

ATHLETIC & OUTDOOR

A SIGNATURE INDUSTRY FOR THE PORTLAND REGION

**THIS IS WHERE IT ALL BEGAN.
THIS IS WHERE BILL MET PHIL. WHERE GERT PUSHED TIM.
WHERE WIEDEN PARTNERED WITH KENNEDY. IN SHORT,
THIS IS THE EPICENTER FOR INNOVATION IN THE CATEGORY.
WHAT HOLLYWOOD IS TO THE MOVIE INDUSTRY, PORTLAND
IS TO THE ATHLETIC & OUTDOOR INDUSTRY.**

- The best brands in the category live here.
- Other great brands in the category are moving here.
- Having all these great brands concentrated in one region raises the bar for everyone.
- These great brands attract the best talent in the world.
- The best talent in the world love living in Oregon. So they're here to stay.
- This industry is sustainable. In more ways than one.

There has always been a spirit of friendly competition in this industry along with the humanity to collaborate when it helps everyone.

A handful of entities in the area exist for the sole purpose of supporting, encouraging and furthering the success of this region through collaboration, education and innovation.

These entities are as passionate about growing Oregon's Athletic & Outdoor Industry (A&O) as the brands they help support. They have skin in the game. They're invested.

In October of 2009, this group of passionate entities initiated a research project that involved a series of roundtable discussions with Portland and Oregon Athletic & Outdoor Industry leaders. What follows is a summary of some of our findings from this study. We hope that you come away with the same sense that we did: that the city of Portland and the state of Oregon is an exciting place to be if you're an entrepreneur, start-up, existing or expanding firm in the Athletic & Outdoor Industry.

WHY WE DID THE STUDY

We were driven by four primary desires: One, to bring more recognition to the Athletic & Outdoor Industry as a primary source of jobs and economic growth in the region. Two, to define the industry and its unique challenges, opportunities and key competitive markets. Three, to engage the industry in a dialogue that could lead to actions, policies and initiatives that will further the aforementioned economic growth. Four, to identify opportunities for public and private collaboration to leverage the region's competitive advantage as the global A&O hub.

WHO "WE" ARE

The Portland Development Commission partnered with the Oregon Business Development Department, the Oregon Business Council, Impresa Economics, the University of Bern, Portland State University and a number of industry leaders. So, in a real sense, "we" are you.

WHAT WE LEARNED

The A&O cluster is a signature industry for the Portland region and is composed of dominant large companies and emerging small players. The category is fueled by constant innovation and evolution, entrepreneurship and legendary rivalries, balanced with personal cooperation. It is the quintessential global, knowledge-based industry: one that pays high wages to Oregonians based on their ability to create economically valuable new ideas that compete in the global economy. Dynamic, idea-driven and closely tied to the state's ethic of sport and active recreation, the Athletic & Outdoor Industry deserves a more prominent role as a symbol and example of the region's economic prowess.

There are Anchors and there are Entrepreneurs.

The Portland region's A&O cluster is a group of innovative, world-class firms that design, market and distribute footwear, apparel and related gear for sports, recreation and active lifestyles. This cluster is anchored by Nike, the global leader in the field, and includes Adidas' North American headquarters and Columbia Sportswear. The cluster also includes hundreds of smaller firms which develop and market their own products and provide a wide range of specialized services to other firms within the cluster. The competitiveness of the A&O cluster is inextricably linked to the skills, interests and values of its workers, and the local ethos, characterized by active living, sustainability and innovation.

Statewide, the Athletic & Outdoor Industry directly employs more than 14,000 workers and includes more than 700 firms with a payroll. Total statewide payroll in 2008 was nearly \$1.2 billion and average wages are more than \$80,000 annually, about 70 percent higher than the statewide average for all workers. In addition, as many as 3,200 self-employed persons with sales revenues of more than \$95 million are working directly in the A&O industry cluster or in closely related occupations like specialized design services. These statistics reflect only employment in "core" A&O industries. The cluster also generates impact through its purchases from other industry sectors, especially professional services.

The Portland area has the highest concentration of A&O firms in the nation. The region has the highest location quotient for footwear wholesaling of any large metropolitan area and the second highest location quotient for footwear manufacturing. Its A&O firms account for the single largest share of footwear-related patents in the United States and the second highest level of self-employment specialization in the category.

It's not just a cluster, it's an alpha cluster.

Because it integrates design, marketing and global branding, the Athletic & Outdoor Industry has a higher level of recognition than most clusters and contributes additional creative impetus to the regional economy. It is an alpha cluster, meaning that it is characterized by continuous innovation, high wages, strong geographic concentration and strong connections to the culture and quality of life in the community. In the Portland area, the cluster has important business and cultural connections to design, media and communication, as well as to a distinctive local lifestyle and other clusters in music, art and food.

This is high value, high wage work.

The A&O cluster is emblematic of a profound shift in the underlying sources of economic wealth, away from physical production and towards knowledge creation. Some of the early pioneering firms manufactured footwear, apparel and gear, either for local markets or based on local inputs. Danner made boots, Jantzen manufactured swimwear, Pendleton Woolen Mills wove its blankets and clothing, Columbia Sportswear made hats, vests and coats. Today, however, manufacturing locally is the exception, not the rule. Most firms have outsourced their low value, high volume manufacturing to lower cost areas in Asia, especially China, Indonesia and Vietnam. Similarly, most North American distribution activity has shifted closer to the

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population center of the United States (Tennessee, Kentucky, Indiana). The activities that remain in the Portland region tend to be the high value, creative core activities of design, marketing, finance, logistics and management—creating and marketing new products, not producing or moving them. In essence, the Portland area has become the epicenter for designing and marketing these products and managing the entire global enterprise.

The swoosh is not alone.

Historically, there was little reason to believe that footwear firms would flourish in the Portland region. While the area had a few makers of outdoor-related footwear (like Danner and several smaller firms making “brown boots” for logging, construction and hiking) the nation’s footwear industry was historically concentrated in New England, St. Louis and Akron, Ohio (think rubber footwear).

The genesis, growth and success of Nike was the seminal event in creating an Athletic & Outdoor Industry cluster in the Portland region. Phil Knight and Bill Bowerman created a new set of products (high performance athletic shoes) and a business model (global branding of footwear) that dramatically changed the apparel and footwear industries.

As the number one firm globally in this industry—and the number one Athletic & Outdoor Industry employer in the Portland metropolitan area—Nike essentially defined the current version of the industry and many of its workers have gone on to play leadership roles in other firms. Former Nike employees Rob Strasser and Peter Moore were responsible for bringing Adidas’ North American headquarters to Portland and played key roles in helping update the company’s organization and global strategy in the early 1990s. A significant fraction of Columbia Sportswear’s principal managers previously worked with Nike and start-up and small apparel firms around the state frequently employ Nike alumni.

Nike anchors the region’s brand and credibility as a center for A&O businesses. Its scale and economic importance are key drivers for the local economy, with a direct economic impact on the Portland area estimated at \$1.9 billion per year in 2004.

Nike attracts skilled workers to the region and develops the skills of its employees, many of whom go on to work at other jobs in the A&O cluster. Nike provides a business model for other firms and its former employees have started many spin-off businesses, especially in the A&O category. Nike also supports many professional and creative firms as well as self-employed individuals that serve as critical vendors and suppliers. Over time, Nike’s role has changed, while it was the progenitor of the cluster in the 1970s and 1980s, today, Nike employment is less than half of the cluster total. Most of the job growth today is coming from other firms and the cluster is more complex and diverse than in earlier decades.

While Nike is vitally important, the cluster is now much bigger than one business, and is characterized by three distinct sizes of firms: Extra Large (global or regional headquarters, like Nike, Columbia and Adidas, each with more than 500 employees); Large (companies like Leatherman, LaCrosse/Danner, Pendleton and others, employing between 100 and 500 employees); and Small (companies with fewer than 100 employees). The Large and Extra Large firms have global scale, with offices and operations around the world. They operate their own retail stores and distribute products through independent retail outlets. The Small firms in the industry tend to specialize in product design and marketing.

In this particular kingdom, talent is king.

The critical ingredient in the growth and success of the industry is the local talent base. The region’s great environment, abundant recreational opportunities and widespread sustainability ethic attracts and helps root here the kinds of workers who help the industry to flourish.

The creative people who design the products, develop the brands and help market them are at the center of this industry cluster. They are supported by those with the business acumen to manage the financial and logistical aspects of the industry. Large and small firms identify talent as the key competitive factor in the industry and point to the region’s abundant supply of talented workers with experience as the region’s chief economic asset for the A&O cluster.

“THE REGION’S LARGE TALENT POOL IS BOTH THE REGION’S BIGGEST ADVANTAGE AND ITS BIGGEST DISADVANTAGE— BECAUSE IT ATTRACTS OTHER FIRMS THAT MAY HIRE AWAY A FIRM’S OWN TALENTED WORKERS, AND TENDS TO BID UP THE PRICE OF SKILLED WORKERS.”

—Tim Boyle, Columbia Sportswear

That said, access to talent is essential to this cluster’s success. Historically, attracting talented workers to the Portland region has not been a problem, although some in the industry worry that a combination of high personal income taxes and the perception of volatile funding for public schools may make it harder to attract talent in the future. For senior level executives there is also the concern about a lack of other executive level opportunities should the job not pan out and in some cases concern about the spouse’s ability to be gainfully employed.

High wages reflect the key role that talented workers play in this industry cluster. The average wage in the state’s Athletic & Outdoor Industry in 2009 was \$82,700, according to data compiled by the Oregon Employment Department. This is 79% higher than the average wage for all workers in the Oregon portion for the Portland metropolitan area (\$46,233) in that same year. The industry’s high average is the product of both relatively high wages and a disproportionate concentration of the workforce in high wage occupations.

Then there’s that whole “hybrid life” thing.

The ability to combine career with personal passions in a supportive environment is a decisive advantage for this cluster. The boundaries are blurred between an individual’s role as

worker, consumer and citizen. A significant fraction of those working in the cluster—especially the creative workers—are passionate participants in sports and active recreation. They use their own products and they embrace a lifestyle that emphasizes these values. The Portland metropolitan area’s physical and cultural environment provides diverse opportunities and strong support for sports, active living and sustainability. One firm—Keen—has even coined the term “hybrid life” to describe not just the balance between “living and working,” but the combination of the two.

And yet the pervasiveness of the hybrid lifestyle manifests itself in a pronounced schizophrenia about the region’s work ethic. Employers recognize and value the fact that their workers are committed to balancing work and outside interests, but are dismayed, as one put it, that “the parking lot is empty at 5:00 on Fridays.” Despite high pay levels (especially at larger firms), industry leaders say it is not uncommon for people to take—and stay at—lower paid jobs in Oregon, choosing the lifestyle that the region affords them. Many firms were started and staffed by people who had previously worked at larger firms with a higher level of compensation, but voluntarily chose to earn less, instead pursuing another opportunity such as starting a new business.

As it turns out, where we are matters.

The Portland region’s physical environment and emphasis on sports, outdoor recreation and active living are strong complementary assets for this industry. The area’s mild climate and relatively easy access to a wide range of outdoor recreational opportunities (the Pacific Ocean, the Columbia River Gorge, the Cascades and Mt. Hood, Central Oregon’s high desert and the Willamette Valley) make Portland and Oregon as a whole an attractive place for people with an interest in active living. Oregon residents are far more likely to engage in most forms of outdoor recreation than other Americans. The region has many passionate early-adopters and innovative users who have pioneered different kinds of sports and outdoor activities (from running for health in the 1960s to cyclocross and windsports today).

The strength of local recreational participation often plays a key role in the development of new products and new companies. Local companies’ customers—and perhaps more importantly, their employees—take advantage of these sports

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and recreational opportunities, which can provide insights into the development of new products. Pressed to define the reason they locate in the Portland area, A&O firms consistently said, “This is where our company was started... this is where we want to live.” In addition, the ease of finding relatively skilled workers, coupled with the strength of the cultural and physical environment for those interested in active recreation were decisive advantages.

But there is competition.

The Athletic & Outdoor Industry is characterized by competing and complementary clusters. Boston, Los Angeles, San Francisco, New York, Salt Lake City, Ogden and Boulder are all frequently mentioned as prominent cluster locations for athletic apparel, footwear and outdoor gear in the United States. Each has its own strengths and specializations: Boston is a key center for footwear firms, including Reebok (Adidas subsidiary) and New Balance; Los Angeles is a major center for apparel distribution, and has a vastly larger local manufacturing base than Portland; The garment districts in New York still have strong concentrations of designers and distributors, as well as a wealth of suppliers and cutting and sewing contractors that are simply not found in Portland; The San Francisco Bay Area has many outdoor and outerwear firms; and Boulder is strong in outdoor gear and apparel.

It's a globalized world, after all.

All of the firms in the outdoor lifestyle industry are affected by global scale competition. The ability to navigate the global supply chain is an essential skill for most firms. They must learn to source product globally and sell product nationally and internationally in order to be successful. That said, the widespread availability and reliance upon contract manufacturers in Asia (primarily in China's Pearl River Delta) means that sourcing and manufacturing cost are no longer key competitive differentiators. All firms face roughly the same production costs. With the playing field even, innovation and speed to market have become the new competitive edge. Predicting, responding to and shaping market trends is a key driver of success in the industry. One critical element of success is speed: shortening the cycle of designing new products and reducing the amount of time between production and delivery can be the difference between profit and loss. Going forward, the industry needs to continually develop new products and new designs in order to be successful and the challenge has grown greater over time with the proliferation of competitors, market niches and product diversity.

The friendliest of enemies.

The rivalry among individuals and firms in the Athletic & Outdoor Industry is legendary. And while it continues in earnest on some levels—competing for market share, signing endorsement contracts, hiring employees and developing new products—company representatives said that at the personal level and within the region there is a widespread ethic of cooperation. For example, the frequent movement of workers between firms in the industry fosters a web of cross-company professional contacts.

The large firms (Nike, Adidas and Columbia) know that the presence of a cluster of firms works to the benefit of all, as evidenced by their collaboration on selected issues such as trade and tariff regulations affecting footwear and apparel imports and anti-counterfeiting initiatives. Not to mention the one aspect that is somewhat unique to the region and to the cluster itself: its unusually high level of philanthropic and community engagement.

So many shades of green.

The emerging green ethos plays a dual role in the A&O industry: in a general sense, it increasingly defines the industry's core values—and more specifically—it stimulates product and market innovation, driving more environmentally friendly products and processes. Embracing sustainability as part of corporate culture is helpful in attracting and retaining talented young workers, who seek employers that embody and apply sustainability as part of their business strategy. Sustainability strategies are also seen as risk-avoiding: getting ahead of the curve in developing alternative materials and processes helps insulate the company from the negative effects of higher oil prices, tougher product safety regulations and changing consumer tastes.

Sustainability has also served as common ground for industry-led cooperation, evidenced by the recently developed Eco Index. The Index offers companies a way to benchmark and measure their environmental footprint, informing sourcing and product improvement decisions. The initiative is being led by the Outdoor Industry Association and has received seed funding from the Portland Development Commission.

The only constant.

The Athletic & Outdoor Industry is marked by continuous change, frequent mergers, acquisition and growth. Major brands (Nike, Adidas, and Columbia) are seeing their global markets expand as incomes rise around the world and interest in active lifestyles grows. New entrants are identifying, developing and expanding niche markets for specific products and activities. Talent moves between and across companies. New firms start up and begin to grow, with a few expanding to become established players in the industry, while others remain as small “lifestyle” companies. Acquisition of small growing firms brings new ideas and competencies into larger firms and recapitalizes investors and entrepreneurs. Even closures can prompt dislocated workers to start their own firms, ultimately triggering further growth. The cluster has continued to grow by the relocation or expansion of A&O firms from other locations to Oregon, such as Keen, Icebreaker, Yakima, Merrell, Hi-Tec and Li Ning, drawn to the region because of the access to talent, supplier network/infrastructure and lifestyle.

Product development demands constant innovation, research and improvement and Oregon-based firms account for a high fraction of the patents issued for innovations in footwear manufacturing. Several of the larger companies have begun to integrate more sophisticated technology into their products and technology will play an increasingly critical role in product performance, business costs and sustainability goals.

WHAT WE'RE DOING WITH THESE INSIGHTS

The A&O cluster is an industry on the move and Oregon is the place to watch in terms of innovation and visionary leadership. To stay ahead of the curve and continue to grow the category, we need to keep pushing the boundaries of what's possible. To that end, we have developed a number of initiatives and programs designed to leverage the region's unique competitive advantage. They fall into one of six primary areas of focus.

Area 1: Leadership

We will promote the region's leadership position as the world's premiere A&O industry cluster. We will continue to support and engage with the OIA Eco Index. We will look for appropriate opportunities to promote specialty manufacturing in the region. We will support the industry's use of technology in lean manufacturing processes, material innovation, and leadership in sustainability.

Area 2: Connection

We will invest in supporting the array of smaller networking organizations that link the industry together. We will develop cross-cluster connections to the region's other “alpha” clusters. We'll capitalize on the Portland Center for Design & Innovation as a means for providing specific technical assistance to A&O firms and a venue for encouraging industry collaboration.

Area 3: Development

We will seek to develop globally competitive schools that prepare Oregonians for jobs in this globally competitive industry.

Area 4: Entrepreneurship

We will work to improve working capital availability to nurture start-up and small firms and work with entrepreneurs and business leaders on business climate initiatives that keep Oregon and the region a fertile ground for entrepreneurial activity.

Area 5: Policy

We will educate policymakers and elected officials on the economic impact and critical importance of traded sector industries like A&O to the health of the state and regional economy. We will address key state and local policies on taxes and education funding. We will seek to expand the public sector economic development portfolio to address the specific challenges of A&O as a globalized, knowledge-driven sector of the economy.

Area 6: Communication

We will endeavor to become a communications hub for all of this activity, developing pieces like the one you're reading as well as an ongoing Action Plan, which will serve as a living, breathing document that reflects the activities, opportunities, goals and priorities of this effort as we move forward.

WHAT YOU CAN DO:

ENGAGE. BE INVOLVED. TAKE ADVANTAGE OF THE OPPORTUNITIES FOR EDUCATION, CONNECTION AND CO-OPERATION. CONTACT THE PDC WITH ANY QUESTIONS, SUGGESTIONS, CONCERNS OR IDEAS YOU MAY HAVE. ABOVE ALL, CARE. BECAUSE WE HERE IN OREGON SHARE A UNIQUE PLACE IN HISTORY AND AN UNPRECEDENTED OPPORTUNITY TO LEAD THE WAY. TO DEMONSTRATE, BY EXAMPLE, THE POWER AND POSSIBILITIES OPEN TO ANY COMMUNITY WILLING TO STOP TALKING ABOUT CHANGING THE WORLD AND JUST DO IT.



Data current as of November 2011.