



NIKE (A) (Condensed)

Founded in 1964, NIKE emerged from obscurity during the 1970s, riding on, and helping to stimulate, the physical fitness wave that swept the United States. By the end of 1982, every world record in men's track from the 800 meters to the marathon had been set by athletes wearing NIKE's high-performance sports shoes. Besides serving the serious athlete, the company had broadened its product line, and its "Swoosh" logo adorned the feet, legs, and chests of average participants in a wide range of sports as well as millions of consumers who simply found the products comfortable or fashionable.

Some observers called NIKE the success story of the 1970s. Sales rose from \$2 million in 1972 to \$694 million in 1982; net earnings rose from \$60,000 to \$49 million, and several millionaires were created when the company went public in 1980 (see **Exhibit 1** for a financial summary from 1976 to 1982). The company dominated the U.S. market, displacing worldwide leader and long-time rival Adidas (West Germany).

As the company began a second decade, it faced three challenges. First, market growth in the core domestic athletic footwear business appeared to be slowing. Second, rapid growth had stretched the organization's systems and people. Third, the original entrepreneurial team now had to manage a public company. On a lunchtime run in the January 1983 drizzle near NIKE's Oregon headquarters, President Phil Knight reflected:

It's been clear that we would run out of feet in the United States at some point. Perhaps that point is coming sooner than expected, although we believe there is still a lot of opportunity in shoes here, both for athletes and in some new directions such as the leisure area. We're excited about the potential in the international market and in the apparel business. The former is proving tougher to penetrate than we thought, and we're still miles from where we want to be in apparel, but we believe we can do it.

I've always felt that if we have the right product at the most economical cost, we'll figure out a way to sell it. Everybody talks about our marketing, and it has been good. But it's been good because we've had a good product with enough margin for the right marketing expense. And it's all worked because of the people we've had. As we get bigger and more spread out, it's harder for our people to understand what they are supposed to be doing, where their job fits in the game plan. This may be a tougher problem than the market.

NIKE (A) was prepared by Senior Research Associate David C. Rikert and Professor Roland Christensen. Research Associate Krista McQuade prepared this condensed version under the supervision of Professor David B. Yoffie as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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The following sections of this case describe the market arena in which NIKE operated, the company's entrepreneurial history, and the evolution of its business strategy through 1982.

Evolution of the Athletic Footwear and Apparel Market

Background

During the 1960s, the canvas sneaker dominated the U.S. athletic footwear market. Largely unchanged since its introduction in the 1920s, the sneaker was used by professional basketball players and, in a \$2.99 version, lived in by American kids. Other types of performance shoes, for sports such as soccer and running, held less than 10% of the market and were mainly supplied by foreign-based firms. The gray sweatshirt was the athletic apparel of choice.

In the 1970s, this scenario changed dramatically. Increasingly concerned about health and physical fitness, millions of Americans took up jogging, Nautilus workouts, and aerobics. Greater affluence and leisure time, as well as greater sports activity by women, also led to increased participation. Industry sources estimated that half of all Americans—primarily the younger, more affluent half—were active exercisers by 1982. These athletes wore a new generation of sports shoes and clothing; products designed to aid performance and prevent injury.

Beyond the growth in athletic participation, the 1970s saw the development of a new kind of market. Millions of Americans began to purchase sporting shoes and apparel on the basis of the comfort they offered and their casual style. Products sold to this segment of the market, called the "ath-leisure" segment, were designed with color, styling, and general comfort as the primary criteria. Although they resembled "authentic" products, they were not intended to be worn for sports. The ath-leisure segment was thought to be many times larger than the participation-based segment.

Although statistics were elusive, observers estimated that the overall branded athletic footwear market in the United States grew from \$800 million in 1978 to \$1.9 billion in 1982. This represented about half of the total athletic shoe dollar volume (the other half consisted of cheap, unbranded shoes from dozens of sources), and 15% of all footwear sales. Similarly, the activewear apparel market grew from \$3 billion in 1977 to \$6 billion in 1982, still representing less than 10% of the total apparel market.

Branded Athletic Footwear

As the market took off in the mid-1970s, performance shoe companies rose to meet demand rather than the sneaker makers. The establishment of a brand name was of critical importance for these firms, and competition to attract top athletes for promotional campaigns was fierce. As one observer explained, "In the emerging market for an unfamiliar product, consumers relied on a brand name, established by the implicit or explicit endorsement of an athlete or by the ratings."

The market evolved to include several sport-based submarkets such as running, basketball, and field (baseball, football, and soccer) (see **Table A**), as well as children's and leisure. Prices varied from the \$20 to \$30 ath-leisure shoe to the \$60 to \$100 sport-specific competitive shoe. Product lines ranged from broad to specialized. Competitors also made different sourcing decisions, ranging from self-manufacture in domestic plants to purchase from contract factories in the Far East.

Table A Branded Athletic Footwear Submarkets (1982)

Submarket	Racquet	Running	Basketball	Field	Other
% of Total	35%	30%	15%	15%	5%
Market Share of Leading Competitors	NIKE40% Adidas20% Tretorn6%	NIKE50% New Balance15% Adidas10%	Converse36% Puma30% NIKE20%	Puma30% Adidas20% Hyde10%	HIKING, WALKING: Small but growing as older people discover walking.
Comments	Common for street use: tennis has not been growing but may in coming years.	Growth of 6 to 8% expected. Depends on durability of running as trend, and growth of home exercise.	Declining: fewer teens and Title IX ^a bulge over.	Depends on increase in team leagues; soccer will grow at expense of football.	LEISURE: Moderate growth, unless a model captures imagination of young people.

Source: Researchers' discussions with industry sources.

Note: Data based on sales in athletic specialty and sporting goods channels only.

^aTitle IX, a federal statute, required that educational institutions provide athletic programs and facilities for women similar to those traditionally provided for men.

Athletic footwear sales were divided evenly among four channels: *athletic specialty shops*, which were small operations typically run by ex-athletes, selling innovative, high-priced running and court shoes to active athletes; *sporting goods stores*, which sold more team-oriented shoes, as well as a broad line of sporting goods; *department stores*, which sold higher-volume, mid- and low-price-point shoes to the family purchaser or to the fashion customer in an "activewear boutique" setting; and *shoe stores*, which served the family at the mid- and low-price points, with more of a focus on children. The footwear companies tried to avoid mass merchandisers, which sold cheap, unbranded imports at the low end of the market. Retailers had a significant impact on high-end buying decisions but little impact at the low end.

Activewear Apparel

Observers agreed that strong brand awareness was necessary for athletic footwear companies to enter apparel. Loyal shoe customers, the reasoning went, could be persuaded to wear clothing of the same brand name. During the late 1960s, Adidas became the first footwear company to exploit its name reputation by introducing sports clothes for athletes. By 1982, almost every competitor had entered the business.

Performance clothing was less sophisticated than performance footwear, although some technical dimensions were important. These included the proper design of seams to avoid chafing while running and the use of particular materials. Analysts emphasized, however, that apparel was a different business from shoes. As one remarked, "The apparel world is driven by fashion, not technical performance. It is fast-paced; products die quickly, and there is any army of copiers waiting in the wings to knock off whatever design is hot."

Competition

NIKE dominated the branded domestic athletic shoe market, with an estimated 30% share in 1982, followed by Adidas (19%), Converse (9%), and Puma and Keds (both 7%).¹ NIKE's primary

¹Estimates derived from data in *Sportstyle*, a trade paper published by Fairchild Publications of New York.

competitors fell into three groups: the foreign companies, the specialty companies, and the old sneaker companies.

Foreign companies Foreign companies had deep roots in the performance athletic footwear business, high quality brand reputations, and strong manufacturing backgrounds, but they faced the difficulty of competing in the United States as a foreign market.

Adidas was the worldwide leader in the athletic footwear and apparel business, with 1982 sales estimated at \$2 billion, of which 40% came from apparel. The company was founded in the 1920s by shoemaker Adolph Dassler, who made the shoes in which Jesse Owens won four gold medals at the 1936 Olympics. Adidas proudly noted that shoes with its three stripes logo were worn by an overwhelming number of Olympic athletes. Dassler died in 1978 and left the closely held company in family hands.

Adidas developed as a manufacturing company, with plants, both owned and under exclusive contract, throughout the world, including the United States. Its product line was the widest in the business, with shoes for virtually every known sport, priced from the lower-middle to the high end of the spectrum, and a full range of sports apparel. In the domestic market these products were distributed by four exclusive privately owned companies. Observers praised Adidas's quality and criticized the company's marketing. As one explained, "In the early days, Adidas was *telling* the dealers, from Germany, what products they should carry. As soon as the market provided an alternative, the dealers snapped it up." By 1982, however, the U.S. distributors had become significantly more influential in domestic product and market decisions, and the company was regarded as a powerful long-run competitor.

Puma (estimated 1982 sales of \$1 billion) was founded in 1948 by Dassler's brother Rudolph after a dispute between the two men. The company developed an excellent reputation during the 1950s and 1960s, especially in soccer, but did not keep up with the expansion of the U.S. market. Although it established a wholly owned distributor in the United States in 1980, observers continued to believe that the brand name was stronger than the company's current operations.

Tiger shoes, manufactured by the Japanese firm *Onitsuka*, were introduced in the United States in 1964 but remained poorly distributed during the late 1970s. Even after the Japanese company established a U.S. distribution subsidiary in 1981, its U.S. sales remained small (\$30 million out of a worldwide total of \$400 million).

Specialty companies The specialty companies had developed strong brand reputations in specific market segments. These firms typically had more limited resources than the larger companies and faced a dilution of their focus as they expanded their narrow product lines.

The *New Balance Athletic Shoe Company* (NB) entered the arena in 1972 when runner Jim Davis purchased an old orthopedic and specialty athletic shoe company located in a Boston suburb. NB received a real boost in 1976 when *Runner's World* ranked an NB shoe number one. By late 1978, however, that shoe had died on the market, and the company experienced a difficult six months until a new model was launched. Sales grew to \$50 million in 1982 (from \$1.6 million in 1976), and the product line broadened somewhat, both within the running line and to basketball, tennis, and leisure shoes. NB was also a well-known supplier of authentic performance apparel.

NB manufactured its shoes in the United States. An in-house sales force sold primarily to specialty running shops, which used trained personnel to explain the shoes' unique features (such as availability in widths). The company was also beginning to sell through better department and sporting goods stores. NB consistently commanded a price premium in the market and caused a stir with the introduction of a \$100 shoe in 1982. "You can't be all things to all people," Davis explained, "and we've concentrated on performance and function."

Brooks (\$16 million) also rode the crest of the running shoe wave in the mid-1970s, but to disaster. The company declared bankruptcy in 1981 after major quality problems destroyed its credibility with retailers. The company subsequently was purchased by Wolverine World Wide (a \$316 million shoe manufacturer specializing in leisure shoes) and began an aggressive campaign to reenter the market, with some early success.

Etonic (\$37 million), an established, quality golf and tennis shoe manufacturer acquired by Colgate-Palmolive in 1976, developed a performance running shoe line that was well received at the high end of the market. It also had developed a line of performance apparel. *Hyde Athletic Industries* (\$37 million), a long-time supplier of quality team sports shoes, sold under three brand names. Its Saucony running shoe also did well at the high end of the market. Hyde used a mixture of U.S. manufacturing and Far East contracting.

Sneaker companies The old sneaker companies, which had been asleep when the running boom took off, later began to exploit their brand names aggressively under new management.

Converse, founded in 1908, was a leading sneaker company. After its 1976 acquisition by Allied Chemical (now the Allied Corporation), Converse suffered, as one observer noted, "from Allied's apparent lack of interest in a consumer business that had been an unwanted part of a larger package purchase." The situation changed dramatically after a group of managers and investors bought out the company in 1982 when sales reached \$200 million.

The company's strength lay in basketball, although it offered a wide range of other athletic shoes and an apparel line. Unlike most of its competitors, Converse advertised broadly and purchased the designation of "Official Shoe of the 1984 Olympic Games." Observers believed the company was trying to use its well-known brand name and upgrade its image. Converse manufactured about 70% of its shoes in its own plants in the United States, with the remainder sourced in the Far East. The company maintained its own sales force, which was strongest in the sporting goods channel.

Keds (\$83 million), the premier sneaker company, had been owned, and finally neglected, by Uniroyal. In 1979 the company was purchased by Stride Rite (\$300 million sales in 1982), considered one of the strongest marketers in the shoe industry (with its own brand of children's shoes, as well as Herman's boots and Top-Sider boat shoes). Early attempts to expand the product line and build on the brand name were only partially successful. "I don't know if you can take a name like Keds uptown," one observer commented.

Trends

In early 1983, the athletic footwear market was maturing. Price competition was becoming more severe, both among the branded companies and from unbranded sources at the low end of the market, and it was unclear where future directions for growth lay. A slowing of market growth was widely assumed. "For the first time," a leading consultant reported, "there is more product out there than demand for it." Similarly, the president of one athletic footwear company stated: "The world has changed dramatically in the last four or five months. We think we're seeing a major shift from a seller's market to a buyer's market." It was also anticipated that retailers would gain power, at the expense of suppliers, and that real innovation would command a greater price premium.

Looking to the future, observers believed that the nation's concern for physical fitness was an important and enduring trend. "Although the big increases in participation won't be there," one analyst summarized, "Americans are not going to stop exercising—and almost all athletic activity requires shoes." Observers expected growth of 6% to 8% in this participation-based segment of the market through the 1980s and a need for continued innovation in both footwear and apparel.

In addition, the trend toward a more casual and fashionable American lifestyle was likely to persist, but there, the link to athletic footwear and apparel was more tenuous. "Running shoes set a new standard for comfort," one executive noted, "but comfortable shoes do not have to look like running shoes." Recognizing this, many companies began to expand their product lines in more casual and fashionable directions. Inevitably, this brought them into increasing competition with companies such as Levi's or Stride Rite that had more marketing and merchandising experience in fashion-oriented business.

NIKE Corporate Background

The \$694 million NIKE grew out of unlikely beginnings. During the late 1950s, Stanford MBA student and avid runner Phil Knight wrote a paper describing his idea for challenging the supremacy of Adidas shoes in the U.S. market. Later, he recalled:

Adidas shoes were beginning to dominate the U.S. market and that didn't make any sense. . . . I thought it might be possible to take over the market with low-priced, high-quality, smartly merchandised imports from Japan, as had already happened with cameras and other optical equipment.

During a visit to Japan on a post-graduation trip in 1962, Knight set his idea into motion. After selecting the Tiger brand of running shoes, he presented himself to the shoe's manufacturer, Onitsuka, as a shoe importer. An agreement was signed which made Knight's hastily formed company, Blue Ribbon Sports (BRS)—"the name made me think of winning"—the exclusive distributor for Tiger shoes in the western United States. The first shipment of 50 pairs arrived from Onitsuka in 1964.

For the next eight years, BRS was a small but growing company of athletes selling shoes to athletes. "We'd have a base," remembered Jeff Johnson, the first full-time employee, "which ranged from Knight's basement to a couple of rooms behind a mortician's place. The business was getting out to the tracks, to the locker rooms, showing the coaches and athletes our shoes, putting on clinics." In touch with athletes, BRS found ways to innovate. A runner's problem with cushioning during Boston's annual marathon, for example, led to the development of the first midsole (see **Appendix**), which Tiger agreed to incorporate into several of its models. By 1972, BRS's sales had reached \$2 million.

In the early 1970s, however, the company was persistently order-rich and cash-poor, operating on a 9-month business cycle with 6-month financing. To compound their financial problems, Onitsuka had decided that it wanted to get back the right to distribute Tiger shoes in the United States, and had presented BRS with an ultimatum: Accept its offer to purchase 51% of BRS, or lose the Tiger contract. BRS refused, instead beginning the development of its own shoe. The company was able to sign an agreement with Nissho-Iwai, Japan's sixth-largest trading company, in which Nissho agreed to find manufacturing sources for BRS's design and to provide financing and export-import services to the company.

The first shoes bearing the NIKE name (which had come to Johnson in a dream) and the famous Swoosh logo (created for \$35 by a graduate design student) arrived in the United States in time for the 1972 Olympic trials. The company proudly noted that "four of the first seven finishers" in the marathon event at the trials (actually, numbers 4, 5, 6, and 7) wore NIKES. "It was clear to me," Knight recalled, "that to see name athletes wearing NIKE shoes was more convincing than anything we could say about them."

This transformation of BRS from an importer of Tiger shoes to a shoe company in its own right closed the first phase of the company's history. Knight recalled, "We knew that the original

concept was right and were enormously excited about marketing our own line, even though its acceptance in the market was unknown.” Bob Woodell, who joined BRS in 1967, told this story:

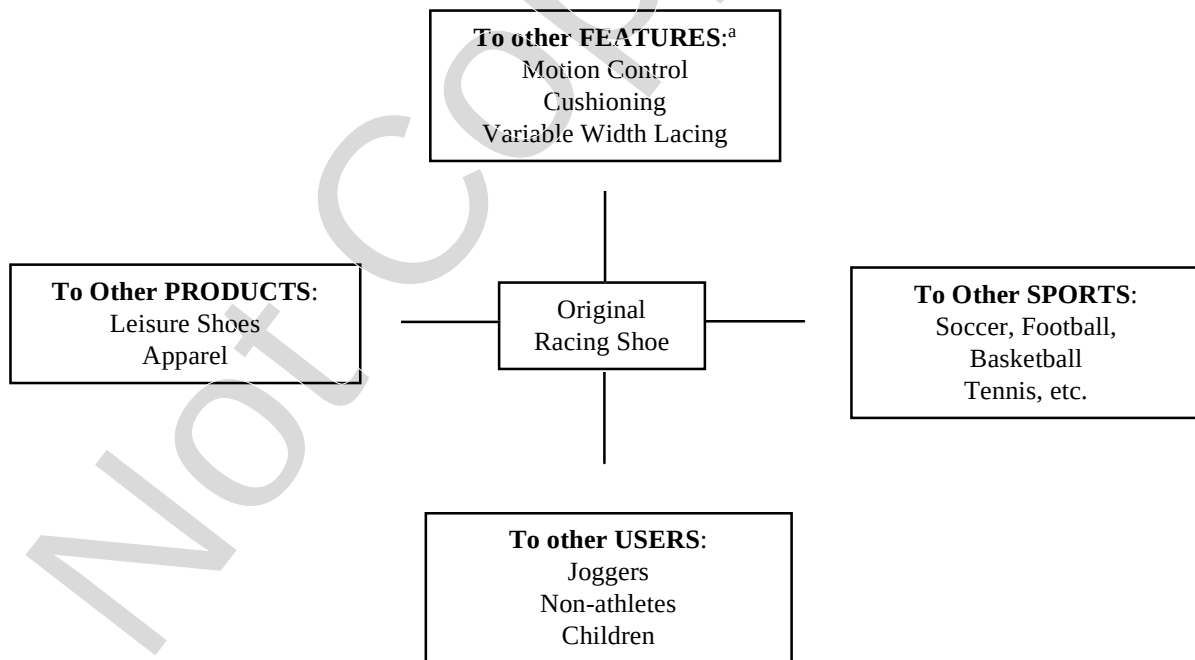
I remember the night I was at Knight’s place on New Year’s Eve. We had added up the sales and realized we’d just sold a million dollars in the last 12 months. I said, “Imagine that, some day we are going to be a 10-million-dollar company.” Knight looked at me and said, “Do you realize how big 10 million is?” And I said, “Yeah, but I think we can make it.”

Competing in only a small market segment—performance athletic shoes—this might have been a realistic goal. However, America had started to run.

NIKE Footwear

As NIKE followed the market that exploded around it in the 1970s, its product line evolved in four directions from the original racing shoe, as shown in **Figure A**. This evolution was based on the company’s growing knowledge of shoe making and sports, market factors such as segment size and competitiveness, and the demonstrated transferability of the NIKE brand name. By 1982, athletic footwear represented 84% of the company’s business, down from 97% in 1978 (see **Exhibit 1**).

Figure A Evolution of the NIKE Product Line



Source: Researchers’ discussions with company executives.

“Jeff Johnson explained, “The idea that different people needed different shoes was revolutionary. A shoe good for one person’s physiology may actually hurt another.”

Product Line

During the 1970s, NIKE’s product line grew from 13 to 156 basic models or, with color and material variations, to 270 separate products. NIKE shoes were offered in a standard range of sizes

(each in one width) at suggested retail prices that ranged from \$15 to \$90. About 100 models had registered sales of over \$1 million each in 1982. The company divided its products into four lines: running; court (basketball and racquet sports); cleated (field sports); and emerging (including children's shoes and leisure shoes). **Exhibit 1** summarizes product line sales from 1978 to 1982.

Running Running was the largest group, with sales of \$236 million in fiscal 1982. NIKE sold a broad line of men's and women's running shoes in three major categories: racing, training, and track and field. Technical shoes provided serious runners with features such as lightness, cushioning, motion control, and breathability.² The low-end training shoes provided ath-leisure users a comfortable fit without any of the "bells and whistles." At the high end of the line, where continued innovation was critical, the company faced stiff competition from the specialty companies. At the low end, competition came from the other full-line companies and from unbranded imports (as well as from low-end court shoes and more fashionable leisure shoes).

Court shoes Court shoes (\$203 million in 1982) differed from running shoes in that they had to provide the complex support required by the rapid twists and turns and starts and stops that characterized basketball, tennis, volleyball, and racquetball. NIKE executives acknowledged that the company's court product line had become dated by 1982 (with older designs and mostly canvas uppers), and they mounted a significant initiative to develop more competitive shoes, including ones that used the Air-Sole technology.

Cleated shoes Another group was cleated shoes (\$14 million in 1982) for field sports such as football, baseball, and soccer. Although this submarket was much smaller than running or court (in part because cleated shoes were of limited use for street wear), it was believed important for the exposure provided by professional (and college-level) football and baseball. In addition, the company was trying to "learn" soccer, a popular worldwide sport that was growing in the United States.

Emerging The emerging product line (\$120 million) included "everything else." Most prominent was the children's line, which ballooned to \$106 million by 1982. These shoes were primarily scaled-down versions of the adult shoes, although some models, such as Flavors (watermelon, grape, lemon, mint, and vanilla) catered more to children's colors. The leisure shoe was distinguished from athletic and ath-leisure shoes by making no pretense of possible athletic use. The upper was typically a tanned or sueded leather, and the sole was smooth leather or rubber. In 1980, the company introduced the Air Casual shoe, which utilized NIKE's Air-Sole technology. By 1982, NIKE managers had to acknowledge the shoe's failure. It was poorly styled for the leisure market, which was fashion, not performance, oriented. In 1982, sales of leisure shoes reached just \$14 million.

In early 1982, "heavyweight" managers were appointed to head each of NIKE's product lines, reflecting concern that strategic and operational responsibility had become too diffuse. Knight explained:

Running and the low-end shoes have such volume that it has been easy to neglect the newer and smaller lines that may well be important to us down the road, such as our line of children's shoes. And at the operational level, we're all tired of screw-ups like the sales reps pushing a shoe that we're trying to phase out.

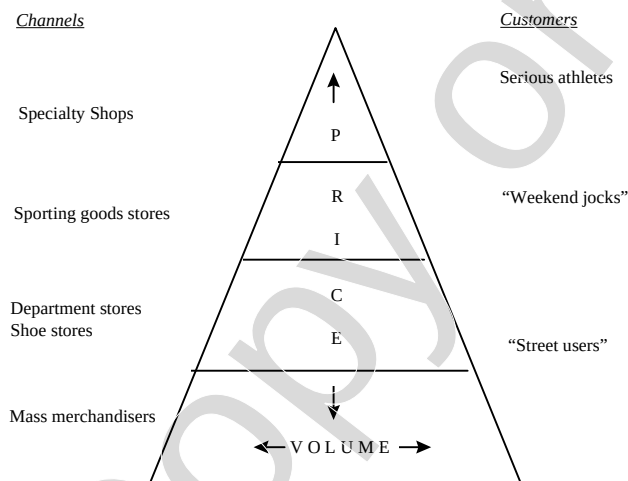
The key responsibility of the product line managers, according to several executives, was to protect the integrity of their line. "We've got to have the best shoe at the top of the line," one said, "even though it will, almost by definition, never make money. But without it, the market for the lower-priced shoes will go away."

²Excessive ankle roll during the foot's contact with the ground could be transferred up the leg, causing injury to the knee. Motion control devices sought to limit this movement.

Marketing

NIKE managers viewed the footwear market as a pyramid, with a small peak (serious athletes) and a broad base (the millions of Americans who wore athletic footwear casually (see **Figure B**.) During the 1970s, the company maintained its strong position at the top of this pyramid. In addition, NIKE extended its presence downward to much larger segments—although it continued to avoid the low-end mass merchandiser base. NIKE's success in achieving this expansion, managers believed, was based on the strength of the NIKE brand name, in turn based on the company's reputation at the top.

Figure B The Market Pyramid



Source: Researcher's discussions with company executives.

NIKE's marketing activities consistently focused on the top of this pyramid. Most of the activities, falling under the rubric of promotion, involved getting the NIKE shoes on the feet of visible athletes and the NIKE name associated with sport. Marathon record-breaker Alberto Salazar, Dodger pitcher Steve Yeager, and the Dallas Cowboy front-four defensive line all wore NIKE shoes in 1982.

NIKE spent 3% of its revenues (about \$20 million in 1982) on promotion. Important elements of this program were the contracts with professional players and coaches, agreements with amateur athletes and teams, sponsorship of numerous prominent sporting events, and the underwriting of a world-class track club, Athletic-West.³ Many outside observers viewed these activities in a crass, commercial light and, to be sure, the endorsement game had its tales of athlete stealing and shoe doctoring. NIKE executives, however, believed their approach was different. As one executive stated:

We feel our promotion program is built on a core ethic of decency. Unlike some companies, we'll stick with athletes and not just use them when they're hot. The athletes like our shoes, but they also like our people and service.

Less visibly, but still powerfully, NIKE remained active at the grass roots level by sponsoring local races, presenting clinics for area high-school coaches and trainers, and giving shoes to promising

³Based in Eugene, Oregon, this club provided training facilities, coaching equipment, travel expenses, medical support, physiological testing, and assistance in job placement to over 70 top American athletes, including world marathon record holders Alberto Salazar and Joan Benoit, and sensational middle-distance runner Mary Decker.

local athletes. The NIKE employees themselves, typically athletes or former athletes, added an element of authenticity to these business efforts.

The company's advertising budget (about \$6 million in 1982, with 60% earmarked for co-op programs with dealers) focused on serious participants through specific sports media such as *The Runner* magazine (see **Exhibit 3** for a sample magazine ad). Signaling a gradual start to broader advertising, the company sponsored a national TV ad during the New York marathon in October 1982.

As the company entered the 1980s, executives were concerned lest NIKE lose its franchise at the top of the pyramid by seeming too big and interested primarily in the larger-volume market segments. As one potential NIKE promoter put it, "Hey, I don't want to be just another NIKE guy. I want to stand out a little more." A footwear customer interviewed by the researchers added: "I don't see how NIKE can be the best anymore. They're so big now."

Executives were also sensitive to the success of companies such as New Balance, Hyde Athletic Industries, and Etonic, which had taken visible aim at the high end of the market. "The bottom line," one NIKE executive concluded, "is that we've simply got to constantly design and build the best shoe."

Research and Development

Innovation, beginning with the full-length midsole, was always an integral and essential part of NIKE's business. In 1978, the company opened a research and development center in Exeter, New Hampshire. One result of the increasingly sophisticated research was the patented Air-Sole. The concept—a gas, under pressure, encapsulated within the midsole material to provide superior cushioning—was purchased from an aerospace engineer; successfully developed in the lab in great secrecy by a group known as the "airheads"; and introduced in 1979. "We're the dreamers here," said Ned Frederick, who directed the R&D center. "We've got the best lab in the business. The Advanced Concept folks, for example, are really out on the edge of the possible. They have lots of screwball ideas. But those ideas bring the innovation . . . and the big market."

The center had four departments. The Advanced Concepts Department studied NIKE's potential use of new and advanced materials resulting from in-house research as well as from the submission of ideas by inventors, designers, and medical professionals. The Chemistry and Materials Research Department tested the characteristics and durability of materials used in NIKE footwear. At the Sport Research Laboratory, scientists analyzed performance athletic shoe characteristics such as flexibility, cushioning, rearfoot and forefoot control, and energy economy (see **Figure C**). The lab also analyzed the feedback from athletes who participated in extensive field tests of NIKE prototypes. The Product Development Department used the data received from the other departments to design and develop new NIKE shoes.

Figure C Sport Research Laboratory

The product development people in New Hampshire worked closely with the marketing groups located in Beaverton, Oregon, to set broad priorities at the senior level and to develop particular products at the middle level. Frederick explained:

R&D for the low-end shoes is driven by the market. The marketing people in Beaverton handle that directly with the plants we'd have a tendency to overdesign a \$30 shoe. But the products that will lead the line come out of here. With my peers in Beaverton, we establish a sense of the broad product categories we need to focus on for the next year or so. Then the people here take over. When we do it right, the shoe has magic. You pick it up and it glows with the concern that NIKE has with the athlete, the care we take in designing and making the shoe. There is something in our shoe that is special.

NIKE spent \$5.7 million (slightly under 1% of its revenues) on R&D in 1982, significantly more than its competitors (with the possible exception of Adidas), all of whom had either in-house or consultant-based R&D programs. The technological advances achieved by footwear R&D programs in general unquestionably improved the performance and injury prevention characteristics of shoes in many sports. One outside observer noted that "while all the companies are doing some research, NIKE, from my perspective, will tend to produce the more revolutionary advances and the others the more evolutionary ones." One specialty store owner agreed, but added, "It's great what NIKE's doing. But I'd like to see those R&D people come down and try to explain the differences among their models to *my* customers."

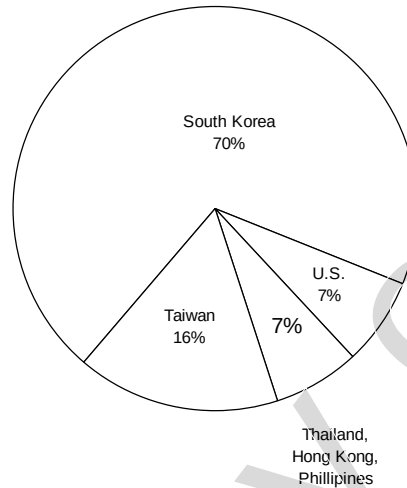
Sourcing

Sourcing shoes in the low-cost Far East was a cornerstone of Knight's original concept, and this remained the dominant practice as the company grew through the 1970s. The key to making this system work, executives believed, was the company's ability to find and develop contract factories, closely monitor them for quality, and forecast production needs effectively.

Contract factories in South Korea and Taiwan emerged as the major suppliers (see **Figure D**), although NIKE had continually sought to diversify sourcing to minimize political risk and to reflect

changing economies. Thus, just as South Korean factories replaced the original Japanese sources in the mid-1970s, it was expected that lower-wage countries, such as China, would displace some of the South Korean volume in the 1980s.

Figure D NIKE Shoe Sources by Country, Fiscal 1982 (40 million pairs)



Source: Company records

Developing new sources was a complex process, combining the usual business problems (including training, workers, installing equipment, developing local materials sources, and assuring containerized transportation) with the often difficult challenge of working in a vastly different political and social culture. Once developed, NIKE expatriate technicians continued to work closely with the source. “This has been the real key,” production executive Ron Nelson explained. “Our people are living there and working with the factories as the product is going down the lines. This is a lot different from accepting or rejecting the product at the end of the line—especially at the end of a three-month pipeline to the United States!”

The heart of NIKE’s production scheduling system was the Futures sales program. Started in the early 1970s, it eventually accounted for about 65% of footwear sales. Under the program, a retailer ordered five or six months in advance of delivery. In return, the retailer received a 5% to 7% discount and guaranteed delivery during a two-week window around the target date. This was valuable to retailers, who competed in a rapidly growing business notorious for unreliable suppliers. As one retailer said, “You can count on three things in this world—death, taxes, and Futures.” And it was valuable for NIKE—retailer shelf space was committed to NIKE, the company received reliable, early information on trends, and, most important, 65% of production was presold goods. (The remaining 35%, called fill-ins, was projected from current Futures orders and from experience.)

Although NIKE used many nonexclusive factories, company executives believed that work on NIKE footwear was well segregated from that for other customers. These executives acknowledged that NIKE had clout with the factories but consistently described efforts to develop and maintain good business relationships with them. As executive vice president Del Hayes noted:

Most of the factories are heavily committed to NIKE, and we respect that. We want them to make money, too—though not a windfall, of course!—and will do our damndest, for example, to level production for them. I guess that’s part of the company, part of how we want to be perceived. We believe there should be a sense of fairness involved.

Some outside observers were less sanguine about NIKE's (and its competitors') Far Eastern production. One athletic footwear buyer commented: "From my viewpoint, the lower-end shoes are all the same. I think it's like tennis balls that only find out what kind they are when they get a logo stamped on them at the end of the line."

NIKE established its own manufacturing operations in Exeter, New Hampshire, in 1974 and in Saco, Maine, in 1978. The initial impetus for this move had been an uncertainty about production quality and capacity of the other Far Eastern countries, following the revaluation of the yen in 1973 which removed the cost advantage of Japanese sourcing. In fact, South Korean and Taiwanese factories developed their capability quickly. The New England operation, however, became important for the learning opportunities it offered NIKE executives. They developed an understanding of the manufacturing business and its economics that was invaluable in negotiations with the contract factories (see **Table B**). Also, "tech-rats" got the hands-on understanding critical to effective work as an expatriate technician with the sourcing factories. In addition, the New England operation manufactured many shoes at the high end of the product line. It was advantageous, executives reported, to have a source close to the R&D facility.

Table B Typical Cost Buildup of a Moderately Priced NIKE Shoe

Labor	\$1.10
Materials	5.20
Overhead and profit	2.70
Factory cost	9.00
Shipping and duty	1.50
NIAC commission ^a	.36
NIKE cost	10.86
NIKE margin	5.87
Retailer cost	16.73
Retailer margin	12.22
Retail price	28.95

Source: Company records

^aNissho Iwai American Corp.

However, with market growth slowing as 1983 began, NIKE executives reached the painful decision to close the manufacturing plant in Exeter, consolidating U.S. production in the larger Saco facility. This decision emerged from a careful look at worldwide production, which also resulted in concluding business with five marginal factories in the Far East. The economics had been clear, although the result spurred one analyst to comment, "This confirms my sense of NIKE as a 'foreign company.' And it certainly doesn't do anything to support their bid in trade hearings to avoid quotas on footwear from the Far East."

The slowdown in growth also changed the pattern in Futures orders, which dropped to about 40% of sales in early 1983. The full effect of this change on the company's production scheduling operation was unclear.

Sales and Distribution

The basic pattern for NIKE's sales and distribution was set in the early years. The company used independent sales representatives, paid entirely on commission, to reach an expanding base of accounts. The reps were largely order takers, and NIKE itself performed all order processing, credit, and physical distribution work from three increasingly automated regional warehouse/offices in Oregon, New Hampshire, and Tennessee. The Futures program was the key sales program.

By 1982 the NIKE sales management team supervised 26 independent rep agencies. Host agency heads, typically entrepreneurs who employed 7 to 10 salespersons (often athletes), had been

with NIKE for several years. Although several reps sold other products, none were allowed to carry lines that competed with NIKE. Many reported that they made “a lot of money,” occasionally a sore point with inside managers. NIKE held regional agency head meetings several times a year and a national sales meeting extravaganza for all reps annually.

By early 1983 the account base had expanded to 9,500 accounts (operating 13,000 outlets) in the four relevant retail channels (see **Table C**). Executives described the opening of the J.C. Penney account in 1977 as the most significant step in broadening this base. They had been approached by other large national retailers but had not yet signed a distribution agreement with any.

Table C Summary of Accounts

Type	% of Accounts	% of Sales
National accounts ^a	-	15%
Specialty shops	15%	14
Sporting goods stores	29	26
Department stores	27	19
Shoe stores	29	26
	100%	100%

Source: Company records

^aMajor customers such as J.C. Penney and Footlocker

NIKE itself provided several dealer support services that focused on the specialty shops. Key dealers, for example, were given advanced delivery of new performance shoe models (the so-called Torch program). The company also operated seven retail stores in strategic locations across the country. Descendants of the early bases from which people like Jeff Johnson had worked, these stores functioned more as a source of market research, sales support, and promotion than of significant or profitable sales.

In the growth market of the 1970s, the aggressive reps consistently exceeded the sales goals set for them by NIKE management. As market growth started to slow, however, two sources of uncertainty emerged. The first doubt, expressed by numerous outside observers, concerned the dynamics of NIKE's relationship with its accounts. As one specialty shop owner summed it up, “Some of us have been with NIKE for a long time, We like them, and feel loyal to them. That personal relationship can't exist with the bigger chain and department store accounts. But it's also scary to depend, as we and many other small stores do, on one company for over 50% of your business.” The second doubt, expressed by several NIKE managers, was how a potentially new and more competitive retail environment would change the selling task and the degree of control the company needed over the selling function.

NIKE Apparel

As it became apparent that the bloom would eventually fade from the domestic athletic footwear market, active apparel emerged as one potential area of significant growth for the company. Indeed, the separate apparel division grew very rapidly in its first years, with sales projected to reach \$100 million in fiscal 1983 (see **Table D**). “It's a huge market,” one executive said, “and we're really pumped about it!” However, it was also quite a different business.

Table D NIKE Apparel Division (\$ millions)

Fiscal Year	Sales	Styles	SKUs ^a
1979	\$2	na	na
1980	8	45	480
1981	33	115	1,464
1982	70	215	3,272
1983 (est.)	\$100	270	4,774

Source: Company records

^aA stockkeeping unit measures the total number of product variations, not only style but color and size as well.

NIKE T-shirts were introduced at the 1972 Olympic Trials, but the company did not seriously enter the apparel business until 1978. Its first steps were faltering. As *Fortune* reported, "The company made an almost fatal first step when it aimed the introductory line at lower-middle class consumers instead of its usual, richer buyers. Bob Woodell, who joined BRS in 1967, was assigned to the division in early 1980, and a new look took shape. With a strong brand name, NIKE's apparel line grew quickly. Sales rose from \$2 million in 1979 to an estimated \$100 million in 1983, while the number of styles increased from 45 (in 1980) to 270. Observing this growth, one specialty store owner commented, "NIKE apparel is nothing special in and of itself. But it has the NIKE name on it." The line ranged from authentic performance clothing to comfortable ath-leisure wear for men, women, youths, and children. The company presented a line for both the fall and spring seasons each year, targeted to the young person (aged 14 to 25) who was, or wanted to look, athletic.

The line was sourced from domestic and Far East apparel manufacturers. Although less technical than shoe manufacturing, apparel production was complicated by the difficult task of matching and coordinating color on different materials and from different sources (as fashion required); by the notorious unreliability, and too frequent sloppiness, of many American vendors; and by the intricacies of textile quotas on imports from the Far East. In a fast-paced, fashion-oriented business, orders to vendors had to be based largely on gut instinct rather than the solid base of Futures bookings that NIKE had established in shoes. (NIKE developed an Advance Booking program in apparel that accounted for about 25% of the orders in 1982.)

NIKE used the same independent rep agencies to sell the line, although the agencies were usually forced to hire salespeople who handled only apparel. Sales were concentrated in department and specialty stores. The limited advertising appeared in magazines such as *Seventeen* and *Rolling Stone*.

Managers acknowledged that the product line suffered from design, quality, and delivery problems, all of which could be traced back to the early directions of the division. They asserted, however, that these problems were being addressed and solved, with each season's line showing an improvement over the previous one. In particular, management was concentrating on improving its selection of high-performance wear. Various programs, such as the development of an "Exeter R&D center" for apparel, were being discussed. At the other end of the spectrum, NIKE introduced a line of leisure pants in 1982, and executives expected to mount a significant effort to develop this market segment. Summarizing the Apparel Division's strategy, Woodell explained:

The NIKE name is valid, it's authentic. . . . It's not that people have to buy the authentic apparel. They just need to identify with it, and then we've won.

NIKE International

NIKE entered the international market in the late 1970s and rapidly lined up local distribution channels in Europe, Latin America, and the Asia/Pacific region. These were supported by marketing assistance from regional NIKE offices, and sourced from NIKE contract factories in the Far East. Sales grew quickly, but the company found the reality of building a business in these foreign markets to be more expensive, complex, and time-consuming than expected. Executives noted several issues:

- **Market strategy.** In the U.S. market NIKE established its consumer acceptance in running and then expanded its product line into other sport shoes. In most foreign countries, however, running was significantly less popular than in the United States. Should NIKE attempt to develop credibility for its brand name through running shoes, or by directly tackling the most popular sport in each region (e.g., soccer in Europe)?
- **Operations.** Many executives believed that some distributors (typically private companies that marketed, sold, and warehoused the NIKE products) were undercapitalized and/or unwilling to tackle the market as aggressively as NIKE wanted. One option under consideration was the purchase of several distributors. This would provide greater control but would also, of course, require significant capital expenditures and pose the challenge of managing foreign operating units.
- **Product strategy.** There was disagreement about the appropriate level of country-specific products for major markets such as Europe and Japan. On-site managers typically argued for more market-tailored products, while the domestic managers argued for less.
- **General business conditions.** These differed widely from area to area and often presented significant business challenges to NIKE. In Europe, for example, the Common Market tariff barrier forced the company to source many shoes from European factories, including two it had purchased in 1981-1982.

Because of the complexity of its international business, NIKE executives were considering a plan to focus the company's efforts on three major foreign markets—Japan, Europe, and Canada—rather than continuing to push aggressively on a broad scale. In 1982, the international division's sales reached \$43 million. Sixty-three percent of sales was in Europe, 28% in Japan, and 3% in Latin America. Nearly all international sales were in footwear.

Administration

Finance

As a small and rapidly growing company with a voracious appetite for ever more credit, NIKE careened through several financial crises until its record of success and a public stock offering brought a measure of stability to the picture in the early 1980s. NIKE's unusual financial structure was built primarily on short-term financing, in the form of interest-bearing trade payables from Nissho-Iwai and short-term debt from U.S. banks. This reflected, the company believed, the liquid nature of its assets, which were primarily inventory and accounts receivable rather than "bricks and mortar" (see **Exhibits 1 and 2** for financial data).

NIKE placed orders in the Far East with Nissho's subsidiary, Nissho-Iwai American Corporation (NIAC), which retained title to the goods until they cleared U.S. customs. NIAC's financing took the form of interest-bearing trade payables, generally due 115 days after product shipment from the foreign port (ocean transit was typically one month). NIKE also entered a domestic revolving credit agreement with a group of five commercial banks (see **Exhibit 2** for a summary of these borrowings). NIKE financial managers viewed both of these relationships from a long-term perspective. They were careful to spread the business between both sources, rather than play a "short-term interest rate game." Over time, these executives were able to negotiate more favorable terms with both groups. In 1982, the agreements were amended to provide the borrowings on an unsecured basis. As financial vice president Jim Manns explained, "We believe, and have been able to convince others, that there is very little risk in our financial structure."

NIKE went public in December 1980 with an offering of common stock at 28 times fiscal 1980 earnings. The company created two classes of stock with the offering: a publicly traded Class B and a closely held Class A that elected a majority of the directors. At the end of 1982 Knight owned 42% of the outstanding stock, including over two-thirds of the Class A stock. The initial offering and a second one in October 1982, at 18 times fiscal 1982 earnings, raised a total of about \$80 million for the company and made millionaires of several key and early employees. "While I trust we have the wisdom to avoid playing the quarterly earnings game," one senior executive commented, "I know that the stock price is important to us." (See **Exhibit 2** for data on NIKE's stock market performance.)

Management

Nike retained much of its youthful informality as it grew. Dress, language, spirit, and relationships still carried the flavor of the old NIKE. Increasing organizational size, however, had started to require that the old ways be supplemented with more formal management systems. Such systems were being developed, however, as Executive Vice President Del Haynes noted: "We shy away from overtones of structure."

Within NIKE, areas of responsibility at first were defined largely along functional lines. In the 1980s, however, when the apparel and international divisions and the footwear product lines were created (see **Exhibit 4**), jobs started to coalesce around a product line.

Top management watched a daily report on shipments (in effect, sales) and orders as a first and key indicator of whether things were tracking right. The monthly accounting report was also studied as a more in-depth indicator. Lower in the organization, systems were developed as needed. The sales order entry group, for example, was linked to the distribution operation with a "data-processing bloodline," as one manager described it. The annual budget process was driven by the sales forecast, developed by Ron Nelson's production scheduling group in conjunction with Knight. Individual department budgets were ultimately approved by Knight, following preparation by the department manager and staff work by treasurer Gary Kurtz. The company had not instituted formal strategic planning or capital budgeting systems.

Company Goals

Observers agreed that the 1970s for NIKE were a dazzling success. Sales were approaching \$1 billion, far above the \$10 million that company officials had hopefully predicted 11 years earlier. Observers believed, however, that the 1980s would prove more challenging and pointed to the maturing U.S. athletic footwear market as an indication of tougher times.

Woodell, in describing NIKE's goals to the researchers, told this story:

Once, years ago, I asked Knight, "What's the goal? Is it to put so many shoes on so many people?" He said, "No. The goal is to maximize profits in the long run." I thought, "My God, that's pretty simple. And it makes sense too."

It's easy to forget that goal and get caught up in getting shoes on eight zillion athletes in the next Olympics or whatever. But profit is how this game is scored. We're a competitive group and play this game in good part for the competition of it, not just to have more money or so the stock will be worth more. We'd really like to believe that the young whippersnappers from Oregon, who everybody thinks are country bumpkins, can be [the] the best in the world.

Reflecting on this, Knight commented:

Profit is like the score in a dual track meet. It's the way you decide if you've won or lost. But how you get there—that is through your values, the training, the trying to take every step better than anybody else. We'd like to be the biggest and best in our business in the world. And we're a growth company, not 15% but 30% or more. Sure, we could slow down our growth, tighten up, and pay some dividends—but that's not who we are, not who we intend to become.

Exhibit 1 Nike Financial Statements

Income Statement and Selected Financial Data, 1976-1982 (\$ in thousands, except per share data)

Fiscal Year Ending May 31	1982	1981	1980	1979	1978	1977	1976
Net sales	\$693,582	\$457,752	\$269,775	\$149,830	\$71,001	\$28,711	\$14,100
Cost of sales	473,885	328,133	196,683	103,466	50,560	20,004	10,036
SG&A	95,354	61,045	39,917	22,372	11,000	4,963	2,526
Interest expense	24,538	17,859	9,144	4,569	1,598	637	348
Income taxes	50,589	24,750	11,526	9,700	3,987	1,585	590
Minority interest	180	-	-	-	-	-	-
Net income	49,036	25,965	12,505	9,723	3,856	1,522	600
Less preferred dividends	-	-	30	30	30	11	-
Net income available	49,036	25,965	12,475	9,693	3,826	1,511	600
Average number of common shares	35,708	34,031	16,140	16,828	17,135	16,843	16,192
Net income per share	\$1.37	\$.76	\$.77	\$.58	\$.22	\$.09	\$.04
Return on equity	37%	31%	45%	60%	59%	NA	NA
Employees at year end	3,600	2,700	2,300	1,600	720	NA	NA
Stock price ^a	\$27.12-\$12.36	\$13.88-\$8.50					
P/E ^a	20.50- 6.40	18.60- 5.80					

Source: Company annual reports, 10-Ks, and prospectus.

Note: No dividends have been paid on common shares.

^aHigh and low during calendar year.

Sales Summary by Product Line (\$ in millions)

Year Ending May 31	1982		1981		1980		1979		1978	
Revenues										
Footwear										
Running ^a	\$236	34%	\$149	33%	\$108	40%	\$80	54%	\$39	56%
Court										
Basketball	144	21	105	23	62	23	28	18	14	20
Racquet sports	59	9	61	13	47	17	26	17	12	17
Cleated										
(field sports)	14	2	9	2	4	2	2	1	1	1
Emerging										
Children's	106	15	64	14	21	8	6	4	2	2
Leisure	14	2	8	2	2	1	1	1	1	1
Total footwear	581	84	399	87	245	91	144	96	69	97
Apparel	70	10	33	7	8	3	2	1	1	2
International	43	6	26	6	17	6	4	3	1	1
Total	\$694	100%	\$458	100%	\$270	100%	\$150	100%	\$71	100%

Source: Company annual reports and 10-Ks.

Note: Discrepancies in figures due to rounding.

^aAbout 17% of the running category were high-end shoes specifically designed for serious athletic use.

Exhibit 1 (continued)

Balance Sheet (\$ in millions)

As of May 31	1982	1981	1980
ASSETS			
Cash	\$ 5	\$ 2	\$ 2
Accounts receivable	130	87	64
Inventory	203	120	56
Other	7	4	2
Current assets	\$345	\$213	\$124
Property, plant, and equipment	41	24	14
Less accumulated depreciation	(12)	(8)	(4)
Other	1	1	1
Total assets	<u>\$375</u>	<u>\$230</u>	<u>\$135</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current portion of long-term debt	\$ 4	\$ 7	\$ 4
Notes payable to banks	113	61	37
Accounts payable ^a	74	42	37
Other	42	28	17
Current liabilities	\$233	\$138	\$95
Long-term debt	\$ 9	\$ 9	\$ 11
Other	1	0	0
Total liabilities	\$243	\$147	\$106
Common stock at stated value	\$ 2	\$ 2	\$ 0
Capital in excess of stated value	27	27	0
Retained earnings	103	54	29
Stockholders' equity	\$132	\$ 83	\$ 29
Liabilities and stockholders' equity	<u>\$375</u>	<u>\$230</u>	<u>\$135</u>

Source: Company annual reports and 10-Ks.

^aIncludes NIAC

Exhibit 2 Additional Financial Data (\$ in millions)

	1982	1981	1980	1979	1978
A. Sources and uses					
Net income	\$49.0	\$26.0	\$12.5	\$9.7	\$3.8
Depreciation	5.1	3.8	2.2	1.2	.5
Other	.3	.1	-	-	-
Operations, total	54.4	29.9	14.7	10.9	4.4
Increased long-term debt	.5	0.0	8.7	1.3	.8
Stock offering	.6	28.3	0.0	0.0	0.0
Disposal of assets	.3	.1	.1	0.0	.1
Total sources	55.9	58.3	23.5	12.2	5.3
Decreased long-term debt	0.0	2.6	0.0	0.0	.3
Property, plant, and equipment	18.2	9.9	6.8	4.1	2.2
Increased working capital	37.5	45.1	16.4	7.9	2.7
Other increased assets	.2	.7	.4	.2	.1
Total uses	\$55.9	\$58.3	\$23.5	\$12.2	\$5.3
B. Working capital changes					
Accounts receivable	\$43.2	\$23.4	\$30.9	\$15.9	\$11.3
Inventory	82.6	64.3	17.5	21.4	10.2
Other	6.7	1.4	1.6	.4	1.6
Total increases in current assets	132.5	89.1	50.0	37.7	23.1
Accounts payable ^a	31.6	5.6	16.7	9.5	5.2
Banks	51.5	24.7	19.3	11.3	5.5
Other	11.9	13.7	(2.4)	9.0	9.7
Total increases in current liabilities	\$95.0	\$44.0	\$33.6	\$29.8	\$20.4
Net change	\$37.5	\$45.1	\$16.4	\$ 7.9	\$ 2.7
C. Short-term borrowings summary					
Banks					
Credit line	\$110	\$ 70	\$38		
Total borrowings	113	61	37		
Interest rate	16.25%	21.50%	15.25%		
NIAC					
Credit line	\$110	\$70	\$38		
Total payables	52	37	32		
Interest rate	16.25%	19.25%	21.00%		

Source: Company annual reports

^aMostly NIAC payables**NIKE Public Equity Offerings and Market Performance**

Nike went public on December 2, 1980, at \$11 per share^a with two classes of stock: A-voting, and B-nonvoting. Management maintained control of the voting shares, while the class B shares were sold to the public. The class B shareholders did, however, retain the limited right to elect one of the seven members of the board. A summary of the equity offerings and the stock's performance is offered on the next page.

^aAll data adjusted for 2:1 split January 1983.

Exhibit 2 (continued)

NIKE Public Offering Summary (000s of shares) (Number of shares outstanding prior to offering: 32,352)

	1st Offering	2nd Offering
Shares outstanding after offering	35,072	37,272
Class A	30,318	22,532 ^a
Class B	4,754	14,740
Share price at offering	\$11.00	\$24.31
Company valuation (\$ millions)	\$385.7	\$906.1
Directors' and officers' % of shares		
Total	57%	50%
Class A	65%	83% ^b
P.H. Knight's % of shares		
Total	46%	42%
Class A	53%	69% ^b

Source: NIKE prospectus and annual report.

^aThe total number of class A shares is decreasing as these shares are converted to class B shares and sold to the public.

^bBoth the directors' /officers' and Knight's percentage share of the Class A stock are increasing over this period as other (nondirector and nonofficer) class A shareholders sell their class A shares.

Exhibit 3 Footwear Advertisement

**"WE HAVE LIFTOFF!"**

To be honest, our Columbia isn't *exactly* like their Columbia.

But talk about thrust. Wait until you're atop that refined Air-Sole™. It's not quite the same as 6.65 million pounds of rocket propellant. But it's enough to move you about two percent faster, or two percent farther.*

And the ride. It's awesome.

Even if you don't experience total weightlessness.

Equally important, it's a ride that will last. Because we built this Columbia strictly for training flights. Big, long ones. After more than 800 miles, laboratory tests showed virtually no loss of cushioning. And wear on the new Anatomical outsole — minimal.

We've even come out with a model that has the exact same per-

formance characteristics. The Aurora. For women only.

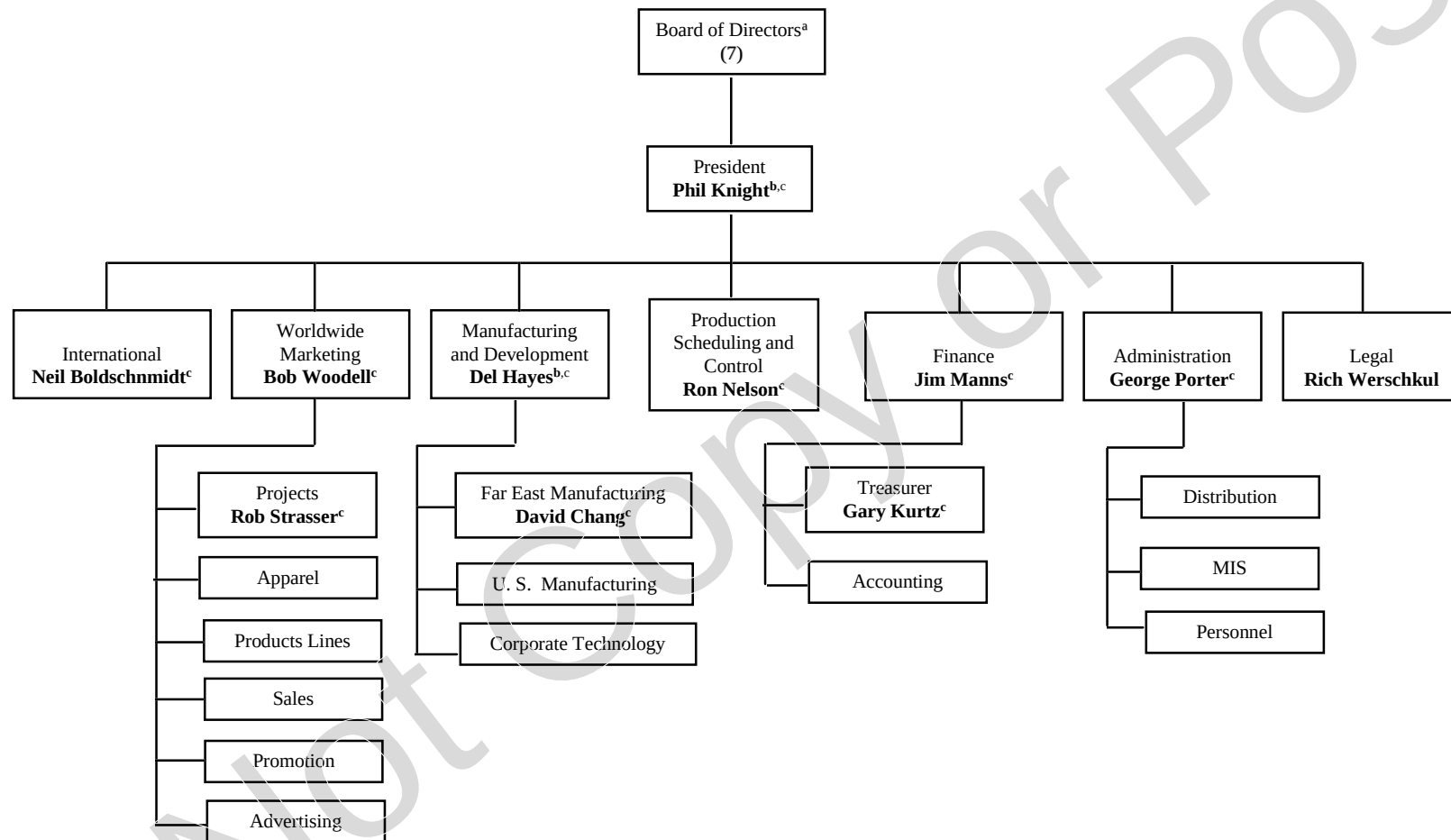
Now, you don't see NASA doing that.

Naturally, this kind of technology doesn't come cheap.

But look at it this way. You can buy one of theirs. Or about 20,000,000 of ours.

*Compared to shoes of similar weight.



Exhibit 4 Researcher's Sketch of the Nike Organization

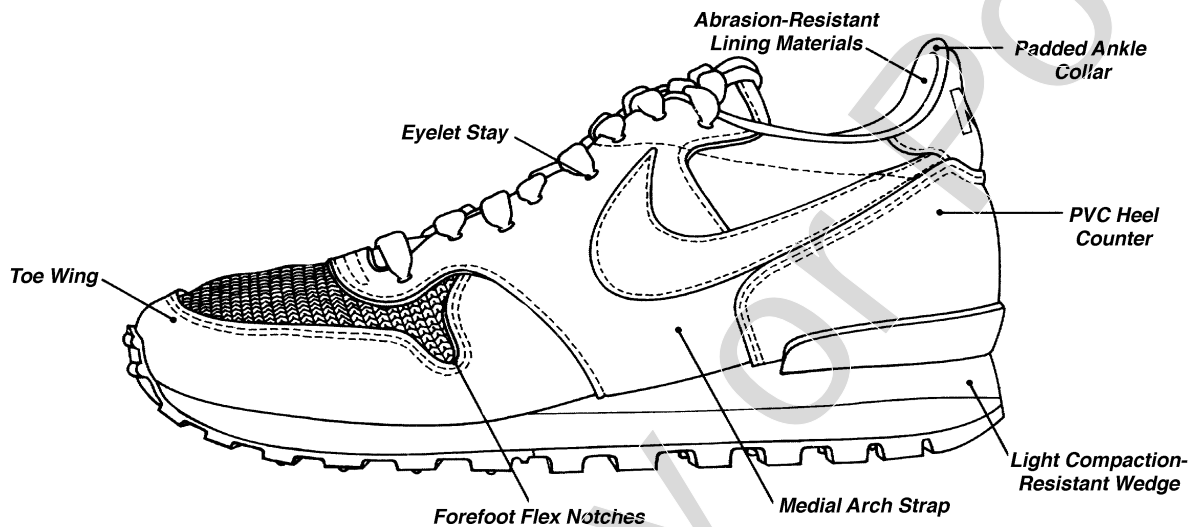
Source: Company records

^aThe board consisted of Phil Knight, Del Hayes, Bill Bowerman, and the following outsiders: Richard Donahue, Partner—Donahue & Donahue, Attorneys, Lowell, Mass.; Douglas Houser, Partner—Bullivant, Wright, Leedy, Johnson, Pendergrass & Hoffman, Attorneys, Portland, Ore.; Jon Jaqua, Partner—Jaqua, Wheatley, Gallagher & Holland, Attorneys, Eugene, Ore.; Charles Robinson, Chairman, Energy Transition Corporation, Santa Fe, N. Mex.

^bInside member of the board.

^cMember of the top management group.

Appendix



The *upper* provides a protective wrap for the bony structures of the foot, giving support (the medial arch strap, for example), flexibility (forefoot flex notch), breathability (duromesh material), blister protection (padded ankle collar), and snugness (lacing system). The stiff heel counter is responsible for controlling rearfoot motion.

The *midsole* provides full-length protection from the impact forces generated during running.

The *heel wedge* provides additional shock protection as well as heel lift to prevent strain.

The *outsole* contributes to cushioning and shoe stability, provides traction, and protects the foot from the running surface.

Shoe manufacture centers around the *last*, a wooden, metal, or plastic form over which the shoe is shaped. NIKE used different last shapes and lasting methods to create shoes that fulfilled specific performance requirements.