Burberry: Developing the brand in China

“Our aim is nothing less than to make Britain China's number one business partner in Europe,”

- UK Prime Minister Tony Blair

A Brief Overview
Burberry is an internationally recognised luxury goods brand. The company is involved in the design, manufacture and distribution of a wide-range of products. These products include men’s and women’s clothing, accessories and fragrances that are sold through the firms own retail stores and via its wholesale customers. Burberry also licenses third parties to manufacture and distribute products using the “Burberry” brand.

History
2006 marks Burberry’s 150th anniversary. The company was founded in 1856 when 21 year old Thomas Burberry, a former apprentice to a country draper, opened an outfitters shop in Basingstoke, Hampshire, England. In 1891, Thomas Burberry opened his first shop at the Haymarket, now the site of Burberry’s corporate headquarters. In 1901 the Burberry Equestrian Knight was developed and registered as a trademark. Burberry’s introduction to the international fashion market started as far back as 1910, with the opening of its Paris store.

The famous Burberry check was registered as a trade mark in 1920. The red, white, black, and camel check, known as the ‘Nova,’ has come to be synonymous with Burberry. It was first introduced as a lining to the trench coat in the 1920’s. Today the famous check is still synonymous with Burberry. A change of ownership in 1955 allowed Burberry to expand their retail network in the UK and abroad, and licences were agreed with a variety of third parties in Europe and Asia, meaning there were inconsistencies in design, quality and pricing across international markets due to the extension of control. Burberry’s had gone from annual profits of £63 million to £25 million in 1997, and had made crucial mistakes whilst trying to place itself as a luxury brand, for example, neglecting prestigious stores such as Harvey Nichols and Harrods. The current owner, Great Universal Stores (GUS), was advised to sell off the company as quickly as possible and not to expect a great price. In 1995 Burberry was awarded the Royal warrant from Her Majesty the Queen. A further Royal warrant was awarded in 1989 by His Royal Highness The Prince of Wales.

Once mainly the preserve of upper-middle class older women, the patronage of celebrities in the U.K. and U.S., including David and Victoria Beckham and hip-hop artists, gave it wider appeal. During the 1980s the brand became popular with the British football casual cult,
leading to it to being associated with "chavs", hooligans and members of football firms in the 2000s. The Burberry check baseball cap, a favourite of chavs, was discontinued by the company in 2004 to distance itself from the maligned group. The company blamed weak Christmas 2004 sales in the UK on this image.[1]

**Products**

Burberry's products are divided between its collections and fragrances. Collections include: Burberry Prorsum, Burberry London, Burberry Golf, Childrenswear, Timepieces, House and Eyewear. Fragrances include a range of products for both men and women. Burberry London, Burberry Brit, Burberry Touch, Burberry Weekend and Burberry.

**Finances (25/05/2006)**

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<tbody>
<tr>
<td>Turnover (£m)</td>
<td>742.9</td>
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<tr>
<td>Pre-tax Profit (£m)</td>
<td>157</td>
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**Intellectual Property Rights**

Burberry has a global intellectual property department made up of 15 full-time staff members that works with lawyers, investigators and law enforcement to prosecute counterfeiters whenever possible. "In China, we frequently see counterfeit goods being manufactured through the night by a different workforce from the daytime shift," said Stuart Lockyear, Burberry Group's director of intellectual property. "But in China and elsewhere, we also frequently find goods being made in small sweatshops with no regulation on working conditions to prevent child labour."

Jan. 16, 2006 issue - On a recent afternoon at Beijing's famous Silk Street Market, a vendor displayed a wide selection of Burberry rain coats. Price: $40, subject to negotiation. Like virtually all of the luxury goods for sale at the market, the coats were counterfeit. To tourists who swarm the market daily, they may seem like just another great bargain. But to Beijing's critics they are a symbol of indifference, if not outright defiance. Burberry is one of five companies suing the Silk Market, five of its vendors, and the landlord of the property himself, for selling knock-offs of its products. (The other brands are Gucci, Chanel, Prada, and Louis Vuitton, which just opened its first outlet in Beijing.) The companies are seeking a few hundred thousand dollars in compensation, among other remedies.
June 2005

BURBERRY’S RETAIL PRESENCE EXPANDS GLOBALLY

Burberry continues to expand globally, opening and renovating stores during forthcoming months in the following locations:

EUROPE
September will see the opening of an enlarged retail area in Zurich, and newly renovated stores in Frankfurt and Munich. First retail locations in Poland and Turkey will also open in September, and a new store in Athens in December.

US
New stores will open in San Diego, California and San Antonio, Texas in September and Naples, Florida in November. A new store in Cancun, Mexico, will open in October.

MIDDLE EAST
Burberry’s presence in the Middle East continues to expand, with the opening of a store in Dubai in September, and an opening in Abu Dhabi at the beginning of 2006.

ASIA
Burberry will open its first store in India in October. The store will be located in the Taj Mahal Hotel, Mumbai.

Burberry China
In Greater China (Hong Kong and mainland China), Burberry continues to experience growth across the retail and wholesale channels. This is fuelled by demand from mainland consumers. Burberry currently has 26 stores in China: Beijing, Changchun, Chengdu, Chongqing, Dalian, Guangzhou, Hangzhou, Harbin, Jinan, Kunming, Macau, Nanjing, Ningbo, Jinan, Kunming, Macau, Nanjing, Ningbo, Qingdao, Shanghai, Shenyang, Shenzhen, Taiyuan, Tianjin, Wenzhou and Wuhan. The dramatic increase of the Chinese economy, thus creating a growing middle class, means that there is likely to be scope for developing new stores throughout China.
Questions:

1. Conduct an environmental audit for Burberry based on the Chinese market.

   **Answer:** Political/Legal issues: Protectionism (local and sometimes central
government level, corruption, laws governing market entry, important to maintain
*guanxi* (personal connections with government officials), Counterfeit products.

   Social issues: Importance of relationships, extended family, growing middle class
(approx. 80 million), importance of ‘3 status symbols’ – car ownership, mobile phone
ownership, home ownership, although 800 million live in rural areas – certainly not
1.3 billion customers!!

   Economic issues: World’s fastest growing economy, ‘workshop of the world’,
increasing demand for luxury brands, economic disparity (‘rich area in the East of the
country).

   Technological issues: Moving from OEM’s to developing own brands, improving
manufacturing technology.

   Internal environmental issues: employing local staff – cultural differences, deciding
whether to use Western / local managers.

2. How can Burberry overcome the threat of IPR infringement? Use case examples to
illustrate your answer.

   **Answer:** Avoiding IPR Problems *(Source: www.cbcc.org)*

   Many respond to this challenge by essentially ignoring the risks, planning to ‘risk
abuse for a fast buck’ or to ‘make my money before the pirates catch up’; some take
this philosophy even further and assume that suborning or actively participating in
IPR infringement is ‘how it’s done’.

   Beware of taking this approach: the experience of IPR practitioners in China does not
tend to support these views. Most who ignore the risks seem to find out that the
pirates catch up far more quickly than the legitimate business’s cashflow; and those
who work with the pirates simply muddy the waters for all and contribute to even
more civil and criminal offences – which may well be found out and prosecuted.

   • **Find the right partner:** do not suspend your business principles and instincts in
   China. If being scrupulous in checking out a prospective business partner makes
   sense elsewhere, it makes even more sense in China given the intellectual property
   risks to which you may be exposed. Due diligence investigation (or at least,
something approaching it) can be conducted in China.

   Work out the best deal with them: Once you feel you have found the right commercial
partners, follow through by thinking carefully about the structure of your relationship
with them. Do not regard this stage of negotiations as planning for problems – a
common but unfortunate view of contracts - but rather as planning for success.
Envisage the constructive relationship you need and adopt a structure that will
support it.

   One question many potential investors face is which type of structure - joint venture
(JV) or wholly foreign-owned enterprise (WFOE) - offers their intellectual property
assets better protection. A JV with the right partner might provide a powerful ally who
can prevent, or take timely action against, potential infringements; but many leaks or
instances of piracy originate from JV partners. If piracy begins at the ‘back door’, then
might the tighter control inherent in a WFOE be attractive? But, equally, an
independent operation might find itself without influential partners who could be
valuable in other ways, especially during the set-up phase.

   The only sensible approach is not to allow IPR matters to be the deciding factor.
Better to vet your partners carefully, develop sound relationships with commercial
counterparts and relevant government organisations - and choose a structure that
makes good sense from an overall business perspective. It follows that you should not proceed with partners in whom you have less than full confidence.

• **Check out employees**: Just as ‘due diligence’ checks can now be made in China, so too is the vetting of candidates for employment possible nowadays. Pay particular attention to the key personnel you hire and keep tabs on their activities throughout the course of business: more than one firm has discovered that managers or other highly responsible representatives have caused major commercial headaches and losses – including setting up ‘shadow’ operations in competition with their employers’ business.

• **Keep checks on customers**: Know-how may be leaked through your customers, who are likely to be less vigilant in protecting IPR they do not themselves own. You should gain the full support of your customers in protecting your IPR.

• **Gather data and information**: Use your local sales team or representative office in China as well as external resources - such as specialist investigation firms - to spot possible infringements. If IPR abuse is detected, it will be essential to collect evidence in support of possible administrative or legal action.

Agents and distributors, often the main channel to the customer and the market, can provide first-hand monitoring of infringements. Consider the use of incentive schemes to motivate such efforts. You might also provide IP protection training including ways to identify possible counterfeits or other infringement operations.

• **Suppliers need vetting, too**: Many companies – whether they have invested in enterprises in China or make use of outsourcing arrangements – will need to take the plunge in providing local manufacturers with drawings against which to quote. Obtaining a number of competitive quotations implies that several potential suppliers are discarded during this process, which is an obvious vulnerability. Using known suppliers, vetting those you do not already know and involving companies involved in managed outsourcing (accessing sub-suppliers on your behalf) are all ways of diminishing this risk.

You should obtain agreements with subcontractors about how to handle any overproduction, which should be recorded and notified. Ideally unannounced audits of production facilities should be performed, as both a preventative and an investigative measure.

• **Involving the public**: Public education efforts have been under way for some years. The government has launched campaigns and has staged seminars across the country. Assisted by foreign organisations, including the European Union, these efforts are aimed at improving the knowledge and awareness of judges, lawyers, administrators, managers, and the public at large.

  - Do not hesitate to take legal action, educate key stakeholders on the importance of preventing IPR infringement, invest in NPD and employ staff engaged in identifying companies / manufacturers producing fake Burberry goods. Case example – SLL PLC (Durex condoms) sued and successfully won a case against against a Chinese manufacturer that had made false claims and simply 'lifted' material from SSL’s website. SLL took the Chinese company to court and won the case. The Chinese company was made to pay £7,700 in compensation!

3. To what extent should Burberry adapt or standardise its marketing mix? Give reasons for your answer.

  - **Answer**: In keeping with their existing strategy Burberry should continue to largely standardise their marketing mix. In general, the growing Chinese middle class are attracted to leading Western brands, particularly in the top end of the fashion market.
The nature of the product also means that Burberry does not need to engage in major adaptation of the marketing mix.

Sources:
1. "Burberry admits chav effect checked sales over Christmas", *The Daily Telegraph*, January 13, 2005
4. www.Burberry.com
4. www.wwd.com
6. www.msnbc.com
7. CIR (1996) Company Reports and Information

Appendix A
Classification of key UK retailers in luxury goods and classic clothing operating in East Asia markets 1996/1997

<table>
<thead>
<tr>
<th>Classification</th>
<th>Facia</th>
<th>Product area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxury goods</td>
<td>Conran Shop</td>
<td>Designer furniture etc.</td>
</tr>
<tr>
<td></td>
<td>Dunhill</td>
<td>Acc</td>
</tr>
<tr>
<td></td>
<td>Garrard &amp; Co</td>
<td>Luxury jewellery</td>
</tr>
<tr>
<td></td>
<td>The Signature Shop</td>
<td>Fashion and homewares</td>
</tr>
<tr>
<td></td>
<td>Harrods</td>
<td>Fashion and homewares</td>
</tr>
<tr>
<td>Classic clothing</td>
<td>Austin Reed</td>
<td>Clothing</td>
</tr>
<tr>
<td></td>
<td><em>Burberry</em></td>
<td>Clothing</td>
</tr>
<tr>
<td></td>
<td>Church &amp; Co</td>
<td>Footwear</td>
</tr>
<tr>
<td></td>
<td>Gieves &amp; Hawkes</td>
<td>Clothing</td>
</tr>
<tr>
<td></td>
<td>Jaeger</td>
<td>Clothing</td>
</tr>
<tr>
<td></td>
<td>Laura Ashley</td>
<td>Clothing and fabric</td>
</tr>
</tbody>
</table>

Source: adapted from CIR (1996); Company Reports and Information