McKinsey & Company

Sporting Goods 2024: Time to move

Sporting Goods 2024: Time to move

Foreword

The title of this year's report "Time to Move" reflects two priorities for sporting goods companies. First, to adapt to a challenging and continuously changing economic and business landscape, and second, to elevate physical activity globally to help people live more active, healthier lives – a goal shared by the sporting goods industry, the World Health Organization (WHO), and McKinsey. To underline its importance, we open this year's report with a conversation between Emma Zwiebler, interim CEO of the World Federation of the Sporting Goods Industry (WFSGI), Dr. Fiona Bull, head of the physical activity unit at the WHO, and Alexander Thiel, a partner and co-lead on sporting goods work at McKinsey.

What is the scientific evidence that physical activity improves health span?
Fiona: The evidence on physical activity and its health benefits is substantial. We often turn to a landmark paper by Prof. Jerry Morris in *The Lancet* in 1953. It studied bus conductors and bus drivers. The bus conductors were running up and down the stairs selling tickets on the London buses, and the bus drivers were sitting all day. He showed that there was a statistically significant difference in the risk of heart disease. Subsequent studies over the following decades in various occupational groups with different physical activity profiles built a solid evidence base on the protective effect of being more active. The benefits of regular physical activity include a reduction of the risk of coronary heart disease and many site-specific cancers like breast cancer and colon cancer. It also reduces the risk of diabetes, hypertension, and strokes—these collectively are the leading causes of premature death, globally. What's really exciting is that the latest evidence coming out from studies now using digital technologies, specifically wearables, is reinforcing these findings in also showing stronger protective effects between physical activity and physical and mental health outcomes. This is really good news.

Is there an overall mission of the industry to actually help people to move and live longer, better lives?
Emma: As an industry, we are passionate about sport, movement, and people being more active for two reasons. First and foremost, we endorse everything Fiona just outlined. We want to help people to stay healthy and live longer and play our part in a sustainable future. In a way, that is 'why' the sporting goods industry exists. The second element of why we are engaged in this topic is that we also have an economic interest in more people being active, exercising, and practicing sports. Our business is intrinsically linked to sport and physical activity, and therefore, to levels of sport and physical activity. The low levels of activity that we see today pose an existential threat to our industry if they don't rise. And currently, the next generation is the least active in history. If we take the United States as an example, 32 percent of men and 48 percent of women are currently inactive by WHO standards. When you go to the next generation of 11-to-17-year-olds, these numbers rise to 64 percent of boys and 81 percent of girls. The same pattern is recreated across multiple key markets for the industry. In China, current levels of inactivity calculated by WHO are at 80 percent for boys and 89 percent for girls.

Alexander: Working with many people from the sporting goods industry for almost two decades, it is clear that all of them, from brand marketers to product developers to CEOs, strongly identify with the mission to help people be active and healthy. It is fantastic to see WFSGI and WHO signing a memorandum of understanding (MOU) regarding this issue. In my view, this is only strengthened by the fact that there is also a strong business case for the industry to elevate physical activity levels.

When we look at the data regarding physical activity, where do we stand and what is the momentum?
Fiona: WHO collates global data using monitor data that comes from national data collection. Unfortunately, on average, the stats show we are only treading water. Globally, the current levels show 28 percent of adults are inactive to a degree that they are not meeting the global recommendations. There are, obviously, some countries that are making better progress by implementing programs, but this is counteracted by others that are worsening. When we look at why – that is, looking at what we call the drivers of inactivity – we see, in part, technology, changes in

how we work, generally less physical work, and changes in recreation and leisure activities such as increased use of technological and phone-based alternatives.

Alexander: We also see in the data that there are still significant physical activity gaps in the populations of individual countries. Women, kids, ethnic minorities, and lower income brackets are generally physically less active. For example, recent research by the Aspen Institute in the United States showed that among children from families making less than $25,000 a year, participation in a healthy level of activity decreased to about 25 percent, while children from families with incomes above $100,000 have significantly higher physical activity participation rates of about 45 percent. These disparities are something we jointly cannot accept, since they have a direct correlation to life span.

What concretely can the industry do to help raise physical activity levels?
Fiona: The industry is critical to helping us achieve our goal of one billion more active, healthier people by 2030. First, the industry has a role to play in inspiring people to partake in an active lifestyle. Campaigns can have a big effect. An important aspect of that is how we present being active – in the images and language used – it must reach and resonate with those who are not already active. Also, if we wish to reach the people who are currently less active or even inactive, we have to really understand what will attract them to come back to a sport or active recreation, walk or cycle more often, and what will attract people to take up a new activity, particularly when you're thinking of middle-aged and older adults. We are concerned about the decline in levels of physical activity in older adults in most countries, yet people are living longer and these years should be healthy and active. Of course, some of the barriers are economic, so industry has a big role to play in helping provide affordable and accessible products and services.

Alexander: The industry should approach physical activity with the same boldness, rigor, and determination with which it approaches decarbonization: setting bold targets, taking concrete steps, and measuring impact. Everything needs to start with a commitment and measurable objectives. What you don't measure, you cannot manage. From there, concrete steps to elevate physical activity need to be followed, and there are many avenues: product design, distribution, marketing campaigns, partaking in sports ecosystems, or offering engaging services.

Emma: That is a good analogy. Physical inactivity could be seen as the "human climate change" and we all need to work together – industry, WHO, governments, municipalities, cities – to combat it. That is why WFSGI and WHO have signed a memorandum of understanding to collaborate closely and concretely on this topic. And we are thankful for the support of McKinsey in this endeavor.

WHO and WFSGI, with the help of McKinsey, will continue to support the sporting goods industry with data and guidance on elevating physical activity to drive implementation of the MOU and WHO's Global Action Plan on Physical Activity. There is a clear call for action,vc and we will support the industry to step up and answer it.

Table of contents

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Acknowledgments

The authors would like to thank all members of WFSGI and the McKinsey community for contributing to the development of Sporting Goods 2024 and the many industry experts who generously shared their perspectives for our interviews. In particular, we would like to thank: Dr. Fiona Bull, Vanessa Garcia-Brito, Stephanie Linnartz, Hugo Maurstad, Dan Sheridan, Michael Murray, and John Sullivan.

The authors would also like to thank the WFSGI Board, which has been hugely supportive of this report since its inception and actively contributed to the content.

Furthermore, the authors would like to thank EDM and ISPO for facilitating the McKinsey & WFSGI Sporting Goods Industry Report Survey 2023 by distributing the survey to their respective members. We would also like to thank ISPO for giving us the opportunity to present the teaser for our report at ISPO Munich.

The authors would like to thank David Wigan for editorial support and Janiece Lehmann, Magdalena Balcerzak, and Corinne Teschner for external relations and communications.

The authors are grateful to Eralda van Zurk, Maria Serova, Daryna Frolova, Kornelia Zamiar, and the whole design team for their creative input and direction.

We would also like to thank Patrycja Baran, Olga Ostromeka, and Emilia Szyszko for supporting us with data analysis and research.

Finally, the authors would like to thank Jessica Genta, Francesca Timpano, and Nicola Stadelmann for their meaningful contributions to this report.

Executive Summary

Time to move: Sporting Goods 2024

As the world continued its uneven progress in 2023, the sporting goods industry faced familiar challenges. Economic headwinds, persistent inflation, and regional conflicts undermined consumer confidence, while companies continued to struggle with inventories—mainly overstocking, as anticipated demand failed to materialize. But the industry again demonstrated its resilience. Revenue growth over the year was at 6 percent, compared with 2 percent in 2022, amid stronger performance across geographies.

As we look toward 2024, this report highlights a renewed sense of optimism among industry leaders. This reflects opportunities arising from an improving market environment and new consumer preferences. More people are choosing sports that are quicker to pick up, require less commitment, and are more social, rather than organized sports with fixed time commitments, requiring teams, or where high levels of skill are required. Participation as a driver has become equally as important as performance. And after supply demand imbalances in the recent period, companies are turning to integrated business planning and analytics to help them navigate more volatile times. Meanwhile, sporting ecosystems and the demands of sustainability offer potential for innovation. With these themes in mind, this year's Sporting Goods report paints a picture of an industry at a pivotal moment, facing challenges but also opportunities to achieve sustained growth.

Review of 2023

The past year was one in which regional differences came to the fore. Companies in Western Europe posted growth of 8 percent, a strong rebound from the previous year's 3 percent decline, while the industry in Asia Pacific saw income rising 11 percent, after a 4 percent decline in 2022. North American companies followed 2022's 6 percent growth with growth of 2 percent. Latin America, meanwhile, was the standout performer, with growth of 22 percent, after 20 percent growth the previous year.

The industry's super winners maintained their momentum in 2023, outperforming the market by focusing on attractive categories and employing smart go-to-market strategies to inspire and engage with consumers. These leaders exemplified the merits of a balanced portfolio, with retail innovation, trend-responsive branding, and cost-effective manufacturing among pillars that supported growth.

There were also notable variations in the competitive landscape. In China, for example, competition intensified, with global titans losing their edge to local players, which had a market share of about 60 percent among the top 20 brands. In Latin America, conversely, global players continued to dominate, with a share of about 90 percent, amid a strong soccer and tennis focus.

Outlook for 2024

In the first chapter of this report – Mixed markets and polarized performance – we highlight an improving industry outlook, with about 90 percent of sporting goods leaders anticipating stability or improvements in sales and margins, according to McKinsey & WFSGI Sporting Goods Industry Report Survey 2023. Still, industry leaders are not universally optimistic, amid persistent concern over inflation and overstocking. Eighty one percent of respondents to this year's survey say inflation and inventory levels/ cost of capital are a continuing challenge, and 50 percent worry about attracting talent and the pressing imperative to become more sustainable. In addition, economic headwinds may still apply. In China, for example, 2023 marked a recovery from a tough 2022, but many Chinese consumers will likely trade down in 2024 as tough economic conditions persist.

In the remaining four chapters, we drill down into the key themes that will likely feature on executive agendas in the year ahead:

1. **Shifting consumer preferences and generational opportunities**
   Consumer confidence remains subdued, yet the sporting goods sector has shown it can be resilient, with many companies relatively immune to downtrading. That said, brand loyalty is declining. Consumer behaviors are also shifting, amid a move away from organized sports and toward more accessible options. This pivot presents new avenues to growth, particularly in segments such as pickleball/paddle tennis (+159 percent growth from 2019 to 2022) and off-course golf (+57 percent growth from 2019 to 2022), which have seen surges in popularity.

   In addition, there is a generational shift in progress, with some older demographics spending more time and money on their favourite sports and hobbies. However, demographic dynamics vary across regions, suggesting brands are tasked with crafting age-inclusive strategies to suit their constituencies.

2. **Planning, planning, planning**
   Inventory management remains a pressing challenge, as companies grapple with overstocking and demand volatility. The rising cost of capital further complicates the outlook, compelling companies to reevaluate their planning processes. The key to being prepared lies in integrated business planning, which can significantly improve coordination and reduce the number of surprises. Still, effective implementation requires new governance approaches and cross-functional alignments, as well as standardized inputs and outputs. Companies can combine these with advanced analytics and AI/ML to generate more precise end-to-end planning and forecasting.

3. **From sustainability targets to actions**
   The sustainability journey is accelerating, supported by regulation and corporate action to set and meet sustainability targets. In China, the US, and EU, there is increasing government support for funding that will drive the energy transition.

Many sporting goods brands, including smaller companies, are now stepping up, not only setting ambitious targets but also aiming to address social and governance issues in their operations and supply chains. These steps reflect rising consumer demand for more sustainable offerings. For example, consumers increasingly value products that use organic or sustainable input material—and are often willing to pay a premium for them.

Still, while many companies are making progress, others are still in the starting blocks. Here, we outline ten impact areas along the value chain and specific initiatives in each to help companies move forward. These range from new business models to initiatives that may boost consumer awareness, each of which companies can assess through the lens of a cost abatement curve.

4. **Playing the sports ecosystems game**
   After some companies embraced direct-to-consumer business models, the past year has seen a renewed focus on wholesale partnerships, reflecting the understanding that consumers love to shop in multi-brand environments. Going a step further, increasing numbers of companies are embracing explicit ecosystem strategies, taking their thinking beyond channel coverage and product assortments. This reflects the fact that technological advancements and health trends are driving a shift in consumer demand from individual products to comprehensive health- and activity-centered solutions.

   Companies cannot meet all consumer needs alone. But they can through networks of companies that serve some element of the customer journey – from opportunity discovery, to planning and preparing, traveling, participation, and recovery. McKinsey research shows that the activities within these steps that customers value most include finding similarly minded people, shaping products to their specific needs, obtaining insurance to reduce risks, liaising with travel agencies, and receiving support during activities. Ecosystems enable companies to cater to these demands.

   This report identifies five levers for value generation in an ecosystem environment: new subscription revenues, lower customer acquisition costs, cross-selling, commissions, and operational efficiencies.

The past year has marked a period of recalibration for the sporting goods industry, with uneven recoveries and persistent challenges. Looking ahead, we believe the most successful players will innovate to address shifting consumer demands, manage supply chain complexity, streamline operations, and seize opportunities in emerging markets and ecosystems. Through efforts in these areas, and a sharp focus on execution, the industry will be well placed to continue its positive trajectory.

Sporting Goods at a glance 2024

Sporting Goods 2024 navigates the industry's latest developments and explores evolving consumer behaviors, supply chain complexities, and emerging ecosystems. A special feature of this edition is a detailed presentation of ten concrete steps for sustainability, providing a practical guide for companies to align with evolving environmental standards and consumer expectations.

1. Mixed markets and polarized performance

90%

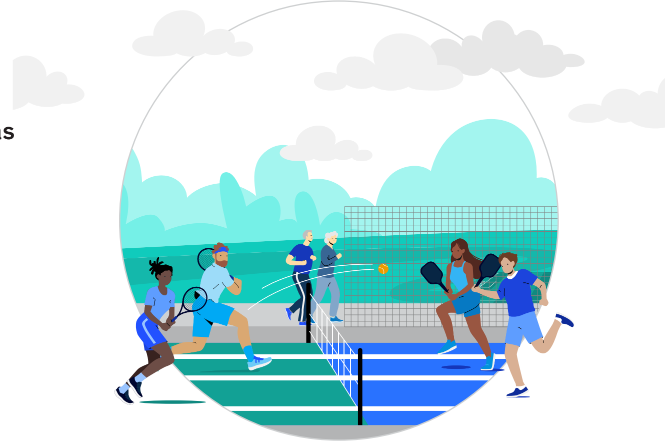
...of respondents to the McKinsey & WFSGI Sporting Goods Industry Report Survey 2023 expect revenues to hold steady or grow in 2024 compared to 2023[1]

Sporting goods companies expect business conditions to remain challenging in 2024, after a partial recovery in 2023. However, demand dynamics will likely vary across markets and segments, suggesting companies might need to tailor their strategies to local conditions.

2. Shifting consumer preferences and generational opportunities

+159%

Growth in participation of pickleball/paddle tennis as an easily accessible sport (2019-22)[2]



In the face of a cost-of-living crunch, consumer confidence is under pressure. However, with different and often more social sports attracting attention, alongside rising older demographic participation, sporting goods companies have an opportunity to unlock new pockets of value.

1 McKinsey & WFSGI Sporting Goods Industry Report Survey, October 2023 (N=85)
2 SFIA Topline Participation Report, 2023

3. Planning, planning, planning

+33%

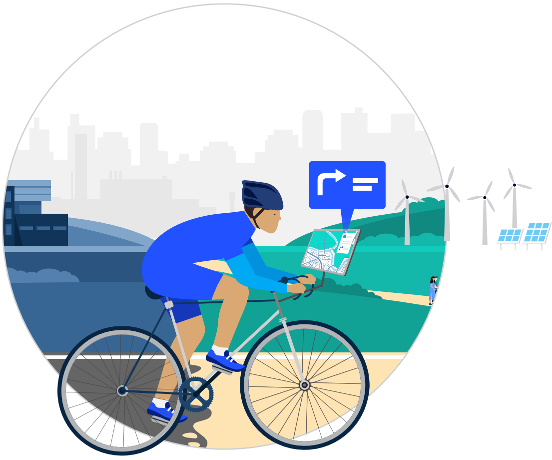
Average increase in peak inventory YoY for 4 out of 5 companies[3]

Sky-high stock levels, a rising cost of capital, and surging promotions mean sporting goods companies need to think again about planning processes, data, and analytics. Through advanced approaches, they can create more tailored solutions and support faster, fact-based decision making.

4. From sustainability targets to actions

80%

...of all companies surveyed now have or are seriously considering CO_2 targets[4]

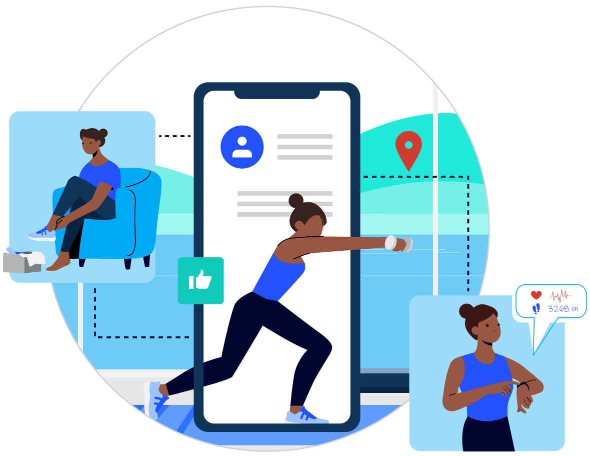


As the impacts of climate change intensify, sporting goods companies are ramping up their efforts to become more sustainable. Ten actions can help accelerate the journey, encourage customers, and boost performance.

5. Playing the sports ecosystem game

70%

...of survey respondents follow an omnichannel strategy with an ecosystem of sales channels[4]



Ecosystems plays offer sporting goods companies the chance to cut the cost of customer acquisition, boost lifetime value, and develop new revenue streams. But implementation requires careful planning and execution.

3 McKinsey Corporate Performance Analytics, S&P, Company filings, Annual Reports, 2023
4 McKinsey & WFSGI Sporting Goods Industry Report Survey, October 2023 (N=85)

Michael Murray, Chief Executive Officer, Frasers Group

Michael Murray is the Chief Executive Officer at Frasers Group. In this capacity, he continues to accelerate the Group's strategy to achieve its vision of building the planet's most admired and compelling brand ecosystem.

Some of our readers might not necessarily know Frasers Group. What is Frasers Group and what does it do in sports?

Frasers Group, formerly Sports Direct, started in 1982 with one store. And for 35 years, it was very much a simple but effective business model, based in the UK, and with a small presence in Europe. In 2017, we started our elevation strategy, which was a big change program aimed at taking Sports Direct from an entry level or first price point business into a good, better, and best business. The strategy was all about improving store environments, digital capabilities, merchandising, and consumer storytelling—ensuring we have a business that is fit for the future. In parallel, we completely diversified, creating three core pillars: Sport, Premium, and Luxury. We bought House of Fraser, which was a leading department store in the UK, and we bought FLANNELS, which was the number-one independent chain for luxury fashion. And the deep three main common themes were footwear, accessories, and clothing, with the world's most aspirational global brands and a common back-end solution to power three different industries. That's how Frasers Group was born. We obsess over brands, work with them, nurture them, and own them. And today, with over 1500 plus stores and 20 different countries, we're on a mission to build the planet's most admired and compelling brand ecosystem.

What makes the sporting goods industry attractive as a business for a retailer?

Post-pandemic, the consumer is a lot more conscious and educated around fitness and, as a result, the demand for sports across the world is at an all-time high. It is also easier to get global scale in this growing industry, because there are only around ten globally consistent brands, whereas in other industries, there might be 20 or 30, constantly changing brands. I think that's very attractive.

What is your vision for the role that your group will play in the sporting goods industry in the coming years?

Our vision for sports is to serve our consumers with the best kit their money can buy. We obsess over key sport categories football, running, training, and have a new outdoor category concept launching in 2024, which provides the consumer with a winning proposition. Our good, better, and best price points mean we offer something for everyone, without alienating a more entry-level consumer.

In the past, we have been very dominant in the UK and Ireland. And the first part of our strategy was to focus on protecting and building our home territory, leveraging that as a proof of concept. Now, the focus is on growing overseas, especially in mainland Europe.

Our ambition in any market we enter is to be number one by size or positioning – we want to be the number one partner of choice for our strategic sport brand partners. So M&A is going to be key. Last year, for example, we bought the number-one sporting goods retailer in Denmark, Sportmaster.

What is your perspective on the value that you as a retailer can bring to a brand?

First of all, we are big: scale is important because brands want to work with fewer bigger and better partners. They want to work with people who can give them one holistic plan that is fully aligned with their brand strategy. Second, we don't pay dividends, but instead reinvest back into stores or infrastructure projects, such as automation, digital projects, and marketing—that's how we strengthen our proposition. Third, we've got very aligned strategies with the brands, as we all want to elevate the marketplace. We are not a franchise business; we are either wholly owned or in a joint venture with all of our stores. So, our store estate is very consistent and we can work collaboratively with brands, with one overarching strategy, wherever we operate.

Your group also owns brands, not just retailers. Where do you see the benefit of having both in a portfolio?
Owning some brands outright, like Everlast and Slazenger, is great for our business, as it gives consumers the choice to purchase products at good entry level prices while still allowing us to make a good margin. This is a unique selling point versus some of our competitors. In addition, we strategically invest in some brands, like Hugo Boss. This allows us to come together with management teams and act as a strategic accelerator.

In what ways do you follow an ecosystem strategy with these brands and partners?
Our ecosystem includes our Sport, Premium, and Luxury divisions, with our shared services being our warehouse, our accounts team, our real estate team, and digital capabilities. We've launched our own regulated, flexible payment solution called Frasers Plus, which we've now rolled out across all our fascias. As well as giving us deep customer insights, Frasers Plus will include a consumer loyalty program, where you will be able to redeem rewards and points across the whole ecosystem.

We're always thinking about how we can diversify our business and keep our consumers in the Frasers ecosystem. For example, within our Sport business we have rolled out a fitness business with Everlast gyms, which now has over 70 gyms, which is effectively an elevated fitness and lifestyle proposition but with affordable price points. We have also acquired the number-one cycling business in the UK with Evans Cycles, and we have invested in the e-sports sector through our acquisition of GAME.

Have you ever thought about investing in the sneaker space?
There are a lot of sneaker retailers that have invested heavily over the past few years and have grown globally. And that's where we see the opportunity. That's because you need much bigger stores in sporting goods to get true representation of different sports. You cannot just have the bestsellers; you've got to sell a number of brands, a number of products, and that takes up square footage that costs capital. When you're in sporting goods, you have to be credible in all the key sports. And that makes the stores less productive than a sneaker store would be. So, you have to overinvest in the sports market for a low return. But it's very difficult unless you have your own brand proposition. We've got a strong business with a strong balance sheet and can take a medium- to long-term view. This is how we can differentiate in sports and can be distinctive.

> "Our ambition in any market we enter is to be number one by size or positioning – we want to be the number one partner of choice for our strategic sport brand partners."

Mixed markets and polarized performance

Sporting goods companies expect business conditions to remain challenging in 2024, after a partial recovery in 2023. However, demand dynamics will likely vary across markets and segments, suggesting companies will need to tailor their strategies to local conditions.

"Post-pandemic, the consumer is a lot more conscious and educated around fitness and, as a result, the demand for sports across the world is at an all-time high."

— Michael Murray, Chief Executive Officer, Frasers Group

The sporting goods market saw a welcome return to form in 2023, growing 6 percent amid higher revenues across almost all geographies.[5] But there were variations across regions. Western Europe posted growth of 8 percent, a strong rebound from the previous year's 3 percent decline. Income in Asia Pacific rose 11 percent, after a 4 percent decline in 2022. North America, meanwhile, grew 2 percent, building on its 6 percent expansion in 2022. Latin America was the standout performer, with growth of 22 percent after 20 percent growth the previous year. Looking ahead, analysts expect the industry to broadly continue on its current path, amid annual growth of 7 percent up to 2027 (Exhibit 1).

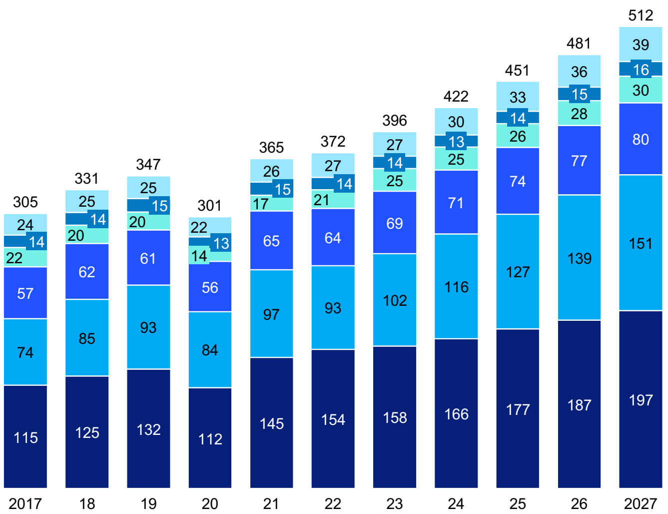
The recent uptick in performance seems to put the industry back on a firm footing after the challenges of 2022. And sentiment is broadly positive for 2024, with about 90 percent of companies in our annual executive survey saying they think sales will pick up or remain steady. No companies are expecting both sales to fall and margins to contract. Still, 81 percent of respondents say inflation and inventory levels/ cost of capital are causes for concern, and 50 percent worry about being able to attract talent and the rising pressure to become more sustainable.[6]

Perhaps reflecting these themes, analysts are notably cautious for the year ahead, raising the 2023-4 growth outlook for 50 percent of companies but cutting it for the other 50 percent.[7]

Exhibit 1

The industry is predicted to grow 7% by 2027

Global sportswear market, Retail Sales Price, USD bn



Noteworthy trends

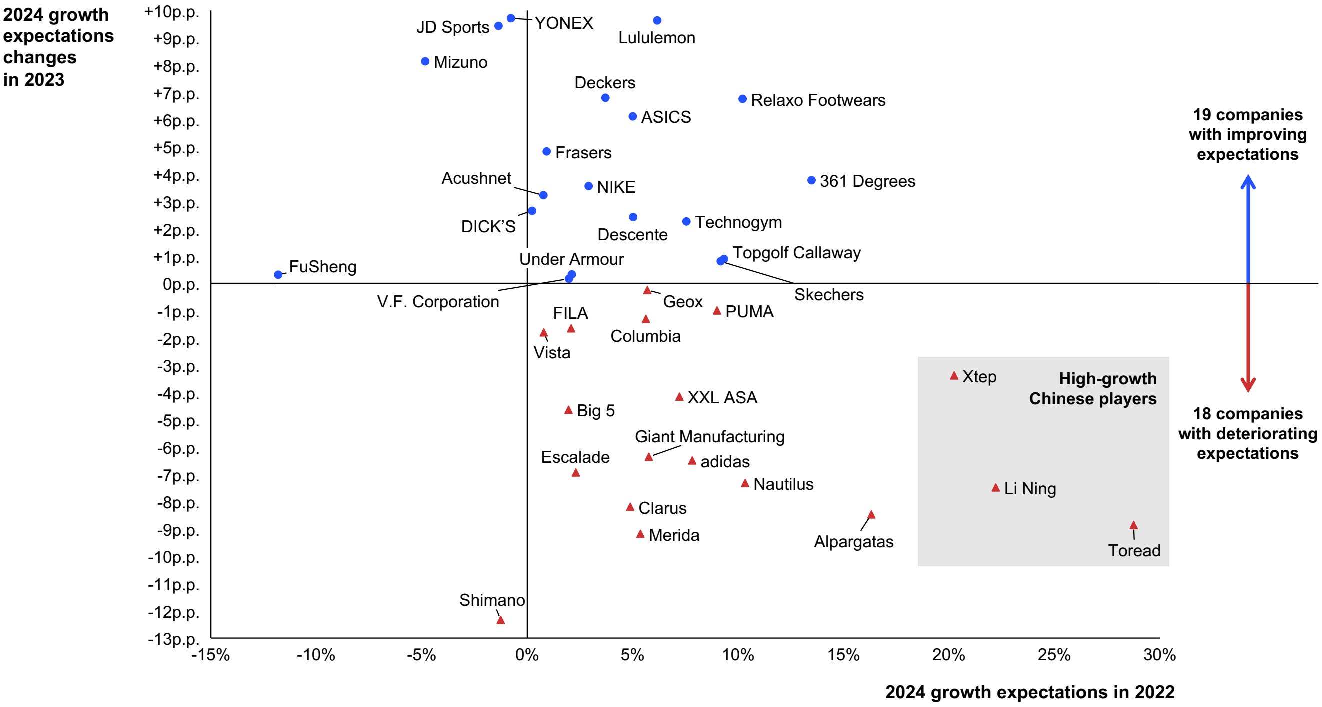
CAGR, %	2017-19	2021-22	2022-23	2023-27
Total	+7	+2	+6	+7
Rest of World	+3	+6	+0	+9
Eastern Europe	+4	-6	-1	+4
Latin America	-4	+20	+22	+4
Western Europe	+3	-3	+8	+4
Asia Pacific	+12	-4	+11	+10
North America	+7	+6	+2	+6

Source: Euromonitor, October 2023

5 Euromonitor, October 2023
6 McKinsey & WFSGI Sporting Goods Industry Report Survey, October 2023 (N=85
7 McKinsey Corporate Performance Analytics; S&P; Company filings; annual reports, 2023

Exhibit 2

Analyst expectations are split between improving/deteriorating outlook on 2024



Note: Sample limited to public companies
Source: CPA, S&P, Company filings, Annual Reports, 2023

In some geographies, this represents a turnaround from the previous consensus. After exceptionally high expectations for China in 2022, for example, many analysts are now revising their outlooks by a drop of as much as ten percentage points (Exhibit 2). Most analysts expect margins to remain close to where they were in the past year, albeit with a few exceptions.

Where to play?

The regions offering the most promise for the coming period are Latin America and Southeast Asia, reflecting recent growth trends.[8] Both geographies start from a lower base than more developed markets and will benefit from accelerating wealth creation, leading to higher levels of disposable income. Echoing global trends, they are also seeing increasing consumer focus on healthy lifestyles.

Still, not all geographies are likely to tell positive stories. In China, 2023 marked a recovery from a tough 2022, but many Chinese consumers are likely to trade down in 2024 as economic headwinds persist. In addition, companies that have seen intensifying competition over recent years can expect more of the same, with a growing array of local players competing with international brands, amid rising patriotism and strong government funding for sports.

For international brands, the Latin American market should present an opportunity. Indeed, overseas players have consistently accounted for about 90 percent of the market since 2017.[9] Nike and adidas are leading in the dominant soccer category, while a host of competitors are benefitting from rising consumer interest in wellness and well-being. Especially tennis is seeing increasing participation in countries such as Mexico.

Given a highly differentiated economic and market outlook, brands in 2024 will need to tailor their strategies to conditions in individual markets. In

8 Euromonitor, October 2023
9 Euromonitor, October 2023

China, for example, companies could explore working with local athletes that are increasingly prominent on the global stage. In Latin America, by contrast, the growth opportunity will probably be concentrated in expanding brand presence across markets.

Strategic differentiation

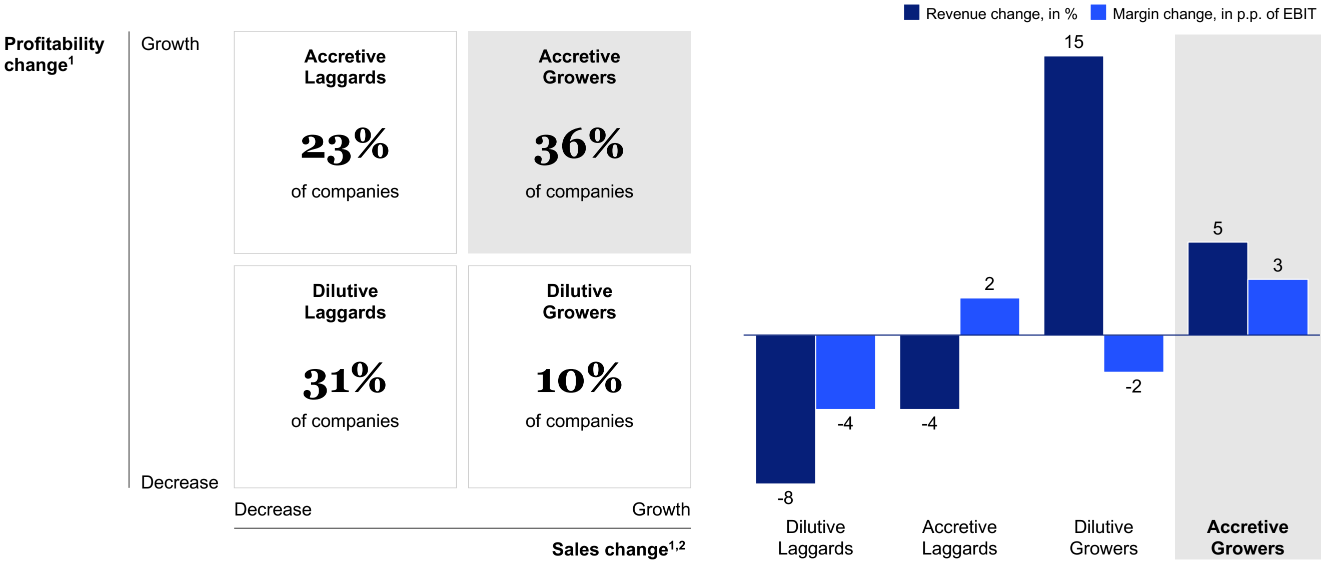
In an unpredictable market environment, a key trend is rising levels of polarization, with some companies performing much better than others. About a third of sporting goods companies have grown revenues and widened margins since 2017, forming an elite group of super winners that consistently outperform (Exhibit 3). On average, this group has achieved organic growth of five percentage points and margin improvements of three percentage points over the recent period. Conversely, about a quarter of companies have been margin-accretive laggards – meaning they have lifted margins but not revenues. About 10 percent are dilutive laggards – seeing strong revenue performance (+15 percent) but slightly negative margin performance (-2 percentage points on average). Looking to the future, we expect this polarization theme to persist.

Super winners have set themselves apart through their ability to perform consistently despite unpredictable market conditions. Indeed, 100 percent of accretive growers have expanded 80 percent of the time, with 23 percent managing to grow in all of the past five years, McKinsey research shows.

Still, strong performance is not restricted to a single business model or strategy. Leading large cap retailers in the accretive grower group, for example, have prioritized in-store experiences, locking in premium brand partnerships and increasing brand coverage. DICK'S Sporting Goods and JD Sports, for instance, have mastered omnichannel propositions and pioneered innovative store concepts and a great customer experience – JD's partnership with augmented reality company Zero10 for in-store AR-fitting mirrors was one example. Companies that attracted customers through these innovations made themselves go-to options for the big brands. Many of these, after a love affair with direct-to-consumer business models, are again seeing retail partners as essential champions and ambassadors. Retailers have also expanded their brand

Exhibit 3

One in three sporting goods companies have seen improving profitability and faster growth since 2017



1. EBIT; 2017-22, N=39
2. Real organic growth; Growers defined with at least 7% positive real organic growth (average of global sporting goods players' growth in sample)

Source: McKinsey & Company Europe Consumer Pulse Survey, August 2023

> **“The difficult thing in the current environment is that so many variables are changing at one time [...] most brands and retailers built too much inventory, so 2024 is therefore going to be a little bit of a cleanup year.”**
>
> — Hugo Maurstad, Managing Partner, Monte Rosa Capital

coverage, adding companies such as On and New Balance to attract more footfall to their stores.

Meanwhile, large cap brands such as PUMA and Li Ning have benefited from excellent market timing – offering the right product - for example in the popular premium athleisure and retro categories - at the right time. Brands have also targeted large and fast-growing economies. And many have adjusted their channel strategies – aiming to cater to underserved supply white spots in wholesale after the shift of bigger players to DTC.

Finally, large cap commoditized manufacturers such as Giant Manufacturing and Merida Industry have become more cost competitive through scale, sophisticated demand planning, and diversification of production facilities, as well leaner, low-cost operating models. Meanwhile, specialized players have sought to attract premium brands by adopting higher standards; for example, in relation to sustainability, or by creating differentiating features through extensive R&D.

Margin-accretive and growing small cap companies, such as RevolutionRace and La Sportiva in clothing and apparel, Alpinestars in the outdoor segment, and PowaKaddy in golf, have adopted a range of strategies to accelerate their expansion. Many apparel players, for example, have prioritized a strong DTC focus from the beginning. This gives companies the ability to expand rapidly, reduce overheads, and therefore compete strongly on price, as well as be more flexible in testing and refining value propositions. In the outdoor space, promising businesses have developed specialized innovations and committed to R&D to build brand heritage: “The first company to…” is a powerful message. A common theme across the segment is to target niche sports enthusiasts before aiming for mass market scale-up. And many companies have sought out elite athlete endorsements, as seen in Babolat’s association with rising tennis star Carlos Alcaraz.

In 2024, companies that are able to execute on these nuts and bolts of performance will be the ones to watch, and leading companies will not sit still, continuously refining their business models to align with shifting consumer demand.

Hugo Maurstad, Managing Partner, Monte Rosa Capital

Hugo Maurstad is Managing Partner at Monte Rosa Capital (Owner of Odlo, Janus and Henri-Lloyd). He has managed several investments and turnarounds in the sports and leisure industry, including Helly Hansen, Rossignol, Navico, SATS, XXL, Odlo, Janus, and Henri-Lloyd.

What is your perspective on the current economic and market environment, and what's the most important thing when it comes to industry performance in 2024?
I think the difficult thing in the current environment is that so many variables are changing at one time – COVID-19 -related shutdowns, supply chain disruptions, geopolitical uncertainty and inflation. Getting into this season, most brands and retailers built too much inventory, so 2024 is therefore going to be a little bit of a cleanup year.

However, I strongly believe in underlying growth in the sector. One thing consumers take away from the COVID-19 pandemic is how important exercise is for health. I think we will see much more focus on longevity and health span going forward. It's healthy to be active, and there is an increasing understanding of how it impacts our most severe diseases like diabetes, Alzheimer's, cancer, and cardiovascular diseases.

How do you see interest rates and inflation impacting the industry going forward?
The main objective of increasing interest rates is to reduce purchase power. Otherwise, you would not be able to reduce inflation. So, by design, it reduces demand - that's why I don't think we are going to have a super strong year. But this hits harder on larger items like cars, vacations, and refurbishing your home. So that's why I don't think the effect is going to be dramatic. I would say we will see very low single-digit growth in the market overall, but there will be winners and losers.

In retail, you have the challenge of operational leverage, paired in many cases with not very strong balance sheets. If you add too much inventory, it becomes challenging. I expect that we will see some accelerated consolidation. Similarly for brands, we have been offered brands for sale weekly during the last year. Everyone is trying to build a case where they extrapolate future sales on the 2021 and 2022 trajectory, and they wanted to exit before the reality of 2023 and 2024 is too visible.

To be self-critical, one thing we missed at XXL was polarization of demand to premium and value. In the Nordics, the fastest-growing segment is outlet. And that's not the traditional outlet anymore, it is sourced for outlet. So, we went from being a very strong value proposition across most of the spectrum to being a little squeezed in the middle. We reformulated the strategy on that basis.

Where do you think the investment priorities for the industry should be in the next year?
At Odlo, we invest mainly in improving gross margin through quality and productivity in our manufacturing. We are lucky to produce 80% of our products in our own three factories in Europe, and have seen a lot of improvement in productivity, especially in Romania, where we have doubled capacity and increased productivity by almost 40 percent. Important sources are a very low attrition rate, and we are approaching ten years of average tenure. We work in one shift, so our employees can get their kids to school in the morning and will be there for dinner at night, which means they have a better life, are much more motivated, and do great work.

We also invest more and more in R&D and the development of fabrics. We are kind of fabric nerds. The founder of Odlo invented technical sport apparel, Janus has knitted wool for 127 years, “I’ve only tried to restructure things that have at some point been good. [...] The first thing we do is go back to the core.”

and the founder of Henri-Lloyd invented taped seams. We continue this heritage and also bring the product developers and designers together with the manufacturing people to learn how we can make the garment even better. It is our “design-to-cost-and-quality” process.

The third thing we are focusing on is speed; three weeks from design to store. Of course, you’re not going to do that on our whole collection. But we do it for all our “never-out-of-stock” items and for special offerings like Black Friday.

What are your thoughts on channels?
I think the wholesale channel is going to get a little bit of renewed love. There’s a limit on how much you can shop on that single-brand channel. Most customers want to go to a ski, shoe, or base-layer store and view products from different brands. Some brands, including us, have been a little bit naive in terms of how much traffic you can generate just for a single-brand store. So, going forward, I think there’s definitely going to be room for good multibrand stores, both bricks and mortar and digital.

You have acquired a number of sporting goods brands and retailers and restructured them – what is your recipe for restructuring?
I’ve only tried to restructure things that have at some point been good. I’ve never tried to make something good that does not have something great in its heritage. The first thing we do is go back to the core; what was it that really made this brand – and how can we recreate that magic? We cut out products or price points that we don’t think they should play in. We bring the basics back. I love working with heritage brands. As an example, at Henry Lloyd, our new designer went back to the history. He went on eBay and bought a lot of the old jackets and used those as inspiration to create ten new jackets. I think he did a fantastic job, and that’s exactly what we tried to do at Helly Hansen and Rossignol. That’s how you actually find the soul of the brand again. When you get the brand positioning right, then you can be more brutal on costs and productivity, aspiring to world-class operational performance.

But eventually most companies grow by expanding into adjacent categories and products – how does that align with your recipe?
Yes absolutely, it’s important to expand at some point, but you need to do that from a strong position. You see a lot of brands explode their SKUs when they are weak, because they try to find every little corner where they can make a buck. But when you do it from a strong position, then you have to do it for real and not be “half-pregnant”. When entering a new category, it’s a real investment, and we’re going to invest for three to five years.

Do you see a trend to move away from competitiveness and move toward inclusiveness and encouraging all kinds of activity?
Yes, Odlo is actually doing a campaign on that this winter. We’re using Martin Fourcade as our front figure for exactly that, because he used to be the most winning biathlete in history. But he stopped competing in 2020. He’s still incredibly active in everything from cross-country skiing to ski touring, gravel biking, mountain biking, and running, but it’s no longer about winning. It’s about showing people that there’s more out there, getting people to go out and explore, getting back to being active, and enjoying the experience more than winning every time.

Are you also doing this to target older generations?
Yes absolutely. I’m the chairman of SATS, a fitness group with 275 gyms in the Nordics. There, we experience steady growth in the segment over 65, and we run a lot of special programs for them. The growth of that segment in terms of activity is very high. And of course, it’s almost even more important for this segment to stay active and agile, and you see that reflected in how they buy apparel and sports equipment.

However, when we design products, instead of designing for different segments or age groups, we think about our “muse” – who do our customers aspire to be. Our muse is a mid-30s reawakened athlete who likes to be out and about, but is not competitive and is active across multiple sports. And of course, we have customers who don’t want to dress like a 25-year-old. But they could dress like a 35-year-old. They appreciate high-quality fabrics, simple cuts, not too much color. And that way, we can serve a wide spectrum of age groups.

The imperative for artificial intelligence to shape a new world of sports

A discussion with Alexander Sukharevsky, Global Leader QuantumBlack, AI by McKinsey and a leading voice on artificial intelligence.

Alex, what do you believe will be the biggest changes for sporting goods companies driven or enabled by AI over the next five to ten years in their interactions with their consumers?
One aspect is deeply emotional, centering on the consumer experience. The essence of this evolution lies in our newfound ability to interact with technology using our natural language. This includes typing, speaking, and expressing ourselves in unstructured ways while still receiving coherent responses. This innovation transcends mere sporting goods; it fundamentally alters our social contract and the manner in which we engage with the world. Imagine a scenario where a virtual assistant orchestrates your daily schedule, aids in managing your diet, organizes your training regimen, and assists in selecting the perfect sporting equipment tailored to your specific needs, all at an exceptionally affordable cost. This cost efficiency is akin to how the internet revolutionized the distribution of content and digital assets, while generative AI is transforming creativity.

This assistant redefines our interactions, particularly in the realm of shopping or sports, by employing novel tools. This, I believe, is the foremost change.

Second, consumers are increasingly driven by value. If technology can provide the same value at a significantly reduced cost, disrupting traditional cost structures, it garners my full support. This paradigm shift offers a unique consumer interface and a fundamentally different cost structure, delivering immense value both

Alexander Sukharevsky is a senior partner and the global leader of QuantumBlack, AI by McKinsey, since 2020. He has overseen QuantumBlack's expansion and emergence within the firm as a recognized leader in applied artificial intelligence. He leads digital operations around the world and focuses on scaling the use of artificial intelligence through the development of proprietary assets and partnerships with an ecosystem of leading technology companies.

emotionally and monetarily. This is the crux of the transformation we are witnessing.

To make it concrete, how could someone who wants to be active and is currently trying to use apps and virtual coaching benefit from AI in the future?
Consider the current pursuit of health and wellness. At its core, it's a matter of mindset, and there are fundamental actions each individual must undertake. We are, and will remain, human beings with inherent needs, as identified by Max-Neef. These needs are constant, but the methods of addressing them evolve. Today, embarking on a healthier lifestyle requires a deep understanding of one's physical capabilities and limitations, necessitating various tests and assessments. One must then determine the ideal environment for exercise, select the appropriate equipment and apparel for both safety and style, and meticulously plan diet and rest.

As consumers, we orchestrate these needs independently, seeking the best options for each aspect. Now, imagine a world where managing these needs is as simple as hailing a taxi with the press of a button. You state your destination and the rest is taken care of. This ease could apply to all aspects of health and wellness. Whether it's losing weight, boosting energy, or achieving other health goals, technology can streamline this process.

Generative AI is just one piece of this puzzle, alongside virtual reality and Web 3.0, all contributing to a transformative sports and health ecosystem. This synergy of technologies redefines the consumer journey in health and fitness. It becomes friendlier, more customized, and truly personalized on a large scale. What's more, it is surprisingly affordable. The once elusive concept of an integrated ecosystem, long discussed but rarely achieved, now becomes a reality.

With these advancements, individuals can focus more on actual exercise, healthier eating, and self-improvement, rather than getting bogged down in scheduling and research. Of course, there's still a place for personal research and customization of virtual assistants to suit individual preferences. But fundamentally, this technology spares us the routine legwork, allowing us to concentrate on becoming our best selves.

In a world where that has become the kind of new normal for active people, what will differentiate which companies will be winners and losers in this domain? And what do companies already need to do now to make sure they prepare for this future?
Let's contemplate the future of AI in sports, recognizing that we're still at the dawn of its awareness and deployment. Just two to three months ago, ten million software engineers began exploring these tools, marking the start of a transformative journey. For sports companies aiming to succeed, several key trends demand attention.

First, companies must reevaluate their business models and the broader implications for their industry. This includes reimagining customer journeys and deciding whether to offer personalized services or integrate into existing ecosystems. The question of brand positioning is critical – whether to remain a distinct entity or adapt to a private label model. Success hinges on those who forge the closest connections with consumers.

Second, beyond the allure of technology lies the practicality of data management, IT infrastructure, risk,

> “Imagine a scenario where a virtual assistant orchestrates your daily schedule, aids in managing your diet, organizes your training regimen, and assists in selecting the perfect sporting equipment tailored to your specific needs.”

and change management. It's essential to establish a robust framework capable of integrating and operating multiple technologies. This preparation forms the backbone of any tech-driven strategy.

Third, and maybe most importantly, it is about the strength of your brand. A strong brand that is trusted and beloved will enable you to differentiate in a world that is becoming more and more tech driven.

Many companies struggle with the question of where and how to start. Can you provide some guidance on this?
The journey toward harnessing technology in the sports industry begins with education. We must dispel the notion that a concept's worth is measured by our ability to explain it quickly, especially in technology. It's crucial to educate our most creative and disruptive teams in understanding the possibilities that technology offers, encouraging them to rethink their approaches over several weeks. Leadership from top management, including the chairman, CEO, and board members, is essential in guiding this process of reinvention. Knowledge, personal commitment, and conviction are key.

When it comes to impact and prioritization, the focus could initially be on enhancing productivity. While generative AI contributes to this, it's just a portion (around 20 to 40 percent depending on the sector) of the broader array of AI techniques that can revolutionize various operations, from replenishment and pricing to logistics and forecasting. The goal is to first establish a conviction that AI unlocks real value.

However, this doesn't mean neglecting longer-term, strategic transformations in key domains. In the consumer goods and sports industries, guest interaction is paramount. But there's also significant potential in managing the value chain and back-office operations. This includes everything from customer care to inventory management and encouraging customer participation in product creation.

The concept of co-creation, perhaps facilitated by blockchain technology, offers a unique opportunity. Despite the skepticism around NFTs, they represent a form of customer engagement with potential benefits. This approach could encompass various areas, including accounting and administration, enhancing them through technology.

Ultimately, the focus shouldn't be solely on artificial intelligence, but rather on hybrid intelligence – the synergy of human and machine capabilities. Artificial intelligence is less about replacing human ability and more about augmenting it, transforming AI into a tool as ubiquitous and essential as the spreadsheet.

At McKinsey, you lead QuantumBlack globally and you advise many companies, of course, not only in the sporting goods world, on such transformations. What is your message on where the most mistakes are currently being made, what to avoid, and how to get it right now?
First, a common oversight among many companies is their eagerness to dive into specific use cases without thoroughly reevaluating the essence

> "Generative AI is just one piece of this puzzle, alongside virtual reality and Web 3.0, all contributing to a transformative sports and health ecosystem."

of their business and key domains. A mere fraction, perhaps only 10 percent, are dedicating sufficient attention to the long-term ramifications, which are crucial not just for mitigating risks but also for seizing opportunities. The pivotal question for any organization is the robustness of their competitive advantage and their capacity to enhance and leverage it creatively. Thus, a significant part of the strategy should involve a deep reflection on these aspects.

Second, while many organizations engage in numerous proofs of concept (POC), the real challenge lies in effective scaling. Statistics indicate a striking reality: only about one in ten POC transitions into actual production, meaning a minimal impact on the organization. With generative AI, this figure is even lower. The key is transitioning from a novel concept to an integral part of the organizational structure. This requires a dual focus: on strategic vision and on the practicalities of scaling.

Additionally, while the enthusiasm for technology investment is understandable, equal emphasis must be placed on the human element. For every dollar spent on technology, a proportionate investment in change management and education is essential. This encompasses not just organizational training, but also the personal development of each team member. In sum, the focus should be on a balanced approach that prioritizes both technological advancement and human resource development. Generative AI could be viewed as a "gym" for a lifelong learning journey.

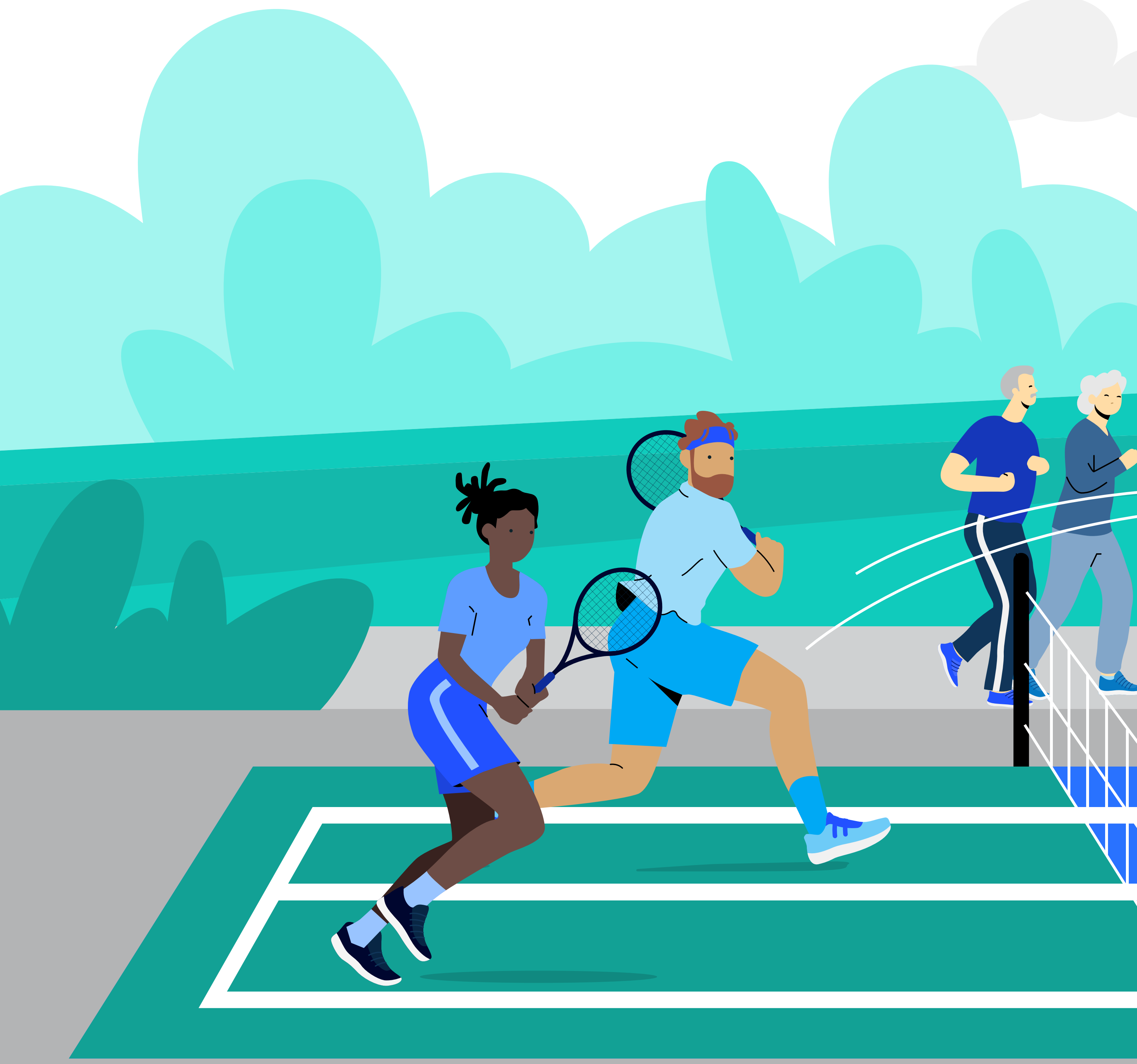
Overview of McKinsey's Generative AI assets
McKinsey supports sporting goods players on AI through "QuantumBlack, AI by McKinsey". QuantumBlack employs more than 2,000 software, data, and cloud engineers, 1,500+ data scientists, 400+ product owners, and 850+ product owners and agile coaches. QuantumBlack has developed several GenAI assets, including:

- **HyPe (hyper-personalization) by CustomerOne:** The next generation of AI-powered personalization, where analytical AI (e.g., recommendations on the next-best product or channel) meets generative AI (e.g., individual content creation for each customer) to enable companies to move toward segments-of-one in their customer engagement strategies. We have seen significant impact proven at many retailers (sporting goods and others), such as 10 to 20 percent revenue growth, 30 percent conversion rate uplift, and 70+ percent cost savings.
- **CommercialX:** Our commercial analytics engine uses GenAI to enrich product attributes or create more explainable customer decision trees, as an addition to our more traditional pricing, promo, and assortment analytics, where we, e.g., see 400 to 800 bps improvement in markdown sales.
- **Virtual subject-matter expert (SME) toolkit:** Our modular toolkit enables construction of SME, chatbots, and more – based on a flexible set of building blocks that, e.g., handle data bases, LLM access, or post-processing. This can be leveraged by sporting goods players to, e.g., support marketing, customer service, or create customer-facing chatbots to explore the assortment.
- **Data- and developer-centric assets:** We have a range of assets that support data- and IT organizations, including GenAI4DO, which helps create data products and make data more consumable across the enterprise; AI4DQ (AI for Data Quality), which helps ensure data quality across the enterprise; or LegacyX, which helps migrate code from legacy software stacks to current ones.

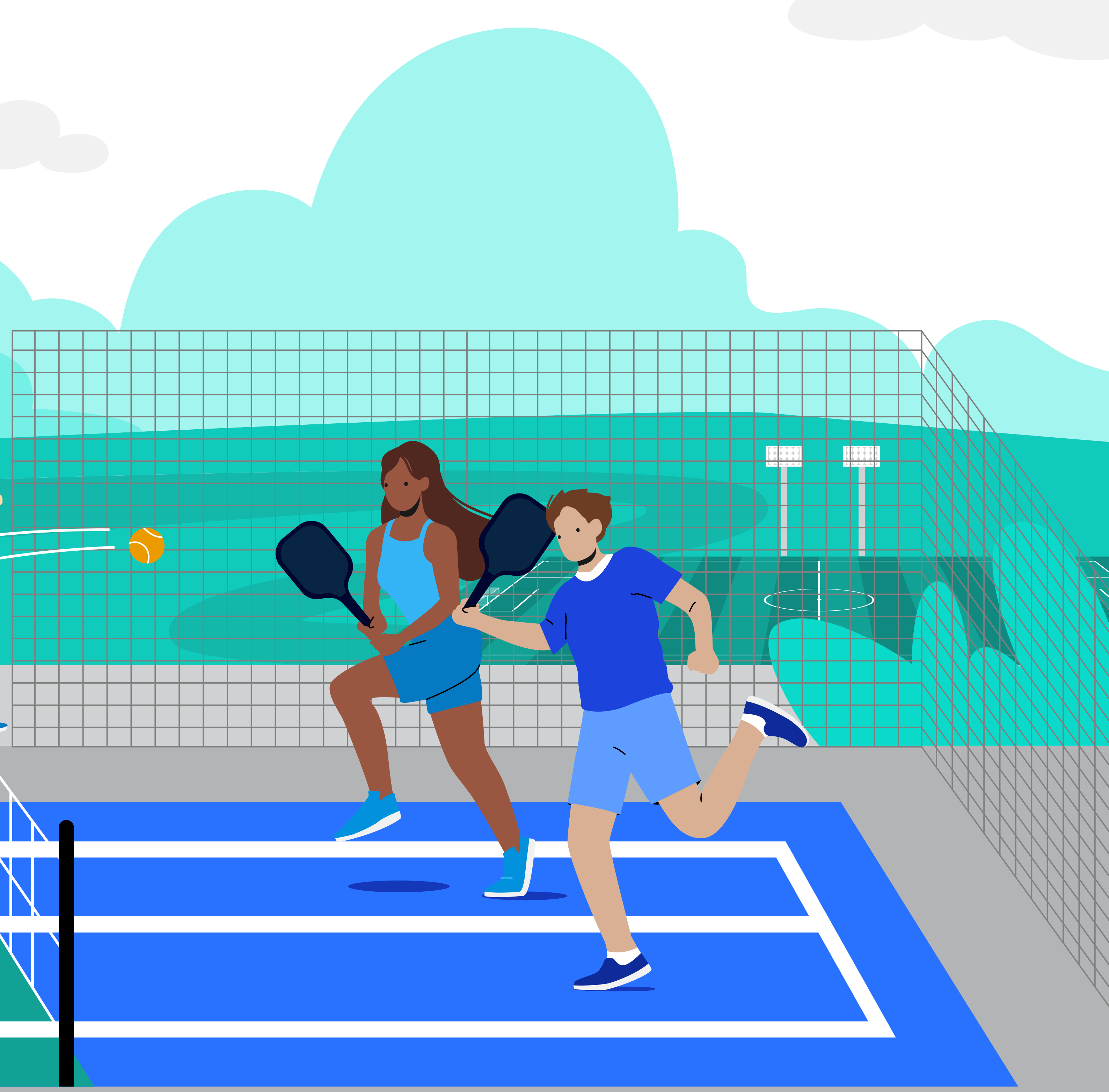
Across these, we use a highly modular approach based on our QB Horizon suite (including our recent acquisition of Iguazio) to ensure that our clients scale AI beyond proofs of concept.

QuantumBlack
AI by McKinsey

Shifting consumer preferences and generational opportunities



In the face of a cost-of-living crunch, consumer confidence is under pressure. However, with different, and often more social, sports attracting attention and older demographics seeing rising participation, sporting goods companies have an opportunity to unlock new pockets of value.



From China to Japan, the US, and Brazil, consumers are having a tough time, with high inflation eroding incomes and creating economic uncertainty. Indexes of consumer confidence in most regions of the world fell sharply in 2022 and only partially recovered in 2023 as inflation started to abate in some geographies. However, confidence remains below where it was even at the height of the pandemic.

The strength of feeling about the rising cost of living is borne out by McKinsey Europe's Consumer Pulse Survey, which showed in late 2023 that rising prices were impacting consumer confidence in every geography. Between 40 and 60 percent of all respondents saw rising prices as one of their top three concerns. Climate change, the impacts of which were seen in multiple extreme weather events over the past year, was in second place, with job security in third (Exhibit 4).

From August 2023, economic headwinds had a rising impact on purchasing volumes, price sensitivity, and brand loyalty, with consumers showing more inclination to switch to new brands and retailers or even delay purchases. Brands will need to work harder in future to foster engagement and reinforce their propositions.

Participation over performance

Sports participation is rising in some geographies. In the US, about 78 percent of the population identifies as being "active"[10] compared with 73 percent in 2017, after five years of consecutive increases. Higher-income cohorts are the most active of all, while those earning less than $25,000 a year are least active.[11]

In Europe, a more nuanced narrative is playing out, with variations in participation across geographies. Since 2017, inactivity has increased the most in Poland, Hungary, Portugal, and Lithuania. Meanwhile Germany, France, Italy, and others have seen declines in inactivity, while Latvia and Estonia recorded 23 percentage-point and 18 percentage-point falls respectively. Overall, 45 percent of European

Exhibit 4

The rising cost of living is the number one source of concern – followed by climate change and unemployment

1 Greatest 13 Smallest | Economic | Political | Social

Greatest sources of concern, ranked 1 to 13

	Overall	USA	Brazil	Europe	India	China
Rising prices / inflation	1	1	1	1	1	1
Climate change / sustainability	2	3	5	2	2	2
Unemployment / job security	3	6	2	6	3	3
Gun violence / personal safety	4	2	3	8	4	7
Ability to make ends meet	5	2	6	4	8	4
International conflicts	6	8	8	3	5	5
Political polarization / uncertainty	7	4	7	9	5	8
Immigration	8	5	12	5	9	9
Stock market performance	9	9	10	11	6	7
COVID-19 pandemic	10	10	10	11	7	6
Growing inequality in the society	11		4	8		
Cost and accessibility of healthcare	11		5	7		
Abortion laws	12	7	11	12		10
Discrimination	13		9	10		

Q: What has been the greatest source of concern for you the past year?

Source: McKinsey Corporate Performance Analytics, S&P, Company filings, Annual Reports, Q3 2023

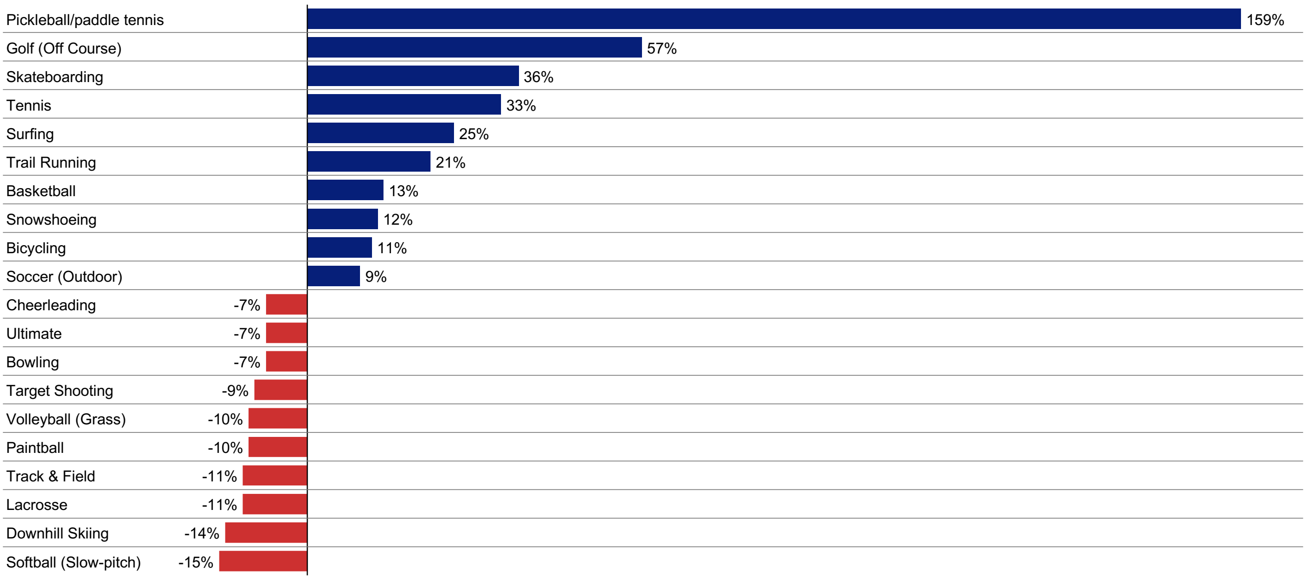
[10] In the quoted study, people are considered active if they participated in at least one activity during the last calendar year

[11] SFIA Topline Participation Report, 2023

Exhibit 5

Consumers are shifting to more accessible and social sports

Change in participation in sports from 2019 to 2022, %



Source: SFIA Topline Participation Report 2023

respondents say that they never exercise or play sport. Some 38 percent take part at least once a week and 6 percent report exercising five times a week or more.[12]

A notable trend over the recent period has been a shift in the choice of sporting and well-being activities. More people are choosing sports that are quicker to pick up, require less commitment, and are more social, rather than organized sports with fixed time commitments, requiring teams, or where high levels of skill are required (Exhibit 5). Pickleball/paddle tennis, for example, has seen a 159 percent increase in participation since the pandemic, while off-course golf has posted a 57 percent rise. Trail running and cycling have recorded upticks of 10-20 percent. Among companies seeing declining participation is skiing, where expense and climate change have driven a 14 percent fall in the number of people taking part since the pandemic.[13]

"Health and fitness are increasingly associated with longevity, attracting more interest from the 40-plus demographic. This group is technologically adept and reachable, unlike previous generations at this age."

— John Sullivan, Senior Vice President of Marketing, WHOOP

[12] Eurobarometer Full Report, 2022
[13] SFIA Topline Participation Report, 2023

The shift in sports participation also extends horizontally into health-focused and wellness mindsets. As increasing numbers of people embrace a more holistic lifestyle – encapsulated by the "any physical movement is good" principle – people and companies are focusing more on the joy of movement, mindfulness, and the benefits of considering the whole self. Nike is among companies that have leaned into this trend through its Nike Well Collective (see interview with Nike's Vanessa Garcia-Brito).

As sporting goods brands engage with behavior shifts, many will consider the demographic characteristics of the markets in which they operate. On that basis, the globe can be roughly divided into three groups – younger nations in which a large proportion of the population is under 30 (many African and Latin America nations), middle-aged countries (including China, the US, the UK, Brazil, and Australia, and old countries (including Spain, Japan, the Nordics, and South Korea). Leading companies are now tailoring their go-to-market strategies to these age groups, particularly in China (70 percent of survey respondents) and to a lesser extent, Europe (41 percent).[14] Social media is often a key differentiator based on age and customized product offerings. Companies such as Intersport run different advertisements for different age groups.

In formulating go-to-market strategies, the traditional focus is on Gen Z, which represents 17 percent of the population based on McKinsey research published in 2019. This group accounts for 20 percent of total spend, despite earning just 12 percent of income. Moreover, as time passes, the group is set to comprise a growing proportion of the total and will surpass Boomers by 2032.[15] Indeed, by the end of this decade, Gen Z and Millennials will account for 51 percent of total household spending.[16]

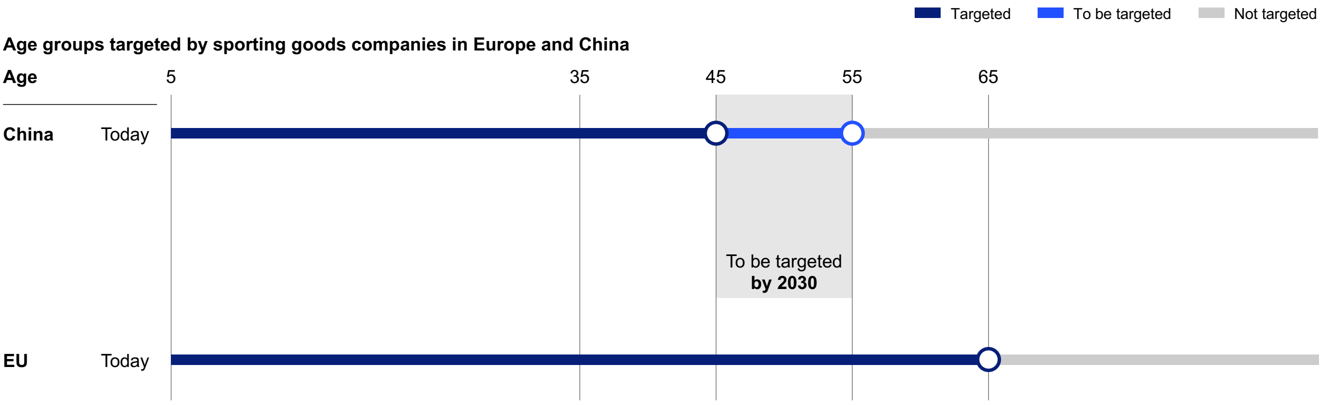
> **"Our product range at Nike isn't just about catering to a specific age group; it's more about accessibility. We want to ensure that whether someone is a jogger, walker, marathon runner […] they find something in our range that suits their needs."**
>
> **— Vanessa Garcia-Brito, Vice President and Chief Social and Community Impact Officer, Nike**

Gen Z and Millennials tend to be more aspirational than older cohorts. They are more willing to trade up in spending on their hobbies and are more focused on image, while older generations prioritize quality and value. Gen Z is also more purposeful in its choices, favoring companies that show they

[14] McKinsey & WFSGI Sporting Goods Industry Report Survey, October 2023 (N=85)
[15] McKinsey Consumer Survey, April 2019
[16] PEW Research Center; Eurostat, 2022; UK Office of National Statistics, 2021

Exhibit 6

The Chinese sporting goods market will see rising participation by the over-45 age group



Source: McKinsey; press search; JD.com

care about people and the environment and are transparent about their activities. Baby Boomers (representing 32 percent of the population) are also aligned with these values, while generations between the two are less concerned.[17]

Not surprisingly, younger generations are more digitally adept. However, they tend to prefer omnichannel experiences, rather than purely online experiences, with 60 percent using mobile instore and 50 percent demanding frictionless payments. They are also highly mobile, with 74 percent willing to switch brands where they don't get a seamless experience across channels.[18]

In China, the wealth effect is lifting demand in some segments, after a 10 percent annual growth in disposable income between 2010 and 2020. But the fastest spending growth up to 2025 is likely to be the in the 45+ group, with a CAGR of 8.3 percent to 9.7 percent.[19] This highlights a split between older generations who grew up in harder economic times and are focused on saving and investing, and younger generations who have lived with more affluence throughout their lives. Many in this group do not save or invest as much as their parents and grandparents and are expected to continue spending in the future.

The demographic split in China presents sporting goods brands with an opportunity (Exhibit 6). While marketing campaigns are now mostly focused on younger consumers (with more women-focused campaigns, teen models, and highly colored assortments – both in products and stores), the older generation presents a relatively untapped demographic. As people continue spending on sports into their 50s, it will be incumbent on companies to find new ways to create excitement around their brands and unlock a potentially lucrative market.

The growing importance of the over-45 market is not restricted to China. Around the world, older generations are becoming more active. This reflects rising longevity and the fact that people are staying active for longer, with sport and well-being forming an important part of their lives.

17 McKinsey & Company "New Age of the Consumer" Survey, 2019
18 McKinsey & Company Europe Consumer Pulse Survey, August 2023, n=3737; Ecommerce Europe Report, 2020; Klarna Insights, 2022
19 Statista – Average annual per capita disposable income of households in China from 1990 to 2022; McKinsey Global Daily Spending Dataset, annual 2000-2032

— Interview

Dan Sheridan, Chief Operating Officer, Brooks Running

Dan Sheridan is the President and Chief Operating Officer at Brooks Running. Dan leads the team with a specific focus on scaling Brooks' unique business model, brand, and culture around the world. He is accountable for Brooks' global and regional businesses and supply chain operations, along with IT and digital products functions.

How have you experienced the market environment in 2023 and what is your outlook for 2024?
It's so different by region and by category. We are fortunate at Brooks because running has shown itself to be a recession-proof sport; it's easy and affordable. This choice that people make for health and wellness is the reason that running exists around the world. So, what we've seen is that running is holding up really well. Now, there are some markets, the US specifically, where we are in an absolute boom for performance running. I've been in the industry for more than 25 years, and I've never seen anything like it! The running market in the US has grown about 5 or 6 percent annually. But if you slice it by premium, meaning running shoes sold above $75, it's growing approximately 15 percent per year to date.

From a macroeconomic perspective, the US consumers we speak to – people in middle and upper-middle classes who have chosen to dedicate time to their health and wellness – have not specifically seen an impact on the economic side. Around the world, however, it's different. In Europe, though it's growing at low single digits, we're seeing a pretty challenging market. The economy and consumer spending are somewhat muted, and we're dealing with a lot of market challenges. It's economically and geopolitically driven, and energy costs are also impacting consumer spending. And so, in our core European market, we're not seeing the growth rate we are seeing in the US And I think China is recovering – that's what we're seeing in sport and running specifically. We are new to that market but growing nicely.

Do you think that the difference between, for example, Europe and the US is a temporary difference, or do you think fundamentally the European market is not on such a strong growth path as the US?
I might flip it and say that the US is on a trajectory that is the strongest we've seen in a very long time. So, the comparison to Europe is probably not fair. I would say, though, that consumer spending in the US versus Europe is always on different planes. I think Europe is dealing with a short-term challenge. But what is happening in the US is really incredible. We saw it coming at the end of 2021—all the fundamentals that lined up during COVID-19, where consumers weren't traveling as much and got back into fitness, with running being the center of it. If you were in your late 40s and had given up running, you got back into running. If you only ran once a week, you started running three or four times a week. And, you know, children saw this behavior in their parents. And so that focus on an active, fitter lifestyle has carried forward into the younger generation. We also think this period drove trend and lifestyle – if you go to the airport, you will see everyone wearing running shoes again. We think this trend is going to be sticky for a while.

Some of our best performance markets are in Europe. I think of Germany, I think of the Nordics, I think of France, all great sport markets with running at the center of everything they do. So, there are short-term headwinds, but we're incredibly bullish on the ultimate growth of that market!

What types of runners are these customers?
In the US, let's say there are 50 million people who run once a week. But there are 155 million people who run, walk, hike, use the treadmill, and engage in various activities around the sport of running. This larger group is engaging in fit, active lifestyles and is using running gear for their needs. We sell these fitness seekers, comfort seekers, and people who just want a great-looking comfortable shoe. And so in the US specifically, I think close to 65 percent of running shoes are sold without an intent to run. It's for something else. A great running shoe is a great walking

shoe; it's a great shoe to go to the gym, hike, etc. COVID-19 created not only a reinforcement of health and wellness, including for people who maybe fell out of it, but it's creating a generation behind it. And that's a great thing for Brooks.

What have you done in the past 12 months that has made Brooks so successful?
Without revealing our entire playbook, we've had a well-defined strategy that is focused on runners, the running community, and anyone who puts one foot in front of the other. You have a choice about who's going to be your customer. And we chose people who move. And because of that, our execution underneath it is aligned to a multichannel retail strategy. And it's different than a lot of our competitors. We believe runners choose where they engage with brands and where they research brands, where they shop for brands. And, therefore, we have to be where the runners are. That said, we choose the best running retailers around the world to represent our brand. And that multichannel strategy means that we don't prioritize one channel over another. We've seen our competitors walk away from wholesale/retail partners. And guess what – they're all coming back to wholesale. Even the biggest brands can't control where a runner wants to shop and engage. If there's a running shop in your neighborhood, you are going to go in and talk to the best expert in that store. And so we've built our whole strategy around that. And underneath that is a distribution network, a planning cycle, an inventory cycle, a service model, a field rep engagement, and a marketing strategy that connects to a multichannel strategy.

We have a very robust direct-to-consumer channel, but it doesn't compete with our partners … it complements them. And that's really hard to do. It's also super hard to make sure you have balance in your channels. But we've been able to do it. So, our winning strategy is absolutely focused on the runner and people who put one foot in front of the other, and we build in a service model to support it all.

We observe a trend from organized sports to more social sports with lower barriers to entry and less focus on competition. Do you specifically target this with your Run Happy slogan?
Yeah, I think I think that's a good insight. During COVID-19, more people than ever found that running has a low barrier to entry. Here in the US, we see participation growing in high school track and field and cross-country, which is always an indication of future runners. And you don't have to buy a lot of equipment to take part.

Run Happy has always been our kind of whitespace. We believe the message is something that resonates with most people as it lacks judgment. It's actually an invitation. And, more importantly, during COVID-19, it was a lifesaver for many people as they were in lockdown. So, we're very proud of our brand position, and we execute upon it globally. It resonates in every community in which we do business.

By the way, we're watching other brands' expressions, and most brands are coming into the space we've owned, so it's time we get our elbows out and express our brand in a way that remains unique yet still authentic to Brooks.

Do you see an opportunity to serve older generations?
Because we sell a premium performance product at a premium price, we've tended to lean a bit older in terms of the consumer who can afford our products. But what we've seen over the last four years is that the younger generation – Gen Z, Gen X – are not afraid to pay up for premium. Our core market is 18 to 35 year olds. The truth, though, is that we are seeing longevity creating a bigger addressable market. And I think that's a long-term trend. Our demographic is shifting, and that's exciting because it creates lifetime value for us!

You mentioned the topic of planning as one key element of your strategy. Tell us more about what drives your success with planning?
This is a big challenge for any company at scale and even smaller companies. And we've always had an incredible focus on this at Brooks. When we were small and insignificant, we knew we could squeak out 10 or 15 percent more every single year, if we managed our process and our planning to make sure we had the inventory at the right time to deliver to retailers.

The last three and a half years for us and the rest of the industry have been super hard on supply chain and planning. You could have had the greatest plan ever and it didn't matter. So, it's really about agility and the process underneath. In addition, we're now embarking on a new system for integrated planning. It's an end-to-end planning system to connect our entire supply chain and continue to deliver the right inventory at the right time. But the truth is that there's going to be more disruption. We're trying to create the necessary agility and flexibility in our process to absorb the challenges in the global supply chain.

> "You have a choice about who's going to be your customer. And we chose people who move. And because of that, our execution underneath it is aligned to a multi-channel retail strategy."

Planning, planning, planning

Sky-high stock levels, a rising cost of capital, and surging promotions mean sporting goods companies need to think again about planning processes, data, and analytics. Through advanced approaches, they can create more tailored solutions and support faster, fact-based decision making.

"Our planning strategy is centered on aligning supply with demand as best as possible. We've invested substantially in data analysis and diversified our supply chain to ensure we have the right product at the right time."

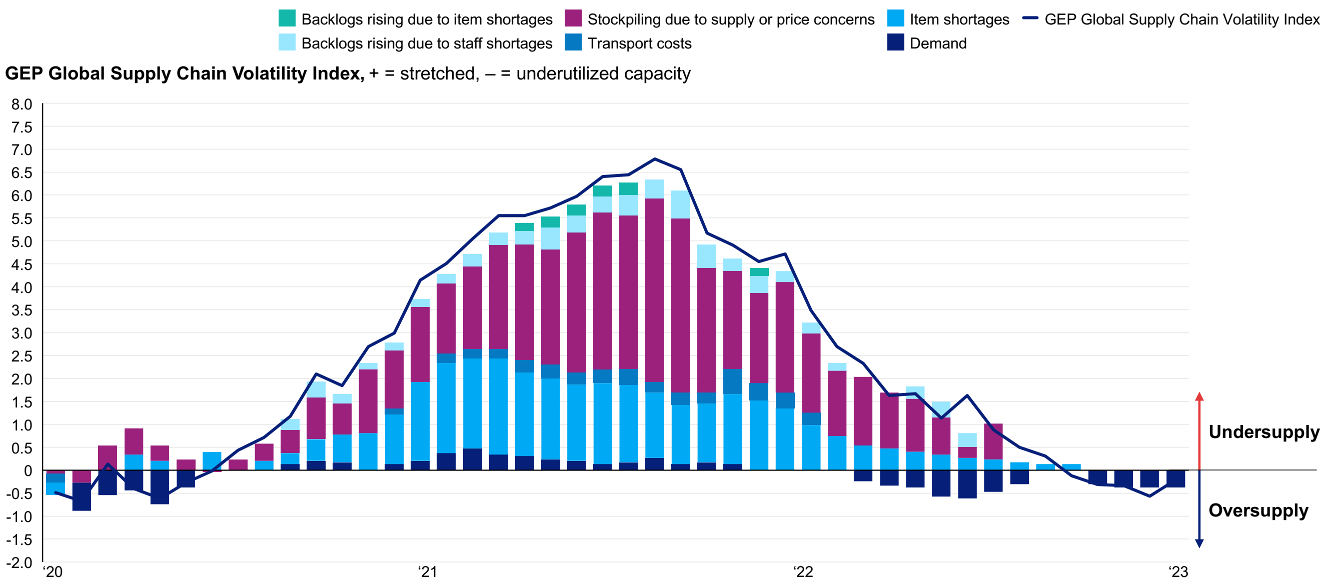
— Stephanie Linnartz, President and Chief Executive Officer, Under Armour

By failing to prepare, you prepare to fail. Over the recent period, many sporting goods companies have found this old adage to be accurate, amid supply/demand imbalances caused first by manufacturing bottlenecks and then later by stockpiling, cost concerns, and product shortages. With demand cycles less predictable than before the pandemic, many companies over-ordered stock in 2023—a reality that has catapulted planning to the top of C-Suite agendas.

For now, the primary focus of new planning initiatives is on inventories, which continue to present sporting goods companies with challenges. Since the second half of 2022, supply chain volatility associated with stockpiling has normalized but demand volatility has persisted (Exhibit 7). About 80 percent of respondents to the McKinsey & WFSGI Sporting Goods Industry Report Survey 2023 say that they had a higher inventory peak year-on-year in 2023, and for half of those companies, the peak had risen by more than 20 percent. Indeed, the average peak among all respondents was about a third higher than a year previously, and more than half of companies

Exhibit 7

The amplitude of supply chain volatility has shown new spikes in the last three years

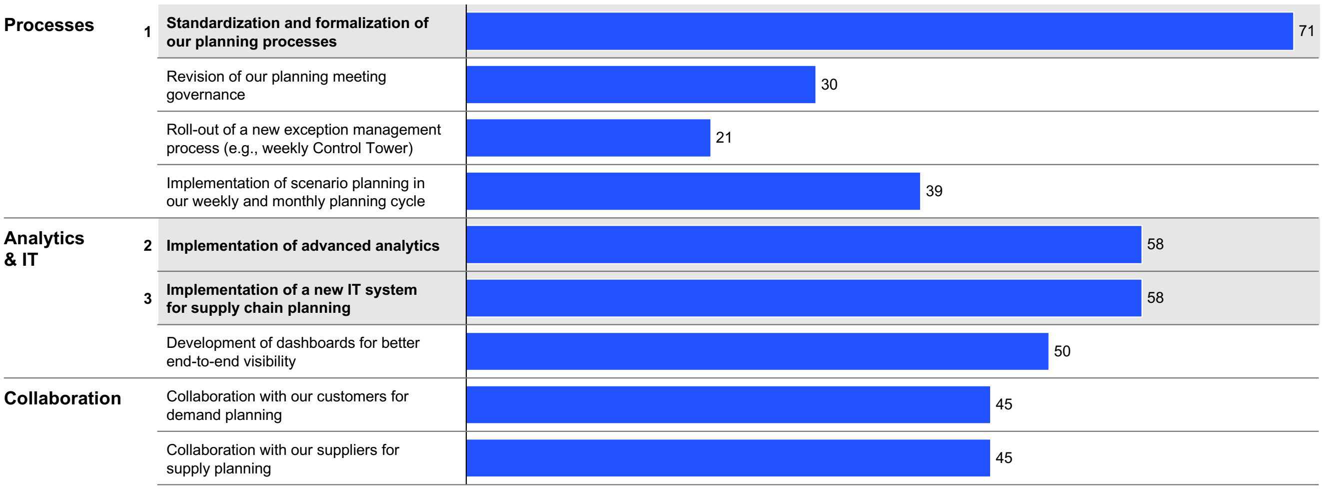


Source: GEP Global Supply Chain Volatility Index, S&P Global PML

Exhibit 8

Leaders plan to focus on standardizing and formalizing planning processes and introducing new planning systems

Planning resilience measures in 2024-2026, % of respondents



Source: McKinsey survey of global supply chain leaders (April 14 – May 15, 2023, N=101)

expected overstocking to be a persistent problem.[20] Not surprisingly, discounting spiked, with companies on average putting 35 percent markdowns on 25-55 percent of assortments.[21]

Taking all of that into account, executive teams in the coming year are set to focus more purposefully on planning, rather than tactical adjustments to stock levels. Indeed, companies' past planning processes, calibrated to less volatile times, have become outdated in today's more volatile environment. And improving planning capabilities is cited by 70 percent of executives as their top priority, ahead of reducing order volumes or running promotions.[22]

Another reason that companies must plan better is that the cost of money is rising. US-benchmark 10-year rates have increased by as much as three percentage points since 2020, suggesting the era of cheap money is well and truly over.[23] This puts more pressure on every dollar of companies' excess inventories.

The benefits of integrated planning

Leaders are now recognizing that meeting financial targets, forecasting demand effectively, and managing supply capabilities are often predicated on effective integrated business planning (IBP). This cross-functional process is designed to ensure that all parts of the organization are aligned on plans and possible contingencies. Best-in-class IBP navigates uncertainty by establishing multiple levels of planning and decision gates – assessed annually, quarterly, and monthly. IBP decisions are company decisions, rather than purely operational or commercial choices. They are also agile, meaning they can be adjusted quickly if the situation changes.

IBP generates impact because it creates cross-functional visibility, which means companies can align sales goals with demand forecasts, get a clear view of supply chains and constraints, and generate helpful models of future scenarios, for example, in respect of inventories. It also helps leaders make timely decisions based on data. This, in turn, will drive accountability. And IBP means decision making is more likely to be at the right time and with the right level of granularity. This will enable companies to invest precisely to support demand and plan ahead to manage inventory run downs. Finally, IBP generates the strategic benefit of aligning decision makers on a common direction of travel. Through a forward-looking lens, backed by weekly or monthly planning catch ups, they can agree on actions and drive stakeholders in a common direction.

[20] McKinsey & WFSGI Sporting Goods Industry Report Survey, October 2023 (N=85)
[21] https://edited.com/retail-dashboard/, 2023
[22] McKinsey & WFSGI Sporting Goods Industry Report Survey, October 2023 (N=85)
[23] McKinsey Global Institute Macroeconomics Report, September 2023

McKinsey's survey of supply chain leaders shows that leading sporting goods companies are embracing IBP on three key fronts: revising planning meeting governance and processes with cross-functional alignments; equipping supply chains with advanced analytics and artificial intelligence; and investing in advanced planning systems. About 71 percent of respondents to the survey plan to standardize and formalize their planning processes over the next three years. Meanwhile, 58 percent are set to implement advanced analytics over the same period (Exhibit 8).

Through these initiatives, companies can achieve substantial P&L impacts. We estimate they can boost capital efficiency (for example, improve inventory push and overall equipment effectiveness (OEE)) by up to 10 percent and lift sales by up to 2 percent. They can reduce general costs by as much as 6 percent and cut logistics costs by 2 percent. In addition, there is an opportunity to serve customers better, for example, by reducing lead times and increasing delivery reliability. All taken, these could boost employee engagement by 20-25 percent.

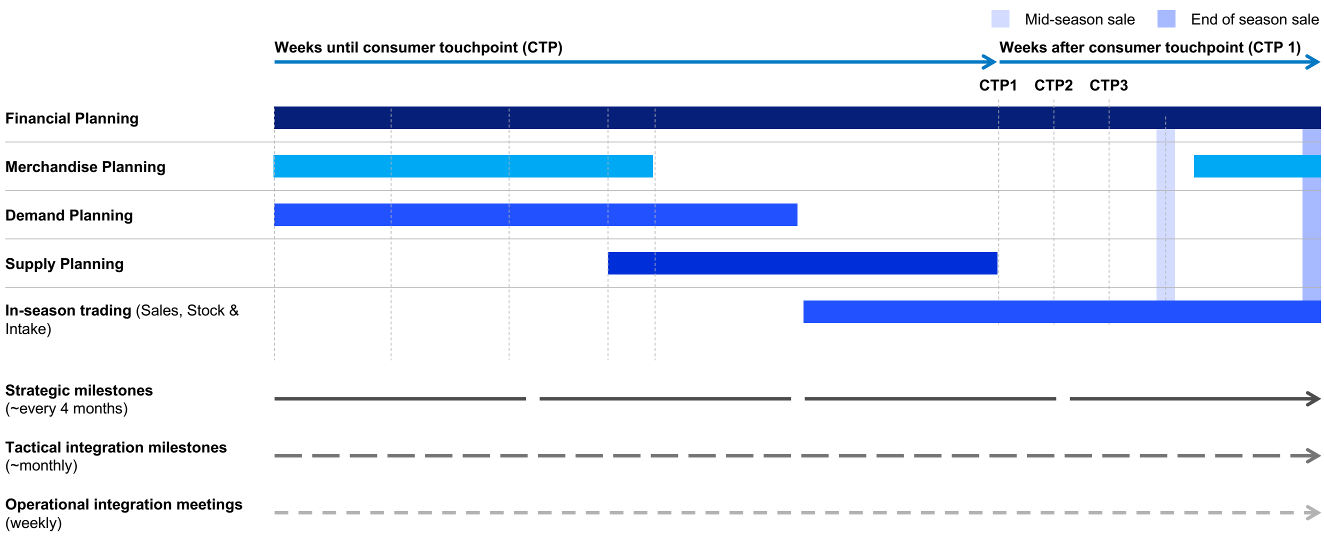
Planning processes as a key differentiator

Corporate leaders understand that the scope of planning must necessarily be wide, encompassing a range of functions to create synergies and ensure completeness. All of these should be incorporated into a single unified plan on which all functions are aligned (through clarified RACIs and standardized inputs / outputs) (Exhibit 9). Companies that have embraced this integrated approach have seen three distinct benefits: better planning accuracy, stronger stakeholder buy-in, and nimbler cross-functional reactions.

Of course, there is no one-size fits all solution that can be applied across sporting goods assortments. For example, supply chain plans for slow-moving SKUs or SKUs with predictable demand should be calibrated for cost efficiencies. If demand is less predictable, slow-moving SKUs and fast-moving SKUs with high stock risk require plans optimized for responsiveness (that is, immediate reaction to demand changes). Finally, fast-moving SKUs with low stock risk should be assigned plans for flexibility, such as the ability to tweak pricing or delivery times.

Exhibit 9

The planning process needs to cover steps from financial planning to in-season planning



Source: McKinsey

“The last three and a half years for us and the rest of the industry have been super hard on supply chain and planning. [...] We’re now embarking on a new system for integrated planning. It’s an end-to-end planning system to connect our entire supply chain.”

—Dan Sheridan, Chief Operating Officer, Brooks Running

That said, many aspects can be standardized. The planning process itself will benefit from a regular cadence and clear objectives. Meetings will be most successful where there are prescribed roles, including a meeting owner to prepare content and lead engagement with the IBP coordinator, a meeting coordinator to support the owner and prepare and track KPIs, decision makers, who should be fully informed of data inputs ahead of the meeting, and, finally, experts and integrators to elucidate constraints and help identify solutions.

Leveraging new technologies

Accurate planning is predicated on having the right facts on hand at the right time. To make best use of their resources, some companies are building centralized repositories, or data lakes, designed to store, process, and secure large amounts of structured and unstructured data (mainly text).

Through better managed data, companies can implement advanced applications such as machine learning and artificial intelligence, leading to much faster insights than are possible through human data crunching. For example, a data-driven approach to demand planning can generate an accurate statistical forecast for individual building blocks of demand, enabling responses tailored to situations. For new products, innovations such as look-alike modeling and analysis of expected values can ensure companies make informed decisions and predict where probabilities lie.

Excellent data will also provide the raw materials for advanced planning systems (APS), which bring together process and analytical elements to streamline the planning process. Companies can ensure all key planning issues are addressed at the appropriate cadence (strategic annually, demand planning monthly, scheduling daily, and so forth). At the same time, they can work on different elements in parallel—for example, all elements in the supply chain. They can also process complex decisions, such as bi-directional change propagation (meaning upstream or downstream impacts are adjusted simultaneously), meaning they can think on their feet as circumstances change.

To bring IBP to life, leaders must first lay the groundwork, aligned with the company’s strategy and operating model. IBP must be founded on a solid architecture, for example good governance, and designed for agility to respond rapidly to changes in the marketplace. Business planning should be aligned with financial planning, so that decision makers can read across from one to the other. Equally, senior leadership teams must set a consistent tone and be willing to invest in change management and capability building.

As in all complex projects, it makes sense to start small and adopt a mindset of continuous improvement, gradually refining the process based on business needs and value creation opportunities. Through these success factors, companies can connect the dots, ensure leadership alignment, and create a process that is fit for purpose in a fast-changing world.

Stephanie Linnartz, President and Chief Executive Officer, Under Armour

Stephanie Linnartz is President and Chief Executive Officer at Under Armour. She is leading Under Armour through its next phase of growth centered on driving global brand heat, delivering elevated design and products, and growing sales.

You are new to the sporting goods industry. What's your perspective on the industry's current state and trajectory into 2024?
In 2023, macro factors including geopolitical conflict, inflation, and consumer conservatism, as well as inventory challenges, have made for a bumpy year and required companies to allocate more resources to promotional activities. That said, we continue to manage things in our control to the best of our ability, and remain optimistic due to the enduring trend of fitness and health and our long-term growth potential, especially given our brand's strong positioning.

We have yet to provide color past our current fiscal year, which ends on March 31st. Still, it's reasonable to anticipate continued conservatism as our sector finds the balance between supply-demand signals among brands, retailers, and consumers.

With casual and social sports gaining traction, how do you see this influencing consumer behavior?
According to the Sports & Fitness Industry Association – more Americans participated in at least one sport, fitness exercise, or outdoor recreation activity last year than in the five previous years. With post-pandemic increases in basketball, soccer, and flag football from a team sport perspective, consistent growth in running and gym workouts, and significant strength in golf, tennis, and pickleball – this is a great business to be in.

The overall increase in sports participation and viewership continues to show strength and fosters a sense of community, which we see in the rising attendance at women's sports events and a broader inclusivity in sports participation. For example, the NCAA women's college basketball final between LSU and Iowa attracted over 10 million viewers, making it the most-watched women's college basketball game in history.

Do you see a trade-off between inclusiveness and performance?
No – inclusivity in sports is growing, complementing competitive athletics. The post-pandemic acceleration towards fitness and community brings more diverse groups into sports, including women and people of color. At Under Armour, we target 16- to 24-year-old varsity/team sport athletes, which is a demographic that creates a 'halo' effect attracting younger and older consumers. Our brand's influence reaches beyond our core young audience, attracting older demographics with our performance-oriented and stylish products.

As other brands pivot towards inclusiveness, how does Under Armour maintain its competitive edge?
Under Armour is rooted in performance. We're evolving to encompass 'Sportstyle' to meet the demand for versatile clothing suitable for athletic pursuits and everyday life. This strategy aligns with the global trend toward more casual attire, even in professional settings. We aim to capture a larger share of the consumer's wardrobe by offering functional, stylish, and comfortable products for various occasions.

With the economic and geopolitical landscape in flux, what is Under Armour's strategy for navigating the market as we approach 2024?
Earlier this year, we announced a new strategic focus we call Protect This House 3, which focuses Under Armour on three main objectives: driving global brand heat with an emphasis on the US; delivering elevated design and products with a focus on our footwear, sportstyle and womens businesses; and driving US sales while harnessing momentum in our international business.

"Inclusivity in sports is growing, complementing competitive athletics. The post-pandemic acceleration towards fitness and community brings more diverse groups into sports, including women and people of color."

Amid this multiyear plan, we are working to strengthen our foundation, assess areas of the highest returns, and ultimately create a strategy capable of returning more consistent revenue growth and increased profitability for our shareholders over the long term. Most immediately, we are focused on hiring leadership talent, designing products, and ensuring our sourcing, manufacturing, and distribution are optimized for the highest returns.

Although we have not provided our thoughts or color in 2024, our sector continues to work through a year-plus of elevated inventories and related promotions. Although inventory-to-revenue spreads are coming more into alignment, we believe it will be a slow return to balance due to prolonged promotions from both the brand and retailer (wholesale) sides of the equation.

How has Under Armour managed to avoid the inventory issues that have plagued others in the industry?
Over the past year, the industry has had significant overstock, comparable to 2015/16 levels, which took more than two years to normalize. Learning from this, our planning strategy is centered on aligning supply with demand as best as possible. We've invested substantially in data analysis and diversified our supply chain to ensure we have the right product at the right time. We're also exploring advanced technologies like AI and machine learning to improve our forecasting capabilities further.

Our inventory health is a testament to our thoughtful approach to planning and management. This helped inform our decision to reduce our 2022 order books by nearly $400 million, which has enabled us to stay more appropriately lean throughout 2023. Our advanced planning systems are the central nervous system of our business. We also have a diversified supply chain, which helps counterbalance various global dynamics that are constantly in play.

Could you elaborate on the balance between DTC and wholesale channels for Under Armour?
Both channels are vital to our strategy. Consumers seek different shopping experiences, sometimes preferring a mono-brand environment and other times a multi-brand retail space. We're enhancing our loyalty program, Under Armour Rewards, to deepen our customer relationships and provide a unique value proposition in the athletic performance space.

Digital engagement is a priority, particularly for connecting with the younger demographic, interacting with brands primarily through mobile and social media. We're committed to delivering a seamless physical and digital brand experience. For this, we engage in consumer journey mapping to understand where the pain points lie and how to fix them.

Beyond selling products, how does Under Armour engage with consumers?
We aim to foster brand loyalty by engaging with consumers at every touchpoint. We offer unique experiences, like spending a day with one of our athlete endorsers, to create emotional connections. We strive to make our brand accessible and to exceed customer expectations in every interaction.

The industry needs to become more sustainable for the world and to meet its targets. How are you contributing to this?
Sustainability is integral to our business model and one of the top five values for Under Armour. We're focused on creating products with less environmental impact and promoting circularity, such as encouraging customers to return used items. For this, our innovation capability center is a crucial asset where we, for example, have a whole effort around producing our clothing with fabric that sheds fewer fibers.

This is an area where we want to lift all boats: if we or others develop more sustainable things, we should share them with the industry.

Our new corporate headquarters in Baltimore, which is set to open towards the end of 2024, will embody our commitment to sustainability, featuring green technologies and design, including solar power, geothermal temperature regulation, and recycled/responsibly sourced materials. Sustainability is an ethically sound business choice equally important to our teammates, consumers, and shareholders.

From sustainability targets to actions

As the impacts of climate change intensify, sporting goods companies are ramping up their efforts to become more sustainable. Ten actions can help accelerate the journey, encourage customers, and boost performance.

> **“Sustainability is an area where we want to lift all boats: If we or others develop more sustainable things, we should share them with the industry.”**
>
> **— Stephanie Linnartz, President and Chief Executive Officer, Under Armour**

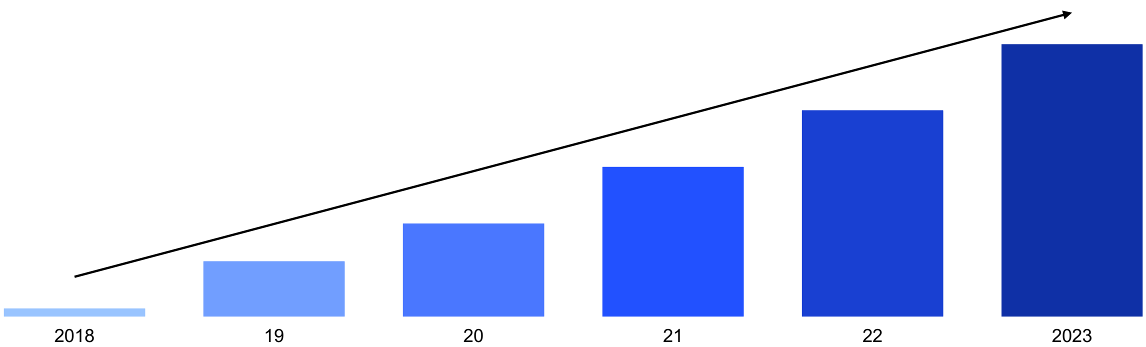
As global temperatures continue to rise, policy makers worldwide are rolling out new regulation in support of sustainability. Legislation, such as the US Inflation Reduction Act (IRA) and the EU Green Deal Industrial Plan, include language to unlock billions of dollars of financing for green energy and other solutions. China continues to pursue a 2030 target for wind and solar deployment, and ASEAN has published its sustainable finance taxonomy, aiming to promote sustainable activities and investments. In parallel to these initiatives, many sporting goods companies are working to raise the bar on their sustainability ambitions.

While most new sustainability rules will be applied across industries, some have a particular relevance for the sporting goods industry. A key element of the EU's program, for example, will likely be the Ecodesign for Sustainable Products Regulation (ESPR), which will require companies to improve product recyclability, durability, and reusability, and will introduce a new digital product passport to offer better information to consumers.[24] Meanwhile, under the Waste Framework Directive (WFD), producers will bear financial responsibility for collection, sorting, and end-of-life treatment of textiles – enforcing the so-called producer pays concept.[25] In the US, New York lawmakers in 2023 proposed the New York Fashion Sustainability and Social Accountability Act. The Act will require large companies to map out 50 percent of their supply chains, conduct due

Exhibit 10

An increasing number of smaller sporting goods companies are making commitments to science-based targets

Sporting Goods Retailers having set approved Science-Based targets[1]



	2018	19	20	21	22	2023
New entries Examples	Asics	Nike PUMA VF corporation Decathlon On	adidas Arc'teryx Mammut Lululemon	JD Sports Alpkit Under Armour Allbirds Brooks Deckers Brands	Open Air Group Vaude Gymshark Sweaty Betty Nemo Salomon	New Balance Viking Patagonia Pentland Active Brands Gildan Hummel Strategic Sports Ltd

1. Analysis based on ~100 sporting goods manufacturers and retailers

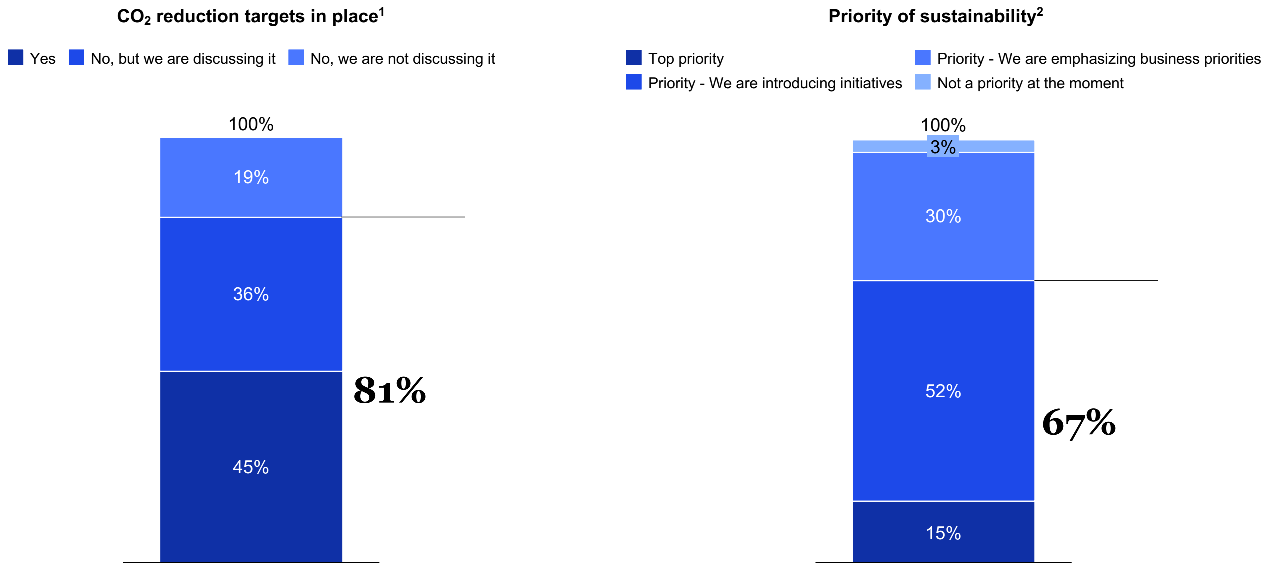
Source: Science Based Targets Initiative, Sporting Goods Report 2023, Annual Reports 2018-2023

[24] https://commission.europa.eu/energy-climate-change-environment/standards-tools-and-labels/products-labelling-rules-and-requirements/sustainable-products/ecodesign-sustainable-products-regulation_en

[25] https://environment.ec.europa.eu/ - Proposal for a targeted revision of the Waste Framework Directive

Exhibit 11

More than 80% of companies have, or are considering, CO_2 reduction targets



1. Q=Does your company have clear and announced CO_2 reduction targets? (n=69 as optional question)
2. Q=Is your company increasing its emphasis on sustainability or is it now deprioritized due to the market and economic situation? (n=69 as optional question)

Source: Sporting Goods Industry Report Survey October 2023 (N=85)

diligence, and disclose and reduce impacts.[26]

In addition, regulators have passed a number of laws that promote transparency. In the EU, the Corporate Sustainability Reporting Directive (CSRD) strengthens rules on the publication of social and environmental information. This has been reported to set a high bar for companies, at least in the short term.

Against the background of an evolving regulatory agenda, many large sporting goods companies are making progress on their sustainability journeys. And in recent times, many smaller companies are also making efforts to cut their emissions, embed more sustainable processes, and address deficiencies in supply chains. Since 2018, there has been a significant rise in the number of companies setting science-based targets (SBTs), which provide a clearly defined pathway to lower greenhouse gas (GHG) emissions (Exhibit 10).[27]

Away from SBTs, 81 percent of companies in the McKinsey & WFSGI Sporting Goods Industry Report Survey 2023 have or are seriously considering CO_2 targets[28]. Sixty seven percent say it is a priority, with many smaller companies lacking capabilities and resources (Exhibit 11).

While slowing global warming is itself a vital undertaking, companies also recognize that action makes business sense. Research shows that consumers value products containing organic or sustainable materials, and they are willing to pay more for them.[29] In particular, they value organic and sustainably sourced materials, while recyclable products and sustainable packaging are seen as less critical, our annual survey shows.

Ten levers that can help accelerate progress

From cutting emissions to reducing waste and pollution, the sporting goods industry has many opportunities to improve its sustainability profile. Reflecting our numerous conversations with industry executives, we here gather ten ideas that offer companies potential paths forward:

1. **Promote consumer awareness and internal communication.** Consumers may act more purposively if they are nudged in the form of incentives such as credits or points. In addition, product detail pages and better labels will help them understand more about the materials and processes involved in production. These can both be attached to products and placed in-store. Again, regulation will likely drive change, with the EU set to implement new labelling requirements under its Ecodesign Directive. For companies, one strategy could be to seek customer input, which can be instrumental in shaping the company's sustainability strategy.

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[26] New York State Senate - Senate Bill S4746
[27] Note: McKinsey analyzed 100 companies
[28] McKinsey & WFSGI Sporting Goods Industry Report Survey, October 2023 (N=85)
[29] McKinsey ConsumerWise Global Sentiment Data, August 2023, n= 7540 (EU5, USA, Brazil, China, India)

2. **Implement tracking, prioritization, and operational improvement.** Effective tracking can enhance sustainability performance, helping companies identify and meet KPIs, for example, for emissions through the value chain. KPIs can also be applied to water use, waste, and renewable energy. Companies can define a baseline and then construct a reporting system for both internal and external stakeholders in line with reporting standards.

3. **Work toward end-to-end waste reduction.** With more than 70 percent of apparel ending up in landfills or incinerators, waste is a significant challenge.[30] One way decision makers can tackle the challenge is by finding efficiencies in the production process. REI is among companies to have made progress, eliminating individual polybags for the majority of its private-label apparel items and recycling plastic wrapping.[31] Where waste is inevitable, companies can take steps to sort it for recycling. They may also consider switching to low-waste approaches such as just-in-time production or reusing waste to produce by-products.

   Downstream, customer information can drive behavior change. If businesses inform customers about packaging and product waste, they may see higher rates of return, particularly if they provide disposal points in-store or at retail partners.

4. **Adopt green logistics.** Companies could strive to optimize transport routes and networks, for example, by locating warehouses near hubs or optimizing truck fill rates. They could reduce the number of shipments per order, for example, through combined or "no-rush" shipments. In one example, GSI Outdoors repurposed about 85 percent of in-bound shipping boxes to out-bound shipping boxes and recycled the rest.[32] For employees, companies may consider encouraging green transport to work and making business travel more sustainable.

5. **Build green stores and warehouses.** Buildings could be digitally monitored, with temperature, lights, and HVAC optimized. Lights can be switched to energy-efficient LED and turned off outside opening hours. Companies could save on energy bills by insulating buildings and electrifying tools such as forklifts, as seen at Mountain Equipment Company[33]. And they could reduce net emissions by switching to green energy providers and producing energy on-site where possible, for example, with solar panels.

6. **Embrace sustainable product design and assortment management.** Product sustainability is largely set in the design phase. Companies could shift design practice by increasing use of circularity-friendly materials, minimizing packaging, and making packaging recyclable. Products could be designed to last and with repair in mind, while investment in advanced analytics could help customers make the right choice the first time, minimizing returns. In the production phase, companies are increasingly using eco-friendly dyes and finishes. Among the many industry examples, Allbirds in Spring 2024 is set to launch M0.0NSHOT, the world's first net-zero carbon shoe.[34]

7. **Adopt new business models.** While cutting the emissions of existing business lines is one option, companies could consider going a step further by adding or subtracting entire business lines. Value adds might include sports and community events, training camps, or apps to support customer fitness regimes. To promote circularity, companies could offer repair and maintenance services. In core assortments, there is an opportunity to launch subscription models or facilitate peer-to-peer rentals, for example, of sports equipment. Among companies taking a lead, Decathlon is offering subscription video fitness classes and corporate training programs.[35]

8. **Adapt the product lifecycle.** Companies could, where possible, design products for recycling, resale, and repair. In addition, it may be feasible in some product lines to introduce modularity, enabling replacement to boost product longevity. Companies could seek out materials such as recycled polyethylene terephthalate (rPET), which is typically made from plastic bottles.

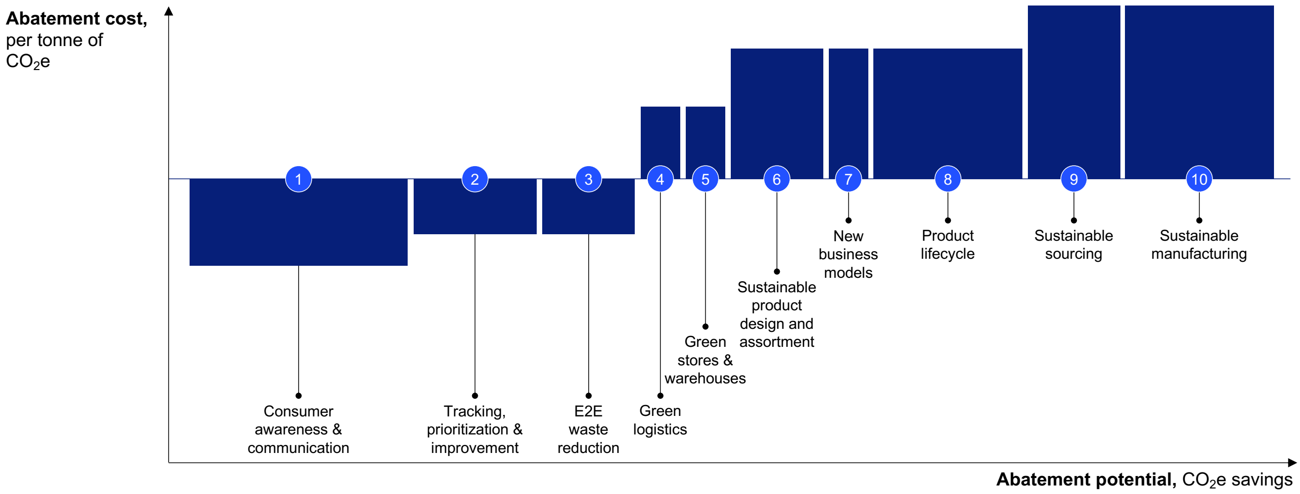
   To involve customers in the process, companies may consider establishing customer-to-customer marketplaces for secondhand products, launching repair and reconditioning 'labs' in stores, or fostering brand-retailer collaborations to maximize repair and refurbishing. Arc'teryx's ReBIRD™ Service Centers offer repairs, product assessments, and trade-ins, with technical washing facilities available at select locations.[36]

   Consumers may be more inclined to participate if they are offered benefits such as pick-up and shipping. In some cases, it may make sense to collaborate with

[30] A NEW TEXTILES ECONOMY: REDESIGNING FASHION'S FUTURE, Ellen MacArthur Foundation
[31] Outdoor Industry Association Impact Report 2022
[32] Outdoor Industry Association Impact Report 2022
[33] Outdoor Industry Association Impact Report 2022
[34] https://www.allbirds.com/pages/moonshot-zero-carbon-shoes
[35] Decathlon Non-Financial Report, 2022
[36] Arc'teryx Climate Report, 2022

Exhibit 12

Ten impact areas along the abatement curve can help smaller sporting goods companies prioritize sustainability actions



repairers/refurbishers to help consumers, potentially offering incentives to boost participation.

9. **Prioritize sustainable sourcing.** Companies could try to secure a reliable supply of recycled materials, such as those made from green synthetic fibers. To conserve energy, manufacturing processes could be streamlined, with waste minimized and components reused whenever possible. Companies could work closely with suppliers to facilitate sustainability initiatives. Where suppliers are unable to meet requirements, they could consider switching to alternatives. In some cases, it may be possible to set criteria for suppliers at product and company levels—some companies are already doing so. Many use tools such as the Higg Index for value chain environmental impact analysis.

10. **Embrace sustainable manufacturing.** Companies may be able to make production more sustainable by reducing use of fossil-fuel energy. This may be achieved by reviewing and upgrading processes, improving monitoring and maintenance, or investing in new infrastructure/pipelines. Nike Forward simplifies the process of material fabrication by reducing the number of process steps. This means less energy consumption, contributing to an average 75 percent reduction in its carbon footprint.[37]

In addition to creating more efficient processes, companies could switch to renewable energy and make changes such as training employees on conservation. Tools such as thermostats and sensor-switch lighting are simple ways to help companies and suppliers reduce energy usage. Away from energy, companies could aim to track and reduce water use, cut out harmful chemicals, and switch from wet to lower-emission dry processing. Finally, through nearshoring, companies could save on transportation-related emissions, as well as reduce lead times, cut risk exposure, and increase speed and flexibility.

Given the range of possible routes to sustainability, industry leaders are tasked in 2024 with continuing the process of turning ambition into action. For those at the start of the journey, a productive first step could be to define a marginal abatement curve (Exhibit 12). This will set out the ways in which the company could become more sustainable and associated costs. Many will likely make both business sense and reduce emissions, and companies may wish to prioritize these over those that incur costs.[38]

Individually and collectively, the levers on the abatement curve could move sporting companies toward greener and more sustainable business models (see a full set of levers for small companies in the Appendix). They could also encourage stakeholder buy-in and ensure all companies, large and small, have the information at hand to communicate effectively, inspire peers, and meet their wider stakeholder obligations.

[37] https://www.nike.com/ch/en/a/nike-forward

[38] Note: A marginal abatement cost curve presents the costs or savings expected from different opportunities, alongside the potential volume of emissions that could be reduced if implemented

John Sullivan, Senior Vice President of Marketing, WHOOP

John Sullivan is Senior Vice President of Marketing at WHOOP. A marketeer with 17 years of experience growing businesses and brands in the sports, health, and tech sectors, John leads the award-winning global marketing organization at WHOOP; the wearable health and fitness coach.

WHOOP is a wearable technology company. How do sporting goods brands that are historically focused on sports apparel and equipment engage with a company like yours, which operates at a different stage in the consumer journey?
It's an interesting dynamic. Most major sportswear brands have experimented with wearables and, almost without exception, have moved away from them. For instance, Nike had the FuelBand but eventually exited that space. However, there's growing interest among traditional sportswear and fitness brands in the connected fitness arena. A notable example is the recent partnership between Nike and Strava. This collaboration integrates Nike Run Club data into Strava and involves Nike trainers creating content for Strava users. Another example is Peloton and Lululemon, where Lululemon's Mirror programming is now entirely provided by Peloton's content studio. These partnerships indicate a shift. Instead of traditional brands trying to catch up in technology, they're forming synergistic relationships with digital companies. This approach allows each to focus on their strengths: traditional brands on innovation in their core areas, like Nike with great shoes, and digital companies like WHOOP, Strava, and Peloton in their respective fields. The trend is moving away from attempting to create standalone digital solutions towards finding mutually beneficial collaborations.

Is there a notable difference in customer lifetime value between customers attracted by WHOOP's ecosystem versus those who purchase the product independently?
Yes, there is a significant difference. Customers attracted through our ecosystem tend to engage with the app more frequently and for longer durations. They are more invested in their health and fitness ecosystem, which creates a sense of value that discourages them from leaving. They recognize the benefit of their data in making daily health decisions, which increases their likelihood of staying with us.

Considering the vast amount of data WHOOP has, it's very valuable for potential partnerships with other companies. Could you elaborate on WHOOP's ecosystem strategy and how you leverage these partnerships for mutual benefit?
Yes, absolutely. Our most common collaborations involve complementary brands across various sectors, such as connected fitness, supplements, mindfulness, and health monitoring. While not all brands have a direct WHOOP integration, most have apps that pair with Apple Health, allowing us to incorporate their data into the WHOOP app. We often find that these brands offer unique modalities to enhance recovery, fitness, health monitoring, and mental well-being. For example, we've integrated with nutrition apps like MyFitnessPal. Our approach begins with conducting 'citizen science experiments' to determine if there's a significant correlation between WHOOP data and the partner's intervention, like a sleep formula. If our data shows a positive impact, we engage in co-marketing and content creation within our app, aiming to engage users long term and exchange audiences interested in fitness, health, and wellness. The ecosystem is crucial as our members seek positive lifestyle changes. We recognize that other brands offer specific interventions that our users might already be utilizing. Therefore, we invite these brands into the WHOOP world to help users understand the effectiveness of these interventions relative to their goals.

Reflecting on this strategy, do you have a method to measure its effectiveness retrospectively?
Yes, we have a comprehensive scorecard to evaluate potential partners. This includes assessing brand fit, the size of the community we're engaging with, and the mutual commitment to the

“We cater to a wide range of personas with varying interests. For example, fitness enthusiasts might be more drawn to our strength training features, while other users, perhaps older, might focus on heart health indicators.”

partnership. While some integrations, like those with Apple Health, are straightforward, most partnerships require significant effort. We set high standards, considering factors like brand alignment and the size of the partner’s ecosystem. The effectiveness of a partnership is measured by the growth of our community through the partnership, the cost of acquiring these new members, and comparing their lifetime value to our existing members. Additionally, we assess if the integration enhances our existing offerings. For example, a nutrition app integration that improves macro tracking would be evaluated based on whether it increases the lifetime value of users who engage with this new feature. So, the effectiveness is gauged by community growth, acquisition costs, and the added value to our member’s experience.

When partnering with local figures, are you targeting specific demographics?
We’re noticing significant developments at both ends of the age spectrum. Traditionally, we’ve focused on the 25 to 45 age group, but there are two noteworthy trends now. On the younger side, platforms like TikTok, known for a younger audience, show high interest in health and fitness. This presents an ideal opportunity for us to spread our message through various creators in this space. On the other hand, health and fitness are increasingly associated with longevity, attracting more interest from the 40-plus demographic. This group is technologically adept and reachable, unlike previous generations at this age. They’re more focused on aspects like sleep, heart health, and weight management, aiming for a higher quality of life. With technology being more accessible to them, we see this as a growing market, keen on making lifestyle choices independent of primary healthcare, particularly in the US.

Have you noticed any differentiated demand for your services among these demographic groups? For instance, do older and younger users seek different features, and how does this influence your product development?
Definitely. We cater to a wide range of personas with varying interests. For example, fitness enthusiasts might be more drawn to our strength training features, while other users, perhaps older, might focus on heart health indicators. However, certain features, like sleep tracking, appeal universally, regardless of age or fitness focus. Sleep, being a significant but often unmonitored part of life, intrigues everyone. Additionally, our journaling feature, which correlates lifestyle choices with recovery and sleep metrics, is widely used. How users interact with this feature varies: fitness-oriented individuals might focus on exercise timing and environment, whereas health-focused users might track sleep consistency and heart rate metrics.

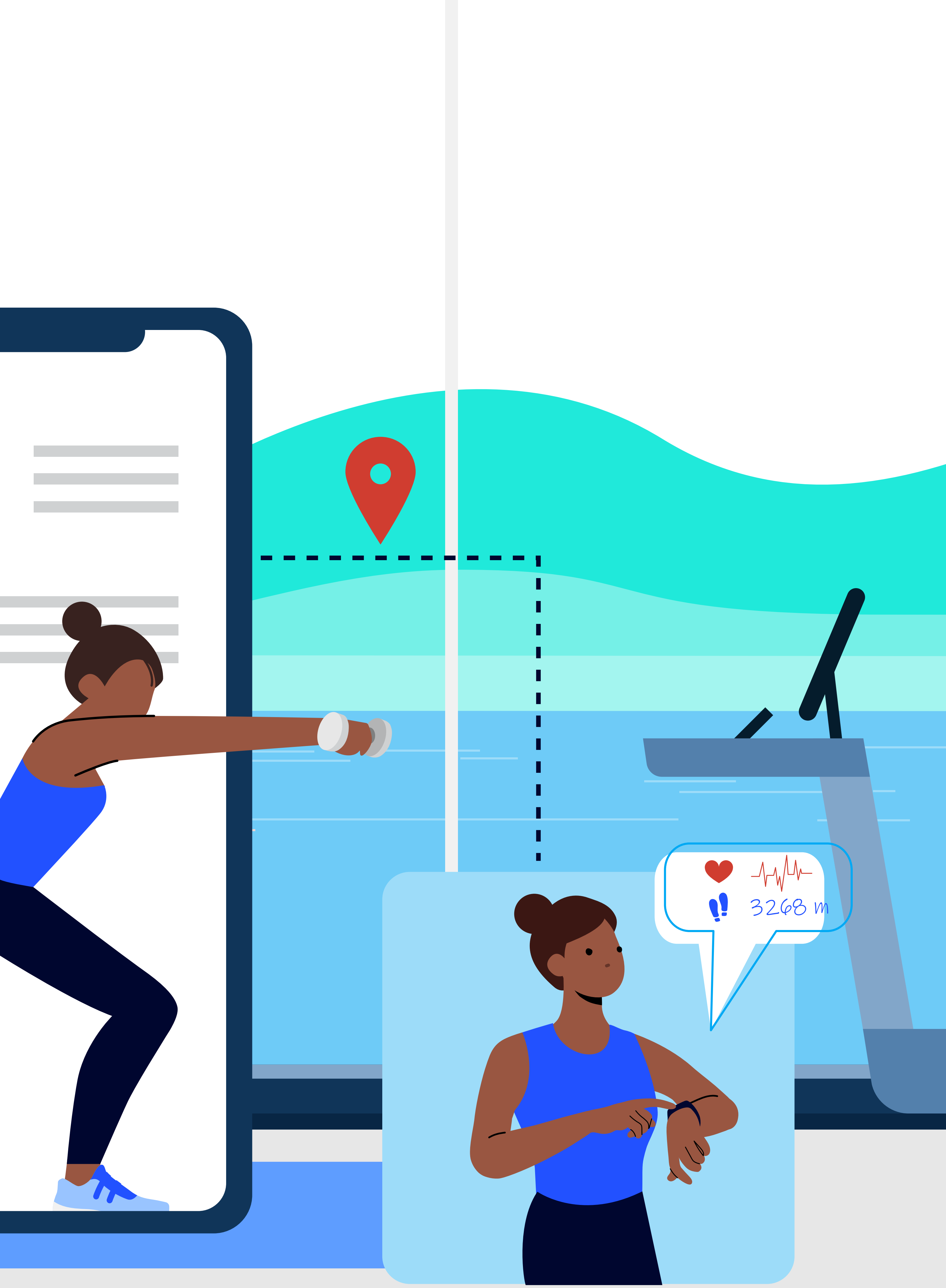
How do you ensure you’re capturing the latest customer trends and feature preferences?
We have extensive internal reporting on user engagement, time spent on the app, and the diversity of features used. We continuously study the relationship between engagement and customer lifetime value. Regular internal surveys within the app help us understand current user preferences and anticipate future needs. Although we conduct some focus groups and ethnographic research, much of our insight comes from frequent in-app surveys and citizen science projects, where we ask users about their activities and preferences beyond the app’s data.

You are growing a lot in the Middle East, why is that?
The region is investing in tech-forward innovations from AI to healthcare and increasing investment in sports like golf, football, and paddle tennis. My experience suggests that sports are becoming more central to the region’s consciousness.

How has WHOOP capitalized on these growth trends in new markets? Is there a specific strategy for success?
Our strategies are similar across markets. We start by making our products available, ensuring competitive delivery rates and fulfillment costs. Supporting the product with necessary accessories and customer support is vital. In the Gulf Cooperation Council (GCC), for instance, English fluency is high among our target demographic, reducing the need for local language support compared to markets like Germany. After ensuring product availability and support, we focus on localizing aspects like the app, content, and membership services, along with compliance and licensing. Once set up, we engage in platform marketing and collaborate with local personalities ranging from sports stars to fitness influencers. Our approach also includes associating with culturally significant events, such as fitness challenges in Dubai. The overall strategy isn’t vastly different from our approaches in Western Europe or North America.

Playing the sports ecosystem game

Ecosystems plays offer sporting goods companies the chance to cut the cost of customer acquisition, boost lifetime value, and develop new revenue streams. But implementation requires careful planning and execution.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“The wholesale channel is going to get a little bit of renewed love. I think there’s a limit on how much you can shop on that single brand channel. Most customers want to go to a ski, shoe, or base layer store and view products from different brands.”

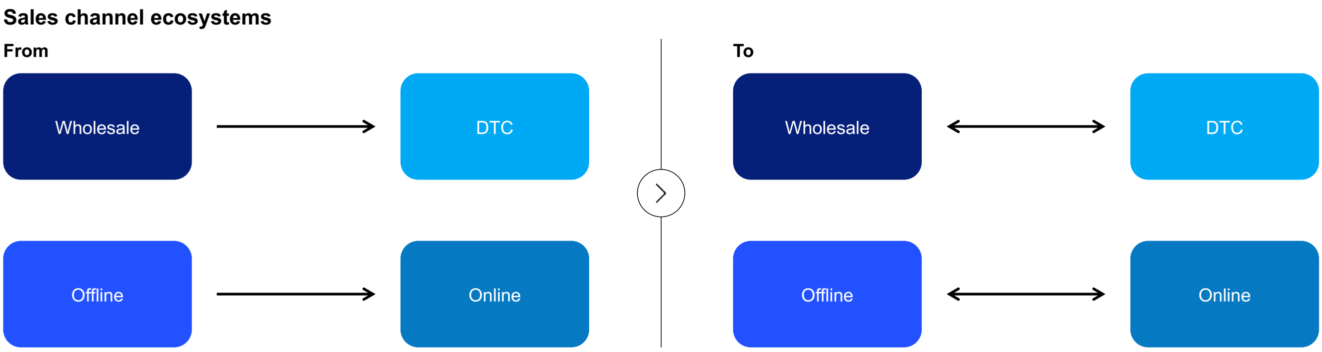
— Hugo Maurstad, Managing Partner, Monte Rosa Capital

With the help of digitally focused business models, many sporting goods companies have recalibrated their channel strategies, including establishing online offerings and ramping up direct-to-consumer services. But now change is afoot, with companies recognizing the potential for growth and engagement offered by the expanding ecosystem economy.

Ecosystems are the end point on a journey that many sporting goods companies are already taking. With more options to choose from, for example, most large companies have moved away from channel-based distribution models and toward omnichannel propositions, aiming to serve customers at multiple touchpoints in parallel (Exhibit 13). About 70 percent of companies surveyed now operate in this way.[39] In 2023, leading brands went a step further, fine-tuning their strategies to reflect renewed consumer appetite for physical shopping experiences in the wake of the pandemic. These companies have refocused on wholesale relationships, seeking out partners they believe can best amplify their brand experiences. Rather than representing a step back from

Exhibit 13

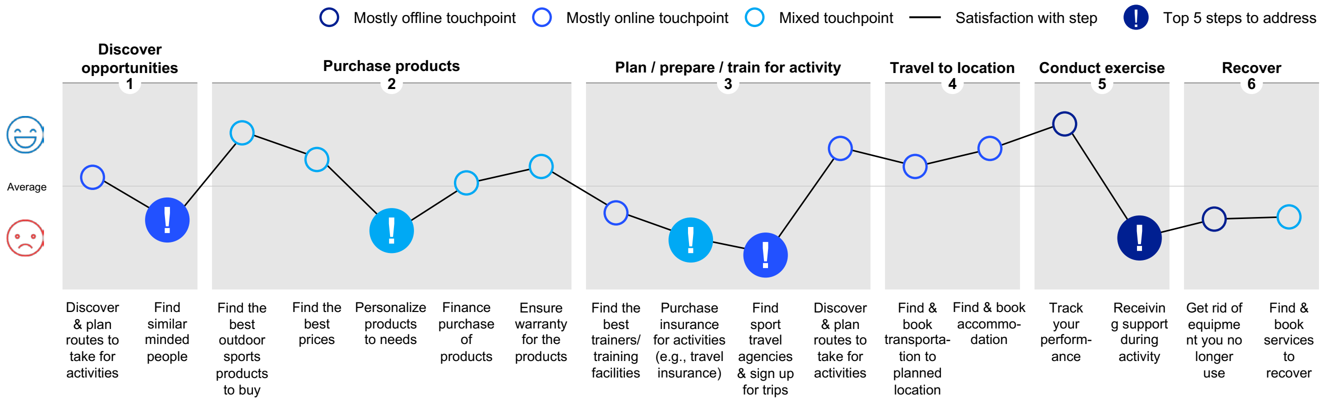
Companies recognize the need to serve and track consumers across ecosystems encompassing all sales channels



[39] McKinsey & WFSGI Sporting Goods Industry Report Survey, October 2023 (N=85)

Exhibit 14

Companies can address pain points along the customer journey



Source: McKinsey Ecosystem Strategy Hub; McKinsey Consumer Community Survey, September 2023, n=322 (Germany and the UK)

e-commerce, this signifies a refinement of channel strategies to meet changing customer expectations.

Among companies to have taken steps, adidas has made a strategic shift - recalibrating its go-to-market strategy and reprioritizing wholesale, which accounts for 61 percent of sales.[40] PUMA, meanwhile, turned the big two's temporary downgrade of physical retail to its advantage, selling more products at full price and building strong wholesale relationships, including with e-commerce platforms. It backed up these initiatives with exclusive product collaborations to attract Gen-Z and Gen Alpha. Its efforts helped the company achieve 22 percent wholesale growth from the third quarter of 2021 to third quarter of 2022.[41]

The ecosystem playbook

Beyond wholesale and digital, some sporting goods companies are going a step further in developing their channel strategies. In this case, the approach is predicated on a lens that focuses first on customer needs, including better health, better sleep, excellent nutrition, a healthier physical appearance, and a calmer, more purposeful state of mind; all increasingly associated with wellness and high performance.

Companies cannot meet all of these needs alone. Instead, they can forge relationships with networks of companies that serve some element of the customer journey – from opportunity discovery, to planning and preparing, traveling, taking part, and recovery (Exhibit 14). McKinsey research shows that the activities within these steps that customers value most include finding similarly minded people, shaping products to their specific needs, obtaining insurance to reduce risks, liaising with travel agencies, and receiving support during activities. Ecosystems enable companies to cater to these demands.

Partnering can create value at distinct points in the value chain. For example, companies can cut the cost of acquisition. Moreover, customers that value holistic benefits are often the most avid sports enthusiasts, offering companies the chance to tap new sources of revenue. There are also tangential opportunities. Retailers, for instance, can set up media networks, enabling brands to purchase advertising on their digital platforms, while brands can engage in affiliate marketing.

[40] adidas Annual Report 2022
[41] PUMA Quarterly Statements Q3 2021 and Q3 2022

Companies championing ecosystem strategies include the world's biggest tech players, that have embraced business models that play into the major themes shaping consumer choices. Given the expanding financial opportunity, management team discussions on the potential of ecosystems will likely center on five key perspectives:[42]

1. Ecosystems are a reflection of both technology advancements and evolving customer needs. The future customer will increasingly look across sectors and value experiences on a single platform.

2. Sports consumers desire more than products. They also want to discover similarly minded people, personalize their experiences, and get access to helpful value adds such as insurance, sports agency services, and support during activities.

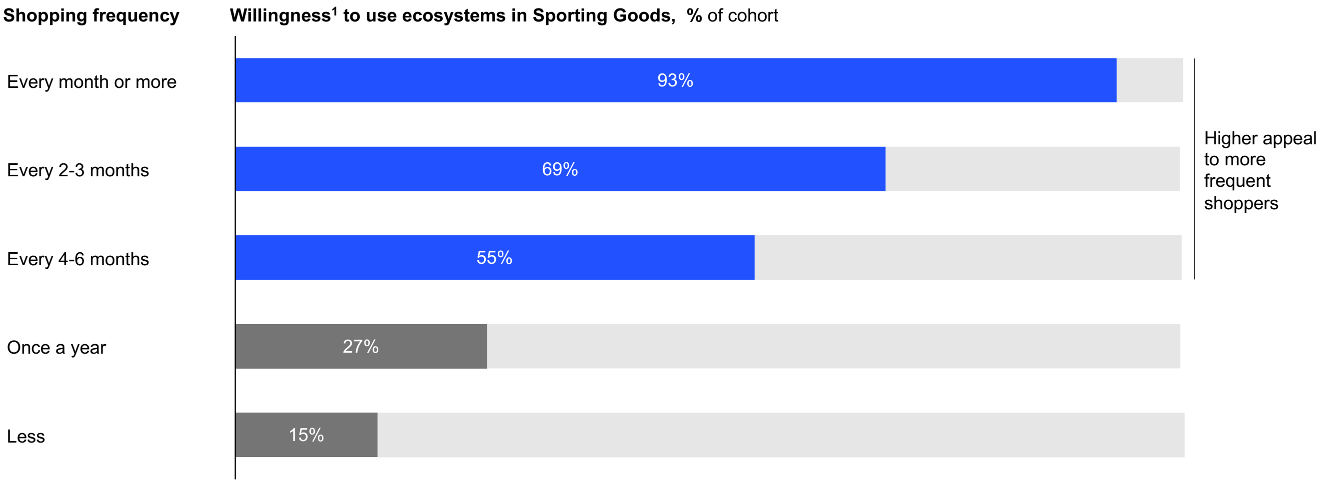
3. The idea of an outdoor sports ecosystem is appealing to customers. On average, about 50-60 percent of European outdoor sport consumers would like an ecosystem to meet their needs, and the more they shop, the more they like the idea. About 90 percent of monthly shoppers and 70 percent of people who shop every two to three months would use an ecosystem, McKinsey research shows (Exhibit 15).[43]

4. Ecosystems can create value for organizations through core business uplifts, for example, extending customer reach and lifting the number of touchpoints in specific segments. This, in turn, will drive cross-sell and up-sell. They can catalyze new revenue streams and foster valuation upsides through growth and/or tech multiples.

5. Numerous sporting goods players have already embarked on the ecosystem journey. Among examples, Discovery Vitality has created a partner-enabled health and wellness loyalty ecosystem. Nike's digital app ecosystem saw 500 million visitors in the fourth quarter of 2022, and Strava has built a 100 million-plus community and is on the path to becoming the go-to destination for people seeking an active lifestyle.

Exhibit 15

Ecosystems can thrive by targeting frequent shoppers



1. Percentage of consumers who responded 'definitely will use' or 'probably will use' an outdoor sports ecosystem

Source: McKinsey Consumer Community Survey, September 2023, n=322; McKinsey Ecosystem Strategy Hub

[42] McKinsey Ecosystem Strategy Hub; McKinsey Consumer Community Survey, September 2023
[43] McKinsey Ecosystem Strategy Hub; McKinsey Consumer Community Survey, September 2023

> "Customers attracted through our ecosystem tend to engage with the app more frequently and for longer durations. They are more invested in their health and fitness ecosystem, which creates a sense of value that discourages them from leaving."

— John Sullivan, Senior Vice President of Marketing, WHOOP

The most successful ecosystem strategies are predicated on a firm idea of target customers and buying behaviors. They tend to focus on frequent shoppers – the more than 50 percent who purchase sporting goods every four to six months. Ecosystem players are also clear on the pain points they want to address. These often revolve around discovering opportunities, personalizing products, and preparing for and receiving support during activities. By offering products and services across industry boundaries, from retail to finance, entertainment, and travel, they aim to help customers overcome these challenges.

Making it stick: Five principles

Successful ecosystem players focus on customer needs. But by doing so they can also create value, for example, through new subscription revenues, lower customer acquisition costs, and increased cross-selling opportunities. There is also a chance to earn commissions from third parties, and create operational efficiencies by sharing data, ideas, and technology. Still, our experience working with sporting goods companies shows the set up and development process can be complex. Indeed, many organizations fall short of reaching the impact they set out to achieve. To maximize the chances of success, five key principles are likely to make a difference:

- **Start simple.** Settle on a strong anchor concept and aim to enhance at least one customer segment's experience.
- **Undertake bottom-up, behavioral, and attitudinal segmentation.** On that basis, identify a first move that reflects the business's priorities. Work on segments rather than products, and don't get overfocused on younger cohorts.
- **Get the buy and build balance right**. Build where possible and be thoughtful about acquisitions.
- **Fail fast.** The most successful companies embrace experimentation and continuous learning. They are happy to move on quickly when things don't work out. It makes sense to prioritize areas of existing strength and take an iterative approach to roll out.
- **Don't try to own everything – do it with partners.** Leverage online sports communities or content providers for better reach.

On the final point, partnerships are by definition at the core of strong ecosystems. Successful ventures bring together partners that have a clear shared vision and are willing to invest in capabilities to get there. Leading companies have shown that productive partners generally fall under three umbrellas: those with complimentary product or service offerings that meet the needs discussed in this chapter, those that bring new customers to the table, and those than can enhance ecosystem capabilities to deliver on customer journeys.

In choosing partners, a structured approach tends to create the firmest bonds. This will mean first aligning on strategy. A commercial partner will bring a different playbook than one focused on capabilities, but businesses can benefit from seeking out common aims and values. The next step is to connect, before agreeing to the deal and integrating processes and talent over time. Forward-looking companies will also establish regular review processes, ensuring that partners remain aligned as the ecosystem grows and evolves.

— Interview

Vanessa Garcia-Brito, Vice President and Chief Social and Community Impact Officer, Nike

Vanessa Garcia-Brito is Vice President and Chief Social & Community Impact Officerat Nike. A lawyer by training, Vanessa began her career as an advocate for human rights with a focus on international and intellectual property law, and then continued her journey at Nike with highlights that include leading partnerships and strategic communications for the Girl Effect and creating Nike's first-ever purpose communications.

We've noticed a trend towards more socially oriented and accessible sports, as opposed to highly organized or skill-intensive sports. Has Nike observed a similar trend?
At Nike, our core purpose is to move the world forward through the power of sport, which we interpret expansively. This includes not only traditional sports, but also play and all forms of bodily movement. We see life as a sport, whether it involves organized sports, individual activities, walking, or other forms of movement. The expansion of what 'sport' means is a positive trend. It's more inclusive, which aligns with our philosophy. While trends evolve, some constants remain, such as the human desire for connection, fulfillment of potential, opportunities, and experiencing joy. We believe the more diverse the options available, the better. We're also noticing a holistic approach to sports, considering not just physical aspects but also mental, spiritual, and wellness components.

In practical terms, how does this philosophy translate into Nike's endorsements, advertisements, and brand focus?
Our focus revolves around the athlete's voice, which is central to everything we do. We are continuously observing and responding to their needs and experiences, and this is evident across our spectrum of work, from community initiatives to the products we offer. For decades, we have emphasized the importance of youth sports and access to them. We've evolved our approach from simply providing access to designing movements like Made to Play, considering how the future of youth sports can be beneficial. Our learnings have highlighted specific challenges for girls in sports, leading to several adaptations in our approach. This includes addressing when and why children might fall out of sports, and how we can mitigate these barriers as they grow. Our efforts span from championing women and girls in sports, focusing on inclusive products like sports bras and inclusive sizes, to innovations like period leak-proof shorts and FlyEase technology, enhancing accessibility for all athletes. These efforts stem from our commitment to regularly listen to and understand the athlete's voice.

Shifting to older generations, we're exploring opportunities for their participation in sports. Are older people becoming a more relevant customer group for Nike, especially with specific product technologies and targeted marketing?
Absolutely! We always keep all generations in mind. Even when our primary focus appears to be on youth and kids, it's actually about the entire family unit. It's fascinating how family dynamics play a role in sports participation – parents influencing children and vice versa. This intergenerational influence is a significant factor in how we approach sports engagement. Recently, I was discussing the concept of the 'ageless athlete' with a friend, which I find incredibly inspiring. It emphasizes that age is just a number and doesn't define athletic potential. The human body experiences various peaks and limitations throughout life, and it's like a roller coaster – you can reach your peak at any stage. (Personally, I'm aiming for my peak in my 80s – that's my goal, to medal at that age. It's a lofty ambition, but it's what I aspire to!)

In line with this thinking, our product range at Nike isn't just about catering to a specific age group; it's more about accessibility. We want to ensure that whether someone is a jogger, walker, marathon runner, or just looking to stay active, they find something in our range that suits their needs.

You mentioned Nike's expansion into wellness and adjacent areas to sports. Can you tell us more about the Nike Well Collective and its objectives?
The Nike Well Collective represents a consolidation of insights from our athletes, consumers, and broader societal trends, emphasizing the desire to live well. It's about offering a holistic experience, acknowledging that physical activity alone isn't sufficient. The Well Collective provides guidance on sleep, nutrition, and social connection, in addition to mental and spiritual wellness. It's designed to offer multiple entry points, catering to individuals whether they're drawn in by mental health, nutrition, or physical fitness, allowing for a personalized approach to wellness.

Previously, you mentioned ecosystem partnerships. How does this factor into your current strategy, especially in terms of supporting athletes and consumers beyond product sales?
Our ecosystem strategy continues to evolve. Alongside the Well Collective, we're focusing on viewing our consumers and athletes holistically. Whether it's about families, kids, performance-oriented individuals, or those focused on style and impact, we're there in various capacities. This includes big sporting events and everyday community involvement through our Nike Community Ambassadors. These ambassadors volunteer as coaches and become role models in their neighborhoods. They are often seen as heroes by the youth they inspire and guide. Our partnerships extend to organizations like the Play Equity Fund and Laureus, focusing on localized sports initiatives and inclusive youth engagement.

Can you tell us more about these partnerships?
We collaborate with various partners like the Play Equity Fund in Los Angeles and our Made to Play neighborhoods program. This program focuses on hyperlocal initiatives in neighborhoods, co-designing programs that not only increase participation but also sustain and retain it, ensuring quality experiences. Another key partner is Laureus, with whom we work in different areas, focusing on building a positive and inclusive sports ecosystem and bringing youth into sports. We also engage with expert organizations like the Tucker Center for Research on Girls & Women in Sport. Together, we've created tools like Coaching HER, a guide tailored to the specific needs of girls in sports.

Can you describe how Nike's sports programs are implemented? What does it typically involve?
Our approach is comprehensive. It begins with understanding specific community needs, whether it's transportation, space, or security. We ensure alignment with partners who share our values and enhance their capacity to deliver meaningful programs. It's about co-designing with stakeholders to create community programs, not just Nike programs. We consider appropriate age groups, inclusion, representation, and belonging principles. Coaching is vital; we adapt to different needs and local circumstances in each community and country. Our programs are designed to be frequent, supportive, and bring joy and fun, emphasizing connection and learning, not just winning. We actively seek feedback to respect and address community readiness and preferences.

How do you measure the benefits of your sports initiatives?
We use a range of metrics in collaboration with our partners. Participation is the starting point. We track inclusivity, aiming for consistent 50% girls' participation, by working with organizations to break down barriers. Understanding what fosters or hinders participation is key to our strategy.

What can other brands and readers of the report learn from Nike's initiatives? How can they contribute to increasing physical activity?
I encourage others to join us in this endeavor. The key is to collectively ensure that sports are perceived positively by the youth, as a source of joy and fulfillment. Unfortunately, this isn't always the current perception among young people. Changing this narrative requires a collaborative effort. We welcome others to join in this mission because it truly requires a collective approach.

"The key is to collectively ensure that sports are perceived positively by the youth, as a source of joy and fulfillment. […] We welcome others to join in this mission because it truly requires a collective approach."

Appendix

Below is a more comprehensive list of sustainability initiatives that companies could consider. See the chapter "From sustainability targets to actions" for more context.

1. Promote consumer awareness and internal communication

Levers	Concrete initiatives
Product choice and labeling	o Provide incentives for consumers in order to minimize returns o Provide more transparency at product level (on e-com) so that consumers can: – Increase awareness on sustainability impact of each product to enable customers to make sustainable choices – More easily choose right size (on PDP – product detail page) and minimize returns o Review product labeling to increase transparency and improve consumer awareness o Review product placement in stores to help consumers navigate products based on input material/recycling rate, or other sustainability features
Consumer engagement	o Raise consumer awareness through social media, events, etc. o Actively seek feedback from consumers and listen to their concerns and suggestions regarding sustainability, to improve and refine company efforts

2. Implement tracking, prioritization, and operational improvement

Levers	Concrete initiatives
Tracking	o Identify the right sustainability KPIs to track along scope 1, 2, and 3 emissions (for example, input materials footprint, end-to-end CO_2 emissions by product, water usage, waste, and renewable vs. non-renewable energy share, etc.) o Define/calculate company baseline along the identified KPIs o Set up a reporting system for internal and external purposes (incl. to comply with developing reporting regulations)
Prioritization	o Identify largest opportunities to reduce sustainability footprint and prioritize based on impact versus associated cost saving or increase
Improvement	o Continuously develop company culture on sustainability (e.g., through training, events, newsletters, etc.) o Set your targets and measure yourself 'continuously' against them

3. Work toward end-to-end waste reduction

Levers	Concrete initiatives
Reduction of upstream waste in production/ manufacturing	o Reduction of upstream waste in production/ manufacturing o Review and adjust your manufacturing process to minimize waste, for example, quality control o Increase sorting of waste to allow higher recycling share o Consider just-in-time production o Consider by-product utilization and waste enhancement
Reduction of waste from operations	o Digitize internal processes to go “paperless” o Minimize paper-format of receipts and other documents for consumers o Reduce share of returned products that end up not being resold
Reduction of downstream waste	o Inform consumers about packaging and product waste o Organize “old products” disposal points in own stores / at retail partners and introduce consumers incentive system (for example, coupons) o Introduce sorting and recycling capabilities for collected “old products”

4. Adopt green logistics

Levers	Concrete initiatives
Optimize trips and packaging	o Optimize route and network (for example, place warehouse near water/train) o Increase fill-rate of trucks o Reduce number of shipments per order from consumer (no split shipments), for example, as “no-rush” shipments o Minimize impact of employees commuting (for example, incentivize use of public transport or bikes) o Minimize impact of business travel (for example, review policies to minimize travel and/or disincentivize air travel) o Recycle logistics / packaging material
Improve infrastructure	o Optimize modes of shipment (reduce air freight, increase sea and rail) o Decarbonize trucks in own fleet o Extend electric vehicle infrastructure o Introduce decarbonization criteria for third-party logistics providers

5. Build green stores and warehouses

Levers	Concrete initiatives
Reduce energy consumption	o Introduce/accelerate an overall digitization of building management (temperature, lights, HVAC) o Reduce lighting outside of opening hours o Use more efficient lights (convert to LED) o Add light occupancy sensors in non-consumer-facing areas o Insulate buildings o Use electric forklifts
Optimize energy source	o Switch to a green energy provider o Increase self-generation of green energy (for example, solar panels)

6. Embrace sustainable product design and assortment management

Levers	Concrete initiatives
Sustainable design	o Increase share of input material that can be kept in circular system o Minimize packaging where possible o Increase share of products offered with reusable packaging and increase recycled packaging content o Maximize product durability o Design products that can easily be repaired o Ensure consistent sizing of your products to minimize consumers' returns o Use eco-friendly dyes and finishes
Sustainable category management	o Take distance from a "fast-fashion-equivalent" concept, to avoid that consumers buy and throw items too often o Increase share of assortment of sustainable products o Reduce promotions on least sustainable products o Adapt in-store product placement to incentivize sales of more sustainable products

7. Adopt new business models

Levers	Concrete initiatives
Services beyond the core product	o Expand into (paid) services to reduce CO_2 intensity: o Sport and community events o Training camps/events o Apps for sport tracking / training o Maintenance services for your sold products
Services around the core product	o Evaluate the opportunity to introduce product subscription models o Consider developing a peer-to-peer rental app (especially relevant for equipment players)

8. Adapt the product lifecycle

Levers	Concrete initiatives
Circular products	o Introduce an increasing number of products that can be repaired, re-used, and remanufactured o Introduce modular product designs to facilitate easy replacement of parts, enhancing repairability and longevity o Switch to recycled feedstock (for example, rPET supply)
Enabling circularity	o Consider establishing a C2C marketplace for second-hand products o Introduce repair and reconditioning 'labs' in (some of) your stores o Foster brand-retailer collaboration to maximize repair and refurbishing (for example, organize pick up at retailer and ship to repair lab, or other) o Initiate collaboration with repairers/refurbishes in main countries to develop a network to incentivize and help consumers willing to extend product lifetime o Offer incentives to consumers for returning end-of-life products, facilitating recycling and remanufacturing

9. Prioritize sustainable sourcing

Levers	Concrete initiatives
Source & scale lower impact materials	o Secure supply of recycled materials, for example, rPET o Switch to alternative fibers (for example, no-animal fibers, green synthetic fibers)
Reduce overall material use	o Streamline manufacturing processes o Reuse waste and by-products
Suppliers relationship	o Deepen relationships with strategic suppliers to kickstart GHG reduction and strengthen innovation pipeline o Work with suppliers to adapt supply chains to integrate lower-impact materials (for example, switching to greener supply sources, changing processing processes) o Introduce sustainability criteria for suppliers at different levels: o Product level o Company level o Consider eventually switching to new ‘more sustainable’ suppliers

10. Embrace sustainable manufacturing

Levers	Concrete initiatives
Energy consumption	o Optimize energy consumption from manufacturing by reviewing and upgrading processes o Improve monitoring/maintenance of equipment o Upgrade infrastructure/pipelines o Increase share of renewable energy o Educate employees on energy conservation practices o Revisit production hall heating requirements and temperature levels
Other environmental impact	o Improve water management (track how much water you are wasting in the process) o Improve/reduce chemical usage in manufacturing process (using natural-base dyes) o Consider switching from wet to dry processing (including dyeing, printing) that can reduce CO_2 impact massively
Nearshoring	o Move production and sourcing closer to end markets, considering cost-benefits holistically (including cost, lead times, risk exposure, speed and flexibility, CO_2 impact)

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McKinsey & Company
January 2024

www.mckinsey.com