

Sportswear - China

Distributor call takeaway: 10% growth in 2024, more focus on lower-tiered cities

Industry Overview

We recently hosted a conference call with a sportswear distributor, Mr. Sun, in Northern China, and summarize our key takeaways below. Please note these discussions were specific to the distributor's region and may not represent national trends; information should be used together with other sources and channel checks.

4Q retail rebound softer-than-expected; 1Q grow 12-15%

4Q23 retail sales were up 22% YoY in the distributor's region (on a low base of -32% in 4Q22), softer than his expectation of 25% on lower traffic. The New Year holiday delivered low-teens% growth in the region (off a base of 5% growth over the 2023 New Year holiday), but still below his expectation of 15%. Despite a rising base, he expects 15% retail sales growth in 2M24 thanks to the late CNY. 1Q24 growth might be lower at 12-15%. He expects 10% retail sales growth for 2024, which is still subject to uncertainties. On a positive note, Li Ning has turned more rational with order growth targets and applies different targets based on the markets (which was unified last year).

Order growth of 12% in 2024E with ASP improvement

The distributor's orders fell 27% in 4Q23, given the 15% repurchase of 3Q products in Nov and late shipment of CNY products. For 2024, Li Ning has set a 12% order growth target for the distributor, while distributor order growth was 8%/8%/9% for 1Q/2Q/3Q24. The gap between the full year and 9M run-rate will likely be fulfilled by CNY products' late shipment (was shipped in Dec 2022, but fell in Jan 2024 given late CNY), replenishment, quick strike products (eg. Olympic-related products during Jul and Aug, special edition, etc) and a low base in 4Q. Despite plans to launch low-priced products from 2Q24, the distributor estimates 2024 blended ASP to increase LSD%, supported by product mix (e.g higher contribution from Feidian 3 series within running shoes with an ASP of RMB799).

Inventory still higher than normal; discounting stabilize

Inventory-to-sales ratio was 5x at end-Dec-23, still higher than the 4.5x healthy level. The sell-out ratio for 4Q products was only 49% at end-Dec-23, but likely to improve to 70% by end-Jan on the back of more discounts and utilization of discounted channels (but still 5% lower than normal). The 4Q23 retail discount was at 25% off tag price, widening 1% YoY and 4% deeper vs the 2019 level.

Strategy to expand into low-tier cities

Li Ning's strategy is to penetrate lower-tier cities and become the No.1 market shareholder there. The distributor expects to have a net add of 6-7 stores in 2024 on an existing network of ~140 stores. The distributor sees measures implemented by Li Ning: 1) lower store size requirement from 350+ to 200sqm, 2) lower store sales KPI from RMB400k/mo. to RMB200k, 3) offer more decoration subsidies (very little last year), 4) launch low priced SKUs, such as walking shoes with an effective ASP of RMB290-300, vs domestic peers RMB190-230 and international brands RMB270-400. Mr. Sun thinks it is hard for Li Ning to compete directly on pricing, but should rather treat it as broadening product offerings.

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ASP – average selling price

KPI – key performance indicator

SKU – stock keeping unit

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Headwinds for Li Ning continue

The distributor believes that the rise of Li Ning can be attributed to: 1) Guo Chao (rising preference for national brand), especially after the Xinjiang cotton controversy, 2) quick development of new tech on running shoes following Nike's carbon plate running shoes, and 3) early launches of product IP with marketing campaigns, leading to wide consumer recognitions.

However, future growth is uncertain, given 1) intense competition with limited room to create additional demand, 2) absence of technology innovation, 3) a single brand with no clear dominance in certain categories, and 4) lack of marketing resources in important international sports events. The distributor believes more investment in marketing and talent might help to fix the issues in the long term.

Other industry trends observations

- Due to technology bottlenecks in recent years, brands turned to develop more Athleisure products, such as Samba (Adidas), Kobe/Jordan series (Nike), and crossovers.
- Barring no major tech innovation and fashion trends, the distributor believes domestic brands could still outpace international peers in 2024, except for smaller international brands in niche categories.
- Consumption downtrading is happening, except for some special functional products, which cannot be replaced by others.

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