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PRO BASKETBALL

In Sneaker Wars, It's Also Curry (Under Armour) vs. James (Nike)

Sports Business

By JOE NOCERA JUNE 17, 2016

With the climactic Game 7 of the N.B.A. finals on tap for Sunday — and with LeBron James's Cleveland Cavaliers recently outplaying Stephen Curry's Golden State Warriors to even the series — there is a business question looming along with the basketball ones.

Are we about to see a new version of the infamous sneaker wars that Nike and Adidas fought in the 1990s?

Back then, Nike beat back Adidas; indeed, it now has more than 90 percent of the basketball shoe market — a number that compares to Microsoft's monopoly over operating systems in its heyday. Now, however, Nike has a new challenger: a cocky upstart named Under Armour.

In case you hadn't noticed, Curry, one of the most popular players in the N.B.A., wears shoes made by Under Armour. But that wasn't always the case: When he first entered the league, in 2009, he was under contract with Nike. Over the next four years, he showed he was a terrific player, but, in part because of ankle problems,

hadn't yet become what he is now: the N.B.A.'s marquee player — an amazing shooter with a transcendent game and an appealing, down-to-earth personality.

In 2013, with Curry's contract up for renewal, Under Armour, which had been selling basketball shoes for only a few years, sensed an opportunity. Under Armour offered him \$4 million a year to switch. Nike, which was paying him a reported \$2.5 million, declined to match the offer. The rest, as they say, is history.

At a time when sales of basketball shoes have been sluggish, Under Armour's have taken off. They were up 95 percent in the fourth quarter of last year (compared with 2014's fourth quarter) and another 64 percent in the first quarter of this year. Its footwear revenue was \$678 million in 2015, up from \$127 million in 2010. Although Nike dominates the business of basketball shoes, Under Armour has made inroads.

Much of that growth is directly attributable to Curry's enormous popularity. Since the beginning of the year, according to Jay Sole, who follows the company for Morgan Stanley, "Curry basketball footwear has accelerated meaningfully." In a note he wrote to clients a few months ago, Sole said that shoes with Curry's name on them are likely to see \$160 million in sales this year. That would put his signature shoes ahead of every other current player's, including Nike's marquee endorser, LeBron James, who has a lifetime contract with the company worth a reported \$500 million.

In the N.B.A. finals, Under Armour's guy, Curry, plays for the defending champion Warriors, while Nike's guy, James (not to mention another key Nike athlete, Kyrie Irving), plays for a team that lost to the Warriors in last year's finals and is still looking for its first N.B.A. championship. But in the world of business, Nike is still the 800-pound gorilla of the sportswear industry, with \$30 billion in revenue last year and tentacles in every sport imaginable. Under Armour, which is on track to generate \$5 billion in revenue this year, is very much the striving newcomer.

But Under Armour is the first company since the 1990s to knock Nike off its stride. For instance, earlier this year, Nike hired away a key Under Armour shoe designer — only to have Under Armour rehire him two months later before he worked a single day for Nike. Last year, when Nike discovered that Under Armour was trying to get the University of Texas to switch allegiances, it swooped in and

re-signed Texas with a 15-year, \$250 million contract. Earlier this week, Nike announced the departure of Michael Jackson, who ran its \$3.7 billion global basketball business.

Under Armour was founded 20 years ago by a former University of Maryland football player named Kevin Plank. His is a classic entrepreneur's tale: He started the company, at age 23, in his grandmother's basement in Washington. His original idea was to replace the heavy cotton T-shirt that football players wore under their pads and uniforms with one made of microfibers that would wick away sweat. In its first year, Under Armour took in \$17,000.

There are two things that are striking about Plank's initial business model. The first is that his shirts were aimed strictly at elite athletes rather than the general public; he was making "performance wear," as they say in the trade. The second was the way he built the Under Armour brand in the early days: by handing his shirts to football players he knew from high school or college who had gone on to the N.F.L.

"My contacts among these N.F.L. players were a vital part of my strategy," he later wrote in an article for the Harvard Business Review. (Although I was able to interview several top Under Armour executives for this column, Plank was unavailable, a company spokeswoman said.)

In other words, endorsements have been critical to Under Armour's success from the very beginning. The N.F.L. players who wore his shirts talked them up, which led teams, beginning with the Atlanta Falcons and the Giants, to start buying them for all the players. When the Miami Dolphins asked him to supply the team with free shirts, Plank said no. He needed to be able to sell to teams because they were his target market. (The Dolphins ended up buying the shirts.)

Endorsements have been critical to Nike's success, too, of course — indeed, they've been as much a part of the company's marketing as the "Just Do It" commercials.

Nike started with running shoes. In the company's early days, the great University of Oregon runner, Steve Prefontaine, who was close to the Nike founders Phil Knight and Bill Bowerman (Oregon's track coach for many years), wore its track

shoes. John McEnroe was an early endorser of its tennis shoes. When Nike started selling basketball shoes in the late 1970s, it came up with the idea of paying college coaches to have their teams wear Nikes. And, of course, in 1984, Nike landed the greatest sports endorser of them all: Michael Jordan. His first signature shoe, the Air Jordan 1, was an instant success, and his appeal has continued well into his retirement. Today, the Jordan Brand, which is a Nike subsidiary, is a \$3 billion business.

Flush with cash, Nike now tries to corner the market on big-name basketball players — Kevin Durant and Russell Westbrook also have big Nike contracts — while also trying to tie up as many other players as possible. Almost three in four N.B.A. players suit up with Nike shoes. “Nike’s approach is to have all the right guys to defend its position,” said David Abrutyn, a partner at Bruin Sports Capital. To put it another way, it spreads its bets.

Under Armour doesn’t have the money to play that game. So it has to make choices. Sometimes they pay off — as when the company signed Cam Newton out of college — or when it added Jordan Spieth to its roster of endorsers not long before he won the 2015 Masters. And occasionally, they don’t; its first N.B.A. endorser was Brandon Jennings, who has been in the league since 2009 but never became the star Under Armour hoped he would be.

Now, of course, it has captured lightning in a bottle with Curry. During Under Armour’s first quarter earnings call in April, Plank couldn’t stop dropping Curry’s name.

“Our footwear M.V.P. is Stephen Curry,” he said at one point. The company’s revenue had risen 30 percent in the quarter; he claimed, somewhat absurdly, that “when Steph Curry decided to put up 30 points a game, and wear the number 30, we thought putting up 30 percent growth was our way of showing our support.” (Curry’s deal with Under Armour was extended last year to 2024 — and includes stock in the company.)

Here’s the thing, though. Nike didn’t become a \$30 billion company solely by relying on Michael Jordan. At a certain point in the 1980s, it went well beyond performance wear and began making shoes and clothes for people who had no

athletic aspirations at all. According to Matt Powell, the sports industry analyst for the NPD Group, “only 25 percent of athletic shoes are used for athletic activities.” Walk through an airport and just look at how many people are wearing Nike shoes — not fancy athletic shoes, but everyday walking shoes, comfortable shoes that have nothing to do with Michael Jordan.

There is not much doubt that Kevin Plank wants to build Under Armour into the next Nike. In my conversations with Under Armour executives, they never uttered the word “Nike” — they simply referred to the company as “our competitor.” Sole, the Morgan Stanley analyst, has said that if Curry does indeed turn out to be an endorser akin to Jordan, it could be worth \$14 billion in Under Armour’s stock market valuation.

But that’s still a long way from Nike, which currently has a market value of \$90 billion to Under Armour’s \$23 billion. Plank has said that the company wants to reach \$7 billion in revenue by 2018. Nike is on record as wanting to hit \$50 billion in revenue by 2020.

Under Armour has spent 20 years selling itself as a “performance” company, marketing to athletes and wanna-be athletes. To become a company generating Nike-type revenue, it will have to become a brand that appeals to everybody. Which means that Steph Curry, hot as he is right now, can only get them part of the way to the place they want to go.

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