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burberry’s new challenges[[1]](#endnote-1)

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]](#endnote-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 luxuryfashion 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]](#endnote-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]](#endnote-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 1880[[5]](#endnote-5) 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]](#endnote-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]](#endnote-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]](#endnote-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]](#endnote-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]](#endnote-10) In 1920, the iconic “Burberry check” was registered as a trademark and added as a lining to the trench coats.[[11]](#endnote-11) The check was incorporated into accessories in the late 1960s.[[12]](#endnote-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]](#endnote-13) Under Bravo's leadership, the company’s $460 million[[14]](#endnote-14) in annual sales nearly tripled to $1.3 billion.[[15]](#endnote-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]](#endnote-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]](#endnote-17) while the company’s stock price soared.[[18]](#endnote-18) Various initiatives drove this growth, including opening new retail stores,[[19]](#endnote-19) minimizing licensing, outsourcing production, and solidifying control over design.[[20]](#endnote-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]](#endnote-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]](#endnote-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]](#endnote-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]](#endnote-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]](#endnote-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]](#endnote-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]](#endnote-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]](#endnote-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 billion[[29]](#endnote-29) in 2015, grew 13 per cent from 2014.[[30]](#endnote-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]](#endnote-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]](#endnote-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]](#endnote-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]](#endnote-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]](#endnote-35) Bailey seemed intent on continuing Ahrendts’s strategy of weaving online into everything Burberry did.[[36]](#endnote-36) This was clearly communicated in the CEO’s letter within the 2014/15 Burberry financial statements:

The merging of our online and offline worlds remained a hallmark of our efforts here, as we sought to provide outstanding experiences to a luxury customer who is ever more global, and ever more digital. Initiatives including the relaunch of our mobile site and the roll-out of our “Collect-in-Store” programme resonated strongly, as did the expansion of third-party digital partnerships—giving customers on leading platforms globally a more authentic experience of our brand. And we continued to invest in enhancing our data and insight capabilities, knowing that the key to serving our customers better is understanding them better.[[37]](#endnote-37)

For Burberry to remain competitive within the personal luxury market, its strategy needed to consider and align itself with industry trends. Bailey and his team needed to decide if Burberry would continue to pursue a more risky but potentially rewarding leadership position in the digital environment and what the company needed to do to improve its future positioning.

Luxury Customer Segments

The luxury industry consisted of three customer segments: absolute, aspirational, and accessible.[[38]](#endnote-38) The absolute segment had the smallest number of individuals yet represented immense purchasing power per individual customer. These customers were defined as ultra-high-net-worth individuals. To these customers, money was not an issue. The demand from this group was not strongly affected by the economy; therefore, their demand was stable. The high purchasing power per customer in conjunction with the group’s higher requirements in terms of customer service and quality goods meant that their needs could not be overlooked. These customers expected an extremely high-quality experience, along with perfect goods and services.[[39]](#endnote-39)

Absolute segment members appreciated the brand history and heritage. They wanted to own pieces that were unique and emphasized their elitism. They shopped for ready-to-wear and bespoke (personalized or tailored) haute couture goods. This segment sought discreet goods that emitted quality and understated opulence,[[40]](#endnote-40) while placing value on high aesthetic content and extreme quality. This group created word of mouth and supported relevant initiatives within its limited circle. Therefore, effective communication with the absolute segment revolved around the group’s interests, such as exclusive watch collection discussions by a watch creator or relevant humanitarian initiatives. Collectors within the group relied on the value of the product and expected devotion, expertise, and discussion about the service provided.[[41]](#endnote-41) An emotional, distinctively exclusive shopping experience set luxury brands apart from the rest of the industry, and luxury fashion houses had specific client service teams that catered only to this group, because privacy was crucial.[[42]](#endnote-42)

The second customer segment was the aspirational group. This group included celebrities, professionals, and business people with a high amount of disposable income. Though they had high spending power, some individuals from this segment would trade down or not buy at all during an economic downturn. The aspirational group fathomed the lifestyle of the absolute segment, aspired to it, and looked for upward integration. To reach this group, the brands needed to “re-create the emotional and creative world of the brand, containing the cultural and psychological references that justify the price.”[[43]](#endnote-43) This segment valued some level of exclusivity, particularly in the buying experience. At the same time, the aspirational group was still aspiring to be recognized by others and become associated with luxury. Therefore, brand recognition—particularly the recognition of the exclusivity of the brand—was important. This segment was best reached through an environment that gave the impression of limited accessibility, such as club marketing or special privileges. Club marketing referred to marketing to high-net-worth individuals gathered at events for a common interest; special privileges included services such as concierge service. Both of these were means of creating the exclusivity while clustering together the widespread network of this segment.[[44]](#endnote-44) This group valued variety, quality, and faster-changing product lines, as well as style, artistry, design, and performance.

The third group of luxury shoppers was the accessible segment. This group was made up of middle-class and upper-middle-class customers. The emergence of this group proved that “luxury is no longer the embrace of the kings and queens of France but the mass marketing phenomenon of everyday life.”[[45]](#endnote-45) Accessible segment members sought to differentiate themselves through the status of the brands they wore, although their income level limited their accessibility to the luxury goods they could purchase. The social aspect was important to this group[[46]](#endnote-46) because a luxury good symbolized a membership badge and the ability to show status and wealth by association with the affluent class. Accessible segment members often chose goods that explicitly showed the brands, whether through distinct brand designs, monograms, logos, or brand symbols, but did not expect personalized service. Therefore, immersing marketing and customer service was an effective communication method.[[47]](#endnote-47) Due to the individuals’ limited spending power, price was an important consideration, so the desire to be associated with the affluent class led some group members to purchase counterfeit goods. This became an especially important factor as the prices of personal luxury goods went on a rising trend. “From 2002 to 2012, the prices of their handbag offerings increased by an average of 14 percent each year . . . as a result, many luxury brands have introduced smaller versions of their best-known bags—with a scaled-down price tag to match.”[[48]](#endnote-48)

Over the years, the aspirational segment grew at a faster rate that the accessible segment, which grew at a faster rate than the absolute segment.[[49]](#endnote-49) This change in overall market demand affected how luxury brands needed to market their goods in order to secure sales while simultaneously protecting their brand image. In conjunction with this, “the average consumer was also far more educated and well-travelled than a generation ago and had developed a taste for the finer things in life.”[[50]](#endnote-50) Each customer segment was more knowledgeable about luxury brands, their quality, where they were produced, and the image the brands portrayed.

Bailey needed to consider which—if not all—customer segments should be Burberry’s focus going forward. He needed to consider how industry changes would influence the best approach for each group. Bailey and his team also needed to plan the impact of any changes on various aspects of the business: supply chain, marketing, positioning, and product mix.

The Emerging MarketS

In 2015, North and South America was the second-largest segment of the personal luxury industry, accounting for 24 per cent of the market’s total value, and Europe was third largest at 18 per cent. However, these established regions were overpowered in size by the Chinese segment, which made up 31 per cent of the market and played a key role in the growth in luxury spending worldwide.[[51]](#endnote-51)

China

Though not yet quite as established as the European and U.S. markets, the Asian market—specifically, the China region—was becoming the largest luxury customer segment.[[52]](#endnote-52) An economic boom spanning several decades had led to a growth in the wealthier Chinese population and, consequently, a growth in luxury sales.[[53]](#endnote-53) Chinese customers were borderless customers who shopped as tourists. Chinese shoppers spent more abroad than they did at home. Mainland China accounted for only 20 per cent of their global purchases, a trend that[[54]](#endnote-54) was further supported by international policies encouraging the Chinese to spend more abroad. “Globally, governments are amending visa policies to attract Chinese tourists.”[[55]](#endnote-55)

After 2012, the Chinese mainland luxury market experienced a slowdown[[56]](#endnote-56) due to an economic slump, anti-corruption measures on gift giving, and the devaluation of the Chinese yuan.[[57]](#endnote-57) However, this had little impact on borderless Chinese customers. “The average spend by Chinese shoppers in Europe processed by Global Blue over the first six months of the year [2015] was €981 (US$1,112), a 7 per cent increase from a year ago.”[[58]](#endnote-58)

Luxury market experts had identified some common characteristics among Chinese luxury customers. On an individual level, the Chinese heavily emphasized physical appearance. At a social level, the Chinese luxury consumer, compared to the largely individualistic Western consumer, was strongly influenced by social norms. The collective Chinese consumer attributed much value to recognizable brands.[[59]](#endnote-59) However, over the years since the Chinese boom, the Chinese luxury customer was becoming more and more sophisticated, having higher expectations of the products’ quality and service and placing less importance on superficial aspects.[[60]](#endnote-60) Although the total population of Chinese luxury shoppers had increased, the majority of the luxury purchases were still made by the upper-class segment, which made up about 4 per cent of the population but contributed approximately 74 per cent of Chinese luxury-goods sales in 2015.[[61]](#endnote-61) Therefore, an understanding of this top tier was crucial for a luxury brand’s success.

Brazil, Russia, and India

The industry could not afford to ignore the other three major emerging national economies that made up the so-called BRIC group: Brazil, Russia, India, and China. Both Brazil’s and Russia’s market growth had been hindered by political and economic uncertainty within these countries.[[62]](#endnote-62) On the other hand, India’s luxury market’s growth rate of 13 per cent was higher than that of any other BRIC nation,[[63]](#endnote-63) including China.

Each of these three regions had unique customers:

* The Brazilian market was growing, but the wealthy market’s long-time trend of spending abroad, combined with high tariffs in the country, limited the market’s expansion.[[64]](#endnote-64)
* Russian customers had knowledge and experience in luxury and expected tradition, modesty, and wealth. However, they were willing to spend more for valuable products to show off their wealth.
* In contrast, Indian luxury consumers were value-conscious and were always looking for stylish and aesthetic products. Because craftsmanship and value were important to relate to Indian consumers, it was challenging for luxury brands to enter and develop business in the country.[[65]](#endnote-65)

Burberry had established specific sales trends with its business operations and strategies in each region (see Exhibit 6). However, future market trends needed to be considered when making strategic decisions. Bailey had to consider and predict the magnitude of these emerging markets, their role in the personal luxury industry’s future, and the importance of these decisions on each market. He needed to take into account the ever-growing global customer and how Bailey’s ultimate decisions would affect the customer’s brand perception.

THE LATEST CHANGES TO THE LUXURY INDUSTRY AND ITS ENVIRONMENT

A Challenge to Tradition: Fast Fashion

Fast fashion brands (short-shelf-life fashions produced very quickly in response to trends) revamped the fashion industry starting around 2000.[[66]](#endnote-66) These brands—particularly Zara and H&M—used their strengths in supply chain and customer understanding to fill a void of speed that was apparent in the industry at the time, asserted by slower and smaller scale production luxury fashion and couture houses. Unlike other affordable fashion retailers who followed a reactive strategy to the luxury trends, fast fashion brands “pioneered a different business model, predicated on the idea that store purchases are the best indicators of what consumers want, coupled with localized sourcing for more than half of its products.”[[67]](#endnote-67)

Thanks to their unique strategy, fast fashion brands mastered the ability to produce fashions seen on the runways in a matter of weeks, with very little or no marketing budget. For example, Zara’s operations were able to succeed by relying on its advanced supply chain, non-focused style, enormous stock selection, and coveted store locations next to top luxury and fashion streets around the world.

Though sourcing from Spain and Portugal is more expensive, the supply chain is shorter, and the company can react more quickly—typically in a matter of weeks—to new seasonal trends. As a result, Zara does not have unwanted inventory, and rarely lowers prices. The genius of this model is that it picks up on every trend, but is never associated with any one style: the chain offers something for everyone, and the enormous selection, with literally thousands of options, varies as frequently as every week. Unlike other fashion brands, Zara does no advertising whatsoever, choosing to rely instead on expansion, with chic locations in more than 73 countries, and aesthetically appealing shop window displays.[[68]](#endnote-68)

Fast fashion brands did not approach the fashion market by competing to be the style leaders, replace luxury brands, or increase their own margins. Instead, fast fashion shaped the phenomena of mixing and matching high- and low-priced items. As this new approach to shopping began saving customers money and providing them with additional options, particularly in trending items, most customer segments quickly gravitated to fast fashion companies. Due to affordability, fast fashion allowed ongoing personal transformation at a mass-market level.[[69]](#endnote-69) Stores also provided customers with a one-stop shopping experience by offering an array of fashion products, including makeup, accessories, and personal grooming products, in addition to their ready-to-wear line.[[70]](#endnote-70)

As it became apparent that the fast fashion organizations were here to stay, many luxury brands took a strategic “if you can’t beat them, join them” approach. Luxury brands, including Lanvin, Sonia Rykiel, Jimmy Choo, Karl Lagerfeld, Stella McCartney, and Viktor & Rolf,[[71]](#endnote-71) each collaborated with H&M to create a limited edition collection. This collaboration offered advantages to both H&M and the luxury brands. H&M gained acknowledgment by high-net-worth shoppers, and the luxury brands grew their fan base, which paved the way for a larger market of aspirational customers for these luxury brands.[[72]](#endnote-72)

Luxury fashion houses were also influenced by the entry of fast fashion to rethink and make changes to certain aspects of their strategy. In response to fast fashion, luxury houses increased the number of collections they produced as well as the speed with which the collections moved from the fashion runways to the shop floor. They invested in modern production techniques and worked on developing better-managed supply chains. Through this, they were capable of delivering—on an annual basis—at least two women’s ready-to-wear collections and two women’s couture collections, as well as pre-fall, resort, menswear, and accessory lines. The fashion houses also increased their stock selection, in both their online and physical stores.[[73]](#endnote-73)

The evolution and change for the luxury houses in response to fast fashion came at the cost of capital injections and loss of high profile designers. Celebrity status designers resigned from prestigious positions, accrediting their departures to the pressure of doing several shows a year, which did not allow for a work atmosphere where their creativity could flourish.[[74]](#endnote-74) At Burberry, Bailey needed to consider what sort of reactive and proactive steps he needed to take in terms of competing with fast fashion. He wondered whether he should take first-mover steps, as his predecessor Ahrendts had done with regard to a digital technology strategy for Burberry, or take a wait-and-see or follow-the-crowd approach to respond to the threat from fast fashion.

Fashion Shows

The concept of fashion shows dates back to 14th-century Western Europe, when wealthy women would hold showings of women’s fashions using dolls. The dolls wore miniature versions of the garments, which were then brought to dressmakers as guidelines for full version attires. Around the late 18th and early 19th centuries, fashion plates, or illustrations, replaced the doll models. These illustrations granted more precision because they allowed dressmakers to add more detail and were also easier to produce, which increased the market for fast fashion.[[75]](#endnote-75)

The first American fashion show was held in 1903 in New York City. By 1910, the trend of fashion shows had spread to large department stores and, by 1920, to other retailers across the United States. These stores aimed to portray an understanding of fashion and attract shoppers by showing couture gowns from the fashion capitals of the world, such as Paris.[[76]](#endnote-76) The 1990s ushered in the rise of extravagant seasonal fashion shows and supermodels. By 1991, Gianni Versace was presenting elaborate shows that included fairground-style lighting arrangements to attract customers,[[77]](#endnote-77) retail buyers, and newspaper and magazine editors.[[78]](#endnote-78)

Between the 1990s and 2010s, major fashion shows, referred to as fashion weeks, became more and more frequent. By 2012, the New York and London fashion weeks stretched so long that the Milan fashion week was threatening to overlap them. Paris’s fashion week eventually stretched to last 10 days. Since about 2014, some large brands, including Burberry, experimented with live streaming of their runway shows to the public. Some discussion and experimentation with a digital version of fashion shows took place, but many fashion purists still relied on, and had a strong connection to, the live show.[[79]](#endnote-79) Nevertheless, fast fashion fuelled a trend to “show now, shop now,” which continued strongly into 2016. Burberry consumers watching fashion shows could now expect those fashions to be immediately available in-store or online.[[80]](#endnote-80) This had an impact on all aspects of the business operations—from marketing to the supply chain. Bailey needed to take this into account when planning his strategic investments.

The Role of Department Stores

Department stores began losing their traditional power with the fashion industry with the rise of stand-alone fast fashion stores and online shopping. A November 2013 “retail-sales report from the Commerce Department showed department-store sales now account for just 6.1 per cent of retail sales . . . that compare with 15.6 per cent some 20 years earlier.”[[81]](#endnote-81) Various internal and external challenges faced department stores, including the fact that a significant transformation was taking place in the way luxury goods were bought and sold.

The internal business model of traditional department stores hindered turnaround speed and flexibility, compared to luxury department stores. “Department stores are a ‘high-cost operator,’ with lots of large stores in pricey mall real estate . . . . That makes it tough to compete with stores like value-focused T.J. Maxx or fast fashion retailers and online sellers that offer similar items with a less-expensive business model.”[[82]](#endnote-82)

The growth of e-commerce and the advancement of technology led to more educated customers and the freedom of luxury brands to use a variety of sales channels, relying less on sales within luxury department stores.[[83]](#endnote-83) Department stores attempting to remain competitive struggled, with pressure from both suppliers and luxury customers:

While department stores have rushed to catch up online with the likes of Net-a-Porter—by offering marginally better customer service than in the past, with perks like in-store pick-up—the push and pull between bricks and clicks is no longer the story. Instead, it’s the customer herself who has changed: she or he is more discerning, more educated, and more demanding than ever, whether browsing on a URL or a lushly carpeted sales floor. Not only are consumers today after the best price, they are also more willing to research their purchases.[[84]](#endnote-84)

The luxury brands, taking advantage of the freedom brought on by the digital world, were using the Internet both to sell right to their customers and to communicate directly with them. The luxury brands were turning towards online sales and the opening of stand-alone stores, which allowed them alternative direct access to customers.[[85]](#endnote-85) This also gave the luxury brands larger margins and allowed them the freedom to show their full collections, not just the limited selection in department stores. This led to clearer communication with the customer as well as more defined and controlled presentation of their brand image.

The power shift in the industry also affected the role of the fashion show. Bailey needed to decide if drastic measures, or incremental ones, were needed to strategically position Burberry for the future. Should he take advantage of these changes? Was this a signal of new opportunities for Burberry?

Experiential Luxury

The importance of the customer experience in luxury goods grew in line with the trend towards experiential luxury. Luxury brands balanced their customer relationship management efforts between big data and new customer service or “clienteling,” defined as follows:

Clienteling takes the retailer/customer relationship to a whole new level. By keeping a carefully maintained history of purchases, preferences, likes and dislikes, you are able to develop accurate and detailed insight to deliver a personalized service, which is synonymous with flawless customer service, customer retention, and a unified and memorable brand experience.[[86]](#endnote-86)

Customers visited luxury brick-and-mortar stores looking for personal interaction. This required the store staff to sell not only the product but also the brand’s distinctive lifestyle and value.[[87]](#endnote-87) The luxury-goods buying experience—also known as the selling ceremony—was a key aspect of the “clienteling” experience around luxury goods. The selling ceremony was the brand’s unique welcome and farewell ritual—either through a high degree of attention or lack of it.[[88]](#endnote-88)

Where luxury brands previously focused on leveraging the department store as a place to sell their products, brands were moving away from this model and towards a unique brand experience that they could control. This experience was something the industry as a whole was placing great importance on in its business strategies. “From Prada’s New York store, with its cultural performance space, to Louis Vuitton’s Champs-Elysees flagship with art gallery and bookstore, luxury brands are increasingly betting large sums on the belief that product is not enough.”[[89]](#endnote-89)

Brands were using experience to draw customers into their stores to get them to see the products as well as to create a buzz around the brand:

To co-create the value, marketers influence customers to derive subjective intangible benefits from these goods beyond their functional utility. . . . Creating an aesthetic appeal is a process that needs to attract customers, both as a shopper and as an observer, so that co-creation keeps on evolving while delivering multiple benefits; a window display invites us in but also inspires us . . . and shows the themes of the underlying campaign as well as core of the brand.[[90]](#endnote-90)

Luxury companies were also creating this buzz through brand extension into different product and service segments. Gucci, for example, offered an experiential luxury through a coffee shop and gallery within its Tokyo flagship store. Building a vertical configuration within the store and positioning the coffee shop and gallery on higher levels of the store allowed the brand to drive traffic through the store, exposing potential customers first-hand to the latest product offerings.[[91]](#endnote-91)

Digital/Social

Luxury brands needed to understand the customer’s decision-making process in order to create a strategy for how best to communicate with potential customers. The digital world influenced various aspects of the luxury customer’s journey. The process evolved from one-way communication (brand to customer) to become increasingly interactive. Not only was the dialogue flowing between brand and customer, various other sources such as online reviews, social media, and bloggers also had an influence on the customer’s perception, the brand image, and the customer’s purchase decision. Increased product selection due to new digital channels both enlarged the competition pool and created an increasingly selective, well-informed consumer. This new, more complex decision-making process was depicted as a circular journey containing four phases: initial consideration, active evaluation, closure/purchase, and post-purchase[[92]](#endnote-92) (see Exhibit 7). With messages constantly directed at the customer through the various channels, the post-purchase phase became crucial for repeat customers.

Bailey needed to consider all of these changes in the customer decision-making process when evaluating resource allocation in marketing and communication, and when considering what Burberry needed to do to remain relevant to its customers.

COMPETITORS AND THEIR DIGITAL STRATEGIES

Burberry operated in an industry with a number of key competitors. Each luxury brand had a unique approach and distinctive views on the luxury digital approach, which were strongly influenced by the history of each distinctive brand (see Exhibit 8). Burberry’s major competitors included Kering (formerly known as PPR), Louis Vuitton Moët Hennessy (LVMH), Hermès, Prada S.p.A (Prada), and Chanel S.A. (Chanel).

Kering

The luxury division made up 68 per cent of the Kering conglomerate, one of the largest luxury conglomerates in the world, and contributed €6.759 billion to Kering’s reported €10 billion in sales for the 2014 fiscal year.[[93]](#endnote-93) The luxury division was a multi-brand group comprised of many well-known luxury fashion brands. These brands competed in many areas of the personal luxury-goods industry, including ready-to-wear, handbags, luggage, small leather goods, shoes, timepieces, jewellery, ties, scarves, eyewear, perfume, cosmetics, and skincare products.[[94]](#endnote-94) Kering placed a strategic focus on its brands’ digital presence:

E-business is a strategic priority, not only for the business the Group’s brands conduct online but also because it influences demand across all sales channels. Since Kering’s brands are global, they need online flagship stores to be accessible from around the world. Gucci is a pioneer in luxury e-commerce: launched in 2002, its web presence is recognized as one of the very best in class with a high perceived digital competence.[[95]](#endnote-95)

LVMH

LVMH was the world leader in high-quality products.[[96]](#endnote-96) Founded by Bernard Arnault—France’s wealthiest man[[97]](#endnote-97)—the conglomerate-held brands competed in an array of luxury sectors, broken down into six major business groups: wines and spirits, fashion and leather goods, perfumes and cosmetics, watches and jewellery, selective retailing, and other activities. The conglomerate was made up of approximately 70 distinguished houses (*maisons*).[[98]](#endnote-98) The fashion/leather goods *maisons* consisted of some of the best-known fashion houses in the world. LVMH reported €30.6 billion in sales for the 2014 fiscal year, with 35 per cent and 9 per cent of revenues coming from fashion/leather goods and watches/jewellery, respectively.

The concept of recognizing the importance of the impact of digital technology on the luxury business operations was at the forefront for LVMH. Its 2014 annual report included an interview with the group’s managing director highlighting the key role that digital technology played within the conglomerate’s strategy:

The digital world allows us to offer content that is rich and consistent with the magic of our brands and shops. We consider it to be a powerful competitive lever and we support the major initiatives undertaken by our brands. Sephora is one of the most advanced in the multichannel arena. Louis Vuitton is among the most followed brands in the world on social networks. Kenzo is inviting the digital universe into its stores. And Hublot used a digital platform to communicate with millions of soccer fans during the World Cup.[[99]](#endnote-99)

Hermès

A luxury brand with 177 years of history, Hermès was positioned at the top end of the luxury-goods category. Most of Hermès’s production methods remained unchanged since the company’s founding in 1837. The company’s impeccable quality, history, and tradition placed it in a category of its own.[[100]](#endnote-100) The brand’s product demand and scarcity gave Hermès immunity to the Chinese economic slowdown affecting many of its competitors.[[101]](#endnote-101) Hermès produced products in three main categories: leather goods and saddlery, clothing and accessories, and silk and textiles. The brand was traditionally known as a saddle maker and a silk square and tie producer, but it was internationally known for its two iconic bags: the Kelly and the Birkin.[[102]](#endnote-102) Although it was traded on the Euronext stock exchange in Paris, Hermès was controlled by the sixth generation[[103]](#endnote-103) of the Dumas founding family. This allowed the company more creative and decision-making flexibility. With revenues of €4.1 billion,[[104]](#endnote-104) Hermès was a significant player within the luxury fashion market.

In terms of its digital presence, Hermès had a more careful approach of “staying true to the brand while making use of the convenience of the Internet. . . . Hermès was about telling a story, and the digital world was a great way to tell a story, to create dreams.”[[105]](#endnote-105)

Prada

Prada was a publicly traded conglomerate listed on the Hong Kong Stock Exchange.[[106]](#endnote-106) Compared with its competitors, like LVMH, Prada was small and focused, even when taking into account its brand extensions into eyewear and perfume.[[107]](#endnote-107)Prada’s sales totalled €3.59 billion in 2014,[[108]](#endnote-108) which was only a fraction of the sales of its large conglomerate competitors. Although it was known for its luxury leather goods and bags,[[109]](#endnote-109) the Prada brand dated back to 1913, when Mario Prada opened a luxury store in the Galleria Vittorio Emanuele II in Milan, selling leather handbags, travelling trunks, beauty cases, refined luxury accessories, jewels, and articles of value.

Digital incompetence was a cause of Prada’s decline and lag in growth. Prada ranked below its competitors in L2’s 2014 Digital IQ Index.[[110]](#endnote-110) Prada made no reference to its digital strategy or e-commerce approach within its annual report.[[111]](#endnote-111)

Chanel

Chanel, a privately held company, was co-owned by the brothers Alain and Gerard Wertheimer.[[112]](#endnote-112) The Wertheimers owned 100 per cent of the business, including worldwide rights to the Chanel name, and did not disclose the company’s revenues or manufacturing information.[[113]](#endnote-113) Chanel began as a hat maker, later revolutionizing the sportswear industry though the use of jersey fabrics on simple designs. Chanel was also known for its little black dress, its tailored suits, and its perfume—particularly the Chanel No. 5 fragrance.[[114]](#endnote-114) Chanel operated in the fashion, cosmetics, watch, and jewellery businesses. The company’s only license was for eyewear with Luxottica, the producer of 80 per cent of the world’s major eyewear brands.[[115]](#endnote-115)

Karl Lagerfeld took over as Chanel’s head of design in 1983.[[116]](#endnote-116) He revived the label by tapping a younger market. This focus on millennials required a strong digital presence, due to both the group’s early adaptation and the fact that Chanel was an aspirational brand. The company believed that digital technology helped bring its customers closer to the brand and allowed the company to more easily communicate with them.

Competitive Rankings in the Digital Space

As a way of comparing luxury digital performance, Burberry and the company’s competitors were considered—on an annual basis—in L2’s Fashion Digital IQ Index, a ranking that helped benchmark digital performance of brands and identify digital strengths and weakness (see Exhibit 9). Bailey needed to consider the decisions and stance of its key competitors when making strategic decisions.

THE DILEMMA

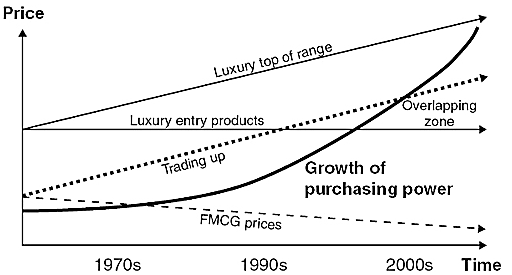
Bailey needed to consider how Burberry should respond to the latest global fashion trends and how the company would improve its control in the communication of its brand. Bailey needed to decide if Burberry would lead or follow with regard to making changes to its stores and fashion shows, dealing with fast fashion, and integrating a clear digital strategy as part of the company’s marketing strategy.

Exhibit 1: Burberry’s Financial Performance (in £Millions)

Note: £ = GBP = British pound; US$1.00 = £0.64 on December 31, 2014.

Source: Jean-Noël Kapferer and Vincent Bastien, *The Luxury Strategy—Break the Rules of Marketing to Build Luxury Brands,* 2nd edition, (London, U.K.: Kogan Page Limited, 2012), 55.

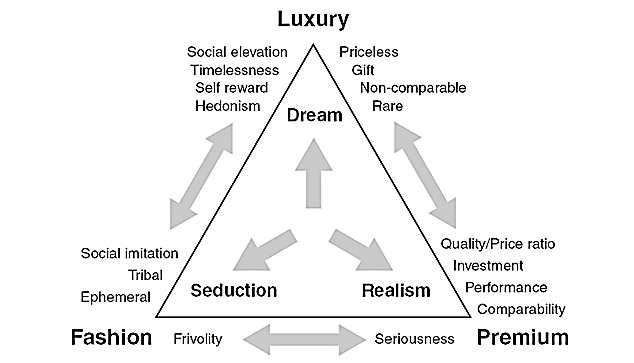
Exhibit 2: Why the Confusion between Premium (Trading Up) and Luxury



Notes: Trading up = premium brands; FMCG = fast-moving consumer goods.

Source: Jean-Noël Kapferer and Vincent Bastien, *The Luxury Strategy—Break the Rules of Marketing to Build Luxury Brands,* 2nd edition, (London, U.K.: Kogan Page Limited, 2012), 55.

Exhibit 3: Luxury, Fashion, and Premium Positioning Triangle



Source: Jean-Noël Kapferer and Vincent Bastien, *The Luxury Strategy—Break the Rules of Marketing to Build Luxury Brands,* 2nd edition, (London, U.K.: Kogan Page Limited, 2012), 43.

Exhibit 4: Organizations Overseeing the Luxury Fashion Industry

|  |  |  |
| --- | --- | --- |
| Organization | Country/Year of Establishment/Purpose | Details |
| The Council of Fashion Designers of America, Inc. (CFDA) | America/1962/Devoted to support the growth of American fashion | * Not-for-profit trade association * Membership by invitation only * Consisted of over 400 of America’s leading womenswear, menswear, jewellery, and accessory designers * Programs, foundations, and initiatives included annual fashion awards to recognize outstanding contributions to American fashion, annual CFDA Fashion Awards (to recognize the top creative talent in the industry), programs supporting professional development, scholarships (e.g., the CFDA/Vogue Fashion Fund) |
| The National Chamber of Italian Fashion/Camera Nazionale della Moda Italiana | Italy/1958/Aimed to “represent the highest values of Italian fashion, and to protect, co-ordinate and strengthen the image of Italian fashion in Italy and abroad, as well as the technical, artistic and economic interests of its associates” | * Not-for-profit association * Initiatives included organizing the Milan fashion weeks, responsible for establishing international agreements representing Italian fashion—including international calendars and the consolidation of global alliances (e.g., agreement with Fédération Française du prêt-à-porter Féminin, The Franco-Italian Protocol) |

Exhibit 4 (continued)

|  |  |  |
| --- | --- | --- |
| Fédération Française de la Couture du Prêt-à-Porter des Couturiers et des Créateurs de Mode (French Federation of Fashion and of Ready-to-Wear Tailors and Fashion Designers) | France/1973 (though work of its associations spanned before this time)/Established industry standards in France | * Executive body for three separate trade associations comprising approximately 100 corporate members with international clout * French federation, but membership included non-French companies from foreign countries * Some initiatives: setting industry standards, setting the dates and locations of the French Fashion Weeks, creating globally recognized fashion schools |
| British Fashion Council | Britain/1983/Aim was to “nurture, support and promote British fashion talent to a global market” | * A non-profit trade group for British fashion designers * Tasks included helping designers at various stages of their businesses (e.g., supporting initiatives, supervising fashion education, scholarships) organizing the annual British Fashion Awards, organizing the London Fashion Weeks, helping take emerging designers to key international markets in order to give them the opportunity to gain global exposure, setting up collaborations in order to aid designers (e.g., Future British) |

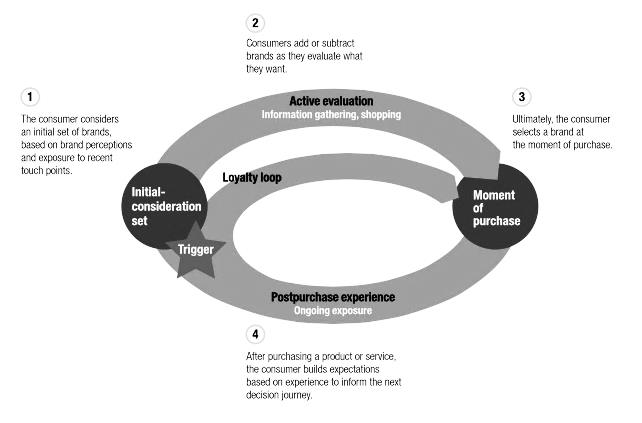
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Exhibit 5: Retail and Wholesale Revenue by Region (in £ Millions)

Note: Specific to Burberry, the geographic markets were split between three regions: Asia Pacific; Europe, Middle East, India, and Africa (EMEIA); and Americas. Over the 2014/15 fiscal year, the EMEIA market’s underlying growth was 12 per cent, while revenue from the Americas increased by 16 per cent underlying. The Asia Pacific region experienced revenue growth of 9 per cent underlying. All regions reported strong retail sales, making up 65 per cent, 65 per cent, and 85 per cent, respectively; £ = GBP = United Kingdom pound; US$1.00 = £0.64 on December 31, 2014.

Source: Company documents.

Exhibit 6: The Latest Circular Customer Decision-making Process



Source: David Court, Dave Elzinga, Susan Mulder, and Ole Jørgen Vetvik, “The Consumer Decision Journey,” McKinsey Quarterly, June 2009, accessed November 24, 2016, www.mckinsey.com/business-functions/marketing-and-sales/our-insights/the-consumer-decision-journey.

Exhibit 7: Unique Digital Approaches of Burberry’s Competition

|  |  |  |  |
| --- | --- | --- | --- |
| Luxury Company | | Notable Portfolio Brands Competing with Burberry | Unique Digital Approaches |
| Kering (Formerly known as PPR) | Gucci, Bottega Veneta, Yves Saint Laurent, Alexander McQueen, Balenciaga, Boucheron, Brioni, Christopher Kane, Pomellato, Qeelin, Sowind, Stella McCartney, and Ulysse Nardin | | * Gucci, the largest brand within the luxury division of Kering, was a leader in the digital space for a number of reasons: find-in-store and inventory capabilities on product detail pages on its website; a heavy focus on its mobile experiences; development of an application (in 2008)—among the first by a luxury brand; continual heavy investment in its mobile experience; and leadership in digital advertising. * Joint venture with Yoox gave each brand an online store and an institutional site through a single integrated solution, which brought the commerce and content together for a seamless online experience. * In 2012–13, the six Kering brands that rolled out through the Yoox joint venture saw 30 per cent higher performance than their LVMH counterparts. |
| Louis Vuitton Moët Hennessy (LVMH) | Louis Vuitton, Fendi, Donna Karan, Loewe, Marc Jacobs, Céline, Kenzo, Givenchy, Thomas Pink, Pucci, Berluti, Rossimoda, and Edun  The watch and jewellery division included such world-renowned brands as TAG Heuer, Hublot, Zenith, Bvlgari, Chaumet, Fred, and De Beers | | * In collaboration with the advertising company JCDecaux, LVMH installed giant twin high definition (HD) digital signs at New York’s John F. Kennedy airport, the most affluent gateway with 4.6 million annual passengers travelling to Europe, Asia, and Mexico. The giant signs featured fully synchronized content. LVMH brands ran exclusively for 18 months on the twin HD digital signs, the first of their kind in North America. * Ability to leverage the digital strength of other *maisons* within the LVMH group, including Sephora’s advanced omnichannel approach and Benefit Cosmetics’ first-mover approach to its multichannel strategy. |
| Hermès | Hermès | | * Hermès was more focused on using technology to differentiate through few products and services unique to the brand’s core than on creating a digital presence. These initiatives included a partnership as the designer for a range of Apple smartwatches, and its United Kingdom offering of next-day home deliveries. * Hermès did follow other brands in online brand education through the launch of Le MANifeste d'Hermes, a new website devoted to its products for men. * By the end of the 2015 fiscal year, the Hermès website was redesigned, and it now offers five online sales platforms worldwide. |
| Prada | Prada, Miu Miu, Church’s, and Car Shoe | | * Patrizio Bertelli, co-chief executive officer, planned to use more digital advertising without cutting the house's overall advertising budget. He believed that Prada should generate some savings without an impact on the status quo of commercial and industrial operations. * Prada planned to follow other brands in offering additional digital content (e.g., a new section called “A Future Archive” featuring all collections, special projects, and videos). |
| Chanel | Chanel, Eres (lingerie and swimwear brand), and seven ateliers manager by Chanel through Paraffection—its artisans division | | * Digital technology was not approached only as a department within Chanel; it was spread throughout the complete company. Chanel’s management focused on allowing “any customer to read his own journey into the brand. If he sits on his tablet at home and wants to see a fashion show in Paris, he can dive right into the brand and discover the story of the bag and the jacket and how Coco [Chanel, the company's founder] was making this revolution for women in the early 90s.” |

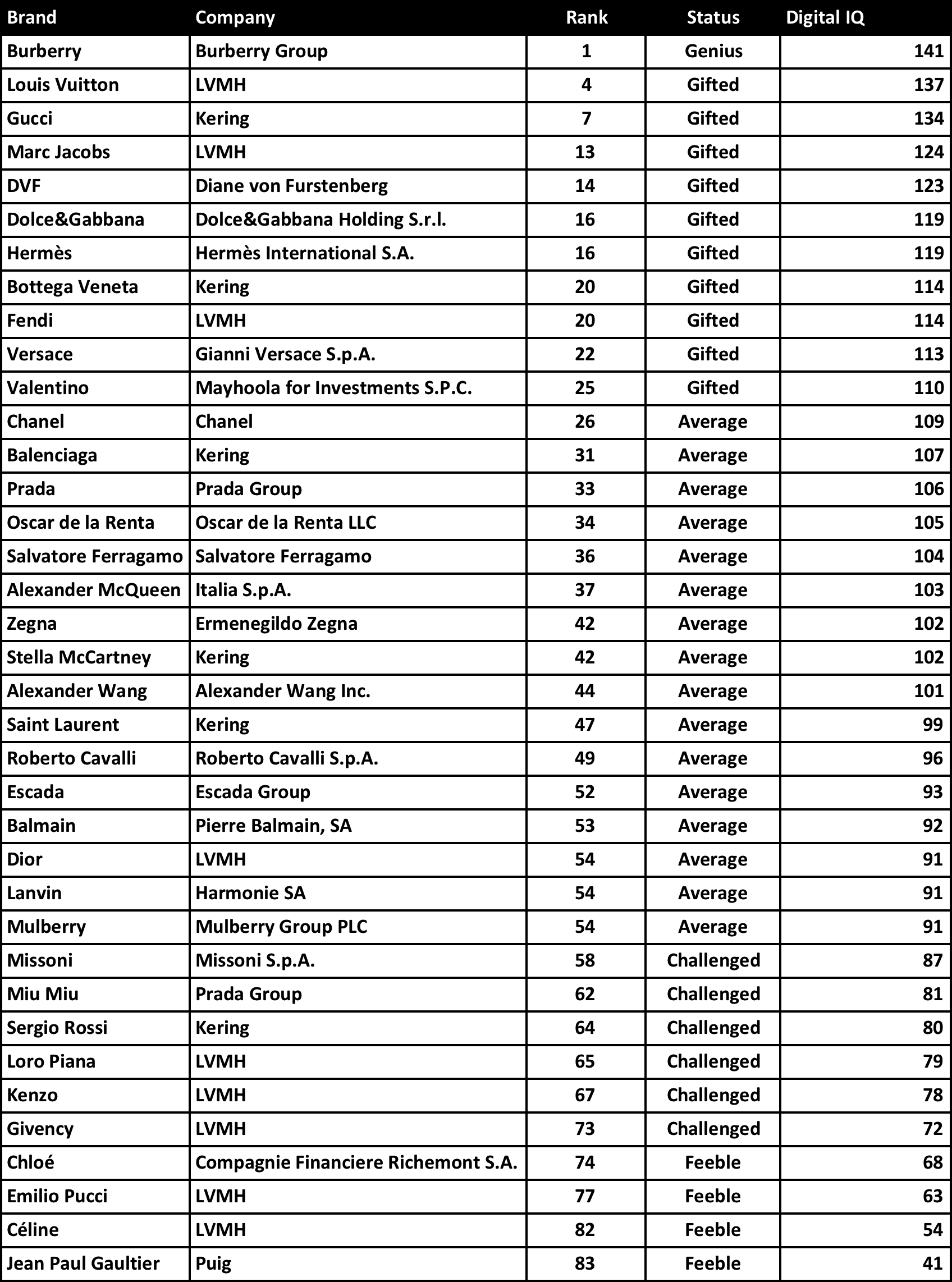
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Exhibit 9: L2’s 2015 Fashion Digital IQ Index Ranking

(focus on direct competitors of Burberry)



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