MAR 22
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On Running posts explosive growth as Nike doubles down on D2C

Article

The news: **On Running passed the CHF 1 billion ($1.05 billion) sales mark for the first time in 2022**. The sneaker company reported CHF 1.22 billion ($1.28 billion) in revenues and turned a profit of CHF 57.7 million ($60.4 million)—a remarkable achievement for its first full year since going public.

- **On's net sales grew 91.4% year-over-year** (YoY) in Q4.
- The company reported Q4 gross profit margins of 58.5%, well above what **Nike** (43.3%), **adidas** (39.1%), and **Puma** (44.0%) reported for their most recent quarters.
- And On expects its positive sales momentum to continue into 2023: The company forecasts net sales to grow 61% YoY in Q1, and 39% for FY 2023.

On the road to success: On has quickly become one of the leading performance shoe companies, helped by its association with **Roger Federer**, whose dual roles as investor and brand ambassador have given the company a boost akin to **Michael Jordan**'s impact on Nike.

- Lean inventories and healthy demand have allowed the company to steer clear of excessive promotions; CEO **Martin Hoffmann** told Bloomberg that **over 90% of its holiday sales were at full price**.
- That's in stark contrast to Nike, whose net income declined 11% in its latest fiscal quarter ended February 28 due to the high levels of discounting needed to clear excess stock.

Filling in the gap: Like other sneaker brands, On has been a beneficiary of Nike's decision to pull back on wholesale in favor of direct sales as retailers like **Foot Locker** and **Dick's Sporting Goods** broaden their brand assortment.

- On's wholesale revenues increased by 73.1% YoY in 2022 to CHF 777 million ($813.8 million), outpacing direct-to-consumer (D2C) growth to account for nearly two-thirds of the company's annual sales.
- Similarly, **Deckers Outdoor Corporation** attributed Q3 sales growth for its Hoka sneaker brand to "share gains with one specialty account in the wholesale channel."

Nike stays bullish: Despite the healthy competition, Nike continues to dominate the sneaker and sportswear industries.

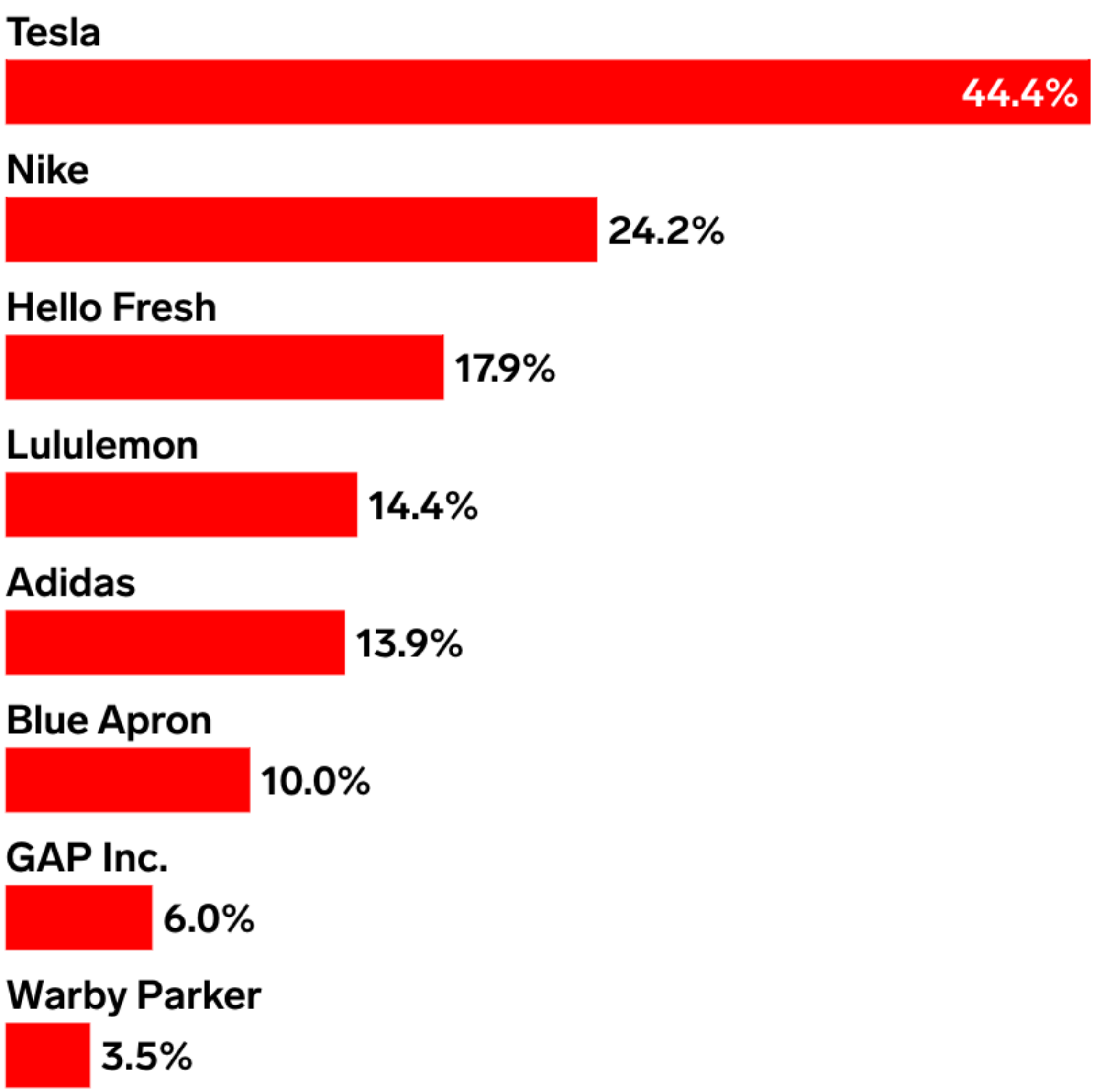
- Nike's revenues rose 14% YoY in fiscal Q3 to $12.39 billion. For context, that's nearly one-third more than Puma's total sales in 2022.
- While the brand has leaned on retail partnerships with Foot Locker and Dick's to reduce its inventory glut, direct sales grew faster (17%) than wholesale (12%) as Nike continues to prioritize its D2C business.

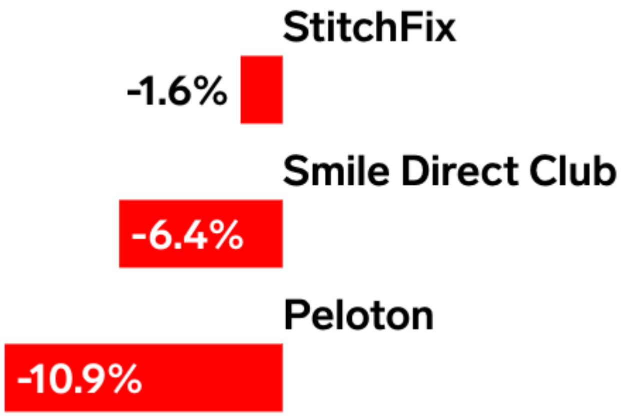
- Foot traffic to Nike stores is outpacing the overall sports goods apparel segment by a significant margin. Monthly visits to Nike and Nike Factory stores rose by 8.2% YoY, 21.8%, and 6.0% in December, January, and February, respectively, per Placer.ai. By contrast, sports apparel retailers saw visits fall 3.6%, 5.5%, and 7.6% in the same periods.

The big takeaway: Upstarts like On and Hoka might not pose much of a threat to Nike right now, but they are a potential stumbling block for adidas as it attempts to regain relevance and revitalize wholesale partnerships.

D2C Ecommerce Sales Growth, by Company

US, 2022, % change





Note: includes products sold online and sold directly to consumers via their owned and operated sites, bypassing standard distribution methods through a retailer, wholesaler, or third-party platform such as a marketplace
Source: eMarketer, March 2022

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