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Executive Summary

Coach, Inc. has a storied history within the fashion industry, known largely for its production and sale of leather goods. The company experienced remarkable growth on the tail end of the recent recession, using aggressive expansion of factory outlets and extensive discount offerings to secure a large market share in the affordable luxury retail industry. However, by offering lower-value products, the company’s brand value rapidly has become associated with discounted items and undesirable factory offerings. As the United States’ economy has improved, Coach has experienced countercyclical performance, with many consumers shifting their purchasing towards Coach’s direct competitors, Michael Kors and Kate Spade.

Coach as it presents itself today is suffering a brand identity crisis. The company lost its position as the most desirable provider of affordable luxury fashion goods through the discounting and cheapening of its products. Coach continues to expand its outlet store presence while decreasing the number of retail stores, simultaneously offering severe discounts on its products.¹ In a seemingly contradictory manner, Coach has increased the number of its high-end product lines while pricing its products similarly to its direct competitors.² This divided brand identity has negatively impacted consumer demand and fragmented Coach’s overall strategy. Without significant strategic changes, this damaged brand image and planned closure of certain retail locations will lead to further dissatisfactory performance in the future.

However, Coach also benefits from entering into a transitional period of brand identity equipped with the liquidity needed to pivot the company and ensure robust future

¹ http://blogs.barrons.com/stockstowatchtoday/2015/04/01/kors-coach-kate-discounts-do-the-damage/
² http://money.cnn.com/2014/11/06/investing/kate-spade-kors-coach-handbag/
growth. The company has recently brought on a new creative director, Stuart Vevers, and appointed a new CEO, Victor Luis, little more than a year ago. Taking advantage of the new management team and healthy balance sheet, Coach can create value by pursuing several main strategic recommendations. While these recommendations—salvaging brand value, aggressively pursuing growth opportunities, increasing e-commerce sales and engaging in significant marketing campaigns—are general, within each broad strategic initiative lie a number of specific and actionable directives enabling Coach to return its brand reputation and company performance to the highest levels.
Company Background

Coach, Inc. is a New York fashion company known for its manufacturing of leather goods under the self-assigned label of “accessible luxury.”³ Coach makes handbags, small leather goods, footwear, outerwear, ready-to-wear, watches, travel accessories, scarves, sun wear, fragrance, jewelry, and other accessories for both men and women.

Initially formed as a family business in 1941 in a loft on 34th street in New York City, the company began with only six leatherworkers. Currently, the company employs over 17,000 employees and sells its product through more than 1,000 department and outlet stores. The scope of the company has broadened throughout its growth, with locations in more than 40 countries and over 35% of its sales coming from its international business segment.

The company maintains that the quality, craftsmanship, and New York style of its products differentiates them from its competitors. While traditionally known for its female leather handbags, which sped the growth of the company throughout the middle of the century, Coach has recently been expanding its mix of product offerings. The company’s development into the production and sale of footwear, outerwear, ready-to-wear, watches, travel accessories, scarves, sun wear, fragrance, jewelry, and other accessories for both men and women reflects Coach’s most recent underlying strategy: to become a comprehensive lifestyle brand defining global modern luxury.

Coach explicitly envisions this new modern luxury to be accessible, and the discounting and factory offerings of the company during the 2000s led to them carving out a sizeable market share during the recent recession. Typically priced well below the

$2000 threshold of its upscale competitors, Coach achieved record sales and levels of turnover. However, lagging domestic sales and decreasing market share over the past year have led to a decrease in investor confidence. Having seen a rise in stock prices to peak levels of $79.70 in 2012, the company is currently trading around $42. Having recently installed a new CEO and creative director, Coach enters 2015 hoping to restore market confidence by salvaging its performance and restoring its sterling brand reputation.
Financial Analysis

Revenue, Profitability & Growth

<table>
<thead>
<tr>
<th>(Figures in millions of USD)</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>4,806.23</td>
<td>5,075.39</td>
<td>4,763.18</td>
<td>3,607.636</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>(5.30%)</td>
<td>6.55%</td>
<td>32.04%</td>
<td></td>
</tr>
<tr>
<td>Operating Income</td>
<td>3,296.96</td>
<td>3,698.15</td>
<td>3,466.08</td>
<td>3,023.54</td>
</tr>
<tr>
<td>Operating Income Growth</td>
<td>(10.87%)</td>
<td>6.69%</td>
<td>13.9%</td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>781.34</td>
<td>1,034.42</td>
<td>1,038.91</td>
<td>880.80</td>
</tr>
<tr>
<td>Net Income Growth</td>
<td>(24.47%)</td>
<td>(0.38%)</td>
<td>17.95%</td>
<td></td>
</tr>
<tr>
<td>Net Income as % of Rev.</td>
<td>16.26%</td>
<td>20.37%</td>
<td>21.79%</td>
<td>24.34%</td>
</tr>
</tbody>
</table>

Source: Yahoo Finance

Coach has experienced a decrease in revenue growth, with 2014 representing an annual 5.3% decrease in total revenue figures. However, the quarterly revenue growth (year over year) decreased by 14.10%, displaying the extent of the contraction in net sales. These projections are expected to worsen over the fiscal year 2015, with increasing numbers of store closures hurting overall sales figures. Correspondingly, the operating income and net income figures have regressed significantly after enjoying robust growth over the tail end of the recession.

Several other notable figures illustrate Coach’s troubles. Its rate of inventory turnover is 2.25 times slower the industry average, and its days cost of goods sold in inventory ratio is over three times that of the industry average. Coach’s sales per square foot metrics are decreasing annually where its direct competitors are enjoying growth. However, while revenue, profitability, and growth declines are indicative of significant challenges to the company, Coach’s liquidity and healthy balance sheet position it to drive future growth. Additionally, Coach leads its direct competitors in e-commerce
sales, with roughly $500 million in fiscal year 2014. Online traffic on the Coach website has also increased to more than 76 million visitors in 2014.\(^4\)

**Important Metrics**

<table>
<thead>
<tr>
<th>Coach Store Locations</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>NA Retail Stores</td>
<td>Number</td>
<td>% Increase</td>
<td>Number</td>
</tr>
<tr>
<td>332</td>
<td>(5.4%)</td>
<td>351</td>
<td>(0.8%)</td>
</tr>
<tr>
<td>NA Outlet Stores</td>
<td>207</td>
<td>7.3%</td>
<td>193</td>
</tr>
<tr>
<td>277</td>
<td>27.5%</td>
<td>218</td>
<td>16.0%</td>
</tr>
</tbody>
</table>

Source: Coach fiscal 2014 10-K

Coach has been decreasing the number of operating North American retail stores steadily over the past several years and has stated that it plans to continue that trend by closing an additional 70 locations in 2015. This comes after total North American sales fell 20% in the first quarter of 2015. North American locations also saw contractions in other important metrics such as POS, direct-to-consumer sales, and shipments to department stores.\(^5\) Conversely, Coach has continued to expand its outlet store offerings, which are typically lower-margin locations, only slightly tapering the growth in response to declining overall performance of the company.

Internationally, Coach has embarked upon rapid expansion in foreign channels outside of Japan. The increase in the number of stores is accompanied by an overall 5% increase in international sales. While revenue in Japan fell 7% of a constant currency basis, sales for the remainder of Asia increased. Sales in China, the most rapidly growing international segment, increased quarterly sales by 13%, resulting from Coach’s aggressive expansion into that country/continent. Similarly, European sales showed

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\(^5\) [www.zacks.com](http://www.zacks.com)
steady double-digit quarterly increases, as Coach expands into a previously
underpenetrated geography.

<table>
<thead>
<tr>
<th>Net Sales by Segment</th>
<th>2014</th>
<th></th>
<th>2013</th>
<th></th>
<th>2012</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>% of Total</td>
<td>Amount</td>
<td>% of Total</td>
<td>Amount</td>
<td>% of Total</td>
</tr>
<tr>
<td>Women’s Handbags</td>
<td>2,642</td>
<td>55%</td>
<td>2,923</td>
<td>58%</td>
<td>2,886</td>
<td>61%</td>
</tr>
<tr>
<td>Women’s Accessories</td>
<td>1,046</td>
<td>22%</td>
<td>1,196</td>
<td>23%</td>
<td>1,170</td>
<td>24%</td>
</tr>
<tr>
<td>Men’s</td>
<td>692</td>
<td>14%</td>
<td>600</td>
<td>12%</td>
<td>424</td>
<td>9%</td>
</tr>
<tr>
<td>All Other</td>
<td>426</td>
<td>9%</td>
<td>356</td>
<td>7%</td>
<td>283</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: Coach fiscal 2014 10-K

The segmentation of Coach’s various business lines shows its commitment to increasing
its mix of product offerings. Through this commitment, the brand hopes to transform
itself into a luxury lifestyle brand. Women’s handbags, the traditional core competency of
Coach, has decreased in terms of the share of overall sales while the net amount has been
relatively flat or decreasing. Conversely, the men’s collection, featuring mostly leather
goods and male-style bags, has enjoyed double-digit annual growth over the past several
years, increasing as a percentage of overall sales as well as in net total. This is a
reflection of Coach taking a greater interest in a male apparel market that has outpaced
the equivalent women’s market in terms of percentage growth over the last several years.6
Coach’s other promising business line, captured under the umbrella category of “All
Other” sales includes its footwear, wearables, sunwear, jewelry, watches, and fragrance
offerings. The robust annual growth of these segments provides promise for Coach’s
push towards creation of a comprehensive lifestyle brand.

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6 www.businessoffashion.com
Cash Flow & Solvency

<table>
<thead>
<tr>
<th>Cash Flow (in millions of USD)</th>
<th>2014</th>
<th>2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash from Operating Activities</td>
<td>985.41</td>
<td>1,413.97</td>
<td>(428.56)</td>
</tr>
<tr>
<td>Cash from Investing Activities</td>
<td>(707.78)</td>
<td>(570.50)</td>
<td>(137.20)</td>
</tr>
<tr>
<td>Cash from Financing Activities</td>
<td>(748.05)</td>
<td>(689.11)</td>
<td>(58.94)</td>
</tr>
<tr>
<td>Net Change</td>
<td>(470.86)</td>
<td>145.57</td>
<td>(616.43)</td>
</tr>
</tbody>
</table>

Source: Coach fiscal 2014 form 10-K

The net cash flow provided by operating activities decreased by a substantial amount in 2014 due to changes in operating asset and liability balances, as well as lower net income. This decrease in cash flows is to be expected, however, that the decrease in net income was exacerbated by the closure of stores. Additionally, overall operating costs have risen due to the transformational period on which Coach is embarking. This effect can be seen in increased usage of cash in investing activities, of which an additional $370 million was spent on investments in 2014 as opposed to 2013. This shows a commitment on the part of Coach to maintaining strong operations and revitalizing the company moving forward.

Despite the decrease in overall cash, Coach maintains a current ratio of 2.72, ensuring the company’s ability to continue operations regardless of the forecasted decreases in future sales. This is largely due to a significant holding of liquid assets with cash, cash equivalents, and short-term investments totaling $1.1 billion. With a debt to equity ratio less than .01, Coach has almost no long-term liabilities on its books. This liquidity, although hampered by recent negative cash flows, positions the company for major expenditure.

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7 www.finance.yahoo.com
8 www.ycharts.com
With a yearly price decrease of 11.83% in comparison to the S&P 500’s 15.77% annual return, Coach has significantly underperformed compared to the overall stock market. In fact, after reaching a peak trading value of $79.70 on March 1, 2012, the stock has decreased in value by 45.45%. While the stock’s performance has improved in the last several months, the last several years of slumping prices show the market’s opinion that Coach has lost much of the promise that once made it an industry leader.

Analyst opinion has remained around a hold position for Coach. Expected annual sales decreases of around 13.50%, with quarterly decreases in growth of close to 50% compared to an industry average growth of 34.10% show analyst’s negative opinion of Coach’s future prospects. While the decrease in sales and growth can be tied to the planned closure of 70 stores in 2015, the cautious recommendations underlie the opinion that Coach is in a tenuous position within the fashion industry.⁹ Also, Coach’s price to

⁹ www.finance.yahoo.com
sales ratio is vastly higher than the industry average despite Coach being the most mature of its competitors, leading one to believe that the market has historically been overvaluing Coach’s operational abilities.
Competitive Analysis

Five Forces Analysis for Coach, Inc.

<table>
<thead>
<tr>
<th>Force</th>
<th>Strategic Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Rivalry</td>
<td>High</td>
</tr>
<tr>
<td>Threat of New Entrants</td>
<td>Low</td>
</tr>
<tr>
<td>Substitutes and Complements</td>
<td>High</td>
</tr>
<tr>
<td>Supplier Power</td>
<td>Low</td>
</tr>
<tr>
<td>Buyer Power</td>
<td>High</td>
</tr>
</tbody>
</table>

Internal Rivalry

Coach occupies a leading position in the affordable-luxury handbag market in terms of overall annual sales figures but faces stiff rivalry from competitors. Some of its direct competitors in the North American market, such as Michael Kors and Kate Spade, have seen increasing popularity as of late, giving rise to concern over Coach’s future market share. Simultaneously, Coach has struggled to compete against many of the leading European fashion companies such as Louis Vuitton, Gucci, and Longchamp. Coach has seen its stock plummet in value over the last several years amidst declining North American sales and shifting consumer tastes. Conversely, both Michael Kors and Kate Spade have seen increasing sales as well as improving sales-per-square-foot ratios, both of which are indicators that companies are operationally improving. Coach is currently undertaking a transformation strategy to capture non-traditional markets, such as luxury shoe and accessory sales, areas where Michael Kors and Kate Spade have little or no penetration. This diversification will lead to Coach competing in other industries, all of which will have their own set of mature competitors.
**Threat of New Entrants**

The brand value associated with existing companies within the luxury clothing and handbag industry is a significant deterrent for any potential new entrant. As such, Coach and other companies within the sphere have traditionally enjoyed a fair amount of protection from the entry of new companies. Additionally, there are large amounts of fixed costs from the creation of a new retail company, such as paying for store locations, lining up distributors, and creating a brand name through advertising. The recent rise of Kate Spade, however, illustrates how shifting distribution methods and increased consumer connectivity can allow younger companies to quickly gain a significant market share. This, combined with the increasing importance of e-commerce, makes it more plausible that barriers to entry could be circumvented in order to break into the market. However, given the time and resources required to build sufficient brand recognition amongst consumers, it is unlikely that a new direct competitor will offer significant erosion of Coach’s market share in the foreseeable future.

**Substitutes and Complements**

Coach typically sells to people in middle and high-income demographics. These people often have the financial means with which they can buy a wide variety of products depending upon the consumer’s particular tastes. This exposes Coach to substitution effects from consumers switching to other brands due to price, quality, or style discrepancies. This has been particularly apparent as of late, with several of Coach’s competitors poaching Coach’s traditional clientele. Both Michael Kors and Kate Spade have seen increasing sales figures while Coach’s revenues have declined. The majority of this shift can be linked to substitution effects as Coach is viewed as a lower class and
dated alternative to its competitors. Another form of substitution appears in the form of counterfeit products, particularly overseas in developing markets. These knock-offs not only lower Coach’s sales but can also harm brand value due to their lower quality. Increasing regulation of online sales, particularly in China, will help to curtail the substitution threat from such replicas.

While substitution effects can decrease demand for Coach’s products, luxury goods are frequently complementary with regards to other luxury items. Essentially, if someone has the means and desire to purchase an upscale leather bag, they have a higher chance of having the means and desire to purchase other luxury goods. Coach is well positioned to capitalize on this complementarity by widening its product offerings and transitioning towards becoming a lifestyle brand rather than just a handbag producer.

**Supplier Power**

Coach relies on manufacturers located in various countries such as China, Vietnam, India, Philippines, Thailand, Italy, and the United States. As of 2013, one supplier supplied 12% of the products to Coach, leading to concern that this company could have significant leverage in future pricing negotiations. However, the remainder of Coach’s suppliers have relatively small shares of Coach’s overall unit total, providing a certain amount of insulation. However, additional sourcing efforts could yield additional security from exercises of supplier power. Additionally, the strength of the US dollar could allow Coach to save when purchasing from foreign distributors.

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10 Coach fiscal 2014 form 10-k


**Buyer Power**

Coach sells through direct-to-consumer sales as well as through wholesalers. The direct channel accounts for the majority of sales. Because the majority of Coach’s sales come through business-to-consumer channels, the buyer power from such wholesalers as Nordstroms or Sak’s is severely limited. With that in mind, there is a significant amount of buyer power that results from Coach’s direct to consumer sales channels. Coach, despite labeling themselves as “accessible luxury,” is considered a luxury brand nonetheless. Despite the company’s long-standing reputation, its products remain a highly discretionary item. This exposes the company to adverse effects when discretionary spending is reduced. Additionally, the goods that Coach sells are rooted within personal tastes, leaving Coach vulnerable to consumer opinion. Given its declining revenue figures, decreasing sales per foot metrics, and widely acknowledged tarnishing of its brand’s reputation, it is clear that Coach has high levels of exposure to changes in the spending of consumers.
SWOT Analysis

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Liquidity</td>
<td>• Declining Sales</td>
</tr>
<tr>
<td>• Strong E-commerce Presence</td>
<td>• Declining Brand Value</td>
</tr>
<tr>
<td>• Brand Recognition and Customer Base</td>
<td>• Recent Negative Cash Flow</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Opportunities</td>
<td>Threats</td>
</tr>
<tr>
<td>• International Markets</td>
<td>• Unpredictable Global Economy</td>
</tr>
<tr>
<td>• Increase Brand Value</td>
<td>• Increased Competition</td>
</tr>
<tr>
<td>• Lifestyle Brand Status</td>
<td>• Digital Disruption</td>
</tr>
</tbody>
</table>

**Strengths**

**Liquidity**

As discussed previously, Coach maintains a strong balance sheet position with a significant cash balance and no long-term debt. The company has been actively managing its cash flows by generating significant free cash, making prudent capital investments, and enhancing ROI. This strong liquidity positions Coach to drive future growth through expenditure while offering protection from any adverse market events that may occur.

**Strong E-commerce Presence**

E-commerce is one of the most important growth drivers for retailers, with online purchases growing from 4% of all retail sales in 2009 to 6.6% of retail sales in 2014. This is particularly relevant to premium products, with over 50% of US customers doing online research of luxury items before making a purchase.¹¹ Coach is uniquely positioned to take advantage of the affordable luxury portion of an e-commerce market that is projected to be a $500 billion a year industry by 2018.¹²

The chart above shows the extent of Coach’s growing e-commerce sales, as well as the increase in traffic on its website. While direct competitors such as Michael Kors and Kate Spade have established successful web presences in the United States, neither has a direct business-to-consumer web presence in China. Leveraging this first mover advantage in the world’s largest e-commerce market provides an area for rapid growth in the near future.

**Brand Recognition**

Since its founding in 1941, Coach has been establishing a reputation for production of high-quality leatherwear. However, under CEO Lew Frankfort, the brand transformed into its current form as a brand of accessible luxury. This status, and the aggressively expansionary strategy undertaken by the company over the following decades catapulted the company into the forefront of American fashion. Record sales figures in 2012 flooded the market with a diverse array of product offerings all sporting the Coach moniker. A recent study showed that Coach had established brand recognition with around 90% of

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participants, with the brand also scoring highly on depth of brand awareness. One of Coach’s greatest assets is its brand, as consumers with limited mental shelf space will tend to favor products from companies that they know of. Coach can leverage this recognition in order to attract consumers to its products.

**Weaknesses**

**Declining Brand Value**

The aforementioned study that cited the wide-reaching knowledge of Coach’s brand also raised concerning points about the perception of the brand. While the vast majority of those surveyed were aware that Coach existed, far fewer expressed positive associations with the brand. Only 6% of those polled said that they would purchase a Coach handbag for its design, whereas Coach competitor Kate Spade garnered an approval rating of 12%. Similarly, Coach was ranked behind its direct competitors Kate Spade and Michael Kors when consumers were asked about the desirability of accessory options from each company. Such disapproving consumer data is indicative of Coach’s largest current weakness: its tarnished brand image.

**Declining Sales**

Coach, after recording record revenues in fiscal year 2013, suffered an annual revenue decline of over 5% in 2014. A large amount of the blame for lower overall sales figures stems from a large contraction in North American sales, the company’s largest business segment. 65% of Coach’s business comes from its domestic sales. If Coach does not act to increase sales figures or decrease costs, its decreasing net income and diminishing cash holdings will be a major cause for concern.

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Recent Negative Cash Flow

If the recent income problems with Coach persist, the company will see its currently liquid position disappear. Recording a net cash flow loss of $470 million in 2014, the company still maintains a promising current ratio of 2.72. However, with around $500 million cash remaining on the balance sheet, Coach cannot afford continued contraction of profits. This is particularly concerning given that Coach has forecasted further decreases in revenues in the coming years due to store closures.

Opportunities

International Markets

Coach has been steadily increasing its number of international stores over the past few years, with 475 locations outside of North America. Despite this expansion, Coach still remains relatively undersaturated in most markets, as almost half of its international locations are in Japan. This allows for significant opportunities both through physical stores and through e-commerce. Of particular interest is the Chinese market, where Coach’s quarterly sales increased by 13% in the first quarter of 2015.16 Additionally, Coach has fewer than 50 stores throughout Europe, providing another geographic area of untapped revenue for Coach to capture.

Increase Brand Value

Coach has historically done quite well through its business model that involved heavy discounting and flooding the market with factory offerings. While this provided a period of heavy growth over the past decade, the sustainability of the strategy has diminished as consumer tastes have changed. Coach has an opportunity to reinvent its brand image

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16 http://www.reuters.com/article/2014/10/28/coach-results-idUSL4N0SN53120141028
through an increase in the variety of its product offerings, an increase in its number of high-end offerings, and through strategic marketing campaigns. These strategies, described in the final section, are largely aimed at salvaging the brand value of Coach.

**Lifestyle Brand Status**

Coach has recently made an acquisition of a footwear company, extending its product mix to include footwear, wearables, sunwear, jewelry, watches, and fragrance offerings in addition to the company’s tradition leatherwear offerings\(^\text{17}\). This marks Coach’s dedication to becoming known as comprehensive lifestyle brand, providing fashion and lifestyle guidance in all aspects of life. This would allow the company to capitalize upon the complementary nature of luxury fashion. By offering consumers a wider variety of offerings, Coach will be able to increase sales by offering a cohesive product line capable of providing for consumer’s varied demands.

**Threats**

**Unpredictable Global Economy**

The future direction of the global economy is uncertain and, as a vendor of discretionary products, Coach is vulnerable to downturns. The slowing growth of China’s economy may hamper future expansion efforts, significantly harming earnings levels. Additionally, Coach generates a significant amount of net sales outside the United States. This exposes them to currency fluctuations. The weakening of foreign currencies against the US dollar may require the company to either raise prices or contract profit margins in the US. This could in turn have an adverse impact on the demand for Coach’s products.

\(^{17}\) Coach fiscal 2014 form 10-K
**Increased Competition**

Both Michael Kors and Kate Spade have been expanding rapidly over the past year, with Kor’s posting 20% sales increase each quarter in 2014. Kate Spade, often viewed as the embodiment of youthful design and bold, has posted similarly staggering growth figures in terms of sales. While these companies will slow their growth as they reach maturation (Michael Kors already had analysts worried about its market saturation as of late 2014), they still pose a significant threat to Coach’s market share. This is made evident by Coach’s recent struggles as compared to Michael Kor’s and Kate Spade’s successes.

**Digital Disruption**

Digital disruption is an industry-agnostic threat. While Coach is well positioned to handle the current trend spurred by technological advancements, namely the increasing importance of e-commerce, the next such technological advancement could cause unforeseen complications. While it remains a relatively small part of the market, the increase of consumer-to-consumer websites and other online marketplaces have illustrated technology’s ability to decrease barriers to entry. Were these barriers to be sufficiently lowered, Coach could face stiffer competition and decreased margins.

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Strategic Recommendations

Increase Luxury Status of Coach’s Brand

Coach is looked at as an affordable luxury brand within the United States, and has a significant amount of direct competition. While the brand identity has been developed over many years, it is currently viewed as overly accessible and unstylish.\textsuperscript{19} Using the significant liquidity of its balance sheet, Coach can undertake several actionable recommendations in order to improve consumer’s opinions of its brand.

One of the primary directives when considering how to restore Coach’s image is to decrease the number of discount offerings. A recent analysis done by Credit Suisse showed that Coach’s discounting levels recently rose in comparison to its peers. In mid-tier stores, Coach is the 2\textsuperscript{nd} most discounted brand with 26\% of its styles on sale. In premium stores, Coach is actually the most discounted.\textsuperscript{20} While selling products at a lower price can help to create turnover, the long-term damage to consumer perception is not worth the immediate increase in revenue.

An additional measure instrumental to returning Coach’s luxury status is the immediate closure of underperforming outlet stores combined with the gradual shift away from outlets as the main business line. By rapidly expanding these lower cost and lower margin stores, Coach made its bags overly accessible. Because many of these locations are tied up in leases until 2020, the immediate elimination of outlet stores may not be immediately possible. For those outlet locations left in operation, Coach should consider debranding the merchandise inside. The distinctive Coach logo that is associated with

\textsuperscript{19} http://www.forbes.com/sites/greatspeculations/2014/07/01/can-coach-rebuild-its-brand-image-with-new-promotional-strategies/
\textsuperscript{20} http://blogs.barrons.com/stockstowatchtoday/2015/04/01/kors-coach-kate-discounts-do-the-damage/
quality should only be attached to those bags sold from retail stores or through wholesalers at full price.

An additional operational benefit would result from the closure of a number of outlet locations. A large reason for the decreasing sales figures has been cited as lower foot traffic in stores\textsuperscript{21}. This can particularly be true of outlet stores, which are typically located away from population centers and typically feature an open-weather layout. These features make them less accessible to consumers and exposed to negative effects from inclement weather. This is particularly important in a retail-based industry, where holiday sales make up a large amount of Coach’s annual revenue. Decreasing dependence upon this volatile form of distribution will remove a high risk and low margin part of its business, all while increasing perceived value.

Lastly, Coach should continue to increase the number of its product offerings above the $2,000 mark. These luxury goods only make up 20% of the company’s business, but are instrumental in creating an upscale allure to the brand.\textsuperscript{22} With the continued recovery of the US economy, consumers will be more likely to purchase such expensive goods. However, the main intent of this shift would be to cultivate an exclusivity about the product line that will create additional demand amongst consumers to own items associated with the brand.

**Aggressively Take Advantage of Growth Opportunities**

Coach’s sales have regressed over the past year, but several promising growth opportunities exist. The majority of the revenue decline for the company can be attributed to the decline in business for the North America segment. However, while

\begin{footnotes}
\item[21] www.hoovers.com
\end{footnotes}
domestic sales dropped 20% in the first quarter of 2015, international sales have performed much better. Sales in China, a country with amazing amounts of growth potential, increased by 13% quarterly to start 2015, while European sales showed a similar amount of growth. By continuing to provide for these markets, both through retail locations and web offerings, Coach can continue to find new sources of revenue.

Coach has other opportunities for growth besides just expanding the geographical scope of its presence. The company has already seen success in its men’s product offerings, with double-digit annual growth. The increasing importance and prominence of this business line reflects the fact that the men’s fashion industry has actually outpaced the women’s fashion industry in growth for the past several years. Additionally, the company has seen the growth of its “All Other” business line, which includes its footwear, wearables, sunwear, jewelry, watches, and fragrance offerings. While this still remains just 9% of its overall revenue, Coach has stated its commitment to becoming a lifestyle brand. As the company increases its profile and restores the desirability of the brand, the demand for its supplementary items will be increased. Capitalizing on the complementarity of fashion items provides a driver for future growth. Additionally, given the longevity of well-made handbags and leather goods, selling less durable products such as shoes and fragrances will afford Coach more regular turnover.

**Increase E-commerce Sales**

The promise of Coach’s e-commerce platform was touched upon earlier in the report as a strength of the company, but it remains an area of strategic concern. We applaud the company for recently promoting two executives as part of its drive to grow online. The

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23 [http://fortune.com/2014/03/14/undressing-todays-man-mens-fashion-enters-a-renaissance/]
company has web platforms in US, Japan, and China, which represent its three largest markets. As the company expands into Europe, the rollout of a similarly polished website and streamlined web store are greatly encouraged. The company generated around $500 million in e-commerce revenue in 2014, which represents a massive growth from the $82 million in 2007. The previously discussed steady increase in traffic on Coach’s site will also continue to rise as the brand recovers. Ensuring that each visitor receives a polished and interactive web experience is paramount.

With the previously recommended scaling back of the number of factory and outlet stores, e-commerce will become an increasingly important part of the company. Marketing strategies such as offering sales for online purchases or increasing the profile of the service through advertising could help to increase the traffic. More of this will be discussed in the recommendation for increased marketing. Additionally, boosting e-commerce sales is a way to counteract the shift in consumer preference away from shopping malls: in 2014 shopper visits to physical stores were down over 5% for the previous year.24 This negative trend is expected to continue, as web shopping becomes an even more important part of the retail industry. Positioning Coach to take advantage of this shift will be a crucial driver for future growth.

**Engage in Extensive Marketing Campaigns**

At the heart of Coach’s business lies consumer tastes. When purchasing discretionary luxury goods consumers are faced with a series of subjective choices, many of which are shaped by the media and culture surrounding them. Due to Coach’s high level of liquidity, the company is poised to increase its profile through extensive marketing

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24 http://www.wsj.com/articles/shoppers-are-fleeing-physical-stores-1407281362
campaigns. Given the transitional period in company leadership, it makes sense to use the discontinuity as a pivot for the company’s image.

Coach’s desire to become a lifestyle brand marks a shift away from strictly selling handbags and leather goods. From an advertising perspective this works well; the company can sell consumers upon a lifestyle rather than a specific product. Advertisements should embody a luxurious depiction of life in New York, which integrates well with the company’s history. The focus should be on the upper echelons of society, reiterating that Coach’s brand, while accessible, is one of luxury.

The company should also focus on its digital presence. Coach’s current social media output is underwhelming, receiving relatively little attention from consumers. As a lifestyle brand, these social media websites can be utilized as a way of depicting a Coach lifestyle, rather than just being an extension of its store. Using recent developments in advertising technology, advertisements can be used to target demographics that are likely to make online purchases. This will be an important factor in generating the company’s e-commerce growth, an area of great importance.

Additionally, Coach should consider endorsement opportunities. Looked at as unstylish and cheap, endorsing a high-profile celebrity could allow the company to restore some credibility to its brand. This could have the added benefit of allowing the company to connect with a younger demographic. Coach’s competitor, Kate Spade, is frequently looked at as catering its designs towards more youthful people. While Coach’s timeless style shouldn’t be altered, outfitting an appealing celebrity in Coach products would make the brand appealing to the younger generations.