Research Report
ABOUT Style

The global branding report

by Stacy Baker

NAUTICA ENTERPRISES POLO
RALPH LAUREN CALVIN KLEIN
GIORGIO ARMANI GUESS?
GAP LIZ CLAIBORNE GUCCI
KENNETH COLE PRODUCTIONS
LVMH MOËT HENNESSY LOUIS
VUITTON TOMMY HILFIGER
ZARA CALVIN KLEIN GUESS?
POLO RALPH LAUREN GAP
NAUTICA ENTERPRISES GUCCI
GIORGIO ARMANI CALVIN KLEIN
KENNETH COLE PRODUCTIONS

ABOUT Publishing Group

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Contents

List of tables

List of figures

Chapter 1 Brands and their bottom lines

Top performers are as diligent with their ability to manage behind-the-scenes production issues as they are with savvy marketing strategies

Not surprisingly, brands with the highest overall success in terms of marketing, brand loyalty, relationship to consumers, evolving brand statements, etc., are also those with the most impressive bottom lines. This year is no exception: American brands Tommy, Kenneth, Ralph and Jones, as well as European powerhouses like Gucci, LVMH and Armani, continue to perform exceptionally strongly.

While financial success seems to be the obvious result of strong branding concepts, translating a lifestyle message to the bottom line is far from easy. Top performers are as diligent with their ability to manage behind-the-scenes production issues as they are with savvy marketing strategies.

Fuelling the success of the apparel brands has been a high level of consumer spending, supported by even higher levels of credit card debt. Consumers seem oblivious to media talk of economic slowdown, recession and hard times and continue to spend, to the obvious benefit of companies such as Visa, Mastercard and American Express. The result for many apparel companies has been double-digit revenue growth and positive predictions for the economic climate throughout 2002.

Gucci tops its competition with a five-year geometric growth

The leading performers in the apparel industry over the last five years are the big names we all know. Gucci, Ralph Lauren, Tommy Hilfiger, Kenneth Cole and Jones Apparel have all been able to achieve growth in cash flow from operations that are far in excess of that of the overall apparel industry. Gucci tops its competition with a five-year geometric growth in cash flow from operations of 67%, says Steven Sommers, global apparel research analyst for US-based Thompson Financial. This means that the company is generating roughly 13 times the cash it had been five years ago—strictly through internal means.

"The obvious challenge for an apparel company is to produce clothing that appeals to its audience of consumers," Sommers says. "These companies (Gucci, Ralph Lauren, Tommy Hilfiger, Kenneth Cole and Jones Apparel) not only satisfy consumers' needs, but they also shape consumers' needs through their well-orchestrated marketing campaigns. The less obvious ingredient to a financially successful retail brand is the matching of production levels and consumer demand."

Nautica is up 40% since the beginning of 2001 while Tommy Hilfiger is up 55% year-to-date

Specifically, brands such as Kenneth Cole, Nautica, Polo Ralph Lauren, Tommy Hilfiger, Liz Claiborne and Guess? are currently performing extremely well. As a whole, these design houses had an excellent year in fiscal 2001 with their stocks all experiencing price appreciation of 25% or more, says Sommers. "Nautica was up as high as 40% throughout 2001 while Tommy Hilfiger was up as high as 55% despite ending on a low note (just 2% revenue growth for fiscal 2002)" he says. Moreover, Sommers' early predictions for 2001 earnings outlook for Nautica, Liz and Ralph Lauren were quite good relative to the market. All three were expected to generate double-digit percentage earnings gains for calendar year 2001—which each succeeded in doing at 10.3%, 11.1% and 19.3% respectively—while the market as a whole is expected to be down 4%.

Chapter 2 The impact of September 11

While there has been much talk about the impact of September 11 on US brands and the global fashion economy, in reality nothing really changed

While there has been much talk about the impact of September 11 on US brands and the global fashion economy, in reality nothing really changed, says David Wolfe, trend analyst for New York-based Doneger Group. "Spring 2002 was already done and it looked optimistic and colourful, so lots of folks thought that was a result of 9/11, but it wasn't," Wolfe says. "Fall 2002 looks fairly dismal."

Wolfe says that we are still feeling the effects because leading fashion designers "have their heads in the sand and insist on 'business as usual,'" which means they are still focusing on clothes for kids or fashionistas.

Wendy Liebmann, founder of WSL Strategic Group, echoes Wolfe's thoughts, saying the economic downturn was imminent, a natural course of market events on the heels of six years of strong consumer spending. Liebmann's most recent book "How America Shops," a biannual survey of American shopping behaviours, shows that even if the terrible events of September 11 had never happened, many retailers would still be on the brink. She says that after several years of heavy shopping, American consumers "simply have enough stuff" (a concept compounded by post-9/11's resurgence to conservative values).

"There's been a very telling progression since September 11," Liebmann said in an interview with Fast Company. "In the first few days, of course, consumers simply shopped to stock up for a war. Soon after, though, they returned for a different reason. It was very much about feeling a need to be around other people. You could walk through the malls and see plenty of people—but no one was actually shopping. And you'd get to the food court, and there would be people lining up to eat. The mall was the town square where people came together.

"Which raises an important truth: Shopping in the United States isn't purely about need. It's about our emotional connection to who we are and how we live. Shopping is so much a part of our lives in this country that it's both a necessity and therapy: The way we show we care is to shop. So in the weeks that followed, we began to see mothers and children in the malls shopping for school clothes. Friends, arm-in-arm, shopping together. It was all about holding on to something or someone you could recognise as safe."

Emotional need was not the only thing getting shoppers out of the house and into the checkout lines. Retailers marked everything down—significantly down. It was a great time to save money, despite the fact that people were losing their jobs and the economy was tumbling, says Liebmann.

Retailers did everything they could to lure shoppers back into the stores to spend money, but ultimately the tide turned back to the mindset that Americans had before the terrorist attack

Retailers did everything they could to lure shoppers back into the stores to spend money, but ultimately the tide turned back to the mindset that Americans had before the terrorist attack. People were tired of spending money, their closets were full and basically they felt that they had everything they needed (how many pairs of jeans does someone really need?). Liebmann says getting consumers to part with cash today means coming up with something very innovative, selling it extremely cheaply or putting it in an amazing environment.

Chapter 9

Company profiles

The following company profiles feature some of the top global brands based on financial prowess, lifestyle statements, longevity and recognition.

Nautica Enterprises

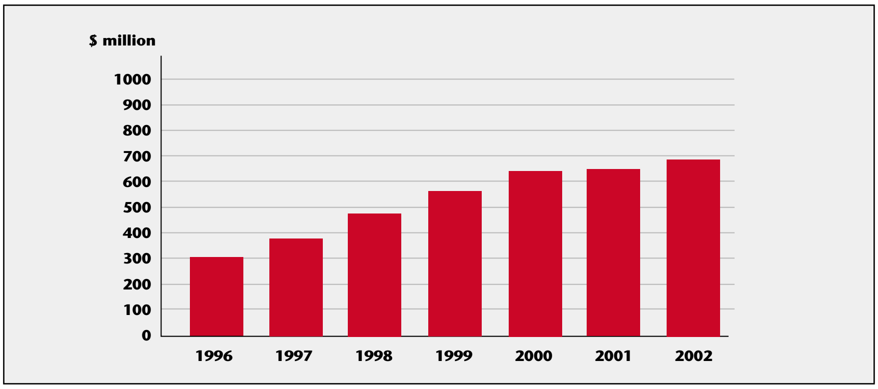
Nautica Enterprises has grown from a small apparel business to a US$690 million brand powerhouse

Nautica Enterprises has grown from a small apparel business with six styles of men's outerwear in 1983, to a US$690 million brand powerhouse with seven divisions and multiple licenses, ranging from men's sportswear and activewear to home furnishings and jeanswear.

Nautica's full licensing stable includes: fragrances for men and women, neckwear, tailored clothing, footwear, watches, hosiery, eyewear, swimwear, rainwear, children's wear, accessories, footwear, bedding, furniture, dinnerware and wallpaper. The Nautica brands—such as Nautica; Nautica Competition; Nautica Jeans Company; John Varvatos; Earl Jean; E. Magrath and Byron Nelson—are stocked in nearly 2,300 US retailers, 1,500 in-store shops and approximately 100 Nautica and Nautica Jeans outlets, with Federated, May and Dillard's representing about two-thirds of the brand's retail sales.

Like many of today's successful brands, Nautica extends its reach through the acquisition of smaller brands with the intention of infusing company resources and expertise. In June 2001, Nautica completed the deal to acquire the rapidly growing luxury women's jeanswear brand Earl Jean Inc. This venture broadened Nautica's presence in the upscale specialty retail channel and propelled the company into fast-growing, high-margin product categories targeting young women on a global scale. The acquisition furthers Nautica's growth strategy and allows the company to serve a younger market than traditional Nautica labels. Earl Jean, a US$28.9 million revenue generator, sells half its product in Japan, Canada and Europe, with the balance in the United States, and is expected to grow at double-digit rates in the coming years.

Figure 1: Nautica's sales 1996-2002 (US$ million)



	1996	1997	1998	1999	2000	2001	2002
Sales (US$m)	$302.5	$386.6	$484.8	$552.7	$621.3	$627.3	$692.1

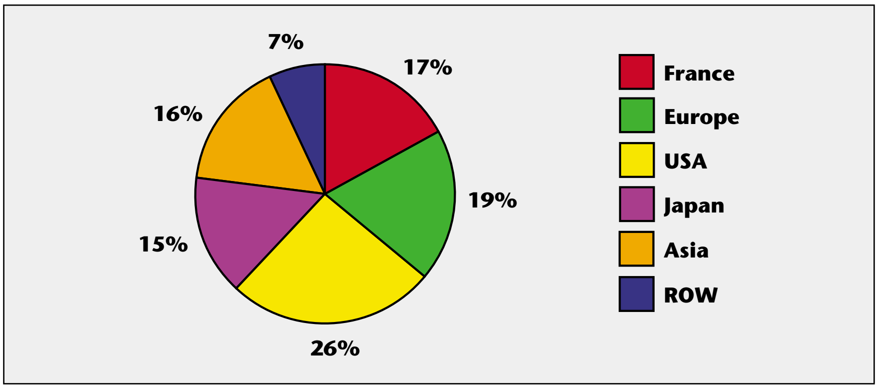
Source: Nautica Enterprises Inc

LVMH Moët Hennessy Louis Vuitton

With more than 440 subsidiaries around the world, LVMH is a model for luxury branding excellence

Based in Paris, the US$10.9 billion LVMH Moët Hennessy Louis Vuitton group is considered one of the world's leading luxury product groups. It has a presence in everything from perfume, writing instruments and cosmetics to wine, publishing and apparel, owning the top luxury brands in each category that it represents. With a powerful network of more than 440 subsidiaries around the world, LVMH is a model for luxury branding excellence.

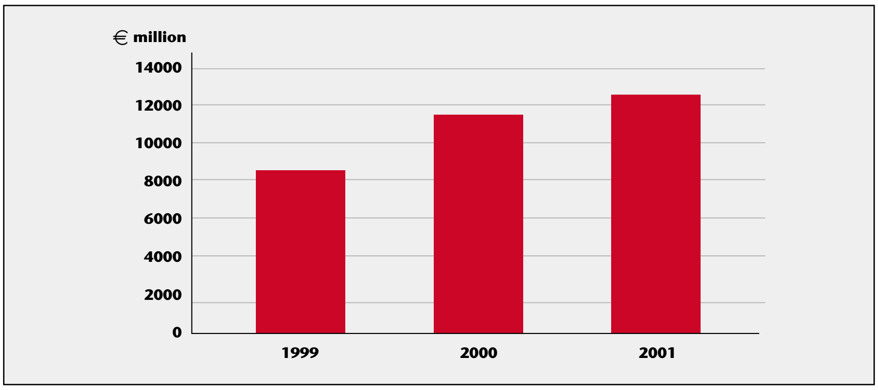
Figure 10: LVMH sales by region, 2001



	%
France	17
Europe	19
USA	26
Japan	15
Asia	16
ROW	7

Source: LVMH

Figure 11: LVMH revenue, 1999-2001 (€ millions)



	€ millions
1999	8,547
2000	11,581
2001	12,229

Source: LVMH

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