

Burberry Lags Luxury Peers as Buyers Won't Pay for Plaid

By Andrew Roberts - Sep 13, 2012

On an excursion to London's Bond Street fashion shops, Shona Findlay peeked in the windows of Burberry Group Plc (BRBY)'s flagship store but ended up spending 1,000 pounds (\$1,610) on a handbag from Louis Vuitton.

"There are a few nice things, but it's not a brand I lust after," the 23-year-old from Singapore said of the products on display at Burberry.

The U.K.'s largest luxury house won customers in the first half of the last decade by plastering its camel, red and black check on everything from baseball caps to dog collars. Now, as Burberry attempts to move upmarket with products such as 195- pound t-shirts, 1,795-pound floral print dresses, and 6,000- pound alligator clutches, it's failing to excite the biggest spenders.

"With other luxury brands such as Chanel, Prada, Louis Vuitton, Gucci etcetera, what you are buying is a real point of difference," said Jane Kellock of researcher Stylus in London. At Burberry, "the range just doesn't justify the prices."

Burberry, which on Monday shows its spring/summer 2013 runway collection in the British capital, said this week that profit for the year ending in March will disappoint investors. The company said same-store sales have fallen in recent weeks, sending the shares down the most ever and erasing 1.27 billion pounds in market value.

Spending Slump

The company partly blamed its woes on an industry-wide slump in spending, saying store visits have been down since the end of August. Burberry, though, may be an outlier in an industry that has expanded 25 percent since 2009, according to Bain & Co. Burberry's sales have failed to meet analysts' estimates for the past two quarters while rivals such as Hermes International (RMS) SCA and Prada SpA have easily exceeded them.

To nudge its image upscale and steer customers toward more expensive merchandise, the 156-year-old company eliminated its cheapest handbags and trenchcoats in the U.S. earlier this year. Chief Financial Officer Stacey Cartwright said the move contributed "disproportionately" to the company's slowdown as economies across the globe cool.

'Affordable Luxury'

Former Chief Executive Officer Rose Marie Bravo, who joined in 1997 from Saks Fifth Avenue, transformed the British maker of raincoats and umbrellas by broadening its offerings and staging fashion shows. She reignited demand for the Burberry plaid by trying new colors and putting the pattern on scores of products. Bravo set prices slightly below those of rivals, dubbing Burberry "affordable luxury." On Bravo's watch, profit rose more than fourfold by 2005.

The shift took its toll on the brand, which developed a reputation for attracting young British soccer fans who would pair Burberry print baseball caps with track suits. In 2004, pubs and clubs across the country banned customers who donned the label. Bravo limited the use of the pattern and in July 2006 stepped down.

Her successor, former Liz Claiborne Inc. executive Angela Ahrendts, raised prices, pushed into new markets such as Africa, and expanded Burberry's non-apparel business. Ahrendts also led the luxury industry into the digital age, streaming Burberry's fashion shows live on its website.

The company's stock has more than doubled since Ahrendts's appointment, outpacing the 59 percent jump in LVMH Moet Hennessy Louis Vuitton SA (MC) stock and the 24 percent advance in Gucci-owner PPR (PP) SA in that time.

Too Expensive

Now, Burberry faces a dilemma. Many consumers who love it can't afford to pay full price for the company's coats, clothing, and bags. Others, like Findlay, could afford it but aren't moved enough by it to actually lay down their cash.

"It's a really cool brand," said Iris Jiang, a 23-year-old student from China. "It's too expensive for me." Jiang instead recently spent 80 pounds on a sweater for her mother from a Burberry discount store.

Uché Okonkwo, executive director of Paris-based consultant Luxe Corp., says it's understandable that Burberry's sales are flagging: Getting rid of so-called mass luxury products in favor of higher quality items necessarily leads to client turnover.

"Changes in brand positioning usually take a couple of seasons for consumers to adjust," Okonkwo said, who predicts that the move will eventually help widen profit margins. "You can't sell everything to everybody."

Nonetheless, Burberry's earnings may suffer in the short term if the company is forced to slash prices to clear inventory.

"People are waiting for things to go on markdown generally," said Sue Evans, Senior Catwalk Editor at fashion forecaster WGSN in London. "There's got to come a point where the customer who is buying Burberry is waiting for that as well. They'll go to a markdown discount outlet rather than pay full price on Regent Street."

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