

According to the major brands, the Chinese sport and outdoor sector is still growing. With domestic sports brands becoming more prominent and the global giants fighting for market share, the industry has never been more competitive.

Growth in China

According to Nike, there is still significant untapped potential for sports brands in China.





China's sport and outdoor sector has grown rapidly in recent years, particularly in the build-up to the 2008 Beijing Olympic Games. Despite the economic slowdown, the Chinese economy has been affected less seriously than some western economies and, although a number of activewear brands has recorded a slowdown in growth since the downturn began, the sport and outdoor markets have continued to make headway. Both the big global brands and the up-and-coming domestic brands have high hopes for the sector in the near future and for the long term.

Football, basketball and fitness

Germany-based adidas is a good example of this. China is the company's second biggest market and it is certainly expecting to see further growth in the country in the coming years. "The importance of sports and the sporting goods industry will further increase in China," says adidas' corporate PR manager, Katja Schreiber. "We believe that the Olympic Games have considerably impacted this positive development. Also, growing income will make sporting goods affordable for a bigger number of Chinese consumers and consumer demand for sporting goods will continue to rise." Another important development is that sports marketing has become more and more "structured and mature" in China and that this will help to increase sales growth over the years.

According to the company, football and basketball are among the most popular sports in China at the moment. With its experience in these segments it believes it is well equipped to provide enthusiasts with the apparel, footwear and equipment they need. "Adidas is the official outfitter of the NBA [National Basketball Association], and adidas NBA products are available in around 1,000 stores across China," the company reports. "The country's most popular basketball player Yao Ming is endorsed by [adidas brand] Reebok." The company's football offering is also well established in China. The German company has been the official partner of the Chinese Football Association for more than 20 years and provides kit for well-known Chinese players such as Zheng Zhi, Li Wei Feng, Han Duan and Ma Xiao Xu.

Going forward, fitness is an area in which adidas will be looking to capitalise. "With more than two million Chinese already registered in gyms across major cities in China and numbers growing quickly, we will focus on these consumers and introduce exciting product in the upcoming months," the company explains. "Back in July 2008, we announced our



partnership with kung fu movie star Jet Li. Together with him we are now co-developing fitness courses that call for a healthy lifestyle and participation in fitness."

In terms of dealing with competition from other sports brands—both established, global brands and emerging domestic brands—the company believes its experience and expertise will give it the edge it needs. "Obviously, the size and growth of this market makes China increasingly attractive for new players, both Chinese and international brands," the adidas spokesperson comments. "However, adidas has an excellent position as a premium brand in the sports and sports lifestyle sectors in China and we will continue to put emphasis on further innovations, new products and exciting marketing campaigns to lead in this important market."

She adds: "Our involvement in the Beijing 2008 Olympic Games as official sportswear partner helped us to increase our visibility in the market and will help create sustaining growth for our group in China well into the future."

As expected, the economic downturn certainly took a toll on adidas sales in the Asia Pacific region during the first nine months of 2009. Sales fell 9% on a currency-neutral basis, primarily driven by lower sales in Japan and China; however, the expectation is that 2010 will see a recovery in a market that is definitely on the rise. When the results came out, adidas CEO, Herbert Hainer, said: "Consumer and retailer sentiment still hovers between fear and optimism. However, we are well prepared to face any challenges thrown our way and I am cautiously optimistic. With a firm grip on inventories, a better financial position and a leaner organisation, we turn into the 2010 event year with innovative products, exciting concepts and clear focus on the tasks at hand."

The Chinese football team, wearing the adidas strip. The sports-wear firm claims football and basketball are currently among the most popular sports in China.

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Adidas' Beijing store: China is now the firm's second-biggest market.



Cautious optimism

One of adidas' closest rivals, Nike, experienced a similar trend in 2009. Profits rose during its first quarter of fiscal 2010; however, sales fell. The declines were led by Europe and China. Nevertheless, China continues to be an extremely important market for the US firm. Overall, CFO, Don Blair, and president, Mark Parker, claim the company continues to be "very confident" in terms of its long-term prospects for profitable growth globally. However, its outlook for the next few quarters is cautious. In terms of China, Mr Blair says: "We are seeing improving trends in some geographies, most notably China, Western Europe and the emerging markets."

Although growth in 2009 was slower than in the previous fiscal year, which had the benefit of the Olympics to bolster growth, the company continued to add store space. "We are still seeing a net increase in square footage and number of doors," the company claims. The firm has also decided to widen its horizons within the country. "We still do believe there's some growth opportunity in the higher-tier cities—Beijing, Shanghai, Guangzhou—but we are increasingly focused on the other cities where we have less penetration, and we think there's additional opportunity," says a Nike spokesperson. "We are still putting in new stores, but it's not at the pace that it was last year."

Moving forward, the company says it is "excited" about the way it is carrying out its key growth opportunities, including those in China. "There is a lot of momentum in our direct-to-

consumer business, where we continue to deliver positive results, especially online. We are doing a good job of developing our retail capabilities, and that makes us a better wholesale partner and a better company," Mr Parker reports.

One important development Nike claims took place in 2009 is that, despite the fact there is a significant level of competition in the growing sports market in China, the company has been able to increase its influence in the country. "Over the last year, we increased our advantage over major competitors, and the strength of our diversified portfolio of businesses enabled us to deliver good financial results," claims Mr Blair. At the end of the second quarter of fiscal 2010 it had 32 own-brand stores in China as well as 46 Nike factory stores and 6,010 partner doors.

In the long-term, Nike is bullish about the future, while in the nearer-term it expects either normalisation or even deceleration to take place. "The market is tough but there are solid signs of stabilisation," the company suggests. "Retail sales are rebounding, retail inventories are getting better and promotional activity is levelling off." The sportswear giant claims there is "still significant untapped business potential" in China.

A different approach

Even slightly smaller sports brands, for example French brand Decathlon, are tapping into the potential of the Chinese sports industry. Decathlon China currently has 21 retail stores and 11 production sites across China, employing more than 1,300 workers. On average, each

Decathlon store in China covers around 4,000 square-metres and provides specialist goods for approximately 65 different types of sport. "Just like Decathlon around the world, its stores in China provide all of those who love sports with good quality products at competitive prices," says a Decathlon China spokesperson. "We have got very positive feedback from China consumers, which greatly encourages us to extend our outlets to more cities in China."

According to the spokesperson, the company experienced very healthy sales in China in 2009. It opened four new stores in the country and extended one existing store which, the firm claims, proves the brand's "great confidence" in the Chinese market. Decathlon first entered China in 1992 and, with its recently opened Tianjin outlet, now has a retail presence in ten cities in the country. The Tianjin store has its own ice rink and, because golf is the fastest-growing sport in the country, its own golf range. Other key sectors include outdoor pursuits such as climbing and hiking, and winter sports such as skiing and snowboarding, as well as swimming, running, cycling and many others.

"We expect to accelerate our pace of development in China in 2010. We may open more retail stores in more Chinese cities, and make the pleasure of sports accessible to more Chinese people," says the brand's spokesperson. While 80% of the products in its latest store are own-brand, it also offers goods from other international brands such as adidas, Puma and Nike so that all bases are covered. "Decathlon has cutting-edge competence. And we offer all sports products under one roof."

According to the company, the Beijing Olympics prompted many more Chinese people to embrace sports. "Playing sports regularly is now becoming a popular lifestyle of most young Chinese people," says the spokesperson. Furthermore, with the recent East Asian Games 2009 which took place in Hong Kong in December, and the upcoming Asian Games in Guangzhou in 2012, the brand believes there is plenty of potential for further rapid growth in the near future.

In terms of competing with other sports brands in China, Decathlon believes it has several advantages. The first is that it claims its "unique business model" differentiates it from other sports retailers in China. "We bring together the entire R&D, design, branding, production, logistics and sales of the sports products," its spokesperson says. "So we are able to quickly respond to the requirements of the market and can get good control of the costs at each stage. That's why Decathlon can keep providing our customers the best quality and priced products."



Berghaus vice president for the Asia Pacific region, Michael Lockett (pictured), says the company plans to open 200 stores in China by 2014.

 Berghaus

The outdoor sector

Similarly, outdoor specialist Berghaus has also been experiencing growth in China. Although it is in the early stages of establishing itself in the country, it believes the outdoor sector is really burgeoning. The company has nine stores in six key Chinese cities, all of which are "trading well", according to Michael Lockett, Berghaus vice president for the Asia Pacific region. He believes China will be a highly significant factor in the company's global growth strategy in the coming years.

However, the company is aware that it has its work cut out for it. "There are more than 400 brands already trading in the country, so competition is very fierce," Mr Lockett says. He believes the brand's success will be dependent on delivering product that is totally relevant to the Chinese market, combined with a "strong, distinct retail presence" and sustained marketing activity that engages effectively with its target consumers. "China, with the rest of Asia, is a key territory for the brand as we continue our development into one of the leading outdoor brands in the world," he says.

Berghaus has some serious ambitions for China. It plans to open 200 stores in the country by 2014 and to establish itself as "the leading UK outdoor performance brand in the Chinese market". It realises this won't be straightforward, however. "Currently there are over 150 domestic brands competing against more than 250 international outdoor brands for market share in the competitive Chinese outdoor market," Mr Lockett explains.

Nevertheless, he believes the growing popularity of outdoor activities in China will enable the brand to make its mark. "With its continuing economic growth, China has become a key player in the outdoor industry across Asia," Mr Lockett claims. "Sales of outdoor products in China reached \$533 million in 2008, an increase of nearly 50%." He points out that while the global economic downturn has had an impact on China's outdoor market, analysts predicted it would grow a further 10% in 2009 and the same is expected for 2010.

"Participation in outdoor activities in China is particularly increasing among consumers with a higher degree of disposable income," concludes Mr Lockett. "Reflecting developments in the rest of the world, the outdoor lifestyle is increasingly fashionable and outdoor products are rapidly becoming status symbols in society, which is something that remains important to the Chinese."

Chinese brands fight back

However, Chinese brands are also enjoying the growing interest in sports and outdoor pursuits. According to a recent report in the *Financial Times*, domestic brands are really starting to hold their own in these sectors. It cites Jinjiang, a small city in the south-eastern province of Fujian, as an example where this can be proved. According to the report, brands such as Anta, Li Ning and Xtep have a significant presence in the town. "In a reversal of the natural order of things, the little fish are starting to eat the big fish," it claims. "The Chinese companies to which western brand holders outsourced their manufacturing a decade or more ago are now successfully rolling out their own branded products. Often, the items that they sell are indistinguishable in terms of quality from those they used to make for the foreign brand emporiums."

Jinjiang-based brands Anta and Xtep started out as OEMs (original equipment manufacturers) for foreign brands but are now established brands in their own right and, according to the report, are winning market share from the global giants. Sponsoring big-name Chinese athletes including NBA stars has had a major impact for these brands, boosting domestic sales significantly. Anta, for example, is sponsoring eight winter sports athletes in the build-up to the Winter Olympics in Vancouver in February. The brand has more than 5,000 retail outlets in China and claims to be the country's leading sports shoe supplier. It is now looking to become one of the top ten international sportswear brands in terms of global revenue.

According to the *Financial Times*, managers that previously worked for the international brands in China are starting to gravitate toward the up-and-coming Chinese firms. These companies, it claims, are better off in some respects than their overseas counterparts. One is that they are better placed to establish a presence in smaller Chinese cities, where sales have been strong in recent months. The second is that they are less reliant on franchise stores, so they have more control over the way product is managed. "In value terms, China's sportswear market may grow from an estimated \$7.2 billion in 2009 to around \$12.4 billion in 2012," says the report. "Such growth, if it materialises, would be likely to catapult some Chinese sportswear brands into powerful or even dominant positions in the industry worldwide." 