Perspective on the Sporting Goods Industry post-COVID-19: Trends, challenges & opportunities

Global Expert Webinar

World Federation of the Sporting Goods Industry | McKinsey & Company
July 8th
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.

Read more on Mckinsey.com
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.
During the webinar, there will be a number of anonymous polls. Answers will be visible immediately to all participants.
Agenda

What is happening?
Updated perspective on health and economic crisis

How is it affecting Sporting Goods?
Latest insights on consumer behavior and impact on Sporting Goods

How is the “New Normal” taking shape?
Emerging trends for Sporting Goods players

What actions should you take?
Best practice actions Sporting Goods players can take
Agenda

**What is happening?**

How is it affecting Sporting Goods?

How is the “New Normal” taking shape?

What actions should you take?
The Imperative of our Time

Imperative 1: Safeguard Our Lives

1a Supress 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

“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

- **Effective Response, but (regional) Virus Resurgence**
  - Virus resurgence; slow long-term growth

- **Broad Failure of Public Health Interventions**
  - Pandemic escalation; prolonged downturn without economic recovery

**Knock-on Effects & Economic Policy Response**

- **Ineffective Interventions**
  - Global GDP growth 2020: -7.4%

- **Partially Effective Interventions**
  - Global GDP growth 2020: -9.7%

- **Highly Effective Interventions**
  - Global GDP growth 2020: -8.1%

**Additional Scenarios**

- Virus contained; strong growth rebound
- Virus contained, growth rebound
- Virus resurgence; return to trend growth
- Strong World Rebound
- Muted World Recovery

Global GDP growth 2020:
- -7.4%
- -3.5%
- -9.7%
- -8.1%
- -7.4%

Source: McKinsey analysis in partnership with Oxford Economics
Shape of the COVID-19 impact: the view from global executives

“Thinking globally, please rank the following scenarios in order of how likely you think they are to occur over the course of the next year”; % of total global respondents

<table>
<thead>
<tr>
<th>World</th>
<th>April → May → June surveys</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rapid and effective Control of Virus Spread</td>
<td></td>
</tr>
<tr>
<td>B1</td>
<td>15→13→16%</td>
</tr>
<tr>
<td>GDP 2020</td>
<td>GDP 2020</td>
</tr>
<tr>
<td>-7.4%</td>
<td>-3.5%</td>
</tr>
<tr>
<td>B2</td>
<td>11→14→12%</td>
</tr>
<tr>
<td>GDP 2020</td>
<td>GDP 2020</td>
</tr>
<tr>
<td>-9.7%</td>
<td>-8.1%</td>
</tr>
<tr>
<td>B3</td>
<td>3→2→2%</td>
</tr>
<tr>
<td>B5</td>
<td>2→1→1%</td>
</tr>
</tbody>
</table>

Knock-on Effects & Economic Policy Response

Virus Spread & Public Health Response
- Rapid and effective Control of Virus Spread
- Effective Response, but (regional) Virus Resurgence
- Broad Failure of Public Health Interventions

Ineffective Interventions
Partially Effective Interventions
Highly Effective Interventions

Source: McKinsey surveys of global executives

1. Monthly surveys: April 2–April 10, 2020, N=2,079; May 4–May 8, 2020, N=2,452; June 1–5, N=2,174
Overall, the economy is expected to be impacted at least until 2021 with recovery depending on region and economic scenario.

Scenario A3: virus contained, growth returns
Real GDP, growth 2020 (YoY)
% change

<table>
<thead>
<tr>
<th>World</th>
<th>Real GDP Drop 2019Q4-2020Q2</th>
<th>2020 GDP Growth</th>
<th>Return to Pre-Crisis Level Quarter (+/- 1Q)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>-8.9%</td>
<td>-3.5%</td>
<td>2021 Q1</td>
</tr>
<tr>
<td>USA</td>
<td>-9.2%</td>
<td>-3.5%</td>
<td>2021 Q1</td>
</tr>
<tr>
<td>China</td>
<td>-4.7%</td>
<td>0.1%</td>
<td>2020 Q3</td>
</tr>
<tr>
<td>Eurozone</td>
<td>-10.9%</td>
<td>-5.4%</td>
<td>2021 Q1</td>
</tr>
</tbody>
</table>

Scenario A1: virus recurrence, with muted recovery
Real GDP, growth (YoY)
% change

<table>
<thead>
<tr>
<th>World</th>
<th>Real GDP Drop 2019Q4-2020Q2</th>
<th>2020 GDP Growth</th>
<th>Return to Pre-Crisis Level Quarter (+/- 1Q)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>-11.1%</td>
<td>-8.1%</td>
<td>2022 Q3</td>
</tr>
<tr>
<td>USA</td>
<td>-12.2%</td>
<td>-9.0%</td>
<td>2023 Q2</td>
</tr>
<tr>
<td>China</td>
<td>-5.7%</td>
<td>-4.4%</td>
<td>2021 Q4</td>
</tr>
<tr>
<td>Eurozone</td>
<td>-14.8%</td>
<td>-11.5%</td>
<td>2023 Q3</td>
</tr>
</tbody>
</table>

Data as of June 9, 2020

Legend
- <= -10
- -10 – -8
- -8 – -6
- -6 – -4
- -4 – -2
- > -2
- No data

Source: McKinsey analysis, in partnership with Oxford Economics

1. Seasonally adjusted by Oxford Economics
We observe local actions by governments to contain new resurgences of COVID-19

We observe local resurgences of COVID-19

<table>
<thead>
<tr>
<th>Event</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 45,000 new cases per day across the USA</td>
<td>Local lockdown measures for two counties in Germany showing higher infection rates affecting 600,000+ people</td>
</tr>
<tr>
<td>139 new cases within 24h in Melbourne/ Australia (July 7th)</td>
<td>6 weeks of local lockdown for the metropolitan Area of Melbourne affecting c. 5 million people and closure of borders of the state of Victoria</td>
</tr>
<tr>
<td>&gt;1,500 new COVID-19 cases in meat production plants in Germany (June 23rd)</td>
<td>2 weeks of local lockdown measures for two counties in Germany showing higher infection rates affecting 600,000+ people</td>
</tr>
<tr>
<td>New cases in Beijing/China associated with outbreak in a local market (June 18th)</td>
<td>Lockdowns for specific neighborhoods in Beijing affecting c. 400,000 people</td>
</tr>
</tbody>
</table>

Source: Press clipping

Takeaways

Governments react fast to resurgences of COVID-19 to prevent spread

Potential second wave is likely to only trigger localized measures rather than nationwide lockdowns

Companies need a clear protocol and action plan for each store, office, and manufacturing site to respond to localized lockdowns (e.g. with task force)
Agenda

What is happening?

How is it affecting Sporting Goods?

How is the “New Normal” taking shape?

What actions should you take?
Discretionary spending also in sports is expected to decrease as consumers anticipate a prolonged negative impact

> 50% of consumers across all geographies state that COVID-19 will affect their finances for more than 3 months.

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

<table>
<thead>
<tr>
<th>% of respondents</th>
<th>&gt; 1 year</th>
<th>7-12 months</th>
<th>4-6 months</th>
<th>2-3 months</th>
<th>0-1 months</th>
<th>I don't believe my household finance will be impacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>14%</td>
<td>35%</td>
<td>19%</td>
<td>19%</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>7-12 months</td>
<td>13%</td>
<td>15%</td>
<td>19%</td>
<td>12%</td>
<td>12%</td>
<td>22%</td>
</tr>
<tr>
<td>4-6 months</td>
<td>16%</td>
<td>15%</td>
<td>20%</td>
<td>15%</td>
<td>15%</td>
<td>22%</td>
</tr>
<tr>
<td>2-3 months</td>
<td>12%</td>
<td>15%</td>
<td>20%</td>
<td>12%</td>
<td>17%</td>
<td>26%</td>
</tr>
<tr>
<td>0-1 months</td>
<td>6%</td>
<td>6%</td>
<td>9%</td>
<td>13%</td>
<td>13%</td>
<td>37%</td>
</tr>
<tr>
<td>I don't believe my household finance will be impacted</td>
<td>39%</td>
<td>38%</td>
<td>29%</td>
<td>28%</td>
<td>28%</td>
<td>20%</td>
</tr>
</tbody>
</table>

1. Q: How long do you believe your personal/household finances will be impacted by the coronavirus (COVID-19) situation?
2. Only exception is Germany with 43%.

Source: McKinsey & Company COVID-19 Consumer Pulse Survey 6/01-6/22/2020 (depending on geography), sampled and weighted to match general population 18+ years of age

**Key insights for Sporting Goods**

- Sporting Goods players should prepare for a prolonged period of sales decrease as consumers will decrease their discretionary spending.
- Sporting Goods players need to align their cost structure to the “New Normal” and adjust their cost base.
- Sporting Goods players should be proactive leaders in adjusting to the change in customer sentiment.
Sporting apparel and equipment players perform better than their peers even though stock markets generally foresee tough times.

Weighted avg. YTD local currency shareholder returns by industry in %

Width of bars based on market cap in $.

1. Data set includes global top 5000 companies by market cap in 2019, excluding some subsidiaries, holding companies and companies who have delisted since.
2. High weighted average TRS for Sporting Equipment sub-set due to the very high performance of Peloton Interactive, Inc. which showed a YTD TRS of +104.4%.

Source: Corporate Performance Analytics, S&CF Insights, S&P

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**Sporting Goods players tend to show higher TRS than their peers with strong recovery since the end of March**

**Sporting Apparel players (20 companies) outperform AF&L peers as consumers pursue more exercise**

**Sporting Equipment players (6 companies) outperform peers as consumers buy equipment to exercise at home**

**Sporting Specialty retailers (6 companies) underperform compared to Retail peers as consumers buy more directly from brands**
Sporting Good sales have been supported by a change in consumer behavior towards spending more time exercising

Respondents spend more time exercising and online …

<table>
<thead>
<tr>
<th>Activity</th>
<th>Decrease</th>
<th>Stay the same</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooking at home</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIY around the house</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exercise</td>
<td>17%</td>
<td>58%</td>
<td>25%</td>
</tr>
<tr>
<td>Movies or shows</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Texting, chatting, messaging</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Using social media</td>
<td>18%</td>
<td>62%</td>
<td>21%</td>
</tr>
<tr>
<td>Watching life news</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Video content</td>
<td>21%</td>
<td>60%</td>
<td>19%</td>
</tr>
<tr>
<td>Watching TV</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Net intent^2

- Increase in time spent exercising
- Channels relevant for Sporting Goods content

25% of consumers in the EU expect to increase their time spent exercising which is expected to remain at pre-crisis level even after lockdowns

>10% of consumers in the EU have increased the time they spend outdoors

10% increase in digital exercise machines usage in almost all countries

50% of the usage increase in online fitness offers in the UK, Spain and Italy is driven by new users

Some sports categories sales have been accelerated by COVID-19 and are expected to remain strong

In certain categories, sales have been significantly accelerated by COVID-19...

Exemplary sales impact across categories

<table>
<thead>
<tr>
<th>Category</th>
<th>Exemplary Sales Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>~2X sales of bicycles</td>
<td>equipment and repair services in March 2020 vs. March 2019</td>
</tr>
<tr>
<td>+30% sales in performance running</td>
<td>in June 2020 vs. June 2019</td>
</tr>
<tr>
<td>+130% fitness equipment sales</td>
<td>in March 2020 vs. March 2019</td>
</tr>
<tr>
<td>~2X road utilization of bicycles</td>
<td>in France’s towns after vs. before lockdown</td>
</tr>
<tr>
<td>+20% sales in sport footwear</td>
<td>in June 2020 vs. June 2019</td>
</tr>
<tr>
<td>~2X growth fitness equipment</td>
<td>compared to pre-lockdown</td>
</tr>
</tbody>
</table>

Source: Press clippings, NPD

… and are expected to stay strong

Overall, consumers show a renewed interest in health and fitness and this lifestyle shift is expected to last beyond COVID-19.

New consumers are being attracted into sports categories, e.g.,
- Bicycles are increasingly used for commutes
- Running gear and at-home fitness equipment is filling the gap for gym users

Due to volatile demand, doubling down on sales projections and ensuring supply flexibility will be key.

Due to volatile demand, doubling down on sales projections and ensuring supply flexibility will be key.
Discount levels in apparel categories are slowly converging with 2019 levels

**Average product discount on apparel categories (online)**
Mean of discounted products across market

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35%</td>
<td></td>
<td></td>
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<tr>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>45%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>55%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**% Assortment on discount apparel categories (online)**
% share of assortment on markdown

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30%</td>
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<td></td>
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<tr>
<td>35%</td>
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<td>40%</td>
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<td></td>
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<tr>
<td>45%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>55%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key observations

- Post-lockdown discounts have been **managed better than anticipated** as massive discount spikes have failed to materialize.
- However, discount levels are **unsustainable** in the mid- and long-term.
- In spring 2019 the share of assortment on discount decreased, while in 2020 it remained high at around 45%.
- Average discount on apparel categories has maintained constant at 30-35% similar to 2019.
- Companies will likely roll-over stocks to minimize write-offs.

Source: EDITED Retail Decision Platform, including Australia, China, Germany, Italy, South Korea, Spain, United Kingdom, and USA
Even though lockdowns have been lifted, sporting events continue to be canceled with negative effects for Sporting Goods players

<table>
<thead>
<tr>
<th>Status quo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Events</td>
</tr>
<tr>
<td>Most sports events scheduled for 2020 are <strong>cancelled or postponed</strong></td>
</tr>
<tr>
<td>COVID-19 related risks and <strong>guidelines</strong> have increased event complexity and may be a <strong>long-term impediment</strong> on conducting major sports events</td>
</tr>
<tr>
<td>Some leagues have resumed activity (e.g. Bundesliga), but no <strong>spectator sports</strong></td>
</tr>
<tr>
<td>Global misalignment in the way forward</td>
</tr>
<tr>
<td>COVID-19 status largely <strong>varies</strong> across geographies</td>
</tr>
<tr>
<td>Governmental approaches and regulations vary from country to country</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Effect on Sporting Goods players</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sponsorship deals</strong> do not yield the expected return</td>
</tr>
<tr>
<td><strong>Match-day merchandise sales</strong> do not materialize</td>
</tr>
<tr>
<td><strong>Direct engagement</strong> with customers for lead generation at events is not possible</td>
</tr>
</tbody>
</table>

Topics for sporting goods players to address

- **Restructuring of sponsorship agreements**
- **Reallocation of marketing spend**
- **New ways to engage with consumers to compensate for loss of event activation**
- **Adaptation of product ranges esp. due to reduced merchandising sales**
- **Geography-specific measures**
By how much have your sales recovered since lockdowns have been eased?
Please select only one answer

A  More than before
B  Same as before
C  80 to 100% of before
D  60% to 80% of before
E  Less than 60% of before
Agenda

What is happening?

How is it affecting Sporting Goods?

How is the “New Normal” taking shape?

What actions should you take?
6 Hypotheses on the contours of the “New Normal” post COVID-19 presented in April Webinar remain valid ...

**Increased price polarization**
Economic downturn, economic inequality explosion, 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 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 recasts 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

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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
... however they are at different stages of development

### New insights

**Online acceleration**

Development of digital living more broadly has accelerated not only e-commerce but also online influencing and digital communities.

**Home recasts as the new gym**

Home is not the only preferred alternative with emerging Outdoor & Nature activities.

**Shifts in loyalty**

Now that stores are reopening, further shifts in loyalty will become evident; loyalty increasingly also driven by sustainability considerations.

**Increased price polarization**

Prolonged economic impact of the crisis increasingly displaces mid segment, basic apparel categories have started to gain proportional share.

**Digital solutions**

The crises triggered new demand for digital solutions and thus increased investments, but development takes time.

**Retail under pressure**

Retailers will need to add components of seamless integration of hygiene measures; First examples of retailers under severe financial distress.

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![Development status diagram](image-url)
COVID-19 has made digital the prime purchasing and engagement channel and is expected to stick

Due to full store closures from mid-March to mid-May (variation by country) brands and retailers saw jumps in online sales

Increase in e-commerce sales since lockdown and share of total sales

Percent

<table>
<thead>
<tr>
<th>Brand</th>
<th>1-4 months</th>
<th>&gt;4 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dick's</td>
<td>210%</td>
<td>39%</td>
</tr>
<tr>
<td>Nike</td>
<td>791%</td>
<td>30%</td>
</tr>
</tbody>
</table>

As long as consumers are reluctant to return to stores, the level jump of e-commerce will remain

Estimated time for return to preferred stores. Share of respondents

Percent

<table>
<thead>
<tr>
<th>Brand</th>
<th>1-4 months</th>
<th>&gt;4 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foot Locker</td>
<td>40%</td>
<td>30%</td>
</tr>
<tr>
<td>Finish Line</td>
<td>40%</td>
<td>30%</td>
</tr>
<tr>
<td>Dick's</td>
<td>30%</td>
<td></td>
</tr>
</tbody>
</table>

Key insights for Sporting Goods

- Consumers have switched to digital as purchasing and exercise channel
- ~30% of consumers show reluctance to return to stores and gyms for the next 4 months
- Sporting Goods players should enhance their digital brand engagement and brand building as information gathering shifted from in-store to online
- Digital will remain major purchasing and exercise channel and key to keeping access to consumers as only parts of digital will move back to physical engagement

1. Only DTC sales, no wholesale

Source: CivicScience, Statista/ Morning Consult Company annual reports and presentations – April/May 2020
While gyms are struggling ...

People do to not feel comfortable going back to the gym

Key insights for Sporting Goods

-70% decline of health clubs revenue in April and May compared to the same periods in 2019 (-55% in June) leading to less investments of gyms in sports equipment going forward

>50% of people will only go back to gyms after 2 months or more, leading to a loss in sales and activation opportunities through gyms

Source: Statista; April 2020
... homes are recasts as new gyms – a change in consumers behavior is partially expected to stick

Home training fitness on the rise

2x increase in stock price of Peloton since January

48% consumers spending more time on online personal training/fitness

3x increase in sales of weight training equipment

150-200% increase in fitness and yoga equipment

Source: McKinsey Consumer of the Future Perspectives; NDP data

Key insights for Sporting Goods

Large individual investments on home training equipment may substitute gyms also post-COVID-19 due to high gym subscription fees

Specific gym apparel and footwear collections are likely to be under pressure
Also outdoor activities are picking up as gyms become less popular

Up to 80% more time has been spent in parks and public gardens in Europe since the COVID-19 outbreak.

Across the world we observed an increase of people spending time outdoors.

% of respondents

Key insights for Sporting Goods

Consumers feel the need to experience the outdoors, while in research of freedom after the lockdown period.

Tailoring communication and marketing efforts to new consumers’ “free spirit” preferences, while pushing outdoors product lines may allow to capture more value.

Adjusting offering to outdoor needs will become necessary.

The “New Normal” store will reflect regulatory requirements and customer expectations

What customers could expect before entering the store

- No infected people in stores
- Access solutions checking co-worker, staff, and customer health
- Safe distances
  - App helping to identify safer shopping hours
  - Store count maximum
  - Shopping list sorting according to store layout to reduce time spent in store (potentially)
- Safe surfaces
  - All consumers enter with sanitized hands

What could be different inside the store

- Safe distances & protections
  - Proximity sensors in baskets/phones
  - Plexi glass shield to protect cashiers
  - New staff uniforms
  - Distance customer engagement
  - Contactless payments
- Safe surfaces and trolleys
  - Sanitized stores
  - Remove un-needed customer touch and feel
  - Visualized cleaning frequency
- Safe air
  - Air filtration systems

Key insights for Sporting Goods

- Physical stores need to be upgraded with health and safety measures reflecting both regulatory requirements as well as customer expectations to make them feel safe.
- Measures should be viable over the long term from a cost perspective i.e. wherever possible automated.
- Measures should limit sales reductions to the least extent possible and updated as regulation changes i.e. no drastic store count reduction or fitting room closing if not required.
The “New Normal” store: Decathlon’s Scan&Go case example

In order to meet expectations of providing a safer store environment to customers, Decathlon has launched Scan&Go, a solution where **customers can scan items and directly pay through their smartphone**

The mobile check-out solution is provided by the partnership with the retail-tech startup MishiPay

**How does it work?**

- The customer enters the store …
- … selects the product to buy …
- … opens the app, scans the code and pays through the app …
- … and the customer is free to leave the store without touching anything (apart from the bought product)

By scanning the code the RFID security tag is disabled…
Situations of financial distress will fuel industry consolidation

**Sources of financial distress**

Lost sales due to store closures is the primary cause of financial distress fueled by:

- **Inability to leverage digital channel and online shoppers** as key target group leads to high losses and stock devaluations
- **Liquidity issues** due to prioritization of rapid over sustainable growth
- **High rent obligations** further increase losses particularly for multi-brand boutiques

**Potential impact**

Share of 71 listed EMEA clothing & footwear companies, >250mn net sales entering financial distress as lockdown progresses

<table>
<thead>
<tr>
<th>Signs of distress</th>
<th>Pre-Crisis</th>
<th>1 Month Closure¹</th>
<th>2 Month Closure²</th>
<th>3 Month Closure³</th>
</tr>
</thead>
<tbody>
<tr>
<td>No signs of distress</td>
<td>62</td>
<td>34</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Loss in sales</td>
<td>-38</td>
<td>-66</td>
<td>-89</td>
<td>-93</td>
</tr>
</tbody>
</table>

Distress meaning negative EBITDA or net debt/EBITDA > 4

**Key insights for Sporting Goods**

1. **The gap between winners and losers** in the industry is widening for both large retail networks and individual sporting retailers
2. **Industry is facing a wave of consolidation through M&A** while financial investors are expected to enter esp. more fragmented categories (e.g., footwear)
3. **Weighing of strategic options** (incl. leverage, divestitures and acquisitions) is key to creating operational and financial stability

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1. 1 month store closure and 1 month lost sales in ramp-down, ramp-up – equivalent to 17% FY revenue decline
2. 2 month store closure and 2 month lost sales in ramp-down, ramp-up – equivalent to 33% FY revenue decline
3. 3 month store closure and 2 month lost sales in ramp-down, ramp-up – equivalent to 42% FY revenue decline

Let's hear it from you

Participants' poll

Which “New Normal” trend do you think is going to impact your business the most?

Please select top answer

A  Increased price polarization
B  Shifts in loyalty
C  Retail under pressure
D  Home and outdoor recast as the new gym
E  Online acceleration and digital solutions
Agenda

What is happening?

How is it affecting Sporting Goods?

How is the “New Normal” taking shape?

What actions should you take?
To manage the “New Normal” best practice companies follow a rigours approach to define an action plan

**Planning & ideation**
Develop long list of potential actions to accelerate revenue recovery and to ultimately succeed in a “New Normal” with changed customer needs, further online acceleration and other changes

**Rigorous prioritization**
Prioritize actions based on EBIT impact and "Now-or-never"-factor while considering the business context post COVID-19 in order to act fast where most required

**Agile execution**
Execute on prioritized actions using agile squads and rigorous performance management
### Planning & ideation: Revenue recovery actions in B2C

Exemplary commercial pillars and actions observed

<table>
<thead>
<tr>
<th>Commercial pillars</th>
<th>Actions</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> Capture new digital demand</td>
<td>E-commerce garage</td>
<td>Set-up and boost integrated e-commerce solution, fully functional digital platform and increased last mile delivery capacity</td>
</tr>
<tr>
<td></td>
<td>Digital marketing effectiveness</td>
<td>Increase awareness and traffic generation to digital touchpoints optimizing channel mix, targeted campaigns, personalization leveraging data and technology</td>
</tr>
<tr>
<td><strong>2</strong> Leverage data and analytics</td>
<td>Personalization, Loyalty &amp; CRM</td>
<td>Launch and sustain demand through rapidly launching targeted campaigns to drive acquisition, retention win-back, value management leveraging advanced analytics</td>
</tr>
<tr>
<td></td>
<td>Revenue Growth Management (RGM)</td>
<td>Adjust promotion, pricing and trade terms spending leveraging advanced analytics and new set of data to optimize commercial spending in the “New Normal”</td>
</tr>
<tr>
<td></td>
<td>Marketing efficiency for growth (MEG)</td>
<td>Capture near term marketing efficiency by adjusting budget and prioritizing spend towards new growth opportunities</td>
</tr>
<tr>
<td><strong>3</strong> Re-invent business</td>
<td>“Next” and “Safe” customer experience</td>
<td>Move from &quot;safe experience” to “next experience” ensuring physical safety but reimagining offering and customer journeys to offer valuable, purposeful, comfortable experience</td>
</tr>
<tr>
<td></td>
<td>Brand repositioning</td>
<td>Re-link brand and purpose to cultivate deeper relationships and adapt to the new consumer needs and behaviors, leveraging new consumer insights and cultural trends</td>
</tr>
<tr>
<td></td>
<td>M&amp;A and ecosystem</td>
<td>Evaluate inorganic moves to acquire new capabilities to enable the acceleration or creation of the ecosystem to evolve offering (e.g. vertical integration, adjacencies)</td>
</tr>
</tbody>
</table>

Source: Press clippings

**Examples**

- **Nike**: Aims to capture new digital demand and targets **digital to account for 50 percent of its overall business**, up from the 30 percent recorded in the reported quarter.
  - Launched an app that will allow for a **totally contact-less shopping experience**.

- **adidas**: Through its #HOMETEAMHERO challenge generates community engagement and creates brand equity.
Rigorous prioritization: Key initiatives are prioritized

Illustrative prioritization for Sporting Goods player with D2C presence online and physical

Actions are prioritized for execution, for example based on EBIT impact and "Now-or-never"-factor while considering the business context post COVID-19

Business context post COVID-19
Impact of COVID 19 on business performance ("Market view")
• Increasing
• Declining

Maturity of commercial practices ("Internal view")
• High
• Low

Illustrative prioritization matrix

EBIT Effect, EUR mn

High

Structural shifts

Inorganic M&A moves

Brand repositioning

CX reinvention

Assortment, range, sizing, packaging

E-commerce new features

Short term moves

Promotion, liquidation

Marketing efficiency for growth

Revenue growth management

"Now-or-never"-factor, qualitative assessment

Source: Press clippings

Examples

Decathlon opened new e-commerce features in India by tailoring its phygital journey (e.g., Click & Collect) when stores reopened

Nike has increased its digital marketing campaigns for client acquisition over the marketplaces to capture e-commerce increasing trend

Lululemon acquires start-up Mirror (at-home fitness app) for 500$M to bolster its "sweat life offerings" and bring "personalized in-home sweat"
Despite the crisis, recent M&A activity shows that many players choose to pursue opportunistic investments.

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Deal announcement</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIRROR</td>
<td>Omega</td>
<td>June 2020</td>
<td>Acquisition of at-home fitness app Mirror to respond to at-home fitness trend</td>
</tr>
<tr>
<td>Time</td>
<td>What</td>
<td>June 2020</td>
<td>Acquisition of Rossignol biking business to build Brand Group around cycling to expand competitive edge on e-bikes</td>
</tr>
<tr>
<td>ZOGGS (International Ltd.)</td>
<td>Head</td>
<td>June 2020</td>
<td>Acquisition of swimming goggles producer Zoggs International Ltd. merged into combined swimming business</td>
</tr>
<tr>
<td>Oobo</td>
<td>Monelesa</td>
<td>May 2020</td>
<td>Acquisition of performance sportswear to reach synergies with existing brands</td>
</tr>
<tr>
<td>STEP</td>
<td>CCM</td>
<td>February 2020</td>
<td>Acquisition of hockey skate blades producer to enhance performance of skating products</td>
</tr>
</tbody>
</table>
Agile execution: Improved execution through
Agile squads and rigorous performance mgmt.
Illustrative examples of Agile squads

Marketing Cash Liberation Squad
Prioritize immediate review of cost base and budget
Helps contribute to company stability & other marketing efforts (e.g., communications)

Consumer & Market Insights Squad
Central hub for monitoring changes in consumer sentiment/behavior, market and regulations
Feeds information to other squads and enables quick response to market changes

Growth Squad
Shares in-market learnings hub
Identify and prioritize sales green shoots
Optimize channel management (e.g., actions to be taken with offline retailers, inventory/stock management)

Digital marketing & sales squad
Adapt current digital M&S activities to new reality (e.g., digital marketing)
Build / evolve digital selling platforms (D2C or through partners)

Post-COVID-19 Growth Squad
Develop clear plan for “New Normal”
Balance resourcing w/ short-term squad

Agile teams in consumer goods companies have shown to achieve:

- 75% order volume recovery from 5% of YoY base in 6 weeks
- 5x improvement in campaign conversion rates
- 5x improvement in existing customer ‘activation’ rate
- 13 weeks for new D2C e-business with 3x basket size of physical stores
Questions & Answers
Thank you & stay safe!
If you have questions, please reach out

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