

# Nike

## The art of selling air

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**N**IKE TOOK SOMETHING EVERYBODY ALREADY HAD FOR FREE, gave it neat-looking packaging, bought celebrity endorsements for it, and sold it for a premium. What they sold, of course, was air. Nike's Air cushioning system was a triumph of technology and marketing, and, assisted by a basketball player named Michael Jordan, Nike grew from car-boot sales to the largest seller of sports shoes in the world—by quite a margin.

In 1962, Phil Knight, an accounting major and middle-distance runner from the University of Oregon, took a trip to Japan. There, inspired by a term paper he had written about importing sneakers, he struck a deal with a sneaker manufacturer called Onitsuka Tiger (later known as Asics) to become the brand's distributor in thirteen western states, later expanding to national distribution rights.

Under the company name Blue Ribbon Sports, Knight originally ordered 200 pairs, paying \$3.33 a pair. On his return to the U.S. he teamed up with his running coach, Bill Bowerman, each contributing \$500 to the enterprise. They sold the Tiger sneakers for \$6.95 a pair from the trunk of Knight's green Plymouth Valiant at athletics meets and from a tiny shop next to the Pink Bucket Tavern in Portland; in 1964, they made \$8,000. Knight, who was working part-time as an accountant, then hired a full-time salesman named Jeff Johnson, another runner, who would later come up with the name Nike after it came to him in a dream. Nike is the Greek goddess for victory.

Meanwhile Bowerman spent his spare time experimenting with homemade shoe designs, obsessing with shaving fractions of sec-

onds off his runners' track times. In 1970, he mythically poured rubber onto his wife's waffle iron and created a new lightweight sole that offered athletes unprecedented cushioning and traction.

In 1971, Knight and Bowerman took Johnson's idea for the name and called the business Nike. The go-faster stripe that looked like a tick on the side—the "Swoosh"—came from a local design student who they paid just \$35 (though she was later rewarded with Nike stock). In 1974, they launched the Waffle Trainer, which went on to become the best-selling training shoe in the United States.

Bowerman and Knight had a natural flair for marketing. After the 1972 Olympic marathon trials, they announced that four of the top seven finishers had worn Nike shoes (ignoring the fact that the top three places were filled by runners wearing Adidas, then the world number one). In 1973, Nike persuaded record-holding runner Steve Prefontaine to wear its shoes; then in 1974, with no paid endorsement, Jimmy Connors won Wimbledon and the U.S. Open wearing the Waffle Trainer. In 1978, John McEnroe signed up (paid at one time what was then regarded as a scandalous \$100,000 a year) and Nike began its march to become a world-leading brand—in 1980 replacing Adidas as the country's top sneaker company. That was also the year Nike went public, turning several families who had invested \$5,000 each in the early days into millionaires.

Nike's Air cushioning system first appeared in 1979 in a model called the Tailwind, after a former aerospace engineer called Frank Rudy had approached Blue Ribbon Sports with the idea of including a little air bladder in the heel of a shoe. After making around 1,000 prototypes to get the formula right, he licensed his patented idea to Nike. Marketed as "air travel" with images of the Wright Brothers' Kitty Hawk, the Tailwind was a success, but it missed a crucial marketing angle—you couldn't actually see the bubble of air inside the shoe. It was only when Nike eventually came up with a little plastic window in the side of the shoe—in 1987's Air Max—that Air became

a phenomenon: you could now see that between your heel and the ground was a bubble of nothing. (The “air” was actually a gas called sulfur hexafluoride, made up of molecules that were too large to escape through the tiny holes in the polyurethane bubble. Instead of deflating over time, the bubble actually increased in pressure as other gases seeped in from outside.)

Nike hit a speed bump in 1986, when a sales slump forced it to lay off staff for the first time. Rival Reebok had hit upon soft shoes for the women’s aerobics boom, which Nike misjudged, and Reebok moved briefly to the number one spot. Nike’s marketing whiz Rob Strasser (who later helped to revitalize Adidas) had publicly remarked that Nike would never “make shoes for those [expletive] who like aerobics.” Nike—and Strasser—did, however, predict another trend that would prove far longer-lasting: the kind of shoes worn by a little-known basketball rookie, fresh from the University of North Carolina, by the name of Michael Jordan. According to a *New York Times* report, “The Selling of Michael Jordan,” a few weeks before Jordan started with the Chicago Bulls in 1984, Rob Strasser met with Jordan’s agent to discuss how they might best expand Nike’s range of basketball shoes. After mentioning Nike’s new line of air-cushioned soles, they came up with a concept: “Air Jordan.” As Jordan’s career blossomed, the shoes Nike created specially for him—Air Jordans—became highly sought-after by young urban males as a fashion item, especially after the controversy that surrounded the first model, a black and red pair that were banned because they did not match the rest of the Bulls uniform. Nike ran an ad: “On October 15, Nike created a revolutionary new basketball shoe. On October 18, the NBA threw them out of the game. Fortunately, the NBA can’t keep you from wearing them. Air Jordans. From Nike.” The \$65 pairs of shoes were soon changing hands on the street for \$100, and one basketball executive told a newspaper he was afraid to wear his in case somebody mugged him for them. (The shoe was updated every year, and a recent model, the \$200 Air Jordan XVII, came in its own metal briefcase.)

By the end of the 1980s, Nike had an unbeatable recipe: alluringly high-tech products, endorsements from athletes across a range of disciplines, an instantly recognizable brand, and a memorable slogan: Just Do It.

In 1996, Nike presciently signed Tiger Woods, then age twenty and largely unproven, to a reported \$40 million five-year contract. The following year, Tiger won the U.S. Masters by a record twelve strokes and Nike's share of the U.S. sneaker market reached an all-time high. As a brand, though, Nike was no longer as young and fresh as its marketing might have you believe, despite the best efforts of the marketing geniuses at Nike's World Campus, a college-style cluster of buildings in Beaverton, outside Portland, Oregon, which featured jogging tracks, gyms, and child care. Perhaps life at Nike headquarters was too cushioned from the edgy, real world outside—what employees called “the biosphere.” For all its counter-culture pretensions, Nike was now firmly mainstream—which began to turn off younger buyers. In 1998, Nike had its midlife crisis. The sneaker market was fragmenting. Soft, bulbous shoes designed for skateboarding and “classics,” such as Puma's and Adidas's revamped 1970s styles, were now fashionable alternatives to Nike's high-tech athletic look. New Balance, with a wider range of sizes and fittings, was stealing hardcore runners who didn't care what shoes looked like as long as they were comfortable.

Nike's widespread use of labor in developing countries made it a target for anti-globalization campaigners, who revealed the company's contractors had employed children as young as eight, paying them just a few dollars a day to make sneakers that retailed for over \$100. Nike may have been paying a premium over the usual local wages and provided much-needed employment, but it still jarred when customers learned Phil Knight alone was worth an estimated \$5 billion.

Then the Asian economy tanked and Nike suffered a surprise bloody nose on the sporting field, when it sponsored Brazil for a

reported \$200 million at the 1998 soccer World Cup, only to have them lose to Adidas-sponsored France in the final. Profits slumped 50 percent from the previous year's all-time high. "So, what knocked us down?" Knight asked rhetorically, in his letter in the 1998 annual report. "Asia . . . brown shoes . . . labor practices . . . resignations . . . layoffs . . . boring ads." A little shaken, Nike responded by reevaluating its brand, so well recognized but now attracting negative associations. In 1998 it downsized its use of the ubiquitous Swoosh (dubbed the "Swooshtika" by Nike's opponents) and replaced the commanding "Just do it!" with the wimpier: "I can."

In 1999, the year Bill Bowerman died in his sleep at age eighty-eight, Phil Knight apologized to his staff at Nike's Portland, Oregon, headquarters for the loss of direction, and even admitted to the company's failings in the third world, conceding: "the Nike product has become synonymous with slave wages, forced overtime, and arbitrary abuse." With commitments to improving conditions for its factory workers and a new, humbler public demeanor, Nike refocused on the elements of its initial success—technology and endorsement.

To increase its appeal "Just Do It" returned as the main slogan, but otherwise Nike looked for ways to diversify the brand, rather than pitching the single, authoritarian message that had come to seem arrogant. In 2005, Nike announced it would post information on its website about the 700-plus factories it uses to make its products.

To increase its appeal to women, Nike launched a yoga shoe and the Nike Goddess brand (later renamed Nikewomen), and a chain of stores designed more like upscale fashion outlets than sports shoe shops (prompting worldwide clothing sales to increase 30 percent by 2004). For teenagers turned off by Nike's ubiquity, it launched a range of skateboarding shoes that were available only in limited numbers from specialist skateboarding shops (supported, naturally, by endorsements from Nike-

sponsored skate pros). In 2003, it bought competitor Converse, but kept it operating under its own brand name.

Phil Knight also has a strong belief that Nike's future lies in soccer, both in the U.S. and worldwide. He first signed the U.S. women's star Mia Hamm, followed by an unknown fourteen-year-old soccer player named Freddy Adu (who became the youngest player ever signed to a U.S. professional team), then he paid English champion soccer team Manchester United a record \$450 million to wear Nike shirts and shorts for fourteen years. But the athlete that best typifies today's Nike is the cyclist Lance Armstrong, who beat cancer, then broke into the insular world of European cycling to win the Tour de France in 1998. As he continued to dominate the sport, he attracted critics who claimed he had used drugs (even though he has never tested positive). But Armstrong toughed it out, remained focused on the basics, training hard in the mountains, and in 2005 came back to win the Tour for a record-breaking seventh time. Courageous. Unstoppable. And wearing Nike.

## NOTES

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