Company overview and history of american eagle outfitters marketing essay

American Eagle Outfitters (AEO) is a leading lifestyle retailer that designs, markets, and sells its own brand of relaxed, versatile clothing for 16- to 34-year-olds, providing high-quality merchandise at affordable prices. AE's lifestyle collection includes casual basics like khakis, cargos, and jeans; fashion tops like rugby, polo, and graphic T's; and functional items like swimwear, outerwear, footwear and accessories.

AEO was launched by Jerry Silverman and Mark Silverman, who needed more than one concept to growing their Silverman's Menswear company, positioning it as a seller of brand-name leisure apparel, footwear, and accessories for men and women, with an emphasis on merchandise geared toward outdoor sports, such as hiking, mountain climbing, and camping in 1977. In 1990, AEO was saddled with dated inventory that brought low profit margins. The situation was made wore because the country was in the midst of a recession. The increasing competition and high management turnover brought AEO trouble during this period. Furthermore, AEO had essentially a zero percent sales revenue growth rate compared to the previous year and the retail chain posted a net loss in 1991, even though AEO had grown to 153 stores. In order to renew growth of AEO, the Schottenstein family bought the 50% of RVI owned by the Silverman family which gave the Schottensteins full control of the company. Under the new ownership and leadership, AEO was repositioned in 1992 to focus on private label casual apparel for men and women. The company also began opening American Eagle outlet stores to reduce its inventory of out-of-season and branded clothing items. The changes gave AEO a new look to their product that would help differentiate them from competitors. The repositioning became successful and it went public in April 1994, and listed on the NASDAQ stock exchange. At that time, AEO had 167 retail stores and nine outlet stores with locations in 34 states. Approximately $37 million raised through the IPO and was immediately poured back into the company for an aggressive expansion and renovation. Several of these new stores in the new locations were unprofitable, which resulted in a second repositioning in 1996. The new positioning focused on the lucrative youth market-age 16 to 34-with a younger and hipper feel to the clothing. AEO strongly emphasized value pricing through a commitment to private label merchandise. With the successful changes in AEO in 1996, 1997 ran into a turning point when the sales increased dramatically and the net income tripled that of 1996. In addition to opening 32 new stores in 1997, AEO, for the first time began manufacturing its own clothing by acquisition of Prophecy Ltd, which helped the chain control costs and maintain quality. In 1998, due to the new sale strategy, west coast expansion and web site development, AEO began its journey to success. From 2000 to 2010 the company launched several new ventures. The started with aerie by AEO, a collection of dorm wear, intimates and personal care products for the 15 to 25 years old AE girl. This was followed by 77 Kids which was an online-only and offers on-trend, high-quality clothing and accessories for kids ages two to ten. The MARTIN+OSA brand was also launched during this period. AEO’s stores are wildly diversified in United States and Canada. There are 1015 stores in United States located in all 50 states, and there are 88 stores in Canada, located in 9 of the 10 provinces. Currently, AEO has become a leading apparel and accessories retailer in United States and Canada.

Part II: External Analysis

AEO holds an extremely sensitive position in the specialty-retailing marketplace. AEO is a brand name clothing retailer and thus has customers that are extremely price sensitive. When the economy is not doing well, AEO's perspective customers can make the switch to one of AEO's competitors that sell similar products at a much more affordable rate which makes it difficult for a huge company like AEO to compete with. AEO has in the past tried to target ages 15-25 middle class men and women and have focused on presenting a classically “ clean-cut” American clothing line. More recently, AEO is shifting more of their focus to targeting a younger demographic and are working to expand their “ Aerie” and “ 77 kids” children's clothing stores across the United States.

The retail industry that AEO is a part of contains a large number of substitutes; however there are a few “ big dogs” in the particular market niche that dominate much of the sales. AEO main competitors that are trying to target the same type of customers are Abercrombie and Fitch Inc., J Crew, Aeropostale, Gap Inc, Ralph Lauren and Tommy Hilfiger. AEO has recently been adding some vertical integration by expanding their focus and product lines into Aerie and 77 Kids. AEO had the number one market share for denim sales in specialty retail in 2007 and today have a strong market in denim, fleece, and graphic tees. Customer bargaining power is not extremely high but customers do have many options available. Most AEO stores are located in either malls or at freestanding locations in some kind of strip mall with extremely high foot traffic. Although the customer cannot physically bargain on the price with an AEO sales clerk, they can easily walk into a competitor’s store and find a close substitute for cheaper. AEO owns their own distribution centers but do not own their own foreign suppliers. However their merchandise suppliers receive a vendor compliance standard manual that describes quality standards and shipping instructions which implies that the suppliers do not have a great deal of supplier bargaining power with such strict procedures. Entry barriers to the specialty retail industry are not high, many small independent boutiques pop up all the time, and however location is the key profit driver in most instances. Exit and liquidation costs are also not huge and would mostly consist of rent/lease payments and liquidating the clothing merchandise.

With the ongoing competition that exists in the retailing industry it is very important to adhere to the numerous key success factors in order to not only survive but to thrive in this particularly tough industry. First, and possibly most important, if a company wants to be able to succeed they have to have outstanding customer service. When customers are offered many different options of stores to choose from, it is essential to achieve complete customer satisfaction. If a person is satisfied with the clothing offered but not the type of service they received it is very likely that they may never shop at that particular store again. To put it best, “ Customer loyalty is a major contributor to sustainable profit growth. To achieve success, a retailer must make superior service second nature of the organization. A seamless integration of all components in the service-profit chain – employee satisfaction, value creation, customer satisfaction, customer loyalty, and profit and growth – links all the critical dynamics of top customer service” 1. When a customer walks into the store all of the employees should be hitting on all cylinders and should be well trained to be able to give the customer exactly what they want and how they want it. This particular key success factor doesn't just apply to in-store purchases; it also applies to e-purchases, catalog purchases, etc. It is always helps to send follow-up emails to make sure the customer is satisfied with their purchase.

Another key success factor is to give the customer options when it comes to purchasing particular clothing. Not only different colors but different styles can help set the company apart from the competitors. When a business extends or creates a new product line you are putting out more items for customers to choose from which obviously keeps customers happy and in turn drives sales. Customers should have the option to buy certain styles of a product in several different colors or decide that a new, trendy style is the right way to go. A customer always wants a variety of choices to choose from and this is the easiest way to achieve just that.

Convenience is a very important key success factor because it ties all of the previous ones together. Convenience eases the hardship of going through the purchasing routine. When a customer can purchase things in a convenient manner, he/she is more than likely to become a repeat purchaser. From multiple cashiers in a particular store to a clean, sleek design on a webpage can make the customer experience more valuable for them. A customer should not have difficulty finding an item in the store (customer service) nor should they have issues with finding a particular color/size (product diversity) that best suits them. With the internet sales rebounding in 2010, it has never been so important to have a website that keeps things simple and easy for the buyer from beginning to end purchase.

Part III: Internal Analysis

AEO has tried to develop a competitive advantage by internally employing a fitting business strategy, capitalizing their core competencies, emphasizing their resource advantages, and concealing their resource disadvantages as much as possible. They are a company that strives to differentiate itself as one of the leading specialty retailers in the clothing industry for young adults. They are able to achieve this goal by offering quality products, pricing strategies and creating a positive store brand image.

The mission of AEO is stated on their website, www. ae. com. It explains their primary purpose as a corporation as follows, " American Eagle Outfitters, Inc., through its subsidiaries, (" AEO, Inc.") offers high-quality, on-trend clothing, accessories and personal care products at affordable prices. The American Eagle Outfitters® brand targets 15 to 25 year old girls and guys, with 934 stores in the U. S. and Canada and online at www. ae. com. Aerie® by American Eagle offers Dormwear® and intimates collections for the AE® girl, with 144 standalone stores in the U. S. and Canada and online at www. aerie. com. The latest brand, 77kids by American Eagle®, is available online only at www. 77kids. com, as well as at five stores across the nation. The 77kids® brand small sizes and great big style for kids 0-14. AE. COM®, the online home of the brands of AEO, Inc., ships to more than 76 countries worldwide."[1]Essentially AEO's key aim is to provide a superior clothing product to the ages of 0-25 while retaining their " high-quality" core values and " on-trend" brand image.

Furthermore AEO chooses to implement a business-level differentiation strategy. Their clothes have greater perceived value for their products than, for example: Dress Barn’s clothing line. AEO offers superior fashion forward clothing and fabrics that are perceived by consumers as more valuable than competing brands. AEO implements this strategy through tangible differentiation, intangible differentiation, and total customer experience. AEO uses tangible differentiation by having superior product characteristics. Every item of clothing bears the AE emblem, the bird in flight, on the outside of the clothing. Also when the clothes are purchased from the AEO store, they are placed in an custom AEO bag sporting the brand name and usually a picture of their models wearing some of their most recent clothing line. AEO uses intangible differentiation through the social status achieved by wearing the AEO brand. AEO is an expensive brand and wearing their apparel says that customer has not only money, but style as well. Also AEO clothing is focused on the “ all-American” look and creates the identity of a clean-cut young adult for their customers. The total customer experience is incorporated in AEO’s stores, website, and magazines. Their brick and mortar stores are clean, well-organized by male /female and function, have music playing, have friendly associates and have an inviting aesthetic. By following a differentiation strategy instead of a cost-leadership strategy, AEO can set themselves apart and demand a higher premium for their merchandise and generate a higher profit margin.

The firm’s core competencies are job knowledge, quality of service, customer service, quality control, pricing strategy and organization. AEO has been publicly traded since the intial public offering in 1994.[2]AEO has become a well-known clothing brand and has become one of the most popular retailers for ages 15-25. Due to this steady success, AEO has superior job knowledge. Their quality of service and control has also been reflected in their continuously increasing profits.[3]Furthermore, AEO has superior fabrics and tailoring as compared to other companies like Hollister, whose styles tend to literally unravel over time. Despite these advantages, the company holds an extremely sensitive position in the publicly traded specialty-retailing marketplace. By operating their business in the clothing industry, their sales revenue is highly correlated with consumer income and spending. When the economy is failing, AEO customers will quickly substitute their wardrobe purchases for less expensive alternatives. However AEO has a unique pricing strategy that places their merchandise just below those of competitors, such as Abercrombie and Fitch and J Crew, but slightly above those of their lower end competitor, Aeropostale. This pricing strategy allows the more expensively priced stores' customers to substitute to AEO products when the economy is lagging. Organization is also one of the firm's core competencies. Not only are the physical locations of AEO stores organized and inviting, but their website, is organized extremely well while being both easy to navigate and aesthetically pleasing.

With addition to competitive pricing, AEO possessed two resource advantages, supplier management processes and their method of product development. AEO has an advantage in supplier management processes due to their extreme control over their manufacturing plants overseas. Their suppliers are given explicit instruction on how to make their clothing and are not allowed to deviate at all from their instruction. This degree of control over their suppliers makes it possible to AEO to produce a consistent product without jeopardizing their quality of clothing. AEO's second resource advantage is their method of product development. AEO spends the majority of their R&D on copying the latest trends instead of being the initial trendsetter. By doing this, AEO has exactly the same items as their more expensive competitors, without incurring the innovation costs associated with trendsetting.

Although AEO's resource advantages are crucial to operating effectively, the company has several resource disadvantages as well. They do not have just-in-time inventory, so are always having to put items on sale in order to get rid of old inventory. Not being an innovator and simply copying other company's clothing trends, also misses out on the initial explosion of sales when a trend becomes a huge hit. Also as a retailer, AEO's sales are tied extremely closely to consumer spending and consumer income. Thus AEO has a very low adaptability to customer buying habits and suffers greatly when the economy suffers. The effects of the disadvantages can be supported by the recent slump with the company's financial statements. [4]Although AEO's resource disadvantages can cause profits to decrease at times, the company's overall business model is strong enough to compete within their market during the toughest of economic times.

Part IV: Comparison to Competition

AEO is in a somewhat awkward position relative to its closest competitors. It is wedged directly in-between Abercrombie and Fitch, taking the premium side of the youth clothing market, and Aeropostale, who markets toward value oriented young adults. In its attempt to attract market share from both of these market participants it is forced to appeal to both the style conscious consumer as well as those who demand cheap prices. AEO has successfully navigated this course in the past as achieved double digit same store sales from 2004-2006, while simultaneously maintaining operating margins north of 20%[5].

Today's environment has changed significantly since those days and competition now is thicker than ever. The global recession caused a cut back in consumer spending which resulted in all the major retailers in this space to cut their prices to maintain top line sales. The prices are likely to stay low in the short term as teen employment comes back to normalized levels. Teen unemployment was still at 26. 1% as of July. Gross margin is one of the most significant indicators of price level (assuming constant cost of goods sold). It is important to examine where gross margins have gone in the last several years to understand how teen clothing retailers will return to prerecession profitability.

AEO cut its gross margin by 730 basis points from 2007 to 2008. This brought it from 46. 58% to 39. 28%. This was an attempt to get prices nearer to those of Aeropostale who had a gross margin of 34. 77%. Aeropostale; already the low price leader in the sector, left prices stable throughout the economic downturn, ending FY 2010 with a gross margin just 35 basis points below FY 2007. Abercrombie and Fitch initially attempted the strategy of keeping prices and margins steady in the hopes of maintaining their brand image, but were finally forced to offer deep discounts in 2009 as their top line shrunk by 15%. Abercrombie and Fitch lost 259 basis points of gross margin in 2009 and another 60 in FY 2010. Abercrombie ended the period 2007-2010 with a gross margin percentage of 63. 72, down from 66. 97, but still by far the highest in the teen clothing retail space. During the 2007-2010 period Gap, Inc. attempted to take a different route than their competitors and raised prices. They grew their gross margin percentage by 508 basis points during this time. They were however starting from the second lowest gross margin of their peer group, starting at 36. 11%. Overall AEO did the most drastic price cutting during this period and they may have a long road ahead of them before they are able to bring their gross margins back to prerecession levels without significantly affecting their bottom line[6].

The price cuts of the last few years have had varying effects on teen clothing retailers. AEO with their lower prices were able to keep their top line revenue steady. The steady top line however did not seem to translate as well to the bottom line as their net income fell from $387 million in 2007 to $169 million in 2010. AEO was not the only company during this period to fall in profitability. Abercrombie and Fitch had a similar fall from grace as their net income fell from $422 million to $ 79 million in 2010. The other two members of AEO's peer group under examination did surprising well during this time period. They were both able to increase their net income. Aeropostale had an explosive period of top line revenue growth, growing 18. 52%, 18. 27% and 9. 20% year-over-year from 2007 to 2010. Also because they were not forced to cut their prices these top line gains fell down to their bottom line growing net income from $106 million in 2007 to $229 million in 2010. Gap, Inc's strategy of raising prices paid off over this period as their net income steadily rose as well, however not as drastically2,[7],[8],[9].

For retailers, space inside their store is a hot commodity and how they use it to generate sales is very important. This is why sales per square foot of retail space is an important metric. Retailers can improve this metric over time by closing underperforming locations and opening new ones in more profitable areas. For example, AEO did just that in 2009 when they opened 29 new stores and offset this with 24 store closings. During that year they had sales per square foot of $519. This is a far cry from their high in 2006 of $642, but still well above the peer average of $384. As with the margin and net income stories it is Aeropostale that is at the top of the metric with $624 in sales per square foot of retail space. This metric seems to be completely dominated by the low price retailers.

As the management team at AEO is making its decisions as to which stores to keep open and which to close throughout the year comparable store sales, also called same store sales, is another valuable piece of information that they look at. Comparable store sales is a way management measures productivity of retail stores that have been open for greater than a year. The current year's sales are compared to sales at the location the previous year. AEO has been performing about as expected with its comparable store sales over the last few years. They had slight declines in comparable store sales, generally less than 10%, for 30 of the last 45 months. Its peer, Abercrombie & Fitch, had much more severe declines in comparable store sales during 31 of the last 45 months. These declines reached as high as -34% during March 2009. Aeropostale had astonishing growth in comparable store sales over the last three years, increasing sales in 39 of the last 45 months. It does seem that Aeropostale's comparable store sales growth may be coming to an end along with the recession. It has had negative growth in two of the last five months as shoppers are seemingly losing their focus in low price retailers. During this same period Abercrombie had five straight months of gains. AEO once again is stuck in-between these two with sales roughly flat year-over-year.[10]

Moving forward AEO will have a very difficult balancing act to perform as it attempts to raise prices without turning away customers. It may not be quite the time for them to begin this struggle as their comparable store sales still have not improved significantly.

Store Visit: American Eagle Outfitters Store in 619 Massachusetts Avenue, Lawrence, KS:

AEO stores always attract consumers not only for their products, but also because of their decor of the stores and salespersons. The external façade of the store is very simple; two glass windows locate on both sides of the entrance framed by the “ American Eagle Outfitters” sign. The window mannequins displayed the most popular trends of the season. When walking into the store, there is a hip and energetic orah. The chandeliers inside not only illuminate the entire store but also wake up the customers. The pop music played in the store matches the products style very well but also relaxes the consumers and encourages them to shop more. White is the predominant color of the store, which gives consumers a fresh and clean association to AEO. The sales people are very friendly and are walking around and waiting to help. The girls’ apparel and the boys’ apparel is divided into two sides so that consumers can find their products easily. The products in the store include casual basics like khakis, cargos, and jeans; fashion tops like rugby, polo, and graphic T’s; and functional items like swimwear, outerwear, footwear and accessories. The various colorful products perfectly combined with the music and friendly salespeople serve as the main point of attraction to the people shopping in the store.

Part VI: Recommendations for Strategy

AEO has had a hard time navigating through this recession, just like a lot of other clothing retailers, but from their currently undervalued position, there is a lot of upside potential, especially if they can successfully, among other things, decrease their expense levels, and increase customer loyalty.

AEO has had a decreasing profit margin over the last couple of years, and has had to lower the prices on their products to increase the quantity of sales in order to keep their margins up. With the higher priced competitors, like Abercrombie and Fitch also resorting to cutting the prices of their products, it is going to be hard for AEO to increase their prices back to their previous levels in the near future, due to one of their main competitive strategies is pricing lower than most competing brands. However, in search of higher margins, there is another avenue to take, and that is cutting costs. Now is actually a very ideal time to implement cost cutting strategies, because of the limited options in pricing of the products, and also because moving into the future, this industry is only going to get more and more competitive, so continuing efforts on cost reductions is crucial to remaining competitive in this “ Red Ocean” market. Across the company and through their supply chain, over time the costs can get out of hand, and a fresh look at ways to cut costs will always be beneficial. Cutting costs, among many other things, may require cutting jobs, changing suppliers, or improving internal processes. Each approach needs to be taken very seriously. Too many job cuts to cut costs to a certain level will only lead to a decreased level of customer service and satisfaction. Changing suppliers in favor of the least expensive one will only result in lower quality merchandise. Changing internal processes in an effort to become a more efficient company, without proper implementation and support could lead to decreased efficiency overall in the end. No method of cost cutting should be taken lightly and passed over with a one-size-fits-all mentality. The process should involve a high level of careful analysis, calculated decisions, and precise implementation. The most important cost to control however is the cost of your inventory. AEO was hit hard in the first quarter of 2010 due to a widespread over supply of inventory. They have taken big steps to reduce their excess inventory costs, but now might be the right time to look into a new inventory system, ideally, a Just-In-Time inventory management system. In today's world, everything is moving fast, and to stay competitive, companies must continually refine or rethink their operations. Not many American clothing retailers have successfully implemented Just-In-Time inventory systems, but they have been proven to work by companies around the world such as Uniqlo, based out of Japan. AEO is typically a follower in its industry, not a leader, but this could be a great time for AEO to stop following in the footsteps of their competitors, and lead the industry in a different way than with their choice of clothing styles. One of the most important benefits to JIT inventory management is the significant decrease in excess inventory, directly tackling one of their key sources of margin depreciation. Also, since AEO will continue their practices of following in the footsteps of their competitors for what kind of clothing is “ in-style”, a JIT system would significantly benefit them because it is far easier and faster for JIT inventory to be updated and modified to meet consumer demands.

Another strategy that AEO should continue to implement and expand upon is their method of closing their least profitable stores, and finding new locations to open up a similar number of new stores, ideally in areas that will drive more traffic or attract new customers. Now to expand on this, AEO should not limit themselves to their typical store, but should increase expansion of their new lines, Aerie and 77kids. The relatively limited number of locations for these lines is keeping them from becoming profitable as of right now. In fact, the 77kids line is only available online currently. 2010 has seen a significant increase in online retail purchases, but without a loyal customer base, traffic to this site will remain limited and the line will remain unprofitable. Aerie at least has 144 locations, but is also still not a profitable line for AEO. This goes to show that having stores filled with merchandise is no benefit if you cannot attract and retain customers at a high rate.

To drive more traffic to the new stores, and keep customers coming back, a new customer loyalty program should be implemented for 77kids as well as Aerie. AEO already has an AE All-Access Pass customer loyalty program, and can be used at the new clothing line stores. However, the customers purchasing from these two specialty line stores are very different demographically to the customers of the basic American Eagle line of clothing. The directed marketing approach should carry over to the loyalty programs. To increase sales up front, the benefits of these new loyalty programs should be noticeably higher than those of the AE All-Access Pass program. This increase is sales is the most direct view at the benefits of a loyalty program targeting these stores specifically, but almost more important is their ability to identify returning customers and measure their purchases and understand their behavior. This will help keep them highly current on their information about current trends and customer opinions of their merchandise, which, with JIT inventory rolled out, becomes even more important than ever before. With people returning multiple times to cash in on the benefits they receive through the loyalty program, customers will be looking for a deeper line of clothing than is currently available. Expanding these lines, while expanding their store base, and increasing the benefits for returning customers, expanding these two very different lines will help draw in and retain a very large and loyal customer base.

Each recommendation would be a nice addition to AEO, but each one of them builds on to the last, and together can drastically improve the profitability, efficiency, and costs of doing business.