



Phil Knight Managing NIKE's Transformation

Woodell As President

After appointing Woodell as president, Knight worked on manufacturing projects in China, and was effectively incommunicado; thereafter he continued to be absent for long periods of time. Typically, Woodell spoke to him about once every two weeks. Woodell tried to run the company as he thought Knight had intended and "to get done the things that needed to get done." In his first six months, he focused on NIKE's brand softness, the inventory problem, making sure he had the right people in areas like marketing and sales, and "dealing with the fact that our founder and our leader was not present. It would have been a real trap to try to copy Phil. Historically, we've had a tendency to go to Knight for decisions. My style is to build the organization so people out there make the decisions."

Woodell continued to work with the old NIKE management team, and relied extensively on the two other Gang of Four members: Rob Strasser for marketing and Del Hayes for manufacturing operations. Woodell recalled:

My approach was to try to identify the issues and get them under control one piece at a time. There may be been other approaches. Knight's approach, quite often, might have been more to "shake things up." As founder and CEO, he could do that. A new president and COO couldn't do it that way.

Woodell added that the difficulty of this transition from peer to leader was compounded by the tough business environment, as he, Strasser, and Hayes began to realize that the company's business problems were larger and more deeply rooted than the management team had recognized before Woodell's appointment.

Changing Market Forces

During fiscal year 1984, growth slowed in the running shoe market, NIKE's core business. As the decade-long running boom diminished, a general fitness boom arose to include other sports. Niche segments like aerobics began to mushroom in 1982. Reebok expanded the market by designing and styling two aerobics shoes specifically for women. Launched in 1982, the "Energizer" (made of

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nylon and suede) and the "Freestyle" (made of garment leather) lifted Reebok's sales from \$13 million in 1983 to \$66 million in 1984. While the soft garment leather was comfortable and required no break-in period, it also wore out quickly. Still, many consumers preferred comfortable Reeboks—with holes—to durable NIKES.

At Knight's urging, NIKE had produced a prototype aerobics shoe in 1983. The factories in Korea felt, however, that the leather was too thin and would wear out too quickly; it was "simply unsuitable" for a NIKE product. Furthermore, women employees—who had urged the company to produce an aerobics shoe—thought the prototype profoundly ugly. They did not even want to try it on. And while NIKE shoes were still selling well, even without an aerobics line, Harry Carsh, a senior executive who had joined the company in 1983, suggested another reason behind NIKE's delay—arrogance:

We could still be purists and talk about shoes that were for runners and athletes. And anybody who didn't make it the way we made it was a fool. We also had the idea that everything we sold, even though we were selling a lot of garbage, was used by an athlete to perform, which was absolute bull.

Reebok's sales exploded as the first-mover into the aerobics segment. By the end of 1983, Nike management realized that Reebok posed a serious threat, but they could not push the company to get a good product to market fast enough to prevent the upstart from reaching a critical mass. Woodell had Hayes visit Exeter to expedite product development. By that time, the Exeter facility had grown into a fairly complex operation. Hayes targeted 10 of the more than 300 shoes that were under development there and introduced "critical path" procedures for getting select shoes to market quickly.

Inventory Problems

The shoe inventory buildup that had first attracted management's attention in late 1982 began to snowball in 1983 and 1984. Just months after receiving its largest Futures order in August 1982 for November 1982 delivery, the market changed. The problem became apparent in March 1983, and by the end of the fiscal year on May 31, 1983, inventories had reached 21 million pairs.

Director of production, Ron Nelson, who coordinated Futures orders with orders to factories, was reluctant to cut factory orders at that time for two reasons. First, he wanted to protect the relationships that NIKE had carefully cultivated with new shoe suppliers so as to reduce its dependence on increasingly expensive Korean sources. He estimated that through the end of calendar year 1982, NIKE ordered about 6 million pairs of shoes for which it had no orders, simply to build up capacity with non-Korean factories. "We knew we were ordering extras," said Nelson, "so we ordered models that we *thought* were safe. Second, Nelson was optimistic that the product really was still popular, and he anticipated fill-in orders from international operations to take up some of the slack. International orders had grown more than 115% between 1982 and 1983, and seemed a better prospect for growth than domestic orders. Indeed, although international accounted for only 20% of sales, international Futures orders for delivery during the first half of 1983 had grown 1.1 million pairs over the same period in 1982, while domestic Futures orders had grown only 0.6 million pairs. In anticipation of these international orders, NIKE over-built about 2 million pairs per month between January and March 1983 (for delivery three months later).

Woodell saw the growing inventory as "a cancer that was going to eat us alive," but was constrained because much of it was tough-to-sell "athleisure" shoes and apparel. He was also aware that many people within NIKE—including Knight—had strong personal ties to manufacturers in Asia and were reluctant to cut factory orders. Woodell found it frustrating to steer the course between building up even more inventory and "pissing too many people off."

My approach was, let's do what we can and work with what we've got, and that's the best we can do. And that's what we were doing for six months. But every time you told people you had to cut these orders back more, somebody would say, we can't do that because we've worked with these people and Knight's got these personal relationships. My frustration was, we're having trouble doing this crap [cutting factory orders] because everybody has got a reason why we can't do it and the only guy that *can* do it [Knight] is tough to get a hold of.

Restoring the Brand Magic

Woodell and his management team decided to focus on restoring some of the "magic" to NIKE's brand image by asking Rob Strasser to develop and implement a new strategy and implement it. In 1983, Strasser and a small group targeted the 1984 summer Olympics in Los Angeles for a major publicity blitz "to light the second stage of NIKE's rocket." Woodell and Strasser believed that a successful advertising campaign would breathe some life into the NIKE brand and give the company some of the time it needed to develop a new product line, requiring about 18 months.

The campaign that began in Los Angeles with a slew of visual advertisements was expanded to include 10 major metropolitan areas. This "Cities Campaign" featured colorful, oversized, "outrageous" murals and billboards of well known athletes—some in sweaty contemplation, some performing great athletic feats. John McEnroe, many times the U.S. Open and Wimbledon tennis champion, appeared on the side of New York buildings wearing street clothes and looking like a hometown boy—wearing NIKES. The murals contained no text, nor did they attempt to sell specific shoes; instead, they simply established a link in the consumer's mind between the athletes and NIKE. The campaign included promotions for Olympic athletes.

In the games themselves, 58 NIKE-supported athletes won 65 medals. One senior marketing manager, who had been working on the Olympics promotions and the Cities Campaign at the time, said:

When you asked who the host of this Olympic Games was, people said NIKE. Converse had paid \$5 million for the right to be the official shoe of the Olympics. Well, nobody wore Converse. I don't think we saw one pair of Converse out there [in track and field events].

The campaign received critical acclaim for its creativity, and the marketing department saw it as a great success. The finance department was less impressed, however, seeing no improvement in the inventory situation following the effort. The marketing manager acknowledged, "We recognized after the '84 Olympics that having the most gold medals was great for our image, but did nothing for our shoe sales, which kept going down. We thought we were missing something." (See **Exhibit 1** for quarterly financial data.)

"Loading the Wagon" with Apparel

Woodell, who had been in charge of NIKE's apparel division from 1980 to 1982, thought apparel could potentially keep the company's sales from declining in fiscal year 1984. Sales of the broad product line of athletic performance clothing (including running shorts, warm-ups, soccer jerseys; and tennis outfits) and comfortable athleisure cloths (shirts, sweaters, jackets, and pants), had grown dramatically from \$2 million in 1979 to \$107 million in 1983, and sales representatives described demand as "smoking."

Woodell believed there were competitive and strategic reasons, too, for continuing emphasis on the apparel business. The shoe company, for example, might "run out of feet." Meanwhile, larger

competitors, such as Adidas, relied on apparel for as much as 40% of sales. Margins in the apparel business, however, were lower than those in shoes.

In an off-site meeting in December 1983, Woodell and Hayes proposed to Knight, and later the rest of the management team, that NIKE “aggressively grow apparel” for the Fall 1984 season. By investing an additional \$15 to 20 million in inventories, and budgeting another \$25 million in sourcing, sales, advertising, promotion and other operating expenses, Woodell thought apparel could boost sales by \$100 million over the next fiscal year (ending May 1985), and by \$200 million within the next two years. Said Hayes:

We couldn't convince vendors—the mills and people that we would buy from—that we were really in the business. It seemed ridiculous that if you were in the business that you weren't able to buy the apparel [with short lead times] you wanted to sell. So we “loaded the wagon.” We committed to buy as much apparel [in advance] as our marketing and sales people said we could sell.

With Woodell's backing, NIKE committed to the apparel business with a vengeance. The program quickly established the company's credibility with vendors and retailers.

Organizational Developments

One of Woodell's early changes was to reconstitute the old Friday Club's membership and redefine its role to improve decision-making. Woodell thought the old Friday Club meetings had lost much of their focus, and he wanted to run the meetings differently. He told the group: “Bring up as subject matter only those issues that you think other members of the group *must* be informed about, or important issues where you need their collective counsel.” “I tried to get answers about a few specific issues in each meeting,” recalled Woodell. “But I had to get to those answers in a different way than Knight did. I had to use the power of the whole management group.” He explained his view of the new group, which colleagues immediately dubbed “The Wednesday Club:”

My purpose is to reinforce the NIKE process of debating the issue, collaborating, making decisions, and getting counsel from each other. I don't want to put people out on a limb too quickly, but I'm trying to get people to take more responsibility.

A Policy and Procedures Committee was established to formalize some of the company's key practices that for years had been managed informally. For example, it established subcommittees to consider holidays, sick leave, education reimbursement, leave of absence, termination, and compensation. In July 1983—his second month as president—Woodell approved PPC recommendations on sick leave, leave of absence, and educational reimbursement policies, and charged the group with addressing NIKE's most difficult personnel problem: how to formalize NIKE's widely divergent compensation practices. Although for years, many managers believed that a more formal salary administration system was needed—any action to develop one had always foundered on the shoal of a deep dislike for “systems.”

George Porter, who chaired the PPC, said:

Everybody has heard stories illustrating the inconsistencies faced by employees. And most managers can recount the dilemmas they've faced in trying to balance a human responsibility to the company. We shouldn't have to fight this battle each time a situation comes up. There should be a policy that's right for us, that captures what the company is. It can probably deal with about 90% of the cases.

A PPC subcommittee eventually suggested adopting a formal system developed by Hay Associates, a compensation consulting firm. The system rated each job on the basis of three factors required for all jobs: know-how, problem-solving, and accountability. "Job points" were assigned to each job, and because these were determined by Hay's objective national standards, NIKE's pay system could be compared to 4,000 other U.S. companies; moreover, NIKE could correlate each person's pay with job points.

Phil Knight Returns

"By the Spring of 1984, things were going to hell, and Woodell and I didn't have the communication to stop the bleeding. The more I got into this, I saw I had lost touch and had to step back in," said Phil Knight, who in September 1984 decided to return full-time as president. Woodell was appointed head of a New Business unit charged with finding new, entrepreneurial business ventures.

Inventory and Cost Control

Knight's first priority was to reduce swollen inventories and to bring operating costs under control. By March 1984, inventories had reached 22 million pairs of shoes, including unsuccessful experiments in boots and punk-fashion athleisure shoes. On his return, Knight ordered prices slashed, then worked closely with the company's larger national accounts, such as J.C. Penney, to reduce inventory further. He even authorized bartering \$12 million worth of surplus inventory for office furniture and airline tickets. By November 1984, the inventory stockpile had fallen to 15 million pairs, and by May 1985, to a manageable 9.8 million pairs.

This experience provoked a change in thinking about inventory within NIKE. Before, the focus on Futures ordering and demand forecasting allowed factories to run at optimal levels, but had masked short-term market changes. Said George Porter:

As a result, we couldn't see the downturn fast enough in our own factories. We wanted to keep them filled. Until that time, the problem had been one of production, not of sales. We could sell everything that we could produce. That attitude eventually catches up with you, and it did at that time.

In 1985, apparel sales were \$160 million rather than the \$235 million Woodell had projected. Apparel inventory remained high, not only because of the sales shortfall, but also because the company did not have a shippable mix of sizes, tops, and bottoms, and color-coordinated apparel. More inventory-reduction efforts eventually brought results, though at negative gross margins.

Knight planned to adopt stricter controls. He cautioned, however, "Certainly there's a need to have more formalized procedures, but that doesn't mean a sledgehammer approach. With a 5% increase in sales and a 5% cut in operating expenses, you restore margins and have a very, very healthy performance." Nevertheless, over the 12 months following his return, Knight discharged 400 people, or about 10% of NIKE's work force. Yielding to financial pressures, he also made the difficult move to close 5 of 30 supplier-owned plants.

Research and Development

In December 1984, Phil Knight asked Tom Clarke to relocate the Research and Development Center from Exeter, New Hampshire to Beaverton, Oregon. The decision was controversial within NIKE because it cut about 75 of the Exeter facility's 125 employees. The move was received

positively in the business press, which construed it as a cost-cutting measure. Knight's main motivation, however, was to improve communication and eventually collaboration between design and marketing. This was a major reversal of his early philosophy, which held that R&D should be kept away from corporate headquarters to protect designers from pressures that might limit their creativity. However, the old logic was eroding, as Tom Clarke explained:

The R&D center had been set up in Exeter because of its proximity to some of the East Coast manufacturing. We continued to make our high-tech running shoes there through 1984. Because of that proximity, the R&D center's focus had been on running shoes. As court shoes started to be made in Asia, it became clear that the R&D center was not involved enough in non-running product categories. It was really separated from the decisions being made about the Asian factories. There was a need to unite marketing and design and development.

Organization

As he undertook these early initiatives, Knight stuck with his old management team. At the same time, however, he began to invite a wider circle of people to meetings. By February 1985, Knight was ready to modify the organization. He wanted to fix two major organizational shortcomings: to get NIKE back in touch with the market so it would no longer miss major market trends; and to improve its ability to implement a coordinated response. The reorganization created divisions around the major product categories to supplement the previous function- and geography-based structure. As a consequence, he had 12 vice presidents reporting directly to him.

Knight also used this occasion to shuffle his senior management group again. Among the many changes, Rob Strasser headed up the newly formed New Products Division with a mandate to develop ideas and products and bring them quickly to the marketplace. Knight also made an effort "to get some I.Q. around here," and hired several outsiders with MBA degrees and experience in footwear or athletic products. The management style of these new marketing- and production-oriented managers was more formal than NIKE veterans were used to, and some within the company resisted being "professionalized." Old-timers did not understand "how wearing a tie makes us any more professional."

A proliferation of teams (variously described as "speed groups," "SWAT teams," and, when organized around product launches, "launch groups") began to tackle NIKE's problems. Some speed groups were formed as a means of "getting together the product and marketing concepts." Others were less product-oriented; for example, the "Big Fitness" speed group addressed the issue of how to organize and position the shoe company as a fitness enterprise that provided all kinds of fitness products. Generally, speed groups were seen within the company as effective, even if some were overly exuberant (see **Exhibit 2**).

Rob Strasser, a strong advocate of the groups and leader of many of them, saw them as an effective way to implement his management "principles" (see **Exhibit 3**). Mark Parker, who had worked in marketing, research and development, and design, recalled:

Strasser wanted to make decisions quickly and keep moving ahead. That's what he really brought to the group. He forced progress. He really forced decisions to be made, and I think we were able to cut through a lot of bureaucracy that had developed in the company at that time.

Recognizing the power of the team concept and the need to become more responsive to the market, in October 1985, Knight reorganized the New Products group around Launch Teams. Led by product line managers (PLMs), launch teams brought together individuals from all three departments to bring a specific new product to market. It aimed to do so by altering the product

development process. Teams were responsible for all stages of developing new products—from the design stage through product development, marketing, production, and sales. After the reorganization, PLMs were designated team leaders of groups including a marketing manager, information manager, and a designer (in most instances). According to Carsh, PLMs formerly had been dedicated to “getting products built and delivered, not getting products marketed.” Responsibility for new products was divided into three areas, product direction under Strasser, product management under Carsh, and production under Nelson. All three men reported directly to Knight.

Product-Market Strategy

Knight initiated a strategy review, and concluded that by copying Reebok's strategy, NIKE had let itself stray too far into the athleisure market segment and away from its core business of performance athletic products. Early in 1985, he explained to shareholders his intention to refocus NIKE's strategy: “NIKE is a sports company,” he contended. “Our innovation, our technology, and our talents are best suited for providing for the demands of athletes.” Knight pinned NIKE's hopes for restoring high profitability on diversifying into other fitness and sports shoes, especially medium-to high-end products.

As a result of this decision, management decided to review NIKE's “Air” technology, which incorporated sealed gas bladders in the soles of the shoes to add cushioning and reduce weight. Air technology, patented in 1974, and developed since then, required specialized manufacturing techniques unavailable to NIKE's competitors. Although running enthusiasts recognized that Air technology improved performance and gave the innovative and successful 1979 Tailwind shoe high marks, the general public did not understand the concept or believed that Air soles enhanced performance. Consequently, NIKE had not exploited the technology more widely in the early 1980s. The management review led to a decision to revive this potential asset.

One of the first products that Rob Strasser drove through the New Products group was the best-selling basketball shoe ever marketed. The shoe was built around Michael Jordan of the Chicago Bulls, the National Basketball Association (NBA) Rookie of the Year, and represented a departure from NIKE's promotion and marketing strategy. First Jordan's agent asked for a million dollars per year to sign a contract with the up-and-coming superstar. This was in contrast to existing practices of promoting “grass roots athletes” or local stars at maybe one-tenth Jordan's price. To justify paying that price, NIKE “had to do something special” with Jordan. Second, Jordan's personality and high profile made him a bona fide national star. Signing him gave NIKE the impetus to create a major new product line.

A launch team led by Strasser designed a distinctive red, black, and white shoe for Jordan, gave it its own logo, and called it the “Air Jordan by NIKE.” They built on the color scheme and the styling to offer a coordinated line of clothing—NIKE's first experiment with collection selling. The coordinated Air Jordan apparel line rekindled the interest of retailers, who had been disappointed by NIKE's previous clothing offerings.

Strasser hired a new advertising agency which created exciting new commercials. After Jordan first appeared in the shoe, the NBA banned it from games, not because of the shoe's structure or technology, but because its red and black color scheme violated NBA dress regulations. NIKE fully exploited the controversy in a follow-up advertisement offering the public the shoe that the NBA banned because of its “revolutionary design.”

Although Air Jordan was a huge marketing success with fiscal 1986 sales of \$88 million—an achievement many credited to Strasser's speed group—the company had problems with logistics. Product quality was questionable, and late supply required expensive air shipment from Korea. When NIKE could not meet demand for the product, the company developed a new distribution

strategy, called the “allocation method.” Basically, those who provided the best distribution got the shoes. That meant targeting the important markets (such as Los Angeles, Chicago, Atlanta, and New York) and the large athletic specialty distributors (such as Foot Locker). A small athletic shoe retailer complained:

NIKE built the company on our backs. We took their product back in 1976 and said this is the best thing out there, and worked real hard to sell it. But when NIKE got hot, it went to the big guys. We little guys weren't treated well. It made us buy six months in advance; it didn't service us well; its sales force was arrogant. The big guys always got the product first. Also, NIKE's product line turned over very fast. We would book our orders six months in advance, and sometimes, before we even got them, they were closing out that line.

Del Hayes explained:

We gave the second tier of accounts some shoes, but we couldn't give them very much. They became very upset with us, but we learned they would come back if you had something that was really hot in the marketplace. Our strategy was to pull all products through the system as opposed to push them. If we convince the consumer with our promotional activities that he has to have that shoe, the hell with the retailer. He doesn't have any choice. This was NIKE's arrogance—using that pyramid theory together with the idea that we'll pull our product right through the marketplace, right through the chain by hitting that consumer. And it was very effective.

Following two years of falling earnings, NIKE rallied in fiscal 1986 to earn a record \$59 million, despite \$11 million in charges from plant closings and from the sale of its Japanese subsidiary. Unit sales were up 15% over the previous year and the average price per pair rose 12%. The gain reflected strong sales of Air Jordan products. By managing inventory levels and product lines better, and by selling higher-margin shoes, NIKE was able to improve its gross margin from 26.3% in 1985 to 32.4% in 1986. The effects of NIKE's cost-cutting efforts showed up in lower SG&A expenses, which fell from 21.6% to 19.6% of sales, and lower interest expenses, which fell because of reduced interest rates and lower borrowing. Yet, market share declined again as Reebok overtook NIKE. (See Exhibits 4 and 5 for financial and market share data.)

NIKE's Mid-Life Crisis

By Fall 1986, it was clear that fiscal 1987 was not going to be as profitable as fiscal 1986. Despite initial shortages of the Air Jordan, by the end of the season, NIKE had clogged up its distribution channels with excess inventory. The Air Jordan II was not the profit engine that the first model had been after the product's fadishness cooled, and injuries forced Michael Jordan to withdraw from the Chicago Bulls for the season. In December of 1986, Phil Knight announced a second round of layoffs, displacing 280 of NIKE's 2,150 employees.

Organizational Tensions

Over time, speed groups created resentment in the company because of the resources at their disposal and the credit they often received for efforts that represented a larger group's contributions. One manager who worked in some of the speed groups with Strasser, described 1986-1987 as a time of two separate NIKES, the “mainstream NIKE” and the “one running around it.” Often, speed groups duplicated other efforts within the company, and individuals in the mainstream complained

of receiving conflicting directions. Moreover, noted Tom Clarke, who also worked in a speed group with Strasser and Parker:

There were people in those groups who were very good, but there was a tendency to jump from project to project, rather than to dive into each one and see the worth of stability, defining roles, defining how the groups would interact with the other divisions.

Harry Carsh, vice president of the Footwear Division, reflected on the difficulties with the organization:

I ran around firing people. It was a nightmare and 1986 was just a horrible, horrible year. Finally, in early 1987, it came to a head. Brendan Foster, who had been brought over from Europe two years earlier to run marketing, had some really good ideas, but he was an egomaniac, and he took on Phil. He said, "Hey, Phil, you run a lousy company." And we were a lousy company. There was nothing wrong with what he was saying, but he was saying it to the wrong person. It wasn't Knight running the company. The rest of us were really doing a horrible job. And basically, Foster blamed it on Knight.

Foster departed, increasing tension between Knight and Strasser, who looked upon Foster as his protege. Meanwhile, Knight was concerned that Strasser was getting too involved in others' activities. Ron Nelson described the tension:

Trying to get Strasser to work on creative things and keep him out of the operations was kind of a balancing act that Knight had for a couple years. In all that time, Strasser didn't truly understand how much you needed the operations. You needed the base in there to make things happen. To go from 2 million to 5 million pairs a month—we could do that because we had all the systems, all of the operations, and the people all set up.

Finally, Strasser decided to take a five-month leave of absence. When he returned, Knight told him that he "could not micro-manage from the corner office." Just a few weeks later, Strasser quit. He was the eighth of the founding group of vice presidents to leave in a two-year period. Meanwhile, it became increasingly clear that the outside group of "professional managers" Knight had hired in 1985 would not be able to fill the gap created. Indeed, all seven of the MBA's recruited "to get some I.Q. around here" eventually left the company.

Developing People: Reorganizing Around the Matrix

Although Strasser and Foster had been an immensely successful marketing team and had contributed greatly to the success of the Air Jordan and other products, Knight thought their dominance had not allowed others to really perform. He felt that Strasser's strong personal control, combined with his fleeting zeal for different projects, led to confusion about management direction. Said Parker:

Strasser had difficulty focusing for a very long period of time on any one thing. He zoomed in on something and wanted to play with it for a while, and when something else caught his eye, he'd run over and play with that. What that meant in terms of NIKE was that he'd jump on an idea and stay with it for a little while. He would get everybody moving in that direction, get a little frustrated with it, and eventually shift to another area. The rest of the company was sitting back, trying to figure out what this small cadre of upper management was doing and where they were going.

During Strasser's five-month absence, Knight realized a need to develop other people and decided to reconceptualize the organization to achieve this objective. Harry Carsh recalled the ensuing period of searching as a tense one in which he literally "got midnight phone calls from Knight asking me who could perform." There were many people who had been in middle management for a decade or more and who really knew the company. Because many were athletes, they knew the product as well. "So we started picking these guys out," he said. "A lot of them had been on the verge of being fired under the Strasser regime. Some of them had already quit; others were just about to go."

But many felt that this new generation of internally developed managers could only be effective if NIKE broke out of its old organizational approaches. As he considered what to do, Knight talked to Tom Paine, a board member and consultant who had spent much time doing organizational design within the aerospace industry. Paine felt a matrix organization might fit NIKE's needs, and spent a lot of time educating the management team about the ways in which such organizations worked. Other key managers became persuaded by Paine's arguments. Dick Donahue, another board member with whom Knight communicated closely at the time believed:

You have natural competition for voice [in a company], so you have to try to devise an organization that allows not only competition, but also communication and collaboration. A matrix not only gets people talking; it also reassures them. In other words, if you interrelate with a couple of departments on your decision over sales, design, marketing, or something of that nature, it almost guarantees you're not going to make a colossal mistake. And it does make you consider all the factors.

Key managers such as Mark Parker thought the matrix would coordinate activities without stifling NIKE's entrepreneurial culture:

We were concerned about losing some of the emotional fire within NIKE, some of the risk-taking, some of the spirit of adventure that made NIKE special. The matrix was an attempt to move away from an emotionally driven, dictatorial situation to one where there's more collaboration on the future of the company.

The matrix helped us look more in depth, not only at the product and marketing aspects of NIKE, but also the operational and business side. It helped us look at the total picture—what it takes to make a business successful—not just the marketing and design aspects. It was also sensitive to the NIKE irreverence, the need to take risks, to punch it out, and to make sure we were not turning into a dry, predictable company.

Rather than developing a classic formal matrix, the managers preferred to create a looser, less formal set of relationships. Yet, despite the need for increased communication and shared responsibility, the management team still wanted Knight very much in charge. So much so that Del Hayes quipped, "I didn't realize it was a very good matrix organization. I thought it was more like a wheel with a hub in the middle."

The essence of the matrix was coordination among four key functional areas, each headed by a divisional vice president reporting directly to Knight. (See **Exhibit 6**, which shows NIKE's organization in late 1987.) Strong personal friendships and the common experience of growing up together as NIKE managers had created a strong bond among these "matrix heads" and kept communication at the top of the matrix strong. Matrix heads met every week as a group and also communicated informally.

Across these functional divisions, two corporate vice presidents took on what were described as general management roles. One major task was "to check that the business plans of the divisions

were connected.” Contact between the matrix heads and the general managers occurred in staff meetings, which were collaborative, not directional. The two general managers acted as facilitators, who “made sure decisions were made, but did not actually make the decisions.” The general managers dealt mostly with administrative issues (such as compensation or new company-wide guidelines). Because the people in the matrix reported up to the divisional vice presidents, the general managers had less formal power than the divisional vice presidents. However, the division vice presidents clearly valued the general managers’ coordinating role, and respected the fact that they, too, reported directly to Knight.

The matrix heads collectively chose the members of cross-functional teams organized to accomplish product launches. Referred to internally as “P.T. boats,” these intrapreneurial teams were composed of members who were two or three levels below the matrix heads. Typically, teams consisted of a marketing manager, a designer, and a development manager. The teams would meet with the matrix heads two or three times per six-month season. The matrix heads, who walked around the departments regularly, were familiar with the goings-on of the P.T. boats.

Changes in Style

Within this overall structure, the new generation of managers began to exert a different organizational approach and management style than their predecessors. For example, in 1987, Clarke felt that the marketing department had to develop a more disciplined approach: “My belief has always been that you have to be organized to be creative. The former marketing regime didn’t believe in organization. They felt that was stifling creativity.” Under Clarke, the marketing department began to write formal marketing plans. At first descriptive in nature, they grew progressively more strategic and market-focused. Also, in 1987, for the first time the marketing department subscribed to independent color services, which tracked the colors and color schemes that were popular in different parts of the country. Finally, Clarke required employees to focus more on individual projects, rather than bouncing from one to another as they had under Strasser:

We started to stress that there are these individual teams that have a certain amount of autonomy under a central direction. They’re going to spend their whole day working on basketball, or a whole day on running, as opposed to before, when we had people jumping from category to category, kind of wild-catting on various projects. That [old style] just wasn’t yielding the best results given the size and scope of the business that we were trying to drive.

With the new organization came more job stability. George Porter recalled the 1984-1986 period, “I had four jobs in two years. It was impossible in these circumstances to learn the job and to develop relationships.” He believed that organizational stability and job continuity enabled people to really learn their jobs. Clarke concurred:

It sounds incredibly mundane, but you win in business just by putting some emphasis on the fact that people aren’t totally interchangeable, that they have skills, that they need job descriptions.

In 1987, the new managers had confidence in the cohesion of the management team and the clarity of purpose this lent the business. Mark Parker reflected:

The chemistry among the people in the matrix was really exceptional. People finished each other’s sentences and had a sixth-sense of what others were thinking. That chemistry within the group and with the other people around the company appeared in 1987. We had a real shared vision, a sense of what we were and what we needed to do.

New Products

One of the new products developed was the cross-training shoe. First introduced in 1986, this was a multiple-use shoe that could be used for running, tennis, basketball, and other sports activities as well. Cross-training shoes were backed by a well-coordinated marketing, advertising, and sales distribution program that was built around multi-sport star athlete, Bo Jackson, and the theme: "Bo Knows." In the late 1980s, this cross-training shoe category really took off.

Although NIKE's Air Jordan Shoe had been phenomenally successful, design and marketing people believed that even by 1987, the public did not understand air technology. Management saw the opportunity to change that in a new product line of twelve "Visible Air" shoes. In 1985, a speed group composed of designers and marketers had started working on this new group of products, the "Air Pack." Air Pack shoes contained translucent, gas-filled plastic bladders in their midsoles that were visible through windows in the sides of the shoes. This revolutionary design not only helped the public understand that there really was something structurally different about NIKE's products, but it also enhanced the shoes' performance by increasing the volume of air in the midsole and cutting the shoe's weight.

The "Air Pack" range of products reflected a more coordinated effort between product design and marketing than had occurred previously. Never had the design of the shoes been pushed so far in order to make that technology marketable. Furthermore, the concept was executed in a range of twelve shoes from running to tennis to basketball. And it was launched in 1987 with a \$20 million advertising campaign based on the Beatles' song, "Revolution."

In 1992, Knight commented¹:

Today, when people talk about NIKE, the television ads are practically all they want to talk about. But we became a billion dollar company without television. For years, we just got the shoes out there on the athletes and ran a limited number of print ads in specialized magazines like *Runner's World*. We didn't complete the advertising spectrum until 1987, when we used television for the first time.

Our first television campaign was for Visible Air shoes. Having gone through the painful experience of laying people off and cutting overhead in the mid-1980s, we wanted the message about our new line of shoes to hit with a punch, and that really dictated television advertising.

The Visible Air launch was a critical moment for a couple of reasons. Until then, we really didn't know if we could be a big company and still have people work closely together. Visible Air was a hugely complex product whose components were made in three different countries, and nobody knew if it would come together. Production, marketing, and sales were all fighting with each other, and we were using television advertising for the first time. There was tension all the way around.

We launched the product with the Revolution campaign, using the Beatles' song. We wanted to communicate not just a radical departure in shoes, but a revolution in the way Americans felt about fitness, exercise, and wellness. The ads were a tremendous hit, and Nike Air became the standard for the industry immediately thereafter.

¹Harvard Business Review, July-August 1992, "High-Performance Marketing: An Interview with NIKE's Phil Knight."

Back to the Future

Fiscal 1987 was NIKE's last year of declining sales, profits and marketshare. Thereafter, sales and profits skyrocketed and NIKE regained market leadership. (See **Exhibit 4.**) In 1989, Knight named 63-year-old Richard Donahue—an 11-year veteran of NIKE's board—as COO. At that time, the matrix heads described the company's organization as a collection of distinct silos rather than a matrix. The vertical chains of command in the functional divisions had remained intact or been strengthened, but the general management roles that sought to promote coordination across functions had atrophied. Cross-functional teams still operated in much the same way as before, but all were now devoted exclusively to one product segment (e.g., basketball) rather than two or three. Communications among the former matrix heads remained strong, and all these divisional vice presidents had been made corporate vice presidents.

In a 1992 interview,² Knight commented:

For years, we thought of ourselves as a production-oriented company, meaning we put all our emphasis on designing and manufacturing the product. But now we understand that the most important thing we do is market the product. We've come around to saying that NIKE is a marketing-oriented company, and the product is our most important marketing tool. What I mean is that marketing knits the whole organization together. The design elements and functional characteristics of the product itself are just part of the overall marketing process.

We used to think that everything started in the lab. Now we realize that everything spins off the consumer. And while technology is still important, the consumer has to lead innovation. We have to innovate for a specific reason, and that reason comes from the market. Otherwise, we'll end up making museum pieces.

When the formulas that got NIKE up to \$1 billion in sales—being good at innovation and production and being able to sign great athletes—stopped working, we faced a series of problems. For one thing, Reebok came out of nowhere to dominate the aerobics market, which we completely miscalculated. We made an aerobics shoe that was functionally superior to Reeboks', but we missed the styling. Reebok's shoe was sleek and attractive, while ours was sturdy and clunky. We also decided against using garment leather, as Reebok had done, because it wasn't durable. By the time we developed a leather that was both strong and soft, Reebok had established a brand, won a huge chunk of sales, and gained the momentum to go right by us.

We were also having management problems at that time because we really hadn't adjusted to being a big company.

We understood our "core consumers," the athletes who were performing at the highest level of the sport. We saw them as being at the top of a pyramid, with weekend jocks in the middle of the pyramid, and everybody else who wore athletic hoses at the bottom. Even though about 60% of our product is bought by people who don't use it for the actual sport, everything we did was aimed at the top. We said, if we get the people at the top, we'll get the others because they'll know that the shoe can perform.

²Ibid.

But that was an oversimplification. Sure, it's important to get the top of the pyramid, but you've also got to speak to the people all the way down. Just take something simple like the color of the shoe. We used to say we don't care what the color is. If a top player like Michael Jordan liked some kind of yellow and orange jobbie, that's what we made—even if nobody else really wanted yellow and orange. One of our great racing shoes, the Sock Racer, failed for exactly that reason: we made it bright bumble-bee yellow, and it turned everybody off.

Whether you're talking about the core consumer or the person on the street, the principle is the same: you have to come up with what the consumer wants, and you need a vehicle to understand it. To understand the rest of the pyramid, we do a lot of work at the grass roots level. We go to amateur sports events and spend time at gyms and tennis courts talking to people.

We make sure that the product is the same functionally whether it's for Michael Jordan or Joe American Public. We don't just say Michael Jordan is going to wear it so therefore, Joe American Public is going to wear it. We have people who tell us what colors are going to be *in* for 1993, for instance, and we incorporate them.

Beyond that, we do some fairly typical kinds of market research, but lots of it—spending time in stores and watching what happens across the counter, getting reports from dealers, doing focus groups, tracking responses to our ads. We just sort of factor all that information into the computer between the ears and come up with conclusions.

We've created lots of new categories under the NIKE brand, everything from cross-training and water sports to outdoors and walking. But what's interesting is that we've sliced up some of the categories themselves.

We've always believed that to succeed with the consumer, you have to wake him up. He's not going to walk in and buy the same stuff he always has, or listen to the same thing he's always heard. There are 50 different competitors in the athletic shoe business. If you do the same thing you've done before or that somebody else is doing, you won't last more than one or two seasons.

And from the beginning, we've tried to create an emotional tie with the consumer. Why do people get married—or do anything? Because of emotional ties. That's what builds long-term relationships with the consumer, and that's what our campaigns are about. That approach distinguishes us from a lot of other companies, including Reebok. Our advertising tries to link consumers to the NIKE brand through the emotions of sports and fitness. We show competition, determination, achievement, fun, and even the spiritual rewards of participating in those activities. People at NIKE believe in the power of emotion because we feel it ourselves.

In mid-1993, the CEO of one of NIKE's competitors commented:

I believe that NIKE is the class act of the industry. NIKE has a clear point of view on who they are which is incorporated into all of their marketing and product. They sell an attitude and a benefit (performance) which greatly lessens their dependence on a "hot" shoe or a "hot" feature.

They have built a high quality, professional organization which is extremely loyal to NIKE. An attitude of investing in their people and business is, in my opinion, widening the gap between NIKE and the rest of the industry.

Exhibit 1 NIKE Quarterly Statements (fiscal year ending May 31)

		Sales (\$million)	Gross Margin	S,G&A	Net Income	RoA	Inventory (Turnover)
II	1983	188.4	32.2%	16.0%	6.4%		
III	1983	199.2	29.3	16.9	4.7	7.3%	2.0
IV	1983	222.9	33.2	15.9	6.7	11.8	2.1
I	1984	270.2	33.4	14.7	8.4	18.6	2.7
II	1984	168.9	28.9	20.7	3.3	4.9	1.9
III	1984	224.0	26.7	19.4	2.9	4.8	2.5
IV	1984	256.7	24.3	17.7	2.3	4.3	2.8
I	1985	284.6	27.5	20.0	2.7	5.4	3.0

Source: Standard & Poors' Compustat.

Exhibit 2 NIKE Inc., Cartoon from NIKE's In-House Newspaper, 1985

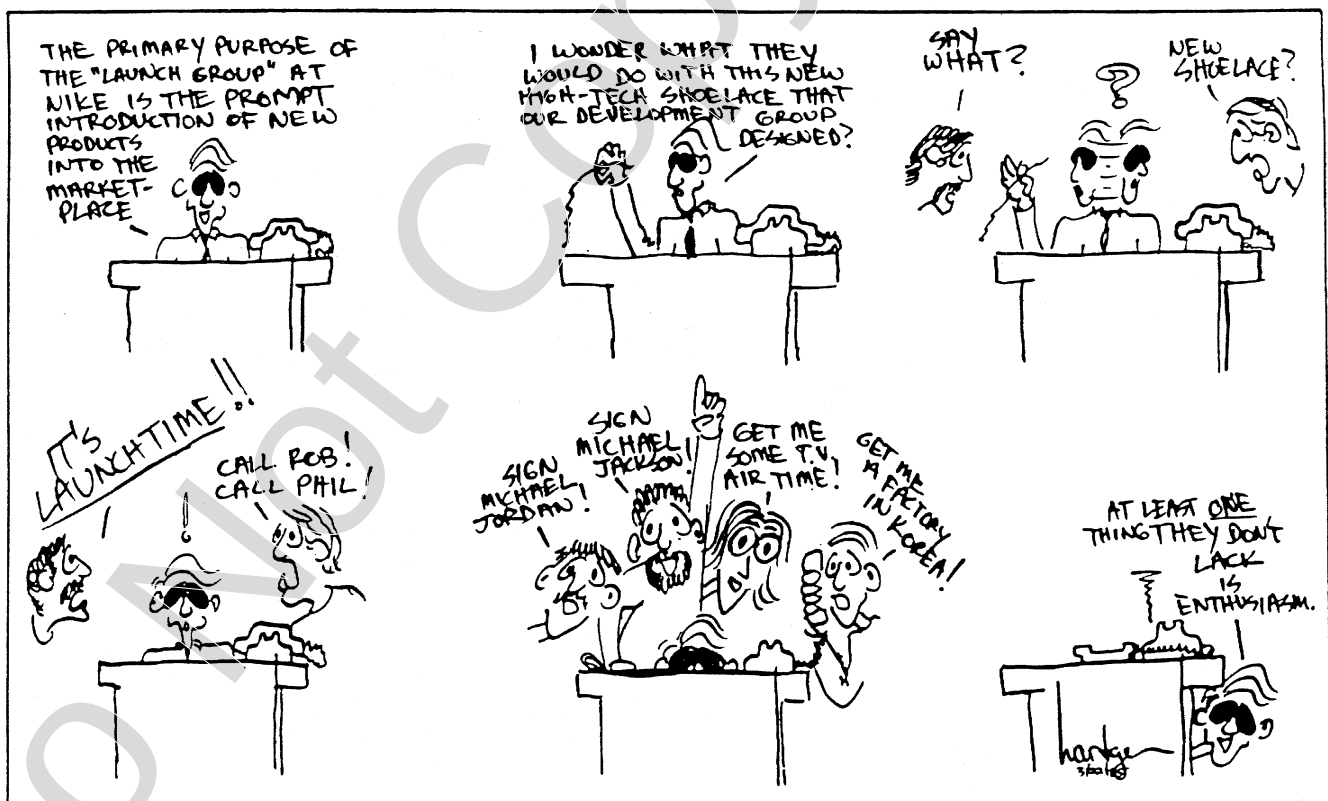
Source: *The Nike Times*, 1985.

Exhibit 3 NIKE Inc., The Principles That Rob Strasser Distributed To His Marketing Team.

Principles

1. Our business is change.
2. We're on offense. All the time.
3. Perfect results count—not a perfect process. Break the rules; fight the law.
4. This is as much about battle as about business.
5. Assume nothing. Make sure people keep their promises. Push yourselves, push others. Stretch the possible.
6. Live off the land.
7. Your job isn't done until *the* job is done.
8. Dangers:

Bureaucracy
Personal ambition
Energy takers versus energy givers
Knowing our weaknesses
Getting too many things on the platter
9. It won't be pretty.
10. If we do the right things, we'll make money damn near automatic.

Source: Company records.

Exhibit 4 NIKE Financial Information (fiscal year ending May 31)

	Sales (\$million)	% Foreign	Gross Margin	S,G&A	Net Income	RoA	Inventory (Turns)
1983	867.2	10.8%	32.0%	15.3%	6.6%	11.2%	2.4
1984	919.8	17.2	28.4	17.8	4.4	7.3	2.3
1985	946.4	22.9	26.3	21.6	1.1	2.0	3.0
1986	1,069.2	23.6	32.4	19.6	5.5	12.4	3.9
1987	877.4	26.9	32.0	23.3	4.1	7.0	4.0
1988	1,203.4	25.2	33.2	20.5	8.5	14.3	5.0
1989	1,710.8	20.4	37.2	20.7	9.8	20.2	5.1
1990	2,235.2	21.5	38.1	20.3	10.9	22.2	5.2
1991	3,003.6	28.7	38.4	22.1	9.6	16.8	4.1
1992	3,405.2	33.3	38.7	22.4	9.7	17.6	3.9
1993	3,931.0	35.7	39.3	23.5	9.3	16.7	4.5

Source: NIKE Annual Reports, 1983-1992. NIKE's fiscal year ended in May.

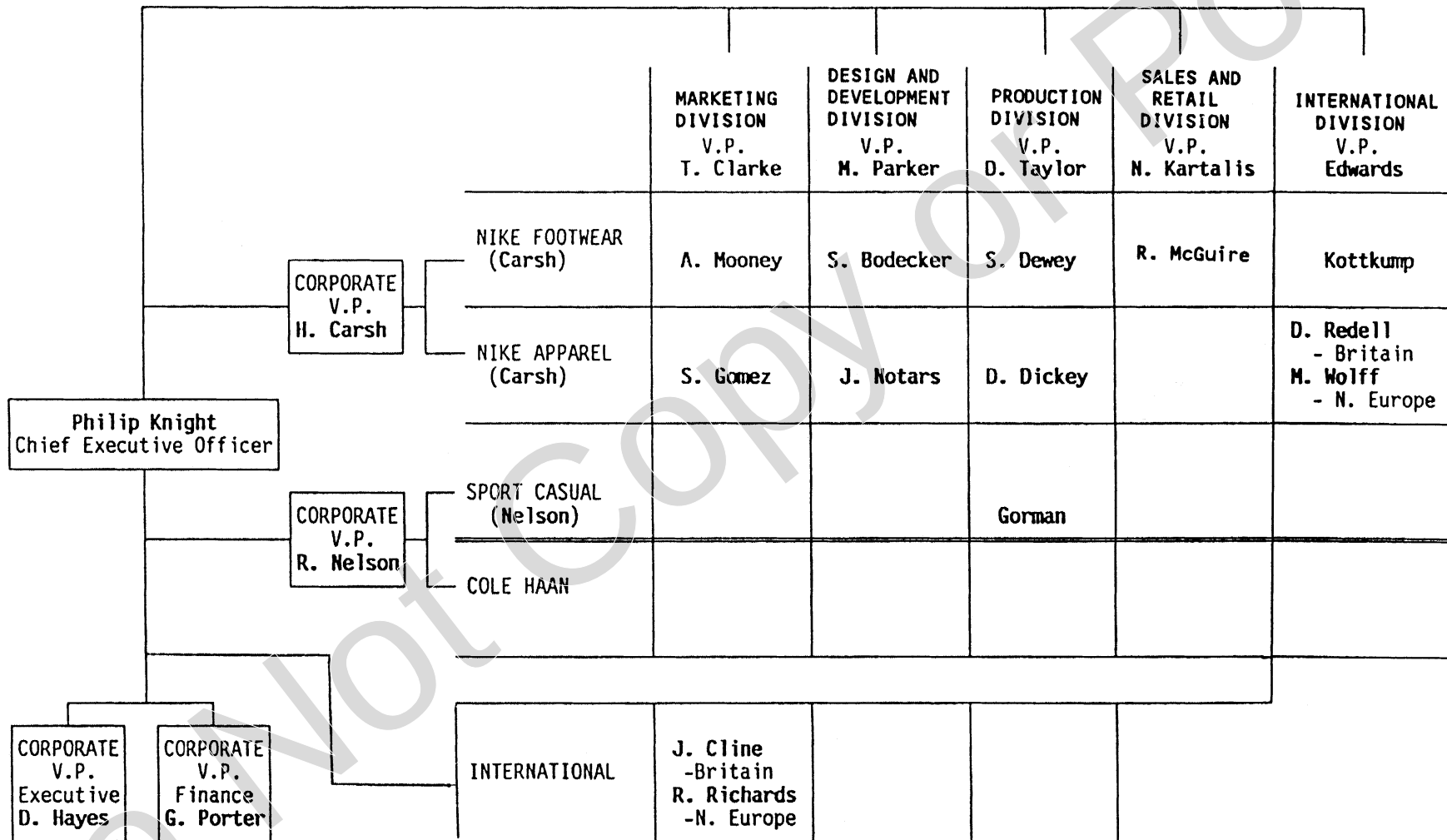
Note: Total assets grew from \$512 million in 1987 to \$2,187 million in 1993. Long term debt decreased from \$40 million to \$15 million during this period, while shareholders' equity rose from \$338 million to \$1,646 million (of which retained earnings rose from \$254 million to \$1,542 million).

Exhibit 5 Athletic Footwear market (Branded)

	Market Size (\$ million)	NIKE's Share	Reebok's Share
1980	1,700	14.4%	-
1981	1,800	22.2	-
1982	1,900	30.5	-
1983	1,960	34.0	1.1%
1984	1,962	32.6	3.4
1985	2,086	27.2	14.3
1986	2,642	24.6	31.8
1987	3,189	16.0	32.5
1988	3,831	19.8	30.0
1989	4,476	23.5	25.7
1990	5,003	27.3	23.4
1991	5,353	31.3	23.9
1992	5,700	31.7	23.4
1993	6,100	32.0	22.0
1994 (est.)	6,300	33.0	23.0

Source: Company estimates.

Exhibit 6 NIKE, Inc., Organization Chart, late 1987



Explanation: Individuals in the matrix (e.g., Mooney, Bodecker, Gomez, etc.) reported up to division vice presidents. Matrix heads (Clarke, Parker, Taylor, Kartalis) established and managed cross-divisional teams. Those on the left side of the matrix were of equal rank to matrix heads and filled a general management role: they provided checks to ensure that cross-divisional coordination was effective, and addressed corporate issues. The company was in the process of acquiring Cole Haan Holdings Inc., which marketed footwear and accessories under the brand name "Cole Haan".

Source: Company records.