

GUCCI'S TURNAROUND: REPOSITIONING AND REBUILDING THE COMPANY¹

Jessica Zhang wrote this case under the supervision of Professor June Cotte solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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ISSUE AT HAND

Appointed as the new chief executive officer (CEO) and president of Guccio Gucci SpA (Gucci) on January 15, 2015, Marco Bizzari had a lot of work to do. In recent years, the company had been struggling with operating profits, and by December 2014, the company had experienced three consecutive quarters of decline. In addition to its financial issues, the company's former president and CEO, Patrizio Di Marco, and creative director, Frida Giannini, had abruptly stepped down, leaving the company with limited strategic direction and a desperate need to once again be at the top of the luxury retail market.² Bizzari was faced with a tough decision and difficult task: how could he turn Gucci around?

INDUSTRY DYNAMICS

The luxury goods market had experienced a growth rate of 7 per cent in 2014, exceeding €850 billion.³ The current core within this market was personal luxury goods, in which Gucci competed. A Deloitte report defined personal luxury goods as the "aggregation of designer apparel and footwear (ready-to-wear), luxury bags and accessories (including eyewear), luxury jewellery and watches, and premium cosmetics and fragrances."⁴ In 2014, this market reached sales of over €223 billion, tripling its size over the past 20 years. However, due to the slow recovery following the financial crisis in 2008, the growth rate was slowing to a rate of 5 per cent per year. As the economy began to recover and establish a "new normal," demand for luxury goods continued to rise. This was primarily driven by Chinese, Japanese, and U.S. consumers. Moreover, specifically within the personal luxury goods segment, accessories captured over 29 per cent of the market, more than the next two largest categories of apparel and jewellery and watches.⁵

The shopping experience for consumers was split between shopping at stores that offered single brands (mono-brand shopping), shopping at multi-brand stores, and shopping online. With the high growth in the industry, competitors were aggressively vying for market share in terms of growing their brand strategies, assortments, or product offerings.

The luxury industry was unique in that large conglomerates owned a majority of the individual luxury brands within their portfolios. In order to offer a diverse selection to individuals, conglomerates expanded through mergers and acquisitions of individual fashion houses. For example, Gucci was held under the Kering group umbrella. The fashion market in particular was further segmented into various categories (see Exhibit 1). Many luxury fashion houses operated mainly in the haute couture and ready-to-wear segments. Haute couture was the smallest of the segments; here, designers created exclusive and limited pieces to be worn by celebrities and the upper echelon of society. As luxury retailers began looking to reach other segments in the market, many established ready-to-wear lines. These lines were much more accessible to high income individuals and were more widely available in the markets, either through online or boutique locations. Some fashion brands had further entered into more accessible product line extensions to target younger audiences who strove for brand association at more affordable prices, but Gucci had never employed this strategy.

FASHION HOUSE AND CONGLOMERATE STRUCTURE

Various roles within luxury fashion houses contributed to streamlined design processes and collections that fit with the brand image. The creative director or director of design headed the design department, coordinating all the designs of each product line. This person worked alongside the product manager and purchasing directors to make sure each collection was created on time and was synonymous with the brand image of the fashion house. Regional directors or sales directors were in charge of either geographic areas or product lines to market and merchandise.⁶

Traditionally, luxury fashion houses created haute couture collections. Members would design made-to-order items for exclusive lists of private clients according to strict guidelines, which included having a minimum of 15 staff members and creating a minimum of 50 original pieces for each of two seasons, in January and July. Over the years, designers began to create ready-to-wear collections that were more accessible to the market and were less difficult operationally, due to standard sizing with no alterations. These designs were presented at multiple shows almost six months ahead of the season. Most designers created over 10 collections per year.⁷

GUCCI'S GROUP: KERING

Kering was a global group that operated in various lifestyle, sports, and luxury goods markets.⁸ The group's revenues grew over 4 per cent by the end of fiscal 2013, to €9.748 billion.⁹ Kering was in charge of 19 different apparel and accessory brands. Specifically, within the luxury retail space, Kering dominated with brands including Bottega Veneta, Yves Saint Laurent, Balenciaga, Alexander McQueen, and Ulysse Nardin.¹⁰ Gucci was considered the group's flagship brand, and over 55 per cent of the revenue in Kering's luxury division stemmed from this brand.¹¹ Kering's operations and brand distribution spanned over 120 countries worldwide.¹²

LUXURY FASHION BRAND COMPETITORS

Gucci's primary competitors were other major luxury fashion brands that were either independent fashion houses or held under conglomerate umbrellas. Moreover, given the nature of each fashion house, Gucci further competed with companies and brands under the Kering umbrella (see Exhibit 2).

Louis Vuitton

Established in 1854, Louis Vuitton Malletier SA (Louis Vuitton) had continued to dominate the luxury retail industry with its recognizable print and assortment of products, including ready-to-wear collections, leather goods, and other accessories. Behind the powerful luxury brand was the group LVMH Moët Hennessy–Louis Vuitton (LVMH), which owned over 70 other distinct brands. In 2013, LVMH generated over €29.149 billion in revenue and €9,882 in just the fashion and leather goods business group.¹³ In 2013, Louis Vuitton re-established its dominance in the luxury industry by creating new interpretations of iconic pieces and timeless collections and by continuing to collaborate with major artists and designers for limited edition collections. Given its creative momentum in 2013, Louis Vuitton continued to expand its presence in various locations worldwide, including London, Tokyo, Beijing, Venice, and Munich.¹⁴ However, its distinct brand had brought unwanted attention from the counterfeit market. As a result, the brand had been through multiple legal disputes surrounding the mass production of counterfeit purses and items with similar or identical prints.¹⁵

Burberry

Founded by Thomas Burberry in 1856, Burberry Group PLC (Burberry) was one of the most distinctive global luxury brands.¹⁶ Burberry took pride in maintaining its British identity and enjoyed a strong reputation related to design capabilities, innovation, and craftsmanship.¹⁷ The brand had carried itself through decades of quality design, including adapting its design for the First World War.¹⁸ Moreover, Burberry had established a well-known pattern and creative pieces such as its trench coat, which was synonymous with the brand. In fiscal 2014, Burberry generated over £2,330 million in total revenue.¹⁹ In fiscal 2014, Burberry operated 427 locations worldwide.²⁰ The company's strategy was to continue its global expansion through opening over 25 stores worldwide, enhancing its digital marketing strategy and continuing to leverage its brand recognition into complementary segments.²¹

Chanel

Gabrielle “Coco” Chanel established this well-known luxury fashion house in 1909. Primarily known for its haute couture collection, Chanel International BV (Chanel) continued to dominate in every specialization, including ready-to-wear collections, leather goods, perfume, and cosmetics. In comparison to the other luxury brands, Chanel was one of the higher-priced fashion houses. The company's global operations consisted of both boutique locations and items sold at high-end third-party retailers. In 2013, the company generated €\$6.862 billion in revenue. Given the smaller size of this family-owned private company, Chanel operated its businesses through regional heads that reported to the global CEO. This structure differed from that of many luxury conglomerates, including Kering and LVMH, as it provided regional managers greater autonomy in managing their areas of the business.²²

Yves Saint Laurent

Founded in 1961, Yves Saint Laurent SAS (YSL) began as an haute couture house. In 1966, the brand expanded into the luxury ready-to-wear segment through Saint Laurent Rive Gauche, and it had since been known for capturing “the impulses of youth, freedom and modernity.” In 2013, the brand generated €557 million in revenue and continued to add company-operated boutiques to its existing 115 locations. As of June 2013, YSL had invested in establishing its online presence by adding over 30 more countries to its e-commerce platform. The brand also continued to utilize social media to build a loyal brand

following and promote its products. As of December 2013, YSL was one of the most popular brands on Twitter Inc., with more than 1.7 million followers on the social media platform. The brand continued to enhance its modern fashion nature by collaborating with various artists: in March, 2013, it established the Music Project with celebrities including Daft Punk, Courtney Love, and Chuck Berry, all embracing pieces from the YSL collection.²³

FAST-FASHION COPYCATS

The increasing power and growth of fast-fashion companies, including Zara SA, Forever 21, and H&M, placed pressure on the luxury retail market. All of these companies offered affordable alternatives, and they had often been accused of stealing the creative designs or implementing similar creations in their collections. Given the cheap production costs and efficient operations of many of the fast-fashion companies, they were able to outpace luxury retailers. Because there was a six-month lead time on the delivery of collections in luxury goods, fast-fashion companies were sometimes able to bring their versions of luxury designs to market before the original brands were for sale.²⁴

COMPANY HISTORY

Inauguration of Gucci

Founded in 1921 by the talented leather manufacturer Guccio Gucci in Florence, Italy, Gucci established itself as one of the world's most recognizable luxury fashion brands.²⁵ As a successful leather manufacturer, Gucci was known for its ability to create timeless, classic pieces out of various materials. Due to the League of Nations' embargo against imports from Italy in 1935, Guccio Gucci found creative ways to incorporate other materials, including hemp and diamonds, to create the company's signature print.²⁶ As a classic Italian brand, Gucci did not expand outside of Italy until 1953, when it opened its first store in New York. Although Guccio Gucci passed away 15 days after the store opened, the brand continued to establish well-known pieces, including its iconic loafer with metal horse bit. In 1994, Tom Ford was appointed as the creative director of the company and established its first successful collection, focused on jet-set glamour and sexy pieces, in 1995.²⁷ The brand was known for risqué commercials and advertisements that drew attention and media coverage for the brand, in turn creating brand awareness.²⁸ Throughout the late 1990s and early 2000s, Gucci continued to relaunch and revamp fashion-forward pieces and various celebrity features, including its beloved Jackie bag, renamed for the former U.S. First Lady Jackie Kennedy. In 2000, the company experienced a hostile takeover bid by LVMH; however, it was ultimately purchased by investment firm Pinault Printemps Redoute (PPR), now known as Kering, which was looking to expand its portfolio of luxury brands.²⁹ Gucci continued to establish itself as the "it" brand of fashion in the early 2000s and continued to expand into various complementary avenues, including fragrances, with the help of Giannini, who joined the company after previously working for Fendi. In 2004, Ford left the company after he and PPR failed to come to terms on a new contract, and in 2005, Giannini became creative director. As of 2015, the company had over 514 company-operated locations and headquarters in Italy.³⁰

Recent History

Following her promotion as creative director, Giannini continued to work within the template of Ford's designs. The brand was product focused; however, given the quickly changing trends of consumers, especially in the fashion industry, Gucci found itself experiencing creative stagnation, and its overtly sexual marketing approach was no longer as successful. The brand began to lose its credibility, and by the

second half of 2013, Gucci experienced three consecutive quarters of declining sales. With over 55 per cent of revenues for Kering being driven by Gucci (see Exhibits 3 and 4), Kering was highly concerned about the brand's ability to remain competitive in the ever-changing luxury market.³¹

OPPORTUNITIES

Given increased competition in the luxury goods industry and the rise in fast fashion, many observers felt that Bizzari needed to reposition Gucci. In December 2014, Kering announced that Giannini would be leaving Gucci. Under pressure from Kering and dealing with the departure of Giannini, the brand had no creative direction to move forward. Industry observers recognized an immediate need for a decision in the increasingly competitive personal luxury goods market.

Repositioning and Rehiring

Given the limited success of the previous three quarters, industry observers began to wonder if Gucci's brand needed a new direction; what would a new brand position entail? Ford and Giannini had left the company with an image and direction that had been successful for decades and had only recently begun to lose credibility in the market. Was this just a bad period? Was it time for Gucci to divert itself from the sexy image for which it had been known for so long? If Gucci were to reposition itself, what would its new image be, and what message would the company send?

Moreover, Gucci needed to find a new creative director. Typically, directors needed to have several years of experience in the industry, as they would be responsible for the brand image and all the collections of the company. The company had some candidates in mind and long lists of individuals with decades of experience at luxury firms. In the luxury fashion industry, it was common to switch firms and change directors. However, industry observers were intrigued by one candidate: Alessandro Michele. Michele had been with Gucci's creative department since 2002 and brought a young flair to his work.³² He was not as well-known as the other candidates, nor did he have as much experience. However, he had been with the company through many stages and understood the nature of the business. Picking the right creative director was key in this situation, as this position held the key not only to Gucci's performance but also to its relationship with Kering and its shareholders. Thus, industry observers wondered how perceptions of the company would change depending on whether it hired an insider or a new, celebrity outsider.

Digital Marketing Investments

Looking at Gucci's major competitors, observers wondered whether this was the time for the company to establish a greater digital presence. In 2012, Kering had launched a digital strategy to revitalize its online presence by designing an interface for each brand's website. In 2013, Kering entered a joint venture with online retailer Yoox Net-A-Porter Group (Yoox) to distribute its brands and boost their e-commerce presence. In 2013, Gucci was ranked 38th out of the best global brands (Zara was ranked 36th; H&M was ranked 21st; and Louis Vuitton was ranked 17th). This ranking not only incorporated brand value and equity but was also based on brands' digital and social media influence. By 2014, Gucci had dropped to 41st, while Zara and H&M had maintained their positions, and Louis Vuitton was ranked 19th. With brands like YSL continuing to expand their digital platforms and marketing strategies, what should Gucci do next to remain competitive in this market?³³

Product Line Extension

With the success of accessible luxury brands, including Marc by Marc Jacobs, Armani Exchange, and DKNY, Bizzari wondered if it was time to consider entering the affordable luxury market and creating an alternative line at lower price points.³⁴ This strategy had driven growth from a younger consumer market and generated significant income for other brands. In luxury consumption, millennials were three times more likely to be driven by trends than older consumers.³⁵ Was it time for Gucci to consider following these other brands? The brand had stayed away from this strategy for fear of brand dilution; however, could this segment be a new way for Gucci to grow?

THE DILEMMA

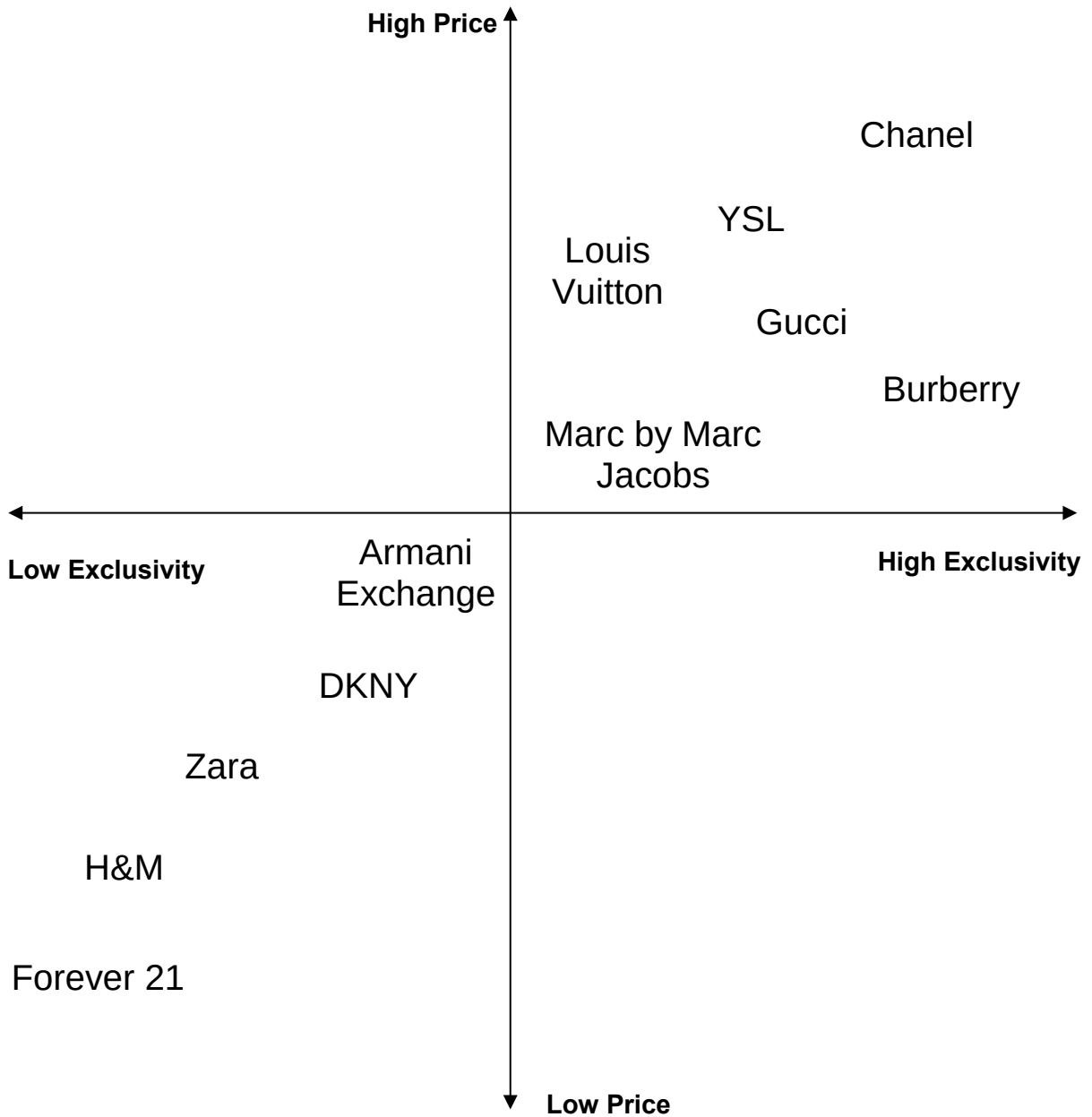
In short, Bizzari was faced with several interrelated decisions. In regard to Gucci's brand position, he needed to decide whether the company's positioning should remain as it was created under Ford, or if it was time to change the perception of the brand. Following this decision, he had to decide whether it would be better for the company to hire internally or externally for a creative director. Additionally, what digital investments, if any, should the brand make? Was this the time to focus on building a digital strategy? Lastly, should Gucci attempt to create a product line diffusion similar to some of the other luxury brands? If so, what should be the new line's value proposition? All of these decisions would end up determining the future of Gucci's empire.

EXHIBIT 1: TIERS OF FASHION AND RETAIL



Source: Created by case writer.

EXHIBIT 2: POSITIONING OF COMPETITORS



Source: Created by case writer.

EXHIBIT 3: KERING'S FINANCIAL PERFORMANCE (IN € MILLIONS)**Statement of Financial Performance**

	2014	2013
Recurring Operating Income	\$ 1,664.00	\$ 1,751.00
Other non-recurring operating income and expenses	\$ (112.00)	\$ (441.00)
Net financial charges	\$ (197.00)	\$ (210.00)
Corporate income tax	\$ (326.00)	\$ (237.00)
Share in earnings of associates	\$ (1.00)	\$ 2.00
Net loss from discontinued operations	\$ (479.00)	\$ (825.00)
Consolidated net income	\$ 549.00	\$ 40.00
Of which: net income, Group share	\$ 529.00	\$ 50.00
Net Income, Group Share, From Continuing Operations Excluding Non-Recurring Items	\$ 1,177.00	\$ 1,231.00
Net income, group share, per share (in €)	4.20	0.39
Net income per share from continuing operations, Group share, excluding non-recurring items (in €)	9.35	9.77

Free Cash Flow from Operations

(in € million)	2014	2013
Cash flow before taxes, dividends and interest	\$ 1,884.00	\$ 1,983.00
Change in working capital requirement (excluding taxes)	\$ (160.00)	\$ (75.00)
Corporate income tax paid	\$ (423.00)	\$ (387.00)
Net Cash Flow From Operating Activities	\$ 1,261.00	\$ 1,521.00
Acquisition of fixed operating assets	\$ (551.00)	\$ (675.00)
Sale of fixed operating assets	\$ 368.00	\$ 10.00
Free Cash Flow From Operations	\$ 1,078.00	\$ 857.00

Source: Kering, *Full-Year Results, 2014*, 21–22, February 17, 2015, accessed April 15, 2018, www.kering.com/sites/default/files/document/kering_fy14presentation_17february2015.pdf.

EXHIBIT 4: GUCCI'S KEY FINANCIAL METRICS (IN € MILLIONS)

	2014	2013	Change	
			€	%
Revenue from Continuing Operations	3,497.20	3,560.80	(63.60)	-1.80%
Recurring Operating Income from Continuing Operations	1,056.00	1,131.80	(75.80)	-6.70%
EBITDA	1,199.20	1,275.80	(76.60)	-6.00%

Source: Created by authors using data from Kering, *Full-Year Results, 2014*, 32, 40–41, February 17, 2015, accessed April 15, 2018, www.kering.com/sites/default/files/document/kering_fy14presentation_17february2015.pdf.

ENDNOTES

- ¹ This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Guccio Gucci SpA or any of its employees.
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