

# **Michael Kors**

# **Strategic Plan**



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## **SWOT Analysis**

### **Strengths**

Michael Kors has consistently developed a distinctive brand image across an expanding number of products, price ranges, and geographical markets over the past 30 years. The superior quality and design detail across product lines are depicted through premium price points and encourage repeat purchases among a growing customer base. Michael Kors is a public company with strong financial backing. Michael Kors' senior management team has an average of 25 years of experience in the retail industry, with an average of eight years with Michael Kors. Michael Kors has built its' high-end brand reputation in the entertainment business due to the number of Hollywood celebrities that have been photographed wearing Michael Kors from the red carpet to an average day. Some notable celebrities include (but not limited to) are: Cameron Diaz, Jennifer Lopez, Gwyneth Paltrow, and more. Another factor that increased his customer base and brand exposure in the entertainment industry was his role as a featured judge on Bravo's Emmy Nominated reality series, Project Runway. The Company maintains strong relationships with premier wholesale customers (Nordstrom, Macy's, Neiman Marcus, Harrods, etc.) to enable access to large numbers of key consumers in a specific targeted manner. In addition to these relationships, they target large numbers of key consumers through their multi-retail format including: E-commerce, Collection Stores, Lifestyle Stores, and Outlet Stores totaling 317 stores combined nationally and internationally. Over the years Michael Kors has acquired various significant awards and achievements which have proven to enhance his brand image. The broad price range on Kors' products ranging from \$40-\$10,000 is reflected clearly by their broad customer base, yet still maintains its' presence in the luxury market.

## **SWOT Analysis**

### **Weaknesses**

Among Michael Kors' many successful achievements, there are numerous weaknesses the company has at their disadvantage. The lack of significant operating experience internationally is a drawback compared to established competitors who have higher levels of experience in certain locations. The company has expanded rapidly over a small duration of time which has caused a strain on existing resources and incapability to keep up with expanding operations proportionately. A weakness that potentially taints Michael Kors' brand image is the lawsuit filed against them in 2009 for trademark infringement on "Duquette". The luxury market contains significantly larger competitor companies who have a larger product selection/diversification and have greater capabilities that enable them to better withstand economic downturns and compete more effectively with their pricing and promotion strategies. Michael Kors relies on discretionary spending which tends to decline during recessionary periods, when disposable income is lower. There are a number of factors that are not in the company's control but impact discretionary consumer spending, including: general economic conditions, consumer confidence, wages and unemployment, consumer debt, fuel and energy costs, taxation and political conditions. General availability of manufacturing contractors allows new entrants in the industry "easy access" to competitive markets. Michael Kors is dependent on a limited number of distribution facilities, entailing if one or more operational facilities undergoes difficulties or becomes inoperable, there is an adverse effect on the financial condition of the business.

## **SWOT Analysis**

### **Opportunities**

Although Michael Kors has been established for over 30 years, the brand is still emerging itself into the affordable luxury fashion market. In 2002 Michael Kors launched his menswear collection; however it is yet to take off sales-wise. There is a large opportunity in the men's department to expand the product selection and target a younger audience in their mid-20s to mid-30s. By implementing a stronger presence in the media both socially and through print Michael Kors will be able to efficiently increase the brand awareness. On the contrary, this will facilitate in expanding globally by keeping consumers involved and up to date on what is the latest greatest regarding Michael Kors products. Another opportunity presented for Michael Kors is to enhance his global prestige by increasing his participation in press activities and personal appearances in order for people to view him as an approachable, relatable designer overseas. Hosting more promotional events such as fashion shows before every season at select stores will also enhance his brand awareness and popularity. Expanding print media in such ways as complimentary store catalogs that featuring the new seasonal collection allows for people to visually relate to the business and the products. Generating multimedia press coverage helps reinforce Michael Kors' designer status and high-fashion image both nationally and internationally.

## **SWOT Analysis**

### **Threats**

Due to a limited number of distribution facilities, Michael Kors has a disadvantage in responding to the ever-changing fashion trends in a timely manner. This factor may have a material adverse effect on Michael Kors as a brand and its financial condition as a business. Michael Kors operates within a highly competitive market, both within North America and internationally. This poses as a threat because of the increasing number of competitors due to Michael Kors' comprehensive customer base and extensive price ranges that are offered. The chance of not correctly gauging consumer needs and demands in fashion is a threat reflected accordingly with the sales productivity and inventory turnover. Since the company is named after the designer, Michael Kors, any negative actions imposed by Kors are directly associated with the brand and may have a large impact on the brand image. Accessories, footwear, and apparel industries are heavily influenced by general macro-economic cycles which effect consumer spending. As a company categorized in the luxury market, if there is a prolonged period of low consumer spending then there is a hostile effect on the business, financial position, and operating results. If consumer spending patterns change negatively, then sales prices have to decrease as a result. Decreasing the sales price leads to failure to reduce production costs and operating expenses which ultimately imply a reduction in profitability.

## SWOT Analysis

<p style="text-align: center;"><b>Strengths</b></p> <ol style="list-style-type: none"><li>1. Strong multi-channel retailing</li><li>2. Positive, notable Hollywood celebrity exposure/endorsements</li><li>3. Broad price range resulting in a broad customer base</li></ol>	<p style="text-align: center;"><b>Weaknesses</b></p> <ol style="list-style-type: none"><li>1. Reliability on discretionary spending</li><li>2. Restricted geographic presence (only 106 stores outside of North America)</li><li>3. Limited number of distribution facilities</li></ol>
<p style="text-align: center;"><b>Opportunities</b></p> <ol style="list-style-type: none"><li>1. Increase number of retail stores globally (high-visibility locations)</li><li>2. Expand men's market</li><li>3. Increase brand awareness through multimedia advertising</li></ol>	<p style="text-align: center;"><b>Threats</b></p> <ol style="list-style-type: none"><li>1. Consumer spending pattern changes</li><li>2. Designer's actions associated with company reputation and brand image</li><li>3. Highly competitive market</li></ol>

## **Differential Advantage**

The remarkable growth that Michael Kors has achieved in the luxury apparel market is attributed to their ability to differentiate themselves from their competitors. Throughout the past decade, they have relied on a combination of several different strategies in order to surpass other brands in the luxury goods market. As a result, they have become a firmly established brand with significant market penetration.

One of the most important and contributing factors to the success of Michael Kors is through their unique design vision. Michael Kors himself is a world-renowned and award winning designer who is personally responsible for leading the design team. This includes both conceptualizing and directing all product designs, resulting in a unique competitive advantage. These design claims are validated not only through continuously strong sales, but also through numerous recognition awards, such as the CFDA Women's Fashion Designer of the Year, the CFDA Men's Fashion Designer of the Year, the ACE Accessory Designer of the Year and the CFDA Lifetime Achievement Award (Corporate Profile, 2012).

Another key distinguisher for Michael Kors is their ability to rapidly grow their luxury brand while portraying their products as lifestyle essentials. The Michael Kors brand itself has become synonymous with luxury that is both timeless and elegant. Products are ready-to-wear and range from accessories to dresses to handbags. Consumers self identify with these high quality designs, materials and craftsmanship. The brand equity that has been built is a competitive advantage and is strongly enforced by several widely recognized celebrity trendsetters who include Angelina Jolie, Cameron Diaz, Uma Thurman, Jennifer Lopez, Madonna, Gwyneth Paltrow, First Lady Michelle Obama, Catherine Zeta Jones, and many more (Pologeorgis, n.d.).

Michael Kors also has a significant advantage by having built a proven and strong management team. The senior management averages over 25 years of experience in the retail industry, covering design, sales, marketing, public relations, merchandising, real estate, supply chain management and finance. These key leaders have experience with public companies and have an in-depth knowledge of the Michael Kors's philosophy, having worked an average of eight years with the company. Furthermore, the organization is supported with a strong level of senior staff, having an average of 19 years of industry related experience (Securities and Exchange Commission, 2011).

Strong partnerships with leading retail brands have been a critical differentiator to achieve consumer accessibility. Some of the world's most notable luxury brands to have built a mutually beneficial relationship with Michael Kors are Bergdorf Goodman, Saks Fifth Avenue, Neiman Marcus, Hot Renfrew, Blomingdale's, Nordstrom and Macy's. In Europe, these brands include Le Bon Marche, Printemps, Harrods, Harvey Nichols, Selfridges and Galeries Lafayette. These partners are critical in targeting and exposing the Michael Kors brand to luxury buying customers. Furthermore, strongly branded in-store displays with specially trained staff are being built to solidify brand positioning even further (Bloomberg News, 2012).

## **Mission Statement**

Michael Kors's mission is to deliver a vision of a jet-set, luxury lifestyle to both women and men around the globe. Their apparel and accessories are emblematic of the highest standard of craftsmanship and beauty. A relentless focus is placed on providing lifestyle products that embrace creativity, quality, and technology.

Michael Kors has an unmatched goal of creating broad appeal for their base products. They target both men and women of multiple age ranges and demographics. According to David Guarino, a financial analyst at SeekingAlpha.com, Michael Kors strives to become "wildly popular as the company sells not only luxury handbags that range from \$200-\$800, but also less expensive items such as watches, jewelry, fragrances, and clothing to name a few. Consumers of every level can show off a Michael Kors purchase; the same cannot be said for other luxury retailers." Michael Kors uses this model as a base for penetrating the luxury consumer market as they are able to capture significant market share by associating non-luxury products with their luxurious brand (Guarino, 2012).

Michael Kors has already built a highly recognizable luxury lifestyle brand in North America and now focuses on a mission to accelerate their brand awareness globally. Competing in an approximately \$300 billion global luxury goods industry, they continue to focus on expanding and strengthening their brand in both Europe and Asia. The Michael Kors empire now extends into stores across the USA, Canada, France, England, Germany, France, Italy, China, Japan, Korea, Bahrain and the United Arab Emirates (Editorial, 2011).

## **Goals & Objectives**

There are several overall goals and specific objectives for Michael Kors to achieve during the next three to five years. Fulfillment of these goals will be critical to growing the brand and the success of the company.

### **1. Significantly increase the international footprint for Michael Kors.**

- While Michael Kors has established a strong presence in North America, international customers have not received the same exposure. Overall brand awareness in Europe and Asia, two continents that thrive on luxury sales, is comparably very low to domestic awareness, presenting a clear revenue growth opportunity. This is validated by positive financial performance in foreign areas that have received some limited exposure to the Michael Kors brand. Other areas for growth opportunity exist in the Middle East and Australia.
- In China, 15 stores will exist by the end of the year and the following year will double the total to 30 (Red Luxury, 2012). This includes expansion into Mainland China, Hong Kong, Taiwan and Macau. This increased presence will position Michael Kors to capture part of the exploding Chinese clothing and apparel market, which is expected to more than triple in the next ten years as rising Chinese incomes fuel demands (Bloomberg News, 2012).

- In Europe, 29 stores currently exist with expected plans to grow to 40 stores in the next year. This will be an increase of 38% in store presence and will be a catalyst for approaching 100 stores within the three to five year time frame. Western European countries will continue to be targeted with a heavier focus on France, Germany, Italy, Spain and the United Kingdom. European austerity and anxiety from difficult economic conditions has significantly impeded retail growth for competitors; however, Michael Kors continues to exceed expectations by having strong same store sales in these European Markets. In fact, the European sales have been a boom to the company's finances and a big contributor to widening gross margins from 55.9% to 57.8% (Wahba, 2012).
- Michael Kors has eight stores in the Middle East, with a concentration in the United Arab Emirates. Other countries that currently have a single store in this region are Bahrain, Kuwait, and Saudi Arabia. Although the Middle East has a vast amount of monetary wealth, possible expansion locations are limited due to both political challenges and a high concentration of centralized areas for luxury spending. Over the subsequent year, Oman, Israel and Qatar will be new territories to receive a store. The remaining seven stores will be added to existing countries.

## **Goals & Objectives**

### **2. To gain at least a 50% market share of competitor Coach in the United States.**

- Coach currently owns a 35% share of the handbag market in the United States compared to a 9.5% share from Michael Kors. To attain half of Coach's market share in the United States, it is projected that Michael Kors will need to capture approximately 16% of the market, as Coach will decline to a 32% share. A very positive current indicator is Michael Kors's growth in the United States handbag market grew 35% the past year, compared to only 1% growth for Coach. According to Coach's CEO, Lew Frankford, "Michael Kors is a significant threat" to Coach's share of the domestic handbag market (Timberlake, 2012).
- To continue to erode Coach's market share, Michael Kors will increase its physical presence in the United States through multiple channels. The current sheer number of self-branded stores will increase by 50%, going from 200 to 300 by the end of next year. Locations will be concentrated in cities and states that have the highest projected economic growth (Retailsails, 2012).

- Although branded physical stores provide a strong presence, doubling boutique exposure from 250 to 500 carriers will be an important path to reaching a high volume of targeted customers. Michael Kors can capture a significant share of targeted customers by leveraging established and high trafficked local boutiques. In-store displays and licensing agreements will be arranged, resulting in greater exposure to Michael Kors over Coach.
- To take Coach on directly, investing significant marketing into locations where customers have an easy choice between Coach and Michael Kors products will pursue a strong offensive position. In all cities where both a Coach and Michael Kors store exists, advertisements will be placed in local fashion magazines highlighting the value and desire of the Michael Kors brand.
- Another avenue for capturing Coach's market share is to grow the Michael Kors men's collection. Currently, Coach has a significant competitive advantage in the men's market as Michael Kors has historically focused on women's apparel and accessories. By launching a product line of men's accessories including: watches, wallets, colognes, shoes, belts, and sunglasses, Michael Kors will be able to increase men's sales from 12% of all sales to 20%.

## Goals & Objectives

### 3. To double same-store sales globally

- Although this is an aggressive forecast, recent financial performance has shown that this is definitely achievable. Same stores sales in North America over the past year came in at a very healthy 38.4% while Europe was very strong at 24.2% growth (Seeking Alpha, 2012).
- One critical objective in order to achieve this goal is attain at least 20% year over year growth in over 90% of stores by localizing product and optimizing inventory. Through Michael Kors's proprietary business intelligence systems, the sales for specific product types 'will be correlated to the demographics of shoppers for each store. This will allow Michael Kors to identify better selling products to different types of customers.
- Furthermore, newer products will be tested in pilot stores and their sales performance will impact the roll out strategy for other stores with similar demographics. Store layouts will also be analyzed in an attempt to replicate product placement and merchandising displays that are most effective.

- Another important objective to support the goal of doubling same store sales will be doubling the product offerings in shoes and accessories. Several retailers, such as Macy's, Barney's and Sachs have significantly increased their shoe department sizes due to recent studies that indicate capturing a customer through the purchase of shoes builds far more brand loyalty than any other type of apparel (Timberlake, 2012). This is because women tend to fall in love with shoes more than other articles of clothing, as well as the frequency in which the same pair of shoes can be worn during the week. Thus, 30% of all floor store space will be dedicated to shoes.
- Sales associates will be trained to provide world-class customer support for shoppers looking to purchase a new pair of shoes. Other accessories, such as jewelry, hats, belts, and watches will also help increase same store sales due to the inherent upselling potential of these products.

- Lastly, the roll out of a Michael Kors loyalty program will help drive same-store sales. Although Michael Kors currently enjoys a strong brand loyalty from its dedicated customers, a loyalty card will help Michael Kors direct market to these customers since it provides the opportunity to capture customer contact information. By providing enticing promotions and exclusive opportunities for Michael Kors most valued customers, Michael Kors stores will be able to better keep customers engaged with product offerings. By the end of the year, all sales associates will be required to offer a loyalty card to transacting customers. All stores will also prominently display the loyalty card benefits near the checkout line.

## Action Strategies

### 1. Increasing International Presence

- Main Staff Appointed
  - Brand Manager: Jessie Lisa
  
  - Director of E-Commerce and Direct Manager: Jeanette Miller
  
  - Executive Vice President-Global Communications: Sally Susman
  
  - Marketing Manager Europe and Emerging Markets: Alysha Reid
  
  - Vice President Global Communications: Billy Daley
  
  - Vice President, International Business Development: Alan Goodman
  
- Strategies
  - Maintain and initiate Michael Kor's advertising position in global fashion publications.
  
  - Increase the Internet/e-commerce exposure through social media.
  
  - Push the distribution of store catalogs featuring new collections each season.
  
  - Host semi-annual runway shows to reinforce Kor's designer status in the European market and generate global multimedia press coverage.
  
  - Expand retail store base in pre-eminent, high-visibility locations within China, Europe, and the Middle East.
  
- **Timeline: 4 Years**

## Action Strategies

### 2. North America Store Expansion

- Main Staff Appointed
  - Public Relations Coordinator: Molly Barker
  - Chief Marketing Officer: Allen Chamberlin
  - Director E-Commerce and Direct Marketing: Jeanette Miller
  - President, Retail: Jaryn Bloom
  - Senior Vice President of Merchandise: Michele Chan
  - Store Design & Development Senior Project Manager of US Retail: Jessica Pugh
  
- Strategies
  - Applying market research to open new retail stores in predominantly high traffic, urban areas.
  - Focusing stores within mall locations in higher (income) demographic areas for the “Collection” stores and focusing the Outlet and MICHAEL by Michael Kors “Lifestyle” stores in middle-income areas that have not been targeted.
  - Reinforce the brand image through more promotional events including seasonal collection trunk shows that are accessible to the public and feature appearances by Michael Kors himself to enhance his likeability and loyal customer base.
  - Produce new product offerings to create more demand.
  
- **Timeline: 3 Years**

## Action Strategies

### 3. Expand Men's Collection Presence

- Main Staff Appointed
  - Production Director Mens: Sue Kim
  - Merchandising Manager, Mens: Julie Lee
  - Director of Merchandising, Mens: Alexis Stuart
  - Senior Vice President, Mens Design: Tim Desalvo
  - Vice President Sales, Mens: Dawn Pirthauer
  
- Strategies
  - Analyze current sales where Men's collection and accessory items are the highest.
  - Launch menswear accessories and footwear within the top five stores with highest sales.
  - Increase the amount advertising for menswear collection in public social and print media to create a higher demand.
  - Launch an innovative, affordable line of apparel that targets men in their 20s-30s in shop-in-shop store format
  - Transform the visual displays for the Men's section of Michael Kors through customized freestanding fixtures, wall casings, and other decorative elements to appeal to men
  - Cater to men's taste in affordable luxury that is functional
  
- **Timeline: 5 Years**

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