

# Strategic management asos



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## Strategic Management Assignment 2 Company Strategic Analysis – ASOS

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ASOS is an international fashion retailer, which offers an extensive line of products, varying from high street to luxury items. Success and rapid growth of the company was achieved through a well-planned corporate strategy, using their resources and capabilities in a way that would profit the company.

“ Strategic planning is the process by which the firm organizes its resources and actions in relation to an external environment in order to achieve its goals and objectives” (McGee, Thomas & Wilson, 2005, p. 9). The report will explore current and future trends in the online fashion industry and analyze where ASOS is at the moment in terms of a market place and what strategy do they need to pursue, in order to achieve more financial stability and profitability in the future. . Online Fashion Retail Macro Analysis Online fashion retailing is a rapidly growing and expanding market. “ Retailing in the UK is expected to increase by a constant value CAGR of 2% over the forecast period, as Internet retailing will continue to experience strong growth and outperform store-based channels” (Euromonitor International GMID, 2011). But despite the stability of the market, macro environmental factors still can affect it:

\* Globalization of markets \* Recession \* Reduction of disposable income \* Demographics \* Weather \* Seasonality of sales \* Raw material costs

Macroenvironmental changes are the broad outside forces affecting all markets. These include the major economic, demographic, political, technological and cultural developments taking place today” (Doyle, 2008, p. 4). The factor which will have the most negative effect on the industry, is cost of raw materials, especially cotton. Cotton is the most common material for high street clothes. “ The price of cotton jumped 13 per cent to \$1. 65 (? 1. 03) a pound in New York trading last week, largely driven by fears over a disastrous recent harvest in the southern states of the US” Thompson, 2011). With this trend it can be foreseen that cotton will become a luxury material eventually and high street brands will need to find alternatives, which can be costly. Another major factors, which can affect the market, are recession and reduction of disposable income. But for high street this can bring positive outcome. Current research shows that at the moment it is the “ lowest annual decline since June 2011. This left the average UK family with ? 147 of weekly disposable income – 5. 5% down from the same time last year” (27 February 2012).

Recent recession influenced people to cut down on their spending’s, therefore driving loyal customers of luxury brands to consider changing to high street brands. The environmental issues are affecting people’s awareness in sustainable products and its manufacturing processes. As a cause of global warming, changes in weather occur as well, which causes implications in predicting buyer behavior, therefore predicting sales. However, “ the pace of change in many macroenvironment situations is

increasing and becoming more turbulent and unpredictable” (Evans, Campbell & Stonehouse, 2003, p. 57). In order to overcome negative effects of economical and political factors fashion retailers will have to maintain and continue to deliver value to their customers. This can be achieved through financial investments in increasing quality of the product and its price. Another strategy that a company can take on is development of new products to meet their customers demand. Constant awareness about modifications in macro environment will help to improve business performance.

### 3. Competitive Strategy of ASOS

Internet fashion retail is a highly competitive market, the trends in the industry and company’s success relies on customer’s needs, which change constantly. “ Competitive advantage is the delivering of superior value to customers and, in doing so, earning an above average return for the company and its stakeholders” (McGee, Thomas & Wilson, 2005, p. 207). In order for ASOS to stay on top of its competitors, the trends in the industry have to be monitored, so that further they can be strategically translated in developing new products, to gain customer satisfaction.

ASOS’s main competitors are Next, Topshop. com and River Island. As seen from the chart below these have the most percentage of market share in 2009: Percentages of a market share: HITWISE. ASOS is a part of a competitive market, which is considered to be perfect competition, rather than monopoly or oligopoly. “ Under perfect competition, the firm has no choice but to accept the price that has determined in the market. It is therefore called ‘ price taker’” (Baumol & Blinder, 2012, p. 201).

Perfect competition also means that companies obtain relatively small and similar market share percentage, which, as seen from the graph, is the case with ASOS and online fashion retail market. ASOS is pursuing differentiation strategy rather than cost leadership. " Differentiation occurs when there is a perceived difference in delivered value that leads target customers to prefer one company's offer to those of others" (Doyle, 2008, p. 167). There aren't any analogues to ASOS store concept, which offers 850 brands, from their own high street brand to luxury brands.

Product differentiation " might involve tangible differences such as quality, reliability, performance or design. Alternatively it might be based on intangible elements such as reputation and branding" (McGee, Thomas & Wilson, 2005, p. 201). Differentiation works better for ASOS, rather than cost leadership, because over the years ASOS managed to stay on top of its customers needs, providing them with a strong brand of their own and offering many other brands. Its main competitors like Next or Topshop just offering products of their own brand, so when customer visits ASOS it gives him choice.

ASOS won't be able to compete for the cost leadership, as their prices vary extensively. Their main competitors are high street retailers, but ASOS offers luxury brands as well, so it would be implicated to compare prices and compete for the lowest costs. When talking about strategy it is always important to recognize risks. When market becomes saturated, like it is the case with ASOS and its market, " the market stops growing. Sales stop growing. Customers only buy to replace existing service or product.

All of a sudden, business is not growing at the heady 25 or 30 percent per year". (Fifield, 2007, p. 58). ASOS will have to concentrate on its competitive strategy, and figure out how to gain more growth and acquire more market share, through developing new innovative products or maybe even opening a physical store.

4. ASOS Resources and Capabilities " A firm's resources and capabilities have to be assessed at several levels. Firms possess at any one time bundles of tangible, intangible and human resources" (Doyle, 2008, p. 96).

Resources Tangible| Intangible| 2, 500 square m of warehouse space| ASOS brand (strong identity, celebrity-inspired fashion)| 250 employees by 2008, 700 in 2011| Established distribution channel| Sales increased by 90% from 2000 to 2008| Multi-brand (contracts and agreements with other companies)| 5. 3 million registered users| Core competencies | 3. 2 million active users| | 160 countries of operating (strong global marketplace)| | Capabilities \* Developing new brands in product portfolio \* Invest capital revenue in opening physical high street store \* Advertising widely (investing in marketing communications)

The main intangible resource that ASOS can rely on is its Brand. " Today customers are faced with an increasing array of competitive suppliers and products promising to meet their needs. Making the right choice often involves risk because the products are new and complex, or because the customer has not had to make this type of decision before" (Doyle, 2008, p. 231). ASOS brand has strong identity and differentiates itself from all other products at this price. None of the main competitors offer celebrity-inspired clothes at the same price, as well as offering other 850 brands to choose from.

As seen from the explorations in the report, customers at the moment are being more aware about the product they buy. ASOS resource, which gains the company the competitive advantage, is the ASOS own fashion brand. Tangible resources are the main factors that determine the company's value. "Tangible resources are those that appear on the balance sheet: current assets, investments and fixed assets" (Doyle, 2008, p. 231). After calculating profitability ratios it can be seen that: \* ASOS capital revenue is increasing (by 34% from 2009 to 2010) \* Decline in gross margin (41.80% in 2010 compared to 43. % in 2009), which was caused by increased sourcing costs \* Operating profit increase (46% in 2010) \* Net profit margin increased (from 6.1% in 2009 to 6.5% in 2010) When analyzing the financial information further, a conclusion can be made that ASOS, despite economical crisis, is stable in its market and shows continuous growth through the years. "Organizational capabilities are the firm's capacity to exploit a particular marketing opportunity. They are determined by the firm's resources and management's ability to integrate them in pursuit of a marketing strategy" (Doyle, 2008, p. 7). ASOS has capital revenue to invest into new marketing campaigns and developing new products, thus extending their portfolio, which will make ASOS a more sustainable and competitive business. 5. Strategic Options "Growth is a central determinant of shareholder value because of its potential for increasing the net present value of future cash flow" (Doyle, 2008, p. 106). However, the growth strategy needs to be carefully considered. At the moment ASOS has been achieving growth by using internal sources. It concentrated on increasing and maintaining its customer base. Established organizations do have a choice, however; rather than simply succumbing to the new entrants in their turn, they can decide to

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re-define their business and regain their customer focus” (Fifield, 2007, p. 143). Growth strategies are important for companies, as they help to achieve their initial objectives and gain rise in profits. Diversification aims to increase the company’s profitability through development of new products and penetrating new markets. “Diversification involves entry into fields where both products and markets are significantly different than those of a firm’s initial base” (Pitts & Lei, 2000 p. 75). Ansoff Diversification Matrix ASOS is familiar with a new product development theory. In the recent years, it developed and brought out 2 new lines of clothes, in order to achieve better appeal to its customers needs: ASOS petite and ASOS premium. ASOS can also target new markets, as now its main competitors are high street brands, it can use strategic approaches in order to develop a competitive advantage to enter high-end fashion market. Another strategy that in a long term will prove to be very beneficial for ASOS, will be merging with other companies. Mergers are generally the bringing together of businesses of equal size, paid for by the exchange of shares and with no premium. Acquisitions imply a dominant party controlling another, and often there is a premium paid” (McGee, Thomas & Wilson, 2005, p. 377). ASOS could consider merging with Topshop as they roughly the same size of businesses. Topshop runs a profitable online store as well as a physical one. Topshop also has its strong brand and build customer base, which ASOS can benefit from.

5. 1 Strategy Evaluation

Diversification Suitable - ASOS already has a variety of lines

Feasible - ASOS has enough capital investment to invest into new markets and new products

Acceptable - Shareholders will be pleased, as more products will be sold more profits will be made

Competitive Advantage -



Penetrating new markets and developing new products will gain ASOS a bigger market share Mergers & Acquisitions Not Suitable – ASOS also operates with 850 brands Not Feasible – Merging and acquiring can bring very high costs Acceptable – Shareholders will be pleased, as short term liabilities will be paid faster at a higher rate Competitive Advantage – ASOS and Topshop loyal customer base

After evaluating the benefits of these strategies, the conclusion can be made that diversification strategy will be a much more effective strategy to pursue, as it will require less costs and investments, but will help ASOS to maintain its competitive advantage. 6. Conclusion “ The interactive, one-to-one character of the Internet creates new pressures for Net brand buildings. Yet it retains the marketing fundamentals: the need to understand the customer, environmental analysis and building competitive advantage” (Doyle, 2008, p. 342).

As seen from the analysis in the report above, strategy plays a big role in company’s development, profitability and growth. Through careful consideration ASOS found strategy works best for them in pursuing their objectives, but there are other options for them to be considered, like using their capabilities in order to develop new brands and gain customer satisfaction and loyalty. 7. Appendix 1 – ASOS Ethical Code of Conduct \* Compliance with local laws \* Employment is freely chosen \* Freedom of association and the right to collective bargaining are respected \* Working conditions are safe and hygienic Child labor shall not be use \* Living wages are paid \* Working hours are not excessive \* No discrimination is practiced \* Regular employment is provided \* No harsh or inhumane treatment is

allowed \* Equal opportunities policy (ASOS employs disabled people whenever suitable vacancies arise) \* Mainly, ASOS objective is that all new and existing suppliers meet its ethical policies Source: <http://asos.annualreport2011.com/our-business/uk-and-international-traffic-is-soaring> 8.

Appendix 2 – Profitability Ratios Investor's ratio. 2009 Dividends are not stated in the financial report

Dividends are not stated in the financial report 2010 Dividends are not stated in the financial report Dividends are not stated in the financial report Profitability 2009 2010 Liquidity 2009 2010 Working Capital 2009 2010 Gearing 2009 2010 9. Bibliography Annual report, 2011. Asos plc. [online] Available at: < <http://asos.annualreport2009.com/> > [Accessed 2 March 2012] Annual report, 2011. Asos plc. [online] Available at: < <http://asos.annualreport2010.com/> > [Accessed 2 March 2012] Baumol, W. J. & Blinder, A. S. (2012) Economics: Principles and Policy. 12th ed. South-Western Cengage Centre

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