The Children's Place Inc. in 2017

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Abstract

This manuscript is an illustrative case study that examined the opportunities and threats in 2017 of the retail chain Children's Place Inc. The goal of this case study is to walk the reader through a thorough strategic analysis of the firm allowing the reader determine if the firm is a good investment. The case includes a company overview and description (including but not limited to mission, goals, objectives and business strategy), an overview of the retail fashion industry, management, supply chain, growth strategies, top competitors and financial performance. Two analytical tools (Porter's Five Forces Analysis, SWOT Analysis) are applied to the case in order to develop a list of problems facing the firm as well as recommendations to address those problems.

Key Words: The Children's Place, Retail Fashion Industry, Case Analysis

1. Introduction

Traditional retail in 2017 had become an industry under siege. From rural strip-malls to Manhattan's avenues, it had been a disastrous two years for traditional storefront retailers. The retail fashion industry, led by Amazon and Alibaba, was dramatically changing, supported by technology enhancements including online shopping, data analytics, blue tooth supported advertising and self-service checkout stores. Faced with increasing online competition, brick-and-mortal stores struggled to generate traffic and maintain sales. The result of this industry in transition has been a series of closures amongst traditional retailers, both big box and specialty stores. The prognosticators claimed that the retail apocalypse had descended on America, where thousands of old-style retailers like Macy's, Bebe, Sport Authority, and Payless were closing or facing reduced revenues [6]. There had been nine major retail bankruptcies in 2017 with old mainstays such as K-Mart and Sears facing near extinction. Category killers Barnes and Noble and Toys-R-Us were closing numerous stores and were predicted to follow suite of their former competitor "Mom and Pop" store rivals. Furthermore, many new boutique fashion stores were entering the retailer fashion industry making pundits wonder if the increasing density of the market would eventually take down the big box companies; hence large retailers. Overall, it was a dismal time for big chain retailers.

Despite the successful growth of The Children's Place Inc. (PLCE), changes in the retail industry from new brick and mortar to online and click and mortar businesses had created difficulties for PLCE's survival, no less continued development and expansion. PLCE had been a very strong player in the children's clothing marketplace however in 2017 many investors questioned whether the firm could weather the storm created by the increasing number of both in-store and on-line competitors.

This case study will examine the situation of Children's Place Inc in 2017 and its environment with the end goal of having the reader determine if the firm is still a good investment. Is the firm falling into its historical period of adjustment just in order to turn quickly around or is this the start of the company's nightmare of needing to close many retail stores in order to survive.

2. Company Overview

The Children's Place, Inc. was founded in 1969 and is headquartered in Secaucus, New Jersey. The company operates as a children's specialty apparel retailer. The company engages in the provision of apparel, accessories and footwear for children. It also designs, contracts to manufacture and sell fashionable and value-priced merchandise, most that is under the proprietary The Children's Place, Place, and Baby Place brand names. It operates through two segments, The Children's Place U.S. and The Children's Place International. The Children's Place U.S. segment includes the company's U.S. and Puerto Rico based stores. The Children's Place Canada segment manages the Canadian based stores, the revenue from the Company's Canada wholesale business, as well as the revenue from international franchisees. As of June 19, 2017, the company operated 1,033 stores in the United States, Canada, and Puerto Rico; and 156 international points of distribution operated by its six franchise partners in 18 countries. It also sells its products through childrensplace.com, an online store. The company was formerly known as The Children's Place Retail Stores, Inc. and changed its name to The Children's Place, Inc. in June 2014 [1][4].

The Children's Place in 2017 was the largest pure-play children's specialty apparel retail in North America and it operated a chain of children's clothing stores across most of the United States, representing 85% of its total sales. Its products were designed for children ages newborn to 12 and its products are visually merchandised by size segment at the retail stores. Its merchandise is also available online at www.childrensplace.com. Its customers are able to shop online and receive the same merchandise available in the physical stores, in addition to merchandise that is exclusive to the e-commerce site.

The Children's Place became publicly traded on the Nasdaq Global Select Market in 1997. As of January 28, 2017, 1,039 stores were opened throughout North America as well as an online store. During Fiscal 2016, four stores were opened and 34 stores were closed. During Fiscal 2015, four stores were opened and 32 stores were closed. They continue to expand into international markets through territorial agreements with franchisees, and adding accounts into PLCE's wholesale business. In the competitive children's retail market, The Children's Place offers prices significantly lower than principal brand name competitors. Most of the chain's stores are in malls, with a mix of upscale and more down-market sites [5] [26].

3. Company Description

- **3.1. Mission.** PLCE's business mission is to build on its position as the largest pure-play children's specialty apparel retailer in North America in order to deliver long-term shareholder return by expanding its market share in North America, expanding internationally, and consistently delivering quality, value and fashion to our customers.
- **3.2. Goals.** Three main goals: (a) Being a growing specialty retailer of clothing and accessories for kids; (b) Provide customers a high-quality, focused merchandise selection at prices that represent a substantial value relative to competitors; (c) Being the largest pure-play children's specialty apparel retailer in North America.
- **3.3. Objectives.** Being a leader in the apparel retail market and delivering high quality, value priced, and trend right assortments for children. Providing assortment one stop shopping across apparel, footwear, accessories, and other items for children.
- **3.4. Geographic Reach.** The Children's Place possesses stores across the US and Canada. Its warehouse distribution centers are in the US (Alabama) and Canada (Ontario), while its product support locations are in China, Bangladesh, and India.
- **3.5. Business strategy.** PLCE procures high-quality merchandise at low cost, which enables the firm to maintain its gross margin levels while offering to their customers high-quality products at value prices. PLCE also offers: (1) high-quality products, (2) distinctive collection of coordinated and interchangeable outfits and accessories, (3) consistent merchandise presentation and an easy-to-shop store layout, (4) uses aspirational images in marketing visuals and (5) sells PLCE merchandise exclusively to PLCE stores.
- **3.6. Business segments.** The company divides its business into two segments: The Children's Place U.S. and The Children's Place International. The Children's Place U.S. segment includes deals with stores in U.S. and Puerto Rico. The Children's Place International segment includes deals with stores in Canada and some countries across the globe.

3.7. Business profit model. The monthly total sale done by each retail store should surpass the estimated total sale given by the corporation managers on a monthly basis. The monthly estimation of sales is based on the previous month performance of the same year and same month performance of past year. In addition, ensuring that every customer spends at least $10 per shopping experience.

3.8. Sales and Marketing. The company targets its best customers with direct mail to build its brand and loyalty. The Company's expenses for advertising has been decreasing in the past 5 years. The children's retailer spent $26.4 million on advertising in fiscal 2016 (ended January 2016), down from $27.9 million, $30.9 million and in fiscal years 2015 and 2014, respectively. As for deferred advertising, marketing, and promotional costs, which principally relate to advertisements that have not yet been exhibited or services that have not yet been received, were approximately $5.3 million and $3.9 million at January 28, 2017 and January 30, 2016, respectively, and were recorded within prepaid expenses and other current assets in the Company's consolidated balance sheets [4].

3.9. Operations. The company operates in two primary geographic segments: US, which accounts for about 85% of revenue, and International, which accounts for the rest. Online sales represents an increasingly important part of revenue. Online sales have more than doubled since 2009 and represented 16% of total revenue in fiscal 2015 (ended January). In addition, private-label credit card sales brought in 10% of revenue. The company sources its merchandise from about 105 independent garment manufacturers in Greater Asia. China represented about 34% of total goods purchased in FY2015, followed by Bangladesh (20%), Vietnam (15%), and Indonesia (8%).

3.10. Tactics [26][1]**.** PLCE's strives to achieve their objectives through their Merchandising Tactics and Merchandising Processes. As for Merchandising Tactics, these involve High Quality and Value Pricing (value strategy), Brand Image and Low-Cost Global Sourcing. As for Merchandising Processes, these involve Design, Merchandising and Planning and Allocation. The Children's Place has been shuffling its portfolio of stores, shuttering less-desirable locations while opening new locations to improve profitability. The retailer closed some 70 stores in 2013 and 2014, and planned in 2015 to close 200 more locations through 2017.

3.11. International. PLCE has also been expanding its international presence of franchised stores, particularly in the Middle East (including in its key market of Israel). As for next set of upcoming stores, they are going to be located in Asia thanks to the agreement with Gill Capital [9]. In 2015, The Children's Place announced a franchise agreement with Arvind Lifestyle Brand Limited with the potential to open up to 50 stores in India during the year. In mid-2014, The Children's Place collaborated with Grupo David to expand into Latin America and the Caribbean, with an expected 35 to 40 stores planned over the next few years.

3.12. Merchandising. The Children's Place Inc.'s merchandising strategy is to offer a compelling mixture of clothing, shoes, and accessories that are fun and easy to put together. The company is continuing to invest in its fast growing online business and is sharpening its marketing message. Its tagline -- "Big Fashion, Little Prices" -- stresses its value-priced, high quality, high fashion offering.

4. Children's Place Inc. and The Retail Fashion Industry

4.1. Baby Durable: Slow, but positive growth projected through 2020. Projected average annual growth rate of less than 1% from 2016-20. Renewed optimism helps support the market: For the first time since 2007, birth rates turned positive in 2014.

4.2. Macroeconomic Analysis. -<u>Key Economic Drivers</u>: Number of Births in the U.S. and Mean age of mother at time of First Birth. Women are having children later in life: The mean age of mothers at first birth was at an all-time high in 2014 at 26.3. This could bode well for the market if these women are at more financially stable points in their careers and lives; they could have more disposable income and be targets for higher-end products. Therefore, demand will rise as Americans begin to feel financially secure enough to have children.

4.3. Demographic Changes. This is a main factor for PLCE since demographic shifts can greatly affect the size of a clothing store's customer base. Based on National Center for Health Statistics (CDC), the number of births in 2015 was 3,978,497, representing a birth rate of 12.4 per 1,000 population [12]. Generally, from 2010 to 2020, the population of the US is expected to grow 10%. The population of adults between the ages of 25 and 44 is expected to increase by 8%, and the population between 45 and 64 is expected to increase by 4%. Meanwhile, the population age 65 and older is forecasted to grow 36%. People 65 and older spend about half as much on apparel and services as those under 35 [11].

4.4. Department Store Competition Decreases. Many people prefer to purchase online instead of going to a physical store for the lack of time and the free return policy. *The Children's Place:* The children's clothing retailer closed 125 stores in 2016 and plans to close 200 more in 2017. It operates about 1,000 stores throughout the U.S. Overall, fewer shoppers buy at department stores: clothing store sales increased 29% between 2005 and 2015, while sales at conventional department stores fell 31% [11]. Specialty clothing retailers have stolen sales from department stores with lower prices, or more unique merchandise and better service. Despite tough competition from a variety of retailers, including a growing number of off-price chains and formats; department stores continue to focus on apparel and fashion-related merchandise to drive sales.

4.5. International Chains Entering US. The reason many new retailers are opening in the U.S.A. is that this market is considered as very strong. Attracted by the world's largest consumer market and leveraging the weak dollar, foreign chains are expanding into the US. Most of the expansion comes from mid-priced chains, such as Sweden's Hennes & Mauritz AB, Canada's lululemon athletica, Japan's Uniqlo, and Spain's Zara and Mango. Favorable lease terms due to high vacancy rates in malls and contraction by many US clothing chains have also made the US an attractive target market for foreign chains. Although the US apparel industry is a $12 billion business, the average American family spent about $1,700 on clothes in 2017 according to the Bureau of Labor Statistics. This is actually down from the past few years. In 2008, the average American spent $1,801 while in 2009 the average amount spent fell to $1,725 [13].

4.6. Shifting Point-of-Sale. Living in a tech-world, a device is expected and crucial to manage all data collected and to stay connected to both suppliers and customers. In 2017, many retail stores are using mobile checkout with devices to avoid a long line at the register as sales staff can check out a customer's purchase anywhere in the store. As for PLCE's retail store, it keeps operating "the old fashion way" by using IBM computer registers, VeriFone pin pads for debit and credit transactions, PDT scanning guns for scanning store's products/merchandises, and Portal software to automatize and organize complex activities and interactions like controlling of sales, inventory, schedules, payments, and so on [15].

4.7. Attracting Teenage Shoppers. In the overall children clothing industry, clothing stores aimed at the teenage market have been struggling to find their place, as teens increasingly spend their limited budgets on items like smartphones and video game consoles. Discount clothing stores, online options, and fast fashion retailers have won over many teenage shoppers with low prices on trendy fashions. Lower prices have become more important during a period of high teenage unemployment, which topped 15% among 16- to 19-year-olds in 2015. As for PLCE's case, it still seems to be favorable since the number of newborns continue to grow with a birth rate of 12.4 per 1,000 population [12]. Teen pregnancy (15-19 years) trends are rising at a rate of 24.2 births per 1,000 population. In reaction to these changing demographics, the designer team of PLCE has incorporated the taste of these younger moms. This strategy is also applicable for mothers in their 40s years; they represent 30% of the pregnancy population.

5. Management

PLCE's management team and board remain focused on improving the performance of the business and maximizing long-term shareholder value. The CEO, Jane T. Elfers, has proved that their current strategic initiatives has driving the firm to increase its sales and profitability from The Children's Place in 2011 and beyond. Ms. Elfers is aware that PLCE is very well positioned to grow market share given their strong brand and value proposition.

5.1. Jane T. Elfers – CEO. 55-year-old. Total Calculated Compensation of $15,691,170 as of Fiscal Year 2016 [1]. Ms. Elfers became the President and Chief Executive Officer of PLCE in January 2010. She settled PLCE'S strategic vision as a leading global, omni-channel children's apparel brand, and developed the four key strategic growth initiatives-superior product, business transformation through technology, global growth through channel expansion and optimization of our store fleet [15]. Ms. Elfers is an optimistic and transformational leader who has led the successful company-wide, multi-year transformation by assembling, motivating and leading a best-in-class management team with her optimistic thinking. She also has delivered the firm transformative results by fostering a culture of operational excellence (Based on Bass 1985 – Wright 1996) [14]. Ms. Elfers formerly served as President and Chief Executive Officer of Lord & Taylor from May 2002 to September 2008. She also serves as a Trustee at Bucknell University. Ms. Elfers served as a Director of The Partnership For New York City, Inc. Ms. Elfers earned a Bachelor of Science degree in Business Administration from Bucknell University [1].

5.2. Michael Scarpa – COO. 60-year-old. Total Calculated Compensation of $4,936,502 as of Fiscal Year 2016 [1]. Mr. Michael Scarpa, also known as Mike, has been Executive Vice President of The Children's Place Retail Stores, Inc. since December 3, 2012 and its Chief Operating Officer since April 24, 2013. Prior, Mr. Scarpa served as the Chief Financial Officer, Principal Accounting Officer and Treasurer of The Talbots Inc. He has managed more than three firms. He is responsible for Supply Chain, Information Technology, Inventory Management and Strategic Planning. He has over 30 years of operational and financial expertise in the specialty retail and apparel sector. He is a Certified Public Accountant. Mr. Scarpa holds a B.A. and an M.B.A. from Rutgers University.

5.3. John J. Sullivan – CTO. 60-year-old. John J. Sullivan, Ph.D. was promoted to the position of Chief Executive Officer and President, and appointed to the Board of Directors, in March 2009. Dr. Sullivan joined PLCE in October 2004 in the role of Vice President of Sales and Marketing, and was promoted to the positions of President and Chief Operating Officer in 2006. Overall, Dr. Sullivan served in various capacities in Research and Development, Sales and Marketing Management, Business Development, and Laboratory as Analytical Chemist. Dr. Sullivan received his Bachelor of Science degree in Biology from Western Washington University in 1976 and a Ph.D. degree in Food Science from the University of Washington in 1982.

6. Supply Chain

PLCE's products are highly complex, typically containing multiple components from many direct suppliers. PLCE has relationships with a vast network of suppliers throughout the world (like Bangladesh (20%), Vietnam (15%), Indonesia (8%), and more) and there are generally multiple tiers between the 3TG mines and its direct suppliers. Two contract are adopted by PLCE: Conflict minerals policy and Supplier contract form policy are being adopted by PLCE and they are described at the following respective websites: http://www.childrensplace.com/webapp/wcs/stores/servlet/en /usstore/content/socialresponsibility and www.reportlineweb.com/thechildrensplace [7] and these policies are filed with the SEC. These two policies, Conflict minerals and Supplier contract will help PLCE to be at top of every raw material that PLCE is going to purchase and to facilitating the disclosure and communication of information regarding smelters and refiners that provide material to a manufacturer's supply chain. In addition, since PLCE's suppliers are 100% international,

The Company is in the process of optimizing our global supply chain to ensure that they are able to source high quality value merchandise, and distribute it quickly and efficiently to each channel. The four key growth initiatives or key supply chain initiatives, coupled with disciplined expense management, improving store operations, and our Finance, Compliance, Legal and Human Resources areas, form the strong base necessary to support our long-term growth initiatives.

7. Growth Strategies

Realizing the benefits of a company-wide, multi-year business transformation focused on a four-pillar strategy. PLCE counts with four key strategic initiatives that helps it to build upon a strong foundation of operational excellence driven by an experienced and talented management team. These four initiatives boost PLCE's sales and margin growth in the last few years as the following highlights [1]:

7.1. Superior Product. Highly talented design, merchandising and sourcing teams are core strengths, delivering a superior product offering. As result, improvement or achievement we have:

- Consistently strong customer response to product offering
- Continue to significantly differentiate and upgrade the look of our merchandise
- Trend-right and age-appropriate assortments, increasing reach with extended sizes
- Strive to have the right product, in the right channels of distribution, at the right time
- Balancing fashion and fashion basics with more frequent, wear now deliveries
- A full line of accessories and footwear so busy moms can quickly and easily put together head-to-toe outfits

7.2. Business Transformation through Technology. Technology enhancements with focused execution in the areas of Digital, Customer Engagement, Inventory Management, and Alternate Channels of Distribution are driving significant improvement in operating performance, with significant runway still ahead. As result, improvement or achievement we have:

Table 1. Technology Enhancements at The Children's Place 2014-2017

	2014	2015	2016	2017
Foundational	• SAP ERP Deployed • Global Supplier Portal			
Digital	• Ecommerce RePlatform • Mobile Launch	• Digital Order Management • Organic Search Enhancements • E-Receipt Launch	• Re-launched Loyalty Program • Launched New Private Label Credit Card	*Personalized Customer Contact Strategy:* • Customer Insights • Customer Strategy • Digital Delivery – Digital Architecture Upgrades and Omni-Channel Initiatives
Inventory Management	• Assortment Planning	• Allocation & Replenishment	• Order Planning & Forecasting • Size & Pack Optimization • Store Tiering	• Order Planning & Forecasting • Size & Pack Optimization • Store Tiering
Channel Expansion		• EDI for Wholesale • Product Development Enhancements	• Launched Amazon Replenishment • Entered China via Tmall • Developed Global UPC	

7.3. Growth through Alternate Channels of Distribution.

The firm is a Global Omni-Channel Retailer, with 157 international points of distribution (including Tmall) in 19 countries at the end of Q1 2017 outside U.S./Canada, consisting of brick and mortar stores, shop-in shops and e-commerce.

Table 2: The Children's Place Increased Channels of Distribution

North American E-Commerce	International	Wholesale
• Nearly 20% of total sales in fiscal 2016 • Enhancing end-to-end user experience • Mobile application enhancements • Investing in digital architecture and capabilities	• Operating in 19 countries through 6 franchise partners and Tmall in China • Stores, shop in shops and ecommerce launched in key markets • Focused on large markets with favorable demographics (India, China and Mexico) • Currently online in India and China • Added 6 points of distribution in Q1 2017, resulting in 157 points of distribution (including Tmall) at the end of Q1 2017	• Launched replenishment program with Amazon in addition to existing wholesale business • Focus on the growing off-price and club channels

Table 3: The Children's Place Increased Global Presence

2012	2013	2014	2015	2016
Oman Saudi Arabia UAE	Bahrain Qatar	Egypt Israel Kuwait Panama	Dominican Republic Georgia Guatemala India Kazakhstan Mexico Venezuela	China Costa Rica Curaçao

7.4. Fleet Optimization. This initiative is to improve store productivity by providing a constant evaluation of The Children's Place's store fleet. Targeting 200 basis points of operating margin accretion from 2013 through 2020. As result, improvement or achievement we have:

- 149 stores closed in the period 2013 through Q1 2017, with a target of a minimum of 300 closures by 2020
- Realization of more than 20 percent sales transfer rate to nearby stores and e-commerce business in the first 12 months after closure
- Average of 300 lease renewals annually over the next 4 years
- Average lease term of less than 3 years and reduced occupancy cost on renewals

8. Top Competitors

PLCE's top competitors include Target, The Gap, and Gymboree. [6] Based on an analysis done with the software Hoover's Online [6], a comparative landscape with table and graph was constructed below to analyze Children's Place among its biggest competitors.

9. Financial Performance

Shares of The Children's Place, Inc. (PLCE) surged dramatically in November 2016, rising 37 percent during the month following a strong earnings report. The stock climbed again in March 2017, with another batch of results sending shares 23 percent higher to $121. This marked 51 percent appreciation over a 12 month period. This rapid ascent has been driven by improving fundamentals and rising valuation, which can complicate matters for shareholders and prospective buyers.

Children's Place exceeded analyst expectations and management guidance in each quarter of fiscal 2016. After three straight years of revenue contraction, Children's Place reversed the trend and grew revenue 3.45 percent in fiscal 2016. The company is beating expectations on strong comparable-store sales, which grew 4.6 percent for the third quarter of fiscal 2016 and 6.9 percent for the fourth quarter.

Children's Place delivered gross margin of 37.6 percent in fiscal 2016, the highest level since 2012. Operating margin climbed three full percentage points to 8.26 percent, which was its best result of the decade. This was aided by lower selling, general and administrative expenses, which more than offset a $4 billion asset impairment charge. Rising revenue and falling expenses propelled Children's Place earnings per share (EPS) to levels unseen in the preceding decade.

The company also displayed impressive efficiency metrics. Asset turnover reached its highest level since 2012 at 1.97, as did inventory turnover at 4.01. Financial health metrics do not raise any red flags. Children's Place had a current ratio of 1.86, which was a decade low but still suggests sufficiently high liquidity to assuage concerns. A quick ratio of 0.81 follows a similar trend, but that's a sound enough ratio for a business with high inventory turnover. Financial leverage was high relative to recent years, but this was also well within the responsibly manageable zone

Children's Place indicated a strong outlook by issuing EPS guidance at $6.50 to $6.65, well above previous analyst expectations. The company also announced that it would be doubling the dividend in 2017, moving the quarterly payout to $0.40 per share. Fundamental results and outlook for Childern's Place are almost universally positive. However, the company will be faced with the same headwinds and disruptions as every other retailer, so investors should be vigilant when monitoring valuation.

10. Five Forces Model of Analysis (scores are out of 100).

Porter's five forces model is an analysis tool that uses five industry forces to determine the intensity of competition in an industry and its profitability level [16].

10.1. Bargaining Power of Supplier: (44/100). The supply of materials is something that PLCE is going to keep a close watch on in the foreseeable future. Raw materials prices such as cotton and polyester have been increasing and continue to increase forcing PLCE to increase prices and reduce the premium production. PLCE believes that the current sourcing arrangements are sufficient to meet the current operating requirements and provide capacity for growth. PLCE currently sources substantially all of their products through foreign production arrangements. PLCE's dependence on foreign supply sources could result in disruptions to operations in the event of political instability, unfavorable economic conditions, international events, or new foreign regulations. Such disruptions may increase the cost of goods sold and decrease gross profit for PLCE.

10.2. Threat of New Competition/Entrants: (55/100). There are relatively few barriers to entry for an apparel retailer. Year to date, shares of Children's Place (PLCE) are up 15%. PLCE brands compete in the $22 billion children's apparel market, for children sizes newborn to seven. With so many competitors already, new competitors enter and exit the market daily with little to no effect on PLCE. In the baby and young children's apparel market, competition is generally based upon product quality, brand name recognition, price, selection, service, and convenience. PLCE feels that they have a comfortable competitive advantage over small start-up manufacturers who do not have the quality, brand name recognition, price, selection, or convenience that PLCE's brands can provide.

10.3. Threat of Substitutes: (42/100). PLCE competes with other young children's clothing retailers in a market with no real substitutes. There are no substitutes for clothing so it is difficult to find substitutes for PLCE's products. Companies compete for customers based on style, price, and brand but consumers do not have many options beyond these factors.

10.4. Rivalry among Competitors: (50/100). PLCE's primary competitors in the wholesale and mass channels include Target, Gerber, and private label product offerings. In the retail store channel, the primary competitors include Old Navy, The Gap, and Gymboree. Most retailers, including PLCE's customers, have significant private label product offerings that compete with the PLCE products. PLCE also competes with many small manufacturers and retailers. PLCE is positioned well in the industry due to their distinguish product offerings and operational expertise. PLCE is confident that its strength will position itself well against its competitors going forward.

10.5. Bargaining Power of Customers: (57/100). The customers in the children's apparel space do not have a considerable amount of power over demand. This is partially due to the necessity to be clothed. Consumers' demand for young children's apparel is impacted by the overall level of consumer spending. Discretionary consumer spending is impacted by employment levels, gasoline and utility costs, business conditions, availability of consumer credit, tax rates, interest rates, levels of consumer debt, and overall levels of consumer confidence. These recent reductions in the level of discretionary spending may have an adverse effect on the Company's sales and results of operations.

11. SWOT Analysis

11.1. Strengths. Children's Place Inc. has many strengths that separate it from its competitors. One of the greatest strengths of PLCE is its four key initiatives strategy that have strengthened PLCE's management and has driven the increment of the firm's sales and profits, boosting quarterly dividend payout [10]. As second remarkable strength we have that PLCE is the largest pure-play children's specialty apparel retail in North America (ahead of Gymboree) with a market capitalization of 1.68B [1]. PLCE has also built a strong relationship with leading and specialized sourcing agents in Asia and South America, which now 25 PLCE stores are expected to open in these two continents. This allows PLCE's to source materials quickly and will help the company meet operating requirements and provide capacity for growth in the future [9].

11.2. Weaknesses. PLCE has a complex supply chain that has made difficult to the firm to track and connect globally with its suppliers and to control all large data received from its customers. PLCE is still searching for the right software that can connect and organize all information among supplier, customer, and employees. PLCE presents many risks in its annual report, which involves managing big data, disclosing the component utilized by foreign suppliers (3TG), fluctuation in the foreign value of exchange and raw material cost, managing retail stores, unable to anticipate and respond to merchandise trends, and so on.

PLCE's materials are sourced from overseas it is not hard to see how a fluctuation in the value of exchange rates could expose PLCE's to significant down side. Finally, PLCE's is highly exposed to fluctuations in the price of cotton [7]. During the fiscal year 2016, 35% of cost of goods sold (COGS industry average) consisted of expenses due to cotton prices, this is quite high as the is between 20 and 30 percent [6]. As for PLCE retail stores, there are several issues in their logistic strategy and I strongly believe that the lack of personnel in each store is the main factor of the sale reduction in retailers, causing delays in services and increment in number of complaints.

11.3. Opportunity. **-** PLCE started to implement a software named Management Dynamics' Private Supply Chain Network as its latest leading edge technology. This new source materials network will allow the firm's team and management to connect with its suppliers, to organize its database and to cheaply source a vast amount of materials with short notice [8]. With the recent partnership with Gill Capital, PLCE is likely to enhance its offerings with great fashion and quality, alongside maximizing its customers' value, expecting to boost its revenue at least at 15% up [9]. Moreover, the potential growth of PLCE clothing lines, fashion retail industry, and oversees partnership would has a positive impact on PLCE's future revenue since it can continue selling its license agreements to oversees retailers as well.

11.4. Threats. - The main threat to PLCE'S is its competitors. The baby and young children's clothing market is highly competitive, based generally on product quality, price, selection, convenience, and service. Although PLCE's currently the largest pure-play children's specialty apparel retail in North America, it is easy to see how a competitor with similar quality products, cost leadership, differentiation strategy, and a high level of customer service could enter the market and take market share from PLCE's. In addition to competition and threat of new entrance, PLCE's also faces the threat rising shipping costs and raw material than can significantly cut into profitability and final merchandise. This could adversely affect the dominance of the baby and young children's clothing market by taking away PLCE's differential strategy.

12. Problems in Corporate Headquarters and Retail Stores

12.1. High competition. - PLCE competes with regional retail chains, catalog companies and Internet retailers. One or more of PLCE competitors are present in substantially all of the areas in which they have stores. Internet only retailers generally do not incur the geographical limitations suffered by traditional brick and mortar stores, giving internet only retailers a competitive advantage to and imposing significant pricing pressure on brick and mortar stores. In addition, PLCE e-commerce store may divert sales from their brick and mortar stores, cannibalizing sales results at their brick and mortar stores. Many of PLCE competitors are larger than they are and have access to significantly greater financial, marketing and other resources than they have [1].

12.2. Demography and marketing plan. **-** Increased competition, declining birth rates, increased promotional activity and continuing economic pressure on value seeking consumers could also materially adversely impact PLCE ability to compete successfully. This settled to PLCE into an uncomfortable situation and under a significant pressure due to high competition in the retail industry. Also, as many retailers, this means that if PLCE can't keep up-to-date with the clothing and retail industry, PLCE may not be able to continue to compete successfully against existing or future competition [1].

12.3. Management of Big Data. - PLCE presented the issue of material disruption in, failure of, or inability to upgrade, our information technology systems. PLCE relies heavily on various information systems to manage their complex operations, including their online business, management of their global supply chain, merchandise assortment planning, inventory allocation and replenishment, order management, distribution and shipping activities, point-of-sale processing in our stores, gift cards, our private label credit card, our customer loyalty program, and various other processes and transactions. Moreover, it is important that PLCE find a way to secure it data collected and protect customers' data. Otherwise, legal issue may be counter.

12.4. Supply Chain. – PLCE purchases its products internationally and from unaffiliated manufacturers; therefore, its business is subject to risks associated with international business, the lack of control of independent manufacturers and reliance on imported products. Virtually all PLCE's merchandise is purchased from foreign suppliers (100% oversees). This implies that PLCE is subject to various risks of doing business in foreign markets (including from less stable and/or less developed countries) such as: foreign value exchange, long lead time production, high cost in shipping, more time invested in finding the right supplier (the lowest budged), more contracts and policies are needed, and so on. In addition, it is very important to point out how the constant price rising in raw material can affect the production and merchandise of PLCE.

12.5. Closure of many PLCE's store. - The continue closing of many retail stores of PLCE due to the Fleet Optimization strategy has given the impression to investors and loyal customers that the firm has become weaker. Closing around 300 stores with the fleet optimization strategy has demonstrated that many stores are not generating enough revenues as many people think, causing, in turn, unemployment. Also, it's not all about closing stores because new stores will be open again but in different location. However, I believe that the time and cost invested in settling the new stores and hiring personnel can be used it to do a better research of the next new localization. Also, according to the store manager Deinar Grajales, these feet strategy not only determine the productivity of a retail store but also is a strategy to achieve a better lease offer.

12.6. The budget. **-** This is definitely a factor to retailers because as the economy slows, retailers are racing to be on trend and first to market. The Children's Place Inc., as many retailers, strives to be on budget, which can be compromised by escalating fuel costs and a growing list of government mandates regarding international production and product movement. In addition, this factor is strongly affecting the management in retailer stores because the given budget to cover and manage the payroll and store's activities is not enough to hire more people, to offer training, and to pay extra hours. Therefore, manager does not have time to train his or her employees, 90% of the employees are new, and the average tenure of employees is 3 months, lack engagement from employees, unprepared or inadequate stuff, and so on.

12.7. PLCE Store layout. - PLCE's stores are usually small and located is crowed environment among its competitors. As observed in several stores and commented by several store's managers and employees, store's layout and items are messy almost all the time. The store's space is very smaller for the quantity received in merchandises. There are not enough personnel to perform the daily tasks assigned and to attend customers simultaneously. All product lines on floor are very close to each other. The loss or damage of store's items are mainly accessories and this fact is contributing to the reduction of the store's revenue and the inaccuracy in its inventory. The store's warehouse is disorganized. Sometimes customers take items from the received box located in the floor that are ready to put it on visibility. There are more accessories than newborn clothes.

13. Recommendations

As for **High competition issue,** besides continuing with PLCE's merchandising strategy of built on offering a collection of interchangeable outfits and accessories to create a coordinated look distinctive to The Children's Place, it is recommended that management evaluate which of the firm's product lines should be discarded and what lines should be reinforced. Positive result should be achieved from the assessment of each store's profitability through a fleet optimization strategy. Moreover, after studying several PLCE stores and discussing with few stores' managers, it was realized that the accessory lines (like glasses, hats, bracelets and hooks) are redundant at the store while newborn clothing offerings seem limited. This problem should not had occurred since newborn clothing is their main product line.

Another way to address this issue is Expanding Internet Channel [10]. Some large retailers have been successful with clothing sales over the internet, but results have been best for standard items that customers are already familiar with and specialty items that customers are not likely to find in local stores. Although internet operations can be expensive for companies with just one or two stores, most companies can use internet sites to show merchandise and dispense coupons to draw store traffic. Accessories, such as costume jewelry and watches, tend to sell better online because size and fit are less of an issue. Retailers are working to improve communication between online sites and store locations to best serve customers. In addition, PLCE can broad or complement its product lines to sell more goods to existing customers. For example, School uniform line. By expanding this line, it guarantees increment in PLCE’s revenue during school season because PLCE brand is well known and this line is very demanding beginning of school season.

As for **demography and marketing planning issues,** it is recommended to PLACE to start expanding its lines to an age range of 15 years-old so the target market can be broader as well. It is true that by doing this, we are altering the basic principle of PLCE by producing clotting from 13-15 years-old. Yet, PLCE will reminds the same except for the extra sizes that will be added into the firm strategy. No obstante, introducing Plus-Size Apparel is another great idea since this will break any discrimination feeling by the customer during the shopping experience. Moreover, demand for plus-size apparel is growing annually reaching out 17% of the fashion market in 2016, driven by the American consumer's ongoing struggle with weight [8][9]. The average women's apparel size is 14, the entry point for plus-sizes. Almost two thirds of Americans are either overweight or obese, according to the Centers for Disease Control and Prevention. Many plus-size consumers cite lack of fashion forward garments and poor customer service as common problems when shopping for clothes. To reach out this Plus population and let people know about the new sizes added (14 specially) is available now at store and online. It is highly recommended to update PLCE's website by putting a plus kid in the front or home page so that every customer who enter to the page can see it right away. As for store, it is recommended to put big banner in the store entrance and tell employees to let visitors know about the availability of these new sizes.

As for a **loyalty plan**, encouraging customer to become a member of PLCE AWARD (Frequent Shopper Programs) by offering extra discount to their purchases. This strategy will help improve the loyalty of notoriously fickle shoppers; many clothing stores reward frequent shoppers, typically through discounts or free merchandise. Some companies give loyalty program members access to special events, such as exclusive previews of new merchandise, concerts, or festivals. Frequent shopper programs have the added benefit of allowing stores to gather information about shoppers that can be used for direct mail or telemarketing campaigns. Companies may solicit feedback on customer service from loyalty program members.

As for **Management of Big Data** it is recommend that, besides finding the proper software that better fits he PLCE's current system, that providing training on the technology of data science will help prepare the employee to understand the analysis of the large data collected. This procedure then is not only about getting software that connects the full supply chain system but also to understand what's going on by analysis of the gathered data and extract important analysis. As second recommendation is the implementation of a unique or general software for all PLCE stores - some stores use different business models and utilize different retail software. The last recommendation is finding a security software that protects the large data collected, especially to protect customers’ data.

As of 2017, PLCE is testing its latest leading edge technology named Management Dynamics' Private Supply Chain Network. This global software is supposed to solve and connect the supply chain issue that PLCE has been trying to solve for years.

By utilizing this software, PLCE expects to be and to keep up with ever-changing fashions. Retailers need to collaborate more closely with their suppliers and integrate their supply chains from source to store – this software will assist in this enterprise. At the same time, it is expecting that PLCE's analysts will learn how to use the software and understand the complex information that the software with gather and yield. Now, finding a good protector software will be the next step. It could be by starting with the top Security Suites of 2017 like Bitdefender, ESET, F-Secure, Kaspersky Lab, McAfee, Norton, Panda Security and Trend Micro [20].

As for **Supply Chain issue**, PLCE offers a disclosure contract with every vendor or supplier in order to know where and what component each supplier uses to produce the final merchandise. In addition, it is highly recommend including in the supplier contract a standard price for a specific raw material and for specific period, protecting the firm from volatile changes in the raw material price under any undesirable and unexpected economic situation.

As for the **closure of many PLCE's stores** due to the Fleet Optimization strategy, it is recommended to do deeper marketing research especially in localization before opening another store in a new location. It takes time and money settling a new local and doing this poorly will produce a weaker PLCE image. Based on Deinar Grajales, the 2017 PLCE's manager in Atlantic Ave, NY, one of the reasons for the large number of store closures is due to the lease arrangements. Mr. Grajales revealed that their lease strategy is signing a lease for short period so that when it is time to renew the lease, PLCE's management will bargain to obtain a lower lease price – otherwise they close the store. In addition, this strategy is viewed by some as a moving local strategy to catch different populations in different areas. In addition, it is recommendable to implement a Six Sigma strategy because Six Sigma is a disciplined, data-driven approach and methodology for eliminating defects (driving toward six standard deviations between the mean and the nearest specification limit) in any process – from manufacturing to transactional and from product to service. According to Jack Welch, six sigma is a quality program that improves customers' experience, lowers costs, and builds better leaders, [23].

As for the **budget issue,** it is going to be challenging to increase the operating budget to each retailer store. It is necessary to do so because the level of work that each worker and store manager is doing is very high for a low payment – that is why employee turnover is high in retail operations. Management should understand that this is not a "trivial" issue since quality service is causing the reduction of sales/revenue for retailers. If the employee is not happy with what they are doing and how much they are earning, this will have an adverse impact since this negativity is projected to the consumers.

It is important to see the relationship between employee satisfaction and customer satisfaction. Some investigations have provided explicit measures of this relationship. For example, a study at Sears Roebuck & Co. showed that a five-point improvement in employee attitudes led to a 1.3 rise in customer satisfaction that, in turn, generated a 0.5 increase in revenues. Brooks (2000) reviewed the relationship between financial success and customer and employee variables (e.g., customer satisfaction, employee satisfaction, etc.) and found that, depending on market segment and industry, between 40 and 80 percent of customer satisfaction and customer loyalty was accounted for by the relationship between employee attitudes and customer-related variables. Similarly, Vilares and Cohelo (2000) found that perceived employee satisfaction, perceived employee loyalty, and perceived employee commitment had a sizable impact on perceived product quality and on perceived service quality. [21]

Given **PLCE Store layout,** it is recommended to not distribute all received items on the floor since the store is very small. Prioritize the most needed received items and put them on the floor first. Leave the rest of the boxes in the inventory room and take it out when it is needed or have enough space for it on the floor. Distribute the shelves in a way that people can see the items and can walk through an aisle because this will avoid the lost and damages of items. This issue seems trivial but according to a case study store layout an important variable for retailers. [22] A store layout and its product distribution is crucial to boost retailers' revenue because a layout is the presentation of the products to customers and this sets the products differentiation from the rest of the store's products in term of quality, price and promotion, boosting their selling. A very basic suggestion is to never place open received boxes on the floor: customers may take items from the boxes and may alter the inventory system; open boxes detract from the store's appearance.

14. Conclusions

Children's Place has performed exceptionally well in a weak environment, with positive financial results. The stock has become expensive though as investors flood to positive results in a struggling industry. Bull and bear cases can easily be made, but investors should understand what they are implicitly predicting based on their buy or sell actions, and those decisions should reflect risk tolerance.

The Children’s Place has a growing partnership with franchises and Gill Capital and that is presumably going to lead to development and expansion. The Middle East has countries that are developing at a fast rate offering expansion opportunities. Closing stores and developing new ones where they would make more sales will also give the company more customer data for the future.

Even though the stock is up 75% in the last 12 months, it is projected that Children's Place stock has not reached its pinnacle [25]. Children's Place has staged an impressive turnaround. The company has closed stores and pushed toward a double-digit operating margin. In fiscal 2014, the company had an adjusted operating margin of just 5.6%. PLCE ended fiscal 2016 with an operating margin of 8.5%. Moreover, using the midpoint of fiscal 2017 as guidance ($6.67), the stock can trade to at least 19x forward estimates or $125 per share. Therefore, Children's Place Inc. continues to be the PLCE to be.

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