

# [Under armour and international expansion marketing essay](https://assignbuster.com/under-armour-and-international-expansion-marketing-essay/)

This is an analysis of Under Armour Inc case study in its potentiality to make marketing strategies of expanding its market in foreign nations. The considerations have been based on Mexico and Argentina. The precedent efforts produced have outlined opportunities and risks associated with each country in a variety of areas, including issues related to international trade, methods, of entry, infrastructure considerations, and others. In this recommendation, I introduce the concepts aimed at delivering a final target country for the company’s expansion proposal. In consideration to the various exceptional issues, including significant human resource issues, it was can be determined that Mexico represents the best location for Under Armour’s expansion. Several entry vehicles have been discussed and compared, at which time outsourcing and off shoring were deemed as the most appropriate methods in its initial efforts in Mexico. After concurring on a target country, several aspects of the organization were examined that can help its global evolution. Under Armour’s business model is analyzed for potential shortcomings in the global context, and recommendations are made to enhance the company’s ability to effectively do business overseas. Moreover the firm’s financial performance is outlined and found to be quite successful; with careful implementation, this trend is expected to continue on an international level. Issues regarding sustainable business initiatives and global mindset perspectives were also addressed, with the accord being that Under Armour’s progress in these areas offers a promising basis for future growth.

Introduction

Team Univision has researched and analyzed potential globalization efforts by Under Armour into Argentina and Mexico in a number of projects to date. Based on the data obtained thus far, it is evident that Mexico presents the best opportunity for growth and profit in Under Armour’s globalization strategy. This requires a business model that accommodates globalization and factors in risks and opportunities when expanding in a global market. This case study will address these issues and present Under Armour’s rationale for entering into the Mexican market.

## Comparative Analysis

The following comparative analysis is a point-by-point comparison of Argentina and Mexico in regards to the issues rose in weeks 4, 9, and 11. These issues include tariff barriers, product standards, and dispute resolution processes; licensing, franchising, and outsourcing/off shoring initiatives; and finally infrastructure, business and workforce culture, social infrastructure, and political and regulatory environments.

## International trade

In week 4, Team Univision focused on areas of international trade that could assist or impede Under Armour’s possible expansion into Argentina and Mexico. Unlike Argentina, tariff barriers are a relative non-factor in Mexico because of the help NAFTA provides for transportation of materials and products between it and the United States. While product standards mirror those of the U. S. in both Mexico and Argentina, competition and affordability is more of an obstacle in Argentina. Finally, legal enforcement is uneven and corruption is a potential pitfall for both countries. Corruption in Argentina though has been known to more markedly affect foreign companies, thus bringing many disputes to international arbitration.

## Potential entry modes

In week 9, the focus was centered on the potential entry modes of Under Armour Inc.’s expansion. While the concept of licensing offers a major upside in its cost effectiveness, Team Univision found that economic uncertainty in Argentina and widespread piracy in Mexico offered substantial risk. Franchising was found to be unpractical for Argentina due to the fact the Under Armour is more logo-

Driven and sold in unaffiliated retail stores. Conversely, franchising may be a viable option to explore in Mexico as laws have recently been enacted that enhance the rights of franchisees and the parent company. Finally, outsourcing and off shoring were found to be very viable options for both countries but more so for Mexico, in that Under Armour already offshore the majority of its raw materials sourcing and manufacturing capability to this area.

## Infrastructure issues

In week 11, economic and social infrastructure, business and workforce culture, and political and regulatory environments were examined in detail. Infrastructure in Mexico rates highly due to its ability to address Under Armour’s transportation concerns. In contrast, Argentina’s infrastructure is questionable due to major economic uncertainty. Both countries’ social infrastructures are lacking with respect to the local business and workforce cultures. Labor unions are a serious concern in both countries, but perhaps more so in Argentina than Mexico. Conversely, poor education levels are a problem in Mexico whereas Argentina’s high education levels are more likely to provide a skilled workforce. Finally, the political and regulatory systems of both countries pose a problem as each carries the inherent risks of corruption, instability, and difficulty in enforcing property rights.

## Moving forward

With this information in mind, Team Univision must determine not only which country has the most resources to support expansion, but also which country has the least amount of overall risk. Business decisions inherently involve risk, to be sure, but successful business decisions are able to balance these risks with significant reward.

## Rationale for Under Armour

Mexico has issues with crime and environmental factors which exacerbate the health of its citizens and those doing business in the country. Though Mexico boasts a literacy rate of 93%, education is not given the high priority needed if the country expects to diversify its manufacturing and service offerings to an expanding global market (CIA, 2007). Despite these shortcomings, other factors make Mexico a viable choice for Under Armour. Among these are proximity which helps reduce transportation costs, long-standing benefits of the NAFTA accord, Export Processing Zones (EPZs) which facilitate trade, compatible product standards; and similar judicial systems. Team Univision has highlighted significant opportunities and risks considered in its recommendation for Under Armour’s expansion into Mexico’s retail market.

## Political system

Felipe Calderon’s contentious ascent to the presidency has meant building bridges in Congress to push through his reform agenda. Recognizing the potential for the country’s social problems to impede Mexico’s economic growth, President Calderon’s 2007 budget reflects a commitment to fighting poverty, creating jobs, and ensuring the personal safety of its citizens (EIU, 2007). Thus while the short-term political risks in Mexico are real, the outlook for Under Armour’s long-term success seems positive.

## Business climate

Mexico’s business climate is fraught with poor tax collection capabilities, corruption, and bureaucratic inefficiencies that impose non-tariff trade barriers. Mexico recognizes the impact on its competitiveness and has worked to reduce such barriers through legislation. For firms like Under Armour, Export Processing Zones (EPZs) help them navigate the country’s cumbersome regulatory environment and support outsourcing and off shoring needs at lower costs. Mexico’s legal system is characterized as being “ very liberal” in the area of contract law. This is an important consideration for Under Armour’s ability to negotiate contracts or arbitrate disputes. There are concerns with companies using child labor and potential reforms in labor laws which may harm multinationals. Labor unions also impose limits on the degree of control management has over worker activities and behavior. Team Univision believes that Under Armour’s global labor standards are sufficiently robust in that they expressly prohibit the firm from engaging with suppliers that exploit children and others in the workforce.

## Human resource management

Mexico can be described as having a collectivist culture. Collectivist cultures pursue “ harmonious interdependence” rather than individual self-interest (Griffith, 2002, p. 305). In contrast, Western nations and especially the United States place a high value on individual performance (Hill, 2007). In Mexico, hiring practices are governed by nepotism and familial ties. As such, they may likely interfere with performance management practices. These factors would affect Under Armour if the firm decided to expand its operations through a Greenfield venture. Given that substantial outlays are required for this approach, Team Univision encourages Under Armour to optimize its off shoring and outsourcing options while preserving its financial resources.

## Outsourcing/off shoring

Continuing to seek off shoring and outsourcing opportunities provides the flexibility which would enable Under Armour to focus on core competencies, such as product innovation and strategic management. Under Armour would benefit from access to lower-cost labor pools; reduction in unit costs through increased production; increased value of suppliers through added functionality; and reduction in costs for human resource sourcing, training, and termination. Under Armour will continue to employ rigorous compliance and monitoring systems to ensure that its quality standards are maintained in the workplace and for its products.

## Licensing

Under Armour’s current licensing strategy provides cost effective opportunities to increase brand awareness. Under its licensing agreements for manufacturing and distribution, Under Armour minimizes its financial outlays while costs for producing, distributing, and marketing its products are assumed by the licensee. Protecting its trademarks is of critical importance to Under Armour. In Mexico, enforcement of intellectual property rights laws is extremely weak, while demand for counterfeit merchandise is strong. For these reasons, Team Univision has determined that licensing would expose Under Armour to product piracy risk and the subsequent losses of revenue, and is therefore not recommended.

## Franchising

Under Armour would be able to increase its brand awareness in the new retail market while realizing numerous economic benefits through franchising. Under this arrangement, Under Armour would gain an additional revenue stream, minimize its outlays for producing, packaging, distributing, and marketing its products in the new market, increase flexibility of its supply chain through additional capacity; and improve the firm’s sourcing of critical petroleum-based material used in its specialty performance fabrics. As a franchisor, Under Armour would retain sufficient control over product standards and presentation.

## Intellectual property

Team Univision acknowledges that violations of trademarks and product design are risks posed by licensing, outsourcing, off shoring, and franchising as market entry strategies. These risks should not, however, deter Under Armour from considering Mexico as a target for globalization. Under Armour’s robust vendor selection and monitoring practices, in conjunction with penal code changes favoring higher penalties for intellectual property violations should mitigate significant losses for the firm.

## Country Recommendation

Globalization has become the focus for many corporations attempting to expand their presence and products into the international economy. Team Univision has analyzed Under Armour as it attempts to spread its operations into foreign markets. Specifically, the foreign markets analyzed during this comprehensive study were Argentina and Mexico. As Team Univision’s understanding of globalization

Increased exponentially throughout the term, it is now time to recommend which country is best suited for Under Armour Inc., and which market entry vehicle the firm should utilize in the preferred country. Through careful consideration, and diligent analysis of both countries, Team Univision came to the conclusion that Mexico would be the best option for Under Armour Inc. In the following passages, Team Univision will explain how we concluded on Mexico as the best country choice, and which market entry vehicle the company will benefit from the most.

## Why Mexico?

The decision by Team Univision to suggest Mexico as the best alternative for Under Armour Inc. globalization endeavor was not a particularly hard choice to make. Although there are many appealing aspects in a potential expansion into the Argentinean market, there are just too many possible risks associated with the move. For instance, Argentina is still recovering from a complete economic collapse that occurred in 2002. Although the country seems to be improving drastically, there is still a huge deal of uncertainty and instability – and therefore increased risks for Under Armour. Couple an economy recovering from a recession, political instability, and a questionable legislative system and the likelihood for potential failure increases exponentially for any foreign firm entering the Argentinean market. Although there are some inherent risks in Mexico as with any foreign market, the chance for success is greater. The fact that Under Armour Inc. is based in the U. S. and Mexico is a member of the North American Free Trade Agreement (NAFTA) further validates this conclusion. The selection of a target country for Under Armour’s expansion, though, is only half of the equation. Now that Team Univision decided on Mexico as the best fit, Team Univision must determine which market entry vehicle to utilize.

## Market entry vehicles

Team Univision has analyzed three possible modes of entry for Under Armour Inc. into the Mexican market. Team Univision decided to consider each mode and determine which was most appropriate, with the possibility of utilizing more than one entry vehicle if necessary. The three entry vehicles examined are licensing, franchising, and outsourcing. Licensing is an entry vehicle that Under Armour has utilized in the past and plans to utilize in the future, as these arrangements have been very lucrative for the company. Most of Under Armour’s licensing agreements encompass manufacturing and distribution rights. However, in 2006, the company broke new ground by licensing software for its warehouse management system

Franchising is another option Team Univision has analyzed as an entry vehicle for Under Armour into Mexico. Franchising is already a prevalent mode of entry into the Mexican market: In Mexico there are currently a total of 780 franchises registered in more than 70 different sectors, proving that the franchise business is an important source of job creation, self-employment and wealth strengthened considerable in the past few years, positioning Mexico as the 8th leading nation worldwide in franchise development. After the advent of NAFTA, franchising has become one of the most popular business models to adopt in Mexico because it has proven to be stable and has consistent growth opportunities. Besides, Mexico has also shown an open commercial system and a mixed cultural background that promotes acceptance of different concepts (BuyUSA, 2007). The last entry vehicle analyzed by Team Univision is outsourcing. As with any company or corporation, the goal is to increase profits while reduce risks and costs. For a firm such as Under Armour, and a country such as Mexico that is a member of NAFTA, trade barriers have been eliminated and the region has thereby encouraged outsourcing. Since many of the raw materials used by Under Armour come from Mexico, and the labor is much cheaper while being in close proximity with the U. S., outsourcing to Mexico is an obvious option. As stated earlier, Team Univision views each entry vehicle as a viable conduit into the Mexican market. However, it is obvious through research and analysis that outsourcing may be the best starting point for the company’s globalization attempts.

## Summary of recommendations

Team Univision has researched, analyzed, discussed, and contemplated globalization and the opportunities and risks that it posed for Under Armour Inc. Through intelligent deliberation and teamwork, it was determined that Mexico was truly the better target country. Furthermore, it seems that a combination of off shoring/outsourcing and franchising is likely the best initial entry vehicle for Under Armour. This decision was not an easy one, but in business each decision must be an informed one so as to reduce the risks inherent to foreign market endeavors.

## Business Model for Under Armour

Modern businesses rely more than ever on solid business models in order to remain solvent in today’s segmented and competitive environment. As Team Univision examines Under Armour and its potential expansion overseas, its business model must undergo scrutiny to better understand its value. In the text below we will first define Under Armour’s current business model, and then assess its applicability in the context of globalization.

## Mission of Under Armour

Under Armour defines a business model as the way, or ways, in which a company generates revenue and profit (UA, 2007b). Using this definition, we can say that Under Armour’s business model revolves around the design, production, marketing, and distribution of high-tech athletic performance apparel to men, women, and youth (UA, 2007a). The company focuses most of its efforts on the production of apparel for football, although it has made great strides in other sports; baseball, lacrosse, Olympic sports and soccer are but a few of the company’s recent targets (Kusterbeck, 2007). Under Armour’s business model is unique in that the company builds its sales efforts in an almost grassroots-type fashion, wherein products are pushed out to sports professionals first with the intention that the trend is trickled down to the consumer masses (Kusterbeck, 2007).

## Business model for operations

Under Armour’s business model revolves around the production of performance apparel, but this is just one of many elements in the greater organizational plan. The company continues to operate much like a smaller and centralized growth company; for example, the company maintains all of its design and advertising functions in-house in an effort to maintain quality and consistency in its products and marketing messages (UA, 2007a). These designs are then tested by professional athletes to garner constructive feedback for product improvements; the company refers to these sessions as “ locker room laboratories” (Kusterbeck, 2007). Under Armour also maintains control over its distribution channel by relying on its facility in Glen Burnie, MD for substantially all of its product distribution needs (UA, 2007a). Though Under Armour chooses to keep many of its functions in-house, the company has outsourced much of its raw materials sourcing and manufacturing to foreign entities. The majority of these facilities are located in Mexico, Latin America, and China, although the company does staff a quick-turn manufacturing element in-house for special orders and clients. Under Armour reaches consumers mainly through “ store within a store” setups within major wholesale chains like Dick’s and The Sports Authority; fewer than a dozen Under Armour outlet shops are run by the company itself. Finally, the company earns revenue and broadens its brand image through licensing agreements with collegiate and professional sports teams, individuals, and programs – an effort borne out of the company’s model for legitimacy, reputation, and quality (UA, 2007a).

## Under Armour and international expansion

## Potential business model issues.

Under Armour’s current strategy has been successful, but is largely contained within the context of the US performance apparel market. The company has negotiated licensing agreements in Japan, and has established a European headquarters to introduce its products in the same way it did in the US: selling products directly to teams and individual athletes in these markets, thereby providing product exposure to broad audiences of potential consumers in these markets. This model has thus far been effective, with 4% of the company’s net revenues now coming from international sales and licensing agreements (UA, 2007a). The current business model, though, suffers from some limitations that may inhibit the company’s ability to expand internationally. First, its sale of higher-priced athletic apparel is only viable in locations that support discretionary spending and leisure time. This is typically the case in developed countries, but Under Armour’s products may not be successful in developing countries with low income- per-capita figures and a lack of emphasis on leisure time. Under Armour’s reliance on football (and its associated seasonality) may stifle the company’s ability to move effectively overseas, as American football has limited worldwide appeal. Furthermore, Under Armour is only now breaking into international sports (soccer and cricket being two examples), so its US business model must be quickly modified to appeal to global customers. Finally, the company could face additional seasonality issues if these international sports coincide with football season in America, thus further increasing the company’s financial risk. On a broader scale, the company’s business model calls for guerilla-style distribution and marketing strategies centered on professional and collegiate athletes. This approach only works, of course, in locations where the appropriate sports infrastructures exist. If a country or region lacks significant professional sports, or even sporting activities at the collegiate level equivalent to US schools, then Under Armour will face challenges with regard to product introductions and consumer acceptance. Firms like Under Armour face even more challenges on the operational level. During the growth phase, companies will often continue to maintain centralized control over key operational functions. Under Armour to this point operates most of its design, marketing, and distribution functions from its headquarters in Baltimore, MD (UA, 2007a). While this is an effective strategy in the short term, the company will have to establish regional global centers of operations in order to remain competitive. Logistical challenges such as inventory management, transportation, and supply chain management will grow increasingly complicated upon international expansion. Finally, Under Armour’s business model may have to be adjusted with respect to retail strategy. On the design end, the company must further differentiate its products to better suit tastes in various global locations; a quick perusal of Under Armour’s international websites portrays little international differentiation (UA, 2007c). With respect to retail space, the company currently operates under a model that relies heavily on wholesale distribution with more than 36% of its net revenues coming from just two retail giants (Just Style, 2006). This strategy may prove problematic in areas that don’t support large retail ventures, or in locations where brand recognition is low. In such a scenario, Under Armour’s products could easily become lost amongst the myriad brands sold in these retailers.

## Recommendations for business model enhancements.

From a practical perspective, there are many changes that Under Armour could implement to better position its business model for international success. First, it must research ways to create lower-priced, multi-purpose apparel that maintains its brand image yet caters to geographically distinct tastes or socio-economic conditions. Secondly, it must establish itself at the forefront of international sports to reduce its reliance on US-centric sports such as football or baseball; the hiring of local experts might be helpful here to consult on designs and so forth. Next, the company must examine distribution and supply chains on a global level to develop efficient networks for transporting and selling its products. New retail formats, franchising agreements, and licensing alternatives must also be considered as part of this strategy. Under Armour’s business model extends to its corporate ideology, and this too could change to better accommodate international expansion opportunities. The company must move beyond its “ disruptor” mentality and establish a mainstream global presence. It must also look to decentralize some of its core functions to allow for better operational efficiencies in geographically disparate locations. Finally, the company must transition its business model from that of a small, flexible, dynamic company into a larger, more mature, and more stable mentality – all while maintaining the customer service, credibility, and innovation that represent its core competencies.

## Financial Performance for Under Armour

Under Armour has risen to the top of the industry pack since its 1995 entrance into the sporting goods market, boasting more than 90% of the compression garment market (Hoovers, 2007). From 2003 to 2006 the organization experienced over 500% growths in net income over the four-year period. This drastic growth is a result of new product offerings in the Men’s category in 2004 as well as the sales growth of the core products. In addition, the Women’s and Youth category introduced new products and tangentially increased sales of existing product offerings. In all, “ the improvement in sales reflects leverage on increased volume, improved sourcing, disciplined inventory management, and increased license revenue” ( www. investor@underarmour. com ). The sales growth “ coupled with a very disciplined approach to running the business, enabled the organization to achieve strong operating margins while making important investments into the future of the organization” The company’s efforts in creating a niche brand image have fostered strong demand for its performance apparel. Due to Under Armour’s competitive strategy they have become one of the official suppliers to Major League Baseball (MLB) and the National Hockey League (NHL). Under Armour’s efforts to expand into Mexico have strong potential for success due to the growth and profits that the organization has sustained? Under Armour has had tremendous success in Canada, Japan, the United Kingdom, France and Germany, thus suggesting a great opportunity for expansion in Mexico. However, it is important for Under Armour to consider that there are adjustments that need to be made in order for a successful globalization effort. Exchange rates will have a major impact on Under Armour as we consider globalization efforts to Mexico. Exchange rates affect “ export opportunities, the profitability of international trade and investment deals, and the price competitiveness of foreign imports” (Hill, 2007, p. 345). All of these factors have a major impact on how global business ventures will be conducted, thus creating a need for Team Univision to have an understanding of foreign exchange risk. It is important to understand that exchange rates are determined by the demand and supply of currency in relation to another. There is a need to understand how prices are related to exchange rate movements. The majority of economic theories of exchange rate movements seem to agree that three factors have an important impact on future exchange rate movements in country’s currency: the country’s price inflation, its interest rate, and market psychology.

Another economic theory of exchange, purchasing power parity (PPP), “ could be found from any individual set of prices. By comparing the prices of identical products in different currencies, it would be possible to determine the ‘ real’ or PPP exchange rate that would exist if markets are efficient” (Hill, 2007, p. 345). This provides a benchmark for Under Armour to compare rates and to understand how they are relative to each other in different countries and how to price their product in Mexico to be competitive as well as profitable. It is relevant for Team Univision to predict and forecast future exchange rate variations in order to assess the value of globalization efforts to Mexico. Thus, it may benefit Under Armour to seek forecasting services to continue to assess the profitability of this market. In addition, Under Armour’s globalization efforts to Mexico will need to anticipate consumer preferences in the global market in order to maintain or increase profitability. This may require some adjustments of the business model (as described above) and an intensive examination of Mexican trends in the purchase of sporting apparel. It is equally important to address exchange rates and adjust profit standards and goals because this will have a major impact on how to forecast and predict trends in the Mexican market. If Under Armour accounts for these factors and addresses them appropriately, the likelihood of positive returns in Mexico is quite high.

## Sustainable Business Lessons

From developing micro-enterprises for women in India to providing potable water in Ghana, powerhouse corporations such as Unilever and General Electric are incorporating environmentally friendly and socially responsible practices into their business models. CEOs at these companies recognize that such practices provide more value than just favorable PR (BusinessWeek, 2007). Unilever understands that its survival depends in part on its profits, but increasingly is being linked to other factors including the corporation’s role as a good corporate citizen in different parts of the world. Approximately 40% of Unilever’s sales and future growth will be in developing global markets (2007). Unilever extends its vast economic resources to help improve living conditions and provide economic opportunities for citizens in countries where it conducts business. A company’s sustainable business practices must support shareholder demands for acceptable rates of return; the development of innovative products and services; optimize human resources of its workforce; uphold the integrity of the organization through transparent governance; and increase brand awareness (SAM Indexes GmbH, 2006a). The Dow Jones Sustainability Index (SAM Indexes GmbH,

2006b) considers several attributes within economic, environmental, social, and other industry-specific factors when evaluating companies for investment decisions (2006b). How does Under Armour fare using the Dow Jones Industrial Average Sustainability Index? Within the context of economic dimensions, the sustainability survey (SAM Indexes GmbH, 2006c) addresses organization structure and governance, risk and crisis management, and codes of conduct. The social dimension addresses human resource development, labor practices, and philanthropy. Lastly, environmental factors address resource consumption and emissions and reporting. In addition to its financial reports, Under Armour’s website contains information which addresses many of the requirements for sustainable business practices. Key among this is the company’s own corporate Code of Business Ethics and the Code of Conduct for Suppliers, the organization of the firm’s Board of Directors, its philanthropic activities, and global labor standards.

## Under Armour, Inc. and the Global Mindset

The global mindset encompasses characteristics that are not just significant on a managerial level, but an organizational level as well. Team Univision examines Under Armour, Inc. as it prepares for entrance in transition by re-examining its global mission. For Under Armour, Inc. the cultivation of this mindset could mean the difference between failure and success. A global mindset is “ an orientation of the world that allows one to see certain things that others do not. A global mindset means the ability to scan the world from a broad p