McKinsey & Company

Sporting Goods 2022

The New Normal is here

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Foreword

The World Federation of Sporting Goods Industry (WFSGI) and McKinsey & Company have teamed up to present our second annual Sporting Goods Industry Report – "Sporting Goods 2022 – The New Normal is here." This report comes after the sporting goods industry experienced a year of tailwinds, often driven by pandemic-related trends. Many companies have been able to capitalize on these trends and the positive industry outlook for 2022 and beyond.

This second edition of our report reviews the trends presented in last year's edition[1] and dives into a selection of those taking interesting new turns. These will shape the industry's fortunes through 2022.

Our research suggests five key themes that reflect the current state of play: The continuing growth of digital, an acceleration in sustainability, a closer connection between social media and commerce, the reshaping of distribution channels, and an imperative for new supply chain strategies. None of these trends are new, but they have become even more important over the past year. They have widened the gap between various industry players, with economic profits increasingly concentrated. The implication is that some companies must speedily adapt their business models. In each chapter, we present strategies that may support them in doing so.

Many of the insights in this report arise from conversations with industry leaders, who have generously shared their experiences and thoughts on key topics. We are grateful to brand decision makers, retailers, WFSGI, and McKinsey experts for their contributions. We also leveraged proprietary and public research to develop a comprehensive view.

The past year saw a recovery to near pre-COVID-19 levels of growth, but in a new context, with several key trends both confirmed and accelerating. In response, companies must get better at modeling and anticipating the future. Wayne Gretzky's advice that "a great hockey player plays where the puck is going to be" has never been truer. We hope that this report will help the industry anticipate 2022, and we welcome your feedback and comments.

1 https://www.mckinsey.com/industries/retail/our-insights/sporting-goods-2021-the-next-normal-for-an-industry-in-flux

Table of contents

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Executive Summary

Two thousand and twenty-one was a great year for the sporting goods industry, which performed the rare feat in tough economic circumstances of returning to pre-COVID-19 levels of growth. Around the world, sporting goods players capitalized on tailwinds that commenced in 2020, and picked up pace as lockdowns eased and the wider economy started to reopen. Still, while growth has returned, the industry playing field has changed amid increased health awareness, shifting channel preferences, and rising sustainability concerns. These themes have become more established over the past year, leading to permanent shifts in consumer sporting activities and shopping habits.

To be successful in this new environment, the industry needs to continue to adapt both its customer propositions and its operational capabilities. This report provides an update to our thinking in last year's report, assesses the industry and players performance and evaluates more in depth trends in light of recent developments. Based on these considerations, it highlights five key areas that could help distinguish leaders in the year ahead.

Review of 2021
Last year, sporting goods industry executives were preoccupied with consumer shifts, the digital leap, and industry disruptions. In 2021, these trends have continued — and in some cases accelerated. With many people still working from home, athleisure has further gained ground, reflecting new attitudes to workwear. E-commerce has thrived, as consumers continued to shop online, even as lockdown measures have been eased. Meanwhile, sustainability is more important than ever, with the COP26 summit emphasizing the need for companies to raise the bar as they seek to differentiate their offerings including levers like carbon footprint offsetting.

With a few exceptions — including Fila, Jordan and On — most sporting goods companies saw much lower sales and narrower margins at the beginning of the pandemic. These shifts led to a bifurcation in performance. Prior to COVID-19, the majority of listed players posted 8-15 percent EBIT margins and 5-10 percent annual sales growth. In 2020, a few specialized players were able to pull clear, with margins and sales growth soaring to higher than 15 percent. Still, most sporting goods companies continued to deliver above-average economic profits.[2]

Two thousand and twenty-one brought with it a broad recovery. On a global level, the sportswear market is expected to recover to 98 percent of its pre-COVID-19 sales by the end of 2021, fueled by consumers in China (23 percent growth compared with 2020) and the US (15 percent). Overall, 14 percent year-on-year growth in 2021 will be more than double the average annual growth rate (CAGR) between 2015 and 2019 (5 percent).[3]

[2] Capital IQ
[3] Euromonitor International

Outlook 2022

The coming 12 months are likely to be characterized by a continuation of the tailwinds seen in 2021, despite some uncertainty caused by new viral variants (i.e., Omnicron) and retightened restrictions. Wherever possible, executives are looking to unlock new pockets of growth. Indeed, the medium-term outlook is positive, with the global sportswear market expected to grow 8-10 percent a year up to 2025, from €295 billion (2021f) to €395 billion (2025f).[4]

In 2022, five key themes will likely feature high on executive agendas:

i. **Consumer behavior habits:** Consumers will be active in different ways, amid rising health awareness and a greater commitment to digital, community-led exercise—often away from traditional sporting venues. Younger generations and consumers in India, China, and the US are more optimistic, and sporting goods is one of the categories in which they plan to splurge.

ii. **Social selling:** The hype around social media continues to grow, with influencers and digital communities driving a closer connection with commerce. The livestreaming trend that was first established in Asia will continue to pick up momentum around the world. The metaverse is entering the sporting goods arena.

iii. **Sustainability bar:** COVID-19 and COP26 have boosted sustainability awareness. As expectations increase, the bar for companies to differentiate themselves is rising fast. Companies will focus even more on sustainable materials, circular business models, and helping consumers make choices that reflect their values.

iv. **Shifts in channel ecosystem:** In 2021, companies have accelerated their moves toward direct-to-customer (DTC) models, online, and strategic partnerships with retailers. Looking forward, further realignment is likely, with companies maneuvering to make the most of their strengths. Some will prioritize DTC (new players), while others seek to establish a clear edge for brands (retailers). Many larger brands will repurpose physical locations as experience- and service-driven elements of an omnichannel offering.

v. **Supply chain turmoil:** Demand volatility, production bottlenecks, rising raw material and transport costs, as well as logistics chaos are causing turmoil in global supply chains. At the same time, the rise of online has created higher expectations for faster and more convenient delivery. Players may want to strategically review their supply chains so that they are better prepared for an uncertain future.

The new normal in sporting goods is likely to become even more established in 2022, with uncertainty becoming the new reality. In this challenging environment, there will be both risks and opportunities. As they seek out routes to high performance, the most successful players are likely to be those that adapt flexibly and align boldly with new trends as they emerge.

4 Euromonitor International

Sporting goods 2022 at a glance

The 2022 Sporting Goods report assesses the realization of the 2021 trends, analyzes industry performance, and deep dives into 5 trends for 2022.

2021 trend review

Consumer shifts

Athleisure continues to gain traction even as lockdowns cease

Physical activity inequality continues across socio-economic groups, but also genders and countries

Sustainability becomes the COVID-accelerated "new norm"

Digital leap

New digital-enabled ways of exercising are here to stay as consumers change their exercising habits lastingly

Leap forward in online stabilized at much higher than pre-COVID levels even as stores re-opened

New digital horizons for brand-marketing sees major shift of marketing spend

Industry disruption

Retail recovery slow but reaffirmed as experience touchpoint in omni-channel ecosystem

Supply chains under pressure as demand and supply gap widen post-COVID-19

Trend confirmed

Trend accelerated

Trend taking new turn

Industry performance

Global sportswear market is expected to recover to pre-COVID-19 levels by 2021 and to grow annually at 8.8 percent to reach around $400 billion by 2025

Overall margin and sales growth have slowed, and the market has bifurcated into a few small- to mid-sized, specialized players who were able to pull clear of the other players with EBIT margins beyond 15 percent and annual sales growth north of 15 percent

Economic performance of Sporting Good companies over the last 5 years varies significantly – yet many players in top quintiles compared to players from other industries

Industry-leading players continued to thrive on virtuous cycle that is based on excellence in strategic priorities and a clearly differentiated consumer offering, resulting in a lift in net sales with higher GM and fixed cost digression that finally allow to further fund investments in strategic priorities

8-10% CAGR

expected global sportswear market growth from 2020 to 2025

2022 trend deep dives

Evolving attitudes and behaviors

70-85%

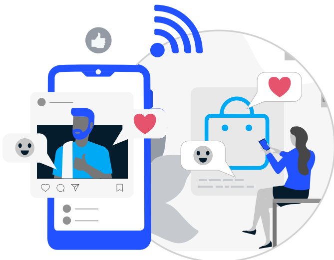
of consumers expect to continue using online fitness, wellness and digital exercises

The tumultuous events of the past two years are reminders of the fragility of human life and the ecosystems that support it. As a result, many people have reconsidered their lifestyles, and how these may either support or undermine their own resilience. Sporting goods companies have been able to help, and while uptake has been uneven across demographics, there are signs post-lockdown that changing consuming behaviors are here to stay.

From social media to social commerce

>80%

of consumers use online channels to search for products



Amid growing user numbers and relentless expansion of its capabilities, social media is taking its place at the center of many brands' e-commerce strategies. As growing numbers of companies experiment with new strategies, leaders are taking the art to a whole new level—creating powerful blends of social interaction and e-commerce.

The sustainability imperative

2 out of 3

consumers say promotion of sustainability is an important buying factor when purchasing apparel

Climate change has steadily climbed consumer agendas over recent years, and the impact of the COVID-19 pandemic has accelerated its progress. People, now more than ever, understand the strong connection between their choices and the world they will leave for future generations. Sporting goods companies are naturally aligned with these values, but brands must do more to enable their customers to make sustainable choices.

The future of channels

~45%

of sales through digital online channels even after stores reopened after lockdowns

The COVID-19 pandemic has drastically boosted online shopping, with many previously resistant consumers now fully converted to e-commerce. Still, the longer term will be about more than digital. In a post-pandemic future, distribution will be omnichannel, with customers able to move seamlessly and instantly between digital and physical. Leading sporting goods companies are already seeking to position themselves in this changing environment.

Solving the supply chain puzzle

7-10x

increase in shipping prices due to demand/ supply imbalances

The sporting goods industry faces twin supply chain challenges. First, they must grapple with the short- and medium-term impacts of the pandemic. These include tricky imbalances between supply and demand, soaring shipping costs, and the impacts of lockdowns on manufacturing hubs. The second challenge is longer-term and more structural, emanating from industry's pivot toward e-commerce. With these trends set to persist through 2022, brands need to adopt a strategic mindset to keep stocks flowing.

2021 trend review

In this second edition of our report, we start by taking stock of 2021 and reviewing whether the trends identified in last year's edition materialized. We find that the trends largely played out as expected – with some being even more pronounced than predicted. The same trends will shape the industry in 2022, but some with twists that we explore in this year's deep dive chapters.

Consumer shifts

1. **Athleisure continuing to grow fast:**
Our 2021 report highlighted that the lines between work and free time had blurred during the pandemic, accelerating the athleisure trend. This year that trend has solidified, as the pandemic and its impacts continued for even outside of lockdowns. For example, casual and sports clothes are increasingly acceptable in professional environments. Boundaries between professional and personal life continued to break down as COVID-19 restrictions and repeated lockdowns solidified new habits. Athleisure is still the fastest-growing segment in the global sports apparel market, with forecasted growth (CAGR) of 8-9 percent between 2020 and 2025.[5]

2. **Physical activity inequality increasing:**
Last year, COVID-19 triggered significant shifts in physical activity levels, with many people becoming more active, while a significant proportion engaged less in physical activity. The division was largely defined in terms of socioeconomic groups, with the well-off tending to exercise more. Over the past 12 months, this inequality gap widened further, despite a partial release of COVID-19 measures. The dynamics played out across genders (males exercised more) and geographies. We drill down into the dynamics in the chapter "Evolving Attitudes and Behaviors".

3. **Sustainability the COVID-19 accelerated "next normal":**
In the first year of the pandemic, we noted that sustainability was already climbing consumer agendas, leading to more sustainable products and circular business models. Over the past 12 months, sustainability initiatives and offerings have accelerated. At the same time, we observe growing expectations through private sector initiatives and public sector actions, for example, emanating from the COP 26 summit. "The Sustainability Imperative" explores the latest developments.

Digital leap

4. **Digital-enabled exercise and community building on the rise:**
In last year's report we discussed the rise in digital fitness that had been marked pre-COVID-19 and which accelerated with the pandemic, as people found digital replacements for their exercise regimes. Over the past 12 months, it has become clear that the shift to digital fitness is here to stay. For every 10 people who use digital fitness offerings today, eight started or engaged more frequently during the pandemic. A clear majority of these intend to continue.[6]

[5] Euromonitor
[6] McKinsey & Company COVID-19 US Consumer Pulse Survey

5. Leap forward in online enabling and accelerating shift to direct-to-consumer (DTC):

E-commerce was already growing pre-COVID-19, but the pandemic seems to have reinforced the trend with growing numbers of new users leading many companies to switch from wholesale to online/omnichannel DTC distribution models. Over the past 12 months, e-commerce as a share of total retail spend stabilized at levels significantly higher than before the pandemic. In the US, it commanded a share of around 45 percent to 50 percent for most of 2021, only topped by software/electronics, cosmetics, and pet supplies, even higher than the 25 percent we predicted in last year's report.[7] In response, companies strengthened and expanded their DTC operating models, with new concept stores and innovations in online functionality. "The Future of Channels" highlights some of the most exciting initiatives.

6. New digital horizon for brand marketing:

Last year, we reported a continuing rise in digital marketing spend. This evolved from ROI-driven performance marketing to much more ambitious initiatives, with individual athletes playing a pivotal role. Over the past 12 months, the trend has accelerated, with mobile more significant than ever and athlete influencers continuing to build significant social media followings. Moreover, traditionally terrestrial broadcast products, such as the Olympic Games, were more present online. We expect online channels will continue shifting toward real-time content in the year ahead. In "From Social Media to Social Commerce", we look at how the lines between social media and commerce are blurring.

Industry disruption

7. Physical retail required to reinvent itself:

Brick and mortar stores were already under pressure pre-COVID-19, and lockdown measures in 2020 exacerbated the crisis for physical stores. Our report suggested retailers needed to find new purposes, new experiences, and new convenience that could not be offered digitally. Over the past 12 months, physical retail made a tentative recovery, with sales growth ranging between 2 percent and 5 percent year-on-year in many markets. While this is nowhere as high as e-commerce, which grew from 35 percent to 45 percent, it shows that consumers remain enthusiastic about getting out onto the high street.[8] In response, many brands have intensified their efforts to roll out omnichannel strategies, amid innovative store formats, community outreach, and increasing focus on creating unique shopping experiences.

8. Supply chains under pressure on two fronts:

Increasing focus on DTC and e-commerce, alongside rising volatility, last year drove a shift to more agile and more efficient supply chains. We discussed the rising demand for nearshoring and stronger supplier relationships. Over the past 12 months, supply chains have come under pressure on two fronts. Rising transportation costs and production bottlenecks continued to strain operations, while consumers signaled a permanent shift to alternative channels, requiring companies to invest in new logistical models. In "Solving the Supply Chain Puzzle" we explore potential solutions.

[7] Affinity credit card spend data for 2/2019–8/2021; Stackline Amazon spend data for 2/2019–8/2021
[8] Affinity credit card spend data for 2/2019–8/2021; Stackline Amazon spend data for 2/2019–8/2021

Kasper Rorsted, Chief Executive Officer, Adidas

The last 24 months were some of the most disruptive in many regards. If you look back and reflect, what would you say were the most profound changes that Adidas faced and which of them do you believe will last going forward?
Despite all the painful challenges that we went through, I think the most profound change that we have undergone has been the rapid acceleration in the digital landscape. While we were on the journey before, there is no doubt that every process that could be digitalized became digitalized. The way we engage and transact with consumers and build applications for consumers accelerated immensely. As a result, over 12 months, we gained two to three years of acceleration – a sustainable change – one of the few good things that have happened in the past 12 to 24 months.

You mentioned the acceleration of all things digital as the most impactful business development of the last 24 months. How have you at Adidas reacted to that?
We are rapidly and decisively expanding and deepening our capabilities in data science, advanced analytics, and artificial intelligence – all areas that enable new use cases. For example, we already have the ability to use consumer searches and consumer behavior on adidas.com as a demand indication to inform product development. If we start seeing patterns in what people are looking for that are not reflected in our current product assortment, we start understanding an unmet need. Two years ago, we couldn't do that, and in two years, we will have added many more exciting capabilities like this, which add value for both the consumer and Adidas.

From the Adidas perspective, what were the main shifts you have seen, specifically in regard to consumer behavior?
There are many, of course: Athleisure, betterment, digital sustainability, tendencies towards premium, and more. Those are the trends we have seen that accelerated the most. Specifically, betterment has become a much more profound element in people's minds, and it will continue to be relevant as people are increasingly concerned about their health. The pandemic has shown us that we are not invincible and that it is important to do what we can to be healthy – and sport is a critical element of that. Of course, during lockdowns, it was difficult to be physically active. For instance, I have been working from home today. So far, my tracker has recorded 2208 steps and it is mid-day). Last week, when I was working in the office, I took between 10,000 and 15,000 steps per day. This is the predicament that many people found themselves in and that is why so many people started running and walking, or refitted their guest rooms as gyms.
I also want to mention sustainability. Even though it is still in the early stages, it has accelerated substantially in its importance to consumers and will continue to do so. Here, it is critical not to rely on consumer research that tells you that consumers are willing to pay more for sustainable products. As Adidas but also as an industry, we need to deliver sustainability without price premiums.

You mentioned your step count without prompt and could even recall your last week's average. Are you observing the rise of digital also as a role to enable fitness and training via apps – and have you as Adidas been reflecting this as an opportunity?
We were one of the early investors in this space in 2015 when we bought Runtastic. Since then, what you have seen is the rapid growth of the fitness app landscape. We have created an app platform that connects our training platform with our shopping platform at Adidas. We award people points when they train in the Adidas sports apps, which they can then use on our shopping platform. This was a real "win-win", giving our users more incentive to be active and successfully bridging the gap between our training and commerce application. However, the next challenge we and everyone needs to crack is to have our digital training offerings go beyond just "how fast am I running", "how far am I running" and "what's my heartbeat". They must become more tangible and more integrated into people's lives. This is where the opportunity for the next "killer" application in digital training lies.

What could this "killer" application look like?
I don't know whether there will be one "killer app" but I think what we have seen with Peloton is the power in truly

connecting in a digital space. I think that the community aspect is important, whether it's online or offline. Yet, it is not only the connection among users, but I also believe that the connection between what you do in sports and a sports company can be valuable to the user. The more information a sports company can get about how you do sport, the better it can recommend relevant products. The industry, however, is not there yet with precisely targeted products to each individual. But with 3D printing, customization, and personalization, we will start seeing more of that. I see a real advantage in feeding my data into a company that translates it into tangible value.

You mentioned that you successfully connected your training application with your product offerings. Is the digital engagement you see also translating in higher D2C sales for Adidas?

Hugely. We have a target of 500 million members by 2025, and we have more than 200 million today, and we see that an active member has 2.5 times the lifetime value of a non-active member. That is why we spend a lot of time understanding how we can build a close relationship with active members to ensure there are real benefits for the user in digitally engaging with us. For example, we are exploring giving higher value members access to exclusive experiences – digital and non-digital. A non-digital experience can enable members to meet a football star in their city. That is something you can't buy for money, which also links to our brand. If we succeed in understanding our members' and fans' passions and then enable them to have experiences that would otherwise be out of reach, we delight them in a way others find impossible to imitate.

Coming back to sustainability, which you also mentioned as a key theme. What is the way forward here – for Adidas but also for the entire Sporting Goods Industry?

I think two things are essential: Reusable materials and CO_2 footprint. At Adidas, we are addressing reusable materials through recycled polyester. We can directly address this, even though it still requires product and material innovation to ensure there are no performance trade-offs. We are also looking into heavier use of biodegradable solutions to be less reliant on recycling – which is more or less pronounced in different geographies. When it comes to CO2, our impact is largely through indirect management, since most of the Co2 is created by the upstream manufacturing industry. There are many important levers here, the most important being energy through renewable sources like solar and wind. We have committed to both factors: We want to have 90 percent of our articles sustainable by 2025 and want to reduce our carbon footprint per product by 15 percent, also by 2025.

I also believe that as an industry, we must be always transparent about what the consumer gets and what is not yet possible. If we don't behave like this, people will become cynical and lose trust. Part of this transparent communication is also to point out that certain products will not be sustainable below a certain price point. Recently I saw an advertisement from a German retailer for kid's ski pants for €9,99. You can be almost 100 percent certain that these are not sustainable. The consumer needs to be educated and accept that sustainability also comes with a minimum price tag. That being said, above such a minimum threshold, there should be no price premium for sustainability. If we, as a brand, have a different cost structure below that, then that's really our problem to solve.

Does this also change the way you design & develop products?

It does, and we are on a very ambitious and aspirational track for 2025. We know that we currently don't yet have all the solutions for 2025, but we are confident that we will get there in time. We are working with large companies, collaborating with associations, and making strategic investments in smaller, innovative companies. We are particularly looking toward working with or investing in companies working on sustainable materials innovation. In this, we are behaving like a venture capitalist, setting out to provide the capital and the incentives for innovators to solve the unsolved problems – and then our job is scaling it to the 400 million pairs of shoes we produce every year. This doesn't only mean plugging innovative materials and material technology into our manufacturing process, but also to make the resulting products affordable so that not only consumers in Western Europe or the US can enjoy them but every Adidas consumer globally.

I also need to ask you about your perspective on the fast-changing channel landscape, specifically the acceleration of direct-to-consumer (DTC) and the threat many multi-brand retailers are experienced to only be a choice of last resort for a brand like Adidas in the future.

There is no doubt that there is a great opportunity in direct-to-consumer (DTC) and that there is a lot of appetite from consumers to interact directly with brands. We plan to grow our DTC business to be 50 percent of our total business by 2025. We came from a wholesale model, and we are on a path to a digital DTC model. This change in the operating model does not mean that we won't work with wholesalers going forward. However, they will need to evolve as well. The wholesalers we will work with closely and enthusiastically will be digitally-enabled as well. Let me illustrate what I mean by that through an example. When we work with Zalando, we share our inventory with Zalando, and if they have a demand on their site for a product they don't have, they grab it automatically from our inventory.

As a last question, if you think about 2022, what's the one thing you are most excited about you at Adidas and for the industry as a whole?

I personally am more excited than I have ever been working for a sports company. We all know that sport is a major driver of health and as an industry we have the power to change lives for the better. You are running, and afterward, you are not only mentally sharper, but your body is a bit healthier. This is what it is all about. And even though we have been talking about digital a lot, there is a limit to what extent the experience of going for a run – alone or in a group – and its benefits can be replicated digitally. That's why I personally cannot wait for social life to return to normal so that all of us can run, train, and exercise again as we desire.

Riding the Crest of a Wave: 2021 performance

The global sportswear market bounced back over the past year, amid soaring demand for styles that suited both stay-at-home and outdoor activities. For many consumers, sporting styles were the go-to choices for their wardrobes. As a result, 2021 was a year of continued growth for many players, and recovery from pandemic-related restrictions. Indeed, by capitalizing on many of the trends that picked up momentum during the pandemic, the industry almost fully regained its 2019 market size. On an individual company level, there was less performance mobility than in other industries, with the strongest players continuing to outperform. These companies created a virtuous circle (as outlined in last year's report) of performance, fixed cost digression, and increased funding for strategic priorities.

The sporting goods industry is growing fast. Sportswear, in particular, saw standout growth over the past year, as the segment almost completely recovered from the impact of lockdowns. The market is likely to regain 98 percent of its pre-COVID-19 performance in 2021, compared with 2020, driven by exceptional 23 percent growth in China and 15 percent expansion in the US.[9] Moreover, growth is likely to continue in the medium term, with the market expanding by an average of 8-10 percent from €295 billion in 2021 up to €395 billion in 2025. China is expected to grow the fastest, with its annual growth likely to average 14 percent. Germany, Japan, and the UK will see 4 percent, 3 percent, 6 percent growth up to 2025 respectively.[10]

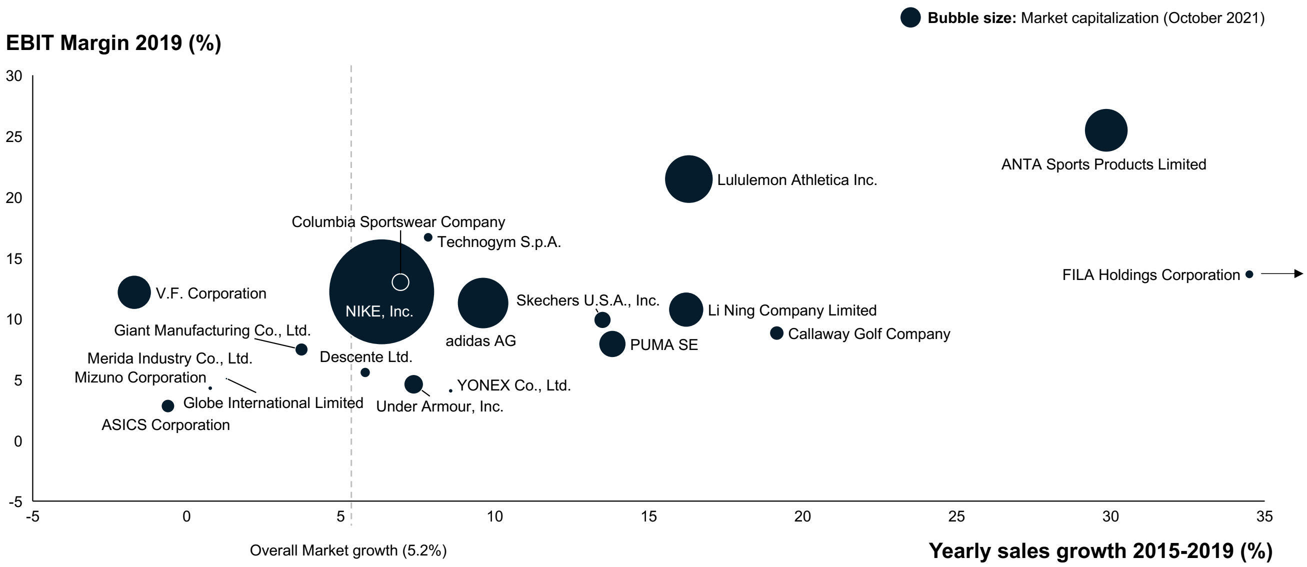
In 2020, many brands saw sales declines and the large majority declined in line with the market average. The exceptions at two ends of the scale were companies that benefitted from athleisure and bicycle booms and specialized outdoor brands, some of which suffered disproportionately from closed ski resorts and travel restrictions. In 2020, publicly listed equipment companies achieved exceptionally high shareholder returns, while retail companies and apparel companies were showing average performance. In 2021, the picture changed and the highest returns were among retailers.

From the perspective of EBIT margins and sales growth, the pandemic has catalyzed a shift in performance. Ahead of the 2020 outbreak, the vast majority

Exhibit 01

Prior to COVID-19, the majority of players was within a similar range

Pre-COVID-19 EBIT margin and sales growth for selected players



Source: CapIQ (November 2021)

[9] Capital IQ
[10] McKinsey Fashion Index, McKinsey Insights, Euromonitor, Expert assessment

of companies generated EBIT margins and sales growth in ranges of 8-15 percent and 5-10 percent respectively.[11] COVID-19 changed the dynamic, producing an overall downward shift. It also led to a bifurcation, characterized by a few high-performing companies (with EBIT margins and sales growth of more than 15 percent) and a majority that saw declines. Very few companies occupied the middle ground.

Player performance

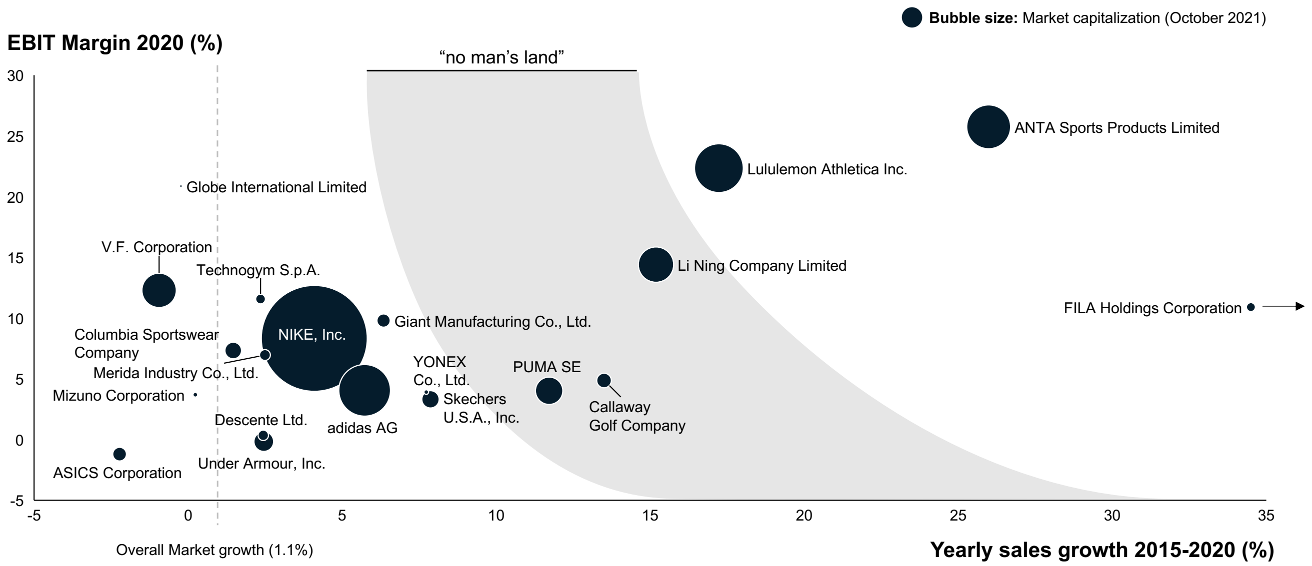
A useful benchmark of value creation is economic profit, defined as net operating profit minus a capital charge. Based on economic profit, sporting goods companies posted varying performances over the past five years, with large numbers in the top quintile. Still, some are in the bottom 40 percent, compared with the wider apparel industry.[12] With very little mobility, most companies held their positions over time.

Brands that thrived did not succeed in only one element of their proposition. Instead, they often found a way to combine a number of elements to create momentum. Following its relaunch in 2018, FILA captured the retro trend and reposition itself as a brand for younger consumers. At the same time, it cemented its relationships with well-known premium streetwear brands (Fendi borrowed FILA's typography) and boosted its visibility through ambassadors including Rihanna. While the company is still evolving, its efforts have made it the world's fastest-growing brand, with a 68 percent increase in brand value in 2021 to $2.7 billion.[13] Another company

Exhibit 02

COVID-19 resulted in a downward shift of the overall market and in a bifurcation

2020 EBIT margin and 2015-2020 sales growth for selected players



Source: CapIQ (November 2021)

11 Source: McKinsey Fashion Index, McKinsey Insights, Euromonitor, Expert assessment
12 S&CF Insights, Corporate Performance Analytics, S&P Global
13 Apparel 50 2021, Brand Finance

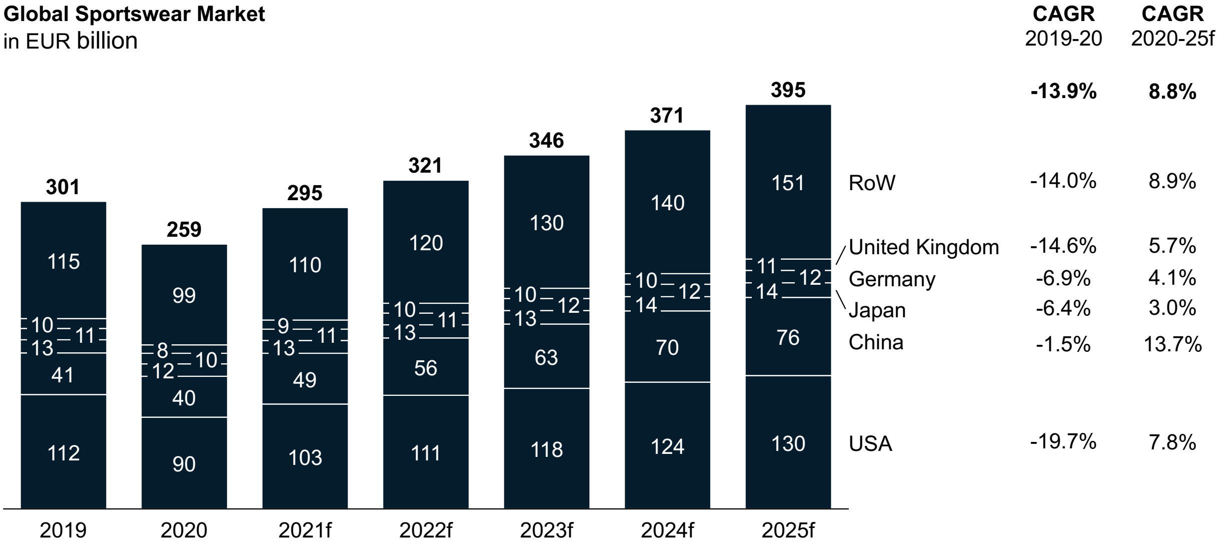
to have seen impressive growth is Anta-owned outdoor brand Arc'teryx, which has profited from its expansion focus in on China. This has seen it concentrate on high-quality commercial zones, including taking up residence in landmark locations such as Shanghai's Plaza66.

The past year has shown that the most strategically acute brands can outperform their peers. Many leading performers have developed their DTC operating models, worked to nurture their communities, and introduced agile approaches that have helped them manage challenges such as those in supply chains. Looking to 2022, the most successful brands will build on their strategic excellence to create virtuous circles of differentiated offerings, increased net sales, fixed cost digression, and higher funding for strategic priorities. One company showing strong performance within this dynamic is Swiss-based On, which leveraged a powerful go-to-market strategy and differentiated offering over the past year.

Of course, not all companies are in the same position. While leading brands have created virtuous circles, some companies are still working to define their strategic direction to improve their financial outcomes and increase funding for innovation. As growth opportunities continue to emerge, the onus will be on decision makers to show they can put these companies on the right track.

Exhibit 03

The global sporting goods market is expected to grow to €395 billion by 2025



Source: Euromonitor

David Allemann, Co-Founder, On

David, thank you for sitting down with us. It now has been exactly three months, since you rang the bell at the New York Stock Exchange and ushered in On's next chapter. Before we look ahead though, going public surely is a moment were you also look back at the entire journey and reflect. If you do this, what will you have been most proud of?
Most importantly, bringing a new experience of running to millions of people and thereby inspiring them to move. When we run, we do not only move our body but our mind as well. We reflect, we get perspective, and we dream of new goals, new peaks, new runs, new journeys. It's a circle. At On, we believe that the human spirit is one of the most powerful forces on this planet. Working towards our mission – to ignite the human spirit through movement – together with our community is what we are most proud of. You have to know that On is an innovation company at heart and we power our mission with technology, design, and a unique way to reach and inspire our community. Take, for example, a feature film about David Brown, the fastest blind runner who participated in the Paralympics. Approaching things very differently would not have been possible without an exceptional team of scientists, engineers, business leaders, and creative mavericks.

In retrospect, what do you think enabled you to break into the highly competitive market of performance running shoes?
In our case, first and foremost, it was a disruptive technology that is not just putting a better mattress underneath your foot but is a completely fresh take on how to engineer a running shoe outsole that combines the best of two worlds: a soft landing with an explosive take-off. For our customers, this unique "On-feeling" works on and off the run and comes with a new aesthetic. In the Swiss tradition of "form follows function" we decided to highlight the technology and make design and weight more minimal. On exists at the intersection of performance, design, and sustainability.

How would you define "performance" as an attribute of an On product?
Performance is often seen too narrowly. It is about speed but also about providing superior comfort. Together they form a great experience, whether it's on a run, on a hike, or in a very active life. I believe it is due to our comprehensive definition of performance that a lot of people have adopted On beyond running. Life, sports, and business are now fully intertwined. The last two years in the home office have fully taken down old conventions. In a way performance is taking over fashion. Professional athletes, world champions and Olympic medalists were the first to discover and compete in On. Yet in recent years, On has been adopted by a movement of millions with an active mindset.

For us, a key moment when we realized how much our worlds of performance running and cultural relevance were overlapping was in the summer of 2016. Swiss triathlete Nicola Spirig won an Olympic medal at the Rio Olympics in our Cloud model. In the same month, triple Academy Award winner Emmanuel Lubezki wore the very same model on the red carpet at the Oscars. Both are stellar performers in their field.

How do you see this core brand philosophy translate into categories beyond shoes, particularly apparel?
Sport is our lifestyle. So, when we went on our team runs, trail runs, or hikes a few years back, we were lacking great apparel that is universal and that truly excited us. We went to work with the same formula that created our shoe range: combining performance innovation with a unique aesthetic. Today, we see On apparel on professional athletes, on trails, in the gym, on world explorers – but also in very urban settings. It's often the same pieces as they are so functional, comfortable, and universal.

You also specifically mentioned "Swiss Engineering". What – if any – role does the element of Swissness play in your success?
Swissness and Swiss Engineering globally stand for a level of excellence and quality, whether it is complex watches around your wrist, tunnels underneath the Alps, or state-of-the-art robotics. But Swissness also evokes images of nature and is equivalent to a unique appreciation for nature. The Swiss Alps are our home. This obviously is the DNA that has shaped our brand and our products: innovation and nature.

But there is a less obvious dimension as well: Switzerland is a very small country and always had to have an international mindset to compete globally. We knew from the get-go that we wanted to serve a global sports community and hence had a mindset of openness to go out into the world early on. This is something that would have been significantly harder 20-30 years ago when, to enter a new country, you had to establish a distant regional headquarter and communicate by fax. We have been fortunate to come up in the digital age and so we established our team around the planet almost immediately. Everybody just opened their laptop, their e-mail, their Slack and we were able to build a global organization that has no headquarters but functions much more like a network of driven people around the world. This gave us the agility of a global team that is not grouped around local kingdoms but around joint missions. In 12 short years, On has established a presence in more than 50 countries and we benefit from a balance of markets that have already scaled while we incubate others.

That sounds to me like you have made a conscious decision to avoid classic structures and prioritize speed and agility?
As a small sports brand with a large ambition, you have so many missions, you need to find innovative ways to organize. We needed to – in parallel – create exciting products, expand into new territories, connect with new customers, work on digital innovation, develop channels, scale technology. There are so many things to do, you can't do that in a classical, hierarchical command and control structure, but you must approach it as a partnership of explorers around those different missions. Today, we have 14 senior leaders driving our core business missions together. They are spread around the globe, half of them are female, they represent six different nationalities and they work in an agile way. That then transcends to the rest of the organization. Team On has an average age of 32 and gets the opportunity to grow up in in an explorer culture at an early point in their careers.

Shifting gears, and looking at the industry as a whole, we would like to get your perspective on a few trends. Starting with the consumer: If you look at what has happened over the past two years, what would you say were the biggest shifts?
The last 24 months saw an acceleration of trends that we have been following for the past 12 years. Over the last decade, the separation between sport and daily life has increasingly faded. Physical activity has become a part of your everyday wellbeing. Running is so easy to integrate into your daily life and, for many, it has now become even easier. You can sneak away after a Zoom call to squeeze in a run and you're back after a quick shower. We have all seen that running is on fire. As the pandemic has lasted for two years now, a new running habit has been formed and will stay in the same way that people will continue to shop more online and engage more digitally.

Building on all of that great success you enjoyed so far, what is the next frontier for On? What do you perceive as your most important challenge going forward?
Growing up in the Swiss Alps gives you a special appreciation for the natural world. Nature is not only where we play, it's also our source of inspiration and above all, it's our home. But now, as a truly global company with a worldwide community, the challenges facing the planet take on new significance. A few years back we have started to limit the materials that our design and development teams can use to create new products. It has been very encouraging how this can lead to fast results: our blockbuster Cloud model will consist of over 44 percent recycled materials in the new 2022 upper and we are on track to reach 100 percent recycled polyesters and polyamides across the full On product range by 2024.

Yet, using recycled materials can only be the first step. We also dream of completely new kinds of products. We recently introduced the first fully recyclable running shoe available only by subscription. It's called Cyclon. You will never own it but have to give it back to us to get your fresh pair. In this large-scale experiment, we are working towards our vision of a fully circular range, making sure that recyclable products are not ending up in a landfill but come back to us for a new life.

The ultimate third step is to completely reinvent materials. We just announced CleanCloud – a sustainability initiative using carbon emissions to create foam for running shoes. It's a win-win situation: we are capturing emissions before they pollute our atmosphere and are at the same time moving away from fossil-based materials. After four years of intense research, we are very proud to announce this supply chain coalition with our world-class partners LanzaTech and Borealis.

“Separation between sport and daily life has increasingly faded... You can sneak away after a Zoom call to squeeze in a run and you’re back after a quick shower.”

As we grow, we continue to take on more responsibility. Our yardstick is our public commitment to ambitious, science-based greenhouse gas emissions reduction targets.

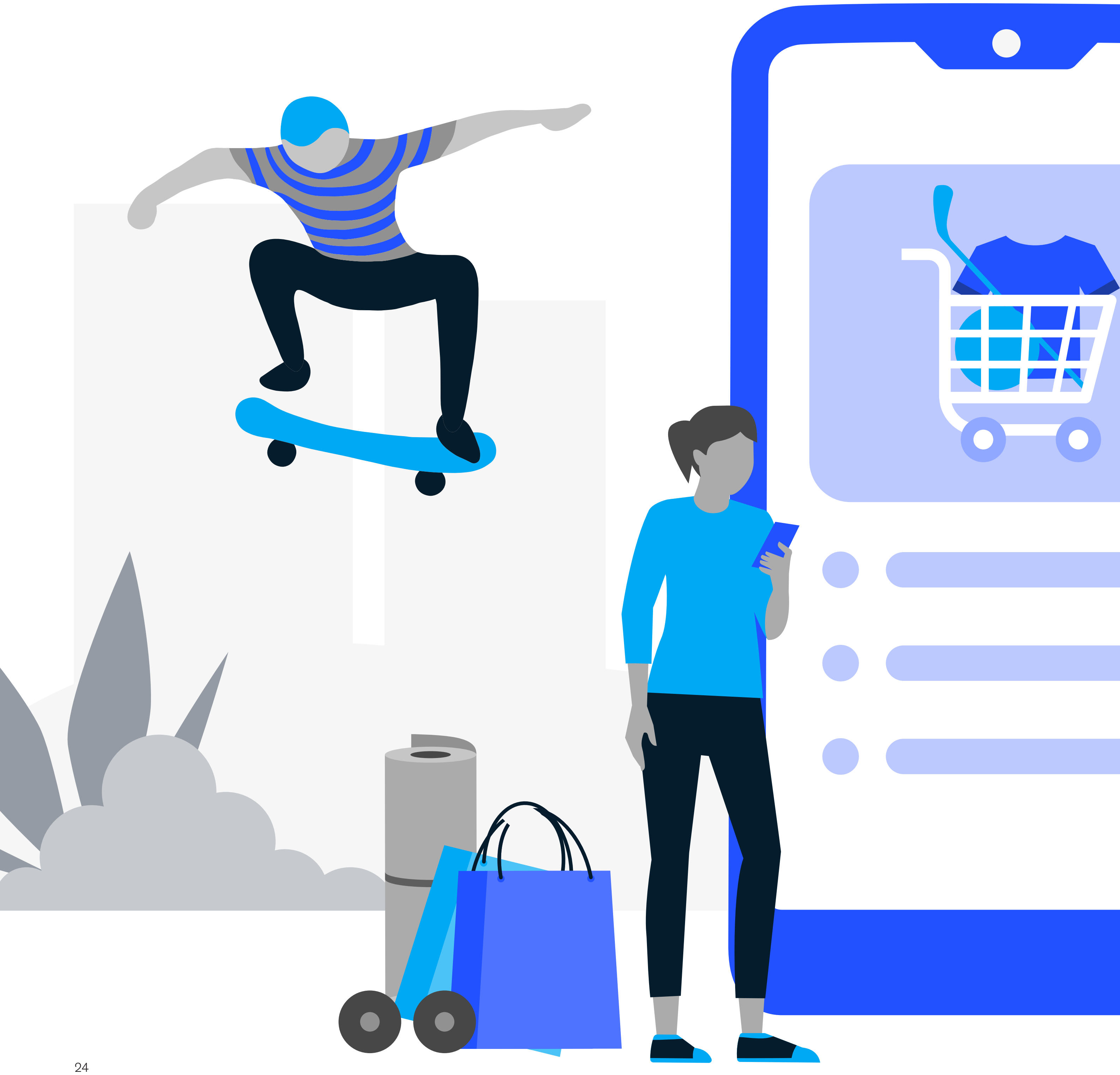
As many others in the industry do as well, you are suffering from substantial supply chain constraints, particularly in your overseas factory in Vietnam. Are you considering adaptations to your supply chain strategy going forward as a result?
The last 20 months have been a supply chain challenge for the entire sports industry. For us, it is important that we have incredible agility as a team. For example, early on during the pandemic, our teams looked at data and decided to ramp up production and not cancel any factory orders. Informed by data and our experience in the financial crises, we saw a running boom. Of course, acting with a through-cycle mindset was also a risk but we felt a risk worth taking. In retrospect, this course of action has served us very well as we built inventories and were able to serve increasing demand throughout the pandemic.

How do you see the shifts in the role of the channels – e-commerce, retail, wholesale, brand etc. – and do you see yourself doing something differently going forward?
We have been following an omnichannel strategy from the very beginning and built very strong partnerships with our retail partners, which we think are critical to connecting to runners. At the same we are directly engaging with our community. As a result, we now have over 8,000 doors in over 50 countries and in total serve more than 60 countries (including via Webshop). At the same time, we have a fast-growing DTC business. Our philosophy is that we want to serve our customers where they are, and sometimes the best place to shop is your local running shop, sometimes it’s the most eclectic sneaker store run by a real curator, sometimes it is an outdoor retailer like REI where you can get your tent alongside your On hiking shoe, and sometimes it is our own e-commerce. So, we feel that as long as each partner is adding value to our customers wherever they are, this is the best way to serve our community. I personally believe that the often-propagated vision of a future without physical stores will not become a reality anytime soon. In my view, experiential retail in our cities is part of contemporary culture and we truly missed it when shops were closed. Of course, transactional shopping will transition largely to e-commerce.

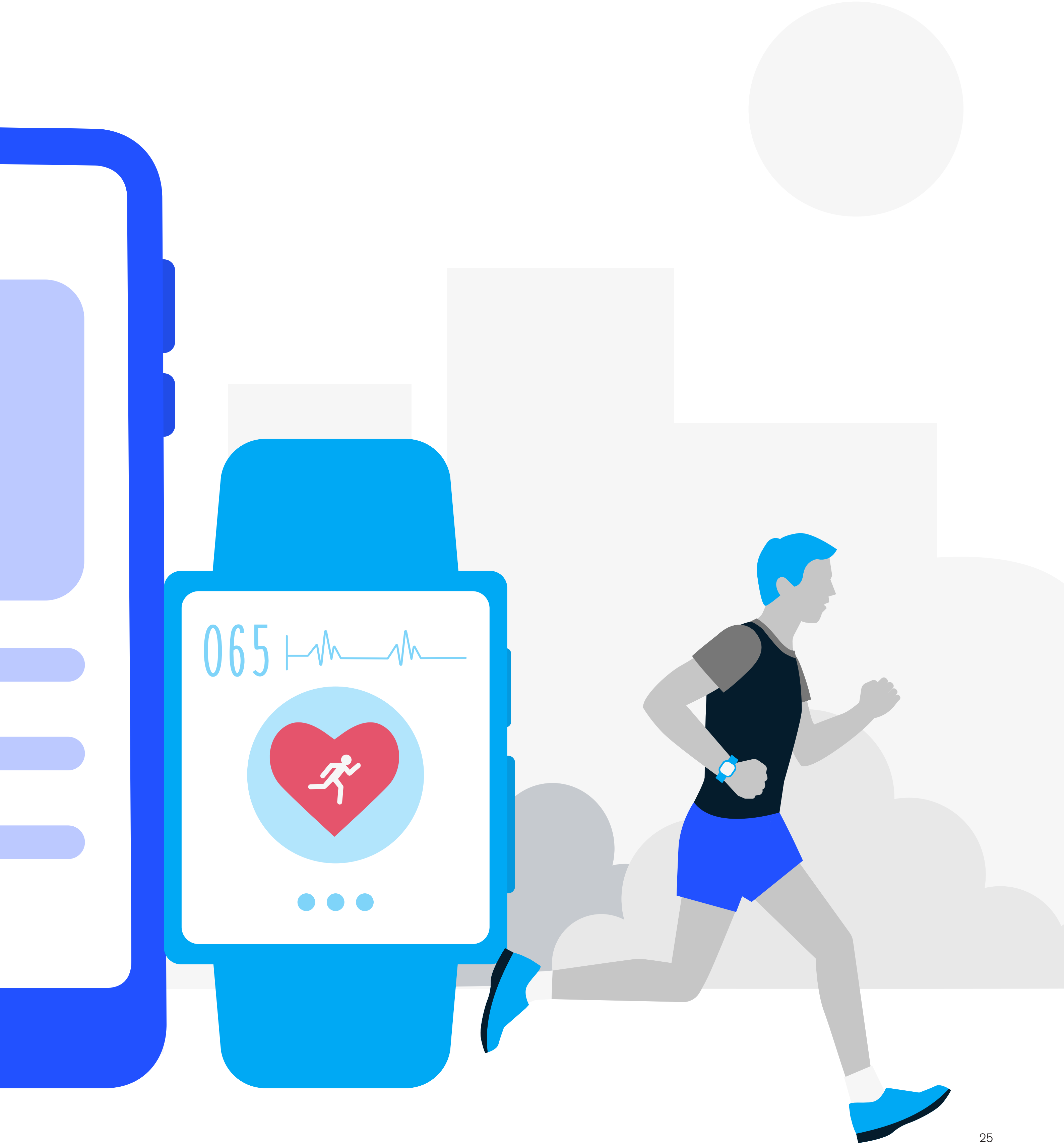
What role do and will your own stores play in this distribution strategy?
We opened our very first On store in New York City last December. We had long debates about whether it was the right time to open a store during COVID-19 but again, we felt that without risk, no reward. While it surely was and is a learning experience it turned out great – particularly because we can connect with our customers on a much more personal level. The store quite quickly became a focal point for the local running community. At the same time, we have built eight stores during the pandemic in China, where we feel that – in addition to a very strong digital ecosystem/presence – we have to build a physical presence to introduce our brand and make its unique attributes experienceable.

Talking about China, how do you see the running category evolving locally?
We experience a fast-growing sports lifestyle around running and movement in China. On’s premium innovation from Switzerland resonates very well with our Chinese community. I am very much looking forward to being able to visit our community and team in China again and run with them along the Bund in Shanghai as in the past. If we get more people to move, we fulfil our mission – the goal is clear, in China and beyond.

Evolving attitudes and behaviors



The COVID-19 pandemic caused many people to reconsider their lifestyles regarding how these may either support or undermine their own resilience. And while the uptake of physical activity has been uneven across demographics, there are signs post-lockdown that changing consuming behaviors are here to stay.



"The boundaries between life, work and sports have become more flexible. The pandemic lasted long enough to form new habits – we believe that this new reality is here to stay."

— David Allemann, Co-Founder, On

My health, my responsibility

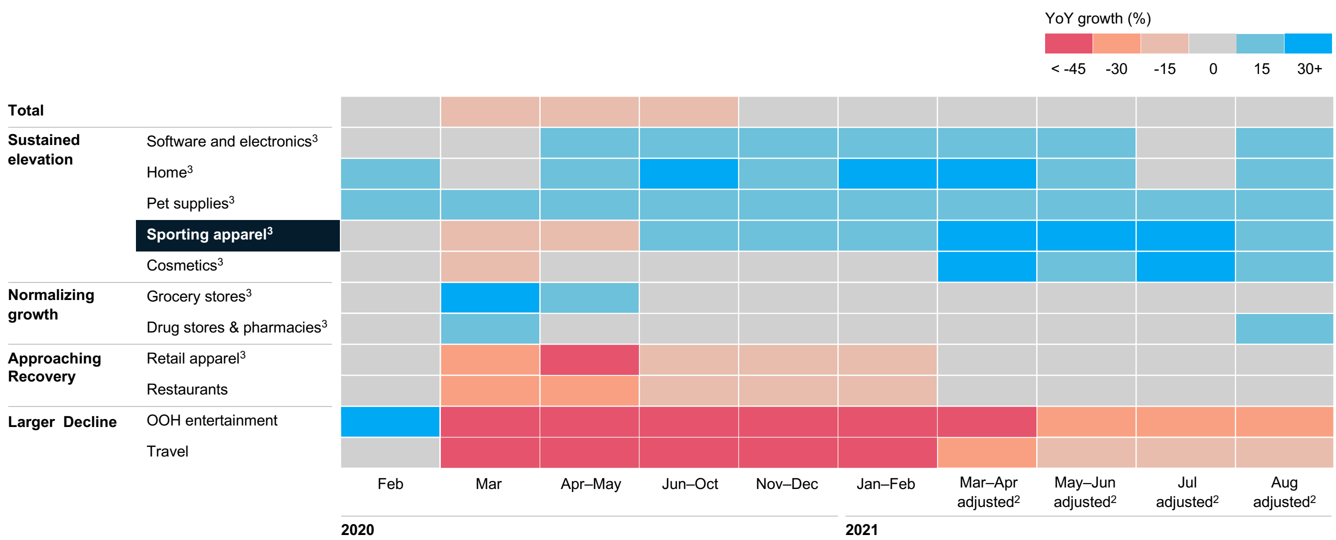
Half of consumers across multiple geographies say they have made proactive decisions to improve their health in 2021, and 66 percent agree that COVID-19 has encouraged them to spend more to feel better about themselves.[14] Still, amid lockdowns and restrictions on movement, many people have struggled to turn their intentions into consistent actions—a pattern that was particularly marked in groups with lower socioeconomic status, as well as the very young and elderly.

Despite these mixed messages, sporting apparel has seen good performance over the course of the pandemic, placing it among a select group of categories that has outperformed. In the first half of 2021, the US sporting goods industry saw sales growth of more than 30 percent year-on-year, putting it ahead of popular categories such as pet supplies and homeware.[15] The lion's share of growth was driven by high-income consumers, or people earning more

Exhibit 04

Sporting apparel has the highest YOY growth in 2021 vs. any other category

Year-over-year (YoY) sales growth[1], %



1. Excludes sales in automotive, beauty, grocery, home improvement, home and furniture, pet supplies, apparel and accessories, electronics, sports and outdoors, as these categories are embedded into subsequent rows
2. YoY growth for Mar–Aug 2021 relative to estimate of Mar–Aug 2020 had COVID not occurred. Re-forecasted Mar–Aug 2020 spend calculated by growing Feb–Aug 2020 spend by the same 1-month growth rate observed for Feb– Aug 2019
3. Includes Amazon sales

Source: Affinity credit card spend data for 2/2019–8/2021; Stackline Amazon spend data for 2/2019–8/2021

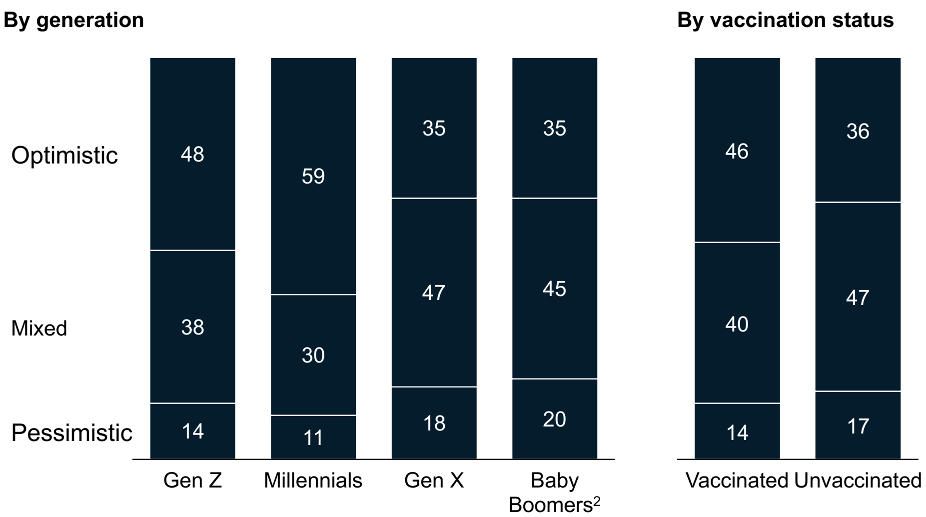
[14] Amex Trendex Report, Nielsen, Sport England Active Lives Adult Survey (November 2019/20 and May 2020/21 Report

[15] Source: Affinity credit card spend data for 2/2019–8/2021; Stackline Amazon spend data for 2/2019–8/2021. YoY growth for Mar–Aug 2021 relative to estimate of Mar–Aug 2020 had COVID not occurred. Re-forecasted Mar–Aug 2020 spend calculated by growing Feb–Aug 2020 spend by the same 1-month growth rate observed for Feb– Aug 2019. Includes Amazon sales

Exhibit 05

Younger generations are more optimistic about the return while ~40% of older consumers expect longer lead time

Confidence in own country's economic recovery after COVID-19[1], % of respondents



1. Q: What is your overall confidence level surrounding economic conditions after the coronavirus (COVID-19) crisis subsides (ie, once there is herd immunity)? Rated from 1 "very optimistic" to 6 "very pessimistic."
2. Baby boomers include Traditionalists

Source: McKinsey & Company COVID-19 US Consumer Pulse Survey 8/25–8/31/2021, n = 2,004, sampled and weighted to match the US general population 18+ years

than $80,000 a year. However, middle-income ($35,000-$80,000) and lower-income shoppers also spent more than they had in previous years.[16] Perhaps not surprisingly, the biggest increase in spending came from Millennials, in the 18-27 age group, while Gen X (aged 38-51), and Baby Boomers (52+) recorded a progressively lower change in spend. Again, however, all age groups were in positive territory.

Given unequal levels of consumer commitment to regular exercise, there is an increasingly energetic debate about the role of the wider stakeholder community in encouraging participation. Indeed, academic research shows that countries with higher spending on sport, health, and education are more likely to have higher participation rates in physical activity.[17] Given the significant evidence for the

> "We experienced a major shift comparable to the 1920s when Coco Chanel liberated women from corsets"
>
> — David Allemann, Co-Founder, On

[16] Affinity credit card spend data from 1/2019 – 8/2021; Stackline Amazon spend data from 1/2019–8/2021; Spend samples cardholders and underrepresents highest- and lowest- income bands

[17] Breuer, C., Wicker, P., Dallmeyer, S., Dvorak, J., "The economic "return on investment" in physical education, physical activity and sport", German Sport University Cologne, 20162016

benefits of physical activity on health, longevity, and healthcare cost, there is a clear case for more concerted action across civil society and private enterprise to encourage participation.

More digital, less gym

Against a complex demographic landscape, one dominant trend over the recent period has been changes in the ways that people exercise, with much higher levels of digital participation, lower gym attendance (amid the impact of lockdowns) and more homebased activity. Growth in online fitness, wellness and digital exercise has run at higher than 50 percent during the pandemic, and up to 80 percent expressing an intent to continue after the pandemic.[18]

Another key consumer trend of the recent period has been the rising appetite for home gym set-ups, which carry less transmission risk than public spaces. Some 14 percent of people set up a gym because of the impacts of COVID-19.[19] And despite the required investment, more than 70 percent of gym users said they went to public gyms less or differently.[20] This put gym attendance in the same depressed bracket as travel and entertainment in terms of participation. Outside the home, the cycling market saw strong growth over the past two years, fueled by rising demand for electrically pedal assisted cycles (EPACs). In Europe, annual sales of EPACs rose by more than 50 percent in 2021.[21]

Varied optimism

A significant proportion of people are optimistic that better times are on the horizon. Millennials are the most optimistic group, with 59 percent saying they are "optimistic", compared with just 35 percent of Gen Z and Baby Boomers, the most pessimistic groups.[22] Levels of optimism also vary by region, with India,

Exhibit 06

Younger consumers have a strong desire to splurge on apparel and cosmetics, perhaps given more out-of-home activity

Categories where consumers intend to treat themselves[1], % of all respondents with intent to splurge

Difference from all respondents (percentage points)
<-3 between >+3

Leisure categories	% of all respondents	Change from Feb 2021 (percentage points)	Generational cut: Gen Z	Millennials	Gen X	Baby boomers[2]
Restaurants, dining out, bars	41	-5	37	40	39	52
Apparel, shoes, accessories	39	-4	50	45	33	24
Travel, lodging, vacation	35	-9	25	37	33	45
Personal services	33	-4	38	40	28	18
Electronics	30	-2	32	35	27	19
Items for your home	26	-4	26	30	25	19
Makeup, skin care products	26	N/A	45	30	21	8
Out-of-home entertainment	25	-3	26	25	22	27
Fitness, sports, outdoors	24	-3	21	34	19	6
Household essentials	23	-5	22	28	23	12
Sports apparel and equipment	22	N/A	21	29	20	10
Pets	18	N/A	21	22	17	10
Outdoor living	15	N/A	9	19	18	6

1. Q: You mentioned that you plan to splurge/treat yourself in 2021. Which categories do you intend to treat yourself to? Please select all that apply.
2. Baby boomers include Traditional or Silent Generation.

Source: McKinsey & Company COVID-19 US Consumer Pulse Survey 8/25 – 8/31/2021, n=2,004; 2/18–2/22/2021, n = 2,076, sampled and weighted to match the US general population 18+ years

18 McKinsey & Company COVID-19 US Consumer Pulse Survey 2/18–2/22/2021, n = 2,076, sampled and weighted to match the US general population 18+ years
19 McKinsey & Company COVID-19 US Consumer Pulse Survey 8/25 – 8/31/2021, n=2,004; 2/18–2/22/2021, n = 2,076, sampled and weighted to match the US general population 18+ years, Aviva "How we live" Report Nov. 2021
20 McKinsey & Company COVID-19 US Consumer Pulse Survey 8/25 – 8/31/2021, n=2,004, sampled and weighted to match the US general population 18+ years
21 CONEBI - Confederation of the European Bicycle Industry: European Bicycle Industry & Market Profile (BIMP) 2021
22 McKinsey & Company COVID-19 US Consumer Pulse Survey 8/25 – 8/31/2021, n=2,004; 2/18–2/22/2021, n = 2,076, sampled and weighted to match the US general population 18+ years, Aviva "How we live" Report Nov. 2021

China, and the US most optimistic that the economy will rebound in two-three months (September 2021), while Japan, France, and Russia were least optimistic.

Whatever the pace of the recovery, large numbers of consumers intend to celebrate the return to normality by indulging in some “retail therapy”. Across age groups, some 41 percent expect to splurge on restaurants, 39 percent on apparel, and 35 percent on travel (the top three categories). Still, 24 percent expect to treat themselves on sports apparel and equipment. In sports, younger consumers are most likely to splurge, with 34 percent of Millennials expressing an intention, compared with 6 percent of Baby Boomers. In 2022, brands that can tap into these seams of latent demand are likely to reap the most significant rewards.[23]

Of course, all aforementioned changes in consumer choice are to some extent still influenced by COVID-19-induced disruptions, e.g., temporarily closed sports facilities or unavailability of products due to supply chain disruptions (discussed in a later chapter). It remains to be seen how much of that is temporary vs. what will stay with us for the foreseeable future beyond 2022. However, all of McKinsey’s in-depth consumer research points to the fact that consumers have really become more health-aware, and have grown truly fond of a more hybrid way of exercising, integrating digital seamlessly into their fitness routines.

Gen Z views gender identity and gender equality as vehicles to connect their values to brands they support.

Gen Z lives out its gender identity values in complex, interconnected ways, including engaging with professional athletes, purchasing apparel, and connecting with campaigns and brands that champion gender equality. Seventy seven percent of Gen Z report feeling “more positive toward a brand when it promotes gender equality on social media”.[1] In addition, Gen Z values brands that reflect the diversity of gender identity in their marketing.[2] Furthermore, Gen Z are more comfortable with gender neutral pronouns, have a preference for more than two gender options, and desire diversity and inclusivity.

Sporting goods companies can make in-roads with Gen Z by building a brand identity and engagement strategy that centers gender identity and gender equality in sponsorship, investment, brand ambassadors, and marketing. This will build a foundation for a pipeline of Gen Z engagement and set the stage to drive further investment. While supporting the women’s category and finding dedicated offerings for unmet female needs, brands should consider a future that is more gender-neutral, as is already being seen in some parts of the industry.

1 Facebook. (2019, October 19). Gen Z: Getting to Know the ‘Me Is We’ Generation.
2 Hamstra, M. (2021, September 29). Big Brands Court Gen Z With Inclusive Messaging and ‘Realness.’

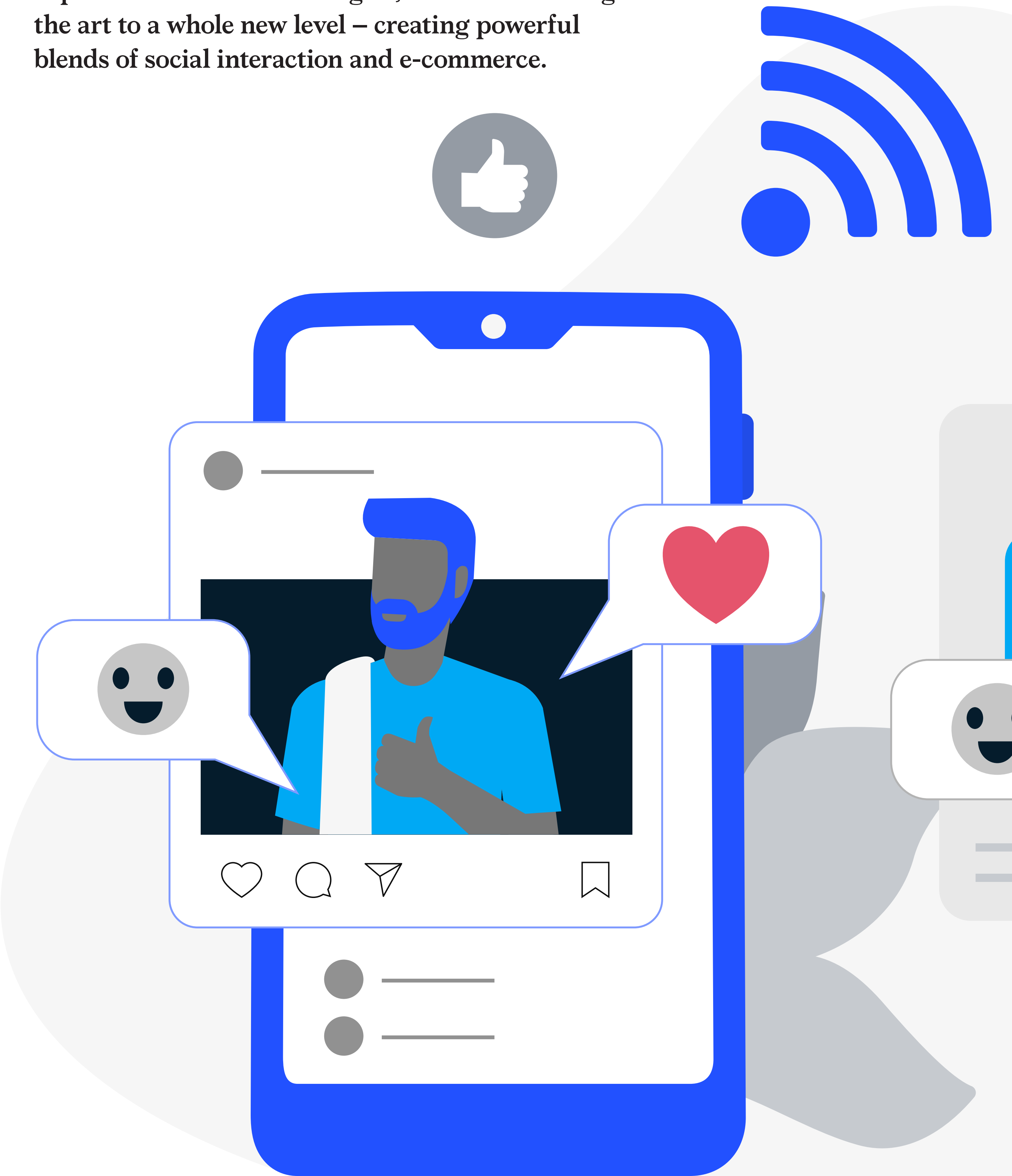
“The ambition of consumers to stay healthy through sports has become a much more profound element in people’s minds – 50% of consumers exercise regularly.”

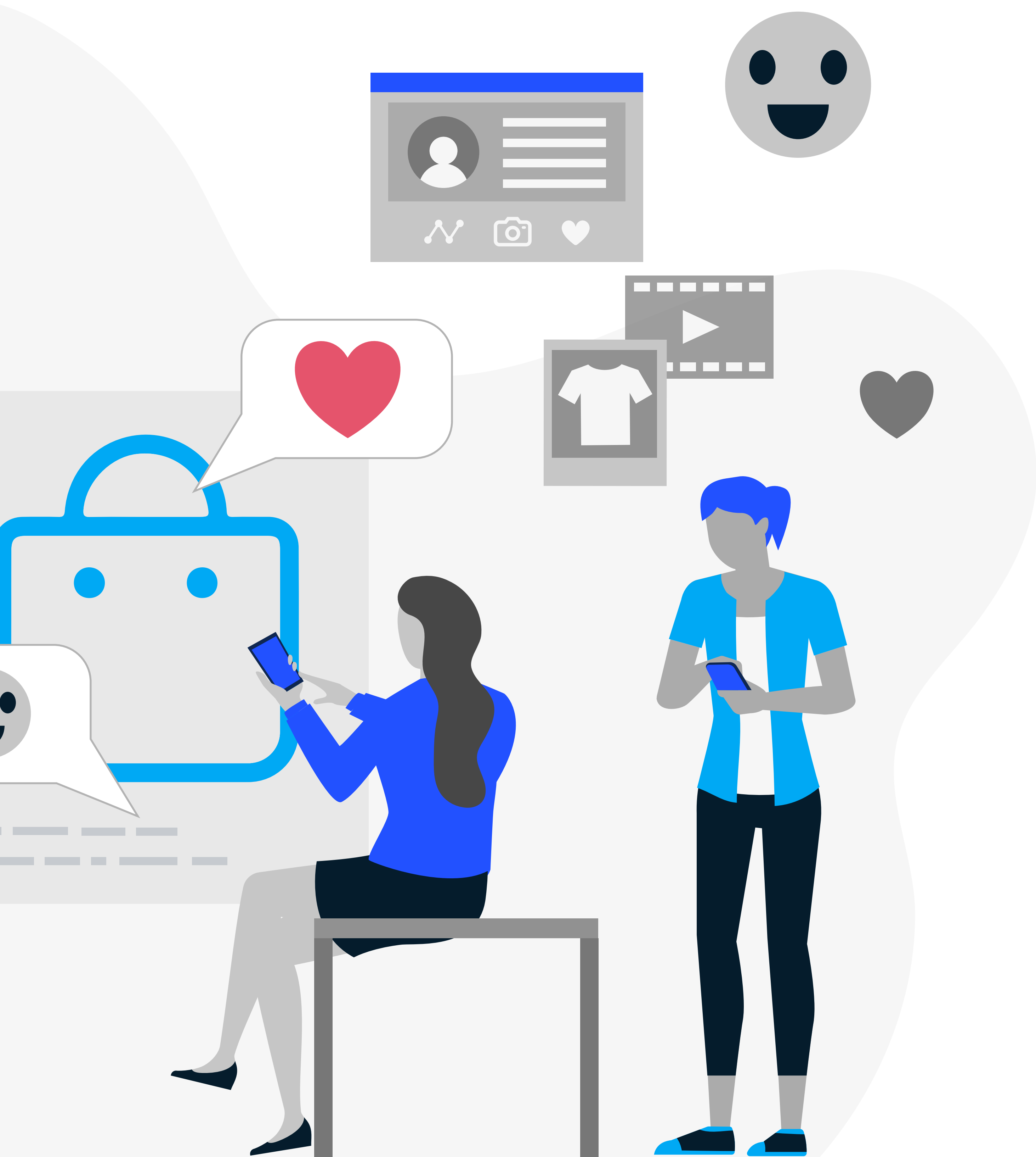
— **Kaspar Rorsted, Chief Executive Officer, Adidas**

23 Ibid.

From social media to social commerce

Amid growing user numbers and relentless expansion of its capabilities, social media is taking its place at the center of many brands' e-commerce strategies. As growing numbers of companies experiment with new strategies, leaders are taking the art to a whole new level – creating powerful blends of social interaction and e-commerce.





"During the pandemic, digital was the only way to connect – now it is completely normal."

— Caio Amato, Brand Leader, Oakley

More than half of the world's population is signed up to a social media platform, following user growth of around 7 percent a year between 2017 and 2021.[24] Facebook alone attracts some 2.9 billion active monthly users, of which around a quarter are aged 25 to 34. In addition, the time users spend on social media rose to around 145 minutes a day in 2020, compared to 134 minutes in 2017. In China and other regions, time spent online during the pandemic increased by as much as 20 percent.[25] And all of this is true before the apparently unavoidable rise of the metaverse, "ready player one!".

Consumer appetite for social media has created a generation of shoppers that are willing to surf across channels to discover, browse, and buy. Some 64 percent of consumers say they take an omnichannel approach to searching for fitness and wellness services, while 65 percent say the same about apparel.[26] Meanwhile, 71 percent use a range of channels to research sports and outdoor equipment and supplies.[27] More broadly, between 36 percent and 40 percent of consumers are influenced by social media to some extent, McKinsey research shows.[28] And search often leads to purchase. Indeed, across the three categories (fitness, apparel, equipment), between 15 and 18 percent of consumers research and purchase exclusively online.

Consumer willingness to engage with social media suggests that brands that manage to connect effectively could consider using it to deepen relationships. However, it is important to effectively manage and protect data in line with regulations such as Europe's GDPR and California's Consumer Privacy Act.

Social media and commerce

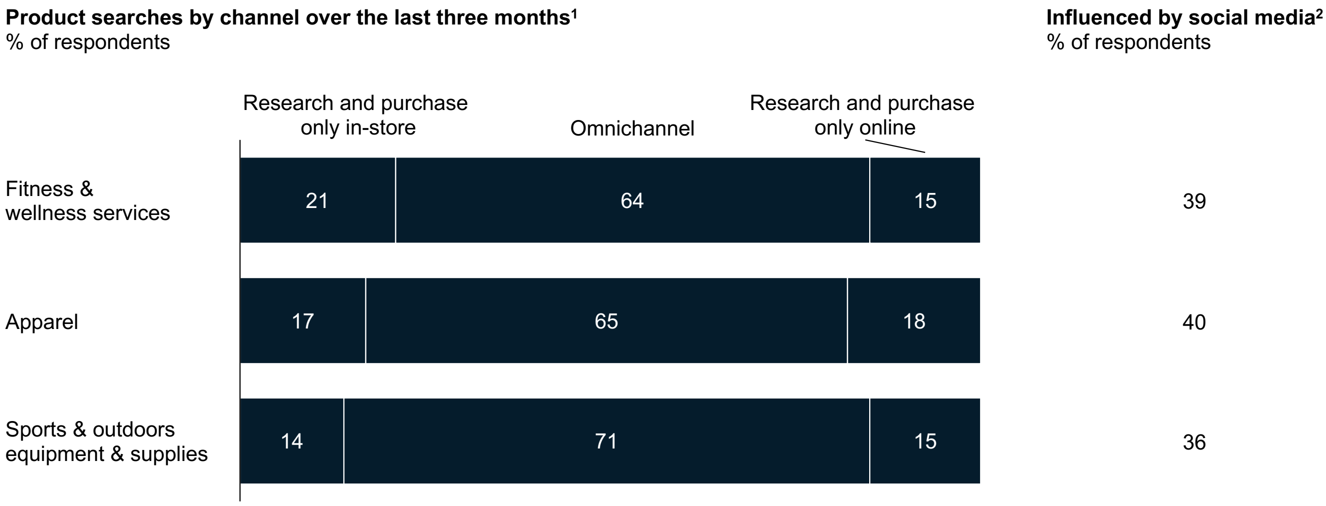
Online browsing has a powerful suggestive impact, and people often end up buying on the back of what they see. Brands have responded to those behavioral patterns through widespread collaborations with influencers and athletes. McKinsey research shows that 36 percent of people follow (sporting) influencers on social media, some 32 percent (88 percent of the group) are open to recommendations, and 17 percent (a stunning 55 percent of the group) have bought something on an influencer's recommendation.[29] Fellow consumers are also powerful influencers, with six out of 10 buyers actively seek user reviews before making a purchase.

Reflecting their positive associations, sports and fitness stars are making a significant mark as social media

24 Statista (Sept 21), We Are Social 2020 and 2021 report, The Economist, Press search, Vajresh Balaji, Forbes
25 Ibid.
26 McKinsey & Company COVID-19 US Consumer Pulse Survey 8/25 – 8/31/2021, n=2,004, sampled and weighted to match the US general population 18+ years
27 McKinsey & Company COVID-19 US Consumer Pulse Survey 8/25 – 8/31/2021, n=2,004, sampled and weighted to match the US general population 18+ years
28 McKinsey & Company COVID-19 US Consumer Pulse Survey 8/25 – 8/31/2021, n=2,004, sampled and weighted to match the US general population 18+ years
29 McKinsey UGC 2017 Facebook Benchmark Report; Google "The Youtube Generation Study"; Millennial survey with Dealspoters; Tomson, Statista; Lyst index; Press clippings

Exhibit 07

36-40% of consumers are influenced by social media



1. Q: Which best described how you have researched the following categories over the last 3 months?
2. Q: Think about the purchases you have made in the following categories over the past 3 months. For which of these was a post on social media something that inspired or influenced the particular brand?

Source: McKinsey & Company COVID-19 US Consumer Pulse Survey 8/25 – 8/31/2021, n=2,004, sampled and weighted to match the US general population 18+ years

influencers. From yoga's Adrienne Mishler to snowboarding and surfing's Chris Rogers, they create an authentic connection that goes well beyond the normal reach of marketing. At the top end of the scale, soccer player Cristiano Ronaldo is paid an estimated average of $1.6 million per post by his corporate partners.[30]

An emerging trend is for brands to focus not just on celebrities as influencers, but also to collaborate with micro-influencers (between 30,000 and 100,000 followers) who may play a role in a specific niche, for example relating to running. Despite their smaller followings, these influencers tend to be powerful voices in their communities, and therefore enable brands to target specific cohorts – a significant departure from traditional mass marketing.

More sophisticated players are adopting a cluster approach to influencer marketing, aiming to create network effects by bringing together diverse influencers over a limited time period. The strategy aims to encourage

> **"Our main interaction model with the consumer today is online."**
>
> **— Kaspar Rorsted, Chief Executive Officer, Adidas**

[30] Press search

consumers to follow several accounts in the cluster, leading to increased frequency and trust. Large brands tend to combine these kinds of approaches with conventional brand ambassadors and community partnerships. Consumers can be directed to stores through live streaming or "buy buttons". According to one leading executive, who employs around 100 people in his social media team, "Instagram is a huge part of our story because of the communities we create, but the challenge is always how to stand out among so many online businesses vying for consumer attention." The company has seen more than 100 percent revenue growth for three consecutive years.

Some top sports brands are using social media to reach out to customers, build networks and use data and advanced analytics to foster a sense of curatorship and belonging.

Looking to the coming year, it is expected that brands will ramp up their social media marketing, either through their own platforms or those of third parties. In both cases, five foundational elements could streamline the process: Convincing engagement, compelling and information content, excellent tracking technology, a sense of community, and the ability to execute on commerce.

China's livestreaming juggernaut

When it comes to in-app selling, Chinese companies are ahead of their peers in other countries. These have seen strong growth in areas such as live streaming e-commerce, with penetration expanding by 285 percent since 2017 to around 10 percent of the population. In 2022, the market will be worth around $423 billion, compared with an estimated $171 billion in 2020, according to industry research.[32]

"Our marketing spend is geared towards digital and social media."

— Kaspar Rorsted, Chief Executive Officer, Adidas

Common features include workout options, challenges, and inspiration (for example, for new jogging routes), as well as socializing opportunities. Nike combines its ecosystem with an e-commerce platform, and its NTC app reached 2 million monthly users in 2021. The app offers more than 190 free workouts in the US and Europe, and there is no fee to join or take part.[31] Strava, another leader in the space, with 11 million active monthly users, offers a tracking app focused on social interactions. It allows customers to track activities through GPS, join challenges, share the results, and follow friends. In China, Keep is the number one fitness app, combining influencers, community, and a shopping platform.

Apparel has a 35.6 percent share of the Chinese livestreaming market, far ahead of second and third place competitors in beauty and fresh food. The biggest livestreaming platforms are TMall, JD, and VIP.com, and these are being joined by numerous others, with TikTok and Kuaishou making waves in the short video space. Some 25 percent of TikTok users consume live-streaming content. On the corporate side, sportswear brand Anta is a prominent participant. TikTok in 2020 also launched a livestreaming partnership with Walmart in the US.

Globally, most leading social media platforms are now experimenting with livestreaming e-commerce, often allowing users to make direct

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31 Press search, McKinsey analysis
32 iResearch, Everbright security analyst report, National Bureau of Statistics

“There is no doubt that there is going to be a huge development on applications regarding how one is training.”

— Kaspar Rorsted, Chief Executive Officer, Adidas

purchases through videos. In 2022, it is expected that more sporting goods brands will look to engage with these opportunities, taking advantage of new technologies such as augmented reality to provide an even more immersive experience. However, companies should not walk before they can run. It makes sense to start by testing the waters, with streams focused on just a few products, before expanding to make live commerce a pillar of the online offering. Eventually, frequent live streams across multiple channels can become a key contributor to a data-driven business.

Furthermore, additional benefits from a data-centric customer engagement model across own- and third-party platforms should not be underestimated. It is not only about tracking and identifying users to offer them relevant, personalized content in an engaging way and thereby maximizing conversion. Consumer (engagement) data acquired through social channels can also help to inform product development and substantially improve demand forecasting.

New types of commerce: the metaverse

In addition to new ways of doing commerce around traditional physical sporting goods products, a new type of commerce is spreading across industries: digital products bought, sold and used in the metaverse. Nike is one of the early movers with recent trademark applications for a range of virtual goods, virtual retail services, and entertainment services[33] and the acquisition of RTFKT, a virtual shoe company. John Donahoe, President and CEO of Nike, Inc. comments: “Our plan is to invest in the RTFKT brand, serve and grow their innovative and creative community and extend Nike’s digital footprint and capabilities.”[34] While widely different perspectives exist around the viability and long-term evolution of metaverse business models, 2022 will be a year in which we will see new, metaverse-specialized businesses like RTFKT and established sporting goods players needing to decide whether to engage or not.

Every company needs to decide now what approach it wants to take regarding metaverse opportunities. A more conservative follower approach or a bolder shaper approach. An in-house, an M&A, or a hybrid approach. Whatever stance one chooses, the decision should be made now and be an explicit one following careful consideration.

Gen Z is inspired by social media. Seamless checkout can offset the desire to search other sources for lower prices.

97 percent of Gen Zs cite social media as their main shopping inspiration.[1] Almost half (47 percent) use YouTube to research products.[2] However, growing up as the first digitally-native generation, Gen Z tends to be naturally skeptical, which means they are well-informed shoppers who do not tolerate deception.[3] Furthermore, 83 percent of Gen Z try to find the cheapest option including actively searching for deals and coupons.[4] This means that Gen Zs typically start their shopping discovery journey on social media, but then switch to other sources to find lower prices or coupons, before making a purchase.

One way for brands to avoid losing Gen Zs from social media touchpoints is direct integration of commerce. Almost 30 percent of Gen Zs say that an easy checkout is important in their purchasing decisions.[5] Allowing such customers to seamlessly discover, research, and purchase products within a couple of clicks (or touches) creates an advantage and a higher likelihood of conversion.

1 Kastenholz, C. (2021, May 17). Gen Z And The Rise Of Social Commerce. Forbes.
2 Gutierrez, S. (2021). Gen Z: Social Media and Shopping Habits. SurveyMonkey.
3 Hanbury, M. (2019). Gen Z is leading an evolution in shopping that could kill brands as.
4 GWI. (2020). Gen Z Audience report 2020. Lexington Law. (2021). lexingtonlaw.com.
5 GWI. (2020). Gen Z Audience report 2020.

33 Gerben Perrott PLLC
34 Nike News, Dec 13 2021

Philipp Rossner, Chief Strategy Officer, SIGNA Sports United

How did you perceive industry changes these past two years?
For many years we've seen an increase in various digital services, including online shopping and video communications. The pandemic has accelerated that trend. Much of this has already been widely discussed and is well documented. But a much bigger disruptive shift is often overlooked: the pandemic is stress-testing global supply chains within several industries like never before. This disruption is pushing suppliers and manufacturers to re-organize and streamline their global distribution networks at an unprecedented rate. Like the vast consolidation of retail accounts, where brands are reducing the number of dealers they work with from thousands to hundreds globally, supply chains are being deglobalized and manufacturing and assembly is being brought back to the sales markets. This trend is also not new but has been accelerated by the pandemic.

Looking forward, where do you see the sports industry evolving in the next 5-10 years?
We are heralding the "Golden Twenties" in sports – there are many more consumers doing more sports more often. There has been a fundamental shift in health and lifestyle and again, this has been accelerated because of the pandemic. When I think back to 30 years ago, the mindset was binary: Either you are healthy, or you are sick. People did sport primarily for competitive reasons. Over the last 20 years, education on diet and exercise has improved substantially and the narrative has been pushed that people can be "more healthy" and that we can live longer with better physical and mental health. People's motivation for participating in sports has changed significantly. Today, more and more people do sports for health and lifestyle reasons as well as social reasons – experiencing sports together, the emergence of sports communities and amateur races and matches, all of this has led to a new way for sports consumers.

What role does COVID-19 play in these shifts?
COVID-19 has definitely amplified existing trends. The sports industry will be one of benefactors of these changes. The shift towards a more sustainable and health-conscious lifestyle will only increase. And while the pandemic has been extremely destructive for so many, if there can be a silver lining, it will be the courage to embrace change. Over the past two years, many people have changed their daily routines and habits on a large scale. It is that same spirit that can help us to tackle even bigger challenges for mankind like climate change. As the global #1 online bike retailer, we are facing a historically unique opportunity and obligation to switch more people from cars to bikes. We are now seeing government investment programs pushing "green deals" that would not have been possible a few years ago. These programs to promote an active eco-friendly lifestyle have just started and most funds have not even touched the ground — like the planned infrastructure investment into bike lanes and public transportation or tax benefits to incentivize the switch from cars to bikes.

As an e-commerce platform, what dynamics do you observe amongst brands?
We see more cooperation, competition,

and consolidation with the clear goal of getting closer to customers and managing supply chains more efficiently. Parts of the sports industry are still very old-fashioned, with longer lead times and inefficient supply chains. All of that will change – and much of that will be driven by digitization. As the global number one sports e-commerce platform, we are often part of the solution, enabling industry partners like sports brands, clubs, teams, or associations to adapt their operating models to fully exploit the digital opportunity ahead. We are seeing more mid- to large-sized brands pushing their digital agendas for different reasons: Large players take a more offensive approach in an attempt to set industry standards and create branded ecosystems; whereas mid-sized players take a more defensive approach in an attempt to fight competition from newly emerging long-tail brands that are often natural-born digitals. In the biking space, for example, e-bikes gave rise to many new market entrants that are approaching product innovation from the software side rather than from the hardware side. That is putting more competitive pressure on the mid-sized brands, making it even more important for them to build global partnerships.

What are the main shifts in consumer behavior related to bike, outdoor tennis etc.?
We expect one billion more people to participate in sports at least once a month worldwide by 2025. Today, the market is very much skewed towards the western hemisphere as you need a certain income level to afford sports. The majority of the one billion new sports people will come from fast-growing regions, for example Asia. I would expect that these markets will leapfrog stages of the sports market evolution in the Western world and establish themselves directly as health & lifestyle markets with a more social edge right from the start.

In addition, digital tools will continue to become more important. Our annual Sports Experience Survey of 16,000 consumers found that the more you do sports, the more you tend to focus on one sport, such as tennis or biking. And the more you focus on one sport, the more open you are to use digital tools and applications, such as AI-based apps that help you improve your skills or connect you with like-minded peers. The most enthusiastic cyclists, tennis players, mountaineers or soccer players are the biggest advocates for such digital change: the coach tells the player, who spreads the word further. This makes it a grassroot movement that is just getting bigger. Finally, the social aspect is changing massively, as you do not do sports only for yourself. Lifting more weight is nice for you but even better if you can share the experience with your family and friends. We are social creatures, after all.

How do you as an e-commerce platform create community aspects and add them into your offerings?
We are following a diligent build/partner/invest approach. In practice, we are monitoring the emerging global ecosystem of digital sports communities and sports-tech applications thoroughly. We have a database of more than 5,000 global rising sports communities and start-ups that we follow very closely. We continuously identify and prioritize those where we see the best strategic fit and value-add from a consumer perspective. For those, we offer tailored commerce solutions to strengthen their user proposition and enable online retail beyond our own shops. For example, in the case of Komoot, a truly outstanding bike and outdoor navigation and experience app, premium users can now connect their Komoot account directly with our online shops to get exclusive shopping benefits. Or soccer clubs where we enable online micro-shop solutions, so that club members can order their customized team merchandise with only a few clicks.

How do you see the balance between online and offline evolving?
Our industry is still very much offline compared to fashion e-commerce or electronics, for example. Still, online is growing fast, but that does not mean offline is becoming irrelevant. It just means the role of offline touchpoints is changing in the context of the entire shopping journey – less relevant as a point of sale, but so much more relevant as a point of experience and service. Such offline service and experience touch-points will become even more important; for example, if you think of e-bikes or other innovative high-value product categories.

How do you see your role as an e-commerce platform given these dynamics?
As a platform, we are supporting and enabling offline retail partners to strengthen their business model digitally. For example, our Bike Connected Retail platform is already rolled out to more than 500 independent offline bike dealers. They can welcome new customers in their stores who are picking-up online orders from our web shops. And dealers can access the whole breadth and depth of our offering to serve their customers much better with many more products. That is an even bigger lever if you think of efficiency gains along global supply chains, especially in bikes but also tennis and team sports. We see that stores using such endless-aisle functionality behave differently, and that can lead in the long run to stock being allocated more efficiently across regional markets.

Are there any other themes that you see emerging on the horizon?
We are expecting blockchains and NFTs [non-fungible tokens] to be an interesting dynamic going forward. NFTs allow for an entirely new approach to collectibles, tied to emotions and passion, which is such an integral part of sports. Even more important, but somewhat further out, is the value of decentralized blockchain technology to drive efficiency across global supply chains – something we will be discussing more in sports than in other industries.

The Sustainability Imperative

Climate change has steadily climbed consumer agendas over recent years, and the impact of the COVID-19 pandemic has accelerated its progress. People more than ever understand the strong connection between their choices and the world they will leave for future generations. Sporting goods companies are naturally aligned with these values, but brands must do more to enable their customers make sustainable choices.

Consumer focus on sustainability in sporting goods was on an upward trend before COVID-19. Indeed, interest as measured by Google searches has more than doubled since 2015.[35] However, the pandemic has fostered an even more intense awareness, and has driven a "do less with more" approach. Some 65 percent of consumers plan to purchase more durable apparel items and 71 percent expect to hold on to their belongings for longer, McKinsey research shows.[36] Meanwhile, some 57 percent say they are open to the idea of repairing items rather than buying new ones.

As their sustainability awareness has risen, consumers increasingly expect their favorite brands to toe the line. Two thirds of consumers cite brand alignment as an important factor when making a purchasing decision.[37] However, when it comes to buying, consumers do not always live up to their aspirations. In fact, there is a perennial gap between intention and behavior. As a rough estimate, sustainability matters to around three in four consumers, but only around half are willing to pay more for sustainable products, and only a quarter actually do pay more.[38]

There are multiple reasons for the shortfall between people's aspirations and their behaviors. These include factors such as a lack of familiarity with products, as well as concern over greenwashing, a natural disinclination to change, or an unwillingness to pay extra. On the part of brands and retailers, insufficient marketing and insufficient information at point of sale may play a part. Brands need to remedy these shortfalls, as well as working to close the gap between the price of sustainable products and less sustainable alternatives.

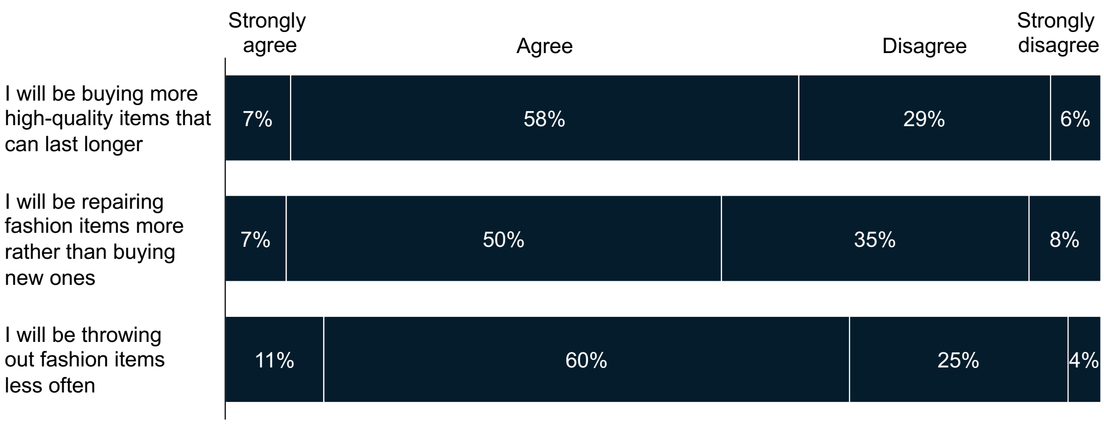
One company to take a lead on closing the gap is German platform Zalando, which in a report published in 2021 makes a series of recommendations to the wider industry.[39] These include taking steps toward transparency, speaking a sustainability language that customers can understand, and boosting conversion through motivating factors such as quality and fit. In short, the aim for brands should be to make sustainability the "new normal", rather than a differentiator. To get there, brands need to work harder

"Sustainability should just be part of everyday business – it is a duty and a requirement."

— Caio Amato, Brand Leader, Oakley

Exhibit 08

The pandemic has driven a do less with more approach: consumers plan to purchase more durable fashion items and are open to keeping items for longer



Source: McKinsey: Consumer sentiment on sustainability and fashion in the COVID crisis (2020)

[35] Google Trends for Google Shopping (Jan 2008 – Oct 2021, USA, Germany, keyword: Sustainability in sportswear
[36] McKinsey: Consumer sentiment on sustainability and fashion in the COVID crisis (2020)
[37] McKinsey: Consumer sentiment on sustainability and fashion in the COVID crisis (2020)
[38] Expert interviews; Harvard Business Review (08.2019); MIT (Jonas Lehmann, Yossi Sheffi, 2019 (Draft); Zalando It Takes Two Report (2021), team analysis
[39] Zalando It Takes Two Report (2021)

to "sell" sustainability through their assortments, open-to-buy criteria, and marketing.

The apparel challenge

Due to its share of the overall industry, solving the sustainability challenge in apparel is critical for the overall sporting goods industry. Right now, the apparel industry (market size €1.5 billion in 2021, of which 10-12 percent sporting apparel[40]) is responsible for around 4 percent of global greenhouse gas emissions and uses 932 billion cubic meters of water every year—enough to meet the needs of five million people.[41] Up to 16 percent of the world's pesticides are used in cotton farming alone.[42] Furthermore, demand is rising, with consumers globally expected to buy 102 million metric tons a year of apparel in ten years' time, compared with 62 million metric tons at present.[43]

A complicating factor in enabling change is that consumers are often confused about how to reflect their sustainable values in the choices they make. They are routinely faced with a plethora of ratings, benchmarks and labels; all of which profess to help them gauge how sustainable any item is. Still, very few of the benchmarking schemes are comparable with each other or created using the same criteria. This is in stark contrast to other industries. The car industry, for instance, employs a single, transparent rating standard for emissions intensity across geographies, amid collaboration between governments and companies. The food industry has convinced a large share of consumers to buy organic through an aligned clear standard. The sporting goods and wider apparel industries are lagging behind. So far, there are only nascent signs of simpler solutions emerging: The "good on you" platform, for example, offers a basic rating system ranging from "great" to "we avoid" based on 500 data points and a unique 10-step assessment process.

Brands need to do more to help their customers make sustainable choices. However, with the bar rising fast, they have only a short window to create a strategic advantage. It will not be long before sustainability becomes so embedded in industry business models that the chance to differentiate will have evaporated. There is therefore an urgent imperative to build a credible sustainability offering especially in sporting apparel. Sporting apparel has a unique opportunity to lead the wider apparel industry because sports, nature, wellbeing, and health are intrinsically linked.

In the wake of the recent UN Climate Conference in Glasgow (COP 26), many brands have made public commitments on sustainability, for example by signing the UN Fashion Industry Charter for Climate Action or setting science-based targets (SBTs) for emissions reductions, renewable energy, or transparency and reporting. Nike, for example, signed a pledge with the Renewable Energy Buyers' Alliance to reduce its carbon footprint by 30 percent and use 100 percent renewable energy by 2025. PUMA reiterated its commitment to reduce carbon emissions in line with SBTs. This shows that leading brands still see an opportunity to use sustainability to create a difference between themselves and their competitors.

> **"The demand of consumers alone is not driving the shift towards sustainability fast enough. [...] Collaboration between governments and businesses are key for this shift to happen quickly."**
>
> **— Duncan Scott, VP Strategic Sourcing & Quality, New Balance**

40 Euromonitor
41 World Economic Forum https://www.worldbank.org/en/news/feature/2019/09/23/costo-moda-medio-ambiente , World Bank https://www.worldbank.org/en/news/feature/2019/09/23/costo-moda-medio-ambiente
42 Ibid.
43 Ibid.

While apparel has been the focus of many organized sustainability initiatives, the equipment side faces similar challenges and needs to define its future sustainability agenda in a similar manner.

Materials, circularity, choice: Three starting points

As decision makers consider their sustainability strategies, they are presented with a range of potential action areas, from increasing use of renewable electricity, to tackling supply chain emissions, transportation, packaging, and products. There is no single approach to these challenges that must be adopted in all circumstances. Rather, companies must tailor their plans to their individual circumstances. Still, among the many possible focus areas, three stand out as potential candidates for prioritization. These are materials, circular business models, and empowering consumers through choice.

Materials are already a significant area of focus, with many brands sponsoring or undertaking research into innovations including bioengineering, new fibers, and traceability solutions. Among recent innovations, brands including On and Adidas have launched vegan shoes, while Patagonia has invested in regenerative agriculture, looking to replace cotton with climate positive materials. Ski company earlybird is making eco freeride skis from sustainable materials, while in 2022, GORE-TEX plans to introduce an eco-friendly ePE membrane, which is free of PFCs of environmental concern.[44] In addition, companies such as Swix, which manufactures fluoro-free ski wax, and Orange Fiber, which converts orange rinds and wood pulp into a silk-like material, are exploring frontiers and raising the bar for the rest of industry.

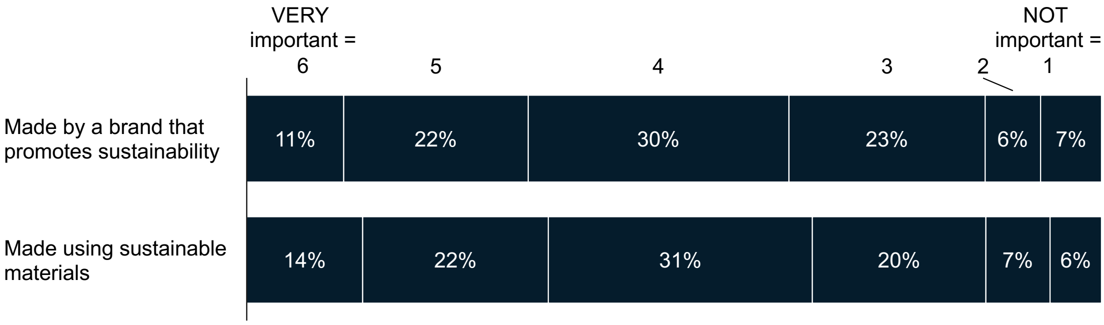
Where traditional materials are still used, brands are increasingly favoring those that come with sustainability guarantees. These may be recognized under organic, recycling, or fair-trade certification schemes. As they ponder potential priorities, and digest the numerous possibilities, the key for brands in the year ahead will be to identify where they can most effectively start the process of switching to more sustainable alternatives.

One of the most significant trends over the recent period has been the desire among companies to create more circular business models. Sporting goods leaders increasingly understand that by moving to closed loop systems at scale they can reduce the extractive production of raw materials, limit textile waste (a garbage truck worth of textiles is burned or sent to landfill every second), and make significant reductions in emissions. Nike's Chief Sustainability Officer recently stated that in 2021 already >75 percent of all Nike shoes and apparel contain some recycled material and new business models are being explored to extend the life of Nike's products.[45] The company is now using recycled PET plastic bottles to make basketball shorts, and engineered leather, made with at least 50 percent recycled fibers, to make shoes. Among its other initiatives, it runs a shoe re-use program, manufacturing sports surfaces such as running tracks out of old footwear. Another company on the circularity vanguard is Patagonia, which is building on its long-established reputation to offer more recycling

Exhibit 09

Brand attitude towards sustainability is a key factor in purchase decisions, highlighting the need to maintain sustainability commitments

"How important are the following factors to you when selecting which fashion brand to buy from?"
Percentage, 2020



Source: McKinsey: Consumer sentiment on sustainability and fashion in the COVID crisis (2020)

[44] Perfluorinated chemicals. PFCs of environmental concern are highly fluorinated, persistent, and small enough to be bioavailable
[45] Source: https://news.nike.com/news/our-carbon-footprint-and-our-next-steps

and repair and champion sustainable consumerism. The company's stance has also been highly productive, with its sales rising fast around the world. Among smaller players, Shark Rebellion, for example, is producing swimwear made of post-consumer plastic and industrial fishing nets.

In parallel to making their own operations and products more sustainable, there is an opportunity for brands and retailers to foster closer connections to customers by helping them make sustainable choices. BergFreunde.eu is among companies to offer tailored "green" search functionality on its website, backed by editorial content and educational material. Zalando offers a "shop-by-value" service to enable customers to search based on issues they care about, and Decathlon provides environmental footprint data on online product pages. In the physical space, Adidas has invested in powerful point of sale content for its Stan Smith "Forever" range, which it combines with a production process that is biased toward recycled plastics and after-use recycling.[46] Looking forward, as more companies get on board, clear labelling and staff training (for example, to guide customers to more sustainable choices) will become table stakes in many markets.

Alongside the three potential starting points, brands can act on several additional fronts. These may include setting dates to achieve net-zero emissions, as Patagonia has done for 2025. The most challenging aspect for most brands will be Scope 3 emissions, which are from assets not owned or controlled by the organization, such as in the supply chain. Other thematic hot spots include the need for more transparency, efficient use of water and chemicals, and creation of fairer, more equitable work environments. Individual brands can make progress on each of these. However, those that establish themselves as sustainability leaders are likely to take action on most—creating a sustainability whole that is greater than the sum of its parts.

> **"We are convinced that an appreciation for sports and for an active life is intrinsically linked to preserving this planet."**
>
> **— David Allemann, Co-Founder, On**

Gen Z is looking for holistic alignment of brand values with their own values.

More than any generation before, Gen Z leads with their values, be it supporting social issues, sustainability, or LGBTQ rights. Gen Zs need to believe not only in the product, but also the company behind it – their attention to a company's value is a significant driver of their commercial habits. Sixty-eight percent of Gen Z report that they looked for information on more sustainable lifestyles last year, compared with 65 percent of Millennials, 55 percent of Gen X, and 41 percent of Baby Boomers.[1] 58 percent of Gen Z selects brands primarily based on their purpose, values, and mission.[2] Furthermore, they feel more positive towards a brand when it promotes gender equality on social media (77 percent), and feel more represented in ads that include diversity (45 percent).[3] Gen Z pushes companies to act in line with their values and communicate authentically with them. Through its alignment with athletes, teams and events, the sporting goods industry in particular can play a pivotal role in building on Gen Zs desire for authenticity. Sporting goods companies can also differentiate themselves through honest sustainability offerings.

1 Hassim, A. H. (2021, January 26). Why younger generations are more willing to change
2 The Collective Think Tank. (2020). The New Power Players.
3 Facebook. (2019, October 19). Gen Z: Getting to Know the 'Me Is We' Generation.

46 Loganova.com, press research, company website, Timberland

Jorge Casimiro, VP, Chief Public Policy & Social Impact Officer & President, Nike Foundation, and Caitlin Morris, VP of Social & Community Impact

With the longtail of the pandemic continuing to impact us in 2021, what are the changes you believe will be here to stay? What stays the same?
Jorge: We believe that what hasn't changed is the focus on the consumer. But the world has changed. So, in our industry, we need to change to make sure we're continuing to engage with our consumer. Of course, the pandemic has accelerated the pivot to digital. But at the core, it's all about how we serve consumers. Whether it's directly through digital, online pickup at the store, or reimagining the retail experience – because while it may look different than before, it's not going away. Consumers still want to touch and feel the product and have those in-person experiences. Lastly, we see a reimagined definition of sport. For a very long time, sport has been associated with traditional sports – football, basketball, baseball etc. A reimagined view of sport has to include dance and yoga, walking etc. – a broader definition of sport to include people who have rediscovered new ways of movement during the pandemic – which is critical for both physical health and increasingly mental health as well.

How has the work Nike delivers in the social and community space changed due to the pandemic?
Caitlin: We aspire to deliver sport to communities locally. The way these communities experience the world has changed, and so has our approach to partnering with them. You might think that the push to digital is great – but only as long as you have access to a device and good Wi-Fi connection. Our focus has also been to bridge the digital divide in order to reach people. But overall, the pandemic has democratized reach in many ways. We started doing coach training online and train coaches from across the world, not just the 30 or 40 who used to show up physically at a site. In the end, we have to make sure that we can revive the advantage of real life – emotional connections that create stability – and at the same time hold onto some of the digital aspects that democratized access. We look at digital coaching tools as part of how we can reach the millions of customers and volunteer coaches around the world, because they are the lifeblood of how community sports actually happen.

How did your outreach model change with the pandemic?
Jorge: The power of sport continued and even got stronger through the pandemic. As we went into the pandemic, people were worried: no games, no school, but sport continued, and sport was getting stronger in many ways. The value for kids to just have a fun and positive experience through sport has become even more important. Our focus was to reach all types of communities and bring the gift of sport, the joy of sport, to everyone in the world. This is critical through both the social and community impact perspective, but also through

the business perspective in how we're reaching consumers.

Caitlin: Another focus area for us is mental health, as we see how our coaching tools and our approaches are evolving. The pandemic has amplified the relevance of mental health in many ways. We believe in the power of sport as a mechanism to address and overcome trauma. At Nike, we embrace mental health as a part of the wholeness of the athlete, and as a way to support communities and children experiencing trauma.

How are you addressing customer expectations in sustainability?
Jorge: I think consumers continue to want to engage with companies and brands that have a commitment to sustainability. This commitment has to be real and authentic. With digital, transparency and access to information allow consumers to understand much better what companies stand for, and also what they're doing. In addition, it's key to have clear targets and commitments that are reported on – they're integrated into our business. We have publicly stated our five-year goals that are aspirational, measured, and reported against every year. In March, we'll release our annual Nike Impact Report, updating our progress on our 2025 commitments , which encapsulate what we're doing in social and community impact; environment; and diversity, equity and inclusion.

What can other industry leaders learn from Nike in identifying relevant areas of focus for their respective companies in sustainability?
Jorge: We should focus on sustainability because it is the right thing for Nike to do, but also for our industry. Most importantly, your area of focus has to be authentic to your business. When it comes to purpose or sustainability, if it's not authentic to who you are, what your brand is, what your values are, then it's not going to work. Nike has always been about sport, and it will always be about sport. We have more and more kids who don't have access to sport, and that's something that we should do something about, because it's important and authentic to us. If we think about environmental sustainability and climate change, if we can't get outside and play sport, then we're not going to have sport. How we incorporate environmental sustainability practices into everything we do is going to be super critical. If we look at the area of diversity, equity and inclusion, the world has become more and more diverse. So the expectations around equity and inclusion are increasingly important. As we're serving the billions of consumers who are becoming more and more diverse, how do we infuse that mindset into our daily actions? We have to ensure that our people, our practices, our approaches, everything we do continues to be embedded and integrated within the concept of equity, inclusion, and belonging. Those three pillars work for Nike because they're authentic for Nike. And I'd argue that it also works for our industry because our industry is about sport. Again – if kids aren't doing sports, then we are not going to have an industry. If people can't go outside to play sports, then you're not going to have an industry. If you're not serving a more diverse set of consumers, then you're missing out on a big swath of the earth's population.

The reduction of carbon footprint is a key area of interest in environmental sustainability. What is Nike doing in this area to be a leader in this space?
Jorge: Partnership is the other big theme here in addition to authenticity. We can't address any of the big challenges alone, so how do we work with other peers and industry partners to form a partnership? Even if we look at Nike's own products, we have to partner with our contract manufacturers, suppliers, and vendors to really extend that commitment and expectation to them. We have to look at the combined carbon footprint and our joint sustainable practice to line up to our commitment to help others, help the industry, and ultimately help the planet.

Nike is a well-known and beloved brand and also has significant presence in the retail space. What lessons can you share from how Nike approaches sustainability via its retail business?
Caitlin: Divorcing the brand from retail doesn't make sense, because for us at Nike, retail is where most consumers experience the brand. This is where brands get a human touch. From a sustainability perspective, physical outlets play a key role in enabling circularity, as consumers have the opportunity to bring products back and complete the circle. From a community perspective, the physical locations of our retail stores play a key role to deploy our talent at scale in a local way, and to connect with local communities. Our Nike Community Ambassador program trains our retail employees to deliver fun and positive experiences in play and sport at our store's neighborhood schools and community organizations.

How do you demonstrate your commitment to sustainability in your retail stores? Should more products be labeled green or sustainable?
Caitlin: We indeed have to do this to simplify the story for the consumer. But just displaying products as more green misses the point of integrating sustainability into everything that you do. Of course, we also have tags to indicate that we are using sustainable materials. But that's not sufficient because sustainability is not just a niche aspect of our work, it's embedded in everything that we're trying to do across the entire supply chain.

Jorge: You can add sustainability logos, but this isn't the only way to do it. We also use the power of our brand to tell the story, not just on Earth Day, not just during COP, but in an integrated way across all media. It's not just on these special occasions when we're telling consumers this is what we stand for, this is what represents Nike. Our Nike mission statement includes the following line: If you have a body, you're an athlete. This is how we see it. It comes in all shapes, sizes, gender identities, sexual preferences, ethnicities. Everyone is an athlete. Every one of us. And everyone deserves sport.

Channeling the future

The COVID-19 pandemic has drastically boosted online shopping, with many previously resistant consumers now fully converted to e-commerce. Still, the longer term will be about more than digital. In a post-pandemic future, distribution will be omnichannel, with customers able to move seamlessly and instantly between digital and physical. Leading sporting goods companies are already seeking to position themselves in this changing environment.

"The push towards online sales has given us much more information about our consumers than before, when most of our business was done through retailers."

— Duncan Scott, VP Strategic Sourcing & Quality, New Balance

As consumers around the world embrace online shopping, sporting goods companies have moved distribution and channel strategies to the top of their agendas. Brands that have achieved most momentum have demonstrated a nuanced understanding of customer preferences, and balanced powerful online and direct-to-consumer propositions with a compelling physical offering.

As executives ponder the most effective approach to channel roll out across regions, three fundamental shifts are shaping their thinking. The first is the relentless rise in online sales, which has accelerated even beyond the most bullish expectations, and which shows no sign of slowing as the pandemic loosens its grip in some markets. Second is the continuing migration to D2C, led by the world's biggest brands and now making waves among smaller brands. Finally, new approaches to wholesale distribution are reshaping the playing field and highlighting the benefits of data sharing.

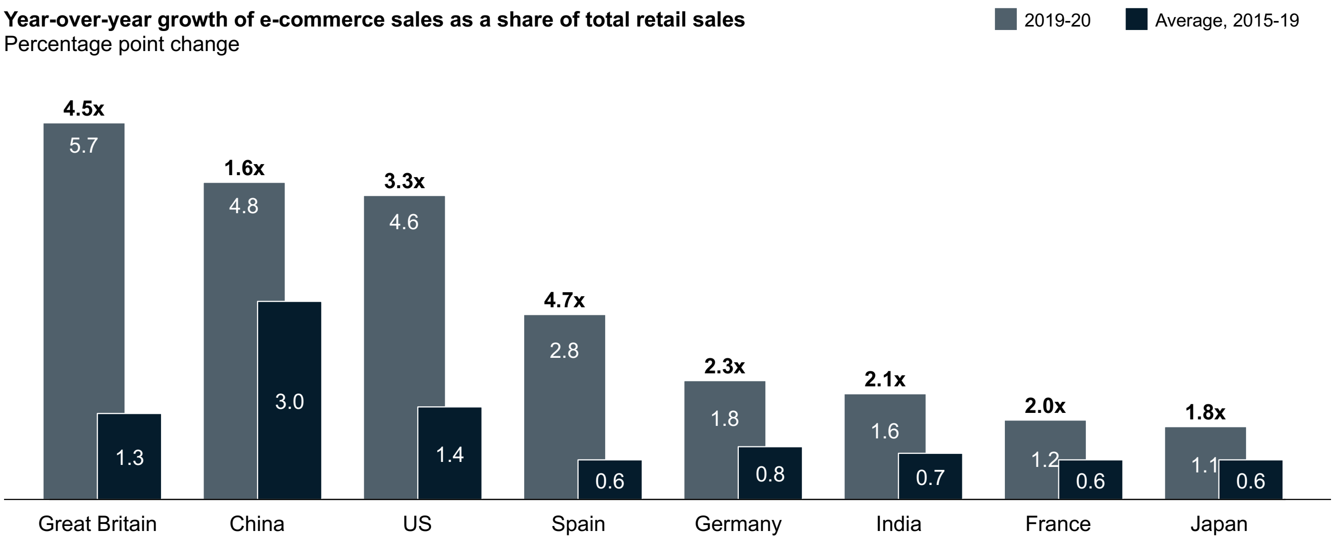
Online momentum

In 2020, e-commerce was the standout retail success story, with consumers "pushed" online by the realities of the pandemic. As physical channels struggled, companies able to leverage a compelling online proposition thrived. Year-on-year growth in e-commerce as a share of total retail sales was as high as 405 percent in the UK, 330 percent in the US, and 200 percent in France, compared with the 2015-2019 average.[47] In 2021, the trend of the previous year became even more established. Indeed, in the US, digital penetration of sports apparel was around 44 percent in August 2021, compared with 38 percent in February 2019, and the drop-off as physical reopened was minimal. Among retail categories, demand for online sports apparel was bested only by software & electronics, pet supplies, and cosmetics.[48]

What lessons should be gleaned from the experiences of the most successful e-commerce players? The sustained move online confirms the message in last year's report, which is that the

Exhibit 10

In 2020, e-commerce has grown 2-3x faster than before COVID-19



Source: Euromonitor Passport; McKinsey Global Institute analysis

[47] Amex Trendex Report, Nielsen, Sport England Active Lives Adult Survey (November 2019/20 and May 2020/21 Report

[48] Affinity credit card spend data for 2/2019–8/2021; Stackline Amazon spend data for 2/2019–8/2021

Exhibit 11

Digital penetration in sports apparel is sustained at about 45%

E-commerce as a % of total retail sales[1,2]

Year-over-year growth

0 10 20 30 40 50+

Total eCom penetration by retailer category		Feb	Mar	Apr–May	Jun–Jul	Aug-Oct	Nov-Dec	Jan–Feb	Mar–Apr	May–Jun	Jul	Aug
		19	20	27	25	25	25	27	26	25	24	25
Essentials	Discount stores	1	0	0	0	1	1	1	1	1	1	1
	Mass	6	8	12	11	11	11	13	12	12	11	12
	Wholesale clubs	8	8	11	10	10	10	11	11	11	10	10
	Grocery stores[3]	5	6	7	7	7	7	8	9	8	7	8
	Drug stores & pharmacies[3]	16	19	21	20	20	20	21	20	20	20	22
Discretionary	Software & electronics[3]	68	78	89	82	79	80	79	77	76	74	73
	Home[3]	30	32	36	34	35	36	38	35	34	33	35
	Pet supplies[3]	55	60	67	61	60	61	63	63	62	61	63
	Sporting apparel[3]	38	49	66	50	47	50	50	46	45	43	44
	Restaurants	4	7	10	9	9	8	11	10	10	9	9
	Cosmetics[3]	53	68	90	72	67	70	70	70	67	66	69
	Retail apparel[3]	33	43	67	43	41	44	45	39	37	36	36

2020 (Feb – Nov-Dec) **2021** (Jan–Feb – Aug)

1. Year-over-year growth for Mar–Aug 2021 relative to estimate of Mar–Aug 2020 had COVID not occurred. Re-forecasted Mar–Aug 2020 spend calculated by growing Feb–Aug 2020 spend by the same 1-month growth rate observed for Feb– Aug 2019
2. Excludes sales in automotive, beauty, grocery, home improvement, home and furniture, pet supplies, apparel and accessories, electronics, sports and outdoors, as these categories are embedded into subsequent rows
3. Includes Amazon sales

Source: Affinity credit card spend data for 2/2019–8/2021; Stackline Amazon spend data for 2/2019–8/2021

future is digital and brands unable to execute are likely to face existential challenges before long. Conversely, brands that succeed are likely to have made a strategic decision to put e-commerce front and center. For these companies, digital will act as a benchmark for the entire sales function, and will be assigned its own leadership and marketing capabilities. Some global brands are now centralizing their e-commerce capabilities, building out from a single platform, and focusing on state-of-the-art enablers in governance, workflows, talent, and data and IT architecture.

D2C on the rise

A natural corollary of enhanced digital propositions is the ability to reach out directly to consumers, and many leading sporting goods brands have worked over the past year to expand their D2C capabilities. Nike and Adidas are among companies to have announced ambitious targets for their D2C channels, plotting digital expansion but without losing the potency of physical stores. Nike expects its D2C offering to account for 60 percent of sales by 2025, compared with 39 percent in 2021.[49]

The industry's appetite for D2C is partly because it offers brands a way to connect with omnichannel shoppers, who tend to be more valuable than other segments. Omnichannel consumers purchase 1.7 times more frequently than offline consumers and 1.3 times more frequently than online only, McKinsey research shows.[50] They also spend 34 percent more and 7 percent more than the shoppers who prefer offline only or online only respectively.[51] Furthermore, the share of omnichannel shoppers has risen sharply post-lockdown.

> **"We believe that a world without physical stores would provide a far less existing experience."**
>
> **— David Allemann, Co-Founder, On**

[49] https://www.retaildive.com/news/nike-plans-for-50b-in-revenue-next-year/602456/; Nike Annual Report, page 88, Note 16 https://s1.q4cdn.com/806093406/files/doc_downloads/2021/08/Nike10k2021.pdf
[50] Forrester, Forrester Technographics, Mcinsey Omnichannel Apparel Survey 2018
[51] McKinsey Omnichannel Apparel Survey, 2018

"We share the same ambition with our retailers. We will work very closely together with our retail partners that have strong omnichannel capabilities."

— Kaspar Rorsted, Chief Executive Officer, Adidas

By embracing omnichannel solutions, brands open the door to a range of product, experiential, and community building opportunities. Nike is exploring the potential of a service and product ecosystem, with its 100 million community members acting as natural advocates for the brand. Other omnichannel initiatives target the creation of an enhanced consumer experience. We see here, for example, Adidas rolling out an array of functionality, from online inventory checks, which allow shoppers to check availability, to buy-online/return in-store options and extensive partner programs.

As the world's leading companies move forward on their omnichannel strategies, many smaller brands are following suit. Relative newcomers such as the UK's Gymshark, the US's ROKA, and China's MAIA Active are leveraging the community building capabilities of D2C channels, both online and offline. Many are enhancing their users' experiences through rich combinations of data analytics and digital marketing that are designed to draw customers into their online worlds.

Strategic partnerships

As the omnichannel landscape evolves, the relationship between brands and retail partners is changing. It has become more common to see brands discontinuing relationships with smaller retail partners or replace key account with self-service models. The primary driver of these decisions is to refocus on key retail partners, with which the brand can collaborate closely and focus on aligning distribution with brand positioning.

While these dynamics have put pressure on some retailers, it has created opportunities for others. Dicks Sporting Goods in the US, for example, is set to benefit from an integrated loyalty program with Nike, by working together across their digital and physical properties. In return, Nike is assigned prime floor real estate and the security of knowing that its physical presence continues to be a powerful element in its omnichannel mix. Dicks and Nike benefit mutually from the collaboration, while delivering enhanced experience and convenience to their customers.

As the omnichannel dynamic plays out in 2022, the onus is on decision makers to decide their best playbooks for engagement. Smaller brands may look to step into the spaces left by larger players, while new entrants may decide that online and D2C are the most effective ways to pick up early momentum. Larger brands, meanwhile, may focus on expanding their ecosystems, including D2C and strategic partners. In a multi-faceted space, there is room for a range of strategies. The challenge for executives, however, will be to ensure that their choices are the best possible fit and offer the most promise for growth.

Gen Z's customer journey is fully omnichannel with the majority still visiting a brick-and-mortar stores.

Gen Z is living a life in which the boundaries between offline and online have blurred. Their behavior is – and has always been – fully omnichannel. Brick-and-mortar retail plays an important role in the holistic omnichannel experience. Seventy nine percent of Gen Z are still influenced by stores, no less than other age groups.[1] Physical locations complement online platforms, thanks to experiential shopping, customer service, personalization, and integrated technology. Asked about features of physical stores, two out of three Gen Z's say that interactive in-store shopping is important to them, while half say in-store technology is important.[2] Leveraging the power of physical stores helps brands boost awareness and loyalty, which encourage Gen Z to make purchasing decisions across all channels. The integration of channels creates a holistic, seamless shopping experience that caters to Gen Z's top priority features: technology and interactive entertainment.

1 McKinsey 2021 New Age Customer Survey
2 Impulse Network Focus Group of Gen Z

Steve Evers, Chief Executive Officer Intersport, and Mateja Jesenek, Chief Retail Officer, Intersport

How have you and Intersport experienced the last two years? What was the biggest shift?
Mateja: I would say the biggest shift was in consumer behavior when it comes to online and omnichannel purchasing. Obviously, during 2020 the share of online sales increased, but now that stores have reopened, consumers combine both the physical stores and the online purchases much more extensively. They want to profit from both worlds, checking the products both in a digital environment as well as in person; physically using the expertise of the staff. We see our investments into this really play out.

What is your focus on in e-commerce and how are you adjusting to this new reality?
Mateja: We need to take into account where we as a retailer come from, with our 5,500 stores our physical presence was always very important. Therefore, our goal is to achieve an equilibrium between digital and physical channels. We want the two channels to complement each other in an omnichannel sense. Physical presence close to our customers and close to the sports environment – this proximity is our biggest strength.

Steve: Proximity is indeed one of the main strategic priorities we have. In the digital age, our aspiration is now to utilize modern technology to optimize and connect our physical network, for example by using data collected at points of sale to generate insights that are again able to improve the customer value proposition.

We see major brands building strategic partnerships with key retail partners. How do you see your role in this environment?
Steve: We need to strike a balance – we want to further deepen the great relationships we already have with brands but at the same time we also want to remain independent. We know that brands are boosting their DTC sales, yet we are convinced that the physical network we have in sports performance is very important to those brands too. We continue to invest a lot of time and energy in these relationships.

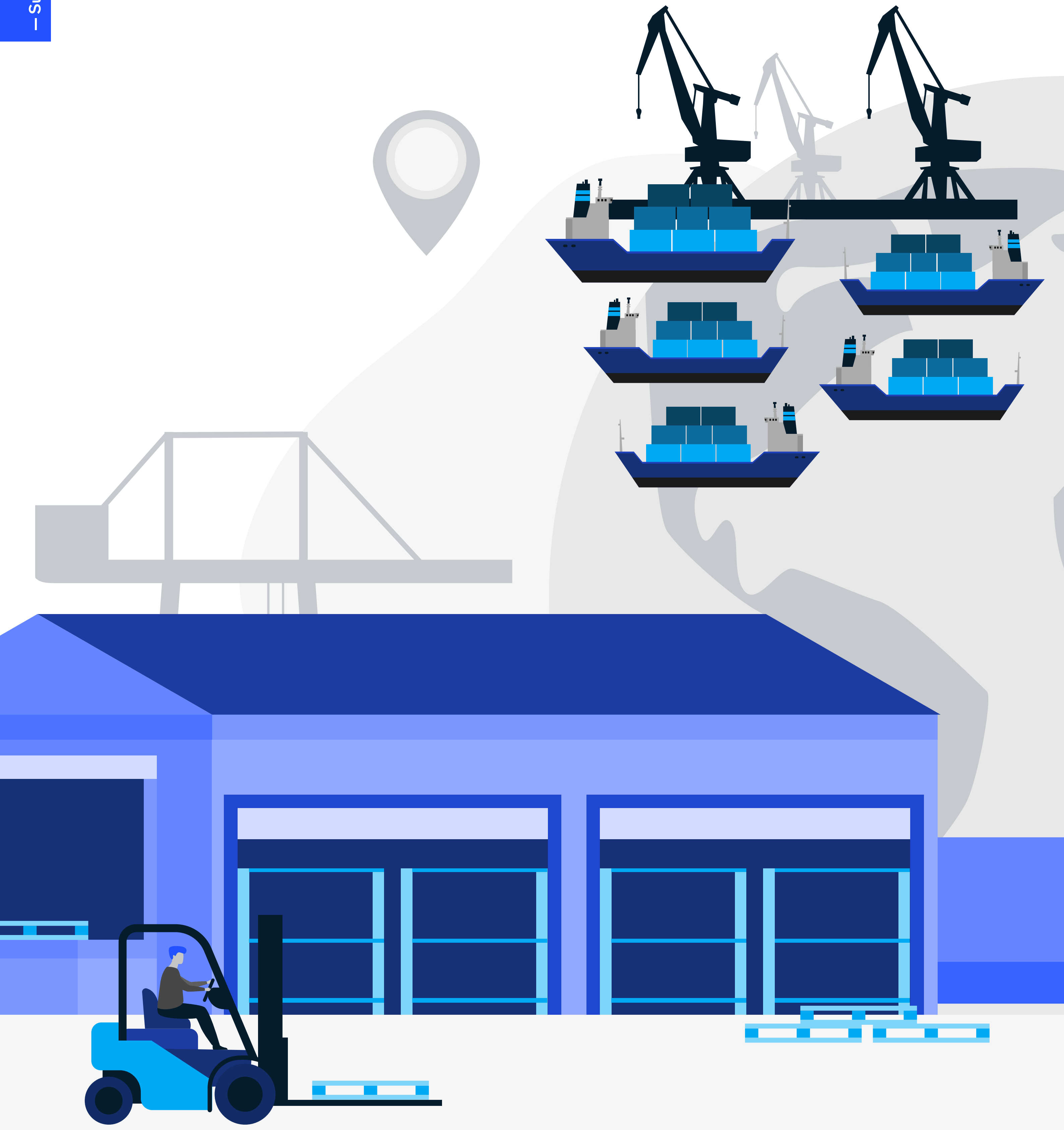
Beyond the physical network, where do you see the value you bring as a retailer?
Mateja: We have deep category competence and an independent perspective. Consumers have a product or sport in mind when they approach us, and they also have specific needs based on their personal situation. The independent, unbiased perspective of our team allows consumers to find the right product that fulfills their specific needs – not within a specific brand environment, but across brands.

How do you think about the way the stores will look in the future?
Steve: What really differentiates us from others is the fact that we have so many stores, and the biggest challenge is how we are going to leverage that. In terms of adding value for our partners, the goal is to get the best access, to get the best products for the best prices, so we are able to offer the consumers the best proposition for sports that they perform.

How do you think will the industry will evolve in 2022, specifically also for retailers?
Steve: We believe that the consolidation in retail will accelerate. We see a trend towards “fewer, bigger, better” across many areas of physical retail, including Sporting Goods.

Mateja: I am very optimistic. The way we reach consumers might change over time, but the nature of our business will remain the same: providing our consumers with pleasure, health, and well-being. Our role is to be there for our consumers, so they can take care of themselves. We see a large trend across the world that people strive for fuller and more healthy lives – our role is to be there and support them with this aspiration.

Solving the supply chain puzzle



The sporting goods industry faces twin supply chain challenges. First, they must grapple with the short- and medium-term impacts of the pandemic. These include tricky imbalances between supply and demand, soaring shipping costs, and the impacts of lockdowns on manufacturing hubs. The second challenge is longer-term and more structural, emanating from industry's pivot toward e-commerce. With these trends set to persist through 2022, brands need to adopt a strategic mindset to keep stocks flowing.

Supply chains through much of 2021 faced a perfect storm of challenges, which brought significant price and logistical headwinds. Amid COVID-19 outbreaks in major Asian manufacturing hubs, production came under persistent pressure. The situation was not helped by electricity shortages, the result of dwindling coal supply in some markets. In China, coal inventories fell to the lowest level for at least five years in 2021, hovering near-half the historical average, amid a slowdown in domestic production and shrinking imports. In addition, China's "dual control" energy policy, expectations are for a 13.5 percent decline in energy intensity between 2021 and 2025, suggesting a structural energy gap that will keep prices high for the foreseeable future.

A related and significant challenge for sporting goods companies is that, after a period of stability, raw material costs have risen sharply, with A index Cotton trading at around $2.50 per kilo on average in 2021 (up to the end of October), compared with $1.63 over the course of 2020. Polyester fiber produced in China was 46 cents per kilo higher at around $1.20 per kilo.[52]

Globalization in a chokehold

Another challenge came from shipping. Global daily container capacity fell by around 15 percent from the end of 2020 to the end of 2021, amid port congestion, the continuing impacts of COVID-19, and demand volatility. Shipping prices, meanwhile, rose as much as ten-fold. In real terms, the cost of shipping a 40-foot container from Asia to the US West Coast was around $15,800 in late 2021, compared with $1,600 to $2,100 in July 2019. The challenges in shipping were evidenced by the common sight of fleets of vessels awaiting berths outside the world's ports. Amid stuttering demand and labor shortages, stopover times increased by as much as 11 percent compared with 2019.[53]

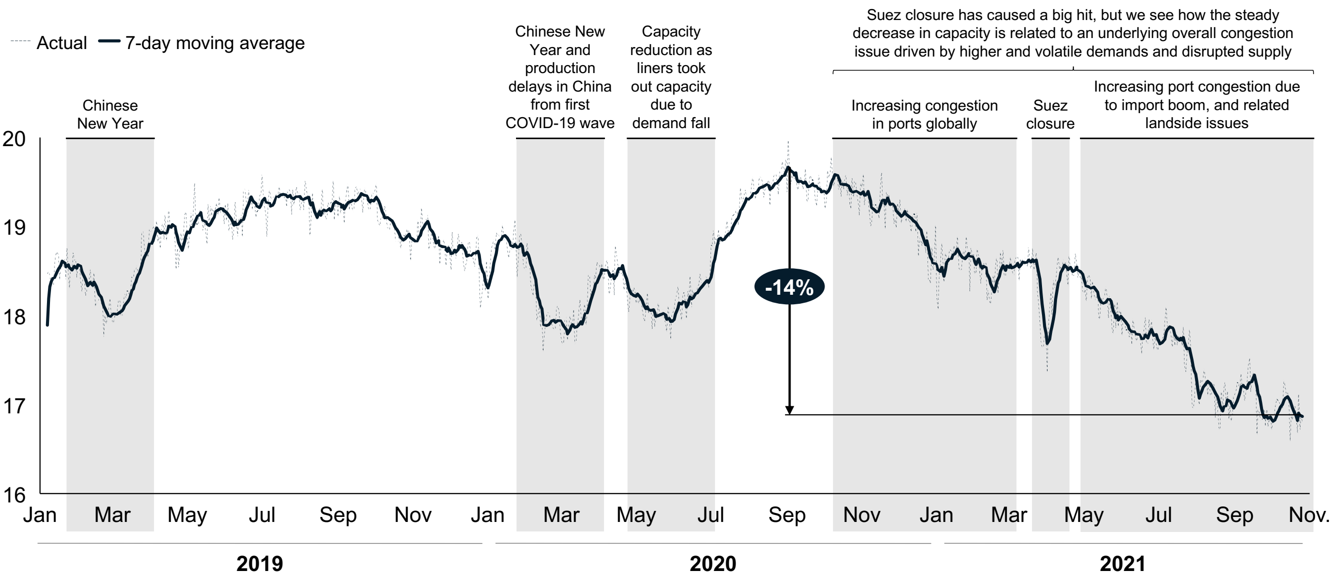
The vulnerability of maritime chokepoints was highlighted in 2021 by the Suez Canal blockage, when a 400-meter container ship became wedged in the canal, preventing shipping in both directions. Data from Lloyd's List showed the stranded ship was holding up an estimated $9.6 billion of trade along the waterway on each of the six days it was stuck.[54] Thankfully, such events are rare.

"Our biggest challenge and surprise in 2021 was how fragile the logistics situation was," said Duncan Scott, senior vice president of strategic sourcing and quality at New Balance. "We saw disruption in supply and demand simultaneously. The logistics system seems to be broken, and it will take much more time to recover than we originally expected. "Finally, COVID-19 brought about additional trade restrictions of which many still remain in place to this day: Since the outbreak, WTO members and

Exhibit 12

Bottlenecks and port congestions have decreased daily container capacity by ca. 14% from end of 2020 to end of 2021

Daily containership sailing capacity[1], Mn TEU



1. Daily containership sailing capacity is measured as the TEU capacity of ships traveling 7.5kts or more

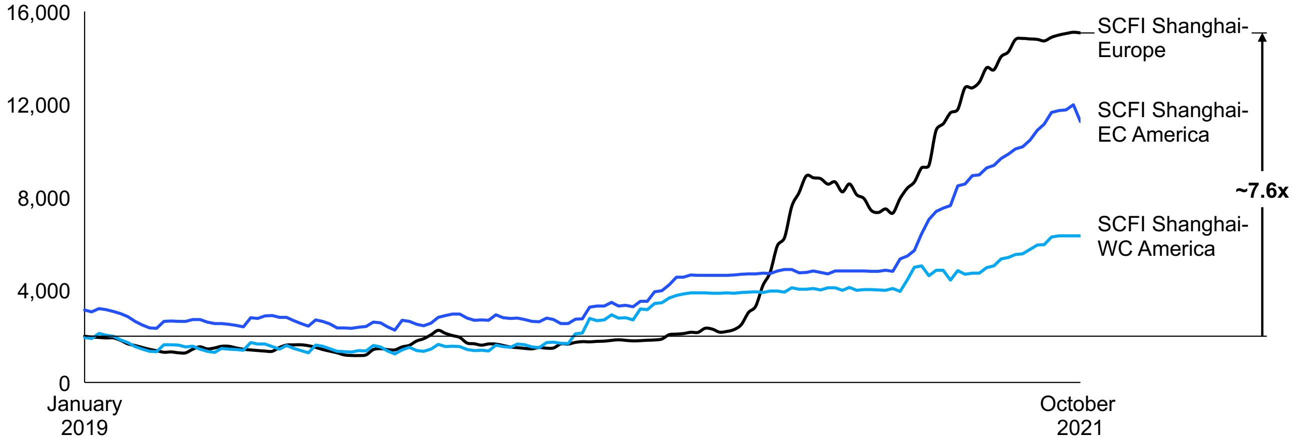
Source: McKinsey DeepBlue

52 World Bank Commodity Price Data (The Pink Sheet) (November 2021), HIS
53 Press search, Seaexplorer/Kuehne+Nagel
54 The Cost of the Suez Canal Blockage, BBC News, March 29 2021. https://www.bbc.co.uk/news/business-56559073

Exhibit 13

A surge in shipping prices

Rate development by trade lane
USD/FEU[1]



1. FEU (forty-foot equivalent unit) is a measure of volume in units of 40-foot long containers

Source: SCFI data sourced from SIN Clarksons

> **"Our biggest challenge and surprise in 2021 was how fragile the logistics situation was."**
>
> **— Duncan Scott, VP Strategic Sourcing & Quality, New Balance**

observers have implemented 117 new trade restricting measures, especially export restrictions, of which most have been repealed, but 45 remain in place.[55] In response to these dynamics, sporting goods companies are working hard to adapt. To tackle production bottlenecks, some companies are building capacity buffers, which provide peace of mind but come with higher working capital and an impact on return-on-invested-capital costs. To avoid empty shelves, some are holding over assortments from previous seasons. Related strategies include ordering more shipping capacity, increasing the size of orders, and ordering earlier in the calendar to reduce risk and ensure there is sufficient product at point of sale. Some are also looking at nearshoring of production for on-trend products.

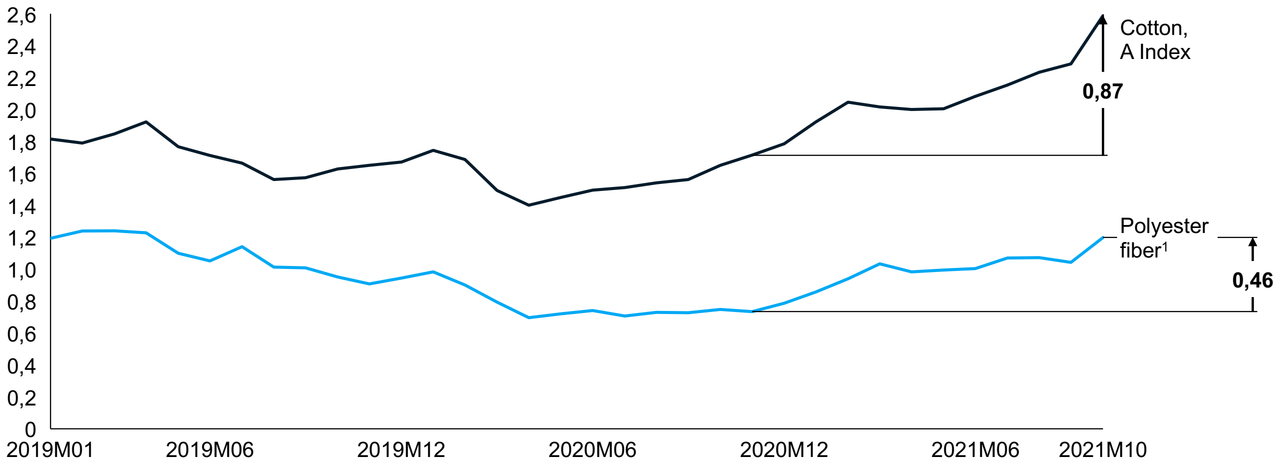
To limit risks in transportation, an increasingly common strategy is to try to build more collaborative longer-term partnerships with freight forwarders. Through these, companies aim to bake in more shipping cost stability and reduce the risk of delays. Another increasingly popular strategy is to review supplier relationships, and

[55] WTO News Item Dec 9

Exhibit 14

Raw cotton and polyester fiber prices have increased by ca. 55-60% in the past year[1]

Monthly average price, USD / KG



1. Price of polyester produced in China (~80% of polyester globally is produced there)

Source: World Bank Commodity Price Data (The Pink Sheet) (November 2021), HIS

"We are building capabilities for superior delivery experience. We will enable next day delivery for >50% of consumers across the globe by 2025."

— Kaspar Rorsted, Chief Executive Officer, Adidas

> **"With COVID-19 we will continue to see disruptions on both the demand and supply side for the next 3-5 years. We need to have an extra layer of cushion."**
>
> — Duncan Scott, VP Strategic Sourcing & Quality, New Balance

several companies have agreed new arrangements with non-vessel owning common carriers or freight forwarders. A few companies have turned to air freight and trans-continental rail.

Internally, several companies are moving to optimize category purchase order flows, starting with a review of current flows, based on criticality. This has led to front-loading of floor-set and peak season orders, and strategic use of air freight. Looking ahead, retailers will need to decide how to better coordinate buys, optimize assortments and ensure they are minimizing delivery disruption. Some players, meanwhile, are cutting promotions and discounting, while others are shifting their focus to earnings growth, rather than volume growth, reflecting uncertainty and demand volatility that could persist for some time.

The structural e-commerce challenge

In addition to short-term volatility, sporting goods brands are increasingly exposed to structural channel shifts that are impacting their supply chain operations. Perhaps the most significant of these is the effect of their e-commerce activities on their supply chain operations. Direct-to-consumer e-commerce shipments make much higher demands on logistics chains than wholesale or physical channels. Reasons include consumer expectations for shorter delivery times (typically next day), smaller order quantities, requiring higher handling capacity, and concentration of demand peaks, for example around Black Friday and during evening hours. There is also greater uncertainty around demand trends, meaning companies need to hold higher volumes in stock and reduce stock turns. Finally, return rates can be as high as 50 percent, compared to less than 5 percent in the wholesale environment, adding a significant logistical burden. McKinsey estimates that e-commerce activities require two to six times more warehousing handling resources than wholesale or own retail distribution.

In contrast to the established trend to centralize warehousing, both geographically and across channels, many players are moving to decentralized fulfillment for e-commerce, which is a key enabler of next day delivery. Indeed, fulfillment has become a strategic priority to meet expectations for both higher volumes and shorter delivery times. With that in mind, it makes sense for decision makers to take a five to 10-year view on their fulfillment capabilities, and design with the longer-term in mind. In addition, forward-looking companies are now pouring investment into data and analytics capabilities, aiming to optimize their management of a supply chain landscape that is still in the process of being formed.

Duncan Scott, VP Strategic Sourcing & Quality, New Balance

What do you see as the greatest opportunities and the threats for the industry?
I think the biggest opportunities are probably still around strong recovery and also better planning in terms of logistics and digitization of the industry. Also understanding of how to get the right product to the consumers at the right time. That's always been important, and it's always been an emerging opportunity as we look towards the global digitalization of information. The pandemic has forced more people to order products online and realize that it's not so bad; it's actually very effective. That gives us a unique opportunity to follow up now; to go into end-to-end digital, get better information and reduce waste and cost throughout the supply chain.

The biggest challenge of the recent period was the fragile logistics situation. We saw disruption first in supply and then also in demand. The rapid surge and recovery revealed a logistics system that seems really broken and it's going to take a long time for that to recover.

How did COVID-19 impact your business?
Covid obviously had various supply and demand impacts. I think at this stage, Covid is going to be endemic and it's going to be a very important factor in both demand and supply for the next three to five years at a minimum – perhaps much longer. I think that the ability of this virus to evolve is still going to be around for several years and it's going to cause surges which in turn may cause economic stress. Over the next few years, it will still cause a lot of turmoil when it comes to retail and it may cause disarray on the supply side too. On the supply side, impact may be more limited, but it's not totally insignificant. We have to plan for that, for example by creating a little more capacity than we think we need. Because you have to have a larger cushion in there to make up for unpredictable shutdowns. What is predictable is that you are going to see more volatility, so you have to build in an extra layer of cushion into your projections for capacity.

What would you say are the major factors affecting your supply chain strategy, and how do you intend to react?
Currently on the top of mind is logistics costs. They have gone up 10-fold and we are trying to understand what the outlook is for that. Does this new level of cost change the equation for low-cost production in Asia? Trying to predict and understand that is definitely something new. Before we had done the calculations that said even if the logistics costs go up by double or even triple, it isn't really going to change things in terms of preferred manufacturing locations. But the current levels are something that we need to understand and take into account. Trying to predict that is much more of a factor in our sourcing decisions.

The second point is that we expect the

industry and brands to take a more conservative approach in spreading their risk geographically to have a better risk portfolio.

If you think about the whole supply chain: The sourcing, logistics part and the destination. How much would you focus on each of these and has it changed because of COVID-19?
Before COVID-19, the logistics piece was not really on the radar. We focused on reducing the time between when an order is placed and the product is shipped. But the focus shifted towards logistics – it used to take about 60 days, but went up to around 90 days. Now all of a sudden, that becomes the bigger part and hence your new focus, especially with fashion-oriented products where you want to be quicker to market and you want to make changes. Those are the products where the time really matters because you do not want to miss out on trends. This section of the market is larger than we originally thought – probably rather 20-25 percent instead of 15-20 percent. As an industry, we have to figure out a way of how we can address that in the market. Onshoring and nearshoring might become a more important topic for large markets. If you don't have a strategy for this section of the market as a major brand, then you are going to be in serious trouble. You have to be able to respond. Regarding Europe and US, certainly central America and Eastern Europe could play a role in footwear.

How does in-country logistics change with the increase in e-commerce?
The area of "last mile" delivery systems is rapidly evolving. It needs to be more efficient. At the same time, vertical retail is going to be more common, because they work on trends better and they can get what consumers really want, because the connection of the brand to the consumer is stronger. They know what consumers want. As a brand, if you are effective in creating trends and owning brands, you can also generate a lot of interest in your own retail stores.

Where would you like to see New Balance or the industry in 2025-2026, and what should have changed by then?
I will start with sustainability. It is essential to have more carbon neutral plans and a clear vision of how we align our goals, our corporate goals, and industry goals with global goals. As an industry, I think the opportunity for a digital revolution is still dramatic. Our ability to connect to consumers is greatly increased and the ability to get information is greatly increased. Our logistics challenges are new, but some of it will be temporary. We will find a way to drive waste out of the supply chain and I would like to see a higher level of sophistication. Our industry can follow some of strongest industries, like the automotive industry and the electronics industry, to find better ways to offer products to our consumers.

Is there a case where the sporting goods industry will be leading on the sustainability part by linking this to sports, health, lifestyle, performance, and so on?
We talked about eating healthier and sports is healthy for your mind etc., so it would be ironic if we were not leading in that area. I think we have an obligation to lead and I do believe that most executives are absolutely determined to do that and are trying to find ways to move forward. Our brand names make a big impact because they are among the top 100 brands globally. Frequently these names come up even when they are not the largest companies in the world. So, I think you will see that we can make an impact in the area of sustainability. But ultimately, the government has to institutionalize and enforce it. If we do not get the additional help from the government, we will not be able to do it on our own. This is especially true in relation to the low-cost suppliers in the apparel part of the industry, who are not incentivized strongly enough yet and are not pushed by their customers to do it.

> "Through COVID-19 the shipping time went up from 50-60 days to around 90 days – all of a sudden, this logistics part has become the longest time and has thus become much more a focus of attention."

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Acknowledgements

The authors would like to thank all members of WFSGI and the McKinsey community for their contribution to development of the 2022 Sporting Goods report and the many industry experts who generously shared their perspectives during interviews. In particular, we would like to thank: Kasper Rorsted, David Allemann, Philipp Rossner, Jorge Casimiro, Caitlin Morris, Steve Evers, Mateja Jesenek, Duncan Scott and Caio Amato.

The authors would like to thank the WFSGI Board, which has been hugely supportive of this report both in approving it and contributing to the content.

Furthermore, the authors would like to thank the Impulse Network, a Sports Business Club at the University of St. Gallen that contributed to gathering insights about GenZ across this year's highlighted trends. A thank-you goes specifically to Benedikt Dunse, Yuyang Cao, Olivier Wicki, Yi Zhang, Bence Albert, Emily Stets, Yannick Kauffmann.

The authors would also like to thank David Wigan for editorial support, and Adriana Clemens and Dominic Baumann for external relations and communications.

In addition, the authors would like to thank Eralda van Zurk and Sanne Basjes for their creative input and direction into this report, and Getty Images for supplying imagery to bring the findings to life.

McKinsey & Company
January 2022

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