



The Evolution of The Direct-To-Consumer Model in The Sportswear Industry: an Assessment of the Model's Application by Top Industry Leaders

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ABSTRACT

Summary: This dissertation assesses how the sportswear industry is approaching the rising trend, Direct-to-Consumer (DTC) model. Therefore, it explores its current development and the potential of model in the industry. The research questions were answered by developing four abbreviated case studies on global sportswear brands, Nike, Adidas, Puma, and Under Armour. The four abbreviated cases explain how top global sportswear brands are approaching model, what best practices they are using and the financial impact of the model. Also, a scenario-building approach was developed to understand what the future of this model in the sportswear industry will be.

The sportswear brands are increasing the adoption of the DTC model at a fantastic pace over the years, especially online, which the sportswear brands fastest-growing channel. On a consumer perspective, consumers are more likely to buy and interact directly through a brand on digital platforms. The future of the DTC model in the sportswear industry is most likely to follow a base-case scenario, where the top global sportswear brands will increase the adoption of the model, and medium and small brands will follow the trend.

Keywords: Direct-to-Consumer; Sportswear brands; Sportswear industry; Distribution channels; Digital transformation; Personalized shopping experience; Customer experience

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SUMÁRIO

Resumo: Esta dissertação tem como objetivo avaliar como a indústria do vestuário desportivo está a abordar a recente tendência de utilizar o model Direct-to-Consumer (DTC). Portanto, a mesma explora o desenvolvimento atual e potencial que o modelo poderá ter na indústria. As perguntas de investigação foram respondidas ao construir quatro casos de estudos abreviados sobre marcas desportivas globais como Adidas, Nike, Puma e Under Armour. Os quatro casos de estudos explicam como marcas desportivas de topo estão a abordar este model, quais práticas estão a ser usadas e qual é o impacto financeiro que o modelo apresenta. Para perceber qual será o futuro do model DTC na indústria do vestuário desportivo foram construídos vários possíveis cenários.

Ao longo dos anos, cada vez mais marcas desportivas estão a adotar este model, especialmente as marcas estão a aplicar o modelo nos seus canais online, que são os que representam o maior crescimento. Na perspectiva do consumidor, é mais provável que os consumidores comprem e interajam com as marcas nas plataformas digitais. O futuro do modelo DTC na indústria do vestuário desportivo tem maior probabilidades de seguir um cenário base, onde as maiores marcas desportivas continuarão a adotar o model e futuramente marcas médias e mais pequenas vão seguir esta tendência.

Palavras-chave: Direct-to-Consumer; Marcas desportivas; Indústria do vestuário desportivo; Canais de distribuição; Transformação digital; Experiência do consumidor; Experiência de compra personalizada

Título: A evolução do modelo Direct-to-Consumer na Indústria do vestuário desportivo: avaliação da aplicação do modelo pelos principais líderes da indústria

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1. INTRODUCTION

The enhancements on digital technologies are changing consumer behaviours and preferences (Nike Inc, 2017b; Reinartz et al., 2019). Nowadays, consumers are more connected with brands than ever through digital technologies, with consumers valuing their shopping experiences much more (Microsoft, 2020; Reinartz et al., 2019). Therefore, consumers are now willing to exchange their personal for a personalized customer journey at every step (Gielens & Steenkamp, 2019; Microsoft, 2020). Consequently, consumers are shifting the retail environment to a more customer-focused approach, where they also value a deep one-to-one relationship with a brand (Gielens & Steenkamp, 2019; Nike Inc, 2017b; Reinartz et al., 2019).

Some Brands are already taking the shift in consumer behaviour into consideration and with the development of digital technologies are interacting directly with the consumer, not only on the purchase stage but at every stage of a product cycle, creating a relationship with the customer (Gielens & Steenkamp, 2019). This way of directly interacting with the consumer is an upcoming trend called Direct-to-Consumer (DTC) model, which has the goal of improving and delivering a personalized customer experience (Barclays Corporate Banking, 2020; Gielens & Steenkamp, 2019).

The sportswear industry is one of the industries where some brands are already exploring this model; for example, the market leaders, Adidas and Nike are focusing their strategy on the DTC model (Adidas AG, 2020; Nike, 2017). The future of this industry will likely be focused on the customer, as Nike's CEO Mark Parker appointed: "the future of sportswear will be decided by the company that obsesses the needs of the evolving consumer" (Nike, 2017). Therefore, the DTC model can produce a positive outcome in this industry since it develops a strong personal connection with consumers (Gielens & Steenkamp, 2019).

1.1 PROBLEM STATEMENT

This dissertation aims to assess the impact and potential of the DTC model in the Sportswear Industry.

1.2 RESEARCH QUESTIONS

This paper aims to assess the impact and the potential of the DTC model of global brands in the Sportswear Industry. Therefore, the following research questions were formulated:

RQ1: How developed is the DTC model currently on global sportswear brands?

RQ2: How is the DTC model expected to evolve in the future of the sportswear industry?

1.3 ACADEMIC RELEVANCE

This dissertation intends to present how the phenomenon trend, Direct-to-Consumer model (Barclays Corporate Banking, 2020) is being developed and its potential in the sportswear industry for the academic community. Furthermore, it aims to provide more detailed knowledge on the topic and the DTC practices that some sportswear brands are performing.

1.4 MANAGERIAL RELEVANCE

Digital transformation opens new opportunities for brands to own customer interface instead of only retailers and interact directly with consumers (Reinartz et al., 2019). Consequently, the only store which can be accessed anytime and anywhere is e-commerce (Gielens & Steenkamp, 2019; Reinartz et al., 2019) and sportswear brands are exploring digital technologies to build a direct relationship with consumers (Adidas AG, 2020). Therefore, this thesis can be a good opportunity for managers of other industries to understand the impact of addressing this model and the potential that the DTC can achieve in the future.

2. LITERATURE REVIEW

2.1 SPORTSWEAR INDUSTRY

2.1.1 Overview

Sportswear is defined as the apparel and footwear to be used during a sport or any physical exercise, however, nowadays it also includes casual clothes that people wear in daily activities (Ko et al., 2012).

In 2018, the Global Sportswear market generated USD 239.78 billion and between 2019 and 2025 is expected to have a compound annual growth rate (CAGR) of 10.4% (Grand View Research, 2019a), which means that by 2025, the Global Sportswear market is estimating to reach the size of USD 479.63 billion (Grand View Research, 2019b).

Among distribution channels, the online channel is expected to register the fastest CAGR due to the increase of e-commerce and the number of smartphone users (Grand View Research, 2019b).

The rise of this market can be explained by the increasing participation in physical and sports activities, because people are more aware of the benefits of having a healthy lifestyle (Grand View Research, 2019b). Additionally, more women are practicing sports, therefore boosting the market growth and reducing the difference between them and the masculine population that practices sports. Last but not least, sports events such as the Olympic Games, Football World Cup and Cricket World Cup are increasing their popularity and at the same increasing the product demand of this market (Grand View Research, 2019a).

Table 1 – Total Revenues in 2019 on Global Sportswear Brands

<i>Brands</i>	<i>Net sales 2019 (in millions)</i>	<i>Net sales 2018 (in millions)</i>	<i>Change</i>
<i>Adidas</i>	\$ 27,968	\$ 25,927	7.9%
<i>Nike</i>	\$ 39,117	\$ 36,397	7.5%
<i>Puma</i>	\$ 6,510	\$ 5,499	18.4%
<i>Under Armour</i>	\$ 5,267	\$ 5,193	1.4%

Sources: (Adidas AG, 2020; Nike Inc, 2019a; Puma SE, 2020; Under Armour, 2020) and own analysis

The Global Sportswear industry has intense competition, with its major players being Adidas; Under Armour.; Puma; and Nike (Statista, 2020).

In 2019, the four major players in the industry increased its revenues compared to the previous year. Nike and Adidas are the clear top 2 with 39,117 million USD and 27,968 million USD (the exchange rate used was 1 EUR is equivalent to 1.18 USD (European Central Bank, 2020)), respectively. Additionally, Puma was the brand that grew the most with an outstanding 18.4% growth in revenues compared to 2018.

2.1.2 Trends

Athleisure refers to casual clothing that can be used for both sports activities and lifestyle. It all started with the introduction of yoga pants, and nowadays is one of the most dominant fashion trends (Lipson et al., 2020). This trend is responsible for the majority of sportswear industry's growth (Retail Insight, 2018), where the collaboration between sportswear brands and non-athlete influencers will remain as the main driver of this industry (Adidas AG, 2020). As this trend also transacts as a lifestyle movement, Adidas and Nike examples of players/brands that are collaborating with luxury brands (Heuritech, 2018) to improve their fashion credentials (Euromonitor International, 2017).

Another trend that is influencing the industry is personalization. With some sports brands, the customer can customize their clothing from the material to the colour (Retail Insight, 2018). It can happen through the brand's website, such as Nike's Nike By You, where the customer can design and customize its shoe (Nike Inc, 2020c). This personalization can also happen in-store with innovative technology that can help the customer find the right product (Retail Insight, 2018).

Sustainability is also a current trend, not only in the market under study but in almost all sectors of activity today, where the awareness for environment issues is increasing among the customers (Gleim et al., 2013) and there also is an increased demand for sustainable products and companies (Adidas AG, 2020; Retail Insight, 2018). For example, Adidas is continuously battling to end plastic waste: the company aims to use 100% polyester in Adidas' products by 2024 and, in 2015, partnered with Parley to explore ways to create a plastic-free ocean (Adidas AG, 2020).

2.2 ENGAGING CONSUMERS

2.2.1 Customer-Relationship Management

Consumers can achieve satisfaction through products. Customer satisfaction depends on how the product performance matches the expectations that the customer has. If the performance and the expectations are aligned, the customer will be more satisfied, and he/she is more likely

to keep purchasing the product and being more loyal towards a brand or company. Therefore, firms can develop a customer relationship management (CRM) process to generate profits by providing excellent customer value and satisfaction (Kotler et al., 2015).

CRM processes act as a data collection of customer insights. When firms implement CRM processes, they collect a vast amount of customer data such as demographics, purchases, location, time of purchase, satisfaction and complaints, among others, which, after analyzed, will enable a firm to understand consumer preferences and interact with them in a personalized way (Dunne & Lusch, 2008; Solomon, 2018). Moreover, as consumers are connecting more with the digital space, Big Data plays a huge role, by providing a massive amount of data that is very hard to process when using traditional techniques (Solomon, 2018). The data that Big data collects is crucial to provide personalized products and content to create value for each consumer (Kahn et al., 2018).

Additionally, the implementation of CRM not only helps to track consumers' preferences, but also allows firms to perform direct marketing or one-to-one marketing (Solomon, 2018).

Furthermore, consumers are willing to share their data if it results in a better experience, product, and service (Microsoft, 2020). At the same time, consumers now are expecting a personalized shopping experience, which has a positive impact on brand loyalty (Microsoft, 2020). Therefore, the profitable firms of the future will be the ones focusing on developing a robust customer relationship by delivering the right product, service, and experience that the customer is expecting (Dunne & Lusch, 2008).

2.2.2 Direct and Digital Marketing

Direct and digital marketing refers to how a firm interacts directly with a consumer and how a firm changes its behaviour according to the consumers' preferences and feedback. By doing direct marketing, a firm can personalize the customer experience, service, and products based on consumer preferences. Therefore, a firm expects to increase customer engagement, brand community, and sales (Kotler et al., 2015; Peppers et al., 1999).

There are two forms of direct and digital marketing: digital and social media marketing, and traditional direct marketing (Kotler et al., 2015).

Direct and social media marketing focuses on interacting directly with consumers at the digital space, which includes websites, social media, mobile, e-mail, blog (Kotler et al., 2015). This form of direct marketing is developing much quicker than traditional direct marketing (Kotler et al., 2015).

The tremendous rise of direct and social media marketing made traditional direct marketing less relevant, however, it is not entirely gone, and it is still used. It includes personal selling, catalogue marketing, telemarketing, direct-response television marketing, and kiosk marketing (Kotler et al., 2015).

The companies are taking advantage of the digital age to interact directly with consumers anytime and anywhere. The objective is not just selling a product but be a part of the customer's life (Kotler et al., 2015). Consequently, brands are building robust brand ecosystems (Reinartz et al., 2019), in which it is possible to engage with their consumers via the Internet of Things (IoT) applications such as social media, mobile apps and brand websites (Gielens & Steenkamp, 2019). and other tools in order to directly interact with the consumer (Reinartz et al., 2019). These digital technologies allow brands to stay in contact with their consumers during the entire lifecycle of their products (Reinartz et al., 2019) and allow brands to engage dynamically with each consumer, generating added value (Ramaswamy & Ozcan, 2018). Moreover, the importance of brand interaction with the consumer while they are using the product is becoming more relevant (Reinartz et al., 2019). Brand-owned digital channels can emerge and engage with the consumer in the actual use, experience, and the purchasing stage of a product (Reinartz et al., 2019). Additionally, it was already proven that IoT technologies increase customer convenience and information and therefore translate on more interactions in a brand's website, driving more online sales (Dinner et al., 2015; R. J. H. Wang, 2020). Therefore, brands are going beyond purchasing transactions and developing experiences by interacting directly with a consumer to build a long-term relationship (Kotler et al., 2015; van Heerde et al., 2019).

2.3 MARKETING CHANNELS

A marketing channel is also known as a distribution channel, and it is defined as a set of interdependent organizations that act as a bridge for the product or service to be available and consumed by the consumer (Kotler et al., 2015; Kozlenkova et al., 2015). Marketing channels are vital in supply chain management since they are the last part of the supply chain; marketing channels act as a driver of the input to create and provide customer-value (Kozlenkova et al., 2015). Usually, in a marketing channel one can include three partners, manufacturers, intermediaries, and end-consumers (Kozlenkova et al., 2015).

Marketing channels are different in every firm, since each designs its own distribution channel (Kotler et al., 2015). Each marketing channel has a channel level, which depends on the number of intermediaries in a distribution channel (Kotler et al., 2015). There are essentially two types of channels, the direct channel and the indirect channel (Kotler et al., 2015; Solomon, 2018).

The first is the lowest channel level, meaning that there are no intermediaries and the producer sells directly to the final consumer (Kotler et al., 2015; Solomon, 2018). The latter is the most often used by companies and can have multiple levels, depending on the number of intermediaries used to move a product to the consumer (Kotler et al., 2015; Solomon, 2018).

The members of a marketing channel play eight essential functions; five are crucial to complete transactions, and three are crucial to fulfill those completed transactions (Kotler et al., 2015). These functions aim to increase the product flow efficiency from the producer to the final consumer (Solomon, 2018).

As previously stated, five functions are crucial to complete transactions. First, the function of information is to collect and deliver information about consumers, manufacturers, and other parties included in the business environment (Kotler et al., 2015). The promotion function performs the function of encouraging an offer to all parties involved with persuasive communication (Kotler et al., 2015). Thirdly, the contact function is fundamental to reach and interact with future buyers (Kotler et al., 2015). The matching function is essential to provide offers that are associated with the buyer's needs and preferences and to produce this function, activities like manufacturing, grading, assembling, and packaging are vital (Kotler et al., 2015). Last but not least, negotiation has the function of achieving a price and other terms that are agreed between all parties involved (Kotler et al., 2015).

The remaining three functions are related to fulfilling the completed transactions. Physical distribution performs the function of carrying and storing goods (Kotler et al., 2015). The financing function is related to covering channel costs by obtaining and utilizing resources (Kotler et al., 2015). Finally, risk-taking has the function of assuming the risks if anything goes well or wrong during the channel work (Kotler et al., 2015).

The rise of the Internet and the exponential growth of direct and digital marketing is changing how a brand manufacturer approaches intermediation and thus the structure of marketing channels (Gielens & Steenkamp, 2019; Kotler et al., 2015). The emerge of digital technologies created a trend called disintermediation. It refers to the elimination of traditional intermediaries or changes to new types of channel intermediaries (Gielens & Steenkamp, 2019; Kotler et al., 2015). Disintermediation's focus is to eliminate the intermediaries that did not have a favourable trade-off between the value-added and the cost (Gielens & Steenkamp, 2019). Therefore, brands' manufacturers can save costs and do not need to include some retailers in the marketing channel, allowing them to have direct transactions with consumers (Gielens &

Steenkamp, 2019; Solomon, 2018). The tremendous rise of digital is impacting the traditional nature of the marketing channels and, consequently, the traditional structure (manufacturer → retailer → consumer) is changing to a direct transaction to the consumer (manufacturer → consumer) (Reinartz et al., 2019).

2.4 DIRECT-TO-CONSUMER MODEL

The disintermediation trend and the continuous growth of digital are changing how brands' manufacturers are designing their marketing channels (Gielens & Steenkamp, 2019), resulting in unclear boundaries between retailers and manufacturers (Reinartz et al., 2019; Verhoef et al., 2015; Y. Wang et al., 2009). Therefore, brands' manufacturers are taking advantage of the situation to access the consumers directly via partial-forward distribution and vertical integration, meaning that a manufacturer has to perform all marketing channel functions (Dunne & Lusch, 2008; Reinartz et al., 2019; Y. Wang et al., 2009). Consequently, brands' manufacturers are not only selling through independent retailers but also on their online and offline channels (Reinartz et al., 2019; Y. Wang et al., 2009).

Moreover, the growth of IoT technologies is changing consumer behaviour. Currently, consumers value an outstanding shopping experience, where they are expecting a personalized experience across the customer journey (Microsoft, 2020; Reinartz et al., 2019).

The increase of vertical and partial-forward integration and the tremendous growth of digital is contributing for brands' manufacturers to adopt the growing trend model Direct-to-Consumer (Barclays Corporate Banking, 2020; Gielens & Steenkamp, 2019).

DTC model is beyond just selling directly to end-consumer; it is also about engaging with the consumer on all touchpoints. The objective of this model is to enrich the customer journey by providing a personalized brand experience to develop a long-term relationship between the brand and the consumer (Barclays Corporate Banking, 2020; Gielens & Steenkamp, 2019). This model is specially used on online channels, where brands are developing their digital ecosystems to drive more online sales (Barclays Corporate Banking, 2020; Reinartz et al., 2019). However, DTC model can also be used in offline channels; for example, brands' manufacturers are building more flagship stores, which is a store that focuses not only on sales but also on providing an outstanding brand experience, resulting in a better customer relationship with a brand (Kahn et al., 2018).

Brands' manufacturers on approaching this model utilize their digital ecosystems, where they have access to consumer insights and profiles (Reinartz et al., 2019). To explore consumers

preferences, brands take advantage of big data to absorb detailed information of each consumer, resulting in better-personalized service and products. Therefore, by approaching this model aligned with a robust big data analysis, a brand expects to increase consumption and engagement with consumers that will result on higher profitability and customer experience (Barclays Corporate Banking, 2020; Grewal et al., 2017). Moreover, brands can have the data from the consumers that was previously only provided to the retailer, which gives brands an advantage to offer personalized products and experiences to each consumer, creating a distinction among the competitors and a barrier for the retailers (Gielens & Steenkamp, 2019)

On adopting the DTC model, brands' manufacturers have more central control and clarity; more information on the customer; and can achieve higher gross margins (Teece, 2010). Higher profitability can be accomplished by the reduction of transaction costs charged by the intermediaries, leading to the reduction of double marginalization (Gielens & Steenkamp, 2019). However, it is not easy to implement a DTC model; a strong investment power is necessary for infrastructures and training and hiring new employees, since now manufacture needs to develop everything for itself (Gielens & Steenkamp, 2019). Additionally, brands that do not possess a high awareness can suffer and not achieve the results of a strong brand (Gielens & Steenkamp, 2019).

The DTC model is being applied across various industries such as traditional packaged goods, apparel, building services, travel services, consumer electronics, and others (Diorio, 2016). As previously said, the model is specially used on online channels, where the number of brands' manufacturers that are converting their websites into proper sales channels is vastly increasing (European Commission, 2017)

In conclusion, the DTC model can provide higher profit margins and revenue growth, aligned with a customized product or service (Gielens & Steenkamp, 2019) . Moreover, the brand manufacturer can achieve control over the customer experience and long-term relationships with the consumers by engaging directly with the consumer, resulting in loyal consumers (Gielens & Steenkamp, 2019).

2.5 DTC MODEL IN THE SPORTSWEAR INDUSTRY

Table 2 – DTC Sales on Four Global Sportswear Brands

<i>Brands</i>	<i>DTC Sales 2019 (in millions)</i>	<i>Weight in Total Revenues in 2019</i>	<i>DTC Sales 2018 (in millions)</i>	<i>Weight in Total Revenues in 2018</i>
<i>Adidas</i>	\$ 9,302	33.3%	\$ 7,761	30.0%
<i>Nike</i>	\$ 11,753	30.1%	\$ 10,428	28.7%
<i>Puma</i>	\$ 1,653	25.4%	\$ 1,336	24.3%
<i>Under Armour</i>	\$ 1,791	34.0%	\$ 1,818	35.0%

Sources: (Adidas AG, 2020; Nike Inc, 2019; Puma SE, 2020; Under Armour, 2020) and own analysis

The shift in how consumers are shopping is resulting in rapid alterations in consumer preferences, and the e-commerce trend is intensifying the competition in the Sportswear industry, where consumers are demanding a superior service with fresh and innovative products (Nike Inc, 2019a). Therefore, Sportswear brands are taking advantage of the digital transformation to build direct customer relationships through technology (Adidas AG, 2020).

On three of these four global sportswear brands, DTC sales accounted for at least 30% of total sales in 2019, with only Puma having less than 30% of total DTC sales, which is explained by their strategy not being focused on DTC (Puma SE, 2020). However, Under Armour, Nike and Adidas follow a DTC strategy and implemented a variety of DTC initiatives in their business that will be further discussed (Adidas AG, 2020; Nike Inc, 2020a; Under Armour, 2020).

3. METHODOLOGY

3.1 RESEARCH DESIGN

This dissertation intends to respond to two crucial research questions.

To answer the first research question “How developed is the DTC model currently on global sportswear brands?”, four abbreviated case studies on four global sportswear brands, Puma, Adidas, Nike, and Under Armour, were developed. These four abbreviated cases intend to detail the DTC model and DTC initiatives that these four sportswear brands are practicing on their business. Furthermore, a survey was conducted among sportswear consumers to understand their shopping patterns on sportswear products.

On answering the second research question “How is the DTC model expected to evolve in the future of the sportswear industry?”, a scenario-building approach was developed with three different possible scenarios of the future of the sportswear industry and their likelihood of happening calibrated through primary and secondary data. Additionally, it a side-by-side comparison between five interviewed experts’ was developed, as well as literature review on advantages and challenges that a company faces when implementing a DTC Model.

3.2 DATA COLLECTION

The information displayed on the analysis and discussion part of this dissertation possesses both primary and secondary data.

Primary Data

The qualitative data was gathered through five in-depth semi-structured expert interviews from industry professionals (see Table 3). The objective behind interviewing the experts was to gather better and more detailed insights into the current and potential development of the DTC Model in the sportswear industry as well as possible challenges and advantages of the model.

The quantitative data was collected from a consumer survey that was distributed through social media channels and had the objective of understanding the consumers’ shopping patterns when purchasing sportswear products. The survey was analyzed with SPSS, through the use of descriptive statistics.

Table 3 – Expert Interviews Table

<i>Interview</i>	<i>Name</i>	<i>Position</i>	<i>Company</i>	<i>Annual Revenues</i>
<i>A</i>	Nichole Tripi	Senior Director Merchandising - DTC	Adidas	Over \$25000 million
<i>B</i>	Anonymous	Commercial Department	Sportswear Giants	Over \$25000 million
<i>C</i>	Max Harden	Senior Director, Nike Direct Digital Strategy and Operations	Nike	Over \$25000 million
<i>D</i>	Leonardo Dal Lago	Senior Manager Ecommerce	Adidas	Over \$25000 million
<i>E</i>	Kevin Brooks	DTC Operations Analyst	Under Armour	Over \$5000 million

Sources: Own analysis

Secondary data

The secondary data originates from annual company reports, additional reports and relevant information from literature review.

4. DISCUSSION AND ANALYSIS

4.1 THE CURRENT STATE OF THE DTC MODEL ON GLOBAL SPORTSWEAR BRANDS

4.1.1 Nike

Mission

Nike's mission is to help consumers achieve their personal goals by developing a strong connection with the brand; it is possible to deliver the service and products that a consumer desires and wants. Therefore, Nike intends to bring innovation and inspiration to every athlete, with every person counting as an athlete (Nike Inc, 2020c).

DTC Strategy and Initiatives

In June 2017, Nike announced a new position called Consumer Direct Offense (Nike, 2017), aiming to achieve more in-depth and stronger relationships with the consumers by serving them personally, through acceleration, innovation and product creation (Nike, 2017). Through the power of digital and 12 Key cities, the company expects to develop growth and achieve its objective of moving closer to the consumer (Nike, 2017).

The Consumer Direct Offense is associated with the strategy titled Triple Double Strategy. This strategy aims to renovate three core business areas: innovation, speed in the supply chain, and DTC (Nike Inc, 2017b). Furthermore, to achieve a higher control of operations and focus on its DTC strategy, Nike intends to reduce from thirty thousand retail partners to forty key retail partners (Business Insider, 2017; RetailDive, 2020).

In innovation, Nike is aiming to double the impact of innovation by accelerating the time that a platform needed to reach the market and at the same time, a greater focus on scale. The innovation is not only about making something new but manufacturing the best products (Nike Inc, 2017b).

In doubling the speed, Nike wants the supply chain to move faster from the product idea to the delivery to the customer by the Express Lane initiative, where it is possible to cut the product creation cycle in half. (Nike Inc, 2017b). Thus, the company wants to speed up the product flow to answer consumer demand and trends (Interview C). To achieve this double speed, Nike is making a series of investments in transforming its supply chain by exploring new ways of

manufacture, automation, and better sourcing to have the products closer to the consumer (Nike Inc, 2017b, 2018b).

Moving closer to the consumers is the objective of this strategy, where Nike pretends to break the barrier between physical and digital retail by increasing customer loyalty (Nike Inc, 2018b). The company expects to develop a stronger connection with consumers by digital, memberships, and brand experiences. Therefore the investment in data and analytics is critical to knowing consumers better and providing them a service based on their preferences both online and in-store (Nike Inc, 2017b, 2018b)

Nike DTC operations include Nike Factory stores, Nike-owned retail stores (House of Innovation, Nike Live), Nike.com and Nike's Apps (Interview B and C). With these DTC operations, Nike wants to be present at every moment of a customer's life, catching interactions in both DTC activity channels (Nike Training Club) and commerce channels (Interview B). Thus, Nike's focus is on providing a personalized service and flawless transaction in all Nike DTC sales channels (Nike Inc, 2017b).

The most significant investment of Nike DTC operations is on Nike's ecosystem of Apps (Interview B, C and (Nike Inc, 2017b)). Nike believes that it is possible to enhance its direct strategy through a digital ecosystem, since it is possible to generate a more engaging and responsive experience for all Nike members (Nike Inc, 2019b).

From Nike's ecosystem of Apps, SNKRS app and Nike app are the two that Nike is investing the most on (Interview C). The SNKRS app serves a more specific audience of sneaker lovers (Interview B and C), and it is becoming crucial to the increment of Nike's memberships, gathering more memberships than any other Nike's digital channels (Nike Inc, 2019b). The Nike app is the core e-commerce platform for Nike, and its purpose is to become a real-world destination (Nike Inc, 2018b, 2019b). It has Nike's full product assortment with the most personalized commerce experience for a consumer (Interview C) and it can also be connected to Nike's flagship stores, delivering a better engagement with members in-store (Nike Inc, 2018b, 2019b).

In July 2020, during the COVID pandemic, Nike's CEO John Donahoe, announced the next phase of Nike's Direct strategy, called Consumer Direct Acceleration, which focuses on three areas; first, developing the marketplace of the future by providing a more premium, consistent and flawless consumer experience that complies with the wants and needs of the consumers; second, the product creation and category organization will be focused on a new consumer

construct; last, improve the speed of execution on Nike’s digital transformation by further investing in data and analytics, consumer demand and preferences, inventory management, and other areas about end-to-end technology (Nike Inc, 2020a).

With the Consumer Direct Acceleration phase, Nike’s goal is to achieve a 50% digital penetration in Nike’s business among Nike-owned digital platforms and key partners’ digital platforms. Therefore, this new phase aims to transform Nike in order to reach the marketplace of the future faster (Nike Inc, 2020b).

Nike’s Financial Results

The top line is regarding a company’s sales; it shows how much business a company has generated in a fiscal year (Investopedia, 2020). The bottom line usually refers to the company’s net income (Investopedia, 2019); however, in this study, the bottom line will be connected to the EBIT.

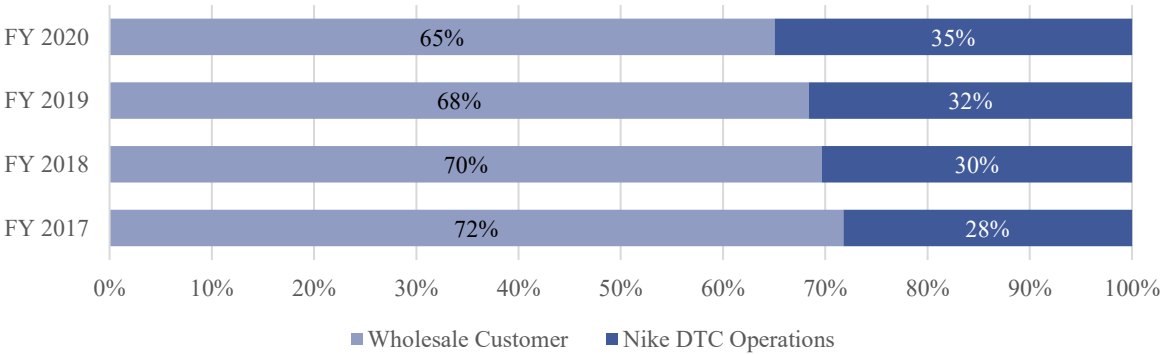
Table 4 – Nike Top-line Results

<i>Nike Top-line (Million Dollars)</i>	<i>FY 2020</i>	<i>% Change</i>	<i>FY 2019</i>	<i>% Change</i>	<i>FY 2018</i>	<i>% Change</i>	<i>FY 2017</i>
<i>TOTAL</i>	\$35,568	-4%	\$37,218	8%	\$34,485	7%	\$32,223
<i>Wholesale customers</i>	\$23,156	-9%	\$25,423	6%	\$23,969	4%	\$23,078
<i>Nike DTC Operations</i>	\$12,382	5%	\$11,753	13%	\$10,428	15%	\$9,082
<i>Global Brand Divisions</i>	\$ 30	-29%	\$42	-52%	\$88	N/A	N/A

Source: Nike's Annual reports from 2017 to 2020 and own analysis

Nike’s revenues are increasing and reaching record numbers in sales every year (Nike Inc, 2017a, 2018a, 2019a). However, in the FY 2020, the revenues decrease due to the COVID pandemic, which had a massive impact on the Q4 of FY2020 (Nike Inc, 2020a).

Graph 1 – Nike's Top-Line Channel Distribution: Weight on Total Revenues



Source: Nike's annual reports from 2017 to 2020 and own analysis

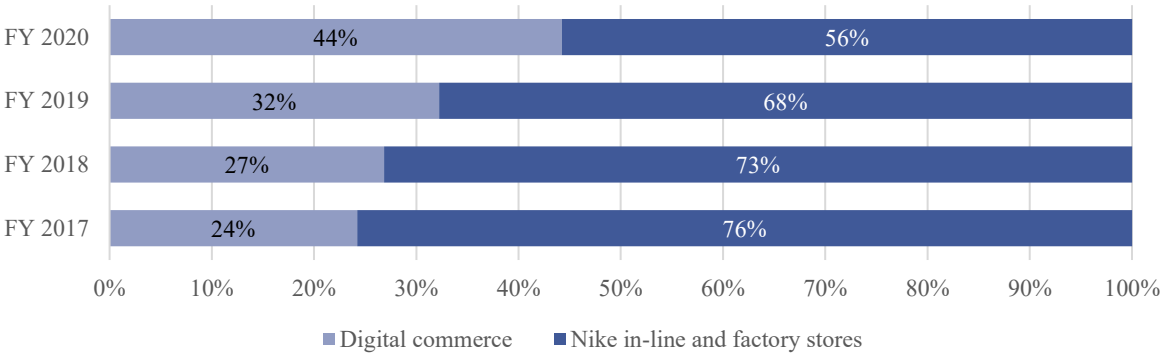
Nike’s DTC Operations growth is outpacing Wholesale customers sales. Although wholesale customers still represent more than 60% of revenue distribution, this number is decreasing in every fiscal year. More recently, DTC Operations account for 35% of Nike’s Brand revenues, hence having a significant impact on top line.

Table 5 – Nike’s DTC Sales Detailed

<i>Nike Direct Sales (Million Dollars)</i>	<i>FY 2020</i>	<i>% Change</i>	<i>FY 2019</i>	<i>% Change</i>	<i>FY 2018</i>	<i>% Change</i>	<i>FY 2017</i>
<i>TOTAL</i>	\$12,382	5%	\$11,753	13%	\$10,428	15%	\$9,082
<i>Digital commerce</i>	\$5,500	44.74%	\$3,800	36%	\$2,800	27%	\$2,200
<i>In-line and Factory stores</i>	\$6,882	-13.47%	\$7,953	4%	\$7,628	11%	\$6,882

Sources: Nike's annual reports from 2017 to 2020 and own analysis

Graph 2 – Nike’s DTC Sales Distribution per Channel



Sources: Nike's annual reports from 2017 to 2020 and own analysis

Nike’s digital business is gaining more and more importance, especially in the FY2020, since all Nike stores were closed in the last quarter of FY2020. During FY2020, digital commerce increased 45% compared to FY2019. The evolution of digital commerce is outpacing the in-line and factory stores in terms of growth, accounting for 44% of Nike’s DTC sales in FY2020.

Table 6 – Nike Bottom-Line Results

<i>Nike Bottom-line (in millions)</i>	<i>FY 2020</i>	<i>% Change</i>	<i>FY 2019</i>	<i>% Change</i>	<i>FY 2018</i>	<i>% Change</i>	<i>FY 2017</i>
<i>Revenues</i>	\$37,403	-4%	\$39,117	7%	\$36,397	6%	\$34,350
<i>Cost of goods sold</i>	\$21,162	-2%	\$21,643	6%	\$20,441	7%	\$19,038
<i>Gross profits</i>	\$16,421	-7%	\$17,474	10%	\$15,956	4%	\$15,312
<i>Gross margins</i>	43%		45%		44%		45%
<i>Demand creation expenses</i>	\$3,592	-4%	\$3,753	5%	\$3,577	7%	\$3,341
<i>Operating overhead expenses</i>	\$9,534	7%	\$8,949	13%	\$7,934	10%	\$7,222
<i>Total selling and administrative expenses</i>	\$13,126	3%	\$12,702	10%	\$11,511	9%	\$10,563
<i>EBIT</i>	\$3,295	-31%	\$4,772	7%	\$4,445	-6%	\$4,749

Source: Nike's annual reports from 2017 to 2020 and own analysis

Nike’s DTC sales had a phenomenal impact on the gross profit increments over FY2019 – FY2017, and are the leading cause of FY2020 not generating an even more significant loss.

However, DTC operations need continuous high investments, and have an outstanding impact on the overhead operating expenses. For example, in FY19, Nike generated a gross profit growth of 10%; however, it was counterbalanced by a 13% increase in operating overhead expenses. This increase reflected critical investments in data and analytics, digital ecosystem, innovation, and the initial investment in a resource planning tool to accelerate the digital transformation of Nike. Thus, the high investments that are necessary to implement a DTC operation are the leading cause of Nike not generating a higher EBIT (Nike Inc, 2017a, 2018a, 2019a, 2020a).

Thus, Nike’s DTC operations are having both a positive impact on generating a higher gross profit and a negative impact on having more operating expenses. At the moment, and disregarding FY2020 due to COVID impacts, the FY2019 and FY2018 prove that Nike’s DTC operations are fundamental to generating a higher EBIT.

4.1.2 Adidas

Mission

Adidas' mission is to be recognized as the best sports brand (Interview D) by all Adidas' stakeholders (consumers, athletes, teams, partners, media, and shareholders). To be the best, Adidas wants to produce, create, and sell the best sportswear products alongside an excellent service, experience, and in a sustainable way (Adidas AG, 2020).

Strategy and Initiatives

Adidas' strategy is called Creating the New and it is a consumer-driven strategy. This strategic business plan was initiated in 2015, and it is going to last until the end of 2020 (Adidas AG, 2015). This strategy's ambition is to improve both top and bottom-line development by creating more brand desirability. Therefore, Adidas intends to be obsessed by the customers, developing connection and engagement with them and achieve a long-term relationship. (Interview D).

To enhance customers relationships, Creating the New focuses on three areas; Speed, Cities, and Open Source (Adidas AG, 2020).

In the area of Speed, Adidas intends for its customers to always find the product they want at any time and any place with a unique brand experience. Therefore, this strategy expects to ensure that Adidas can anticipate consumer preferences faster by evolving its supply chain, all the planning from the idea to the product creation, sourcing, go-to-market, sales. By achieving this speed, there is a better product flow that can result in better inventory management and higher-quality sales. Furthermore, Adidas launched two *Speed factories* that test new ways for faster production of athletic footwear and develop new manufacturing technologies to be introduced in Adidas' supply chain (Adidas AG, 2020).

Another core area of this strategy is Cities. Adidas wants to focus on six key cities that are the most influential worldwide. In those cities, Adidas aims to create a unique ecosystem to drive exceptional experiences to customers by engaging with them across all touchpoints. In these six cities, flagship stores and omnichannel experiences are fundamental for Adidas to achieve a premium consumer experience (Adidas AG, 2020).

The last core area of this strategy is Open Source. Adidas wants the consumers to be part of a community and have an impact on the industry. Three initiatives are taking place in this area: Athlete collaborations, Partner collaborations, and creative collaborations. With these

initiatives, Adidas intends to control the customer journey better and improve its digital ecosystem to result in better products and services for the consumers (Adidas AG, 2020).

In 2017, Adidas announced new digital initiatives to accelerate the Creating the New strategy. The company is taking advantage of technology to develop better customer relationships with the launch of the Adidas App, which is linked with the e-commerce stores and has a personalized experience for each consumer. In 2018, Adidas launched its membership program, Creators Club, which is being crucial to the development of a better connection and understanding of the consumers. Other activity apps such as Adidas Training and Adidas Running are also part of the initiatives (Interview A and D). With these digital platforms, the company seeks to gather a deeper understanding of the consumer to provide a better and personalized shopping experience (Adidas AG, 2020).

Furthermore, Adidas has other DTC initiatives, such as the possibility to view in-store inventory in digital channels, click and collect, ship from store, and access the full assortment on the e-commerce platform. Hence, the focus is not only on digital platforms but also in integrating the digital in the physical retail environments (Adidas AG, 2020).

The DTC objectives proposed by Adidas were 60% of sales coming from controlled own retail activities. Additionally, its e-commerce platform aims to generate 4 billion euros in 2020 (approximately 4725 million US dollars (European Central Bank, 2020)) (Adidas AG, 2015, 2020).

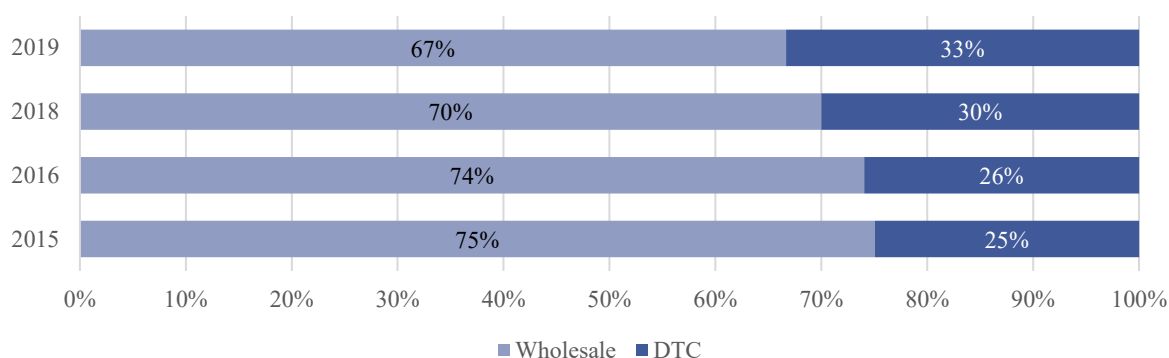
Adidas Financial Results

Table 7 – Adidas Top-Line Results

<i>Adidas Top-line (in millions)</i>	<i>2019</i>	<i>% Change</i>	<i>2018</i>	<i>% Change</i>	<i>2017</i>	<i>% Change</i>	<i>2016</i>
<i>TOTAL</i>	\$27,895	8%	\$25,860	3%	\$25,037	10%	\$22,763
<i>Wholesale</i>	\$18,597	3%	\$18,102		N/A		\$16,860
<i>DTC Operations</i>	\$9,298	20%	\$7,758		N/A		\$5,904

Source: Adidas' annual reports from 2015 to 2019 and own analysis

Graph 3 – Adidas’s Top-Line Channel Distribution: Weigh on Revenues



Source: Adidas' annual reports from 2015 to 2019 and own analysis

Adidas' DTC operations are having a consistent double-digit growth every year. Especially in 2019 and 2018, DTC sales outpaced the Wholesale business, already having a share of revenues over 30%.

Additionally, in Adidas' DTC sales, Adidas' E-commerce business has been the fastest growing channel over the years (Adidas AG, 2016, 2017, 2018, 2019, 2020) with a rate of 34% increase year-over-year (Adidas AG, 2020). Thus, Adidas expects to reach its goal by the end of 2020 (Adidas AG, 2020), which showcases how the strategy Creating the New, with a substantial focus on direct-to-consumer models, is paying off and making a significant impact on top-line.

Table 8 – Adidas' Bottom-Line Results

<i>Adidas Bottom-line (in millions)</i>	2019	% Change	2018	% Change	2017	% Change	2016	% Change	2015
<i>Net sales</i>	\$27,895	8%	\$25,860	3%	\$25,037	10%	\$22,763	14%	\$19,960
<i>Cost of sales</i>	\$13,389	8%	\$12,451	0%	\$12,407	6%	\$11,696	13%	\$10,323
Gross profit	\$14,506	8%	\$13,408	6%	\$12,630	14%	\$11,067	15%	\$9,638
<i>Royalty and commission income</i>	\$182	19%	\$152	12%	\$136	6%	\$129	-8%	\$140
<i>Other operating income</i>	\$66	17%	\$57	182%	\$20	-94%	\$314	177%	\$113
<i>Other operating expenses</i>	\$11,615	7%	\$10,823	5%	\$10,344	6%	\$9,750	13%	\$8,641
EBITDA	\$3,139	12%	\$2,794	14%	\$2,443	39%	\$1,759	41%	\$1,250
<i>Financial income</i>	\$76	12%	\$67	24%	\$54	64%	\$33	-39%	\$54
<i>Financial expenses</i>	\$196	253%	\$55	-49%	\$110	26%	\$87	10%	\$79
EBIT	\$3,018	8%	\$2,806	18%	\$2,387	40%	\$1,704	39%	\$1,226

Source: Adidas' annual reports from 2015 to 2019 and own analysis

Adidas' DTC operations is having a powerful impact on generating a continuous increase in gross profit and a somewhat significant impact on the operating expenses. Throughout these four years, the rise in operating expenses was related to the high investments made to set-up and accelerate the company's DTC strategy, Creating the New (Adidas AG, 2016, 2017, 2018, 2019, 2020). In the most recent years, 2019 and 2018, Adidas' operating expenses increased due to an overproportionate growth in the DTC channels and more investments in digital platforms (Adidas AG, 2019, 2020).

However, the operating expenses, in these four years, were always around 41% of net sales and growing at a moderated rate. Therefore, the impact of investing more on DTC operations is being offset by the growth of sales.

In conclusion, Adidas' DTC model is helping the business achieve profitability, despite continuous investments being necessary to improve DTC operations.

4.1.3 Puma

Mission

Puma's mission is to "be the fastest sports brand in the world" by acquiring more market share and achieving better positioning in sports performance (Puma SE, 2020).

Strategy and Initiatives

Puma's strategies follow six priorities to achieve its mission of becoming the fastest sports brand. These six priorities include brand heat, competitive product range, higher product offer for women, improve distribution quality and organizational speed, and improve its position on the North American market by re-entering into basketball (Puma SE, 2020).

To achieve higher brand credibility and desirability Puma created Brand heat and it is about partnering with elite athletes such as Lewis Hamilton, Antoine Griezmann, Usain Bolt, and more recently Neymar, and elite football clubs such as Manchester City. Additionally, icons of culture and fashion are also brand ambassadors, for example, Selena Gomez and Cara Delevingne. Therefore, Puma is trying to achieve a more significant market position and connect with different consumer segments with brand ambassadors (Puma SE, 2020).

In terms of operations, the company continuously invests in its distribution and logistics network. Thus, Puma launched two multi-channel distribution centres that allow Puma to act faster and generate better communication and information exchange (Puma SE, 2020).

Puma’s distribution strategy relies on two distribution channels, such as the wholesale business with retail partners, and Puma-owned retail and E-commerce business. The Wholesale is still the focus of Puma as it still represents the higher sales proportion among the distribution channels. Therefore, the company aims to improve its relationships with key retail partners (Puma SE, 2020).

Puma’s DTC operations include Puma-owned retail stores, factory outlets, and the e-commerce business. The company’s DTC strategy set on ensuring higher profit margins, achieving better control in terms of distribution and exclusive presentation to generate larger brand desirability (Puma SE, 2020). Additionally, with the COVID pandemic, Puma will develop more digital content to stay in close contact with the consumers (Puma SE, 2020).

Puma’s most recent initiatives regarding its DTC model are related to opening several flagship stores over the years to improve the customer’s shopping experience and to creating a more entertaining environment to improve brand positioning. In August 2019, the company opened its biggest flagship store in New York City, which offers a fantastic brand experience with personalized service and shopping experience (Puma SE, 2020).

Puma’s Financial Results

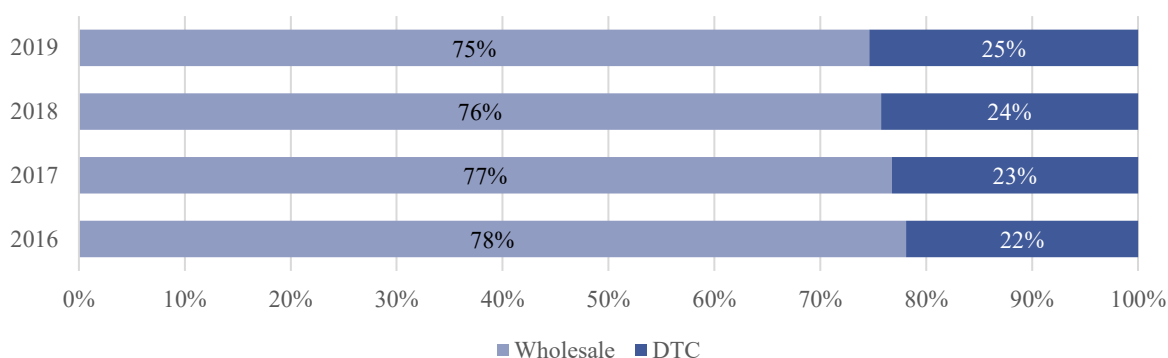
Table 9 – Puma Top-Line Results

<i>Puma Top-line (in millions)</i>	<i>2019</i>	<i>% Change</i>	<i>2018</i>	<i>% Change</i>	<i>2017</i>	<i>% Change</i>	<i>2016</i>
<i>TOTAL</i>	\$6,492	18%	\$5,485	12%	\$4,880	14%	\$4,280
<i>Wholesale</i>	\$4,846	17%	\$4,155	11%	\$3,746	12%	\$3,342
<i>DTC</i>	\$1,646	24%	\$1,330	17%	\$1,134	21%	\$937

Source: Puma's annual reports from 2016 to 2019 and own analysis

Puma’s net sales are growing incredibly well over the years, achieving double-digit growth every year. Both Wholesale and DTC are having double-digit growth, with DTC rising approximately more than 20% in each year. Therefore, both channels are doing pretty well and having a significant impact on top-line.

Graph 4 – Puma’s Top-Line Channel Distribution: Weight on Revenues



Source: Puma's annual reports from 2016 to 2019 and own analysis

Nevertheless, DTC’s impact is not being as significant as Wholesale. Despite the substantial growth on these four years, DTC net sales share is only increasing 1% per year, with Wholesale still accounting for more than 75% of the business sales. E-commerce is continuously the channel that is generating the fastest growth in Puma over the years (Puma SE, 2017, 2018, 2019, 2020). This continuous record growth from Puma’s e-commerce business is due to the expansion in product assortment and targeted sales promotions in the digital business (Puma SE, 2020).

In conclusion, Puma’s DTC sales still do not have a significant impact on top-line, but have had an increasing effect over the years with the e-commerce channel.

Table 10 – Puma’s Bottom-Line Results

<i>Puma Bottom-line (in millions)</i>	2019	% Change	2018	% Change	2017	% Change	2016
<i>Net sales</i>	\$6,493	18%	\$5,485	12%	\$4,880	14%	\$4,280
<i>Costs of sales</i>	\$3,323	17%	\$2,831	10%	\$2,574	11%	\$2,325
<i>Gross profit</i>	\$3,170	19%	\$2,654	15%	\$2,306	18%	\$1,955
<i>Royalty and commission income</i>	\$30	54%	\$19	3%	\$19	1%	\$19
<i>Operating income and expenses</i>	\$2,680	18%	\$2,276	12%	\$2,036	12%	\$1,823
<i>EBIT</i>	\$519	30%	\$398	38%	\$289	92%	\$151

Source: Puma's annual reports from 2016 to 2019 and own analysis

Puma’s bottom-line results were also extraordinary, with the company’s EBIT increasing more than 30% every year. This spectacular growth was driven by strong sales growth linked to improvements in the gross margins.

Puma's DTC business had a positive impact every year on the gross profit margin, and even with its slow increase of 1% per year on the revenue shares by distribution channel, it is still contributing to a higher profit margin (Puma SE, 2017, 2018, 2019, 2020).

The operating expenses are also increasing in a double-digit rate over the years, the reason for increased growth of expenditure on operations being mainly due to Puma's investments in DTC operations by opening the new flagship stores.

Therefore, Puma's DTC gains and losses are offsetting each other for now. After more investments in DTC operations and the continuous growth on Net sales share, DTC seems to have a positive impact on the business.

4.1.4 Under Armour

Mission

Under Armour's mission is to improve its customers' capabilities by design, passion, and innovation (Under Armour, 2020).

Strategy and Initiatives

Under Armour (UA) continuously focuses on its target segment, the focused performer. Thus the company intends to keep improving its brand perception and better understand its consumers' preferences to solidify its positioning (Under Armour, 2020).

The company implemented a three-year transformation process, from 2017 to 2019, to renew its main strategies. UA's core strategic areas are: better focus on the company purpose, customer-centric approach, and repair the go-to-market process (Under Armour, 2019).

UA intends to optimize and expand its DTC model to achieve higher return growth, better insight on consumer perceptions, and run a flawless brand experience at any time and any place. Thus, the company is significantly investing on being more capable of delivering a unique customer experience in DTC channels (Under Armour, 2020) that includes own-retail stores, E-commerce platform and Connected Fitness App (Interview E).

Therefore, UA updated its website by investing on data science and analytics (Under Armour, 2019) to better track the consumers' preferences and to deliver a personalized experience to each consumer by a more direct marketing approach (Interview 3). Additionally, through the Connected Fitness app, which is a health and fitness network based on a monthly subscription,

the company intends to keep enhancing its customer relationship management by getting a better insight and engagement (Under Armour, 2020).

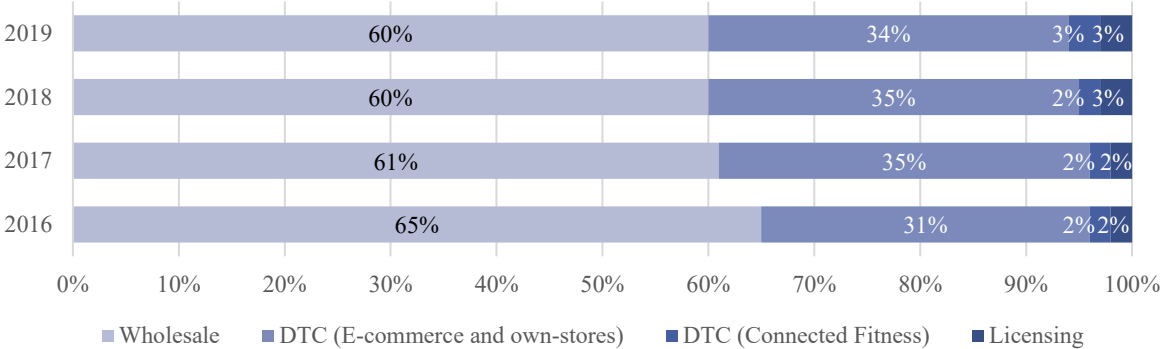
Under Armour’s Financial Results

Table 11 – Under Armour Top-Line Results

<i>Under Armour Top-line (in millions)</i>	<i>2019</i>	<i>% Change</i>	<i>2018</i>	<i>% Change</i>	<i>2017</i>	<i>% Change</i>	<i>2016</i>
<i>TOTAL</i>	\$5,267	1%	\$5,193	4%	\$4,989	3%	\$4,825
<i>Wholesale</i>	\$3,160	1%	\$3,116	2%	\$3,043	-3%	\$3,136
<i>Licensing</i>	\$158	1%	\$156	56%	\$100	3%	\$97
<i>DTC (E-commerce and own-stores)</i>	\$1,791	-1%	\$1,818	4%	\$1,746	17%	\$1,496
<i>DTC (Connected Fitness)</i>	\$158	52%	\$104	4%	\$100	3%	\$97

Source: Under Armour's annual reports from 2016 to 2019 and own analysis

Graph 5 – Under Armour Top-Line Channel Distribution: Weigh on Revenues



Source: Under Armour's annual reports from 2016 to 2019 and own analysis

UA’s net revenues are increasing at a languid pace. Between 2018 and 2016, DTC commerce was the main driver of net sales growth. The change in the company’s strategy, in 2017, to a more consumer-driven model had an immediate impact on the company’s sales, where DTC sales increased by 17%. Furthermore, UA’s DTC sales are increasing its importance on total net revenues, which represented 31% in 2016 and on the following years represented 35% of total net revenues.

In conclusion, DTC had a substantial impact on the top-line of UA from 2016 to 2018; however, in 2019, this impact was not significant.

Table 12 – Under Armour Bottom-Line Results

<i>Under Armour Bottom-line (in millions)</i>	<i>2019</i>	<i>% Change</i>	<i>2018</i>	<i>% Change</i>	<i>2017</i>	<i>% Change</i>	<i>2016</i>
<i>Net revenues</i>	\$5,267	1%	\$5,193	4%	\$4,989	3%	\$4,825
<i>Costs of goods sold</i>	\$2,797	-2%	\$2,853	4%	\$2,738	6%	\$2,585
<i>Gross Profit</i>	\$2,471	6%	\$2,340	0%	\$2,340	4%	\$2,241
<i>Selling, general, and administrative expenses</i>	\$2,234	2%	\$2,182	4%	\$2,100	15%	\$1,823
<i>Restructuring and impairment charges</i>	\$-	-100%	\$183	48%	\$124		\$-
<i>EBIT</i>	\$237	1046%	\$ -25	-190%	\$28	-93%	\$417

Source: Under Armour's annual reports from 2016 to 2019 and own analysis

The change of strategy to adopt a more driven DTC model increased the selling expenses by \$338.7 million in the period 2017-2016, the first period of the strategy implementation. The growth of these expenses was mainly due to the expansion of the DTC channel, where the investments in the Connected Fitness and brand house stores were included.

The bottom-line of UA was almost flat on the first two years of this DTC strategy. On the following years, UA's continued investments in its DTC model are the leading cause of the increasing expenses of the company, which were partly offset by the sales growth.

In conclusion, UA, while adopting a DTC model, is having a significant negative impact on the company's bottom line due to high investments that are necessary to improve the customer relationship.

4.2 SPORTSWEAR SHOPPING PATTERNS

4.2.1 General insights

A survey was conducted to obtain higher knowledge of consumer choices when purchasing sportswear products (Appendix 1). Therefore, achieving a better grasp of the consumers' sportswear shopping patterns.

Among the valid responses from the survey respondents, the respondents mainly use a sportswear product for three different purposes, Outdoor fashion (32%), Sports (27%) and Gym/Fitness (25%) (Appendix 3 - Figure 6) and the great majority of the respondents (54%) spend an amount between 41€ and 81€ each time they shop for sportswear products (Appendix 3 – Table 21). When purchasing a sportswear product, the respondents highly value the quality

and comfort of the products; however, brand and sustainability are only seen as moderately necessary on average (Appendix 3 – Table 20).

Furthermore, from the total times that the respondents purchased sportswear products in the last 12 months, 63% came from physical shopping and only 37% came from online shopping (Appendix 3 - Figure 7).

4.2.2 Physical shopping

When shopping in a physical store, the respondents believe that trying the product on is the most significant advantage (49%). However, the need to travel to the store (29%), waiting in check-out lines (22%), and going to a store when the product they want is not available (24%) are three downsides that a consumer probably has to face when shopping in a physical store (Appendix 4 - Figure 8 and 9).

Furthermore, it is essential to understand what attributes a customer values when shopping in a physical store. In the sample, the respondents take stores that provide a high customer experience into higher consideration, as well as increased customer service, and accessibility (Appendix 4 – Table 22).

Regarding where respondents choose to purchase sportswear products, it was possible to identify that most shop on multi-brand retailers (61%), with only 39% buying directly to the brand (Appendix 4 - Figure 10). The reason why customers buy more in multi-brand retailers is accessibility since it is one of the attributes that respondents most value, and, on average, they perceive shopping at a multi-brand retailer as slightly better than at a single-brand retailer (Appendix 4 – Table 23). This makes sense since the brands' manufacturers' strategy is to only have stores in strategic places; therefore, going to a multi-brand retailer is far more accessible, despite customer experience and customer service, on average, having been perceived as slightly better on single-brand retailers. The fact that brands only have factory outlets strategically placed stores in high traffic environments makes a multi-brand retailer easier to access when physical shopping than buying directly to a brand.

4.2.3 Online Shopping

E-commerce is the fastest-growing channel in all top four global sportswear brands (Adidas AG, 2020; Nike Inc, 2020a; Puma SE, 2020; Under Armour, 2020). Thus, understanding consumers' online shopping behaviours when purchasing sportswear products is essential.

The ability to shop anytime and anywhere (23%), convenience (23%), and time-saving (15%) are the top reasons why respondents shop online. However, online shopping also has its drawbacks. On the sample, the impossibility to try a product on (33%), shipping costs (27%), and the possibility of scams (22%) are the biggest obstacles to shopping online (Appendix 5 – Figure 11 and 12).

It is possible to shop online in multiple devices. For a sportswear product, the most used type of device is PC (53%), followed closely by shopping using a Mobile Phone (40%) (Appendix 5 – Figure 13). Additionally, the type of retailer a customer uses when purchasing a sportswear product online is the opposite of the physical shopping. In online shopping, the respondents buy 57% of the times directly from a brand, and the remaining from an e-commerce multi-brand retailer (Appendix 5 – Figure 14). Therefore, the investment in e-commerce platforms by brands is being supported by consumers.

Furthermore, on average, the respondents highly value an easy and accessible website/app, detailed product information, and trustworthiness (Appendix 5 – Table 24). These three attributes are perceived as slightly better on a brand's digital platform when compared to an e-commerce multi-brand retailers. On all features, when shopping for sportswear products online, E-commerce multi-brand retailers do not score any attribute as better than on brand digital platforms, scoring, though, on average, equal on delivery options, safety transaction, return policy, and data security (Appendix 5 – Table 25).

4.3 THE CURRENT STATE OF THE DTC MODEL IN THE GLOBAL SPORTSWEAR INDUSTRY

The DTC model is breaking through the entire fashion industry, where top global brands are adopting DTC strategies and initiatives in their businesses (Vogue Business, 2020). Between the period of 2018 to 2023, DTC online sales are expecting to grow at a 13.1% CAGR and achieve a share of 12% in total online apparel sales by 2023 (Deloitte, 2020).

The sportswear industry is included in the fashion industry (McKinsey, 2020a) and two great examples of DTC model adoption in the fashion industry came from the two market leaders in the sportswear industry, Nike and Adidas (McKinsey, 2020a; Vogue Business, 2020). Not only top brands are adopting DTC strategies, but mid-market brands are also likely to follow the trend in the next years; however, it requires time and investment (McKinsey, 2020b). Therefore, as the sportswear industry is included in the fashion industry, it is possible to assume that top sportswear brands are currently approaching DTC strategies and initiatives and it is likely to be also adopted by mid-market brands.

From the four abbreviated cases, the four global sportswear brands are running DTC strategies and several DTC initiatives, especially on digital platforms, which is the fastest-growing channel for these brands (Adidas AG, 2020; Nike Inc, 2020a; Puma SE, 2020; Under Armour, 2020). Only Puma is not focusing on a DTC strategy but is investing a considerable amount on opening flagship stores.

The impact of DTC on these four abbreviated case-studies is favourable on both top and bottom-line. Nike, Adidas, and Puma are all reaching double-digit growth on top-line in their DTC channels, despite the continuous investment on DTC initiatives, it is definitively helping business growth.

From a consumer perspective, DTC channel is much stronger in online shopping than in physical shopping, which was expected with the companies’ strategies focusing more on their DTC digital channels.

Nevertheless, most of the respondents purchase sportswear products on physical stores than on online stores much more often, despite attributing a higher consumer experience in single-brands channels than on multi-brand retailers.

In conclusion, the DTC model is developing at a great and fast pace in global sportswear brands, especially on online shopping channels.

4.4 ADVANTAGES OF DIRECT-TO-CONSUMER MODEL

Higher Profitability

Table 13 – Statements on Higher Profitability

	<i>Statements</i>
<i>Interview A</i>	The most significant advantage of DTC is achieving higher profitability.
<i>Interview B</i>	With DTC it is possible to generate more profits and a better margin.
<i>Interview C</i>	DTC model is more profitable than selling to the Wholesaler.
<i>Interview D</i>	Higher EBIT and profit margins are generated in a DTC model.
<i>Interview E</i>	DTC model generates a higher profit margin.
<i>Literature Review</i>	Brand manufacturers can achieve higher gross margins (Teece, 2010).

Source: Expert interviews and literature review

All five interviewees mentioned achieving higher profitability as one of the advantages of this model. When selling directly to the final customer, a brand’s manufacturer can reduce some transaction costs and the double marginalization that happens in a Wholesale model. Additionally, a brand’s manufacturer has the power to set the retail price (Gielens & Steenkamp, 2019). Furthermore, a brand’s manufacturer can achieve more liquidation through its outlet stores which helps on the profit margins (Interview B).

Better Control

Table 14 – Statements on Better Control

	<i>Statements</i>
<i>Interview A</i>	Brands are able to control their messages, logistic operations and retail price.
<i>Interview B</i>	In the DTC model, a brand can have tighter control aligned with more profits.
<i>Interview C</i>	A brand can control not only the message and retail price but also the inventory management and product flow
<i>Interview D</i>	Brands own everything, from marketing, sales, logistics, and all the other operations.
<i>Interview E</i>	The brand can control the entire message.
<i>Literature Review</i>	Brands can achieve more central control and clarity (Gielens & Steenkamp, 2019).

Source: Expert interviews and literature review

In a DTC model, a brand’s manufacturer has better control of its activities (All interviews), in other words, in every department responsible for a product, from manufacturing to marketing and sales, all employees are part of the company (Interview D and A). Not only is it possible to control prices and inventory, but also, to have better brand standards control (Interview A). Through this model, a brand can control the message that they intend to convey (Interview E) and the overall experience that the firms believe it is the right one for the consumers (Interview A).

Transform Big Data Into a Customer Relationship

Table 15 – Statements on Transform Big Data Into A Customer Relationship

	<i>Statements</i>
<i>Interview A</i>	Consumer insights are fundamental to improve products and services
<i>Interview B</i>	With big data, it is possible to understand consumer preferences and build a personalized experience.
<i>Interview C</i>	It is possible to use consumer insights to introduce a personalized consumer experience.
<i>Interview D</i>	Did not mention.
<i>Interview E</i>	Did not mention.
<i>Literature Review</i>	Brands can achieve better and more consumer insights, resulting in better products and service (Gielens & Steenkamp, 2019; Reinartz et al., 2019).

Source: Expert interviews and literature review

When approaching a DTC model, a brand's manufacturer can access more detailed data on customers preferences and habits (Reinartz et al., 2019). The brand's manufacturers can stay in contact with the consumers over the entire product life cycle through digital platforms, where it is possible to engage with the consumers in a superior valued-added manner (Ramaswamy & Ozcan, 2018; Reinartz et al., 2019). Therefore, by taking advantage of the consumer preferences and by conducting good data analysis a brand can perform a more relevant personalized service and experience over time that can result in a better product and stronger connection with a consumer (Interview A, B, and C). If the model is well-implemented, the customer becomes a loyal consumer and starts a long-term relationship with a brand (Gielens & Steenkamp, 2019).

4.5 CHALLENGES OF DIRECT-TO-CONSUMER MODEL

High Investments

Table 16 – Statements on High Investments

	<i>Statements</i>
<i>Interview A</i>	Did not mention.
<i>Interview B</i>	It requires much investment upfront on logistics, infrastructures, and staff.
<i>Interview C</i>	It takes many investments on digital, investing in real estate, marketing, stores, platforms, and hiring new teams.
<i>Interview D</i>	Building everything from scratch is very costly, it is necessary to build-up stores, hire new staff, and more marketing investment.
<i>Interview E</i>	Did not mention.
<i>Literature Review</i>	High investments are necessary across all areas, from infrastructures to people (Barclays Corporate Banking, 2020).

Source: Expert interviews and literature review

Implementing a DTC model is not easy and requires high investments in infrastructures, people, and skills (Barclays Corporate Banking, 2020). This model requires a massive effort from the Brand (Interview D), and massive investments in digital, direct marketing, and on real estate and afterwards in the stores (Interview B and C).

Digital expenses include investment on digital platforms, cloud, engineering, product innovation, and other digital costs (Interview C). Furthermore, it is fundamental to have a great staff in E-commerce to run all the experiences, data analysis, engineers, and designers to build and create those experiences (Interview B, C and D). Also, direct marketing costs are higher since it is necessary to spend more on targeted communication (Interview B and C) and not only on general messages.

Additionally, if a brand’s manufacturer also has physical stores, then additional staff is needed at the stores, who need training on how to conduct the service and the experience desired by the Brand (Interview D).

Difficult for brands with lower notoriety

Table 17 – Statements on Difficult For Brands With Lower Notoriety

	<i>Statements</i>
<i>Interview A</i>	Did not mention.
<i>Interview B</i>	Not-known brands might find it challenging to implement a DTC model due to the needed investment power and speed of execution.
<i>Interview C</i>	Small brands that do not possess substantial financial resources will find difficulties to implement the DTC Model.
<i>Interview D</i>	Building everything from scratch is very difficult, especially for smaller brands.
<i>Interview E</i>	Did not mention.
<i>Literature Review</i>	Small brands with low awareness will find difficulties to achieve strong results from the DTC model.

Source: Expert interviews and literature review

Stronger brands can achieve a significant impact by implementing this model due to their high awareness, investment power and loyalty base. However, a brand that still does not possess a high-recognition may find it very difficult to execute a DTC model (Gielens & Steenkamp, 2019) since it is tough to develop everything from zero without financial resources and recognition (Interview C and D).

4.6 FUTURE OF DTC MODEL IN THE SPORTSWEAR INDUSTRY

4.6.1 Stakeholders and Influencers in DTC

In the Sportswear Industry, there are different types of stakeholders. The primary stakeholders are those who lead the change (Savage et al., 1991). In this study, those are brands' manufacturers that influence all stakeholders in the industry, and the consumers that can consume sportswear products in several ways and thus affecting how the industry changes.

The secondary stakeholders are those impacted by the change (Savage et al., 1991), logistic platforms and multi-brand retailers are the secondary stakeholders for this study.

The influencers have a significant impact on how the change happens (Savage et al., 1991); thus, big data, the COVID-19 pandemic, technology, and the General Data Protection Regulation (GDPR) that regulates data security are four influencers.

4.6.2 Possible scenarios

Three possible scenarios were created to test the disruption of the DTC Model in the sportswear industry. These scenarios were formed based on secondary data from companies' annual reports, past actions, and insights on experts' interviews.

Between each scenario, the degree of penetration of the model is different, since it is essential to understand what the changes in sportswear industry would be if the degree of penetration of the DTC is higher or lower. At the conservative scenario, the degree of penetration of the DTC model will be non-existent due to the impossibility to analyze consumer data. In the base-case scenario, the degree of penetration will remain similar to the existing one, where global sportswear brands are continuing to adopt the DTC model and the small and medium sportswear brands are following the trend. Lastly, in the optimistic scenario, the majority of brands already have adopted the DTC model over the Wholesale model, achieving a higher degree of penetration of the DTC model.

The likelihood of the three scenarios started from one-third each, however, through experts' interviews and secondary data, it was possible to calibrate and evaluate the likelihood of each scenario happening.

Table 18 – Possible Scenarios Likelihood

<i>Role</i>		Possible Scenarios		
		Conservative	Base-case	Optimistic
<i>Primary Stakeholder 1</i>	Brand manufacturers	Impossibility to gather and use customer data. Thus, DTC model can be utilized	Increase of brands using a DTC strategy. Changing from Wholesale model to DTC model	Most of the brands run a focused DTC strategy
<i>Primary Stakeholder 2</i>	Consumers	Consumers do not want to share their data	Continue to develop a deeper connection with a brand	Personalized shopping experience at every step of the customer journey aligned with strong loyalty to brands
<i>Secondary Stakeholder 1</i>	Multi-brand retailers	Increase the importance of multi-brand retailers on the selling process	Continue the reduction of multi-brand retailers as brands only want key partners	Only key multi-brand retailer partners survive
<i>Secondary Stakeholder 2</i>	Logistics platforms	Slower product flow, where the distribution centre operates in bulk	Changing to a more agile and faster distribution centre network	Distribution centres close to the final consumer, resulting in same-day delivery
<i>Influencer 1</i>	COVID-19 Pandemic	Financial crisis, followed by a decrease in consumer purchasing power	Preference for the online channel	Economy recovery and increase of online shopping
<i>Influencer 2</i>	Big data	Impossibility to gather personal data	Continue to gather consumers' insights to create a personalized shopping experience	More secure and significant data insights and analysis
<i>Influencer 3</i>	Technology	Difficult to implement	Brands continue to adopt technologies into their DTC strategies	Provide better service, especially online
<i>Influencer 4</i>	GDPR	Regulators will forbid brand's manufactures to use customer data due to data protection rules	Data security regulation will maintain, progressing at higher flexibility	Data security rules are converted to generate more personalization when shopping
<i>Likelihood to happen (%)</i>		15%	50%	35%

Source: Own analysis

Conservative Scenario

In a conservative scenario, GDPR will not allow companies to have access to customer data due to data protection rules. Therefore, brands' manufacturers will not employ a DTC model since it is not possible to use big data to gather and analyze consumer insights. Furthermore, the consumers would not want to share their data as they would not wish to run the risk of their data being stolen or used for other purposes.

Additionally, the COVID-19 pandemic can result in a financial crisis, decreasing the consumer purchasing power since sportswear products are not an essential product. Thus, the consumption of sportswear products would reduce.

Therefore, multi-brand sportswear retailers would have more importance on the selling process, since all sportswear brands would need to rely more on multi-brand retailers to sell its product assortment. Additionally, with a financial crisis brought about by the COVID-19 pandemic, the consumers would not pay extra for exclusive products from brands.

Optimistic Scenario

In an optimistic scenario, there would be an obsession towards the customer, and most of the brands would focus on their DTC model and strategies. Additionally, consumers would share their data to achieve a personalized customer experience in every step of the customer journey and to access exclusive products, and they would become intensely loyal to sportswear brands. Furthermore, brand's distribution centre's network would continue to evolve, and it would be possible for a brand to do same-day deliveries to the customers, resulting in an even faster product flow.

Multi-brand retailers would have different roles since brands would have higher sales on their DTC channels than on Wholesale channels; the dependence of multi-brand retailers would be almost non-existent to a brand. On one hand, the sportswear multi-brand retailers would focus their business on smaller brands and on promotions since the majority of brands will likely adopt the DTC model. On the other hand, some few multi-brand retailers are crucial brands' partners; therefore, they would continue to do their regular business but with a special relationship with sportswear brands they would be partners of.

Additionally, COVID-19 would change consumer behaviour to more online shopping driven. Therefore, brands would adopt more technologies to be implemented on their digital platforms as consumers would not be willing to do physical shopping. The implementation of these

technologies would generate even more consumer insights; thus, big data would need to be more secure and better on analyzing consumer preferences.

4.7 DTC MODEL EXPECTED EVOLUTION IN THE SPORTSWEAR INDUSTRY

Base-Case Scenario

Based on the companies' annual reports, experts interviews and past action, the base-case scenario is the most consolidated scenario to happen. Therefore, most of the companies are shifting from a Wholesale model to a DTC model.

When running a DTC model, it is possible to gather more data about a consumer. Thus, a brand can know what a customer likes, what they are looking at, how they shop. Then, tailor those experiences based on the preferences of each customer. To acquire such insights, sportswear brands need to adopt technologies, mainly on digital platforms, where it will be possible to capture and tailor interactions with consumers, resulting in better service over time and in a deeper connection with the consumers.

The sell-in process is the most significant change between both models (Interview A) since in a DTC model the brand is selling directly to the end customer and not to an intermediary that will afterwards sell to the end customer. The DTC sales channels include outlet stores and own-stores, flagship stores, and E-commerce (All interviews). All sales channels should play a role, where E-commerce is the priority for every company since E-commerce platforms can interact with the consumers daily, discovering more insights about the consumers, improving its experience and loyalty towards a sportswear brand. However, outlet and flagship stores are also important. Outlet stores provide the brand experience that the brand desires and at the same enables liquidation, helping the firm's business (Interview B). The flagship provides the most premium brand experience to drive more engagement and loyalty in strategic cities.

Furthermore, a brand's manufacturer that changes from a Wholesale Model to a DTC model needs to change its mindset completely and all the tools and processes that were already set up (Interview A). It can be very costly and requires considerable investments in hiring different types of people, digital, and real estate. In a DTC model, all employees are part of the same company; thus, there is a different dynamic where all employees are interested in the success of their company.

The logistics process is another significant change between the models (Interview A), and in regard to product flow (Interview B and C). In a Wholesale Model, a brand's manufacturers

work with seasons where products need to be prepared nine months before they are out to the customer, so the product flow is slow (Interview B and C).

In a Direct-to-Consumer model, the distribution centre network and the logistics strategy need to act much faster and nimbly to ensure the supply chain has new products every week (Interview A, B, C). Thus, adjustments on operations and supply chain are required since it is necessary to fill stock on both digital, own-stores, and retailers (Interview C). The methods of buying, demand planning, and shipping are now different; for example in DTC operations, a brand would use pooling stock with a prioritization process, and shipping by piece for online order, and automation (Interview A).

The reduction of sportswear retail partners is happening due to a greater focus on DTC by global brands (all interviews). The brand's manufactures believe that finding that right mix is crucial to moving forward in the industry since it can result in a win-win situation to all involved (all interviews). Therefore, a brand's manufacturer should focus and build strong relationships only with retail partners that have excellent capabilities aligned with powerful networks, and robust digital platforms (Interview B). Also, maintaining cultural focus in key cities that help the brand connect with the community (Interview B and C). Furthermore, managing those relationships is a challenge where it is crucial to have good expectations management and negotiation with the key retailers (Interview D).

During the COVID-19 pandemic, DTC sales increased considerably due to store shutdowns (KPMG, 2020). The consumers could not visit stores; thus, the consumption turned into online shopping, helping the growth of DTC channels (EY, 2020). Therefore, digital is growing faster than ever before, and DTC digital channels are being more relevant than the wholesales (Interview C). Additionally, the COVID-19 pandemic can change consumer behaviour entirely to a more online-oriented shopping (Interview E).

At the same time, during COVID-19 pandemic it is expected that the stronger sportswear brands will increase their market share, and the others will face some financial challenges (Interview B).

In conclusion, most of the sportswear companies are trying to achieve a successful Direct-to-Consumer model, and the success will be driven by the speed of execution and the resources that each company has since investment power is necessary to build a robust Direct-to-Consumer model (Interview B). Nevertheless, the Wholesale model still plays and will continue

to play an essential role on the sportswear industry, where finding the right mix of sportswear retail partners and DTC is vital to move forward in the industry (Interview A, D and E).

5. CONCLUSION

This dissertation aims to discuss the current development, impact and potential of the DTC model on the sportswear industry.

The current changes in consumer behaviour originated by the ongoing digital transformation made companies start adopting more customer-centric driven strategies. Therefore, some firms are adopting more DTC strategies and initiatives (Barclays Corporate Banking, 2020; Gielens & Steenkamp, 2019; Microsoft, 2020). The DTC model, as any other model, has its advantages and challenges. On one hand, this model can generate higher profitability, better control, and enhance customer relationships with the in-depth analysis of Big Data to understand consumer preferences. On the other hand, the challenges that companies have to overcome to accomplish the benefits are significant investments on infrastructures and staff, and a good level of brand awareness, otherwise, implementing this model is challenging, especially for smaller brands.

In the fashion industry, which includes sportswear, top brands are adopting DTC models and achieving positive results. Furthermore, two great examples of this model's implementation are from Nike and Adidas, the two market leaders of the sportswear industry (Vogue Business, 2020).

From the four abbreviated cases-studies it was possible to understand how top global sportswear brands are adopting this model, and what initiatives and strategies they are running. It was also possible to observe the constant growth of DTC sales over the years on the four examples, with only Puma having less than 30% of its sales through DTC. Additionally, despite the necessary investments on DTC operations, only Under Armour is struggling, whereas the other three companies are having a positive impact on both top and bottom-line. Therefore, the current development of the DTC model in the sportswear industry is positive and accompanied by outstanding growth.

On a consumer perspective, consumers still buy sportswear products on physical stores more often, preferring to purchase on multi-brand retailers due to easier accessibility. Contrastingly, with online sportswear shopping, consumers prefer to buy directly from brands' DTC channels, where all attributes were found to be better perceived than on e-commerce multi-brand retailers'. On the four abbreviated case-studies, all companies showed e-commerce being their fastest growing channel (Adidas AG, 2020; Nike Inc, 2020a; Puma SE, 2020; Under Armour,

2020), which matches the ongoing trend of online shopping that is expected to continue (EY, 2020).

The future of the DTC model on the sportswear industry is most likely to follow a base-case scenario, where top brands will continue to adopt this model, and its practices and strategies, and mid-brands will follow the trend and start to adopt the model as well. The Wholesale model will not disappear; however, its dependence will be reduced, and top global sportswear brands will increase its focus on only working with key retail partners and continue its investment on their DTC operations.

5.1 LIMITATIONS

This dissertation has some limitations, despite its contribution to the research. The major limitation regards the sample size of both consumer survey and experts' interviews.

There were only five expert interviewees, and the majority are part of their companies' DTC team. Gathering insights from more top global sportswear professionals but also from mid and smaller sportswear brands would be valuable in future research. Furthermore, getting insights from professionals from other areas within the company would also be interesting; for example, operations and supply chain, finance, among others. Moreover, there is a lack of professional insight into how multi-brand retailers are approaching their business due to the adoption of the DTC model by brand manufactures.

The consumer survey that was conducted also presents some limitations. Especially, the fact that the sample size is not extensive. In future research, it would be beneficial to gather insights from sportswear consumers on a larger sample with perceptions across the world.

Moreover, since the DTC model is an upcoming trend and is only starting to be adopted by top brands, there is still a lack of literature directly regarding the topic of DTC.

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7. APPENDICES

APPENDIX 1 – SURVEY

Q1 For which of the following purposes you usually purchase a **sportswear product**? (You can select more than one option)

Gym/Fitness (1)

Running (2)

Outdoor fashion (3)

Sports (4)

Other (5) _____

Q2 How important you consider the following factors when buying a **sportswear products**?

	Not at all important (1)	Slightly important (2)	Moderately important (3)	Very important (4)	Extremely important (5)
Quality (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Comfort (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fabric/Materials (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Price (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Brand (5)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Design / Aesthetics (6)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Sustainability (7)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q3 On a scale 1 (Strongly disagree) to 5 (Strongly agree), please indicate your level of agreement with following statements

	Strongly disagree (1)	Somewhat disagree (2)	Neither agree nor disagree (3)	Somewhat agree (4)	Strongly agree (5)
I like to have a one-to-one interaction with a brand (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I follow my favorite brands on social media (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
In my workout, I use the brand's fitness apps (e.g. Nike Run Club, Adidas Running, Adidas Training, etc) (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel part of a brand community when I am buying directly from a brand (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel that a brand knows myself (5)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel more satisfied when I buy directly from a brand (6)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I usually browse over brand's websites/App (7)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I expect the same brand experience from in-store and online (8)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q4 In the last 12 months, how many times you bought sportswear products?

Skip to: End of Block if condition: in the last 12 months, how ... is equal to 0. Skip to: End of Block

Q5 On average, how much did you spend each time you bought a sportswear product?

- < 40€ (1)
- 41€ - 80€ (2)
- 81€ - 120€ (3)
- 121€ - 160€ (4)
- 161€ - 200€ (5)
- > 200€ (6)

Q6 You said that you shopped **{Q4/ChoiceTextEntryValue}** times in the last 12 months for sportswear products. Of those times, how many would you say were online and how many in physical stores?

- Shopped and bought in a physical store : _____ (1)
- Shopped in a physical, but bought online : _____ (2)
- Shopped online and bought online : _____ (3)
- Shopped online, but bought in a physical store : _____ (4)
- Total : _____

Q7 Which are the **positive reasons** you shop in a **physical store**? (*Please select all that apply*)

- Possibility of trying the product (1)
- Urgency on having the product (2)
- Assurance that the product I am buying is genuine / licensed (3)
- Leisure activity (4)
- Other (5) _____

Q8 Which are the biggest **drawbacks** of shopping in a **physical store**? (Please select all that apply)

- Waiting in checkout lines (1)
- Over crowded store (2)
- Possibility of stock-out (3)
- Need to travel to the store (4)
- Time-consuming (5)
- Other (6) _____

Q9 Please rate how important are the following attributes of a physical store when you shop for sportswear products. (Where 0 means Not important at all and 100 means Extremely important)

0 10 20 30 40 50 60 70 80 90 100

Customer experience ()	
Convenience ()	
Brand assortment ()	
Customer service ()	
Store environment ()	
Return policy ()	
Loyalty program ()	
Accessibility ()	
Product assortment ()	

Q10 Please distribute 100 points over the following types of store according to the nature of your shopping habits, when purchasing a sportswear product in a physical store.

Multi-brand retailers' physical store (e.g. Footlocker, Sportzone, Sports Direct, etc.) : _____ (1)

Single-brand retailers' physical store (e.g. Adidas, Nike, Puma, Under Armour, etc.) : _____ (2)

Total : _____

Q11 Compare the following attributes between a sportswear **Multi-brand retailer's physical store** (e.g. Foot Locker, Sportzone, Sports Direct, etc.) and a sportswear **Single-brand retailer's physical store** (e.g. Nike, Adidas, Puma, Under Armour, etc.).

	Much better (1)	Better (2)	Slightly better (3)	Equal (4)	Slightly better (5)	Better (6)	Much better (7)
Customer experience (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Brand assortment (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Customer service (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Store environment (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Price (5)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Return policy (6)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loyalty (7)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Accessibility (8)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Convenience (9)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Product assortment (10)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Please select equal (11)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q12 Which are the positive reasons for shopping **online**? (Please select all that apply)

- Ability to shop 24/7 (1)
- Lower prices (2)
- Convenience (3)
- Time-saving (4)
- Customer reviews (5)
- Price comparison (6)
- Higher product assortment (7)
- Avoid crowds and checkout lines (8)
- Other (9) _____

Q13 Which are the biggest drawbacks of shopping **online**? (Please select all that apply)

Impossibility to feel, touch, and try a product (1)

Low shopping experience (2)

Low interactivity (3)

Shipping costs (4)

Possibility of Scam (5)

Possibility of product damage (6)

Wrong personal information usage (7)

Other (8) _____

Q14

Please distribute 100 points over the following type of devices according to your online shopping behavior, when purchasing a sportswear product in a **online** store.

PC : _____ (1)

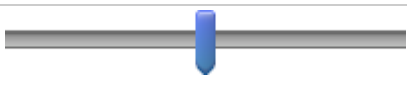





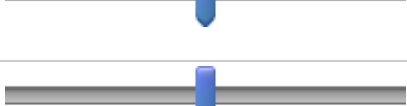
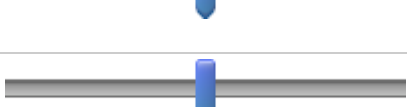


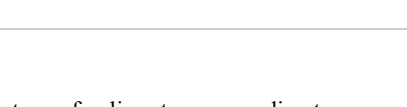
Mobile Phone : _____ (2)

Tablet : _____ (3)

Other : _____ (4)

Total : _____

Q15 Please rate how important are the following attributes of an online store when you shop for sportswear products. (Where 0 means Not important at all and 100 means Extremely important)

Easy and accessible website/app ()	
Delivery options ()	
Data security ()	
Safety transaction ()	
Return policy ()	
Loyalty program ()	
Personalized service, suggestions, and offers ()	
Digital experience ()	
Trustworthiness ()	
Access to exclusive products ()	
Detailed product information ()	

Q16

Please distribute 100 points over the following type of online stores according to your online shopping behavior , when purchasing a sportswear product in a **online** store.

E-commerce retailer (e.g. Amazon, JD.com, etc) : _____ (1)

Single-brand website/app (e.g. Nike.com, Adidas.com, Nike App, Adidas App, etc) : _____ (2)

Total : _____

Q17 Compare the following attributes between a sportswear **E-commerce retailer** (e.g. Amazon, JD.com, etc.) and a sportswear Single-brand website/app (e.g. Nike.com, Adidas.com, Nike App, Adidas App, etc.).

	Much better (1)	Better (2)	Slightly better (3)	Equal (4)	Slightly better (5)	Better (6)	Much better (7)
Easy and accessible website/app (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Data security (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Return policy (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Personalized service, suggestions, and offers (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Digital experience (5)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loyalty program (6)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Trustworthiness (7)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Detailed product information (8)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Delivery options (9)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Access to exclusive products (10)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Safety transaction (11)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please select
equal (12)

Q18 Gender

- Male (1)
- Female (2)
- Other (3)
- Prefer not to say (4)

Q19 Age

Q20 Occupation

- Unemployed (1)
- Student (2)
- Student worker (3)
- Employed (4)
- Self-Employed (5)
- Retired (6)

APPENDIX 2 – SURVEY SAMPLE

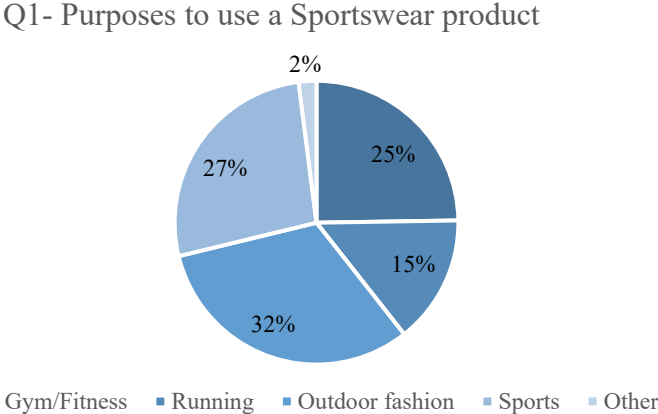
Table 19 – Survey Sample

Total Answers	170
<i>Valid answers</i>	97
Gender	
<i>Male</i>	51%
<i>Female</i>	49%
Age	
>18	2%
19-25	43%
26-40	19%
>41	36%
Occupation	
<i>Unemployed</i>	1%
<i>Student</i>	38%
<i>Student worker</i>	7%
<i>Employed</i>	30%
<i>Self-Employed</i>	24%
<i>Retired</i>	0%
Condition I valid answers – More than 3 sportswear products purchases in the last 12 months	
From condition I – Physical Shopping answers	55
From condition I – Online Shopping answers	42

Source: Own analysis

APPENDIX 3 – SURVEY GENERAL INSIGHTS

Graph 6 – Purposes to Use a Sportswear Product



Source: Own Analysis

Table 20 – Importance of Factors

<i>Q2 - Importance of factors when buying sportswear products</i>	<i>Mean</i>	<i>Std. Dev</i>
<i>Quality</i>	4.1	0.7
<i>Comfort</i>	4.4	0.5
<i>Fabric/Materials</i>	3.8	0.9
<i>Price</i>	3.7	0.8
<i>Brand</i>	3	1.2
<i>Design/Aesthetics</i>	3.8	0.8
<i>Sustainability</i>	3.1	1

Source: Own Analysis

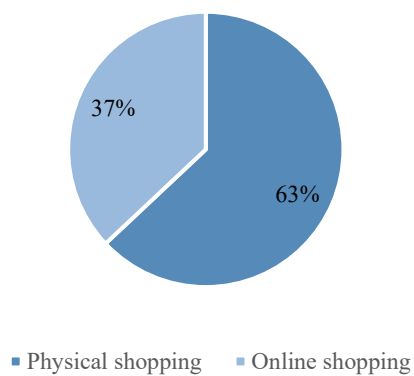
Table 21 – Average Spending on Each Sportswear Product Purchase

<i>Q4 - Average spending per each time sportswear product was bought, last 12 months</i>	
<i>0 €</i>	3%
<i>< 40€</i>	17%
<i>41€ - 80€</i>	54%
<i>81€ - 120€</i>	22%
<i>121€ - 160€</i>	3%
<i>161€ - 200€</i>	1%
<i>> 200€</i>	1%

Source: Own Analysis

Graph 7 – Consumer Shopping Pattern

Consumer shopping pattern

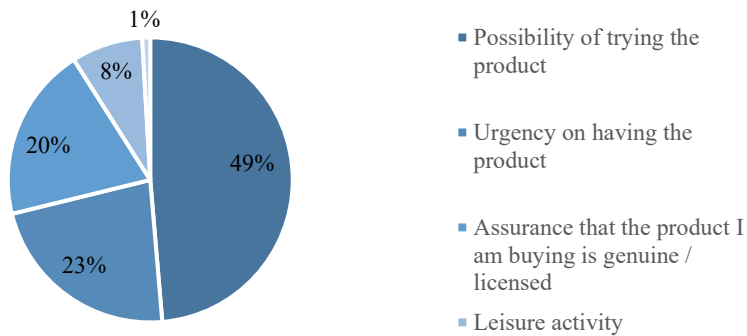


Source: Own Analysis

APPENDIX 4 – SURVEY INSIGHTS ON PHYSICAL SHOPPING

Graph 8 – Reasons to Shop in a Physical Store

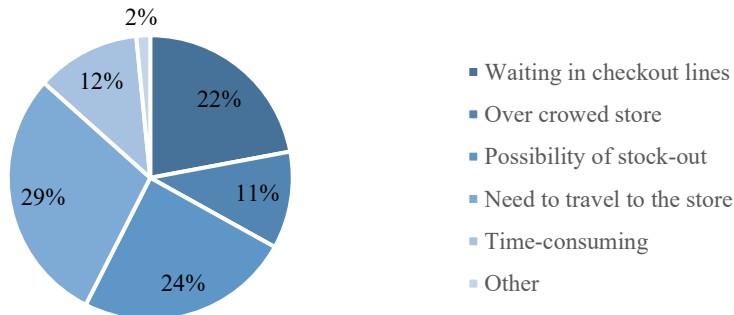
Q7 - Reasons to shop in a Physical Store



Source: Own Analysis

Graph 9 – Drawbacks of Shopping in a Physical store

Q8 - Drawbacks of shopping in a Physical store



Source: Own Analysis

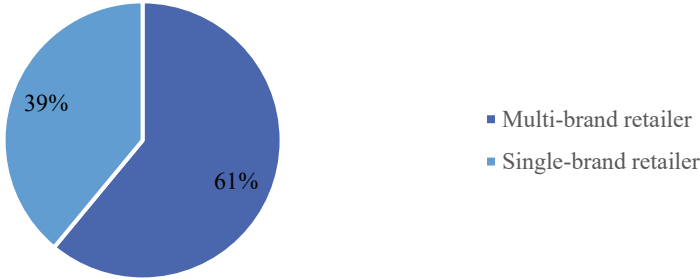
Table 22 – Physical Shopping Attributes Importance

<i>Q9 - Attributes importance when shopping in a physical store</i>	<i>Mean</i>	<i>St. Dev</i>
<i>Customer experience</i>	81.3	18.9
<i>Convenience</i>	73	23.8
<i>Brand assortment</i>	71.1	20.5
<i>Customer service</i>	84.6	18.8
<i>Store environment</i>	76.7	23.2
<i>Return policy</i>	65.8	23.1
<i>Loyalty program</i>	53.3	30.4
<i>Accessibility</i>	80.1	18
<i>Product assortment</i>	74.6	21.2

Source: Own Analysis

Graph 10 – Type of Physical Store Chosen to Purchase Sportswear Products

Q10 - Type of physical store when purchasing a sportswear product



Source: Own analysis

Table 23 - Attribute Comparison Between the Type of Physical Stores

Q11 - Comparison between a sportswear single-brand retailer and a sportswear multi-brand retailer

	<i>Mean</i>	<i>Std. Dev</i>
<i>Customer experience</i>	5.2	1.6
<i>Brand assortment</i>	2.4	1.7
<i>Customer service</i>	5.2	1.5
<i>Store environment</i>	5.6	1.6
<i>Price</i>	3.3	1.3
<i>Return Policy</i>	3.9	0.9
<i>Loyalty</i>	5.1	1.5
<i>Accessibility</i>	3.1	1.6
<i>Convenience</i>	3.2	1.6
<i>Product assortment</i>	3.3	1.6

Source: Own Analysis

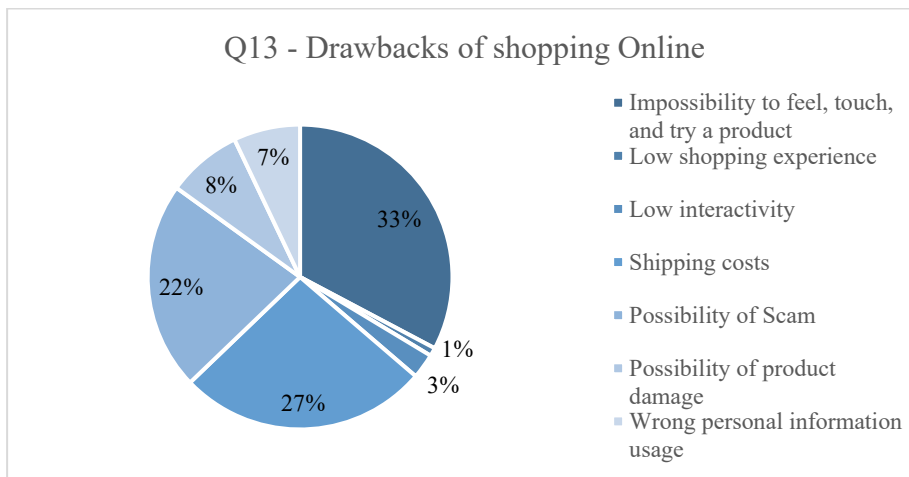
APPENDIX 5 – ONLINE SHOPPING

Graph 11 - Reasons to Shop Online



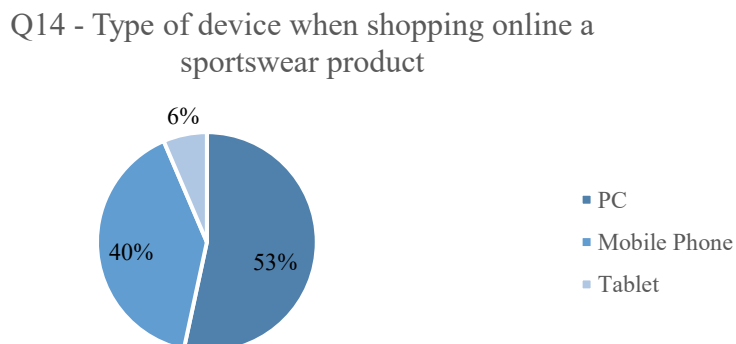
Source: Own analysis

Graph 12 – Drawbacks of Shopping Online



Source: Own analysis

Graph 13 – Type of Device Used when Purchasing a Sportswear Product Online



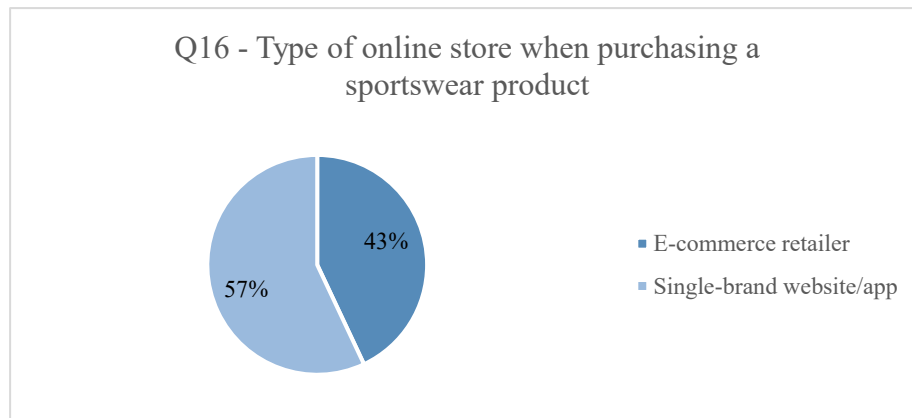
Source: Own Analysis

Table 24 – Attribute Comparison Between Online Stores

Q15- Attributes importance when shopping online	Mean	Std. Dev
<i>Easy and accessible website/app</i>	84.4	18.6
<i>Delivery options</i>	72.5	23
<i>Data security</i>	80.2	22.6
<i>Safety transaction</i>	81.6	19.4
<i>Return policy</i>	75.4	19.9
<i>Loyalty program</i>	62.4	31
<i>Personalized service, suggestions, and offers</i>	74.5	28.4
<i>Digital experience</i>	77.9	20.7
<i>Trustworthiness</i>	86.2	15.9
<i>Access to exclusive products</i>	72.2	28.3
<i>Detailed product information</i>	86.2	17.3

Source: Own analysis

Graph 14 – Type of Online Store Chosen when Purchasing a Sportswear Product



Source: Own analysis

Table 25 – Attribute importance on online shopping

Q17- Comparison between an E-commerce retailer and a sportswear single-brand website/app	Mean	Std. Dev
<i>Easy and accessible website/app</i>	5.3	1.4
<i>Delivery options</i>	3.9	0.7
<i>Data security</i>	4.1	0.5
<i>Safety transaction</i>	4.1	0.6
<i>Return policy</i>	4	0.5
<i>Loyalty program</i>	4.9	1.2
<i>Personalized service, suggestions, and offers</i>	5.5	1.4
<i>Digital experience</i>	5.2	1.3
<i>Trustworthiness</i>	5.3	1.3
<i>Access to exclusive products</i>	5.7	1.3
<i>Detailed product information</i>	5.3	1.3

Source: Own analysis

APPENDIX 6 – INTERVIEW A

Do you think that the DTC model is going to be the future of the Sportswear Industry or is it just a trend at this moment? Why?

It is absolutely the future and has been the focus for a few years now already. Brands that are just starting to get on board with DTC are already behind. Brands being able to control their own messages and interact directly with their consumers have so many benefits that I don't see this model going away any time soon.

What are the advantages of DTC model?

The advantages are many, the biggest being profitability (DTC business is much more profitable with better margins), Brand Standards (we can control how we want our brand to show up and the experience we want consumers to have with our brand), Consumer insights (the feedback we get from our consumers directly in our own channels help shape the future of our products and stories).

What are the main challenges of DTC model?

The biggest challenges are shifting the mindset from a Wholesale (WHS) led business model to a DTC model. For larger companies who have had a large and successful WHS business for many years, all the tools and processes are set up to help service a WHS model. A lot of work is needed to retrofit these tools/systems/processes to work for the DTC business. The second biggest challenge is having sometimes tough conversations with WHS retail partners as you make the shift to putting more priority on your own DTC business.

What are the differences (operational and financially) between DTC and the Wholesale Model? What are the crucial changes to adopt a DTC model?

The biggest differences are in the sell-in process as well as the logistics processes. In a WHS led business you are selling to a customer who then sells to the end consumer, in DTC you are selling directly to the consumer – so there is no middle customer to sell to. In a DTC led business, all the players are internal employees, so they have a vested interest in the brand already and the success in their job depends on the success of the brand directly, so there is a different dynamic. From a logistic side, there are different methods of buying/demand planning/shipping etc. that you would use in DTC (i.e. pooling stock with a prioritization process, shipping by piece for online orders and needing that automation to do so, VS in a WHS model you take orders and ship out in bulk, etc.). You need to change your go-to-market process as well as your DC network and logistics strategy to a more DTC led model.

Under the DTC strategy, “Creating the New”, how does Adidas measure its impact? What KPIs are being used and what are its targets?

They key metrics we look at are Net Sales contribution to the business (eCom, Own Retail & WHS), profitability of each of those channels, and consumer feedback and sentiment around the Brand (NPS). We also have goals around sustainability and the % of our range that is made from sustainable materials, we well as a focus on Women’s and growing that business as % of total.

What initiatives is Adidas implementing in what concerns to DTC?

Logistically, we moved to a “shared stock” environment which allows DTC to have inventory priority, we also built new DCs to help support the DTC business. This ensures the channels selling through the best have access to more stock first. Secondly, our DTC exclusive product strategy puts a focus on putting products in our own DTC channels that you can’t find anywhere else. Thirdly, our focus on the consumer and rewarding our most loyal adidas consumers through our Creator’s Club which offer rewards for purchasing, access to products early or solely through our Creator’s Club program. We are also expending this to our own retail Concept Stores as well.

How are those initiatives impacting the customer journey?

Consumers see the impacts in our shipping speed, increased size fulfillment, as well as special products and early access to products.

What will be the focus of Adidas DTC model: flagship stores, own stores, or e-commerce?

eCom is the clear #1 priority, but our DTC business is all encompassing with our most premium brand experiences and largest offerings in our Flagships, and a more localized experience in our Concept Stores. All three make up the DTC ecosystem and all play a role.

How do you think the future of Adidas will be with this DTC model?

I think the focus on DTC is and will continue to strengthen the brand. Finding the right mix of DTC and WHS is the key, and we are working to make sure we have that mix right for the consumer, our customers as well as our brand. Everyone has a role to play, and if we continue to listen to our consumers, we will win.

2020 is the last year of the Adidas strategy’s “Creating the New”, how do you evaluate this strategy? Is it going to reach all the objectives? What is the next step?

We have made some huge strides during the last five years. We have increased our consumer awareness, released innovative products for both lifestyle consumers as well as athletes, and have increased the amount of our range that is made sustainability. We have grown our DTC business every year, and we continue to be the best in class partners with our WHS partners. In my opinion, it has been a success!

APPENDIX 7 – INTERVIEW B

Nike overall is leading to a transformation at the moment. On how do we become more directly to our consumers? Recognizing that our consumers are currently living in a digital world and we do not want to become disconnect to our consumers.

That means that we need to transform from our ecosystems to offer consumers essentially all of the experiences, services, products that they would need from Nike to become better athletes, better in sports, perform better, etc.

Nike missions are to bring inspiration and innovation to every athlete. When we talk about athletes, we are talking about literally everybody because if you have a body, you are an athlete, we want to support everything consumer.

If you help those consumers on achieving their goals or providing a good service, you can have a strong connection with them. And then you can start to give the product and service that they want and need.

So, our goal is caught more of these interactions without consumers every day in our DTC channels. And that's both through activity (Nike run club App and Nike training club, where it is possible to capture a lot of information about them – especially during covid Nike training club was an excellent service to help with the consumer's workout) and commerce.

Than in commerce, how to have a better connection directly with the consumer, so, Nike is investing heavily on apps. Which allows us to know better the consumer, what they are looking at, how they shop, etc. and tailor those experiences based on consumer preferences.

A large community of sneakers lovers, that allows to control launch more effectively, use the App as a tool to do the launch process. Control the market more effectively, and during the world of covid, digital is safer.

Overall, through these digital platforms catching more interactions is essential, and Nike will be able to conduct a more relevant service and personalized over time. And that is in complement with Nike own stores, which are using personalized data of Nike members to

understand where they are. Depending on the city or the community, data can be used to make the store more relevant based on the habits of those consumers. They are having the right service, product assortment, etc., and also have more services, for an example fitness class in the store.

That is a work in progress, but that is all called an ecosystem of sport. And sports is about experiencing sports, watching sports, shopping for sports—all of the aspects beyond kicking a ball around.

Sports is being redefined in new ways. People now use outdoor fashion sport, and it is essential to follow those trends.

To do that successfully, it requires to have those experiences for the consumers in place, and transform the architecture of your company.

To change to horizontal to vertical – Hiring different types of people, analytics and data people are critical, engineers and designers to build those digital experiences. Also, marketing needs to change because, in a digital world, direct marketing is need and analytics, which is a more science-based market. It is not only the stories you are telling the consumers but also how you are targeting to those consumers, and which consumers you are targeting.

The other area is to shift from brick-and-mortar to digital because it is vital to have the agility to be able to invest in digital platforms and complement that with the right brick-and-mortar in the right places.

Another area is operations, Nike is still using a wholesale operations process, where Nike have an assortment in every season and sell it to footlocker, etc. But that is a slow process, by the time they got a product is like nine months, it is not fast enough. They are especially competing with DTC and vertical companies, who have much quicker supply chains. Nike is more about innovation than copying but still needs to go faster and more agile.

The shift from third-party Wholesale to more consolidated market, so previously there were sales teams to grow the business but retailing is being transformed by digital, by shifting consumers expectations, with Amazon exploding and Covid dropping a bomb by accelerating everything.

There is no need for a lot of multi-brand retailers because a lot were struggling anyway and only who have excellent capabilities and digital platforms are the ones that you need. It would help if you had a few suitable retailers with robust networks, nurture and maintain the

authenticators in the key cities (meaning the coolest shops) with help connecting with the community. The others are not needed. There is to have a change in the way you approach the market.

The shift is a strong direct-to-consumer to enable you to have excellent data, more fabulous customer experiences, robust connections, and control on the overall brand and then complemented by the key partners. That is the changing market.

More profits – Overall, DTC needs to be more profitable. Digital needs to be more profitable. The areas that our DTC is more profitable, we can look at the Nike factory stores, which enables to control and sold liquidation. Much tighter control and catch more profits and a good experience and more margin.

Increase margin in our digital, with a lot of investment upfront, but when you scale through apps, you can catch increase profits. The apps are an essential part of that because you need to cut out direct marketing and search engine costs which are huge. I think our flagship stores are not about profit but more about the experience itself, the role is to be a brand experience. Incremental margin dollars that are the role of it.

We can control prices in our DTC channels, which is not possible in wholesale channels.

During COVID more liquidation was necessary, with doing it by digital we can catch more profit margin where we have more control.

Nike, overall, is about creating long term consumer value with the Nike membership club and long term consumer relationship. We are started to looking to profitability in a different way rather than month by month. We are looking at the value over the customer relationship, understanding the consumers' segments, and then increasing loyalty by direct channels which means that long term value of a consumer is going to be more significant.

Opinion on the industry

I think everyone is trying to do the same thing. The question will be regarding the speed of execution and resources they each company got. The issue is that it requires some investment power and speed to be able to get it done.

Especially during COVID, the stronger brands will probably get market share, and there will be others that will shake out. Everybody is trying to drive more to direct-to-consumer strategy. I don't see anybody not doing it.

Some brands are trying to do something different in every market. And Nike is more making a long-term approach in a more global term, which consist of data and platform.

We want our direct digital sales to be 50% of our business sales. Not just direct-to-consumer, just apps and e-commerce.

More market control and better margin capture, and better use of inventory which will result in better management with demand and save operational costs. DTC should be more prominent.

APPENDIX 8 – INTERVIEW C

Describe the Nike Direct Offense

DTC started a few years ago, and it began when digital was launched. Digital was the mean of creating a relationship with our consumers. Digital is the growing of DTC, but there are also the owned retail stores (house of innovation, top iter flagship, Nike live stores), Nike factory stores. Other model Nike store partners, hybrid model., through wholesale but still have the experience of a Nike.

Nike members can link to their account and have special access when they are at stores.

Nike very aggressively with the apps, Sneakers App because there was a specific audience. And the Nike App the most democratic and commerce experience and most commerce experience, which has full assortment and all consumers around the world can shop in a most personalized way. Working on growing app penetration quite significantly.

Activity apps, those are not commerce but more on engaging.

What is your vision regarding how the Sportswear industry is approaching DTC?

Nike leadership on DTC is excellent not only on revenue but also on product and innovation since there is more notion on the consumer preferences to build new products.

Some companies are prioritizing market share and catching on product quality. There are a lot of DTC brands that are trying to disrupt, such as a Lulemon. All are doing differently but an exciting trend towards DTC.

Do you believe that DTC sales will overcome Wholesales in the future? Explain your reasoning

Yes, it is an objective through COVID and stores shutdown. DTC channels started to grow a lot, more on the digital channels. DTC is out passing the wholesale business.

What are the advantages of DTC?

About the relationship with the consumer, we can use everything we know about a consumer to personalized their experiences and get a better service.

Increase the spend of consumers on DTC channels which is more profitable overall than selling to the wholesale, where it is not possible to personalize the consumer experience.

What are the main challenges of DTC?

Takes a lot of investment, it costly if you want to become a vertical retailer because you have to scale digital, scale digital, investing in real estates and stores.

Nike live stores are done with real estate strategy based on them where they are seeing Nike members shop. Based on shipping addresses.

Scale digital, there are digital costs, cloud, engineering and products need to scale their teams and platforms.

Marketing costs, there is a need to market in the stores, spend more on targeting communication; more creative is necessary.

30k to 40 retail partners, there was small and not creating the experience. It is too many partners. Focusing on fewer and working better with these partners and better relationships.

What are the differences (operational and financially) between using DTC Model and the Wholesale Model? What are the crucial changes to adopt a DTC model?

Product flow, in Wholesale you ship products a few times a year, or in seasons. For the consumers, there is nothing new, but in a vertical retailer, there is to have new products every week. Changes in operations to flow products more differently, massive change on operations and supply chain because now there is a need to fill and stock digital and retailers. So the O2O and omnichannel stuff need to be more advance, another investment needs to be done.

Being able to control the inventory management it can be more profitable. Cost of acquisition goes down, DTC does not work with consumers that shop once and never returns, it is vital to build a relationship and the customer keeps on coming back and then it is very profitable and sustainable.

Even harder on small brands which can be very costly.

Under the DTC strategy “Nike Direct Offense”, how does Nike measure its impact? What KPIs are being used, and what are its targets?

Traditional retail KPIs like revenue, margins, earnings, EBITDA. Also, Sub KPIs by channel, revenue margin by channel, inventory turnover.

Digital side, member base, meaning what percentage of our consumers are a member. The objective is to every consumer who walks through the door to be a member because then it is possible to communicate with them. Members and revenue need to be linked.

What will be the focus of Nike DTC sales: flagship stores, own stores, or e-commerce?

E-commerce is the big focus; there will still be new stores but very strategic. Digital is the focus with a digital platform to the future. And also there is where the consumer is choosing too.

In July, Nike announced a new strategy called Consumer Direct Acceleration, what are the maybe differences from the Nike Direct Consumer Offense? What is expected from this new strategy?

They are the same strategy but faster towards that goal. It is making sure that DTC goes faster and shifting investment from the old business model to the new business model. It is more a commitment to the DTC.

APPENDIX 9 – INTERVIEW D

How do you define a DTC model?

DTC is where the brand owns everything put in front of the consumer. Meaning the way we approach marketing, sales and how we merge all the B2C channels. So in Adidas, DTC includes Adidas own-stores, franchises, E-commerce. Wholesale has left out, for example, a Foot Locker or JD, we cannot tell how to run the show. In our DTC channels, we focus on putting the Adidas Brand out to the consumers.

What is your vision regarding how the Sportswear industry is approaching the DTC model?

Everyone is approaching this model. For small regions, they usually partner up with a wholesale. But now companies are all moving their offices also to small regions and create their eCommerce. To me, DTC is the way to go, but a balance is necessary with the retailers.

DTC benefits are that it is possible to run the omnichannel initiatives so click-and-collect or shopping in-store and sent to customer’s home.

Adidas is starting to cutting out the small retailers because we want to focus on where it matters the most

Do you believe that DTC sales will overcome Wholesales in the future? Explain your reasoning

Not yet, It will depend on how the digital landscape develops. Right now, I don't feel that confident because consumers like to have different brand choices. Still, on the other side with the pandemic going on, digital is going fast, and these traditional wholesalers are not good at managing their e-commerce shop. There is to be a win-win situation to both the brand and the wholesaler because of the wholesale reputation and reliability, so the brands also need to help the wholesalers.

What are the main challenges of DTC business model?

A lot of effort as a brand, build-up stores costs and have a big infrastructure to manage a DTC operation. Retailers store need to hire their staff, franchises the same, suggestions to the franchises. In e-commerce, there is necessary to have a big team that allows staff to grow and also invest money from a marketing perspective. Wherewith wholesale sales are much easier. Building up everything from scratch is very difficult.

Build a team that does not differentiate between channel.

Managing relationships with ex-retail partners are harsh. Negotiating with the wholesales is a necessary example, access to inventory, there is a need to be a management of expectations.

Ecommerce retailers manage differently. In Amazon, it is necessary to be a joint-effort and a joint-business plan, and it is required to invest in having higher visibility and campaigns. Similar to wholesalers but the 2020 version of it, build a win-win situation. With strong brands, it is easier to manage these relationships.

What are the differences (operational and financially) between DTC and the Wholesale model? What are the crucial changes to adopt a DTC model?

In general, a higher EBIT and higher profit margin are generated. It depends on the number of promotions but does not bring the volume of wholesales. Also, investment in stores is massive. But the visibility of having a big store is also excellent.

Under the Adidas DTC strategy, how does Adidas measure its impact? What KPIs are being used, and what are its targets?

Creating the new strategy is the ambition for Adidas to be the best sports brand. We do it by trying to make desire with Adidas products, collaborations and marketing. Adidas does not commit for numbers, focus more on being obsessed about the consumers and generating demand and desire.

What initiatives is Adidas implementing in what concerns to DTC?

Digital ecosystem and Adidas training.

The core is the omnichannel part, everything needs to be connected, obviously on the DTC part and even better if it is also on the wholesaler. Adidas customers want to have access to any time you wish to and receive it as fast as possible. So click-and-collect, inventory online and then the Adidas Apps that connect to the store and e-commerce as well. For instance, it is possible to book one of the limited editions releases in-store through the App.

What will be the focus of Adidas DTC model: flagship stores, own stores, or e-commerce?

A balance between building store that conveys us a specific type o message. Stores on every strategic place with a lot of traffic and with a strong customer experience. And invest a lot in digital where it is growing fast. But always as a unique experience

APPENDIX 10 – INTERVIEW E

How do you see the industry approaching the DTC business model?

All Coming forward, Nike new CEO pointed to that direction with e-commerce being the focus.

Do you think the DTC model is going to be the future of the Sportswear Industry or it will go down just as a trend? Why?

Sports are always going to be essential, and especially in America, sports is kind of a cultural lexicon. Yes DTC, with Covid and stores shutdowns, consumers behaviours is going to change permanently. E-commerce is expecting to go with further, and consumers will be more adapted to buy online. An omnichannel approach that a lot of companies are also doing, for example, UA you can buy it online and click-and-collect on the store. There are fewer barriers between e-commerce and retail

Do you believe that in the future, DTC sales will overcome the wholesales?

50/50 – Much more even split with e-commerce growing a lot. With COVID people might not want to stores

What are the advantages of DTC model?

Control the message all the way through, where sometimes gets complicated when you are working with a large wholesaler, where you are fighting with others brands either on floor space but on the consumers' mind too. And SAP wise. Also, it generates a higher profit margin.

How are the differences (operational and financially) between DTC and Wholesale model? What are the necessary changes to adopt a DTC model?

Not clearly a change but be in tune with the customer. For example, UA is focused on what they called “focused performer”, and that is the target. They need the best of the best gear, not the athleisure fashion. Knowing the customer and making products for them with fewer middle people. In terms of eCommerce, service and distribution house from an efficiency standpoint, we are not going to be able to be picking single units at the vendor, especially internationally, and then shipping directly to the customer but that there is something that could be beneficial in terms of like a wholesale B2B business, where we are getting our vendors to send thousands and thousands of the same product directly to their distribution houses

How are those initiatives impacting the customer journey?

Be in the middle of the product life – UA being the core and be loyal to the brand. It is always connected to the customer.

What will be the focus of Under Armour DTC model, flagship stores, own stores, or e-commerce?

I do not envision any flagship store going to open to cut costs and staying more strategic with COVID. Ecommerce will continue to have significant growth. It will be crucial.

Also Connected Fitness counts as DTC, but the apps are a bit separate from the business. It is meant to reach different consumers with promos connected to training objectives

What does think the future will be if Under Armour still uses the DTC model?

Remain flat until the pandemic is gone and then bounce back.