

The luxury goods industry



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Eye-catching utilization of their products by prominent figures in society leads to increasing demands for luxury good items and it is a growing industry with the global luxury goods market growing 9% per year. These consumers buy their products for satisfaction and to boost their self-esteem rather than for ease or comfort. Although an argument can be made is that satisfying their self-esteem issues puts them at ease or gives them comfort.

The luxury goods industry is under drastic change and at different levels. This has an impact on Coach's business because they have two different types of stores. On one hand they have factory stores who sell at a discounted price and on the other hand they have full-priced stores or flagship stores which cater to higher end consumers. While the factory stores are being hit by the American financial crisis due to the lack of disposable income for the middle class, full-price stores or flagship stores have brighter future with an increasing number of millionaires.

2. What is competition like in the luxury goods industry? What competitive forces seem to have the greatest effect on industry attractiveness? What are the competitive weapons that rivals are using to try to outmaneuver one another in the marketplace? Is the pace of rivalry quickening and becoming more intense? Why or why not?

For Coach with its split personality, the competition in the luxury goods industry is half intense and strong. Competition is fairly strong, but not intense at the high end level for full-priced stores and flagship store. There continues to be an increase in wealth and growing demand in emerging markets which makes competition less fierce. The demand for luxury goods in emerging markets continue to grow specifically in countries such as China

and India due to the growth of the middle class. With the growing demands for luxury goods of the two most populous countries in the world, industry members should be satisfied enough not to launch any major offensive strategies which could lead to retaliation.

One of the competitive forces that have a great effect on industry attractiveness is the threat of new entrants and how hard it is to build up a brand name that can compete with the likes of Coach, Louis Vuitton, Dolce & Gabbana, and Versace. It takes deep financial pockets and great commitment to create luxury image with well-known brand and superior quality. Thus making it costly for new entrants to gain exposure and market share. Luxury items are known for their superior quality and to some people, the status that they carry. New entrants must build this status from the ground up, which can prove difficult without sufficient resources.

Another competitive force can be the bargaining power with suppliers. A high end leather producer would like to be linked to the luxurious brand names of Coach and Louis Vuitton. The power industry members have over suppliers is in favor of the globally known luxury brand which is known to produce quality goods.

Competitors use an array of weapons in the luxury goods industry. Higher quality is a must use weapon in the luxury industry. Hiring celebrities to build a stronger brand image to help sell products and obtain a higher status. Take for instance Louis Vuitton, who utilizes celebrities such as Jennifer Lopez, Uma Thurman, and Naomi Campbell to promote its brand image. Introducing new fashion trends and product innovation is another weapon used in the

luxury industry. But perhaps the most overlooked weapon is customer service, where some industry members are failing. According to the Luxury Institute, more than half of luxury store shoppers are unhappy with their shopping experience and that could lead to losing customers. Providing superior customer service like companies such as Giorgio Armani, who topped the Luxury Institute's research, can not only lead to customer satisfaction but brand loyalty as well.

3. How is the market for luxury handbags and leather accessories changing? What are the underlying drivers of change and how might those driving forces change the industry?

The market for luxury handbags and leather accessories is changing because the generations are changing. The change from Generation X to Generation Y consumers has arrived and they are gaining disposable income to spend on luxury goods with different agendas than previous generations. They have different financial smarts, perspective on change, and have a very strong opinion when it comes to dressing up. Industry members need to account for the differences between the two, specifically how these differences affect their luxury goods buying habits.

The market for luxury handbags is rapidly growing in the U. S., which has helped Coach a great deal, seeing that 67% of its revenues come from handbags as see in the chart below. Just from 2002 to 2006 the overall market size for U. S. handbags more than doubled and has been a main contributor for Coach's personal growth. Some analyst believe that this can

be linked to consumers trading up from brands such as Banana Republic and DKNY, while others link it to the rise in wealth.

Today's world is filled with information. This gives consumers some bargaining leverage. With the internet and other technological advances, consumers are well informed and can know the latest fashion trends at the click of a button. A research done in 2007, surveyed 7, 705 college students in the US and their findings were that 97% owned a computer, 94% owned cell phones, 34% use websites as primary sources for news, and 28% write blogs. This means that a large majority of the new generation is heavily entrenched in technology and able to do extensive research on their products before making purchases. They not only have internet search engines like Google or Yahoo, but they have each other to communicate from an end consumer's perspective. There are even websites set up to talk about the experience when buying luxury goods found at Style. com.

There is also an increasing demand for customer service in the luxury goods industry. Consumers are not willing anymore to receive average customer service when paying for Louis Vuitton prices. When customers pay a high price, whether it is for quality or status, they expect to get their money's worth. As more and more people demand luxury goods, they demand better customer service along with it (Timberlake, 2007). With the demand for customer service becoming more apparent, industry members can expect a more intense competition in regards to customer service to satisfy this demand.

4. What key factors determine the success of makers of fine ladies handbags and leather accessories?

There are many key factors that determine the success of fine ladies handbags and leather accessories that include the following:

Proven ability to manufacture high quality products while increasing margins by outsourcing production to lower cost markets which Coach did in having around 80% of its products made by outsourcing in 2000.

Direct sales capabilities using the internet which Coach first launched in 1999 as well having company-owned retail outlets.

A well-known and well-respected brand name with clever advertising. The Luxury Institute rated Coach's advertisements atop their ranking for print advertisements in regards to the overall Luxury Ad Effectiveness Index in 2006. Wealthy consumers said that Coach's message were " bold and to the point" and " extremely eye catching" with its use of black and white photography and lack of other distractions.

Global distribution capabilities, which Coach has since it has distribution, product development, and quality control in the United States, Italy, Hong Kong, China, and South Korea.

Product innovation capabilities, which Coach has introducing a new collection on a monthly basis.

5. What is Coach's strategy to compete in the ladies handbag and leather accessories industry? Has the company's competitive strategy yielded a sustainable competitive advantage? If so, has that advantage translated into superior financial and market performance?

Coach's strategy to compete in the ladies handbag and leather accessory industry is to differentiate itself from industry members. Coach differentiates itself by introducing new bags every month with the highest quality and latest fashion trends which are done through customer surveys. Coach is very selective when it comes to its leather, accepting only 10% of what the suppliers provide making a statement as to what the type of quality they demand for their handbags. All this adds to increased store traffic due to the new bags and high quality, which turns into more sales. Instead of the typical industry members who offer high quality leather products as well, but charge a higher price, Coach looks to create "accessible luxury" in that it wants to create a high quality product at an affordable price in its factory stores while still catering to higher end consumers with its full-price stores. Coach also plans to make customer service a high priority. This is one of the main reasons why Coach sells \$2.6 billion in handbags and accessories per year while holding the largest segment of the handbag market in the U.S. Coach also provides a lifetime warranty for every Coach handbag. If a Coach bag gets damaged in anyway, it costs \$20 for shipping to get it repaired. If Coach is unable to repair the bag, they will send a brand new handbag or offer a large discount off the next purchase.

Coach's strategy also has to do with its factory stores and its full-priced stores. Each strategy caters to a different target market. Factory stores look

to offer “ accessible luxury” or “ affordable luxury” by offering discounted or discontinued bags. While full-priced stores carry some of the most expensive, sophisticated, and newest fashion trendy bags. And, this does yield a sustainable competitive advantage because they are competing and succeeding at two different levels. Factory store and full-priced store shoppers aren't the same, meaning that each type of consumer does not affect the other. During these economic times, it may seem as though the factory store shoppers might reduce spending. However, these same economic times have little to no affect on full-priced shoppers due to their amount of wealth. This might even be able to help Coach in its struggle between being an exclusive brand or just another common brand.

These strategies have undoubtedly turned into superior financial and market performances as Coach. From 2002 to 2006, Coach has been growing faster than the handbag market in the U. S. This has resulted in Coach continuously gaining market share. Which, in 2002 was 19% and just four years later Coach was holding 26% of the U. S. handbag market share in the U. S. and also had total revenues of \$2. 6 billion in 2008, a 26. 9% increase from 2006. Another strategy employed by Coach is to expand domestically and internationally. Coach currently has company-operated stores in North America and Japan, the two heaviest luxury goods consumers in the world, as shown in the chart below. As of June 2008, it operated 289 retail stores and 102 factory stores in the United States, five retail stores in Canada and 149 department store shop-in-shops, retail stores and factory stores in Japan. This is not satisfying enough as Coach expects the number of factory

stores to top out at around 100 in the U. S. while the full-priced stores could reach up to 350.

6. What are the resource strengths and weaknesses of Coach Inc.? What competencies and capabilities does it have that its chief rivals don't have? What new market opportunities does Coach have? What external threats do you see that could adversely impact the company's future well being?

STRENGTHS:

Matching key luxury rivals on high quality leather and innovative styling

Beating competitors price by 50% or more

High level of customer service

Monthly introductions of fresh new handbag designs

Strategic alliances to bring Coach handbags into luxury categories such as: watches, footwear, glasses, fragrances, and outerwear.

Outsourcing to cut cost and maintain low price

Channels of retail distribution from full-priced store, factory outlet, internet and catalogs

WEAKNESSES:

Factory outlet stores outperforming full-priced store

Diluting brand with increased growth of factory outlet stores

Men's accessories only account for 2% of sales

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Outerwear only accounting for 2% of sales

Luggage only accounting for 1% of sales

OPPORTUNITIES:

Growing demand of luxury goods in emerging global markets, such as China and India

Increased wealth of consumers in global markets of Asia, Middle East, Australia, and Mexico

THREATS:

French and Italian designer brands such as Gucci, Prada, Louis Vuitton, Dolce & Gabanna, and Ferragamo

Brand diffusion: Manufactures of the finest luxury goods launching diffusion lines to exploit middle-income consumers. For example, Dolce & Gabanna launching " D&G", a sub brand sold at modest price points.

Counterfeiting of luxury merchandise, totaling \$500 billion worth of goods sold in countries throughout the world in 2006.

7. What recommendations would you make to Lew Frankfort to improve the Coach's competitive position in the industry and its financial and market performance?

First, I would recommend Lew Frankfort to reexamine the store count goal in light what has happened in the economy during the last couple months. This store count goal announcement was made in 2006, and it would be best to reexamine this strategy and adjust to the changes in the industry. Putting

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less emphasis on full-priced stores and focusing more heavily on factory store counts would also be another suggestion to go along with this recommendation.

Second, saturate the current markets first before entering new markets. I would recommend this because since the U. S. and Japan are the two largest consumers of luxury goods, people will look at them to set the standard for luxury. Slowly create a larger international presence in developing countries. And while in the process start crafting a global strategy.

Third, follow industry members such as Louis Vuitton, Gucci, and Versace from a distance. Watching the trends of existing members as to where they are geographically expanding to and their timing. Coach can offer affordable luxury to go along side its full-price stores. I would also recommend starting off by opening flagship stores in order to build that luxury feel first, then two or three years later open factory stores since during that time the full-price stores will be building up consumers that desire Coach products, but cannot afford them.

Fourth, don't enter the European market. Even though it's barriers could be overcome, resources could be better utilized expanding to emerging markets that could support both factory and full-price stores. It would be very costly and time consuming trying to break European consumers of its American stereotypes and seeing that at least half of European consumers distrust American companies, it would not be the best financial strategic move.

Fifth, maintain a 3 / 1 or even 4 / 1 ratio in terms of full-price stores in comparison to factory stores to maintain the luxury status. While the factory

stores as just as important as the full-price stores, the ratio must be kept under close supervision. Slowly open factory stores only after full-price stores have been opened and have solidified a brand presence. Consumers should see and lust for the flagship store products before being given the opportunity to taste luxury at Coach's factory stores.

Sixth, increase company spending on consumer surveys. As of 2002, the company spent roughly \$2 million a year alone on customer surveys. This number should be increasing gradually every year. Creating new innovative ways to do surveys that include promotions or exclusive pre-order offerings to customers who participate.

Seventh, reduce the lead time that it takes to roll out new products. It currently takes a year before it analyzes consumer surveys, tests the products, and eventually them in stores. This lead time should look to be reduced, obviously the goal is the sooner the better, but realistically they should look to shave off a couple months. Striving towards the goal of a six month lead time would be ideal.