

Reimagining Retail: How Nike stays ahead of the pack and how other footwear retailers might catch up

Audio



On today's episode, in our "Retail Me This, Retail Me That" segment, we discuss how Nike was able to create such a strong brand, how that brand has transcended generations, and how close its competitors are to catching up. Then in a brand-new segment, "Loyalty Point, Counter Point," we present arguments both in favor and against various questions related to Nike, like can it remain the need-to-have running shoe and has the company alienated its core customer? Join our analyst Sara Lebow as she hosts analyst Sky Canaves and director of Briefings Jeremy Goldman.

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Episode Transcript:

Sara Lebow:

Hello listeners. Today is Wednesday, May 10th. Welcome to Behind the Numbers: Reimagining Retail, an e-Marketer podcast made possible by Adobe. This is the show where we talk about

how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's topic is Nike.

Let's meet today's guests. Joining me for today's episode, we have senior analyst Sky Canaves. Hey, Sky.

Sky Canaves:

Hey, Sara. It's great to be back.

Sara Lebow:

It's great to have you. Also with us is briefing senior director Jeremy Goldman. Hey, Jeremy.

Jeremy Goldman:

Hello. Happy Wednesday.

Sara Lebow:

Happy Wednesday to you too. May the 10th be with you, as they say. Did I get that right? Everyone's nodding and agreeing with me.

Jeremy Goldman:

Yes.

Sara Lebow:

Let's get started with our first segment, News and Reviews, where I give the news and our guests tell me their reviews. Today's story is a New York Times article for May 2nd titled Shein, e-Commerce Retailer Hit by Criticism, Tries Charm Offensive. Shein is expected to IPO at some point, but it's faced bad press for labor practices, sustainability concerns, and design copy accusations. Now it's trying to win the general public over by investing in independent designers. Sky, your review of this story in 60 seconds is...

Sky Canaves:

I think this is really a brilliant strategy by Shein to ensure its future growth because it's already really saturated the fast fashion market in the US. It has about a 40% share, according to Bloomberg estimates from late last year. At that level of saturation, its growth has slowed dramatically in fast fashion, and it's now looking to establish a marketplace model as the

future of its business. It's also faced increased competition from Temu, a new app that brings really super cheap goods from China to US consumers at prices that are even lower than Shein's right now. So as Shein looks to get more brands on board, I think it'll struggle to get big-name brands. Starting with emerging designers and providing them support and helping to connect these new designers to Shein's Gen Z audience could really provide a new model for their business, especially as Gen Z might find it more interesting or be more willing to buy from individuals who have their brands and stories behind them rather than just continuing to buy the anonymous, cheap clothing direct from Chinese factories that Shein's best known for.

Sara Lebow:

Sure. 40% share is huge. That's the total e-commerce share in the US, so that makes Shein the Amazon of fast fashion.

Sky Canaves:

In just a couple of years, really, since the pandemic started, they've really taken off so dramatically. But that kind of growth, of course, can't go on forever.

Sara Lebow:

Jeremy, your review of this headline in 60 seconds is...

Jeremy Goldman:

I think it's interesting and smart that Shein's trying to rectify some of the issues that they're facing, but I think it's also, in a lot of ways, bigger than them because they can do everything that they want to try to have a very positive opinion of them. Then there is the halo effect of the TikTok potential ban, or at least the discussion of the ban. Then it's an interesting question of, "This is a whole lot of transactional data that is with a Chinese company. Does that not matter rather than just watching me open up people's makeup halls on TikTok?" All of this should, in theory, matter. This could be a bigger issue, but it's smart of them to try to get ahead of it and to try to change the perceptions of Shein so that they can go a little bit further and beyond the really nice nook that they have for themselves right now.

Sara Lebow:

Shein can change their tune all they want. They're still a fast fashion retailer and there's like inherent waste and problems associated with that.

Now it's time for our next segment, Retail Me This, Retail Me That, where we discuss an interesting retail topic. Today's topic is Nike. On the heels of the biographical sports film Air coming out, we're talking about the brand that started it all. Nike is the number one most valuable apparel brand globally, according to both Kantar and ISPO, is ahead of competitor Adidas. My question for you sneakerhead and runner, Jeremy and Sky, is, "How did Nike race to the top?"

Jeremy Goldman:

I think that one of the key things here is that they have consistently, and I know, maybe we'll talk a little bit more about this is that they have looked into trends. They have been very customer-centric in terms of understanding what the customer wants and trying to find the right ways to move beyond that runner audience that they've essentially started out with to move on to collectors. A lot of people think that their shoes are works of art that need to be kept away. I prefer to just buy them all and wear them rather than keep them in a closet. But it's actually something that has really grown the entire appetite for sneaker culture. Nike is really front and center with respect to that.

Sara Lebow:

Did sneaker culture exist before Nike?

Sky Canaves:

You had Run-DMC rapping about my Adidas back in the day. I'm old enough to remember that. To me, those are the origins of sneaker culture, but Nike really took that and ran with it because they've combined product innovation with the brand building, the storytelling and marketing savvy around the world to really build their brand into a global powerhouse.

Sara Lebow:

Speaking of a global powerhouse, Nike is teens' favorite apparel and footwear brand, according to Piper Sandler. It's teens' second favorite e-commerce site after Amazon and ahead of Shein, which we mentioned before. How has Nike managed to stay cool with Gen Z specifically?

Sky Canaves:

I think it's become one of those timeless brands. Part of it is a connection to sport, really, and that sneaker culture and the Jordan brand in particular, which, even though it's a separate brand, is so closely aligned with Nike, it has the Swoosh on everything. I think that's a really big part of it. They stay young. As Jeremy mentioned, they stay on top of the trends. They really want to know the consumer, understand what they're looking for, and try to deliver on what's next, not just what they're doing now but really looking ahead.

Sara Lebow:

I went to the University of Michigan, as I've mentioned before. When I started college, we were in Adidas school. Our sports apparel was Adidas. At the end of my freshman year, we made a deal with Nike and it was such a big deal to be a Nike school and to be an Air Jordan school. The marching band played on State Street to announce this deal because it was such a big deal. Honestly, our apparel did get a lot cooler. The Nike stuff felt cooler than the Adidas stuff.

Sky Canaves:

Now with name, image, likeness deals, they really have an even better opportunity to connect directly with college athletes who are also influencers in their own rights and have their own large audiences, and they can speak directly to Gen Z through that channel.

Sara Lebow:

Speaking of Adidas, Adidas posted a \$540 million loss back in March after needing to offload a ton of easy merch following Kanye West's racist and anti-Semitic comments. How has Nike avoided this bad press and also capitalized on Adidas missteps? Jeremy, why don't you go first with this one?

Jeremy Goldman:

I think one of the key things is obviously just simply avoiding certain characters while, at the same time, figuring out when you can court controversy and making strategic decisions about who you're going to partner with, who you're going to stay away from. It's really not something that's all that easy to do, but it does actually highlight the importance of branding because, Nike, you can literally see the value that they've generated with Gen Z and even older demographics that branding translates into sales and creates a moat around you that makes it harder for newer, younger, hungry companies to compete with you. Going back to the Adidas

point, honestly, sometimes it's a matter of not making the same mistake that somebody else has done.

Sara Lebow:

Do you think if Adidas had a stronger brand, they could have said, "Kanye's separate. We're Adidas"? Or not so much?

Jeremy Goldman:

I think part of it is, you lean into the right personality versus the wrong personality. It makes a huge difference. I think some of it, for Adidas, was just a matter of how long it took them to make a certain decision when the writing was on the wall that they were basically going to have to make this decision. A lot of other brands and partnerships figured out the writing was on the wall sooner, so you basically have to do the thing that then makes you post a pretty significant loss. On top of that, you have the negative halo of, you're weak-spined as a brand, and nobody really likes to see that.

Sara Lebow:

Nike can lean into its history. It has this Air documentary coming out.

Sky Canaves:

Nike's also been able to rise above a lot of the scandals because the brand is so much bigger than any individuals that it's been associated with. They faced a lot of backlash on some fronts when they supported Colin Kaepernick and featured him in advertisements. They've also come under criticism within the running community for their work with Alberto Salazar, who is one of the most famous running coaches, is now banned from the sport, and their treatment of female runners when they were pregnant, such as Allyson Felix, and she's spoken out against them as well as others. But because the brand is so big and it's not as dependent on any of these individual partnerships, they just rise above it and move on.

Sara Lebow:

Speaking of brands that are competing with Nike, we mentioned Adidas. That's an obvious one, but other brands like On Running and Hoka have garnered a ton of attention recently. Should Nike be nervous about those, both from a running and a fashion perspective?

Jeremy Goldman:

I'll say, I think yes, to some degree. Although we have to be a little bit mindful of how big these brands are in relation to Nike, there's still a significant gap there. But you look at certain things. Actually, you mentioned that Piper Sandler study, On Running and Hoka, were number 12 and number 19 on the favorite footwear brands for all teens, and number five and number four for favorite athletic footwear brands for upper-income teens, respectively. They definitely have a really strong niche, and I think some of that that Sky can probably talk to is just really gravitating on style but also focused on quality. Again, being very close to the runner audience that they're trying to target. If you're Nike, you have to be respectful of the fact that there are these companies that are just a lot lighter and nimbler on their feet as brands, cut out the fat, and focus on initiatives that will work for you. But again, I think that there's still a significant difference in terms of the size of these companies and Nike.

Sara Lebow:

Jeremy, Googling running puns before we started recording really paid off for you.

Sky Canaves:

I find this new trendiness of these running brands, On and Hoka, to be amusing because, as a runner, I've followed them for a really long time, and seeing them emerge from being really niche performance running brands to now becoming hugely popular and fashionable brands, they're like the new Allbirds, but cooler in a sense because they're more functional. They signal that you know about running or that you're really into performance running shoes, as opposed to someone just looking at comfortable shoes. But on that running front, I don't think Nike really has much to worry about because it went from, some years ago, being a not particularly standout running brand to single-handedly revolutionizing running shoes with its carbon fiber footplate technology. It spent years developing these models. Now it calls it the Next% platform, but the Vaporflys and the Alphafly, and they use them to market the world's first sub-2-hour marathon a couple of years ago.

These shoes have now trickled down to the point where they're practically a must-have for any serious amateur runner doing a big race. They're not cheap. They're starting to get close to the \$300 mark for a pair of shoes that you're only supposed to wear for a couple of hundred miles, but they've really got such an advantage and they've forced all the competing running brands to come up with their own versions of these shoes. But I think still Nike really has that first-mover advantage as well as the huge investments they've made into running

shoe technology, and they keep iterating on them and coming out with new models every year, and I don't think they're going to stop doing that anytime soon.

Jeremy Goldman:

I will say, by the way, even though they're expensive, they are cheaper than knee surgery.

Sara Lebow:

A pair of shoes that will only last you a couple of hundred miles would last me a little bit.

Sky Canaves:

They're also probably cheaper than the collectible shoes that Jeremy favors.

Sara Lebow:

Speaking of amateur runners, Nike uses running clubs, is what they're called. I don't know running, but I know that running clubs and community building to build loyalty. Are they doing this in a way that's unique from other brands?

Sky Canaves:

I think Nike's been really strong in using both its mobile apps and its stores to serve as hubs for community and loyalty and has become a gold standard in terms of getting people to join. It's a free program, and the big draw is free shipping and free returns. I don't know why more brands don't do that where they say, "Yes, we'll give you free shipping and free returns, but we want you to become a member of loyalty program, get data, and have more opportunities to engage with you." They also have other features, like access to product drops, early access to products. You can consult with a stylist online, but on the local level, they've also used their stores as hubs for events, things like running clubs, running meetups, fashion shows. When I lived in New York, and this is already a few years ago, they were really already leading in using the store as an event space, source of entertainment, or meeting place for a community.

Sara Lebow:

Sure. Something I've definitely noticed about the Nike store where I live is that it's one of the few stores around me that has plus-size mannequins in the window. That definitely stands out to me when I walk past it. The other stores in the area don't have that. Let's keep moving.

Now it's time for a new segment, Loyalty Point, Counter Point. In this segment, we'll be discussing two sides of arguments surrounding Nike, with one analyst taking one side and one analyst taking the other. These might not be their own personal opinions, but we're going to discuss them for argument's sake. Our first point of contention is, Nike should stay direct to consumer, versus Nike needs to balance with strong retailer relationships. Sky, why don't you start off with the argument for why Nike should stay direct-to-consumer?

Sky Canaves:

Sure. If we look at Nike's recent growth, digital channels have really been leading, and that's, I think, where their future of direct-to-consumer is really going, using their apps and websites to a lesser extent because their app is so efficient and easy to use, and it will really help keep them engaged with consumers. I think that's really what they want, having that connection to consumers on their phones. When I made my last purchase of Nike shoes before my last big race, I did use the app, and I bought two pairs to try and wanted to return one, and the whole process was so seamless, from ordering through the app and then returning one pair in the store with the barcode in the app. It was just really easy. I had to get them from Nike because they were sold out pretty much everywhere else in my size. What they've been doing, pulling back some of their wholesale distribution or limiting it a bit, that's also going to take more consumers to go to Nike directly.

Sara Lebow:

Saying, "My last big race." Is a big way of downplaying the Boston Marathon, which congratulations to Sky for once again running in that.

Sky Canaves:

Thank you. Of course, the Nike shoes helped, and I was out there in a sea of orange and pink Alphaflys.

Sara Lebow:

Jeremy, knowing that Sky could most certainly beat you in a race, why don't you give us the counterpoint here for Nike maintaining its retailer relationships?

Jeremy Goldman:

I would say that, first off, you have a player like Adidas, like we were just talking about, where they said that wholesale is going to be playing a significant role in their 2023 strategy. Not quite moving entirely away from D2C, but de-emphasizing to some degree. Part of the reason for that is that, frankly, you get a lot of things by working with these wholesale accounts with major retailers. It gives you an entry point with a different type of consumer. People who enter a retailer are going to look a little bit different than your own D2C store.

While you don't have total control over the experience, you are creating a lot of brand awareness. It's weird to say brand awareness for a brand like Nike, but you are actually introducing to a lot of people to the brand who then have the ability to go shop you D2C down the line, but you're just exposing more people to the brand. When you're as big as Nike, you really need all the exposure you can get because every incremental sale really matters when everybody's aware of you already. You need to fight really hard to try to anniversary your sales and get bigger each and every year.

Sara Lebow:

Definitely two ways to cross this finish line. I'm sorry. I said Sky could beat you in a race. We can cut that out.

Jeremy Goldman:

It's true, though. I'm sorry. Sky and I were on the same team for the competition.

Sara Lebow:

The workplace fitness thing?

Jeremy Goldman:

Sky kicked my butt. Please keep it in. Totally true.

Sara Lebow:

But like I said before, two ways to cross the finish line for Nike with D2C. Let's focus on their shoe itself. Here we have a point, counterpoint for, Nike will remain the need to have running shoes, versus Nike will become dated. Sky, why don't you give us the first argument?

Sky Canaves:

It's already been a few years since Nike introduced its top-of-the line performance running shoes. As I mentioned earlier, pretty much every other major running brand has come out with their version of a carbon fiber foot plate performance running shoe, but none of them have had as wide an uptake and adoption among runners as Nike has. As I mentioned, Nike tends to put out shoes in very highly visible colors like bright pink, orange, fluorescent green. You can definitely see them, that might even make it seem like there are more of them around, and is another brilliant marketing strategy for their shoes. But at this point, they keep evolving the technology, and they keep putting out the shoes, and runners keep buying them. The next big space for them, I think, is trail running, where there's a lot of growth, and they're starting to invest a bit more in that. They're still not a market leader, I think, in trail running. So we'll see how they take off there.

Sara Lebow:

Jeremy, what's the counterpoint on this one?

Jeremy Goldman:

I think the counterpoint is that this is where your size can really work against you because you have so many different products, so many different skews. Certain things might actually be selling but will not necessarily be leaning into current trends, but they're still selling. Then it's a little bit harder to discontinue a particular skew because you're so big. This is the argument for the upstart brands or relative upstarts that we were talking about before, is that somebody comes around and essentially eats your lunch because they're very focused on doing one thing that's very on trend, and you just can't react quick enough as a brand. That's the call-out that I think Nike should probably watch out for.

Sara Lebow:

Sky, could this running tech, this shoe, ever be banned in running the way that the superfast bathing suits were in swimming?

Sky Canaves:

They had some issues a few years ago where the global running authorities basically put limits on what shoes can look like, what kind of blade type of technology, how thick the foam could be. They have been able to scale their shoes down to meet the requirements. At the same time, the carbon fiber foot plate that underpins all of this, I don't think that's going to be

banned. Some non-Nike pro runners have accused these shoes of being doping. There's certainly been some debate around that. But so far, I think, there's been an acceptance that this type of shoe with a carbon fiber foot plate is okay, and all of the other Nike competitors have come out with their versions of them.

Sara Lebow:

It's interesting because you don't really think of regulation as a threat to being a footwear company, but that's definitely the case for performance footwear and apparel.

Okay, our last point counterpoint here is, Nike has its foot in every race right now, it seems. The argument here is, Nike has alienated its core customer versus it's expanded beyond their core customer. Jeremy, why don't you give us the first argument here?

Jeremy Goldman:

I would say that, again, this is one of those things that goes back to expansion of the total number of skews and the way in which your shoe looks and the way in which you interact. You try more and more things every year. All of the things that we're talking about, the emphasis on the running clubs, the experiential events at the store level, one could argue that Nike tries too many things, and then as a result, for somebody who sees themselves at their core as a really, really hardcore runner, they're like, "This brand is just not for me because it's trying to be all things to all people, and therefore I've got to go elsewhere." So it's just another example of where your size could work against you.

Sara Lebow:

Sky, what's the argument against this?

Sky Canaves:

I think Nike sees their core customer as potentially everyone, and I think part of that is, they see everyone as having the potential to be an athlete, and their products can support them in these endeavors. Nike's not a niche brand, but it's a brand that has many niches. I buy their running shoes and wear them till the soles fall off. Maybe Jeremy doesn't collect them and keep them in a display box, but other collectors do that. They're buying them purely for the collectible or resale value. Then you have the techie niche that's into the NFTs, and they bought a digital wearable platform called RTFKT at the end of 2021.

I think one thing that's really interesting is that many years ago, Nike was more of a portfolio company. It owned brands like Hurley and Eddie Bauer. That, in retrospect, now seems random for them, but I think that's because they've sharpened their brand identity while at the same time broadening it so that it has all these different niches. Right now, the brands that it does own are, for the most part, very tightly identified with the Nike Swoosh, like Jordan and RTFKT. They're very much integrated with Nike. The only one that's not now is Converse, which is more of a standalone brand.

Sara Lebow:

Thanks, Sky. Now, before we end the show, I'd like to remind everyone about the upcoming CommerceNext Ecommerce Growth Show on June 20th through 21st. Join Insider Intelligence at the CommerceNext Ecommerce Growth Show in New York City. We'll be moderating a panel called Is a Good Ecommerce Experience Good Enough? With speakers from Sephora, Abercrombie & Fitch, and The Honest Company. Learn from over 120 industry-leading speakers across more than 50 sessions.

That is all we have time for today, so thank you for joining me and teaching me about sneakers, Jeremy.

Jeremy Goldman:

It's a pleasure. Thank you.

Sara Lebow:

Thanks for teaching me about racing, Sky.

Sky Canaves:

Thanks again, Sara.

Sara Lebow:

Please give us a rating and review wherever you listen to podcasts, and follow us on Instagram @behindthenumbers_podcast. Thank you to our listeners and to Todd, who's editing this week's podcast. We'll be back next Wednesday with another episode of Reimagining Retail, an e-Marketer podcast made possible by Adobe. Tomorrow, join Marcus for another episode of the Behind the Numbers Daily.