

Research on the Marketing Strategy of Apparel Retail Industry under Digital Transformation

— Taking Li Ning Brand as an Example

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Abstract: In the wave of digital transformation, apparel retail brands are facing significant opportunities and challenges. Apparel brands such as Li Ning need to fully embrace digitization to achieve all-round transformation and upgrading from product development to customer service. Meanwhile, they need to actively respond to the rapid changes in technology, rising consumer expectations and the increasing complexity of supply chain management. Through continuous technological investment, innovation and optimization of supply chain management, in order to maintain a leading position in the highly competitive market to achieve sustainable development. This paper uses Porter's Five-Forces Model to analyze the e-commerce field development background of Li Ning brand, the change in the percentage of consumers in each age group, consumer preference, supply chain management and other elements.

Keywords: Industry Analysis of LI-NING, Supply Chain Management System, IS-based Innovation.

1. Introduction

LI-NING is a professional sports brand company founded in 1990 by a well-known athlete in China. As one of China's leading sports brand companies, it has well-established brand marketing, design, manufacturing, and retail capabilities. The company mainly operates LI-NING brand and leisure sports shoes, clothing, equipment, and accessories products. Innovation is the foundation of LI-NING's brand development. Nowadays, LI-NING has come of its time and transformed into a high-end fashion brand. It is always invited to show in world-level fashion shows. The professional sports field has released top shoes and other equipment with leading technology that could directly compete with Industry tycoons. Therefore, brand awareness and market share are dramatically increasing[1].

2. The current type of marketplace

LI-NING is currently part of a monopolistic competitive market structure. The reasons for this are as follows:

First, the products are homogeneous and differentiated. There are a large number of companies in the industry producing differentiated homogeneous products which are very close substitutes for each

other. LI-NING, like other brands in the market, offers sports footwear and apparel. Secondly, LI-NING targets consumers aged 14-28 in large and medium-sized cities who love sports and admire new trends and international fashions[2]. Thirdly, LI-NING captures the psychological demand for Chinese style and national fashion and therefore offers products that incorporate national aesthetics, content, and culture, differentiating them from those offered by other companies in the industry. Finally, in terms of interdependence, each company in the industry operates independently and autonomously, and LI-NING still chooses to focus on the mid-to-high-end market as its target market.

3. Key Player Analysis

Since the sports industry is a Monopolistic Competition market, the major competitors of LI-NING are Nike, Adidas, Anta Sports, and Skechers. They have developed similarly to LI-NING and proliferated. First, Nike as one of the world-renowned sports brands has the highest market share of 25.6%, which mainly focus on sports shoes and apparel. Secondly, Adidas owned 17.4% market share but which has other focus points: men's perfume and skincare products. Thirdly, Anta Sport focus on the industry had 96.79% of its operating income in 2020 from clothing and footwear. From nearly 30 years of development, it has grown into a public company with a modern governance structure and international competitiveness. Last, Although Sketchers was established the latest among the four competing brands but Skechers' multi-product line covers consumers of all ages, including one-stop shopping experience services for families and full-scene footwear and apparel equipment needs, and has also increased its market share to 5.6% in a short period of time[3].

4. Porter's Five-Forces Model

4.1. Low bargaining power of buyers

In the high-end market, consumers pay more attention to brand culture, brand value, and professionalism. Since many sponsors are inviting LI-NING to participate in fashion week, the brand premium of the company is exceptionally high. Besides, compared to the high brand loyalty of consumers and the great demand for products, the high-end products are in short supply. Hence, LI-NING has a dominant position and consumers have almost no bargaining power. In the low-end market, however, consumers are more concerned about the price of products. Although there are more alternative products, the company's brand power, product design, and technological level have advantages over competitors. Therefore, the company is still relatively dominant in the face of consumers who are in demand and able to purchase the company's products, and consumers have weak bargaining power.

4.2. Medium bargaining Power of Suppliers

In the high-end market, products often require higher production technology and skilled workers, so relatively few manufacturers can provide production outsourcing services; simultaneously, the quality of raw materials is relatively high. Therefore, suppliers of high-end products have higher bargaining power. The low-end products, by contrast, usually adopt standardized production. For one thing, the product design process is relatively simple. For another, the supply of raw materials is significant, and the company can obtain raw materials through multiple channels. Therefore, LI-NING can choose different suppliers based on its needs, and the bargaining power of suppliers is low.

4.3. Low threats of New Entrants

The threat of new entrants emphasis on the entrants' barriers, which are highly relevant to 2 factors—sports technology and distribution channel[4]. Prominent players in this industry have invested plenty

of money to develop their own core sports technology and reached outstanding achievements in this field. Nowadays, this industry is much driven by capital and needs time to build a new brand, which costs too much. Therefore, threats of new entrants are low.

4.4. High competitive rivalry

Currently, China's high-end market is occupied by well-known brands such as Nike and Adidas. They have become the market leader due to their novel design concepts and high technology levels. According to data released by HSBC, Adidas and Nike's market share in China has each reached about 25.6% and 17.4%, respectively. Meanwhile, LI-NING faces competition from domestic brands such as Anta, who became the No.1 sports brand in China regarding sales performance in 2012. Therefore, the competitive rivalry is high.

4.5. High threats of Substitute

In high-end series of products, main substitutes like Nike and Adidas, invest in various segments and provide all kinds of professional products with high technology. LI-NING still has a long way to go to catch up with them. Therefore, customers prefer buying products from big names at this product level when their price is similar. In the low-end series of products, the main substitutes are Chinese brands, like ERKE, ANTA. In this segment, LI-NING provides more advancing technology but with a little higher price. Thus, products from LI-NING have higher cost performance. To conclude, LI-NING in these two segments isn't irreplaceable. Threats of substitutes are high.

5. LI-NING Information System-based Innovation

5.1. The Introduction of LI-NING's IS

As of the first half of 2021, the total number of Li-Ning sales stores was 6,745, of which dealership stores accounting for 68%; directly-operated stores accounting for 15%. The huge store scale is constantly challenging the company's operation and management capabilities. For this reason, LI-NING established an integrated ERP system, and used Internet terminals to connect consumers directly. LI-NING's digital operation system is committed to creating a comprehensive support platform that integrates design, ordering, production, distribution, and store operations, including establishing digital stores and supply chain systems [5].

For LI-NING, supply chain management system and digital store are the two most important modules. For the former one, the supply chain reform could improve LI-Ning's control of front-end supply, improve inventory management efficiency, and prevent inventory backlog. Thereby significantly reducing product storage costs. For the latter one, the offline store is the most suitable place for LI-NING to observe customers' characteristics and behavior, which could help identify customer needs accurately, help LI-NING adjust brand positioning, and increasing sales, increasing inventory turnover, and realizing a virtuous circle of business operations[6].

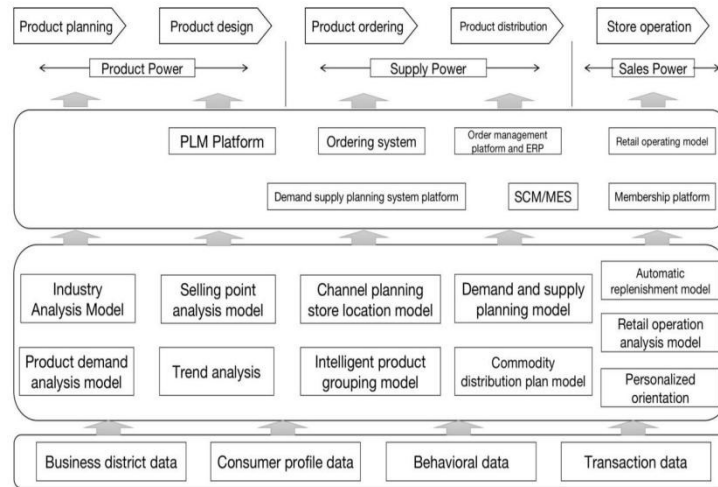


Figure 1: Li-Ning's digital operation system diagram

5.2. Innovation System—Supply Chain Management System

To a certain extent, the success of “LI-NING” reform depends on supply chain management reform. With the help of a professional third-party platform, the company builds a SCM system, improves a business demand-oriented digital supply chain management system, drives business growth, and promotes the transformation of the supply chain from “passive production” to “active production” [7]. The transformation and optimization of all links in the supply chain reduces operating costs and maximizes corporate value.

LI-NING's supply chain management system is still in the developing stage. Major competitors such as Nike and Adidas have long been well-positioned in supply chain management systems. Other competitors will follow LI-NING's lead and imitate its operating model after seeing its rapid development. The competitors will gradually erode the cost control advantage in the supply chain. As a result, the industry will require more refined operations and unique strategic models. LI-NING should improve its information management system and build a supply chain management platform to improve operational efficiency and enhance revenue based on professional information technology.

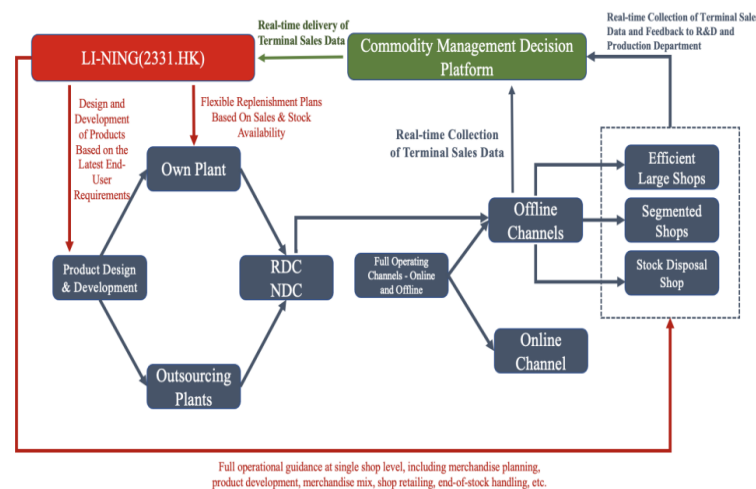


Figure 2: Digital Supply Chain Management System Diagram for Business Requirements Oriented Systems

5.3. Innovation System—Digital Store

Compared to traditional retailing stores, digital stores embed many digitized methods and tools into operation processes, which could generate more revenue and help merchants organize more engaging marketing campaigns.

LI-NING has created one digital store model which takes Ali Cloud, Wiwide Heat Sensor, Digital Displaying, and other systems into practice [8].

- **Big Data**

Digital Displaying and Wiwide Heat Sensor reflect Big Data.

Digital Displaying focuses on the commodity dimension and consists of 3 parts, digital price tag, digital goods shelves, and digital codes. With these kinds of equipment, the digital store could record all the data related to the commodity and consumers' behavior. For instance, the waves in price, how frequently a commodity is purchased, what a client finally buys after trying and comparing. Apart from this, Wide Heat Sensor would vividly monitor and record the route and changes of the heat distribution in the store.

- **Cloud Computing**

Big data and Cloud Computing are unseparated. They are upstream and downstream in the same process. We could regard big data as raw material and cloud computing as the process to proceed with the data. XUNJI, the Cloud Computing System used by LI-NING, provided by Ali Cloud, can integrate all the data collected from different equipment. It can analyze the number of views, correlate the sights, and evaluate the store's efficiency. After that, it could provide some information to optimize the display, select the critical item, and decide the next marketing campaign step. Thus, it helps the store to generate more revenue.

- **Impact of the industry's competitive environment**

LI-NING is the pioneer in this industry to apply digital technology to such a degree. Many key players have tried to use this kind of technology, but due to the vast distribution channel, it is not easy, and there is not a strong enough trigger to apply massively. However, due to the struggle LI-NING met in the past few years, it is urgent for LI-NING to find a new way to rebuild its advantage through some methods rarely used. In addition, this innovation has shown attribution to LI-NING's revenue and gradually will help LI-NING build first entry barriers.

6. Advice on the local and worldwide market

6.1. Advice on the local market

6.1.1. The implement of the multi-brand strategy

Because of an increasing patriotic group of teenagers, LI-NING began to explore products that incorporated traditional Chinese style to improve its brand power. However, the new product is not related to its sports products closely. There will be a conflict between the brand image of the trendy brand and professional sports brand, and the customer may be confused about its product positioning and brand image. Therefore, it is important for LI-NING to implement the multi-brand strategy and categorize its distinctive product series.

6.1.2. Identification of core consumer groups and alignment of marketing strategies in all areas

The high- and low-end product span is too large, leading to the split of LI-NING's brand image. The low-end products do not match the desired brand image, and the large product span is a direct result of the polarisation of all other strategies. Therefore, it is important to identify core consumer groups and make them a key consideration in designing the product portfolio. Generation Z (the post-95 and post-00 groups) is LI-NING's are becoming the most purchasing power group in society as a whole. Therefore, LI-NING has to layout the product structure around their needs and reduce the proportion of low-end and mid-range products[9].

6.1.3. Enhancement of sales channel construction

In terms of channel construction, LI-NING should strengthen guidance to dealers and strengthen terminal sales capabilities to improve the efficiency of distribution channels. LI-NING needs to organize special personnel to guide the sales work of dealers and specialty stores, constantly correct the problems in the distribution channels and ensure the standardization of the operation mode. Under the premise of ensuring the market share in second-and third-tier cities, LI-NING Company has sparingly explored the market in first-tier cities. By strengthening dealer management, accelerating the speed of collection, delivery, and new products on shelves, the regional brand marketing and management capabilities and the intensive cultivation of terminal stores will be improved. LI-NING should also pay attention to the rise of online sales channels and strengthen digital marketing efforts to attract potential consumers.

6.2. Advice on the worldwide market

6.2.1. Financial increase in the product development

A successful intentional company requires that the products have high quality that represents the advanced level of global technology. Compared to its competitors, however, LI-NING's investment in research and development only accounts for 1.84% of revenue in 2021. Hence, the company should attach great importance to product research and development. And it not only improves product design but, more importantly, applies more technology to products.

6.2.2. Adopting a differentiated market strategy to strengthen the brand's oriental characteristics

Compared with international brands, LI-NING's most important capital is its unique Chinese culture and price advantage. LI-NING is going international. While using Chinese elements to attract consumers' attention, it should also pay attention to the brand's insight and adaptability to consumers of different cultures, in-depth understanding of local culture, integrating local wisdom, and realizing the brand's globality.

6.2.3. Recruitment of international talents

LI-NING is currently at a disadvantage in the international market, with sales in foreign regions accounting for only about one percent of total sales. Therefore, LI-NING needs to recruit and train international talents and establish an international professional management team to support and promote the development of overseas strategies. International talents have a broad international vision, rich internationalization practical experience, and cross-cultural solid communication skills, which can help companies formulate and implement internationalization strategies and solve complex

problems brought about by internationalization. The more diversified the corporate team culture, the stronger the innovation ability, the easier it is to achieve industry-leading profitability.

7. Conclusion

In summary, digital transformation presents great opportunities for apparel retailing, especially in terms of expanding market reach, improving consumer scope, and enabling personalized marketing. However, it also comes with intense market competition, rising consumer expectations, pressure to invest in technology, data security challenges and supply chain management complexity. For Li-Ning, successfully addressing these challenges and capitalizing on these opportunities will be key to future growth. Digital transformation is an inevitable trend in apparel retail. For apparel brands, this means that they must fully embrace digitalization, from product development to customer service to marketing and sales.

Finally, supply chain management is particularly important in digital transformation. Apparel brands need to optimize their supply chains through technology integration and innovation to ensure a quick response to market changes while controlling costs and improving efficiency.

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