ABERCROMBIE & FITCH: HOW A CEO CAN WRECK A BRAND IN ONE INTERVIEW

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Abstract: The case provides financial information and other key information on Abercrombie & Fitch and its competitors. The company's strategy of keeping its focus on a certain target group was extremely successful in the past, but the CEO failed to see sociocultural changes, thus significantly weakening the A&F's market position. In this case, A&F's new CEO needs to decide how to redefine the company's future strategy to lead the company to former success. This case can be used to examine the industry and general environment. Additionally, it can be utilized as a tool for students to examine an organization's core competencies to determine how a company's strategic decisions and actions can erode competitive advantages and what can remedy the situation.

INTRODUCTION

"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. Those companies that are in trouble are trying to target everybody: young, old, fat, skinny. But then you become totally vanilla. You don't alienate anybody, but you don't excite anybody, either." Mile Jeffries quote (Denizet-Lewis, 2006).

In 2013, among others this quote of an interview given by CEO Mike Jeffries in 2006 was rediscovered and republished, stating that unattractive, overweight or otherwise undesirable teens were not desired customers in Abercrombie & Fitch (A&F) stores. Even though Jeffries apologized soon after the republishing, the statement heavily upset the public and investors, and intensified the internal discussion about Jeffries' capability to lead A&F to future success.

In the past, A&F had successfully transitioned from a small waterfront shop called Abercrombie Co. to one of the largest American retailers for casual wear for young consumers. The company operated the subsidiaries Abercrombie & Fitch, Abercrombie kids, Hollister and Gilly Hicks. In 2014, the company owned more than 1,000 stores in the United States. It has expanded worldwide since 2005 and operated stores in 20 countries apart from the US.

By the end of 2014, Abercrombie & Fitch's CEO Mike Jeffries retired after leading the company for almost 30 years. This step was mutually decided by him and the top level management in response to the negative publicity the company faced due to the 2006 interview of Jeffries being revived in an article of 2013.
Abercrombie & Fitch (A&F) is an American retailer: Having started as an outdoor equipment store in 1898, it refocused its business strategy on the selling of apparel in 1986. Since then, CEO Mike Jeffries heavily influenced the company and the brand Abercrombie & Fitch. In January 2006, the company was valued at $5 billion and about to expand internationally. At this time, Jeffries commented on the exclusionary marketing of A&F. This statement was revived in 2013, and caused damage to the brand in ways that he could never have anticipated.

Abercrombie & Fitch's products were targeted at the cool, good-looking young people between the age of 7 and 25. The statement of Jeffries, and the strategy the company had been pursuing throughout the last years, caused the public to boycott the company, the brand image to falter, and sales to fall. The incident lead to a 30% decrease in its stock price down to a price of $32.91 in 2013.

Post-recession, the company's revenue grew steadily year over year. The company was among the leading companies in the apparel industry. However, in 2013, revenue dropped by 9%, among other effects due to the negative statement of the CEO. To counteract this development, marketing and communication expenses were raised to rescue the company from the negative publicity, however, without significant effects. Having agreed upon the retirement of Jeffries, the new management needed to decide how to redefine the company's future strategy to lead the company to former success.

A&F – A SUCCESS STORY FROM 1898 UNTIL 2013

The company A&F was founded in Manhattan in 1898 by David T. Abercrombie as a small waterfront shop called Abercrombie Co. In 1904, the lawyer Ezra Fitch was named co-founder, when he bought a major share into the company. The two founders separated over the questions whether A&F should remain an outdoor shop or do general retailing. Finally, David Abercrombie sold his shares in 1907 (Lepore, 2011). The company continued to expand and became the greatest sporting goods store worldwide in the 1950's. However, net sales started to drop in the early 1960's and in 1976, Abercrombie & Fitch had to file for bankruptcy. About 10 years after its bankruptcy, the company was acquired by The Limited Group for $47 million, and refocused the business strategy on the selling of apparel (Berfield & Rupp, 2015). With the nomination of CEO Mike Jeffries in 1992, A&F turned towards what the company and the A&F brand were known for: An international fashion retailer selling apparel, fragrance and luxury products targeted at consumers aged from 7 to 25 (Perrier, 2013).

In 1997, A&F launched Abercrombie kids for ages 7 through 14. In 2000, it started Hollister, which offered lower-priced items and was considered to be a very strong brand. Its latest expansion came in 2008 when it started the underwear and loungewear store Gilly Hicks (Lepore, 2011). The company's product represented the all-American cool image targeted at slightly different target groups. Abercrombie & Fitch was the main brand of the A&F Family. Its "casual luxury" products were targeted at young adults from 18 to 22 years, offering them both quality and style. Abercrombie Kids presented the same style as Abercrombie & Fitch but targeted younger kids from 7 to 14 years. Hollister represented the more laidback lifestyle, inspired by Southern California, targeted at high school students from 14 to 18 years. Hollister products were very similar but slightly lower priced than Abercrombie & Fitch products. Gilly Hicks offered underwear and lingerie for 'young, beautiful and confident girls' above 18 (Gibb, & Siegel, 2009).

The strong brand image of A&F was based on a provocative communication and a specific in-store experience to suite the 'cool' lifestyle it advocated. The company operated in a retailing niche selling casual luxury products (Perrier, 2013). To differentiate from its competitors and obtain a sustainable advantage, A&F relied on two key drivers: its brand image and a specifically related in-store experience.

As the A&F designer Alisa Durando stated, "there was a brand filter that said everything needed to be cute and sexy" (Berfield, 2015). Buying A&F's products should create the feeling of belonging to an exclusive group of people. The company's brand image was heavily influenced and strongly represented by its CEO Mike Jeffries. In 2008, Jeffries even refused to cut prices to stimulate sales growth to preserve the strong brand image that the company had developed (Gibb, & Siegel, 2009).

A&F designed the store so that consumers continually reminded of the A&F lifestyle – the whole atmosphere, music, odor, presentation of the products, and the sales associates in the store. Each store's design was standardized to allow for a consistent in-store experience. Each store, process, and product was controlled by Jeffries, providing 'Look Books' for sales staff and time lines on what to do and how to arrange the products, in each store. Sales associates should represent the typical A&F 'family member' and needed to be confirmed by Jeffries himself (Berfield, 2015). To avoid third-party advertisements in magazines, billboards, and TV, A&F applied more lucrative tactics such as in-store marketing and the usage of famous models as brand representatives to reinforce the image of prestige and exclusivity of the brand. The Abercrombie look across the brands, as defined by Jeffries in the mid-1990s, remained almost unchanged: sweatshirts and sweatpants and hoodies with huge A&F and moose logos, as well as graphic T-shirts, polo shirts, shorts, jeans, and flip-flops (Berfield & Rupp, 2015).

A&F sold its products via US based stores, many international stores in Canada, Europe, and Asia, and via its online shopping website directly to its consumers. Under Mike Jeffries' leadership, the company launched an aggressive strategy to open new stores, even in cities where the demographics were not really suited for its premium products. In Europe, people were queued up outside the stores for up to an hour before getting in, even though the store was not occupied to capacity to raise expectations (Perrier, 2013). This hype represented the brand's extreme popularity outside the US: 50 stores that had been opened abroad, generated a total of three times as much revenue compared to an equivalent number of stores in the US. Flagship stores in New York, London, Tokyo, Milan, and Copenhagen, large stand-alone buildings, strategically positioned in high-end shopping areas, were built to bring a high volume of shoppers and sold all products under the A&F name in one store (Gibb & Siegel, 2009).

The recession of 2008/2009 hit A&F quite strongly, as decreasing customer spending directly influenced A&F, as well as other companies in the apparel industry. This situation limited A&F's aggressive expansion and led to a store consolidation strategy. As of end of business year 2013, the company operated 1,006 stores, (844 within the US). This number of US stores already represented a decrease of 45 stores since 2012. Whereas the in-store operations of A&F decreased, international and online sales still increased remarkably (Loeb, 2014).

A&F IN 2013

In 2013, the international success story experienced a remarkable dent, when an interview was rediscovered, which CEO Mike Jeffries had given to the Salon Magazine in 2006. At that time, valued at $5 billion, the company had revenues approaching $2 billion a year being generated in more than 800 stores belonging to four successful brands. Total sales for November 2005 had increased 34% in comparison to the prior year and the company was just about to open its first stores overseas (Denizet-Lewis, 2006). In that interview, Jeffries was asked about the secret behind A&F's then recent tremendous success and commented with the following statement:

> "[Sex appeal is] almost everything. 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. Those companies that are in trouble are trying to target everybody: young, old, fat, skinny. But then you become totally vanilla. You don't alienate anybody, but you don't excite anybody, either" (Denizet-Lewis, 2006).

In 2006, stating that unattractive, overweight or otherwise undesirable teens were not desired customers in A&F stores, was already a rather insensitive comment. However, in 2013, the public opinion towards beauty standards had changed. "The zeitgeist of today is to promote women's self-esteem by telling them that they are beautiful inside out." (Temin, 2013). The interview got revived, when it was quoted in an article with the caption "Abercrombie & Fitch Refuses To Make Clothes For Large Women" (Lutz, 2013) and went viral in May 2013, with most readers assuming, that Jeffries had just made the comments, and not seven years before. A&F's primary objective behind not offering plus sized clothes was to maintain the focus on a segment of customers and creating a niche segment for its products. However, the statement heavily upset the public and investors, who claimed, that his public statements have caused unnecessary controversy, which was damaging the brand image, employee morale and sales (Mosendz, 2014).

Celebrities publicly called upon boycotting A&F's clothing, and YouTube videos showing people donating A&F clothing to homeless people in protest received millions of views. The topic also escalated on social media pages, such as Twitter, and Facebook, where users started a "Fitch the Homeless" (Porter, 2013). Sales had fallen by 17% in the first quarter even before the quotes from the interview were republished, and boycotts were putting a possible recovery at risk. Shortly after the republishing of his quotes, Jeffries apologized on the company's Facebook page:

> "I sincerely regret that my choice of words was interpreted in a manner that has caused offense. A&F is an aspirational brand that, like most specialty apparel brands, targets its marketing at a particular segment of customers. However, we care about the broader communities in which we operate and are strongly committed to diversity and inclusion" (Porter, 2013).

However, triggered by the negative publicity, investors pointed out A&F's failed strategies, which again brought the CEO in the firing line. With Abercrombie's brand image faltering, sales rapidly falling and strategies not paying off, the company's shares were in free fall. These issues increased the skepticism of investors about the company. To regain their confidence, and to put an end to the devastating public coverage about the company, it appeared that the top level management and Mike Jeffries mutually decided that it was time for the CEO to retire. He stepped down end of 2014, after leading the company for almost 30 years (Mosendz, 2014).

Beginning of 2015, A&F was still in a crisis of defining the future way to go. The company reported that overall sales for the year 2014 fell 9 %, to $3.7 billion; sales declined 8% at established stores. Abercrombie did not do well in the US or internationally, closing 51 stores in 2014 and deciding to exit Australia (Berfield, 2015). The new executives yet had to decide how to redefine the company's future strategy to lead the company to former success.

A&F'S COMPETITION WITHIN THE APPAREL INDUSTRY

The intense competition within the apparel industry posed additional risks for A&F during this period of public pressure and economic downturn. Most trends affecting the industry were driven by consumer demand and related to the size, shopping patterns, and spending power of specific demographic groups (Asaeda, 2013). The success within the apparel industry heavily depends on the brand and brand image of the clothing. Branding in clothing primarily serves for product recognition. Customers perceive clothing as a transmitter of their own image, and different brands reflect different values and features (Ozipek et al, 2012). However, recently, young customer's preferences have shifted from apparel towards higher spending for smartphones, and video games (Lewis, 2014). The apparel industry is dominated by internationally recognized brands (Collins, 2003). However, value-priced apparel retailers on the US market, such as Zara, H&M, and Forever21, attract this target group by providing stylish fashion faster, newer, and more economically (Lewis, 2014)

The fast-moving nature of fashion requires companies to jump on new trends as fast as possible, opening up possibilities for small entrants (Keller et al, 2014). Once the brand is established in its niche, the company has the possibility to leverage the brand and expand to the overall market (Duff, 2015).

As the apparel industry was a labor intensive industry, the supplier base has experienced a significant shift to Asian manufacturers, who could manufacture the materials a lot more inexpensively than comparable suppliers in the US or Europe (Belcher, 2015).

Customers of apparel usually considered both style and price, but their decisions were still strongly influenced by advertisement and fashion. Consequently, advertising played a major role in marketing strategies for companies in the industry. The products were mainly sold in licensed flagship stores or via online stores where customers could shop 24/7. Business-to-Consumer e-commerce "offers a new distribution channel, and consumers can avoid shopping at crowded department stores, with their checkout lines and parking-space shortages" (Krajewski and Ritzman, 2005, p. 517). Even though consumers are informed and price-conscious, and have well-defined expectations, they cannot negotiate prices with the apparel companies (Thomasson, 2012).

The impact of e-commerce and social media on consumers is significant (Giamanco & Grigoire, 2012). People were able to shop online in the privacy of their own houses around the clock. Using ATM made it easy to withdraw cash, whereas online blogs were used to leave comments. E-commerce helped to cross-geographical borders and enabled businesses and consumers to connect with each other to exchange and share information at any time. Moreover, it reduced warehousing space, opened up to a wider range of customers, helped to control stock and share trading. Pop-up ads, side-panel ads, coupons and email updates were quite common forms of online advertising (Smith, 2012). The main customer group was the so-called millennial generation. Two facts put the millennial generation in a key role for advertising channels: 1) "Millennials are the biggest generational group since the baby boomers", 2) "estimates are that half of all spending is a result of purchases made by [them]". Another relevant fact was that "computers and mobile devices are common tools for Millennials" (Smith, 2012, p. 86). This generation was described as "time-poor, tech-savvy, and connected" and highly influenced by friends and family in terms of taking buying decisions (Finlay, 2008, p. 24). This target group is best marketed to by empowering them, respecting them, involving them, and encouraging them.

Financial capital and capital intensity played an important role in this industry, especially at the design, innovation and growth stages of product development and supply (Golledge & Stimson, 1997). Working capital, like time of production, buying and selling terms, profit level and production cycle as well as seasonality, played an important role in the apparel industry. Large amounts were spent on sales and admin activities or research and development. Despite years of consolidation activity, the apparel landscape remained extremely competitive, with high levels of fragmentation (Amobi, 2015). Reasons were, low entry barriers due to simple technology and low fixed assets per employee.

Competitors were, numerous apparel designers, manufacturers, distributors and retailers. The intensity and number of competitors varied as Abercrombie & Fitch expanded into other markets. Some of the competitors were able to adapt to changes and trends in consumer demand more quickly due to greater resources to establish brand recognition or to adopt more aggressive pricing policies.

The principal competitive factors in the apparel industry were design, brand reputation, consumer preference, price, quality, marketing, and customer service. In general, the apparel industry was subject to rapidly changing fashion trends and shifting consumer demand, even though there were some products that carried over from season to season. In order to maintain and grow, Abercrombie & Fitch had to offer continuously innovative, fashionable and upgraded products. New products and designs always faced the uncertainty of market acceptance combined with the requirement of substantial costs for design, marketing and advertisement. Any failure caused limitation of the ability to differentiate products and left companies with huge amounts of unsold excess inventory, which then forced them to sell it at lower price.

A&F'S COMPETITORS

With respect to the US apparel market, a distinction was made between national brands and other apparel. At national level, the ten largest companies made up some 18% of all US wholesale apparel sales. Private-label goods and small brand companies covered about 82% (Asaeda, 2013). Abercrombie & Fitch's main competitors were Aéropostale, Gap, Inc., and American Eagle Outfitters. At the same time, the ongoing rationalization of stores by US retailers gave international competitors, such as Sweden's H&M or Spain's Zara, the opportunity to enter the US market with lower-priced products. Globalization on the one hand, provides A&F the opportunity for further global expansion, but on the other hand also increases the competition it faces, especially within the US domestic market (Loehr, & Lindner, 2014).

Aéropostale, Inc.

Aéropostale, Inc. was founded in 1973 (fiscal 1987) and opened its first store in Los Angeles, California. The company was a mall-based, specialty retailer of casual apparel and accessories that targeted mainly 14 to 17 year-old young teenagers and 4 to 12 year-old kids (Aéropostale, Inc., 2015). Aéropostale controlled every step from designing, sourcing, marketing and selling and providing customers with a selection of high-quality and active-oriented fashion. The company operated in approximately 900 Aéropostale stores in 50 states. In addition, licensees operated 20 stores in the Middle East, Asia, and Europe.

The Gap, Inc.

The Gap, Inc. was founded by Doris F. Fisher and Donald G. Fisher in 1969 and was based in San Francisco, California. The firm operated about 3,400 stores worldwide and was known for its casual brand on basics for men, women, and children (Hoover, 2015). Over the years, The Gap, Inc. expanded its portfolio "through the urban chic chain Banana Republic, family budgeteer Old Navy, online-only retailer Piperlime, and Athleta, a purveyor of activewear "(Hoover, 2015). Moreover, The Gap, Inc. expanded its brand by GapBody, GapKids, and babyGap. All Gap clothing was private-label merchandise, exclusively made for the company. The Gap, Inc. controlled every aspect from design board to store displays.

American Eagle Outfitters

American Eagle Outfitters (AEO) was launched and based in Pittsburgh, Pennsylvania, by the brothers Jerry and Mark Silverman in 1977 (American Eagle Outfitter, 2015). The company was a leading lifestyle retailer that designed and sold its one brand of clothing for 16-to 34- year-olds. The brand's focus laid on teenagers and young adults with products such as low-rise jeans, graphic T-Shirts and Polo Shirts at affordable prices. Due to financial difficulties, the Schottenstein family bought 50% of the Retail Venture, Inc. (RVI), which gave them full control and repositioned the company in 1992 to focus on private label casual apparel for men and women. The change was successful and tripled the net income until 1996. The company had about 900 American Eagle Outfitters stores and about 160 Aerie stand-alone stores, which were mainly mall-based.

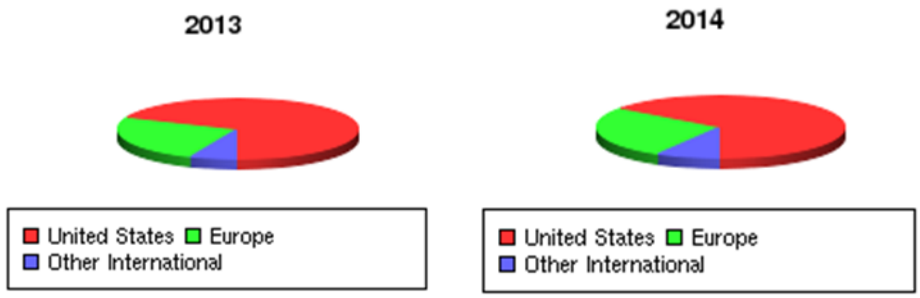
A&F - Financial Overview

Apparel retail sales tended to be highly dependent on seasons, with peaks during back-to-school and holiday periods. To analyze trends and to have comparable store sales, it was important to review total year-to-year performances. As of February 1, 2014 the company operated 1,006 stores: 843 US stores and 163 international stores. In comparison to 2013 this represented a decrease of 69 stores in the US and an increase of 24 international stores (Loeb, 2014).

Despite a decline in sales, the US market was still the main business segment of A&F with about 65% of total sales in 2013 compared to previous years.

Some select financial information is shown in table 1. More detailed financials are shown in tables 5 through 18 in the appendix.

FIGURE 1:
Abercrombie & Fitch, Business Segment Comparison



Source: Adapted from A&F, Mergent Online, 2015a.

TABLE 1:
Abercrombie & Fitch, Selected Financial Information

Income Statement	*2013*	*2012*	*2011*	*2010*	*2009*
Total Revenue (USD, in millions)	4,117	4,510	4,158	3,469	2,929
Net Profit (USD, in millions)	55	237	128	150	0.254
Operating Margin (%)	1.96	8.30	4.57	6.69	4.03
Employees	75,000	98,000	90,000	85,000	80,000

Note. Income Statement Data (see appendix for more details). Adapted from A&F, Mergent Online, 2015a.

From fiscal year 2009 through fiscal year 2012, A&F's total revenue increased at a compound annual growth rate of 6.58%, while its operating margin narrowed to 1.96% from 4.03%. As the global economy headed into a recession in December 2007, which lasted until 2009, the company experienced declines due to maintenance of its premium brand position by keeping full-price selling, even as purchases declined (Perrier, 2013). The approach of keeping the prices at the same level during the recession period was visible in the 2009 financial data.

Post-recession, total revenue rose 18% in fiscal year 2010 and 19% in fiscal year 2011 followed by a slower growth rate of 8% in fiscal year 2012. In fiscal year 2013, total company store sales dropped by 9%, due to a shift in preferences and fashion trends, as well as weaker spending amongst young adults and teens, which are A&F's core consumers (see TABLE 1, more details can be found in the appendix) (Asaeda, 2013). In the year 2010, A&F started closing under-performing stores across the country, among others all Gilly Hicks standalone shops by making the intimate apparel line available through its Hollister stores and online. In conjunction with the consolidation strategy, almost 150 stores had been closed and additional 160 were planned to be closed by the end of 2015 (Ferrara, 2014).

To improve margins, the company started to focus on cutting non-essential costs and a better inventory management. Through the decrease in average unit cost, A&F managed to improve its operating margin by 3% in fiscal year 2012. Due to the numerous store closings, stores and distribution expenses dropped, as well. Furthermore, A&F pursued the goal to decrease marketing and communication expenses, which had been severely hampered due to the 'not-so-cool kids' comments of the A&F CEO Mike Jeffries. In 2013, in order to develop an anti-bullying campaign, the organization incurred extra marketing costs which in turn impacted the operating margin negatively (Perrier, 2013

TABLE 2:
Abercrombie & Fitch, Selected Liquidity Ratios

Liquidity Ratios	*2013*	*2012*	*2011*	*2010*	*2009*	*Industry Average*
Current Ratio	*1.89*	*2.11*	*2.56*	*2.75*	*2.41*	*1.62*
Quick Ratio	*1.06*	*1.07*	*1.61*	*1.79*	*1.26*	*0.55*

Note. Financial Data (see appendix for more details). Adapted from A&F, Mergent Online, 2015b.

Even though the current ratio dropped in fiscal year 2013, it still showed A&F as liquid and able to meet its short-term financial obligations. The poor inventory management was demonstrated in a quick ratio decline, which however, was still above the retail apparel industry.

TABLE 3:
Abercrombie & Fitch, Selected Debt Management

Debt Management	*2013*	*2012*	*2011*	*2010*	*2009*	*Industry Average*
Long Term Debt to Equity	*0.04*	*0.03*	*0.04*	*0.04*	*0.05*	*0.76*
Total Debt to Equity	*0.04*	*0.03*	*0.04*	*0.04*	*0.05*	*0.81*

Note. Financial Data (see appendix for more details). Adapted from A&F, Mergent Online, 2015a.

TABLE 3 shows that A&F had a low D/E ratio, which was under the industry average of the apparel industry but stable. These low figures indicate that A&F relied only a little on long-term financing and took only a low degree of risk since the debt holders had fewer demands on the company's assets.

STOCK PERFORMANCE

The ticker symbol for Abercrombie & Fitch Co. was 'ANF' and it was traded on the New York Stock Exchange. Abercrombie 6 Fitch Co provided regularly SEC (United States Securities and Exchange Commission) filings and posted these filings on the A&F corporate website after they were electronically filed to the SEC. P/E ratios and the Earnings per Share for Abercrombie & Fitch over the last five years are shown in Table 4.

TABLE 4:
Abercrombie & Fitch, Selected Stock Information

Stock Information	2013	2012	2011	2010	2009	Industry Average
Earnings per Share (USD)	2.89	1.47	1.71	0.89	3.14	
Dividends per Share (USD)	0.7	0.7	0.7	0.7	0.7	
Average Annual P/E Ratio	11.39	32.63	28.56		11.1	17.15

Note. Financial Data (see appendix for more details). Adapted from A&F, Mergent Online, 2015a.

In January 2014, the average P/E ratio across all shares listed on the New York Stock Exchange was running at around 18.15 and in the apparel industry at around 17.15 (S&P 500, 2014). Abercrombie & Fitch was particularly noticeable due to the ups and downs in the progression, which is illustrated in figure 2. After a rapid increase in 2011, the P/E ratio declined in 2013 to 11.39. The decrease could be, among others, explained by the resurfacing comments coming from Mike Jeffries, which lead to a 30% decrease down to a share price of $32.91, which figure 2 (following page) illustrates.

As a result of an aggressive share repurchase program, EPS grew at a higher rate than net profit during the fiscal period 2013 (A&F, 2014a). The share repurchase program was conducted in order to boost the perception of the company. A&F's Outstanding Common Shares had gone from 78.4 million in 2012 to 76.4 million in 2013 (A&F SEC, 2015). This decrease indicated the company was repurchasing far more shares than it issued through its incentive programs for employees and executives.

FIGURE 2:
Abercrombie & Fitch, Share Price

Source: Adapted from A&F, Mergent Online, 2015b.

INDUSTRY SPECIFIC MEASURES

The US gross domestic product (GDP) tracked the market value and capital in the United States. According to the US Bureau of Economic Analysis (BEA), it rose in fiscal 2013 by 3.4% to $16.79 trillion. In 2013, consumers in the US spent about $363 billion on clothes and footwear, an increase of 2.2% from 2012, when they spent $355 billion (Asaeda, 2013). Many apparel retailers pursued expansion in market share through e-commerce or international expansion, which was reflected in sales increase. As a whole, the apparel industry recorded an increase of about 4% in 2013, slightly below the S&P 500 Index (Spencer, 2014).

Like many industries in the US economy, the apparel industry recorded a decrease over the last few decades. In the ongoing pressure to cut expenses, many apparel manufacturers had tended to produce in lower-cost regions like Bangladesh or China. However, recently a modest reshore trend emerged among apparel companies.

APPENDIX – FINANCIAL FIGURES

Input for table 7 to 20 was retrieved from ANF Financial Data. Mergent, 2015a and Intrinsic Research, 2015b.

TABLE 5

Abercrombie & Fitch, Balance Sheet

Balance Sheets (USD, Thousands)

Assets	2013	2012	2011	2010	2009
Cash and Equivalents	600,116	643,505	583,495	826,353	680,113
Accounts Receivable Trade	67,965	99,622	89,350	81,264	90,865
Inventories	530,192	426,962	569,818	385,857	310,645
Total Current Assets	**1,320,566**	**1,307,824**	**1,488,775**	**1,433,268**	**1,235,846**
Property, Plant & Equipment - Gross	2,885,712	2,915,072	2,655,219	2,456,057	2,362,492
Acc. Depreciation & Amortization	1,754,371	1,606,840	1,457,948	1,306,474	1,118,473
Property, Plant & Equipment - Net	**1,131,341**	**1,308,232**	**1,197,271**	**1,149,583**	**1,244,019**
Total Assets	**2,850,997**	**2,987,401**	**3,048,153**	**2,947,902**	**2,821,866**
	-		-		
Liabilities and Equity					
Accounts Payable	130,715	140,396	211,368	137,235	110,212
Accrued Expenses	322,834	395,734	375,020	306,587	246,289
Total Current Liabilities	**568,222**	**690,801**	**705,353**	**558,851**	**449,372**
Total Liabilities	**1,169,133**	**1,185,697**	**1,057,118**	**993,949**	**1,002,603**
Total Common Equity	1,729,493	1,818,268	1,862,456	1,890,784	1,827,917
Total Liabilities & Stockholders' Equity	**2,282,775**	**2,296,600**	**2,342,800**	**2,389,051**	**2,372,494**

TABLE 6
Abercrombie & Fitch, Percentage Change Analysis of Balance Sheet Data

Balance Sheets

Assets	2013	2012	2011	2010
Cash and Equivalents	-6.74%	10.28%	-29.39%	21.50%
Accounts Receivable Trade	-31.78%	11.50%	9.95%	-10.57%
Inventories	24.18%	-25.07%	47.68%	24.21%
Total Current Assets	**0.97%**	**-12.15%**	**3.87%**	**15.97%**
Property, Plant & Equipment - Gross	-1.01%	9.79%	8.11%	3.96%
Accumulated Depreciation & Amortization	9.18%	10.21%	11.59%	16.81%
Property, Plant & Equipment - Net	**-13.52%**	**9.27%**	**4.15%**	**-7.59%**
Total Assets	**-4.57%**	**-1.99%**	**3.40%**	**4.47%**
Liabilities and Equity				
Accounts Payable	-6.90%	-33.58%	54.02%	24.52%
Accrued Expenses	-18.42%	5.52%	22.32%	24.48%
Total Current Liabilities	**-17.74%**	**-2.06%**	**26.21%**	**24.36%**
Total Liabilities	**15.67%**	**-0.42%**	**-3.60%**	**-8.50%**
Total Common Equity	-4.88%	-2.37%	-1.50%	3.44%
Total Liabilities & Stockholders' Equity	**-0.60%**	**-1.97%**	**-1.94%**	**0.70%**

TABLE 7
Abercrombie & Fitch, Income Statement

Income Statements (USD, Thousands)

	2013	2012	2011	2010	2009
Total Revenue	4,116,897	4,510,805	4,158,058	3,468,777	2,928,626
Costs of Goods Sold Except Depr.	1,541,462	1,694,096	1,639,188	1,256,596	1,045,028
Gross Profit	**2,575,435**	**2,816,709**	**2,518,870**	**2,212,181**	**1,883,598**
SG&A	461,784	473,883	437,120	400,804	353,269
Operating Income (EBIT)	**80,823**	**374,233**	**190,030**	**231,932**	**117,912**
Interest Expense	-7,546	-7,288	-3,577	-3,362	1,598
Pre-Tax Income	**73,277**	**366,945**	**186,453**	**228,570**	**119,510**
Income Tax	18,649	129,934	59,591	78,287	40,557
Net Income	**54,628**	**237,011**	**127,658**	**150,283**	**254**
Number of full time employees	9,000	10,000	10,000	9,000	
Number of part time employees	66,000	88,000	80,000	76,000	
Number of Employees	**75,000**	**98,000**	**90,000**	**85,000**	**80,000**
EPS	2.89	1.47	1.71	0.89	3.14
Book Value per Share	22.64	23.18	21.75	21.67	20.78

TABLE 8
Abercrombie & Fitch, Percentage Change of Income Statement Data

Income Statements	2013	2012	2011	2010
Total Revenue	-8.73%	8.48%	19.87%	18.44%
Costs of Goods Sold Except Depr.	-9.01%	3.35%	30.45%	20.25%
Gross Profit	**-8.57%**	**11.82%**	**13.86%**	**17.44%**
SG&A	1.67%	8.41%	9.06%	13.46%
Operating Income (EBIT)	**-78.40%**	**96.93%**	**-18.07%**	**96.70%**
Interest Expense	3.54%	103.75%	6.40%	-310.39%
Pre-Tax Income	**-80.03%**	**96.80%**	**-18.43%**	**91.26%**
Income Tax	-85.65%	118.04%	-23.88%	93.03%
Net Income	**-76.95%**	**85.66%**	**-15.05%**	**59066.54%**

TABLE 9
Abercrombie & Fitch, Stock Information

(USD, Thousands)	2013	2012	2011	2010	2009
Year-end common stock price	32.91	47.97	48.84	57.63	34.85
Dividends	61,923	57,634	60,956	61,656	61,500
Year-end shares outstanding	76,402	78,445	85,638	87,246	87,986

TABLE 10
Abercrombie & Fitch, Liquidity Ratios

Liquidity ratios	2013	2012	2011	2010	2009	Industry Average
Current Ratio	1.89	2.11	2.56	2.75	2.41	**1.62**
Quick Ratio	1.06	1.07	1.61	1.79	1.26	

TABLE 11
Abercrombie & Fitch, Asset Management Ratios

Asset Management ratios	2013	2012	2011	2010	2009	Industry Average
Inventory Turnover	3.22	3.4	3.43	3.61	3.06	**35.4**
Days Sales Outstanding	6	8	8	9	11	**n.a.**
Fixed Asset Turnover	3.64	3.45	3.47	3.02	2.35	**4.82**
Total Asset Turnover	1.44	1.51	1.36	1.18	1.04	**1.5**

TABLE 12
Abercrombie & Fitch, Debt Management Ratios

Debt Management ratios	2013	2012	2011	2010	2009	Industry Average
LT Debt to Equity	0.04	0.03	0.04	0.04	0.05	**0.76**
Total Debt to Equity	0.04	0.03	0.04	0.04	0.05	**0.81**

TABLE 13
Abercrombie & Fitch, Profitability Ratios

Profitability ratios	2013	2012	2011	2010	2009	Industry Average
Net Profit Margin	1.33%	5.25%	3.07%	4.33%	0.01%	**8.15%**
Operating Margin	1.96%	8.30%	4.57%	6.69%	4.03%	
Return on Assets	1.92%	7.93%	4.19%	5.10%	0.01%	**1.84%**
Return on Equity	3.16%	13.03%	6.85%	7.95%	0.01%	**5.29%**
EBITDA Margin	12.25%	9.01%	11.9%	10.57%	17.56%	**15.96%**
Revenue per Employee	45,284	46,328	40,921	36,708	42,771	

TABLE 14
Abercrombie & Fitch, Market Value Ratios

Market Value ratios	2013	2012	2011	2010	2009	Industry Average
Price-to Earnings Ratio	11.39	32.63	28.56	-	11.10	
Cash Flow per Share	8.21	4.22	4.46	4.59	5.67	
Book Value Per Share	23.18	21.75	21.67	20.78	21.06	

TABLE 15
Abercrombie & Fitch, DuPont Analysis

DuPont Analysis		*ROE* =	P.M. X	T.A.T.O. X	Equity Multiplier
	2009	0.01%	0.0%	1.04	1.54
	2010	7.95%	4.3%	1.18	1.56
	2011	6.85%	3.1%	1.36	1.64
	2012	13.03%	5.3%	1.51	1.64
	2013	3.16%	1.3%	1.44	1.65

TABLE 16
Abercrombie & Fitch, Key Growth Ratios and Average

Key Growth Rates and Averages				
Past Growth Rate (%)	**1 Year**	**3 Years**	**5 Years**	**9 Years**
Sales	-8.73	6.13	6.58	6.56
Net Income	-76.95	-21.42	-13.07	-14.32
Ratio Analysis (Annual Average)				
Net Margin (%)	1.33	3.21	3.33	6.86
% LT Debt to Capitalization	9.39	5.27	4.61	3.12
Return on Equity (%)	3.08	NA	NA	NA

TABLE 17
Abercrombie & Fitch, Analysis of Business Segments

Business Segments Revenues (USD, Thousands)	2013	2012	2011	2010	2009
United States	2,659,089	3,087,205	3,108,380	2,821,993	2,566,118
Europe	1,116,781	1,137,664	822,473	443,836	
Other International	341,027	285,936	227,205	202,948	362,508
Total	**4,116,897**	**4,510,805**	**4,158,058**	**3,468,777**	**2,928,626**

TABLE 18
Abercrombie & Fitch, Percentage Change Analysis of Business Segments

Business Segments Revenues	2013	2012	2011	2010
United States	-13.87%	-0.68%	10.15%	9.97%
Europe	-1.84%	38.32%	85.31%	
Other International	19.27%	25.85%	11.95%	78.42%
Total	**-8.73%**	**8.48%**	**19.87%**	**18.44%**

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