



COACH

NEW YORK

BUAD 691 Team 2
October 13, 2015



About Coach

- Founded in 1941 in New York
 - Distributes products primarily through company stores in North America
 - Sizeable business in Japan, China
- Product lineup features primarily leather goods
 - Women's & men's handbags
 - Other non-leather items produced under license
- Leader in the “accessible” luxury market
 - Prices 50% lower than other luxury brands

Can Coach Continue to Grow?

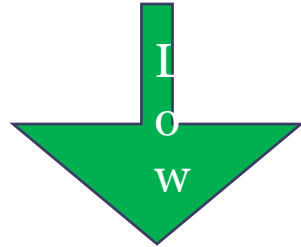
- Highly successful growth 2000-2011
 - Sales +11% CAGR
 - Net income increased 55x
 - \$16 to \$880 million
- Challenged during 2007 economic crisis
 - Profit margins fell & have not fully recovered
- Stock price drop in 2012
 - Key Question: Can Coach continue to grow as rivals launch new luxury lines?



External Environment

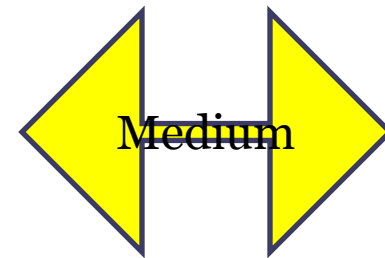
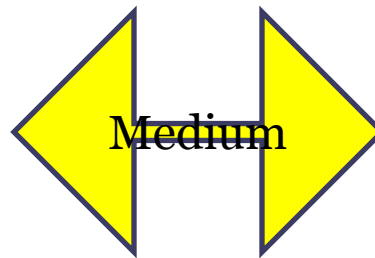
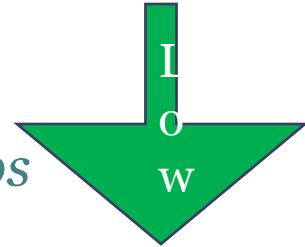
Political

- *Tax Policy*



Technological

- *Manufacturing Ops*

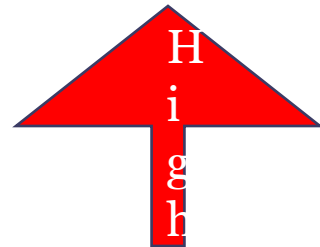


Environmental

- *Leather goods/PETA*

Economic

- *Discretionary products*
- *Upper/mid-upper insulated*

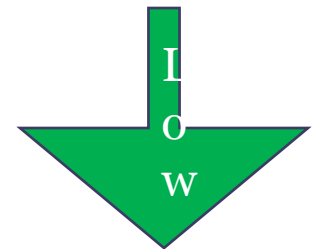


Sociocultural

- *"Affordable" luxury demand*
- *Brand relevance & loyalty*

Legal

- *Labor/OSHA*



“Affordable” Luxury Driving Forces

- Design & brand reputation
 - Lead fashion/style trends
 - Brand loyalty, exclusivity
- Quality
 - Sturdy, durable products
- Price
 - Target market (middle + upper income) vs top 1%

Luxury Market Segments

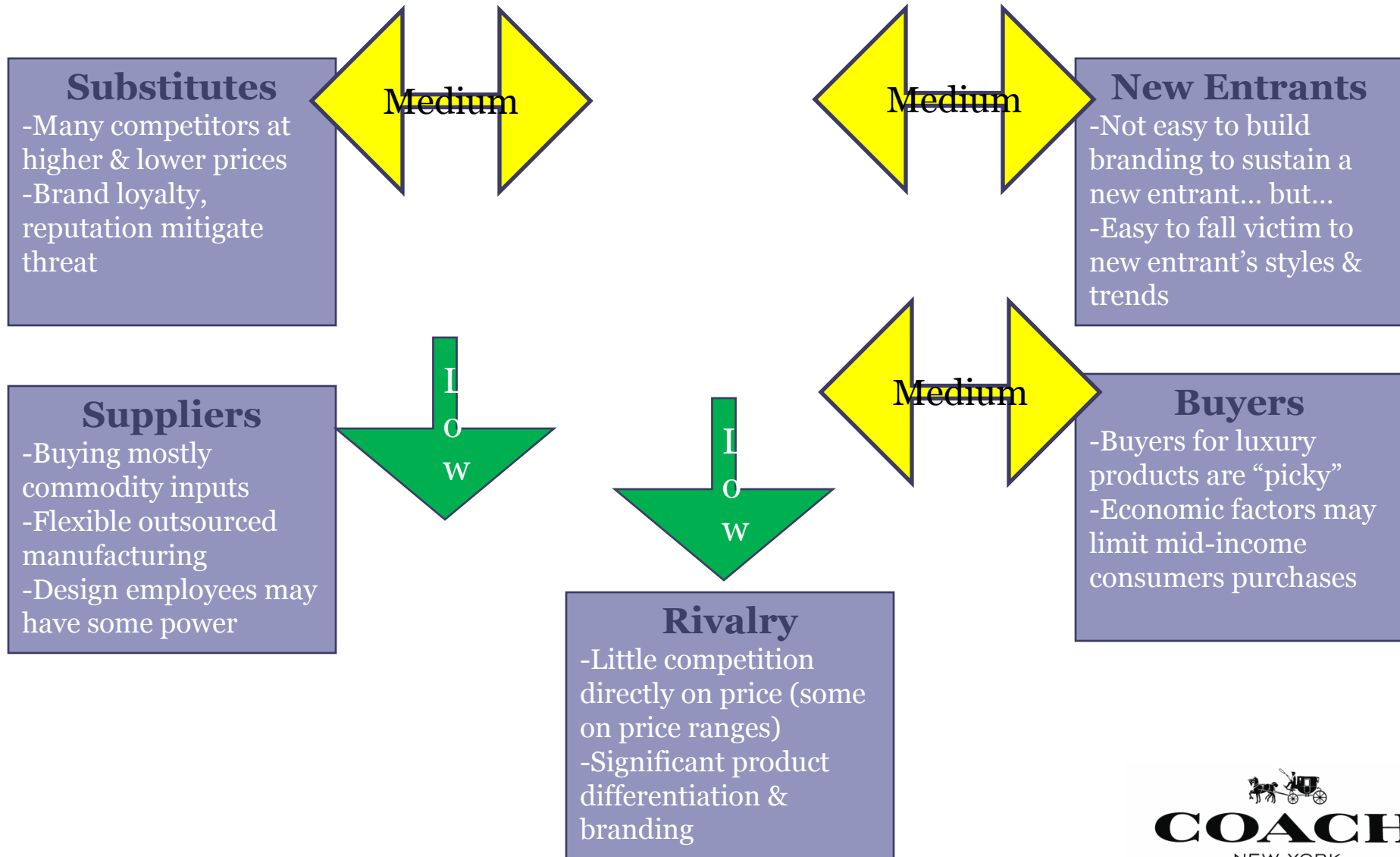
Haute-luxury



Traditional
(top 1%)

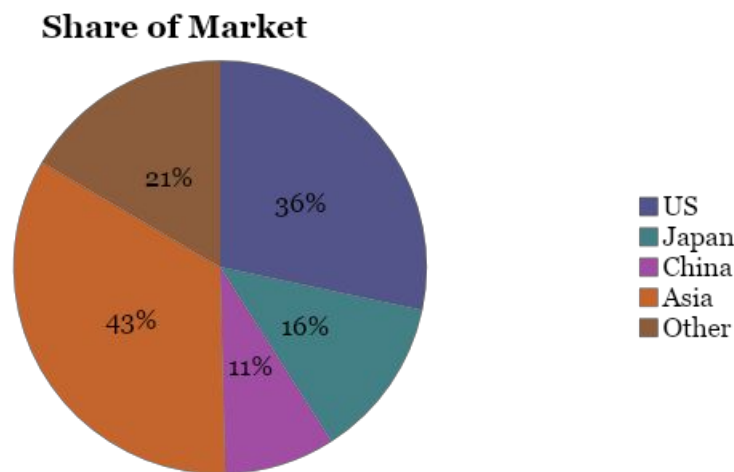
Affordable
(top ~20%)

Porter's Five Forces



Global Handbag Market Analysis

- In 2010, world spend \$224 billion on luxury goods
- Gender split - 85% Women and 15% Men
 - China 55% women
- US and Asia make up the majority of the market
 - Japan also includes Asia
- When sales declined during financial crisis, emerging markets and China became key drivers



Key Competitors

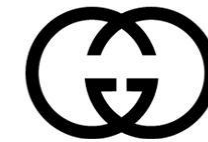
- Competitors around the globe
- Sales dependent on diffusion lines
- Coach seen as high end and desired for the top 1% of wage earners
- Growing desire for luxury goods by middle-class consumers
- Effective advertising and TV programming



LOUIS VUITTON



GUCCI



Cartier

PRADA



BURBERRY



Calvin Klein



POLO
RALPH LAUREN

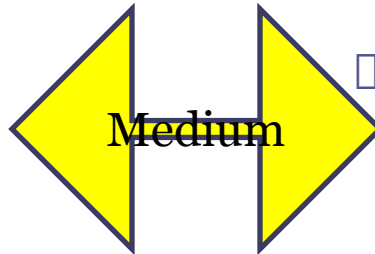


COACH
NEW YORK

Key Factors for Success

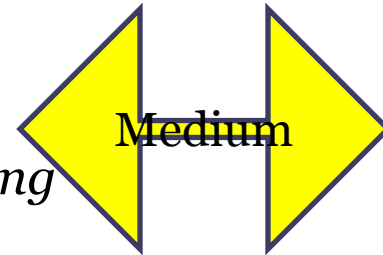
□ Political

- *Tax Policy*



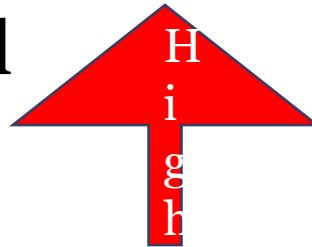
□ Technological

- *Product Selection*
- *Flexible Outsourcing*



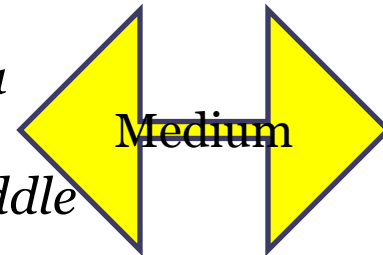
□ Environmental

- *Growing demand in emerging markets*



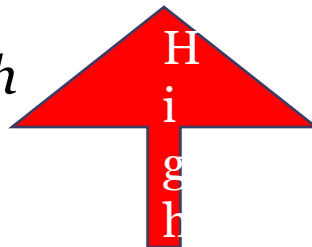
□ Economic

- *Luxury item, not a necessity*
- *Affordable for middle class consumer*



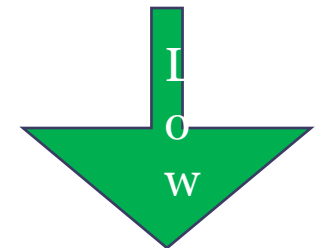
□ Sociocultural

- *Popular with high class and middle class consumer*



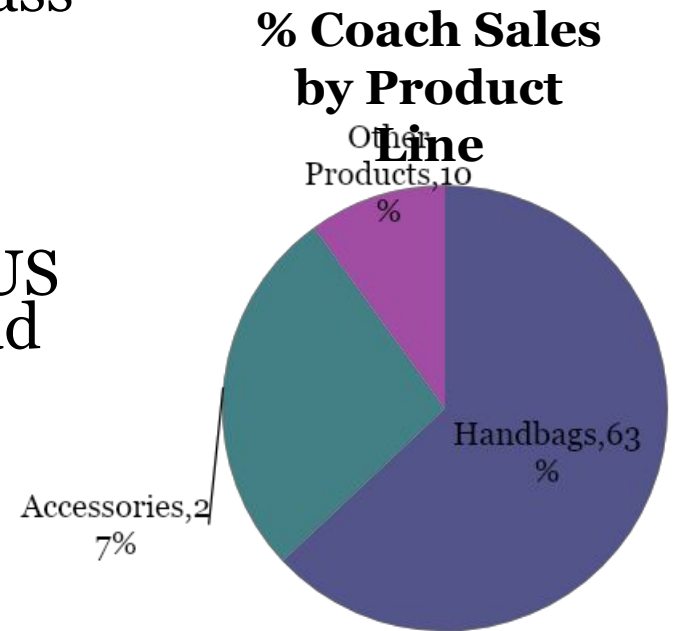
□ Legal

- *Counterfeiting*



Major Business Strategy

- Primary consumer is mid to upper class women
 - Trying to reach more men in some countries with dual-gender offerings
- Focus on sales in China, Japan, and US as those are the three countries in lead global spending
- Handbags account for 63% and accessories 27% of Coach's sales
- Collections are seasonal – 70% of sales from products that come out in that fiscal year
 - Must continue to keep up with style trends
- Differentiate with brand and quality reputation



Core & Distinctive Competencies

CORE

- **Retailing**- architecture in stores
- **Sales Reps** – sales training of the workers and customer relations in stores.
 - Best customers visit every two months and purchase every seven months
- **Direct to Consumer Channels** – increase profits of products

DISTINCTIVE

- **Branding**- internationally known and recognized product
- **Design** – collections are seasonal and products have great designs
- **Low Cost Manufacturing** – ability to keep costs low and not cut into profits

Value Chain & SWOT



Value Chain

- Differentiation
- Accessibility
- Direct/Indirect Channels
- Distribution Channels
- Supply Chain



SWOT

- Brand Image
- Accessibility
- Globalization
- Counterfeits

Distribution

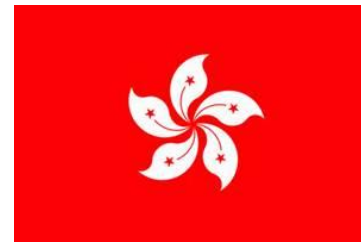
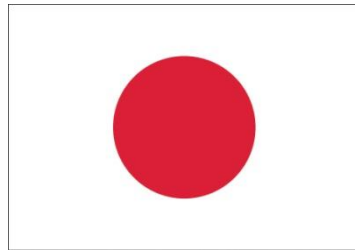
- Company Stores
 - Retail Stores
 - Factory Outlets
 - Department Stores
- Direct to Consumer
 - Internet Sales
 - Catalog Sales
- Indirect Corporate
 - Licensing
 - Incentives/Gift-Giving

2011	% Stores
NA Retail	48%
NA Factory	20%
Japan	23%
China	9%
Total	100%

2011	% Sales
Stores+Direct	87%
Indirect	13%
Other	--
Total	100%

International Presence

- Coach seeks to become a Global Lifestyle brand
- Growth initiatives
 - Store expansion in US, Japan, Hong Kong, China
 - Men's market (big in China)
 - European luxury goods



Key Question

Can Coach's current positioning strategy be sustained in light of external and internal analyses?

- Likely yes, considering...
 - Big & growing market
 - Coach is already well established & a leader
 - Needs to maintain/improve brand equity to stay ahead of new competitors

Key Financials

- Strong Financial Results
 - Sales Growth – strong sales growth 2007-2011
 - COGS – growing faster than sales

(Ex. 1)	\$ Millions 2011	CAGR 2007-2011
Sales	\$4,158	112.3
Cost of Goods Sold	\$3,023	117.8
Net Income	\$881	108.5

Solid Balance Sheet

Current Ratio:

- 2011- $1,452,388/593,017= 2.45$
- 2010- $1,302,641/529,036= 2.46$



ROA:

- 2011- $880,800/2,635,116= 33.43$
- 2010- $734,940/2,467,115= 29.79$



ROE:

- 2011- $880,800/1,612,569= 54.62$
- 2010- $734,940/1,505,293= 48.82$



Share Price Trends 2009-2011

- In 2009, Coach acquired Image X group
 - Provided greater control over the brand in China enabling Coach to grow more aggressively
 - Share price was low (<\$20)
- By 2012, Coach was trading at \$60.00
 - ~\$15/share off peak in 2011
- Growth Drivers
 - Dividends grew \$0.30 cents in 2011 to \$0.68/share
 - Outlet store and international growth is the main driver of Coach stock growth

Causes of SG&A Expense Increases

- SG&A up \$700 million from 2007-2011
- Wholesale distribution in international markets
 - Dept. stores, retail stores grew to 18 countries
- Rivalry in China became very intense
 - Higher Advertising expenses
- Growth in developing countries
 - Capture brand loyalty and establish a retail presence
 - Admn. and advertising costs up by ~30%.

Differentiation Recommendation

- Maintain a Broad Differentiation Strategy
- Provide both tangible and intangible features in products
- Continue to drive store traffic by increasing product launches

Marketing Recommendation

- (Broad Differentiation - Marketing Emphasis)
- Invest in non-traditional marketing – such as publicity & PR with celebrities - to increase word of mouth and exclusivity
 - Focus this into social media
- Build on brand equity

Constant Innovation Recommendation

- (Broad Differentiation – Product Emphasis)
- Stress Constant Innovation
- Consider carefully expand non-handbag leather product line
 - Stays close to core handbag products
 - Can leverage in-house leather design expertise & potentially supply chain

Blue Ocean Recommendation

- Blue Ocean Strategy
- Offer a fully customizable line of products
 - Gives customer opportunity to meet its unique needs and preferences
- Use in stores only
 - Help drive lagging same-store sales numbers

Sub-brand Recommendation

- Consider launching an up-market sub-brand at higher prices to compete against traditional players now entering “affordable” segment.
 - Start small, leverage flexible manufacturing
 - A handful of key stores in key US/China/Japan markets

International Recommendations

- Accelerate growth in Asia
- Focus on growing male segment
 - Male specific stores
 - 25% market share in Japan
- China is favorable market demographically

Key Conclusions & Takeaways

- Highly regarded branded affordable luxury leader
- High competition among rivals in “Affordable Luxury” market
 - Declining same-store sales
- Opportunities for growth in male segments
- Maintain positioning in “Affordable Luxury” market
 - Broad Differentiation strategy
 - Consider sub-brand & faster international growth