

BURBERRY'S NEW CHALLENGES¹

Marta Jarosinski wrote this case under the supervision of Professor June Cotte 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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By the time Angela Ahrendts left her position as chief executive officer (CEO) of Burberry in 2014,² the Burberry brand image had improved considerably. Ahrendts had successfully led the luxury fashion firm during her seven-year term with the help of the company's creative director, Christopher Bailey, who was set to replace her as the next CEO. Over this same time, however, a number of changes within the fashion world had a significant impact on the overall luxury fashion industry. Fast fashion, digital technology, and new venues of communication changed the way the world's leading luxury brands operated. The industry did experience financial growth year-over-year.³ Burberry and other luxury brands continued to be the industry trendsetters. However, the luxury companies were slowly losing some of their power and control over their brand image, both artistically and financially. As the new CEO, Bailey had to consider changes in Burberry's business strategy that would best help the company adapt to this changing environment.

BURBERRY'S HISTORY

The Beginning

In 1856, Burberry was opened in a small outfitter's shop in Basingstoke, Hampshire, England, by Thomas Burberry, a 21-year-old draper's apprentice.⁴ Burberry's customer base grew throughout the rest of the 1800s. However, it was the invention of gabardine—a breathable, waterproof, and tear-proof fabric—in 1880⁵ that later proved to be a key development for Burberry, putting the company on the world map within the apparel industry. “By the turn of the century, Burberry offered an extensive line of outerwear for both men and women. The company designed hats, jackets, pants, and gaiters especially for hunting, fishing, golf, tennis, skiing, archery, and mountaineering.”⁶ The business continued to grow with the pioneering of the Burberry trench coat. In 1901, Burberry was commissioned by the War Office—a department of the British government—to design a new uniform for the British officers. There had been much debate over the identity of the first trench coat designer, with both Burberry and Aquascutum—another British apparel company—claiming to have spearheaded the design of the garment.⁷ Nevertheless, this conflict did not hurt Burberry's position and the brand grew in popularity.

Over the years, Burberry continued to gain public fame through both its quality design and celebrity status. Burberry developed a reputation for quality through the involvement and use of Burberry products in various expeditions, sporting events, and excursions. For example, Roald Amundsen and his team wore

Burberry gabardine clothes and used Burberry gabardine tents during their 1911 excursion, when they became the first people to reach the South Pole. Ernest Shackleton completed his Imperial Trans-Antarctic Expedition in 1915 also wearing Burberry.⁸

On another front, the Burberry trench coat's iconic fashion status was strengthened through its popularity among famous actors. For example, Humphrey Bogart wore Burberry in 1942 in the Academy Award-winning film "Casablanca." Audrey Hepburn was also dressed in a Burberry trench coat in her role as Holly Golightly in the 1961 blockbuster "Breakfast at Tiffany's."⁹

While the company established its reputation and its name, it also developed the Burberry logo and, with it, the Burberry dream. The firm registered the "equestrian knight" trademark in 1909.¹⁰ In 1920, the iconic "Burberry check" was registered as a trademark and added as a lining to the trench coats.¹¹ The check was incorporated into accessories in the late 1960s.¹²

Recent History

Over the years, Burberry's public image began to change as the luxury status of the Burberry brand began to diminish. In 1997, Rose Marie Bravo was brought in as CEO to restore the perception of the brand.¹³ Under Bravo's leadership, the company's \$460 million¹⁴ in annual sales nearly tripled to \$1.3 billion.¹⁵ Included in her transformation was the launching of the Prorsum collection, Burberry's fashion-forward runway line, as well as the building of Burberry's presence in fragrance, accessories, children's wear, and home goods.¹⁶

When Bravo stepped down at the end of her contract period, Ahrendts replaced her as CEO, and Burberry's revenues tripled again to more than \$3.1 billion,¹⁷ while the company's stock price soared.¹⁸ Various initiatives drove this growth, including opening new retail stores,¹⁹ minimizing licensing, outsourcing production, and solidifying control over design.²⁰ Several clothing licenses were revoked, including those in Spain and Japan, and the company bought out its franchise partner in China. These moves, combined with new outsourcing of manufacturing, consolidated the power over the brand with the central headquarters.²¹

To ensure a consistent brand image, Ahrendts hired Bailey, a promising young Burberry designer, as chief creative director and required all Burberry products to obtain Bailey's approval before they could be included in a collection.²² Ahrendts was able to turn around Burberry's brand image through centralizing the design team in London, minimizing the use of the check pattern on the company's products, and leveraging the iconic trench coat.²³

In addition to solidifying control over the brand and its design, Ahrendts's focus on growing Burberry's digital presence was obvious:

Former colleagues say she stressed the growth of Burberry's website when other luxury brands shied away from e-commerce. She placed Apple iPads in stores, streamed Burberry fashion shows live, and adopted new software to cut costs and improve profitability.²⁴

In an industry that has been slow to embrace e-commerce, Burberry launched one of the first luxury websites to offer full online sales to customers. The company actively engages in social media with its Art of the Trench website and a collaboration with Google Inc. that encouraged people to send digital "Burberry Kisses" around the world via email.²⁵

Burberry Now

Burberry experienced several years of consistent revenue growth and a general trend of income growth from 2004–2014 (see Exhibit 1). When Ahrendts left, Burberry was a thriving luxury house. In spring 2014, Bailey became CEO of Burberry while retaining his role as chief creative officer.²⁶ In order to sustain the company's growth and positioning, Bailey needed to ensure that he was both proactive and quick to react to the changes brought about by Burberry's market, the luxury industry, the fashion world, and the general global market. He needed to take into account changes affecting the industry as a whole, including the various luxury customer segments and their changing roles, the global customer market, fast fashion, fashion shows, department stores, and the move towards experiential luxury. Further, Bailey needed to consider the impact that digital technology had on the luxury market, and how Burberry's competition was approaching a digital environment. Bailey had to decide if any key changes in the company strategy needed to be put into place.

CHARACTERISTICS AND TRENDS IN THE LUXURY INDUSTRY

Burberry competed in the global apparel, accessories, and luxury-goods market, which included clothing, jewellery, watches, leather goods, and cosmetics. This industry was a subset of the personal luxury industry and the larger luxury industry, which included apparel, accessories, cosmetics, wine and spirits, cars, hotels, in-home food, out-of-home food, home furnishings, and yachts.²⁷ A new part of the luxury industry—experience-based luxury—was a growing segment of the luxury market. “People are spending far more on luxurious intangibles such as safaris and vacations as consumers choose to splurge on memories over handbags or watches.”²⁸ With this cultural shift also came a growing demand for a luxury in-store experience as an aspect of shopping for personal luxury goods.

The personal luxury market, valued at more than €250 billion²⁹ in 2015, grew 13 per cent from 2014.³⁰ For this market, the euro exchange rate played a significant role in the financial results and growth forecast. There were two key reasons for this. First, the major personal luxury industry players were based in Europe, the third-largest market for luxury purchases after the United States and Japan.³¹ Second, the tax-free shopping offered to tourists visiting Europe—primarily from China and the United States, where the currency was strengthened in comparison to the euro—supported sound growth in the European market.³²

Several important trends were evident in the market, and Burberry needed to understand and act upon them. The first was a blurring of formerly strict pricing divisions between luxury and non-luxury goods. In line with an increase in household purchasing power over the last few decades, prices of top-of-the-line luxury goods experienced an upward trend (see Exhibit 2). Premium mass-consumption goods (trading up), which were not previously considered luxury items, experienced a similar upward trend in price. However, luxury entry products experienced a slight downward trend in price over the same period. These shifts caused the price of premium-sector goods to overlap the price of luxury entrants, blurring the separation between luxury and premium goods.³³

A second important trend was the growth of online shopping at the expense of traditional brick-and-mortar shopping in the United States and Europe. Although the online segment was still small, online sales achieved a 7 per cent share of shopping revenue in 2015, nearly doubling online penetration since 2012.³⁴ Any luxury brand that wanted to stay competitive needed to recognize this trend and incorporate online sales into the brand's future sales strategy.³⁵ Bailey seemed intent on continuing Ahrendts's strategy of weaving online into everything Burberry did.³⁶ This was clearly communicated in the CEO's letter within the 2014/15 Burberry financial statements: