



The Case for Establishing a Corporate Social Responsibility Initiative at Under Armour

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Executive Summary

American businessman and Starbucks CEO Howard Schultz is quoted as having said, “Companies should not have a singular view of profitability. There needs to be a balance between commerce and social responsibility... The companies that are authentic about it will wind up as the companies that make more money.” Sometimes, though, both views can be combined in a single project.

The corporate social responsibility strategy defined in this case is one such project, providing one part philanthropic giving and one part integrated marketing strategy. The main suggestions are as follows:

| Suggestion | Benefit |
|---|---|
| Provide small community sports teams and groups of disadvantaged children with entry-level Under Armour equipment | Introduces products to new markets, builds brand awareness |
| Develop and stock play spaces around the world | Promotes healthy activity, grows brand awareness and image. |

| | |
|--|--|
| <p>Sponsor minor league and community soccer teams in countries around the world</p> | <p>Diminishes Under Armour's image as an American football company, promotes image of global provider of equipment for all sports, provides opportunity to get great sponsor deals before players become famous.</p> |
|--|--|

This program can be accomplished with minimal cost and little risk. Even if no benefits are realized, Under Armour is still accomplishing a good deed, and with initial suggested outlays of only 3 million dollars per year, the whole program costs less than a single sponsorship deal.

Finally, approaching new markets with a grass-roots strategy allows Under Armour to avoid direct competition with Nike's deep pockets and Adidas' entrenched global brand.

For these reasons, I recommend adding this CSR initiative to Under Armour's current projects.

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Company Background

The company that would later become Under Armour was founded by college football player Kevin Plank in 1996 to provide athletes with high-performance clothing - clothing designed to keep athletes cool and dry during the most intense of workouts. The first

product Plank designed was an improvement on the cotton tshirts football players often wear under their jerseys. Plank's new shirt was a polyester blend fabric that eliminated sweat buildup and kept athletes cooler (Thompson, 2013). Since then, Under Armour has continued to create products under their mission to "make all athletes better through passion, design and the relentless pursuit of innovation" (Under Armour, 2015c). Under Armour currently offers a product line that includes high-performance clothing for men, women, and children, along with accessories and custom equipment for a wide range of sports and activities.

Competitive Environment

Today, Under Armour has two primary competitors: Nike and Adidas.

Nike, Phil Knight's global powerhouse, leads the athletic performance industry. Nike specializes in footwear, but has a strong complement of apparel featuring their "swoosh" trademark or "Just Do It" slogan. They also sponsor a wide complement of superstar athletes. Their sponsorship portfolio, long heritage (since 1968), and evocative branding make Nike a powerful leader in the activewear market.

While Under Armour and Nike are American companies, Adidas hails from Germany, bringing an international flair to the athletic performance industry. Adidas, with its portfolio of brands including Reebok, TaylorMade, and Rockport, provides a highly diversified offering, with products available for football, basketball, soccer, running, golf, general fitness, and more. Adidas' greatest strength against Under Armour comes from their diverse product line - while Under Armour had its origin in football, which is

played in America, Adidas has a strong presence in soccer, which is played worldwide (Thompson, 2013).

In summary, Nike has the competitive advantages of deep pockets and a strong brand, while Adidas has the competitive advantages of a diverse product offering and a strong global presence.

History of Corporate Social Responsibility (CSR)

As a socially conscious company, Under Armour currently has three corporate social responsibility initiatives, in addition to a code of conduct for suppliers. This code of conduct contains provisions promising safe working conditions, a living wage, and a reasonable work schedule to all employees of Under Armour and their suppliers and manufacturers (Under Armour, 2015a).

The first, “Power in Pink,” is a product line of activewear for men and women featuring pink materials and embellishments, designed to raise awareness about breast health. The program has resulted in Under Armour being able to provide a 10 million dollar endowment towards the creation of the “Under Armour Breast Health Innovation Center” at John Hopkins hospital. The program has also created social benefits such as improved awareness of breast health and business benefits through connecting Under Armour’s brand with the powerful and recognizable breast cancer awareness brand (Under Armor, 2015d).

The second, “UA Win,” seeks to “empower the athletes of the NEXT generation by providing kids in underserved communities access to sport.” Under Armour

accomplishes this by promoting coaches to solve challenges, working with communities to enhance locations for kids, investing in activities that use sports to teach kids how to succeed, and providing products to children (Under Armour, 2015f).

The third initiative, named “UA Freedom,” offers veterans and first responders a 10% discount on all Under Armour products, and partners with the Wounded Warrior Project. They also provide gym and fitness facilities to first responders in Under Armour’s home city of Baltimore, Maryland Under Armour, 2015b).

CSR Programs of Competitors

Nike

Nike highlights two areas in their CSR program: Sustainability and Community Impact. Nike uses recycling and low-waste processes wherever possible, and prototypes new technology to reduce environmental impact. On the community side, Nike focuses on “Innovating to get kids moving”, “creating positive impact in local communities”, and “accelerating global change.” Many of Nike’s programs focus on direct investment and technology (Nike, 2015).

Adidas

Compared to Nike, Adidas has a much stronger environmental sustainability lean to their CSR strategy. They do have a number of funds and programs across their various brands (Adidas, n.d.). Adidas also seems to take a low-level approach to community engagement - many programs directly involve employees in volunteering.

Objectives for CSR Program

Any CRS program undertaken by Under Armour should meet the following criteria, in order of importance:

1. The program must primarily promote or benefit society at large or disenfranchised groups.
2. The program implemented should either benefit Under Armour in some way, or not place an undue burden on Under Armour's global operations, or put their long-term survival at risk, as this would be an injustice to shareholders.

Proposed CSR Program Structure

The first step to defining a new or altered CSR strategy is evaluating the old strategy.

The three primary initiatives currently conducted by Under Armour (Power in Pink, UA Win, and UA Freedom) are all currently effective, useful programs which meet the objectives set forth in the previous section. Because of the success of these programs, unless any modifications majorly conflict with these programs, they should be left in place and further programs should be added to them.

The CSR program could be improved by implementing another program similar but not the same as the current UA Win initiative. As part of this new program, Under Armour should pursue the following actions.

1. Provide small community sports teams and groups of disadvantaged children with entry-level Under Armour equipment,

2. Develop and stock play spaces around the world,
3. Sponsor minor league and community soccer teams in countries around the world.

Each of these investments would come primarily in the form of product or creating courts or fields.

Cost of Proposed Program

Because the proposed program comes primarily in the form of product, donations can be made at cost, allowing for much greater impact for a much more limited budget.

Under Armour’s annual report for 2014 contains the following figures (“Under Armour Reports,” 2015):

| | 2014 (\$) | % of Net Revenue |
|--------------------|---------------|------------------|
| Net Revenues | 3,084,370,000 | 100 |
| Cost of Goods Sold | 1,572,164,000 | 51 |

Based on this data, we can assume that the typical markup on a product is roughly 100%, that is, the selling price is double the cost of manufacturing. If we assume that the average product donated is a \$30 (retail cost) shirt, and that Under Armour budgets a moderate three million dollars a year, they could donate 200,000 articles of clothing - enough to make a small, yet impactful difference in thousands of places around the world.

Costs for sponsoring minor and community league sports teams around the world are difficult to come by, but many teams would surely be happy with just gear, and others could be sponsored for a nominal amount of money.

Proposed Implementation Schedule

The amount invested in this CSR program should be A) low, at least at first, and B) adaptive. Therefore, I propose the following implementation schedule:

| Year | 1 | 2 | 3 |
|--------------------------|---|---|---------|
| Investment (in Millions) | 3 | 3 | 3 +/- 1 |

For the first two years, devote a 3 million dollar budget to the initiative, to get the program started and build momentum. Starting the third year, the program should be evaluated to see what, if any impact the program is having, both in the target communities and on the bottom line. At that point, the amount budgeted should be adjusted, and should be yearly after that year.

The funding for the program should not drop below 2 million dollars, however, as it is primarily a philanthropic venture, and cannot be purely profit driven.

Advantages of CSR Program

In order to fully understand the advantages of undertaking this CSR program, one needs to think of it as part of a larger integrated marketing strategy.

By helping disadvantaged, secondary teams in foreign countries, Under Armour is avoiding direct competition with Nike. Nike, with their deep pockets and considerable influence, do not have any problem sponsoring all the major teams and superstar athletes. In addition to avoiding direct competition, Under Armour is saving a considerable amount of money, since their simple acts of generosity are simpler and cheaper than a multi-million dollar deal on single athlete. Finally, from a strategic standpoint, Under Armour can improve its future position, since tomorrow's superstars are going to come from today's minor league and community teams.

On the Adidas front, Under Armour will dramatically improve its global brand awareness by providing its products to soccer teams around the world. Globally, this will help Under Armour transition from an "American football" company to the clothing company of choice for a wide range of sports.

The financial benefits of implementing this CSR program are difficult, if not impossible to estimate with any certainty. If the improved brand recognition and positive perceptions created by acting philanthropically alongside identifying with soccer players succeeds in introducing Under Armour to a number of new, foreign markets, Under Armour could see revenues grow by an order of magnitude. In the event that Under Armour sponsors a still up-and-coming athlete who grows into a superstar, they could reasonably expect to see explosive growth in that market, and an improved foot-hold in other countries where that player's sport is popular.

Possible Disadvantages/Risks of a CSR Program

The greatest risk to the proposed program is it not having the anticipated positive effects. It is of course possible for Under Armour to not gain any useful brand recognition, or select any superstars before they make it big, ensuring a large payoff. However, when the risk is viewed in context, it appears much less threatening.

For example, Nike spends over 100 million dollars a year in sponsorships and royalties for its top 3 athletes¹ alone (Alberstadt, 2014). Under Armour has the potential to make a significant impact for 1/30th that amount by spending philanthropically on disadvantaged populations.

Essentially, the worst case scenario is that Under Armour does a good thing in providing performance wear to disadvantaged yet passionate players around the world, and only loses a comparatively miniscule amount of money. Smart thinking and applying resources where they have the greatest impact enables Under Armour to out-manuever companies like Nike and Adidas.

Summary/Recommendation

The Corporate Social Responsibility plan described above permits Under Armour to bolster their current initiatives with a low cost, high impact, high potential benefit addition by providing products and resources to communities in need around the world,

¹ Michael Jordan, Rory McIlroy, and Tiger Woods

while simultaneously diversifying their image, introducing their products to new markets, and gaining an even better public image.

Furthermore, by implementing this plan, Under Armour has the potential to improve its current and future market position on the global stage by out-maneuvering the competition, and tapping into unreached markets.

Ultimately, due to the significant reward outweighing the small and manageable risk, I would recommend implementing the corporate social responsibility plan detailed in this report.

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