

# Performance assessment of abercrombie and fitch co marketing essay



**ASSIGN  
BUSTER**

Abercrombie & Fitch was founded by David T. Abercrombie in 1892 under the name "David T. Abercrombie Co." (A&F Handbook, 2008). The first store was located in downtown New York City at 314 Broadway and was dedicated to selling high quality camping, fishing and hunting gear to a market containing professional hunters, explorers and trappers (A&F Handbook, 2008). A lawyer and camping enthusiast, Ezra Fitch, became one of the store's most devoted customers and eventually bought partnership into the business in 1900 (A&F Handbook, 2008). In 1904, the company became incorporated and officially known as Abercrombie & Fitch (A&F Handbook, 2008). The two men had radically opposing views as to how to run the company: Abercrombie was very conservative while Fitch saw a new direction for the company. Eventually Abercrombie resigned in 1907 (A&F Handbook, 2008).

The store began to expand and reached international recognition after Fitch published a gear and clothing catalogue (A&F Handbook, 2008). Expansion into other areas of the United States continued even after Fitch's retirement in 1928. After being bought and sold numerous times, including once by The Limited Inc. in 1988, the company finally became fully independent and publicly traded in May of 1998 (A&F Handbook, 2008). Today, the Abercrombie & Fitch Co. is segmented into five brands: Abercrombie & Fitch, abercrombie, Hollister Co., Gilly Hicks and RUEHL No. 925., which comprise the 1 125 stores in five countries and five online stores, one for each brand (Abercrombie & Fitch, 2010). This year, Abercrombie & Fitch and Abercrombie each established a flagship store in Milan, Italy and Tokyo,

Japan allowing the company to reach an international level beyond the scope of the online store.

## **The Customer/Market Perspective**

Abercrombie & Fitch Co.'s five subsidiaries each have a coordinated theme, apparel style and logo to satisfy their individual target market. Abercrombie & Fitch Co. considers their customer in-store experience as “ the primary vehicle for communicating the spirit of each brand” (Abercrombie & Fitch, 2010) and thus, invests great effort into the maintaining common elements across the brands and in all locations.

The company ensures that the five senses: sight, sound, smell, touch and energy (Abercrombie & Fitch, 2010) are continually and equally experienced by all potential customers that enter the store, regardless of location. The way in which the senses are felt by customers is controlled by Head Office and enforced by in-store management. Sight includes lighting (e. g. generally dim with strategic spot lighting), cleanliness of the store, presentation of clothing, fixtures and forms, and in-store marketing (e. g. black and white photos of Abercrombie & Fitch models) (A&F Manager M. Deffet, personal communication, October 2010). Sound is completely controlled by the Head Office satellite through a music playlist that is automatically turned on at a predetermined volume during mall hours (A&F Manager M. Deffet, personal communication, October 2010). The playlist is always upbeat and energetic in keeping with the energy of the store and includes songs that will attract their target market. Smell is the fragrance that is sprayed hourly in a specific fashion onto all clothing and forms by models (i. e. salesfloor associates) (A&F Manager M. Deffet, personal communication, October 2010). <https://assignbuster.com/performance-assessment-of-bercrombie-and-fitch-co-marketing-essay/>

communication, October 2010). Touch includes the softest, richest and highest quality fabrics in their clothing (A&F Handbook, 2008). Finally, energy is the result of the aforementioned senses and is exemplified by the attitude and look of the associates. Energy is also created and maintained through the model's use of standardized taglines: greetings and phrases that customers receive to promote customer service/interaction and the store's products (A&F Manager M. Deffet, personal communication, October 2010). The first tagline is given in the front room meant to make the customer feel welcome the minute they walk in the store such that their first impression is positive one (A&F Manager M. Deffet, personal communication, October 2010). The second tagline is given at the cash and invites the customer to try the brand's latest fragrance (A&F Manager M. Deffet, personal communication, October 2010). The aforementioned elements are a general view of how Abercrombie & Fitch Co. creates their store experience. Although there is a high level of coordination among the brands, each differs slightly such that it can reach its target market most effectively.

Abercrombie & Fitch sells "casual luxury" apparel at a premium price point to a target market that includes post-secondary students ranging from 18 to 21 years of age (Abercrombie & Fitch, 2010). The company describes the style of their clothing as "timeless and always cool" (Abercrombie & Fitch, 2010). Although Abercrombie & Fitch has a timeless style it is responsive to current trends. They incorporate elements of modern fashion into their classic American look to attract both a trendy and a classic consumer base. All clothing has a moose logo consistently placed on the left side of the clothing. Abercrombie & Fitch strives to create a classic, sexy and energetic

atmosphere to sell their clothing (Abercrombie & Fitch, 2010). The in-store theme is grayscale luxury, the music is dance, the fragrance sprayed is men's "Fierce" and customers are welcomed into the store with the tagline "Hey, how's it going?"

Abercrombie & Fitch Co. created a younger sibling with the establishment of their children's store, abercrombie, in July 1998 (Abercrombie & Fitch, 2010). Maintaining the same atmosphere and "classic cool" look as Abercrombie and Fitch, abercrombie targets a consumer base ranging from 8 to 16 years of age. The in-store theme is navy luxury, the music is pop, the fragrance sprayed is boy's "Phelps" and customers are welcomed into the store with the tagline "Hey, what's going on?"

In July 2000, a third sister company was launched by Abercrombie & Fitch Co., Hollister Co. (Abercrombie & Fitch, 2010). Hollister Co. sells Southern California ("SoCal") inspired clothing at a premium price point slightly lower than that of Abercrombie & Fitch to a market containing teenagers 14 to 16 years old (Abercrombie & Fitch, 2010). The atmosphere is "laidback" and beach-like and all clothing is identified by a red seagull logo outlined in white (Abercrombie & Fitch, 2010). Today, Hollister Co. is the second most preferred teenage clothing brand (Jaffray, 2008). The in-store theme is a beachhouse in sepia color scheme, the music is rock, the fragrance sprayed is men's "Jake" and customers are welcomed into the store with the tagline "What's up?"

The fourth subsidiary, RUEHL No. 925, was established in September 2004 to reach a older, post-graduate consumer base ranging from 22 to 35 years of

age (Abercrombie & Fitch, 2010). RUEHL No. 925 offers the same clothing and store experience as Abercrombie & Fitch with added sophistication and artistic flair inspired by a “ New York City lifestyle” (Abercrombie & Fitch, 2010). Their clothing is distinguished by a French bulldog and is more upscale and expensive than all other Abercrombie & Fitch brands (Abercrombie & Fitch, 2010). The in-store theme is a Greenwich home in a burgundy, red and blue color scheme, the music is dance, the fragrance sprayed is men’s “ Signature” and customers are welcomed into the store with the tagline “ the tagline “ Hey, how’s it going? Have you checked out Gilly Hicks yet?”

The latest addition to the Abercrombie & Fitch Co. assemblage of companies is their lingerie store, Gilly Hicks, nicknamed the “ cheeky cousin of Abercrombie & Fitch” (Abercrombie & Fitch, 2010). Inspired by the “ free spirit of Sydney, Australia”, Gilly Hicks, sells “ cute bras and underwear” and other intimate apparel to female consumer of the parent brand over the age of 18 (Abercrombie & Fitch, 2010). All clothing is recognized by a koala logo and is sold at a premium price point (Abercrombie & Fitch, 2010). The in-store theme is a British colonial-style manor in grey, burgundy and sepia color scheme, the music is slow pop (usually piano-based), the fragrance sprayed is women’s “ La Perouse” and customers are welcomed into the store with the tagline “ Hey, welcome to Gilly Hicks! We’re A&F’s cheeky cousin.”

Another key factor in creating the Abercrombie & Fitch Co. store experience and image is its models. All models are hired on a basis of being “

aspirational”, that is, customers should walk into one their stores and want <https://assignbuster.com/performance-assessment-of-bercrombie-and-fitch-co-marketing-essay/>

to look and dress like the models. In accordance with that strategy, Abercrombie & Fitch Co. depends on a passive customer that is susceptible to conform. For this reason, little information is collected through customer feedback since in most cases the primary objective of purchasing the clothes is not to obtain clothing but to achieve the lifestyle that comes along with wearing the clothing. In addition, Abercrombie & Fitch Co. does not have any forms of formal advertising or promotions (e. g. " Buy one get one free") and therefore, adds value to the product because it is truly a luxury.

However, customer service is still important to the company as their employee handbook states: " Providing amazing customer service should be a top priority to all associates" (A&F Handbook, 2008). In addition, the return policy is very reasonable: all items may be returned at any time, regardless of date of purchase, as long as the items are not worn and the tags and receipt is present for a full refund; or without a receipt, a merchandise credit may be given.

In addition, an online store was created to give the customers the convenience of shopping from home from anywhere in the world. There is a separate online store for each brand that mirrors the five senses of the in-store experience. Sight is demonstrated through pictures of models wearing the clothing, the font used, the layout of the clothing in its picture, the generally dim-lit appearance and the overall organization of the website. Sound on the website is in the form of a playlist that includes all the songs that are played in the store with the option of switching between songs.

Smell and touch cannot be incorporated into the website however, all

fragrances are available for purchase and the clothing remains to be of the  
<https://assignbuster.com/performance-assessment-of-bercrombie-and-fitch-co-marketing-essay/>

highest quality fabrics. Energy is created in this way and thus customers can have a similar Abercrombie & Fitch Co. experience in the comfort of their home.

It is clear that the customer perspective of the company performs effectively as seen by its 16% average growth that the company has been experiencing over the past five years (Microsoft, 2010).

## **The Financial Perspective**

In spite of its emphasis on qualitative measurements of a firm's success, the balanced scorecard also recognizes the importance of incorporating financial data into overall performance assessment (BSCI, 2007). Abercrombie & Fitch Co., the American "casual luxury" apparel designer and retailer, has experienced a steady increase in sales for the past five years with the exception of the last year (see Figure 6 in Appendix). On average the company's sales have been growing at a rate of about 16% a year for the past 4 years, however sales suffered a 5.6% drop in the year ending January 31st 2009 (see Table 3 in Appendix). It is safe to assume that the drop is a result of the international financial crisis; when consumers have less disposable income they are less likely to purchase premium priced items (Abercrombie & Fitch, 2010). Also, last year's income statement included a non-cash \$30.6 million "unusual expense" in the form of an impairment of store related assets (see Table 2 in Appendix). The combination of the drop in sales and the additional expenses taken on by the company last year resulted in a \$272 million net income, a 42.8% drop from 2007's \$475.7 million (see Table 3 in Appendix). In 2008 the company used cash from operations to finance its growth strategy. They opened up 2 new

<https://assignbuster.com/performance-assessment-of-bercrombie-and-fitch-co-marketing-essay/>



Abercrombie & Fitch store, 66 new Hollister stores, 12 new abercrombie stores, six new RUEHL stores and 11 new Gilly Hicks stores (Abercrombie & Fitch, 2010). The balance sheet shows a strong Abercrombie & Fitch with approximately \$2.8 billion in assets, of which \$1.1 billion are current, and only \$1.0 billion in liabilities, of which \$450 million are current (see Table 2 in Appendix). This results in strong key ratios demonstrating good financial health. These ratios will be discussed further and analyzed with respect to ratios from competitors and average industry standards. Also in the 2008 fiscal year, there was an increase in inventory on hand (due to the drop in sales) as opposed to the decrease in inventory on hand experienced in the fiscal year 2007 (Abercrombie & Fitch, 2010). On January 31st 2009 inventory was valued at approximately \$372 million, a \$39 million 10.5% jump from last year's \$333 million (see Table 2 in Appendix). Some analysts might find this statistic worrying, however, it may not be as dangerous as it seems. Firstly, as mentioned earlier this observation is primarily due to a negative change in spending patterns associated with the global financial situation. This is trend experienced by a majority of retailers worldwide and not just Abercrombie & Fitch. In addition, the image that the brands strive to portray is a "timeless and always cool..." one (A&F Brands, 2010), meaning that the average lifespan of a piece of their attire is longer than that of a company whose image is more current and trendy. Because of this, the small amount of left over inventory should not be a problem to move, as displayed in fiscal year 2006, prior to the onset of the financial crisis, where the company experienced a 22% reduction in inventory (see Table 2 in Appendix).

Here is a broader look at a range of Abercrombie & Fitch's key financials and their implications as to where the company stands in regards to its competitors and the industry. The primarily relevant ratios reported and analyzed are those pertaining to growth, profitability, financial condition and management efficiency.

Table 1. Current Key Financial Ratios of Abercrombie & Fitch Compared to Three Competitors and the Industry (adapted from Microsoft, 2010)

Abercrombie & Fitch

American Eagle Outfitters

Gap

Guess

Industry

Sales Growth Rate: 5 Year Average (%)

15.70

15.80

-1.73

26.88

9.07

Gross Margin: 5 Year Average (%)

66.7

45.2

37.0

27.26

35.9

Net Profit Margin: 5 Year Average (%)

11.20

11.40

6.30

8.31

5.80

Debt Over Equity Ratio

0.03

0.03

0.00

0.02

0.26

Current Ratio

2.4

2.6

2.0

3.3

2.4

Quick Ratio

1.7

1.6

1.2

2.5

1.4

Leverage Ratio

1.6

1.4

1.7

1.5

2. 2

Inventory Turnover

2. 5

4. 3

4. 1

4. 6

4. 4

Income Per Employee (\$ USD)

2120

21912

7410

19116

9463

Revenue Per Employee (\$ USD)

302395

449886

104799

189584

278855

Looking at each area individually will lead to more accurate conclusions and help identify problem areas and strengths along with providing explanations for certain phenomena.

Sales Growth Ratio (5 year average) - This ratio demonstrates what percentage sales have been increasing (or decreasing) by from year to year, on average for the past 5 years (Business Dictionary, 2010). Abercrombie & Fitch's 16% growth rate is significantly higher than the industry average, at par with American Eagle Outfitters, higher than competitor GAP whose sales have been decreasing, however, significantly lower than Guess?. These results are positive and indicate progress: Abercrombie & Fitch is not the fastest growing of its competitors but sales are growing at a steady sustainable rate.

Gross Margin Ratio (5 year average) - This ratio express gross profit as a percentage of total revenue (Business Dictionary, 2010). For Abercrombie & Fitch this ratio is 66. 7% (see Table 1) indicating that goods are marked up approximately 200%, a mark up that is nearly double that of their closest competitor American Eagle Outfitters and nearly four times the industry average.

Net Profit Margin Ratio (5 year average) - This ratio expresses net income (Business Dictionary, 2010). In spite of the outrageously high initial mark up,

the 11% (see Table 1) net profit margin are at par with American Eagle Outfitters, slightly higher than guess and nearly double that of the industry.

The trend of a much higher gross margin and a more tempered net profit margin can be interpreted to suggest that although direct costs associated with goods sold may be relatively low, the indirect costs associated with operations are higher and exhaust a larger sum of the revenue from sales.

**Debt/Equity Ratio** - A measure of a company's financial leverage calculated by dividing total liabilities by stockholders' equity (Business Dictionary, 2010). It shows what portion of equity and debt a company is using to finance its assets. This demonstrates that Abercrombie & Fitch may not have a hard time paying off any long term debts based on the condition of the company at this time. The company's competitors are all in a similar situation and are stronger than an average company in the industry in this regard. This shows that they are more established larger players in the apparel retail industry. This is a strong asset when applying for a long-term loan.

**Current Ratio** - This is a liquidity ratio that shows how capable a company is of paying off their short-term liabilities (Business Dictionary, 2010).

Calculated by dividing current assets by current liabilities. Higher Current ratio implies that the company is financially healthy and can easily reach its short-term obligations. Abercrombie & Fitch, its competitors and the industry are all comparable and well off in this area.

**Quick Ratio** - A measure of how easily a company can meet its short-term obligations using only its most liquid assets (e. g. cash) (Business Dictionary, <https://assignbuster.com/performance-assessment-of-bercrombie-and-fitch-co-marketing-essay/>)

2010). It is calculated by subtracting inventory from current assets and dividing the result by current liabilities. Basically, this ratio tells us how easily a company can meet its short-term obligations without selling their inventory. Again, Abercrombie & Fitch scores well in this field along with its competitors and the industry.

The company's ability to pay off short term-debts with ease show strong financial condition and can help them secure short term loans and a unsecured line of credit (Abercrombie & Fitch, 2010).

Inventory Turnover - The number of times a company's inventory is sold and replaced over a period of time (Business Dictionary, 2010). Calculated by dividing sales by inventory. Abercrombie & Fitch's number here is 2.5, while all competitors show an inventory turn over of over 4 and the industry's average is 4.4 (see Table 1), more than one and a half times that of Abercrombie & Fitch's. As mentioned earlier, Abercrombie & Fitch's image is vintage, timeless and effortlessly cool. Because of this, the company does not have to change styles as often as some of its competitors and it does not need to participate in extensive promotional activities (like those practiced by its competitors) that can quickly move inventory but can tarnish the brand's 'premium' image.

Revenue Per Employee - This is a productivity and management efficiency ratio it measures sales in relation to number of employees (Business Dictionary, 2010). It is calculated by dividing Total Sales by Total Number of Employees. Abercrombie & Fitch reported sales of \$302,395 per employee, significantly higher than that of Gap, \$104,799, and Guess?, \$189,585, and



slightly higher than the industry's, \$278, 855 (see Table 1)(keeping in mind that Abercrombie & Fitch's mark up to achieve this statistic).

Income Per Employee - This is also a productivity and management efficiency ratio, however it measures net income after tax in relation to number of employees (Business Dictionary, 2010). After all expenses are paid, Abercrombie & Fitch's Net Income per Employee is only \$2, 120, only a fraction of American Eagle Outfitters' \$21, 912 and Guess?'s \$19, 116 and significantly lower than the market's \$9, 463 (see Table 1).

When Net Income Per Employee is compared to Revenue Per Employee a very large change is observed in regards to where Abercrombie & Fitch stands in the market. It goes from being one of the leaders in Revenue Per Employee to having an extremely low result for Income Per Employee that is approximately 78% lower than the industry average (see Table 1). This again goes to show that relative to other players in the apparel retail industry Abercrombie & Fitch has relatively high overhead costs. Looking at the statements in the appendix we see that Abercrombie & Fitch have general, selling and administrative expenses close to \$1. 9 billion (for sales of about \$3. 5 billion (see Table 3 in Appendix)), more than double that of American Eagle Outfitters' (whose sales were approximately \$3. 0 billion (see Table 4 in Appendix)) and more than triple Guess?'s (whose sales were approximately \$2. 1 billion (see Table 6 in Appendix)).

In brief conclusion Abercrombie & Fitch's financial condition is sound. All figures reported reflect a strong sustainable business. Figures that suggest otherwise compared to the industry average, such as inventory turnover and

yearend January 31st 2009 sales, are justifiable. The high overhead and indirect expenses can be studied and lowered to net increase pre-tax income, however doing so without bringing down the gross margin may result in a higher taxable income.

## **The Business Process Perspective**

Abercrombie & Fitch's business processes can be exemplified through its management processes, operational processes and its supporting processes. Management processes can be expressed as corporate governance; a collection of policies and laws affecting the way the corporation is administered (BSCI, 2007). Abercrombie & Fitch employee relations criteria states that the company will care for its employees honestly, fairly and with respect (A&F Handbook, 2008). Happy associates working together in a team prove to be essential elements in the growth and success of the company as a whole.

All instructions and tasks are assigned by the Abercrombie & Fitch Head Office. The visual merchandise policy indicates that retail stores cannot sell merchandise on forms, faceouts or other displays because visual teams own these items (A&F Handbook, 2008). The merchandise is strategically set up to create a certain look, playing a huge role in the stores experience. The employees of Abercrombie & Fitch are well informed as to the appropriate answers to customer concerns. For example, when customers complain about either the fragrance smell or the music volume, the proper response is to inform the client that it partakes in the store's experience (A&F Handbook, 2008). In addition, employees are to politely explain that Head Office

controls the music volume and that they can call the Home Office  
<https://assignbuster.com/performance-assessment-of-bercrombie-and-fitch-co-marketing-essay/>

department for further feedback (A&F Handbook, 2008). Moreover, another policy that Abercrombie & Fitch has is its No Hold Policy. This is to give all customers an equal chance to purchase the products (A&F Handbook, 2008). In order to help protect and maintain the company's assets, Abercrombie & Fitch has their Loss Prevention Store policies to bestow alertness within its stores (A&F Handbook, 2008). This policy assists in preserving a safe working environment, maintaining awareness to the area of company shortage and in-turn increase profitability preventing theft both internal and external. Lastly, there is a Look Policy implemented that affects the model and impact employees, which requires to represent the brand by being properly groomed and natural-looking while portraying an Abercrombie & Fitch style (A&F Manager M. Deffet, personal communication, October 2010).

The operational processes are the primary aspect of the value stream consisting of purchasing and manufacturing. In 2008, Abercrombie & Fitch purchased merchandise from 210 different suppliers, which are located in 37 different countries (Abercrombie & Fitch, 2010). The corporation's largest supplier is responsible for only 6% of apparel and personal care products and no other factory produces more than 5% of their merchandise (Abercrombie & Fitch, 2010). Consequently, in a scenario of political or financial incidents, this is advantageous as it poses minor disruption for the company. All of the manufacturers are required to uphold Abercrombie & Fitch's high quality standards in production. The distribution and merchandise inventory is monitored by two distribution centers that check quality before distributed to the retail stores by primarily one contract carrier (Abercrombie & Fitch, 2010). Abercrombie & Fitch management's goal is to uphold ample

merchandise in stock at retail stores. In order to balance inventory levels and stock turnover, markdowns are implemented to keep their merchandise stylish with current fashion trends (Abercrombie & Fitch, 2010).

Supporting processes assist in contributing to the value stream. An important process that Abercrombie & Fitch uses is recruitment. The company has 73, 000 part time employees and 10, 000 full time employees and is still focusing on recruiting and hiring more (Abercrombie & Fitch, 2010). The managers at retail stores have a quota indicating the number of people that must be recruited in a given time period (A&F Manager M. Deffet, personal communication, October 2010). Managers who believe that a customer represents the Abercrombie & Fitch lifestyle will attempt to recruit them for one of the part-time positions and invite them to a group interview held every Tuesday and Friday at 4: 00PM (A&F Manager M. Deffet, personal communication, October 2010). There are three part-time positions: model, impact and overnight. Models are basically floor sales associates responsible for taglineing, maintaining the sales floor, customer service, cash out and contributing to store experience (A&F Manager M. Deffet, personal communication, October 2010). A model may also be selected to participate in their in-store marketing campaigns. An impact employee maintains the stockroom, receives shipments and prepares/places it on the sales floor, places sensor tags and marks down older merchandise. A look policy is required for both the models and impacts (A&F Handbook, 2008). The last part-time position is an overnight employee who works at premium pay and brings the store up to ' standard' by arranging a perfect size order, size stickers, color blocking, and general organization of the store

and its components (A&F Manager M. Deffet, personal communication, October 2010). In-store full-time positions are management only. This includes the district manager, general manager, store manager, people's manager, overnight manager, stockroom manager and assistant manager (A&F Manager M. Deffet, personal communication, October 2010).

## References Cited

A&F Diversity. 2010. Retrieved from: [www.bercrombie.com/diversity](http://www.bercrombie.com/diversity)

A&F Brands. 2010. Retrieved from: [www.bercrombie.com/ourbrands](http://www.bercrombie.com/ourbrands)

Abercrombie & Fitch. 2010. Form 10-K Abercrombie & Fitch Co/DE/-ANF.

Retrieved from: [www.bercrombie.com/investors](http://www.bercrombie.com/investors)

Abercrombie & Fitch. 2008. A&F Associate Handbook.

Balanced Scorecard Institute (BSCI). The Balanced Scorecard. 2007.

Retrieved from: <http://www.netmba.com/accounting/mgmt/balanced-scorecard>.

Business Dictrionary. 2010. Retrieved from: [www.businessdictionary.com](http://www.businessdictionary.com)

Jaffray, Piper. 2008. 16th Semi-Annual Piper Jaffray ' Taking Stock With Teens' Study Indicates Bottom May Be Nearing for ' Discretionary Recession'.

Retrieved from: <http://www.piperjaffray.com>

Microsoft. 2010. Financial Results: Statements/Key Ratios. Retrieved from: [moneycentral.msn.com/investor](http://moneycentral.msn.com/investor)