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Burberry, Tisci and Streetwear

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- **Abstract**

The main purpose of the following report is to try to reach the expected quantitative value Riccardo Tisci with his streetwear collections may bring to Burberry in the next five financial years. Due to a lack of resources, many assumptions were made in order to reach a quantitative final result. Notwithstanding these assumptions were based on consulting reliable sources. I do believe that with more data and more complete empirical and behavioral research could bring more concrete results.

The report starts with a brief introduction to the streetwear trend and why Riccardo Tisci to be chosen based on new Burberry's strategy.

- **Keywords:**

Riccardo Tisci: Burberry's Creative Officer;

Streetwear: Fashion style.

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- Fashion Cycle

A fashion trend is a particular style that becomes popular at a certain frame of time. This process is often termed as a *fashion cycle*¹. This cycle is mainly illustrated by using the *Innovation Adaptation curve of Rogers* which demonstrates how a group of individuals accepts, in this case, fashion innovation over time. The horizontal axes represent the time where different attributes are linked to the different adopter categories. This timeline starts with the *fashion innovators* category, who are the first to adopt the innovation like a new fashion style and ends with the *laggards* category often more traditional people reluctant to new innovations who might wish to adopt the new trend but due to their economic situation they need to wait until is discounted². Streetwear is no longer considered an innovation, has conquered the upper and more traditional classes and has come to stay.

- Streetwear, Burberry and Riccardo Tisci

The diffusion of fashion means the spread of fashion within social systems, centers on the decision of many people to adopt an innovation. The most recent theory in fashion diffusion is the trickle-up theory that suggests that new styles start from lower-status segments and subcultures and then diffuse upwards to the mass population³. This is what happened with Streetwear style. Streetwear born out of the Los Angeles and New York hip-hop cultures during the 80s. In the 90s became global due to the “boom” of hip-hop, surf and skate cultures⁴. Nowadays seemed to conquer all different type of fashion segments especially the luxury ones, where Gucci back in 2015 was one of the pioneers by hiring Alessandro Michele with the main mission to make Gucci “cool again” by embracing streetwear and the influence of popular culture⁵ in order to conquer millennial’s audience. Mario Ortelli, senior analyst of luxury goods

¹ Yurchisin, Jennifer. 2010. Fashion and the consumer. Oxford: Berg Publishers.

² Sproles, George, and Leslie Burns. 1994. Changing Appearances: Understanding Dress in Contemporary Society. Bloomsbury: Fairchild Books.

³ Sproles and Burns, 1994

⁴ Laux, Cameron. 2019. “Who decides what is cool?” BBC designed, January 9. <http://www.bbc.com/culture/story/20190109-who-decides-what-is-cool>

⁵ Hoffower, Hillary. 2019. “High-end streetwear is the latest status symbol, and it shows just how powerful rich millennials are in the luxury industry” Business Insider, June 27. <https://www.businessinsider.com/luxury-streetwear-millennials-status-symbol-2019-6>

believes “that Burberry’s management will try to emulate the action plan of Gucci”. In fact, Burberry hired Riccardo Tisci who claims to have street style in his blood⁶ and became famous with his luxury streetwear collections at Givenchy with some people called him the “street style god”. Marco Gobetti, Burberry CEO, when hired him said that “his designs have an elegance that is contemporary and his skill in blending streetwear with high fashion is highly relevant to today's luxury consumer. Riccardo's creative vision will reinforce the ambitions we have for Burberry and position the brand firmly in luxury” reinforcing more the idea that Burberry is following Gucci the same strategy. And seems to have been a successful strategy to the company since the market response to Tisci last designs generated a 14 percent rise in Burberry’s stock⁷.

- **Luxury Fashion Market⁸**

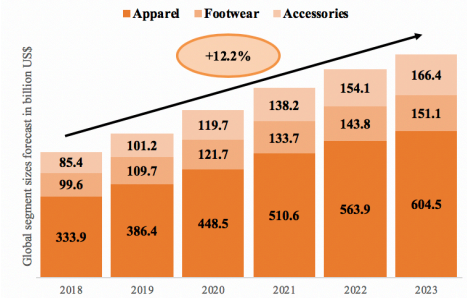


Figure 1: Luxury fashion market forecasted revenues. Source: Statista

Luxury fashion market is expected to growth at +12.2 percent CAGR from now until 2023. On total Luxury fashion market represents nearly about US\$519 billion in 2018 and based on statista projections would represent US\$922 billion by 2023.

Apparel is the largest category in luxury fashion market with estimated revenues of US\$604.5 billion by 2023 and it is expected Accessories will be the second most important category from 2020 onwards.

- **Luxury Fashion Market Streetwear percentage**

⁶ Long, Carola. 2019. “Riccardo Tisci finds the streetwear spot at Burberry” Financial Times, September 16. <https://www.ft.com/content/06fd857c-d8c2-11e9-8f9b-77216ebef1f7>
⁷ Wood, Zoe. 2019. “Burberry flies high thanks to bomber jackets and bumbags.” The Guardian, July 16. <https://www.theguardian.com/business/2019/jul/16/burberry-shares-surge-shoppers-clamour-new-tisci-collection-fashion>
⁸ Statista Digital Market Outlook – Segment Report. 2019. eCommerce Report 2019 –Fashion. Statista

PWC study “Streetwear: the new exclusivity”⁹ states that is estimated streetwear represents 10 percent of the overall market in 2018. Not being able to find more quantitative information for the behavior of this trend, was conducted an estimation in order to try to predict what would be the percentages by 2023.

I assume there is one main driver responsible for the trend growth, Chinese millennials consumers.

Chinese has been boosting the luxury fashion market and with the new Tisci streetwear collection “sales in Mainland China rose in the mid-teen percentages during the quarter, outpacing analyst expectations, even as that country reported its slowest economic growth in almost three decades”¹⁰. A Boston Consulting Group study¹¹ states Chinese luxury fashion consumers currently consist on 33 percent of the market in terms of both domestic and international purchases and are expected to rise to 40 percent by 2024. This makes up a CAGR of +1.17 percent.

From the same report it is known millennials represent nearly about 32 percent of today’s luxury fashion goods consumption and they are predicted to account to 50 percent by 2025, which makes up a CAGR of +2.57 percent. Realizing that it was obtained the estimated percentage for 2024 which accounts to 47.43 percent.

Hence, I assumed Chinese millennials luxury fashion consumers would represent 10.56 percent ($33\% \times 32\%$) of the overall market in 2018 and are expected to rise to 18.97 percent ($40\% \times 47.43\%$) by 2024. This makes up a CAGR of 1.4 percent.

Assuming 100 percent of luxury streetwear growth is driven by Chinese millennials consumers the average annual growth for this trend will be equal to 1.4 percent, which

⁹ Streetwear: the new exclusivity. 2019. PWC. <https://www.strategyand.pwc.com/gx/en/insights/2019/streetwear/streetwear-the-new-exclusivity.pdf>

¹⁰Williams, Robert. 2019. “Burberry Surges as new Designer’s Looks Boost Brand in China.” Bloomberg, July 16.

<https://www.bloomberg.com/news/articles/2019-07-16/burberry-sales-grow-on-demand-for-designer-tisci-s-new-looks>

¹¹2019 True-Luxury Global Consumer Insight. 2019. BCG & ALTAGAMMA. <http://media-publications.bcg.com/france/True-Luxury%20Global%20Consumer%20Insight%202019%20-%20Plenary%20-%20vMedia.pdf>

means if luxury streetwear accounts 10 percent in 2018 for the overall luxury fashion market by 2023 would account to 17 percent.

	2018	2024
Chinese consumers	33%	40%
Millenials	32%	47,43%
Luxury Streetwear %	10,56%	18,97%
CAGR	1,40%	

Figure 2: Luxury Streetwear market share and forecasted growth.

- **Luxury Streetwear market sales estimation**

As a corollary of getting those percentages it is possible to calculate the actual and the expected luxury streetwear sales until 2023 by multiplying the percentages with the luxury fashion market values. The result was US\$51.89 billion in 2018 and US\$156.83 billion by 2023. By using the conversion rate of US\$ 1= £ 0.76 the values in pounds were achieved, £39.44 billion in 2018 and £119.19 billion in 2023.

- **Luxury Streetwear market sales growth**

Afterwards, is computed the growth of Luxury Streetwear sales. From 2018 to 2019 grows more than 31 percent decreasing during the following years to an annual growth of only 17 percent by 2023.

- **How much Riccardo Tisci new collection in February of 2019 accounted to Burberry.**

There is too little quantitative information about this, for that reason assumptions were made.

It is known first deliveries of Riccardo’s products were stocked in February and the initial reaction from customers was very positive with sales of the new collections generating strong double-digit percentage growth.¹²Also, only 10 percent of stock in stores back in February of 2019 was from Riccardo Tisci collections¹³.

It is assumed the whole stock is sold until the end of the financial year at 30th of March (two months) and the prices of each stock were sold at the same price. From here we can calculate

¹² Burberry Group PLC. Annual Report (2018-2019), page 10.

¹³ Ang, Katerina. 2019. “Riccardo Tisci’s designs show promise as Burberry earnings disappoint.” Vogue Business, May 16. <https://www.voguebusiness.com/companies/burberry-earnings-show-riccardo-tisci-promise>

how much of Tisci overall stock accounted for Burberry's total stock for the financial year. If 10 percent corresponds to two months of stock 1.67 percent would correspond to a financial year. The total value of sales for 2018 was 2 702 million which means if multiplied this value by 1.67 percent should get an estimate of the value of sales Riccardo Tisci brought to Burberry which was £45.3 million in two months.

- Burberry Market Share in Luxury Streetwear market

The market share Burberry has got from the luxury streetwear segment in 2018 is 0.69 percent. It was calculated dividing the estimated value Tisci brought to Burberry by the two-month correspondent value of the industry luxury fashion streetwear sales £6.57 billion.

In 2019 is expected that Riccardo Tisci collections representing 75 percent of total Burberry stock and from 2020 onwards will represent 100 percent. Hence, I assume the market share of Burberry's Luxury Streetwear would increase by the same amount Tisci's stock percentage, 1.138(x1.65) percent in 2019 and 1.423(x1.25) percent from 2020 onwards.

- How much Riccardo Tisci Designs could bring to Burberry

If multiply the achieved market share for the achieved luxury streetwear market projections, it is possible to get the value brought by Riccardo in sales to Burberry. And by adding the UK Inflation projections I come up to a summation of nearly about £ 6 billion, value in sales that is estimated being brought from Riccardo Tisci since his fist collection till the end of 2023 (5 years and 2 months period).

(billion)	2018	2019	2020	2021	2022	2023
Total Luxury Fashion Industry (US\$)	518,9	597,3	689,9	782,5	861,8	922
Streetwear % of Total Market	10%	11%	13%	14%	16%	17%
Streetwear sales (US\$)	51,89	68,10	88,33	111,16	134,51	156,83
Streetwear sales (£)	39,44	51,76	67,13	84,48	102,22	119,19
Streetwear Growth		31%	30%	26%	21%	17%
Two months Streetwear sales (£)	6,57					
Tisci BRBY Collections stock %	1,67%	75%	100%	100%	100%	100%
Sales with Riccardo (£)	2,7202					
Sales with no Riccardo (£)	2,6749					
BRBY Market Share in Luxury Streetwear	0,690%	1,138%	1,423%	1,423%	1,423%	1,423%
Tisci Contribution (£)	0,0453	0,5891	0,9551	1,2019	1,4543	1,6956
UK Inflation (Source: IMF)		2%	2%	2%	2%	2%
Tisci Contribution w/ Inflation (£)	0,0453	0,6009	0,9742	1,2259	1,4834	1,7296

Figure 3: Model Summary.