

# Growth opportunities

by Shari Shallard

This time last year, the sports industry was spouting numbers to be excited about. Data analysts NPD had collated 2007 figures and found that worldwide sales of sports equipment, apparel and footwear had increased a healthy 4% to $278.4 billion (€185.6 billion)—despite early signs of a slowing economy. It hasn't taken long, however, for the optimism of 2007 to feel like a quaint relic of another era. Early reports on 2008 figures reflect a trend expected to continue well through 2009: sales of sporting goods in traditionally key markets such as the United States and Europe are stagnating. Fortunately for the industry, more unassuming markets throughout the globe are starting to radiate possibility.

And possibility is what everyone is seeking: some new way to stay sturdy in these shaky times. In many cases, this means reaching across oceans and deserts to explore emerging markets. For everyone—whether abroad or at home—this means seeking and seizing opportunities for growth, wherever they arise and in whatever form they take.

## The Big U-Turn

By December of 2008, the slipping sports figures warranted some new assessments. During the quarter ending September 2008, value sales in the European Big Five markets—UK, France, Germany, Italy and Spain—had declined 8% on apparel and 5% on footwear, according to NPD's updated findings. Sales had begun falling in the US as well, though not as dramatically: athletic footwear was down 1.5% and the active apparel market posted only a 0.7% gain.

The outlook has been further refined since the December report. "Status has changed," Renaud Vaschalde, industry analyst for NPD's global sports division, tells *WSA*. Currently, he says, European online shopping for sport apparel and footwear is measured at +25%, while brick and mortar locations are suffering. "In Europe, for retail, we are less optimistic now than [our latest report predicted]. We had been optimistic because of the flow of manufacturers trumpeting that they [were] opening stores over the year 2008." Now, he adds, a look at the numerous stores selling only one brand—

*Blending the whimsical spirit of Cirque du Soleil with the high energy of aerobics, Reebok's new Jukari line is trying to redefine the world's view of exercise. The adidas group has found a novel way to tap into emerging fitness markets by launching the equipment and its accompanying classes at gyms dotted throughout the world.*

adidas

including factory outlets—reveals a negative trend, suggesting "hard times for manufacturers when they try to turn themselves into retailers".

The picture is similar in the US: although sales for men's athletic footwear was up nearly 10% over the same three month period the previous year, the growth was driven by a comparable increase in the average sale price, according to NPD. Sales for women, boys and girls footwear—both casual use and sports use—were down over the same period.

"We do not expect any improvement in the next six months," says Mr Vaschalde. "For the next two years, Western Europe is pretty much saturated." And so it seems that these hubs of commoditised fitness have, for the time being, ceased serving as beacons of brand growth and prosperity.

Cliché but true, with every challenge comes new opportunity. As the US and Western Europe trudge through these dark days of retail, new light is shining on some heretofore underexplored spots. "Eastern Europe and Russia will grow," Mr Vaschalde predicts. "In Eastern Europe, the population is still eager to spend money on big brands." He also points to the potential of Brazil and China, and praises the savvy brands already tapping into the "lifestyle waves" of such places.

"I am reminded of an old tag line from the Converse brand: 'Converse: Limousines for the feet'," he says. "Sports brands are status symbols in those countries wherein people cannot afford to buy a car. [Wearing branded goods is] a sign of middle class status. Wherever you have an emerging middle class, sales for sport brands soar." He cites adidas' football products in Brazil and Russia, and the basketball gear of Reebok and Nike being pushed in China, as examples of companies already "surfing on this wave".

## New terrain

Indeed, for adidas Group, it was in Asian (including Russian) markets that the company discovered its newest business model. "After several years of hard work and refining our business in Europe and Latin America we are able to move forward with the implementation of joint operating structures for adidas and [subsidiary] Reebok in these markets," CEO Herbert Hainer says in an interview included within the company's 2008 annual report. "This organisational format, which is proving so successful in Asia and Russia, will ensure we actively leverage the group's strengths with customers and in back-office functions."

Mr Hainer also speaks about adidas' focus on reinvigorating the Reebok name: "We also fine-tuned Reebok's global brand priorities." The company is doing so with one of the industry's most imaginative partnerships: Reebok has joined globally renowned entertainment company, Cirque du Soleil, to create an hour-long workout for use on a specially-designed piece of equipment called the FlySet. While half of the classes will be launched in top gyms throughout the US and Western Europe, debut classes will also be held in Argentina, Chile, Korea, Hong Kong, Malaysia and Poland.




*With sales of sporting goods slowing in Europe and the United States, big names brands are working to strengthen their positions in other markets. The world's largest adidas store, pictured here, is located in Beijing, China.*

adidas

Also eyeing other parts of the world, Nike is ready to 'just do it' in China. In a March conference call, executives provided an overview of third quarter books, but the follow-up questions they fielded reflected greater interest surrounding Nike's plans for the Chinese market. Despite "a little bit of softness coming out of the holiday period", president of the Nike brand Charlie Denson told callers, Nike is well positioned there for growth. "We're very optimistic as we look at China as a growth vehicle going forward," he says.

While he acknowledges a slowdown in retail expansion, "we still will continue to grow our retail footprint in China through our partnership door programme—[but] maybe not quite at the accelerated rate you have seen over the last 18 months."

This encroaching lull is indeed temporary, according to NPD's Renaud Vaschalde. "The Olympic Games [temporarily] dried out the Chinese market... However, one characteristic of the Chinese market is a large middle class—more than 50 million people in 2007—so growth will come back soon." He adds that China is particularly viable on athletic footwear (as



*Nike's global reach has positioned the company to weather the current economic storm with relative ease. Australian footballer John Aloisi plays on pitches across the world in Nike's T90 apparel line.*

Nike

opposed to sports apparel) because the Chinese manufacture so much of the world's footwear.

For Nike to cash in on that inevitable growth requires the establishment of a system for moving inventory and fulfilling demand in a manner similar to that of Europe or the US. Mr Denson points to Nike's plans for a distribution center which will "aid us in managing the business and fulfilling demand at the appropriate level in a timely fashion." Nike, he says, is also building a factory store outlet programme in China. Although he won't provide specific numbers, the company has some stores in place today as well as partners with stores. "We're building [the kind of] circulatory system that has given us the ability to manage the brand in mature markets like the United States and Western Europe," he says, "and putting ourselves in the same position in that marketplace we call China, which is still going to be one of the fastest-growing markets for us over [at least] the next couple of years."

Even Asics, which Mr Vaschalde praises for achieving the kind of brand consistency that will best weather this challenging time, is eyeing hot spots outside of Europe and the US. Though the group is, not surprisingly, carefully controlling its expenditures, "if opportunities present themselves we are still in a position to consider investment spending," Richard Bourne, president of Asics America Corporation, tells *WSA*. "For our company (AAC), we still are seeing strong growth in Brazil." He adds that other parts of South and Latin America are also possible markets for further cultivating the brand.

## Closer to home

One thing these culture-crossing brands have in common is size. "The big brands have the upper hand here," says Mr Vaschalde, "as they can afford to venture into countries where smaller brands cannot go." Moving an American brand into a distant country, for example, requires cultural, financial, and infrastructural logistics that can be prohibitively expensive or complicated. Recreational Equipment Inc. (REI), the outdoor gear retailer, learned this the hard way with its failed Tokyo store.

Opened with much fanfare in 2000, REI Japan quietly closed just over a year later. The company blamed a variety of factors: Japanese interest in outdoor gear and apparel had waned, shoppers had become more price conscious, the shopping centre location was too remote from central Tokyo, and overhead costs were too high. All of this culminated in disappointed retreat and a refocus on American locations and the REI website.

Ironically, the economically-challenged American marketplace is serving REI quite well. The camping specialists are nicely positioned to receive the influx of cost-conscious families trading in their hotel rooms for tents. In fact, March sales of family tents were up 28 per cent, compared with the same month in 2008. "We

are staying true to our mission and remain focused on the specialty shops where we sell gear and apparel," says Megan Behrbaum, public affairs manager for REI. "Our strongest [financial performance has been in] camping, climbing and cycling (urban, comfort and youth). She adds that the company's upcoming anniversary sale should do well but that continued modest consumer demand is expected. REI hopes, however, to keep drawing newly-frugal shoppers with new marketing aimed at family outdoor recreation.

The economic health of this niche does not surprise Mike May, director of communications for the Sporting Goods Manufactures Association (SGMA). "Despite the struggling global economy, people are looking to sports and exercise as outlets for stress," he says. And a store doesn't have to have mosquito nets and inflatable beds on its shelves to survive today's inclement environment. Good reputation, great products and careful pricing will go a long way. "When it comes to product purchases, the consumer will want to make wise purchasing decisions. As a result, well known brands may do well because consumers have great confidence in those companies—whether it's a NordicTrack treadmill, a pair of Nike running shoes, or an Under Armour T-shirt."

This may also be a rare opportunity for all brands—big and small—to earn loyalty that will outlive the recession. "If you give the consumer a great product at a great price, the end result will be extremely positive for all concerned—the manufacturer that makes the product, the retailer that sells it, and the consumer that buys it," he says. "In today's economy, consumers need to feel good about every product they buy. Right now, the sporting goods industry is providing a top-quality product line at a very competitive price."



*Having closed its Tokyo store nearly a decade ago, outdoor specialist REI is finding great success staying closer to home. The slowing US economy has inspired scores of consumers to try camping and other more natural, economical ways to relax.*

REI

## Finding space to move

There is room to grow within what feels like a very crowded, slow-moving industry. The challenge lies in identifying what constitutes an opportunity for any given brand or product, and the means by which to capitalise on that opportunity. For some, it's as gentle a gesture as REI's family-focused marketing campaign. For others, it's keeping an eye on not just next quarter, but next year. As Mr Hainer notes in adidas' annual report, "The 2010 FIFA World Cup is just around the corner, [which will] start positively impacting our business later this year."

The bulk of the sporting goods industry can do just fine if it keeps looking around that corner—looking for the next event, the next trend or the next country to explore.

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