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Nike's turnaround could take longer than expected

Article

The insight: Tariffs and global economic uncertainty could complicate **Nike**'s efforts to reset its business.

- Nike anticipates revenues in the current quarter, which ends in May, to fall by "the low end" of the "mid-teens range." That's considerably worse than the 12% decline analysts expected, and steeper than the 9% YoY drop the company reported for its most recent fiscal quarter.

- It also forecast a drop of 4 to 5 percentage points in gross margins, which includes the estimated impact from tariffs on Mexican and Chinese imports.

The headwinds: Turning Nike's ship around would be a tall order in a healthy economy, but slumping consumer confidence and a trade war in its two largest markets—the US and China—are making CEO **Elliott Hill**'s job even more complicated.

- The company's guidance came with a healthy dose of caution, noting external factors such as "geopolitical dynamics, new tariffs, volatile foreign exchange rates, and tax regulations"—as well as their impact on consumer confidence—that are expected to weigh on sales.
- While Nike is confident about the long-term opportunities in China, the short term is proving difficult: Sales fell 15% YoY in fiscal Q3 due to the highly promotional environment and aggressive competition from local players.
- On top of that, the company has an inventory glut across its geographies, illustrating Nike's uphill battle to win back shoppers as brands like **adidas** and **On Running** take the limelight.

Nike's turnaround plan: On paper, Hill's plan is good. He is returning the company's focus to sports and performance, and increasing the brand's visibility during big sporting events like the Super Bowl. Nike is also trying to reclaim its reputation as an innovator after years of focusing almost exclusively on its most profitable franchises.

At the same time, some of Nike's efforts to restore its brand momentum could fall flat as consumers become highly selective about how they spend their money.

- Nike is trying to reposition its direct-to-consumer (D2C) segment as a full-price business, starting with its ecommerce channels. Nike Digital went from having over 30 promotional days last January and February in North America to zero, Hill said. That helped boost full-price sales, but not enough: Nike Digital's North America sales fell 12% YoY during the quarter.
- It's taking a similar approach with its wholesale partners. **Foot Locker** is working closely with Nike to calibrate its merchandise and inventory levels to support full-price sales, the retailer's CCO **Frank Bracken** said.

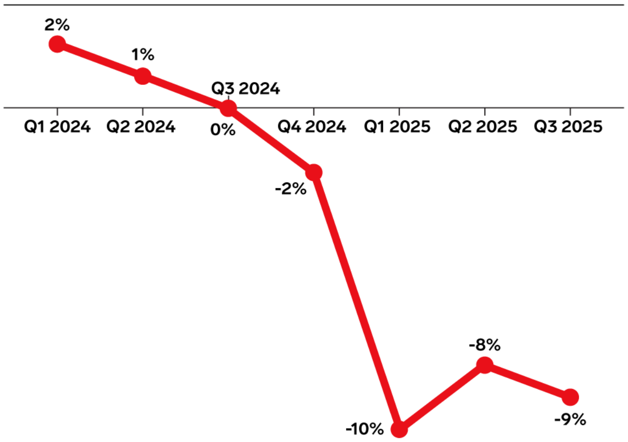
Looking ahead: Nike expects the downward pressure on sales and gross margins to ease following the current quarter, helped by its efforts to rightsize inventory and fresh products.

- The company is already seeing pockets of success, including healthy demand for its new premium running shoes and the Kobe Protro.
- It’s hoping to keep the momentum going with its NikeSKIMS launch, which the company hopes will enable it to win more spending from women and reinforce its strength in performance apparel.

However, the uncertain macro environment could disrupt Nike’s best-laid plans by diminishing consumers’ desire to purchase pricey sneakers and apparel and driving up the company’s operating costs.

Nike's Sales Are in Free Fall, Complicating Its Efforts to Overhaul the Brand

% change YoY in Nike Inc. revenues worldwide, Q1 2024-Q3 2025



Note: the fiscal year of Nike Inc. ends May 31
Source: company earnings releases, March 20, 2025

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