Sporting Goods Manufacturers Association

State of the Industry 2011
The Sports and Fitness Products Industry Rebounds
About This Report

Estimates of manufacturers’ shipments are based on an annual SGMA State of the Industry Survey, (SOTI), of sporting goods/fitness companies, shipment data provided by a sample of manufacturers, confidential discussions with knowledgeable company and trade association executives, reports from public companies, data from trade organizations and the U.S. government, consumer buying surveys, interviews with industry executives and analysis of economic reports, sports participation studies and media coverage.

As a result of increased use of industry supplied shipment data starting in 2006, we have revised some estimates from prior years. In some cases, it was not possible to accurately do this. We believe our estimates since 2006 provide the most accurate measurement of wholesale shipments for the U.S. sporting goods marketplace.

Participation data is from an online survey of U.S. households conducted in January during 2008, 2009, 2010 and 2011 by Sports Marketing Surveys. The sample sizes have ranged from 38,000 to 60,000 individuals.

To accomplish all this, the SGMA has formed an alliance with five other trade associations to increase research accuracy, and trend data. The associations are the National Golf Foundation, the Outdoor Foundation, SnowSports Industries America, International Health & Racquet Sports Association and the United States Tennis Association/Tennis Industry Association.

The 2011 participation survey sample size of 38,472 completed interviews provides a high degree of statistical accuracy. All surveys are subject to some level of standard error—that is, the degree to which the results might differ from those obtained by a complete census of every person in the U.S. As a general rule, larger sample sizes provide greater accuracy. For example, a sport with about 14 million participants has a standard error of plus or minus 4% of participants. A sport with 2.7 million or fewer participants has a standard error of plus or minus 8% of participants. Therefore, caution should be used when dealing with data on smaller sports, especially those with fewer than 1 million participants.

SGMA Research has the ability to do nationally representative research. Please contact Neil Schwartz at Sports Marketing Surveys/SGMA Research for additional information:

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The Sporting Goods Manufacturers Association (SGMA), the #1 source for sport and fitness research, is the leading global trade association of manufacturers, retailers, and marketers in the sports products industry. The SGMA helps lead the sports and fitness industries by fostering participation through research, thought leadership, product promotion, and public policy. More information about SGMA membership and The SGMA's National Health Through Fitness Day can be found at www.SGMA.com

Disclaimer:

While proper due care and diligence has been taken in the preparation of this document, The Sporting Goods Manufacturers Association cannot guarantee the accuracy of the information contained and does not accept any liability for any loss or damage caused as a result of using information or recommendations contained within this document.
To Our Readers:

Last year’s introduction to our State of the Industry report concluded with the following:

“...the sports and fitness equipment industry will continue in a difficult market in 2010. Q1 has started very well and Q2 appears to continue a positive sales trend. But, broadly speaking, restocking depleted inventories suggest sales increases in 2010. The consumer will continue as a conservative, value oriented buyer with both the manufacturer and retailer working to deliver product that fulfills the American consumer’s desire to play and be fit.”

“Looking forward there are positive signs among active participants. They are set to increase spending in 2010 with 23.1% indicating they will spend more on sports equipment, against only 4.5% that spent more in 2009.”

2010 was all of the things we anticipated, and more that we did not predict. Sales climbed, with many manufacturers and retailers reporting double digit increases from 2009. The SGMA Manufacturers Sales by Category Report shows the industry produced an overall 3.52% sales increase from 2009.

### Industry Sales 2009 & 2010

<table>
<thead>
<tr>
<th>Category</th>
<th>2009</th>
<th>2010</th>
<th>Change (Actual)</th>
<th>Change (Projected March 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sports Equipment</td>
<td>$20,098</td>
<td>$20,410</td>
<td>1.39%</td>
<td>3.10%</td>
</tr>
<tr>
<td>Total Exercise Equipment</td>
<td>$4,164</td>
<td>$4,344</td>
<td>4.14%</td>
<td>5.70%</td>
</tr>
<tr>
<td>Sports Apparel</td>
<td>$28,168</td>
<td>$29,581</td>
<td>4.78%</td>
<td>2.25%</td>
</tr>
<tr>
<td>Athletic Footwear</td>
<td>$12,267</td>
<td>$12,608</td>
<td>2.70%</td>
<td>2.25%</td>
</tr>
<tr>
<td>Licensed Merchandise</td>
<td>$6,925</td>
<td>$7,292</td>
<td>5.03%</td>
<td>5.30%</td>
</tr>
<tr>
<td>Total Equipment, Apparel and Footwear</td>
<td>$71,622</td>
<td>$74,235</td>
<td>3.52%</td>
<td>3.72%</td>
</tr>
</tbody>
</table>

Source: SGMA Research powered by Sports Marketing Surveys
In 2009 manufacturers reached increased profitability by aggressive cost reductions. While cost reductions continued in 2010, and are documented later in this report, manufacturers report increased profits driven by topline dollar sales increases in 2010. There is concern expressed by many in the industry, however, since these sales gains are often due to increased prices and not increases in unit sales.

Sales numbers for major categories show clearly the consumer is still a value-oriented, budget-driven shopper. The largest increase was in Licensed Merchandise, attributed to pent-up demand and the consumer’s desire to identify their affiliation with their favorite team or sport. The Sports Apparel categories, where products often do double duty as casual or daily wear, and Fitness Equipment, where sales mirrored the continued strength of participation in fitness activities, showed solid increases. While Americans continue to play sports, a small increase in Equipment sales indicates consumers are purchasing new sports equipment at a slower pace.

Certainly, the slight upturn in the economy has helped increase sales in our industry. However, the sales performance of the sporting goods industry, measured against Gross Domestic Product (GDP), outpaced the increase in GDP for the first time since 2007. We believe this indicates the industry has aggressively marketed their products, and American consumers continue to embrace the sports and fitness lifestyle.
It remains to be seen if additional economic challenges in 2011 will damage the industry. The end of Federal stimulus funds to states is forcing teacher layoffs and severe reductions in budgets for schools. A report from the Texas State Auditor’s office projects as many as 600,000 jobs will be lost in Texas due to state budget cuts for 2011. While booster clubs support many sports programs, there will be less money for these going forward, as many states deal with severe budget reductions. We see some indications that low income communities without the private resources to fill in funding gaps will suffer reduced sports programming and participation.

In addition to economic concerns, the industry is facing new scrutiny from the Federal government over issues of player safety. The SGMA is committed to staying out front of all of the latest rules, regulations and specifications for sporting goods and fitness products. The SGMA is focused on providing our members with timely and critical information, with the focus on actionable guidance. Together with our Legal Task Force, we are able to engage our members early on many of these issues and take a leadership role in representing our member’s interests.

For the past 2 plus years, the SGMA has been working with the Consumer Product Safety Commission to better interpret the nature of “children’s products” to ensure sporting goods are properly defined and differentiated. By establishing this definition, we were able to have many products excluded from the additional testing requirements that are being established by the government exclusively for “children’s products.” As has been reported in the media, Congress has taken more of an interest in the concussion issue and related head trauma that can occur through playing sports.

Earlier this year, a bill was introduced that would give the Federal Trade Commission, (F.T.C.), and individual State’s Attorney Generals additional powers to pursue what might be construed as misleading claims when it pertains to this legislation of children’s sports equipment. If passed, it will increase the possibility of fines and lawsuits from both individual states and the Federal government.

The SGMA is monitoring this situation very closely and is dedicated to ensuring that these laws and policies are fair and balanced and do not impose any unreasonable or unwarranted burdens. In March of 2011, the CPSC launched one of the most ambitious projects to date with the first public database to deal specifically with consumer product safety complaints.

The SGMA has been following this development for some time and voiced a number of concerns via meetings with the CPSC, through submission of formal comments and participation in public forums to discuss this situation.
SGMA will continue to monitor closely the CPSC’s process to vet and verify consumer complaints before they are passed along to manufacturers.

It is important to note the extraordinary concerns about concussions are moving into other sports, including baseball/softball, basketball, soccer and volleyball. We anticipate much discussion and deliberation in policy circles, governing body rule-making and industry innovation processes to address this critical issue.

While the industry is challenged with a tenuous economy and outside agencies mandating change, companies continue to deal with normal business issues including globalization, supply chain and raw material cost, marketing opportunities including new media, social networking opportunities and an increasingly distracted consumer.

Globalization for manufacturing and sourcing has been standard for the industry for many years, but globalization is expanding to include international sales and retail efforts. Now, the first major Chinese sports brand, Li Ning, is making inroads into the American market. Li Ning invested $10 million in its U.S. business in 2010 with a goal of U.S. sales of $50 million. Li Ning opened a Portland, Oregon showroom in 2009 and signed endorsement deals with NBA players Shaquille O'Neal and Evan Turner.

When questioned about international sales growth, 88% of respondents to the SGMA State of the Industry survey indicated their sales would increase internationally in 2011. The leading international markets according to our survey are:

- Asia
- Australia
- Canada
- South America
- United Kingdom

A concern for all segments of the sports and fitness products industry are increasing costs and lack of manufacturing capacity in the supply chain. Cotton cost, along with other raw materials, continue to rise as producers try to regain losses suffered in the global recession. In an effort to reduce cost, many offshore factories drastically reduced capacity during the recession and are hesitant to bring shuttered production back online.
Sixty percent of respondents to our survey indicated they believe they will need additional manufacturing capacity in 2011 and will increase production by an amazing 23%. Interestingly, in a reverse trend, of those companies planning an increase in production facilities, 11.5% will use U.S.-based factories while 8% will use offshore facilities. No one in this year’s survey indicated they would reduce overall capacity. The balance will try to ramp up production in existing capacity. Keen and Exxel Outdoors are among those companies announcing expansion or new factories in the U.S.

![Plans For Manufacturing Capacity](image)

Source: SGMA Research powered by Sports Marketing Surveys

While vendors have difficult choices in management of their supply chain, they also face a myriad of options as they market their products. Traditional advertising, sponsorships and promotions were cut significantly over the last two years as companies struggled to match cost to sales. As indicated by the State of the Industry Survey, respondents plan to aggressively increase marketing expenditures in 2011 over 2010 levels. This bodes well for industry growth in 2011, tempered by forecasts of consumer-borne cost increases in gas and food.
Planned Marketing Expenditures Increases/Decreases

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>-8%</td>
<td>10%</td>
</tr>
<tr>
<td>Sponsorship</td>
<td>-9%</td>
<td>9%</td>
</tr>
<tr>
<td>Sales Promotion</td>
<td>-2%</td>
<td>6%</td>
</tr>
<tr>
<td>Player Endorsement</td>
<td>-7%</td>
<td>3%</td>
</tr>
</tbody>
</table>

While manufacturers plan to ramp up marketing spending in traditional categories, they are turning creatively to the internet and social media to reach their target audience, build relationships with current customers and reach new consumers. Company internet sites, Facebook, Twitter and Shutterfly have all become resources for leading edge marketers in our industry.
Consumer group coupon and discount programs, including Groupon, are beginning to build acceptance with consumer goods based retailers and manufacturers, but have not been aggressively adapted by the sports product industry yet.

Using social media, Polartec reached more than 28,000 customers over a three-week period in a Facebook based contest promoting collegiate outdoor programs.

One of the more innovative uses of new media is Easton’s promotion, “Easton’s Dream Job,” giving people the opportunity to compete to earn a job on their “The Dream Crazy Tour,” a web based series promoting baseball, hockey and lacrosse. Web-based and new media programs for team sports have also been implemented by Rawlings, Under Armour and Mizuno.

Another clever marketing program, blending the Internet and social networking with traditional events is “Girls Out There” beach festivals presented by Billabong. By using a mix of traditional beach events, while publicizing and maintaining communications with participants and fans through the internet and social networking sites, Billabong created a successful marketing program focused on girls and getting them out of the malls and onto the beach and enjoying the outdoors.

Additionally, with Sony as a sponsor, the “Girls Out There” program featured the convergence of sports and fitness activities with consumer electronics. The SGMA has, for the last three years, pointed to the increasing convergence of electronics and fitness.

The convergence of consumer electronics with fitness is generating the next major shift in activity formats for fitness. In 2010, Best Buy, known for its consumer electronics, started carrying small fitness items and accessories along with flat screens and iPods. Adidas, in cooperation with Samsung, has developed miCoach, the first major fitness-training app to be developed for mobile platforms.

Perhaps most telling of all in the continued integration of sports and consumer electronics is Microsoft’s Kinect, which adds an infrared camera for Xbox 360 that allows body movement to control video gaming. Kinect is now the fastest selling consumer electronics item in history according to Guinness World Records.
According to a new study by the Consumer Electronics Association (CEA) almost half of U.S. online consumers used fitness technology in the past year, and 37% anticipate purchasing some type of fitness technology in the next 12 months.

For the first time, the 2011 International Consumer Electronics Show (CES) included a Fitness TechZone that will showcase the newest electronic innovations and tools for the sports, fitness and outdoors markets.

The overall news is positive for the sporting goods industry. Even considering the uncertainties of the economy, our research tells us consumers continue to aspire to be involved in sports and plan to spend more money for sports and fitness activities and equipment in the coming year.
Legislative issues, sourcing and production priorities, international expansion, counterfeiting, continued cost management and regulations by sport governing bodies are constant challenges the sports/fitness manufacturing industry face.

We will delve into all these issues in this report as we review 2010 and preview 2011. We hope you will find this report helpful and we welcome your comments.

Thomas J. Cove,
President & CEO, SGMA
SGMA Membership Benefit Research Reports

Annually SGMA publishes a series of reports on various aspects of the sporting goods & fitness industries ranging from participation trends to the industry’s marketplace.

**THESE REPORTS ARE ALL FREE TO SGMA MEMBERS.**

These reports and more can be ordered at www.sgma.com/research. For more information about our SGMA Research contact Neil Schwartz at neil.schwartz@sportsmarketingsurveysusa.com or 561.427.0647.

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**Sports & Fitness Participation Topline Report**

*SCHEDULED RELEASE - April 2011*

This SGMA Participation report covers 117 different sports and activities each year with a mega sample size of over 40,000 Americans, ages 6 and older. The goal of the report is to determine activity levels and establish participation trends in sports, fitness, and recreational activities in America.

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**State of the Industry Report**

*SCHEDULED RELEASE - April 2011*

Our State of the Industry report contains essential up-to-date information about the state of the diverse sporting goods and fitness market. It combines data from the annual Participation Study along with market size data and industry projections in a detailed analysis. The report also includes individual sport participation rates, business & demographic trends and much more.

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**U.S. Trends in Team Sports Report**

*SCHEDULED RELEASE - May 2011*

Our U.S. Trends in Team Sports report takes an in depth look at the trends in participation and shipment sales specific to team sports. A Grassroots report on sports participation in the U.S. is also featured, to reveal what inspires young athletes to participate in sports and what motivates them to continue playing.

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**Tracking the Fitness Movement Report**

*SCHEDULED RELEASE - June 2011*

The Tracking the Fitness Movement Report investigates all aspects of the fitness & exercise category from core participation to sales of equipment and health club membership.

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**Manufacturer’s Sales by Category Report**

*SCHEDULED RELEASE - April 2011*

If there is a specific market you are trying to analyze, to see where your windows of opportunity are, this report is your solution. It reveals how the industry has performed during the year, and it provides the latest sales figures on over 30 categories of sporting goods and fitness equipment.
About The SGMA

SGMA Research, powered by Sports Marketing Surveys USA, (SMS), is the sole provider of marketing research and analysis for the Sporting Goods Manufacturers Association, (SGMA). This partnership places SMS at the forefront when it comes to marketing research for all things sport, sports participation and current trends in sports.

Sports Marketing Surveys USA has been in business since 1985, providing quantitative and qualitative marketing research and information for many of the leading manufacturers and organizations throughout the industry.

- Quantitative and Qualitative Consumer Research
- Dealer Studies
- Market Trend Analysis
- Sponsorship Evaluation
- Market Size Evaluations
- New Product Feasibility Studies

An SGMA Membership Benefit Free for Members Non-Member Price $495

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