



ICM

DECEMBER 2016

CONTEMPORARY STRATEGIC MANAGEMENT – PRE-ISSUED CASE STUDY & GUIDELINES

The following provides details on a case study involving **ABERCROMBIE & FITCH**. Candidates should read this case study carefully in preparation for the examination.

Note: A copy of this case study will be available in the examination. Therefore, you will NOT be allowed to take this case study into the examination room. Candidates are allowed to take into the examination a maximum of two pages/four sides A4 of draft working notes which should be handed in and attached to the answer script.

DRAFT WORKING NOTES GUIDANCE [15 marks] – to be handed in with answer script.

Researching, preparing and understanding the case study and compiling these notes provides the essential case preparation necessary for all candidates to be successful.

The draft working notes (maximum of two pages/four sides A4) should be handed in and attached to the answer script. They should be word-processed (min. word size 12 pt) and contain key headings and areas relating to the strategic analysis of **ABERCROMBIE & FITCH** and should provide the analysis underpinning required to answer the examination questions.

The notes will be assessed as follows:

- Evidence of a good level of secondary research and understanding of the case [5 marks]
- Outline of FOUR strategic models relevant to the case analysis [5 marks]
- Report structure, readability and legibility [5 marks]

N.B. Whilst it is hoped that all, or most, information required to analyse and evaluate this case study is contained in the case, it is recognised that this might not always be the situation as information relating to most companies is sometimes changing on a daily basis. It is suggested that secondary information (facts, figures, etc.) contained in this case should be utilised first. If the student still considers there is an absence of information in a particular area then it is quite reasonable for material external to the case to be gathered and utilised. External sources mentioned in the report should, of course, be referenced.



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CASE STUDY – ABERCROMBIE & FITCH

INTRODUCTION

Abercrombie & Fitch (A&F) is an American retailer that focuses on upmarket casual wear for young consumers, and is headquartered in New Albany, Ohio, a suburb of Columbus. It has over 300 locations in the United States, and is expanding internationally. The company operates two offshoot brands: Abercrombie Kids and Hollister Co., in addition to two brands, Ruehl No. 925 and Gilly Hicks, that closed in early 2010 and 2015, respectively.

Abercrombie & Fitch is notable for using 'brand representatives' (previously called 'models') for store customer service. Its main competitors are Aéropostale and American Eagle Outfitters.

HISTORY

Founded in 1892 in the Manhattan borough of New York City, New York, by David T. Abercrombie and Ezra Fitch, Abercrombie & Fitch was an elite outfitter of sporting and excursion goods, particularly noted for its expensive shotguns, fishing rods, fishing boats, and tents. In 1976, Abercrombie & Fitch filed for Chapter 11 bankruptcy, finally closing its flagship store at Madison Avenue and East 45th Street in 1977.

Shortly thereafter the name was revived in 1978. Oshman's Sporting Goods, a Houston-based chain owned by Jake Oshman, bought the defunct firm's name and mailing list for \$1.5 million (\$5.2 million in 2013 dollars). Oshman's relaunched A&F as a mail-order retailer specialising in hunting wear and novelty items. It also opened shops in Beverly Hills, Dallas, and (by the mid-1980s) New York City. Finally, in 1988, Oshman's sold the company name and operations to The Limited, a clothing-chain operator based in Columbus, Ohio. Abercrombie & Fitch gradually shifted its focus to young adults, first as a subsidiary of Limited Brands and then as a separate, publicly traded company; and grew to become one of the largest apparel firms in the United States.

Since 1997, the company has consistently kept a high-profile in the public eye, due to its advertising, its philanthropy, and its involvement in legal conflicts over branding, clothing style and employment practices. In the first decade of the 21st century, the Great Recession battered the company's business as teenagers looked to lower-priced fast fashion brands like H&M and Forever 21 for fashion. Abercrombie & Fitch's stock price dropped from an all-time high of \$84.23 in October 2007 to a low of \$14.64 in November 2008. The company worked to overhaul its merchandise mix and cut underperforming stores, but lacklustre performance has continued. Long-time CEO Michael Jeffries stepped down in December 2014, after 22 years with the company.

To combat heavy competition from fast-fashion retailers like Forever 21 and H&M, Abercrombie & Fitch announced key changes to revamp its image. It aims to reduce emphasis on sexualised advertising and focus more on customer service and diversity. Among the changes announced are eliminating sexualised advertising, no longer having shirtless models at new store openings, and eliminating sexualised pictures and advertising on bags, gift cards, and in stores. They are changing the name of store employees from 'models' to 'brand representatives', and will allow a more individualistic dress code. 'Brand representatives' will also focus more on customer service by asking customers for help in stores, as opposed to past policies of aloofness. They also aim to promote more diversity among store employees and executives as well. A&F is signalling it will be implementing changes quickly.

As of May 2015, the changes were already very apparent in stores. All 'permanent marketing' images at the cash wrap and fitting rooms have been removed. Also, store models are no longer dressed in Abercrombie clothes.

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OPERATIONS

The company's headquarters, referred to by the company as 'The Home Office', is located outside of Columbus in New Albany, Ohio. The Home Office is designed as a campus of sorts, and is referred to as such. The company's merchandise distribution centres (1 million square feet) are located exclusively on campus to help ensure brand protection. Also on campus are mock-up stores, one for each of the company's brands, where store layout, merchandise and atmosphere are determined.

The company also has a European office in Mendrisio, Switzerland.

As of December 9, 2014, following the retirement of Mike Jeffries, the following were key corporate officials:

- Arthur Martinez – Executive Chairman
- Diane Chang – Executive Vice President of Sourcing
- Leslee K. Herro – Executive Vice President of Planning and Allocation
- Ronald A. Robins, Jr. – Senior Vice President, Secretary and General Counsel
- Jonathan Ramsden – Chief Operating Officer
- Amy Zehrer – Senior Vice President of Stores
- Christos Angelides – President of Abercrombie & Fitch and Abercrombie Kids brands
- Fran Horowitz – President of Hollister brand

MARKETING

A&F is known for its racy marketing photography by Bruce Weber. It is rendered to greyscale and features outdoor settings, usually with semi-nude males and females for an increased tone of sexuality. A&F casts only store employees for marketing campaigns. Casting directors from The Home Office travel to key A&F regional stores in the United States and to London to hold 'casting calls' for employees aspiring to become the next 'A&F New Face'. The company promotes its casting sessions, models, and photo shoots in the 'A&F Casting' feature online at abercrombie.com.

The Abercrombie & Fitch brand image is heavily promoted as an international near-luxury lifestyle concept. The company began cultivating an upmarket image after the 2005 opening of its Fifth Avenue flagship store alongside Prada and other upscale retailers. Having for years used high-grade materials in the construction of its merchandise, and pricing them at 'near-luxury' levels, A&F introduced the trademark Casual Luxury as a fictional dictionary term with multiple definitions such as '[using] the finest cashmere, pima cottons, and highest quality leather to create the ultimate in casual, body conscious clothing,' and 'implementing and/or incorporating time honoured machinery ... to produce the most exclusive denim ...' This upscale image has allowed A&F to open stores in international high-end locations and further promote the image by pricing its merchandise at almost double the American prices.

Following a dismal earnings announcement on August 2014, the company decided to drop its logo-branded apparel line, arguing that this element of its brand does not resonate with its target market. The company is now shifting its marketing strategy to trendier outfits and faster production processes. Some experts argue the retailer's focus on exclusivity has caused it to fall out of fashion with its target market.

The company is noted for its use of 'brand representatives' (previously called 'models') for store customer service. The models were required to buy and wear A&F clothing, but following a company settlement with California state labour regulators, may now wear any no-logo clothing as long as it corresponds with the season and style of the brand. The California settlement also provided \$2.2 million to reimburse former employees for their forced purchases of company-branded clothing.

Brand protection

Because of extensive counterfeiting of Abercrombie & Fitch goods, in 2006 the company launched a brand protection program to combat the problem worldwide (focusing more on China, Hong Kong, Japan and Korea) by working with legal forces globally. The program is headed by a former FBI Supervisory Special Agent who was part of the FBI's Intellectual Property Rights program, and covers all A&F brands. A&F says that the program 'will improve current practices and strategies by focusing on eliminating the supply of illicit Abercrombie & Fitch products.'

In August 2011, A&F offered Mike 'The Situation' Sorrentino and other cast members of the MTV reality show Jersey Shore a 'substantial payment' if they stopped wearing Abercrombie-branded clothes, stating 'We are deeply concerned that Mr. Sorrentino's association with our brand could cause significant damage to our image.' In November 2011, Sorrentino filed a lawsuit against A&F after the company allegedly violated his copyrights in making shirts.

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Brands

Abercrombie & Fitch has three concept brands apart from its namesake; they are referred to as subsidiaries, but are operated as divisions under the A&F umbrella.

Abercrombie Kids

Prep-school by Abercrombie & Fitch Themed as 'classic cool' for kids 7 through 14, this is the children's version of Abercrombie & Fitch.

Hollister Co.

Southern California by Abercrombie & Fitch Themed after 'SoCal' for teenagers 14 through 18, with significantly lower prices than its parent brand.

Gilly Hicks

The cheeky cousin of Abercrombie & Fitch Themed after 'Down Under' Sydney, it offered underwear and loungewear for women 18 and up. All stores closed in 2015.

Ruehl No. 925

Post-Grad by Abercrombie & Fitch Themed after a fictional Greenwich Village heritage, offered clothes for 22 through 35 post-grads. Closed in 2010.

PRODUCT RANGE

Women's Wear Daily calls Abercrombie & Fitch clothing classically 'neo-preppy', with an 'edgy tone and imagery'. The company's fashions have a reputation for luxury, with the majority of designs trend-driven. There is heavy promotion of 'Premium Jeans'. In early 2010, the company introduced a leather handbag collection inspired by designs from Ruehl.

Its prices are recognised as the highest in the youth-clothing industry. Internationally, prices are almost double those in its American stores. Retail analyst Chris Boring warns that the company's brands are a 'little more susceptible' should recession hit, because their specialities are premium-priced goods rather than necessities. Indeed, as the late-2000s recession continues, A&F has noticeably suffered financially for its refusal to lower prices or offer discounts. A&F argues that doing so would 'cheapen' its near-luxury image. Analyst Bruce Watson warns that A&F risks finding itself transformed into 'a cautionary tale of a store that was left by the wayside when it declined to change with the times'.

Abercrombie & Fitch carries men's fragrances *Fierce*, *Colden*, and have re-branded the original cologne *Woods* (Christmas Floorset 2010). Women's fragrances include *8*, *Perfume 41*, *Wakely*, and the newly debuted *Perfume #1*. *Fierce* and *8* are the most heavily marketed fragrances, as they are the signature scents of the brand overall.

The company also offers the Abercrombie & Fitch Credit Card, issued by the World Financial Network Bank.

ENVIRONMENTAL ISSUES AND SOCIAL RESPONSIBILITY

In recent years, Abercrombie & Fitch has engaged in philanthropic and humanitarian projects. In January 2010, the company launched the 'A&F Cares' feature on its website to inform the public about its efforts in the fields of diversity, inclusion, human rights, philanthropy, and sustainability.

Controversy and criticism

The company has received criticism over its provocative advertising. The company has been accused of promoting the sexualisation of pre-teen girls, for example by marketing thongs to 10-year-olds and padded bikini tops to 7-year-olds.

Employment and labour practices

Lawsuits have been filed against the company due to alleged discriminatory employment and in 2004 the company was sued for giving desirable positions to white applicants, to the exclusion of minorities.

In November 2009, Abercrombie & Fitch was added to the 'Sweatshop Hall of Shame 2010' by the worker advocacy group International Labour Rights Forum.

A&F Quarterly

Conservative and religious groups called for boycotts of the original American publication of *A&F Quarterly* (published from 1997 to 2003) for its sexually explicit nature. The magazine contained nude photography by Bruce Weber, articles about sex, and recipes for alcoholic beverages. Despite a company policy restricting sale of the publication to minors, critics charged that the publication was readily sold to minors. In 2003, an array of religious organisations, women's rights activists, and Asian American groups organised boycotts and protests over the publication, and the 'Christmas Edition' of the catalogue was removed from stores.

Product criticism

In 2005, the Women and Girls Foundation of Southwest Pennsylvania launched a 'Gircott' of the store to protest the sale of T-shirts displaying sexist messages such as 'Who needs brains when you have these?', 'Available for parties', and 'I had a nightmare I was a brunette'. The campaign received national coverage on *The Today Show*, and the company pulled the shirts from stores on November 5, 2005. Five days after this media coverage, A&F pulled two of the shirts off of its shelves, released an apology to girls for producing the T-shirts, and agreed to have corporate executives meet with the 'Gircott' girls at the company's headquarters.

Bob Jones University, a non-denominational Protestant university located in Greenville, South Carolina, and its affiliated pre-collegiate schools, along with other Christian schools have prohibited A&F and Hollister clothing from being 'worn, carried, or displayed' on its campuses because of 'an unusual degree of antagonism to the name of Christ and an unusual display of wickedness' in the company's promotions.

After A&F raised its price points in 2004, its products have been described as overpriced. After the company opened its flagship store in London, England and Paris, France, the brand was criticised in the United Kingdom and France because the merchandise that was offered to the customers cost double compared to prices found in the U.S.

Red Poppy prohibition in the UK

In November 2010, the Southampton, England, A&F store prevented 18-year-old Harriet Phipps from wearing the Red Poppy, which is worn as part of the Remembrance Day commemorations in the United Kingdom and Canada every November. The official A&F reason for the refusal was reported to be that the poppy is not considered part of the corporate approved uniform, and is therefore prohibited. The ban drew criticisms, and on November 8 the company posted on its Facebook page the following statement: 'As an American company that has been around since 1892, we appreciate the sacrifices of the British and American servicemen/women in the World Wars and in military conflicts that continue today. Our company policy is to allow associates to wear a poppy as a token of this appreciation on Remembrance Day. Going forward, we will revisit this policy to the days/weeks leading up to Remembrance Day.'

Proposed Abercrombie Kids shop on Savile Row

In 2012, A&F announced plans that it would open its Abercrombie Kids shop at No. 3 on Savile Row, next door to Gieves & Hawkes. The plans drew criticism and opposition from the tailors of the Row, who were already unhappy about the presence of the main A&F store on Burlington Gardens at the end of the Row to begin with, which eventually led to a protest organised by *The Chap* magazine on April 23, 2012. During the consultation period, objections were lodged to Westminster City Council and in February 2013 the Council rejected many of A&F's proposals for the store, and branded the entire plans 'utterly unacceptable.' A&F appealed, managed to overcome the obstacles and opened the store in September 2014.

Jeffries' 2006 target demographic quote

In 2013, a 2006 *Salon* interview with the CEO Mike Jeffries went viral and caused widespread outcry over Abercrombie's marketing practices. The comments made by Mike Jeffries, stating that his brand is only suitable for "the good-looking, cool kids", and that there are people who don't belong in his clothes – namely overweight people, came under fire.

"That's why we hire good-looking people in our stores. Because good-looking people attract other good-looking people, and we want to market to cool, good-looking people. We don't market to anyone other than that. ... In every school there are the cool and popular kids, and then there are the not-so-cool kids. Candidly, we go after the cool kids. We go after the attractive all-American kid with a great attitude and a lot of friends. A lot of people don't belong [in our clothes], and they can't belong. Are we exclusionary? Absolutely."

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Jeffries issued an official statement on May 17, 2013, regarding the news articles, saying, "I want to address some of my comments that have been circulating from a 2006 interview. While I believe this 7-year-old, resurrected quote has been taken out of context, I sincerely regret that my choice of words was interpreted in a manner that has caused offense." He also stated, "We are completely opposed to any discrimination, bullying, derogatory characterisations or other anti-social behaviour based on race, gender, body type or other individual characteristics."

THE FUTURE OF THE COMPANY

The future of this highly competitive industry and its key players remains very volatile and uncertain to say the least. As a result the A&F boardroom will need to fully consider all of the major players and other stakeholders involved to continually monitor the ever-changing external environment whilst building future strategy around the core competences, experience and skills that the company has built up over the decades of success. It will not be easy, as the adverse publicity collected by the company has not done them any favours in an industry where new entrants are a regular occurrence. Consumer tastes and brand loyalty are ever changing aspects in a fast moving era of social media frenzy. Adverse publicity can be good and bad but needs to be harnessed in a positive and creative manner. History is littered with companies which courted the headlines for the wrong reasons and failed as a result. There have been similar, almost arrogant, companies before them which courted controversy and Benetton and Nike spring readily to mind. It took extraordinary management and leadership on the part of the strategic board of both to ensure success. The future survival of A&F will almost certainly depend on senior management continuing to implement effective strategies and so the strategic team at A&F must prepare a range of strategies for various future scenarios.

Reference Source: Wikipedia