Under armour essay

Business, Company

AU has been able o increase its North American brand awareness by showing the advantages of its differentiated product which has improved athletes' comfort and performance. In order to compete in the global markets against Nikkei and Ideas LILA should consider the following four alternatives: mergers or acquisitions, establishment of foreign subsidiaries, joint ventures, or a continuation of the North American strategy to be used in the international markets.

The decision criteria used in evaluating each option looked primarily at how to increase CIA brand awareness and market share, the financial strain on ALGA sources, protection of CIA patents and intellectual property, and the level of control maintained by CIA It is recommended that AU pursue appropriate mergers or acquisitions that will increase its resources and competencies internationally and enable AU to more quickly build its market presence. Aqua's big competitors have been selling their performance apparel internationally for several years, with the added advantage of already having international brand recognition.

Since CIA won't have the first-to-market advantage they had in the US Market they need to carefully find complementary companies that can assist in both brand cognition and in core understanding of the global markets. Significant resources will be required initially, but it is expected that this investment will be paid back within 3 to 4 years. If this alternative proves unsuccessful AU should consider a joint venture or alliance which shifts some of the risk on to those other participants.

For the full recommendation and action plan please refer to pages 12 to 13.

 Identification Background Under Armor (AU), formerly known as KIP Sports, was founded in 1 996 by former University of Maryland football player Kevin Plank. KIP Sports was the originator Of performance apparel engineered with supreme moisture management to keep athletes cool, dry, and light throughout the course of a game, practice, or workout. The company's operations started out of the basement of Kevin Plank's grandmother's house.

Shortly after founding KIP Sports, Kevin recruited one of his acquaintances from Maryland University to join the company as a partner. Kip Bulks, the gentlemen brought on as partner utilized his excellent credit rating to open 17 different credit card accounts to fund the cash flow requirements of KIP Sports. By 1 998 the company's revenues had Increased efficiently enough for KIP Sports to acquire a $250, 000 small business loan. The company was ever growing with a broader product line and consumer segments and from time to time it would take out additional loans needed to fund their working capital requirements.

It was not until 1999 that Kevin recruited another acquaintance, a gentleman by the name of Ryan Wood from high school, to join the company as Vice President of Sales. In 2005, KIP Sports changed their name to under Armor and went public. This initial offering generated net proceeds of approximately $114. 9 million, from the 9. Million Class A Common stock issued. Problem Statement (Scope of Report) Although AU has done well in the present US market, carving out a sizeable market share, it is unknown how their current strategy will be able to compete with fierce rivals like Nikkei and Ideas on a global frontier.

Their big competitors have been able to start selling their performance apparel internationally for several years, with the added advantage of already having international brand recognition, so CIA will no longer have the first-to-market advantage that they had in the US Market. If AU hopes to be successful in the lobar market, they will need to analyze their current strategy while exploring other possibilities to make an informed decision on how best to proceed.

Current Strategy The company's principal business activities in 2012 were the development, marketing and distribution of branded performance apparel, footwear, and accessories for men, women, and youths. 90% of its sales were from North American, though international sales were growing. AU uses a broad differentiation strategy as its corporate strategy. It has developed its own patented fabrics to create a differentiated product that its customers are ailing to pay a premium for.

Its growth strategy includes broadening its product lines, targeting additional consumer segments, increasing distribution, expanding internationally, and growing brand awareness. Aqua's business strategies include how it will compete in each of its product line offerings of apparel, footwear, and accessories for men, women, and youths. Its strategy is to offer a variety of styles and price levels for its customers that will improve comfort, performance, and mobility no matter what weather condition exists. For its apparel it has designed three lines of gear designed o work in various temperatures (Heather, Coolidge, and Legionnaires).

Its footwear is designed to be light, breathable, and high performing. Its line of accessories (such as gloves, header and bags) has similar differentiated performance features as Aqua's other products. Aqua's main functional strategies include its marketing brand management and promotion strategies as well as its product design and development strategies. CIA has an extremely large marketing budget (close to 1 68 million in 2011) which includes athlete endorsements, sponsorship of sporting events and advertising costs.

It utilizes an in-house promotion and marketing department whose focus is to increase demand and build brand awareness. Aqua's main retail marketing strategy is to obtain as much CIA exclusive floor space as possible in each Of its major retail stores. Aqua's product design and development strategy is to continually upgrade its products and to use " visibletechnology"' (Thompson, p C-51) to market the benefits of Aqua's products. There is a high degree of collaboration between the sales, product development, and sports marketing teams in identifying opportunities and markets.

Aqua's key operating strategies include its distribution strategies and its sourcing, manufacturing and quality control strategies. Its distribution strategies included wholesale distribution (70%), direct-to-consumer sales (27%), and product licensing (3%). AU has two distribution facilities in Maryland, though it expects to add another facility overseas in the future. Many of Aqua's technically advanced fabrics were developed by third parties. These fabrics are available from a small number of sources. In 2011 CIA had 23 main manufacturers which operated in 16 countries.

All manufacturers ad to follow stringent quality control processes and had to adhere to a code of conduct withrespectto quality, working conditions and social concerns. Analysis and Evaluation External Analysis Macro-EnvironmentThe macro-environment is positive for the sports apparel industry without many restrictive influences in the political or regulatory realm. The most strategically relevant factors of the PESTLE analysis (political factors, economic conditions, socio-cultural forces, technological factors, environment forces, and legal/regulatory Factors) include the socio-cultural forces and technological factors as noted below:

Socio-cultural Forces Recreational and professional sports are both very popular in North America and throughout the world. With an emphasis on active and healthy living in addition to the " life skills" learned in playing on sports teams schools and athletic associations offer many sports opportunities for all ages. Professional sports are a multi-billion dollar industry with athletes and coaches making very large salaries. Although there may be aging demographics in some areas of the world enthusiasm for sports remains high.

Technological Factors Technology has only continued to improve as sports apparel companies onetime to refine and develop the relatively newly available " technologically advanced fabrics and specialized manufacturing techniques" (Thompson, p C-43) in an effort to create a more comfortable, drier experience for the athlete. Great strides continue to be made with these products. Five Forces Analysis Competition from Rival Sellers (Strong): Competition among rival sellers is intense. There are approximately 25 brand-name competitors in the market for sports apparel, athletic footwear and related accessories in which (AU competes.

Aqua's major competitors in its sports performance apparel and athletic footwear include Nikkei, Inc. ND the Ideas Group, both highly successful brand-name global companies. AU competes with other top name brands, such as Columbia, Spryer, and North Face in its performance Skewer products. Nikkei is the clear market leader with approximately 17% of the footwear market share and 4. 4% of the sports apparel market share. Customer Bargaining Power (Strong): Since approximately 70% of AU sales are from retailers, the retailers do have Strong bargaining power. 5% of all retail sales are to large retail chains who also sell Aqua's competitor products. They have the discretion as to whether to allocate a certain level of floor space exclusively to CIA or not. Although there is some differentiation in products between competitors many of the products are fairly standardized, increasing customer bargaining power. The cost of switching to competitor brands is likely fairly low as all competitors will be fighting for key retail space. Supplier Bargaining Power (Moderate): CIA specialty fabrics and other raw materials come from a relatively small number of sources.

In 2011 , a little more than half of the fabrics used came from six suppliers in several different countries. With only six suppliers for such a large volume the suppliers do have some leverage in increasing their prices. It seems that it may be difficult for LILA to find alternative suppliers, though these suppliers must also depend on the revenues from CIA As such, they will not want to price themselves out of the market and they will want to see CIA succeed. Competition from Potential New Entrants (Weak): Given the strength and number of large brand name competitors already in the industry the threat of new entrants is relatively weak.

The Ideas Group has several well-known brands within its company, such as Rebook, Rocket, ND Ideas. Nikkei and CIA are also well-known brands. All of these companies participate heavily in sponsoring sporting events and invest significantly in athlete endorsements. As a result, there are high degrees of customerloyalty, making it difficult for new entrants. These large companies also have well-established networks of distributors. All of these things as well as the capital investment requirements limit the potential of new entrants to the industry.

Competition from Producers of Substitute Products (Weak): Although it is unlikely that there are significant substitute products in existence, CIA and its success shows that it is possible for a creative company to enter the industry with some sort of product which would be more appealing. Additionally, both Nikkei and Ideas spend significant amounts ofmoneyon research and development. It is possible that one of these competitors will be able to develop a next generation substitute product. Us Mary Overall, the industry competitive forces are moderate to strong.

The competition among rival sellers is quite intense and the retail buyers have significant power in working with all of these sellers. Brand image and loyalty re important in this industry. Nikkei is a well-established company and the clear market leader, but the Ideas Group is also a global leader. CIA has done very well at establishing a solid market share in its sports apparel and training/fitness clothing. Strong profitability is evident in this industry as can be seen in the net profit margins among Nikkei, the Ideas Group, and Under Armor.

Strategic Group Map Key Success Factors Performance and Reliability - To remain competitive in this industry, CIA products must meet or exceed customer expectations for high performance and reliability. CIA was founded on creating clothing that was cooler, drier, and more comfortable for its athletes. AU must continue producing high quality items which can be counted on. This includes utilizing high quality standards. New Product Development -? In this competitive environment it is important that AU invest sufficient funds into research and development so that it can gain improvements in its fabrics and its products.

Additionally, CIA must keep a sufficient number and styles of products available to be able to meet various consumer segments, such as it has done with Heather, Coolidge, and Legionnaires. CIA will need to re-examine its product line and its inventory management systems to ensure it is able to better meet customer needs without high levels of excess inventory. Pricing - Due to the number of brand name competitors in the industry with similar products an appropriate pricing strategy is crucial to Aqua's success. CIA will have to remain vigilant in watching competitor prices and discounts given.

Brand and Product Image - Each competitor in this industry will need to continually work on communicating and maintaining its overall brand image that is consistent with its mission and vision. Additionally, certain key products should have high visibility in terms of the image they represent. Loyalty from customers will be driven in part by these branding images. Customer Support and Services - In part a company is only as strong as it is perceived to be by its customers. Aqua's retailers and its direct sale customers must be treated fairly and be given adequate support when purchasing AU products.

Retailers (representing 70% of sales in 2011) will be driven to work with La's competitors if customer support and service is lacking. If Under Armor is able to successfully manage each of these key success actors which matter to its customers it should have continued competitive success for the long-term. Conclusion The external environment is conducive to successful results and profitability for the current competitors in the sports apparel industry. Although CIA is competing against some large global rivals it has been able to gain substantial market share from 0. 6 percent in 2003 to almost 2. 8 percent in 2011.

This is compared with 7. 0% market share for Nikkei and 5. 4% market share for Ideas. AU should be able to remain competitive and earn reasonable profits as long s management remains attentive and pro-active With any changes in the environment. Internal Analysis SOOT under Armor has a variety of strengths which allows them to compete in the highly competitive sports apparel industry. Over the years, the business has focused on building an authentic brand with high quality apparel that has allowed them to gain significant market share from their competitors. Below you will find an analysis of their internal and external environments.

Strengths Built an incredibly powerful and authentic brand in a relatively short time Became the official footwear supplier of major league baseball Uses superior scenically advanced fabrics Weaknesses International presence is very low Limited number of distributors to ship their products Insufficient tools in place to manage inventory efficiently and accurately Opportunities Ability to broaden Aqua's product offerings for wear in a variety of recreational activities and sports Athletic wear, a category historically dominated by men, is seeing significant growth with femalesGender equalitycontinues to grow in other parts of the world The reads Highly competitive market Competitors have a well established footprint in international markets Materials used in AU products are petroleum-based synthesis and therefore subject to crude oil price fluctuation If uncial Under Armor financial shows both positive and negatives (see Appendix A for the full financial details). The profitability ratios are in good standing and are relatively stable over the 5 year period 2006-201 1.

The gross profit ratio indicates that CIA has enough revenues to cover operating expenses and leave the company with a profit. The net profit margin shows that their after tax profits per dollar of sale decreased from 9. 05% in 2006 to 6. 58% in 2011. That is a drop of 2. 47%. The return on total assets and return on shareholder's equity have both decreased from 2006-201 1. A return of 12-15% range is average and Under Armor is at 15. 23% as of 201 1 which is within the range. Liquidity analysis shows that the working capital has improved over the years. As of 2011, the company has $506, 056 of internal funds to cover its current liabilities. That is $332, 667 more that in 2006 showing a big improvement The leverage ratios show the negative side of Under Armor.

The debt to asset ratio has been increasing from 2% in 2006 to 8% in 201 1. This means hat 8% of borrowed funds have been used tofinanceassets. Also the debt to equity ratio has increased from 3% to 12%. This signifies lower creditworthiness, potential excessive debt and a weaker balance sheet. On the other hand, in order for a business to continue growing and compete with the industry taking on additional loans is a requirement. Even though it appears that CIA has the capability to pay off the debts these ratios should be watched carefully to ensure that covenants are not broken. The activity ratios show that AU inventory management efficiency has decreased over the years.