**MBC 635 Case Study 2**

**Understanding Strategy and Predicting Performance: Evaluate the Supply Chain Financial Metrics of Three Publicly Traded Competitors**

**Fall 2022**

**Assignment:**

Case Study 2 will focus on analyzing three publicly traded companies to assess their relative financial performance over the last three years.  The goal is to understand how public statements made in annual reports combined with evaluating their financial performance can direct us to a better understand a company’s strategy with particular focus on the supply chain and future profitability.

We wil focus on three publicly traded companies that compete with each other: Nike, Adidas, and Under-Armour:

1. **Coronavirus Response**

**Summarize each company’s response to the Coronavirus disruption from the CEO statements and outside research** and assess **how this response impacted the company’s competitiveness and profitability**. Provide **specific examples** for **each** company.

*(Approximately 1/2 page for each company, 1 – 2 pages total)*

**Nike:**

The response given by Nike CEO, John Donahoe, was the most informational out of the 3 (Nike, Adidas, Under Armour). Nike explained why their earnings fell relating directly to the COVID-19 pandemic. According to the statement, “Contract factories in Vietnam, Indonesia and China manufactured approximately 50%, 24% and 22% of total NIKE Brand footwear, respectively…China,which represents an important sourcing country and consumer market for us” (Donahoe, 2020). With China being hit hard with the spread of COVID-19, it is clear that their manufacturing operations took a hit. China is also a major retail hub for Nike, meaning store closures took place as well. Dispite this, Donahoe reiterated that he is proud of how Nike responded. “We focused first on the health and safety of our teammates, our consumers, and the communities in which we operate. We provided pay continuity for all employees while facilities remained closed. We connected with consumers in their homes to offer inspiration and encouragement to stay active. And we delivered personal protective equipment to health systems across the U.S.” (Donahoe, 2020). Nike understood that their employees were greater than their profits by continuing to pay their employees, even when retail and manufacturing were down, whereas many companies shutdown and fired their employees. Not only is this good for employee retention, it also incentivizes suppliers and manufacturers to want to continue doing business with Nike. Nike also utilized their digital market by increasing functionality on their websites while retail stores were closed. The document mentioned that they expect to have 50% of their business profits, going forward, be the result of online purchases. “NIKE Direct revenues increased 8% for fiscal 2020, driven by strong digital commerce sales growth of 49%, which more than offset comparable store sales contraction of 12% due to temporary store closures and stores operating on reduced hours as a result of COVID-19” (Donahoe, 2020). With countries still facing lockdowns, Nike’s focus on their online business can give the company a competitive edge for areas where stores are closed, and people are locked-down. Something else that was interesting was this statement “We are committed to the execution of this strategy, despite the short-term adverse impacts to our business from a novel strain of coronavirus (COVID-19). As such, our long-term financial goals on average, per year, remain the same” (Donahoe, 2020). Despite all the issues Nike was facing, they still didn’t change their financial goals.

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Above is a snapshot of Nike’s stock price over the course of 5 years. As you can see, there was a huge dip in March of 2020 – right when the COVID-19 pandemic spread across the globe. It is also important to note that the stock price has gone up about 33% since then, showing that their response to the pandemic, as well as stakeholder confidence, was successful. In January 2020, you can see a major dip. This slide was due to the company requiring employees to be vaccinated. This requirement, which has since been dropped, saw many employees, some high-senior level, quit or be fired. The reason this is pointed out is to show that while they allowed and encouraged virtual work during the pandemic, the return to office requirement may have affected their employment competitive edge. In 2021, however, Nike made a huge commitment to innovation. The COVID pandemic essentially kickstarted their Consumer Direct Acceleration strategy (CDA), which includes major investments into the e-commerce and technology used at Nike. Part of this includes “opening 200 smaller, digitally-enabled “mono-brand” stores across North America, Europe, the Middle East, and Africa” (SGBonline, 2021). Donahoe stated that as of today, 20% of business is coming from the digital marketplace, with plans to increase to 40% by 2025.

**Adidas:**

The response given by Adidas CEO, Kasper Rorsted, was the most optimistic and less formal out of the 3 (Nike, Adidas, Under Armour). One thing Adidas mentioned that I didn’t see in the forefront of the other statements, was that the pandemic took a toll on human life and not just the economy. They also mentioned that their top priority is the safety of their employees: “We implemented comprehensive hygiene standards across all our locations and provided our employees with clear guidance – including the preventive measures they should take. We also closed stores and offices when required, in line with local regulations. Even today, the vast majority of our employees are working from home, but we reacted quickly to provide them with the tools that would enable them to do so. We also successfully safeguarded jobs throughout the entire year and rewarded our employees with an appreciation payout of €1,000 each for their extraordinary commitment” (Rorsted, 2020). This type of commitment to employees is what makes people stay with a company. Adidas understood that while their company is hurting, their focus was going to be on their employees. Like Nike, Adidas also expanded their digital business. “We took decisive actions to focus on digital acceleration by moving available inventory to e-commerce, invested in an agile digital content studio, shifted marketing, resources and tech budget toward digital and made sure our day-to-day decisions are data-driven. As a result, our e-commerce business was up 53% on a currency-neutral basis for the full year, exceeding €4 billion for the first time in the history of our company” (Rorsted, 2020). Like Nike, Adidas has realized that digital marketplace is the future of retail, proven so with the success of their digital campaign #hometeam, which reached over 400million people around the globe. Adidas is also continuing to focus on sustainability, using recycled materials to create their shoes. Their main outlook for 2021 was to launch their “Own the Game” strategy which “clearly articulates the business drivers, categories and markets we will focus on to deliver above industry-average growth and create significant value through to 2025” (Rorsted, 2020). Part of this includes dismembering the Reebok brand which, to be honest, hasn’t been too relevant since Allen Iverson was sponsored. In 2021, Adidas reported a €1 billion+ improvement from the prior year (2020) and ended with a companywide 16% increase in sales. As part of their 2020 goal, the company successfully sold Reebok for an astonishing $2.5 billion. Adidas successfully launched their “Own the Game” strategy which will focus on sales growth from “Football, Running, Training, Outdoor, and [Lifestyle](https://report.adidas-group.com/2021/en/servicepages/glossary.html#lifestyle)” (Rorsted, 2021). They are hoping that their sports-inspired leisurewear market will see increases. Rorsted also states that the brand will continue the emphasis on direct business to consumer relationships, with an expectation for direct-to-customer sales to account for 50% of their business by 2025.

**Under Armour:**

Of the three companies, Under Armour really emphasized that their poor performance was due to the COVID-19 pandemic. It seemed like every aspect of their business that didn’t perform well was to blame from the global pandemic. However, the did highlight a few changes they made as a response. One change Patrick Fisk, CEO, mentioned was to the name of their campaign from The Only Way is Through” to "Through This Together" which provided consumers with the tools to stay active at home through digital platforms. “We also implemented a new COVID-19 sick leave policy, which offers full-time and part-time teammates in the United States and Canada additional paid sick time if they are unable to work due to COVID-19 related circumstances, including experiencing COVID-19 related symptoms” (Frisk, 2020). This was in addition to following local guidelines for retail and office closures. One thing we found interesting was that they kept their distribution centers open, allowing them to continue to ship product to the consumers. Withing these centers, they paid close attention to health & safety protocols, including social distancing and sanitation stations. Under Armour also continued to focus on their “body regulating” apparel such as HEATGEAR® to wear 2 when it is hot, COLDGEAR® to wear when it is cold, or RUSH™ or RECOVER™. In 2021, Under Armour saw revenues increase by 27% from the prior year. “In our largest business, we saw a 33 percent increase in apparel revenue in 2021, driven by standout products such as UA RUSH™, UA-ISO-Chill®, Rival Fleece, and continued success in our women’s bras and bottom’s business with our Armour® Crossback, UA Infinity, and Meridian offerings empowering her ability to compete at the highest levels possible” (Frisk, 2022). Based on their 2020 outlook, it seems like their campaign for RUSH™ was a success for the company. Frisk also states that they saw a 35% increase in various footwear products, crediting the company’s’ innovation. However, unlike Nike and Adidas, the majority of Under Armour’s sales have come from apparel and not footwear…showing that their ability to compete in that market is still not quite there yet. Like Nike and Adidas, the company is looking to generate sales from “owned Brand and Factory House stores and e-commerce websites” (Frisk, 2022). The company has also been working to expand their presence in different professional sports. As of this week, they signed a deal with the XFL, a minor league type football league, to become the official partners for their jerseys.

Under Armour 2021:

In Fiscal 2021, the COVID-19 pandemic continued to present unprecedented challenges to our business, our communities, our athletes and our teammates. As we managed through these challenges, we prioritized the health, safety and overall well-being of our teammates. We have a COVID-19 sick leave policy, which offers full-time and part-time teammates in the United States and Canada additional paid sick time if they are unable to work due to contracting COVID-19. At each of our office, retail store and distribution house locations, we follow applicable local, state and national government regulations, laws and recommended guidance. At our distribution houses, which have remained open, we have implemented government-recommended COVID-19 prevention measures, including reworking all job areas to reduce close contact, implementing daily health screening questions and temperature checks, enhancing cleaning protocols, requiring face coverings and social distancing and adding physical distancing barriers and increased hand sanitizing stations. Following significant store closures during Fiscal 2020 due to the COVID-19 pandemic, during Fiscal 2021, most of our Brand and Factory House retail stores remained open, subject to varying capacity constraints and other operating restrictions. In addition to requiring daily teammate wellness assessments, we have implemented COVID-19 prevention measures at these locations similar to those described above. With respect to our corporate teammates, many of our corporate offices (including our global headquarters) have reopened in a limited capacity with teammates permitted to return to work on a voluntary basis. However, the majority of our corporate teammates have continued to work partially, if not entirely, remotely. We offer resources for teammates working remotely, which are targeted at optimizing remote work environments and managing COVID-19 related challenges and address topics such as office ergonomics and mental and emotional health and well-being. During Fiscal 2021, we implemented new COVID-19 vaccine policies and procedures for our corporate teammates in the United States and Canada, as well as incentive programs for our retail and distribution teammates. We have provided the ability for our teammates to receive the vaccine by offering on-site vaccination clinics at our various facilities.

As a result of the COVID-19 pandemic, many of our wholesale customers throughout the world had to temporarily close their stores or operate their stores under significant restrictions and experienced reduced consumer traffic and purchasing, which resulted in lower sales and cancellations of orders of our products. Many of our wholesale customers have been able to reopen their stores and have experienced a recovery in consumer traffic and purchasing, though consumer traffic in some areas remains below pre-pandemic levels.

Sources:

<https://sgbonline.com/nike-touts-payback-from-consumer-direct-acceleration-strategy/>