The Jordan Effect
The world’s greatest basketball player is also one of its great brands. What is his impact on the economy?

By Roy S. Johnson
Special Reporting By Ann Harrington
Reporter Associates Lixandra Urresta, Elizabeth Smith
June 22, 1998

(FORTUNE Magazine) – Words no longer suffice when the subject is Michael Jordan. You need numbers. Call him the very best basketball player who ever lived, and no one puts up much of a fuss anymore: Five championship rings, five MVP trophies, a record ten scoring titles–yeah, he’s got more game than anybody. Ask whether he’s worth all that money he’s paid by Chicago Bulls owner Jerry Reinsdorf, and you’re still not likely to start any bar fights. Sure, Jordan’s salary is some $34 million this season. But hey: since Reinsdorf bought 56% of the Bulls for $9.2 million the year after Jordan arrived, his investment has grown more than 1,000%--the team is now worth well over $200 million.

So here’s a way to ignite a debate about Jordan: Ask the question, what is the bottom-line value of the entire Jordan era?

Beyond his own vast (and growing) personal fortune, if you add up all the Jordan-influenced business--the sneaker and apparel sales, the higher television ratings, the increased game attendance, the endorsement value, the videos, the cologne, and the rest of it--what is his overall economic impact? What is, in essence, the Jordan Effect?

It is 14 years since Jordan arrived in the pros as a skinny, tongue-wagging kid out of North Carolina. Now, at age 35, the Chicago Bulls guard may well be dribbling out the clock on one of the most astonishing reigns in sports history. He said back in October that 1997-98 could be his final season, and as the Bulls battled the stubborn Indiana Pacers late last month in the Eastern Conference finals, the notion of basketball without Michael Jordan loomed larger than it has since, ah, that baseball thing a while back.

During his time in the NBA, Jordan has parlayed his breathtaking skills and overwhelming cross-cultural appeal into an industry, and he’s done it more effectively than any sportsman before him. The man has his own line of underwear, for heaven’s sake. He virtually created the sports video market. His movie vehicle, Space Jam, has grossed $230 million worldwide.

There’s no arguing that Jordan was in the right place at the right time. The entire sports industry enjoyed exponential growth on his watch. What was once a clubby, parochial business with relatively narrow appeal is today a thriving, global, high-tech industry that
attracts fans of all ages, ethnic groups, and cultures. Stadiums are multimedia marketing platforms. Games are valuable programming, fought over by broadcasters around the world as networks and cable channels proliferate. And Jordan is at the center of it all. The NBA compiles a 40-game package for satellite distribution to foreign markets. NBA Entertainment president Adam Silver says that if the international broadcasters were allowed to select the games, the package would contain only Bulls games. “And the Bulls would be playing the Bulls,” Silver quips.

There is also no arguing that Jordan has built on the achievements of some great players before him, particularly Julius Erving, Larry Bird, Magic Johnson, and the others who ignited the league’s turnaround in the 1980s. “They paved the road for me,” Jordan says. “Doctor J was ahead of everybody in bringing business to pro basketball. Then the personas that Magic and Bird carried onto the court--their smile, their competitiveness--changed the way the game was perceived even more. They also began to explore deals with the businesses surrounding the game, not just traditional sports businesses. I just took it another step.”

That is a bit of an understatement, characteristic of a guy who had an old-school upbringing with an emphasis on respect, humility, and a strong work ethic. Those attributes, too, are part of what makes Jordan such an engaging superstar. As is the simple fact that at 6-foot-6, he’s a person of relatively normal stature--not one of those mastodons who play center, but Everyman.

And Superman. “His contribution has been a big lift for everybody,” says Stephen Greyser, professor of marketing at Harvard Business School. “He was like the rising tide raising all boats.” Rick Welts, the NBA’s executive vice president and chief marketer, puts it differently: “If Michael leaves, he leaves having changed the public’s view of what role athletes can play in society--how they can be viewed, how they can be used by corporations, how they can be social icons. He also leaves [the sports business] a fundamentally different industry from the one he came into. How you figure out what he benefited from based on the industry’s growth and what he contributed to the growth of the industry is a question for the ages.”

Where to begin? With the easy stuff--the revenue attributable to the Jordan “brand.” His sports videos have sold over four million copies--including the all-time No. 1, Michael Jordan: Come Fly With Me. Together, they have generated revenue of $80 million. Jordan has inspired about 70 books--Rare Air, The Jordan Rules, Hang Time, and I Can’t Accept Not Trying are foremost among them. Publishing industry executives estimate that together, those four books generated nearly $17 million in sales. Michael Jordan cologne, created by the designer Bijan, has so far had sales of $155 million worldwide, according to the designer’s company. Hanes expects sales of Michael Jordan underwear to exceed $10 million annually. Add those figures to Space Jam ($230 million at the box office and another $209 million in video sales), and we’ve got $701 million in revenues, not including shoes and sports apparel, which we’ll get to shortly. Write it down. Not a bad start.

What the Jordan Effect has meant for the NBA is a far trickier question, but fortunately we can call on some erudition here, in the persons of two respected economists, professor Jerry A. Hausman of MIT and Gregory K. Leonard, director of the consulting firm Cambridge Economics. Last year they reported the findings of an exhaustive study designed to determine the economic value of superstars to the league--including, of course, Jordan.
The research duo’s econometric analysis, published in the Journal of Labor Economics, painstakingly charted and analyzed the league’s television ratings and attendance records, controlling for such factors as the time and day of the telecasts, and the quality of the opponent. For their Jordan calculations, they obtained the reported gate receipts for every team and compared revenues generated when the Bulls came to town with the teams’ average gate vs. other opponents. For licensed products, they used industry estimates that Jordan and the Bulls accounted for almost half of all gross retail sales, then separated the portion of sales attributed to Jordan and not the rest of the team by using a formula you have no desire to know (trust us). What did they learn? Basically, that Jordan is the NBA’s Pied Piper—he puts fannies in the seats and in front of the tube, and drags them into stores around the world. The study showed that Jordan generated $53.2 million for the league during the 1991-92 season.

Thanks, fellas. We’ll take it from here.

We borrowed from their methodology to put a value on attendance data for Jordan’s entire career. Interestingly, his impact on ticket sales throughout the league was immediate, though the Bulls were still misera-bull (38-44) when he was a rookie. Boosted attendance at Bulls road games resulted in a net gain of $2 million over the previous season. By comparing the league’s average attendance (excluding the Bulls) each season with Chicago’s road averages, then multiplying the difference by an estimated average ticket price and the number of games, we determined the Jordan Effect on road gate receipts to be $30.5 million during his career.

The impact was even more dramatic at Chicago Stadium, where Bulls games had been lonely affairs before Jordan arrived as the third pick in the college draft. Local attorney Peter Bynoe, a longtime season-ticket holder, says, “you could shoot a cannon though the place and not hit anybody.” In 1984-85, you would at least graze someone. Attendance soared 87% that season. By the 1988-89 season, the Bulls were selling out every night. Talented forward Scottie Pippen had arrived the previous season in a draft-day trade with Seattle that would be considered larceny in most states (Remember Olden Polynice? We didn’t think so), and the Bulls reached the conference finals for the first time in 14 years. We gave Jordan full credit for any home attendance above the average for the season before he was drafted--minus 2,200 fans per game for the arrival of Pippen, who became an eight-time all-star and the team’s second-most-vital player, and the 4,000 per game gained by the team’s move into the United Center, which occurred during Jordan’s absence. (We also deleted from the equation the two years when he played for the Birmingham Barons in baseball’s minor leagues.) Thus, our total for Jordan’s impact on home gate receipts is $135 million. Added to the road figure, Jordan’s overall impact on NBA attendance is $165.5 million. Write it down. (Subtotal: $866.5 million.)

We strayed somewhat from the Hausman-Leonard formula to determine Jordan’s impact on the league’s television revenues. Why? We couldn’t stomach charting millions of hours of games, okay? Instead we opted to award a percentage of cable and broadcast rights fees paid to the NBA in the ‘90s to the Jordan Effect (in this category, we ceded the ‘80s to Bird and Magic, then worked from a baseline season, 1989-90). We arrived at the percentage by comparing the average ratings of the five NBA finals in the decade in which the Bulls were participants (16.3) with the three series in which they weren’t (12.9). Applying the difference (27%) to the $1.3 billion in rights fees the NBA earned above our baseline season, the Jordan Effect in this category is worth $366 million. (Subtotal: $1.23 billion.)
The league derives about 20% of its revenue from licensing fees (usually 7% of wholesale) for NBA merchandise, which includes everything from “official” caps, shirts, jerseys, and jackets to decorative plates. The rest of the money goes to wholesalers and retailers, so we’ll include their revenue in the Jordan equation.

In 1983, the year before Jordan entered the league, gross retail sales of merchandise were relatively tiny at $44 million. Over the next eight seasons—during the peak of the Bird-Magic era—sales grew quicker than a no-look pass. By the time Chicago won its first championship in 1990-91, merchandising sales had reached $1.56 billion—and Jordan and the Bulls were the darling of the retail industry. Gross retail sales peaked at $3.1 billion in 1995-96 (Jordan’s first full season after baseball). The league says sales have hovered around $3 billion ever since, largely because of a softening in the domestic market.

Except during Jordan’s baseball blip, Bulls apparel has been the league’s top seller since 1989-90. NBA and retailing sources estimate that Jordan’s jerseys account for nearly a quarter of all sales through the 1990s. Hausman and Leonard figured that Jordan was responsible for 20% of the league’s gross retail sales. We granted Jordan the same percentage of gross retail sales for the years he played in since 1989-90 but smaller percentages for his first five seasons. Over his entire career, that works out to $3.1 billion. Write it down. (Subtotal: $4.33 billion.)

When Jordan signed on as a celebrity endorser for Nike in 1984, one of his first questions was, “Who’s my designer?” The inquiry signaled something new for the sneaker folks, who thought their new spokesman might be another passive jock waiting for free shoes and a check. Wrong. “It told us we had someone truly committed to the process,” says Erin Patton, marketing director for the Jordan brand.

Together, Nike and Jordan, along with David Falk, Jordan’s agent, developed a strategy that would let consumers get to know the rising star. Falk even persuaded Nike to spend at least $1 million marketing Jordan, a gargantuan sum at the time. The player’s first commercial performances projected a personality that was still a work in progress. He didn’t say a word in an early Nike commercial, in fact. (The phrase “Who said man wasn’t meant to fly?” flashed onto the screen after a simple slow-motion clip of Jordan soaring toward the rim.) “I didn’t really understand where I was at the time,” Jordan says, “not until the experiences became an integral part of my life and people began to help educate me on various aspects of the game and the economics.”

One of those teachers was Phil Knight, Nike’s eccentric CEO. Knight and his crew were just far enough outside the marketing mainstream to use the Portland, Ore., ad agency Wieden & Kennedy—about as far from Madison Avenue as you can get. Unless you’re from Brooklyn: The agency hired an edgy young filmmaker named Spike Lee to shoot the commercials they conceived for Jordan. Turned out to be genius. Lee recreated his own portrayal of a quirky character from one of his movies—a bicycle messenger named Mars Blackmon—as the centerpiece of a campaign (“It’s gotta be the shoes!”) that not only gave Jordan an engaging persona but also infused urban culture into advertising years before hip-hop and rap pulsed through commercials.

Carefully crafted as it was, the commercial image might not have taken flight had it not been underscored by the drama that took place on a weekend in February 1987, when Jordan won the NBA’s Slam-Dunk contest with a jam for the ages on his final attempt. Check out the
grainy, slow-motion footage. It’s all there. The style, the flair, the tongue—flashbulbs sparkling like starlight as he twisted and leaned and thrust the ball through the rim. From that day forward, it was the shoes. America had to have ’em.

Air Jordans had already jolted the sports shoe industry, selling $130 million in the brand’s first year. (There was a drop-off in year two when Jordan missed 62 games with a broken foot.) By 1990, Jordan products—shoes and apparel—were generating about $200 million annually for Nike. Overall, Jordan products have grossed about $2.6 billion for Nike.

Of course, Jordan’s value to Nike goes beyond just sneaker and apparel sales. A former company executive describes him as the embodiment of Nike’s image. What is that worth? Footwear analyst Jennifer Black believes Jordan’s impact on Nike’s overall image—and thus on how consumers feel about the stuff they produce—is almost incalculable. “I’ve been doing this for 18 years, and I have not seen anything like the power of the name, the ties to the consumer, and the sales generated by him,” she says. “Is it worth double the number he’s done in sales? Maybe.”

Okay, let’s go with it. That multiple places the Jordan Effect on Nike at $5.2 billion. (Subtotal: $9.53 billion.)

Bill Schmidt can actually laugh about it now, but the Gatorade marketing executive nearly committed a flagrant foul on Jordan’s endorsement career seven years ago. He asked the company’s new spokesman to star in a commercial for a ready-to-heat beans-and-franks dish called Beanie Weanies. Honest. The logic? Well, the product was largely distributed in the South, and Jordan was from North Carolina and...hey, it sounded good at the time. “Michael looked at me and said, ‘I don’t think so,'” Schmidt says with a laugh. “He’s still rolling his eyes.”

Jordan’s Beanie Weanies gig would have made for great viewing on the Not-So-Classic Sports Network, but it would have been an ignominious beginning for the man who became corporate America’s most valuable endorser ever. “There’s no one like him in endorsements, period,” says Bob Williams, president of Burns Sports, a sports marketing firm. Yet evaluating the Jordan as Pitchman Effect is maybe the diciest aspect of our exercise. How to measure the impact of a famous face on the consumer’s desire to buy your product? Marketing experts say celebrity endorsers can do any of three things for a company: increase sales, boost awareness, or improve its image. Jordan has accomplished at least one of these for each of the companies he has been aligned with: Coke, General Mills (Wheaties), Wilson, McDonald’s, Sara Lee (Hanes, Ball Park franks), Upper Deck, WorldCom, CBS SportsLine (Website), Quaker Oats (Gatorade), Oakley (sunglasses), and Rayovac. Aligning Jordan with such solid companies was another integral part of the strategy devised by Jordan and Falk. “We didn’t just pick up every deal we could,” says Jordan. “We tried to be selective because we wanted to project a certain image, a positive outlook.” Still, Jordan is a little mystified by how it all worked out. “I never really envisioned myself having any kind of major impact on people,” he says. “I never really thought I could persuade them to pursue something I was involved with or buy a product just because I talked about it. Even now, when I see kids wearing my shoes, it’s kind of wild. Sometimes I still feel shocked. It’s fun, but it’s also a lot of responsibility, and I don’t take that lightly.”

Neither do the companies. They typically pay Jordan between $2 million and $5 million annually and boost their marketing budget to take advantage of Jordan’s broad appeal. Have
the investments paid off? We heard absolutely no complaints. Gatorade, having come to its senses and aligned Jordan with its flagship sports drink, controls 80% of the market, with $1.5 billion in revenues. That’s more than twice the $681 million in sales it recorded for 1990, the year before Jordan signed a ten-year deal with the company paying $5 million annually. Jordan’s impact is most apparent when Gatorade enters new markets overseas. “We’ve gone into countries where they don’t have a clue about what a sports beverage is, but they know Michael,” says Schmidt. “He’s instant validation. He’s a property much like the NBA, NFL, or any other property. We manage him as if he were a brand.”

WorldCom hitched itself to Jordan in 1995, two years before its stunning $41.9 billion bid for MCI. At the time the company was a little-known telecom outfit. It needed a well-recognized endorser with a strong image and high credibility. The list of possibilities was short. Today, WorldCom uses Jordan in 80% of its campaigns.

Oakley, the sunglasses maker, has Jordan as a board member. The company pays him only $500,000 to endorse its products, one of his smallest deals, but it also includes stock options. Jordan currently owns 204,296 shares, making him the company’s fifth-largest shareholder. With the sunglasses industry struggling, Oakley hasn’t exactly reaped huge dividends from its relationship with Jordan. His true value to them: He has increased awareness of the company in a crowded field. “Our relationship with Michael has already improved our business,” says Jim Jannard, the company’s founder and chairman. “We’ve always been considered a garage company, very small. [Michael] helped to legitimize our business, expose us to a broader audience.”

But what’s this all worth? To assign dollar figures to Jordan’s endorsement value, Greyser, the Harvard marketing expert, suggested that we apply a multiple to Jordan’s endorsement earnings, if only because companies wouldn’t hire him unless they expected a positive return. Fine. To settle on a reasonable multiple, we used a formula similar to one used by companies looking to determine the value of intangible assets: We looked at an average of the change in market share for a range of companies during the years Jordan endorsed their product, then applied the percentage to the companies’ revenue growth during the same period. That allowed us to compare the amount each company spent on Jordan with the portion of revenue growth that matched the growth in market share. At the end of it all, our multiple was 1.7—a figure generally considered quite conservative. “It suggests that Jordan was at least this valuable to the companies he represents,” says a partner at a major accounting firm. “It’s a floor.”

According to published estimates, Jordan has earned about $240 million in endorsement money in the 1990s. Applying our multiple, the Jordan Effect for endorsements is $408 million. (Subtotal: $9.94 billion.)

We’d be remiss if we didn’t include a late addition to the tally: Falk recently sold his agency, F.A.M.E., to SFX Entertainment in a cash and incentive deal worth as much as $100 million to the agent and his partners. Among its 40-odd clients, F.A.M.E. boasts such all-stars as Knicks center Patrick Ewing. But there’s no doubt that SFX execs are counting on several more years of Jordan earnings for much of their return on investment. What portion of the sale price should be attributed to Jordan? “All of it,” sniffs a Falk rival. Conservatively, let’s figure half: $50 million.
So what’s the overall value of the Jordan Effect? As a refresher: Our equation includes Jordan “brand” products; ticket, merchandising, and television revenues; Nike stuff; Falk’s windfall; and Jordan’s value as an endorser. Add it all up, and what do you get?

Just about $10 billion--and still counting.

We know, we know. There are plenty of dollars we may have overlooked. But isn’t that the point? The Jordan Effect has been humongous but ultimately immeasurable. Our economists often talked of Jordan as a “positive externality,” which is just a geeky way of saying he also makes his “teammates” better in the business arena.

For instance: Although Chicago is the league’s third-largest market, the Bulls’ corporate sponsors generally pay a 20% premium over comparable packages with the New York Knicks or Los Angeles Lakers, according to a Chicago-area sports marketing expert. “Michael is certainly the catalyst for that,” she said. What is Jordan’s impact on the city of Chicago? The once-dilapidated area around the $175 million United Center (built largely on the sweat from his shiny dome) has improved dramatically. What of Jordan’s impact on golf, where he was the fresh face before that Woods guy showed up? The second Michael Jordan Golf Center was recently constructed in Charlotte, N.C., at a cost of $2.85 million. A third restaurant operating under Jordan’s name is expected to open soon in New York City. And just recently the NBA signed a handful of television sponsors for the next four seasons at $90 million each, well above the $60 million price for the previous four seasons. And who’s to say whether Jordan will be around for even a single minute of those deals?

Jordan says he is at a stage in life when he can make choices. He talks of spending more time with his family--his sons are 9 and 7; his daughter is 5--and of being able to someday go the movies, or to the grocery store, without causing mass hysteria. He says he’ll pare back some of his business obligations. Not surprisingly, Jordan will probably focus on the sneaker and apparel businesses when he leaves basketball. He’ll also likely launch a line of fashion accessories with Bijan. But not much else, for now. “When people come to me with deals now, I’ve got no problem saying no,” he says. “I’ve got enough on my plate. I’m not greedy.”

Last year Nike created a separate division for Jordan’s sneaker and apparel lines, which the company expects to generate about $300 million this year. Jordan smiles at the number and says he wants to make the division a $1 billion business. The $10 billion man is not greedy, just fiercely competitive--in any arena.
What the Jordan Effect has meant for the NBA is a far trickier question, but fortunately we can call on some erudition here, in the persons of two respected economists, professor Jerry A. Hausman of MIT and Gregory K. Leonard, director of the consulting firm Cambridge Economics. Last year they reported the findings of an exhaustive study designed to determine the economic value of superstars to the league--including, of course, Jordan.