

BURBERRY¹

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.

This publication may not be transmitted, photocopied, digitized or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e) cases@ivey.ca; www.iveycases.com.

Copyright © 2014, Richard Ivey School of Business Foundation

Version: 2014-04-28

In 2005, it was first announced that Rose Marie Bravo would be stepping down from her position as Burberry's chief executive officer (CEO) and Angela Ahrendts would be named as her replacement. Ahrendts had many years of experience within the fashion industry. She previously held various senior positions, including executive vice president at Liz Claiborne Inc., executive vice president of Henri Bendel and president of Donna Karan International.² Though Burberry had enjoyed continued year over year growth, the sales growth at Burberry was not on par with the growth seen within the personal luxury industry. Big changes within Burberry were expected to come as Ahrendts took the reins in July 2006. What were the transformations and changes that Burberry would need to make in order to successfully adapt to the dynamic and innovative global business environment of the luxury industry?

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.³ Burberry's customer base grew throughout the 1800s; however, it was the invention of gabardine — a breathable, waterproof and tear-proof fabric — in 1880⁴ 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."⁵ The business continued to grow with the pioneering of the Burberry trench coat when, 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 actual first trench coat designer, with both Burberry and Aquascutum — another British apparel company — claiming to have spearheaded the design of the garment;⁶ 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. In 1919, Captain John Alcock and Lieutenant Arthur Whitten Brown completed the first non-stop transatlantic flight wearing Burberry aviator suits.⁷

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 in her role as Holly Golightly in the 1961 blockbuster *Breakfast at Tiffany's*.⁸

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 1909.⁹ In 1920, the now iconic Burberry check was registered as a trademark and added as a lining to the trench coats.¹⁰ The check was incorporated into accessories in the late 1960s.¹¹

Company Ownership Changes

In 1966, the company became a wholly owned subsidiary of Great Universal Stores (GUS), a holding company of a large group of mail order, retail, manufacturing and related businesses.¹² In 2002, GUS arranged a partial IPO for Burberry.¹³ It was not until 2005 that the majority shareholder announced it planned to sell its 66 per cent stake — worth more than £1 billion — in order to concentrate on its other businesses.¹⁴ GUS was the beneficial owner until the sale of approximately 65 per cent of Burberry Ordinary Shares in December of 2005.¹⁵

More Recent History

Over the years, Burberry's public image began to change as the luxury status of the Burberry brand began to diminish. Rose Marie Bravo was brought in as CEO to restore the brand's image. Her leadership proved to be successful, with sales increasing from £250 million¹⁶ in 1997¹⁷ to over £675 million in 2004.¹⁸ Included in her transformation was the launching of the Prorsum collection — the Burberry's fashion forward runway line — as well as the expansion into the perfume business.

THE ENVIRONMENT AND CHARACTERISTICS OF THE LUXURY INDUSTRY

The Industry

Burberry competed in the personal luxury market and, specifically, the global apparel, accessories and luxury goods market which included clothing, jewelry, watches, leather goods and cosmetics. This industry was a subset of 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.¹⁹ A new part of the luxury industry — experience-based luxury — was a growing segment of the luxury market. "People [were] enjoying much more material comfort in comparison with previous generations, resulting in a trend of a cultural shift for personal fulfilment and aspiration through experience."²⁰ With this cultural shift also came a growing demand for a luxury experience as an aspect of shopping in-store for personal luxury goods.

The personal luxury market, valued at €147 billion and €159 billion²¹ in 2005 and 2006, respectively,²² the market was predicted to grow at an anticipated Compound Annual Growth Rate (CAGR) of 4.5 per cent for the five-year period 2006 to 2011.²³ Considering that the major personal luxury industry players were based in Europe and coupled with the fact that the European market made up 28.8 per cent²⁴ of the market, the euro exchange rates played a significant role in the industry financial results and growth forecasts.

In line with the increase in household purchasing power over the last few decades, prices of top-of-the-line luxury goods experienced an upward trend (see Exhibit 1). Premium mass consumption goods (trading up) — not previously considered as a part of the luxury industry — experienced a similar trend in price as the top-of-range luxury sector, while the luxury entry products experienced a slight downward trend in price throughout the decades. These trends caused the premium sector to overlap luxury entrants in price and showed a growing lack of separation between luxury and premium goods.²⁵

The luxury industry, as a whole, operated quite differently from other industries, including the premium goods industry and the fashion industry (see Exhibit 2). In luxury sectors, mystery, aura, rarity, elegance, craftsmanship, mystique and exclusivity were key success factors. The industry had a long history and many of its key players (including Burberry, Louis Vuitton and Chanel) had done business in the luxury sector for over a century. The luxury sector was hard to break into by new entrants, and was dominated by a couple of brands, defined by Bernard Arnault, CEO of LVMH, as ‘star brands’:

Star brands should be timeless, modern, fast-growing, and highly profitable . . . There are fewer than 10 star brands in the luxury world, because it is very hard to balance all four characteristics at once — after all, fast growth is often at odds with high profitability — but that is what makes them stars. If you have a star brand, then basically you can be sure you have mastered a paradox.²⁶

Customer dreams, particularly concerning lifestyle trends and status symbols, played a large part in the marketing and sales of luxury goods. It was an industry centered on indulgence, and customers were not willing to give up indulgent items, even when times got tough. Many consumers were willing to trade down products and services that they considered less important for the ability to continue to trade up on aspirational luxury goods.²⁷ For example, “consumers [would] shop at Wal-Mart or Asda, but drive a Mercedes.”²⁸

The growing trend of online shopping at the expense of traditional mall shopping in the United States and Europe created a new demand stream. The online luxury goods market value increased drastically, from €1.7 billion in 2005 to €2.2 billion in 2006.²⁹ Any luxury brand that wanted to stay competitive needed to recognize this trend and incorporate online sales into the brand’s future sales strategy.

Ahrendts needed to consider if Burberry’s strategy was in line with these industry trends. What did Burberry have to do to align its strategy with the industry trends in order to be competitive within the personal luxury market?

The Customer Segments

The luxury industry consisted of three customer segments: absolute, aspirational and accessible.³⁰ The absolute segment was the smallest in number of individuals, yet the purchasing power per individual customer of this segment was immense. These customers were defined as ultra high-net-worth individuals

(UHNWI); to these customers, money was not an issue. The demand from this group, as a whole, was not strongly impacted by the economy; therefore, their demand was stable. Though their demand was stable, their high purchasing power per person in conjunction with their higher requirements in terms of customer service and quality goods meant their needs could not be overlooked. The market differentiated between ‘mass luxury’ and ‘premium luxury.’ “Mass luxury caters for many people through products whereas premium luxury is for the few — a niche area of indulging in experiences.”³¹

The absolute segment appreciated the brand history and heritage. They wanted to own iconic brands and pieces that were unique and emphasized their elitism. They were interested in owning the highest end products and shopped for ready-to-wear and bespoke (personalized or tailored) haute couture goods. This market looked for goods that were discreet — goods that emitted quality and understated opulence.³² The beauty of the object was important to this group; high aesthetic content and extreme quality made a luxury good more exclusive. The absolute market wanted more products and services that made them feel above the masses; Andrew Benett, chief strategy officer at Euro RSCG, N.Y. (whose clients included Jaguar) called this trend “the push back against ‘masstige.’”³³

Of the three groups, the absolute segment placed the greatest importance on the brand’s emotional environment. Their definition of luxury fit with what Remi Krug, president of the House of Krug, stated about luxury: “that which distinguishes the very good from the emotionally moving”.³⁴ For this segment, an emotional, distinctively exclusive shopping experience set luxury brands apart from the rest. Privacy took top precedence for this group. Luxury fashion houses had specific client service teams that catered only to this group. Price was important as the price needed to be high enough to make it unattainable to most. For these individuals, for the good to be a desirable luxury object, it was important that it had a price that exceeded the value of the good’s mere functionality.³⁵

The second customer segment was the aspirational group. This group included celebrities, professionals, and businessmen and women 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.”³⁶ 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 group also valued quality. The aspirational segment looked for faster-changing product lines. The style, artistry and design of the goods as well as their performance and quality were important to the aspirational segment.

The third group of luxury shoppers was the accessible segment. This group was made up of the middle and upper middle class customers. The emergence of this group proved that “luxury [was] no longer the embrace of the kings and queens of France but the mass marketing phenomenon of everyday life.”³⁷ The members of this market segment still wanted 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.

To this market segment, a luxury good symbolized a membership badge and the ability to show status and wealth by association with the affluent class; therefore, the accessible segment often chose goods that explicitly showed the brands, be it through distinct brand designs, monograms, logos or brand symbols.

Due to the minimum spending power per individual of the accessible group, price was an important consideration when they purchased luxury goods. The desire to be associated with the affluent class coupled with the inability to afford many luxury goods had some members of the accessible market turn to counterfeit goods to fill their void.

Over the years, the aspirational and the accessible classes grew at a faster rate than the absolute group. The aspirational segment grew at the fastest rate of all three groups.³⁸ This change in overall market demand impacted how luxury brands needed to market their goods in order to secure the highest sales while simultaneously ensuring they did not hurt their brand image. In conjunction with this, “[t]he 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.”³⁹ Each customer segment was more knowledgeable about luxury brands, their quality, where they were produced and the image the brands portrayed.

Burberry’s key markets, in line with industry trends, were split between three regions: the United States, Europe and Non-Japan Asia Pacific. Over the 2005/06 fiscal year, the European market growth was flat, while the U.S.-sourced revenue increased by 5 per cent underlying and 9 per cent reported, with strong retail growth. The Non-Japan Asia Pacific region experienced revenue growth of 6 per cent underlying and 13 per cent reported and also reported strong retail sales.⁴⁰

Ahrendts needed to consider which customer segments should be targeted. Should all three segments be targeted: absolute, aspirational and accessible? Were there any other changes Ahrendts should consider?

THE EMERGING CHINESE MARKET

Europe and the United States were the largest and most established markets for the personal luxury industry, accounting for 28.8 per cent and 21 per cent of the market’s value over 2006, respectively.⁴¹ These established markets were overpowered in size by the Asia-Pacific region, which accounted for 35.3 per cent of the global market’s value during this same period.⁴²

Though not as established as the European and U.S. markets, the Asian market, specifically the China region, was the largest and the fastest growing market for the personal luxury industry. Chinese consumers alone were expected to account for 29 per cent of all global luxury goods purchases by 2015.⁴³

China’s developing country status together with its quick but steady economic growth over the last few years made the market quite unique from those of Europe and the United States. The past 25 years experienced gross domestic product (GDP) growth at an average annual rate of about 9 per cent, the fastest sustained growth for a large economy. This economic boom led to the growth in the size of the wealthier Chinese population and, consequently, the growth in luxury sales followed the growth of China’s economy.⁴⁴

Though the stereotypical Chinese luxury shopper was a middle-aged official who could afford to buy many luxury goods, the growing Chinese economy gave rise to a different customer group — the young Chinese professional. These educated white-collar workers saved to splurge. They understood trends,

focused on key luxury purchases and mixed and matched their luxury pieces with local goods as well as with fake, counterfeit pieces.⁴⁵

Though the Chinese market experienced steep growth, the luxury sales to this market were not necessarily taking place within China for two main reasons: taxes and perception. Due to taxes of 20 to 30 per cent on luxury goods, many wealthy Chinese customers used domestic stores as showrooms to view the items and try them on before they made their ultimate purchases during trips abroad.⁴⁶ In addition, the perception of luxury goods purchased in China was different from those goods purchased abroad, particularly in Europe:

Affluent Chinese are willing and able to afford the high costs for top-line merchandise with brands analogous to status and prestige; historically, though, luxury consumption is often suggestive of corruption in Chinese culture. The well-off group frequently shop overseas and seek eagerly for foreign name brands such as Gucci, Louis Vuitton and Prada.⁴⁷

Ahrendt had to consider, what was the magnitude of the Chinese market and what role would the market play in the future on trends within the personal luxury industry? How important were the trends of this market on the decisions she had to make?

BURBERRY'S STATUS

The Chavs

Though the company was enjoying financial growth, the luxury status and quality image associated with Burberry was changing as Burberry — particularly Burberry's iconic check — gained popularity among a new customer market in Britain. Burberry's "distinctive beige check, once associated with A-listers, [became] the uniform of a rather different social group: the so-called Chav."⁴⁸

In Britain a few years ago, a working-class subculture emerged called Chavs, a term derived from the Romany travellers' word chavi, meaning "child." Young and usually with only a high school education, Chavs hang out at small-town shopping centres, smoke cigarettes, and intimidate passersby. Their uniform is a baggy tracksuit, clunky gold jewelry, and anything and everything with the Burberry check, much to the chagrin of Burberry executives . . . They are proud of their Chavness and have their own set of celebrity idols, the tops being Victoria Beckham, former Spice Girl and wife of soccer star David Beckham, and Daniella Westbrook, a working-class British TV actress who starred in the popular soap *EastEnders*. Westbrook was named the Queen of Chavs when she was snapped shopping in London dressed head-to-toe in Burberry check and pushing her Burberry check-clad baby in a Burberry check stroller.⁴⁹

For luxury goods, a key aspect to their aura was the perception. It was important that many people were familiar with the brand, but it was equally important that there were more people familiar with the brand than people who could afford it. Association with the Chavs was negatively impacting the luxury image of Burberry.

The affiliation with the Chavs not only impacted the aura and historical dream appearance of the luxury brand, the Chavs also began buying counterfeit versions, which impacted the brand's quality image. "The Chavs became most obsessed with the Burberry check baseball cap. When Burberry stopped producing the caps, Chavs started buying counterfeit versions."⁵⁰

The fact that the Chavs embraced the Burberry check definitely changed the image of Burberry from the image the brand had refined and coveted for decades. Could the damage to Burberry's image be reversed? Ahrendts needed to investigate the amplitude of the undesired popularity of the brand brought on by the Chavs.

Financial Performance

Burberry operated with positive revenue growth over the last four years (see Exhibit 3). Apart from the Atlas project costs in 2006 (a program for the full redesign of Burberry's sourcing, supply chain and business processes and systems), the company enjoyed steady growth in revenue and profitability over this time period.

Other Operations

In addition to the strong negative impact of the Chavs on Burberry's image in Britain, the brand's global strategy was also not aligned with Burberry's desired image. A customer's experience in a Burberry store in Tokyo might be very different from that in a store in Chicago. Furthermore, with 23 licensees around the world, it was hard for Burberry to control the image portrayed by the licensees. Licensing was a big part of Burberry's business; 11 per cent and 10 per cent of total revenues came from licensing in 2005 and 2006, respectively.⁵¹ In addition, though the head office was based in London, the design team members were based all over the world.⁵²

Ahrendts needed to consider if the company's strategy required any other changes in order to ensure the business strategy was in alignment with the image that Burberry wanted to project going forward.

Product Lines

Burberry had its products split among four product lines: Prorsum, womenswear, menswear and accessories.

The Prorsum line, launched in 1999, was the Burberry's fashion forward runway line. The line carried both haute couture and ready-to-wear pieces (see Exhibit 4). Shown four times per year in Milan, the Prorsum line's runway show helped to validate the brand's credentials, offered a focal point for media coverage and provided design leadership to all Burberry collections.⁵³

The womenswear and menswear lines were the core collections for Burberry. They offered a range of products in modern but classic styles. The lines carried both tailored and casual items for each of the genders. These lines were of a lower scale than the Prorsum line; thus, they consequently operated as diffusion lines (see Exhibit 3).⁵⁴

Burberry accessories included scarves, handbags, shoes, silks and umbrellas. The line also contained products that required specific expertise. Burberry teamed up with licensing partners on its glasses, fragrances and children's clothing lines.⁵⁵

Ahrendts needed to consider if the product lines were appropriate for the company's strategy going forward.

Distribution

Burberry had a multi-channel distribution strategy that consisted of retail, wholesale and licensing (Exhibit 5).

Burberry's directly operated retail stores made up the company's largest distribution channel and contributed 43 per cent of the revenues over the 2005/06 fiscal year.⁵⁶ The retail channel not only gave Burberry full control of the brand presentation and direct access to the customers, it was also a source of marketing for the brand. Large flagship stores in key shopping destinations around the world, next door to other large luxury players, kept Burberry's name prevalent.

Within the wholesale channel, Burberry products were distributed through a network of leading department stores, duty-free retailers and specialty stores. The wholesale channel also included franchise stores run by Burberry's wholesale partners; these franchises were located in regions where Burberry chose not to invest directly. The wholesale channel allowed Burberry to extend its reach to customers who preferred to shop in multi-brand channels or who did not have a Burberry store nearby.⁵⁷ At the same time, the wholesale segment brought about risk by giving away some of Burberry's power and control over the delivery of the brand image and the display of the products.

The licensing channel made 70 per cent of its revenue in Japan. This licensing channel included a broad range of licensing on apparel, accessories and home products through licensing partners. By using licensing, Burberry minimized its input in the production process while, simultaneously, it took a cut of the profits from the sale of the licensed goods. On the other hand, through licensing, Burberry gave away a level of control over production to the licensee. If not established and monitored properly, licensee agreements could lead to poor quality, unattractive design and distribution channels that did not fit with the brand's overall image. If a licensee made a severe error during production, distribution, marketing or sales, it could consequently hinder the overall brand's positioning.

Were these distribution channels appropriate? Should any changes be made?

Manufacturing and Production

The majority of Burberry's sourcing came from resources located within Europe. At the same time, Burberry maintained an external sourcing network with resources based in Asia and the Americas used for selected products.⁵⁸

COMPETITORS

Burberry operated in an industry with a number of key competitors. Ahrendts needed to consider their impact when making strategic brand decisions (see Exhibit 6).

PPR (previously known as Pinault-Printemps-Redoute)

Gucci Group N.V. was owned by France-based luxury giant PPR, a world leader in the luxury and fashion industry. The Gucci Group contributed €3.568 billion to PPR's reported €17.931 billion sales for the 2006 fiscal year end.⁵⁹

The Gucci Group was a multi-brand group whose portfolio was comprised of many well-known fashion brands including Gucci, Bottega Veneta, Yves Saint Laurent, Sergio Rossi, Alexander McQueen, Stella McCartney and Balenciaga.⁶⁰ Through its many brands, the Gucci Group designed, produced and distributed high-quality personal luxury goods. Gucci's brands competed in many areas of the personal luxury goods industry including ready-to-wear, handbags, luggage, small leather goods, shoes, timepieces, jewelry, ties and scarves, eyewear, perfume, cosmetics and skincare products.⁶¹ This multi-brand strategy allowed the Gucci Group to reach a large market; they were able to exploit all three luxury customer segments through its various labels. They were also able to satisfy different fashion tastes of the luxury customers through its various labels.

Though there were rumours that Gucci — PPR's most comparable brand to Burberry — was looking into potential production in China,⁶² Gucci praised itself on its 'Made in Italy' label and that its production was linked to the Tuscan region. Gucci even had a dedicated section on its website to its 'Made in Italy' label.⁶³

Louis Vuitton Moët Hennessy (LVMH)

LVMH was another leader in the global luxury goods industry. LVMH operated in five different sectors: wines and spirits, fashion and leather goods, perfumes and cosmetics, watches and jewelry and selective retailing (including department stores, cruise shops, airport shops and Sephora cosmetic stores).

LVMH's fashion and leather goods division included Louis Vuitton, Celine, Loewe, Kenzo, Givenchy, Thomas Pink, Fendi, Emilio Pucci, Donna Karan, Marc Jacobs, Berluti and StefanoBi. The division also included eLUXURY, an online luxury goods retailer.⁶⁴

The Louis Vuitton label was the closest competitor to Burberry from the LVMH Group due to its popularity — through its monogram — and due to the product categories it operated under. Louis Vuitton was the largest label under the LVMH fashion and leather goods division with annual sales of nearly €4 billion, Louis Vuitton made up more than half of the profits of the LVMH group.^{65 66}

The Louis Vuitton leather goods collections were manufactured in France, Spain and the United States. The footwear and ready-to-wear collections were produced in France and Italy. Louis Vuitton watches were exclusively made in Switzerland and the jewelry collections were made in France, Italy and Switzerland. The brand's sunglasses were produced in France and Italy.⁶⁷

Armani

Giorgio Armani S.p.A. (Armani) was a privately owned company, solely owned by its founder, Giorgio Armani.⁶⁸ Headquartered in Milan, Italy, Armani was the parent company of the Armani Group, one of the global leaders in the fashion and luxury goods market.⁶⁹ During fiscal 2005 (year ending December 31, 2005), the Armani Group generated sales of €1.428 billion, an increase of 9.9 per cent over the previous fiscal year.⁷⁰

Some of the famous brands under Armani included the adult fashion brands Giorgio Armani, Emporio Armani, Armani Collezioni, Armani Exchange and Armani Jeans. Under its many brands, the company was engaged in designing, manufacturing, distributing and retailing lifestyle and fashion products such as apparel, eyewear, jewelry, accessories, watches, home interiors, cosmetics and fragrances. The company also operated within the children's clothing and household markets.⁷¹ Through these different brands and

stores, Armani was able to cater to the various levels of the fashion pyramid, thus attracting customers of different market segments (Exhibit 4).

Giorgio Armani openly said that, as long as quality was controlled, there was no reason why some of the Armani brands could not be produced in China; however, he made it clear that the 'made in Italy' label is very important to the top line because it shows specialization.⁷²

Prada

Prada Group NV (Prada) owned global fashion brands Prada and Miu Miu. Based in Milan, Prada was known for its luxury leather goods and bags.⁷³ Prada's sales totaled €11.5 billion in 2006, which was a 23 per cent growth over the previous year.⁷⁴

Though it had unsuccessfully tried an IPO in the past, it was recently in talks again about listing on the Milan stock market in 2008. Almost all of the privately held company belonged to Prada's CEO, Patrizio Bertelli, his wife, designer Miuccia Prada, and their family members.⁷⁵

Though Prada tried a multi-brand strategy in the past, it had recently retreated from such a strategy to focus on the Prada and Miu Miu labels.⁷⁶ Instead of outsourcing its manufacturing, Prada decided to focus its strategy and sold off some of its labels, including the Jil Sander and Helmut Lang.⁷⁷ Even with these strategic changes, Prada revealed that it was evaluating the benefits of moving production of some less exclusive products out of its native Italy to cheaper factories abroad in countries such as China.⁷⁸

Chanel

Chanel S.A. (Chanel), a privately held company, owned and operated the Chanel label and Eres — a lingerie and swimwear brand. The company also managed seven ateliers through Paraffection — its artisan's division. The company was co-owned by the Wertheimer brothers, Alain and Gerald.⁷⁹ The Wertheimers owned 100 per cent of the business, including worldwide rights to the Chanel name.⁸⁰ As Chanel was privately held, its revenues and manufacturing information were not disclosed.

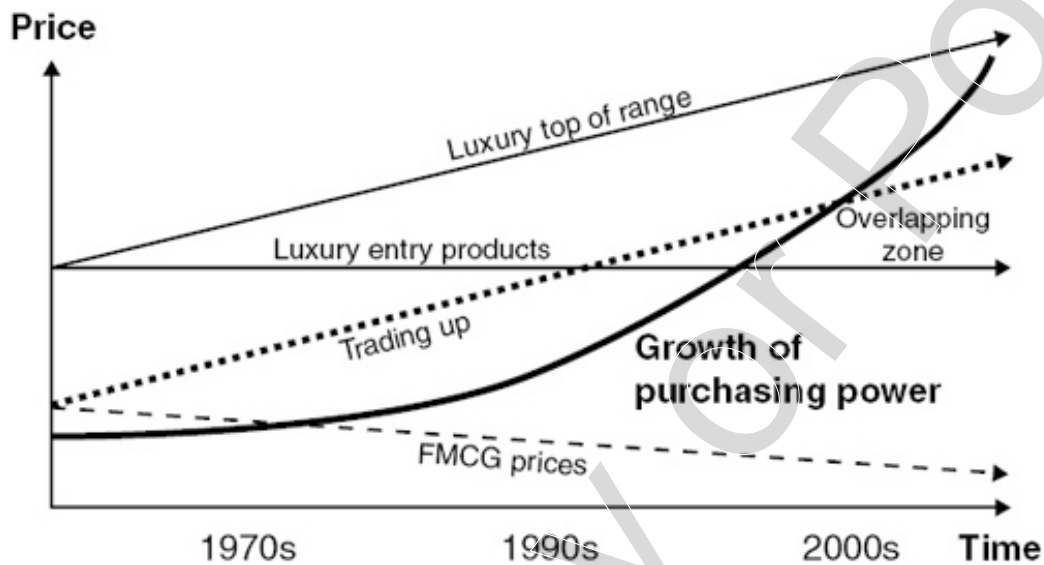
Chanel began as a hat maker, later revolutionizing the sportswear industry through the use of jersey fabrics on simple designs. Chanel was also known for the little black dress, its tailored suits and its perfume (particularly the Chanel No. 5 fragrance).⁸¹ Chanel operated in the fashion, cosmetics, watch and jewelry businesses. The company's only license was for eyewear with Luxottica, the producer of 80 per cent of the world's major eyewear brands.⁸²

Karl Lagerfeld took over as Chanel's head of design in 1983.⁸³ He revived the label by tapping a younger market.

THE DILEMMA

How can Burberry restore margins while simultaneously working to improve its brand image? Should Burberry choose to keep a luxury status or should they look to a new positioning for the iconic brand? What is the impact of globalization on these strategic brand decisions and of what should Burberry beware?

EXHIBIT 1: WHY THE CONFUSION BETWEEN PREMIUM (TRADING UP) AND LUXURY



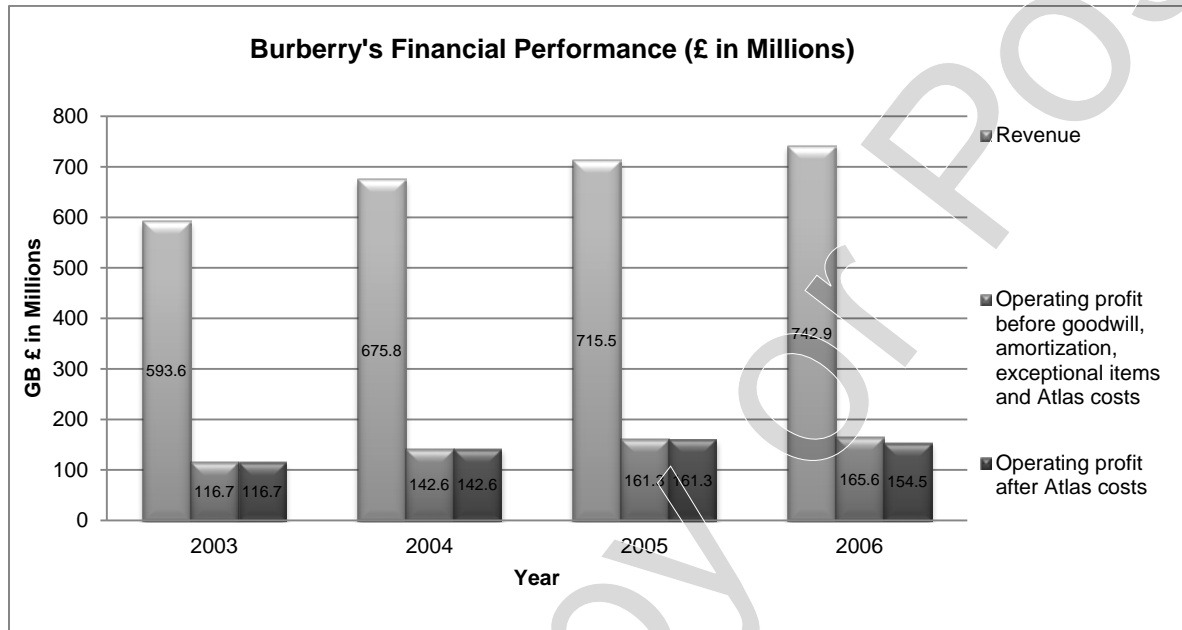
* Trading up: Premium Brands; FMCG: Fast Moving Consumer Goods

Source: *The Luxury Strategy - Break the rules of marketing to build luxury brands, op. cit., p.55.*

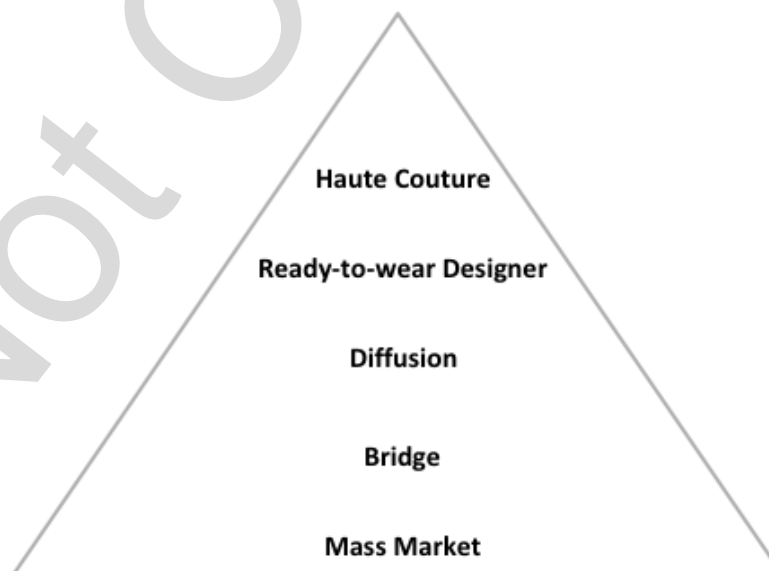
EXHIBIT 2: LUXURY, FASHION AND PREMIUM POSITIONING TRIANGLE



Source: *The Luxury Strategy - Break the rules of marketing to build luxury brands, op. cit., p.43.*

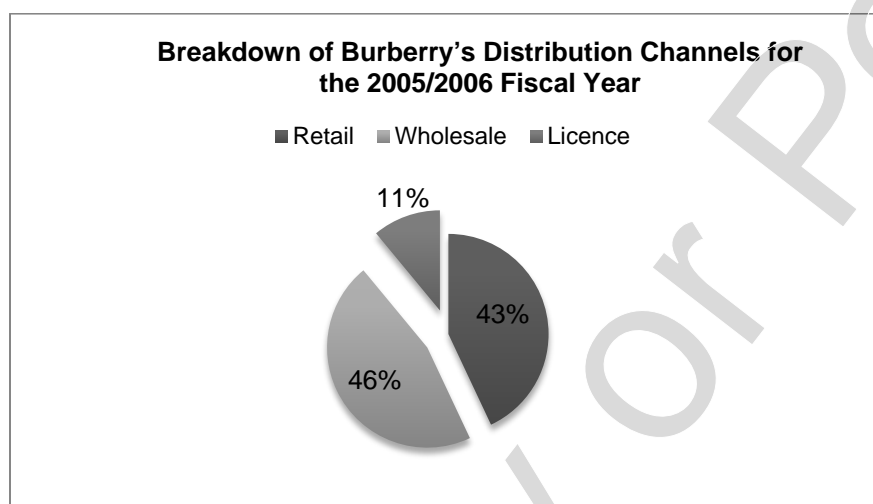
EXHIBIT 3: BURBERRY FINANCIAL PERFORMANCE 2003 TO 2006

Source: Burberry Group plc Annual Report and Accounts 2005/06," op. cit.

EXHIBIT 4: THE FASHION PYRAMID

Source: Giada Di Stefano, Gianmario Verona, "Protecting Innovation in the Fine Fashion Industry", SDA Bocconi School of Management, 2009.

EXHIBIT 5: BREAKDOWN OF BURBERRY'S DISTRIBUTION CHANNELS FOR THE 2005/06 FISCAL YEAR



Source: Burberry Group plc Annual Report and Accounts 2005/06, op. cit

EXHIBIT 6: BREAKDOWN OF COMPETITION AND THEIR BRANDS IN THE FASHION AND LEATHER GOODS CATEGORIES AND THE COMPETITION'S POSITIONING ON THE FASHION PYRAMID

PPR	Location on Fashion Pyramid**	LVMH	Location on Fashion Pyramid**	Armani	Location on Fashion Pyramid**	Prada	Location on Fashion Pyramid**	Chanel	Location on Fashion Pyramid**
Gucci	H RTW O	Louis Vuitton	H RTW O	Armani Privé	H	Prada	H RTW O	Chanel	H RTW O
Bottega Veneta	RTW O	Celine	H RTW O	Giorgio Armani	H RTW O	Miu Miu	H RTW O	Eres	O
Yves Saint Laurent	H RTW O	Loewe	RTW O	Emporio Armani	D O				
Sergio Rossi	O	Kenzo	D	Armani Collezioni	RTW O				
Alexander McQueen	H RTW	GivENCHY	H RTW	Armani Exchange	B D				
Stella McCartney	H RTW	Thomas Pink	D	Armani Jeans	B				
Balenciaga	H RTW O	Fendi	H RTW O						
		Emilio Pucci	H RTW						
		Dunna Kajan	D						
		Marc Jacobs	RTW D						
		Berluti	HC RTW O						
		Stefano Bi	RTW O						

**
H Haute Couture
RTW Ready-to-Wear Designer
D Diffusion
B Bridge
MM Mass Market
O Other (shoes and leather goods)

NOTES

¹ This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Burberry or any of its employees.

² "Angela Ahrendts," Burberry, www.burberryplc.com/about_burberry/directors-and-management/angela-ahrendts, accessed March 27, 2014.

³ "Company History," Burberry, www.burberryplc.com/about_burberry/company_history?WT.ac=Company+History, accessed March 4, 2014.

⁴ "Burberry Prices IPO," Business News, June 24, 2002, www.upi.com/Business_News/2002/06/24/Burberry-prices-IPO/UPI-70381024936201, accessed March 28, 2014.

⁵ "Burberry Ltd. History," Funding Universe, accessed March 4, 2014.

⁶ Harriet Walker, "Trench Warfare: Burberry vs Aquascutum," *The Independent*, April 18, 2012, www.independent.co.uk/news/business/analysis-and-features/trench-warfare-burberry-vs-aquascutum-7654738.html, accessed March 28, 2014.

⁷ "Company History," op. cit.

⁸ Katya Foreman, "The Trench: a Coat for all Seasons," BBC, October 24, 2013, www.bbc.com/culture/story/20131024-the-trench-coat-for-all-seasons, accessed March 5, 2014.

⁹ "Burberry Ltd. History," op. cit.

¹⁰ "Burberry: a History," *The Telegraph*, April 17, 2011, www.telegraph.co.uk/finance/newsbysector/retailandconsumer/8455689/Burberry-a-history.html, accessed April 1, 2014.

¹¹ "Burberry Ltd.," International Directory of Company Histories, Encyclopedia.com, 2001, www.encyclopedia.com/doc/1G2-2844500027.html, accessed April 01, 2014.

¹² "The Great Universal Stores PLC," The Great Universal Stores PLC and Empire Stores (Bradford) PLC: a report on the existing and proposed mergers, The Competition Commission, The Monopolies and Mergers Commission, January 1983, www.competition-commission.org.uk/rep_pub/reports/1983/fulitext/161c03.pdf, accessed 25 October 2011.

¹³ "GUS PLC: Burberry Partial IPO," Investigate, May 29, 2002, www.investigate.co.uk/article.aspx?id=200205290701365672W, accessed March 27, 2014.

¹⁴ "New chief executive for Burberry," BBC News, October 11, 2005, <http://news.bbc.co.uk/2/hi/business/4331260.stm>, accessed March 27, 2014.

¹⁵ "Burberry Group plc Annual Report and Accounts 2005/06," Burberry, Burberry Company Documents.

¹⁶ Please note that, as per OANDA, the yearly midpoint exchange rates were 1.4867 GBP to EUR, 0.6726 Euro to GBP.: www.oanda.com/currency/historical-rates/, accessed March 27, 2014.

¹⁷ Laura Barton and Nils Pratley, "The Two Faces of Burberry," *The Guardian*, April 15, 2004, www.theguardian.com/lifeandstyle/2004/apr/15/fashion.shopping, accessed March 27, 2014.

¹⁸ "Burberry Group plc Annual Report and Accounts 2005/06," op. cit.

¹⁹ Claudia D'Arpizio, "Luxury Goods Worldwide Market Study Fall 2013," Bain & Company, October 28, 2013, www.bain.com/publications/articles/luxury-goods-worldwide-market-study-fall-2013.aspx, accessed March 27, 2013.

²⁰ Ian Yeoman and Una McMahon-Beattie, "Luxury Markets and Premium Pricing," *Journal of Revenue and Pricing Management*, January 2006, 4(4), 319-328, <http://search.proquest.com/docview/214495007?accountid=15115>, accessed March 28, 2014.

²¹ All currencies are in EU€ unless otherwise stated.

²² "Luxury Goods Worldwide Market Study, 2013," Bain & Company, Altagamma, October 2013, www.statista.com.proxy1.lib.uwo.ca/statistics/266503/value-of-the-personal-luxury-goods-market-worldwide/, accessed March 25, 2014.

²³ "Apparel, Accessories & Luxury Goods Industry Profile: Global," Apparel, Accessories & Luxury Goods Industry Profile: Global, March 2007, Business Source Complete, EBSCOhost, accessed March 26, 2014.

²⁴ Ibid.

²⁵ J.N. Kapferer and V. Bastien, *The Luxury Strategy - Break the Rules of Marketing to Build Luxury Brands*, 2nd edition, Kogan Page Limited, London, 2012, p. 55.

²⁶ Ashok Som, "Technical Note (A): Overview of the Global Luxury Industry," Management Area at ESSEC Business School, Paris, p. 2.

²⁷ "Luxury Markets and Premium Pricing," op. cit.

²⁸ Ibid.

²⁹ "Luxury Goods Worldwide Market Study, 2013," Bain & Company, Altagamma, October 2013, www.statista.com.proxy1.lib.uwo.ca/statistics/246133/value-of-the-online-personal-luxury-goods-market-worldwide/, accessed March 27, 2014.

³⁰ "Worldwide Luxury Markets Monitor Spring 2012 Update," Bain & Company, Altagamma, May 2012, www.altagamma.it/img/sezione3/files/397_975_file.pdf, accessed March 27, 2014.

³¹ "Premium Luxury Brands: Creating a Cut Above the Rest," December 18, 2006, *Brand Strategy*, 34, <http://search.proquest.com/docview/224180207?accountid=15115>, accessed March 27, 2014.

³² Ibid.

³³ Wendy Melillo, "The Gold Standard," *Brandweek*, June 5, 2006, 18-20, 23, 47, <http://web.a.ebscohost.com.proxy1.lib.uwo.ca/bsi/detail?vid=20&sid=158fff2c-c2f9-43e5-be29->

bae0161cacf0%40sessionmgr4005&hid=4209&bdata=JnNpdGU9YnNpLWxpdmU%3d#db=bth&AN=21173870, accessed March 25, 2013.

³⁴ *The Luxury Strategy - Break the Rules of Marketing to Build Luxury Brands*, op. cit., p. 102.

³⁵ *The Luxury Strategy - Break the Rules of Marketing to Build Luxury Brands*, op. cit., p. 58.

³⁶ "Three-Tier Approach to Luxury Market Crucial to Success, says Versace at IPREX Meeting," *Business Wire*, October 19, 2010, www.businesswire.com/news/home/20101019006030/en/Three-Tier-Approach-Luxury-Market-Crucial-Success-Versace#.Ux6MLdweVg0, accessed March 27, 2014.

³⁷ "Luxury markets and premium pricing," op. cit.

³⁸ "Worldwide Luxury Markets Monitor Spring 2012 Update," Bain & Company, Altgamma, May 2012, www.altgamma.it/img/sezione3/files/397_975_file.pdf, accessed March 27, 2014.

³⁹ Dana Thomas, *Deluxe, How Luxury Lost its Lustre*, The Penguin Press, London, 2007, p. 8.

⁴⁰ "Burberry Group plc Annual Report and Accounts 2005/06," op. cit.

⁴¹ "Apparel, Accessories & Luxury Goods Industry Profile: Global," op. cit.

⁴² *Ibid.*

⁴³ Gao Ling, "Understanding Consumer Purchasing Behaviour regarding Luxury Fashion-Related Goods in China," Hong Kong Polytechnic University, Hong Kong, 2009, <http://search.proquest.com/docview/305153003?accountid=15115>, accessed March 31, 2014.

⁴⁴ "Retail Affluent Chinese Seek Luxury Goods: Third-largest Consumer," *National Post*, April 22, 2006, <http://search.proquest.com/docview/330479797?accountid=15115>, accessed March 31, 2014.

⁴⁵ P. T. Black, "Luxury Market in China is Fast-growing (and Confusing)," *Advertising Age*, October 29, 2007, 78, 43, p. 46, *Business Source Complete*, EBSCOhost, accessed March 31, 2014.

⁴⁶ "Retail Affluent Chinese Seek Luxury Goods: Third-largest Consumer," op. cit.

⁴⁷ Wang Yeung, "Chinese Luxury Consumers: Motivation, Attitude and Behavior," *Journal of Promotion Management*, Routledge Taylor and Francis Group, 2011, www.academia.edu/5342038/Chinese_Luxury_Consumers_Motivation_Attitude_and_Behavior, accessed March 27, 2014.

⁴⁸ Claire Bothwell, "Burberry versus The Chavs," *BBC*, October 28, 2005, <http://news.bbc.co.uk/2/hi/business/4381140.stm>, accessed January 19, 2014.

⁴⁹ *How Luxury Lost its Lustre*, op. cit., p. 261 -262.

⁵⁰ *Ibid.*, page 262.

⁵¹ "Burberry Group plc Annual Report and Accounts 2005/06," op. cit.

⁵² Angela Ahrendts, "Burberry's CEO on Turning an Aging British Icon into a Global Luxury Brand," *Harvard Business Review*, January 2013, <http://hbr.org/2013/01/burberrys-ceo-on-turning-an-aging-british-icon-into-a-global-luxury-brand/ar/1>, accessed January 19, 2014.

⁵³ *Ibid.*

⁵⁴ *Ibid.*

⁵⁵ *Ibid.*

⁵⁶ *Ibid.*

⁵⁷ *Ibid.*

⁵⁸ *Ibid.*

⁵⁹ "PPR press release - 2006 Q4 and full year sales; PPR: Revenues increase by 5.9% in 2006; retail held up well: Up 3.3%; excellent performance in luxury goods: Up 17.6%," *PR Newswire*, Jan 25, 2007, <http://search.proquest.com/docview/448286328?accountid=15115>, accessed March 31, 2013.

⁶⁰ "Giorgio Armani S.P.A 2006 company profile edition 1: Competitor analysis," just – style, 2006, 6-7, 8, <http://search.proquest.com/docview/212389048?accountid=15115>, accessed March 31, 2014.

⁶¹ "Gucci Strengthens Brand Control Through Acquisition of Women-Ready- to-Wear Production Capabilities," *PR Newswire*, October 6, 2000, <http://search.proquest.com/docview/448025863?accountid=15115>, accessed March 28, 2014.

⁶² Dana Thomas, "Made in China on the Sly," *New York Times*, November 23, 2007, www.nytimes.com/2007/11/23/opinion/23thomas.html?_r=0, accessed March 31, 2014.

⁶³ "Made in Italy," *Gucci*, www.gucci.com/us/worldofgucci/articles/made-in-italy, accessed January 20, 2014.

⁶⁴ "LVMH Moët Hennessy Louis Vuitton Continued Strong Growth Momentum in Third Quarter 2006," *Business Wire*, Oct 17, 2006, <http://search.proquest.com/docview/445153748?accountid=15115>, accessed March 28, 2014.

⁶⁵ Christina Passariello, "Brand-new Bag: Louis Vuitton Tries Modern Methods on Factory Lines; for Craftsmen, Multitasking Replaces Specialization; Inspiration from Japan; 'what do our clients want?'," *Wall Street Journal*, Oct 09, 2006, <http://search.proquest.com/docview/399033377?accountid=15115>, accessed March 28, 2014.

⁶⁶ Please note that, as per OANDA, the yearly midpoint exchange rates were 0.7892 US to EUR, 1.3200 Euro to US.: <http://www.oanda.com/currency/historical-rates/>, accessed April 27, 2014.

⁶⁷ Louis Vuitton, www.louisvuitton.com/front/#/eng_US/faq, accessed March 31, 2014.

⁶⁸ "Giorgio Armani S.P.A 2006 company profile edition 1: Company dossier," just – style, August 2006, 1-2, 8, <http://search.proquest.com/docview/212380293?accountid=15115>, accessed March 31, 2014.

⁶⁹ *Ibid.*

⁷⁰ *Ibid.*

⁷¹ *Ibid.*

⁷² Dana Thomas, *Deluxe, How Luxury Lost its Lustre*, The Penguin Press, London, 2007, p. 229.

⁷³ Ivan Castano, "Fashion Houses Seek Fortunes in Luxury Boom: Management Briefing: IPOs to the fore," *just – style*, October 2007, 9-12, 10, <http://search.proquest.com/docview/212404456?accountid=15115>, accessed March 27, 2014.

⁷⁴ *Ibid.*

⁷⁵ Adrian Michaels, "IPO may be back in fashion at prada," *Financial Times*, April 28, 2007, <http://search.proquest.com/docview/250014995?accountid=15115>, accessed March 27, 2014.

⁷⁶ Christina Passariello, "Prada Sells Jil Sander to Private-Equity Fund; Italian Fashion House Focuses on Flagship Brand and its Miu Miu label," *Wall Street Journal*, February 24, 2006, <http://search.proquest.com/docview/398946216?accountid=15115>, accessed March 27, 2014.

⁷⁷ Barbie Nadeau, "Made by Foreign Hands; Rather than Outsource Production, Many Italian Luxury Brands are Employing Illegal Chinese Immigrants as their Artisans," *Newsweek*, Jul 02, 2007, <http://search.proquest.com/docview/214015332?accountid=15115>, accessed March 28, 2014.

⁷⁸ Adam Jones, "Prada Ponders Outsourcing to China," *Financial Times*, May 20, 2005, <http://search.proquest.com/docview/249578902?accountid=15115>, accessed March 28, 2014.

⁷⁹ "Hoover's Company Records - In-depth Records," (March 25, 2014): LexisNexis Academic. Web, accessed: March 27, 2014.

⁸⁰ Phyllis Berman, and Zina Sawaya, "The Billionaires Behind Chanel," *Forbes*, Apr 03, 1989, <http://search.proquest.com/docview/194944861?accountid=15115>, accessed March 27, 2014.

⁸¹ Paul Gregg, "Chanel's fairy tale success story," *Antiques & Collecting Magazine*, August 2005, <http://search.proquest.com/docview/197173671?accountid=15115>, accessed March 27, 2014.

⁸² Dean Crutchfield, "Luxottica Sees Itself As King, Raising Questions About Brand Authenticity," *Forbes*, November 27, 2012, www.forbes.com/sites/deancrutchfield/2012/11/27/luxottica-sees-itself-as-king-raising-questions-about-brand-authenticity/, accessed March 31, 2014.

⁸³ Joseph V. Amodio, "Coco chanel is back in fashion," *Calgary Herald*, May 10, 2005, <http://search.proquest.com/docview/245281892?accountid=15115>, accessed March 27, 2014.