Nike becomes a fan of football

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

Nike built its iconic brand on its reputation for high-quality athletic footwear, incorporating innovative features, for which consumers were willing to pay premium prices. The Air Jordan is an example, with its bubble soles, fashion appeal and sports star endorsement of Michael Jordan in 1985. A bright young prospect at the time, he went on to become the most famous basketball player ever. Nike credits this endorsement as having opened up a new market of young, urban, male consumers (Garrahan, 5 August 2003). The appeal of Air Jordans, now in their eighteenth model, is fading, as consumers are choosing between performance and fashion in trainers, with the 'retro' trainer gaining in popularity. While Nike accounts for 39 per cent of the market in branded athletic shoes, this share has slumped from 48 per cent in 1997, in a market which is now more fragmented. Performance brands, such as New Balance, have prospered, and other brands, such as Puma, have gravitated more to the fashion trainer. Nike should be a strong presence in both these segments, but it is wary of the fashion route, as fashions are notoriously ephemeral and demand cannot be predicted. Its signing of the basketball star Le Bron James for an estimated $90 million, in 2003, was a way of renewing its established strength in basketball.

Looking to expand in international markets, Nike concluded that football had the greatest market potential. The catalyst, as its CEO explains, was the 1994 World Cup in the US: 'Up until the 1994 World Cup the US was the centre of this company's universe … We came to the realization that we could only become so big in the US and if we wanted to be taken seriously on a global scale, football had to be a priority' (Garrahan, 5 August 2003). Its football division has now become the driver of non-US sales. It concluded sponsorship deals with the Brazil national team and Manchester United, the latter a 13-year £303 million kit deal reached in 2002. It has also made sponsorship deals with Ronaldo (Real Madrid and Brazil) Luis Figo (Real Madrid and Portugal) and Wayne Rooney (Manchester United and England). For the first time in 2003, Nike generated more revenue from overseas markets than it did in its home market. It also overtook Adidas, with $10 billion in revenues. A further milestone occurred in 2004, when Nike overtook Adidas in European market share, accounting for 34 per cent of the football-related footwear market, compared to the 30.2 per cent share of Adidas, which has traditionally dominated European football.

Nike is aware that celebrity sponsorship does not translate automatically into sales. It stresses: 'We have to deliver a product that captivates the consumer. And then we have to market it so that it is special.' At the same time, the Nike brand has been extended to many sports and events, including the Olympics, golf and professional cycling (it sponsored Lance Armstrong, 7-times winner of the Tour de France). Is it spreading itself too thinly? Its CEO says: 'We have to keep renewing and refreshing what Nike stands for' (Garrahan, 5 Aug 2003).

Sources: Gapper, J., 'The big bucks that keep Nike in the big league', Financial Times, 4 November 2003; Garrahan, M., 'The fabulous football money machine', Financial Times, 26 April 2003; Garrahan, M., 'How to keep doing it all over the world', Financial Times, 5 August 2003; Garrahan, M., 'Nike scores on the football pitch', Financial Times, 19 August 2004; Garrahan, M., 'Nike overtakes Adidas in football field', Financial Times, 19 August 2004.

Case questions
Why did Nike shift its focus to football?
What lessons does the case study highlight for other companies wishing to expand in international markets?

@ Nike's homepage is http://www.nike.com
@ Nike's football homepage is http://www.nikefootball.com