

Financial analysis of chico's

Business



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This report focuses on financial analysis of Chico and offers a comparison of two companies, Chico and GAP. The companies are in the apparel industry and offer clothing, accessories and personal care products to their clients. Chico was established in 1983 as a small store in Florida and currently, the store has grown in a big company.

Chico mission and vision statement is actually a set of guiding principles and values which define how the people in the company behave. Besides, the company's strategies are focused on enhancing its customers and this is very essential for the success of the company. GAP and Chico's have had to contend with other retail outlets for market, and it follows that the company that is the fittest survives in the competition. Fittest in the sense that they are able to redesign, move along the changing tastes among the different demographic and ensuring that customers' needs are given priority in the production agenda of the company. Apparently, Chico's operates in a very competitive environment.

Firms within this industry ought to find means to ensure the continue developing unique products and uphold the present expense levels. Similar to Gap Inc., Chico's has a steady legal situation. Nevertheless, changes within the economy generally are causing price increases while the customers are being less entranced with clothing for the two companies. Moreover, the two companies have financially sound financial analysis. The two companies have both experienced moments of decline in stock prices as well as remarkable increases in the sales over the years.

Chico, established in 1983 is a retail chain that deals with women clothing (Hafeez et al., 2008). Chico started as a small store in Florida selling sweaters and it adopted the name Chico in 1985. Currently, the company runs 1, 084 stores selling women's clothing (Ryan et al., 2010). Chico has developed into a 642 firm-owned company's locations that target women aged 35 and above and who earn a high income.

Besides, the company has 332 firm-owned BH/WH locations which target women aged 25 years and above and who also earn high incomes. Chico has 70 soma locations which target the same customers as the last two locations (Hafeez et al., 2008). The products of the company are not produced, however, it focuses on creating internal designs and operates with autonomous vendors in order to develop novel designs with an aim of keeping up with modifications and seasonality in the fashion industry. In this case, seasonality delineates the four separate seasons which necessitates diverse product features. Chico has a complex growth strategy which includes in-house infrastructural adaptations and exterior adaptations through the development of novel stores and acquisitions (Ryan et al.

, 2010). Chico forecasts for future growth and in order to achieve this, it has amplified the numbers of management and directed to customer staffs. In addition, it has implemented technological systems in order to acquire data regarding loyalty programs, SKU-data, and sales data (Hafeez et al., 2008). Recently, Chico plans to linger presenting product extensions which support its recent line of products.

Product extension is a vital element of the company's business strategy as it centers on sustaining its brand image which is having complementary accessories and unique clothing. Combined with Chico's loyalty programs and client service, this approach is perceived as a key advantage for the company. Special training is offered to the sales associates with an aim of creating satisfying experience for the clients. Such training encompasses fashion advice concerning jewelry and outfits, and having the knowledge of repeat clients' preferences so as to serve them effectively. Moreover, Chico amplifies its repeat sales via various programs for rewarding its customers for white house, black market and Soma brands.

This paper presents strategic analysis of Chico. In particular the paper focuses on the analysis of the industry and environment in which the company operates (porters five forces and PESTEL analysis; vision and mission statement; Chico's overall strategy; an evaluation of the levels of horizontal and vertical diversification; an assessment of the company's strengths, weaknesses, opportunities and threats (SWOT); financial strategy and analysis of Chico; the culmination of this analysis and critical thinking about the industry/organizations; and recommendations for future actions. The paper will also offer an analysis of Chico's closest competitor – GAP Inc., with reference to the same aspects as Chico and will offer a comparison and a contrast of the two apparel companies on those bases. The objective of this financial analysis project is to demonstrate my knowledge, skills, and abilities for identifying, analyzing, and evaluating the apparel industry and, in particular, Chico Company.

The significance of this paper is that it will assist us as the students in becoming intelligent users of financial accounting information and improve our understanding of financial accounting concepts that underlie the financial statements. Besides, the analysis is of great significance for Chico Company as it may apply the recommendations offered in order to overcome their weaknesses and focus on their strengths. GAP is a principal worldwide domain retailer providing accessories, clothing, and care products for children, babies, women, and men under the Old Navy, Athleta, Piperlime, and Banana Republic brands. The company's products are sold in more than 90 nations globally via approximately 3, 100 GAP operated stores, and approximately two hundred franchise stores. Chico Mission and Vision Statement The mission and vision statement of Chico is actually a set of guiding principles and values which define how people in the company behave.

These values encompass: Integrity: the company expects 100 percent trustworthiness and honesty from its employees. Customer first: Chico is client centric and fervent regarding its amazing clients who are the main focus. Respect: the success of the company instigates from collaboration and teamwork. High performance: Chico supports its shareholders who anticipate the company to be successful in addition to delivering on financial objectives. Vibrant spirit: teamwork, innovation, determination, and heart are contagious and generate an entrepreneurial spirit which makes performance and working hard fun and productive. The guiding principle of Chico Inc.

encompass The employees love what they do: in addition to delivering clothing, the people have a desire for fashion. Astounding personal service:

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Chico treasures its linkage with its clients and treats them in a friendly manner. GAP Vision and Mission Statement GAP Inc. moves continuously. Besides, it takes numerous dedicated, passionate, and talented staffs all over the globe to deliver the shopping experience and merchandise expected and desired by the customers.

This is done through inspiration, sourcing, marketing, distribution and sales
GAP >: [http://www. company-statements-slogans.
info/list-of-companies-g/gap. htm](http://www.company-statements-slogans.info/list-of-companies-g/gap.htm)

, 2010). Chico's Overall Strategy Chico strategy is growing through the establishment of store base, enhancing the productivity of store, and developing direct to customer segment that encompasses its catalogue and online buying. In order to establish its store base, Chico develops subsisting company's and black market/white house stores, acquiring novel brands, opening novel stores, in addition to developing the Soma brand. The company enhances its productivity in the stores with its MAPS programme, inventory turnover and product diversity. Presently, Chico is developing the direct to customer division with investment in physical and human capital essential to support and establish the business. However, one major problem facing the company's strategy is that as a result from competition from other players in the apparel industry, the strategy has not been a success.

This is so especially during recessions and economic instabilities particularly during the financial crises. This resulted in reduced consumer spending and it affected the company negatively. As a result of this, the company necessitates making strategic alternative in order to overcome this.

Historically, Chico has had positive operational and financial outcomes and achieved above most of its rivals in the apparel industry (Ryan et al., 2010). During economic downturns, Chico manages to generate considerable cash from its functioning.

Through this, Chico is able to fund its strategy without monetary influence. Chico has a complex strategy which includes in-house infrastructural adaptations and exterior adaptations through the development of novel stores and acquisitions (Hafeez et al., 2008). Chico forecasts for future growth and in order to achieve this, it has amplified the numbers of management and directed to customer staffs. The main aim of the company's strategy is to amplify the levels of market capitalization.

People who are encompassed in decisions are an important component in any strategy implementation. In order to make its strategy a success, Chico has made an M and A group of professionals with different expertise and backgrounds that amplify the probability of an effective result. These different backgrounds encompass accounting, finance, information technology and marketing. These individuals have prior experience on acquisition projects and besides have worked jointly to ensure the success of the same. The strategy is employed by Chico in order to take advantage of the company's competitive advantage in the apparel industry.

The key objective for this strategy is to prevent any disruptions pertaining to operations and make use of the knowledge and expertise of the company's regional managers and executive directors (Ryan et al., 2010). Chico has an astounded Board of Directors who is appointed for a term of three years.

These directors are grouped into Class I, II and III, and each class serves for a period of one year (Hafeez et al., 2008).

Chico has various processes that are used to employ the tasks of strategic management. These processes encompass marketing, sales, sourcing, and distribution (Collins and Porras, 1994). It is apparent that the strategic managers have been effective in executing these processes and this has resulted in the achievement of company's goals and objectives. As mentioned earlier, as a part of its strategy achievement, Chico focuses on catalogue and online purchases which means that the marketing and sales managers have a role to play in making certain that this happens (Hafeez et al., 2008).

Besides, the company has focused on marketing strategies including offering of quality, fashionable and current products to the customers, employment of better pricing strategies in order to increase sales of their products, opening of various stores bases where the company's products can be obtained, and using essential promotion strategies such as social media, campaigns, and advertisements amongst others in order to attract and retain existing customers in addition to making their products known to these customers. Generally, the top management and Chico's Board of Directors play a major role in ensuring that the various processes essential for the ensuring the success of the strategy are executed as necessitated (Ryan et al., 2010). Besides, the top management portrays such leadership skills as effective communicators, innovative, and team builders and this has contributed greatly to the overall success of the company. GAP Strategy GAP Inc.

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strategy centers on steadying the business, enhancing its target clients, making its brand positioning to be strong internationally and offering better products in an American design. Therefore, the company has turned its attention at attracting clients to its stores (RedOrbit, 2008). Besides, the company's marketing tactics has shifted to a combination of non-traditional and traditional initiatives, encompassing complex campaigns and influencer programs. Certainly, both Chico and Gap are using appropriate strategies which mainly focus on their customers. Industry Analysis According to the research, the retail apparel industry is very competitive (Chobanov et al., 2008).

The industry has a number of companies attempting to get a share of the market by developing a unique product that is deemed fashionable and trendy by the market. In order for companies to survive in the industry, they need to find a way to develop differentiated products from the competition, for instance, customer service. Apparently, the business strategies gyrate around the want, perception and needs of the customers in the industry as a result of the high bargaining power of the customer (Chobanov et al., 2008). This industry is known for its rapidly moving business circles which make it very hard for the companies with an inappropriate product mix to resolve the issue. This is for the reason that as the winter clothes are resting in the stores, the spring lines are undergoing manufacturing process, the summer lines are already designed as well as approved and the following year's fall are undergoing conceptualization.

As a result the incorrect product mix becomes unfavourable to the profitability of the company during a specific season. At the present, the <https://assignbuster.com/financial-analysis-of-chicos/>

retail apparel firms are functioning in an economic recession. It is apparent that the spending of customers has reduced causing decreased profitability for the retail companies who highly rely on the customer sales. Firms within this industry ought to find means to ensure the continue developing unique products and uphold the present expense levels (Chobanov et al., 2008).

Economic Environment The nature of any economic environment always influences the industry largely. Evidently, the retail apparel industry is greatly impacted by the state of the economy. When the economy is favourable, customers always spend more money on purchasing new products. Consequently, when the economy is not favourable, the customers save more and spend less. In 2009, it was postulated that the Gross Domestic Product could decline in the first half and have a minimal recovery at the commencement of the second half. In 2008, the United States were experiencing a trade deficit which meant that the country's imports were greater than the exports.

Actually, the deficit then declined to 56. 5 billion US Dollars from 59. 1 US Dollars. On the other hand, the exports declined by 6 percent as the imports declined by 5. 6 percent. Trade deficit in goods declined by 2.

1 percent while the trade surplus heightened by 9. 2 percent. Presently, the United States are experiencing deflation. The CPI meaning Consumer Price Index that is used to measure the average price of customer's services and goods bought by households gives a measure of the inflation by obtaining the change percent in the CPI. It is postulated that the current deflationary environment could force a decline in the operating margin for firms.

Evidently, firms have a hard time lessening labor wages as well as other contractually defined costs (Myers, 2012).

Nevertheless, the market forces them to reduce the prices. Moreover, the spending of the customers has largely declined and it is anticipated that it will continue declining. In addition, the postulated increases in the levels of unemployment will go on mounting pressure on the ability of the customer to spend and so will the heightening customer interest rates. Some of these issues, however, could be offset by the increasing purchasing power from the deflation and increased disposable income from the lessened energy prices. Lower energy prices could also impact the industry significantly as the reduction in the energy prices leads to a reduction in the transport as well as other costs (Collins and Porras, 1994). In a recent research it was indicated that the United States Dollar is appreciating against all other currencies.

As a result of this, the cost of inputs for the producers which import or outsource manufacturing to other nations has substantially been lowered. Due to the fact that Chico's deals with commodity items, the persistent decline within the economy is possibly going to impact the company's functioning outcome remarkably (The Opinion Leaders, 2006). Apparently, the decline in the spending ability of the customers will most probably result in reduced sales. In addition, the deflationary environment will most likely impact pressure on the gross margins of Chicos. A reduction in the energy costs is going to maintain the operating results of Chicos. However, there is a possibility that it is going to offset fully the reduction in the consumer spending as mentioned earlier (The Opinion Leaders, 2006).

Regulatory Environment As part and parcel of the regulatory environment, it is of paramount to consider a number of the trade regulations when operating a business. NAFTA used to denote The North American Free Trade Agreement amid the United States, Mexico and Canada that was signed in the year 1994, is meant to eradicate a majority of the trade barriers within the industry to ensure a free trade. The Agreement on Textile and Clothing by the World Trade Organization ensured a decrease of the import quotas in the year 1995. In 2005, the Agreement fully matured and was executed. This led to the elimination of all the barriers on the import and of textiles and clothing (Myers, 2012).

Besides, it is necessary to consider the labor laws. In the United States there is Fair Labor Standards Act which specifies the minimum wage an employee is supposed to get. Moreover, it regulates the payment for overtime as well as the requirements for youth employment. According to the law governing the operation of companies, if these laws are breached, it results in huge penalties and the litigation of the particular companies in breach of the law. Due to the fact that the Company in subject entirely deals with the exports of its own manufacturing procedure, the free trade with no quotas is of paramount to the universal supply chain as well as the operates of the company (Thompson, 2012).

The North American Free Trade Agreement is also very crucial to Chicos operations as the company upholds 'cuts and sew' shops in the United States, Mexico as well as Guatemala. If the trade restriction of the regulatory environment in which the company functions in was to decrease, there is a high probability that this will definitely to be unfavorable to the profitability <https://assignbuster.com/financial-analysis-of-chicos/>

and the operations Chicos (Thompson, 2012). Technological Environment Technology is apparently a major infrastructural constituent of all, the operations of a particular industry. It is as a result of the capability of the technology to systematize keeping of records, offer decisions within as well as outside the company, offer decision support or systematized decisions that have pushed even the companies that do not use technology in their operations also to invest in the technology in order for them to be at par with other companies in the competition (Collins and Porras, 1994). As evidenced by past researches, most firms adopt technology look for means in which to employ it to generate a strategic advantage over its rivals and level the playing fields. Enterprise Resource Planning (ERP) systems are of paramount to the companies operating within the apparel retail industry since well-organized supply chains are a crucial aspect to these companies.

This is due to the fact the systems enhance the capability of the various companies to maintain a competitive advantage over its competitors (Myers, 2012). Within the supply chain context, Enterprise Resource Planning systems enable the company to have a systematized record keeping at various elected points in the entire supply chain. Furthermore, it uses the rule sets particular to the business to offer decision automation as well as support. An efficiently designed Enterprise Resource Planning system provides a business with transparency into its own supply chain as well as hastens and enhances decision making. Actual statistics on the nature of the inventory, transportation, orders, accounts receivable as well as the payable, and any other metric identified and deemed relevant by the company is availed with a modest database query (Chobanov et al., 2008).

Evidently, modules can be enforced to offer control panel style views of the health of the company and providing the managers with the instantaneous comprehension of the nature of the several parts of the company (Porter, 1985). Systematized alerts could be developed when exclusions come up hence raising the speed with which the firm is able to identify as well as resolve its problems. Particular decision procedures could also be automated, for instance, making the suppliers' payments or placing orders, lessening the workload and the possibility of errors within the procedure. Apparently, the power users ought to ensure that they make their own reports which will give actual information to the local managers in order to foster decision making. In addition, the historical data should be used to make predictions, for instance, demand that can enhance the efficiency of the supply chain.

It is critical to denote that Enterprise Resource Planning system is perceived to be as good as the procedures in which they interact with (Myers, 2012). When enforcing and upholding an Enterprise Resource Planning system, the firm must ascertain that there are procedures underway which will ensure that relevant information finds its way into the operating system in time. The Enterprise Resource Planning system is said to be useless if it lacks appropriate data. Moreover, the firm should make sure that it maintains a high comprehension ability of its business procedures so as to make use of the Enterprise Resource Planning system in the right manner. If there is a lack of the right understanding of the business procedures, the systematization as well as the decision support abilities of the entire system

will not operate in an expected manner. As a result, the system will lead to inefficiencies in its operations (Thompson, 2012).

In addition, if the system is ineffectively designed or executed, it will result in poor decisions that will consequently lead to wastage of the company's money and time. It poses danger if companies assume that Enterprise Resource Planning system is a magic bullet which gets to resolve its problems entirely. Mostly the companies that use the Enterprise Resource Planning system do not identify that these systems are only as good as the procedures they provision and in turn are provisioned by (Chobanov et al., 2008). Often, firms also undermine the criticality, of procedures in the enforcement of the Enterprise Resource Planning systems.

As a result, they find that their systems do not yield as expected. To the retail apparel stores, internet brings both success and problems. The internet offers the firms operating within the industry with a new and low cost channel so as to be able to get to its customers. Consequently, these firms are able to increase their sales via the internet with a relatively less incremental investment (The Opinion Leaders, 200). If a company has a well-designed Enterprise Resource Planning system, it can easily connect the system to the internet in order to have a fully systematized online catalog as well as shipping and ordering procedure which is availed to the customers on a 24 hour basis daily.

Besides, the company can also use the systematized method to receive feedback from its customers, record the interest of its various products as well as identifying which products are mostly demanded by the customers.

Doing this enables the company to identify the products that are most probably going to cross-sell easily so as to increase sales. Nevertheless, the internet offers the potential rivals with a relaxed way of creating a new channel of marketing. If it is possible for one company to easily develop an internet catalog, so can others. As a result, it becomes easy for competitors to enter the market especially in an industry which is easy to enter and it causes a high competition (Chobanov et al, 2008).

Formerly, the possible entrants into the market had to ensure that they developed huge capital investments to create their physical presence or even better still to create a mail-order business. The internet, however, has made it possible for new entrants as they are able to sidestep many procedures so as to reach their potential customers directly with little investments. Due to the fact that the potential customers can in an easy way cross and check the websites of the various competitors in the industry, the internet enables them to reduce on their searching costs drastically. There before the internet era, customers had to visit different shops to check the physical catalogs and compare the different prices and products (McKeough, 2008). Presently, the customer is able to cross check multiple websites of different shops and easily compare the prices to identify the best deals via the internet.

This is a fact that necessitates the companies to strengthen their exertions to develop unique products that are differentiated from those of their customers as well as provide outstanding values to avoid suffering sale loss as consumers flock to their rivals. Additionally, companies could capitalize in infrastructure as well as procedures that trace the preferences and

purchases of their customers. Evidently, this is a system that can either stand alone or be part of the Enterprise Resource Planning system. After, the system is in place, it can enhance the interaction of the customers as well as the marketing campaigns or trace and estimate the demands of the customers (Myers, 2012). Such a system could offer an associate for sales with consumer-specific information which enables the associate to come up with informed decisions in ways to interrelate with the customer.

The associate is made to recognize the past purchases of the customer. This enables the associate to avail to the customer products which are appealing and meet the tastes of the customer (McKeough, 2008). Having the knowledge of the past purchases of the customer enhances the chances for cross selling since the associate could offer relevant recommendations which will either complement or be complemented by the past purchases. Further, the sales associates need to be made aware of the special issues raised by the customers, for instance, the past complains and react timely. Generally, these abilities enhance the capabilities of the sales associate to develop revenue as well as enhance capability of the firm to develop a strong relationship with the consumer so as to drive revenue in the future (McKeough, 2008).

With particular consumer information at hand, this is a system which can enable the firm to create targeted marketing campaigns. The managers are also in a position to get the system for the consumers with specific physiognomies, for instance, geographic region, visit frequency, purchase frequencies, demographics, as well as the particular products that the customer had purchased in the past. By using these features, then the

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company is able to acquire particular responses from the targeted customers (Chobanov et al., 2008). Ultimately, this system could be used to enhance the management of the supply chain.

Although the past order of information could be used as a basis to estimate demands in the future, the knowledge of particular consumer habits can be used to estimate better. For instance, the use of a simple past order data could only inform the company on which of their stores have demanded for a type of product in the past. Nevertheless, tracing this kind of information at the consumer level could lead to better decision making. For instance, if a consumer shifts, then the particular customer's demand will certainly move to another store. If decisions are made on the basis of such kind of information it would mean that the right product will be redirected to the new store in which the customer has moved to. It is evident that technology has become a major constituent of the infrastructure of the retail company.

In addition, technology is not only a point of competitive advantage but also a cost of operating businesses. It is clear that the firms with inefficient technology management experience inadequacies as well as lower returns as compared to their rivals in the industry. For this reason, the management of Chicos must take into consideration its technology infrastructure (Thompson, 2012). Finally, they must also pay attention to the competitor trends within the industry so as to maintain their competitive advantage. Industry Analysis – GAP Possible issues with entrepreneurial processes copyrights in supply chains. (Ferri et al.

, 2006) It is apparent that Gap Inc. has a steady legal as well as political situation (Ferri et al., 2006). Nevertheless, changes within the economy generally are causing price increases while the customers are being less entranced with clothing, especially Gap's staple clothing. SWOT Analysis SWOT analysis stands to examine the strengths, weaknesses, opportunities and treats of Chico's. It is an important tool to give the company's current position and to forecast its future standpoint.

(Hafeez et al., 2008) Strengths Design control: One of its main areas where Chico's strength emanates is the control of the design process. This includes design specification, fabric choices, prints, color and pattern. White house black market has grown in size with time and has been one of the main areas that the company's sales have had a consistent improvement. In the financial year ended 2009 the white house black market contributed 30 percent of the Chico's total sales (Hafeez et al., 2008).

This brand targets a larger group than the other brands and is, therefore, growing quickly. With the revived store design and new developments in the market like the white and black bridesmaid dresses, it is slowly becoming Chico's main attributes (Ryan et al., 2010). Chico's business strategy: One of Chico's key strategies is its neat program meant to enhance consumer loyalty. The white house black market combined with the well organized passport program has been very instrumental in maintaining consumer loyalty and ensuring customers return. Its unique sizing technique has been very appealing especially for the target demographic group (35 years) and over that are extremely size conscious (Hafeez et al.

, 2008). This technique also gives Chico's a chance to lower its inventory by offering quite a large number of clothing and avoiding the trouble of storing a variety of sizes for each category. The disciplined staff with expertise in output coordination and color selection have been a crucial asset to the firm. The culture of promoting interaction between the customers and the sales staff together with the special sales plan where customers have an opportunity to try out their choices in the mirror free dressing room have gone a long way in attracting and ensuring consumer satisfaction (Ryan et al., 2010). Brand selection: Chico's works under three brands: white house black market, Chico's and Soma Intimates.

This gives the company an edge in cutting across the various demographics. Experienced leadership: The top leaders of the company have a vast experience in the retail business which has enabled them to improve the performance of the company. These are leaders who have held senior positions in other retail stores in the industry like the GAP, Ann Taylor stores and Macy's. This experience has proven to be very crucial in sailing the company through the economic meltdown. The company also has got the President for its three brands, who has held senior positions in a number of retail stores in the industry.

Maintaining such highly experienced managers bodes well for the company's brand equity and reputation. Efficient supply chain: Chico's supply chain is well organized with fast turnaround times that have improved the speed of inventory turnover. The company's main distribution center in Georgia has a turnaround averaging between 24 and 48 hours for the stores within the vicinity and one week for the stores that are further away from the center

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(Ryan et al., 2010). Opportunities New blood in management: The company has a new Chief Executive Officer who has vast experience in retail business.

He has rejuvenated the company by introducing new strategies like the bridal line to capture a new group of women and compete favorably with other retail stores. The white house black market has also come up with a new strategy in the marketing of its clothing. Improving outlet margin: CHS retail stores shift their old stock to outlet stores at relatively lower prices resulting in reduced profit margins. Chico's has come up with items specifically meant for outlet to boost their profit margin in the outlet stores sales. Profit margin for the clearance of such items is greater than the clearance in the regular retail stores (Hafeez et al., 2008).

Restarting advertising: Chico's reintroduced advertising in the last quarter of financial year 2009. The Company has also revitalized its online advertising a move that is expected to increase sales especially online purchase.

Employing new systems: Chico's is working closely with SAP in implementing a planning management system based on enterprise resource to handle the selling channels and harmonize merchandise, finance and product development (Ryan et al., 2010). This is also expected to improve the control of the company on inventory levels and the quality of merchandise.

Reducing markdowns: Chico's has introduced a more stringent inventory control strategy since the financial year 2009. This is expected to lower the markdowns for their stores by reducing excess inventory. Acquisition of fixed assets: In the financial year ended 2010 the company acquired 39 acres of

land and a foot building (Ryan et al., 2010). These are estimated to have a capacity to support sales of over \$3 billion.

Opening shops in empty store fronts: The Company is opening shops in empty store fronts with short leases to weigh the popularity of the retail stores in different prospective locations . This is aimed at finding virgin areas in the country which may have demand for the company's products.

Weaknesses There has been a stagnation of the brand of the company after being in operation for more than a quarter century. The fashions and designs are not as fresh as they used to be in the early days. The company has desperately tried to maintain its status quo in the industry by maintaining its fits and patterns that give it an edge over its competitors.

There is a dire calling for more appealing and innovative styles (Ryan et al., 2010). By offering the same brand all the year round women will have to turn to other stores for a different taste. The company has to modernize its stores to keep in pace with the modern clothing design. Multi-store conundrum: The Company has three brands each with a different focus, target and style.

The company has to be meticulous in dealing with each brand to maintain its competitiveness in the market. Consumer loyalty has to be ensured across the board meaning that there has to be continued innovation and change in design to keep pace with the changing consumer taste and preferences. At the moment one of the company's brand, SOMA is in the quagmire with its multiple store strategy (Ryan et al., 2010). The company has not been very clear as to the matters relating to the targeted age group. The brand is, therefore, not performing where it ought to be.

Absence of a loyalty program for the Soma brand: There is no clear loyalty program maintained for the Soma brand . The program that was introduced in the financial year 2007 collapsed before it celebrated its second birthday.

Supplier control: Most of the company's suppliers are from outside the country meaning the company has very little influence on them. For example, in the financial year 2009 more than 60 percent of the company supplies werre from the People's Republic of China (Ryan et al., 2010). The company lacks presence in China and, therefore, control of price and quality is quite difficult.

It would be of great importance if the company established an office in such a country to have a better control over its merchandise (Hafeez et al., 2008).

Threats Economic downturn: The reaction of consumers to the economic crisis has been a challenge to the company. During the economic crisis consumer disposable income is reduced which translates to reduced sales. This poses a challenge to the company to differentiate its products so that it can attract a new breed of customers.

Increased competition: The industry has witnessed new entries with time which are marketing the market quite competitive. For example, the company is encountering stiff competition in the baby boomer space. Other retail stores that have more asset base than the company have made the journey quite rough for Chico's.

Underdeveloped direct to consumer sales: The company has made a progressive move in the direction to consumer sales over the last couple of years, but there still remains more to be done to get into the standards of the major competitors. The key competitors such as

Coldwater Creek retail stores have better, well-organized direct-to-consumer sales and online shopping which are admired by most Americans.

The company needs to develop functional websites for all its brands to prevent losing clients to the other retail stores that are more internet friendly (Hafeez et al., 2008). Changing consumer styles, taste and preferences: The retail clothing industry is characterized by changing consumer tastes and fashion and this may have an impact on the company especially if it does not keep pace with the changing fashion trends. If Chico's is not in a clear position to understand the trends in fashion the overall costs may go up as a result of high inventory, decrease in brand equity, loss of sales and customer dissatisfaction (Ryan et al., 2010). Chico's main challenge is the lack of a clear strategy on the right product mix and for the company to maintain its status quo a lot needs to be done in this area.

Increasing costs: The vulnerability of today's economy calls for companies to be more meticulous in matters relating to costs than they have been before. Considerable increase in the cost of inputs, for instance, may meddle with the company's ability to maintain proper pricing levels. Until recently, the company had only one distribution center and could have propelled costs upwards due to fuel costs and increased logistics that affected the profitability of the company. Comparing and Contrasting Chico's and Gap's SWOT Analysis Gap Inc has a stable revenues and boosts of a very strong brand portfolio. Nonetheless, its operation is affected by a number of bottlenecks ranging from the increased competition, structural setbacks

emanating from the massive expansion of the 1990s, design problems and supply handicaps. (Ferri, et al.

, 2006) From the above analysis it is quite clear that GAP operations in terms of scale and revenue are larger than Chico's. While Chico operates with three brands which are the Chico, Whitehouse black market and Soma, GAP works with five brands: Banana Republic, Old navy, Gap, Athleta and Piperlime (Ferri, et al., 2006). This means that GAP brand portfolio is more diversified than Chico's. Therefore, GAP's products are able to capture the better part of the women apparel industry by serving different demographics as compared to Chico's. Within the retail apparel industry GAP's brands are well known with a considerable presence in the market around the globe.

GAP's brands, therefore, have a unique competitive advantage over all the other brands in the industry (Ferri, et al., 2006). The company has been very vibrant in its marketing strategies. Its intense online services have been a key driver for the company. The Company has three websites – lodnavt. com, bananarepublic. com and gap. com. They are meant to offer the three main brands of the company online. Chico's online services lag behind GAP's as its main marketing strategy does not emphasize on online sales but direct sales from their stores to ensure there is a personal touch with its clients. Because of this reason Chico's has less direct-to-consumer sales as compared to GAP that maintains navigable website for three of its brands to cater for consumers who may want to shop online.

As a result GAP has more direct-to-consumer sales. Another key distinctive feature between GAP and Chico's is the use of smartcards and consumer

database. In the women apparel industry customer's needs, tastes and preferences are decisive elements. Maintaining information about the customers tastes and preferences and their general spending patterns is of great importance in helping the companies change the product they display and keep the right inventory. Chico's has been very effective in the use of passport program that ensures their customers return to their stores through the lifetime discounts.

Chico's also maintains a very comprehensive record of all its customers' moves that has gone a long way in improving consumer loyalty. GAP is still in the process of coming up with a consumer database system. This has been made difficult by the fact that quite a big proportion of their sales is made online. Comparing the threats of the two companies, it is evident that they are faced with similar threats. The ever changing economic environment has been a crucial factor affecting the sales volume of all the companies operating in the retail apparel industry. Economic meltdown affects consumer's disposable income making them tighten their budgets and, as a result, reduce their spending habits.

Though it is beyond the realm of the companies to control economic stability by inventing moves and strategies that are meant to increase consumer satisfaction these companies would still maintain higher sales. Competitive Analysis The United States clothing industry is made up of more than 1000. 000 retail stores. About 35 percent of the store deals with women outfits accounting for just 25 percent of the total sales in the clothing industry (Hafeez et al., 2008). The women retail industry is very competitive and the market comprises of many different types of shops.

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The company's brand targets the middle aged ladies and its key competitors in the industry are the stores dealing with high-end clothing and those stressing on age-appropriate dressing. In the Chico's line of operation, the main contenders are department stores that operate with high-end clothing like the Macy's, Nordstrom and Bloomingdales. There are other smaller stores that also pose a considerable competition and which include Ann Taylor and Banana Republic. Some other stores such as the L.

L and Coldwater Creek are also Chico's competitors though they exclusively deal with the direct-to-consumer retail. Chico's main brand, the white house black market, aims at serving a younger demographic and, therefore, the close competitors for this brand are relatively cheaper retail stores that target the young clients (Hafeez et al., 2008). These include the Ann Taylor and the GAP. The aforementioned large stores are also competitors.

The other brand, Soma, has less competition as it targets women who are in their middle age. Its competitors are the department stores. To exemplify the competition in the women retail industry is of great help to apply the porters five forces to show how the company, Chico's aligns itself in the retail business given the prevailing economic environment. Porters Five Forces are seller power, buyer power, entry and exit, internal rivalry and complements and substitutes. Porters Five Forces (Ryan et al., 2010) Internal Rivalry It is quite difficult to identify an ideal competitor for the company's main brand, Chico's.

Most of the retail stores in the United States are big and cannot be conclusively compared to Chico's which can be categorized as a small

boutique. This is a simple reason why it has continued to attract more people, for its simplicity and programs streamlined to ensure customers' visit to the store worthwhile. Its distinctive passport program, the special personal service together with the different fits and styles of clothing put it in a world not traversed by many. A combination of these traits gives Chico's an edge over the other retail shops in the industry. For instance, if we take Talbot's being the closest competitors for Chico's, we find that although the price may be quite similar, Talbot's style and fits are conservative and apt for a working environment (Hafeez et al., 2008).

Quick at glance at their website, their floral prints, stripes and the shades of navy and pastels speak volumes about their designs, styles, fits and patterns. Chico's fits and styles are more of a resort wear than working attire. Chico's is well-known for its quality products unique designs and dear prices. This has been quite a defining strategy against the many imitators in the industry. Chico's product made from low quality fabric has been imitated by the low budget retailers in the industry (Albright, 2008). This is a major setback for the company as it makes its brand lose the prestigious touch that it is meant to bring to the clients.

Chico's products are specifically meant to put women to wear them above the rest. The company also faces stiff competitions as aforementioned in the direct-to-consumer sales especially from the relatively larger stores. Some of the retail stores deal chiefly in the direct-to-consumer sales. Chico's is trying to improve its position in this realm by increasing their website services and using the catalog. Due to the Chico's personal touch with the customers' use of catalog and website is not given priority but it is of great importance to

focus more on the same as this may cost the company the years to come (Hafeez et al.

, 2008). **Entry and Exit** There are limited barriers to entry of a new retail shop in the women retail industry. All what is required is to buy materials and stock to sell in the retail shop and the business commences. With the introduction of online shopping, a new retail outlet does not even require a storefront for it to sell clothes. The absence of acquisition of specialized equipment for entry into the women clothing industry means that entry is quite simple. Retailers do not need a trademark or patents' rights to safeguard its designs (Hafeez et al.

, 2008). The specific gap that Chico's serves is almost impervious to entry by new retail stores. Chico's designs, styles and fits are tailor made for the baby boomer demographic and consumer loyalty to the brand is big. Women who shop at the Chico's outlet have considerable extent of brand loyalty and may find it hard to shop at any other store including the white house black market (Ryan et al., 2010).

This puts a huge responsibility on the management of the retail store to reinvigorate their marketing strategies to attract new client base. **Supplier Power** It is quite evident that suppliers have considerable powers in the women retail industry. The power emanates from the fact that the retailers must have the product for them to sell it. When a supplier fails to get the clothing to the retailer on time it means that the retailer will close down. This affects the revenues of the retail stores. Supplier's power also results from the acquisition of monopoly status (Hafeez et al.

, 2008). This occurs where one seller supplies to a given company and the company solely relies on that seller. The supplier in this case can vary the prices and this affects the profitability of the retail store. Most of the company's supplies come from China and there is a big risk in doing so because when there are political changes, economic mishaps and natural catastrophes it may negatively impact large quantities of the company's supplies. If China is for one reason or another unable to meet its part of the bargain Chico's could end losing so much sales since there will be no merchandise to sell. Another major setback of getting supplies from foreign countries is that the company may have limited control of the quality of the merchandise.

It calls for opening of offices in the foreign country to see whether the merchandise supplied meets Chico's expected quality. In the financial year 2009, Chico's entered into a contract with the Connor Group to help in the management of the supply chain (Hafeez et al., 2008). Connor Group has many offices in most of the Asian countries where Chico's acquires its raw materials and is expected to help Chico's in the pursuit of having greater control over its suppliers. Buyer Power Through its brand collaboration, Chico's has some power over its buyers.

The three brands: Whitehouse black market, Soma and Chico's are sold in some instances using the same vendor (Ryan et al., 2010). This to a great extent enables the company to amass some buyer power as the orders grow in size. In this respect they benefit from the vendors economy of scale and also making the sellers more dependent on the company. The company relies on foreign suppliers to operate its business and it is important to <https://assignbuster.com/financial-analysis-of-chicos/>

continue weighing options to the increase its buyer power. The company aims at increasing its buyer power through the use of score card system.

The main goal is to apply the system on the shared vendors before it is finally introduced across all the vendors. Using this system the company hopes it will be in a better position to assess vendor relationship and enlarge the joint vendor system. Substitutes and Complements Based on their unique products it may seem as if there are non-substitutes of its products, but truly this is not the case. If the company acquires supplies at a higher cost it may push some of it to the consumers by increasing the prices of its products (Ryan et al., 2010).

When such a situation arises consumers will likely shift to another brand which is less expensive. In this scenario the other stores in the industry act as substitutes. Substitution may also result if Chico's changes its key selling points. When there is a general stagnation in Chico's designs relative to other brands in the market consumers will opt for the other brands that are keeping pace with their changing tastes and preferences. Also if the product quality of Chico's weaken or there is a deterioration of their services consumers may still opt for the competitors brand that are up to standard.

It is a known fact that in the women retail industry there is no dearth of options for consumers and if Chico's is unable to fulfill consumers' demand they risk to lose competitors. During economic downturn families may find themselves in a financial crisis and may invariably opt to tighten their budget and decide to shop from the chain of discount stores rather than high-end stores where Chico falls. People may also decide to shop less even continue

wearing their old clothing. When the prices for Chico's product go up and the demand for other retail stores goes down then this is referred to as compliment. This may happen from within or from the industry.

An example of compliment from within happens when a customer acquires an accessory instead of clothing, if a skirt price increases customers may opt to buy necklaces from the same store. The travel industry is another of Chico's compliment. Chico's products are more of resort wear and an increase in the vacation by the consumers means that the demand for Chico's clothing goes up (Chico, 2006). Financial Analysis Overview The financial performance of Chicos in the financial year of 2009 exceeded its poor performance in the financial year of 2008. At the tail end of the 2008 financial year, Chicos was experiencing a net sale of about 1. 5 billion US dollars a decline from 1.

7 billion US dollars in the financial year of 2007 (Chico's FAS Inc., 2010). Nevertheless, the company denoted a highly needed improvement for financial year 2009. The company's fiscal year of 2009 ended in early 2010 with net sales of about 1. 7 million US dollars and a net income of about 69.

6 million US dollars. This was a remarkable growth from the previous poor net income in January 2009 of negative 19. 1 million US dollars (Chico's FAS Inc., 2010). The poor performance was linked to the reduction of costs in the products sold in the financial year of 2008 whereby the company decreased the costs of the products sold form 48. 21 % to 43.

98 % in the fiscal year of 2009. Additionally, the sales of the stores heightened by 6. 1 % in the fiscal year 2009 as compared to 15. 1% decline in the previous fiscal year (Chico's FAS Inc., 2010).

Earnings and Revenue Analysis Chicos suffered a huge increase in the revenue sales in the financial year 2009. Additionally, the net sales heightened by 8. 2 % as compared to those of the previous year. In the fiscal year 2009, the net sales of Chicos were 1, 012, 519 US dollars (Chico's FAS Inc., 2010).

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