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Executive summary

Burberry PLC's financial performance from 2019-2023 reveals significant fluctuations in key profitability metrics. The gross profit ratio improved from 70.9% in 2020 to 67.7% in 2023, positioning Burberry between competitors LVMH and Kering. However, the net profit ratio declined sharply from 20.5% in 2022 to 12.9% in 2023, indicating challenges in managing operating expenses.

Return on Capital Employed (ROCE) and Return on Equity (ROE) showed volatility, peaking in 2022 (ROCE: 22.2%, ROE: 31.8%) before declining significantly in 2023 (ROCE: 15.2%, ROE: 23.4%). This trend suggests a robust recovery phase from 2020 to 2022, possibly rebounding from the COVID-19 pandemic, followed by a challenging period in 2023.

The sharp decline in profitability ratios in 2023 was attributed to increased operating costs, potentially from marketing initiatives, restructuring charges, or investments in digital transformation. The industry-wide decline in ROCE and ROE for Burberry and its competitors in 2023 indicates broader economic challenges affecting the luxury goods sector.

To improve its competitive position and profitability, Burberry should focus on optimizing cost management to enhance operational efficiency, strengthening its retail strategy through investment in in-store experiences and digital transformation, and tailoring approaches for key markets, particularly in the Asia Pacific region.

1. Introduction, aim, and methodology

Known for its trench coats and check pattern, Burberry Plc is a British luxury apparel company that was established in 1856. Examining Burberry's profitability for the years 2019–2023, this article compares it with that of competitors LVMH and Kering. Through suggestions based on the findings, it looks for trends, strong points, and room for improvement in Burberry's financial performance.

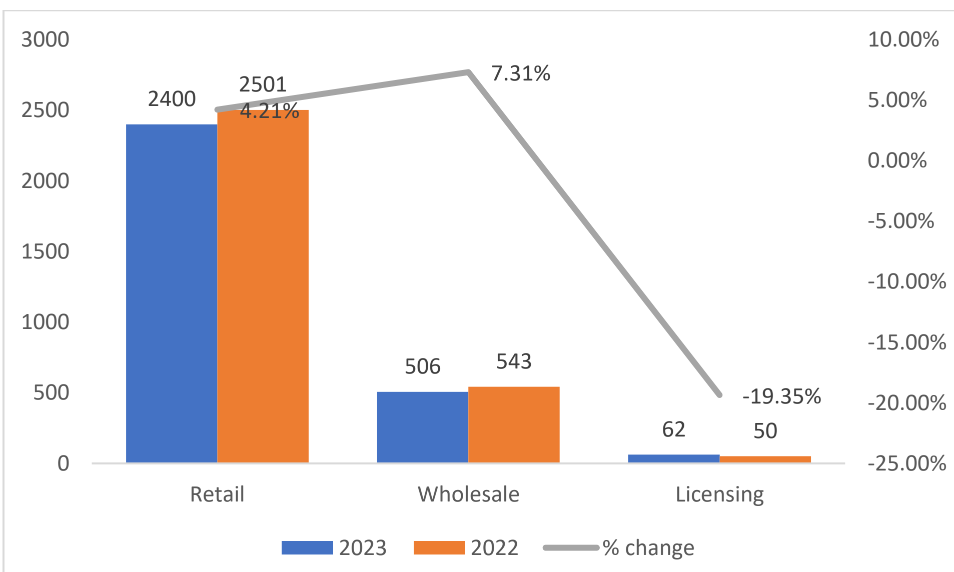
Financial information is obtained from Burberry, LVMH, and Kering's annual reports in order to compute key profitability ratios including Gross Profit Margin, Net Profit Margin, Return on Capital Employed (ROCE), and Return on Equity (ROE). We shall use a trend and comparative analysis to assess Burberry's performance in the luxury goods sector.

2. Data analysis / numerical investigation

2.1. Revenue analysis

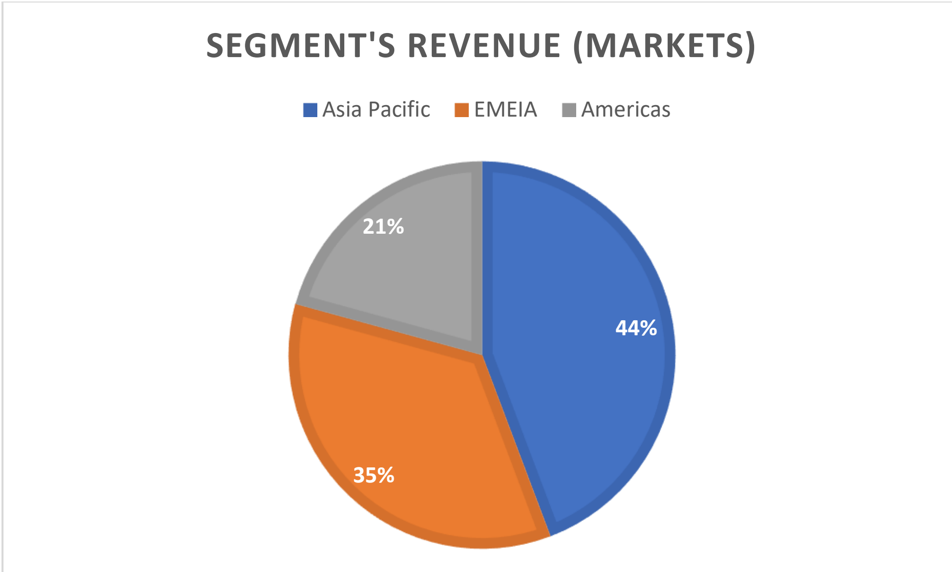
Comparing to FY2022, revenue of £2,968 million was flat to the prior year at constant currency rates, while comparable store sales fell -1%. Heritage rainwear led the 8% increase in outerwear (Burberry, 2024).

The graph displays the income distribution of Burberry for the years 2022 and 2023 over three channels: retail, wholesale, and licencing, along with the percentage change between these years. Important fresh light is cast by this information on the sales strategy and efficiency of the company's use of different distribution channels.

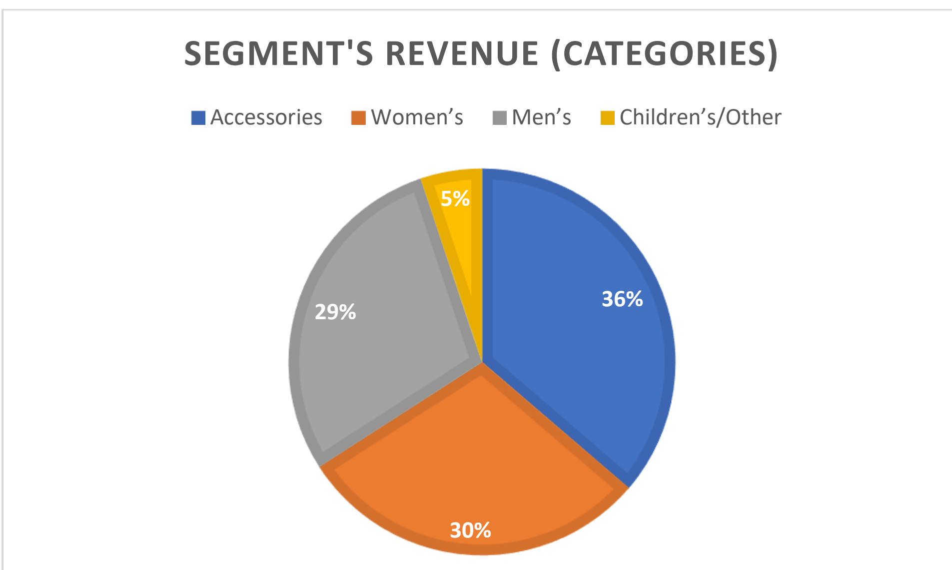


Retail remains the main source of income for Burberry, however it has somewhat declined. Retail sales in 2022 were £2,501 million, but by 2023 they had fallen to £2,400 million, a 4.21% loss. Despite this minor setback, retail continues to be the primary source of income, with over 80% of total revenue shown across all channels. There could be a number of causes for this minor drop in retail sales, such as shifting consumer behavior, increased market competition, or ongoing effects of the COVID-19 epidemic on in-store shopping experiences (Davey and Abdulla, 2024). Though still significantly less than retail, the wholesale sector saw expansion. 2023 saw a 7.31% increase in revenue for this sector from £512 million in 2022. This increase in wholesale revenue can indicate that independent merchant relationships are being strengthened or that new wholesale markets have been successfully entered. Perhaps the purpose of the planned move is to expand distribution channels and reach new clientele (Davey and Abdulla, 2024). Licensing, the smallest source of income, saw the most shifts. It dropped sharply in 2023—by 19.35%—from £50 million in 2022 to £62 million. This significant drop in licensing revenue could be a sign of a planned break from licensing agreements or the dissolution of some significant licensing partnerships (Burberry, 2024). For luxury companies trying to maintain their exclusivity, tighter control over the brand image and product quality is usually a top priority, therefore such a measure could be meant to accomplish that.

Overall, the data suggests that Burberry's distribution strategy might need to be rebalanced. There appears to be some shift from direct retail to wholesale channels, albeit perhaps with fewer license agreements. These changes can be part of a bigger strategy to improve distribution networks, realign the brand in the premium market, or respond to changing market conditions. The management commentary and strategic updates from Burberry at this period would be useful in understanding the causes behind these changes since they would provide further perspective on these revenue variances across different distribution channels.



Geographically speaking, Asia Pacific takes the stage, accounting for a sizable 44% of Burberry's overall sales. Given the rising wealth and desire for upscale fashion in nations like China, Japan, and South Korea, this substantial percentage emphasizes the significance of the Asian market for luxury brands. Third place goes to the EMEIA (Europe, Middle East, India, and Africa) area, which brings in 35%. This implies that Burberry takes advantage of growth prospects in emerging nations within this varied region while also maintaining a strong presence in its traditional European markets. Contributing the remaining 21% of revenue, the Americas have a strong but relatively limited market share in North and South America.



Turning now to product categories, accessories lead the way, accounting for 36% of Burberry's sales (Burberry, 2024). In the luxury goods market, where accessories like purses, scarves, and little leather products frequently act as entry points for new clients and steady sources of income, this importance of accessories fits with a typical trend (Speed and Kelly, 2023). Following closely at 30% is women's fashion, indicating that Burberry's womenswear lines are quite popular. The substantial 29% contribution from men's fashion suggests a quite equal offering between men's and women's categories. The remaining 5% makes up a smaller but maybe expanding portion of Burberry's revenue, the children's and other categories. Burberry's deliberate emphasis on the Asian market and its dominance in accessories and adult fashion are seen in these revenue breakdowns. The proportionate distribution of the categories for men and women points to an effective strategy for serving both markets. But the children's/other category's and the Americas' comparatively modest contributions could point to areas where Burberry might look for expansion prospects. All things considered, these numbers suggest a brand with a significant worldwide presence, especially in Asia, and a product mix that strongly favors accessories and adult fashion, in line with usual trends in the luxury market.

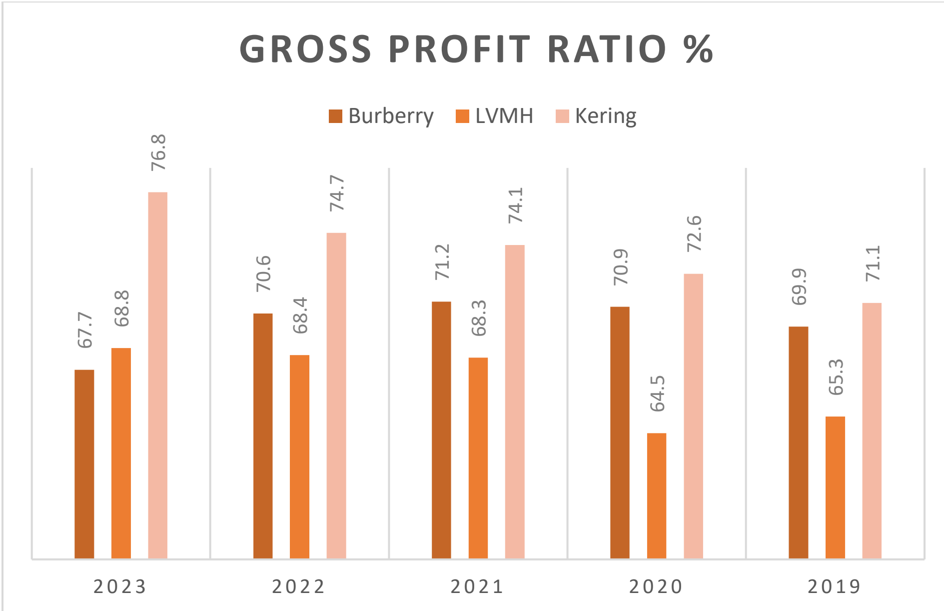
2.2. Gross and Net profit ratio

Burberry's performance is primarily examined in this comparative analysis of the Gross Profit Ratio and Net Profit Ratio for Burberry, LVMH, and Kering for the four-year period from 2020 to 2023.

Over the course of the four years, Burberry's gross profit ratio has consistently increased, rising from 70.9% in 2020 to 71.2% in 2021, then somewhat down to 70.6% in 2022 before reaching 67.7% in 2023. This general improvement suggests that Burberry has been able to keep and even improve its capacity to manage direct costs in relation to income. Still, it's worth noting the little drop in the last year. Burberry performs between Kering, which regularly keeps the greatest gross profit ratio (between 72.6% and 76.8%), and LVMH, whose ratio varies between 64.5% and 68.8%, when compared to its rivals (LVMH, 2024). With regard to gross profitability, this placement points to Burberry maintaining a strong but not industry-leading position.

Table 2-1: Gross profit ratio (unit: million GBP)

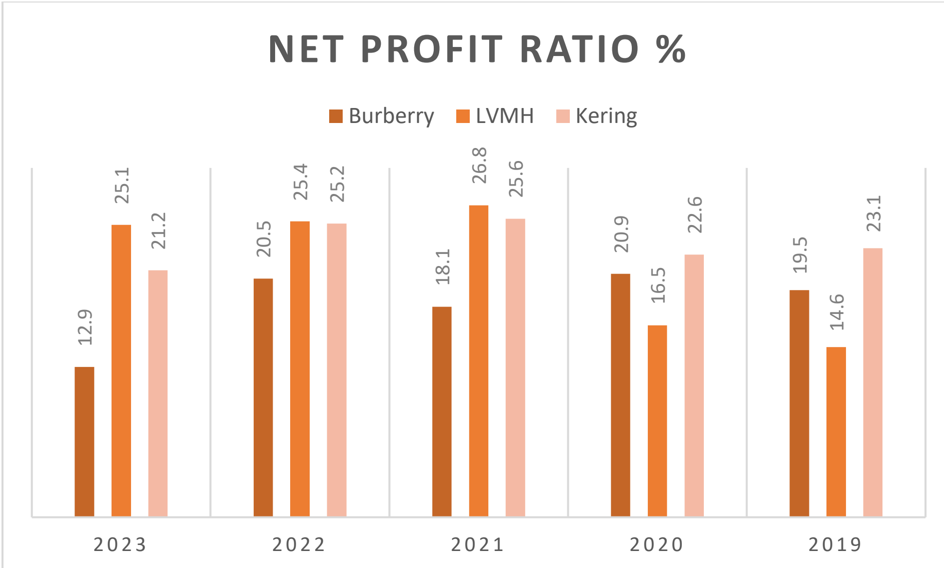
Gross profit ratio = gross profit / revenue * 100				
	GPR	**% change**	**Gross profit**	**Revenue**
2023	67.7	-4.06%	2,009.0	2,968.0
2022	70.6	-0.85%	2,183.0	3,094.0
2021	71.2	0.36%	2,011.0	2,826.0
2020	70.9	1.8%	1,662.0	2,344.0
2019	69.9		1,829.0	2,615.0



Conversely, the net profit ratio of Burberry shows greater fluctuation. It fell from 20.9% in 2020 to 18.1% in 2021, then rose to 20.5% in 2022 and then sharply fell to 12.9% in 2023. This swing indicates that although Burberry has kept gross earnings comparatively steady, it has found it more difficult to manage operating expenditures and other spending below the gross profit line. Generally speaking, LVMH and Kering keep net profit ratios greater than Burberry; theirs range from 16.5% to 26.8% and from 21.2% to 25.6% (Kering, 2024). Burberry's lower, more erratic net profit ratio suggests possible areas for cost control and operational efficiency improvement.

Table 2-2: Net profit ratio (unit: million GBP)

Net profit ratio = PBT / revenue * 100				
	Net Profit Ratio	**% change**	**Revenue**	**PBT**
2023	12.9	-37.03%	2,968.0	383.0
2022	20.5	13.32%	3,094.0	634.0
2021	18.1	-13.50%	2,826.0	511.0
2020	20.9	5.3%	2,344.0	490.0
2019	19.5		2,478.0	485.0



We may look at the ratios' year-over-year changes to get more specific information. -0.6 percentage points from 2021 to 2022, +0.3 percentage points from 2020 to 2021, and a more significant -2.9 percentage points from 2022 to 2023 were the changes in the gross profit ratio. More dramatically, the net profit ratio changed from 2020 to 2021 by -2.8 percentage points, from 2021 to 2022 by +2.4 percentage points, and by a noteworthy -7.6 percentage points from 2022 to 2023.

These patterns imply that, although Burberry has been successful in controlling direct expenses and pricing strategies—as seen by the generally steady gross profit ratio—it has difficulties sustaining steady net profitability ((Robinson, 2023). Notable is the sharp decline in both ratios in 2023, which can be explained by higher operating costs—possibly from marketing initiatives, charges associated with restructuring, or investments in digital transformation (Burberry, 2024; LVMH, 2024, Kering, 2024). While LVMH's lower gross profit ratio but competitive net profit ratio indicates excellence in operational efficiency despite maybe higher direct costs, Kering's steady outperformance in both gross and net profit ratios may be attributed to its robust brand portfolio and efficient cost management techniques.

Finally, Burberry's position between its two rivals suggests that, albeit maintaining competitive gross margins, operational efficiency may be improved to increase net profitability. The sharp fall in Burberry's gross and net profit ratios during the last year calls for more research into the company's financial statements and the state of the market in order to identify the root reasons and create possible solutions.

2.3. Return on Capital Employed and Return on Equity ratios

A four-year study of Burberry's Return on Capital Employed (ROCE) and Return on Equity (ROE) ratios in relation to LVMH and Kering highlights a number of noteworthy trends and patterns (LVMH, 2024;

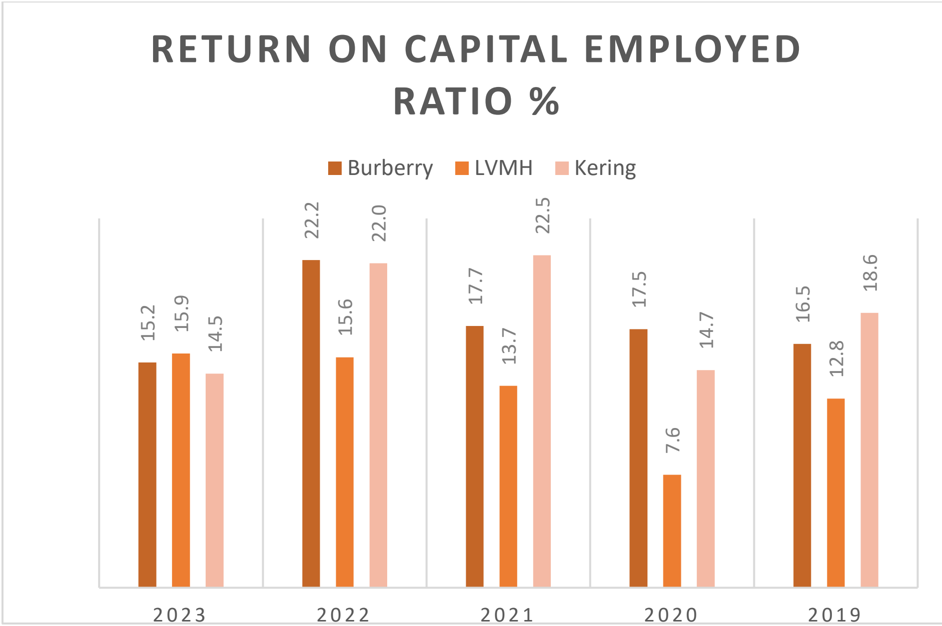
Kering, 2024). Burberry's performance exhibits considerable volatility; from 2020 to a peak in 2022, both ROCE and ROE rose, but sharply fell in 2023. Its rivals' volatility is less noticeable, and LVMH performs the most steadily, especially in terms of ROE.

With all three businesses exhibiting a decline in ROCE in 2023 compared to 2022 and ROE peaking for all in 2022, the luxury goods market as a whole seems to have seen comparable trends. This trend points to a robust recovery and expansion phase from 2020 to 2022, perhaps recovering from the effects of the COVID-19 pandemic, and a difficult time in 2023.

Relative performance is impressive; from 2020 to 2022, Burberry outperformed Kering and LVMH in ROCE. Burberry topped the ROE charts in 2020 and 2022, but in 2023 it trailed LVMH slightly. Peak performance for the company in 2022—ROCE rising from 17.7% to 22.2% and ROE rising from 24.5% to 31.8%—may be a result of successful strategic initiatives, increased operational efficiency, or advantageous market conditions unique to Burberry's sector (Robinson, 2023).

Table 2-3: ROCE ratio (unit: million GBP)

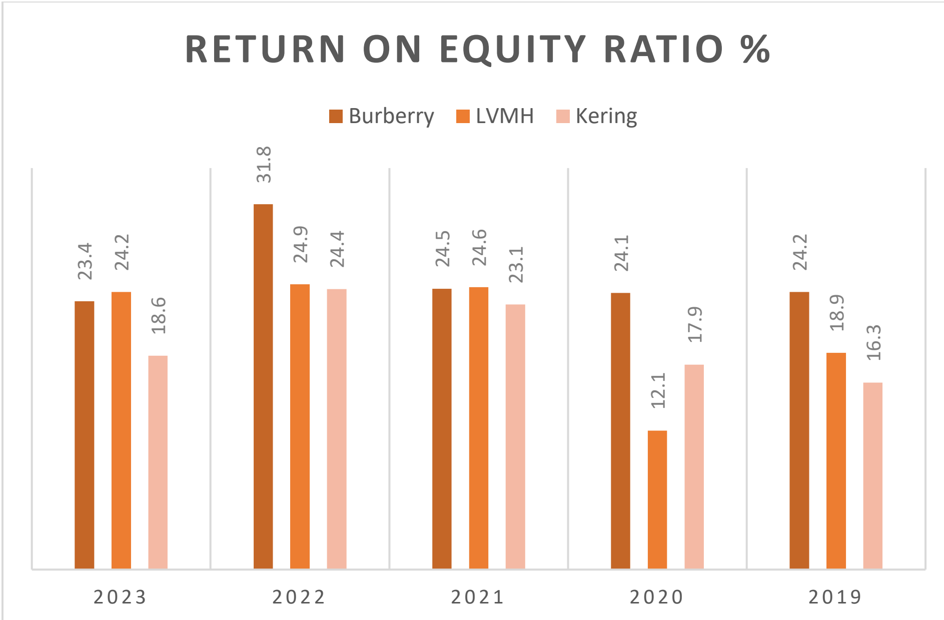
ROCE = PBIT / (share capital and reserves + long term loans) * 100					
	ROCE	% change	PBIT	Equity	Non-current loans
2023	15.24	-31.32%	383.00	1,154.00	1,359.00
2022	22.19	25.24%	634.00	1,539.00	1,318.00
2021	17.72	1.25%	511.00	1,617.00	1,267.00
2020	17.50	3.26%	490.00	1,560.00	1,240.00
2019	16.50		505.00	1.660.00	1,250.00



The industry-wide drop in ROCE and ROE for all three firms in 2023 may be a sign of more general economic problems including inflation, problems with the supply chain, or shifts in consumer buying patterns that impact the luxury products sector. Burberry's very precipitous decline in 2023—ROCE from 22.2% to 15.2% and ROE from 31.8% to 23.4%—can be explained by more expenses, fewer revenues, or large investments that have not yet produced profits.

Table 2-4: Return on equity ratio (unit: million GBP)

Return on Equity (ROE) = PAT / equity * 100				
	ROE	**% change**	**PAT**	**Equity**
2023	23.4	-26.51%	270.0	1,154.0
2022	31.8	30.01%	490.0	1,539.0
2021	24.5	1.61%	396.0	1,617.0
2020	24.1	0.01%	376.0	1,560.0
2019	24.2		385.0	1,580.0



Particularly in ROE, LVMH's steady performance is noteworthy and may point to efficient risk management, a diversified portfolio, or steady operational effectiveness (Robinson, 2023). Though more erratic than LVMH, Kering's swings are less severe than Burberry's, perhaps indicating a compromise between taking chances to expand and keeping their operations stable (LVMH, 2024).

3. Quality of profit

The quality of profits ratio for Burbering PLC shows significant fluctuations over the five-year period, ranging from 1.15 to 1.44. This inconsistent trend, characterized by alternating increases and decreases, suggests a complex interplay of factors affecting the company's financial performance.

Table 3-1: Quality of profit ratio (unit: million GBP)

Quality of profits = net cash flow from operating activities / operating profit				
	Quality of Profits	% change	NET cash from opr.	PBIT
2023	1.21	2.49%	506	418
2022	1.18	-8.93%	750	635
2021	1.30	-10.18%	699	539
2020	1.44	25.02%	592	410
2019	1.15		641	555

The volatility of the ratio could be a reflection of shifting working capital management, changing economic circumstances, and business model adaptation in the company. The high rise in 2020 (25.02%) could be ascribed to extraordinary events most likely connected to the global epidemic. Still, the later declines in 2021 and 2022 point to difficulties preserving this higher cash flow efficiency. The difference between net cash from operations and PBIT suggests possible adjustments in management's discretionary judgements or accounting rules. Changes in investment and finance activity or industry-specific elements could potentially affect these swings.

4. Findings, analysis, interpretation of results and conclusion

The financial results of Burberry Plc over the last five years make clear a number of important patterns and difficulties. The Asia Pacific market, which accounts for 44% of the company's overall sales, is clearly heavily dependent on it. Though it slightly declined, retail continues to be the largest source of income; wholesale had positive growth, and licencing saw a significant reduction. Profitability ratios are erratic; Burberry's Net Profit Ratio (NPR) and Gross Profit Ratio (GPR) both fell in the most current year. Furthermore, it shows volatility are the Return on Equity (ROE) and Return on Capital Employed (ROCE) rates, especially in 2023.

The financial success of Burberry is a reflection of how the high-end fashion business is ever changing. Retail sales falling while wholesale revenue rising suggests that customer buying habits may be changing (Robinson, 2023). Its importance is shown by the substantial revenue contribution from the Asia Pacific market, although regional sales decreases point to the necessity of focused approaches to deal with local market issues (Benissan, 2024). Better cost control and operational effectiveness are needed, as the variations in profitability ratios indicate. The fluctuation of the ROCE and ROE ratios reveals more general economic factors affecting Burberry's capacity to maintain its financial stability.

Burberry should think about a few important suggestions to improve its competitive position and profitability. First of all, to meet shifting customer preferences, the retail strategy must be strengthened by funding improvements to the in-store shopping experience and digital transformation. Second, growing wholesale channels to take use of effective tactics and reach new clientele groups can lessen the impact of falling direct retail sales. Thirdly, stability of profitability ratios will result from cost management optimization that concentrates on reducing operational costs and increasing efficiency. Finally, focusing tactics on important markets like South Korea and Mainland China can help to solve regional issues and take advantage of expansion prospects.

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