

# Fashion retail industry | strategic management



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## **Strategic Management of fashion retail industry**

### **Introduction**

The fashion retail industry is a very sophisticated, constantly growing sector. It is the second largest industry in the UK. However Studies show that 80% of clothing retailers fail within the first five years (Power home biz).

Consumer taste and preferences relentlessly changes thus organisations have to constantly evaluate the market to ensure the strategies fit with those of environment.

According to Michael Porter, 1980s in order to compete in the market, organisation has to be either a cost leader or a differentiator. He went on further in his value chain analysis model to state that organisations who gain competitive advantage exploit their core competences to create value for both the organisation and the customers.

However, the fashion retail industry encompasses many opportunities for growth as well as many threats that can negatively affect an organisation.

In their quest to gain competitive advantage and grow many organisation adopted different strategies; they are organic growth by reducing the cost in all value chain activities while others has grown through merger, acquisitions and or strategic alliances.

In order to gain an insight into why some organisations remain competitive this project will

1. Undertake a detailed analysis of two companies within the airline industry by evaluating their past corporate strategy using supporting evidence from quantitative and qualitative data.
2. Identify the ways in which these organisation are gearing up to cope with the current global crisis

### **Methodology**

An analysis Asos and New look was done using Secondary data. These companies have adopted unique strategies which enabled them to remain competitive in the airline industry.

However, the secondary sources used were journal articles text books, websites, annual reports, press releases, newspaper clippings and other studies. Secondary analysis was chosen because of time constraints and the kind of information requested, it was impossible to collect it using other research methods.

Secondary data analysis, saved time and money and also information were readily available. Conversely, some data was of questionable accuracy and reliability and furthermore the data was old and did not reflect the changing market conditions.

### **Background to models**

Every organisation must have strategies. According to an ancient Greek writer Xenophon (Cummings 1993: 134) “ strategy is knowing what business you propose to carry out.”(MacMillan and Tampoe, 2000).

There are many academic contributions to strategy, Writers such as Drucker (1995), Chandler (1962), Ansoff (1987) and Andrew (1971) has all provided the framework for the classical school approach.

McKinsey 7S framework. Developed in the early 1980s by Tom Peters and Robert Waterman the basic premise of the model is that there are seven internal aspects of an organization that need to be aligned if it is to be successful. This model is on the basis that Out-of-date approach because it insufficient account is taken of personality factors Also, it Creates organisational structures where people can exercise only limited control over their work environment.

However there are many other frameworks to understanding strategic position such as PEST analysis, Michael Porter five forces or even the BCG Matrix.

According to Mintzberg, Ahlstrand and Lampel (1998) there are 10 school that can be used to understand strategic thought, the first three are design, planning and positioning which is classified as prescriptive on the other hand entrepreneurial, cognitive, learning, power cultural environmental and configuration the classified as the descriptive John and Scholes, (2008).

### **Overview of New Look and Asos**

New Look and Asos are both Public limited companies located in the UK. These organisations operate in the fashion retail industry. However, they have equally enjoyed success but have adopted diverse strategies in order to gain competitive advantage.

On one side of the continuum is New Look which was established in 1969 in Taunton. The company has combined both brick and mortar and online services in order to gain competitive edge through the use of low cost strategies. On the other end of the Continuum is Asos which is an online retail store which was established in 2000. It has over 35, 000 branded and own label products available and over 1500 new lines added each week. The company

### **Internal analysis of Asos and New Look using Mc Kinsey's 7s model**

#### **Qualitative analysis**

Structure: The structure of an organisation is important for innovation, expansion and transformation. New Look headed by its Chief Executive Officer Carl Mc Phail since 2008 has continued to prosper by grasping every opportunity and addressing challenges. The structure of New look is one where teamwork is encouraged, time and resources are spent developing employees also there is high investment in processes which creates value for stakeholders. As part of their global objectives, a review was undertaken of the way the company is structures and an assessment of the difficulties faced was done. As a result organisational functions such as merchandising, design and marketing was moved to London which resulted in increased access to the existing talent pool that London offers and unlocks This will provide marketing synergies with Others functions such as Finance, IT and HR support functions remained at the head office in Weymouth, this strategy is a shift from centralised decision making process to more decentralised process that enables flexibility. A bi-annual review of risks is conducted at the Group level linked to the budgeting process, to which all departments contribute. On the other hand Asos is managed by a Board of directors who

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are responsible for taking all major strategic decisions and also addressing any significant operational matters, they monitor monthly progress in order for effective and efficient operations within the workplace. The structure of Asos is one where there is a lot of bureaucracy (Max Weber) in the decision making process, hence Asos has adopted the Classical school approach.

System: New look has combined offline and online operations in order to gain competitive advantage. It has core competences to develop an ecommerce operation which has allowed the company to reach a large audience with no extra cost for marketing, advertising or operating long channels of distribution. Additionally the retail outlet provides for customer who needs to make immediate purchase, as a result of its efficient stock rotation, with stores receiving fresh stock weekly, this has encouraged shoppers to return regularly. The combination of both online and offline business has enabled new look to make efficient use of human resources, proper stock management and reduce cost significantly. This has provided marketing synergies with the international store roll-out to strengthen our brand and offer to customers.

On the other hand Asos has only adopted the online approach to business as a result in the organisation has the ability to constantly increase its product offerings with no additional cost for advertising and marketing. Over the past year, we have invested in systems to support our back office operations of buying, merchandising and fulfilment, recently installing a new warehouse management system at our Hemel Hempstead warehouse. This system will support our increasing range size, international expansion, as well as our demands for advanced delivery and returns options. In March 2009, new <https://assignbuster.com/fashion-retail-industry-strategic-management/>

navigation features such quick and easy browsing of the extended product ranges, 360 degree view of all shoes and accessories and catwalk for men wear and for ASOS Outlet. A unique distribution platform for its brand partners.

Style: New look has a transformational leader who believes in change through communication. Hence In September 2008, a major company communications day was held in London to embrace the growing international status and clearly communicate the strategy and goals, approximately 800 employees from the UK, Ireland, France, Belgium and Middle East franchise partners attended.

Also employees are constantly survey to find out how they feel about working for the organisation and also a web forum called ' my Look staff' was created to allow employees to communicate directly with each other and also tell us their opinion.

On the other hand Asos has a transactional leader who works with the current organisational structure, where by the board that in order for the organisation to be successful constantly monitor the overall.

Staff: New look has a lot of experienced staff, which are considered stars and a few learner and a hardly any deadwood as result the organisation has introduced a fair recruitment methodology and an induction programme to the company, which highlights areas and the job that will give people the best possible start to their career with New Look. Also the company has launched some initiatives during the year to ensure that develop the learners and retain the star employees these programmes includes leadership

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training programmes, further management workshops and development of our Staff Council consultations.

On the other hand Asos as an online retailer deals with limited staff in comparison to new look. Similarly they have training programmes that encourages employees to develop.

**Skills:** New Look through its skills and experience is now producing 71% of its products, an increase from 62% in 2008 which enabled the organisation to continue make further market share gains. With its powerful brand, seasoned management team and dedicated employees, new looks is able to gain competitive advantage. On the hand Asos is heavily reliant on their IT infrastructure. Significant impact on the business could result from a failure in these systems. Regular testing and updates are undertaken by the Group to ensure the continued integrity and efficiency of its systems.

**Shared Values:** New Look has a strong culture that encourages employees to be more involved in the decision making process, this enables them to develop their leadership skills. According to Herzberg, it creates motivation that leads to higher productivity and efficiency.

On the other hand Asos retain control through centralised decision making by top level management, this type of management speeds up the decision making process but it could act as a de-motivator.

**Strategy:** New Look has adopted a value-priced strategy which is dress smart for cheap featuring low-priced fashions often imitating the ready to wear designer labels. These items are as much as 10 to 15 percent lower than



competitors. Also as part of its expansion strategy, it is constantly relocating from smaller stores in existing markets to successful larger format stores. On the other hand Asos acts as an online department store where they provide high fashion brands and inspired by catwalk ready to wear. This strategy has enabled the company to have a variety of product range which grew by 157% resulting in 21

21,300 options on site at the end of March 2009 up from 8,300 at the end of March 2008.

## **Quantitative Analysis of New Look and Asos**

### **Market Share**

According to the annual report of 2008-2009 New Look has a market share of 2.99% whereas Asos has a market share of 5.13%. This was as a result of more user-friendly applications by Asos such as the catwalk feature and 360-degree view which makes the website more user-friendly.

### **Operating Profit**

New Look's operating profit decreased significantly from £138.6 million to £138.2 million, a decrease of £.4 million. This was as a result of increased administrative costs. On the other hand Asos operating profit increased by 100% to £13.9 million, but the operating margins weakened slightly from 8.6% in 2007-2008 to 8.4% in 2008-2009. The 270 basis point gross profit margin decline was offset by an improvement in operating cost ratios.

Similarly, New Look experienced a net loss which increased from £.1m to £.4m, a difference in loss of £.3 million. Alternatively, Asos achieved a net profit increase of 98% from £5.1 million in 2008 to £10 million in 2009.

New Look revenues has increased from 1169. 10 million in 2008 to 1332. 6 million in 2009 an increase of 2. 1million it was due to an increase in concession whereas Asos revenues increased from £81 million in 2008 to £163. 4 million in 2009 a difference of £ 82. 4 million

According to the annual account of 2008-2009 New look net cash flow has increased from £211. 6 million in 2008 to 220. 7 a difference of £9. 1 million in 2009 this was as a result of working capital management, which enabled the company to increase its net cash flow from operating activities. Whereas Asos net cash flow has increased from £8. 1m in 2008 to £16. 54 in 2009. Asos net cash flow was up by 105% in comparison to 2008, this was as result of enhanced product choices coupled with compelling promotions.

### **Earnings per Share**

Asos, earnings per share increased from 6. 9% in 2008 to 13. 6 in 2009 and increase by 6. 7 on the other hand there was no earning per share for new look.

### **Trade Receivables and Payables**

New looks trade payables have increase from to £207. 5m in 2008 to £260. 8m in 2009 difference of £53. 3million % and similarly its receivables increase from £6. 7m to £7. 8 million a difference of £1. 1million conversely Asos trade payables remained constant at 381 million while trade receivables increase from £0. 47miliion to £0. 50 million a difference of . 3million.

An assessment of the current Corporate and business strategies of New look and Asos.

Business organisation operates in a very dynamic environment which requires organisation to develop strategies to ensure future success. In order to prevent strategic drift an organisations objectives must be “ alignment” with the long term goals furthermore the business strategies and organisation strategies must “ fit” with the environment. As a result value would be created for stakeholders.

### **Objective of New Look**

“ The goal is to be The Favourite International Fashion Value Group, with a significant presence outside the UK.”

### **Objective of Asos**

“ The goal is to be the leading fashion Website in the UK and attract a growing number of overseas markets.”

### **Joint Ventures**

New Look has a product supply joint venture in Turkey and an office in Singapore to co-ordinate the shipment of stock sourced from the Far East this. Similarly Asos joint venture with Crooked Tongue allows them to participate in sales from additional customer segment these joint ventures enables to reduce cost by creating efficiency and increase profitability hence market growth.

### **IT strategies**

Secondly, the investment in IT strategy enables better management of information systems; this in turn reduces cost and increase efficiency. This investment support back office operation such as buying, merchandising and execution. With the unique distribution platform, supersaver option,

premium same day delivery including Saturdays and 85 % of trackable orders, all create value for the organisation and customers.

Additionally the installation of the new warehouse management at Hemel Hempstead supported the increased in international expansion, returns option, size range, and the demand for an advance delivery.

### **Motivational Strategies**

In addition, New Look motivate, retain and develop high calibre staff by rewarding them with competitive salary and benefit packages which are linked both to individual and business performance as well as the external employment market. The Group operates an Employee Share Ownership Trust that has been established for the issue of shares to certain Group employees, engaging managers in the ownership and financial success of the organisation. Incentives also include a 50% product discount in our stores. Asos combines a list of Motivational strategies such as bonuses, performance share option scheme, and share and management incentive plan with these type of encouragement employees are motivated to go the extra mil

### **Expansion Strategies**

New look and Asos has both expanded into international market, But Asos has used a low cost mode of entry by extending its shipment to 58 different countries through low cost distribution, While New look used the franchising mode of entry, these reduce risk.

### **Low cost and marketing Strategies**

New look and Asos used similar product and marketing strategies by offering cat walk features and similar brands from designer for lower cost. Similarly they have both used designers to market their own labels, but Asos differ from New look slightly because they offer a vast range of high branded product through it strategies alliances. Also both New Look has magazines that provide customer information about the latest trends and fashion; these marketing strategies help the organisation to penetrate the marketing using low cost strategies a term supported by (Ignor Ansoff).

### **CRM Strategies**

Finally both New Look and Asos focus on Customer Relationship Management, through its social networking such as Twitter, Bebo and Facebook, this enables the organisation to get customer feedback about the product or service. However, Asos has 24 hours customers online care, which give the organisation the competitive edge.

### **SQUARE FEET OF**

Plans to cope with the current global crisis

The global economic crisis has forced organisation such as New look and Asos to think outside the box in order to survive. A result these organisation has developed strategies cope in the current economic crisis.

Customers are seen as prosperity for an organisation as a result New Look and Asos has planned to continuously focus on customer satisfaction through improved customer service, quality for cheaper prices.

Secondly New Look and Asos in line with their objective have plans to increase expansion into overseas market. However Asos wishes to maximise efficiency by investing heavily in Management information Systems and also in logistics to meet their international expansion strategies. While New Look plans to open new stores in new markets and develop the small stores in the existing market Also, the Group has now embarked on a significant development

Programme to ensure all trading platforms and systems are fit for future international growth. This future operating model will take nearly three years to complete with total investment of £30m and deliver significant benefits in trading strategy

Additionally both companies wish to expand their product ranges and further develop their website to create a better customer experience. However New Look capitalising further on fantastic fashion press and online advertising. We will continue to build our global press coverage and develop high profile associations. On the other hand

### **Conclusion**

In conclusion technology has brought many dimensions to the shopping, product are just a click away, consequently retailers have to be innovative, and constantly monitor the market to identify the trends, fashion and changing consumer taste so that their products could meet the need and wants of the target market. From the analysis above New Look and Asos are two organisations that operate in the retail industry. New look has been successful for the last 40 years because their flexibility, and ability to

innovate, they have combined both off line and online operations, through reduced cost, quality and exploitation and efficient use of resources this has increased profitability. Whereas, Asos is an online retail organisation through the efficient use Management information systems, exploitation its unique core competences and efficient use of human resources has gained profitability, this organisation has adopted more a classical school approach to management.

According to the Blue Ocean theory organisation has to develop a unique strategy, which is evident in these organisation analysis.

### **Recommendations**

Even though these companies have experience high growth there are still areas that needs addressing:

#### **Asos**

Ø Asos needs to offer incentives not only to senior management as stated but to all members of staff in order to increase motivation which could in turn increase efficiency. Additionally should adopt a more participative approach in the decision making process.

Ø Asos needs to carry out research and development activities which help the organisation to identify a niche which could create an economic advanatge. Also, the Organisation needs to be involved in more corporate social responsibilities activities.

Ø Asos can adopt the Boston Matrix Analysis to help assess the value of different product categories. It must manage the dogs by removing or

cuttings cost and convert question marks and stars into cash cows through promotion, this will increase the overall profitability of the business.

### **New Look**

Ø New Look needs to increase shareholders value, this could be done using Michael Porter Value chain Analysis, this would help the organisation to invest resources on areas that gives the most value and subcontract those that add value which will increase effectiveness

Ø Also New Look need reduce its overhead and administrative cost which is affecting the profitability. In this case the company should focus more on line shopping which reduces operating cost.

Ø Also New Look focuses on other entry modes that would create profitability with risk such as exporting, distribution until they have studied the market.

However in order for New look and Asos develop strategies that please all the stakeholders it should adopt the Balance Score Card model by Norton and Kaplan, this combine both qualitative and quantitative measures, acknowledges the expectations of stakeholders and relate an assessment of performance to choice of strategy Johnson and Scholes (2008).

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