The Critical Macro Environmental Factors In Burberry

Posted on October 16, 2019

Macro Environment

The critical macro-environmental factors currently reflecting Burberry are intertwined. Social/cultural and technological factors appear to be the essential influences, followed by the current uncertainty for the UK-based company regarding the political/economic impact of the country's impending exit from the European Economic Union (Brexit). Brexit uncertainty has affected decisions made in Burberry. An expansion of its textile manufacturing in Leeds has been put on hold (Snowdon, 2017).

Changes in tourism levels affect Burberry throughout Europe and within the UK, as well as its London sales. With sterling low as a result of the vote for Brexit, the UK continued to see strong sales from tourism (Burberry, 2017:12). Luxury Sales in Europe are affected by tourism. The previous downturn in tourist flows has reversed and continued to support the UK market. (Bain & Co., 2017). However, the effects of the 2017 London terror attacks on tourism and, therefore, Burberry sales are yet to be realized. Due to the impact of uncertain markets and the slowing demand in luxury markets, Burberry is aiming to make significant cost savings of £100m by 2019 to offset this (Burberry, 2017).

According to Deloitte's latest research in luxury markets, trends are moving from physical to digital and standardized to personalized (2017). Burberry recognizes that luxury customers are "becoming increasingly discerning in their shopping experiences, expecting a high level of service, exciting experiences and innovative bespoke products" (Burberry, 2017:31). It is recognized that luxury shoppers are becoming younger, in particular, millennials (generally accepted as those born 1980-2000) are recognized as key customers for luxury markets. Kotler et al. state that "because of their numbers, millennials make up a hugely attractive market" (Kotler & Armstrong, 2016: 101). They go on to describe them as "tech-savvy, price-conscious" who "seek opportunities to shape their own brand experiences and share them with others." Deloittes (2017) shows that consumers want more shopping channels, with 39% expecting home delivery, 44% rewards through gifts, and 45% personalized gifts and services. Customers expect a seamless experience, whether within their home country or when travelling, whether online or in-store (McKinsey, 2018).

The large potential consumer market of millennials is intertwined with the fast-paced evolution of digital services. Although technology has accelerated, globalisation and markets are increasingly local and segmented. While it does not take much to adapt global marketing to local needs, "e-commerce, e-tailers, fulfilment and payment must be tailored to local markets" L2 (2018). Millennials are a group increasingly purchasing online, with 42% of purchases being through this medium (Deloittes, 2017). The forecast for online luxury sales is that they will triple by 2025 (McKinsey & Co., 2018).

Technology has a significant impact on the macro environment, affecting Burberry in terms of opportunities and threats. Burberry uses the latest platforms for promotion and sales (Burberry, 2017: 14), keeping up with innovation in these areas. Burberry recognises technology-based threats as one of the leading risks to its brand. Increasingly sophisticated technological security threats globally, which Burberry has identified, could have a significant impact on both cyber systems and information security, affecting both brand reputation and business operations (Burberry, 2017:62).

Whilst legal and environmental factors are always present, they are not currently seen as being essential influences or challenges to Burberry within the external environment other than the continued battle against the availability of counterfeit goods and the ongoing work with suppliers to ensure sustainability within the supply chain.

Using Porter's five forces enables the consideration of the impact of external and internal factors on brand positioning.

Rivalry

There is considerable competition in the luxury fashion market. According to Bloomsberg (2018), Burberry's share prices have not fared as well as those of its closest competitors in the last year. The impact of the departure of Chief Executive Christopher Bailey can be seen in share prices. Initially, there was a spike, but the index trend was down and was only beginning to recover; its closest rivals have risen considerably, whilst Burberry just regained what it lost.

Competition within the luxury sector is not solely based on price; it also reflects other factors such as customers' perception of image and status of being seen with the brand. Burberry announced a strategy in November 2017 to reposition itself in the luxury brand market, reducing its availability- pulling out of some department stores and increasing prices (Wood & Kollewe, 2017).

Burberry has identified handbags as a product area for greatest potential growth, reporting an increase of 16% in full-price sales in 2017, which is linked to new launches and increasing novelty for well-established lines (Burberry, 2017). "Redesign of our China site to tailor it more effectively to local preferences and behaviours drove increases of around 70% in direct-to-consumer sales while giving valuable insights for our overall site development for the future" (Burberry, 2017:14).

Burberry.com is available in 44 countries and 11 different languages. The 2017 launch of Burberry's customer app, available on iPhone v9 and above, links online and provides in-store experiences for customers (Burberry, 2017). This social media development has given Burberry a competitive advantage over its rivals whilst also evolving to follow the customer's bargaining power and enable them to stand above their competitors.

Burberry has joined with "Farfetch" an online platform (Mintel, 2018b), which enables many items including Burberry handbags to be delivered within 90 minutes in London and same day delivery in

London and Manchester. This innovation again follows the non-traditional route of supply which is preferred by millennials and can be seen a developing advantage over its market challenges and seeks to achieve the objective of increasing their market share.

Citing a report by Exane BNP Paribas on the 2016 digital performance of luxury brands, Business of Fashion (2017) reports that whilst Burberry remains the leading brand online, its advantage is narrowing, with its rivals closing the gap.

Burberry boasts 48 million followers worldwide on Social Media (Burberry, 2017). Figures change rapidly, whereas the top 4 positions for followers on Facebook in June 2017 were Louis Vuitton, Dior, Burberry and Michel Kors (Statistica.com, 2017).

Suppliers Bargaining

Burberry is working to increase the amount of leather sourced from tanneries holding recognised tannery certification – 77% in 2017 (Burberry, 2017). Its cotton is sourced from Peru, where it has a 30-year relationship with some suppliers. The need for continuing sustainability in the supply chain and these long-term relationships mean that suppliers have medium bargaining power.

Customers Bargaining

Customers have little impact on prices in the luxury markets. They do have bargaining power for their loyalty. Their bargaining power is for their continued or new custom. Companies have to entice them with a positive experience, rewards for commitment, and high-quality luxury goods.

When products are introduced in the online business markets, the price is never bargainable. People buy as per the indicated amount on the platform. Surprisingly, people still buy. When it comes to online selling, price doesn’t really matter a lot; what matters is the kind of services one gives his/her clients. The better the services, the higher the rate of customers. Online businesses can use to attract customers by introducing discounts and offers during different periods to attract more customers to their companies (Chaffey, 2016, 00).

New Entrants

The threat of new entrants to the luxury market is relatively low due to the barriers to entry, with many luxury fashion brands possessing heritage associated with opulence and quality, e.g. Burberry, founded in 1856 and Louis Vuitton in 1851. Some well-known newcomers were established more recently and had arisen as competitors in the market, e.g. Michael Kors 1981 and Versace 1978. However, the threat of new entrants to the online market is high as barriers to entry are low for existing luxury firms.

Substitutions

Potential substitutes are unusually high around accessories such as sunglasses and handbags, especially with the emergence of counterfeit goods of such quality that they are difficult to identify and control; there is online advice to consumers on how to tell the difference. Some end users are not concerned with whether an item is counterfeit or not; they only want it to pass as Burberry. Burberry uses increasingly high-tech ways of identifying fake products, including image recognition (Marr, 2017). In 2012, Burberry successfully sued a group of Chinese internet counterfeiters and was awarded $ 100 million in compensation by an American court.

SWOT Analysis

“Firms need to monitor the rapid changes taking place in these variables in order to exploit potential opportunities and to minimize potential threats” (Fahy & Jobber, 2015:34).

Microenvironment

This section is to be developed, linking customer analysis further to segmentation profiles and remembering personality, values, and lifestyle differences.

Kotler and Armstrong describe a company’s microenvironment as “all the actors that affect, positively or negatively, its ability to create value for and relationships with customers” (2016:70)

The microenvironment part of marketing plays a huge role in the marketing plan. The customer’s end statements mean a lot to the business. If the customers suggest that the marketing strategy is not of any benefit, then there can be no need to have the plan.

Quotes From: Botsman, R and Rogers R, 2011 What’s Mine is Yours 2nd ed London Collins

“Statistics show that they are competitive, commercial and ambitious as any other generation in history” (pg54)

“Sharing and collaboration have become second nature” (pg55)

Competition is a must-have activity in business. There are many businesses that deal with clothes and fashion other than Burberry. To win customers, the company needs to go a step further than other related companies. That’s why this plan is the best for the Company. In today’s generation, there is the digital disruption. Businesses which appreciate the current technology trend never fail. If the industry takes advantage and shifts its plan to the online platform, it will be far away from failure. The other businesses will be left behind, selling their products to local consumers only, while the business concentrates on both local and global consumers.

This is not a direct quote but a general sentiment: The coming together of cultural change and the development of technology means that this change to collaboration by the millennial generation has a medium to enable those values to be sustainable.

“We can now show status, group affiliation and belonging without necessarily having to buy physical objects” (pg98). One can imagine an era where people just rent clothes and other related commodities. It will be fun since people will wear things in the latest fashion every single day. People will not fill their physical wardrobe, but they will have their online wardrobe. It is a new generation, and everybody lives online these days. People are not outdated compared to the past. They are being swallowed by the new technology; hence, it will be easier for the business to advertise and easier for the customers to also understand. Furthermore, having an online wardrobe will look like a new fashion, and people will shift towards the process since they enjoy new things and leave the old things out in play (Westwood, 2016, 00).

“We have the ability to experience things without owning them; all people need is a smartphone or computer” (pg98)

The process can and will be easy to use. The use of electronics like mobile phones and computers makes everything easy these days. People need an internet connection and these devices, and from there, they can choose the type of products they want from the company. While placing an order, these people can also provide measurements of their bodies to get the right clothes or other products. As soon as a person orders, things will be easy since the buyer will just wait for the product to be delivered using a delivery carrier Company to his/her house. The best thing about this service is that anybody anywhere can access the services and purchase the product. If the company adopts this marketing plan, it will be opening markets to the whole world without incurring other costs of physical buildings and the like. People everywhere will be able to purchase what they want from their comfort. The marketing plan will make the Company large to the point it will be known all over the world, not only in London. The sales will increase gradually, and in the future, they will be forced to increase their employees plus stock to make sure they accommodate everything.

Rifkin (2000), cited in Botsman&Rogers (2011: 99), stated, “for a growing number of enterprises and consumers, the very idea of ownership will seem limited, even old-fashioned, twenty-five years from now”

Product Service System (PSS) “product owned by a company and multiple users share its benefits when the product has limited use because of fashion (handbags) (Pg101)

Hiring is the future, and that’s where the generation is moving. People will have the ability to choose whatever they want, use it once and then return it. The fashion business will fit into this kind of business. The reason is fashion changes daily; hence, people can find it hard to buy and own a certain cloth thoroughly knowing that the next day, there will be a new fashion in the market. It will feel as if it is a loss. Therefore, people will tend to hire the products of the Company rather than purchasing them.

Vision

"A brand's value proposition is the set of benefits or values it promises to deliver to consumers to satisfy their needs" (Kotler & Armstrong, 2016:33).

Marketing Objectives

Need To Fill Out With Defining Objectives And Measurement Of Success

"Once the target audience has been defined, marketers must determine the desired response" (Kotler & Armstrong, 2016: 455).

- *To grow Burberry's online market share by 10% within 12 months by increasing its social media presence and introducing an online rental service.*
- *To increase profit by 5% within the next annual financial accounting period by providing a media platform cost-effective rental service to the target*

Marketing Strategy

Segmentation

As stated by McDonald and Dunbar (2012: 4*), "Customers segment themselves, they do not slot themselves into predetermined categories, and the propositions that appeal to them are those that satisfy their needs by delivering the benefits they are looking for at a price they perceive as providing superior value for money."*

In segmenting our customer market for our bag rental service, focusing on Millennials, we further segment Millennials, taking into consideration "customer's bargaining" from Porter's five forces.

Profile Segmentation

Mintel (2011) informs that "25-34s" are the main purchasers of non-clothing luxury goods" and from their research, it is purported that "women are more than twice as likely" to invest in opulent accessories.

"Young consumers are the future of all fashion brands, and Burberry knows "how" to speak to them directly through social media" (Phan et al., 2011:213).

Distribution of ACORN Rising Prosperity	Our target Millennial segment is the image-conscious woman, likely to be in a white collar, managerial or professional role, with an income higher than the national average, likely paying a higher rate of tax and recognized by the ACORN targeting classification as 'Rising Prosperity.' These are generally highly educated, most prosperous, 25-34 years old, living in our major towns and cities and moving up the career ladder. They are financially confident, frequently use the internet to research purchases, use their phones for social media and like to keep up to date with current affairs. They prefer the big city lifestyle where there are many opportunities to socialise and spend. CACI (2014). Our online rental service will launch in London and Manchester as these cities align with the segment and have suitable transport infrastructure to meet our logistical requirements for the rental service.

Brand Positioning

Kotler and Keller (2016:297) endorse the assertion that "the act of designing a company's offering" enables businesses to "occupy a distinctive place in the minds of the target market." Fahy and Jobber (2015:132) affirm that there are elements to be studied when determining brand position, "namely, the customers, the competitors and the company itself."

Incorporating this reasoning in the new venture, it is acknowledged that innovations within the rental service by Burberry are required to ensure the brand identifies positive products and is repositioning against its competitors whilst continually developing the already successful approach to the use of social media and digital platforms. It could be said that Burberry's current brand positioning is closely matched to that of its main competitors, such as Louis Vuitton, Michael Kors, Vivienne Westwood, and Gucci. Arguably, Burberry needs to develop this position further in line with its identified value by successfully acknowledging and giving customers what is of significance to it.   Identified needs within millennials have been researched, and the outcome shows that the rental market, alongside digital innovations, is important to them as they are "smart shoppers" and are "no longer content with the traditional purchasing model" (Mintel, 2018).

Burberry (2018) has identified that their vision for the brand as a whole is to re-position and move towards providing more "luxury fashion" goods. This is defined in the competitor positioning map above. Burberry identifies the re-positioning as below.

The new Burberry handbag rental service would necessitate the development of the brand strengths of authenticity and status whilst seizing opportunities within online market growth. Challenging the threats of competition and international market uncertainty could give further opportunities. Identification of its points of difference and parity, “that consumers strongly associate with a brand” (Kotler & Keller, 2016:300) and incorporating this into its strategy should assist with market positioning. Embracing strengths and threats may enable the brand to remain strong whilst faced with increased social uncertainties. Having such a strategy could safeguard Burberry’s established brand positioning within the luxury goods market.

Burberry (2018) describes themselves as “digital pioneers with a strong reputation for extraordinary creativity.” The marketing plan embodies the Burberry strategy of digital innovation being a “fundamental and integral part of the brand” and continues the ethos of “delivering personalized experiences and true Omni channel services” (Burberry Plc, 2018). Increasing online and social media platform presence and innovation is important to the brand; albeit this has been their strength against their competitors, it is acknowledged that this gap is narrowing. “However, to preserve its core customer base” (Phan et al., 2011: 213), the continuance of its development of stores and promotion of goods would be necessary. Continued use of creativity in music, art, and traditional media, such as videos and celebrity endorsements, would be beneficial. The provision of integrated media will address the needs of the millennials and look to further cement its position as a luxury brand.

Sir John Peace, Chairman of Burberry, acknowledged in the 2016/17 Annual Report that the “performance of the sector” had been impacted by demanding macro-environmental factors (Burberry, 2017:10). Burberry, within its vision, therefore, further pinpointed “drivers to reignite the brand,” (Burberry, 2018). Two of these are displayed below and embedded within the focus of this marketing strategy.

Millennials are said to have confidence and ease with technological advances as the peer group embraces the technological environment that has been driven by the introduction of new and innovative media outlets, as pointed out by Kotler and Armstrong (2016:101,) who go on to assert that “they don’t just embrace technology; it’s a way of life”. The mixture of media utilized for the Burberry rental service is imperative to the success of this plan. Ensuring that the segment is reached by a combination of media would be the way forward to ensure that the millennials have sight of the service offered. “One of the benefits of advertising is its ability to reach a large number of people at a relatively low cost” (Palmer, 2004:429). The expansion of smartphones and the accessible, fast and reliable online connectivity enables peers to provide feedback to each other. “Research shows that 4 in 10 millennials in the UK ask friends before they make a purchase” (Mintel, 2016), so providing platforms for these “influentials” to provide feedback enables them to “better connect with on-the-go consumers.” Phan et al. (2011:214) express the opinion that within this digital arena that the customer is a collaborator and not just to be targeted as spectators.

Performance And Financial Strategy

Accessories can be classified as the most significant provider of revenue for Burberry, as identified in the graph below and are the second best-performing growth offer. (Burberry, 2017:26)

Pricing

"Price is the one element of the marketing mix that produces revenue; the other elements produce costs" (Kotler & Keller, 2016:483).

In the age of social media marketing, consumers have access to wide-ranging comparisons of cost and up-to-date and transparent pricing, whilst companies are able to monitor consumer habits and give consumers special offers (Kotler & Keller, 2016:484). It is acknowledged that the "millennial generation" has accumulated various debts, which leads to "renting, borrowing, and sharing as valid options" for them (Kotler & Keller 2016:484). With this in mind, the pricing strategy for the new rental service requires Burberry to consider this as well as balance reputation, competitor behaviour, and product quality. Fewer overheads have reduced the pass-on cost to the consumer by providing a social media-based service for the rental of the handbags and suit the consumer needs as a cost-effective alternative to the outright purchase of goods.

Costs For Subscription Service, Including Insurance, Cleaning, And Repair

Put In Break Even Graph

Monitoring And Performance

Key results and performance indicators are tools whereby operations can be measured (Armstrong, Kotler, Harker, and Brennan, 2015, 00). These are essential for Burberry to measure its success against its objectives and ensure that the rental service provided is viable and meets consumer expectations. Regular review of these indicators alongside qualitative data abstracted from customer feedback will assist in the implementation of a strategy on how to achieve the identified objectives.

Product life is cyclical, and measuring the life cycle of a particular handbag will need to be incorporated into monitoring customer feedback. The downturn in rental can be a risk if products are not the most up-to-date or if the non-replacement of a defective handbag has affected the aesthetic look required by the segment. Consideration would need to be given to the number of rentals required before a handbag is placed or repaired.

Financial performance can be measured by undertaking ratio analysis and budget monitoring on a monthly basis, and it is reported within the annual report at the end of the accounting year. This can be compared to the published competitor's figures.

Terms And Conditions

Key Terms and conditions (not exhaustive list) – Make into a bulleted list that is a picture so won't take up the word count

RFID (UNOBTRUSIVE SECURITY TRACKER??)

PRE-PAYMENT DEPOSIT ON CREDIT CARD TO ENSURE RETURN OF HANDBAG OR MONEY TAKEN??

Reference:

CACI Ltd (2014) The ACORN User Guide: Available at https://acorn.caci.co.uk/ Accessed [20/04/2018]

Armstrong, G., Kotler, P., Harker, M. and Brennan, R., 2015. *Marketing: an introduction*. Pearson Education.

Westwood, J., 2016. *How to write a marketing plan*. Kogan Page Publishers.

Chaffey, D., 2016. Global Social Media Research Summary 2016. *Smart Insights: Social Media Marketing*.