

# Situation Analysis

Under Armour in the Footwear Industry

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## Under Armour in the Footwear Industry

In this report, I will be analyzing Under Armour's position in the athletic footwear industry. The issue I have found to be apparent is that Under Armour faces a limited range of authority in the footwear market. Under Armour first entered the athletic footwear industry in 2006 and since then has only been able to capture less than 1% market share. The following report will include findings from a company and industry analysis; competitive and SWOT analysis; and market analysis; as well as a thorough listing of recommendations based on these analyses.

### Company and Industry Analysis

Under Armour makes up a very small portion of the athletic footwear industry, but its footwear sales are growing rapidly year to year. Even so, the sales figures show that Under Armour is in a poor position in the athletic footwear industry. The following company and industry analysis will give us a clearer picture of where Under Armour stands in relation to the rest of the industry.

#### Under Armour Grows Faster Than the Industry

Under Armour has been experiencing major growth in footwear sales since the launch of its footwear line in 2006. According to Under Armour financial statements, in 2010 Under Armour had total footwear sales of \$127,175. In 2011, its total footwear sales reached \$181,684. Reported most recently, for fiscal 2012, total footwear sales increased to \$238,955 (Under Armour Annual Report, 2012, p. 73). That is a 42.9% increase from 2010 to 2011. In contrast, according to sales figures reported by the National Sporting Goods Association, sales for the athletic footwear industry as a whole increased by only 5.2% in that same year (SBRnet, 2012). This means that Under Armour's footwear sales are growing at a faster rate than sales for the industry as a whole. However, if we compare Under Armour's sales to other companies in the industry, we can see that Under Armour still has a long way to go to become a top footwear competitor.

#### Under Armour Falls Far Behind Competition

Table 1 below shows annual footwear sales for Under Armour and three of its close competitors.

Table 1. Industry Footwear Sales

	2010	2011	2012
<b>Under Armour</b>	127,175	181,684	238,955
<b>Nike</b>	10.3 billion	11.52 billion	13.42 billion
<b>Adidas</b>	5.39 billion	6 billion	6.92 billion
<b>Asics</b>			1.79 billion

Note. Sales data. Adapted from Under Armour, Nike, Adidas, and Asics financial reports.

Nike has been a major company and brand in the footwear, as well as athletic, industry for decades. Due to their longstanding presence in the footwear industry, Nike has continually had increasing sales in the footwear segment. As seen through this data, Nike is continually profitable in the footwear industry. It has

been making revenue in the billions which is significantly higher than Under Armour has yet to produce (Nike Inc., 2012).

Adidas is another key competitor in the footwear industry whose sales are coveted. It has developed a presence in the footwear industry for creating products that have been used by a variety of customers from different socioeconomic standings. While Adidas does have lower amounts than Nike, Adidas is making profits that widely surpass those of Under Armour. (Adidas Group., 2012).

Asics has been continually making profits that are less than the top firms in the footwear industry. However, its income from footwear sales is still greater than that of Under Armour (Asics Corporation., 2012).

### **Limited Product Line**

Another factor we should look at as we try to understand why Under Armour's sales aren't stacking up with the rest of the industry is what footwear products is Under Armour offering? Compared to the rest of the industry Under Armour has a relatively limited product line. While brands like Nike and Adidas offer over 100 different styles of men's shoes, Under Armour has less than 40. These include football, baseball, soccer, and lacrosse cleats; as well as basketball and running shoes. Under Armour's women's shoe line is even more limited offering only running shoes and softball cleats. As you may notice, Under Armour's footwear products are geared mainly toward the male athlete. So there is a large portion of the athletic footwear market that it is not reaching.

### **Too Much Emphasis on Performance**

In addition to a limited product line, Under Armour shoe sales have been plagued by the very factor which had spawned its success: performance. In choosing to focus solely on increasing the speed, agility, and total athletic performance for the consumer, Under Armour has neglected the fashion aspect of footwear. It is true that market niche specialization is critical in creating a unique and recognizable brand. However, if Under Armour truly wants to increase footwear sales, it must shift attention to adding more style to its footwear.

To expand on this even further, let us begin by identifying the mission of Under Armour: to make all athletes better through passion, design, and the relentless pursuit of innovation ("Under Armour Investor Relations," 2006). The most obvious thought that comes to mind after reading this statement is that this brand was made solely for the athlete. The words "passion" and "relentless" match perfectly with the traits of a superstar sports figure. Therefore, it is obvious that Under Armour is targeting the everyday athlete in its business model. However, in choosing to target mostly athletes, Under Armour has unintentionally limited profitability and market potential. Under Armour has become one-dimensional due to the limited focus on non-athletes, and inability to incorporate fashion into its footwear lines.

A few years ago, Nike launched a new product line called Presto. Presto was intended to bridge the gap between sports and fashion ("Hargrave-Silk," 2003). In 2003, Nike added Converse to its line of footwear products. These strategic marketing and management decisions have been directed at adding an extra element to an already successful sports brand. Whereas Nike and other footwear companies in the industry have sought to appeal to both the performance and fashion aspects of footwear, Under Armour has reduced itself to only the athletic segment. In doing so, Under Armour has substantially reduced the size of its market, and ability to maximize growth potential.

## **Core Competencies Reinforce Fashion Weakness**

Kevin Plank, the CEO and Founder of Under Armour has expressed what he believes to be the three most important core competencies of his company: powerful brand identity, product performance, and customer satisfaction (“Prospectus Summary,” 2005). In each competency, Plank emphasized the importance of using innovative technology to produce a high-quality performance product. If Plank is serious about attaining overall customer satisfaction, he must first amend the core strengths that created his success. He must continue producing performance products, but also add a degree of style to his brand.

## **Research and Development**

This section of the report describes the research and development conducted for the analysis of Under Armour and the footwear industry as a whole. Under Armour competes in a competitive market to gain an edge over the competition. The following headings describe the factors involved in Under Armour’s Research and Development.

**Brand Loyalty In the Footwear Market.** In the United States, there are four major shoe brands in the footwear industry: Nike, Adidas, Asics, and Under Armour. For years, Nike has been the most productive footwear company holding 15 of the top 17 best basketball shoes for the year 2012 (The Best Basketball Shoes, 2012). This is a staggering number, but for such a large company, brand loyalty plays a major role as well. Nike has been around since 1964 (originally called, Blue Ribbon Sports before changing their name to, Nike), Adidas since 1949, and Asics since 1949 as well (originally called, Onitsuka Co., Ltd). Under Armour started in 1996 and didn’t become a household name until 2003 when it came out with its first commercial (Nike Adidas Asics, 2013). Despite Under Armour’s recent success in the past few years, surpassing powerhouse footwear companies such as Nike, Adidas, or Asics will be a major challenge in their respective industry.

**Endorsement Wars.** Under Armour currently has endorsed 25 athletes, notably: Michael Phelps, Ray Lewis, and Bryce Harper (Under Armour Endorsers, 2013). In the footwear market today, signing a popular athlete to your company can be the difference in making revenue during the upcoming fiscal year, or having extreme expenses. Nike is the leader in the industry again with 48 confirmed endorsed athletes, but this is excluding endorsements with professional sports teams and leagues (in 2012, the NFL signed an endorsement deal with Nike) (Nike Endorsers, 2013). Under Armour runs as a mediocre company with endorsements, but they lack one thing: more than one model of a shoe to show for athletes to wear and market. This leads me to my next sub point, Spine.

**Under Armour’s Spine Model.** Spine is Under Armour’s most popular shoe, released in 2012 by shoe designer, Dave Dombrow (Under Armour Unveils New UA Spine, 2012). The idea for the shoe came from a model of the actual human spine with the flexibility as well as strength as the core ideas for the shoe. The idea of the shoe was for it to be agile when it needs to be, but rigid when it must be. Despite the ingenuity of the shoe, Under Armour lacks the style that other companies in the industry have shown in our company sales. Comfort and protection have been accomplished in the Spine shoe, but style is still an ongoing effort to perfect.

**Bottom Line.** In conclusion for research and development, Under Armour still lacks in the category of the footwear industry. Between brand loyalty, endorsing big name athletes, and lack of style, Under

Armour is still far away from gaining a competitive advantage on any big name companies (Nike, Adidas, Asics) in the This brings me to my closing statement about Under Armour within the footwear industry.

### **Under Armour Must Catch Up With Industry**

We would like to conclude the company and industry portion of this analysis by pointing out that this is a company specific issue rather than an industry wide issue. We know this because the industry is growing as a whole and Under Armour's competitors have been very successful. In the next section, we will be taking a closer look at these competitors in a competitive and SWOT analysis to see what these successful shoe brands are doing in regards to footwear and how those strategies might be applied to Under Amrou.

## **Competitive Analysis**

In this portion of our report I will conduct an analysis of two major competitors, Nike and Adidas, in the footwear market. Based on sales, product lines, and endorsements of these two companies compared to Under Armour, Under Armour is in a relatively poor position in the footwear market.

### **Nike Footwear Sales Mark Nike as the Leader in Footwear.**

Nike sales have been a major indicator of their success in the footwear industry labeling themselves as the top competitor. Nike has been a top brand in the footwear industry for decades which is reflected through their sales figures. According to the financial records of Nike Financial Group, Nike sales have continually climbed year after year. In 2010, Nike reached sales of \$10.3 billion. In 2011, Nike reached footwear sales of \$11.52. And in the most recent financial period of 2012, Nike has amassed footwear sales of \$13.42 billion (Nike, Inc., 2012). As seen through this data, Nike is experiencing persistent growth in their footwear sales. This continual growth is also reflected in the percentage of footwear sales to total sales of Nike. Nike financial records also indicate footwear sales generate around 69% of sales in the entire Nike brand (Nike, Inc., 2012). This percentage is the largest component of all the sales categories in Nike which include apparel and accessories (Under Armour, Inc., 2012).

### **Nike Product Line**

Nike currently offers over 550 styles of men's shoes and almost 300 different styles of women's shoes (nike.com). Product categories include those also offered by Under Armour (running, training, football, basketball, soccer, lacrosse, baseball, softball) as well as golf, skateboarding, tennis, and wrestling shoes. Nike also has a line of lifestyle shoes which are just simply for everyday wear and not related to any specific sport or activity. Something else that sets Nike apart from Under Armour is something called "Nike iD" where customers can customize everything from the style of their shoe to the material and even the color of the stitching and shoe laces.

### **Nike Endorsements**

Nike as a company has stores in 42 different countries as well as Africa and the Middle East (Nike, 2013). This shows their connection to the different countries and cultures of the world as well as their expansion since they first started as a company in 1964 (Nike Repository, 2010). Under Armour began in 1995 in

Baltimore, MD and as an athletic apparel company (Under Armour, 2013). Breaking into the footwear industry has proven as not an easy task based on the sales from the past three years and for a good reason: Nike endorses non-athletes. Nike currently endorses Kanye West, the boys of the MTV reality show Jersey Shore, and even the current President of the United States, Barack Obama as well as many of the best athletes in the world such as Tiger Woods and LeBron James. Under Armour has athletes such as Bryce Harper, Lindsey Vonn, and Michael Phelps although no non-athletes. There are a few reasons for this such as loyalty, image, and music that have been preventing Under Armour from being a competitive company measured against Nike.

### **Nike Brand Loyalty**

Nike has been around for 31 years longer than Under Armour has. This number represents the older generations that have grown up with Nike as one of the main brands of shoes to wear. Breaking into the shoe industry is not easy, especially when you start up as an athletic apparel company such as Under Armour. Nike began as a shoe company in Eugene, Oregon using the Oregon track team as the initial sponsors of the shoe. Gradually through the years they began to stretch their endorsements out to involve non-athletes, which started a new era of wearing sport shoes as casual wear rather than athletics.

### **Nike Brand Image**

Nike has a strong image because it has broken through the barrier of being not just a sport shoe, but a multi-wear shoe as well. Under Armour has barely been in the shoe industry more than a few years resulting in a limited catalog of shoes to offer. Of the shoes they do offer, they all relate to running, cross training, and football. Nike spans over all major sports, casual wear, water wear, and even dress shoes for business attire. This image that Nike has built over time and the fact they began as a shoe company originally has made it Nike seem impenetrable to slow down by Under Armour. Under Armour hired Nike's old shoe designer to recreate new shoes, but the same problem still exists: Under Armour is viewed as strictly athletic wear.

### **Nike's Connection to the Music Industry**

Nike has many deals with music artists such as Pauly D from the cast of Jersey Shore and rap artist, Kanye West. A large portion of Nike's revenue today doesn't just come from a specific sport such as football or running like they used to, but from young adults and kids who idolize these famous music artists that represent Nike. Under Armour has built in strength over the past five years in gaining a good reputation with athletes as it recently signed Bryce Harper, one of professional baseball's best players right now. Bryce Harper can sell baseball cleats and strength and conditioning shoes to people, but can't relate to people looking to buy shoes to wear out with their friends on the weekends or to wear to a high school dance like Nike can.

Nike's strong presence in the music industry and in casual wear is too strong for Under Armour to compete with based on their limited supply of non-athletic shoes and zero endorsed non-athletes. Based on the information I have provided, Under Armour is significantly more inferior to Nike and I believe a large portion of that is based on loyalty, their athletic-only image, and their relation to the music industry. Nike has many of the same qualities as Adidas, which will be compared to in the following section.

### **Adidas Sales Indicate Success in Footwear Industry.**

Adidas sales have been continuously increasing for the past decades. Adidas has had a loyal customer base for decades which is represented well in their sales numbers. The financial documents of Adidas show that footwear sales have been on the rise for years. Adidas financial statements show that in 2010, Adidas had footwear sales of \$5.39 billion. In 2011, Adidas had footwear sales of \$6 billion. And in 2012, records showed that footwear sales amounted to \$6.92 billion (Adidas Group, 2012). This data indicates that Adidas sales are improving and increasing gradually. With the amount of footwear sales in mind, we calculated the percentage of footwear sales to total sales. This percentage came to 45% (Adidas Group, 2012). This percentage is respectable and confirms that footwear sales are an important segment to Adidas sales as a whole (Adidas Group., 2012).

### **Adidas Has Greater Quantity and Range of Footwear Products**

Adidas has over 200 different styles of men's shoes and over 100 styles of women's shoes (adidas.com) compared to Under Armour who has less than 100 styles of men's and women's shoes combined (underarmour.com). Adidas offers 12 product categories for men and 9 for women compared to Under Armour's 9 men's product categories and 3 women's product categories. Beyond what Under Armour offers, Adidas also offers tennis, skateboarding, weightlifting, and track & field shoes for men. In addition, Adidas is more adequately meeting the needs of women athletic footwear consumers with product categories like soccer, tennis, yoga, outdoor, and basketball shoes for women that Under Armour does not offer. Furthermore, Adidas has an advantage over Under Armour because of its "originals" and "lifestyle" product lines which appeal to men and women looking for casual shoes and fashion sneakers to wear when they are not playing sports. In contrast, Under Armour's product line is very limiting because all of its shoes are geared toward a specific sport. Finally, Adidas gives its customers many customizable shoe options while Under Armour does not. All product offering information for Under Armour and Adidas has been obtained through their retail websites.

### **Adidas Endorsements Yield Success**

Earlier in this competitive analysis, we mentioned the great success that Nike had in sponsoring non-athletes to endorse its products. Now, we will discuss the even greater success that Adidas and its sister company Reebok have achieved in targeting other non-sport celebrities. The actual idea of an athletic-only apparel company endorsing a non-athlete originated with Adidas in 1986. At that time, hip-hop music was just beginning to become main stream with thousands of new fans every day. Consequently, Adidas saw the potential in targeting a specific hip-hop group that would transform the athletic apparel industry. This group was Run DMC.

### **Run DMC Becomes First Artist Sponsored**

Run DMC was a rap/hip-hop group credited with possibly the most successful career in history for that genre of music. They were the first rap act to have a #1 R&B charting album, first rap act to have a Top 10 Pop charting album, and had several songs hit multi-platinum status. Tying in with all of this success was the individual success of one of their most popular songs, "My Adidas." "My Adidas" was a trademark song for Run DMC in the late 1980's, which emphasized their immense attraction to the Adidas "shell toe" sneaker. No matter where Run DMC went, they could always be seen wearing this

Adidas shoe. In fact, at one of their biggest concerts ever in Madison Square Garden, one of the singers from the group yelled out to the crowd, “Put your Adidas in the air.” At this concert, 20,000 screaming fans were seen with their Adidas shoes raised above their head. (“Express Yourself: Run DMC and the Evolution of Adidas” 2008)

After catching a glimpse at a video from this concert, an Adidas executive named Angelo Anastasio proposed the idea of signing a non-sports star to the Adidas brand. Anastasio realized that the vast success of Run DMC, and their heavy backing of the Adidas brand could translate to increased shoe sales and consequently higher profits. In short, Adidas became the first athletic company to sign a non-athlete to its brand when they paid Run DMC an annual salary of \$1 million per year to wear and design its own Adidas sneaker. (“Express Yourself: Run DMC and the Evolution of Adidas” 2008)

### **Reebok Continues Adidas Focus on Music**

Adidas would go on to continue endorsing hip-hop acts into the 2000’s through its sister company Reebok when they signed artists: Jay-Z, 50 cent, and Nelly. Of these three, Reebok first signed Jay-Z in 2003. However, unlike the endorsement of Run DMC in which the group was given the privilege to design its own shoe, Jay-Z was given the ability to design an entire line of shoes. According to NPD Group, the industry grew by 2.6% in 2003 with the majority of the growth coming from consumers in the 18 to 29 age range (Rafalko, Ann 2013). It just so happens that one of the biggest age demographics in support of hip-hop music is the 18-29 age bracket. Therefore, one can surmise that the sponsorship of hip-hop artists to an athletic apparel company can and will boost footwear sales.

### **Adidas Signs Another Huge Name**

Now that we have observed the demonstrated success of Adidas in terms of endorsing hip-hop artists to its brand, it is important to mention that these endorsements are not limited to that music genre. In 2013, Adidas signed mega-pop star Justin Bieber to its team of non-athlete endorsees. Justin Bieber is one of the most popular and most watched icons on television today. Not to mention, his career started at the young age of 13 which has given him the unrelenting favor of most young kids and teens. Bieber will be launching the NEO line of the Adidas brand featuring the “Find my Gold” shoe. It is too soon to evaluate the success of Bieber’s endorsement; however one can predict that his success in music will carry over to much success in the footwear industry. (“Neo & Justin Bieber Sneaker Hunt” 2012)

### **Under Armour & Competitors Compared**

With all this knowledge in mind, we can now compare Under Armour to Nike and Adidas. Under Armour has an extremely small range of authority in the footwear industry due to the fact that they have been involved with footwear for less than a decade. According to Under Armour’s financial statements, Under Armour generated footwear sales of \$127,125 in 2010. In 2011, Under Armour produced footwear sales of \$181,684. Most recently in 2012, Under Armour produced \$238,955 in footwear sales. These Under Armour figures are dramatically less than Nike and Adidas by billions of dollars which shows how their presence in the footwear industry is virtually nonexistent. According to Under Armour’s financial records, the percentage of sales represented by footwear is only a measly 14%. Compared to the percentage amounts that Nike and Adidas reach, Under Armour is behind by more than 30%. Both the



actual revenue generated by footwear sales and percentage of footwear sales indicate that Under Armour is not in a solid position compared to its competitors.

It is now obvious that our two top competitors have achieved great success in sponsoring hip-hop and pop artists. But, who does Under Armour have promoting its brand? As it turns out, Under Armour has endorsed some of the biggest names in professional sports. Tom Brady, Ray Lewis, Cam Newton, and Michael Phelps are among many other big name endorsements, but the problem remains in the fact they Under Armour has only sought out sports figures. In our company and industry analysis, we proposed the idea that Under Armour focuses too heavily on performance and not enough on fashion. This notion resonates particularly well with the names Under Armour has chosen to sponsor. Therefore, Under Armour should weigh the costs and benefits of including a big name musician or even a popular actor/actress to its list of endorsements much like the way Nike and Adidas have done.

Lastly, Under Armour's narrow focus which relies heavily on performance can be seen in its product line. While Nike and Adidas both offer lifestyle brands for the everyday consumer, Under Armour has no such footwear category. All of Under Armour's footwear products are made specifically with the athlete in mind and all are tailored to a specific sport or activity.

## **SWOT Analysis**

In this portion of our report I will identify Under Armour's major strengths, weaknesses, opportunities, and threats in regards to footwear.

### **Strengths**

**Under Armour has set itself apart as an innovative performance brand.** This niche in performance apparel is one of Under Armour's major strengths and has earned the company a loyal customer base. In fact, Under Armour ranked among the top 5 brands on SportsOneSource Group's Brand Strength Index, part of an annual report that measures brand strength of "active lifestyle brands" from a consumer perspective based on brand awareness, consumer brand purchases, and consumer intent to re-purchase (SGB Weekly, 2011). Under Armour scored 518.3 out of 1,000 on this index with the highest scoring brand coming in at 742. This proves that Under Armour is a well recognized and respected brand. Now it's just a matter of getting these loyal apparel consumers to recognize Under Armour as a shoe brand as well.

**Under Armour scores deals with the NBA, NFL, and MLB.** Another strength for Under Armour in regards to footwear is its relationship with the National Basketball Association, National Football League, and Major League Baseball. Under its sponsorship deal with the NBA, NBA endorsers Brandon Jennings of the Milwaukee Bucks, Derrick Williams of the Minnesota Timberwolves, Kemba Walker of the Charlotte Bobcats, and Greivis Vasquez of the Memphis Grizzlies are wearing Under Armour Basketball shoes on the courts and appearing in Under Armour adds in their NBA uniforms (McCarthy, 2011). In 2006, Under Armour became an authorized footwear supplier for the NFL, along with existing NFL footwear suppliers Nike and Reebok (Loten, 2006). This means that Under Armour football cleats are being worn on the field and also that Under Armour can use the NFL logo in its advertisements. Lastly, in 2011 Under Armour was named the official footwear supplier of the MLB (MLB Press Release,

2011) not only establishing its presence in the baseball world, but also giving the company rights to use the MLB logo in its advertisements. This is a small, yet significant presence that Under Armour has established in professional sports and in the footwear market as a whole. Having these contracts with the NBA, NFL, and MLB is a good way to boost Under Armour's brand image.

## **Weaknesses**

**Under Armour has a limited product line.** As was discussed in our competitive analysis, when it comes to footwear Under Armour is not offering its customers as many or as wide a range of products as brands like Nike and Adidas. Under Armour is not effectively meeting the needs of athletic footwear consumers with its current product line. For example, according to NSGA sales of fashion sneakers are the second highest in the industry at \$3.9 billion (SBRnet, 2011), but Under Armour does not offer any shoe models within this category. Under Armour also does not offer any hiking shoes/boots which generated sales of \$1 billion in 2011, fifth largest in the industry (SBRnet, 2011).

**Under Armour is young and new.** Another weakness is that Under Armour is still a relatively new company and very small compared to its competitors. Under Armour lacks economies of scale and simply does not have resources comparable to that of its major competitors.

## **Opportunities**

**Under Armour has room for growth.** While Under Armour's size is an obvious hindrance to the brand, it also presents great opportunity for the company. With just a 6 year presence in the footwear market and less than 2% market share, Under Armour has plenty of room to grow. According to a 2011 market report published by transparency research, the athletic footwear market is expected to grow at a compound annual growth rate of 1.8% between 2011 and 2018 and reach USD 84.4 billion in 2018 (Martin, 2012). This means that Under Armour has the opportunity to earn additional share in a growing market. Under Armour also has the potential to steal market share from competitors in the athletic footwear industry.

## **Threats**

**Under Armour faces hard competition.** The threat that Under Armour is faced with in this industry is the intense competition from more established athletic shoe brands like Nike and Adidas. These companies dominate the athletic footwear industry, claiming a majority of the market share.

**Upper class Americans are cutting back on spending.** According to market research firm, Unity Marketing, households earning \$100,000 or more per year decreased their spending on luxury goods and services by 26.9% from the second quarter of 2011 to the second quarter of 2012 (Asaeda, p. 3). Spending in the fashion accessory and footwear category saw an even greater decline of 51.9% from 2011 to 2012 (Asaeda, p. 3). This is bad news for Under Armour since according to MediaMark, the most likely purchasers of Under Armour are households with an annual income greater than \$150,000 (MediaMark, 2011).

**Labor force participation among 20-24 year olds declines.** The labor force participation rate for 18-24 year olds fell to a 40 year low of 70.8% in July of 2012 (Asaeda, p. 4). According to Media Mark, the age group most likely to purchase Under Armour footwear are 18-24 year olds, so this decline in labor force participation poses a major threat to Under Armour. Further, the outlook for this age group is not promising. According to the Bureau of Labor Statistics, the number of Americans ages 16 to 24 in the labor force decreased from 22.5 billion in 2000 to 20.9 billion in 2010 and is expected to decrease even further to 18.3 billion by 2020 (Toossi, p. 44).

### **Next Action**

The next step in this situation analysis will be to conduct a full examination of the footwear market. This will enable us to get a more well-rounded view of the environment for which Under Armour is currently operating. After the full analysis of Under Armour's market, you will be best suited for recommendation proposal and finding permanent solutions to these aforementioned issues.

## **Athletic Footwear Market Conditions & Growth**

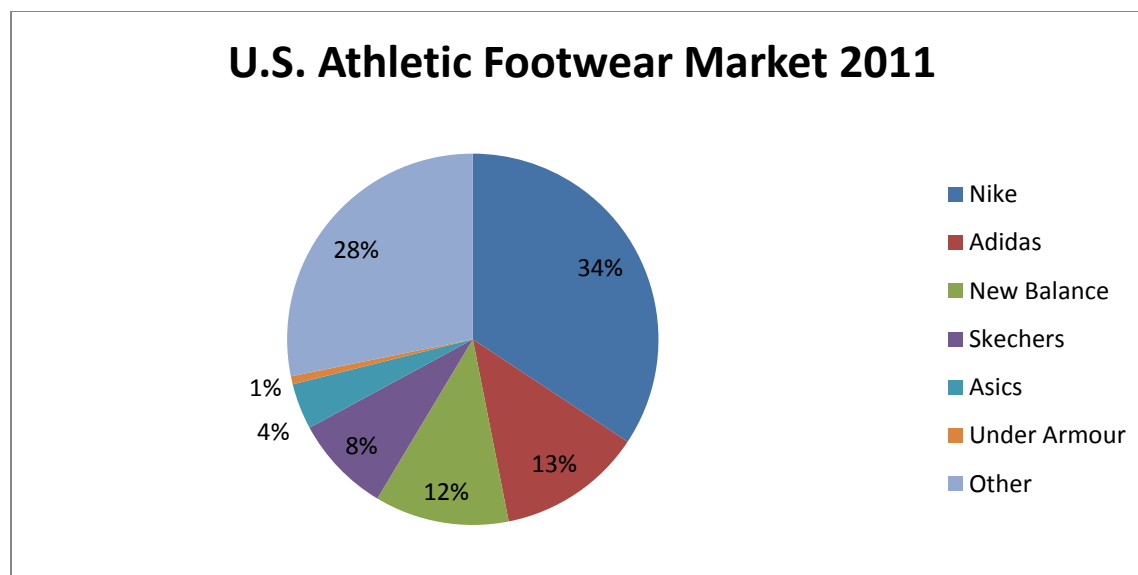
In this section I will look at the total size of the athletic footwear market and its potential for growth, as well as, Under Armour's position in this market. Although Under Armour controls a very small portion of the market, it has the potential to grow as there are many areas in which they improve within the footwear industry.

### **Athletic Footwear Market is Growing**

The U.S. athletic footwear market reached sales of \$18.4 billion in 2011 according to the National Sporting Goods Association, up from \$17.5 billion in 2010 (SBRnet, 2012). Projection data is not yet available for the U.S., but we do know that the global athletic footwear market is expected to grow at a compound annual growth rate of 1.8% between 2011 and 2018 (Martin, 2012) with the North America segment growing at a slightly lower rate. This is good news for Under Armour who has plenty of room to grow in this market.

### **Under Armour Has Small Market Share**

The U.S. athletic footwear market is dominated by just a few key players with several other companies capturing relatively small shares. The breakdown of this market is illustrated in *Figure 1* below.



*Figure 1.* 2011 market share breakdown of the United States athletic footwear market. Adapted from SBRnet. Footwear-All Sport (1) Footwear: % of Consumer Unit Purchases by Brand.

Under Armour claims just .07% of this market according to the National Sporting Goods Association (SBRnet, 2012). But fortunately for Under Armour there are several factors driving growth in the market.

### Several Forces Drive Overall Market Growth

The U.S. athletic footwear market is expected to grow for several reasons including the current trend of athletic shoes as fashion wear, an increase in sport participation, and the recent promotion of physical activity.

**Athletic shoes as fashion wear.** Athletic shoes are not only being worn on the courts and playing fields, but are also being worn as everyday shoes, even for those who are not athletic. “We’ve seen the running-shoe business become a fashion business as well as a comfort and innovation business” says NDP analyst Marshal Cohen (Townsend, 2012). Consumers like to wear the shoes as they go about their everyday business because they are comfortable and trendy. And we can see that the fashion sneaker category of athletic footwear is gaining more attention too. Sales for this segment increased from \$3.6 billion in 2010 to \$3.9 billion in 2011 (SBRnet, 2012). The athletic footwear market no longer consists of just athletes, but also those consumers wanting to make a fashion statement.

**Running gains popularity as well as other sports.** According to the National Sporting Goods Association participation in running/jogging has seen a significant increase as of lately. U.S. participation in the sport has steadily increased since 2006 and made a big jump from 35.5 million participants in 2010 to 38.7 million in 2011 (SBRnet, 2012). Sales in running/jogging footwear increased by \$148 million (6.4%) during that time period (SBRnet, 2012). Other sports that have seen increased participation since 2010 include soccer, tennis, lacrosse, hiking, and aerobics.

**PHIT America promotes more active lifestyles.** In January of this year, over 110 sports and fitness companies, as well as other organizations, launched PHIT America, “a year-round, educational, advocacy,

and social media marketing campaign designed to reach millions of Americans” (SFIA, 2013). The purpose of the organization is to encourage Americans to be more healthy and active and also to advocate the passing of legislation that will help Americans to achieve a healthier more active lifestyle. If legislation is passed, the athletic footwear industry will likely see an increase in sales.

### **Under Armour Faces Conflict**

Now that you have a fundamental understanding of the size, percent share, and potential of your market, it is important that we now express the issues and barriers that could potentially hurt Under Armour now and in the future. There are several issues facing Under Armour in the market; however none compare to the tug-a-war conflict between the current recession and Under Armour’s premium pricing strategy.

**U.S. economic decline is the biggest issue.** The “Great Recession” which began in 2007 and still affecting the global economy today had a dramatic effect on the footwear industry. Not only had retail sales diminished during the economic downturn, but corporations and manufacturing had also taken a huge hit. According to an article by John Bland from eHow.com, consumers purchased about 1% fewer pairs of sneakers between 2007 and 2008 (Bland, 2010 para. 1). This may seem like an insignificant drop, but in a multi-billion dollar industry, this is a huge decline. Furthermore, long standing and reputable corporations like Foot Locker had seen their share price drop some 60% in a 12-month period (para.2). In China 100,000 factories, including thousands that manufactured shoes had shut down (para.3). From a macroeconomic standpoint, the recession which began in the United States and spread throughout the world had depressed the global supply of shoes. Fewer factories that can manufacture footwear products equates to less global output. When the supply of a good becomes limited, price increases.

**Unwillingness to lower prices enhances issue.** The brief economic analysis above which ended with an expectation that prices would increase due to a lower supply of goods is less detrimental than the premium pricing strategy Under Armour imposes on its products. Under Armour is known for being extremely innovative in the products it puts out. The technology that goes into making an Under Armour shirt is different than every other competitor in the market. Because of this fact, Under Armour feels entitled to charge a higher price for its products. According to an article taken from the Towson University Cook Library Database, Kevin Plank has been quoted in saying, “Under Armour’s running shoe opening price point is \$90. This price is about \$10 higher than the bulk of consumers are willing to pay.” (Pallay, 2009). With that said, how can you expect the average consumer to buy your product because it’s innovative, when he/she has less spending power due to a weakened economy?

This tug-a-war between the global recession and Under Armour’s unwillingness to lower prices is a big issue facing the company. Under Armour knows that in discounting its products, it will increase market share at a cost of declining profits. It is critical that Under Armour at least weighs the pros and cons of lowering prices at least until the economy recovers.

### **Demographics of Athletic Footwear Consumers**

For the demographics portion of the market analysis, we will compare the demographics discovered by MRI+ for fall 2011. MRI+ compiled data for the amount of Under Armour athletic shoes bought in the

last 12 months and the amount of any athletic shoes bought in the last 12 months. We will compare information from these two categories to show the differences in demographics.

**Age and Gender Data for Athletic Shoes Consumers.** The information regarding age and gender shows that Under Armour is marketing to the right age group with a key range being 18 to around mid to late 30s. However, Under Armour's sales are male dominated which does not match that of the footwear industry. Women were more than 16% more likely to buy athletic shoes than males in the footwear market as a whole. Based on this, Under Armour is lacking when it comes to marketing towards women and gaining female consumers. Due to the lack of female consumers that Under Armour currently appeals to, Under Armour is not on par with that of the footwear industry in this portion of demographics.

Age of consumers is an extremely important factor of demographics. The age that is the most popular in purchasing any athletic shoe is 25-34 with an index of 115. This means this segment of the population is 15% more likely to buy athletic footwear. The second highest age group for the footwear industry is ages 55 to 64 with an index of 111; meaning they are 11% more likely to purchase athletic shoes. In order to understand the significance of the age of consumers, breaking down the ages into gender statistics is necessary. It shows how purchase patterns change based on age and gender differences. Males who are between the ages of 18 to 49 are 4% more likely to buy, as well as males who are between the ages of 25-54 who are 6% more likely to buy. Women aged 18 to 34 have the highest index of being 20% more likely to purchase athletic shoes. The next highest age group is 18 to 49 being 14% more likely to purchase athletic shoes (MediaMark, 2011).

Now, we can compare Under Armour's age data to that of the overall athletic shoes exchange. The age group with the highest index is 18 to 24 with a percentage of 171, this section of the population is 71% more apt to buy Under Armour athletic footwear. The next highest age group is aged 25 to 34 with an index of 169. Following that, is the age group of 35 to 44 who have an index of 153. Keeping with the breakdown of data in the previous section, we will separate the ages into males and females. Males aged 18 to 34 had the maximum index of 198, making them almost double that of the average with 98% of men in that category more likely to purchase Under Armour athletic shoes. The next male age group that was high was males between the ages of 18 to 49; they had a percentage of 635 more likely to purchase Under Armour footwear. Now we can look at women's statistics. Women who are 19 to 34 are the most likely to buy at 42% above the average. The next age group, 18 to 49, has an index of 138, being 38% more likely to buy. The next section we will discuss is locations in demographics (MediaMark, 2011).

**Location of the Most Sales of Athletic Shoes.** For both purchases of any athletic footwear brand and purchases of Under Armour footwear, the Midwest, Northeast, and the South all are important regions for locations of generating sales. The degree to which region is the most popular varies depending on what brand is being marketed or desired. Even though Under Armour is based in the Northeast, specifically Baltimore, Maryland, the majority of its footwear sales are not generated in this region; Under Armour's main source of footwear sales are produced in the Midwest. General footwear sales are focused in the Northeast, followed by the Midwest. In this respect, Under Armour is not matching location demographics compared to footwear sales as a whole.

The footwear industry as a whole has most of its customers in the United States generating from three main regions. The top region with an index of 106 is the Northeast. Following that area, is the Midwest with an index of 104. Lastly, the South had an index of 102. All of these geographic areas of the United

States are above the normal rate putting them 6%, 4%, and 2% above the average. Under Armour's values differ from those of all brands purchased (MediaMark, 2011).

Under Armour appealed to the same regions in the United States; however, the index values were different. The top region that Under Armour consumers hail from is the Midwest with an index of 142. Following the Midwest is the Northeast with 119. Lastly is the South with an index value of 104. All of these regions promote sales for Under Armour; however, the Midwest region is the most valuable as seen through the 42% difference between the Midwest and the average 100 value on the index (MediaMark, 2011).

**Education Levels of Athletic Footwear Consumers.** Both general footwear sales and Under Armour sales benefit the most from college graduates; college graduates being the top educational level in this area of demographics.

Education levels are another important aspect of demographics. For the footwear market as a whole, the education levels with the highest index numbers are of some degree related to graduate or postgraduate studies. The educational level that had the greatest sales was graduated college with an index of 116 and a percentage of 16% over the average. The education level that followed was post graduate school with a rating of 115, 15% over the average. Lastly, people that are attending or had attended college had an index of 103 making them hover slightly over the normal by 3% (MediaMark, 2011).

Now we can look at the educational levels that Under Armour attracts. The segment with the greatest sales are graduated college; this portion is 46% over the average. Following that is post graduate studies with a value of 128. The last education level that is above average in Under Armour's statistics is attended college having a 124 as the index value (MediaMark, 2011).

**Income Levels of Athletic Footwear Consumers.** The information for income levels conveyed several interesting facts. While overall athletic footwear sales are more geared toward the middle class, the upper class does have an influence. When it comes to Under Armour, the upper class is the clear leader of purchasing athletic footwear; the middle class takes up a portion of the sales but not as much as those who earn an income of three figures.

The amount of income being brought into a household is one of the most important and overall essential aspects of determining the ability of purchasing power in demographics. For the purchase of any athletic shoes brand in the past year, the most popular income level was \$60,000 to \$74,999 with an index of 117. The next two income levels were tied for second in popularity with an index of 116. These income levels are \$75,000 to \$149,000 and \$150,000 and up. This shows that the majority of consumer buying athletic shoes fall between the upper and middle class. To show how income levels affect the buying of certain brands, we will now look at Under Armour (MediaMark, 2011).

Under Armour had income levels that were similar to that of the data of all brands. The difference between the two sets of information was the distribution of values in the income levels. The highest point is income above \$150,000 with an index of 191. This is saying that consumers of Under Armour are almost twice as likely to be upper class. The income level following this was \$50,000 to \$59,000 with an index of 163. The last income level was \$75,000-\$149,999 with an index of 146 (MediaMark, 2011).

## **Market Mix**

Under Armour tailors their company not to a specific age group, but to a category of humans in general, athletes. Both Nike and Adidas, because of their company that has been built up since the 1960's, have stretched out who they market their products too. In the beginning, Both Nike and Adidas were solely a footwear company, but, as both companies became successful, they could expand to selling athletic wear and finally lifestyle wear to meet the demands of all types of buyers. Under Armour has not yet found a way to grow beyond athletic clothes and become a successful shoe company, but there is more to marketing mix than just producing products and going out and selling them.

**Under Armour Products.** Under Armour does not efficiently meet the needs of their designed group, athletes. The athletes that Under Armour tailors their shoes for are college and professional athletes, but in an effort to expand their company, have now reached out to all athletes, both men and women. Their shoes are designed for all age, but what they lack is the ability to sell their shoes to any athletes at all. Part of the reason is due to a limited product supply. Under Armour currently sells 60 men's shoes and 49 women's shoes, including all the different colors in each model of the shoe (Under Armour, 2006). Nike sells 567 different models of men's shoes and 172 different models of women's shoes, as well as multiple colors offered in each model (Nike Shoes, 2013, para. 1). Adidas sells 987 men's shoes and 422 women's shoes (Adidas, 2013). By calculating both men's and women's shoes combined from each of the three companies, Under Armour is only 14% of the size of all of Nike's different models of shoes and .07% the size of all shoes currently being sold by Adidas.

**Price Similarities in the Market.** The average price of running shoes varies between sports such as basketball, football, and running, but the average cost of shoes between all three companies is similar; no average shoe price is above \$100 or below \$80. Nike typically sells the most expensive shoes of the three companies, but evens out their average shoe price by still selling old shoes that are off their website and selling them to stores such as Kohl's, DSW, and even Target. Adidas sells shoes at a price close to Nike but has the same advantage over Under Armour that Nike has, they can sell their shoes at Kohl's and DSW as well. Under Armour has the cheapest shoe of the three, but only sells at high-end retail stores therefore crippling themselves to be unable to sell their unsold shoes to cheap store like Target after they don't sell in their official Under Armour store.

**Under Armour's Distribution Strategy.** Under Armour currently has their headquarters in Baltimore, Maryland. Their main source of distribution is through high school and college athletics such as sponsoring our own, Towson University. They distribute to North America as well as the United Kingdom, but due to their lack of sport focused footwear besides football, that may lead to the reason why they can't reach to the soccer crazy European countries. Nike on the other hand sells their footwear products in 160 countries as well as has headquarters in the Oregon, USA, the Netherlands, Greater China and Asia Pacific, and Japan (Nike Locations, 2013). This not only spreads their product globally, but also gives the creators at Nike's headquarters a real life idea of what the customers want. Adidas sells shoes in five continents and in the past few years with the signing of Derrick Rose, Chicago Bulls point guard in the NBA, has broadened their appearance in the basketball footwear industry specifically. Basketball is a global sport now and is one of the major sports in China, the most populated country in the world. Under Armour's ability to compete highly with Adidas and Nike in college football is impressive, but the sport of American football compared to the rest of the major sports of the world is similar to a drop in the bucket.



**Under Armour Promotional Strategy.** Under Armour promotes athletes, collegiate schools, and collegiate teams as a way to market themselves. Nike and Adidas promote professional sports teams, leagues, and athletes as well. Under Armour's main focus is in football, but with Nike becoming the new outfitter for the NFL taking the title away from Reebok (whose owned by Adidas), how can they promote them selves? They continue to endorse athletes such as Bryce Harper, Cam Newton, and Michael Phelps, but it cannot match being the official supplier of the NFL, Manchester United, and the MLS like Adidas and Nike. It is not one thing that Under Armour lacks in the marketing mix, but a combination of things involving their product, where they distribute too, their prices, and how they promote them selves as a company that can lead to either the success or failure.

## **Problems and Opportunities**

### **Lack of endorsements reduces brand potential**

In addition to a limited product line, another huge problem with Under Armour is the lack of non-athlete endorsements. The two biggest competitors to Under Armour, Adidas and Nike, both sponsor musical artists and television actors/actresses to wear their products. This non-sport endorsement enhances brand recognition and brand awareness by the consumer because the brand is seen in a different way other than simply sports. For example, if you look at the prototypical Reebok "G-Unit" sneaker, you will quickly tell that this shoe was not made to increase athletic performance. The shape of the sneaker and colors chosen demonstrate the fact that this product was made more for enhancing style, rather than bettering the athlete.

Therefore, there is an opportunity for Under Armour is to increase brand recognition by endorsing a well-known musician or television personality. However, this person chosen should align somewhat with the Under Armour business model. It would not be beneficial to sponsor Paula Dean, for example, because she is not known for having any athletic abilities. It would be beneficial to sponsor someone like Matthew McConaughey or rapper Wale. Matthew McConaughey is known for his great physique and obsession with physical fitness, and Wale had been a top division one football prospect before deciding to pursue music. In choosing other outlets besides sports for endorsements, you will increase your brand's exposure to a wider variety of the market, and therefore potentially increase your bottom line.

### **Failure to Appeal To Women Lessens Brand Growth**

Besides Under Armour's lack of a substantial footwear product line that is available to all consumers, product lines available to women are especially limited. The footwear models offered for all genders that make up Under Armour's customer base are only for specific performance uses including running, soccer, and football. However, with the female population focused on being fit and comfortable, and not actively involved in sports, Under Armour is at a disadvantage. Under Armour's top competitors, Nike and Adidas, offer footwear lines for a variety of activities that are not just performance based; these activities include running, training, and being leisurely. The products offered for women by these brands specifically target all women, even non athletic females. By doing so, Nike and Adidas are able to capture a wider demographic of the population which allows them to have much higher sales figures. This, in turn, creates a broader customer base and improves the image of these brands in the footwear industry as a whole as well as society.

This is an opportunity for Under Armour to expand its customer reach. Under Armour can create footwear lines that appeal to women who may not be the most fit as well as those who pursue athletics. Potential product ideas could be for walking or everyday shoes that women could wear whenever they choose. This would allow Under Armour to increase its brand exposure due to its footwear products being more accessible on a daily basis rather than to just wear the products for performance based activities. The result of this shift towards appealing to all females would create a larger demographic for Under Armour and help the company grow indefinitely.

### **Focus on Performance Footwear Limits Market Potential**

Under Armour's product line is something that has come up several times during this analysis. Quite simply put, Under Armour can't expect to capture market share if it is not offering the products that are driving the market. By focusing only on performance, Under Armour is missing out on the opportunity to benefit from the thriving success of the fashion sector of the industry. Fashion sneakers account for 21% of sales for the entire athletic footwear industry (SBRnet, 2012). When it comes to sales, this is the second largest product category in the industry next to walking shoes (SBRnet, 2012). This sector is also growing tremendously. Sales of fashion sneakers saw an 8% increase between 2010 and 2011, the most substantial growth among all product categories in the industry (SBRnet, 2012). Under Armour is not currently offering any fashion sneakers, but this would be a great place to start in expanding its footwear product line, and ultimately its footwear sales.

### **Room for International Growth**

One of the main issues with Under Armour in the industry is international growth. Under Armour's main headquarters are in Baltimore, Maryland and it is primarily an east coast company with little presence on the western half of the United States. Nike, one of Under Armour's biggest competitors in the industry, has headquarters on six continents with their main headquarters in Beaverton, Oregon. Under Armour's lack of presence on the west coast as well as internationally has restrained them to only being able to market their products on the Eastern half of the U.S. and minimally in the U.K.

An opportunity for Under Armour to grow would be for starters to put headquarters on the western half of the U.S., giving them a way to compete against rival footwear company, Nike. After expansion on the west coast, putting headquarters overseas would be the next step in becoming a global company. Advantages to this are that with headquarters on different continents, Under Armour can have employees working in development and marketing who know the customers and culture well. This is a tactic that has been working for Nike for years and with an innovative staff that knows the international market well, it can be highly successful for Under Armour too.

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