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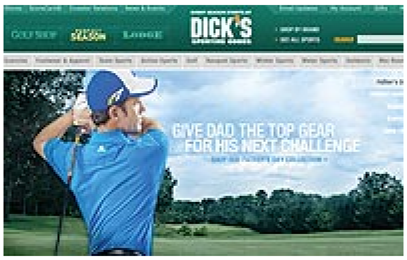
Study: Sporting-Goods Retailers Hurting, But Brands Still No. 1

Sarah Mahoney, Friday, May 30, 2008 5:00 AM ET



The U.S. sporting goods retailing industry is on the brink of major changes, with widespread consolidation and private-label brands reshaping the $110 billion industry, according to a new report from the **Mercanti Group**.

The Minneapolis-based investment-banking firm says retailers are also responding to a changing consumer, with an increased emphasis on team sports, kids specializing in one sport at younger ages, and as a result, increased demand for performance-related products and apparel. That demand, it predicts, is expanding retailers' potential for private label brands, as well as e-commerce.

The coming consolidation is expected to be significant, says **Dave Remick**, director. Currently, large retailers account for only 23% of sales. One surprise, he says, is just how solidly in the lead Dick's Sporting Goods is. "In so many industries, there's a No. 1 and a No. 2 that are very close--Home Depot and Lowe's, for example, or McDonald's and Burger King. But Dick's has established itself as the clear No. 1 in many ways." While Dick's is already No. 1 in overall sales, for example, it's now become the largest golf retailer, with its recent acquisition of Golf Galaxy. "It's also done a great, innovative job with its private-label products."

Another trend is sport specialization, the report notes, in which more kids are playing a single sport year-round, with casual participation on the decline. That specialization has boosted the demand for sport training and conditioning programs.

For retailers, that means there's a greater need for supports, braces and protective equipment designed to reduce harm from repetitive stress, impact and overtraining. And it's also made kids (and their parents) more willing to trade up for additional design features and technologies.

There's no doubt that a softer economy is hurting sporting goods retailers. A consumer survey just released by the Nielsen Co., for example, says that 85% of U.S. consumers believe the country is in a recession, with 69% saying they believe the next 12 months are either a bad or not so good time to buy things they want or need.

But **Remick** says any downturn in spending is still likely to favor the strongest brands. "American consumers always have to spend money, but they'll trade down.

Maybe they'll buy three items, but not four. Or maybe kids won't buy $120 Nike sneakers, but they will by a $25 Nike hat," he says. "The brand is still very important, especially to the younger consumers that are such a big part of this market."

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