Putting a price on Nike's brand

SUBSCRIBER CONTENT:
Apr 20, 2017, 3:43pm PDT

UNIVERSITY OF PORTLAND
Discounts can diminish a brand's value in the eyes of consumers, but the University of Portland's Ian Parkman said Nike may be an exception.

It's easy to walk into a boardroom and argue for cutting prices in order to beef up sales. Sales, after all, is a tangible number and grabs the biggest share of Wall Street's attention. The value of a brand, on the other hand, is impossible to pin down.

How much is a brand worth?

Those two concepts are clashing inside the berm at Nike's sprawling suburban Portland campus.

The Business Journal this week first reported the sportswear giant has given retailers permission to advertise 25 percent off Nike products year round. The sportswear giant previously limited how many weeks retailers could offer 25 percent discounts. The shift in minimum advertised price has already started to result in a steady stream of discounts advertised in Sunday newspapers and circulars.

In a statement, the sportswear giant said the change was made to simplify Nike's account for big retailers. It gives companies such as Kohl's another tool to compete in the brutal retail environment, where foot traffic is down and some stalwarts, such as Sports Authority, have been forced out of business.

The move will undoubtedly increase sales in North America, Nike's most critical market and one where the company faces more competition from a resurgent Adidas.

But what will it do to Nike's brand, which many consider premium? Wall Street analysts warned the change could have a long-term downside.

"I would be a little nervous about retailers being able to offer 25 percent off on a regular basis," said Edward Jones consumer discretionary analyst Brian Yarbrough. "In my experience, this tends to train the consumer to wait for the discounts, which hurts full-price selling."

The Business Journal asked marketing experts what academic research shows about the impact on brands when companies slash prices. They agreed there are both potential risks and rewards.

"Once you start lowering prices you can count on one hand the number of firms who have said we're lowering prices and can raise prices again," said Ian Parkman, University of Portland assistant marketing professor. "It hardly ever happens."

But there are some examples of it working.

When Apple released a more affordable iPhone in March 2016, some thought it would eat into the brand's sales. It didn't. It expanded the number of consumers using Apple products.

"In the past, Apple discounting the phone would have hurt their best customers by weakening the prestige association they got from owning the phone," said Conor Henderson, University of Oregon assistant marketing professor. "But now things have changed such that having a wider audience of iPhone users actually helps the best customers. This is because Apple is offering more services that have network effects which improve with the more users on the platform."

The bigger platform has allowed Apple to reach a bigger audience for products such as Apple Pay and Apple Music.

Nike could follow that pattern.

For one, since Nike's rivals are already offering discounts at major retailers, Nike will "become more competitive at retailers where consumers expect discounts," said Jacob Suher, Portland State University assistant marketing professor.

But Suher said Nike needs to capitalize on retaining new customers by putting fresh products into the market.

"If Nike is putting great products out, the equity could stay strong."

The University of Portland's Parkman agreed.

"Maybe Nike is that exception. Maybe it's a strong enough brand. Nike has the brand history and the power that it could be the exception to the rule."

Matthew Kish
Staff Reporter
Portland Business Journal