While western sportswear brands can now be found in every first and second tier city in China, it seems the country's own sporting goods firms are starting to claw back market share. The China Sporting Goods Federation claims the Chinese sporting goods market is worth $6 billion and is expected to grow by 14% each year.



Home-grown players in the ascendancy

Adidas recorded a 15% annual decline in sales for the China region during the first quarter of 2010. Although the German sportswear manufacturer posted increases for all regions, the decline in China will have caused concern for the company as it has pinned so much hope on this market. While some believe the German sportswear giant and other major brands had been over-optimistic about the post-Olympics Chinese market, it seems Chinese brands could also be partly responsible for thwarting the rapid growth of the global brands.

Having maintained a firm foothold in lower-tier cities in recent years, many domestic sportswear brands have now received the financial backing they need to head upstream. Not only are they edging their way into many of the first-tier cities and looking to expand overseas, many are using the capital they have received to focus on product innovation and quality and to raise the profile of their brands through carefully considered marketing campaigns.

Chinese tennis star Jie Zheng sporting the Anta brand at the 2010 Australian Open in Melbourne, Australia.

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Raising its game

One of the Chinese brands making headlines at the moment is Li Ning. Established in 1990, it is fast becoming a competitor for the western brands in the domestic market. While for some time it has been an attractive option for consumers because it offers comparatively low prices, the firm has been branching out into new market segments, investing in innovation and specifically targeting young professionals. By doing this, it hopes to be able to raise prices so that consumers are not just choosing its goods because they are cheaper, but because they offer a similar level of quality and prestige.

While Nike is still the best-selling sports brand in China, Li Ning posted higher sales revenue than adidas in 2009, making it the country's second largest sportswear manufacturer, as well as closing the gap with Nike. Revenue grew 25.4% to RMB8.4 billion ($1.2 billion) last year, with profit up 31% to RMB944.5 million. And, while the two western brands were operating around 4,500 stores by the end of the year, Li Ning had almost 7,250. However, according to its CEO, Zhang Zhiyong, labour costs in China have been rising in recent years and it is no longer sustainable to keep opening hundreds of stores each year. The alternative is to update the brand and offer better value.

Li Ning recently changed its logo and slogan as part of a wider plan to change people's perceptions of the brand. It seems many younger consumers see it as a brand for older people, so the firm is looking at ways of making the retail experience fresher and focusing on getting its goods into the first-tier cities so that consumers naturally start to equate it with the more established global brands. "Achieving constant breakthroughs is the lifeblood of Li Ning," company founder and Olympic gymnast Li Ning explains. "We will continue to adopt a proactive, yet prudent, strategy to deploy more resources in building our core competencies and competitiveness relating to brand and product." Mr Zhang says the company plans to top the Chinese sports market by 2018.

Outside help

Li Ning is far from alone in its ambitious outlook. At the end of 2009, other Chinese brands such as Anta, Peak and Xtep were operating 6,591, 6,206 and 6,133 outlets, respectively, and each was looking to increase market share. Jinjiang-based Anta, which experienced stronger fourth-quarter order growth than Li Ning (25% compared with Li Ning's 20%) says it hopes to surpass its closest Chinese rival by 2013, but its success will rely on its ability to transform itself from a lower-tier city brand into a top-tier competitor.

While Anta's rising share prices—which have risen by almost a half in the last year—indicate a positive outlook, it not only has to convince consumers it has something to offer that the western and other Chinese sportswear brands don't, it also has to protect its core earnings base. The reason for this is that some of the western brands have expanded in the opposite direction; having been successful in the biggest cities they are now producing slightly cheaper goods for the towns where earnings are lower.



Earlier this year Li Ning officially launched its new line of basketball footwear and apparel with NBA star Baron Davis, one of the company's highest profile endorsees.

Li Ning

The same goes for smaller players such as Xtep, Zungui Sportswear and Peak, who currently thrive on lower-tier city sales. Unfortunately, many consumers have lower expectations of the local brands in terms of quality compared with the better-established players. While each of the three posted sales and order increases in 2009, they are having to fight hard to hold on to their own market shares.

One of the common strategies is to build relationships with local and international media, as well as sponsoring domestic and overseas sporting events. Li Ning's dramatic appearance at the opening ceremony of the Beijing Olympics was in a league of its own, but the other domestic brands are following suit. Zungui, for example, recently launched a new advertising campaign on local television stations in Fujian Province in a bid to promote the brand and has already experienced an increase in orders. Hand in hand with this, CEO Jixu Cai claims the company is working on producing higher-quality products. The company opened 18 new company-owned stores in April and plans to open a total of 100 by the end of 2010. The majority of its stores are currently in tier two and three cities in the Fujian and Shangdong Provinces.

Xtep also exploited external forces in a bid to raise its profile by becoming the official sportswear provider at the 2010 Shanghai Expo, which runs May 1 to October 31. The company

is sponsoring the outfits for all volunteers within the Shanghai Expo arena. The volunteers' uniforms feature a memorable motif pattern and use white and green shades to represent the themes of harmony, purity and creativity. According to the company, the outfits use natural and environmentally friendly fabrics woven together using cutting-edge knitting technology to offer style and comfort. Around 70 million visitors are expected to attend the expo in total, offering the company a huge platform on which to showcase its product.

Ding Shui Po, chairman and chief executive officer, said: "Xtep is a young, energetic, fashionable and innovative brand which exemplifies the Shanghai Expo's key themes of inspiration and integration. Striving to become the world's top fashion sportswear brand, we must be equipped with a global vision and greater international initiatives. The Shanghai Expo is truly an international event getting people together from all around the globe. We, through the sponsorship opportunity, hope to demonstrate our vision of 'Rooted in China, facing the world' and gain increasing support and recognition."

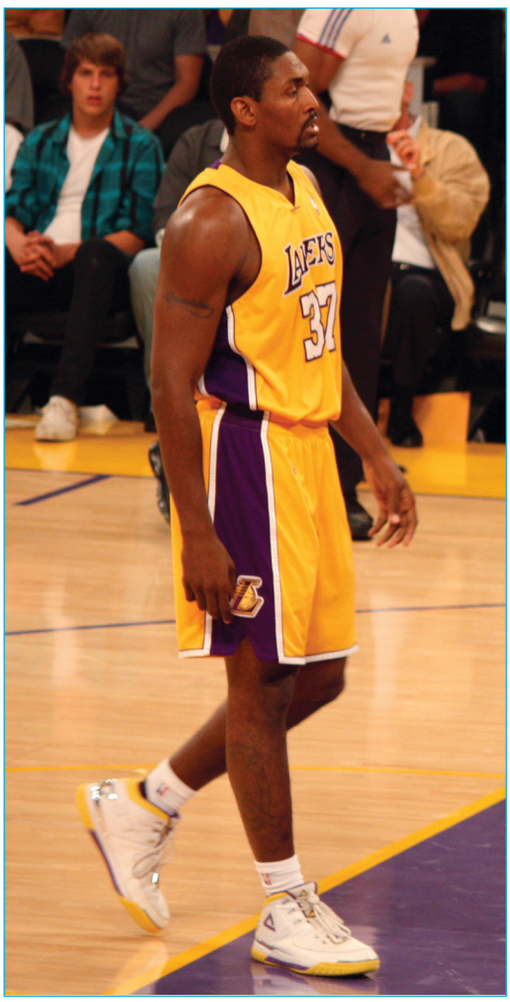
The sportswear and footwear manufacturer already appears to be reaping the benefits. It recorded a 20% increase in orders to be delivered during the three months to December 2010 compared with the same period in 2009 and according to Mr Po, orders to be delivered during the first nine months of the year have also risen 20%. He attributed the rise to increasingly health-conscious consumers and said that the company plans to open as many as 1,000 new stores this year.

China and beyond

Along similar lines, Peak announced a five-year deal with the Sony Ericsson Women's Tennis Association (WTA) Tour in June. The deal was reportedly worth "seven figures" annually and includes co-operation on tennis festivals in China, a player apparel programme, and revenue-sharing on a co-branded apparel line. The WTA claims there are 130 million people in China with an interest in tennis and 10 million recreational players.

The brand will use the initiative as part of an international expansion strategy, but the domestic market continues to be of prime importance. Peak's idea, which is clearly shared by other Chinese sportswear brands, is that Chinese consumers will think more favourably of domestic brands if they see established international sports stars wearing the products.

"Right now we're learning from Nike. We hope one day we can catch up and surpass Nike; of course that is our goal," said Peak's chief executive, Jim Xu. "But we're different because we know China better than Nike; we have products that are better suited to the Chinese market. We can give consumers another choice."



Los Angeles Lakers' Ron Artest, one of the 12 NBA players sponsored by basketball shoe brand Peak.

Mister536/Wikipedia

In the domestic market, Peak, known primarily for its basketball shoes, trails behind rivals Li Ning and Anta, but it has been making inroads, opening 1,027 new stores last year and seeing total revenue rise 51% to $456 million. Already the official sponsor of the NBA in China, it has signed individual deals with 12 NBA players, including Jason Kidd and Ron Artest.

Mr Xu added: "We want to extend our brand name from basketball to tennis. China is our top market. Signing deals with international sports competitions is to attain our goal of becoming more global and more professional. But of course the primary impact will be on the Chinese market and then the global market."

While Nike remains the market leader for sportswear in China, particularly in the basketball segment, home-grown brands are certainly catching up, primarily appealing to consumers in smaller cities with modern, affordable garments. However, with improving quality levels and better publicity, domestic brands are edging closer to competing with the western brands at higher price points.