



## **GETTING COACHED; NEWSMAKERS: THE ENGINEER BEHIND COACH'S INCREDIBLE RENAISSANCE, REED KRAKOFF IS READY TO TAKE THE BRAND TO THE NEXT LEVEL WITH RETAIL EXPANSION, AMBITIOUS GROWTH PLANS FOR ASIA AND MORE DIVERSE PRODUCT.(Interview)**

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NEW YORK - Reed **Krakoff** plays by his own rules.

**Coach's** president and executive creative director eschews the flashier aspects of brand building in favor of an organic growth strategy with an emphasis on clean, classically styled product.

Together with Chairman and CEO Lew Frankfort, **Krakoff** has built the accessories powerhouse into a nearly \$2 billion business - without a European presence, celebrity endorsements or a reliance on overly trendy product.

"If we [had done] a lot of things, we could be much bigger. But we chose not to," said a calm and confident **Krakoff** during an exclusive interview with Footwear News in his impeccably designed 12th floor office at **Coach's** New York headquarters. "You don't want to have something so hot that ... [Well], we all can think of a couple brands that were so hot and burned out real quickly. We want to be like a slow, even burn."

**Coach** has chosen a more measured approach than most of its luxe competitors, and it's working. The company has registered double-digit sales growth each quarter since the brand went public in 2000, and analysts estimate that **Coach** will register another 30 percent jump in profits when it reports earnings on Tuesday.

Clearly, **Krakoff** and **Coach** are under intense pressure from Wall Street to maintain that staggering momentum. But you wouldn't know it by **Krakoff's** laid-back, almost Zen approach to designing and managing the brand.

**Krakoff**, wearing tapered jeans, sleek black oxfords and a black leather jacket, broke down the company's nontraditional strategy in between sips of Diet Coke, from behind a desk he claims he never has time to use.

While **Coach** has made its mark on the industry (winning numerous fashion awards and honors along the way) with must-have handbags, **Krakoff** is clearly just as passionate about the brand's decade-old footwear business. The shoes, which are produced by Great Neck, N.Y.-based Jimlar Corp., are sold in 500 wholesale doors and account for approximately 8 percent of **Coach's** overall sales. (See sidebar, page 19.)

"Footwear is the most important category other than our core category," **Krakoff** said. "To me, it's a really important part of our brand identity. Although it's not an enormous piece of our business, it is a very successful business."

Meanwhile, the accessories firm is expanding its definition of "accessible luxury," the term coined by **Coach** before it went public. This aspirational approach to luxury goods catapulted **Coach** into an unrivaled and extremely profitable space in the market, and helped to make it a globally recognized label.

In August, **Coach** completed its buyout of **Coach** Japan and currently operates 109 retail locations there.

It is also shifting its attention to China, where it has three stores - one in Beijing and two in Shanghai. And there is still plenty of untapped international potential. **Coach** plans to open an additional 50 stores globally this year, and has yet to establish a retail presence in Europe.

In keeping with its American roots, the company also continues to focus on growing its wholesale and retail operations stateside. **Coach** is sold in Bloomingdale's and Macy's, and operates a total of 287 stores in North America, including a flagship store on Rodeo Drive in Los Angeles, which opened last year, and the newly reopened New York flagship on Madison Avenue. In addition, the company plans to open another 25 stores in the United States this year alone.

Ambitious retail strategies aside, **Krakoff's** main focus is making sure that the **Coach** brand remains desirable. "We're not about being flashy," he said. "We're focused on continuing to grow the business in a smart and steady way. We have a long way to go."

FN: **Coach** has been growing by leaps and bounds every year. How do you plan to maintain that momentum?

RK: Well, you don't want to be too hot. We don't do anything short-term. We do everything based on whether it is good for the brand. We built a very strong foundation. I don't really care about [having] the 'it' bag or the bag of the season. You don't want to have something so hot that ... [Well], we all can think of a couple brands that were so hot and burned out real quickly. We want to be like a slow, even burn. If we [had done] a lot of things in the last five years, we could be much bigger. But we chose not to.

FN: When did the term 'accessible luxury' enter your lexicon?

RK: Before we went public. We were the first company to ever use that term. Everything that's been so successful for us has been something that's grown out of our core. In evolving **Coach**, we wanted to make sure that we didn't abandon anything that got us to where we are today. And one of the things was a great price-value relationship. Another was classic styling - American, understandable, a very casual-chic identity. When I got to **Coach**, I knew [the brand] needed to stay American, unstuffy and casual, but also needed to be sexy and desirable. We used to be a place where people went when they needed a bag. Now, we're where someone goes who just wants to see what's happening in the world of fashion.

FN: Do you still define the brand as 'accessible luxury'?

RK: We're broadening. We've added a lot of layering, in terms of pricing and looks, to our collections and categories.

FN: Do you think consumers view the **Coach** brand as a status symbol?

RK: Some people [do], absolutely. For other people, not as much. It really depends. You can't have a \$2 billion business without having a broad group of people - it just doesn't exist. It's different things to different people.

FN: Are limited-edition runs an attempt to take the brand upmarket?

RK: It's relative to what other brands are doing. We're not going to have a \$2,000 bag - it just doesn't make sense. But we can have a \$900 or \$1,200 bag that looks like a \$2,500 bag. The most important thing is [that the product has] to be desirable and look like **Coach**. Consumers are really intelligent. If it looks like another brand or it doesn't look like an accessory from us, they're not going to buy it, even if they love it. They'll buy it from someone else.

FN: How significant is the footwear collection today in the overall makeup of **Coach**?

RK: Footwear is the most important category other than our core category for a lot of reasons - and not necessarily financially. But it's the most closely

related to our handbags. It's something that can make a story for the store - you get a bag, heels, throw it together with a piece of outerwear, and it all of a sudden becomes a look. Footwear also adds a lot of flavor to our advertising and communications. We get a lot of inspiration going back and forth between the footwear team and handbag team. To me, it's a really important part of our brand identity. Although it's not an enormous piece of our business, it is a very successful business.

FN: How well do you think your licensing partnership works with Jimlar?

RK: We have a great partner in Jimlar. They really are someone who understands the **Coach** brand. They never suggested that it's been anything other than a long-term commitment, which is what you want in a licensee. I don't even think of them as a licensee, but really as a partner. They are always the first to say, 'What can we do? How can we make it better?' In terms of wholesale, I believe we're probably the most successful resource in our space in the United States. In evolving the shoe proposition, it's hard when you start a new category. What does the **Coach** shoe look like? Where do we need to be in terms of price? Where do we need to be in terms of attitude and look? We've been in the shoe business for about 10 years now. And like anything, it's hard, very hard.

FN: Does the styling you use in your handbag line help you focus the footwear designs?

RK: It's easy to say that the shoes should be casual, classic and chic and very American [like the handbags]. But what does that mean when you need a driving shoe? What does that mean when you need something that doesn't exist in the handbag business? Shoes are more segmented. You have a casual group, and you'll have your tailored group. I mean, there really is no such thing as a tailored handbag. So it's a challenge. But the Jimlar team is absolutely committed to what's right for the business. They're not [overly] worried about margins, which is what I really like to see, and where licensors usually have issues.

FN: How important are department stores to growing the **Coach** business?

RK: (Pauses.) To be fair, department stores are important to our brand. It is where a lot of people see **Coach**. It is something that clearly helps licensees in any relationship make a dollar, make money. I think that we've done a good job with Jimlar of moderating that balance between what's right for the wholesale business and what's right for the **Coach** brand. The key is, there's not a wholesale proposition and a retail proposition. That's when it starts to be a problem - when accounts say, 'Well, we need this one sandal, and we don't really like this athletic [style].' I think there is a lot of short-term gain in those kinds of propositions, but they never pay off.

When we pick the assortment and we control what we're doing, and partner with them, as opposed to them dictating to us, the wholesale business has been fantastic, when we're absolutely leading the way in terms of the structure of how we do business with them.

FN: How does a mega-brand like **Coach** benefit from doing business with smaller, independent retailers?

RK: They're a piece of the business and they can be important. I think it's almost a case-by-case situation for us. You know, we don't look at one

account as making or breaking our business. It's all done in a very holistic way. We don't break them out into independents and [categories] like that.

FN: What is the domestic vision for **Coach**'s own retail growth?

RK: Someone said to me yesterday, 'You guys are so lucky. You have so many of your own stores.' And, you know, I think in a way we are lucky, but it's a big challenge to run a lot of stores. It does

allow us to control our destiny. It allows us to make the assortments exactly what we want, to control them, to bring in new product and take the product out whenever we see fit. Of course, it's a benefit. We see that as one of the key equities of the **Coach** brand. It allows us to create a world.

FN: Do you envision it as one world across the globe, or do you use the stores to manifest different visions of **Coach**?

RK: You can't be all over the place. It's too hard to manage if you're going to have one store concept in Japan and one store concept in Europe and one store concept in the U.S. You can never get any traction. So when we have a window idea that we love in a showroom, a small piece of it will go to wholesale or into the shops, and another piece of it might go into a catalog. Everything leverages off of everything else. We have a new store concept, our flagship on Madison Avenue. So [we ask ourselves], 'What does that mean for all the other stores?' We want to have it be consistent. If you're all over the place, you don't develop any ideas.

FN: Moving forward, what would you like the **Coach** retail experience to be?

RK: As we get bigger, I'm looking for it to become more and more like a boutique, like something small. Because I don't want people to feel like we're everywhere, or that you can get this one bag anywhere, which you can't. I want it to feel personal, exciting. The best experiences are when people walk into a store and really enjoy what they're doing and have a consistent experience, from the attitude of the sales associates to the look of the store, the product assortment. It's fashion, so it's got to be something people love doing. No one needs to shop, so you've got to make it a great experience for them.

FN: Beyond just design, are you concerned with how store layout affects sales?

RK: Of course. It's like a puzzle, and that's one piece of the puzzle. But at the same time, you can't be too concerned about that.

FN: How do you keep your ad campaign fresh?

RK: We always change. I think it's a danger not to change. The fact is that, as the magazines change, and what people are exposed to change and what's happening in fashion changes, what looks good in a photograph changes. We try to always do something within the boundaries of what looks believable from us. But at the same time, I want to get people's attention. I want to

see what's sexy, I want to see what's more casual, I want everything a little more minimal. But it always has to be done in a way that's recognizable, or at least believable.

FN: Do you plan to ever incorporate celebrities into **Coach** ads?

RK: I did it years ago at **Coach**. [But today], I don't think so. Borrowed equity is a little old. Gap did it many years ago. Then there was a second wave about eight years ago, which we were a part of. But then you saw it everywhere, from H&M to many other brands. You don't want to see celebrities that are on every magazine cover, every ad campaign. It doesn't mean anything. If anything, for a brand like **Coach**, which has a strong character, such a strong brand equity, it's actually negative. It's just like, why do we do need to use someone like that, when it's really not about them? It's about the brand and the product and the attitude. So, I'm not a big fan.

FN: What about a more organic approach, in terms of courting celebrities who are fans of the product?

RK: To be honest, it's not our style. It's not really '**Coach**-appropriate' as we say. We don't really care. No one thing is going to change our business. If one celebrity wears a pair of our shoes to the Emmys, you know, it's great. We love that. But we're not going to throw product at people. We have a lot of celebrities who are friends of the brand. If they want to wear anything, I think that's great. If they don't, that's okay, too. It feels forced. And again, because **Coach** is such a down-to-earth, genuine brand, it doesn't feel right for us. So we don't do it. But we do celebrity placements when it's people who really love **Coach**. You don't think of **Coach** as chasing celebrities around. That's something to really keep in mind, what's believable and what's a good fit for us, because anything can work. But is it something that's going to mean anything long-term or is it just going to be a quick fix? We may get Lindsay Lohan to carry our bag, but is that a good thing? Is that something we really want to have happen? A lot of people say, 'Oh, it's going to sell a lot of bags.'

FN: How do knockoffs affect the **Coach** business?

RK: It's pretty simple - it's negative. It degrades the brand. Some people see inexpensive copies on the streets and maybe think they are our bags. And that's a negative. The fact [is] that we're investing millions and millions of dollars developing these bags, and people are benefiting from our investment. And there's a whole other thing about questionable label practices. There's just a whole group of issues there. We're very focused on prosecuting and we've been very successful. We are absolutely vigilant about anyone who looks to, in any way, copy our craft.

FN: How important is the **Coach** Japan customer to **Coach**'s growth?

RK: The Japanese consumer is a very important luxury consumer. [But] we don't look at it as the Japanese consumer or the American consumer - we see them as a subset of our growing consumer [base]. There's definitely a real fashion focus in Japan. It's a faster-moving market in

that sense. People move between brands more fluidly. And there are many more people at many more income levels who buy luxury product. In the U.S., there's a strong relationship between regionalism and price point and that's much more contracted there. It's a market that's been very accepting of **Coach**, obviously. And it's exciting because they love fashion in that part of the world in a very broad way.

FN: Was it key for **Coach** to completely own that business?

RK: Well, it's a big opportunity. It's the second biggest market for almost any brand other than the U.S. Much bigger than Europe.

FN: Where does **Coach** need to be that it has yet to establish a presence either domestically or internationally?

RK: Well, we feel like there is definitely growth [potential] in the U.S., in terms of store opportunities. We're very popular on the West Coast, which is a relatively new [market] - it was sort of later in our development that we became popular in that part of the world. We're just beginning in China. We're not in Europe. One day we will have a presence there. We're not in Russia. We're not, in a big way, in South America. We like to take a measured approach to things. You can only do so many things well. And we want to maximize opportunities where we have existing people that we can leverage before we go off to Russia and open one store that costs us \$2 million or more. It's an investment. For me, what poses an opportunity is always doing better what we already do, because we still have a long way to go in terms of market share right here in the U.S. and in Asia. We already have the machine to do that.

FN: But it is inevitable that growth will slow down at some point, right?

RK: I hope not. I hope you're wrong. We have a long way to go. And we're focused on continuing to grow the business in a smart and steady way. We're not about being flashy. And that's part of who we are as a brand and who we are as a company. It's a consistent strategy that permeates everything we do.

Proud Partners : Inside **Coach** and Jimlar's longtime relationship.

One vision.

That's how Jimlar President and COO Larry Tarica describes the partnership between **Coach** and Jimlar Corp.

"Our teams work so closely together, you'd think they were one organization," Tarica said of Jimlar's relationship with **Coach** since securing the footwear license in 1998. Prior to that, Jimlar had been doing sourcing work for **Coach** since 1993.

According to Tarica, the 13-year relationship has been successful in large part because of President and Executive Creative Director Reed **Krakoff's** creative direction for the brand.

"[The shoes and handbags] really look like they come out of one home," Tarica said, "and that speaks to Reed's ability not only to inspire us with a vision, but to lead the respective creative teams [as one entity]."

Product design is directed by **Krakoff** and his internal footwear design staff, with feedback from Tarica and his **Coach**-dedicated team within Jimlar before the shoes are produced in Asian and Italian factories.

Marketing and advertising are both steered by **Coach**, while Jimlar monitors footwear production, as well as sales through wholesale department store doors and limited specialty stores.

Like **Krakoff**, Tarica believes **Coach** has achieved its strong positioning in the marketplace by staying true to its heritage.

"The growth has been steady and consistent," Tarica said, "and we believe this has to do with **Coach**'s dedication and commitment to the consumer, value, quality and product relevance. We think those things, along with terrific execution, are the reasons that this brand continues to get a larger and larger consumer base."

Eric Newman

Caption(s): Reed Krakoff focused on growing **Coach** in markets such as Japan and China