

Recent results and developments in the market are making industry observers wonder if the gloss may be coming off the athletic footwear sector. It's certainly a changing world.

Athletic shoes: an online elephant enters the room

Surprising things appear to be happening in the wild world of athletic footwear. Sports brand Under Armour increased its revenues by 7.7% in the first half of 2017 compared to the same period last year, with the total reaching just over \$2.2 billion. However, footwear revenue was flat at just over \$500 million; growth came from apparel, up 9.1% to almost \$1.4 billion, while accessories brought in 17.3% more revenue compared with the first six months of 2016, reaching \$211 million.

Stronger, faster, smarter

On releasing the results, Under Armour said training apparel for men and women had been an area of strength over the six-month period, as had golf. It said a "dynamic and promotional retail environment" in its home market, the US, had tempered its results overall and operating income fell by almost 95% to reach \$2.75 million. Commenting on the figures, chief executive, Kevin Plank, said: "More than doubling our business over the last three years has required significant investments and resources to build our brand. We are utilising 2017 to ensure that operations across our diverse portfolio of sport categories, distribution channels and geographies are optimised as we build a stronger, faster and smarter company."

Today's consumers have worked out there's no need to go all the way to the mall to find the shoes you want.

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He went on to say he expects new footwear launches to be among the products that will “drive our second half”. He said he sees “outstanding potential” for a customised footwear programme called Icon that Under Armour launched in June. An initial three styles are available for customers to choose from. The company is also launching signature shoe styles bearing the names of high-profile athletes including Carolina Panthers quarterback Cam Newton and Washington Nationals baseball star Bryce Harper. “In the fall, our footwear portfolio gets even stronger,” Mr Plank said, “with the launch of the Bandit 3, Threadborne Push for Women and the Curry 4. We’re excited to bring them to market.”

Changed retail landscape

Foot Locker’s first half also caused surprise, not to say consternation. It registered sales of just over \$3.7 billion for the six-month period and net income of \$231 million. Compared to the first six months of 2016, these figures represent declines of 1.7% in sales and of 27.3% in net income. With regard to the second quarter on its own, the falls were of 4.4% in sales revenues and of 59.8% in net income. Chief executive of the athletic footwear-focused retail group, Dick Johnson, commented: “We are obviously disappointed and our team is working quickly to adjust our operations to a changed retail landscape. We are seeing our consumers move faster than ever from one source of inspiration or influence to another.”

In addition, Mr Johnson said sales of a number of high-profile styles of athletic shoe had slowed down; he singled out “certain Jordan models” from Nike and the Stan Smith shoes from the previously very popular adidas Originals range. Foot Locker had planned for lower sales of the Stan Smith shoes, but he said sales declined “even more than expected”.



Under Armour chief executive, Kevin Plank.

 Under Armour

Shoppers switch

On June 29, too late to affect the first-half results we have quoted here, Nike confirmed a new partnership with online retailer Amazon. The sports brand’s chief executive, Mark Parker, insisted this is a pilot exercise and that he will look forward to seeing the results of it before deciding whether or not to continue. This was still enough to provoke intense discussion when analysts and investors came to assess Under Armour’s, Foot Locker’s and other athletic footwear players’ prospects for the rest of 2017 and beyond. Suddenly, there was an online elephant in the room, offering Nike shoes (previously something of a Foot Locker preserve) at low prices to millions of internet shoppers 24 hours a day. By mid-October, Amazon was even talking about launching a sports brand of its own

Under Armour harbours hopes that new shoe concepts, such as the updated Charged Bandit 3 running shoes, will have helped it grow its footwear business in the second half of 2017.

 Under Armour



and was reported to be in talks with a number of important industry suppliers, including Makalot Industrial and Eclat Textile, about its product range.

Dick Johnson has said Amazon's entry into the athletic footwear market, securing the right to sell certain shoes from certain brands directly to consumers, will affect sales of "lower-price, largely undifferentiated shoes". He insists that Foot Locker faces no "imminent threat" from this development because most of its sales of adult shoes are still for more than \$100 per pair. But he adds: "Our eyes are wide open. The athletic footwear retail game has changed. The overarching issue revolves around premium product and the speed with which innovation comes to market."

These are Kevin Plank's main concerns too. He says: "The landscape is evolving quickly. Therefore, we too must evolve quickly. We're not sitting here tone-deaf saying we're just going to make cleats. We understand what the market is asking for [but] we're not going to tear up the script on what has made us an authentic brand."

The end of the shopping mall

Earlier this year, footwear industry expert Peter Mangione told us he thinks online shoe shopping is now winning over consumers of all ages and in all categories. He says: "Consumers have figured out that they simply do not need to go all the way to a mall or to a store to achieve a feeling of satisfaction; you can find just the right pair of shoes in the right shade and the right size from your own sofa." He is impressed by the high levels of customer service online retailers such as Amazon and Zappos can offer and is convinced this is the end for the North American shopping mall as we know it.

"Shopping malls," Peter Mangione says, "are dinosaurs. They are too big, it's too hard to park and the shops change from one month to the next, partly because the rents retailers have to



Foot Locker feels the pilot project between Nike and online retailer Amazon presents no "imminent threat" to its business.

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pay are so high. People go to the mall in the evening to see a movie or go to a restaurant, but recreational shopping in the US is mostly gone."

In mid-October this year, a search for men's Nike shoes on Amazon yielded 12,000 results. Some of the items that came up were socks, but they were mostly shoes. Football boots, running shoes, triathlon shoes, basketball shoes and indoor racket sports shoes all featured. They weren't all being sold directly by Amazon; specialist sneaker-head websites use that company's platform too. Those that were part of Amazon's direct offering were not all cheap: the Nike Free RN running shoe, with a lightweight, breathable mesh upper and newly designed midsole pattern that promises to expand, flex and contract with the foot, was listed at more than \$650. Delivery and returns were free. 

Now available from Amazon, the Nike Free RN men's running shoe, with its midsole pattern that expands, flexes and contracts with the foot.

 Nike

