Strategic Alliance in the Creative Economy:Acquisition *Coach's* of *Kate Spade*

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ABSTRACT

This study is an analytical research on the application of strategic alliances in the creative economy in a global context. Creative economy is not just about small and medium scale industry, but its economic potential is very gigantic. The world trade in creative industry-based goods andservices in the Special Edition of the United Nations Creative Economy Report, has recorded a trade of USD 624 billion in 2011. This study analyzes the acquisition of Coach's exclusive handbag company against its competitor, Kate Spade. Using the literature and business information, the analysis shows that the acquisition of May 2017 is a Coach reaction to the tight competition dynamics in the exclusive handbag industry. In order to win the competition, Coach decided to acquire Kate Spade worth USD 2.4 billion or around IDR 31.9 trillion. With this acquisition value,Coach hopes to boost its sales performance through market expansion by leveraging the competitive advantage of its partner Kate Spade. This analysis can be used as a reference for the creative economy development in Indonesia, especially handbag industry which is currently starting to penetrate international markets such as Dowa and Laga.

INTRODUCTION

World trade in goods and services based on creative industries in the Special Edition of the United Nations Creative Economy Report, has recorded trade of USD 624 billion in 2011, an increase of more than double compared to 2002. Along with this increase, creativity and culture turns out to have significant non-monetary value in social development in society through dialogue and understanding among community members.

The creative sector offers great and unexpected potential for partnerships as funding bridges. Monreal & Hassan (2013) assert that it provides attractive investment prospects for the private sector, but requires an environmentally and socially sound approach that respects and benefits local communities. One of them is the premium handbag industry which is worth billions of dollars with brands such as Hermes, Louis Vuitton, Channel, Coach, Kate Spade, Fossil and others.

The global premium bag industry is saturated and highly competitive. Currently there is no company with a dominant market share, and revenues are estimated at USD 106 Billion (IBISWorld, 2016). Apart from *Coach*, there are similar popular brands including *Kate Spade, Michael Kors,* and *Tory Burch* at similar prices, all targeting the same consumers (Tim, 2016). All companies must be able to see upcoming fashion trends in order to stay afloat, be relevant to their target consumers, and set prices according to their target market. However, if the product becomes too accessible, the brand may lose its exclusivity factor (the brand is seen as a status icon) and therefore the brand value may decrease (Tim, 2016).

Coach operates in a different market segment than luxury designer handbags like *Chanel* or *Louis Vuitton*. These companies rely heavily on 'exclusivity' and the right price to keep the market from becoming saturated with their products. The 'exclusivity' factor also creates a very lucrative counterfeit market because consumers want this product but the price is not affordable. Despite continuing efforts to control counterfeit goods through legal action, counterfeit goods are even currently very difficult to distinguish from genuine products (Lieber, 2014). Along with the production of the counterfeit handbag industry, a new industry has emerged where consumers can rent handbags, enabling them to achieve a status symbol of the bag without having to buy in order to keep up with emerging fashion trends (Grotts & Johnson, 2013).

The growth of the internet and online shopping has also greatly affected the designer of the bag industry as well. Before the internet, consumers couldn't see a product until it was placed on the shelf, but nowadays preview images of new handbags reduce the 'impulsive' behavior of consumers and therefore suppress sales. In addition, consumers have easier access to online exchanges with more options to choose from (Women's Wear Daily, 2016).

With intense competition, the threat of counterfeit products and the proliferation of online markets, bag manufacturer, Coach Inc. acquired Kate Spade & Co for US$ 2.4 billion or around Rp. 31.9 trillion. Reported from *Reuters*, on May 8, 2017. In February 2017, Kate Spade was looking for a strategic investor to buy her shares. So far, bags made by Kate Spade have not been selling well among millennials because the logo is less well known and the design is not suitable for millennials. Like other bag manufacturers, Kate Spade is struggling to face the challenges of tough competition in the market. Coach has been planning the acquisition for several months, as it wants to increase its business amid the slump in the handbag market.

Kate Spade took time to negotiate a sale after accepting Coach's offer. On the other hand, Coach hopes to save about US$ 50 million within 3 years, after the transaction is agreed. According to Coach, the purchase will be financed half from internal cash and the rest from loans. Coach expects the purchase agreement to materialize in the third quarter of 2017, and increase revenue in 2018.

This study is an analytical research on the application of strategic alliances in the creative economy in a global context. The creative economy is not only about small and medium scale industries, but the economic potential is very large. Because of this huge potential, the analysis of the acquisition of the exclusive handbag company Coach against its competitor, Kate Spade, is important to take lessons for creative economy players in Indonesia, especially the local exclusive handbag industry. Currently, Indonesian handbag products are starting to penetrate the international market. Dowa with the peculiarity of webbing is produced from Yogyakarta. Meanwhile, Laga, which prioritizesmotifs embroideredon its products, is a product of the pride of the Acehnese people. This bag was born from painful reaction to the 2004 tsunami.

Why did Coach make the billion-dollar acquisition of Kate Spade? Lesson what can be learned from this case for the development of the creative economy in Indonesia? Second This question will be answered through this analytical research.

LITERATURE REVIEW

The creative economy according to the Ministry of Trade of the Republic of Indonesia (2007) is a process of increasing value added results from the exploitation of intellectual property in the form of individual creativity, skills and talents into products of commercial value. A unique characteristic of the creative economy is the competitive focus that focuses on product design creativity, not price.

While the creative industry is an industry that originates from the utilization of individual skills, creativity and talents in creating prosperity and employment. This industry focuses on empowering one's creative power.

Profile Coach

Coach is a luxury lifestyle and accessories brand, offering products such as leather handbags, shoes, clothes and jewelry for both men and women. Six leather workers founded the company in 1941 in a family warehouse located in Manhattan, New York, United States. Coach's popularity and reputation is growing rapidly due to its high quality and unique design. Over the years, Coach has maintained their tradition and conservative style of basic handbags rather than following everchanging trends. Change occurred in the late 1960s when the fashion industry changed drastically, which led to Coach diversifying. Their product line comes with new styles and designs.

Coach continued their small scale operations until 1985 when the Sara Lee Corporation purchased Coach. With the change of ownership came new strategies, including introducing new product lines to increase sales and customer base. This led to Coach's rapid expansion into department stores and malls across the United States. In 1988 Coach began to enter the international market and opened first boutiques in the UK and Japan, then Europe and Asia. In the 1990s, Coach continued to diversify their products by producing non-leather based goods such as footwear, travel gear , eyewear, and outerwear. Coach has also started using non-leather materials like suede and less expensive fabrics like cotton for their bags to appeal to a younger customer demographic. The diversity of the product line resulted in high demand, which led Coach to expand its production base to Puerto Rico.

Sara Lee finally decided to restructure and reposition their company in 2001 and sell Coach shares to Sara Lee's shareholders. Shares were also publicly traded on the *New York Stock Exchange* and Coach became a public company in October 2000. Since the transfer of ownership, Coach has continued to grow and become the international market leader in its industry. Coach currently has more than 1,000 stores on five continents, and 600 wholesale locations in 55 countries.

Kate Spade's Profile

Kate Spade & Company, founded on April 2, 1981, is engaged in the design and marketing of various accessories and apparel. The company operates through three segments: Kate Spade North America, Kate Spade International and Adelington Design Group. The Kate Spade North America segment consists of Kate Spade New York and Jack Spade in North America.

The Kate Spade International segment consists of Kate Spade New York and Jack Spade in the international market, operating primarily in Japan, Asia (excluding Japan), Europe and Latin America. The Adelington Design Group segment mainly consists of management to supply jewelry for the Liz Claiborne and Monet brands. In addition, the Adelington Design Group segment serves JC Penney Corporation, Inc. through supplier agreements for the Liz Claiborne and Monet jewelry lines.

Kate Spade New York offers fashion products for women and children, as well as home products, under the brand name Kate Spade New York. Kate Spade's product line includes handbags, small leather products, jewelery and apparel and licensed products, including footwear, fragrances, swimwear, watches, children's clothing, technology accessories, optics, desk products, footwear, fashion accessories , bedding, household appliances, table linen, lounge equipment, pillows, lighting, activewear and stationery.

Its products are sold primarily in the United States and Canada through specialty retail and outlet stores and select specialty retail and high-end department stores; Retail operations and specialty outlets and licensed children's clothing stores operated in Japan; Retail stores, outlets and specialty concessions. Joint ventures in China and Hong Kong, Macau and Taiwan, and distributor network in Latin America, Middle East, Singapore, Malaysia, Indonesia, Philippines, India and Thailand. The Company's Jack Spade brand offers fashion products for men, including briefcases, travel bags, small leather products, fashion accessories and clothing under the Jack Spade trademark which are sold primarily through e-commerce websites and through convenience stores.

As of December 31, 2016, the company operated 98 stores in the United States; 35 retail stores overseas; 65 United States outlet stores; 17 overseas outlet stores, and 54 concessions. The company competes with *Burberry, Coach, Marc Jacobs, Michael Kors, Ralph Lauren* and *Tory Burch.*

Business Strategy: Strategic Alliance

The strategy referred to by Atkinson et al (2012) is about making choices within the organization about what to do and no less important about what not to do. (Thompson, 2016) defines corporate strategy as a set of actions taken by managers to beat the company's competitors and achieve superior profits. While strategy formulation refers to Anthony & Govindarajan (2007) is the process of determining organizational goals and strategies to achieve these goals. Wheelan et al. (2015) states that strategy formulation is a process of investigation, analysis and decision making that provides criteria for obtaining a comparative advantage for the company. Strategy in the view of Merchant & Van der Stede (2007) describes how an organization should use its resources to achieve its goals.

Managers must have sensitivity to what is happening in their environment, in order to develop interpretations that can be used as a guide in taking action (Choo, 1998). This sensitivity, he argues, helps managers anticipate the uncertainty and ambiguity of strategic issues in order to generate "clear questions and clear answers" as a prerequisite for decision making.

Daft & Weick (1984) divides three strategic decision-making processes, namely observation, interpretation of environmental changes and responses to these changes. Kim (2001) describes it as follows:

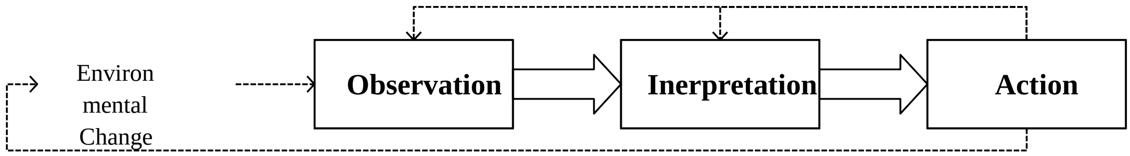

Figure 1. Strategic decision-making process
Strategic decision-making process (Kim, 2001)

Strategic Alliance

Strategic alliances are agreements between companies (partners) to achieve goals of common interest. Strategic alliances are among the various options companies can use to achieve their goals; based on cooperation between companies (Mockler, 1999). A strategic alliance is an agreement between companies that are independent and in competition.

Relationships between companies can be in the form of acquisition transactions, sales, loans based on short-term contracts (while transactions with multi-year agreements between suppliers and buyers can be alliances). Another situation is an agreement related to activities that are not important, or not strategic for the partner, for example a multi-year agreement for outsourcing services (Pellicelli, 2003).

Douma, 1997 A strategic alliance is a contract, a temporary relationship between independent companies, which aims to reduce uncertainty around the realization of strategic goals (where partners are interdependent) by coordinating or jointly carrying out one or several company activities. Each partner is able to exert a large influence on the management or policy of the partnership.

Dussauge & Garrette (1995), an alliance is an agreement or cooperative association between two or more independent companies, which will manage one particular project, with a specified duration, in order to improve their competence. Faulkner (1995) strategic alliance is a particular mode of inter-organizational relationship in which partners make a large investment in developing a long-term, joint-oriented collaborative venture. Porter (1990) strategic alliances are long-term agreements. Forms include joint ventures, licensing, long-term supply Agreements, and other inter-company relationships.

In simple words, strategic alliances are referred to as partnerships or *partnerships* that open up business opportunities, combine for mutual benefit with a sustainable competitive advantage (Wei, 2007).

There are four potential advantages of strategic alliances in international business (Soares, 2007):

a. Ease of market entry: Advances in information and communication technology and transportation have made it easier for companies to enter foreign markets. In marketing and distribution, the cost of entering international markets may be beyond the capabilities of a company, but with strategic alliances, market penetration can be done at a low cost.

b. Risk sharing: alliances are made when the market is just opening, or when there is a lot of uncertainty and instability in a particular market. Risk sharing becomes very important to reduce risk. The competitive nature of business makes it difficult for companies to enter new markets or launch new products. This can be overcome by forming strategic alliances.

c. Shared knowledge and expertise: Most companies are competent in some areas and lack expertise in others. Thus, forming strategic alliances can make it possible to combine the knowledge and expertise possessed by each company so as to increase competitive advantage in the aggregate.

d. Synergy and competitive advantage: Instead of entering the market alone, forming strategic alliances is a way to reduce the risk of market penetration and international expansion. Competition becomes more effective when partners leverage each other's strengths, bringing synergies into the business expansion process.

RESEARCH METHODS

This study is an analytical research which according to Kothari (2004), this kind of research uses the information that is already available and analyzes it to make a critical analysis based on existing theories. This research analyzes the acquisition of an exclusive tote bag company with the Coach brand against its competitors in the same industry as the Kate Spade brand.

Information about the acquisition process, profile and performance of the two companies was taken from online sources. Then the phenomenon of this business transaction is analyzed in depth using related theories.

The results of this analysis contribute to the development of the creative economy globally through an alliance business strategy. Business strategy is needed in winning the competition, including creative businesses that rely on innovation and creative power.

RESULTS AND DISCUSSION

The textile, apparel and luxury goods industry includes well-known brands such as Nike (NKE), Coach (COH), Luxottica Group (LUX), Ralph Lauren (RL), Fossil (FOSL), Under Armor (UA), HanesBrands (HBI) Columbia Sportswear (COLM), Crocs (CROX), and Movado Group (MOV).

Companies in the textile, apparel, and luxury goods industries sell their products through multi-line retailers and through the internet. Some of the bigger players in this industry group are turning to their own exclusive branded specialties such as Nike, Coach, Fossil and Ralph Lauren.

The premium handbags and accessories market in the US continues to expand, but what retailers need to worry about is the slowing growth rate. While this segment is expected to grow 3% to USD 11.7 billion in 2015, according to Barclays (2017), this growth rate has declined from 8% in 2014, 11% in 2013 and 16% in 2012. struggling with rebranding and transformation due to the slowing down of sales figures. Kate Spade, on the other hand, reported impressive earnings in the third quarter of 2015.

Competition is strong in the luxury tote industry, with a number of players in this segment. Coach is a pioneer and breakthrough in America's affordable luxury tote bag industry. Despite the growing bag and accessories market, the company's market share has declined sequentially, from more than 35% in fiscal 2008, to 23% in fiscal 2014. A number of newcomers, such as *Michael Kors, Kate Spade,* and *Tory Burch,* cut share the market. Stagnant sales made it difficult for Coach, while Kors and Kate's sales increased. Coach has failed to create fashion and price trends over the past few years, which is why the company may be losing its market share.

One of the main factors causing Coach sales to slow down is the shift in consumer preferences from large bags to smaller ones, which are sold at lower prices. In a recent vote, John Idol, Michael Kors Chief Executive, claimed demand for smaller bags had resulted in the average unit revenue falling. Kate Spade is able to overcome this trend, while Kate continues to sell totes and other large bags, Kate also offers a variety of creative handheld wallets and sling bags. Millennials are their target market.

Kate Spade has also customized its product for a more colorful and unique look, with a subtle logo. Unlike Coach and Michael Kors, who have been known for their stilted logos, the Kate Spade bag includes a small stamp with the brand name on it.

Coach and Kors are now also following in Kate's footsteps due to the growing preference among millennials for clothing and accessories without labels or logos.

Another factor weighing on this retailer is the availability of a wide range of exclusive luxury brands. According to a Goldman Sachs report, Coach, followed by Michael Kors, is a "must-have" brand for girls in the 13 to 29 age group. Both brands are highly accessible as they can be purchased at thousands of department stores, retailers and outlets. However, this resulted in the loss of the exclusivity factor which resulted in lower sales. According to Sarah Quinlan, Senior Vice President of Market Insight as an advisor to MasterCard, consumer spending in businesses with annual revenues of around USD 50 million grew faster than total retail sales year-on-year in March 2015. Victor Luis, Chief Executive Coach, said the company is taking steps to be different, and has added new products, releasing a new product line labeled Coach 1941 for its leather collection.

Based on Sheppard et al. (2017) Globally exclusive tote bag manufacturers, in particular Coach and Kate Spade, are faced with the following problems:

The threat of entry for new manufacturers is very high. New brands can enter the market simply by increasing the choice of accessories. It is also relatively simple for a new designer for a debut product to reach consumers through online transactions. Unlike other industries, exclusivity is a determining factor in sales in this industry, therefore the production of bags on a small scale for new players will create limited editions so that it is profitable to win the hearts of consumers.

The threat of substitute products is also very high, and perhaps one of the highest risks is the handbag and face accessory company. Assuming the purchase of a product is not just for utility, but for 'Status', the consumer makes a decision about what brand to identify (and thus buy from). However, if only buying bags for utility purposes, the consumer has a very high number of choices and will most likely avoid the higher cost options.

The strength of the supplier's bargaining position. The main industry supporting Coach and other accessory companies is leather, most of which is imported. Due to the high demand for leather, suppliers have a strong bargaining position.

Bargaining power of buyers. Since handbags are designed to meet current fashion trends, the buyer has a great amount of power when deciding which product to buy.

Therefore, manufacturers must be able to provide consumer satisfaction in terms of design, price and brand identity to win the competition.

Based on the information above, competition in the handbag industry is very high. The market is very saturated, with high substitute products so that consumer choices are open. Fashion trends with the development of information and communication technology are becoming increasingly difficult to predict.

In the case of Coach's acquisition of Kate Spade, Coach management has a sensitivity to what is happening in its environment, and has succeeded in developing an interpretation that can be used as a guide in carrying out the acquisition process as proposed by (Choo, 1998). This sensitivity assists management in anticipating the uncertainty and ambiguity of strategic issues in order to generate “clear questions and clear answers” as a prerequisite for decision making. Daft & Weick (1984) divides three strategic decision-making processes, namely observation, interpretation of environmental changes and responses to these changes. Coach management in this regard is aware of the decline in sales over the last few years due to the emergence of competitors with fresher product innovations.

To be able to get out of the problems being faced, Coach management made an acquisition in the hope of capitalizing on the potential benefits of strategic alliances in international business as stated by (Soares, 2007) :

a. Ease of market entry: Advances in information and communication technology and transportation have made it easier for companies to enter foreign markets. In marketing and distribution, the cost of entering international markets may be beyond the capabilities of a company, but with a strategic alliance with Kate Spade, market penetration can be done at a low cost.

b. Risk sharing: alliances are made when the market is just opening, or when there is a lot of uncertainty and instability in a particular market. Risk sharing becomes very important to reduce risk. The competitive nature of business makes it difficult for companies to enter new markets or launch new products. The synergy between Coach and Kate Spade will make these two companies even more competitive.

c. Shared knowledge and expertise: Most companies are competent in some areas and lack expertise in others. Thus, the strategic alliance between Coach and Kate Spade could make it possible to combine the knowledge and expertise of each company so as to increase their competitive advantage in aggregate.

d. Synergy and competitive advantage: Instead of entering the market alone, forming strategic alliances is a way to reduce the risk of market penetration and international expansion. Competition becomes more effective when Coach and Kate Spade can leverage each other's strengths, bringing synergies into the business expansion process.

The case of Coach's acquisition of Kate Spade can be used as a reference for development Indonesia's creative economy, especially the handbag industry. Currently, Indonesian handbag products began to penetrate the international market, such as Dowa and Laga. Handbag products with The uniqueness of Indonesia will be easier and wider to attract the international market when strategic alliances are built with exclusive international brands that have a wide market.

Dowa with the peculiarity of woven is produced from Yogyakarta. This business was founded by alover *crafting* named Mrs. Delia Murwihartini, has now been able to penetrate the market under the *brand* The Sak for the American market and The Read's for the European market. Based on a love for the world of *crafting*, accompanied by tenacity and creativity, Dowa, which was founded in 1989, was able to steal the attention of millions of fans in Indonesia various parts of the world.

Meanwhile, Laga, which prioritizes embroidered motifs on its products, is a product the pride of the Acehnese people. This bag was born from the painful reaction of the 2004 tsunami disaster. Founded by Dutch citizens who care about the tragic disaster in Aceh, Roy and Louise van Broekhuizen. The husband-wife couple empowers the people of Aceh, rise up from grief through embroidered handbag products. This product has appeared on Oprah's show Winfrey Show as a marker of the internationalization of its market.

CONCLUSION

The analysis that has been carried out shows that Coach's acquisition of Kate Spade is a reaction to the dynamics of intense competition in the exclusive handbag industry.

With this strategic alliance, Coach hopes to improve its sales performance which had declined, through market expansion by taking advantage of the advantages of its partner, Kate Spade. So that in aggregate the two exclusive handbag trademarks become more competitive.

This analysis can be used as a reference for the development of Indonesia's creative economy, especially the handbag industry which is currently starting to penetrate international markets such as Dowa and game

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