

## ON LOCATION: BEIJING, CHINA



# China's big moment

**E**nthusiasm for the Olympic Games in Beijing this summer has spread way beyond the capital city, as the reception that the Olympic torch relay has enjoyed the length and breadth of the country has shown.

China was already sports mad, but the Olympics is turning the country's passion into a frenzy, and the big brands in the international market are keen to fan the flames.

Adidas, an official partner of the Beijing Olympics, says it is aiming to become the number-one sports footwear and apparel brand in Asia (and Latin America) by 2010. Chief executive, Herbert Hainer, says: "We want to reach sales of around \$5.4 billion for all of Asia in 2010. We would then be number one there."

Building up its business in China will be central to this, and starting now, with Olympics fever in full flow, adidas plans to open more than 3,500 new stores across the whole of China within the next two years. Mr Hainer predicts that this would take annual sales in China alone to more than \$1.5 billion.

"With aggressive expansion plans we should manage to become number one in China," Mr Hainer forecasts. "In 2010, emerging markets should represent almost one third of all sales, compared to one quarter at present."

### Faster growing market

Of course, adidas can expect to face fierce opposition in this quest for growth in China. Nike's brand president, Charles Denson, said in



a recent interview with German newspaper *Frankfurter Allgemeine Zeitung* that his company, too, is working hard to meet an ambitious expansion target for its business in China, to tap into a faster growing market than those of the US or Europe.

He said: "So far we are just scraping the surface in China. Chinese consumers' incomes are rising, and the importance of sports is also increasing." He explained that if Nike had so far concentrated on major cities, it was now expanding to medium-sized cities and to western regions of China.

Nike opened a new flagship store in the heart of Beijing last summer. At that time, Mr Denson confirmed that China was one of Nike's largest markets, which was why, even then, the company's retail presence across the country

*All of China is gripped by Olympics fever. (Top) Beijing National (Olympic) Stadium.*

already extended to more than 300 cities.

"It's extremely exciting to open a flagship Nike retail presence in one of the world's great cities," he commented. "China is one of Nike's biggest growth opportunities, and one of the most dynamic retail markets in the world. Our Beijing flagship store creates a strong brand statement with a compelling, world-class shopping experience. As we head toward the Olympics, we're deepening our consumer relationships and building what we expect soon to be a \$1 billion business, and Nike's second-largest market in the world."

The store, located at Wang Fu Jing, in one of Beijing's premier shopping districts, features a full assortment of Nike products. It is the largest store in China for the company that has been doing business in the Asian country for more than 25 years, first sponsoring China's national basketball teams in 1980. For the Beijing Olympics this summer, Nike is sponsoring 22 of the 28 Chinese teams. At the 2004 Olympics in Athens, Nike sponsored 12 Chinese athletes who won gold medals.

### Home grown brand

Besides adidas' expansion plans for the country, this relationship with the country's elite athletes must be a subject of much discussion in the boardroom of China's largest indigenous sports brand.

The brand in question is Li Ning, whose founder and chairman—a three-times gold medal winner in gymnastics at the 1984 Summer Olympics in Los Angeles—used his own name for the company. His reputation was strong enough to establish the footwear and apparel brand in China, but the firm has realised that it needs an extra push if it is to transform itself into a global player.



*Nike chief executive, Mark Parker, in Beijing to launch the new apparel and footwear his company has created for the Olympic Games.*



An expert on Chinese brands, John Cashman, has told us that moves like the one Li Ning is making with Shaquille O'Neal to promote its footwear in its home market is an indication that the Chinese economy is entering a new phase of maturity, albeit with some way still to go on branding. Mr Cashman runs the Chinese office of Washington DC marketing think-tank Social Technologies.

"Without question, Chinese firms have yet to reach the levels of sophistication of their counterparts in the west," he says, "but you have to remember that they've spent the last 15 or 20 years concentrating on improving in manufacturing and production. It's only recently that they've realised that, if they want to go global, they have to become a bit savvier on the marketing side."

His information is that Li Ning is already spending between 17% and 20% of its budget (in 2006 it reported \$418 million in revenues and \$39 million in profits) on marketing, and he points out that this is a large sum for any Chinese company. He adds: "Li Ning are trailblazers; they've watched what Nike and adidas have done and decided that this how they need to go about things too."

Lenovo and Haier—big global names in the



*Adidas chief executive, Herbert Hainer, says his company will open 3,500 new stores across China in the next two years.*





*One of the Sanfo stores in Beijing, selling outdoor and sports apparel and footwear to young, city people who are just beginning to develop a taste for the great outdoors.*

 Sanfo

world of computers and white goods respectively—may be further along than the sports clothing and footwear manufacturer, in Mr Cashman’s opinion, but he says Li Ning is catching up quickly. It will continue its programme of signing up western sports stars for sponsorship, he predicts. As well as the Miami Heat centre, Damon Jones of the Cleveland Cavaliers and Chuck Hayes of the Houston Rockets are also part of the company’s branding initiative. Li Ning is also a supplier and sponsor to the Spanish national basketball team and the French gymnastics team.

It will attempt to promote itself widely and lavishly at the Beijing Olympics, including an initiative to kit out Chinese television presenters, viewing the event as an unprecedented opportunity to win brand recognition for itself in the wider world.

### High aspirations

“You can’t help but form the impression that the whole country is entirely focused on the Olympics,” John Cashman observes. “So much so that I don’t know what China will do after August.”

The strategy for brands such as Li Ning, though, is clear. It has high aspirations to become a genuine rival to Nike, adidas and so on, not just in China, but all over the world. The battle to win hearts, minds and wallet-share in China is intense already. All the big global brands have made it clear that they see building up their presence in China as a fundamental element of their growth strategies. Mr Cashman says: “What’s happening in China is amazing. It’s a young population that’s flat-out crazy for sports.”

Li Ning, with its home advantage, is looking its rivals in the eye there, and if it is being more cautious in the way it seeks to expand internationally, he believes it’s taking the right approach.

It already has an own-brand retail presence in Russia, for example, one of the fastest developing market economies on earth. “The company is probing to find what works there,” the Social Technologies analyst suggests. “But if they can get themselves a toe-hold in Russia, that’s 180 million potential users of the footwear and clothes they make.” He believes that within two years, children in Russia will wear Li Ning athletic shoes just as enthusiastically as adidas or Nike.

### Growing outdoor appeal

Meanwhile, back in Beijing, one of the city’s most successful young retailers in the outdoor space, Heather Liu, is naturally delighted by the interest in the athletic footwear and apparel she sells that the Olympics are generating.

She started her company, Sanfo, in 1997 in what she now describes as “a small grocery store for outdoor and sports” at the East Gate of Beijing University. Now she has a dozen superstores across the city (and others in Shanghai), reflecting the rise in the popularity of hiking, climbing, skiing and so on among China’s urban middle classes.

She explains: “The standard of living is growing rapidly in China, so young people like to pursue outdoor activities. It suits their style and their personality. As a result, outdoor and sports clothes and shoes are selling faster and in greater volume than ever before.”

She names The North Face, Ozark Apparel and Toread as popular brands among her outdoor customers at the moment, but she insists that the outdoor industry is just beginning in China, making it hard for her to say for certain which brands will dominate the market in the future.

This will be one of the questions we can continue to examine when the Olympics carnival has packed up and begun its move towards London in 2012. 