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APPAREL AND ACCESSORIES

Why Burberry's problems should scare all luxury brands

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Despite cultivating growth in the Mainland China region, Burberry's sales in the EMEIA region were down 75 percent. The main culprit? Large discounts. Image credit: Burberry

By Daniel Langer

Burberry announced it would go through a massive restructuring effort since its revenue and profits had been tanking. According to Burberry's CEO, these results were due to a challenging external market, broad changes in customer behavior, and a transition period for the brand.

That might sound like news from last week, but these poor earnings were reported in November 2016, on the heels of already disappointing numbers from the brand in 2015.

When a company focuses on external factors to explain bad numbers, investors should be alarmed because it is usually a cover for internal brand equity and execution issues.

The CEO at the time was Christopher Bailey, the famed fashion designer who succeeded Angela Ahrendts at the helm of the brand when she moved to Apple in 2014.

Ms. Ahrendts was widely celebrated for turning around the British brand in the early 2010s, seemingly turning Burberry into a digital champion. But her success was short-lived, and the brand collapsed immediately after her departure.

But by the end of 2018, investors were slightly more optimistic, even though the financial press was still running headlines like "Burberry restructuring will take time to pay off."

Ricardo Tisci, who had just been installed as the new creative designer, wanted to make the brand more upmarket to revamp its image. The results seemed promising until a restructuring announcement just this week.

On July 15, financial news site Proactive Investors disclosed that although Burberry's sales in China grew during the first quarter by a percentage in the mid-teens, its sales in the EMEIA [Europe, the Middle East, and Africa] region dropped a whopping 75 percent. It added that Burberry had "unveiled further plans to cut 500 jobs and close some offices as it reported a 45-percent drop in like-for-like sales in its first quarter, due to a reduction in luxury demand during the coronavirus pandemic."

It should be noted that the fashion house's losses in that region eased to 20 percent by June, and it expected to see a similar 15-20 percent decline until September.

But CEO Marco Gobbetti's restructure was not just a cost-saving program. It also tried adjusting Burberry's business to new market realities.

The brand is now more dependent than ever on the Chinese market. Sales in Europe were not just hurt by closing retail stores in London, Paris and Milan, but also by the total collapse of travel retail, as a large percentage of that global luxury market depends on Chinese consumers traveling internationally. With most countries still in lockdown, these sales have almost entirely evaporated.

To make matters worse, Burberry was one of the first global luxury brands to rely on big discounts during the COVID-19 pandemic.

Back in May, *Jing Daily* reported that the brand was listing discounts of up to 50 percent on ready-to-wear and leather goods in China and Australia, and many of its products are currently on sale in the United States.

Discounting has always had a detrimental even catastrophic effect on luxury brand equity, but in a crisis, it can make matters exponentially worse.

While most luxury brands were losing money during the pandemic, Burberry was hit even harder than many of its direct peers. So what went wrong?

An external crisis is rarely the cause of weak performance it is only a catalyst, like adding petrol to a fire. In Burberry's case, the issue was lasting and deep-seated.

Back in January, well before the coronavirus was impacting Europe and the US, I discussed a Harvard Business School case study on Burberry with my luxury MBA students at Pepperdine. It is a case that goes back to Ms. Ahrendts' time leading the brand.

Reading it, one would conclude that everything was fine by the end of her tenure since the brand had eradicated a decades-long decline in brand equity. Soon after, Burberry was celebrating itself as redefined, revamped and ready for the future.

But that was an illusion.

The changes that Messrs. Gobbetti and Tisci initiated were long overdue. But based on their results, they did not go far enough. It was right to reconnect the brand with younger target groups, modernize brand aesthetics, introduce a monogram and brand pattern, and modernize its typography and logo.

However, Burberry fell short in its brand storytelling, which was too centered on its history and did not communicate its brand values well enough for today's younger audiences.

Millennials and even more so, Gen Zers demand to know a brand's position, its values and how it is inspiring consumers with a unique value creation model.

In other words, brands must coherently communicate what they are selling, both rationally and emotionally. Burberry, like many other sharply declining brands, falls short of this.

It is great to have a celebrated history, but if that history is not translated into a tangible consumer benefit that is relevant to today's consumers, a brand will fail.

When we discussed Burberry in the classroom, my students' enthusiasm was muted. Most of them are young, cosmopolitan, affluent, luxury-lovers living in Los Angeles or Malibu, while roughly half of them come from the Middle East, Europe or China.

None of them saw Burberry as a trendsetter, nor did they see it as aspirational or inspiring. Price was not an issue for them, but many described it as "their parents' brand" and irrelevant to them.

The students' response should deeply concern Burberry and other brand managers who are struggling.

Changes can only produce tangible results if they are quick, honest and comprehensive.

When most brands initiate new programs, they do not go deep enough. Making a new logo, streamlining designs and beautifying the Instagram feed is hardly sufficient.

The message needs to be exact.

Luxury is all about brand equity, which depends on your brand's ability to tell a story.

Your brand storytelling should be a result of an incredibly precise brand equity aspiration exercise. If done correctly, this leads to added luxury value a luxury brand's most important intrinsic value for creating consumer desire.

But large discounts signal to consumers that the brand has no value, thereby alienating its best customers who supported the brand at its full prices by rewarding consumers who only rarely buy.

When luxury brands are managed via the tools of mass-market goods, equity will be destroyed, in some cases, forever.

Burberry's current performance should be a stark warning for other luxury brands: Get your house in order, or you may not be around much longer.

Particularly during a crisis, a brand should not trade equity for fast growth. After all, your brand is your biggest asset, so keeping it safe is an absolute must.

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