Analysis of the Luxury Goods & Apparel and Footwear Industries

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ABSTRACT
The luxury goods industry is unique in that it is an industry that relies strictly on marketing and promotion to sell products to a specified group of people. It is also an industry that is well guarded and difficult to find any information on. Although a select few are able to afford luxury goods, the vast majority of people who are exposed to advertisements for certain products generally have aspirations of being able to own these products someday. The purpose of this research is to analyze this ever-changing industry by means of an industry profile of the apparel and footwear industry, company profiles and analyses of publicly traded fashion design houses such as Burberry, Gucci, and LVMH Moet Hennessy Louis Vuitton, and an examination of the marketing strategies of these five design houses and its effectiveness. The apparel and footwear as well as the Luxury Goods industries are truly global in scope in that manufacturers can now sell different products that are produced in different countries and spanning many different continents and a multinational strategy is necessary to implement because it allows manufacturers to increase their revenues by focusing on selling their products in countries with rapidly growing economies. These industries serve two types of consumers: for the practical consumer, they provide sensible and affordable clothing whose styles will not change drastically from year to year, and for the fashion-conscious consumer, industry types will attempt to provide styles of clothing that will keep up with the current season’s trends and for which they are able to command a price premium. The apparel industry exists in a very competitive environment where companies need to adopt new technologies in order to improve profitability and lower costs. Companies are able to act as manufacturers (wholesalers), retailers, or both. The apparel and footwear industries are highly competitive and fragmented due to low barriers of entry. It is fairly easy for new companies to enter into the apparel and footwear industry, however most companies lack staying power. Industry trends include shorter cycles, price deflation, offshore sourcing, diversifying to survive, and following the demographics.

INTRODUCTION
The luxury goods industry is unique in that it is an industry that relies strictly on marketing and promotion to sell products to a specified group of people. It is also an industry that is well guarded and difficult to find any information on. However, the luxury goods industry is very fascinating and the products themselves signify prestige and status. Although a select few are able to afford luxury goods, the vast majority of people who are exposed to advertisements for certain products generally have aspirations of being able to own these products someday.

The purpose of this research is to determine how fashion design houses market and promote their products and product lines, differences in marketing strategies, and how each fashion design house manages their marketing departments. The information includes: customer awareness and sales figures, positioning strategies, target audiences, use of public relations, and use of market research. The purpose of this research is to analyze this ever-changing industry by investigating design houses such as Burberry, Gucci, and LVMH Moet Hennessy Louis Vuitton, with an examination of the marketing strategies of these five design houses and its effectiveness.

INDUSTRY PROFILE: APPAREL AND FOOTWEAR
An overview
US consumers spent around $324.3 billion on apparel, accessories, and footwear in 2002; a 2.9% increase from the $315.3 billion spent in 2001. In 2002 the US population was estimated to be about 288 million with
expenditures that equaled an approximate $1,125 per person (Wagle). Employment levels in apparel and footwear-manufacturing plants in the United States has plummeted in recent decades due to companies’ decision to move production overseas in an effort to lower costs. “According to the U.S. Department of Labor, the number of domestic employees (on a seasonally adjusted basis) in apparel and other textile products manufacturing was 507,000 in December 2002, down 5.5% from 537,000 in December 2001. About 64% fewer people were employed in manufacturing apparel and textile products in the United States at the end of 2002 than in 1997” (Wagle).

**Apparel Industry**

The U.S. apparel industry is large, mature, slow growing, and highly fragmented (Wagle). “Clothing that is sold in the United States is produced both domestically and internationally.” According to the U.S. Department of Commerce, domestic apparel production in 2001 approximately equaled $23.3 billion, a slight decline from $24.7 billion in 2000. Apparel imports for 2002 approximately equaled $63.8 billion and exports were $5.5 billion, a figure that is continually falling in the past two years. At the retail level personal consumption expenditures dropped 2% in 2002 after falling 6% in 2001. The U.S. apparel industry can be further divided into two markets: national brands and other apparel. National brands currently account for 30% of U.S. wholesale apparel sales while the other category accounts for 70% of all apparel distributed (Wagle).

**Footwear Industry**

The footwear industry is mature and fragmented like the apparel industry, however its manufacturing base is waning. “According to the U.S. Department of Commerce, 78.9 million pairs of shoes were produced domestically in 2001, versus the 96.5 million pairs in 2000 (down nearly 20% year to year) and 498.3 million pairs in 1980 (down 84.2%). About 23.8 million pairs of shoes produced in the United States, or about 30% of the total, were exported” (Wagle). Imports of shoes totaled 1.4 billion pairs in 2002, which is worth an estimated $15.4 billion. “Exports of footwear produced domestically were down $520 million in 2002, from the $639 million in 2001” (Wagle).

**Globalization**

The apparel and footwear industry is truly global in scope, in that manufacturers can now sell different products that are produced in different countries and spanning many different continents. A multinational strategy is necessary to implement because it allows manufacturers to increase their revenues by focusing on selling their products in countries with rapidly growing economies.

**Effects of Demand**

The apparel and footwear industries are most often considered as two separate industries, however they frequently overlap and companies most often sell goods in both categories. Another thing the two industries have in common is that their consumer demand profiles are similar, in that both clothing and footwear are basic necessities, but are also discretionary to a certain extent. These industries serve two types of consumers: for the practical consumer, they provide sensible and affordable clothing whose styles will not change drastically from year to year, and for the fashion-conscious consumer, industry types will attempt to provide styles of clothing that will keep up with the current season’s trends and are able to command a price premium for it. “While individual companies’ sales depend on the specific products they offer, overall industry demand is driven by general economic trends, including changes in disposable personal income, consumer confidence, and consumer spending” (Wagle). Apparel and footwear are necessity items but during times of economic prosperity, consumers oftentimes are subject to impulse buying, and spend money on luxury items that they normally would not buy. During times of economic downturn, consumers are more cautious with spending their money on apparel and footwear, and are most likely to buy lower priced items. Demands for products are also affected by population growth in that demand for apparel and footwear rises along with the number of people. Since the population is only growing at 1% per year, companies are forced to market their products overseas to increase sales opportunities. The quantity and type of apparel and footwear demanded by consumers are affected by demographic trends, and changing consumer attitudes and preferences affects demand because manufacturers will have to adapt and tailor their products according to current lifestyle and fashion trends.

**Components of the Industry**

The apparel and footwear industries provide many different product lines for different groups of people, with products that are tailored to a specified group of consumers based on “observed and anticipated trends and needs” (Wagle). The apparel industry exists in a very competitive environment where companies need to adopt new technologies in order to improve profitability and lower costs. Companies are able to act as manufacturers
(wholesalers), retailers, or both. An example of this is the Gap Corporation who manufactures their own products to sell in their stores. Apparel manufacturers have the option of selling their products under their own label or under private-labels. Private-labels provide the manufacturer with additional revenues and the capability to reduce per-unit production costs by utilizing plants at greater capacities. Footwear manufacturers must determine whether consumers value fashion or function when purchasing pairs of shoes. “According to the American Apparel and Footwear Association, total U.S. footwear consumption increased 0.6%, year to year in 2001, to 1.84 billion pairs. Imports from China accounted for about three out of every four pairs purchased. Women’s and men’s categories comprised about 52% and 29% of the U.S. footwear market at retail, respectively, with the remainder going to boys, girls, and infants” (Wagle). In 2001, production of shoes in the United States fell 9% to 78.9 million pairs and accounted for 2.7% of domestic shoe purchases. Approximately 36% of shoes produced in the U.S. were exported in 2001 (Wagle).

Competition in the Apparel and Footwear Industries

The apparel and footwear industries are highly competitive and fragmented due to low barriers of entry. It is fairly easy for new companies to enter into the apparel and footwear industry, however most companies lack staying power mostly because resources are undercapitalized or there is a “lack of broad-based global sourcing” (Wagle). Most small companies who have entered the apparel and footwear market do not have the technology and systems infrastructure used by major retailers. “They also generally lack marketing muscle to give their products the exposure needed to build brand loyalty among consumers. These entrepreneurs often seek to be bought out by larger companies as a way to expand sales of their designs” (Wagle).

Role of Technology

Technology has expanded operations of the apparel and footwear industries to a more global scale. It has also provided closer working relationships between retailers and manufacturers. Technology has improved efficiency and has reduced the amount of manual labor. “Rapid improvements in computer technology have helped to shorten the new product development phase from years to practically months, especially in the fashion/style/high-performance areas. Apparel marketers who are linked with retailers through quick-response programs and other technology go a long way toward making themselves indispensable to their customers” (Wagle). EDI, or electronic data interchange, is a system that links both retailers and manufacturers and uses computer terminals that are interconnected throughout the manufacturing and sales systems. EDI collects information (such as the bar code that is attached to each item sold, the price of the product(s) sold, and details such as color and size) from the retailers’ checkout counter and relays the information back to the manufacturer. The data is then used for manufacturers to automatically reorder the stock of merchandise to replenish their shelves in a timely manner. EDI also makes distribution and shipping information more efficient.

Distribution Channels

Distribution is a key factor to the success of apparel or a footwear companies. “It is important for manufacturers to understand customer trends and attitudes toward different retail outlets” (Wagle). Included in retail distribution channels are department stores, specialty stores, general merchandise chains, discount stores, and mail order. The main concern of manufacturers is to ensure that the retailers’ prices for branded products matches the brand’s image. Lowering the price of these products weakens the brand image in the mind of the consumer.

Customer Loyalty

Customer loyalty is of utmost importance to apparel and footwear manufacturers, who would do almost anything to attract new customers while trying to keep existing customers. “In a market that bombards consumers with advertising campaigns and lifestyle and fashion messages, a brand name is a powerful weapon in these efforts” (Wagle). Brand names are becoming increasingly important to consumers as disposable income and the amount of time consumers are able to shop around is slowly diminishing. Therefore consumers are relying more on established brand names and the images they convey when purchasing products. From the manufacturer’s point of view, brands build customer loyalty, which in turn generates repeat business. A common trend for many major brand manufacturers like Tommy Hilfiger and Polo Ralph Lauren is adding new lines to their already established brand names or to license their brand names with various products in order to capitalize on profits and the loyalty of their customers.
Trends
These days, consumer demand is driving industry trends that affect apparel and footwear manufacturers. These trends “relate to the size of the various demographic groups, their particular wants, shopping patterns, and spending power. Changing styles in the workplace and leisure attire are also influencing retail and manufacturing operations” (Wagle). Industry trends include shorter cycles, price deflation, offshore sourcing, diversifying to survive, and following the demographics.

Shorter Cycles
Retail stores have formerly carried apparel and footwear months before it becomes the season’s style. Nowadays, consumers tend to buy closer to need. To keep up with the changing times, manufacturers have to “shorten design, development, production, and distribution cycles” (Wagle). Companies are now putting more emphasis into market research to keep up with their customers’ needs and current trends in the marketplace.

Price Deflation
“Average selling prices for most apparel and footwear have seen a long-term secular downtrend” (Wagle). Reasons for such declines in price include: the continued influence of imports, retail promotions, and market share gains by discounters. Apparel and footwear retailers are then left with no choice than to seek new ways of boosting their profits. “Although overall apparel and footwear sales have risen, average selling prices have declined since 1999, as indicated by the apparel consumer price index, published by the Bureau of Labor Statistics” (Wagle). Beginning in 1998, US apparel prices have plummeted for five years in a row. The apparel CPI fell 1.8% to 121.5 in 2002 from 123.1 in 2001.

Offshore Sourcing
In an attempt to reduce the cost of goods sold, U.S. apparel and footwear manufacturers have moved their manufacturing plants to lower-cost regions like Mexico, the Caribbean, Central America, and Sub-Saharan Africa. However, in order to maintain a speedy turnaround time for certain products, U.S. manufacturers must retain some manufacturing plants within the United States. A majority of footwear manufacturing is produced within plants that are located in Asia. The North American Free Trade Agreement (NAFTA) has lowered tariffs, and as a result, production facilities in Mexico and the Caribbean have grown in number. An advantage of owning manufacturing plants within Mexico and the Caribbean is the shorter shipping times combined with low-cost production. On the other hand, an advantage of producing apparel and footwear in China are the highly skilled factory workers who are capable of producing complex garments.

Diversification
The main reasons why some companies fail in the apparel and footwear industry includes relying on a single product line, market segment, or sales channel. In order to survive, companies must constantly come up with new designs, new product line extensions, or even new product lines. These products may be developed either internally or externally through acquiring other companies and/or licensing agreements. An advantage of acquisitions include eliminating competitors and at the same time increasing product lines and market share. Acquisitions may be the only route to sales growth in mature industries like the apparel and footwear industry. The costs of acquisitions include the cost of assuming the acquisition along with the acquirees’ liabilities. Apparel and footwear manufacturers can also use licensing to offer new products. “Companies that acquire a license for a particular product or product line usually do so by agreeing to pay the licensor royalties based on the product’s sales” (Wagle). Sometimes companies will license a product line for which they already have the capacity to manufacture. “Companies with well-recognized brand names often license the use of those names for products that they do not have the manufacturing and/or marketing resources to handle themselves” (Wagle).

Demographics
One key to success in the apparel and footwear industry is to understand the target market. “Among the important demographic trends in the United States, baby boomers are outgrowing their focus on fashion, while the younger generations are an emerging, though elusive source of demand. Apparel marketers are now targeting another important market, the plus-size segment of the population. Baby boomers are defined as individuals who are born between 1946 and 1964, and constitute for 77 million Americans. Baby boomers fueled retail sales within the 1970’s and 1980’s. “However, despite their rising spending power, the baby boomers’ changing attitudes, priorities, and time obligations have dampened their enthusiasm for apparel shopping” (Wagle). Boomers are
spending less of their disposable income on apparel and footwear, yet they remain the largest per-capita purchasers of apparel. Manufacturers are continuing to target this market segment and in turn capitalize on profits.

Generation Y is defined as individuals born between 1977 and 1994, and has become an influential market segment within the past two years. More and more companies are now focusing their marketing efforts on this demographic group, which is 75 million strong, accounts for 25% of the U.S. population, and spends approximately $200 billion a year. This demographic group also sets trends that influence product designs aimed at this group and a slightly older Generation X (individuals born between 1965 and 1976). “Apparel, footwear, and related fashion items account for a significant portion of teenagers’ discretionary income,” according to a 2002 study conducted by Harris Interactive, a market research firm in Rochester, New York. The study found that on average, teenage girls spend 75% of their earnings on clothing and related accessories, while boys spend 52% of theirs” (Wagle). This market segment is often perceived as fickle, but more often than not they tend to be loyal to brand names.

According to a survey by Forrester Research, based in Cambridge, Massachusetts, 69% of teens said that when they find a fashion-forward brand they like, they stick with it” (Wagle). Since teens exhibit a high degree of brand loyalty, manufacturers will pull out all the stops to please them by using a “get them while they’re young” philosophy. The challenges to marketing to this demographic group are short-lived fashion trends, and as a result, manufacturers and retailers must anticipate the evolution of fashion trends and refocus their merchandise accordingly. Companies must also find a happy medium between the ultra trendy and conservative looks to satisfy both teens and their parents.

Women’s plus sizes (sizes 16 and up) and men’s big and tall are two of the fastest growing apparel industry segments. “The women’s plus-size market includes several subcategories, such as plus-size junior clothing, plus-size uniforms, and super size clothing (sizes 28 and up)” (Wagle). A reason why this market segment is continuing to grow is because of Americans’ increasing average weight. Approximately 52 million plus-size women live in the United States, which accounts for 37% of the nation’s female population. 20.1 million individuals make up the men’s big and tall market, which accounts for 15% of the U.S. male population and $5.6 billion in annual sales. Plus-size individuals also make up a very influential advocacy group, who are able to assert their wants and needs of being able to choose from the same styles and quality of clothing as the rest of the population. Apparel manufacturers and retailers are beginning to cater to this growing market segment and designers like Donna Karan and Ralph Lauren are beginning to enter into the plus-size market.

CURRENT ENVIRONMENT: LUXURY GOODS & APPAREL AND FOOTWEAR INDUSTRIES

Environmental/Economic Factors

“The U.S. Economy grew at an annualized rate of 1.9% in the first quarter of 2003, after expanding 1.4% in the 2002 fourth quarter. First-quarter growth was achieved despite an impending war in Iraq, high oil prices, harsh winter weather in many parts of the country, and heightened security alerts” (Wagle). The possibility of another economic recession has dropped significantly. However, there is concern that the U.S. could possibly fall into a deflationary trap, or declining prices and wages that could result in eroding asset values. “According to the U.S. Department of Labor, the May producer price index for finished goods decreased 0.3%, on the heels of a 1.9% decline in April. The decline reflected falling oil prices in the aftermath of the war in Iraq”. Retailers and manufacturers have become increasingly concerned that the “economy’s inability to generate new jobs” could constrain consumer spending. “The unemployment rate rose to 6.0% in April 2003, from 5.8% in March”. On the other hand, industry analysts are optimistic about the possibility for growth in the apparel and footwear industry for the second half of 2003 (Wagle).

Consumer Confidence

Consumer confidence has changed considerably in the last few quarters. “The consumer confidence index, calculated by the Conference Board, slumped in the fourth quarter of 2002 but began to rise in January and February of 2003”. In March of 2003, the consumer confidence index dove to a nine year low of 61.4 due to such factors as the war with Iraq, potential terrorist attacks, and the weak job market. The index then jumped to 81.0 in April 2003 due the success of the U.S. campaign with Iraq, and in May 2003 the index reached a six-month high of 83.8. “U.S. personal consumption expenditures, which held up better than other components of the economy throughout most of 2002, gained 4.2% in the third quarter of 2002 but only 1.7% in the fourth. First quarter 2003 was slightly better, with spending up 2.0%” (Wagle).
Effects of SARS on the Industry

Severe Acute Respiratory Syndrome or SARS is a rapidly spreading strain of pneumonia that was believed to have originated in the Guangdong Province of China. The Guangdong Province is the center of the country’s apparel production and is also an area in which many U.S. apparel and footwear companies have produced their goods. “According to the World Health Organization, reported cases of SARS were concentrated in China with 5,219 cases and 296 deaths, Hong Kong reported 1,719 cases and 255 deaths, and Taiwan reported 418 cases and 52 deaths and about a dozen other countries have also reported cases” (Wagle). The SARS outbreak has made it more difficult for apparel and footwear manufacturers who own plants in Asia to coordinate production and control quality. SARS has seemingly been contained for now, however there is a possibility that the epidemic could seriously hurt the operations and earnings of import-reliant businesses such as apparel and footwear” (Wagle). Retailers of luxury goods obtain 30% of their sales from Asia, and are affected the most by this deadly outbreak since their most profitable markets are in Japan, Hong Kong, and South Korea. As a result of SARS, the apparel and footwear industry is relying on technology to conduct business. For instance, using electronic communication to monitor shipments, the use of digital imaging to approve and transmit styles and designs, and videoconferencing as an alternative to face-to-face meetings. SARS has caused many apparel and retail companies to reevaluate their sourcing strategies, and realize the dangers of relying on one particular region for all sourcing needs.

Ease of apparel sales decline

In 2002, total U.S. apparel sales plunged 1.8% to $163 billion from $166 billion in 2001 according to the NPD group, a market research firm in Port Washington, New York. In 2002, sales of men’s apparel fell 1.7% and women’s apparel fell 6.1%, however sales of children’s apparel rose 6.0%, which was an improvement to the 5.9% decline in sales the previous year. “Women’s clothing, with $84 billion in 2002 sales, accounted for 51% of the year’s total apparel sales, down from about 54% in 2001. The men’s segment rose slightly to $52 billion, accounting for 32% of the year’s sales versus 31% in 2001. The children’s segment climbed to $27 billion in sales, representing 17% of the total, up from 16% a year earlier” (Wagle). Domestic apparel employment has been falling off dramatically for the past thirty years and fell to a record low of 495,000 in April 2003 according to the U.S. Department of Labor. “Compared with April 2002, the apparel sector lost 28,000 jobs. Due to increased quotas, lower tariffs, and a string of free-trade and preferential trade agreements, manufacturing jobs have flowed steadily from the United States to countries in Asia, Latin America, Africa, and the Caribbean where costs are lower” (Wagle).

Consumers Hooked on Bargains

Retailers are faced with the problem of consumers being addicted to promotional pricing. Americans are not likely to buy a product if it is not on sale. Consumers are displaying this attitude towards both new merchandise as well as older inventory. Many retailers nowadays are forced to discount new preseason merchandise from the get-go, and by discounting new merchandise retailers would have to make larger end-of-the season markups in an attempt to move inventory out of the stores to make room for newer merchandise. Consumers, accustomed to bargain prices, will wait until the product they want to go on sale before purchasing it. In an already dreary retail environment, discounted merchandise is eating away at any chance for retailers to make profits. “Despite a heavy promotional climate in 2002 and the first half of 2003, retailers were able to maintain margins largely by buying clothes cheaply from factories in China and other parts of Asia, where manufacturers had overbuilt their production facilities. In addition, the apparel industry cannot afford to rely too heavily on any one region to supply its goods, as the present SARS crisis demonstrates” (Wagle). In order to maintain their margins, retailers have no other choice than to cut costs in other parts of their operations.

Japanese Market for Luxury Goods

Luxury goods manufacturers like Louis Vuitton, Gucci, Hermes, Burberry, Versace, Prada, and Chanel are concentrating their efforts on targeting Japanese consumers. Over the past three years these European designers have been opening more and more boutiques in Tokyo. “Thirteen years after the ‘bubble economy’ burst, Japan’s jobless rate hovers over an all-time high, stocks languish, and bankruptcies rage—but shoppers still can’t get enough $4,000 handbags and $1,500 shoes. The European fashion industry is counting on shoppers in the industrial world’s sickest economy to keep it afloat” (Chandler). European luxury labels thrived in Japan in 2002 while other sectors of the economy drastically weakened. Prada’s earnings in Japan alone for 2002 was $3.3 billion while worldwide profits fell 45%. Louis Vuitton, who currently holds 46 boutiques in Japan, earned approximately $1.4 billion in sales for 2002. “Exclusive” European fashion labels have become commonplace among Japanese consumers, and Japan has become one of the world’s first mass market for luxury goods. “A recent survey by Japan’s Saison
Research Institute found that more than half of Japanese women in their 20s own a Louis Vuitton bag, while an astonishing nine in ten claimed to own at least one Louis Vuitton item. And yet despite their ubiquity, top brands seem to have lost little of their cachet" (Chandler). Some believe this “luxury boom” is due to young, unmarried Japanese women who continue to live with their parents well into adulthood. “Sociologist Masahiro Yamada, who coined the term, ‘parasite singles’, estimates that more than ten million Japanese in their 20s and 30s have parents covering room and board, leaving them free to spend what they earn on travel, food, and accessories” (Chandler).

The Luxury Goods Industry

In 2000, luxury goods companies have become one the strongest contenders in the world’s financial markets and have a rapidly growing consumer sector. At the end of 1999, luxury goods brands like Gucci, Louis Vuitton, and Hermes had gains of over 100%. Gucci reported gains of a 178% end-of-year increase in its stock and a 70% leap in profits to $273.2 million. “Claire Kent, luxury goods analyst with Morgan Stanley Dean Witter, explains the star performance: ‘There’s a combination of factors driving this sector, which has been booming since mid-1999. The recovery in the Asian markets is by far the most important, as this is a crucial area for a lot of these brands, and a stronger yen has also increased the spending power of Asian tourists. Lastly, there is generally a lot of new wealth, generated by the strength of the stock market and the e-economy’” (Curtis). Luxury goods brands are largely dependent on its Asian consumers; 40% of Gucci’s sales revenue comes from Asia. “The effect of Asia’s recovery has been boosted by the creation of a new generation of e-millionaires, generating spending power across a wide range of demographic groups” (Curtis). In the past three years, luxury goods brands are beginning to broaden their appeal to a wider consumer base. An example of this would be the emergence of e-commerce and how the Internet can be advantageous for luxury goods brands to create and reinforce their brand image and at the same time increasing brand awareness. However, industry analysts are skeptical about luxury goods brands selling their products online, which would reduce the exclusivity associated with these brands. Analysts say that e-commerce is below them. “Andrew Gowen, luxury goods analyst with Lehman Brothers says: ‘I’m skeptical about luxury brands going on to the Internet. They don’t need to find a lower-cost distribution channel and they don’t need to establish an online presence in order to protect their brand, because the barriers of entry into the luxury goods sector are already secure. Moreover, luxury goods are all about exclusive distribution, while the Internet is a mass distribution medium’” (Curtis).

Fashion Designers and the Internet

With today’s world of online shopping in full swing, luxury goods firms shy away from allowing customers to purchase products online directly through their official websites. “Apparel shopping online is poised for another sharp holiday spike for 2003, and is projected to surge 54% to $8.6 billion, according to a Forrester Research study conducted for Shop.org, the National Retail Federation’s online division. The expected growth is nearly double the 28% rate of a year ago, when online apparel sales hit $5.6 billion” (Beatty). Despite booming online apparel sales, many high-end fashion designers have still yet to launch websites designated for e-commerce. The Burberry Group’s website allows consumers to view photographs of the brand’s current clothing lines, but does not give them the option to purchase anything. Prada’s official website consists of two pictures straight out of the firm’s current ad campaign. Gucci.com tricks customers into thinking they can purchase apparel from this season’s current clothing lines and then posts a statement saying “women’s fashion is currently not available for purchase online” (Beatty). Luxury goods companies’ reluctance to offer online purchases can be explained by their lack of infrastructure to handle single-order sales, and e-commerce wipe outs the carefully orchestrated shopping experiences these firms worked so hard to create with each individual store. “Web selling seems more appropriate for basic apparel, not high fashion,” says Jason Jacobs, a spokesperson for Prada (Beatty). Launching a website alone will cost companies around $15-$30 million or more to get the site up and fully functioning. “Many pioneers in online fashion appear to be still struggling. LVMH Moet Hennessy Louis Vuitton SA’s website luxlucky.com, which sells a limited selection of ready-to-wear from Christian Dior, Marc Jacobs, Celine and others, has reduced its losses but still hasn’t turned a profit, says Andrew Gowen, a Lehman Bros. analyst in London who covers LVMH” (Beatty). With the reluctance of many luxury goods firms to tap into consumers’ current frenzy for purchasing goods online they are missing out on attracting potential new customers and retaining customers who are loyal to the brand.

The Changing Industry

The Gucci Group and Hermes International have suffered huge losses in sales revenues for 2002, however the luxury goods industry as a whole is slowly recovering from the effects of the dot-com bust, the slowing economy, and the adverse effects of 9/11 and SARS. Luxury goods consumers have displayed extreme loyalty to the most exclusive brands even in difficult times while consumers at the lower-end of the industry continue to consume
“near-luxury” items offered by luxury goods brands like Tiffany and Polo Ralph Lauren. “The market for new luxury goods is not quite recession proof, but there is continued growth in most segments—these 25 million upper- and middle-class households have money in their pockets, very, very, low unemployment and literally trillions in home equity, explains Michael J. Silverstein, svp of the Boston Consulting Group” (Case). The industry has been affected by the economy and the war in Iraq, but it is slowing starting to come around since consumers continue to buy luxury goods. “As Louis Cona, vp/publisher of Conde Nast Publications’ Vanity Fair, explains: ‘At the higher end, the customer might buy one or two Hermes bags a year instead of three. There will always be a luxury consumer, and they’ll continue to spend whether there are wars or diseases or whatever’” (Case). The success of some luxury goods manufacturers is through tailoring their marketing strategies to both the traditional luxury goods consumer and the aspirational luxury goods consumer, which causes the luxury goods market to split into two. Ralph Lauren, who has experienced waning profits within the past year, has now launched a mid-priced clothing line for women. Ralph Lauren was one of the first luxury goods companies to “take luxury to the masses”, a move which yields $500 million a year in sales revenues. “Consumers at both ends of the spectrum seem to have embraced luxury as a way of comforting themselves in tumultuous times (Case). As the luxury goods market is growing, consumers are becoming more educated and factors like quality, workmanship, and utility have become just as important as the brand name itself. “It used to be that the brand alone was enough to win the sale, now the brand is just the price of admission. Consumers at this level are looking for companies to go above and beyond just the brand’ adds Gregory J. Furman, founder and chairman of the Luxury Marketing Council, which counts dozens of luxury retailers as members” (Case). The current trend of “luxury to the masses” is most likely one that will continue in the coming years. However some believe this trend will only disillusion customers who pay top dollar for luxury goods, and also spoil the industry’s image of exclusivity.

American Consumers and Brand Names

“Americans have a peculiarly symbiotic relationship with brand names, those judgmental and all-telling labels that demarcate our lives. The brands we use define our differences, rich from poor, young from aged, Southerner from Yankee. Brands set a pecking order of sorts in the most materialistic, born-to-shop society on the planet” (Kneale). These days consumers’ attachment to brand names are more prevalent than ever before and find comfort in those brands that they have known and trusted throughout the years. “For the Wall Street Journal’s ‘American Way of Buying’ survey, the Roper Organization asked 2,002 people how they feel about the top brand names for both the mundane and the elegant. The findings are short: We know what we like, and we pretty much like what we already know. And when we don’t know, we say so. When poll takers asked people to choose from a long list of brands the ‘finest and most elegant’ names in fashion, fragrance and other vanity tools, a sizeable number took the Fifth: They responded, ‘Don’t know’” (Kneale). Many marketing analysts have come up with various theories to try and explain this phenomenon: e.g. consumers do not really care about brand names after all, or maybe they have grown tired of the brand name obsession that arose from the 1980s. “It’s a matter of psychological comfort and familiarity, says Bruce W. Roper, chairman of the Roper Organization, who drafted the survey questions” (Kneale).

Public Relations

Many publicly traded luxury goods brands use press releases to announce changes in management, stock prices, new store openings, current trends, or changes in sales figures in an effort to maintain its current brand image and to create goodwill among its many constituent groups.

2002 Sales Figures and Rankings of European Luxury Goods Firms

1). Louis Vuitton:
Sales Revenue for 2002 climbed to $3.26 billion, where apparel sales accounted for an estimated 3% or $97 million of the firm’s total sales. In Japan, Vuitton was up 15% in yen while in the U.S. the firm was up 15% in dollars (Sales Force the Top…).

4) Gucci:
Sales Revenue for 2002 was $1.67 billion, and $236 million in total sales came from both women’s and men’s ready to wear lines. Leather goods rang up 48.2% of total sales or $806.7 million. However the company experienced a 9.6% drop in revenue due to the fact that the firm has a merchandise mix that was too upscale and expensive (Sales Force the Top…).
8) Burberry:
Sales Revenue for 2002 was $973.5 million, and the company experienced a 19.8% increase in sales for women’s wear to $324.6 million from $270.9 million. Total sales rose 18.9% to $818.7 million (Sales Force the Top…).

COMPANY PROFILES AND ANALYSES

Company History
The company was founded in 1856 by a former apprentice to a country draper by the name of Thomas Burberry who opened an outfitters shop in Basingstoke, Hampshire, England. By 1870 Burberry became known for its outdoor wear to store regulars that included local residents and visiting sportsmen. In 1880 Burberry invented “a breathable fabric made using an innovative process where the yarn was waterproofed before weaving” called gabardine, and in 1888 Burberry took out a patent for the innovative fabric (Burberry Homepage). In 1891 Burberry opened a shop in London at the Haymarket, which is now the corporate headquarters for the firm. The war office commissioned Burberry to design new service uniforms for British officers in 1901, when the Burberry Equestrian Knight logo was registered and became the company’s trademark. During 1911–1914 Burberry outfitted such explorers as Roald Amundsen, the first man to reach the South Pole, and Ernest Shackleton who was the first man to attempt to cross the Antarctic continent from coast to coast. Burberry’s signature red, camel, black, and white check was registered as a trademark in 1924 when it was used as an inside lining to trench coats. Soon afterwards, the famous check became synonymous with Burberry. The company played a special part in aviation in the 1930s by producing specialty garments for pilots during that time period. In 1955 the firm was awarded the Royal Warrant for Her Majesty the Queen. During the 1960s the Burberry check design was being used on umbrellas, luggage, and scarves. Burberry then opened its first store in the United States, on East 57th Street in New York City, in 1970. During the retail boom of the 1980s, Burberry opened stores throughout the United States in San Francisco; Chicago; Boston; Philadelphia; Washington D.C.; Short Hills, New Jersey; Troy, Michigan; Manhasset, New York; and Costa Mesa, California. In 1989 His Royal Highness the Price of Wales awarded Burberry a Royal Warrant. In 1997 the brand was revamped by a new management team to include new product ranges, new design collections, and a distinctive new ad campaign. In 2000 and 2001 the British Fashion Council honored the brand in both Classic and Contemporary design categories. September 2000 brought a new flagship store on Bond Street in London’s West End, and the store’s ambiance reflects the brand’s new contemporary image. A new flagship store in Los Angeles was unveiled in 2001 on Wilshire Boulevard in Beverly Hills. Additional store openings include refurbished locations in Dusseldorf and Berlin in August 2001, a store in the SoHo district of New York City in March 2002, a flagship store in Barcelona in August 2002, a flagship store on 57th Street in New York City in November 2002, and finally a store in Milan in September 2003.

Burberry going public
In December 2000 Burberry’s parent, Great Universal Stores PLC, announced plans for an initial public offering of 25% of the company in hopes to cash in on the brand’s increasing sales and profits, and investors’ enthusiasm for luxury labels. “The announcement came as GUS reported that Burberry’s pretax profit for the six months ended September 30th rose 518% to GBP 26.6 million or $38.4 million. Sales, benefiting from a wider product array, including doggie sweaters and eye masks in signature plaid, nearly doubled to GBP 185 million. ‘The results clearly show the potential of the brand’ John Pearce, GUS’s group chief executive officer, said. He said that the partial flotation, which he expects within 18 months, is aimed at establishing the value of Burberry within GUS’s share price” (Beck). Pearce believes that the partial float “would allow management to focus on building the brand. We don’t want to knock the company off course as new initiatives are announced” (Beck).
Marketing

Burberry was formerly associated with the British colonial empire and from its establishment in 1856 the brand was known for its sturdy rainwear. Great Universal Stores PLC, a company who formerly ran a home shopping empire in the UK, bought out Burberry in 1955. At the time, GUS kept the brand’s reputation and did not invest in new designs, infrastructure, or marketing. Circa 1995, Burberry’s target market consisted of Asian tourists and middle-aged businessmen and matrons. In 1997 GUS hired Rose Marie Bravo, a former top executive at Saks Fifth Avenue, who revamped the brand’s signature plaid into “a luxury symbol that would be desired by the young, rich, and beautiful. The colors of the traditional check were enhanced with deeper hues, fabrics were modernized and apparel updated with stretch skirts and shorter trench coats” (Beck). Bravo also implemented an edgier advertising campaign targeted at a younger audience. The ad campaigns featured young couples in traditional British heritage sightings, and “conveyed the message that the Burberry check was de rigueur, especially for young people” (Beck). “People want and crave quality, and status is what they long for, says Bravo” (Beck). Today, Burberry’s average consumer is around thirty years of age. Burberry brand extensions now include shoes, motorcycle jackets, swimwear, dog accessories, and handbags. “Logos are very popular right now and the plaid represents the Burberry logo, so it’s just the right timing for Burberry. There’s something luxurious about the brand, which people like. It’s classic and timeless, says Joe Kaner, fashion director at Neiman Marcus in New York” (Beck).

A New Brand Image

“Only five years ago, Burberry was all but consigned to the back of the wardrobe of great British clothing brands, appealing only to the hunting, shooting and fishing set. Now, thanks to a superior piece of repositioning, it adorns the bodies of bright young things” (Burberry). After the introduction of the Burberry check in the 1920s, the brand took on a more fashionable image and was associated with middle-to upper class British society. Celebrities like Humphrey Bogart and Audrey Hepburn gave the Burberry trench coat universal appeal. From the 1940s to 1960s the brand’s popularity fell due to a “less class conscious society no longer wanting to dress like the upper class” (Burberry). Newly appointed chief executive Rose Marie Bravo turned the Burberry label around by introducing a new strategic plan to improve its brand image and increase awareness among its target audience. Burberry’s famous check appeared on such diverse items as bandanas and spike-heeled boots. The label’s ad campaigns featured models such as Kate Moss, Jerry Hall, Lord Frederick Windsor and Marianne Faithful, the Beckhams, Nicole Appleton, and Jarvis Cocker. “Indeed, the whole focus of the relaunch was to emphasize the new credentials of the Burberry brand without casting off its classic roots. Though advertising was the main plank of this strategy, getting the Burberry check worn by key celebrities was also hugely important” (Burberry). In the fiscal year ending March 31, 2002, Burberry reported a 21% increase in operating profits and a 10% increase in sales. “There is some concern among the investment community that the ‘plaid mania’ that has seen the Burberry check appear everywhere over the past few years (including many counterfeit versions) may contribute to a premature burnout for Burberry once it slides in the fashion stakes” (Burberry).

A New Target Market

Burberry has announced plans to relaunch a casual youth brand for the autumn/winter 2003 season in early 2002, two years after it withdrew from the UK market. The brand was targeted towards 18-24 year olds was withdrawn from the UK market because of weak identification among its consumers. It has been redefined in Spain, where it continues to be sold. “Burberry is developing a number of brand extensions and is also launching a range of watches, for men and women, which will be rolled out in its stores in April 2002. It is also testing a small range of home products and gifts in its London and New York flagship stores. The range is expected to be rolled out in its 45 stores over the next year. Burberry also has 59 concessions” (Marketing Week). For the six-month period ending September 30, the label has announced a 32% increase in sales (Wagle).

Does its image need a makeover?

Burberry has experienced diminishing sales since March 2003 and has announced plans to extend its product range, but does the brand need to redefine its image? “The Burberry raincoat’s status as a design classic was centered by a series of 20th century icons. Humphrey Bogart wore one in 1942’s Casablanca, as did Audrey Hepburn in 1961’s Breakfast at Tiffany’s. Supermodel Kate Moss took the mantle in the late-90s. But recently the brand has become more ubiquitous” (Does Burberry… ). The brand has recently been adopted amongst the “football hooligan culture”, and there were several instances where hoodlums dressed in Burberry jackets and caps caused trouble at Aston Villa’s Premiership match against Birmingham City and England’s World Cup qualifier with Turkey. Are Bravo’s efforts to make the brand more accessible backfiring? “After she joined in 1997, the firm enjoyed tremendous growth, culminating in a partial stock market flotation in 2002. By decking out Moss and
unleashing a volley of brand extensions, Bravo helped it shed its old-fashioned image and become a contemporary luxury brand. Perfume, shoes, and bikinis were promoted alongside the more traditional range of coats and bags. But at last month’s preliminary results announcement, Burberry revealed that sales since March had slowed significantly. A big factor was reduction in the number of tourists due to SARS, war in Iraq and fears of terrorism” (Does Burberry…).

The Burberry Revival
The brand’s recent revival was a result of several key strategic plans. Key strategic initiatives included: “the much-valued repositioning of Burberry as a lifestyle brand, flagship stores and presence in high-end department stores, expansion of licenses into areas such as watches and sunglasses and a product mix toward accessories and gifts” (Does Burberry…). However, as a result of this, the brand has become overexposed and its image has faltered. “Precisely the very strategic initiatives that turned the brand around are potentially jeopardizing its health. Luxury means exclusivity. Democratising it risks brand image dilution. Diversification risks tickling the brand down market and making it less aspirational” (Does Burberry…). The brand is currently faced with the challenge of balancing Burberry’s accessibility while maintaining its exclusivity and protecting its tradition and heritage while striving to be innovative and inspiring. Possible solutions for the company to consider include: “continue to clamp down on fraud and limit distribution, push the product beyond the plaid, keeping the Burberry colour and geometric lines association, build the customer experience outside the store and the glossies with sponsorship of luxury sporting or cultural events, invest in CRM to build customer insight and develop customer relationships, don’t create sub-brands, and focus on this attitude” (Does Burberry…).

Financial Snapshot

<table>
<thead>
<tr>
<th>Stock Price (data current through 11/14/03)</th>
<th>Burberry</th>
<th>Designer Clothing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most Recent Close</td>
<td>4.1025€</td>
<td>$18.02952 2</td>
</tr>
<tr>
<td>Currency of Quote</td>
<td>GBP</td>
<td>USD</td>
</tr>
<tr>
<td>52-week high</td>
<td>4.1175€</td>
<td>$479.790 2</td>
</tr>
<tr>
<td>52-week low</td>
<td>2.0575€</td>
<td>$0.05583 2</td>
</tr>
<tr>
<td>Pet 52-week high</td>
<td>100%</td>
<td>4%</td>
</tr>
<tr>
<td>Pet 52-week low</td>
<td>199%</td>
<td>32.29%</td>
</tr>
<tr>
<td>3-yr high price</td>
<td>4.1175€</td>
<td>$479.79091 9</td>
</tr>
<tr>
<td>3-yr low price</td>
<td>1.535€</td>
<td>$0.05583 2</td>
</tr>
</tbody>
</table>

When comparing the Burberry stock against the industry as a whole, one can infer that the company is not doing as well as they should be considering their stock prices are fairly low. A low stock price is reflective of the firm’s seemingly poor financial structure and large quantities of debt. One can come to the conclusion that this industry is subject to considerable swings in the marketplace which is reflected in the differences in the prices within 52-weeks or three years. By looking at the information in the table above, one can infer that the designer clothing industry is pretty volatile and subject to unpredictable swings.

Revenue (data current through 11/14/03)

<table>
<thead>
<tr>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burberry</td>
</tr>
<tr>
<td>Designer Clothing</td>
</tr>
</tbody>
</table>

Revenues from this table shows through November 14, 2003, Burberry took in 593,600,000€ or $1,026,392,961 in US dollars, and the designer clothing industry itself had revenues of $19,958,137,000. The figures show that despite the firm’s poor financial structure, the firm has prospered through in this period.

Earnings (data current through 11/14/03)

<table>
<thead>
<tr>
<th>Income from total operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burberry</td>
</tr>
<tr>
<td>Designer Clothing</td>
</tr>
</tbody>
</table>

| Burberry | $90,258,949 |
| Designer Clothing | $1,271,458,000 |
This table shows that through November 14, 2003, Burberry received a total of £52,200,000 or $90,258,949 as income from total operations while the industry as a whole received $1,271,458,000. The graph allows one to conclude that the Burberry group had sizeable incomes from its operations for 2003.

<table>
<thead>
<tr>
<th>Profitability (data current through 11/14/03)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Margin</td>
</tr>
<tr>
<td>Burberry 56.4%</td>
</tr>
<tr>
<td>Designer Clothing 25.7%</td>
</tr>
</tbody>
</table>

This table illustrates the profitability of both the Burberry label and the designer clothing industry. Profitability is the firm’s ability to generate revenues after costs have been incurred. Gross margin is the ratio that compares gross profit (the difference between net sales and the cost of sales) and sales revenue. As shown in the table, Burberry yielded a gross margin of 56.4%. The designer clothing industry yielded a gross margin of 25.7%. With the information provided, one can conclude that the Burberry label has a higher percentage for profitability than the designer clothing industry, an indicator that there is promise for growth.

<table>
<thead>
<tr>
<th>Effectiveness and Efficiency (data current through 11/14/03)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Return</td>
</tr>
<tr>
<td>---------------</td>
</tr>
<tr>
<td>Burberry 60.7248%</td>
</tr>
<tr>
<td>Designer Clothing -14.8886%</td>
</tr>
</tbody>
</table>

The information provided in this table shows that the Burberry group has high ratings in effectiveness and efficiency ratios that include total return, return on equity, return on assets, return on invested capital, receivables turnover, inventory turnover, and assets turnover. Total return is the total amount of earnings from all company operations, and Burberry currently has a total return ratio of 60.7% whereas the designer clothing industry is down 14.89% for the year. Return on equity measures the efficiency of a firm in handling total investments in assets and generating returns to stockholders. Burberry currently has a 13.4% return on equity, which is somewhat lower than the 19.1% return generated by the industry. Return on assets is an indicator of the profitability of a firm. The Burberry group currently holds a 9% return on assets and the designer clothing industry only generated 3.5%, which means that the firm is more profitable than the industry itself. Return on invested capital shows how effectively the firm manages money in company operations, and the firm had a 13.4% return for the year so far. The inventory turnover ratio shows the number of times a firm has replaced and sold inventory over a specific period of time. The graph shows that the designer clothing industry has a higher inventory turnover of 4.5 days compared to Burberry’s 3.1 days. The asset turnover ratio demonstrates the firm’s ability to generate sales relative to total assets, and the table shows that the Burberry group has a higher asset turnover of 1 day. Receivables turnover indicates how fast a firm is able to generate returns from accounts receivables, and the graph shows that the industry generated a higher receivables turnover of 9.6 days.

Company History

Guccio Gucci founded the Gucci fashion design house in 1906. The House of Gucci was initially founded as a saddlery shop in Florence, Italy. Gucci was a gifted craftsman for leather goods and started out selling leather bags to horsemen in the 1920s and later progressed to luxury luggage as transportation evolved to horseless carriages. “In 1921 after, his return to Florence, he opened a shop at 7 Via della Vigna Nuova selling luggage and saddlery, as well as a small workshop that handcrafted them. Initially Gucci’s success derived from his leather craftsmanship and accessories for horseback riders but as his clientele grew more sophisticated, the Gucci firm grew slowly and
steadily. Guccio Gucci’s sons included Aldo, Ugo, Vasco, and Rodolfo, who helped their father open new shops in Florence, Rome, and Milan. In 1938 Gucci opened his first shop on the Via Condotti in Rome, Italy. Gucci created the famous Gucci icon and leather bag with bamboo handle in 1947 and during the 1950s “the trademark red striped webbing is introduced, taken from its original form place on a saddle girth” (History and background of Gucci). Many of Gucci’s classics were created during the 1950s when Gucci introduced products such as luggage, ties, shoes, and the famous handbag with the bamboo handle. After Guccio Gucci’s death in 1953 his family took over the company’s operations and opened stores in Paris, Beverly Hills, London, Palm Beach, and Tokyo. It was after Guccio’s death in 1953 where the Gucci brothers created “classics:” the moccasin with the Gucci snaffle-bit, foulards, belt clasps, and ties. The fashion house gained more fame in the 1960s when celebrities like Grace Kelly, Peter Sellers, Jackie Kennedy, and Audrey Hepburn gave Gucci the image of being “chic”. It was during this time period where the firm adopted its famous “GG” logo. It was during the 1960s where the firm gained notoriety as a “status symbol” among its consumers, and Gucci was among the first Italian names to become recognized worldwide. During the late 1980s there were significant disagreements among the Gucci clan when Rodolfo Gucci’s son, Maurizio, was nominated President of the group. After Maurizio Gucci was made President of the Gucci Group, the design house significantly reduced the number of product offerings and concentrated on reestablishing Gucci’s reputation of marvelously crafted artisan products. In 1993 Maurizio Gucci sold his shares to an Arab multinational company, Investcorp, who now controls 100% of the Gucci Group. In 1995 Maurizio Gucci was murdered in front of his office and his wife was arrested in 1997 for planning her husband’s murder. Designer Tom Ford became Gucci’s new creative director in the 1990s and brought back Gucci’s “chic” image. Ford restructured the company with the help of Dawn Mello into the fashion icon it was in the 1960s. Under Ford’s new leadership, the design house now manufactures products that include leather fashions, colognes, cosmetics, shoes, suitcases, watches, jewelry, silk scarves, sport articles, belt clasps, ties, and eyeglasses. Tom Ford is now responsible for the creative direction and design of the Gucci Group, “it is not only his task to determine the design of all Gucci products but also that of the company’s communication policy and the appearance of all Gucci shops around the world” (Krebs). Tom Ford was awarded the Designer of the Year award for 1995 by the Council of Fashion Designers of America in February 1996.

Ownership
In 1993 Investcorp took total control over the operations of the family owned Guccio Gucci S.p.A, and investors tripled their investments in the label during that time period. In 1995 stocks were being issued at $22 and are currently reaching $71. “Since May 1996, the majority of stock is publicly traded, making Gucci the first Italian fashion business to be a public company. It is said that today the major stock holders are institutional investors and 6.5% of stocks are held by the Gucci management” (Krebs).

Performance
In 1995 Gucci’s sales preceded the previous year’s figure by 90% to $500.1 million and earnings rose from $6 to $42 million within the first nine months of the year and finally settled at $82.9 million. “Growth rates in the product category are equally astonishing: leather goods +116%, shoes +128%, clothes +46%, and ties and scarves +51%. The success story continued in 1996, when the group sales reached $880 million, with earnings of $168 million” (Krebs).

Distribution
By 1997 there were 76 Gucci shops, 77 franchise stores, and 74 duty free outlets, and 60 points-of-sale (Krebs). “In total, the number of points-of-sale is supposed to rise to 491 with a large emphasis on shop-in-shops and department store corners, which means an increase of 55%” (Krebs). “The firm’s retail network includes directly-operated stores in major markets throughout the world, and its wholesale activity includes sales to franchise stores, duty free boutiques and leading department and specialty stores” (Gucci Group).

Licensing/Portfolio
Gucci produces all of the company leather goods and the firm currently holds licensing agreements with Italian manufacturers for men’s and women’s clothing, fragrances, lenses, and watches. Currently the brand’s portfolio of acquisitions include Yves Saint Laurent, Sergio Rossi, Boucheron, Roger&Gallet, Bottega Veneta, Bedat&Co., Alexander McQueen, Stella McCartney, and Balenciaga.
Advertising

The brand’s reinvention increased the firm’s advertising budget from $6 million to $28 million in 1995 and in 1996 the budget was expected to reach $60 million. The budget is mostly used for print advertisements, which were done in-house. The firm has also used catalogs that targeted different product ranges and customers.

Brand Renaissance

“Domenico De Sole, the Italian-born, 53-year old president and CEO of the Gucci Group, has staged the biggest company turnaround and brand renaissance in high-fashion history-and practically overnight. When De Sole took the reins in 1994, the fabled Florentine company was perilously close to bankruptcy, plagued by years of bruising infighting among the Gucci family members. Recklessly selling schlocky goods, they had trashed the once glamorous brand name. Production was at a standstill, suppliers hadn’t been paid, and the workforce was angry and dispirited” (Rice). Now Gucci has become one of the fastest-growing luxury goods brands with 158 international boutiques, and revenues have skyrocketed since 1993 and were expected to hit $1 billion in 1997. Net profits doubled to $168 million during 1995-1997. “De Sole says his goal for Gucci is to keep pace with larger competitors like privately held Chanel, with estimated revenues of $2 billion, and he boasts that sales already surpassed those of rival Hermes in 1996” (Rice). De Sole’s marketing strategy consisted of:

- Making Gucci a recognized leader in the high-fashion industry.
- Recapture Gucci’s heritage of quality
- Lowering prices
- Creating a unity of style in boutiques around the world
- Running provocative advertisements in top fashion magazines to show Gucci’s changing brand image
- Creating a consistent advertising campaign worldwide

De Sole’s management philosophy is that of consistency because he believes that consistency is the distinguishing factor of great brands. De Sole indicated that a valuable lesson that he has learned is over distribution would ruin the idea of exclusivity of luxury brands.

Acquisitions

Over his 40-year career of making women’s shoes, Sergio Rossi earned the reputation of being one of the world’s leading couture footwear makers. In November 1999, the Gucci Group NV bought out 70% of Calzaturificio Sergio Rossi in hopes of bringing his craftsmanship to the whole world. “The lion’s share of Gucci’s $40 million investment will go to doubling the number of freestanding Sergio Rossi stores in the next three years, particularly in the U.S. and Japan. Gucci will also expand production—now just 550,000 pairs annually—by a third and will entrust to Sergio Rossi the manufacturing of a new Rive Gauche footwear line for Yves Saint Laurent, the French group Gucci bought in 1999” (Ball). The acquisition of Sergio Rossi will test Gucci’s strategy and ability to manage a portfolio of brands by means of acquisitions. “For Gucci, whose greater strength is in bags and apparel, Sergio Rossi’s shoes fit nicely. ‘Sergio Rossi remained faithful to its specialization in one product,’ says Salvatore Testa, a professor of fashion management at Milan’s Bocconi University and an industry consultant. ‘That’s exactly why Gucci bought them’” (Ball). Creative director, Tom Ford, devised a new marketing strategy for Sergio Rossi that was unveiled in spring 2001. In the meantime, Rossi planned on expanding his product lines to a men’s collection, a line of handbags, and leather goods. Currently Rossi remains the company’s creative director and has 30% ownership.

Gucci for the masses?

On September 26, 2001 “the Gucci Group announced that a war in Iraq could seriously damage its full-year targets. At the same time, the release of its second-quarter results showed a downturn in its fortunes—profit fell by 55% because of decreased sales of its signature brand. Sales across its other design houses, such as Stella McCartney and Alexander McQueen, did increase however. And the group’s Yves Saint Laurent division also showed a strong performance, with second quarter revenues rising 35%” (Bold). A consequence of Gucci’s strategy to expanding the brand is that its products are no longer reserved only for the rich, and as a result analysts are concerned whether this strategy is weakening the brand in the long run. “Despite difficult times in the 1980s, Gucci as a brand has endured. Having risen from the ashes on more than one occasion, it’s the Grande Dame of fashion brands, oozing style, desirability, self-belief and, above all, beauty. Despite various economic and financial mishaps, the brand values have held true—there is an ultimate desire in the average consumer to ‘own’ a Gucci.
Since the 90s, the real secret to its success has been creative director Tom Ford’s ability to inspire today’s women to make the ultimate aspirational brand relevant and a ‘must have’ for society’s cool crowd” (Bold). Gucci’s staying power will ultimately depend on its ability to control its image centrally. The brand still remains highly desirable, however its products have been seen in excess. “Sporting a Gucci bag or a pair of sunglasses is no longer the preserve of the rich and famous and this brand democratization has damaged its glamorous and exclusive image” (Bold). In order to fix this problem of brand democratization, Gucci will have to resort to exclusive positioning to restore its image of glamour and exclusivity.

Financial Struggles

“Gucci, the third largest luxury group in the world, struggled in the second quarter of 2003 with a 47% drop in net profits, but forecast “remarkable” results for the second half of the year. The effects of the war in Iraq, the outbreak of the SARS virus in Asia and the weakness of the dollar against the euro, blamed for poor first quarter results, were still felt in the second quarter, the Italian company said” (Gucci struggles…). Net profits fell by $26.6 million dollars in the second quarter of 2003 and net profits per share dropped 45%, settling at 0.23 euros per share. “The Gucci division, a major contributor to overall sales, saw revenue drop by 1.4% to 362.3 million euros ($438.17 million U.S. dollars) while sales of the Yves Saint Laurent brand rose by 5.5% to 35.5 million euros. The brands of designers Alexander McQueen and Stella McCartney, both very hot in the fashion industry, saw sales increase by more than 100%” (Gucci struggles…). The firm’s chairman, Domenico de Sole remains optimistic about the success of the Gucci Group and believes that through cost management and increasing sales would allow the firm to envision incredible results in the subsequent third and fourth quarters. In the second quarter of 2002, Gucci’s sales rose to 1.36 billion euros and operating profit before paying off goodwill was 192.3 million euros. Between August 1, 2003 and October 12, 2003, the Gucci Group has seen increases in sales of 20% in the U.S., 14% in Japan, 16% in Hong Kong, and 10% in Europe and sales of the company’s brand Yves Saint Laurent rose by 33%. “Since July and the introduction of the fall/winter collection ‘we have seen the most important rise in sales since the downturn on the luxury goods market after September 11, 2001’ says De Sole” (Gucci struggles…).

Financial Snapshot

<table>
<thead>
<tr>
<th>Stock Price (data current through October 20, 2003)</th>
<th>Most recent close</th>
<th>Currency of quote</th>
<th>52-week high</th>
<th>52-week low</th>
<th>Pct of 52-week high</th>
<th>Pct of 52-week low</th>
<th>3-year high price</th>
<th>3-year low price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gucci</td>
<td>71.9€ $86.95610</td>
<td>EUR</td>
<td>92.75€ $112.1722</td>
<td>71.8€ $86.83516</td>
<td>78%</td>
<td>100%</td>
<td>92.75€ $112.1722</td>
<td>71.8€ $86.83516</td>
</tr>
<tr>
<td>Luxury Goods</td>
<td>$31.849472</td>
<td>USD</td>
<td>$424.488931</td>
<td>$0.001453</td>
<td>N/A</td>
<td>8%</td>
<td>$424.488931</td>
<td>$0.001453</td>
</tr>
</tbody>
</table>

Gucci has generated sizeable stock quotes throughout the 2003 fiscal year. These stock quotes can allow one to infer that Gucci has a good financial structure and little debt. The graph allows one to conclude that the Gucci Group has prospered in 2003 by generating large returns and retiring any debt the firm currently holds. The graph also shows that the Gucci Group outperformed the luxury goods industry, which seems to been in an economic slump for this period.

Revenue (data current through October 20, 2003)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Change from a year ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gucci</td>
<td>2,544,286,000€</td>
</tr>
<tr>
<td>Luxury Goods</td>
<td>$22,170,527,000</td>
</tr>
</tbody>
</table>

The table shows that Gucci has earned over $3 billion in revenue for 2003. The graph shows that the firm’s incoming revenue has changed significantly from the previous year as did the luxury goods industry. The luxury goods industry also prospered and generated over $22 billion in revenues.
### Revenue History (in thousands of euro)

<table>
<thead>
<tr>
<th>Quarters</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>APR</td>
<td>597,018€</td>
<td>559,727€</td>
<td>607,600€</td>
</tr>
<tr>
<td></td>
<td>$722,035.57</td>
<td>$676,935.71</td>
<td>$734,833.48</td>
</tr>
<tr>
<td>JUL</td>
<td>559,018€</td>
<td>520,271€</td>
<td>577,100€</td>
</tr>
<tr>
<td></td>
<td>$676,078.24</td>
<td>$629,217.49</td>
<td>$697,946.76</td>
</tr>
<tr>
<td>OCT</td>
<td>691,873€</td>
<td>551,127€</td>
<td>644,800€</td>
</tr>
<tr>
<td></td>
<td>$836,753.53</td>
<td>$666,534.84</td>
<td>$779,823.28</td>
</tr>
<tr>
<td>JAN</td>
<td>692,916€</td>
<td>607,946€</td>
<td>714,786€</td>
</tr>
<tr>
<td></td>
<td>$838,014.93</td>
<td>$735,251.93</td>
<td>$864,464.59</td>
</tr>
<tr>
<td>Totals</td>
<td>2,540,825€</td>
<td>2,239,071€</td>
<td>2,544,286€</td>
</tr>
<tr>
<td></td>
<td>$2,964,036</td>
<td>$2,707,940</td>
<td>$3,077,068</td>
</tr>
</tbody>
</table>

This table shows Gucci’s revenue history from 2001 through 2004. In 2001, Gucci’s revenue took a decline in July of 2001 but slowly started increasing throughout the months of October and January. In 2002 the company’s revenues have increased in small increments however the total revenue for the year has gone down a bit from 2001. So far for the 2003 fiscal year, the Gucci Group’s revenue has declined in July but improved in October and the company is expecting to generate $864,464 for the month of January with total expected revenues of $3,077,068. One thing that has remained consistent throughout 2001 to 2003 is that from April to July revenues took a slight dip, but from the months of October to January revenues have been slightly increasing. This chart reveals that the company’s revenue stream is following a consistent pattern in the past two years and is expecting to continue this model in subsequent years.

### Earnings (data current through October 20, 2003)

<table>
<thead>
<tr>
<th></th>
<th>Income from total operations</th>
<th>Change from a year ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gucci</td>
<td>221,694,000€</td>
<td>-19.5%</td>
</tr>
<tr>
<td></td>
<td>$268,117,467</td>
<td></td>
</tr>
<tr>
<td>Luxury Goods</td>
<td>$2,008,695,000</td>
<td>98.4%</td>
</tr>
</tbody>
</table>

The firm brought in over $268 million in income from total operations, which is a 19.5% drop in earnings from 2002. The luxury goods industry, on the other hand, seemed to prosper with a 98.4% leap in income with earnings of more than $2 billion. The information reveals that the Gucci Group had quite a rough year in terms of earnings for 2003.

### Profitability (data current through October 20, 2003)

<table>
<thead>
<tr>
<th></th>
<th>Gross margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gucci</td>
<td>72.2%</td>
</tr>
<tr>
<td>Luxury Goods</td>
<td>67%</td>
</tr>
</tbody>
</table>

The graph shows that the Gucci Group had strong profit margins for the year. The luxury goods industry’s also seemed to have strong margins, although the figure is somewhat lower than that of the Gucci Group.

### Effectiveness and Efficiency (data current through October 20, 2003)

<table>
<thead>
<tr>
<th></th>
<th>Total return</th>
<th>Return on equity</th>
<th>Return on assets</th>
<th>Return on invested capital</th>
<th>Receivables turnover</th>
<th>Inventory turnover</th>
<th>Asset turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gucci</td>
<td>N/A</td>
<td>4.7%</td>
<td>2.8%</td>
<td>3.8%</td>
<td>8.3</td>
<td>1.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Luxury Goods</td>
<td>$4,271.96668</td>
<td>10.3%</td>
<td>4.9%</td>
<td>N/A</td>
<td>9.4</td>
<td>3.5</td>
<td>0.6</td>
</tr>
</tbody>
</table>

The table reveals that the luxury goods industry generated an ample figure for total return for 2003 of more than $4,000. The graph shows that the industry is more efficient with higher percentages for return on equity and return
on assets as well as higher turnover rates. While Gucci, on the other hand, yielded lower percentages of return on equity and return on assets indicating that the firm may not be as efficient as it should be. The firm also yielded a low percentage in return on invested capital. The information provided in this table indicates that the Gucci Group may need to reevaluate its operations in terms of efficiency and effectiveness.

Company History
Louis Vuitton was initially a woodworker and started his fashion career packing dresses for French Empress Eugenie. Vuitton opened a store in 1854 to sell his luggage designs, and in 1856 he introduced his famous LV monogram design still used today. Vuitton had stores in the US and England by 1900 and by WWI Vuitton’s son, Georges, opened the world’s largest retail store for travel goods. In 1977 Henry Racamier, a former steel executive, took control of the firm and repositioned its goods from “esoteric status symbols to designer must-haves” (LVMH Custom Report). Within 10 years, sales jumped from $20 million to approximately $2.5 billion. Louis Vuitton then merged with Moët Hennessy in 1987 and adopted the moniker LVMH Moët Hennessy Louis Vuitton. LVMH then acquired the Givenchy Couture Group in 1988, Christian LaCroix in 1993, and Kenzo in 1993. The firm also obtained 55% of Defosses International (a French media firm) in 1993, Celine fashions in 1996, the Chateau d’Yquen winery in 1996, and duty-free retailer group DFS Group in 1996. In 1997 LVMH acquired the Sephora perfume chain and in the following year the firm integrated Paris department store La Bon Marché. “Through its LV Capital unit, in 1999 LVMH began acquiring stakes in a host of luxury companies, including a joint venture with fashion company Prada to buy 51% of design house Fendi (LVMH bought Prada’s 25.5% stake for $265 million in November 2001). It has since upped its Fendi stake to about 70%. LVMH later added the Ebel, Chaumet, and Tag Heuer brands to its new watch division” (LVMH Custom Report). In 2000 LVMH acquisitions included Miami Cruiseline Services (operate duty-free shops in cruise ships), L’Etude Tajan auction house, 67% of Emilio Pucci, 71% of French department store Samaritaine, and Gabrielle Studio (owns Donna Karan licenses). The firm finally bought Donna Karan International in 2001.

LVMH Overview
“LVMH Moët Hennessy Louis Vuitton is the world’s largest luxury goods company with brands that are bywords for the good life. LVMH makes wines and spirits (Dom Pérignon, Moët and Chandon, Veuve Clicquot, Hennessy, and Hine), perfumes (Christian Dior, Guerlain, Givenchy), cosmetics (Bliss, Fresh, and BeneFit), fashion and leather goods (Christian LaCroix, Donna Karan, Givenchy, Kenzo, and Louis Vuitton), and watches and jewelry (Tag Heuer, Ebel, Chaumet, and Fred)” (LVMH Custom Report). Retail divisions of LVMH include Sephora cosmetic stores, Paris department store La Bon Marché, and 61% of duty-free shops. Chairman Bernard Arnault, whose family owns 48% of LVMH, heads the firm. The firm is primarily focused on controlling as much of its distribution as possible and currently holds more than 1,500 retail outlets with more than 280 Louis Vuitton stores. Other retail outlets include 150 duty-free shops, Sephora cosmetic stores, La Bon Marché department store, and hundreds of designer boutiques. “Respect for brand autonomy and a distinctive identity is a fundamental tenet of LVMH’s management philosophy. Each house is free to adopt the marketing and retailing strategies best suited to its needs, to capitalize on its distinctive positioning, to shape and broaden its own universe” (LVMH Custom Report).

LVMH’s prospers over Summer 2003
LVMH’s performance over summer 2003 “reflects the exceptional appeal of LVMH brands, which continued to increase their market share, the success of the Gucci Group strategy and the effectiveness of the teams who succeeded in achieving improved results despite a difficult economic environment” (Growth accelerates...). The group’s sales were expected to soar over the summer months due to the launches of several original products and new store openings. “Wines and spirits recorded organic growth in the third quarter, with new gains in market share. Growth was particularly noteworthy for champagne in Japan and for cognac in the United States. Louis Vuitton recorded double-digit organic sales growth over the first nine months. Strong local customer demand continued over the summer in Japan and the US where third quarter sales were markedly higher, improving by over 20% compared to the year ago period. Louis Vuitton’s sales performance since the beginning of the year, a period in which some competitors have experienced difficulties, is due to the extraordinary success of its products and a
unique attention to quality which is recognized and appreciated worldwide” (Growth accelerates…). The firm expects to see continued sales growth over the remainder of 2003 due to the immense appeal of its products. Tourism levels have continued to increase over the month of October and there appears to be signs of economic recovery in the US and Japan, and LVMH expects to continue this pattern of increased sales growth for the fourth quarter of 2003.

Management strategy

LVMH is a paradox in a sense that the firm produces and sells products that consumers do not really need. In 2001 the firm’s combined revenue was $11 billion and the market capitalization was $27 billion. “With Arnault at the helm, the organization has gone from a small clothing manufacturer on the verge of ruin to a conglomerate of nearly 50 star brands including Dom Perignon, TAG Heuer, and Christian Dior. According to Arnault, one key to success is his management technique. The process of creating a star brand begins with radical innovation and, for that, artists must be totally free from financial or marketing concerns. He firmly believes that ‘if you think and act like a typical manager around creative people—with rules, policies, data on customer preferences, and so forth you will quickly kill their talent’” (LVMH brand for success…). Arnault feels that star brands must be “timeless, modern, fast-growing, and highly profitable” all at the same time (LVMH brand for success…).

Joint Venture with De Beers

In early 2001 the firm had a joint venture agreement with De Beers Consolidated Mines Ltd. The venture would “capitalize on the De Beers name by selling branded diamond jewelry” (Ball). The diamond company that is based in South Africa would take advantage of LVMH’s expertise in managing luxury brands to “develop De Beers-branded diamond jewelry and establish a global retail network to sell finished products. The joint venture would be equally controlled by the two partners” (Ball). With this venture, LVMH would help De Beers develop branded diamonds as well as opening shops that would sell its jewelry. The joint venture would help De Beers bring in a new line of business and boosting the demand for diamonds in the process. LVMH and De Beers would split their investment evenly, which was expected to be around $200 million.

LVMH’s success with its brands of watches

“LVMH, the French luxury powerhouse, is the crown jewel of high end retail. With venerable brands such as Louis Vuitton and Christian Dior in its portfolio, and $11.7 billion in revenues for 2001, the company outshines its nearest competitor Compagnie Financiere Richemont, which houses Cartier and Van Cleef and Arpels” (Dolbow). The firm’s watch and jewelry division has become a driving force in raising LVMH’s profits for 2002. Daniel Lalonde is the president and CEO of LVMH Watch and Jewelry USA and his marketing strategy for LVMH’s brands of watches and jewelry are as follows:

- Goal to create a “sell-through culture in a company which means focusing on the customer” (Dolbow).
  - Understand who the customer is for each brand and find ways to communicate to that customer
- Each company will have its own “autonomy and brand position, culture and people” (Dolbow).
  - Each brand will develop its own media plan and then the firm will put them together once planning is finished
- Follow a holistic marketing approach
  - Diversified marketing, will include media, in-store presentations and events
  - Images will be used consistently

Lalonde believes that luxury customers who values products with “substance and timeless value” and wants to be sure that the products and brands they are purchasing have “prestige and heritage” are still buying (Dolbow). LVMH is now experiencing good results and is gaining market share despite the recent economic downturn in North America.

Why LVMH needs to rationalize its brands

According to author Lucy Killgren, “Luxury goods group LVMH aims to appeal to the man who appreciates the finer things in life” (Killgren). Analysts are skeptical of LVMH’s large portfolio of brands and one analyst says “Here you have a conglomerate with lots of brands, but there is really no reason why they should be together” (Killgren). Another comment raised by an industry analyst is “You could argue the company has a lot of breadth but not much depth. Perhaps the big question is whether it is possible to group brands over such a diverse range of sectors” (Killgren). Critics of LVMH believe that the firm’s cosmetics and perfume divisions are focused too much
on upscale women while competitors have broadened their appeal. One critic says “the company sees itself as desperately upmarket but in unit terms it’s not” (Killgren).

**Financial Snapshot**

<table>
<thead>
<tr>
<th>Stock Price (data current through October 20, 2003)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Most recent close</strong></td>
</tr>
<tr>
<td>-----------------------</td>
</tr>
<tr>
<td>LVMH</td>
</tr>
<tr>
<td>Luxury Goods</td>
</tr>
</tbody>
</table>

LVMH’s latest close was at $69.93, which is significantly larger than that of the designer goods industry but the firm did not fare as well as the Gucci Group who closed at $86.96 in the same time period. The firm’s stock prices reveal that LVMH has an excellent financial structure. The graph reveals that LVMH has prospered over this time period as well as the luxury goods industry as a whole, a possible indicator that the U.S. economy is recovering. The luxury goods industry’s stock portfolio took a small hit during this time period, and these figures only reinforce the notion that this industry as well as many others are largely dependent on the economies of the United States as well as the rest of the world.

<table>
<thead>
<tr>
<th>Revenue (data current through October 20, 2003)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
</tr>
<tr>
<td>LVMH</td>
</tr>
<tr>
<td>Luxury Goods</td>
</tr>
</tbody>
</table>

Despite the recent economic downturn, LVMH has managed to generate significant revenues of over $15 billion. The graph also shows that the firm’s revenues have not changed by much within the last year, which means that the firm’s revenue flows are fairly consistent. The luxury goods industry has also prospered with incoming revenues of $22,170,527,000, a significant change from the year before.

<table>
<thead>
<tr>
<th>Earnings (data current through October 20, 2003)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income from total operations</strong></td>
</tr>
<tr>
<td>LVMH</td>
</tr>
<tr>
<td>Luxury Goods</td>
</tr>
</tbody>
</table>

The table shows that LVMH generated impressive earnings of more than $1 billion in income from total operations, a significant change from the year before. The luxury goods industry also flourished generating earnings of over $2 billion, a figure that also changed significantly from 2002. These figures also indicate that the firm as well as the industry will continue to prosper in an unstable economy.

<table>
<thead>
<tr>
<th>Profitability (data current through October 20, 2003)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Margin</strong></td>
</tr>
<tr>
<td>LVMH</td>
</tr>
<tr>
<td>Luxury Goods</td>
</tr>
</tbody>
</table>

These figures illustrate that the firm has generated considerable profits for 2003, which is reflected in the firm’s gross margin, profit margins, and net margin. With the information presented one can conclude that the luxury goods industry has generated higher profits than LVMH by looking at the percentages for both pre-tax and post-tax...
profit margins as well as net margin. Although the luxury goods industry is slightly more profitable than LVMH, both are highly profitable.

| Effectiveness and Efficiency (data current through October 20, 2003) |
|---------------------------------|-----------------|----------------|----------------|----------------|----------------|----------------|
| LVMH                            | 28.6124%        | 13.4%          | 4.4%           | 8%             | 8.9            | 1.0            |
| Luxury Goods                    | 4,271.9668%     | 10.3%          | 4.9%           | N/A            | 9.4            | 3.5            |

The information presented in this table shows that LVMH is highly effective with generous figures for return on equity, return on assets, and return on invested capital. The table shows that the luxury goods industry is more profitable due to a significantly higher percentage for total return. LVMH is more effective than the industry with higher percentages for return on equity and return on assets; however the firm may not be as efficient considering its turnover ratios are lower than that of the luxury goods industry. With the information presented, one can conclude that although LVMH has generated sizeable returns the firm may need to reevaluate its operations in order to be more efficient.

CONCLUSIONS

Summary of the apparel/footwear and luxury goods industries:

The luxury goods industry is unique in a sense that it relies solely on promotion and marketing to sell products and not so much on product attributes but on the individual images certain brands convey. It is also an industry that is well guarded and difficult to find any information on. However, the luxury goods industry is very fascinating and the products themselves signify prestige and status. Although a select few are able to afford luxury goods, the vast majority of people who are exposed to advertisements for certain products generally have aspirations of being able to own these products someday. The demand for luxury goods are affected by general economic trends, including changes in disposable personal income, consumer confidence, and consumer spending and in times of economic downturn consumers are likely to be more careful with spending. Demands for products are also affected by population growth in that demand for apparel and footwear rises along with the number of people. The industries for both apparel and footwear as well as luxury goods are highly competitive and fragmented due to low barriers of entry. It is fairly easy for new companies to enter into the apparel and footwear industry, however most companies lack staying power mostly because resources are undercapitalized or there is a "lack of broad-based global sourcing". Apparel and footwear manufacturers find customer loyalty to be of utmost importance and would do almost anything to attract new customers while trying to keep existing customers. Brand names have become increasingly important to consumers as disposable income and the amount of time consumers are able to shop around is slowly diminishing. Therefore consumers are relying more on established brand names and the images they convey when purchasing products. From the manufacturer’s point of view, brands build customer loyalty, which in turn generates repeat business. Industry trends include shorter cycles, price deflation, offshore sourcing, diversifying to survive, and following the demographics. The main reasons why some companies fail in the apparel and footwear industry includes relying on a single product line, market segment, or sales channel. In order to survive, companies must constantly come up with new designs, new product line extensions, or even new product lines. These products may be developed either internally or externally through acquiring other companies and/or licensing agreements. Target markets have ranged from Baby Boomers to Generation Y, and most recently the plus size market segment.

Environmental factors

The SARS outbreak has made it more difficult for apparel and footwear manufacturers who own plants in Asia to coordinate production and control quality. SARS has seemingly been contained for now, however there is a possibility that the epidemic could seriously hurt the operations and earnings of import-reliant businesses such as apparel and footwear. Retailers are also now being faced with the problem of consumers being addicted to promotional pricing, and Americans are not likely to buy a product if it is not on sale. Consumers are displaying this
attitude towards both new merchandise as well as older inventory. Luxury Goods manufacturers like Louis Vuitton, Gucci, Hermes, Burberry, Versace, Prada, and Chanel are concentrating their efforts on targeting Japanese consumers. “Exclusive” European fashion labels have become commonplace among Japanese consumers, and Japan has become one of the world’s first mass market for luxury goods. In 2000, luxury goods companies have become one the strongest contenders in the world’s financial markets and have a rapidly growing consumer sector. In the past three years, luxury goods brands have been broadening their appeal to a wider consumer base. An example of this would be the emergence of e-commerce and how the Internet can be advantageous for luxury goods brands to create and reinforce their brand image and at the same time increasing brand awareness. However, industry analysts are skeptical about luxury goods brands selling their products online, which would reduce the exclusivity associated with these brands. Luxury goods consumers have displayed extreme loyalty to the most exclusive brands even in difficult times, while consumers at the lower-end of the industry continue to consume “near-luxury” items offered by luxury goods brands like Tiffany and Polo Ralph Lauren. The industry has been affected by the economy and the war in Iraq, but it is slowing starting to come around since consumers continue to buy luxury goods. The success of some luxury goods manufacturers is through tailoring their marketing strategies to both the traditional luxury goods consumer and the aspirational luxury goods consumer, which causes the luxury goods market to split into two. As the luxury goods market is growing, consumers are becoming more educated and factors like quality, workmanship, and utility have become just as important as the brand name itself. The current trend of “luxury to the masses” is most likely one that will continue in the coming years. However some believe this trend will only disillusion customers who pay top dollar for luxury goods and also spoil the industry’s image of exclusivity.

Final Thoughts

The luxury goods industry is very much a global industry and is a staple in the collective cultures in many different countries. The industry is largely dependent on many different factors in order to succeed and prosper with the economy as one of the industry’s main drivers. The interesting thing about this industry is that it is mostly smoke and mirrors, with products that are highly promoted and largely dependent on image to sell its products. Although many people are aware of the fact that designer clothing is not that different than the clothing that the majority of people consume, it is the image that these brands convey that people are ultimately purchasing. It is an idea of status and exclusivity that makes these brands sought-after by people from many different walks of life. For the wealthy, luxury goods reinforce their status as a member of the upper class, but for everyone else luxury goods are items that many aspire to be able to own someday. The allure for many designer products is people’s desire for wealth and status, which is ultimately the end product that is consumed.

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