

# Analysis of coach inc

Sport & Tourism



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The following is an analysis of Coach Inc. The company designs and markets both men and women bags, apparel, and accessories. Coach was founded in 1941 by Miles Cahn and was sold to food and consumer goods producer, Sara Lee, 44 years later. Today, Coach is among the best-known luxury brand that focuses on matching key luxury rivals in quality and styling while beating them on price (Thompson A., Peteraf, Gamble, & Strickland, 2014). Within this analysis, five questions will be answered regarding Coach's characteristics, competitive forces, strategies, strengths and weaknesses, and a recommendation on how the company should improve their competitive position.

Although Coach's performance has been commendable, the company is faced with many threats and prestigious competition that offers similar brands at indistinguishable price points (Thompson A., Peteraf, Gamble, & Strickland, 2014). To sustain the growth of their evolving company, Coach must consider new strategic options for the future. Coach Inc. faces challenges not only within their business, but outside of the company as well. Due to the unstable economy, profit margin levels have been below average and share price has experienced a sharp decline.

Coach is also challenged by the launch of new accessible luxury brands such as Michael Kors, Salvatore Ferragamo, Prada Giorgio Armani, Dolce & Gabbana, and Versace (Thompson A., Peteraf, Gamble, & Strickland, 2014). These businesses are both aggressive and successful; providing strong competition for Coach to overcome. Although the company must keep these emerging markets in mind, there are also the threats of counterfeiting,

changing fashion trends, and consumer preference that Coach must take into consideration.

Recommendations for Coach include new marketing strategies, opening up to new markets, bringing in new customers while maintaining the old, and business expansion. Each of these recommendations is looking to the future to achieve the company's five key initiatives: to build market share in North America and Japan, raise brand awareness in underpenetrated markets, raise awareness through coach.com, and increase sales of men products.

Question 1: Defining Characteristics of Luxury Goods Industry The luxury goods industry relies on creative designs, high quality, and brand reputation to attract customers and build brand loyalty. When looking at Maslow's hierarchy of needs (Appendix A), Coach and other luxury goods fall under the esteem level. Many people feel the need to purchase these products to boast self-esteem, provide confidence for themselves, or to gain respect from others. Although price-sensitivity for luxury goods is driven by brand exclusivity and customer-centric marketing, a large extent goes towards the emotional sense of status and value (Thompson A., Peteraf, Gamble, & Strickland, 2014).

The luxury goods market can be divided into three categories: haute-couture, tradition luxury, and accessible luxury. Haute-couture is considered to be very high-end market that targets the extremely wealthy. The traditional luxury market includes brands such as Prada, Gucci, and Calvin Klein. Some of these companies cross over into the accessible luxury market to compete with Coach and lesser luxury brands. These brands are typically sold for about 50 percent less than similar-looking, haute-couture items.

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Although the global luxury goods retail market was significantly affected by the economic slowdown and financial crisis in 2007-2009, more than \$224 billion was spent on luxury goods in 2010 (Thompson A., Peteraf, Gamble, & Strickland, 2014).

There has been a growing desire for luxury goods by middle-class consumers who aspire to own higher-quality products. Whether it's the effective advertising or television promotions, middle-income consumers feel the need to reward themselves with luxuries. An increase in luxury goods could also be a result of the "trade up, trade down" strategy. Many families are spending money on lower-priced necessities from Walmart and Target, and therefore able to splurge on high-end products when rewarding themselves. Two threats that Coach and other luxury goods industries face are counterfeiting and the growing demand for luxury goods in emerging markets.

An estimated amount of \$300-\$600 billion worth of counterfeit goods has been sold throughout the world (Thompson A., Peteraf, Gamble, & Strickland, 2014). Fake and knockoff brands have been an ongoing threat for the luxury goods industry since the mid-2000s. Many companies have been teaming up to develop practices for measuring and implementing piracy enforcement. Because counterfeiting has become so prevalent, many luxury brands have found this strategy to be financially and operationally beneficial. Another threat to the industry is emerging markets.

Both China and India have provided a major boost to the market because of their increasing wealth levels. Luxury goods have been highly demanded by China's middle class and spending is expected to overtake Japan and the

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United States. Along with the rapid economic and social developments occurring in China, a group of luxury brands such as Chanel, Prada, and Dolce & Gabbana have entered the market (Thompson A., Peteraf, Gamble, & Strickland, 2014). With its booming economy, India is another rapidly growing market for luxury goods. Emerging markets in these areas bring intense competition to the luxury goods industry.

Question 2: Competitive Forces There is strong competition within the luxury goods industry. Not only are accessible luxury items competing against haute-couture to sell similar products at half the price, but the market is also competing with traditional luxury brands that are broadening their appeal in the accessible market. As consumers started to develop a stronger preference for stylish French and Italian designer brands, market research became an important aspect of the luxury goods industry. More recently, the growing demand for luxury items in emerging markets has increased the competition significantly.

Competitive Forces The strength of competitive forces in competing industries are never similar. Forces vary from one industry to another. Competitive pressures on companies come from five sources: rival sellers, potential new entrants, substitute power, supplier bargaining power, and customers bargaining power (Thompson A., Peteraf, Gamble, & Strickland, 2014). A five forces analysis for Coach Inc. is shown in Appendix B. When it comes to luxury goods, these competitive forces affect the industry in various ways. Forces that have the greatest affect on the luxury goods industry are competition from rival sellers, the potential of new entrants, and bargaining power of customers.

### Rival Sellers

Competition from rival sellers has a strong effect on the luxury goods industry. As stated earlier, there are several luxury brands competing amongst one another. Although Coach once held a commendable spot in the accessible luxury goods market, many of these competing brands are starting to target the middle income class.

### New Entrants

A growing demand for luxury goods has recently developed in countries such as China and India. Several new entrants joined the market, such as Chanel, Prada, and Dolce & Gabbana, and almost 1, 000 store locations began to operate within the Chinese market. Many new entrants have also entered India's rapidly growing market. Nearly 60 global luxury fashion and accessories brands have begun selling their products there (Thompson A., Peteraf, Gamble, & Strickland, 2014). However, due to strong brand preference and customer loyalty, new entrants have only a moderate affect on the luxury goods industry.

### Power of Consumers

Changing fashion trends and consumer preferences are a threat to the luxury goods industry. Coach had a strong reputation until performance began to decline because consumers developed a stronger preference for other brands. Industries have had to implement marketing strategies to confide in consumers about styling, comfort, and functionality of their products. Without these strategies, consumers would have control. Industries have also needed to take into consideration the growing desire for luxury

goods amongst middle-income consumers. Although primary traditional luxury consumers in the U. S. comprised the top one percent of wage earners with household incomes of \$300, 000 or better, those consumers that earned substantially less also aspired to own products with higher levels of quality and styling (Thompson A., Peteraf, Gamble, & Strickland, 2014).

**Competitive Weapons** Since competition is strong within the luxury goods industry, rivals have to outmaneuver one another to survive within the marketplace. As stated earlier, many companies have diffused the line of their luxury goods brand. Companies that once were considered to be traditional luxury have combined with accessible luxury to compete at a different level. Many industries in the United States have become more dependent on the success of diffusion lines in the accessible luxury category (Thompson A., Peteraf, Gamble, & Strickland, 2014).

Companies have also begun to expand their brands globally. According to Coach's global sales in Appendix D, global markets have played a large part in company sales. Although sales declined during the financial crisis from 2007-2009, emerging markets had luxury goods sales increase by 7. 8 percent (Thompson A., Peteraf, Gamble, & Strickland, 2014). Because these global areas are a key growth driver for the luxury goods market, companies have begun strategically expanding their markets accordingly.

The pace of rivalry is quickening and becoming more intense because the global market of luxury goods was significantly affected by the economic slowdown. Companies are desperately searching for strategic ways to promote and sell their brands without lowering their prices or decreasing their profits. The goal is not only to have a profitable strategy, but one that is

long-term sustainable. Because luxury goods are an “esteem need”, there is a low threat of substitute products. People are willing to pay for the luxury goods items they want. This increases the competition for existing market brands. Although bargaining power of customers and new entrants have a moderate effect on the luxury goods industry, competitive rivalry within the industry is the strongest competitive force.

Question 3: Coach’s Strategy In 2011, Coach’s handbags accounted for 63 percent of their \$4.2 billion sales (Thompson A., Peteraf, Gamble, & Strickland, 2014). Coach implemented a few strong strategies to maintain their industry position as best-known “accessible” luxury brand. First, Coach positioned its brand in the lower part of the accessible/affordable luxury pyramid. Not only did this provide a large opportunity for Coach, but the company took it one step further and targeted the top 20 percent of Americans by household income. It also targeted China, Japan, and the U. S. because they were the three countries that led in global luxury goods spending (Thompson A., Peteraf, Gamble, & Strickland, 2014).

Coach also uses a differentiation strategy. Through market research, the company can define product trends, selections, and consumer desires on a quarterly basis. This not only helps the company maintain a high quality and value brand, but ensures that they are designing products that consumers are looking to purchase. Monthly product launches enhance the research and put it into action. The product launch goal is to increase the frequency of consumer visits and for women to use bags to complement their wardrobes in the same way they used to use shoes (Thompson A., Peteraf, Gamble, & Strickland, 2014).



Coach's positioning strategy to target Japan, China, and U. S. markets has been a sustainable competitive advantage for the company. Looking at Appendix E, Coach's retail stores in these areas have had been increasing since 2007. Although there has been an increase in competition in these areas due to new emerging markets, Coach has been able to maintain a strong position and take advantage of the growing demand for luxury goods. This competitive advantage has also served the company well financially. The company's sales in Japan had increased from \$144 million in 2002 to \$748 million in 2011, and its market share in the U. S. had nearly doubled since 2002 (Thompson A., Peteraf, Gamble, & Strickland, 2014).

Question 4: Strengths and Weaknesses Strengths Strong Brand Coach has a strong product brand that provides consumers with quality luxury goods at an attractive price. Their brand has not only attracted middle-income consumers desiring a taste of luxury, but also affluent and wealthy consumers with the means to spend considerably more on a handbag (Thompson A., Peteraf, Gamble, & Strickland, 2014). Although handbags make up a large portion of Coach's sales, the company also offers an array of other products. These products are extremely well-made and easily recognizable as luxury products. Coach's strong brand has played a strong role not only in the company's success, but maintaining customer loyalty as well. Channels of Distribution

Coach Inc. has strong distribution capabilities. The company uses a multichannel distribution model as its strategy. Not only does it include direct wholesale sales to third-party retailers, but focuses on direct-to-consumer sales. The direct-to-consumer segment accounted for 87 percent

of the company's net sales in 2011 and the wholesaler segment served about 970 department store locations (Thompson A., Peteraf, Gamble, & Strickland, 2014). As shown in Appendix D, Coach's focused locations have also been expanding immensely. Both factory stores and retail stores in North America have increased over the five-year p. Coach has also been able to maintain a strong position in other global markets.

### Creative Marketing

Through market research and a specific design process, Coach has been able to differentiate their products from competitors. Under creative director Reed Krakoff, the company has been successful in developing extensive consumer surveys and focus groups to determine consumer preferences. The company found that by testing prototype designs and launching new collections every month, customers were more likely to visit a Coach store once every two months and made a purchase every seven months (Thompson A., Peteraf, Gamble, & Strickland, 2014). Part of their successful creative strategy was the redesigning of company's stores. Not only were the store's brighter and friendlier, but they started to carry different models and special product lines.

**Weaknesses Brand Recognition** Although Coach has a strong brand, it's recognition in foreign countries can sometimes be a challenge. Within India, tradition and culture put a set-back on luxury fashion products. Garments of choice for formal occasions differ than what people wear in other geographic locations. Also, brand recognition is sometimes found amongst local designers in these types of locations. It may be hard for an outside source to

market their brand if local consumers are already familiar with certain local designer brands.

Another issue Coach is facing is the dilution of the foundation of their brand. Coach's factory stores target value-oriented customers, and although they have been a major success, many worry that they will dilute the company's image someday. The destiny of the company lies in Coach's ability to grow full-priced stores (Thompson A., Peteraf, Gamble, & Strickland, 2014). Rapid growth of factory stores could overtake the companies brand and image.

Opportunities Online Sales Coach has a strong position in global markets and has the opportunity to look for increased sales and market share through their website. It is not specific on Coach's current website operations, but there is potential for the company to grow through this channel. There are many ways to connect with consumers not just through online sales, but through social media as well. Online sales are more convenient for customers who are not within range of stores. Although it takes away for customer interaction within stores, there are many ways to interact with consumers through media sites. Coach would be able to further their marketing strategies through online discussion communities.

Threats Competitors As mentioned earlier, the luxury goods industry has a strong competitor base. The pace of rivalry is quickening and becoming more intense. Several companies are moving towards diffusion and accessible luxury products. Similar products are beginning to be exposed to the same target groups. Companies are also on the look-out for counterfeit goods being sold.

## Changing Trends

Unless you have strong customer loyalty, the constant change of fashion trends is a threat to many luxury goods companies. Continuous market research must be developed and analyzed to provide consumers with the products they want. If a company cannot keep up with the constant change of style, comfort, and functionality, customers will switch to other luxury brands.

## Global Economy

The unstable financial situation of the economy is a threat to the luxury goods industry. Poor economic conditions can create a decline in consumer spending and therefore a decline in company sales. Although it's good that there is a growing desire for luxury goods amongst middle-income consumers, this affects Coach negatively because many other competitors are now trying to target this market segment. Different income levels of consumers require different marketing strategies as well.

Question 5: Recommendations New Markets Coach should continue to move forward with its strategy to raise awareness and build share in new markets. The company should look to penetrate Asian markets because it plays a decent role in the company's market share already. Instead of opening several new stores, Coach should focus on different forms of distribution and strengthen their multichannel distribution model. Opening too many stores and trying to handle several locations at once can put the company at risk. By focusing on a set amount of markets, Coach has been able to maintain a strong position in the chosen geographic locations.

### Men's Product Focus

Coach has a strong brand and position within the luxury goods market. It is a good opportunity for the company to target their products toward men and try to grow that market segment of their company. Because North America and Japan are the leading countries in sales and market share, opening new stores and testing marketing strategies within these two geographic locations would be a good start. Based on how successful the focus towards men's products is, the company can look to expand their strategy into China markets as well.

### Social Networking

Coach should work towards improving their online site and connecting with people through social media outlets. Online sales are more convenient for customers, and can allow Coach to connect with customers in an interactive way. There are many different marketing strategies to engage consumers online, and by creating discussion groups, consumers will be able to discuss the company and its brand. It is uncertain how much Coach pays for their current market research, but online discussion groups allows a company to see what consumers like and dislike about a business or brand. This could help save Coach on marketing costs. However, Coach's current marketing strategy has been very successful.