Case 4: Coach Inc.

Monday and Wednesday 11:00-12:15

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Industry Analysis: Dominant Economic Features

Market Size, Market Growth, and Number of Rivals

According to the United States Census Bureau, Coach Inc. is best defined in the Clothing Accessories Stores (NAICS code 448150) which includes "establishments primarily engaged in retailing single or combination lines of new clothing accessories, such as hats and caps, costume jewelry, gloves, handbags, ties, wigs, toupees, and belts" (United States Census Bureau). Specifically, Coach Inc. competes in this industry for sales of accessible luxury goods that don't cater to just the super wealthy. One important consideration is the amount of globalization the industry currently faces. According to the case, in 2005, luxury goods from Italy accounted for about a 27 percent share of the total market, French luxury goods maintained 22 percent market share, Swiss companies produced 19 percent market share, and companies within the United States occupied around 14 percent of the market (Thompson C-103). Despite several global competitors, large profits remain for companies in a variety of luxury segments. Specifically, "the world's most well-to-do consumers spent more than $105 billion on luxury goods such as designer apparel, fine watches, and writing instruments, jewelry, and select quality leather goods in 2005" (Thompson C-103). According to the United States Census Bureau's Hot Report on the industry, "employment in [the] subsector increased 18% between 2002 and 2007" (United States Census Bureau). Comparing sales growth, this subsector generated $167,934 million in 2002 compared to $212,958 million in 2007; furthermore, there were 520 establishments per million residents in 2002 compared to 514 establishments per million in 2007 (United States Census Bureau). This growth is indicative of a rapidly growing industry that demands firms to maintain a global presence in order to successfully compete globally.

As population continues to grow, it can be inferred that standards of living in certain countries will increase as well. According to the case, there is a "growing desire for luxury goods by middle-income consumers" as many of these demographics have "increasing incomes and wealth" particularly "in developing countries in Eastern Europe and Asia;" in addition, "changing buying habits in the United States" has also increased demand for luxury goods domestically (Thompson C-103-C104). This evidence is also supported by the fact that "in 2004, the worldwide total number of households with assets of at least $1 million increased by 7 percent, to reach 8.3 million…[and] the number of millionaires around the world was expected to increase by another 23 percent by 2009, to reach 10.2 million" (Thompson C-105). As mentioned before, the impact of globalization is extremely significant. For example, when analyzing growth of an emerging market, China, the case illustrated that in 2004 Chinese consumers accounted "for 11 percent of all luxury goods purchases" but are estimated to represent 24 percent of the entire global revenue of luxury goods by 2014 (Thompson C-105). Similarly, in 2005 approximately 50,000 households in India were estimated to have earned a income greater than 10 million rupees or $250,000 while this number was supposed to double by 2010. As a whole, "demand for luxury goods in emerging markets was projected to grow at annual rates close to 10 percent;" moreover, this rapid growth in emerging markets illustrates the potential for sustainable competitive advantage. As more effective marketing communications messages are crafted, consumers who don't necessarily qualify as upper-class will continue to purchase accessible luxury goods (the segment that Coach aims for). The key point is the word "accessible" which essentially includes luxury goods that are not only affordable within reason (they still carry a premium price) but also has a more prominent distribution channel. Specifically, discount retailers such as Target and Wal-Mart, which some argue dilutes the image

of luxury goods, as well as traditional department stores such as Macy's and Dillard's have made luxury goods more accessible to consumers thus subsequently driving sales.

Scope of Competitive Rivalry

While many competitors exist, including Fendi, Giorgio Armani, Dolce & Gabbana, Versace, Dooney & Bourke, Louis Vuitton, Guess, Kate Spade, and Michael Kors, not all of them have positioned themselves to take advantage of the emerging accessible luxury goods segment. If one factor is driving the industry currently, it is the transformation of globalization since many of these competitors have a presence worldwide. With international presences, firms must penetrate new markets in order to leverage sustainable competitive advantage. Although the accessible luxury good market is a relatively new segment exploited by Coach, the market is rather mature with strong market concentrations of top competitors. As will be discussed later, the ability of these firms to leverage global positioning and access to top quality resources keeps competitors from entering the market.

Industry Life Cycle Position

Because luxury goods are offered in new, innovative product lines (although not necessarily new in features) as well as providing more accessibility for middle income consumers, luxury items are more or less in the late-growth early-maturity stage of the product life cycle. Despite originating in 1941 and offering an IPO in 2000 (the age is indicative of a mature brand), Coach's major growth has occurred after it reinvented the new accessible luxury good market thus not making it a stale and completely mature brand.

Degree of Vertical Integration

Because Coach manufactures and sells its wares, there is a partial degree of vertical integration. The case specifically states "Coach's channels of distribution included direct-to-consumer channels and indirect channels;" further more Coach offers "full price and factory stores in the United States, internet sales, [and] catalog sales" (Thompson C-107). As a means of indirect channels, Coach relies on department stores in the United States and Japan. Besides distribution, Coach develops its own catalogs, maintains its own website, and utilizes customer service as means of differentiation. Because Coach performs many of these vital functions in-house, they exhibit a partial degree of vertical integration in this respect as well.

Ease of Entry/Exit

In order to successfully market luxury goods, firms must have access to international markets for both sustainable competitive advantage and market position and, more importantly, access to some of the highest quality supplies that are requisite of luxury goods. Because many established luxury good brands have solid brand awareness, expertise with integrated marketing communications messages, access to high quality materials, and sophisticated quality control techniques, there are some very high barriers to entry. In order to penetrate untapped markets, firms trying to enter might try partnering with an established brand in order to access rare materials.

Because the industry is extremely globalized, withdrawal would be also very difficult. With strategic business units scattered throughout the world, the sheer volume and cost of resources in initial investment would be staggering. To withdraw, a firm would have to develop an exit strategy that somehow can liquidate very expensive inventory (chances are luxury goods have high inventory carrying costs).

Technology Innovation

With an established global brand, strong demand for innovation in technology remains high. For example, Coach utilizes its website to generate sales worldwide. While some businesses think that web development is easy, maintaining a sophisticated website on a global scale that not only considers cultural elements, language, and product lines, can be a daunting task. Besides web development, Coach also needs strong technology to maintain quality control with its product lines. Because Coach's products are luxury goods, consumers essentially expect quality with minimal defects. By maintaining and continuously investing in technology in order to innovate products and minimize defects, Coach not only assures quality to their customers, but also justifies their premium prices over one of the major problems facing all luxury goods - knockoffs.

Product Characteristics

Products in this industry consist of luxury goods made of the finest materials. According to the text, products in this industry consist of designer apparel, fine watches, writing instruments, jewelry, and premium leather products. In addition, some companies are expanding into new ventures such as women's knitwear and a variety of fragrances. Ultimately customers are looking for products made out of the finest materials and are willing to pay premium price for them: a strategy Coach relies on with their premium leather.

Economies of Scale

Like many manufacturers, Coach is able to leverage economics of scale to a certain degree because of the sheer quantity of purchase orders; however, like many luxury goods, the number of items produced and the quality of each of the inputs for these items limit how much economies of scales can be utilized. With luxury goods, because only a limited number of orders

are purchased, the company cannot fully create standardized processes for an optimal level of production thus economies of scale are somewhat of a limited factor.

Learning/Experience Curves

With global competitors and established brands, it is extremely challenging for new entrants to enter the market. First, many major players in the industry have established global presences and buyer loyalty through their brand names; moreover, this international presence gives them unlimited access to the highest quality supplies (something new entrants would struggle to get yet something that is vital for luxury goods). Second, new entrants would have to learn very quickly how to manufacture and produce high quality luxury goods – a task not very easy since any tiny flaw could ruin a product's reputation. Finally, new entrants must leverage the internet as a means of competing in terms of accessibility (especially if that is the segment that they want to pursue). While new entrants could technically generate profits and success like Coach did originally with its founder functioning as a local artisan, the truth of the matter is, these entrants will not be able to gain access to the major profits or have the ability to charge premium prices unless they can overcome the experience and learning curves of developing a global presence, positioning each product with a strong brand name, and discovering the most efficient total quality management techniques.

Capacity Utilization

In order for a company like Coach to fully utilize its capacity, it must guarantee efficient inventory control (especially since leftover inventory for luxury goods can be quite expensive to maintain). Second, the industry frequently uses factories to manufacture luxury goods and could subsequently utilize these same plants that might not being running as efficiently to produce lower quality products or items that depend on those supplies. Essentially, with the innovation

of the accessible luxury good, the industry is now better utilizing capacity as opposed to before when warehouses were built but didn't exactly match the needed level of production. With lower priced luxury goods, more products are sold at higher prices which inevitably drive down the fixed costs of the plants.

Industry Profitability

Because luxury goods command premium prices, profits will continue to remain high; however, there are some inherent risks associated with this industry. Specifically, the market has already demonstrated slowing growth and early maturity as barriers to entry (predominantly because of the globalized state of the industry) prevent many new entrants from pursuing the excessive profits generated by premium pricing. With experience curves demanding strong international presences and consumers demanding strong brand names with maximum quality, it is very difficult for new entrants to achieve high profits; put another way, it is very risky for a company to invest in many retail stores and high priced inventory because if something goes wrong essentially the business will face severe consequences. Despite the heavy risks, for companies that can both maintain elite products while still offering accessible luxury goods, profits are very strong – especially with increases in standards of living and more middle class consumers purchasing products.

Competitive Analysis: Porter's Five Forces Model of Competition

Rivalry Among Competing Sellers

Ranging from elite brands such as Giorgio Armani, Dolce & Cabbana, and Gianni Versace to small retail stores such as Bebe Stores, Jaclyn, and Tandy Brands Accessories, Coach faces intense competition. Many of these brands charge premium prices and appeal to the ultra-

elite; however, Coach, as a pioneer of accessible luxury goods, illustrates how all of these competing brands are beginning to transition towards marketing towards middle income

Potential New Entrants

With potential for considerable profits, new entrants are inevitably bound to enter the industry particularly since the industry is able to command premium prices. While many new entrants may enter the market, very few will be successful because they do not command a solid brand name worthy enough of commanding premium prices. Besides the brand name, new entrants also do not have the proper capital to gain an international foothold on the best supplies and distribution channels. In addition, they also lack experience know-how in total quality management. For this reason, the force exhibited by potential new entrants is low.

Substitute Products

Substitute products in this industry consist of pretty much any other type of accessory such as purses that do not necessarily have to be considered a luxury brand. In addition, counterfeit and knock-offs are also substitutes. The competitive pressure coming from substitute products in this industry is moderate in the sense that for some consumers they just want a counterfeit that most reference group members wouldn't recognize as a fake while others must have the real deal. The competitive pressure is almost directly even depending on the consumer purchasing the product based on how authentic the individual wants the product. If a woman, for example, wants a Coach purse, no other substitute will replace that particular brand (unless this individual can live with a counterfeit).

Buyers

Buyer bargaining power in this market is very limited because many of the customers are willing to pay premium prices for these luxury brands. While these consumers could shop

around, they chose not to because a Coach brand, in their eyes, is differentiated and offers a particular set of values. For the consumers of this industry, brand loyalty is very strong and not much consideration is placed on competing brands.

Suppliers

Suppliers in the market have an extreme amount of power because they can essentially price not only the inputs for the luxury goods extremely high because they are very rare and valuable, but they also can dictate which retailers can get which brands and in which quantities. When companies, such as Coach, have partial vertical integration, these firms are able to gain more bargaining power and essentially leverage the costs of the inputs and products.

Industry and Competitive Analysis

Industry Driving Forces

Driving forces in an industry are the forces that cause the industry to change and make the industry more competitive and essentially impact how the industry will change and adapt throughout the future. In this particular industry, there are three particular driving forces including:

1. Increasing Globalization
2. Marketing Innovation
3. Changing societal concerns, attitudes, and lifestyles

As previously mentioned, globalization is a huge driving force in the industry because essentially the industry has global competitors that not only leverage an international presence in expanding market share, but also utilize positions in these countries to access the high quality inputs that go into each product. Coach, in particular, has shifted to this global perspective with

"department stores, freestanding retail locations, shop-in-shop locations, and specialty retailers in 18 countries" (Thompson C-110). In 2006, Coach maintained international wholesale accounts worth $147 million (Thompson C-110). To illustrate the outreach of the company, "Coach's largest wholesale country markets were Korea, Hong Kong, Taiwan, Singapore, Japan, Saudi Arabia, Australia, Mexico, Thailand, Malaysia, The Caribbean, China, New Zealand, and France" (Thompson C-110).

Second, marketing innovation serves as another key driving force. Marketing innovation essentially allows for companies to continuously improve a brand's image, reduce material costs, and add value to products in many other ways. The case discusses how Coach's performance, after declining in relation to other foreign brands, relied on Reed Krakoff as Coach's new creative director. Through his ability to conduct marketing research, Krakoff transformed the company into a successful industry player because new marketing innovations came directly from consumer surveys and focus groups. Ultimately, successful marketing innovation helps a firm thrive such as in this instance. Coach's sales increased from "$500 million in 1999 to more than $2.1 billion in 2006" (Thompson C-101).

Finally, changing societal concerns, attitudes, and lifestyles represents the third industry driving force for a number of reasons. First, changing preferences by middle class consumers towards luxury goods inevitably created a new segment in accessible luxury goods. Without the changes in the way these consumers thought about the brands and wanting to own something more elite without having an elite price tag, Coach (among other companies) was able to capitalize on this opportunity. With new accessories coming out in all shapes and sizes everyday, it is absolutely essential that firms keep in tune with changes in the external environment – particularly with one's consumers.

Key Success Factors

Key success factors by definition are product attributes, competencies, competitive capabilities and market achievements with the greatest impact on future competitive success in the marketplace. In terms of this case, the relevant key success factors are as follows:

1. Quality control know-how
2. A well-known and well-respected brand name
3. Design expertise

First, quality control know-how is one of the most important key success factors in this industry because consumers that are paying premium prices for products expect their luxury goods to be devoid of all mistakes. If firms cannot manage their quality control and produce the very best product, they will abandon the product and never look back.

As previously mentioned, a strong brand name is vital to being able to charge premium prices for luxury goods. Without a well-known and well-respected brand name, consumers will inevitably pass up a firm's products and for sure won't pay premium prices for an unheard name. In order to be successful in a luxury market, firms need to leverage their name and image.

Finally, because the industry continues to mature and methods of differentiation are becoming more and more difficult to conduct in order to achieve a desired level of sales, it is essential that firms employ expert designers and use their design expertise to create the very best product for the consumer. As indicated in the case, until Coach finally relied on marketing research data and utilized this in the designs (as opposed to allowing the designer to trust his/her own instinct) their sales were steadily declining. With research-backed design, Coach, like many industry players, adapted and essentially learned that having designers is vital to success of meeting consumers' interests.

SWOT Analysis

Strengths

Coach is very strong when it comes to brand image. As indicated by the case, Coach held a 25 percent share of the U.S. luxury handbag market and was the second best-selling brand in Japan, with an 8% market share" (Thompson C-101). To earn strong market share, Coach offers a "winning combination of styling, quality, and pricing" that essentially operates off the premise that they would target the new accessible luxury goods segment (Thompson C-100).

Besides strong brand image, Coach also possesses strong distribution capabilities. For example, "in the United States, Coach products could be found in approximately 900 department stores, 218 Coach full-price stores, and 86 Coach factory outlet stores" in addition to sales generate from their website (Thompson C-107). Essentially a strong distribution network allows for Coach to position their luxury goods as accessible (without tarnishing their image).

Another strength Coach has is the diverse product line consisting of women's handbags, key fobs, belts, electronics accessories, cosmetic cases, gloves, hats, scarves, watches, shoes, and sunglasses. By having a large product line, it allows for the company to diversify and differentiate. Similarly, Coach frequently introduces new products which are indicative of a commitment to diversifying its product lines.

Finally, one of Coach's greatest strengths is excellent customer service when it comes to taking care of their customers. In an effort to show value-added benefits, Coach refurbishes damaged handbags and provides "Special Request service" to allow consumers to custom order a product if a "particular handbag or color wasn't available during a visit to a Coach store" (Thompson C-107).

Weaknesses

With locations all over the United States, one of Coach's biggest weaknesses is also one of its previously mentioned strengths: accessibility. With so many retail stores attempting to sell high-cost inventory, Coach inevitably puts itself in a situation with a high risk/high reward situation. Currently, the strategy has paid off because middle class consumers have started to purchase luxury goods; however, as the case states, Coach's most loyal consumers visited the store once every two months and made a purchase once every seven months with an average customer purchasing around four handbags per year. While consumers are benefited in accessibility, the question remains when sales begin going sour, can Coach endure the high costs of so many retail stores and any left-over inventory?

Opportunities

While Coach currently has a strong base in international markets, as standards of living around the world continue to increase, Coach can really exploit the opportunity to invest overseas particularly in developing nations such as China.

Along the same lines of globalization, Coach can increase its market share through development of sales via their website. While Coach currently operates an e-commerce site, it still remains to be seen on how sophisticated it really is. Coach could look into some potential new avenues of possibly adding some customization features or, at the very minimum, enhance the functionality and friendliness of their site so that they can generate sales from individuals not within range of their other stores.

Threats

As nations become more and more sophisticated in the ways that they are able to produce counterfeit products, one of the biggest threats that faces Coach is the ability of these knockoffs

to serve as substitute products. To illustrate the extent of counterfeit goods, "in 2006, more than $500 billion worth of counterfeit merchandise were sold in the United States and internationally;" moreover, these staggering numbers illustrates the global problem confront many industries (Thompson C-106). This is a particularly dangerous threat to Coach because any time one of these fake products has defects, consumers, unknowingly, may associate it with a defective product. In addition, consumers who want their reference group members to think that they can afford high-end products may not want to pay premium prices for those products so they rely on the affordability of an identical product for half the price.

Like most products, particularly luxury goods, Coach is impacted based on the economy. When the economy is down and consumers do not have a lot of spending money, so is Coach's bottom line. With luxury goods, consumers often find such products to be extremely elastic so dramatic drops in income will result in dramatic drops in sales of Coach's product lines; moreover, this is particularly dangerous because of the high cost associated with maintaining high-cost inventory and facilities.

After examining Coach's SWOT Analysis, it is evident that this company is a pioneer in leading change and harvesting new segments (specifically the accessible luxury goods segment). The company places strong emphasis on customer service and product differentiation. Coach's biggest weakness and obvious threat is that investing heavily in facilities and high-cost inventory can be devastating in times of economic crisis. While having a strong brand name and international presence, it won't generate sales in harsh economic times when luxury goods are often the first expenditures reduced. By leveraging technology, particularly the internet, Coach could potentially reduce some high fixed cost and generate more revenues from sales. Leveraging technology in this fashion is essentially a cost-effective way of providing consumers with accessibility in distribution.

Resource Based Theory

With many valuable resources which can generate sustainable competitive advantage over its competitors, Coach, under the VRIO framework, really leverages its distribution outlets in three different types of stores: full-prices, factory outlets, and department stores. Essentially these distribution channels allows for Coach to gain competitive advantage over others because this structure is something valuable and rare. This resource is valuable to Coach as they are able to effectively appeal to multiple segments that might be overlooked by companies afraid to lower their brand images and offer in more common stores. With a plethora of distribution channels, however, Coach can provide a greater degree of accessibility.

Evaluating Company Resources and Competitive Capabilities: Strategic Cost Analysis

Porter's Value Chain Analysis

Coach understands that differentiation is a major part in adding value to their product lines which is why the company frequently introduces new products with a variety of different colors and designs to continuously keep consumers interested in purchasing new Coach products at affordable rates.

In a similar sense of attempting to add value through accessibility, Coach utilizes a variety of direct and indirect channels including stores, warehouses, outlets, and their website. By providing plenty of opportunities to purchase their products, Coach makes it easier for middle class consumers, not particularly picky about seeing Coach products in more frequent channels than more upper-scale product lines, to essentially purchase the product.

Expanding beyond the distribution channels, Coach also strives to provide excellent customer service offering to refurbish defects in their products and training their employees to

treat customers with the utmost respect. Knowing that their consumers provide great patronage to their store and that retention of these customers more than offsets the added costs of hiring more employees and training them well, Coach remains dedicated to providing consumers with added value every time they visit a Coach store.

Benchmarking

Holding 25% of the market share in the luxury handbag market with total revenues of over $2 billion in 2006, Coach's closest competitors were Burberry Group (which generated just over $1 billion in revenues) and World Co., Ltd. (which generated almost $2.5 billion in revenues). In terms of operations, Coach employs approximately 12,000 employees and owns a total property, plant and equipment value of $298 million compared to World Co., Ltd's 16,000 employees and $370 million in total property, plant, and equipment and Burberry Group's 6,208 employees and total property, plant and equipment value of $290 million. It appears that Coach balances in the middle.

Competitive Strength Assessment

A. An Unweighted Competitive Strength Assessment

Key Success Factor/Strength Measure	Strength Rating (Scale: 1=very weak; 10=very strong) Coach	World Co., Ltd.	Burberry Group
Quality control know-how	10	9	8
A well-known and well respected brand name	10	8	8
Design expertise	9	9	9
Unweighted overall strength rating	29	26	25

B. A Weighted Competitive Strength Assessment
Strength Rating (Scale: 1=very weak; 10=very strong)

		Coach		World Co., Ltd.		Burberry Group	
	Importance Weight	Strength Rating	Score	Strength Rating	Score	Strength Rating	Score
Quality control know-how	0.5	10	5	9	4.5	8	4
A well-known and well respected brand name	0.2	10	2	8	1.6	8	1.6
Design expertise	0.3	9	2.7	9	2.7	9	2.7
Weighted overall strength rating	1.0	29	9.7	26	8.8	25	8.3

During the unweighted competitive strength assessment, all of the companies received high rankings because of their superior positions. Coach had the strongest quality control with

the other two companies not far behind. All three companies do a good job of minimizing defects in their products.

For well-known, well-respected brand names, Coach has the edge over the other two brands because it targets lower income individuals thus giving it stronger market share and image for both segments. While this is true, the other two still rank very highly among their segments – they are just limited in their exposure to other segments.

For design expertise, all brands were considered equal and very high (a rank of 9) because essentially they are leaders in their industry and have generated many positive reviews from consumers. With design expertise, they are constantly revamping and reinventing a maturing market.

For the weighted competitive strength assessment, quality control know-how earned a rank of 0.5 because it is probably the most important key success factor in the industry. Without strong quality control, the product will lose a strong brand name. Speaking of which, well-known, well-respected brand names earn 0.2 in weight because it represents a strong ability to market. While not as strong as quality control know-how, this key success factor still represents a good chunk of significance. Finally, design expertise earned a 0.3 weight, more than the brand name, because essentially consumers are going to buy the product with the best design. While not the most significant, it's important for consumers to find quality designs.

In the final analysis, Coach earned an assessment of 9.7, World Co. finished with 8.8, and Burberry finished with 8.3. The important thing to note is that all of these companies are very close in competitiveness.

Financial Analysis

In order to gain better insight into Coach's financial health and inevitably evaluate the viability, strength, and profitability of the firm, a financial analysis will utilize financial ratios from the year of 2005, and comparing it to the current year of 2006. In addition, industry ratios will be used to evaluate its position in relation to the entire industry.

Ratio Analysis

- Gross profit margin: The numbers show that profitability has increased by 1% ultimately implying Coach has taken a number of steps such as reducing costs or raising prices to increase their margins.

- Operating profit margin: Profitability increased by .3% which implies that Coach reduced operating costs.

- Return on Total Assets: As indicated by this ratio, 5.1% indicates that the total assets that are invested in Coach have earned much more profits compared to the previous year.

- Return on Stockholder's Equity: An increase of 7.6% indicates that earnings have increased from an exceptional return of 34% to 41.6%.

- Current ratio: A slight increase of .18 from an excellent current ratio of 2.67 to 2.85 indicates that Coach has strong ability to cover its debt.

- Quick ratio: An increase of .19 indicates an improvement of Coach's ability to pay its current debt without factoring any inventories from under 2.0 to 2.17.

- Working capital: Because Coach increased its working capital from 189 million, it can be inferred that the firm has placed itself in a good position with internal funds to operate without relying on debt.

- Debt-to-assets-ratio: An increase of .04 suggests increased use of liabilities to finance operations.

- Debt-to-equity-ratio: Coach increased debt used for operations by .07.

- Days of Inventory: As Coach continues to evolve and introduce new product lines, it is assumed that more inventories will be needed; however, an increase of 11.89 days suggests that inventory management isn't as efficiently managed as before.

- Inventory turnover: Coach had a decrease of .15 which indicates the firm's average inventory sold less times within a year compared to the previous year.

Trend Analysis

In order to generate a trend analysis, several ratios are averaged in conjunction with the total revenue and gross profit for the industry averages in 2006.

In 2006, net income average for the industry totaled $103,528,000 while Coach averaged $494,277,000 compared to the nearest company averaging $73,807,000. Clearly, Coach has a huge advantage. Another trend that can be analyzed is for total assets. Total assets for the industry averaged $477,780,667 compared to Coach's $1,626,520,000. Specifically, Bebe Stores, the second largest in total assets, falls behind Coach at $500,909,000. In terms of current ratios, the average industry ratio was 3.89 while Coach's was 2.85. For quick ratios, Coach, in 2006, had a ratio of .67, not a very promising figure, compared to the industry average of 1.35. This implies most of their assets come from inventory. In terms of net profit margin, Coach

averaged a remarkable 23% in relation to the industry average of 8%. Finally, Coach spends the most in advertising dollars ($35,887,000) compared to the industry average of 20 million dollars in advertising revenues.

Competitor Analysis

Although Coach has many competitors, the competitor analysis will focus primarily on Kenneth Cole and Bebe Stores, Inc. To illustrate the disparity between these firms, Coach experienced an increase in their net income by more than 100 million dollars in 2005 and 2006 while Bebe Stores net income increased by 9 million and Kenneth Cole, even worse than expected, saw a dramatic decline in net income by 7 million dollars. One possible explanation is the amount spent in advertising dollars. In 2005, Coach and Bebe Stores increased advertising by more than 7 million dollars; however, Kenneth Cole withdrew advertising dollars by 3 million dollars which may be indicative of their declining net incomes.

In terms of gross margin ratio, all three companies experienced a decrease in the gross margin ratio. This is indicative of similar competitive moves.

Finally, comparing all three firms' quick ratios provides further evidence of the competitive battle. As the data indicated, Coach and Bebe Stores' ratios had adverse effects as when their assets decreased liabilities also may have increased or possibly both scenarios occurred. This decrease inevitably indicates a harder financial position to pay debt. In direct contrast, Kenneth Cole increased their quick ratio which illustrates a different set of financial objectives.

Integrative Financial Statement Analysis

After analyzing the financial statements and ratios, it is evident that Coach leads the industry with both revenues and assets. Coach's financial strategy has added value in multiple

facets including continuous emphasis on profits, return on stockholder equity, and return on total assets. While Coach is in a strong financial position, Coach's marketing efforts in introducing new products has prevented the days of inventory estimate to increase significantly along with the inventory turnover ratio. With more expensive inventory, this could be a future concern.

Business Strategy Analysis: Porter's Generic Strategies

The strategy that Coach most likely employs is a focused differentiation strategy. While Coach does offer lower prices than competitors, the firm's product lines are often still top of the line in pricing. According to the text, "a focused strategy keyed to differentiation aims at securing a competitive advantage with a product offering carefully designed to appeal to the unique preferences and needs of a narrow, well-defined group of buyers" (Thompson 153). This strategy is most likely the strategy that Coach relies on (although there are some elements of a focused low-cost strategy) because the firm essentially tries to sell highly differentiated products (both in design and by brand) to a select group of people (upper-class and middle-income consumers with a willingness to buy luxury goods).

Business Strategy

Vertical Integration

Coach is partially vertically integrated in the sense that they function as a manufacturer and retailer. With agreements with a variety of other retailers and distributors, they function as the manufacturer; however, Coach also maintains the ability to function as retailer because of their own stores and internet sales. In addition, they handle many operational functions in-house such as marketing and customer service.

Transaction Cost Economics

In order to lower costs while still maintaining high quality, Coach takes advantage of several outsourcing initiatives. By relying on the external environment to lower costs through lower priced labor, Coach can balance the lower costs while still maintaining the same high level of quality expectations that consumers have.

Cooperative Strategies

Leveraging outsourcing agreements with 40 different companies in 15 different countries, Coach is able to lower costs and maintain high quality for their consumers.

In addition, licensing agreements with companies such as Movado Group (watches), Jimlar Corporation (footwear), and Marchon Eyewear (sunglasses), Lutz and Patmos (knitwear) as allowed Coach to continue rapidly expanding product lines.

Finally, Coach has many accounts with wholesale distributors with a strong emphasis on places such as department stores in malls.

Offensive Strategies

One offensive strategy that Coach employs is to develop more market share internally. To achieve this, the company wants to introduce new product lines monthly, offer giving programs to attract customers to the store, and provide in store gift-wrapping during the holidays. In leveraging technology, Coach is also developing e-commerce applications to recommend other related items to purchase.

Another offensive strategy is to continue developing in the foreign markets of Japan, Hong Kong, and China. As previously mentioned, globalization is a major factor in this

industry. By expanding into other geographic locations, Coach will gain more market share with an increased customer base and will also develop more access to high quality resources.

Finally, the last offensive strategy that Coach employs is developing the new accessible luxury goods segment in which Coach identified middle-income consumers were are interested in purchasing luxury goods. As a first-mover, this aggressive tactic worked because it gave Coach dramatic increases in market share after adding in a new group of consumers who hadn't been cultivated before.

Defensive Strategies

As a primary defensive tactic, Coach offers very low prices which essentially allow them to retain the new segment of accessible luxury goods that they created. By fortifying this position, Coach can defend against any aggressive attacks that higher-end products may have with newer innovations – Coach can always rely on the lower price to solidify at least one major segment.

First Mover Advantages

As a first mover, Coach essentially cultivated a previously untapped market of middle-income consumers who wanted access to more expensive luxury goods. Before Coach's first mover tactic, this group of individuals could never afford luxury goods. By adding these consumers, Coach developed a very strong niche that can serve as a defense against upper-scale luxury goods that may try to attack.

Corporate Strategies: Diversification

In terms of unrelated acquisition and diversification, Sara Lee, a producer of diversified food and consumer goods products, acquired Coach. This was unrelated because Coach, a producer of women's handbags and other accessories, didn't give Sara Lee any sustainable competitive advantage; however, it did allow for Sara Lee to spread risk and offer financial contributions.

Although Coach hasn't needed to participate in liquidation, restructuring, and retrenchment, the firm does carry huge investments in warehouses and expensive inventory that may eventually demand reconfiguration and restructuring.

Corporate Strategy: Evaluation

Portfolio/Matrix Typologies

Coach should diversify into a related industry in order to leverage high capacity costs associated with many warehouses and materials; moreover, materials that don't meet the quality expectations of the Coach brand could be sold under the guise of another off-brand. While this may seem radical, with careful brand management, Coach could use any supplies that may be sellable but not of the highest quality and subsequently not useable for Coach branded items. There is a strong emphasis on careful brand management because if consumers discover that Coach is associated with lower quality brands, it may turn them off. An example to relate to is the way McDonald's manages Chipotle – always protecting its image and disassociating it. Knowing that inventory is a major issue for Coach, it may be beneficial to have related diversification so as to leverage sustainable competitive advantage. This is important because in a globalized industry that demands multiple international manufacturing plants and inventories, Coach simply has to keep up without losing much in inventory. As discussed by the text, it

would be irrelevant to pursue unrelated diversification because sustainable competitive advantage cannot be realized.

Strategic Fit Analysis

Value Chain Activities

	R&D/ Technology	Supply Chain Activities	Distribution	Marketing and Sales	Support Activities
Coach Handbags					
Coach Jewelry					
Coach Apparel					
Coach Luggage					

Yellow = Collaboration to create new competitive capabilities
Red = Combine sales and marketing activities
Blue = Combine purchasing activities and gain more leverage

In order to illustrate value chain activities, the chart above highlights many of Coach's important value chain activities relevant to certain product lines. There are three main areas of focus: collaboration to create new competitive capabilities, combination of sales and marketing activities, and combination of purchasing activities to gain more leverage. First, Coach should have all product lines collaborate together specifically for customer service and support activities. Because Coach as a brand depends on its strong name and customer service serves as a key way of strengthening the brand, it is important to have those activities across the board. Specifically, placing customer service across the board will strengthen the consistency and cohesiveness of the unit if it is on the same page. Similarly, supply chain activities should combine purchasing and distribution activities to develop strong efficiencies. By expanding purchasing activities, Coach will achieve lower costs which will invariably translate to

sustainable competitive advantage over competitors as many of these funds can be diverted into more strategic business initiatives. In terms of marketing and sales, the jewelry and accessory lines should be combined because of the similarities in the consumers who buy them. With similar products, integrated marketing communications efforts can target the same group and spread both messages regarding the product lines simultaneously all while reducing marketing costs and costs for the end-user.

Implementation

Building a Capable Organization

Serving as a top priority in executing any type of plan, building a capable organization essentially demands strong management and effective employees who can execute management's plan. In order to improve, Coach should consider three initiatives:

1. Staffing the organization
2. Building core competencies and competitive capabilities
3. Structuring the organization and work effort

As the case has highlighted on numerous occasions, Coach maintains one of the strongest levels of customer satisfaction in the industry. To illustrate how they continuously improve their staffing, Coach made sure to provide regular training and support during busier times of the year. Essentially Coach's frontline workers are the face of the brand; without a friendly smile and positive attitude, the customer service component becomes desolate at best and inevitably tarnishes the brand image. Subsequently, with a poor image, Coach would lose a major sustainable competitive advantage over competitors.

Second, Coach has built core competencies and competitive capabilities primarily through their initiative in developing the accessible luxury goods segment for middle-income consumers. In order to build this competency, Coach relies on outsourcing and other cost-reducing initiatives. The important concept is that such competitive advantages allow Coach to continuously beat rivals.

Finally, the work effort is structured primarily through top-down decision making; however, it is done in a tasteful way that incorporates Coach consumers and employees. As the case pointed out, sales were declining when creative management essentially relied on instinct; however, when the creative director decided to listen more closely to the consumers and employees, decision making began happening more effectively and subsequently increased sales.

Matching Structure to Strategy

Like many companies, Coach relies on a top-down management styles with upper management deciding what changes will be made and lower management implanting the plan. While this follows many models of management, Coach can continue to improve as was pointed out earlier.

Organizational Forms and Structure

The five tools of organizational design implemented into Coach's organization are as follows:

1. Managers and workers empowered to act on their own judgment
2. Work process redesign
3. Self-directed work teams
4. Rapid incorporation of internet technology applications

5. Networking with outsiders to improve existing organization capabilities and create new ones.

In an era of commercial corruption, companies must learn to cultivate employees who can act in ethical manners to avoid massive public relations costs. One of the key desires of an everyday employee is the ability to have full autonomy to perform at one's job. It is up to Coach to provide a method of developing autonomy (which might not be fully happening right now because of the top-down management structure).

Second, work process redesign will allow for Coach to develop new product designs and release new product lines in a timely fashion while reducing costs. By performing in this fashion, Coach will develop smarter efficiencies and streamlined efforts.

As mentioned before with the concept of autonomy, Coach needs to develop a stronger emphasis on teamwork and independency to develop free flowing thoughts and creative brainstorming. As the level of autonomy rises with an employee, productivity will dramatically increase as they begin to enjoy his/her job more and Coach will find that the autonomy of the team will force peer accountability. Better yet, Coach may discover some really talented workers with great ideas that can make their teams very productive.

Besides offering new innovative ways to sell products, new technology allows for easier communication internally among departments which can help streamline ideas, initiatives, costs from purchasing, and other organizational efficiencies.

Finally, Coach has developed networking skills primarily through the acquisition of their creative director and his ability to examine the external environment through marketing research. By having this ability to bring in top talent and rely on ideas that others have, Coach has become increasingly better at offering product lines that the consumers want.

Budget

Like all successful companies, managing a budget is absolutely vital. Because Coach offers so many new products and stores high volumes of expensive inventory, it is important that Coach practices of linking strategic initiatives to funding in the budget. The budget is extremely important to Coach as it serves as a blueprint of investments and other opportunities.

Policies

As most strong managed companies often do, the creation of policies is absolutely vital to the operations of the company; however, policy-makers must be very careful that it is within management's means of living and not something that is unenforceable or an obstacle in the way of executing a strong plan. For Coach, policies need continuously updated as far as guaranteeing the quality of each product and maintaining a consistent atmosphere in each store.

Best Practices

As defined in the text, best practice is a technique for performing an activity or business process that at least one company has demonstrated works particularly well. For Coach, many of the employees deliver exceptional customer service and should develop a policy on how to consistently train and deliver this best practice to every customer that walks through the door.

Support Systems

Support systems essentially help the company function. Areas for consideration are:

1. Customer data
2. Operations data
3. Employee data
4. Supplier data
5. Financial performance data

As illustrated previously in the case, it is vital that Coach maintains customer data and opinions to continuously update their product lines and offer the very best products at the optimal price point. Coach currently does this well after the creative director shifted from a instinct-driven decision process to a data-driven process.

Operations data provides Coach with information about the everyday functional areas that make the business manageable. By tracking resource allocation and initiatives, Coach can make better decisions in allocating funding from the budget.

Employee data is also important in order to track progress in performing job functions and for advancement purposes. By tracking employee data, Coach can better benchmark and set goals for the workers.

Probably the most important information for Coach to pay attention to, supplier data essentially provides Coach with information about the changes in their inputs price and quality (the most important). Because inventory management is huge for Coach, keeping track of supplier data will aid management in deciding what inputs to order and how to best practice total quality management.

Finally, Coach needs to keep track of financial data not only for the company itself but for shareholders and other investors as required by law. By keeping accurate data, Coach can set financial benchmarks and look at which areas need improvement (such as reducing the days of leftover inventory).

Reward Structures

In order to entice workers into being efficient and effective at their jobs, management usually has some form of a reward structure in place. The text outlines several recommendations in developing an effective reward structure:

1. Make the performance payoff a major, not minor, piece of the total compensation
2. Have incentives that extend to all managers and all workers, not just top management
3. Administer the rewards system with scrupulous objectivity and fairness
4. Tie incentives to performance outcomes directly linked to good strategy execution and financial performance
5. Make sure that the performance targets each individual or team is expected to achieve involve outcomes that the individual or team can personally affect
6. Keep the time between achieving the target performance outcome and the payment of the reward as short as possible
7. Make liberal use of nonmonetary rewards; don't rely solely on monetary rewards
8. Absolutely avoid skirting the system to find ways to reward effort rather than results

As indicated by the text, some of the best payoff incentives are the ones that are the biggest attention-getters usually amounting to about 20 percent of an employee's base salary. By offering an extremely high incentive, teams and individuals are most likely to work harder.

With corporate bonuses becoming more and more commonplace, Coach has an opportunity to avoid the same mistakes as other companies. In any good reward structure, an employer should not pay out excessive amounts to top-management and forget about the workers that shape the face of the organization on the front-line.

A common mistake many companies make is to play politics with reward systems or not conduct opportunity for the incentive in a fair way. By offering fair incentives, Coach can harbor a collaborative environment in which colleagues want to work hard.

Another guideline of a good reward structure is to link the reward to a particular objective or incentive; otherwise, the company is just wasting money.

Reward structures also aim at allowing an individual or a team to personally affect the outcome. Referencing back to the discussion on autonomy, a good reward structure must allow for those individuals to actually impact the outcome.

The next guideline essentially warns companies like Coach to beware the timelines for incentives. For example, it would be pointless for Coach to offer rewards for increased sales around the holiday season because sales are going to increase anyways.

While monetary incentives serve as strong form of compensation, sometimes that isn't enough to motivate employees. For example, Coach could really develop some unique nonmonetary reward systems such as allowing coworkers to submit a unique design and have their name attached to the product.

Finally, companies must avoid rewarding just to reward. For Coach, if no changes occur, rewards shouldn't be implemented.

Implementing Strategy

Organizational Culture

In terms of organizational culture, it seems as if Coach has a very good system in place because they maintain such high levels of customer service. While it may be a huge assumption, the truth of the matter is, a culture that is very autocratic and not pleasant to work in, wouldn't produce the same high levels of customer service that Coach generates. Although there tends to be more top-down management, the degree of autonomy enjoyed by employees seems to be at an optimal level where employees enjoy working with their colleagues.

Leadership

As a visionary leader, Lew Frankfort, Coach's CEO, successfully repositioned Coach as a market leader in luxury goods and even developed a new segment in the accessible luxury goods segment. Through his leadership, Reed Krakoff, the new creative designer, was hired which brought about positive change to the way new designs came about. Rather than relying on instinct, the message was to rely on data and the consumers. Because of his ability to create a unique market niche while maintaining strong operations and sales, Coach has cultivated some very strong leadership.

Issues and Recommendations

Issue #1

Because Coach's industry has become highly globalized, Coach must continuously maintain a global presence in international markets. Currently, it seems as if the company as great plans for expansion, but remains somewhat limited.

Recommendation #1

Coach should press forward with its plans to penetrate several Asian markets but should also consider developing strategic alliances with localized companies to gain a foothold in cultures where the company isn't proficient. By developing these alliances, Coach could leverage many of these firms own retail components so as to not force Coach into opening even more retail stores.

Issue #2

Coach's high investments in factories and retail stores coupled with high cost of inventory, presents some possible issues in terms of risk. Should a crisis happen and sales lag, Coach would be in a very difficult financial position. In addition, because Coach operates in a luxury goods industry, high quality is expected. If quality is lowered on any of the inputs to the extent where it is still viable for lower quality brands but not useable for Coach, the inventory is wasted.

Recommendation #2

Coach should consider leveraging capacity in the sense that they could manufacture lower quality products under a different brand name and sell them. By making profits from previously wasted materials, Coach could lower overhead and improve its bottom line. A suggestion for reducing investment in partial forward vertical integration in retail stores would be to form a strategic alliance with a firm specifically in a country where Coach doesn't already have a presence. Rather than continuing to spread its resources thin, it would be strategic for Coach to find exclusive dealers that can make their products more accessible because they know the culture and subsequently know how to better sell Coach products.

Issue #3

Piracy continues to plague the luxury goods industry. With all kinds of knock-offs developed and sold in China (I've seen this from personal experience), it is hard to justify a premium price against a cheap product that carries an exponentially lower price tag.

Recommendation #3

While the cure to piracy will most likely never exist, the best method to combat the problem is to continuously update products and product lines and to add more distinguishable features that are hard to replicate and will make consumers recognize a fake. While not a direct solution, as suggested earlier, the option of using lower quality inputs that aren't usable for a high quality Coach-branded product can at least gain some market share from the low-end segment who often buy knock-offs.

Issue #4

The current reward structure for Coach doesn't fully take advantage of nonmonetary incentives and instead will use monetary incentives.

Recommendation #4

As suggested earlier, Coach can employ a few unique nonmonetary incentives to motivate individuals and teams rather than always relying on monetary incentives. For example, Coach could try offering a contest to design teams in which the team or individual that meets the greatest customer satisfaction during a focus group will get their name engraved on the product. Sometimes reward structures that appeal in a different manner will generate more productivity.

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Appendix A

Industry Ratios	2007	2002
Total sales (Mil $)	212,958	167,934
Sales per establishment ($000)	1,374	1,121
Sales per employee ($)	126,117	117,719
Sales per $ of payroll ($)	7.93	7.85
Annual payroll per employee ($)	15,913	14,995
Employees per establishment	10	9.5
Sales per capita ($)	706	583
Establishments per million residents	514	520

Source: United States Census Bureau