Abercrombie and fitch executive summary essay

Executive Summary: Abercrombie and Fitch Industry: High-end casual luxury apparel Industry Analysis- The Five Forces

- Threat of New Entrants include: established companies in related clothing markets could adjust merchandise to expand into A&F market.

Level of difficulty to enter dependent on established infrastructure and brand recognition. Brand value and infrastructure are large barriers to entry for a new company. o Core group of loyal customers; however, as customers age, styles, tastes, and financial status change impacting loyalty.

A&F markets to the 18-22 age group but they actually sell to the 20-30 age group. The Hollister brand actually captures the 18-22 age group. o Capital requirements comparatively low and include manufacture/storage of clothing and liquid assets for retail space and wages. o Products protected by license and trademark logo, yet counterfeit/illicit products available. Aggressive steps in place to prevent counterfeits. o Low challenge for entrants to acquire inputs; raw materials are traded commodities. Slightly more challenging to develop distribution centers. Economies of scale will impact profits, but do not shape industry.

- Competitive Rivalries include: American Eagle, GAP, Aeropostale, and J. Crew. Competitors use differentiation (not pricing) as strategy toward overlapping target customers. Competitors are larger (GAP) and Smaller (American Eagle, Aeropostale, J. Crew) than A&F. o Very low switching costs for customers. o Exit costs for competitors are high; difficult to sell fixed assets. o Growth of industry varies with economy climate. o Perceived product differentiation is high due to brand image. Fixed costs vary given the business model of the firm.

- Supplier Bargaining Power is low for commodities. o Inputs include raw materials (cotton, dye, etc.), and employees, both of with are readily available from an abundance of suppliers. Inputs are not unique. o Suppliers of prime retail space have some bargaining power on the industry. o Firms can engage in backwards integration if resources are available.
- Buyer Bargaining Power is low, coming from consumers/retailers interested in luxury image. Buyer Bargaining power low due to signaling within industry. Retail business results in millions of buyers. Losing one is not critical, yet losing a class of buyers or a retailer would be problematic. o Buyers cannot engage in backward integration, thus, low bargaining power. o Easy for buyers to switch within industry; switching costs no higher than regular purchase.
- Substitutes outside the clothing market are another way to build the image luxury apparel is trying to sell (watches/jewelry, technology, etc.). Substitutes are likely and dependent on trends and economic conditions. Substitutions made on brand perception; little loyalty based on quality. o Easy for buyer to switch to substitute due to little added cost/effort. o Industry positioned between casual and luxury brands, therefore, fares well against substitutes. Firm Analysis/Core Competency
- Backward integration: A&F is engaged in backward integration up to raw material production; suppliers are not engaged in forward integration. o Integration is valuable because it significantly drops

costs and allows A&F to adapt to and change demand for certain fashions. Integration is rare compared to other clothing retailers. o While imitable, integration requires large amounts of capital to convert into such an operation. It is substitutable by buying already produced clothing, but this is less profitable. o Easy for A&F to switch amongst commodity suppliers, yet difficult to switch to alternative commodity.

- Brand Marketing/Advertising: A&F specializes in promoting sexual, collegiate, casual luxury brand for products. o Is extremely valuable because attracts the 14-30 age group and promotes brand exclusivity. Brand image is not easily imitable without companies changing business model; for target group it is difficult to substitute because of demand. o Rare, controversial, and easily identifiable branding has caused increased publicity for A&F resulting in more demand by teenagers.

Strategic Positioning

- Strengths- Backwards Integration, brand recognition, customer loyalty.
- Weaknesses- Damaging effects to brand of lowering price, narrow customer base, overexpansion. • Opportunities- Expansion of product line.
- Threats- Economic downturn, substitute products. A&F’s success is based on focused differentiation. A&F could widen their available product line to increase revenue and reduce the threat of substitutes by offering comparable products within the A&F brand. Possible additions include leather goods, travel accessories, and casual jewelry.

A&F has already tested expansions in product lines with colognes, sandals, etc.

- A potential caveat is overly aggressive expansion into foreign markets. A&F needs to retain more cash instead of focusing on expansion, because foreign markets will not save a stagnating domestic company. A&F could broaden gaps between brands. Hollister has engaged in price differentiation; Hollister brand is considerably lower in price in comparison to A&F and has a marketing strategy focused on the California beach mentality. This captures the younger demographic that A&F quotes as their target market. While premiums could fall, their sales and revenue would likely rise.
- Product and service differentiation would be prudent in the circumstance of a stagnating business that has already expanded its firm in price differentiation with Hollister.