked by Onitsuka what firm he represented, Knight quickly made up a name, Blue Ribbon Sports, thus giving a name to his new venture.

Blue Ribbon Sports enjoyed modest success in its early years. Knight started Blue Ribbon Sports by importing his first shoes — 200 pairs — from Onitsuka Tiger in late 1962. In 1964, Knight and Bowerman both contributed $500 and continued importing shoes from Tiger. In the

---

1 Katz, Donald, "Triumph of the Swoosh, *Sports Illustrated*, August 16, 1993, pp. 54- 73.

2 Jenkins, Holman W., "Business World: The Rise and Stumble of Nike," *Wall Street Journal*, June 3, 1998, A19.

early days of Blue Ribbon Sports, Knight maintained a job as a Price Waterhouse accountant. On the side, he sold track shoes out of the trunk of his car Plymouth Valiant at local track meets. Blue Ribbon Sports sold 1,300 shoes in 1964 for $8,000 in revenue. In 1968, one of Bowerman's early designs, the Cortez, became one of Tiger's leading selling models. By 1969, with sales nearing $300,000, Knight was able to quit his job and focus his efforts full time on his fledgling shoe company.

Tiger and Nike split in a dispute over distribution rights in 1972. Without their Japanese supplier, Knight and Bowerman decided to design and distribute their own line of shoes. Blue Ribbon Sports launched the Nike brand at the 1972 Olympic trials. The name Nike was taken from the Greek goddess of victory while the swoosh emblem was designed by a student for $35. Knight and Bowerman persuaded some runners in the 1972 Olympic trials to wear their shoes. A major breakthrough occurred the next year when the legendary distance runner, Steve Prefontaine, became the first major track star to wear Nike shoes. Nike's also achieved its first major technical innovation in the early 1970s. Bowerman designed the waffle sole when he used his waffle iron to mold a piece of rubber for a sole. The shoe offered greater traction and cushioning than other shoes. The introduction of the waffle trainer coincided with a jogging boom in the U.S. By 1974, the waffle-soled shoes became the top selling training shoe in the U.S. Nike gained nearly 50% of the rapidly growing U.S. market for running shoes by the time of its first public stock offering in December 1980.

In the early 1980s, Nike lost its number one position in the U.S. athletic shoe market. Reebok capitalized on the boom in aerobics with its aerobic shoe lines to overtake Nike. Nike responded with a reemphasis on technical innovation, and by moving beyond running shoes to other sports shoes. Nike introduced what was probably the most successful athletic shoe in history — the Air Jordan —in 1985. Another highly successful move beyond running shoes was the first cross trainer shoes in 1987. That year, Nike also introduced what was perhaps its most important technical innovation —the air sole. Air soles, invented by former NASA engineer Frank Rudy, placed pressurized gas into urethane bags. When placed in a shoe's sole these bags compressed on impact to absorb shock, then quickly rebounded to their original shape in time for the next impact. Air soles could be configured for different sports and athlete's needs by modifying the placement, amount of pressure, and shape of the gas-filled bags. The air sole re-established Nike as the technological leader in athletic footwear. The company also placed an unprecedented focus on advertising. Nike's "Just Do It" ad campaign debuted in 1988. The combined effect of the technical innovation, new advertising emphasis, and the broadened product line was a surge in sales as revenues almost doubled within two years.

After 1990, Nike's success continued as it gained momentum in international markets at the same time it expanded into sports equipment and increased its penetration in sports apparel. In 1991, Nike reported that international sales had increased 80% to $860 million and a year later passed the $1 billion mark in international revenue. In 1992, Nike also opened its first NIKETOWN. NIKETOWNs were upscale retail stores in major cities. While some retailers feared that NIKETOWNs would have an adverse impact on sales, Nike managers contended that NIKETOWN was intended to promote Nike's brand name more than it aimed to directly sell products. One journalist reported that, within a few weeks of opening, the Chicago NIKETOWN had usurped the Lincoln Park Zoo and the Shedd Aquarium as the most popular tourist attraction in Chicago.[3] The year 1992 also marked another potentially important strategic move for Nike. Nike moved into sports equipment with its acquistion of hockey equipment manufacturer, Bauer. The Bauer acquisition was Nike's first move into sports equipment.

The Market for Sports Footwear and Apparel in 1998

Athletic footwear was considered a mature industry in 1998. Wholesale sales were greater than $9 billion in 1995. Overall industry growth had been a moderate 6% to 9% for most of the 1990s. Some of the largest firms in the industry, such as Nike, Reebok, and Adidas had experienced much faster growth as had some small niche producers.

A number of designers planned to introduce new lines of athletic footwear in 1997 and 1998. Tommy Hilfiger, Ralph Lauren, Calvin Klein, Donna Karan, and Nautica all were expected to introduce shoes aimed at fashion-conscious leisure wearers.[4]

Nike and other major athletic shoemakers saw shoe sales suffer in 1998 at the same time that smaller competitors flourished. Reebok was expected to post a 47% decline in earnings while other established companies such as Converse and Fila anticipated losses. Smaller competitors such as Candie's and Global Sports expected gains of 83% and 67% respectively. Analysts pointed to a possible shift in consumer tastes as one reason for the lackluster performance of the established firms compared to smaller competitors in the industry. Brian Eisenbarth, an analyst for Collins, Inc., said, "There appears to be a rebellion going on among teens and preteens against the big traditional franchises of the industry, along with their high prices. Generally any shoe priced over $80 is having a hard time leaving the store."[5]

The increasing popularity of "brown" shoes was another blow to athletic shoemakers. Brown footwear included shoes such as Hush Puppies, Timberland, and work or hiking boots. One estimate suggested that the shift to brown shoes had cut 20% out of athletic shoe sales.[6] The threat of brown shoes to athletic footwear was heightened because a high percentage — one industry rule of thumb was 80%[7] — of athletic shoes were not bought for any athletic purpose.

Another trend observed by industry analysts was a shift away from basketball shoes. Firms such as Converse and Fila which had narrower product lines and were thus more dependent on basketball shoes were most adversely affected than firms with more diverse product lines such as Nike and Reebok. One exception to the downward trend in basketball shoe sales was Nike's new Brand Jordan. The Brand Jordan shoes had enjoyed a successful brand launch.

In contrast to larger shoe companies, which had experienced declines in sales, smaller niche competitors such as Vans, Airwalk, Etnies, and DC had revenue increases ranging from 20% to

---

[3] Katz, Donald, "Triumph of the Swoosh," *Sports Illustrated*, August 16, 1993, pp. 54-73.

[4] Standard & Poor's, "Apparel and Footwear Industry Survey," Aug. 21, 1997.

[5] Dow Jones Newswires, "Smaller Sneaker Makers Walk All Over Big Ones in 3Q," October 8, 1998.

[6] Jenkins, Holman W., "Business World: The Rise and Stumble of Nike," *Wall Street Journal*, June 3, 1998, p. A19.

[7] Jenkins, Holman W., "Business World: The Rise and Stumble of Nike," *Wall Street Journal*, June 3, 1998, p. A19.

50%. Candie's was another firm experiencing an upsurge in sales. With an emphasis on women ages 19-30 and shoes that sold for an average of $35 a pair, Candie's sales had increased 39% over 1997. Another competitor's, Global Sports, high growth was attributed to its success in women's shoes and Yukon, a lower-priced line of outdoor footwear.

Perhaps the biggest beneficiaries of the shift in consumer tastes was Vans Inc. Sales for Vans were up 21% in late 1998. Van's shoes main appeal was to "the antiestablishment crowd looking for something other than traditional sneakers."[8] Their shoes were particularly popular with stunt bikers and boarders. Boarders participated in various sports based on boards: skateboards, snowboards, wakeboards, and allterrrain boards. In 1998, it was estimated that there were 6.5 million skateboarders, 4.5 million snowboarders, 1.5 million stunt bikers, 2 million wakeboarders, and 1 million allterrain boarders. These figures were expected to expand anywhere from double to six times in the three years following 1998.[9] Boarding was characterized by a strong antiestablishment culture. And, for many boarders, Nike represented the establishment. Some boarders wore buttons with the slogan "Don't Do It" in a clear contradiction of Nike's famous slogan.[10] Another sign of the antiestablishment ethos of the board sports participants was that many top snowboarders skipped the 1998 Olympics in Nagano, Japan.

Vans shoes were not only more appealing to boarding set for cultural reasons, they were also cheaper. Vans' shoes averaged $45-50 in price compared to $70 to $75 for Nike. Vans also did not have to participate in large endorsements. One of its top athletes, street luger Lee Dancie, was paid only $100,000 a year to wear Vans. Many of Vans endorsers reported that they had refused offers from larger companies.[11] Vans sponsored alternative sporting events in snowboarding, skateboarding, and stunt bike exhibitions.

Another area affected by changes in consumer tastes was the sale of tennis shoes. Fewer people were playing tennis than in earlier decades. The U.S. tennis association estimated that there were 34 million tennis players over the age of 12 in 1974 but only 19.5 million in 1996.[12] Nike's global sales of tennis shoes grew 11.5% in 1998 to 15 million pairs. In 1998, Nike began an ad campaign aimed at attracting tennis players back to the game. The television ads sought to remind viewers in an offbeat way about what they liked about tennis.

---

[8] Dow Jones Newswires, "Smaller Sneaker Makers Walk All Over Big Ones in 3Q," October 8, 1998.

[9] Pereira, Joseph, "Going to Extremes: Board-Riding Youths Take Sneaker Maker On a Fast Ride Uphill --- For Generation Y, Rebellion and Vans Shoes are Cool; Nike and Baseball Aren't --- 'Elvises' Go to 'Cube Farms,'" *Wall Street Journal*, April 16, 1998, p. A1.

[10] Pereira, Joseph, "Going to Extremes: Board-Riding Youths Take Sneaker Maker On a Fast Ride Uphill --- For Generation Y, Rebellion and Vans Shoes are Cool; Nike and Baseball Aren't --- 'Elvises' Go to 'Cube Farms,'" *Wall Street Journal*, April 16, 1998, p. A1.

[11] Pereira, Joseph, "Going to Extremes: Board-Riding Youths Take Sneaker Maker On a Fast Ride Uphill --- For Generation Y, Rebellion and Vans Shoes are Cool; Nike and Baseball Aren't --- 'Elvises' Go to 'Cube Farms,'" *Wall Street Journal*, April 16, 1998, p. A1.

[12] Beatty, Sally, "Nike Serves Up Tennis-Gear Ad That Plays Sudden Death Game," *Wall Street Journal*, Aug. 26, 1998, p. B2.

The largest competitors in athletic footwear were Nike, Reebok, Adidas, and Fila. They were joined by a number of other firms such as Converse, New Balance, and others (see Exhibit 6). For the most part, these second-tier firms had narrower product lines than the top four. For example, Converse focused more basketball shoes while ASICS tended to specialize in running shoes. There were also a number of smaller niche firms in athletic footwear in 1998. For example, Vans, Etnies, and DC focused on the market for skateboarders and other "boarders."

Reebok was Nike's largest U.S. competitor with over $3.6 billion in sales in 1997. Like Nike, Reebok was experiencing a significant downturn in results. Earnings were down 49% for the first quarter of 1998 and both prices and orders had declined suggesting a dark outline for the next year. Reebok sold shoes under the Reebok brand name as well as under the Rockport, Greg Norman, and Ralph Lauren Footwear brands. Rumors floated in the 1998 that Reebok was a likely acquisition target for another consumer products company.[13]

Next to Reebok, Nike's largest competitors were the European companies Adidas-Salomon AG and Fila Holding S.P.A. The German-based Adidas had once dominated much of the athletic footwear market in Europe and North America. Following the 1972 Olympics, however, Adidas had lost its leading position in North America to Nike and Reebok. In 1997, Adidas had apparel and footwear sales of over $3.7 billion. Adidas-Salomon was formed out of Adidas' $1.4 billion purchase of Salomon the French maker of skis and other sporting goods including Taylor Made golf clubs. Adidas-Salomon had set a goal to become the world's second largest sports company after Nike. The merger with Salomon had not gone as smoothly as hoped, but analysts believed that, except for Taylor Made, the company was positioned well for 1998. The Italian firm Fila was the fourth largest athletic footwear maker behind Nike, Reebok, and Adidas with 1996 sales of $1.2 billion. Sales had flattened for Fila in 1997 and 1998 after a period of rapid growth. Fila was attempting to shed its fashion reputation in favor on one rooted more in performance. Baketball and tennis shoes were the products for which Fila was best known. As a result, the company had been severely affected by the downturn in basketball shoes.

Nike in 1998

Though Nike had traditionally been identified as a shoe company, the firm had consistently extended its scope over its history. When growth had slowed during 1993-94, Nike made a greater commitment to product areas beyond shoes. Phil Knight maintained, "We decided we're a sports company, not just a shoe company."[14] Design, development and worldwide marketing of high quality footwear, apparel, equipment, and accessory products were Nike's principal business activities. Nike's internal emphasis was on design, development, and marketing rather than manufacturing. Nike did virtually no manufacturing. Instead, essentially all of Nike's products were manufactured by independent contractors. Most footwear products were produced outside the United States, while apparel products were produced both in the United States and abroad.

---

[13] *Business Week*, "A Buyer May Be On Reebok's Heels," June 15, 1998, p. 114.

[14] Lieber, Ronald B., "Just Redo It," *Fortune*, June 23, 1997, p. 72.

Products

Nike athletic footwear products were designed primarily for specific athletic use, although a large percentage of the products were worn for casual or leisure purposes. Nike placed considerable emphasis on high quality construction and innovative design. Running, basketball, children's, cross-training and women's shoes were the top-selling products in 1998 and were expected to continue to lead in sales for the foreseeable future. Training, running, basketball, kids, and Brand Jordan were the largest product categories for Nike accounting for 80% of sales in fiscal 1998. Overall, U.S. footwear had decreased by 7% in revenue in 1998 and 3% in pairs sold. Nike had enjoyed considerable success in establishing its shoes in other sports beyond running and basketball. Shoes designed for outdoor activities, tennis, golf, soccer, baseball, football, bicycling, volleyball, wrestling, cheerleading, aquatic activities and other athletic and recreational uses contributed substantially to Nike's sales. Golf and soccer, particularly, were bright spots with sales increases in 1998 of 71% and 74%, but Outdoor and tennis sales had dropped by 7% and 14% respectively.

Apparel

Although Nike had established itself by selling shoes, active sports apparel, as well as athletic bags and accessory items, were increasingly important to Nike's sales. Apparel and accessories were designed to complement Nike's athletic footwear products, feature the same trademarks and were sold through the same marketing and distribution channels. Nike sought to bundle apparel and footwear into collections in some instances. For example, the Air Jordan model of basketball shoes would be coupled with apparel. Apparel sales had increased for nearly all categories in 1998. Training apparel was up 10%, Accessories 6%, Kids 41%, Tee shirts 5% and Golf 57% all enjoying increases. Team Sports Apparel, with an 8% drop, was the only apparel area to show a significant decrease. Broken down by region, U.S. apparel had increased by 11% while European apparel was up 35%.

Nike owned a handful of wholly owned subsidiaries that marketed products in different markets. Nike sold a line of dress and casual footwear and accessories for men, women and children under the brand name Cole Haan through its wholly-owned subsidiary, Cole Haan Holdings Incorporated. Another wholly owned subsidiary, Sports Specialties Corporation, sold a line of headwear with licensed team logos under the brand name "Sports Specialties." Bauer Inc., headquartered in Montreal, manufactured and distributed ice skates, skate blades, in-line roller skates, protective gear, hockey sticks, and hockey jerseys and accessories under the Bauer(R) brand name. Bauer also offered products for street, roller and field hockey. Finally, Nike sold small amounts of various plastic products to other manufacturers through NIKE IHM, Inc. (formerly Tetra Plastics, Inc.).

Sports Equipment

Sports equipment was an area of growing importance to Nike. Nike had moved into sports equipment during the 1990s. Several items were sold under the Nike brand name, including sport balls, timepieces, eyewear, skates, and bats for softball and baseball. Some of the most visible product introductions had not performed well. Hockey sticks and basketballs, for example, had experienced disappointing sales.[15] Industry observers rumored that Nike would expand into other areas of equipment such as golf. Andrew Mooney, who headed Nike's sports equipment division, summarized Nike's ambition in sports equipment, "Within a few years, the equipment division will be Nike's fastest growing division."[16]

Jordan Brand

Nike launched its JORDAN brand in October 1997. JORDAN extended Nike's relationship with Michael Jordan. Jordan had endorsed Nike since the early 1980s. Some credited the introduction of the Air Jordan shoe in 1984 with catapulting Nike from close head-to-head competition with Reebok to clear dominance in the industry. Nike promoted JORDAN as "a pure, authentic basketball brand of premium, high-performance basketball footwear and apparel inspired by the performance, vision and direct involvement of Michael Jordan."[17] While growth was flat across the industry for basketball footwear, the JORDAN brand shoes were seen as a clear success. We believe the man and the product can show similar market strength into the next century.

Women's Products

Another area of promising growth for Nike was in products targeted to women. Women's participation in sports had increased by 30% in the decade preceding 1998 while participation in team and individual sports combined had increased by 26%. The growth in women's participation appeared to be accelerating.[18] Nike planned new lines of shoes for fall 1998. The shoes contained a new footbed designed specifically for women. Nike also had initiated women's concept shops with retail partners such as Dick's and The Finish Line.

Marketing

Nike's marketing efforts centered around the relentless promotion of its brand name. The company sought to promote the Nike brand image as representing technical superiority, performance, and "the free-flowing spirit of the athlete."[19] An ongoing concern for Nike was that its performance image would be diluted. Knight worried in 1994 that, "We've moved away from our heritage and more toward fashion."[20] Managers at Nike were keenly conscious that brand leadership was difficult to sustain in footwear and apparel over long periods of time. According to Knight:

---

[15] O'Harrow, Robert, Jr., "Nike's Downward Swoosh; Changing Tastes, Asia Crisis Halt Athletic Shoe Giant's Winning Streak," *Washington Post*, Jan. 18, 1998, p. H2.

[16] Eubanks, Steve "Where Does Nike Fit Into This Picture? *Golf World*, January 30, 1998, p. 58.

[17] Nike Annual Report, 1998.

[18] Standard & Poor's, "Apparel and Footwear Industry Survey," Aug. 21, 1997.

[19] *Business Week*, "Can Nike Just Do It? April 18, 1994, pp. 86-90.

[20] *Business Week*, "Can Nike Just Do It? April 18, 1994, pp. 86-90.

> The brand cycles in this industry last only around seven years. You've got to reawaken the customer every season, yet there are these larger cycles. First, Converse had its day, then Adidas, then Nike. The cycle took us form zero to a billion dollars in a short time, and suddenly Reebok had its years in the sun. Then Nike was reinvented during the late '80s, and now we're back on top. …If we're a giant, then we're a pretty fragile giant. Every six months is like a new life. We can't take our eye off the ball, because if we lose it, we'll have a bitch of a time getting it back.[21]

Advertising

Nike placed great importance on advertising and promoting its brand name. Nike's $900 million global "demand creation" budget was split between $500 million for sports marketing and $400 million for communication.[22] The communications budget's main component was advertising while athlete and team endorsements constituted the lion's share of sports marketing.

Nike was one of the most recognized brands in the world and its swoosh was one of the best known product symbols. Knight sought to extend the Nike brand name further:

> These products and the way we present them to the world is our greatest asset, our brand name. Not a brand name equivalentyet to Coca-Cola or even Gillette but we're not "too far" behind. That's one of our big goals as a company – to reach that next level.[23]

Nike's advertising was distinctive. Many Nike ads neither promoted a specific product nor even mentioned the firm's name. Instead, at one *Fortune* article stated, "they come across as demonstrations of a passion for sport, as spoken by athletes like Michael Jordan."[24] Nike advertising slogans such as "Bo Knows" and "Just Do It" had gained almost universal recognition and association with the Nike brand name.

So ubiquitous were Nike's symbol and slogan "Just Do It" that overexposure was a concern. In 1998, Nike replaced its "Just Do It" ads with others featuring the slogan "I Can." This led some in the media to conclude that Nike had retired the "Just Do It" slogan. In a press release, Nike flatly stated that conclusion was wrong.[25] The use of the Swoosh symbol was also modified somewhat in 1998. Nike began to use its wordmark "nike" instead of the swoosh to to sign off its advertising and on letterhead and business cards. A Nike press release answered speculation by the *New York Post* with a press release that "emphatically" denied the retiring of the Swoosh. Gordon Thompson, Nike's vice president of design emphasized that, "It is the Swoosh that has brought us to prominence, and it isn't going away. The Swoosh will still b used in ints most powerful form – on product."[26]

---

[21] Katz, Donald, "Triumph of the Swoosh," *Sports Illustrated*, August 16, 1993, pp. 54-73.

[22] Nike Inc. Press Release, "Nike: No Fundamental Change in Sports Marketing Strategy," Oct. 1, 1998.

[23] Nike, Inc. Annual Report, 1998.

[24] Lieber, Ronald B., "Just Redo It," *Fortune*, June 23, 1997, p. 72.

[25] Nike Inc. Press Release, "Instant Replay: Nike & the Swoosh," September 15, 1998.

[26] Nike Inc. Press Release, "Instant Replay: Nike & the Swoosh," September 15, 1998.

Endorsements

Nike aggressively sought endorsements from top athletes and teams in several sports. Regardless of the sport, Nike sought to have the best athletes in those sports wear its shoes. Nike believed that if the best athletes in a sport wore its shoes then serious athletes would also choose Nike as would, eventually, more casual participants. One example was a model of tennis shoes that went from sales of 10,000 pairs one year in the 1980s to 1.5 million the next after the world's best known player, John McEnroe, started wearing them.

The most visible endorsers of Nike were Michael Jordan, Tiger Woods, and Ronaldo the world's top ranked athletes in basketball, golf, and soccer respectively. Jordan was nearing the end of his basketball career which led some to question if shoes bearing his name would continue to attract consumers in the same numbers. Woods and Ronaldo were both in their early 20s in 1998. Like Jordan, both were viewed as uniquely gifted athletes with a flair for the spectacular, and both were predicted to dominate their sports as Jordan had done in basketball. Nike had also aggressively obtained endorsements from top women athletes such as track star Marion Jones and soccer player Mia Hamm. Nike had also focused on women's teams. The U.S. Olympic women's teams in soccer, softball, and volleyball were all sponsored by Nike. These endorsements were viewed as one reason that Nike's sales to women and girls had grown to about 25% of sales in 1998 from less than 15% in 1993.[27]

Endorsement expenses were up 47% in 1998. This increase was largely attributed to the cost of new contracts in soccer. In October 1998, Nike announced a decision to cut its budget of sports star endorsements by $100 million. The company planned to shift the amount cut from endorsements to spending on advertising. The reduction in endorsement spending followed an industry trend. Reebok had dropped 700 athletes from its endorsement list including basketball player Shaquille O'Neal. Others companies had also reduced the amounts paid to athletes for endorsements while some, such as New Balance, shunned athlete endorsements altogether.[28] Despite the reduction, Nike emphasized that it was "totally committed to sports marketing athletes and teams endorsements as a fundamental pillar of success for this business and this industry."[29] Nike managers believed that renewal costs would be lower on expired contracts and that with less competition for star athletes they would have a greater advantage in obtaining desired endorsements.

Distribution

Nike was the largest seller of athletic footwear and athletic apparel in the world. Nike sold its products to approximately 19,700 retail accounts in the United States and through a mix of independent distributors, licensees and subsidiaries in approximately 110 countries around the world.

---

[27] Munk, Nina, "Girl Power," *Fortune*, Dec. 8, 1997, pp. 132-140.

[28] Richards, Bill, "Nike Says It Plans to Cut $100 Million On Spending for Star Endorsements," *Wall Street Journal*, Oct. 2, 1998.

[29] Nike VP Andy Mooney quoted in Nike Inc. Press Release, "Nike: No Fundamental Change in Sports Marketing Strategy," Oct. 1, 1998.

During fiscal 1998, the United States accounted for approximately 57 percent of total revenues for Nike. Nike products were sold through a broad array of retail outlets including department stores, footwear stores, sporting goods stores, skating, tennis and golf shops, and other specialty retail stores. Though Nike sold to approximately 19,500 retail accounts, its largest customer, Foot Locker, accounted for 11% of Nike's global sales. Retailers generally conceded that they had benefited from Nike's dramatic growth. Many retailers, however, resented Nike policies on pricing which limited their flexibility and what they considered the miserly way in which Nike distributed some products. Another concern of many retailers was that their success had become too entwined with Nike's and that they would thus suffer from a downturn in Nike's performance.[30]

Nike had pioneered its "Futures' ordering program which had become a model for other consumer products manufacturers. The futures program required retailers to order five to six months in advance of delivery. Many retailers complained that "Futures" shifted the risk of excess inventory to them from Nike. Nike guaranteed that 90 percent of retailers' orders would be delivered within a set time period at a fixed price. Approximately 85 % of Nike's domestic footwear was shipped under the futures program in fiscal year 1998. This compared to 93 % of shipments in 1997 and 88 % in 1996 that were made through the futures program. The futures program was also used for apparel shipments. Nike made 84 percent of its domestic apparel shipments under the futures program in 1998. As of May 31, 1998, Nike's worldwide futures orders for athletic footwear and apparel equaled $4.2 billion, compared to $4.9 billion as of May 31, 1997. Futures orders in May were scheduled for delivery from June through November of 1998. Nike expected, based on past experience, that approximately 95 percent of these orders would be filled in that time period, although orders might be cancelable.

Sales for footwear and apparel in the United States were solicited primarily through 21 Nikes sales offices. Nike used 10 independent sales representatives for specialty products, such as golf, cycling, water sports and outdoor wear.

Nike retailed directly to consumers in some instances. Its most visible retail operations its 12 NIKETOWN stores. Nike also owned and operated 111 other stores. Approximately 60 of these were factory outlet stores that sold mostly B-grade and close-out merchandise, 35 were Cole Haan stores and 10 were employee-only stores.

Manufacturing

Almost all of Nike's products were manufactured by a number of independent contractors in different countries. For footwear, 37% were manufactured in the People's Republic of China, Indonesia accounted for 34%, Vietnam 11%, Thailand 10%, The Philippines 4%, South Korea 2 %, and Taiwan 2%. Nike also had has manufacturing agreements with independent factories in Argentina, Brazil, Italy, and Mexico. The largest supplier of Nike footwear accounted for only about 8% of production. The manufacturing of apparel was distributed differently than footwear. Approximately 53 percent of Nike's apparel sold in the U.S. was also produced domestically. The apparel produced in the U.S. was done so by independent contract manufacturers, most of

[30] Steinhauer, Jennifer, "With No Big Rival, It Call the Shots in Athletic Shoes," *New York Times*, June 7, 1997.

which were located in the southern states. Nike's apparel sold in international markets was manufactured outside the U.S. The apparel was manufactured by independent contractors located in 30 countries, primarily in in Bangladesh, Hong Kong, Indonesia, Malaysia, Mexico, The Philippines, Singapore, Sri Lanka, Taiwan, and Thailand

Because of the large proportion of Nike's products manufactured overseas, import duties were a concern for Nike. Trade relations with China were a source of almost annual contention in the U.S. Congress each year. Nevertheless, "normal trade relations" (formerly "most favored nation") trading status had been granted to China each year since 1980. Revocation of normal trade relations status, however, would substantially raise tariffs on goods imported from China. Some European countries limited through import quotas the number of shoes manufactured in China, Indonesia, and Thailand that could be sold in a given year.

Nike had received widespread criticism for treatment of workers producing Nike products in Vietnam, Indonesia and other Asian countries. The heated rhetoric against Nike was evident in one estimate which suggested that the $20 million paid to Michael Jordan to endorse Nike products was equal to the pay of 350,000 third world workers.[31] An Ernst & Young report on the labor conditions at subcontractor plants was leaked to the press although it had been prepared for internal use. The report found a number of unhealthy conditions including high levels of carcinogens.[32]

In response to these criticisms, Nike announced several initiatives in May 1998 that were designed to address the conditions of those producing Nike goods. These were summarized in Nike's 1998 annual report (see Exhibit 8). Included in the recommendations were actions such as expanding independent monitoring, raising minimum age requirements for workers, and strengthening environmental, health, and safety standards.

Research and Development

Nike believed that its research and development efforts were a key factor in its success. During fiscal 1998, the company spent approximately $106.7 million on product research, development and evaluation, compared to $73.2 million in 1997, and $46.8 million in 1996. Great importance was placed on technical innovations that reduced or eliminated injury, aided athletic performance and maximized comfort. Nike employed specialists in the areas of biomechanics, exercise physiology, engineering, industrial design and related fields. Nike also used people outside the company in its research efforts. Research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other experts reviewed designs, materials and concepts for product improvement. Testing also received considerable

---

[31] Jenkins, Holman W., "Business World: The Rise and Stumble of Nike," *Wall Street Journal*, June 3, 1998, p. A19.

[32] O'Harrow, Robert, Jr., "Nike's Downward Swoosh; Changing Tastes, Asia Crisis Halt Athletic Shoe Giant's Winning Streak," *Washington Post*, Jan. 18, 1998, p. H2.

emphasis at Nike. Employee athletes wear-tested and evaluated products during the design and development process.

One of Nike's most important technical innovations involved its patented air technology. Air technology involved using pressurized gas encapsulated in polyurethane for cushioning. Nike had an exclusive, worldwide license to make and sell footwear using patented "Air" technology, but some of the early Nike Air patents expired in 1997. The expiration raised the possibility that competitors might employ certain types of Nike Air technology. Later Nike Air patents were not due to expire for several years. Nike sought patent rights for any inventions it viewed as valuable. Nike managers believed, however, that the firm's patent position was less important than skills in design, research and development, and marketing.

While Nike managers believed that their research and development was the most advanced in the industry, concern grew in the 1980s that their technical proficiency was not leading to the development of new products as quickly as needed. Knight was particularly chagrined at Reebok's comparative success in aerobic shoes, a market that Nike had almost entirely missed at one point. In response, Nike instituted in 1987 a more market-based organization towards product development. The footwear Division was divided into smaller units that specialized in individual sports. Cross-functional teams were formed between production, sales, and advertising with the intent of developing a more unified approach to product development.

International

International Markets

Nike marketed its products in approximately 110 countries outside of the United States in 1998. Non-U.S. sales accounted for 43 percent of total revenues in fiscal 1998, compared to 38 percent in 1997 and 36 percent in 1996. The largest international operations for Nike in 1998 were Japan, the United Kingdom, Canada, France, Italy, and Spain. Japan's sales were up 4% in 1998, the U.K. 11%, Canada 32%, France 15%, Italy 35%, and Spain 40%. Nike's sales had declined in Korea (29%) and Germany (6%). Overall, Europe's sales increased 6% in footwear and 35% for apparel while Asian increased by 34% but Asian footwear was down 8%.

Independent distributors, licensees, subsidiaries and branch offices were all used to market and distribute products outside the U.S. Nike operated 25 distribution centers in Europe, Asia, Canada, Latin America, and Australia, and also distributed through independent distributors and licensees. Nike estimated that its products were sold through approximately 31,000 retail accounts outside the United States. The futures program was also an important part of operations outside the U.S. Nike sold through its futures program in Japan, Canada and in many other countries in Asia, South America, and Europe. Efforts were also being made to develop the futures program in several countries where the program had not been offered.

Nike had moved aggressively to gain a larger share of the soccer market. Nike managers believed that soccer was important to the future of the company. Because jerseys, which were controlled by teams and national soccer federations, were the most important advertising vehicles for the sport, Nike had formed lucrative endorsement agreements with a number of national teams. Brazil's national team agreed to endorse Nike products for $200 million over ten years while the U.S. and Italy settled for $120 million over eight years and $25 million for five years respectively. One estimate placed Nike's long-term commitments to soccer teams and players at $680 million at the same time that soccer products contributed only 2% of the company's sales.[33]

The antiestablishment, confrontational style of doing business that characterized Nike did not always work well in the soccer market. Gaining endorsements from teams and national federations was a particularly political process. Nike's approach to advertising and promotion in soccer grew less confrontational with some success. "For a long time, they were just the brash Americans throwing money at soccer. But as you watch the World Cup now, you're very conscious of the swoosh" according to John Boulter former head of sports marketing at Reebok.[34] Adidas was the world leader in the soccer market and had traditionally enjoyed close ties to the governing bodies of soccer. Much of Nike's progress in soccer had come at Adidas expense. For example, in the 1994 World Cup in the United States, Adidas sponsored ten teams and Nike none. In the 1998 World Cup in France, however, both companies sponsored six teams. Adidas responded by spending an additional $25 million to have its name appear on stadium billboards. Overall, Adidas spent $100 million on the World Cup compared to $40 million for Nike.

In September 1998, orders in the Asia-Pacific region were down 56% and 24% in the Americas.[35]

Asian Turmoil

After a period of rapid growth, Nike's sales in Asia flattened in 1998. Asia Pacific sales grew by approximately 41% and 69% in 1996 and 1997 but less than 1 % in 1998. Much of the drop off in the growth of Asian sales was attributed to the economic turmoil many Asian economies experienced in 1998. Futures orders in the region were up 55% as fiscal 1998 began. Management had expected Asian revenues to almost double in 1998.[36] One analyst suggested that Nike had "grossly miscalculated how strong demand would be overseas" and ended up "stuck with up to a year's worth of inventory in Japan and elsewhere in Asia."[37] Knight acknowledged that the company had not been able to adjust production quickly enough for the changes in the Asian market. Excess inventory was a more severe problem in Asia where Nike had no outlets for leftover shoes than in the U.S. where factory outlet stores and other discount retailers helped Nike close-out models. In his letter to shareholders, Knight indicated that, "To come back does not mean Asia has to be booming again, but it does mean we need to see the

[33] Fatsis, Stefan, "World Cup 1998: Into the Quarterfinals --- Nike Tackles Soccer, Nicely," *Wall Street Journal*, July 2, 1998, p. A12

[34] Fatsis, Stefan, "World Cup 1998: Into the Quarterfinals --- Nike Tackles Soccer, Nicely," *Wall Street Journal*, July 2, 1998, p. A12.

[35] Dow Jones Newswires, "Nike Up 10.6% As Company Makes Progress On Turnaround," September 18, 1998.

[36] Sellers, Patricia, "Four Reasons Nike's Not Cool," *Fortune*, March 30, 1998, p. 26.

[37] O'Harrow, Robert, Jr., "Nike's Downward Swoosh; Changing Tastes, Asia Crisis Halt Athletic Shoe Giant's Winning Streak," *Washington Post*, Jan. 18, 1998, p. H2.

bottom of the slide, so that retailers are again confident enough to order several months in advance. Asia is a big part of this company's heritage and it remains a big part of its future."

Another reason offered for Nike's troubles in Asia went beyond economic cycles. Some analysts predicted that the shift to brown shoes in the U.S. would send a fashion signal to the rest of the world and begin a downward spiral for athletic footwear.[38]

Management

From its early years, Nike had an expressed preference for talent over industry experience in choosing managers. Nike's managerial ranks included lawyers, architects, teachers, editors, and accountants who switched professions in joining Nike. Many former pro and college athletes worked for the firm.

Management depth was a great concern for Phil Knight in 1998. At various points in its history, Nike had lost waves of managers who had become wealthy through stock option and then left the company either for retirement or other challenges. With Nike's stock dramatic highs of 1997 and early 1998, the company had experienced a significant exodus of managers. In his annual letter to shareholders, Knight summarized the challenges of maintaining an effective management team:

> "The first question you should ask is: What are we doing to upgrade management? First, for those who are used to TV sitcom problems being solved in 30 minutes, I have bad news. It's going to take some time. Our approach is a simple one: We bring in in talented newcomers, push a very good bench along a little faster than planned, and weave it all into a strong culture. This will actually change our culture – a little bit, not a lotta bit – recognizing our greater size and more sizable challenges."[39]
>
> "We have lost experienced people for whom the stock option program has created lifetime financial security. Add that to the incredible competitive nature of our industry and you're going to see key contributors leave for other challenges."[40]

Other managers had departed Nike over the years for positions at other shoe companies. For example, in the early '90s Tom Carmody had taken a high-level position with Reebock and one of Nike's top marketers, Rob Strasser, left the company to become the head of Adidas U.S.A.

Culture

Nike's culture was well known in the sports industry for emphasizing a distinctive set of values. The Nike culture was credited with helping the company maintain a competitive focus unmatched in the industry. According to one Reebok executive, "They [Nike] have tremendous

---

[38] O'Harrow, Robert, Jr., "Nike's Downward Swoosh; Changing Tastes, Asia Crisis Halt Athletic Shoe Giant's Winning Streak," *Washington Post*, Jan. 18, 1998, p. H2.

[39] Nike, Inc., 1998 Annual Report.

[40] Nike, Inc. 1998 Annual Report.

focus and consistency. That discipline is very important."[41] A *Business Week* article concluded that, "The relentless spotlight on sports and performance results in the design of shoes athletes really wear."[42] "We knew instinctively what was a Nike thing to do and what wasn't a Nike thing to do" according Tom Carmody, a former Nike executive speaking of the early days. So strong was the identification with Nike's culture that managers who left for competitors reported being shunned by their former co-workers at Nike. Nike approached its rivalry with Reebok with particular zeal. Reebok's Paul Fireman noted, "At the end of a contest, I'd shake hands and walk away. I think [Knight] would throw a shovel of dirt on the grave."[43]

The company's values were viewed by Nike employees as contributing to the goal of "enhancing people's lives through sports and fitness." Executives stressed Nike's commitment to "keeping the magic of sports alive." Knight was quoted as saying that sport, "is the culture of the United States" and that it would, in time, define the culture of the entire world.[44] Nike values focused on sports and performance. Employees viewed Nike as "'an athlete's company,' an organization run for and by athletes.[45] So strong was the emphasis on sports that one managerial candidate with both Ph.D. law degree credentials, was dismissed from consideration when he could not answer the question, "Who is Deion Sanders?"[46] The emphasis on performance was evident in the company's attitude toward fashion. The word fashion was not used at Nike except occasionally by Knight. Instead, design was the preferred term in the company. "We work hard to convey that performance, not image, is everything," asserted Knight.[47] Over time, however, Nike had grudgingly come to a recognition that style and appearance were important in their products.

A *Wall Street Journal* article suggested that Knight had "suffused his company with the idea of the intense, inwardly focused competitor. Heroes and hero worship abound at his Nike home office in Oregon, where every building seems to be named for a sports star."[48] Nike's values were embodied in sports heroes. Buildings were named after famous sports figures as marathoner Joan Benoit Samuelson, baseball pitcher Nolan Ryan, and football coach Joe Paterno. No sports figure was more central to Nike's culture than Steve Prefontaine, the U.S. distance runner who had died in a 1975 car accident. Knight offered this view of Prefontaine's impact on Nike:

---

[41] *Business Week*, "Can Nike Just Do It? April 18, 1994, pp. 86-90.

[42] *Business Week*, "Can Nike Just Do It? April 18, 1994, pp. 86-90.

[43]

[44] Katz, Donald, "Triumph of the Swoosh," *Sports Illustrated*, August 16, 1993, pp. 54-73.

[45] Katz, Donald, "Triumph of the Swoosh," *Sports Illustrated*, August 16, 1993, pp. 54-73.

[46] Katz, Donald, "Triumph of the Swoosh," *Sports Illustrated*, August 16, 1993, pp. 54-73.

[47] Katz, Donald, "Triumph of the Swoosh," *Sports Illustrated*, August 16, 1993, pp. 54-73.

[48] Jenkins, Holman W., "Business World: The Rise and Stumble of Nike," *Wall Street Journal*, June 3, 1998, p. A19.

> To many he was the greatest U.S. middle-distance runner ever, but to me he was more than that. Pre was a rebel from a working class background, a guy full of cockiness and pride and guts. Pre's spirit is the cornerstone of this company's soul.[49]

Nike was seen as an iconoclastic, anti-establishment company, an image the company cultivated by its association with controversial athletes such as Prefontaine, John McEnroe, Ilie Nastase, Deion Sanders, and Charles Barkley. In its early years, Nike focused its competitive culture and anti-establishment zeal on overtaking Adidas as the number one athletic shoe company. Adidas was viewed within Nike as an elitist company that capitalized on its close ties with international sports authorities. People at Nike viewed themselves, of whom many were former competitive runners, as having "authenticity." As Katz noted, "The word is repeated like a mantra in Beaverton. Authentic shoes for authentic athletes."[50]

Knight's role in preserving and articulating Nike's values was central. He was quick to respond to instances that he thought challenged Nike's values. For example, when one of Nike's athletes, tennis player Andre Agassi, appeared in a Canon camera commerical with the slogan, "Image is Everything," Knight quickly reminded Nike employees that image was not a core Nike value. A 1994 *Business Week* article described Knight as "An enigmatic, private man … [who] has been known to retreat from Nike's day-to-day activities for months at a stretch, only to reappear when the company is drifting. That being the case today, 'Knight is reengaging' says Chris Van Dyke, head of Nike's Outdoor Div."[51]

Nike was particularly concerned about inculcating its culture abroad. An example of this concern was evident in *Business Week's* account of Yukihiro Akimoto who was chosen to head Nike's Japanese operations after building Kentucky Fried Chicken's Japanese business.

> A smoker whose idea of recreation was such mild recreation as golf, Akimoto was brought to Beaverton for a four-month immersion class in Nike culture and operations. He threw away his cigarettes and started running. When he returned to Tokyo in December, he banned smoking at Nike Japan Corp. — a big deal in the heavy-puffing country — and pushed Nike's Japanese employees to train for this year's Hawaii marathon. Nike's improved communication with the affiliate paid some early dividends: It led to the creation of a special lightweight running shoe designed specifically for Asian feet.[52]

---

[49] Katz, Donald, "Triumph of the Swoosh," *Sports Illustrated*, August 16, 1993, pp. 54-73.

[50] Katz, Donald, "Triumph of the Swoosh," *Sports Illustrated*, August 16, 1993, pp. 54-73.

[51] *Business Week*, "Can Nike Just Do It? April 18, 1994, pp. 86-90.

[52] *Business Week*, "Can Nike Just Do It? April 18, 1994, pp. 86-90.

Exhibit 1: Nike Financial Summary

	98	97	96	95	94	93	92	91	90	89
FINANCIAL HISTORY										
(in millions, except per share data and financial ratios)										
YEAR ENDED MAY 31.										
Revenues	$9,553.1	$9,186.5	$6,470.6	$4,760.8	$3,789.7	$3,931.0	$3,405.2	$3,003.6	$2,235.2	$1,710.8
Gross margin	3,487.6	3,683.5	2,563.9	1,895.6	1,488.2	1,544.0	1,316.1	1,153.1	851.1	636.0
Gross margin %	36.5%	40.1%	39.6%	39.8%	39.3%	39.3%	38.7%	38.4%	38.1%	37.2%
Restructuring charge	129.9	--	--	--	--	--	--	--	--	--
Net income	399.6	795.8	553.2	399.7	298.8	365	329.2	287.0	243.0	167.0
Basic earnings per common share	1.38	2.76	1.93	1.38	1.00	1.20	1.09	0.96	0.81	0.56
Diluted earnings per common share	1.35	2.68	1.88	1.36	0.99	1.18	1.07	0.94	0.80	0.56
Average common shares outstanding	288.7	288.4	286.6	289.6	298.6	302.9	301.7	300.4	299.1	297.7
Diluted average common shares outstanding	295	297	293.6	294	301.8	308.3	306.4	304.3	302.7	300.6
Cash dividends declared per common share	0.46	0.38	0.29	0.24	0.20	0.19	0.15	0.13	0.10	0.07
Cash flow from operations	517.5	323.1	339.7	254.9	576.5	265.3	435.8	11.1	127.1	169.4
Price range of common stock										
High	64.125	76.375	52.063	20.156	18.688	22.563	19.344	13.625	10.375	4.969
Low	37.750	47.875	19.531	14.063	10.781	13.750	8.781	6.500	4.750	2.891
AT MAY 31.										
Cash and equivalents	$108.6	$445.4	$262.1	$216.1	$518.8	$291.3	$260.1	$119.8	$90.4	$85.7
Inventories	1,396.6	1,338.6	931.2	629.7	470.0	593	471.2	586.6	309.5	222.9
Working capital	1,828.8	1964.0	1,259.9	938.4	1,208.4	1,165.2	964.3	662.6	561.6	419.6
Total assets	5,397.4	5361.2	3,951.6	3,142.7	2,373.8	2,186.3	1,871.7	1,707.2	1,093.4	824.2
Long-term debt	379.4	296.0	9.6	10.6	12.4	15	69.5	30	25.9	34.1
Redeenable Preferred Stock	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Common shareholders' equity	3261.6	3155.9	2,431.4	1,964.7	1,740.9	1,642.8	1,328.5	1,029.6	781.0	558.6
Year-end stock price	46.000	57.500	50.188	19.719	14.750	18.125	14.500	9.938	9.813	4.750
Market capitalization	13,201.1	16,633.0	14,416.8	5,635.2	4,318.8	5,499.3	4,379.6	2,993.0	2,942.7	1,417.4
FINANCIAL RATIOS										
Return on equity	12.5%	28.5%	25.2%	21.6%	17.7%	24.5%	27.9%	31.7%	36.3%	34.5%
Return on assets	7.4%	17.1%	15.6%	14.5%	13.1%	18.0%	18.4%	20.5%	25.3%	21.8%
Inventory turns	4.4	4.8	5	5.2	4.3	4.5	3.9	4.1	5.2	5.1
Current ratio at May 31	2.1	2.1	1.9	1.8	3.2	3.6	3.3	2.1	3.1	2.9
Current ratio at May 31 (diluted)	34.1	21.5	16.6	14.5	14.9	15.3	13.5	10.5	12.2	8.6
GEOGRAPHIC REVENUES										
United States	$5,452.5	$5,529.1	$3,964.7	$2,997.9	$2,432.7	$2,528.8	$2,270.9	$2,141.5	$1,755.5	$1,362.2
Europe	2,143.7	1,833.7	1,334.3	980.4	927.3	1085.7	919.8	664.7	334.3	241.4
Asia/Pacific	1,255.7	1,245.2	735.1	515.6	283.4	178.2	75.7	56.2	29.3	32
Canada, Latin America, and other	701.2	578.5	436.5	266.9	146.3	138.3	138.8	141.2	116.1	75.2
Total Revenues	$9,553.1	$9,186.5	$6,470.6	$4,760.8	$3,789.7	$3,931.0	$3,405.2	$3,003.6	$2,235.2	$1,710.8

Exhibit 2: Nike Footwear and Apparel Revenues by Geographic Region

(in millions)

	1995	1996	1997	1998
Europe	$969	$1,293	$1,789	$2,063
Asia Pacific	518	731	1,242	1,244
Americas	230	311	447	589
U.S.A.	2,278	3,604	5,160	5,055

Exhibit 3: Total Revenue, Operating Income, and Assets by Geographic Region

Revenues			
United States	$5,452.5	$5,529.1	$3,964.7
Europe	2,143.7	1,833.7	1,334.3
Asia/Pacific	1,255.7	1,245.2	535.1
Americas	701.2	578.5	436.5
Total Revenues	$9,553.1	$9,186.5	$6,470.6
Operating Income			
United States	598.3	969.0	697.1
Europe	185.6	170.6	145.7
Asia/Pacific	(34.6)	175.0	123.6
Americas	140.5	71.3	55.9
Less corporate interest and other income (expense) and other eliminations	(236.8)	(90.7)	(123.2)
Total Operating Income	$653.0	$1,295.2	$899.1
Assets			
United States	$3,115.2	$2,994.0	$2,372.0
Europe	1,409.4	1,272.9	941.5
Asia/Pacific	480.7	665.8	386.5
Americas	372.7	328.7	188.8
Total identifiable assets	5,378.0	5,261.4	3,888.8
Corporate cash and eliminations	19.4	99.8	62.8
Total Assets	$5,397.4	$5,361.2	$3,951.6

Exhibit 4: Nike Sales by Broad Product Areas, 1996-1998
(in thousands)

	1998	1997	1996
United States footwear	$3,498.7	$3,753.5	$2,772.5
United States apparel	1,556.3	1,406.6	831.3
Total United States	5,055.0	5,160.1	3,603.8
Non-U.S. footwear	2,460.3	2,391.0	1,682.3
Non-U.S. apparel	1,435.5	1,086.9	651.4
Total Non-U.S.	3,895.8	3,477.9	2,333.7
Other and other brands	602.3	548.5	533.1
Total Nike	$9,553.1	$9,186.5	$6,470.6

Source: Annual Report

Exhibit 5: Men's and Women's Shoe Sales by Type

	MILLION PAIRS		MILLION $	
Type	1991	1995	1991	1995
Dress	234.1	180.1	$8,142	$6,396
Casual	178.2	167.6	5,065	5,149
Sandals	63.9	96.4	1,375	1,923
Athletic/Tennis	367.7	350.8	11,702	11,408
Work/Duty	35.9	45.6	1,799	2,400
Western/casual boot	12.4	15.1	921	955
Sport/hiking boot	6.1	35.1	320	1,444
Other	73.8	79.7	2,688	2,833
Total	972.1	970.4	$32,012	$32,510

Source: Standard and Poor's Industry Survey, "Apparel and Footwear, August 21, 1997.

Exhbit 6: Branded U.S. Athletic Footwear Market

(in millions of dollars)

	SALES			MARKET SHARE (%)		
BRAND	**1994**	**1995**	**1996**	**1994**	**1995**	**1996**
1. Nike	2,017	2,529	3,261	30.8	37.4	43.4
2. Reebok	1,410	1,405	1,210	21.5	20.8	16.1
3. Fila	291	380	575	4.4	5.6	7.7
4. Adidas	331	355	390	5.1	5.2	5.2
5. Keds	305	245	200	4.7	3.6	2.7
6. New Balance	130	151	200	2.0	2.2	2.7
7. Converse	298	208	190	4.6	3.1	2.5
8. Airwalk	102	126	158	1.6	1.9	2.1
9. L.A. Gear	296	193	140	4.5	2.9	1.9
10. ASICS	187	122	131	2.9	1.8	1.7

Source: Standard and Poor's Industry Survey, "Apparel and Footwear, August 21, 1997; Sporting Goods Intelligence.

Exhibit 7: U.S. Population Projections

	1997		2005		2015	
	NUMBER		NUMBER		NUMBER	
AGE GROUP	THOUSANDS		THOUSANDS		THOUSANDS	
Under 5 yrs.	19,229	7.2	19,127	6.7	21,174	6.8
5 to 14 yrs.	39,059	14.6	40,147	14.0	40,795	13.2
15 to 19 yrs.	19,013	7.1	20,997	7.3	21,194	6.8
20 to 24 yrs.	17,287	6.5	19,960	7.0	21,876	7.1
25 to 29 yrs.	18,848	7.0	18,057	6.3	20,836	6.7
30 to 34 yrs.	20,775	7.8	18,249	6.4	20,248	6.5
35 to 39 yrs.	22,607	8.4	19,802	6.9	18,872	6.1
40 to 44 yrs.	21,323	8.0	22,363	7.8	18,726	6.0
45 to 49 yrs.	18,442	6.9	21,988	7.7	19,594	6.3
50 to 54 yrs.	15,149	5.7	19,518	6.8	21,602	7.0
55 to 64 yrs.	21,816	8.2	29,606	10.4	39,650	12.8
65 yrs. & over	34,518	12.9	36,970	12.9	45,832	14.8
All ages	267,645	100.0	285,981	100.0	310,134	100.0

Source: U.S. Department of Commerce.

Exhibit 8: Excerpts from Nike's 1998 Annual Report on Improving Worker Conditions

Expanding Independent Monitoring: Working with NGO (non-government organization) participation, Nike will initially focus on Vietnam, Indonesia and China. The ultimate goal is to establish a global system of independent certification of the company's labor practices, much the same way financial information in this annual report is certified.

Raising Minimum Age Requirements: Nike has increased the minimum age of footwear factory workers to 18 and the minimum age for all other light manufacturing workers (apparel, accessories, equipment) to 16. There is no tolerance for exception.

Strengthening Environmental, Health and Safety Standards: Nike launched the Environmental, Health and Safety Management System (EHSMS) in June of '98. The program, developed with two consultant groups (The Guantlett Group and Environmental Resources Management), will provide every factory where Nike footwear is made the tools and training to effectively manage and ensure continuous improvement throughout their environmental, health and safety programs. The program helps each factory develop a fully functioning EHSMS by June 2001.

KEY ENVIRONMENTAL, HEALTH AND SAFETY INITIATIVES:

a) Indoor air testing of all footwear factories, and the monitoring of any necessary corrective measures to bring air quality

to OSHA levels.

b) Accelerated replacement of petroleum-based, organic solvents with safer water-based compounds. In an average month, nine of ten Nike shoes are made with water-based adhesives, with parallel substitutions underway for primers, degreasers and cleaners used in traditional footwear production.

Expanded Worker Education: The Jobs + Education program offers footwear factory workers educational opportunities, such as middle school and high school equivalency courses. The classes will be free and scheduled during non-work hours. Factory participation is voluntary, but by 2002 Nike will order only from footwear factories that offer some form of after-hours education.

Increasing Support of the Micro-enterprise Loan Program: The Jobs + Micro-enterprise Program will provide loans to women to create small businesses. Building on a successful program already responsible for 1000 loans in Vietnam, Nike will expand the program to reach an equal number of families in Indonesia, Thailand and Pakistan.

Building understanding: Through the Rising Tides program, Nike is providing research grants and logistical support to universities and colleges to expand the academic body of knowledge on corporate responsibility, contract manufacturing and development issues involving Nike and other companies. Nike will also convene a series of open forums to foster dialogue with factory workers and partners, academics, NGOs and others interested in these issues.

We are serious about these initiatives. We recognize that there is no finish line. Our goal is continuous improvement. Based on our new initiatives, we have amended and are enforcing the Nike Code of Conduct that directs out factory partners accordingly. Nike will sever its business relationship with any manufacturer refusing to meet these standards or exhibiting a pattern of violations. In the last year, Nike has terminated business with eight factories in four countries for not meeting our Code of Conduct requirements.