Competing in China’s booming sportswear market

The Olympic flame may have been extinguished at the 2008 Beijing Olympics, but the competition for the spending power of Chinese consumers remains red-hot for sportswear firms adidas and Puma.

While market leader Nike, which has been in China since 1980, is outpacing its rivals with sales of more than US$1 billion this year, adidas is also benefiting from its exposure as the official sportswear sponsor of the Beijing Olympics.

Christophe Bezu, CEO of adidas Asia Pacific, says the group may achieve its China sales target of one billion euros, ahead of its earlier-announced timeline of 2010.

"I think we may achieve that even earlier. Yes, we are totally on track with this target," says Bezu. Notably, adidas’s sales in China surged more than 60 percent in the first half of this year, with China overtaking Japan as the group’s second-largest market after the US.

Likewise, Puma’s business in China saw tremendous growth in the run-up to, and during, the Beijing Olympics. Christoph Peter-Isenbuerger, Puma’s head of marketing for Asia Pacific, cites the company’s efforts to combine its brand value with the values of China and Jamaica, the home of some of the world’s fastest sprinters such as Usain Bolt and Asafa Powell.

"People in China “are very happy and good-humoured if you get close to them,” says Peter-Isenbuerger. “And they like music, they like culture, they like dancing.”"

"So that’s what the brand is all about. It’s about sports, it’s about lifestyle, it’s about fashion, it’s about entertainment, it’s about happiness and that also belongs to Jamaica and Puma.”

Currently, China is Puma’s second-largest market in Asia Pacific after Japan. The US and Japan remain Puma’s top two global markets.

With Japan in the grip of an economic malaise and the US reeling from the credit crisis, sportswear firms are looking to China as their growth engine.

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consultancy, reckons that China’s sportswear market will grow 20 per cent annually between 2009 and 2012. It expects the market to be worth US$12 billion in 2012, from US$3.8 billion in 2006.

For now, Puma still lags behind Nike, adidas and Kappa in terms of revenue in China, according to ZOU Marketing. But Puma, which has a much smaller marketing budget than Nike or adidas, has managed to leap into the limelight, thanks to its canny sponsorship of the 2008 Jamaican Olympics team – and in particular, Jamaican sprinter Usain Bolt who was reprimanded by Jacques Rogge, chairman of the International Olympics Committee, for his showboating at the Games.

Peter-Isenbuerger on how Puma competes on a smaller marketing budget with Nike and adidas:

“We have been sponsoring the Jamaican team since 2002 and we’ve developed a very close relationship with them. We wanted to dominate track and field. And the whole strategy towards 2004 and 2008 was to really change the way track and field and running was being seen – so much more happiness and fun and enjoyment. And so of course the challenge we had, from the budget point of view … we always had to come up with completely different ideas. And the other challenge this time was to combine values – from the brand values, the values of Jamaica and the values of China.”

Puma’s Peter-Isenbuerger says Bolt, who won three gold medals and broke three world records at the Beijing Olympics, was not instructed to show off his golden Puma track shoes at the Bird’s Nest stadium.

“When we got him, he was very young. In 2002, he was around 13, so we’ve built up a really close relationship. So it’s not about the instruction,” Peter-Isenbuerger says.

“Our consistency with him, with Jamaica, with the brand, with the country, really remained with him. That’s why I think he was so proud of the whole experience he had with the shoes, because they brought him there. That was his way to celebrate, his whole dance. And I think he took them off because that’s the way he danced.”

Peter-Isenbuerger also noted that Bolt has become a sporting hero, pointing out that kids were imitating Bolt’s gesture of launching an arrow and that the Chinese public had sung a birthday song for him.

Separately, adidas’s Bezu believes that the company’s investment in China will continue to pay strong dividends. Compared to Puma which sponsored just three delegations at the Beijing Olympics, adidas reportedly spent some 1.3 billion renminbi or 190 million dollars sponsoring 16 teams, including the podium uniforms for China’s 100 medalists.

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adidas’s Bezu on ambush marketing:

“Yes we were (worried), as we are for any event when we are the official sponsor. As I was saying during this case (study at the Media 360 conference), we are sometimes on the other side, so we know also what strategy (we need) to prepare to ambush the ambush. We need to be ready for that. But I was less worried and having less fears in China because of the environment in which we were in, and the Chinese authorities wanted really to have a clean image towards the IOC. And we knew it would do everything possible to ensure that we would avoid any type of ambush of the official sponsor.”

“China is the number two country in the world for us from the revenue perspective and it is the number one contributor in the group, so the results are there,” says Bezu.

Bezu says adidas is projecting growth of around 70 per cent in China this year but expects growth to moderate in 2009, albeit “good double-digit” growth.

While Bezu would not tell INSEAD Knowledge how much adidas has invested in the Beijing Olympics, he says for major global sporting events such as the Olympics, adidas generally invests more in the host country.

“Generally we invest around 10 per cent of our revenue in our overall working budget, not specifically for those events overall. During a year of global events, it’s around 12-14 per cent … On top of that, the Euro (soccer) campaign in Europe is a pretty large investment this year across Europe.”

As adidas had invested around 10 per cent of its revenue in the Beijing Olympics, Bezu says he wanted to ensure that China “utilise 90 per cent of their budget just for the Games, and not for any other campaigns, so as not to be disturbed by any other campaigns.”

“So we certainly had redirection of the way we invested to ensure that we were really focused on the Games. And the second thing is just the additional instructions. You know how much you invest, you know how much your returns (are).”

As to how adidas measures the success of its Beijing Olympics campaign, Bezu says the company uses long-term sales data to measure its brand equity “to see whether people have really connected with you and want to buy your product.”
"The long-term perspective through the backlog orders ... That’s how you measure in a classical way, because you could have a lot of internal research, you could have a lot of connection with consumers which can give you their feelings."

"But at the end of the day, figures speak and external research speaks. That’s why we use that as tracking our record.”

Looking ahead to the 2012 London Olympic Games, Puma’s Peter-Isenbuerger says Puma will continue its marketing strategy of maintaining a close partnership with Jamaica and that Usain Bolt will be “part of it”.

“He’ll be 25 and he’ll have another chance to go to the Olympics,” says Peter-Isenbuerger.

As for adidas, the company expects to take a “fundamentally different” approach for the London Olympic Games.

“I would say fundamentally different because the London Games would be completely different,” says Bezu.

“First of all, I don’t think they can compete with what the Chinese have shown. I don’t think the IOC wants those types of Games again in the future. They want to come back to more fundamentals, more sustainable initiatives during the Olympic Games.”

“So the way it will be, certainly in the Olympic Games, and participation in that might be different. The essential fundamentals will remain the same, but the way we will execute will certainly be different.”

Bezu and Peter-Isenbuerger were speakers at the Media 360 conference held in Macau in mid-September.

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