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<tr>
<td>3</td>
<td>MACRO ANALYSIS</td>
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<td>National/state analysis</td>
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<td>CLUSTER ANALYSIS</td>
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<td>Diamond model, 7 gap</td>
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<td>FIRM ANALYSIS</td>
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<td>Nike development</td>
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<td>23</td>
<td>POLICY RECOMMEND</td>
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<td>Future recommendation</td>
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</table>
The 10 most competitive countries in the world

1. Switzerland, 5.81
2. Singapore, 5.72
3. **United States**, 5.70
4. The Netherlands, 5.57
5. Germany, 5.57
6. Sweden, 5.53
7. The United Kingdom, 5.49
8. Japan/Hong Kong, 5.48
9. Norway/Finland, 5.44
10. Denmark, 5.35

**Facts**

- Population: 318.9 m
- GDP/capita: 57,591 US$
- Annual growth rate: 1.62%
- General gov. debt: 125% / GDP
- Tax on personal income: 10.74%
- Unemployment rate: 4.7%
- Exports as % of GDP: 12.0%

Innovation, Business sophistication, market size, financial market development, technological readiness and higher education and training is what drives United States position.
**PESTEL ANALYSIS**

**LEGAL**
- The law is derived from five sources: the constitutional law, statutory law, treaties, administrative regulations, and the common law (includes case law).  
- US taxes are low relative to those in other developed countries.  
- Taxes as a share of GDP is 26% compared to the OECD average on 34%.  
- Ranks 18th in the world on the Corruption Perception Index, but still indicating on a pretty low corruption level.  
- Scores 8.07 on The international Property Rights index, placing it 2nd in the NA region and 14th in the world.

**ENVIRONMENTAL**
- Located between Canada and Mexico.  
- Strongest military and economy in the world.  
- Benefiting from abundant national resources.  
- Controls the Pacific and Atlantic oceans, the most used trade routes in the world.  
- It connects Asia and Europe, historically the two largest economic powers.  
- They have an annual military budget of $700 billion.

**ECONOMIC**
- 2.8% of GDP is spent on R&D which is higher than the OECD average of total: 2.4%.  
- 73.4% of all households have internet access.  
- Almost 1% of working population works in R&D.

**POLITICAL**
- Federal republic.  
- Liberal ideology dominates political life.  
- Two-party political system with both major parties, Democratic and Republican.  
- America’s system of government is characterized by the separation of powers.  
- U.S. is accounted for 10% of world exports.  
- Exports accounted for 12% of U.S. GDP.  
- Largest exporter in the world for commercial services and the second largest for goods.  
- 57.591 US$ per capita.  
- Income inequality: 0.394. It’s one of the highest in the world (0=complete equality 1= complete inequality).

**SOCIAL**
- No official language at the federal level but English is their national language.  
- One in Five U.S. Residents Speaks Foreign Language at Home.  
- One of the world’s most ethnically mixed and multicultural nations.  
- Yearly population growth rate 0.71 in 2017.  
- 47.5% of the population in age 25-34 has attained tertiary education.
National Footwear Industry

Overview

Footwear is increasingly becoming a fashion accessory so the global footwear market is growing faster than ever before. There is also an increasing demand for comfortable and trendy footwear, and there is a massive demand for athletic shoes among both sports- and non-sportspersons. There are two segments within the global footwear market; non-athletic footwear and athletic. Athletic footwear is further divided into running and cross training/tennis shoe, soccer/football shoe, basketball shoe, golf shoe etc. In 2016 the athletic footwear market was led by North America holding 35.6% of the overall market. In the same year, Asia Pacific accounted however for 40.5% in terms of volume.1

The sporting goods industry has seen many mergers and acquisitions, over the years.

Key players: Reebok, Adidas, Puma and Nike.1

APPAREL AND FOOTWEAR MARKET VALUE IN THE U.S.

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Value in Billion U.S. Dollars</th>
</tr>
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<tr>
<td>2011</td>
<td>309.98</td>
</tr>
<tr>
<td>2012</td>
<td>316.92</td>
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<tr>
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<td>323.75</td>
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<tr>
<td>2014</td>
<td>331.49</td>
</tr>
<tr>
<td>2015</td>
<td>342.94</td>
</tr>
<tr>
<td>2016</td>
<td>358.88</td>
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THE SPORTING GOODS INDUSTRY

RETAIL VALUE OF THE SPORTS MARKET

SPORTS PRODUCTS MANUFACTURERS SALES IN THE U.S.2

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>China</th>
<th>Japan</th>
<th>France</th>
<th>Germany</th>
<th>Brazil</th>
<th>Italy</th>
<th>Spain</th>
<th>UK</th>
<th>South Korea</th>
<th>India</th>
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<tbody>
<tr>
<td>2008</td>
<td>41</td>
<td>4.7</td>
<td>8.01</td>
<td>4.34</td>
<td>4.49</td>
<td>4.7</td>
<td>4.84</td>
<td>5.06</td>
<td>5.12</td>
<td>4.4</td>
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<td>2009</td>
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Industry clusters drive Oregon’s economy as they bring up sales outside the state. No focus on the clusters that are winners/losers, rather looking to improve the competitive success of every industry. Oregon Industry Cluster Network were launched in 2005 to identify the state’s mature, emerging and potential clusters and assist cluster participants.

FACTS
- 9th largest state in the U.S. (land area)
- Mountain ranges and vast forest areas are two examples of the features that impact the population density
- The state has no sales, liquor or restaurant taxes
- 36 counties in the state of Oregon
- Port of Portland, railways, airports and ships makes international trade easy

KEY NUMBERS
- Population: 4.16M
- Growth rate: 1.68%
- High School grad. or higher: 89.5%
- BSc degree or higher: 30.1%
- Income/capita: $27,173
- Food prod.: $3B
- Exports, Forest prod.: $500M
- State Corporate Tax: 7.60%

KEY CLUSTERS
- Activewear and Outdoor Gear Industries
- Natural Resource Industries
- Advanced Manufacturing Industries
- High Tech Industries
- Clean/Green Technology Industries

State Overview - Oregon
**Cluster Development**

- **West Coast Shoe Company** established: work boots
- 1918
- **1936**
  - Danner
  - Located in Portland
  - Moved to Portland from Wisconsin for higher sales margins. Now both major U.S. military contractors.

- **1938**
  - Jogging culture has been popular in the area.
  - Boots’ price was $4/pair in Wisconsin while $10/pair in Oregon.
  - The Portland Airport was used for military during the World War II. Danner make contract with the military to provide outdoor boots.

- **1964**
  - Nike predecessor was founded
  - Pre-existing outdoor lifestyle enabled Nike to increase sales and provided Nike with more opportunities to collaborate with other firms.
  - Nike’s development also drove the growth of the area and attracted more talents.
  - More companies were established and interactions increased.

- **1993**
  - Adidas moves NA HQ to Portland
  - Adidas moved their HQ for two reasons: to gain more talents in Oregon; and to get a deeper understanding of American customers.
  - Portland’s local government identifies athletic shoe and sportswear industry’s potential for growth.

- **2002**
  - Cluster structures recognised (by municipality)

- **2005**
  - Adidas moves NA HQ to Portland
  - Government’s engagement in the cluster starts to increasing from a low level.

- **2007**
  - Launch of Oregon Industry Cluster Network by business leaders
  - More venture capital focus on sports start-ups.

**Pre Stage**
- Well-established infrastructure.
- Only scarce companies locate in the area. The cluster has not formed yet. The interactions between actors are low.

**Phase I**
- Ecosystem starts to flourish with smaller firms, suppliers, spin-offs of former Nike/Adidas employees. Competition between Nike and Adidas drives the innovation in the cluster.

**Phase II**
- Adidas moves NA HQ to Portland
  - Adidas moved their HQ for two reasons: to gain more talents in Oregon; and to get a deeper understanding of American customers.
  - Portland’s local government identifies athletic shoe and sportswear industry’s potential for growth.

**Phase III**
- Cluster structures recognised (by municipality)

**National/State Analysis**

**Cluster Analysis**

**Firm Strategy**

**Policy Recommendation**
CLUSTER OVERVIEW

Industry growth in the past 10 to 20 years has been propelled by the increasing popularity of outdoor recreational activities, new fabrics and technologies, and the fusion of outdoor-inspired styles into more general fashion circles.

Total Firms: > 800
Average Annual Wage: > $82,000
Employment Growth: 11.6%
Direct Employment: > 14,000 employee
> 3,200 self-employed

Athletic and Outdoor Action Plan 2010-2012 identifies A&O as signature industry and starts several improvement initiatives.

2010
Pensole Footwear Design Academy was launched by D’Wayne Edwards, the former design director for Brand Jordan.

2011
Portland State University launched Athletic and Outdoor Product Management.

2015
University of Oregon launched Sports Product Management Program.

2017
First-ever Sneaker Week in Portland.

2013
Portland State University launched Athletic and Outdoor Product Management Phase III.

2017
University of Oregon launched Sports Product Management Program.

2013
Portland State University launched Athletic and Outdoor Product Management Phase III.

2017
First-ever Sneaker Week in Portland.

Focus groups start bringing together state and private actors.

With more companies moving to Portland and more start-ups arising, the cluster expands and becomes more influential in the industry.

Portland, OR

Footwear Cluster

Athletic

Fashion

Outdoor

Casual
CLUSTER DYNAMICS

FIRM STRATEGY, STRUCTURE AND RIVALRY
- Collaboration between small companies (+)
- High Level of Marketing (+)
- High Design and Testing Focus (+)
- Main Rivalry: Adidas and Nike (-)
- Start-ups increases the level of competition (-)

DEMAND CONDITIONS
- Active Lifestyle (+)
- Titans of Fashion (+)
- Sports and Jogging Culture (+)
- Low Population (-)

FACTOR CONDITIONS
- Infrastructure: port and airport (+)
- Availability of Angel Fund/ VC (+)
- Skilled workforce (+)
- Well connection between education and industry (+)
- Research institute for innovation (+)

RELATED AND SUPPORTING INDUSTRIES
- Numerous related and supporting industries exist (+)
- Collaboration is limited (-)

POLICY
- Municipality- and industry-led initiatives (+)
  but not down to shoe manufacturers’ level (-)

CHANCE
- Number of chance events set up local company Nike to
  become global player and ignite cluster formation (+)
DEEP DIVE: FACTOR CONDITIONS

In footwear companies’ value chain, there are 4 essential processes – infrastructure, research, education, and capital. Because of cost, most companies have manufacture units in Asia, but keep key elements – research – in the HQ in Oregon.

**INFRASTRUCTURE**
- Well-established port and airport enable the exports/imports easier.
- Connects manufacturing in Asia and HQ in America thanks to the location – on the west coast and easier to approach global customers.

**CAPITAL**
The availability of plenty venture funds enables designers to leave big companies and to start their own start-ups.
- Oregon Angel Fund (OAF)
  - One of the largest, most active venture funds in the region, cooperates with Portland Athletic & Outdoor:
    - ‘In The Running’ Athletic and Outdoor Pitch Competition (2017)
    - 5-6 A&O companies from Oregon or SW Washington win private coaching and investment with OAS
- Portland Seed Fund
  - Early-stage venture fund focused on investments in Portland and the Pacific Northwest
  - Investments in 6 apparel & outdoor companies so far
  - A group of sports and fitness industry veterans, angel investors and entrepreneurs wants to help grow next generation sports product and service brands in the state of Oregon.

**RESEARCH**
- Design:
  - A whole economy of freelance shoe designers.
  - Pensole Footwear Design Academy – launched by D’Wayne Edwards, the former design director for Brand Jordan, become known for placing graduates at top performance shoe brands from Nike to New Balance.
- Material:
  - Portland Apparel Lab(launched in 2014) connects designers to local apparel-related businesses, resulting in a stronger, more vibrant fashion and sewn goods economy in the region.
  - Oregon State University provides material science programme for both undergraduates and graduates since 1980s.
- Function:
  - Testing: Oregon is known for its diverse landscape of forests, mountains, farms and beaches, which is great for testing outdoor gears and footwear.

**EDUCATION**
- Sports Products Management programme offered by Both Portland State University and Oregon State University.
- Close relationship with the companies in the industry, i.e. Nike, Adidas, Columbia.
- The school invites employees from these companies as guest speakers to teach student about real-world experience.
DEMAND CONDITIONS

01 ACTIVE LIFESTYLE
- 69% of Oregon residents participate in outdoor recreation each year
- $16.4bil in Consumer Spending in Oregon on Outdoor recreation
- Oregon residents are more likely to participate in camping and day hiking than the average American
- The local consumer is one of the many reasons for success of companies based here due to Oregon being the ideal Outdoor recreation environment
- The location forces the combination of both fashion and function because consumers often use their apparel in technical situations

02 TITANS OF FASHION
- The size and global influence of major Oregon based brands means that not only can they sense the market changing and bring the knowledge to smaller local companies, but they can also shape the market.
- Nike 30 billion in revenue makes up half the us shoe market
- Major Firms with Offices in Oregon:
  - Under armor
  - Adidas
  - Nike
  - Columbia Sportswear
  - Hi-Tec (Holland)
  - Anta (China)

03 SPORTS CULTURE
- Portland Timbers
- Portland Trailblazers
- University of Oregon Ducks
- These sports teams act as a massive marketing vehicle for all of the Portland based companies giving national and international attention to the footwear cluster.
- The high levels of competition for contracts with these teams also drives innovation and dynamism to meet and exceed the professional athletes needs.

04 JOGGING CULTURE
- 1963 Bill Bowerman published a pamphlet focused on increasing physical activity with “jogging”. For jogging you need good shoes.
- This culture has spread throughout the United States.
- “The sport of running fit perfectly with the character Portland: in this most insular of territories arose the most personal and isolating of activities.”

05 LOW POPULATION
- 4 million for Oregon
- 640k for Portland
- These low populations require companies in the cluster to expand sales past state borders
- Due to the ever increasing popularity of e-commerce this is no longer an issue.
FIRM STRATEGY, STRUCTURE AND RIVALRY

Due to the nature of the athletic footwear and fashion industry, marketing is a huge part of any firm’s strategy.

**HIGH LEVEL OF MARKETING**

**COLLABORATION BETWEEN SMALL COMPANIES**
- Globalized supply chain necessitates collaboration between smaller design companies and must work with smaller material and labor sourcing companies to ensure their product is made and successful on the market.
- Design collaborations are great for marketing drawing attention from customer bases of all parties involved and can often charge premium prices for such products.

**START-UPS INCREASE LEVEL OF COMPETITION IN LOCAL AREA/INDUSTRY**
- Overflow of talent from main companies
- These highly creative smaller companies can quickly iterate design and launch approved products due to their size.

**HIGH DESIGN AND TESTING FOCUS**
All companies in the cluster are required to focus on design and materials testing as their products must be fashionable and create value for those involved in active lifestyles.

**ADIDAS VS NIKE IS MAIN RIVALRY - COMPETITION FOR EMPLOYEES**
- Adidas bought Reebok in 2005 to compete with the American market leader Nike
- Talent is often traded between the two firms or spills over into the cluster’s flourishing start-up scene
- Nike and Adidas have mostly focused on Design, Imports, Distribution, Marketing, and Advertising and are now more of a focus on retail/web.
Wherever there is a strong industry, one can usually find a strong center of education for that industry. Oregon is home to many of the nation's leading material and product design education programs that provide companies like Nike and Adidas a steady stream of highly educated talent. In return, the cluster provides jobs and funding to these programs. 1

The larger pool of design and manufacturing talent has removed many of the barriers to market entry for smaller firms as well. In these smaller firms employees often have more creative freedom and quicker advancement rates than in larger established companies. 3

Not all talent can be hired by the major firms in the cluster. So many students and incoming professionals take their talents to smaller companies that focus on everything from the strictly creative side of the business like logos and early designs, to the more technical fields of material sourcing, production and industrial design. 3

Footwear is truly the center of this cluster. Footwear falls within activewear, but active wear was often a follow-on product of many of the footwear companies themselves. 4

One of the keys to success in any industry heavily based in brand is marketing. Small and large marketing firms support all parts of the cluster in order to make sure they are as locally and globally competitive as possible. 13

Footwear is truly the center of this cluster. Footwear falls within activewear, but active wear was often a follow-on product of many of the footwear companies themselves. 4
DEEP DIVE: POLICY

Key industry-led initiative: OREGON BUSINESS PLAN
- Economy-wide joint venture between Oregon Business Council, Oregon Business and Industry, and Portland Business Alliance
  - Sponsored by companies (e.g. Nike), supported by leading political figures
  - Goal: to improve economic conditions within Oregon
  - 4Ps initiative: people, productivity, place, pioneering innovation
  - Strives to improve factor conditions through various public policy recommendations, e.g. for public spending, taxes, education
  - 2005: launched Oregon Industry Cluster Network
  - Brings together representatives from industry clusters, economic development professionals, research professionals, community colleges, venture capitalists
  - Identifies 'footwear, sports apparel & outdoor gear industries' cluster
  - Has given lead for cluster organization to Portland Athletic & Outdoor

Key public actor: PORTLAND ATHLETIC & OUTDOOR
- Part of Prosper Portland (city of Portland’s economic development commission)
  - Goal of creating jobs, innovation and economic opportunities in Portland with a focus on equality and minority involvement
  - Provides support to the outdoor wear cluster via ‘Portland Athletic and Outdoor’ (A&O)
  - Has lead on organizing companies within the A&O cluster
  - Portland A&O is more directed towards SME’s with less than 30 employees on average
  - Various initiatives to support networking and knowledge exchange within the cluster
    - Peer-2-Peer:
      - Forum for CEOs of growing A&O companies to come together and share experiences
    - A&O Young Professionals Group:
      - Industry-led group that seeks to provide opportunities for education and networking
      - Monthly meetups, 2-3 larger events per year
    - Oregon Outdoor Alliance (OOA)
      - To ‘connect and cultivate Oregon’s outdoor industry’
      - Regional focus on Bend
      - Small companies and individual membership, no connection to larger firms
  - 2010: ‘Athletic and Outdoor Action Plan for 2010-2012’
    - Identifies A&O industry cluster as a ‘signature industry for the Portland region’ and as one of four major industries for job creation and increase economic activity in the region
    - Number of initiatives e.g. in leadership, entrepreneurship, sustainability
    - First comprehensive effort to understand the origins and interplay of the firms that comprise the industry

Private-state collaboration: FOCUS GROUPS
- 2017: series of focus groups across Oregon launched
  - Organizers: Portland A&O via Prosper Portland, Business Oregon, Portland State University, economic consultants; A&O industry leaders participate
  - Goal: discuss industry’s competitive position and how to improve Oregon’s factor conditions through 4P framework

LACK OF A UNIFYING GROUP OR ORGANIZATIONAL BODY FOR SPORTS SHOE INDUSTRY

not focused enough on sports shoe industry
not focused enough, no involvement of large players
DEEP DIVE: CHANCE

Bowerman and Knight are born and raised in Portland
Bill Bowerman and Phil Knight were both born and raised in Portland’s vivid outdoor and sports culture, with Bowerman being a sports coach to Knight. Bowerman went on to spark the jogging boom in the United States and, together with Knight, to found the predecessor of Nike. Being familiar with Oregon’s outdoor culture, they based their new venture in the state.¹,²

Onitsuka Tiger (now Asics) doesn’t make shoes to Bowerman’s specs
After their Japanese supplier failed to deliver shoes matching Bowerman’s and Knight’s specifications, they were forced to start developing their own. This led them to experiment with various designs that resulted in some of Nike’s most iconic shoes today and laid the foundation for its technical superiority and later success.¹,²

Michael Jordan is rejected for sponsoring by Adidas
After Michael Jordan was rejected for sponsorship at Adidas, he turned to Nike were he got accepted. With Michael Jordan becoming one of the most famous basketball players of his time, this sponsorship turned out to be one of the biggest boosts for Nike’s publicity and sales.³
7 GAP ANALYSIS

- No cluster organization specific to shoe industry
- Oregon not internationally recognized as a footwear hub
- Little cooperation with outside clusters (e.g. Boston, Washington)
- No efforts tailored to active footwear cluster
7 GAP ANALYSIS

There is no unifying organization within the active footwear cluster! The most prominent private organization recognizing and supporting cluster activities is the Oregon Business Plan (OBP). Yet, it defines a ‘footwear, sports apparel and outdoor industries’ cluster, which is too general to capture the specific active footwear cluster which is analyzed in this report. This means there are few activities that could deliver real value for the cluster firms. Symptom of this lack of focus is the fact that of the large cluster firms, only Nike is a sponsor of the OBP. While it is very well connected with local and state political bodies, and engages in a variety of activities bringing together different actors, it is not effective as a means to coordinate the active footwear firms among each other.

Portland and Oregon governments have recognized the significance of the active footwear cluster, yet only in the context of a wider industry scope. Portland’s development agency set up the ‘Athletic & Outdoor’ cluster initiative, which comprises a much wider field that the more narrow notion of the active footwear segment. While this is a first step in recognizing the structure of the industry, it is mainly focused on SMEs. It is therefore effective in connecting a broad base of outdoor companies, but not in providing a private-public platform to involve all major players of the athletic footwear cluster such as Nike and Adidas.

At this point in time Oregon is not thought of as the “Hollywood” of footwear. Paris, Milan, New York, and arguably Tokyo are the current fashion centered of the world. Although Oregon is known as a destination for outdoor activities in the United States, it is never been associated with popular fashion. In order to push Oregon into the world’s vision a new strategy must be developed must be done to either rebrand the city in a way that makes it as interesting as the current centers of fashion, or to market and popularize its own brand as a hub of functional fitness wear. This will close the gap between Oregon and the global markets.

The cluster has well-established connections and cooperation with local marketing firms, and material science /design research institutes. Yet, these connections are only limited to few big firms. Besides, in terms of ICT and other high-technology(e.g. wearable tech), there is no distinct connection discovered within the region.
With 822 companies in the wider athletic & outdoor industry (as of 2015), and with a broad base of both large incumbents (such as Nike, Adidas) and smaller, specialized firms and suppliers, the industry has reached a dense structure. Although there is a lack of specific data, it can be inferred, that the same is true for the more specific active footwear cluster.

The cluster shows high levels of dynamism, with continued attractiveness to new talent and various incumbent firms expanding and investing in the region. With the continued growth of the global middle class (which is the target segment for most firms) and Oregon’s rapidly diversifying population (which will make it easier to connect to new markets), the future looks promising. Nevertheless, it remains highly uncertain whether firms will be able to effectively adapt to the challenge of technology, which will fundamentally disrupt product development and production, as well as the way firms interact with suppliers and customers.

Oregon’s active footwear cluster has left the initial stages of early entrepreneurship and economics of scale, and today shows a varied and dynamic structure with a healthy pool of innovative and specialized firms and suppliers, around a few major players anchored in the region. The near-total dominance of Nike has been challenged with the arrival of Adidas, the diamond is almost fully developed, and with continued growth and innovative dynamics, the cluster is entering a Renaissance phase.

Local and state government have been late to recognize the existence and significance of cluster structures within the athletic and outdoor industry. General policy in the state is conducive to entrepreneurship and innovativeness. On a cluster-specific level, though, there is a lack of effective government initiative to bring together different diamond actors involved in the active footwear cluster. The more general A&O organization is too focused on SMEs and fails to involve the biggest firms in the cluster.
COMPETING CLUSTER

BOSTON FOOTWEAR CLUSTER

COMPANIES
Regional headquarters for many known athletic footwear companies: Puma, New Balance, Saucony, Converse (owned by Nike), Reebok (owned by Adidas). 3 of them have moved their (regional) headquarters to Boston between 2015-2016, implying that the Boston cluster is still in its early life cycle.

INNOVATION
In 2010 the city created an Innovation District to facilitate entrepreneurial activities. Many footwear startups have emerged from the hub, such as Forsake, Category Five, Boston Boot Co. and ToPo Athletic. Like in the Oregon cluster, the small companies cooperate and benefit form the cluster.

POPULATION
High concentration of millennials in Boston compared to other US cities abeles companies to be closer to their target segment. Compared to Portland, Boston attracts more young professionals, which is beneficial for both, being close to the customer and attracting talent.

EDUCATION
Prestigious Massachusetts Institute of Technology located in the city of Cambridge, metropolitan area of Boston. University has an Integrated Design and Management program (alumni become designers). Program offers industry related courses but they are not that specifically tailored as in the University of Oregon.

ACCESS TO TALENT
Boston has people with necessary training for the footwear industry (design, marketing, sourcing). Likewise to the Oregon cluster there is a war for talent between different athletic footwear manufacturers and many spinoff startups formed by the former employees of the large corporations.

INFRASTRUCTURE
Logan International Airport in Boston is one of the busiest airports in the US (top 20, whereas Portland airport is 30th). Similarly to Portland, the city provides an access to a port. However, the sea connection with Asia is more complicated due to its geographic location.

RESEARCH
MIT Design Lab - interdisciplinary research lab. The lab has high focus on fabric and textile innovation. Compared to Portland Apparel Lab, MIT Design Lab has more resources but is less footwear industry specific and currently has only one collaboration with a footwear manufacturer, which is Puma.

North America is the biggest market for footwear manufacturers and the main competition for the Oregon cluster comes from the city of Boston, which is in the East Coast of the US. Although Boston footwear cluster doesn’t reach the size and the level of development of the one in Oregon, there are still many notable aspects where this cluster has a strong position. This slide includes the main benefits that the companies get by choosing the Boston cluster.
COMPANY DEVELOPMENT

Phil Knight and Bill Bowerman identified a market gap. US didn’t have good running shoe manufacturers. They founded Blue Ribbon and started distributing Onitsuka Tiger (now known as Asics) shoes in US West Coast.\textsuperscript{2}

Difficulties with renewing contracts with Onitsuka Tiger and little flexibility when it came to design made Knight and Bowerman to end the contract with the Japanese company. Nike was founded with the launch of Cortez shoe - iconic shoe line.\textsuperscript{1}

Air Jordan III is worn by successful Michael Jordan when he becomes famous. AJ III becomes one of the most sought-after shoe lines. Although it’s a basketball shoe, it is designed to be fashionable and made to be worn off the court as well.\textsuperscript{3}

Bill Bowerman testing running shoes by taking the apart and trying them on the University of Oregon sports teams.\textsuperscript{1}

Bowerman invents Waffle Sole which is tested on US Olympic team in Eugene. Breakthrough in shoe history because running shoes used to be flat, without extra cushion.\textsuperscript{1}

First ever NikeTown opened in Portland - museum-like experimental retail store.\textsuperscript{4}

Nike becomes established international brand
RAILWAY MODEL

Nike’s timeline includes many tracks which have been taken off their previous path. Every new decision requires a large investment and oftentimes has no returning point. The most notable changes are brought out on this running track.
NIKE’S STRATEGY IN THE OREGON CLUSTER

Sweatshops
- Since 1972 Nike has had manufacturing units in Asia
- Sweatshops require frequent visits to assure the quality and accuracy of the shoes produced
  - Oregon has easy access to Asia - direct flights from Portland International Airport
  - Imports come from Asia - Nike accounts for a large share of Port of Portland traffic

R&D
- Nike Sports Research Lab
- Benefits from a larger talent pool and graduates from the material science program

Innovative Design - core value
- Core value, they differentiate by being brave
- Continuous search for design talent to maintain the production of cutting edge shoe trends
- Benefits from a larger talent pool & Pensole Academy graduates

Marketing
- Partly in-house
- Largest external partner Wieden+Kennedy relocated to Oregon in 2000 & many marketing firms in Oregon
- In-house benefits from a larger talent pool & MSc in Sports Management graduates

Education
- Education tailored for jobs in cluster
- Master of Science in Sports Product Management - Course director is former Nike employee
- Pensole Footwear Design Academy - founder former Nike employee
- Oregon State University - material science program
- The graduates of these education institutions will mostly compete for jobs in large firms.
- The program content might be positively biased to benefit Nike as they are linked with the former employees

Other companies in cluster
- More companies move to the cluster, it increases the competitiveness
- Attraction of more talent to the area which benefits everyone, especially large firms like Nike who have higher headcount
- Result - constant war for talent, but Nike has contracts which don’t allow their employees to work for a competitor within 1 year after leaving.
NIKE: RECENT CHALLENGES

"Slowing growth in North America – share price takes a hit ¹"

**REASONS**

- Rising importance of e-commerce¹
  - Nike has strong dependence on retail stores such as Foot Locker
  - Brick-and-mortar retailers sizing down
  - Negative impact on Nike sales
- Missing out on the athleisure trend - retro styles and sports-inspired shoes for casual wear
  - Adidas learned how to sell sneakers in the US² (potential benefit of being in the cluster)
  - Adidas launched an athleisure line in 2016 which became successful
  - Adidas Superstar best selling shoe of 2016
  - Adidas market share increased at Nike’s expense

**RESPONSE**

- Nike’s response to make sure they won’t miss out essential trends in the future: narrower product line and faster development cycles.³
- Rethinking e-commerce. Amazon and Nike partnered up for the first time in 2017.⁴
- Rethinking retail - the only way to compete in the saturated retail market is by differentiation. Nike announced in Oct 2017 that they are working together with their retail partners to reshape the future of sports apparel retail.¹

**POTENTIAL BENEFITS FROM THE CLUSTER**

- Portland boasts an artisanal environment - potential to benefit from the creativity by hiring the right entrepreneurs to Nike⁵
- Becoming active in the cluster organizations might help Nike to overcome the challenges concerning digitalization
- Taking advantage of the singularity of Portland - trendy culture should help Nike designers to pick up/predict new design trends faster⁵
- Nike could cooperate with local design houses to maintain their design focus and not miss out on future trend waves
POLICY RECOMMENDATION

Currently Portland has 3 major sports teams. These three teams leave out fan-bases of the National Football League, and Major League Baseball. Adding teams from either one of these sports will increase the access of its local footwear cluster to their high-visibility customers in the professional sports world. These teams also act as excellent marketing vehicles to both national and international consumers due to the global popularity of American sports. 1

This increasing global trend is currently untapped by many of the sports shoe companies. The local consumer base is very interested in sustainable and organic materials. Policies incentivizing local shoe companies to expand in this area would secure the long term prospects of the shoe industry and the materials in the company. The portland based company looptworks is a pioneer in this field. 2

By increasing funding and manpower of the Export Promotion Program, Oregon and Portland can strengthen its image as the world’s leading location for shoe design. 3

The more exports and products from Portland the world sees, the stronger the association with Portland will become. 4

The establishment of an Oregon Footwear Board will increase the capabilities of all firms involved in the footwear cluster by ensuring local, state, and national governments are aware of the cluster and avoiding policy changes that may damage its sustainability. The board will also help firms in the cluster stay on top of national and global trends that may affect business. 5

As the history centers for labor become more developed, the price of labor in these countries will increase. By investing in robotics and high tech manufacturing techniques, Portland, and Oregon can ensure the long term health of their footwear cluster. 6

Establish a center of excellence for digital transformation

Collaboration with international educational institutions (e.g. Central St Martin’s, Parsons’s, Bunka Fashion College, Politecnico Milano, ETH Zurich)

Oregon Footwear Board (OFB)

Establish renewable/reusable material initiatives

Attract/Establish Pro Sports Teams

Broaden activities of Export Promotion Program

FIRMS

Global Markets

Other Clusters

Other firms

Government
# POLICY RECOMMENDATION

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<tr>
<td>Oregon Footwear Board (OFB)</td>
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<td>Increase government intervention in the cluster formation</td>
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<tr>
<td>Broaden Activities Of Export Promotion Program</td>
<td></td>
<td>Increases exchange between SMEs and local government</td>
<td>Helps SMEs build collaborations with other clusters</td>
<td>Helps SMEs enter and establish themselves in international markets</td>
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<tr>
<td>Establish a Center Of Excellence For Digital Transformation</td>
<td>Help SMEs to increase their competitiveness</td>
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<td>Drives collaboration with technology-oriented cluster (E.G. Silicon valley)</td>
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<tr>
<td>Attract/Establish Pro Sports Teams</td>
<td>Competing for business with the sports teams and collaborating with other firms to provide services and products for them closes the gap between firms.</td>
<td></td>
<td>Attracts other sports/textile oriented clusters to Oregon/Portland</td>
<td>Raises awareness for Oregon as a sports center</td>
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<tr>
<td>Establish Renewable/Reusable Materials</td>
<td>Would create a new trend at the market and among other firms</td>
<td></td>
<td>Encourages collaboration with other clusters E.G. In research</td>
<td>Raises awareness of Oregon cluster as center of sustainability</td>
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<td></td>
<td>Raises awareness for Oregon cluster among designers and researchers (E.G. With regards to future startups)</td>
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Government efforts targeted directly to the footwear cluster (Oregon Footwear Board, export program, center of excellence) will increase the competitiveness of, and competition within the cluster. This will lead to a stronger cluster overall and a greater global focus on Oregon as a hotspot for footwear and design. Start-up initiatives can also help early stage companies get networked and improve their chances for success drawing further investment and attention to Oregon.

Establishing more professional sports teams in Oregon improves the sophistication and overall level of demand due to the high level product required by professional athletes. This will also boost the image of Oregon as a center for athletics and footwear related to these activities. Launching renewable materials initiatives expands potential demand pool for Oregon footwear products to include customers who are more environmentally conscious and sustainability minded. Renewable materials initiatives will also increase the amount of businesses involved in the sector, boosting chances for innovation, and improving cluster benefits.

Collaboration with international education institutions improves the skilled workforce flow into the cluster. This skilled workforce will also bring families who can improve on other parts of the cluster that may have looser ties to footwear. The more international a city is, the easier it is for foreign investment and resources to be used. These resources will increase the viability of business at any stage and the international attention will further secure Oregon as a center for design and footwear. Establishing more pro sports teams positively impacts the sport culture in the region which will drive demand and investment into better equipment and improved training techniques.

The recommended policy changes increase the attractiveness of Oregon for business in other industries such as research, sports, textiles and technology. The policy changes also improve competitiveness within the cluster adding value over time to moving, or creating a business within the cluster. The more competition and more business is attracted the greater the spillover effect will be leading more available talent for related and supporting industries.

Related and supporting industries

Creation of Oregon Footwear Board brings policymakers closer to the firms in the cluster which makes it easier for the firms to get their preferences represented on a higher level. The creation of a board will also make it easier to contact and support the cluster while also providing a voice to the smaller companies. Not only will policy change demands be easier to make with a consolidated voice, but the voice of smaller companies will also ensure that policy changes do not increase hardship for early stage businesses.

Improved dynamics of the cluster attract other industries into the region which in turn diversify the Oregon industry mix. More diversification diminishes the possible negative impact of chance events (e.g., economic downturn) on Oregon’s economy. Improved dynamics also ensure a stronger more flexible position for Oregon’s businesses in the event a quick pivot or change in strategy is necessary (e.g., a resource shortage, or market disruption). The improved stability.

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THANKS

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