



UNIVERSITEIT VAN PRETORIA  
UNIVERSITY OF PRETORIA  
YUNIBESITHI YA PRETORIA

## Faculty of Economic and Management Sciences

Fakulteit Ekonomiese en Bestuurswetenskappe  
Lefapha la Disaense tša Ekonomi le Taolo

### DEPARTMENT OF BUSINESS MANAGEMENT

#### STRATEGIC MANAGEMENT OBS 310

#### EXAMINATION

DATE: 30 June 2022  
TIME: 180 Minutes  
MARKS: 75

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### TEST INSTRUCTIONS

1. A case study is included with this exam
2. Please note that NO case studies may be brought into the test venue
3. Hand in both your question paper and answer book (with the red computer mark sheet inserted).
4. All test and examination regulations are applicable.
5. This is an individual closed book examination
6. Answer all questions in the answer book.
7. The question paper consists of 23 pages at the end

## **Under Armour's Strategy in 2020**

Founded in 1996 by former University of Maryland football player Kevin Plank, Under Armour was the originator of sports apparel made with performance-enhancing fabrics—gear engineered to wick moisture from the body, regulate body temperature, and enhance comfort regardless of weather conditions and activity levels. Plank's initial plan was to make a T-shirt that provided compression and wicked perspiration off the wearer's skin, thereby avoiding the discomfort of sweat-absorbed apparel—and sell the T-shirt to athletes and sports teams.

Going into 2020, Under Armour was headed into its fifth consecutive year of sales difficulties in its core North American market which accounted for over two-thirds of the company's annual sales revenues. The troubles began in 2016 and some of the financial insufficiencies and ineffectiveness undermined Under Armour's reputation as an up-and-coming growth company in the sports apparel business. Starting in the second-quarter of 2010 and continuing through the third-quarter of 2016, Under Armour achieved revenue growth of 20+ percent for 26 consecutive quarters. In announcing the company's 2016 third-quarter financial results, founder, chairman and chief executive officer (CEO) Kevin Plank said: Over the past 20 years, we have established ourselves as a premium global brand with a track record of strong financial results. Looking back over the past nine months, it has never been more evident that we are at a pivotal moment in time, where the investments we are making today will fuel our growth and drive our industry leadership position for years to come. As a growth company with an expanding global footprint and businesses like footwear and women's each approaching a billion dollars this year (2020), we have never been more focused on the long-term success of our Brand.

Looking back, Plank ensured that UA management's outlook for 2019 was flat sales in North America, a low double-digit increase in international revenues, a four percent increase in total revenues, operating income in the range of \$220 million to \$230 million, and earnings per share of about \$0.33. While closer to the mark, Under Armour's 2019 performance remained weak, Revenue was up one percent to \$5.27 billion, revenues in North America declined a further \$78 million to \$3.66 billion, operating income was \$237 million, and net income of \$92 million translated in earning per share of \$0.20, after special charges equal to an EPS impact of \$0.14. In announcing the results, newly appointed President and CEO Patrik Frisk said: "Under Armour is an operationally better company following our transformation over the past few years, with a clearly defined and focused strategy, enhanced go-to-market process, cleaner inventories, stronger balance sheet, solvent, well capitalised with adequate liquidity. However, ongoing demand challenges and the need to drive greater efficiencies in our business requires us to further prioritize our investments to put our company in the best position possible to achieve sustainable, profitable growth over the long-term."

The company's initial 2020 outlook included an estimated negative impact of the coronavirus outbreak in China of approximately \$50 million to \$60 million in sales related to the first quarter of 2020. A low single-digit percentage decline in total revenues was expected, which included a high single-decline in North America revenues and a low double-digit increase in international revenues. Operating income was expected to be in the range of \$105 million to \$125 million, with diluted EPS of \$0.10 to \$0.13. Management also announced it was currently evaluating a potential 2020 restructuring initiative to rebalance its cost base to further improve profitability and cash flow generation. In connection with this potential restructuring, the company was considering \$325 million to \$425 million in estimated pre-tax charges for 2020, including approximately \$225 million to \$250 million related to foregoing opening a flagship store in New York City while pursuing options to sublease the space under the long-term lease already in place.

### **Stock Price, Ownership, and Management Changes at Under Armour 2016–2020**

Since early 2016 and continuing into early 2020, Under Armour's stock price remained below the \$105 per share achieved in July 2015, with most of the decline coming in 2016—at year-end 2016, the price was \$27, and at the end of February 2020, it was \$13 per share due to the company's weak outlook for the remainder of 2020. Aside from the company's poor financial performance, the stock price declines

were also a reflection of investor concerns about whether the Under Armour brand was in deep trouble in North America—the experiences of other troubled brands had demonstrated it was extremely difficult to rebuild a brand once it had fallen out of favour with the public. Investors had also been unnerved in November 2017 when analysts at 24/7 Wall St. had ranked Kevin Plank fourth on its list of “20 Worst CEOs in America 2017. Plank had been under the microscope since a controversial split of the company’s stock in April 2016 into Class A (vote entitled), Class B, and Class C (no voting power) shares, that resulted in Kevin Plank having 65 percent of the total shareholder voting power on every shareholder vote taken.

### **UNDER ARMOUR’S STRATEGY IN 2020**

Until 2018, Under Armour’s mission was “to make all athletes better through passion, design, and the relentless pursuit of innovation.” A reworded mission—“Under Armour Makes You Better”—was publicly announced in early 2018. Kevin Plank said the new wording was meant to better convey that “in every way we connect, through the products we create, the experience we deliver and the inspiration we provide, we simply make you better.” In late 2018, Kevin Plank told a gathering of investors and Wall Street analysts that Under Armour’s vision was “to inspire you with performance solutions you never knew you needed and can’t imagine living without.” The company’s principal business activities in 2020 were the development, marketing, and distribution of branded performance apparel, footwear, and related sports accessories for men, women, and youth. The brand’s moisture-wicking apparel and footwear products were engineered in many designs and styles for wear in nearly every climate to provide a performance alternative to traditional products. Under Armour sports apparel was worn by athletes at all levels, from youth to professional, and by consumers with active lifestyles.

The company generated revenues from the sale of its products globally through two primary channels: (1) sales to national, regional, independent and specialty wholesalers and distributors in many countries across the world and (2) direct-to-consumer sales (sales at the company’s ecommerce websites in various geographic regions and at its company-owned brick-and-mortar Brand Houses and factory outlet stores). In the company’s earlier years, revenue growth was achieved primarily by growing wholesale sales to retailers of sports apparel, athletic footwear, and sports equipment and accessories in North America. Starting in 2010, Under Armour began increasing its global footprint by expanding its wholesale and online sales to countries in Europe, the Middle East, and Africa (EMEA), the Asia-Pacific, and Latin America. Each of these geographic segments operate predominantly in one industry: the development, marketing and distribution of branded performance apparel, footwear and accessories.

In 2013, Under Armour acquired MapMyFitness, a provider of website services and mobile apps to fitness-minded consumers across the world; Under Armour used this acquisition, along with several follow-on acquisitions in 2014 and 2015, to create what it termed a “connected fitness” business offering digital fitness subscriptions and licenses, mobile apps, and other fitness-tracking and nutritional-tracking solutions to athletes and fitness-conscious individuals across the world. During 2016–2019, the company’s connected fitness business experienced strong revenue growth and strategic initiative to become a major revenue driver in the years to come. **Connected Fitness** In December 2013, Under Armour acquired MapMyFitness, which served one of the largest fitness communities in the world at its website and offered a diverse suite of websites and mobile applications under its flagship brands, MapMyRun and MapMyRide. Utilizing GPS and other advanced technologies, MapMyFitness provided users with the ability to map, record, and share their workouts.

### **Growth Strategy**

Under Armour’s growth strategy in 2020 was centred on five strategic initiatives:

- Rejuvenating sales growth and profitability in North America, via an enhanced e-commerce platform, improved shelf space visibility in retail stores, reduced price discounting, increased support of retailer efforts to merchandise Under Armour products without having to resort to off-price sales promotions, and greater emphasis on brand advertising and promotional activities that increase customer willingness to pay full price for Under Armour products and help restore UA’s image as a premium priced brand.

- Continuing to bring authenticity to the brand through innovative products and providing customers with new solutions and appealing experiences that they quickly discover are so beneficial as to merit “must have” status.
- Exerting the efforts necessary to continue to grow Under Armour’s revenues in the Latin America, EMEA, and Asia-Pacific regions.
- Continued emphasis on using the endorsements of athletes and other brand influencers to enhance global awareness of the Under Armour brand name and strengthen Under Armour’s image as a premium-priced provider of high-performance apparel, footwear, and accessories.
- Growing the company’s connected fitness business via securing more digital subscriptions and selling additional digital advertising on its MapMyFitness, MyFitnessPal, and Endomondo platforms.

### **Product Line Strategy**

For a number of years, expanding the company’s product offerings and marketing them at multiple price points had been a key element of Under Armour’s strategy. The goal for each new item added to the line-up of offerings was to provide consumers with a product that was a *superior* alternative to the traditional products of rivals—striving to always introduce a superior product would, management believed, help foster and nourish a culture of innovation among all company personnel. According to Kevin Plank, “we focus on creating products you don’t know you need yet, but once you have them, you won’t remember how you lived without them.”

**Apparel** The company designed and merchandised three lines of apparel gear intended to regulate body temperature and enhance comfort, mobility, and performance regardless of weather conditions: HEATGEAR® for hot weather conditions; COLDGEAR® for cold weather conditions; and ALLSEASONGEAR® for temperature conditions between the extremes.

**HeatGear.** HeatGear was designed to be worn in warm to hot temperatures under equipment or as a single layer. The company’s first compression T-shirt was the original HeatGear product and was still one of the company’s signature styles in 2015. In sharp contrast to a sweat soaked cotton T-shirt that could weigh two to three pounds, HeatGear was engineered with a microfiber blend featuring what Under Armour termed a “Moisture Transport System” that ensured the body would stay cool, dry, and light. HeatGear was offered in a variety of tops and bottoms in a broad array of colours and styles for wear in the gym or outside in warm weather.

**ColdGear.** Under Armour high performance fabrics were appealing to people participating in cold-weather sports and vigorous recreational activities like snow skiing who needed both warmth and moisture-wicking protection from becoming overheated. ColdGear was designed to wick moisture from the body while circulating body heat from hotspots to maintain core body temperature. All ColdGear apparel provided dryness and warmth in a single light layer that could be worn beneath a jersey, uniform, protective gear or ski-vest, or other cold weather outerwear. ColdGear products generally were sold at higher price points than other Under Armour gear lines.

**AllSeasonGear.** AllSeasonGear was designed to be worn in temperatures between the extremes of hot and cold and used technical fabrics to keep the wearer cool and dry in warmer temperatures while preventing a chill in cooler temperatures.

**Footwear** Under Armour began marketing athletic footwear for men, women, and youth in 2006 and expanded its footwear line every year since. Its 2019 offerings included footwear models specifically designed for performance training, running, footwear, basketball, golf, and outdoor wear, plus football, baseball, lacrosse, softball, and soccer cleats. Under Armour’s footwear models were light, breathable, and built with performance attributes specific to their intended use.

**Accessories** Under Armour’s accessory line in 2019 included gloves, socks, hats and headwear, belts, backpacks and bags, eyewear, protective gear, headphones, phone cases and mounts, water bottles and coolers, and an assortment of sports equipment. All of these accessories featured performance advantages and functionality similar to other Under Armour products.

**Licensing** Under Armour had licensing agreements with a number of firms to produce and market Under Armour apparel, accessories, and equipment. Under Armour product, marketing, and sales teams were actively involved in all steps of the design process for licensed products in order to maintain brand standards and consistency. During 2018–2020, licensees sold UA-branded collegiate, National Football League and National Basketball Association apparel and accessories, baby and kids’ apparel, team uniforms, socks, water bottles, eyewear, and other hard goods equipment that featured performance advantages and functionality similar to Under Armour’s other product offerings. Under Armour pre-approved all products manufactured and sold by its licensees, and the company’s quality assurance team strived to ensure that licensed products met the same quality and compliance standards as company-sold products.

### **Marketing, Promotion, and Brand Management Strategies**

Under Armour had an in-house marketing and promotions department that designed and produced most of its advertising campaigns to drive consumer demand for its products and build awareness of Under Armour as a leading performance athletic brand. The company’s total marketing expenses were \$579.0 million in 2019, \$543.8 million in 2018, \$565.1 million in 2017, and \$477.5 million in 2016.

These totals included the costs of \_sponsoring events and various sports teams, the costs of athlete endorsements, and ads placed in a variety of television, print, radio, and social media outlets. All were included as part of selling, general, and administrative expenses.

**Sports Marketing** Under Armour’s sports marketing and promotion strategy began with promoting the sales and use of its products to high performing athletes and teams on the high school, collegiate, and professional levels. This strategy was executed by entering into outfitting agreements with a variety of collegiate and professional sports teams, sponsoring and hosting an assortment of collegiate and professional sports events, entering into endorsement agreements with individual athletes, and selling Under Armour products directly to team equipment managers and to individual athletes.

**Retail Marketing and Product Presentation** The primary thrust of Under Armour’s retail marketing strategy was to increase the floor space *exclusively* dedicated to Under Armour products in the stores of its major retail accounts. The key initiative here was to design and fund point of sale displays and Under Armour “concept shops”—including flooring, lighting, walls, displays, and images—within the stores of its major retail customers. This shop-in-shop approach was seen as an effective way to gain the placement of Under Armour products in prime floor space and create a more engaging and sales-producing way for consumers to shop for Under Armour products.

**Media and Promotion** Under Armour advertised in a variety of national digital, broadcast, and print media outlets, as well as social and mobile media. Its advertising campaigns were of varying lengths and formats and frequently included prominent athletes and personalities. Advertising and promotional campaigns in 2015–2017 featured Michael Phelps, Stephen Curry, Jordan Spieth, Tom Brady, Lindsey Vonn, Misty Copeland, and Dwayne Johnson. In 2018, UA had a digitally-led marketing approach for the launch of its UA HOVR™ running shoe models, which included a variety of content on various social media platforms.

### **Distribution Strategy**

Under Armour products were available in roughly 17,000 retail store locations worldwide in 2018–2019. In many foreign countries, Under Armour relied on independent marketing and sales agents, instead of its own marketing staff, to recruit retail accounts and solicit orders from retailers for UA merchandise. Under Armour also sold its products directly to consumers through its own Brand House stores, factory outlet stores, and various geographic websites.

**Wholesale Distribution** In 2018, Under Armour had about 13,500 points of distribution in North America, just under 40 percent of the 35,000 places that consumers could buy athletic apparel and footwear.

**Direct-to-Consumer Sales** In 2018, about 38 percent of Under Armour's net revenues were generated through direct-to-consumer sales, versus 23 percent in 2010 and six percent in 2005; the direct-to-consumer channel included sales of discounted merchandise at Under Armour's factory outlet stores and full-price sales at Under Armour Brand Houses, and various country websites.

**Distribution outside North America** Under Armour's first strategic move to gain international distribution occurred in 2002 when it established a relationship with a Japanese licensee, Dome Corporation, to be the exclusive distributor of Under Armour products in Japan. The relationship evolved, with Under Armour making a minority equity investment in Dome Corporation in 2011 and Dome gaining distribution rights for South Korea. Dome sold Under Armour branded apparel, footwear, and accessories to professional sports teams, large sporting goods retailers, and several thousand independent retailers of sports apparel in Japan and South Korea. Under Armour worked closely with Dome to develop variations of Under Armour products to better accommodate the different sports interests and preferences of Japanese and Korean consumers. In 2006, Under Armour opened a headquarters in Amsterdam, The Netherlands, to conduct and oversee sales, marketing, and logistics activities across Europe.

The distribution strategy was to first sell Under Armour products directly to teams and athletes and then leverage visibility in the sports segment to access broader audiences of potential consumers. Adidas strongly defended its industry-leading position with European retailers, and Under Armour frequently found itself embroiled in hotly contested price-cutting battles with Adidas and Nike to win orders from retailers in many EMEA locations.

In 2013, Under Armour organized its international activities into four geographic regions—North America (the United States and Canada), Latin America, Asia-Pacific, and Europe/Middle East/Africa (EMEA). In the company's 2013 Annual Report, Kevin Plank said, "We are committed to being a global brand with global stories to tell, and we are on our way." One of Under Armour's chief initiatives to build international awareness of the Under Armour brand and rapidly grow its sales internationally was to open growing numbers of stores in popular factory outlet malls and to locate Brand Houses in visible, high-traffic locations in major cities.

### **Product Design and Development**

Top executives believed that product innovation—as it concerns both technical design and aesthetic design—was the key to driving Under Armour's sales growth and building a stronger brand name. UA products were manufactured with technically advanced specialty fabrics produced by third parties. The company's product development team collaborated closely with fabric suppliers to ensure that the fabrics and materials used in UA's products had the desired performance and fit attributes. Under Armour regularly upgraded its products as next-generation fabrics with better performance characteristics became available and as the needs of athletes changed. UA was aggressively investing in 3D modelling and other related technology to quickly create prototypes of new products; with traditional technology. Product development efforts also aimed at broadening the company's product offerings in both new and existing product categories and market segments. An effort was made to design products with "visible technology," utilizing colour, texture, and fabrication that would enhance customers' perception and understanding of the use and benefits of Under Armour products. Under Armour's product development team had significant prior industry experience at leading fabric and other raw material suppliers and branded athletic apparel and footwear companies throughout the world. The team worked closely with Under Armour's sports marketing and sales teams as well as professional and collegiate athletes to identify product trends and determine market needs.

### **Sourcing, Manufacturing, and Quality Assurance**

Many of the high-tech specialty fabrics and other raw materials used in UA products were developed by third parties who were specialist and sourced from a limited number of pre-approved specialty fabric manufacturers more affordably and as such; no fabrics were manufactured in-house. Under Armour executives believed outsourcing fabric production enabled the company to seek out and utilize whichever fabric suppliers thus allowing for flexibility for change and were able to produce the latest and best performance oriented fabrics to Under Armour's specifications and final products then delivered quickly to customers, while also freeing more time for UA's product development staff to concentrate on what is

core, upgrading the performance, styling, and overall appeal of existing products and expanding the company's overall line up of product offerings. The company also believed that through outsourcing, third parties would have to bear with the risks associated with undertaking redesigns and upgrades in technology to accommodate UA's plans to introduce next generation products.

In 2019, approximately 42 percent of the fabric used in UA products came from five suppliers, with primary locations in Malaysia, Taiwan, Vietnam, China, and the United States. Because a big fraction of the materials used in UA products were petroleum-based synthetics, fabric costs were subject to crude oil price fluctuations. The cotton fabrics used in the CHARGED COTTON™ products were also subject to price fluctuations and varying availability based on cotton harvests. In 2019, substantially all UA products were made by 37 primary contract manufacturers, operating in 15 countries; 10 manufacturers produced approximately 55 percent of UA's products. Approximately 55 percent of UA's apparel and accessories products were manufactured in Jordan, Vietnam, China, and Malaysia. Under Armour's footwear products were made by six primary contract manufacturers operating primarily in Vietnam, China, and Indonesia; these five manufacturers produced approximately 96 percent of the company's footwear products.

All contract manufacturers making Under Armour apparel products purchased the fabrics they needed from fabric suppliers pre-approved by Under Armour. All of the makers of UA products across all divisions were evaluated for quality systems, social compliance, and financial strength by Under Armour's quality assurance team, prior to being selected and also on an ongoing basis. The company strived to qualify multiple manufacturers for particular product types and fabrications and to seek out contractors that could perform multiple manufacturing stages, such as procuring raw materials and providing finished products, which helped UA control its cost of goods sold. However, the company had no long-term agreements requiring it to continue to use the services of any manufacturer, and no manufacturer was obligated to make products for UA on a long-term basis. UA had subsidiaries strategically located near its manufacturing partners to support its manufacturing, quality assurance, and sourcing efforts for its products.

### **Human Capital Management**

Under Armour is led by its purpose—We Empower Those Who Strive for More—and our teammates, who bring their different backgrounds, experiences and perspectives, are central to driving our long-term success as an organization and brand. Consistent with our purpose, we believe that our brand is stronger when our collective team is fully engaged and working together to support our athletes around the world. We also believe that having an engaged, diverse and committed workforce not only enhances our culture, it drives our business success, ultimately helping us to deliver the most innovative products that make athletes better. Our human capital management strategy is therefore focused on creating an inclusive workplace where our teammates can thrive by attracting, developing and retaining talent through a competitive total rewards program, numerous development opportunities and a diverse, inclusive and engaging work environment.

### **Competition**

In 2017–19, consumers across the world shopped for the industry's products digitally (online) or physically in stores. The trend was for more consumers to shop digitally and for a brand deemed to be the best or their favourite. Multi-brand shoppers typically wanted to explore and compare the options, either through a dot.com experience or in stores where shoppers could view the products first hand, get advice or personalized assistance, and/or get the product immediately. Competition tended to be intense in almost every segment with substantial sales volume and typically revolved around performance and reliability, the breadth of product selection, new product development, price, brand name strength and identity through marketing and promotion, the ability of companies to convince retailers to stock and effectively merchandise their brands, and the capabilities of the various industry participants to sell directly to consumers through their own retail/factory outlet stores and/or at their company websites. Nike was the clear global market leader in the sporting goods industry, with a global market share in athletic footwear of about 25 percent and a sports apparel share of five percent.

## **UA' competitor: Nike, Inc**

Incorporated in 1968, Nike was the dominant global leader in the design, development, and worldwide marketing and selling of footwear, sports apparel, sports equipment, and accessory products. Nike was a truly global brand, with a broader and deeper portfolio of products, models, and styles than any other industry participant. The company had global sales of \$39.1 billion and net income of \$4.0 billion in fiscal year ending May 31, 2019. Nike is "solvent, well-capitalised and has adequate liquidity". Nike was the world's largest seller of footwear with Nike-branded sales of \$24.2 billion and Converse-branded sales of \$1.9 billion; it held the number one market share in all markets and in all categories of athletic footwear. Nike's footwear line included some 1,500 models/styles. Nike was also the world's largest sports apparel brand, with 2019 sales of \$11.6 billion. Sales of Nike products to women reached \$7.4 billion in 2019.

Nike's strategy in 2019–2020 was driven by three core beliefs. One was that the growing popularity of sports and active lifestyles reflected a desire to lead healthier lives. As a result, companies like Nike were becoming more relevant for more moments in people's lives because of their growing participation in calorie-burning, wellness, and fitness activities and because active lifestyles stimulated greater interest in sports-related activities and sports events. Moreover, streaming of sports events and social media were changing the ways people consumed sports content. The NBA, for example, had over 1.3 billion social media followers across the league, teams, and player pages. The growth of watching streamed events on mobile phones was exploding.

In a connected, mobile-led world, consumers had become infinitely better informed and, thus, more powerful because of the information they could access in seconds and the options this opened up — “powered consumers” were prone to consult their phones (or conduct Internet searches on other devices) for price comparisons and availability before deciding where to shop or what to purchase online. Third, the world was operating at faster speeds and the numbers of powered consumers was about to explode. Nike's CEO expected over 2 billion digitally connected people in markets in China, India, and Latin America would join the middle class by 2030. For years, the heart and soul of Nike's strategy had been creating innovative products and powerful storytelling that produced an emotional connection with consumers and caused them to gravitate to purchase Nike products. But at the same time Nike executives understood that brand strength had to be earned every day by satisfying consumer needs and meeting, if not exceeding, their expectations.

Looking back in 2017, Nike CEO Mark Parker provided a brief overview of the company's “Triple Double” strategy that had three components: 2X Innovation, 2X Speed, and 2X Direct: 2X Speed is really all about delivering the right product in the moment, 100 percent of the time. We never ever take the strength of our brand and premium product for granted. They are indeed our most valuable assets. With 2X Direct [to Consumer], we want as many Nike touch points as possible to live up to those expectations, and that's why we are investing heavily in our own channel and leading with digital. And with our strategic partners, we'll move resources away from undifferentiated retail and toward environments where we can better control with distinct consumer experiences.

**Marketing, Promotions, and Endorsements** Nike responded to trends and shifts in consumer preferences by (1) adjusting the mix of existing product offerings, (2) developing new products, styles, and categories, and (3) striving to influence sports and fitness preferences through aggressive marketing, promotional activities, sponsorships, and athlete endorsements.

**Resources and Capabilities** Nike had an incredibly deep pool of valuable resources and capabilities that enhanced its competitive power in the marketplace and helped spur product innovation, shorten speed-to-market, enable customers to use digital tools to customize the colours and styling of growing numbers of Nike products, and thereby drive strong brand attachment and sales growth. Examples of these included the following:

- The company's Nike APP and the SNKRS app were in more than 20 countries across North America and Europe, plus China and Japan, countries that drove close to 90 percent of Nike's growth. These apps provided easy access to Nike products and were becoming a popular way for customers to shop Nike products and make online purchases. The Nike App was the number one mono-brand retail app



in the United States. Nike's apps and growing digital product ecosystem were key components of the company's 2X Speed strategy to operate faster and get innovative products in the hands of consumers faster.

- The creation and ongoing enhancement of the NikePlus membership program which in 2017 connected 100 million consumers to Nike— NikePlus members who used the company's mobile apps spent more than three times as much time on nike.com as other site visitors. Starting in 2018, NikePlus members were entitled to "reserved-for-you service" that used machine learning-powered algorithms to set aside products in a member's size that the algorithms predicted members would like.

### **Research and development at Nike**

Nike management believed R&D efforts had been and would continue to be a key factor in the company's success. Technical innovation in the design of footwear, apparel, and athletic equipment received ongoing emphasis in an effort to provide products that helped reduce injury, enhance athletic performance, and maximise comfort. In addition, Nike's own staff of specialists in the areas of biomechanics, chemistry, exercise physiology, engineering, industrial design, and related fields, the company utilised research committees and advisory boards made of athletes, coaches, trainers, equipment managers, orthopaedists, podiatrists and other experts who reviewed designs, material concepts for product improvements, and compliance with product safety regulations around the world.

Like Under Armour and Nike, competitors Adidas and Reebok were actively engaged in sponsoring major sporting events, teams, and leagues and in using athlete endorsements to promote their products. The company was stepping up its investments in company-owned, robot intensive micro-factories to speed certain products to key geographic markets in Europe and the United States much faster and to also lower production costs and boost gross profit margins. At the same time, the company had begun reengineering its existing supply chain and production processes to enable the company to respond quicker to shifts in buyer preferences, be able to reorder seasonal products and sell them to buyers within the season, and to reduce the time it took to get freshly designed products manufactured and into the marketplace.

### **References:**

Adapted for the University of Pretoria, Department of Business Management (2022).  
Written by Arthur A. Thompson, 2020 (The University of Alabama)

**QUESTION 1****(23)**

- 1.1 Several factors are considered when deciding which strategy approach an organisation will employ. This ultimate decision on the strategy is often informed by the results of the **tests of a winning strategy**.

Discuss these tests (including the components and indicators where applicable) by applying them to the case study. Based on the application of the tests, formulate a conclusion about whether Under Armour's 2020 strategy is representative of a winning strategy or not. (No marks will be given for only naming the tests)

**(13)**

Mark allocation	Marks
Discussion of each of the major tests (3 x 1)	3
Application of case study to the tests (3 x 1)	3
Discussion of component tests or indicators (5 x 1)	5
Indication of whether or not they have a winning strategy (2)	2

- 1.2 Besides short-term and long-term objectives, discuss **two other major kinds of objectives** that an organisation needs to focus on. Further elaborate by discussing the **type of indicator** that that represents each of these objectives.

**(4)**

Mark allocation	Marks
Discussion of the types of objectives (2 x 1) + Types of indicators (2 x 1)	4

- 1.3 The strategic relevance of the **six principal components** of the macro-environment can be assessed using the **PESTEL analysis**. Discuss all six of these components. (This is a theory question, but no marks will be given for only naming)

**(6)**

Mark allocation	Marks
Discussion of the components (6 x 1)	6

**MEMO**

ANSWER 1.1	MARKS
1. <b>Fit Test:</b> The test aims to determine if the strategy is well matched to the conditions and other critical aspects of the business environment in which the company operates.	✓
A winning strategy for instance needs to have a good <b>external fit</b> with respect to prevailing market conditions.	✓
In order to be considered a winning strategy, the strategy also needs to be assessed to see if it demonstrates a good <b>internal fit</b> which implies that it is tailored to the company's resources and competitive abilities and can be supported by a complementary set of functional activities.	✓

<p>In addition, the strategy should exhibit a good <b>dynamic fit</b> in the sense that it is able to evolve over time in a manner that maintains close and effective alignments with the company's situation as conditions change.</p>	✓
<p><b><u>Case:</u></b></p>	✓
<p>They ensured that they meet market standards and requirements of innovation, and market requirements. They also ensured that they had the relevant resources in place. They thus have both internal and external fit.</p>	
<p>UA was aggressively investing in 3D modeling and other related technology to quickly create prototypes of new products; with traditional technology. Product development efforts also aimed at broadening the company's product offerings in both new and existing product categories and market segments. An effort was made to design products with "visible technology," utilizing color, texture, and fabrication that would enhance customers' perception and understanding of the use and benefits of Under Armour products. Under Armour's product development team had significant prior industry experience at leading fabric and other raw material suppliers and branded athletic apparel and footwear companies throughout the world. The team worked closely with Under Armour's sports marketing and sales teams as well as professional and collegiate athletes to identify product trends and determine market needs.</p>	✓
<p>Under Armour's product development team had significant prior industry experience at leading fabric and other raw material suppliers and branded athletic apparel and footwear companies throughout the world. The team worked closely with Under Armour's sports marketing and sales teams as well as professional and collegiate athletes to identify product trends and determine market needs.</p>	✓
<p><b><u>2. Competitive advantage test</u></b></p>	✓
<p>This is a test to determine if the strategy would help a company achieve a sustainable competitive advantage. The bigger and more durable the advantage that the strategy promises, the more powerful the strategy is. This consideration is important because strategies that fail to provide a persistent advantage over rivals cannot be considered as winning strategies.</p>	✓
<p><b><u>Case:</u></b></p>	✓
<p>They understand the need to stay abreast with changes and so they invested in relevant technology, staff and outsource that which they see they don't specialise in so that they can be up to date and relevant.</p>	
<p>"Under Armour's product development team had significant prior industry experience at leading fabric and other raw material suppliers and branded athletic apparel and footwear companies throughout the world. The team worked closely with Under Armour's sports marketing and sales teams as well as professional and collegiate athletes to identify product trends and determine market needs."</p>	✓✓
<p>"Many of the high-tech specialty fabrics and other raw materials used in UA products were developed by third parties who were specialist and sourced from a limited number of pre-approved specialty fabric manufacturers more affordably and as such; no fabrics were manufactured in-house."</p>	✓
<p>*Note: The evidence is not limited to only this evidence. Students may use other evidence that is applicable and linked to the theory.</p>	
<p><b><u>3. Performance test</u></b></p>	

This is a test to determine if the company would be able to gain superior performance from the strategy. Competitive strength and

This test is linked to **two kinds of indicators** that tell the most about the calibre of a company's strategy:

- Competitive strength and market standing (relative to poor market standing)
- Profitability and financial strength (They are not doing too well)

(Case evidence shows that Under Armour lacks in both indicators-Students can mention this and show this through evidence below).

•Market standing can be considered to be relatively good so students can justify for either

### **Case:**

"Aside from the **company's poor financial performance**, the stock price declines were also a reflection of investor concerns about whether the Under Armour brand was in deep trouble in North America—the experiences of other troubled brands had demonstrated it was extremely difficult to rebuild a brand once it had fallen out of favor with the public.'

While they did relatively well Nike still led the market and they were not doing too well financially as is reflected in the case.

"Competition tended to be intense in almost every segment with substantial sales volume and typically revolved around performance and reliability, the breadth of product selection, new product development, price, brand name strength and identity through marketing and promotion, the ability of companies to convince retailers to stock and effectively merchandise their brands, and the capabilities of the various industry participants to sell directly to consumers through their own retail/factory outlet stores and/or at their company websites. Nike was the clear global market leader in the sporting goods industry, with a global market share in athletic footwear of about 25 percent and a sports apparel share of five percent."

"Going into 2020, Under Armour was headed into its fifth consecutive year of sales difficulties in its core North American market which accounted for over two-thirds of the company's annual sales revenues"

**They thus do not have a winning strategy, having failed the performance test.**

\*Note: The evidence is not limited to only this evidence. Students may use other evidence that is applicable and linked to the theory.

### **Potential Marks**

Fit Test= 3 marks, Competitive advantage = 2, Performance Test = 4

### **ANSWER 1.2**

#### **Type of objective: (1)**

1. **Financial objectives:** Relate to the financial performance targets management has established for the organisation to achieve. Organisations in business typically exist to make a profit and guarantee returns for its investors. Financial objectives focus internally on the firm's operations and provide a standard for the measurement of the financial performance of the firm.

#### **Type of indicator: (NO marks if there is no discussion.) (1)**

Current financial results are lagging indicators of past decisions and actions which does not translate into a stronger competitive capability for delivering better financial results in the future.

**Type of objective: (1)**

**2. Strategic objectives:** Relate to target outcomes that indicate an organisation is strengthening its market standing, competitive position, and future business prospects. It is focused on how competitive the firm would be relative to its rivals. / These objectives focus externally on competition vis-à-vis the firm's rivals.

**Type of indicator: (NO marks if there is no discussion.) (1)**

Measures for strategic objectives can therefore be considered as leading and reliable indicators of the future performance of an organisation.

**Or**

Good strategic performance is a leading indicator of a firm's increasing capability to deliver improved future financial performance.

It is important to add though that the financial objectives have to be balanced by strategic objectives if a firm is to perform well.

ANSWER 1.3		MARKS
Political factors	Pertinent political factors include matters such as tax policy, fiscal policy, tariffs, the political climate, and the strength of institutions such as the federal banking system. Some political policies affect certain types of industries more than others. An example is energy policy, which clearly affects energy producers and heavy users of energy more than other types of businesses.	✓
Economic conditions	Economic conditions include the general economic climate and specific factors such as interest rates, exchange rates, the inflation rate, the unemployment rate, the rate of economic growth, trade deficits or surpluses, savings rates, and per-capita domestic product. Some industries, such as construction, are particularly vulnerable to economic downturns but are positively affected by factors such as low interest rates. Others, such as discount retailing, benefit when general economic conditions weaken, as consumers become more price-conscious.	✓
Sociocultural forces	Sociocultural forces include the societal values, attitudes, cultural influences, and lifestyles that impact demand for particular goods and services, as well as demographic factors such as the population size, growth rate, and age distribution. Sociocultural forces vary by locale and change over time. An example is the trend toward healthier lifestyles, which can shift spending toward exercise equipment and health clubs and away from alcohol and snack foods. The demographic effect of people living longer is having a huge impact on the health care, nursing homes, travel, hospitality, and entertainment industries.	✓
Technological factors	Technological factors include the pace of technological change and technical developments that have the potential for wide-ranging effects on society, such as genetic engineering, nanotechnology, and solar energy technology. They include institutions involved in creating new knowledge and controlling the use of technology, such	✓

	as R&D consortia, university- sponsored technology incubators, patent and copyright laws, and government control over the Internet. Technological change can encourage the birth of new industries, such as the connected wearable devices, and disrupt others, such as the recording industry.	
Environmental forces	These include ecological and environmental forces such as weather, climate, climate change, and associated factors like water shortages. These factors can directly impact industries such as insurance, farming, energy production, and tourism. They may have an indirect but substantial effect on other industries such as transportation and utilities.	✓
Legal and regulatory factors	These factors include the regulations and laws with which companies must comply, such as consumer laws, labor laws, antitrust laws, and occupational health and safety regulation. Some factors, such as financial services regulation, are industry-specific. Others, such as minimum wage legislation, affect certain types of industries (low-wage, labour-intensive industries) more than others.	✓

## QUESTION 2

(8)

Based on the framework of a **company's strategy making hierarchy**, describe at least two (2) **different types** of strategies that are evident in the Under Armour case. Also provide quotations from the case that serve as examples of each of the strategies discussed (one quotation for each strategy).

(8)

Mark allocation	Marks
Description of each of the different types of strategies, based on the strategy-making hierarchy (2 x 2)	4
Each quotation from case study that serves as evidence of the described strategy (2 x 2)	4

## MEMO

ANSWER 2			
	Strategy	Description (2 marks)	Case evidence (2 marks) (Any of these would suffice- and additional applicable evidence)
1	Corporate strategy	This strategy is [orchestrated by the CEO and other senior executives] for the purpose of managing a set of businesses in a diversified, multi business company. It is focussed on capturing cross-business synergies in order to transform	They have an overarching Growth Strategy, which is in line with its mission statement. "Under Armour's growth strategy in 2020 was

		them into a competitive advantage for the holding company.	<p>centered on five strategic initiatives”</p> <p>“They also try to be as consistent as possible across all the geographical markets they serve while catering for specific markets ( like the tech conscious, price conscious and so forth).</p> <p>Acquisition in 2013 is a form of Growth strategy</p>
2	Business strategy	<p>This is a strategy that concerns itself with strengthening the <b>market position</b>, building a competitive advantage and improving the performance of a single business. [It is primarily the responsibility of the business head and senior executives of the specific line of business.]</p>	<p>“Under Armour product, marketing, and sales teams were actively involved in all steps of the design process for licensed products in order to maintain brand standards and consistency.”</p> <p>“Under Armour’s product development team had significant prior industry experience at leading fabric and other raw material suppliers and branded athletic apparel and footwear companies throughout the world. The team worked closely with Under Armour’s sports marketing and sales teams as well as professional and collegiate athletes to identify product trends and determine market needs.”</p>
3	Functional area strategy	<p>This strategy is concerned with the approaches employed in managing particular functions within a business. In essence the strategy fleshes out the details of a company’s business strategies based on specific functions. [The lead responsibility for such strategies is borne by the functional heads though the general manager provides the final approval. ]</p>	<p>“The company’s product development team collaborated closely with fabric suppliers to ensure that the fabrics and materials used in UA’s products had the desired performance and fit attributes.”</p>
4	Operating strategy	<p>This is a strategy formulated for the management of key operating units and specific operating activities with strategic significance. [While such strategies may be limited in scope, they nonetheless provide important details and completeness that adequately serve functional and ultimately the overall business</p>	<p>“Under Armour had an in-house marketing and promotions department that designed and produced most of its advertising campaigns to drive consumer demand for its products and build awareness of Under Armour</p>

		strategy. Frontline managers typically bear the lead responsibility for such strategies.]	as a leading performance athletic brand.”
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### QUESTION 3

(6)

The internal environment of the organisation needs to be understood and analysed by the strategic decision-maker. Demonstrate your understanding of the internal environmental by answering the following questions:

- 3.1 Explain the difference between **an organisation’s resource and capability**. (2)

#### Mark allocation

Mark allocation	Marks
Explain difference between resource and capability (2 x 1)	2

- 3.2 Describe the concept of an organisation’s **value chain**. (2)

#### Mark allocation

Mark allocation	Marks
Describe organisation’s value chain (2)	2

- 3.3 There are **two (2) analytical tools** particularly useful in determining whether a company’s **costs and customer value proposition** are competitive. Identify and define these two (2) tools. (No marks for only identifying the tools without discussion). (2)

#### Mark allocation

Mark allocation	Marks
Identify and define analytical tools (2 x 1)	2

### MEMO

ANSWER 3	MARKS
<p><b>3.1 Resource</b> is a productive input or competitive asset that is owned or controlled by the organisation. <b>Capability</b> (or competence) is the capacity of an organisation to perform some internal activity competently. Capabilities are developed through the deployment of an organisation’s resources.</p> <p><b>3.2 Value chain of an organisation</b> identifies the primary and related support activities that create customer value.</p> <p><b>3.3 Value chain analysis</b> Value chain analysis facilitates a comparison of how rivals, activity by activity, deliver value to customers.</p> <p><b>Benchmarking</b></p>	<p>✓</p> <p>✓</p> <p>✓ ✓</p> <p>✓</p> <p>✓</p>



Benchmarking entails comparing how different companies (both inside and outside the industry) perform various value chain activities.	
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## QUESTION 4

(16)

In contrast to vertical integration strategies, outsourcing strategies narrow the **scope of a business's operations**, in terms of what activities are performed internally. Considering the case study:

- 4.1 Describe the concept of outsourcing and provide case evidence that indicates that Under Armour outsourced some of its value chain activities. (2)

### Mark allocation

Mark allocation	Marks
Describing the concept of outsourcing with case evidence (2 x 1)	2

- 4.2 Discuss four (4) reasons why Under Armour outsourced its value chain activities. Provide case evidence to support your answer. (8)

### Mark allocation

Mark allocation	Marks
Discussing the four reasons why Under Armour outsourced its value chain activities (4 x 2)	8

- 4.3 While outsourcing may yield several benefits for a company, this strategy is accompanied by various risks. Discuss three (3) big risks associated with outsourcing value chain activities. (This is a theory question) (6)

### Mark allocation

Mark allocation	Marks
Discussing three big risks associated with outsourcing value chain activities (3 x 2)	6

## MEMO

4.1

Outsourcing involves contracting out certain value chain activities that are normally performed in-house to outside vendors. ✓

Case evidence

Under Armour contracts out the manufacturing of its fabrics and other raw materials to third party specialists. ✓

## 4.2

- **An activity can be performed better or more cheaply by outside specialists**  
A company should generally not perform any value chain activity internally that can be performed more efficiently and effectively by outsiders, with the exception of when a particular activity is strategically crucial and internal control over that activity is deemed essential. ✓

Case evidence

From the case study, it is clear that outsourcing allowed Under Armour to source high tech speciality fabrics and other raw materials more “affordably” than if the production was in house. ✓

- **Improves organizational flexibility and speeds time to market**

Outsourcing gives a company the flexibility to switch buyers in the event that the present supplier falls behind competing suppliers. ✓

Case evidence

From the case study, Under Armour was of the belief that by outsourcing the manufacturing of its fabrics and other raw materials, this allowed the company to be flexible to change and as such the company was able to produce the latest and best performance-oriented fabrics to Under Armour’s specifications. ✓

- **Allows the firm to concentrate on its core business, leverage key resources, and do even better what it already does best**

A company is better able to enhance its own capabilities when it concentrates its full resources and energies on performing only those activities. ✓

Case evidence

From the case study, it is stated that through outsourcing, the company’s staff was able to concentrate on its core activities of upgrading performance, styling, and overall appeal of existing products and expanding the company’s overall line-up of product offerings. This way the company was able to benefit from the use of outsourcing its value chain activities. ✓

- **It reduces the company’s risk exposure to changing technology and/or changing buyer preferences**

When a company outsources certain parts, components and services, its suppliers bear the burden of incorporating state of the art technologies and/or undertaking redesigns and upgrades to accommodate a company’s plans to introduce next generation products. ✓

Case evidence

Through outsourcing, Under Armour believed that the company would not bear risks associated with undertaking redesigns and upgrades in technology to accommodate UA’s

plans to introduce next generation products. These risks would be undertaken by suppliers and this was one of the reasons why UA outsourced its value chain activities. ✓

#### 4.3

- **Hollowing out resources and capabilities that the firm needs to be a master of its own destiny**✓

In recent years, companies eager to reduce their operating costs, have opted to outsource strategically important activities such as product development, engineering design and sophisticated manufacturing tasks which are the very capabilities that underpin a company's ability to lead sustained product innovation. While these companies have apparently been able to lower their operating costs by outsourcing these functions to outsiders, their ability to lead development of innovative new products is weakened because so many of the cutting-edge ideas and technologies for next generation products come from outsiders. ✓

- **Loss of direct control when monitoring, controlling, and coordinating activities of outside parties by means of contracts and arm's-length transactions**✓

It may be difficult to monitor, control and coordinate the activities of outside parties via contracts and arms 'length transactions alone. Unanticipated problems may arise that cause delays or cost overruns and become hard to resolve amicably. ✓

- **Lack of incentives for outside parties to make investments specific to the needs of the outsourcing firm's value chain- It's just a job for them**✓

Contract based outsourcing can also be problematic because outside parties lack the incentives to make investments specific to the needs of the outsourcing firm's value chain- It's just a job for them. ✓

## QUESTION 5

(6)

Under Armour has grown considerably and strengthened its **market position** since its inception in 1996. Considering Case:

Explain the three (3) indicators of Under Armour's **scope of operations**. Provide case evidence to support your answer. (6)

Mark allocation	Marks
Explaining Under Armour's scope of operations (3 x 1)	3
Applying the case study evidence (3 x 1)	3

## MEMO

Range of activities performed reflects the undertaking and the sector in which the firm participates and the range of activities performed. ✓

### Case evidence

The company's principal business activities in 2020 were the development, marketing, and distribution of branded performance apparel, footwear, and related sports accessories for men, women, and youth. These are the range of activities performed by Under Armour in the development, marketing and distribution of branded performance apparel, footwear and accessories industry. ✓

Breadth of product or service offerings involves the areas that enable the firm to generate an income. ✓

Case evidence:

The company generated revenues from the sale of its products globally through two primary channels: (1) sales to national, regional, independent and specialty wholesalers and distributors in many countries across the world and (2) direct-to-consumer sales. ✓

Geographic market indicates location of operations. ✓

Case evidence:

In the company's earlier years, revenue growth was achieved primarily by growing wholesale sales to retailers of sports apparel, athletic footwear, and sports equipment and accessories in North America. Starting in 2010, Under Armour began increasing its global footprint by expanding its wholesale and online sales to countries in Europe, the Middle East, and Africa (EMEA), the Asia-Pacific, and Latin America. ✓

## QUESTION 6

(10)

Differentiation opportunities can exist in activities all along an industry's **value chain**. The most systematic approach that managers can take involves focusing on **value drivers** that are particularly effective in creating differentiation. Considering the case study:

Discuss at least five (5) relevant value drivers used by Under Armour to differentiate itself in its industry. Use evidence from the case to support your answer. (10)

Mark allocation	Marks
Discussing at least five (5) relevant value drivers used by Under Armour to differentiate itself (5 x 2)	10

Memo

1. Create product features and performance attributes that appeal to a wide range of buyers. The physical and functional features or attributes of a product have a big influence on differentiation. ✓

Case evidence

Under Armour 'products were designed in such a way that they regulate body temperature and enhance comfort, mobility, and performance regardless of weather conditions. These were some of the product attributes that appealed to a wide range of athletes. ✓

OR

In sharp contrast to a sweat soaked cotton T-shirt that could weigh two to three pounds, HeatGear was engineered with a microfiber blend featuring what Under Armour termed a "Moisture Transport System" that ensured the body would stay cool, dry, and light. ✓

OR

ColdGear was designed to wick moisture from the body while circulating body heat from hotspots to maintain core body temperature. All ColdGear apparel provided dryness and

warmth in a single light layer that could be worn beneath a jersey, uniform, protective gear or ski-vest, or other cold weather outerwear. ✓

OR

An effort was made to design products with “visible technology,” utilizing color, texture, and fabrication that would enhance customers’ perception and understanding of the use and benefits of Under Armour products. ✓

\*Any other evidence **relevant** evidence not mentioned (marker discretion)

## 2. Increase marketing and brand-building activities.

Marketing and advertising have an impact on the perceived value by buyers and therefore the willingness to pay more for the company’s offerings. Companies must build strong relationships with customers, invest in effective promotion and advertising programmes as these influences the way in which customers perceive the company offerings and their willingness to pay for the offerings. ✓

Case evidence:

Under Armour had an in-house marketing and promotions department that assisted the in the design and production of their advertising campaigns that drove consumer demand for its products and build awareness of Under Armour as a leading performance athletic brand. This indicates the marketing and brand building activities that the company engaged in to promote and build brand awareness. ✓

OR

Under Armour advertised on a variety of national digital, broadcast, and print media outlets, as well as social and mobile media. Its advertising campaigns were of varying lengths and formats and frequently included prominent athletes and personalities. ✓

\*Any other evidence **relevant** evidence not mentioned (marker discretion)

## 3. **Strive for innovation and technological advances.**

Being successful at innovation often leads to first on the market victories and that is a powerful differentiator. If it is hard to replicate the type of innovation employed, through patent protection or any other means, then a company can have sustainable first mover advantages. ✓

Case evidence:

UA was aggressively investing in 3D modeling and other related technology to quickly create prototypes of new products; with traditional technology. This indicates the type of technology that the company employed as a way to be innovative and to stay ahead of the competition. ✓

\*Any other evidence **relevant** evidence not mentioned (marker discretion)

## 4. **Seek out high-quality inputs.**

Using high quality inputs can ultimately spill over to affect the performance or quality of the company’s end product. ✓

Case evidence:

Many of the high-tech specialty fabrics and other raw materials used in UA products were developed by third parties who were specialist and sourced from a limited number of pre-approved specialty fabric manufacturers. By sourcing quality raw materials and speciality fabrics from specialists manufactures and third parties ensured that the company received high quality inputs that contributed significantly to their success and quality assurance. ✓

\*Any other evidence **relevant** evidence not mentioned (marker discretion)

## 5. **Pursue continuous quality improvement.**

A company must have quality control. When a company has quality control, they are able to reduce product defects, prevent premature product failure, extend product life and make it economical to offer longer warranty coverage, improve the economy of use, resulting in end user convenience and enhance product appearance. ✓

Case evidence:

All of the makers of UA products across all divisions were evaluated for quality systems, social compliance, and financial strength by Under Armour's quality assurance team, prior to being selected and also on an ongoing basis. By having UA products evaluated for quality systems, social compliance etc ensures that UA continuously deliver on quality and their clients can be assured to receive good products without defects. ✓

OR

All contract manufacturers were required to adhere to a code of conduct regarding quality of manufacturing, working conditions, and other social concerns. ✓

\*Any other evidence **relevant** evidence not mentioned (marker discretion)

#### 6. Emphasize human resource management activities that improve the skills, expertise, and knowledge of company personnel.

A company that has high caliber intellectual capital often has the capacity to generate the kinds of ideas that drive product innovation, technological advances, better product design and product performance, improved production techniques and higher product quality

Case evidence:

UA's human capital management strategy is focused on creating an inclusive workplace where our teammates can thrive by attracting, developing and retaining talent through a competitive total rewards program, numerous development opportunities and a diverse, inclusive and engaging work environment. This ensures that the organisation is fully equipped with the necessary skills to drive product innovation, deliver on quality and achieve success for the company. ✓

### QUESTION 7 (6)

One of the steps required to evaluate the strategy of the diversified firm involves “checking for a good resource fit”. Considering the case:

- 7.1 Indicate whether Nike has a good resource fit or not. Use case evidence to support your answer. (4)

Mark allocation	Marks
Indicating whether or not Nike has a good resource fit, using case study evidence to support answer (2 x 2)	4

- 7.2 The portfolio approach to managing a diversified firm focuses on two (2) general categories of businesses, namely: cash hogs and cash cows. Indicate, using case study evidence, whether Nike represents a cash cow or a cash hog (with a discussion of the selected concept). (2)

Mark allocation	Marks
Indicating whether Nike represents a cash cow or a cash hog with discussion (2)	2

## MEMO

7.1 Good resource fit exists when the firm's businesses have well-matched specialized resource requirements at points along their value chains that are critical for the businesses' market success.

Yes, a good resource fit exists

### Financial resource fit

It is important for a diversified company to have a healthy internal capital market that can support the financial requirements of its business line up. ✓

"The company had global sales of \$39.1 billion and net income of \$4.0 billion in fiscal year ending May 31, 2019. Nike is "solvent, well-capitalised and has adequate liquidity". This indicates that should Nike choose to diversify further than it already has, it will be able to support its business line up as it has the financial resources (internal capital market) to back it up. ✓

### Non-financial resource fit

Just as a diversified company must have adequate financial resources to support its various individual businesses, it must also have adequate financial resources to support its various individual business, it must also have a big enough and deep enough pool of managerial , administrative and other parenting capabilities to support all of its different businesses. ✓

- Managerial capabilities

"Nike's own staff of specialists in the areas of biomechanics, chemistry, exercise physiology, engineering, industrial design, and related fields, the company utilised research committees and advisory boards made of athletes, coaches, trainers, equipment managers, orthopaedists, podiatrists and other experts who reviewed designs, material concepts for product improvements, and compliance with product safety regulations around the world." This shows the managerial capabilities that the company possesses and thus the non-financial resources fit that the company can use to support its individual businesses should it diversify further. The company has various experts who ensure that Nike is always on top of the game in all spheres of the company. ✓

7.2 A **cash cow business** generates cash flows over and above its internal requirements, thus providing a corporate parent with funds for investing in cash hog businesses, financing new acquisitions, or paying dividends. ✓

Case evidence:

"The company had global sales of \$39.1 billion and net income of \$4.0 billion in fiscal year ending May 31, 2019. Nike is "solvent, well-capitalised and has adequate liquidity". This indicates that the company is generating cashflows and sufficient funds over and above its internal requirements and may be in a position to invest in cash hog businesses. ✓

**TOTAL**

**[75]**