Strategic Opportunity Through Revamp of Supply Chain

Alex Mouchett, S. Felix Saputra, Rose Sevier

Nick Watkins, E. Kendall Watts
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Executive Summary

Acting as an independent external consulting firm, Office Space Consulting (OSC) provides professional advising services to companies in both private and public sectors. OSC uses the combined expertise, experience, and skills supplied by the key team members, to assist its clients by providing well-researched consultations, and thoroughly documented exploration of strategic opportunities that will help launch their success to infinity… and beyond. This report contains detailed account of, and also in our oral presentation we have created, our strategic plan developed for American Eagle Outfitters (AEO).

To initiate the project, our ingenious team piloted extensive research of the company and its environment using SWOT, TOWS, IFAS, and EFAS analysis. We learned that during the fiscal year of 2015 the U.S. market accounted for 88.2% of AEO’s total revenues. Additionally, OSC recognized AEO’s lack of debt as a strength and something we could capitalize on. Moreover, we discovered additional strengths like AEO’s omni-channel and integrated communication system, AE Life-- The Intranet. From the comprehensive research OSC has gathered, we believe that AEO should move 80% of their manufacturing facilities out of China to Mexico. (Marketline, 2016) This cost control strategy coupled with a functional structure is designed to compete with fast fashion brands, while preserving AEO’s values and improving AEO’s core competencies.

Moving the majority of manufacturing facilities from China to Mexico by forming new partnerships with purchasing agents located in Mexico will foster growth in brand presence in North America by cutting down product lead time. Consequently, this action from a customer perspective will help with placing AEO in a competitive position with fast fashion brands by reducing the time it takes to get products to AEO’s end consumer from five weeks to three weeks. Additionally, with reduced production lead time AEO is able to expand their product line,
increasing it from four to nine product line releases annually. Our strategy will also facilitate financial growth by reducing export costs through operating under a free-trade zone and help control labor wages because Mexico’s steady wages are more predictable than China and therefore easier for AEO to forecast.

To oversee the progress of our strategy, selected AEO associates and our team will use the balanced scorecard method, which measures four parts: financial, internal business processes, learning and growth, and customers. The company will see accelerated brand recognition, financial growth, and increased efficiency in the supply chain.

**Office Space Consulting**

**Team Members**

**Kendall Watts.** Elizabeth “Kendall” Watts will graduate from Lewis-Clark State College in May 2016 with her Bachelor of Science degree in Business and Communication, and is currently working as a marketing intern for RE/MAX All Seasons in Sandpoint, Idaho. After her graduation this spring, Kendall will travel to Costa Rica for three months, and she will be volunteering at Toucan Rescue Ranch. After returning, she hopes to continue pursuing the non-profit path, and apply to the Peace Corps. She would also like to earn a degree in law. By taking the role of Director of Organizational Management, she is at the top of the food chain, instilling the team’s long-term goals and overseeing the overall team’s performance. She is also taking the responsibility of providing leadership and final decision-making when situations demand it. She also provides general supports to all aspects of OSC’s synergy and teamwork.

**Nick Watkins.** Nicholas David Watkins will be graduating from Lewis-Clark State College in December 2016 with a Bachelor of Science degree in Business Management with an emphasis in Marketing. Nick is currently performing product and market research along with database management full-time as a Lead Generation Associate for the top-5 Amazon reseller,
etialz. Nick plans to continue growing within his marketing based position at etialz, and eventually moving into a leadership role for the startup company. Nick is also considering a Master’s degree in Supply Chain Management. In his role as the Director of Market Research, Nick is in charge of marketing and strategy development. His practical experience gained from his current employment allows him to be efficient and creative in coming up with strategic ideas and a marketing plan, backed up by solid research and financial analysis. He is also responsible for developing five forces model analysis for industry-specific situations and condition to support the team’s proposed strategy.

**Rose Sevier.** A non-traditional student, Rose Sevier is a mother of two and a grandmother of four. She returned to college 17 years after gaining an A.A.S. degree in Accounting from Spokane Falls Community College. Rose is graduating in May 2016 from Lewis and Clark State College, with a Bachelor of Science degree in Business Administration with an emphasis on Managerial Accounting, with a minor in Marketing. As the Director of Finance, Rose is responsible for taking care of all the financial-related research, including benchmarking, statistics, and accounting. Her expertise in finance is extremely important when it comes to analysis and data comparison with competitors. She will be bringing all the numbers and relevant financial information to life.

**Alex Mouchett.** The son of a small business owner, Alex Mouchett is currently pursuing his Bachelor’s degree in Business Administration. Alex hopes to improve on the success of his father with his own entrepreneurial pursuits. After graduating Alex hope to continue to learn through experience in jobs. Alex provides general support and administrative work for the team as the Director of Administration and Marketing. His roles include ensuring smooth information and data flows among team members. Working together with Nick, Alex’s responsibilities also deal with research and data analysis for strategy development and marketing.
Felix Saputra. After graduating from Iowa State University in 2002 with two Bachelor of Fine Arts degrees in Graphic Design and Visual Studies, Felix Saputra worked for a regional promotional and merchandising company in Iowa for several years. Felix decided to pursue another degree by attending Lewis-Clark State College in 2014. He will be graduating with a Bachelor of Science degree in Business and Communication in May 2016. Acting as the Director of Visual Design and Operations, Felix’s main responsibility within the team is to handle the workflow of the team, manage deadlines and completeness of content submissions.

Organizational Chart

American Eagle Outfitters

About the Company

American Eagle Outfitters (AEO) operates as a clothing retailer, designing, marketing, and selling its own brand of clothing line and accessories. The product line includes, but not limited to, “… denim wear, sweaters, fleece, knits, outerwear, graphic t-shirts, footwear, personal care products and accessories…” (Marketline, 2015a, p. 4). These products are sold under AEO
and aerie brand names, and in 2015, the company operates in all 50 U.S. states, Puerto Rico, Canada, Mexico, Hong Kong, China, and the U. K. (Marketline, 2015a, p. 4).

There are three operating segments that AEO has identified: AEO brand retail stores, aerie retail stores, and AEO Direct. However, these segments have been combined into one, and all the revenues are consolidated into one report under that one segment. While the AEO brand is targeting men and women in the age group of 15 to 25 years old, the aerie brand is “… a collection of intimates and personal care products for women” (Marketline, 2015a, p. 4). AEO Direct handles the company’s e-commerce operations, for both aeo.com and aerie.com. Through its omni-channel (see Appendix A for illustration) strategy, in-store customers can experience the AEO Direct as well, by purchasing online products from any in-store associates in a single transaction (Marketline, 2015a, p. 4).

Throughout the years, AEO has been making progressive global expansions through licensing agreements with local companies and opening its own stores in many different countries across the globe. Despite failed experiences in developing new brands due to lack of performance, AEO made another attempt to expand its market share in 2015 by acquiring Tailgate Clothing Company. It owns and operates Tailgate, a sports-inspired vintage collegiate feel apparel brand with a college town store concept. Another brand included in the acquisition was Todd Snyder New York, which is a premium menswear brand. These acquisitions opened doors for new business opportunities in the future (Marketline, 2015a. p. 7).

**Core competencies.** AEO has developed a strategic plan to create consistent long-term profitable growth, by building it around these “… constructive pillars of success:

- Fortifying our core brands
- Growing our North American presence
Transforming AEO from a leading domestic teen retailer into a distinctive branded, multi-channel business that can successfully and profitably compete on a global stage” (“Who We Are,” 2016).

**Vision.** AEO strives to not just be the leading brand in the 15 – 25 year old lifestyle market segment, but to also “… be a part of that lifestyle beyond just fashion… Casual comfort and a relaxed attitude have made AEO the brand it is today” (“Who We Are,” 2016).

**Purpose.** AEO, Inc. has built a distinctive global company culture based on our core values – People, Integrity, Passion, Innovation and Teamwork. These values continue to shape our aspirational yet accessible brand identities, as directly quoted from the company’s website.

“**People.** The vitality of our company resides in people: our associates, our customers and our partners. We value and respect different backgrounds, unique talents and eclectic tastes; they strengthen our ability to succeed. We care about our associates: we empower them, we reward them. We give back generously to the communities where we work and play.

**Integrity.** We keep our promises. We hold ourselves accountable to the highest standards and we do the right thing. We wisely measure and manage risk. In the face of difficulties and challenges, we don’t compromise. We are polite and professional – always.

**Passion.** Our passion infuses our actions with purpose. It transforms stores into places of energy and customer delight. Our offices, design center and distribution centers hum with energy, activity and enthusiasm. We collaborate. We engage. We adhere to a keen sense of detail.

**Innovation.** We operate in a dynamic and competitive industry. We are curious, enterprising and resourceful. Our associates embody entrepreneurial spirit, develop creative solutions and initiate change. We continually refine the unique processes that drive our business, and we use insightful research and analysis to balance our instinct and to guide our decisions.
Teamwork. We work together: listening to one another, reaching consensus and supporting group decisions. We celebrate achievements. Because we respect and trust one another and commit ourselves to our company goals, our teamwork succeeds.” (“Who We Are,” 2016).

Organizational Chart

(Revised from “Code and Governance,” 2016)

Management and Culture

AEO operates on a global scale with corporate offices in the U.S., China, Egypt, Hong Kong, Israel, Japan, Poland, Kuwait, Saudi Arabia, Great Britain and Mexico. AEO has fostered a profound global company culture centered on their core values—people, integrity, passion, innovation, and teamwork. These core values represent not only AEO’s purpose but also, an aspiring guide to the authentic and free spirited nature they seek to portray through their brand identities: American Eagle Outfitters and aerie (American Eagle Outfitters Inc., 2015b).
At AEO, they believe their associates are the most valuable assets, therefore they try to be an employer of choice. AEO feels passionate toward creating a synergetic company culture where their employees feel motivated and eager to come to work because they support and believe in AEO’s purpose. They also encourage freedom of expression, and urge associates to be themselves at work. AEO continuously inspire their associates to be creative and innovative because they strive to be an organization where all employees, including management, appreciate the uniqueness of every individual they work with. (American Eagle Outfitters Inc., 2015b)

AEO preserves a strong company culture because they recognize the importance of communication. It sees communication as the “…key to thriving and surviving in the world of specialty retail” (Borden, 2010). In 2005, they implemented a corporate intranet called *AE Life—The Intranet*, a single go-to source employees could access for the latest company information and updates as well as industry news, which serves as the organization's primary way of communicating with all levels of employment around the globe. The most significant aspect of *AE Life—The Intranet* is entirely associate-run, therefore, boosts employee engagement and demonstrates with authenticity the culture and experience of working at AEO.

In addition, AEO demonstrates the value of their employees by following and enforcing their code of ethics, which all associates of the company are required to abide by. Confirmation of compliance must be certified in writing on an annual basis. AEO’s code of ethics states all associates must conduct themselves in an honest and ethical manner and abide by any laws, rules or regulations that apply. AEO also strongly believes in confidentiality in regard to information about the company as well as information about associates. All company files, submissions to the SEC or other public communications, documents or disclosures in reports presented by AEO associates should be “…full, fair, accurate, timely, and understandable.” (American Eagle Outfitters Inc., 2015b).
AEO also strongly exercises the importance of diversity and nondiscrimination by being an equal opportunity employer because they “…strive to treat their employees with respect and dignity.” (American Eagle Outfitters Inc., 2015b). Therefore, AEO does not tolerate harassment or any sort of behavior that “…intimidates, offends, degrades, or humiliates another person” (Code of Ethics, 2013). Violations of their policy are to be reported promptly either to a supervisor, human resources representative, a member of the Legal Department, or through the AE Hotline phone or aehotline.com.

Human Capital

**Jay L. Schottenstein.** Board: Executive Board. Job Title: Executive Chairman and Chief Executive Officer.

Mr. Schottenstein is a valued member of AEO and a key leader to their success and fulfillment of the company’s core values and competencies. Mr. Schottenstein has been the Chief Executive Officer of AEO since December 2015 and Chairman of the Board at AEO since 1992. Moreover he was the Chief Executive Officer of the company from 1992-2002 and has been an Officer and a Director at several other corporations. (Marketline, 2015a) Mr. Schottenstein’s cooperation and commitment is essential. As CEO of the company and extensive leadership and management experience he will help spearhead the whole strategic opportunity process.

**Michael G. Jesselson.** Board: Non-Executive Board. Job Title: Lead Independent Director.

Mr. Jesselson is the Lead Independent Director at AEO. The Lead Independent Director acts as the liaison between the Chairperson and the Independent Directors. As Lead Independent Director he has the ability to give input on information sent to the Executive Board and is a direct contact for shareholders for consultation and communication. Mr. Jesselson serves on the Board of Directors, Audit Committee and Acquisition Committee at XPO Logistics. XPO
Logistics is a top ten global provider of transportation and logistics solutions. He also serves as a Director for a number of nonprofit institutions. (Marketline, 2015a) Therefore, his executive position, expertise in transportation and logistics solutions, and passion for sustainability acts as a key player in successfully implementing our strategic opportunity.

**Thomas R. Ketteler.** Board: Non-Executive Board. Job Title: Independent Director.

Mr. Ketteler is a Certified Public Accountant. He has over 35 years of financial experience as well as executive experience. He has served as the Chief Operating Officer, and as the Executive Vice President of Finance and Treasurer at Schottenstein Stores Corporation (SCC). He has also served as a Consultant and Partner at Alexander Grant and Company, Certified Public Accountants, and has also been a Director and Chairman of Audit Committee at Encompass Group. Mr. Ketteler’s financial background as well as his commitment toward financial transparency provides a level of financial security and success for our strategic opportunity. (Marketline, 2015a)

**Michael R. Rempell.** Board: Senior Management. Job Title: Executive Vice President and Chief Operations Officer.

Mr. Rempell has been with the company since 2000. He has held various positions such as Executive Vice President and Chief Operating Officer of New York Design Center. He has also served as Senior Vice President and the Chief Supply Chain Officer. Mr. Rempell currently serves as the Executive Vice President and Chief Operations Officers, and his loyalty to the company and expertise in supply chain processes and operations are invaluable to AEO (Marketline, 2015a). Mr. Rempell’s expertise is an imperative dynamic in the planning, implementation, evaluation and control processes.

**Helga Ying.** Board: Senior Management. Job Title: Vice President External Engagement and Social Responsibility.
According to Bloomberg Business, Ms. Ying holds an M.A. in International Relations and International Economics from The Johns Hopkins School of Advanced International Studies. Currently, Ms. Ying holds two board positions. She serves as Senior Director of Worldwide Government Affairs & Public Policy at Levi Strauss & Co. and as Vice President of External Engagement and Social Responsibility at AEO. According to Bloomberg Business, Ms. Ying is considered an expert in U.S. and international government relations. She has led global teams in strategic planning and has skillfully constructed strategic relationships with key stakeholders, specifically on labor and worker rights, environmental sustainability, and equity (“Company Overview,” 2016). Ms. Ying’s educational background coupled with her experience and success in government and international relations makes her an important component in the implementation and control processes of AEO’s strategic opportunity.

**Social Capital**

AEO exercises a triple bottom line approach, and therefore puts forth a tremendous amount of effort in being a socially responsible corporation. AEO demonstrates their commitment through investing in and giving back to the communities where they operate. According to their Corporate Sustainability Report 2014 (or CSR 2014), AEO is involved in or a member of 22 projects or foundations. AEO’s contributions are in areas that their customers and associates believe are important. In 2014, AEO surpassed their goal with luminous philanthropic enthusiasm, donating over $2 million toward their various forms recognized in their CSR 2014.

The company’s philanthropic scale ranges from national charity partnerships, customer-driven promotions, to considerable community initiatives, international contributions, and associate involvement grant programs as well as dollar-for-dollar associate donation match. (American Eagle Outfitters, Inc., 2014) AEO also expresses their commitment to social responsibility through their “value-driven supply chain”, which outlines the company’s Vendor
Code of Conduct (see Appendix C for detailed information about AEO’s corporate sustainability).

Analysis

Financial Information

AEO is a survivor of the recession and proves to be on the right road to recovery. This has been seen in several areas of their financial statements filed with the Security and Exchange Commission (SEC) in March of 2016 in the form 10K (American Eagle Outfitters, Inc. 2016). The balance sheet section of the consolidated financial data shows that the company has no short-term or long-term debt (see Appendix B for data). At the same time it shows that AEO has the means to get financing for expansion and improve the company’s return on equity. The latest filing shows the company has a good return on equity; however that is caused by the repurchase of stock with the value of hundreds of millions of dollars.

The financial analysis computes the ratios needed to compare AEO against their competitors such as GAP, H&M, and Zara. The form 10K filed with the SEC for GAP, current financial documents found on the company web sites for H&M, and Zara, and industry averages from the 2016 almanac of business and industrial financial ratios, were combined to simplify the data comparison (see Appendix B for details). By comparing AEO ratios between 2015 and 2016 filing dates, there have been an increase in the debt ratio by 2%, the company revenues by 7%, the operating income as a percentage of sales to 9.7%, and the profitability ratios as well. The profit margin increased from 2.45 to 6.0, as a result from overall decrease in operating expenses and an increase in discontinued operations. Discontinued operations reported a loss for the 2014 fiscal year, while 2015 fiscal year did not report a loss or gain from discontinued operations. (see Appendix B for data). Return on assets is now 13.3 which is above the industry average of 12.2.
The return on equity is 19.9, which is above the industry average of 15.3 and AEO’s last year’s ratio of 7. Return on equity is computed by dividing net income less preferred dividends by common equity, and AEO does not have preferred stock so they will not have preferred dividends. Common equity is the value of common stock and retained earnings. They repurchased stock from the public in the amount of $227,071,000, and from employees they repurchased stock valued at $5,163,000. “These shares were repurchased for the payment of taxes, not in excess of the minimum statutory withholding requirements, in connection with the vesting of share-based payments, as permitted under the 2005 Stock Award and Incentive Plan, as amended” (American Eagle Outfitters, Inc., 2016). The repurchasing of stock affects the return on equity, because the common stock that was purchased is considered as treasury stock and not used to compute common equity.

AEO’s history in the New York Stock Exchange, according to Yahoo finances and the NYSE, shows that they have been trading since before 1996 (see Appendix C for full report). American Eagle Outfitters reached $32.38 per share as an all-time high on January 1, 2007. Following the recession of 2008 they dropped to a low of $9.01 on Jan 1, 2009 and the world economy is still on the path to recovery. By March 2009, AEO stock was trading above $10.00 and has not gone below $10.00 as of March 31, 2016. The ups and downs that were happening with the stock appear to be the nature of the business cycle. The following diagram of the business cycle shows what a business cycle looks like.
A continuous flow in a wave of peaks in an upward flow with the trend line. It is the top peak of the wave where most businesses make investments and expand because they wish to grow. It is during this peak as well that consumers feel it is safe to spend or invest.

**Comparison with Competitors**

AEO’s main competitors are fast fashion retailers. The faster the company’s turns its existing merchandise inventory the faster it can introduce new fashion trends. Direct competitors to AEO are GAP, H&M, ZARA, to name a few. American Eagle Outfitters and GAP are both publicly traded American companies, while both H&M and ZARA are based out of foreign countries. Additionally, H&M and ZARA are considered to be fast fashion brands, making both companies AEO’s greatest threats. All of the companies mentioned compete in the global and online markets. By comparing the ratios, the table below shows that AEO is leading in inventory turnover despite a decrease from 11.8 in 2015 to 7.59 in 2016 (see Appendix C for details). The Industry average is 3.6 which shows AEO is still above average, although the company is not performing as well as it was in 2015. ZARA is the only company of these four that is below average in the turnover category. Even with the increase in return on equity AEO is still below H&M and ZARA.

<table>
<thead>
<tr>
<th>Ratios</th>
<th>Inventory turnover</th>
<th>Total Asset Turnover</th>
<th>Return on Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry average</td>
<td>3.6</td>
<td>1.74</td>
<td>15.3</td>
</tr>
<tr>
<td>AEO</td>
<td>7.59</td>
<td>2.18</td>
<td>19.9</td>
</tr>
<tr>
<td>GAP</td>
<td>2.36</td>
<td>2.11</td>
<td>7.36</td>
</tr>
<tr>
<td>H&amp;M</td>
<td>*</td>
<td>2.6</td>
<td>38.1</td>
</tr>
<tr>
<td>ZARA</td>
<td>1.35</td>
<td>1.5</td>
<td>26</td>
</tr>
</tbody>
</table>

*Not able to locate inventory totals due to language.

Our research has shown that all companies have room for improvement in all areas. Primary improvement for AEO relative to the industry average is its current ratio, which is 1.56 for 2016 compared to the average of 1.6 for the industry. This number shows the company’s ability to pay 1.56 times its current liability, caused by the repurchasing of millions of dollars’ worth of stock
from the shareholders. Return on equity is affected because the repurchasing of company stock comes from retained earnings, which directly affects common equity. This recent buyback can give us flexibility in being able to generate capital due to being able to resell treasury stock to fund a strategic move.

**Economic Forces**

The U.S. economy’s steady increases in real Gross Domestic Product (GDP), personal income, Personal Consumption Expenditures (PCE), and Disposable Personal Income (DPI) will have a positive effect on the retail apparel industry and a corresponding affect AEO’s sales and profit. According to the Bureau of Economic Analysis (BEA), the 2015 annual GDP increased 2.4%, the same increase as 2014. The BEA states “...increase in real GDP in 2015 primarily reflected positive contribution from PCE, residential fixed investment and federal government spending.” (U.S. Bureau of Economic Analysis, 2016)

The U.S. also saw an increase of 3.5% for Current-Dollar GDP, or $598.90 billion, in 2015, which amounts to $17,947.00 billion. However, a slight decline from the previous year; in 2014 Current-Dollar GDP increased by 4.1%, or $684.90 billion.

The increase in real GDP is due to a rise in consumer spending. According to GDP highlights, a document released by the BEA, spending on services, durable goods, and nondurable goods increased, causing the real GDP to increase.(U.S. Bureau of Economic Analysis, 2016) Also, exports of goods increased, while imports, a subtraction in the calculation of GDP, decreased.(U.S. Bureau of Economic Analysis, 2016) It is important to note there were declines in nonresidential fixed investment, business investment, exports, inventory investment, and state and local government spending, which slightly offset the previously stated positive allocations. (U.S. Bureau of Economic Analysis, 2016)
In addition, according to the BEA, personal income has continued to increase every month for the year 2016. In January, personal income increased $72.70 billion, or .5%, DPI increased $57.20 billion, or .4% and PCE increased $10.70 billion, or .1% . In February, personal income increased $23.70 billion, or .2%, and DPI increased $23.70 billion, or .2% and PCE increased $11 billion, or .1% (U.S. Bureau of Economic Analysis, 2016).

Industry Analysis

Market definition: U.S. According to Marketline (2015c, p. 7), the apparel retail industry covers the sale of “… all menswear, womenswear and children’swear.” The menswear market includes men’s active wear, casual wear, essentials, formalwear, formalwear-occasion and outerwear. The womenswear market also includes just about the same products for women.

As for the children’s wear market, there are additional sub-categories, aside from the ones mentioned for menswear. It includes baby and toddler clothing (Marketline, 2015c, p. 7).

Market analysis: U.S. There has been a stable level of moderate growth for the U.S. apparel retail industry within the 2010-2014 period, and is projected at the same pace through the end of 2019. Unlike other countries, the annual event of “Black Friday” that exclusively happens only in the U.S. causes a temporary impact to the sales due to deep discount by retailers (Marketline, 2015c, p. 7).

According to the report prepared by Marketline (2015c, p. 7), the total revenue of the U.S. apparel industry in 2014 was $375.1 billion, and it represents a compound annual growth rate (CAGR) of 4.4% between 2010 and 2014. For comparison purposes, the European and Asia-Pacific has a growth with CAGRs are 0.5% and 7.1% respectively, over the same period. They earned respective values of $412.5 billion and $407.4 billion in the same year.

Being the most lucrative segment in the industry, the womenswear market brought in total revenues of $191.2 billion, about 51% of the overall industry’s value in 2014. The
menswear followed second with 125.6 billion, or around 33.5% of the industry’s combined value. The forecast of the industry’s performance is anticipated to be decelerating, with CAGR of 4.1% in the next five years, with expected earnings by the end of 2019 is around $457.6 billion. Comparatively, the European and Asian-Pacific industries are projected grow with CAGRs of 2% and 7.4% respectively within the same period, and reach the respective values of $455.1 billion and $582.0 billion by the end of 2019 (Marketline, 2015c, p. 7).

**Market value: U.S.** The U.S. apparel retail industry grew 1.9% in 2014 to reach $375.1 billion worth of value. As stated in the analysis, the CAGR of the industry for the period of 2010-2014 was 4.4%. (Marketline, 2015c p. 8). See table for more detailed information.

**Market segmentation: U.S.** The market segment for the U.S. apparel industry is divided into category-based and geography-based segmentations, and by market distribution.

**Category segmentation.** Marketline (2015c, p. 9) reported that womenswear captured the largest share of the market in the industry in the U.S. with 51% of the total market. Menswear followed second with 33.5% of the total share.

**Geography segmentation.** The U.S. industry accounts for 28.5% of the total global apparel market share, followed by Europe with 31.3% (Marketline, 2015c, p. 9).

**Market distribution.** The channels for apparel distribution in the U.S. are mostly done through the clothing, foot/sportswear & accessories retailers, as they command 62.3% of the total share; and the department stores follow suit with 19.6% (Marketline, 2015c, p. 11).

**Market value forecast: U.S.** By 2019, the U.S. apparel retail industry is predicted to reach $457.6 billion in value for which is a 22% increased from 2014. The CAGR of the industry within the period of 2014-2019 is estimated to be 4.1% (Marketline, 2015c, p. 12). For more information, refer to the table containing the specific numbers.
Five forces analysis: U.S. The five forces that drive the competition in the apparel retail industry illustrates the strength of AEO’s current competitive position in the industry, and aids in the development of proper strategy for business opportunities within the industry (see Appendix D that contains the diagram of the Five Forces chart and each force category).

Buying power. Since most buyers in the apparel retail industry consist of individuals, this weakens the buying power influence. The loss of one buyer is unlikely impacting the revenues of any retailer. Brand loyalty usually applies to specific designer, not the retailer, therefore not much of an influencing factor in buying power. Although retailers can differentiate themselves to beat the competition and capture specific target audience (and by doing that, price issue can be minimized), they are still obliged to give what the buyers want or demand to make the sales. Due of these factors, the force of buyer power is considered moderate (Marketline, 2015c, p. 14).

Supplier power. Most apparel suppliers are manufacturers and wholesalers, and are considered as medium-sized enterprises. With the liberation of international trade, the supplier power in the U.S. is decreased due to competition from low-wage region manufacturers such as China and India. The lack of differentiation among suppliers also adds to the weakening of supplier power. However, since “apparel manufacturing is almost always labor intensive, due to the difficulty of automating processes of labor” (Marketline, 2015c, p. 15), the force of supplier power is considered moderate.

New entrants. Due to the growth of the industry, there is a high potential for new entrants to enter the U.S. The barriers to entry aren’t that high, since the capital requirements are low enough for individuals to enter. Big players like H&M and Gap benefit from the scale of economies that allow them to source and manufacture in volume, and operate multiple retail outlets, circumstances that increase the buying power over the suppliers when negotiating. Although there are a few laws that may require attention, in most cases the low switching costs
for buyers and level of product differentiation make it easier for new entrants to compete against existing players. The threat is strong for the force of new entrants (Marketline, 2015c, p. 16).

**Threat of substitutes.** The substitution threat applies mostly on the retail side of the business, not with the apparel itself. For example, the purchase can be made directly from the manufacturer instead of retail. Another way is through online stores, thanks to the growing e-commerce. Bespoke tailoring and home-made clothing are also becoming a niche market that can be considered alternatives to ready-made retail clothes. The assessment of threat from substitution is considered weak in general (Marketline, 2015c, p. 17)

**Degree of rivalry.** Although the nature of U.S. apparel retail industry is fairly fragmented as it is composed of large similar retailers, there are still opportunities for smaller players. The lack of diversity of product as mentioned earlier, increased the level of rivalry, and it is intensified by special events like “Black Friday” that leads to chaotic circumstance for retailers. The fast pace of change in fashions in the apparel retail industry and moderate market performance in the past five years have reduced some of the competition quite a bit. The threat level for rivalry can be assessed as moderate (Marketline, 2015c, p. 18).

**Market analysis: Global.** The Global Apparel Retail Industry Profile (or industry) is analyzed based on a five-force analysis (Marketline, 2015d). The industry consists of North America (28.5% market share), South America (“Rest of the World” 7.6% market share), Europe (31.3% market share), Scandinavia (“Rest of the World” 7.6% market share), Asia Pacific (30.9 market share), and the Middle East (1.7% market share). (Full disclosure of the countries contained in each region is provided in Appendix D.)

AEO’s position in the global apparel retail industry is strong due to economies of scale and established brand loyalty. However, AEO should be aware of fast fashion retailers. Their
product offerings change frequently; and the frequent change means these fast fashion companies have limited supply of products offered.

**IFAS, EFAS, TOWS and SWOT**

**IFAS (Internal Factor Analysis Summary)**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human capital</td>
<td>0.12</td>
<td>4</td>
<td>0.48</td>
</tr>
<tr>
<td>Social capital (philanthropy)</td>
<td>0.11</td>
<td>5</td>
<td>0.55</td>
</tr>
<tr>
<td>Expansion through acquisition and investment</td>
<td>0.13</td>
<td>4</td>
<td>0.52</td>
</tr>
<tr>
<td>Brand awareness</td>
<td>0.06</td>
<td>4</td>
<td>0.24</td>
</tr>
<tr>
<td>Financials</td>
<td>0.11</td>
<td>3</td>
<td>0.33</td>
</tr>
</tbody>
</table>

Subtotal: 0.53

Total: 2.12

<table>
<thead>
<tr>
<th>Weaknesses</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less market share</td>
<td>0.12</td>
<td>4</td>
<td>0.48</td>
</tr>
<tr>
<td>Product offering limited</td>
<td>0.08</td>
<td>2</td>
<td>0.16</td>
</tr>
<tr>
<td>Utilization of debt</td>
<td>0.08</td>
<td>1</td>
<td>0.08</td>
</tr>
<tr>
<td>Lack of brand presence in rural markets</td>
<td>0.06</td>
<td>2</td>
<td>0.12</td>
</tr>
<tr>
<td>Narrow demographic</td>
<td>0.13</td>
<td>4</td>
<td>0.52</td>
</tr>
</tbody>
</table>

Subtotal: 0.47

Total: 1.36

AEO’s key internal factors that will be used to implement strategic opportunities consist of human and social capital, expansion through acquisition and investment, brand awareness and the brand’s financial assets. AEO’s greatest strength is their social capital, largely because its policy insures the supplier's compliance with AEO’s Vendor Code of Conduct (American Eagle Outfitters Inc., 2014). AEO’s brand is associated with higher quality of goods. The lack in market share compared to their competitors is the reason behind the brand’s low IFAS score.

Other internal factors such as utilization of debt, lack of brand presence in rural markets, narrow demographic, limited product offering and market share appear to be the brand’s sore spots as well. AEO’s current ROE is high due to stock buyback and brand acquisitions, but the
company is unable to sustain it. AEO has recently approved their utilization of debt; however, in order to keep ROE high, AEO will need to utilize even more debt to sustain ROE. Utilization of debt is a form of a loan that would reduce shareholders risk. This is possible due to the mitigation of risk being shared by the lenders of AEO’s loan with the shareholders.

**EFAS (External Factor Analysis Summary)**

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leveraging economic recovery</td>
<td>0.09</td>
<td>4</td>
<td>0.36</td>
</tr>
<tr>
<td>Relocating supply chain</td>
<td>0.16</td>
<td>3</td>
<td>0.48</td>
</tr>
<tr>
<td>Market expansion</td>
<td>0.11</td>
<td>3</td>
<td>0.33</td>
</tr>
<tr>
<td>Partnerships/merger potential</td>
<td>0.1</td>
<td>4</td>
<td>0.40</td>
</tr>
<tr>
<td>Rebranding of services</td>
<td>0.06</td>
<td>2</td>
<td>0.12</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>0.52</td>
<td></td>
<td>1.69</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Threats</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of doing business rising</td>
<td>0.16</td>
<td>5</td>
<td>0.80</td>
</tr>
<tr>
<td>Recession</td>
<td>0.06</td>
<td>4</td>
<td>0.24</td>
</tr>
<tr>
<td>Lawsuits from competitors</td>
<td>0.04</td>
<td>2</td>
<td>0.08</td>
</tr>
<tr>
<td>Fast fashion expansion</td>
<td>0.14</td>
<td>4</td>
<td>0.56</td>
</tr>
<tr>
<td>Competing intimate lines</td>
<td>0.08</td>
<td>2</td>
<td>0.16</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>0.48</td>
<td></td>
<td>1.84</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1.00</td>
<td></td>
<td>3.53</td>
</tr>
</tbody>
</table>

When analyzing AEO’s external environment, factors such as: rising cost of doing business, recession, law-suits from competitors, fast fashion expansion and increased competition appeared to be the greatest threats. The rising cost of doing business had been graded as the highest threat, largely because all of AEO’s suppliers are sourced from China. The labor costs that are associated with China’s economy are beginning to trend upward, which is essentially increasing the costs of doing business.

Leading competitors within the apparel industry leverage short outbound logistics within their vertically integrated supply chains to expedite product releases and shorten product lifecycles. AEO has a similar opportunity as well, as two of the highest scoring opportunities within our EFAS are partnerships/merger and relocating supply chain. OSC proposes relocating
suppliers coupled with a strong new purchasing agent partnership within a North American Free Trade Area would cut product lead times by nearly half ("Mexico Versus" n.d.).

TOWS

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>ST</th>
<th>WT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Relocation of supply chain</td>
<td>Use brand awareness to increase sales and expand the economies of scale.</td>
<td>Expand product lines to increase the economies of scale.</td>
</tr>
<tr>
<td>2. Partnerships/merger potential</td>
<td>Use liquidity to invest in new fashions as quickly as fast fashion but with the added quality.</td>
<td>Gain more market share to compete faster with fast fashion lines.</td>
</tr>
<tr>
<td>Threats</td>
<td>SO</td>
<td>Weaknesses</td>
</tr>
<tr>
<td>1. Rising of business costs</td>
<td>Increase brand awareness by bringing facilities closer.</td>
<td>Weaknesses: 1. Narrow demographic</td>
</tr>
<tr>
<td>2. Fast fashion expansion</td>
<td>Use financial liquidity to partner up or merge with other companies.</td>
<td>2. Less market share</td>
</tr>
<tr>
<td></td>
<td>WO</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Expand the demographic by moving the supply chain closer.</td>
<td></td>
</tr>
</tbody>
</table>

Our TOWS analysis consists of the highest rated opportunities, threats, weaknesses and strengths from our IFAS and EFAS. Based on this analysis and our research, we were able to identify that AEO’s greatest weakness, which could be made into an opportunity, would be to find a solution to rising costs of doing business overseas and transportation costs by resourcing and/or relocating majority of the brands suppliers closer to the US based market.

SWOT
AMERICAN EAGLE OUTFITTERS

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Human Capital</td>
<td>● Limited product offering</td>
</tr>
<tr>
<td>● Social Capital</td>
<td>● Utilization of debt</td>
</tr>
<tr>
<td>● Expansion through acquisition and investment</td>
<td>● Lack of brand presence in rural market</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Develop new partnerships to reduce supplier costs</td>
<td>● Increased international labor and shipping costs</td>
</tr>
<tr>
<td>● Relocate supply chain to increase product releases</td>
<td>● Fast fashion expansion</td>
</tr>
<tr>
<td>● Made in America Rebranding</td>
<td>● Competing intimate lines</td>
</tr>
</tbody>
</table>

From AEO’s SWOT analysis, it appears that the brand has heavily invested in the company’s human and social capitals through acquisition and investing. These assets have helped elevate the brand within the industry by providing values that support technological advancements and solidify operations within the company. At the same time, AEO’s lack of utilization of debt hinders the brand’s ability to grow its ROE.

With Asian based labor and shipping costs rising, the brand will have to address their weaknesses head on to overcome projected decreases in operating margins. Fast fashion is likely to expand, and competitors will continue to shift the consumers’ taste to an increased seasonal frequency with fashion trends. If AEO is able to determine an operations strategy that can complement their current business model while implementing a more efficient fast fashion marketing strategy, then AEO may begin to see an increase in market share.

Luckily, AEO has the opportunity to counter rising labor and shipping costs by developing new supplier relationships with partners who are located in regions that have cheaper costs than their current suppliers. Simultaneously, a similar opportunity of relocating to a closer supplier could prompt the brand to cut production lead times, improve their current fast fashion marketing model and possibly gain additional credibility by taking advantage of the word “American” in the branding effort from its name, American Eagle Outfitters Inc., and operating within the North American Free Trade Area.
Strategy Formulation

Strategic Opportunity

With the rising manufacturing costs and fast fashion industry trends picking up, AEO will need to develop a strategy that would improve current supply chain management. In order for AEO to continue their “focus of gaining market share through on-trend fashion, accelerated product line releases within a year and product innovation...,” the company will need to optimize their logistics behind their supply chain operations to cut costs and offset economic threats (American Eagle Outfitters Inc., 2016). AEO currently does not manufacture any goods within North America, and yet, 87% of AEO’s sales revenue is generated in the U.S. market. By expanding supplier relations and relocating 87% of their operations from China to Mexico, AEO will be able to cut supplier costs and improve fast fashion marketing, while sustaining U.S. sales from domestic operations.

Reduce Supplier Costs

AEO’s 2016 10K annual report states that AEO purchases a significant portion of merchandise from Asian based markets. The Boston Consulting Group claims Chinese labor costs are 25% higher than Mexico’s labor costs in 2015 (Sirkin, Zinser, & Hohner, 2011), while a J.P. Morgan study claims manufacturing and distribution costs 58% more in expense from Chinese suppliers (JP Morgan Chase and Co, 2014). Due to these facts, AEO should shift majority of their supplier relations between from China to Mexico. Based on secondary resources, we are inclined to believe that the brand’s current supply chain model incorporates a purchasing agent; a third party logistics based company that organizes and manages all stakeholders that are involved with raw resources and manufacturing (Dayal-Gulati, Management, & Lee, 2004). There are other companies that can provide similar services, like...
Tacna, so AEO could have the opportunity to transfer from one purchasing agent to another without changing their current operations model (‘Mexico vs China,” n.d.).

The New “American” in American Eagle Outfitters Inc.

AEO has the ability to reap the benefits of becoming a “Made in America” apparel brand by incorporating a supplier model that exports within any country that is a part of the North American Free Trade Area. According to a Women’s Wear Daily article, the Obama administration is “ramping up initiatives to boost U.S. manufacturing and investment” (“White House Plan,” 2013). It continues to state that “total U.S. textile and apparel trade with the North American Free Trade Agreement countries of Mexico and Canada was $6.5 billion in 1993, and has more than doubled to a value of $16.5 billion in 2013.” All textile and apparel trade with Central American countries falls under a free-trade deal with the U.S. By relocating most of the manufacturing facilities from China to Mexico, AEO will be able to cut down on export costs by operating under a free-trade region.

Increase Fast Fashion Efficiencies

Current fast-fashion competitors that incorporate a vertically integrated supply chain that is controlled domestically, or who source the majority of their raw resources and manufacturing within the country from which they operate out of, are able to provide products to the market in 37% less time than it takes to release a product that is manufactured from an outsourced country like China. (Zhenxiang & Lijie, 2011). These same companies that are vertically integrated are able to provide 64% more product releases. By relocating its supplier relations to Mexico, AEO will be able to reduce production lead times from the 5-week fulfillment time from China to a 3-week fulfillment time from Mexico (“Mexico vs China,” n.d.)

AEO could do this by implementing a more efficient and trending fulfillment model; Just-In-Time (JIT) fulfillment. By relocating the majority of their manufacturing facilities from
Asian based countries to Mexico, AEO will be able to shorten production lead times from manufacturing to distribution by up to 40%. According to the industry average, production lead times take roughly six to nine months, from design to delivery, when working with Chinese based suppliers. According to fast-fashion leader Zara, “an entirely new Zara garment takes about five weeks from design to delivery” (Zhenxiang & Lijie, 2011). Zara is able to accomplish this by utilizing JIT fulfillment from raw resource to retail sales within their wholly owned vertically integrated supply chain.

JIT fulfillment has the ability to decrease inventory on demand for Zara. By shortening lead times from raw resource to distribution, the brand is able to provide an increase in their production output. In return, by having more product lines, the brand carries less inventory per retail location. This is due to the shorten seasonality factor behind the their quickly released product lines and the need to stay flexible when cutting outdated inventory and/or product lines that have a low inventory turnover rate.

With high outputs in product lines, a brand needs to have the ability to capture current market research and better-forecast upcoming trends. Zara is able to meet this demand to supplement their JIT fulfillment model due to the brand’s ability to leverage mobile technology. According to the Zara case study, Zara’s sales staff provides feedbacks that help the brand identify products that have slow inventory turnover and that are currently trending (Zhenxiang & Lijie, 2011). With AEO’s ability to capture market research from their growing mobile sales and AE Life -- The Intranet, AEO also has the ability to fuel the JIT fulfillment model from their mobile sales platform and Intranet in the form of customer and sales staff feedback (Borden, 2010). This type of research could provide the brand an ability to develop current trending products and make pivotal decisions to cut product lines if profits are not meeting projected sales thresholds.
Implementation

Timeline

OSC predicts AEO’s implementation of a new supply chain will take up to 30 months.

New supply chain implementation begins with identifying a new third-party purchasing agent in the 3rd quarter of 2016. AEO will have to leverage its current human capital, Michael R. Rempell who serves as the Executive VP and COO, to determine the right prospective purchasing agent. As stated before, the purchasing agent’s purpose is to fulfill the sourcing of local resources and manufacturing suppliers. Therefore, AEO does not have to consider initial financing, since the costs of bidding for the partnership will be covered by the purchasing agent participants. The chosen prospect will be expected to incorporate a more efficient JIT fulfillment model that will account for opportunity costs, and that will translate into a decrease in production lead times and a decrease in costs of goods sold.

In addition to the bidding phase, the prospecting purchasing agent will also need to meet AEO’s Vendor Code of Conduct to insure that AEO’s social responsibility needs are met. Once the Vendor Code of Conduct requirements have been met during the pre-approval stage, we believe there won’t be any need for additional training with AEO’s staff in managing the vetting phase of the purchasing agent’s vendors (American Eagle Outfitters Inc., 2014). The prospecting process is estimated to be a full quarter and will segue into the contract/negotiation phase during the Q4 period of 2016. Based on the current budgeted time for first implementation phase including all processes: financial, customer, internal and learning being similar in sequence
and/or replication, we are assuming the 2nd phase of the implementation will take a full quarter to execute as well.

Once a new partner has been selected and signed, AEO will begin its implementation of the production operation in Q1 of 2017. The identified purchasing agent is projected to have a 9-month implementation process: one to three months for vendor procurement period, three months for material/manufacturing handling period, three months for distribution/logistics establishing period (Dayal-Gulati, Management, & Lee, 2004). AEO will continue to use process innovation to cut down product lead times. The development of the new operations is designed to calibrate the efficiencies needed to reach AEO’s target product lead time goal. A reduction in lead times by two weeks is projected to be met. This will be the first step in increasing product offering with the goal of increasing production lines from the industry average of 4,000 lines to 9,000 lines by 2018 (Zhenxiang & Lijie, 2011).

During the production implementation phase, we will be closely monitoring our purchasing agent to see that the Vendor Code of Conduct policies are being met. In the event that these vendors do not meet the compliance standards, the policies state that AEO reserves the right to cut ties with the vendor (American Eagle Outfitters Inc., 2014). In Q3 of 2017, we expect the final stage of the production implementation to be completed.

The pre-buzz marketing campaign will also be implemented during Q3 of 2017. This campaign will serve to inform the public about the transition with the new suppliers. This phase will utilize digital media platforms like YouTube, aired commercials, Amazon web banner ads, and in-store banners to promote “Made in America” concept that puts “American” in American Eagle Outfitters. The goal of this promotion is to gain 2% market share from retaining current shareholders and/or attracting new ones who favor in supporting American-made products. We will look to our omni-channel to support the increasing market share. Simultaneously, AEO will
roll a similar market promotion internally to inspire employee engagement. The goal is to increase employee engagement by 10% through promotions within its intranet.

Our mobile campaign will roll out during the beginning of the 2017 Q4 to the end of 2018’s Q3. As stated before, AEO’s current mobile sales platform has the ability to capture consumers’ feedback that will drive product development and calibrate JIT fulfillment. During the mobile campaign we will need to monitor our financials closely by referencing to our inventory turnover, as we hope to see an increase in it by 2 during this period of time, as well as a high level of operating income to maintain high cash flows for investment. We want to provide AEO’s customers with an increase in products selection (and the shareholders with an increase in market share) through the utilization of omni-channel and AEO Direct, which “...encompasses the merchandise sold through the company’s e-commerce operations.” (Marketline, 2015a). Internal monitoring to AEO’s operational excellence can be done through ROE analysis as it is meant to insure that the course of the campaign stays on the current mark.

The constant supervision and an increase in compliance inspections towards the new manufacturing operations will still be ongoing in order to meet the Vendor Code of Conduct policy requirements. Because the proximity of Mexico is much closer compared to China, we hope to double the numbers of inspection on these new manufacturing facilities. During this year-long marketing campaign, we are planning to achieve the new target for production lead times of three weeks (from the original five weeks), and increase our employees’ intranet involvement.

Evaluation

How

To evaluate the success of our strategy after and during the implementation phase, OSC has put together a balanced scorecard that provides measurements and targets to reach in a given
time. This scorecard covers the four main area perspectives of: financial, customer, internal process, and learning and growing. These four areas to evaluate should offer a complete picture as to whether the processes set forth in the implementation are successful or not.

For the financials, we chose the two areas of inventory turnover and maintaining a high level of operating income. The target that we hope to hit by the end of the process of moving eighty percent of our manufacturing from China to Mexico is a two percent increase on our already above average inventory turnover. This comes after the inventory turnover was down from 2014 to 2015 by over four points. Returning this number to its former glory will potentially be a more long-term goal. Through this strategy we also hope to maintain our levels of operating by financing rather than investing our cash assets. With an operating profit of $155.8 million that increases 10% from 2014 to 2015 we see it as feasible to just maintain this number as we make changes to the company’s manufacturing systems (Marketline, 2015a).

When addressing the customer portion of the balance scorecard, OSC decided to aim for the objective of an increase in market share of 2% and to expand product lines from 4 to 9 over the year of our marketing campaign. The increase in market share should stem from our projects ability to help improve omni-channel fulfillment, AEO gaining this market share is a big evaluator as to whether this strategy is helping AEO establish themselves as a stronger brand. The product line expansion evaluation is key to the evaluation of inventory turnover as they are correlated measures. If the inventory is not turning over it will directly affect our evaluation of our expanded product lines.

Internal process evaluation is extremely important for any company. AEO will focus on its operational excellence as well as social responsibility to make sure this strategy is living up to the standards that AEO has for itself. Operational excellence will be evaluated by the ROE, the target measure for ROE will be to increase it by 2% through the utilization of debt rather than
equity to fund this process. In the area of social responsibility we hope to increase our compliance checks for our vendors by 100%, or double, due to the basic fact of the proximity of Mexican manufacturing over the expense of Chinese manufacturing plants.

To evaluate the learning and growth of AEO through this strategy, two measures will be put in place. One being a Program Evaluation and Review Technique (PERT), which will help us to determine the effectiveness of our reduction in lead time. The evaluation target for lead time will be determined by PERT on whether or not AEO manages to cut down two weeks off the production lead times. The second evaluation for learning and growing will be through the *AE Life - The Intranet* and the involvement of employees. We hope to increase involvement in AEO’s intranet by 10% to create a more connected workplace culture.

**Who**

The evaluation of this strategy will mainly be overseen by accounting expert Thomas R. Ketteler and process manager Michael R. Rempell. These two bring in a wealth of experience, and along with the support of other staff members of AEO they should be able to evaluate all measures. The accountant should be able to maintain an accurate view of the numbers to see whether targets were reached by the end of 2018, which is when we evaluate the strategy in its entirety. The process manager will then be able to review the processes to make sure that what was predicted actually met the expected targets. Other support staff, such as the Information Technology (IT) branch will be able to monitor the usage of the intranet.

**Why**

Why the move? This move is reflective of an adherence to the triple bottom line and American values. This strategy should, over time produce greater profits. With Chinese manufacturing, AEO is a world apart and is not as easily able to observe working conditions in
the facilities creating their products. By moving to Mexico it will be much easier to verify that workers are compensated and cared for properly by the purchasing agent’s company. The reduction in the use of fossil fuels that are used to ship AEO goods will be significantly reduced under the new plan, which is keeping with the company's social responsibility initiatives.

**When**

The timeline for this project to take place is relatively short, while measuring its effects may take some time. The first step will happen inside the first year as seen in the implementation section, which is to switch purchasing agents from Li and Fung to a possible option of the San Diego based Tacna. This is a simple switch because Tacna or any other purchasing agent will take over the responsibilities that the Chinese based Li and Fung had for eighty percent of AEO’s manufacturing. After the manufacturing has been relocated, it would be time to immediately begin the aggressive pro-America products marketing campaign. This campaign may be the new centerpiece campaign for AEO as it builds a greater trust in the American people as an American product. The strategy will be implemented quickly most of the evaluation will take place over the next year.

**Control**

The current Chinese purchasing agent will begin to coexist with the new purchasing agent in Mexico. If the current Chinese purchasing agent restricts additional partnerships, then a new partnership in China may be needed to incorporate a partnership in Mexico.

In the event that a selected vendor does not meet the standards stated in the Vendor Code of Conduct at any point of the implementation phase, AEO will have to take additional time for the purchasing agent to find another supplier to replace it. If the new purchasing agent ends up having multiple vendors that violate the conduct, then AEO will resort to finding a different
purchasing agent. Thus, the implementation process will have to start again from the beginning, resulting in an additional opportunity costs associated with time for AEO.

In the worst-case scenario, AEO may have to go back to the previous supply chain model if the whole process continues to fail even after repeated attempts, which is working with the Chinese suppliers again.

**Balance Scorecard**

<table>
<thead>
<tr>
<th>Process: Supply Chain Process Innovation Excellence</th>
<th>Objectives</th>
<th>Measurement</th>
<th>Target</th>
<th>Initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Perspective:</strong> Allocate budget to ensure improved productivity and grow revenue through strategic purchasing agent partnerships with North American Firm.</td>
<td>Inventory Turnover</td>
<td>Inventory Turnover</td>
<td>2 point move on inventory turnover</td>
<td>Reducing inventory through JIT system</td>
</tr>
<tr>
<td></td>
<td>Maintain High-Level of Operating Income</td>
<td>Cash Flow</td>
<td>Maintain current levels of operating income</td>
<td>Balancing between our growth in operating income and investment</td>
</tr>
<tr>
<td><strong>Customer Perspective:</strong> Offer products that are consistently high-quality, timely, more frequent, and competitively priced with fast-fashion brands, like Zara.</td>
<td>Increase Market Share</td>
<td>Statistical Analysis</td>
<td>Increase market share 2%</td>
<td>Utilizing omni-channels to expand brand presence</td>
</tr>
<tr>
<td><strong>Internal Process Perspective:</strong> To ensure operational excellence while being socially responsible.</td>
<td>Operational Excellence</td>
<td>ROE</td>
<td>Maintain current ROE</td>
<td>Through proper investment and financing</td>
</tr>
<tr>
<td></td>
<td>Socially Responsible: Safety and Health</td>
<td>AEO Vendor Code of Conduct</td>
<td>Semi annual factory compliance inspections, increase of 100%</td>
<td>Factory Compliance Inspection and Performance Evaluation</td>
</tr>
<tr>
<td><strong>Learning &amp; Growing Perspective:</strong> To promote an innovative organizational culture</td>
<td>Process Innovation</td>
<td>Program Evaluation and Review Techniques (PERT)</td>
<td>Decrease product lead time by two weeks</td>
<td>Evaluate strategic opportunity after full implementation</td>
</tr>
</tbody>
</table>
Success/Failure?

Going through the development of this strategy was quite the process for Office Space Consulting. From the beginning we had an open mind to the success or failure of this strategy. Starting with an idea and building around it meant that we could get to the end and it could not work out. Luckily, that is not what happened. We believe this is a valid strategy and opportunity for AEO to explore in the coming years.

There are factors that make it less desirable than first expected. With oil prices being lower than they have been in the past and the cost of transportation ends up not being as high as we expected, these benefits were not as pronounced as we felt they would be. Among other details, we could have gotten derailed. What really makes us believe in this strategy is the opportunity to get in front of the trend, and really embrace AEO’s brand identity in the process. Based on the statistics we found, Mexico may become a desirable option for many manufacturing based jobs that export to the U.S. The proximity alone can make up for the time and money spent for the execution and implementation of our proposed strategy above.

Not only do we see success in the functionality of our strategy, but also the opportunity. By bringing U.S. manufacturing back to the Americas, we can rebrand a segment as being “Made in America,” which is a phrase people can get behind. Pairing that with the more positive image of our neighbor’s manufacturing practices versus China’s, the marketing campaign after the move should seal the success. Office Space Consulting believes this strategy to be a viable option for AEO.
What We Learned

This semester throughout OSC’s entire process of building out a strategic opportunity for AEO from our first initiative to final submission, our abilities and characters were put to test. We faced several obstacles both internal and external like the complexities of group dynamics, which in turn, we learned the invaluableness of good communication and teamwork. Also, OSC is the only group with five members. Our team of five, majorly an advantage, struggled with finding time to meet because of our individual schedules and geographic locations. We quickly learned how difficult it is to balance work, school, life and our OSC group project.

Looking at AEO and our strategic opportunity, our greatest lesson was the realization of time and how time is intrinsic to the life span of a strategic opportunity. In business, efficiency is measured by time. Therefore, time is money. Also, throughout the course of the semester we discovered change in the company as well as in their external environment. We quickly learned building a strategic opportunity is not a linear or invariable task. For instance, data we used in our original analysis of the company was no longer correct. Also, some of our benchmarks had to be reworked, which meant we had to continually modify our content and flow. However, our most valuable lesson learned was the importance AEO placed on having a triple-bottom line approach and the effort the company puts forth in being a socially responsible organization. We at OSC believe the overall project and processes were representative of learning experiences that will be beneficial to our futures as business professionals.
References


Appendix A

Multi-channel v.s. Omni-channel

Multi-Channel

CUSTOMER

store  web  mobile  social  phone

Omni-Channel

CUSTOMER

store  phone

web  social  mobile
Appendix B

AEO Stock Information
Competitor Comparison Analysis

<table>
<thead>
<tr>
<th></th>
<th>2015 AEO Per Scott</th>
<th>Industry Average</th>
<th>2016</th>
<th>2016</th>
<th>2015</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>AEO</td>
<td>GAP</td>
<td>H&amp;M</td>
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<tr>
<td></td>
<td></td>
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<td>Liquidity:</td>
<td></td>
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<tr>
<td>Current Ratio</td>
<td>1.94</td>
<td>1.6</td>
<td>1.56</td>
<td>1.57</td>
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<td>Quick Ratio</td>
<td>1.33</td>
<td>0.5</td>
<td>0.74</td>
<td>0.83</td>
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<td>Inventory Turnover</td>
<td>11.8</td>
<td>3.6</td>
<td>7.59</td>
<td>5.36</td>
<td>4.35</td>
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<td>Total Asset Turnover</td>
<td>1.9x</td>
<td>1.74x</td>
<td>2.18x</td>
<td>2.11</td>
<td>2.6</td>
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<td></td>
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<td></td>
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<tr>
<td>Debt Management:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Debt Ratio</td>
<td>33%</td>
<td>49.6</td>
<td>35%</td>
<td>66%</td>
<td>32.40%</td>
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<tr>
<td>Profitability:</td>
<td></td>
<td></td>
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<tr>
<td>Profit Margin</td>
<td>2.45</td>
<td>4.5</td>
<td>6.00</td>
<td>5.82</td>
<td>11.5</td>
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<td>Return on Assets</td>
<td>4.7</td>
<td>12.2</td>
<td>13.30</td>
<td>11.35</td>
<td>25.9</td>
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<td>Return on Equity</td>
<td>7</td>
<td>15.3</td>
<td>19.90</td>
<td>7.36</td>
<td>38.1</td>
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Portion of the Consolidated statements of Operations from AEO 10K 2016, and a few calculations

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>Increase (decrease)</th>
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<td>Total Net Revenue</td>
<td>3,521,848</td>
<td>3,282,867</td>
<td>238,981</td>
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<tr>
<td>Cost of sale, including certain buying, occupancy and warehousing expenses.</td>
<td>2,219,114</td>
<td>2,128,193</td>
<td>90,920</td>
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<tr>
<td>Gross Profit</td>
<td>1,302,734</td>
<td>1,154,674</td>
<td>148,060</td>
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<td>Selling, general and administrative expenses</td>
<td>834,700</td>
<td>806,498</td>
<td>28,202</td>
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<td>Restructuring charges</td>
<td>---</td>
<td>17,752</td>
<td>(17,752)</td>
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<tr>
<td>Loss on impairment of assets</td>
<td>---</td>
<td>33,468</td>
<td>(33,468)</td>
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<tr>
<td>Depreciation and Amortization expense</td>
<td>148,156</td>
<td>141,191</td>
<td>6,965 (16,053)</td>
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<tr>
<td></td>
<td>2023</td>
<td>2022</td>
<td>2021</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>----------</td>
<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td>Operating Income</td>
<td>319,878</td>
<td>155,765</td>
<td>164,113</td>
</tr>
<tr>
<td>Other Income, Net</td>
<td>1,993</td>
<td>3,737</td>
<td>(1,744)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>321,871</td>
<td>159,502</td>
<td>162,369</td>
</tr>
<tr>
<td>Provisions for Income taxes</td>
<td>108,580</td>
<td>70,715</td>
<td>37,865</td>
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<tr>
<td>Income from continuing operations</td>
<td>213,291</td>
<td>88,787</td>
<td>124,504</td>
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<tr>
<td>Discontinued operations, net of tax</td>
<td>4,847</td>
<td>(8,865)</td>
<td>13,712</td>
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<tr>
<td>Net Income</td>
<td>218,138</td>
<td>80,322</td>
<td>137,816</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>218138</td>
<td>80322</td>
<td></td>
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<tr>
<td>Net income / sales (Profit Margin)</td>
<td>3,521,848</td>
<td>3,282,867</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.0619385</td>
<td>0.024467</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6.2%</td>
<td>2.4%</td>
<td></td>
</tr>
</tbody>
</table>
Opportunities for Adventure

- Project Live your Life: Real People Ad Campaign
- Every year AEO gives their customers the opportunity to be a brand ambassador. Those who are selected represent the core spirit of AEO and travel around the globe to shoot photos, sharing their unique personalities and individual styles.
- SCA Alternative Spring Break
- AEO has been a proud sponsor since 2006 donating more than $5 million to support SCA projects. (Citation) The Student Conservation Association provides environmental enthusiasts
the opportunity to volunteer at conservations around the country, racking up more than 2 million volunteer hours annually.

- 21st Century Conservation Service Corp
- 21st Century Conservation Service Corp, established in 2013 by U.S. Secretary of the Interior Sally Jewell, is a national youth initiative created to inspire young people to work, play and serve outdoors. (Corporate Sustainability Report, 2014) AEO was the first corporation to pledge $1 million in support of this initiative through 2014-2017.

**Practical Support Tools**

- Pittsburgh Promise
- The Pittsburgh Promise is a scholarship program for students interested in higher education. The program gives the necessary tools and encouragement despite the individual’s background the chance at a better education. AEO’s corporate campus is located in Pittsburgh and demonstrates there concern for their community and commitment in building a better future by recently pledging $1 million to expand this scholarship program. (American Eagle Outfitters, Inc., 2014, p. 13)

- Teach for America
- “Teach for American (TFA) is a national nonprofit organization that recruits, trains, and develops a diverse corps of college graduates and professional who commit to teach for two years and become lifelong leaders in ongoing efforts to end educational disparity in low-income communities.” (American Eagle Outfitters Inc. b, 2014) In 2013 AEO associates voted to partner with TFA. AEO contributed more than $400,000 in cash and in-kind donations. In AEO’s efforts they launched a Back to School jean campaign, donating $1 for every pair of jeans sold in the month of July. Also, AEO provided 1,500 students from low-income communities with back-to-school toolkits. Moreover, AEO invited 500 TFA teachers and students to their stores for back-to-school shopping sprees. (American Eagle Outfitters, Inc., 2014, p. 14)

- Big Brother Big Sister
- AEO’s partnership with Big Brother Big Sister began in 2005. AEO partnered with this organization “… to support its mission of allowing children to realize their potential and create
the future they want.” (American Eagle Outfitters Inc. b, 2014) Throughout the duration of this partnership many AEO associates have participated in the Bowl for Kids’ Sake Fundraiser. During the holiday season in 2012 they raised money through holiday gift donations. Also, many AEO associates serve as Big Brothers or Big Sisters as a part of AEO’s local workplace mentoring program. (American Eagle Outfitters, Inc., 2014, p. 15)

- San Francisco Mayor’s Summer Jobs + Program
- AEO opened a corporate office in San Francisco in July 2013 to serve as a progressive technology center for AEO engineers, designers and digital marketing team. To celebrate their new home, AEO joined efforts with Mayor Edwin Lee’s Summer Jobs+ campaign. The mayor’s program aimed to create 6,000 jobs and paid internships for youths in the Bay area. AEO’s contribution to the program involved hiring a dozen youths to work as summer interns. (American Eagle Outfitters, Inc., 2014, p. 15)

- Fit to Flow
- The Fit to Flow program supports theater arts and music programs in North Bergen schools by providing coaching, mentoring, and supplemental funding. AEO joined in its efforts after meeting Tyler through their Project Live Your Life campaign. Tyler, a student from New Jersey, with a passion for performing developed Fit to Flow as a way for him to give back to his community. Not only did AEO donate $10,000, they also worked with Tyler to help him develop and hone in his Fit to Flow model. (American Eagle Outfitters, Inc., 2014, p. 15)

- Associate Involvement
- AEO offers an Eagles Team of Ten program, which supports AEO associates volunteer efforts by providing at least 10 associates with a $500 grant to give to a charitable organization or fundraising project of their choice. AEO also encourages their associates to contribute to their favorite nonprofit organization by matching their donation on a dollar-for-dollar basis. Also, in 2013, AEO held their first ever American Eagle Outfitters Better World Community Day. Over 1,000 AEO corporate associates participated in Pittsburgh and New York creating a substantial impact by joining in 29 volunteer projects. (American Eagle Outfitters, Inc., 2014, p. 15)

**Fairness and Equality**

- 100% HRC
“The Human Rights Campaign Foundation (HRC) annually conducts a national Corporate Equality Index (CEI) to measure corporate policies related to lesbian, gay, bisexual, and transgendered employees. The survey looks at elements like a company’s equal employment opportunity policies for sexual orientation and employment opportunity, medical benefits for same sex partners and spouses and LGBT corporate engagement activities that support and foster equality.” (American Eagle Outfitters, Inc. b 2014) In 2013, AEO received their first perfect score on the CEI. AEO takes pride in being an equal opportunity workplace and continuously looks for new ways to guarantee equality in their policies and actions. For example, AEO offers same-sex partner benefits as well as transgender benefits for U.S. employees. In addition, AEO is involved in public policy initiatives to advance equality such as marriage equality, the Employment Non-Discrimination Act legislation, and the end of the HIV/AIDS travel ban. (American Eagle Outfitters, Inc., 2014, p. 16)

- End HIV Travel Bans
- UNAIDS, the Global Business Coalition (GBHealth), and 40 companies, including AEO, signed a CEO pledge calling for an end to travel restrictions for individuals living with HIV. The initiative hopes to end discrimination in the workplace and increase acceptance on a global level. The initiative launched in 2012. At the time 47 countries imposed HIV travel restrictions, now there are 40 countries. (American Eagle Outfitters, Inc., 2014, p. 16)
- The Dream@50
  - In partnership with the United Nations, UNESCO, Americans for the Arts and United Way, AEO on August 23, 2013 celebrated the 50th anniversary of Dr. Martin Luther King Jr.’s “I Have A Dream” speech and “the power of cultural diversity in building strong, accepting communities.” (American Eagle Outfitters, Inc., 2014, p. 18)
- GLAAD Spirit Day
  - In partnership with GLAAD (Gay and Lesbian Alliance Against Defamation), in October 2013, AEO helped launch “Spirit Day”, a national anti-bullying campaign. The campaign is focused on guarding and promoting the rights of LBGT youth. Efforts from AEO were seen from coast-to-coast. In Times Square, at one of AEO’s flagship stores, the LED billboard was solid purple for the entire month of October. In San Francisco created window displays promoting “Spirit Day”. (American Eagle Outfitters, Inc., 2014, p. 18)

**Health and Wellness**

- Bright Pink
• Bright Pink is the only nonprofit organization that fights breast cancer and ovarian cancer in young women by focusing on early prevention and detection education. Bright Pink provides young women with the information they need to understand cancer symptoms and risk factors that can cause cancer in hopes for early detection, alleviating the chances of reaching a life-threatening stage. AEO has been partners with Bright Pink since 2010 and has demonstrated their commitment to this organization in various ways. In 2013, aerie launched the Show Your Support Campaign during Breast Cancer Awareness Month. Also, aerie produced a Bright Pink, limited edition “Bridget” bra, which sales went directly to Bright Pink programming. In addition, in-stores, customers that donated $5 to Bright Pink received free nail polish, which collectively raised $250,000. Moreover, AEO associates helped Bright Pink raise awareness by constructing a two-and-a-half story Bright Pink breast cancer awareness ribbon made of pink aerie bras in Pittsburgh. The bras were then cleaned and donated to local Pittsburgh women’s shelters. (American Eagle Outfitters, Inc., 2014, p. 21)

• Aerie REAL Campaign

• The aerie REAL Campaign has flooded social media feeds. The REAL Campaign promotes positive self-image in young women. The campaign features real women, un-retouched as models for their aerie collection. Aerie, has since launched aerie for men, which also uses authentic, realistic males for models. (American Eagle Outfitters, Inc., 2014, p. 22)

• HERproject

• The HERproject promotes the health and wellness of women factory workers. The project uses a peer education model to raise awareness, increase health knowledge, and provide information on accessible local health services. HERproject trains peer educators on a range of health topics, which include general reproductive health to the vital role of hygiene and nutrition. (American Eagle Outfitters, Inc., 2014, p. 40)

A Thriving Planet

• Boot the Bottle

• The overuse of plastic has been a environmental concern for years. In 2013 AEO distributed reusable water bottles to all AEO corporate associates. In addition, they set up EVIVE bottle
cleaning and water refilling stations in their corporate offices. In one year AEO prevents 50,000 disposable bottles from entering landfills. (American Eagle Outfitters, Inc., 2014, p. 24)

- From Blue to Green

From Blue to Green is a denim-recycling program. In 2011 and 2012 AEO contributed to this program by inviting all associates and customers to bring any type of denim of any brand to an AEO store. From Blue to Green repurposes the donated denim by converting it into Ultra Touch Denim Insulation that is used in home building projects. AEO and From Blue to Green collected 132,672 items and in return gave customers a discount on new denim. The donated denim helped insulate 265 Habitat for Humanity homes. Also, AEO sent two managers and two customers to New Orleans to help with installing the insulation. In addition, AEO recycles or reuses all of their damaged and returned merchandise through partnering organizations like Habitat for Humanity, Materials for the Arts, Millbury Textile Recycling, and National Odd Shoe Exchange. (American Eagle Outfitters, Inc., 2014, p. 24)

- I:CO

AEO is an environmentally conscious organization. The company continues to demonstrate the value they place on a healthy planet by the hand full of initiatives and projects they are associated with. Earth Day 2013, AEO partnered with I:CO to construct a zero-waste textile initiative for their associates. AEO associates, despite the condition, are able to recycle unwanted clothing, shoes and textiles. The items are then redistributed to developing countries or repurposed. The I:CO program prevents 22.3 billion pounds of clothing and other textiles from reaching our landfills each year in the U.S.. AEO plans to extend this initiative to their associates in Canada, (American Eagle Outfitters, Inc., 2014, p. 27)

- Clean & Green

AEO is a company that firmly believes the importance of recycling. They recycle everything from paper to glass, plastics and cardboard. According to their sustainability report, there are dozens of recycling bins in their offices – in their copy room, kitchens, cafes, and under every associate’s work-space. Clean and Green is an annual event that takes place in their corporate and distribution locations. The Clean & Green team encourages employees to clean out their desk of unwanted paper as well as unwanted documents from their homes they would likely want shredded. AEO ensures confidentiality and securely shreds and recycles these documents. In one year AEO recycled 14,972 pounds of paper, and 7.8 million pounds of cardboard. (American Eagle Outfitters, Inc., 2014, p. 27)
Green Procurement & Use of Recycled Paper
AEO is always interested in finding new ways to be environmentally friendly. In 2014, AEO developed a green procurement process, which included stoking all their offices, stores, and distribution centers with environmentally friendly products. In addition, AEO uses recycled paper; their HR department transitioned to a paperless pay roll system, and has moved their internal newsletter to online. The newsletter is printed 3-4 times a year and by switching to online they have reduced the number of copies from 135,000 to only 2,000 printed copies annually. (American Eagle Outfitters, Inc., 2014, p. 28)

Greenhouse Gas Inventory Assessment
AEO’s environmental policy is “to make a better world by reducing our environmental impact in all areas of our business.” (American Eagle Outfitters, Inc. 2014, p. 28) In FY 2012 AEO conducted a greenhouse gas (GHG) inventory using World Resources Institute’s GHG Corporate Accounting and Reporting Standards. As a result of their GHG evaluation they recognized areas for energy reduction and established an aggressive GHG goal they set to reach by 2017. (American Eagle Outfitters, Inc., 2014, p. 28)
TABLE 2
CO₂ EMISSIONS BY SCOPE
American Eagle Outfitters' total emissions are primarily from Scope 2

<table>
<thead>
<tr>
<th>SCOPE</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCOPE 1</td>
<td>2%</td>
</tr>
<tr>
<td>SCOPE 2</td>
<td>94%</td>
</tr>
<tr>
<td>SCOPE 3</td>
<td>4%</td>
</tr>
</tbody>
</table>

CHART 2
Scope 2 Emissions by Facility Type

- Retail Stores: 71%
- Distribution Center: 22%
- Offices: 4%
- Data Center: 3%

CHART 3
Scope 2 CO₂ Emissions by Purchased Utilities

- Electricity: 97%
- Natural Gas: 3%
A Value-Driven Supply Chain

- **How AEO Works with Factories**
  - AEO has staunch ethical labor standards. The company has implemented procedures to promote safe and healthy working conditions for factory workers. Also, before the company begins working with a factory, AEO conducts a pre-sourcing inspection of their facilities. If the facilities do not pass, it is not approved for production use. In addition, AEO unceasingly engages existing supplier to meet their expectations for social compliance and remedy any issues they face. (American Eagle Outfitters, Inc., 2014, p. 31)

- **Growth and Transparency**
  - AEO’s has unwavering social compliance and environmental standards, which they also expect their suppliers to uphold consequently; AEO requires transparency and compliance in their suppliers. However, the company recognizes the level of difficulty in upholding these standards and therefore, plays a supporting role by helping with remediation efforts. In the company's sustainability report, AEO notes if suppliers fail to show accurate accounts of workplace conditions, or attempts to hide necessary information to the audit there would be significant consequences not limited to termination. (American Eagle Outfitters, Inc., 2014, p. 32)

- **Strategic Sourcing**
  - AEO partners with “… suppliers that share in their commitment to responsibility and respect the safety and rights of their workers.” (American Eagle Outfitters, Inc. b 2014, p. 32) AEO demonstrates the importance of these standards by educating new sourcing associates the significance of compliance in factories. Also, AEO’s Supply Chain Responsibility team and Sourcing team meet monthly to discuss overall performance of their suppliers and evaluates the performance of each supplier on an individual basis. In evaluating supplier’s performance, AEO uses a supplier scorecard to measure their social compliance and commitment to improvement. In addition, AEO rewards suppliers that take initiative and issue their own public report. (American Eagle Outfitters, Inc., 2014, p. 32)

- **Vendor Code of Conduct**
- Prohibits child labor as defined by local laws and regulations. Regardless of local laws suppliers are prohibited for hiring workers younger than 15 years old. (American Eagle Outfitters, Inc., 2014, p. 34)
- Prohibits forced or involuntary labor. (American Eagle Outfitters, Inc., 2014, p. 34)
- Prohibits harassment. Suppliers must treat their workers with dignity and respect. (American Eagle Outfitters, Inc., 2014, p. 34)
- Prohibits discrimination. Suppliers must respect cultural differences based on race, religion, age, and nationality, social or ethnic origin. (American Eagle Outfitters, Inc., 2014, p. 34)
- Suppliers must respect the rights of employees to associate and join organizations of their choice without interference. (American Eagle Outfitters, Inc., 2014, p. 34)
- Suppliers must supply workers with a safe and healthy work environment. (American Eagle Outfitters, Inc., 2014, p. 34)
- Suppliers must comply with applicable environmental laws and regulations. (American Eagle Outfitters, Inc., 2014, p. 34)
- Suppliers must be compliant when AEO engages in inspections of this Code of Conduct. (American Eagle Outfitters, Inc., 2014, p. 34)
- Suppliers must comply with applicable compensation laws and regulations relating to wages, overtime, hours, piece rates, and benefits. (American Eagle Outfitters, Inc., 2014, p. 35)
- Suppliers must comply with all benefits required by law or regulation, which include but not subject to required meals, health care, child care, and leave for medical, family, or religious reasons. (American Eagle Outfitters, Inc., 2014, p. 35)
- Suppliers must comply with all laws and regulations applicable to apparel and related industries including local and national codes, treaties, and industry standards relating to employment, health, safety, and the environment. They also must comply with U.S. laws and regulations relating to imported products. (American Eagle Outfitters, Inc., 2014, p. 35)
How AEO Partners

The Bangladesh Accord

In April 2013, after the collapse of a building containing multiple factories, AEO along with over 100 brands, trade unions, non-governmental organizations and worker’s rights advocates joined in effort to produce the accord built on measures of the National Action Plan on Fire Safety to prevent tragedies like the building collapse in Bangladesh. The accord provides fire and safety training, reviews and improves existing factories, and helps develop and promote an effective worker compliant process. (American Eagle Outfitters, Inc., 2014, p. 39)

Better Work


Keeping AEO’s Supply Chain Green

Wastewater

In 2007, AEO joined the Business for Social Responsibility Sustainable Water Group, an initiative of fashion brands, focused on discovering new ways to minimize their environmental impact. After evaluating their impact, AEO developed the AEO Wastewater Management Standard, which outlines practices and monitoring requirements for the company’s suppliers. For instance, AEO factories, during production, discharge treated water into the surrounding environment. The water is treated in a ecologically responsible manner, minimizing environmental impact. (American Eagle Outfitters, Inc., 2014, p. 42)
Industry Analysis: U.S. Apparel Retail

Market Value (Marketline, 2015c)

<table>
<thead>
<tr>
<th>Year</th>
<th>$ billion</th>
<th>€ billion</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>316.0</td>
<td>237.8</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>337.3</td>
<td>253.8</td>
<td>6.7%</td>
</tr>
<tr>
<td>2012</td>
<td>356.0</td>
<td>267.9</td>
<td>5.6%</td>
</tr>
<tr>
<td>2013</td>
<td>368.1</td>
<td>276.9</td>
<td>3.4%</td>
</tr>
<tr>
<td>2014</td>
<td>375.1</td>
<td>282.2</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

CAGR: 2010–14 4.4%

Figure 1: United States apparel retail industry value: $ billion, 2010–14

Source: Marketline
Market Value Forecast (Marketline, 2015c)

Table 5: United States apparel retail industry value forecast: $ billion, 2014–19

<table>
<thead>
<tr>
<th>Year</th>
<th>$ billion</th>
<th>€ billion</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>375.1</td>
<td>282.2</td>
<td>1.9%</td>
</tr>
<tr>
<td>2015</td>
<td>392.6</td>
<td>295.4</td>
<td>4.7%</td>
</tr>
<tr>
<td>2016</td>
<td>408.5</td>
<td>307.4</td>
<td>4.1%</td>
</tr>
<tr>
<td>2017</td>
<td>424.7</td>
<td>319.6</td>
<td>4.0%</td>
</tr>
<tr>
<td>2018</td>
<td>441.2</td>
<td>332.0</td>
<td>3.9%</td>
</tr>
<tr>
<td>2019</td>
<td>457.6</td>
<td>344.3</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

CAGR: 2014–19

4.1%

Source: Marketline

Figure 5: United States apparel retail industry value forecast: $ billion, 2014–19

Source: Marketline
Geography Segmentation (Marketline, 2015c)

Table 3: United States apparel retail industry geography segmentation: $ billion, 2014

<table>
<thead>
<tr>
<th>Geography</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>412.5</td>
<td>31.3</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>407.4</td>
<td>30.9</td>
</tr>
<tr>
<td>United States</td>
<td>375.1</td>
<td>28.5</td>
</tr>
<tr>
<td>Rest of the World</td>
<td>122.3</td>
<td>9.3</td>
</tr>
<tr>
<td>Total</td>
<td>1,317.3</td>
<td>100%</td>
</tr>
</tbody>
</table>

SOURCE: MARKETLINE

Figure 3: United States apparel retail industry geography segmentation: % share, by value, 2014
Category Segmentation (Marketline, 2015c)

Category segmentation is broken down into 3 categories: Womenswear, Menswear, and Childrenswear. The global apparel retail industry report shows womenswear accounts for 51.0% of the industry’s total value. Menswear accounts for 33.5% of the industry and childrenswear accounts for 15.6%.

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Womenswear</td>
<td>191.2</td>
<td>51.0%</td>
</tr>
<tr>
<td>Menswear</td>
<td>125.6</td>
<td>33.5%</td>
</tr>
<tr>
<td>Childrenswear</td>
<td>58.3</td>
<td>15.6%</td>
</tr>
<tr>
<td>Total</td>
<td>375.1</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Marketline
Market Distribution (Marketline, 2015c)

Market distribution is segmented into 5 categories: (1) clothing, foot/sportswear and accessories retailers, (2) department stores, (3) hypermarket, supermarket, and discounters, (4) discount, variety and general merchandise retailers, and (5) other. The channel, “clothing, foot/sportswear and accessories retailers”, accounted for 62.3% share of the industry’s value. Department stores share came in at a far second at 19.6% of the industry’s value.
**Five-Force Analysis** (Marketline, 2015c)

The Five-Force Analysis breakdown takes retailers as players. Key buyers are recognized as individual consumers, and clothing manufacturers are labeled as the key suppliers. The five forces include: (1) buyer power, (2) supplier power, (3) new entrant, (4) threat of substitutes, and (5) degree of rivalry.
Supplier power

Figure 8: Drivers of supplier power in the apparel retail industry in the United States, 2014

New entrants

Figure 9: Factors influencing the likelihood of new entrants in the apparel retail industry in the United States, 2014
**Threat of substitutes**

*Figure 10: Factors influencing the threat of substitutes in the apparel retail industry in the United States, 2014*

![Threat of substitutes diagram](image)

**Degree of rivalry**

*Figure 11: Drivers of degree of rivalry in the apparel retail industry in the United States, 2014*

![Degree of rivalry diagram](image)
Industry Analysis: Global Apparel Retail

Market Value (Marketline, 2015d)

According to Marketline Industry Profile Global Apparel Retail, “...the industry value is calculated at retail selling price (RSP), and includes all taxes and levies,” and all currency conversions are consistent with 2014 annual average exchange rates. (Marketline b, 2015)
Market Value Forecast (Marketline, 2015d)

Table 5: Global apparel retail industry value forecast: $ billion, 2014–19

<table>
<thead>
<tr>
<th>Year</th>
<th>$ billion</th>
<th>€ billion</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1,317.3</td>
<td>991.2</td>
<td>3.0%</td>
</tr>
<tr>
<td>2015</td>
<td>1,377.5</td>
<td>1,036.5</td>
<td>4.6%</td>
</tr>
<tr>
<td>2016</td>
<td>1,440.4</td>
<td>1,083.8</td>
<td>4.6%</td>
</tr>
<tr>
<td>2017</td>
<td>1,507.2</td>
<td>1,134.1</td>
<td>4.6%</td>
</tr>
<tr>
<td>2018</td>
<td>1,577.3</td>
<td>1,186.9</td>
<td>4.7%</td>
</tr>
<tr>
<td>2019</td>
<td>1,651.6</td>
<td>1,242.7</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

CAGR: 2014–19 4.6%

Source: Marketline

Figure 5: Global apparel retail industry value forecast: $ billion, 2014–19

Source: Marketline
Geography Segmentation (Marketline, 2015d)

For the purposes of the *Marketline Industry Profile Global Apparel Retail*, references to North America consists of Canada, Mexico, and the United States. South America is comprised of Argentina, Brazil, Chile, Columbia, and Venezuela. References to Europe include countries Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden, Switzerland, Turkey, and the United Kingdom. Scandinavia is comprised of Denmark, Finland, Norway, and Sweden. Countries allocated to Asia-Pacific region include Australia, China, Hong Kong, India, Indonesia, Kazakhstan, Japan, Malaysia, New Zealand, Pakistan, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. The Middle East involves Egypt, Israel, Saudi Arabia, and United Arab Emirates. (Marketline b, 2016)
**Category Segmentation** (Marketline, 2015d)

Category segmentation is broken down into 3 categories: Womenswear, Menswear, and Childrenswear. The global apparel retail industry report shows womenswear accounts for 49.4% of the industry’s total value. Menswear accounts for 33.2% of the industry and childrenswear accounts for 17.4%.

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Womenswear</td>
<td>650.7</td>
<td>49.4%</td>
</tr>
<tr>
<td>Menswear</td>
<td>438.0</td>
<td>33.2%</td>
</tr>
<tr>
<td>Childrenswear</td>
<td>228.6</td>
<td>17.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,317.3</td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: Marketline*
**Market Distribution** (Marketline, 2015d)

Market distribution is segmented into 5 categories: (1) clothing, foot/sportswear and accessories retailers, (2) department stores, (3) hypermarket, supermarket, and discounters, (4) discount, variety and general merchandise retailers, and (5) other. The channel, “clothing, foot/sportswear and accessories retailers”, accounted for 63.4% share of the industry’s value. Department stores share came in at a far second at 21.4% of the industry’s value.
Five Forces Analysis ((Marketline, 2015d)

The Five-Force Analysis breakdown takes retailers as players. Key buyers are recognized as individual consumers, and clothing manufacturers are labeled as the key suppliers. The five forces include: (1) buyer power, (2) supplier power, (3) new entrant, (4) threat of substitutes, and (5) degree of rivalry.
Supplier power

Figure 8: Drivers of supplier power in the global apparel retail industry, 2014

New entrants

Figure 9: Factors influencing the likelihood of new entrants in the global apparel retail industry, 2014
Threat of substitutes

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Degree of rivalry

Figure 11: Drivers of degree of rivalry in the global apparel retail industry, 2014