Strategic Analysis of Cotton On Group

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Executive Summary

Fashion is one of the world's most creative industries, which was developed to conduct research on the consumption and behavior of consumers in an economic way. From a social perspective, fashion has long been treated as a signal of social change. Cultural thinkers have regarded fashion as a representative characteristic of modernity and even of culture itself. Everyone wears clothing and is inevitably influenced by environmental changes, and becomes a symbol of an era.

The paper first introduces the strategic timeline and geographical scope of Cotton On Group, mainly about multi-brand development and geographical expansion projects, including the in-store learning platform and Cotton On Foundation. Then the paper talks about the evolution of brands and markets in terms of acquisition planning. The second part firstly analyzes the environment containing political, economic, social, technological, legal, and ecological sectors under the support of the PESTEL tool, which can help the company to recognize all environmental factors having impacts on decision-making. Then the TOWS tool outlines the external opportunities and threats, internal strengths and weaknesses, and combines four kinds of strategies to maximize the advantages of opportunities and minimize the disadvantages of threats.

After that, an industry analysis of all related counterparties in the market seems important to find out where we have the power to bargain and where we have to sacrifice. Eventually, having a clear map of current brands gives guidance on where the capital should go and what the company expects in the future. Lastly, the paper makes a conclusion on future business strategies in terms of the company, business, and marketing levels. Coping with fierce competition in human resources and information technology, the company should focus on career development in case of the outflow of talent and innovate in a sustainable and digital way in terms of the utility of big data. Operating in an era of ongoing development, it is necessary to abandon outdated marketing methods. Thus, Guerrilla marketing plans deserve continuous investment. Buzz marketing is a common way to guide customers to respond to our products and feel a memorable trip to understand what products Cotton On has and what kind of services we can provide.

1.0 Introduction

This report analyses the complex fashion business environment, market situation, and competitive position of Cotton On and recommends strategies for future growth. The report aims to analyze the positioning of Cotton On Group in the fast-fashion industry using analysis tools like PESTLE environment analysis, TOWS analysis, Porter Five Forces industry analysis, and BCG portfolio analysis. In the process, it is clear to recognize the external opportunities and threats, combined with internal strengths and weaknesses, which are available for Cotton On to launch new business strategies and marketing plans to expand cross-border transactions. In analyzing the five forces and portfolio of products, the company can discover the growth opportunity to allocate the capital investment. Only the right decision can guide the company to acquire extra profits in a fair, competitive market.

1.1 Strategic Timeline

Cotton On Group was founded in the late eighties, while acid wash and Lycra stepped into the fashion business market. Paired with the first failure in Beckley Market in Geelong, founder Nigel had an epiphany and dropped the price. It was the start of something big. After Nigel's cousins joined the clothing venture, it gradually became a family affair. Along with geographical expansion, Cotton On never stops expanding its footprint of discovering new and exciting opportunities. Due to strong customer demand, the company established Cotton On Kids in 2004, offering aspirational, high-quality, must-have clothing at affordable prices. Things are changing with the increasing demands, not limited to outerwear; leaders enjoyed a snow trip with a casual chat, looking to cater to customers' whole lives. Eventually, the company launched Cotton On Body with its first store in New South Wales. With an aspiration to have a positive impact on the world, Cotton On donated to a healthcare centre and officially launched the Cotton On Foundation. In the next year, inspired by Dorothy's red slippers, Cotton On launched the footwear label, Rubi. To fill a gap in the market need for quick gifts and unique stationery, Typo launched in 2009, giving Cotton On the chance to engage customers a little differently from before. At the same time, in synch with Cotton On Group's style, the decision to enter the world's biggest retail market was made at a cricket match. It is worth mentioning that 2009, 2012, and 2016 are three memorable milestones, respectively representing the launch of the 500th, 1000th, and 1500th stores. In 2013, as team members had grown to 19,000 people, the company launched an in-house learning platform, COG Uni, focusing on enriching employees' knowledge and improving their enterprise skills.

1.2 Geographical Scope

In 1991, Cotton On Group opened its first retail store in the regional Victorian city of Geelong, followed by a second store in Malop Street. In 1994, Nigel embarked on his journey in terms of geographical expansion, opening its first store in Western Australia. In 2006, the company jumped over the door of Australia, opening the first cross-border shop in Queensgate Shopping Centre of New

Zealand, and in the same year, the 100th store was opened in Knox City. With the ambition to become one of the biggest fashion business organizations in the next ten years, the company opened the international doors of Singapore, Hong Kong, Malaysia, the USA, the United Arab Emirates, South Africa, the Philippines, Thailand, Qatar, Indonesia, Lebanon, Oman, Saudi Arabia, Brazil, and the UK in quick succession. Among those countries, South Africa was expected to be one of the biggest and fastest-growing markets. 2014 was a big year as Cotton On opened headquarters all over the world, when the company set up country offices in South Africa, Asia, the USA, and Brazil. Official headquarters were launched in New Zealand in 2015, while a successful expansion project was managed from South Africa.

1.3 Evolution of the company's Brands and markets

Although starting with humble beginnings, Cotton On Group has taken its spirit to the globe – expanding to over 1,400 stores across 7 brands and 19 countries. In the past 25 years, Cotton On delivered the trend of the moment in the fashion market and inspired each member to have fun with the concept. Its value focuses on making a positive difference in people's lives, empowering people with different skin colours to show their lifestyles and make their own mark on the world. The year 2007 marks the company's first trial at acquiring another global youth fashion brand for both girls and guys called Factorie. This is a successful horizontal acquisition to expand the brand influence in the fashion market, as Factorie is committed to making a positive change around the world, which is in line with the company culture. Besides, Factorie knows customers deeply and makes them feel they are at the centre of products and services. Another successful and bigger merger occurred in 2013 when an iconic and recognizable brand, called Supre, joined the Cotton On Group. Supre's vision is to be an international, fast fashion leader, which is in harmony with Cotton On's pursuit. At the same time, Supre has a big customer base from a group of iconic girl gangs with strong purchasing capacity.

2.0 Analysis

2.1 Environment (PESTEL) leading to key Opportunities and threats

Pestle analysis is a useful tool to help the company identify the environmental factors that affect the development of the organization in order to achieve optimum performance. It also helps in the decision-making process as it gives top management more knowledge about their business (Oxford University Press, 2007). PESTLE is an abbreviation of six elements: political, economic, social, technological, legal, and ecological.

In Australia's long history, the country has had a strong representative democracy with a mandatory

voting system that has ensured high voter turnout in elections (Country Analysis Report 2011). Thus, to some extent, policy-making represents the public willingness and may be in favour of the development of the fashion industry. On the other side, continuous shifting on developmental issues leads to political instability, which brings unstable factors to the fashion market, for example, limitations on importing fabrics or increasing restrictions on cross-border transactions. The last political factor is EU barriers to importing, and this would directly influence international fashion companies, like Cotton On Group, in terms of entering and operating in the local market. The internal economic factor for the Australian fashion industry is high labour costs, which reduce the free cash inside the company for potential investment and further slow down the expansion projects.

There are three external economic factors: firstly, the fluctuation of foreign currency exchange (trade-weighted index) brings barriers for international trade, and movements in purchase expense will be passed on to customers in terms of fluctuation of prices; secondly, the business life cycle varies from brand to brand, which is an opportunity to motivate a fashion company to launch or absorb more brands inside a group; thirdly, the world's wealth shifting to developing countries gives companies more opportunities to discover new growth points and find mutual benefit. Fast fashion has become a social trend, and fitness lifestyle prevails in public opinion. Fashion circle icons continuously upsurge and re-rule the fashion market. There is no denying that cultural differences pose threats to the fashion industry, which cause low sales of sub-brands in specific areas. Due to the ongoing evolution of technology, the diversified development of multimedia motivates companies to facilitate more channels for marketing and advertising.

Under the push of the fast-growing Internet of Things, people tend to do online shopping instead of in-store shopping, which is a commercial assault on the expansion of brick-and-mortar stores. Besides, some regulations limit some kinds of chemicals used for clothing manufacture, to some extent, impeding the innovation of the fashion industry. There is a growing body of evidence elucidating that the fashion industry is taking steps to reduce its negative environmental and social impact, communicating these concepts through advertising and branding (Cecilia, Julia & Camilla, 2015), and such a fashion brand was called a 'muted sustainable' brand. Those productions fit the requirement of sustainability, which helps to reduce the waste of resources and improve sustainability. Admittedly, muted sustainable brands dilute the market share of fast-fashion brands as they respond to appeals from non-profitable institutions.

2.2 TOWS Analysis leading to optimum strategy

Once we assess the positioning of a fashion brand in the market, an effort could be made to enrich the analysis with the use of instruments of strategic management, such as the TOWS matrix. It is necessary to perform a systematic analysis of strengths and weaknesses, which in turn can be transferred to opportunities and threats under specific conditions (M. Marikina 2013). These factors are made up of four different strategies as follows.

	External Opportunities (O) Information technology evolution Increasing cross-border trade Growth through acquisition	External Threats (T) Brands' business life cycle (varies) Limitations on the usage of chemists (some kinds). Competition
Internal Strengths (S) Strong digital skills High brand recognition Successful expansion projects (diversification) Company culture: 'Innovate a new world.'	SO "Maxi-Maxi" Strategy Gathering profile information about users to discover customers' preferences. Use strong brand association and successful guidance to expand overseas and acquire recognizable brands.	ST "Maxi-Mini" Strategy Launch multi-brand and acquire new brands to hedge risk, including fierce competition. Continuous innovation in clothing design in a sustainable way.
Internal Weaknesses (W) Weak in branding and advertising High cost of labour resources High attrition among senior executives	WO "Mini-Maxi" Strategy Technological innovation helps open new advertising channels. Launch more overseas offices (e.g., Asian countries) to balance cost management and give more chances for job rotations.	WT "Mini-Mini" Strategy Establish an internal employee networking system and organize team building to relax the relations.

SO "Maxi-Maxi" Strategy: the most favourable situation will be if an organization uses its strengths by taking advantage of external opportunities. In a fair, competitive situation, this is the most effective way to help the company acquire extra profits compared to other fast-fashion organizations. Cotton On can take advantage of an in-house learning platform, COG Uni, to provide systematic training for technological solutions, which is used to pull information from complex data from manufacturers and customers to generate a total market map of the design, manufacture, marketing, distribution, and selling of clothing in the fashion market. In this way, the productions and services are in favour of end users (customers). Besides, there is a trend of shifting the world's wealth to developing countries; thus, it is suggested to open international stores in Asian countries. At the same time, Cotton On has two successful merger and acquisition cases that should be regarded as good samples for future expansion actions.

ST "Maxi-Mini" Strategy: survival of the fittest is the best mode of the fast-fashion industry. Cotton On Group started to establish sub-brands in 2004. As intensive competition accelerates the vanishing of some brands, Cotton On speeds up launching new brands to fit market needs and hedge the risk. At the same time, international expansion projects have successfully put brands into different markets with different competitive environments, thus, in turn, deviating brands' business life cycles. In this

respect, the company started to acquire ‘winner’ brands with special characteristics that has been picked up from the fastidious fashion market, such as Factorie and Supre. To cope with market trends and self-advantage, the company is encouraged to develop in a multi-brand way. Due to appeals from friendly-environment companies, there are more and more limitations on some kinds of chemicals, and this places high requirements on materials for clothing and potentially requires companies to innovate on clothing materials and designs.

WO “Mini-Maxi” Strategy & WT “Mini-Mini” Strategy: information technology evolution brings the development of the Internet of Things, which broadens the advertising channels. Thus, the company should seize the opportunities to innovate the marketing channel that is not limited to advertising in the interval of TV programs or on a small page of a newspaper. Actually, launching country offices in Asian countries are a good way to reduce the high labour costs and give more chances for job rotation to relieve the conflict and pressure on colleagues’ relations. Asian countries have growing consumption capability and relatively lower costs on human resources, which, to some extent, can balance the worldwide pressure on cost control. Apart from these, a good employee networking system and frequent team building will help to form a peaceful working atmosphere. Properly improving the quality of the workplace can motivate employees’ enthusiasm for the job.

2.3 Industry Analysis (Porter’s Five Forces) Leading to Market Attractiveness

Forces	Impact Level	Detailing
Barriers to entry	Moderate	Space constraints in shopping centres Capital cost is relatively low Low customer loyalty for fast-fashion brands
Substitutes	Low	Quick reaction to market trend
Buyer Power	Moderate	Buyers are fragmented Products are standardized Switching costs are low Stores are concentrated
Supplier Power	Moderate	Switching costs are high Sophisticated and vertically integrated supply chains

Rivalry	High	Department stores Global fashion giants Product differentiation is low

Barriers to entry: There are no government restrictions or proprietary knowledge to protect new entrants from the fast-fashion industry. The capital and exit costs for entrants are relatively low, while there is not enough space for new companies to launch stores in the shopping centres and commercial streets. However, loyalty from customers are low for fast-fashion brands, and it is easy for new stores to attract customers only if the price is low.

Substitutes: the rise of media and online shopping has exposed customers to the latest designer fashion from runway shows, fuelling the industry operators to renew their types and update trends on demand (Lauren Magner, 2017). Consequently, fast fashion is pushed to capture the customers' mood and the emerging fashion of the moment. This trend has contributed to the popularity of fast-fashion stores. Due to market requirements for quick reaction, there are few substitutes for fast-fashion clothing.

Buyer Power: the clothing of fast fashion has characteristics of standardized, easy-to-imitate, large-scale production; thus, it is easy to replace with another production, even a brand. And the switching cost is nearly zero. Although the customers are fragmented, different stores with similar productions gather together in the same street or shopping centre, which makes it easier for customers to change their minds. Gradually, market competition makes customers become more powerful in choosing clothing with lower prices and the same quality.

Supplier Power: fast fashion brands have much shorter production and distribution lead times, which enables a closer match of supply with demand. Correspondingly, industry operators require sophisticated and vertically integrated supply chains to respond quickly to seasonality and unpredictable demand (Lauren Magner, 2017), which makes switching costs high.

Rivalry: global fast fashion giants like Zara, Topshop, H& M, and Uniqlo are expected to expand with ambitious plans, although they have strict requirements regarding store location and size. New entrants prefer to open a flagship store in the heart of the city and occupy market share from domestic retailers. Apart from this, industry operators compete directly with department stores that hold an advantage of economies of scale, such as Myer and Target. The clothing ranges of those big retailers are often similar in price and quality. Not only that, but department stores focus more on improving customer experience and online presence.

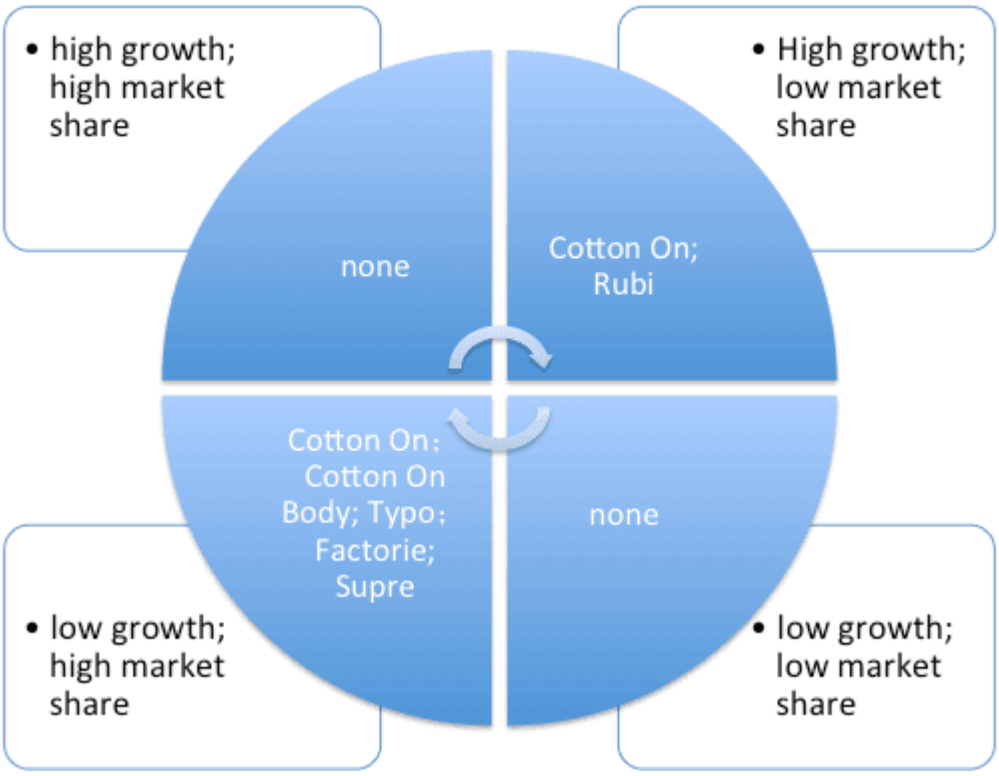
2.4 Portfolio Analysis (BCG matrix) leading to profitable capital

structure

BCG matrix is designed to help with long-term strategic planning by reviewing its portfolio of products to find the most valuable part to invest in, which is also known as the growth matrix. It is easy to follow the method: milk the cows, don't waste money on the dogs, invest in the stars, and give the question marks some experimental funds to see if they bring more profits.

Compared with two global fashion giants, H& M (H& M annual report, 2017), with 4,288 stores in 43 markets, and Zara (Inditex annual report, 2016), with 2,213 stores in 93 markets, Cotton On, with 1,375 stores in 17 countries in total, has a relatively small market share in the fast-fashion market.

In my perspective, no brand should be put into the stars and dog column; that is, no brand should be abandoned and invested. There are five brands regarded as cash cows, which should be milked as much as possible without killing them. Born in 1991, Cotton On is the parent brand with 600 stores in 17 countries. In the last ten years, Cotton On Body has been growing with 350 stores in 11 countries. In recent years, both brands have slowed down the speed of expansion. In 2007 and 2013, two brands, Supre and Factorie, joined the Cotton On Group with more than 100 and 170 stores, respectively. Both of these have been established for more than 20 years, and only after they joined the company did it seem that they had found their home and developed at a fast rate. And the last cash-cow brand is Typo, launched in 2009 with 200 stores in 13 countries since then. Both Cotton On Kids and Rubi shoes have low market share and have the potential to grow. The company has invested much of its capital in Cotton On, Cotton On Body, Typo, and two other brands; there is no denying that these brands have strongly expanded to the international market. I take the opinion that focusing on Kids and Rubi is a good choice for future development for the sake of the market need for kids' clothing and shoes.



3.0 Recommendations

3.1 –General Strategies for Cotton On Group

Keeping up with ongoing technological innovation, Cotton On should take advantage of digital skills regarding decision-making and marketing plans. To begin with, it is clear to divide the decision-making into productions and services associated with customer behaviours that can be analyzed and concluded by sorting numerous databases. What we would have in the process is the customers' preferences and effective suggestions for future planning and deployment. Although the nature of fast fashion is easy to copy and fast-updated, production should be equipped with creativity, as creativity is the starting point of the fashion market (Walter, 2002). Besides, combined with sustained development requirements, it is suggested to innovate in a sustainable way in terms of materials and manufacturing. As H& M talked to investors in the 2017 annual report, H& M has completed 59% of its cotton being organically recycled. In this respect, it is a sustainable way to reduce the waste of resources and pollution.

At the business and marketing level, online shopping is popular in the fashion industry, which can bring convenience to customers instead of runway shows and the latest type of clothing to customers' insight. What's more, the marketing team should have awareness of which point is the source of customers' feelings about fashion—catwalks or clothing by celebrities, bloggers, and other influential people. Thus, it is a pity to forget those people's influence on brand recognition and purchasing power. It is suggested that the marketing team should be aware of the celebrity's influence and

innovate to make marketing plans.

At the company and business levels, the company should insist on a multi-brand strategy to hedge the risk of variations in business life cycles in order to acquire mutual benefit among brands. At the same time, the company should take culture into consideration in the expansion project in terms of choosing suitable brands launched in the right area, consistent with local culture. Unavoidably, the company should shift part of the expansion plans to Asian countries that are seen as economically fast-growing.

Lastly, from the perspective of human resources management, the company should perfect the employee networking system to improve communication across the department. On the premise of launching overseas offices, the company should emphasize job rotation in order to relieve the conflict between senior executives and give them more chances for their career development. Obviously, the in-store learning platform – Uni is successful, and it should be developed to enrich staff's enterprise skills, especially digital skills.

3.2- Guerrilla Strategies for Cotton On Group

Guerrilla marketing involves efforts and energies focusing on grasping the attention of the customer on a personal level instead of a public level, which excludes traditional media, like advertisements in newspapers, TV, or through direct mail. In a direct way, it increases engagement with the product, which is designed to create a memorable experience for the customer. One of the famous ways of Guerrilla marketing is buzz marketing, which encourages the public to discuss the products or brands via high-profile media. In this way, customers can freely respond to the products and services without the company paying for them; in turn, this forms the basis of the promotion plan for products and services. The marketing team can write an article uploaded on Facebook, and welcome customers to discuss it; and through a 'word-of-mouth' way, the public quickly understands more about the company, regardless of whether it is good or bad, which can be seen as producing a hot topic. At the same time, Cotton On should encourage the customer to update their mood when they wear the Cotton On series. In another plan, combining media effect with celebrity influence may be more effective and efficient, such as sponsoring clothing for an activity or a TV program that can bring our brands to the public and let them discuss what they have seen. More importantly, the utility of the right colour of the website and e-commerce platform is essential for the success of the marketing plan, or it can cause loss of sales and customer defections (Nitse *et al.*., 2004).

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