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A Research of the Effect of Rebranding Strategy on Enterprise Value
——A Case Study on Li Ning Co Ltd

Master's thesis

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I have written this master's thesis independently. All viewpoints of other authors, literary sources and data from elsewhere used for writing this paper have been referenced.

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Abstract

This paper explores the impact of rebranding strategy on enterprise value through a case study approach, focusing on the two rebranding strategies of Li Ning. We examine the external and internal changes of the strategic brand transformation, and use data visualization methods to compare and analyze Li-Ning's financial data and corporate value trends before and after the two rebranding strategies. The findings suggest that strategic rebranding profoundly impacts corporate value growth, especially in enhancing market competitiveness and improving financial performance. It also reveals the key role of rebranding in securing corporate sustainability and promoting long-term growth, providing valuable insights for companies considering rebranding in competitive industries.

Key words: rebranding strategy, enterprise value, Li Ning, transformation, financial performance

1 Introduction

A brand is a name, term, logo, symbol, or design that distinguishes a seller's goods or services (American Marketing Association). For consumers, brands help identify the source of a product, reduce purchase risk, signal quality, and are symbolic; for firms, brands simplify tracking, maintain differentiation, provide competitive advantage through branding, and are a source of financial returns (Keller, 2003). Branding communicates brand identity, function, meaning and personality to consumers. In the process, the brand serves as a symbolic communication tool where consumers can perceive differences and uniqueness, which helps to build brand awareness, generate brand associations and establish brand loyalty. Globalization has increased the challenge of maintaining product differentiation, leading companies to focus more on corporate branding (Jo Hatch & Schultz, 2003).

Aaker identified five brand personality dimensions: sincerity, excitement, competence, sophistication and sturdiness (Aaker, 1997). Building a solid brand usually involves

aligning with the brand's mission and values, providing quality products, ensuring consistency and maintaining a positive image. In today's technology-driven global marketplace, rebranding is critical to maintaining competitiveness and sustainable growth. It requires updating the visual identity, culture, stakeholder perceptions, and processes (Gotsi & Andriopoulos, 2007). The brand strategy directly affects the survival and growth of a company and is reflected in the brand's ability to resonate with consumers (Keller, 1993). The complexity of rebranding lies in adapting to changing market demands while retaining core brand values. It can increase company value by influencing consumer connections, attracting quality investment, increasing stock price, and improving market position. However, rebranding can damage a company if not done correctly or promptly.

Most of the current research on rebranding focuses on the theoretical level or starts from rebranding as a marketing strategy to explore the impact of brand strategy on brand value, such as affirming the importance and necessity of rebranding (Merrilees & Miller, 2008), analysis of the drivers and barriers in the process of rebranding (Collange & Bonache, 2015; Gotsi & Andriopoulos, 2007; Miller et al., 2014), the institutional logics that drive organizations, and the impact of competitive logics on articulating the brand promise of a sustainable business (Stuart, 2018), among others. In terms of the effects produced after rebranding, there has also been a focus solely on the impact of rebranding on the brand itself, including aspects such as whether or not brand upgrading and brand value enhancement were achieved (Merrilees, 2005; Muzellec & Lambkin, 2006; Pauwels Delassus & Mogos Descotes, 2012).

The main objective of this study is to explore the impact of a rebranding strategy on the overall value of a company. In particular, it analyzes the company's rebranding efforts and effectiveness, especially in market performance and firm value growth, through a case study of Li Ning, a company in China's sporting goods industry. Aims to explore the intrinsic link between rebranding and changes in enterprise value. Provides insights into the critical factors in the rebranding process and their impact on corporate value

growth, helping to understand the dynamic implications of strategic corporate brand transformation.

This paper will adopt and supplement the case study method with qualitative analysis. This paper will be based on Li Ning's financial reports, market analysis reports, etc., to understand the interactions between rebranding, market positioning, financial performance and competitiveness by analyzing the two different rebranding strategies of Li Ning and their financial impacts.

Due to the limited availability of data, as well as the limitations of professional ability, this paper is still relatively simple in analyzing the impact of Li-Ning's rebranding strategy on enterprise value, the specific analysis angle of enterprise value and the analysis data relied on. If the changes in Li-Ning's corporate value can be explained from more dimensions, the findings of this paper will be more persuasive.

2 Literature Review

2.1 Strategic Positioning and Strategic Transformation

Strategic positioning reflects a company's choices about what value to create and how to create it differently from its competitors (Porter, 1996). Regarding the economic consequences of strategic positioning, because strategic positioning determines the direction and mode of competition in the market and also determines the way of resource allocation, it may have an impact on the company's operating performance, cash holdings, financial behavior, default risk, business credit, and capital structure. Duchin's finding suggests an inverse fluctuation between the degree of strategic diversification and cash holdings of a firm (Duchin et al., 2010). Ye Kangtao finds that there is a significant relationship between the firm's degree of strategic diversification and the value relevance of accounting information: when the degree of the former is higher, the value relevance of the two accounting information, owner's equity and net profit shows different trends of change, higher and lower, respectively (Ye, K. T et al., 2014).

A strategic transformation becomes necessary when the managers' forecasts and expectations for future markets, products/services, and technologies substantially deviate from the current situation, necessitating a fundamental redefinition and realignment of the company's strategy and capabilities (Nutt & Backoff, 1997). Different scholars have explained strategic transformation at different levels. Based on the corporate strategy perspective, some scholars regard strategic transformation as a change in the content of business operations. Starting from product and market, Ansoff sees strategic transformation as an adjustment of the two elements mentioned above and a reset of the related resources (Baker, 2001). Quinn locates strategic transformation in the change of strategy itself, arguing that the essential changes in strategy can be categorized as strategic transformation (Quinn, J. B, 1978). On the other hand, Wiersema and Bantel directly regard changes in product diversification as strategic transformation (Wiersema & Bantel, 1992). In addition, some scholars approach strategic transformation because it requires changing a firm's business philosophy. For example, Gioia defines strategic transformation as a firm's mission and process change (Gioia et al., 1994).

2.2 Rebranding

Muzellec defines rebranding as re-establishing brand image differentiation from competitors (Muzellec & Lambkin, 2006). One of the most widely accepted definitions of rebranding is the idea put forward by Daly and Moloney that rebranding consists of a partial or total change in a brand's tangible and intangible elements (Daly, A. & Moloney, D., 2005). Muzellec and Lambkin see rebranding as a process of change that alters one's perceptions of the brand and the external identification of the brand, eventually leading to improved brand equity and achieving the goal of improving brand equity (Muzellec & Lambkin, 2006). Therefore, corporate rebranding includes both a change in brand identity and a shift in the brand image.

Depending on the degree of change in rebranding, it can be categorized as subtle, gradual to complete rebranding, or subtle, moderate to complete rebranding. Different

degrees of change differ in the progress of the rebranding, the degree of permeability, the content of the rebranding, and the risks of the rebranding, with incremental rebranding being more likely to be adopted in practice due to its lower risks (Roy & Sarkar, 2015). Depending on the scope of change triggered by rebranding, Muzellec and Lambkin categorize rebranding into three levels: corporate, business, and product. Among them, corporate-level rebranding involves a change in the overall image of the firm, which usually occurs in conjunction with a significant strategic transformation; business-level rebranding usually refers to a subsidiary or sub-division being given a particular image that is different from that of the parent company or the firm as a whole. Product-level rebranding implies a change in the product's image, including the product's name (Muzellec & Lambkin, 2006).

Based on the above analysis, this paper defines rebranding strategy as an enterprise's medium- and long-term development direction and goal centered on brand identity, slogan, and positioning. The rebranding strategy includes changes in the brand elements themselves and includes changes in R&D, production, sales, operation, and other levels of business management to match.

In reality, companies may actively and proactively choose to rebrand, or they may be forced to rebrand by external pressures, suggesting that the factors driving rebranding may be positive or negative. Existing research results categorize the drivers of rebranding into two main groups: internal and external. Internal motivations arise from changes in corporate structure (Lomax et al., 2002), enhancing corporate positioning in the minds of consumers (Rosenthal, 2003), changes in service image (Gambles & Schuster, 2003), and mergers and acquisitions and diversification (Stuart & Muzellec, 2004), etc.; external motivations arise from the impact of competitive advantage in the market (Muzellec & Lambkin, 2006), the economic downturn (Kaikati & Kaikati, 2003), and changes in the market and legal environment (Stuart & Muzellec, 2004), etc.

Regarding rebranding, many studies have analyzed the drivers of rebranding based on specific cases. In contrast, the internal and external environments different enterprises

face and the goals they hope to achieve through rebranding differ. Hence, the research on the drivers of rebranding is limited, and it is impossible to include all possible factors, but the existing studies can still summarize the main reasons in a general way. As the business environment becomes more complex, the drivers of corporate rebranding will continue to be enriched. In theoretical studies, scholars often measure the success of rebranding through brand equity, and the relationship between the two, especially the impact of rebranding on brand equity, has become one of the research focuses.

Bharadwaj finds that improving brand equity can be achieved by efficiently using and integrating business and sales strategies (Bharadwaj et al., 1993). However, Muzellec and Lambkin empirically analyze companies that have completed rebranding (Muzellec & Lambkin, 2006). They compared the two cases and found that factors such as employee initiatives have a more significant impact on brand equity than changes in business and sales strategies, thus confirming the importance of stakeholders' influence on the effectiveness of corporate rebranding implementation, with particular attention to employee reactions. Lee and Teh analyzed the rebranding of higher teacher education institutions in Malaysia and found that they frequently and extensively rebranded to increase their brand equity (Goi & Goi, 2009). Among the factors affecting brand equity, simply changing the brand positioning and launching a new campaign to consumers increased brand equity, while redesigning the product had the opposite effect.

With the growing strength of local brands in China, some Chinese scholars have also proposed emphasizing national brand building. Meng Chuang (2008) believes that Chinese enterprises should strengthen intellectual property protection, focus on constructing national brands, and be self-reliant to stand firm in the wave of economic globalization (Meng, 2008). Shan Lin believes that enhancing the competitiveness of national brands can establish the competitive advantage of enterprises, enhance their profitability and create significant value for them (Shan, 2016). Yin Fenglin believes that Chinese enterprises should pay attention to brand building, especially the construction of national brands, which can reflect the results of the operation of the

enterprise, improve the attractiveness to consumers, become the source and guarantee of long-term profits, and have a positive effect on the growth of enterprise value (Yin, 2017).

2.3 Enterprise Value

Enterprise value (EV) is a financial measure used to understand the true value of the firm at current market value with a marker for long-term financial viability and durability (Miles & Van Clieaf, 2017). Enterprise value is a comprehensive reflection of the results of the enterprise's business management behavior in the past period from the internal and external environment of the various changes may have an impact on enterprise value, in addition to the financial behavior will have a direct impact on the enterprise value, non-financial factors will have a more extensive and far-reaching change in the value of the enterprise. Dang Jianzhong found that there is not only a correlation between the company's core financial indicators and the company's stock price but also explains, to a certain extent, the changes in the company's stock price (Jianzhong et al., 2004). Specifically, Yushan Cao argued that higher operational efficiency could significantly improve firms' performance, reduce borrowing, lower financing costs, increase investment efficiency, and enhance firm value (Cao, 2013). Xie Chi found that the stronger the development ability of the enterprise, the higher its option value. Compared with traditional financial indicators, cash flow is more challenging to manipulate managers, which in turn can more truly reflect the operating conditions of enterprises and provide more reliable information (Xie et al., 2018). Therefore, from the perspective of cash flow, Gao Wenliang concludes through empirical research that compared with traditional financial indicators such as net profit, free cash flow indicators have a more vital explanatory ability in predicting the future profitability of the enterprise and provide more information content (Gao, 2008). Sun Jian found that the more aggressive the corporate strategy, the higher the risk of a stock price crash and the higher the possibility of facing a significant shrinkage in corporate value (Sun et al., 2016).

Our analysis about enterprise value, derived from James Tobin's economic theories, revolves around the 'q' ratio—the market value of firms compared to their replacement costs. Tobin explored the relationship between 'q' and corporate investment, positing that a 'q' ratio greater than one would motivate firms to invest, as the market would value the investment higher than its actual cost. Ideally, if firms fully leveraged such investment opportunities, the 'q' ratio would stabilize at one, balancing the market value with replacement costs (Brainard & Tobin, 1968; Tobin, 1969). Since the replacement cost of a firm is difficult to estimate, the book value of the firm is often used as a substitute (Chung & Pruitt, 1994).

Due to its marketability, Tobin's Q has been widely used in marketing, where it is often used as a proxy for firm performance or firm value to study brand awareness and reputation (Park et al., 2013) to analyze brand value (Simon & Sullivan, 1993), in choosing the best branding strategy (Rao et al., 2004), etc.

Tobin's q is a forward-looking measure of corporate value based on capital markets. Compared to measurements based on historical financial performance (e.g., net income), forward-looking measures have a significant advantage in showing the extent to which the market expects a firm to perform (Lindenberg & Ross, 1981). Tobin q adjusts for expected market risk and minimizes data distortions by combining capital market data with accounting data (Montgomery & Wernerfelt, 1988).

2.4 The Relationship between Rebranding and Enterprise Value Growth

In a relatively well-functioning capital market, stock prices are the best estimate of the value of a firm's assets (Fama, 1970). Comparisons can also be made over time and across industries using objective market-based measures. Dowling argues that a good corporate reputation is part of a company's intrinsic value and can be factored into a company's stock price (Dowling, 2006). Einwiller and Will found that a solid corporate brand and a good reputation can help to increase the stock price (Einwiller & Will, 2002). Successful corporate branding strategies can provide opportunities to generate sizable revenue streams in the future (Schultz, 2002). Therefore, the effects of a

rebranding strategy will be reflected in the enterprise value under the assumption of efficient markets.

The rebranding strategy usually involves establishing a unique image of brand strengths and developing a differentiated positioning advantage. Change always attracts consumers' attention, which releases positive signals and increases brand recognition and influence, improving corporate profits (Ou et al., 2017). A rebranding strategy can strengthen the adhesion with target consumers and increase their loyalty by adjusting or maintaining the brand positioning (Bamfo et al., 2018). A stable consumer base can improve the stability of business activities and, to some extent, ensure the growth of the company (Kiseleva et al., 2016). Rebranding usually implies the improvement of product quality and service, accompanied by a price increase, thus realizing brand upgrading, which will establish competitive advantages directly to consumers, seize market opportunities, increase market share, and ultimately obtain more economic benefits (Nhat Hanh Le et al., 2014). In addition, rebranding as a strategic action will improve the business model of the enterprise to a certain extent, improve operational efficiency channel optimization, improve the ability of the enterprise to cope with risks, enhance the profitability of the enterprise and the stability of business management, and ultimately to achieve the purpose of increasing the value of the enterprise (S. & R., 2019).

2.5 China's Sports Equipment Industry and the State of the Rebranding Strategy in the Sector

China's State Council officially released the National Fitness Plan (2021-2025), which continues the 2016 National Fitness Plan for 2025. The total size of the national sports industry reached 5 trillion yuan, the number of people who regularly participate in a physical activity ratio of 38.5%, and a series of practical goals. The day the plan was released, sports concept stocks opened up, had a strong pull-up, and set off a wave of stops, and the capital market for the plan reacted very positively. As the number of exercises continues to increase, the demand for sportswear and equipment consumption

will significantly increase; the sportswear industry has become a fact of the future of rapid growth (*China Issues National Fitness Plan for 2021-2025- China.Org.Cn*, n.d.). China is hosting an increasing number of international sporting events. Year 2022 will be a big year for sports as the country hosts many events, including the Winter Olympics, the Universiade, and the Marathon Championships, which will propel the development of the domestic sports industry.

China is a large sports goods manufacturing country with numerous product categories and brands, and related products are also sold worldwide. The scale of the sporting goods industry is expanding rapidly. As shown in Figure 1 below, the total production value of China's sports-related manufacturing industry reached 135.72 billion yuan in 2021, an increase of 12.85 billion yuan from 2020, a year-on-year growth of 10.5%. The total scale has rebounded to the 2019 level (*Sports Equipment - China | Statista Market Forecast*, n.d.).

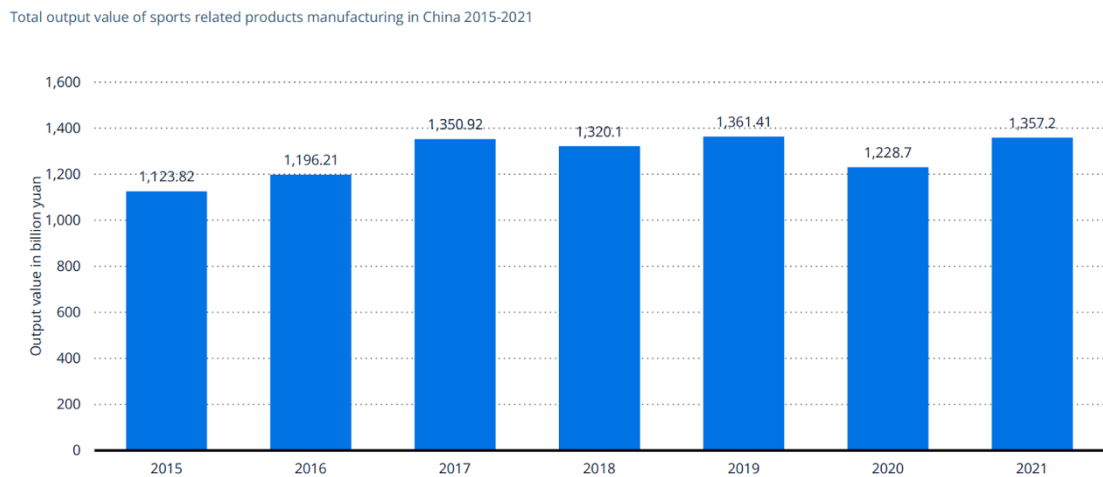


Figure 1. Total Output Value of Sports-Related Products Manufacturing in China,2015-2021

Source: (*Sports Equipment - China | Statista Market Forecast*, n.d.)

The above figure shows the total output value of sports-related product manufacturing in China. The number of sports venues in China has been increasing, and the corresponding facilities have been improving, providing a favorable environment for domestic residents to play sports. The total output value of the construction of stadiums and sports infrastructures across the country has risen from 15.52 billion yuan in 2015 to 101.2 billion yuan in 2021. The number of marathon-sized events increased rapidly,

from 1,102 in 2017 to 1,828 in 2019, and the number of participants increased from 4.98 million to 7.12 million. In 2021, China's fitness industry gradually rebounded, with the penetration rate of gym members and the fitness population showing five consecutive years of growth. As of December 2021, the number of fitness members nationwide reached 75.13 million. This represents a 6.89% increase compared to 2020, and the fitness population penetration rate has also grown from 3.46% in 2017 to 5.37% in 2021 (Figure 2) (*Sports Equipment - China | Statista Market Forecast, n.d.*).

Total output value of sport infrastructure construction in China 2015-2021

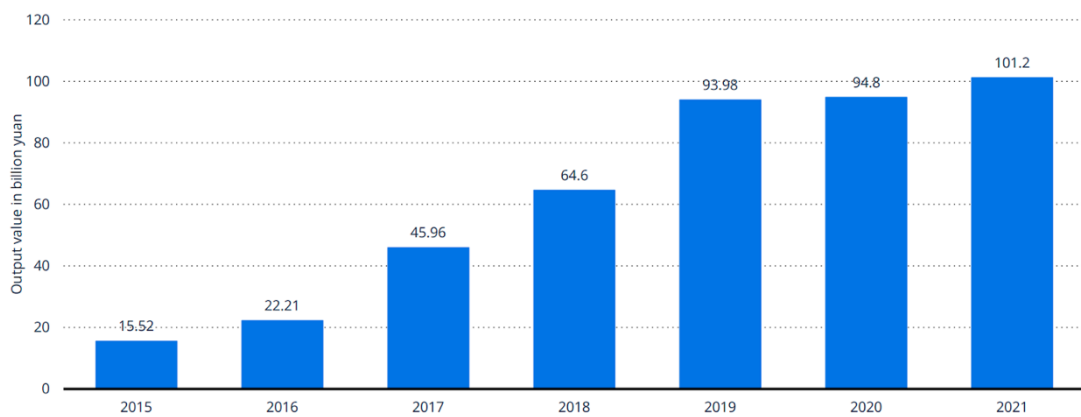


Figure 2. Total Output Value of Sport Infrastructure Construction in China, 2015-2021

Source: (*Sports Equipment - China | Statista Market Forecast, n.d.*)

As you can see from the above figure, total retail sales reached RMB 385.8 billion in China's sports footwear and apparel industry, with athletic shoes currently accounting for the highest percentage of retail sales. China's athletic footwear industry has grown from 53.6 billion RMB in 2009 to 224.1 billion RMB in 2023 and is projected to increase to 325.8 billion RMB in 2028. Retail sales of sports apparel grew from RMB 61.7 billion in 2009 to RMB 161.7 billion in 2023 and are expected to increase to RMB 233.4 billion in 2028. In terms of the competitive landscape, the market share ranking of the top 5 brands in China's sportswear industry in 2023 will be Nike (China) Inc (23.3%), Anta (China) Co Ltd (18.1%), Li Ning Co Ltd (10.1%), Adidas Sports (China) Ltd (9.0%), Xtep International Holding Ltd (6.1%). Li Ning ranks second among local brands in China (*Sportswear in China, n.d.*).

Enterprise value enhancement and rebranding strategies are tied to each other. Under the new pattern of the economic double cycle, China's consumer market in 2021 has entered a new consumer era represented by new catering, new national products, and so on amid the transformation of old and new kinetic energy. Implementing the rebranding strategy represents the enterprise's hope that the values conveyed by its products and the thoughts and feelings acting on consumers will change, realizing the re-match between the brand spirit and the products and services. Fixed and unchanging brand image in the rapidly evolving consumer status quo appears passive; rebranding can be said to be current. Many brands must make timely, careful adjustments and adapt to positive behavior changes (Qin & Yin, 2015). Therefore, enterprise value enhancement and rebranding strategies are tied to each other.

The Chinese public's demand for sports and fitness is soaring. It will continue to grow at an impressive rate for some time, but this also means that the sporting goods market faces changes and competition that will increase simultaneously, so choosing the right time and direction for rebranding is crucial.

In China's sports goods industry, there are few popular brands that consumers know and trust. With Nike and Adidas at the top of the market and their market share very stable, the pressure on other brands to compete is very high. Some well-known local Chinese brands have already launched rebranding programs. However, rebranding is complex because branding is closely related to the company's image and values, and the results take time to guarantee. Even if the performance is better in the short term, it may be challenging to maintain in a long time, so rebranding is tricky for significant brands.

3 Case study

3.1 Methodology

Li Ning is a well-known company in China's sporting goods industry, and its rebranding strategy represents a major transformation within that industry. Choosing such an influential company as a case study can provide a valuable reference for similar companies. The strategies and measures adopted by Li Ning in its rebranding

process have certain unique characteristics. These characteristics add depth and breadth to the study and contribute to an in-depth understanding of the multiple implications of the rebranding strategy.

We collected information on the background, motivations, and internal and external transformation processes of Li Ning's two rebranding strategies in 2010 and 2015. The two rebranding processes were provided by Li Ning's official public annual reports from 2008 to 2022. The rebranding context and drivers are described and analyzed by Euromonitor, Statista, and industry analyst reports from leading securities firms.

The financial data of Li Ning is mainly provided by the official public annual reports of Li Ning from 2008 to 2022 and several authoritative securities companies. In order to reflect and analyze the financial health and operational capability of Li Ning before and after the two rebranding strategies, we mainly use the corporate operating revenue, revenue growth rate, profit attributable to equity, asset-liability ratio, average inventory turnover and average trade receivables turnover (days, gross margin), liability ratio, average inventory turnover and average trade receivables turnover (days), gross margin, cash flow, current ratio and quick ratio. financial data. These data help us better understand and analyze the company's operational efficiency, financial condition and market position, and through visualization, readers can clearly perceive the important data, help us find and identify trends in the data, and understand the relationship between the data. We also compare the financial data after two rebranding exercises to see the difference in the impact of the two rebranding exercises on the company's financial position.

We also selected three Chinese listed companies in the same industry, Anta, Xtep, and 361 Degree Co Ltd., for comparative analysis to compare their rebranding strategies, market position, and critical financial data with Li Ning (same data source as above). This can better reflect the changes in Li Ning's financial status and market position in different periods and analyze the actual market impact of the rebranding strategy on the enterprise as a whole.

In this paper, we will adopt the widely used Tobin's Q approximation to evaluate the enterprise value, i.e., $\text{Tobin's Q} = \text{Total Market Capitalization} / \text{Book Value}$. He can help us to understand the market's evaluation of Li Ning Company. By comparing the changes in market capitalization and Tobin's Q over time, we can analyze and understand the results of the market's assessment of Li Ning's enterprise value. Total market capitalization has been obtained from Li Ning's public financial reports. Since Li Ning is a Hong Kong-listed company, its market capitalization is in Hong Kong dollars, but the output unit of the financial report data is in RMB. For this reason, we used the official website of China's State Administration of Foreign Exchange (SAFE) to find the average exchange rate of Hong Kong dollar to RMB in the relevant years. We converted the Hong Kong dollar to RMB to facilitate our data analysis. Book Value is calculated as $\text{Book Value} = \text{Total Assets} - \text{Total liabilities}$.

To ensure that we can accurately assess the enterprise value of Li Ning, we will also combine the analysis of the P/E ratio (Trailing Twelve Months), P/B ratio, and P/S ratio. These three figures help us to analyze the company's profitability, asset value and sales potential at different stages. By comparing the data with competitors in the same industry, we can get a clearer picture of Li Ning's actual competitiveness and thus better assess the company's value.

3.2 Li Ning Co Ltd and its Rebranding

3.2.1 Company Profile

{Citation}Li Ning is a professional sports brand company founded in 1990 by Mr. Li Ning, a household name in China as the "Prince of Gymnastics." Li Ning was listed in Hong Kong in June 2004 (stock code: 02331. HK). The founder's industry symbolism and professionalism have grown with the generation. As brand recognition strengthens, Li Ning has become one of China's most famous sports brands. Its brand image is deeply rooted in the minds of consumers, who also have a particular emotional attachment to the brand.

Li-Ning operates Li-Ning branded professional and casual sports shoes, apparel, equipment, and accessory products and has well-established brand marketing, research and development, design, manufacturing, distribution, and retailing capabilities. As of December 31, 2022, the number of points of sale of the Li-Ning brand (including the core brand of Li-Ning and Li-Ning Young) regular stores, flagship stores, China Li-Ning fashion stores, factory stores and multi-brand collection stores stood at 7,603, representing a net increase of 466 compared to the same period in 2021, and continued to expand its markets in Europe, the United States and other regions. In addition to the core brand Li Ning, the Li Ning Group owns many other branded sports products, including Red Shuangxi, AIGLE, Lotto, Danskin and Kason, etc.

Mr. Li Ning's high degree of nationalism and innate cultural genes for the Li Ning brand has established the characteristics of "sports expertise" and "national sentiment" in the brand's DNA. As a result, the sports spirit and national sentiment contained in Li Ning's IP have brought about a potent identification of the brand with consumers, forming an exclusive cultural attribute barrier that is difficult to copy and imitate and achieving its leading position as a local sports brand. In terms of the competitive landscape, the market share ranking of the top 5 brands in China's sportswear industry in 2023 will be Nike (China) Inc (23.3%), Anta (China) Co Ltd (18.1%), Li Ning Co Ltd (10.1%), Adidas Sports (China) Ltd (9.0%), Xtep International Holding Ltd (6.1%). Li Ning ranks second among local brands in China

3.2.2 First Rebranding Strategy and its Financial Effectiveness

In 1990, "Li Ning" spread across the country along with the flame of the Asian Games. In the subsequent 1992, 1996, and 2000 Olympic Games, Li-Ning sponsored the Chinese Sports Team and was the No. 1 brand in the Chinese market.

After over a decade of accumulation, Li Ning became China's first mainland sporting goods company listed on the Hong Kong stock market in 2004 and set up the "Hong Kong Design and R&D Center" in November of the same year. Compared to the

average 2% R&D expense ratio of its peers at the time, Li-Ning's R&D expense ratio was between 2.5% and 3%, which established the uniqueness and superiority of Li-Ning's brand products. Against the backdrop of the poor quality of local sporting goods in China at the time, Li Ning successfully cooperated with some international tournaments based on solid product quality and design advantages, as well as the personal branding resources of the unique Mr. Li Ning, who personally lit the main torch at the opening ceremony of the Beijing Olympics in 2008, which also allowed the brand to reap substantial performance gains. In 2008, the company's operating revenue increased by 54%, and profit attributable to equity holders rate increased by 52%. On June 28th, 2010, the World Brand Lab released the 2010 "China's 500 Most Valuable Brands Ranking", which is based on a multi-dimensional analysis of China's brand lineup. Li Ning ranked 57th with a brand value of 12.734 billion yuan, and has become the leader of the sports goods industry in China. The Beijing Olympic Games' success has driven the development of China's sports industry, and market competition has intensified. The implementation of the rebranding strategy is of great significance for Li Ning.

With Nike and Adidas increasing their focus on the Chinese market after the Beijing Olympics, and local brands such as Anta and Xtep expanding their market share through platforms such as the CBA, Li Ning's brand needs to clarify its market positioning in order to remain competitive. Nike and Adidas dominate the high-end market, while brands such as Anta occupy a more mass-market share. since 2006, Adidas and Nike's annual sales growth in the domestic market has been in the region of 60%, Anta's more than 100%, while Li Ning's has been in the region of only 30%-40%. Such a huge difference in revenue growth means that Li-Ning's growth and performance stability is much lower than that of its competitors, and consumers are gradually moving closer to other brands, reducing their brand value. Li Ning urgently needs to improve and refresh its brand image to win back and acquire more consumers in order to maintain a substantial long-term growth.

In addition, Li Ning has been benefiting from sports marketing campaigns for phased programs. Obviously, this model is unable to provide earnings growth momentum in the long run. Although the same comprehensive sporting goods company, Nike, Adidas, as well as Anta and other first-tier brands have product lines bundled with them. This means that a company has a clear brand development strategy and direction, and the corresponding field of consumers to establish a long-term and stable relationship, and can even rely on advantageous sports to achieve market share capture, is very important brand advantage. Therefore, Li-Ning needs to establish its own advantageous product lines to connect with a certain sport, and through the process of branding, consumers' needs for a certain sport can be satisfied by the Li-Ning brand as much as possible.

According to the research data, consumers aged between 30-40 years old accounted for more than half of Li Ning's actual consumer population, and in the consumer group under 25 years old, Li Ning's market share is significantly lower than that of Nike and Adidas, which indicates that Li Ning's brand has insufficient attraction to the new generation of consumer groups, limiting the brand's ability to achieve high growth in the future. Therefore, Li-Ning needs to rejuvenate its actual consumer base through rebranding to inject new vitality into the brand's development.

3.2.3 The Process and Content of Rebranding

Li-Ning's new logo adopts a more international design language and modernizes the original classic elements. It not only inherits the visual advantages of LN, but also abstracts Li-Ning's "Li-Ning Crossover" movement, and illustrates the value of sports with the "human" character, which is more dynamic and has more connotations of the brand (Figure 6 & Figure 7).

The brand slogan was changed from "anything is possible" to "Make The Change" to express the brand's spirit of innovation and change, and to inspire everyone to dare to change and make breakthroughs, which is an appeal to the new generation of creators.



Figure 6. Old Logo & Slogan (1990)



Figure 7. New Logo & Slogan (2010)

Source: Organized by Li Ning Annual Financial Reports

The core issue that Li Ning's rebranding team must address is identifying the core consumer group. Li-Ning regards the post-90s as its target consumers, and the rebranding can be considered a brand statement for the post-90s. "Post-90s Li-Ning" has two meanings: firstly, Li-Ning was founded in 1990, and it has been 20 years since 2010; secondly, it represents that Li-Ning and the post-90s group share the same traits of positivity, full of curiosity and enthusiasm for everything, and the courage to change.

To change the product style, Li-Ning invited foreign designers to design more fashionable and individualized products to cater to the "Post-90s Li-Ning" concept. The company also reorganized its product line and carried out new sports category planning, business area development, product development, and design. At the same time, to increase the content of popular elements in the products, Li-Ning cooperated directly with young designers to match the trendy elements that young people are passionate about with the brand's products, launching many series of innovative products that have sparked heated discussions and concerns. In addition, Li-Ning worked with design firm Ziba to conduct a long-term, comprehensive consumer survey and launched new product lines based on region-specific consumer research data.

In terms of brand endorsement, Li Ning has hired outstanding sports stars such as Wu Minxia, Zhang Jike and Lin Dan as brand spokespersons, hoping to transform young people's emotional appeal to the spokespersons into purchasing behaviors on Li Ning's products, thus promoting the youthfulness strategy of Li Ning's brand.

Regarding marketing, Li Ning has launched many continuous and strategically unified

advertising works to jointly support the new brand proposition with online and offline communication, public relations activities, products and channel interaction.

From brand logo change to product line development and upgrading to marketing strategy change, Li Ning wants to revitalize through this rebranding action. The success of this rebranding should be analyzed in the context of Li-Ning's financial health at the time.

3.2.4 Financial Consequences Resulting from the First Rebranding Strategy

Li Ning had previously held the position of industry leader. However, after the first rebranding strategy, Li Ning Company had many crises: falling performance, severe inventory crisis, collection difficulties, poor profitability, a number of executives left the company, the company's market capitalization was reduced by nearly half, and Anta occupied the first position in the market. Although the company actively carried out reforms after 2012, it still can't stop the performance loss state continued; in 2014, the company loss amounted to 744 million yuan. Li Ning company, up to 9 years, the industry's first market position in this hand to give away, has yet to recover.

| Unit: Million Yuan | 2008 | 2009 | 2010 | 2011 | 2012 |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Total current liabilities | 2086.80 | 1864.90 | 2371.60 | 3063.10 | 3276.60 |
| Total non-current liabilities | 161.14 | 650.83 | 630.77 | 601.09 | 943.20 |
| Total equity | 2088.95 | 2862.11 | 3559.38 | 3664.66 | 1812.24 |
| Total equity and liabilities | 4336.93 | 5377.87 | 6561.80 | 7328.82 | 6032.01 |
| Asset liability Ratio(%) | 51.83% | 46.78% | 45.76% | 50.00% | 69.96% |

Table 2. Li Ning Co Ltd Liabilities 2008-2012

Source: Calculated based on data from Li-Ning's financial statements for each year

The chart above shows Li Ning's total current and non-current liabilities, total equity, and overall asset-liability ratio from 2008 to 2012. The asset-liability ratio is critical because it reflects the company's risk profile. The asset-liability ratio can reflect the company's solvency and whether the interests of creditors can be protected. Li Ning's asset-liability ratio rose between 2010 and 2012, reaching around 70% in 2012. The high level of indebtedness coexisted with losses, which, to a certain extent, magnified

the company's losses during this period. The 69.89% asset-liability ratio meant that Li Ning could not obtain loan financing from the bank channel, as the company almost touched the bank's bottom line of 70% of the asset-liability ratio of the loan to the company. A high asset-liability ratio means the company cannot be financed through debt issuance. As the company's performance continues to decline, investors are skeptical about the sustainability of the company's profitability, meaning that the company is also finding it difficult to obtain equity financing. As can be seen, the simultaneous implementation of several significant strategies has consumed a large amount of corporate resources, and the company's solvency has declined significantly following the rebranding (Table 2).

| Unit: % | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue | 100 | 100 | 100 | 100 | 100 |
| Cost of Sales | 51.86 | 52.67 | 52.72 | 54.73 | 62.16 |
| Gross Profit Margin | 48.14 | 47.33 | 47.28 | 45.27 | 37.84 |
| Distribution Costs | 28.15 | 25.66 | 26.49 | 32.59 | 39.11 |
| Administrative Costs | 6.60 | 7.19 | 6.52 | 7.22 | 24.87 |
| Other Income | 0.97 | 1.52 | 2.05 | 1.61 | 2.50 |
| Operating Profit | 14.35 | 16.00 | 16.32 | 7.07 | (23.63) |
| Net Finance Costs | 0.17 | 0.09 | 0.16 | 0.19 | 0.11 |
| Profit before income tax | 0.64 | 0.79 | 0.55 | 1.11 | 3.10 |
| Income Taxes | 0.46 | 0.70 | 0.39 | 0.92 | 2.99 |
| Net Income | 13.89 | 15.30 | 15.93 | 6.13 | (26.79) |

Table.3 Li-Ning Company Operating Income Composition Structure Analysis Table, 2008-2012

Source: Calculated based on data from Li-Ning's financial statements for each year (assuming operating income of 100)

From the above table 3 we can see, rebranding efforts have led to a sustained rise in marketing and management expenses, while subject to the impact of cost increases brought about by over-expansion to deal with the backlog of inventory and rising

prices of raw materials, coupled with the poor performance of operating income, Li-Ning's gross margins have been declining since 2010, with the company's gross margins dropping to the lowest level of 37.84% in 2012. As a result, Li Ning's operating profit and net profit for the same period faced the same substantial decline, the company's profitability is worrying.

| Days | 2008 | 2009 | 2010 | 2011 | 2012 |
|------------------------------------|-------|-------|-------|-------|-------|
| Average Inventory Turnover | 60.42 | 52.25 | 51.77 | 71.41 | 87.98 |
| Average Trade Receivables Turnover | 47.77 | 46.36 | 50.93 | 74.74 | 96.36 |

Table 4. Average Inventory Turnover & Average Trade Receivables Turnover, 2008-2012

Source: Calculated based on data from Li-Ning's financial statements for each year.

As the accumulated inventory problems began to be exposed, Li Ning's inventory turnover days increased dramatically in 2010. The inventory crisis did not only exist in Li Ning but was a common problem faced by the industry at that time. Inventory turnover days continued to increase, from more than 50 days before 2010 to nearly 80 days in 2012, but in 2013 reached more than 100 days. Meanwhile, accounts receivable turnover days also faced the same high growth rate, almost 97 days in 2012. The slow inventory turnover and the difficulty in recovering accounts receivable after the rebranding of Li Ning are the direct causes of its losses.

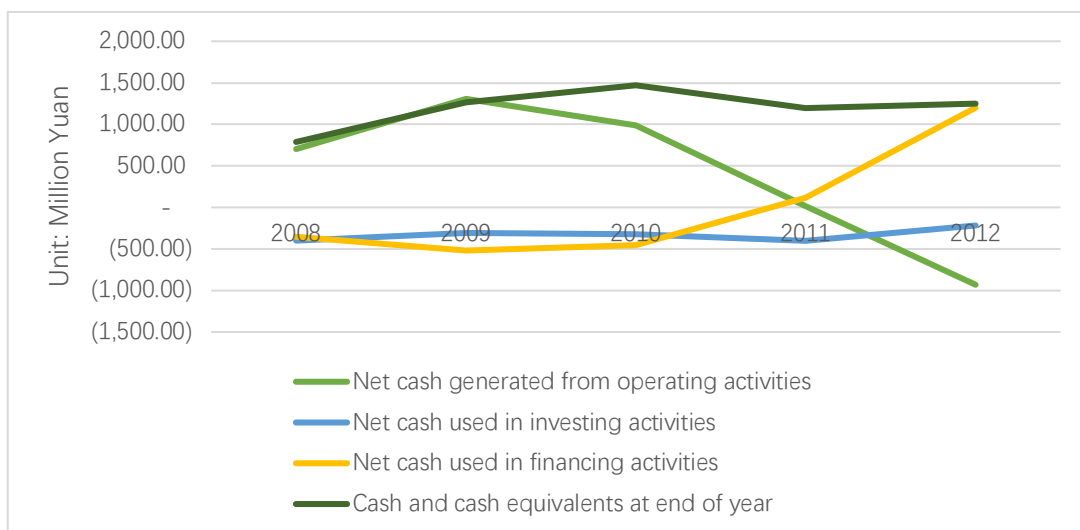


Figure 8. Li Ning Cash Flow, 2008-2012

Source: Data from Li Ning annual financial reports (2008-2012)

Since the rebranding in 2010, the company's operating cash flow situation has deteriorated, reflecting Li Ning's loss position. Under the prevailing downtrend and increasingly competitive market environment, cash outlays from investing activities decreased slightly, which aligns with the industry's general situation. In the face of the two challenges of "business model change" and "channel reorganization," capital is the core issue for Li Ning's continued survival and development. Therefore, after the rebranding, Li Ning actively sought financing and 2012 issued about 750 million yuan of convertible bonds. At the same time, the company's loan amount in the bank has also increased dramatically. Li Ning ranked second among major sports brands, with a loan amount of 1.45 billion yuan. Regarding the capital stock, Li Ning lagged behind competitors such as Anta, KAPPA, Xtep, Pico, and 361 Degrees in 2012. The rebranding has made Li Ning's capital chain situation weak overall.

3.2.5 The Reasons for the Loss after the First Rebranding Strategy

The success of the 2008 Beijing Olympics has ushered in an unprecedented development opportunity for China's sporting goods industry. However, the prosperous development prospects made the major enterprises make over-optimistic expectations for the market, blindly expanding. A few years later, the accumulated problems began to explode and the industry entered an adjustment phase. The management of several major domestic sporting goods companies have erupted into a crisis, the most prominent of which is the massive backlog of inventory brought about by rapid expansion. 361 Degrees of inventory at the end of 2011 was as high as 4.512 billion yuan, a year-on-year increase of 81.8%, and the amount of orders placed by Anta in the fourth quarter of 2012 declined by more than 10 percent year-on-year. The 2008 Olympics boosted the sporting goods industry, and several companies began to expand their store sizes. Li Ning has continued to accelerate the pace of expansion, adding nearly 1,000 new stores each year. However, due to the impact of the Internet, the stores had to reduce the number of stores, resulting in a decline in marketing and shrinking profitability (Figure 9).

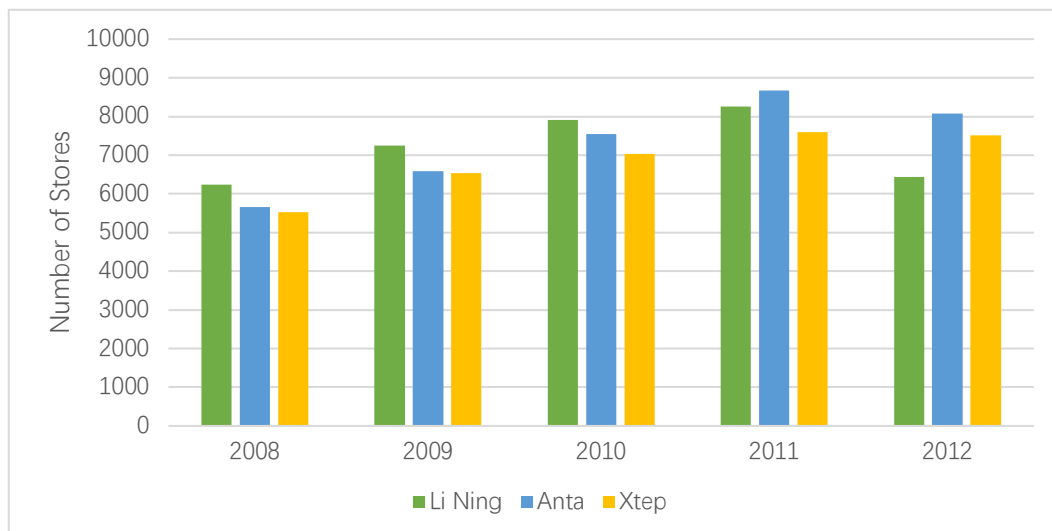


Figure 9. Number of Stores Growth by Brand, 2008-2012

Source: Organized by Li Ning, Anta, and Xtep Annual Financial Reports

In the early days, sporting goods brand companies mainly relied on the business model of distributors (agents). This model quickly leads to the company needing to directly understand the needs of consumers, such as selling goods to dealers (agents); the back-office system to confirm the revenue information cannot truly reflect the market situation, leading to overproduction of brand owners. This is also an important reason why the industry is characterized by excessive inventory, excessive impairment, and even slow payback.

At that time, most of China's leading sporting goods brands were born in Jinjiang, also known as "China's shoe capital." The quality of shoes produced in Jinjiang is excellent. Still, the need for brand, local sports brands in the brand connotation and value level needs to be revised to compare with the mature international brands Adidas and Nike. Therefore, focusing on the production of local sporting goods companies is not immune to the existence of brand-consumer segmentation is not enough, brand positioning is unclear, and the lack of brand attributes and other issues, which in turn led to a high degree of homogenization of the industry products. At that time, from Jinjiang origin of China's major domestic brands in the product performance, design style, price, target markets, sales areas, etc., were almost identical; the brands focused on the "price war," the brand value had not been highlighted, ignoring the construction of their brands.

During this rebranding process, Li-Ning launched the advertising slogan "Post-90s Li-Ning" for the post-90s group, who pursue fashion and love sports, to increase the new generation's recognition of the brand. In the post-70s and post-80s, Li-Ning's core customer groups gradually moved away from and downplayed their consumption needs because Li-Ning intentionally emphasized the post-90s elements in its stores and products and chose to reduce its consumption spending on the Li-Ning brand. As this group accounted for 50% of Li-Ning's overall customers, products designed and produced for them were still the majority of Li-Ning's inventory at the time, which undoubtedly exacerbated the company's inventory crisis. Coupled with changes in advertising slogans and new logos, the impression of the Li-Ning brand among post-90s consumers could have been more favorable than expected. Even though Li-Ning launched a lot of advertisements, it still did not succeed in stimulating the purchasing power of post-90s consumers. The backlog of old and new inventory stagnation aggravated Li-Ning's crisis.

Li Ning wanted to take the opportunity of this rebranding to be in the high-end market, so it raised the price of its products several times. However, at that time, Li Ning could not compete with international brands regarding capital, talent, R&D and marketing. Regarding products and services, it is unclear how to improve; raising prices cannot realize the brand image "leap" but instead bring bad market feedback. In this way, the cost-effective advantage of local brands no longer exists, equivalent to giving up their benefits and first-tier brands to carry out direct competition. Whether from the consumer psychology or the level of consumption at the time, this decision is highly irrational.

Li-Ning successively launched the "The BD," "Xuanji," and "Wade Way" series of products for the international market, and the price of these products in the overseas market remains high, even with Nike and Adidas on par. Nike and Adidas' high entry prices are not conducive to the development of brand competition in the international market has been more stable. In addition, Li-Ning has spent huge sums of money to sign a number of international sports superstars as image spokespersons, and has

invested much money in brand promotion in overseas markets. To design products that better meet the needs of European and American consumers, Li-Ning has hired many foreign designers, and this branding tendency has also provoked the dissatisfaction of domestic consumers to a certain extent, leading to the loss of Li-Ning's domestic consumers.

Li Ning has paid heavily to hire foreign designers to connect with the international market. The hope was to benchmark Nike and Adidas with design concepts heavily influenced by international brands. Instead, the products produced are only replicas without any local characteristics. Regarding marketing, Li-Ning has copied the strategies of global brands, especially the approach of limited sales and brand spokespersons. This marketing strategy must be consistent with the current industry environment and the enterprise's situation, resulting in a minimal positive effect. Still, instead of wasting much money, it exacerbates the brand's difficulties.

3.3 Second Rebranding Strategy and its Financial Effectiveness

3.3.1 Background of the re-rebranding strategy

The rebranding plan released in 2010 not only failed to boost sales and enhance the brand but also exacerbated the company's inventory problem and the overall decline in performance. Mr. Zhang Zhiyong, the then-chief executive officer of Li-Ning, left the company on 4 July 2012.

In 2012, Mr. Jinjun Kim, a partner of Texas Pacific Group and a new shareholder of Li-Ning, joined Li-Ning with a team of executives. Mr. Kim led a series of retail-oriented reforms, launching a "three-step" reform plan, including optimizing channel operations, transforming platforms, introducing executives, and enhancing brand power. At this point, the direction of the reform is correct, and if it is well implemented, it will help alleviate Li Ning's difficulties.

In terms of product, strengthen product development, constantly launch new series of products while improving the price-performance ratio of the product, currently in the position of Li Ning's primary brand, Way of Wade, is issued at this stage. Jin Zhenjun

put inventory clearance at the top of the list of tasks, promoting the "channel revival plan", a one-time inventory buyback; at the same time, in terms of orders, optimizing the business model, improving the speed of product iteration and the speed of new products, to make the most-timely response to the market's changing needs; and rapid promotion of the construction of direct sales, the establishment of a fast and flexible logistics system.

After two and a half years of comprehensive reform, some of Li Ning's operational indicators recovered in 2014. However, because the reform was too radical, there was a lot of resistance in the face of a vast network of relationships, making it challenging to balance the conflicts of interest. Most of the management was replaced, the old backbone was left one after another, the reform failed to achieve significant results, and the company suffered substantial losses for three consecutive years. In November 2014, Li Ning announced that Mr. Jinjun Kim had officially left the company and that Mr. Li Ning would take up the position of chief executive officer.

3.3.2 The process and content of re-branding

In 2015, Mr. Li Ning took over the management of the company, changing the slogan back to "Anything is Possible" and re-establishing the brand's core objectives. Mr. Li Ning's return served to stabilize the company, which was in the midst of a downturn and internal turmoil at the time, as well as making personnel changes and reappointing veteran employees who had a higher level of loyalty to the company. This crucial step gave everyone great confidence, both within the company and in the outside world of consumers and media. For Li-Ning, a company with such a deep-rooted brand culture, this has undoubtedly played a decisive role.

Previously, Li Ning acquired a number of foreign brands as well as sporting goods brands in related fields. In this rebranding strategy, Li-Ning has adjusted its previously implemented multi-brand strategy by focusing on Li-Ning's own brand and further weakening the role of its other brands by terminating cooperation and selling its equity. At the same time, Li-Ning has also focused back on the local market,

signing a five-year contract with the CBA at a huge cost, becoming the sole sports brand sponsor of the CBA.

The founder, Mr. Li Ning, has always believed that "professional sports" is the real focus of the company. Li Ning began to focus on the development of professional sports in various fields. In the field of basketball, the company focuses on the functionality of its products, and jointly develops new technologies with internationally renowned chemical companies to launch a series of functional basketball shoes. Li Ning took the lead in establishing the most complete running shoe matrix in China, covering racing running shoes, jogging shoes and other products that meet the needs of different sportsmen. At the same time, Li-Ning has kept up with the development of running shoe technology, and has successively launched the classic series of iterative models. Among them, "Li-Ning 䨇 (bèng)" is Li-Ning's local midsole technology, which is close to or even better than international brands in terms of foot feeling and cushioning, and is more suitable for a wider range of people, which fully reflects Li-Ning's determination and strength in professional sports. In addition to strengthening the specialization of its own products, Li-Ning has also acquired some other brands, such as the yoga brand Danskin; however, the brands chosen for this phase of the acquisition are all closely related to the professional markets that Li-Ning focuses on, and the introduction of these brands has effectively strengthened Li-Ning's degree of brand specialization.

On the basis of professional sports, Li-Ning emphasizes the national brand fashionable brand characteristics. 2018 February, Li-Ning in the New York Fashion Week re-launched the "Wu Dao" series, "China Li-Ning" four words in Chinese traditional form printed in the middle of the clothes, tightly grasp the consumer demand for trendy cultural products, so that the China Chic brand and Chinese culture has been more highly recognized and recognized globally. The "Wu Dao" collection was launched during New York Fashion Week, capturing consumers' demand for trendy cultural products and enabling the China Chic brand and Chinese culture to gain higher recognition and acknowledgement globally. Since then, "China Li-Ning"

has launched several series of footwear and apparel products as a sub-brand, and actively cooperated with other China Chic elements, such as the Forbidden City Cultural Creation, National Treasure, People's Daily, Red Flag, Dunhuang Museum, etc., to consolidate China Chic's leading edge.

In 2017, Li-Ning upgraded its original children's clothing brand "Li-Ning KIDS" to "Li-Ning YOUNG", mainly targeting young people aged 3-14 years old, and focusing more on meeting the functional needs of the target consumer groups. Li-Ning YOUNG expands the range of apparel and footwear products into three categories, namely running and training, basketball and soccer, and sports fashion, which is dependent on the promotion of the company's main brand and is basically consistent with the main product categories of the Li-Ning Group. In terms of marketing, Li-Ning Young has taken the "parent-child concept" as its core, and set up a "parent-child running" event in the Li-Ning 10K Road Running League, fully integrating the Group's internal resources to form a brand event linkage.

3.3.3 Financial effectiveness under the second rebranding strategy

Since the implementation of the re-branding strategy in 2015, Li Ning's operating conditions have been improving across the board. In 2015, Li Ning's operating revenue was approximately 7.089 billion yuan, an increase of 17.2% year-on-year, and net profit has also turned positive since the beginning of 2015. At the same time, Li Ning's earnings quality has also steadily improved, the profitability of net assets (ROE) from 0.6% at the end of 2015 to 26.9% at the end of 2021, with a compound annual growth rate (CAGR) of 72.2%; the net profit margin has been improving over the years, and will return to a historical high of 17.8% in 2021. In contrast, with the continuous upgrading of the product structure, the company's control of terminal sales becomes stronger, the company's gross profit margin has been improving since 2015, the company's gross profit margin reached 53%% in 2021, net profit rose 136.1% compared with 2020, the operating profit margin reached 15.2%. Thus, the profitability level of Li Ning has recovered.

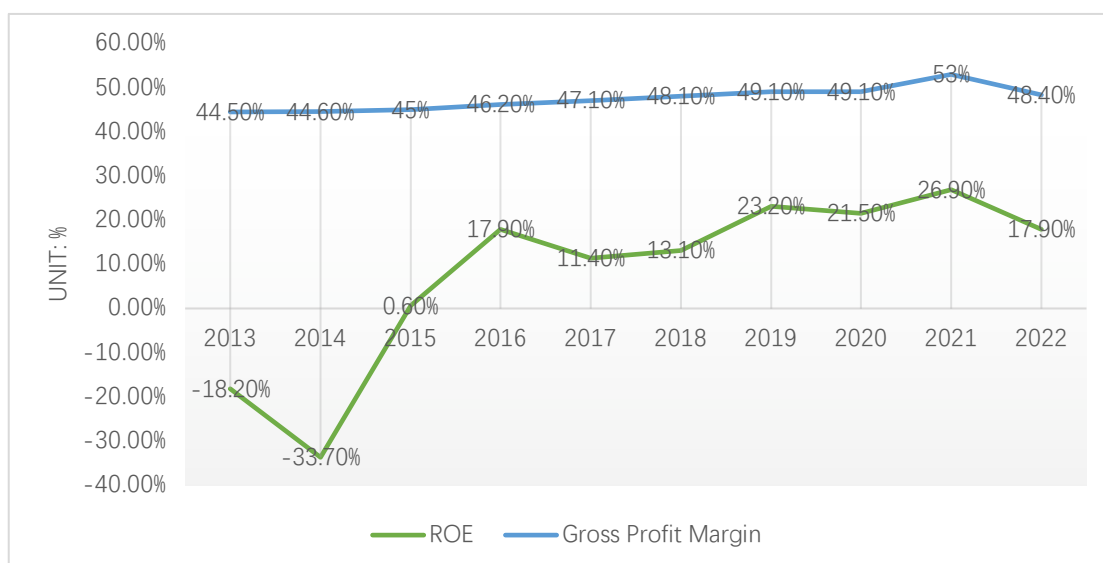


Figure 10. Li Ning's Return on Equity & Gross Margin, 2013-2022

Source: Data from Li Ning annual financial reports (2013-2022)

The graph shows the Return on Equity (ROE) trend and Gross Profit Margin of Li Ning Company from 2013 to 2022. The graph shows that ROE has rebounded significantly after a significant decline in 2014, indicating improved profitability and utilization efficiency. Gross margin is relatively stable with slight fluctuations, indicating that cost management related to sales remains stable. Thus, over time, Li Ning has maintained solid margins while improving its ability to generate profits from its equity base.

| Year | Total Liabilities (million Yuan) | Total Assets (million Yuan) | Total Current Liabilities (million Yuan) | Total Current Assets (million Yuan) | Inventories (million Yuan) | Debt Ratio | Current Ratio | Quick Ratio |
|------|----------------------------------|-----------------------------|--|-------------------------------------|----------------------------|------------|---------------|-------------|
| 2013 | 3,125 | 6,017 | 2,018 | 3,962 | 942 | 51.94% | 1.96 | 1.50 |
| 2014 | 3,870 | 6,040 | 2,679 | 3,963 | 1,289 | 64.08% | 1.48 | 1.00 |
| 2015 | 3,487 | 6,897 | 2,472 | 5,484 | 960 | 50.55% | 2.22 | 1.83 |
| 2016 | 2,783 | 6,780 | 2,674 | 4,650 | 965 | 41.05% | 1.74 | 1.38 |
| 2017 | 2,248 | 7,321 | 2,128 | 5,110 | 1,103 | 30.70% | 2.40 | 1.88 |

| | | | | | | | | |
|------|-------|--------|-------|--------|-------|--------|------|------|
| 2018 | 2,908 | 8,727 | 2,777 | 6,386 | 1,240 | 33.32% | 2.30 | 1.85 |
| 2019 | 5,423 | 12,547 | 4,717 | 8,539 | 1,407 | 43.22% | 1.81 | 1.51 |
| 2020 | 5,904 | 14,594 | 5,015 | 9,777 | 1,346 | 40.46% | 1.95 | 1.68 |
| 2021 | 9,171 | 30,275 | 7,704 | 18,672 | 1,773 | 30.29% | 2.42 | 2.19 |
| 2022 | 9,315 | 33,647 | 7,241 | 12,395 | 2,428 | 27.68% | 1.71 | 1.38 |

Table 5. Li Ning Debt Ratio & Current Ratio & Quick Ratio, 2013-2022

Source: Calculated based on data from Li-Ning's financial statements for each year (2013-2022)

Debt Ratio (DR) measures the ratio of a company's total liabilities to its total assets. From 2013 to 2017, Li Ning's debt ratio decreased from 51.94% to 30.70%, indicating that the company has reduced its debt burden relative to its assets. While it rises in 2019 and 2020, it falls back in 2021 and 2022. Lower debt ratios usually indicate lower financial risks, and we can see that Li Ning's debt ratios have been relatively stable in recent years, indicating that the company has maintained a certain degree of robustness in managing its financial structure.

The current ratio reflects the company's ability to pay short-term debts. A current ratio above one is usually considered healthy because the company's existing assets exceed current liabilities. From 2013 to 2017, Li-Ning's current ratio continued to rise, declining slightly in 2018 and 2019 but rising again. The current ratio of Li Ning Company is consistently above 1, which indicates that the company has enough existing assets to cover its short-term liabilities.

The quick ratio is also considered to be healthier above 1. The change from 1.50 in 2013 to 1.38 in 2022 indicates that Li Ning's short-term solvency has fluctuated yearly. Li Ning's quick ratio remains above one throughout the period, meaning the company can still pay its short-term debt even without considering inventory. This is a positive and relatively healthy financial indicator.

Li-Ning has continuously optimized its business model and improved its retailing efficiency with its "Precision + Speed" business model, which has resulted in efficient operations and a significant improvement in its capital structure. The Company's

gearing ratio decreased from 64.08% in 2014 to 27.68% in 2022. The current and quick ratios also increased from 1.48 and 1.0 to 2.42 and 2.19, respectively.

In addition, upon his return to the Company, Mr. Li Ning decided to sell a portion of his equity interest in the Red Double Happiness brand to resolve financing issues and, at the same time, obtain equity gains to increase the Company's earnings. This resulted in a net profit of 14 million in 2015, a spark of hope for the company. In 2016, Li Ning continued to use the equity sale strategy to improve its business situation.

| | Average inventory turnover (days) | Average trade receivables turnover (days) |
|-------------|--|--|
| 2013 | 104 | 89 |
| 2014 | 109 | 79 |
| 2015 | 100 | 69 |
| 2016 | 82 | 64 |
| 2017 | 80 | 52 |
| 2018 | 78 | 36 |
| 2019 | 68 | 21 |
| 2020 | 68 | 17 |
| 2021 | 54 | 13 |
| 2022 | 58 | 14 |

Table 6. Average inventory turnover & Average trade receivables turnover (days), 2013-2022

Source: Data from Li Ning annual financial reports (2013-2022)

Li-Ning has been actively making channel adjustments, closing and improving inefficient offline stores and loss-making stores, promoting the construction of large stores, exploring efficient and replicable single-store profitability models, and continuously improving online revenue. As a result, the turnover and liquidity of Li-Ning's assets have been effectively improved. By the end of 2021, Li-Ning's average inventory turnover days were 54 days, a cumulative decrease of 46 days compared to 100 days in 2015. As of year-end 2021, the accounts receivable turnover period was only 13 days, and the accounts payable cycle was also reduced by 46 days to 47 days, significantly reducing the Company's cash cycle.

| | Li Ning | Anta | 361 Degrees | Xtep |
|---------------------------|----------------|-------------|--------------------|-------------|
| Receivable Turnover(days) | 14 | 21 | 147 | 98 |
| Inventory Turnover | 6.1 | 2.53 | 3.5 | 5.7 |
| Total Asset Turnover | 0.77 | 0.8 | 0.57 | 0.8 |
| Gross Profit Margin | 48.40% | 60.20% | 40.50% | 40.90% |
| Net Profit Margin | 15.70% | 14.10% | 10.70% | 7.10% |
| Debt Ratio | 27.68% | 45.30% | 24.27% | 49.64% |

Table 7. Comparison of key indicators with local Chinese competitors, 2020

Source: Data from Li Ning, Anta, Xtep and 361 Degrees Co Ltd. annual financial reports (2020)

Observe the above table, Li Ning's accounts receivable turnover days and inventory turnover are far more than the same level of competitors' operating level, total asset turnover and substantial competitors gap are not significant, indicating that the company's current channel construction and sales payback situation has been relatively good and have a certain degree of competitiveness; Gross margin is second only to Anta, significantly higher than the 361 degrees and Turbo International; the net profit margin is substantially higher than the competitors; at the same time Li Ning At the same time, Li Ning's gearing ratio is lower than Anta's by nearly 18 percentage points, and only higher than 361 degrees, keeping at a relatively low level. Overall, Li Ning's business situation is relatively healthy and low-risk, with considerable development potential and advantages.

3.4 Growth of Enterprise Value and Factors under Two Different Rebranding Strategies

3.4.1 Enterprise value reduction under the first rebranding strategy

Regarding brand identity, the first rebranding resulted in losing many of the brand's original customers. And the new brand positioning couldn't have impressed the target customer group. The middle-aged group still has many loyal supporters of the Li Ning brand, so no matter which direction the brand is heading, the sports sentiment within the post-70s is still Li Ning's most significant advantage. The content of the first rebranding strategy, however, was centered on weakening the original sports gene, which caused the departure of the brand's core customer base. In addition, Li Ning's

most significant launching point for this rebranding is the post-90s. Although the new slogan seems to be more in line with the characteristics of the post-90s, there are many misunderstandings: the post-90s is only the embodiment of extreme individuality, missing the core demands of the brand, and has not accurately touched the consumer psychology of the post-90s group. Li-Ning hopes to adjust the core consumer group by changing the brand slogan and logo. Still, the understanding of the brand-consumer relationship and construction level is not clear enough and in-depth, which leads to misunderstanding at the implementation level and breaks the consumer base of the Li-Ning brand accumulated for many years. The significant decline in the number of brand consumers will directly lead to a decline in business income, while the cost of maintaining the original level or even increasing as a result of the program, the decline in corporate profitability, and corporate value reduction.

In terms of product performance, the first rebranding strategy included upgrades to products, but such upgrades were only replicas and needed to reflect the brand's characteristics, making consumers not to buy. At that time, Li Ning was directly targeting Nike and Adidas as its competitors, and the designers it hired could only design products similar to those brands and could not provide consumers with a unique consumer experience. Li Ning's special character in the hearts of consumers was almost wholly consumed. The already unfavorable operating income situation and high compensation expenses further exacerbated Li Ning's plight and reduced its enterprise value.

Regarding channel operations, releasing the first rebranding strategy exacerbated an already severe inventory crisis and reduced operational efficiency. Li Ning's distributor structure at the time was more vertical, with weaker control over distributors, slower response to changes in market demand, and even weaker retail capabilities. At that time, the industry as a whole was facing a backlog of inventory, and the rebranding strategy made Li-Ning's sales deteriorate further, making it more challenging to deal with inventories than competitors such as Anta, and the complex

environment made Li-Ning's profitability increasingly worrisome and reduced its enterprise value.

In terms of financial performance and market reaction, after the first rebranding, Li-Ning's financial situation continued to deteriorate, profitability continued to decline, the stock price rapidly declined, and fell into a state of sustained depression, the market's confidence in Li-Ning decreased significantly, and enterprise value decreased.

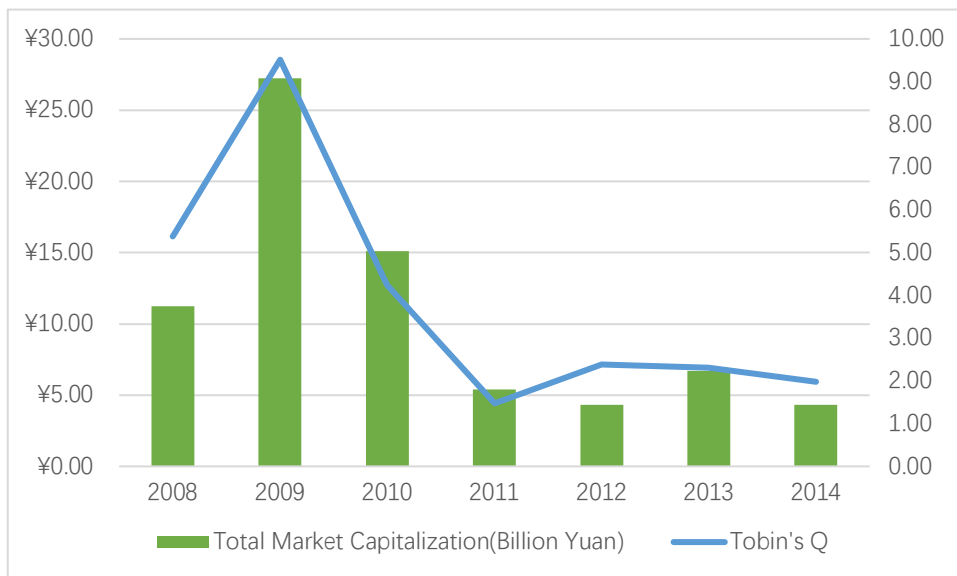


Figure 11. Li Ning Corporation 2008-2014 Tobin's Q and Total Market Capitalization

Source: Calculated based on data from Li-Ning's financial statements for each year (2008-2014)

In this paper, Tobin's Q value is used as the basis for measuring corporate value.

Observing the changes of Tobin's Q value from 2008 to 2014, the enterprise value increased steadily before 2010. Then, the year of the rebranding plan in 2010 became the turning point; the enterprise value dropped sharply, and Tobin's Q value fell from 9.51 in 2009 to 4.25 in 2010. Meanwhile, the company's total market capitalization also fell from more than 27 billion yuan in 2009 to 15.12 billion yuan in 2010, shrinking by nearly half. And this downturn has continued unabated until 2014. In the four years since 2011, the company's total market capitalization has stayed within 10 billion yuan. This suggests that the market had already expressed doubts about Li Ning's growth after the rebranding, and the announcement of the rebranding plan caused the company's enterprise value to shrink severely.

3.4.2 Enterprise value growth under the second rebranding strategy

In Li Ning's brand reshaping, the return of Mr. Li Ning and the restoration of the brand's slogan ignited the emotional resonance of consumers born in the 1970s. They reshaped the brand's cultural value and national sentiment. This shift reflects the company's focus on the domestic market, prioritizing the needs and interests of local consumers. Remarkably, the launch of the "Wu Dao" product series successfully captured the attention of post-90s and post-00s consumers, generating enthusiastic responses among young shoppers and positioning Li Ning as a representation of the "China Chic" trend, which combines traditional culture with modern design, garnering comprehensive cross-generational support for the brand.

Regarding product innovation and performance, during the second phase of brand reconstruction, Li Ning concentrated on core product categories, such as basketball, while strengthening its sports fashion segment. By streamlining product SKUs and increasing R&D investment, the company enhanced the functionality and professionalism of its products. These efforts ensured that Li Ning maintained a leading position in the industry regarding functionality and professionalism, which translated into higher market pricing power and brand value recognition.

Operationally, Li Ning continued to upgrade its retail stores and enhance the growth and efficiency of online channels. Particularly, through in-depth collaborations with e-commerce platforms such as JD.com and Douyin, the company saw rapid revenue growth in its e-commerce channels, effectively enhancing its profitability and operational stability.

Financially, following the brand's reconstruction, Li Ning's financial health saw continuous optimization with significant improvements in gross margin and profitability. The rapid increase in net margin and the recovery of ROE to over 20% demonstrated potential for future growth. Meanwhile, the rise in share price reflected the market's increased confidence in the Li Ning brand, further enhancing the company's market value.

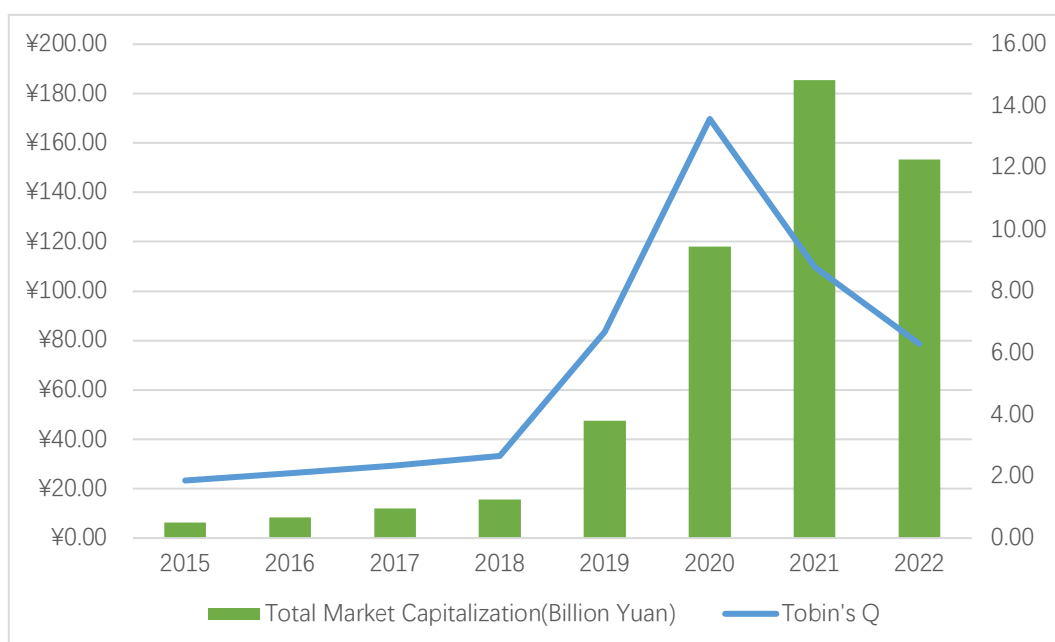


Figure 12. Li Ning Corporation 2015-2022 Tobin's Q and Total Market Capitalization

Source: Calculated based on data from Li-Ning's financial statements for each year (2015-2022)

Observing the change in Tobin's Q value in 2013 and 2014, Li Ning Company was still in the predicament of full recovery, and the enterprise value still had a downward trend. With the return of Mr. Li Ning and the rebranding in 2015 as the turning point, the enterprise value began to increase steadily. Tobin's Q value increased from 1.87 in 2015 to 2.67 in 2018, and the company's total market value also increased from more than 6 billion to 15.54 billion. As a company with "China Chic" in the precise pressure, Li Ning's enterprise value started a rapid upward mode after 2018, and the company's market capitalization broke 100 billion in 2020, increasing from 15.54 billion yuan in 2018 to 185.36 billion yuan in 2021, with a compound annual growth rate of 128.48%.

3.4.3 Comparison of competitors in the same period

It fell into an operational crisis after Li Ning formally announced its rebranding strategy in 2010. In this part, Li Ning and its competitors in the same industry, Anta Sports, Tebu International and 361 Degrees, which are all listed on the Hong Kong stock market, are selected to analyze the changes and comparisons of PE Ratio (TTM), PB Ratio and PS Ratio of these four companies from 2011 to 2022, so as to

observe more directly the corporate value performance of Li Ning in the period after the implementation of the re-branding strategy. The performance of Li-Ning's enterprise value in the time period after the implementation of the rebranding strategy is analyzed.

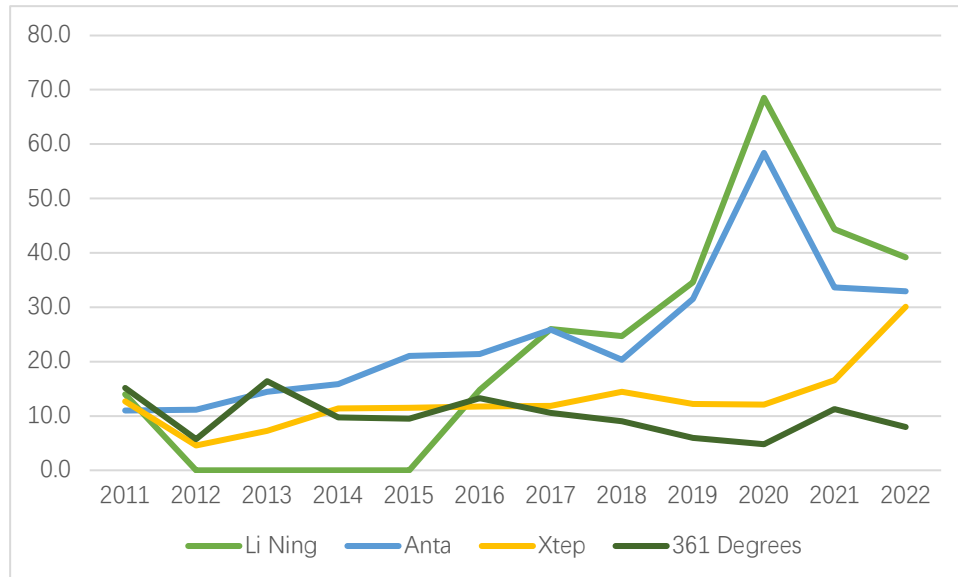


Figure 13. Comparison of PE Ratio (TTM) of Li-Ning Corporation to its Competitors, 2011-2022

Source: Data from Gurufocus.com (*Li Ning Co Ltd (HKSE, n.d.)*)

Li Ning's PE Ratio in 2011 was 14.0, showing that its investors were willing to pay \$14 for every dollar of earnings. However, from 2012 to 2015, its PE Ratio was 0, which means that in those years, Li Ning did not achieve earnings or had very low earnings, resulting in an uncalculated or near-infinite P/E ratio. By 2016, Li Ning's PE Ratio recovered to 14.9, indicating that the company returned to profitability and that the market valued its stock higher. Beginning in 2017, Li Ning's PE Ratio continued upward, with 25.9 in 2017, 24.7 in 2018, and a further increase to 34.5 in 2019. this indicates that investors are becoming more optimistic about Li Ning's future earnings growth. in 2020, as a result of the impact of the COVID-19 pandemic period on the sporting goods industry and the market's high expectations for Li Ning's The PE Ratio of Li Ning surged to 68.5 in 2020 due to high expectations of the brand's recovery and growth potential. By 2021 and 2022, the PE Ratio of Li Ning declined, to 44.4 and 39.2, respectively, which reflected that the market's expectations of Li Ning's future growth had retreated, with earnings growing at a faster pace than the share price.

Compared to its competitors, Li Ning's P/E ratio is relatively high in most years, especially in 2020, much higher than Anta, Xtep, and 361 Degrees. This may indicate that investors hold high expectations for Li Ning's brand, market position, and growth potential. However, from 2021 onwards, the P/E ratios of other competitors such as Xtep start to increase significantly, which also suggests that the competitive landscape may be changing.

Although Li Ning's PE Ratio has fluctuated considerably over the past few years, it has generally shown a growing trend, indicating that the market is optimistic about its long-term profitability. At the same time, Li-Ning has enjoyed a higher market valuation compared to its competitors for most of the period, which is inextricably linked to its brand power, market share, and investor expectations of its future growth potential.

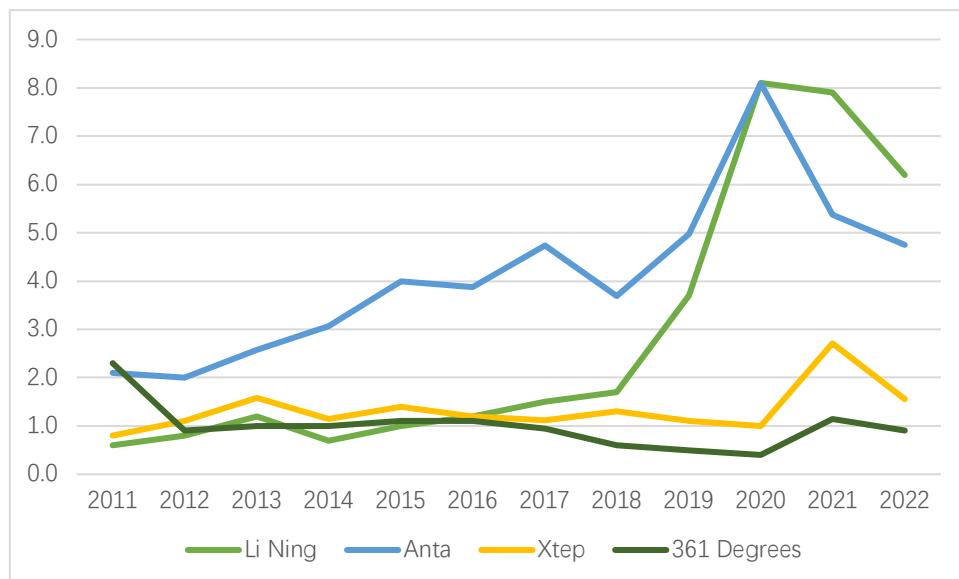


Figure 14. Comparison of PS Ratio of Li-Ning Corporation to its Competitors, 2011-2022

Source: Data from Gurufocus.com (*Li Ning Co Ltd (HKSE, n.d.)*)

Li Ning's PS Ratio rose gradually from 0.6 in 2011 to a peak of 8.1 in 2020 before falling back slightly. Compared to its competitors, especially Anta, Li Ning's PS Ratio has been lower but catches up and peaks in 2020, showing the market's high expectation of its sales growth. In 2021 and 2022, Li Ning's PS Ratio drops to 6.2, still higher than Xtep and 361 Degrees but lower than Anta. This shows that the

market still holds a high valuation of Li Ning's has a high valuation on its sales growth relative to other competitors. However, the decline in the P/S Ratio also suggests that the market is becoming more cautious in its expectations for the company's future revenue growth.

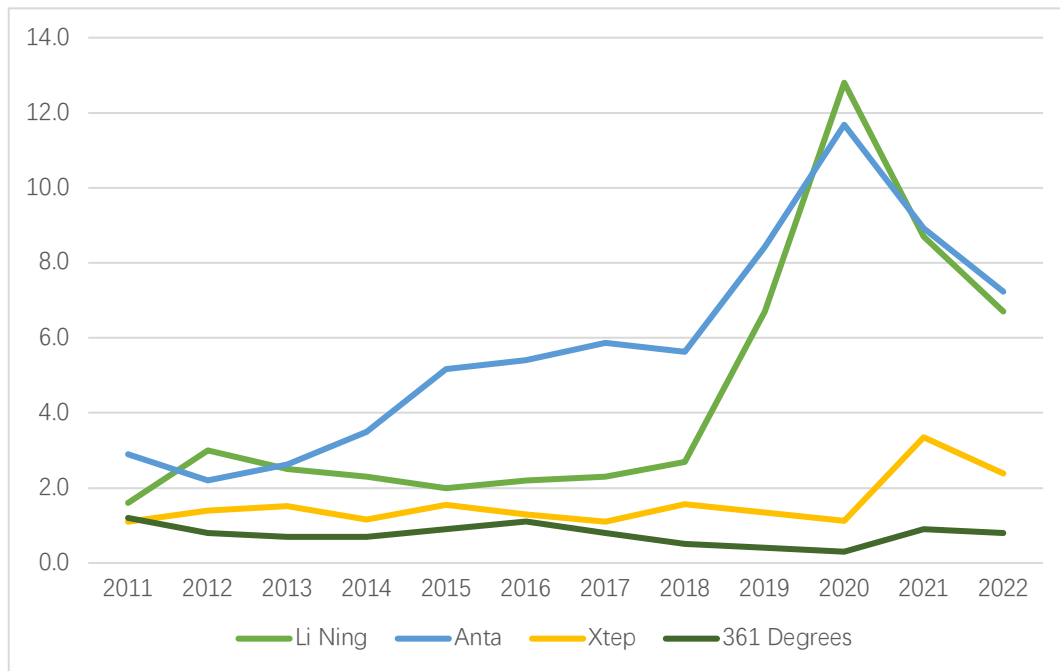


Figure 14. Comparison of P/E Ratio of Li-Ning Corporation to its Competitors, 2011-2022

Source: Data from Gurufocus.com (*Li Ning Co Ltd (HKSE, n.d.)*)

Li Ning's P/E ratio experienced a more significant increase after 2019, especially reaching a substantial-high in 2020. This reflects the market's optimistic expectations about the company's growth potential despite a pullback in 2021 and 2022. Compared to its competitors, Li Ning's P/E ratio was usually lower than Anta's, suggesting that investors hold a more conservative assessment of Li Ning's net asset value relative to Anta. Xtep and 361 Degrees, on the other hand, typically have lower P/E ratios than Li Ning and Anta, implying that the market expects a lower net asset value from them.

3.5 Discussion

In 2010, Li Ning underwent its first full-scale rebranding. Due to the failure of the rebranding strategy, coupled with rising costs and inventory buildup due to overall store expansion in the industry, the company's performance declined sharply. The

company's financial performance during this period was poor, with a general decline in all metrics; in 2011 the company's net profit fell 65% year-on-year, and in 2012, due to serious internal and external problems, the company's losses reached nearly RMB 2 billion, a predicament that continued into 2014. The difficulties of this rebranding highlighted the importance of brand management and marketing strategy and the flexibility and adaptability required to succeed in an ever-changing business environment.

After the challenges of the initial rebranding, Li Ning undertook a second rebranding in 2018. At the product level, Li-Ning focused on combining professionalism with fashion and worked to create diverse product lines to meet the needs of different consumers. In response to the sales channel strategy, the Company optimized its channel structure, improved sales efficiency, and enhanced the operational capabilities of the retail segment in general. By refreshing the image of its stores, Li-Ning has enhanced the customer shopping experience and ensured consistency in retail execution standards. Product line adjustments and innovations were also bold, which allowed Li Ning to cater to market trends better and enhance brand value while increasing the appeal of its products. In addition, by optimizing retail channels and improving operational management efficiency, Li-Ning was able to meet consumer needs more effectively, increase customer satisfaction, and ultimately contribute to sales growth and corporate value enhancement. This shows that the rebranding focuses on the external image change and includes the internal product and service quality improvement. This time, the company's strategy changed the brand image in consumers' minds, enhancing their perception of the Li-Ning brand's technological innovation, high-quality products and internationalization. This enhanced brand awareness and improved market competitiveness, laying the foundation for the company's long-term and brand value growth.

Regarding financial data, Li Ning improved its gross margin by controlling costs and optimizing its product mix by selling higher-value or more cost-efficient goods. By increasing control over end sales, Li-Ning has improved sales efficiency, reflected in

improved inventory turnover and shorter accounts receivable turnover days. Since 2015, the company's gross margin has improved, reaching 53% by 2021. In addition, net profit increased by 136.1% compared to 2020, and operating margin improved to 15.2%, with several metrics reaching the highest levels since the company's IPO. These figures indicate that Li Ning's profitability has largely recovered. The significant growth in net profit and improvement in operating profit margin are further evidence of the company's success in reducing operating costs and improving operational efficiency. Together, these factors contributed to the company's improved cash flow, which supports continued investment and growth. These improvements enhance the company's financial health and attractiveness to investors and other stakeholders. These improvements in Li Ning's financial performance are a direct result of its rebranding strategy, and through these strategic initiatives, Li Ning has managed to increase its corporate value.

These achievements have been notable in terms of increased competitiveness in the marketplace. Despite facing increasingly strong competitors, Li Ning has recovered from its reinvention strategy and gained new performance growth. However, despite the aggressive actions taken by the company, Li Ning's market share is still lower than Anta's, and its ranking is still second among domestic brands. Implementing this strategic shift demonstrated the innovation and dynamism of the Li Ning brand and enhanced the brand's recognition and influence, thus increasing investors' recognition of the company's valuation. The repositioning of the brand strengthened the bond with the target consumers. It boosted their loyalty, thus improving business stability and, to some extent, ensuring enterprise value growth.

4 Conclusion

The main objective of this study is to assess the impact of rebranding on firm value.

The results of the study clearly indicate that successful rebranding has had a significant positive impact on Li-Ning's corporate value, as evidenced by the skyrocketing growth of Li-Ning's corporate value. Through an in-depth analysis of the

strategic layout and financial performance of rebranding, we find that flexible and purposeful brand management plays a crucial role in corporate success in a rapidly changing market environment and that rebranding as a strategic tool has a far-reaching impact in creating long-term corporate value. During the rebranding process, Li-Ning realized a significant shift in its market positioning and succeeded in increasing the brand's visibility and appeal. During the rebranding process, Li-Ning has not only strengthened the company's communication with its target market segments through its strategic transformation but also significantly improved the brand's position in the minds of consumers, thus realizing a significant shift in its market positioning and successfully enhancing the brand's awareness and attractiveness. In addition, the improvement in gross margins and the growth in net profit reflects that the rebranding strategy has effectively contributed to improved operational efficiency. More importantly, the rebranding strategy has been shown through these innovative tactics to increase sensitivity to market dynamics. It has been instrumental in maintaining and enhancing competitiveness in the marketplace, enabling Li Ning to retain its leading position in a highly competitive market. These achievements demonstrate a strong link between rebranding and improving the enterprise value.

For similar companies or industries seeking to enhance their market competitiveness and corporate value through rebranding, companies should promptly adapt to market and consumer behavior changes and keep their brands fresh by promoting product innovation. At the same time, strengthening social media and advertising campaigns to interact with consumers can help companies ensure consistency in brand image and market positioning. These strategies can help support the strong connection between the brand and the market, thus significantly increasing the enterprise value.

There are some limitations to this study as well. In analyzing the impact of rebranding on corporate value, it relies primarily on publicly available data and internal operational data. Due to the lack of assessment on brand value, the success of the rebranding strategy cannot be judged, and the impact of the rebranding strategy on the

growth of corporate value can only be discussed in a comprehensive manner by analyzing the changes in corporate value. In this study, because a lot of qualitative analysis was conducted, this may lead to a predominance of subjective views, which may affect the assessment results.

Future research can add quantitative analysis method on the basis of qualitative analysis. Selecting the relevant characteristics of rebranding, such as brand perception, recognition, etc., through the establishment of a perfect analysis model, comparing the two correlation values, can more accurately brand rebranding strategy and corporate value of the link.

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Resümee

Magistritöö "Rebrändingu strateegia mõju ettevõtte väärtusele – ettevõtte Li Ning juhtumiuuring" eesmärgiks on pakkuda põhjalikku arutelu rebrändingu strateegia mõju kohta ettevõtte väärtusele. Uuringu raames viiakse läbi põhjalik juhtumiuuring Hiina spordirõivaturul tuntud ettevõtte Li Ning Company kohta, keskendudes ettevõtte strateegilisele rebrändingule kahel kriitilisel perioodil. Uuringus kasutatakse juhtumiuuringu meetodit, et uurida põhjalikult Li-Ningi kahe brändi muutmise strateegia dünaamikat. Selleks kasutatakse visuaalset andmetöötlust, et võrrelda ja analüüsida Li-Ningi finantstulemusi ja ettevõtte väärtust enne ja pärast kahte rebrändingu strateegiat. Tulemused heidavad valgust rebrändingu olulisele mõjule turu konkurentsivõime ja finantstulemuste parandamisel, rõhutades selle olulist rolli ettevõtte kasvu ja väärtuse loomise säilitamisel. Uuring annab olulisi juhiseid ettevõtetele, kes kaaluvad rebrändingu konkurentsivõimelistes tööstusharudes, ning heidab valgust rebrändingu strateegilisele tähtsusele ettevõtte pikaajalisuse pikendamisel ja progressiivse kasvu edendamisel.

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