

McKinsey
& Company

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



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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](#) →

Q & A

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



POLLS

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

Presenting today



McKinsey
& Company



Robbert de Kock

President and CEO

rdekock@wfsgi.org



Raphael Buck

Senior Partner
Consumer Practice
leader

Raphael_Buck@
mckinsey.com



Achim Berg

Senior Partner
Apparel, Fashion &
Luxury Group leader
Global

Achim_Berg@
mckinsey.com



Alexander Thiel

Partner
Sporting Goods expert

Alexander_Thiel@
mckinsey.com



Felix Poh

Partner
Consumer leader China

Felix_Poh@
mckinsey.com

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

Context

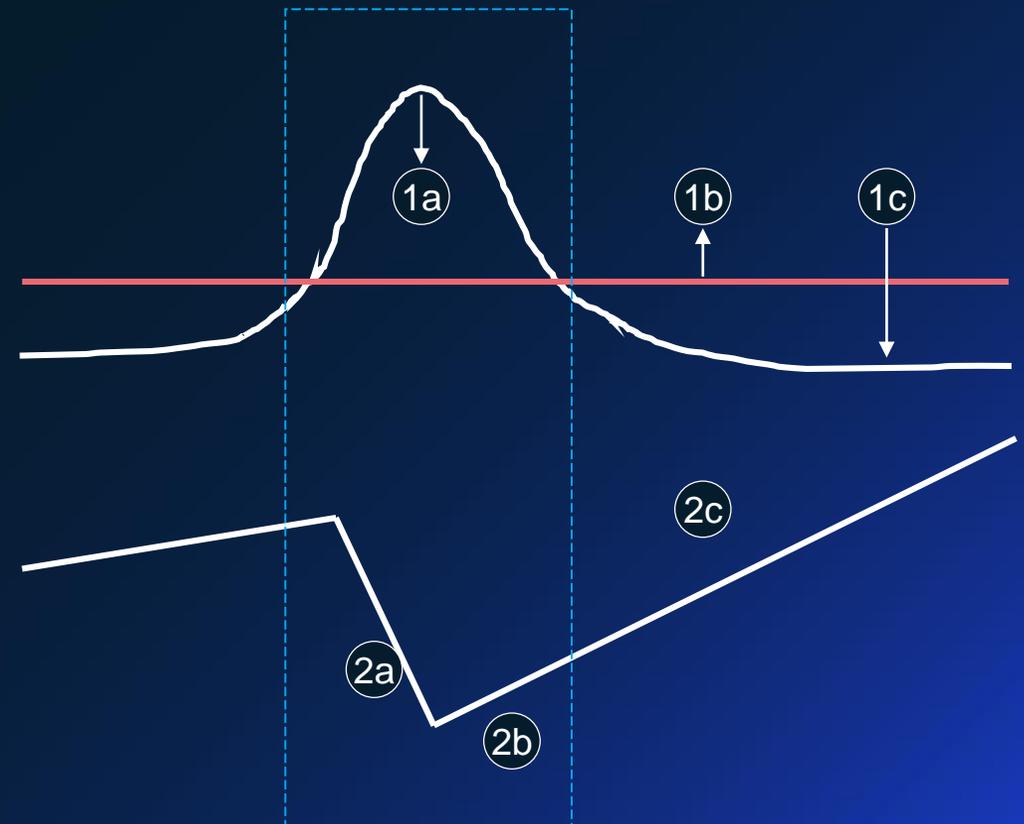
Imperative 1: Safeguard Our Lives

- 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

“Timeboxing” the Virus and the Economic Shock

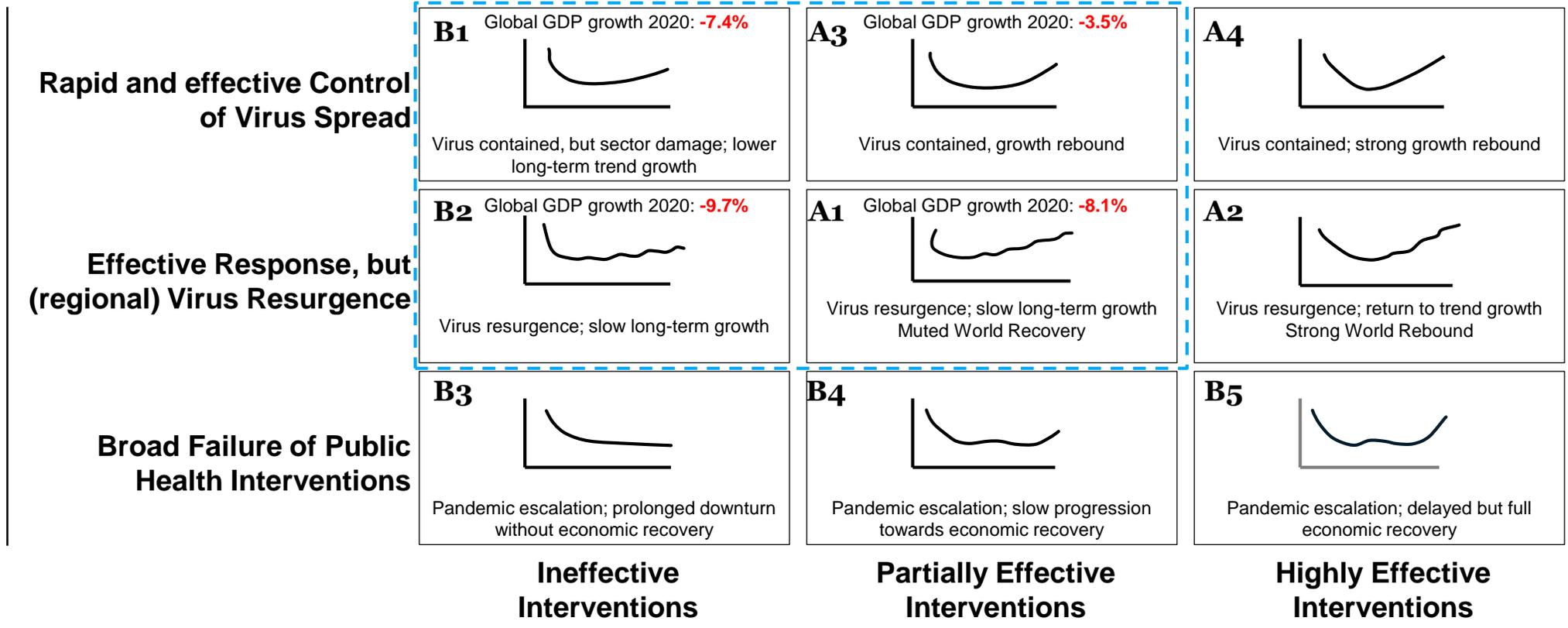


Scenarios for the economic impact of COVID-19

Context

 Current likely scenarios

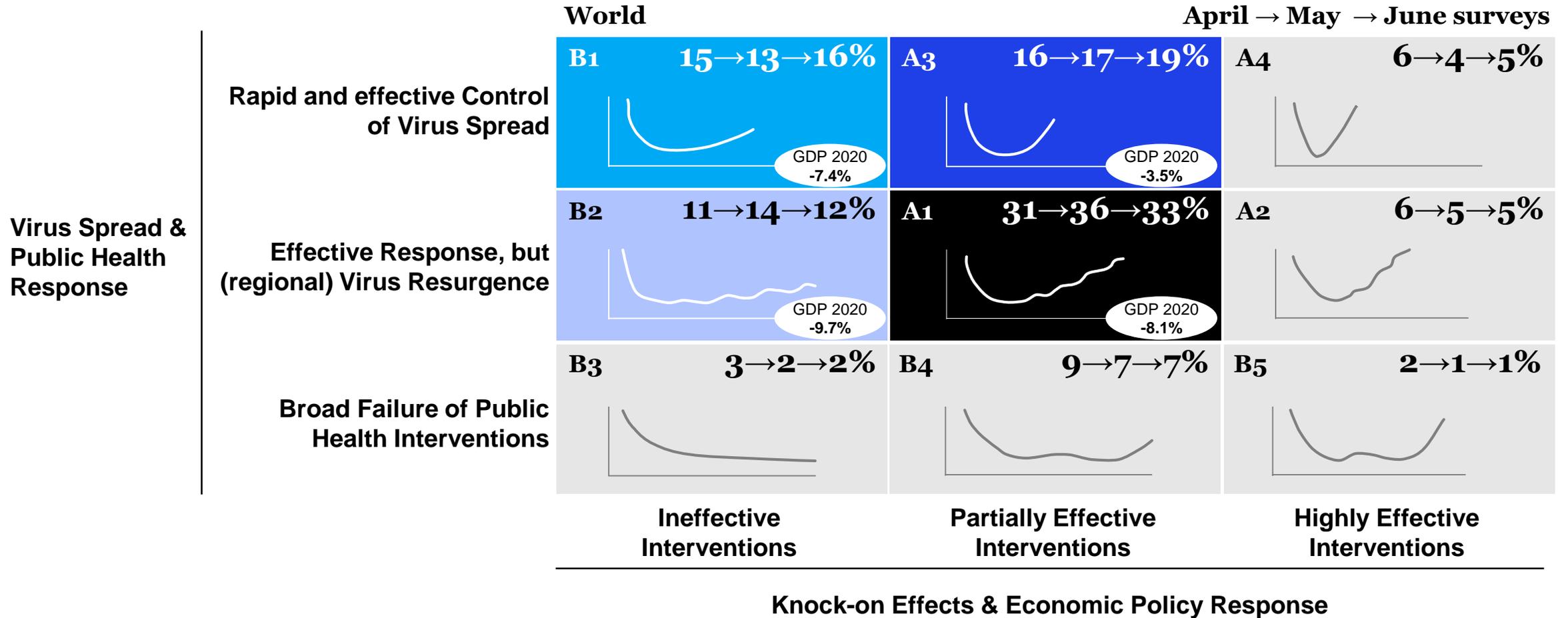
Virus Spread & Public Health Response



Knock-on Effects & Economic Policy Response

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 respondents¹



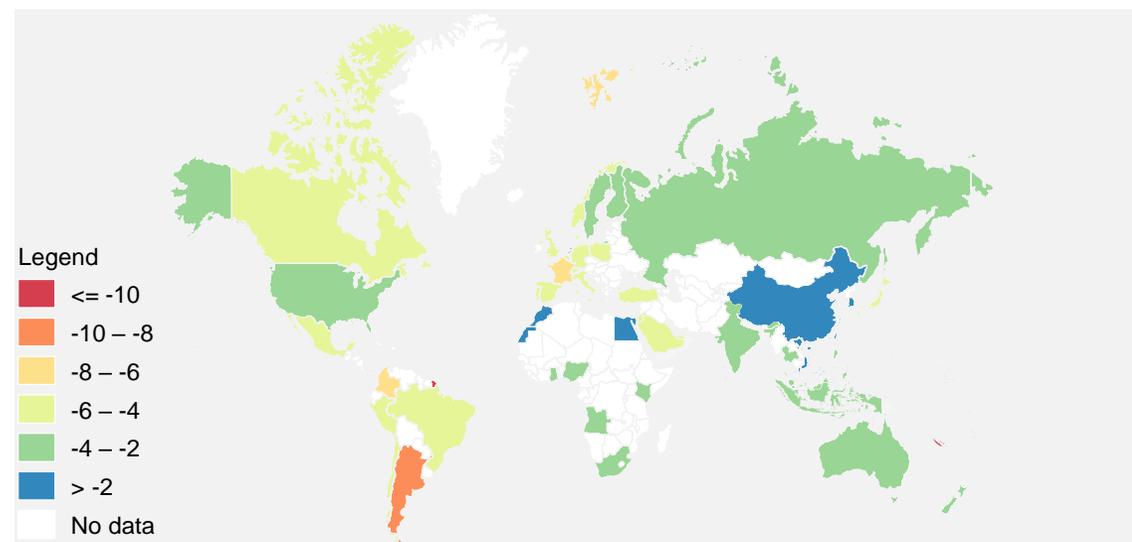
1. Monthly surveys: April 2–April 10, 2020, N=2,079; May 4–May 8, 2020, N=2,452; June 1–5, N=2,174

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



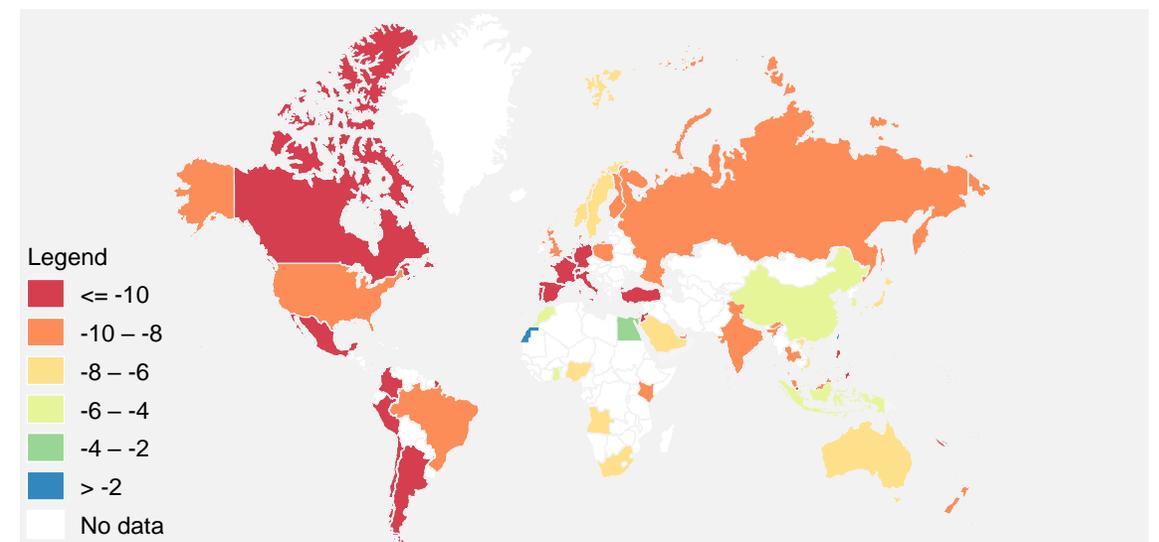
	Real GDP Drop 2019Q4-2020Q2 % Change	2020 GDP Growth % Change	Return to Pre- Crisis Level Quarter (+/- 1Q)
World	-8.9%	-3.5%	2021 Q1
USA	-9.2%	-3.5%	2021 Q1
China	-4.7%	0.1%	2020 Q3
Eurozone	-10.9%	-5.4%	2021 Q1

1. Seasonally adjusted by Oxford Economics

Scenario A1: virus recurrence, with muted recovery

Real GDP, growth (YoY)

% change



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

We observe local actions by governments to contain new resurgences of COVID-19

Exemplary

We observe local resurgences of COVID-19

> 45.000 new cases per day across the USA



How countries react to it



Reopened Reopening Pausing Reversing

All US states have begun to **reopen**, however some have paused plans to reopen or have reversed opening measures

139 new cases within 24h in Melbourne/ Australia (July 7th)



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**

>1.500 new COVID-19 cases in meat production plants in Germany (June 23rd)



2 weeks of local lockdown measures for two counties in Germany showing higher infection rates affecting 600.000+ people

New cases in Beijing/China associated with outbreak in a local market (June 18th)



Lockdowns for specific neighborhoods in Beijing affecting c. 400.000 people

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?

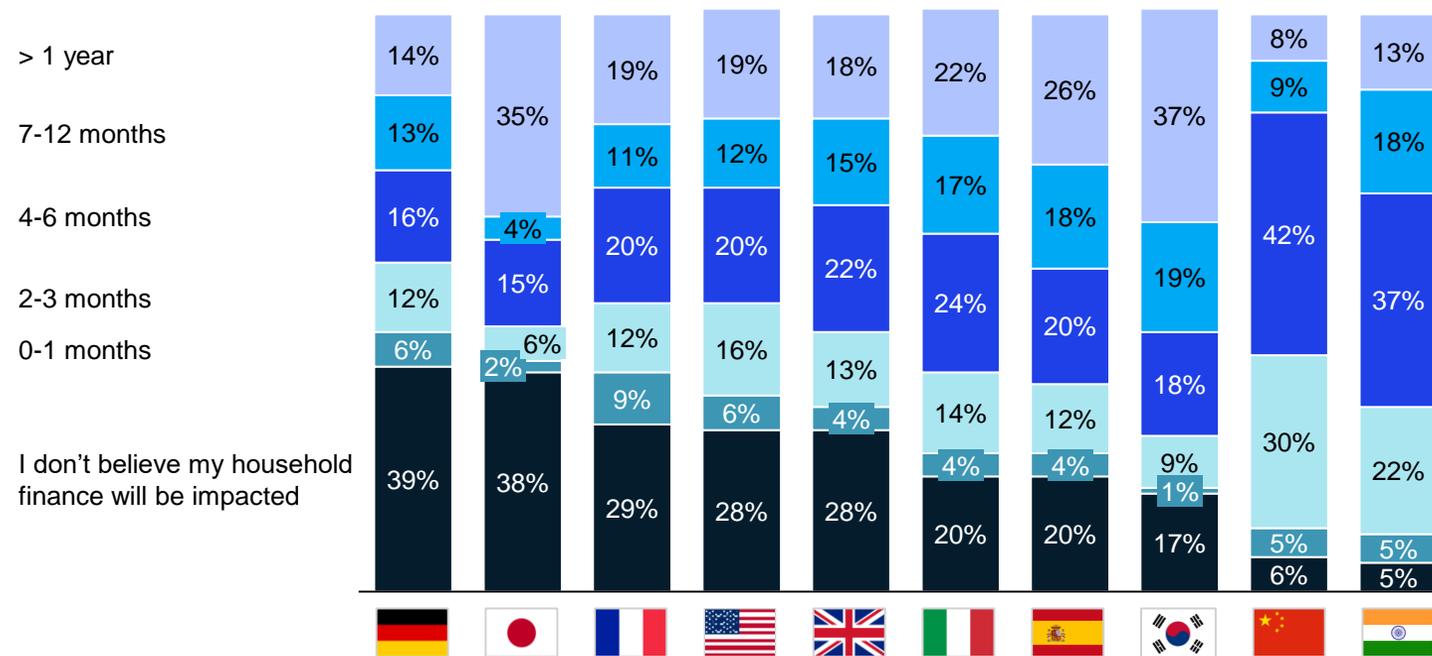
How is the “New Normal” taking shape?

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 months²

How long do you believe your personal / household finances will be impacted?¹
% of total respondents



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 resp. country

Key insights for Sporting Goods

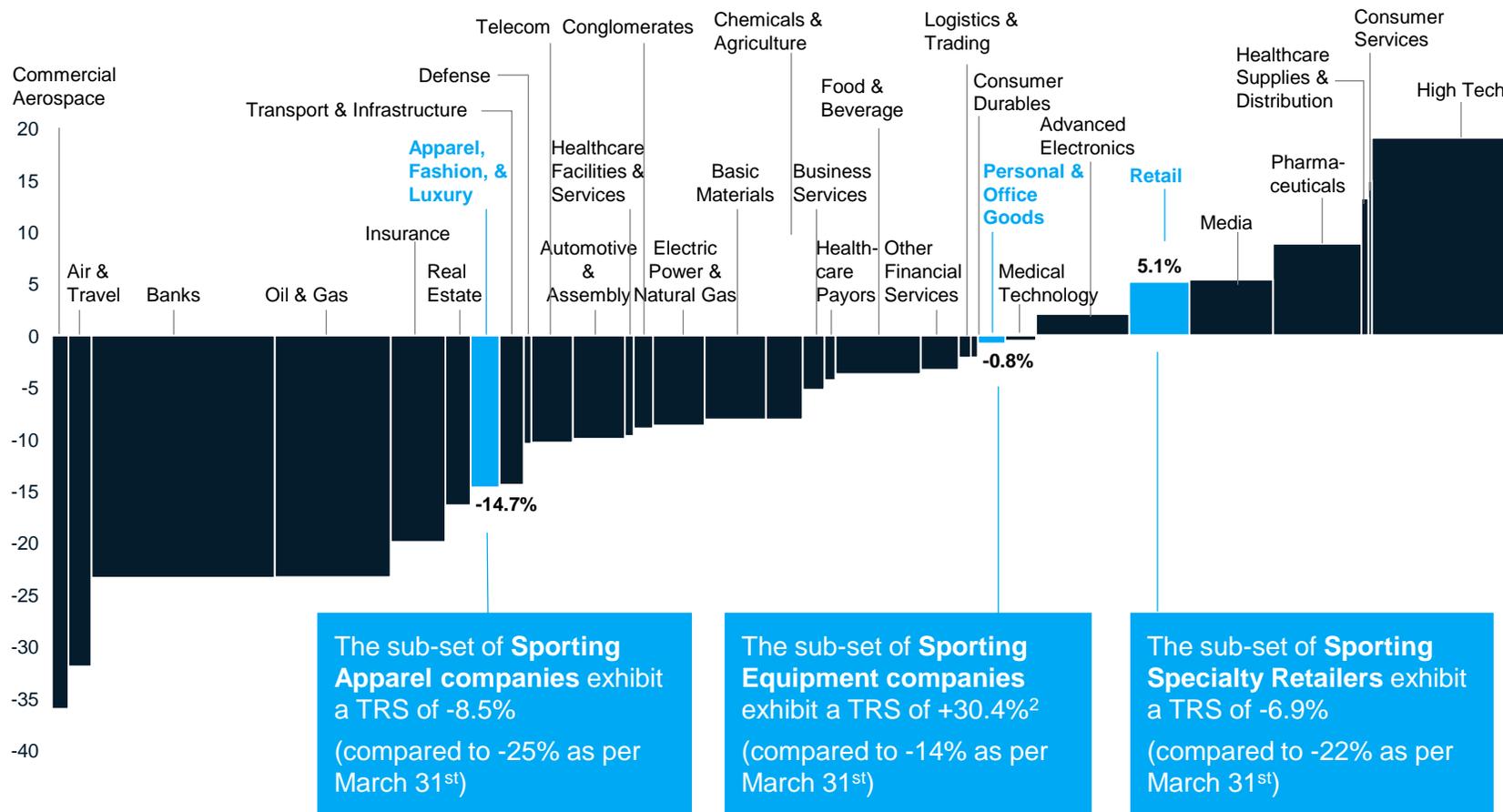
💡 Sporting Goods players should **prepare for a prolonged period of sales decrease** as consumers will decrease their discretionary spending

💡 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 %¹.
Width of bars based on market cap in \$



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

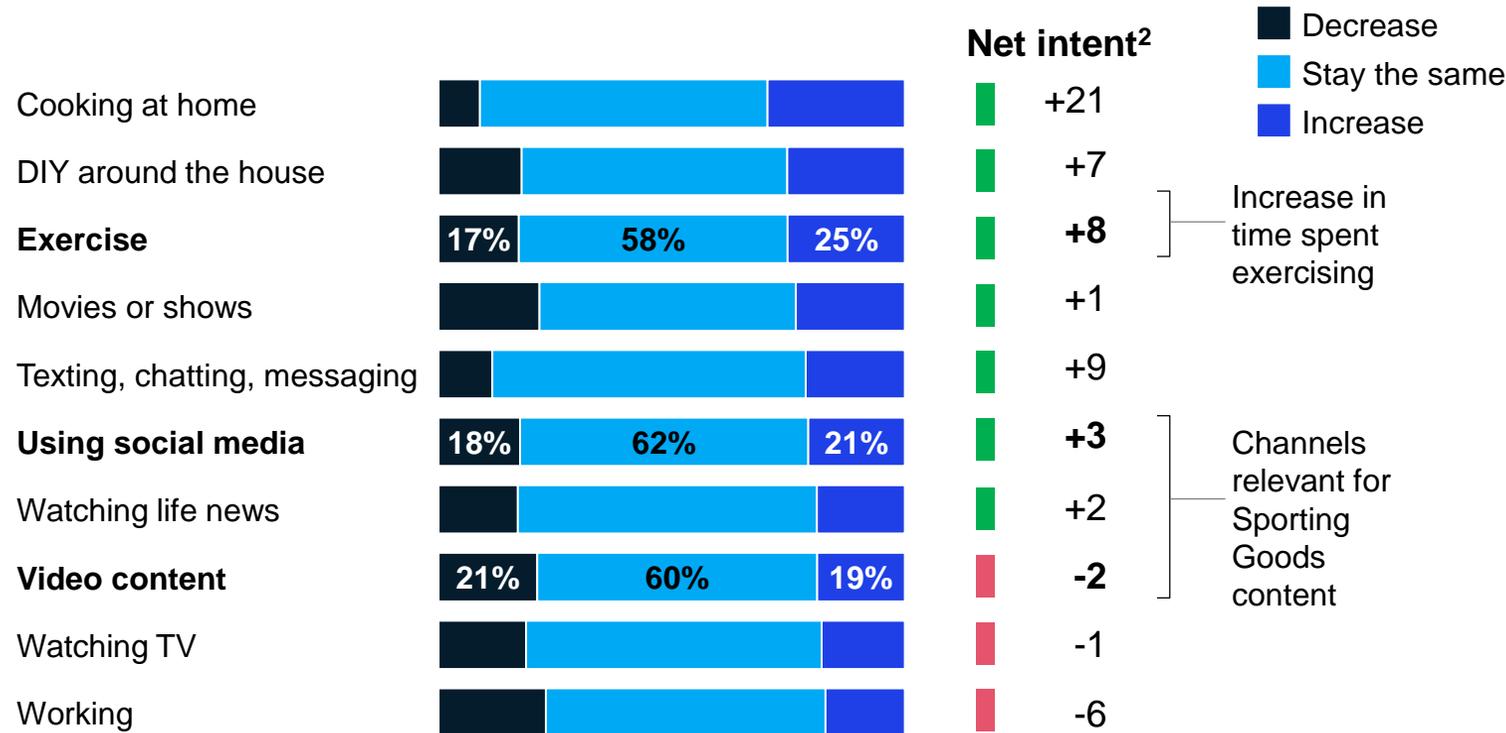
Sporting Specialty retailers (6 companies) underperform compared to Retail peers as consumers buy more directly from brands

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%

Sporting Good sales have been supported by a change in consumer behavior towards spending more time exercising



Respondents spend more time exercising and online ...



... which will benefit Sporting Goods sales

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



Other countries



~2X sales of **bicycles**,
equipment and repair services in
March 2020 vs. March 2019



~2X **bicycles** road utilization
in France's towns after vs. before
lockdown



+30% sales in performance
running in June 2020 vs. June 2019



+20% sales in **sport**
footwear in June 2020 vs. June 2019



+130% **fitness**
equipment sales in March 2020 vs.
March 2019



~2X growth fitness equipment
compared to pre-lockdown

... 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.,

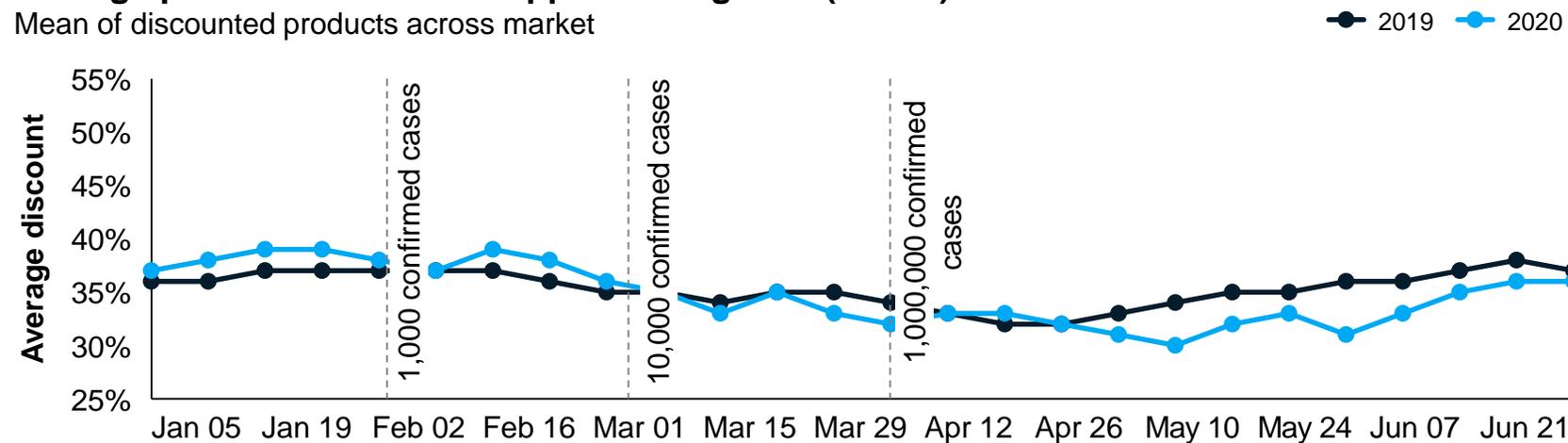
- Bicycles are increasingly used for commutes
- Running gear and at-home fitness equipment is filling the gap for gym users

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

Discount levels in apparel categories are slowly converging with 2019 levels

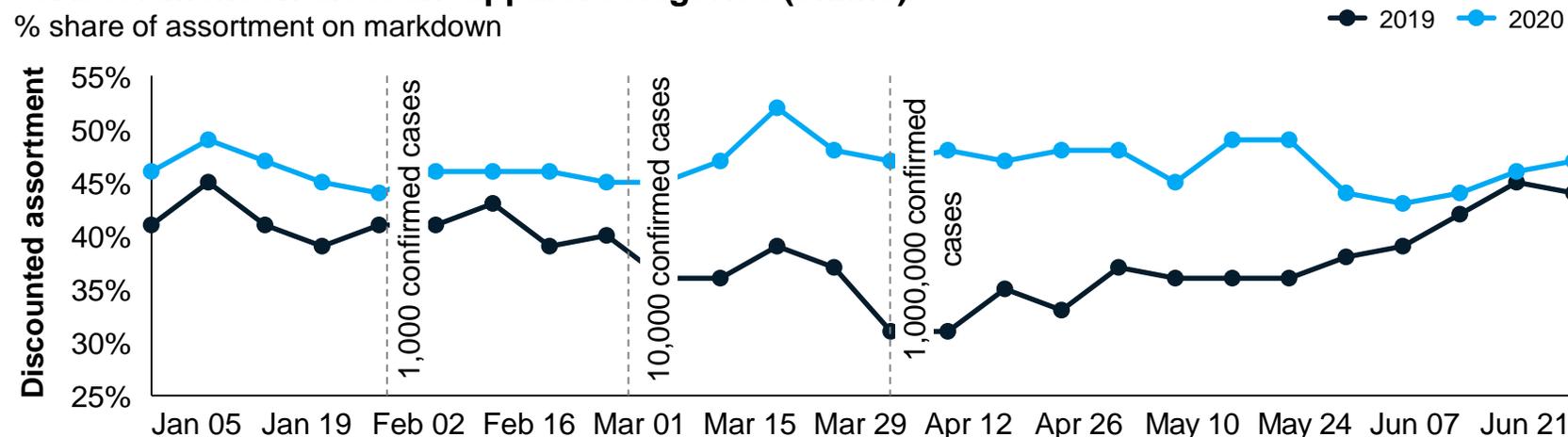
Average product discount on apparel categories (online)

Mean of discounted products across market



% Assortment on discount apparel categories (online)

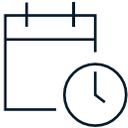
% share of assortment on markdown



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

Even though lockdowns have been lifted, sporting events continue to be canceled with negative effects for Sporting Goods players

	Status quo	Effect on Sporting Goods players
 <p>Events</p>	<p>Most sports events scheduled for 2020 are cancelled or postponed</p> <p>COVID-19 related risks and guidelines have increased event complexity and may be a long-term impediment on conducting major sports events</p> <p>Some leagues have resumed activity (e.g. Bundesliga), but no spectator sports</p>	<p>Sponsorship deals do not yield the expected return</p> <p>Match-day merchandise sales do not materialize</p> <p>Direct engagement with customers for lead generation at events is not possible</p>
 <p>Global misalignment in the way forward</p>	<p>COVID-19 status largely varies across geographies</p> <p>Governmental approaches and regulations vary from country to country</p>	<p>Differences by geography do not allow for a globally harmonized strategic approach to counteract the negative impact of COVID-19</p>

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

Let's hear it from you

Participants' poll

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

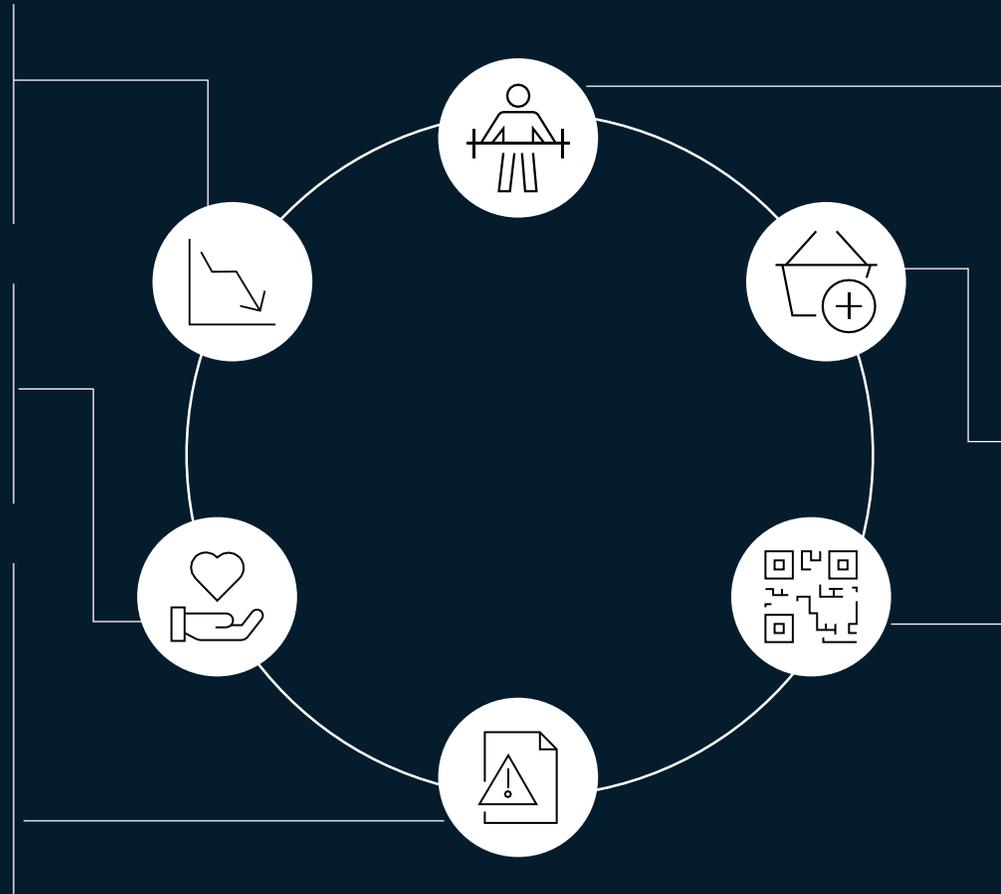
Economic downturn, economic inequality explosion, lower disposable incomes and higher unemployment will shift demand to lower price points and accelerate polarization

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

... however they are at different stages of development



Online acceleration

New insights

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

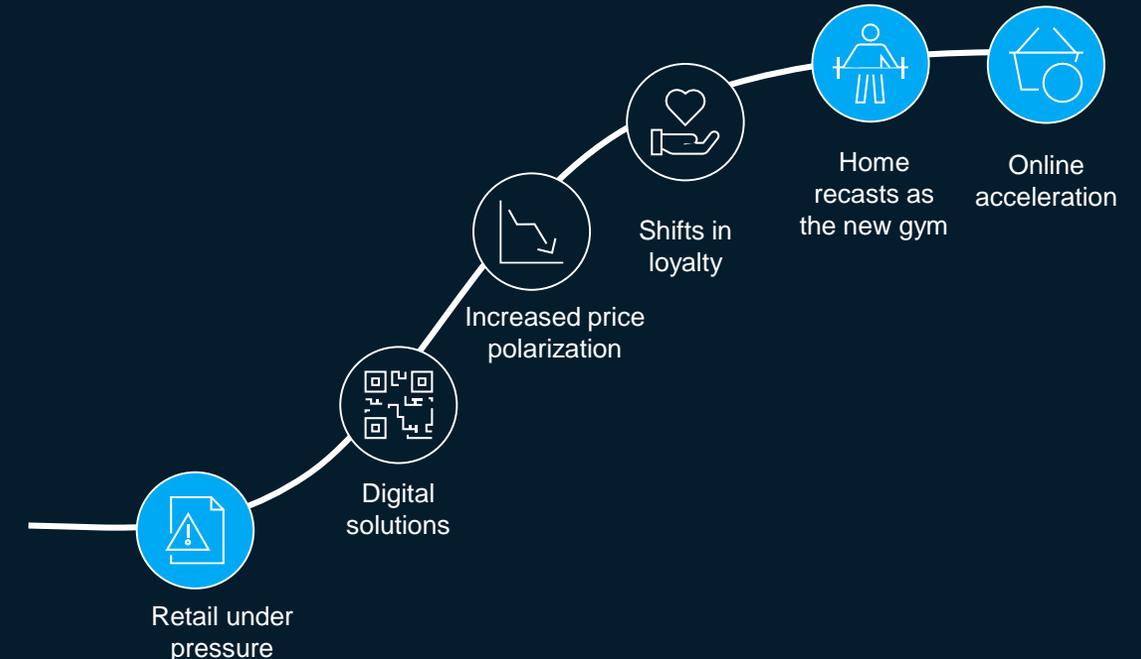


Retail under pressure

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

Development status

● Deep dive on following pages



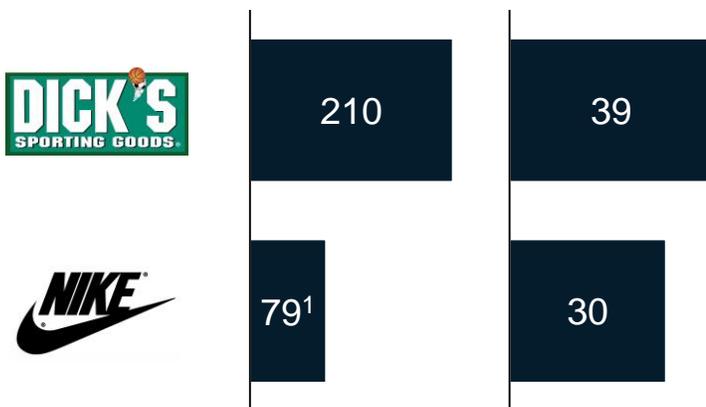
COVID-19 has made digital the prime purchasing and engagement channel and is expected to stick

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

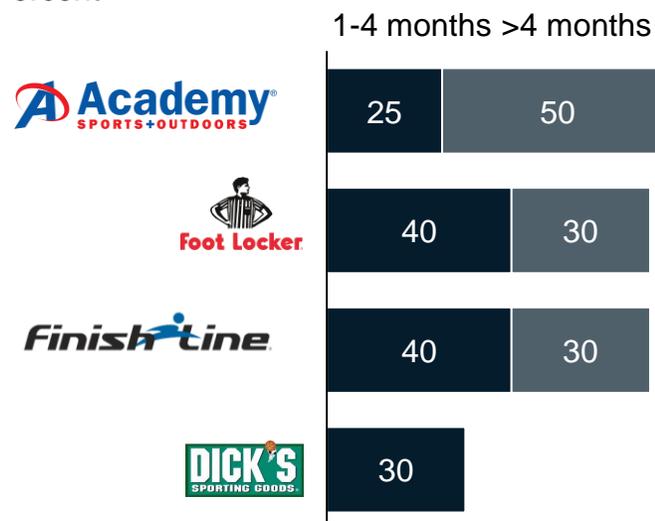


As long as consumers are reluctant to return to stores, the level jump of e-commerce will remain



Estimated time for return to preferred stores. Share of respondents

Percent



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

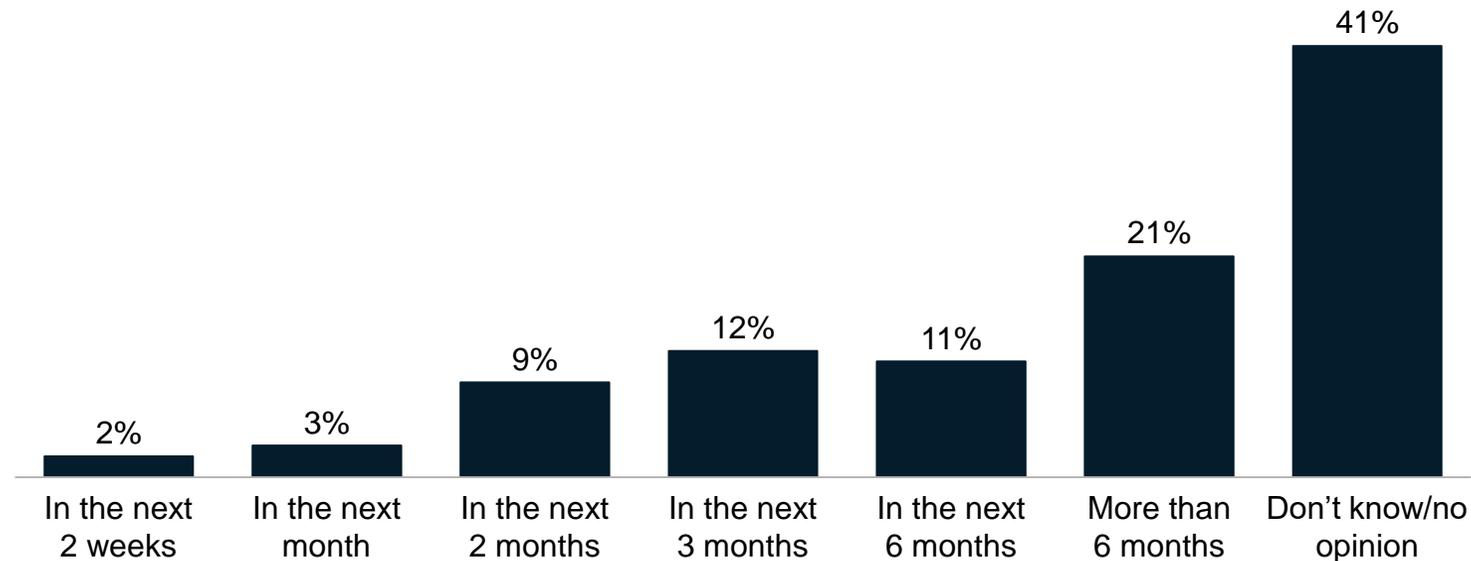


While gyms are struggling ...

People do to not feel comfortable going back to the gym

Timescale for being comfortable going back to the gym

% of respondents



Source: Statista; April 2020

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**



... 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%

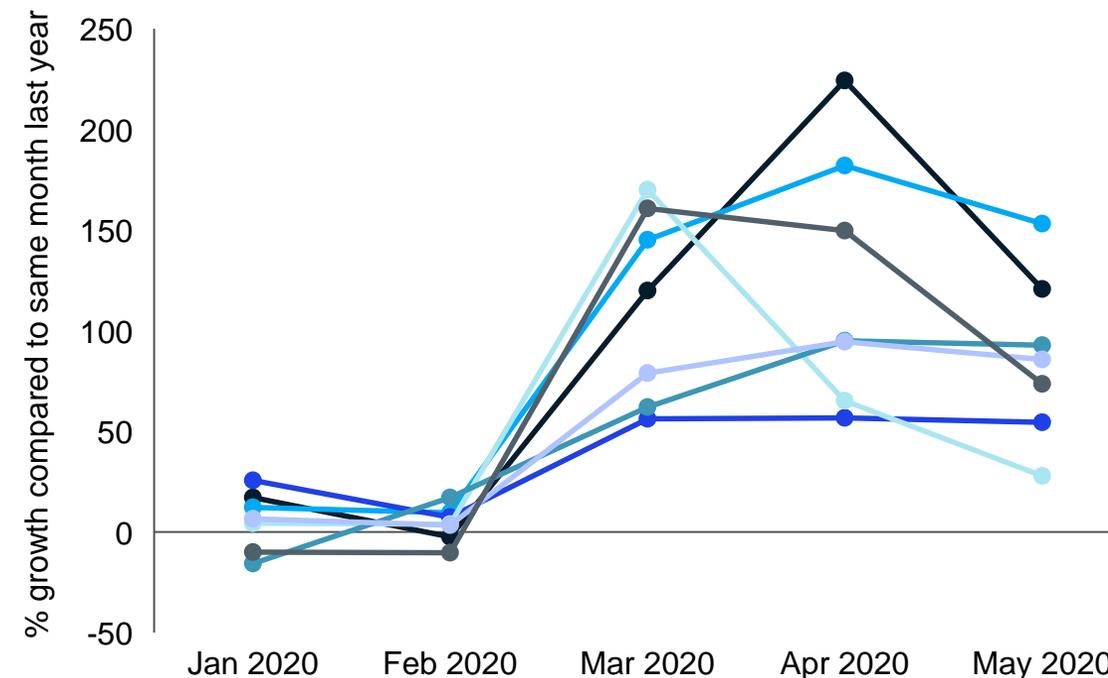
increase in fitness and yoga equipment

Year-to-Date Health and Fitness Equipment trends



(Monthly %change compared to period prior year)

● Cardiovascular Machines ● Free weight equipment ● Strength training products
 ● Yoga & Mat Pliates ● Home Gym Weight Machines
 ● Home Gym Accessories ● Fitness Accessories



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**

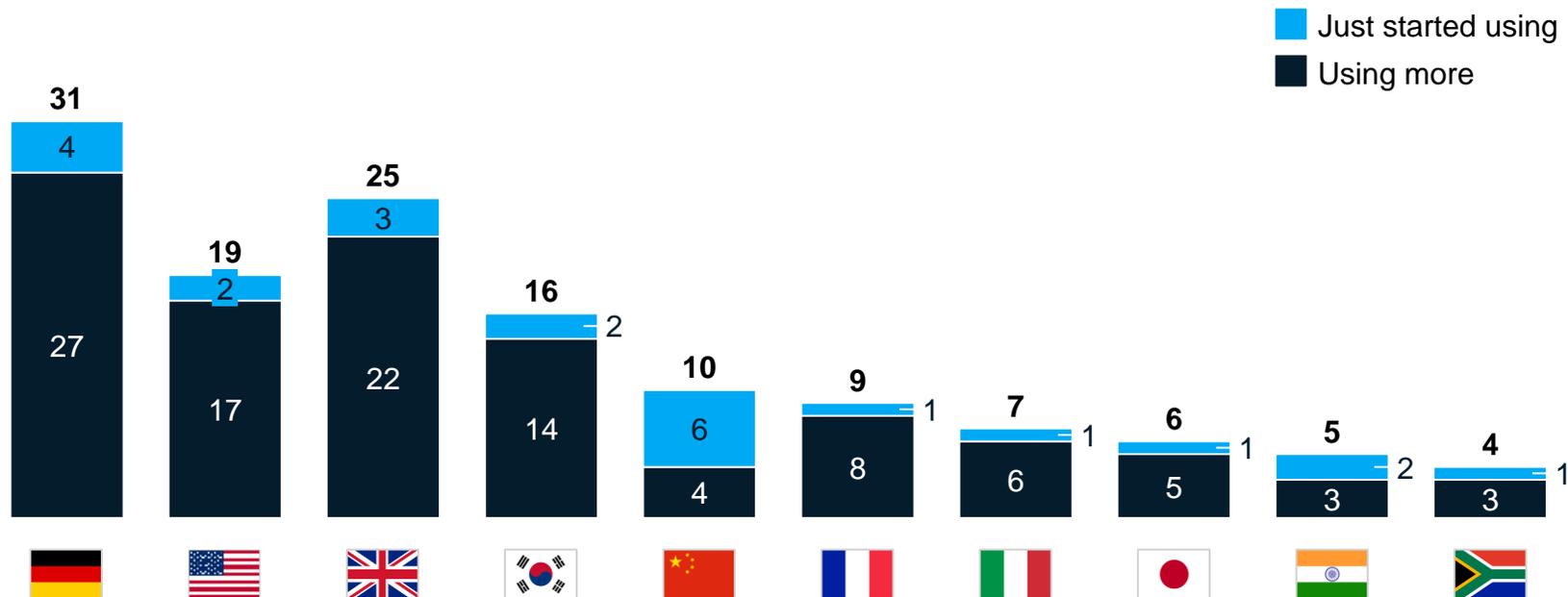


Also outdoor activities are picking up as gyms become less popular

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 respondents¹



¹ Percent of all respondents who are new to the activity plus percent of respondents who have increased their use since COVID-19 started

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 resp. country

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

- A Access solutions checking co-worker, staff, and customer health

Safe distances

- B App helping to identify safer shopping hours
- C Store count maximum
- D Shopping list sorting according to store layout to reduce time spent in store (potentially)

Safe surfaces

- E All consumers enter with sanitized hands



What could be different inside the store

Safe distances & protections

- G Proximity sensors in baskets/phones
- H Plexi glass shield to protect cashiers
- I New staff uniforms
- J Distance customer engagement

- K Contactless payments

Safe surfaces and trolleys

- L Sanitized stores
- M Remove un-needed customer touch and feel
- N Visualized cleaning frequency

Safe air

- F 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

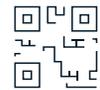
The “New Normal” store: Decathlon’s Scan&Go case example



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?

 By scanning the code the RFID security tag is disabled...



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)





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



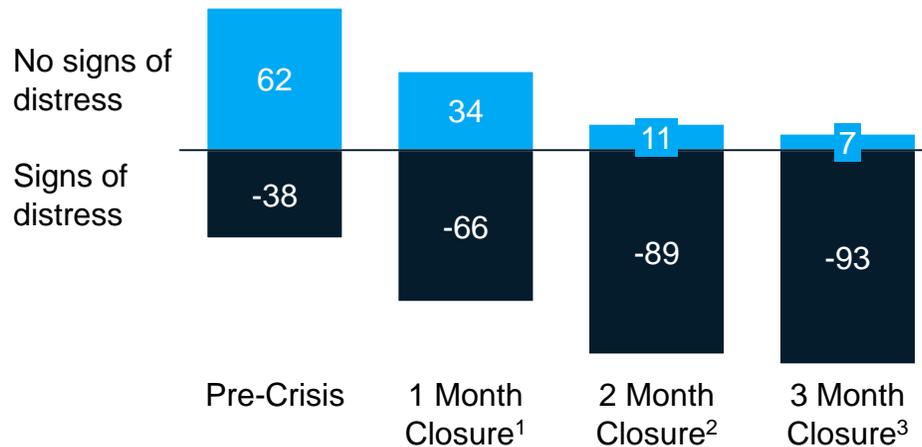
High rent obligations further increase losses particularly for multi-brand boutiques



Potential impact

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

Distress meaning negative EBITDA or net debt/EBITDA > 4



Exemplary apparel, sports, and fashion retailers which filed for bankruptcy since the outbreak of the COVID-19 crisis

LAURA
ASHLEY



J.CREW

JCPenney

Neiman Marcus

- 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

Source: Source: McKinsey & Company Strategy and Corporate Performance Analytics, CapIQ, March 2020

Key insights for Sporting Goods



The **gap between winners and losers** in the industry is widening for both large retail networks and individual sporting retailers



Industry is facing a **wave of consolidation through M&A** while financial investors are expected to enter esp. more fragmented categories (e.g., footwear)



Weighing of strategic options (incl. leverage, divestitures and acquisitions) is key to creating operational and financial stability

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

Illustrative

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

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



Nike 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")

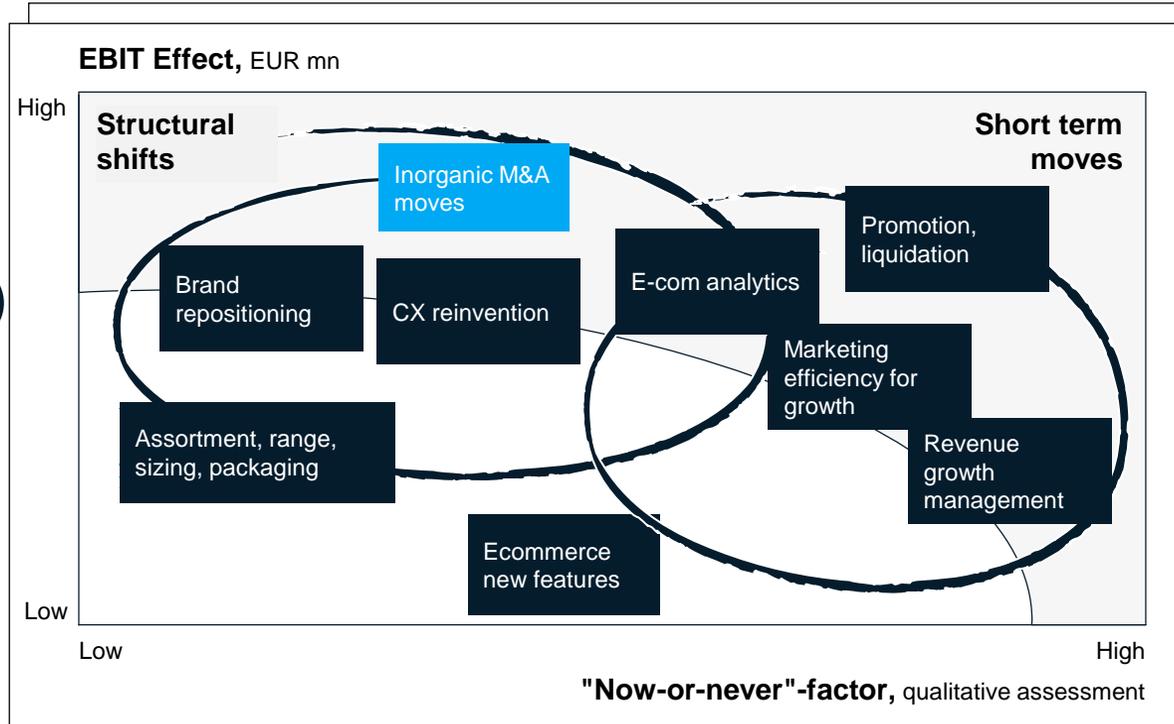
- Increasing
- Declining

Maturity of commercial practices ("Internal view")

- High
- Low

Illustrative prioritization matrix

See next page



Examples

DECATHLON



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"

Exemplary

Despite the crisis, recent M&A activity shows that many players choose to pursue opportunistic investments

Target	Acquirer	Deal announcement	Description
MIRROR		June 2020	Acquisition of at-home fitness app Mirror to respond to at-home fitness trend
	W-HAT FOR NOW	June 2020	Acquisition of Rossignol biking business to build Brand Group around cycling to expand competitive edge on e-bikes
	HEAD	June 2020	Acquisition of swimming goggles producer Zoggs International Ltd. merged into combined swimming business
	Monte ROSA SPORT	May 2020	Acquisition of performance sportswear to reach synergies with existing brands
STEP	CCM	February 2020	Acquisition of hockey skate blades producer to enhance performance of skating products

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

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& Company

Questions & Answers

Thank you & stay safe!

If you have questions, please reach out



McKinsey
& Company



**Robbert de
Kock**

President and CEO

rdekock@wfsgi.org



**Raphael
Buck**

Senior Partner
Consumer Practice
leader

Raphael_Buck@
mckinsey.com



**Achim
Berg**

Senior Partner
Apparel, Fashion &
Luxury Group leader
Global

Achim_Berg@
mckinsey.com



**Alexander
Thiel**

Partner
Sporting Goods expert

Alexander_Thiel@
mckinsey.com



**Felix
Poh**

Partner
Consumer leader China

Felix_Poh@
mckinsey.com

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