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Impacts of the Financial Crisis on Luxury Apparel and Mass Apparel Companies from 2008 to 2011

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IMPACTS OF THE FINANCIAL CRISIS ON LUXURY APPAREL AND MASS APPAREL COMPANIES FROM 2008 TO 2011

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ABSTRACT

The world financial crisis that started in 2007 had a profound impact on the global apparel industry, but at the firm level, the impact of the financial crisis seemed to be unevenly distributed. Several luxury apparel companies, such as Louis Vuitton, achieved stable net sales whereas quite a few mass apparel companies, such as GAP, experienced significant drop of sales and profits. The study intends to systematically compare the financial performance of luxury apparel companies with mass apparel companies from 2008 to 2011 to see whether a general pattern of differentiated performance exists between these two types of companies as a result of their respective business models and the specific impact of the 2008 financial crisis.

MANOVA test was conducted based on six indices developed under the Dupont Strategic Profit Model (including annual growth rate of net sales, annual growth rate of cost of goods sold, gross margin percentage, net profit margin, asset turnover, and return on assets). Eight luxury apparel and eight mass apparel companies were selected for the purpose of the study.

The results showed that first, the overall financial performance between luxury apparel and mass apparel companies was statistically different from 2008 to 2011. Second, luxury apparel and mass apparel companies had different gross margin and asset turnover from 2008 to 2011. Third, there was no evidence showing that luxury apparel and mass apparel companies achieved different growth of net sales, growth of cost of goods sold and return on assets (ROA) from 2008 to 2011. Fourth, luxury apparel companies outperformed mass apparel companies starting in 2010 in terms of net profit margin, indicating more robust post-crisis recovery.

The results of the study confirmed the differentiated performance of selected luxury apparel and mass apparel companies' business models. The findings also suggested that luxury apparel companies achieved a more robust post-crisis recovery. Additionally, the results suggested that mass apparel companies should not enter the luxury apparel market because ROA of luxury apparel companies did not appear to be better than mass apparel companies.

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CHAPTER 1. INTRODUCTION

The economic crisis that started in 2008 had a profound impact on the global apparel industry (Newbury and Ter Meulen, 2010). As a result of the financial crisis, consumer spending slowed down, which led to a significant decline in retail sales, followed by deterioration of financial performance of apparel retailers (Gereffi and Frederick, 2010; Newbury and ter Meulen, 2010). At the firm level, however, impacts of the financial crisis seemed to be unevenly distributed. For example, net sales of some luxury apparel companies such as Louis Vuitton Moët Hennessy (LVMH) seemed to remain stable since the financial crisis in 2008. In comparison, mass apparel companies such as Gap and Limited Brands experienced a significant drop in both net sales and net profits (Barrie, 2009; Hoover's, 2012a, 2012b; Tungate, 2009). It remains a question whether the apparent different financial performance among several companies is just a random phenomenon or reflects a more general pattern between the luxury apparel companies and mass apparel companies since the 2008 financial crisis.

This study intends to explore whether luxury apparel companies performed better than mass apparel companies from 2008 to 2011 as a result of the financial crisis. Results of this study will contribute to the understanding of the sectoral impact of the 2008 financial crisis on the apparel market, which has seldom been discussed. It will also illustrate the business models of the luxury apparel companies and mass apparel companies and suggest the best business model for apparel companies in the post financial crisis era.

CHAPTER 2. REVIEW OF LITERATURE

This chapter provides the literature review that leads to the conceptual model for the study. The first section provides definitions and theories. Next the differences between luxury apparel and mass apparel companies and their different business models are suggested. Lastly, their respective impacts from the financial crisis are highlighted.

2.1 Definitions

In this study, a luxury apparel company refers to a company whose business focuses on high quality luxury apparel targeting the wealthy and sold at high price points in order to remain exclusive (Okonkwo, 2007). A mass apparel company refers to a company that is known for carrying multiple apparel categories and targets a wide audience in the middle-market, selling non-exclusive products (Okonkwo, 2007).

Researchers have suggested different definitions of luxury, but most agree that it can be defined based on three aspects: 1) social/psychological benefits, 2) price point, 3) and product nature (Husic and Cicic, 2009; Vigneron and Johnson, 2004; Kapferer and Bastien 2009a; Kuang-peng, Chen, Peng, Hackley, Rungpaka et al., 2011).

First, in terms of social/psychological benefits, the ownership and use of luxury products allow consumers to feel good about themselves and they are able to communicate nonverbally about themselves to their peers and the outside world

(Vigneron and Johnson, 2004). Husic and Cicic (2009) suggested that luxury goods bring a sense of esteem to the owner through the display or use of a certain brand deemed as luxury and this esteem is separate from any functional value. Consumers have a sense of pride and power when they carry a Gucci purse or wear Prada shoes and they want to impress others by showing they are able to afford such products (Atwal and Williams, 2009). Therefore, these consumers are concerned with how others perceive them. Vigneron and Johnson (2004) suggested that consumers can fulfill psychological and functional needs through luxury goods and the benefits obtained through the psychological fulfillments are the distinguishing factors between luxury and non-luxury goods. Consumers who buy luxury goods do so because they can, not because those products are the only products that fulfill that function. Some people are satisfied with an inexpensive, no-name handbag because it provides the function of carrying what they need for the day whereas luxury consumers prefer to carry a luxury designer bag because it shows their ability to purchase luxury brands and serves the function of carrying their daily necessities away from home.

The social/psychological benefits of purchasing the luxury goods can also be explained from the perspective of behavior economics. For example, Thorstein Veblen named this ostentatious display of one's status and wealth through fashion as conspicuous consumption in *The Theory of the Leisure Class* (1899) (Kaiser, 2012). The study argued that people spent extravagantly on goods visible to others to show that they were financially and socially successful (Veblen, 1899). Veblen's theory of conspicuous consumption correlates with the signaling theory, meaning that the conspicuous consumption is a form of signaling in which the characteristic being signaled is wealth (Bird and Smith, 2005). Signaling in this way, as suggested by Veblen, enhanced social status when one's status was not widely known (Bird and Smith, 2005). This signaling of wealth helped describe a clear difference between those with established wealth who did not need to take part in conspicuous consumption and those with new wealth who needed to show it off (Bird and Smith, 2005).

Second, in terms of price point, luxury products incorporate premium pricing, which means they are typically expensive and not financially accessible to the masses (Okonkwo, 2007; Newbury and ter Meulen, 2010). Prices of luxury products are significantly higher than prices of products that are non-luxury with similar features (Vigneron and Johnson, 2004). Keller (2009) suggested that these high prices are validated by the established image of prestige that is held by luxury products.

Third, luxury is further known to mean high quality. Consumers expect to receive a quality product when making a luxury purchase to justify the high price tag (Brun et al., 2008). Luxury objects are typically durable and can increase in value over time, such as a Louis Vuitton suitcase (Kapferer and Bastien 2009a; Pendle and Stiles, 2009). The high quality of luxury goods is seen in the quality of the materials used and the high level of precision and craftsmanship employed to manufacture the goods (Okonkwo, 2007).

2.2 Business Models of Luxury Apparel and Mass Apparel Companies

Business models capture the core of how a business will be focused and how it will operate (Morris, Schindehutte, & Allen, 2005). The components of business models include how the business creates value (product mix, distribution), the target market, internal capability factors (production, selling/marketing, packaging, supply chain management), competitive strategy factors (service/product quality, customer relationships), economic factors (pricing sources, margins, volumes), and investor factors (growth strategies, income models) (Morris, Schindehutte, & Allen, 2005).

Because of the unique characteristics of luxury goods, luxury apparel companies adopt business models that are different from mass apparel companies. These differences are seen in their target markets, pricing strategies, marketing/branding strategies, and different degrees of internationalization.

First, the target markets of luxury apparel companies and mass apparel companies are different. Luxury apparel companies target the wealthy members of society and those signaling wealth who are willing to spend large amounts of money on consumer goods (Keller, 2009). It should be noted that the target market for luxury is changing; the rising number of millionaires worldwide has created a new, youthful, group of global luxury consumers (Okonkwo, 2007). China is now the world's largest luxury goods market, Japan makes up a quarter of the world's luxury goods consumption, India's luxury goods market is growing rapidly, and the luxury goods market in Moscow, Russia is worth more than the market in New York (Okonkwo, 2007). In comparison, middle-class consumers are the main target market for mass apparel companies (Newbury and ter Meulen, 2010; Lasserre, 2007). These consumers are price sensitive and place a high emphasis on value, but not necessarily bargain hunting (Okonkwo, 2007; Driscoll, 2011).

Second, the pricing strategy for luxury apparel companies is much different than that of the mass apparel companies. Luxury apparel companies focus on a premium pricing strategy with minimal discounts and markdowns because too many discounts could tarnish their premium image (Keller, 2009). They even are known to occasionally raise their prices in order to make their products more exclusive and increase demand (Kapferer and Bastien, 2009b). Luxury goods are typically more expensive in China due to local taxes that inflate the prices and because of this, many Chinese consumers travel to Europe to purchase their luxury products (Sanderson, 2013). In response to this rise of Chinese tourists and to increase exclusivity of their products in Europe, some luxury companies are raising their prices in Europe, including Prada, Louis Vuitton, and Salvatore Ferragamo, an Italian luxury goods company (Sanderson, 2013; CPP Luxury, 2013). Mass apparel companies, on the other hand, use markdowns to increase sales and to sell off poorly selling or unsold products (Kapferer and Bastien, 2009a). Often, mass apparel companies need to offer discounts to keep their customers and remain competitive (Great American Group, 2011). Due to their cost cutting strategy, mass apparel companies are prone to price competition (Fratto, Jones, and Cassill, 2006). Luxury companies focus on high price and low volume, whereas mass apparel companies focus on low price, high volume. Although luxury apparel companies can be small in revenue as compared to mass apparel companies, they are respected globally with distinguishing reputations (Chevalier and Mazzalovo, 2012).

Third, branding and marketing strategies are different for luxury apparel and mass apparel companies. Branding is crucial to the success of apparel companies, but particularly to luxury apparel companies who must uphold their premium images; weak branding strategies can tarnish their image (Okonkwo, 2007). Luxury apparel companies typically have a high level of global brand awareness and an aspirational quality and emotional appeal that set them apart from the crowded mass fashion market (Okonkwo, 2007). It is important for luxury apparel marketing to convey an image of quality and authenticity while also selling an experience and aspirational lifestyle (Atwal and Williams, 2009). Many luxury apparel print advertisements try to evoke sensuality and communicate with their audience that they can feel good about themselves and powerful through the use of luxury goods. On the other hand, mass apparel companies focus more on communicating their low prices and good value, rather than an aspirational lifestyle. Oftentimes, their ads specify low prices and deals whereas luxury apparel advertising does not mention prices (Kapferer and Bastien, 2009a). As companies that focus on price to differentiate themselves in the market, mass apparel companies have intense advertising campaigns that incorporate their price advantage and use their competitive prices as their branding strategy (Fratto, Jones, and Cassill, 2006).

Lastly, luxury apparel companies and mass apparel companies have different degrees of internationalization. Luxury apparel companies are oftentimes well-known by consumers around the world (Okonkwo, 2007). They have been focusing on entering emerging markets where consumer awareness and demand for their products are rapidly increasing (Asaeda, 2012). For example, many luxury apparel companies have grasped the financial benefits from getting access to the lucrative and fast growing Asia and Latin America markets (Adendorff, 2012). Much to the contrary, internationalization efforts of mass apparel companies have been less prevalent, especially in emerging markets (Driscoll, 2011; Asaeda, 2012). International consumers, particularly those in emerging markets such as China, often favor luxury apparel brands over mass apparel brands because the consumption of luxury apparel allows them to display their wealth and social status, which is important to them (Gao, Norton, Zhang, and To, 2009). Postrel (2008) also suggested that consumers with rising incomes in emerging markets such as China and Russia are so drawn to luxury products because "rich people in poor places want to show off their wealth." European luxury apparel companies have had the biggest success in China as fashions from these countries are received positively for their style, quality, and high fashion appeal, whereas apparel companies from the U.S., particularly mass apparel companies, are seen more as casual rather than high fashion, thus they have lower penetration in China (Dickson, Lennon, Montalto, Shen and Zhang, 2004). Entering international markets requires knowledge in selecting appropriate sites and merchandise assortments, as well as the ability to adopt to the local market (Driscoll, 2011). Due to these reasons, mass apparel companies have not placed as high an emphasis on entering international markets as have the luxury apparel companies.

2.3 Impact of the 2008 Financial Crisis on the Apparel Industry

The 2008 financial crisis had a significant impact across all industries, but particularly had a significant impact on the apparel retail industry (Staritz, 2011). The immediate cause of the financial crisis was the subprime lending by banks and the burst of the housing bubble (Friedman, 2011). Bankers who used borrowed money to buy risky subprime securities also caused and accelerated the crisis (Friedman, 2011; Bragues, 2010). The U.S. was heavily affected by this financial crisis; unemployment in this country increased, and reached a peak of 10.1% in October 2009 (Driscoll, 2011). This caused the apparel industry to suffer by leading to diminished consumer spending and a decline in international trade. As retailers experienced reduced sales, global suppliers were negatively affected due to reduced demand. Apparel imports to the U.S. decreased by 3.3% in 2008 and 12% in 2009 (Staritz, 2011). Apparel imports to the European Union were also negatively affected and decreased by 5.2% in 2009 (Staritz, 2011). Apparel retailers in the U.S. in particular experienced decreased revenues, slow inventory turnover, and tight cash flows (Staritz, 2011). In 2008, U.S. department store sales declined 13.3% and specialty apparel retailer sales declined 10.4% from November 2007-November 2008 (Rosenbloom, 2008). U.S. apparel companies experienced from 3% to 15% decline in sales in 2009 (Driscoll, 2011).

In addition to the general decline, there was also a widening income gap, a change in consumer behavior and purchase intention, and dual speed recovery in developed and emerging economies. Luxury apparel and mass apparel companies were affected differently from these suggested impacts of the financial crisis.

First, the financial crisis strengthened the widening income gap (Lowrey, 2012). From 2007 to 2009, those with the top incomes experienced a drastic 15.6% decline, but from 2009 to 2011, the annual wages of the top 1% grew 8.2% (Mishel and Finio, 2013). The annual wages of the bottom 90% have continued to decrease since the financial crisis (Mishel and Finio, 2013). From 2007 to 2009, the income gap became less apparent, but then widened again from 2009 to 2011 during the recovery (Mishel and Finio, 2013). The income gap between the richest 20% in the U.S. and the rest of the country is growing (Tavernise, 2012). A cause of the widening income gap is consumers in the middle class have suffered more than the luxury consumers throughout the post-financial crisis recovery (Driscoll, 2011). The luxury consumers have bounced back from the recession and are even getting richer, whereas the middle class is declining, thus shrinking the customer base for mass apparel companies (Tavernise, 2012). Despite the slow economic growth in developed countries, the luxury apparel market is growing and is expected to continue to grow as consumers in emerging markets, particularly China and Brazil, experience rising incomes and growing desire for luxury goods (PR Newswire, 2012).

Second, the economic crisis caused a change in consumer behavior and purchase intention. Consumers have become more sophisticated and retailers have needed to change strategies in order to please these more discerning customers who want lower prices and better value; since the recession, customers have realized that they can survive off less, thus it is crucial for companies to market themselves as having the best value to please their target market (Apparel Online, 2011). Across all sectors of the industry, consumers have become more restrained in their spending and the industry is experiencing a “new normal” (Driscoll, 2011). Luxury apparel customers, however, are not as affected by price as middle-income customers, who were more negatively affected by the financial crisis (Driscoll, 2011). The mass apparel retailers which target the middle market consumers have been at risk as consumers have been shopping for either discount goods or luxury goods (Asaeda, 2012). Although luxury apparel consumers still purchased during the recession, they did not purchase multiple items, but very selectively bought single items (Reyneke, 2010). Luxury consumers cut back, but did not completely disappear during the financial crisis.

Third, dual speed recovery refers to the phenomenon that some emerging market economies are recovering more quickly than developed economies that are still struggling, with some even declining (Pardede, 2011). In 2010, developing countries grew 7.3%, whereas high-income countries grew only 3% (Canuto, 2012). Emerging markets are becoming wealthier and spending their money on luxury products. Chevalier and Mazzalovo (2012) suggested that the substantial growth of the luxury fashion business in the developing countries of BRIC (Brazil, Russia, India, and China) is due to their increasing number of wealthy citizens and the rising awareness and availability of luxury brands. Chinese tourists in particular are driving the demand for luxury goods as their economy increases (Driscoll, 2011). In 2011, Chinese consumption of luxury goods accounted for over 20% of the global luxury market (Asaeda, 2012). Luxury apparel companies looking to expand their business are entering emerging markets and tapping into the growing wealth of consumers in these countries. These impacts of the financial crisis helped lead to different financial performances between luxury apparel and mass apparel companies.

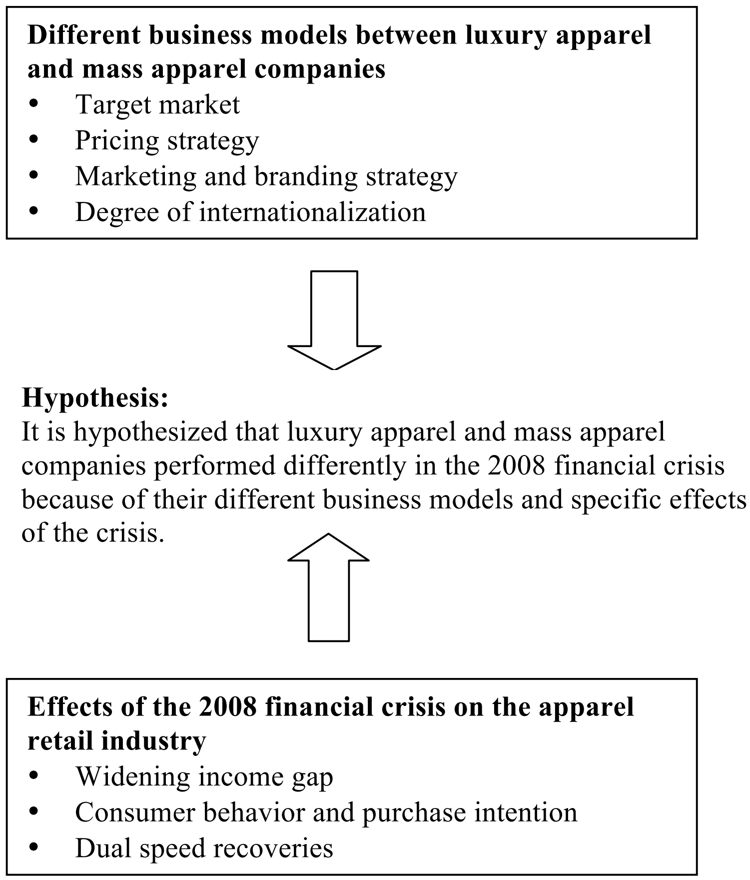
CHAPTER 3. METHODOLOGY

3.1 Conceptual Model and Hypothesis

Luxury apparel and mass apparel companies have different business models in terms of their target markets, pricing strategies, marketing/branding strategies, and degrees of internationalization. Effects of the financial crisis, which seemed to favor luxury apparel companies, include the widening income gap, change in consumer behavior and purchase intention, and dual speed recovery in developed and emerging economies. Based on these aspects, as proposed in Figure 1, this study hypothesizes that luxury apparel companies performed better than mass apparel companies in the 2008 financial crisis.

Figure 1.

Proposed Conceptual Model



3.2 Company Selection

Despite numerous research studies on luxury companies, there is no official list of luxury apparel companies that could be used directly by this study. To create such a list, as the first step, names of luxury companies were collected from three sources: World Luxury Association (2012), Interbrand (2008), and Okonkwo (2007). World Luxury Association is the world's largest non-profit organization of research and management for luxury brands; Interbrand has been widely cited in related studies that measure brand value (Kapferer and Bastien, 2009b; James, 2011); and Okonkwo (2007) is a comprehensive study of the luxury fashion industry. As shown in Table 1, 22 companies were included in this preliminary list, which covered most of the well-known luxury brands in the world.

Because this study focused on luxury apparel companies only while the preliminary compiled list also included companies in other sectors, such as jewelry and automobiles, the second step was to filter the list of companies. This was done based on whether the company fell under the apparel category in the Hoover's database. Due to availability of data, the list was also limited to only publicly traded companies. The Hoover's database was used to access the financial information for the companies because it is considered "the world's leading source of commercial information and insight on businesses" (Dun & Bradstreet, 2012).

In order to make the sample more representative, the competitors of each luxury company were added to the list so long as they also fell under the apparel category and were publicly traded. Altogether, three companies were added: Michael

Kors (competitor of Burberry, Gucci, LVMH, and Prada), Hugo Boss (competitor of Gucci, LVMH, and Prada), and Mulberry (competitor of Burberry, Gucci, Hermès, LVMH, and Prada). Since these three companies were considered competitors of the top luxury apparel companies, their inclusion in the list for this research was justified.

The list of luxury companies was adjusted due to lack of available data. Michael Kors was removed from the luxury company list because its complete financial data from 2008 to 2011 was not available on the Hoover's database since its IPO was in 2011; the only information available was its 2010−2011 revenue. The only annual report available on the company's website was for 2012. Prada's net sales and cost of goods sold for 2007 were not available on Hoover's or the Prada financials website. Net sales for 2007 were found in Plunkett's Retail Industry Almanac (2009), a detailed and comprehensive study on retail trade. All other financial figures for Prada were acquired from the company's financial reports. The 2007 numbers for Christian Dior were not available from Hoover's but were found through the company's own financial reports available on its website. The final list of luxury apparel companies for the purpose of this research, as shown in Table 1, included eight companies: PPR (parent company of Gucci, which has changed its name to Kering), LVMH (Louis Vuitton Moët Hennessy), Hermès, Prada, Burberry, Christian Dior, Hugo Boss, and Mulberry.

Table 1.

Luxury Apparel Company Selection

Company	Apparel Company	Available Financial Data	Chosen for Final List
Hermès	Yes	Yes	Yes
Chanel	Yes	No	No
LVMH	Yes	Yes	Yes
Gucci	Yes	Yes	Yes
Christian Dior	Yes	Yes	Yes
Ferragamo	No	Yes	No. Categorized by Hoover's database as shoe company
Versace	Yes	No	No
Prada	Yes	Yes	Yes
Fendi	Yes	Yes	No. Part of LVMH
Giorgio Armani	Yes	No	No
Ermenegildo Zegna	Yes	No	No
Rolex	No	No	No
Tiffany & Co	No	Yes	No
Cartier	No	Yes	No
Ferrari	No	Yes	No
Bulgari	No	Yes	No
Burberry	Yes	Yes	Yes
Patek Philippe	No	No	No
Michael Kors	Yes	No	No
Hugo Boss	Yes	Yes	Yes
Mulberry	Yes	Yes	Yes

Data source: World Luxury Association (2012), Interbrand (2008), Okonkwo (2007), and Hoover's (2012)

To show the growing sales of luxury apparel companies in emerging markets, particularly Asia, compared to the EU and the Americas, annual reports for each company selected were accessed. In Table 2, revenues for 2008 and 2011 were reported, as this was the starting year and ending year for the study respectively. Since PPR and LVMH are large conglomerates, it should be noted that the PPR numbers reported for this table represent the company's Luxury Division and the LVMH numbers represent its Fashion and Leather Goods Division; for each company, these are their largest divisions (PPR, 2012; LVMH, 2012). The numbers for the other companies represent them as a whole. Prada did not have available its 2008 annual report; instead, the 2009 numbers were reported. Mulberry did not specify emerging markets in its 2008 annual report, but noted the other region as "rest of world." From this table, it is apparent that each luxury apparel company selected has increased its share in emerging markets, with emphasis on expansion in Asia.

Table 2.

Luxury Apparel Company Revenue by Region, 2008 and 2011

	2008		2011	
Company	EU & Americas	Emerging Markets (Asia)	EU & Americas	Emerging Markets (Asia)
PPR	59%	23%	50%	32%
LVMH	48%	25%	46%	32%
Hermès	57%	18%	53%	28%
Prada	61%	26%	55%	35%
Burberry	75%	21%	59%	33%
Christian Dior	61%	20%	55%	27%
Hugo Boss	88%	12%	83%	15%
Mulberry	92%	8%	86%	13%

Data source: PPR (2009), PPR (2012), LVMH (2009), LVMH (2012), Hermès (2009), Hermès (2012), Prada (2010), Prada (2012), Burberry (2009), Burberry (2012), Christian Dior (2009), Christian Dior (2012), Hugo Boss (2009), Hugo Boss (2012), Mulberry (2009), Mulberry (2012)

Similar to the case for the luxury apparel companies, no direct list of mass apparel companies is available to use for the purpose of this study. To create such a list, Speer (2012) was first consulted. Prepared by Apparel Magazine, Speer (2012) included 50 publicly traded apparel companies with at least $100 million in annual global sales. Because of the large sales revenue, companies on the list represented the most influential mass apparel companies in the market. However, Speer (2012) included mass apparel companies with a wide variety of retail formats, target markets, and branding strategies, some of which were very different from luxury apparel companies. To make the comparison meaningful, this study only selected those mass apparel companies that carry multiple apparel categories (as opposed to a category killer) and those that target a wide target market (as opposed to a narrow market, i.e. teenagers). Additionally, some companies (such as Body Central and Express) were excluded from the study because of the unavailability of their complete financial data from 2008 to 2011. Eventually, eight mass apparel companies which met all the requirements were chosen: Limited Brands, Ralph Lauren, Urban Outfitters, Chico's, GAP, Ann Inc., Guess, and Perry Ellis. These are shown in Table 3.

Table 3.

Mass Apparel Company Selection

Company	Apparel Company	Retail Format Compatible to Luxury Companies	Available Financial Data	Chosen for Final List
Zuoan	Yes	No	Yes	No (different retail format)
lululemon athletica	Yes	No	Yes	No (narrow product category)
The Buckle	Yes	No	Yes	No (different retail format)
Francesca's Collections	Yes	No	No	No
Casual Male Retail Group	Yes	No	Yes	No (narrow product category)
True Religion Jeans	Yes	No	Yes	No (narrow product category)
Nike	Yes	No	Yes	No (narrow product category)
Jos. A Bank Clothiers	Yes	No	Yes	No (narrow product category)
Ralph Lauren	Yes	Yes	Yes	Yes
Guess?	Yes	Yes	Yes	Yes
VF Corp.	Yes	No	Yes	No (different retail format)
Limited Brands	Yes	Yes	Yes	Yes
Urban Outfitters	Yes	Yes	Yes	Yes
The Cato Corp.	Yes	No	Yes	No (different retail format)
Express	Yes	Yes	No	No
UniFirst	No	No	Yes	No
Zumiez	Yes	No	Yes	No (different retail format)
Body Central	Yes	No	No	No
Under Armour	Yes	No	Yes	No (narrow product category)
Nordstrom	Yes	No	Yes	No (different retail format)
Cintas Corp.	No	No	Yes	No (different retail format)
Chico's FAS	Yes	Yes	Yes	Yes
Columbia	Yes	No	Yes	No (narrow product

Sportswear				category)
Ascena Retail Group	Yes	No	Yes	No (different retail format)
HanesBrands	Yes	No	Yes	No (narrow product category)
Gap	Yes	Yes	Yes	Yes
Maidenform Brands	Yes	No	Yes	No (narrow product category)
Carter's	Yes	No	Yes	No (narrow product category)
PVH Corp.	Yes	No	Yes	No (different retail format)
rue21	Yes	No	Yes	No (different retail format)
The Warnaco Group	Yes	No	Yes	No (different retail format)
The Men's Wearhouse	Yes	No	Yes	No (narrow product category)
American Eagle Outfitters	Yes	No	Yes	No (different retail format)
The Children's Place	Yes	No	Yes	No (different retail format)
Ever-Glory International	Yes	No	Yes	No (different retail format)
Destination Maternity	Yes	No	Yes	No (narrow product category)
G-III Apparel Group	Yes	No	Yes	No (different retail format)
G&K Services	No	No	Yes	No
Ann Inc.	Yes	Yes	Yes	Yes
Oxford Industries	Yes	No	Yes	No (different retail format)
Superior Uniform Group	Yes	No	Yes	No (narrow product category)
Delta Apparel	Yes	No	Yes	No (different retail format)
Abercrombie & Fitch Co.	Yes	No	Yes	No (different retail format)
Aeropostale	Yes	No	Yes	No (different retail format)
Levi Strauss & Co.	Yes	No	Yes	No (narrow product category)
Perry Ellis	Yes	Yes	Yes	Yes
Wet Seal	Yes	No	Yes	No (different retail format)
Stage Stores	Yes	No	Yes	No (different retail format)
Stein Mart	Yes	No	Yes	No (different retail format)
Wacoal	Yes	No	Yes	No (narrow product category)

Annual reports of the mass apparel companies selected from 2008 and 2011 were accessed to report the revenue distribution by region, specifically that of the EU and the Americas compared to emerging markets, particularly Asia. Based on the numbers in Table 4, it is suggested that the mass apparel companies have not been emphasizing expansion in the emerging markets compared to the luxury apparel retailers. In 2011, only three mass apparel companies studied reported revenue in emerging markets, whereas all the luxury apparel companies reported sales in these regions. It should be noted that Perry Ellis did not provide a breakdown of revenue by region for either year.

Table 4.

Mass Apparel Company Revenue by Region, 2008 and 2011

	2008		2011	
Company	EU & Americas	Emerging Markets (Asia)	EU & Americas	Emerging Markets (Asia)
Limited Brands	100%	N/A	100%	N/A
Ralph Lauren	92%	N/A	86%	14%
Urban Outfitters	100%	N/A	100%	N/A
Chico's	100%	N/A	100%	N/A
Gap	86%	7%	80%	8%
Ann Inc.	100%	N/A	100%	N/A
Guess	83%	6%	87%	8%
Perry Ellis	N/A	N/A	N/A	N/A

Data Source: Limited Brands (2009), Limited Brands (2012), Ralph Lauren (2009), Ralph Lauren (2012), Urban Outfitters (2009), Urban Outfitters (2012), Chico's (2009), Chico's (2012), Gap (2009), Gap (2012), Ann Inc. (2009), Ann Inc. (2012), Guess (2009), Guess (2012), Perry Ellis (2009), Perry Ellis (2012)

3.3 Measurement of Company Performance

This study adopted the Dupont Strategic Profit Model (DSPM) to measure the performance of luxury apparel companies and mass apparel companies. Developed by the Dupont Corporation, DSPM is one of the most popular tools used in the business world to systematically and comprehensively analyze the financial performance of a company (Stapleton, Hanna, Yagla, Johnson, & Markussen, 2002). DSPM served the purpose of this study by analyzing the financial performances of the two categories of companies, specifically their profitability and productivity. The model depicts how return on assets is a function of net profit and asset turnover, which measure profitability and productivity respectively (Stapleton et al., 2002). Stapleton et al. (2002) used this strategic profit model to analyze six athletic footwear companies and how changes to sales, cost of goods sold, variable expenses, inventories, and accounts receivable affected the return on net worth for each company. The strategic profit model was applied to each company to pinpoint their individual strengths and weaknesses.

Based on DSPM, six indices were selected to analyze the performance of companies in this study:

- Growth of net sales. Net sales refer to the total sales revenue after deductions for customer returns and allowances have been made (Easterling, Flottman, Jernigan, & Wuest, 2008). However, net sales are also affected by the size of the companies, which may cause biasness in the results, given the various sizes of luxury apparel and mass apparel companies selected in Table 1 and Table 2. Growth rate of net sales was used to eliminate the impact of firm size on the result. Growth of net sales was calculated by subtracting this year's sales by last year's sales and dividing by last year's sales. The value of the growth of net sales reflects the healthiness of companies in receiving sales revenue. A positive growth rate indicates an improvement in performance in achieving sales revenue. A negative growth rate signifies a decline in performance of net sales from the previous year.

- Growth of cost of goods sold. Cost of goods sold measures the cost of the inventory sold during a period and is influenced by the billed cost of merchandise, cash discounts, transportation, and workroom costs (i.e. labor) (Ingram and Albright, 2007; Easterling et al., 2008). The percent change of cost of goods sold was used to evaluate whether their costs increased or decreased each year. Because the growth of cost of goods sold was affected by both the unit price of purchasing and the volume of product sold, interpretation of the result shall combine with the growth of net sales.

- Gross margin is represented by the difference between net sales and cost of goods sold (Easterling et al., 2008). Gross margin percent was reported in this study as it showed the gross profit rate, again reducing the biasness that may result from the various sizes of the selected companies. It was calculated by dividing gross margin by net sales. Companies aim for a higher gross margin percent as it represents the more money they retain per dollar of sales to cover other costs (Steinmetz & Brooks, 2006). An increase in gross margin indicates an improvement in performance, whereas a decrease in gross margin indicates a reduction in performance.

- Net profit was determined by subtracting operating expenses, net interests, and taxes from gross margin (Bisetty, Fourie, Günther, Richards, & Smith, 2009). Net profit is the final profit achieved by sales and is referred to as "the bottom line" (Berry & Jarvis, 2006). A higher net profit percent indicated a company was performing financially well; a lower net profit percent indicated a company needed help financially and could be losing too much of their revenue to expenses.
- Asset turnover "indicates how efficiently a company uses its assets to generate sales" (Kimmel, Weygandt, & Kieso, 2011). To calculate this ratio, total assets were divided by net sales. A higher asset turnover indicates a company is selling their products quickly to generate sales, and merchandise is not sitting around for long periods of time. Thus, a higher asset turnover indicates strong financial performance, whereas a lower ratio indicates weak financial performance.
- Return on assets (ROA) results from the interaction of net profit and asset turnover and helps determine a company's financial performance in terms of how assets generate sales (Stickney, Weil, Schipper, & Francis, 2010). It relates the profitability of a company to the value of the assets used (Stapleton et al., 2002). This means it indicates how profitable a company is related to its total assets. As ROA increases, a company's financial performance increases as well, and as ROA decreases, financial performance decreases.

Although researchers have reported that signs of the financial crisis started in 2007, the effects of the crisis were being felt throughout the entire economy by 2008, the starting year for the study (Taylor, 2009). The analysis continued through 2011 to study how the companies performed during and after the financial crisis; this was also the last year the latest data was available. Each company and index was studied annually to determine the growth rate for each year and to take each index into consideration. The average levels from 2008 to 2011 were calculated by averaging each index throughout the four years. For example, the average of net profit was calculated by adding net profit of each individual company from 2008 to 2011, then dividing by four, the number of years studied. This method calculated the overall average for each index from 2008 to 2011 and was done to determine how each company performed overall per index. By looking at the annual performance and average performance, patterns over the years could be identified.

3.4 Method of Analysis

This study adopted multivariate analysis of variance (MANOVA) to evaluate the hypothesis, specifically whether the financial performance of luxury apparel and mass apparel companies differed from 2008 to 2011. As shown in Equation 1, MANOVA test compared the mean values of the multiple financial indices to determine whether there were statistically significant differences between the two groups (Huberty and Olejnik, 2006). In this study, MANOVA revealed whether financial performance measured by six indices (namely growth rate of net sales, growth rate of cost of goods sold, gross margin, net profit, asset turnover and ROA) were significantly different in mean value between luxury apparel companies and mass apparel companies.

$$y_{ijr} = \mu_{ir} + \varepsilon_{ijr} \tag{1}$$

Specifically in Equation 1:

Dependent variable y_{ijr} denoted the value of the *r*th variable (i.e. the six indices that measured the firm performance, namely growth rate of net sales, growth rate of cost of goods sold, gross margin, net profit, asset turnover, and ROA) for observation *j* (i.e. individual company) in group *i* (i.e. luxury or mass apparel company group). Independent variable μ_{ir} denoted the value of group *i* for the *r*th variable; this represented the two categories of companies for comparison in this study: luxury apparel companies and mass apparel companies. The last variable denoted the residual of the *r*th variable for observation *j* in group *i*.

The null hypothesis for MANOVA proposed there was no significant difference in financial performance, i.e. H0: $u_1 = \mu_2 = \mu_3 = \cdots \mu_{i.}$ The alternative hypothesis suggested that luxury apparel and mass apparel companies did perform differently, meaning that not all dependent variable values were the same across companies and years, i.e, *H1*: at least two u_i are unequal. To determine whether to accept the null hypothesis or the alternative hypothesis, the answer was based on the p-value of Wilks' Lambda, Pillai's Trace, Hotteling-Lawley Trace, and Roy's Greatest Root. If the p-value was statistically significant, the null hypothesis was rejected; if the p-value was not significant, the null hypothesis was not rejected. In this study, a p-value of less than 0.05 was determined significant.

If MANOVA result suggested that financial performance of luxury apparel companies and mass apparel companies overall was statistically different, between-subject test was further conducted to determine which one(s) of the six indices that measure the financial performance of firms led to the statistical significance of MANOVA (Lu, 2012).

MANOVA and between-subject test were conducted from 2008 to 2011 both annually and on average to evaluate financial performance from the beginning of the economic crisis up to the year in which the most recent data was available and to evaluate the overall performance throughout the years. MANOVA was conducted using the SAS statistical software package.

Annual reports for each company were accessed to provide explanations of the strategies used by the individual companies in terms of merchandise mix, domestic and international growth as well as detailed information regarding their financial performance. This information helped provide insight into the strengths and weaknesses for each company.

CHAPTER 4. RESULTS

4.1 Descriptive Analysis

The average performance of luxury apparel and mass apparel companies from 2008 to 2011 are shown in Table 5, and described as follows. Figures 2 through 7 represent each financial index over the time period studied.

First, neither the luxury apparel companies nor the mass apparel companies showed a clear pattern of net sales growth over the examined period. According to Table 5, although net sales of luxury apparel companies suffered a sharper decline than the mass apparel companies in 2008, luxury apparel companies enjoyed faster rebound in 2010. Net sales of luxury apparel companies decreased 3.43% in 2008 whereas net sales of mass apparel companies increased 1.13%. During 2009, luxury apparel net sales increased almost 2% whereas mass apparel net sales decreased 2.5%. In 2010, luxury apparel net sales increased 21.88% and mass apparel net sales increased 10.75%. Both luxury apparel and mass apparel companies experienced increases in net sales in 2011, 16% and 12% respectively.

The net sales fluctuation was even more significant at the firm level. For example, net sales of Mulberry and Burberry, two luxury companies, decreased 18% and 14% respectively in 2008, but increased 80% and 35% in 2010 respectively. In 2008, Mulberry used retained profits and cash flow to invest in the opening of new shops and increased its marketing expenditures (Mulberry, 2009). Net sales increased significantly for Mulberry in 2010 due to their increased investment in Asia and

Europe. The company opened new stores in Athens, Korea, Singapore, and the Helsinki airport (Mulberry 2011). Burberry, in 2008, experienced decline in their wholesale revenue in Spain and certain licenses, mostly in menswear, were not renewed which significantly reduced revenue (Burberry, 2009). In 2010, increased market share in the US, the Middle East, and Asia helped Burberry improve net sales that year (Burberry, 2011). In 2008, Urban Outfitters and Guess, two mass apparel companies, increased 22% and 20% in net sales respectively. Urban Outfitters attributed its growth to new store net sales and direct-to-consumer net sales; the company opened 49 new stores that year (Urban Outfitters, 2009). In 2008, Guess reported that its European and licensing businesses helped accelerate its revenue growth; the company also opened 20 free-standing stores in China that year (Guess, 2009). At the opposite end, Limited Brands, a mass apparel company experienced an 11% decrease in net sales in 2008 due to reduced consumer spending caused by the financial crisis (Limited Brands, 2009). Ann Inc. reported an almost 17% decline in net sales in 2009 due to a product assortment that did not appeal to their customers and high costs associated with the company's strategic restructuring (Ann Inc., 2009). The following years saw growth again for both luxury apparel and mass apparel companies.

Second, growth of cost of goods sold did not show a clear pattern for either the luxury apparel companies or mass apparel companies. It was lower for luxury apparel companies in 2008, 2011, and the average of the four years. In 2009, it was negative for both luxury apparel and mass apparel companies, meaning that it decreased for both from 2008. Growth rate of cost of goods sold increased for both in 2010; 10.13% for luxury apparel and 9.38% for mass apparel companies. This increase was attributable to the rise in net sales. In 2011, it was higher for mass apparel companies, 15.38%, whereas it was 9.50% for luxury apparel companies.

Third, gross margin of luxury apparel and mass apparel companies was noticeably different, specifically luxury apparel companies achieved a higher gross margin on average due to their higher markups. It increased every year for luxury apparel but for mass apparel companies, it increased from 2008 to 2010, and then slightly decreased in 2011. At the company level, Urban Outfitters reported a 6% drop in gross profit from 2010 to 2011 and attributed this decrease to an increase in markdowns to clear inventory that was moving slowly (Urban Outfitters, 2012). Gap reported a 4% decrease in gross profit from 2010 to 2011 but did not disclose a reason why in their 2011 annual report. A big difference in gross margin was evident in 2011 when the highest gross margin for a luxury apparel company was 72% (Prada), and the highest gross margin for a mass apparel company was 58% (Ralph Lauren). The average gross margin was 61.88% for luxury apparel and 44.50% for mass apparel companies.

Fourth, luxury apparel companies also achieved higher net profit margin than the mass apparel companies during the examined period. It increased every year for luxury apparel companies, whereas for mass apparel companies, it increased from 2008 to 2010, and then slightly decreased in 2011. Urban Outfitters experienced a 5% decrease in net profit from 2010 to 2011 due to increases in expenses and taxes (Urban

Outfitters, 2012). In 2008, net profit for mass apparel companies was significantly lower than luxury apparel companies, 2.5% compared to 8%. A contributing factor to this was that Ann Inc., a mass apparel company, reported a -15% net profit that year due to costs associated with the launch of a new strategic restructuring program (Ann Inc., 2009). This company's average net profit for all four years was -2%, as it still experienced costs from the restructuring program. The average net profit percentages were 11.13% and 6% for luxury apparel and mass apparel respectively.

Fifth, asset turnover was higher for mass apparel companies for each year and the average of the years. Asset turnover for each mass apparel company was over 1.00 whereas only three luxury apparel companies had asset-turnover over 1.00. These companies were Burberry, which implemented a new strategic plan in 2008 focused on entering under-penetrated markets and accelerating their retail growth, Hugo Boss, and Mulberry (Burberry, 2009). Mulberry had a high asset turnover due to the company's strong expansion throughout Europe and Asia where in 2010, demand exceeded supply (Mulberry, 2010). Another pattern that was apparent was it decreased each year from 2008 to 2010 for both luxury apparel and mass apparel, but then increased for both in 2011, due to post-crisis recovery. The average asset turnover for luxury apparel companies was 0.92, whereas for mass apparel companies, it was 1.65.

Lastly, overall, there did not appear to be noticeable patterns in the mean performance of ROA. In 2008, ROA was negative for luxury apparel companies; referring back to the original data, this became clear because ROA for Burberry in

2008 was -53%, due to the high costs associated with the implementation of its new strategic plan (Burberry, 2009). The average ROA for Burberry was -3.75%. This implies the company was not selling their merchandise at a profitable rate to cover the costs associated with its assets. Ann Inc.'s ROA in 2008 was low as well, at -34%, which contributed to the low ROA for mass apparel companies during this year. This low ROA was also due to the high costs incurred from its new strategic plan in 2008. ROA for luxury apparel companies was lower in 2008 and 2009, but then increased slightly above mass apparel companies in 2010 and remained above in 2011. The averages for ROA for the companies were similar, at 8% for luxury apparel companies and 8.5% for mass apparel companies.

Table 5.

Mean Performance of Luxury Apparel and Mass Apparel Companies

		Net Sales Growth	Cost of Goods Sold Growth	Gross Margin	Net Profit	Asset Turnover	ROA
2008	Luxury	-3.43%	-1.43%	58.86%	8.00%	0.94	-1.43%
	Mass	1.13%	3.50%	42.50%	2.50%	1.80	2.25%
2009	Luxury	1.88%	-0.13%	60.00%	8.63%	0.92	6.88%
	Mass	-2.50%	-7.38%	45.13%	6.25%	1.61	8.88%
2010	Luxury	21.88%	10.13%	63.25%	13.38%	0.90	11.88%
	Mass	10.75%	9.38%	46.25%	7.88%	1.51	11.63%
2011	Luxury	16.38%	9.50%	65.13%	13.75%	0.91	13.38%
	Mass	12.00%	15.38%	44.38%	6.75%	1.68	11.13%
2008-	Luxury	8.63%	4.63%	61.88%	11.13%	0.92	8.00%
2011	Mass	5.38%	5.25%	44.50%	6.00%	1.65	8.50%

Figure 2. Net Sales Growth from 2008 to 2011

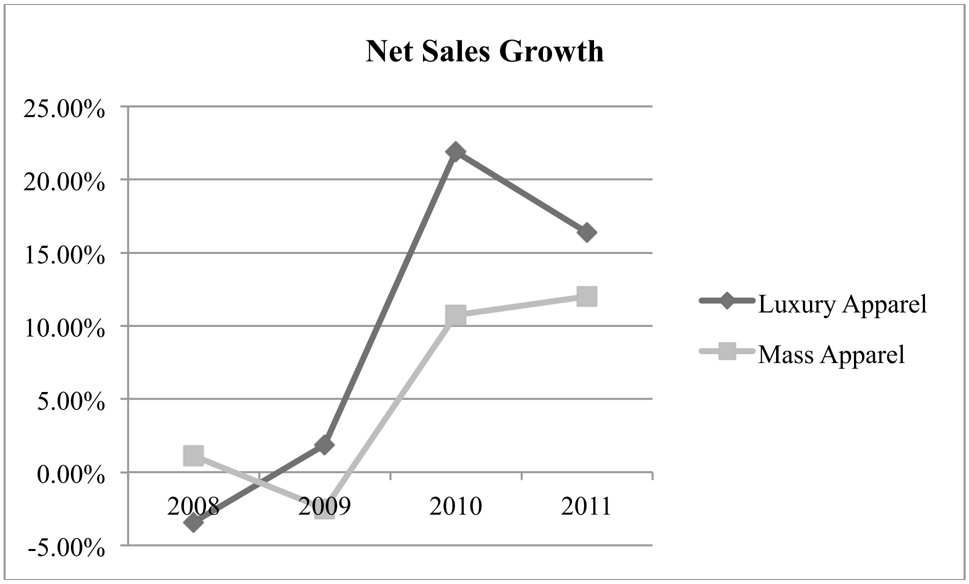


Figure 3. Cost of Goods Sold Growth from 2008 to 2011

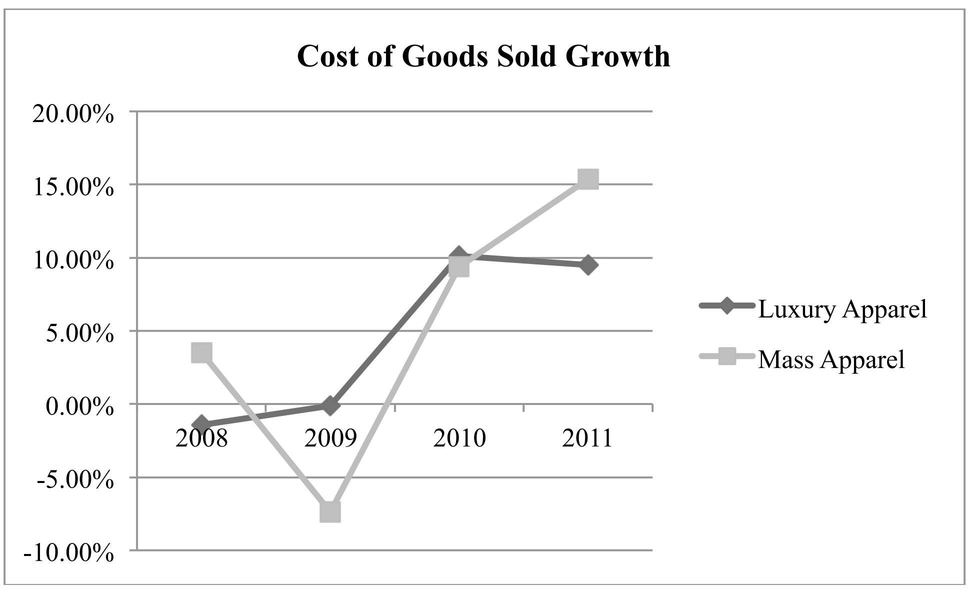


Figure 4. Gross Margin from 2008 to 2011

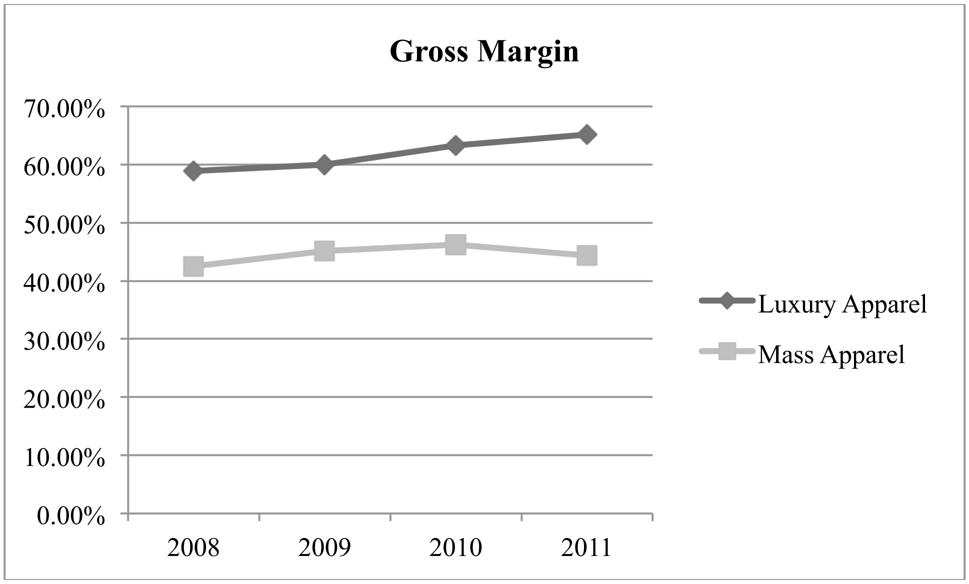


Figure 5. Net Profit from 2008 to 2011

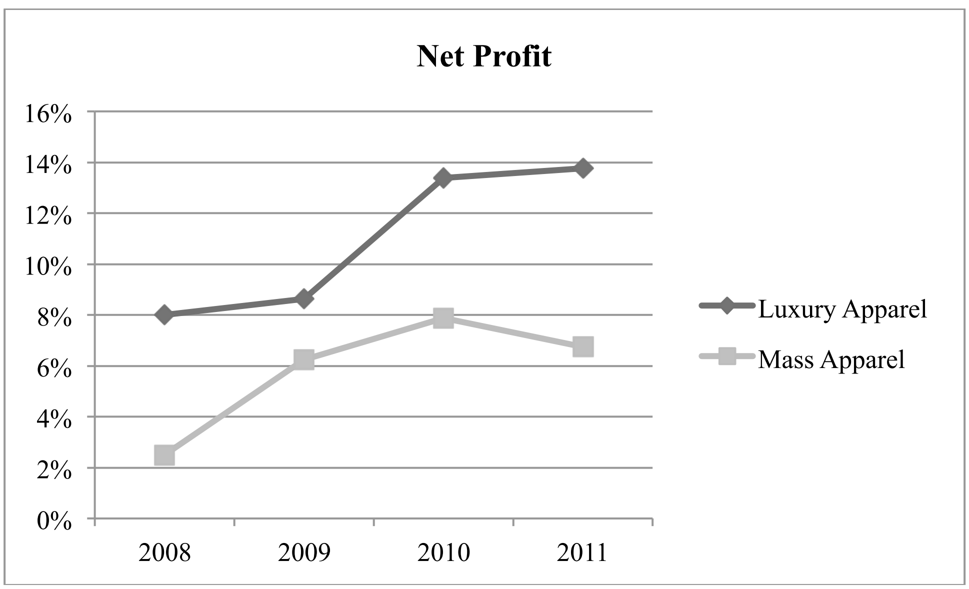


Figure 6. Asset Turnover from 2008 to 2011

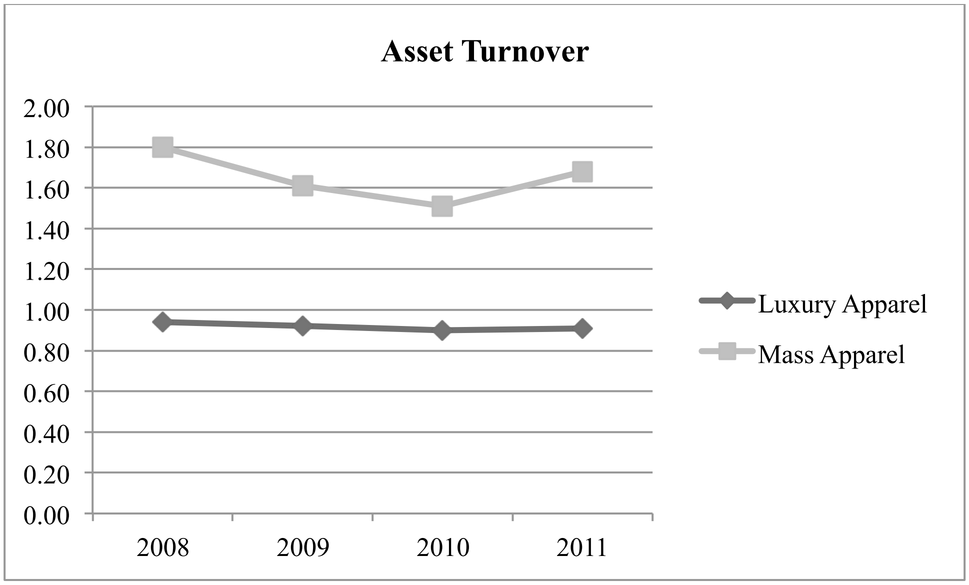
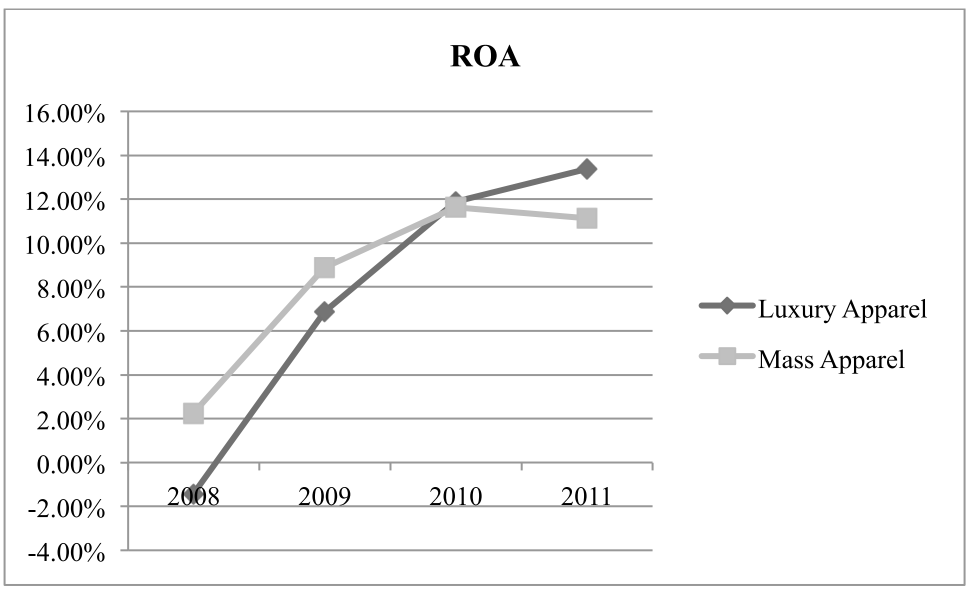


Figure 7. ROA from 2008 to 2011



It should be noted that Table 5 only showed the mean value of financial performances of companies. Whether or not the financial performances between luxury apparel and mass apparel companies was statistically different needed to be determined based on the results of MANOVA.

4.2 Results of MANOVA

MANOVA was conducted first to determine whether significant difference existed overall in financial performance during each year and the average of the years for the companies. Results of the MANOVA main effect test are shown in Table 6.

Table 6.

MANOVA Test Results

	Wilks' Lambda	Pillai's Trace	Hotelling-Lawley Trace	Roy's Greatest Root	F-Value	P-Value
2008	0.236	0.764	3.237	3.237	4.32	0.031**
2009	0.201	0.799	3.979	3.979	5.97	0.009**
2010	0.076	0.924	12.147	12.147	18.22	0.000**
2011	0.197	0.803	4.072	4.072	6.11	0.008**
2008-2011	0.183	0.817	4.45	4.45	6.67	0.006**

*: $P<0.05$; **: $P<0.01$

From 2008 to 2011 both annually and on average, results of Wilks' Lambda, Pillai's Trace, Hotelling-Lawley Trace and Roy's Greatest Root were statistically significant at 95 percent confidence level ($p<0.05$). The results suggest that from 2008 to 2011, overall financial performance between luxury apparel and mass apparel companies was statistically different.

Between-subject test was further conducted to test whether each index performed differently between luxury apparel and mass apparel companies within each year. Results of the MANOVA between-subject test are shown in Table 7.

Table 7.

Between-Subject Test results F-value (P-value)

	Net Sales Growth	Cost of Goods Sold Growth	Gross Margin	Net Profit	Asset Turnover	ROA
2008	0.60	0.87	15.67	1.96	7.57	0.13
	(0.45)	(0.37)	(0.002)**	(0.19)	(0.017)*	(0.73)
2009	0.57	0.98	13.82	1.35	6.27	0.73
	(0.46)	(0.34)	(0.002)**	(0.26)	(0.025)*	(0.41)
2010	1.16	0.01	19.76	10.54	9.51	0.01
	(0.30)	(0.93)	(0.001)**	(0.006)**	(0.008)**	(0.93)
2011	0.48	1.00	22.82	13.00	12.91	0.55
	(0.50)	(0.33)	(0.000)**	(0.003)**	(0.003)**	(0.47)
2008-	0.44	0.02	19.96	6.54	11.33	0.02
2011	(0.52)	(0.89)	(0.001)**	(0.023)*	(0.005)**	(0.88)

*: P<0.05; **: P<0.01

First, a difference in net sales growth was not supported by the test in any year. The p-value for the t-statistics was larger than 0.05 at the 95% confidence level from 2008 to 2011 both annually and on average.

Second, growth of cost of goods sold was not statistically significant for any of the years analyzed ($p>0.05$). This means there was no statistically significant difference in growth of cost of goods sold between luxury apparel and mass apparel companies from 2008 to 2011 and the average of the years.

Third, gross margin was statistically significant at the 95 percent confidence level for all the years ($p<0.05$). This means that gross margin was significantly different between luxury apparel and mass apparel companies from 2008 to 2011, as well as the average of the four years.

Fourth, a difference in asset turnover was also supported by the test ($p<0.05$). This means that asset turnover was statistically significantly different between luxury apparel and mass apparel companies for all four years and the average of the years.

Fifth, net profit was not statistically significant at the 95 percent confidence level in 2008 and 2009; however, it was statistically significant in 2010, 2011, and in the average of the years. This means that net profit was not significantly different between luxury apparel and mass apparel companies for 2008 and 2009, but it was significantly different for 2010, 2011, and the average.

Sixth, a difference in ROA was not supported by the test ($p>0.05$). This means that ROA was not statistically significantly different for luxury apparel and mass apparel companies for 2008-2011 and on average.

The study results showed that there was an overall financial difference between luxury apparel and mass apparel companies from 2008 to 2011, including the average of the four years.

4.3 Discussion

Results of the MANOVA test can be explained through the following aspects.

First, the results showed the differentiated performance between luxury apparel and mass apparel companies as reflected by the statistical difference in gross margin and asset turnover. Gross margin was higher each year for luxury apparel companies than mass apparel companies. For example, the average gross margin for luxury companies from 2008 to 2011 was 61.88%, whereas it was 44.5% for mass apparel companies. Luxury apparel companies are known to have higher markup than mass apparel companies, and since gross margin is the money that is kept from sales after accounting for costs, companies with higher markups and higher retail prices earn high gross margins (Kapferer & Tabatoni, 2010; Sable, n.d.). Asset turnover was higher for mass apparel companies each year and the average of the years. They have higher asset turnover because of their competitive pricing with lower price tags than luxury apparel. This leads assets to turn over more quickly as merchandise turns over more quickly, thus creating a higher asset turnover. At the company level, there were differences in asset turnover among the companies as variation may exist in terms of prices and assortment mix. For mass apparel companies, average asset turnover ranged from 1.15 (Ralph Lauren) to 2.25 (Chico's). For luxury apparel companies, average asset turnover had a greater variation, from 0.36 (Christian Dior) to 1.65 (Mulberry). Overall average asset turnover for mass apparel companies was 1.65 whereas it was 0.92 for luxury apparel companies. Based on the results, it appeared that luxury apparel companies have a higher gross margin and lower asset turnover, whereas mass apparel companies have a lower gross margin and higher asset turnover.

Second, the results showed that luxury apparel companies achieved a more robust post-crisis recovery than mass apparel companies. Net sales for luxury apparel companies increased significantly in 2010, 21.88%, whereas mass apparel net sales increased 10.75%. Net profit was significantly higher for luxury apparel companies in 2011, at 13.75%, whereas net profit for mass apparel companies was 6.75%. Luxury apparel customers were becoming confident again about making luxury purchases. A major contributing factor to the growth of the global luxury industry was the rising demand from developing markets, particularly China (S&P Dow Jones, 2012; Barrie, 2009).

Third, there was no evidence showing that the luxury apparel market was more lucrative in terms of return on investments, (ROA). For example, the overall average ROA from 2008 to 2011 was 8% and 8.5% for luxury apparel and mass apparel companies respectively. Although the overall averages were similar, variation existed among averages at the company level. For luxury apparel companies, the average ROA ranged from -3.75% (Burberry) to 14.75% (Mulberry); for mass apparel companies, the average ROA ranged from -4.25% (Ann Inc.) to 16.25% (Guess?).

This suggested that neither luxury apparel nor mass apparel companies outperformed each other based on ROA.

It should be noted that Ralph Lauren, a mass apparel company in this study, operates its lines under a number of price tiers. Although its premium brands are considered in the luxury apparel segment, it does a large amount of business in the mass apparel segment as well (Ralph Lauren, 2012).

CHAPTER 5. CONCLUSIONS

5.1 Findings

This study intended to evaluate whether the different business models of luxury apparel companies and mass apparel companies resulted in the luxury apparel companies performing better from 2008 to 2011. Under the framework of the Dupont Strategic Profit Model, financial performance of eight luxury apparel companies and eight mass apparel companies from 2008 to 2011 were compared against six indices by using the MANOVA technique. The results showed that:

First, the overall financial performance between luxury apparel and mass apparel companies was statistically different from 2008 to 2011.

Second, luxury apparel companies and mass apparel companies had different gross margin and asset turnover from 2008 to 2011.

Third, there was no evidence showing that the luxury apparel companies and mass apparel companies achieved different growth of net sales, growth of cost of goods sold and return on assets (ROA) from 2008 to 2011.

Fourth, luxury apparel companies outperformed the mass apparel companies starting in 2010 in terms of net profit margin, indicating a more robust post-crisis recovery.

5.2 Implications of the Findings

Findings of this study have several important implications.

First, the results show that the apparel market has been recovering since 2010 from the financial crisis. Particularly, the robust performance of the luxury apparel companies both in the volume of net sales and in profitability after 2010 implies that the luxury customers could have become more confident in spending and/or the luxury market is growing globally (S&P Dow Jones, 2012).

Second, despite the positive development of the luxury apparel market, results of the study suggest that apparel companies should not rush into the luxury market. Particularly, ROA of the luxury apparel companies turned out to be no better than the mass apparel companies from 2008 to 2011, even in those years that the luxury apparel companies achieved higher net profit margin. This is largely because the asset turnover ratios of the luxury apparel companies were much lower as a result of much higher investment in total assets (such as inventory and fiscal property). On the contrary, to keep growing its business, the luxury apparel companies might consider purposefully expanding into the mass apparel market so as to reach more consumer bases and improve the performance in asset turnover. Some companies have already taken action. For example, Missoni, a privately-held luxury apparel company, collaborated with Target, a discount department store, for a collection that was available for only a limited time (Felice, 2011). The collection was created under the Missoni name and featured menswear and womenswear with average price points from $30 to $60.

Third, findings of the study suggest diversified business models within the group of luxury apparel companies. For example, the financial performance of LVMH, Hermès and Prada appeared to be very different from Burberry in terms of net profit margin, asset turnover and return on assets. It is unclear yet whether the differences were due to their specific market focus or product specialization, which can be further studied.

5.3 Limitations and Future Research Agendas

Despite the meaningful and interesting results, this study also has several limitations that might be overcome in future studies.

First, due to the availability of data, only publicly traded apparel companies were included in the study, although several well-known luxury companies such as Chanel, Versace, and Giorgio Armani are privately held. Reliability of the study could be improved if more companies could be included in the analysis. Additionally, PPR and LVMH reported their financial data for the companies as a whole and not their fashion and luxury divisions which could affect the results.

Second, country or market-specific data was not available. Complete financial data for each company per country or specific market is not reported. This is a limitation because studies suggest that a majority of business for luxury apparel companies is coming from the growing wealth of emerging markets whereas the majority of business for mass apparel companies is coming from the U.S. Some luxury apparel companies may have more global presence than others. This could affect the result by not being an even comparison.

Third, the diversity of luxury apparel companies may affect the MANOVA results which are sensitive to within-group differences. For example, Mulberry appeared to be much different than the other luxury companies, particularly in terms of sales growth, cost of goods sold growth, and asset turnover.

From this study, future studies can be conducted to analyze and compare the financial performances of apparel companies. As statistical financial performance did exist between luxury apparel and mass apparel companies from 2008 to 2011, future studies can research whether a statistically significantly difference continues. Case studies can be performed on individual companies to analyze their financial performance. These case studies could study a particular company over a specific period of time to analyze its business model, strategic growth, and financial performance. Other studies could focus on apparel companies within individual countries or regions to determine their performance per region. This could provide information as to what types of apparel companies perform best in what region, for example, whether luxury apparel companies would succeed in a particular region or whether the consumers in that region would respond better to mass apparel companies. Additionally, a study could compare and contrast luxury apparel companies to other retail formats, including department stores or discount stores to determine whether there was difference in financial performance from 2008 to 2011 between other retail formats.

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