Outdoor performance apparel: peaks, valleys, and green fields

2015 edition

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Introduction

"Outdoor is a metaphor for freedom, adventure, adrenalin, extraversion, creativity, dynamism, and personal power."

Mike Lipkin, president of Lipkin/Environics, summarised the charisma of the outdoors at the Outdoor Industry Association 2014 Rendezvous, an annual educational and networking opportunity for industry executives. The multi-billion, global outdoor industry, which includes apparel, footwear, equipment, and accessories, has become a benchmark for consumer products in recent years, with growth outpacing that of apparel and recreational products in general.

In 2011, just-style's report on the outdoor performance apparel market forecasted that market value in 2013 would be US$18.1bn. In 2014 the reports for actual sales of outdoor apparel in 2013 are closer to US$XX–XXbn, driven by double-digit growth rates in emerging markets.

The success of outdoor apparel brands tells the story. Consumers are buying and wearing outdoor performance apparel in record numbers, mixing it with active wear and lifestyle pieces to suit their varied and busy lives. Many of these consumers are increasingly urban, and are new to the outdoors.

Although many consumers may only wear outdoor performance apparel to make the school run or walk the dog, the outdoor apparel industry is increasingly driven by technology and innovation. Ingredient brands work alongside the leading apparel brands to bring performance benefits to clothing that not only improve our outdoor experiences, but have the potential to enhance our daily lives.

The members of the outdoor industry are uniquely passionate, involved, and connected with one another. A number of regional organisations exist which serve to support and promote the outdoor industry through trade shows, market research, advocacy, and education.

Chief among these are the Outdoor Industry Association (OIA) in the US, and the European Outdoor Group (EOG), both of which communicate a wide range of market intelligence, primarily to members. Within the industry are a number of other trade organisations such as the Scandinavian Outdoor Group (SOG), the Chinese Outdoor Association (COA) and the Chinese Outdoor Commerce Alliance (COCA).

The outdoor industry's major trade shows include Outdoor Retailer (OR), which has nearly outgrown its home in Salt Lake City; ISPO's network of exhibitions in Munich, Beijing, and Shanghai, which provide a global platform for sport and outdoor brand; Outdoor Friedrichshafen, which has

Chapter 1 Taking it outside

Enjoying the outdoors knows no political, economic, or gender boundaries, and sales of outdoor apparel have grown in concurrence with consumers' increasing need to escape from high-pressure or monotonous jobs, computer terminals, and cramped, urban apartments.

"In the US, outdoor apparel continues to appeal to consumers as the outdoor lifestyle becomes more central to daily life," explains Mike Joyce, CEO of ingredient brand PrimaLoft. "There is a great appreciation for the solace that outdoor activities provide, as people seek refuge from being connected and over-scheduled. In addition, the definition of 'outdoor' is changing to be much broader, encompassing everything from a classic hike, to a walk down Park Avenue, to attending a soccer game, to adrenaline sports."

Euromonitor International's 2013 report on The Sportswear Revolution: Global Market Trends and Future Growth Outlook, breaks sportswear sales into segments for performance, outdoor, and sports-inspired. Outdoor is the fastest growing segment.

Overall, the global *sportswear* market grew by over 7.5% to more than US$244bn in 2012, according to Euromonitor. The figures for *outdoor wear* as a percentage of that total sportswear market are 9% in the US, 13% in South America, 38% in Europe, 21% in Russia and the CIS, and 11% in the Asia-Pacific region.

Roughly, these figures would indicate that around XX.X% of the global sportswear market comprises outdoor wear, equating to approximately US$XX.Xbn in sales in 2012. But what do these numbers really mean?

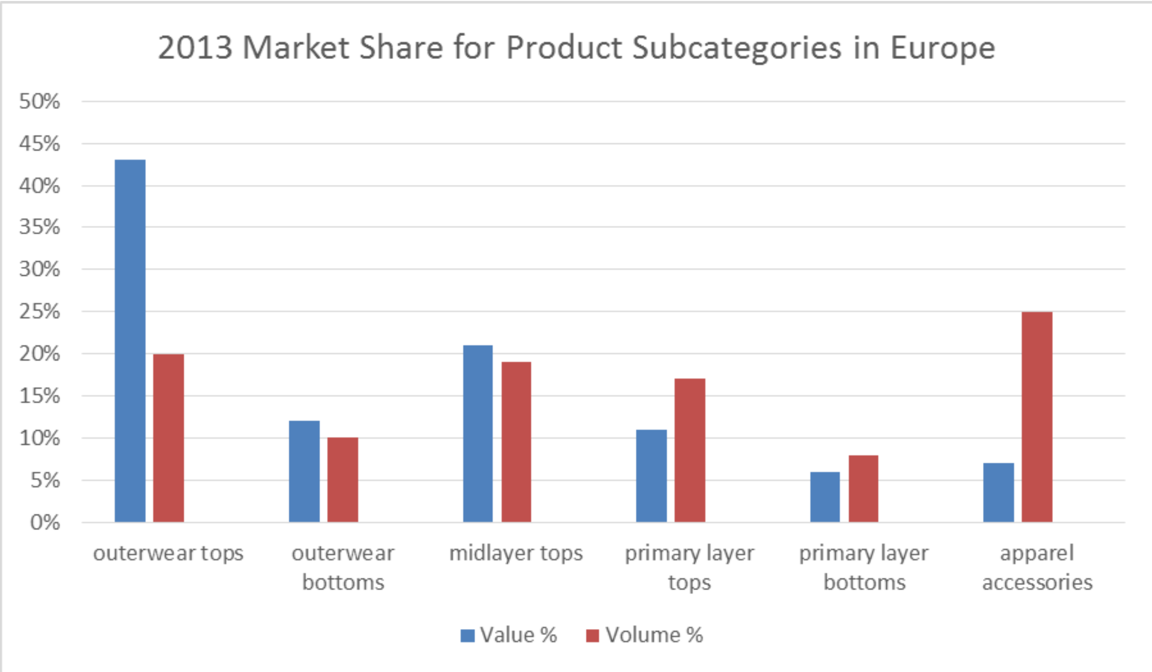
A recent survey of outdoor consumers by global marketing consultancy Egg Strategy, in partnership with OIA, found that for 37% of the participants the top motivator for being outdoors is the enjoyment and benefit of sunshine and fresh air.

The survey also found that the apparel brand most widely used in the outdoors (45%) is one usually defined as an active wear brand – Nike.

So what, exactly, makes up the outdoor apparel market? Is it cutting-edge, high-tech, insulated, waterproof-breathable outerwear – or is it shorts and a T-shirt? Is it synthetic khakis, thermal base layers, fleece and a plaid flannel shirt – or is it smart-looking, well-tailored, urban wear that combines performance fabrics with integrated digital functionality?

The EOG's State of Trade report includes seven main categories – Apparel, Footwear, Backpacks, Sleeping Bags, Tents, Climbing, and Outdoor Accessories; and 48 sub-categories. The EOG broke down the value and volume of apparel subcategories for 2013 in the following manner.

Figure 1: 2013 market share for outdoor categories in Europe



Source: EOG State of Trade Survey 2013

As most outdoor brands and retailers sell all of the above, it becomes virtually impossible to break out global sales figures for outdoor performance apparel.

The overlap between outdoor, active wear, and lifestyle dressing is increasingly muddled; while performance attributes are becoming the norm for apparel in all three categories. Most analyses of the outdoor market indicate that the future of the industry will see these categories merge.

In addition, the outdoor industry's distribution channels are changing dramatically. Many small specialty retailers feel overwhelmed by the ever-expanding array of apparel, footwear, gear, and accessories brands fighting for space under the outdoor umbrella. At the same time, e-tailers such as Amazon and eBay can easily supply anything the customer needs for use in the outdoors.

The traditional outdoor sector has also been infiltrated by the big three traditional sports apparel brands – Nike, Adidas, and Under Armour, Bennett writes in his assessment. The second-tier active

Chapter 2 Outdoor retailers may need to adjust the compass

The outdoor business is changing and evolving on all fronts, but many outdoor retailers are having a particularly difficult time adapting to the changes in the way outdoor products are being marketed and sold.

The outdoor performance apparel business was traditionally populated by small specialty retailers who walked the walk, and talked the talk. They knew the brands, the sales reps, and the performance characteristics of most of the product they sold. But their floor space was limited, and the product lines were growing and becoming ever more technical.

As the brands became their competition, and giant “sporting goods” stores incorporated outdoor product into their offerings, and the digital revolution taught a new generation to shop from their phones, a perfect storm descended, totally disrupting the distribution channels for the outdoor industry.

Today, brands are retailers, retailers are brands, and most are e-tailers; with a growing proportion of their business generated through social media, experiential marketing, and mobile apps.

Many outdoor retailers and brands are now part of portfolios held by large corporations or venture capital companies, such as Canadian Tire, Rallye in France, Pentland Group in the UK, Super Retail Group in Australia, and Vestis Retail in the US. Others are owned by their customers through a cooperative business model, such as REI and MEC.

Based on the global retailers who made available their 2013 figures for sales growth year over year, core outdoor retailers are seeing moderate growth, with sales up an average of X.X% over the previous year. But of course these figures do not include the majority of retailers in the growth areas of Asia and Latin America, where data is hard to come by, and even more difficult to verify.

Meanwhile, new brands and retailers are entering the space in record numbers.

Figure 4: Full-year 2013 sales results from core outdoor retailers

Retailer	Country/Parent	Number of stores	Number of countries	FY sales revenue	Sales growth year-on-year	Notes on e-commerce
Academy Sports						
Anaconda						
AS Adventure Group[1]						
Aux Vieux Campeur						
Bass Pro Shops						
Cabelas						
Canadian Tire[2]						
Centauro						
Decathlon						
Dick's Sporting Goods						
Dunham's Sports						
Gander Mountain						
Gresvig ASA[3]						
Groupe Go Sport						
Heightsport						
Hibbet Sports						
Intersport						
JD Sports[4]						
LL Bean						
MEC						
Modell's Sporting Goods						

Chapter 3 Outdoor brands are stealing retail share

Outdoor retailers have a love/hate relationship with the big brands. On one hand, the brands spend copious amounts of money marketing to consumers, driving them into the stores. On the other hand, brands are increasingly competing with retailers by growing their direct-to-consumer business via their own stores and e-commerce sites.

Outdoor apparel brands resonate strongly with consumers, perhaps more so than any other part of the apparel business, except perhaps the luxury segment. This is partly because core outdoor enthusiasts tend to be fully immersed in the lifestyle. Many outdoor brands connect with consumers through marketing contracts with well-known athletes, from professional sports figures to climbers, cyclists, marathoners, and extreme sports daredevils.

For example, TNF's video of Alex Honnold's epic climb of El Sendero Luminoso has captured over 3m views on social media, and was recently selected as ISPO's Communication of the Year for 2015. ISPO calls the video "a testament of the brand's core value to inspire people to go outdoors and push themselves through any personal challenge."

Outdoor brands have benefitted from the overall casualisation of apparel, while maintaining a "cool" factor based on an implied lifestyle of adventure, leisure, and sport. The pricing of high-end technical apparel makes these brands aspirational, while the mid-level and mass market brands benefit from outdoor apparel's cachet.

"Our customers see what our athletes are able to do. The athletes' stories also inspire ordinary people by relating to their moments of exploring the outdoors, and the joy it gives," says Aaron Carpenter, global vice-president of marketing for TNF.

In addition, outdoor brands such as The North Face, Prana, Nau, Icebreaker, Ternua, Vaude, and of course Patagonia are becoming increasingly associated with sustainability, transparency, and wellness; lifestyle trends that show up strongly on the radar of millennial consumers.

Chapter 4 Performance textiles and technologies define the genre

“Materials matter most,” Ed Thomas, Nike’s general manager, sustainable products and material science innovation, told the 2014 Textile Exchange (TE) sustainability conference. While Thomas was referring to Nike’s efforts in developing sustainable materials, the sentiment resonates across the outdoor industry’s efforts to develop, test, and market the new textiles and technologies that define outdoor apparel.

“One of the main attractions to outdoor apparel is its deeply rooted foundation in performance design,” explains Adidas Outdoor’s Thomsen. “Without the focus on true performance, the outdoor look is simply a passing fashion, but when combined with ongoing performance design and improvement it is a timeless style.”

High-performance, insulated and durable water proof (DWR) outerwear is the most important and technically-challenging category within the outdoor apparel industry. It includes down and synthetic insulations; hard and soft shell fabric structures; waterproof-breathable membranes; and DWR finishes.

With basic performance technologies such as moisture management, anti-odour, and UV protection becoming ubiquitous, the race is on to come up with new innovations that will appeal to the outdoor consumer. Many brands are now introducing a new textile technology each season, often with a sub-brand story and patent to boot, and leading outdoor apparel brands allocate millions of dollars to innovation.

The Nike Kitchen, arguably the industry’s most illustrious innovation centre, has been responsible over the years for a number of new performance technologies, including the Flyknit shoe. Adidas, which has recently fallen behind Under Armour into the number three slot among the active wear giants, has raised hackles at Nike with the launch of a new innovation centre in Brooklyn, headed by three ex-Nike Kitchen designers.

In 2013 VFC announced the establishment of three innovation centres across its divisions, including one dedicated to technical apparel in Alameda, California, home to its North Face brand. “It’s a huge step for us,” says TNF’s Carpenter. “We’ve got a really talented team thinking about the future and the key benefits that people need. They’re working in the wearables space, fabric innovation, the virtual world – focusing on developing what’s right for the brand.”

Chapter 5 Finding the next generation of outdoor consumers

Although the outdoor apparel industry has outperformed other segments of the apparel business in recent years, forward-looking retail and brand executives can't afford to fall asleep at the switch. While developing innovative product and mastering new distribution channels are critical components for future success, the industry's biggest challenge lies in finding and connecting with the next generation of consumers.

In Europe and North America, the current generation of outdoor consumers are enthusiasts who have grown up playing outdoors, camping with the scouts, or enjoying family holidays that revolved around outdoor recreation. Boomers in particular enjoy the outdoors, and as they retire will continue to spend on outdoor recreation.

But by 2020, the outdoor consumer will look very different. The Egg Strategy/OIA survey identified five economic, demographic, and political macro shifts that will affect the millennial and post-millennial outdoor consumer emerging in 2020 and beyond.

Egg Strategy predicts that by 2020 millennials will comprise XX% of the population, and XX% of the work force. They will be primarily urban dwellers. By 2020, XX% of the population will be obese. This will create a concurrent need for products that focus on health and wellness. Finally, Hispanic consumers in the US will come into their own, with XX.X% of the population; while Caucasians will make up XX.X%.

"The industry has two very large opportunities, but it will take brand as well as industry leadership to capitalise," believes Haroutunian. "One is diversifying the industry from the inside out, marketing to new health-minded customers in non-traditional populations and also hiring them into the business; the second is recognising the style appeal of rugged, functional gear and apparel to a younger, more sophisticated but decidedly less 'techy' consumer.

This might mean selling higher end style-statement product in the outdoor retail channel, as well as focusing product development on the younger consumer's wants and needs."

Chapter 6 The future outlook

The outdoor industry is facing a future filled with new distribution and sales channels, new technologies, and consumers who are new to the outdoors. Changing sourcing patterns, shipping costs and congestion, and compliance issues will make business increasingly difficult. Meanwhile, competition for the recreational and apparel dollar will become ever-fiercer.

On the bright side, global markets for outdoor apparel are growing, while new concepts in sport and recreation are sparking participation from a wider demographic.

Sourcing's shifting sands

While the bulk of outdoor apparel manufacturing will remain in Asia for the foreseeable future, there are a number of social and political issues making it prudent for brands to have a back-up plan. Rising wages in China, compliance problems in Bangladesh, strikes in Cambodia, political unrest in Thailand, and Vietnam's anti-China sentiment are compelling some brands to source some percentage of their products elsewhere. Sourcing managers are looking to Africa, Eastern Europe, and the western hemisphere.

Many sourcing managers, as well as suppliers, complain about the disconnect between the sourcing calendar and the retail calendar. Technical fabrics take time to develop and test; and the industry time line for offshore manufacturing is long and arduous. Retailers need better tools for projection, and manufacturers are asking for more open lines of communication with their retail partners.

Weather adds another element of unpredictability, and can have a marked effect on the sell-through of outdoor product.