Burberry

SWOT analysis

A SWOT analysis is key to understanding the ups and downs of major UK businesses, which is vital for linear exams

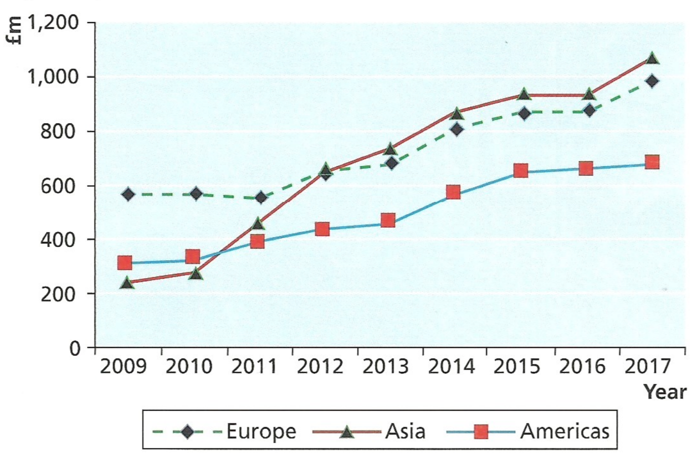
Burberry is the UK's only major luxury brand (Table 1). In the first quarter of its 2017/18 financial year, it announced 'mid-teens percentage sales growth' for the first time since President Xi's public clampdown on corruption in China. Iconic Burberry raincoats and bags had become an awkward sign of affluence. Now, at last, Chinese customers were returning to the brand.

Strengths

Figure 1 shows that between 2009 and 2017, Burberry sales in Asia rose by 345% while in Europe they rose by just 74%. Now the growth in China might push the Asia figures into another spurt upwards.

Figure 1 also shows how well balanced the sales are between the world's three biggest consumer markets: Asia, America and Europe. This is helpful as a clear sign of diversification. Burberry was shocked by the clampdown in China, but had substantial sales in Europe and America to keep it going. Now, with Asia already being Burberry's biggest market, a further growth spurt in China will add relatively risk-free growth to the company.

Most importantly for Burberry is that it remains in the world's top ten luxury brands — the only UK company to be featured. This list is dominated by French and Italian brands, which are especially favoured in China.



Source: Burberry accounts 2009–17

Figure 1 Burberry sales growth

Table 1 Most valuable luxury brands

Rank	Brand	Country of origin
1	Louis Vuitton	France
2	Hermes	France
3	Gucci	Italy
4	Chanel	France
5	Rolex	Switzerland
6	Cartier	France
7	Burberry	UK
8	Prada	Italy
9	Christian Dior	France
10	Tiffany & Co.	USA

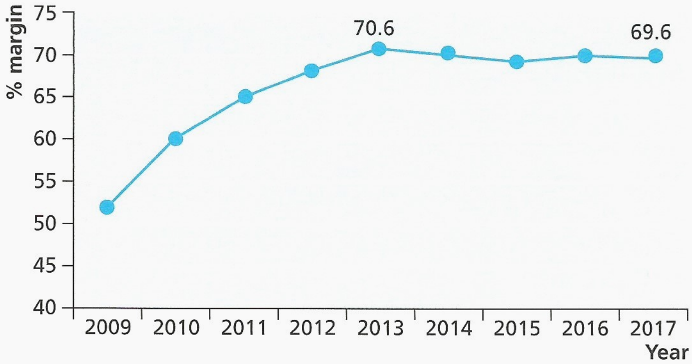
Source: Statista 2017

Weaknesses

A key measure of the strength of a brand is its gross profit margin. This shows the percentage difference between the selling price of items and the cost of buying those items from the manufacturers. Between 2009 and 2013 Burberry's gross margin rose steadily, but since then it has slipped back — even though the chief executive says he's trying everything possible to cut costs.

The gross margin remains at around 70%, which is very high, but the direction of travel has to be a concern. On the other hand, you could argue that the big change happened between 2009 and 2013, and that what's happened since is minor by comparison.

A further weakness with Burberry is its policy decision to prioritise short-term shareholder payouts over its long-term future. Capital expenditure has been cut from £175.9 million in 2013 to £104.1 million in 2017. This is a drastic scaling back of the company's ambitions. At the same time, steady increases in dividend payouts were supplemented in 2017 by a 'share buyback' that handed over more cash to shareholders. Between 2009 and 2017, capital expenditure rose by 15.7% while shareholder payouts rose by 406%. An ambitious, top-quality manager might start looking for a job elsewhere — at Chanel, perhaps, or Ted Baker.



Source: Burberry accounts 2009–17

Figure 2 Burberry gross profit margins

Opportunities

In the 1980s and early 1990s Burberry attempted to build a business in the middle market through a 'diffusion' brand called Thomas Burberry. This proved a huge mistake, dragging the Burberry brand away from its posh, confident position in the global luxury goods market. This, therefore, is not an 'opportunity' the brand will repeat.

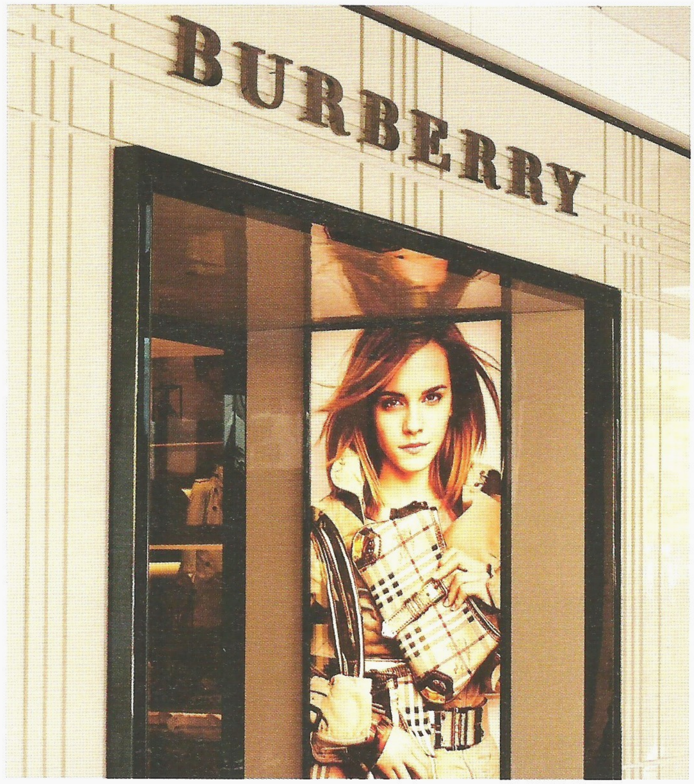
But the brand's existing strength in China provides huge possibilities for the future. At present Burberry has higher sales in China than the UK, but it is important to remember that China's population is 20 times that of the UK, and the huge increase in the Chinese middle class is allowing more and more to afford luxury goods. Burberry is already quite strong in China's Tier 1 cities such as Shanghai, Beijing and Guangzhou, and it has huge development potential in Tier 2 and Tier 3 cities.

Whereas the UK has only two cities with a population of over 1 million people, China has more than 100 (Table 2). So the scope for growth is massive.

Table 2 Opportunities for Burberry growth in China

	Population range	China	UK
Tier 1 cities	10+ million	4	0
Tier 2 cities	5+ million	10	1 (London)
Tier 3 cities	1+ million	91	1 (Birmingham)

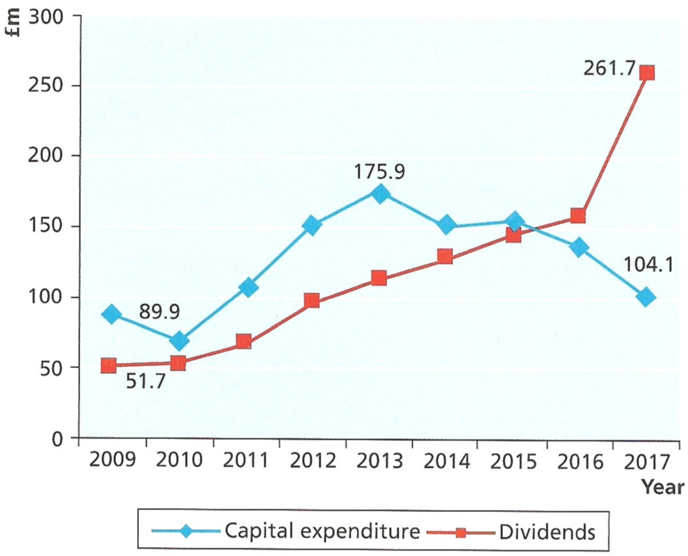
Source: ONS and China National Statistics



Burberry store in Shanghai

Threats

The biggest threat to Burberry is from within. Its image is strong enough — and global enough — to cope with external buffeting from Brexit, from recession and even from upheaval in China. Nor is there any serious threat from competitors. But a company that puts shareholders before its own future (as suggested by Figure 3) needs to be treated with care.



Source: Burberry accounts 2009–17

Figure 3 Burberry shareholder payouts

Burberry was run successfully by American businesswoman Angela Ahrendts, chief executive between 2006 and 2014. When she left (to join Apple) the top executive job was handed to the company's main creative force: Christopher Bailey. This proved unsuccessful, and Bailey was kicked upstairs to become president in 2016, succeeded as chief executive by Italian Marco Gobbetti. The threat is simple: if Burberry can't establish a new driving force, the business may move sideways. With the opportunities in China, it's time to move forward.

Conclusion

Burberry is a serious global brand with huge potential. This is largely due to having established itself so solidly in China. But to turn existing strengths into future opportunities needs vision and financial commitment on the part of the senior executives. The French fashion houses such as Louis Vuitton and Chanel seem geared up for growth, while Burberry seems hesitant. The company's biggest shareholders should encourage the management to invest rather than give more cash away in dividends and share buybacks. Burberry plc is a test of whether UK plcs have the far-sightedness needed for long-term success. In the Brexit world, Burberry is just the kind of company that needs to raise its sights and its game. Time will tell.

Ian Marcousé is the founding editor of Business Review and the author of Hodder Education textbooks for AQA and Edexcel AS and A-level business studies.