

China's sportswear market: Trends and pitfalls

By Jens Kastner 10 July 2023

For China's sportswear-makers, it's domestic boom and export doldrums. WTIN explores the momentum of domestic and international brands operating in the region, including the challenges and prospects facing both sides.

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China's sportswear brands witnessed significant growth in sales during the Covid-19 pandemic, especially in domestic markets where consumers embraced athleisure trends. Prominent examples include Beijing-based Li-Ning and Jinjiang-based Anta, which reported Chinese Yuan Renminbi-denominated sales growth of 14.3% and 15.5% respectively in 2022 [1], [2].

International brands such as US-based Nike and Canada-based Lululemon also grew sales in China's 1.4bn people market during 2022. At its December earnings call Nike said Gen Z's demand for Nike products on the Chinese shopping site Tmall increased by 45% on China's annual Singles' Day shopping holiday [3]. Meanwhile, Lululemon's 2022 financial results said its three-year compound revenue growth rate in the Chinese mainland market was close to 70% [4].

FITNESS DRIVE BOLSTERS MARKET

All analysts and manufacturers speaking to WTIN attributed the surge in demand for sportswear to the pandemic shifting consumer preferences towards increased concerns about health and fitness. In May 2022, the state-owned broadsheet China Daily cited a report about the fitness habits of young Chinese consumers, published by the technology media platform 36Kr [5]. It concluded that more than 40% of consumers born between 1995 and 2010 like to exercise at home.

"The Chinese market has been developing positively, as people value healthy life and exercise more, with jogging, cycling, basketball and children's football gaining popularity particularly fast," said Thomas Schmidt, director of innovation of Huafeng, a textile manufacturer in Putian, Fujian Province.

He told WTIN that "Chinese brands like Anta and Li-Ning are popular thanks to...being more affordable than the big international brands."

English >

Company Intelligence: Li-Ning

Prominent Chinese sportswear brand Li-Ning has renewed its strategic approach in recent years to better assert itself in a challenging domestic market. WTiN explores its impact, from company operations to product development.

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A HOMEGROWN STATUS GOES FAR

Domestic sports brands have also leveraged their “national brand” status for marketing activities, noted Dr Di Fan, assistant professor at the Hong Kong Polytechnic University’s School of Fashion and Textiles.

“For example, Li-Ning has emphasised its ‘Chinese Li-Ning’ identity in its product designs, and Anta sponsored the Chinese team at the Beijing Winter Olympic Games, whereas international brands lack such advantages,” said Fan.



English >

Anta received the Red Dot Design Concept award in 2022 for its skeleton shoe, devised for the Chinese 2022 Beijing Winter Olympic team. Source: Anta

Moreover, some international brands have expressed views about the Chinese government's policies that have made them unpopular with domestic consumers.

Fan cited decisions by Nike, Adidas, H&M (Hennes & Mauritz) and other foreign companies to stop using cotton from the Xinjiang region in early 2021, in response to human rights concerns about the treatment of its Muslim Uighurs.

"Indeed, some international brands have faced backlash from Chinese consumers due to their positions on the Xinjiang cotton issue, notably Nike and Adidas," said Fan. These actions sparked criticism from the Chinese government, prompting indignant consumers to boycott these companies' goods.

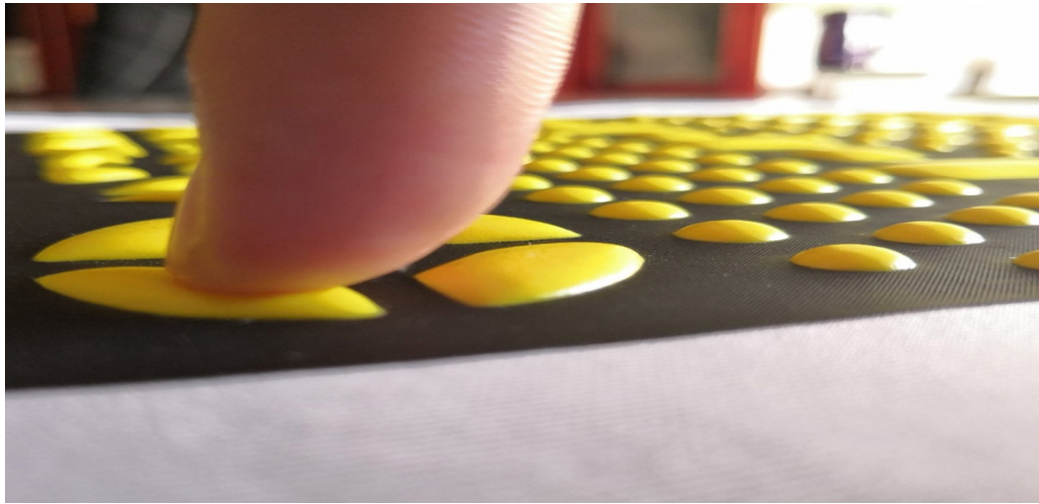
The dispute and resulting concerns overseas have weakened the export market for Made in China sportswear, which – according to Schmidt – was already weak, owing to many international markets still digesting high inventories, as well as buyers diversifying supply chains from China to the likes of Vietnam, Indonesia and India.

COMPETITIVENESS THROUGH R&D

Fan believes another strong selling point for Chinese producers within China is that "domestic sports brands have been increasing their investment in research and development to enhance product performance, significantly narrowing the performance gap with international sports brands. For example, Anta has doubled its R&D expenditure in the last five years."

In this case, export sales have been helping strengthen China-based sales. Fan noted that US National Basketball Association (NBA) players, such as Klay Thompson, Gordon Hayward and Michael Carter-Williams, have worn Chinese sports brands on court, illustrating that these brands can meet the intensive performance requirements of NBA players.

Schmidt confirmed that China-based sportswear R&D is blooming, including at his company. Huafeng's newest Haptic 3D textile coatings technology (HAPTIC Permeation) allows the manufacturing of sports shoe fabric uppers equipped with coated-on naps that can improve ball control or absorb shocks: "We are experimenting also with clothing, as our fully automatised digitally controlled ink application system could be used for the protection of athletes' elbows, knees, hips and shoulders," he said.



Huafeng's Haptic 3D technology makes use of a foamed ink formulation for raised surface effects. Source: Huafeng

Asked how international and domestic manufacturers are competing and succeeding in supplying the Chinese market, Kemo Zhou, a consultant in consumer health, beauty and personal care and sportswear at the Shanghai office of market researcher Euromonitor International, observed that Chinese local brands have comparative tight supply chain advantages, which can guarantee them sufficient goods to sell. By contrast, many international brands are struggling with supply chains that are still unstable as a result of disruption from the pandemic, notably in manufacturing hubs within Southeast Asia.

DATA IS KING

Zhou said Chinese manufacturers and brands have been responding positively to fierce competition in the sportswear segment, notably by leveraging digitalisation, with many leading Chinese sportswear brands investing in a direct-to-consumer (DTC) strategy.

One such brand is Anta, which has transformed its associates' stores into self-operated stores, which will bring them better access to customer data and the ability to better integrate e-commerce and bricks-and-mortar outlet sales. The company has also been allocating additional budget to acquire some well-performing franchisee stores, bringing them in-house.

Generally, said Zhou, such moves provide "consumers with a better shopping experience" and boost brands' ability "to analyse consumer preferences".

Anta has also built a supply chain digital platform to connect data from manufacturers, brands, distributors, retailers and consumers. This is "to inform operational decisions through big data, with the connection of data from multiple sources allowing the brands to build up-to-date insights into consumers and provide them with better services and products," she added.

REGULATORY HURDLES

Zhou said international brands need to keep up with digitalisation and follow dynamic developments in the Chinese market should they want to succeed. She cited the example of Nike, which deactivated its Nike Run Club app in China in June 2022, saying it will roll out a localised platform specifically for the Chinese market.



The Nike Run Club app has built up a dedicated international user base, utilising gamification and coaching elements to retain users.
Source: Nike

However, while that might be a good move for Nike, it may have been forced upon the company by regulators: “While Nike has not specified the reason for the discontinuation, we believe that Nike deactivated the app due to increasing compliance requirements from the Chinese government,” wrote Beijing-based Daxue Consulting, in a June 2022 newsletter.

In early 2022, Beijing implemented two new laws designed to protect users’ personal information and data privacy: the Personal Information Protection Law and the Data Security Law [6]. “With new laws in China reducing access to consumer data, Nike and other brands must rethink how they interpret the data they can collect,” added Daxue.

OVERCOMING INTERNATIONAL TENSIONS

This tension between Chinese market conditions and international marketing trends is likely to persist. Indeed, Fan said the continuing poor relations between China and governments in North America, Europe and Japan, will hinder Chinese brands attempting to secure overseas sales.

For instance, since 2019, Chinese sports brands have suspended collaborations with the NBA over a Tweet from Houston Rockets manager Daryl Morey over the pro-democracy protests in the special administrative area (and former British colony). It read: “Fight for freedom, stand with Hong Kong”. This “incensed Chinese consumers,” said Fan.

“Furthermore, due to consumers in Western markets having fewer positive perceptions of Chinese brands, Chinese sports brands may opt to acquire foreign brands discreetly,” with Anta’s acquisition of Canada-based Arc’teryx in 2019 and Xtep’s acquisition of California, US -based K-Swiss in 2019 “being indicative of this strategy”, he added.

Regardless, the Chinese sportswear market will remain a major and growing target for Chinese and international brands, and any company managing to tap China sales without upsetting consumers elsewhere will prosper.

KEY TAKEAWAYS

1. China's sportswear market has expanded robustly because of health concerns sparked by the Covid-19 pandemic.
2. Chinese brands have strengthened their position in China through better quality and nationalistic marketing.
3. Tensions over China's human rights record weakens international brands in China and Chinese brands overseas.

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