



The strategic role of supply chain management in the luxury fashion sector

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Abstract

Title: The strategic role of supply chain management in the luxury fashion sector

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This thesis examines how supply chains within the luxury fashion sector impact the business performance of luxury fashion brands. Hence, this thesis is going to examine two case study examples of companies that have undergone strategic changes regarding their supply chain strategy. In particular, the emphasis of the analysis will lie on the impact that supply networks and distribution channels have on the performance of the discussed luxury fashion brands. Our findings suggest that both examined cases successfully adapted their supply chain strategy in order to improve business performance. This implies that core elements of supply chain management can have a significant impact on business performance. Moreover, our findings show that the sample companies adapted their supply chain strategy across three main dimensions (sourcing, production, and distribution). Companies reversed their production and manufacturing strategy from outsourcing back to insourcing. By providing insight on how a luxury fashion brand can improve its performance by adapting its supply chain strategy, our study enriches the understating of the luxury fashion sector. In addition, our research adds value to existing literature on supply chain management in the luxury fashion sector.

Resumo

Título: O papel estratégico da gestão da cadeia de fornecimento no sector da moda de luxo

Autor: Gernot Brugger

Palavras-chave: Luxo, moda, cadeia de suprimentos, desempenho

Esta tese examina como as cadeias de fornecimento dentro do setor de moda de luxo impactam o desempenho comercial das marcas de moda de luxo. Assim, esta tese vai examinar dois exemplos de empresas que passaram por mudanças estratégicas em relação à sua estratégia de cadeia de abastecimento. Em particular, a ênfase da análise estará no impacto que as redes de abastecimento e canais de distribuição têm sobre o desempenho das marcas de moda de luxo discutidas. As nossas conclusões sugerem que ambos os casos examinados adaptaram com sucesso a sua estratégia de cadeia de fornecimento com o objetivo de melhorar o desempenho do negócio. Isto implica que os elementos centrais da gestão da cadeia de abastecimento podem ter um impacto significativo no desempenho do negócio. Além disso, as nossas conclusões mostram que as empresas da amostra adaptaram a sua estratégia da cadeia de abastecimento através de três dimensões principais (fornecimento, produção, e distribuição). As empresas inverteram a sua estratégia de produção e manufatura, passando da reversão da terceirização de volta à internalização. Ao fornecer uma visão sobre como uma marca de moda de luxo pode melhorar o seu desempenho ao adaptar a sua estratégia de cadeia de abastecimento, o nosso estudo enriquece o conhecimento do sector da moda de luxo. Além disso, a nossa pesquisa acrescenta valor à literatura existente sobre a gestão da cadeia de fornecimento no sector da moda de luxo.

1. Introduction

Luxury itself is almost as old as humanity. In the past, luxury was a privilege for a limited circle of rich and powerful people. Nowadays, luxury is accessible for a wider population. More people are demanding luxury products. Therefore, luxury goods is a booming economic sector, with prominent brands and companies with a high reputation. Modern luxury goods is an actively growing sector, targeting an increasingly larger clientele. Furthermore, more and more cities host luxury stores worldwide. Currently, developed countries like the USA, Japan and European countries are the dominant luxury markets due to consumers' comparatively high purchasing power. However, in the long-run, large growing economies such as China will become the most profitable markets with regards to the luxury sector (Kapferer and Valette-Florence, 2016). Therefore, luxury fashion brands started to adapt their supply chain and business strategy accordingly. Luxury companies reversed their production and manufacturing strategy from of reversing outsourcing back to insourcing. Moreover, the luxury industry has an excellent growth outlook over the next five years (Kapferer, 2014). Due to the booming luxury sector and the excellent growth forecast supply chains and production management will become major focal points in the luxury fashion sector (Janvier, 2011). In times of fast fashion and immediate availability, supply chains must function smoothly and efficiently. Subsequently, supply networks and distribution channels have a huge impact on the performance of a fashion company. They even can help to restore the image of a luxury brand (Brun & Castelli, 2010).

Hence, this thesis aims to add to the existing research through its focus on connecting the two attributes of supply chain and business performance in the luxury fashion segment. Despite the vast research on supply chains and business performances of luxury fashion segment in business studies, there is dearth of research on the impact of supply chains specifically on business performance of luxury fashion brands. Generally, a supply chain outlines the essential elements of the process from the planning and production to the finished product (Castelli & Sianesi, 2015). Business performance relates to how efficient and profitable a business operates (Pavione et. al. 2016). Therefore, an impact of supply chains on business performance can be seen, but we want to find out in which ways supply chains impact the business performance of a luxury fashion brand. Hence, our research question is the following: How does the supply chain impact the performance of a luxury fashion brand? Burberry and Gucci, two leading luxury fashion brands will be the case studies. A detailed analysis of their supply chain and production

strategy will be presented, and used to exemplify models of successful business adaptation. Those brands were chosen as examples, due to their size, global reach, and general impact on this segment.

The thesis is structured as followed. Chapter one is introducing the topic and the purpose of the thesis. Chapter two provides the necessary theoretical outline. Key terms are defined and the examined process is outlined. Chapter three discusses the employed methodology: research design, data collection, data analysis and limitations. Chapter four is introducing the companies under study, briefly describes their history, and provides numbers of recent last years. Chapter five explains the findings of this research. The discussion of the results will be in chapter six. The last chapter, chapter seven, summarizes the main parts of the thesis.

2. Literature Review

In this part it will be demonstrated what the terms mean and how they connected to each other. Furthermore, we will demonstrate how these definitions contribute to answer the research question. In the first section we will provide a forecast of the luxury fashion market. In the second part the concept of luxury will be explained. Furthermore, definitions of brand heritage and brand image will be provided. In the third section we will review literature on supply chain and supply chain management. In the end of the third section, three different types of outsourcing are reviewed and explained how luxury fashion brands adapted those types of outsourcing.

2.1 Forecast of the luxury fashion market

In this part we are going to show a forecast of the luxury fashion segment. The industry has an excellent growth outlook over the next five years (Kapferer, 2014). As shown in figure 1, the revenue in the luxury fashion segment amounts to €99,978m in 2019.

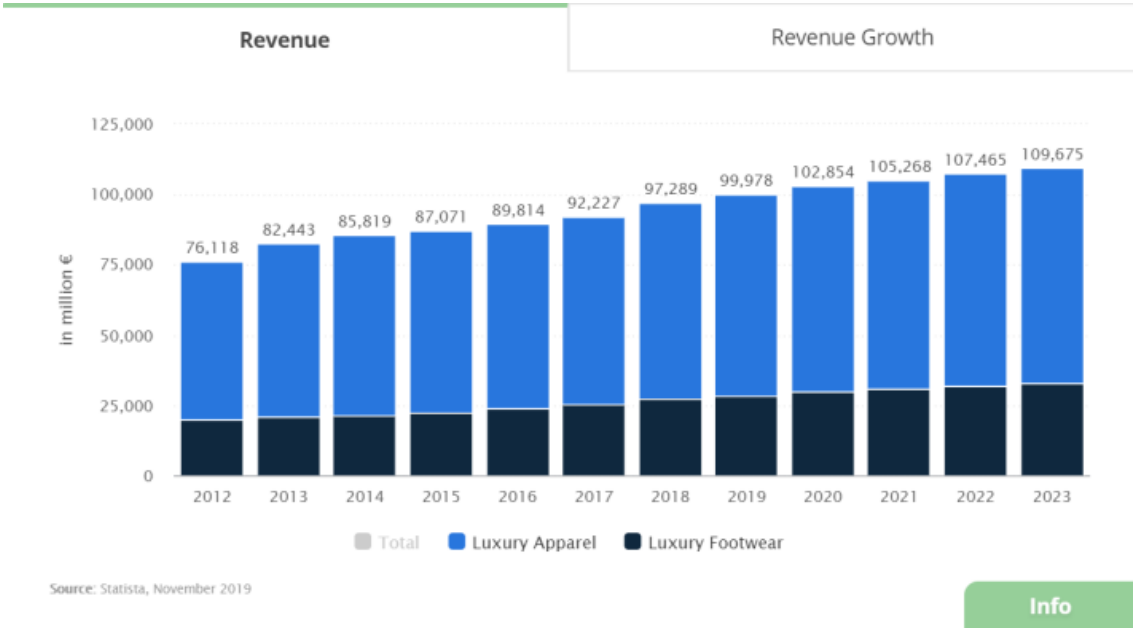


Figure 1: Revenue luxury fashion segment (Statista, 2019)

Furthermore, the growth of the market is estimated to increase annually by 2.3% (Statista, 2019). Figure 1 shows that the largest segment in the luxury fashion branch is the luxury apparel segment. Its market volume amounts to €71,406m in 2019. The forecast shows that the luxury fashion segment will constantly grow in the next four years. Currently, the biggest players in the luxury fashion segment are LVMH (Louis Vuitton, Fendi, Loro Piana etc.),

Kering (Gucci, Balenciaga, Saint Laurent etc.) and Burberry. Due to the promising forecast, it will be crucial for these fashion companies to improve their performance in order to meet the demand. In the next part the concept of luxury is going to be introduced and definitions of luxury, heritage, and image are provided.

2.2 Concept and characteristics of luxury

2.2.1 Definition of luxury

In order to understand the word luxury itself, it is necessary to distinguish between four different notions of luxury. These notions are luxury, my luxury, the luxury sector, and the luxury business model (Kapferer, 2012). The concept of luxury originates from the lives of rich and powerful people. It can be described as the “*ordinary of extraordinary people*” (Kapferer, 2012). The concept of luxury is more about the lifestyle of the people who purchase luxury goods than about the luxury brands themselves (Kapferer, 2012). The term “My luxury” differs in the meaning, by referring to a small personal luxury purchase. For example, a woman might buy cosmetics of a luxury brand like a Dior lipstick in order to feel a sense of luxury. People purchase these products or services to reward themselves. Often, they pay prices which do not correspond with the functionality of these products or services (Kapferer, 2012). The luxury sector mainly focuses on watches, luxury fashion, leather products, beauty products, fragrances and jewellery. Recently, many luxury brands moved away from the classical luxury business model in order to keep growth increasing. A lot of luxury companies nowadays base their profits on a higher variety in product lines, which are also produced on a larger scale. Furthermore, they focus on logo-typed accessories in order to reach customers. Moreover, many luxury companies decided to move some of the production to low wage countries like Indonesia or Bangladesh. Therefore, they are able to reduce their production costs and increase their margins. As a result, brands can invest more into other departments like marketing and communication (Kapferer, 2014). The fourth and last notion that is described is the luxury business model. This model was defined over time by dominating luxury brands like Louis Vuitton, Chanel, Gucci, Hermès etc. The luxury business model differs to most common business models. It sticks to certain principles which we are now going to describe and define. The first principle implies that a luxury brand should not delocalize production. These brands are ambassadors of the local culture and country of origin, which are very important attributes to their customers. Second, communication to non-

customers is important. For a brand it is crucial to achieve recognition by non-customers. Therefore, high brand awareness is necessary. Third, it is essential to have full control of the value chain. From sourcing of the raw materials to the shopping experience, luxury can only be delivered if the brand has total control. Fourth, companies must have full control of distribution. Also, purchasing experiences must be exclusive. Luxury brands should provide one-on-one service, and interaction should take place during the distribution process (Kapferer, 2012). However, the luxury business model can also be applied to companies in any other business sectors. In addition, there are some more definitions of luxury. Another definition is by Heiner. This definition implies that luxury goods are strongly associated with consumer perceptions. Consumers expect a high level of quality, high-end prices, and exclusiveness and rarity from luxury goods. Furthermore, consumers are aware that luxury goods are mostly hedonic products, which results in a high degree of non-functional associations towards these products (Ko et al., 2019). Tynan, Mckenchie, & Chuon offer a different approach. According to them luxury is identified by high quality, expensive and non-essential products. Furthermore, luxury brands offer their customers a high level of symbolic and hedonic values through their products. According to Keller luxury has some significant characteristics. These characteristics are summarized in table 1:

Characteristics	Definition
Excellent quality	High standard of a product measured against other products of a similar kind (Brun et al. 2008).
High price	Product or good which is sold for a high amount of money (Dictionary.cambridge, 2019).
Scarcity and uniqueness	Scarcity can be understood as a state of short supply, in order to guarantee exclusiveness (Lexico, 2019). Uniqueness can be described as the attribute of being the only one of its kind (Lexico, 2019).
Aesthetics	Relating to the enjoyment of beauty (Dictionary.cambridge, 2019). Can be also understood as pleasing in appearance

	(Merriam-webster, 2019).
Heritage and personal history	Is going to be defined in 2.2.2
Superfluosness	Can be described as an unnecessary. That is due to the fact that most luxury products are hedonic products. Therefore, this group of products are not necessary and to a certain degree needless.
Style and design	Here we need two different definitions. One for style and one for design. According to Dictionary.com design is an outline, sketch, or plan, as of the form and structure of a work of art, an edifice, or a machine to be executed or constructed. Style can be understood a manner in which something is expressed or performed, considered as separate from its intrinsic content and meaning (Dictionary, 2019).
Creation of a lifestyle	Creation of a lifestyle can be understood as an idea to create an emotional connection between a consumer and that consumer's dream to belong to a certain group. The creation of a lifestyle support consumers' self-expression (Harvey, 2018).
Country of origin	Is understood as the country of manufacture or production, where a product comes from (Wikipedia, 2019).
Emotional appeal	"Promotional activity aimed at highlighting emotional factors of a product, instead of the logical or practical factors." (Businessdictionary, 2019).

Table 1: Characteristics of Luxury (Ko et al. 2019)

Taking all mentioned definitions in consideration, one can say that luxury is a product or service with which consumers associate high quality, premium prices, exclusiveness, a

prestigious image, uniqueness, status symbols, and an emotional connection towards luxury products (Dubois et al. 2001). In addition, a brand needs to fulfil these requirements in order to be considered a luxury brand. Therefore, these attributes are essential if a luxury brand wants to remain competitive (Brun et al. 2008).

2.2.2 Heritage of luxury brands

“Heritage brands are about history and history in the making”

(Iglesias et al., 2011. p. 449)

As the quote above mentions, heritage brands are about history. According to Karl Lagerfeld, heritage is the link to a modern brand’s history. There is a quote by German poet Goethe, which describes the concept of heritage very well. The quote by Goethe reads as follows: “Make a better future by developing elements from the past” (Menkes, 2010). This quote very suitable encompasses heritage because that is what heritage is about: to create new products or improve products by developing products or elements like logos, emblems etc. of the past. Another definition of heritage is provided by Mary – Adair Macaire, former CEO of Pringle of Scotland. According to Ms. Macaire heritage is all about the physical artefacts and intangible attributes which connect the brand to its past (Menkes, 2010). Furthermore, she states that a brand legacy must be linked to modernity. Therefore, it is possible to say that heritage is built on traditions and values of a company (Menkes, 2010). However, there are a few reasons for companies to focus on heritage. Heritage can be an advantage regarding distinctiveness in positioning, which could translate into higher prices and margins. Furthermore, a brands value propositions can be improved by heritage. It improves the depth, authenticity and credibility of a brand (Urde et al., 2007). According to Urde et. al, brand heritage consists of five different dimensions. These five dimensions are track record, longevity, core values, use of symbols, and strong belief in a company’s history. Taking all outlined aspects into account, one can say that heritage has an impact on the time frame of any company: the past, the present, and the future. Therefore, it is essential to keep maintaining a company’s heritage.

2.2.3 Definition of brand image

According to Keller brand image is an idea about a given brand linked to certain values and associations in customers' memories. Another approach is provided by Zhang, Kotler & Barich. They describe brand image as “a system of images and thoughts existing in human awareness, expressing information concerning a given brand and basic attitude towards it”. Hence, the conclusion would be that brand image is created by several distinctive features of a given brand, which leads to differentiation and desired market recognition (Świtała et al., 2018). Pars & Gulsel state that brand image is an impression made up of several factors like, associations linked with a given brand, purchasing experience, reputation of a given brand, forms and measures of advertising, promotion, etc. (Świtała et al., 2018). The image of a brand can be analysed through a few key elements. These key elements are verbal and visual identification, forms of brand promotion, memorable logo and clear brand purpose and positioning. Furthermore, the brand image should be positively distinguishing itself from competitive brands in the market (Świtała et al., 2018). In the next section we are going to define the next key terms. These key terms are supply chain and supply chain management.

2.3 Supply chain

A supply chain can be described as a network of companies, individuals and activities, which are involved in the process of manufacturing of a product. Mostly, supply chains start with the sourcing of raw materials and end with the delivery of finished products to the end consumer (Bruce & Daly, 2004). There are many more definitions of supply chains, but they all describe the process of manufacturing of a product or service. One of the main reasons, why supply chains are employed by companies is cost reduction. Supply chains help businesses to remain competitive, to cut costs and potentially, to achieve competitive advantages in comparison to competitors. A supply chain has several steps to follow, which are illustrated in figure 2.

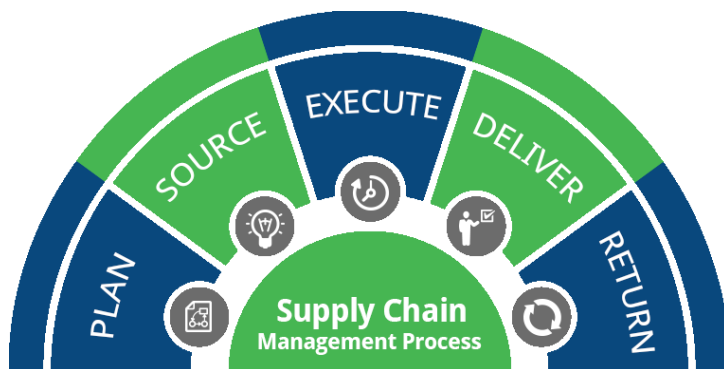


Figure 2: Supply chain management process (Holisol, 2016)

The first step is the planning process. Planning is the strategic part of the supply chain management. Therefore, it is crucial to identify key components like location of production, size of the production location, delivery models etc. Thus, it is a process of developing an approach which best meets sourcing, production, and delivery requirements (Holisol, 2016). The second step is sourcing. It's the extraction of raw materials. In this step the company must look for the best suppliers of raw materials in order to guarantee faultless production processes (Blumeglobal, 2019). The third step is the production process itself. In this step parts are assembled into finished products. Here products are created ready for testing, packaging and delivery. The fourth stage is the sale and delivery of the finished products to the customers. Therefore, suitable carriers are needed (Holisol, 2016). Finally, the last step is the return phase. This phase is associated with returning or receiving returned products. Furthermore, it also involves inventory management and customer service (Seniorerp, 2013). All these steps along the supply chain translate into the general business performance and revenue. To summarize, one can say that the main function of a supply chain is to add value to an unfinished product by transporting it from one manufacturer to another and thereby changing the product each step to receive a finished product (Janvier-James 2001). In summary, a supply chain can be defined as a dynamic process that includes the continuous flow of materials, resources, and information across multiple areas within and between chain members (Ahi & Searcy. 2012. p. 329).

2.3.1 Supply Chain Management

The next term that needs to be defined is Supply Chain Management (SCM). The main purpose of SCM is to oversee each step alongside the production and the final sale of a company's product. A proper SCM can help companies to increase their revenues, cut costs and to gain market share. The main goal of SCM is to develop and introduce supply chains that work in the most efficient and economical way possible. As a result of decent SCM, are cuts in costs and achieving faster production cycles (Investopedia, 2019).

An additional definition of SCM is provided by Lambert et al. from the year 1998. Lambert et al. defined SCM as followed: *"The integration of key business processes from end-user through original suppliers that provide products, services, and information that add value for customers and other stakeholders"* Furthermore, SCM is used for the planning and controlling of materials, information flows, and logistics activities. These activities happen internally within a company and also externally between companies (Ahi & Searcy. 2012. p.

330). As SCM came up the focus was primarily on material flows. In the recent past additional aspects of SCM emerged. SCM was increasingly concerned with information flows, internal and external networks of relationships, and governance of supply networks (Ahi & Searcy. 2012. p. 331). Therefore, the main focus of SCM is on the management of flows of materials, services, and information. In order to successfully manage these things, there is a need for coordination within and between companies. As a result, the main goals of SCM are value creation, improvement of efficiency, and improvement of the overall performance in the supply chain (Ahi & Searcy. 2012. p. 332). In the last part of this section, we are going to describe three different types of production outsourcing, which are often used by luxury fashion brands.

2.3.2 Types of production outsourcing used by luxury brands

In the next part of this thesis, we are going to describe in which ways luxury brands outsource their production and how these types of outsourcing are working. When luxury brands decide to outsource their production, they mostly follow three different types of outsourcing. These three types are licensing, subcontracting and co-branding. The most common type of outsourcing is subcontracting. Subcontracting is a form of outsourcing where the luxury brand outsources a part of their production activity to one or several suppliers. It can be used to increase production capacities, to access new markets and to have access to complementary resources. The following list shows some examples of much outsourced sectors by luxury brands.

- Clothing: manufacturing (textiles, garment), ennoblement distribution
- Eyewear: manufacturing (components, lenses), surface treatment
- Jewellery: stone size manufacturing
- Shoes: raw materials components (soles, heels...), manufacturing distribution

(Depeyre et al., 2018)

Subcontracting does not only happen between the main company and their suppliers. It also occurs amongst suppliers in order to gain more production volume. Another reason in favour of subcontracting is cost optimization. Therefore, many luxury brands decide to produce their products in low-wage countries. Luxury brands will always have a trade-off between cost optimization and value creation/brand image. Because if they decide to produce in low-wage

countries they are able to cut costs, but their products will lose exclusiveness due to the fact that their products are not produced in the home country of the luxury brand. Therefore, brands like Gucci, Louis Vuitton or Burberry decided to reintegrate certain activities in-house (Depeyre et al., 2018). The second common type of outsourcing is licensing. Licensing is a business arrangement in which one company gives another company permission to manufacture its product for a specific payment (Entrepreneur, 2019). This form of outsourcing was very likely to be used in the past. However, recently a trend occurred where luxury brands and conglomerates terminated many licensing agreements in order to regain control of their own brands. Some famous brands kept their licensing agreements in certain areas, like eyewear. Others decided to develop their own expertise in these sectors (Depeyre et al., 2018). The third and not very common type of outsourcing is co-branding. Co-branding can be described as a marketing strategy that involves multiple brand names, which are jointly used on a single product or service (Depeyre et al., 2018).

However, we still need research to better understand in which ways the supply chain strategy of a luxury fashion company impacts the business performance. Therefore, our research question is the following: “How does the supply chain impact the performance of a luxury fashion brand?” By answering this research question, we want to further explore the impact of supply chains on business performance of luxury brands and thereby narrow the gap in existing research.

3. Methodology

This part of the thesis is going to focus on our research approach, the research design, data collection, and data analysis. First, the chosen research approach and research design is explained. In the second section of this chapter, the data collection process is examined. In addition, the third section is about the data analysis.

3.1 Research design

For our research we used a qualitative approach, which allows us to gain a deep understanding of the role of supply chain management in the performance of fashion luxury companies. The analysis we used to answer the research question “How does the supply chain impact the performance of a luxury fashion brand?” is based on a comparative case study. This approach allows us to identify differences, similarities, and certain patterns across the selected samples. In order to conduct a proper comparison, we chose two sample companies which are both big players in the luxury fashion segment. Three selection criteria determined the case studies at hand. The first criterion was affiliation to the luxury fashion sector. It means that the chosen companies must be part of the luxury fashion segment. The second criterion was the world-wide presence. We chose companies which are globally present and which have their headquarters in different countries. The reason why we wanted internationally operating companies was that we wanted companies, which are able to compete in different markets and face different cultural challenges regarding demand, purchasing behaviour etc. The third criterion was size. In order to have samples with an appropriate size for the luxury fashion sector, we chose companies which operate globally and have yearly revenue of more than 2.0 billion dollars.

We contacted many companies in order to conduct interviews. But this process was more difficult than expected. The contacted companies were Burberry, Chanel, Gucci, Swarovski, Farfetch, Louis Vuitton, Karl Lagerfeld, Hugo Boss, Loro Piana and Zeitstück. All of them replied, but none of the mentioned companies were willing to do an interview. Most of them stated that they have no time and referred to their websites, where we also could find information. Therefore, we selected Burberry and Gucci because for these two companies a lot of secondary data is available and with these two companies we can build a solid foundation for our research.

3.2 Data collection

Regarding the data collection, we followed a two-step process. In the beginning, publicly available data from the two selected companies were collected. This included latest annual reports, publications on the company's websites, and newspaper articles. The first step of data collection allows us to get an overview of the luxury fashion industry, the companies, and their supply chain strategies and business performance. Furthermore, we collected publicly available data from the companies Burberry and Gucci, and independent third-party sources, like press releases, journals, and newspaper articles. These third-party sources were selected according to the subject matter and we made sure that they were published in the recent past years. The collected data includes secondary interviews, sector or company specific academic literature, online newspaper articles, and industry reports. In the following table the used data sources are summarized.

Title of the document	Author	date	Publication	Type of document	Use in the Analysis
Burberry's CEO on Turning an Aging British Icon into a Global Luxury Brand	Angela Ahrendts	2013	Havard Business Review	Secondary interview	Familiarize with the companies histories
Annual Report	Burberry	2018	Burberryplc.com	publicly available data	Understanding of current business performance
Financial Performance & KPIS	Burberry	2018	Burberryplc.com	publicly available data	Understanding of current business performance
Supply chain strategy	Burberry	2018	Burberryplc.com	publicly available data	Understanding of current supply chain strategy
Key figures, sustainability report	Gucci	2018	Kering.com	publicly available data	Understanding of current business performance

Statistics of brand value and revenue development	Statista	2005 - 2019	Statista.com	publicly available data	Understanding of the business development regarding revenue and brand value
The Burberry business model: creating an international luxury fashion brand	Moore & Birtwistle	2004	Journal of retail and distribution	Company related academic article	Understanding of the business model
Doing a Gucci: the transformation of an Italian fashion firm into a global powerhouse in a 'Los Angeles-izing' world.	Tokatli N.	2013	Journal of Economic Geography	Company related academic article	Understanding of the business model
A luxury brand management framework built from historical review and case study analysis.	Cavender & Kincade	2015	Journal of Retail & Distribution Management.	Luxury sector related academic article	Better understanding of the studied business sector
The future of luxury: Challenges and opportunities	Kapferer J.	2014	Journal of Brand Management	Luxury sector related academic article	Familiarize with the luxury sector
The luxury sector is growing faster than many others and Gucci is in the lead	CNBC	2018	CNBC.com	Luxury related newspaper article	Get an overview over the current market situation,
Growth forecast	Statista	2019	Statista.com	Statistics of the	Get an

of the luxury fashion sector				growth of the luxury fashion sector	overview over the current market situation and growing forecast
Lean or agile: A solution for supply chain management in the textiles and clothing industry?	Bruce & Daly	2004	Journal of operations & production management	Process related academic article	Understanding of the supply chain management
Reshoring: a strategic renewal of luxury clothing supply chains	Robinson & Hsieh	2016	Operations Management Research	Process related academic article	Understanding of the supply chain management of our sample companies
Logistics and supply chain management in luxury fashion retail: Empirical investigation of Italian firms	Brun et al.	2008	Journal of production economics	Process related academic article	Understanding of relationships to other examined areas (supply chain, business performance, luxury industry)
Supply chain strategy for companies in the luxury-fashion market	Castelli & Sianesi	2015	Journal of retail & distribution	Process related academic article	Understanding of supply chain management in the luxury fashion sector
A New Introduction to Supply Chains and Supply	Janvier J.	2011	The international business research journal	Process related academic article	Understanding of the process, relationships

Chain Management: Definitions and Theories Perspective				to other examined areas (supply chain, business performance, luxury industry)
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Table 2: Data sources and use in analysis

3.3 Data analysis

In order to conduct the data analysis, we used the structure of a supply chain. We looked at each step along the supply chain and compared them to the business adaptations of our cases. For each step, we examined how it impacts the business performance of our chosen companies. The steps along the supply chain are the following:

- i. Planning: In this part of the supply chain, the planning process is examined and how a properly planned supply chain impacts the performance of a luxury fashion brand.
- ii. Sourcing: Here the sourcing process is examined. Quality and location were features we looked at among others in this part.
- iii. Production: In this step, it is examined how production itself, product design, product assortment, and location of production impact the performance of a luxury fashion brand.
- iv. Delivery: Here the distribution strategy is examined. Furthermore, we look at which distribution channels companies' use and how distribution impacts the performance of a luxury fashion company.

In order to measure performance we used the following definition. The term performance can be defined as the accomplishment of a given task measured against present known standards of accuracy, completeness, cost, and speed (businessdictionary, 2019). Therefore, business performance simply measures how efficient a company operates within a certain time frame. Furthermore, the analysis showed that some parts of the supply chain had only a very limited relevance for our research question. Therefore, the return part of the supply chain was excluded from the analysis. The return part mostly includes customer relationship, return policies, and customer loyalty. Although this part might have some impacts on business performance, the focus of our research was on other parts of the supply chain.

4. Empirical setting

In the next chapter of this thesis, we are going to look at the two selected luxury fashion brands. Both of these brands had troubles in the past to maintain high business performance and, relatedly, brand reputation. Therefore, these companies changed their supply chain and started to relocate their production back in the country of origin.

4.1 Burberry

Burberry was founded in 1856 in Basingstoke by Thomas Burberry. Burberry got famous for inventing gabardine in the year 1879. Gabardine is a breathable, weatherproof and hardwearing fabric (burberryplc.com, 2019). This fabric was very suitable for military needs. During World War 1, Burberry came up with its famous trench coat, which was worn by officers (Moore and Birtwistle, 2004). As a result, the outerwear of Burberry was adapted to other fields like exploration. From there on, Burberry developed a business focused on retailing and wholesaling. As a result of its success, Burberry opened the first store in London in 1891 (Moore and Birtwistle, 2004). After some successful years and prestigious expeditions (e.g. explorer Sir Ernest Shackleton wore Burberry gabardine for an expedition to Antarctica in 1914), Burberry became a publicly traded company in 1920 (burberryplc.com, 2019). Consequently, Burberry expanded and entered new markets. It entered wholesale agreements with Japanese retailers. Mitsui became distributor of outerwear products in 1964 and, subsequently, their licensee in 1980 alongside the Sanyo Company. Therefore, Burberry was able to strengthen their presence in the Asian market (Anonymous, 2005). Burberry was acquired in 1955 by Great Universal Stores (GUS), a British retail conglomerate. Following this acquisition, Burberry was able to expand its retail network within the UK and the USA (Moore and Birtwistle, 2004). In addition, several licensing agreements were made with a variety of third parties companies in Europe and Asia. Thus, inconsistencies in quality, design and pricing occurred. In the 1990's Burberry suffered a huge blow due to the sharp downturn of the Japanese economy. Annual profits dropped from £62m to £25m and GUS became under pressure to sell of Burberry (Anonymous, 2005). Against all expectations GUS decided to stay with Burberry and appointed Rosie Marie Bravo as new CEO. From then on, the new executive team started to reposition the brand. The company opened a flagship store on Bond Street, in London in 2000. The opening of this store helped to attract the attention of the fashion media, leading to higher brand awareness (burberryplc.com, 2019). The following year, Burberry announced a new design director, Chris Bailey. In 2006, Angela Ahrendts was

announced as new CEO. Under Ahrendts Burberry was able to compete with the other big European fashion houses like Louis Vuitton, Prada and Gucci. In 2014 Christian Bailey took over as CEO and continued Burberry’s growth in similar fashion (Robinson and Hsieh, 2016). Since July 2017, Marco Gobbetti is the new CEO of Burberry.

4.2 Financial analysis of Burberry

In this part we are going to present the most important figures of the past five years. Figure 3 shows the revenue and the adjusted operating profit from 2015 to 2019. Burberrys revenue increased continuously in the past five years. The only exception was 2019, where the revenue decreased slightly. The same thing can be observed with the adjusted operating profits.

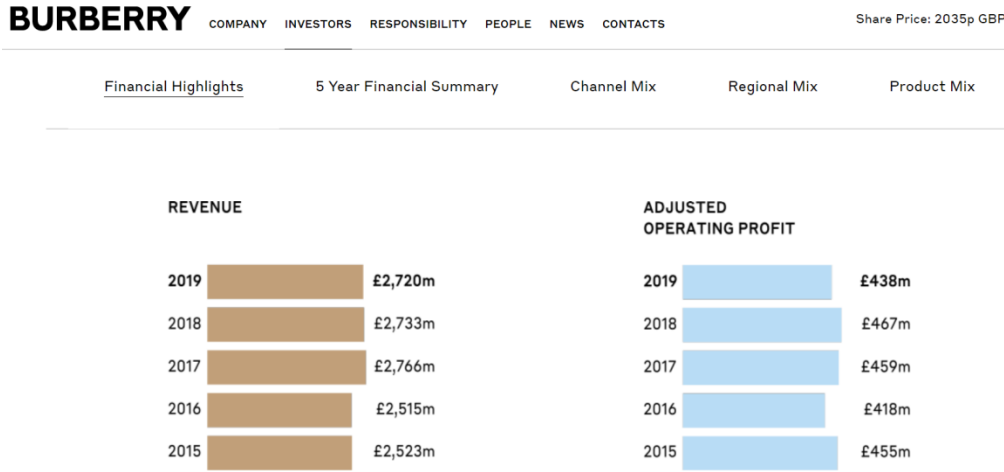


Figure 3 Burberry’s key numbers (burberryplc, 2019)

Figure 4 depicts the revenues by channel. The three shown channels are retail, wholesale and licensing. The highest revenue is gained by retailing, totalling £2,186m in 2018. This shows that Burberry achieves the highest revenue in the B2C sector by selling their products to their end customers. The second highest revenue is achieved by the wholesale department with £488m. The wholesale department shows a growth of 7% compared to the previous year. Licensing shows the third highest revenue with £46m. In addition, licensing has the lowest total revenue of all three channels, but boasts the highest growth rate at 53%, many times the other segments. These numbers show that Burberry generates most of its revenue in the B2C segment and only a small portion of revenue is attributable to the B2B segment.

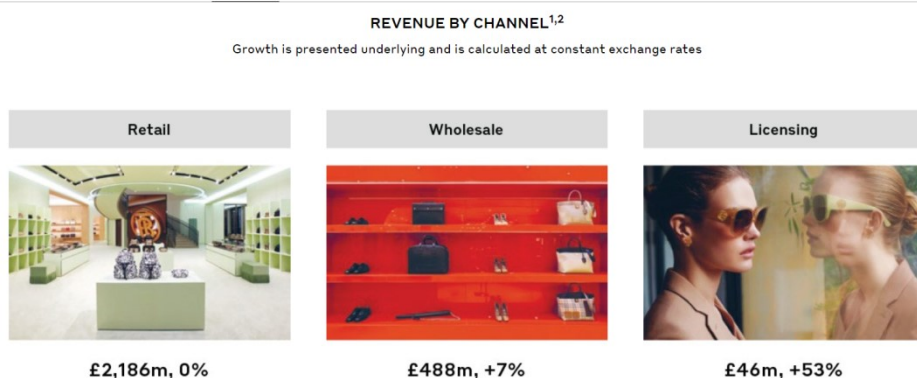


Figure 4 Burberry's revenue by channel (burberrypc, 2019)

4.3 Gucci

Gucci was founded in 1923 in Florence by Guccio Gucci. The brand started as a manufacturer and retailer of high quality leather goods. After becoming a luxury brand by being associated with royalty and film stars, Gucci followed an aggressive expansion strategy. They opened a flagship store in London in 1967, followed by many others store openings in key fashion hubs (Moore and Birtwistle, 2005). The successors of Guccio Gucci did not successfully manage the business. They unsuccessfully pursued a strategy of making the brand more inclusive through lowering prices and quality to capture a larger segment of the market. By 1979, Gucci's product assortment reached 20,000 and was available in over 1,000 stores worldwide. As a result, Gucci's image as a luxury brand suffered severely. In the beginning of the 1990s, Gucci hit rock bottom. By the 1993 Investcorp, a Bahrain-based investment group acquired all shares from the Gucci family members (Moore and Birtwistle, 2005). Furthermore, Domenico De Sole was announced as new CEO in 1995 and Tom Ford was appointed as new Creative Director. During the following years De Sole and Ford were able to restore the image of the brand and stabilize it. In 1999, LVMH purchased Gucci shares and held 34% of all shares. LVMH intentions were to enforce a hostile takeover. As a reaction, Gucci issued new shares in order to decrease the control of LVMH in the company. After the new issuance of shares, LVMH still held around 20% of all Gucci shares (Moffett and Ramaswamy, 2003). In order to get LVMH out of the company, Gucci approached the French investor Francois Pinault. Pinault decided to invest into the company and purchased a 40% stake in Gucci. By buying eight million shares from LVMH, Pinault increased its stake in Gucci to 53%. After this big investment and several years of fighting in court, Gucci finally achieved the exit of LVMH in 2001 (Kapner, 2001). The fight against LVMH was just a sideshow in the

restructuring process of the brand. Under the creative management of Tom Ford, Gucci became a significant and profitable business again. After the takeover from Pinault in 2001 Gucci is part of the Kering group. Therefore, the success of the brand also depended on how successful the group managed every single brand. Since the takeover Gucci’s performance improved and the brand became relevant again in the luxury fashion segment. In the year 2011 the brand celebrated its 90 year anniversary and in 2015 Tom Ford left the company and Alessandro Michele was appointed as new creative director of Gucci.

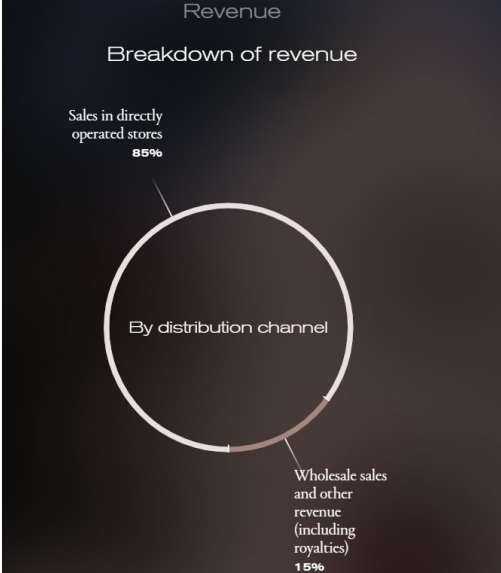
4.4 Financial analysis of Gucci

This paragraph will provide the key figures of the Gucci brand of the years 2017 and 2018. Figure 5 depicts the revenue of the last two years. We can see that in 2018 the revenue increased significantly in comparison to the previous year.



Figure 5 Gucci’s revenue (kering, 2019)

In 2017 the total revenue amounted to €6,211 million and as mentioned above in 2018 the revenue increased sharply. In 2018 Gucci registered total revenue of €8,285 million.



Furthermore, figure 6 shows the revenue by distribution channel of the year 2018. The figure shows that the main part of the revenue comes from the sales in directly operated stores. This distribution channel accounts for 85% of total revenue. The remaining 15% of total revenue comes from wholesale sales and other revenues. In addition, the number of directly operated stores by

Figure 6 Gucci’s revenue by channel (kering, 2019)

region increased as well. In 2017, Gucci operated 529 stores worldwide. In 2018, they opened 11 new stores and are currently operating 540 stores.



Figure 7 Gucci's revenue by region and product category (Kering, 2019)

Presently, Gucci has 14,628 employees worldwide. Figure 7 depicts the 2018 revenue by region and product category. In this figure we can see that the region with the highest revenue was Asia Pacific with 38% followed by Western Europe with 29%. The revenues by product category shows that the leather goods segment is still the biggest income source of Gucci. The sales of leather goods accounted for 57% of total revenue. The second highest segment was the shoe segment with 18%, followed by the ready-to-wear segment with 14%.

4.5 Luxury market & competitors

In the year 2019, the luxury sector was the top growing sector. The average brand value growth rate was 11%. Due to rapid changes in the global market, luxury brands were forced to adapt their strategies. Therefore, the most successful brands were those who adapted the fastest to these changes. One of these changes was the significant shift towards streetwear (interbrand, 2019). The world's most valuable luxury fashion brands 2019 were according to Interbrand the following:

1. Louis Vuitton - \$28.6 billion
2. Chanel - \$20 billion
3. Hermes - \$16.4 billion
4. Gucci - \$12.9 billion

5. Cartier - \$7.7 billion
6. Tiffany - \$5.6 billion
7. Dior - \$5.2 billion
8. Burberry - \$5 billion
9. Prada - \$4.8 billion

(CNBC, 2018)

As a result, the top nine companies in the luxury sector have a combined value of approximately \$118 billion. Burberry achieved a brand value of roughly \$5 billion and had a growth of 4% (businessinsider, 2019). By comparing the brand values in the luxury fashion branch, it is clear to see who the main competitors of Burberry are. Burberry is mostly competing with other big fashion houses like Gucci, Louis Vuitton, Dior, Hermes or Chanel. All of these brands have similar target groups, indicating their rivalling nature. Due to the fact that Gucci competes in the same market as Burberry, we assume that Gucci competes against the same competitors.

5. Findings

First, we will examine the actual changes in business strategy, to be followed by an analysis of the results. The findings are structured by the parts of the supply chain, which were already described in the literature review. For every step along the supply chain several findings and impacts on the companies' performance will be provided.

5.1 Planning

Burberry, were forced to change their planning supply chain strategy because mistakes were made in the past. Burberry entered several globally wholesale agreements between 1960 and 1980. Furthermore, several licensing agreements were made with a variety of third parties in Europe and Asia. Thus, inconsistencies in quality, design and pricing occurred. After suffering a huge financial set back due to the sharp downturn of the Japanese economy, Burberry's annual profits dropped sharply. Part of Burberry's change was the appointment of, Rosie Marie Bravo as new CEO. From then on Burberry started to regain control over their supply chain, distribution channels, and design and product development (Moore and Birtwistle, 2004). More changes were to come when Christopher Bailey and Angela Ahrendts took over in 2006 (Robinson and Hsieh, 2016). The intention of these two was to restore the "value" of Burberry's image and to reintroduce the company's "Made in Britain" appearance. Ahrendts stated: *"I feel like I spent my first few years here buying back the company – not the most pleasant or creative task. But we had to do it. If you can't control everything, you can't control anything, not really."* (Neate, 2013). This statement describes the challenge with respect to the initial approach to the planning process pointedly. Another action to restore the brand's image and to improve the company's performance was to terminate licensing agreements with Japanese and French partners. This move was necessary in order to take back control of its business in Japan and France and to build a consistent brand image globally.

The situation at Gucci was a similar one. Gucci's product assortment reached 20,000 products and was available in over 1,000 stores worldwide by the year 1979. Due to the aggressive distribution strategy, Gucci's image as a luxury fashion brand suffered severely. Like Burberry, Gucci announced a new CEO and a new Creative Director in order to restore the image and performance of the brand. In 1995, they announced Domenico de Sole as CEO and Tom Ford as creative director. Their first action was to regain the control of the product design and manufacturing. Subsequently, Gucci bought back over 100 licenses for shoes,

jewellery and clothing items. As a result, they maximised product control and reduced their product assortment from 22,000 to 7,000. In 1997, Gucci also took over its long-time watch licensee and renamed the company into Gucci Timepieces. Therefore, the management made sure that Gucci's products lines were consistent with the brand image and quality. We can see here, that Gucci followed the same approach as Burberry. Both companies wanted to take back control (Moffett and Ramaswamy, 2003). As well as Burberry, Gucci relies on its iconic pattern and heritage products like the famous Gucci loafers. Hence, they focused on brand identifiers like the Gucci double G emblem or the classic red and green Gucci stripes. These brand identifiers and iconic products help to increase income and are very helpful for marketing purposes (Moore and Birtwistle, 2005).

5.2 Sourcing

The next step in the supply chain is the sourcing process. In this step raw materials are selected and prepared for production. Burberry attaches great importance to sustainable sourcing. As reported by burberryplc. 2019, they just source raw materials from suppliers who act according to the highest animal welfare standards. Furthermore, Burberry states in their responsibility report that they actively engage the welfare and good husbandry of animals in their supply chain (burberryplc. 2019). Since 2018, Burberry has eliminated several furs. They stopped manufacture any products with any real fur from rabbits and foxes. Moreover, Burberry is currently working on increased transparency of wool supply chains in order to support sustainable sourcing. Burberry aims to improve the traceability and sourcing of their three key materials. These key materials are cotton, cashmere, and leather (burberryplc. 2019). Gucci follows a similar approach regarding their sourcing strategy. They want to reduce the environmental impact, preserve raw materials, ensure animal welfare, and support local suppliers. Therefore, Gucci developed three pillars in order to be a more sustainable and responsible company. The first pillar is the "Care" pillar. In this pillar Gucci and its parent company Kering want to take steps to reduce its environmental footprint by using new innovative tools (kering, 2019). Furthermore, Kering aims to be 100% transparent by 2025. Their objective is to improve traceability and to procure raw materials from responsible and sustainable suppliers. The second pillar is the "Collaborate" pillar. The goal in this pillar is to increase economic, environmental, ethical and social performance of the company. The "Create" pillar is the last pillar in Gucci's sustainability strategy. This pillar means to create innovative alternatives in order to improve the whole luxury industry. Kering wants to

develop new sourcing approaches as well as innovative raw materials (Kering, 2019). According to Robinson & Hsieh, both companies source most of their raw materials in Italy in order to sustain high quality of their products. The main materials sourced are leather and several different fabrics. In summary, it can be said that both companies attach great importance to sustainable and transparent sourcing.

5.3 Production

The third step along the supply chain is the production process. In this step raw materials are assembled into finished products. In this part of the supply chain Burberry and Gucci followed a similar strategy. After the announcement of Angela Ahrendts as new CEO of Burberry in 2006, one of her first amendments was the repatriation of production back to the UK. By producing in the UK, Ahrendts wanted to strengthen the brand's authenticity. Ahrendts stated the following about the Britishness of Burberry: *"It's all about the Britishness of the product... consumers in China don't want to buy a Burberry trench coat made in Shanghai...they want the real thing, it has to be truly made in England... it's the craftsmanship and heritage of the brand that consumers in emerging markets are buying into"* (Robinson and Hsieh, 2016, p. 95). Due to the fact that the Chinese market almost represented over 30% of the company's sales, the movement of the production back to the UK was a crucial change to the existing supply chain network (Robinson and Hsieh, 2016). However, Burberry did not shift the whole production back to the UK. Burberry's heritage products like the trench coat are being manufactured in Castleford, UK, but peripheral products like polo shirts, t-shirts etc. are produced abroad (Tokatli, 2012). The reason to keep producing overseas was mainly to stay competitive and to strengthen the company's position in the luxury global market. Furthermore, manufacturing overseas was more cost efficient than producing in the UK. Another important step to restore the brand perception was the decision to hide the famous Burberry pattern. This decision was necessary because the pattern became a symbol of young working class "chavs" and football hooligans, which created an image contrary to Burberry's intention. Consequently, Bailey decided to hide the pattern temporarily, later to be found in selected products (Robinson and Hsieh, 2016). Gucci also employed this branding tactics. Gucci had similar problems with its famous pattern, but they were able to turn the pattern into something cool and exclusive again (Tokatli, 2012). In 2014 Christian Bailey took over as CEO and increased Burberry's financial performances to unforeseen heights (Robinson and Hsieh, 2016). Bailey's plan was to revitalise the brand's

image. He was quoted in 2015, *“British roots are incredibly important to this brand.”* Burberry immediately started to build on its British heritage by using clothing elements of the British royalty in their fashion shows. Bailey soon realised that core customers value that heritage products made in the UK. For example, cashmere is produced in Scotland and the trenches are manufactured in Yorkshire. As a result, Burberry focused on its iconic British-made products, like the trench coats and cashmere scarves. Bailey stated that these products are the “heart” of Burberry’s product offer (Robinson and Hsieh, 2016). *“I’m a massive believer in British manufacturing and the crafts and skills we have here. It is a tradition we should all be enormously proud of and continue to build on”* (Robinson and Hsieh, 2016, p. 97). Burberry was able to return to its core values by rebuilding the manufacturing. Furthermore, due to these changes, Burberry was able to achieve growth across Europe, the USA and Asia Pacific.

Gucci followed in the production process a similar strategy. After the takeover of De Sole and Ford, the production was shifted towards local manufactures (Moffett and Ramaswamy, 2003). The next action of their stabilisation strategy was to re-organise the product portfolio. By 1996, the sale of the ready-to-wear items amounted to approximately 7% and leather goods sales amounted to almost 60%. Therefore, Gucci re-bought licenses for ready-to-wear production in order to gain production capability and distribution rights. (Moffett and Ramaswamy, 2003). Consequently, the product portfolio changed considerably. The ready-to-wear segment contributed 14% of total sales and leather goods sales were accounting for 40% in 1999. This change can be explained by the fact that the ready-to-wear segment was not well integrated into the brand. Under the creative management of Tom Ford, this segment became a significant and profitable business and a platform to communicate the Gucci image and lifestyle. In addition, Tom Ford reintroduced iconic products like the Gucci loafers which generated additional brand awareness. (Moore and Birtwistle, 2005). Here, too, Gucci is pursuing a similar strategy to Burberry. Both focus on their iconic products in order to improve brand awareness and brand authenticity.

5.4 Delivery

The next step along the supply chain is the delivery process respectively the distribution of the products. In this section we are going to compare our two samples again regarding their chosen distribution strategies. Under the leadership of Bailey, Burberry introduced a new

business model. The model is called “See Now-Buy Now” and it aims to decrease the time-window between the catwalk show and the moment when clothing becomes available to buy in stores. The introduction of this new business model caused some significant changes in Burberry’s supply chain strategy (Hoang L, 2016). Burberry continued to run its operations from the global headquarters in London, UK. The design and product development is happening in the headquarters as well. Furthermore, Burberry has two wholly owned production sites in the UK. In order to focus production in the UK and re-emphasize its iconic products being made in Britain, factories in Europe and the US were closed. Furthermore, the change to the “See Now-Buy Now” business model required an agile and seamless supply chain. Consequently, a change to domestic sourcing and manufacturing will shorten the supply chain and cut lead-times. Furthermore, proper carriers are needed to delivery and distribute everything in time. However, the opening of flagship stores all around the world helped Burberry to gain attention of the fashion press, which increased brand awareness. These stores are also a way to distribute their products (burberryplc.com, 2019). In summary, Burberry operates a global network of directly operated and franchise stores. Furthermore, their e-commerce platform serves 44 countries. In addition, Burberry with several wholesale and licensing partners in order to complement their distribution network (burberryplc, 2019).

Gucci also had to re-establish control over their distribution channels. In the years before De Sole and Ford took over, Gucci heavily relied on franchising agreements in order to provide international distribution. As a result, Gucci began to re-purchase franchise stores in 1996. The management wanted to take control over distribution through store ownership (Moore and Birtwistle, 2005). Three years later in 1999, 130 out of 181 stores were directly-operated. The next step was to create a luxury shopping experience for the customers. To do so, Gucci created a convincing store experience. One measure was the presentation of the products in a way which shows the exclusivity and charisma of the brand. This new concept was adapted in flagship stores worldwide. Subsequently, Gucci was represented all over the world in the same way. This indicates the brand’s clear message and appearance (Moore and Birtwistle, 2005). The last step was to develop a luxury fashion framework. In order to develop such a framework, it was imperative to have flagship stores in the premium shopping districts of the fashion metropolises globally, e.g. the Fifth Avenue in New York, the Champs-Élysées in Paris or Via Montenapoleone in Milan. It became apparent that an excellent retail and wholesale distribution network is highly beneficial to luxury fashion brands.

5.5 General Findings

All these actions along the supply chain translated into an increased business performance. In this part we are going to mention several activities which contributed to better business performance. These changes partly affected the supply chain strategy of the companies, such as distribution and production. For example, Burberry introduced six new brands (Burberry Prosum, Thomas Burberry, Burberry Accessories, Burberry London, Burberry Blue and Burberry Black) under the new design director Chris Bailey (Moore and Birtwistle, 2004). This meant Burberry also needed to include these adaptations to their supply chain strategy. It was necessary to include the new brands in the planning, sourcing, production and distribution process. Furthermore, Burberry followed a three sided marketing strategy where the three main goals were regaining the corporate heritage, reconnecting the brand with its core values (quality, classic British and exploration) and reviving core brand expertise (Cooper et al., 2015). Through these measures and the ones described along the supply chain, Burberry achieved that global consumers developed a different perception of the Burberry brand. Moreover, under Ahrendts tenure Burberry was able to compete with the other big European fashion houses like Louis Vuitton, Prada and Gucci.

Gucci introduced as well some general changes in their communication strategy in order to strengthen their brand. The regaining of control by buying back licenses resulted in increased profits (Moore and Birtwistle, 2005). However, Gucci needed to establish a consistent marketing message. While restoring the brands image, the management recognised the importance of a consistent communication in order to represent Gucci as a credible luxury brand. Gucci spent around \$61 million on advertising in 1996, which was approximately 7% of net revenues. Three years later the management increased the budget to \$87 million. Management hoped to support the long-term growth of revenues and profits through this intensive advertising (DeFanti et al., 2014).

In general, we can say that luxury fashion brands should employ certain marketing activities. These activities include fashion shows, store window displays, features on fashion magazines, and product placement. Finally, premium pricing is a must-do in order to build a luxury fashion framework (DeFanti et al., 2014).

In summary, we can say that both companies were increasingly looking to regain control of their distribution channels and production. As described before Burberry and Gucci adapted their supply network by buying licenses back in order regain control and by shifting their

production back to the home countries of the brands. The connection between supply network and image respectively performance becomes clearly visible when you look at figure 8. Figure 8 shows the total revenue of Burberry of the last sixteen years. In 2006, Angela Ahrendts took over and changed the whole supply and distribution strategy. Since then the revenues increased sharply. The total revenue amounted to £743m in 2006 and ten years later in 2016 the revenue amounted to £2.515m. This is just one indicator that there is a connection between supply chain strategy and performance. Furthermore, in the case of Burberry we can also observe a stark increase in the brand value in the last decade. From 2010 to 2015 the brand value surged from \$3.110m to \$5.873m. The value of the company has almost doubled within five years, which can be seen in figure 9.

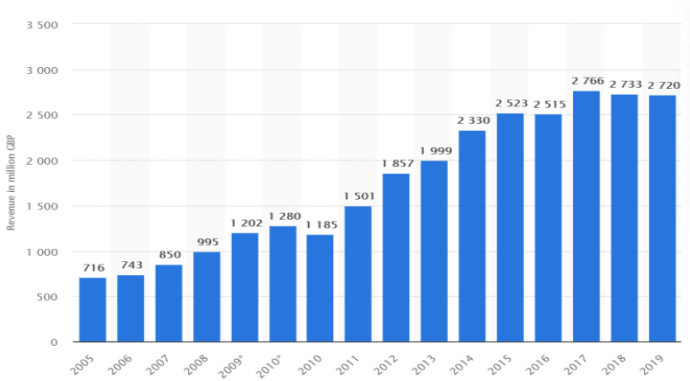


Figure 8 Burberry’s revenue development (Statista, 2019)

Brand value of Burberry worldwide from 2010 to 2019
(in million U.S. dollars)



Figure 9 Burberry’s brand value development (Statista 2019)

Figure 9 shows a similar development of the brand value as in the case of Gucci. We can see that the brand value steadily increases since the changes in their supply chain strategy. So by looking at all the graphs and the findings above, we can observe a switch from licensing and franchising back to total control over the supply chain.

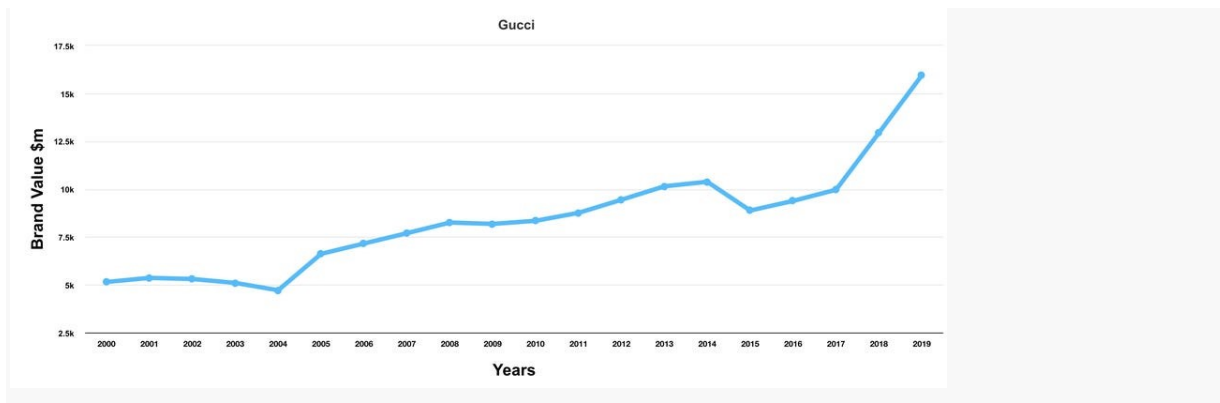


Figure 10 Gucci’s brand value development (Businessinsider, 2019)

In general, this development can be also partly explained by the growth of the luxury market and its current boom. Therefore, the general growth of the market is supporting the companies’ performances. One example for the current boom of the luxury market is the recent takeover from LVMH over Tiffany’s for 12 billion USD. Furthermore, Kering is currently making a move for Moncler in order to stay competitive (Khan Y., 2019). In the following table the findings of our research are summarized and most important outcomes are emphasised.

Step of the supply chain	Findings
Planning	A proper planned supply chain helps a company to cut costs, have more control over manufacturing, marketing and distribution. Furthermore, production in the home country strengthens the “Made in” tag and improves the exclusiveness and image of a brand. Therefore, characteristics of luxury like “country of origin”, high quality, and heritage are strengthened by a well-planned supply chain strategy.
Sourcing	Sourcing process makes sure that just the best raw materials are used for the production. Our sample companies focus on a sustainable sourcing process. Moreover,

	<p>most of their raw materials are procured from Italy. Through efficient sourcing the requirements of a luxury brand, such as high quality, aesthetics, and style and design can be fulfilled. Furthermore, by using high quality materials, even higher prices can be justified.</p>
<p>Production</p>	<p>Both companies produce their iconic products in the country of origin in order to strengthen their image as typical “British” brand or typical “Italian” brand. Moreover, production design (restore the iconic patterns) helped to reposition the brands and regain market share. Gucci did this by reducing their product assortment and focusing on their iconic products, which are produced in the Tuscany, Italy. Burberry followed a similar approach by shifting production of its iconic products back to the UK in order to restore the “Britishness” of its brand. By these actions the luxury image is strengthened. Especially, the attributes “country of origin”, “uniqueness”, and “creation of a lifestyle”.</p>
<p>Delivery</p>	<p>Brands are present in the fashion centres. Flagship stores are an important distribution channel for the brands. Online distribution is also a key channel in order to stay competitive. Furthermore, by having full control of its distribution channels, the strategic planning process becomes much more efficient by having fewer parties included in the decision making. Both</p>

	<p>companies, Burberry and Gucci are present in the fashion centres of the world. Their main revenue comes from sales to the end customer (B2C). Therefore, flagship stores are crucial for both brands. Moreover, both are operating e-commerce platforms, which is nowadays also an absolute essential. Subsequently, these actions correspond to the concept of luxury by creating a lifestyle and emotional appeal.</p>
General	<p>Changes in the business strategy resulted in higher revenues, entering new markets, increase of the share prices respectively higher brand value. In addition, to changes in their supply chain strategies, the brands also made some other amendments. Burberry for example, introduced new brands and new product lines in order to spread their target audience. As a result, the supply chain strategy was also adapted to the introduction of new brands. Gucci adapted their communication strategy and invested some money in order to increase their brand awareness. Also here these actions helped to build up the luxury image. Attributes like “creation of a lifestyle”, “heritage”, and “emotional appeal” were enhanced.</p>

Table 3: Summary of the findings

6. Discussion

Our study desired to explore the luxury fashion sector and the supply chain processes within this sector. In particular, our research focused on the impact of supply chains on the performance of luxury fashion brands. Therefore, we came up with the following research question: “How does the supply chain impact the performance of a luxury fashion brand?” As an appropriate format to answer this question, we have selected a case study. Two companies within the luxury fashion segment were studied. The findings show that changes in the supply chain strategy have several impacts on the performance of the studied luxury fashion brands.

In addition, our findings show that the sample companies faced several challenges in the past regarding supply chain management. In the past it was common in the luxury fashion sector to outsource production and to agree to licensing, franchising and wholesale contracts. The consequence was the loss of control of the company. Under this loss of control, the product design, the style, and the quality of the products suffered because the processes of planning and designing did not happen anymore at one central location. Therefore, both of our sample companies announced new management teams and started to terminate licensing and wholesale agreements in order to get back control over their companies. Our data shows that both companies followed this approach and adapted their supply chain strategy in order to get back control.

Furthermore, we could observe that especially in the sourcing process, the companies appear to adopt more sustainable approaches. In times of global warming, sustainability becomes more important and customers demand from luxury brands that they implement sustainability in their supply chain strategy (Pavione et al., 2016). However, the luxury segment gained in the recent past a bad image because of several scandals. For example, it became public that luxury brands like Burberry and Gucci destroy or burn unsold products. (BBC, 2018) It is therefore a challenge for the luxury sector to develop authentic sustainability plans and to adapt these plans to their supply chain strategy.

Moreover, our findings show that there is a trend in luxury fashion to shift back production to the country of origin. Both brands relocated their production by shifting it back to the country of origin. Burberry shifted its production back to the UK for their heritage products like the trench coat. The goal of this action was to strengthen their image as a typical British brand. Gucci did the same for its iconic products. They are producing their iconic products like the loafers in Italy. Especially the Asian market demands exclusiveness. Therefore, it is crucial that the iconic products are made in the country of origin. This action increases the

authenticity of a brand and further on the exclusiveness. Furthermore, both companies had problems with their iconic pattern in the past. This was also revised by hiding the pattern and taking some products out of the assortment. According to Robinson and Hsieh and Moore and Birtwistle the production location and the product assortment has an impact on the brand image and on the brand performance. Our research comes to the same conclusion as the mentioned authors. As we saw before, the performance increased steadily from the time of the change of the supply strategy.

Regarding the distribution, our findings show that both brands follow a similar approach. We can state that it is very important for a luxury fashion brand to be present in the fashion centres of the world in the form of flagship stores. Furthermore, they need total control of their distribution channel in order to be able to plan their distribution and to make decisions. However, the brands need also to present online. They need to maintain online shops. Both of the brands rely mostly on online distribution and distribution through their flagship stores. Our research in the distribution step of the supply chain comes to similar results as previous researches from Tokatli and Moore and Britwistle. They also stated that it is necessary to have fully controlled distribution channels in the form of owned flagship stores and e-commerce platforms.

Ultimately, our findings show that there are several impacts of the supply chain on the business performance of a luxury fashion brand. We can observe a trend towards a more sustainable supply chain. Luxury fashion brands are going to embrace sustainability even more and in the near future we will probably see more adaptations of the supply chain strategy towards a sustainable supply chain strategy.

7. Conclusion

This thesis deals with the relationship between the supply chain and the performance of a luxury fashion brand. The purpose of this thesis was to enhance academic theory on supply chains and its impact on luxury fashion brands. Our study addressed the following research question: “How does the supply chain impact the performance of a luxury fashion brand?” By using a comparative case study design we analysed two big players in the luxury fashion segment. In order to answer the research question, several types of secondary data were collected. Annual business reports, online publications, articles of renowned fashion magazines, fashion blogs, secondary interviews, industry reports, newspaper articles, as well as company or sector specific academic literature.

Overall, our findings suggest that companies improve their business performance by changing their supply chain strategy. Luxury fashion companies tend to take back total control over their supply chain and distribution channels. One limitation is that the findings of this thesis might not be applicable to the fashion industry as a whole because the luxury fashion segment is just a small part of the fashion industry. Future research could expand the study to other sectors of the fashion industry. It would be insightful to study the supply chains of the fast fashion sector, for example. Because these supply chains are even more efficient and work way faster. Furthermore, it would be interesting to compare supply chains from the luxury fashion sector to the fast fashion sector.

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