NIKE VS. UNDER ARMOUR: STRATEGY COMPARISON

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Abstract:
This is a descriptive study on ‘Nike vs. Under Armour: Strategy Comparison. To carry out the study, the secondary data is used to get insight about the issues explored in the present study. Findings revealed that Nike, being older and more established, needs to focus more on the image they bring. They should reconsider who they endorse and look at quality instead of quantity. This will protect their image and ensure for less scandals. Under Armour, being younger should broaden their apparel and market to women. This area is just becoming tapped, and it would be a competitive advantage for the young company to take from its competitors. The company also has the opportunity to grow its footwear line. With growing footwear line, Under Armour could take Nike’s share of footwear and position themselves for more success in both apparel and footwear.

Key Words: Athletic gear Companies, Strategy comparison.

1. INTRODUCTION:

The athletic industry is a stringent market where brands battle for consumer’s attention and try to hold on to them through brand loyalty. Styles come in and out of consumer’s tastes, and new trends are hot to pick up when people claim them as “in” or “cool”. A leading competitor in the market is Nike, who influences the athletic industry as it has for the past fifty years with its multiple athlete endorsers and new styles for the seasons. However, an up and coming competitor is Under Armour who is sweeping the market with radical growth and attention from not just athletes but the average consumer. At first glance these two companies look fairly similar with Under Armour just being much younger; however, Under Armour’s strategy is different and it should be putting Nike on edge.
2. OBJECTIVES OF THE STUDY:

   1. To study profile of the select companies
   2. To analyze the financial performance of the select companies.

3. RESEARCH METHODOLOGY:

This is a descriptive study on ‘Nike vs. Under Armour: Strategy Comparison. To carry out the study, the secondary data is used to get insight about the issues explored in the present study.

4. FINDINGS

Objective-1: To study profile of the select companies
   (A) Industry Analysis:

Nike and Under Armour are both in the athletic gear Companies. These companies consist of sportswear for both men and women, producing many different items such as t-shirts, tanks, sweatshirts, shorts, pants, and shoes. Athletic gear is a growing trend and is popular to wear even when the consumer is not coming to and from the gym. The growth of sales in this industry is exceeding beyond that of the entire apparel market. The reason for the popularity is due to the fact that active wear is now considered “chic.” It is cool to wear yoga pants with a pair of name brand tennis shoes and even a t-shirt or sweatshirt to match. Men typically wear jeans if they are going out or sweatpants or shorts when they are staying in. Even everyday retail stores, like Forever 21 and Maurice’s, have picked up on the trend and are beginning to sell active wear.

Active wear is typically made of a light material, usually spandex for many items. However, spandex is not the only material used. Cotton, polyester, polypropylene, elastane, pique, interlock, jersey, tricot, silver, cooling, and crepe are also common fabrics used to make sports gear. Bright and neon colors are very popular along with fun prints like Aztec or animal. However, this extends past just apparel. There are a variety of different types of athletic shoes including running, walking, trail, and even shoes for yoga (a growing athletic trend). Some of the most popular are the running shoes, not because many people like to run, but because of their look. Running shoes are usually sleeker and are supported in multiple colors.

Although the athletic industry is supported with many different competitors, Nike and Under Armor are two of the most prominent. Other competitors include Adidas, Puma, Asics, Reebok, and FILA. These are some of the most well-known brands within the athletic industry and they hold a rather large share of the market. Their ads flood the television screen on sports channels and also through their hand-picked endorsers with major league sports teams. These endorsers increase their popularity and this allows them to reach consumers of all ages.

The market for the athletic apparel industry is structured as a consolidated industry. Just a few companies control a large enough share of the market to influence its future. Consolidated
industries usually have high profit margins, well established brands, high barriers to entry, and distinguished products. Nike has the highly recognized Swoosh logo and Under Armour embodies the dry-fit technology that athletes love on a hot day. Though both companies have products that are made with great quality, their prices are high to appeal to the “inner” crowd and what the popular or well-off consumer would wear. This supports their high profit margins. These various attributes make Nike and Under Armour top leaders in the industry.

The athletic apparel industry is an international market with multiple competitors. As earlier stated, Nike and Under Armour have a large share in the market. Even so, the market around them influences these two competitors. In 2006 the German company, Adidas, conducted an acquisition of the American company Reebok. Key market participants would include Adidas AG, Reebok, Asics American Corporation, FILA Online Inc., Foot Locker Inc., and many others.

Being the leading company for athletic footwear and apparel, Nike tends to target professional athletes. However, the fact that they also sell to many retailers allows them to sell to a variety of consumers. This includes non-professional athletes, everyday people who want to work out, and those who just wear the garments for the brand. Even so, Nike creates their value through their largest target consumers, professional athletes. Seeing famous athletes wearing the Nike brand adds value and makes more consumers crave their gear. This leads the idea that these brands are “name brand” which to consumers means that they will be more superior if they choose this brand over lesser, “cooler” ones like FILA or Reebok.

Being very similar to Nike, Under Armour also targets the sportswear market and people who want to live an active lifestyle. They also market to many people who want to be sporting the Under Armour look. As previously mentioned, it is becoming very common for people to wear sportswear on a daily basis. Under Armour creates their value by targeting to the younger generation. If it catches on with them and they perceive it as “cool,” these products will automatically start being professed as having a higher value. Like Nike, they will be considered “name brand” and everyone will have to have it.

Porter’s Five Forces is a powerful tool used to understand competition in each industry. In this case, it is useful in looking at the competition between Nike and Under Armour. The first of Porter’s Five Forces is the rivalry among existing competitors. For the athletic gear market, this would include Nike, Puma, Asics, Reebok, FILA, and Under Armour. Each company must compete with the quality of their products, as well as other factors including price, speed, and availability. Another force is the threat of new entrants, meaning how difficult it is for a new company to enter the market. Also, how costly it would be to enter the industry. An example of this would be Under Armour. Nike has been a part of the athletic market far longer than Under Armour has.
However, Under Armour has been extremely successful within the market; today, they are a large threat to Nike because of their increasing growth.

A third force is the threat of substitutes, which is when businesses from other industries try to enter the athletic wear. There are hundreds of substitutes for Nike and Under Armour’s athletic wear. These substitutes come from their competitors, but also non-direct competitors. Much cheaper brands are available for the everyday athlete is not necessarily willing to pay the high prices for athletic wear. An example is Maurice’s and their more recent line of athletic wear. They will not become as popular as the already existing brands because their focus is solely on athletic gear. However, they have done pretty well with the line.

The fourth force in Porter’s Five Forces is the bargaining power of suppliers. This is how dependent the company is on their suppliers. If the company has only one major supplier then that supplier has a lot of power. It is the same for a business having power over the supplier. For example, Nike uses private contractors to make their tennis shoes. The workers are paid very low wages and therefore allow Nike to have all the power. However, with ethical issues on labor laws overseas, Nike may have to reevaluate this strategy.

The final force is the bargaining power of the consumer, which is similar to the bargaining power of suppliers. With this force, the question must be asked, how much does the company depend on their consumers? In the athletic wear and footwear industry, consumers basically have all the power; it is easy for consumers to switch to another company if they so desire. Customers can change manufacturers for any reason whether it is price, convenience, quality, or even a new style. Some consumers even buy products from multiple companies within the industry.

(B) Level Analysis:

No one can argue that Nike is a powerhouse in the athletic footwear and apparel industry. Originally founded in 1964 as Blue Ribbon Sports, the company officially changed their name to Nike, Inc. in 1971 since that time; Nike has expanded their line and their global reach to generate more than 30 Billion in sales for the 2015 fiscal year.

The early success of Blue Ribbon Sports was due to sales of a reasonably priced running shoe. Since that time, Nike has achieved success by offering athletic footwear, and eventually apparel and accessories, for a wide range of sports. According to the letter to the shareholders from Nike’s 2015 annual report, Mark Parker, President and CEO, states the “breadth and depth of our powerful portfolio across brands, categories, geographies, gender and channel is unmatched. And we remain well-resourced and well-positioned to create competitive separation and deliver sustainable and profitable growth by continuing to leverage that portfolio.” It is interesting to note that maintaining a competitive edge is still important to Mr. Parker even though Nike is the uncontested leader in the athletic footwear and apparel industry.
There are many strong competitors that exist in the industry, Adidas and Sketchers just to name a few. A strong competitor to watch is Under Armour. Under Armour was founded in 1996 and has shown significant growth since that time. In less than 20 years, Under Armour’s annual sales recently reached $3 Billion. This is small by comparison; just 10% of the total sales for Nike however, Under Armour’s growth rate is increasing and they are becoming an increasing threat to Nike.\(^5\)

In order to better understand Nike and Under Armour, a tool developed by Don Hambrick and Jim Fredrickson called the strategy diamond will be used to outline some core strengths and key strategies for each company.\(^1\) The strategy diamond first examines the arenas in which the company’s function. Nike has identified six geographic regions which are broken into two categories: developed and developing. The developed markets for Nike are North America, Western Europe and Japan. The developing markets are Greater China, Central & Eastern Europe, and Emerging Markets.\(^3\) Nike has physical stores in these regions while also selling their products online and through local retailers. Under Armour have also increased international sales, primarily by focusing on e-commerce sites and local distributors in three target regions: The United Kingdom, Germany, and France. Sales distributors in Mexico, Brazil and Chile are also gaining brand recognition for Under Armour.\(^9\)

Differentiation is another component of the strategy diamond and focuses on the core competencies that make a firm unique and successful. While Nike and Under Armour are both in the athletic footwear and apparel industry, there are significant differences between each company. Nike’s core strength has traditionally been athletic footwear, for professional and amateur athletes as well as the casual consumer. In the first quarter of 2015, Nike shoes accounted for approximately 62% of sales of all athletic shoes. Sketchers came in a distant second place with only 5%.\(^7\) Nike’s success is due to a long history of producing high quality athletic shoes for a variety of sports, and to a strategy that Nike refers to as Category Offense.\(^3\) Categories are divided into action sports, athletic training, basketball, football, running, sportswear, and women’s training. The goal of this consumer-focused category strategy is to “drive growth through increased market place capacity and penetration”.\(^3\)

While Nike is the clear leader in footwear sales, nearly 74% of Under Armour sales are from apparel.\(^9\) In 1996, a former college football player named Kevin Plank started Under Armour with the mission to create apparel that could keep athletes cool and dry in hot game day conditions. Under Armour has gone on to engineer a variety of fabrics such as HeatGear, ColdGear, and AllSeasonGear which have applications in a large variety of sports and climates. Highly engineered apparel is the cornerstone of Under Armour’s product line. An emerging product is footwear, which only accounted for 14% of sales for Under Armour. While Nike is the clear leader in shoe sales, Under Armour is taking the same engineered approach to shoes for athletes and significant sales increases over the last few years.\(^9\)
While each company has unique products, they each stage their products as premium products in the athletic footwear and apparel industry. Staging is another section of the strategy diamond and explains how a product is presented to the consumer. While individual products vary, both Nike and Under Armour sell high quality goods.

The vehicles section of the strategy diamond answers how the firm will succeed in the arenas. Vehicles can describe how a firm gets the product into the hand of a consumer. Both Nike and Under Armour sell products through wholesale channels, such as sporting goods chains and other retailers, through independent distributors and licensees, and directly to consumers through websites and also brand and factory stores. A vehicle can also refer to the marketing strategies used to introduce the product to consumers and to gain brand recognition. For example, the Nike Swoosh logo is recognized around the world. Nike has worked hard to penetrate every form of popular sport in all six geographic regions so it is common to see the Nike Swoosh prominently displayed on gear worn by athletes in games and in the media around the world where Nike sponsors numerous teams as well as individual athletes. Under Armour has adopted a similar approach and today the Under Armour logo is prominent across many mainstream sports, such as the 2015 Football Combine and golf, and more specialized sports such as speed skating and hunting.

Another marketing strategy used by both companies is the use of paid celebrity endorsements. This stages the products from either company as a premium product used by professional athletes. Staging, or how products are presented to consumers, is important to both Nike and Under Armour. Celebrity endorsements are effective and often result in valuable media coverage. Nike has a long history of celebrity athlete endorsements, most notably the relationship with Michael Jordan and the Jordan basketball shoe line. Not every celebrity relationship has been this productive. There have been several instances when endorsed athletes have made bad decisions and received bad press, potentially damaging Nike’s reputation along with their own personal image. Lance Armstrong was dropped by Nike after he admitted to doping in the sport of cycling, and Ray Rice was dropped after a video surfaced where he was shown dragging his unconscious fiancé out of an elevator. Michael Vick was dropped after his arrest for running a dog fighting ring, but he was later resigned after he served his jail time and seemed to get his life back on track. Nike stood by Tiger Woods after it was revealed he had cheated on his wife, and stood by Kobe Bryant after a woman accused him of sexual assault. Nike has experienced negative publicity from their athletes on several occasions.

While Under Armour also markets with paid celebrities, it seems that the fledgling company has tried to learn from Nike’s very public mistakes. Two athletes endorsed by Under Armour are just beginning to gain momentum in their careers: Stephen Curry and Misty Copeland. Stephen Curry is a young NBA star who eloquently thanked his mother as he accepted the NBA’s Most
Valuable Player award. Misty Copeland is a ballerina who was told in middle school that she was too old to start ballet and she did not have the right body shape, but instead she has gone on to become the lead soloist with the American Ballet Theatre. While Nike has traditionally endorsed the number one athlete in a given sport, Under Armour seems to gravitate toward athletes with a great story and a positive attitude.

Objective-2: To Analyze the Financial Performance of the Select Companies

When looking at Nike and Under Armour financially, the companies look fairly similar today. Though Nike is a larger company overall, Under Armour is not far behind and both companies are highly profitable and financially stable. However, that was not the case about ten years ago. Nike has been a large competitor in the athletic market for some time. Being founded in the late 1950’s, Nike undoubtedly established its reputation long before Under Armour who is a relatively new company. Because Nike is an older company than Under Armour they still maintain increasing growth year after year, however; Nike is not experiencing as impressively high growing rates. That is not the case for Under Armour, and this is where the two companies differ significantly.

Where Nike has experienced slow and steady growth in the past ten years, Under Armour has been exploding the market. Ten years ago Under Amour was a very small company and was barley on the map; the company has only been public since 2005\(^9\). In 2007 their stock price per share stood at just $12, whereas Nike’s more established stock stood at a strong $27\(^{12}\). A newer company, they were just breaking the market and no one had really heard of Under Armour yet. In 2005, the company was only doing sales of around 281 million whereas today the company revenues 3 Billion dollars and is a household name\(^9\). This drastic jump in revenue certainly illustrates Under Armour’s expansion and rapid growth in just the past few years.

The chart below indicates the growth of Under Armour as compared to Nike. Under Armour’s revenues are growing 20\% every quarter and have been for the past five years\(^9\). Nike is only growing at a rate of 2.5\% every quarter\(^5\). It does not seem improbable that Under Armour’s radical growth could surpass Nike within the next five years. This can also be supported with the company’s price earnings ratios.
The price earnings ratio is a good financial figure to compare amongst competing companies. This ratio reveals how much an outside investor would need to invest in order to get one dollar of earnings. This ratio is also a good indicator of earnings growth in the future. It is no surprise that Under Armour’s price earnings ratio is $101 as compared to Nike’s $34. Though a price earnings ratio of $34 is nothing to complain about, when compared to Under Armour’s ratio of $101 it is becomes very evident that the company is growing faster than Nike is, or at least that other investors are more attracted to invest in Under Armour to stake a claim early and to ensure more of a profit later when the company’s value increases. Financially, things are highly optimistic for Under Armour.

**IMPLICATIONS OF THE STUDY:**

Ten years ago, Under Armour was just a blimp on the screen. Today, the company is comparable to its huge rivals and is set to even surpass Nike. Nike’s slow and steady growth is admirable and very safe, but Under Armour is about to blow them out of the water. Though Nike is very strong in footwear, Under Armour is stronger in apparel. Under Armour also took the initiative to protect its image with more respectable professional athletes as Nike has had to deal with outbreaks of jail sentences and moral encumbrances that embodied their endorsers. These small feats have set them apart from the powerhouse Nike.

Though both companies are strong and stable, there are directions both firms could take to improve. Nike, being older and more established, needs to focus more on the image they bring. They should reconsider who they endorse and look at quality instead of quantity. This will protect their image and ensure for less scandals. Under Armour, being younger should broaden their apparel and market to women. This area is just becoming tapped, and it would be a competitive advantage for the young company to take from its competitors. The company also
has the opportunity to grow its footwear line. With a growing footwear line, Under Armour could take Nike’s share of footwear and position themselves for more success in both apparel and footwear.

Reference: