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Executive Summary

Company Overview

Coach, Inc. is a preeminent US-based leather goods and accessories company providing diversified merchandize comprising handbags, wallets, men’s and women’s accessories, outerwear, scarves, fragrance, just to name a few. The firm was founded in 1941, and it was in 2000 that Coach became a publicly traded company listed on New York Stock Exchange. As of July 2, 2011, the company operates in over 20 countries with more than 1,100 retail stores and around 15,000 employees worldwide.

International Expansion

From 2001 to 2011, Coach launched a series of activities to take great control over the brand in the Asian markets, and it also accelerated its European expansion with the help of its European joint venture partner in 2011. Continuous innovation and affordable price are two keys for Coach to conduct international business. In addition, owing to its multi-channel retail network, Coach, Inc. has successfully enhanced its brand image all over the world.

Industry

Luxury goods industry is highly competitive due to a low market-entry barrier. It has experienced ups and downs during the 2000s. And in recent years, the industry has recovered and developed rapidly. More and more luxury goods corporations have expanded their operations in emerging markets through Internet and e-commerce. The future outlook of this industry is optimistic.
Competitors

The competitions in the luxury goods industry are pretty intense. Many competitors of Coach are from France and Italy such as Louis Vuitton, Hermès, Gucci, and Prada. Having superior brand recognitions and strong impacts on global luxury goods market make them become dangerous rivals of Coach, Inc.

Recommendations

There are some chances that Coach should grab in time to increase its sales. For example, besides emails and catalogs, Coach could think about spending money working on TV commercials, or cooperating with some world-famous jewelry brands to raise the brand awareness. It also needs to consider expanding in China so as to cut down operating expenses and better meet the Chinese customers’ growing needs.

Coach’s History

Coach was established in New York City in 1941, headquartered in Manhattan. In 1962, Bonnie Cashin, a pretty famous fashion designer at the time, was hired to work for Coach, which later turned out to be a great turning point of the company.¹ She revolutionized the product design by adding coin purses, side pockets, and brighter colors onto the bags. During the 1970s, the corporation changed its name to Coach Products, Inc. and quickly expanded across the United States. Coach kept on growing rapidly and experienced a good time from 1970s to 1980s. Opening specialty stores and starting a mail-order business helped the company generate more sales and soon their products were in short supply relative to the demand. In 1999, the firm created

its e-commerce at www.coach.com, which was responsible to drive online growth for Coach. As of June 1, 2000 Coach was incorporation as Coach, Inc. And in the same year, the company went public, getting listed on the New York Stock Exchange. In 2011, Coach has already become a household name and owned nearly 500 specialty stores in the United States and Canada.²

**Coach's Current Profile**

Nowadays, Coach’s products are sold in over 970 department stores in the US. And they are also available at 211 global department stores and duty-free shops in more than 20 countries.³ In the 21st century, Coach became stronger and stronger by acquiring or allying with some powerful companies. For instance, in September 2005, the firm bought 50% interest in Coach Japan from Sumitomo Corporation who is one of the Japanese leading companies listed on Fortune 500, making Coach Japan fully under its control as a subsidiary.⁴ Another example was that Coach allied with Simon Property Group so as to expand several retail shops in its ally’s malls and lifestyle centers in 2006.⁵ Though Coach’s staple markets are the United States and Japan, it is aggressively seeking to achieve its global ambition.

**Coach’s Future Plans**

In fiscal 2012, Coach, Inc. intends to open approximately 15 new retail stores and 25 factory outlets in America and Canada, 15 net new locations in Japan and 30 new

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⁴ [http://favormall.net/clientimages/38996/fashion-coachinc.pdf](http://favormall.net/clientimages/38996/fashion-coachinc.pdf)
⁵ [http://favormall.net/clientimages/38996/fashion-coachinc.pdf](http://favormall.net/clientimages/38996/fashion-coachinc.pdf)
shops in mainland China. Furthermore, based on its corporate culture of innovation and continuous improvement, the company will also take steps to elevate the level of novelty, promote the product offering, and strengthen the in-store experience to retain old customers and attract new clients.

**SWOT Analysis**

**Strengths**

1. *Widespread Retail Network*

   Through protracted and unremitting efforts, Coach has had a perfect retail network including retail stores, websites and catalogs. There are a total of 304 Coach Stores in North America (comprising the United States and Canada), and 218 of them are retail shops while the rest are factory outlet stores. The company works closely with its distributors to sell its products through domestic as well as overseas department stores. It also markets its products by making effective use of Internet, like sending emails to its selected customers and updating the information on its website in time. These retail channels truly boost Coach’s presence in global markets and promote its brand.

2. *Excellent Financial Performance*

   When it comes to the financial performance, Coach, Inc. has handed in a satisfactory answer to the public over the years. In 2006, the revenues of the company were $2,111.5 million, an increase of 23.4% compared with 2005. Besides, its operating profit and net income reached $764.6 million and $494.3 million in the same year, an

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6 http://www.wnd.com/markets/action/getedgarwindow?accesscode=114420411048771
7 http://favormall.net/clientimages/38996/fashion-coachinc.pdf
increase of 33.5% and 37.8% over 2005 respectively.\textsuperscript{8}

**Weaknesses**

1. **Large Inventories**

   Coach has had a high level of inventory since 2002. As of 2006, the value of the company’s merchandise inventories was $233.5 million, an increase of nearly 27% over 2005.\textsuperscript{9} It is obvious that large inventories damage a corporation’s liquidity. Therefore in order to clear inventories, Coach may have to make a painful decision to cut prices, which could have an apparent negative effect on the firm’s profitability.

2. **Market Concentration**

   Though Coach, Inc. is a luxury brand aiming at the international market, its operations heavily rely on American market. The evidence was that the US represented 74.6% of Coach’s total revenues in 2006.\textsuperscript{10} Such a market concentration may put the company at risk of having to suffer a slump in demand for Coach’s products caused by American economic slowdown or recession.

**Opportunities**

1. **The Huge Handbag Market in Japan**

   In Japan, there are many young single ladies whose age is between 25 to 30 are pretty fashion conscious and willing to pay much more than their American peers for similar western luxury goods in order to demonstrate their good personal taste. What’s more, the number of these potential customers has been increasing over the past decades,

\textsuperscript{8} http://favormall.net/clientimages/38996/fashion-coachinc.pdf  
\textsuperscript{9} http://favormall.net/clientimages/38996/fashion-coachinc.pdf  
\textsuperscript{10} http://favormall.net/clientimages/38996/fashion-coachinc.pdf
rising from 49% in 1980 to 71% in 2004.\textsuperscript{11} So it is advisable for Coach to take the business opportunity of excavating such a vast latent market.

**Threats**

1. **Competition**

   As an American-based company offering fine leather goods, Coach has proved to be extremely successful in the domestic market. However, when the company launches its global expansion, it has to be confronted with lots of strong foreign rivals. So Coach should pay more attention to maintain its competitive advantages, or its dangerous competitors, such as LVMH Moët Hennessy • Louis Vuitton S.A., The House of Gucci, and Hermès International S.A. will encroach on its market shares.

2. **Decline in Consumer Spending**

   In recent years, the consumers in the US have reduced their spending as a result of high interest rates and rising fuel prices. For example, from 2004 to 2005, the price of gasoline has risen from $1.9 per gallon to $2.3 per gallon.\textsuperscript{12} Under this kind of pressure, Americans tend to cut down their unnecessary expenses, especially the costs of luxuries. Consequently, the US Coach would lose a large number of customers which leads to poor sales.

**Global Expansion & Challenges**

1. **The Process of Global Expansion**

   When it comes to the foreign market entry strategies, most multinational enterprises are best known for their foreign direct investment activities, and Coach, Inc. is no

\textsuperscript{11} http://favormall.net/clientimages/38996/fashion-coachinc.pdf
\textsuperscript{12} http://favormall.net/clientimages/38996/fashion-coachinc.pdf
exception. In June 2001, Coach, Inc. chose to cooperate with Sumitomo Corporation, one of the Japanese leading companies, to establish a joint venture company that is later known as Coach Japan. And the performance of this joint venture company was turned out to be excellent. As of July 1, 2005 Coach, Inc. purchased half interest in Coach Japan from its partner, making Coach Japan entirely become its subsidiary. From then on, Coach, Inc. had launched similar activities in other countries and areas. For instance, in order to take greater control over the brand in the Asian market, Coach started taking over its international retail business from its local distributors in mainland China, Hong Kong, Macau, Malaysia and Singapore by means of acquisition and agreement during 2009 to 2011. Additionally, Coach opened new retail shops in Spain, Portugal, and Great Britain in 2011 with the help of its joint venture partner Hackett Limited, striving for its further expansion in the European market.13

2. The Strategies of Global Expansion

Coach, Inc. implements two main strategies to market its products internationally. In the perspective of product, Coach’s tactic is keeping on innovation. The company has consistently designed and produced new products to cater to the newest fashion styles in every quarter. According to CEO Lew Frankfort’s words, the new “scribble line” that Coach introduced in spring were “enormously well received”.14 That proved Coach has truly benefited from its continuous innovations. While in terms of price, Coach states that it is an “affordable luxury brand”. As consumers, they all expect to

13 http://www.wnd.com/markets/action/getedgarwindow?accesscode=114420411048771
14 http://mmoore.ba.ttu.edu/ValuationReports/Coach.pdf
use the least costs to get the best products. However, high quality products are often accompanied by high prices in the marketplace. This truth especially embodies in luxury goods industry. Thus Coach’s strategy is to provide premium goods with affordable prices, filling a gap in the market.

3. The Channels of Global Expansion

Coach’s distribution channels are various. The products are not only sold in retail shops and factory stores, they are also available in the company’s websites, on-line stores and mail-order catalogs. What’s more, Coach has also opened many new boutiques in all kinds of department stores, both domestically and abroad, to boost sales. Based on its multi-channel retail network, Coach rapidly enjoins an international reputation now.

Associated Challenges

1. Intense Competition

Although Coach is a household name in the United States and Japan, there is still a big gap between Coach and its strong European competitors in terms of brand recognition. As of 2008, LVMH, Gucci, Hermès still dominate the top of the world’s most valuable luxury brands list.¹⁵ So only after a prolonged endeavor can Coach be as same popular as them.

2. Tariff Barrier

Nowadays, many countries in the world get used to imposing high tariffs on some

certain products so as to protect its domestic industries. And it is also very common that the import duties of luxury goods are pretty high among countries in international business. That means high tariff puts Coach at risk of having to increase the prices of its products, which may destroy Coach’s competitive advantage in terms of price.

3. Counterfeit Goods

It is said by Global Congress on Combating Counterfeiting that fake goods accounted for 9% of the total cross-border trade.\textsuperscript{16} That implies as a world-class luxury brand, Coach inevitably has been counterfeited. As a result, both Coach’s revenues and brand image would suffer tremendous losses due to the increasing counterfeit trade. Therefore Coach, Inc. should pay more attention to this issue.

**Coach’s Competitors**

Luxury is a highly competitive business. Coach’s primary opponents such as LVMH Moët Hennessy • Louis Vuitton S.A., The House of Gucci, and Hermès International S.A. are all from Europe. They all have superior name recognitions and strong influences on international luxury goods market.

1. **LVMH Moët Hennessy • Louis Vuitton S.A.**

LVMH Moët Hennessy • Louis Vuitton S.A., the world's top luxury goods manufacturers, was formed in 1987 when fashion house Louis Vuitton merged with Moët Hennessy. Its headquarters are in Paris, France. LVMH possesses about 60 subsidiaries which are usually operated independently.\textsuperscript{17} It was reported that LVMH was the world’s most valuable luxury brand with total brand value of €16.718 billion

\textsuperscript{16} http://favormall.net/clientimages/38996/fashion-coachinc.pdf

\textsuperscript{17} http://en.wikipedia.org/wiki/LVMH
in 2008. Unfortunately, Coach was even not included in the world’s top 15 valuable luxury brands list. That shows though Coach’s brand image has recently got a quick development, it is still left far behind LVMH.

2. The House of Gucci

Gucci was established in 1921 by Guccio Gucci who was an Italian fashion designer as well as a successful businessman. As the biggest-selling Italian brand, Gucci generated global revenues of €4.2 billion in 2008 on the basis of the report in BusinessWeek magazine. It was in October 1995 that Gucci became a public-held corporation. And nowadays, the company manages approximately 300 Gucci stores all over the world. In addition, there are many Gucci world offices locating in major cities like Florence, Milan, Paris, London, Hong Kong, New York and so forth.

3. Hermès International S.A.

Besides LVMH, Hermès is another popular and well-known French luxury brand headquartered in Paris, France. One of the distinctions of these two is that Hermès has a much longer history than LVMH since it was founded in 1837. As of 2008, Hermès has formed 14 product segments comprising leather goods, ties, perfume, scarves and so on. Leather goods accounted for around 30% of Hermès sales. Clothes and scarves represented 15% and 12% of the company’s total net sales respectively. The main feature of Hermès brand is that almost every product, from start to finish, is entirely

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19 http://en.wikipedia.org/wiki/Gucci
20 http://en.wikipedia.org/wiki/Gucci
21 http://en.wikipedia.org/wiki/Herm%C3%A8s
made by one person’s hands. This old-fashioned business model seems to be very
time-consuming, but it indeed ensures the quality and uniqueness of the firm’s
products. That is why Hermès handmade luggage and handbags are so famous and
best-selling.

Industry Analysis

The competition in the luxury goods industry is extremely intense due to a low
market-entry barrier, that is, not all the corporations in this industry can gain great
achievements. Many companies had to withdraw from the market because of being
short of effective follow-up financial support. Nowadays, this industry provides
services for two types of clients: to the rational consumers, some companies choose to
offer affordable luxury goods which are classic styles and won’t be outdated for a
long time; and to the fashion-conscious customers, plenty of firms try to supply
higher-priced products whose designs are keeping up with the newest fashion trends.

Luxury goods industry has experienced ups and downs during the 2000s. The world’s
top brands such as Louis Vuitton, Gucci, and Hermes all generated benefits of more
than 100% at the end of 1999.22 In 2000, the industry continued performing well in
the global financial markets. However, the changes took place in the following years.
Luxury goods industry was strongly impacted by the adverse effects of wars, diseases,
and global economic recession. Fortunately, it soon started recovering with the
support of its loyal customers who were eager to buy luxuries to demonstrate their
wealth and status. Recently, with the rapid development of Internet and e-commerce,

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more and more luxury goods corporations have successfully marketed their products in emerging markets. And they will constantly optimize their goods and services to meet the international customers’ higher demands in the future. So on the basis of above analysis, luxury goods industry is promising.

**Short-Term Recommendations**

*Elevate Men’s Product Offering*

Currently, Coach concentrates on designing and offering women’s products, especially the handbags. The company only supplies the customers with a small part of men’s accessories which merely represent 2% of the total net sales. But in fact, an increasing number of men today have a great appetite for western luxury goods. They have the same desire for fashion products and prepare to spend much money on packing themselves. So Coach should do its utmost to meet men’s demands.

*Recruit Talented Fashion Designers*

Brilliant fashion designers are in high demand in luxury goods industry since a brand’s soul is the design of its products. So in order to set a good brand image as well as instill new vitality into the enterprise, Coach, Inc. needs to recruit more talented designers who are extremely sensitive to the pulse of fashion and have the ability to design a number of marketable products.

*Ally With Strong Jewelry Brands*

In many countries and areas throughout the world, Coach is considered as a mid-range luxury brand rather than a world’s top brand like LVMH, Gucci, Hermès, Prada and

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23 stupub.stjohns.edu/aayal239/port/Coach_Inc.ppt
so forth. This phenomenon may be caused by Coach’s cheaper price. To compete against these powerful opponents and draw more attention from the upper-class customers, Coach can think about allying with a group of world-class jewelry companies to try to combine varieties of jewelries with its products. On the one hand, this practice is a sign of seeking novelty. On the other hand, it can also enhance Coach’s fame.

**Long-Term Recommendations**

*Upgrade Brand Image*

In 2006, it took Coach’s 4.8% of net sales to design, advertise, and market its merchandise. However, the result was disappointing. The corporation’s reputation is still not as good as its international rivals. Actually, according to Coach’s performance in the past few years, it is clear that there is no big problem in product design and marketing, so Coach should take more advertising strategies into consideration besides Internet. For example, TV commercials, as a kind of cyclic visual stimulation, are much more eye-catching and effective than emails, catalogs and information listed on the websites.

*Curb Counterfeit Trade*

In international business, it is extremely significant for Coach to protect all its intellectual property rights so as to maintain the competitive advantages. Nevertheless, no matter how many efforts the company made, counterfeiting still happens frequently and shows an upward trend. At this time, Coach, Inc. should

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further improve the technological content of products to make it difficult to imitate and counterfeit. In addition, since Coach, Inc. operates in many countries, the company could strive to persuade the foreign governments to enact and amend their intellectual property laws, which can legally protect Coach’s interests.

**Expand in China**

As an emerging market, China has attracted more and more foreign investments from multinational enterprises in the past few decades. China is an ideal place for international investors because it offers cheap labor force, rich natural resources, huge potential market, as well as stable political and economic environment. What’s more, as a result of Chinese fast economic development, the number of Chinese customers who have a strong desire for the world-famous luxuries has dramatically increased in recent years. Thus it is advisable for Coach to set up factories and retail stores in China so as to both reduce operating expenses and better satisfy the growing needs of Chinese customers.

**Conclusion**

Coach, Inc. has been a successful world-class luxury goods company for many reasons. The most significant one that puts Coach in a highly competitive position throughout the world is its image of “affordable luxury”. And though the prices of Coach are much lower than that of its European peers, Coach still firmly guarantees the qualities of all its products. That explains why Coach is able to attract the middle-class consumers’ attention. Another of the company’s strengths is its customer loyalty. As a US-based corporation characterized by American attitude and fashionable
design, Coach is very popular with its domestic clients. No matter old or young generation, when Americans go to Coach stores there is always something that brings them back again. Looking toward the future of Coach, Inc. there are going to be plenty of chances to expand its operations in emerging markets since the company has already possessed a widespread retail network. It is undoubted that Coach will be one of the most well recognized brands both domestically and abroad.
Bibliography

Internet sites


   (footnote 3)


11. stupub.stjohns.edu/aayal239/port/Coach_Inc.ppt (footnote 23)