The retail sporting goods industry in the US includes about 20,000 companies with combined annual revenue of $25 billion. Large chain operators include Sports Authority; REI (a members’ cooperative); and Hibbett Sporting Goods. The industry is highly fragmented: the 50 largest companies hold less than 50 percent of the market. Only about 150 companies have more than five stores. A typical store has $5 million of annual sales.

COMPETITIVE LANDSCAPE

Demand is driven by population demographics and consumer income. The profitability of individual companies depends on merchandising and marketing skills. Large chains have an advantage in stocking a wide variety of goods. Small companies can compete successfully by carrying a deeper product line in specialized sports, or by serving a local market. The industry is fairly labor-intensive; average annual revenue per employee is about $130,000.

PRODUCTS, OPERATIONS & TECHNOLOGY

Major products are outdoor clothing and shoes, firearms, golf equipment, and bicycles. Clothing and shoes together account for about 25 percent of industry revenue, firearms 10 percent, bicycles and golf equipment 8 percent each. Other products include exercise, camping, and ski equipment; fishing tackle; and team sports equipment.

Sporting goods stores vary according to format and merchandise. Most chains operate stores of a single type. Large-format stores are from 20,000 to 100,000 square feet, stock a large number of items, and are typically found as anchor stores in strip malls or in stand-alone locations. Traditional sporting goods retail stores vary in size from 5,000 to 20,000 square feet, carry a more limited number of items, and are typically found in strip or enclosed malls. Specialty stores have a wide selection of items for just one or two sports, such as golf, tennis, skiing, camping, etc.; are typically 1,000 to 10,000 square feet; and located in enclosed and strip malls. Large-format stores typically have more than $5 million in annual revenue and more than 50 employees. Specialty stores have less than $1 million in annual revenue and fewer than ten employees. Sporting goods are also sold by mass merchandisers like Wal-Mart, Kmart, and Target, and by catalog and Internet retailers like Cabela's and LL Bean.
Although large chains can sell a broad range of merchandise at lower prices, small local stores can successfully compete by offering better service or specializing in a particular sport. Because the equipment for many sports is very technical, knowledgeable salespeople are a strong competitive factor. The operations of sporting goods stores are fairly straightforward: companies acquire merchandise, determine store layout, train employees, advertise goods, provide services, sell goods, and manage inventory.

**Product is acquired** from manufacturers and about 1,000 wholesale distributors. Manufacturers regularly introduce new models, which often have only minor changes from older models. **Trade shows** are an important way of finding out about new products. The type of merchandise purchased varies according to the season and regional and local preferences. Large-format stores may carry up to 100,000 separate items (stock keeping units - SKUs). Sports Authority stores usually carry 40,000 SKUs, with a range of brands in about 30 different sports categories. Sports Authority buys from 750 vendors. Specialty stores carry significantly fewer items. In addition to **equipment**, most retailers sell **sports apparel** and **shoes**. Nike, mainly a manufacturer of shoes and sports clothing, is one of the biggest vendor to Sports Authority, accounting for more than 10 percent of its merchandise.

Store **layouts** and merchandise presentation are often changed, especially in large-format stores that try to maintain the atmosphere of a collection of specialty departments. Layout and presentation may be designed with the help of special software from companies like MarketMax. Because much sports equipment is highly specialized, employees must be trained to understand and explain differences. Companies typically try to recruit employees who are avid sports participants. Many companies rely on **part-time employees** for 50 percent or more of their workforce.

Inventory management is a major concern for all sporting goods retailers because of the large numbers of items they sell and the short selling season for many sports. Chains usually supply their stores from a central distribution facility, with weekly resupply based on sales. Hibbett Sports supplies 280 stores from a single 200,000 square foot distribution facility. Many companies use highly sophisticated **computerized inventory management systems** that include point-of-sale (POS) terminals, scanners, and handheld radio frequency terminals to record merchandise receipts, print pricing labels, monitor inventory levels, facilitate automatic inventory replenishment, and identify popular items.

**SALES & MARKETING**

Marketing is typically through a combination of **advertising** and **promotional events**. Advertising is most often through newspaper ads, inserts, direct mailings, and billboards. Stores often have special sales associated with seasonal sports, like skiing. Many companies sponsor local sports events or competitions and host store appearances by sports celebrities. Stores provide **technical services**, such as racquet stringing, skate sharpening, ski adjustments, bike overhauls, etc. to build customer loyalty. Some stores feature "participation areas," like basketball hoops and climbing walls. In addition to selling individual items, many stores specialize in selling **team uniforms** and equipment to local schools and clubs. To promote products, many manufacturers provide **cooperative marketing funds** to retailers.

**FINANCE & REGULATION**

The **revenue** of many sporting goods retailers is **seasonal**, particularly if they specialize in just one or two sports. Even full-line retailers have seasonal swings, with sales strongest in fourth quarter. Retailers generally **lease** space in malls rather than buy real estate to house stores. Lease payments may include a percentage of gross sales. Lease renewals are usually at the option of the retailer.

The activities of retailers are passively **regulated** by state consumer laws and the FTC to ensure fair pricing and sales' practices.

**REGIONAL & INTERNATIONAL ISSUES**

Demand for different types of sports varies by geographical region. Demand is strongest in regions with rapidly growing population. States with the fastest growth in recent years were Nevada, Arizona, and Florida. The states with the slowest growth were Massachusetts, New York, and Ohio.

**HUMAN RESOURCES**

Employees in retail operations are involved mostly in stocking shelves, operating cash registers, and answering customer questions. This largely unskilled work pays **low wages**. Companies try to get and
keep employees with special technical knowledge about sports and sports equipment, particularly in specialty stores. **Employee turnover** in retail sales is typically high, around 30 to 50 percent annually.

Like other retailers, sporting goods companies rely heavily on part-timers because of uneven customer traffic during the day, week, and year. Since part-time workers usually receive only minimal benefits, the total cost of benefits is small relative to payroll expense. The indirect benefits given to workers are discounts of 15 to 25 percent on their own purchases.

**Adidas Acquires Reebok in $3.8 Billion Deal** - In a surprise move and with rival Nike clearly in its sights, Adidas acquired Reebok in a debt-and-equity deal in August. Combined annual sales for the new company will reach $11.1 billion, according to Adidas, compared to Nike’s $13.7 billion. While Adidas is quite confident that it can build both brands and take on Nike, some analysts aren’t as sure; they doubt the merger will do much to erode Nike’s dominant market share. Adidas has strong relationships with specialized sporting goods retailers, which should benefit Reebok. Some retailers are concerned that they, and ultimately the consumer, will lose if manufacturer consolidation results in reduced competition.

**Consumers Buy More Used Sports Equipment** - The amount US consumers spent on used sports equipment increased by 13.5 percent to $855 million in 2004 over 2003 numbers, according to the National Sporting Goods Association (NSGA). At $503 million, outdoor sports equipment was the largest single category and the area of greatest growth during 2004. Growing Internet sales of used gear present both a problem and an opportunity for retailers: while online sales take customers from retail outlets, they may also serve to introduce consumers to products they may later seek to upgrade.

**Dick’s Sporting Goods Plans $64 Million Expansion** - Dick’s Sporting Goods plans a $64 million expansion of its Findlay Township, PA, headquarters to keep pace with the growth of its retail operations. Ten years ago, the company had only 18 stores; by year-end 2005, it will have 250, mostly east of the
Mississippi River, and will employ more than 17,000. At its headquarters, it expects to add 1.1 million square feet of office space and increase its workforce from 1,263 to roughly 2,000 by 2010. To encourage Dick’s expansion plans, the State of Pennsylvania gave the company an incentive package worth $10.9 million.

Researchers Develop Chart to Measure Women’s Fitness - In the New England Journal of Medicine, researchers provide a chart that shows the level of exercise women need to stay fit at any given age. Study results show and the chart reflects that, unlike past guidelines, women aren’t merely small men; they need standards specifically for them. The long-term study finds that a woman with an exercise capacity below 85 percent of the norm for her age doubles her risk of premature death from any cause and makes her two-and-a-half times more likely to die from cardiac causes. Sports equipment that tracks METs, a measurement of physical activity, can help women determine their fitness level.

Cabela’s Reports Record Second Quarter Results - Total revenue for Cabela’s, Inc., the outfitter of hunting, fishing, and outdoor gear, increased in second quarter 2005. Compared to second quarter 2004, Cabela's total revenue for second quarter 2005 increased 23.2 percent to a record $343.9 million, and net income increased to $6 million; both figures exceed analysts’ expectations. Each of Cabela's three operating segments realized double-digit gains. The company took a number of steps to improve its retail operations: it installed a new labor-scheduling system and a new Web-based training program for employees.

CRITICAL ISSUES

Dependence on National Economy - Retail sales at sporting goods stores are very sensitive to the health of the economy, because most sports are a leisure activity. Spending on sporting goods correlates strongly with consumer confidence and level of personal disposable income.

- Consumer prices of sporting goods have fallen for the last eight years, but are showing some recovery in 2005, rising 1.9 percent in August 2005 compared to year-ago.

Slower Growth of Athlete Population - Demographics play a big part in sporting goods sales, since population growth and age groups distinctly impact sport participation. Part of the strong demand for sporting goods in the past decade came from baby boomers. The number of Americans 10 to 30, the most athletically-active segment of the population, is expected to increase by just 5 percent between 2000 and 2005, and those 20 to 30 will actually decrease by 1 percent.

- Participation in camping rose nearly 4 percent in 2004 compared to year-ago; exercising with equipment 4 percent and cross-country skiing 22 percent; boating fell 6 percent and golf about 5 percent, reports National Sporting Goods Association (NSGA).

OTHER BUSINESS CHALLENGES

Competition from Mass Merchants - Large discounters like Wal-Mart with big sports departments have rapidly expanded in recent years. Wal-Mart now sells almost $10 billion of sporting goods and toys.

Seasonal Demand - Typically, sporting goods products are bought for back-to-school, seasonal, or holiday needs, or around Christmas time for gifts. Some sporting goods, like tennis rackets and surfing gear, are usually purchased in spring and summer, while other goods, like skis, are bought in fall and winter. Hunting season is usually in fall and winter, a time when gun sales usually increase.

Competition from Electronics - The US sporting goods industry competes for attention with electronic and entertainment leisure diversions like TV, movies, the Internet, and especially video games. The increasingly sedentary habits of children, seen through a steady increase in childhood obesity, partly reflect the strong growth of video gaming in recent years, especially among teenage boys.

More Low-Cost Imports - Low-cost imports are a major reason why retail prices for sporting goods have barely changed in the last five years. More than a quarter of the sporting goods sold in the US are now imported. Annual imports are about $5 billion, largely from China.
**Guns** - Sport shooting and hunting are now part of the political issues of safety, crime, and regulation. Some state and local governments have enacted various regulations that restrict ownership or use of some types of guns. While these regulations are targeted largely at handguns, some sporting goods retailers, to avoid negative public perception, have stopped selling guns.

**Employee Turnover** - A shortage of knowledgeable employees is a major problem for sports retailers. Smaller stores, especially, rely on having greater expertise in particular sports to draw customers. Annual employee turnover in the retail sales industry can be as high as 50 percent. A typical 20,000 square foot store requires 20 to 25 employees.

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**BUSINESS TRENDS**

**Changing Tastes** - A National Sporting Goods Association (NSGA) sports participation survey shows that the popularity of various sports has changed in the last decade: camping, golf, rollerblading, and mountain biking have increased, while tennis and skiing have decreased. Among teenagers, participation in baseball and softball, bicycling, ice hockey, and tennis has dropped, and increased in fishing, golf, rollerblading, skateboarding, and snowboarding.

**Demographics** - Changing tastes in sports and strong sales of sporting goods in recent years partly reflect the changing composition of the US population. In particular, the number of older (and more affluent) people has increased rapidly in the past decade. As people age, they participate less in vigorous sports like running, basketball, and tennis, and more in relaxed sports like camping, fishing, and golf. For example, 16 percent of 18 to 34 year olds are runners, versus 10 percent of those 35 to 54, and 4 percent over 55. Females are also emerging as a key segment in the sporting goods market, accounting for a majority of sports apparel purchases and a rise in participation in organized school sports. The youth sports population (5-19) is expected to grow by just 3 percent from 2000-2010.

**Multiple Strategies** - Strong demand for sporting goods in the past decade allowed many sporting goods retailers to expand operations, using different strategies. Large-format retailers like Sports Authority and Decathlon followed a strategy of entering large new markets with multiple stores, benefiting from shared marketing and distribution. Smaller retailers like Hibbett have followed a strategy of serving midsized markets, avoiding competition from the large-format companies. Companies like Gart have grown by acquiring other retailers.

**Catalog Sales** - Every year in first quarter, mail order and sporting goods makers’ catalogs are mailed to potential customers. Many sporting goods catalogs have only 25 to 75 pages, but some, including the “master” catalogs published by Cabela’s and Bass Pro Shops, have 350 to 400. Many fishers and hunters prefer to buy equipment locally, but mail order firms like Cabela’s and Bass Pro have huge selections that few local stores can rival.

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**INDUSTRY OPPORTUNITIES**

**Affluent Buyers** - Even though sports participation drops as people age, older athletes have more money to spend on sporting goods. Retailers that cater to the athletic tastes of aging baby boomers will have a growing market during the next decade.

**More Apparel, Accessories** - For many retailers, sports apparel is the best-selling product, ahead of athletic shoes and sports equipment. Many consumers wish to project an athletic image, even if they only occasionally engage in sports. The growing popularity of hiking and camping has also sharpened consumer demand for outdoor sports apparel. Makers of outdoor sportswear, like Columbia Sportswear, have grown rapidly in recent years.

**Internet Sales** - Although many sporting goods retailers operate Internet sites, the volume of online sales remains small compared to store sales. Internet sites have been most effective at selling specialized equipment normally not found in local stores.

**Targeting Women** - Sporting goods makers and retailers are marketing heavily to females. Sports Authority, Inc., the nation’s number one sporting goods retailer, is working to attract more women by tailoring its fashions, redesigning its interiors, and displaying women’s items at the front of the store. The women’s category accounts for about 45 percent of total spending, according to Sporting Good
Manufacturers Association (SGMA).

**High-Tech Research** - Consumers are demanding high technology, even in sporting goods. Sporting goods manufacturers can turn to universities for research on new product development. MIT's Center for Sports Innovation tests and creates new sporting goods for New Balance, Trek, K2, and others, charging low fees for research in exchange for hands-on experience for students.

**Call Preparation Questions**

*Provides several business-related questions to ask business owners. Excellent for call planning*

**CONVERSATION STARTERS**

*How does the company manage changes in demand during an economic slowdown?*
Retail sales at sporting goods stores are very sensitive to the health of the economy, because most sports are a leisure activity.

*How does the company encourage greater sports participation?*
Demographics play a big part in sporting goods sales, since population growth and age groups distinctly impact sport participation.

*How does the company address rising competition from mass merchants?*
Large discounters like Wal-Mart with big sports departments have rapidly expanded in recent years.

*How does the company capture sales from affluent, older athletes?*
Even though sports participation drops as people age, older athletes have more money to spend on sporting goods.

*How does the company make merchandising decisions?*
For many retailers, sports apparel is the best-selling product, ahead of athletic shoes and sports equipment.

*What benefits or challenges does the company see in Internet sales?*
Although many sporting goods retailers operate Internet sites, the volume of online sales remains small compared to store sales.

**QUARTERLY INDUSTRY UPDATE QUESTIONS**

*What impact will the Adidas-Reebok merger have on the company?*
In a surprise move and with rival Nike clearly in its sights, Adidas acquired Reebok for $3.8 billion. Some retailers are concerned that they, and ultimately the consumer, will lose if competition suffers as the big companies get bigger.

*What opportunities does the increase in the sale of used gear create for the company?*
The amount US consumers spent on used sports equipment increased by 13.5 percent to $855 million in 2004 over prior year numbers. Although many of these sales were over the Internet, they may introduce consumers to products they may later seek to upgrade.

**OPERATIONS, PRODUCTS AND FACILITIES QUESTIONS**

*How many retail locations does the company operate?*
Typically, a retailer has just one, but 150 companies have five or more.

*If more than one store, does the company operate a distribution network?*

*Are they full-line or specialty stores?*
Industry revenues are about equally split between full-line and specialty stores.

*What is the average size of the stores?*
Large-format stores are over 20,000 square feet; specialty stores from 1,000 to 10,000.

*How many items does the company stock?*
Sports Authority carries 40,000 stock-keeping units (SKUs) in its large-format stores.
What is the mix of equipment, apparel, and shoes?
Typically, 50 percent of revenue is from equipment, 25 percent each from apparel and shoes.

Does the company buy merchandise directly from manufacturers or from wholesalers?
Smaller companies often use wholesalers.

How many vendors does the company do business with?
Sports Authority has 750 vendors. Most companies have considerably fewer.

How does the company decide which items to carry?
Trade shows are an important source of information about new items.

Does the company provide services such as ski rentals, skate sharpening, bike adjustments?

CUSTOMERS, MARKETING, PRICING, COMPETITION QUESTIONS

Does the company target a specific demographic group?

What types of marketing does the company do?
Newspaper advertising, inserts, direct mail, sales events, sports sponsorships are typical.

Who are the company's main competitors?

How does the company price its products versus its competitors?

Does the company feature periodic price reductions to move inventory?

Does the company target the female market?
Sports Authority, Inc., the nation's number one sporting goods retailer, is working to attract more women by tailoring its fashions, redesigning its interiors, and displaying women's items at the front of the store.

Does the retailer have mail order or Internet sales?
Many sports participants prefer to buy equipment locally, but mail order and Internet firms have larger selections.

Does the company operate programs to encourage sports participation?
Many sporting goods industry groups are cooperating on marketing programs to attract more participants. Individual companies may sponsor children's sports leagues or individual events.

REGULATIONS, R&D, IMPORTS, AND EXPORTS QUESTIONS

Does the company do demographic research?
Many companies hire market research firms.

Does the company deal with foreign manufacturers?
An increasing percentage of US sports equipment is manufactured outside the US.

ORGANIZATION AND MANAGEMENT QUESTIONS

Is the company privately owned?
Most sporting goods retailers are private companies.

What percentage of employees work part-time?
At the big retailers, 50 percent of employees are part-time.

How does the company recruit new employees?
Companies often look for individuals who are avid sports participants.

What type of training do employees get?
Many sports require technical knowledge about products.

What is the annual employee turnover rate?
Turnover rates are notoriously high in retail sales, from 30 to 50 percent.
Do employees get a discount on merchandise?
A 15 to 25 percent discount for employees is typical.

FINANCIAL ANALYSIS QUESTIONS

Has the company been profitable in recent years?
Sales of sporting goods have been very strong in the last several years.

Is cash flow uneven throughout the year?
Many sports are seasonal. Fourth quarter often has the highest sales.

How much do inventories change throughout the year?
The selling season for many sports is very short, requiring a big inventory buildup.

How does the company dispose of excess or obsolete inventory?

BUSINESS AND TECHNOLOGY STRATEGIES QUESTIONS

Does the company plan to expand?
Growth is most often achieved through new stores, rather than expansion of existing ones.

Does the company plan to shift its product lines in response to changing US demographics?
Aging baby boomers are more interested in low-impact sports like golf, fishing, and camping than running, tennis, and skiing.

How does the company differentiate itself from its competitors?
Pricing, merchandise, technical services, and identification with local sports teams are various methods.

Does the company plan to change its mix of apparel and equipment?
Apparel has become one of the biggest sellers, but requires different management skills.

Does the company use a computerized inventory management system?
Companies use systems that include point-of-sale (POS) terminals, handheld scanners, and optimizing software to determine optimal inventory levels, inventory replenishment schedules, and merchandising decisions (best- and worst-selling items). Such systems are crucial for companies with multiple stores and centralized purchasing and distribution.

Uneven Growth of Consumer Spending on Sport Equipment

Source: IERF, Inc.
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