

“FCUK it - there go our customers”

Troubles ahead for retailer French Connection?

French Connection the high street fashion retailer could be in danger of disconnecting with its customers. Last year, investors were extremely anxious when the firm announced that sales were down by over 18% for a quarter. The British firm, which has enjoyed unparalleled success over the last five years, is now facing tough challenges ahead, as it tries to recapture the magic of its past sales successes. CEO Stephen Marks founded the company in 1972. He named it after his favourite movie. In the late nineties, the firm enjoyed meteoric growth. The company gained worldwide coverage, thanks in no small part to the firm's use of a controversial four-letter acronym, which it used as its logo. Emblazoned across t-shirts, caps, bags and sunglasses the manipulated swear word became ubiquitous. Their T-shirts with some sexually lewd double entendre slogan on it became hip and de rigueur. However the concept may now have lost its appeal and fashion status; becoming seen as tired and tacky. Where to now for French Connection?

Background

French Connection operates as a multiple specialist fashion retailer, competing against the likes of Zara, H&M, Top Shop, Miss Selfridge, Next, River Island and Warehouse. This industry is highly competitive with numerous international brands fighting in the segment. French Connections' operations cover several distribution channels, from their own retail outlets, wholesalers in North America, franchises, mail order, to concession stores in a variety of department stores such as Selfridges. The group has almost 150 stores worldwide including more than 30 in the US. The company hopes to double its presence in the US. It is trying to expand rapidly there, despite all of the negative current geopolitical connotations, surrounding all things French in the US. In February 2001, French Connection paid £23 million pounds sterling to its US joint venture partner 'Best of All Clothing' who had been operating the 24 French Connection stores before the buyout. Now French Connection holds complete independent ownership. Furthermore the company bought "Toast" - a mail order company. The company sells both female and male clothing apparel and tries to position itself as a design brand. It sells its products at higher price points than the likes of Zara and H&M. It is believed that recent troubles at the firm were attributed to weak collections that did not match the price positioning. Also that it stocked too many basic product lines, not helping it to differentiate it against other retailers. Customers felt that they were getting better fashions at the likes of Zara, and that they were better value.

The Logo & the Ensuing Controversy

Advertising plays a key part of French Connections' competitive strategy and has been credited with transforming *FCUK* into a formidable global force. The use of catchy yet controversial advertising has given them international brand recognition. Where once the brand name was known as a relatively small British fashion retailer, now it has become known as an international brand phenomenon. The FCUK logo was created by high-profile advertising guru, Trevor Beattie, who runs the TBWA advertising agency. He recently landed the British Labour Party's advertising account, and is widely credited with turning the fashion retailer's fortunes around. Beattie has also been credited with Wonderbra's famous "Hello Boys" ad campaign. The slogan was inspired by French

Connection company executives who abbreviated French Connection UK on internal memos and was conceived in 1997. Every since the brand has been used by the company in its advertising campaigns. The controversial adverts have placed the company in serious trouble with advertising regulators. Their website proudly displays the glories of past advertising campaigns featuring the slogan (see www.frenchconnection.com). Some of the store's campaigns have garnered record number of complaints from the public. Now the advertising watchdog is pre-vetting all of French Connection advertising for the next two years, banning any advertising that is in breach of advertising codes. Pushing the envelope as regards controversy has allowed the company to achieve greater brand awareness. There has been a constant fight between the company and advertising regulators, with the even company trying to circumvent regulations by placing full stops in the abbreviation. Between 1999 and 2003, sales had doubled in value and profits had grown in similar fashion. In total, 20% of French Connection sales are branded with the controversial FCUK logo. Is this extraordinary growth a result of all the media coverage obtained since the launch and increased public awareness? Probably yes.

Due to the lack of above the line media opportunities for the brand, the company has decided not to use the slogan for any more above the line advertising. It will however remain on apparel and be used subtly in other advertising media, such as the Internet. In America, French Connection incurred the wrath of conservative groups due to the sexual innuendo in their advertising. Stores refused to stock products, billboards were removed from the public view, and there was even strong anti-ad campaigning by a Christian lobby groups. It escalated to the extent where Federated Department Stores (i.e. the firm the runs well known US department stores such as Macy's and Bloomingdale's) withdrew all *FCUK* branded merchandise from their stores. This gave even more publicity to the irreverential brand name. Young buyers were attracted to the notion of the brand's rebellion.

Multi-Channel Strategy

The company uses a number of other lucrative channels apart from the store network such as mail order and the Internet. Despite operating in four of the five continents, the global channel that is the Internet has brought a new dimension to French Connection. Anyone who sees one of French Connections' infamous t-shirts and wants to order one, whether for personal use or to give as a gift need simply log online. With e-tailing, French Connection realised how important their online business is, which is why they fought tooth and nail to win the rights to *fcuk.com*. It had previously been bought by a UK Internet consultancy, First Consultants, who were using the domain name as their website. The trial was successful and *fcuk.com* is now up and running.

In addition to these varied channels deployed, French Connection also grants licenses to retailers' worldwide in order to expand their business into new markets. French Connection is aware of the volatility of expanding into new markets and is cautious about their expansion via this method, so they maintain a high level of involvement with the licensees to follow progress and ensure the credibility of the nascent brand in the foreign market. The licensee in Japan is concentrated in five locations. French Connection intends to focus on the current market share that they hold in these stores in order to maintain a strong brand recognition. Following the successful growth of their business in Australia, the company has recently signed a three-year development contract with a respected retailer in Hong Kong to open a chain of French Connection stores there. This method of operation replaces their initial presence in department stores and should ensure stronger brand awareness, with company branded stores emerging. Also the

firm sells old lines or poor selling items to off-price retailers such as TK Maxx who stock the *FCUK* branded clothes from previous seasons with an average markdown of 40%.

As like all other fashion retailers, French Connection have kept an eagle eye on the Spanish clothing Zara. Zara has taken huge market shares from other fashion retailers thanks to its lean production and efficient logistics systems, which allow it rapid response to changing customer tastes and low prices. The design and production teams at French Connection now only commit to less than sixty percent before the launch of the season. The initial sales during the first few weeks are then carefully monitored to identify the best sellers and poor lines. The company acknowledges that speed-to-market is crucial in order to give the customers what they want, when they want, at the price they are willing to pay. Fashion shoppers constantly vie for the newest styles and trends in fashion. Fashion retailers need to have new stock that arrives frequently, and that matches the latest fashion trends. So, to facilitate this demand led environment, manufacturing has to be extremely efficient. As a result, most retailers use a combination of manufacturers to supply goods, sourcing the production in Eastern Europe, North Africa, and South America. French Connection has a large manufacturing base in Turkey, producing the seasonal lines in roughly four weeks at a reasonable cost. Often, and in the case of French Connection, British manufacturers are contracted to reproduce best-selling lines as the need arises. This can take as little as seven days to complete, and although costs are significantly higher, it results in fewer stock-outs, meaning gross margins are maintained which all leads to increased customer satisfaction.

Brand Diversification

In the past five years, French Connection has expanded into new markets at a phenomenal rate and the product range is now hugely diversified. The company began by selling clothing to the men's and women's market, originating as a fashionable clothing range, and has now extended its brand in recent years to include fashion accessories, make-up, toiletries, even condoms and not forgetting more recently alcoholic drinks. Brand licensing plays an important part of the company's strategic plans for expansion with licensing deals revenue. The company has developed into a brand licensing company rather than solely a fashion retailer.

November 2001 saw French Connection move into the rapidly expanding and high profit sector of flavoured alcohol beverages. The *FCUK* drink brand is licensed by Matthew Clark Brands, a UK based drinks company who produce the likes of Babydam and Blackthorne cider in their portfolio. The launch was extremely positive. It released drinks in the flavoured alcoholic beverages sector, launching cranberry, lemon and raspberry flavours. The target market was also quite similar to that of the lucrative *FCUK* clothing range market: 18-24 age group, fashion conscious, particularly women who currently consume 70% of flavoured alcoholic drinks. This consistency of brand image has given *FCUK* drinks brands a distinct strong position within the highly competitive sector competing against the likes of Smirnoff Ice and Bacardi Breezer, in a market worth millions of pounds per year in sales turnover.

Branching into the alcoholic drinks sector was quickly followed with a range of '*High Maintenance*' women's toiletries. Boots, the British pharmacy chain, licensed the range and they also license both the *FCUK* women's and men's fragrances. Zirh Skin Nutrition, a division of the Japanese Shiseido Group, were granted the worldwide license to manufacture and distribute *FCUK* fragrances and toiletries. The group now holds the worldwide rights to the license with the exception of the UK and Ireland. Zirh distribute to all other French Connection outlets worldwide and beyond. After the toiletries launch

in the US, expansion was set to initiate in forty countries within a two-year period. In November 2003, French Connection launched their make up range “*FCUK vanity*”, in the UK and Ireland; also distributed by Boots. The company is satisfied with the growth in brand development overall. It has yet to be seen whether the brand has the ability to attract a long-term appeal, or is just a fad brand in the cosmetics sector.

French Connection also developed “*FCUK Vision*” to encompass another lucrative market. The company stocks their spectacles and sunglasses ranges in many of the high street eyewear specialist stores, Specsavers being one of the most prominent. They choose Inspec as their allocated licensee. The brand had even expanded into radio, with the launch of FCUK FM. The core plan behind the idea is to target 18- to 25 year old to the brand in the future and also to gain money through advertisers. Having a brand's own media channel allows the firm to communicate the brand's essence to target customers. The new radio stations promised to use a new programming style moving away from the tried and trusted drive-time slots and adopt a more innovative programming content. The station content was designed to cater for those people who listened to radio on the Internet and through digital satellite television. Through these initiatives FCUK is trying to become the next ubiquitous Virgin brand. Unlike Virgin who used Richard Branson as a central part of the brand's identity, promoting a brand promise of something new, innovative, and continually fighting against monopolies. Yet the FCUK brand identity and what its essence is much more vague. The brand is just a crass expletive, popular on T-Shirts and nothing else. Apart from instant brand recognition, when the brand is stretched onto these other product categories, what other brand values and association will be transferred?

Possibly the extent of brand stretching that was undertaken, was due to the immense popularity of the FCUK brand at that moment in time. Trying to capture all of the possible revenue potential. The company tried to exploit as many sources of revenue as possible. Also the greater the brand exposure for all of these sub brands, leads to greater brand associations with the physical stores, driving footfall to these stores.

Is the Party over?

Recently sales at French Connection have fallen by 18%. The retail chain blamed a tough trading environment, yet sales during the similar period at competitors actually rose. Last year, before the “blip” in sales Stephen Marks sold a large part of his shareholding in the company, losing effective control. This shock investors' confidence in the firm, as it was seen as a signal that the driving force behind the firm's success had become less interested in the business. His shares were sold at close to record highs. The CEO commented that he needed the money to pay for a costly divorce! He is now estimated to own 42% of the company. Some analysts believe that the firm is ripe for a takeover or the Stephen Marks may take the group private. Some believe that the FCUK slogan has become tired and dated, and that the store needs to straighten up its act. Bringing innovative designs faster to market, controlling costs, and adopting a clear positioning strategy is a must, if this organisation is to continue to thrive. Also it must question whether the FCUK logo has become over commercialised, and that it may need to consolidate the brand.

Case Questions

- Q.1 - Critically evaluate French Connection's multi channel retailing strategy.
- Q.2 - Discuss the merits and pitfalls associated with brand stretching.

- Q.3 - What are the strategic options available to French Connection, in light of falling sales? Furthermore recommend a course of action for the retailer, giving reasons for your answer.

This case was written by Conor Carroll, Linda Fitzek, and Ruth Kennealy, University of Limerick. Copyright © Conor Carroll, Linda Fitzek & Ruth Kennealy (2004). The material in the case has been drawn from a variety of published sources.