

Athletic & Outdoor

Building a Strategic Plan for the Industry





A&O Young Professionals Summer Bike Tour (2016)

Oregon's Signature Industry

In 2010, business leaders, along with city and state officials declared the Athletic & Outdoor (A&O) industry “the signature industry for the Portland region.” It was an obvious candidate. The City of Portland’s economic development strategy highlighted A&O as one of four major industries that would be responsible for job creation and increased economic activity for the region. It is an industry inspired by Steve Prefontaine and built by Phil Knight, Bill Bowerman, Gert Boyle, Dan Wieden, and many others. It is also an industry that benefits from irrevocable regional advantages: a temperate climate, a diverse geography, and a culture of competition, innovation, and trade.

The industry is made up of companies large and small, with the average Oregon A&O company employing less than 30 people. In the years since the release of the 2010 A&O industry report, “Athletic & Outdoor, A Signature Industry for the Portland Region,” the industry has grown to include many companies that manufacture goods in Oregon. The A&O industry comprises a variety of consumer goods companies producing apparel, footwear, gear, bags and accessories, bikes and bike accessories, knives and tools, and fashion, as well as the suppliers and business services that create important support systems for the A&O industry to thrive.

The industry’s performance in the intervening years has fully validated that 2010 declaration. Success begat success. Already a magnet for the world’s best design talent, the industry’s pull and scope intensified over the last seven years. Arrivals created new firms and inspired industry-leading companies to expand their local presence. Employment in the industry grew by almost 50 percent between 2005 and 2015.



Jose Martinez, founder and owner of Orox Leather Co.

Prosper Portland and other regional and state economic development agencies worked with the industry to develop programs, events, and organizations to benefit and grow the industry, including:

- The Entrepreneurial Peer to Peer Program: designed to help growing A&O companies understand business basics and learn from experts. The program has helped nearly 40 companies.
- The A&O Young Professionals Group (AOYP): an industry-led group that seeks to provide opportunities for education and networking for the ever-growing population of new talent within the A&O industry. The group organizes monthly meetups and 2-3 larger events a year within the Portland region.
- Oregon Outdoor Alliance: a 250-member partnership with Business Oregon, EDCO, and local A&O businesses, OOA seeks to connect and cultivate the outdoor industry in Bend and beyond.

Once primarily a Portland story, the industry has spread to Bend, Hood River, and Eugene. There, the formula for success has been the same as in Portland. Entrepreneurs with a deep passion for the outdoors look for communities where they can grow a business in supportive cultural and industry ecosystems and enjoy an unparalleled quality of life. Mt. Hood, Mt. Bachelor, the Steens, the Wallowas, the Columbia Gorge, Smith Rock, and Crater Lake are here to stay, and so is our world-class A&O talent.

If the 2010 report got anything wrong, it may have been the scope. A&O is the signature industry for the Portland region,

but has also quickly become a signature industry for all of Oregon.

Why This Update

The A&O industry and Oregon have gone through remarkable changes since 2010. When the first report was published, the state and the nation were just emerging from a deep recession. Economic expansions typically favor Oregon, and this one has been no different. By 2016, industry growth hit an unprecedented pace with multiple companies growing aggressively at the same time.

Today, the industry looks to a future of opportunity and change. The most promising trend is the unrelenting growth of the global middle class. Populations are moving from farms to cities—especially in Asia—and turning into consumers. An estimated 140 million people join the middle class each year. In a few years, the rate could increase to 170 million per year. By 2020, the majority of the world's population will live in middle-class or upper-class households for the first time ever.

Simultaneously, Oregon's population is rapidly diversifying, which could help the A&O industry connect to global customers. Success here hinges on Oregon and the industry putting strong education, training, and recruitment processes in place to build a pipeline for increasingly sophisticated work.

Lastly, technology is disrupting the relationships between designers, suppliers, manufacturers, distributors, retailers, and consumers. A&O firms large and small will need to reorganize collaboration during product development, revamp

manufacturing processes, and find new ways to connect with customers. And they must expect that those relationships will change every few years.

In the context of this unprecedented opportunity and change, this report has three aims: One, to provide an update on the industry's remarkable growth since the recession's end. Two, to engage the industry in a dialogue that could lead to strategies and initiatives that could further strengthen its position. Three, to identify opportunities for public and private collaboration to leverage the state's competitive advantage as the global A&O hub.

Oregon A&O Industry by the Numbers

49.3%

Industry employment growth 2005-2015

822

Number of A&O establishments, 2015

\$3 billion

Total payroll

1,300,000 square feet

New office space created in Nike's HQ expansion, starting Jan 2015

+160,000 square feet

Additional space leased or purchased by other industry leaders—Adidas, Columbia Sportswear, and Under Armour—between 2015 and summer 2017



BlackStrap Industries Inc. in Bend, OR

Trends and Events That Shape the Industry

As industry leaders sat down to develop a strategic plan, they took stock of recent trends and events. They described a competitive landscape undergoing constant change. Setbacks and challenges exist, but they are outweighed by progress and opportunities.

A&O Leads the Way in the Recession Recovery

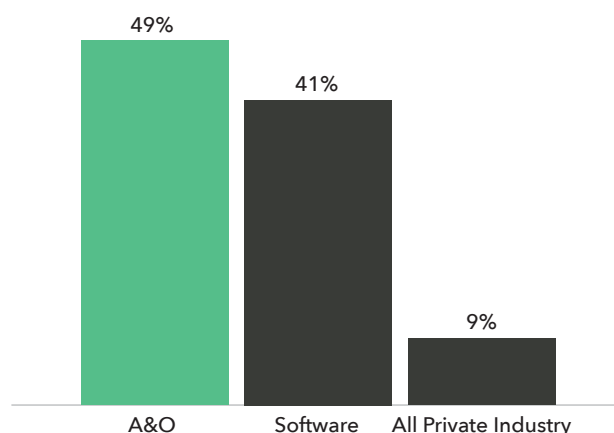
The industry's numbers speak for themselves. Employment in the A&O industry grew from 13,816 to 20,626 in the decade between 2005 and 2015. That's just shy of a 50 percent increase in jobs during a period when Oregon suffered one of the toughest economic downturns in its history. By contrast, private sector employment—measured across all industries—grew by only 9 percent.

“I don’t know that we’ve ever seen a time when so many companies are aggressively growing at the same time.”

Jennifer Nolfi, Portland State University

Those jobs were created by expansions of existing firms and the creation of new ones. Nike embarked on a massive buildout of its global headquarters. Adidas absorbed a 25,000-square foot former call center into its North Portland

Job Change in Oregon, 2005-2015



campus. Columbia Sportswear acquired a new building to help accommodate its 1,000 staff and headquarters.

But the growth wasn't limited to the Nike, Adidas, and Columbia expansions. The decade saw the number of Oregon A&O firms increase by 19 percent, from 691 to 822. Startups included Cairn, CiloGear, Goumikids, TREW, North St. Bags, Moxie & Moss, Portland Gear, WILD Outdoor Apparel, and Breadwinner Cycles to name a few.

And, further demonstrating the region's pull, Under Armour acquired a 68,698 square foot former YMCA building and expanded it by 40,000 square feet. A company spokesperson told the Oregonian, "Portland has emerged as a strategic hub for the brand, where we will continue to attract and hire best-in-class

talent.” The company opened its Portland headquarters with 100 employees in February 2017 and expects to double that over the next several years.

Nike Doubles Down on Oregon

In 2012, Nike looked to the future, saw a rapidly expanding global middle class, and plotted an aggressive growth strategy that included a headquarters buildout. Wanting to call Oregon home for the coming decades, they negotiated for some tax certainty in exchange for job creation. What came next beat all expectations.

The headquarters expansion will add three office buildings with 1.3 million square feet and three parking garages with 4,000 stalls. Reviews of the Nike plans suggest the project cost at least \$350 million—a well-timed boost to the region’s construction industry as it continued to recover from the Great Recession.

The new space could eventually accommodate up to 7,000 additional employees. Its headquarters’ job count exceeded 10,000 in 2016, making Nike the second largest private-sector employer in Oregon.



Pensole Footwear Design Academy in Portland, OR

A&O Extends Across Oregon

The economic recovery has seen not only a surge in jobs but also an expansion of the industry’s geographic footprint. What was a handful of successful firms outside Portland has turned into the stable, growing A&O networks in Bend, Hood River, Eugene, and elsewhere. The recipe for success is similar: outdoor enthusiasts with strong entrepreneurial streaks are looking for market opportunities and great places to raise their families. They are finding those opportunities across Oregon.

“Outdoor recreation is in Oregon’s DNA.”

Governor Kate Brown and Portland Mayor Ted Wheeler

Bend, anchored by Hydro Flask and Ruffwear, has added Gobi Gear, Snoplanks, Cairn and a long list of new arrivals. Now, A&O firms and local-sector partners have created the Oregon Outdoor Alliance, with 37 company members and the goal of connecting and cultivating the outdoor industry in Bend and beyond. “You can commiserate together. You can celebrate together. It’s engagement. It’s networking. It’s education,” says Cairn co-founder Rob Little. Bend Outdoor Worx adds additional support: the accelerator, founded by local industry experts, helps startups with strategic, legal, financial, marketing, and product development advice.

Similar networks are evolving in Hood River. The area’s world-renowned windsurfing conditions have attracted gear manufacturers and athletes. In

June 2017, local entrepreneurs organized Outfound—an experimental conference connecting outdoor enthusiasts with leading brands in the outdoor industry. Bend Outdoor Worx—along with Vibram, PrAna and others—sponsored the three-day event, which featured presentations by industry executives, investors, and leading adventure athletes.

TrackTown Reinforces the Oregon A&O Brand

The fortunes of Oregon's A&O industry leaped ahead on the track at Eugene's historic Hayward Field. Premier events hosted at Hayward Field have transformed Eugene into the undisputed track and field capital of the United States and a home to athletes from across the world. The nonprofit TrackTown USA organization was responsible for organizing 20 top collegiate and amateur events during 2008-2017, including the 2014 International Association of Athletics Federations (IAAF) World Junior Championships, the 2015 USA Track & Field Outdoor Championships, the 2016 IAAF World Indoor Championships in Portland, the 2016 U.S. Olympic Team Trials—Track & Field.

Dustin Pearce, co-owner of Run Hub Northwest, explained the draw of Hayward and Eugene to the BBC. "There's no other environment in the country for track and field like Hayward Field. The athletes talk about the Hayward Magic. They feed off the energy of the fans. For a lot of runners, it's a pilgrimage. They want to make it out here because they want to be in a place where people appreciate the sport at the same level they do."

History was made when the IAAF awarded the 2021 World Championships to the United States and the state of Oregon. The championships, which will be the largest sporting event in the world in 2021, with nearly 2,000 participants, will take place August 6-15. The event is expected to attract almost 55,000 visitors, including athletes and staff who will arrive early to train in Oregon.

Industry Partners Grow and Prosper

All good traded-sector companies—those that sell outside the state and country—know their success is built on a foundation of a vibrant local sector: schools, colleges, banks, advertisers, architects, attorneys, builders, management consultants, and others. There's no better example of a talented local sector actor than the Portland State University graphic design student who designed the iconic Nike "swoosh."

An industry's growth accelerates when the two sectors find a rhythm, build knowledge together, and reinforce each other's strengths. A&O firms hire advertisers and branding experts to market their goods to diverse populations. They hire attorneys to negotiate contracts and navigate trade policies across the world. They turn to local schools, colleges, and universities for an educated workforce.

Stoel Rives, Lane Powell, Perkins Coie, D.A. Davidson, and Ziba Design were pioneering collaborators in what has become a sizable constellation. In many cases, their A&O work has become so strong that local service firms have transformed into international players.

Wieden+Kennedy, which got its start with Nike, now has offices in Amsterdam, Delhi, London, New York, Sao Paulo, Shanghai, and Tokyo—in addition to its Portland headquarters.

The creation of new degree and certificate programs at regional universities is a clear sign of the industry's maturity. In 2012, Portland State University launched A&O certificate programs at the undergraduate, graduate, and executive levels. In 2013, the University of Oregon created sports product management programs for undergraduate and graduate-level students.

New Technology Disrupts Everything from Design to Delivery

New technologies—from 3D printers and drones to machine learning and wearables—are disrupting all aspects of the A&O industry. The means by which entrepreneurs design, test, manufacture, and distribute their products are rapidly evolving.

Nike's recently announced Consumer Direct Offense is a response to a variety of technologically driven opportunities and disruptions. The initiative's goal—double the pace of innovation, double product creation cycle time, and double direct connections with customers—is illustrative of the demands on all industry players. Large or small, new technologies will allow will the industry to design, test, and manufacture new products at a faster pace and lower cost.

How firms get their products to customers is changing given sharp declines in the

conventional retail sector. Sports Authority has liquidated. Foot Locker's weak Q1 2017 earnings triggered a sharp decline in its stock price. A long list of venerable retailers—including J.C. Penney, Macys, Sears—have announced store closures. Analysts attribute the abrupt decline to customers turning to online shopping.

Technological change will demand a constant reevaluation of product conception/design processes, supply-chains, manufacturing processes, distribution, and more. Those that fall behind will quickly go out of business.

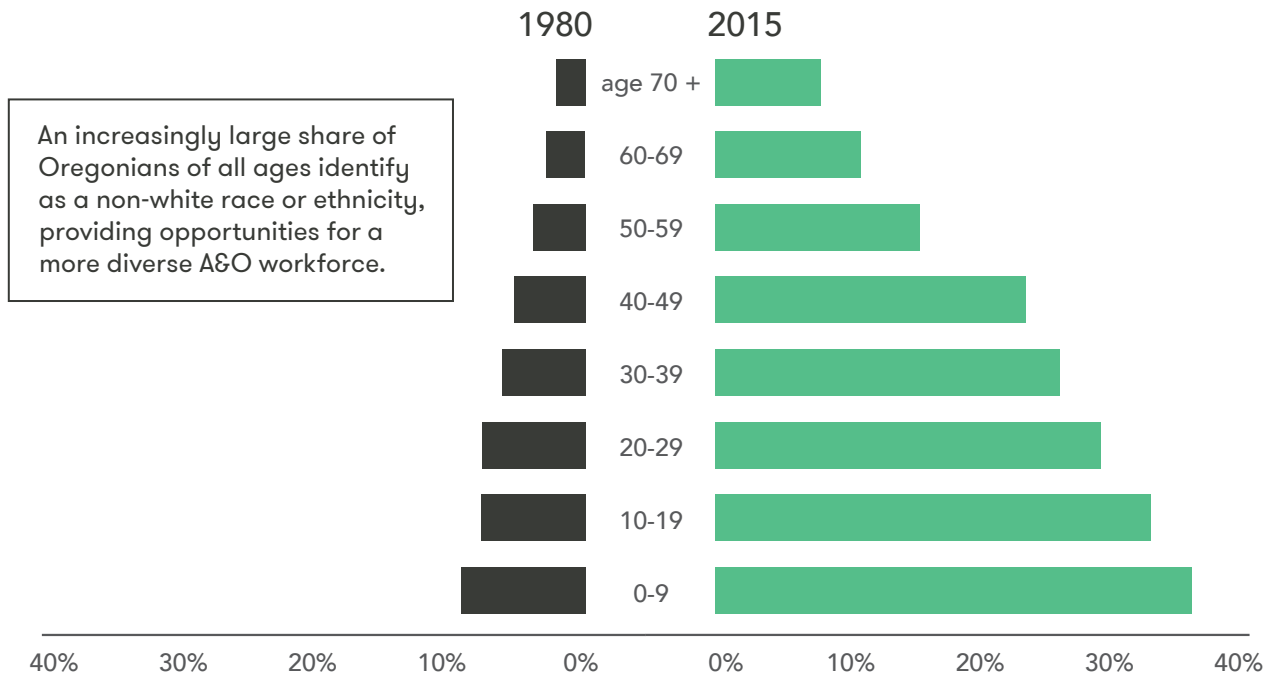
Inequality Spurs Calls for Economic Inclusivity

The Great Recession laid bare stark inequities that had developed in the American economy. A new generation of economic developers, concerned by those trends, has redefined success in regional job growth strategies. High-paying, traded-sector jobs are necessary but have insufficient outcomes. Development agencies seek inclusive growth that creates jobs at the middle- and high-wage levels, supports healthy communities throughout the state, and fosters wealth creation among traditionally disadvantaged populations—and particularly communities of color.

Inclusive growth will require intentional focus and attention. The industry has excelled in creating high-wage jobs but lags on measures of inclusivity. For example, the *Prosper Portland 2015-2020 Strategic Plan* found only 7 percent of the industry's jobs in the city were middle-income jobs—well

Oregon's Changing Demographics:

People of Color as a Share of the Population, by Age Group, 1980 and 2015



below the shares posted by other clusters. Similarly, only 21 percent of the jobs offered an average salary of \$42,000 per year or higher—Prosper Portland's benchmark for a "quality job."

Oregon's Diverse Workforce Offers a Key to Growth

Almost 40 percent of Oregon kindergarteners are racial/ethnic minorities—or more than four times the rate of the state's retirement-aged population. Designing education programming and career pathways to Oregon's top industry clusters, including A&O, is an economic necessity. Absent strong education and training systems

that prepare Oregon's increasingly diverse population for higher-skilled, complex work, the A&O and other industries will encounter persistent workforce shortages that stifle growth and innovation.

Oregon's growing ethnic and racial diversity is a competitive advantage in a globally connected economy. Fully tapping the consumer power of the global middle class will require Oregon's A&O firms to increase the diversity of their workforce. Employees with diverse racial, ethnic, and global backgrounds are critical to understanding the tastes and desires of rapidly expanding markets across the world.

A Growing Global Middle Class Drives Demand

While recent U.S. economic news has been uneven during the recession's recovery, much of the world is transitioning from rural to urban and from poor to middle class. That bodes well for the industry, and it's a big opportunity for Oregon firms.

In 2015, about 3 billion people were considered middle class—defined by incomes between \$11 and \$110 per person per day. As a group, they spent an estimated \$35 trillion—or \$12,000 per person. By 2030, the global middle class is projected to grow to 5.4 billion people, with estimated spending of \$64 trillion (constant 2011\$).

The growth is concentrated in Asia. Estimates suggest that China's middle class consumption will more than triple during 2015-2030—from \$4.2 to \$14.3 trillion. India's middle class consumption is expected to increase more than five-fold from \$1.9 to \$10.7 trillion.

“It’s not just the prosperous West buying athletic products. Vast new markets of middle-class consumers in China, India, and elsewhere in the developing world have been sold on running shoes and yoga pants.”

“Booming Sports Companies Look to Fill Hundreds of Jobs,” *The Oregonian*

With the unprecedented expansion of the global middle class, an increasingly well-off population will focus time and resources on sports and fitness. Asia's rapidly growing

economies were key to former President Obama's support for the Trans-Pacific Partnership (TPP). Although the Trump Administration has withdrawn from the TPP agreement, the economic trends that inspired it are still a reality.

In 2016, Jay Sole—a footwear and apparel analyst at Morgan Stanley—projected 30 percent annual sales growth through 2020, based on expanding consumer markets in China, India, and other developing nations.

Success will take work. With new markets come changes in consumer preferences and competition. And, while there will be temporary setbacks, the near doubling of middle class consumption over the next 15 years—with much of it in Asia—is great news for the industry and Oregon.



Angela Medlin, founder of The Functional Apparel & Accessories Studio (FAAS), an intensive design program in partnership with Pensole Academy and the Pacific Northwest College of Art.



Kate Day, Sara DeLuca, and Kyle Begley, founders of Moxie & Moss Workwear

A&O Industry Growth Since 2010

A selection of companies and programs that started, expanded, or relocated to Portland or Oregon in the years since the previous study.

- **Antigravity Equipment**
- **BlaqPaks**
- **Brandlive**
- **Chrome Industries**
- **Compass PR**
- **Cyclepath**
- **Evo**
- **Gladys Bikes**
- **Goumikids**
- **House of Castelleon**
- **Islabikes**
- **Little Package**
- **Make It Good**
- **Mathys+Potestio**
- **Minnie and George**
- **Moxie & Moss**
- **Olderbrother**
- **OSU - Cascades: Tourism, Recreation, and Adventure Leadership undergraduate program**
- **Pensole Footwear Design Academy**
- **Portland Accessories**
- **Portland State University: Athletic and Outdoor Product Management masters program**
- **Revant Optics (Society 43)**
- **Seamus Golf**
- **Shwood**
- **Smith Optics**
- **Splash Northwest**
- **Spooltown**
- **The Clymb**
- **The Fit**
- **The Good**
- **Truce Designs, LLC**
- **Under Armour**
- **University of Oregon: Sports Product Management masters program**
- **Windpaddle Sails**

A Strategy for a Vibrant Industry Cluster

During spring 2017, Prosper Portland, Business Oregon, Portland State University, and ECONorthwest convened A&O industry leaders in a series of focus groups across the state. Participants offered insights on the industry's competitive position. They stepped through a strategic framework maintained by the Oregon Business Plan (OBP), which is focused on the 4Ps for Prosperity:



Working in the OBP framework, industry leaders helped to identify five goals and six possible actions that would deepen the industry's competitive advantage during the next several years.

People

Goal 1: Focus on local K-12 outreach and create a pipeline to Oregon A&O university programs.

Oregon higher education institutions, like Portland State University and the University of Oregon, have developed A&O industry-specific programs to generate talent in this field. New programs are being added, with OSU Cascades Campus in Bend debuting its four-year degree in Outdoor Projects in fall 2018. The progress to date is impressive, but more can be done to expand the local talent pool. Oregon's high schools provide a ripe opportunity for increasing awareness of the variety of job prospects within the industry. Providing pathways for youth from high school will also support goals to increase access and inclusion within the local industry.

Statewide programs like Oregon Connections, a web-based tool for connecting industry professionals in the classroom, provide additional opportunities for A&O industry professionals to follow up and continue to connect to Oregon classrooms throughout the year.

Proposed Action: Work with the Office of Outdoor Recreation, if established, to create an A&O Industry week within Oregon high schools, developed in coordination with A&O businesses and university programs.

Goal 2: Increase the recruitment and retention of diverse employees at companies in the A&O industry.

Focus group attendees said it is difficult to both recruit talent from diverse backgrounds, and retain those individuals. They cited the absence of an inclusive workplace culture and broader community as the source of the problem. National industry organizations, like Camber Outdoors, have developed CEO diversity commitment programs to modify recruitment practices, culture-building practices, and performance monitoring with the goal of expanding representation and opportunities for women within the outdoor industry. This program and others can serve as a guide for the development of broader diversity goal setting for local industry leaders.

Proposed Action: Work with hiring/HR departments and executive recruitment firms to develop an inventory of current industry diversity recruitment and retention efforts and develop goals for improving local industry diversity.

Proposed Action: Develop a network of organizations and training programs that companies can use to learn how to develop an inclusive culture.

Productivity

Goal 3: Enable small- and medium-sized A&O businesses to access back-of-house services and scale more efficiently.

Small- and medium-sized business in all

industries face issues around scaling operations and developing a reliable pipeline of talented employees. The A&O industry in Oregon is no different. Similar industry groups in other regions have developed networks of shared services that provide support tailored to industry needs. These could include physical shared spaces, such as manufacturing facilities, as well as back-of-house services, like accounting or IT. Users of shared services networks benefit from both the networks' specific industry experience and access to necessary business services at a lower rate than hiring in-house. Shared services networks have the benefits of: (1) offering necessary business services at a lower rate than hiring in-house, and (2) accessing those services from a network with specific industry experience.

Proposed Action: Develop a shared services network for small- and medium-sized A&O companies.

Place

Goal 4: Foster community and collaboration in the A&O Industry.

A sense of community is integral to a high quality of life. In some Oregon regions, the A&O Industry has organized regular local events, such as Portland's A&O Annual Industry Celebration, which seeks to highlight emerging trends or A&O leaders in the Portland region, or the Backyard Collective day of action—an event held in multiple Oregon cities in collaboration with local environmental conservation and industry organizations.

The recent passage of HB 2143 established the first Saturday in June as Oregon Outdoor Recreation Day and creates an opportunity for regional and statewide collaboration. An industry event hosted on this day would not only help foster community within the industry, but could also support causes and organizations aligned with the A&O industry such as education, conservation, and innovation.

Proposed Action: Organize a “Day of Action” for the A&O industry, in coordination with the Oregon Outdoor Recreation Day, and collaborate with industry and community organizations from across the State of Oregon.

Pioneering Innovation

Goal 5: Unify Oregon regions under a cohesive message.

Individual regions in Oregon have their own strong reputations for some element of the A&O industry: Portland has major industry headquarters, Bend has niche manufacturing, Hood River has a robust outdoor recreation industry. These regions have been successful in marketing themselves, but the State does not have a cohesive brand or marketing strategy for the industry. A statewide marketing strategy would enable Oregon to better compete with states like Utah and Colorado, which have unified their A&O industries and brands under their respective statewide offices.



A&O Young Professionals Group monthly meet up

Proposed Action: Establish a statewide brand for the A&O industry and, if the State approves an Oregon Office of Outdoor Recreation, partner with that office to develop a statewide marketing strategy.

Next Steps

Working groups focused on each of these goals will be convened to further elaborate on the proposed goals. Proposed goals will then be finalized and Prosper Portland, along with industry partners, will measure progress on the goals annually.



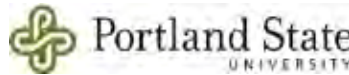
A&O Young Professionals Committee at the 2017 Summer Event

2017 Athletic & Outdoor Annual Report

For more information visit AOPortland.com



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