

# CRISIS PLAN

MARCH 2016



## Background

Nike started from humble beginnings in 1964 when founder Phillip H. Knight started Blue Ribbon Sports as a distributor of Japanese imported running shoes. The following year, BRS received its first order from the Onitsuka Tiger brand (now known as Asics) for 200 pairs of shoes.<sup>1</sup> The one-man operation became a partnership in 1964, when Knight's former track coach at University of Oregon, Bill Bowerman, made a \$500 investment (equaling Knight's contribution) in Blue Ribbon Sports.<sup>2</sup> Originally selling shoes out of the trunk of its employees' cars at track meets, BRS opened its first retail store in 1966 in Santa Monica, California.<sup>3</sup> The following year, the company expanded operations to the East Coast, opening a distribution office in Wellesley, Massachusetts.<sup>4</sup> Bowerman had long been experimenting with running shoes for his track athletes and in 1968, BRS launched its first Bowerman inspired shoe the "Cortez" which remains a staple in Nike's long lineup of shoes today.<sup>5</sup> By the close of the '60s, BRS had expanded to numerous stores nationwide and had reached annual sales upwards of \$300,000.<sup>6</sup> By 1971, the relationship between BRS and Onitsuka Tiger was nearing an end as BRS was poised for larger operations. Using financing from Nissho Iwai Corporation, a trading company from Japan, Nike started manufacturing its own line of products overseas to import to the United States.<sup>7</sup> A soccer shoe by design, these imported products were the first to bear the iconic Nike name and swoosh logo.

Blue Ribbon Sports officially ended ties with Onitsuka Tiger in 1972 and began to market the Nike brand at the U.S. Track and Field trials held in Eugene, Oregon. That same year, Nike

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<sup>1</sup> NIKE, Inc. History. (n.d.). Retrieved February 07, 2016, from <http://www.fundinguniverse.com/company-histories/nike-inc-history/>

<sup>2</sup> Reference for Business. (n.d.). Retrieved February 07, 2016, from <http://www.referenceforbusiness.com/history2/99/NIKE-Inc.html>

<sup>3</sup> Reference for Business. (n.d.). Retrieved February 07, 2016, from <http://www.referenceforbusiness.com/history2/99/NIKE-Inc.html>

<sup>4</sup> Rourke, Troester, Salamie, "NIKE, Inc." International Directory of Company Histories. 2001, "Nike, Inc." International Directory of Company Histories. 1994, "Nike, Inc." International Directory of Company Histories. 1992, & "Nike, Inc." Leading American Businesses. 2003. (2006). NIKE, Inc. Retrieved February 07, 2016, from [http://www.encyclopedia.com/topic/NIKE\\_Inc.aspx](http://www.encyclopedia.com/topic/NIKE_Inc.aspx)

<sup>5</sup> NIKE, Inc. History. (n.d.). Retrieved February 07, 2016, from <http://www.fundinguniverse.com/company-histories/nike-inc-history/>

<sup>6</sup> Rourke, Troester, Salamie, "NIKE, Inc." International Directory of Company Histories. 2001, "Nike, Inc." International Directory of Company Histories. 1994, "Nike, Inc." International Directory of Company Histories. 1992, & "Nike, Inc." Leading American Businesses. 2003. (2006). NIKE, Inc. Retrieved February 07, 2016, from [http://www.encyclopedia.com/topic/NIKE\\_Inc.aspx](http://www.encyclopedia.com/topic/NIKE_Inc.aspx)

<sup>7</sup> Reference for Business. (n.d.). Retrieved February 07, 2016, from <http://www.referenceforbusiness.com/history2/99/NIKE-Inc.html>

expanded operations to Canada, its first international market,<sup>8</sup> and with Romanian tennis player Ilie "Nasty" Năstase, signed its first athlete endorsement contract.<sup>9</sup> BRS trademarks the swoosh logo, which was created by Portland State University student Carolyn Davidson in 1971 for \$35, in 1974.<sup>10</sup> In 1978, the Nike brand changes its name to Nike Inc. and signs polarizing tennis player, John McEnroe, to an endorsement contract. Composing of almost half the running shoe market sales in the United States, Nike moves its corporate headquarters to Beaverton, Oregon, in 1979 and a year later goes public in offering two million shares of stock.<sup>11</sup> It was not until 1981 that Nike shifted its overseas production from its original Japanese manufactories, to South Korea and Taiwan, where it produced nearly four-fifths of its products, and established factories in Mainland China at this time as well.<sup>12</sup> At the end of 1981, parent company Blue Ribbon Sports merges with Nike Inc. and officially becomes Nike Inc.<sup>13</sup> Nike signs superstar basketball player Michael Jordan to an endorsement contract in 1984 and launches the first Air Jordan shoe. The NBA originally bans the shoe, a red and black model, because it did not meet the uniform criteria that all teammates' shoes must match. The ban led to immense popularity and publicity for Nike as Jordan continued to wear the shoe while Nike footed the bill.<sup>14</sup> With a diverse lineup in men, women's, and children fields worldwide, Nike tops \$1 billion sales for the first time in 1986.<sup>15</sup>

The 1990s was a period in which Nike continued its domination of the athletic apparel market. In 1995, Nike held 30 percent of the athletic footwear market in the U.S. while its nearest rival, Reebok, held 20 percent. By 1997, Nike's share of the market had risen to 50 percent.<sup>16</sup> This decade also saw the rise in allegations toward Nike regarding the treatment of its nearly 400,000

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<sup>8</sup> NIKE, Inc. History. (n.d.). Retrieved February 07, 2016, from <http://www.fundinguniverse.com/company-histories/nike-inc-history/>

<sup>9</sup> Famous Romanians: Ilie Nastase. (2010, August 18). Retrieved February 07, 2016, from <http://www.romania-insider.com/famous-romanians-ilie-nastase/8102/>

<sup>10</sup> Trademark Status & Document Retrieval. (n.d.). Retrieved February 07, 2016, from <http://tsdr.uspto.gov/#caseNumber=72414177>

<sup>11</sup> Reference for Business. (n.d.). Retrieved February 07, 2016, from <http://www.referenceforbusiness.com/history2/99/NIKE-Inc.html>

<sup>12</sup> Reference for Business. (n.d.). Retrieved February 07, 2016, from <http://www.referenceforbusiness.com/history2/99/NIKE-Inc.html>

<sup>13</sup> Blue Ribbon Sports. (n.d.). Retrieved February 08, 2016, from <http://nike70sand80s.weebly.com/blue-ribbon-sports.html>

<sup>14</sup> The True Story Behind the Banned Air Jordan. (n.d.). Retrieved February 08, 2016, from <http://solecollector.com/news/the-true-story-behind-the-banned-air-jordan/>

<sup>15</sup> Reference for Business. (n.d.). Retrieved February 07, 2016, from <http://www.referenceforbusiness.com/history2/99/NIKE-Inc.html>

<sup>16</sup>Rourke, Troester, Salamie, "NIKE, Inc." International Directory of Company Histories. 2001, "Nike, Inc." International Directory of Company Histories. 1994, "Nike, Inc." International Directory of Company Histories. 1992, & "Nike, Inc." Leading American Businesses. 2003. (2006). NIKE, Inc. Retrieved February 07, 2016, from [http://www.encyclopedia.com/topic/NIKE\\_Inc.aspx](http://www.encyclopedia.com/topic/NIKE_Inc.aspx)

contracted factory workers in Asia, where the bulk of its products are manufactured.<sup>17</sup> In response, Nike announced in 1998 a series of changes affecting its contract workforce in Asia, including an increase in the minimum age, a tightening of air quality standards, and a pledge to allow independent inspections of factories.<sup>18</sup> Despite the company's efforts, protests of Nike continued onward, culminating in an aggressive storming of a NikeTown outlet in Seattle from World Trade Organization protestors.<sup>19</sup> Just before the decade ended in December 1999, co-founder Bill Bowerman passed away at the age of 99 and the company later introduced a line of running shoes in his honor.<sup>20</sup>

The 2000s saw Nike diversifying the markets it covered by purchasing established brands. In 2002, the company bought Hurley International, a teen lifestyle brand that designed action sports apparel for skateboarding, surfing and snowboarding, for an estimated \$95 million. Shortly after, Nike bought Converse Inc., a company that produces footwear products like the All-Star Chuck Taylor that many consider vintage when compared to Nike's, for \$305 million.<sup>21</sup> Still at the center of controversial labor practices, Nike announced it was going to increase monitoring of its factories. Starting in 2002, Nike began allowing the Fair Labor Association, an organization it helped co-found, to randomly inspect the conditions of its factories.<sup>22</sup> Nike also started staffing in-house inspectors tasked with grading the labor conditions of its contracted factories. As 2004 drew to a close, executive and cofounder Phil Knight, age 66 at the time, stepped down from his executive role at Nike into strictly a chairman position and named William D. Perez as his successor as CEO and president. Formerly in the same position at S.C. Johnson & Son Inc. Perez's experience in international trade helped Nike continue its global expansion.<sup>23</sup> In an effort

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<sup>17</sup> NIKE, Inc. History. (n.d.). Retrieved February 07, 2016, from <http://www.fundinguniverse.com/company-histories/nike-inc-history/>

<sup>18</sup> NIKE, Inc. History. (n.d.). Retrieved February 07, 2016, from <http://www.fundinguniverse.com/company-histories/nike-inc-history/>

<sup>19</sup> Reference for Business. (n.d.). Retrieved February 07, 2016, from <http://www.referenceforbusiness.com/history2/99/NIKE-Inc.html>

<sup>20</sup> Rourke, Troester, Salamie, "NIKE, Inc." International Directory of Company Histories. 2001, "Nike, Inc." International Directory of Company Histories. 1994, "Nike, Inc." International Directory of Company Histories. 1992, & "Nike, Inc." Leading American Businesses. 2003. (2006). NIKE, Inc. Retrieved February 07, 2016, from [http://www.encyclopedia.com/topic/NIKE\\_Inc.aspx](http://www.encyclopedia.com/topic/NIKE_Inc.aspx)

<sup>21</sup> Reference for Business. (n.d.). Retrieved February 07, 2016, from <http://www.referenceforbusiness.com/history2/99/NIKE-Inc.html>

<sup>22</sup> Rourke, Troester, Salamie, "NIKE, Inc." International Directory of Company Histories. 2001, "Nike, Inc." International Directory of Company Histories. 1994, "Nike, Inc." International Directory of Company Histories. 1992, & "Nike, Inc." Leading American Businesses. 2003. (2006). NIKE, Inc. Retrieved February 07, 2016, from [http://www.encyclopedia.com/topic/NIKE\\_Inc.aspx](http://www.encyclopedia.com/topic/NIKE_Inc.aspx)

<sup>23</sup> Rourke, Troester, Salamie, "NIKE, Inc." International Directory of Company Histories. 2001, "Nike, Inc." International Directory of Company Histories. 1994, "Nike, Inc." International Directory of Company Histories. 1992, & "Nike, Inc." Leading American Businesses. 2003.

to increase transparency between Nike and the critics of the labor practices implemented by its contracted factories, the company made a list of over 700 factories that manufacture its products available to the public in 2005.<sup>24</sup> In 2015, Nike announced that it had signed a groundbreaking lifetime endorsement contract with basketball superstar LeBron James. The terms of the deal have yet to go public, but estimations and sources close to James report that the deal is upwards of \$500 million with more than \$30 million annually.<sup>25</sup> Now 77 years of age, founder Phil Knight has announced he will step down from his chairman position in the near future, ending an illustrious 51-year tenure at Nike Inc.<sup>26</sup>

### *Operational Environment*

Nike Inc. is an American multinational corporation and one of the largest suppliers of athletic shoes and apparel in the world. Nike has over 700 shops worldwide with 45 offices outside of the United States. In the late 90s, Nike faced severe criticism over its factory conditions in China, Vietnam, Indonesia and Mexico.<sup>27</sup> The company managed to turn its image around quickly and hold its high position within the industry. Recently in 2014, a strike broke out in the Yue Yuen Industrial Holdings Dongguan shoe factory regarding labor conditions that have been in practice for over 30 years.<sup>28</sup> The factory employs a hefty 70,000 people, and some were earning as little as \$1.67 per hour.<sup>29</sup> As a large and well-established organization, Nike has experience repositioning itself throughout severe crises.

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<sup>24</sup> Rourke, Troester, Salamie, "NIKE, Inc." International Directory of Company Histories. 2001, "Nike, Inc." International Directory of Company Histories. 1994, "Nike, Inc." International Directory of Company Histories. 1992, & "Nike, Inc." Leading American Businesses. 2003.

(2006). NIKE, Inc. Retrieved February 07, 2016, from [http://www.encyclopedia.com/topic/NIKE\\_Inc.aspx](http://www.encyclopedia.com/topic/NIKE_Inc.aspx)

<sup>25</sup> Amick, S. (2015, December 09). LeBron James' lifetime deal with Nike worth significantly more than \$500M. Retrieved February 08, 2016, from <http://www.usatoday.com/story/sports/nba/cavaliers/2015/12/08/lebron-james-nike-lifetime-deal-500-million/77007118/>

<sup>26</sup> Frank, V. (2015, July 1). Nike's Phil Knight To Step Down As Chairman. Retrieved February 08, 2016, from <http://www.forbes.com/sites/vincentfrank/2015/07/01/nikes-phil-knight-to-step-down-as-chairman/#effb5df67013>

<sup>27</sup> Nisen, M. (2013, May 09). How Nike Solved Its Sweatshop Problem. Retrieved March 08, 2016, from <http://www.businessinsider.com/how-nike-solved-its-sweatshop-problem-2013-5>

<sup>28</sup> Alastair, J. (2014, April 23). Worsening China Factory Strike Threatens Adidas, Nike Sneakers - NBC News. Retrieved March 08, 2016, from <http://www.nbcnews.com/news/world/worsening-china-factory-strike-threatens-adidas-nike-sneakers-n87951>

<sup>29</sup> Alastair, J. (2014, April 23). Worsening China Factory Strike Threatens Adidas, Nike Sneakers - NBC News. Retrieved March 08, 2016, from

Possible crises that are on Nike's horizon are factory partners not abiding by Nike's labor standards, accusations of non-sustainable practices and losing an endorsement due to faulty behavior of an athlete.

Due to Nike's international shops abiding its own laws, the organization faces the risk of its international workers lacking proper compensation. Although Nike has a strong code of conduct, factories like Yue Yuen hold more power over their workers because Yue Yuen is the organization that is paying each worker. Yue Yuen is also a main industrial supplier for Adidas, placing them at the forefront of the protest. Adidas shifted all future orders to new suppliers following the protest.<sup>30</sup> Following, Adidas has faced several complaints about international working conditions and has received feedback from the public that its solutions are simply systematic behavior rather than a compliant solution. Working conditions are seemingly a continuous crisis across the apparel industry. In 2012, the factory fire in Bangladesh killed 112 workers, making it the deadliest fire in history.<sup>31</sup> Walmart, Sears and Disney operated out of this factory and faced controversy over many lives lost in trade for cheap apparel. This was the second fire that took the lives of nearly 500 apparel workers, all whom produce for Gap, H&M, JC Penny, Target, and many others.<sup>32</sup> The public weighed in on caused these fires. The three leading factors are low industry wages, suppression of unions and disregard for worker safety.<sup>33</sup> The media claim that U.S. apparel companies escape the regulatory strictures by outsourcing their production. The prevalence of this crisis across the apparel industry puts organizations like Nike at the forefront due to its high visibility in the media and global popularity.

Companies across the athletic wear industry have terminated endorsements with athletes after controversial behavior. These decisions always come down to the ethical code of conduct of each organization. Adidas lost one of its biggest endorsements with LeBron James to Nike after not

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<http://www.nbcnews.com/news/world/worsening-china-factory-strike-threatens-adidas-nike-sneakers-n87951>

<sup>30</sup> Wilfred, C. (2014, April 25). Adidas Shifts Orders after Massive Strike at Chinese Shoe Factory. Retrieved March 08, 2016, from <http://www.cnn.com/2014/04/25/world/asia/adidas-chinese-factory-strike/>

<sup>31</sup> Nova, S. (2012, December 13). Apparel industry outsourcing costs garment workers' lives in Bangladesh | Scott Nova. Retrieved March 08, 2016, from <http://www.theguardian.com/commentisfree/2012/dec/13/apparel-industry-outsourcing-garment-workers-bangladesh>

<sup>32</sup> Nova, S. (2012, December 13). Apparel industry outsourcing costs garment workers' lives in Bangladesh | Scott Nova. Retrieved March 08, 2016, from <http://www.theguardian.com/commentisfree/2012/dec/13/apparel-industry-outsourcing-garment-workers-bangladesh>

<sup>33</sup> Nova, S. (2012, December 13). Apparel industry outsourcing costs garment workers' lives in Bangladesh | Scott Nova. Retrieved March 08, 2016, from <http://www.theguardian.com/commentisfree/2012/dec/13/apparel-industry-outsourcing-garment-workers-bangladesh>

complying with James’ request of \$10 million.<sup>34</sup> In most cases, Nike stands by its athletes. Ray Rice, Michael Vick and Adrian Peterson committed crimes that break Nike’s code of conduct. These cases resulted in the termination of their contracts.<sup>35</sup> Outside of the athletic wear industry, brands like Kellogg, Pepsi, McDonalds, and MasterCard halted their contracts with endorsed athletes who broke ethical codes.<sup>36</sup>

*Possible Crises*

- A factory partner is not abiding by Nike’s (labor) standards
- Nike is accused of unsustainable practices
- A Nike endorsed celebrity commits a crime
- Nike’s customer data system is breached
- Nike loses of sponsored athlete to a competitor

Possible Crisis	Likelihood of Occurring	Severity
A factory partner is not abiding by Nike’s (labor) standards	4	5
Nike is accused of unsustainable practices	3	3
A Nike endorsed celebrity commits a crime	2	4
Nike’s customer data system is breached	4	2
Nike loses of sponsored athlete to a competitor	4	4

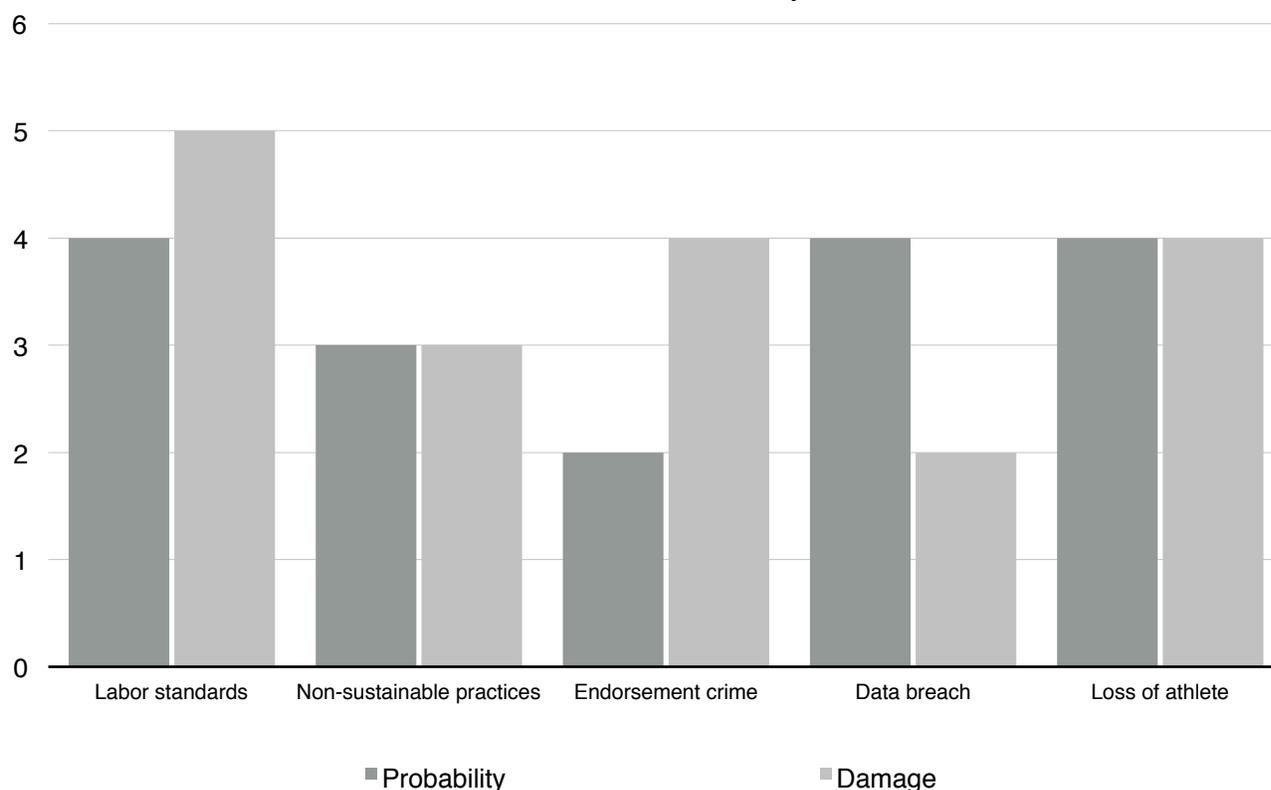
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<sup>34</sup>George, K. (2013, September 23). How adidas Lost Billions By Not Giving LeBron James \$3 Million. Retrieved March 08, 2016, from <http://www.complex.com/sneakers/2015/09/adidas-lebron-james-billion-dollar-shoe-deal-fail>

<sup>35</sup>Roberts, D. (2014, September 20). Ray Rice and 11 other athletes who lost their endorsements. Retrieved March 08, 2016, from <http://fortune.com/2014/09/20/ray-rice-adrian-peterson-tiger-woods-athletes-dropped-endorsements/>

<sup>36</sup> Roberts, D. (2014, September 20). Ray Rice and 11 other athletes who lost their endorsements. Retrieved March 08, 2016, from <http://fortune.com/2014/09/20/ray-rice-adrian-peterson-tiger-woods-athletes-dropped-endorsements>

## Nike's Crisis Inventory



### Crisis Summary

After analyzing the possible crisis, the most likely to occur with the highest potential damage would be an instance where a factory partner is not abiding by Nike's labor standards. This type of situation would occur in a partnered factory where jobs have been outsourced and the labor practices do not align with Nike's factory standards. In the past, Nike has faced multiple accusations regarding labor conditions in its foreign factories, particularly during the 1990s in which Nike was accused of allegedly using sweatshops for the manufacturing of some of its products. As of 2015, more than 90 percent of Nike's one million factory workers are in Asia.<sup>37</sup> With China's lack of policy regarding labor conditions and the loss of control and monitoring that can occur when a company outsources jobs, accusations of poor labor practices in China have been an issue for decades. In 2014, Apple Inc. was under speculation due to evidence of poor working conditions in Chinese factories producing iPhones.<sup>38</sup> Foreign labor standards are considered an international issue with the public and have been a popular topic of discussion in recent news. As a multinational corporation, Nike is continuously watched by the media. With Nike's history of outsourcing jobs and recent outstanding instances in China regarding poor labor conditions, this type of crisis is highly plausible.

<sup>37</sup> Kuhnenn, J., & Wozniacka, G. (2015, May 7). Obama's Nike stop puts focus on outsourcing, labor standards. Retrieved February 06, 2016, from <http://www.washingtontimes.com/news/2015/may/7/obamas-nike-stop-puts-focus-on-outsourcing-labor-s/?page=all>

<sup>38</sup> Bilton, R. (2014, December 18). Apple 'failing to protect Chinese factory workers' - BBC News. Retrieved February 06, 2016, from <http://www.bbc.com/news/business-30532463>

## Crisis Response

Nike will exercise multiple strategic responses in order to address this situation. First, Nike will act on a compassionate response, expressing its concerns for the workers who have been enduring the poor work conditions. Next, Nike will take a stance of corrective action by further explaining that it is now fully aware of the poor work conditions that its factory partners have been implementing and that management is working hard to correct the issue. Nike will stress the issue's primary level of importance to the company and will show its dedication to correcting and improving the work conditions in all its partnered factories. Nike will announce weekly updates on the improvements to maintain transparency with the public. Tyler Horst will be acting as Nike's media spokesperson during this time.

Nike will first inform its enabling and functional publics, beginning with employees and stockholders, followed by customers. Nike will call storewide staff meetings to inform Nike employees of the poor labor practices being implemented in its partner factories. In the staff meetings, managers will explain what has happened by addressing any concerns that employees may have. The meeting will conclude with an overview of what the company is doing to improve the situation moving forward. Mandatory follow-up meetings will be scheduled to update the employees on the progress of the situation. Stockholders will be emailed with similar information regarding the recent issue. We are addressing what has happened and what Nike plans to do to fix the situation, as well as weekly updates as to what is being done. Next, any customers on Nike's email list will be notified of the recent occurrences. The email will include a brief overview of the situation, as well as Nike's response as stated above and Nike's plan to fix the issue. The email will also include a subscription link for Nike's updates pertaining to the situational improvements. Lastly, Nike will inform its diffused public, the media. Nike will hold a news conference to explain the current situation, express its response, provide a timeline of its plan and answer any questions the media may have.

### *Proactive Media Outreach*

Media	Name	Contact Information
New York Times	Sydney Ember	Twitter: @melbournecoal
Huffington Post	Catherine Taibi	Twitter: @cathtaibi
NBC	Alastair Jamieson	Twitter: @alastairjam
Forbes	Connie Guglielmo	Twitter: @techledes

### *Key Messages*

1. We are aware of the poor work conditions that are being practiced in our partnered factories.
  - We have investigated the conditions in our partnered factories.
2. We are working with management to fix and improve the work conditions in our partnered factories.
  - We have created a plan that will be implemented immediately.
  - We will be meeting with management to establish new regulations inside the factories.

3. We will keep open communication with the public.
  - We will provide updates until the issue has been resolved.
  - The public will have access to a subscription that will include monthly updates about the conditions and improvements being made in our partnered factories.

### *Tactics*

#### **Shareholder Meeting Key Messages:**

- Ensure shareholders that Nike is working to correct the labor oversights happening at its contracted factories overseas.
- Assure investors that the issue will not have a lasting affect on Nike's worth.
- Affirm Nike's position as the world's preeminent athletic apparel provider will not waver in light of the crisis.
- Provide stockholders with objective benchmarks for accountability and to make sure the company meets expectations going forward.
- Restore confidence in the brand by discussing the innovations Nike makes in the athletic apparel industry.



## NEWS RELEASE

March 7, 2015

FOR IMMEDIATE RELEASE

### **NIKE, INC. RESPONDS TO POOR LABOR CONDITIONS ACCUSATION**

NIKE, Inc. responded today to the accusations of having poor labor conditions at one of their partnered factories. Nike is fully aware of the working conditions its factory partners have been implementing. Management is working hard to correct and improve the labor conditions in its partnered factories. Corrective measures are being implemented immediately to resolve this situation, such as: establishing new regulations within factories and having open communication with the public until this issue is resolved. Nike plans to address and resolve this situation immediately and effectively, and remain transparent throughout the process.

#### ***About Nike, Inc.***

*NIKE, Inc., based near Beaverton, Oregon, is the world's leading designer, marketer and distributor of authentic athletic footwear, apparel, equipment and accessories for a wide variety of sports and fitness activities. Wholly owned NIKE, Inc. subsidiaries include Converse Inc., which designs, markets and distributes athletic lifestyle footwear, apparel and accessories; and Hurley International LLC, which designs, markets and distributes surf and youth lifestyle footwear, apparel and accessories. For more information, NIKE's earnings releases and other financial information are available at <http://investors.nike.com>. Individuals can also visit <http://news.nike.com/> and follow [@Nike](#).*