Outline

- Introduction
- Industry Structure
- Advertising strategies: *Commercial Coding*
  - Co-Branding
  - Exclusive Athletic Partnership
  - Celebrity (Athlete) Endorsements
- Analysis and Recommendations
  - Investment
  - Advertising Strategy
About the Industry

- High level of competition
- Importance of brand awareness
- Key success factors:
  - Ability to control stock on hand
  - Establishment of brand names
  - Effective quality control
  - Diverse range of clients
  - Quickly adopt new technology
Supply Chain Overview

- Majority of products manufactured in China or Taiwan
- Shipped to US or Canada
- Industry organizations (SGSA) support the shippers
- Most sporting good companies have multiple distribution channels
  - Big box, regional, specialty, mom and pop, and e-commerce
- Keeping up with customer demand for faster delivery is one of the biggest challenges the sporting goods industry faces
Advertising spending as percent of sales in the sporting and athletic goods industry in the United States from 2011 to 2015

- 2011: 7.1%
- 2012: 7.1%
- 2013: 9.1%
- 2014: 10.3%
- 2015*: 8.9%

© Statista 2016
Organization of Industry

- Raw materials used to produce athletic footwear:
  - Synthetic rubber, plastic compounds, nylon, leather, polyurethane, and canvas
- Synthetic Rubber - primary raw material
- 2011 there was a 15% increase in price of synthetic rubber
- The supply chain is very important in the sporting goods industry
- Weather can dramatically affect demand
Main Competitors

- Nike → 8.7%
- Performance Sports Group (ie: Bauer, Cascade, Inaria) → 7.8%
- Other (ie: Spalding, Wilson, Reebok) → 83.5%
About Nike

- Mission: “Bring inspiration and innovation to every athlete* in the world. *If you have a body, you are an athlete.”
- Future-forward focus on:
  - Sustainability
  - Community impact
- Culture of invention
- Creating things for today’s athlete and solving problems for the next generation
About Performance Sports Group Ltd.

- PSG designs, manufactures and markets performance sports equipment and related apparel under the following brands:
  - Bauer, Mission, Maverik, Cascade, Inaria, Combat, & Easton
- 60 distributors, 45 countries, 7000 retail locations
- Objective: to improve player performance and safety at all levels of play through equipment and apparel innovation
Trends in the Sporting Goods Industry

- Global expansion
- Beginning to make a fashion statement
- Moving towards a more health-conscious society
  - Sales in sporting goods and athletic wear for hunting and golf are slumping
  - People want to take up the more active sports
Role of Brand Loyalty

- Mental association
- See survey results
- “Once I’ve worn X, I can only wear X ever again.”
- Brands have earned the consumers’ trust
Coding Commercials for Most Recognizable Brands
Breakdown of Commercial Coding

- 4 brands: Nike, Adidas, Under Armour, Reebok
- 10 commercials each (1990-2016)
- Evaluated based on:
  - Ad length
  - # of times the product is shown
  - # of times the brand name is said
  - # of times the logo is shown
Nike Trends

● "Nike" is never mentioned outright
● About the brand, not the product
  ○ Emotional, never comparative
● Professional athlete in nearly every commercial
● Social engagement
Under Armour Trends

- “Under Armour” is never mentioned outright
- Intense and emotional
- Focus on brand, not a specific product
- Celebrity (professional athlete) in most → Focuses on intensity and commitment to sport
  - Ex: Michael Phelps, Steph Curry, Misty Copeland
- Focuses on proving others wrong
Adidas Trends

- “Adidas” is never mentioned outright
- Used the logo, as well as the widely recognized 3 stripes to promote the brand
- Focus on an array of products, not specific
- Some commercials were geared specifically towards women
- 2 types:
  - Intense, promoting athletic apparel
  - Leisure and fashion apparel
Adidas Search Trends

“Adidas” and “Joggers” Search Trends (2004-2016)

= Adidas
= Joggers
Adidas Search Trends - continued

“Adidas” Search Trends (2004-2016)
Adidas Search Trends - continued

“Joggers” Search Trends (2004-2016)
Reebok Trends

- “Reebok” never mentioned outright
- High use of celebrity/professional athletes (endorsements)
  - Kendrick Lamar, Allen Iverson
- Less emotional than other brands
- More humorous than other brands
- Never comparative→ tendency of the industry
Commercial Coding Trends

Did the Commercial Contain...

...Any Celebrity Endorsements?

...Emotional Elements?

...Humor?

...Comparative Advertising?

Introduction | Industry Structure | Advertising Strategies | Analysis and Recommendations
Commercial Coding: Industry Trends

- Brand name is never mentioned
- Advertising a product line or collection
  - Not usually one product
- Never comparative
  - No need to compare to the competition
  - The nature of the industry
- Focus of every frame is the brand/logo
  - Even when professional athletes are present
- Goal: to appeal to consumer’s emotions to engage them with the brand→ lovemark (delivering beyond expectation of great performance)
BRANDS
Low Love
High Respect

LOVEMARKS
High Love
High Respect

PRODUCTS
Low Love
Low Respect

FADS
High Love
Low Respect
Brand Perception Map

Many Sports

Low Quality Perception

High Quality Perception

Few Sports
Share of Voice as a Measure of Success

- Advertising activities for a brand
- Total reach, based on consumer buzz and consumer social networks
- Chain reaction:
  - Ex: I watch a commercial→ I tweet using the hashtag→ my social network following sees it→ someone retweets→ their social network following sees it→ everyone is associating their photos with the brand image and associated emotions
Social Media: Facebook

- Nike
  -
- Adidas
  -
- Under Armour
  -
- Reebok
  -
Social Media: Facebook

- Nike
  - Facebook: 24+ million
- Adidas
  - Facebook: 27+ million
- Under Armour
  - Facebook: 4+ million
- Reebok
  - Facebook: 5+ million
Social Media: Instagram

adidasoriginals
adidas Originals "Your future is not mine." adidas.com/ZXFLUX
2,624 posts 11.4m followers 378 following

underarmour
Under Armour #IWILL undrarrmr.co/1NoPljs
1,404 posts 2.1m followers 367 following

reebok
ACTIVCHILL brings you the cooling effect you need to blaze past your limits. #BringTheCool reebk.co/activchill
1,230 posts 640k followers 319 following

nike
nike Just Do It. www.nike.com/free
832 posts 43.7m followers 131 following
Co-Branding

- Complementary products
- Both companies involved gain → win-win situation

Examples:
  - Nike & Apple’s Fuelband with Nike+
  - Adidas & Instagram “Here to Create” campaign
  - Nike & Air Jordan sneakers
  - Reebok & Crossfit
  - Under Armour & Fitness Apps (Endomondo and MyFitnessPal)
Exclusive Athletic Partnerships

- University and Professional level
- Discounted price based on how many are purchased
- There are 3 major players in the college athletic apparel business:
  - Adidas
  - Nike
  - Under Armour
  - They pour an estimated $250M into college athletic departments each year
Exploring the Reebok-Crossfit Sponsorship

Relative Search Interest of “Crossfit” via Google Trends
Exploring the Reebok-Crossfit Sponsorship

Crossfit & Reebok Relative Search Interest
Celebrity Endorsements

- What can we say about the value of the brands are trying to portray?
- What type of athletes are the brands looking for?
- Direct economic impact on firm (diminishing ROI, but increases at first)
- Breaking through the clutter → differentiation, signaling quality, “star power”
- Recent study shows that endorsements increase a brand’s sales by ~$10M/year on average, and increases further if the athlete wins a championship
- Ex: Kevin Durant- turned down a 7 year, $82 million contract with Adidas to sign a 7 year, $60 million deal with Nike. Durant cites he has history with Nike dating back to the 8th grade.
Adidas Advertising Promotions

“We know consumers love our brands when they hear our stories. Therefore, we will be bringing even more of these to life on the streets, screens and stores in the future.”

- Adidas CEO Herbert Hainer
Manchester United
Dante Exum

life changes after the draft

Introduction  Industry Structure  Advertising Strategies  Analysis and Recommendations
Primetime Advertisement Data

- 2014 Primetime data on 4 network channels (not ESPN)
- What trends in this data are unique to the athletic footwear industry?
- What types of shows do companies prefer for advertising their products?
  - Does this targeting change for each brand?
- Was there any seasonality in the data?
- How do different breakdowns of the industry compare to the concentration level?
  - Based on Advertising Expenses
  - Based on Instagram followers
Lack of Data is Data Itself

- Why aren’t these companies advertising on the major networks?
  - Other ad space is much more valuable than primetime on news networks
    - Ex: ESPN during March Madness
- Looking at trends to draw conclusions
Trends Within the Industry

What Programs Do Companies Prefer?

- Sports Related
- Unrelated to Sports
Industry Concentration Comparisons

Broken Down By Ad Expenditures

- Adidas
- ASICS
- Columbia
- Converse
- Crocs
- Ecko
- Etnies
- Hanes
- Heelys
- K-Swiss
- New Balance
- Nike

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Instagram Followers

- Adidas
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- Columbia
- Converse
- Crocs
- Ecko
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- Hanes
- Heelys
- K-Swiss
- New Balance
- Nike
Industry Concentration Comparisons

Comparing Advertising Dollars with Instagram Followers

Percent of Industry


Advertising Dollars vs. Instagram Followers

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A Closer Look at the Survey

What sport do you play the most?

- Soccer
- Hockey
- Basketball
- Lacrosse
- Rowing
- Baseball
- Football
- Track
- Tennis
- Other

Answered: 100  Skipped: 0
What is your preferred brand of athletic footwear outside of athletic competition? (ie: going for a run on your own)

Answered: 100  Skipped: 0

- Nike
- Adidas
- Under Armour
- Reebok
- Asics
- Other
On a scale of 1-10, how loyal are you?
Investment in the Industry

- Analysts currently recommend investing in Under Armour instead of Nike
  - Under Armour had an amazing 1st quarter with sales jumping 30%
  - Main reason because of both Steph Curry and Jordan Spieth’s new shoe lines
- Under Armour sales growth over past 4 quarters → 30.2%
  - Nike → 7.7%
- Under Armour quarterly sales rose by 20% for the past 6 years
  - #2 sportswear maker in the US last year
- Analysts expect Adidas’ revenue to grow 11% in the next year
  - Still would choose Nike over Adidas
Seasonality

- Demand for athletic footwear highest in the third quarter of the year
  - Sports activities increase as the weather gets colder
- The NFL also begins their season in 3rd quarter and generates demand
Stock Trends
Industry Gross Margins

- Average industry gross margin: 45%
- High margins due to lower costs of inputs and premium pricing of finished products
- Gross margin increasing because of a decline in raw material costs and focus on DTC sales
  - Adidas DTC: 23%
  - Nike DTC: 19%
Future of the Industry

- Industry grew by 8% in 2015
  - $17.2 billion in revenue
- Generates about $80 billion a year in sales according to Statista
- Potential to significantly expand
- Drivers of the sporting goods industry:
  - Growth in disposable income
  - Government promoting sports activities
  - Rise in number of health-conscious people
  - Increase in sports participation
- Over the next 5 years, more retailers will seek to gain exclusive contracts with suppliers
Industry Recommendations

Change in Net Sales by Product Category (Adidas)

- **Footwear**:
  - 2013: 6,873
  - 2014: 5,813
  - 2015: 8,360

- **Apparel**:
  - 2013: 6,658
  - 2014: 6,279
  - 2015: 6,470

Year

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Questions?