

High School Group:

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Question 1: Is Burberry the only luxury fashion house suffering from stagnant revenue growth across the past 10 years? If yes, what are some reasons contributing to its underperformance? If no, what are some reasons contributing to sectoral underperformance?

FACTORS IMPACTING BURBERRY'S REVENUE

Asia-Pacific Region & Export Barriers

- Declining sales in the region
- Especially in China and South Korea
- Brexit imposed trade barriers - loss of sales

Brand

- Public relation failures
- Aggressive retail discounting strategies
- Lack of effective story-telling
- Lack of brand resonance with younger audiences

Stagnant Revenue

- Unconvincing market campaigns
- Failed adverts
- Failure of Burberry Bond Street and Burberry Blue.

Marketing

Management

- Lack of Management continuity
- Inconsistent brand messaging and visions
- Leaving strategies from achieving fruition

Thesis: As seen in **Figure 1** Burberry is **not** the only brand facing revenue stagnation, having other brands like **Ralph Lauren** in a similar situation, however the luxury fashion industry has seen a **54% increase** in revenue over the past decade, far outpacing Burberry's **17.6% revenue** growth.

Percentage Changes in Revenue (2014-2023)

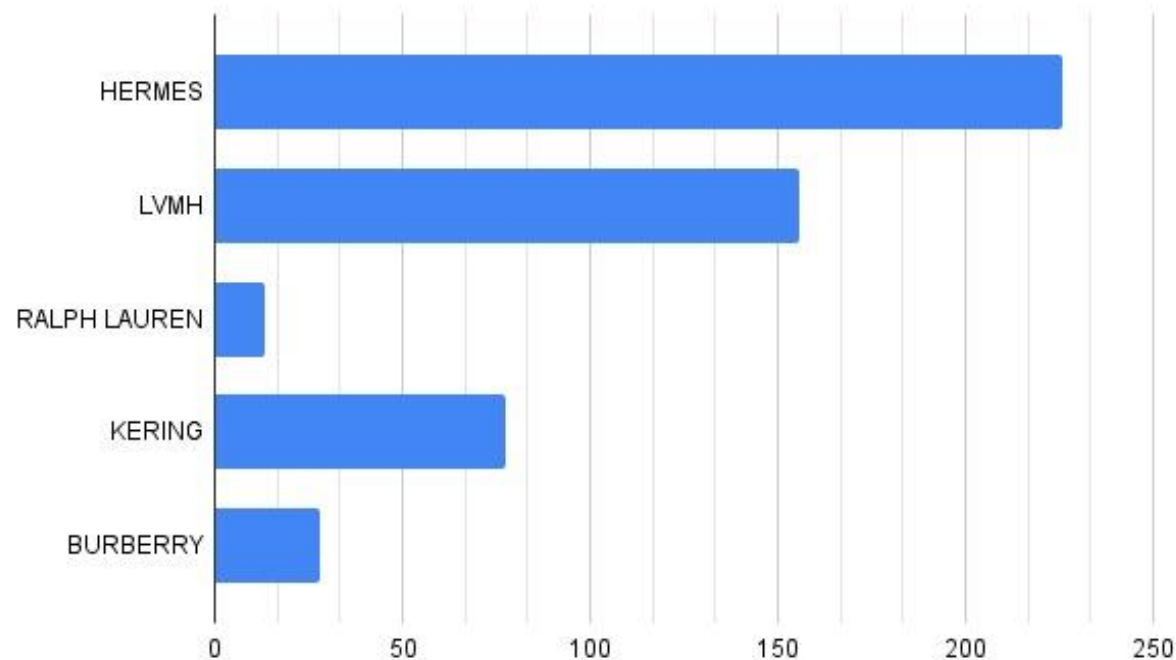


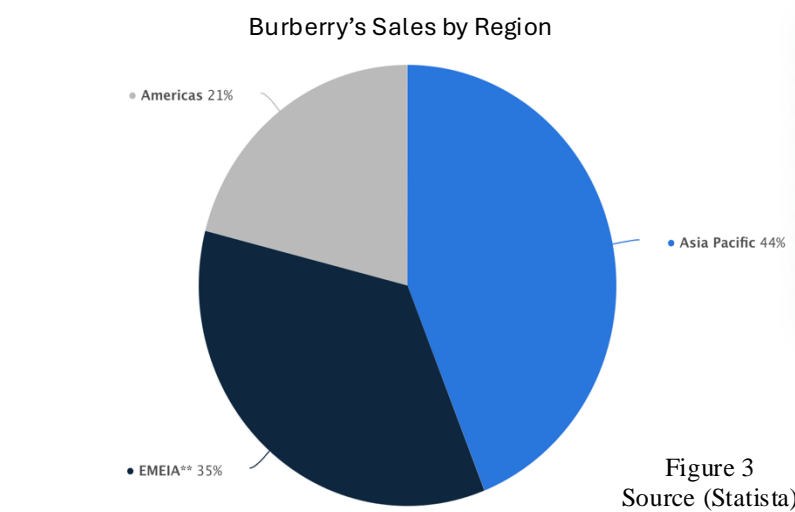
Figure 1

Source (Annual Reports)

Macroeconomic Factors Impacting Burberry's Revenue

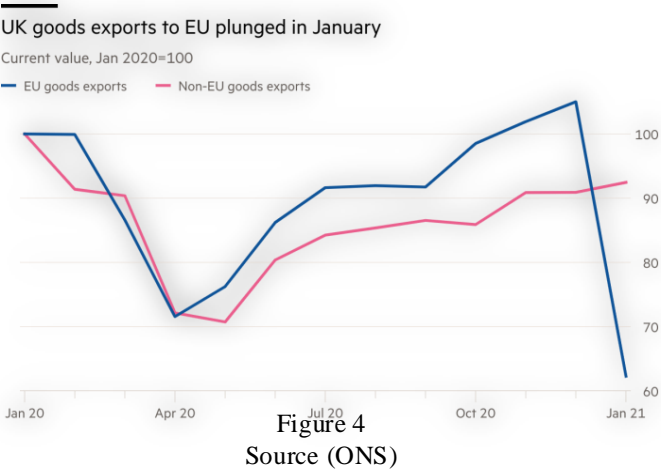
1.1) 44% of Burberry's revenue from the **Asia Pacific region** (higher than competition)

- Declining sales in the region:
 - China (-21% sales)**
 - Due to the US-China Trade War and local market promotion
 - South Korea (-26% sales)**
 - Implemented policies to slow down luxury spending reducing demand for luxury goods



BRAND	ASIA-PACIFIC SALES PROPORTION
LVMH	38
BURBERRY	44
KERING	42
HUGO BOSS	14
PRADA	34.5

Figure 2
Source (Author)



1.2) Export Barriers:

- Most of their non leather goods produced in UK:
 - Conflicts like **Brexit** imposed trade barriers on exports leading to a loss of sales in the EMEA region



BBC

<https://www.bbc.com/news/newsbeat-47302587>

Burberry sorry for 'suicide' hoodie with noose around neck

19 Feb 2019 — The **fashion** brand was criticised by one of its own models, Liz Kennedy, in a long post on Instagram in which she said: "**Suicide** is not **fashion**."



The New York Times

<https://www.nytimes.com/2018/09/06/business/bu...>

Burberry to Stop Burning Clothing and Other Goods It Can't ...

6 Sept 2018 — At the time, **Burberry** said that it **destroyed** only items that carried its trademark and that the burning of cosmetics was a one-off action ...

Brand Related Factors Impacting Burberry's Revenue

1.3) Brand Reputation: Burberry's brand reputation has been unstable due to various stunts and **public relation failures** like the instances shown on the left.

1.4) Brand Pricing Strategy Ambiguity: Burberry has been **raising their prices** to create a sense of **exclusivity** to the brand as seen in the figure on the left, but this has contrasted with attempts to make Burberry more **accessible**, including:

- **Entry level products.**
- **Aggressive retail discounting strategies** which account for a substantial portion of its sales—up to 30%—possibly resulting in long term brand recognition and appeal concerns with their core consumer base.

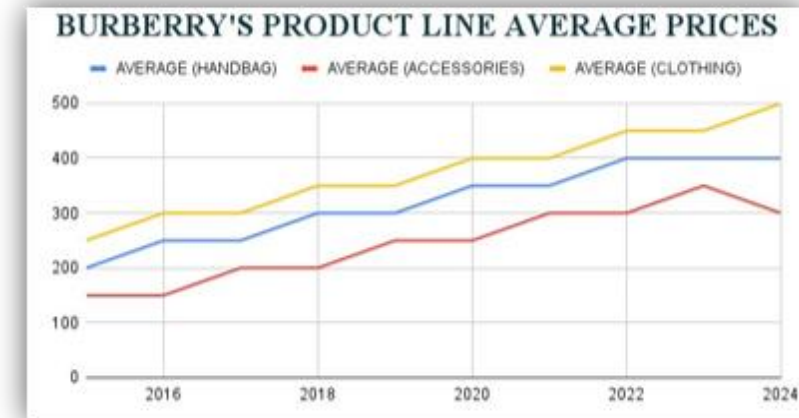


Figure 5
Source (Author)

1.5) Lack of Brand Resonance With Younger Audiences (30 and under):

- Due to a **lack of effective story-telling**, Burberry struggles with the process of ushering in trendier pieces **without losing its identity**.
- For instance, in the Chinese market, where the **average age of a luxury goods consumer is 29**, is leading to a low level of brand resonance and a subsequent decrease in sales.

Internal Shortcomings of Burberry's Business

Lackluster Management Longevity:

1.6) The **lack of management continuity**, have resulted in rapidly changing brand and growth strategies, which have resulted in **inconsistent brand messaging** and visions, leaving strategies from achieving fruition. The contrasting and **rapidly fluctuating** strategies can be seen below:

MANAGEMENT-STRATEGY TIMELINE

ANGELA AHRENDTS

- Revenue and Profit went 3x
- Brand was seen as a digital pioneer in the luxury sector.
- Key Initiatives - digital innovations
- Left in 2014 - leadership void and subsequent shifts in focus

2006-2014

2014-2017

CHRISTOPHER BAILEY

- “See now, buy now” strategy failed to boost sales
- Aimed to maintain digital momentum
- Struggled to balance creativity and management

MARCO GOBBETTI

- Reposition Burberry as exclusive
- Increased prices - decline in sales
- Hired Riccardo Tisci
- CPP Luxury

2017-2021

JONATHAN AKEROYD

- Aimed to restore Burberry's heritage
- Wanted core focus on outerwear and rainwear
- Company's share price fell significantly

JOSHUA SCHULMAN

- Focused on addressing declining sales and brand momentum
- Previously led Coach & Michael Kors
- Aimed to make Burberry a more accessible luxury brand.

2021-2023

2023-Present

1.7) Unconvincing Marketing Campaigns:

- Burberry has attempted to emphasize digital marketing, but it didn't greatly impact the brand.
- A survey that we carried out showed that **49 out of 53 people preferred LVMH's most "recent" advertisement on Instagram over Burberry's.**
- Other marketing campaigns like **Burberry Bond Street** fell flat, outright causing an uproar due to unforeseen outcomes.
- **Failed ad campaigns in China**, such as The Chinese New Years marketing campaign resulted in poor reactions from the target audience being pedantically dismantled and criticized.
- Attempts to revamp the brand an appeal to audiences, like **Burberry Blue** have not been perceived with a positive lens either.
- These failed marketing campaigns result in **lower overall sales and brand reputation.**

MSN

Transport for London renames Bond Street 'Burberry Street' – and the internet is not impressed

LVMH



Burberry



F

fashionunited.uk

https://fashionunited.uk › Fashion

Burberry criticised for 'creepy' Chinese New Year campaign

7 Jan 2019 — Burberry's latest campaign to celebrate Chinese New Year has fallen foul with some customers, attracting a horde of criticism on social media.

Figure 6
Source (Investopedia)

BRAND	DIVIDEND YIELD
BURBERRY	9.52
LVMH	2.07
RALPH LAUREN	1.91
KERING	5.67
HERMES	1.26

1.8) Dividend Reinvestment:

- Currently, it is having a **dividend payout ratio of about 82%**, indicating that quite a huge amount of its earnings is spent on paying dividends.
- This could obstruct the capability of Burberry to drive future revenue growth due to less reinvesting profits

Question 2: What are some factors contributing to Burberry's decrease in net profit?

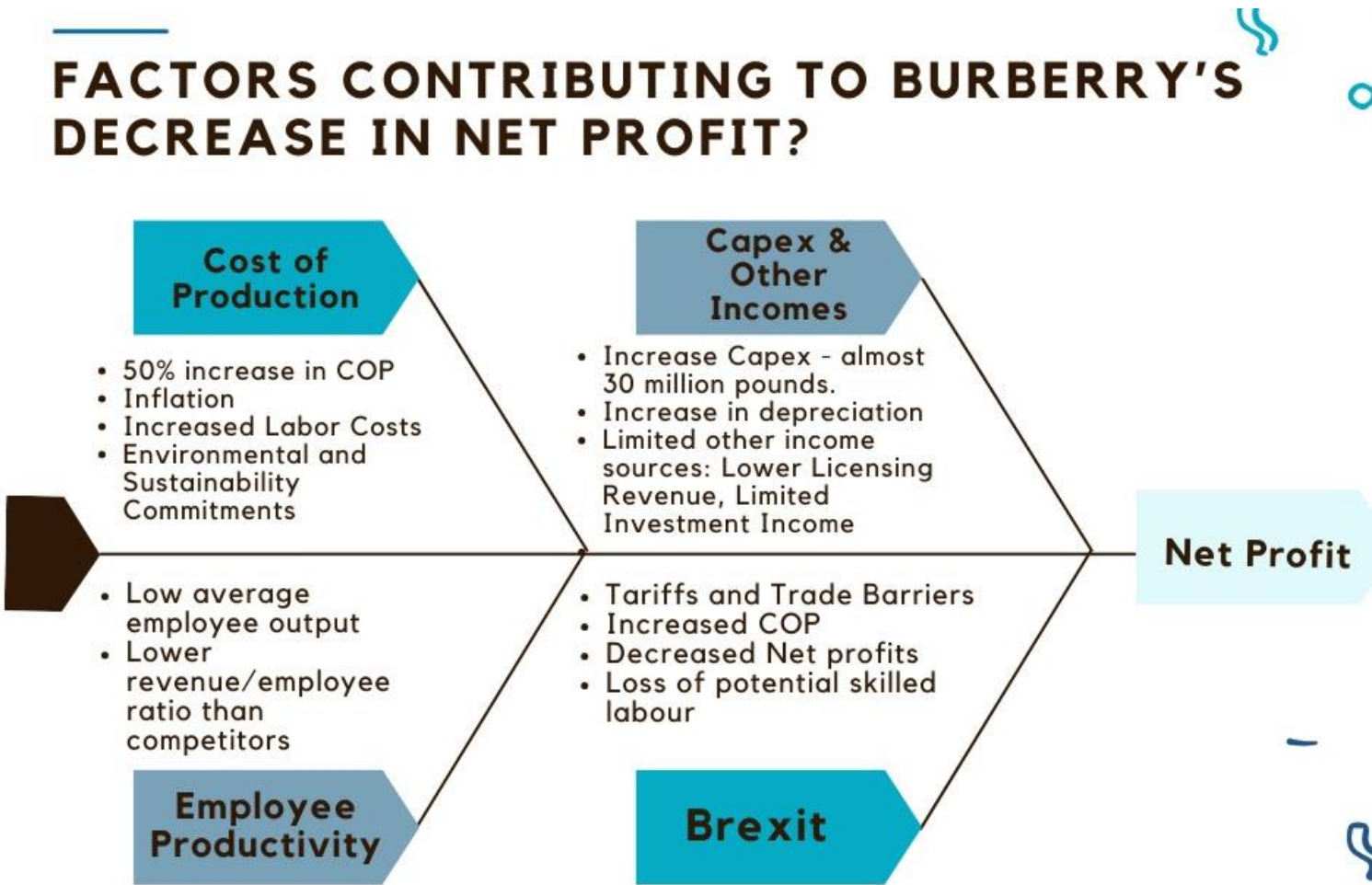


Figure 7
Source (Author)

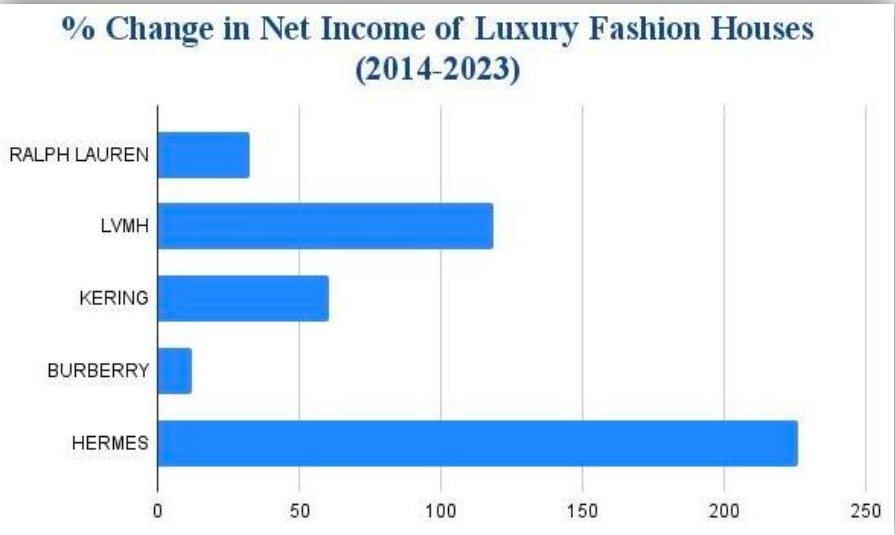
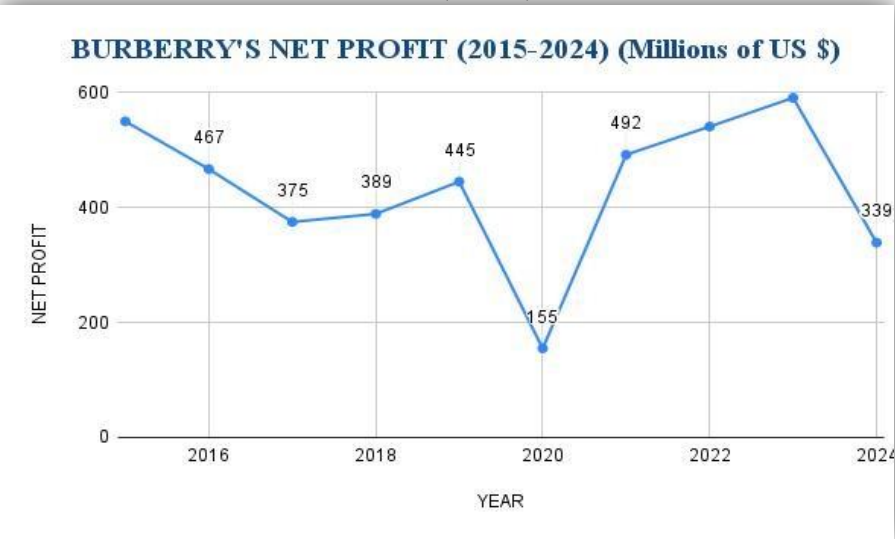


Figure 8
Source (Statista)



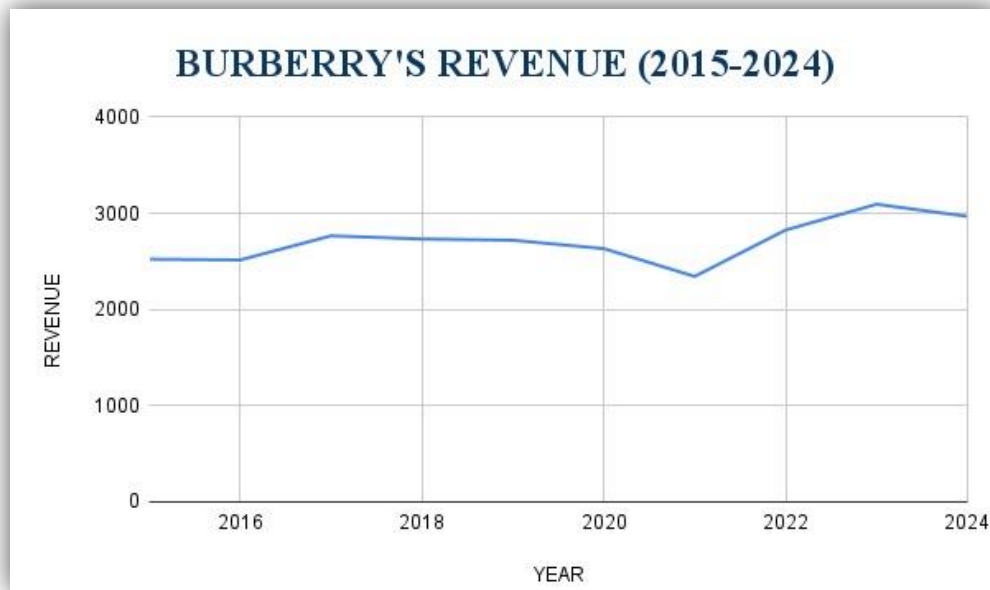


Figure 9
Source (Statista)

2.1) Stagnant revenue (17.6% Growth in 10 years), combined with **increasing costs** have led to **lower gross profits** and have thus translated to **lower net profits**.

2.2) Brexit (Post-2016):

- New customs regulations, tariffs, and border checks **increased complexity** in moving goods between the UK and EU, affecting both **supply chain efficiency**, as well **volume of imported raw material** for production and delivery times.

Inflation in advanced economies

Harmonised Index of Consumer Prices in May 2023

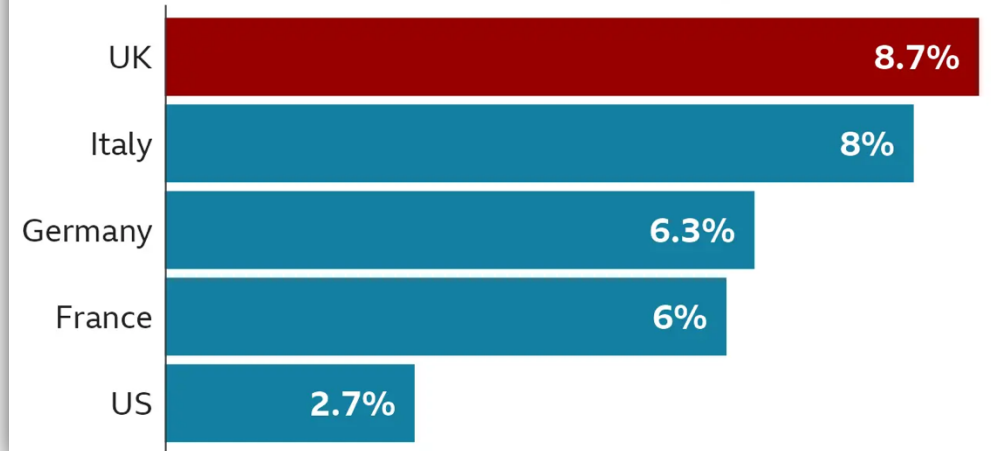


Figure 10
Source (ONS)

2.3) Costs of Production: There’s been about a **50% increase in COP** (while revenue has increased by 17.6%), rising from approximately \$880 million in 2013 to around \$1.205 billion in 2024. This combined with higher operating costs is due to a few main reasons:

- **Inflation:** General inflation (following 2022 due to the Russia-Ukraine conflict) has led to a **short-term increase in prices** for raw materials. Italy (Leather source - 8.7% Inflation), Peru (Cotton source – 7.7% Inflation), Mongolia (Cashmere source - 15.2% Inflation).
- **Labor costs have increased**, rising significantly post-pandemic, with increases in wages of **20-25%**.
- **Environmental and Sustainability Commitments:** This caused **increase in operating costs short term**, due to their commitment to **reducing emissions by 45.9%** and **sourced 55% raw goods sustainably**.

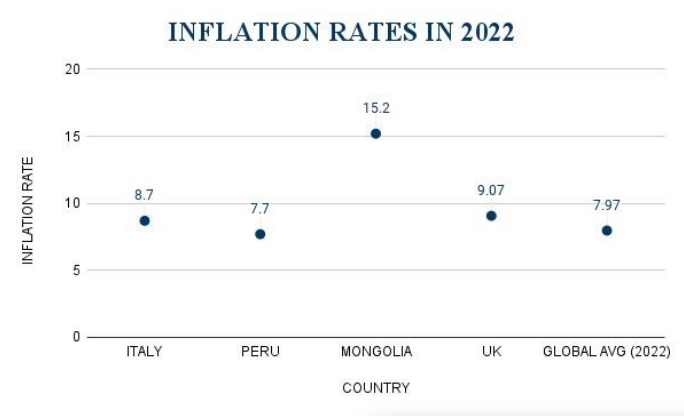


Figure 11
Source (IMF)

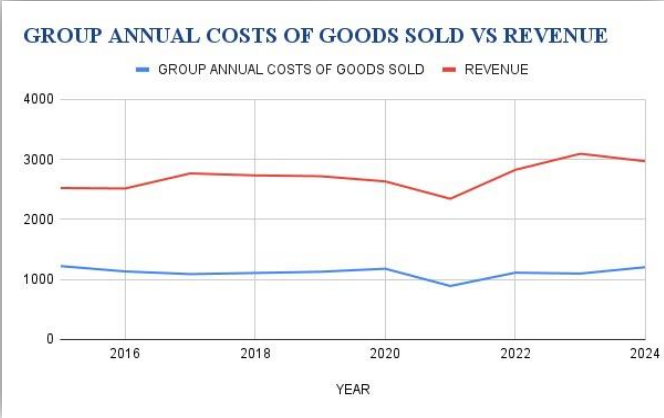


Figure 12
Source (Author)

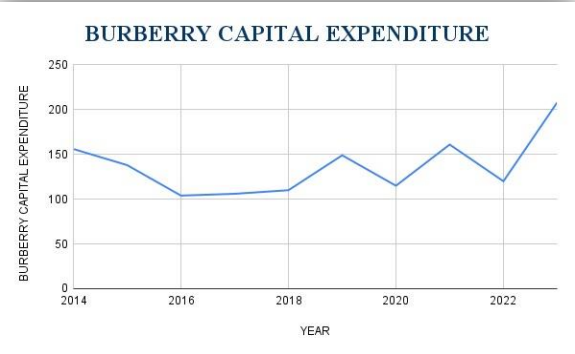


Figure 13
Source (Author)

Period ended £m	52 weeks ended 30 March 2024	52 weeks ended 1 April 2023
Operating profit	418	657
Adjusting operating items	–	(23)
Amortisation of intangible assets	42	37
Depreciation of property, plant and equipment	103	95
Depreciation of right-of-use assets*	234	209
Adjusted EBITDA	797	975

Figure 14
Source (Burberry Annual Report 23/24)

2.4) Burberry has recently increased Capital Expenditure by almost 30 million pounds, which along with an increase in depreciation has led to a decrease in net profit.

“Adjusted operating profit of £418 million decreased 25% at constant exchange rates and 34% on a reported basis due to a combination of increased stock provisions and investment in product and an increase in property costs from increased depreciation from the refurbishment programme and increased right of use assets partially offset by disciplined cost control”
-Burberry Annual Report 2023

OPERATING PROFIT MARGIN OF VARIOUS LUXURY HOUSES

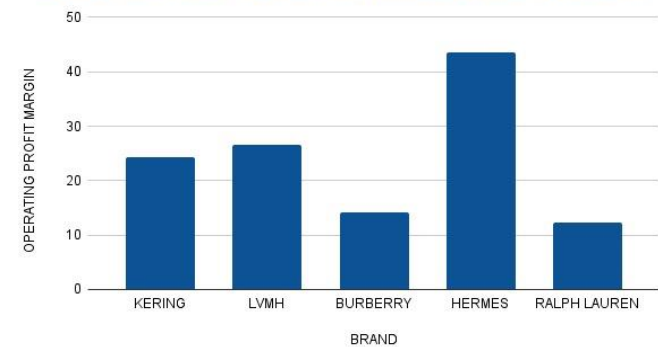


Figure 15
Source (Author)

Figure 16
Source (Burberry Annual Report 23/24)

	Note	52 weeks to 1 April 2023 £m	53 weeks to 2 April 2022 £m
Revenue	3	3,094	2,826
Cost of sales		(911)	(815)
Gross profit		2,183	2,011
Operating expenses		(1,572)	(1,498)
Other operating income		46	30
Net operating expenses	4	(1,526)	(1,468)
Operating profit		657	543

2.5) Limited "Other Income" Sources: Burberry relies heavily on **core retail operations** and has fewer non-core income streams compared to diversified luxury competitors. This can be attributed to:

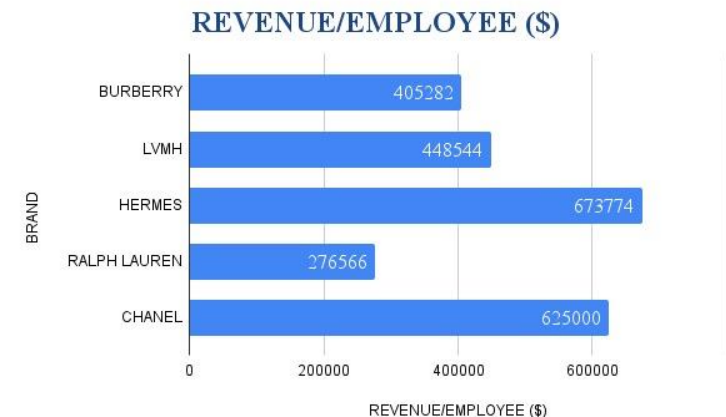
- **Lower Licensing Revenue**
- **Limited Investment Income**

Additionally, Burberry has had accelerated its **expenditure on retail footprint**, direct store operations, and digital initiatives, investing money into aspects that can lead to long term growth.

2.6) Low Employee Productivity:

- **Low average employee output**, having **9201** employees in the FY23 despite only having a total revenue of **\$3.729** Billion resulting in an average employee revenue of **\$405,282**.
- Though they have attempted to improve save costs on employees, when they cut **500 jobs in 2020, saving 55 Million Pounds**, they are still **unsuccessful in having a competitive Revenue Employee Ratio** as seen in the figure on the right.
- Moreover, Brexit led to a substantial **loss of skilled labor** in the United Kingdom, further reducing employee productivity.

Figure 17
Source (Author)





Question 3: What are some short-term and long-term strategies to help Burberry execute a turnaround?



Executive Summary

- **Short Term Strategies:**

1. Implementing Technology to Project outfits
2. Restructuring their marketing strategy
3. Emphasising Brand collaborations
4. Allowing Individual Product Customization
5. Restructuring employee organization
6. Altering Current Design Strategy

- **Long Term Strategies:**

1. Reevaluate Retail footprint
2. Implement a Franchise-based mode
3. Start a Subsidiary Brand Under Burberry
4. Expand on Leather Alternatives
5. Decrease in cost of production
6. Increased emphasis on other incomes

Short Term Solutions:

1. **Projecting outfits:** For online customers, outfits can be projected on their photos to give a feel to how it would look on them which is unique and may attract potential customers. Furthermore, in retail stores there can be a **digital walking closet** where customers can try on outfits using projections which will enhance their shopping experience. This will simultaneously help in our 4th solution in which it makes customization easier for customers.

2. Restructure their marketing strategy (Solution to 1.7):

- Burberry should **coordinate with local market experts** to be **culturally compatible** with their marketing campaigns and create a **local cultural narrative** to attract the more culturally sensitive audience.
- To resonate with the youth Burberry should have **young brand ambassadors** from different occupations and countries who **approach the youth with a face that they can relate to**.
 1. This allows Burberry to expand its consumer base, capitalizing upon this higher youth-based demand and the greater potential within the specific youth-focussed market.
 2. These brand ambassadors will be able to **increase youth appeal for products that are traditionally inconsistent with ‘modern trends**, by showing that old fashion is still fashionable today.
 3. **Improve digital marketing**, we understood from the survey we carried out that it is needed to convert more viewers into customers, especially in the younger audience. This can be done by using trendier songs, hooks on short ads and using social media marketing experts to leverage knowledge about trends, algorithms and viewers to improve advertisements.



3. Brand collaboration (Solution to 1.5):

- **Collaborating with youth-appealing brands** such as Nike and Dior (Dior Jordan's) to help the brand diversify into modern trends and styles yet retaining the tradition brand image that Burberry currently has.

4. Individual Product Customization:

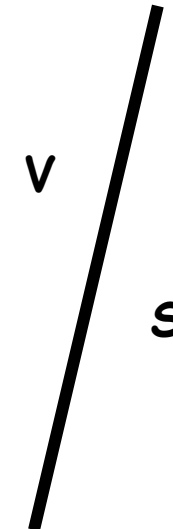
- Allow consumers, especially **regular consumers** to customize their clothing items to an extent, allowing autonomy in the design process while retaining the Burberry brand.
- This allows consumers to **bypass product designs** that they doesn't particularly appeal to them, purchasing the branded customized product at **1.25-2x the retail purchasing price**.
- Introduction of limited-edition product lines with exclusive products, leading to higher 'hype' and rarity around their goods.

5. Burberry requires a restructuring in employee organization (Solution to 2.6):

- By **increasing the number of workers** on contract, rather than having full time employees, Burberry can derive **higher productivity at lower cost of employees**.
- Employees **more interns** and part time workers to work on especially menial and miscellaneous tasks resulting in **lower overall costs** due to a decrease in excess labor spending.

6. Burberry requires a substantial change in their current design strategy

- They need to shift from Burberry blue to other more **modern and subtle colors** that appeal to the younger and the modern audience
- They have to **diverge from the color family** they have been using in previous years such as Burberry Blue label and Burberry Black label



Long Term Solutions:

1. Revalue Retail footprint:

- The retail outlets in the Asia-Pacific generate less revenue per store at **£5.38m** whereas the retail outlets in the EMEIA region earn **£10.17m** per store. Reducing the number **low-productive stores in tier three cities** Lanzhou and Nanchang China, which will save their operating expenses and minimal revenue losses. **Reducing the concentration of stores** to increase the revenue per store and cut down on operating costs. **(Solution to 2.3)**
- In the long term, **maintaining the number of stores in the Asia-Pacific Region**, whilst concomitantly **increasing the number of stores and advertising focus in the EMEIA Region** may result in higher revenue with lower costs due to a lower store-revenue proportion. **(Solution to 1.1)**
- Closing low yield stores can result in **decrease of lower productive employees**, thus resulting in higher revenue per employee. **(Solution to 2.6)**

Figure 18
Source (Burberry Annual Report 23/24)

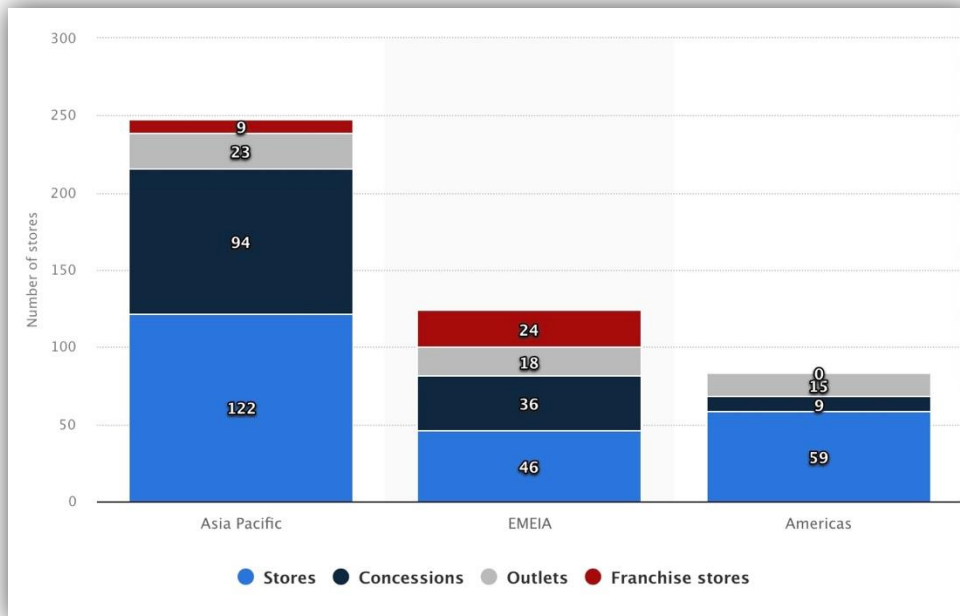


Figure 19
Source (Burberry Annual Report 23/24)

2. Switching to a more franchise-based model:

- Burberry only has a total of **33 Franchises right now**.
- Switching to a model where the number of franchises in relation to owned outlets and stores is great may result in **lower operational expenses such as rent and maintenance costs**. **(Solution to 2.3)**
- Oftentimes, franchises result in poor brand image and lower exclusivity, but this may be combatted by:
 - Stringent contracts based on quality control.
 - Training on customer experience.
 - Frequent anonymous checks on all franchises.
 - Selectively choosing franchise owners.

3. Subsidiary Brand Under Burberry:

- Building a subsidiary brand will allow Burberry to increase the **diversity of their product line**, deviating from traditional British clothing to more **street-wear inspired trends**.
- This **solves the issue of brand dilution/recognition concerns** while concurrently appealing to a younger audience. **(Solution to 1.5)**
- Though the subsidiary brand **may take time to garner attention and sales**, the **financial backing from its parent brand Burberry** will allow it to run without breaking even for a decently long time.

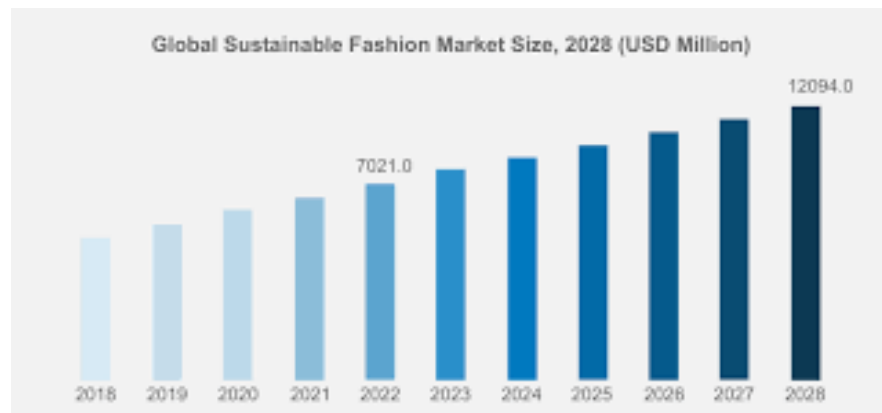


Figure 20

Source (BusinessResearchInsights)

4. Increasing the range of goods which fall into the Faux Leather category using substitutes like **Cactus leather and Cork** to make products such as shoes, coats, and purses.

- This will **promote ethics**
- Cactus leather and Cork are more durable and sustainable substitutes.
- **Attract a potentially younger audience** that are typically more liberal in terms of sustainability. **(Solution to 1.5)**
- More **difficult to make counterfeit showing exclusivity**.

5. Decrease in cost of production through diversification of supply and manufacturing: **(Solution to 2.3)**

- Shift a **portion of production** to cost competitive economies like China or India
- Lower labor costs (**USD1000/ week in UK vs. USD280/ week in China**).
- To prevent a deterioration in brand value these products are only going to be a **lower luxury/high volume products**.
- **Increasing the countries supplying each raw material** to prevent increasing costs of production in periods of inflation.

6. Increased emphasis on other incomes:

Rent out/Lease, Burberry can give an **unused area** of their stores to other luxury sector brands to **promote and sell their products** to their target audience that come also visits Burberry. Furthermore, investing their **liquid cash in bonds, and equity** in other companies can increase net income in the long term. **(Solution to 2.5)**