

APPAREL AND ACCESSORIES

Burberry, even with China and South Korea bright spots, to axe 500 jobs globally as Q1 sales slump 45pc

July 15, 2020



Burberry is turning its focus increasingly on higher-profit leather goods as the U.K. label comes to grips with the COVID-19 fallout. Image credit: Burberry

By LUXURY DAILY NEWS SERVICE

U.K. fashion label Burberry will cut 500 jobs as it begins a climb back to normality after the COVID-19 retail lockdowns took their toll on global revenue.

Subscribe to **Luxury Daily**
Plus: Just released
State of Luxury 2019 **Save \$246 ▶**

The London-based company reported a 45 percent drop in revenue to \$317 million for the first quarter ending June 30. Revenue in Europe and the United States slumped 70 percent and 60 percent, respectively, as Burberry stores were shut during the April-to-June period.

"In Q1, sales were severely impacted by the drop in luxury demand from COVID-19 and we expect it will take time to return to pre-crisis levels with the resumption of overseas travel," said Burberry CEO Marco Gobbetti in a statement.

"We are encouraged by the improving trends in all regions and the promising exit rate for June," he said. "We saw an excellent response to new product launches in recovering economies as well as online.

"Demand for leather goods was particularly strong in mainland China and Korea, bringing new, younger luxury customers to the brand.

"As we enter the second phase of our strategy, we are sharpening our focus on product and making other organizational changes to increase our agility and generate structural savings that we will be able to reinvest into consumer-facing activities to further strengthen our luxury positioning."

Most of the job cuts will occur in overseas markets, with 150 positions at risk in the United Kingdom, or about 5 percent of its 3,500-strong workforce in its home country.

Laying out recovery strategy

Here is what **Burberry** had to say about its first-quarter 2020 performance and plans for the period ahead:

- Progressive month-on-month improvement through the period as stores reopened. Comparable sales declined

45 percent in Q1, easing to -20 percent in June, while growth in mainland China and South Korea in June was ahead of pre-COVID-19 levels, albeit with some benefit from the repatriation of sales given COVID-19 travel restrictions

- Excellent consumer response to new product launches, including autumn collection, Pride and Summer Monogram capsules, and leather goods exclusives, including resonating with new, younger customers
- Focused on rebounding economies, with initiatives tailored to each market including a mainland China leather-goods campaign driving strong double digit full price growth in leather goods in mainland China and South Korea
- Innovated in digital to inspire customers and drive sales both online and offline
- Organizational changes proposed to increase product focus and agility and deliver savings of 55 million, providing further capacity for investment in consumer facing activities
- Launched ReBurberry Edit, a curation of styles crafted from sustainable materials



The key to retail recovery for brands such as Burberry lies in store reopenings and resumed travel and tourism. Image courtesy of Burberry

Business review

Q1 2021 marks the start of the third year of our journey to transform Burberry.

During this period, we will strengthen the foundations we have established, adapting to the current challenging and fast changing environment and positioning the brand for acceleration and growth in the long-term.

Despite the extremely difficult backdrop resulting from a global pandemic, we have made good progress in the quarter focusing on strengthening our brand, localizing our plans by market, leveraging our digital platforms and enhancing our focus on product.

During Q1, we continued to excite our customers with product launches, including our new autumn/winter pre collection, Pride and Summer Monogram capsules, and leather goods exclusives. The response to these collections has been excellent, including resonating with new, younger customers and driving strong full price growth in leather goods in mainland China and South Korea.

Our product launches have been supported by innovative and highly engaging campaigns.

For example our summer monogram collection campaign included a video set in a CGI geometric world featuring Kendall Jenner, a curated Spotify playlist and a new multi-player digital game called B-Surf.

The campaign has generated an exceptional response from press, influencers and consumers with average reach over 60 percent higher than our previous monogram capsule and our most watched video ever on Instagram TV.

We have also been adopting a localized approach by market.

For example, in April we launched a leather goods campaign in mainland China. This featured a series of more sustainable pop-up stores incorporating an augmented reality experience, as well as a limited edition Pocket Bag for influential fashion blogger Mr Bags' WeChat followers. The reaction was exceptional with the limited edition bag selling out within a minute of becoming available and Pocket Bag styles overall selling out within three weeks of the campaign going live.

Throughout the period, we have continued to focus on digital to drive performance.

Online full-price sales grew double-digits in the quarter and we have continued to excite the customer through innovations like the immersive experiences and B-Surf game described above.

Finally, we are also leveraging our digital capabilities to bring our customers a truly omnichannel experience optimizing our in-store sales associate tools to allow remote customer outreach.

We are also excited that our social retail store developed in partnership with Tencent, will open in Shenzhen this summer. The experimental store will offer unique experiences that connect luxury customers' social and online lives to their physical environments using technology powered by Tencent.

As we enter the second phase of our strategy, we are making some organizational changes.

As previously announced, we are evolving our approach to product, creating three new business units covering ready-to-wear, accessories and shoes. We intend to pool expertise within each unit to enhance our product focus, increase our agility and elevate quality.

We are also proposing to further streamline our office-based functions and improve our retail efficiency in certain geographies outside the U.K.

Subject to consultation, we expect these changes, which include office space rationalization, to deliver savings of around 35 million in FY 2021, with annualized savings of 55 million and an associated one-off restructuring charge of 45 million.

These savings are incremental to our previously announced 140 million cumulative cost saving program.

Conditional on the macroeconomic recovery from COVID-19 and luxury industry growth, we will be able to reinvest these savings into consumer-facing activities. These include pop-up stores, visual merchandising, digital activations, events as well as marketing.

In June, we spoke up in solidarity with the Black community, reaffirming our core belief that there is never a place for racism. We have made a commitment to foster a culture of inclusion, equality and belonging at Burberry and have made strong progress in expanding our training, evolving our policies and setting up councils to guide us.

We have also continued to support LGBTQ+ communities through Pride month and beyond by becoming the first luxury fashion brand to join the Stonewall Diversity Champions program, forming a partnership with UK Black Pride and supporting the Albert Kennedy Trust.

Making strong progress against our Responsibility agenda, in April we launched the ReBurberry Edit, a curation of 26 styles from the spring/summer 2020 collection made from the latest innovations in material science.

Financial performance and outlook FY 2021

Throughout Q1 2021 COVID-related government restrictions eased allowing the gradual reopening of our retail store network from peak closures at the end of March. This underpinned a progressive improvement in our comparable retail sales growth with June declining around 20 percent compared to a 45 percent decline for the total quarter.

Looking ahead, in the absence of full year guidance due to the macroeconomic and global health uncertainty, we are providing an indication of Q2/H1 2021 performance.

The second half, and the course of the pandemic from here, will largely depend on the actions governments pursue to control the spread of the virus as economies restart, including their responses to second viral waves, as well as the phasing of store re-openings, an easing of travel restrictions, and the on-going consumer response.

We expect our second quarter (to end September 2020) to continue to be materially impacted by the pandemic.

In retail, tourist flows are likely to remain negligible, and store operations are continuing to face significant

headwinds, with some remaining closed and operating with reduced trading hours.

Based on our comp retail sales performance in June 2020 (-20 percent), we expect Q2 2021 (ended September 2020) to decline by 15 percent to 20 percent.

In wholesale, we are collaborating with our partners to protect the brand and as a result anticipate H1 2021 sales declining around 40 percent to 50 percent.

Based on this trading assumption, we would expect H1 2021 gross margin to decline by around 200bps to 300bps year-on-year and operating expenses in H1 2021 to reduce by a mid-teens percentage compared to last year.

During this pandemic, we believe it is crucially important to invest in the Burberry brand. We will continue to embed flexibility into our plans to allow for investment into consumer-facing activities to drive growth where opportunities present.

© 2020 Napean LLC. All rights reserved.

Luxury Daily is published each business day. Thank you for reading us. Your **feedback** is welcome.