



ANITA ELBERSE
BRYCE AIKEN
HOWARD JOHNSON

Nike: Changing the Sneakers Game

“Yes, the campaign’s final drop is live now, and it looks like we’ll sell out within the next few minutes—people are going crazy for this shoe.” Ron Faris, general manager of S23NYC, a Manhattan-based digital studio owned by sports apparel giant Nike, was on the phone with Adam Sussman, Nike’s chief digital officer, who was in Nike’s global headquarters in Beaverton, Oregon. It was June 1, 2018, and Faris was referring to Nike Basketball’s Art of Champions campaign, which centered on key moments in the history of the National Basketball Association’s (NBA) playoffs. S23NYC supported the campaign on the studio’s mobile app, SNKRS (pronounced ‘sneakers’).

This last ‘drop’—industry jargon for the act of releasing sneakers to the public—revolved around basketball legend Michael Jordan’s iconic championship-winning last shot in the 1998 finals. Users of the SNKRS app who discovered that swiping across a black-and-white photograph of that famous moment turned the picture into a color version, were subsequently given the option to buy the ‘Air Jordan XIV Last Shot’ sneaker (see **Exhibit 1** for impressions). Thousands of people in North America and China had already done so, and word of the ‘gesture unlock’ was spreading fast among fans.

These were the kind of experiences that S23NYC and its SNKRS app had become known for. In what Faris referred to as the studio’s “first season,” SNKRS had launched shoes through gesture unlocks as well as ‘stashers’ (which allowed app users who were in a certain location to purchase sneakers on their mobile phones), ‘cams’ (which enabled users to buy sneakers by aiming their phone’s camera on certain objects, such as billboards or restaurant menus) and unannounced ‘shock drops.’ Tens of thousands of sneakers, often produced in small batches, had already found their way to buyers in this manner. The Art of Champions campaign, which kicked off S23NYC’s “second season,” showcased all these features during the 2018 NBA playoffs. The studio also partnered with hip-hop artist Kendrick Lamar on activations during his summer concert tour.

Sussman was behind Nike’s push to acquire Virgin Mega, a startup comprised of Faris and his eleven team members (and backed by business mogul Richard Branson’s Virgin Group) in 2016. Faris’ team had since morphed into a forty-person digital studio that was an important element in Nike’s strategy to be, as Sussman put it, “on the cutting edge of digital technology” and “creating meaningful and authentic connections between the brand and its most engaged consumers.” With SNKRS specifically, Sussman hoped to “strengthen the community and bring back the fun and emotion of buying.” Faris, who noted that his team dealt “with the most fanatical of Nike’s fans—the sneakerheads,” summarized his mission: “Our goal is to be the kind of start-up that would terrify Nike—if Nike didn’t already own us.”

Was Nike on the right path with its digital strategy and, in particular, with how it sought to change the sneakers game and compete with rivals such as Adidas and Puma? Did it make sense for the company to pursue the kinds of innovations featured in the SNKRS app? And what kind of campaigns and activations should it prioritize in the future?

Professor Anita Elberse and Harvard College students Bryce Aiken and Howard Johnson prepared this case. It was reviewed and approved before publication by a company designate. Funding for the development of this case was provided by Harvard Business School, and not by the company. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Copyright © 2019 President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to www.hbsp.harvard.edu/educators. This publication may not be digitized, photocopied, or otherwise reproduced, posted, or transmitted, without the permission of Harvard Business School.

Nike

Company Background

Nike traced its origins to a small business founded in 1964 by Phil Knight, who had been a long-distance runner in college, and Bill Bowerman, his University of Oregon track coach. “They sold shoes to runners out of a van, athlete by athlete,” said Sussman. “They were all about enabling athletes to perform their best, and to support athletes in whatever way they can. Eventually, they grew the business by having a team of Nike salespeople traveling in vans to track meets, to personally serve those athletes. It was a business built on relationships.” Officially named Nike, Inc. in 1971, after the Greek goddess of victory, the company had since become the world’s largest manufacturer and seller of athletic shoes, apparel, and other sports equipment.

Headquartered in Beaverton, Oregon, and led by president, chairman, and chief executive officer Mark Parker, Nike employed 73,000 people and sold its products across the globe. “We serve hundreds of millions of athletes in more than 190 countries across six continents,” noted Sussman. In 2017, Nike generated \$34 billion in global revenues (see **Exhibit 2** for the company’s financials). It sold the large majority of its products under its own name but also owned three other brands: Converse, Hurley, and Jordan. The Jordan brand, named after Michael Jordan and known for its Jumpman trademark, focused on footwear and apparel in the basketball category. Hurley mostly targeted the surfing community. Under the Converse brand, Nike marketed a line of casual footwear and apparel.

For Nike and its most prominent competitors, footwear was the largest source of revenues. In 2017, that category accounted for nearly two thirds of Nike’s global revenues (also see **Exhibit 2**). Nike was the dominant player in the market for athletic footwear – including its Jordan and Converse brands, the company controlled more than half of the market (see **Table A**).

Table A Market shares for top athletic footwear brands in the U.S. in 2017

Brand	Owner	Market Share
Nike	Nike, Inc.	36%
Jordan	Nike, Inc.	16%
Adidas	Adidas AG	11%
Skechers	Skechers USA, Inc.	5%
New Balance	New Balance Athletics, Inc.	4%
Converse	Nike, Inc.	4%
Under Armour	Under Armour	3%

Source: Adapted from NPD Group.

Nike sold its products through retailers and directly to consumers, and both offline and online. “One of the key drivers of our company’s expansion is the faster growth rate in our direct-to-consumer business as compared to our third-party wholesale business,” said Sussman. Physical retailers were struggling: in 2016 and 2017 alone, at least ten sports retailers declared bankruptcy.¹ “The marketplace has continued to shift dramatically since then,” noted Faris. “At the same time, Adidas and Under Armour in particular have been gaining market share. It all makes you realize that continuous digital innovation is critical for Nike going forward.”

Nike's Focus on 'Going Direct'

In recent years, Nike's leadership team had made a strong push to focus more of the company's resources on selling directly to consumers, an initiative they referred to as Nike's "Consumer Direct Offense." Executives made changes throughout the organization, such as focusing attention on certain markets (twelve key cities in ten countries around the world were made top targets) and redesigning product lines (the strategy was to reduce styles by 25% overall but offer a deeper selection within top franchises). Nike had also cut back the number of retailers with which it partnered. "Retailers that aren't evolving to offer better consumer experiences will find themselves challenged," said Sussman. "The goal is to better serve the consumer personally, but at scale, in a way that leverages the power of digital," said Sussman, who as Nike's first chief digital officer co-led a new Nike Direct organization with Heidi O'Neill, president of Nike Direct, that was tasked with shaping the future of Nike's retail efforts. O'Neil oversaw the more than 7,000 Nike direct-to-consumer retail outlets around the world.

On the digital side, the duo was responsible for Nike's portfolio of four apps—the Nike app, Nike Run Club, Nike Training Club, and SNKRS—as well as Nike.com and the NikePlus membership program. The general Nike app served as a hub for members and provided them with services, experiences and products that were curated based on their interests. The Nike Run Club was the world's top app for runners—it guided its seven million users on almost fifty million miles of running each month. Nike Training Club was the number one workout app in the U.S. and Europe, facilitating nearly two million workouts per month. SNKRS, which Sussman described as "being all about reinventing the sneaker game," already had over four million users (see **Exhibit 3** for impressions).

"Today, we have more than 100 million NikePlus members. Over the next five years, we expect to more than triple that number," Sussman remarked about the company's membership program. "NikePlus members are more engaged, and when they shop via our apps or other platforms, they spend nearly four times the typical amount." Becoming a member was free. Once a user had obtained a login and password, his or her membership profile worked across all of Nike's platforms, including the company's website, Nike.com.

The benefits of a NikePlus membership extended to Nike's physical retail locations, explained O'Neill: "If you are a NikePlus member and have our app, we will recognize you when you walk into one of our stores. For example, you could scan a shoe on the footwear wall and see colors or availability in your size. Or you could skip the line and instantly purchase in the store through a digital checkout." She added: "We want to give our members the ability to be the very first to buy our products, we want to give them exclusivity, and we want them to be able to reserve products that match their tastes. We also want to roll out these benefits across the world." Sussman gave an example of the personal approach the company was aiming to provide: "We've discovered that over 250,000 of our runners tend to run late in the day. We can serve up an opportunity for them to buy, say, our new reflective flash jacket. They'll go, 'wow—they really know me.'"

"Our service model is simple: make consumers feel loved by Nike. Period," Sussman noted. "Everyone nowadays has a mobile device that enables us to develop a relationship with them and serve them better—to deliver on Nike's original vision." He elaborated: "Our efforts in the digital domain are about driving the digital acceleration within Nike. There is a real opportunity for us here to better connect with our consumers, to deliver experiences to them that feel organic and that delight them, and to drive digital growth. But these efforts are also about digital transformation of Nike itself: we are changing the way in which the company is working."

Sneaker Culture*A Brief History of Sneaker Culture²*

Although the first sneakers (generally defined as soft shoes with rubber soles) were made in the early 19th century, this type of footwear truly began its rise to prominence in the early decades of the

20th century. The first high-profile sneaker brand, Converse, began making athletic shoes in 1915, and in 1917 released its most iconic shoe, the 'Converse All Star.' The sneaker was rebranded as 'Chuck Taylor All Star' when the company partnered with professional basketball player Chuck Taylor in 1922. The collaboration – perhaps the first between an athlete and footwear company ever – helped Converse to establish a stronghold on the basketball-shoe market which would last deep into the 1960s.³

In the 1970s, sneaker brands began to alter their designs in order to improve their shoes' athletic performance. Soon those innovations made their way to public basketball courts. Converse as well as emerging brands in the space such as Nike, Adidas and Puma supplied the best street ballers with the coolest and rarest shoes. "The sneaker craze started in the urban communities, with so-called streetwear," said Emily Anadu (HBS Class of 2005), S23NYC's director of product marketing. "It has gotten really big now, but that's where it all originates – and that culture is still at the heart of it." Seeking to capitalize on television's advertising potential, some brands soon looked to partner with pop-culture icons to spread sneaker fashions nationally and even globally.

Adidas, for instance, partnered with Run-DMC, the first hip-hop act to record an album that was awarded 'gold' status and to be nominated for a Grammy award.⁴ The group had released a song, entitled *My Adidas*, in which they professed their love for the brand ("My Adidas and me, close as can be... We make a mean team, my Adidas and me"), which prompted Adidas executives to contact the group. Soon after, Run-DMC's members were rarely seen without their white-with-black-stripes 'Superstars,' helping Adidas to reach a broad audience.

Meanwhile, Nike had unearthed a huge opportunity by partnering with Michael Jordan, signed when he was still a rising star. Nike released his debut shoe, the 'Air Jordan,' in 1984 (see **Exhibit 4**), reportedly earning more than \$100 million in revenues in the shoe's first ten months alone. Because Jordan played professional games in sneakers which didn't follow NBA regulations, his Jordan line received a great deal of free publicity and the brand gained a rebellious reputation.

Consumers soon flaunted sneakers in all kinds of non-athletic settings. In the early 1980s, especially for men, owning multiple pairs of sneakers was synonymous with being fashionable or cool. In fact, many sought to collect sneakers – the Jordan line was an important catalyst for that trend, especially when Nike began to re-issue some of the most popular Jordan sneakers.⁵ "Nike helped create the sneaker culture," said Sussman. "We had such incredible energy with Michael Jordan and his footwear line at the time. That was really the foundation from which we grew our sneaker business." The trends gave rise to the term 'sneakerheads' for those who were passionate about sneakers and who often went to great lengths collecting them, waiting in lines for hours and paying top dollar for the most coveted items. In the late 1980s and the 1990s, sneakers became even more important items in people's wardrobes. A stronger embrace of casual fashion, exemplified by the introduction of 'casual Fridays' in many offices, gave sneaker enthusiasts greater opportunities to showcase their footwear.⁶

In the 2000s, footwear companies found new inspiration by collaborating with fashion brands and designers. Adidas partnered with prominent designers Yohji Yamamoto and Jeremy Scott in 2002. Shortly thereafter, Nike worked with Supreme, a famous skateboard fashion brand, to create the 'Supreme X Nike Dunk Low Pro SB' sneaker, soon followed by the 'High Pro SB,' which became one of the sneaker world's most sought-after shoes (also see **Exhibit 4**). Other companies, such as Bathing Ape, Supra, Visvim and Android Homme entered the market, placing a greater emphasis on high fashion and offering shoes at higher prices. High-end women's shoe-makers even entered the fray: brands like Christian Louboutin, Pierre Hardy, and Jimmy Choo all launched sneaker lines. Hip-hop-artist-turned-designer Kanye West collaborated with Nike (to release the 'Yeezy I' in 2009 and the 'Yeezy II' three years later) and later with Adidas.

Fashion-forward sneakers often were released in very limited quantities. That, in turn, triggered frantic hunts among consumers – and sometimes pandemonium. For example, when hundreds of sneakerheads who had camped outside a New York City store for days for the 2005 launch of the 'Nike Dunk Low Pro SB Pigeons' found out that only thirty pairs were available for purchase, the New York Police Department had to step in.

The market for sneakers showed no signs of slowing down in the ensuing years, even gaining significant traction among female consumers. “The year 2015 was the first year that sneakers outsold heels in Europe,” noted Anadu. “There may not be millions of people who are willing to sleep outside for a night in line to get their hands on, say, the ‘Air Max 1/97 Sean Wotherspoon,’ but there is a huge amount of people now who are into sneakers.”

The Market for Sneakers in 2018

By 2018, the global market for athletic footwear was estimated to be close to \$50 billion annually, a sum that was about one seventh of the total footwear market, and that represented nearly a billion pairs of shoes sold. The athletic-footwear category was growing fast: between 2016 and 2017 alone, athletic footwear sales increased by more than 10%. The U.S. accounted for just under 20% of the estimated total market.⁷ Although Nike competed with a wide variety of other brands in the sneakers market—from sports apparel companies like Puma and Under Armour to streetwear brands like Vans, and most recently luxury companies like Gucci and Balenciaga—its main competitor in the sneaker space was Adidas.

Nike was performing strongly with its sneakers in 2018. One particularly popular line was the result of a collaboration with Virgil Abloh, a designer known for his personal streetwear and luxury label Off-White, who had recently joined fashion house Louis Vuitton as its artistic director. The partnership began in 2017 with the goal of deconstructing products and technology, and resulted in a collection, The Ten, in which Abloh remastered some of Nike’s iconic silhouettes. “For The Ten, we did something only Nike could do. We gave Virgil ten of our most classic silhouettes to deconstruct, including the Jordan 1, an Air Force One, and a Zoom Fly. He did things like having the Nike swoosh not be all the way attached, exposing the foam, and putting text on the sides, identifying a shoelace as “SHOELACE” or the base of an Air Jordan as “AIR,” said Anadu. “An unworn pair of his Jordans, which we sold for around \$200, will go for \$1,800 or more on the resale market. Millions of people want to get their hands on them” (see **Exhibit 5**). Another Off-White collection, this time inspired by the soccer World Cup, was scheduled to be released in a couple of weeks.

In 2018, the internet played a significant role in how most sneaker fans bought sneakers. Social media were a key platform through which footwear brands—as well as their athletes and other collaborators—promoted their new products. Many consumers bought sneakers online, directly from the brands or through a range of online retailers. And the internet gave rise to a thriving secondary market for sneakers. Initially, general auction sites like eBay had cornered the resale market. But by 2018, a number of clothing-specific auction sites such as Grailed and StockX—the latter alone listed more than 3.5 million sneakers in 2017—had entered the market.⁸ Prices could be staggeringly high: in 2012, an ‘Air Yeezy II’ that had retailed for \$245 sold for \$90,000 on eBay.⁹ “The ‘Sean Wotherspoon Air Max I mentioned earlier were reselling for anywhere between \$1,000 and \$1,500 back when we first released some pairs in November, ahead of their general release,” said Anadu. The popularity of the resale market in turn had given rise to automated robots (or ‘bots’) that some users relied on to buy out online assortments before regular consumers had a chance to do so—much to their frustration.

Despite the growing impact of online platforms, physical stores continued to play a prominent role as well. Boutique clothing venues such as Kith, Dover Street Market and Supreme were havens for sneakerheads. Each of those retailers had at least one high-profile store in New York City as well as venues elsewhere. Kith, for instance, had stores in Manhattan, Brooklyn, Long Island, and at luxury goods department store Bergdorf Goodman in the New York area, as well as in Los Angeles and Miami. On days (known as ‘drop dates’) in which the stores debuted limited-edition footwear or apparel, long lines would often form in front of the venues, sometimes several days in advance.

Nike’s Process for Bringing Sneakers to the Marketplace

Bringing sneakers to the marketplace could take up to one-and-a-half years, said Reham Habib, Nike’s vice president of global merchandising for sportswear: “On our high-energy drops, we typically work anywhere from ten to eighteen months out.” She described the process: “My team, the

merchandising team, gathers consumer insights, market data, and Nike's business targets to plan the right product at the right time and at the right price. What we do is a blend of art and science. We form the bridge between the product-creation and design teams and the marketplace. Take the Air Jordan XIV Last Shot sneaker: We will say, 'We need this many products at these price points, here's how we want those products to flow, and here's what we project in terms of the capacity in the marketplace.' The product-creation team is then tasked with determining the product strategy—the 'what.' They might go, 'Okay, knowing that, we are going to brief the design team that we want an Air Jordan XIV, and that we want to tell an original, authentic story. The design team, in turn, might decide that a sneaker that is a play on Jordan's winning shot is a good option.'

When it came to determining the quantities of sneakers brought to the market, Habib's team was focused on helping the business strike the right balance between supply and demand: "We make a lot of product that is available for everyone to buy. But our high-energy launches fall into three categories. The first bucket we call 'Explore'—here, we are exploring unique concepts in aesthetics and fit, or new material concepts and construction, and therefore have higher price points... we are making shoes that no one has seen before. It is really about us pushing the boundaries of innovation for our brand, and initially we typically satisfy a very small percentage of the total demand. Virgil Abloh's Off-White product is a good example—all of those sneakers fall into the 'explore' space."

Habib continued: "The second bucket we call 'Invest.' Take the LeBron 16, LeBron James' new performance on-court shoe, which will come out in October: we could decide to launch a special LeBron 16 shoe to drive some heat for the LeBron 16 line. We will want to satisfy a higher percentage of demand, because we are using that to fuel a bigger idea—to sell more LeBron 16s overall."

"The third bucket we call 'Scale,'" she added. "This bucket benefits from bigger demand creation campaigns and activity for the brand—shoes in this category usually are designed for performance and to serve athletes in the bigger sports categories, perhaps tied to one of Nike's signature athletes or teams, and likely worn by many athletes globally. A good example here involves the React cushioning technology that we launched in the spring. The first color wave we made for the shoes with that new technology were made in limited quantities only—those fell into the 'Invest' category. But we are planning the entire lifecycle of the product, and with our subsequent React launches we will try to satisfy a larger share of the demand. We are seeking scale. It is still not 100% of what we think the market can handle, however."

The SNKRS team usually learned of upcoming products at least six months in advance of their launch dates. "In September or October, we will tell them what sneakers are coming in April, May, and June," said Habib. "They will learn what the products are, how many pairs we'll have of each of those products, how many they will get for the app, and what the launch dates will be." The allocation of pairs across online and offline sellers was determined in collaboration with Nike's geography teams, Habib explained: "We have teams of people in each of our four geographies who do the buys for their markets. They do their forecasting and then we in merchandising roll it up into a global number." The SNKRS app played a key role for some particularly high-profile releases, she noted: "For our high-heat launches—our most hyped footwear products—we think of the app as a key connection point to consumers across the marketplace." A typical week could see as many as a dozen drops on the SNKRS app. "Sometimes we might make only a few hundred units of a certain sneaker available across the app, and in other instances we might offer more than several thousand units," Habib said. "We have a multi-billion-dollar sneaker business, and SNKRS helps us drive the energy for that business."

S23NYC and the SNKRS App

Origins

Digital studio S23NYC was the result of an acquisition of Virgin Mega, a tech startup founded by Faris within Richard Branson's Virgin Group. Formerly the head of brand marketing for Virgin Mobile and its free music festival, Faris found inspiration in the energy of people waiting in line at his festivals.

That motivated him to start Virgin Mega, a mobile platform designed to engage communities while they waited in line for certain events or product launches. “I saw that millennials require an experience when they connect with the brands they love – they like to connect emotionally,” he said. Faris and his small team of engineers and product staff created a feature, ‘Megaline,’ that used gamification—the application of game principles and game design to non-game contexts—to make waiting in line more enjoyable and engaging, for instance by giving users a chance to compete with each other for the right to skip the line.

“We were doing an event with the rapper A\$AP Ferg [born Darold Brown Ferguson, Jr.] ‘geofenced’ to upstate New York, where fans in a certain geographic area could enter a digital queue to buy apparel he had designed. If you knew trivia about A\$AP Ferg, you could jump a few places in the line,” said Aaron Uhrmacher, S23NYC’s director of product who was also an original employee of Virgin Mega. “A girl tweeted something like, ‘This is so cool—this is how I want to wait in line for Jordans forever,’ which got retweeted a lot. Unbeknownst to us it caught the attention of Nike executives, who reached out.”

“When I first met Ron, we talked about reinventing digital lines – trying to make them more exciting by giving consumers unique experiences,” recalled Sussman, who had a background in the video game industry. “I really bonded with him and his team. And the more time I spent with them, the more I had this vision of bringing them into Nike entirely, to help us reimagine how we connect with the sneaker community. When we ran our SNKRS app back then, there was a lot of passion for it, but I felt we were treating apps more as marketing content and less as a live service. And Nike is on a digital journey, so that had to change.” When Sussman was named Nike’s chief digital officer in February 2016, he “passionately pursued the acquisition,” as he put it, finalizing the deal in August 2016. “We had hired them on retainer for a few months, to work on the new vision for SNKRS—the consumer value proposition, and the road maps and timelines to what they would build. By the time the acquisition went through, we knew how they were going to integrate.”

Vision

Faris and his small team of engineers, product managers, designers and marketers became Nike’s digital studio S23NYC. The name was a play on its location on 23rd Street in Manhattan, a few blocks away from Nike’s New York City headquarters, and a reference to Michael Jordan’s jersey number. The team’s first mandate was to operate the SNKRS app and introduce new features. “I am the general manager of both the studio and the app,” clarified Faris. Sussman had high expectations: “We see S23NYC as a catalyst for Nike’s digital transformation. And we feel there is a real opportunity with sneaker enthusiasts—this is such a unique community. We believe there is an opportunity to totally reinvent how we bring products to this market—to serve them in a very different way than we have before.” By June 2018, the number of employees had quadrupled. “A part of this team’s remit is to have their finger on the pulse of the culture of New York City and other key cities for us—and be totally dialed in,” said Sussman.

After conducting focus groups with sneaker fanatics, Faris saw his first challenge at the studio as “bringing back the thrill of the chase,” he explained: “For sneaker enthusiasts back in the days, it was about the chase of getting the shoe. It wasn’t just about getting an amazing shoe that was made in a limited quantity—it was also the story of *how* you got the shoe. That was the mythology, the folklore of ‘I had to call a 1-800 number and type in a secret code to get the shoe’... These were magical stories that added to the brand.” He added: “Now the physical lines consumers stand in for sometimes more than a day are not a great experience. And the world of e-commerce can be so convenient that it is almost free of emotion. Our challenge is to bring the energy back to the consumer.” “SNKRS is about turning shopping into a sport,” agreed Sussman. “The sneaker community consists of millions of deeply passionate consumers who are always looking for access to our latest products. But if their experiences are marked by long lines and needing to camp out for days, or by bot attacks that swipe shoes before they have a chance, that’s not great... We have to put the fun back into the hunt.” Faris added: “Nowadays our campfires are digital—they are Instagram and Twitter—and so the game is to build features that the community can use and share among each other.”

Prior to the acquisition, the SNKRS app already gave users the ability to browse an assortment of Nike's hottest sneakers, purchase them and have them shipped to their homes. Faris' team set out to evolve the app so that users could learn more about the stories behind some of Nike's classic and newest sneakers, enter draws for the most coveted 'drops,' and reserve sneakers for pick-up at a physical store. In order to achieve the team's goal of becoming "the ultimate sneaker source," Faris knew that the app had to function perfectly, even in the face of the massive traffic and bot attacks that went hand in hand with high-profile releases: "That's why the app has a proprietary launch engine built for scale that can handle more simultaneous traffic than anything out there—even sites run by ticket companies."

Season One

The SNKRS app's most eye-catching elements, however, were the four features that were rolled out once the app was up and running (see **Exhibit 6** for some impressions), in what Faris dubbed SNKRS's "season one."

SNKRS gesture unlock. The first feature, the 'gesture unlock,' made its debut in January 2017. "We got our hands on a couple of hundred units of a hot shoe that was going to drop—a rerelease of the 'Blue Foamposite One.' Former NBA star Penny Hardaway wore the shoe back in 1990s," said Faris, adding: "The NBA notoriously banned Hardaway from wearing it on the court because there wasn't enough black in the shoe to match his Orlando Magic uniform. But he loved the shoe so much that he grabbed a Sharpie marker to turn the blue parts black. What an amazing story, right?" The SNKRS team came up with a novel way for users to earn an opportunity to buy the sneaker, explained Uhrmacher: "On the app, if you click on the story about the shoe, you can flip through a photo carousel. If you're near the end, you might notice that you can't flip to the next photo but instead your finger becomes a Sharpie. Once you recreate the color pattern that Hardaway created, you unlock a secret video in which he speaks directly to you, saying that he is at the Nike Memphis distribution center that is ready to ship the sneakers to the first few hundred fans that find the video."

The results exceeded all expectations, Faris recalled: "The first person unlocked eight minutes after the post went live. And from there it went crazy, with people sharing this on social media... We were hoping 5,000 people would engage with this experience, but by the end of two days we had close to 100,000 people who wanted to purchase the shoes. And we had all those thousands of people teaching each other on social media how to find the video—and sharing that great story about Hardaway's shoes in the process. We at Nike didn't have to say a word."

SNKRS stash. A second new feature, which the team called 'stash,' followed in May 2017. "This is our version of [popular mobile-phone game] Pokemon Go—we digitally bury products in the wild for our fanatics to come and find. The first stash revolved around the arctic orange 'Air Jordan II Just Don GG,' designed by designer Don C, one of the most prominent Jordan collaborators. "When you tap on the shoe in the app, you can see a 360-degree view of the place where the shoes are located," said Uhrmacher. "Once you physically make it to that same location, step into the geo-fenced area, and tap on the 'I'm here' button in the app, you can make your purchase right there." Later that summer, another stash took place in various locations around New York City, including Washington Square Park. "We dropped the stash in our app without any push notifications on people's phones," said Faris, "and it just took off from there. I was out there myself, holding up my phone pretending to look for the sneakers, but actually filming the whole event, and it was amazing—sneaker fans came running from all directions to this one spot in the park."

SNKRS cam. Another feature, the augmented reality 'cam,' debuted in June 2017. Nike collaborated with restaurateur and sneakerhead David Chang, the founder of the Momofuku restaurant group, on a shoe that featured the restaurant's logo. "We thought it would be cool to launch the sneaker by digitally burying it in his menu," said Uhrmacher. "With augmented reality technology, we made it possible for you to point your phone's camera at what seems like a normal menu, and see the shoe right there on your screen, as if it is floating in the air." Sussman added: "It's not very clear what you need to do as a fan to unlock the shoe. It's a puzzle you need to solve, and the reward is really

cool. You could even do it from a photo of the menu on Chang's Instagram feed — your put your camera up from within the SNKRS app, and the shoe just pops up." Faris again was delighted with the results: "We sold out in under an hour. These weren't the same people that responded to earlier drops — these were foodies. More than half of the people who visited the app that month were new users. And we can use the technology in so many other ways — we're working on activations that involve pointing your camera at billboards and even album-cover art now."

SNKRS shock drop. In early 2018, the team showcased a fourth feature of the app — the ability to send out surprise alerts for coveted products — so-called 'shock drops' — which consumers could buy instantly through the app or pick up at a nearby store. Sussman recalled what the team pulled off for the 2018 Super Bowl: "Right after Justin Timberlake stepped off the halftime stage in his customized white Air Jordan 3s... Boom. We made his shoe available to members via our SNKRS app. It sold out immediately. We notified the hundreds of thousands who missed out when the next highly coveted AJ3 would be available — the sell-through on those was 100 percent."

Season Two

Faris hoped to further develop the app's features in season two. For instance, he envisioned stashes evolving into 'stash squads,' which would enable players on the ground in one location to 'gift' access to users in a different location. "For those who live outside New York City, we want this to be more than just a spectator sport. There are a lot of sneakerheads in Houston and Miami who like to be actively involved in the hunt for sneakers, too," said Faris. "So we're developing a new feature in which players in different cities can team up. Once one city unlocks its pairs, members in the city they've partnered with get access to the shoe, too."

Another goal for season two was to apply the existing and new features to a range of campaigns. Two were the main focus in the summer of 2018: first, the NBA-centered Art of Champions campaign, and second, a campaign revolving around the musician Kendrick Lamar and his concert tour.

The Art of Champions campaign. S23NYC led the digital launch for Nike Basketball's Art of Champions initiative. "Our mission here was to bring some of the best stories about Nike's long history with basketball to life through a series of digital and physical moments," explained Faris. The NBA, a men's professional basketball league based in North America, was widely seen as the premier basketball league in the world. In 2015, Nike had signed an eight-year partnership with the NBA, reportedly worth around \$1 billion, that gave Nike the right to design the league's uniforms and on-court products and to place the Nike logo on all official NBA merchandise.¹⁰ The NBA's playing year consisted of an 82-game regular season that ran from October through April, followed by playoffs that lasted roughly two months and played out over four rounds, the last of which were the NBA Finals that culminated in the crowning of the league's championship team.¹¹ "Our campaign is modeled after the playoffs," explained Lucian Dickson, marketing manager at S23NYC. "The four rounds each are a best-of-seven series, so the champion needs to win sixteen games. That's why we decided to focus on sixteen moments, giving us as many opportunities to reward our fans." And because the NBA was popular around the globe, beyond North America especially in China,¹² Faris and his team had designed a campaign with activations in both territories (see **Exhibit 7**).

The first of the campaign's activations was a stash that revolved around former Los Angeles Laker superstar Kobe Bryant and the 'Kobe 1 Protro Final Seconds' sneaker. "The stash was located just outside Staples Center, which is the Lakers' home court," said Anadu. "We picked up the first 75 people to find the location and escorted them inside the arena — that's where the digital access point to the shoes was. Those people also were able to take part in a photo opportunity with Kobe's trophies on the hardwood. Can you imagine being a Laker fan and getting that experience?" Meanwhile, in China, taking inspiration from Bryant's notorious early-morning training sessions, the team launched the 'Protro' sneaker via a 4 AM shock drop. The entire inventory was sold by 5 AM.

Another activation gave fans access to the 'Air Maestro II Trifecta' via SNKRS cams in China and North America. After clicking on a post about the shoe — made famous by former Chicago Bulls star

Scottie Pippen, who on a memorable night during the 1993 NBA Finals logged a so-called triple-double and blocked a potential game-tying three-pointer on route to a third NBA title for his team—members were encouraged to search for a physical poster in Chicago, placed just outside the Nike store in the city’s center, or its online equivalent to unlock the sought-after red sneakers with their cameras. In China, the campaign played out in a similar fashion – there, the poster was placed in Shanghai and also spread online. The campaign marked the first time ever the cam feature was used to launch a sneaker in China.

To celebrate current superstar LeBron James’ notable 2007 NBA playoffs performance, fans could gain early access to the ‘LeBron Soldier 1 25 Straight’ through an unlock. In the app, they were prompted to relive LeBron’s dominant shooting display by swiping their fingers on an image of a court hidden in a post that offered more information on the design of the shoes. As the users swiped across the screen of their mobile phones, they could reveal a full shot chart, which in turn unlocked the sneakers. Within nine minutes, the available inventory was gone.

The last activation was for the ‘Air Jordan XIV Last Shot,’ which also was offered using a gesture unlock—the one in which users had to color in a photograph of Jordan’s iconic championship-sealing shot. Within 45 minutes, thousands of pairs were sold in the U.S., and thousands more in China.

The campaign for Kendrick Lamar’s tour. In the spring and summer of 2018, S23NYC teamed up with superstar hip-hop artist Kendrick Lamar, who headlined a concert tour with other artists signed to the music label Top Dawg Entertainment (TDE), including SZA, ScHoolboy Q, Jay Rock, Ab-Soul, Sir, and Lance Skiiiwalker. Lamar was by far the biggest draw. In their tour, which had started in early May in Vancouver and was scheduled to end in Pittsburgh six weeks later, the TDE artists would play 30 shows across the U.S. and Canada.

For this campaign, S23NYC had produced several thousand pairs of the ‘Cortez Kenny III,’ a black shoe with a white Nike swoosh and a red ribbon riding up the tongue that was made specifically to commemorate TDE’s Championship Summer Tour. “We helped launch the ‘Cortez Kenny I’ and ‘II,’ and now it is time for the ‘IIIs,’” said Anadu. “These will be released early and almost exclusively through the SNKRS app via a series of stashes at different venues during Kendrick Lamar’s set.” By June 1, 2018, Faris and his team had already run stashes at three cities the tour visited—Los Angeles, Houston, and New York City—and were planning to do so in Boston and Chicago as well. Members in those cities learned about the stashes through SNKRS app notifications: app users in Los Angeles, for instance, would see a message that read, ‘Headed to The Forum tonight for TDE’s Championship Tour? Keep an eye on SNKRS for an exclusive unlock.’ If fans, once they were at the 26,000-seat venue, opened their SNKRS app during Lamar’s performance, they would gain access to the stash and could purchase a pair for \$100 until supplies ran out. Faris was pleased with the results so far: “We are on track to unlock and sell out all our pairs across the five locations—and in all instances, they were gone in less than three minutes.”

Looking Ahead

Still on their phone call, Faris and Sussman had moved from sharing the highlights from the latest SNKRS activation to discussing S23NYC and its role for Nike more generally. Was Nike on the right path with its digital strategy, and with how it sought to change the sneakers game?

How to Navigate the Promise – and Perils – of Growth?

Faris was clear about one of his primary goals for SNKRS’ second season. “If the first challenge we tackled was to bring back the thrill of the chase,” he said, “the second is about extending access. We want to scale within the U.S. and to other countries and get as many people as possible to feel the energy of the app and experience this very special sneaker culture that is so filled with emotion.” Sussman agreed: “We want to introduce a whole new set of consumers to sneakers and to sneaker

culture, and have them fall in love with that wonderful world—that was always the premise. We can really grow this market.”

Even internationally, the process was well underway, Faris explained: “In the last year, we’ve launched in 19 countries in Europe, in China, and in Japan, and we’re getting an amazing amount of traction. SNKRS even was the number one overall free app in The iTunes Store in Japan for a few days, beating out Instagram, Google Maps, and all the all other major apps. We’re training the staff in each region—we’re broken up into North America, Greater China, Europe, and Asia Pacific Latin America—so they can run their own stashes, unlocks, and cams. This season, we’ll be running something somewhere in the world once or twice a week.” In the U.S., use of the SNKRS app was growing rapidly, noted Faris: “We’ve increased membership fourfold in the last twelve months.”

The team faced critical questions around whether further growth was desirable and, if so, how best to grow. “We continue to work at making sure that the consumer feels the process is fair,” acknowledged Faris. He added: “Making something that feels very nimble now work at scale is a real challenge. Sussman agreed that finding the right balance was critical: “Our goal is to try and make sure that consumers get the sneaker they really want, and often as they can, so they don’t miss out.” He felt optimistic about the company’s ability to address that problem going forward. “We have been underserving the market, and we can actually see that now with the SNKRS app. We are starting to get smarter.”

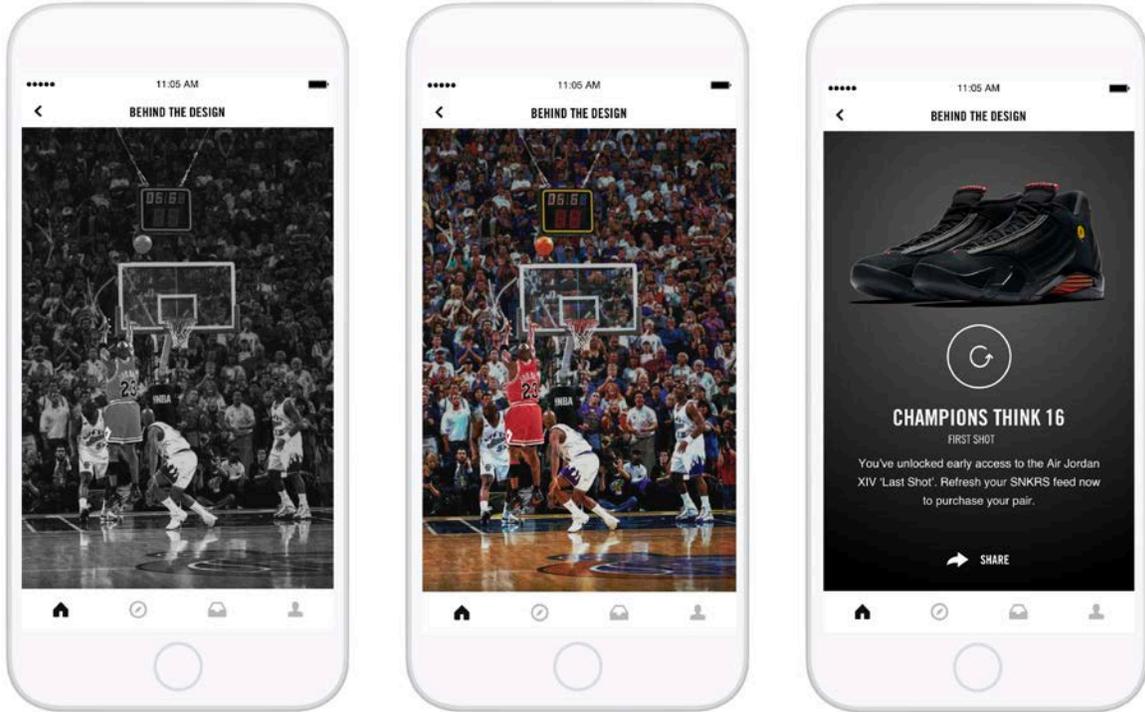
What Innovations to Pursue?

Making the right decisions about which features, campaigns, and activations to bet on was another critical challenge. Its relevance extended far beyond SNKRS, noted Faris: “All the components we have built for the SNKRS app can be reused by our other apps and other digital platforms within Nike. We should keep asking ourselves whether the new features we are building and the campaigns we are developing around those features deserve our and the company’s time and effort—and what we should prioritize in the future.” “I’m thrilled with the features we launched in season one,” noted Sussman. “But there is no finish line here—we have to keep introducing new features to maintain the energy and excitement of the consumer.”

Faris had his sights set on other innovations, too: “We are quickly moving into a position where we are not just reinventing the distribution of sneakers but can also radically change their design and production. Just think of all the data we have. We are now able to serve very specific markets—I for one would love to create sneakers for certain groups based on their culture in sports, music, or fashion. How cool would it be if we had local designers create a shoe specifically for people from, say, the Dominican Republic living in New York City? We know there is a large number of very avid sneaker fans among them—we could give them a shoe that calls out some elements of Dominican culture.” Sussman was equally excited about the prospect of identifying such sub-communities within the wider member base and then developing products specifically for them. “That’s one example of the millions of things we can do,” he said. “The SNKRS app in many ways is the spear of our digital strategy—it is moving us forward in driving digital acceleration and transformation across Nike.”

“I consider our mandate to be far bolder than creating and running an app,” Faris noted. “I think of it this way: If Nike was founded in 2018, what would it look like? What would it look like if it *started out* as a digital-first company? That’s one question I would love to answer.”

Exhibit 1 The 'Air Jordan XIV Last Shot' Gesture Unlock: Selected Impressions



Source: Nike, Inc.

Exhibit 2a Nike, Inc.: Selected Financials (in millions of dollars, except margins and prices)

	2014	2015	2016	2017
Year Ended May 31				
Revenues	27,799	30,601	32,376	34,350
Gross profit	12,446	14,067	14,971	15,312
Gross margin	44.8%	46.0%	46.2%	44.6%
Net income	2,693	3,273	3,760	4,240
Year-end stock price	38.46	50.84	55.22	52.99
Year-end market capitalization	66,921	87,044	92,867	87,084

Source: Nike, Inc. annual report.

Exhibit 2b Nike, Inc.: Revenues (in millions of dollars)

	Fiscal 2015	Fiscal 2016	Fiscal 2017
Nike brand revenues by category	28,701	30,507	32,233
Footwear	18,318	19,871	21,081
Apparel	8,637	9,067	9,654
Equipment	1,631	1,496	1,425
Global brand divisions	115	73	73
Nike brand revenues by channel	28,701	30,507	32,233
Sales to wholesale customers	21,952	22,577	23,078
Sales direct to consumer	6,634	7,857	9,082
Global brand divisions	115	73	73
Converse brand revenues	1,982	1,955	2,042
Corporate revenues	-82	-86	75
Total Nike Inc. revenues	30,601	32,376	34,350
Nike brand wholesale equivalent revenues by channel	25,833	27,249	28,694
Sales to wholesale customers	21,952	22,577	23,078
Sales to direct to consumer operations	3,881	4,672	5,616
Nike brand wholesale equivalent revenues by category	25,833	27,249	28,694
Men's	14,689	15,410	16,041
Women's	5,732	6,296	6,644
Young Athletes'	4,301	4,560	4,838
Others	1,111	983	1,171
Nike brand wholesale equivalent revenues by sport	25,833	27,249	28,694
Running	4,863	5,017	5,278
Nike basketball	1,385	1,378	1,292
Jordan brand	2,329	2,753	3,099
Football (soccer)	2,250	2,143	1,987
Men's training	2,545	2,611	2,617
Women's training	1,281	1,344	1,265
Action sports	667	655	596
Sportswear	6,604	7,513	8,587
Golf	769	706	579
Others	3,140	3,129	3,394

Source: Nike, Inc. annual report.

Exhibit 2c Nike, Inc.: Divisional Revenues (in millions of dollars)

	Three months ended 2/28/2017	Three months ended 2/28/2018	% Change
North America	3,782	3,571	-6%
Footwear	2,490	2,293	-8%
Apparel	1,154	1,153	0%
Equipment	138	125	-9%
Europe, Middle East & Africa	1,925	2,299	19%
Footwear	1,271	1,489	17%
Apparel	566	713	26%
Equipment	88	97	10%
Greater China	1,075	1,393	24%
Footwear	776	939	21%
Apparel	271	368	36%
Equipment	28	29	4%
Asia Pacific & Latin America	1,122	1,268	13%
Footwear	777	884	14%
Apparel	278	321	15%
Equipment	67	63	-6%
Global brand divisions	19	21	11%
Total Nike brand revenues	7,923	8,495	7%
Total Footwear	5,314	5,605	5%
Total Apparel	2,269	2,555	13%
Total Equipment	321	314	-2%
Converse brand revenues	498	483	-3%
Corporate revenues	11	6	--
Total Nike Inc. revenues	8,432	8,984	7%

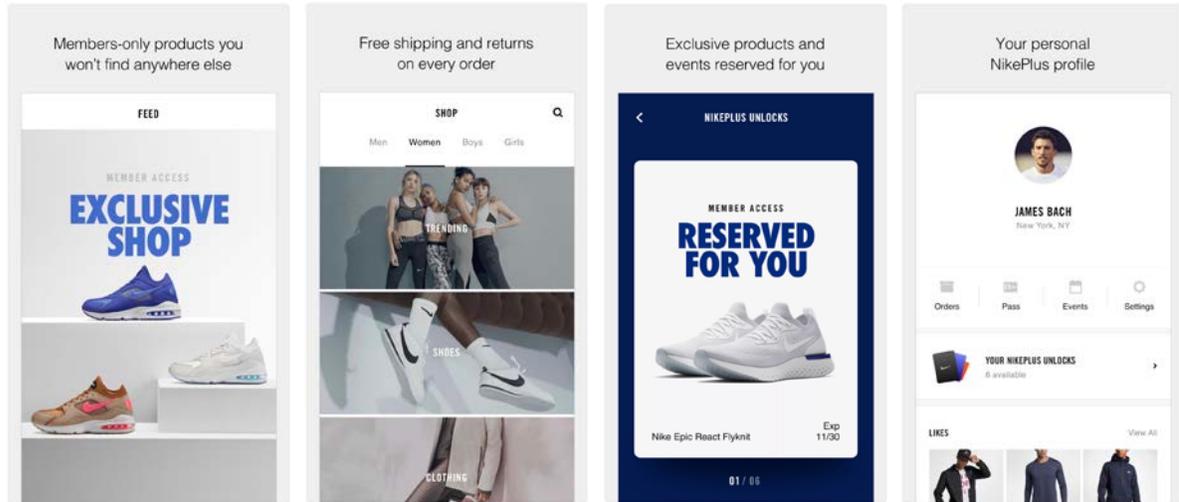
Source: Nike, Inc. annual report.

Exhibit 2d Nike, Inc.: Consolidated statements of income (in millions of dollars)

	Three months ended 2/28/2017	Three months ended 2/28/2018	% Change
Revenues	8,432	8,984	7%
Cost of sales	4,682	5,046	8%
Gross profit	3,750	3,938	5%
Demand creation expense	749	862	15%
Operating overhead expense	1,747	1,905	9%
Total selling and administrative expense	2,496	2,767	11%
Interest expense (or income), net	19	13	
Other expense (or income), net	-88	-1	
Income before income taxes	1,323	1,159	-12%
Income tax expenses	182	2,080	1,043%
Net (or less) income	1,141	-921	-181%

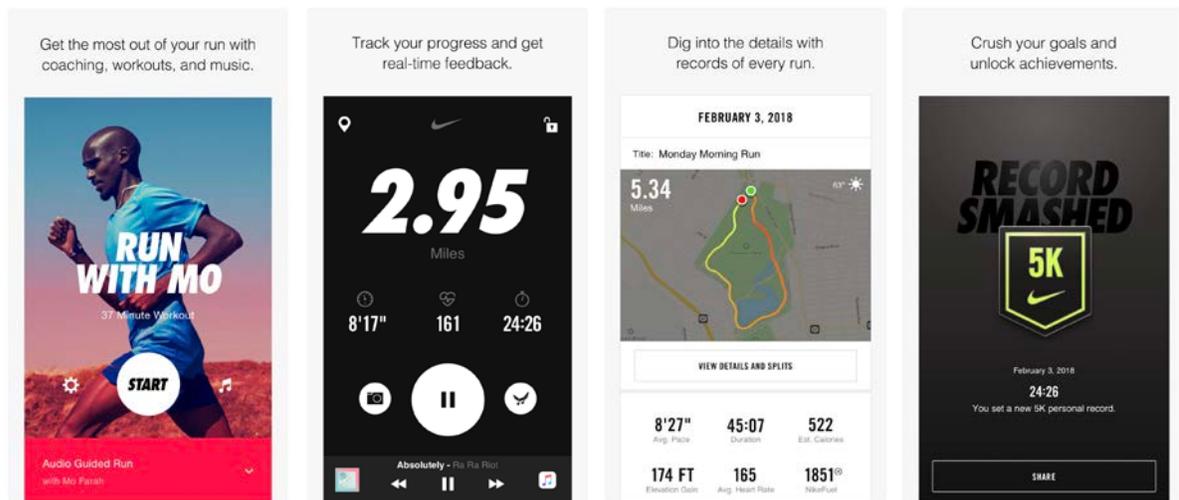
Source: Nike, Inc. annual report.

Exhibit 3a Nike's apps: The Nike App ("The best of Nike, personalized to you")



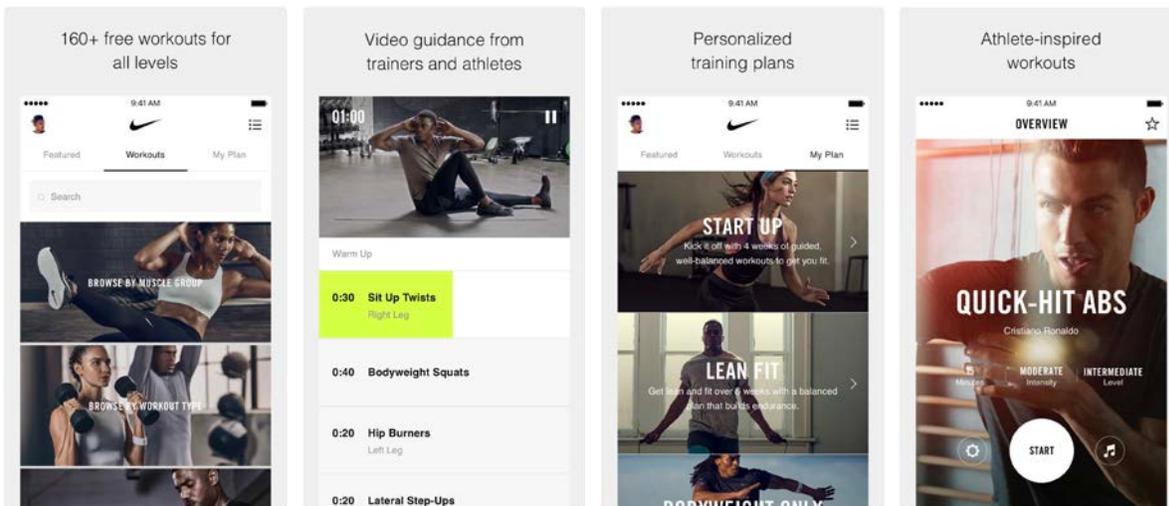
Source: Nike, Inc.

Exhibit 3b Nike's apps: Nike Run Club ("Run tracking and training plans")



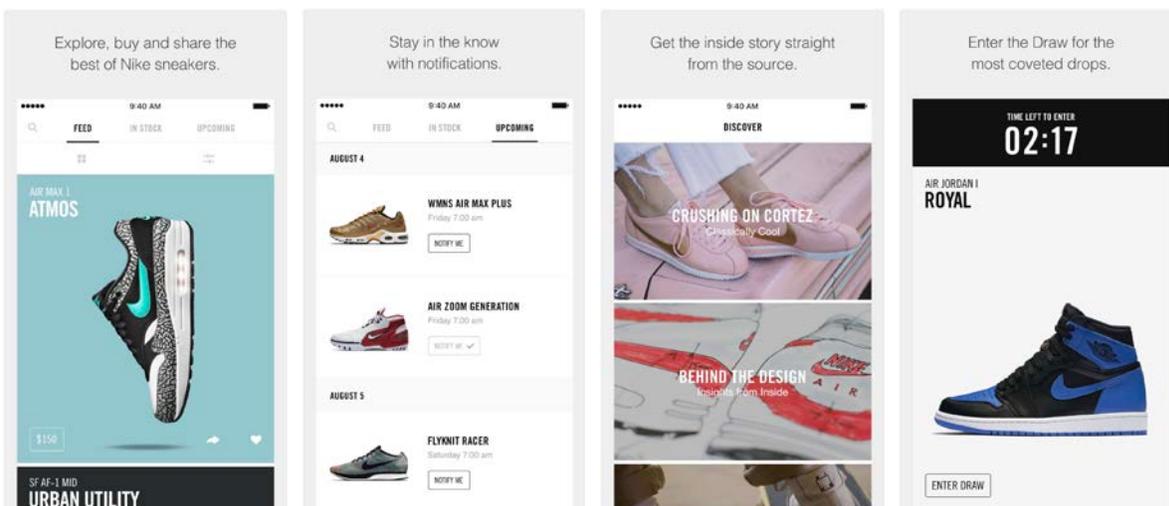
Source: Nike, Inc.

Exhibit 3c Nike's apps: Nike Training Club ("Workouts and fitness plans")



Source: Nike, Inc.

Exhibit 3d Nike's apps: SNKRS ("Your ultimate sneaker source")



Source: Nike, Inc.

Exhibit 4 Some of Nike's Most Iconic Sneakers



Air Jordan I (1985)

The first of many in the Jordan brand, these sneakers did not follow the National Basketball Association's regulations, which mandated that shoes matched team-issued colors—white and red for Michael Jordan's Chicago Bulls.



Supreme X Nike Dunk Low Pro SB (2003)

Only 500 pairs of this 'Air Jordan III'-inspired sneaker were released in Supreme's stores in Tokyo and New York. One version, pictured here, combined white leather with a cement print, along with a royal blue inner lining; another has black and red coloring.



Nike Dunk Low Pro Pigeons SB (2005)

The New York City Pigeon was chosen as the mantra for this shoe, which featured a miniature bird under the Nike swoosh. The shoes were designed to embody the unbothered spirit of a New Yorker and were produced in extremely limited numbers.

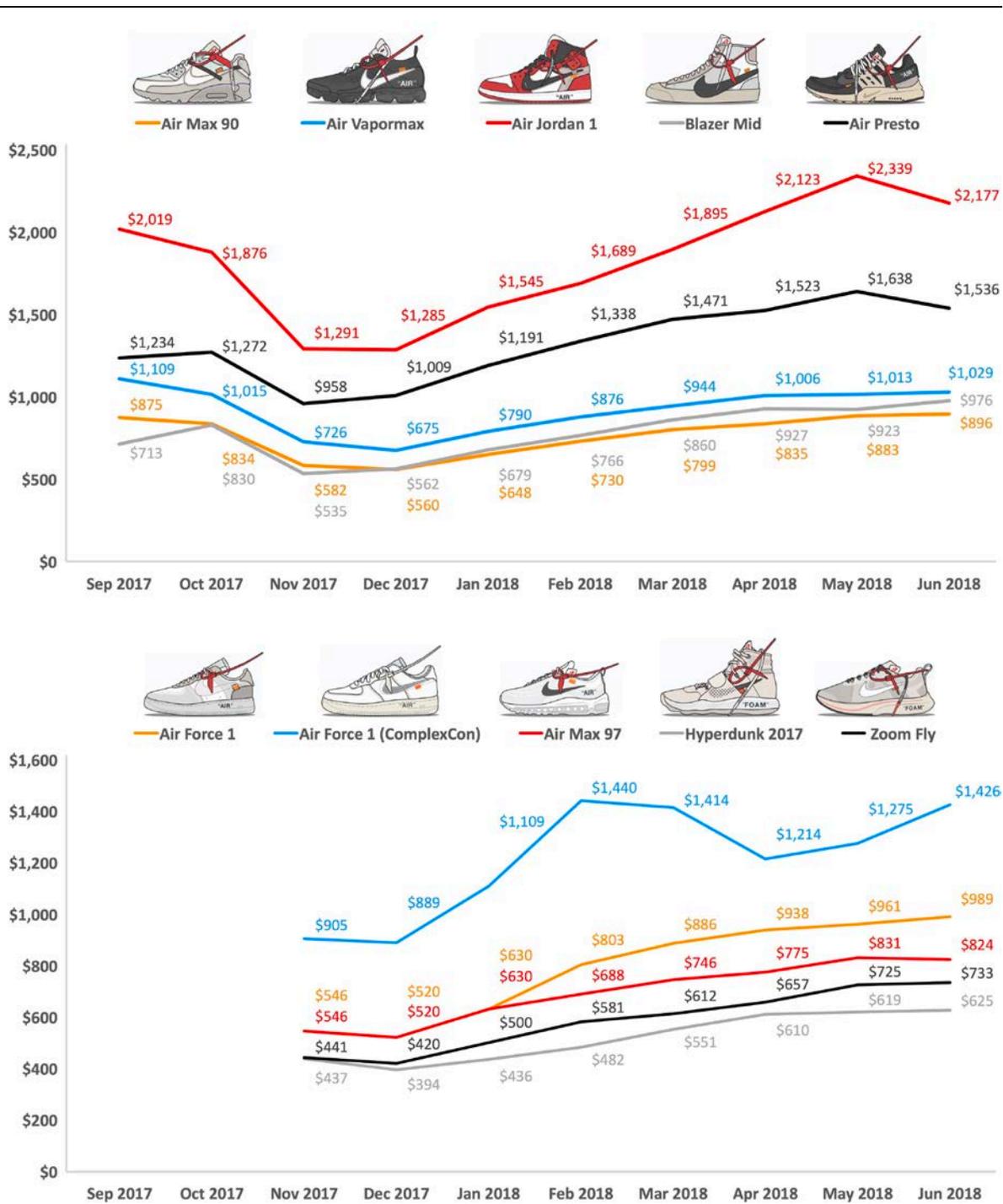


Nike Air Jordan 1 x Off White Powder Blue (UNC) (2018)

In a colorway matching the Power Blue of Jordan's Alma Matter, University of North Carolina, the Jordan and Off White collaboration bears the signature, quotation markings of the street wear brand.

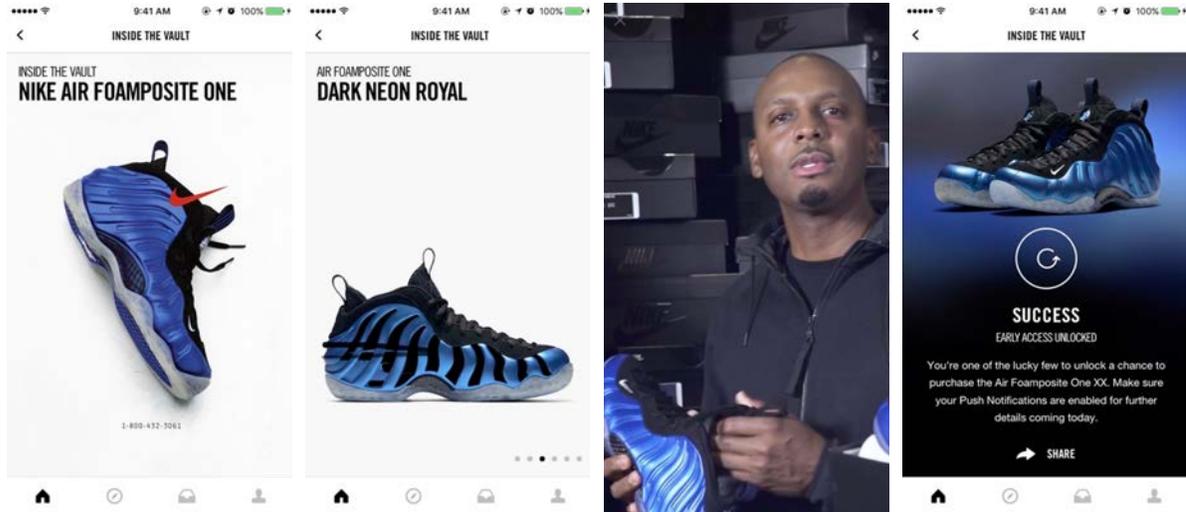
Source: Nike, Inc.

Exhibit 5 Average Resell Prices for 'Off-White x Nike' Sneakers

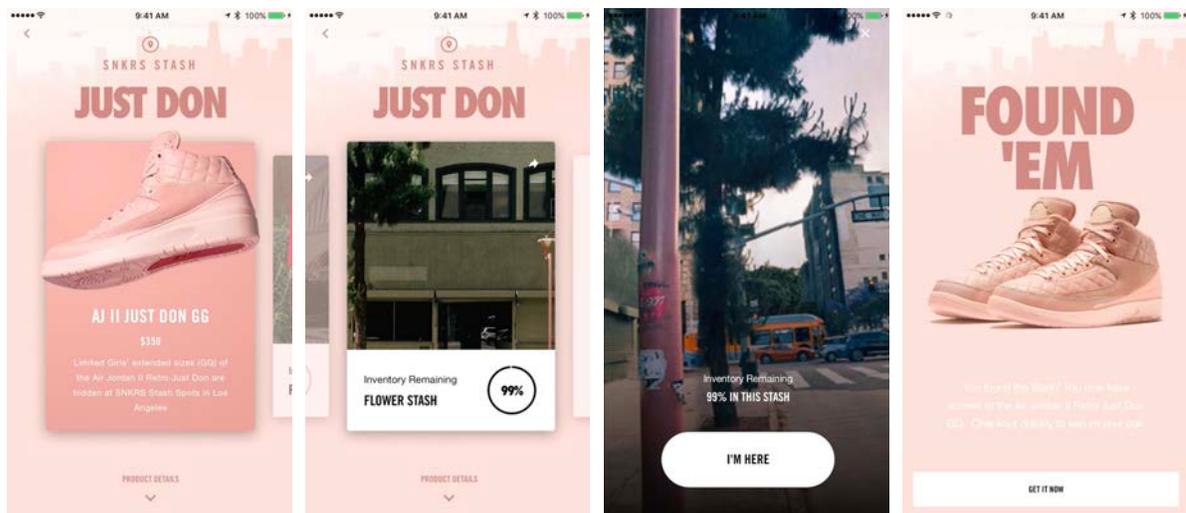


Source: Adapted from Fabian Gorsler, "A Complete Guide to OFF-WHITE x Nike Resell Prices," www.highsnobiety.com, August 20, 2018. Edited by Chris Danforth. Illustrations by Dan Freebairn. Data provided by StockX.

Exhibit 6 Key Features in the SNKRS App: Selected Impressions



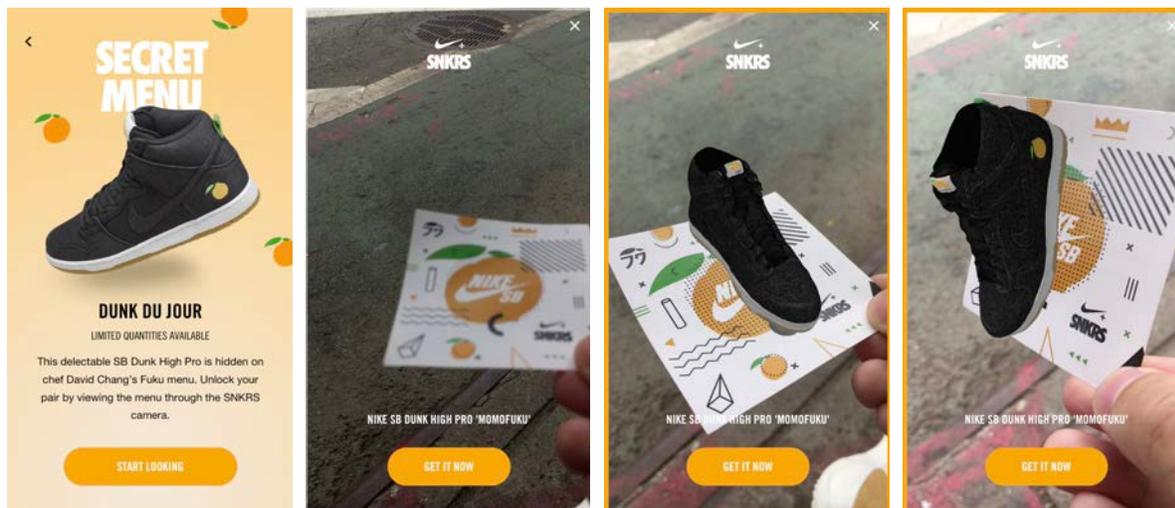
SNKRS Gesture Unlock



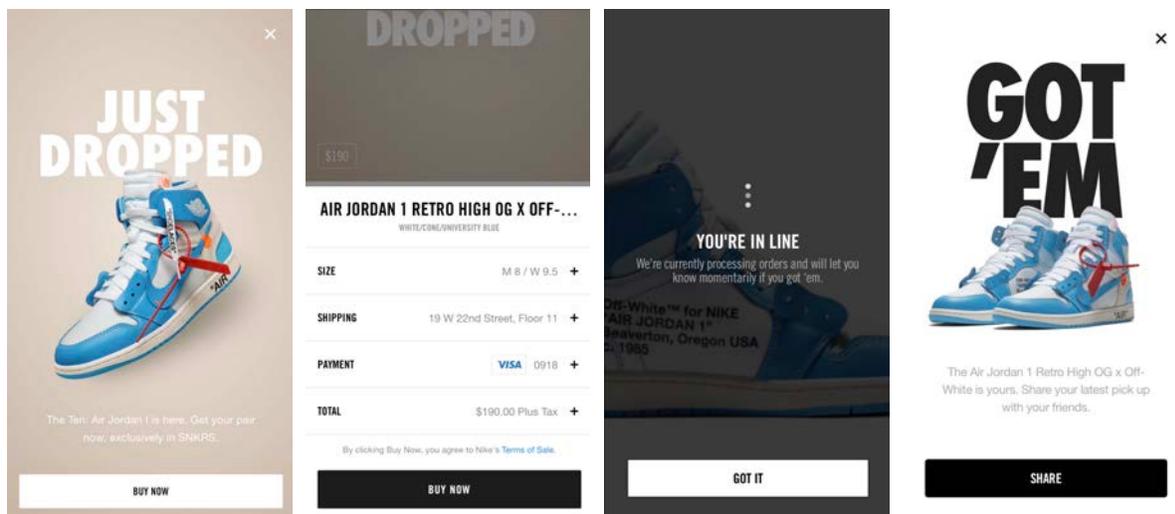
SNKRS Stash

Source: Nike, Inc.

Exhibit 6 (Continued)



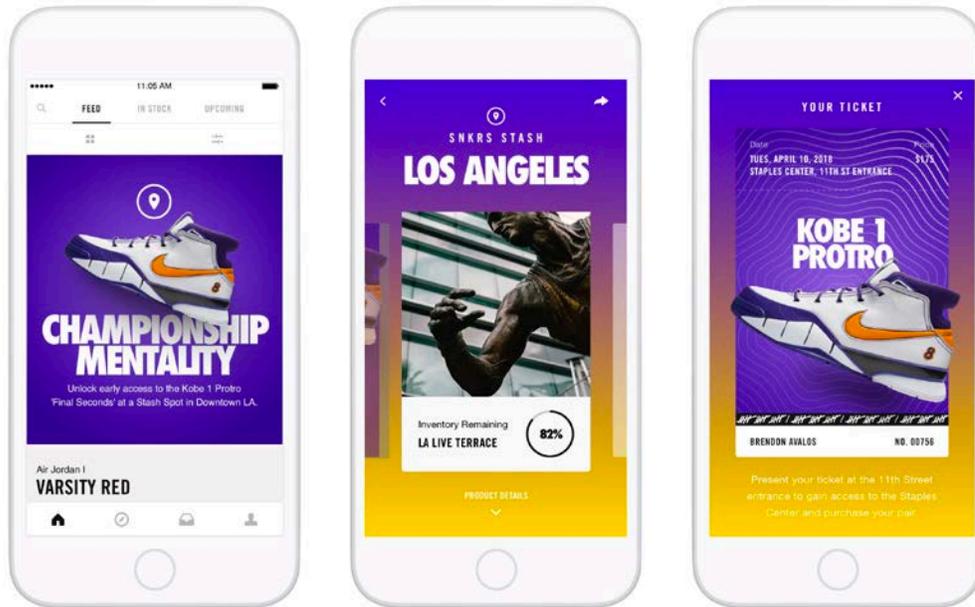
SNKRS Cam



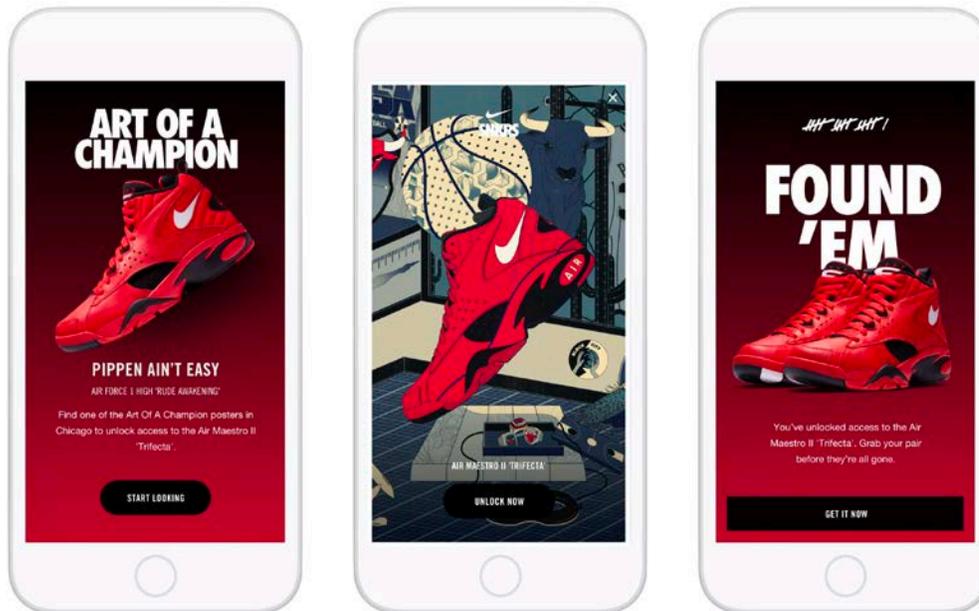
SNKRS Shock Drop

Source: Nike, Inc.

Exhibit 7 The Art of Champions Campaign: Selected Impressions



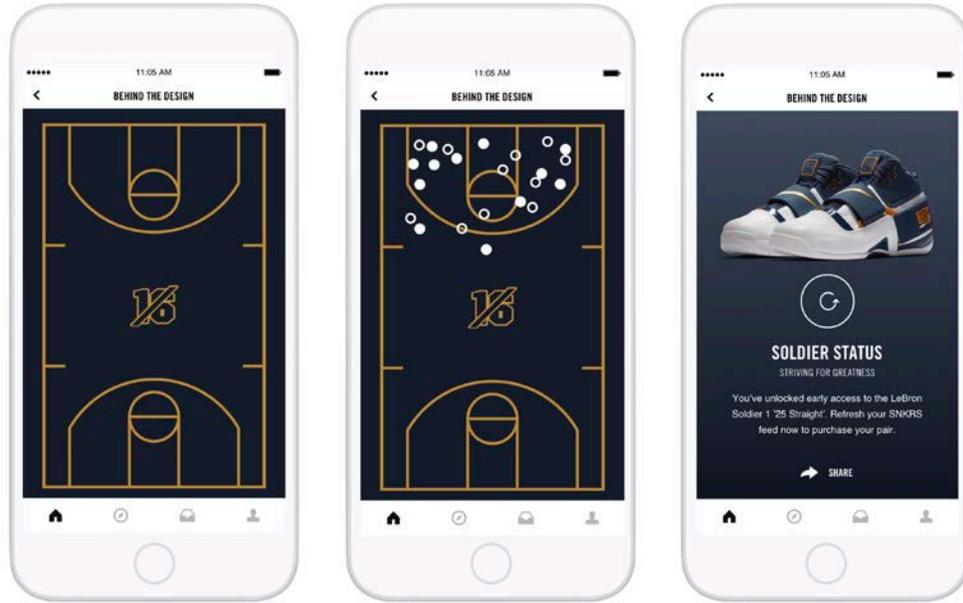
'Kobe 1 Protro Final Seconds' (with SNKRS Stash)



'Air Maestro II Trifecta' (with SNKRS Cam)

Source: Nike, Inc.

Exhibit 7 (Continued)



'LeBron Soldier 1 25 Straight' (with SNKRS Gesture Unlock)

Source: Nike, Inc.

Endnotes

- ¹ Nathan Bombey, "Why Sporting Goods Stores Are Down For the Count," *USA Today*, March 7, 2017.
- ² Unless otherwise indicated, this section is largely based on Elizabeth Semmelhack, *Out of the Box: The Rise of Sneaker Culture*, Skira Rizzoli, 2015.
- ³ Dylan Miner, "Provocations on Sneakers: The Multiple Significations of Athletic Shoes, Sport, Race and Masculinity," *CR: The New Centennial Review*, 2009.
- ⁴ "Gold status" refers to an especially high level of sales. Grammy awards, handed out by the American National Academy of Recording Arts and Sciences, recognize music recording achievement. Considered to be the most prestigious award in the recording industry, members of the National Academy vote annually in order to honor what they regard as excellence.
- ⁵ Matt Powell, "Sneakernomics: Are Sneakerheads Important?" *Forbes*, May 21, 2014.
- ⁶ Megan Garber, Casual Friday and the 'End of the Office Dress Code,' *The Atlantic*, May 25, 2016.
- ⁷ Statista, "Footwear Report 2018 – Athletic Footwear," *Statista, Consumer Market Outlook*, February 2018.
- ⁸ StockX, *StockX2017: Year in Review*, January 2, 2018.
- ⁹ Aly Weisman, "Kanye West's Nike Air Yeezy 2 Sneakers Are Selling For Over \$90,000," *Business Insider*, June 13, 2012.
- ¹⁰ Darren Rovell, "NBA signs deal with Nike; logo to appear on uniforms," *ESPN*, June 11, 2015.
- ¹¹ NBA, "NBA: Frequently Asked Questions," *NBA.com*, 2018.
- ¹² Andrew McNicol, "How the NBA became China's most popular sports league, with a boost from tech giants such as Weibo and Tencent," *South China Morning Post*, September 27, 2017.