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Li-Ning Rebounding With Shaq?

The Yao of the West markets shoes with a Chinese company

By LIU YUNYUN AND MATT YOUNG

China is under Shaq Attack, and that's all right with Li-Ning. Last week, basketball giant Shaquille O'Neal hovered over a club-style hotel press conference to announce a partnership with Li-Ning Co. Ltd., China's largest domestic sportswear company, to market a new line of athletic shoes here.

At a time when Nike Inc. and Adidas AG are dueling over sales volume in China, especially with the approaching 2008 Olympics in Beijing, the entrance of Miami Heat center O'Neal into the Chinese athletic shoe market by way of Li-Ning could give the domestic company an unforeseen boost. The terms of the 5-year contract were not disclosed, but industry insiders said it was worth 10 million yuan, according to *China Daily*.

"I think this is the kind of breakthrough they needed," said Greg Paull, principal of R3 Asia Pacific, a marketing consulting group. "Li-Ning has historically been market leader in this category, but Nike



BIG BUSINESS: Li Ning, owner of the Li-Ning Sporting Goods Company, signs a deal with Shaquille O'Neal to market a new line of basketball shoes in China

made great inroads in the last few years.”

According to Shanghai-based Zou Marketing Ltd., Nike achieved sales in China of \$410 million in 2005, while Adidas followed with \$385 million and runner-up Li-Ning posted \$306 million.

But with Shaq as its new center, could Li-Ning be poised for a rebound?

No slam dunk

There’s no question that O’Neal’s name is instantly recognizable throughout China.

In a 10-city survey of 1,500 people who were asked, “Is there a sports star you have paid attention to recently?” O’Neal’s name was one of the 12 most frequently mentioned. R3 Asia Pacific performed the survey.

But, Paull said, that doesn’t necessarily mean people know which superstars support which brands. In fact, quite the opposite is true, he said.

For instance, in the same survey, of those who mentioned Yao Ming as a sports star, 42 incorrectly identified him as a Coca-Cola supporter and 24 misidentified him as a Nike sponsor. Yao Ming works with Gatorade, an affiliate of PepsiCo Inc., and Reebok, a subsidiary of Adidas.

“If you look at Yao Ming, more people associate him with Nike than Reebok, but he is being paid to be associated with Reebok,” Paull said. “Because Nike is into basketball and he is into basketball [there is confusion]. It’s a classic case of Reebok not building a close enough synergy with Yao Ming.”

Confusion over superstars’ brand loyalty also arises because often there are numerous sponsors involved. Yao Ming has teamed up with no fewer than 19 brands, Paull said.

Superstar sponsorship does work nonetheless, Paull contends.

“But you need to be very focused in the way you link the star,” he said. “Get the star as clearly associated with the brand as possible.”

Sha Yifeng, senior consultant of Zou Marketing, echoed Paull's view, noting, "It may be easy to sign a deal. More importantly, though, is how to market this synergy to the consumers and how to make the best use of the NBA center."

Cheating heat

That could prove difficult with O'Neal.

A background check in America shows that he already has a line of athletic shoes—affiliated with Nike, no less.

In November 2005, O'Neal's "Dunkman" shoe line was unveiled in the United States. At \$39.99 for a men's pair—less than half the cost of other premium brands—the sneakers have aggressively targeted lower-income wearers.

The Dunkman brand is licensed by New York-based Exeter Brands Group LLC, a subsidiary of Nike.

Furthermore, the Dunkman insignia shows a figure, conceivably symbolizing slam-dunk master O'Neal, doing just that. So he's just doing it both for Nike and now for Li-Ning, whose press conference was generously splashed with the same insignia.

Certainly American and Chinese consumers buy footwear in very different places, separated by an ocean or two.

"There's no way Li-Ning is going to end up on the shores of California," said Tom Doctoroff, Greater China CEO for advertising giant J. Walter Thompson. "But Li-Ning has an identity crisis."

Nike, on the other hand, didn't seem too concerned.

"Shaquille O'Neal is not a Nike athlete and he is not directly under us, so we don't really handle his affairs," a Nike spokesman said.

Asked if O'Neal's deal with Li-Ning would affect his deal with Nike, the spokesman said: "I don't know if there is any collision or not. As far as I know, we don't control his affairs."

According to Nike, Exeter is the "master licensee of the Shaq and Dunkman brands." Asked if O'Neal needs to get permission from Nike before he grants the use of the brand names or their trademarks to a Chinese company, the spokesman said, "I'm not 100 percent sure, just because we don't have direct relations with him." He was reluctant to speak further, and Li-Ning could not be reached for comment.

However, Li-Ning can take comfort in this fact: O'Neal's celebrity status is lighting up sales in the United States, said Mardi Larson, spokeswoman for Payless ShoeSource Inc., exclusive distributor of the brand there. The first style of Dunkman shoe was launched in November 2005, the second style was unleashed at the 2006 NBA All-Star game in February, and "both styles have sold out," she said.

A 'me too' approach?

Aside from an insignia, Li-Ning is beginning to share Western marketing strategy with Nike and Adidas, said Doctoroff, who represents another Chinese athletic-wear company, Anta.

When Doctoroff heard the news about the Shaq deal, "I thought it was a mistake," he said. "Li-Ning so far, in the recent couple of years, has been very good at differentiating themselves from both Adidas and Nike," by incorporating Chinese-style elements into the company's advertising.

No longer, Doctoroff said.

"Trying to be an Adidas or Nike is a mistake in my view," he said. "The Shaquille O'Neal thing is a desperate grab for a [safety] line."

And while O'Neal's name may be recognizable in China, Zou Marketing's Sha Yifeng pointed out that his center position could hinder likeability of him and his products.

"The Chinese people are relatively small in their physical figures," Sha said. "Most of them would

probably like to play the position of a fullback in a basketball match. A center position representative is not appealing.”

Sha contended that in China, the combination of using ordinary people in marketing as well as celebrity marketing is probably the best approach to targeting teenagers, who are considered the largest sportswear consumer group.

But Li-Ning’s CEO Zhang Zhiyong said that his company needs an international icon to build up its global image.

“We hope that before 2008, our products are the most widely used across the country,” Zhang said. “While after 2008, we would make the Li-Ning brand more internationalized and make it among the top five brands in the world.”

Cui Dalin, Chairman of the Chinese Olympic Committee, also said at the Li-Ning press conference, “The cooperation between Li-Ning and Shaquille O’Neal will definitely speed up the internationalization process of the Li-Ning brand.”

Ahead of the domestic pack

But before Li-Ning goes global, it may have to shore up its financial situation at home. It’s not only playing catch-up with Nike and Adidas, but also still trying to outpace other domestic companies in sales volume.

The 2005 sales revenue of domestic brand Anta was around \$100 million, according to Zou Marketing.

“As a result, the real threat to Li-Ning is neither Adidas nor Nike, but the domestic sportswear brands like Anta,” Sha Yifeng said. “Li-Ning’s deal with O’Neal will not pose any threat to Adidas or Nike, at least in the next few years, as Li-Ning’s overall international sports assets lag way behind that of Adidas and Nike. They are just not at the same starting line.”

A spokeswoman for Adidas said the O'Neal-Li-Ning deal wouldn't have an impact on her company's operations.

"I think in terms of what they're doing that's an interesting plan," said Adidas spokeswoman Sabrina Cheung. "This doesn't change our strategy. There's no impact at all, in fact."

As for how much profit Sha expects Li-Ning to generate from the O'Neal deal, he said he'll "wait and see."

A Short History of Li-Ning's Globetrotting

-- Li-Ning, which produces sports footwear, apparel and accessories, was founded in 1989 by the Chinese Olympic gold medal gymnast of the same name.

-- In 2002, Li-Ning signed a deal with Spain's men's and women's basketball teams, which was considered to be Li-Ning's first step toward internationalization.

-- Li-Ning was the first domestic sportswear company to be listed on the main board of the Hong Kong Stock Exchange in June 2004.

-- At the beginning of 2005, Li-Ning forged a strategic partnership with the NBA.

-- In early 2006, Li-Ning signed an agreement with NBA player Damon Jones of the Cleveland Cavaliers.

-- In August 2006, a deal was reached between Li-Ning and Shaquille O'Neal.

-- Li-Ning currently owns more than expected 3,300 stores across China. The figure is expected to surpass 5,100 by 2008.