COVID-19 Response – Implications for the Sporting Goods Industry and what companies can do now

Global Expert Webinar

World Federation of the Sporting Goods Industry | McKinsey & Company
April 9th
Slot #1: 9am-10am CET / 3pm-4pm HKG / 3am-4am ET
Slot #2: 5pm-6pm CET / 11pm-12am HKG / 11am-12pm ET
COVID-19 is, first and foremost, a global humanitarian challenge. Thousands of health professionals are heroically battling the virus, putting their own lives at risk. Governments and industry are working together to understand and address the challenge, support victims and their families and communities, and search for treatments and a vaccine.

Companies around the world need to act promptly. This document is meant to help senior leaders understand the COVID-19 situation and how it may unfold, and take steps to protect their employees, customers, supply chains and financial results.

We are happy to provide additional deep dives on topics of your interest.
To ask a question:

You can submit questions directly to the presenters without these being seen by the other attendees using the question box. Questions will be answered orally during the Q&A at the end of the presentation.
Agenda

What is happening?
Perspective on health and economic crisis

How is it affecting Sporting Goods?
Insights on consumer behavior

What can you do about it?
Best practice actions Sporting Goods companies can take
Presenting today

Robbert de Kock
President and CEO
rdekock@wfsgi.org

Alexander Thiel
Partner
Sporting Goods expert Europe
alexander_thiel@mckinsey.com

Raphael Buck
Senior Partner
Consumer Practice leader EMEA
raphael_buck@mckinsey.com

Emanuele Pedrotti
Partner
Apparel, Fashion & Luxury Practice leader Italy
emanuele_pedrotti@mckinsey.com

Achim Berg
Senior Partner
Apparel, Fashion & Luxury Group leader Global
achim_berg@mckinsey.com

Paul McInerny
Senior Partner
Sporting Goods expert Asia
paul_mcinerney@mckinsey.com

Felix Poh
Partner
Consumer leader China
felix_poh@mckinsey.com
Agenda

What is happening?
How is it affecting Sporting Goods?
What can you do about it?
The Imperative of our Time

Context

Imperative 1: Safeguard Our Lives

1a Suppress the virus as fast as possible

1b Expand treatment and testing capacity

1c Find “cures”; treatment, drugs, vaccines

Imperative 2: Safeguard Our Livelihoods

2a Support people and businesses affected by lockdowns

2b Prepare to get back to work safely when the virus abates

2c Prepare to scale the recovery away from a -8 to -13% trough

“Timeboxing” the Virus and the Economic Shock

Source: McKinsey analysis, in partnership with Oxford Economics
Scenarios for the economic impact of COVID-19

Context

Virus Spread & Public Health Response

Rapid and effective Control of Virus Spread
- Virus contained, but sector damage; lower long-term trend growth
- Global GDP growth 2020: -2%

Effective Response, but (regional) Virus Resurgence
- Virus resurgence; slow long-term growth
- Global GDP growth 2020: -6%

Broad Failure of Public Health Interventions
- Pandemic escalation; prolonged downturn without economic recovery
- Pandemic escalation; slow progression towards economic recovery

Ineffective Interventions

Partially Effective Interventions

Highly Effective Interventions

Knock-on Effects & Economic Policy Response

Source: McKinsey analysis in partnership with Oxford Economics

Current as of March 25, 2020
Scenario A1
Muted Recovery

Real GDP Growth – COVID-19 Crisis
Local Currency Units Indexed, 2019 Q4=100

- **World**
- **United states**
- **Eurozone**
- **China**

<table>
<thead>
<tr>
<th>Year/Quarter</th>
<th>Real GDP Drop 2019Q4-2020Q2</th>
<th>2020 GDP Growth, % Change</th>
<th>Time to Return to Pre-Crisis, Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>-4.2%</td>
<td>-2.3%</td>
<td>2021 Q2</td>
</tr>
<tr>
<td>USA</td>
<td>-11.1%</td>
<td>-8.7%</td>
<td>2024 Q2</td>
</tr>
<tr>
<td>World</td>
<td>-7.2%</td>
<td>-5.7%</td>
<td>2022 Q4</td>
</tr>
<tr>
<td>Eurozone</td>
<td>-13.2%</td>
<td>-10.6%</td>
<td>2024 Q4</td>
</tr>
</tbody>
</table>

1. Seasonally adjusted by Oxford Economics

Source: McKinsey analysis, in partnership with Oxford Economics

Scenario A3
Virus contained

Real GDP Growth – COVID-19 Crisis
Local Currency Units Indexed, 2019 Q4=100

- **World**
- **United states**
- **Eurozone**
- **China**

<table>
<thead>
<tr>
<th>Year/Quarter</th>
<th>Real GDP Drop 2019Q4-2020Q2</th>
<th>2020 GDP Growth, % Change</th>
<th>Time to Return to Pre-Crisis, Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>-3.5%</td>
<td>-0.5%</td>
<td>2020 Q4</td>
</tr>
<tr>
<td>USA</td>
<td>-8.0%</td>
<td>-2.4%</td>
<td>2020 Q4</td>
</tr>
<tr>
<td>World</td>
<td>-5.3%</td>
<td>-1.8%</td>
<td>2021 Q1</td>
</tr>
<tr>
<td>Eurozone</td>
<td>-10.1%</td>
<td>-4.7%</td>
<td>2021 Q2</td>
</tr>
</tbody>
</table>

Source: McKinsey analysis, in partnership with Oxford Economics
For more information on COVID-19 visit our website or request it via the Webinar question.

Visit our website: https://www.mckinsey.com/
or
Send us a note via the Webinar question function.
Agenda

What is happening?

How is it affecting Sporting Goods?

What can you do about it?
Stock markets foresee tough times for Sporting Goods players

Weighted avg. YTD local currency shareholder returns by industry in %\(^1\).
Width of bars based on market cap on Jan 1...

Market capitalization evolution Jan 1st – Mar 31st 2020

... shows Sporting Goods one of most heavily affected industries

Weighted average market capitalization of sporting goods players has decreased by 25% since January 1, 2020

This reflects investors’ expectation of future earnings due to COVID-19

As highly discretionary good, sporting goods are heavily affected

1. Data set includes global top 3000 companies by market cap in 2019, excluding some subsidiaries, holding companies and companies who have delisted since

Source: Corporate Performance Analytics, S&CF Insights, S&P
Covid-19 significantly impacts the Sporting Goods industry

1. **Consumer sentiment is changing** with most of them expecting negative financial consequences

   - Consumers are reducing overall spend and especially discretionary spend

   - Sporting Goods players see varying top-line effects: online sports and equipment benefit, mass events and apparel suffer

2. **Consumer time allocation is changing** with most consumers spending more time online and some consumers exercising more, others less

   - Consumers are responding more to online and video content also related to exercising at home

   - Sporting Goods players face severe top line losses on apparel/merchandizing and marketing disputes

3. **Consumers are engaging in sports in new ways** they exercise more at home/individually due to health concerns and regulation

4. **Major sporting events are being suspended, postponed or cancelled** around the world for children, amateurs, professionals
1: Most consumers believe their financial situation will be negatively impacted – spend is reduced especially discretionary

Consumers state their finances will be affected and thus will reduce their discretionary spending...

How long do you believe your personal / household finances will be impacted?

| Duration       | EU 0-1 month | EU 2-3 months | EU 4-6 months | EU 7-12 months | EU >1 year | US 0-1 month | US 2-3 months | US 4-6 months | US 7-12 months | US >1 year | China 0-1 month | China 2-3 months | China 4-6 months | China 7-12 months | China >1 year |
|----------------|--------------|---------------|---------------|----------------|-------------|--------------|---------------|---------------|----------------|-------------|----------------|-----------------|-----------------|-----------------|-----------------|-------------|
| I don't believe my household finance will be impacted | 22%          | 17%           | 12%           | 13%            | 14%         | 6%           | 6%            | 6%            | 6%             | 6%          | 0%             | 0%              | 0%              | 0%              | 0%            |
| 0-1 months     | 6%           | 21%           | 24%           | 13%            | 14%         | 22%          | 22%           | 27%           | 24%            | 24%         | 0%             | 0%              | 0%              | 0%              | 0%            |
| 2-3 months     | 21%          | 22%           | 34%           | 11%            | 13%         | 6%           | 6%            | 6%            | 6%             | 6%          | 0%             | 0%              | 0%              | 0%              | 0%            |
| 4-6 months     | 24%          | 27%           | 36%           | 4%             | 4%          | 17%          | 17%           | 13%           | 13%            | 13%         | 0%             | 0%              | 0%              | 0%              | 0%            |
| 7-12 months    | 13%          | 14%           | 36%           | 11%            | 11%         | 17%          | 17%           | 13%           | 13%            | 13%         | 0%             | 0%              | 0%              | 0%              | 0%            |
| >1 year        | 14%          | 13%           | 4%            | 4%             | 4%          | 22%          | 22%           | 17%           | 17%            | 17%         | 0%             | 0%              | 0%              | 0%              | 0%            |

~72% Of Europeans and 77% of Americans and 85% of Chinese believe their financial situation will be impacted by the coronavirus for >1 year

~37% Of Europeans and 46% of Americans and 28% of Chinese foresee reduction in household spend in the next 2 weeks vs the 2 previous weeks

Household spending next 2 weeks

<table>
<thead>
<tr>
<th>Increase slightly /increase a lot</th>
<th>EU 17%</th>
<th>EU 16%</th>
<th>EU 39%</th>
<th>US 17%</th>
<th>US 16%</th>
<th>US 39%</th>
<th>China 17%</th>
<th>China 16%</th>
<th>China 39%</th>
</tr>
</thead>
<tbody>
<tr>
<td>About the same</td>
<td>46%</td>
<td>38%</td>
<td>34%</td>
<td>46%</td>
<td>38%</td>
<td>34%</td>
<td>46%</td>
<td>38%</td>
<td>34%</td>
</tr>
<tr>
<td>Reduce slightly /reduce a lot</td>
<td>37%</td>
<td>46%</td>
<td>28%</td>
<td>37%</td>
<td>46%</td>
<td>28%</td>
<td>37%</td>
<td>46%</td>
<td>28%</td>
</tr>
</tbody>
</table>

... which will considerably lower spend on sporting goods

Sporting goods brands and retailers should expect segments to be impacted with varying degree

Higher

Discretionary items

Essential items that do not require seasonal replacement

Lower

Essential items that require seasonal renewal/upgrade

Source: McKinsey & Company M&S COVID-19 Europe Consumer Pulse Survey, 6th April 2020 across Italy, France, Germany, Spain, UK, Portugal N = 5,000+, sampled and weighted to match gen pop 18+,
2: Consumers allocate time differently – most consumers spend more time online; consumers exercise slightly more

Respondents spend more time online – also in channels relevant for Sporting Goods¹ ...

<table>
<thead>
<tr>
<th>Activity</th>
<th>Decrease</th>
<th>Stay the Same</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texting, chatting, messaging</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TV</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reading news online</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social media</td>
<td>11%</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Video content</td>
<td>12%</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Video games</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exercising</td>
<td>23%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Reading print news</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Channels relevant for Sporting Goods content

Very slight increase in time spent exercising

Channels relevant for Sporting Goods content

22% of consumers browse for inspiration online more often in the next 4 weeks

~20% of consumers will increase their spend in online channels now

13% of consumers have been driven to online shopping for the first time due to the crisis

¹ Q: Over the next 2 weeks, how much time do you expect to spend on these activities compared to how much time you normally spend on them?

2. Net intent is calculated by subtracting the percent of respondents stating they expect to decrease time spent from the percent of respondents stating to increase time spent.

3: Consumers engage in sports in new ways – sports categories are impacted with varying degree depending on their characteristics

COVID-19 effects different sports to a different extent depending on the number/density of participants and the exercise environment…

… Sporting Goods players should reconsider their position in line with demand

Category shifts are linked to number/density of participants, the exercise environment, and the lockdown rules

Demand shifts during the crisis can be expected to last for some time as consumers remain scared and have invested in home equipment
3: Consumers engage in sports in new ways – during the lockdown, consumers buy less Apparel & Footwear but more Sports equipment online

Consumers spend significantly less on Apparel & Footwear and more on Sports equipment online during the crisis....

### Sentiment data
- Expected change in spend over next two weeks vs. usual in percent

<table>
<thead>
<tr>
<th></th>
<th>Apparel</th>
<th>Footwear</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>-69</td>
<td>-70</td>
</tr>
<tr>
<td>US</td>
<td>-58</td>
<td>-64</td>
</tr>
<tr>
<td>China</td>
<td>1 month after the end of lockdown, A&amp;F consumption in China has return to pre-crisis levels</td>
<td>-3</td>
</tr>
</tbody>
</table>

### Sales data
- Change in Amazon sales by department since beginning of crisis: 3/08-3/22 in percent

<table>
<thead>
<tr>
<th></th>
<th>Apparel &amp; Footwear</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sports &amp; Fitness equipment</td>
<td>-43</td>
</tr>
</tbody>
</table>

### Top fastest growing and declining e-com categories vs. last year:
- 03/2019-03/2020 in percent

<table>
<thead>
<tr>
<th>Rank</th>
<th>Category</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Rash guards</td>
<td>-59%</td>
</tr>
<tr>
<td>19</td>
<td>Kids' athletic shoes</td>
<td>-51%</td>
</tr>
<tr>
<td>31</td>
<td>Fitness equipment</td>
<td>+170%</td>
</tr>
<tr>
<td>42</td>
<td>Yoga equipment</td>
<td>+154%</td>
</tr>
<tr>
<td>6</td>
<td>Swimwear</td>
<td>+62%</td>
</tr>
<tr>
<td>8</td>
<td></td>
<td>+307%</td>
</tr>
</tbody>
</table>

### Global Sporting Goods industry composition
- Equipment + Accessories: 39%
- Apparel: 33%
- Footwear: 28%

### Note
1. Averaged between genders

Source:
- McKinsey & Company M&S COVID-19 Europe Consumer Pulse Survey, 6th April 2020 across Italy, France, Germany, Spain, UK, Portugal N = 5,000+; sampled and weighted to match gen pop 18+.
- Stackline, NPD Group Global Sporting Goods market data 2018

---

... Sporting Goods players should adjust their core SKUs during lockdown

Apparel & Footwear are disproportionately affected during lockdown because:
- More important things
- No need for new clothing

Consumers are purchasing more home sports equipment online and are willing to purchase big ticket items (e.g., home trainer)

It is likely that the increase in sports equipment represents a temporary stocking up

Sporting Goods players can benefit by promoting the sale of such products especially during lockdown
4: All sporting events around the globe are being suspended, postponed or cancelled

<table>
<thead>
<tr>
<th>Not exhaustive</th>
<th>Amateur / semi-professional events</th>
<th>Suspended</th>
<th>Postponed</th>
<th>Cancelled</th>
</tr>
</thead>
</table>

All sporting events are being suspended, postponed or cancelled around the world…

Source: Press clippings; Sports associations

… with severe implications for sporting goods companies

**Wasted costs**, due to already incurred costs in relation to major events now cancelled

**Sponsorship agreements & contractual disputes** over season postponements/extensions

**Reduced product sales**, as children, amateur and semi-professional athletes suspend their training for events

**Reduced merchandizing sales**, as professional leagues don’t play

**Advertising and marketing spend reduction**, as there are no events to activate against

**Change in nature advertising**, since celebration of their athletes/sports achievements does not fit

**Product launch suspension or cancellation**, as not right time

---

1. Events between June and August 2020

---

### Graph: Events Suspended, Postponed, Cancelled

- **Mar**: All Triathlon events
  - **Apr**: European Badminton Championships 2020
  - **May**: IIHF Ice Hockey World Championship
  - **Jun**: UEFA Champions League Final
    - **Jul**: Tokyo Olympic and Paralympic Games
    - **Aug**: Beach Volleyball Major Series
    - **Sep**: Women’s Baseball World Cup
- **World Athletics Indoor Championships**
- **FIBA Europe Cup**
- **All International University Sports Federation events**
  - **All children’s and school sport events suspended**

---

---
Let's hear it from you

Participants' poll

What gives you the greatest concern in the next 2 to 3 months?
Please select all that apply

A. Drop in revenues
B. Excess inventory
C. High fixed cost base (e.g., employees, rent, equipment, etc.)
D. Cash flow difficulties
E. Production and supply chain issues
Agenda

What is happening?

How is it affecting Sporting Goods?

What can you do about it?
Actions for Sporting Goods
Observations and recommendations – what other Sporting Goods companies are doing

1. Decisively managing cost and liquidity now
2. Managing stock and collections
3. Leveraging e-commerce
4. Capitalizing on home/digital sports trend
5. Preparing for re-opening (physical + digital)
6. Understanding the Next Normal
7. Investing for the future
1: Companies are moving aggressively to cut and suspend expenses

Key trends and insights from interviews with >25 apparel and sports players

<table>
<thead>
<tr>
<th>Actions along value chain</th>
<th>Consistently enacted by majority of players</th>
<th>Only enacted by minority of players</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimize sourcing</td>
<td>Review the assortment for sourcing cost levers implementable during crisis</td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>Cancel offline and online marketing campaigns</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td></td>
<td>Shift offline budgets to online and move timing of marketing slots where possible</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td>Supply chain</td>
<td>Reduce shipment frequencies to stores</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td></td>
<td>Reduce working hours in warehouses, e.g., reducing shifts</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td></td>
<td>Reduce warehouse capacity and service levels (when outsourced)</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td>In-store labor</td>
<td>Implement short-time work for permanent store personnel and remove temporary labor</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td></td>
<td>Request government support programs (direct contribution, e.g., for short-term labor)</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td></td>
<td>Consume overtime accounts and send employees on paid vacation</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td></td>
<td>Cancel all contractors and temporary workforce</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td></td>
<td>Reallocate store labor, e.g., to fulfilment of online orders</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td>Store rent</td>
<td>Suspend rent payments as of day of store closure</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td></td>
<td>Prepare for renegotiating leases and review close network</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td></td>
<td>Pull forward planned store closures</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td>Head office</td>
<td>Freeze hiring</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td></td>
<td>Implement short-time work for selective functions applying to governmental special rules</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td></td>
<td>Cut bonus payments</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td></td>
<td>Review indirect spend (cancel, defer or close non-critical items)</td>
<td>Consistently enacted</td>
</tr>
<tr>
<td></td>
<td>Review client T&amp;C (discounts, returns, cancellations) to optimize inventory</td>
<td>Consistently enacted</td>
</tr>
</tbody>
</table>

Note: Certain measures like requesting government support or deferring rent payment are highly sensitive and need to be thought through and planned to avoid negative public reaction.

Decisively managing cost and liquidity now

Cost management needs to be a main focus to ensure survival

Regulation allows for new cost measures, these should be taken advantage of

Cost reduction should be done in waves depending on the length of the lockdown

Cost reduction should be a combination of personnel and indirect cost across the value chain
## 2: Beyond cancelling and postponing orders, players are adjusting collections and timelines

### Key trends and insights from interviews with >25 apparel and sports players

<table>
<thead>
<tr>
<th>Reducing buying commitment</th>
<th>Aggressively postpone or cancel orders for <strong>Summer 2020</strong> (June/July)</th>
<th>Consistently enacted by majority of players</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Remove and postpone aggressively orders for <strong>Fall 2020</strong> (August/September)</td>
<td>Consistently enacted by majority of players</td>
</tr>
<tr>
<td></td>
<td>Remove selectively orders for <strong>Winter 2020</strong> (November/December)</td>
<td>Only enacted by minority of players</td>
</tr>
<tr>
<td></td>
<td>Introduce a conservative approach and reduce sourcing budget for <strong>Spring Summer 2021</strong></td>
<td>Only enacted by minority of players</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Collection structure (incl. private label)</th>
<th>Conduct detailed review of the collection structure to do targeted cancelations</th>
<th>Consistently enacted by majority of players</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reduce commitments on NOS</td>
<td>Consistently enacted by majority of players</td>
</tr>
<tr>
<td></td>
<td>Keep SS ’20 collection in stores until end of September, shorting following FW ’20</td>
<td>Consistently enacted by majority of players</td>
</tr>
<tr>
<td></td>
<td>Increase transferability of products between collections and plan with a 12 months perspective (e.g., identify product FW products that could be integrated in spring)</td>
<td>Only enacted by minority of players</td>
</tr>
<tr>
<td></td>
<td>Increase in-season OTB</td>
<td>Consistently enacted by majority of players</td>
</tr>
<tr>
<td></td>
<td>Simplify collections (e.g., repeat models from previous season to facilitate wholesale sale) and eliminate collections drops</td>
<td>Only enacted by minority of players</td>
</tr>
<tr>
<td></td>
<td>Increase share of continuity products and reduce share of fashion products</td>
<td>Only enacted by minority of players</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Adapt stock distribution</th>
<th>Reallocate stock from offline to online operation, decentralizing stock to countries</th>
<th>Consistently enacted by majority of players</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Move Spring articles for distribution to stores by beginning of Autumn season</td>
<td>Consistently enacted by majority of players</td>
</tr>
<tr>
<td></td>
<td>Keep selected styles in Far East warehouses for Summer 2021 season</td>
<td>Only enacted by minority of players</td>
</tr>
<tr>
<td></td>
<td>Increase storage capacity to secure incoming goods</td>
<td>Only enacted by minority of players</td>
</tr>
<tr>
<td></td>
<td>Quickly re-allocate inventory between geographies to sell off high-performing products in markets operating still/again</td>
<td>Only enacted by minority of players</td>
</tr>
</tbody>
</table>

**Key insights for Sporting Goods**

- **Inventory should be actively managed** – both for apparel as well as hard goods
- **Sporting Goods players should select measures on severity** of the hit on their category and scenarios going forward
- **A combination of cancellation and moving product** across collections limits losses
- **Players should push breakthrough innovation** but wait with smaller innovation

---

1. Effect limited as most of stock on its way to Europe at the moment
### 3: Players are leveraging e-commerce to regain top-line

Key hypotheses on eCommerce in times of COVID-19

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A boost to eCom penetration</strong> will result from COVID-19 in the mid and long run</td>
<td><strong>Focus on direct to consumer</strong> by pushing your own e-commerce shop to loyal and new customers to benefit from higher margins</td>
<td><strong>There are relative winner and loser categories</strong> in the current situation - take a merchandizing perspective</td>
<td><strong>Engage your consumers with relevant content</strong> where they spend their time - leverage your CRM</td>
<td><strong>Promotional campaigns are a key driver</strong> of engagement now - spend your marketing budget wisely</td>
<td><strong>Consider how marketplaces play out for you at this point</strong></td>
</tr>
</tbody>
</table>

- 13% started browse or shop online for the first time and 14% expect to shop less offline after the crisis
- China: expected online stickiness 3-6 p.p.
- 20% state they use this time to try new brands
- 53% of consumers' apparel baskets include more sportswear, casual, and home wear and less formal, fashion and special occasion wear
- 23% find inspirational content and personalized recommendations more important now
- 52% increase in average assortment discount vs. last year
- 11% of consumers have started shopping more in multi-brand online shops in the past 4 weeks

3B: Players focus on direct to consumer through pushing their own e-commerce

<table>
<thead>
<tr>
<th>Immediate levers</th>
<th>Sporting Goods examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create engaging content so consumers have your brand top of mind and a higher likelihood to think of your e-commerce</td>
<td>Content on youtube/training app drives traffic to e-commerce app</td>
</tr>
<tr>
<td>Leverage CRM and maximize frequency of e-mail and app push</td>
<td>Direct emails and notifications remind consumers</td>
</tr>
<tr>
<td>Tailor on-site messaging to situation and contextual landing page</td>
<td>Through this together messaging on landing page</td>
</tr>
<tr>
<td>Optimize on-site product assortment/display (e.g., focus on top SKUs)</td>
<td>New product category called home workout on landing page</td>
</tr>
<tr>
<td>Introduce extra health guidelines and prepare fulfillment and customer support capacity, incl. staff temporary sources if needed</td>
<td>Two-shift system and hiring of extra staff to fulfill demand</td>
</tr>
<tr>
<td>Prioritize SKUs, ensure sufficient stock allocation and daily monitoring, incl. competitor stock to be able to deliver</td>
<td>Competitors still selling yoga mats capture demand</td>
</tr>
<tr>
<td>Find creative solutions for alternative fulfillment, e.g., using own stores that are now empty</td>
<td>Electronics retailer: 25% of online orders now fulfilled from “dark store”</td>
</tr>
</tbody>
</table>

Traffic & Awareness

- On-site & conversion
- Fulfillment & Stock

Accelerate demand

Manage operations

Key insights for Sporting Goods

- **COVID-19 is a prime opportunity** to increase sales through higher margin own e-commerce
- **COVID-19 brings new consumer groups online** and increases the time spent online
- **Connect with consumers through all possible means** to be top of mind
- **Tailor your online offering** to suggest relevant products and increase conversion
- **Manage your operations to be able to fulfill demand** e.g. through dark store
3D: Consumers spend more time online, brands try to capture their attention with relevant content

Consumers increase consumption of digital content
Share of consumers planning to increase their media consumption in next 2 weeks

<table>
<thead>
<tr>
<th>Activity</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reading news online</td>
<td>31%</td>
</tr>
<tr>
<td>Watching TV</td>
<td>34%</td>
</tr>
<tr>
<td>Social media</td>
<td>29%</td>
</tr>
<tr>
<td>Watching video content</td>
<td>26%</td>
</tr>
</tbody>
</table>

20% purchased in response to marketing on social networks

Communicate to consumers indirectly through relevant themes

Smart merchandising:
Lululemon and Nike are promoting COVID-specific content like health and fitness using multiple channels (e.g., apps with digital workout classes, social media, YouTube channels) and not putting direct marketing pressure on customers.

Indirectly this will drive corresponding category sales.

Key insights for Sporting Goods

- Make sure all communication is relevant in light of current situation
- Create inspirational content around sports themes especially videos to benefit from increased attention span
- Fully leverage CRM – CRM can be your competitive advantage over wholesale players, maximize its uses
- Leverage cash-conscious ways of marketing – e-mail marketing and apps and push notifications create high visibility

4: Consumers are trying to find ways to exercise at home

During lockdown, consumers are downloading more Health & Fitness apps

<table>
<thead>
<tr>
<th>Category</th>
<th>Downloads, (1000’s)</th>
<th>Change 3/09-3/24, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health &amp; Fitness</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wkd end 3/09</td>
<td>717</td>
<td></td>
</tr>
<tr>
<td>Wkd end 3/24</td>
<td>909</td>
<td>27%</td>
</tr>
<tr>
<td>Total for top 1,000 apps</td>
<td>87,699</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>89,451</td>
<td></td>
</tr>
</tbody>
</table>

Product categories that can be used at home are benefiting

- Non-connected equipment (e.g. mats, weights)
- Digital fitness and wellness apps
- Wearables
- Smart at-home equipment

Key insights for Sporting Goods

**Nike**
- Leveraged its digital app ecosystem and Nike expert trainer network to inspire and support consumers across China.
- The increased app activity increased Nike’s Digital business in China by 30%. Now the same playbook is applied across the rest of the world.

**Peloton**
- Capitalising on the at-home exercise trend with connected equipment, as health clubs and studios shut their doors.
- Google searches for Peloton products almost tripled since March 16th. During the same time Peloton’s stock outperformed the S&P 500 by 43 percentage points.

1. As of week ending 3/24

SOURCE: Priori top 1000 apps download data in US, company websites, press search
5: Recovery of revenue takes place in small increments rather than a single big bang

Weekly apparel and sporting goods offline revenue vs. pre-COVID period

<table>
<thead>
<tr>
<th>Peak period of COVID-19</th>
<th>Recovery period</th>
</tr>
</thead>
<tbody>
<tr>
<td>-91% Jan 26</td>
<td>-85% Feb 23</td>
</tr>
<tr>
<td>-95% Feb 2</td>
<td>-77% Mar 1</td>
</tr>
<tr>
<td>-94% Feb 9</td>
<td>-68% Mar 8</td>
</tr>
<tr>
<td>-93% Feb 16</td>
<td>-54% Mar 15</td>
</tr>
</tbody>
</table>

Key insights for Sporting Goods

- Recovery of revenues happens in small weekly increments rather than in a big bang
- Indicates that discretionary categories such as apparel and sporting goods are not prioritized in immediate spending

1. Source: MIYA payment data engine, McKinsey analysis
### 5: Sporting Goods players take action in 5 areas for re-openings

<table>
<thead>
<tr>
<th>Area</th>
<th>Actions</th>
</tr>
</thead>
</table>
| Provide a safe store environment and develop emergency protocols     | Emphasize staff hygiene through hand sanitizers and protective equipment  
Split staff into fixed groups  
Limit # of people allowed in store  
Offer customers protective equipment  
Develop scenario based protocols on how to react, e.g., in case of staff or customer infections |
| Optimize store network & lease costs                                | Accelerate store network optimization, closing stores that are unprofitable  
Renegotiate leases for stores, change from fixed to variable rent |
| Reduce store personnel costs                                       | Limit opening hours to core traffic times and extend step-wise  
Move towards minimum staff levels and revisit zones  
Simplify operations management structure in stores and regions |
| Slow down new product intakes and anticipate markdowns             | Keep majority of new product for Fall season  
Rebalance share of commercial styles with brand building styles that are more fashionable  
Reduce initial allocation and replenishment levels, keeping stock central to maximize flexibility  
Anticipate plan on mark-downs depending on stock level and scenarios |
| Activate customers to regain traffic                               | Go all-in on social channels focusing on image building and customer engagement  
Maximize usage of CRM to inform customers about re-openings and attract with deals  
Set broad but low discounts to generate traffic; no clearing prices yet  
Unleash waitlisted or limited edition products to create buzz |

Source: Management interviews, press research, store visits in Shanghai
6: Hypotheses on the contours of the “Next Normal” post COVID-19

**Increased price polarization**
Economic downturn, lower disposable incomes and higher unemployment will shift demand to lower price points and accelerate polarization

**Shifts in loyalty**
Consumer stick with brands that have managed to engage them (mainly online) during the crisis and shown outstanding customer service

**Retail under strong pressure**
Continued pressure on brick and mortar will force store streamlining/closure and require new tactics to re-engage when restrictions are lifted. Retail stores will need to adapt to allow both functional buying as well as engagement zones for brand building and testing of sporting goods

**Home recast as the new gym**
Consumers have made investments into home sporting goods and will (at least partially) continue this more convenient and cheaper way of exercising. New personalized tech enabled interaction services and apps (e.g. digital personal trainers) will reinforce at-home growth

**Online acceleration**
Boost of e-commerce by both existing and new customers will stick after crisis leading to an accelerated shift to online channel. Personalized offerings and services will continue to increase

**Digital solutions**
Traditional health club industry is challenged by wearables, fitness apps, connected interactive sport equipment and new at-home solutions which change the way how consumers exercise, interact with each other and make use of data

**Increased price polarization**
Economic downturn, lower disposable incomes and higher unemployment will shift demand to lower price points and accelerate polarization

**Shifts in loyalty**
Consumer stick with brands that have managed to engage them (mainly online) during the crisis and shown outstanding customer service

**Retail under strong pressure**
Continued pressure on brick and mortar will force store streamlining/closure and require new tactics to re-engage when restrictions are lifted. Retail stores will need to adapt to allow both functional buying as well as engagement zones for brand building and testing of sporting goods

**Home recast as the new gym**
Consumers have made investments into home sporting goods and will (at least partially) continue this more convenient and cheaper way of exercising. New personalized tech enabled interaction services and apps (e.g. digital personal trainers) will reinforce at-home growth

**Online acceleration**
Boost of e-commerce by both existing and new customers will stick after crisis leading to an accelerated shift to online channel. Personalized offerings and services will continue to increase

**Digital solutions**
Traditional health club industry is challenged by wearables, fitness apps, connected interactive sport equipment and new at-home solutions which change the way how consumers exercise, interact with each other and make use of data
7: Winners take bold anti-cyclical investments for the future during times of crisis

Company example

![Graph showing stock price trends with major Nike acquisitions and S&P 500 indices.]

- **Major Nike acquisitions**
- **S&P 500**
- **Nike**

**Key insights for Sporting Goods**

- **Targeted acquisitions**: company valuations will drop and start-ups with attractive capabilities might benefit from the help of a strong partner.
- **Product innovation**: crisis can be used to advance product innovations to address key trends in the ‘new normal’.
- **Investment in e-commerce and digital capabilities** (e.g., AI, communities, apps): for the ‘new normal’ after the crisis, the digital space will likely be the key competitive playing field.
- **Store refurbishments**: store closures can be used to advance refurbishments and leverage downtime while having a competitive advantage at reopening.

---

Nike did its major acquisitions anti-cyclically, in the aftermath of the dot-com crisis and at the time of the 2018 financial crisis.

---

1. Adjusted close price adjusted for both dividends and splits.
What do you see as your top priorities going forward?
Please select the top 3

A Decisively managing cost and liquidity
B Managing stock and collections
C Leveraging e-commerce and capitalizing on home/digital sports trend
D Preparing for re-opening (physical + digital)
E Understanding and preparing for the “Next Normal” and investing for the future
Questions & Answers
Thank you & stay safe!
If you have questions, please reach out

Robbert de Kock
President and CEO
rdekock@wfsgi.org

Emanuele Pedrotti
Partner
Apparel, Fashion & Luxury Practice leader Italy
Emanuele_Pedrotti@mckinsey.com

Paul McInerny
Senior Partner
Sporting Goods expert Asia
Paul_McInerney@mckinsey.com

Felix Poh
Partner
Consumer leader China
Felix_Poh@mckinsey.com

Raphael Buck
Senior Partner
Consumer Practice leader EMEA
Raphael_Buck@mckinsey.com

Achim Berg
Senior Partner
Apparel, Fashion & Luxury Group leader Global
Achim_Berg@mckinsey.com

Alexander Thiel
Partner
Sporting Goods expert Europe
Alexander_Thiel@mckinsey.com

Felix Poh
Partner
Consumer leader China
Felix_Poh@mckinsey.com
For more information on COVID-19 implications on the Fashion industry, take a look an update to the State of Fashion 2020


With this special coronavirus update McKinsey & Co and The Business of Fashion have taken a stance on what the fashion industry’s new normal will look like in the aftermath of COVID-19.

Fashion executives are focusing on crisis management now but eventually must shift to reimagining the industry. How will changes to the global economy and consumers’ behavior affect fashion in the postcoronavirus world?
Disclaimer

These are suggested practices, in many cases adopted by companies across sectors. We do not offer recommendations on sufficiency, adequacy or effectiveness of these measures. You can derive no rights or make decisions based on this material.

We do not provide legal, accounting, tax, medical or other such professional advice normally provided by licensed or certified practitioners and will rely on you and your other advisors to define applicable legal and regulatory requirements and to ensure compliance with applicable laws, rules and regulations. We do not intend to supplant management or other decision-making bodies, and you remain solely responsible for your decisions and actions, including those relating to manufacturing, product release, regulatory reporting and market action. We make no representation or warranty, express or implied, and expressly disclaim any liabilities relating to your manufacturing operations, compliance, quality, R&D and regulatory processes and products.