

ABERCROMBIE & #FITCHTHEHOMELESS

Karen Robson, Colin Campbell and Justin Cohen wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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“In every school there are the cool and popular kids, and then there are the not-so-cool kids; candidly, we go after the cool kids. We go after the attractive all-American kid with a great attitude and a lot of friends. A lot of people don’t belong [in our clothes], and they can’t belong. Are we exclusionary? Absolutely.”¹

Abercrombie & Fitch CEO Mike Jeffries, 2006

In May 2013, nearly three weeks had passed since a quote made by Abercrombie & Fitch CEO Mike Jeffries in 2006 — that some people simply didn’t belong in his company’s clothes — had resurfaced, and the backlash against the company showed no signs of waning. Increased social media usage and the proliferation of user-generated content had amplified the situation, and the #FitchTheHomeless campaign had gone viral. Celebrities who normally represented brands took on a campaign of dis-endorsement of the Abercrombie & Fitch label.

In the face of this crisis, a team of Abercrombie & Fitch executives — excluding Jeffries — was set to meet with the president and CEO of the National Eating Disorder Association and members of America the Beautiful Teen Empowerment Series to discuss the situation. Moving forward, Abercrombie & Fitch had some decisions to make about how to appease angry consumers and restore its brand image.²

BACKGROUND

Abercrombie & Fitch

David T. Abercrombie and Ezra H. Fitch created Abercrombie & Fitch in New York City in 1892 to serve the needs of wealthy outdoor sportsmen and hunters.³ The company existed for nearly 80 years before

¹ www.salon.com/2006/01/24/jeffries/, accessed August 23, 2013.

² www.washingtonpost.com/blogs/on-leadership/wp/2013/05/22/abercrombie-fitchs-big-bad-brand-mistake/, accessed August 23, 2013.

³ www.nytimes.com/2004/07/13/business/abercrombie-fitch-may-be-cool-but-cool-only-goes-so-far.html?Pagewanted=all&src=pm, accessed August 23, 2013.

going bankrupt in the late 1970s.⁴ The brand was then acquired by a Texas-based sporting goods company and reborn as a mainly mail-order specialty retailer. In 1988, the Ohio-based clothing company, The Limited, purchased the brand for \$47 million.⁵

By 1992, Abercrombie & Fitch had evolved from supplying safari clothes and supplies to the U.S. elite at the end of the nineteenth century to pleasing twenty-first-century teens with a particular “All-American” style of clothing.⁶ Jeffries, hired to lead the business in 1992, could take credit for this transformation — the development and success of the Abercrombie & Fitch label was the result of his vision for the company. When he assumed the role of CEO, Abercrombie & Fitch operated only 36 stores with annual revenue of roughly \$50 million; by 2013, under his leadership, the company had grown to operate more than 1,000 stores with annual revenue exceeding \$4.5 billion.⁷ Jeffries had overseen the launch of flagship stores in high value markets in Europe and Asia; he also developed complementary brands to reach other youth segments. The Abercrombie & Fitch brand had an undeniable global reach.

REPEATED LAWSUITS TELL A DIFFERENT STORY

Controversy was not uncommon at Abercrombie & Fitch. Typically, controversies fell into two categories: lawsuits regarding improper hiring and dismissal practices and lawsuits from consumer groups who believed that Abercrombie & Fitch had offensive product lines.

Numerous former employees had made accusations of racial and religious prejudice. Abercrombie & Fitch responded to the accusations by claiming to have hired an above industry average number of minorities and denied having improper hiring or management practices. Yet, accusations ranged from claims of wrongful dismissal for wearing a head scarf⁸ to job applicants who claimed they were told that they could not have a position due to quotas of their particular ethnicity already being filled.⁹ In 2004, Abercrombie & Fitch paid \$40 million to settle a class action lawsuit in which minority employees claimed that they were forced to work in the storeroom rather than on the shop floor so that they would not be seen by customers. Although Jeffries denied wrongdoing, some alleged that these issues were the result of systemic dysfunction linked to strict style guides that specified the classic “All-American” look that Jeffries prescribed.

A lawsuit filed by a former company pilot highlighted Jeffries’s bizarre attention for detail. Cabin staff on the company’s jet were required to adhere to a strict uniform and style guide and were instructed exactly how reading materials should be prepared, what snacks were to be served and even how beds were to be made and carpets vacuumed. In addition, there were specific instructions as to where Jeffries’s beloved dogs were to sit.¹⁰ Jeffries’s vigilance and precise requests carried over to his vision for his brand ambassadors, the people who wore his clothes, and his employees, whom he viewed as in-store models.

The numerous controversies and lawsuits that Abercrombie & Fitch had faced had result in financial settlements and legal fees, but they had not resonated strongly with its target market. Indeed, these

⁴ www.fundinguniverse.com/company-histories/abercrombie-fitch-co-history/, accessed August 23, 2013.

⁵ www.nytimes.com/2004/07/13/business/abercrombie-fitch-may-be-cool-but-cool-only-goes-so-far.html?pagewanted=all&src=pm, accessed August 23, 2013.

⁶ *Ibid.*

⁷ www.businessinsider.com/abercrombie-ceo-at-a-crossroads-2013-8#ixzz2bia9UFuF, accessed August 23, 2013.

⁸ <http://jezebel.com/5479980/american-beauty-a-brief-history-of-abercrombies-hiring-practices>, accessed August 23, 2013.

⁹ www.cbsnews.com/8301-18560_162-657604.html, accessed August 23, 2013.

¹⁰ www.nytimes.com/2012/10/20/business/suit-exposes-strict-manual-for-abercrombie-flight-crew.html?_r=0, accessed August 23, 2013.

controversies had little impact on brand equity, and many branding pundits had been quick to compliment Jeffries for his focus on and vision of his brand's personality.¹¹

SOCIAL MEDIA: NOT A “GOOD LOOK” FOR ABERCROMBIE & FITCH

On May 3, 2013, *Business Insider* posted an article mentioning that while Abercrombie & Fitch manufactured XL and XXL sizes for men, the company refused to manufacture clothes for plus size women. The article made reference to a 2006 interview with Jeffries in which the CEO covered a number of controversial topics about the company's perceived brand direction, image and strategy.¹² In this 2006 Salon.com interview (a quote from which prefaces this case), Jeffries stated that the company featured certain types of people “because good-looking people attract other good-looking people, and we want to market to cool, good-looking people. We don't market to anyone other than that.”

The response from consumers and the general public was swift. By May 9, his remarks had sparked outrage across the Internet. Social news and entertainment website Reddit posted multiple consumer responses to these resurfaced quotes.¹³ The commentary on Reddit was aggressive and insulting towards Jeffries, with numerous postings of photos mocking his appearance and ironically suggesting that he was not attractive enough to wear the brand himself. For instance, an unflattering picture depicting the CEO wearing an Abercrombie & Fitch garment was overlaid with the phrase: “If the CEO of Abercrombie and Fitch only wants attractive people wearing his brand . . . then he's going to have to go ahead and take off that sweater.” Another less kind version stated: “Wants only attractive people to shop in his stores. Looks hideous.” Similar photo creations poked fun at his looks by comparing him to Old Bif Tannen, a movie character who did not age well, and Rocky Dennis, a boy disfigured due to a rare genetic bone disorder.¹⁴ Abercrombie & Fitch did not respond.

Following the Reddit posts, an open letter entitled “Sizing Up Abercrombie — A Letter to Mike Jeffries” from Andrea Neuser, a mother of three, was published on *The Huffington Post* website. In her letter, Neuser wrote:

Your customer is an “attractive, all-American kid with a great attitude and lots of friends.” I am a mom of three daughters, ages 17, 13, and 10. They are all thin, attractive, all-American kids with great attitudes and lots of friends. They shop at Abercrombie. I believe they are your target audience Please find the enclosed clothing, purchased at our local Abercrombie/Abercrombie and Fitch stores. My thin, popular, cool kids will not need them anymore.¹⁵

On the same day, Change.org released a petition entitled “Abercrombie & Fitch CEO Mike Jeffries: Stop telling teens they aren't beautiful; make clothes for teens of all sizes!”¹⁶ Major news organizations began to take notice.¹⁷

¹¹ www.stealingshare.com/blog/index.php/the-temporary-slide-of-abercrombie-fitch/, accessed August 23, 2013.

¹² www.businessinsider.com/abercrombie-wants-thin-customers-2013-5, accessed August 23, 2013.

¹³ <http://knowyourmeme.com/memes/events/abercrombie-anti-plus-size-controversy>, accessed August 23, 2013.

¹⁴ www.uproxx.com/webculture/2013/05/abercrombie-and-fitch-ceo-mike-jeffries-vs-the-internet/, accessed August 23, 2013.

¹⁵ www.huffingtonpost.com/andrea-neuser/abercrombie-sizes-mike-jeffries_b_3247213.html, accessed August 23, 2013.

¹⁶ www.change.org/petitions/abercrombie-fitch-ceo-mike-jeffries-stop-telling-teens-they-aren-t-beautiful-make-clothes-for-teens-of-all-sizes, accessed August 23, 2013.

¹⁷ <http://abcnews.go.com/blogs/entertainment/2013/05/small-sizes-an-overweight-distraction-for-abercrombie-fitch/>, accessed August 23, 2013.

By May 13, 2013, there was still no response from Abercrombie & Fitch, and the momentum against the brand was still gaining. Greg Karber, James DeLorean and Daniel Lisi released a video entitled #FitchTheHomeless on YouTube.¹⁸ Karber conceived of the video as a means to protest Abercrombie & Fitch's refusal to make plus size women's clothing, determination to market to attractive people and alleged practice of burning damaged clothing rather than donating it to shelters. The video featured Karber searching for Abercrombie & Fitch clothes at a thrift shop, ridiculing the brand and its customer base, and then trying, in some cases with difficulty, to give Abercrombie & Fitch clothes away to the homeless. The message and purpose of the video were clear: Abercrombie & Fitch needed a brand image readjustment.

The video was an immediate hit, accumulating 4.3 million views in its first three days.¹⁹ In addition, mainstream media picked up the #FitchTheHomeless campaign; a morning show, "The Talk," featured a panel of women reflecting ethnic, racial, physical and age diversity, who debated the Abercrombie & Fitch controversy. Prominent African American comedian and actress Aisha Tyler pointed out the prejudice that exists in the United States against weight:

Weightism is the last bastion of discrimination in America. . . It is the last group of people that it is OK to discriminate against. . . Imagine if he said we don't want gay people to wear our clothes or we don't want black people to wear our clothes. We made our jeans so they don't fit big booties so black girls won't wear them.²⁰

The next day, actress Kirstie Alley, known for her engagement with the media and entertainment industry about her weight struggles, commented on "Entertainment Tonight":

This dude from Abercrombie & Fitch — he's the CEO — what a [expletive]! . . . He says . . . Abercrombie clothes are for people that are cool and who look a certain way and are beautiful and who are thin and blah, blah, blah. He goes on and on and on. That would make me never buy anything from Abercrombie even if I was cool and thin. I got two kids in that age bracket that will never walk in those doors because of his view of people.²¹

THE ABERCROMBIE & FITCH RESPONSE

The brand finally addressed the controversy on May 15. In a Facebook post, Jeffries stated:

I want to address some of my comments that have been circulating from a 2006 interview. While I believe this seven-year-old resurrected quote has been taken out of context, I sincerely regret that my choice of words was interpreted in a manner that has caused offense. A&F is an aspirational brand that, like most specialty apparel brands, targets its marketing at a particular segment of customers. However, we care about the broader communities in which we operate and are strongly committed to diversity and inclusion. We hire good people who share these values. We are completely opposed to any discrimination, bullying, derogatory characterizations or other anti-social behavior based on race, gender, body type or other individual characteristics.²²

¹⁸ www.youtube.com/watch?v=O95DBxnXiSo, accessed August 23, 2013.

¹⁹ <http://tech.fortune.cnn.com/2013/05/16/harsh-anti-bercrombie-video-goes-viral/>, accessed August 23, 2013.

²⁰ www.youtube.com/watch?v=YmWmhztQLLQ, accessed August 23, 2013.

²¹ www.etonline.com/news/134051_Kirstie_Alley_Blasts_Abercrombie_and_Fitch_CEO_Mike_Jeffries/index.html, accessed August 23, 2013; www.youtube.com/watch?v=ZkMLkOk2j3I, accessed August 23, 2013.

²² www.facebook.com/bercrombie/posts/10151345201895378, accessed August 23, 2013.

The response from Jeffries did little to assuage consumers or the media. Two days later, comedians Ellen DeGeneres and Jimmy Kimmel both addressed the controversy on their shows. DeGeneres's approach involved absorbing the Abercrombie & Fitch controversy into the larger issue of female body image. She reached out to her global audience by saying: "There is a size zero, which I don't understand. Zero is nothing. Now they have a double zero. There's a double zero! What are we aspiring to? 'Honey, do these jeans make my butt look invisible?' — Beauty isn't between a size zero and a size eight. It is not a number at all. It is not physical."²³

Kimmel released a spoof video with a strong, yet comedic, message. Mimicking the #FitchTheHomeless video and starring actor Jim O'Heir, the video depicts the plus-sized actor purchasing multiple Abercrombie & Fitch shirts and stapling them together to make a shirt that would fit him.²⁴

Angered by Abercrombie & Fitch's refusal to cater to plus size women, on May 19 the self-described "fat" blogger Jes "The Militant Baker" recreated print ads for the brand that featured herself and a hired male model with the tagline "Attractive & Fat." Both were topless in the spoof ads, which also mimicked the black-and-white style common to Abercrombie & Fitch.²⁵ In an open letter to Jeffries, she explained her motivation in making the video:

I'm sure you didn't intend for this to be the outcome, but in many ways you're kind of brilliant. Not only are you a marketing genius (brand exclusivity really is a profitable move), but you also accidentally created an opportunity to challenge our current social construct. My hope is that the combination of these contrasting bodies will someday be as ubiquitous as the socially accepted ideal.²⁶

Her response was emotive enough that she was later invited to speak about this issue on the "Today" show on NBC and was interviewed by CNN. She also challenged Jeffries to pose shirtless with a "fat chick."

ABERCROMBIE & FITCH: THE NEXT SEASON

Despite the humour injected by entertainers during their discussion of this controversy, this episode was no laughing matter for Abercrombie & Fitch. Sales at their stores plummeted due to the negative publicity and backlash.²⁷ The Forbes BrandIndex impression scores showed that Abercrombie & Fitch closed at an annual low, almost 40 points below its previous low that year (see Exhibit 1).²⁸

Almost three weeks after #FitchTheHomeless was released on YouTube, a team of executives and Abercrombie & Fitch critics gathered at company headquarters to discuss the crisis. Jeffries was noticeably absent from these meetings. At their conclusion, Abercrombie & Fitch released the following statement:

We look forward to continuing this dialogue and taking concrete steps to demonstrate our commitment to anti-bullying in addition to our ongoing support of diversity and inclusion. We

²³ www.youtube.com/watch?feature=player_embedded&v=5VRJRy9rnfE, accessed August 23, 2013.

²⁴ <https://www.youtube.com/watch?v=DZxw1vydvwI>, accessed August 23, 2013.

²⁵ www.themilitantbaker.com/2013/05/to-mike-jeffries-co-abcrombie-fitch.html, accessed August 23, 2013.

²⁶ *Ibid.*

²⁷ www.huffingtonpost.com/2013/05/24/abercrombie-sales-ceo-controversy_n_3332601.html, accessed August 23, 2013.

²⁸ www.forbes.com/sites/brandindex/2013/06/06/abercrombie-impression-with-young-adults-continues-to-fall-following-cool-kid-comments/, accessed August 23, 2013.

want to reiterate that we sincerely regret and apologize for any offense caused by comments we have made in the past which are contrary to these values.²⁹

Moving forward, Abercrombie & Fitch had a lot of decisions to make. What was the best way to demonstrate commitment to anti-bullying, to support inclusion and to hold true to their latest apology? How could the company restore its brand image without diluting its “All-American” heritage? Had Abercrombie & Fitch become a poster child for hatred towards unattainable beauty? Should they sell larger sized clothing? What would the “next season” bring?

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²⁹ www.huffingtonpost.com/2013/05/23/abercrombie-and-fitch-apology_n_3323668.html, accessed August 23, 2013.

EXHIBIT 1: FINANCIAL INFORMATION FOR ABERCROMBIE & FITCH ('000)

	2012	2011	2010	2009	2008
Net Sales	\$4,510,805	\$4,158,058	\$3,468,777	\$2,928,626	\$3,484,058
Gross Profit	\$2,816,709	\$2,550,224	\$2,217,429	\$1,883,598	\$2,331,095
Operating Income	\$374,233	\$221,384	\$237,180	\$117,912	\$498,262
Net Income from Continuing Operations	\$237,011	\$143,138	\$155,709	\$78,953	\$308,169
Income (Loss) from Discontinued Operations, Net of Tax	-	\$796	-	(\$78,699)	(\$35,914)
Net Income	\$237,011	\$143,934	\$155,709	\$254	\$272,255
Dividends Declared Per Share	\$0.70	\$0.70	\$0.70	\$0.70	\$0.70
Net Income Per Share from Continuing Operations					
Basic	\$2.89	\$1.65	\$1.77	\$0.90	\$3.55
Diluted	\$2.85	\$1.60	\$1.73	\$0.89	\$3.45
Net Income (Loss) Per Share from Discontinued Operations					
Basic	-	\$0.01	-	(\$0.90)	(\$0.41)
Diluted	-	\$0.01	-	(\$0.89)	(\$0.40)
Net Income Per Share					
Basic	\$2.89	\$1.66	\$1.77	\$0.00	\$3.14
Diluted	\$2.85	\$1.61	\$1.73	\$0.00	\$3.05
Basic Weighted-Average Shares Outstanding	\$81,940	\$86,848	\$88,061	\$87,874	\$86,816
Diluted Weighted-Average Shares Outstanding	\$83,175	\$89,537	\$89,851	\$88,609	\$89,291
Other Financial Information					
Total Assets (including discontinued operations)	\$2,987,401	\$3,117,032	\$2,994,022	\$2,821,866	\$2,848,181
Working Capital	\$617,023	\$858,248	\$927,024	\$776,311	\$622,213
Current Ratio	\$1.89	\$2.23	\$2.68	\$2.73	\$2.38
Net Cash Provided by Operating Activities	\$684,171	\$365,219	\$391,789	\$395,487	\$491,031
Capital Expenditures	\$339,862	\$318,598	\$160,935	\$175,472	\$367,602
Free Cash Flow	\$344,309	\$46,621	\$230,854	\$220,015	\$123,429
Borrowings	-	-	\$43,805	\$50,927	\$100,000
Leasehold Financing Obligations	\$63,942	\$57,851	\$24,761	\$20,286	\$5,881
Stockholders' Equity (including discontinued operations)	\$1,818,268	\$1,931,335	\$1,943,391	\$182,797	\$1,845,578
Return on Average Stockholders' Equity	13%	7%	8%	0%	16%
Comparable Sales	-1%	5%	7%	-23%	-13%
Net Store Sales Per Average Gross Square Foot	\$485	\$463	\$390	\$339	\$432
Stores at End of Year and Average Associates					
Total Number of Stores Open	1,051	1,045	1,069	1,096	1,097
Gross Square Feet	7,958	7,778	7,756	7,848	7,760
Average Number of Associates	95,800	91,000	83,000	83,000	96,200

Source: Abercrombie & Fitch Annual Report 2012.