

# Underperformance of Nike By You

Possible Explanations,  
Means of Hypothesis Testing,  
And Practical Recommendations



# The Hypothetical Challenge

- Nike executives are concerned that Nike By You, the company's custom shoe business, has missed sales forecast targets for the last 2 fiscal months
- Provided the standard array of company sales data, we want to identify the cause(s) of this shortfall and provide actionable recommendations to reverse it
- Note that, for the purposes of the challenge, we are to neglect the impact of COVID-19, which would likely have decreased sales in and of itself

# Approach Overview

- Nike has not earned its place atop the global athletic apparel market by winging it, and they no doubt have large teams of talented analysts
- We won't help anything by showing up with standard-issue data science tools and expecting to solve problems by virtue of being the smartest person in the room
- Our job is not to reinvent the wheel, then, but rather to identify subtle factors that may have popped up recently and gone unnoticed by expert analysts used to focusing on other predictors

# Approach Overview

- Here I will provide a detailed examination of two potential explanations for the observed sales decline
- In practice, of course, we would not limit ourselves to explanations thought up before we got our hands on Nike's sales data, though
- While it is certainly good to go into a project with some well-developed ideas, it is equally important to keep an open mind as you go about your data exploration

# Hypothesis 1: Nike's Premier NBA Ambassadors Have Underwhelmed

- It's no secret that NBA superstars play a crucial role in the shoe market, as evidenced by the enormous endorsement deals that high-profile players have secured for decades
- Nike's dominance of the NBA landscape includes signature shoe deals with three of the modern game's most recognizable players: LeBron James, Kevin Durant, and Kyrie Irving
- Typically, this trio would form a nearly bulletproof marketing lineup, yielding millions of positive interactions with the Nike brand every season, especially during the ongoing playoffs

# Hypothesis 1: Nike's Premier NBA Ambassadors Have Underwhelmed

- This year, however, has been an anomaly of sorts, with James' Lakers missing the playoffs entirely and the Nets getting unceremoniously swept by the Boston Celtics in the first round
- Thus, at a time of year when Nike's premier athletes would normally be garnering high praise and positive brand engagement, they are instead being heavily criticized within the sports media ecosystem
- If player success helps to drive sales, then it is natural to consider the impact of disappointing seasons, particularly when they occur simultaneously among some of Nike's most notable endorsement partners

# Testing the Hypothesis

- Here we are interested in the impact – if any – that faltering NBA endorsements have on Nike By You sales specifically, rather than on Nike sales writ large
- If this hypothesis is correct, I anticipate that it would manifest as a sort of gradient, impacting sales of signature shoes the most and generic basketball apparel and Nike By You sales to a lesser extent
- Thus, we could test the hypothesis by looking at historic sales data to see if such a gradient exists, as well as whether high-profile player performance has correlated in the past with increased Nike By You sales or page views

# Practical Recommendations

- If confirmed, my first recommendation would be to incorporate a parameter that quantifies player performance/popularity into the Nike By You sales projection model, likely borrowing from an already existing prescription elsewhere in Nike's analytics division
- In terms of addressing the root issue, though, there is probably no need for drastic action, as brand engagement is likely to revert to a more positive mean in the future
- If sufficiently concerned, however, Nike could help safeguard against future problems like this by more heavily marketing next-generation stars like Ja Morant, Luka Dončić, and Giannis Antetokounmpo

## Hypothesis 2: Nike By You Has Lost Some Ground in China

- Having more than doubled its GDP over the past decade, China's rise as a major factor in the global consumer economy is undeniable, and half of its populace is now counted among the global middle class
- Given basketball's extreme popularity within the country and Nike's 40+ year history doing business there, China is of considerable importance for the Nike business model
- In 2021, Nike's sales in China yielded \$8.3 billion USD, accounting for about 20% of the company's total global revenue

## Hypothesis 2: Nike By You Has Lost Some Ground in China

- There are signs, however, that Nike's impressive market share in China rests on shaky ground
- Chinese consumers, not unlike their American counterparts, are increasingly seeking to spend their money on domestic brands, particularly as international tensions rise
- This strain of consumer patriotism is perhaps best exemplified by the backlash Nike received after releasing a statement of concern over the human rights abuses reported in China's Xinjiang province

# Testing the Hypothesis

- While untangling the underlying factors behind a Chinese sales shortfall might be difficult, testing for its existence should be fairly easy
- Nike undoubtedly keeps track of the country of origin for its various sales, so it would be straightforward to check if, over the past two fiscal months, Nike By You sales in China have been faring worse than elsewhere in the world
- Given that Nike sales in general have been slumping in China recently, I would be somewhat surprised if we did not observe such a signature

# Practical Recommendations – Updating the Sales Projection Model

- If sales have only diverged from the model in recent months, I imagine that Nike's data science team must have found a clever way to account for backlash related to the Xinjiang statement
  - Perhaps by using negative Weibo trends as a predictive modeling factor
- If consumers continued to harbor negative sentiments toward Nike after they stopped posting about it, however, this approach would fail, and we would need to work with the Nike analysts to recalibrate their models and find new proxy factors
  - We would see a similar effect if the backlash were a symptom of the broader movement toward domestic companies, since this trend would continue in the absence of novel anti-Nike Weibo trends

# Practical Recommendations – Applying a Band-Aid

- If interested mostly in a short-term fix to buoy Nike By You sales, one promising approach would be to make gold medalist Eileen Gu a sizable offer to switch from Anta to Nike products
- Already a popular athletic icon in China, the U.S.-born Olympian, who chose in the most recent Olympic Games to compete for her mother's native China, is uniquely suited to bridge the gap between an American company and Chinese consumers
- Bringing Gu on board as a Nike By You spokesperson and coupling her endorsement with a heavy social media campaign focused on Nike's alignment with modern Chinese consumer culture would almost certainly boost sales

# Practical Recommendations – Addressing the Root Issue

- More generally, Nike will face an uphill battle to retain its sizable market share in China, but it is not an impossible one
- One blueprint can be found in Toyota's relatively recent U.S. expansion
  - By meeting American consumers where they are, with NASCAR sponsorships, extensive truck offerings, and appeals to patriotism, Toyota has been able to foster a positive brand identity in the U.S.
- CEO John Donahue is already on record saying that "Nike is a brand that is of China and for China"
  - If this hypothesis is confirmed, retaining Chinese sales in the future will likely depend on convincing Chinese consumers of this claim

Happy to Answer Any Questions!

