The Washington Post

Coach 22: Can a handbag be 'luxury' if everybody owns one?

By Lydia DePillis, Updated: October 23, 2013

Coach, the maker of luxury handbags and other sundry accessories, has been having a rough year. Poor sales prompted a leadership shuffle in July, and after a particularly bad earnings report Tuesday, the stock took its biggest dive in years. Which is odd, because the luxury market has been doing really well overall, fed by a global elite with assets that seem to have fully recovered from the recessionary dumps. So what's the problem?

Part of it is certainly hard-charging competition from newer brands, like Kate Spade and Michael Kors, that appeal to a younger audience. For them, Coach is their rich auntie's label, more 5th Avenue than Mission District. The stock chart for Kors and Coach shows the cannibalization pretty clearly:

But the bigger problem may have been growing too fast in the first place. Coach, under pressure from investors to boost revenue, added line after line of merchandise and dozens of factory outlet stores over the past few years, fueling a dramatic run-up in earnings -- to the point where Coach isn't really Coach anymore.

"If you're a luxury brand with outlet stores, maybe you're not a luxury brand," mused Tim Hanson of Motley Fool Funds on a podcast Tuesday. "They took a growth-at-any-costs attitude that has done brand damage that they are paying for, but at the time that they were doing [it], it fielded stock price gains because it allowed them to put up very heady revenue numbers."

It's a problem all luxury brands face, especially public ones: How can you both sell enough on a quarterly basis to make Wall Street happy while at the same time maintaining the aura of exclusivity that got you where you were in the first place?

Mark Cohen, a professor of retail at the Columbia University Business School, ticks off the companies that have fallen into the ubiquity trap. Bill Blass "never met a licensee he didn't do a deal with," he says. Neiman Marcus "has opened stores in the last seven, eight years that they wish they could take back." Saks Fifth Avenue "took developer deals 25 years ago that gave them the immediate appearance of growth, which was false." Martha Stewart, Ralph Lauren, and Barney's haven't done themselves any favors either by going mass market either.
"It's the designer toilet seat problem," Cohen says. "The luxury business is entirely contingent on limited availability, limited supply, and limited exposure."

In recent years, big luxury retailers have found a way around the problem by pivoting to Asia, leveraging their iconic status in places like Japan and China to achieve huge sales without tarnishing their image at home. Coach hasn't had as much success there, perhaps because it doesn't have the same kind of world-wide super-appeal of a Prada or Gucci. Hermes and Tiffany's are typically seen as the gold standard in maintaining brand purity -- compensating for small sales volume with really, really high margins. Privately-held Godiva has managed to operate on two tracks, selling pricey chocolates both in convenience stores and its own, super-luxe retail spaces.

Coach is also at a disadvantage because it's not part of a large umbrella corporation that can compensate for slow growth in one of its portfolio companies with fast growth in another. A lot of the luxury marketplace falls into a few big spheres of influence: LVMH owns Hennessy, Louis Vuitton, Veuve Clicquot, Dom Perignon, Givenchy, Marc Jacobs, Fendi, Christian Dior, Belvedere, Thomas Pink, Donna Karan, Sephora, and many more. Richemont owns Montblanc, Cartier, Piaget, and Van Cleef & Arpels. Kering owns Gucci, Balenciaga, Alexander McQueen, Stella McCartney, etc. Because they're diversified, they can invest in new designers, much like a big record label can -- or could, in better days -- take chances on minor artists on the off chance they take off.

"Between the moment they invest in them and the moment they will get their return will be five to seven years," says Ketty Maisonrouge, a luxury branding consultant. "If you look at most brands, what's successful today, they all try to understand what it is to make sure you don't grow too fast."

If Coach is to recover, Wall Street is going to need to let it ease off the gas pedal, make like Burberry, and realize that a sterling brand and massive sales are a contradiction in terms.