

California Polytechnic University, Pomona

Project One:

Analysis of Nike v. Under Armour



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Introduction

The athleticwear industry has become a key sector to apparel companies who dare to compete to have the best athletes representing their merchandise. Some noteworthy companies discussed in this report that have made a substantial impact are Nike and Under Armour. Our report will discuss and analyze the background, overall revenue per store, profit per store, and trends for both companies over the course of 3 years. Research will be done through Mergent Online, Annual Reports from the companies and more report sites. This will help us produce a strategy and solution to improve any negative findings in the brands' data and draw conclusions from existing data reports.

Background

The oldest store out of the two is Nike, which was founded in 1964 by Phil Knight and Bill Bowerman. They registered their business name as, "Blue Ribbon Sports," according to their History and Timeline report by Jack Meyers. Their company began with the, "Tiger Cortez and Waffle" running shoe designs that were designed by Bowerman himself for Knight when he was his athlete at the University of Oregon. (Meyer, 2019). It is explained in the report that Knight was the one with business connections to mass produce the shoes that kickstarted domestic availability to everyone, not just runners. Which earned him, "a 50/50 share," in Nike as a company. (Meyer, 2019). Under Armour was then founded in 1996 by Kevin Plank, a football player at the University of Maryland. His company started with, "synthetic based shirts," for moisture "wicking" wear during football. (Baer, 2015). He took up the task of finding a fabric that was more comfortable for him to play football in and one that did not absorb all the sweat from playing. It went to the next level when he achieved professional athlete endorsements and opened a manufacturing facility. Today, these two brands have grown into billion-dollar

businesses that sell several types of shoes and clothing for all sport types and have product lines for sports equipment and accessories.

Revenue Per Store

Under Armour's revenue shows a significant increase starting the year and ending the first year strong of 2017. From the Revenue chart you can see revenue increases up until 2018. There is a slight dip from 2018 to 2019 but the revenue is still increasing but at smaller rate compared to the previous year. From 2017 to 2018 they had an increase of 4% and from 2018 to 2019 they had an increase of 1.4%. This difference or decrease in revenue is -2.6% when compared to its previous year. The revenue shows that it is increasing yearly but at smaller rate.

Nike's revenue shows a substantial increase from 2017 to 2019. They managed to keep increasing revenue yearly. Nike shows an increase of 5.9% in 2017 entering 2018. From the 2018 to 2019 Nike's revenue increased by 7.4%. This is a positive increase in revenue by 1.5% when compared to its previous year.

When comparing both companies we can see Nike has a significant amount in revenues when compared to Under Armour. This can be due to Nike having more sales and capital since they have been around longer than Under Armour. Nike from the start has 149% more in revenues than Under Armour the first year. In 2018 the difference is 150% and 2019 it increases to 152%.

Chart 1

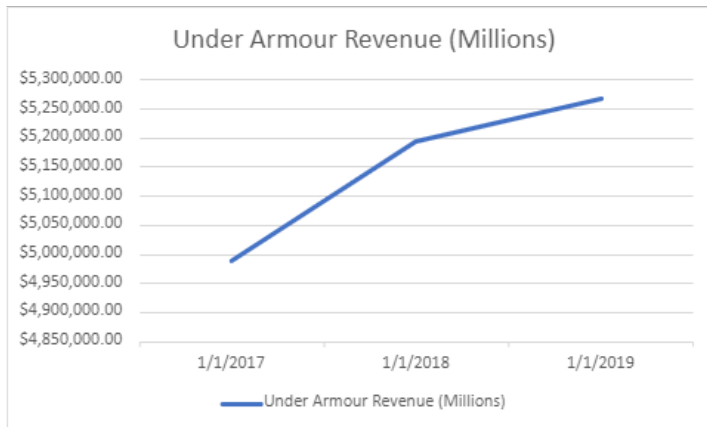
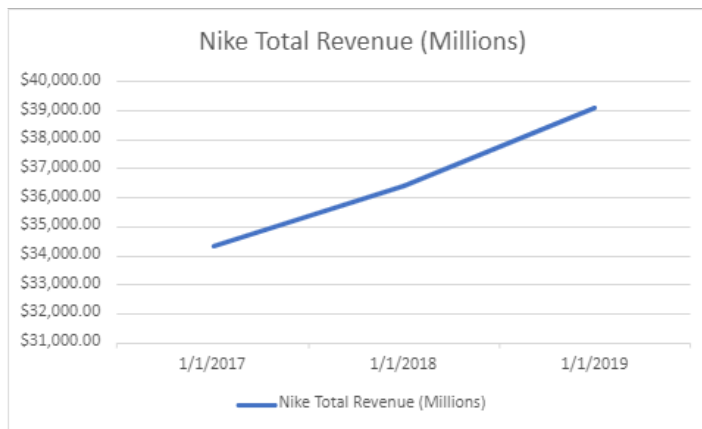


Chart 3



Chart 2



Profit Per Store

a. Under Armour Analysis

Under Armour's profit shows a substantial increase of \$121,124 from 2017 to 2018. However, the company had a slight increase from 2018 to 2019 of only \$22,523. Their expenses did increase over the three years which may be in part due to the minimal increase in 2019. In comparison to Nike, Under Armour overall has a lower profitability. Looking ahead Under Armour's profit will stay at its current rate. There will also most likely be an outlier in the data taking in consideration this past year.

Chart 4

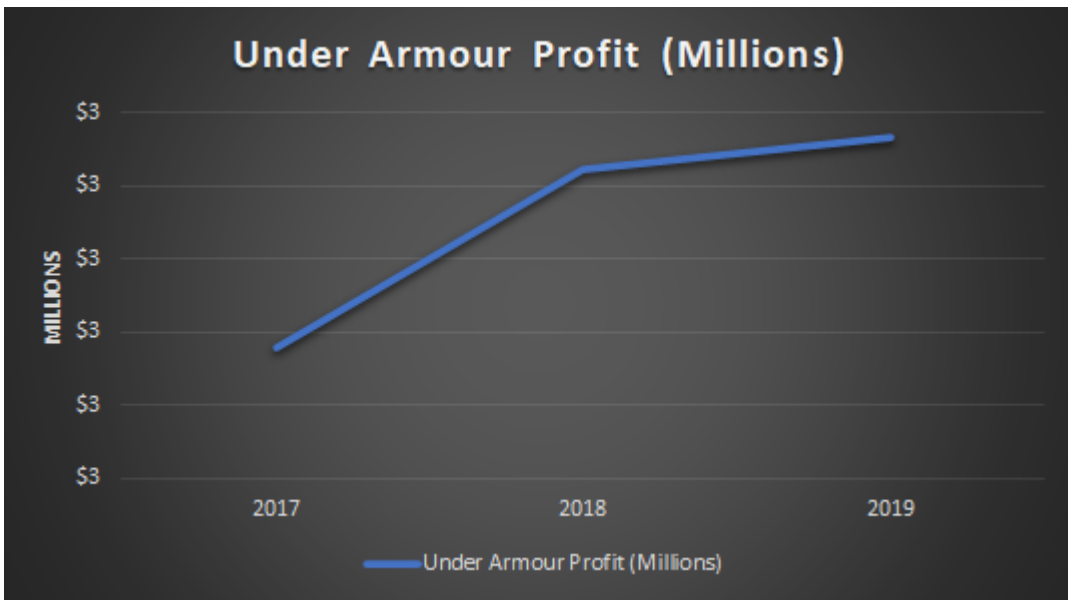
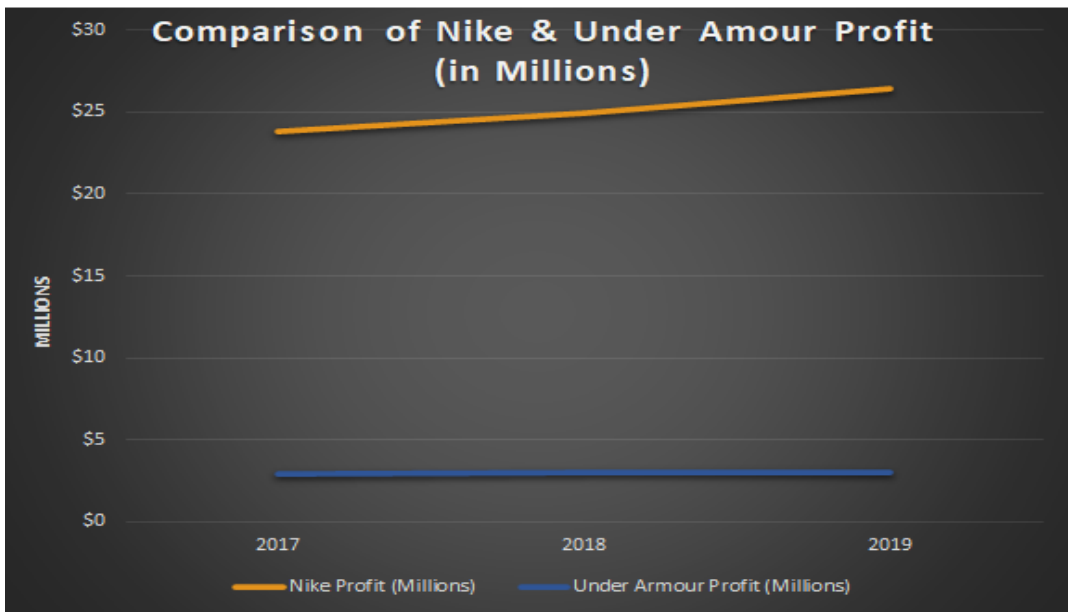


Chart 5



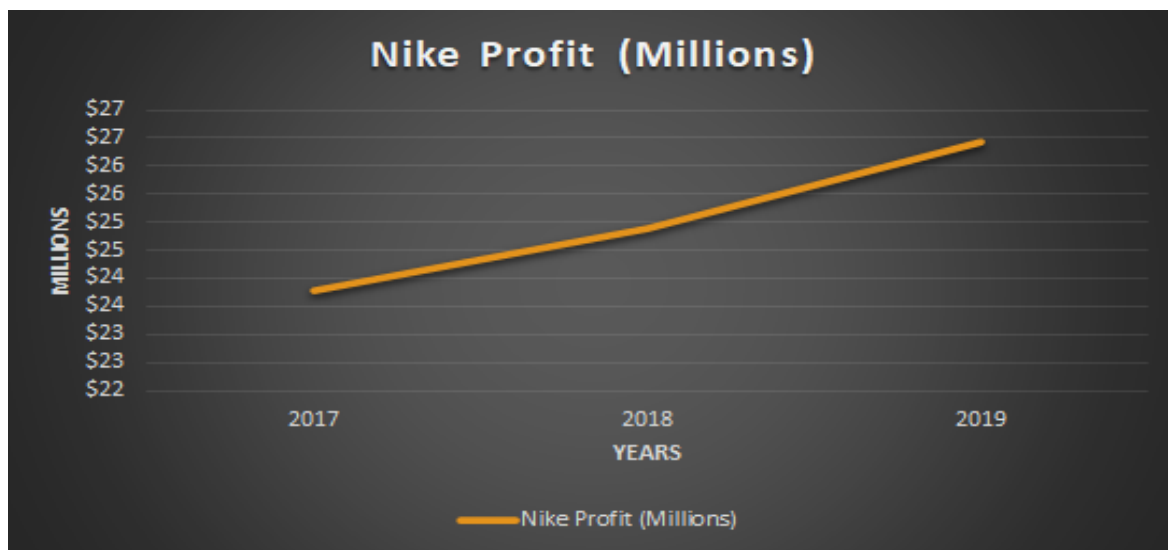
b. Nike Analysis

Based off the data displayed in Chart 6 below, Nike's profit has been constantly increasing since 2017. In 2018, they made \$1.09 million dollars more than in 2017. Then in 2019, they made \$1.52 million dollars more than in 2018. That is a very promising trend to uphold their market positioning. According to their Income Statement from Mergent online, even

their expenses increased by a billion dollars each year. For example, from 2017 to 2018 they spent \$948 thousand dollars more for their operating, manufacturing and administrative expenses combined. The same thing happened again in 2019, they spent \$1.19 million dollars instead of \$948 thousand.

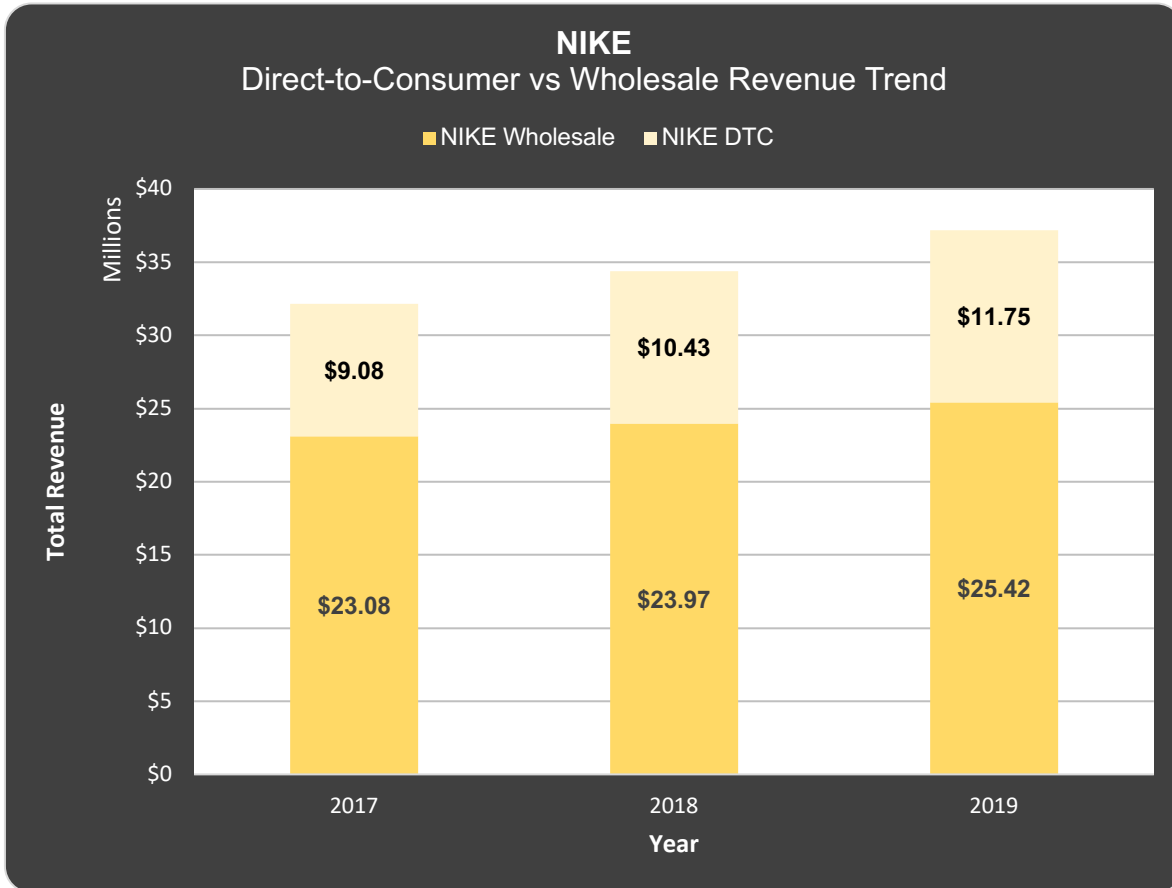
Nike has a lot of endorsements with professional sports players like Cristiano Ronaldo, LeBron James, and Michael Jordan. These types of business activities and sponsorships bring more marketing opportunities and sales from the athletes. Another recent event bringing in more sales is the, “direct-to-consumer,” impact Nike has through its, “factory stores and e-commerce operations.” (Oberoi, 2020). Demand for Nike products can be met at a fast pace through in person and online channels, and because they use Amazon and other transportation companies to send out product. So, endorsements or transportation partners, could be responsible for the huge increase in profit, that allowed Nike to increase operation costs and other expenses for their stores.

Chart 6



Wholesale & Direct-to-Consumer Trends & Percent Change

Chart 7

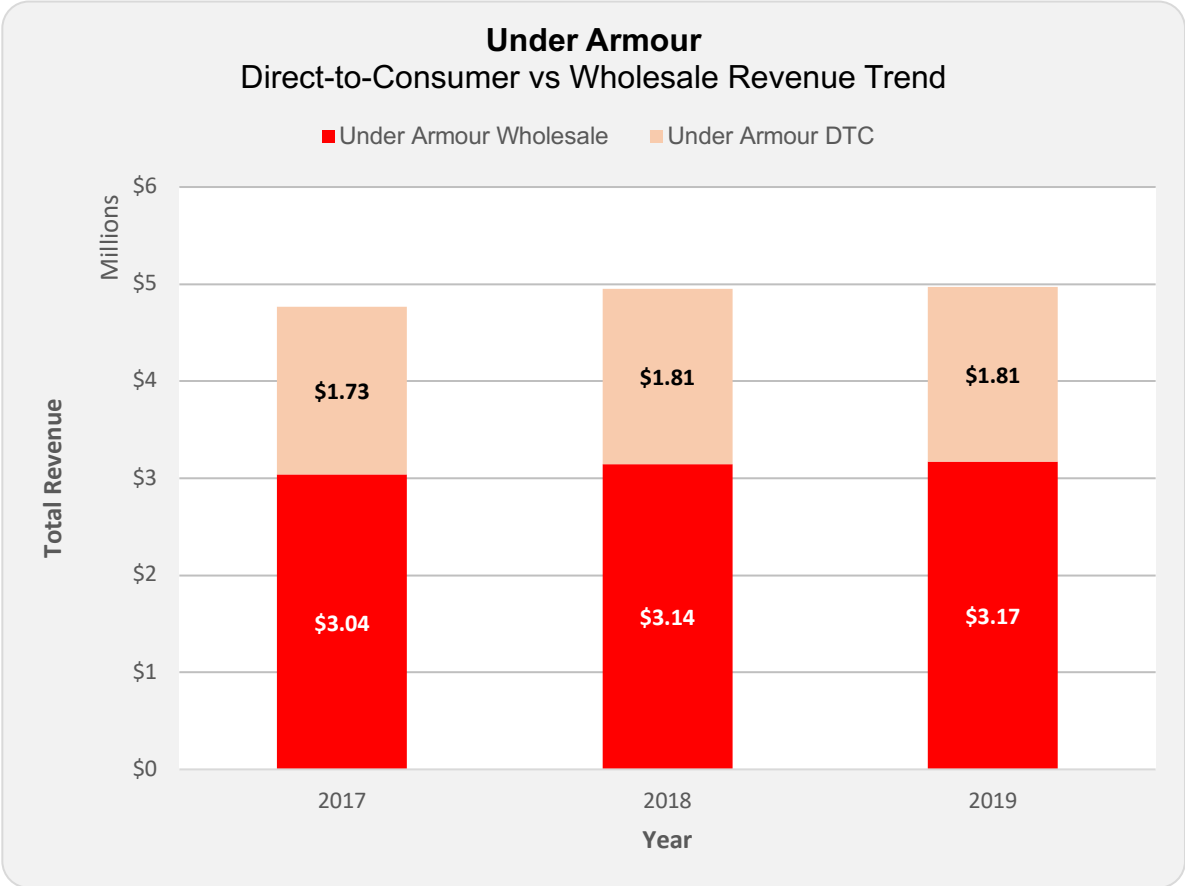


**DTC (Direct-to-Consumer Channels) Wholesale (Indirect Channels)*

Nike sells their products through direct channels, such as Nike-owned retail stores and digital platforms (e-commerce), and indirect channels, such as retailers, independent distributors, licensees, and sales representatives (Nike, Inc. 2019 p. 96). Nike only provides revenue data for all its direct-to-consumer channels (e-commerce and brand stores) and wholesale channels. However, they have reported that within the DTC channel, e-commerce has outpaced all other channels, growing at 35%, while wholesale channels have only increased by 6% from 2018 to 2019 (Nike, Inc. 2019 p. 92). The figures illustrated in Chart 7, Chart 9 and Table 1 compare Nike's DTC channels and wholesale channels.

Based on Chart 7 and 9, between 2017 and 2019, revenue from Nike wholesale channels consistently outperformed Nike direct-to-consumer channels. During this three-year period, sales for both direct and wholesales channels increased by about \$2 million. As shown in Chart 7 and Table 1, revenue generated between 2017 to 2018 through DTC channels grew by 14.8%, while wholesale channels grew by 3.9%. From 2018 to 2019, DTC channels grew about 2% less than the following year at 12.7%, whereas wholesale channels grew by about 3% at 6.1%. Based on these results, sales generated through direct and wholesales channels should continue to increase next year. We can also expect wholesale channels to remain Nike’s dominant stream of revenue, however, revenue generated by direct-to-consumer channels is expected to rise due to the surge in e-commerce sales.

Chart 8



*DTC (Direct-to-Consumer Channels) Wholesale (Indirect Channels)

The majority of Under Armour's sales are generated through indirect wholesale channels, which include national and regional sporting goods chains, independent and specialty retailers, department store chains, institutional athletic departments and leagues and teams (Under Armour, Inc. 2019, p. 3). Under Armour also sells their products directly to consumers through their brand stores and e-commerce. Under Armour only provides sales data for all its DTC channels (e-commerce and brand stores) and wholesale channels – which either suggests that their e-commerce channels do not generate a large enough share to be mentioned specifically, or they are simply not interested in sharing this information. Therefore, only an approximation of e-commerce sales can be made with the given data; the figures illustrated in Chart 8, Chart 9 and Table 1 compare Under Armour's DTC channels and wholesale channels.

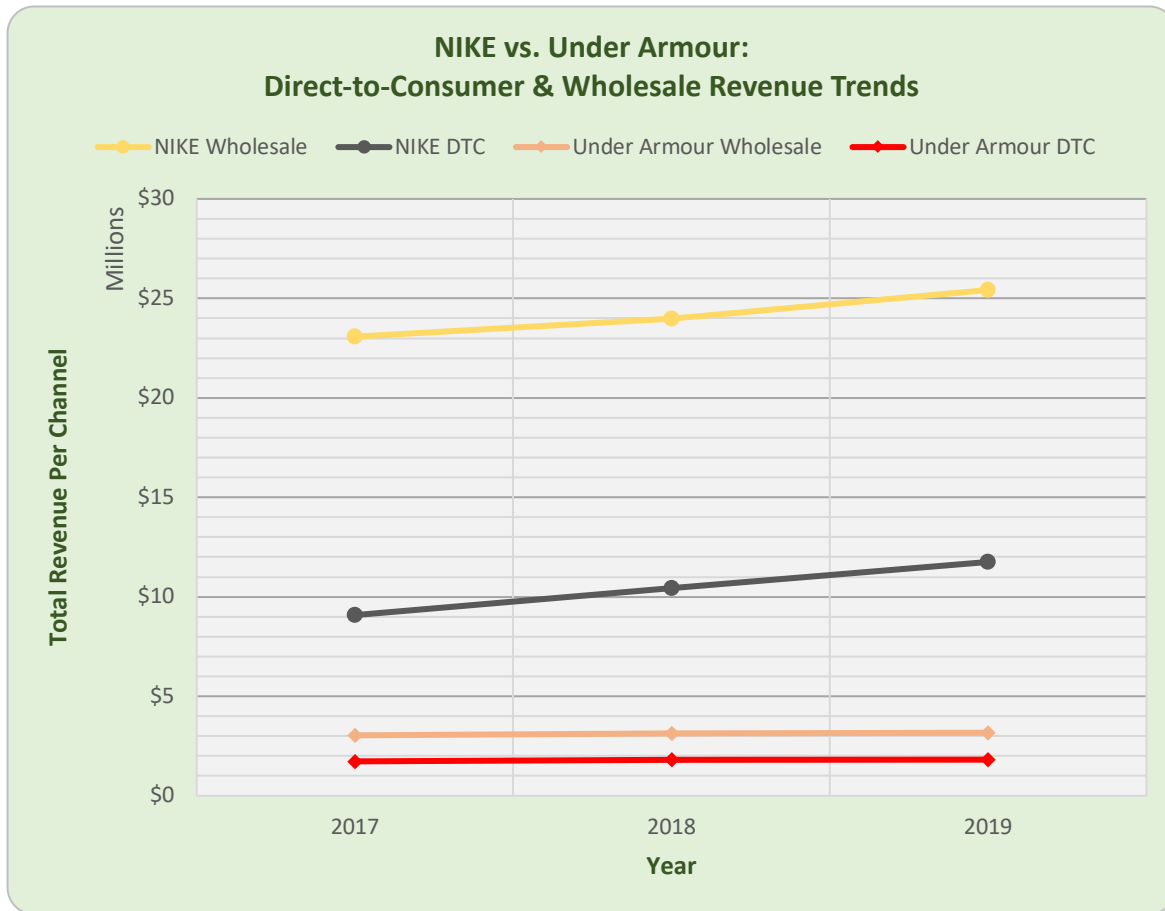
As Chart 8 and 9 illustrates, wholesales channels consistently outperform direct-to-consumer channels from 2017 to 2019. In Table 1, wholesale revenues increased by 3.4%, and DTC revenues increased by 4.5% from 2017 to 2018; then from 2018 to 2019, wholesales only increased by 0.8%, while DTC remained flat at – 0.1%. Charts 8 and 9 illustrate these changes in numerical form. Based on these results, we can expect wholesale channels to remain the dominant source of sale revenue. Under Armour recognizes their weak performance with DTC channels and plans to invest significantly in enhancing their digital platform capabilities and implementing systems to drive higher engagement with customers (Under Armour, Inc. 2019, p. 11).

Table 1

Percentage Change Direct-to-Consumer & Wholesale Revenue		
Store Channels	% Change (2017-2018)	% Change (2018-2019)
NIKE Wholesale	3.86%	6.07%
NIKE DTC	14.82%	12.71%
Under Armour Wholesale	3.42%	0.82%
Under Armour DTC	4.48%	-0.12%

**DTC (Direct-to-Consumer/e-Commerce) Wholesale (Retail Stores)*

Chart 9



**DTC (Direct-to-Consumer Channels) Wholesale (Indirect Channels)*

Conclusion

Nike and Under Armour are both successful companies among sportswear, however, there are differences in which both companies have performed determining their overall financial status. Based on our results, both Nike and Under Armour did increase in revenue and profit per store over the three years. Overall, Nike has a better competitive advantage over Under Armour with gaining financial profits as well as executing strong marketing strategies. Nike mentions in their 2019 Annual Report, that they will continue to increase usage of social media and proprietary mobile applications to interact with our consumers and to enhance their shopping experience (Nike, Inc. 2019 p. 80).

Based on our analysis of Nike, we suggest that they continue to invest into their e-commerce platforms and supply chain infrastructure to match their omnichannel plans and efforts. Nike should also continue to expand their partnerships with various artists and athletes to attract several types of demographics. To improve financially, Under Armour will need to plan accordingly to increase their sales and brand awareness. Based on our results, we suggest Under Armour to continue investing into their e-commerce platforms and supply chain infrastructure to meet their omnichannel goals. However, due to Under Armour's weak performance, we also suggest that they should focus on developing a consumer-friendly presence on social-media by engaging with more customers online through apps like Twitter, Instagram, or Reddit. Under Armour should also invest in creating better partnerships with artists and athletes to develop products that are more aligned with the current generation of influencers.

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