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Podium position for sporting goods

By KRISHNA KUMAR VR in New Delhi



A model parades a creation by a Chinese fashion house at a show in Beijing. Clothes makes up the largest share of the Chinese sports manufacturing industry with swimwear the most popular export item. (AFP)

Li Ning's igniting of the cauldron at the 2008 Beijing Olympics opening ceremony can be viewed as a symbolic beginning of the growth of the sports goods industry in China.

Li Ning, 51, known to millions of Chinese as the 'Prince of Gymnastics', is today the chairman of a billion-dollar Chinese sporting goods firm, Li Ning Company Limited, that he established after retiring from the sport in 1990.

After the Olympics, the company was the first major Chinese sports brand to begin making inroads into the United States. It invested \$10 million in 2010 with a goal to reach US sales of \$50 million.

Li Ning opened a Portland, Oregon showroom and signed endorsement deals with basketball players Shaquille O'Neal and Evan Turner with an eye to increasing sales through celebrity association.

Also anticipating a post-Olympic boost was Adidas. The global sportswear brand said that it expected a double-digit growth in apparel, footwear and accessories in China in the years following the event, with basketball taking the lead. This is despite the fact that the Beijing Olympics coincided with the beginning of the slowdown in the global economy.

For the five years to 2014, revenue for the sporting goods wholesale industry in China grew at a rate of 6.5 percent annually to an estimated sum of \$35.7 billion, according to IBISWorld, a market research organization based in Melbourne.

"In the past five years, the main factors driving industry performance have been higher consumption in China, large sporting events hosted by China, such as the Olympic Games, and the country's active involvement in international trade within the World Trade Organization framework," it said.

At present, China has the highest share of the world's total export of sports goods, with around 40 percent.

China's State Council, in a document, Guiding Opinion on Accelerating the Development of Sports Industry in China, had already emphasized the development of the Chinese mainland's sports industry to make it to 2 trillion yuan (\$320 billion) by 2020. It also set a decisive goal of attracting non-governmental investment to transform the nation's sporting goods industry.

Besides, in China's 12th Five-Year Plan (2011-2015), the government stressed a comprehensive development of the sports industry in which special emphasis has been given to advance the sporting goods sector.

The guideline also reiterated promoting the development of small- and medium-sized enterprises by creating a favorable environment and establishing a sound financial service and credit guarantee system. It is pertinent to mention that about 80 percent of the sporting goods industry in the Chinese mainland is made up of small-scale enterprises.

Meanwhile, Hong Kong is also one of the world's leading suppliers of sporting goods, though the production bases of many companies in Hong Kong have largely moved to the Chinese mainland.

The majority of Hong Kong sporting goods are supplied to global brands including Reebok, Nike, Adidas, Umbro, Timberland and Quiksilver. According to the Hong Kong Trade Development Council (HKTDC), only a few Hong Kong manufacturers have attempted to develop their own brands, backed up with research and development undertakings.

"The sporting goods industry is a sunrise sector with enormous potential in terms of employment generation and its growing contribution to GDP," says Wing Chu, an economist at the HKTDC.

"The expansion of purchasing power of the middle class will definitely give a further push to the industry," he says.

According to statistics from the State General Administration of Sports, in 2012, the growth rate of the industry had maintained a pace of above 16 percent, surpassing that of the national economy at the time.

A research paper, On the Sustainable Development of China Sports Industry, by Southwest University in Chongqing, said that "with extensive development of sports activities in the region, there is great potential for the sports consumer market in the future".

In China, sporting clothes makes up the largest product segment of the sports manufacturing industry, accounting for an estimated 27 percent of revenue, according to IBISWorld. Swimwear is the most exported product in the clothing segment. The sporting shoes segment is expected to contribute 21 percent of industry revenue in 2014, while the exercise equipment segment is likely to account for 21 percent.

However, in the global sports revenue pie, merchandising is the smallest category with 14.5 percent, although it accounts for 25.2 percent in North America. And the North American market accounts for 71 percent of the total global sports merchandising market.

A PricewaterhouseCoopers study, Outlook for the Global Sports Market to 2015, points out that growth in merchandising revenue is closely linked with consumer spending patterns. And that, going forward, growth in the Asia Pacific will be pegged at 3.3 percent compound annual growth rate (CAGR).

Lucintel, a management consulting and market research firm, anticipates that the global retail sporting goods market will reach an estimated \$266 billion in 2017, with a CAGR of 4 percent. It also predicts strong growth for the retail sporting goods industry in Asia during the period of 2012 to 2017.

In India, the market for sports equipment and goods in 2013 is estimated at 40 billion rupees (\$660 million), with cricket accounting for 38 percent of the market share, badminton 11 percent and football 8 percent. The Indian sports goods market grew at a CAGR of 12.7 percent from 2007 to 2013.

According to the Confederation of Indian Industry, the sporting goods industry is expected to grow at a CAGR of 10.6 percent from 2013 to 2018, with various upcoming sporting leagues in India boosting sales of professional equipment.

In an effort to make India a hub for the manufacturing of sporting goods, the government has already allowed 100 percent foreign direct investment in the sports manufacturing sector.

Indian foreign trade policy has also qualified the sports goods sector as a priority for market development assistance and market access initiatives. Further, benefits under the export promotion capital goods scheme are also provided to the industry.

"Like China, India needs to focus more on exports," says Ajay Mahajan, secretary of the Indian Sports Goods Manufacturers and Exporters Association (SGMEA).

Mahajan says that Indian products are widely accepted across the globe. Most of India's sports goods are exported to the US, the United Kingdom, Germany, France and Australia.

Experts have suggested that more of a focus on e-commerce would immensely improve the prospects of the sports goods industry, as there are growing numbers of Internet users who prefer to do their shopping online.

A research firm, eMarketer, projects that the rising online and mobile user base in emerging markets including in Asia will help business-to-consumer e-commerce sales rise by 20.1 percent, to \$1.5 trillion this year from \$1.24 trillion in 2013.

"Beginning in 2016, China will overtake the US in spending. Massive gains in China, as well as in India and Indonesia, will push Asia-Pacific's growth ahead," according to eMarketer.

This growth has come primarily from the rapidly expanding online and mobile user bases in emerging markets like India and China. Increases in mobile commerce sales, improved shipping and payment options, and the push into new international markets by major brands are also contributing to the growth.

Another firm, Forrester Research, predicts that e-retail sales in China, Japan, South Korea, India and Australia will reach \$768 billion in 2017. This is nearly 17 percent more than the \$658 billion Forrester is predicting in 2017 for the US, Canada and Western Europe combined.

"With the growing middle class in Asia's increasing disposable income leading to increasing consumption potential, the sports goods industry has a bright future," sums up Mahajan of SGMEA.