



NIKE, Inc. in the 1990s (B): Strategy and Management Changes, 1993–1994

As Phil Knight prepared for NIKE's Annual Meeting on September 20, 1993, NIKE's stock was trading in the mid-40's, down 50% in the last seven months. While Knight had warned of impending issues related to slow market growth in the U.S. and start-up of international operations, the market had reacted strongly to NIKE's recent numbers and, particularly, first quarter of 1994 performance (June, July, August - 1993). NIKE issued a press release quoting Knight:

"NIKE has just finished the biggest quarter in the history of our industry [meaning Q1, 1994], yet we did not meet our own growth forecasts. This requires action on the part of management. Our plan includes voluntary budget cuts from each division for a total of \$50 million and some staff reductions.

NIKE has created 3,800 new jobs in the United States in the last six years, bringing us to a total of more than 9,700 worldwide. In order to keep payroll in line with projected revenues, we expect the total workforce reduction to be in the area of 3-4% worldwide over the course of the year. The goal is to be ready for renewed growth in fiscal year 1995, which begins June 1, 1994."

The Remainder of Fiscal Year 1994

Marketing

Michael Jordan led the Chicago Bulls to their third consecutive NBA Championship in June 1993. Several months later, with Phil Knight at his side, Jordan announced the end of his 9-year professional basketball career saying he felt he had nothing left to prove in basketball. Air Jordan footwear and apparel accounted for about 5% of NIKE's total revenues. Opinions were

Professor Robert J. Dolan prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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mixed about the impact of Jordan's retirement on his endorsement power. At the time, it was estimated Jordan's endorsement income totalled \$30 million per year from NIKE, McDonald's, Gatorade and General Mills among others. Some felt that Jordan transcended the usual situation of declining power with retirement; others that Reebok's Shaquille O'Neal would now become the dominant name. In spring 1994, Jordan turned to a professional baseball career with the Chicago White Sox organization. However, even though relegated to a minor league team, Jordan's performance was unexceptional and his lack of success was regularly covered in magazines and newspapers.

NIKE continued to innovate in its other endorsement contracts, e.g. with Jordan's alma mater the University of North Carolina (UNC), signing a four year \$4.7 million deal to outfit virtually every athlete at UNC with NIKE gear. All UNC athletes except the soccer teams were required to wear NIKE whenever practicing or competing. Signing contracts with the university covering all programs rather than working with individual coaches was a trend NIKE recently started. Similar NIKE arrangements were already in place at University of Southern California and University of Miami. Basketball was the most "visible" sport at UNC due to the team's long record of success and frequent television appearances, especially in major tournaments. NIKE agreed to finance an international exhibition tour for the team, provide input on the schedule and itinerary. Also, NIKE could void the contract if UNC's well-known basketball coach, Dean Smith, left the school. Part of the UNC deal was \$1.7 million to Smith - \$500 thousand up front and \$300 thousand per year for four years. Smith said he intended to give away his NIKE salary.

Management Changes

On February 14, 1994 Thomas Clarke was appointed President and Chief Operating Officer of NIKE to succeed Richard Donahue, effective with the beginning of fiscal year 1995 on June 1, 1994. Donahue, 66, was to become Vice Chairman of the Board.

Clarke, 42, held a Ph.D. and joined NIKE in 1980 as a biochemist in the sports research lab in Exeter, New Hampshire. In December 1984, Knight had asked Clarke to relocate the center to Beaverton. In 1987, Clarke became one of the four functional "matrix heads." (Transition at Nike (B): Phil Knight Returns, exhibit 12). In 1991, he became Vice President and General Manager of the NIKE brand. Clarke reinforced the importance of international markets and the need to extend the NIKE brand and values around the world. As Clarke was appointed, NIKE also announced changes in international operations. Martin Coles replaced David Edwards as vice president and general manager of NIKE Europe with Edwards moving to the same post in a new international division with responsibility for Eastern Europe, India, and Africa.

Knight, who had referred to Donahue as an "administrative genius" commented on the Donahue's tenure: "Dick Donahue has done a great job as president of NIKE. During his four year tenure, we have grown from \$2 billion to \$4 billion in sales, added 3,000 employees and executed a global plan to acquire our formerly independent distributors in key markets making us the best positioned brand in the sports and fitness industry."

Andy Mooney, vice president of marketing, was appointed to a newly created position as director of new business development. Elizabeth Dolan, NIKE's director of public relations, was promoted to Mooney's position. Scott Bedbury, NIKE's director of advertising, moved to a

new corporate position coordinating worldwide advertising efforts. Mooney and Bedbury reported directly to Clarke.

One of Mooney's first new projects was to coordinate NIKE involvement with QVC, the world's largest electronic retailer to experiment with selling product on television. QVC and NIKE prepared to present a 2-hour special "Hoop Heros" with NIKE merchandise including autographed Air Jordan's. Set on a basketball court, the show was to feature NBA highlight films as well as items for sale to viewers.

NIKE's rival, Reebok, had previously ventured strongly into media, launching a new cable TV channel, the Cable Health Club. Brenda Goodel, Reebok's senior director of programming/event marketing explained:

"Just as when we began with shoes, at a point along the way we said 'Why not apparel?' Then 'Why not equipment?' Now we're saying 'Why not high - quality, fitness-and-sports programming?'"¹

Results for Fiscal 1994

Exhibit 1 presents results for fiscal year 1994, ending May 31, 1994 as compared to 1992 and 1993. NIKE's stock price had climbed steadily but slowly through the final two quarters of 1994 to finish the fiscal year at 59.

Into Fiscal 1995

In October 1994, NIKE announced plans for a NIKE Town store at 200 Newbury Street in Boston, a few blocks away from Reebok's store. The Air Jordan X line was introduced commemorating Jordan's 9 years in the NBA and a tenth year in "Beyond."

Results for the first six months of fiscal year 1995 were strong overall with revenues at \$2.22 billion compared to \$1.9 billion for the comparable period a year earlier, up 16%. Net income was up 15% to \$191 million. Futures for delivery from December 1994 to April 1995 were up 34%. Revenues from international operations were up 32% in the second quarter. However, Germany and France both remained problems, down 22% and 18% respectively.

Knight commented:

"When we opened an office in Taiwan in 1975, we became an international company. Becoming a global company requires a completely different course of action. In the last year, we:

- Installed the Futures Program in Europe.
- Acquired 100% of NIKE Japan and Korea.
- Acquired our distributor in Chile.

¹Adweek, "If the Shoe Fits," February 14, 1994.

- Won Significant Battles in our Trademark Fight in Spain.
- Entered in a Joint Venture Agreement to establish a 51% NIKE-owned distributor with Alpargatas CTE in Argentina.

The world is round. We are working to establish brand integrity across its curved surface."

This he prefaced with his emphasis on how long such a process takes:

"Last fall, six weeks after we announced problems in Europe would cause a drop in earnings per share for fiscal 1994, I got a phone call from one of the acerbic financial analysts.

'Haven't you got those problems fixed yet?' she asked.

'Nope,' I said. 'Not in six weeks, or six months. Maybe in six years.'"

Exhibit 1 NIKE Revenues, Net Income and Revenues by Geographic Area, 1992-94
(All figures in \$MM)

	<u>1994</u>	<u>1993</u>	<u>1992</u>
Revenues	\$3,789.7	\$3,931.0	\$3,405.2
Net Income	298.8	365.0	329.2
<u>Revenue By Area:</u>			
U.S.	2,432.6	2,528.8	2,270.9
Europe	927.3	1,085.7	919.8
Asia/Pacific	283.4	178.2	75.7
Canada, Latin America, Other	146.3	138.2	138.8