

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

## **THE IMPACT OF CONTROVERSIAL MARKETING IN NIKE STOCK PRICE**

INÊS JORGE PIMENTA | 25832

A Project carried out on the Master in Finance Program, under the supervision of:

Filipa Frade de Castro

03-01-2020

Nike is widely known for its controversial marketing campaigns, which intend to give the company a competitive advantage in the market. In 2019, Nike spent \$3.75bn in advertising and promotion costs compared to \$3.58bn in 2018 and \$3.34bn in 2017. Research shows that being the leading athletic brand comes with a cost, however, is this cost impacting the stock price positively or negatively? This work project analyzed the impact of five of the most controversial marketing campaigns Nike has ever released and evaluated their impact on the stock price. The conclusions were positive, the most relevant conclusion found was that controversial marketing campaigns are better perceived by the market when combined with endorsements and a strong positive social message.

Keywords: Nike, Controversial Marketing, Stock Price, Innovation

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

The purpose of this research was to identify the impact of controversial marketing campaigns on the stock market, specifically the stock price. The subject of the research was Nike, Inc., the world's largest Sportswear brand. Nike, Inc. is well-known for its emotional marketing, including political, social and ethical stances that intend to shock consumers and divide opinions.

This research was conducted using a qualitative methodology, there is however some quantitative features. During the analysis, data was gathered from Reuters Eikon to study the evolution of Nike's stock prices post-controversial advertising campaigns.

Many researchers argue that for controversial marketing strategies to be successful they ought to be practiced by companies with a strong and well-known brand, a solid customer base and a strong client relationship. These arguments are related to the possible risks associated with controversial advertising, since it has the undeniable intention of influencing the consumer and dividing opinions, conversely affecting ideals and sometimes social norms.

Overall, this research intends to show that the controversial marketing strategies executed by Nike, which uphold the beliefs and values of the brand, have had a positive effect on the company stock, in the period post-advertisement release.

In 2009, Philip Kotler and Kevin Keller defined good marketing as successful marketing campaigns that are the outcome of careful planning and execution. In fact, the essential core of marketing is related with identifying and meeting consumer social needs, while delivering value to the shareholders and organization. Companies make use of marketing to gain a competitive advantage in the market. Nike operates in the Sportswear industry, a highly competitive industry where firms need to differentiate themselves through continuous innovation to prevent corporate cannibalism. Companies that operate in intense market environments utilize different management strategies to gain market share.

One way of gaining a competitive advantage is making use of well-planned marketing campaigns to strengthen customer relationships, develop proximity by publicizing the brand beliefs and core values. In most cases, controversial marketing campaigns are implemented with the intention of hedging competition, making use of ethical and political stances to develop an emotional connection with the consumers and exploiting the 'wow' factor.

With the profusion of technology, individuals are daily exposed to more than five thousand ads, most of them subliminal across social media. So, in order to stand out, companies make use of marketing, trying to create value for consumers by studying and interpreting the effects of advertising on consumer decision-making. This process is influenced by a diverse set of factors (e.g. cultural factors, social factors, personal factors, psychological factors) and it is a mix of these factors that determines the impact fullness of advertising.

Nike made use of advertising to establish a closer relationship with their consumers, achieving a competitive advantage over its peers by innovating and taking risks. Many times, well-known brands (e.g. Dove, Coca-Cola and KFC) have explored questionable advertising strategies to differentiate themselves from the competition, releasing ads to incite consumer sentiment and create a widespread social media response.

Throughout the years, Nike has fruitfully used marketing to take a stand and demonstrate its support for equality, strongly opposing to negative social topics, relying on controversial marketing to back social activism. To better understand the impact of controversial marketing on Nike's stock price it is relevant to analyze the advertising history of the brand. Nike started dabbling in social issues back in 1995 with the Rick Muñoz HIV-positive advertising and the "If you let me play sports" ad. Since its early days, Nike's advertising campaigns intended to break down barriers and eliminate social stigmas, promoting an understanding culture. The "If you let me play sports" ad was released one month before the Beijing World Conference on Women having the clear intention of empowering women and

building women's self-esteem, however, some perceived it as depicting women. Both advertising campaigns divided opinions but were important to set the character of the brand and create a connection with the consumer (e.g. I care about the same things you do). Nevertheless, back in the 90's the profusion of information was not as global as it presently is, there were no social media channels such as Twitter, Facebook, Instagram or Youtube that allowed individuals to rapidly proliferate their opinions.

These marketing campaigns had a visible impact on Nike stock price from 1994 (pre-controversial campaigns) until mid-1996 (post-controversial campaign). From mid-1995 onwards the company share price gained momentum and grew rapidly, increasing from \$0.22 in August 1994 to \$0.55 in August 1995 and \$1.56 in August 1996, representing a \$1.34 increase in a two-year period.

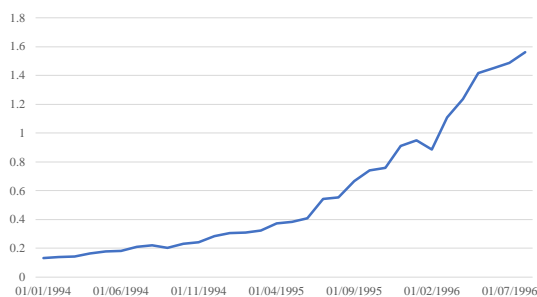


Figure 1: Nike's Stock Price (1994 until Mid-1996)

Most recently, Nike released the 'Equality' and 'What will they say about you?' campaigns in 2017. The 'Equality' campaign featured celebrity endorsers such as LeBron James, Serena Williams, Gabby Douglas, Kevin Durant, Alicia Keys, and Michael B. Jordan, it focused on promoting equality in sports and mostly in society. The latter advertising, 'What will they say about you?', puts Middle Eastern women in the spotlight and it intends to push social norms while empowering women and the presence of Arabic females in sports. This campaign came with the announcement of Nike hijab line.

The 'Equality' campaign had a positive impact on Nike's share price increasing by 8.1%, comparing to the pre-ad period. In contrast, the 'What will they say about you?' advertising

harmed Nike's share price, leading it to flunk for 3 consecutive months (from March to May), with a cumulative loss of 4.6%.

It seems that market perception over endorsement campaigns with a strong social justice message is perceived more positively than those that intend to defy social norms.

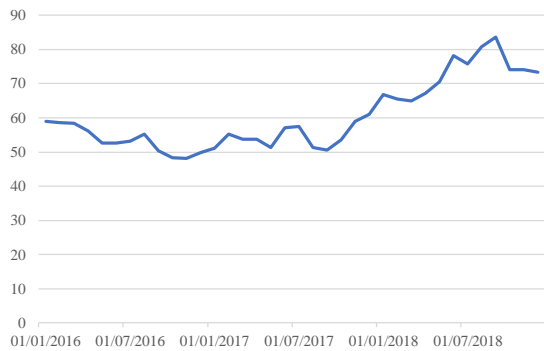


Figure 2: Nike's Stock Price (2016 - 2018)

In 2018, Nike released the 'Dream Crazy' advertising featuring Colin Kaepernick. This campaign intended to celebrate the 30<sup>th</sup> anniversary of 'Just Do It'. This campaign turned viral on social media because it featured the star athlete that was making headlines for protesting police brutality and racial injustice by kneeling during the national anthem. The brand received a lot of backlash by its endorsement choice, many opposed to the commercial and what it represented. However, the campaign aspirational positioning and the compelling storyline was in-brand for Nike. Although, this marketing choice virtually had a negative impact with a 3.2% decrease in sales. The market sentiment was positive, with a stock price increase of 3.3% post-ad, from \$80.9 in August to \$83.6 in September.

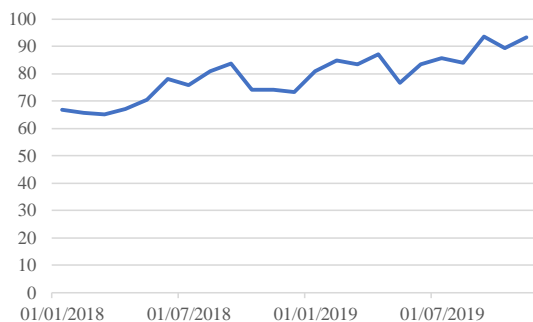


Figure 3: Nike's Stock Price (2018-2019)

Throughout the years, Nike's marketing strategy has been evolving but the core values remain, promoting the brand using emotions and meaningful stories intended to promote empowerment, motivation and aspiration. The company makes use of catchy inspirational quotes, such as their slogan 'Just Do It', to humanize the brand and create an emotional connection, influencing the consumer to purchase their products (Ramnakh, 2016).

The advertising style of Nike combines emotion, innovation, and social consciousness topics, along with a pool of celebrity endorsements that shape the brand and promote its success. In fact, research shows that celebrity endorsements have a positive impact on turnover (+ 4%) and share price (+ 0.25%). However, this positive impact is highly correlated with athlete success and reputation (Elberse and Verleun, 2012). This can be seen in the aforementioned Nike campaigns, which showcase the positive impact of endorsements on controversial campaigns.

Every brand core intention is to maximize shareholder value and develop a strong consumer base. Nike is the strongest and most compelling brand in the Sportswear industry, its controversial and emotional marketing style perfectly suits its target group. This awareness for the consumer allows Nike to experience with sensitive social topics and execute risky marketing campaigns because it cleverly chooses the scandals and types of messages it wants to be associated with its brand values.

This research intended to assess the impact of controversial marketing in Nike stock price, and the conclusions are strong, socially debated topics (e.g. equality, racial injustice, police brutality, feminism) affect the share price. Evidence shows that the combination of controversial marketing campaigns and endorsements have a more positive impact on Nike's share price. Overall, controversial marketing campaigns were found to have a positive impact on Nike's share price in the year of the campaign release, representing a 20% increase compared to the previous year.