

# Michael Kors vs. Coach

Companies: COH, KORS

February 10, 2012

Research Question:

**What impact is Michael Kors having on Coach, particularly in the handbag market?**

This report is a snapshot of the data Blueshift Research has gathered during the initial stage of its research into this topic. Blueshift is highlighting trends and observations at the midway point of its research, in advance of Michael Kors' quarterly earnings report on Tuesday February 14. Blueshift will have a complete report with additional sources on February 21.

## General Trends and Observations

- Michael Kors is attracting trend-focused customers with more fashionable and stylish handbags. The brand is gaining in popularity compared to Coach, especially in the last six months, as it is more exclusive, while Coach is too common and pedestrian.
- Suppliers in China said orders in 2011 increased year to year for both brands and expect orders for both brands to continue growing in 2012. Manufacturing costs for 2012 are rising around 10% for both brands.
- Sources were split on which brand has the higher quality handbag or offers the bigger discounts.

## Silo Observations

### 1) SUPPLIERS (4)

Four sources said 2011 orders were higher year to year for Coach and Kors products and they expect 2012 to be an even stronger year for both brands. The three Chinese sources said Coach is more popular in China than Kors, though one said Kors' popularity is climbing and will soon rival Coach. The U.S.-based supplier said Kors handbags are more on-trend than Coach and its popularity is on the rise, especially in more fashionable circles.

### 2) INDUSTRY SPECIALIST (1)

This source believes Kors is having an impact on Coach, attracting younger women with an eye towards fashion and trends. Kors' rise is at Coach's expense. Coach has something for everyone, appealing to a broader range of customer. Coach is nearing a plateau while Kors is climbing. Kors selling products at Marshalls is bad for the brand's image and could be damaging.

### 3) DEPARTMENT STORES (2)

Two sources said Kors is the more popular brand and is outselling Coach. Kors is younger, trendier, and more stylish. Coach is more tried and true with loyal customers, though enthusiasm for the brand is fading. The sources differ on which brand has better quality and more discounting.

### 4) CUSTOMERS (3)

Two of three sources prefer Kors because of its fashion, style, and exclusivity. Kors also has superior quality. They said Coach had become too common. The third source said Coach is the better brand in popularity and quality.

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## Background

Both Coach and Michael Kors, with an average handbag price in the \$200-\$400 range, are favorites in the affordable luxury category. Handbags made up 63% of Coach's sales in 2011 and helped Michael Kors experience positive same-store sales growth in every quarter of the last five fiscal years.

## CURRENT RESEARCH

This report aims to determine whether Michael Kors can challenge Coach for supremacy in the handbag market and what trends exist for each company as competition between the two fashion brands heats up.

## Notable Data and Quotes from Each Silo

### 1) SUPPLIERS

#### ➤ Business director for a Chinese silk fabric supplier to Coach

Orders for raw material supplied to Coach were up 25% in the second half of 2011 year to year. The source expects orders to climb close to 20% year to year for the first half of 2012. The price of silk fabric will be higher than last year due to increasing costs. Coach is more popular among Chinese consumers than Kors, although both brands are gaining popularity.

- "Orders from Coach in the second half of 2011 increased 25% compared to the second half of 2010."
- "We predict the growth rate in the first half of 2012 will be less than 20% from that of the first half of 2011."
- "Silk production cost in the first half of this year will be 5% to 8% higher than the same period last year. The price supplied to Coach will rise to some extent, although we cannot tell how much."
- "As China's luxury goods consumption is growing significantly, the popularity of Coach and Kors both have climbed greatly in China."

#### ➤ Executive at a leather supplier in China to both Coach and Kors

Orders for Kors are surging, increasing 50% in 2011 with the same expected increase in 2012. Kors' popularity in China is rising to rival that of Coach because of its uniqueness and fashionable designs. Kors is gaining notoriety.

- "Orders from Michael Kors in the second half of 2011 have increased 50% from that in the second half of 2010."
- "We predict that Michael Kors' global orders will still grow at the rate as high as last year, around 50%."
- "Michael Kors has been growing rapidly [in China]. I think it will soon become a rival and competitor to Coach."
- "In China, Kors' popularity is growing. The price level is acceptable to fashion seekers and a lot of female consumers think Kors' design and appearance may be as good as Coach."
- "All the OEMs are facing the difficulties of rising production cost. In our company, the cost in the first half of this year will increase 10% from the same period last year due to labor costs, rents, storage and logistics."

#### ➤ Business director for a rubber and plastic supplier to Coach in China

Orders for Coach were up 10% year to year in the second half of 2011, with an expected 15% year-to-year increase in the first half of 2012. Coach is the most popular handbag in China, attracting young customers with its variety and choice. Kors is not well-known.

- "Orders from Coach in the second half of 2011 are 10% higher than that from the same period of 2010."
- "We predict that the accessories order in the first half of this year will be 15% higher than 2011."
- "Compared with other first-class brands of luxury handbags, like Louis Vuitton, Coach has more stores in China, and the number of stores is expanding, so that obviously, the popularity is increasing."
- "Coach is attractive to a large number of young consumers. Coach launches new products on a regular basis, so that consumers have many choices."

#### ➤ Owner and designer of a leather goods manufacturing company in New Jersey

Kors is not having an impact on Coach sales as the two brands attract a different customer base. However, Kors is a superior brand that is fashion forward with a fresh look that is popular and trendy. Coach is more pedestrian with less

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glamour and stylish appeal, though it has better quality. Kors is maintaining or gaining share, while Coach is losing ground.

- “Michael Kors is more of a fashion designer who caters to a fashion-forward crowd, yet in a safe conservative way – whereas Coach is totally confused, commercial, boring, predictable, and essentially the McDonalds of fashion. They are only taken seriously by Middle Americans who are out of touch, or folks in foreign countries that want whatever is American, but that is about it. ... Coach’s biggest enemy is Coach.”
- “Kors can only go up in popularity, especially if they hit the right trend. ... Kors is Fashion. Coach is the Mall.”
- “Offshore, [Coach] seems to be gaining ground. However, domestically, they are pretty much an afterthought in major cities.”
- “Being directly in the center of the accessories world and keeping my ear to the streets, I would say Coach is losing ground and Kors is staying where it is, or gaining a little more all the time, not necessarily exploding.”

## 2) INDUSTRY SPECIALIST

### ➤ Strategic consultant for a leather goods manufacturer

Kors is having an impact on Coach, attracting younger women with an eye towards fashion and trends. Kors’ rise is at Coach’s expense. Coach has something for everyone, appealing to a broader range of customer. Coach is nearing a plateau while Kors is climbing. Kors selling products at Marshalls is bad for the brand’s image and could be damaging.

- “Michael Kors is having an impact on Coach. ... I think Michael Kors has really risen dramatically and quickly and I’m sure some of it has been at the expense of Coach.”
- “Michael Kors has cut most into Coach’s fashion-driven, trend-following customer. And while this may not be where the big bucks are, this hurts in a different way, taking away the opinion-leader part of the market.”
- “I think of Coach as a brand that has a bag for everybody, young old, rich, not so rich, ethnic, everybody. I still think of Michael Kors as a fashion brand that targets mostly younger women, although I am sure they have grown beyond that.”
- “I also think of Coach as a still-surging brand, and in a much broader sense than Kors.”
- “Some of Coach’s bags are at a very high level of workmanship. But it is a small percentage. And they have lots of bags that are just brand schlock, particularly the ones with the Coach logo as a textile design. Also, because Coach has gotten so deep into all parts of the market, you see lots of customers carrying Coach.”
- “I guess I think of [Coach] as a still-growing brand, but I am sure the plateau is very near.”
- “I think Michael Kors is still a growing brand with room to gain. Kors has the steeper popularity trajectory than Coach.”
- “Kors is really going to blow out its brand and then face a serious image problem selling their bags at Marshalls. I would be surprised to see a Coach bag at Marshalls and think they are wise to avoid that class of trade.”

## 3) DEPARTMENT STORE PERSONNEL

### ➤ Handbag sales associate, Nordstrom store at a San Francisco Bay Area mall

Kors handbags are more popular than Coach and have gained more notoriety in the last six months. Kors has a bigger following, younger customers, a more stylish feel and is expected to maintain and grow its popularity in 2012. Coach has a tired look and feel as its heavily-logoed bags are losing appeal with customers. Kors also has the edge over Coach in quality and utility. One style of Coach bags dominated the sales bin while all Kors bags were selling at full price.

- “Kors is more popular than Coach. It’s younger. ... Kors bags are more versatile. They have long handles and short handles on the same bag. Women are wearing their bags cross-body these days and Kors bags have the straps that can do that. Most Coach bags don’t.”
- “I don’t see Kors declining in popularity in the next year. I think it will continue to grow.”
- “Coach is tired and has lots of logos. People are tired of advertising Coach on their bags with the C everywhere. It’s getting tacky.”
- “Coach popularity has gone down since Kors got so big.”
- “Coach bags are discounted much more than Kors. We actually just marked down a bunch of Coach bags two days ago. We got new styles in.”

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- “A friend of mine is a general manager at Kors and manages a store in a nearby mall. She told me they are doing really well and are going to be opening a store in this mall here. That's going to give the Coach store some competition, for sure.”

## ➤ Accessories sales associate at a Macy's in South Florida

Kors is more popular than Coach because it is more on-trend and fashionable. It is also outselling Coach. However, Kors' quality is lacking, leading to returns, which, combined with heavier discounting, is resulting in even numbers between the two brands. Coach has superior quality and stronger customer loyalty, though its sales are slowing.

- “Kors is more popular, fashionable and on-trend. They offer a lot of sizes and styles that change. Young and old customers buy their product.”
- “Coach sales have slowed down over the last three years. Coach doesn't change that much and stays more consistent with their product and with who buys it.”
- “Kors attracts more of an audience than Coach, but Coach has loyalty.”
- “Coach is better quality. I have seen the metal tarnish on Kors bags. A lot of bags do come back. Mostly for exchanges for another Kors bag.”
- “Kors discounts often, more than Coach does. Kors also discounts much deeper than Coach.”

## 4) CUSTOMERS

### ➤ Philadelphia woman in her 50s

She prefers Kors over Coach as it is more exclusive and better quality. Coach has become too common, though it appears more young women are buying Coach while women in their thirties and older are favoring Kors.

- “I used to buy a lot of Coach bags and so did my friends, but then it became too popular and common. It wasn't special any more. That's when I switched to Michael Kors.”
- “Kors is the better quality product. Their leather is a finer grade and their styling is superior to Coach.”
- “None of my friends are buying Coach so I would say they lost ground last year in the 35 and over group and I would expect 2012 will see the same pattern.”

### ➤ San Francisco woman in her 30s

Kors bags are preferred over Coach because of their higher quality, better styling, and more exclusive feel. Coach has become a brand for the masses, which makes it less popular and in demand. Kors has gained in popularity in the last six months. One element in Coach's favor, however, is that customers can buy more bags more frequently from Coach because of the lower price, whereas Kors is more of a long term investment requiring less frequent purchases.

- “I like Kors better because it is more in style right now. There is not much branding to it, which is a good thing to me. It looks more like a designer handbag than Coach does.”
- “Kors has better quality than Coach. The leather is better. The hardware is better. The bag itself is more substantial and more durable. Coach seems more pedestrian and is cheaper-looking and in quality.”
- “In my demographic, Coach is less popular now than it was six months ago. Comparing the two, Kors has grown more popular than Coach over the last six months.”

### ➤ San Francisco woman in her 20s

She prefers Coach over Kors because of the higher quality and Coach's vintage bags. She believes Coach is gaining popularity, while Kors is losing it.

- “I think Coach will gain momentum within their current demographic but stay as a lower tier designer bag brand.”
- “I would say Michael Kors lost popularity during the second half of 2011. I have not read much about their brand in fashion news recently.”
- “Coach has better quality. They are known for their quality leather.”

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