

# Good case study about coach inc. case analysis

[Business](#), [Company](#)



## **Introduction**

### Background

Established in 1941 as a small family-owned business, Coach morphed into a fashion brand over time, providing superior quality fashion goods of modern and classic style. It started operating its own exclusive retail stores in 1980 (Coach Inc., 2014). The Coach brand was sold to Sarah Lee in 1985, and since then, the company has undergone a rapid expansion. The product portfolio of Coach included luggage, briefcases and other fashion accessories, apart from its original men's and women's leather bags. Until 2000, Coach mainly operated its stores in the USA before starting to expand into international markets like Japan, Taiwan, and Singapore (Zheng, Intanujit, Kaewket and Kanchong, 2010). The company went public in 2000. Even when other companies experienced decline in their revenues owing to global recession, Coach grew almost 500% between 2000 and 2012 (Karasik, 2014).

Coach is one of the most recognized luxury fashion brands in the USA. It has tiered fashion luxury products, ranging from affordable luxury products to super luxury goods. Almost 89% of the total revenue of the company is contributed by its operation in the North America and Japan. 65% of Coach's revenue comes from the men's and women's bags segment (Coach Inc., 2014). Coach follows a multi-channel distribution strategy. Unlike most other fashion brands where most of the revenues are generated by indirect sales channels like wholesalers, supermarket, and third party distributors, Coach earns 76% of its revenue through direct channels (company operated stores) (BAM, 2013). In the USA, Coach consistently has been the best-selling brand

in the ladies hand bag segment and the leather accessories, beating world famous brands like Louis Vuitton, Gucci, Prada, and Michael Kors.

## **Success Factors**

The main success factors of Coach include the following:

- Tiered Pricing Strategy: Most of the Coach products are placed at the lower end of the luxury segment. The products are priced in such a way that they are not affordable to an average buyer, but they are priced lower than that of Gucci and Louis Vuitton. It has products in each range of the luxury segment. Other companies operating in the luxury segment do not wish to reduce their price to compete with Coach, because they fear that it will dilute their brand image (Egner, 2009). This gives Coach an undue advantage at the lower end of the luxury segment. It only faces competition from a few brands like Polo, Ralph Lauren, Yves Saint Laurent, and Calvin Klein (Lutz, 2013).
- World Class Design and Strategy: Coach has always designed products that are better than most of its competitors. All of its production operations are outsourced to low-cost Asian countries, but because of its superior quality control system, it is able to provide the customers with premium quality leather goods (Tuell, 2013). Coach, in terms of providing design and quality in leather bags, accessories, luggage, and briefcases, is second to none. Especially, after recruiting its creative director Reed Krakoff, it has attained an excellence in designing its products (Egner, 2009).
- Multi-channel Distribution: Coach follows a multi-channel international distribution model that includes company-owned retail stores and factory stores, department stores, direct mail catalogues, eCommerce websites, and

online stores (Cotton et al, 2005). Through these different channels, Coach is able to effectively appeal to different segments of customers who are often overlooked by its competitors for the fear of losing the brand image (Talley, 2013).

## **Problem Statement**

Coach is a well-known brand around the world, but it may face some business challenges in the coming years. Firstly, the company is extremely dependent on two markets, the USA and Japan. From these two countries, the company earns almost 89% of its revenue. This creates an inherent dependency of the Coach business on these two economies (Midgley, 2013). As both these economies are going through a period of sluggishness in the GDP growth, there is a high chance for Coach to experience a similar slowness in its revenue earnings from these two countries (Koncept Analytics, 2013). Therefore, it should start diversifying its business risk by expanding its operation into other countries.

Secondly, Coach should introduce a coalition along with other luxury brands to reduce the growth of counterfeit goods. The counterfeit goods in the luxury market account for almost 9% of all the goods sold worldwide. Most of the counterfeit goods originate in China, which, ironically, is one of the largest markets of luxury products. Therefore, it is important for Coach and other companies to work in collaboration with the Chinese government to decrease the market of counterfeit fashion goods (Greenbook, 2012).

Thirdly, Coach has a market reputation for designing the best quality classic style handbags and fashion accessories. However, many of its customers complain about the lack of modern style softer leather options and leather

trimmed fabric hand bags (Koncept Analytics, 2013).

Finally, Coach is facing more competition as more and more companies are beginning to use Coach's tiered product pricing strategy (Market Publishers, 2014). The competition for Coach especially has intensified in the segment of its luxury products.

## **Appraisal Section**

### External Analysis

**Economic.** As the world is going through the aftermath of the subprime recession in the USA and sovereign debt crises in Europe, the luxury segment is exposed a significant risk of slowdown for the next several years (Neate, 2013). However, emerging markets like China, India, Brazil, South Africa, and Russia are expected to grow strongly as the middle-class populations in these countries have more disposable income (Deloitte, 2014). Although the USA, which is the largest market of Coach, has begun to recover, other markets like Europe and Japan are not showing any sign of recovery.

**Socio-Cultural.** Even a decade back, luxury fashion products were only affordable by the rich segment. However, in the last 10 years, more and more middle-class populations have started buying luxury goods, and this has opened up new opportunities for the luxury brands. From the social perspective, companies that shifted their production operation completely to low-cost countries are criticized by the consumers as they fear that the outsourcing will reduce the quality of the products (Global Data, 2013).

**Globalization.** Owing to globalization, companies are able to gain an advantage by outsourcing their operations to cheap labor countries, and also

diversify risk by selling their products in many countries. However, globalization creates some risks like exchange rates, government control, uncertainty in the international operation and distribution, and natural disasters.

Technology. Like any other industry, fashion industry is also going through massive changes. In order to remain competitive in this industry, even luxury brands need to innovate and bring their products into the market within a short period of time. A turnaround time from design to delivery of six months and longer is not acceptable as most of the competitors are able to deliver their new products into the market within two months of the design conception (Talley, 2013). Also, technologically, online sales are turning into a substantial contributor to the revenue.

Political and Legal. Depending on the changes in the political parties that are in power in different countries, the laws and regulations may quickly change for the luxury brands. Therefore, it is necessary for Coach and other luxury brands to collectively bargain with the countries of their operation on the issues like trademark dilution, patent infringement, counterfeiting, and trademark infringement (Market Publishers, 2014).

Demographic. The customer segment of the luxury market is defined as individuals with an annual income of \$40,000. Globally, it is estimated that almost 600 million people will enter this income level between 2010 and 2025, which makes the luxury segment a hugely promising market growth wise (Global Data, 2013).

## **Porter's 5 Forces Model**

**Threat of New Entrant.** The retail industry for luxury goods is continuously evolving. It is relatively easy for new businesses to enter the market, but it is difficult for new brands to sustain in this market if they lack the strong backbone of capital, because establishing a brand image in this market is a time-consuming process (Digital Luxury Group, 2012).

**Bargaining Power of Buyers.** There are different luxury brands for consumers to choose from. Therefore, if a brand lacks quality, premium design, or proper pricing, a customer can easily switch to other brands. However, Coach has an advantage as it offers products at almost all the price points of the luxury product segment (Global Data, 2013).

**Bargaining Power of Suppliers.** Coach is one of the biggest luxury brands in the world. It gives a large quantity of orders to its suppliers. Therefore, its suppliers do not want to lose their contracts. Coach has the higher bargaining power to negotiate price (Global Markets Direct, 2011).

**Threat of Substitute Products.** The main problem in this industry is counterfeit products. Many Chinese suppliers can manufacture products that are mirror images of the top-notch luxury products, except for quality.

Therefore, Coach and other luxury brands need to spend a lot of money to prosecute these counterfeiting companies to minimize their loss issuing from this kind of products (Market Publishers, 2014).

**Rivalry among Competing Firms.** The luxury handbags and accessories industry is highly competitive. However, the competition is not based on price, but on product design and quality (Market Publishers, 2014).

Companies need to differentiate their brand and products to remain competitive in this market.

## **Competitor Analysis**

The luxury fashion segment is highly competitive. In the USA itself, Coach encounters immense competition from an array of American as well as European luxury brands. The situation is even more difficult in the European market. The French market has one of the highest numbers of international fashion brands in the world, making it one of the most difficult markets for a new entrant. Though the Coach brand is highly established in the US market, it does not have the same brand recognition in the French market (Digital Luxury Group, 2012). Some of the main competitors of Coach in the international market include Louis Vuitton, Hermes, Chanel, Bvlgari, Gucci, Armani, Prada, Burberry, Yves Saint Laurent, Ferragamo, Versace, Fendi, Bottega Veneta, and Polo Ralph Lauren (Morning Star, 2014). Apart from the LVMH group, Coach is bigger in size than all the other competitors and one of the most profitable companies in the market. Coach has a small presence in the European market, and it gives Coach a huge scope to explore and expand in that market (Neate, 2013).

## **SWOT Analysis**

**Strength.** Coach has a strong brand image in the US and Far East Asian market. It is one of well-known affordable luxury brands in the world, leading the market in the USA in the luxury handbag segment, and occupies a second position in Japan, which is the world's second largest luxury market only next to the USA (Market Publishers, 2014).



Coach is the only company among all the competitors to experience continuous growth and profit even during the period of recession. Through its innovative pricing strategy, it was able to reach newer segment of customers, even in a stagnant market (Global Markets Direct, 2011).

Multi-channel distribution network is another big strength of the company. Via its five different channels, Coach easily reaches out to a broader customer base than its competitors. Most of its competitors only rely on the direct to customer channels like company owned outlets and high-end supermarkets, whereas Coach is also strong in sales through e-commerce sites, catalogue sales, licensing sales, and sales through wholesalers (Market Publishers, 2014).

Coach also offers an excellent customer service. It offers special customer service in terms of refurbishing damaged handbags, and “special request service” such as creating a bag of a specific color as requested by the customer. It spends almost 2% of its revenue in customer care (Global Data, 2013).

Coach has a sound financial position. It not only posts profit every year, but also has a debt to equity ratio of 0.05 and a quick ratio of 1.6, which implies that the company has no debt or liquidity issues (Global Data, 2013).

**Weakness.** Coach is fully dependent on the offshore manufacturing in the South East Asian countries, which makes it vulnerable to the risk of lower quality products. The company is also susceptible to the risk of policy changes in those countries regarding outsourcing. All these factors can disrupt the overall supply chain of the company (Market Publishers, 2014). However, the company is no worse than its competitors as others also follow

the same practice.

Coach is experiencing a declining product margin in recent years, because of many customers buying from its factory outlets and e-commerce sites where the company sells its products at a higher discount. From almost 36% net margin in 2008, the net margin reduced to 31% in the year 2010 (Global Markets Direct, 2011).

Coach relies heavily on two markets, the USA and Japan, whereas most of its competitors like Gucci, Polo Ralph Lauren, and Louis Vuitton have an evenly distributed presence across the globe. Coach's sole reliance only on the two markets subjects it to high risk (Market Publishers, 2014).

Opportunities. Apart from the huge opportunities to expand in the European luxury market, Coach also has business opportunities in the developing markets. China, which only contributes 2% of its revenue currently, can become the largest contributor of its revenue in the coming years, as China is slated to become the largest market in the luxury segment by 2025 (Global Markets Direct, 2011). Furthermore, other emerging markets like India, South Africa, Brazil, and Russia are showing enormous potential in the luxury segment. Coach can launch its products in these markets to tap the unexplored potential.

With international partnerships, Coach can penetrate the tough European market and tap the potential that the market offers. Joint ventures could also be used to synchronize manufacturing facilities, gaining greater control and improving quality.

Online sales are showing a fast growth, even for the luxury products.

Therefore, it is important for Coach to make its products available not only

through coach. com but also through other wholesalers like Macy's. com, Dillard's. com, and other wholesale distributors (Global Markets Direct, 2011).

Threats. The USA, which is the biggest market for Coach, has reached a saturation point, because of which the company's revenue is now growing (Koncept Analytics, 2013).

The competition in the low end luxury segment is also intensifying as many competitors have started using the tiered pricing strategy, which was only unique to Coach. For instance, Dolce and Gabbana has launched its D&G brand that caters to the lower segment of luxury customers (Timberlake, 2013).

## **SWOT Table**

### Recommendation

Short Term Recommendation - Expansion in France and Other European Markets

- In the short term, Coach should tap the lucrative European market through partnerships and joint ventures. Its partnership with Hackett Limited and Printemps will provide the company with an access to the markets of the United Kingdom, Ireland, Spain, Portugal and France (Koncept Analytics, 2013).

- Coach brand is well-recognized in the USA and Japan. However, it does not have the same brand recognition in the European market. Therefore, before entering the European market, Coach needs to spend a lot of money on the brand building exercise in the European market.

- Counterfeit products are becoming an issue for the company. In

collaboration with the other luxury brands, Coach should exert a pressure on the Chinese government to reduce the market of the counterfeit products (Greenbook, 2012).

- As the net margin of the company is on the decline, Coach should start identifying opportunities in Europe, Asia, and Latin America, and rank these countries in terms of profitability, which will provide guidance to the company for long term investment decisions and will also improve the declining profit margin (Global Markets Direct, 2011).

### **Long Term Recommendation – Expansion into the Emerging Markets**

- Based on the analysis done in the short term, Coach should start expanding its presence in the emerging markets, such as China, India, Thailand, Brazil, and South Africa through joint ventures and partnerships (BAM, 2013).

- Annually, Coach should review the results of joint ventures in the international market. If it senses that an acquisition will be more profitable and give it more control on the venture, then Coach should try to acquire the joint venture company.

- As mature markets are reaching a saturation point, Coach should seek different avenues to grow through product innovation, pricing strategy, and distribution channel strategies.

- Men's fashion handbag is a segment, showing enormous promise in recent years (BAM, 2013). Coach already has an expertise in this area with its large range of products, and therefore, it should further enhance its product portfolio to exploit these growth opportunities.

## Conclusion

Coach is one of the most successful luxury fashion brands in the world. It is the only brand that has done exceptionally well, even during the period of recession. The major two markets of the company are the USA and Japan, and this provides the company an opportunity to expand its operation in the European, Asian, and Latin American markets. In the short term, the company should try to penetrate the European market via partnerships and joint ventures. The company should also create a consortium of fashion brands to counteract against the counterfeit products from China. It should continue with its multi-channel distribution strategy to address a broader base of customers. In the long term, Coach should try expanding into high-growth emerging markets like China, India, Brazil, and Russia. With its strong financial base, great classic design styles and superior quality, Coach is certain to achieve success in the new markets.

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