



Coach is looking to expand its business, particularly in China, without losing its New York authenticity.

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Catching up with Coach

Since it was established in 1941, Coach has always recognised the importance of using the best quality leathers in its bag and leathersgoods collections. The company was originally called Manhattan Leather Bags and started out as a family-run workshop in a humble Manhattan loft apartment. Its six staff members turned their love for leather and handmade leathersgoods into a thriving global business that continues to grow.

In 1946, Miles Cahn and his wife Lillian, who owned a leather handbag manufacturing business, joined the company and by 1950 Mr Cahn had taken over the business. During the 1960s, he carried out detailed research into leather production and discovered a way of processing the leather to make it stronger, softer and more durable. His wife suggested they produce a number of affordable ladies' handbags using sturdy cowhide, which was much better quality than the thin leather pasted over cardboard that was often used to make handbags at the time.

Between 1962 and 1974, fashion designer Bonnie Cashin worked for Coach, creating new ideas such as side pockets and coin purses, and giving the bags brighter colours in addition to the standard browns and tans. This helped raise the profile of the brand and demand began to outstrip supply. The company

started opening its own stores as well as selling its leathersgoods through department stores.

Affordable luxury

The company was sold to Sara Lee Corporation for \$30 million dollars in 1985, including its factory, its six boutiques and its flagship store on Madison Avenue, New York. The new owners rapidly started opening up in new locations. According to the company, the concept of affordable luxury at this time was fairly novel; leather handbags were either very expensive or were cheap imitations of high-end lines. With its range also including footwear and briefcases, it appealed to a broad customer base.

Today there are currently more than 400 Coach stores in the US and Canada, and the company plans to open more throughout the coming year. However, one of its most important markets at the moment is China, where it is experiencing unexpectedly high levels of growth. The company acquired its retail businesses in Hong Kong, Macau and mainland China just last year, but has already seen burgeoning sales there. Its business in Japan also continues to do well. Although growth there is not as pronounced as it has been in the past, it continues to be an "important market for imported handbags and accessories", according to the company.

At present, Coach Japan operates 155 department store outlets and retail and factory stores, and the company has 28 locations in China. Its aim is to make the company as well known overseas as it is on home soil. However, while its reach is ever broader, Coach is determined to maintain its classic American identity and style. The emphasis continues to be on using the best materials and top workmanship to make excellent products that reflect its "original American attitude and design".

The company recently published financials for its fiscal second quarter, noting a return to positive comparable store sales within its North American retail business, where trends improved as the quarter continued. Despite the challenging retail environment, which has not simply gone away, and the ongoing caution of North American consumers, it believes its multi-channel distribution model offers something for everyone, including the growing number of increasingly value-conscious consumers.

The leathersgoods manufacturer posted an 11% annual rise in revenues to \$1.1 billion for the second quarter, while net income also grew 11% to \$241 million. This was the first time quarterly sales had ever exceeded \$1 billion. North American same-store sales increased 3%, while total North American store sales rose 16%. Sales in Japan fell 2% in constant-currency terms



but rose 7% in dollars and, according to the company, the brand generated very strong sales growth in China.

Global expansion

During the same quarter, Coach opened three North American retail stores and two new factory stores. At the end of the period it operated 343 full-priced and 118 factory stores in North America. In Japan, one location was added bringing the total in the country to 163 locations. It added four new locations in Greater China: three on the mainland and one in Hong Kong. At the end of the quarter there were 37 Coach locations in the region including 10 in Hong Kong, two in Macau, and 25 on the mainland across 10 cities.

"We are building a multi-channel distribution model in China including flagships, retail stores, shop-in-shops, and factory stores," says chairman and CEO, Lew Frankfort. The company plans to open around seven additional stores in China during the second half of the fiscal year, including its first flagship on the mainland. In total it will add 15 new



Some of the proceeds from Coach's new Madison Large Leather Hippie and Kristin tote bag will go to Sandra Bullock's favourite charity, The Beauty Bus.

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locations for the year, doubling its retail space in the country.

Mr Frankfort adds: "We were very pleased with our performance in China where our brand is clearly taking hold with consumers both domestically and mainland China and with millions of Chinese who are travelling notably to Hong Kong and globally. Coach's potential in the China market is reflected in our very low unaided awareness of 8% compared with 72% in the US and 63% in Japan among target consumers. What we also learned last fall through our market research is that the Chinese consumer loves Coach."

According to Mr Frankfort, the Chinese consumer rates the company highly "on all of the attributes she values such as fashion, sophistication, quality, and value". "Among existing Coach China consumers, repurchase intent is surprisingly high at 94%, a higher level than we've experienced in the US or Japan," he explains. "Given the faster market growth than expected, we're accelerating our growth strategies in China and are in the process of revising our long-range plans substantially higher."

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The main strategy in China is, in addition to making consistently good product, to concentrate on in-store experience. "We're focusing on strengthening the knowledge of our sales associates and our teams so that they can really convey the DNA of our brand in a way that will continue to encourage 94% of those who purchased previously to continue to return," Mr Frankfort says. "We're focusing on staff knowledge, operating protocols and the like."

Remembering its roots

Despite its success overseas, the company is not prepared to leave behind its original design vision. Although it is able to adapt to different markets, the aim is always to reflect its Manhattan roots. "We position ourselves as an authentic quality New York fashion brand, and each of the words means something so when we talk about authentic, we have deep roots," says Mr Frankfort. "Our quality talks to workmanship and materials. New York talks to spirit and verve and when we talk

to fashion it talks to relevance, and that positioning resonates extremely well with our target Chinese consumer particularly because she is cosmopolitan. And through the internet, media, movies, and the like, she sees herself as a citizen of the world and does love New York."

The company's collections clearly reflect this ethos. Its two leading collections during the second quarter were Madison, which was re-launched in October with new styles and colours, and Poppy, which featured new novelty prints and colours in October and December. Combined, the two collections represented nearly 50% of full-price store sales.

Coach's Poppy line includes bags, footwear and jewellery for a younger consumer. It uses various types of leather finish, for example metallic and patent effects. Items in the range vary in style from oversized totes and carryalls to small swingpacks and wristlets. Colours include soft pastels and eye-catching brights, and the patterned bags feature graffiti-like prints and butterfly motifs. Its Madison line is more sophisticated, more luxurious

and comes with a higher price tag. Colours are deeper and more subtle, and textures are crisper. Pleated and chevron leathers are used alongside embossed styles that resemble exotic leathers.

One of the company's best-known followers is film star Sandra Bullock and, in recognition of this, the company recently agreed to donate a percentage of sales of two of its handbag models to her favourite charity, The Beauty Bus. The organisation provides beauty treatment to home-bound terminally or chronically ill patients and their carers. Part of the proceeds from the sales of her two favourites bags—the new Madison Large Leather Hippie, which retails for \$358, and the Kristin tote bag, which costs \$598—will go to the charity. According to the company, this Madison model is made from "sumptuous, pleated cowhide leather", and is available with silver or brass detailing in three colours: black, bone and walnut. The Kristin bag in question is made from "especially soft, supple leather", Coach says. It comes in four colours: black, green, brown and coral pink. ■



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