

The New Swoosh

On a sunny day in early May, at Chelsea Pier 59 in lower Manhattan, Nike's leadership team took to a darkened stage and described to the assembled analysts a bright future filled with lots of growth and plenty of retail.

Nike's growth goals are indeed lofty, representing a 40 percent jump over the next five years across a brand portfolio that also includes Converse, Hurley, Umbro and Cole Haan.

That such growth leans on aggressive retail expansion comes as scant surprise from a company that got its start selling cleats at track meets from the back of a green Plymouth Valiant, and later a VW bus. Of course, that was starting in 1964 and okay for an \$8,000 concern then known as Blue Ribbon Sports.

But the juggernaut now known as Nike is today a \$19 billion enterprise that wants to be a \$27 billion enterprise. Its retail aspirations are led by Jeanne Jackson, in her newly created role as head of the company's retail business, which Nike calls "direct to consumer."

Jeanne and her team are fixing to grow the number of Nike-brand stores from 452 to 738, and double their sales to about \$5 billion. These new stores will not necessarily be Niketown-style billboards, but rather smaller-scale, local shops, with some targeting specific sports, like running, soccer or basketball.

Nike is also pursuing its partnerships with Foot Locker, Finish Line and Dick's, as well as plans to open Converse stores and action-sports shops that mix surf, skate and snow. Then there are some 472 Nike factory stores in 33 countries and, oh, 132 Cole Haan stores, too. Not to mention NikeiD and four other e-commerce sites.

In short, as Jeanne points out, Nike is a bigger retailer than most people realize. With a fresh infusion of about a half a billion dollars into its retail strategy over the next half decade, it's about to get a whole lot bigger.



Nike retail chief **Jeanne Jackson** sees big global growth in small local stores.

Why is retail important to Nike's growth strategy?

Retail's importance to Nike is not retail for the sake of retail, but retail as an enabler of our other strategies. Nike retail is an enabler of our apparel strategy, our category strategy, and our innovation strategy. It allows us to bring those strategies directly to the consumer, unfiltered by forces in between.

What is the difference between Nike's strategy now versus what it had been?

The strategy now is two-fold. The strategy was always to bring our best story to the consumer, but we now have enough locations where we have confidence that we can do so profitably. It's not just about the marketing and marketplace value of retail, but also the business value of retail.

How do you avoid confusion across so many different retail formats?

The stores all have slightly different centers in terms of their product offerings, but they share a common ethos around performance, youthful energy and all the things that are Nike.

Hopefully, if we do our job right in retail, the brand stores that we'll be opening starting in August will be the brand envelope. When there's a category store, like a running store, it's a slice of the brand store. They don't have different designs or different souls; they are just the running piece of the brand store.

Factory stores are going to have a different aesthetic and format. That's really just driven by the fact that those stores live in a different environment. You will see images of all of our best athletes, and performance sport screams through the entire store. It's just a slightly different architecture. The soul is the same.

How do you decide which type of store goes where?

The idea is to really understand, at a local market level, what sports participation is and place stores where research tells us that sports participation is high.

For example, the Palo Alto store indexed off the charts for running, which probably passes the logic test given a very rich heritage around running at Stanford University. That there are a lot of runners in Palo Alto gave us high confidence to put a running store there.

We put a brand store, which includes multiple categories, where multiple sports indexed very high. So, for example, Santa Monica, which is our first brand store, indexes very high across multiple sports. There are six high schools within 20 miles of Santa Monica center with basketball teams and cross-country teams. There are also lots of soccer clubs and kids who play baseball in the summertime.

The fact that there is a heavy concentration across multiple sports in Santa Monica gives us confidence to open a brand store there. That's the science that goes behind it. I feel confident about the science and I think that it's going to lead us to some good decisions.

Why are you trending toward smaller store formats?

It's a couple of things. Back when the main purpose of Nike retail was about positioning the brand and creating a stage, we didn't make a lot of investments in infrastructure. We didn't really build the "plumbing" as I call it, and our efficiency in getting product to the floor in a timely way wasn't there. So, part of it is the efficiency of the operation.

The other part is that there was a desire in the early days of Niketown for big open spaces. It was just a design esthetic; the marketing guys like having big open spaces. Retailers look at big open spaces and want to put product there. The smaller formats are about space utilization and efficiency of operation.

How does that affect the shopping experience?

I actually think the shopper will be happy because the big open spaces and the old architecture segregated every category into its own pavilion. This meant that shoppers had to meander through all of the pavilions to find product.

With the new design that we'll unveil in August, the lines of sight are a lot cleaner. Shoppers will be able to see the product and find their product more easily.

Does the new design affect customer service?

It allows us to cross-sell categories more easily because of the way the consumer really dresses. She'll buy a pair of running shoes from the running department and then she might buy a pair of Capri pants from the women's training department. She might layer it with a tank top from the women's sportswear department.

If those three items are in separate pavilions that are far apart, it's hard for her to do that. If it's adjacent space, then she can easily move from category to category to category. The ease of picking things up across categories will be increased exponentially.

How are you creating a sense of community?

Nike is very focused on local stores. So, for example, in Stanford, California, we have run clubs that leave from the store. Then we've got a program called Back Your Block, where we give back to the local community. The Stanford store specifically is giving back to a youth-run club in the Palo Alto community. Our stores have a very strong community mandate and I think they're going to have fun with it.

Do you have other kinds of clubs besides running clubs?

Running is always our sweet spot. We are the best running brand. We are the coolest running brand. We are the youngest running brand, so any growth in running is always good for Nike.

We've got a pretty strong soccer community around Niketown London. Obviously, kids don't necessarily play soccer right in front of the store. The kids may want to run from the store to the soccer pitch as their warm up, play soccer, and then run back to the store. We'll see whether or not that works. But the idea of kids being able to come into the store and design club kits and footwear together, I think will work really well.

How do you want the shopper to feel when they are in the store?

Energized. Motivated. I want them to feel that they didn't run enough miles last week and to want to go run some more.

What is the hardest part of making that energy happen?

I think the hardest part is consistency. Everyone has good days and bad days. When you have a store of 30 associates, making sure that they are all having a good day every day is one of the challenges of retail. It's a challenge for everyone who is in retail, whether you're at the Gap or Apple or Nike.

So, the premium on store executives who know how to motivate people, make them happy about coming to work every day and providing an environment that we call "athlete's love" is really critical. We accomplish that in some stores almost all of the time, in all stores some of the time and the goal is to accomplish it in all of the stores, all of the time.

What is the relationship between your retail strategy and Nike's brand strategy?

Retail is the place where we come face-to-face with consumers and tell them our story directly and unfiltered, whether it's a brick-and-mortar store or a digital store. Retail is important to our brand identity not only in terms of what we say, but also because it's our avenue to say it in an unfiltered manner.

Is retail a particularly good way to connect with younger consumers?

I definitely think it is. Part of our goal with the Nike stores is to create a youthful energy. We want kids to feel like it's their store and that this is the place where they can bring their team and have a team design-fest for their team uniforms, or just come and find new stuff to help them in their training and their sport.

What's Nike's relevance to the older consumer?

From a brand perspective, our sharp focus has always been on youth and on performance in athletics. I've been in retail a really long time and I can tell you that whether you're talking about cosmetics, clothes or athletics, everyone wants to be young.

So, the fact that there are older consumers who want to buy our products because they make them feel like they can perform better or they make them feel youthful—or they just like them—is a wonderful part about being part of a \$20 billion brand.

Has the growth in female runners influenced your strategy?

One of the things we've learned in opening

Keeping Cool

“The hardest thing for a company to do is to change when it doesn’t seem like change is necessary,” says Nike CEO Mark Parker.

With some \$19 billion in sales and one of the most powerful brand identities in the world, it’s easy to appreciate Mark’s challenge.

Nike is also 37 years old, which certainly doesn’t help a brand identity built on “youthful charisma.” So, if the question is how to keep Nike cool, Mark’s answer “is simple: Small is big. Not small as in obscure. Small as in cutting edge.”

His strategy includes “redesigning NikeStore.com into

an industry-leading site and growing digital sales by double.”

Offline, Mark’s plan involves mall stores like Nike’s new one in Southern California, centered on youth-oriented action sports. The store doesn’t even carry Nike’s name — in fact, it carries no name at all.

The hope is that this will keep Nike cool, “recognizing that growth increasingly will come from other brands in the company portfolio,” like Hurley, Umbro and Converse. Says Mark: “The best way to stay cool is to not try to be cool.”

[Source: Bruce Horovitz, *USA Today*, 12/7/09]

up our store in Palo Alto is that we are doing a disproportionate amount of sales in women. So, the specific running stores are going to serve the female runner to an even greater degree than we thought possible going into this. It’s an underserved market, so that’s nothing but opportunity for Nike.

What is the Bottoms Bar for women all about?

The Bottoms Bar, in combination with the Bra Bar, lets women pick their pants fit and bra, which are the two items that she uses when she’s exercising. She’s going to wear a particular style of pants that is appropriate for the sport and a particular bra that’s right for the sport and for her. So, those two core items are critical.

We don’t do this for the sake of just creating a destination. Women have told us over time that they want to find one destination to be able to find their basics. And so we are giving them that one destination to find their basics. It’s created for a consumer reason and not for some marketing construct.

What is the most innovative thing about your new retail strategy?

The thing that’s most innovative is treating the delivery of product into the marketplace like a retailer and not a wholesaler. By that I mean, retailers know that consumers come to their store as often as every

two weeks, and usually at least once a month. A wholesaler delivers to the marketplace once a season.

Therefore, you have to flow product into those stores that will stimulate those consumers and give them a reason to buy on a more frequent cadence. Retailers will take a look at the product and say, okay, I’ll deliver Nike in September and Adidas in October and make a big deal out of different things at different points in time.

When you’re a single brand like Nike and we’re meeting the demands of our consumer for our brand, and they have a voracious demand for our brand, the innovation is our frequency of product delivery.

Was it a big transition for Nike to think like retailer?

It was more an evolution than a transition. Over the history of Nike, as we have evolved and have had major initiatives that have grown our business, retail has played a role. When we stand here today and look at the sum of those initiatives, it’s actually a pretty big business globally — \$2.5 billion of Nike brand and another \$2.8 billion across the entire portfolio.

This gives us confidence to develop the infrastructure so that not only is retail setting the stage and showcasing product in the marketplace, but it is now also an efficient profit-driver on its own. The evolution is not necessarily about the need for retail;

it's about the need to invest in our retail infrastructure to be a world-class retailer.

What are the most important things you've learned about retail that you've applied at Nike?

Oh, that's a big one. Well, I'll tell you, I love retail. I truly, truly love retail and truly love being a retailer. That's because retail is the place where if you really listen to your consumer—I mean *really* listen—it shows up in your report card, which is your sales, almost immediately.

I can think of examples over the years. We changed the lighting in the fitting rooms at Banana Republic to make them more flattering and conversion went up. If you really pay attention to the consumer, it's very gratifying to just turn around and deliver what they want.

Is advertising as important as it used to be for Nike?

Advertising is hugely important to Nike. But if you follow the retail business, you'll find that retailers don't spend a lot of money on advertising because they have windows. A beautiful display in the town square of Niketown New York will see 50,000 customers a day. Now, that's advertising. It's just a different kind of advertising.

Is retail the new advertising?

I wouldn't say retail is the new advertising. I think retail and advertising compliment each other extremely well. One of the best examples we've done recently is in soccer. The soccer team did an absolutely brilliant job with the launch of the new soccer boot about a month ago.

It showed up not just in advertising on all of our best stars, but we took hundreds of stores in Europe and all of our major locations around the world—we probably had 2,000 stores when all was said and done—and used their windows to support that soccer shoe.

When you add the world's best athletes to incredible advertising to 2,000 retail store windows that tell the consumer about the product, that's a powerful combination.

Where do Twitter and Facebook fit into your retail strategy?

One of our most effective uses of Twitter or Facebook is the sneaker-head collector, who knows that we are going to launch a product on a certain day

at a certain store and posts the information. We're learning with everybody else about the best way to engage the consumer around our brand with those social networks.

What is the appeal of customization to Nike consumers?

The thing about customization is that whatever assumption you have about customization, there are 15 people who have their own interpretation of customization.

When you sit at our store in Harajuku, Japan, the kids gather around the computer screen in packs. The mission of that group is to see how wild to make the shoes because, for them, there are not enough colors in the rainbow to make them wild enough.

Then you sit somewhere else and it's about a team that wants the coolest combination of blue and gold because that's their team's colors. Customization is just individuals trying to express their individuality. There is no formula around it.

What will make Nike a better retailer?

I think our future as a better retailer is pretty bright, but we're hitting on multiple dimensions. The enabler is the plumbing and we have to invest in the plumbing. But all of this is leading up to different ways to connect to the consumer.

When we connect to the consumer with product, we let them know that Lunar Glide is our best technology in running shoes and it comes in twelve colors. When we have an athlete on the running floor of Niketown New York who can tell you about his training, that's a consumer connection.

When we get to a point where you see a shoe on the wall and you can sit down two feet away at a screen and imagine that shoe in fuchsia and green and turquoise and then order it right there—that's a pretty powerful consumer connection. There are a bunch of enablers, but at the end of the day it's the consumer connection at retail that's magical. ■



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