Nike Business Model 2026

Idea In Short

Nike makes almost all of its money the same way it always has: designing and marketing footwear, apparel and equipment, then selling it through its own stores and apps or through wholesale retailers. Nothing exotic sits behind that, no subscriptions, no licensing windfall. What changed is the balance between those two channels. A multiyear push to sell more directly to consumers weakened wholesale relationships, trained shoppers to wait for discounts and opened space for rivals like On and Hoka. Fiscal 2025 revenue fell 10% to $46.3 billion and profit dropped 44%. Returning chief executive Elliott Hill is now rebuilding wholesale and resetting pricing under a plan called Win Now, and early fiscal 2026 results show the repair taking hold.

How Nike Actually Makes Money

Nike reports results along two lines: the NIKE Brand, covering footwear, apparel, equipment and accessories, and Converse, a wholly owned subsidiary built around the Chuck Taylor. Within the NIKE Brand, footwear carries the business, accounting for roughly two-thirds of sales, with apparel a distant second and equipment a minor contributor. The company was founded in 1964 as Blue Ribbon Sports by Phil Knight and track coach Bill Bowerman, and it took the Nike name in 1971.[1] A persistent myth holds that memberships or licensing contribute a meaningful slice of revenue. They do not. Nike's apps, including Nike Run Club and Nike Training Club, are free and function as acquisition and loyalty tools rather than billing customers directly.

The Direct-To-Consumer Bet That Backfired

Under former chief executive John Donahoe, Nike pushed hard into direct-to-consumer selling, pulling products from wholesale partners to route more sales through Nike.com, the Nike app and Nike-owned stores. The logic looked sound on paper: skip the retail middleman, control the customer relationship and keep the margin that would otherwise go to a partner. For a stretch, direct-to-consumer climbed toward 44% of NIKE Brand sales. Then the tradeoffs surfaced. Ceding wholesale shelf space handed prime retail real estate to competitors, and Nike's own digital channel leaned on discounting to move volume, which taught shoppers to wait for markdowns instead of paying full price.

The Numbers Behind the Reset

Nike's fiscal year closes on May 31, and the multiyear trend tells the story plainly. Revenue peaked at $51.4 billion in fiscal 2024, then fell to $46.3 billion in fiscal 2025, a 10% drop, while net income sank 44% to $3.2 billion. Diluted earnings per share fell to $2.16 that year, down 42%, and fourth-quarter gross margin dropped 440 basis points to 40.3% as heavy discounting and a weaker channel mix took their toll. Fiscal 2026 brought a bottoming-out: full-year revenue landed at $46.4 billion, flat on a reported basis, with wholesale returning to growth even as profit stayed compressed by tariffs and inventory cleanup.2

Elliott Hill's Win Now Turnaround

Nike's board brought back Elliott Hill, a Nike veteran who had joined the company in 1988 and retired in 2020, as president and chief executive effective October 14, 2024, replacing Donahoe.3 His plan, called Win Now, amounts to a return to fundamentals: reopen wholesale accounts Nike had walked away from, clear stale inventory to reset full-price selling, refocus marketing on performance categories such as running and basketball, and wean Nike.com off constant promotions. In October 2025, Nike also united its Innovation, Design and Product teams across Nike, Jordan and Converse into a single organization built around athletes. The quarter ended November 30, 2025, showed early traction, with revenue up 1% to $12.4 billion and wholesale up 8%, though net income was still down 32% because margin repair lags behind top-line recovery. Nike's chief financial officer, Matthew Friend, described the period as the middle innings of the recovery, a fair label for a business past the worst of the bleeding but not yet running at full speed.

Tariffs, Refunds and a New Kind of Cost Problem

More than 90% of Nike's footwear comes from independent contract factories, concentrated in Vietnam, China and Indonesia, an arrangement that keeps fixed costs low but leaves the company exposed to trade policy. New U.S. tariffs added roughly $1 billion in gross cost pressure for fiscal 2026, and Nike responded by cutting the share of U.S.-bound footwear sourced from China and raising prices selectively. Then the picture flipped. On February 20, 2026, the U.S. Supreme Court ruled that tariffs imposed under the International Emergency Economic Powers Act (IEEPA) had exceeded presidential authority.4 Nike had paid close to $1 billion in IEEPA tariffs and, once the recovery became probable, recognized a $986 million benefit to cost of sales in its fourth quarter, pushing gross margin up 890 basis points to 49.2%. The company has since faced consumer class-action lawsuits alleging it raised footwear and apparel prices to offset tariffs it is now recovering, a dispute that will play out well past fiscal 2026.

Competitors That Moved In While Nike Looked Away

The clearest cost of the direct-to-consumer years was strategic rather than financial: while Nike chased owned-channel sales, running-focused brands On and Hoka grabbed shelf space and credibility in the performance category Nike once owned outright. Adidas kept pressing on lifestyle and football, New Balance quietly built cultural cachet, and Lululemon and Under Armour compete for overlapping training and activewear customers. Nike still holds roughly a quarter of the U.S. sportswear market, and it ranked as teenagers' top footwear and apparel brand in Piper Sandler's Fall 2025 survey, evidence that dominance has narrowed rather than disappeared.5

What the Model Proves About Brand Power

A few conclusions hold up regardless of how the recovery finishes. Pricing power comes from desirability, and constant discounting erodes it faster than any single quarter's numbers suggest, because it resets what customers expect to pay. Owning the customer relationship is not the same as serving the customer well; cutting wholesale partners centralized control but also removed places where shoppers discover and try products in person. Outsourcing manufacturing kept margins high for decades, then trade policy turned that same asset-light structure into a liability within a single fiscal year, which is why sourcing diversification is now a standing board topic rather than a side conversation.

> The brand is the moat, and discounting is the fastest way to drain it.

Key Partners

Nike depends on independent contract factories across Vietnam, China and Indonesia to manufacture nearly all of its footwear and apparel, since the company owns no production facilities itself. Wholesale retailers including Foot Locker, Dick's Sporting Goods and JD Sports remain essential distribution partners, particularly as Win Now rebuilds accounts that were previously scaled back. Sponsored athletes and sports federations extend the brand's cultural reach and validate its performance claims. Logistics and materials suppliers round out a network built for flexibility rather than vertical ownership.

Key Activities

Product design and research sit at the center of Nike's operations, translating athlete feedback and materials science into new footwear and apparel lines. Marketing and brand-building, what Nike calls demand creation, consumes a large share of spending and drives the emotional pull behind "Just Do It." Supply-chain orchestration, coordinating dozens of contract factories against seasonal demand, keeps products moving without Nike owning a single plant. Channel management, balancing Nike Direct against wholesale, has become the most consequential activity of the past three years.

Key Resources

The Nike brand and swoosh trademark are the company's most valuable asset, built over six decades of athlete endorsements and marketing investment. Design and research talent, including work done at the Nike Sport Research Lab, keeps product innovation ahead of low-cost competitors. Athlete relationships, from individual endorsement deals to broader sport partnerships, supply credibility that advertising alone cannot buy. Nike Direct's digital infrastructure, the app and e-commerce platforms, gives the company a data channel wholesale alone would not provide.

Value Propositions

For everyday buyers, Nike sells performance innovation paired with cultural status, a combination few competitors can match at scale. For serious athletes, the value proposition centers on product performance validated by professional and Olympic-level endorsers. For wholesale partners, Nike offers a brand that reliably drives store traffic, even after the wholesale pullback strained some of those relationships. For younger consumers particularly, Nike sells identity and belonging as much as footwear, a positioning captured in

Bill Bowerman's line that anyone with a body is an athlete. Across segments, the common thread is that customers pay a premium for the swoosh itself, not just the product underneath it.

Customer Relationships

Nike's primary relationship model runs through its free membership and app ecosystem, which is self-service and loyalty-driven rather than staffed by dedicated account managers for individual consumers. Nike Direct stores offer in-person service and community events in flagship markets. Wholesale partners function as a distinct relationship layer, requiring account management, merchandising support and inventory coordination. Digital engagement through the Nike, Nike Run Club and Nike Training Club apps keeps the company connected to customer behavior between purchases.

Channels

Nike Direct, comprising Nike.com, the Nike app and Nike-owned stores, gives the company full control over merchandising, pricing and customer data. Wholesale distribution through retailers such as Foot Locker, Dick's Sporting Goods and JD Sports remains the larger revenue channel and the one Win Now is actively rebuilding. Converse operates as a distinct subsidiary channel with its own retail and wholesale footprint. Social media and athlete marketing serve as awareness channels that funnel customers toward both direct and wholesale purchase points.

Customer Segments

Nike's core customer base spans athletes, fitness participants and lifestyle buyers roughly between 15 and 45 years old, skewed toward younger, urban consumers. Performance-focused runners, basketball players and trainers represent the segment most sensitive to product innovation and least tolerant of the discounting that marked the direct-to-consumer years. Lifestyle and sneaker culture buyers value limited releases and brand storytelling over pure athletic performance. Wholesale retail partners function as a business customer segment in their own right, since their purchasing decisions determine shelf space and marketplace visibility.

Cost Structure

Cost of goods sold is Nike's largest expense, shaped by manufacturing costs, freight and, increasingly, tariffs and channel mix. Demand creation, the company's term for marketing and sports marketing spending, ran close to $1.3 billion in a single quarter of fiscal 2025 as Hill's team reinvested in brand visibility. Operating overhead covers salaries, retail store costs, distribution and administration. Trade policy has become a distinct and volatile cost line of its own, swinging from a roughly $1 billion headwind to a $986 million one-time benefit within the same fiscal year as the IEEPA ruling played out.

Revenue Streams

Nearly all of Nike's revenue comes from product sales: footwear, apparel and equipment sold under the NIKE Brand, plus Converse footwear sold under its own name. Footwear is the dominant category within that total, running around two-thirds of NIKE Brand sales. Wholesale and Nike Direct are best understood as two channels for the same revenue stream rather than separate business lines, since both sell the same products at different points of control. Nike carries no subscription, licensing or advertising revenue of any real scale, which keeps the model simple even as the channel mix behind it stays in flux.

- 1Nike company history and founding
- 2Nike fiscal 2026 fourth quarter and full year results
- 3Nike names Elliott Hill as returning chief executive
- 4Nike faces consumer lawsuits over tariff price increases
- 5Nike remains top brand among U.S. teens despite pressure from rivals

Summary

Nike's business model was never complicated: build a brand strong enough that people pay full price for a shoe made in a contract factory for a fraction of that amount. The company forgot that lesson for a few years, chasing direct-to-consumer margins at the cost of the shelf space and cultural presence that built the brand in the first place. Elliott Hill's Win Now plan is a return to that original logic rather than a reinvention of it. Fiscal 2026 results show wholesale growing again and North America back to positive territory, even as profit remains compressed by tariffs and inventory cleanup. The swoosh still commands loyalty that few brands can match. Whether Nike converts that loyalty back into full-price sales at scale is the story to watch through the rest of the decade.